Stock Pointer

VENTURA
Kyon ki bhaiya, sabse bada rupaiya.

GEI Industrial Systems Ltd. CMP Rs 153 P/E 8.6x FY2012E BUY

GEI Industrial Systems Limited, one of the leading players in the heat exchanger products space and having a market share of as high as 55% & 65% in Air Cooled Heat Exchangers & Air Cooled Steam Condensers respectively is all set to benefit from massive government spending expected in the power sector over the next five to seven years. GEI is expected to exhibit a revenue & PAT CAGR of 40% over the period FY10-12 respectively on the back of strong order inflows & capacity additions. We value GEI at 12.5x its FY12e earnings and initiate a BUY at CMP with a price target of Rs 220, representing a potential upside of 44% over a 12-15 months horizon.

PRICE TARGET Rs 220/- (15 Months)

Index Details

Sensex	18,455
Nifty	5,540
Small Cap	9,864
Industry	Industrial / Power

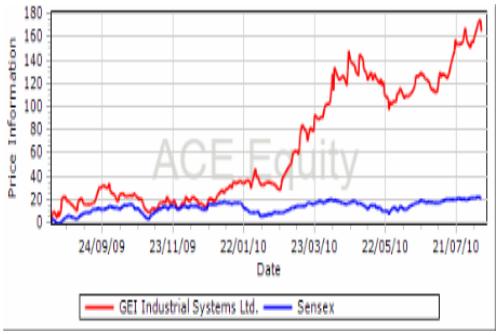
Scrip Details

Mkt Cap (Rs in crore)	254.4
Book Value (Rs)	63.0
Eq Shares O/s (Cr)	1.7
Avg Vol	164,000
52 Week H/L	165 / 53
Dividend Yield (%)	0.7
Face Value (Rs)	10.0
BSE Code	530743
NSE Code	NA

Shareholding Pattern (30th June, 2010)

Shareholders	% holding
Promoters	41.4
Indian Institutions	0.1
FII's	8.0
Non Promoter Corporate	8.6
Public	41.9
Total	100.0

GEI vs. Sensex



❑ Key Investment Highlights

Leading player with dominant market share

GEI has been a leader in the heat transfer technology products in India since over a decade. It commands a lions share in both the major products manufactured by it. In case of Air Cooled Heat Exchangers, its market share stands at 55% while in case of Air Cooled Steam Condensers it commands a market share of as high as 65%.

Capex to drive future growth

With the demand for ACSC in particular to remain robust over the next few years, GEI has embarked upon a capacity expansion drive which would double the tube bundle capacity from 2,000 to 4,000 bundles per annum. The new greenfield facility at Mandideep near Bhopal which would be set up at an investment of Rs 100 crore is expected to commence commercial production by FY11 and would have the capability to manufacture ACSC for 5,000 MW thermal power plants per annum. This would put the company into higher growth trajectory in FY12 where the company is expected to ramp up the production at its new facility.

Strong order book & rising order inflows spurs confidence

GEI's has an outstanding order book to the tune of Rs 500 crore (2.1x its FY10 revenues). A major chunk i.e. 75% of the order book is contributed by ACSC while the balance is contributed by ACHE. The execution period ranges from 12 to 16 months. It has active enquiries to the tune of Rs 700 crore, 72% of which is for ACSC & the balance for ACHE. GEI has a strike rate of nearly 70% in these projects. Management has guided for an order inflow to the tune of Rs 650 crore in FY11, a growth of ~40% over FY10.

Expanding product range: De-risking strategy

GEI is also expanding its product range by adding a slew of other products in the Turbine Cycle BOP space. These products include Deareator, HP heater, LP Heater, Surface Condenser & Water Cooled Condenser. The entry into these products would not only derisk the company from few product capabilities but would also increase its addressable market substantially. Further with the addition of these products, their contribution as a proportion to the entire BOP package would go upto ~10% as compared to 5-7% earlier.

Key Financials

Y/E Mar (Rs Crore)	Net Revenues	EBIDTA	PAT	EPS	EPS Growth (%)	ROCE (%)	RONW (%)	P/E (x)	EV/EBIDTA (x)
FY10	243.7	36.1	14.9	8.9	23.2	21.1	16.2	17.2	8.8
FY11E	340.0	49.0	19.8	11.9	33.2	22.0	17.6	12.9	7.1
FY12E	480.0	71.0	29.5	17.7	49.0	23.9	22.2	8.6	5.6

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GEI Industrial Systems Limited

GEI Industrial – Current Business Model

	Air Cooled Heat Exchangers	Air Cooled Steam Condensers
Application	Commonly used in industrial applications where a reliable source of water is not available as a cooling medium	Best alternative to water cooled condensers whenever there is shortage of water
User Industries	Exploration Petrochemicals Refineries Gas pipeline	These are used in power sector, mainly: Thermal Power Plants
FY10 Revenue Mix (%)	48% of the revenues	52% of the revenues
Field Experience	Served the oil & gas industry with more than 500 ACHE	Served 91 thermal power plants totaling 2,315 MW
Market Share	55%	65%
Competitors	GEA Cooling Towers, Jord Engineers India	Paharpur Cooling Towers, BGR Energy
Order Bk at Rs 500 cr (2.1x its FY10 Rev)	25% valued at Rs 125 crore	75% valued at Rs 375 crore
Clientele	ONGC, Oil India, HPCL, BPCL, GAIL, CPCL, IOC, Petronet LNG, RIL, etc	NTPC, Tata Power, ABB, Alstom, Crompton Greaves, Siemens, L&T, EIL, etc

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