

Engineering Energy

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*500 MW COAL BASED TPP, APGENCO, VIJAYAWADA, ANDHRA PRADESH
CHIMNEY & COOLING TOWER*



CHAIRMAN'S MESSAGE



Dear Shareholders,

I have great pleasure in extending greetings and welcome to the shareholders of the company, who have reposed confidence in the company and in me as the promoter of the company.

I am delighted to share with you that the year 2007-08 has been an eventful year for the company.

- The company's name was changed to "BGR Energy Systems Limited".
- SAP was successfully implemented across all business divisions of the company.
- Standard Operating Systems and Procedure (SOSP) became operational.
- The IPO of the company was over-subscribed 120 times and the company's shares were listed on BSE and NSE.
- The company achieved market leadership in the business of Balance of Plant (BOP) and was qualified for large EPC contracts of 600 MW projects.
- The turnover of the company crossed an all-time high of Rs.1500 Crores. The top line grew over 191% and EBITDA grew by 171% over the previous financial year. The post tax profit achieved a strong growth of 223%
- The Board was broad-based with four independent Directors

FUTURE OUTLOOK

A recent report by an international consultancy firm on "Electrical power and Natural Gas practice" indicates that the country's demand for power is likely to soar from around 120 GW at present to 315 – 335 GW by 2017. India will therefore require a generation capacity of 415 – 440 GW after adjusting for plant availability and spinning reserve. This is inevitable to sustain a growth rate of 8% to 9%. This implies multiplication of capacity and not just addition. This will offer huge business opportunities for your company in as much as about 30 GW have to be added in an average per year. This will turnout to be the largest business opportunity in power sector in the entire world.

COMPANY IN A SWEET SPOT

Your company is well positioned and placed in a sweet spot to capture the high growth business opportunities. Considering the company's past track record coupled with in-house design, engineering capability and the basket of products and packages from within the group, your company's prospects for continued high growth appears quite promising. Your company is gearing up to strategically manage the challenges arising out of inflationary trends of input costs, increasing employee costs and interest costs.

GEARING UP FOR FUTURE GROWTH

The Group is taking necessary steps to increase the capacity of manufacturing units in India as well as setting up a new unit in Middle East. This should become operational in the next financial year. Action has been initiated to augment additional manpower so as to be fully prepared to capture the growth opportunities especially in the power sector. Part of this has been accomplished in the last financial year.

EXPORTS

The company has achieved 103% growth in its export business in 2007-08 and is likely to achieve substantially higher growth in the current financial year based on Orders already secured. Strategic initiatives are under way to take your company's products to the overseas markets and achieve a significant market share in the global market.

STRONG FOUNDATION

The company has built a strong foundation driven by good quality and on-schedule completion of orders. Large size projects have been completed satisfactorily both in terms of quality as well as in terms of schedule. The company is therefore poised for rapid growth in the BOP and EPC segments of Power sector and a good growth in the export market for its products business.

Finally, I would like to express my sincere gratitude to the dedicated and hardworking employees of the company. I wish to convey my appreciation for the support of our valued customers, vendors, bankers, shareholders and members of the board.

We have positioned a strong leadership team to steer and grow each business vertical and I look forward to a great future and another successful and challenging year ahead.

I look forward to your continued support, trust and beneficial participation in the growth of the Company.

With best regards

B.G. RAGHUPATHY
Chairman and Managing Director



CORPORATE INFORMATION

BOARD OF DIRECTORS

B G Raghupathy

Chairman & Managing Director

S Rathinam

Director - Finance

V R Mahadevan

Whole Time Director

S A Bohra

Director

M Gopalakrishna

Director

S R Tagat

Director

Heinrich Bohmer

Director

Sasikala Raghupathy

Director



COMPANY SECRETARY

R Ramesh Kumar

President - Corporate & Secretary

CHIEF EXECUTIVE OFFICERS

A Swaminathan

Power Projects

Major H L Khajuria

Environmental Engineering

G Suresh

Captive Power

V Balakrishnan

Electrical Projects

S Ilanchezhian

Air Fin Cooler

N Murali

Oil and Gas Equipment

P R Easwar Kumar

Chief Financial Officer

BGR ENERGY SYSTEMS LIMITED**STATUTORY AUDITORS**

M/s. Manohar Chowdhry & Associates
Chartered Accountants, Chennai

INTERNAL AUDITORS

M/s. J V Associates
Cost Accountants & Public Auditors, Chennai

M/s. B B Naidu & Co.
Chartered Accountants, Chennai

M/s. V Krishnan & Co.
Chartered Accountants, Chennai

M/s. Ramachandran & Murali
Chartered Accountants, Chennai

BANKERS

State Bank of India
State Bank of Hyderabad
State Bank of Travancore
State Bank of Patiala
State Bank of Bikaner & Jaipur
State Bank of Mysore
State Bank of Indore
IDBI Bank limited
UCO Bank
Indian Bank
Corporation Bank
Punjab National Bank

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REGISTERED OFFICE

A-5, Pannamgadu Industrial Estate
Ramapuram Post, Sullurpet Taluk
Nellore District, Pin: 524401

CORPORATE OFFICE

443, Anna Salai
Teynampet
Chennai 600018 India

REGISTRAR AND SHARE TRANSFER AGENT

Intime Spectrum Registry Limited
C-13, Pannalal Silk Mills Compound, L.B.S. Marg
Bhandup (W), Mumbai 400 078

REGIONAL OFFICES**Delhi**

48, Okhla Industrial Estate, Phase III
New Delhi 110020

Mumbai

Unit No. 171, Building No.1
7th Floor, Solitaire Corporate Park, Chakala
Andheri (East), Mumbai 400093

Hyderabad

8-2-120/86/5, Sneha House, III Floor
Road No. 3 Banjara Hills, Hyderabad 500034

Web Site

www.bgrcorp.com

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Directors' Report

To the Members of

BGR ENERGY SYSTEMS LIMITED

Your directors have great pleasure in presenting their Twenty Second Annual Report together with the audited financial statements for the year ended March 31, 2008 to the extended family of the share holders and other stake holders of the company.

INITIAL PUBLIC OFFERING ("IPO") OF EQUITY SHARES OF THE COMPANY

During the year under review, your Company successfully completed its maiden Initial Public Offering. The IPO received overwhelming response from the Global investors while the subscription book received bids from FIIs, MFs, QIBs, PSU banks, private banks, foreign banks, HNIs and Retail Investors. The company has issued 2,880,000 and 1,440,000 equity shares to Citigroup (CVC) and Reliance Mutual Fund respectively by way of Pre – IPO allotment. The IPO was opened for public subscription on December 5, 2007 and closed on December 12, 2007. Through the IPO and pre-IPO placement, your company and promoters issued 13,456,000 equity shares which led to public share holding of 18.69% in your company. The issue was over-subscribed by a record 119.54 times on overall basis. The trading in fully paid shares of the Company commenced on January 3, 2008 at NSE and BSE.

The year 2007-08 has been a defining mark in your company's efforts to become a major player in EPC business in power sector. The IPO showed the huge appetite for your company's stock and your company made a paradigm shift with aplomb from a closely held company to a widely held public listed company.

FINANCIAL RESULTS

During FY 2007-08, your company achieved total income of Rs.1507.75 crore as against the previous year's (annualised) turnover of Rs.518.47 crore, accounting for a topline growth of 191%. Your company also registered a sharp growth in profitability. The key parameters of EBIDTA and PAT witnessed a growth of 164% and 223% over the previous year. The highlights of the financial performance of the company during the year March 31, 2008 in comparison with the previous financial period ended March 31, 2007 are summarized below :

(Rs. in Crore)

Description	2007-08 (12 Months)	2005 -07 (18 Months)
Total Income	1507.75	777.70
Expenditure	1352.25	691.63
Profit before Interest, depreciation and tax	155.50	86.07
Interest	25.22	17.44
Depreciation	5.02	8.13
Profit before tax	125.25	60.50
Provision for tax and FBT	40.81	21.31
Profit after tax	84.44	39.19
Surplus brought forward from previous year	9.06	31.58
Amount available for appropriation	93.50	70.77
Less :		
a) Dividend	14.40	3.24
b) Tax on dividend	2.44	0.55
c) Transfer to general reserve	8.44	3.92
Balance carried to Balance Sheet	68.22	63.06

CONSOLIDATED REVENUE AND PROFIT

Your Company's consolidated revenue and profitability too show an upward trend in Financial performance.

(Rs. in Crore)

Description	2007-08	2005-07
Sales	1522.84	790.28
EBIDTA	160.53	88.71
PAT	88.46	40.81

DIVIDEND

Your directors, after taking into account the financial results of the Company during the year, recommend payment of a dividend of Rs.2/- per equity share of Rs.10/- each for the FY 2007 - 08. The equity shares allotted to Pre – IPO investors and the public would receive the dividend for the full year. Your directors wish to carry an amount of Rs.68.22 crore to the Balance Sheet after appropriation towards dividend, corporate dividend tax and transfer to general reserves.

BUSINESS TRANSFER

During the year under review, your company sold its Energy Division business to GEA BGR Energy System India Limited for a consideration of Rs.25.00 Crore. This was effective from July 1, 2007. In view of the change in business mix, the financial results of your company are not strictly comparable with previous year figures.

SCHMITZ GMBH

Schmitz Reinigungskugeln GmbH, a wholly owned overseas subsidiary in Germany ceased to be a subsidiary of your company effective from July 1, 2007 pursuant to the execution of the Share Transfer Agreement between the company and Schmitz India Private Limited. As the business of cleaning balls relates to Energy Division it was thought prudent to transfer the Overseas subsidiary.

BUSINESS PERFORMANCE

During the year under review, the company has achieved quantum increase in turnover, profit and networth. This was yet another land mark year for your company, as it delivered record financial and operating performance amidst challenging and volatile commodity market conditions. The unprecedented uptrend in key raw material cost viz., steel, cement, copper and out sourced equipments and components has been a daunting challenge which your company has faced and overcome.

A brief overview of the significant operational and business developments in various businesses / projects are given below ;

- i) During the FY 2007-08, your company secured Balance of Plant contract for ;
 - a) 500 MW coal based project at Khaperkheda from Mahagenco for a value of Rs.998 Crore,
 - b) 500 MW coal based project at Kothagudam from APGENCO for a value of Rs.793 Crore.
- ii) Your company created a National record by completing 151 meter NDCT tower in 521 days at Vijayawada Thermal Power Station. This is the second tallest NDCT in India. Similarly the chimney having a height of 275 meter for Vijayawada 500 MW TPS was completed in 137 days, which is a record in India. The entire design, engineering and construction of these gigantic structures were carried out by your company in house.
- iii) The product division viz., Air Fin Cooler has doubled its turnover and achieved an all time high turnover of Rs.126.77 Crore.

- iv) Environmental Engineering division implemented India's largest 12 MLD RO plant for Textile effluent recycling plant.
- v) Electrical projects division has executed a state of art technology project for laying Optic Fibre Ground Wire ("OPGW") on new and existing high voltage power transmission lines.

FUTURE OUTLOOK – CURRENT YEAR AND YEAR AHEAD

The company's current order book stands over Rs.11,000 Crore which is higher by Rs.7,800 Crore over the order book as of end of the year under review. This robust growth in order book will enable your company to achieve a quantum growth in its turnover and profitability in the current year.

The Plan targets for capacity addition in power sector during the 11th and 12th Plan period offer manifold growth opportunities for EPC and BOP companies in India. This capacity addition targets are expected to witness upward revision in the backdrop of strong economic growth and more particularly low per capita power consumption in India. These opportunities are expected to facilitate improvement in the order book in the current year and the year ahead. Consequently, your Board of Directors are confident of delivering improved financial results.

EMPLOYEE STOCK OPTION SCHEME

Members' approval was obtained at the Annual General Meeting held on July 11, 2007 for introduction of Employee Stock Option Scheme ("ESOS") 2007. Disclosure in respect of ESOS is given in Annexure I of this report.

PERFORMANCE OF SUBSIDIARY

Your company's subsidiary, Progen Systems and Technologies Limited, engaged in the business of manufacture of Welded Finned Tubes and Pressure Vessels for power and process industries, has achieved improvement in business performance. Progen recorded a turnover of Rs. 17.67 crore and net profit of Rs.3.70 crore for the year ended March 31, 2008. Statement under Section 212 of the Companies Act, 1956 is attached to this report.

DISCLOSURES

The information pursuant to Section 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 as amended from time to time with respect to conservation of energy and technology absorption are not applicable to your company. During the FY 2007 - 08 the foreign exchange earnings and outgo were Rs.130.57 crore and Rs.8.16 crore respectively.

Directors' Report

The particulars required under Section 217(2A) of the Companies Act, 1956 and the Rules made thereunder are given in Annexure – II.

BOARD OF DIRECTORS

Mr.V.K. Gupta, Mr.G. Radhakrishnan and Mr. S.K. Sridhar resigned from the Board of the Company with effect from July 18, 2007. The Board places on record, its deep appreciation of the valuable services and counsel rendered by them during their tenure.

Pursuant to the provisions of Section 260 of the Companies Act, 1956, Mr.Heinrich Bohmer, Mr.M. Gopalakrishna, Mr.S.R. Tagat and Mr.S.A. Bohra were appointed as additional directors with effect from July 18, 2007. Mr. Heinrich Bohmer, Mr.M. Gopalakrishna, Mr.S.R. Tagat and Mr.S.A. Bohra would hold office upto the date of the ensuing annual general meeting. The Company has received notices in writing from members proposing their candidature under Section 257 of the Companies Act, 1956. The appointment of the above directors are in the best interest of the Company and the Board recommends their appointment. A brief biodata of these directors are given in the Notice. Mrs. Sasikala Raghupathy, Director retires by rotation and being eligible for re-appointment, offers herself for re-appointment. A brief biodata of Mrs. Sasikala Raghupathy is given in the Notice. The Board recommends her re-appointment.

DIRECTOR'S RESPONSIBILITY STATEMENT

Pursuant to the requirements under Section 217 (2AA) of the Companies Act, 1956 with respect to Directors' responsibility statement, it is hereby confirmed that:

- In the preparation of the annual accounts for the year ended March 31, 2008 the applicable accounting standards have been followed and proper explanations were provided for material departures, if any ;
- The directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company as at March 31, 2008 and of the profit of the company for the year ended March 31, 2008;
- The directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;

- The directors have prepared the annual accounts for the year ended March 31, 2008 on a going concern basis ;

AUDITORS AND AUDITORS' REPORT

M/s. Manohar Chowdhry & Associates, Chartered Accountants, statutory auditors of the Company, retire at the conclusion of the ensuing Annual General Meeting of the Company. They have offered themselves for re-appointment as statutory auditors and have confirmed that their appointment, if made, would be within the prescribed limits under Section 224 (1B) of the Companies Act, 1956.

The notes to accounts forming part of the financial statements are self explanatory and need no further explanation. There are no qualifications or adverse remarks in the Auditors Report which require any clarification / explanation.

CORPORATE GOVERNANCE

As per the requirements of Clause 49 of the Listing Agreement a report on Corporate Governance together with the following are attached to this report.

- CEO & CFO certificate.
- Declaration on Code of Conduct
- Certificate from the Company Auditors.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT (MDA)

The Management Discussion and Analysis on the business and operations of the Company is attached to this report.

ACKNOWLEDGEMENTS

Your Directors place on record their sincere gratitude to the investors for their overwhelming support and confidence reposed in them. Your Directors express their appreciation of the valuable support and co-operation received from consortium of banks, business associates, customers, vendors and various statutory authorities. Your Directors place on record their sincere appreciation of the contribution made by the employees of the Company at all levels through their hard work, dedication and support.

For and on behalf of the Board

Place : Chennai
Date : July 30, 2008

B. G. Raghupathy
Chairman & Managing Director

Annexure I

DISCLOSURE IN THE DIRECTORS' REPORT AS PER SEBI GUIDELINES:

Particulars	2007-08
a Options granted	704,770
b Exercise Price	Rs. 408
c Options Vested	Nil
d Options Exercised	Nil
e Total no. of shares arising as a result of exercise of Options	704,770
f Options lapsed *	Nil
g Variation in terms of Options	Nil
h Money realised by exercise of Options	Nil
i Total number of options in force	704,770
*Lapsed options include options forfeited and options cancelled / lapsed	
j Employee wise details of options granted to: - Senior Managerial Personnel	
Name of the Person	Number of options
S.Rathinam	20,000
V.R.Mahadevan	20,000
A. Swaminathan	43,590
H.L.Khajuria	15,680
R.Ramesh Kumar	20,000
G.Suresh	18,670
V.Balakrishnan	12,950
S.Ilanchezhiyan	11,000
N Murali	13,740
P.R. Easwar Kumar	11,000
- any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year	None
- employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding warrants and conversions) of the company at the time of grant	None

Particulars	Rs. In Million
k Diluted earnings per share pursuant to issue of shares on exercise of option calculated in accordance with AS 20 'Earnings per Share' (Rs.)	12.51
l Proforma Adjusted Net Income and Earnings Per Share	
Net Income	
As Reported	844.43
Add: Intrinsic Value Compensation Cost	Nil
Less: Fair Value Compensation Cost	11.31
Adjusted Pro Forma Net Income	833.12
Earnings Per Share: Basic	
As Reported (Rs.)	12.64
Adjusted Proforma (Rs.)	12.47
Earnings Per Share: Diluted	
As Reported (Rs.)	12.51
Adjusted Proforma (Rs.)	12.34
m Weighted average exercise price of Options granted during the year whose	
(a) Exercise price equals market price	NA
(b) Exercise price is greater than market price	408
(c) Exercise price is less than market price	NA
Weighted average fair value of options granted during the year whose;	
(a) Exercise price equals market price	NA
(b) Exercise price is greater than market price	60.07
(c) Exercise price is less than market price	NA