

BGR Energy Systems Limited

February 09, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	2,824.00 (Reduced from 2,888.00)	CARE BBB; Negative [Triple B; Outlook: Negative]	Reaffirmed
Long-term/Short-term Bank Facilities	5,219.00 (Reduced from 5,330.00)	CARE BBB; Negative/CARE A3 [Triple B; Outlook: Negative /A Three]	Reaffirmed
Total Facilities	8,043.00 (Rs. Eight Thousand Forty- Three Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of BGR Energy Systems Limited (BGR) continue to derive strength from the long operational track record of the company, established position in the power projects business with demonstrated project execution capabilities, experienced and qualified management team and satisfactory order book position.

The rating strengths are, however, tempered by the leveraged capital structure, elongated collection period, susceptibility of profitability margins to input price fluctuation and subdued financial performance during FY20 (refers to period April 01 to March 31) & H1FY21 majorly due to slowdown in business operation on account of Covid-19 pandemic.

Outlook: Negative

CARE notes that while the company has further improved the order book position during 9MFY21 and pace of work execution has also picked up, the continuation of same and booking of expected revenue with consequent impact on profitability and liquidity remains to be seen. In light of the same, CARE continues to maintain negative outlook on the rating. Any improvement in the execution leading to higher than expected income booking may lead to a revision in the outlook to stable.

The key rating sensitivities are as follows-

Rating Sensitivities

Positive Factors- Factors that could lead to positive rating action/upgrade:

- Improvement in scale of operations with revenue increasing to Rs.4000.00 crore and above on a sustained basis
- Improvement in liquidity position with realization of retention money dues

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Delay in realizations of debtors with overall collection period exceeding 450 days on continued basis
- Deterioration in order book below 1.20x of sales or delay in execution of the order book
- Weakening of overall gearing ratio to 2.5x and above on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and qualified management team: BGR Energy Systems Limited (BGR) was founded by late Mr. B.G. Raghupathy in 1985. After the demise of Mr. Raghupathy, in July 2013, the company is headed by his wife, Mrs. Sasikila Raghupathy (Chairperson) supported by his son Mr. Arjun Govind Raghupathy (Managing Director and Chief Executive Officer) and other Executive Directors on the board. They are further supported by a team of experienced and professional senior management having a long standing association with the company ranging from 10 to 20 years.

Established player in power projects segment with demonstrated project execution capabilities: The company executes turnkey contracts and EPC contracts in which it designs, engineer and supply the equipment required for a Power Plant, particularly Balance of Plant (BOP) equipments. The company initially started as a subcontractor and gradually has established itself as a renowned EPC contractor for the power sector. The forte of the company lies in the strong design and engineering capabilities. BGR has a design and engineering team for power project with expertise in the major sub-systems of BoP. During the past few years, BGR has also gained expertise in handling civil works and has set-up in house civil works team to handle the civil work related projects.

Satisfactory order book position: BGR had an outstanding order book of Rs.7,690 crore as on October 01, 2020 which at a gross billing level for FY20 results in an order book/gross billing ratio of 2.71x thereby providing revenue visibility in the medium term. After witnessing lull in the order book growth during the past three years, the company witnessed growth with receipt of a large sized order during FY20. The growth continued in current fiscal supported by addition of orders in the electrical division segment which registered a CAGR growth of about 60% over past four years. The segment is associated with orders of smaller ticket size, relatively lower labour requirement and gestation period which is expected to eventually support the

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

liquidity. The company also plans to undertake civil orders as a part of its strategy towards diversification from power segment which comprises about 72% of current order book. Nevertheless, commencement of work for the TANGEDCO Ennore project (~65% of power division order book) would be important from growth perspective.

Improvement in revenue post Q1FY21: The financial performance was adversely impacted during FY20 due to lower revenue booking in the last quarter, particularly the month of March, which witnessed about 15% of revenue booking. Outbreak of global pandemic covid-19 resulted in supply chain disruption and stoppage of work at project sites which resulted in revenue drop (by about 17%) and net loss for the entire year of FY20. The situation got aggravated during Q1FY21 with lockdown imposed and migration of laborers. With gradual restoration of man and material at all the sites, the performance started improving from Q2FY21 and the company reported revenue of Rs.273.85 crore for Q2FY21 (almost 2x of Q1FY21). The pace of execution has fastened post monsoon which is likely to support the revenue further. Improved revenue along with various cost rationalization measures adopted by the company, recovery of envisaged retention dues from few projects and tax refunds received have supported the liquidity profile.

Key Rating Weaknesses

Continued losses: The company has been reporting losses for the last three quarters as order execution has taken a hit, as explained earlier. While the company continues to focus on rationalize its costs, high fixed expenses in the form of interest costs have pulled down profitability. Further during Q2FY21, the company also wrote off debtors to extent of Rs.125.83 crore from a long pending retention money receivable.

Leveraged capital structure: The capital structure is leveraged resulting out of large working capital requirement given long gestation period of projects and funds stuck in retention money. However, the company does not have any term debt in the books. While the company has recovered long pending retention money dues from few projects and has closed project specific limits for respective project, the gearing continues to remain weak due to losses incurred resulting in erosion of networth. The overall gearing ratio stood at 2.43x as on September 30, 2020 (as against 2.05x as on March 31, 2020).

Funds blocked in retention money resulting in elongation of collection period: BGR has a large amount of retention money receivable for the projects completed in the past for which warranty period has also been completed. The retention money dues comprise about 70% of the total receivable translating into collection period of 498 days for FY20. However, there has been some traction in recovery with clearance of dues from few projects completed earlier and gradual retention built up from ongoing projects and ones completed a year back. The ability of the company to optimize the collection days and recover the pending dues with subsequent reduction in debt is important from credit perspective.

Price fluctuation risk: The construction contract entered with few clients is a fixed price contract with absence of any price escalation, however, the other contracts entered has price variation clause which allows for pass through of increase in raw material price. The fixed price nature of contracts may adversely impact the profit in scenario of sharp price increase of major inputs.

Competition from established domestic players: In the BOP segment BGR faces competition from established domestic players such as L&T Limited, Tata Projects Limited, Thermax Limited, etc. BGR derives strength from its established track record in executing BOP projects backed by in-house manufacturing capability developed over the years to support the BOP projects. However, the growth prospects in the long term would depend upon project diversification, given the slowdown in the new project addition/ expansion in the thermal power project segment and high revenue contribution from such segments.

Liquidity: Adequate

The liquidity position of BGR is adequate with no term debt liability and a moderate cash balance of Rs.20.00 crore as on January 15, 2021. The company's reliance on working capital borrowing is high due to long gestation nature of projects executed by the company leading to almost full utilization of working capital limits during the past 12 months period ended November 2020. The company has been able to manage its cashflow position with realization of old retention money dues, debtors' realizations and cost reduction measures. This apart, the company has also reduced fund based exposure with completion of various projects. The company availed moratorium on interest payment from all the banks for the period March 2020 to August 2020 which was converted into FITL and was repayable by March 2021, however, the entire FITL has been repaid by the company in Dec. 2020.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

BGR Energy Systems Limited (BGR) was established in 1985 by late Mr. B.G. Raghupathy. The company specializes in executing Engineering, Procurement and Construction (EPC) contracts providing Balance of Plant (BOP) as well as integrated turnkey solutions encompassing design, engineering, procurement, construction and project management services for power & electrical projects through its Power Project Division. Besides, BGR is also into manufacture and supply of systems and equipment such as heat exchangers, pressure vessels, condensers, high frequency resistance welded finned tubes, deaerators, and pipeline equipment used in the power, oil and gas, refinery and process industries through its other divisions.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	3261.45	2,692.26
PBILDT	412.34	255.58
PAT	29.05	13.52
Overall gearing (times)	2.11	2.05
Interest coverage (times)	1.20	0.74

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument/facility: Detailed explanation of covenants of the rated instrument/facilities is given in Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	2824.00	CARE BBB; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	5219.00	CARE BBB; Negative / CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	2824.00	CARE BBB; Negative	1)CARE BBB; Negative (23-Jul-20) 2)CARE BBB; Stable (02-Apr-20)	-	1)CARE BBB; Stable (19-Dec-18)	1)CARE BBB+; Negative (30-Mar-18)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	5219.00	CARE BBB; Negative / CARE A3	1)CARE BBB; Negative / CARE A3 (23-Jul-20) 2)CARE BBB; Stable / CARE A3 (02-Apr-20)	-	1)CARE BBB; Stable / CARE A3 (19-Dec-18)	1)CARE BBB+; Negative / CARE A3+ (30-Mar-18)
3.	Term Loan-Long Term	LT	-	-	1)Withdrawn (02-Apr-20)	-	1)CARE BBB; Stable (19-Dec-18)	1)CARE BBB+; Negative (30-Mar-18)

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities – NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-BG/LC	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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