BGR Energy Systems Limited

July 16, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	2,824.00	CARE BB+; Stable [Double B Plus; Outlook: Stable]	Revised from CARE BBB; Negative [Triple B; Outlook: Negative]
Long-term/Short-term Bank Facilities	5,219.00	CARE BB+; Stable/CARE A4+ [Double B Plus; Outlook: Stable/A Four Plus]	Revised from CARE BBB; Negative/CARE A3 [Triple B; Outlook: Negative/A Three]
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 Ltd. (BGR) were on negative outlook on account of the project execution challenges which were likely to persist in the medium term and the possible impact on the financial metrics and liquidity position of the company. While CARE had noted the improved order book position during 9MFY21 (refers to the period April 01 to March 31) along with improvement in pace of work execution during Q3FY21, the sustenance of the improvement was important. Furthermore, traditionally work execution is higher in the fourth quarter and a higher pace of execution was envisaged. However, CARE has noted that there have been execution challenges in both the projects and product division on account of various challenges related to the pandemic. The lower-than-expected execution and high fixed cost nature of the business has led to a deterioration in the financial metrics and liquidity position of the company which have driven the revision in the ratings. CARE also notes that while the absolute debtors have seen a reduction as on March 31, 2021, vis-à-vis as on March 31, 2020, on account of the recovery of long pending receivables, debt levels have seen a lower reduction. Furthermore, with Ennore project (which accounted for a significant share of the order book) under litigation and few other projects in hand nearing completion, the balance order book represents a significant shrinkage.

The ratings continue to factor in the long operational track record of the company, established position in the power projects business and an experienced and qualified management team.

The key rating sensitivities are as follows-

Rating Sensitivities

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

- Improvement in order book position and execution with revenue in excess of Rs.2500 crore
- Improvement in liquidity position with collections below 300 days

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

- Continued slowdown in project execution or elongation in collections

Detailed description of the key rating drivers

Key Rating Weaknesses

Challenge in execution leading to deterioration in financial metrics: The company's project execution in FY21 has been severely impacted on account of the covid pandemic. While the first half of the year saw challenges due to the lockdown and migration of labour etc., there was an improvement in Q3FY21 with the company reporting a q-o-q growth of 30% in the revenue with tapering of the effect of the pandemic. The last quarter is historically a quarter where the company's execution picks us pace and it was expected that a similar situation would play out. However, the company's execution has been hampered by various execution related challenges both in the projects divisions as well as the products divisions. The product division was expected to offset the execution challenges in the projects division and ensure quicker cash collections, however that too has seen supply chain challenges leading to almost a similar level of revenue in Q4FY21 as the previous quarter. Lower revenue booking along with high fixed cost nature of the business has led to the company reporting significant losses for the year. It is noted that the company had also written-off Rs.168.37 crore of receivables which also added to the losses for the year.

Leveraged capital structure: The capital structure is leveraged resulting out of large working capital requirement given the long gestation period of projects and high debtor level. 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 projects, the gearing continues to remain weak due to losses incurred resulting in erosion of networth. The overall gearing ratio stood at 2.51x as on March 31, 2021 (as against 2.05x as on March 31, 2020).

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

Elongation of collection period: BGR had been facing issues in recovery of retention proceeds from completed projects which resulted in significant debtors built up and in turn pulled down the profitability with high interest cost on working capital for financing the same. The company witnessed traction in debtors recovery during FY21 with realization of dues from long pending completed project which resulted in reduction in debtors as on Mar 31, 2021. However, significant drop in revenue has resulted in further elongation of average debtor days during FY21. This apart, CARE notes that there is debtor built-up from the lower gestation electrical project division also which, if continued, would impact the liquidity position. The ability of the company to optimize the collection with subsequent reduction in debt levels is important from credit perspective.

Liquidity: Stretched

During FY21, realization of old retention money dues, cost rationalization measures and income tax refund received had supported the liquidity profile of the company. However, going ahead, liquidity is expected to be stretched with slowdown in project execution impacting the regular cashflows and uncertainty over the recovery timelines of few pending retention proceeds. Recovery of the retention dues from the Rajasthan Rajya Vidyut Utpadan Nigam Limited (RRVUNL) project as well as compensation receipt from Hitachi is expected to provide support to the weakening liquidity profile. The company's reliance on working capital borrowing is also 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 April 2020.

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.

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 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 position in the power projects segment: The company executes turnkey contracts and EPC contracts for the thermal power segment. 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.

Moderate order book position: BGR has an outstanding order book of approx. Rs.6996 crore as on April 2021 with orders from power division (70%) and Electrical & Product Division (30%). The company has been able to scale up orders in the Electrical & Product division which has supported the order book and revenue visibility in the medium term. The orders in said division are also of smaller ticket size, with relatively lower labour requirement and gestation period.

On the power project division, the Ennore project is under litigation (forming 51% of the order book) and the other projects in the division are nearing completion which thereby results in shrinkage of order book. Hence, the ability of the company to add up new orders and improve execution of the non-power projects would drive the growth prospects.

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)	FY20 (A)	FY21 (Published)
Total operating income	2,692.26	1139.81
PBILDT	255.58	(148.65)
PAT	13.52	(355.42)
Overall gearing (times)	2.05	2.51
Interest coverage (times)	0.74	(0.45)

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 BB+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	5219.00	CARE BB+; Stable/ CARE A4+

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	2,824.00	CARE BB+; Stable	-	1)CARE BBB; Negative (09-Feb-21) 2)CARE BBB; Negative (23-Jul-20) 3)CARE BBB; Stable (02-Apr-20)	-	1)CARE BBB; Stable (19-Dec-18)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	5,219.00	CARE BB+; Stable/ CARE A4+	-	1)CARE BBB; Negative / CARE A3 (09-Feb-21) 2)CARE BBB; Negative / CARE A3 (23-Jul-20) 3)CARE BBB; Stable / CARE A3 (02-Apr-20)	-	1)CARE BBB; Stable / CARE A3 (19-Dec-18)
3.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (02-Apr-20)	-	1)CARE BBB; Stable (19-Dec-18)

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities – Not Applicable

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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