

January 11, 2016

CARE REAFFIRMS THE RATINGS ASSIGNED TO THE BANK FACILITIES OF BGR ENERGY SYSTEMS LIMITED

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term bank facilities	3,346	CARE BBB+ (Triple B Plus)	Reaffirmed
Long-term/ Short-term bank facilities	8,186	CARE BBB+/CARE A2 (Triple B Plus/A Two)	Reaffirmed
Total facilities	11,532 (Rupees Eleven Thousand Five Hundred and Thirty Two crore only)		

Rating Rationale

The ratings assigned to the bank facilities of BGR Energy Systems Limited (BGRE) continue to factor in the company's long operational track record, its established position in the power projects business with demonstrated project execution track record, in-house design and engineering capabilities for most of the BOP sub-systems, healthy order-book position and the favourable long-term business prospects in the power sector in India. The ratings are constrained by the high working capital intensity as a result of stretched collection cycle notwithstanding the improvement during FY15 (refers to period from April 1 to March 31), moderate capital structure and highly competitive nature of power projects business which is characterised by execution delays on account of external factors & susceptibility of profitability due to fluctuation in cost of raw materials/bought-outs and longer tenure of projects executed. The ratings also factor in the moderation in profit margins witnessed by BGRE primarily due to execution of low margin projects in FY15 & H1FY16.

Going forward, company's ability to execute the current order book in hand in a timely manner and win large-sized contracts in a highly competitive scenario remains critical for its growth prospects. In addition, timely realization of receivables, improvement in profitability margins and diversification of order book would be important for the company.

Background

BGR Energy Systems Limited (BGRE) was originally incorporated in 1985, under the name of 'GEA Energy System (India) Limited', as a Joint Venture (JV) between GEA Energietechnik GmbH, Germany (GEA) and Mr. B.G. Raghupathy. Over the years, Mr. Raghupathy acquired GEA's equity holding and the company went through various name changes and became BGR Energy Systems Limited (BGRE) in 2007. Further to this, BGRE was listed on both BSE & NSE in January 2008. BGRE 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 (PPD). Besides, BGRE 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. PPD has been the major contributor for BGRE's income and order book with more than 90% share.

During FY15 (refers to the period April 1 to March 31), the company reported PAT of Rs.42 crore on a total operating income of Rs.3,366 crore. During H1FY16 (refers to the period April 1 to September 30), BGRE reported PAT of Rs.20 crore

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

on a total operating income of Rs.1,727 crore.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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