

BGR Energy Systems Limited

January 23, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	3,614	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long-term/Short-term Bank Facilities	6,874	CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/A Two)	Reaffirmed
Total Facilities	10,488 (Rupees Ten Thousand Four hundred and Eighty Eight crore only)		

Details of instruments/facilities in Annexure-1

Detailed 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, stable financial performance during FY16 (refers to the period April 1 to March 31) and the favourable long-term business prospects in the power sector in India. The rating also takes note of the improvement in the order book position with addition of three new orders and agreement with Hitachi Limited, Japan. The ratings are constrained by the high working capital intensity as a result of stretched collection cycle, moderate capital structure and competitive nature of power projects business which is characterised by execution delays on account of external factors.

Going forward, company's ability to execute the projects in a timely manner, realization of receivables, improve the profitability margins and diversification of order book will be the key rating sensitivities

Detailed description of the key rating drivers

Mrs Sasikila Raghupathy is the Chairman of the Board of Directors (BoD). The BoD also has a leadership team consisting of two joint managing directors Mr V R Mahadevan and Mr A Swaminathan. Mr Arjun Govind Raghupathy was recently appointed as the Deputy Managing Director and COO. Several members of the senior management team have a long standing association with the company.

BGRE initially started as a product manufacturer, supplying energy products to power plants. Later, the company moved into Balance of Plant (BOP) projects covering activities relating to installation of equipment & systems catering to mechanical, electrical, instrumentation & control along with civil works in a power plant. Backed by a well-defined organisational structure for timely decision making and good execution capabilities, the company has been able to win projects from various reputed clientele from both the public sector and private Independent power producers.

BGRE has in-house capabilities in design, engineering and manufacturing of products. With respect to the power project division, BGRE has design and engineering expertise in the major sub-systems of BOP which distinguishes it from competition and has positioned itself as a major player in the BOP segment. The execution and engineering capabilities are well complemented by a business development team that constitutes personnel with sound technical knowledge on the projects as well as strong business networking capabilities.

The order book position of BGRE, after dipping in FY15 and FY16, has improved during the current financial year. However, the order book is healthy at around Rs.10,400 crore as on December 1, 2016 on account of bagging three new orders aggregating Rs.7,688 crore in 8MFY17. Orders from PPD division constituted nearly 91% of the order book. With respect to majority of projects, execution has gained pace during FY16 and BGRE has been able to ramp-up execution in some of the orders and few large projects have been completed during the year.

BGRE's revenue has seen slight moderation during FY16 with total operating income of Rs.3,194 crore (PY:Rs.3,366 crore). With respect to players like BGRE, the mix of order book plays an influential role in determining the company's PBIDT

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

margin as the BOP contracts provide relatively better profit margin than that of EPC contracts. With the company executing EPC and BTG supply projects during FY15, FY16 and H1FY17, the PBILDT margin remained lower. The company reported a PAT of Rs.33 crore during FY16 (PY: Rs.42 crore) due to increase in the finance cost.

With increase in receivables from Rs.2,837 crore as on March 31, 2015 to Rs.3,586 crore as on March 31, 2016, the average collection period increased from 321 days in FY15 to 363 days in FY16. However, the working capital cycle remained at 174 days in FY16 (PY: 171 days) due to increase in the average creditor period. As on September 30, 2016, receivables stood at Rs.3,130 crore.

Overall gearing level remained moderate at 1.68x as on March 31, 2016. With moderation in cash accruals, Total Debt/GCA deteriorated from 27.36x as on March 31, 2015 to 30.09x as on March 31, 2016. Given the working capital intensive nature of operations of the industry, ability of BGR to manage timely realization of receivables remains important to maintain its overall financial profile.

Analytical approach: Standalone

Applicable Criteria

[CARE's methodology for Service Sector Companies](#)

[CARE's methodology for Short Term Instruments](#)

[Criteria on assigning Outlook to Credit Ratings](#)

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

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

About the Company

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, BGR was listed on both BSE & NSE in January 2008. BGR 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, 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. PPD has been the major contributor for BGR's income and order book with more than 90% share.

During FY16 (refers to the period April 1 to March 31), the company reported PAT of Rs.33 crore on a total operating income of Rs.3,194 crore. During H1FY17 (refers to the period April 1 to September 30), BGR reported PAT of Rs.19 crore on a total operating income of Rs.1,665 crore.

Status of non-cooperation with previous CRA:

ICRA has suspended its rating vide press release dated July 4, 2016 on account of its inability to carry out a rating surveillance in the absence of the requisite information from the company.

Any other information: Not Applicable

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

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

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook 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.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	April 2020	376.00	CARE BBB+; Stable
Fund Based - LT-Cash Credit	-	-	-	3238.00	CARE BBB+; Stable
Non-Fund Based - LT/ST-BG/LC	-	-	-	6874.00	CARE BBB+; Stable / CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Type	Current Ratings		Chronology of Rating history			
			Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund Based - LT-Cash Credit	LT	3238.00	CARE BBB+; Stable	-	1)CARE BBB+ (11-Jan-16) 2)CARE BBB+ (09-Apr-15)	-	-
2.	Non-Fund Based - LT/ ST-BG/LC	LT/ST	6874.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+ / CARE A2 (11-Jan-16) 2)CARE BBB+ / CARE A2 (09-Apr-15)	-	-
3.	Term Loan-Long Term	LT	376.00	CARE BBB+; Stable	-	1)CARE BBB+ (11-Jan-16) 2)CARE BBB+ (09-Apr-15)	-	-

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