

## BGR Energy Systems Limited

March 30, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	3,184	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Long-term/Short-term Bank Facilities	6,693	CARE BBB+; Negative/ CARE A3+ (Triple B Plus; Outlook: Negative/ A Three Plus)	Revised from CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/ A Two)
<b>Total facilities</b>	<b>9,877</b> <b>(Rupees Nine Thousand Eight hundred and Seventy Seven crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the short term bank facilities of BGR Energy Systems Limited (BGRE) factors in the prolonged delay in realisation of the retention money from certain completed projects.

*The ratings 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, 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, moderate capital structure and competitive nature of power projects business which is characterized by execution delays on account of external factors.*

*Going forward, company's ability to execute projects in a timely manner, improve the profitability margins, improve order book position and timely realization of receivable & retention money will be the key rating sensitivities.*

### Outlook: Positive/Negative

The outlook reflects the moderate order book position with three big orders contributing to major chunk of income. Any prolonged delay in realization of receivables and securing new orders likely to result in elevated working capital requirement and further moderation in profitability on account of interest cost associated with funding the same.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### ***Highly experienced and well qualified management team***

Mr B G Raghupathy, the Founder and Chairman of BGRE had been instrumental in the growth of the company as a large and competitive player in the power EPC segment. Following the demise of Mr B G Raghupathy in July 2013, the Board of Directors (BoD) constituted an "Empowered Committee of Directors" to enable seamless transition. Mrs Sasikila Raghupathy was appointed as the Chairman of the BoD.

##### ***Established player in the power projects segment with demonstrated project execution capabilities***

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. Over the years, project specific tie-ups enabled BGRE to source BTG equipment and helped its transformation from a contractor in the BOP segment to complete EPC contractor.

##### ***Strong in-house design and engineering capabilities for most of the BOP sub-systems***

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

BGRE has in-house capabilities in design, engineering and manufacturing of products such as Air Fin coolers, De-aerators, etc. among others in the products division. With respect to the power project division, BGRE has design and engineering expertise in the major sub-systems of BOP such as Ash handling system, coal handling system, cooling towers, condensers etc. In the past two years, BGRE has also gained expertise in handling civil works and currently the company has in house civil works team in place.

#### ***Stable Financial performance during FY17***

BGRE's revenue grew by 5% in FY17 to Rs.3,438 crore as against Rs.3,244 crore in FY16. With respect to players like BGRE, the mix of order book will play an influential role in determining the company's PBILDT margin as the BOP contracts provide relatively better profit margin than that of EPC contracts. With the company executing BTG supply projects during FY17, PBILDT margin remained lower at 11.44% in FY17 (FY16: 12.44% & FY15: 10.96%).

During 9MFY18, BGRE reported a PAT of Rs.7 crore on a total operating income of Rs.2,123 crore as against PAT of Rs.30 crore on a total operating income of Rs.2,331 crore during 9MFY17. Operating income in 9MFY18 include Rs.519 crore received from Hitachi, Japan as per the agreement entered on March 30, 2016. Moderation in the PAT during 9MFY18 was due to fall in income booked on y-o-y basis and one time write off of Rs.11.19 crore (Rs. 68.91 crore already provided in P&L in the past) pertaining to the BG invocation from Ministry of Electricity, Iraq. This BG has been in dispute since FY16 and was fully backed by fixed deposits.

#### ***Favorable long-term prospects in the power sector amidst strong competition***

Business prospects of BGRE will be directly linked to the domestic economic scenario, spending by the private entities and government agencies towards infrastructure, government intervention in resolving issues related to coal linkages and addressing the delay in project clearances. Securing new orders is critical for the business prospects of BGRE. Timely realization of receivables, timely execution of the orders in hand and diversification of order book would be important for the company, going forward.

#### **Key Rating Weaknesses**

##### **Moderation in order book position in absence of major additions to order book in FY18**

As on December 31, 2017, BGRE has order book worth Rs.7,551 crore as against order book of Rs.9,432 crore as on March 31, 2017. During FY17, BGRE received three orders (BOP) worth Rs.7,688 crore in the Power Project division and has also bagged orders worth Rs.650 crore in EED division for setting up of water treatment plants. However, new orders booked during FY18 is only Rs.688 crore across other product divisions, of which LOI for orders worth Rs.439 crore is still pending. Also, order book of BGRE is concentrated with three new orders in the PPD division accounting for significant portion (around 80%) as on December 31, 2017.

##### **Project Execution**

The power projects executed by BGRE are long gestation in nature extending for tenure of 45 to 60 months. Post the slowdown of the power sector and capex cycle, BGRE has faced delays in execution of many orders and these execution delays have resulted in lower revenue bookings though these delays were due to regulatory, environmental and structural issues and not in the purview of BGRE. However, the situation has improved during FY17 and the company has completed three major projects pertaining to MAHAGENCO, CSPGENCO & TRN Energy Private Limited.

##### **Elongated Working Capital Cycle**

BGRE secures limits for each project separately and cash flows from the project is escrowed and utilized only against the said limits. It is to be noted that Bank limits can be utilised till the tenure of the contract and warranty period. Hence, BGRE would require to mobilise capital towards funding retention money. In the past (FY15), BGRE raised corporate loan to fund the same.

BGRE has been facing issues in recovery of retention money for projects completed (typically 10% of contract value) which includes TANGEDOC & TSGENCO. Retention money from TSGENCO & TANGEDCO approximately accounts for 27% of the total retention money outstanding as on December 31, 2017. During 11mFY18 BGRE has received Rs.77 crore from TSGENCO. However, there has not been much improvement in position of retention money receivables from TANGEDCO. Retention money receivables stood at Rs.2,114 crore as on December 31, 2017 as against Rs.2,088 crore as on March 31, 2017 (PY:Rs.2,158 crore). Timely realization of retention money of the above said projects is key to improve cash flow position and reduce interest cost associated with funding of the same.

### ***Moderately leveraged capital structure***

Overall gearing level remained moderate at 1.45x as on March 31, 2017 as against 1.73x as on March 31, 2016. The working capital requirements for BGR Energy Systems Limited (BGRE) continue to be high with average working capital utilization of around 90%. Due to higher working capital borrowings, interest cost continues to be high resulting in a lower PAT margin of 1.30% in FY17 (PY: 0.85). Further, BGR Energy Systems Limited (BGRE) has considerable off balance sheet exposure in the form of LC/BG resulting in higher bank charges.

### **Analytical approach:**

*Standalone*

### **Applicable Criteria**

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

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

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

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

[Rating Methodology-Manufacturing Companies](#)

### **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 Energy Systems Limited (BGRE) was listed on both BSE & NSE in January 2008. BGR Energy Systems Limited (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, BGR Energy Systems Limited (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 BGR Energy Systems Limited (BGRE)'s income and order book with more than 90% share.

In the recent past, BGR Energy Systems Limited (BGRE) has also ventured into water related projects wherein it secured an order for desalination and effluent treatment plant.

<b>Brief Financials (Rs. crore)</b>	<b>FY16 (A)</b>	<b>FY17 (A)</b>
Total operating income	3,244	3,438
PBILDT	420	393
PAT	28	45
Overall gearing (times)	1.73	1.45
Interest coverage (times)	1.21	1.22

*A: Audited*

### **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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**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
Fund-based - LT-Cash Credit	-	-	-	2911.00	CARE BBB+; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	6693.00	CARE BBB+; Negative / CARE A3+
Term Loan-Long Term	-	-	April 2020	273.00	CARE BBB+; Negative

**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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	2911.00	CARE BBB+; Negative	-	1)CARE BBB+; Stable (23-Jan-17)	1)CARE BBB+ (11-Jan-16) 2)CARE BBB+ (09-Apr-15)	-
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	6693.00	CARE BBB+; Negative / CARE A3+	-	1)CARE BBB+; Stable / CARE A2 (23-Jan-17)	1)CARE BBB+ / CARE A2 (11-Jan-16) 2)CARE BBB+ / CARE A2 (09-Apr-15)	-
3.	Term Loan-Long Term	LT	273.00	CARE BBB+; Negative	-	1)CARE BBB+; Stable (23-Jan-17)	1)CARE BBB+ (11-Jan-16) 2)CARE BBB+ (09-Apr-15)	-

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CIN - L67190MH1993PLC071691