

BGR Energy Systems Limited

April 02, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities - Term loan	0.00	-	Withdrawn
Long- term Bank Facilities	2,888.00	CARE BBB; Stable [Triple B; Outlook: Stable]	Reaffirmed
Long-term/Short-term Bank Facilities	5,330.00	CARE BBB; Stable/CARE A3 [Triple B; Outlook: Stable / A Three]	Reaffirmed
Total Facilities	8,218.00 (Rs. Eight Thousand Two Hundred and Eighteen crore only)		

Details of instruments/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 strong design and in-house engineering capabilities for major sub-systems of Balance of Plant (BOP). The rating also takes note of the improvement in order book position and collections during 9MFY20 vis-à-vis the previous financial year.

The rating strengths are, however, tempered by the susceptibility of profitability margins to raw material price fluctuation and forex risk, leveraged capital structure, high debtors with large amounts stuck as retention money and have been overdue for an elongated period impacting the liquidity position of the company. The rating also takes note of the tepid economic environment and more so in the power sector which forms the staple business source for the company, thereby leading to stagnation in the overall business.

CARE has also withdrawn the rating assigned to the term loan facilities as the company has repaid the entire amount and there are no dues against the same.

The key rating sensitivities are as follows-

Rating Sensitivities

Positive Factors

- 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 receivable from four key project which has tempered the available liquidity of the company over the years

Negative Factors

- Delay in realizations of debtors with overall collection period exceeding 450 days
- 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

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. After the demise of Mr. Raghupathy, in July 2013, the company is headed by his wife, Mrs. Sasikila Raghupathy (Chairperson). She is supported by other Executive Directors on the board with the board comprising of 8 members including four executive directors and four independent directors. The board is assisted by experienced senior management team having a long standing association with the company ranging from 10 to 20 years.

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

Established player in power projects segment with demonstrated project execution capabilities: BGR initially started as an equipment manufacturer supplying equipment used in power plants in the country. Later on, 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. The company completed its first contract in 2002 and has close to two decades of expertise in the power projects execution. Over the years, project specific tie-ups enabled BGR to source Boiler Turbine Generator (BTG) equipment and helped its transformation from a contractor in the BOP segment to complete EPC contractor for the power sector.

Strong in-house design and engineering capabilities: BGR has technical collaboration with globally reputed companies for technical knowhow and also enters into project specific collaborations for the supply of BTG and other related components. The forte of the company lies in the strong design and engineering capabilities and has a design and engineering team for power project with expertise in the major sub-systems of BoP such as ash handling system, coal handling system, cooling towers, condensers etc. 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.

Expansion of order book: BGR had an outstanding order book of Rs.7,462 crore as on January 01, 2020. After witnessing lull in the order book growth during the past three years, the company added orders aggregating Rs.4,744 crore during 9MFY20 with a single order aggregating Rs.3,628 crore. This has resulted in growth in order book from Rs.6,150 crore as on September 30, 2018 to Rs.7,461 crore as on January 01, 2020. While the power division continues to contribute approx. 80% of the order book, the company has been steadily expanding the work orders in other segments. Orders from segments other than power stood at Rs.1,627 crore as on January 01, 2020.

Stable financial performance during FY19 with improvement during 9MFY20: BGR reported a stable revenue on a y-o-y basis led by similar contribution from construction EPC (~90%) and capital goods segment. However, the PBILDT level and margin declined by about 5% and to 12.64% (from 13.15%) respectively due to lower margin associated with the civil work execution/EPC work for the projects under progress. This apart, change in product mix for the other capital goods segments have also impacted the margins. However, it may be noted that during FY18, BGR recognized income of 110 Mn USD (Approximately Rs.748 crore) from Hitachi towards compensation, absence of which would have resulted in significantly lower revenue and PBILDT in FY18. Profit margins have declined with change in order book composition.

The financial performance improved during 9MFY20 with the company reporting a PBILDT and revenue growth of 12% (Rs.293.8 crore) and 7% (Rs.2412 crore) respectively on a y-o-y basis. The steady growth is contributed by completion of orders for a key client and improved execution pace on couple of other large orders. In line the company reported PAT of Rs.2.19 crore during 9MFY20 vis-à-vis net loss reported last year.

Release of Performance Bank Guarantee and prepayment of term debt: The company has pending retention money dues from TANGEDCO for its Mettur project which was completed in FY13 and warranty period was over in FY16. During the current fiscal, the client has released Performance BG's of Rs.310 crore pertaining to the project and post such receipts all the bank liabilities (fund and non-fund based limit of the project) has been closed by the company. Further, on release of margin money associated with the BG, BGR has prepaid the term debt liability. The company now expects to see traction in the collection of the retention money on this project which will aid its liquidity position.

Key Rating Weaknesses

Leveraged capital structure: The capital structure has been leveraged with huge working capital requirement given funds stuck in retention money dues for a longer period of time. This apart, the company also avails mobilization advance (usually 10%) for the project execution which are backed by bank guarantee. Hence, the overall gearing ratio has remained at a moderate level at 2.11x as on March 31, 2019, albeit improved marginally from 2.31x as on March 31, 2018. However, during March 2020, BGR has prepaid the term loan availed in FY15 with which term debt obligation is extinguished. The debt coverage metrics have been on the weaker side due to high debt level. The interest on loans availed along with high bank charges (on LC/BG usage) has resulted in thin interest coverage at 1.20x for FY19.

Funds blocked in retention money resulting in elongation of collection period: BGR has been facing issues in recovery of retention money for the projects completed in the past though the warranty period has also been completed. The large retention money due has resulted in high receivables for the company translating into collection period of 456 days for FY19.

The receivable position has witnessed some traction with receivable reducing to Rs.3,449 crore as on December 31, 2019 as against Rs.4,040 crore as on March 31, 2019.

The retention money dues comprise 75% of the receivable as on December 31, 2019 with dues from 4 projects comprising 40% of the retention dues.

Price fluctuation and forex risk: The construction contract entered with few clients is a fixed price contract with absence of any price escalation. In order to minimize the price fluctuation risk, the company has back to back arrangements with its suppliers. Nevertheless, the fixed price nature of contracts may adversely impact the profit in scenario of sharp price increase of major inputs. Further, given the operations in capital goods segment, the company procures various raw materials/components through imports and also exports products of AFC segment resulting in exposure to foreign exchange fluctuation risk.

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. Also, the company's ability to win big ticket BOP projects from state run power generating companies amidst the competition from other established players in the industry has resulted in its revenue growth over the years. However, the growth prospects in the long term is 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 the company is adequate with the company generating adequate cash accrual (Rs.60.94 crore in FY19) with no long term debt in the books of account as on March end 2020. However, the company's reliance on working capital borrowing is high due to long gestation nature of projects executed by the company. The project specific working capital limits of the company are almost fully utilized during last 12 months period ended in February 2020. The company had free cash and bank balance of Rs.27.37 crore as on March 31, 2019.

Analytical approach: Standalone

Applicable Criteria

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

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

[Rating Methodology: Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

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

About the Company

BGR Energy Systems Limited (BGR) 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 (BGR) 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. 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. Power Project Division has been the major contributor for BGR's income and the order book as on January 01, 2020 consists of about 78% of the total orders from PPD. In the recent past, BGR has also ventured into water related projects wherein it secured an order for desalination and effluent treatment plant.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total operating income	3298.36	3261.45
PBILDT	433.75	412.34
PAT	32.38	29.05
Overall gearing (times)	2.31	2.11

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Interest coverage (times)	1.25	1.20

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	-	-	-	-	2888.00	CARE BBB; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	5330.00	CARE BBB; Stable / CARE A3
Term Loan-Long Term	-	-	-	-	0.00	Withdrawn

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	2888.00	CARE BBB; Stable	-	1)CARE BBB; Stable (19-Dec-18)	1)CARE BBB+; Negative (30-Mar-18)	1)CARE BBB+; Stable (23-Jan-17)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	5330.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (19-Dec-18)	1)CARE BBB+; Negative / CARE A3+ (30-Mar-18)	1)CARE BBB+; Stable / CARE A2 (23-Jan-17)
3.	Term Loan-Long Term	LT	-	-	-	1)CARE BBB; Stable (19-Dec-18)	1)CARE BBB+; Negative (30-Mar-18)	1)CARE BBB+; Stable (23-Jan-17)

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

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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