

BGR Energy Systems Limited

July 23, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long- term Bank Facilities	2,888.00	CARE BBB; Negative [Triple B; Outlook: Negative]	Revised from CARE BBB; Stable (Triple B, Outlook: Stable)
Long-term/Short-term Bank Facilities	5,330.00	CARE BBB; Negative/CARE A3 [Triple B; Outlook: Negative / A Three]	Revised from CARE BBB; Stable/CARE A3 (Triple B, Outlook: Stable/ A Three)
Total Facilities	8,218.00 (Rs. Eight thousand two hundred 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, satisfactory order book position and strong design and in-house engineering capabilities for major sub-systems of Balance of Plant (BOP).

The ratings are, however, constrained by the leveraged capital structure, elongated collection period, susceptibility of profitability margins to raw material price fluctuation and forex risk. The ratings also take into account the fall in income during FY20 (refers to the period April 01 to March 31) and operating losses reported during the year. While CARE notes that the contribution margins have remained fairly similar as compared with the previous years, less than expected revenue booking especially in the power projects division, has had a significant impact on the overall profits. The income booking has been lower, especially in Q4FY20, which is attributable to the impact of the COVID-19 pandemic and slowdown in execution. It is noted that while the company has improved its order book position in FY20 as compared with FY19, the company is likely to face challenges in execution resulting out of the lockdowns imposed, labour availability and general tepid operating environment. In light of the above circumstances, while the company is working on rationalizing costs and optimizing resources and execution, CARE has revised the outlook on the ratings to negative. CARE, believes that execution challenges are likely to persist in the medium term and can have an impact on the financial metrics and liquidity position of the company. Any improvement in the execution leading to higher than expected income booking may lead to a revision in the outlook to stable. The key rating sensitivities are as follows-

Rating Sensitivities

Positive Factors

- Improvement in the scale of operations with revenue increasing to Rs.4,000 crore and above on a sustained basis
- Improvement in liquidity position with realization of retention money receivable from four key projects which has tempered the available liquidity of the company over the years

Negative Factors

- Delay in realizations of retention money from the completed projects within the timelines envisaged and the 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). Mr V. R. Mahadevan (former Joint Managing Director (JMD)) along with Mr A. Swaminathan (Director- Engineering & Construction Business), Mr Arjun Govind Raghupathy (earlier JMD & Chief Operating Officer (COO)) and other Executive Directors were looking after the day-to-day operations of the company. However, Mr V. R. Mahadevan resigned from the services of the company and Mr Arjun Govind Raghupathy has been appointed as the Managing Director of BGR. The promoters

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

are well supported by other Executive Directors on the board and a team of experienced and professional senior management having a long-standing association with the company ranging from 10 to 20 years.

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.

Satisfactory order book position: 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.

Key Rating Weaknesses

Impact of COVID-19 and drop in performance in FY20: BGR witnessed subdued financial performance during FY20 with reduction in revenue by about 16% vis-a-vis FY19. However, significant drop was witnessed in Q4FY20 (about 72% on q-o-q basis). The Q4 of the financial year normally accounts for approx. 30-40% of the total revenue for a normal fiscal year. The global pandemic COVID-19 impacted the operations of the company leading to stoppage of work at project sites and subsequent billing as well as non-operation of manufacturing units. Given the lower revenue and regular fixed operating expenses, the company reported a loss at PBT level.

Leveraged capital structure: The capital structure is leveraged resulting out of large working capital requirement. The company doesn't have any term debt in the book and the debt profile consists of working capital limits, mobilization advance and LC backed by creditors. The company has retention money dues for a longer period of time which necessitates high working capital funding.

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 493 days for FY20. The receivable position has witnessed some traction with receivable reducing to Rs.3326 crore as on March 31, 2020 as against Rs.4,040.07 crore as on March 31, 2019. Of the retention money dues, large part of it comes from two major projects from which the company is expecting to receive the dues by end of Q2FY20. The company expects to receive approx. Rs.400 crore by end of this period and this is expected to support the liquidity position of the company, which may face stress in the future in case of prolonged slowdown in execution.

Price fluctuation 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.

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 no term debt liability and a moderate cash balance of Rs.25.00 crore as on July 02, 2020. The company's reliance on working capital borrowing is high due to long gestation nature of projects executed by the company. As discussed earlier, the company is witnessing a slowdown in execution and the company has been able to manage its cashflow position with debtors' realizations and cost reduction measures. Besides, it received proceeds of Rs.42 crore by way of disinvestment in its subsidiary; Progen Systems and Technologies Limited to BGR Investment holding company Limited (holding company of BGR). Furthermore, the company has availed moratorium on interest payment from all the banks for the period March 2020 to August 2020 which has aided the management of liquidity. Going forward, incremental execution and timely collection of receivables would be important from a liquidity perspective.

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)	FY19 (A)	FY20 (A)
Total operating income	3261.45	2,733.24
PBILDT	412.34	314.45
PAT	29.05	13.52
Overall gearing (times)	2.11	2.04
Interest coverage (times)	1.20	0.91

A: Audited

Note: On adoption of IND AS 115, the company has recognized loss allowances using Expected Credit Loss (ECL) for contract receipts and cumulative effect of ECL on contract asset up to March 31, 2018 being Rs.14.61 crore has been adjusted in the opening retained earnings. This along with other adjustment has resulted in reduction in networth as on March 31, 2019 by Rs.27.00 crore.

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; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	5330.00	CARE BBB; Negative/ CARE A3

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	2888.00	CARE BBB; Negative	1)CARE BBB; Stable (02-Apr-20)	-	1)CARE BBB; Stable (19-Dec-18)	1)CARE BBB+; Negative (30-Mar-18)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	5330.00	CARE BBB; Negative/ CARE A3	1)CARE BBB; Stable / CARE A3 (02-Apr-20)	-	1)CARE BBB; Stable / CARE A3 (19-Dec-18)	1)CARE BBB+; Negative / CARE A3+ (30-Mar-18)
3.	Term Loan-Long Term	LT	-	-	1)Withdrawn (02-Apr-20)	-	1)CARE BBB; Stable (19-Dec-18)	1)CARE BBB+; Negative (30-Mar-18)

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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