

BGR Energy Systems Limited

December 19, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank facilities	3,076	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB+; Negative (Triple B Plus; Outlook: Negative)
Long-term/ Short-term Bank Facilities	6,432	CARE BBB; Stable/ CARE A3 (Triple B; Outlook: Stable/ A Three)	Revised from CARE BBB+; Negative/ CARE A3+ (Triple B Plus; Outlook: Negative/ A Three Plus)
Total	9,508 (Rs. Nine Thousand Five Hundred and Eight crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of BGR Energy Systems Limited (BGRE) factors in the moderation in order book position of the company for the past two years ended September 2018 on account of slowdown in the flow of new orders, prolonged delay in realization of receivables primarily due to delay in realization of the retention money from certain completed projects and continuation of unfavorable industry scenario for a longer time. The ratings also take note of losses reported during H1FY19 (refers to the period from April 2018 to September 2018). In order to reduce the dependence on power sector, BGR has been taking steps to diversify its business into other sectors which includes Environmental Engineering Division (EED) and Electrical Project Division (EPD). However, due to early stage of diversification and relatively larger size of power sector orders as compared to size of orders from other divisions, power sector would continue to form major chunk of orders.

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.

The ratings are constrained by the high working capital intensity, moderate capital structure and competitive nature of power projects business which is characterized by execution delays on account of many factors including 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 (including retention money) will be the key rating sensitivities.

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

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.

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

Key Rating Weaknesses***Relatively stable performance during FY18; However BGR reported losses during H1FY19 due to moderation in profitability***

BGR reported PAT of Rs.40 crore on a total operating income of Rs.3,298 crore during FY18 as against PAT of Rs.45 crore on a total operating income of Rs.3,438 crore during FY17. With BGRE executing three BOP project, PBILDT margin during FY18 improved and stood at 13.13% as against 11.44% during FY17. During H1FY19, BGR reported after tax loss of Rs.19 crore on a total income of Rs.1,426 crore as against PAT of Rs.11 crore on a total income of Rs.1,416 crore in H1FY18. PBILDT margin during H1FY19 declined from 11.72% in H1FY18 to 6.57% in H1FY19. The moderation in profitability is on account of decline in the contribution margin which has dropped from 28.16% in H1FY18 to 17.75% in H1FY19. However, it is to be noted that proceeds from Hitachi amounting to Rs.519 crore was booked during H1FY18 as part of milestone payments for NTPC contracts

Moderation in the order book in FY18 & H1FY19

As on March 31, 2018, BGR has order book worth Rs.7,051 crore as against order book of Rs.9,432 crore as on March 31, 2017. During FY17, BGR received three orders (BOP) worth Rs.7,688 crore in the Power Project division from APGENCO, TANGEDCO and Neyveli Uttar Pradesh Power Limited (NUPPL) which continues to account for 80% of the total order book as on March 31, 2018 with no major addition to the order book in FY18.

During H1FY19, BGR has received new orders amounting to Rs.421 crore in the Environmental Engineering Division (EED) and Electrical Projects Division (EPD) and the total order book as on September 30, 2018 stood at Rs.6,150 crore.

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 & FY18 and the company has completed three major projects pertaining to MAHAGENCO, CSPGENCO & TRN Energy Private Limited. Going forward, majority of the order book under execution pertains to three new projects pertaining to APGENCO, TANGEDCO and NUPPL.

Moderately leveraged capital structure

Overall gearing level remained moderate at 1.50x as on September 30, 2018 as against 1.58x as on March 31, 2018 and 1.45x as on March 31, 2017. The working capital requirements for BGR continue to be high with average working capital utilization of around 90%. Due to higher working capital borrowings, interest expense continues to be high resulting in a lower PAT margin of 1.2% in FY18 (PY: 1.3). Further, BGR has considerable off balance sheet exposure in the form of Bank guarantee resulting in higher bank charges.

Elongated Working Capital Cycle

BGR has been experiencing delays in recovery of retention money for projects completed (typically 10% of contract value). With increase in receivable & retention money from Rs.2,968 crore as on March 31, 2017 to Rs.4,049 crore as on March 31, 2018, the average collection period has increased to 388 days as on March 2018 as against 343 days on March 2017. This coupled with decrease in creditors has increased the operating cycle to 233 days in FY18 from 169 days in FY17. However, the receivable & retention money as on September 30, 2018 has come down and stood at Rs.3,754 crore. Retention money from TSGENCO & TANGEDCO approximately accounts for 27% of the total retention money outstanding as on March 31, 2018. During FY18 BGRE has received Rs.77 crore from TSGENCO. 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. It is to be noted that including contract work in progress, the receivable & retention money has come down and stood at Rs.3,925 crore as on September 30, 2018 as against Rs.4,439 crore as on March 31, 2018 and Rs.4,162 crore as on March 31, 2017

Liquidity

Utilisation of working capital limits in the past twelve months ended October 2018 stood in the range of 90~95%. The cash and bank balance as on September 2018 stood at Rs.392.27 crore, of which major portion corresponds to margin money deposits held under lien to banks.

With respect to TANGEDCO (Mettur Project), BGR has completed the project and the warranty period was over during FY16. However, due to procedural delays BGRE was not able recover the retention money. Retention money from TSGENCO & TANGEDCO approximately accounts for 27% of the total retention money outstanding as on March 31, 2018. During FY18, BGRE has received Rs.77 crore from TSGENCO. However, there has not been much improvement in position of retention money receivables from TANGEDCO. Due to delay in receipt of retention money, BGR availed corporate loan in FY15. Term loan repayment obligation during FY19 is Rs.103 crore, which is higher than the cash accruals generated in

past few years. 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.

Prospects

Business prospects of BGR 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. On account of focus of government towards renewable energy projects and limited number of large size thermal power projects being undertaken, BGR witnessed lull in order flow in trend with industry. Amount of new orders secured during FY18 & H1FY19 stood in the range of Rs.400 crore to Rs.600 crore as against new order booking of Rs.8,132 crore in FY17. Timely realization of receivables, timely execution of the orders in hand and diversification of order book would be important for the company, going forward.

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 (BGR) 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.

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

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	3,438	3,298
PBILDT	393	433
PAT	44	40
Overall gearing (times)	1.45	1.58
Interest coverage (times)	1.22	1.25

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. Investors/market intermediaries/regulators or others are welcome to write to 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	-	-	-	2876.00	CARE BBB; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	6432.00	CARE BBB; Stable / CARE A3
Term Loan-Long Term	-	-	April 2020	200.00	CARE BBB; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	2876.00	CARE BBB; Stable	-	1)CARE BBB+; Negative (30-Mar-18)	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	6432.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB+; Negative / CARE A3+ (30-Mar-18)	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	200.00	CARE BBB; Stable	-	1)CARE BBB+; Negative (30-Mar-18)	1)CARE BBB+; Stable (23-Jan-17)	1)CARE BBB+ (11-Jan-16) 2)CARE BBB+ (09-Apr-15)

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