



BGR Energy Systems Limited

Instrument	Amount	Rating Action
Fund Based Limits	Rs. 3237.00 crore (enhanced from Rs. 3141.00 crore)	[ICRA]BBB+ (negative) downgraded
Non-Fund Based Limits	Rs. 9236.00 crore (enhanced from Rs. 5824.00 crore)	[ICRA]BBB+ (negative) downgraded
Non-Fund Based Limits	Rs. 45.00 crore (reduced from Rs. 131.00 crore)	[ICRA]A2 downgraded

ICRA has downgraded the long-term rating from [ICRA]A- (pronounced ICRA A minus) to [ICRA]BBB+ (pronounced ICRA triple B plus) and short-term rating from [ICRA]A2+ (pronounced ICRA A two plus) to [ICRA]A2 (pronounced ICRA A two) assigned to the fund based and non-fund based facilities of BGR Energy Systems Limited (BESL) aggregating to Rs. 12518.00 crore¹ (enhanced from Rs. 9096.00 crore). The outlook on the long-term rating is Negative.

The revision in ratings takes into account the company's revenue de-growth being witnessed since FY 2012 owing to execution delays of on-going projects and delays in issue of LOAs (Letter of Award) in respect of orders for supply of turbine & generator units won from NTPC Ltd as well as delays in receipt of retention money for completed BOP projects along with long payment cycle for utility projects which in turn continues to keep the working capital intensity significantly high. The 'Negative' outlook further reflects the challenges that the company would continue to witness in winning new power project orders as the existing concerns in the power sector are likely to continue in the near term owing to issues pertaining to coal linkage, environmental clearances and land acquisition that have affected the investment plans of private IPP segment as well as the tendering process for award of projects by state sector entities. ICRA also takes into account the company's sizeable investment plans in green-field boiler and turbine-generator manufacturing facilities through its SPVs which are yet to achieve financial closure, though the company has reduced the overall project cost from earlier levels. The company's exposure is likely to be limited to its equity in the SPVs, as debt raised by the SPVs would be 'project recourse' in nature; however, the possibility of BESL providing need-based financial support to the SPVs, especially in the initial years of operations remains, which has not been factored into the ratings; the extent of such support required is a key rating sensitivity.

The ratings further remain constrained by the inherent high working capital intensity in the business, execution risks in the on-going projects, vulnerability of profitability to any unfavorable fluctuations in raw material prices for the projects that are 'fixed price' in nature and intense competitive pressures in all the business segments. Further, the company's receivable position continues to remain stretched owing to delays in receipt of retention money for the completed BOP projects as well as long collection cycles for the on-going projects, which has resulted in increase in gearing levels and weakening of cash flow position for the company.

The ratings however favourably factor in the company's established position as an EPC player in the power projects business, healthy operating profitability and return indicators witnessed in the past fiscals and favourable business potential in the long term given the continuing power deficit scenario in the country. The company's order book position of about Rs. 14,000 crore has been largely supported by its successful bid for the bulk tender floated by NTPC Ltd for supplies of 660 MW boiler units and 800 MW TG units, although the award of LOAs (Letter of Award) for the latter have witnessed delays of more than an year. The ratings also favourably note the low counterparty credit risks pertaining to state utilities, i.e. project customers, as the EPC/BOP projects are backed by the funding lines put in place by PFC and/or REC. ICRA notes that going forward, the company's ability to bag large-size EPC orders from state/central sector in an increasingly competitive environment and also improve its cash flow position through improved collection cycle would remain key challenges for the company.

¹ 100 lakh = 1 crore = 10 million

* For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications



Company Profile

BESL was originally incorporated in 1985 under the name GEA Energy System (India) Limited as a joint venture between GEA Energietechnik GmbH (GEA) of Germany and Mr. B.G. Raghupathy to produce and sell energy products. In 1993, Mr. B.G. Raghupathy and members of his family became the sole shareholders of BGR with the joint venture (JV) partner GEA exiting the business of the energy products mentioned, globally. On June 28, 2007, the name of the company was changed to the current BGR Energy Systems Limited (BESL). BESL is primarily into two business segments: (i) turnkey EPC contracts for either BOP or entire power plants; and (ii) industrial products, that is 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, petrochemicals, and process industries. BESL has a manufacturing facility at Panjetty near Chennai for air-fin coolers. It also has manufacturing facility at Panjetty for products such as heat exchangers, pressure vessels, reactors, columns, surface condensers and finned tubes through its subsidiary Progen Systems and Technologies Limited (Progen). During FY 2011, the company has floated two SPVs, viz. BGR Boilers Pvt Ltd and BGR Turbines Company Pvt Ltd, in association with Hitachi Group (Japan) to manufacture supercritical-based BTG equipments with an estimated investment of about Rs. 4,400 crore which has been reduced to about Rs. 3,000 crore subsequently. In April 2010, the company has also signed an MoU with the Government of Orissa for setting up a 1320 MW (2 x 660 MW) plant at Bhapur in Nayagrah district in Orissa, though the same remains in initial stages.

During FY 2012, BESL reported Profit After Tax (PAT) of Rs. 223.52 crore on an operating income of Rs. 3447.05 crore. For H1 FY 2013, the company has reported PAT of Rs. 68.39 crore on an operating income of Rs. 1238.20 crore.

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