



September 20, 2010

ICRA reaffirms the LAA+ and A1+ ratings for bank facilities of BEML Limited; long term ratings carry a stable outlook

ICRA has re-affirmed the LAA+ (pronounced L double A plus) rating assigned to the Rs. 500.0 crore¹ fund based limits and Rs.350.0 crore long term non-fund based limits of BEML Limited (BEML)[†]. ICRA has also re-affirmed the A1+ (pronounced A one plus) rating assigned to the Rs. 350.0 crore short term non-fund based limits of the company. The long term ratings carry a stable outlook.

BEML's ratings are supported by its diversified revenue base encompassing mining equipment, railway/metro coaches and Defence equipment and its dominant position as the largest Mining & Construction equipment (MCE) manufacturer in India. The ratings also factor in BEML's established market position in the MCE industry supported by its diversified product profile, strong service network and its cost competitiveness backed by localisation initiatives. The ratings also factor in the position BEML enjoys as the nodal agency for Defence equipment supplied to the Ministry of Defence, Government of India (GoI) and the key role the company is playing in the growth in India's metro rail network. The ratings take into account BEML's sovereign ownership (54.03% stake held by the GoI) and the benefits accruing from the same.

The ratings also recognise the vulnerability of profits in the MCE industry and the company, to the inherent cyclicity in the heavy construction equipment industry. BEML's operating performance, especially in the Earth Moving (EM) division, has suffered during the past two years owing to the economic slowdown and the unavailability of financing, resulting in relatively muted sales growth. Coupled with increasing competitive pressures both from other incumbents and new entrants, namely low cost Chinese players, the company has lost some market share during the past few years. The ratings also take into account BEML's high working capital intensity, owing to large inventory. Lack of financing had resulted in a sharp contraction in the small equipment sales, leading to heavy inventory at BEML. However, the ratings also take note of the revival in the Indian MCE industry during the past six months and the long term positive outlook on the industry.

Company Profile

BEML Limited (BEML), erstwhile Bharat Earth Movers Limited, which started as a division of Hindustan Aeronautics Limited, was spun off as a separate entity in 1964. BEML was fully owned by the GoI until 1992, when the government divested 25% of holdings in the company. BEML is now a Public Sector Undertaking head quartered in Bangalore, with the Government holding 54.03% stake in the company. Structured into three main divisions, the company manufactures a wide range of heavy earthmoving equipment catering to the mining & construction industry, equipment and vehicles for the Defence Forces and coaches for the Metro and Indian Railways. While BEML has a in-house development team, the company has tied-up with international majors like Terex, USA and Heinz Germany for specific areas with advanced technology requirements. The company has also entered into an arrangement with ROTEM, South Korea, for coach manufacturing for Metro Rail Projects. During 2009-10, around 62% of BEML net sales was contributed by mining and construction division, while around 23% was contributed by Defence and the remaining by railways/metro and others.

Recent Results

In Q1, 2010-11, BEML posted a Profit After Tax (PAT) of Rs. 14.4 crore on a total income of Rs. 526.9 crore from PAT of Rs. 5.3 crore and total income of Rs. 465.5 crore in Q1, 2009-10.

September 2010

¹100 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

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*ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex".
The classification of instruments according to their complexity levels is available on the website www.icra.in*

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