

January 14, 2022 **Revised**

Bharat Electronics Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument [^]	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund based	500.00	500.00	[ICRA]AAA (Stable); reaffirmed
Long-term Unallocated	300.00	300.00	[ICRA]AAA (Stable); reaffirmed
Short-term Non-fund based	3,500.00	4,500.00	[ICRA]A1+; reaffirmed
Total	4,300.00	5,300.00	

[^]Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation draws comfort from Bharat Electronics Limited's (BEL) strategic position as a dominant supplier of electronic equipment to the Indian defence forces. BEL is majority owned by the Government of India (GOI) and is a Navratna defence public sector undertaking (DPSU), which leads to a sizeable inflow of orders on a nominated basis. The assigned ratings consider the strong order pipeline with unexecuted order book worth Rs. 54,372 crore as on November 1, 2021. This translates into a trailing order-book-to-operating-income ratio of 3.9 times (based on FY2021 operating income), providing adequate revenue visibility in the medium term. Moreover, BEL's fresh order addition pipeline remains healthy, supported by the Government's focus on rolling out enabling reforms to increase India's defence product manufacturing capability and gradually reduce imports. Though competition from the private sector is likely to intensify in the medium to long term, BEL's established track record and large manufacturing capacities with adequate pool of trained manpower and research and development (R&D) capabilities will continue to be strong mitigating factors. ICRA notes that BEL's consistent investment towards R&D has helped create a strong competitive moat by giving it the ability to develop latest generation products and services and gradually increasing the indigenisation of its product offering, which have been the key pillars behind the company's healthy profit margins. BEL has a strong financial risk profile, characterised by healthy profit margins and return indicators, nil borrowings and a superior liquidity profile.

These strengths are offset to some extent by BEL's continued high dependence on the defence sector, which contributes to the bulk of its revenues and its working capital-intensive nature of operations due to high receivables and unbilled revenues on account of long gestation periods for the orders executed. ICRA also notes that BEL's operating profit margins remain vulnerable to input cost fluctuations in its fixed price defence contracts, lower profitability in certain segments and high level of cost overheads.

The Stable outlook reflects ICRA's expectation that BEL will continue to benefit from its strategic importance as the major supplier of defence electronics equipment to the Indian defence forces and the high sectoral entry barriers, which would limit competition.

Key rating drivers and their description

Credit strengths

Defence Navratna PSU and a dominant supplier of electronic equipment to Indian defence forces – BEL is a defence PSU, with the GOI holding a 51.14% equity stake as on September 30, 2021. The company is of strategic importance to the GOI as it is the dominant domestic supplier of defence electronics equipment to the Indian defence forces. Further, BEL's status as

the largest domestic electronics manufacturer leads to benefits associated with the economies of scale. In addition, Government ownership leads to a sizeable inflow of orders on a nominated basis, providing a steady earnings stream to the company.

Strong pending order book provides adequate revenue visibility – The company's unexecuted order book as on November 1, 2021 stood at Rs. 54,372 crore. The order book stands at 3.9 times of the FY2021 operating income, which provides adequate revenue visibility in the medium term. Additionally, the Government's focus on rolling out enabling reforms to increase India's defence product manufacturing capability and gradually reduce imports will support the order inflow in the medium-to-long term.

Strong financial profile with healthy profitability and low leverage – BEL's financial profile remains strong because of healthy profitability and return indicators, nil borrowings, superior liquidity and strong debt coverage metrics. The company reported an operating income of Rs. 14,109 crore in FY2021. Despite weak Q1 FY2022 performance due to the second wave of the pandemic, BEL's FY2022 revenues are expected to exceed FY2021 levels on the back of healthy order execution in H2 FY2022. ICRA also notes that the increasing indigenisation would support healthy profit margins, going forward.

Competitive advantage due to high entry barriers – BEL continues to enjoy advantage over its competitors due to its dominant market position, proven track record and association with the armed forces, established infrastructure and manufacturing facilities, along with strong R&D capabilities.

Credit challenges

High dependence on defence sector for orders – The Indian defence sector is BEL's major customer, accounting for ~80% of the turnover. In case of any changes in the procurement policy of the defence forces or a significant cutback in defence spending, the company's revenue and order book position can be adversely impacted. Due to the high concentration of the Government sector orders, BEL's revenue booking and cash flows are vulnerable to delays in project execution or final payment clearance in some cases. BEL is targeting to increase the share of non-defence revenues to 25% over the medium term to reduce business risk. In addition, BEL is planning to increase its export footprint by targeting higher defence equipment exports to friendly countries, which can reduce its over-reliance on the domestic defence business.

Working capital intensive nature of operations – BEL's working capital intensity had remained elevated in the past due to high receivables and unbilled revenues on account of long gestation periods for the orders executed. Nonetheless, the company has been able to manage its working capital requirements through its internal cash accruals and sizeable customer advances.

Liquidity position: Superior

The liquidity profile of BEL is **superior**, supported by comfortable cash flow from operations, which are expected to be adequate to meet the capital expenditure outlay and dividend outflows. The company had cash and bank balance of more than Rs. 5,000 crore as on September 30, 2021. The company also has sanctioned and unutilised fund-based borrowing facilities of Rs. 500 crore. Given the low leverage, the company would be able to access additional bank borrowings for capital expenditure or working capital requirements, if required.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – The ratings can be downgraded if there is any significant stretch in the receivable cycle of the company due to delay in payments by customers or a change in the strategic importance of BEL to the GOI, reflecting in lower order inflows and revenues. Specific credit metrics include increase in Total Debt/OPBITDA to more than 0.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach - Implicit parent or group support
Parent/Group Support	Parent: Government of India The assigned ratings factor in the strategic importance that BEL holds by being the largest domestic defence electronics manufacturer, which ICRA expects should induce the GOI to extend timely financial support to the rated entity, should there be a need.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of BEL. As on March 31, 2021, the company had two subsidiaries and one associate that are enlisted in Annexure-2.

About the company

BEL, a Navratna defence public sector undertaking (DPSU), was established in 1954 under the Ministry of Defence, the GOI, to cater to the electronic equipment requirements of the defence sector. The GOI remains BEL's largest shareholder with the current shareholding of 51.14%. BEL was conferred the Navratna PSU status in June 2007.

BEL is the dominant supplier of radar, communication and electronic warfare equipment to the Indian armed forces. The company has nine manufacturing units across India and two research units. The Bangalore and the Ghaziabad units are BEL's two major units, with the former contributing the largest share to the company's total revenue and profits.

Key financial indicators

Consolidated financials (Ind AS)	FY2020 (Audited)	FY2021 (Audited)	H1 FY2022 (Provisional)
Operating Income (Rs. crore)	12,967.7	14,108.7	5,326.7
PAT (Rs. crore)	1,824.7	2,099.8	623.1
OPBDIT/OI (%)	21.2%	22.8%	17.5%
PAT/OI (%)	14.1%	14.9%	11.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.6	NA
Total Debt/OPBDIT (times)	0.0	0.0	NA
Interest Coverage (times)	765.1	504.0	1506.5

Source: Company; P – Provisional; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: BEL

Status of non-cooperation with previous CRA – Not Applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on Dec 31, 2021	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
				Jan 14, 2022	Feb 17, 2021	Feb 17, 2020	Feb 15, 2019	
1 Fund-based	LT	500.0	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
2 Unallocated	LT	300.0	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
3 Non-fund based	ST	4,500.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

Amount in Rs. crore; LT – Long Term; ST – Short Term

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based	Simple
Unallocated	Not applicable
Non-fund based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Bank Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
State Bank of India	Fund-based	-	-	-	500.0	[ICRA]AAA (Stable)
Canara Bank						
IDBI Bank Limited						
Bank of Baroda						
Union Bank of India						
Punjab National Bank						
Bank of India						
ICICI Bank Limited						
Axis Bank Limited						
HDFC Bank Limited						
Kotak Mahindra Bank Limited						
IndusInd Bank Limited						
YES Bank Limited						
Not applicable						
State Bank of India	Unallocated	-	-	-	300.0	[ICRA]AAA (Stable)
Canara Bank	Non-fund based	-	-	-	4,500.0	[ICRA]A1+
IDBI Bank Limited						
Bank of Baroda						
Union Bank of India						
Punjab National Bank						
Bank of India						
ICICI Bank Limited						
Axis Bank Limited						
HDFC Bank Limited						
Kotak Mahindra Bank Limited						
IndusInd Bank Limited						
YES Bank Limited						

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	BEL Ownership	Consolidation Approach
BEL Optronics Devices Ltd.	100.00%	Full Consolidation
BEL - Thales Systems Ltd.	74.00%	Full Consolidation
GE BE Private Limited	26.00%	Equity Method

Source: BEL annual report FY2021; ICRA has taken a consolidated view of the parent (BEL), its subsidiaries and associates while assigning the ratings

Corrigendum

Document dated January 14, 2022, has been corrected with revisions as detailed below –

Section related to instrument details on page number 5: Lender details have been included in Annexure-1 instead of the hyperlink which directed to the lender detail page.

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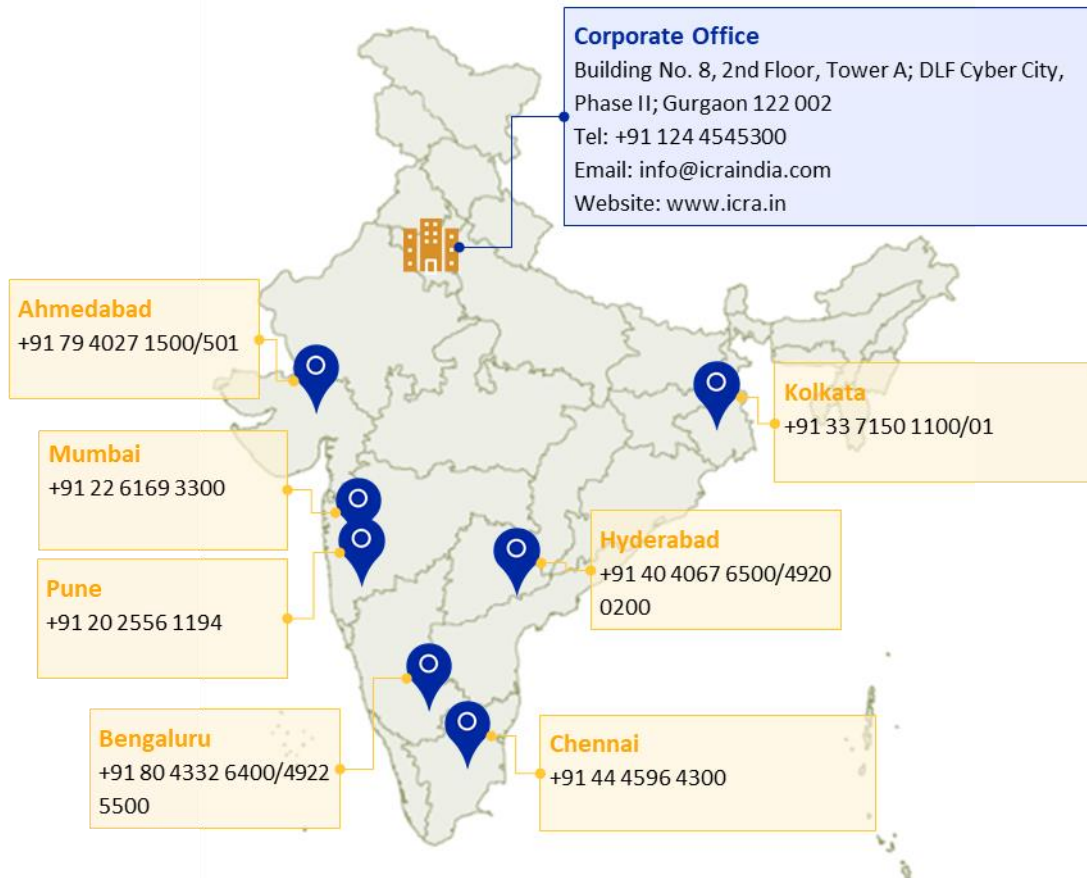
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