April 06, 2023

BEL Optronic Devices Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	40.0	22.0	[ICRA]AA+(Stable); reaffirmed
Short-term- Non Fund-based Facilities	5.7	3.0	[ICRA]A1+; reaffirmed
Total	**45.7**	**25.0**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation considers BEL Optronic Devices Limited's (BELOP) strong parentage for being a wholly-owned subsidiary of Bharat Electronics Limited (BEL; rated [ICRA]AAA(Stable)/[ICRA]A1+), a Navratna Defence public sector undertaking (PSU). BELOP is of strategic importance to BEL as it is the largest supplier of image intensifier tubes (I.I. tubes) used in the manufacturing of night vision devices (NVDs) by BEL and is the only integrated manufacturer of I.I. tubes in India. The ratings factor in the financial flexibility derived by BELOP on account of its parentage, as well as the strong management and operational linkages with BEL. The ratings also consider the demonstrated financial support provided by BEL to BELOP in the form of equity commitment and loans for funding of projects like XR-5 to manufacture higher specification I.I. tubes. ICRA notes that till date, BELOP has received aggregate loan of Rs. 29.3 crore and equity infusion of Rs. 177.9 crore from BEL, which includes the recent rights issue of Rs. 25 crore (including securities premium of Rs. 15.23 per share for right issue of 99 lakh shares) completed in March 2023. The ratings are supported by the strong capital structure of BELOP, which has nil debt as on date. This, coupled with its strong parentage and undrawn cash credit limits of Rs. 22 crore, provides a high degree of financial flexibility, strengthening BELOP's liquidity position. The ratings further derive comfort from the continued emphasis on indigenisation of sensitive defence technologies and the defence offset policy of the Government of India (GoI) that are likely to provide new growth avenues and support BELOP's competitive advantages in the near-to-medium term.

The ratings, however, are constrained by the large dependence of BELOP on a single product and technology and on the Indian Defence Forces as customers. Nonetheless, the proposed diversification into animal husbandry and aviation hose segments would mitigate the sectoral and customer concentrations risks to some extent. The ratings are also constrained by the company's modest scale of operations. The risk of delays in receipt of orders, likely in defence sector contracts, exposes BELOP's revenue to fluctuations. However, ICRA notes that the company's order-book position has increased to Rs. 40.43 crore as on December 31, 2022, from Rs. 24.2 crore as on December 31, 2021, providing revenue visibility over a longer period. In addition, ICRA believes that potential new revenue streams in the aviation hose and animal husbandry segments are expected to support scaling up of the top line over the medium term. The availability of raw material and the high lead time involved in its acquisition keep the working capital cycle elongated. Also, the risk of delays in receipt of orders, likely in defence sector contracts, exposes BELOP's revenue to fluctuations, which is expected to mitigate to some extent due to diversification in the product portfolio.

The Stable outlook reflects ICRA's opinion that the credit profile of BELOP will benefit from strong operational and management linkages with its parent, Bharat Electronics Limited, and the high sectoral entry barriers, which would limit competition and keep its credit indicators at comfortable levels, going forward.

Key rating drivers and their description

Credit strengths

Strong operational and management linkages with BEL – BELOP is a wholly-owned subsidiary of BEL, which is a Navratna Defence PSU. BELOP is of strategic importance to BEL as it is the sole domestic manufacturer of I.I. tubes used in the manufacturing of NVDs by BEL, which in turn is used by the Indian Defence Forces. The continued emphasis on indigenisation of sensitive defence technologies and the defence offset policy of the GoI are likely to support BELOP's competitive advantage in the near-to-medium term. Diversification to animal husbandry and aviation hose segments would reduce the overall risk of the business and generate new sources of revenue.

Financial flexibility derived from being a wholly-owned subsidiary of BEL – BEL had extended support to BELOP in the form of equity commitment and loans to fund a major portion of the ongoing XR-5 project for transfer of technology from M/s Photonis, France, to manufacture higher specification I.I. tubes. ICRA notes that over the years, BEL has provided an aggregate loan of Rs. 29.3 crore and equity infusion of Rs. 177.9 crore to BELOP. This funding support is likely to continue in the future, as and when required. In addition, BELOP's parentage provides a high degree of financial flexibility, which in turn gives it the ability to raise funds at competitive rates.

Strong capital structure with nil debt – The strong capital structure of BELOP is characterised by nil debt as on date. The undrawn cash credit limits of Rs. 22 crore, as well as unutilised sanction of Rs. 50 crore for fund-based and non-fund based working capital limits strengthen BELOP's liquidity.

Credit challenges

Exposed to product and sector concentration risks – BELOP has high dependence on the Indian Defence Forces as customers as the latter account for around 80% of its aggregate revenue. In addition to sector concentration risks, the dependence on a single product and technology exposes the company to product concentration risks as well, making the top line highly volatile due to the irregular nature of order inflows common in the defence sector. However, as a part of its diversification initiatives, the company has developed and patented tools used for artificial insemination in cattle and has also set up a manufacturing facility in Pune for the supply of aviation hoses primarily for the Russian fleet of aircrafts and helicopters of the Indian defence forces. ICRA believes that the revenue potential from these two new lines of business is expected to mitigate the sectoral and customer concentrations risks to some extent over the medium term.

Modest scale of operations – BELOP reported a modest operating income (OI) of Rs. 59.2 crore in FY2022 and has achieved revenue of Rs. 47 crore till March 17, 2023. As on December 31, 2022, the company's pending order book increased to Rs. 40.43 crore against Rs. 24.2 crore as on December 31, 2021, providing adequate revenue visibility in the near term. The risk of delays in receipt of orders, likely in the defence sector contracts, exposes BELOP's revenue to fluctuations, which is mitigated to some extent, going forward, due to the expected revenue from the sale of technologically advanced XR-5 tubes in FY2024 along with diversification into manufacturing of aviation hoses and artificial insemination products in the medium term.

Liquidity position: Adequate

BELOP's liquidity profile remains adequate. The unencumbered cash and bank balances stood at Rs. 38.34 crore as on March 31, 2022 and is in the range of Rs. 25-30 crore as on March 17, 2023 (excluding the proceeds from the right issue of shares). The capital expenditure for the XR-5 technology implementation has been fully funded by BEL through a mix of term loans and equity infusion wherein the loan amount has been fully paid back by BELOP. There are no further plans of obtaining any debt or equity infusion from BEL for the XR-5 project. BELOP has unutilised cash credit limits of Rs. 22 crore from SBI Bank, which is in addition to the Rs. 50 crore unutilised fund-based and non-fund based working capital limits from ICICI Bank, providing strength to the company's liquidity position.

Rating sensitivities

Positive factors – The ratings of BELOP are unlikely to be upgraded in the near-to-medium term owing to its limited scale and high product concentration.

Negative factors – The ratings of BELOP might be downgraded if there is any deterioration in the credit profile of its parent, BEL, or if there is any weakening in linkages with BEL. The ratings could also come under pressure if there is a sustained period of weak earnings by BELOP.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach - Implicit parent or group support
Parent/Group support	BELOP is a 100% subsidiary of BEL, a Navratna Defence PSU, rated at [ICRA]AAA (Stable)/ [ICRA]A1+. ICRA expects BEL to be willing to extend extraordinary financial support to BELOP out of its need to protect its reputation from the consequences of a Group entity's distress
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

BEL Optronic Devices Ltd. (BELOP), based in Pune, is a Defence Public Sector Undertaking (DPSU) and a wholly-owned subsidiary of Bharat Electronics Limited (BEL). The company was formed in 1990 as BE-Delft Electronics Ltd., a joint venture between BEL and Delft Instruments, Netherlands. Subsequently Delft Instruments exited from the JV and transferred its entire equity shares to BEL, making the company a subsidiary of BEL with effect from July 30, 2002. The company was renamed as BEL Optronic Devices Ltd. in April 2003. BEL's share in BELOP increased from 92.79% to 100% w.e.f. July 30, 2015.

BELOP manufactures niche product image intensifier tubes (I.I. tubes), which form the heart of night vision devices (NVDs) and are mainly used in defence and law enforcement agencies. BELOP signed the Transfer of Technology (ToT) agreement with France-based Photonis in 2011 to get the latest proprietary technology. The agreement allowed BELOP to manufacture 'XD-4' tubes providing enhanced operating parameters for the NVDs. The company has signed another transfer of technology agreement with Photonis for the advanced 'XR-5' tubes, which provide further enhancement in technology. The same was implemented in October 2015. The company is also in talks for entering the TOT agreement with Photonis for 4G technology and the same is expected to materialise in the near future.

Key financial indicators (audited)

Standalone Financials -BEL Optronic Devices Limited	FY2021	FY2022	9M FY2023*
Operating income	58.8	59.2	52.2
PAT	4.9	5.2	6.0
OPBDIT/OI	46.4%	45.3%	42.6%
PAT/OI	8.3%	8.7%	11.5%
Total outside liabilities/Tangible net worth (times)	0.1	0.1	-
Total debt/OPBDIT (times)	0.1	0.0	-
Interest coverage (times)	34.1	92.5	-

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore *Provisional numbers*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Apr 06, 2023	-	Mar 08, 2022	Feb 12, 2021
1	**Fund Based Limit-Cash Credit**	Long-term	22.0	-	**[ICRA]AA+ (Stable)**	**-**	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**
2	**Non Fund Based-Facilities**	Short-term	3.0	-	**[ICRA]A1+**	**-**	**[ICRA]A1+**	**[ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Short-term – Non Fund-based Facilities	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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund Based Limit- Cash Credit**	-	-	-	22.0	[ICRA]AA+(Stable)
NA	**Non Fund Based Facilities**	-	-	-	3.0	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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