

March 15, 2024

Bel-Thales Systems Ltd: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	-	[ICRA]AA(Stable); reaffirmed
Total	-	-	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation draws comfort from the strong parentage of BEL-Thales Systems Ltd. (BTSL), which is a 74:26 joint venture (JV) between Bharat Electronics Limited (BEL; a Navaratna defence PSU rated [ICRA]AAA (Stable) and [ICRA]A1+) and the Thales Group (Thales has a rating outstanding of A2/Stable from Moody's Investors Service). BTSL has been receiving infrastructure support, technological knowhow, favourable payment terms, and a steady stream of orders from its joint venture (JV) partners. Moreover, given BTSL's status as a subsidiary of BEL, ICRA expects BEL to support BTSL if required to protect its reputation. The rating also favours factors in the strong capital structure of BTSL, which has nil debt as on date. The revenue of the company increased to Rs. 78 crore in FY2023 from Rs. 39 crore in FY2022. With revenues of ~Rs. 87 crore already recorded till February 29, 2024 and a healthy outstanding order book position of Rs. 180 crore as on March 6, 2024, the execution momentum is expected to remain buoyant in the current as well as the next fiscal. The working capital requirements of the company are partly met through customer advances, which helped keep the leverage at a very low level. The rating also factors in the healthy revenue prospects of the company, supported by the strong market share of the shareholders in the defence electronic equipment sector, gradual expansion of the product portfolio, and a greater line of sight on the more profitable manufacturing orders. The revenue visibility is also supported by the receipt of MSME certificate by BTSL recently, which qualifies its customers to get credit of 1.5 times of the contract value towards meeting offset obligations, enhancing its competitive positioning.

However, the rating is constrained by the company's modest scale of operations. While the company's annual revenues have increased to Rs. 78 crore in FY2023 and an estimated Rs. 90 crore in FY2024 from Rs. 35-40 crore in the last two fiscals, the same remain low at an absolute level. The company has a concentrated customer base with a major part of revenues derived through sale of products to BEL and Thales Reliance Defence Systems (TRDS). The rating is also constrained by the company's relatively higher dependence on limited number of products and services, which expose its top line to a greater degree of revenue volatility. Nonetheless, the company expects to receive additional orders from defence forces through its shareholders, including export orders. While competition from the private sector is likely to intensify in the medium-to-long term, established track record and large manufacturing capacities with adequate pool of trained manpower and research and development (R&D) capabilities of the JV partners will continue to be strong mitigating factors.

The Stable outlook on the long-term rating reflects ICRA's expectation that BTSL would benefit from the extensive experience of its JV partners in the defence electronic equipment sector, which is expected to provide a steady earnings stream, helping maintain its liquidity and credit metrics at comfortable levels, going forward.

Key rating drivers and their description

Credit strengths

Strong parentage of BTSL – BTSL is a 74:26 JV between BEL and the Thales Group. Both the entities have established themselves as leading defence electronic contractors. BEL is a Navaratna defence PSU with a turnover of Rs. 17,734 crore in

FY2023. The Thales Group is a leading defence electronic equipment manufacturer based in France, with strategic shareholding by the Government of France. BTSL has been receiving infrastructure support, technological knowhow, favourable payment terms and 100% of its order book from its JV partners. Moreover, given BTSL's status as a subsidiary of BEL, ICRA expects BEL to support BTSL if required to protect its reputation.

Strong capital structure with nil debt – BTSL has a strong capital structure with nil debt as on date. The working capital requirements of the company are primarily met through customer advances. The company is expected to remain debt free, going forward as well, based on the current business plans.

Healthy future revenue prospects – The future revenue prospects of BTSL are supported by the strong market share of the shareholders in the defence electronic equipment sector. This, along with a greater line of sight on the more profitable manufacturing orders would result in a healthy improvement in revenues and margins. The company has also developed new products related to the radar technology during the past three fiscals. While the order book stood at Rs. 180 crore as on March 6, 2024 mainly for supplying transmit receiver module (TRM) components to BEL, the same is expected to increase further in FY2025 owing to order inflows from BEL and Thales in the areas of radars, electronic warfare, rocket systems, and aircraft.

Credit challenge

Modest scale of operations – The company recognises revenue from limited sources like maintenance activities for airport surveillance radar along with sale of products primarily to both its JV partners. The performance has witnessed healthy growth in FY2023, supported by healthy order execution, as a result of which the turnover reached Rs. 78 crore (100% growth) from Rs. 39 crore in FY2022. Additionally, in the current year, the company is positioned to achieve ~15% growth for the full fiscal, supported by the execution of the ball grid array components to BEL. Despite the healthy increase in the recent years, the overall scale for BTSL remains modest.

Limited products and services – BTSL has a limited portfolio of products and services, which exposes the top line to a greater degree of revenue volatility. The company supplies ball grid array to BEL and low band receiver to TRDS and will soon start supplying components for advanced rocket system interface (ARSI) and shock absorbing foundation to Thales. Besides, the company provides comprehensive annual maintenance contract (AMC) services for airport surveillance radar to the Indian Navy and local support to Thales India Private Limited (TIPL) for air traffic management/radar projects. While the product and service offerings are limited at present, the same is likely to increase once the company receives firm orders for many of its R&D and pilot projects related to advanced radar technology.

Low customer diversification – BTSL has a low customer diversification with BEL and Thales Group (including all the strategic business units for both) being the only major customers as on date. Also, most of the future orders are likely to be received from the shareholders and their affiliates. Nonetheless, the company expects to receive additional orders for products/services from defence forces through its shareholders, including export orders.

Liquidity position: Strong

The liquidity position of BTSL is strong. The company had free cash and bank balances of Rs. 41 crore as on March 6, 2024. The company has nil debt and modest annual maintenance capital expenditure plans worth Rs. 1-2 crore in the next two fiscals, which can be easily funded from internal accruals. The working capital requirements of the company are partly funded through customer advances, which reduces the requirement for external borrowings.

Rating sensitivities

Positive factors – ICRA could upgrade BTSL's rating if there is a substantial growth in its scale and diversification of revenues and customer base, resulting in an improved business risk profile.

Negative factors – Pressure on the rating may emerge in case of any weakening in the credit profile of BEL. Also, any weakening of linkages with the JV partners or weakening of the business profile through reduced order visibility may result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	BTSL is a 74:26 joint venture between BEL and the Thales Group. BEL is a Navaratna defence PSU, while Thales is one of Europe's leading defence electronics contractors. As BTSL is a subsidiary of BEL, ICRA expects BEL to support BTSL if required to protect its reputation.
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

BTSL is a defence public sector undertaking under the Ministry of Defence, Government of India. The company is a 74:26 joint venture between Bharat Electronics Limited and the Thales Group, based in France. The primary focus of the company is to design, develop, market, supply and support civilian and defence radars for Indian and global markets and other mutually agreed end-user applications.

Key financial indicators (audited)

BTSL Standalone	FY2022	FY2023
Operating income	39.0	78.2
PAT	5.2	7.0
OPBDIT/OI	14.5%	12.8%
PAT/OI	13.4%	8.9%
Total outside liabilities/Tangible net worth (times)	0.4	0.2
Total debt/OPBDIT (times)	0.2	0.0
Interest coverage (times)	54.7	58.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Mar 15, 2024	Jan 19, 2023	Oct 28, 2021	Jul 29, 2020
1 Issuer Rating	Long term	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	Not applicable

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	Issuer rating	NA	NA	NA	-	[ICRA]AA (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis- Not applicable

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