June 14, 2024

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	22.0	22.0	[ICRA]AA+(Stable); reaffirmed
Short-term- Non Fund-based facilities	3.0	3.0	[ICRA]A1+; reaffirmed
Total	**25.0**	**25.0**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings considers BEL Optronic Devices Limited's (BELOP) strong operational, financial and managerial linkages with its parent entity, i.e. Bharat Electronics Limited (BEL; rated [ICRA]AAA(Stable)/[ICRA]A1+), a Navratna Defence public sector undertaking (PSU). BELOP is strategically important to BEL as the sole supplier of image intensifier (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. Moreover, all four board members of BELOP are also BEL's board members, with Mr. Bhanu Prakash Srivastava (the Chairman and Managing Director of BEL) as the Chairman of BELOP. The ratings factor in 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, which was repaid in FY2022 and equity infusion of Rs. 196.2 crore from BEL, which includes the FY2023 rights issue of Rs. 22 crore towards implementation of XR-5 technology. The ratings are supported by the strong capital structure of BELOP, which has minimal debt as on date. 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 rating strengths are partially offset by its high dependence on a single product and on the Indian Defence Forces as the major customers. BELOP's recent diversification into education sector[1], proposed foray into animal husbandry and aviation hose segments would mitigate the revenue volatility risk, as witnessed in the past. The operating margins, though healthy, are expected to moderate further on account of increased revenue share from the aforesaid low margin accretive segments. The ratings are also constrained by the company's modest scale of operations, which though improved on a YoY basis, remains modest. ICRA believes that potential new segments are expected to support scaling up of business over the medium term thus providing adequate revenue visibility. The high lead time involved in its procurement of raw material has historically kept the working capital cycle elongated. However, company has adequate liquidity to tide over temporary cashflow mismatch due to elongation in working capital cycle.

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

[1] *It involves setting up of labs and centre of excellence in the advance field of science such as artificial intelligence and drone technology for government schools.*

Key rating drivers and their description

Credit strengths

Strong parentage; strategic importance for BEL – BELOP is a wholly-owned subsidiary of BEL, which is a Navratna Defence PSU. BELOP is strategically important to BEL as the sole supplier of image intensifier (I.I.) tubes, used in manufacturing NVDs by BEL. It is the only integrated manufacturer of I.I. tubes in India. Moreover, all four board members of BELOP are also BEL's board members, with Mr. Bhanu Prakash Srivastava (the Chairman and Managing Director of BEL) as the Chairman of BELOP. 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 which was repaid in FY2022 and equity infusion of Rs. 196.2 crore from BEL, which includes the FY2023 rights issue of Rs. 22 crore towards implementation of XR-5 technology. Given the strong linkages, the financial support is expected to continue in the coming years as well. In addition, BELOP's parentage provides a high degree of financial flexibility, which helps to raise funds at competitive rates.

Strong capital structure with nil debt – The strong capital structure of BELOP is characterised by minimal debt as on date. The company does not have any major debt funded capex/investment plans, and hence the leverage and coverage metrics are expected to remain strong in the medium term.

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 high 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, BELOP has entered into education sector. It is also planning to manufacture aviation hoses and Internet of Things (IoT)-based devices for animal husbandry sector. The aforesaid new segments are expected to reduce sectoral and customer concentration over the medium term. However, BELOP's operating margins are also likely to moderate in the coming years, given the relatively lower margins in these segments.

Modest scale of operations – BELOP's scale of operations, though improved on a YoY basis, remained modest at Rs. 139.8 crore in FY2024 (FY2023 – Rs. 78.4 crore). ICRA believes that potential new segments are expected to support scaling up of business over the medium term, thus providing adequate revenue visibility. BELOP's revenue is also exposed to the risk of delays in receipt of orders, likely in the defence sector contracts, as seen in the past. The diversification into education sector, manufacturing of aviation hoses and IoT-based devices for animal husbandry sector is likely to reduce the revenue volatility going forward.

Liquidity position: Adequate

BELOP's liquidity profile remains adequate. The unencumbered cash and bank balances stood at Rs. 37.37 crore as on March 31, 2024. Further, it has total unutilised cash credit limits of Rs. 72 crore, thus providing additional cushion 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](#)
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 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

BELOP, based in Pune, is a Defence PSU and a wholly-owned subsidiary of 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. It 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 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. In 2015, BELOP has signed another ToT agreement with Photonis for the advanced 'XR-5' tubes, which provide further enhancement in technology. The company is also in talks for entering the TOT agreement with Photonis for 4G technology.

Key financial indicators (audited)

Standalone Financials -BEL Optronic Devices Limited	FY2023	FY2024
OI (Rs. crore)	78.4	139.8
PAT (Rs. crore)	6.8	16.6
OPBDIT/OI (%)	33.8%	36.9%
PAT/OI (%)	8.6%	11.9%
Total outside liabilities/Tangible net worth (times)	0.1	0.1
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	98.3	132.3

Source: Company data and ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 14, 2024	Apr 06, 2023	-	Mar 08, 2022
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

ANALYST CONTACTS

Rajeshwar Burla
+91 40 6939 6443
rajeshwar.burla@icraindia.com

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

Chintan Dilip Lakhani
+91 22 6169 3345
chintan.lakhani@icraindia.com

Ritik Sundarka
+91 80 4332 6414
ritik.sundarka@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches