

February 21, 2025

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 / Cash credit	500.00	500.00	ICRA]AAA (Stable); reaffirmed
Long-term - Unallocated	300.00	300.00	ICRA]AAA (Stable); reaffirmed
Short-term - Non-fund based	4,500.00	6500.00	[ICRA]A1+; reaffirmed/ assigned for enhanced amount
Total	5,300.00	7,300.00	

*Instrument details are provided in Annexure I

Rationale

The ratings reaffirmation for Bharat Electronics Limited's (BEL) reflects its large scale of operations, strategic position as a dominant supplier of electronic equipment to the Indian defence forces, robust financial profile with negligible debt levels and healthy operating margins of ~25% in FY2024, and superior liquidity position with unencumbered cash balance and lien-free investments of over ~Rs. 8,000 crore as on September 30, 2024. BEL is majority owned by the Government of India (GOI), and its board of directors has representatives from the Ministry of Defence. Being a Navratna defence public sector undertaking (DPSU), BEL witnesses a sizeable inflow of orders on a nomination basis. The ratings consider the strong order pipeline with an unexecuted order book worth Rs. 71,100 crore as on January 1, 2025, which translates into an order book to operating income ratio of ~3.5 times (based on FY2024 revenue), providing healthy revenue visibility in the medium term. ICRA expects BEL to register a revenue growth of 10%-15% over the next 2-3 years and will maintain its robust coverage metrics and superior liquidity position in the interim.

Though the competition from the private sector is likely to intensify in the medium to long term, with the Government's focus on increasing share of private sector in the manufacturing and technological development in the defence sector. However, BEL's established track record and large manufacturing capacities with an adequate pool of trained manpower and focus on research and development (R&D) will continue to be strong mitigating factors. BEL's consistent investment towards R&D has helped to create a strong competitive position by enabling it to develop the latest generation products as well as services and gradually increasing the indigenisation of its product offerings, which has been a key driver to the company's healthy profit margin.

The rating strengths are partially offset by BEL's continued high dependence on the domestic defence sector, which contributes to the bulk of its revenues (FY2024: 81%). BEL, however, is targeting to gradually increase its share of non-defence revenues over the medium term, though it continues to remain low at present. ICRA notes that the share of revenue from civil and export businesses improved to 17% in FY2024 from 11% in FY2023. BEL's operating profit margins remain vulnerable to input cost fluctuations, as defence contracts are generally fixed-price in nature. The ratings also factor in BEL's high gross operating cycle, led by high receivable days and long production cycle resulting in a high inventory holding period. However, the company is able to manage its working capital cycle through sizeable customer advance and extended creditors days resulting in low working capital intensity of 4.3% in FY2024 (FY2023: 7%). This, though, has translated in moderate TOL/TNW of 1.4 times as on March 31, 2024 (FY2023: 1.5), but has been on an improving trend, supported by ploughing back of healthy profits, resulting in strengthening of the net worth.

The Stable outlook reflects ICRA's expectation that BEL's financial profile is likely to remain strong, supported by 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 December 31, 2024. 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, the Government ownership leads to a sizeable inflow of orders on a nomination basis (around 80-90% of defence orders), providing a steady earnings stream to the company.

Strong order book position provides healthy revenue visibility – The company's unexecuted order book as on January 1, 2025, stood at Rs. 71,100 crore. This translates into an order book to operating income ratio of ~3.5 times (based on FY2024 revenue), providing adequate revenue visibility in the medium term. Additionally, the Government's growing capital budget allocation and continued focus on increasing India's defence product manufacturing capability are expected to support the order inflow for BEL in the medium to long term.

Strong financial profile – BEL's financial profile remains strong, characterised by sizeable scale of operations, healthy profitability, nil borrowings and a superior liquidity profile. The company reported an operating income of Rs. 20,268 crore in FY2024 (15% YoY growth) with an operating profit margin of 24.9% (FY2023: 23.0%). Aided by healthy order execution in the first nine months of FY2025, BEL reported a top line of Rs. 14,619 crore (~25% growth on a YoY basis) with an operating profit margin of 27.5%. With expectation of a strong fourth quarter performance, ICRA estimates BEL's FY2025 full-year revenues to witness a healthy growth of ~10%-15% on a YoY basis. Superior liquidity profile is supported by sizeable free cash and bank balance of more than Rs. 8,000 crore as on September 30, 2024, along with unutilised fund-based borrowing facilities of Rs. 500 crore.

Continued focus on R&D by BEL and GOI's intent to increase share of indigenous procurement provide competitive advantage – R&D has been the focus of BEL for increasing indigenisation and value addition in its products/systems. BEL has set up a 3-layer R&D structure namely Central Research Laboratories (CRL), Product Design and Innovation Centre (PD & IC) and Development & Engineering (D&Es) attached to strategic business units (SBUs). BEL's consistent investment towards R&D (6-7% of its revenues annually) has helped to create a strong competitive moat by enabling it to develop the latest generation products as well as services and gradually increasing the indigenisation of its product offerings, which have been the key pillars behind the company's healthy profit margins. Additionally, the GOI's increased focus on increasing indigenous procurement under 'Atmanirbhar Bharat' provides a unique opportunity for BEL to build its future revenue streams through development of domestic capabilities.

Credit challenges

High dependence on domestic defence sector for orders with limited export business – The Indian defence sector is the major customer of BEL, accounting for ~81% of the turnover in FY2024. In case of any change 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. BEL's revenue booking and cash flows are vulnerable to delays in project execution or final payment clearance in some cases owing to high concentration of the Government sector orders. BEL is targeting to gradually increase its share of non-defence revenues over the medium term. However, it remains low at present. ICRA notes that the share of revenue from civil and export businesses, which improved to Rs. 3,400 crore in FY2024 (17% of OI) from Rs. 1,970 crore in FY2023 (11% of OI).

Working capital-intensive nature of operations, however, cushioned by healthy liquidity and significant customer advances – BEL has high gross operating cycle, led by high receivable days and long production cycle leading to high inventory holding period. However, the company has been able to manage the same through sizeable customer advances and extended creditors days resulting in NWC/OI of 4.3% in FY2024 (FY2023: 7%). Sizeable customer advances resulted in moderate TOL/TNW of 1.4 times as on March 31, 2024 (FY2023: 1.5), but has been on an improving trend, supported by ploughing back of healthy profits,

resulting in strengthening of the net worth. Additionally, BEL has adequate working capital lines, the utilisation of which has remained minimal, providing a comfortable liquidity headroom.

Environment and social risks

Environmental considerations – BEL operates in the defence equipment manufacturing industry, which requires various raw materials and entails sizeable energy as well as water requirements for running its multiple facilities. To safeguard the environment against the impact of its operations, and possible regulatory action for violation of applicable environmental laws, BEL has tied up with the State Pollution Control Board (PCB) authorities for appropriately disposing/recycling solid hazardous waste at its manufacturing sites. BEL has installed 13.9 MW of wind power capacity and 4.5 MWp of cumulative grid connected rooftop solar power capacity. Further, 4 MW of wind power capacity is planned to be commissioned. Cumulatively, these meet more than 50% of BEL’s energy requirement.

Social considerations – BEL has dependence on human capital and hence, retaining talent, maintaining healthy employee relations, as well as supplier ecosystem remains essential for disruption-free operations. Going forward, the company’s ability to manage risks related to safety in the areas of process, and occupational health, while developing safety leadership capabilities, will remain a key factor from the social consideration perspective.

Liquidity position: Superior

BEL’s liquidity profile is superior, supported by comfortable cash flow from operations, which are expected to be adequate to meet the capital expenditure and dividend outflows. The company had a free cash and bank balance of more than Rs. 8,000 crore as on September 30, 2024, along with unutilised fund-based borrowing facilities of Rs. 500 crore, which provide a comfortable liquidity headroom. Given the low gearing and its strategic importance to the GOI, the company enjoys a high degree of financial flexibility, allowing it to raise funds from financial intermediaries in a timely manner at competitive rates.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – The ratings can be downgraded if there is any significant stretch in the company’s receivable cycle 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
Parent/Group support	Parent: Government of India. The assigned ratings factor in the strategic importance that BEL holds for 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. Details of the companies are enlisted in Annexure II.

About the company

BEL, a Navratna 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. It 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 to the largest share of the company's total revenues and profits.

Key financial indicators (audited)

Company name (consolidated)	FY2023	FY2024	H1 FY2025
Operating income	17734.4	20268.2	8848.5
PAT	2986.2	3985.2	1884.1
OPBDIT/OI	23.0%	24.9%	26.5%
PAT/OI	16.8%	19.7%	21.3%
Total outside liabilities/Tangible net worth (times)	1.5	1.38	1.22
Total debt/OPBDIT (times)	0.02	0.01	0.01
Interest coverage (times)	273.3	706.8	939.3

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

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)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
			Feb 21, 2025	Feb 22, 2024	Mar 09, 2023	Jan 14, 2022	
1 Fund-based	Long term	500.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
2 Unallocated	Long term	300.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
3 Non-fund based	Short term	6500.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based limits	Simple
Long-term – Unallocated limits	Not applicable
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 limits	NA	NA	NA	500.00	[ICRA]AAA (Stable)
NA	Unallocated limits	NA	NA	NA	300.00	[ICRA]AAA (Stable)
NA	Non-fund based Facilities	NA	NA	NA	6500.00	[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

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
Defence Innovation Organisation	50.00%	Equity Method
BEL IAI AeroSystems Private Ltd*	40.00%	Equity Method

Source: BEL's annual report FY2024; * Incorporated on September 25, 2024

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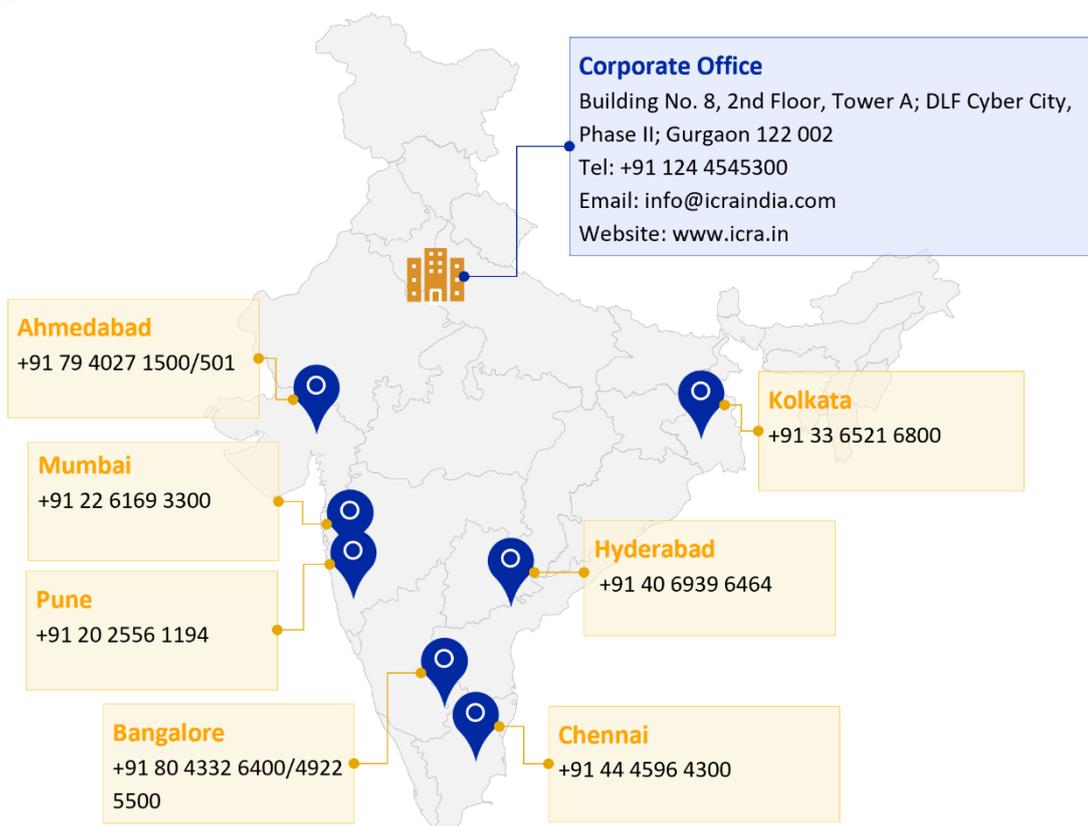
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