

July 06, 2023

Bharat Bijlee Limited: Ratings reaffirmed; outlook revised to Positive; rated amount enhanced

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|------------------------------|--------------------------------------|-------------------------------------|--|
| Fund-based Limits | 340.00 | 430.00 | [ICRA]A+/ [ICRA]A1+ reaffirmed/ assigned; Outlook revised to Positive from Stable |
| Non-fund Based Limits | 470.00 | 535.00 | [ICRA]A+/ [ICRA]A1+ reaffirmed/assigned; Outlook revised to Positive from Stable |
| Unallocated Limits | 25.00 | 35.00 | [ICRA]A+/ [ICRA]A1+ reaffirmed/assigned; Outlook revised to Positive from Stable |
| Total | 835.00 | 1,000.00 | |

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation with revision in the outlook on the long-term rating of Bharat Bijlee Limited (BBL/ the company) takes into account the expectation of improvement in its top line and earnings in the current fiscal, driven by robust order booking. ICRA notes the favourable capex cycle on the back of BBL's proven track record and brand positioning in the transformer and electrical motor industry.

The rating also considers the improvement in BBL's operating performance in FY2023 driven by a healthy unexecuted order book and improvement in coverage metrics supported by rise in margins. The transformer business has also seen a higher share of revenues from private players, wherein pricing is better than State Electricity Boards (SEBs). These factors have contributed to an improvement in BBL's operating margin, which increased from 6.9% in FY2022 to 8.4% in FY2023. The ratings continue to reflect the extensive experience of BBL's promoters in electrical equipment manufacturing and its status as a leading player in the domestic power transformers and electrical motors manufacturing sector. This strong revival in industry demand, especially in the transformer segment, ensures revenue visibility in the near term. Additionally, the ratings are underpinned by a strong liquidity profile, supported by a healthy cash position and sizeable value of marketable securities.

The ratings, however, remain constrained by the intense competition in the transformer as well as motors division resulting in range-bound margin movements, restricting margin expansion beyond a particular level. Despite the price variation clause (PVC) that acts as a barrier against unprecedented price movements in transformer orders, implementation of the same in the event of delayed deliveries remains a challenge. Further, the ratings remain constrained by the working capital-intensive nature of the business, due an elongated receivable position resulting from the slow realisation of payments, particularly from SEBs. Moreover, BBL's operations are intricately linked to investments in the power and capital goods sectors. Thus, such investments will remain critical for the company to ramp up its scale of operations and improve its profitability and return indicators.

The Positive outlook reflects ICRA's opinion that BBL will benefit in the near to medium term from a favourable capex cycle amid the Government's push for infrastructure projects. The extensive experience of its promoters in the electrical engineering segment and the strong brand recognition BBL commands in the power transformer and industrial motor segment also support ICRA's opinion.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in electrical equipment manufacturing business – The promoters have long experience in transformer and motor manufacturing, which has helped BBL in developing established relationships with customers, ensuring repeat orders. This has enabled the company to establish itself as a leading player in the power transformer and electric motor segment in the domestic market.

Reputed brand for power transformers and electric motors in the domestic market – BBL has a strong presence in the power transformer segment for its 220-KV class transformers up to the range of 200 MVA. Its motor division manufactures and sells a wide range of standard as well as specially designed, low tension (below 6.6 KV) motors. The company has also ventured into manufacturing high tension motors, operating at 3.3–11.0 KV. At present, it is involved in manufacturing motors ranging from 0.18 KW (fractional kilo watt motors) to 1,250 KW. In the past it has also enhanced its technical capabilities by completing stringent safety norms for certifications issued by notified international bodies and the Central Power Research Institute for its motors and transformers, respectively. This has further strengthened its brand image and expanded its scope of bidding avenues in the near term.

Strong liquidity profile aided by healthy cash balances, sizable liquid corporate deposits, high market value and non-current investments in equities – BBL's liquidity position remains comfortable aided by healthy unencumbered cash balances and considerable liquid investments in the form of corporate deposits and its high market value, non-current investments in equities as on March 31, 2023.

Strong improvement in top line and margins in FY2023, driven by strong order book inflow and sound pending order book rendering near term revenue visibility – The company achieved a healthy sales growth of 12%, with revenues at Rs. 1,418.5 crore in FY2023 over Rs. 1,265.7 crore in FY2022. Additionally, the operating margin increased to 8.4% in FY2023 from 6.9% in FY2022, due to the absorption of fixed costs and better pricing from private players. As of the end of March 2023, BBL's unexecuted order book stood at a satisfactory level of Rs. 1,076 crore. In FY2023, the fresh order inflow surged to Rs. 1,736 crore from Rs. 1,148 crore in FY2022. This is attributable to an uptick in the motor business on the back of a well-established market presence and products developed over the years. In addition, the growth was supported by the revival in demand for the transformer segment due to favourable capex cycle, resulting in improved realisations.

Credit challenges

Operations remain linked to investments in power and capital goods sectors; exposed to intense competition in transformer as well as motor segments – BBL's operations are inherently linked to a strong revival of investment activity in the power and capital goods sectors. Thus, such investments will remain critical for the company to ramp up its scale of operations in the medium term. Also, the demand–supply situation in the domestic transformer industry, remains challenging on account of issues posed by the power sector in terms of large capacity additions (especially in thermal and gas-based units), leading to stiff competition, limiting the pricing flexibility for most players in the segment. Moreover, in the motor segment, the competition remains stiff, given the large MNCs as well as domestic players in the field, apart from more standard product offerings compared to customization available in the transformer portfolio.

Elongated receivable cycle due to slow payments from SEBs – BBL's receivable days remain over 100 days due to elongated payment cycle from the SEBs. Nevertheless, the collection cycle has improved over the last two fiscals to 105 days in FY2023 compared to over 126 days in FY2021. This is because the company has started catering to more private players due to the relatively shorter credit period. Further, government has also taken measures to support the SEBs through various financing schemes for timely payments to its vendors.

Susceptible to variations in raw material prices; events of any non-applicability of PVC or invocation of LD clause remain an ongoing challenge to profitability levels – Typically, ~70-80% of BBL's contracts for transformers come with PVCs, while the rest are fixed-price contracts. For electrical motors, only fixed-price contracts are prevalent. This is because of the lower lead

time for manufacturing these products and the large proportion of sales to retail segments. Although BBL is protected against any raw material price increase in case of PVCs, it is sensitive to variations in copper and Cold Rolled Grain Oriented (CRGO) steel prices for fixed-price contracts. This is because BBL buys copper and CRGO steel in spot markets, where their rates are volatile, while immediate and full pass-on of the increase in costs to customers is not always possible.

Environmental and social risks

Environmental considerations: BBL is exposed to risks from tightening of environmental regulations related to emissions and waste generated from its manufacturing process. This apart, an efficient waste segregation (hazardous and non-hazardous waste) process through a robust waste management system is required to meet regulatory requirements. Any disruption in its environmental related policies can attract significant fines or punitive action from the regulators. However, as per company disclosures it has been meeting all environmental regulatory requirements.

Social considerations: Being in a labour-intensive operation, BBL is exposed to the risk of disruption in human capital management in terms of workforce safety and overall employee well-being. BBL is also exposed to the risk of shortage of skilled manpower, which can impact operations. However, as per company disclosures BBL has taken measures for employee welfare including a social accountability policy. Thus, the company has not witnessed any protest for wage hikes or notable shortage of skilled manpower till date.

Liquidity position: Strong

BBL does not have any long-term borrowings (except lease liabilities) and, thus, no scheduled repayment obligations. Furthermore, the company has healthy liquid investments in the form of corporate deposits, and unencumbered cash and bank balances of Rs. 324 crore as of March 2023 as well as sizeable non-current investments in equities leading to a negative net debt position over the last several fiscals. The fund-based utilisation against the drawing power remained at ~75% during the last 12 months, with a buffer of Rs. 77 crore as of March 2023.

Rating sensitivities

Positive factors – The long-term rating may be upgraded if there is a sustained improvement in the scale of operations on the back of strong order inflow and timely execution, which leads to overall strengthening of the financial profile. Better management of working capital, particularly on the receivable front, while maintaining its liquidity profile, will also be a positive for the rating.

Negative factors – Negative pressure on BBL's ratings can arise if the cash accruals notably weaken due to reduction in revenues or margins, or if any major debt-funded capital expenditure, or a stretch in the working capital cycle, impacts the liquidity profile materially.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable rating methodologies | Corporate Credit Rating Methodology |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | Standalone |

About the company

Established in 1946, Bharat Bijlee Limited is a leading electrical engineering company in India. The company has two primary business segments—(i.) power systems that comprise the transformers and projects divisions; and (ii.) industrial systems comprising electric motors, drives and industrial automation, and elevator systems divisions. It caters to an array of industries

such as power, refineries, steel, cement, railways, machinery, construction, and textiles. Its project division undertakes turnkey projects (switch yards) and is well positioned to provide complete 'concept to commissioning' services.

Headquartered in Mumbai, BBL's sales and service network is spread across 13 regional offices in India. Its manufacturing facilities are on a 1,70,321-sq.m. campus at Airoli, Navi Mumbai, with a working area of approximately 63,000 sq.m. The company employs about 1,400 skilled personnel.

Key financial indicators

| | FY2022 | FY2023 |
|--|---------|---------|
| Operating income | 1,265.7 | 1,418.5 |
| PAT | 55.6 | 83.2 |
| OPBDIT/OI | 6.9% | 8.4% |
| PAT/OI | 4.4% | 5.9% |
| Total outside liabilities/Tangible net worth (times) | 0.5 | 0.5 |
| Total debt/OPBDIT (times) | 3.3 | 2.5 |
| Interest coverage (times) | 3.6 | 4.9 |

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; 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 as of Mar 31, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
| | | | | Jul 06, 2023 | Jun 20, 2022 | Apr 15, 2021 | Apr 06, 2020 |
| 1 Fund based | Long term and short term | 430.00 | - | [ICRA]A+ (Positive) / [ICRA]A1+ | [ICRA]A+ (Stable) / [ICRA]A1+ | [ICRA]A+ (Stable) / [ICRA]A1+ | [ICRA]A+ (Stable) / [ICRA]A1+ |
| 2 Non-fund based | Long term and short term | 535.00 | - | [ICRA]A+ (Positive) / [ICRA]A1+ | [ICRA]A+ (Stable) / [ICRA]A1+ | [ICRA]A+ (Stable) / [ICRA]A1+ | [ICRA]A+ (Stable) / [ICRA]A1+ |
| 3 Unallocated | Long term and short term | 35.00 | - | [ICRA]A+ (Positive) / [ICRA]A1+ | [ICRA]A+ (Stable) / [ICRA]A1+ | [ICRA]A+ (Stable) / [ICRA]A1+ | [ICRA]A+ (Stable) / [ICRA]A1+ |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|----------------------|
| Long-term and short term - Fund based | Simple |
| Long-term and short term - Non-fund based | Simple |
| Long-term and short term -Unallocated | 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 | Cash Credit/ WCDL/ Short-term Borrowings | NA | NA | NA | 430.00 | [ICRA]A+ (Positive) / [ICRA]A1+ |
| NA | Bank Guarantee and Letter of Credit | NA | NA | NA | 535.00 | [ICRA]A+ (Positive) / [ICRA]A1+ |
| NA | Unallocated limits | NA | NA | NA | 35.00 | [ICRA]A+ (Positive) / [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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Branches



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