November 18, 2019

BEML Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based facilities	1,000.0	1,000.0	[ICRA]A+ (Stable); Reaffirmed
Non-fund-based facilities	1,200.0	1,200.0	[ICRA]A+ (Stable); Reaffirmed
Non-fund-based facilities	550.0	550.0	[ICRA]A1+; Reaffirmed
Non-convertible debentures	300.0	300.0	[ICRA]A+ (Stable); Reaffirmed
Total	**3,050.0**	**3,050.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to consider BEML's strategic importance as a nodal agency for defence procurement in the country and BEML's established market position in the metro coaches, rolling stock and mining equipment segments. BEML's business profile continues to be extremely diverse with the company deriving 27.5%, 42.5% and 4.6% of its revenues from the mining equipment (ME), rail and metro (R&M) and the defence segments respectively during FY2019 while the balance was contributed by spares and service revenues. Following healthy revenue growth of 27.6%, the company's revenue growth moderated to 7.3% during FY2019 on account of de-growth in both the defence and ME segments following weakness in demand from Coal India Limited (CIL) and delay in obtaining bulk production clearances from the Ministry of Defence (MoD) respectively. However, BEML's revenues were supported by stellar revenue growth of 45% under the R&M segment with pickup in deliveries to both Bangalore Metro Rail Corporation Limited (BMRCL) and Kolkata Metro Rail Corporation Limited (KMRCL).

ICRA has also considered the company's healthy debt protection metrics with gearing and TD/OPBDITA of 0.2x and 1.6x as on March 31, 2019 and interest coverage of 4.9x during FY2019 for arriving at the ratings. During H1 FY2020, the company witnessed revenue growth of 6.7%; however, the company registered loss at both the operating and net levels leading to a deterioration in its debt metrics with with TD/OPBDITA of -2.2x as on September 30, 2019 and interest coverage of -4.0x during H1 FY2020. This is in line with the past trends wherein the company generates majority of its revenues and margins during Q4 of every fiscal.

The company has a healthy order book position of Rs.9,568.0 crore as on September 30, 2019 (up from Rs.6,723.0 crore as on March 31, 2018). The strong order book position in addition to its longstanding relationships with a reputed customer base comprising of PSU companies and its strong service network under the mining segment is expected to support the company's revenue growth over the next 2-3 years.

The ratings also continue to factor in the sensitivity of the company's margins to raw material prices, product mix and forex fluctuations given that a significant portion of the company's raw materials continue to be imported. ICRA also notes that margins under the R&M segment are affected by high competitive intensity with presence of large domestic and international players. During FY2019, the company's operating margins declined to 7.4% from 8.2% during FY2018 on account of relatively higher raw material and employee expenses in addition to change in product mix. The company's net margins also reduced to 1.8% during FY2019 from 4% during FY2018 following reduction in operating margins accompanied by relatively higher interest and depreciation expenses.

Further, the company's revenues are also highly susceptible to deferment on account of high dependence on Coal India Limited (CIL) and other PSUs for tender finalization. In addition to this, the company has high customer concentration with dependence on a few key customers such as various metro authorities, MoD and CIL and its subsidiaries. Further, albeit improving, the company's working capital intensity continues to remain high with NWC/OI at 64.7% during FY2019 and 61.2% during H1 FY2020 on account of long production cycle, elongated receivable cycle and high inventory holdings. Going forward, reduction in working capital intensity and improvement in its margins while maintaining a healthy capital structure and debt protection metrics will be key rating sensitivities for the company.

While the Government of India (GoI) currently holds 54.03% in the company, GoI had given approval for strategic disinvestment in BEML during FY2017. ICRA will continue to monitor the GoI's plans to reduce stake in the company and take appropriate rating action as and when necessary.

Key rating drivers and their description

Credit strengths

Strong market position with a diversified product portfolio - Under the ME segment (accounting for ~27.5% of the company's revenues in FY2019), BEML enjoys a dominant market share supported by a diversified product portfolio and its wide spread service centres. Under the R&M segment (contributing ~42.5% to revenues in FY2019), BEML caters to various metro projects and maintenance requirements of Indian railways. The company's role as a nodal agency for sourcing by the Ministry of Defence (MoD) underlines its strategic importance to the GoI and is expected to support its defence revenues going forward.

Healthy order book lends revenue visibility - The company has a strong order book of ~Rs. 9,568 crore as on September 30, 2019 with orders across all of its segments lending strong revenue visibility to the company. However, it may be noted that even while BEML has enjoyed strong order book position historically, it has not necessarily translated into revenues in a timely manner owing to procedural delays and deferment of deliveries from its key customers.

Longstanding relationships with a reputed customer base comprising of PSUs: The company has strong relationships with PSUs like Coal India Limited & its subsidiaries, Neyveli Lignite Corporation Limited, Associated Cement Company Limited etc which supports BEML in sustaining its wallet share in the ME segment. The company is also nominated by MoD for various projects which further enhances its business prospects.

Healthy debt protection metrics: The company's financial profile is characterized by healthy debt protection metrics with gearing and TD/OPBDITA of 0.2x and 1.6x as on March 31, 2019 and interest coverage of 4.9x during FY2019

Credit challenges

Volatility in margins - The company's margins continue to remain sensitive to raw material prices, product mix and forex fluctuations. BEML's margins are also affected by the high competitive intensity under the mining and R&M segment. Private players, especially MNC majors, are strengthening their presence in both the ME and R&M segments in India affecting the pricing flexibility of the company in turn affecting its margins. During FY2019, the company's operating margins reduced by 80 bps and stood at 7.4% as against 8.2% during FY2018 affected by higher raw material prices and employee expenses. The company's net margins also reduced to 1.8% during FY2019 from 4% during FY2018 following reduction in operating margins accompanied by relatively higher interest and depreciation expenses.

Stretched working capital cycle: In line with the nature of its operations, BEML has an elongated production cycle leading to high inventory holding. With PSUs and MoD as its key customers, receivable cycle for the company is also stretched. However, the company has sanctioned fund based and non-fund-based limits of Rs.4,500 crore from various banks, which supports the company in efficient management of working capital. Average working capital utilization (including both fund-based and non-fund-based facilities) for the 12-month period ending in September 30, 2019 was 68.3%. High inventory on account of long manufacturing and approval lead times in the ME and defence segments have further stretched the working capital cycle. Going forward, ability of the company to reduce its receivables and inventory holding is critical for the ratings.

High susceptibility of revenue deferment: With significance dependence on CIL and other PSUs for finalization of tenders, revenues are susceptible to deferment despite the huge build up in orderbook.

High customer concentration: BEML derived ~52.5% of its revenues from its top three customers – BMRCL, KMRCL and CIL, leading to high customer concentration risk. However, the same is mitigated to some extent through strong relationship enjoyed by the company with these customers in addition to new orders won by the company under the R&M segment which is expected to improve the customer diversification of the company.

Liquidity position: Adequate

BEML's liquidity is **adequate** with healthy cash flow from operations during FY2019 on the back of improvement in working capital intensity to 64.7% from 70% during FY2018. With the company receiving some payments from MoD during H1 FY2020, the liquidity position has improved further resulting in relatively lower working capital utilization over the last few months. Going forward, with majority of the company's deliveries scheduled during Q4 FY2020, the liquidity position of the company will depend on timely debtor liquidation. Average working capital utilization (including both fund-based and non-fund-based facilities) for the 12-month period ending in September 30, 2019 was 68.3%. Further, the company also has large undrawn fund-based limits (~Rs.1,100 crore) as on September 30, 2019. In terms of repayments, the company has upcoming repayments of Rs.100 crore each between FY2021 to FY2023 in addition to minimal repayments for the soft loan form Government of Kerala. ICRA expects BEML to be able to meet its near-term commitments comfortably through internal accruals.

Rating sensitivities

Positive triggers – The company's ratings could be upgraded if the company's ROCE exceeds 15% on a sustainable basis and if there is a sustained reduction in the company's working capital cycle.

Negative triggers – Negative pressure on BEML's ratings could arise if there is change in BEML's status as a nodal agency for defence procurement in the country. Further, drop in margins and delay in liquidation of inventory could also lead to a downgrade in the company's ratings. Specific credit metrics that could lead to a downgrade of ratings include TD/OPBDITA greater than 2.5-3.0x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Equipment Manufacturers
Parent/Group Support	NA
Consolidation/Standalone	The ratings are based on the consolidated financial statements of the issuer

About the company

BEML Limited, erstwhile Bharat Earth Movers Limited, started as a division of Hindustan Aeronautics Limited, was spun off as a separate entity in 1964. BEML was fully owned by the GoI until 1992, when the government divested 25% of holdings in the Company. BEML is now a public sector undertaking head quartered in Bangalore, with the Government holding 54.03% stake in the company.

In FY2017, the Government of India (GoI), Ministry of Defence, has communicated in-principal approval of the Cabinet Committee on Economic Affairs (CCEA) of the Government of India, for strategic disinvestment of 26% equity shares in BEML Limited out of Government of India shareholding of 54.03%. The said shareholding would be sold to the strategic buyer/s to be identified by the Government of India by following due procedure.

Structured into three main divisions, the company manufactures a wide range of heavy earthmoving equipment catering to the mining and construction industry, vehicles for the Defence Forces and coaches for the Metro and Indian Railways.

Key financial indicators (Consolidated)

	FY2018	**FY2019**
Operating Income (Rs. crore)	3,239.9	3,475.5
Adjusted PAT (Rs. crore)	129.7	63.2
OPBDIT/OI (%)	8.2%	7.4%
RoCE (%)	8.6%	7.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.2
Total Debt/OPBDIT (times)	1.7	1.6
Interest Coverage (times)	4.9	3.9
DSCR	2.8	3.0

Source: BEML Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					18-November 2018	29-Oct-2018	21-Sep-2017	21-Sep-2016
1	Fund based facilities	Long term	1,000.0	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non-fund-based facilities	Long term	1,200.0	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Non-fund-based facilities	Short term	550.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Non-convertible debentures	Long term	300.0	300.0	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based facilities	NA	NA	NA	1,000.0	[ICRA]A+ (Stable)
NA	Non-fund-based facilities	NA	NA	NA	1,200.0	[ICRA]A+ (Stable)
NA	Non-fund-based facilities	NA	NA	NA	550.0	[ICRA]A1+
INE258A07013	Non-convertible debentures	May 18, 2012	9.24%	FY2021	100.0	[ICRA]A+ (Stable)
INE258A07021	Non-convertible debentures	May 18, 2012	9.24%	FY2022	100.0	[ICRA]A+ (Stable)
INE258A07039	Non-convertible debentures	May 18, 2012	9.24%	FY2021	100.0	[ICRA]A+ (Stable)

Source: BEML

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Vignyan Industries Limited	96.56%	Full Consolidation
MAMC Industries Limited	100.00%	Full Consolidation
BEML Brazil Industrial Ltda	99.98%	Full Consolidation

Analyst Contacts

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Pavethra Ponniah
+91 44 4596 4314
pavthrap@icraindia.com

Mythri Macherla
+91 80 4332 6407
mythri.macherla@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999