November 20, 2020

BEML Limited: Ratings reaffirmed; outlook on long-term rating continues to be Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund based facilities	1,200.0	1,200.0	[ICRA]A+ (Negative); Rating reaffirmed, and outlook continues to be Negative
Long-term Non-fund-based facilities	2,500.0	2,500.0	[ICRA]A+ (Negative); Rating reaffirmed, and outlook continues to be Negative
Short-term Non-fund-based facilities	800.0	800.0	[ICRA]A1+; Reaffirmed
Non-convertible debentures	300.0	200.0	[ICRA]A+ (Negative); Rating reaffirmed, and outlook continues to be Negative
Commercial Paper	400.0	400.0	[ICRA]A1+; Reaffirmed
Total	**5,200.0**	**5,100.0**	

**Instrument details are provided in Annexure-1*

Rationale

The negative outlook follows the deterioration in BEML Limited's (BEML/the company) operating and financial performance during FY2020. While traditionally BEML generates majority of its revenues and EBITDA during Q4 of every fiscal, the same was adversely affected in Q4 FY2020 on account of the Covid-19 outbreak and the ensuing supply chain disruptions impacting the company's production and revenues and thereby margins and debt metrics for FY2020. With the lockdown impacting the company's operations during Q1 FY2021 and steady pickup ever since the economy has opened, the company has reported 17% yoy de-growth in its revenues during H1 FY2021. Even as production and deliveries have picked up across segments, the expectation of a weak economic outlook continues to weigh in on BEML's near-term performance. Further, timely receipt of clearances and subsequent deliveries in H2 FY2021 will be crucial for the company's revenues and margins and consequently, debt coverage metrics and cash flows during FY2021.

ICRA has also taken into account the company's healthy order book position of ~Rs. 10,610.0 crore as on September 30, 2020. BEML's business profile continues to be extremely diverse with revenues from the mining equipment (ME, 49.3% of revenues during FY2020), rail and metro (R&M, 36.5% of revenues during FY2020) and defence (14.2% of revenues during FY2020). Given the low base and healthy order inflow, BEML is expected to witness growth across segments during FY2021. The ratings also continue to consider BEML's strategic importance as a preferred supplier for defence procurement in the country and BEML's established market across the segments it operates in. Overall, the strong order book position in addition to its longstanding relationships with a reputed customer base comprising of PSU companies and its strong service capabilities are expected to support the company's revenue growth over the next 2-3 years.

Following moderate revenue growth of 7.3% during FY2019, the company's revenues de-grew by 12.9% during FY2020 on account of de-growth in both the Mining Equipment (ME) and defence segments following weakness in demand from Coal India Limited (CIL) and delay in obtaining bulk production clearances from the Ministry of Defence (MoD) respectively in addition to the pandemic-led supply chain disruptions during Q4 FY2020. Deferral of deliveries and lower-than-expected revenues in Q4 FY2020 led to the company's already high working capital intensity reaching 93.7% as on March 31, 2020 as against 64.7% during March 31, 2019. The company's margins also contracted by 420 bps to 3.2% during FY2020 as against 7.4% during FY2019 following the deferral of deliveries during Q4, which is typically the best quarter for the company in terms of both revenues and margins. With decline in operating margins, the company's TD/OPBDITA deteriorated to 3.5x as on March 31, 2020 from 1.6x as on March 31, 2019 while the company's interest coverage declined to 2.0x in FY2020 from 3.9x in FY2019.

Going forward, the margins will continue to be sensitive to the raw material prices, product mix and forex fluctuations given that a significant portion of the 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. 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.

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, BEML enjoys a dominant market share supported by a diversified product portfolio and its wide spread service capabilities. Under the R&M segment, BEML caters to various metro projects and maintenance requirements of Indian railways. The company's role as a preferred supplier 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, especially in wake of the recent border tensions and the consequent ramp up in demand for defence equipment.

Healthy order book position and steady order inflows - The company has a strong order book with orders across all 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. Consequently, timing of the deliveries becomes important for the company's near-term performance.

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.

Credit challenges

Subdued financial performance during FY2020; while revenues have recovered to a certain extent in Q2 FY2021, uncertainty in demand outlook continues to remain – BEML typically derives significant amount of its revenues during Q4 of every fiscal given the in-built seasonality in the company's revenues. However, BEML's Q4 FY2020 was affected adversely on account of Covid-19 outbreak and the subsequent supply chain issues. Further, uncertainty in demand environment following the weak economic outlook for FY2021 continues to loom large on the company. While the company's order book continues to remain strong, with significance dependence on CIL and other PSUs for finalization of tenders and clearances from various departments for R&M and defence deliveries, revenues are susceptible to deferment despite the huge build up in orderbook.

Volatility in margins - The company's margins in FY2020 were affected adversely because of lower than expected revenues during Q4 FY2020 in addition to the Rs. 60 crore outflow towards the one-time settlement with a third party. Out of the Rs. 60 crore outflow, Rs. 37 crore was met out of the expenditure provision already made by the company. Overall, the company's operating margins shrunk by 420 bps to 3.2% during FY2020. Going forward, BEML's margins will continue to remain sensitive to raw material prices, product mix and forex fluctuations in addition to 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.

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, the receivable cycle for the company is also stretched. High inventory on account of long manufacturing and approval lead times in the ME and defence segments have further stretched the working capital cycle. Further, deferral of sizeable amount of revenues from Q4 FY2020 (which is seasonally a high-volume period for the company) to FY2021 resulted in significant inventory build-up leading to working capital intensity of 93.7% as on March 31, 2020. Given the contraction in revenues in H1 FY2021, the working capital intensity has further increased as of September 30, 2020. While the inventory holding is expected to decline post ramp up in deliveries across segments in H2 FY2021, quantum of receivables and inventory holding will continue to remain key credit monitorables for the company.

High customer concentration: BEML derived ~75% of its revenues from its top three customers –CIL, BMRCL, and MoD leading to high customer concentration risk. However, the same is mitigated to some extent through strong relationship enjoyed by the company with these customers. That said, since the company depends on CIL, MoD and other PSUs for finalization of tenders, revenues are susceptible to deferment despite the high build up in orderbook.

Liquidity position: Adequate

BEML's liquidity is **adequate.** The company has upcoming repayments of Rs.100 crore each during FY2022 and FY2023 in addition to minimal repayments for the soft loan form Government of Kerala. The company is also expected to spend Rs. 80 crore each during FY2021 and FY2022 on capital expenditure. The strong order book is expected to support ramp up in accruals in the coming quarters.

The company has large undrawn fund-based limits (~Rs.1,000 crore) as on September 30, 2020. with relatively lower fund-based working capital utilization (~10% of sanctioned limits of Rs. 1,200 crore) during the 12-month period ending July 2020. ICRA expects BEML to be able to meet its near-term commitments comfortably through internal accruals and undrawn working capital limits.

Rating sensitivities

Positive triggers – Given the negative outlook, upgrade in the long-term rating in the near-term seems unlikely. The company's ratings could be upgraded if the company's ROCE exceeds 15% on a sustainable basis and if there is a sustained rationalization in the company's working capital intensity.

Negative triggers – Negative pressure on BEML's ratings could arise if there is change in BEML's status as a preferred supplier for defence procurement in the country and significant deterioration in its market position in the R&M and EM segments. Further, inability to improve margins or delay in liquidation of inventory or significant deterioration in its liquidity position could also lead to a downgrade in the company's ratings.

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)

	FY2019	FY2020
Operating Income (Rs. crore)	3,475.5	3,026.7
Adjusted PAT (Rs. crore)	63.2	63.7
OPBDIT/OI (%)	7.4%	3.2%
RoCE (%)	7.7%	2.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.2
Total Debt/OPBDIT (times)	1.6	3.5
Interest Coverage (times)	3.9	2.0
DSCR	3.0	2.9

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 (FY2021)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2020 (Rs. crore)	Date & Rating	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					November 20, 2020	November 20, 2020	May 15, 2020	29-Oct-2018	21-Sep-2017
1	Fund based facilities	Long term	1,200.0	38.1	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non-fund-based facilities	Long term	2,500.0	NA	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Non-fund-based facilities	Short term	800.0	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1 +	[ICRA]A1 +	[ICRA]A1 +
4	Non-convertible debentures	Long term	200.0	300.0	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
5	Commercial Paper	Short term	400.0	-	[ICRA]A1+	[ICRA]A1+	-	-	-

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	1,200.0	[ICRA]A+ (Negative)
NA	Non-fund-based facilities	NA	NA	NA	2,500.0	[ICRA]A+ (Negative)
NA	Non-fund-based facilities	NA	NA	NA	800.0	[ICRA]A1+
INE258A07021	Non-convertible debentures	May 18, 2012	9.24%	FY2022	100.0	[ICRA]A+ (Negative)
INE258A07039	Non-convertible debentures	May 18, 2012	9.24%	FY2023	100.0	[ICRA]A+ (Negative)
NA	Commercial Paper	NA	NA	NA	400.0	[ICRA]A1+

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

Source: BEML

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About ICRA Limited:

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