February 17, 2021

Bharat Electronics Limited: Rating for bank lines reaffirmed at [ICRA]AAA (Stable)/ [ICRA]A1+, rating for Commercial Paper reaffirmed at [ICRA]A1+ and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund based	500.00	500.00	[ICRA]AAA (Stable); reaffirmed
Long-term Unallocated	200.00	300.00	
Long-term Term Loan	100.00	0.00	
Short-term Non-fund based	3,500.00	3,500.00	[ICRA]A1+; reaffirmed
Commercial Paper	5.00	0.00	[ICRA]A1+; reaffirmed and withdrawn
Total	**4,305.00**	**4,300.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation draws comfort from Bharat Electronics Limited's (BEL / the company) strategic position as a dominant supplier of electronic equipment to the Indian defence forces. BEL is majority-owned by the Government of India (GoI) and is a defence public sector undertaking (DPSU). The assigned ratings consider the strong order pipeline; unexecuted order book worth Rs. 54,791 crore as on January 01, 2021, translating to an order book/operating income ratio of 4.2 times (based on FY2020 operating income), provides adequate revenue visibility in the medium term. Though competition from the private sector is likely to intensify in the medium to long term, BEL's established track record and large manufacturing capacities with adequate pool of trained manpower and research and development (R&D) capabilities will continue to be strong mitigating factors. BEL has a strong financial risk profile, characterised by healthy profit margins and return indicators, no fund-based borrowings and comfortable liquidity profile.

These strengths are offset to some extent by BEL's continued high dependence on the defence sector, which contributes to the bulk of its revenues. BEL's working capital intensity remains elevated due to increase in receivables and unbilled revenues on account of long gestation periods for the orders executed. ICRA also notes that BEL's operating profit margins remain vulnerable to adverse foreign exchange fluctuations, lower profitability in certain segments and high level of cost overheads.

ICRA has also reaffirmed and subsequently withdrawn the rating of the company's Commercial Paper programme based on the confirmation that the rating was not utilised and there is no amount outstanding against the same. The Stable outlook reflects ICRA's expectation that BEL will continue to benefit from its strategic importance as the major supplier of defence electronics equipment to the Indian defence forces and the high entry barriers.

Key rating drivers and their description

Credit strengths

Defence PSU and a dominant supplier of electronic equipment to Indian defence forces – BEL is a defence PSU, with the GoI holding 51.14% stake (reduced from 55.27% as on December-2019). 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.

Strong pending order book provides adequate revenue visibility - The company's unexecuted order book as on January 01, 2021 stood at Rs. 54,791 crore. The order book stands at 4.2 times of the FY2020 operating income, which provides adequate revenue visibility in the medium term.

Strong financial profile with healthy profitability and low leverage - BEL's financial profile remains strong because of healthy profitability and return indicators, no fund-based borrowings, comfortable liquidity and strong debt coverage metrics.

Competitive advantage due to high entry barriers - BEL continues to enjoy advantage over its competitors due to its dominant market position, proven track record and association with the armed forces, established infrastructure and manufacturing facilities, and strong R&D capabilities.

Credit challenges

High dependence on defence sector for orders - The Indian defence sector is BEL's major customer. In case of any changes in the procurement policy of the defence forces, the company's revenue and order book position can be adversely impacted because of reduced market share. Due to the high concentration of the Government sector orders, BEL's revenue booking and cash flows are vulnerable to delays in project execution or final payment clearance in some cases. Due to the long gestation period of the projects, the company's revenues and cashflows are exposed to non-uniformity and lumpiness.

High working capital intensity - BEL's working capital intensity remains elevated due to an increase in receivables and unbilled revenues on account of long gestation periods for the orders executed. Nonetheless, the company has been able to manage its working capital requirements through its internal cash accruals and no utilisation of fund-based working capital limits in recent past.

Vulnerability of operating profit margins - BEL's operating profit margins remain vulnerable to adverse fluctuations in foreign exchange, lower profitability in certain segments and high level of cost overheads.

Liquidity position: Strong

The liquidity profile of BEL is strong, supported by comfortable cash flow from operations, which are expected to be adequate to meet the capital expenditure outlay and dividend outflows. The company had cash and bank balances of more than Rs 1,600 crore as on March 31, 2020. The company also has sanctioned and unutilised fund-based borrowing facilities of Rs 500 crore. Given the low leverage, the company would be able to access additional bank borrowings for capital expenditure or working capital requirements, should the need arise.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – The ratings can be downgraded if there is any significant stretch in receivable cycle of the company due to delay in payments by customers or change in strategic importance of BEL to the Indian defence sector reflecting in lower order inflows and revenues. Specific credit metrics include increase in Total Debt / OPBITDA to more than 0.5 times on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of BEL. As on March 31, 2020, the company had two subsidiaries and two associates that are enlisted in Annexure-2.

About the company

BEL, a defence public sector undertaking (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.

BEL 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 Bangalore unit contributing the largest share to the total revenue and profits.

Key financial indicators

BEL consolidated	Audited	Audited	Provisional
	FY2019	FY2020	9M FY2021
Operating Income (Rs. crore)	12,164.2	12,967.7	7,191.2
PAT (Rs. crore)	1,886.7	1,824.7	731.6
OPBDIT/OI (%)	23.9%	21.4%	17.1%
PAT/OI (%)	15.5%	14.1%	10.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.3	NA
Total Debt/OPBDIT (times)	0.0	0.0	0.0
Interest Coverage (times)	182.6	362.5	1,596.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, NA: Not Available

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 of Jan 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					17-Feb-2021	17-Feb-2020	15-Feb-2019	22-Feb-2018
1	Fund-based	LT	500.0	0.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Unallocated	LT	300.0	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-
3	Term Loan	LT	0.0	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	Non-fund based	ST	3,500.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Commercial Paper	ST	0.0	-	[ICRA]A1+; withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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 / CC	-	-	-	500.0	[ICRA]AAA (Stable)
NA	Unallocated	-	-	-	300.0	[ICRA]AAA (Stable)
NA	Non-fund based	-	-	-	3,500.0	[ICRA]A1+
NA	Commercial Paper	-	-	-	0.0	[ICRA]A1+; withdrawn

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	BEL Ownership	Consolidation Approach
BEL Optronic 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

Source: *BEL annual report FY2020*

Note: *ICRA has taken a consolidated view of the parent (BEL), its subsidiaries and associates while assigning the ratings.*

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