April 15, 2021

Bharat Bijlee Limited: Ratings reaffirmed at [ICRA]A+(Stable)/[ICRA]A1+; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	300.00	340.00	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed
Non-fund-based Limits	368.00	428.00	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed
Unallocated Limits	82.00	67.00	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed
Total	**750.00**	**835.00**	

Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation continues to reflect the extensive experience of Bharat Bijlee Limited's (BBL) promoters in electrical equipment manufacturing, and the company's status as one of the leading players in the domestic power transformers and electrical motors manufacturing segment. The ratings continue to favourably factor in the rising contribution levels from its motor business aided by healthy scale-up activities seen in its key consuming sectors along-with high replacement demand for energy efficient motors. Evidently, rising share of margin commanding motor business and cherry picking of orders in the transformer segment has resulted in improvement in BBL's operating margin to 7.92% in FY2020 from 6.65% in FY2019. Nevertheless, in 9M FY2021 the volumes and profitability in the motor business witnessed moderation owing to impact of the lockdown leading to complete factory shutdown and restricted workforce movement during H1 FY2021. However, a healthy order pipeline depicted by an unexecuted order book of Rs. 894 crore as on December 2020, against Rs. 566 crore as on December 2019, renders near term revenue visibility. The ratings continue to draw significant comfort from the company's strong liquidity profile, aided by its healthy cash position, liquid investments in form of corporate deposits and presence of sizeable non-current investments in equities.

The ratings, however, remain constrained by the restricted sales traction in the transformers division resulting from intense competition from overcapacity in the industry. Furthermore, the revenue and profitability in FY2021 is expected to report a dip owing to pandemic induced disruption in the company's business. Also, ICRA notes the rising raw material costs in the recent past, which can materially impact profitability if the company is not able to fully pass on such rises to its customers. Though the price variation clause (PVC) acts as a barrier against unprecedented price movements in the transformer orders, implementation of the same amid delayed deliveries during the current fiscal due to pandemic related disruption 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 the state electricity boards (SEBs). Further, BBL's operations are intricately 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 and improve its profitability and return indicators.

The Stable outlook reflects ICRA's opinion that BBL will continue to benefit from the extensive experience of its promoters in the electrical engineering segment and it will be able to recoup the lockdown losses and swiftly revive its operations aided by a heathy order pipeline, which renders near term revenue visibility.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in electrical equipment manufacturing - BBL's promoters have experience of over three decades in transformer and motor manufacturing. 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 transformers segment for its 220KV class transformers up to 200 MVA range. 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 3.3KV-6.6KV. At present, it is involved in manufacturing motors ranging from 0.18KW (fractional kilo watt motors) to 1250KW motors. The company has recently enhanced its technical capabilities with completion of stringent safety norm certification 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 the scope of bidding avenues for the company in the near term.

Strong liquidity profile aided by healthy cash balances, sizable liquid corporate deposits and presence of high market value, 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 presence of high market value, non-current investments in equities as on December 2020.

Healthy order book renders near term revenue visibility - As on end December 2020, BBL witnessed a surge in its unexecuted order book to Rs. 894 crore from Rs. 566 crore as on end December 2019. This is attributable to two major orders bagged by the company in mid-February 2020 to the tune of ~Rs. 286 crore from the SEBs in the transformer division. The favourable order book position renders near term revenue visibility.

Credit challenges

Revenue growth stagnated in FY2020 owing to muted demand condition, particularly in transformer segment; pandemic led disruption adversely impacted revenues and profitability in FY2021 - BBL's transformer business has witnessed a contraction in terms of sales volume in FY2020. The sector continues to suffer from overcapacity with stagnant demand. This apart, intense competition continued to keep realisation level muted in the transformer business. Further, in FY2021, pandemic induced disruption marred by a factory shutdown episode, reduced shifts and restricted movement, impacted BBL's production function despite its healthy order pipeline. This has resulted in moderation of performance in terms of the company's revenue and profitability in FY2021.

Operations to remain inclined to investments in power and capital goods sectors; intense competition in transformer industry due to overcapacity - BBL's operations are intricately 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 and, thereby, improve its profitability and return indicators. Also, there is an unfavourable demand–supply situation in the domestic transformer industry on account of challenges posed by the power sector in terms of new capacity addition, which in turn leads to stiff competition and limiting pricing flexibility for most players in the segment.

Moderate coverage indicators - The company's coverage indicators remained at average levels, given the moderate operating profitability levels and the sticky borrowing levels (because of its working capital intensive nature of operations). Furthermore, weakening of operating profitability will result in deterioration in coverage indicators in FY2021. Nevertheless, a steady expansion of the operating profitability in the past had resulted in a consistent improvement in the coverage indicators over the last few fiscals.

Elongated receivable cycle due to slow payments from state power distribution utilities - BBL's receivable days remain over 100 days due to slow payments from SEBs. In FY2020, the company's debtor days stretched to 121 days from 107 days in FY2019.

Nevertheless, the recoveries have witnessed an improvement despite weak market conditions, particularly in the transformer segment, with debtors of more than six months moderated to Rs. 13 crore as on end December 2020 from Rs. 33 crore as on end March 2020.

Susceptible to variations in raw material prices; risk accentuated by sizable order backlog in pipeline, whereby any non-applicability of PVC or invocation of LD clause can adversely impact near term profitability - Typically for BBL, ~80% of the 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 required to manufacture 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, wherein their rates are volatile, and immediate and full pass-on of the increase in costs to customers is not always possible. Furthermore, the company has sizable backlog of orders, particularly in the transformer division, which is expected to be cleared in Q4 FY2021 and Q1 FY2022. The backlog is attributable to the pandemic induced disruptions and the resultant complete shutdown of factory operations during Q1 FY2021. Given the notable increase in raw material input prices (CRGO steel and copper) since December 2020, the ability to pass on the same by enforcing the PVC mechanism and managing any impact of costs due to any invocation of LD clauses due to order backlog (created by pandemic related disruptions) remains a challenge and a key monitorable.

Liquidity position: Strong

BBL does not have any long-term borrowings and, thus, has no scheduled repayment obligations. Furthermore, the company has healthy liquid investments in the form of corporate deposits, and unencumbered cash and bank balances as well as sizeable non-current investments in equities leading to a zero-net debt position over the last many years. The fund-based utilisation levels also remained at ~50% during the last 12 months, reflecting an adequate undrawn buffer. Hence, on an aggregate basis, the company's liquidity profile remains **strong**.

Rating sensitivities

Positive factors – The rating may be upgraded if there is a meaningful improvement in revenues and profitability levels on a sustained basis, thereby strengthening the return indicators along with better working capital management, particularly by reducing the receivable position.

Negative factors – The rating may be downgraded if 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 (due delayed payments from customers), 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

Bharat Bijlee Limited is a leading electrical engineering company in India. Established in 1946, its primary business segments are transformers, projects, electric motors, elevator systems, drives and automation. It caters to an array of industries such as power, refinery, steel, cement, railway, machinery, construction and textile. It also undertakes turnkey projects (switchyards) and is well positioned to provide complete 'concept to commissioning' services. Headquartered in Mumbai, it has a sales and service network of 13 regional offices across India. The company's manufacturing facilities are in Airoli, Navi Mumbai (Maharashtra).

In FY2020, as per the audited results, the company reported a net profit of Rs. 45.60 crore on an OI of Rs. 932.02 crore compared to a net profit of Rs. 41.53 crore on an OI of Rs. 933.21 crore in FY2019.

Key financial indicators (Audited)

RDCPL (Consolidated)	FY2018	FY2019	FY2020
Operating Income (Rs. crore)	774.89	933.21	932.02
PAT (Rs. crore)	60.97	41.53	45.60
OPBDIT/OI (%)	4.98%	6.65%	7.92%
RoCE (%)	11.07%	8.90%	9.54%
Total Outside Liabilities/Tangible Net Worth (times)	0.58	0.51	0.64
Total Debt/OPBDIT (times)	5.56	3.21	3.35
Interest Coverage (times)	1.68	3.11	3.26
DSCR (times)	3.92	3.88	3.92

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Source: Company, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					April 15, 2021	April 06, 2020	April 01, 2019	-
1	Fund based	Long term / Short term	340.00	-	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	-
2	Non-fund based	Long term / Short term	428.00	-	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	-
3	Unallocated	Long term / Short term	67.00	-	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [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 click here

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	Cash Credit/ WCDL/ Short-term Borrowings	-	-	-	340.00	[ICRA]A+ (Stable) / [ICRA]A1+
NA	Bank Guarantee and Letter of Credit	-	-	-	428.00	[ICRA]A+ (Stable) / [ICRA]A1+
NA	Unallocated limits	-	-	-	67.00	[ICRA]A+ (Stable) / [ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

K Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Srinivas Menon
+91 22 6169 3354
srinivas.menon@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

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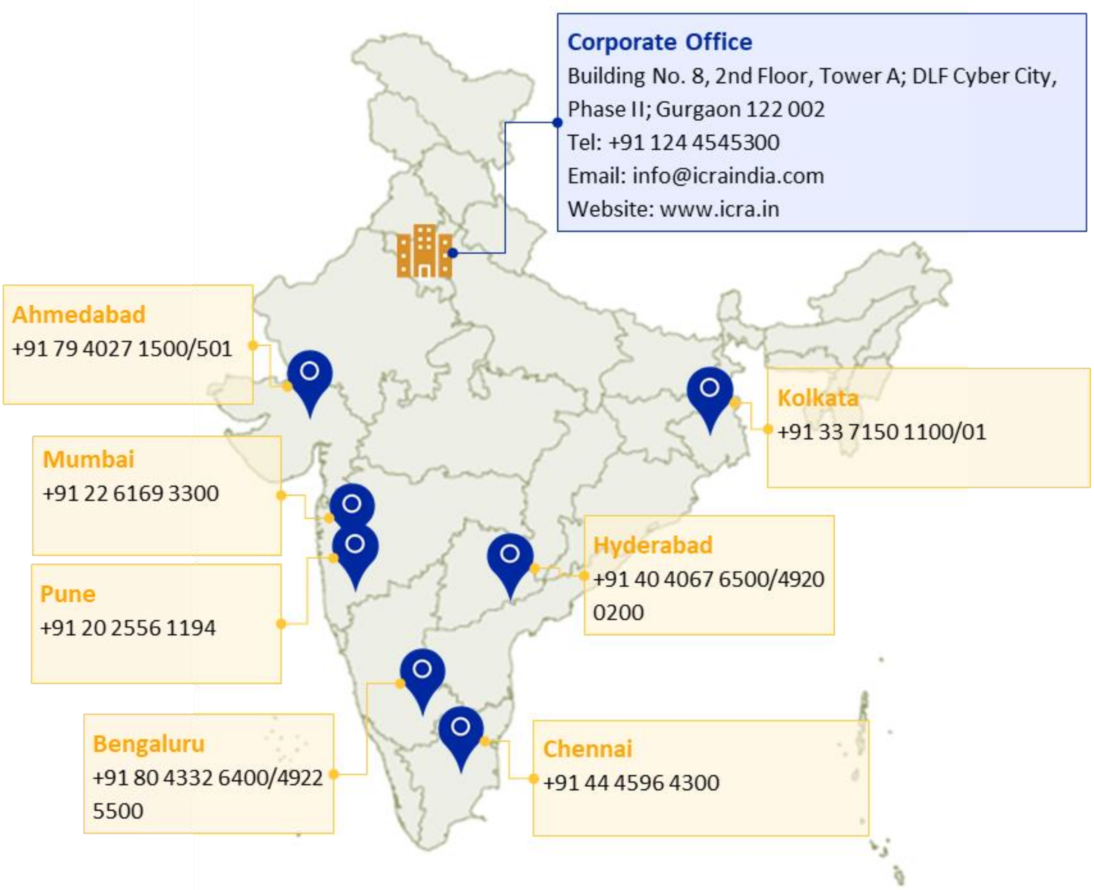
For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches



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