September 21, 2021

BEML Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund based facilities	1,200.00	1,200.00	[ICRA]A+ (Negative); Rating reaffirmed
Long-term Non-fund-based facilities	2,500.00	2,500.00	ICRA]A+ (Negative); Rating reaffirmed
Short-term Non-fund-based facilities	800.00	800.00	[ICRA]A1+; Reaffirmed
Non-convertible debentures	200.00	100.00	ICRA]A+ (Negative); Rating reaffirmed
Commercial Paper	400.00	400.00	[ICRA]A1+; Reaffirmed
Total	**5,100.00**	**5,000.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors into account BEML Limited's (BEML) healthy order book position of Rs. 11,219 crore as on June 30, 2021 (up from Rs. 10,610 crore as on September 30, 2020), healthy revenue growth of 17.5% in FY2021, improvement in operating margins to 5.1% from 3.2% in FY2020 and in interest coverage ratio to 3.8 times in FY2021 from 2.0 times in FY2020. BEML's operational profile continues to be well diversified with revenues spread across the mining equipment (ME, 48.7% of revenues during FY2021), rail and metro (R&M, 36.3% of revenues during FY2021) and defence (15.0% of revenues during FY2021) segments. The rating also derives comfort from the track record of winning repeat orders from reputed customer base mostly through competitive bidding process and from BEML's established service network. Additionally, the strong order book position is expected to support the company's revenue growth over the medium term. Further, the expectation of pickup in capital expenditure cycle and government's focus on increasing infrastructure spending, augurs well for BEML. The rating also takes into account the company's strong financial flexibility, which is aided by its majority ownership by Government of India.

The rating continues to be on Negative outlook on account of the company's high net working capital intensity of around 96% in FY2021 (increased from 94% in FY2020 and 65% in FY2019) on account of long production cycle, elongated receivable cycle and high inventory holdings. Consequently, the debt outstanding has gone up from Rs. 350.3 crore as on March 31, 2020 to 751.7 as on March 31, 2021, while there has been a moderation in certain debt coverage ratios: Total Debt/OPBITDA stood at around 4.2 times as on March 31, 2021 (as compared to 3.6 times in FY2020) and debt service coverage ratio (DSCR) at 1.2 times, against 2.9 times in FY2020. Going forward, reduction in working capital intensity and improvement in its margins and debt protection metrics will be key rating sensitivities for the company.

The ratings also continue to factor in the sensitivity of the company's margins to raw material prices, product mix and forex fluctuations. In addition to this, the company has high customer concentration with dependence on a few key customers such as various metro rail authorities, Ministry of Defence (MoD) and Coal India Limited (CIL) and its subsidiaries. BEML derived 63% of its revenues in FY2021 from the top three customers which includes CIL, Delhi Metro Rail Corporation Limited (DMRCL), and Indian Railways. However, the same is mitigated to some extent through an established track record of timely order execution and delivery through BEML's strong and established service network. Also, the company has been able to get repetitive orders from CIL, MoD and other metro authorities through competitive bidding process despite presence of large global and private players.

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 divestment related developments and its possible impact, if any, on the credit risk profile of BEML.

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 widespread service capabilities. Under the R&M segment, BEML caters to various metro projects and maintenance requirements of Indian railways. The company also has a long and established track record of supplying products to MoD. Some of the orders in certain segments have been received on preferential/nomination basis in the past.

Strong order book position – The company has a very strong order book position, 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, but the accruals could be impacted owing to procedural delays and deferment of deliveries by its key customers. Consequently, timing of the deliveries becomes important for the company's near-term performance.

Reputed customer base, which includes large PSUs and government agencies – The company has strong business 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 has also been nominated by MoD for certain projects in the past. With track record of supplying to various metro rail projects, the company is able to get various repeat orders in this segment as well

Strong financial flexibility as majority stake held by Government of India; impact of divestment will be a key sensitivity – Government of India (GoI) currently holds 54.03% stake in BEML, which improves revenue visibility from public sector entities and also enhances financial flexibility. GoI had given approval for strategic disinvestment in BEML during FY2017. ICRA will continue to monitor the divestment related developments and its possible impact, if any, on the credit risk profile of BEML.

Credit challenges

Modest debt protection indicators and increase in leverage- On account of BEML's low profitability and high working capital requirements, the debt protection indicators have remained modest : Total Debt/OPBDITA stood at 4.2x as March 31, 2021 as against 3.6x as on March 31, 2020, debt service coverage ratio (DSCR) at 1.2 times, against 2.9 times in FY2020 while the interest cover during FY2021 stood at 3.8x and 2.0x as on March 2021. Additionally, due to the negative cash flow from operations, the total debt has increased from Rs. 350.3 crore to Rs. 751.7 crore

Volatility in margins - BEML's margins will continue to remain sensitive to raw material prices, product mix and forex fluctuations in addition to high competitive intensity under it key segments. During FY2021, the company's operating margins improved from 3.2% to 5.1%; however the same has fluctuated in the 3.2%-8.2% range in last five years

Stretched working capital cycle - The company's working capital intensity continues to remain high with NWC/OI at 95.8% during FY2021, as compared to 94% in FY2020 and 65% in FY2019. 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. Average working capital utilisation (including both fund based and non-fund based facilities) for FY2021 increased to 76% from 63.6% for the 12-month period ending July 2020. Going forward, ability of the company to reduce its working capital intensity, and consequently the cash flows, will be a key monitorable for the rating.

High customer concentration - BEML derived 63% of its revenues in FY2021 from the top three customers which include CIL, DMRCL, and Indian railways leading to high customer concentration risk. However, the same is mitigated to some extent through an established track record of timely order execution and delivery through BEML's strong and established service network. Also, the company has been able to get repetitive orders from CIL and other metro rail authorities through competitive bidding despite presence of large global and private players. That said, since the company depends on CIL, MoD and other PSUs for finalization of tenders, revenues are susceptible to deferment and procedural delays

Liquidity position: Adequate

BEML's liquidity is adequate. The company has minimal repayments for the soft loan form Government of Kerala in FY2022 and has upcoming repayments of Rs.100 crore in FY2023 (instalment due in FY2022 has already been paid in Q1 FY2022). The company is also expected to spend around Rs. 50 crore during FY2022 on capital expenditure.

The company has undrawn fund-based limits (around Rs.658 crore) as on March 31, 2021 with fund-based working capital utilisation (around 45% of sanctioned limits of Rs. 1200 crore) during FY2021. Also, the company is in advanced stages of getting additional Rs. 300 crore fund-based limits sanctioned which will further improve the availability of funding. ICRA expects BEML to be able to meet its near-term commitments comfortably through internal accruals and undrawn working capital limits.

Rating sensitivities

Positive factors – Given the negative outlook, upgrade in the long-term rating in the near-term seems unlikely. The outlook could be made Stable if there is a significant and sustained improvement in company's profitability, working capital intensity and debt protection metrics.

Negative factors – 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 or if the company's market position in the R&M segment or the construction equipment segment deteriorates. Further deterioration in margins or liquidity position and debt protection metrics 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	Not Applicable
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 (audited)

BEML Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	3,026.7	3,557.6
PAT (Rs. crore)	63.7	68.7
OPBDIT/OI (%)	3.2%	5.1%
PAT/OI (%)	2.1%	1.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.5
Total Debt/OPBDIT (times)	3.6	4.2
Interest Coverage (times)	2.0	3.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Total Debt includes lease liabilities of Rs. 9.2 crore and Rs. 8.4 crore in FY2020 and FY2021 respectively

Note: Amount in Rs. crore; All calculations are as per ICRA research; The above financial numbers and ratios reflect analytical adjustments made by ICRA and may not be comparable with BEML's reported financials

Source: Company Results, ICRA research

Status of non-cooperation with previous CRA: Not applicable

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 in	Date & Rating in FY2020	Date & Rating in FY2020	Date & Rating in FY2019
					Sep 21, 2021	Nov 20, 2020 May 15, 2020	Nov 18, 2019	Oct 29, 2018
1	Fund based facilities	Long-term	1200.0	541.8	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non-fund-based facilities	Long-term	2500.0	NA	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Non-fund-based facilities	Short-term	800.0	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Non-convertible debentures	Long-term	100.0	200.0	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
5	Commercial Paper	Short-term	400.0	-	[ICRA]A1+	[ICRA]A1+	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund based facilities	Simple
Long-term Non-fund-based facilities	Simple
Short-term Non-fund-based facilities	Simple
Non-convertible debentures	Very Simple
Commercial Paper	Very Simple

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	LT Fund based facilities	NA	NA	NA	1,200.0	[ICRA]A+(Negative)
NA	LT Non-fund-based facilities	NA	NA	NA	2,500.0	[ICRA]A+(Negative)
NA	ST Non-fund-based facilities	NA	NA	NA	800.0	[ICRA]A1+
INE258A07039	Non-convertible debentures	May 18, 2012	9.24%	FY2023	100.0	[ICRA]A+(Negative)
INE258A14050	Commercial Paper-I	July 27, 2021	3.75%	Oct 25, 2021	200.0	[ICRA]A1+
INE258A14068	Commercial Paper-II	Aug 27, 2021	3.65%	Nov 25, 2021	200.0	[ICRA]A1+

Source: *Company; LT-Long term; ST-Short Term*

Annexure-2: List of entities considered for consolidated analysis

Company Name	BEML Ownership	Consolidation Approach
Vignyan Industries Limited	96.56%	Full Consolidation
MAMC Industries Limited	100.00%	Full Consolidation

Source: *BEML annual report FY2021*

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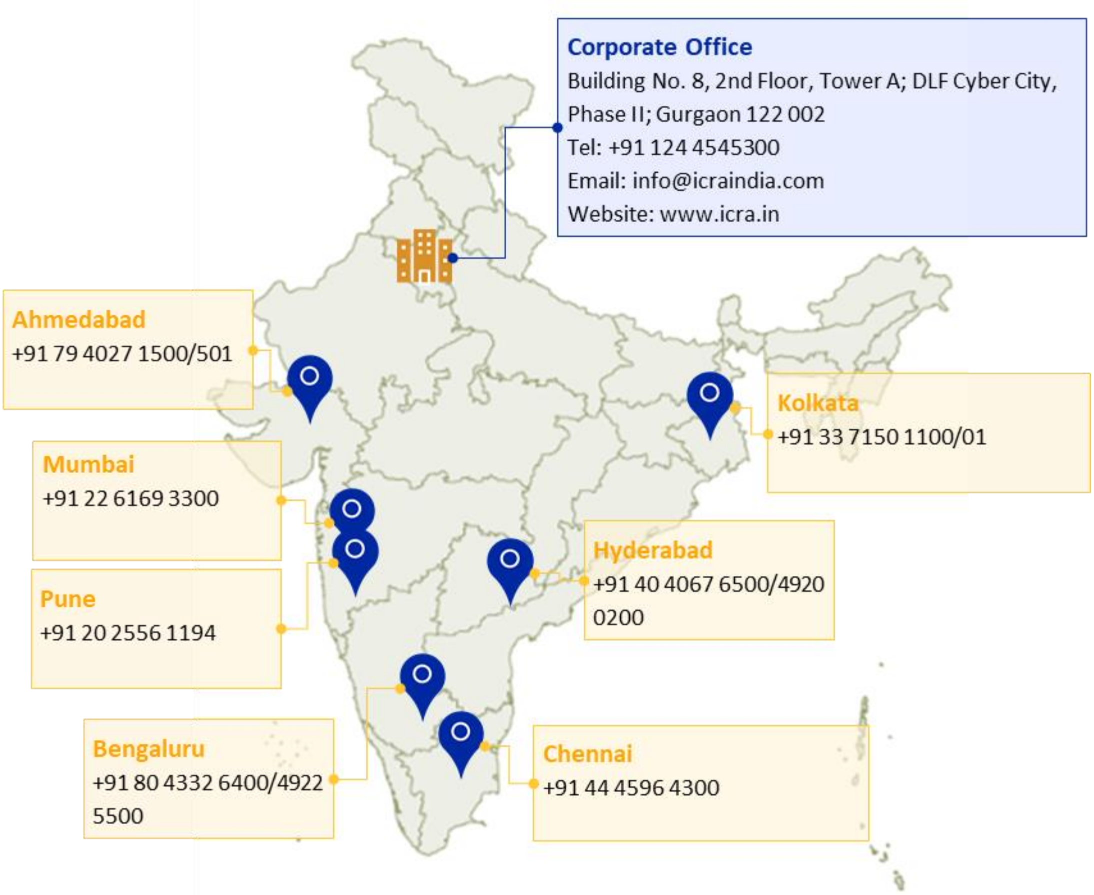

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