June 20, 2022

Bharat Bijlee Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	340.00	340.00	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed
Non-fund-based Limits	428.00	470.00	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed
Unallocated Limits	67.00	25.00	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed
Total	**835.00**	**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 its status as one of the leading players in the domestic power transformers and electrical motors manufacturing segment. ICRA notes the smart recovery witnessed in BBL's operations with a notable YoY growth of ~72% in operating income to Rs. 1,265.7 crore in FY2022. The return to normalcy in BBL's business was aided by the scale-up in activities in its key consuming sectors over last fiscal when business was severely disrupted by the pandemic. In addition, a higher share of revenues from the motor business and healthy order execution in the transformer segment have resulted in improvement in BBL's operating margin to 6.9% in FY2022 from 5.8% in FY2021. The rating also draws comfort from BBL's healthy order pipeline depicted by a sizable unexecuted order book of Rs. 767 crore as on end March 2022, providing 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 the form of corporate deposits and sizeable non-current investments in equities.

The ratings, however, remain constrained by the restricted sales traction and margin flexibility in the transformers division resulting from intense competition due to the overcapacity scenario in the industry. Despite the price variation clause (PVC) that acts as a barrier against unprecedented price movements in transformer orders, implementation of the same in the event of delayed deliveries remains a challenge. Furthermore, the escalating raw material prices and heightened competition level seen in the motors segment are likely to keep margins under check in the near term. 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 investments 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 the strong brand recognition it commands in the power transformer and industrial motor segment.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in electrical equipment manufacturing business - 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 transformer segment for its 220-KV class transformers up to the range of 200 MVA. 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 3.3–11KV. At present, it is involved in manufacturing motors ranging from 0.18KW (fractional kilo watt motors) to 1250KW. In the past it has also enhanced its technical capabilities by completing stringent safety norms for certifications 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 its scope of bidding avenues in the near term.

Strong liquidity profile aided by healthy cash balances, sizable liquid corporate deposits, high market value and 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 March 31, 2022.

Satisfactory order book renders near term revenue visibility - As on end March 2022, BBL’s unexecuted order book stood at a satisfactory level of Rs. 767 crore. In FY2022, the fresh order inflow surged to Rs. 1,148 crore from Rs. 1,024 crore in FY2021. This is attributable to an uptick in the motor business supported by scale up in activities in the cement and steel industries, which led to a surge in demand for industrial motors. This demand was also driven by the expansion initiatives of the Indian Railways, whereby old locomotive motors are being replaced by higher energy efficient, dual motors which can function both by electricity and fuels.

Credit challenges

Operations to remain inclined to investments in power and capital goods sectors; intense competition in transformer industry due to overcapacity leads to tepid margins - 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. 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 large capacity additions (especially in thermal and gas based units), leading to an overcapacity scenario, which in turn leads to stiff competition, limiting the pricing flexibility for most players in the segment.

Relatively 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, escalating raw material prices is likely to keep margins under check in the near term, which can impact the coverage indictors.

Elongated receivable cycle due to slow payments from SEBs - BBL's receivable days remain over 100 days due to elongated payment cycle from the SEBs. Nevertheless, the collection cycle was relatively faster in FY2022 to 102 over 126 days in FY2021, aided by an improved business environment after a waning pandemic.

Susceptible to variations in raw material prices; events of any non-applicability of PVC or invocation of LD clause can adversely impact near term profitability - Typically, ~80% of BBL’s 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 for manufacturing 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, where their rates are volatile, and immediate and full pass-on of the increase in costs to customers is not always possible.

Liquidity position: Strong

BBL does not have any long-term borrowings (except minor lease liabilities) and, thus, 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 remained relatively high at ~73% during the last 15 months. However given the flexibility the company carries in the form of sizeable deposits, along with stable interest and dividend income, 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 and sustained improvement in revenues and profitability levels, 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

Established in 1946, Bharat Bijlee Limited is a one of the leading electrical engineering companies in India. The company has two primary business segments—power systems that comprise the transformers and projects divisions; and the industrial systems segment comprising electric motors, drives and industrial automation, and elevator systems divisions. It caters to an array of industries such as power, refineries, steel, cement, railways, machinery, construction and textiles. Its project division undertakes turnkey projects (switch yards) and is well positioned to provide complete 'concept to commissioning' services.

Headquartered in Mumbai, BBL's sales and service network is spread across 13 regional offices in India. Its manufacturing facilities are on a 1,93,000-sq.m. campus at Airoli, Navi Mumbai, with a working area of approximately 50,000 sq.m. The company employs about 1,400 skilled personnel.

Key financial indicators (audited)

LTHL Consolidated	FY2021	FY2022
Operating Income (Rs. crore)	735.0	1,265.7
PAT (Rs. crore)	26.0	55.6
OPBDIT/OI (%)	5.8%	6.9%
PAT/OI (%)	3.5%	4.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.5
Total Debt/OPBDIT (times)	5.7	3.3
Interest Coverage (times)	2.2	3.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding, as on date (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					June 20, 2022	April 15, 2021	April 06, 2020	April 01, 2019
1	Fund based	Long-term and short term	340.00	--	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+
2	Non-fund based	Long-term and short term	470.00	--	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+
3	Unallocated	Long-term and short term	25.00	--	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term and short term - Fund based	Simple
Long-term and short term - Non-fund based	Simple
Long-term and short term -Unallocated	Not applicable

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.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	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	-	-	-	470.00	[ICRA]A+ (Stable) / [ICRA]A1+
NA	Unallocated limits	-	-	-	25.00	[ICRA]A+ (Stable) / [ICRA]A1+

Source: *Company*

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

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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.

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