

March 09, 2023

Bharat Electronics Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund Based Limits	500.00	500.00	[ICRA]AAA (Stable); reaffirmed
Long-term – Unallocated limits	300.00	300.00	[ICRA]AAA (Stable); reaffirmed
Short-term Non Fund-Based Facilities	4,500.00	4,500.00	[ICRA]A1+; reaffirmed
Total	5,300.00	5,300.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation draws comfort from Bharat Electronics Limited's (BEL) 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 Navratna defence public sector undertaking (DPSU), which leads to a sizeable inflow of orders on a nomination basis.

The assigned ratings also consider the strong order pipeline with unexecuted order book worth Rs. 50,116 crore as on January 01, 2023. This translates into a trailing order-book-to-operating-income ratio of 3.26 times (based on FY2022 operating income), providing adequate revenue visibility in the medium term. Moreover, BEL's pipeline of fresh orders remain healthy, supported by the Government's growing capital budget allocations and continued focus on rolling out enabling reforms to increase India's defence product manufacturing capability and gradually reduce imports. Additionally, the large defence offset requirements of foreign suppliers also provides opportunities for business growth over 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 focus on research and development (R&D) will continue to be strong mitigating factors. ICRA notes that BEL's consistent investment towards R&D has helped create a strong competitive moat by giving it the ability to develop latest generation products and services and gradually increasing the indigenisation of its product offerings, which have been the key pillars behind the company's healthy profit margins.

BEL has a strong financial profile, characterised by healthy profit margins and return indicators, nil borrowings and a superior 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. ICRA notes that while the company is trying to diversify its revenue base by increasing the share of orders from civil and export businesses, their contribution remains low. The ratings also factor in BEL's working capital intensive nature of operations due to high receivables/ inventory holding periods. ICRA also notes that BEL's operating profit margins remain vulnerable both to its high operating leverage (sizeable fixed expenses in the overall cost base) as well as input cost fluctuations in its fixed price defence contracts.

The Stable outlook reflects ICRA's expectation that BEL's financial profile is expected to remain strong, supported by its strategic importance as the major supplier of defence electronics equipment to the Indian defence forces and the high sectoral entry barriers, which would limit competition.

Key rating drivers and their description

Credit strengths

Defence Navratna PSU and a dominant supplier of electronic equipment to Indian defence forces – BEL is a defence PSU, with the GOI holding a 51.14% equity stake as on December 31, 2022. 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. Further, BEL's status as the largest domestic electronics manufacturer leads to benefits associated with the economies of scale. In addition, the Government ownership leads to a sizeable inflow of orders on a nomination basis (around 90%), providing a steady earnings stream to the company.

Strong pending order book provides healthy revenue visibility; large defence offset requirements of foreign suppliers also provide opportunities for business growth – The company's unexecuted order book as on January 01, 2023 stood at Rs. 50,116 crore. The trailing book to bill ratio stands at 3.26 times, which provides adequate revenue visibility over the medium term. Additionally, the Government's growing capital budget allocations in the defence sector (Rs. 1,62,600 crore for FY2024; YoY growth of 6.7%) and focus on rolling out enabling reforms to increase India's defence product manufacturing capability and gradually reduce imports are expected to support the order inflow in the medium-to-long term. Additionally, large defence offset requirements of foreign suppliers provide opportunities for business growth over 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, nil borrowings, superior liquidity and strong debt coverage metrics. The company reported an operating income of Rs. 15,368 crore in FY2022 with an operating profit margin of 21.7%. Supported by healthy order execution in the first nine months of FY2023, BEL reported a top line of Rs. 11,005 crore (~25% growth on a YoY basis) with an operating profit margin of 20%. With expectation of a strong fourth quarter performance, BEL's FY2023 full year revenues are expected to witness a healthy growth of 15% YoY.

Continued focus on R&D by BEL coupled with GOI's intent to increase share of indigenous procurement provides a unique competitive advantage – R&D has been the focus of BEL for increasing indigenisation and value addition in its products/systems. BEL has set up a 3-layer R&D structure namely Central Research Laboratories (CRL), Product Design and Innovation Centre (PD & IC) and Development & Engineering (D&Es) attached to strategic business units (SBUs). BEL's consistent investment towards R&D (7-9% of its revenues annually) has helped create a strong competitive moat by giving it the ability to develop latest generation products and services and gradually increasing the indigenisation of its product offerings, which have been the key pillars behind the company's healthy profit margins. Additionally, the GOI's increased focus on increasing indigenous procurement under 'Atmanirbhar Bharat' showcased through the announcement of the '4th Positive Indigenisation List' during the Def Expo 2022 provides a unique opportunity for BEL to build its future revenue streams through development of domestic capabilities.

Credit challenges

High dependence on defence sector for orders with limited export business – The Indian defence sector is BEL's major customer, accounting for ~85% of the turnover. In case of any change in the procurement policy of the defence forces or a significant cutback in defence spending, the company's revenue and order book position can be adversely impacted. BEL's revenue booking and cash flows are vulnerable to delays in project execution or final payment clearance in some cases owing to high concentration of the Government sector orders. BEL is targeting to gradually increase its share of non-defence revenues over the medium term. In addition, BEL is planning to increase its export footprint by targeting higher defence equipment exports to friendly countries. At present, the export order book stands at Rs. 2,000 crore however, export earnings are being targeted to grow moving forward with BEL opening overseas offices in 5-6 countries including Sri Lanka, Myanmar, Oman, and Vietnam to increase its export presence.

Moderate working capital intensive nature of operations, however, cushioned by healthy liquidity and significant customer advances – BEL's operations have generally remained working capital intensive in the past due to its high receivables and inventory holding requirement. Nonetheless, the company has been able to manage its working capital requirements through its internal cash accruals and sizeable customer advances. Additionally, BEL has adequate working capital lines, the utilisation of which has remained minimal, providing a comfortable liquidity headroom.

Environment and Social Risks

Environmental considerations – BEL, operating in the defence equipment manufacturing industry, requires various raw materials and also entails sizeable energy and water requirements for running its multiple facilities. To safeguard the environment against the impact of its operations, and possible regulatory action for violation of applicable environmental laws, BEL has tied up with various State Pollution Control Boards (PCB) for appropriately disposing/recycling solid hazardous waste, and has also installed 13.9 MW of wind power capacity and 5,101 KWp of cumulative grid connected rooftop solar power capacity, which together contribute 49.36% to the total energy requirement, helping lower its carbon footprint.

Social considerations – BEL has dependence on human capital and hence, retaining talent, maintaining healthy employee relationship, as well as supplier ecosystem remain essential for disruption free operations. Going forward, the company's ability to manage risks related to safety in the areas of process, and occupational health, while developing safety leadership capabilities, will remain the key factors from the social consideration perspective.

Liquidity position: Superior

The liquidity profile of BEL is superior, 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 a cash and bank balance of more than Rs. 4,000 crore as on September 30, 2022 along with sanctioned and unutilised fund-based borrowing facilities of Rs. 500 crore, providing a comfortable liquidity headroom. Given the low leverage, and its strategic importance to the GOI, the company enjoys a high degree of financial flexibility, allowing its access to raise funds from financial intermediaries as and when required.

Rating sensitivities

Positive factors – Not applicable.

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating approach- Implicit parent or group Support
Parent/Group support	Parent: Government of India. The assigned ratings factor in the strategic importance that BEL holds by being the largest domestic defence electronics manufacturer, which ICRA expects should induce the GOI to extend timely financial support to the rated entity, should there be a need.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of BEL. As on March 31, 2022, the company had two subsidiaries and two associates that are enlisted in Annexure-2.

About the company

BEL, a Navratna 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 former contributing the largest share to the company's total revenue and profits.

Key financial indicators (audited)

BEL Consolidated	FY2021	FY2022	H1 FY2023	9MFY2023
Operating income	14108.7	15368.2	7102.2	11,255.30
PAT	2099.8	2400.2	990.7	1,604.20
OPBDIT/OI	22.8%	21.7%	19.6%	20.0%
PAT/OI	14.9%	15.6%	13.9%	14.25%
Total outside liabilities/Tangible net worth (times)	1.6	1.7	1.5	-
Total debt/OPBDIT (times)	0.0	0.0	0.0	-
Interest coverage (times)	504.0	661.6	502.0	180.47

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on September 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Mar 09, 2023	Jan 14, 2022	Feb 17, 2021	Feb 17, 2020
1 Fund-based	Long term	500.0	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2 Unallocated	Long term	300.0	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3 Non-fund based	Short term	4,500.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4 Commercial Paper	Short term	0.0	-	-	-	[ICRA]A1+; withdrawn	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based limits	Simple

Long-term – Unallocated limits	Not applicable
Short-term Non Fund-Based Facilities	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 analysing 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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based limits	NA	NA	NA	500.0	[ICRA]AAA (Stable)
NA	Unallocated limits	NA	NA	NA	300.0	[ICRA]AAA (Stable)
NA	Non-fund based Facilities	NA	NA	NA	4,500.0	[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	BEL Ownership	Consolidation Approach
BEL Optronics 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 FY2022; ICRA has taken a consolidated view of the parent (BEL), its subsidiaries and associates while assigning the ratings

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