

Bharat Electronics Limited

February 15, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based	500.0	500.0	[ICRA]AAA(Stable); reaffirmed
Non-fund Based	3,500.0	3,500.0	[ICRA]A1+; reaffirmed
Term Loan	100.0	100.0	[ICRA]AAA(Stable); reaffirmed
Commercial Paper	5.0	5.0	[ICRA]A1+; reaffirmed
Long Term - Unallocated	0.0	200.0	[ICRA]AAA(Stable); reaffirmed
Total	4,105.0	4,305.0	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation draws comfort from the majority ownership by the Government of India (GoI) in Bharat Electronics Limited (BEL) as well as BEL's strategic position as a dominant supplier of electronic equipments to the Indian defence forces. The assigned ratings consider the strong order pipeline as reflected by the unexecuted order book of Rs. 48,402 crore as on January 01, 2019. Though competition from the private sector is likely to intensify in the medium to long term, BEL's established track record, large manufacturing capacities (with adequate pool of trained manpower) and research and development (R&D) capabilities will continue to be strong mitigating factors. The GoI's increased focus on indigenisation with the Make in India policy, mandatory offset policy for Indian defence procurement, and BEL's new joint ventures (JVs) and technology tie-ups are expected to augur well for the company's future growth. BEL has a strong financial risk profile characterised by healthy profit margins and return indicators, low leverage 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. Nonetheless, ICRA notes that BEL has generated sizeable revenues through the sales of Electronic Voting Machines and Voter Verifiable Paper Audit Trails in FY2019. The working capital intensity increased as on March 31, 2018 due to an increase in advances to vendors and unbilled revenues on account of long gestation periods. The increase in working capital intensity, combined with the sizeable capital expenditure, may result in an increase in the external borrowings, going forward. ICRA notes the reduction in profit margins for the defence-led projects awarded by the Ministry of Defence (MoD) on nomination basis to 7.5% from 12.5%, which can impact BEL's profitability in the long run. 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.

Outlook: Stable

ICRA expects BEL to continue to benefit from its majority ownership by the GoI, its strategic importance as the major supplier of defence electronics equipment to the Indian defence forces, and the high entry barriers. The outlook may be revised to Negative in case of higher-than-expected debt levels, or if there is any weakening of BEL's market position due to an adverse change in the procurement policy of the Indian defence forces.

Key rating drivers

Credit strengths

Majority ownership by GoI; strategic importance to Indian defence forces - The GoI is BEL's majority stakeholder with a 61.93% holding currently, which ICRA notes has reduced from 75.86% as of March 2013. The company is of strategic importance to the country, 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, 2019 stood at Rs. 48,402 crore. The unexecuted order book reached an all-time high in FY2019 after it bagged a Rs. 9,200-crore order for the supply of seven long-range surface-to-air missiles. The order book stands at ~4.69 times of the FY2018 operating income, which provides adequate revenue visibility in the medium term.

Strong financial profile supported by negligible bank borrowings - BEL's financial profile remains strong on account of healthy profitability and return indicators, negligible 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, established 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 with reduced market share. Due to 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. Nonetheless, ICRA notes that BEL has generated sizeable revenues through the sales of Electronic Voting Machines and Voter Verifiable Paper Audit Trails in FY2019.

Increase in working capital intensity - BEL's working capital intensity increased in FY2018 due to an increase in advances to vendors and unbilled revenues on account of long gestation periods (wherein the payment milestones were not reached as on March 31, 2018). The increase in working capital intensity and the sizeable capital expenditure may result in an increase in the external borrowings, going forward.

Reduction in margin of prospective contracts - The MoD has reduced the benchmark margin on prospective contracts awarded on nomination basis for both value-added and bought-out components to 7.5% from 12.5%. This can impact BEL's profitability in the long run.

Liquidity position

BEL has healthy liquidity in the form of undrawn and available fund-based borrowing facilities of Rs. 500 crore as on date. The company had a cash balance of ~Rs. 600 crore as of January 2019. It has negligible debt as on date and the financial flexibility to raise fresh debt capital for its capex plans, if required.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Ratings: A Note on 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, 2018, the company had two subsidiaries and one JV that are enlisted in Annexure-2.

About the company

BEL, a defence public sector undertaking (DPSU), was established in 1954 under the MoD, GoI to cater to the electronic equipment requirements of the defence sector. The GoI remains BEL's largest shareholder with the current shareholding of 61.93%. BEL was conferred with 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 located 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 (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	8,668.3	10,400.8
PAT (Rs. crore)	1,497.0	1,407.3
OPBDIT/OI (%)	20.6%	19.6%
RoCE (%)	24.9%	27.5%
Total Debt/TNW (times)	0.0	0.0
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	138.7	929.3
NWC/OI (%)	19.0%	37.1%

Status of non-cooperation with previous CRA: Not available

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018			Date & Rating in FY2017
					Feb-19	Feb-18	Mar-17	Apr-16
1 Fund-based	LT	500.0	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
2 Term Loan	LT	100.0	41.7	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	
3 Non-fund Based	ST	3,500.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
4 Commercial Paper	ST	5.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
5 Unallocated	LT	200.0	-	[ICRA]AAA (Stable)	-	-	-	

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	Non-fund Based	-	-	-	3,500.0	[ICRA]A1+
NA	Term Loan	March 2017	-	March 2020	100.0	[ICRA]AAA(Stable)
NA	Commercial Paper	Yet to be issued	-	-	5.0	[ICRA]A1+
NA	Unallocated	-	-	-	200.00	[ICRA]AAA(Stable)

Source: Bharat Electronics Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
BEL Optronics Devices Limited	100.00%	Full Consolidation
BEL Thales Systems Limited	74.00%	Full Consolidation
GE BE Pvt Ltd	26.00%	Equity Method

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