April 06, 2020

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

Summary of rated action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	275.00	300.00	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed
Non-fund Based Limits	400.00	368.00	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed
Unallocated Limits	-	82.00	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed
Total	**675.00**	**750.00**	

-**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to take into account the extensive experience of the promoters of Bharat Bijlee Limited (BBL) in the electrical equipment manufacturing business, as well as the company's status as a leading player with strong brand recognition in the domestic transformer and electrical motor manufacturing segment. The rating also factors in the healthy growth in BBL's operating income in the past two fiscals aided by an uptick in the industrial motor division, due to scale-up activities in the key consuming sectors, coupled with steady order execution in the transformer segment. In addition, the Government's push towards sales of energy efficient motors benefitted technology-proven companies like BBL. This helped the company to strengthen its competitive position against unorganised players as well as Chinese imports. However, in 9M FY2020, the growth in operating income remained flat mainly due to selective picking of remunerative orders in its transformer segment to maintain the contribution levels, thereby building pressure on its volume sales. Furthermore, the rapidly spreading novel coronavirus pandemic and the reactionary unprecedent lockdown in India, which if stretches beyond the anticipated period can lead to near term challenges in execution. However, alternative strategies, such as running longer shifts once production begins again, should aid in ramp up of operations, if required.

ICRA, however, will continue to monitor the developments regarding the Covid-19 disruptions closely. Nevertheless, the recent augmentation in the company's unexecuted order book position, which stood at Rs. 809 crore as on end February 2020 provides near-term revenue visibility. The rating further draws significant comfort from the company's robust liquidity profile, aided by its healthy cash position and sizeable liquid investments on the books.

The rating, however, remains constrained by the company's relatively moderate margin levels, primarily in the transformer segment, which also kept its coverage indicators under check. Nevertheless, the rising share of revenues from its service income and margin commanding motor segment have supported the steady margin expansion in past fiscals. The rating remains constrained by the working capital intensive nature of BBL's business, due an elongated receivable position resulting from the slow realisation of payments, particularly from the state electricity boards (SEBs). The rating also remains constrained by the susceptibility of the company's profitability to unprecedented movements in raw material prices, primarily in case of fixed-price contracts. Further, BBL's operations are intricately linked to a strong revival of investment activity in 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 withstand any cost escalations in the anticipated lockdown period, given the strong liquidity profile.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in electrical equipment manufacturing - BBL's promoters have experience spanning 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, further reinforced by completion of stringent safety norm certifications - In the transformer segment, BBL has a strong presence in power transformers 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 3.3–6.6KV. At present, it is involved in the manufacturing of motors ranging from 0.12KW (fractional kilo watt motors) to 1,250KW motors. Off late, the company has enhanced its technical capabilities with the completion of the stringent safety norm certification issued by notified international bodies and 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.

Comfortable liquidity from healthy cash balances and sizeable liquid investments - BBL's liquidity position remains comfortable aided by healthy unencumbered cash balances and considerable liquid investments (in the form of equities, corporate deposits, and cash and bank balances) aggregating to Rs. 627.47 crore (as per IND AS) as on March 31, 2019.

Expanding operating margin in past two fiscals; augmentation in order book renders near term revenue visibility – Higher quantum of remunerative orders particularly in the motor segment, rising share of service and maintenance income and retention of contribution levels in the transformer segment expanded the company's operating profitability. The operating margin improved to 6.65% in FY2019 from 4.98% in FY2018; it further surged to 7.15% in 9M FY2020. Nevertheless, the company's operating margin continues to remain at moderate levels largely due to limited price flexibility in the transformer business. As on end February 2020, the company's unexecuted order has witnessed a major surge to Rs. 809 crore from Rs. 566 crore as on end December 2020. This is attributable to two major orders bagged by BBL in mid-February to the tune of ~Rs. 286 crore from SEBs in the transformer division. This renders healthy revenue visibility in the near term.

Credit challenges

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). However, steady expansion of the operating profitability resulted in a consistent improvement in the coverage indicators in the last few fiscals.

Elongated receivable cycle due to slow payments from SEBs - BBL's receivable days remain over 100 days due to slow payments from SEBs. In FY2019, the company's debtor days moderated to 107 days from 142 days in FY2018. Nevertheless, the debtors more than six month has spiked to over ~Rs. 25 crore as on December 31, 2019, owing to a delayed payment of ~Rs. 15 crore from a state electricity board.

Susceptible to variations in raw material prices; risk accentuated by fixed-price contracts - In the manufacturing of transformers and motors, the procurement cost of copper and cold rolled grain oriented (CRGO) steel accounts for over 60% of the total raw material cost. BBL enters two types of contracts with its customers—fixed-price contracts and price variant contracts (PVCs). The equipment supplies contracts with the state utilities contain a PVC, in accordance with the price index[1] of Indian Electrical and Electronics Manufacturers' Association (IEEMA). This index essentially captures the risk of any increase in basic raw material prices during the period between the time of bidding and the time of actual purchases of raw materials (which could be three to four months). Typically for BBL, ~80% of the contracts for transformers have price variation clauses, 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 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.

Intense competition in transformer industry due to overcapacity - 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.

Operations to remain inclined to investments in power and capital goods sectors, coupled with cascading impact of COVID-19 outbreak and reactionary unprecedent lockdown in India - 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. Further, the rapidly spreading novel coronavirus resulting in reactionary unprecedent shutdown in India to contain the highly contagious disease, is likely to impact the production operation due to factory lockdown. Any stretch in lockdown beyond the anticipated period can lead to near term execution challenges; however, with alternatives like running more shifts, if required, for augmentation of production, is likely to aid in execution. The company's ability to ramp up its production activities after the cease of the lockdown period and ability to swiftly recoup the lockdown period losses will remain critical from the rating point of view and, hence, monitorable.

Liquidity position: Strong

BBL does not have any long-term borrowings, and thus has no scheduled repayment obligations. Furthermore, the company has sizable liquid investments in the form of equities, corporate deposits, and unencumbered cash and bank balances, leading to a zero-net debt position over the last many years. The fund-based utilisation levels also remained at ~60% during the last 12 months, reflecting an undrawn buffer available from the same. Hence, on an aggregate basis, the company's liquidity profile remains robust.

Rating sensitivities

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

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[1] *The price index, devised by IEEMA in 2003, has now been adopted uniformly by all SEBs following negotiations over the last three years.*

Negative Triggers –The rating may be downgraded if cash accrual is lower than expected (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, and 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 FY2019, as per the audited results, the company reported a net profit of Rs. 41.53 crore on an OI of Rs. 933.21 crore compared to a net profit of Rs. 60.87 crore on an OI of Rs. 774.89 crore in FY2018.

Key financial indicators (audited)

	FY2018 IND AS	FY2019 IND AS
Operating Income (Rs. crore)	774.89	933.21
PAT (Rs. crore)	60.97	41.53
OPBDIT/ OI (%)	4.98%	6.65%
RoCE (%)	11.07%	8.90%
Total Debt/ TNW (times)	0.31	0.27
Total Debt/ OPBDIT (times)	5.56	3.21
Interest Coverage (times)	1.68	3.11
NWC/ OI (%)	31%	25%

Source: BBL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					06-April 2020	01-April 2019	-	09-Feb
1	Fund-based	Long Term/ Short	300.00 (enhanced from	-	[ICRA]A+(Stable)/ [ICRA]A1+	[ICRA]A+(Stable)/ [ICRA]A1+	-	[ICRA]A (Stable)/ [ICRA]A1
2	Non-fund Based	Long Term/ Short	368.00	-	[ICRA]A+(Stable)/ [ICRA]A1+	[ICRA]A+(Stable)/ [ICRA]A1+	-	[ICRA]A (Stable)/ [ICRA]A1
3	Unallocated Limits	Long Term/ Short	82.00	-	[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 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	Cash Credit/ WCDL/ Short-term Borrowings	-	-	-	300.00	[ICRA]A+(Stable)/[ICRA]A1+
NA	Bank Guarantee and Letter of Credit	-	-	-	368.00	[ICRA]A+(Stable)/[ICRA]A1+
NA	Unallocated limits	-	-	-	82.00	[ICRA]A+(Stable)/[ICRA]A1+

Source: BBL

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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