

February 02, 2017

## BEML Limited

Instruments	Amounts	Rating Action
	(Rs. crore <sup>1</sup> )	
Fund based facilities	1,000.0	[ICRA]A+ (Stable) / Rating outstanding
Non-fund based facilities – BG	1,200.0	
Non-fund based facilities – LC	550.0	[ICRA]A1+ / Rating outstanding
Non Convertible Debentures	300.0	[ICRA]A+ (Stable) / Rating outstanding

\* Instrument details are provided in Annexure I

### Rating Action

ICRA has ratings outstanding of [ICRA]A+ (pronounced ICRA A plus) and [ICRA]A1+ (pronounced ICRA A one plus) on the Rs.2,750.00 crore fund-based and non-fund based facilities of BEML Limited (BEML)<sup>2</sup>. ICRA also has rating outstanding of [ICRA]A+ (pronounced ICRA A plus) on the Rs.300.00 crore non-convertible debentures programme of BEML Limited. The outlook on the long term rating is Stable.

### Rationale

ICRA has taken note of the recent announcement about the 'in-principal' approval of the Cabinet Committee on Economic Affairs (CCEA) of the Government of India (GoI), for strategic disinvestment of 26% equity shares in BEML Limited out of Government of India shareholding of 54.03%, reducing the GoI stake to 28.03%. The said stake would be sold to the strategic buyer/s to be identified by the GoI by following due procedure. ICRA will continue to monitor the developments in this regard and the impact of the same on the business and credit profile of the company. ICRA will take appropriate action as and when further details are available.

### Key Rating Drivers

#### Credit Strengths

- Government of India (GoI) stake of 54.03% in the Company; strategic importance as a PSU under the Ministry of Defence (MoD)
- Established presence in the mining segment with a diversified product portfolio; market leader in the Indian Earth Moving (EM) equipment industry (especially in the heavy tonnage segment) with the largest equipment population on the ground
- Strengthening presence in the Railways and Metros (R&M) business providing diversification related benefits and enhancing growth prospects
- Resolution of issues surrounding discrepancies in Tatra truck supply contract to aid in reviving revenues from relatively high margin defence business
- Wide spread service network, which helps in maintaining its strong presence in the mining segment
- Robust order book position across divisions to support business growth; enhances near term revenue visibility
- Comfortable capital structure with relatively low gearing (0.3x as on March 31, 2016)
- Favourable long term potential for mining and construction equipments (MCE) in India given the current low levels of penetration and large proposed investment on infrastructure by the GoI / State Governments over the medium term

<sup>1</sup> 100 lakhs = 1 crore = 10 millions

<sup>2</sup> For complete rating scale and definitions, please refer ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA Rating Publications

**Credit Weakness**

- Industry vulnerable to cyclical downturns; reflected in BEML's financials during the past four years
- Operating performance continues to remain impacted on account of sub-optimal capacity utilization in the MCE and Defence businesses
- Working capital position – albeit improving – remains stretched on account of high inventory days in the EM segment owing to weak off take of equipment and large projects with long lead time
- Private players, especially multi-national majors strengthening their presence in India. Besides increasing competition, these developments may erode some of the advantages traditionally enjoyed by BEML by virtue of it being a PSU
- High price-based competition in the wake of subdued demand scenario leading to restrained pricing power and the resultant adverse impact on the company's margins
- Coverage metrics impacted owing to low profitability; although reduction in debt levels provides some support.

**Description of key rating drivers highlighted above:**

BEML is a Public Sector Undertaking (54.03% held by the Government of India) engaged in manufacturing of wide range of heavy earthmoving equipment catering to the mining and construction industry, equipments and vehicles for the Defence Forces and coaches for the Metro and Indian Railways. The company's revenues remain reasonably diversified across divisions which has aided it in maintaining revenue stability in the face of sluggishness in the mining and construction industry over the past few years. During FY2016, BEML reported moderate 6.3% growth in revenues despite sluggishness in its earthmoving (EM); and railways & metro (R&M) divisions mainly driven by strong surge in revenues from the defense business where the company has resumed supplies of Tatra-based high mobility vehicles to the Ministry of Defence (MoD).

The company's credit profile remains comfortable marked by conservative capital structure, moderate debt protection metrics and liquidity profile. The company's operating performance however has been significantly weaker during H1 FY2017 owing to slower off-take across verticals. This also resulted in significant operating losses of Rs.87.8 crore for H1 FY2017 – attributed mainly to sub-optimal capacity utilizations. Nevertheless, strong order book position – in excess of Rs.7,000.0 crore as on November 30, 2016 – across business divisions; significantly enhances revenue visibility and supports the company's business growth prospects. While intense competition in the mining and construction equipment industry is likely to exert pressure on BEML's growth and pricing flexibility to some extent, ICRA notes that its strong market position, especially in the heavy tonnage EM equipment, aided by long term association with key customers and wide service network is expected to aid in reviving overall revenue growth.

Relatively long production cycles in the R&M division, finished goods inventory in the EM division and elongated receivable cycle has lead to high working capital intensity for the company (62.9% in FY2016). ICRA takes note of the company's continued efforts towards lowering inventory levels over the last three years. Going forward, the company's ability to liquidate its large finished goods inventory over the immediate term, improve its working capital intensity and revive revenue growth and margins while maintaining a healthy capital structure would remain key rating sensitivities.

**Analytical approach:** For arriving at the ratings, ICRA has taken a consolidated view of BEML Limited and its subsidiary.

**Links to applicable Criteria:**

Corporate Credit Rating –A Note on Methodology

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

**About the Company**

BEML Limited (BEML), erstwhile Bharat Earth Movers Limited, which 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. Structured into three main divisions, the company manufactures a wide range of heavy earthmoving equipment catering to the mining and construction industry, equipments and vehicles for the Defence Forces and coaches for the Metro and Indian Railways. In addition to design & development of new products/aggregates by in house R&D team, the Company has entered into arrangements with M/s Rotem, South Korea, M/s Bumar Labedy, Poland etc. for specific products in the areas of Rail & Metro, Defence business.

**Recent Results**

For H1 FY2017, the company reported net loss of Rs.123.7 crore on operating income of Rs.799.2 crore as against net loss of Rs.92.7 crore on operating income of Rs.1,319.4 crore during the same period previous fiscal. During FY2016, the company posted net profit of Rs.53.1 crore on operating income of Rs.2,977.7 crore as against net profit of Rs.5.9 crore on operating income of Rs.2,802.1 crore during FY2015.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**
**Table: Rating History**

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				<b>Sept 16</b>	<b>Aug 2015</b>	<b>Sep 2014</b>	<b>Sep 2013</b>
1	Fund based limits	LT	1,000.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Bank Guarantee	LT	1,200.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Letter of Credit	ST	550.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Non Convertible Debentures	LT	300.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (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](http://www.icra.in)

**Annexure-1**
**Details of Instrument**

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Fund based limits	-	-	-	1,000.00	[ICRA]A+ (Stable)
Bank Guarantee	-	-	-	1,200.00	[ICRA]A+ (Stable)
Letter of Credit	-	-	-	550.00	[ICRA]A1+
Non Convertible Debentures	March 2012	9.24%	March 2022	300.00	[ICRA]A+ (Stable)

Source: BEML Limited

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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. For more information, visit [www.icra.in](http://www.icra.in)

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