

September 21, 2017

BEML Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund based facilities	1,000.0	[ICRA]A+ (Stable); Reaffirmed
Non- fund based facilities	1,200.0	[ICRA]A+ (Stable); Reaffirmed
Non- fund based facilities	550.0	[ICRA]A1+; Reaffirmed
Non - Convertible Debentures	300.0	[ICRA]A+ (Stable); Reaffirmed
Total	3,050.0	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus)¹ to the Rs.1,000.0 crore fund based facilities, the Rs.1,200.0 crore non-fund based facilities and the Rs.300.0 crore non-convertible debentures programme of BEML Limited (BEML/ the company). The outlook on the long term rating is stable. ICRA has also re-affirmed the [ICRA]A1+ (pronounced ICRA A One plus) rating to the Rs.550.0 crore non-fund based facilities of BEML.

Rationale

The rating reaffirmation continues to factor's in BEML's the company's established position across business segment (Earthmoving (EM), Rail & Metro (RM) and Defence) and its diversified revenue profile. During FY2017, the company reported a 15.3% decline in operating income; this was mainly on account of lack of orders from Indian Railways for rolling stock change of a large metro contract from all-material) to job-work and steep decline in the placement of orders by coal companies, however the 34% growth in defence segment supported the overall performance of the company. Operating and net margins for the company during FY2017 improved and stood at (7.8% (PY 5.8%) and 3.3% (PY 2.1%) respectively), this was mainly on account of high margin defence business share in revenues and the change of one metro order to job work.

The strong order book position- in excess of Rs. 7,500 crore across business divisions significantly enhances revenue visibility and support's the business growth prospect of the company in FY2018. The ratings also factors BEML strong market position, aided by its long term association with key customers and wide service and support network. The company's financial profile is characterized with sound capital structure, moderate debt protection metrics and comfortable liquidity position.

The ratings continue to factor in the long production cycle, high finished goods inventory and elongated receivable cycle which has lead to high working capital intensity for the company (NWC/OI of 71.5% in FY2017 up from 61.8% in FY2016). However, the same has been funded through internal accruals; utilisation on working capital limits stood at an average of 23.4% for the 12 month period ended March 31, 2017. The ratings also take into account increasing competition in the industry which is likely to exert pressure on BEML's growth and pricing flexibility to some extent. Going forward, the company's ability to liquidate its large finished goods inventory and reduce its debtor days thereby improving its working capital intensity and revive revenue growth while maintaining a healthy capital structure would remain key rating sensitivities.

¹ For complete rating scale and definitions, please refer ICRA's website (www.icra.in) or other ICRA Rating Publications

Given the considerable comfort drawn from the parentage parentage (54.03% held by Government of India), any large divestment (as detailed in the ICRA rationale dated February 02, 2017) could have an impact; ICRA will continue to monitor this development.

Key rating drivers

Credit strengths

- **Established presence under various business segment** - Established presence with a diversified product portfolio; wide spread service network, helps maintain its strong presence in Earthmoving division (EM). Strengthening presence in the Metro business provided diversification related benefits and enhances growth prospects. The company's role as a nodal agency for sourcing for the MoD is expected to support defence revenues going forward.
- **Strong relationship with its customers** - The company has strong relationships with its customers like Coal India Limited, Neyveli Lignite Corporation Limited, Associated Cement Company Limited, Steel Authority of India Limited etc which has enabled it in sustaining its wallet share in EM segment
- **Healthy financial profile of the company** - The company's financial profile is characterized with sound capital structure, moderate debt protection metrics and comfortable liquidity position.
- **Strong parentage support from Govt. of India** - Government of India (GoI) stake of 54.03% in the company; strategic importance as a PSU under the Ministry of Defence (MoD). Any large divestment could have an impact on the company.

Credit weaknesses

- **High competitive intensity from several players in the market** – Intense competition restrains pricing power; limits growth to some extent
- **Company is vulnerable to cyclical downturn in the industry**- The company is exposed to the cyclicity of the EM industry, which is reflected in the financials of the company
- **High working capital intensity resulting from high inventory levels** - BEML's working capital intensity has remained stretched primarily on account of significantly high inventory holding and elongated receivable cycles.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Construction Equipment Manufacturers](#)

About the company:

BEML Limited (BEML / the company), 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.

In FY2017, The Government of India (GoI), Ministry of Defence, has communicated in-principal approval of the Cabinet Committee on Economic Affairs (CCEA) of the Government of India, for strategic disinvestment of 26% equity shares in BEML Limited out of Government of India shareholding of 54.03%. The said shareholding would be sold to the strategic buyer/s to be identified by the Government of India by following due procedure. The aforesaid divestment process is likely to be completed over the next 12-18 months.

Structured into three main divisions, the company manufactures a wide range of heavy earthmoving equipment catering to the mining and construction industry, vehicles for the Defence Forces and coaches for the Metro and Indian Railways.

Key Financial Indicators (Consolidated)

Fiscal (Rs. In crore) (Audited)	FY2016	FY2017
Operating Income	2,999.2	2,359.3
PAT	64.4	84.8
OPBDIT/ OI	5.8%	7.8%
RoCE	5.3%	6.0%
Total Debt/ TNW	0.3	0.2
Total Debt/ OPBDIT	3.3	2.2
Interest coverage	3.1	3.6
NWC/ OI	61.8%	71.5%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S · N o.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
					September 2017	September 2016	August 2015	September 2014	
1	Fund based facilities	Long Term	1,000.0	114.7	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
2	Non- fund based facilities	Long Term	1,200.0	1,200.0	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
3	Non- fund based facilities	Short Term	550.0	130.0	[ICRA]A1 +	[ICRA]A1 +	[ICRA]A1 +	[ICRA]A1 +	
4	Non Convertible Debentures	Long Term	300.0	300.0	[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

Annexure-1
Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Fund based facilities	-	-	-	1,000.0	[ICRA]A+ (Stable)
	Non- fund based facilities	-	-	-	1,200.0	[ICRA]A+ (Stable)
	Non- fund based facilities	-	-	-	550.0	[ICRA]A1+
INE258A07013	Non Convertible Debentures	May 18, 2012	9.24%	FY2021	100.0	[ICRA]A+ (Stable)
INE258A07021	Non Convertible Debentures	May 18, 2012	9.24%	FY2022	100.0	[ICRA]A+ (Stable)
INE258A07039	Non Convertible Debentures	May 18, 2012	9.24%	FY2023	100.0	[ICRA]A+ (Stable)

Source: the company

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