

BEML Limited

October 29, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Amount (Rs. crore)	Rated	Rating Action
Fund based facilities	1,000.0	1,000.0	1,000.0	[ICRA]A+ (Stable); Reaffirmed
Non-fund-based facilities	1,200.0	1,200.0	1,200.0	[ICRA]A+ (Stable); Reaffirmed
Non-fund-based facilities	550.0	550.0	550.0	[ICRA]A1+; Reaffirmed
Non-convertible debentures	300.0	300.0	300.0	[ICRA]A+ (Stable); Reaffirmed
Total	3,050.0	3,050.0	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 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 factors in the strategic importance of BEML as a government appointed nodal agency for defence procurement in the country, and its strategic importance as an Indian manufacturer of metro coaches, rolling stock and specialised railway coaches. The company is a public sector undertaking with the GoI holding 54.03% stake.

The company has a diversified revenue source across three key business verticals: earthmoving (EM), rail & metro (RM) and defence. During FY2018, the company reported a stellar growth of 28% yoy, recording its highest revenues of Rs. 3,251 crores supported by ~86% yoy growth in its RM segment and ~13% yoy growth in its EM segment. This follows over five years of muted revenue growth (CAGR of ~3% during FY14-18). In line with the growth in revenues, operating and net margins expanded and stood at 8.3% (PY 7.8%) and 4.0% (PY 3.3%) respectively in FY2018. The company's financial profile is characterized by sound capital structure with total debt/net worth at 0.2 times and moderate debt protection metrics with total debt/OPBITDA at 1.6 times as on March 31, 2018.

ICRA also takes comfort from the company's strong market position in the EM segment, supported by its longstanding relationship with a reputed customer base comprising of various PSUs. BEML's strong service network also supports its share of business in the earthmoving equipment segment where the company is the largest supplier of equipment to Coal India Limited (CIL) & its subsidiaries; CIL & its subsidiaries accounted for ~9% of the company's revenues in FY2018. The healthy order book of Rs. 6,700 crores as on March 31, 2018 further provides revenue visibility to BEML.

However, the ratings are constrained by the relatively modest margins with increasing competition in the industry impacting its pricing flexibility. Although improved, working capital intensity remains high with NWC/OI at 56% as on March 31, 2018 (PY 72%), on account of long production cycle, elongated receivable cycle and high inventory holdings. Revenues are highly susceptible to deferment on account of dependence on Coal India Limited (CIL) and other PSUs for

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

tender finalization. In addition to this, the company has high dependence on a few key customers such as Delhi Metro Rail Corporation Limited (~30% of revenues) and CIL & its subsidiaries.

Reducing its working capital intensity and improving its margins while maintaining a healthy capital structure will be key rating sensitivities. ICRA will continue to monitor the GoI's plans to reduce stake in the company.

Outlook: Stable

ICRA believes BEML will continue to benefit from its market position, strong relationship with its customers, diversified product portfolio and its strategic importance to GoI. The outlook may be revised to Positive if substantial growth in profitability, and improvement in working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure, or high payment of dividends, or further stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Strong market position in various business segment- Under the EM segment (contributing ~31% to the company's revenues in FY2018), BEML enjoys a dominant market share supported by a diversified product portfolio and its wide spread service centres. In the RM segment (contributing ~31% to revenues in FY2018), BEML caters to various metro projects and maintenance requirements of Indian railways. The company has won an order book of ~Rs. 2,400 crores as on Sept 30, 2018 under the RM segment, which further enhances revenue visibility for the company. The company's role as a nodal agency for sourcing by the Ministry of Defence (MoD) underlines its strategic importance to the GoI and is expected to support its defence revenues going forward.

Healthy order book lends revenue visibility - The company has a strong order book of Rs. 6,700 crores as on March 31, 2018 with orders across all of its segments. While a healthy order book provides revenue visibility, it may be noted that, historically, BEML has enjoyed strong order book position which has not necessarily translated into revenues owing to procedural delays and deferment of deliveries from its key customers.

Longstanding relationships with a reputed customer base comprising of PSU companies: The company has strong relationships with PSU companies like Coal India Limited & its subsidiaries, Neyveli Lignite Corporation Limited, Associated Cement Company Limited etc which supports BEML in sustaining its wallet share in the EM segment. The company is also nominated by MoD for various projects which further enhances its business prospects.

Strong growth in revenues supported by healthy capital structure: Supported by the growth across its various segment, the company registered a strong improvement in all the revenue and profitability indicators, with operating margins improving to 8.3% in FY2018. Total debt/OBITDA and OPBITDA/interest improved to 1.6 times and 5.0 times, respectively, as on March 31, 2018 from 2.2 times and 3.6 times, respectively, as on March 31, 2017. ICRA expects the company to witness 10-12% growth in revenues with expansion in margins by 50-80 bps over next two years supported by existing order book and expected uptake in mining industry with CIL increasing its coal production target.

Credit challenges

High competition from private players- Private players, especially MNC majors are 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 competition further impacts pricing flexibility, reducing BEML's possibility to expand its margins.

Stretched working capital cycle: In line with the nature of its operations, BEML has long production cycle leading to high inventory holding. With PSUs and MoD as its key customers, receivable cycle is long for the company. However, the company has sanctioned fund based and non-fund based limits of Rs.2,750 crores from various banks, which supports the company in efficient management of working capital. Average working capital utilization (including both fund-based and non-fund based facilities) for a 12-months period ending in June 30, 2018 was 77%. High inventory on unsold equipment in the EM division and long manufacturing lead time in the other segments has further stretched the working capital cycle. Ability to reduce receivables and inventory holding is critical for the ratings.

High susceptibility of revenue deferment: As the company depends on CIL and other PSUs for finalization of tenders, revenues are susceptible to deferment despite the high build up in orderbook.

High customer concentration: BEML derived ~30% of its revenues from Delhi Metro Rail Corporation Limited in FY2018, followed by CIL & its subsidiaries contributing ~9% of BEML's revenues in FY2018, leading to high customer concentration risk. However, the same is mitigated to some extent through strong relationship enjoyed by the company with these customers.

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 Mining and Construction Equipment](#)

About the company:

BEML Limited, erstwhile Bharat Earth Movers Limited, 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.

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 (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	2,539.3	3,251.4
PAT (Rs. crore)	84.8	129.7
OPBDIT/OI (%)	7.8%	8.3%
RoCE (%)	6.0%	8.6%
Total Debt/TNW (times)	0.2	0.2
Total Debt/OPBDIT (times)	2.2	1.6
Interest coverage (times)	3.6	5.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)						Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating October 2018		Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
						Sept 2017	Sept 2016	Aug 2015	
1 Fund based facilities	Long term	1,000.0	-	[ICRA]A+ (Stable)		[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
2 Non-fund-based facilities	Long term	1,200.0	-	[ICRA]A+ (Stable)		[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
3 Non-fund-based facilities	Short term	550.0	-	[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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based facilities	NA	NA	NA	1,000.0	[ICRA]A+ (Stable)
NA	Non-fund-based facilities	NA	NA	NA	1,200.0	[ICRA]A+ (Stable)
NA	Non-fund-based facilities	NA	NA	NA	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%	FY2021	100.0	[ICRA]A+ (Stable)

Source: BEML

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408

subrata@icraindia.com

Pavethra Ponniah

+91 44 4596 4300

pavethrap@icraindia.com

Resham Trivedi

+91 80 4332 6407

resham.trivedi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents