

February 17, 2020

Bharat Electronics Limited: Rating reaffirmed at [ICRA]AAA (Stable) and [ICRA]A1+

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|-------------------------|--------------------------------------|-------------------------------------|--------------------------------|
| Fund-based limits | 500.0 | 500.0 | |
| Long Term - Unallocated | 200.0 | 200.0 | [ICRA]AAA (Stable); reaffirmed |
| Term Loan | 100.0 | 100.0 | |
| Non-fund Based limits | 3,500.0 | 3,500.0 | |
| Commercial Paper | 5.0 | 5.0 | [ICRA]A1+; reaffirmed |
| Total | 4,305.0 | 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. 54,959 crore as on January 01, 2020. 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. 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. BEL's working capital intensity increased over the last two years due to increase in receivables and unbilled revenues on account of long gestation periods for the orders executed. 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.

The Stable outlook reflects ICRA's expectation that BEL will 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.

Key rating drivers and their description

Credit strengths

Majority ownership by GoI; strategic importance to Indian defence forces - The GoI is BEL's majority stakeholder with a 55.27% holding currently. The company is of strategic importance to GoI 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, 2020 stood at Rs. 54,959 crore. The order book stands at 4.5 times of the FY2019 operating income, which provides adequate revenue visibility in the medium term.

Strong financial profile with healthy profitability and low leverage - 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. Due to the long gestation period of the projects the revenues and cashflows of the company are exposed to non-uniformity and lumpiness.

Increase in working capital intensity - BEL's working capital intensity increased over the last two years due to an increase in receivables and unbilled revenues on account of long gestation periods for the orders executed. The increase in working capital intensity has resulted in reduction in the cash and bank balances to Rs 251 crore as on September 2019; nonetheless, the company's utilization of fund based working capital limits has remained nil in recent past.

Vulnerability of operating profit margins - BEL's operating profit margins remain vulnerable to adverse fluctuations in foreign exchange, lower profitability in certain segments and high level of cost overheads.

Liquidity position: Strong

The liquidity profile of BEL is strong, supported by comfortable cash flow from operations, which are expected to be adequate to meet the capital expenditure outlay and dividend outflows. The company had cash and bank balances of Rs 251 crore as on September 2019. The company also has sanctioned and unutilised fund-based borrowing facilities of Rs 500 crore. Given the low leverage, the company would be able to access additional bank borrowings for capital expenditure or working capital requirements, should the need arise.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – The ratings can be downgraded if there is any significant stretch in receivable cycle of the company due to delay in payments by customers, leading to an increase in Total Debt / OPBITDA to more than 0.5 times on sustained basis or if there is any reduction in the strategic importance of BEL to the Indian defence sector.

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, 2019, the company had two subsidiaries and two associates that are enlisted in Annexure-2. |

About the company

BEL, a defence public sector undertaking (DPSU), was established in 1954 under the Ministry of Defence, GoI to cater to the electronic equipment requirements of the defence sector. The GoI remains BEL's largest shareholder with the current shareholding of 55.27%. 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)

| | FY2018 | FY2019 |
|--|----------|----------|
| Operating Income (Rs. crore) | 10,400.8 | 12,164.2 |
| PAT (Rs. crore) | 1,431.0 | 1,886.7 |
| OPBDIT/OI (%) | 19.6% | 23.9% |
| RoCE (%) | 27.9% | 34.6% |
| Total Outside Liabilities/Tangible Net Worth (times) | 1.3 | 1.2 |
| Total Debt/OPBDIT (times) | 0.0 | 0.0 |
| Interest Coverage (times) | 929.3 | 227.9 |
| DSCR (excluding short term debt and repayments) | 50.2 | 47.2 |

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| | Instrument | Current Rating (FY2020) | | | | Chronology of Rating History for the past 3 years | | | | |
|---|-------------------|-------------------------|--------------|--------------------|--------------------|---|--------------------|--------------------|--------------------|--|
| | | Type | Amount Rated | Amount Outstanding | Rating | FY2019 | FY2018 | FY2017 | | |
| | | | | | 17-Feb-2020 | 15-Feb-2019 | 22-Feb-2018 | 14-Mar-2017 | 05-Apr-2016 | |
| 1 | Fund based limits | Long term | 500.0 | - | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | |
| 2 | Term loan | Long term | 100.0 | 8.3 | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | |
| 3 | Non-fund based | Short Term | 3,500.0 | - | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | |
| 4 | CP/STD | Short Term | 5.0 | - | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | |
| 5 | Unallocated | Long term | 200.0 | - | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | - | - | - | |

Amount in Rs. crore

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 [click here](#)

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 | Term loan | - | - | - | 100.0 | [ICRA]AAA (Stable) |
| NA | Non-fund based | - | - | - | 3500.0 | [ICRA]A1+ |
| NA | Commercial Paper | - | - | - | 5.0 | [ICRA]A1+ |
| NA | Long Term - Unallocated | - | - | - | 200.0 | [ICRA]AAA (Stable) |

Source: Bharat Electronics Limited

Annexure-2: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---------------------------------|-----------|------------------------|
| BEL Optronics Limited | 100.00% | Full Consolidation |
| BEL Thales Systems Limited | 74.00% | Full Consolidation |
| GE BE Pvt Ltd | 26.00% | Equity Method |
| Defence Innovation Organisation | 50.00% | Equity method |

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