



Rating Rationale

BEML LIMITED

15 July 2020

Brickwork Rating withdraws the rating for the NCD of Rs. 100.00 Crores and reaffirms the ratings with a revision in outlook for the outstanding NCDs of Rs. 200.00 Crores of BEML Limited

Particulars

A. Withdrawal of rating for NCD

Instrument	Amount (Rs. Crs)	Tenure	Rating	
			Previous (July 2019)	Present
NCD	100.00	Long Term	BWR AA/Stable	Withdrawn on redemption on maturity
Total	100.00	Rupees One Hundred Crores Only		

B. Outstanding NCDs rating

Instrument	Amount (Rs. Crs)	Tenure	Rating [^]	
			Previous (July 2019)	Present
NCD	100.00	Long Term	BWR AA/ Stable	BWR AA/Negative Reaffirmed with Revision of Outlook to 'Negative'
NCD	100.00			
Total	200.00	Rupees Two Hundred Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

[^]Instruments with this rating are considered to have an adequate degree of safety regarding the timely servicing of financial obligations. Such instruments carry low credit risk.

Rating Action/Outlook

The revision in outlook on **BEML limited (BEML or the company)** factors decline in the company's revenue and profitability during FY20, leading to a moderation in the financial risk profile, and the expected impact of Covid-19 on its business and financial performance during FY21. During FY20, operating revenue declined by ~Rs. 440 Crs, recording a dip of ~13%, and the operating profit deteriorated by ~58% yoy. The Covid-19 outbreak and the ensuing supply chain disruptions impacted the company's production during Q4FY20. Imports under the Rail & Metro segment were affected starting from January 2020, and certain approvals from the Ministry of Defence (MoD) also got delayed, which in turn affected the company's revenues during Q4FY20. Historically, Q4 of the fiscal contributed the majority of revenue and profit for BEML. However, the same was adversely affected in Q4FY20 on



account of the pandemic outbreak. Additionally, muted sales during the last 10-15 days of the fiscal led to inventory build-up as on 31 March 2020. Brickwork Ratings (BWR) believes the company's operating performance would be impacted for some time in H1FY21 due to the Covid-19 pandemic. The challenging environment arising from Covid-19, which has significantly disrupted the supply chain, could continue in FY21 also, leading to muted revenue and profitability metrics. The strategic importance of the company's operations, government support, new business plans and the strong order book position offer some scope for a revival in the company's business during FY21. However, the current market environment is expected to delay tenders and cash flow towards government projects, at least for the near term. This is likely to impact revenue in view of the company's significant dependence on PSUs for its business, with the pace of revival depending on the extent of the pandemic impact and resumption of normal business activities across segments. The company has not opted for the Covid-19-related RBI moratorium package in view of sufficient liquidity to carry out business operations, with undrawn working capital bank lines and adequate cash and cash equivalents.

The reaffirmation of the rating continues to draw strength from the company's position as a strategically important PSU (GoI stake ~54%) serving the Mining & Construction, Defence and Rail & Metro segments, professional and experienced management, established track record of the company and diversified revenue mix. The rating continues to factor in the comfortable financial risk profile, marked by a satisfactory performance, strong capital structure with low gearing and comfortable debt protection metrics, healthy order book, reputed clientele and a well-established pan-India marketing and service network. The rating further factors in fresh orders received, leading to better client/segment diversification, and business plans streamlined with the government's Aatma Nirbhar Bharat scheme. The rating, however, remains constrained by decline in revenue and profitability during FY20, modest profit margins, elongated receivable and inventory days in view of working capital intensity of operations, the susceptibility of margins to raw materials price volatility and forex fluctuation, increasing competition from large private players, impacting pricing flexibility and customer concentration. Any prolonged impact of Covid-19 related disruptions on the supply chain, coupled with muted demand scenarios, may dampen the company's performance in the near future.

The outlook may be revised to Stable in case the company shows substantial growth in revenue and profitability margins through an early revival in market conditions and demand, effectively manages its working capital by enhancing receivables realisation efficiency and prudently manages its inventory position, thereby improving the financial risk profile.

Key rating drivers

Credit Strengths:

- **Experienced management:** The Board of Directors of BEML Limited consists of experienced and well-qualified directors, including a government nominee and independent directors. The company has a competent management team. As on 31 March 2020, the Government of India held a 54.03% stake in the company. The government's strategic disinvestment of an upto 26% stake in BEML is reported to be under progress.



- **Established track record and strategic importance:** BEML is a public sector undertaking (PSU) incorporated in 1964. The company is a 'Miniratna-Category-1' PSU for the manufacture of rail coaches and spare parts and mining equipment across various locations. The company operates under three major Business verticals, namely, Mining & Construction (M&C) (~49% contribution to revenue), Defence (~14%) and Rail & Metro(R&M) (~37%). BEML has long standing relations with government departments/PSU customers, namely, the MoD, Ministry of Railways, Metro (Delhi, Bengaluru, Kolkata) and Coal India Limited and continues to be the preferred supplier for defence procurement in the country.
- **Diversified business segments and reputed clientele:** The company has strong relations with PSUs across all its business segments. Key clients include Coal India Limited and its subsidiaries, Steel Authority of India Limited, Railway Board, Delhi Metro Rail Corporation Limited, Bangalore Metro Rail Corporation Limited, Jaipur Metro Rail Corporation, Kolkata Metro Limited, Ordnance Factory Board, Defence Research & Development Organization (DRDO), Brahmos Aerospace Pvt. Ltd, Indian Space Research Organization, Hindustan Aeronautics Limited and Aeronautical Development Agency. BEML's products are exported to more than 68 countries.
- **Healthy order book position and established marketing network:** The company's order book position as on 31 March 2020 was ~Rs. 9795 Crs, with orders across all its business segments, out of which ~Rs. 3071 Crs is expected to be executed in FY21. This healthy order book position provides adequate revenue visibility in the medium term. During FY20, BEML bagged orders worth Rs.398 Crs (inclusive of taxes) from M/s Coal India Limited (CIL) for supply of equipment under trial cum sale, along with an 8-year spare parts contract for various projects. The company received fresh orders from Mumbai Metropolitan Region Development Authority (MMRDA) for the metro. The government's indigenisation policies as envisaged through 'Make In India' and 'Aatma Nirbhar Bharat' schemes promises a further inflow of orders in the near future. BEML's products are sold and serviced through its large marketing network consisting of 12 regional offices, 15 district offices and 3 service centres across the country. However, the successful and timely implementation of orders barring any kind of disruptions in the supply of key raw materials will be a key monitorable in view of the dependence on the key customers, delays in approval and delivery procedures, and the conversion of the order book into sales being dependent on government policies, among others.
- **Comfortable financial risk profile:** The company's financial risk profile continues to remain comfortable, despite decline in revenue and profitability during FY20, reflected by a strong networth and a comfortable gearing and debt protection metrics. On a standalone basis, in FY20, the company's operative revenue decreased by ~13% to ~Rs. 3041 Crs against revenue of ~Rs 3481 Crs in FY19, mainly due to the Covid-19 impact. The EBITDA level decreased to Rs. 99.67 Crs in FY20 from Rs. 237.63 Crs in FY19 mainly due to reduction in turnover and change in sales mix. However, the PAT improved to Rs. 68.38 Crs in FY20, against Rs. 63.49 Crs in FY19 on account of net deferred tax. Operating profit margins declined to 3.28% (PY:6.80%) and net profit margins improved to 2.26% (PY:1.82%) in FY20. BEML has a strong capital structure, marked by a healthy Tangible Net worth of Rs. 2214.34 Crs and comfortable Debt:Equity of 0.15 times as on 31 March 2020. Debt metrics were comfortable, as reflected by an ISCR of 2.46 times and DSCR of 1.27 times as on 31 March 2020.



Credit concerns

- **Working-capital-intensive operations:** The company's operations remain working-capital-intensive on account of elongated receivables and high inventory due to the nature of operations and customers. Receivables are high on account of an elongated payment cycle from its clients, mainly government enterprises, and high inventory due to long manufacturing cycles, which result in a stretched working capital cycle.
- **Customer and segment concentration risk:** During FY20, BEML derived ~52.5% of its revenues from its top three customers, namely, BMRCL, KMRCL and CIL, exposing it to high customer concentration risk. However, the risk is mitigated to some extent by the stature of clients and the healthy relations BEML enjoys with them. Revenue from the Mining Industry was ~49% (PY:47%), from Defence was ~14% (PY:10%) and from Rail & Metro was ~37% (PY:43%) in FY20. BEML's market segments are exposed to cyclicalities and are sensitive to delays in project approvals, climatic conditions and so on. Any industry cyclical downturns are likely to impact the performance. The company expects additional orders from the Rail & Metro and Defence segments for the coming years, which is expected to reduce segmental concentration, going forward.
- **Susceptibility of margins to price volatility of raw materials, forex fluctuations and intense competition:** Profitability margins continue to remain sensitive to the volatility in raw material prices and forex fluctuations. The company is exposed to competition from other large international players, which impacts the pricing flexibility, in turn affecting profitability. However, with its strong R&D and indigenisation, BEML successfully competes with multinationals and keeps abreast of technological demands through in-house R&D and strategic technical tie-ups with global players.
- **Impact of Covid-19** - The pandemic has created a severe and extensive credit shock across many sectors, regions and markets, which is likely to continue for several quarters. The company's operations were partially impacted by the Covid-19-induced lockdown. The manufacturing plants were shut-down during April 2020 following the lockdown measures taken by the Indian government. The import of key raw materials was also affected due to supply chain disruptions globally since January 2020. Although the plant operations have resumed and raw material supply started during May 2020, the full recovery of supply chains is expected to take some more time, given the extent of pandemic. This in turn is expected to adversely impact the company's production. On the demand front, the current liquidity crunch in the market limits free cash flow to government projects, at least in the short run, dampening demand for the company's products. Although the overall economic impact in the near term and its further impact on the business of the company remains uncertain, a fairly speedy recovery in demand for the company's products is expected, considering the strategic relevance of the same and considering the recent government policies boosting indigenisation, especially in the defence sector.



Analytical Approach and Applicable Rating Criteria

BEML has two subsidiaries, namely, Vignyan Industries Limited and MAMC Industries Limited. During July 2020, the MoD has accorded "in-principle" approval for the closure of M/s Vignyan Industries Limited. The company has a joint venture, BEML Midwest Limited. The statutory auditors have issued a qualified opinion stating that the financial statements of BEML Midwest Limited, a joint venture, have not been consolidated in the absence of its financial statements. BEML's management states that there was a cessation of activities in BEML Midwest Ltd, the JV company, since September 2008, and matters relating to the JV company are subjudice. In view of the above, the JV company has not prepared its accounts, and thus, the same could not be consolidated. As such, currently, the operations of the subsidiaries/JV are not meaningful in comparison with that of BEML. Therefore, while assigning the ratings, BWR has adopted a standalone approach and applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

Rating sensitivities:

The timely execution of existing orders, coupled with the diversification of the order book with a higher margin and advance-backed orders would also be positive factors influencing the rating. The GoI's divestment plans to reduce the stake in the company will be a key monitorable.

Positive

- Given the ongoing weakness in the macro-economic environment and uncertainty about the overall economic impact of Covid-19 on the company's business, a rating upgrade in the near term remains unlikely.

Negative

- The prolonged impact of Covid-19, affecting revenues, profitability and cash flows due to a disruption in supply chain, services and demand, leading to material deterioration in its financial risk profile and liquidity position.
- Deterioration in key credit metrics owing to pressure on operating profits due to competition, a further stretch in the working capital cycle or fresh capex; specific credit metrics that may result in a downward rating action include operating and net profit margins declining below five times and two times, respectively, on a sustained basis.

Liquidity - Adequate: BEML's liquidity is adequate with minimum fund-based working capital utilisation (~20% of sanctioned limits) during FY20. The company had large undrawn fund-based limits (~Rs.1,000 Crs) as on 30 June 2020. The current ratio was 2.89 times as on 31 March 2020, and the company's working capital (fund-based and non-fund-based) utilisation over the last 6 months was ~70%. BEML has healthy cash accruals of around Rs. 139 Crs, and cash and cash equivalents of around Rs.28 Crs as on 31 March 2020. The company has upcoming repayments of Rs.100 Crs each during FY21 and FY22 towards NCD redemption in addition to minimal repayments for the soft loan from the Government of Kerala (outstanding balance of ~Rs. 3.78 Crs as on 31 March 2020). During June 2020, the company issued a Commercial Paper (CP) of Rs. 100 Crs for a period of 90 days at a competitive



discount rate for raising cost-effective funds to meet the working capital needs, thereby further strengthening the liquidity profile. In view of the sufficient liquidity, the company has not opted for moratorium benefits under the RBI's Covid-19 relief package.

About the Company

BEML Limited was established in May 1964 and is a “Miniratna-Category-1” Public Sector Undertaking, listed on the BSE and NSE. The company operates under three major business verticals, viz., Mining & Construction, Defence and Rail & Metro. The three verticals are serviced by nine manufacturing units located at Bangalore, Kolar Gold Fields (KGF), Mysore, Palakkad and Subsidiary - Vignyan Industries Ltd, in Chikmagalur District (during July 2020, the MoD has accorded "in-principle" approval for the closure of M/s Vignyan Industries Limited.) The GoI holds 54.03% equity in the company. BEML serves India's core sectors such as Defence, Rail, Power, Mining and Infrastructure. BEML's products are exported to more than 68 countries. Under the Defence vertical, the key products are Tatra-based high-mobility trucks, vehicles for missile projects, bridge Systems, aircraft towing tractors and weapon loading trolleys and other equipment; under the M&C vertical - a wide variety of heavy earth moving equipment such as bulldozers, Loaders, excavators, pipe layers and under mining equipment; under R&M vertical - integral rail coaches, metro cars and broad gauge rail bus for the Metro and Indian Railways.

Dr D K Hota is the Chairman and Managing Director. Mr. R H Murlidhara (Defence business), Mr. M V Rajasekhar (Mining & Construction business), Mr Suresh S Vastrad (Rail & Metro business), Mr. Suraj Prakash (Finance), Mr. R Panneer Selvam (HR), Mr. Md. Nazmuddin (Nominee Director), Mr. Gurmohinder Singh (Independent Director), Mr. Arvind Kumar Arora (Independent Director) and Ms. Balmuri Vanitha (Independent Director) were the other directors as on 31 March 2020. Subsequently, Mr RH Muralidhara and Mr Suresh S Vastrad ceased to be the Directors consequent upon their attaining the superannuation on 31.05.2020 and 30.06.2020 respectively. Currently Mr. Ajit Kumar Srivastav is the Director (Defence business).

Key Financial Indicators

Key Parameters	Units	31 Mar 2019	31 Mar 2020
Result Type		Audited	Audited
Operating Revenue*	Rs. Crs	3481.88	3041.18
EBITDA	Rs. Crs	237.63	99.67
PAT	Rs. Crs	63.49	68.38
Tangible Net worth	Rs. Crs	2140.44	2214.34
Total Debt/Tangible Net worth	Times	0.19	0.15
Current ratio	Times	2.08	2.89

*Operating revenue for FY20 includes Forex gain of Rs. 11.53 Crs and Export incentives of Rs. 0.83 Crs

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA - NA

Rating History for the previous three years [including withdrawal and suspended] :

A. Withdrawn NCD

Sl. No.	Instrument	Current Rating (July 2020)			Rating History		
		Type	Amount (Rs Crs)	Rating	26 Jul 2019	30 Jul 2018	10 Aug 2017
1	NCD	Long Term	100.00	Withdrawn	BWR AA/ Stable	BWR AA/ Stable	BWR AA/ Stable
Total			100.00	Rupees One Hundred Crores Only			

B. Outstanding NCDs

Sl. No.	Instrument	Current Rating (July 2020)			Rating History		
		Type	Amount (Rs Crs)	Rating	26 Jul 2019	30 Jul 2018	10 Aug 2017
1	NCD	Long Term	100.00	BWR AA/ Negative	BWR AA/ Stable	BWR AA/ Stable	BWR AA/ Stable
2	NCD		100.00				
Total			200.00	Rupees Two Hundred Crores Only			

Note: BWR had initially rated proposed NCDs of Rs. 300.00 Crs on 19 Mar 2012 at BWR AA+/Stable. Subsequently, the rating was revised to BWR AA/Negative for NCDs of Rs. 300.00 Crs on 17 Jan 2013. Later, the rating was revised to BWR AA/Stable for NCDs of Rs. 300.00 Crs on 10 July 2014, 21 July 2015 and 03 Aug 2016 respectively.

Complexity Levels of the Instruments

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria:

- [General Criteria](#)
- [Manufacturing Companies](#)
- [Approach to Financial Ratios](#)

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ANNEXURE- I : INSTRUMENT DETAILS

A. Withdrawn NCD

Instrument	ISIN	Issue Date	Amount (Rs. Crs)	Coupon#	Maturity Date
NCD	INE258A07013	18-May-2012	100.00	9.24%	18-May- 2020 Redeemed
Total			100.00	Rupees One Hundred Crores Only	

#Payable Semi Annually on 18/05 & 18/11

B. Outstanding NCDs

Instrument	ISIN	Date of Issue	Amount (Rs. Crs)	Coupon#	Maturity Date
NCD	INE258A07021	18-May-2012	100.00	9.24%	18-May- 2021
NCD	INE258A07039	18-May-2012	100.00	9.24%	18-May- 2022
Total			200.00	Rupees Two Hundred Crores Only	

#Payable Semi Annually on 18/05 & 18/11



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