



Rating Rationale

01 December 2021

BEML LIMITED

Brickwork Ratings reaffirms the rating for the non-convertible debentures (NCDs) of Rs.100.00 Crores and assigns the ratings for the bank loan facilities of Rs. 5500.00 Crores of BEML Limited.

Particulars

A. Outstanding NCDs

Instrument	Amount (Rs. Crs)	Tenure	Rating [^]	
			Previous (15 July 2021)	Present
NCD	100.00	Long Term	BWR AA/Stable Reaffirmed	BWR AA/Stable Reaffirmed
Total	100.00	Rupees One Hundred Crores Only		

Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings;
Annexure-I shows the details of NCDs

[^]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.

B. Bank Loan Facilities

Facilities	Amount (Rs Crs)	Tenure	Rating
Fund based: Cash Credit/EPC/PCFC/FBD/EBR Proposed CC/EPC/STC	1350.00 150.00	Long term	BWR AA/Stable Assigned
Fund based Commercial Paper (Sublimit to CC)	(400.00)	Short term	BWR A1+ Assigned
Non Fund based: Letter of Credit/Bank Guarantee Proposed LC/BG	3300.00 700.00		
Total	5500.00	Rupees Five Thousand and Five Hundred Crores Only	

Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings;
Annexure II shows details of bank loan facilities.



Rating Action/Outlook

The ratings of BEML limited (BEML or the company) continue to draw strength from the company's position as a strategically important Public Sector Undertaking (PSU) (GoI stake ~54%) serving the mining and construction, defence, and rail and metro segments; professional and experienced management; established track record and diversified revenue mix. Brickwork Ratings (BWR) believes the strategic importance of the company's operations, government support, new business plans and strong order book position fuelled a revival in the company's business from the Covid-19 impact during FY21 and H1FY22. The rating further factors in the company's comfortable financial risk profile, strong capital structure with a low gearing and adequate debt protection metrics, low counterparty risks with the key clientele of government agencies, PSU etc and a well-established pan-India marketing and service network. The rating, however, remains constrained by modest profit margins, elongated receivable and inventory days in view of the working capital intensity of operations, the susceptibility of margins to raw material price volatility and forex fluctuation, increasing competition from large private players that impacts pricing flexibility and customer concentration. Any recurring impact of Covid-19-related disruptions on the supply chain may dampen the company's performance.

The Government of India (GoI) held a 54.03% stake in the company as on 31 March 2021. However, the GoI had given approval for strategic disinvestment in BEML during FY17 and proposes to disinvest 26% equity out of its shareholding by way of strategic disinvestment to investor(s), along with the transfer of management control. As per public disclosures made by the company, an advertisement for the global invitation of Expression of Interest (Eoi) with regard to the strategic disinvestment of the company was published in newspapers. In July 2021, the company incorporated a Wholly owned Subsidiary (WoS) in the name and style of BEML Land Assets Limited for the demerger of surplus land and assets as a part of the disinvestment process. The company filed the scheme of arrangement for the demerger with MCA for approval in October 2021. BWR will continue to monitor the strategic disinvestment process and take appropriate rating action as and when necessary.

The rating outlook may be revised to Positive in the case of sustained significant growth in revenues with an improvement in the profitability and working capital management, thereby strengthening its credit risk profile. Replenishing the order book with higher margins and advance backed orders would also be a credit positive. The outlook may be revised to Negative in the case of a significantly lower-than-anticipated performance due to deferment/delays in the execution of orders, leading to lower cash accruals and/or a deterioration in the liquidity profile or working capital cycle, especially in view of the continuing Covid-induced disruptions and/or if any major debt-funded expenditure adversely impacts the capital structure and debt coverage metrics, thereby weakening the company's credit 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.
- **Established track record, strategic importance and R&D strength:** BEML is a PSU incorporated in 1964. The company is a 'Miniratna-Category-1' PSU that operates under three major business verticals, namely, mining and construction, defence, and rail and metro. BEML has long-standing relations with government departments/PSU customers, namely, the Ministry of Defence (MoD), Ministry of Railways, Metro (Delhi, Bengaluru and Kolkata) and Coal India Limited (CIL), and continues to be the preferred supplier for defence procurement in the country. The company has been benefitting out of its strong in-house R&D facility. The company spent Rs.132.66 Crs on R&D during FY21, which is about 3.73% of revenue from operations. During FY21, 69% sales turnover achieved was from in-house R&D developed products, and the company registered 55 Intellectual Property Rights (IPRs), which include 13 patents, 9 designs, 18 copyrights and 15 trademarks.
- **Diversified business segments and reputed clientele:** During FY21, the mining and construction segment contributed ~49% to revenues, followed by rail and metro (~36%), and defence (~15%) segments. The company has strong relations with PSUs across all its business segments. Key clients include CIL and its subsidiaries, Steel Authority of India Limited(SAIL), Railway Board, Delhi Metro Rail Corporation Limited (DMRCL), Bangalore Metro Rail Corporation Limited (BMRCL), Jaipur Metro Rail Corporation (JMRC), Kolkata Metro Limited (KML), Ordnance Factory Board, Defence Research & Development Organization (DRDO), Brahmos Aerospace Pvt. Ltd, Indian Space Research Organization (ISRO), Hindustan Aeronautics Limited (HAL) 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 30 September 2021 was ~Rs.10778 Crs, with orders across all its business segments. This healthy order book position provides adequate revenue visibility in the medium term. In addition to the fresh orders worth Rs.5125 Crs received during FY21, BEML has received orders worth Rs.866 Crs during H1FY22. The government's indigenisation policies as envisaged through 'Make In India' and 'Aatma Nirbhar Bharat' schemes promise 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. Additionally, the company has adopted various measures for improving the geo-strategic reach and increasing exports. BEML is working on various business opportunities in the defence, mining and construction, and rail and metro segments in the SAARC region and Africa. However, the successful and timely



implementation of orders barring any kind of disruptions in the key raw materials supply will be a key monitorable in view of the dependence on the key customers, delays in approvals 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, with a y-o-y improvement in revenue and profitability during FY21 and reflected by a strong networth, and comfortable gearing and adequate debt protection metrics. On a standalone basis, in FY21, the company's operative revenue increased by ~17% to ~Rs.3557.21 Crs against revenue of Rs.3028.82 Crs in FY20, despite revenue degrowth of ~17% h-o-h in H1FY21 under the Covid-19 impact. In line with the topline, the EBITDA increased to Rs.142.45 Crs in FY21 against Rs.87.31 Crs in FY20, and the PAT improved to Rs.74.80 Crs against Rs.68.38 Crs for the same period. The operating profit margin and net profit margin were 4% (PY : 3.28%) and 2.11% (PY : 2.26%), respectively, in FY21. BEML's capital structure continues to be strong, marked by a healthy tangible net worth of Rs.2184.91 Crs and comfortable debt/equity ratio of 0.34 times as on 31 March 2021. Debt metrics remained comfortable during FY21, as reflected by an ISCR of 3.64 times and DSCR of 2.72 times. On an unaudited basis, BEML has booked revenue of Rs.1451.42 Crs during H1FY22, registering ~38% growth over the H1FY21 figure.

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:** Revenue from the mining segment was ~49%, from defence segment was ~15% and from the rail and metro segment was ~36% in FY21. BEML's revenue is sensitive to delays in project approvals, climatic conditions and so on. Any industry cyclical downturns are likely to impact the performance. During FY21, BEML derived more than 60% of its revenues from its top three customers CIL, DMRCL and Indian Railways, exposing it to customer concentration risk. However, such risks are mitigated to some extent by the stature of clients, BEML's established track record and the healthy relations BEML enjoys with them. As per the current order book, the rail and metro segment tops with ~44%, followed by defence segment with ~40%, and mining and construction comprising the balance ~16%, leading to a more segmental diversification, at least for the medium term.
- **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, such risks are mitigated by BEML's strong R&D, long established track record and the GoI's impetus to indigenisation.

- **Impact of Covid-19** - The company's operations were majorly impacted during H1FY21, marked by ~17% revenue decline h-o-h primarily on account of supply chain disruptions, with the order book being consistently strong. However, revenues and margins revived during H2FY21, quicker than expected, on the back of a strong order book position, with the company's strategic position and recent government policies boosting indigenisation, especially in the defence sector. Business operations were impacted for some time in H1FY22 due to the second wave of the pandemic. The Covid situation has delayed the realisation of receivables, leading to a stretch in the company's working capital cycle, and its ability to manage the working capital remains a key monitorable.

Analytical Approach and Applicable Rating Criteria

BEML has three subsidiaries, namely, Vignyan Industries Limited (VIL), MAMC Industries Limited (MIL) and BEML Land Assets Limited (BLAL). During July 2020, the MoD accorded an "in-principle" approval for the closure of VIL, following which the subsidiary has stopped production activities since October 2020, and an official liquidator was appointed in October 2021. BLAL was incorporated in July 2021 for the demerger of surplus land and assets as part of the strategic disinvestment process. 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 those of BEML. Therefore, while assigning the ratings, BWR has adopted a standalone approach and has 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 progress of the strategic divestment process will be a key monitorable.

Positive

- Substantial growth in revenue and profitability, strengthening the financial risk profile
- Effective working capital management by enhancing receivables realisation efficiency and prudently managing its inventory position

Negative

- Any prolonged impact of Covid-19 on account of multiple waves of the pandemic, affecting revenues, profitability and cash flows due to a disruption in the 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 remains adequate, with the fund-based working capital utilisation at ~50% of sanctioned limits and the average working capital (fund-based and non-fund-based) utilisation over the last 6 months at ~70%. The company had large undrawn fund-based limits (~Rs.700+ Crs) as on 30 September 2021. The current ratio was 2.16 times, and cash and cash equivalents were Rs.10.29 Crs as on 30 September 2021. The company has an upcoming repayment of Rs.100 Crs towards an NCD redemption in May 2022. BEML should be able to meet its near-term commitments comfortably through internal accruals and undrawn working capital limits. Additionally, the company issues Commercial Paper (CP), normally 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. Going forward, with a strong order book position and sizable inventory and debtor levels, the company's liquidity position will depend on timely debtor and inventory liquidation.

About the Company

BEML Limited was established in May 1964 and is a 'Miniratna-Category-1' PSU listed on the BSE and NSE. The company operates under three major business verticals, viz., Mining and Construction (M&C), Defence, and Rail and Metro (R&M). The three verticals are serviced by nine manufacturing units in Bangalore, Kolar Gold Fields (KGF), Mysore and Palakkad, and subsidiary Vignyan Industries Ltd in Chikmagalur District (during July 2020, the MoD accorded an '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, along with 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; and under the R&M vertical, integral rail coaches, metro cars and broad gauge rail bus for the metro and Indian Railways.

Mr. Amit Banerjee is the Chairman and Managing Director. Mr. M V Rajasekhar (Mining & C business and HR in-charge), Mr. Ajit Kumar Srivastav (Defence business and Finance in-charge), Mr. Surendra Prasad Yadav (Nominee Director), Mr. Arvind Kumar Arora (Independent Director) and Ms. Balmuri Vanitha (Independent Director) are the other directors.

Key Financial Indicators-Standalone

Key Parameters	Units	31 Mar 2020	31 Mar 2021
Result Type		Audited	Audited
Operating Revenue	Rs. Crs	3028.82	3557.21
EBITDA	Rs. Crs	87.31	142.45
PAT	Rs. Crs	68.38	74.80
Tangible Net worth	Rs. Crs	2214.34	2224.45
Total Debt/Tangible Net worth	Times	0.15	0.29
Current ratio	Times	2.89	2.33

On an unaudited basis, the company has reported operating revenue of Rs.1451.42 Crs for H1FY22.

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. Outstanding NCDs

Instrument	Current Rating (Dec 2021)			Rating History			
	Type	Amount (Rs Crs)	Rating	15 Jul 2021	15 Jul 2020	26 Jul 2019	30 Jul 2018
NCD	Long Term	100.00	BWR AA/ Stable	BWR AA/ Stable	BWR AA/ Negative	BWR AA/ Stable	BWR AA/ Stable
Total		100.0	Rupees One 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 and the ratings were reaffirmed for 21 July 2015, 03 Aug 2016 and 10 Aug 2017.

B. Bank Loan Facilities

Facilities	Current Rating (Dec 2021)			Rating History		
	Tenure	Amount (Rs Crs)	Rating	2020	2019	2018
Fund based: CC/EPC/PCFC/FBD /EBR Proposed CC/EPC/STC	Long term	1350.00 150.00	BWR AA/ Stable	NA	NA	NA
Fund based Commercial Paper (Sublimit to CC)	Short term	(400.00)	BWR A1+			
Non Fund based: LC/BG Proposed BG/LC		3300.00 700.00				
Total		5500.00	Rupees Five Thousand and Five Hundred Crores Only			

Complexity Levels of the Instruments: Simple

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

Hyperlink/Reference to applicable Criteria:

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

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BEML Limited
Annexure I- Instrument Details

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

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

* Listed on BSE.

Annexure II : Details of the bank loan facilities rated

Sl. No.	Name of Banks	Name of Facilities	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1	State Bank of India	Cash Credit	750.00	-	750.00
		Letter of Credit	-	465.00	465.00
		Bank Guarantee	-	1400.00	1400.00
2	Canara Bank	Cash Credit	40.00	-	40.00
		Letter of Credit	-	160.00	160.00
		Bank Guarantee	-	200.00	200.00
3	Axis Bank	Cash Credit	20.00	-	20.00
		Bank Guarantee	-	230.00	230.00
4	Bank of Baroda	Cash Credit	10.00	-	10.00
		Letter of Credit	-	75.00	75.00
		Bank Guarantee	-	115.00	115.00
5	Bank of India	Cash Credit	40.00	-	40.00
		Letter of Credit	-	50.00	50.00
		Bank Guarantee	-	280.00	280.00
6	Indian Bank	Cash Credit	20.00	-	20.00
		Bank Guarantee	-	20.00	20.00
7	IDBI Bank	Cash Credit	95.00	-	95.00
		Letter of Credit	-	25.00	25.00
		Bank Guarantee	-	215.00	215.00
8	HDFC Bank	Cash Credit	225.00	-	225.00
		Letter of Credit	-	25.00	25.00
9	Union Bank of India	Cash Credit	100.00	-	100.00
		Bank Guarantee	-	40.00	40.00
10	Deutsche Bank	Cash Credit	50.00	-	50.00



11	Proposed Facilities	Cash Credit	150.00	-	150.00
		Letter of Credit	-	200.00	200.00
		Bank Guarantee	-	500.00	500.00
Total - Rupees Five Thousand and Five Hundred Crores only			1500.00	4000.00	5500.00

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