



## Rating Rationale

BEML Limited

26 Jul 2019

**Brickwork Rating reaffirms “BWR AA” for the outstanding, listed, secured, redeemable NCDs of Rs. 300.00 Crs of BEML Limited (‘BEML’ or the Company)**

### Particulars

Instrument	Date of Issue	Amount (Rs. Crs)	Coupon#	Maturity Date	ISIN	Previous rating Jul 2018	Rating*
NCD	18-May-2012	100.00	9.24%	18-May-2020	INE258A07013	<b>BWR AA</b> (Pronounced as BWR Double AA) <b>Outlook: Stable</b>	<b>BWR AA</b> (Pronounced as BWR Double AA) <b>Outlook: Stable Reaffirmed</b>
NCD	18-May-2012	100.00	9.24%	18-May-2021	INE258A07021		
NCD	18-May-2012	100.00	9.24%	18-May-2022	INE258A07039		
<b>Total</b>		<b>300.00</b>	<b>Rupees Three Hundred Crores Only</b>				

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

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

### Rating Reaffirmed

#### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financials of the Company upto FY19, publicly available information and information/clarifications provided by the Company’s management.

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 the consistent financial performance with growth in revenue, strong capital structure with low gearing and comfortable debt protection metrics, healthy order book of 9215 crs as on 31 Mar 2019, reputed clientele and a well established pan India marketing and service network. The rating remains constrained by the modest profit margins, elongated receivable and inventory days in view of working capital



intensity of operations, increasing competition from large private players impacting pricing flexibility and customer concentration.

Going forward, the ability of the company to improve its profitability margins, effectively manage its working capital by enhancing receivables realisation efficiency and prudently managing its inventory position and maintain its comfortable credit profile would remain the key rating sensitivities.

### **Rating Outlook: Stable**

BWR believes **BEML Limited's** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case of sustained growth in revenues with improvement in profitability and working capital management, thereby strengthening its credit risk profile. Timely execution of existing orders coupled with replenishing of order book with higher margin and advance backed orders would also be a credit positive. The outlook may be revised to negative in case of significantly lower than anticipated performance due to deferment/delays in execution of orders leading to lower cash accruals and/or deterioration in the liquidity profile or working capital cycle and/or if any major debt funded expenditure adversely impacts the capital structure and debt coverage metrics, thereby weakening the credit risk profile of the Company.

### **Analytical approach - Consolidated**

While assigning the ratings, BWR has taken a consolidated view of the business and financial profile of BEML Ltd and its 3 subsidiaries namely, Vignyan Industries Limited, MAMC Industries Limited, BEML Brazil Industrial Ltd. 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 cessation of activities in BEML Midwest Ltd, JV Company since Sept 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. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

### **Key rating drivers**

#### **Credit Strengths:**

- **Experienced management:** The Board of Directors of BEML Limited comprises of professionally qualified and experienced members. Shri D K Hota, Chairman and Managing Director, has around three decades of professional experience. The Board of Directors



consists of experienced and well qualified directors, including Government Nominee and Independent Directors. The company has a competent management team. As on 30 June 2019, Government of India holds 54.03% stake in the Company. The government's strategic disinvestment of upto 26% stake in BEML is reported to be under progress.

- **Established track record and Strategic importance :** BEML is a Public Sector Undertaking incorporated in 1964. The Company is a 'Miniratna-Category-1' Public Sector Undertaking for manufacture of Rail Coaches & Spare Parts and Mining Equipment across various locations. The Company operates under three major Business verticals viz., Mining & Construction (M&C)(~47% contribution to revenue), Defence (~10%) and Rail & Metro(R&M) (~43%). BEML has longstanding relationships with its reputed PSU customers viz Ministry of Defence, Ministry of Railways, Metro (Delhi, Bengaluru).
- **Diversified business segments and reputed clientele :** The company has strong relationships with PSUs across all its business segments. Key clients are 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, Aeronautical Development Agency etc. BEML's products are exported to more than 67 countries and the Company has offices in Indonesia and Brazil.
- **Healthy order book position and established marketing network :** Order book position of the Company as on 31 Mar 2019 is ~9125 crs, with orders across all its business segments. This healthy order book position provides satisfactory revenue visibility. The company is well positioned to bid for large orders for metro coaches During FY19, the Company has bagged the Mumbai Metro Lines 2 and 7 orders of Rs. 3,015 crore, to supply 378 Metro-rail coaches. It has also secured contracts for seven Metro train sets to augment Metro rail services in Bengaluru, worth around Rs. 400 crore. The company is reported to have Metro orders worth ~Rs 5,000 crore and expects another 126 optional Metro orders ahead. Besides Metro corporations, the company expects to an order of 700 Rapid Rail coaches worth ~Rs 7,000 crore shortly. BEML's products are sold and serviced through its large marketing network comprising 12 Regional Offices, 15 District Offices and 3 Service Centres across the country. The company estimates favourable growth prospects with FY20 target order book at ~ Rs 13,000 crore, with Rs 800 crore of executable orders. However, successful and timely implementation of orders will be a key monitorable in view of the dependence on the key customers, delays in approval and delivery procedures, conversion of the order book into sales being dependent on government policies etc.
- **Comfortable Financial risk profile :** BEML has continued its growth momentum across all its business segments. Overall, the Company has registered a revenue growth of ~6% to



~Rs.3481 crores for FY19 as against ~Rs.3305 crs in FY18, with a CAGR growth of ~11% during fiscal 2017 to fiscal 2019. BEML has a strong capital structure marked by healthy Tangible Net worth of Rs. 2140 crs and comfortable Debt:Equity of 0.19 times as on 31 Mar 2019. Debt metrics were comfortable as reflected by ISCR of 3.99 times and DSCR of 1.87 times as on 31 March 2019. However, Operating profit margins declined to 6.80%(PY:7.60%), mainly due to high material costs and Net profit margins declined to 1.82%(PY:3.92%) in FY19 due to higher interest cost, depreciation and deferred tax liability.

### **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 elongated payment cycle from its clients mainly government enterprises and high inventory due to long manufacturing cycles, which result in stretched working capital cycle.
- **Customer and Segment Concentration Risk:** Delhi Metro Rail Corporation Limited (R&M) contributed ~30% of the total revenue in FY18, followed by CIL & its subsidiaries(M&C) contributing ~9% of BEML's revenues in FY18. Revenue from mining industry was about ~47%, from Defence was ~10% and from Rail & Metro was ~43% in FY19. BEML's market segments are exposed to cyclicity and are sensitive to delays in project approvals, climatic conditions etc. Any industry cyclical downturns are likely to impact the performance. The Company expects additional orders from Rail & Metro segment for the coming years, which is expected to reduce the segmental concentration going forward.
- **Intense competition from other major players in the Industry :** 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

### **Liquidity - Adequate:**

Current ratio was 2.08 times as on 31 Mar 2019 and the Company's working capital(fund based & non fund based) utilisation over the last 6 months was ~80%. BEML has healthy cash accruals of around Rs. 133 Crs as on 31 Mar 2019 and Cash and cash equivalents of around Rs.31 crores as on March 31 2019. Debt repayment obligations of around Rs 6 crs and Rs 102 crs (includes



NCD redemption) in FY20 and FY21 are expected to be comfortably serviced from cash accruals.

### About the Company

BEML Limited was established in May 1964 and is a 'Miniratna-Category-1' Public Sector Undertaking, listed on 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. The Government of India holds 54.03% equity in the Company. BEML serves India's core sectors like Defence, Rail, Power, Mining and Infrastructure. BEML's products are exported to more than 66 countries and the Company has offices in Indonesia and Brazil. Under 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 M&C vertical, a wide variety of heavy earth moving equipment like Bull Dozers, Loaders, Excavators, Pipe Layers and Under Mining equipment; under R&M vertical, Integral Rail Coaches, Metro cars and Broad gauge Rail bus etc for the Metro and Indian Railways.

D K Hota is the Chairman and Managing Director. Mr. R H Muralidhar (Defence), Mr. Suraj Prakash (Finance), Mr. Suresh S Vastrad (Rail & Metro Business), Mr. M V Rajasekhar (Mining & construction Business), Mr. Md. Nazmuddin (Nominee Director), Mr. Sudhir Kumar Beri (Independent Director), Mr. M G Raghuvver (Independent Director), Mr B P Rao (Independent Director), Mr. Gurmohinder Singh (Independent Director), Mr. Arvind Kumar Arora (Independent Director) are the other directors.

### Financial Performance- Standalone basis

BEML reported total operating income of Rs. 3481.06 Crs and PAT of Rs 63.49 Crs in FY 19 as against total operating income of Rs. 3305.42 Crs and PAT of Rs. 129.45 Crs in FY 18, PAT declined in FY19 mainly due to higher interest costs, depreciation and deferred tax liability. Tangible net worth was Rs. 2140.44 Crores as of March 31, 2019. Gearing was low with D/E ratio of 0.19 times as on March 31, 2019. Total Debt of around Rs. 400.48 crs consists of NCDs of Rs. 300 crs, soft loan and working capital borrowings as on 31 Mar 2019.

Key Parameters	Units	31 Mar 2018	31 Mar 2019
Result Type		Audited	Audited
Total Operating Income	Rs. Crs	3305.42	3481.06
EBITDA	Rs. Crs	251.22	236.81
PAT	Rs. Crs	129.45	63.49

Tangible Net worth	Rs. Crs	2148.23	2140.44
Total Debt/Tangible Net worth	Times	0.20	0.19
Current ratio	Times	2.27	2.08

### Financial Performance- Consolidated basis

**BEML** reported total operating income of Rs. 3474.25 Crs and PAT of Rs 63.16 Crs in FY 19 as against total operating income of Rs. 3298.71 Crs and PAT of Rs. 129.68 Crs in FY 18. Tangible net worth was Rs. 2140.76 Crores as of March 31, 2019. Gearing was low with D/E ratio of 0.19 times as on March 31, 2019. Total Debt was around Rs. 402.14 crs consists of NCDs of Rs. 300 crs, soft loan and working capital borrowings as on 31 Mar 2019.

Key Parameters	Units	31 Mar 2018	31 Mar 2019
Result Type		Audited	Audited
Total Operating Income	Rs. Crs	3298.71	3474.25
EBITDA	Rs. Crs	252.74	237.54
PAT	Rs. Crs	129.68	63.16
Tangible Net worth	Rs. Crs	2149.32	2140.76
Total Debt/Tangible Net worth	Times	0.20	0.19
Current ratio	Times	2.26	2.07

### Rating History for the last three years:

Sl. No	Instrument	Current Rating (July 2019)			Rating History		
		Type	Amount (Rs Crs)	Rating	30 Jul 2018	10 Aug 2017	03 Aug 2016
1	NCD	Long Term	100.00	BWR AA (Pronounced as BWR Double AA)	BWR AA (Pronounced as BWR Double AA)	BWR AA (Pronounced as BWR Double AA)	BWR AA (Pronounced as BWR Double AA)
2	NCD		100.00				
3	NCD		100.00	Outlook:Stable Reaffirmed	Outlook:Stable Reaffirmed	Outlook:Stable Reaffirmed	Outlook:Stable Reaffirmed
<b>Total</b>			<b>300.00</b>	<b>Rupees One Hundred Seventy Five Crores Only</b>			



Note: BWR had initially rated proposed NCDs of Rs. 300.00 crs on 19 Mar 2012 at BWR AA+ (outlook Stable). Subsequently, the rating was revised to BWR AA (Outlook: Negative) for NCDs of Rs. 300.00 crs on 17 Jan 2013. Later, the rating was reaffirmed at BWR AA (Outlook Stable) for NCDs of Rs. 300.00 crs on 10 Jul 2014 and 21 Jul 2015 respectively.

**Status of non cooperation with other CRA : NA**

**Any other information: Non Applicable**

**Hyperlink/Reference to applicable Criteria:**

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

Analytical Contacts	Investor Contacts
<p><b>Rajee R</b>  <b>Senior Director - Ratings</b>  <b>B: +91 80 4040 9940</b>  <b>rajee.r@brickworkratings.com</b></p> <p><b>Sunilkumar Ijarad</b>  <b>Senior Ratings Analyst</b>  <b>M: +918884488674</b>  <b>B: +91 80 4040 9940</b>  <b>Ext: 343</b>  <b>sunilkumar@brickworkratings.com</b></p>	<p><b>Satish Nair</b>  <b>Director - Global Market Development &amp; Investor Relations</b>  <b>M: +91 7738875550</b>  <b>B: +91 8067456666</b>  <b>satish.n@brickworkratings.com</b></p>
<b>1860-425-2742</b>	

**For print and digital media**

The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

**Note on complexity levels of the rated instrument:**

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

**About Brickwork Ratings**

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO



grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

**DISCLAIMER**

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.