

Bharat Heavy Electricals Limited

June 20, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	6,000.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Long-term / Short-term bank facilities	54,000.00	CARE AA-; Stable / CARE A1+ (Double A Minus; Outlook: Stable/ A One Plus)	Reaffirmed
Total bank facilities	60,000.00 (₹ Sixty thousand crore only)		
Commercial paper	5,000.00	CARE A1+ (A One Plus)	Reaffirmed
Commercial paper (Carved out)*	3,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	8,000.00 (₹ Eight thousand crore only)		

Details of instruments/facilities in Annexure-1.

* Carved out of the sanctioned working capital limits of the company.

Detailed rationale and key rating drivers

The reaffirmation of the ratings of Bharat Heavy Electricals Limited (BHEL) factors in its established position in the power equipment market – especially its deep penetration among the government sector entities. The ratings factor in the strong manufacturing and engineering base with availability of experienced resources for execution of orders on a very large scale. The ratings continue to account for the medium-term revenue visibility on the back of a healthy order book position backed by recovery in order intake during FY22 (refers to the period April 1 to March 31) and possible improvement in the executable order in FY23. The ratings also derive comfort from the improvement in reported profitability owing primarily to provision reversals and a comfortable capital structure with strong liquidity position. The ratings also take note of BHEL's status as a Maharatna, the majority ownership of the company by the Government of India (GoI), and the resulting financial flexibility. The rating strengths, however, continue to be tempered from the company's improved yet elongated working capital cycle due to an increasing trend in the contract assets given the adverse payment terms in its orders. Besides, the ratings continue to factor in improved yet lower-than-historical levels of order execution and a higher concentration of orders in the thermal power segment that is beset with abiding systemic challenges like overcapacity, declining competitiveness and weak financial profile of state power utilities.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Reduction in the average collection period (including contract assets) to 300 days on a sustained basis.
- Higher-than-projected execution and significant improvement in profitability.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Continued sluggish execution of orders with further deterioration in collections.
- Further deterioration in gross margin and overhead expenses.
- Further deterioration of net cash over debt position.
- Material reduction in GoI shareholding in BHEL to below 50%.

Detailed description of the key rating drivers

Key rating strengths

Established position in power and industrial equipment segments: BHEL has established its position in building India's capability in heavy electrical equipment manufacturing for over almost five decades. BHEL's involvement in power generation, transmission, floating solar engineering, procurement and construction (EPC) and in railway traction has been significant over the years. It also continues to have a sizable share in the supply of equipment across the country for thermal projects under implementation.

Strong manufacturing and engineering base with adequate availability of resources for executing large orders: Considering its significant business integration and a wide range of products, especially in power equipment, BHEL has a capacity to deliver up to 20 GW in a year. The company has the infrastructure and resources to operate in more than 150 project sites in India and abroad. It has presence across India through its 16 manufacturing units, two repair centres and eight service centres. BHEL's strength in project execution is also driven by its large competent and experienced

¹ Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

workforce. BHEL has been spending sizable amount for research and development (R&D) – a critical area for better product design thus increasing acceptance, cost reduction and efficiency in the competitive electrical equipment EPC landscape.

Healthy order book position providing medium-term revenue visibility: The total order inflow in FY22 has been higher than FY20 and FY21 levels, driven by recovery in the power sector order inflow (which stood at four-year high). The aggregate order book has remained stable at ₹102,542 crore (PY: ₹102,090 crore). Although executable order book as percentage of total has declined to 77% during FY22 (PY: 80%), the management is hopeful of improvement during FY23 on account of restart of construction works in few stalled thermal projects. The FY22 executable order book is 3.92x the FY22 revenue from order execution (PY: 5.04x), which provides medium-term revenue visibility to the company. The average execution period of the order book ranges from three to five years. The order book though concentrated in terms of sector, is diversified in terms of clients and geography.

Comfortable financial risk profile of the company: BHEL has a large net worth, which provides financial flexibility. The company's capital structure remained comfortable characterised by a low overall gearing (adjusted for mobilisation advances and group co advances), which continues to remain stable.

Majority ownership by GoI and benefits accruing from the Maharatna status: BHEL is one of the largest engineering and manufacturing companies in India serving core sectors of its economy, with majority stake held by GoI. As on March 31, 2022, GoI's stake in the company continued to stand at 63.17%. The company enjoys the status of Maharatna that permits greater autonomy to Central Public Sector Enterprises (CPSEs) in their investment and capital expenditure decisions.

GoI has fair representation in the board of directors through two nominated members (who hold executive positions in relevant administrative ministries). The independent directors are also selected by the administrative ministries.

Key rating weaknesses

Continued pre-provision operating loss despite improved scale of operation and overhead rationalisation: The profit before interest, lease rentals, depreciation and taxation (PBILDT) margin, prior to the effect of provisions, though improved from FY21 level, continued to be negative during FY22 on account of partial pass through of volatile commodity prices. BHEL's order execution in FY22, although improved from FY21, continues to be lower-than-historical level. Despite the controlled employee cost and other expenses, sustained improvement in operating profitability is yet to be seen.

Despite improvement, working capital continues to be intensive: The company's gross current assets and net operating cycle, though improved in FY22 from FY21, continue to be high. This is attributable to significant receivables, contract assets and inventory required to be maintained for working at various projects simultaneously. The percentage of non-current receivables and contract assets of total have been increasing over the years, indicating longer time for realisation. However, the same is offset to an extent by improved collection of current trade receivables during the year. However, more than 65% of the receivables and contract assets are due from large central/state public sector undertakings (PSUs), which provides comfort. Moreover, the inventory level has also reduced during the year.

Continued concentration of orders from the thermal power sector: Order inflows continue to remain concentrated in the power sector in FY22 with 80% of the executable order book accounting from this sector. Significant diversification may not be seen in the medium term, as the management is expecting a sizable order inflow in the power sector during FY23. New growth opportunities in the industry (especially transportation and defence sector) are being explored by utilising its expertise and manufacturing capacity. Going forward, the ability of the company to diversify and add on to its non-power order book (given the subdued thermal power scenario) along with expansion in the margin shall be important from the credit perspective.

Competition in power sector and new business segments: The power plant equipment market has witnessed intense competition from foreign and domestic players on account of significant unutilised manufacturing capacity among all the players and subdued addition to thermal power capacity in India over the past few years and planned going forward. In power equipment and emission control equipment space, BHEL has a larger market share in comparison to its peers. Until the company establishes itself in railway, defence and energy storage segments, its prospects are likely to continue to hinge upon the conventional power sector.

Liquidity: Strong

BHEL has a healthy liquidity position as exhibited by robust cash and bank balance of ₹7,154 crore as on March 31, 2022. The company's liquidity position derives comfort from its working capital limits and commercial paper (CP), which together had an average utilisation of less than 50% over the trailing 12 months ended-April 2022. The cash flow from operation continued to be positive in FY22. The current ratio of the company continued to be healthy, and it does not have any long-term debt and hence no repayment obligations.

Analytical approach: Standalone. BHEL neither has any substantial business operation through its subsidiary/joint venture (JV) nor has significant investment commitment in the future. Given the majority shareholding by GoI in BHEL, the rating factors in the linkages with a strong parent, ie, GoI.

Applicable criteria[CARE's policy on default recognition](#)[Criteria on assigning outlook and credit watch to credit ratings](#)[Criteria for short-term instruments](#)[Financial ratios – Non-financial sector](#)[Liquidity analysis of non-financial sector entities](#)[Factoring linkages government support](#)[Rating methodology - Manufacturing companies](#)[Rating methodology - Construction](#)**About the company**

BHEL is an integrated power plant equipment manufacturer and one of the largest engineering and manufacturing companies in India. The company is engaged in the design, engineering, manufacture, construction, testing, commissioning and servicing of a wide range of products and services for the core sectors of the economy. BHEL has played an important role in India's heavy electrical equipment industry since its incorporation in 1964.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (Abr.)
Total operating income	16,998.96	21,211.09
PBILDT	-3,413.14	737.92
PAT	-2,717.14	410.24
Overall gearing (times)	0.44	0.43
Interest coverage (times)	-7.33	2.08

A: Audited; Abr.: Abridged

Status of non-cooperation with previous CRA: Not Applicable**Any other information:** Not Applicable**Rating history for last three years:** Please refer Annexure-2**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3**Complexity level of various instruments rated for this company:** Annexure-4**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	6000.00	CARE AA-; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	54000.00	CARE AA-; Stable / CARE A1+
Commercial paper- Commercial paper (Standalone)	INE257A14805	-	-	7 Days to 364 Days	5000.00	CARE A1+
Commercial paper- Commercial paper (Carved out)	NA	-	-	7 Days to 364 Days	3000.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash credit	LT	6000.00	CARE AA-; Stable	-	1)CARE AA-; Stable (24-Jun-21)	1)CARE AA; Stable (27-Jun-20)	1)CARE AA+; Stable (03-Sep-19)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	54000.00	CARE AA-;	-	1)CARE AA-; Stable	1)CARE AA; Stable	1)CARE AA+;

				Stable / CARE A1+		/ CARE A1+ (24-Jun- 21)	/ CARE A1+ (27-Jun- 20)	Stable / CARE A1+ (03-Sep- 19)
3	Commercial paper- Commercial paper (Standalone)	ST	5000.00	CARE A1+	-	1)CARE A1+ (24-Jun- 21)	1)CARE A1+ (27-Jun- 20)	1)CARE A1+ (03-Sep- 19) 2)CARE A1+ (10-Jul-19)
4	Commercial paper- Commercial paper (Carved out)	ST	3000.00	CARE A1+	-	1)CARE A1+ (24-Jun- 21)	-	-

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial paper-Commercial paper (Carved out)	Simple
2	Commercial paper-Commercial paper (Standalone)	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Fund-based - LT-Cash credit	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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