

## Bharat Heavy Electricals Limited

June 19, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	9,000.00 (Enhanced from 6,000.00)	CARE AA-; Stable	Reaffirmed
Long-term / Short-term bank facilities	51,000.00 (Reduced from 54,000.00)	CARE AA-; Stable / CARE A1+	Reaffirmed
Commercial paper	5,000.00	CARE A1+	Reaffirmed
Commercial paper (Carved out)*	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

\*The carved-out CP limits stand withdrawn at the request of the company. The company has closed the carved out limits and as on date there is no amount outstanding against the same.

### Rationale and key rating drivers

The reaffirmation of the ratings of Bharat Heavy Electricals Limited (BHEL) continues to factor 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 adequate order intake during FY23 (refers to the period April 1 to March 31) and year to date FY24. Although the orderbook remains concentrated towards the power segment, the ratings factor the company's demonstrated efforts towards diversifying the orderbook beyond the power segment indicated by the year-on-year improving inflows of orders from the industrial projects segment. Furthermore, the ratings factor favourably the improved project pipeline in the thermal power segment for the medium term. CARE Ratings Limited (CARE Ratings) believes that BHEL shall be adequately placed to acquire a healthy portion of these projects once their bids are opened.

The ratings also derive strength from the comfortable capital structure with strong liquidity position marked by cash position of ₹1258 crore as on March 31, 2023 netting off its external debt. 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 elongated gross current asset days due to an increasing trend in the contract assets given the rear-ended payment terms in its older orders and losses at pre-provisioning levels, although narrowed down in FY23. CARE Ratings expects gradual improvement in the stretched current assets and profitability in the medium term. Inability to improve the same within envisaged timelines shall be critical rating sensitivity. 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: Factors likely to lead to rating actions

#### Positive factors

- Reduction in average collection days (including contract assets) to 300 days on sustained basis.
- Higher-than-projected order execution and significant gross margin expansion

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Negative factors

- Low order intake or slower execution of orders, impairing revenue visibility and consequent deterioration in profitability
- Reduction in net cash over external debt position below ₹1,000 crore on a sustained basis
- Reduction in GoI shareholding in BHEL to below 51%

## 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.

## Outlook: Stable

The outlook for BHEL is expected to be stable for the medium term backed by virtue of its strong financial flexibility on account of GoI holding of 63.17% and the net external debt negative position of the company. Furthermore, healthy orderbook position with improved pipeline of thermal and industrial projects and increasing execution pace for the orders including revival of stuck orders shall continue to render stability to the risk profile of the company.

## Detailed description of the key rating drivers:

### Key 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. BHEL backed by its best in class technology and strong resource base is expected to maintain its position and continue to garner sizable market share in its industry.

### 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 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 FY23 has been consistent with the FY22 levels. The inflow for FY23 stood at ₹23,548 crore (PY: ₹20,379 crore). During Q1FY24, the company also won a milestone order of manufacturing 80 Vande Bharat trains in a Joint Venture with 'Titagarh Wagons Limited' where in BHEL's has a significant share. The order inflow year-on-year is improving towards the industry sector with the sector forming 40% of the order inflows in FY23.

The aggregate order book as on March 31, 2023 stood at ₹91,336 crore (PY: ₹90,084 crore). Including the Vande Bharat order, the orderbook stands at ₹100,000+ crore as on May 31, 2023. The executable order book as percentage of total has improved to 77% as on March 31, 2023 (PY: 75%). The management has also indicated revival of the Raghunathpur thermal project reducing the stuck projects. The executable order book as on fiscal ended FY23 stood at 3.16 times the FY23 revenue from order execution (PY: 3.37x), 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 base, which provides financial flexibility. The company's capital structure remained comfortable characterised by a low overall gearing (adjusted for mobilisation advances and group company advances), which continues to remain stable. The net cash over external debt also stood at ₹1,258 crore as of March 31, 2023. Total outside liabilities to Tangible net-worth improved at 1.08x (PY: 1.20x) as on March 31, 2023. The financial risk profile is expected too be robust backed by nil requirement of long-term borrowings.

**Majority ownership by GoI and benefits accruing from the Maharatna status:** BHEL is one of the largest engineering and manufacturing companies in India serving a core sector of its economy, with majority stake held by GoI. As on March 31,

2023, 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 weaknesses

**Continued pre-provision operating loss albeit losses narrowed down significantly:** The profit before interest, lease rentals, depreciation and taxation (PBILDT) margin, prior to the effect of provisions, continues to be negative on account of partial pass through of volatile commodity prices and inadequate absorption of overheads. BHEL's order execution in FY23, although improved from FY22, continues to be lower-than-historical levels. Despite the controlled employee cost and other expenses, sustained improvement in operating profitability is yet to be seen.

CARE Ratings takes cognisance of the significant reduction in the pre-provision PBILDT from -9.60% in FY21 to -0.55% in FY23. Going forward, improvement in the pre-provision profitability shall be a key rating monitorable.

**Elongated current asset days:** The company's gross current assets though improved in FY23 from FY22, continue to be high at days 648 (PY: 705 days). This is attributable to significant receivables, contract assets due to back-ended payment structure in the projects and inventory required to be maintained for working at various projects simultaneously. The percentage of non-current receivables and contract assets of total has 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. Furthermore, the increase in contract assets are supported by back-to-back agreements entered with subcontractors of the orders, resulting in elevated trade payables.

About 39% of the receivables and contract assets are due from large central public sector undertakings (PSUs), which provides comfort to an extent. However, state PSUs form about 41% of the receivable & contract assets which poses the same to counter party risk. Nevertheless, BHEL has been dealing with state PSUs for decades and expects the track record of receivable being realized to be maintained.

Furthermore, going forwards in the new awards, the back-ended payment mechanism is being addressed to reduce the intensity of capital held up in contract assets. Additionally, as per the company's articulation, a visible reduction in the working capital intensity is expected from FY25 onwards wherein the company expects major payment milestones being achieved for its ongoing projects. Realisation of contract assets is critical for relaxing the working capital intensity and continues to be key monitorable for the company.

**Concentration in thermal power sector, however, industry sector inflow catching up:** Order book continues to remain concentrated in the power sector in FY23 with 77% (PY: 80%) of the executable order book accounting from this sector. In terms of new orders, the share of power sector has comparatively reduced with industry segment catching up. During FY23, out of the total inflows, power segment formed 57% (PY: 75%) of the total inflow and the industry segment formed 40% (PY: 24%). However, in terms of closing orderbook, significant diversification may take a longer time as the present executable orderbook is concentrated towards the power sector.

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 the addition 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 ₹6,642 crore as on March 31, 2023. The company's liquidity position derives comfort from its working capital limits and commercial paper (CP). The company's average fund-based utilisation stood at about 70-80% for the trailing 12 months (TTL) ended May 2023. The same for the CP limits stood at about 9% for TTL-May 2023. The company does not have any long-term debt which aids its liquidity.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** The factors of ESG affecting the sector are the environmental aspects such as material selection, power consumption, carbon emissions, method of construction, waste management; the social aspects like workmen safety, community impact and accessibility and governance aspects such as stakeholder engagement, supply chain management and business ethics. CARE Ratings expects BHEL's commitment to ESG will support its credit profile. Highlights of the impact of company's key ESG initiatives are as follows:

**Environment:**

- Focussing on creating products which are long lasting, efficient, use less quantum of natural resources during their operation thereby reducing their carbon foot print.
- Sustainable use of energy at the company's premises. The company has also undertaken Energy Management System certification (ISO 15001) through third-party audits.
- The company has discontinued use of refrigerants having ozone-depleting substances. The new machines procured at various units are using refrigerant gas such as R-134a and R-410a, which have zero ozone depletion potential.
- Usage of food waste across facilities for making vermicompost for horticulture
- Overall across the organization and in its vicinity, more than 2,80,000 plant saplings have been planted in the last six years which will act as carbon sink of future

**Social:**

- BHEL continued with its CSR program for constructing bio-digester toilets in Haridwar and Rishikesh.
- BHEL continued with its program "Heal-A-Soul" and providing Anti Haemophilic Factors (AHF) to patients with Haemophilia in various aspirational districts across India.

**Governance:**

- The board of BHEL comprises of two government nominee directors and two independent directors
- The company has a Board approved 'Code of Business Conduct & Ethics' for all Board Members and Senior Management personnel in compliance with the requirements of Department of public enterprises (DPE) Guidelines on Corporate Governance for CPSEs and SEBI's Listing Regulations.
- In the area of business dealings with vendors and customers, BHEL has signed MoU with Transparency International India (TII) to adopt 'Integrity Pact' to make procurement and contracting more transparent by binding both the parties to ethical conduct.

**Applicable criteria**

[Policy on default recognition](#)

[Factoring Linkages Government Support](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Construction](#)

[Policy on Withdrawal of Ratings](#)

**About the company and industry****Industry classification**

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Electrical Equipment	Heavy Electrical Equipment

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, 2022 (A)	March 31, 2023 (A)
Total operating income	21,211.09	23,364.94
PBILDT	737.92	716.56
PAT	410.24	447.55
Overall gearing (times)	0.43	0.42
Interest coverage (times)	2.08	1.37

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

#### 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 rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper- Commercial Paper (Carved out)	NA	NA	NA	NA	0.00	Withdrawn
Commercial Paper- Commercial Paper (Standalone)	NA (As on date o/s CPs are Nil)	NA	NA	NA	5000.00	CARE A1+
Fund-based - LT-Cash Credit	NA	-	-	-	9000.00	CARE AA-; Stable
Non-fund-based - LT/ ST-BG/LC	NA	-	-	-	51000.00	CARE AA-; Stable / 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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	9000.00	CARE AA-; Stable	-	1)CARE AA-; Stable (20-Jun-22)	1)CARE AA-; Stable (24-Jun-21)	1)CARE AA; Stable (27-Jun-20)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	51000.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (20-Jun-22)	1)CARE AA-; Stable / CARE A1+ (24-Jun-21)	1)CARE AA; Stable / CARE A1+ (27-Jun-20)
3	Commercial Paper-Commercial Paper (Standalone)	ST	5000.00	CARE A1+	-	1)CARE A1+ (20-Jun-22)	1)CARE A1+ (24-Jun-21)	1)CARE A1+ (27-Jun-20)
4	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	1)CARE A1+ (20-Jun-22)	1)CARE A1+ (24-Jun-21)	-

\*Long term/Short term.

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

Not applicable

**Annexure-4: Complexity level of the various instruments rated**

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

**Annexure-5: Lender details**To view the lender wise details of bank facilities please [click here](#)

**Note on the 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](mailto:care@careedge.in) for any clarifications.

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### About us:

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