

Bharat Heavy Electricals Limited

June 18, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	9,000.00	CARE AA-; Stable	Reaffirmed
Long-term/short-term bank facilities	51,000.00	CARE AA-; Stable / CARE A1+	Reaffirmed
Commercial paper	5,000.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to Bharat Heavy Electricals Limited's (BHEL) bank facilities and short-term instruments considers robust inflow of orders from the thermal power sector, totalling 9.6 GW worth ₹55,600 crore of the overall ₹77,900 crore orders including industrial segment received in FY24 (referring to April 01 to March 31). In Q1FY25, the company received 3.2GW of thermal power orders. Majority new orders follow a milestone-based payment structure, contrasting with the back-ended payment structure prevalent in legacy contracts. As a result, CARE Ratings Limited (CARE Ratings) expects the strengthened order book to drive growth in scale of operations and improvement in profitability, considering substantial completion of legacy projects. BHEL continued to report losses at pre-provisioning levels in FY24 due to stagnant scale of operations and escalation in commodity prices. Going forward, its inability to scale up operations and improve profitability with completing legacy projects shall be a critical rating sensitivity.

In addition to considering the positive demand outlook for the thermal sector driven by increasing electricity consumption, ratings also account for BHEL's strong position in the power equipment market, particularly its extensive presence among government sector entities. Ratings reflect BHEL's robust manufacturing and engineering capabilities, supported by a wealth of experienced resources for executing large-scale orders. Ratings for BHEL continue to consider majority ownership by the Government of India (GoI) (63.17%), the appointment of GoI-nominated directors on BHEL's board and the resulting financial flexibility.

CARE Ratings considers the net cash and bank balance relative to its bank debt position, which stood at a negative ₹2,545 crore as of March 31, 2024. This negative position is attributed to increased working capital borrowings. The company has made payments and advances to its creditors and suppliers, aiming to enhance execution volume, while managing delayed receipt of contract assets due to back-ended payment structure and stagnant scale of operations facilitated by additional borrowings. CARE Ratings anticipates a reduction in the bank debt position, as the company receives advances from new orders and realises contract assets from legacy orders in Q4FY25. Net cash and bank balance are expected to turn positive as on March 31, 2025. However, persistence of a negative net cash position remains a rating sensitivity.

Ratings continues to be tempered by elongated gross current asset days due to an increasing trend in contract assets from rear-ended payment terms in legacy orders, and operating losses at pre-provisioning levels. Ratings also consider improved yet lower-than-historical levels of order execution and weak financial profile of state power utilities.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- Inability to scale up operating income and eliminating pre-provisioning losses.
- Continuing net cash negative position in FY25.
- Reducing GoI shareholding in BHEL to below 51%.

Analytical approach: Standalone

BHEL neither has substantial business operation through its subsidiary/joint venture (JV) nor has significant investment commitment in the near future. BHEL has a joint venture under development with Coal India Limited, which is likely to entail investment commitment over a few years, the project being under conceptualisation stage, the investment intensity shall be

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

factored accordingly. Furthermore, given the majority shareholding by GoI in BHEL, the rating factors in linkages with a strong parent, GoI.

Outlook: Stable

The outlook for BHEL is expected to be stable in the medium term, considering a strong order inflow from the thermal power segment, indicating a likely improvement in execution volume, resulting in improved profitability and liquidity. Continuation of majority ownership by GoI provides financial flexibility.

Detailed description of key rating drivers**Key strengths****Established position in power and industrial equipment segments**

BHEL has played a pivotal role in developing India's heavy electrical equipment manufacturing capabilities for nearly five decades. BHEL's contributions span power generation, transmission, floating solar engineering, procurement and construction (EPC), and railway traction. It maintains a substantial market share in supplying equipment for thermal projects across the country. Supported by cutting-edge technology and a robust resource base, BHEL is poised to sustain its position and further expand its market presence.

Strong manufacturing and engineering base for executing large orders

Considering its significant business integration and wide range of products, especially in power equipment, BHEL can 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 a 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 sizably on research and development (R&D) – a critical area for better product design, 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 FY24 has been exceptional, BHEL reported its highest order inflow at about ₹77,900 crore (PY: ₹23,548 crore). This surge in orders can be attributed to resurgence in demand for thermal power projects in India. BHEL secured about 9.6 GW from thermal power segment and 2.8 GW from hydro power segment in FY24. In Q1FY25, the company received 3.2GW of thermal power segment. In the industry segment BHEL also received a sizable order inflow such as manufacturing of 80 Vande Bharat trains, 20 upgraded SRGMs etc. which has improved its diversification towards the industrial segment, accounting for approximately 25% of the executable order book.

The aggregate order book as of March 31, 2024, stood at ₹1,31,598 crore (PY: ₹91,336 crore). The executable order book, expressed as a percentage of the total, has significantly improved to 94.16% as of March 31, 2024 (PY: 77%). This improvement is supported by revival of projects such as the Raghunathpur thermal project, which reduced the proportion of slow-moving or on-hold orders. The executable order book for FY24 stood at 5.41x the revenue from order execution (PY: 3.16x), providing robust revenue visibility. The average execution period for orders in the book ranges from 3-5 years. While the order remains concentrated in terms of sector, it demonstrates diversification across clients and geographical regions.

Comfortable capital structure of the company

BHEL has a substantial net worth base, which enhances its financial flexibility. The company's capital structure remains comfortable, characterised by low overall gearing (adjusted for mobilisation advances and group company advances), and this stability persists. BHEL's robust financial risk profile is supported by nil requirement of long-term borrowings.

Majority ownership by GoI

BHEL is a prominent engineering and manufacturing company in India, serving vital sectors of the economy for over five decades. GoI holds majority stake in BHEL, which maintained a 63.17% ownership as of March 31, 2024. BHEL holds the prestigious Maharatna status, granting greater autonomy to Central Public Sector Enterprises (CPSEs) in their investment and capital expenditure decisions. GoI is well-represented on BHEL's board of directors through two nominated members, who hold executive positions in relevant administrative ministries. Independent directors are carefully selected by administrative ministries.

Key weaknesses

Continued pre-provision operating loss

Despite marginal improvement in BHEL's order execution in FY24 compared to FY23, pre-provision profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin remains negative due to partial pass-through of volatile commodity prices and inadequate absorption of overheads. Although the company has controlled employee costs and other expenses, sustained enhancement in operating profitability is yet to materialise. The key to addressing this lies in scaling up operations to better absorb overheads. Going forward, its inability to scale up operations and improve profitability by completing legacy projects shall be a critical rating sensitivity.

Elongated current asset days

The company's gross current assets continue to be elevated above 700 days. This can be attributed to significant receivables, contract assets due to back-ended payment structure in legacy contracts and inventory required to be maintained for working on several projects simultaneously. The percentage of non-current receivables and contract assets of total has been increasing over the years, indicating longer timeline for realisation. Increase in contract assets is supported by back-to-back agreements entered with subcontractors of orders.

About 43% receivables and contract assets are due from large central public sector undertakings (PSUs), which provides comfort to an extent. However, state PSUs form about 40% of the receivable and contract assets, which pose counterparty risk. BHEL has been dealing with state PSUs for decades and expects the track record of receivables being realised to be maintained.

Going in new awards, the back-ended payment mechanism is being addressed to reduce intensity of working capital held up in contract assets. As articulated by the company's, in Q4FY25 there is an expectation of major payment milestones being achieved for ongoing projects. The realisation of contract assets is critical for relaxing working capital intensity and continues to be a key monitorable.

Competition in power sector and new business segments

The power plant equipment market witnessed intense competition from foreign and domestic players considering significant unutilised manufacturing capacity among all players, subdued addition to thermal power capacity in India over the last few years and additions planned, going forward. In the 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 on the conventional power sector.

Liquidity: Strong

Strong liquidity is articulated by nil long-term bank borrowings and presence of cash and bank balance of ₹6,263 crore as of March 31, 2024. The company's average fund-based utilisation stood at about 92% for 12-months ended April 2024. The same for the CP limits stood at about 1% for 12-months ended April 2024. However, there is also the likelihood of receipt of customer advances from new orders, improved collection efficiency and profitability, which would bring liquidity to meeting working capital requirements.

Assumptions/Covenants

Not applicable

Environment, social, and governance (ESG) risks

The factors of ESG affecting the sector include environmental aspects such as material selection, power consumption, carbon emissions, method of construction, waste management; social aspects such as 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 that are long lasting, efficient, use less quantum of natural resources in their operation, reducing their carbon footprint.

- Sustainable use of energy at the company's premises. The company has also undertaken Energy Management System certification (ISO 15001) through third-party audits.
- BHEL has capital solar photovoltaic plants of 35 MW for its plants.
- BHEL launched its net zero by 2047 target initiative in FY24 by the name 'Harit BHEL'.
- BHEL has set up Miyawaki forests in three units with cumulative coverage of 15,500+ square metres.

Social:

- BHEL continued with its program for supporting Educated India, Healthy India and Inclusive India under its CSR program.

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 requirements of Department of public enterprises (DPE) Guidelines on Corporate Governance for CPSEs and SEBI's Listing Regulations.
- In 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 parties to ethical conduct.

Applicable criteria

[Definition of Default](#)

[Factoring Linkages Government Support](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Construction](#)

[Short Term Instruments](#)

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 design, engineering, manufacture, construction, testing, commissioning, and servicing a wide range of products and services for 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, 2023 (A)	March 31, 2024 (A)
Total operating income	23,370.71	23,892.78
PBILDT	-2,012.64*	612.60
PAT	447.55	259.89
Overall gearing (times)	0.41	0.64
Interest coverage (times)	NM	0.84

A: Audited UA: Unaudited; NM: Not meaningful; Note: these are latest available financial results

*Impact of provision creation has been adjusted in FY23 PBILDT.

Status of non-cooperation with previous CRA:

Not applicable

Any other information:

Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instruments / facilities: Annexure-3

Complexity level of 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 (Standalone)	NA	NA	NA	NA	5000.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	-	9000.00	CARE AA-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	51000.00	CARE AA-; Stable / CARE A1+

NA: Not applicable as nil CPs are outstanding as on date

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	9000.00	CARE AA-; Stable	-	1)CARE AA-; Stable (19-Jun-23)	1)CARE AA-; Stable (20-Jun-22)	1)CARE AA-; Stable (24-Jun-21)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	51000.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (19-Jun-23)	1)CARE AA-; Stable / CARE A1+ (20-Jun-22)	1)CARE AA-; Stable / CARE A1+ (24-Jun-21)
3	Commercial Paper- Commercial Paper (Standalone)	ST	5000.00	CARE A1+	-	1)CARE A1+ (19-Jun-23)	1)CARE A1+ (20-Jun-22)	1)CARE A1+ (24-Jun-21)
4	Commercial Paper- Commercial Paper (Carved out)	ST	-	-	-	1)Withdrawn* (19-Jun-23)	1)CARE A1+ (20-Jun-22)	1)CARE A1+ (24-Jun-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

*The carved-our CP limits were withdrawn on the request of the company.

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

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

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

Contact us

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Saikat Roy Senior Director CARE Ratings Limited Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in</p>	<p>Analytical Contacts</p> <p>Rajashree Murkute Senior Director CARE Ratings Limited Phone: +91-22-6837 4474 E-mail: rajashree.murkute@careedge.in</p> <p>Maulesh Desai Director CARE Ratings Limited Phone: +91-79-40265605 E-mail: maulesh.desai@careedge.in</p> <p>Prasanna Krishnan Lakshmi Kumar Associate Director CARE Ratings Limited Phone: +91-120-4452014 E-mail: prasanna.krishnan@careedge.in</p>
---	---

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**