Beml Limited

August 06, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,500.00	CARE AA-; Stable	Revised from CARE A+; Stable
Long-term / Short-term bank facilities	4,000.00	CARE AA-; Stable / CARE A1+	Revised from CARE A+; Stable / CARE A1+
Commercial paper (Carved out)*	400.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.
*Carved from sanctioned working capital limits of the company (proposed)

Rationale and key rating drivers

Revision in the long-term rating assigned to bank facilities of BEML Limited (BEML) factors the company's improving operational performance, marked by consistently improving profit before interest lease depreciation and tax (PBILDT) margin, a strong order book, improving working capital cycle with faster collection times and an overall stronger credit profile. The rating revision has also factored favourable business prospects with growth anticipated across company segments.

Ratings also deriving strength from experienced management team, established and long track record of operations with manufacturing base providing wide range of products, reputed client base with a focus on indigenisation through in-house R&D. However, ratings are constrained by moderate growth in the company's total operating income (TOI) and margins susceptible to input price volatility and ongoing divestment process of the Government of India's (GOI) stake in the company. Its progress and outcome would be a key monitorable for the company in the near future.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increasing scale of operations by 15% y-o-y while maintaining a PBILDT margin of minimum 13% on sustained basis.
- Improving inventory below 190 days and receivable below 90 days.

Negative factors

- Decreasing TOI below ₹3800 crore and PBILDT margin below 5% in the future.
- Debt-funded capex or extensive working capital utilisation such that the total debt to PBILDT going above 2.75x on a sustained basis.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has adopted a consolidated approach for arriving at the rating BEML and have also factored in the company's majority ownership and management under GOI. Subsidiaries consolidated have been listed in Annexure 6.

Outlook: Stable

The stable outlook reflects CARE Ratings' expectation that favourable industry outlook and experienced management will continue to benefit BEML in the medium term.

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

Detailed description of key rating drivers:

Key strengths

Established and long track record of operations

Established in May 1964, BEML is an established player with wide range of products in segments such as mining & construction (M&C), defence & aerospace (defence) and rail & metro (R&M). The company has track record of nearly six decades and has been supplying products and services to reputed clients including Coal India Limited, Ministry of Defence, and metro rail corporations among others. Its products are also exported to over 72 countries. Over 75% of BEML's business are on competition mode. In FY24, the M&C segment contributed about 42% revenue (PY: 49%), followed by R&M 39% (PY:28%) and the balance 19% (PY: 23%) was from defence.

Experienced management team and majority stake owned by GOI

BEML's leadership team comprises highly qualified and experienced personnel. Shantanu Roy assumed charge as Chairman and Managing Director, BEML Limited, on August 01, 2023. Earlier, Shantanu Roy was Director (M&C business). He is an electrical engineering graduate from NIT Raipur and holds an MBA in financial management. He has more than 30 years of extensive experience in the capital goods sectors for defence, M&C, transportation, transmission, renewable and large power projects. He is supported by Ajit Kumar Srivastav, Director (defence business), who has served the organisation for more than three decades. BEML has one Government nominee director and four independent directors. As on June 30, 2024, the President of India (through the Ministry of Defence) holds 54.03% of the company's total equity share capital. However, GOI has 'in-principle' decided to disinvest 26% equity share capital of BEML through strategic disinvestment with transfer of management control. The progress and impact of this would be a key monitorable in the future.

Reputed client base with a focus on indigenisation through in-house R&D

BEML's client base consists of major Government organisations and PSUs including Coal India Limited, Ministry of Defence, metro rail corporation among others. BEML has repeat orders, specifically in R&M segment, owing to its track record in providing products and services to metro rail corporations. BEML has been manufacturing products through technology transfer and have systematically indigenised products over the years. The company spent ₹87 crore on R&D in FY24, which is about 2.17% of sales turnover. Total 105 IPRs have been submitted for registration, of which, 69 are patents, 16 are designs, 12 are copyrights and eight are trademarks.

Comfortable order book position

BEML's order book as on April 01, 2024, stood at ₹11872 crore as against ₹8570 crore in the previous year, improved by over 38%. R&M comprise the highest share of 46% (₹5493 crore) followed by defence 40% (₹4790 crore) and the balance 13% (₹1589 crore) from M&C. This translates to almost three years of orders to be executed considering turnover of FY24. Orders from R&M and defence are to be serviced by FY27 as it has longer execution time period, however, for M&C, execution time is about 2-3 months and the company received orders in this segment mostly in the second half of the financial year. CARE Ratings expects that the company's order book position will remain robust with orders coming from all three segments despite growth in the R&M segment is anticipated to be higher.

Strong marketing and after sales service network

BEML's products are sold and serviced through its marketing network spread all over the country and are exported to more than 72 countries. BEML's nationwide network of sales offices enables buyers with ready access to its wide range of products. BEML offers product support through 12 regional offices and 19 district offices across the country. The company also establishes temporary activity centres at customer locations to support and service equipment. BEML offers support plans , annual maintenance contracts (AMC), annual service contracts (ASC), full maintenance contract, maintenance and repair contracts (MARC), guaranteed availability and spare consumption, and contract and cost cap contracts among others, contract management cell at KGF, primarily focuses monitoring and ensuring instant round-the-clock support for equipment deployed at customer's project sites under different types of contracts.

Moderate growth in revenue with improving operating margins

The company's TOI in FY24 grew ~4%, improving from ₹3847 crore in FY23 to ₹4013 crore in FY24. In the last four years, from FY20, the company witnessed compound annual growth rate (CAGR) of ~7% in its TOI, which improved from ₹3038 crore in FY20 to ₹4013 crore in FY24. While TOI growth has been modest, the company witnessed healthy improvement in its operating margins in the same year, which improved from 4.13% in FY21 to 10.22% in FY24. Improvement in operating margins was driven by improving efficiency, rationalisation of fixed cost and improving segment mix. CARE Ratings anticipates that with the Government's thrust on Vande Bharat trains and improved infrastructure spending, the company's TOI is expected to improve by over 10% y-o-y in the medium term.

Formation of strategic business units (SBU's) expected to propel growth going forward

For the future growth, company has taken a strategic move to divide its entire business in 11 SBUs and two micro SBUs. The M&C vertical has been divided into four SBUs namely mining, construction, sustenance and H&P, the defence vertical has been divided in to armoured, aerospace, HMV and engines and rail & metro has been divided into commuter rail and metro rail. This apart for international business one separate SBU has been carved out. The above move will help decentralise operations and bring more focus to each business segment.

Comfortable capital structure

The capital structure of the company remains comfortable marked by overall gearing of 0.36x as on March 31, 2024 (PY:0.35x). The company does not have terms loans or NCDs outstanding and the debt represented is due to working capital borrowings and advance received from customers against BG. Other debt coverage indicators such as total debt to PBILDT and total debt to gross cash accruals (TD/GCA) improved in FY24 to 2.28x (PY:2.64x) and 2.75x (PY:3.12x) respectively. Further, interest coverage ratio also improved to 8.57x in FY24 from 5.97x in FY23.

Key weaknesses

Elongated-yet-improving working capital cycle

BEML's operating though elongated is gradually improving over time. Operating cycle improved from 335 days in FY20 to 284 days in FY24. Improvement in operating cycle is primarily considering improving y-o-y receivable's realisation, where receivables have improved from 187 days in FY20 to 121 days in FY24 (PY: 146 days) improved by 66 days. However, the company continues to have high inventory days, which stood at 235 days in FY24 (PY: 232 days). High inventory holding period is mainly due to wide client profile with varied requirements, where the company has to maintain inventory catering to all those orders. By design, the company has to maintain inventories at raw material stage, work in progress stage and finished goods. Time is gets consumed at the customers' end when the initial product comes out, which would be presented to client for quality check and testing, adding to the inventory cycle. CARE Ratings expects that working capital cycle though will remain elongated will gradually improve with faster collections of receivables and optimisation of inventory levels.

Susceptible to input price volatility

Raw material cost is the major cost component and accounted for around 53% of the total cost of sales in FY24 (PY: 55%). As such, fluctuations in price of raw material will have an impact on BEML's profitability margins. As the market is competitive with other private and international players, flexibility in terms of passing on price escalation of raw materials is limited. The company imports raw materials for its products and forex fluctuations also have an impact on profitability. Though impact of forex fluctuations is usually covered in contracts with customers, its enforceability remains a key issue.

Liquidity: Strong

The company's liquidity position remains strong marked by robust accruals against nil repayment obligations. The cash accrual for FY24 stood at ₹340 crore. With the gearing of 0.36x as on March 31, 2024 (PY: 0.35x), the company's capital structure is at a comfortable level. The company's operating cycle though improved, remained elongated at 284 days consisting of 235 days of inventory period, 121 days collection period and 72 days average payment period. The company's current ratio was comfortable levels as on March 31, 2024, and stood at 2.94x (PY: 2.51x). The company does not have debt obligations for term debts. CARE Ratings expects the company to generate GCA of about ₹400-500 crore going forward in the medium term. The company plans to undertake capex to the tune of about ₹900 crore in the next two years, which will be funded by internal accruals. The company also has adequate liquidity cushion in the form of working capital fund based bank borrowing limits to the extent of ₹1500 crore, where utilisation levels have remained minimal at around 33% in 12-months ending May 2024. However, BEML's ability to minimize overall operating days would be key rating monitorable.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

The company has been actively implementing measures related to ESG. To mitigate environmental risks, 98% energy requirement was met through "Green Energy" projects 23MW Windmill Projects and 250KWp solar power, resulting in mitigation of 24512 tons of carbon in 2023-24 and the company was the first to create India's first 205T electric drive Rear Dump. On the social front, the company has been taking measures to uplift residents of under-developed villages around local areas of the company's manufacturing complexes at Bengaluru, Kolar Gold Fields, Mysuru in Karnataka and Palakkad in Kerala. The company has been complying with corporate governance guidelines framed by DPE (Department of Public Enterprises) and has also won Excellent rating from DPE for it.

CareEdge RATINGS

Applicable criteria

[Definition of Default]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Manufacturing Companies]
[Financial Ratios – Non financial Sector]
[Short Term Instruments]
[Consolidation]
[Factoring Linkages Government Support]

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Industrial manufacturing	Industrial products

BEML was established in May 1964, as a public sector undertaking for manufacturing rail coaches and spare parts and mining equipment at its Bangalore complex. GOI owns 54.03% of total equity and balance is held by public, financial institutions, foreign institutional investors, banks, and employees. BEML Limited, a 'Schedule-A' company, serves core sectors including defence, rail, power, mining, and infrastructure. The company operates under three major business verticals: mining and construction, defence and aerospace, and rail and metro.

Brief Consolidated Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	3,846.88	4,013.27
PBILDT	321.53	410.13
PAT	157.89	281.77
Overall gearing (times)	0.35	0.36
Interest coverage (times)	5.97	8.57

A: Audited, Note: these are latest available financial results

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 instrument / facility: 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 (Carved out)	-	Proposed	-	7-365 days	400.00	CARE A1+
Fund-based - LT-Working Capital Limits	-	-	-	-	1500.00	CARE AA-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	4000.00	CARE AA-; Stable / CARE A1+

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-Working Capital Limits	LT	1500.00	CARE AA-; Stable	-	1)CARE A+; Stable (20-Feb-24)	1)CARE A+; Stable (21-Feb-23)	1)CARE A+; Stable (25-Mar-22)
2	Commercial Paper-Commercial Paper (Carved out)	ST	400.00	CARE A1+	-	1)CARE A1+ (20-Feb-24)	1)CARE A1+ (21-Feb-23)	1)CARE A1+ (25-Mar-22)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST	4000.00	CARE AA-; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (20-Feb-24)	1)CARE A+; Stable / CARE A1+ (21-Feb-23)	1)CARE A+; Stable / CARE A1+ (25-Mar-22)

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

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 (Carved out)	Simple
2	Fund-based - LT-Working Capital Limits	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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Vignyan Industries Limited	Full	Subsidiary
2	MAMC Industries Limited	Full	Subsidiary

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.

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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.

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