BrahMos Aerospace Private Limited

October 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	1,800.00	CARE AA+; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of BrahMos Aerospace Private Limited (BAPL) continue to derive strength from its strong parentage, the company being a Joint Venture (JV) between the Defence Research & Development Organisation (DRDO) and NPO Mashinostroyeniya (NPOM, Russia), high strategic importance to the Government of India (GoI) as it is the sole manufacturer and supplier of strategically critical supersonic cruise missiles to the Indian Armed Forces. Ratings also factor in BAPL's established position in manufacturing and supply of supersonic cruise missile systems with high entry barriers, driven by the research and development (R&D) and technological capabilities of the company. Furthermore, ratings consider BAPL's strong order book, comfortable financial risk profile, and its strong liquidity position.

However, rating strengths are partially offset by the company's elongated working capital cycle, susceptibility to volatility in raw material prices, and high dependence on contracts from the Ministry of Defence (MoD).

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Any significant increase in the shareholding of DRDO/GoI beyond current levels.
- Ability to sustain health flow of orders, backed by customer advances and rationalization of the working capital cycle on a sustained basis.

Negative factors

- Any change in BAPL's strategic importance to the GoI or dilution in stake by the DRDO.
- Any adverse impact on the capabilities or operations of BAPL due to a reduction in supplies or technical support from NPOM.
- Decline in the order book or delay in the execution of orders, resulting in a significant fall in TOI and margins.
- Any sizable increase in the working capital borrowings or any large debt-funded capex, leading to an overall gearing above 0.5x.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has taken a consolidated approach in view of operational and financial linkages with its subsidiary. BAPL's strong parentage and its strategic importance to GoI has been factored in. Companies consolidated have been listed under **Annexure-6**.

Outlook: Stable

CARE Ratings believes that strong market position and strong order book shall support the company's business risk profile. Financial risk profile is expected to remain strong with no major debt-led capex plans and healthy debt coverage indicators.

Detailed description of key rating drivers:

Key strengths

Strong Parentage

BAPL is a JV between DRDO and NPOM where, 50.5% stake is owned by the GoI through DRDO, while remaining 49.5% stake is held by NPOM, Russia. DRDO was formed in 1958 with the merger of Technical Development Establishment (TDEs) of the Indian Army and the Directorate of Technical Development and Production (DTDP) with the Defence Science Organisation (DSO). DRDO is the R&D wing of Ministry of Defence (MoD), GoI, with a purpose to achieve self-reliance in critical defence technologies and systems, while equipping the Indian armed forces with state-of-the-art weapon systems and equipment in accordance with requirements laid down by the three services.

NPOM is one of the leading aerospace enterprises in Russia and is held by 'Tactical Missile Corporation', which belongs 100% to the government of Russian Federation (Federal Agency for State Property Management). It was founded in 1944 and is responsible for fulfilment of government orders, international contracts in military and technical cooperation and augmentation of civil and dual-purpose equipment production. NPOM has developed and commissioned over 25 missile and space complexes for various purposes including anti-ship cruise missiles in sea, underwater, and ground and various space complex systems and apparatus

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

used for reconnaissance, anti-space defence and for sensing earth in high resolution. The company has pioneered in many designs related to aerospace and missile technology in Russia.

Strategic importance to GoI
Being the only entity for production and supply of supersonic cruise missiles to the Indian Armed Forces, BAPL assumes high strategic importance to GoI. It is solely entitled for design, development, production, and marketing of strategically critical advanced supersonic cruise missile systems. The company benefits from the GoI's thrust on the production of supersonic missile systems, leading to a healthy order flow. Since inception, it has delivered a significant number of missiles to the Indian Armed Forces, including the Army, the Navy, and the Air Force.

Established position in the supply of supersonic missile systems to the Indian Armed Forces
BrahMos was made possible due to collaboration of India and Russia through signing of an inter-governmental agreement for sharing technological strength, methodology, and experience of both JV partners, viz, DRDO and NPOM. BrahMos missile has a range of 400 km with a speed of 2.8 Mach (2.8x the speed of sound), travelling in multiple trajectories from multiple platforms on the sea, sub-sea, land, and air, capable of striking targets on sea and land with high precision. The missile's propulsion and seeker systems are from Russia, while the guidance, electronics, and grounds systems are developed by India. It is the modern missile to complete tactical cruise missile triad, which means it can be launched from the surface, sea, as well as air.

Strong R&D capabilities
BAPL operates in an industry that required constant innovation and technological upgradations, and hence, it is critical for the company to innovate, adapt to technological advancement, and adopt import technologies. To ensure the same, the company has been constantly spending on R&D through the JV partners – DRDO and NPOM. It has been making a dedicated contribution towards R&D costs over the years, in the range of 3-5% of its total yearly sales. The company also maintains a special R&D reserve, wherein appropriations are made from the yearly net profits on a regular basis.

Significantly improved order book
BAPL receives regular orders from the Indian Army, Navy, and Air Force, which ensures strong revenue visibility for the company. BAPL had a healthy order book of ~₹29,625 crore as on July 31, 2024, to be executed in the next 3-6 years.
In January 2022, the company had received a first-of-its-kind export contract of US$ 375 million for the supply of shore-based anti-ship missile systems to the Philippines, which is expected to be executed in FY25-FY26. In FY24, the company secured orders worth ₹17,752 crore, including ₹16,500 crore worth of orders from Indian Navy. Delivery of this order is expected to commence from FY27 onwards.

Satisfactory operating performance in FY24
BAPL's business profile is marked by healthy scale of operations with moderate profitability margins. Consolidated total operating income (TOI) increased by 4% y-o-y to ₹3,499 crore from (FY23: ₹3,363 crore), driven by healthy growth in the value of missile sales. Profit before interest, lease rentals, depreciation and taxation (PBILDT) margin stood stable at 9.37% in FY24 (FY23: 9.50%). Marginal decline in profitability margin in FY24 is on account of substantial increase in the provision for liquidated damages, which was largely offset by decrease in cost of raw materials and services and other direct cost. Profit after tax (PAT) margin improved and stood at 14.98% in FY24 against 11.48% in FY23 supported by large interest income on fixed deposits. Standalone TOI stood at ₹1444 crore in Q1FY25 (Q1FY24: ₹1129 crore). In April 2024, the company delivered first batch of the Philippines order, which was scheduled for delivery in FY24. The balance order is expected to be delivered in FY25-26 per the schedule. Accordingly, overall scale of operations is expected to witness healthy growth in FY25 supported by additional revenue booking against the Philippines order, while profitability margin is expected to remain stable.

Comfortable financial risk profile
The company's domestic operations are broadly self-financed through advances from customers, without any requirement to submit bank guarantees (BGs), resulting in no major reliance on bank limits. Thus, the company's capital structure is comfortable, with an overall gearing of 0.11x as on March 31, 2024 (PY: 0.15x). Total debt includes long-term mobilisation advances availed for export order, against which, BG has been extended. CARE Ratings expects the company's financial profile to remain comfortable supported by healthy operating performance and no major reliance on bank borrowings.

Liquidity: Strong
The company's liquidity profile is strong, marked by nil term debt repayment obligations and a healthy cash and bank balance of ₹9,864 crore as on March 31, 2024, built from interest-free advances given by its customers. The company does not have significant capex envisaged in the near-to-medium term. The company has received sanction of fund-based working capital limits of ₹400 crore with an average utilisation of 58% over twelve months ended August 2024. There is no utilisation of the fund-based limits post March 2024. Utilisation of non fund-based limits of ₹1000 crore stood at 47% for the last twelve months ended for

August 31, 2024. BAPL's also enjoys a strong financial flexibility derived from being majorly held by GoI and its strategic importance to the latter.

Key weaknesses

Elongated working capital cycle

BAPL's operating cycle remained elongated at 576 days in FY24 (PY: 623 days), largely on account of the high inventory holding period given the longer gestation period in manufacturing missiles, which ranges between 2-5 years. The same is expected to remain elongated in the medium term.

Susceptibility to volatility in raw material prices

BAPL's operations and profitability remain exposed to time and cost overruns as order execution has stiff timelines. The company enters into fixed-price contracts with its clients, while some element of future cost escalation is already built at the time of finalising the orders. The company thus remained exposed to volatility in the raw material prices. The company further remains exposed to various penalties, including liquidated damages in case of delay in delivery of contracts. The company has approached its customers for an extension of timeline for calculation of the liquidated damages in some cases. As a result, it makes regular yearly provisions for penalties, which has a bearing on its profitability margins. For instance, in FY24, there has been a substantial increase in provision for liquidated damages, which had an impact on operating profitability margins. Going forward, the company's ability to timely execute the orders, and fluctuations in raw material prices will remain key monitorable.

Prospects of company depending on Indian defence sector with limited exports

BAPL derives majority of its revenues from the Indian Defence Sector. There is a continuous flow of orders from the defence segment, which, in turn, is dependent upon the defence budget, and hence, is critical for the company's prospects. The company has been making efforts towards improving exports and aims at securing export orders with its existing platforms. However, the level of export continues to remain low.

Applicable criteria

Consolidation
Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Aerospace & defense	Aerospace & defense

BAPL was formed as a JV through an inter-governmental agreement signed in 1998 between India and Russia with the DRDO, GoI, and NPOM (earlier known as the Federal State Unitary Enterprise NPOM of Russia), Government of the Russian Federation. The company was established with an authorised share capital of US$ 250 million, which was subsequently increased to US$ 300 million, and is contributed in the ratio of 50.5:49.5 between DRDO and NPOM, respectively. The company is solely responsible for the design, development, production, and marketing of advanced supersonic cruise missile systems (range of 400 km with a speed of 2.8x the speed of sound). Apart from manufacturing missiles, BAPL also supplies ground-handling equipment and services related to missiles and equipment, including repair and training.

Brief Financials – Consolidated (₹ crore)	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	3,363.46	3,498.96	1444.25*
PBILDT	319.61	327.91	NA
PAT	386.00	524.27	NA
Overall gearing (times)	0.15	0.11	NA
Interest coverage (times)	16.86	10.47	NA

*Standalone Revenue
A: Audited; UA: Unaudited; NA- Not Available; Note: these are latest available financial results

Financials are reclassified as per CARE Ratings' standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of 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 and Rating Outlook
Fund-based - LT/ ST-Working Capital Limits		-	-	-	800.00	CARE AA+; Stable / CARE A1+
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	1000.00	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	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	1000.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (09-Oct-23)	1)CARE AA+; Stable / CARE A1+ (28-Mar-23) 2)CARE AA+ / CARE A1+ (RWD) (27-Dec-22) 3)CARE AA+ / CARE A1+ (CW with Developing Implications) (21-Jun-22)	1)CARE AA+ / CARE A1+ (CW with Developing Implications) (07-Mar-22) 2)CARE AA+; Stable / CARE A1+ (26-Nov-21) 3)CARE AA+; Stable / CARE A1+ (28-Jul-21)
2	Fund-based - LT/ ST-Working Capital Limits	LT/ST	800.00	CARE AA+; Stable	-	1)CARE AA+;	1)CARE AA+; Stable / CARE A1+	-

				/ CARE A1+		Stable / CARE A1+ (09-Oct-23)	(28-Mar-23) 2)CARE AA+ / CARE A1+ (RWD) (27-Dec-22) 3)CARE AA+ / CARE A1+ (CW with Developing Implications) (21-Jun-22)	

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	Fund-based - LT/ ST-Working Capital Limits	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	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 Consolidated	Rationale for Consolidation
1	BrahMos Aerospace Thiruvananthapuram 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 clarification.

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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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