

BEML Limited

February 21, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	1,500.00	CARE A+; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	4,000.00	CARE A+; Stable / CARE A1+	Reaffirmed
Commercial Paper (Carved out)*	400.00	CARE A1+	Reaffirmed

*carved out of the sanctioned fund based working capital limit of the company

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities and commercial paper of BEML Limited (BEML) continues to derive strength from the 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 and healthy order book position. The ratings also positively factors in improved financial performance in FY22 and repayment of entire term debt during H1FY23. The ratings are, however, constrained by low profitability margins albeit improved moderately, elongated working capital cycle, moderate capital structure and susceptibility of margins to volatility associated with input prices. The ratings also factor in the ongoing divestment process of Government of India's stake in the company. Progress and outcome of the same would be a key monitorable for the company in the near future.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in the scale of operation by 10% while maintaining a PBILDT margin of minimum 10% on sustained basis.
- Improvement in inventory and receivable days

Negative factors

- Decrease in TOI below ₹ 3500 crores and PBILDT margin below 4% in future years
- Any debt-funded capex or extensive working capital utilization leading to increase in debt levels, deteriorating overall gearing ratio above 1.50x in future.

Analytical approach: Consolidated

CARE Ratings has adopted the consolidated approach for analysing, factoring that the company being majorly owned and managed by Government of India. Subsidiaries considered for consolidation are given as part of annexure below.

Key strengths

Experienced management team along with majority stake owned by the Government of India

Leadership team at BEML comprises of highly qualified and experienced personnel. Mr. Amit Banerjee, an engineer from IIT (BHU), is the CMD of BEML and has served for almost 4 decades in the organisation. He has played a significant role in phased indigenization of Rolling Stock aggregates. He is also currently serving as Director at Rail & Metro. He is ably supported by Mr. M V Rajasekhar, Director – Mining & Construction and Mr. Ajit Kumar Srivastav. Both have served the organisation for more than 3 decades. BEML has one Government nominee director and 5 independent directors. As on December 31, 2021, the President of India through the Ministry of Defence holds 54.03% of the total equity share capital of the Company. However, the Government of India has 'in-principle' decided to disinvest 26% of the equity share capital of BEML Limited through strategic disinvestment with transfer of management control. The progress and impact of the same would be a key monitorable in the future.

Established and long track record of operations with manufacturing base providing wide range of products

BEML, established in May 1964, is an established player with wide range of products in the segments in which they operate i.e. Mining & Construction, Defence & Aerospace and Rail & Metro. The Company is almost 59 years old and have been supplying its products and services to reputed clients like Coal India Limited, Ministry of Defence, various metro rail corporation etc. Over 71% of BEML's business is on competition mode and 88% of BEML's business is from the company's own in-house R&D developed products. Around 45% of revenue for the company comes from mining and construction vertical, 34% from rail &

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

metro vertical and 21% from defence & aerospace in FY22. BEML has exported its products to over 68 countries. BEML had installed 23MW Windmill Projects and 250KWp Solar Power units.

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 68 countries. BEML's nationwide network of sales offices enables buyers with ready access to its wide range of products. BEML offers product support through its 12 Regional Offices, 14 District Offices, and 5 Service Centres across the Country. The Company also establishes temporary Activity Centres at customer locations to support and service equipment. BEML offers various kind of support plans viz., Annual Maintenance Contracts (AMC), Annual Service Contracts (ASC), Full Maintenance Contract, Maintenance And Repair Contracts (MARC), Guaranteed Availability & Spare Consumption Contract and Cost Cap Contracts etc., Contract Management Cell at KGF, primarily focuses monitoring & ensuring instant support on 24 x 7 for equipment deployed at various customer's project sites under various types of contracts.

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

BEML's client base consists of major Government organisation and PSUs like Coal India Limited, Ministry of Defence, various metro rail corporation etc. BEML has got various repeat orders specifically in rail & metro sector owing to its track record in providing products and services to various metro rail corporations. BEML has been manufacturing products through technology transfer and have systematically indigenised the products over the years. The company has spent ₹ 103 crores on R&D during 2021-22 which is about 2.48% of sales turnover. The Innovation Cell has succeeded in filing 42 IPRs during 2021-22 covering innovations in product design, manufacturing and operations. 12 patents have been awarded so far.

Comfortable order book position

The Order Book of BEML as on April 01, 2022 stood at ₹ 9,192 crores as against ₹ 11,363 crores in the previous year, a fall of over 19%. As on December 31, 2022, BEML has a strong order book position with orders worth ₹ 8713 crore. This translates to almost 2 years of orders to be executed considering turnover of FY22. Since most of the company's clients are PSUs, they place the order once their budget is approved which is typically sometime in August or September hence, the sales and order book for H1 will generally be lower compared to H2. The order book as of FY21 was exceptionally high as the pent-up capex which were postponed due to COVID in FY20 materialized along with revival of economies increasing exports. Consequently, in FY22 the company achieved the highest sales in the past ten years. Execution of these orders as per stipulated timelines remains a key monitorable for BEML. Further, Government's push for indigenisation with launch of "Make in India" campaign, is expected to augur well for BEML's order book addition.

Comfortable capital structure and improving credit metrics

BEML has moderate debt coverage indicators. Its total debt to gross cash accrual has improved from 5.97x as on March 31, 2021 to 3.74x as on March 31, 2022. The reduction, despite a ₹180 crores increase in working capital borrowings, was primarily due to 76% increase in gross cash accruals from ₹ 125 crores in FY21 to ₹ 220 crores in FY22. The total debt to gross cash accruals is further expected to improve going forward with entire repayment of term debt. The overall gearing remained largely in line with FY21 figures at 0.36 (PY: 0.35). Interest coverage ratio improved from 3.1x in FY21 to 4.6x due to improvement in PBILDT in FY22.

Key weaknesses

Stable scale of operations, low profitability margins albeit improved performance in recent times

Though the TOI increased from ₹ 3557 crores to ₹ 4144 crores in FY22, during 9MFY23 the sales the company fell ~5% YoY from ₹ 2659 crores to ₹ 2516 crores. The PBILDT margins increased from 4% in FY21 to 6.5% in FY22 as the company was able to achieve higher sales, resulting in higher fixed cost absorption and due to continued cost improvement efforts. The profits are still lower when compared to its peer companies. Q-o-Q performance of BEML has shown considerable improvement due to higher revenues. Since most of the company's clients are PSUs, they place the order once their respective budgets are approved, which typically happens in August or September hence, the sales and order book for H1 will generally be lower compared to H2.

Elongated working capital cycle, however improved collection in 9MFY23

Operating cycle of BEML remains elongated at 312 days in FY22. It has marginally reduced from 327 days in FY21. The company has high inventory holding period and high receivable period as the company maintains order book with wide client profile with varied requirements, it has to maintain inventory catering to all those orders. Further the company by design has to maintain inventories at raw material stage, work in progress stage and finished goods. Apart from this time also gets consumed at the customers' end as and when the initial product comes out, the same would be presented to client for quality check and

testing which additionally adds to inventory cycle. High receivable days are because of kind of projects and clients the company has. The company generally receives 15% of the contract value as advance and the remaining when the project is completed. These projects have around 4-6 months of lead time. Railway & Metro projects usually take elongated time for confirmation before releasing money and in defence vertical major client is MoD, GoI where the realization takes longer time as compared to other clients. An amount of ₹ 92 crores (against contract amount of ₹ 95 crores) relating to the above contract has been realized in Q3FY23 after ten years. As of December 2022, the debtors stood at ₹ 1189 crores. The debtor realization has improved with the outstanding debtors as of December 2022 at ₹ 1189 crores (vs ₹ 1861 crores as of March 2022).

Apart from above, the company has adequate cushion in working capital limits with cash credit utilization being at 54% during last 12 months ending November 22.

Susceptible to volatility associated with input prices

The raw material cost is the major cost component and accounted for around 58% of the total cost of sales in FY22. As such, any fluctuations in price of raw material will have an impact on the profitability margins of BEML. The company imports raw materials for its various products and forex fluctuations also will have an impact on profitability. Though impact of forex fluctuations is usually covered in the contracts with customers, its enforceability remains a key issue.

Liquidity: Adequate

The liquidity position of the company remains adequate marked by robust accruals against nil repayment obligations. The GCA for FY22 stood at ₹221 crore. With the gearing of 0.36x as on March 31, 2022, the company's capital structure is at a comfortable level. The operating cycle of the company remained elongated at 310 days consisting of 207 days of inventory period, 163 days collection period and 61 days average payment period. The high inventory days, is mainly on account of stocking of inventory. The current ratio of the company as on March 31, 2022, stood at 2.30x (PY: 2.24x). The terms loans outstanding as of March 2022 mainly represent non-convertible debentures issued earlier and the last tranche of ₹ 100 Crores was redeemed on 18.05.2022. The company does not have any debt obligations going forward for the term debts. CARE Ratings expects the company to generate GCA of about ₹230 crore to ₹260 crore going forward for next two years. No major capex is envisaged by the company in the near term, other than regular maintenance capex. Given the cash accruals generated by the company in the recent past and estimated accruals, the company's credit metrics are at comfortable levels. Furthermore, the company also has adequate liquidity cushion in the form of working capital fund based bank borrowing limits to the extent of ₹1500 crore whose utilisation levels have remained at around 54% during last 12 months ending November 2022. However, BEML's ability to minimize overall operating days would be key rating monitorable.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[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](#)

[Policy on Withdrawal of Ratings](#)

About the company

BEML Limited (formerly Bharat Earth Movers Limited) was established in May 1964 as a Public Sector Undertaking for manufacture of Rail Coaches & Spare Parts and Mining Equipment at its Bangalore Complex. Government of India owns 54 percent of total equity and rest 46 percent is held by Public, Financial Institutions, Foreign Institutional Investors, Banks and Employees. BEML Limited, a 'Schedule-A' Company, serves core sectors like Defence, Rail, Power, Mining and Infrastructure. The Company operates under three major Business verticals i.e. Mining & Construction, Defence & Aerospace and Rail & Metro.

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Manufacturing	Industrial Products

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	3,557.70	4,144.08	2515.6
PBILDT	146.86	269.86	82.6
PAT	68.70	128.59	0.2
Overall gearing (times)	0.34	0.36	0.26
Interest coverage (times)	3.06	4.64	2.43

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA: not applicable

Any other information: not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the 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)	-	-	-	7-364	400.00	CARE A1+
Fund-based - LT-Working Capital Limits	-	-	-	-	1500.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	4000.00	CARE A+; 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 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-Working Capital Limits	LT	1500.00	CARE A+; Stable	-	1)CARE A+; Stable (25-Mar-22)	-	-
2	Commercial Paper-Commercial Paper (Carved out)	ST	400.00	CARE A1+	-	1)CARE A1+ (25-Mar-22)	-	-
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	4000.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (25-Mar-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the 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	Fund-based - LT-Working Capital Limits	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender detailsTo view the lender wise details of bank facilities please [click here](#)**Annexure-6: List of subsidiaries consolidated.**

Name	% of holding as on March 31, 2022
Vignyan Industries Limited	99.56%
BEML Land Assets Limited	100%
MAMC Industries Limited	100%

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 for any clarifications.

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