

BEML Limited

March 25, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	1,500.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	4,000.00	CARE A+; Stable / CARE A1+ (Single A Plus ; Outlook: Stable/ A One Plus)	Assigned
Total Bank Facilities	5,500.00 (Rs. Five Thousand Five Hundred Crore Only)		
Commercial Paper (Carved out)*	400.00	CARE A1+ (A One Plus)	Assigned
Total Short Term Instruments	400.00 (Rs. Four Hundred Crore Only)		

*carved out of the sanctioned fund based working capital limit of the company
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and commercial paper of BEML Limited (BEML) derives 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 are, however, constrained by low profitability margins, elongated working capital cycle, moderate capital structure, moderation in debt coverage indicator in FY21 owing to increase in working capital utilisation and susceptible 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

Positive Factors - Factors that could lead to positive rating action/upgrade:

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

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decrease in TOI below Rs. 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.

Detailed description of the key rating drivers

Key Rating 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 (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 58 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 74% of BEML's business is on competition mode and 50% of BEML's business is from the company's own in-house R&D developed products. Around 49% of revenue for the company comes from mining and construction vertical, 36% from rail &

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

metro vertical and 15% from defence & aerospace. BEML has exported its products to over 67 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, 20 District Offices, 08 Activity Centres and 5 Service Centres. 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 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. Company has spent Rs. 133 crores on R&D during 2020-21 which is about 3.73% of sales turnover. The Innovation Cell has succeeded in filing 55 IPRs during 2020-21 covering innovations in product design, manufacturing and operations. Eight patents have been awarded so far. Government's push for indigenisation will benefit BEML to a great extent in securing orders from PSUs and Government organisation

Comfortable order book position

The Order Book of BEML as on April 01, 2021 stood at Rs. 11,363 crores as against Rs. 9,795 crores in the previous year, a growth of over 16%. As on December 31, 2021, BEML has a healthy order book position with orders worth Rs. 10179 crore of which mining & construction segment constitutes 17%, Rail & Metro 42% and Defence & aerospace 41%. This translates to almost 3 years of orders to be executed considering turnover of FY21. Further, Government's push for indigenisation with launch of "Make in India" campaign, is expected to augur well for BEML's order book addition. Execution of these orders as per stipulated timelines remains a key monitorable for BEML.

Key Rating Weaknesses

Stable scale of operations, low profitability margins albeit improved performance in 9MFY22

The income from operations of the company on a consolidated basis has been in the range of Rs. 2830-3550 crore for last ten financial years. The TOI has improved from Rs. 3039 crore in FY20 to Rs. 3559 crore in FY21 on a consolidated basis showing healthy growth of 17%. The company witnessed fluctuating PBILDT margins in past 4 years varying between 7.97% in FY18 to 4.15% in FY21. It improved marginally from 3.42% in FY20 to 4.15% in FY21. Profitability margins remained low and any adverse impact on revenue is likely to impact the company's profitability. Q-o-Q and Y-o-Y performance of BEML has shown considerable improvement. In 9MFY22, BEML has reported positive GCA of Rs. 45.39 crore as against -ve GCA in 9MFY21. However, realisation and conversion of billed revenue to cash will be an important factor for improvement in performance of the company.

Elongated working capital cycle, however improved collection in 9MFY22

Operating cycle of BEML remains elongated at 321 days in FY21, it has marginally reduced from 335 days in FY20. 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. Apart from this time also gets consumed at the customers' end as 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. Railway & Metro projects elongated process of confirmation before releasing money and in defence vertical major client is MoD, GoI wherein the realisation takes longer time as compared to other clients. Nonetheless it is observed that the outstanding debtors as of December 2021 reduced to Rs. 1799 crore as against Rs. 2173 crore as on March 31, 2021. Apart from above, the company has adequate cushion in working capital limits with cash credit utilization being at 61% during last 12 months ending December 21.

Moderate capital structure with increase in debt levels leading to moderation in debt coverage indicator

BEML has moderate debt coverage indicators. Its total debt to gross cash accrual increased from 3.82x as on March 31, 2020 to 5.97x as on March 31, 2021. The overall gearing increased from 0.16x as on March 31, 2020 to 0.34x as on March 31, 2021. This increase is primarily owing to increase in short term borrowings from Rs. 38.11 crore as on March 31, 2020 to Rs. 541.85 crore as on March 31, 2021. Increase in short term borrowing was on account of widening working capital gap leading to negative cash flows from operation led by increase in inventory and debtor levels.

Susceptible to volatility associated with input prices

The raw material cost is the major cost component and accounted for around 65% of the total cost of sales in the last three years ended FY21. 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.

Case in point being the amount of Rs. 49.29 crore billed by BEML to MoD on account of EURO variation for raw materials which is yet to be realised.

Liquidity: Adequate

Liquidity is marked by accruals of Rs. 154 crore against repayment obligations of Rs. 102.31 crore in FY22. The company had a cash and bank balances of Rs. 4.48 crore as on March 31, 2021. With a gearing of 0.34x times as of March 31, 2021, the company has sufficient gearing headroom, to raise additional debt for its operations. Moreover, no major capex apart from the routine maintenance capex of around Rs. 55-60 crores per years is planned for near future. The average fund-based utilisation for the company stood at 60.51% for the 12 months ended Dec 2021. Its unutilized bank lines are expected to be adequate to meet its incremental working capital needs over the next one year.

Analytical approach:

Consolidated. Subsidiaries considered for consolidation are as follows:

- Vignyan Industries Limited – 99.56%
- MAMC Industries Limited - 100%

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

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

[Rating Methodology: Consolidation and Factoring Linkages in 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.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	3,042.43	3,558.63	2,658.23
PBILDT	107.40	152.50	92.44
PAT	68.38	74.80	-4.84
Overall gearing (times)	0.16	0.34	NA
Interest coverage (times)	2.29	3.20	NA

A: Audited, UA: Unaudited

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
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+
Commercial Paper-Commercial Paper (Carved out)	-	-	-	7 – 364 days	400.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Working Capital Limits	LT	1500.00	CARE A+; Stable				
2	Commercial Paper-Commercial Paper (Carved out)	ST	400.00	CARE A1+				
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	4000.00	CARE A+; Stable / CARE A1+				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not applicable**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of 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: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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