

Bharat Heavy Electricals Limited

September 03, 2019

Ratings

Facilities/ Instruments	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities (Fund Based)	6,000	CARE AA+/ Stable [Double A Plus; Outlook: Stable]	Reaffirmed
Long term/Short term Bank Facilities (LC/BG)	54,000	CARE AA+/ Stable/CARE A1+ [Double A Plus; Outlook: Stable/A One Plus]	Reaffirmed
Total Facilities	60,000 (Rupees Sixty Thousand crore only)		
Commercial Paper*	8,000	CARE A1+ [A One Plus]	Reaffirmed

Details of facilities in Annexure-1

**Rs.3,000 crore carved out of fund based working capital limits of the company.*

Detailed Rationale & Key Rating Drivers

The ratings of BHEL continue to derive strength from its majority ownership by Government of India (GoI) and benefits accruing from its Maharatna Status. The ratings also continue to favourably factor in BHEL's established position as one of the largest engineering and manufacturing companies in the power and industrial equipment sector in India and its healthy order book position providing medium-term revenue visibility. The ratings also continue to derive strength from BHEL's comfortable capital structure and healthy liquidity position backed by healthy cash and bank balances.

The rating strengths however, continue to remain constrained by BHEL's exposure to intense competition in BTG market and increasing working capital intensity of business operations with high collection period and lower trend of mobilization advances against new orders. The ratings take cognizance of the moderation in revenue and profitability during Q1FY20 on account of lower execution of orders and continued higher fixed cost.

Going forward, ability of the company to timely execute the orders and achieve the envisaged revenue and profitability while managing its receivables and inventory position efficiently shall remain key rating sensitivities. Also, improvement in order book position with timely inflow of new orders shall also remain key monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership by Government of India (GoI)

BHEL is one of the largest engineering and manufacturing companies in India serving core sectors of economy with majority stake held by Government of India (GoI). As on June 30, 2019, GoI's stake in the company stood at 63.17%. The company enjoys 'Maharatna Status', a status that gives greater autonomy to Central Public Sector Enterprises (CPSEs) in their investment and capital expenditure decisions.

Established position in the power and industrial equipment market in India

BHEL commenced operations in 1964 and had established its position over the years in building India's capability in heavy electrical equipment manufacturing. BHEL has commissioned and synchronized a cumulative capacity of 185+ GW for power engineering equipment with 2,489 MW during FY19. The company has 16 manufacturing units, 8 service centres and 15 business offices to deal with 150+ project sites in India and abroad.

Healthy order book providing medium term revenue visibility

BHEL has a healthy unexecuted order book position of the engineering projects which stood at Rs.1,07,806 crore as on June 30, 2019, which translates into order book to sales ratio of ~3.47x based on FY19 income and provides medium-term revenue visibility. The company secured orders worth Rs.23,859 crore during FY19 as against Rs.40,932 crore during FY18 witnessing a reduction in the order inflow. The company has reported order booking of Rs.3,892 crore during Q1FY20 as against an order booking of Rs. 4,371 crore during similar quarter previous year. Though the order inflow was low during Q1FY20, the management expects the healthy inflow from industrial and solar, railways and Flue Gas Desulphurization (FGD) orders. Recently on August 26, 2019 the company has won Emission Control System (ECS) orders aggregating Rs.2,500 crore from NTPC. The orders involve supply and installation of Flue Gas Desulphurization (FGD) systems for 13 coal based units at 2,600 MW Korba STPS Stage I, II & III in Chhattisgarh and 2,100 MW Ramagundam STPS Stage I & II in Telangana. BHEL has emerged

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

as the single largest player in the emission control equipment domain in the country, with its offerings of flue gas desulphurization systems (FGD). Further, the company is L1 in about ~ Rs. 15,000 crore orders which are expected to be finalized in current fiscal year along with other orders in pipeline. However, any delay in finalization of such orders and lower than expected orders inflows shall remain crucial going forward.

BHEL's executable order book is close to 80% as its order book has slow moving orders which are largely characterized by the lack of environmental clearances, legal and financing issues among others. The quantum of such orders stood at ~Rs.21,000 crore as on June 30, 2019.

Strong financial risk profile, however moderation in revenue and profitability during Q1FY20

BHEL continues to have healthy financial risk profile characterised by comfortable capital structure and healthy liquidity position. BHEL continues to have a comfortable capital structure characterised by a low overall gearing of 0.09x as on March 31, 2019. The company has a strong networth of Rs.31,317 crore as on March 31, 2019 against which it does not have any long term debt obligations.

However, during Q1FY20, the company reported moderation in total operating income by 23.65% and net loss of Rs. 216 crores. The lower turnover was largely on account of delay in execution of few of the projects for reasons such as land and site clearances, and delays in customer clearances. The company reported losses at operating level owing to lower execution and continued higher fixed cost. However, as per management commentary the issues are getting resolved and execution is picking up pace from Q2FY20 onwards and the execution is likely to be better going forward. Also, with the increase in execution, management is confident of achieving the revenue targets for the year. Going forward, any further losses in the coming quarters on account of lower execution shall remain important from the credit perspective.

Liquidity: Comfortable

The company has generated healthy cash accrual of Rs.1,798 crore during FY19 against which it has no long term repayment obligation as the company does not have any term debt. The company's liquidity position is further supported by cash and cash equivalent of Rs.6,240 crore as on June 30, 2019. With a gearing of 0.09x as on March 31, 2019 the company has sufficient gearing headroom, to raise additional debt for its business needs. Further, the company has access to fund based working capital limits of Rs.6,000 crore which had an average month end utilization (including CP issue) of ~42.60% over the past five months ended June 2019. The company started utilizing CP limits from February 2019 onwards for the enhanced working capital needs due to absence of mobilization advances in some of the projects from central PSUs. The company opted to use CP limits instead of cash as it carries a positive carry on same.

Key Rating Weaknesses

Working capital intensive nature of business operations with high collection period

BHEL has working capital intensive nature of operations with elongated debtors which stood at Rs.38,242 crore as on March 31, 2019 which increased from Rs.35,493 crore as on March 31, 2018. The working capital cycle remained elongated at 401 days as on March 31, 2019 (PY 400 days) largely on account of high receivables. The debtors though improved to Rs.37,850 crore as on June 30, 2019, they continued to remain high. The inventory also increased to Rs. 9,068 crore as on June 30, 2019 from Rs. 8,114 crore on March 31, 2019. This was mainly on account of delay in execution of the projects on reasons such as land constraints and customer clearances. The increase in the working capital intensity of the business has led to the reduction in cash and bank balance from Rs.7,503 crore as on March 31, 2019 to Rs. 6,240 crore as on June 30, 2019. Going forward, in view of reduction in mobilization advances in some orders from central PSUs, ability of the company to manage its working capital cycle efficiently shall remain monitorable.

Exposure to intense competition

The boiler-turbine-generator market sees intense competition with Chinese and domestic players quoting aggressive pricing. Also, as most of the business is tender-driven, the incumbent players have less advantage due to aggressive bidding.

Analytical approach – Standalone

Applicable Criteria

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

[Criteria for Short Term Instruments](#)

[Criteria on assigning Outlook to credit Ratings](#)

[Rating Methodology- Manufacturing Companies](#)

[CARE's policy for factoring linkages in ratings](#)

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

About the Company

BHEL is an integrated power plant equipment manufacturer and one of the largest engineering and manufacturing company in India. The company is engaged in the design, engineering, manufacture, construction, testing, commissioning and servicing of a wide range of products and services for the core sectors of the economy. BHEL has played an important role for India's Heavy Electrical Equipment industry since its incorporation in 1964. The Government of India holds majority stake of 63.17% in BHEL as on March 31, 2019. It has 16 manufacturing units across India and currently executing more than 150+ projects across India and abroad.

Brief Financials* (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	30,071	31,038
PBILDT	2,677	2,858
PAT	807	1,215
Overall gearing (times)	0.01	0.09
Interest coverage (times)	8.12	7.59

A: Audited; *Source: BHEL, CARE – Figures provided are CARE Adjusted

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	6000.00	CARE AA+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	54000.00	CARE AA+; Stable / CARE A1+
Commercial Paper	-	-	7-364 days	8000.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	6000.00	CARE AA+; Stable	-	1)CARE AA+; Stable (19-Feb-19) 2)CARE AA+; Stable (05-Apr-18)	1)CARE AA+; Stable (26-May-17)	-
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	54000.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (19-Feb-19) 2)CARE AA+; Stable / CARE A1+ (05-Apr-18)	1)CARE AA+; Stable / CARE A1+ (26-May-17)	-

3.	Commercial Paper	ST	8000.00	CARE A1+	1)CARE A1+ (10-Jul- 19)	1)CARE A1+ (19-Feb- 19)	-	-
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Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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