

BEML Limited

February 20, 2024

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

Details of instruments/facilities in Annexure-1.

* Carved out of sanctioned fund based working capital limit of the company.

Rationale and key rating drivers

The ratings assigned to the bank facilities and proposed commercial paper of BEML Limited (BEML) continues to derive strength from experienced management team, established and long track record of operations with manufacturing base offering 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 factor improving profitability due to higher revenue contribution from sales towards mining and construction in FY23, reduction of debt from working capital utilisation and repayment of entire term debt in H1FY23 leading to improved capital structure as on March 31, 2023. However, ratings are tempered by elongated working capital cycle and susceptibility of margins to volatility associated with input prices.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in inventory days below 190 and receivable days below 140 days.
- Increasing scale of operation by 10% while maintaining a minimum PBILDT margin of 10% on sustained basis.

Negative factors

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

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has adopted a consolidated approach for analysing, factoring that the company is majorly owned and managed by the Government of India. Subsidiaries considered for consolidation are given as part of annexure-6 below.

Outlook: Stable

The stable outlook reflects CARE Ratings' expectation that positive industry outlook and the existence of experienced management will continue to benefit BEML in the near term.

Detailed description of the key rating drivers:

Key strengths

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

Leadership team at BEML 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 (Mining and Construction 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, mining and construction, 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 December 31, 2023, the President of India (through the Ministry of Defence) holds 54.03% of the company's total equity share capital. 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

Incorporated in May 1964, BEML is an established player with wide range of products in the mining and construction, defence and aerospace, and rail and metro segments. The company is almost 60 years old and has been supplying its products and services to reputed clients including Coal India Limited, Ministry of Defence, various metro rail corporation among others. Over

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

73% of BEML's business is on competition mode and 75% of BEML's business is from the company's own in-house R&D developed products. Around 50% of the company's revenue came from mining and construction, 27% from rail and metro, and 23% from defence and aerospace verticals in FY23. BEML has exported its products to over 71 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 exported to more than 71 countries. BEML's nationwide network of sales offices enables buyers with ready access to its products. BEML offers product support through 12 regional offices, 15 district offices, and five service centres across the country. The company also establishes temporary activity centres at customer locations to support and service equipment. BEML offers various support plans such as annual maintenance contracts (AMC), annual service contracts (ASC), full maintenance contract, maintenance, and repair contracts (MARC), guaranteed availability and spare consumption contract, cost cap contracts among others. The contract management cell at Kolar Gold Field (KGF) primarily focuses monitoring and ensuring instant 24x7 support for equipment deployed at customer's project sites under different 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 including Coal India Limited, Ministry of Defence, various metro rail corporation among others. BEML has various repeat orders, specifically in rail and 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 products over the years. The company spent ₹75 crores on R&D in FY23, which is about 1.95% 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, 2023, stood at ₹8,570 crore as against ₹9,192 crore in the previous year, a fall of over 7%. As on December 31, 2023, BEML has a strong order book position with orders worth ₹12379 crore. One of BEML's significant new orders is from Bangalore Metro Rail Corporation (BMRC), worth ₹3177 crore. This translates to almost three years of orders to be executed considering the turnover of FY23. Since most of the company's clients are PSUs, they place orders once budget is approved, typically in August or September. Execution of these orders under stipulated timelines remains a key monitorable. Further, Government's push for indigenisation with the "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 3.75x as on March 31, 2022 to 1.40x as on March 31, 2023. Total debt reduced from ₹832 crores as of March 31, 2022, to ₹382 crores on March 31, 2023. Working capital facility (export packing credit amounting to ₹179 crore) has been repaid in FY23 as the project has completed. The company has also repaid NCD amounting to ₹100 crores in FY23. Overall gearing was comfortable at 0.16x. Interest coverage ratio improved from 2.17x in FY22 to 5.97x due to improvement in PBILDT in FY23.

Improvement in profitability margins with change in revenue mix

Though revenues have slightly moderated in FY23 from FY22 levels, the company margins have improved. FY23 sales fell by 7% YoY due to lower-than-expected sales in the rail and metro segment which fell by 26% y-o-y, due to supply chain disruptions and project implementation delays. Sales in the other two segments (i.e) mines and defence witnessed a modest increase of 3% and 1%.

Despite this, PBILDT margins increased from 3% in FY22 to 8% in FY24 from change in revenue mix, where about 50% is contributed by mining and construction segment, which has better margins compared to other segments. Sales in 9MFY24 has remained in line with 9MFY23 levels of ~₹2500 crores.

Key weakness

Elongated working capital cycle

BEML's operating cycle remains elongated at 315 days in FY23 (PY:312 days). In last six years, apart from FY19 when the operating cycle came down to 297 days, remaining years BEML had an operating cycle beyond 300 days. The company has high inventory holding period and high receivable period as it maintains order book with wide client profile having varied requirements. Hence, it must maintain inventory catering to all 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 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 lot of time for confirmation before releasing money and in defence vertical major client is MoD, GoI where the realisation takes longer time as compared to other clients. Apart from above, the company has adequate cushion in working capital limits with cash credit utilization being at 38% during last 12-month ending November 2023.

Susceptible to input price volatility

The raw material cost is the major cost component and accounted for around 55% of the total cost of sales in the last three years ended FY23. 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 FY23 stood at ₹272 crore. With gearing of 0.16x as on March 31, 2023 (PY: 0.36x), the company's capital structure is at a comfortable level. The company's operating cycle company remained elongated at 315 days consisting of 232 days inventory period, 146 days collection period and 63 days average payment period. The high inventory days is mainly from inventory stocking. The current ratio of the company was comfortable levels as on March 31, 2023, and stood at 2.31x (PY: 2.30x). The company does not have debt obligations for term debts. CARE Ratings expects the company to generate GCA of about ₹350-500 crore for next two years. The company plans to spend around ₹200/ ₹500/ ₹700 crores, which is to be spent by FY24/FY25/FY26. Majority of the capex is towards rail projects such as Vande Bharat and its testing facilities, enhancing BEML's capability in defence, rail and metro, upgrading existing machinery, plant and machinery, and critical civil work - the paint shop automation among others. The above capex is over multiple projects and is discretionary in nature, the ultimate expenditure incurred will depend on available cash balance, and orders to be executed among others. 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 minimal at around 38% during last 12 months ending November 2023. However, BEML's ability to minimize overall operating days would be key rating monitorable.

Assumptions/Covenants – Not applicable

Environment, social, and governance (ESG) risks:

Environmental risks and mitigation measures taken: 91.24 % of energy requirement of the Company was met through "Green Energy" projects viz. 23MW Windmill Projects and 250KWp Solar Power, resulting in mitigation of 24823 tons of carbon during the year 2022-23. The company has also created 205T electric drive Rear Dump. Though this is powered by electricity, given that majority of electricity is still generated from coal in India, these might actually not reduce the carbon emissions.

Social risks and mitigation measures taken: The company has been taking various measures to uplift the residents of under-developed villages around the local areas of the Company's Manufacturing Complexes located at Bengaluru, Kolar Gold Fields, Mysuru in Karnataka & Palakkad in Kerala. The company has also established Mini-Science Center at its PU College at KGF.

Governance risks and mitigation measures taken: The company has been complying with the Corporate governance guidelines framed by DPE (Department of Public Enterprises) and has also won Excellent rating from DPE for the same. However, there has been some qualifications made by the company secretary during his audit. The management is the process of rectifying the same.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Short-Term Instruments](#)

[Financial Ratios – Non financial Sector](#)

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

[Factoring Linkages Government Support](#)

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

About the company and industry

Industry classification

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

BEML Limited (formerly Bharat Earth Movers Limited) was established in May 1964, as a Public Sector Undertaking for manufacture of Rail Coaches and Spare Parts, and Mining Equipment at its Bangalore Complex. Government of India owns 54% of total equity and balance 46% 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 Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	4144.08	3846.88	2588.78
PBILDT	125.88	321.53	109.49
PAT	129.24	157.89	24.98
Overall gearing (times)	0.36	0.16	NA
Interest coverage (times)	2.17	5.97	3.87

A: Audited UA: Unaudited NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of 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)	Proposed	-	-	7-365 days	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 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 2023-2024	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
1	Fund-based - LT-Working Capital Limits	LT	1500.00	CARE A+; Stable	-	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+ (21-Feb-23)	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+ (21-Feb-23)	1)CARE A+; Stable / CARE A1+ (25-Mar-22)	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of 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 details

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

Annexure-6: List of subsidiaries/associates considered for consolidation:

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Vignyan Industries Limited	96.56	Subsidiary
2	MAMC Industries Limited	100.00	Subsidiary
3	BEML Land Assets Limited	100.00	Subsidiary

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.

Contact us

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Saikat Roy Senior Director CARE Ratings Limited Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in</p>	<p>Analytical Contacts</p> <p>Pulkit Agarwal Director CARE Ratings Limited Phone: +91-022- 6754 3505 E-mail: pulkit.agarwal@careedge.in</p> <p>Naveen Kumar Dhondy Associate Director CARE Ratings Limited Phone: +91-040-4010-2030 E-mail: dnaveen.kumar@careedge.in</p> <p>Samyuktha R Assistant Director CARE Ratings Limited E-mail: samyuktha.r@careedge.in</p>
---	--

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.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**