June 13, 2024

Bharat Bijlee Limited: Long-term rating upgraded to [ICRA]AA-; short-term rating reaffirmed; Outlook revised to Stable from Positive; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	430.00	450.00	[ICRA]AA-(Stable)/[ICRA]A1+; Long-term rating upgraded from [ICRA]A+ and short-term rating reaffirmed; Outlook revised to Stable from Positive; assigned for enhanced limits
Non-fund Based Limits	535.00	750.00	[ICRA]AA-(Stable)/[ICRA]A1+; Long-term rating upgraded from [ICRA]A+ and short-term rating reaffirmed; Outlook revised to Stable from Positive; assigned for enhanced limits
Unallocated Limits	35.00	-	-
Total	**1,000.00**	**1,200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings action on the bank lines of Bharat Bijlee Limited (BBL) considers its healthy improvement in the top line, earnings and cash flows in FY2024 and expectations that the same would continue over the near-to-medium term. BBL's top line, earnings and cash flows are likely to be driven by robust order inflow, backed by favourable capex cycle, wherein the company is expected to benefit because of its proven track record and brand positioning in the transformer and electrical motor industry. The ratings action also considers the improvement in the working capital cycle, driven by better collection efficiency, induced by change in the customer mix towards more private sector clients. Besides, the receivable cycle has reduced in the tendered business, supported by the government's financing schemes. The ratings also consider the improvement in BBL's operating performance in FY2024, driven by a healthy unexecuted order book and better coverage metrics, supported by a rise in the margins. The transformer division has also recorded a larger share of business from the private sector players, wherein the pricing remains more favourable than the tendered business. These factors have increased BBL's operating margin to 9.3% in FY2024 from 6.9% in FY2022. Going forward, the margin may remain range bound, depending on the mix of fixed price and price variant contracts. The ratings continue to reflect the extensive experience of BBL's promoters in electrical equipment manufacturing and its status as a leading player in the domestic power transformers and electrical motors manufacturing sector. This strong revival in industry demand, especially in the transformer segment, ensures revenue visibility in the near-to-medium term. Additionally, the ratings are underpinned by a strong liquidity profile, supported by a healthy cash position and sizeable value of marketable securities.

The ratings, however, remain constrained by the intense competition in the transformer as well as the motors division, resulting in range-bound movement of the margin. Despite the price variation clause that acts as a barrier against unprecedented price movements in transformer orders, presence of the same in the non-tendered business remains an area of negotiation. Further, the ratings remain constrained by the working capital-intensive nature of the business due to its elongated receivable cycle and long manufacturing process for the power transformer segment. BBL, however, has been able to diversify its customer base towards private sector players wherein the payment cycles have been much better, leading to a notable reduction in the working capital intensity to 16% in FY2024 from 29% in FY2022. Moreover, BBL's operations are intricately linked to investments in power and capital goods sectors. Thus, such investments will remain critical for the company to ramp up its scale of operations and improve its profitability and return indicators.

The Stable outlook reflects ICRA's opinion that BBL's credit profile will continue to be supported by the favourable capex cycle amid the Government's push for infrastructure projects. Extensive experience of its promoters in the electrical engineering segment and strong brand recognition of BBL in the power transformer and industrial motor segment also support ICRA's opinion.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in electrical equipment manufacturing business – The promoters have long experience in transformer and motor manufacturing, which has helped BBL in developing established relationships with customers, ensuring repeat orders. This has enabled the company to establish itself as a leading player in the power transformer and electric motor segment in the domestic market. The second generation of the founding promoters are also involved in the business since last few years, ensuring continuity and stability to business, going forward.

Reputed brand for power transformers and electric motors in the domestic market – BBL has a strong presence in the power transformer segment for its 220-KV class transformers up to the range of 200 MVA. Its motor division manufactures and sells a wide range of standard as well as specially designed, low tension (below 6.6 KV) motors. The company is also planning to expand its transformer capacity to 28,000 MVA from 18,000 MVA in the medium term and is looking to enhance its product offerings as well. In the motors segment, other than conventional high-tension motors ranging from 0.18 KW (fractional kilo watt motors) to 1,250 KW, the company has also got approval from the Railways for traction motors, which is expected to accelerate the volume growth in the said segment. In the past, it has also enhanced its technical capabilities by completing stringent safety norms for certifications issued by notified international bodies and the Central Power Research Institute for its motors and transformers, respectively. This has further strengthened its brand image and expanded its scope of bidding avenues in the near term.

Strong liquidity profile, aided by healthy cash balances, sizeable bank deposits, high market value and non-current investments in equities – BBL's liquidity position remains comfortable, aided by healthy unencumbered cash balances and considerable liquid investments in the form of fixed deposits with banks and its high market value, non-current investments in equities as on March 31, 2024.

Robust improvement in top line witnessed in FY2024, driven by strong order inflow and sound execution – The company achieved a healthy sales growth of 32%, with revenues of Rs. 1,872.5 crore in FY2024 against Rs. 1,418.5 crore in FY2023. Additionally, the operating margin increased to 9.3% in FY2024 from 8.4% in FY2023 due to improved volumes and better pricing from private players. As of end-March 2024, BBL's unexecuted order book stood at a satisfactory level of Rs. 1,143 crore. In FY2024, the fresh order inflow surged to Rs. 2,084 crore from Rs. 1,736 crore in FY2023. This is attributable to an uptick in the transformer business, supported by a favourable capex cycle, also resulting in improved realisations. The momentum of order inflow is expected to continue in the current fiscal, given the ongoing thrust on capital formation.

Credit challenges

Operations remain linked to investments in power and capital goods sectors; exposed to intense competition in transformer as well as motor segments – BBL's operations are inherently linked to a strong revival of investment activities in the power and capital goods sectors. Thus, such investments will remain critical for the company to ramp up its scale of operations in the medium term. Also, the demand-supply situation in the domestic transformer industry remains challenging on account of issues posed by the power sector in terms of large capacity additions (especially in thermal and gas-based units), leading to intense competition, limiting the pricing flexibility for most players in the segment. Moreover, in the motor segment, the competition remains intense, given the large MNCs as well as domestic players in the field, apart from more standard product offerings compared to customisation available in the transformer portfolio.

Working capital intensive nature of business – Over the years, BBL's business has remained working capital intensive, given the elongated payment cycle in the tendered business and the long manufacturing cycle in the power transformer manufacturing business, resulting in a build-up of the work-in-progress inventory. Nevertheless, the collection cycle has improved over the last two fiscals to 100 days in FY2023 and further improved to 74 days in FY2024. This is because the company has started catering to more private players due to the relatively shorter credit period. Further, the government has taken measures to support the SEBs through various financing schemes for making timely payments to its vendors.

Susceptible to variations in raw material prices; any non-applicability of price variation clause or invocation of LD clause remains a challenge to profitability– Around 60-70% of BBL's contracts for transformers come with price variation clauses, while the rest are fixed-price contracts. For electrical motors, only fixed-price contracts are prevalent, considering the lower lead time required for manufacturing these products with sizeable proportion of sales to the retail segments. Although, BBL is protected against any raw material price increase if the price variation clause is present, it is sensitive to variations in copper and cold rolled grain oriented (CRGO) steel prices for fixed-price contracts. This is because BBL buys copper and CRGO steel in spot markets, where rates are volatile. It is not always possible to fully pass on the increase in costs to the customers on an immediate basis.

Environment and Social Risks

Environmental considerations – BBL is exposed to risks from tightening of environmental regulations related to emissions and waste generated from its manufacturing process. This apart, efficient waste segregation (hazardous and non-hazardous waste) through a robust waste management system is required to meet regulatory requirements. Any disruption in its environment-related policies can attract significant fines or punitive action from the regulators. However, as per company disclosures, it has been meeting all environmental regulatory requirements.

Social considerations – As it is in a labour-intensive operation, BBL is exposed to the risk of disruption in human capital management in terms of workforce safety and overall well-being of employees. BBL is also exposed to the risk of shortage of skilled manpower, which can impact operations. However, as per company disclosures, BBL has taken measures towards employee welfare, including a social accountability policy. Thus, the company has not witnessed any protest for wage hike demand or notable shortage of skilled manpower till date.

Liquidity position: Strong

BBL does not have any long-term borrowing (except lease liabilities) and thus there are no scheduled repayment obligations. Besides, the company has healthy liquid investments in the form of fixed deposits, and unencumbered cash and bank balances of Rs. 347 crore and liquid mutual funds of Rs. 34 crore as of March 2024. Additionally, the company has a sizeable non-current investment in equities, leading to a negative net debt position over the last several fiscals. The fund-based utilisation against the drawing power remained at ~56% during the last 12 months ending in April 2024, with a buffer of ~Rs. 138 crore as of March 2024. The company has a capex outlay in the range of Rs. 160-180 crore over the next two fiscals, which is expected to be fully funded by internal accruals and cash on books.

Rating sensitivities

Positive factors – The long-term rating may be upgraded if there is a sustained improvement in the scale of operations on the back of strong order inflow and timely execution, leading to an overall strengthening of the financial profile and credit metrics. Better management of working capital, particularly on the receivable front, while maintaining its liquidity profile, will also be a positive for the rating.

Negative factors – Pressure on BBL's ratings can arise if the cash accruals weaken significantly due to a material reduction in revenues or margins, or if any major debt-funded capital expenditure, or a stretch in the working capital cycle, impacts the liquidity profile materially.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Established in 1946, Bharat Bijlee Limited is one of the leading electrical engineering companies in India. The company has two primary business segments: Power Systems that comprise Transformers and Projects divisions; and Industrial Systems comprising Electric Motors, Drives & Industrial Automation and Elevator Systems divisions. It caters to an array of industries such as power, refineries, steel, cement, railways, machinery, construction and textiles. In the Projects division, it undertakes turnkey jobs (switchyards) and is well positioned to provide complete 'concept to commissioning' services.

Headquartered in Mumbai, it has a strong sales and service network with 13 regional offices across India. Its manufacturing facilities are located in Airoli, Navi Mumbai on a 1,70,321 square meters campus, with a working area of approximately 63,000 square metres. The company employs about 1,700 skilled personnel.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	1,418.5	1,872.5
PAT	83.2	131.4
OPBDIT/OI	8.4%	9.3%
PAT/OI	5.9%	7.0%
Total outside liabilities/Tangible net worth (times)	0.5	0.3
Total debt/OPBDIT (times)	2.5	0.9
Interest coverage (times)	4.9	7.5

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31,2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 13, 2024	Jul 06, 2023	Jun 20, 2022	Apr 15, 2021
1	Fund based	Long term and short term	450.00	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]A+ (Positive) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+
2	Non-fund based	Long term and short term	750.00	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]A+ (Positive) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+
3	Unallocated	Long term and short term	-	-	-	[ICRA]A+ (Positive) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+	[ICRA]A+ (Stable) / [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term and short term - Fund based	Simple
Long-term and short term - Non-fund based	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit/ WCDL/ Short-term Borrowings**	NA	NA	NA	450.00	[ICRA]AA-(Stable)/ [ICRA]A1+
NA	**Bank Guarantee and Letter of Credit**	NA	NA	NA	750.00	[ICRA]AA-(Stable)/ [ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis- Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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