

Rating Rationale

January 27, 2021 | Mumbai

Bharat Dynamics Limited

Rating reaffirmed at 'CRISIL A1+ '

Rating Action

Total Bank Loan Facilities Rated	Rs.410 Crore
Short Term Rating	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL A1+' rating on the short-term bank facilities of Bharat Dynamics Limited (BDL)

The rating continues to reflect BDL's strategic importance to the Government of India (GoI), being the prime guided missile production agency in the country. The rating also factors in an established market position in the guided weapon systems segment and a robust financial risk profile. These strengths are partially offset by large working capital requirement and susceptibility to time and cost overruns in order execution and to volatility in foreign exchange (forex) rates.

BDL's revenue and operating margin declined to Rs 308 crore and a negative 21.5%, respectively, in the first six months through September 2020 vis-à-vis Rs 1,151 crore and 23.4%, respectively, in the first six months through September 2019 owing to disruptions in production activities in April and May 2020 due to the nationwide lockdown to contain the spread of Covid-19. Though the situation has improved since the third quarter of fiscal 2021, pandemic-led business disruptions are expected to impact BDL's overall operating margin in fiscal 2021 and will remain a key monitorable.

Further, the financial risk profile remains comfortable, in the absence of long-term debt and strong liquidity, aided by cash and cash equivalents of Rs 763 crore as on September 30, 2020, customer advances and minimal bank limit utilisation.

Analytical Approach

CRISIL Ratings has applied its criteria for notching up standalone ratings of entities based on government support. BDL will, in case of exigencies, receive support from GoI considering its strategic importance to the government and GoI has majority ownership (75%) in BDL.

Key Rating Drivers & Detailed Description

Strengths:

- High strategic importance to GoI**
 BDL is strategically important to GoI, considering it is the primary agency for the production of guided missiles for the armed forces. The company is the exclusive service provider for indigenously developed guided missiles such as Akash surface-to-air missiles and Konkur anti-tank guided missiles. It also benefits from GoI's thrust on indigenous guided weapon systems production, leading to healthy order flow and strong financial support from the government in the form of healthy advances for all its orders. As on January 06, 2021, BDL had unexecuted orders of Rs 8,100 crore. Further, BDL is expected to receive orders worth Rs 13,000 crore, which are at an advanced stage of negotiation with GoI.
- Established position as a prime production agency for guided weapon systems to Indian armed forces**
 BDL has a well-developed vendor network and provides continuous assistance to its vendors in tool development, fixture building and related technologies. Consequently, it has indigenised 90% of major missiles. BDL's established market position and ability to achieve high indigenisation led to consistent order flow.
- Robust financial risk profile**
 Capital structure and debt protection metrics should remain healthy, in the absence of any long-term debt and healthy advances for orders from GoI. Networth is estimated at around Rs 2,600 crore in fiscal 2021. Gearing and total outside liabilities to tangible networth ratios were 0.02 time and 1.22 times, respectively, as on March 31, 2020 and are projected at 0.05 time and 1.30 times, respectively, over the medium term. Net cash accrual to total debt and interest coverage ratios were 892% and 138.63 times, respectively, for fiscal 2020, vis-à-vis 431% and 128.25 times, respectively, in fiscal 2019.

Weaknesses:

- Large working capital requirement**
 The working capital cycle may remain stretched over the medium term and hence will be closely monitored. Gross current assets were high at 460 days as on March 31, 2020, vis-à-vis 485 days a year before, led by large unbilled revenue due to delayed customer clearances caused by Covid-19 related disruptions. Movement of unbilled revenue during fiscal 2021 will remain closely monitored.

- **Susceptibility to time and cost overruns in order execution, and to volatility in forex rates**

The ministry of defence is BDL's sole customer, and the company bids for defence projects floated by the ministry on a fixed-contract basis with minimal profitability, considering national interest. Hence, it had operating losses in the three fiscals ended March 31, 2013. BDL depends on Defence Research and Development Organisation for technical modifications for orders. Any delay in finalisation of technical modifications renders BDL liable for damages, thereby weakening its profitability. BDL imports components for orders executed under the transfer of technology arrangement, and does not hedge the resultant forex exposure. Consequently, its profitability is susceptible to volatility in forex rates to a minimum extent.

Liquidity: Strong

Liquidity should remain strong, supported by healthy cash accrual and minimal utilisation of bank lines. Cash accrual is projected at Rs 250-350 crore in fiscals 2021 and 2022, against nil long-term debt obligation. As on September 30, 2020, cash and bank balance stood at Rs 763 crore. Further, Gol will provide need-based support, considering BDL is the primary agency for the production of guided missiles for the armed forces.

Rating Sensitivity factors

Downward factors

- Any change in stance of Gol's support to BDL and the latter's strategic importance to the former
- Large, debt-funded capital expenditure or acquisition, leading to debt to earnings before interest, taxes, depreciation, and amortization of over 3 times on a sustained basis
- Weakening of operating performance, resulting in a steep decline in profitability margin

About the Company

BDL was set up in Hyderabad in 1970 as a central public sector enterprise. The company is the prime production agency for guided weapon systems for the Indian defence forces. BDL also manufactures underwater weapon systems, surface-to-air missiles and associated equipment. Furthermore, it is into refurbishment of vintage defence equipment for the Indian army. BDL has three manufacturing facilities, one in Visakhapatnam (Andhra Pradesh) and two in Telangana¹. The company is setting up two more facilities, one each in Amravati (Maharashtra) and Ibrahimpatnam (Telangana).

¹Facilities are in Rangareddy district and Bhanur in Medak district

Key Financial Indicators

Particulars	Unit	2020	2019
Revenue	Rs crore	3,287	3,110
Profit After Tax (PAT)	Rs crore	535	423
PAT Margin	%	16.3	13.6
Adjusted debt/adjusted networkth	Times	0.02	0.03
Interest coverage	Times	138.65	128.25

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity Date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Foreign Letter of Credit	NA	NA	NA	285	NA	CRISIL A1+
NA	Bank Guarantee	NA	NA	NA	125	NA	CRISIL A1+

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2021 (History)		2020		2019		2018		Start of 2018
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non-Fund Based Facilities	ST	410.0	CRISIL A1+	--	--	--	--	23-10-19	CRISIL A1+	21-03-18	CRISIL A1+	CRISIL A1+
				--	--	--	--	27-06-19	CRISIL A1+	--	--	

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Name of Lender	Amount (Rs.Crore)	Rating
Bank Guarantee	Andhra Bank	60	CRISIL A1+

Rating Rationale

Bank Guarantee	State Bank of India	65	CRISIL A1+
Foreign Letter of Credit	Andhra Bank	150	CRISIL A1+
Foreign Letter of Credit	State Bank of India	135	CRISIL A1+

This Annexure has been updated on 7-Sep-2021 in line with the lender-wise facility details as on 3-Aug-2021 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Criteria for rating short term debt
Criteria for Notching up Stand Alone Ratings of Entities Based on Government Support

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