

Mr. Veenu Jain
Managing Director
Bhilai Engineering Corporation Limited
Hathkhoj Village, Industrial Area,
Bhilai – 490026
Dist, Durg,
Chhattisgarh, India

October 9, 2017

Confidential

Dear Sir,

Credit rating for bank facilities

Please refer to your request for rating the bank facilities of your company

2. The following ratings have been assigned by our Rating Committee:

Facility	Amount (Rs. crore)	Rating ^[1]	Rating Action
Fund-based - LT-Cash Credit	102.90	CARE B; Stable (B; Outlook: Stable)	Assigned
Non-fund-based - LT/ ST-Bank Guarantees	497.45	CARE B; Stable/CARE A4 (B; Outlook: Stable/A Four)	Assigned
Bank Facilities-Non-fund-based - LT/ ST-Letter of credit	119.65	CARE B; Stable/CARE A4 (B; Outlook: Stable/A Four)	Assigned
Total facilities	720 (Rs. Seven Hundred and Twenty crore only)		

3. Refer **Annexure 1** for details of rated facilities.

4. The above rating is normally valid for a period of one year from the date of our initial communication of rating to you (that is October 6, 2017).

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

5. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure 2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by October 10, 2017 we will proceed on the basis that you have no any comments to offer.
6. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
7. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
8. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
9. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
10. CARE ratings are not recommendations to sanction, renew, disburse or recall any bank facilities.
11. If you need any clarification, you are welcome to approach us in this regard. We are indeed, grateful to you for entrusting this assignment to CARE.

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(Formerly known as Credit Analysis & Research Limited)

Thanking you,

Yours faithFully,



[Harish Kalidas]

Asst. Manager

Harish.Kalidas@careratings.com



[Arunava Paul]

Senior Manager

Arunava.Paul@careratings.com

Encl.: As above

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating/outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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Annexure 1

Details of Rated Facilities

1. Long-term facilities

Working Capital- Fund based Cash credit

Sr. No.	Name of Bank	Rated Amount (Rs. Crore)	Remarks	Repayable on
1.	Central Bank of India	32.00	Sanctioned	-
2.	UCO Bank	10.88	Sanctioned	-
3.	State Bank of India	35.02	Sanctioned	-
4.	IDBI Bank	25.00	Sanctioned	-
	Total	102.90		

Total LT facilities: Rs 102.90 crore

2. Long term/ Short term facilities

Non-Fund based Bank Guarantee

Sr. No.	Name of Bank	Rated Amount (Rs. Crore)	Remarks	Repayable on
1.	Central Bank of India	216.00	Sanctioned	-
2.	UCO Bank	51.31	Sanctioned	-
3.	State Bank of India	178.85	Sanctioned	-
4.	IDBI Bank	45.00	Sanctioned	-
5.	Proposed	6.29	-	-
	Total	497.45		

Non-Fund based Letter of credit

Sr. No.	Name of Bank	Rated Amount (Rs. Crore)	Remarks	Repayable on
1.	Central Bank of India	46.10	Sanctioned	-
2.	UCO Bank	35.05	Sanctioned	-
3.	State Bank of India	38.50	Sanctioned	-
	Total	119.65		

Total LT/ST facilities: Rs 617.10 crore

Total facilities (1+2): Rs 720 crore

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**Annexure 2
Press Release**

Ratings

Facility	Amount (Rs. crore)	Rating ¹	Rating Action
Fund-based - LT-Cash Credit	102.90	CARE B; Stable (B; Outlook: Stable)	Assigned
Non-fund-based - LT/ ST-Bank Guarantees	497.45	CARE B; Stable/CARE A4 (B; Outlook: Stable/A Four)	Assigned
Bank Facilities-Non-fund-based - LT/ ST-Letter of credit	119.65	CARE B; Stable/CARE A4 (B; Outlook: Stable/A Four)	Assigned
Total facilities	720 (Rs. Seven Hundred and Twenty crore only)		

Details of facilities as per Annexure-1

Detailed rating rationale & key rating drivers

The rating assigned to the bank facilities of Bhilai Engineering Corporation Limited (BECL) are constrained by stressed liquidity position due to long receivable days, highly working capital intensive nature of operations with full utilization of working capital limits, volatility in profitability margins and susceptibility to changes in government regulations and intense competition in the engineering & fertilizer industry

The rating considers the experienced of the promoters in engineering and fertilizer industries and healthy order book position.

The company's ability to improve its cash flows and hence its liquidity position is the key rating sensitivity.

Detailed description of key rating drivers

Key Rating Strengths

Experienced promoters

BECL's promoters are the Jain family from Bhilai. They have been in the business of engineering, fertilisers and food products since 1976. Over the years they have established strong relations with established clientele including large PSU's like SAIL and NMDC.

Key Rating Weaknesses:

Stressed liquidity position due to working capital intensive nature of operations

Working capital cycle is around 105 days which is on account of high collection period of ~100 days. The company deals with government departments and PSUs in its engineering and fertiliser divisions. The fertiliser subsidies are

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cleared only after audit and other formalities are completed by the Government authorities. Therefore liquidity of the company remained stretched. The utilization of fund based limits for the past twelve months ending July 2017 is high at around 95% and provides no liquidity back-up.

Volatility in operating margins

BECL's divisions are Engineering, fertilisers and food products which contributed to 80%, 17% and 3% respectively to its total revenues during FY17. BECL's operating margins are susceptible to changes in prices of raw material and intense competition in the fertiliser industry. In the Engineering & EPC division, the company had been penalised with liquidated damage charges by its major EPC customers and has adversely affected its margins. There have been instances of delay in release of mobilisation advance by its customers as a result of which BECL could not meet its specified delivery schedules. BECL has raised claims for LD reversal which is still under process.

Susceptibility to changes in government regulations, volatility in raw material prices

Changes in government policies on licensing for production, sales, and export/import, too, have an impact on the fertiliser companies' business and financial risk profiles. Further the operating margins are also susceptible to changes in prices of raw material.

Applicable Criteria

Criteria on assigning Outlook to Credit Rating

CARE's default recognition policy

Criteria for Short Term Instruments

Financial ratios - Non Financial Sector

Rating Methodology – Manufacturing companies

About the Company

Bhilai Engineering Corporation Limited (BECL) is a public limited company which was setup in 1960 by the Jain family from Bhilai. The company is into manufacturing of specialized equipment and products for heavy engineering industries. It is also into manufacturing of fertilisers and food products.

Particulars	31/03/16	31/03/17
	A	Prov.
Working Results		
Income from Continuing Operations	891.15	852.17
PBILDT	62.77	117.59
Overall Gearing (Incl. Acceptances / Creditors on LC)	0.78	0.58
PBILDT Interest Coverage	1.74	3.02
Total Debt/GCA	9.12	3.53

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History: Please refer Annexure-2

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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Analyst Contact

Name: Mr Arunava Paul

Tel: 022-67543667

Email: arunava.paul@careratings.com

**For detailed Rationale Report and subscription information, please contact us at www.careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over nearly two decades; it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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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	-	-	-	102.90	CARE B; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	497.45	CARE B; Stable / CARE A4
Non-fund-based - LT/ ST-Letter of credit	-	-	-	119.65	CARE B; Stable / CARE A4

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	102.90	CARE B; Stable	-	-	-	-
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	497.45	CARE B; Stable / CARE A4	-	-	-	-
3.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	119.65	CARE B; Stable / CARE A4	-	-	-	-

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