

Balmer Lawrie and Company Limited

December 20, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term/short-term bank facilities	150.00 (Enhanced from 145.00)	CARE AA+; Stable / CARE A1+ (Double A Plus; Outlook: Stable/ A One Plus)	Reaffirmed
Short-term bank facilities	20.00	CARE A1+ (A One Plus)	Reaffirmed
Short-term bank facilities	-	-	Withdrawn
Total bank facilities	170.00 (₹ One hundred seventy crore only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Balmer Lawrie and Company Limited (BLCL) continue to derive strength from the long and satisfactory track record of the company with presence across diversified businesses and controlling equity stake held by the Government of India (GoI) in it. Its diversified revenue stream de-risks its overall business from any downturn in a particular segment. Furthermore, the ratings are underpinned by its established relationship with reputed clientele apart from the significant amount of business it derives from various government entities in some of its business segments.

The ratings also draw significant comfort from BLCL's robust capital structure, healthy debt coverage indicators and strong liquidity position. The low debt level is expected to continue going forward and significant liquidity is expected to remain in the books of the company notwithstanding the normal dividend pay-out.

The ratings take note of the significant increase in the total operating income (TOI) of BLCL in FY22 over FY21 driven by the increase in revenue from all the business divisions except logistics infrastructure. The operating profitability margin, however, remained impacted due to the high competitive intensity in some of the divisions and continuing losses in the travel and vacation division owing to the pandemic. In H1FY23, the operating profitability margin has improved over H1FY22 with healthy profitability reported by the travel and vacation division which has off-set the decline in profitability in industrial packaging on account of the volatility in raw material prices.

Going forward, the operating margins are expected to remain moderate on account of some of its divisions operating in mature market segment with intense competitive pressure leading to low operating margin, susceptibility to volatility in input prices, linkages with performance of overall economy and pressure on the Container Freight Station (CFS) in logistic business division post introduction of Direct Port Delivery (DPD) in ports. Nevertheless, the debt coverage indicators are expected to remain healthy with low reliance on debt to fund working capital and capex requirement and liquidity available with the company.

The ratings also take note of the exposure of BLCL to its subsidiaries and joint ventures (JVs), with some of these entities having weak financial risk profile; albeit the stated stance of the company to not provide further support to these entities restricts incremental financial exposure.

CARE Ratings Limited has withdrawn the rating assigned to one of the short-term bank facilities of BLCL with immediate effect, as the company has surrendered the limit to its lender and there is no amount outstanding under the facility as on date.

Rating sensitivities

Positive factors: Factors that could lead to positive rating action/upgrade:

- Significant growth in the scale of operations marked by healthy performance of each of its divisions on a sustained basis by growing its market share
- Improvement in PBILDT margin and return on capital employed (ROCE) to above 20% and 25%, respectively, on sustained basis

Negative factors: Factors that could lead to negative rating action/downgrade:

- Significant decline in operating profitability on a sustained basis
- Deterioration in liquidity position with substantial reduction in cash and cash equivalents below Rs.250 crore on a sustained basis
- Any debt-funded capex leading to deterioration of its overall gearing above 0.40x
- Increase in exposure to the group companies adversely impacting its credit profile

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

- Significant dilution of stake in the company by GoI to below 50.1%

Detailed description of the key rating drivers

Key rating strengths

Diversified business model (revenue streams) acts as a de-risking strategy:

BLCL has a long and satisfactory track record of over 150 years of operations. In the initial years of its existence, BLCL was only into trading business. Later, in 1937, BLCL entered manufacturing when it set up its first grease plant in Kolkata. Over the years, BLCL forayed into several other activities like manufacturing of different types of barrels & containers and offering varied services. The company operates under seven broad strategic business units (SBUs), i.e., Industrial Packaging (IP), Greases & Lubricants (G&L), Travel & Vacation (TV), Logistics Infrastructure & Services (LIS), Chemicals division and Refinery & Oil related services.

The company has classified each vertical as a SBU to have greater focus on each vertical, thereby leading to overall growth and profitability of the company and which also helps the company in mitigating downturn of any particular business sector/SBU. In FY22, contribution from manufacturing SBUs stood at around 62%, whereas from service SBUs stood at around 34%.

The revenue from almost all the SBUs increased in FY22 except the SBU-Logistic Infrastructure which reported a decline due to reduction in dwell time of cargo at the Container Freight Stations (CFS). SBU - TV had been significantly impacted due to the pandemic in FY21. While contribution to sales from the SBU increased in FY22, it remained impacted due to the pandemic. In H1FY23, the SBU - TV has reported substantial increase in sales owing to surge in travel activities for business and leisure purpose post the pandemic. Logistics services and greases and lubricants segment has also witnessed growth in sales.

Diversified, reputed client base with established relationship across both Public Sector Undertakings (PSUs) and private sector along-with its ownership by GoI:

BLCL, a 'Miniratna - I' Central PSU, has been under the administrative control of Ministry of Petroleum & Natural Gas, GoI, since 1972. Currently, GoI owns 61.8% of BLCL's equity through Balmer Lawrie Investments Limited.

BLCL's Central PSU status helps it to generate revenue from other PSUs and Government departments, especially in service-SBUs. It has a strong clientele comprising central PSUs and oil companies, ISRO, defence entities, Indian Railways and reputed private sector players. Government departments/PSUs contribute about 60% to SBU-TV and about 40% to SBU-LS. Overall government departments/PSUs contributed about 27% in its total revenue in FY22.

The company has successfully broken away with its major dependency on Government & PSU clients in industrial packaging division and established relationship with private parties. To reduce client concentration in service-SBUs, BLCL is focusing on enhancing marketing strategies to cater to private sector clients as well.

Robust capital structure and healthy debt coverage indicators; likely to be maintained:

The overall gearing of BLCL continued to remain robust as on March 31, 2022 at 0.02x. The coverage ratios too remained healthy with improvement in operating profit level and low reliance on debt. For FY22, interest coverage ratio and total debt/gross cash accruals (GCA) stood at 26.56x and 0.16x, respectively, as against 20.76x and 0.21x in FY21. The company does not have plans to avail additional debt in the medium term and the borrowings, if any, would comprise mainly towards working capital. The outflow towards routine capex is expected to be funded through internal accruals.

In addition to robust capital structure, the company continues to have a negative net debt position with healthy cash balances maintained.

Liquidity - Strong

BLCL has strong liquidity in the form of cash and cash equivalents of ₹243 crore as on September 30, 2022 (₹409 crore as on March 31, 2022), and no term debt repayment obligations. With dividend pay-out of ₹111 crore in H1FY23 and increase in working capital requirement, especially in SBU- TV, the cash balance has reduced. The same is again expected to be built up by the end of the year.

Furthermore, the utilisation of sanctioned fund-based working capital limits remained nil for the trailing 12 months ended October 2022. Going forward, the company does not have any debt-laden capex plans and the routine and modernisation capex can be met out of internal generations.

Key Rating Weaknesses

Profitability continues to remain impacted, though improvement witnessed in sales:

BLCL reported growth in TOI by 34% y-o-y in FY22 owing to increase in the sales contribution from most of the SBUs. The travel and vacation division witnessed partial revival in FY22 from the impact of COVID-19 with sales of ₹64 crore (PY: ₹27 crore) from increase in business and leisure travels. The improvement in TOI continued in H1FY23.

The operating profitability of the company was impacted significantly in FY21 due to the losses from SBU-TV, rising raw material prices and intense competition. It continued to remain impacted in FY22 with PBILDT margin at 7.54% vis-à-vis 7.21% in FY21 as the high margin SBU-TV continued to incur losses, though reduced.

With resumption of business and leisure travel, the division reported healthy profitability resulting in improvement in the overall PBILDT margin in H1FY23 to 8%, despite significant decline in profitability from the IP segment due to volatility in the key raw material prices.

Volatility in raw material prices:

Raw material consumption constitutes around 70%-76% of the company's cost of sales. The major raw material required by SBU-IP is cold-rolled steel product and for SBU-GL is lubricating base oil (LBO), together constituting around 81% of cost of raw material consumed in FY22 (78% in FY21). The price of LBO is highly volatile as the same is linked to crude oil prices. In case of adverse movement in the raw material prices, the profitability margins are impacted due to inability to pass on to the customers on account of stiff competition or passed on with a time lag. The prices of cold-rolled steel witnessed dip in Q2FY23 which led to decline in selling prices for IP products of BLCL and contraction in its profitability.

Some of the SBUs operating in mature market segment with intense competitive pressure:

SBU-IP: The industrial packaging industry is characterised by low entry barriers, large number of unorganised players, presence of low-cost substitute products (such as HDPE drums), and surplus capacities. Widespread market reach, large volume, competitive pricing and access to alternate markets would be major survival factors for the players in the long run. BLCL is diversifying its customer base in private players.

SBU-LIS: The container freight station (CFS)/inland container depot (ICD) industry is expected to be under pressure due to implementation of direct port delivery which is expected to hamper volumes and result in consequential lower utilisation.

SBU-GL: The GL industry is divided into two major segments – industrial and automotive accounting for about 35% and 65% of the market, respectively. Companies with proven source of premium quality base stocks, sound R&D setup, wide distribution network and wide infrastructure of professionalised technical services will continue to survive and grow. BLCL has low market share in the GL industry with presence majorly in the industrial segment. It faces significant competition from other established and larger players in the industry.

SBU-TV: The travel and vacations industry has witnessed significant adverse impact due to the pandemic. With receding impact of the pandemic, the outlook for travel & tourism industry has improved and the volume of business is expected to grow significantly over next couple of years. BLCL continues to face intense competition from online as well as offline travel portals.

Exposure to weak subsidiaries; albeit no incremental financial support envisaged:

BLCL has one subsidiary and five JVs as on March 31, 2022, and the total exposure to such entities stood at ₹128.30 crore as on the same date. Some of these entities have weak financial and business profile, especially Visakhapatnam Port Logistics Park Limited, which has also impacted BLCL's ROCE. However, as in the past, BLCL has clearly stated that no further financial support would be provided to such entities thereby restricting any incremental exposure to such entities. Furthermore, BLCL has not provided any guarantee for debt availed by any of these entities.

Analytical approach- Standalone along with factoring GoI's majority ownership.

Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Government Support](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Service Sector Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company

BLCL, established in 1867 as a partnership firm to deal in freight forwarding and imports clearing into India, is a Central PSU under the administrative control of Ministry of Petroleum & Natural Gas, GoI, since 1972. The company has an established track record of over 150 years of operations with interest in various business segments. In 1924, it was incorporated as a private limited company, and in 1936, it was converted into a public limited company. Currently, GoI owns 61.8% of BLCL's equity through Balmer Lawrie Investments Limited. In 2006, BLCL attained a Mini Ratna – I status.

BLCL is a diversified, multi-location and multi-product conglomerate, manufacturing steel barrels for industrial packaging (IP), greases & lubricants (GL) under the brand name *BALMEROL* and chemicals. Furthermore, it carries out various service-based activities such as logistics infrastructure & services (LIS), travel & vacation (TV), project engineering & consultancy in oil & infrastructure sector. The company operates under seven broad strategic business units.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (UA)
Total operating income	1,522	2,043	1193
PBILDT	110	154	95
PAT	116	123	68
Overall gearing (times)	0.03	0.02	NA
Interest coverage (times)	20.76	26.56	22.19

A: Audited; UA: Unaudited, NA: Not available

Ratios are classified as per CARE Ratings Ltd standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of various instruments rated for this company: Annexure-4

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
Fund-based - ST-Bank Overdraft		-	-	-	20.00	CARE A1+
Fund-based/Non-fund-based-LT/ST		-	-	-	50.00	CARE AA+; Stable / CARE A1+
Non-fund-based - LT/ST-BG/LC		-	-	-	100.00	CARE AA+; Stable / CARE A1+
Non-fund-based - ST-Bank Guarantee		-	-	-	0.00	Withdrawn

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	1)CARE A1+ (30-Dec-21)	1)CARE A1+ (01-Oct-20)	1)CARE A1+ (09-Oct-19)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	100.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (30-Dec-21)	1)CARE AA+; Stable / CARE A1+ (01-Oct-20)	1)CARE AA+; Stable / CARE A1+ (09-Oct-19)
3	Fund-based/Non-fund-based-LT/ST	LT/ST*	50.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (30-Dec-21)	1)CARE AA+; Stable / CARE A1+ (01-Oct-20)	1)CARE AA+; Stable / CARE A1+ (09-Oct-19)
4	Fund-based - ST-Bank Overdraft	ST	20.00	CARE A1+	-	1)CARE A1+ (30-Dec-21)	1)CARE A1+	1)CARE A1+

							(01-Oct-20)	(09-Oct-19)
5	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (30-Dec-21)	1)CARE AA+; Stable (01-Oct-20)	1)CARE AA+; Stable (09-Oct-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Available

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - ST-Bank Overdraft	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Bank lender details for this company

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

Note on 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

Media contact

Name: Mradul Mishra

Phone: +91-22-6754 3596

E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Mamta Muklania

Phone: +91-033-4018 1651

E-mail: mamta.khemka@careedge.in

Relationship contact

Name: Lalit Sikaria

Phone: + 91-033- 4018 1600

E-mail: lalit.sikaria@careedge.in

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