

Balmer Lawrie and Company Limited

December 30, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term / Short-term (LT/ST) Bank Facilities	145.00 (Enhanced from 95.00)	CARE AA+; Stable/CARE A1+ (Double A Plus; Outlook: Stable/A One Plus)	Reaffirmed
Short-term Bank Facilities	25.00 (Reduced from 60.00)	CARE A1+ (A One Plus)	Reaffirmed
Long-term Bank Facilities	0.00		Withdrawn*
Total Bank Facilities	170.00 (Rs. One Hundred Seventy Crore Only)		

Details of instruments/facilities in Annexure-1

*CARE Ratings Ltd. has withdrawn the rating assigned to the term loan facility of Balmer Lawrie & Company Limited with immediate effect, as the company has repaid the term loan in full and there is no amount outstanding under the loan as on date.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Balmer Lawrie & Company Limited (BLCL) continue to derive strength from the long and satisfactory track record of the company with presence across diversified businesses, controlling equity stake held by the Government of India (GoI) in it along with its professional and experienced management team. 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 its 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 also take note of the decline in its total operating income (TOI) and moderation in profitability in FY21 (refers to the period April 1 to March 31) largely driven by the impact of COVID-19 pandemic on its sales and profitability, particularly in the Travel and Vacations Strategic Business Unit (SBU - TV). While the overall sales and profitability improved in H1FY22 as compared with H1FY21, the SBU-TV continued to incur segmental loss.

The ratings, however, continue to remain constrained on account of some of its SBUs 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.

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.

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 SBUs 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:*

- Deterioration in liquidity due to reduction in cash balance 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.
- Significant dilution of stake in the company by GoI to below 50.1%.

Detailed description of the key rating drivers

Key Rating Strengths

Long and satisfactory track record of the company with controlling equity stake of GoI

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 six broad strategic business units (SBUs), i.e., Industrial Packaging (IP), Greases & Lubricants (G&L), Travel & Vacation (TV), Logistics Infrastructure & Services (LIS), Leather Chemicals division (LC) and Refinery & Oil related services. 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.

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

BLCL is currently being managed by an eight-member Board of Directors comprising three whole-time directors (including Chairman & Managing Director), three independent directors and two GoI nominee. The Board consists of qualified professionals with long industry experience.

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

BLCL is a diversified multi-product conglomerate having presence in both manufacturing and service sectors. It has classified each vertical in which it operates as SBUs to have greater focus on each SBU, thereby leading to overall growth and profitability of the company and which also helps the company in mitigating downturn of any business sector/SBU. In FY21, contribution from manufacturing SBUs stood at around 55%, whereas from service SBUs stood at around 39%.

While the revenue from most of the SBUs remained relatively stable in FY21, the performance of the SBU-TV declined significantly as travel & tourism was the most impacted sector due to the outbreak of COVID-19 pandemic. The fall in the revenues from SBU-TV was offset by increase in revenues in the SBU-LI and SBU-LS. In H1FY22, while the other SBUs have reported overall improvement in sales, the SBU-TV continued to remain impacted because of the pandemic.

Diversified, reputed and established relationship with clients across both Public Sector Undertaking (PSU) and private sector

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 & 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 FY21.

The company has successfully broken away with its dependency on Government & PSU clients in IP 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, healthy debt coverage indicators and strong liquidity

The overall gearing of the company continued to remain robust as on March 31, 2021 at 0.03x. Despite reduced profitability, the debt coverage indicators continue to remain healthy. For FY21, interest coverage ratio and TDGCA stood at 37.84x and 0.21x, respectively, as against 35.96x and 0.16x in FY20. 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 would be funded through internal accruals.

In addition to robust capital structure, the company as on March 31, 2021, had cash and bank balance of Rs.525.53 crore resulting in a negative net debt position. As on September 30, 2021, BLCL did not have any external debt except for lease liabilities amounting to Rs.25.66 crore against cash and bank balance of Rs.437.21 crore.

Liquidity - Strong

BLCL has strong liquidity in the form of cash and cash equivalents to the tune of Rs.437.21 crore as on September 30, 2021, and no term debt repayment obligations. Furthermore, the utilisation of sanctioned fund-based working capital limits was low at 5% for the trailing 12 months ended July 2021. The company did not utilise its limits in August-October 2021. Going forward, the company does not have any capex plans and the routine capex can be met out of internal generations.

Key Rating Weaknesses

Moderation in profitability in FY21 which continued to remain affected in H1FY22 largely on account of muted performance of SBU-TV

Despite the disruptions caused by COVID-19 pandemic, the company reported relatively stable TOI in FY21 at Rs.1,585 crore as against Rs.1,607 crore in FY20. The decline in the revenues from SBU-TV was offset by improvement in revenues from SBU-LIS. However, due to intense competition faced by the company coupled with rising raw material prices and huge losses incurred in SBU-TV, the PBILDT margin of the company declined to 12.62% in FY21 as compared with 17.88% in FY20.

Segmental margin moderated in SBU-IP, SBU-LS and SBU-GL, while in SBU-TV, the company incurred losses, which has continued in H1FY22 as well due to the disruptions caused by the pandemic on the travel and tourism industry. Furthermore, the SBU-TV segment also has elongated receivables.

Volatility in raw material prices

Raw material consumption constitutes around 70%-73% of the company's cost of sales. The basic raw material required by SBU-IP is cold-rolled steel product and for SBU-GL is lubricating base oil (LBO), together constituting around 47% of cost of raw material consumed in FY21 (51% in FY20). Furthermore, 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 and crude oil have increased significantly since H2FY21 in comparison to finished products due to which PBIT margin of SBU-IP and SBU-GL contracted by 140 bps and 70 bps to 8.68% and 10.30%, respectively.

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 DPD and uncertainty related to the timing of the on-going COVID-19 pandemic clearing out which has impacted export-import trade, 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. Despite increased penetration of vaccination in the country, acceptance of Indian vaccines by western countries and India opening to international tourists gradually, the outlook for travel & tourism industry is likely to remain subdued in the medium term due to uncertainties arising from newer variants of the COVID-19 virus. Furthermore, BLCL faces intense competition from online as well as offline travel portals.

Exposure to weak subsidiaries; albeit no incremental financial support envisaged

BLCL had two subsidiaries and five JVs as on March 31, 2021, and the total exposure to such entities stood at Rs.135.79 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

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology - Service Sector Companies](#)

[Rating Methodology: Notching by factoring linkages with Government](#)

[Financials Ratio-Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[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, Government of India (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 leather chemicals (LC). 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 six broad strategic business units.

Brief Financials - Standalone (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Total operating income	1,607	1,585	990
PBILDT	287	200	87
PAT	177	116	45
Overall gearing (times)	0.03	0.03	0.02
Interest coverage (times)	35.96	37.84	31.09

A: Audited, UA: Unaudited,

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 last three years: Please refer Annexure 2

Covenants of the rated instrument / facilities: Annexure 3

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

Bank lender details: Annexure 5

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-Bank Guarantees	-	-	-	-	5.00	CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	85.00	CARE AA+; Stable / CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	60.00	CARE AA+; Stable / CARE A1+
Fund-based - ST-Bank Overdraft	-	-	-	-	20.00	CARE A1+
Fund-based - LT-Term Loan	-	-	-	-	0.00	Withdrawn

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - ST-Bank Guarantees	ST	5.00	CARE A1+	-	1)CARE A1+ (01-Oct-20)	1)CARE A1+ (09-Oct-19)	1)CARE A1+ (07-Dec-18)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	85.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (01-Oct-20)	1)CARE AA+; Stable / CARE A1+ (09-Oct-19)	1)CARE AA+; Stable / CARE A1+ (07-Dec-18)
3	Fund-based/Non-fund-based-LT/ST	LT/ST*	60.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (01-Oct-20)	1)CARE AA+; Stable / CARE A1+ (09-Oct-19)	1)CARE AA+; Stable / CARE A1+ (07-Dec-18)
4	Fund-based - ST-Bank Overdraft	ST	20.00	CARE A1+	-	1)CARE A1+ (01-Oct-20)	1)CARE A1+ (09-Oct-19)	1)CARE A1+ (07-Dec-18)
5	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE AA+; Stable (01-Oct-20)	1)CARE AA+; Stable (09-Oct-19)	1)CARE AA+; Stable (07-Dec-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - ST-Bank Overdraft	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple
4	Non-fund-based - ST-Bank Guarantees	Simple

Annexure 5: Bank Lender Details for this CompanyTo view the lender-wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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.

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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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