Balmer Lawrie & Company Limited

October 01, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	11.25 (reduced from 12.50)	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	**Reaffirmed**
Long-term/Short-term Bank Facilities	95.00	**CARE AA+; Stable/CARE A1+ (Double A Plus; Outlook: Stable/ A One plus)**	
Short-term Bank Facilities	60.00	**CARE A1+ (A One Plus)**	
Total Facilities	**166.25 (Rupees One hundred sixty six crore and twenty five lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Balmer Lawrie & Company Limited (BLCL) continue to derive strength from long & satisfactory track record of the company, controlling equity stake by Government of India, professional and experienced management team, de-risking business with diversified revenue stream, diversified and reputed clientele with established relationship, robust financial performance in FY20 (refers to April 01 to March 31) and robust cash accruals, robust capital structure and superior liquidity position. The ratings also factor in moderation witnessed in return on capital employed and financial performance in Q1FY21 due to macro-economic disruption in the economic environment caused by spread of COVID-19. The ratings continue to be constrained by some of the strategic business units (SBUs) operating in the mature market segment with intense competitive pressure leading to low operating margin, risk of volatility in input prices, linked to performance of overall economic scenario, pressure on the Container Freight Station (CFS) in logistic business division post introduction of Direct Port Delivery (DPD) in ports since last 3 years. The ratings also takes into account the tepid near-term demand conditions on the back of a weak macroeconomic outlook following the Covid-19 pandemic, which is likely to have an impact on the company's scale of operations and consequently the level of profits and cash accruals.

Rating Sensitivities

Positive Factors

- Growth in scale of operations as marked by total operating income of above Rs.2000crore on sustained basis and retention of market share on sustained basis.
- Further improvement in PBILDT and PAT margins above 20% and 12% respectively on sustained basis.

Negative Factors

- Deterioration in liquidity due to reduction in cash balance below Rs.250crore on a sustained basis.
- Any debt funded capex leading to sharp deterioration of overall gearing above 0.40x.
- Increase in exposure to the group companies.

Detailed description of the key rating drivers

Key Rating Strengths

Long & satisfactory track record of the company

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 into 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 6 strategic business units 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.

Controlling equity stake by Government Of India (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.

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

Experienced management team

BLCL is currently being managed by a 12 member Board of Directors comprising four whole time directors (including Chairman & Managing Director), six independent directors and two GoI nominee. The Board consists of highly qualified professionals with long industry experience. The day-to-day affairs of the company are looked after by Mr. Prabal Basu, CMD, assisted by four other whole-time directors.

De-risking business with diversified revenue stream

BLCL is a diversified multi-product conglomerate having established presence in both manufacturing and service sectors. It has classified each segment in which it operates as a Strategic Business Units (SBU) to focus on growth and profitability of each SBU leading to better performance of the company as a whole. BLCL has identified 3 manufacturing SBU and 3 service SBU which helps which helps the company in mitigating downswing of any particular business sector/ SBU.

However, in FY20, the total operating revenue of the company declined by 12.7% from FY19 due to de-growth in all the SBUs. Revenue from IP SBU declined due to lower volumes from fruit pulp industry, while that from SBU-LI declined on account of non-execution of orders due to delay in receipt of mandate from the government. Further revenue from SBU-TV also declined due to low ticketing and vacation business in Q4FY20. In Q1FY21 also, revenue from almost all the SBUs witnessed decline, except SBU-LI, where revenue grew by 57% Y-o-Y. In the medium term, till the effect of COVID-19 subsides, the revenue from SBU-TV (which was almost negligible in Q1FY21), is expected to remain severely impacted.

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

BLCL's Central PSU status helps BLCL to generate revenue from other PSUs and Government departments, especially in service-SBUs. It has a strong clientele comprising central PSUs & oil companies, ISRO, defense entities, Reliance, amongst others. However, central government earlier issued a notification in April 2012 that all barrel procurement by government institutions including PSUs has to be from Micro, Small & Medium Enterprises (MSMEs). Due to the said notification, BLCL had to close down its industrial packaging unit in Kolkata from September 01, 2020 in view of continued losses for past few years. However, 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.

Healthy operating margin in service SBU with moderate profitability in manufacturing SBU

PBIT margin of service SBUs (albeit decline in Q1FY21) are higher than manufacturing SBUs. Decline in PBIT margin from SBU-LS was set off by increase in PBIT margin of SBU-IP, G&L, TV etc in FY20, resulting in overall increase in operating margin. The PBIT margin of IP segment increased to 10.12% in FY20 from 8.65% in FY19 mainly due to decrease in raw material prices as against almost stable finished goods prices. The profitability in SBU-GL will remain under pressure with overall decline in growth of automobile industry and other peer competition. Further, the revenue and profitability from SBU-TV is expected to be under pressure due to declining consumer sentiment on account of worldwide spread of COVID-19. The segment wise performance of FY19, FY20 and Q1FY21 is as under:

SBU	Net sales	PBIT	PBIT Margin
	(Rs crore)		(%)
Industrial Packaging			
FY19	630.03	54.16	8.65
FY20	532.72	53.90	10.12
Q1FY21	103.10	7.64	7.41
Greases & Lubricants			
FY19	375.05	38.54	10.28
FY20	312.29	34.32	10.99
Q1FY21	58.71	0.56	0.95
Logistics Infrastructure			
FY19	185.58	43.73	23.56
FY20	175.99	40.81	23.19
Q1FY21	74.24	12.79	17.23
Logistic Services			
FY19	331.84	79.71	24.02
FY20	263.59	44.54	16.90
Q1FY21	42.06	1.24	2.95
Travel & Vacation			
FY19	156.63	60.25	38.47
FY20	131.64	55.02	41.80
Q1FY21	5.43	-10.72	-197.42

Robust financial performance in FY20 albeit deterioration witnessed in Q1FY21

Financial performance of the company for FY20 was characterized by robust albeit decline in operating income with moderation in return on capital employed, though remained healthy at 17%. However, healthy cash accrual with negligible long term debt obligation provides strong financial flexibility to the company.

The PBILDT margin considering the effect of IND-AS 116 stood at 17.74%. On removal of impact of IND-AS 116, the PBDILT margin however, improved to 16.67% in FY20 from 16.08% in FY19 due increase in operating margin in SBU IP to 10.12% in FY20 vis-à-vis 8.65% in FY19 account of decrease in raw material prices as compared to finished goods prices. The PBILDT interest coverage ratio considering the effect of IND AS 116 stood at 35.67x. However without considering IND AS 116, interest coverage ratio declined slightly but remained highly comfortable at 51.71x in FY20 vis-à-vis 53.24x in FY19. The PAT of the company witnessed slight moderation to Rs.177.17crore in FY20 vis-à-vis Rs.188.50crore in FY19 due to dampening effect of Q4FY20 on the revenue coupled with creation of provision for diminution in value of investment of Rs.10.27crore in PTBLI.

The total operating income of the company witnessed de-growth in Q1FY21 by 36.27% on Y-o-Y basis on account of subdued performance of service division of the company where SBU-TV and SBU-LS reported Q-Q de-growth in sales of 83% and 32% respectively due to muted demand. The company reported operating loss of Rs.3crore in Q1FY21 vis-à-vis operating profit of Rs.46crore in Q1FY20 mainly due to operating loss in SBU-TV. The overall loss of the company in Q1FY21 stood at Rs.6.36crore. The company reported cash profit of Rs.3.41crore against Nil debt repayment obligations in Q1FY21.

Conservative capital structure and comfortable liquidity position

Both debt equity and overall gearing ratios continued to remain stable and comfortable at 0.03x as on Mar.31, 2020 as against 0.01x as on March 31, 2019. The increase in total debt is on account of recognition of lease liability of Rs.23.35crore under IndAS 116. The company has negligible debt repayment obligation in FY21 of Rs.2.64crore in relation to term loan of Rs.15crore that the company availed in FY19 for the construction of integrated cold storage facilities at Rai and Patalganga. The average utilization of bank limit remains almost Nil and the company uses OD limits which is 100% backed by FD.

Healthy annual cash accruals, surplus funds parked in FDs and unutilized fund based bank limit indicate comfortable liquidity position and strong financial flexibility of the company.

Ongoing capex being implemented out of surplus cash

BLCL has being setting up modern logistics Infrastructure facilities (i. e cold storage, Temperature Controlled Warehouse (TCW) over the period of last 3-4 years to improve their presence in infrastructure segment which would improve the profitability of the company in the future and improve the prospects of the company. BLCL has already set up three TCW in Hyderabad in March 2016, Rai in March 2018 and Patalganga (Mumbai) which commissioned in Dec 2018 due to delay in environmental issues. The cold chain at Hyderabad is operating at close to 90%-100% capacity.

BLCL has also been awarded a contract on build, operate, manage and maintain a central warehouse in Andhra Pradesh MedTech Zone (AMTZ) which is developed by government of Andhra Pradesh for setting up medical equipment mfg. zone. The company is also under the process of setting a TCW at Bhubaneswar through its internal accruals which is expected to commence by February'2021. However timely completion and commencement of the planned capex will be crucial.

Key Rating Weakness

Volatility in input prices

Raw material consumption constituted around 70%-72% of cost of sales during the last two years (FY19-FY20). The basic raw material required by IP-SBU is cold rolled steel product and GL-SBU is lubricating base oil (LBO), together constituting around 51% of cost of material consumed in FY20 (52% in FY19).

The prices of steel materials (raw material) are volatile. However the prices of cold rolled steel materials (raw material for IP-SBU) had declined during the year FY20 in comparison to finished products due to which PBIT margin of IP-SBU increased to 10.12% in FY20 from in 8.65% FY19.

Further, the price of LBO is highly volatile as the same is linked to crude oil prices. In case of adverse movement in 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 time lag.

Some of the SBUs operating in mature market segment with intense competitive pressure and is linked to industry performance

IP: The industrial packaging industry is characterized by low entry barriers, large number of unorganized 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. However, in April 2012, the central government issued a notification that all barrel procurement by government institutions including PSUs has to be from MSMEs, in an effort to boost the sector which automatically disqualifies BLCL from putting up any more

tenders to PSUs. As a result, BLCL is diversifying its customer base in private players. The company IP division reported increase in PBIT margin to 10.12% in FY20 vis-à-vis 8.65% in FY19 and 7.41% in Q1FY21 vis-à-vis 10.395 in Q1FY20.
LIS: The Container Freight Station (CFS)/ Inland container depot (ICD) industry is expected to be under pressure due to the Direct Port Delivery (DPD) and uncertainty related to the timing of the on-going Covid-19 pandemic clearing out, which is expected to hamper volumes and result in consequential lower utilization. BLCL LS's division operating margin declined to 16.89% in FY20 vis-a-vis 24% in FY19.

Further, the warehousing industry is driven by the growth in manufacturing, retail, FMCG and ecommerce sector. Integrated models, diversification across end-user industries are expected to drive growth of cold chain segment. Significant demand is also seen coming from storage of fruits and vegetables, and pharmaceutical segments. The LI division of the company reported stable PBIT margin of 23.19% in FY20 vis-à-vis 23.56% in FY19 and 17.23% in Q1FY21 vis-à-vis 18.77% in Q1FY20.
GL: The Indian GL market is the third largest in the world. 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 professionalized technical services will continue to survive and grow. The downturn of the automobile industry will have a direct impact on the industry as majority of the performance is linked with automobile industry. There has been a sluggish demand of G&L from the automobile industry in FY19-20. Additionally, the strict enforcement of Government rules to adopt new emission standards, led to Original Equipment Manufacturers (OEMs) hiking their product prices and further deferred consumers' purchases. Further, against this backdrop of an existing slowdown environment, the outbreak of Covid-19 in mid-March 2020 added to the woes of this industry. As a result, the GL division of the company reported PBIT margin of mere 0.95% in Q1FY21 vis-à-vis 10.20% in Q1FY20. The division's PBIT margin in FY20 stood at 10.99% vis-à-vis 10.28% in FY19.
TV- With the spread of the COVID-19 to various geographies, the airlines industry has been beleaguered as countries all over are imposing travel restrictions and has imposed complete lockdown. Indians too will not be traveling anywhere anytime soon as the government has been imposing intermittent lockdown which restricts any passenger movement whatsoever and air transport services too have been halted for the time being. As a result, BLCL TV segment reported an operating loss of Rs.10.72crore in Q1FY21 vis-à-vis operating profit of Rs.9.90crore in Q1FY20. With most of the countries going under lockdown and banning/imposing restriction on entry of foreign nationals, airline carriers world over are mulling their operations due to lack of demand and are grounding their fleet due to which the aviation industry is in a fragile financial position. Hence the performance of TV segment is expected to be muted for coming quarters.

Prospects
Established position of the company in IP industry, diversified revenue profile and strong financial flexibility augurs well for the future growth prospects of the company albeit current slowdown due to COVID-19. BLCL's prospects also depend on its ability to successfully commission the projects envisaged and derive benefits there from along with identification of other lucrative revenue streams.

Liquidity Position: Strong
The company had a cash & cash equivalent amounting to Rs.446 crore as at March 31, 2020 vis-à-vis 432 crore as at March 31, 2019 (around Rs.55 crore is lien marked for OD limits). As on June 30, 2020, the balance stood at Rs.470crore. The company earned GCA of Rs.222.67crore in FY20 which was utilized towards distribution of dividend and part funding of capex. In Q1FY21, the company earned a GCA of Rs.3.41crore. Average working capital fund based utilization remains almost Nil suggesting strong liquidity position. Further, the company has not applied for moratorium of interest and principal payments under RBI COVID-19 Relief Package Scheme.

Analytical approach: Standalone
Applicable Criteria
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's methodology for manufacturing companies
Rating Methodology - Service Sector Companies
Criteria for Short Term Instruments
Liquidity analysis of Non-financial sector entities

About the Company
Balmer Lawrie & Co. Ltd. (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 152 years of operations and 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). Further, it carries out various service based activities such as logistics infrastructure & services (LIS), travel & vacation (TV) through the portal flylikeking.com, project engineering & consultancy in oil & infrastructure sector. The company operates under 6 strategic business units.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1839.84	1606.72
PBILDT	295.86	287.20
PAT	188.50	177.17
Overall gearing (times)	0.01	0.03
Interest coverage (times)	53.24	35.69

A: Audited

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 rated instrument / facility: *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 Facilities	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	-	-	-	40.00	CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	45.00	CARE AA+; Stable / CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	50.00	CARE AA+; Stable / CARE A1+
Fund-based - ST-Bank Overdraft	-	-	-	20.00	CARE A1+
Fund-based - LT-Term Loan	-	-	June-2025	11.25	CARE AA+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-Bank Guarantees	ST	40.00	CARE A1+	-	1)CARE A1+ (09-Oct-19)	1)CARE A1+ (07-Dec-18)	1)CARE A1+ (26-Sep-17)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	45.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (09-Oct-19)	1)CARE AA+; Stable / CARE A1+ (07-Dec-18)	1)CARE AA+; Stable / CARE A1+ (26-Sep-17)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	50.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (09-Oct-19)	1)CARE AA+; Stable / CARE A1+ (07-Dec-18)	1)CARE AA+; Stable / CARE A1+ (26-Sep-17)
4.	Fund-based - ST-Bank Overdraft	ST	20.00	CARE A1+	-	1)CARE A1+ (09-Oct-19)	1)CARE A1+ (07-Dec-18)	-
5.	Fund-based - LT-Term Loan	LT	11.25	CARE AA+; Stable	-	1)CARE AA+; Stable (09-Oct-19)	1)CARE AA+; Stable (07-Dec-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not Applicable

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

Sr. No.	Name of the 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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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