Balmer Lawrie & Company Limited (Revised)
October 09, 2019

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	12.50 (reduced from 15.00)	**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	**167.50 (Rupees One hundred sixty seven crore and fifty lakh only)**		

Details of 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 FY19 (refers to April 01 to March 31) marked by satisfactory operating margin and robust cash accruals, healthy return on capital employed, robust capital structure and superior liquidity position. The ratings also factor in slight moderation witnessed in financial performance of Q1FY20 due to slowdown in overall economic environment particularly in automobile industry. 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 ability of the company to successfully commission the projects envisaged and derive benefits therefrom in the competitive market condition, and improve market share of the existing product segments shall remain the key rating sensitivities.

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.

Controlling equity stake 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

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

Balmer Lawrie Investments Limited.

Experienced management team

BLCL is currently being managed by a fourteen member Board of Directors comprising five whole time directors (including Chairman & Managing Director), seven independent directors, 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.

The total operating revenue of the company grew by 2.8% in FY19 over FY18 mainly due to growth in revenue from IP SBU of 8.0% in FY19 over FY18 due to better demand of steel barrels which was offset by decline in revenue from G&L SBU by 6.78% in FY19 due to intense market competition with decline in performance of automobile industry and logistics Infrastructure segment was lower by 1.73% in FY19 due to promotion of DPD services.

Diversified, reputed and established relationship with clients both PSU and private sector

BLCL's Central PSU status helps BLCL to generate revenue from other PSUs and Government departments, especially in service-SBUs (i.e Travel & Vacation) as majority of the ticketing business is from government entities. It has a strong clientele comprising central PSUs & oil companies, ISRO, defense entities, Reliance, amongst others. 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 (mainly in ocean freight segment).

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

PBIT margin of service SBUs are higher than manufacturing SBUs, resulting in overall moderate operating margin. While the profitability in GL is expected to continue witness improvement with greater focus on high margin non-tender business and brand building, however at the same time it is affected by the performance of automobile industry and peer competition. Further, the revenue and profitability from IP is expected to be under pressure due to low demand mainly from automobile and paint industry. The segment wise performance of FY18 and FY19 is as under:

SBU	Net sales	PBIT	PBIT Margin
	(Rs crore)		(%)
Industrial Packaging			
FY18	579.64	58.42	10.08
FY19	625.93	54.16	8.65
Q1FY20	177.31	18.43	10.39
Greases & Lubricants			
FY18	402.34	30.96	7.69
FY19	375.05	38.54	10.28
Q1FY20	91.90	9.37	10.20
Logistics Infrastructure			
FY18	190.57	44.74	23.48
FY19	187.28	43.73	23.35
Q1FY20	47.37	8.89	18.77
Logistic Services			
FY18	330.77	84.83	25.65

SBU	Net sales	PBIT	PBIT Margin
	(Rs crore)		(%)
FY19	331.84	79.71	24.02
Q1FY20	60.38	9.12	15.10
Travel & Vacation			
FY18	157.31	52.94	33.65
FY19	156.63	60.25	38.47
Q1FY20	41.42	9.90	23.90

Robust financial performance in FY19 & Q1FY20 with healthy cash accruals and healthy return on capital employed

Financial performance of the company is characterized by steadily growing operating income and healthy cash accruals over the last three years with robust return on capital employed of over 20%. Healthy cash accrual with negligible long term debt obligation provides strong financial flexibility to the company.

The PBILDT margin though slightly declined but was comfortable at 16.08% in FY19 vis-à-vis 16.51% in FY18. The interest coverage ratio was highly comfortable at 53.24x in FY19 vis-à-vis 69.86x in FY18 due to low interest expenses (despite increase in interest expenses by 31.44% on y-o-y basis in FY19) and decline in PBILDT margin. The company earned robust PAT of Rs.188.50 crore in FY19 vis-à-vis 184.82 crore in FY18.

The total operating income of the company witnessed de-growth in Q1FY20 by 11.85% on Y-o-Y basis on account of lower revenue in IP and G&L SBU of the company. The PBILDT margin declined but was comfortable at 10.69% in Q1FY20 as compared to 11.56% in Q1FY19 mainly because of under-performance in IP and logistics segment. The PAT levels declined by 27.77% in Q1FY20 vis-à-vis Q1FY19 due to lower revenue earned and increase in capital charge (finance cost and depreciation).

Further, the GCA earned by the company was healthy at Rs.37.85 crore in Q1FY20 vis-à-vis Rs.45.41 crore in Q1FY19 as compared to low debt repayment obligation.

Conservative capital structure and comfortable liquidity position

Both debt equity and overall gearing ratios continued to remain stable and comfortable at 0.01x as on March 31, 2019. The debt equity of 0.01x as on March 31, 2019 was on account of availment of term loan of Rs.15 crore 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 at the time of cash flow mismatch.

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.

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 total project cost is to be funded through internal accruals of the company. The company is also under the process of setting a TCW at Bhubaneswar through its internal accruals which is expected to commence by FY21. However timely completion and commencement of the planned capex will be crucial.

BLCL Capital work in progress was Rs.116.94 crore as on March 31, 2019 entirely from internal accruals.

Key Rating Weakness

Volatility in input prices
Raw material consumption constituted around 70%-72% of cost of sales during the last two years (FY18-FY19). The basic raw material required by IP-SBU is cold rolled steel product and GL-SBU is lubricating base oil (LBO), together constituting around 52% of cost of material consumed in FY19 (47% in FY18).
The prices of steel materials (raw material) is volatile and had increased during the year FY19 due to upturn in steel market in comparison to finished products due to which there was decline in profitability of IP SBU.
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.
LIS: The (CFS)/ inland container depot (ICD) industry is expected to be under pressure due to the growth of Direct Port Delivery (DPD) and profitability is expected to be hampered with the anticipated loss of volumes and consequential lower utilisation. CARE Ratings estimates that the warehousing industry will grow at a rate of 13-15% in the medium term 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.

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 FY18-19.

Liquidity Position: Superior
The company has cash & cash equivalent of Rs.432 crore as on March 31, 2019 vis-à-vis Rs.478 crore as on March 31, 2018. The company earned GCA of Rs.219 crore in FY19 as compared to Rs.226 crore in FY18 which was utilized towards distribution of dividend and part funding of capex. Average working capital fund based utilization remains almost nil suggesting strong liquidity position.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
Rating Methodology - Service Sector Companies
Financial ratios – Non-Financial Sector
Rating Methodology – Factoring Linkages in Ratings
Criteria for Short Term Instruments

About the company

Balmer Lawrie & Co. Ltd. (BLCL) 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)	FY18 (A)	FY19 (A)
Total operating income	1788.42	1839.84
PBILDT	295.27	295.86
PAT	184.82	188.50
Overall gearing (times)	0.01	0.01
Interest coverage (times)	69.86	53.24

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of 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	12.50	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - ST-Bank Guarantees	ST	40.00	CARE A1+	-	1)CARE A1+ (07-Dec-18)	1)CARE A1+ (26-Sep-17	1)CARE A1+ (11-Jul-16)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	45.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (07-Dec-18)	1)CARE AA+; Stable / CARE A1+ (26-Sep-17)	1)CARE AA+ / CARE A1+ (11-Jul-16)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	50.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (07-Dec-18)	1)CARE AA+; Stable / CARE A1+ (26-Sep-17)	1)CARE AA+ / CARE A1+ (11-Jul-16)
4.	Fund-based - ST-Bank Overdraft	ST	20.00	CARE A1+	-	1)CARE A1+ (07-Dec-18)	-	-
5.	Fund-based - LT-Term Loan	LT	12.50	CARE AA+; Stable	-	1)CARE AA+; Stable (07-Dec-18)	-	-

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over 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.

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