

Balmer Lawrie & Company Limited

December 07, 2018

Ratings

Facility	Amount (Rs. Crore)	Ratings ¹	Rating Action
Short term Bank Facilities	60.0 (enhanced from 40.0)	CARE A1+ (A One Plus)	Reaffirmed
Long term Bank Facilities	15.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Assigned
Long-term/Short-term Bank Facilities	95.0 (reduced from 130.0)	CARE AA+; Stable/CARE A1+ (Double A Plus; Outlook: Stable/A One Plus)	Reaffirmed
Total	170.0 (Rs. One hundred and Seventy crore 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 highly qualified management team, de-risking business with diversified revenue stream, diversified and reputed clientele with established relationship and robust financial performance in FY18 (refers to April 01 to March 31) and H1FY19 marked by satisfactory operating margin and robust cash accruals, healthy return on capital employed, conservative capital structure and comfortable liquidity position. 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, some of the SBUs operating in mature market segment with intense competitive pressure and expected pressure on the logistic business.

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 Balmer Lawrie Investments Limited.

Professional and highly qualified management team

BLCL is currently being managed by an eleven member Board of Directors comprising seven whole time directors (including Chairman & Managing Director), four independent directors two one 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 five 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. Diversified business model helped the company in mitigating downswing in other sectors as the revenue of Logistic Infrastructure Services (LIS) was affected due to promotion of Direct Port Delivery (DPD) system which reduces the involvement of Container Freight Station (CFSS) and that of Grease & Lubricants (GL) segment was lower due to change in product mix with focus on value added products.

Diversified, reputed and established relationship with clients

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. 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 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, the same IP are expected to be under pressure in view of increasing raw material price in near term.

Robust financial performance in FY18 & H1FY19 with healthy cash accruals and healthy return on capital employed

Financial performance of the company is characterized by steadily growing operating income and cash accruals over the last three years with robust return on capital employed. Healthy cash accrual with no long term debt obligation provides strong financial flexibility to the company. GCA stood at Rs.226 crore in FY18 which was utilized towards distribution of dividend (Rs.97 crore), investment in JV company - Visakhapatnam Port Trust (Rs.51 crore) and funding of capex (Rs.18 crore). The interest coverage ratio of BLCL also improved and stood at highly comfortable level of 63.5x in FY18 in view of low interest outflow. The company has been able to maintain a healthy ROCE in the last three years (FY16-FY18).

In H1FY19, BLCL's total operating income grew by 9% over H1FY18. The company earned PAT of Rs.73 crore on total operating income of Rs.906 crore in FY19 (PAT of Rs.56 crore on total operating income of Rs.837 crore in H1FY18).

Conservative capital structure and comfortable liquidity position

Both debt equity and overall gearing ratios continued to remain comfortable at 0.01x as on Mar.31, 2018 vis-à-vis nil as on March 31, 2017. The debt equity of 0.01x as on March 31, 2018 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. This apart, as on Mar.31, 2018, BLCL had an aggregate amount of about Rs.478 crore as cash and bank balance mainly parked in bank fixed deposits and in current account. As on September 30, 2018, the cash and balance stood at Rs.373 crore. 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.

Key Rating Weakness

Volatility in input prices

Raw material constituted around 70%-72% of cost of sales in the last two years. The basic raw material required by IP-SBU is cold-rolled steel product and GL-SBU is lubricating base oil. 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.

Ongoing capex being implemented out of surplus cash

BLCL has set-up a Temperature Controlled Warehouse (TCW) in Hyderabad in March 2016 and Rai in March 2018. The company is also in the process of setting up another TCW at Patalganga (Mumbai), which has got delayed on account of environmental issues. The stabilisation of operations of the TCWs remains crucial.

BLCL is setting up a multi-modal logistics hub in partnership with Visakhapatnam Port Trust (VPT) at Vizag, through a JV company Vishakhapatnam Port Logistics Park Ltd (VPLP), in which BLCL and VPT have 60% and 40% stake respectively. The 1st phase with estimated cost of Rs.260 crore is expected to be operational by March 31, 2019. Financial closure for the project has been achieved and partly has already been disbursed. BLCL has infused Rs.80 crore while VPT has provided the land valued at Rs.54 crore.

Some of the SBUs operating in mature market segment with intense competitive pressure and expected pressure on the logistic business

The industrial packaging industry is characterised 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. The Tour & Vacation (TV) industry is concentrated with a few multi-locational large agencies and a multitude of small operators, bringing in intense competitive pressure in the industry.

The CFS/ inland container depot (ICD) industry although on a growth curve 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.

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. 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.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Financial ratios – Non-Financial Sector](#)

[CARE's methodology for manufacturing companies](#)

[Criteria for Short Term Instruments](#)

About the Company

BLCL is a Central PSU under the administrative control of Ministry of Petroleum & Natural Gas, Government of India (GoI), since 1972. Currently, GoI owns 61.80% 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) products, GL and performance chemicals and carries out various service based activities such as LIS, TV, project engineering & consultancy in oil & infrastructure sector. Major business segments are TV, LIS and manufacturing of IP products and GL. Each of the activities operates as a SBU.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total Operating Income	1764.93	1792.17
PBILDT	277.58	268.20
PAT	170.42	184.82
Overall gearing (times)	0.00	0.01
Interest coverage (times)	61.19	63.45

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History (Last three years): 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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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
Non-fund-based - ST-Bank Guarantees	-	-	-	40.00	CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	45.00	CARE AA+; Stable / CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	50.00	CARE AA+; Stable / CARE A1+
Fund-based – ST-Overdraft	-	-	-	20.00	CARE A1+
Term Loan – Long Term	-	-	June 2025	15.00	CARE AA+; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Issuer Rating-Issuer Ratings	Issuer rating	-		-	-	-	1)Withdrawn (30-Jun-15)
2.	Short Term Instruments-CP/STD	ST	-		-	-	-	1)Withdrawn (30-Jun-15)
3.	Non-fund-based - ST-Bank Guarantees	ST	40.00	CARE A1+	-	1)CARE A1+ (26-Sep-17)	1)CARE A1+ (11-Jul-16)	1)CARE A1+ (06-Jul-15)
4.	Non-fund-based - LT/ST-BG/LC	LT/ST	25.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable/ CARE A1+ (26-Sep-17)	1)CARE AA+ / CARE A1+ (11-Jul-16)	1)CARE AA+ / CARE A1+ (06-Jul-15)
5.	Fund-based/Non-fund-based-LT/ST	LT/ST	105.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable/ CARE A1+ (26-Sep-17)	1)CARE AA+ / CARE A1+ (11-Jul-16)	1)CARE AA+ / CARE A1+ (06-Jul-15)
6.	Fund-based – ST-Overdraft	ST	20.00	CARE A1+	-	-	-	-
7.	Term Loan – Long Term	LT	15.00	CARE AA+; Stable	-	-	-	-

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