May 17, 2022

Balmer Lawrie & Company Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit Facilities	50.00	50.00	[ICRA]AA+(Stable); Reaffirmed
Non-fund Based Facilities	130.00	130.00	[ICRA]AA+ (Stable); Reaffirmed
Short-term – Fund-based Facilities[1]	(50.00)	(50.00)	[ICRA]A1+; Reaffirmed
Total	**180.00**	**180.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings continues to factor in Balmer Lawrie & Company Limited's (BLL) highly conservative capital structure, its strong debt protection metrics and a comfortable liquidity position, given a large free cash and bank balance of ~Rs. 380 crore as on March 31, 2022, which impart a high degree of financial flexibility. The company is also a debt free entity as on March 31, 2022. While the performance of FY2021 was subdued due to the impact of the pandemic, there has been improvement in performance with the company reporting net profits and net cash accruals of Rs. ~65 crore and Rs. ~96 crore, respectively in 9M FY2022 compared to Rs. ~34 crore and Rs. ~65 crore, respectively in 9M FY2021. Overall, the financial performance in FY2022 is expected to be better than FY2021 on account of a significant improvement in performance of key divisions such as industrial packaging (IP) and greases and lubricants (G&L). In FY2023, the financial risk profile is expected to remain comfortable with nil external debt and healthy debt coverage and liquidity position.

The ratings also consider healthy diversification across business segments and customers, which protects BLL from any downturns in a particular business. The Central Public Sector Undertaking (PSU) status of BLL enables it to generate stable revenues from other PSUs and Government departments, especially in the logistics services (LS) and travel and vacation (T&V) business verticals. The above strengths are, however, offset by moderate margins due to increased exposure to the Private Sector and vulnerability of the company's profitability to adverse movements in raw material prices in the industrial packaging (IP) and greases and lubricants (G&L) verticals. Additionally, the revenues and margins in the container handling business remain susceptible to changes in Government policies. The ratings also remain constrained by the sizeable exposure to a weak subsidiary, which continues to be a drag on BLL's financials. However, the company's stated strategy of not providing any direct financial support to the subsidiary limits incremental financial exposure. Nevertheless, BLL's strong liquidity position arising from its large cash balance, strong accruals from different business verticals and its undrawn bank lines, provides comfort to its ratings. ICRA also notes the company's planned capex at various divisions worth Rs. ~100 crore over the next 2-3 years, which will be entirely funded through internal accruals.

The Stable outlook on the long-term rating reflects ICRA's opinion that BLL would generate healthy free cash flows on account of its established position across a diversified portfolio of business.

[1]Sub-limit of the cash credit facilities

Key rating drivers and their description

Credit strengths

Conservative capital structure, strong debt protection metrics and comfortable liquidity position – BLL's financial risk profile remained strong with a significant improvement in the overall revenues and profits at an absolute level in 9M FY2022. The debt protection metrics also remained strong, as reflected by an interest coverage of ~21 times in 9M FY2022 (FY2021- 26 times). The liquidity position also remained comfortable, as reflected in the unencumbered cash and bank balance of ~Rs. 380 crore as on March 31, 2022. In FY2023, the financial risk profile is expected to remain comfortable with nil external debt and healthy debt coverage and liquidity position.

Diversified operations and established position across business segments cushion against downturns in a particular segment – BLL's business profile is characterised by healthy diversification across business segments and customers, which protects it from any downturns in a particular business. The company is organised into five main divisions – LI, LS, G&L, IP and T&V, besides other smaller divisions. The business profile remains adequately diversified, with LS, IP and G&L being the key revenue contributors, constituting ~20%, ~41% and ~24%, respectively, of BLL's revenues in 9M FY2022.

PSU status provides stable revenues from the Government sector – The competitive advantage of BLL's service-related SBUs is supported by its PSU status, which results in stable revenues from the PSU/Government-sector customers. The PSU status is expected to benefit the overall business risk profile of BLL, going forward as well. ICRA notes that BLL is the Government's preferred partner in providing logistics services for defence imports, and ticketing services for movement of officials from the armed forces. Such services are likely to provide a stable source of revenue to the company. ICRA also notes that BLL has added several private sector clients over the years.

Credit challenges

Vulnerability of profitability to adverse movements in raw material prices and intense competition – The key manufacturing verticals, IP and G&L, are characterised by moderate margins. While many unorganised players and low entry barriers keep the margins of the IP division under check, intense competition from global and local players restricts the margins of the G&L division. In addition, volatile cold-rolled coil and base oil prices used as raw materials in the IP and G&L segment, respectively, keep the profitability exposed to adverse movements in raw material prices.

Logistics division business susceptible to Government policies – The revenues and margins in the container handling business remain susceptible to volatility in the Government policies. The implementation of the Direct Port Delivery/Direct Port Entry (DPD/DPE) scheme by the Government of India, which has now been implemented across all major ports, continues to impact BLL's top line and bottom line from the segment.

Sizeable investment in weak subsidiary continues to drag financials – BLL has an equity investment of ~Rs. 81 crore in its subsidiary, Visakhapatnam Port Logistics Park Limited (VPLPL), which has started commercial operations of its multi-modal logistics park from October 2019. Such large capital blockage in investments, which are non-return yielding, continue to affect BLL's returns on capital employed. However, the company's stated strategy of not providing any direct financial support to the subsidiary limits incremental financial exposure.

Liquidity position: Strong

BLL's liquidity position is **strong** with healthy cash flow from operations, large free cash and bank balances of ~Rs. 380 crore as on March 31, 2022, no debt repayment obligations in FY2023 and adequate buffer in the form of unutilised working capital limits. Overall, ICRA expects the company to be able to comfortably meet its near-term capex commitments through internal accruals and yet be left with sufficient cash surpluses.

Rating sensitivities

Positive factors – ICRA could upgrade BLL's rating if the RoCE improves and remains above 25% on a sustained basis. Moreover, the debt service indicators need to be sustained at the current level.

Negative factors – Pressure on BLL's ratings could arise if there is a sustained slowdown in BLL's end-user industries, leading to a fall in operating cash flows. High dividend outflow, leading to weakening of liquidity, could also be a trigger for ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Although BLL has several subsidiaries/JVs/associate companies, ICRA has analysed the standalone financial profile as BLL has indicated that no direct financial support will be extended to any of its subsidiaries, JVs and associate. Further, no corporate guarantee has been extended to any its subsidiaries, JVs and associate.

About the company

Balmer Lawrie & Company Limited (BLL), 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 the Ministry of Petroleum and Natural Gas, GoI, since 1972. In 1924, it was incorporated as a private limited company, and in 1936 it was converted into a public limited company. In 2006, BLL attained the Miniratna – I status. It has many strategic business units (SBU), with presence in both manufacturing and services sectors. The key manufacturing SBUs comprise IP and G&L, while the key services SBUs include T&V, LI and LS.

Key financial indicators

BLL Standalone	FY2020 (Audited)	FY2021 (Audited)	9MFY2022 (Unaudited)
Operating Income (Rs. crore)	1535.0	1526.1	1470.4
PAT (Rs. crore)	177.2	116.5	65.1
OPBDIT/OI (%)	13.4%	9.3%	6.7%
RoCE (%)	18.9%	12.1%	
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.5	
Total Debt/OPBDIT (times)	0.2	0.2	
Interest Coverage (times)	25.7	26.8	21.2
DSCR (times)	20.9	9.7	

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating In FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					May 17,2022	Feb 05, 2021	Dec 30, 2019	Nov 12, 2018
1	Cash Credit	Long Term	50.00	NIL	[ICRA]AA+ (Stable	[ICRA]AA+ (Stable	[ICRA]AA+ (Stable	[ICRA]AA+ (Stable
2	Non-fund Based Facilities	Long Term	130.00	--	[ICRA]AA+ (Stable	[ICRA]AA+ (Stable	[ICRA]AA+ (Stable	[ICRA]AA+ (Stable
3	Fund-based Facilities[2]	Short Term	(50.00)	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Non-fund Based Facilities	Very simple
Fund-based Facilities[2]	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

[2]Sub-limit of the cash credit facilities

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit Facilities	--	NA	--	50.00	[ICRA]AA+ (Stable)
NA	Non-fund based Facilities	--	NA	--	130.00	[ICRA]AA+ (Stable)
NA	Short-term – Fund-based Facilities[3]	--	NA	--	(50.00)	[ICRA]A1+

Annexure-2: List of entities considered for consolidated analysis- Not applicable

[3]Sub-limit of the cash credit facilities

ANALYST CONTACTS

Jayanta Roy
+91-33-7150-1120
Jayanta@icraindia.com

Priyesh N. Ruparelia
+91-33-7150-1111
Priyesh.ruparelia@icraindia.com

Sumit Jhunjhunwala
+91-33-7150-1111
sumit.jhunjhunwala@icraindia.com

Tanmay Chhaparia
+91-33-7150-1110
tanmay.chhaparia@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches