July 07, 2023

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-I; [1] Sub-limit of the cash credit facilities*

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. 441 crore as on March 31, 2023, which imparts a high degree of financial flexibility. The company was also a debt free entity as on March 31, 2023, on a standalone basis. In FY2023, while the industrial packaging (IP) segment was impacted by the volatility in steel prices and a decline in volumes, a healthy growth in the services segment and the grease and lubricants (G&L) segment kept the profit margins at a comfortable level. The financial performance is expected to remain healthy in the current fiscal as well with an expected growth in revenues and steady profit margins in IP, logistics services (LS), travel and vacation (T&V) and G&L divisions. The financial risk profile is expected to remain comfortable with nil external debt (at the standalone level), healthy debt coverage and strong liquidity position. The ratings also consider healthy diversification across business segments and customers, which protects BLL from any downturn in a particular business. The Central Public Sector Undertaking (CPSU) status of BLL enables it to generate stable revenues from other PSUs and Government departments, especially in the LS and T&V business verticals.

The above strengths are, however, offset by moderate operating margins (~8-9% during last 3 financial years) due to increased exposure to the private sector and vulnerability of the company's profitability to adverse movements in raw material prices in IP and 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 impact BLL's consolidated financials. However, the exposure pertains to FY2017-2018 and BLL has not invested in the recent years. In the current fiscal, the company has extended a one-time limited support to the said subsidiary and any large support to the subsidiaries impacting the liquidity profile will be a key monitorable. Nonetheless, 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 remains low relative to its cash accruals and will be entirely funded through internal accruals. Additionally, ICRA notes that the Government of India had announced its plans to divest in BLL in the past. While no development has happened till date, the materialisation of the same in the future and its impact will be a key monitorable.

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

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 FY2023 compared to FY2022. The debt protection metrics remained strong, as reflected by an interest coverage of ~21 times in FY2023 (FY2022-28 times). The liquidity position remained strong, as reflected in the unencumbered cash and bank balance of ~Rs. 441 crore as on March 31, 2023 and unused working capital facilities. Going forward as well, the financial risk profile is expected to remain comfortable with no dependence on external debt and healthy debt coverage and liquidity position of the standalone entity.

Diversified operations and established position across business segments cushion against downturns in a particular segment – BLL's business profile is diversified across business segments and customers, which protects it from any downturn in a particular business. The company is organised into five main divisions – logistics infrastructure (LI), logistics services (LS), grease & lubricants (G&L), industrial packaging (IP) and travel and vacations (T&V), besides other smaller divisions. The business profile remains adequately diversified, with LS, IP and G&L being the key revenue contributors, constituting ~23%, ~31% and ~26%, respectively, of BLL's revenues in FY2023.

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 travel needs 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 impact consolidated 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. In addition to the investment, BLL is also likely to provide limited support in FY2024 in case of any shortfall arising for meeting VPLPL's principal repayment. Such large capital blockage in investments, which are non-return yielding, continue to affect BLL's returns on capital employed. Nonetheless, ICRA notes that the said entity has received the Container Freight Station (CFS) licence in March 2023 and has started CFS operations in the current year. Going forward, as the operations stabilise, the financial performance of the subsidiary is expected to substantially improve.

Liquidity position: Strong

BLL's liquidity position is strong with healthy cash flow from operations, large free cash and bank balances of ~Rs. 441 crore as on March 31, 2023, no debt repayment obligations, modest capital expenditure plans and adequate buffer in the form of unutilised working capital limits (100% fund-based limits). Overall, ICRA expects the company to be able to comfortably meet its near-term capex commitments through internal accruals and still be left with sufficient cash surplus.

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 protection metrics 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 its 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](#) [Rating Methodology - Chemicals](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	BLL has one subsidiary, Visakhapatnam Port Logistics Park Limited (VPLPL). While ICRA understands that the management will be restricting the financial support to VPLPL for principal repayment of FY2024 only, the extent of support remains nominal compared to the overall cash flow generation of BLL. Further, no corporate guarantee has been extended to any its subsidiaries, JVs and associates. Consequently, ICRA has considered the standalone financial profile of BLL.

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 (audited)

BLL Standalone	FY2022	FY2023
Operating income	2048.5	2315.8
PAT	122.8	153.9
OPBDIT/OI	8.1%	8.7%
PAT/OI	6.0%	6.6%
Total outside liabilities/Tangible net worth (times)	0.5	0.5
Total debt/OPBDIT (times)	0.2	0.2
Interest coverage (times)	28.7	20.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jul 07, 2023	May 17, 2022	N/A	Feb 05, 2021
1	**Cash Credit**	Long-term	50.00	-	**[ICRA]AA+(Stable)**	[ICRA]AA+(Stable)	--	[ICRA]AA+(Stable)
2	**Non-Fund based bank facilities**	Long-term	130.00	--	**[ICRA]AA+(Stable)**	[ICRA]AA+(Stable)	--	[ICRA]AA+(Stable)
3	**Fund-based bank facilities***	Short-term	(50.00)	--	**[ICRA]A1+**	[ICRA]A1+	--	[ICRA]A1+

**sublimit of Cash credit*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Non-Fund based bank facilities	Very Simple
Fund-based bank facilities*	Simple

**sublimit of cash credit*

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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit Facilities	--	--	--	50.00	[ICRA]AA+ (Stable)
NA	Non fund-based Facilities	--	--	--	130.00	[ICRA]AA+ (Stable)
NA	Short-term fund-based Facilities*	--	--	--	(50.00)	[ICRA]A1+

Source: Company; **sublimit of cash credit*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Not applicable

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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.

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