

September 01, 2017

Balmer Lawrie-Van Leer Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Long-term, term loans	12.40	[ICRA]A (stable); Upgraded from [ICRA]A-(stable)
Long-term, fund-based	1.00	[ICRA]A (stable); Upgraded from [ICRA]A-(stable)
Long-term, non-fund based	1.00	[ICRA]A (stable); Upgraded from [ICRA]A-(stable)
Short-term, fund-based	26.40	[ICRA]A1; Upgraded from [ICRA]A2+
Short-term, non-fund based limits	22.00	[ICRA]A1; Upgraded from [ICRA]A2+
Long-term/short-term, fund-based	9.60	[ICRA]A (stable) / [ICRA]A1; Upgraded from [ICRA]A-(stable) / [ICRA]A2+

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating for the Rs. 12.40 crore¹ term loans, the Rs. 1.00 crore long-term, fund-based limits and the Rs. 1.00 crore long-term, non-fund based limits of Balmer Lawrie-Van Leer Limited (BLVL) to [ICRA]A (pronounced ICRA A) from [ICRA]A- (pronounced ICRA A minus)². ICRA has also upgraded the short-term rating for the Rs. 26.40 crore short-term, fund-based limits and the Rs. 22.00 crore short-term, non-fund based limits of BLVL to [ICRA]A1 (pronounced as ICRA A one) from [ICRA]A2+ (pronounced ICRA A two plus). ICRA has further upgraded the ratings for the Rs. 9.60 crore long-term / short-term, fund-based limits of BLVL to [ICRA]A / [ICRA]A1 from [ICRA]A- / [ICRA]A2+. The outlook on the long-term rating is Stable.

Rationale

The revision in ratings takes into consideration the improved debt coverage metrics aided by improved profitability. The ratings draw comfort from the comfortable capital structure of the company, as evinced by a gearing of 0.86 time as on March 31, 2017. ICRA also takes in to account the strong parentage of the company (Balmer Lawrie & Company Limited (BL), *rated [ICRA]AA+ (stable)/[ICRA]A1+*, and Grief International Holdings B.V.), and the managerial and technical support thus made available to it. This has also enabled the company to position itself as one of the leading players in the highly fragmented plastic container and steel drum closure systems industry. The operational profile is characterised by niche product portfolio along with captive customers in its parent companies. BLVL also enjoys longstanding relationships with other reputed players across various industries.

ICRA, however, takes into consideration the company's presence in the highly fragmented packaging industry, characterised by intense competition, limiting its pricing flexibility. Furthermore, the price of the company's key raw material—high-density polyethylene (HDPE)—is derived from crude oil prices, thereby exposing BLVL's margins to volatility in raw material price movement. With ~60% of the raw material requirement being met through imports, the company also remains vulnerable to volatility in

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

foreign currency exchange rates. However, BLVL hedges ~50% of its total foreign exchange exposure, thereby mitigating the risk to an extent.

BLVL's ability to continue its revenue growth, while achieving improvement in profitability is a key rating sensitivity. ICRA would also continue to monitor any larger than expected debt funded capital expenditure that may deteriorate the capital structure and coverage indicators.

Key rating drivers

Credit strengths

- **Strong managerial and technical support from promoters – BL and Greif** – BL and Greif holds 47.91% each in BLVL. BL is one of the largest industrial packaging companies in India, while Greif is one of the largest industrial packaging companies worldwide.
- **Established market position in steel drum closures and plastic packaging** – BLVL supplies plastic drums in various industries in the domestic market and commands ~15% of the market share. Steel drum closures are mainly sold to the parent company, BL, which is one of the largest steel drums manufacturing companies in India.
- **Reputed customer base with longstanding relationships** – BLVL's customer base includes reputed players in the industry who procure ~75-80% of their plastic drums requirement from BLVL. Most of the customers have been associated with BLVL for more than 10 years.
- **Steady growth in operating income over the years; healthy and stable operating profit margins** – BLVL reported revenue growth of ~10% in FY2017 and operating profit margin improved at 11.55% in FY2017 as against 9.72% in FY2016 on consolidated levels.
- **Strong financial profile as characterised by moderate gearing and healthy coverage indicators** – BLVL's gearing stood comfortable at 0.86 times as on March 31, 2017 and healthy coverage indicators as reflected by interest coverage of 5.69 times and NCA/Total debt of 23% in FY2017.

Credit weaknesses

- **Fragmented industry and intense competition exerts pressure on profitability** – The industry for blow-moulded drums and steel closures is highly competitive and unorganised with the product being largely commoditised, thus exerting pressure on profit margins.
- **Ability to manage volatility in major raw material prices, which are dependent on crude oil prices, is critical** – The profit margin of the company remains vulnerable to steep fluctuations in raw material prices that are dependent on crude oil prices. The company is able to pass-on the fluctuations in raw material prices to its customers, however, with a time lag of about a month.
- **Moderate working capital intensity of operations, arising mainly from high inventory requirements** – The inventory requirement of the company is high due to the nature of its products. Moreover, the company prefers to purchase in bulk in low price scenarios. Thus, the working capital intensity remains moderate as reflected by NWC/OI of 21% in FY2017.
- **Relatively high customer concentration in steel closure division** – Sales in the plastic drums segment remains diversified; however, steel closure sales are mainly made towards parent companies contributing most of the steel closure sales.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)



About the company:

Balmer Lawrie-Van Leer Limited (BLVL) commenced operations from 1960 with the manufacturing of closure systems for steel drums under the 'Tri-Sure' brand. Subsequently, with the Netherlands-based Royal Packaging Industries Van Leer NV (a part of the Greif Group) becoming the major shareholders of the company, it forayed into the manufacturing of plastic containers under the brand, 'Valerex'. Though listed in 1994, BLVL was delisted from the stock exchanges in 2007, and its shares were bought back by the parent company, Greif International Holding. As on date, both Balmer Lawrie & Company Limited (*rated [ICRA]AA+ (stable)/[ICRA]A1+*) and Greif International Holding B.V. (an associate of Greif Inc., which is *rated Ba2/Negative by Moody's*) hold 47.91% stake each in BLVL.

Plastic containers contribute ~75% to the company's revenues, while steel drum closure systems account for the balance ~25%. The company operates four manufacturing facilities in India (Maharashtra, Tamil Nadu and Uttarakhand).

The company had a 100% subsidiary, Proseal Closures Limited (PCL; *rated [ICRA]BBB+ (stable)/[ICRA]A2*; engaged in manufacturing flanges, bungs, levers and latches, etc.), which was merged with BLVL in July 2017. The company also has a 50% joint venture (JV) with BL, Transafe Services Limited (TSL), which is in the business of leasing and transportation logistics.

For the 12-month period ending March 31, 2017 (audited), BLVL, on a consolidated basis, reported a profit after tax (PAT) of Rs. 18.47 crore on an operating income (OI) of Rs. 386.25 crore over a PAT of Rs. 12.90 crore on an OI of Rs. 350.07 crore for the 12-month period ending March 31, 2016 (audited).

Key Financial Indicators (Audited)

Consolidated	FY2016	FY2017
Operating Income (Rs. crore)	350.07	386.25
PAT (Rs. crore)	12.90	18.47
OPBDIT/ OI (%)	9.72%	11.55%
RoCE (%)	13.34%	19.11%
Total Debt/ TNW (times)	0.83	0.86
Total Debt/ OPBDIT (times)	2.41	2.12
Interest coverage (times)	4.66	5.69
NWC/ OI (%)	19%	21%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table

S. No	Name of Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month-year & Rating in FY2015
					Sept 2017	April 2016	-	November 2015
1	Term loans	Long-term	12.40	5.75	[ICRA]A (Stable)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)
2	Fund-based	Long-term	1.00	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)
3	Non-fund	Long-term	1.00	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)
4	Fund-based	Short-term	26.40	-	[ICRA]A1	[ICRA]A2+	-	[ICRA]A2+
5	Non-fund based	Short-term	22.00	-	[ICRA]A1	[ICRA]A2+	-	[ICRA]A2+
6	Fund-based	Long-term/Short-term	9.60	-	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A- (Stable) / [ICRA]A2+	-	[ICRA]A- (Stable) / [ICRA]A2+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instruments

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Term Loan	August 27, 2014	10.50% - 11.25%	January 27, 2020	7.40	[ICRA]A (stable)
Term Loan	November 02, 2016	11.25% - 11.75%	December 9, 2019	5.00	[ICRA]A (stable)
Fund-based/non-fund based facilities	-	-	-	60.0	[ICRA]A (stable) / [ICRA]A1

Source: BLVL

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About ICRA Limited:

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