February 05, 2021

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, which impart a high degree of financial flexibility. 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 ratings note BLL's sovereign ownership by the Government of India (GoI), which holds a 61.8% equity stake through Balmer Lawrie Investments Limited. The Central PSU status of BLL enables it to generate a stable revenue source from other PSUs and Government departments especially in the logistics infrastructure and services (LIS) and travel and vacation (T&V) business verticals. The above strengths are, however, offset by moderate margins and the 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 volatility in the EXIM trade and Government policies. The long-term rating remains 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.

The Stable outlook on the long-term rating reflects ICRA's opinion that notwithstanding the expected moderation in BLL's financial performance in FY2021, it would continue to enjoy a near debt-free status, which along with a large cash and bank balance, provides healthy liquidity and financial flexibility.

Key rating drivers and their description

Credit strengths

Conservative capital structure, strong debt protection metrics and comfortable liquidity position – Notwithstanding the decline in the overall revenues and profit at an absolute level in FY2020 and H1 FY2021, BLL's financial risk profile remains strong. This is corroborated from its near debt-free status as on March 31, 2020 and September 30, 2020, which translated into strong debt protection metrics and is reflected in an interest coverage of 27 times in FY2020 (PY: 43.3 times). The comfortable liquidity position is reflected in the unencumbered cash and bank balance of ~Rs. 446 crore as on March 31, 2020 and ~Rs. 470 crore as on September 30, 2020. ICRA expects the capital structure and debt protection metrics to remain strong over the medium term given that the incremental capex, going forward, will be met out of accruals.

[1]Sub-limit of the cash credit facilities

BLL witnessed a ~14% decline in its revenues in FY2020 due to subdued performance of the IP and LIS business verticals. While the IP business vertical witnessed a reduction in offtake because of tepid demand from the end-user industries especially in the second half of FY2020, the LIS business vertical witnessed a sharp dip in revenues on account of contracted customers moving from FOB to CIF buying for their imports, reduced imports for its customer segment (which includes other PSUs) on the back of the Government's 'Make in India' policy, coupled with a decrease in the container volumes handled owing to the impact of DPD/DPE.

Presence in multiple businesses provides cushion against downturns in a particular business – 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 four main divisions – LIS, G&L, IP and T&V, besides other smaller divisions. The business profile remains adequately diversified, with LIS, IP and G&L being the key revenue contributors, constituting ~27%, ~33% and ~22%, respectively, of BLL's revenues in FY2020. While the contribution of the T&V division to the company's revenue remains relatively low at ~10%, it still constitutes a healthy proportion of the profits (~24% of PBT in FY2020).

Large sovereign ownership – BLL, a Miniratna – I Central PSU, has been under the administrative control of Ministry of Petroleum and Natural Gas, GoI, since 1972. At present, the GoI owns 61.8% of BLL's equity through Balmer Lawrie Investments Limited. The Central PSU status of BLL enables it to generate a stable revenue source from other PSUs and Government departments especially in the LIS and T&V business verticals.

Credit challenges

Manufacturing operations characterised by moderate margins and vulnerability of profitability to adverse movements in raw material prices – The key manufacturing verticals, IP and G&L, are characterised by moderate margins. While the large number of unorganised players and low entry barriers keeps 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 material in the IP and G&L segment, respectively, keeps the profitability exposed to adverse movements in raw material prices.

Revenues and margins in the container handling business remain susceptible to volatility in EXIM trade and Government policies – The revenues and margins in the container handling business remain susceptible to volatility in the EXIM trade and 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.

Sizeable investment in weak subsidiary continues to be a drag on financials – BLL has an equity investment of ~Rs. 81 crore in its 60% subsidiary, Visakhapatnam Port Logistics Park Limited (VPLPL), which has started commercial operations of its multi-modal logistics park from October 2019. Uncertainty over receipt of necessary approvals for operating a container freight station (CFS) by VPLPL has rendered its financial profile weak in absence of adequate revenue generating sources. Such large capital blockage in investments, which are non-return yielding, continues to affect BLL's RoCE, though the same remained healthy at 19.1% in FY2020. However, the company's stated strategy of not providing any direct financial support to the subsidiary limits incremental financial exposure.

Muted demand for T&V vertical to weigh on near-term financial performance – BLL's performance in Q1 FY2021 was impacted by the Covid-19 pandemic leading to losses at the net level. Its operating income reduced by ~37% YoY in Q1 FY2021. The impact of the Covid-19 pandemic on the travel and tourism industry was severe and as a result, the performance of BLL's T&V business segment was the worst affected among all the business verticals as evidenced by the steep contraction in revenues (de-growth of ~81% YoY in H1 FY2021) and losses at the PBIT level in H1 FY2021. While it has reported sequential recovery in sales in Q2 FY2021 on the back of a gradual improvement in the overall economy in all the major business verticals excluding the T&V vertical, ICRA believes that the T&V vertical will witness a prolonged road to recovery, given the increased risk aversion among air travellers and corporate/Government travel cuts, which will weigh on the overall financial performance in the near term.

Liquidity position: Strong

BLL's liquidity position is **strong** with healthy cash flow from operations, large free cash and bank balances of ~Rs. 470 crore as on September 30, 2020, marginal debt repayment obligations in FY2021 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 – Negative pressure on BLL's rating 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 a reduction in cash and bank balance compared to the current levels could be a trigger for a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Although BLL had two subsidiaries, three JVs and one associate, as on March 31, 2020, 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, 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 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. At present, the GoI owns 61.8% of BLL's equity through Balmer Lawrie Investments Limited. In 2006, BLL attained a Mini Ratna – I status. It has eight strategic business units (SBU), with presence in both manufacturing and service sectors. The key manufacturing SBUs comprise IP and G&L, while the key services SBUs include T&V, LIS.

Key financial indicators (audited)

BLL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	1781.8	1535.0
PAT (Rs. crore)	188.5	177.2
OPBDIT/OI (%)	13.5%	14.0%
PAT/OI (%)	10.6%	11.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.4
Total Debt/OPBDIT (times)	0.1	0.1
Interest Coverage (times)	43.3	27.0

Source: Company; 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 (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Feb 05, 2021	Dec 30, 2019	Nov 12, 2018	Sep 22, 2017
1	Cash Credit	Long Term	50.00	--	[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 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 click here

[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+

Source: *Company;*

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

[3]Sub-limit of the cash credit facilities

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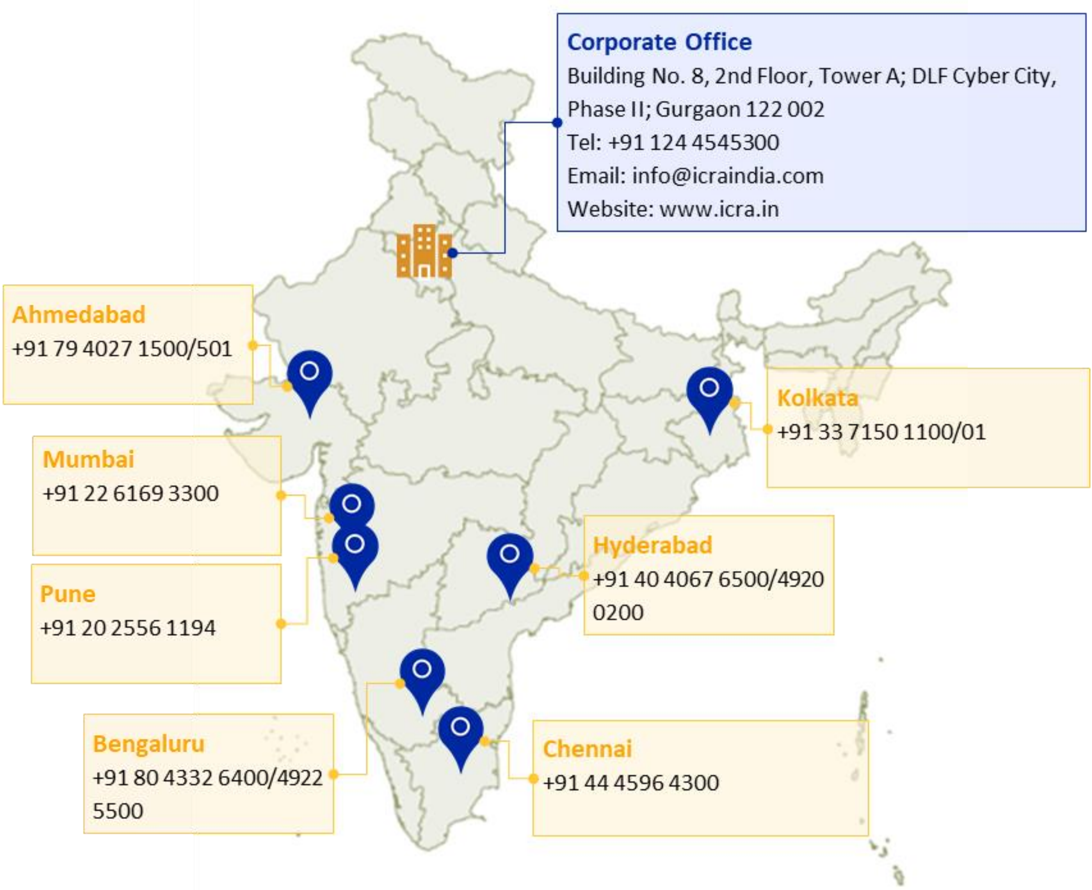

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