

Press Release

Banashankari Industries Private Limited

October 01, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) on the Rs. 10.00 crore bank facilities of Banashankari Industries Private Limited (BIPL). The outlook is '**Stable**'.

Banashankari Industries Private Limited (BIPL), an ISO 9001: 2015 certified company Head quartered at Bangalore, was started as a proprietary concern in the year 2000. It was later converted into private limited company in 2008 and is engaged in carrying out purification of spent solvents, with specialised process including Simple Distillation, Fractional Distillation, Azeotropic and Vacuum Distillation. The manufacturing facilities are located at KIADB Industrial area at Malur with production capacity of 20 KL/Day.

Banashankari Group (BG) of company is a family-owned business based in Bangalore having presence, since 2000. The group is a leading spent solvent recycling in Karnataka and is specialised in supply of recycled and reclaimed solvents, Toll Recovery of solvents and Purchase of used and redundant solvents. The group also carry out purification of spent solvents, with specialized process including Simple Distillation, Fractional Distillation and Vacuum Distillation.

Analytical Approach

Acuité has considered consolidated financial and business risk profile of the Banashankari Group (BG) for arriving at the rating. The consolidation is based on common management, significant financial and operational synergy within the group. The consolidation is of Banashankari Chemicals Private Limited (BCPL), Banashankari Industries Private Ltd (BIPL), M/s BSK Pure Chem, M/s Sri Sai Industries and M/s Ind Pure Chem for consolidation purpose. Extent of consolidation: Partial

Key Rating Drivers

Strengths

- **Established track record and experienced management**

BG is in same industry, since 2000, and has established its position among a leading solvent recoverer's in Karnataka. The group is promoted by founder Mr. G. N. Murthy a Chemical Engineer and Mr. G. Manjunath, a science Graduate who possess over two decade of experience in the chemicals and solvent industry. The extensive experience of the promoters has helped the group to establish long-standing relationships with its customers and suppliers. The group is also well supported by second line of management.

- **Improving revenues and margins**

The operating revenue is growing at compounded annual growth rate of 14.81 per cent since 2017. The operating income has improved to Rs. 47.52 crore in FY2019 (Provisional) as against Rs. 35.28 crore in FY2018 and Rs. 31.40 crore in FY2017. The EBITDA margins have improved to 12.66 per cent in FY2019 (Provisional) as against 1.52 per cent in FY2018 and 11.18 per cent in FY2017. PAT margins have improved to 5.60 per cent in FY2019 (Prov.) as against 1.67 per cent in FY2018 and 2.22 per cent in FY2017. The group has been able to maintain its growth despite fire breakdown in FY2018 in BCPL. However, the company is able to recover the financial losses by insurance claims and is expected to operate at full capacity in FY2020-21.

Weaknesses

• Moderate financial risk profile

The financial risk profile of the company is marked by moderate net worth of Rs.16.06 crore as on 31 March, 2019 (Provisional) as against Rs. 13.87 crore as on 31 March, 2018. The gearing ratio stood at 1.31 times as on 31 March, 2019 (Provisional) as against 1.21 times as on 31 March, 2018. The Interest coverage ratio stood at 2.68 times as on 31 March, 2019 (Provisional) compared to 2.79 times in as on 31 March, 2018. The TOL/TNW stood at 1.88 times as on 31 March, 2019 (Provisional) as against 1.86 times as on 31 March, 2018. The Debt Service Coverage Ratio (DSCR) stood moderate at 1.61 times as on 31 March, 2019 (Provisional) as against 1.21 times as on 31 March, 2018.

• Moderate working capital cycle

BG has moderate working capital operations marked by gross current assets (GCA) of 187 days in FY2019 (Provisional) as against 330 days in FY2018. This is on account of receivable days of 104 in FY2019 (Provisional) as against 196 days in FY2018. The average cash credit utilization for the past six months ending June 2019 stood at ~93 per cent. Acuité believes that the group will continue to maintain moderate working capital cycle on account of moderate receivable days.

Rating Sensitivities:

- Moderate reliance on working capital limits
- Growth in revenues and margins
- Extensive reliance on debt for capex

Material Covenants

None

Liquidity Position

The group has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 3.28 crore for FY2019 (Provisional), while its maturing debt obligations were Rs. 1.99 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs. 2.00 crore to Rs. 2.50 crore during 2020-22 due to planned debt funded capex. The company's working capital operations are moderate marked by gross current assets (GCA) of 187 days in FY2019 (Provisional) as against 330 days in FY2018. The company maintains low unencumbered cash and bank balances of Rs. 0.10 crore as on 31 March, 2019 (Provisional). The current ratio stood at 1.30 times as on 31 March, 2019 (Provisional).

Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of adequate cash accruals against moderate debt repayments over the medium term.

Outlook: Stable

Acuité believes that group will maintain a 'Stable' outlook over the medium term on the back of its experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenue and profitability, while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	47.52	35.28	31.40
EBITDA	Rs. Cr.	6.02	0.53	3.51
PAT	Rs. Cr.	2.66	0.59	0.70
EBITDA Margin	(%)	12.66	1.52	11.18
PAT Margin	(%)	5.60	1.67	2.22
ROCE	(%)	15.97	8.06	19.13
Total Debt/Tangible Net Worth	Times	1.31	1.21	0.89
PBDIT/Interest	Times	2.68	2.79	2.88
Total Debt/PBDIT	Times	3.48	4.24	3.08
Gross Current Assets (Days)	Days	186	330	208

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB / Stable
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB / Stable

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About Acuité Ratings & Research:

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