March 24, 2023

Ashapura Perfoclay Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Cash Credit	30.00	30.00	[ICRA]BBB-(Stable); reaffirmed
Long-term Unallocated Limits	68.00	68.00	[ICRA]BBB-(Stable); reaffirmed
Short-term Non-fund-based Limits	2.00	2.00	[ICRA]A3; reaffirmed
Total	**100.00**	**100.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings favourably factor in Ashapura Perfoclay Limited's (APL) status as one of the leading manufacturers of bleaching earth and clay catalyst as well as its conservative financial risk profile, characterised by a comfortable capital structure and debt protection metrics. The ratings also draw comfort from APL's geographically diversified sales to countries in South East Asia, Latin America, and Europe. ICRA also notes APL's freight cost savings due to proximity of its manufacturing facility to bentonite mines and to the ports of Kandla and Mundra.

The ratings are, however, tempered by the low financial flexibility of APL due to the weak financial profile of its 50% joint owner, Ashapura Minechem Limited (AML), which remains a non-performing asset (NPA) for its lenders. The 50% shareholding of AML in APL is pledged in favour of the former's operational creditor (ASQ Connect Limited), which exposes the company to the risk of share pledge invocation in case of non-adherence to the terms of the settlement agreement. Notwithstanding a partial natural hedge in the form of imports, APL also remains exposed to forex risks, as exports account for 45-50% of its total sales each fiscal. The ratings also consider the company's exposure to raw material price fluctuations given the volatility in sulphuric acid prices, which is a key raw material for the company.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that APL will continue to benefit from the steady demand of bleaching earth from the edible oil industry in the near-to-medium term. Its financial profile is also expected to remain comfortable in the absence of any major debt-funded capex plan.

Key rating drivers and their description

Credit strengths

Comfortable capital structure and healthy coverage indicators – APL reported sales of Rs. 290.6 crore in 9M FY2023 with an OPM of 15.3% (as per provisional estimates) vis-à-vis sales of Rs. 377.4 crore and OPM of 15.7% in FY2022 (at the consolidated level). While the revenues remained stable due to steady demand from the edible oil industry, the OPM was impacted due to higher input costs (especially sulphuric acid and coal). The financial risk profile of the company remained comfortable, as reflected in an interest coverage ratio of 20.2 times and total debt-to operating profit of 0.3 times as on March 31, 2022. The total debt of the company, which mainly comprises working capital borrowings, increased to Rs. 18.3 crore as on March 31, 2022 from Rs. 10.6 crore as on March 31, 2021. With no significant capex anticipated in the near term, APL's gearing is expected to remain low and coverage indicators are likely to remain comfortable.

Geographical diversity in sales – APL's exports stood at 50% and 47% of total sales in FY2022 and 9M FY2023, respectively. The company has a diversified presence across geographies, which include countries in South East Asia, Latin America and Europe.

Leading market position in the bleaching earth segment and clay catalyst – Incorporated in 2001, APL is one of the leading manufacturers of bleaching earth, which finds application in the purification/bleaching of edible oil and as a clay catalyst, which is used in petrochemical and oil and gas sectors for purification of Benzene, Toluene and Xylene stream. In FY2019, APL increased its installed capacity to 1,92,000 metric tonnes per annum (MTPA) from 1,44,000 MTPA and its present capacity utilisation rate is 65%. Favourable demand of APL's products from the edible oil industry is expected to improve the plant utilisation rates over the medium term.

Proximity to bentonite mines and seaports results in freight cost savings – APL's manufacturing facility is in proximity to bentonite mines, which is one of the key raw materials for manufacturing bleaching earth, resulting in low transportation costs. In addition, proximity of the manufacturing plant to the ports of Kandla and Mundra is advantageous for exports.

Credit challenges

Weak financial profile of the parent company – APL is a 50:50 JV between AML and CIF AVL Investment Holding Limited. Weak financial profile of AML, which continues to be flagged as an NPA by its lenders, remains a key concern and limits the financial flexibility of APL. A substantial improvement in the financial health of AML, leading to a change in its asset classification from non-performing asset to standard, would remain a key credit rating monitorable. The 50% shareholding of AML in APL is pledged in favour of the former's operational creditor (ASQ Connect Limited), which exposes the company to the risk of share pledge invocation in case of non-adherence to the terms of settlement agreement.

Exposure to forex risks – Exports contribute around 45-50% to APL's total revenues each fiscal. In the absence of a firm hedging mechanism, APL's margins remain exposed to any adverse movement in foreign exchange rates. However, ICRA notes that the company has not incurred any major forex loss in the last several years.

Exposure to raw material price fluctuations – Bentonite lumps and sulphuric acid remain the key raw materials to produce bleaching earth. While bentonite is procured from Group companies, sulphuric acid is procured from external parties. Given the volatility associated with sulphuric acid prices, any sharp rise in the same would have an adverse impact on APL's cost structure.

Liquidity position: Adequate

The company's liquidity position is **adequate** supported by headroom available in the form of undrawn working capital limits of Rs. 30 crore as on January 31, 2023 (with adequate drawing power). The company's average working capital limit utilisation during the 12-month period ended in January 2023 stood at 44% (sanctioned limit of Rs. 30 crore), reflecting an average unutilised limit of Rs. 16.8 crore. There are no debt repayment obligations, or any significant capex plans in the near term.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of a material improvement in the financial profile of its 50% JV owner, AML, leading to a change in its asset classification status to standard from NPA.

Negative factors – Pressure on APL's ratings could emerge in case of a large dividend payout to AML to part fund its settlement obligations or in case of an invocation of pledged shares by ASQ Connect Limited or any large cash outflow to related parties. A substantial weakening in the earnings of APL, adversely impacting its financial profile, would also be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Approach - Consolidation](#)
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financial risk profiles of APL and its wholly-owned subsidiary, APL Valueclay Private Limited (AVPL).

About the company

APL was established in 2001 as a 50:50 JV between AML and Volclay International Corporation (VIC). However, in 2014, VIC sold its entire stake to CIF AVL Investment Holding Limited, a Mauritius-based private equity firm. APL manufactures bleaching earth, which finds application in the purification/bleaching of edible oil and as clay catalyst, which is used in petrochemical and oil and gas sectors for purification of Benzene, Toluene and Xylene stream. Its manufacturing facility is in Bhuj, Gujarat and has an installed capacity of 1,92,000 MTPA. AVPL, a fully-owned subsidiary of APL, is also based in Bhuj, Gujarat and manufactures Attapulgite-based bleaching earth, which finds application in purification/bleaching of soft oil such as palm oil, cotton seed oil, sunflower oil, among others.

Key financial indicators - Consolidated

	FY2021 (Audited)	FY2022 (Audited)
Operating Income (Rs. crore)	371.6	377.4
PAT (Rs. crore)	39.3	28.5
OPBDIT/OI (%)	20.7%	15.7%
PAT/OI (%)	10.6%	7.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.2
Total Debt/OPBDIT (times)	0.1	0.3
Interest Coverage (times)	31.9	20.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Source: Company; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for past three years

	Instrument		Current Rating (FY2023)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					24-Mar-2023	31-Dec-2021	05-Oct-2020	26-Sep-2019
1	Fund-based Cash Credit	LT	30.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB-@
2	Unallocated Limits	LT	68.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB-@
3	Non-fund-based Limits	ST	2.00	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3@
4	Term Loan	LT	-	-		-	-	[ICRA]BBB-@

LT – Long-term; ST – Short-term; @: rating watch with negative implications

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund-based Cash Credit	Simple
Long-term Unallocated Limits	Not Applicable
Short-term Non-Fund Based Limits	Very 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, are available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	30.00	[ICRA]BBB-(Stable)
NA	Unallocated Limits	-	-	-	68.00	[ICRA]BBB-(Stable)
NA	Short-term Non-Fund Based Limits	-	-	-	2.00	[ICRA]A3

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Sr.	Company Name	Ownership	Consolidation Approach
1	Ashapura Perfoclay Limited	Rated Entity	Full consolidation
2	APL Valueclay Private Limited	Subsidiary	Full consolidation

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About ICRA Limited:

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