March 28, 2024

Ashapura International Limited: Ratings reaffirmed; outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/CC	6.75	6.75	[ICRA]BB(Stable); reaffirmed and outlook revised to Stable from Negative
Long-term/Short-term - Unallocated	43.25	43.25	[ICRA]BB(Stable)/[ICRA]A4; reaffirmed and outlook revised to Stable from Negative
Total	**50.00**	**50.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook on the long-term rating of Ashapura International Limited (AIL) reflects the company's healthy growth in revenues and steady profitability in the current year and likely continuation of the same in FY2025. The company registered revenues of Rs. 431.23 crore in 9M FY2024, aided by healthy demand scenario; recording a YoY growth of around 12% and is expected to register revenues of Rs. 575-600 crore in FY2024 with stable operating margins of 11-12%. Due to reduction in working capital limits, AIL availed Rs. 15-crore loan from an NBFC for working capital purposes to tide over the liquidity mismatch.

The ratings continue to derive comfort from the extensive experience of the management in the mining industry and its access to captive bentonite mines in Gujarat with sizeable reserves, which improve its cost competitiveness. ICRA also notes AIL's savings in freight cost due to proximity of its bentonite processing facility to the ports of Kandla and Mundra. The ratings also take into account AIL's reputed customer base, which indicates its good product quality and ensures revenue stability in the form of repeat orders.

The ratings, however remained constrained by non-performing asset (NPA) status of its parent company, Ashapura Minechem Limited (AML). AML's 100% shareholding in AIL has been 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. AIL's liquidity remains stretched, characterised by elongated payables to support its high working capital requirements emanating from high receivables and inventory holding period. Around 14% of the receivables was outstanding for more than 180 days as on December 31, 2023. Notwithstanding a natural hedge in the form of soda ash imports, AIL remains exposed to fluctuations in foreign exchange (forex) as exports accounted for 65% of its total sales in FY2023 and 9M FY2024. AIL's profitability also remains exposed to regulatory risks pertaining to the domestic bentonite mining industry.

Key rating drivers and their description

Credit strengths

Location-specific advantage; access to captive bentonite mines - AIL's bentonite processing facility is in proximity to the ports of Kandla and Mundra, leading to savings in freight cost for its export shipments. AIL has mining leases for bentonite mines in the Kutch district of Gujarat. The mines have sizeable reserves and are expected to last for more than 20 years, as per the management.

Reputed customer base - The company's customer profile consists of reputed players in the international and domestic markets, which indicates good product quality, reduces counterparty credit risks, and ensures repeat orders. The top-10 customers accounted for 55% of revenues in FY2023 and 61% in 9M FY2024.

Increase in revenues in FY2024 led by improved demand conditions although remained modest - The operating performance in FY2023 moderated due to adverse impact of the Russia-Ukraine war. This resulted in decline in revenues by 8% to Rs. 506.9 crore. Subsequently, in the current fiscal, with growing demand, the company has recorded revenues of Rs. 431.23 crore in 9M FY2024 and expected to register revenues of Rs. 575-600 crore in FY2024. From Q3 FY2024, the company resumed sales to the Ukraine region, which will further drive the revenues for the company going forward.

Comfortable capital structure and coverage indicators with limited reliance on external debt – The company's financial profile is comfortable, marked by low gearing and comfortable coverage indicators. The gearing stood at 0.2 times as on March 31, 2023, due to healthy net worth position of AIL. The coverage indicators remained comfortable in FY2023 with interest coverage ratio of 11.1 times and total debt-to-operating profit of 0.6 times. The total debt increased to Rs. 40.87 crore as on March 31, 2023, from Rs. 33.09 crore as on March 31, 2022, due to availment of new term loan of Rs. 15 crore. The company's sanctioned working capital limits have been gradually reduced during the last 18 months to Rs. 6.75 crore as on December 31,2023 from Rs. 12.5 crore. Despite reduction in its working capital limits, the company's reliance on the same remained limited with average utilisation of around 29% during the last 12 months ended on December 31, 2023.

Credit challenges

Constrained financial flexibility - The financial flexibility of the company is constrained, as evident from the steady reduction in its sanctioned working capital limits to Rs. 6.75 crore as on December 31, 2023, from Rs. 12.5 crore in FY2022. There is no major impact on the business as bank limits formed a very small proportion of the total capital employed. Moreover, ICRA notes that the company availed Rs. 15-crore term loan from an NBFC during FY2023 for working capital purposes. The financial profile of AIL's parent company, AML remains weak, and the account remains an NPA for its lenders. AML's 100% shareholding in AIL is pledged in favour of the former's operational creditor (ASQ Connect Limited), which exposes the company to the risks of share pledge invocation in case of non-adherence to the terms of the settlement agreement. This has resulted in a continued stretched liquidity position for the company, necessitating higher reliance on creditor funding.

Elongated working capital cycle - AIL has high working capital requirements emanating from high receivable and inventory holding period. The receivable days continue to remain high due to delay in realisation from some of it's receivables in FY2023. The same is also reflected in the high net working capital-to-operating income ratio (NWC/OI) of 45% in FY2023 against 34% in FY2022.

Susceptible to foreign currency fluctuations - Notwithstanding a natural hedge in the form of soda ash imports, AIL remains exposed to fluctuations in foreign exchange (forex) as exports accounted for 65% of its total sales in FY2023 and 9M FY2024. Nevertheless, ICRA notes that the company has not incurred any major forex loss in the last several years.

Exposed to regulatory risks - AIL remains exposed to regulatory risks pertaining to the domestic bentonite mining industry. Any unfavourable change in bentonite mining policies can have a material impact on its operating profile.

Liquidity position: Stretched

AIL's liquidity remains stretched as reflected in its elongated payables of Rs. 81.83 crore as on March 31, 2023. Around 14% of its receivables amounting to Rs. 24.1 crore as on December 31, 2023, was outstanding for more than 180 days. The company had free cash and liquid balances of Rs. 8.9 crore with unutilised bank limits of Rs. 6.75 crore as on December 31, 2023. Against this, the company has repayment of Rs.1.5 crore each in FY2024 and FY2025.

Moreover, it has undertaken capex of around Rs. 25 crore to set up an organoclay plant (bentonite is raw material for organoclay), which is expected to be funded through internal accruals. The company has envisaged to incur around Rs. 5-6 crore in FY2024 and balance Rs. 17-18 crore in FY2025. The plant is expected to become operational in H2 FY2026. Any large dividend payout to AML to part fund its settlement obligations or any large cash outflow to related parties could affect the liquidity position of the company and hence, remain key rating sensitivities.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is any material improvement in the financial profile of the parent company, AML, leading to a change in its asset classification status to standard from NPA or if there is a substantial growth in AIL's revenues and profitability, leading to an improvement in the overall financial profile and or liquidity position with limited reliance on creditor funding would also be positive factors.

Negative factors – Pressure on the ratings could arise if there is any large dividend payout to AML to part fund its settlement obligations or invocation of pledged shares by ASQ would also be negative factors. The ratings could be downgraded in case of any unfavourable change in the regulatory framework of bentonite, or any large debt-funded capex/substantial weakening in cash flows of AIL adversely impacting its credit metrics and liquidity position, or any large cash outflows to related parties.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology-Mining
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of AIL.

Note (for analyst reference only):

About the company

Incorporated in 1989, AIL is a wholly-owned subsidiary of AML and is involved in the mining of bentonite lumps and processing the same in powder and granule form. AIL has captive mines of bentonite in Gujarat. AIL's bentonite processing facilities are in Bhuj, Gujarat with an installed capacity of 5,70,000 metric tonnes per annum. The company is also involved in trading of barytes. In FY2017, the company forayed into a new product called geosynthetic clay liner with an installed capacity of 5 million square metres per annum. The company has several distribution centres across Mangalore and Bengaluru (Karnataka), Cuttack (Odisha), Jaipur (Rajasthan), Ludhiana (Punjab), Kolhapur (Maharashtra) and Kolkata (West Bengal).

Key financial indicators (audited)

Standalone	FY2022 (Audited)	FY2023 (Audited)
Operating income	550.7	506.9
PAT	35.0	37.4
OPBDIT/OI	9.7%	12.6%
PAT/OI	6.4%	7.4%
Total outside liabilities/Tangible net worth (times)	0.7	0.6
Total debt/OPBDIT (times)	0.6	0.6
Interest coverage (times)	8.9	11.1

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amounts in Rs. crore*

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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 28, 2024	30-Mar-2023	31-Dec-2021	05-Oct-2020
1	**Fund-based cash credit**	Long-term	6.75		**[ICRA]BB (Stable)**	**[ICRA]BB (Negative)**	**[ICRA]BB (Stable)**	**[ICRA]BB (Stable)**
2	**Fund-based interchangeable**	Long-term	-	-	-	-	**[ICRA]BB (Stable)**	**[ICRA]BB (Stable)**
3	**Unallocated limits**	Long Term	-	-	-	-	**[ICRA]BB (Stable)**	**[ICRA]A4**
4	**Unallocated limits**	Long Term / Short Term	43.25		**[ICRA]BB (Stable)/ [ICRA]A4**	**[ICRA]BB (Negative)/ [ICRA]A4**	-	-
5	**Fund-based limits**	Short Term	-	-	-	-	**[ICRA]A4**	**[ICRA]A4**
6	**Non-fund-based limits**	Short Term	-	-	-	-	-	**[ICRA]A4**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based Cash Credit	Simple
Long-term/short-term – Unallocated Limits	Not Applicable

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	-	-	-	6.75	[ICRA]BB(Stable)
NA	Unallocated limits	-	-	-	43.25	[ICRA]BB(Stable)/[ICRA]A4

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1100
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Taanisha Sharma
+91 22 6169 3379
taanisha.sharma@icraindia.com

Ronak Vadher
+91 22 6169 3341
ronak.vadher@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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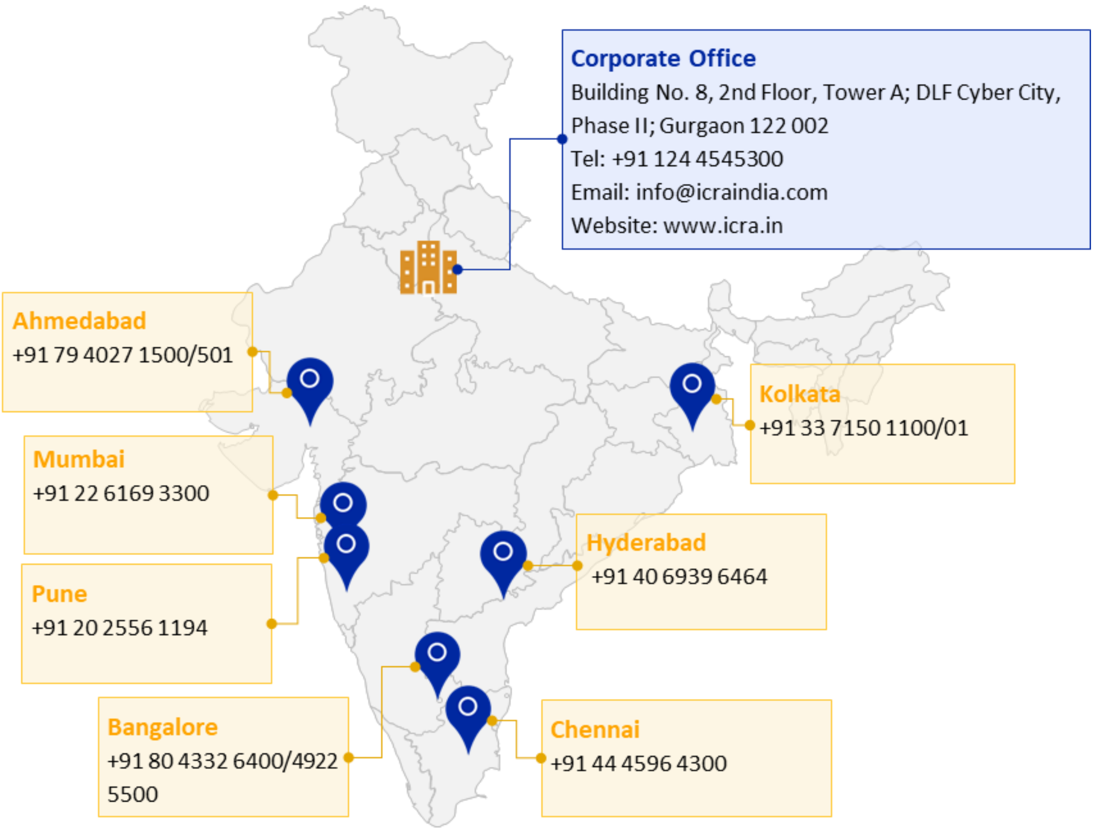

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