

## Ashapura International Limited

March 29, 2019

### Summary of Rated Instrument:

Instrument	Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based	18.00	[ICRA]BB/@; downgraded from [ICRA]BB+; Rating placed on watch with negative implications
Long Term - Interchangeable	(8.00)^	[ICRA]BB/@; downgraded from [ICRA]BB+; Rating placed on watch with negative implications
Long Term - Proposed	24.00	[ICRA]BB/@; downgraded from [ICRA]BB+; Rating placed on watch with negative implications
Short Term Non-Fund Based	2.00	[ICRA]A4/@; downgraded from [ICRA]A4+; Rating placed on watch with negative implications
Short Term Fund Based	6.00	[ICRA]A4/@; downgraded from [ICRA]A4+; Rating placed on watch with negative implications
<b>Total</b>	<b>50.00</b>	

*^Sub-limit of fund-based facility; @rating placed on watch with negative implications*

### Material Event

In March 2019, the National Company Law Tribunal (NCLT) admitted the petition filed by Ashapura Minechem Limited (AML), the erstwhile parent company of Ashapura International Limited (AIL), for initiation of Corporate Insolvency Resolution Process (CIRP) under Insolvency & Bankruptcy Code (IBC). AML had entered into a settlement agreement with one of the operational creditors (ASQ Connect Limited or 'ASQ') and agreed to pay US\$ 45 million over a period of 25 years. It also pledged its entire equity shares held in AIL as a collateral. However, the settlement agreement was terminated by the creditor in September 2018 and the share pledge was invoked subsequently. As a result, AML no longer remains the promoter of AIL and ASQ has become the 100% shareholder of AIL.

### Impact of the Material Event

Despite the change in ownership pattern, there is no change in the board composition or management team as on date. While AIL's operations are currently being managed by Ashapura management, there is considerable uncertainty with respect to continuation of its operational and financial linkages with AML due to change in ownership of AIL and initiation of CIRP for AML under IBC. Furthermore, dividend distribution policy of AIL's new shareholder remains to be seen and likelihood of ASQ liquidating its equity holding to expedite the recovery process cannot be ruled out.

ICRA has taken note of the above event and has downgraded the long-term rating from [ICRA]BB+ (pronounced ICRA double B plus) to [ICRA]BB (pronounced ICRA double B) and short-term rating from [ICRA]A4+ (pronounced ICRA A four plus) to [ICRA]A4 (pronounced ICRA A four). ICRA has also placed the ratings on watch with negative implications. ICRA will continue to monitor developments with respect to change in ownership, dividend policy and AML's debt resolution process.

The previous detailed rating rationale is available on the following link: [Click here](#)

## Rationale

The rating downgrade takes into account the change in ownership pattern and the uncertainty over the dividend distribution policy of AIL's new shareholder. ICRA also notes that the likelihood of ASQ liquidating its equity holding to expedite the recovery process cannot be ruled out.

## Outlook: Not applicable

## Key rating drivers

### Credit strengths

**Access to captive bentonite mines** – The company has mining leases for two bentonite mines in Kutch district of Gujarat. The mines have sizeable reserves and will last for another 20-25 years.

### Credit challenges

**Uncertainty over the future course of action by the new shareholder** – AML, the erstwhile parent company of AIL, had entered into a settlement agreement with ASQ and agreed to pay US\$ 45 million over a period of 25 years. It also pledged its entire equity shares held in AIL as a collateral. However, the settlement agreement was terminated by the creditor in September 2018 and the share pledge was invoked subsequently. As a result, AML no longer remains the promoter of AIL and ASQ has become the 100% shareholder of AIL. ICRA notes that there is some uncertainty over the dividend distribution policy of AIL's new shareholder. Also, the likelihood of ASQ liquidating its equity holding to expedite the recovery process cannot be ruled out.

### Liquidity Position

AIL does not have any term loan repayment obligation.

## Key Financial Indicators: Not applicable

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