

October 05, 2020

Ashapura International Limited: Ratings reaffirmed at [ICRA]BB/[ICRA]A4; Rating Watch Removed and Stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term Fund Based - Cash Credit	18.00	18.00	[ICRA]BB; Rating reaffirmed; Rating Watch with Negative Implications removed; Stable outlook assigned
Long Term Fund Based - Interchangeable	(8.00)#	(8.00)#	[ICRA]BB; Rating reaffirmed; Rating Watch with Negative Implications removed; Stable outlook assigned
Long Term – Unallocated Limits	24.00	26.00	[ICRA]BB; Rating reaffirmed; Rating Watch with Negative Implications removed; Stable outlook assigned
Short Term - Non-Fund Based Limits	2.00	-	-
Short Term - Fund Based Limits	6.00	6.00	[ICRA]A4; Rating reaffirmed; Rating Watch with Negative Implications removed
Total	50.00	50.00	

*Instrument details are provided in Annexure-1; #Sublimit of cash credit facility

Rationale

The removal of the Rating Watch with Negative Implications takes into account the equity ownership transfer of Ashapura International Limited (AIL) back to its erstwhile parent, Ashapura Minechem Limited (AML). AML had entered into a settlement agreement with one of the operational creditors (ASQ Connect Limited or ASQ) and agreed to pay \$45 million over 25 years. It also pledged its entire 100% equity stake held in AIL as a collateral. However, the settlement agreement was terminated by ASQ in September 2018 and the share pledge was invoked subsequently. AML challenged the said invocation and received arbitration award on February 28, 2020 stating the invocation of share pledge by ASQ in September 2018 as void ab initio. AML was declared as the owner of AIL's shares in February 2020 and the same were subsequently transferred in its name. Subsequently, AML has renegotiated and entered into a revised settlement agreement with ASQ and the shares of AIL have been repledged in favour of ASQ as a collateral.

The ratings reaffirmation favourably factors in AIL's comfortable coverage metrics with an interest coverage ratio of 9.9 times in FY2020 and total debt-to-operating profit of 0.5 times as on March 31, 2020. AIL's gearing also remained low at 0.1 times as on March 31, 2020 and is likely to remain comfortable in the near term due to low debt levels in relation to its net worth. The ratings also factor in AIL's access to captive bentonite mines in Gujarat with sizeable reserves, which improve its cost competitiveness. ICRA also notes the savings in freight cost achieved by AIL due to proximity of its bentonite processing facility to the ports of Kandla and Mundra. AIL caters to reputed customers, which indicates its good product quality and ensures revenue stability in the form of repeat orders.

The ratings are, however, tempered by the constrained financial flexibility of AIL due to weak financial profile of its parent company, AML, which remains a non-performing asset for its lenders. Notwithstanding a partial hedging and

natural hedge in the form of soda ash imports, AIL remains exposed to forex risks, as exports accounted for 65% of its total sales in FY2020. Given that bentonite finds application mainly in iron ore pelletisation business, AIL's profitability also remains exposed to regulatory risks pertaining to domestic bentonite and iron ore mining industry. However, AIL's track record of healthy bentonite sales in the export market to international pellet manufacturers mitigates regulatory risk related to the domestic iron ore mining to some extent.

ICRA notes that AIL had sought a moratorium on payments from its lender as a part of the Covid-19 - Regulatory Package announced by the Reserve Bank of India (RBI) on March 27, 2020 and did not honour its interest obligations falling due in between March and August 2020, for its working capital facility. Despite the missed payment, ICRA has not recognised this instance as a default. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020. However, ICRA also notes that the company has serviced its overdue interest obligations in the month of September 2020.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that demand for bentonite from the pelletisation industry is likely to remain favourable in the near-to-medium term.

Key rating drivers and their description

Credit strengths

Comfortable capital structure and healthy coverage indicators – The financial risk profile of the company is characterised by comfortable coverage indicators with an interest coverage ratio of 9.9 times in FY2020 and total debt-to-operating profit of 0.5 times as on March 31, 2020. The gearing, too, remained low at 0.1 times as on March 31, 2020. Given that there are no major capital expenditure plans in the near term, AIL's gearing is expected to remain low and coverage indicators are likely to remain comfortable.

Access to captive bentonite mines – AIL has mining leases for two bentonite mines in the Kutch district of Gujarat. The mines have sizeable reserves and will last for more than 20 years.

Location-specific advantage – AIL's bentonite processing facility is located in proximity to the ports of Kandla and Mundra, leading to savings in freight cost for its export shipments.

Reputed customer base – The company's customer profile consists of reputed players in the international and domestic market, which indicates good product quality, reduces counterparty credit risks and ensures repeat orders.

Credit challenges

Weak financial profile of the parent company – AIL is a 100% subsidiary of AML. The weak financial profile of AML, which continues to be listed as a non-performing asset by its lenders, remains a key concern and in turn limits the financial flexibility of AIL. 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 monitorable.

Exposure to forex risks – AIL's exports accounted for 65% of its total sales, amounting to Rs. 291.8 crore in FY2020. While the company partly hedges its forex exposure and also imports soda ash (Rs. 15 crore imports in FY2020), which provides a natural hedge, it remains exposed to forex risks to the extent of any mismatch between its exports and imports.

Exposure to regulatory risks – Bentonite mined by AIL finds application mainly in iron ore pelletisation, metal casting and civil engineering. Thus, any unfavourable change in bentonite mining or iron ore mining policies can have a material impact on its operating profile. Nevertheless, AIL’s track record of healthy bentonite sales in the export market to international pellet manufacturers partly mitigates the regulatory risk related to domestic iron ore mining.

Liquidity position: Stretched

AIL’s liquidity remains **stretched** as reflected from its elongated payables of Rs. 84 crore as on March 31, 2020. While there is a cushion in the form of unutilised bank limits of Rs. 4-5 crore, no major capex commitments and no debt repayment obligations in FY2021, any large dividend payout to AML to part fund its settlement obligations or any large cash outflows to related parties could affect the liquidity position of the company and hence remain key rating sensitivities.

Rating sensitivities

Positive triggers – The ratings could be upgraded in case of a material improvement in the financial profile of the parent company, AML, leading to a change in its asset classification status to standard from non-performing asset or if there is a substantial growth in AIL’s revenues and profitability, leading to an improved financial risk profile.

Negative triggers – Pressure on AIL’s rating could emerge in case of a large dividend payout to AML to part fund its settlement obligations or invocation of pledged shares by ASQ Connect Limited. The rating could also be downgraded in case of any unfavourable change in the regulatory framework of bentonite/iron ore mining industry or any large cash outflows to related parties.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Mining Entities
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of AIL.

About the company

Incorporated in 1989, Ashapura International Limited (AIL) is a wholly-owned subsidiary of Ashapura Minechem Limited (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 located 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 namely Geosynthetic Clay Liner with an installed capacity of 5 million square metres per annum. The company has several distribution centres across Mangalore, Cuttack, Bangalore, Jaipur, Ludhiana, Kolhapur and Kolkata.

In FY2020, the company reported a net profit of Rs. 27.6 crore on an operating income of Rs. 448.9 crore compared to a net profit of Rs. 20.4 crore on an operating income of Rs. 414.1 crore in the previous year.

Key financial indicators

	FY2019 (A)	FY2020 (P)
Operating Income (Rs. crore)	414.1	448.9
PAT (Rs. crore)	20.4	27.6
OPBDIT/OI (%)	9.2%	9.1%
PAT/OI (%)	4.9%	6.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	0.9
Total Debt/OPBDIT (times)	0.5	0.5
Interest Coverage (times)	10.0	9.9

Note: OPBDIT – Operating profit before depreciation interest and tax; A – Audited; P – Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Current Rating	FY2020	FY2019	FY2018	
					05-Oct-2020	26-Sep-2019	29-Mar-2019	12-Feb-2018	
1	Cash Credit	Long Term	18.00	-	[ICRA]BB(Stable)	[ICRA]BB@	[ICRA]BB@	[ICRA]BB+(Stable)	
2	Interchangeable	Long Term	(8.00)^	-	[ICRA]BB(Stable)	[ICRA]BB@	[ICRA]BB@	[ICRA]BB+(Stable)	
3	Unallocated	Long Term	26.00	-	[ICRA]BB(Stable)	[ICRA]BB@	[ICRA]BB@	[ICRA]BB+(Stable)	
4	Fund Based	Short Term	6.00	-	[ICRA]A4	[ICRA]A4@	[ICRA]A4@	[ICRA]A4+	
5	Non-Fund Based	Short Term	2.00	-	-	[ICRA]A4@	[ICRA]A4@	[ICRA]A4+	

Amount in Rs. Crore; ^Sub-limit of cash credit facility; @ - Rating watch with negative implications

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 www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	14%	-	18.00	[ICRA]BB(Stable)
NA	Bill Discounting	-	-	-	(8.00)*	[ICRA]BB(Stable)
NA	Unallocated Limits	-	-	-	26.00	[ICRA]A4
NA	LCBD [#]	-	-	-	6.00	[ICRA]A4

Source: AIL; *sublimit of cash credit facility; #letter of credit backed bill discounting

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