

Asha Industries

March 19, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	6.75	[ICRA]B+ (Stable); Assigned
Unallocated Limits	0.35	[ICRA]B+ (Stable) ; Assigned
Total	7.10	

Rating action

ICRA has assigned the long-term rating of [ICRA]B+ (pronounced ICRA B plus) for the Rs. 6.75-crore¹ cash credit facility and the Rs. 0.35-crore unallocated limits of Asha Industries (AI or the firm)². The outlook on the long-term rating is Stable.

Rationale

The assigned ratings favourably factor in the experience of AI's promoters in the cotton industry as well as poly vinyl chloride (PVC) pipes industry, and the proximity of its manufacturing facility to raw materials, easing procurement. The rating also factors in the healthy booking (~80% of total saleable area) for its real estate project till January 2018, with the overall sales risk for the project remaining low. Nevertheless, the cash-flows are exposed to high execution risk owing to pending construction work of ~57% of the total project cost; and the large dependence on customers advances to the extent of ~66% of the total project cost. The assigned ratings are also constrained by the firm's modest scale of operations and its weak financial risk profile as marked by moderate operating profitability, leverage capital structure and below average debt protection metrics. The rating also factors in the vulnerability of AI's profitability to any fluctuations in raw material prices considering the low value-added cotton ginning, crushing and PVC pipes manufacturing business. Furthermore, the rating is constrained by its exposure to stiff competition in a fragmented industry, caused by established manufacturers and unorganised players in the cotton and PVC pipe industries.

Outlook: Stable

ICRA expects AI to continue to benefit from the extensive experience of its promoters in the cotton and PVC pipes industries. The outlook may revised to Positive if sustainable growth in revenues improves profitability, and timely completion of the project along with receipt of advances and better working capital management strengthens the financial risk profile. The outlook may be revised to Negative in case of significant decline in scale and profitability leading to lower than expected cash accruals, or if any major debt funded capital expenditure, or stretches in the working capital cycle, weaken liquidity. AI's high dependence on customer advances to fund further construction of the real estate project, intensifying the risk of cash flow mismatches, may also lead to a Negative revision.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Experience of promoters in the cotton and PVC pipes industries – AI was established in 1995 by Mr. Harjivan Patel and his son, Mr. Rupesh Patel, for cotton ginning and pressing, cottonseed crushing and manufacturing of PVC pipes. The key personnel, Mr. Rupesh Patel (partner of AI) and Mr. Niraj Patel, have more than seven years of experience via their association with entities engaged in the same business operation.

Favourable location for raw material – The firm benefits in terms of lower transportation cost and easy access to quality raw material due to its proximity to raw material suppliers.

Healthy booking for the real estate project – The firm has commenced construction of a real estate project ('Pacific Business Park') comprising commercial offices and a hotel building in FY2017. Till January 2018, the firm had received bookings of ~80% of the total saleable area. The project is expected to be ready for possession in Q3 FY2019.

Credit challenges

Moderate scale of operations with intense competition – The scale of operations continue to remain moderate, as reflected in its operating income (OI) of Rs. 42.51 crore in FY2017 and Rs. 33.08 crore in 10M FY2018 (provisional figures). Further, the intense competition in the industry from established manufacturers as well as unorganised players, coupled with the low value addition in the nature of its business, limits its pricing flexibility and exerts pressure on its margins.

Weak financial risk profile – The profit margins remained moderate with operating margins of ~3-4% during FY2015 to FY2017 on account of low value addition, volatility in raw material prices (i.e. raw cotton and PVC resin) and low margins in trading operation. The capital structure stood leveraged with gearing of 2.77 times as on March 31, 2017, owing to high debt levels and a relatively low net-worth base. The debt coverage indicators also stood below average with interest coverage of 1.71 times and Total Debt/OPBDITA of 6.72 times in FY2017.

High execution risk in the real estate project and large dependence on customer advances – 'Pacific Business Park' is AI's first real estate project. However, the promoter, Mr. Rupesh Patel, has experience in the real estate industry via his association with other entities/groups in the real estate sector. The execution risk for the project remains, since ~57% of the total project cost was pending till January 2018 and dependent on customer advances, which is ~66% of the total project cost. Thus, any delay in customer advances can result in cash flow mismatches and impact the liquidity profile of the firm.

Vulnerability of profitability to any adverse fluctuations in raw material prices – The profit margins are exposed to fluctuations in raw material (raw cotton) prices, which depend upon various factors like seasonality, climatic conditions, international demand and supply, export policy, etc. In addition, it is also exposed to regulatory risks with regards to the minimum support price (MSP) set by the Government. Furthermore, the firm's profitability is vulnerable to fluctuating raw material (PVC resin) prices that are linked to crude oil prices.

Risks inherent in partnership firm constitution - Any substantial capital withdrawal, given the partnership nature of the firm's constitution, could impact the net-worth and gearing levels

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

Rating Methodology for Real Estate Entities

About the firm:

Asha Industries, setup in 1995 as a partnership firm, is promoted by Mr. Harjivan Patel and his son, Mr. Rupesh Patel. The firm is engaged in the cotton ginning industry, along with seed crushing and PVC pipes manufacturing. The firm's product profile comprises cotton bales, cottonseeds, cottonseed oil, cottonseed oil cake, agricultural pipes, unplasticized polyvinyl chloride (UPVC) pipes and soil, waste and rain (SWR) pipes. Its manufacturing facility is located in Morbi, Gujarat, with a production capacity of 140 cotton bales and 3 metric tonnes of cottonseed oil per day, along with 250 metric tonnes of PVC pipes per annum. The firm has also ventured into the construction of a real estate project ('Pacific Business Park') in FY2017, comprising commercial offices and a hotel building. The key personnel, Mr. Rupesh Patel and Mr. Niraj Patel, manage the firm's operations and have more than seven years of experience in the cotton and PVC pipes industries.

Key financial indicators (Audited):

	FY 2016	FY 2017
Operating Income (Rs. crore)	38.49	42.51
PAT (Rs. crore)	0.22	0.21
OPBDIT/ OI (%)	4.33%	3.53%
RoCE (%)	10.07%	8.61%
Total Debt/ TNW (times)	2.41	2.77
Total Debt/ OPBDIT (times)	4.94	6.72
Interest coverage (times)	1.69	1.71
NWC/ OI (%)	22%	17%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2014 February 2014
Cash Credit	Long Term	6.75	-	March 2018 [ICRA]B+ (Stable)	June 2016 [ICRA]B- Suspended	May 2015 [ICRA]B-	[ICRA]B-
Unallocated Limits	Long Term	0.35	-	[ICRA]B+ (Stable)	-	-	-
Term Loan	Long term	-	-	-	[ICRA]B- Suspended	[ICRA]B-	[ICRA]B-

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	6.75	[ICRA]B+ (Stable)
NA	Unallocated Limits	NA	NA	NA	0.35	[ICRA]B+ (Stable)

Source: Asha Industries

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