September 26, 2019

Ashapura International Limited: Ratings reaffirmed and remain on Watch with Negative Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term Fund Based - Term Loans	18.00	18.00	[ICRA]BB@; Reaffirmed, Remains on Watch with Negative Implications
Long Term Fund-Interchangeable	(8.00)^	(8.00)^	[ICRA]BB@; Reaffirmed, Remains on Watch with Negative Implications
Long term unallocated Limits	24.00	24.00	[ICRA]BB@; Reaffirmed, Remains on Watch with Negative Implications
Short Term Fund-Based Limits	2.00	2.00	[ICRA]A4@; reaffirmed, Remains on Watch with Negative Implications
Short Term Non Fund-Based Limits	6.00	6.00	[ICRA]A4@; Reaffirmed, Remains on Watch with Negative Implications
Total	**50.00**	**50.00**	

**Instrument details are provided in Annexure-1; ^Sub- limit of cash credit facility*

Rationale

The reaffirmation of ratings, which remain on Watch with Negative Implications, takes into account the continued uncertainty with respect to continuation of its operational and financial linkages with the erstwhile parent company Ashapura Minechem Limited (AML) due to change in ownership of AIL and ongoing legal proceedings against AML.

In March 2019, the National Company Law Tribunal (NCLT) admitted the petition filed by AML 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 100% equity stake 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. Also, some of the creditors of AML have moved to the National Company Law Tribunal (NCLAT) against the aforesaid order passed by the NCLT and the order passed by the NCLT has been stayed by NCLAT and is pending for disposal.

The ratings also take into account a decline in the operating income by ~20% in FY2019 to Rs. 414.1 crore from Rs. 519.2 crore in FY2018 owing to absence of bauxite sales following muted demand in domestic as well as exports market. Going forward, the sale of the company's new product, Geosynthetic Clay Liner (GCL) and increased trading of baryte is likely to offset the absence of bauxite sales to an extent. Notwithstanding partial hedging and natural hedge in the form of soda ash imports, AIL remains exposed to forex risks, as exports accounted for 59% of its total sales in FY2019. Given that bentonite finds application majorly 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 domestic iron ore mining to some extent.

However, the ratings favourably consider the comfortable coverage indicators with the interest coverage ratio of 10.0 times and total debt-to-operating profit of 0.5 times as on March 31, 2019. The gearing also remained low at 0.1 times as on March 31, 2019 and is likely to remain comfortable despite a capex of Rs. 8 crore in the near term due to low debt levels in relation to its net worth. The ratings also favourably factor in AIL's access to captive bentonite mines in Gujarat with sizeable reserves, which improve its operating profile and competitiveness. ICRA also takes note of freight cost savings achieved by AIL due to proximity of its bentonite processing facility to the ports of Kandla and Mundra.

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 the interest coverage ratio of 10.0 times and total debt-to-operating profit of 0.5 times as on March 31, 2019. The gearing too remained low at 0.1 times as on March 31, 2019. Notwithstanding the capital expenditure of ~Rs. 8 crore in the near term towards the automation of bentonite processing, the gearing is expected to remain low and coverage indicators are likely to remain comfortable due to low indebtedness of the company.

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 about 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.

Credit challenges

Uncertainty over the future course of action by ASQ Connect Limited – In September 2018, ASQ Connect Limited became the new promoter of AIL with 100% equity stake after it invoked the share pledge that was provided as collateral by AML towards its settlement agreement to pay US$ 45 million over a period of 25 years. Subsequently, AIL's board composition changed in May 2019 with the induction of two new directors. Going forward, aggressive dividend distribution policy and likelihood of ASQ liquidating its equity holding to speed up the recovery process cannot be ruled out.

Depressed demand for bauxite - The company recorded a 20%-decline in operating income to Rs. 414.1 crore in FY2019 from Rs. 519.2 crore in FY2018 owing to absence of bauxite sales following muted demand in domestic as well as exports market. The operating profitability marginally improved to 9.2% in FY2019 from 8.7% due to higher proportion of high-margin bentonite in the sales mix. Going forward, ICRA notes that the sale of the company's new product, GCL and increased trading of baryte would partly offset the absence of bauxite sales.

Exposure to forex risks – AIL's exports accounted for 59% of its total sales, amounting to Rs. 242.6 crore in FY2019. While the company partly hedges its forex exposure and also imports soda ash (Rs. 21 crore imports in FY2019), which provides a natural hedge, it remains exposed to forex risks to the extent of mismatch between its exports and imports.

Exposure to regulatory risks – Bentonite mined by AIL finds application majorly in iron ore pelletizing, 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 part-mitigates regulatory risk related to domestic iron ore mining.

Liquidity position: Stretched

AIL's liquidity position is **stretched** with unencumbered cash amounting to Rs. 4.0 crore as on March 31, 2019. Given the marginal undrawn bank limits and capex plan of Rs. 8 crore in FY2020 towards the automation of bentonite processing, AIL's liquidity is expected to remain stretched in the near term.

Rating sensitivities

Positive triggers – ICRA could upgrade AIL's rating in case of a substantial growth in revenue and profitability, leading to an improved financial risk profile.

Negative triggers – Downward pressure on AIL's rating could emerge in case of any unfavourable change in the regulatory framework of bentonite/iron ore mining industry or in case of a large dividend pay-out to expedite the recovery process of ASQ.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Mining Entities
Parent/Group Support	NA
Consolidation/Standalone	Standalone

About the company

Incorporated in 1989, Ashapura International Limited is a wholly-owned subsidiary of ASQ Connect Limited (previously a wholly-owned subsidiary of Ashapura Minechem Limited) 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 570,000 metric tonne per annum. The company is also involved in trading of barytes. In FY2017, the company forayed into a new product namely Geosynthetic Clay Liner unit with an installed capacity of 5 million square meters per annum. The company has several distribution centres across India in Mangalore, Cuttack, Bangalore, Jaipur, Ludhiana, Kolhapur and Kolkata.

In FY2019, the company reported a net profit of Rs. 20.4 crore on an operating income of Rs. 414.1 crore compared to a net profit of Rs. 26.9 crore on an operating income of Rs. 519.2 crore in FY2018.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	519.2	414.1
PAT (Rs. crore)	26.9	20.4
OPBDIT/OI (%)	8.7%	9.2%
RoCE (%)	37.8%	25.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.1
Total Debt/OPBDIT (times)	0.4	0.5
Interest Coverage (times)	15.8	10.0
DSCR	9.6	6.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					26-Sep-2019	29-Mar-2019	12-Feb-2018	16-Nov-2016
1	Cash Credit	Long Term	18.00	-	[ICRA]BB@	[ICRA]BB@	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2	Interchangeable	Long Term	(8.00)^	-	[ICRA]BB@	[ICRA]BB@	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
3	Unallocated	Long Term	24.00	-	[ICRA]BB@	[ICRA]BB@	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
4	Fund based	Short Term	2.00		[ICRA]A4@	[ICRA]A4@	[ICRA]A4+	[ICRA]A4+
5	Non fund based	Short Term	6.00		[ICRA]A4@	[ICRA]A4@	[ICRA]A4+	[ICRA]A4+

Amount in Rs. crore, ^Sub- limit of cash credit facility

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 click here

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	NA	NA	NA	18.00	[ICRA]BB@; Remains on Watch with Negative Implications
NA	Interchangeable	NA	NA	NA	(8.00)^	[ICRA]BB@; Remains on Watch with Negative Implications
NA	Unallocated	NA	NA	NA	24.00	[ICRA]BB@; Remains on Watch with Negative Implications
NA	Fund based	NA	NA	NA	2.00	[ICRA]A4@; Remains on Watch with Negative Implications
NA	Non fund based	NA	NA	NA	6.00	[ICRA]A4@; Remains on Watch with Negative Implications

Source: AIL; ^Sub- limit of cash credit facility

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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