

Press Release

Ashapura Enterprises

June 26, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 9.50 Cr.
Long Term Rating	ACUITE B- / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B-**' (**read as ACUITE B minus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.9.50 crore bank facilities of Ashapura Enterprises. The outlook is '**Stable**'.

Ashapura Enterprise (AE) was established in 2006 by Mr. Jagdish Patel, Mr. Direndran Patel, and Mr. Narendra Patel as a partnership firm. It is engaged in trading of imported timber wood. It is part of Ashapura Group (AG) which also includes Ashapura Timber and Saw Mills (ATSM), engaged in the business of trading in timber, established in 1995.

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of Ashapura Timber and Saw Mills (ATSM) and Ashapura Enterprises (AE) together referred to as Ashapura Group (AG) to arrive at the rating. The consolidation is due to the common partners, shared brand name and financial synergies within the group.

Key Rating Drivers

Strengths

- **Established presence in the timber trading industry and experienced management**

Ashapura Group was established by Mr. Gangudas D Patel and Mrs. Savitha G Patel and has been engaged in trading of timber wood since 1995. Mr. Jagdish Patel, the partner of AE, has an experience of more than two and half decade in the timber industry, while other partners, Mr. Direndran Patel, and Mr. Narendra Patel have more than a decade of experience in this industry. The group has established healthy relationship with customers and suppliers. Acuité believes that AG will sustain the existing business profile on the back of established market presence in the timber industry and healthy relationship with customer and supplier over the near to medium term.

Weaknesses

- **Susceptibility of profitability to volatility in the raw material prices and forex fluctuations**

The group imports 90-95 percent of its timber log requirements from Singapore and Malaysia, among others. Hence, the profitability is exposed to regulatory changes in these countries and foreign exchange price fluctuations as the same is unhedged. Besides, the group is exposed to highly fragmented and competitive timber industry due to low entry barriers restricting its pricing flexibility and affecting profitability. The same is reflected by PAT which stood at 0.78 percent in FY2017 compared to 2.05 percent in FY2016.

- **Working capital intensive operations**

AG's operations are working capital intensive marked by high Gross Current Asset (GCA) of 190 days in FY2017 compared to 268 days in FY2016. The GCA days are mainly dominated by high debtor days of 150 days in FY2017 compared to 158 days in FY2016. The supplier days improved marginally to 150 days in FY2017 as against 184 days in FY2016.

- **Inconsistent revenue trend and declining profit margins:**

The group registered revenue of Rs.34.87 crore in FY2017 as against Rs.26.11 crore in FY2016 and Rs.27.24 in FY2015. However, the group has reported decline in revenue in FY2018 with revenue of Rs.27.54 (Provisional), showing an inconsistent trend in revenue growth. The PAT margin has declined to 0.78 percent in FY2017 as against 2.05 percent in FY2016. The EBITDA margin declined to 3.72 percent in FY2017 as against 5.32 percent in FY2016.

Outlook: Stable

Acuité believes that the group will maintain a 'Stable' outlook and continue to benefit over the medium term owing to the extensive experience of the partners in the timber trading business. The outlook may be revised to 'Positive', if the group achieves significant growth in revenue and improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profit margins and significant deterioration in the working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	34.87	26.11	27.24
EBITDA	Rs. Cr.	1.30	1.39	1.01
PAT	Rs. Cr.	0.27	0.54	0.43
EBITDA Margin	(%)	3.72	5.32	3.70
PAT Margin	(%)	0.78	2.05	1.59
ROCE	(%)	17.50	20.69	40.76
Total Debt/Tangible Net Worth	Times	0.62	1.41	0.62
PBDIT/Interest	Times	1.42	1.74	1.98
Total Debt/PBDIT	Times	1.70	3.38	1.77
Gross Current Assets (Days)	Days	190	268	206

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE B- / Stable (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4 (Assigned)

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About Acuité Ratings & Research:

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