

July 29, 2022

## AVT McCormick Ingredients Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term Fund-based working capital facilities	195.00	195.00	[ICRA]A1; reaffirmed
Short-term Fund based working capital facilities (sub-limit)	(70.00)	(70.00)	[ICRA]A1; reaffirmed
Short-term Non-fund based working capital facilities (sub-limit)	(8.50)	(8.50)	[ICRA]A1; reaffirmed
Short-term Fund-based/non-fund based working capital facilities (sub-limit)	(50.00)	(50.00)	[ICRA]A1; reaffirmed
Long-term Fund based working capital facilities (sub-limit)	(12.00)	(12.00)	[ICRA]A(Stable); reaffirmed
Unallocated limits	1.25	1.25	[ICRA]A(Stable)/[ICRA]A1; reaffirmed
<b>Total</b>	<b>196.25</b>	<b>196.25</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation reflects the consistent operating and financial performances of AVT McCormick Ingredients Private Limited (AM IPL) in FY2022 as well as steady earnings and comfortable credit metrics expected over the medium term. AM IPL's revenues and earnings continue to be supported by its established presence in the spice processing industry, long-term relationships with key customers and integrated operational profile across the value chain. Its revenues grew by a healthy 19% YoY in FY2022, driven by robust demand from large customers owing to pantry stocking by consumers globally during the pandemic-induced lockdowns along with a substantial increase in global commodity prices. ICRA expects AM IPL's revenue to remain flat in FY2023 owing to a high base and likely softening of commodity prices. The company's operating margins moderated by ~80 bps to ~8% in FY2022, which can be largely attributed to an increase in raw materials and freight costs. Going forward, AM IPL's margins are likely to remain subdued due to volatility in raw material prices and large reduction in export incentives under the Remission of Duties or Taxes on Export Products (RoDTEP) scheme.

The ratings continue to favourably factor in the conservative capital structure and debt protection metrics of the company, characterised by gearing, interest cover and TOL/TNW of 0.5 times, 12.0 times and 1.1 times, respectively as on March 31, 2022 (provisional). Going forward, the debt coverage indicators are expected to remain comfortable despite moderation in operating profits. The ratings continue to factor in the high working capital intensity of business mainly due to large inventory holding requirements owing to seasonal availability of raw materials. While high stock levels expose the company's earnings to price risk, the same is mitigated to some extent by order-backed procurement for most of its products and pricing arrangements with customers where prices are fixed based on its average procurement cost during the harvest season. The ratings also consider the product and customer concentration risks, with the top three products contributing 65-70% to AM IPL's revenues and top three customers generating around 60% of revenues.

The Stable outlook reflects ICRA's expectations that AM IPL's performance will continue to be supported by its strong operational profile and comfortable capitalisation levels despite competition and high working capital intensity of its business.

## Key rating drivers and their description

### Credit strengths

**Strong operational profile with established business channels** – AMIPL has an established presence in the spice processing industry with a strong export market position for key products on the back of its long relationships with customers and suppliers. While dependence on a few key customers remains high, recurring order inflow witnessed over the years and steady sales volumes lend stability to its operations. The company also benefits from the established presence and long experience of the AVT Group in the agricultural commodities segment and the operational linkages with its foreign parent. McCormick & Co. Inc. (McCormick, rated Baa2(Stable) by Moody's) continues to be AMIPL's largest customer, accounting for over a third of its revenue. Further, the company has developed a strong supplier base for raw materials and works closely with farmers for key products to meet the stringent export quality requirements.

**Comfortable capital structure and healthy debt protection metrics** – AMIPL's financial profile remains comfortable, characterised by its conservative capital structure and healthy debt protection metrics along with a comfortable liquidity position on the back of consistent earnings from operations despite the working-capital intensive nature of operations. Key ratios including gearing, total debt to operating profits and interest coverage ratio stood at 0.5 times, 2.4 times and 12.0 times, respectively in FY2022. With no major capital expenditure proposed over the medium term, steady earnings are expected to continue to support the credit metrics and liquidity position.

### Credit challenges

**High working capital intensity of operations** – AMIPL's working capital intensity remains high, as characterised by net working capital to operating income ratio of over 50%, primarily because of the seasonal availability of raw materials, necessitating higher stock levels at the end of the procurement season, mainly for chilli.

**High revenue concentration** – AMIPL's revenues have a high degree of customer concentration risk as the company's top five customers account for 60-70% of its revenues over the last three years. However, long and established relationships with major customers and demonstrated history of recurring order inflow aid in mitigating the risk to an extent.

**Vulnerability of revenues and margins to volatility in raw material prices and foreign exchange rates** – The key raw materials of the company are agricultural commodities, which exhibit high price volatility based on demand-supply scenario. Moreover, the company remains exposed to agro-climatic risks. Being an export-oriented unit, AMIPL's earnings also remain vulnerable to fluctuations in foreign exchange rates. However, the company's hedging policy mitigates the risk to an extent.

### Liquidity position: Adequate

AMIPL's liquidity remains adequate with free cash and bank balances of Rs. 11.7 crore and unutilised working capital facilities of Rs. 107 crore (with commensurate drawing power) as on March 31, 2022 (provisional). The company's liquidity profile is further supported by no term debt repayment obligations and modest maintenance capex of ~Rs. 5 crore per annum against stable earnings from operations, which are expected to be in the range of Rs. 15-25 crore per annum over the next 2-3 years. ICRA also derives comfort from the additional liquidity buffer available from moderate average utilisation of sanctioned working capital facilities, which remained at ~57% in FY2022.

### Rating sensitivities

**Positive factors** – The ratings maybe upgraded if the company registers a healthy growth in its scale of operations and earnings on a sustained basis. Consistent improvement in the company's working capital cycle and liquidity profile, leading to an enhancement in the competitive position could result in a ratings upgrade.

**Negative factors** – Pressure on the ratings could emerge if there is a sustained reduction in revenue and earnings of the company or a significant deterioration in the working capital cycle, adversely impacting its credit metrics and/or liquidity. Specific credit metrics that could result in ratings downgrade include interest cover below 5.0 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financial profile of AVT McCormick Ingredients Private Limited

## About the company

AVT McCormick Ingredients Private Limited (AMIPL) was incorporated in 1993 as a 50:50 joint venture between A.V. Thomas Group and McCormick & Co. Inc. It is involved in processing of spices, spice blends and seasonings at its facility near Kochi (Kerala) with an installed capacity of ~25,000 metric tonnes per annum (MTPA). The company predominantly supplies chilli, black pepper, turmeric and ginger to customers in the US and European markets. McCormick is a US-based company that manufactures, markets and distributes spices, seasoning mixed, condiments and other flavouring products for the food industry across more than 140 countries. A.V. Thomas (AVT) Group has business interests in agricultural commodities, tea, solvent extraction, rubber, leather, spices etc. Some of its key entities include AVT Natural Products Limited (rated [ICRA]A+(Stable)/[ICRA]A1+) and A.V. Thomas & Co. Limited.

## Key financial indicators (audited)

AVT McCormick Ingredients Pvt Ltd	FY2021	FY2022 (P)
Operating income	503.7	597.3
PAT	29.3	31.4
OPBDIT/OI	8.9%	8.1%
PAT/OI	5.8%	5.3%
Total outside liabilities/Tangible net worth (times)	0.9	1.1
Total debt/OPBDIT (times)	2.1	2.4
Interest coverage (times)	14.1	12.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Jul 29, 2022	Apr 08, 2021	-	Mar 05, 2020
1 Short-term Fund-based working capital facilities	Short-term	195.00	-	[ICRA]A1	[ICRA]A1	-	[ICRA]A1
2 Short-term Fund based working capital facilities (sub-limit)	Short-term	(70.00)	-	[ICRA]A1	[ICRA]A1	-	[ICRA]A1
3 Short-term Non-fund based working capital facilities (sub-limit)	Short-term	(8.50)	-	[ICRA]A1	[ICRA]A1	-	[ICRA]A1
4 Short-term Fund-based/non-fund based working capital facilities (sub-limit)	Short-term	(50.00)	-	[ICRA]A1	[ICRA]A1	-	[ICRA]A1
5 Long-term Fund based working capital facilities (sub-limit)	Long-term	(12.00)	-	[ICRA]A (Stable)	[ICRA]A (Stable)	-	[ICRA]A (Stable)
6 Unallocated limits	Long-term/Short-term	1.25	-	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	-	[ICRA]A (Stable)/[ICRA]A1
7 Long-term/Short-term fund based bank facilities	Long-term/Short-term	-	-	-	-	-	[ICRA]A (Stable)/[ICRA]A1

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term Fund-based working capital facilities	Simple
Short-term Fund based working capital facilities (sub-limit)	Simple
Short-term Non-fund based working capital facilities (sub-limit)	Simple
Short-term Fund-based/non-fund based working capital facilities (sub-limit)	Simple
Long-term Fund based working capital facilities (sub-limit)	Simple
Unallocated limits	N.A.

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [www.icra.in](http://www.icra.in)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
N.A.	Packing Credit	N.A.	N.A.	N.A.	115.00	[ICRA]A1
N.A.	Export Packing Credit	N.A.	N.A.	N.A.	20.00	[ICRA]A1
N.A.	Standby Line of Credit	N.A.	N.A.	N.A.	10.00	[ICRA]A1
N.A.	Advance against Bills sent for collection/FBD (sub-limit of packing credit)	N.A.	N.A.	N.A.	(50.00)	[ICRA]A1
N.A.	Working capital facilities	N.A.	N.A.	N.A.	50.0	[ICRA]A1
N.A.	Pre/Post Shipment finance/ Sight Letter of Credit/ Usance Letter of Credit/Financial Guarantee for Buyer's Credit (sub limit of working capital facilities)	N.A.	N.A.	N.A.	(50.00)	[ICRA]A1
N.A.	Post Shipment Finance (sub-limit of export packing credit)	N.A.	N.A.	N.A.	(20.00)	[ICRA]A1
N.A.	Overdraft (sub-limit of export packing credit)	N.A.	N.A.	N.A.	(2.00)	[ICRA]A(Stable)
N.A.	Letter of Credit/ Bank Guarantee/CEL (Sub-limit of packing credit)	N.A.	N.A.	N.A.	(8.50)	[ICRA]A1
N.A.	Bank Guarantee (sub-limit of working capital facilities)	N.A.	N.A.	N.A.	(5.00)	[ICRA]A(Stable)
N.A.	Cash Credit (sub-limit of packing credit)	N.A.	N.A.	N.A.	(5.00)	[ICRA]A(Stable)
N.A.	Unallocated Limits	N.A.	N.A.	N.A.	1.25	[ICRA]A(Stable)/[ICRA]A1

Source: Company

## Annexure II: List of entities considered for consolidated analysis – N.A.

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