

June 12, 2023

AVT Natural Products Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	9.00	10.62	[ICRA]A+(Stable); reaffirmed
Short-term Fund-based – Cash Credit	74.50	74.50	[ICRA]A1+; reaffirmed
Short-term Non fund-based limits	13.76	13.76	[ICRA]A1+; reaffirmed
Long-term/short-term – Unallocated Limits	1.62	-	-
Total	98.88	98.88	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation reflects ICRA's expectations that AVT Natural Products Limited (AVTN) will continue to record a steady operating performance over the medium term, supported by its established presence in the natural extracts industry and long-term relationships with key customers, while maintaining a comfortable financial risk profile and healthy liquidity. AVTN recorded an operating income of Rs. 582 crore in FY2023, up ~2% YoY on an elevated base, while sustaining an operating margin above 20%, aided by better gross margins and improving operational efficiency. ICRA expects the company's revenue to grow by 8-10% per annum (p.a.) over the coming years with a stable order book for the marigold extracts category and healthy traction in the beverages category. However, its operating margin is likely to moderate to ~18% due to pressure on the gross margin, as witnessed over the last two quarters. AVTN is expected to continue to maintain a conservative capital structure and comfortable coverage metrics, backed by healthy cash flow from operations.

The ratings continue to favourably factor in the diversified product portfolio with healthy revenue contribution from the three product categories – marigold extracts, spice oils and oleoresins and beverages. Owing to strategic supply agreements with some key customers, the company has healthy order book visibility, which also provides comfort. The ratings also consider the long experience of AVTN's promoters and management in the industry and the company's robust financial risk profile, reflected by its conservative capital structure, healthy coverage metrics and strong liquidity.

The ratings, however, continue to remain constrained by the high geographical and customer concentration of revenue with the US and the UK accounting for 55-60% of revenue and the top 5 customers contributing 75-80% to revenue over the last five years. The ratings also factor in the high working capital intensity of business and exposure of AVTN's revenue and profitability to volatility in raw material costs and foreign exchange rates.

The Stable outlook on the long-term rating reflects ICRA's opinion that AVTN will continue to maintain a low gearing and healthy debt protection metrics over the medium term, backed by healthy cash flow from operations and steady revenues.

Key rating drivers and their description

Credit strengths

Diversified product portfolio – AVTN's product portfolio comprises marigold extracts, spice oils and oleoresins (paprika, capsicum, pepper, etc) and beverages (instant tea and decaffeinated tea) among others. While marigold extracts remained the mainstay of the business till FY2014, the company's product mix has since diversified with the share of marigold extracts reducing to ~45% of the revenues over the last two years. Spice oils and oleoresins contributed ~30% and beverages contributed ~25% to the revenue. AVTN has an established presence in the oleoresin segment with a stable customer profile.

The diversified product portfolio lends stability to the company's revenues and earnings while limiting the impact of the downturn in any segment on the overall performance of the company.

Conservative capital structure and healthy debt protection metrics – AVTN's financial risk profile remains healthy, 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. Total debt/TNW remained conservative at 0.1 times as on March 31, 2023 while the interest cover stood at more than 20 times in FY2023. Further, total debt/OPBDITA stood comfortable at 0.3 times in FY2023. ICRA expects the company to continue to maintain a healthy financial risk profile due to its low reliance on debt and healthy cash accruals.

High revenue visibility owing to strategic agreements with key customers – AVTN has entered into long-term strategic agreements with key customers, including Kemin Industries, for exclusive supply of its products. Further, it maintains established relationships with its large customers, which translate into repeat orders and provide high degree of revenue visibility and give stability to operations.

Experienced promoters and management team – The company is a part of the A.V. Thomas Group of Companies, which has a long track record across diversified businesses including agricultural commodities, tea, solvent extraction, leather, rubber, etc. Further, the company's management has extensive experience of over 30 years in the industry.

Credit challenges

High revenue concentration – AVTN is exposed to high customer concentration risk as the company's top-5 customers accounted for ~80% of its revenues over the last five years. However, long and established relationships with major customers coupled with exclusive supply agreements with some key customers aid in mitigating the revenue concentration risk to an extent.

Vulnerability of revenues and margins to fluctuations in commodity prices and foreign exchange rates – The key raw materials of the company are agricultural commodities including marigold, tea, pepper, paprika, capsicum, etc., which exhibit high price volatility. Although backward integration in marigold provides some control over the prices for the product segment, the company continues to depend on market prices of other commodities. Further, its earnings are vulnerable to fluctuations in foreign exchange rates as AVTNPL is an export-oriented unit (exports accounted for more than 95% of AVTN's revenue in FY2023). However, the company has a stated forex hedging policy, which covers 60-70% of its receivables to minimise risks.

High working capital intensity of operations – AVTN's working capital intensity remains high, characterised by NWC/OI of more than 50% in FY2023, primarily because of the seasonal availability of raw materials, necessitating higher stock levels at the end of the procurement season for marigold and spices. Despite high stock levels, demand and price risks are limited to an extent because of order-backed procurement of marigold and spices.

Environmental and social risks

Environmental considerations – Entities involved in the processing of agricultural commodities, including AVTN, are exposed to physical climate risks, given that the supply of their key inputs depend on monsoons. The process of extraction of natural ingredients leaves behind water and agricultural waste. Any tightening of waste control norms could lead to a significant investment by the company, affecting its financial position and liquidity.

Social considerations – AVTN's exposure to social risks is generally not material. However, the company depends on a large number of farmers for sourcing of raw materials. Support to farmers by providing them with quality seeds and training on agricultural techniques are important factors in mitigating the risks associated with supply of desired quality of raw materials for the company.

Liquidity position: Strong

AVTN's liquidity remains strong, characterised by free cash and liquid investments worth Rs. 81.2 crore and buffer from undrawn working capital facilities of ~Rs. 74.5 crore (with commensurate drawing power) as on March 31, 2023. Against this, the company is projected to have minimal debt repayment obligation of Rs. 4.2 crore in FY2024 and Rs. 3.5 crore in FY2025. AVTN has planned a growth capex worth ~Rs. 60-70 crore in FY2024 towards capacity addition in the beverage products category, which could be partly financed by new term loans. ICRA expects the company to continue to generate cash flow from operations worth ~Rs. 40-60 crore p.a. over the medium term, which is estimated to be sufficient to meet its requirements. The average utilisation of working capital limits has remained low at ~33% for the 12-month period ending on March 31, 2023, which further provides comfort.

Rating sensitivities

Positive factors – The long-term rating could be upgraded if the scale of operations and earnings continue to register a sustained growth and the business profile becomes more diversified. Specific credit metrics that could result in a rating upgrade include return on capital employed (RoCE) above 20% on a sustained basis.

Negative factors – Pressure on the ratings could arise if there is any sharp decline in revenue and/or profitability of the company. A significant deterioration in the working capital cycle, adversely impacting the credit metrics and the liquidity position, could also result in ratings downgrade. Specific credit metrics that could result in ratings downgrade include an interest cover below 7.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of AVTN as detailed in Annexure-II.

About the company

Incorporated in 1986, AVT Natural Products Limited (AVTN) is a producer and marketer of plant-based extracts and solutions for food and nutraceuticals industries. It is an export-oriented unit with a product portfolio including marigold extracts, spice oils and oleoresins and beverages. It has processing facilities in Kerala and Karnataka. AVTN is a part of the larger A.V. Thomas Group of companies, which has diversified business interests across agricultural commodities, tea, solvent extraction, leather, rubber and spices, among others. AVTN is listed on BSE and NSE with a market capitalisation of more than Rs. 1,200 crore as on March 31, 2023.

Key financial indicators (audited)

AVTN Consolidated	FY2022	FY2023
Operating income	569	582
PAT	73	77
OPBDIT/OI	20.2%	20.8%
PAT/OI	12.8%	13.3%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.2	0.3
Interest coverage (times)	24.9	22.6

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

Note: All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jun 12, 2023	-	Mar 31, 2022	Jan 11, 2021
1 Term Loans	Long term	10.62	11.85	[ICRA]A+(Stable)	-	[ICRA]A+(Stable)	[ICRA]A+(Stable)
2 Cash Credit	Short-term	74.50	-	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1
3 Non fund-based limits	Short-term	13.76	-	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1
4 Unallocated Limits	Long-term/short-term	-	-	-	-	[ICRA]A+(Stable)/[ICRA]A1+	[ICRA]A+(Stable)/[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Short-term Fund-based – Cash Credit	Very Simple
Short-term Non fund-based limits	Very Simple

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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	FY2019	NA	FY2025	4.50	[ICRA]A+(Stable)
NA	Term Loan-II	FY2023	NA	FY2029	6.12	[ICRA]A+(Stable)
NA	Cash Credit	NA	NA	NA	74.50	[ICRA]A1+
NA	Non fund-based limits	NA	NA	NA	13.76	[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	AVTN's Ownership	Consolidation Approach
AVT Natural Products Limited	-	Full Consolidation
AVT Natural Europe Limited, UK (formerly known as AVT Tea Services Limited)	100%	Full Consolidation
AVT Natural S.A. DE C.V, Mexico	100%	Full Consolidation
AVT Natural North America Inc., USA	100%	Full Consolidation
AVT Tea Services North America LLC, USA*	100%	Full Consolidation

Source: AVTN's audited financial statements for FY2023

*Liquidated on September 28, 2021

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Branches



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