

August 02, 2023

AVT McCormick Ingredients Private Limited: Long-term rating reaffirmed; outlook revised to Negative; short-term rating downgraded to [ICRA]A2+

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]A2+; downgraded from [ICRA]A1
Short-term interchangeable limits^	(128.50)	(128.50)	[ICRA]A2+; downgraded from [ICRA]A1
Long-term interchangeable limits^	(12.00)	(12.00)	[ICRA]A(Negative); reaffirmed and outlook revised to Negative from Stable
Long-term/short-term – Unallocated Limits	1.25	1.25	[ICRA]A(Negative)/[ICRA]A2+; long-term rating reaffirmed and outlook revised to Negative from Stable; short-term rating downgraded from [ICRA]A1
Total	196.25	196.25	

*Instrument details are provided in Annexure-I; ^submit of working capital facilities

Rationale

The downgrade of short-term rating and revision in outlook on the long-term rating to Negative factors in the deterioration in the performance of AVT McCormick Ingredients Private Limited (AM IPL) in FY2023 and continued uncertainty over recovery in revenue and earnings in FY2024 due to persistent headwinds amid weak end-user demand in export markets and input cost inflation. The company's revenue declined by ~10% YoY to Rs. 536 crore in FY2023 (provisional) due to a ~30% YoY contraction in sales volume to ~16,000 metric tonnes (MT). AM IPL's operating margin contracted by ~550 basis points YoY to 2.6% in FY2023 owing to lower fixed cost absorption, reduction in gross margins for red pepper (largest product segment) due to large procurement of raw materials and price volatility and sizeable losses on foreign exchange hedging due to steep depreciation of the domestic currency during the year. ICRA expects AM IPL's sales volumes to remain under pressure over the coming quarters, as indicated by muted volume growth in Q1 FY2024 and an order book which largely in line with the previous year, translating into uncertainty over recovery in margins to earlier levels. While the company is expected to record stable revenue in FY2024 on account of steady increase in average realisations with some improvement in margins, the debt protection metrics are likely to remain weaker than earlier expectations. Nevertheless, comfortable liquidity position amidst no term debt repayment obligations and minimal capex requirements provide comfort to the ratings.

The ratings continue to favourably factor in the established market position of AM IPL in the spices export market with an established customer base, wide product portfolio and strong parentage. Long-term relationships with key customers and adherence to high quality standards support the ratings. The ratings also consider the comfortable capital structure, supported by a sizeable net worth base and no term debt, and adequate liquidity position with minimal capex requirements.

The ratings, however, continue to remain constrained by the customer and product concentration of revenues with top 5 customers accounting for 65-70% of revenues and top 3 products accounting for more than 60% of revenues over the last three years. The high working capital intensity of operations and exposure of revenue and profitability to volatility in commodity prices and foreign exchange rates also impact the ratings.

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 like red pepper, black pepper, ginger and turmeric on the back of its relationships with key stakeholders demonstrated by recurring order inflow from large customers over the years. The company also benefits from its strong parentage of the AVT Group, which has a long-track record in agricultural commodities, and McCormick & Co. (rated Baa2(Stable) by Moody's), which is a global leader in spices and flavouring ingredients. The company has developed a strong supplier base for raw materials and works closely with farmers for procurement of key products, which is likely to support its operations.

Comfortable capital structure and liquidity position – AMIPL continues to maintain a comfortable capital structure as indicated by a gearing of 0.4 times and TOL/TNW of 0.8 times as on March 31, 2023, supported by a sizeable net worth base and no outstanding term debt. The company is likely to maintain a comfortable capital structure with no major capital expenditure planned over the next 1-2 years. AMIPL's financial risk profile also benefits from its adequate liquidity position with no debt repayment obligations and buffer from average utilisation of working capital limits at 67% in FY2023.

Credit challenges

Weakening of debt coverage metrics – AMIPL's debt protection metrics have weakened considerably in FY2023 with interest cover of 2.3 times and total debt/OPBIDTA of 5.9 times owing to a substantial deterioration in profitability. While ICRA expects some improvement in the debt coverage metrics in FY2024, persistent demand headwinds and input cost pressure pose material risks to business recovery and will remain a key monitorable.

Business concentration risks – AMIPL's revenues exhibit a considerable degree of product and customer concentration. While the company has a wide product portfolio, red pepper alone accounts for more than 40% of revenue, exposing the business to risks arising from weak demand prospects for the spice. Further, the McCormick Group remains AMIPL's largest customer accounting for 35-40% of revenue, with top 5 customers contributing 65-70% of revenue of the company. However, established relationship and managerial linkages with the McCormick Group mitigates the risk to an extent.

High working capital intensity; exposure to volatility in commodity costs and foreign exchange rates – AMIPL's year-end working capital intensity remains high, as indicated by a NWC/OI of ~50% as on March 31, 2023, owing to stocking of red pepper in the harvest season from February to June. The company remains exposed to the inherent volatility in the prices of agricultural commodities, which could impact its margins, as witnessed in FY2023. Moreover, being an export-oriented unit, the company's revenue and earnings remains exposed to fluctuations in foreign exchange rates. However, the risk is mitigated to an extent by a defined forex hedging policy, wherein the company maintains an average cover of 50% on export receivables.

Liquidity position: Adequate

AMIPL's liquidity remains adequate, characterised by free cash and buffer from undrawn working capital limits worth more than Rs. 110 crore as on March 31, 2023 (with commensurate drawing power). The company does not have any term debt repayment obligations and is likely to incur only maintenance capex of Rs. 5-7 crore p.a. over the next 1-2 years. The cash flow from operations is likely to be adequate to cover these. The average utilisation of working capital limits at 67% in FY2023 also provides comfort.

Rating sensitivities

Positive factors – Given the negative outlook, an upgrade in the ratings seems unlikely in the near term. The outlook may be revised to stable if there is sustained improvement in revenue, profitability and debt coverage metrics of the company.

Negative factors – Pressure on the ratings could arise 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	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

AVT McCormick Ingredients Private Limited (AMIPL) is a 50:50 joint venture between the A. V. Thomas Group and McCormick & Co., Inc. It was incorporated in 1993 and 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 supplied red pepper, black pepper, ginger, turmeric and other spices to customers in the US and European markets.

Key financial indicators

	FY2022 (audited)	FY2023 (provisional)
Operating income	597	536
PAT	31	3
OPBDIT/OI	8.1%	2.6%
PAT/OI	5.3%	0.6%
Total outside liabilities/Tangible net worth (times)	1.1	0.8
Total debt/OPBDIT (times)	2.4	5.9
Interest coverage (times)	12.0	2.3

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 in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Aug 02, 2023	Jul 29, 2022	Apr 08, 2021	-	
1	Cash Credit	Short-term	195.00	-	[ICRA]A2+	[ICRA]A1	[ICRA]A1	-
2	Interchangeable Limits	Short-term	(128.50)	-	[ICRA]A2+	[ICRA]A1	[ICRA]A1	-
3	Interchangeable Limits	Long-term	(12.00)	-	[ICRA]A(Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	-
4	Unallocated Limits	Long-term/short-term	1.25	-	[ICRA]A(Negative)/[ICRA]A2+	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term fund-based working capital limits	Simple
Short-term interchangeable limits	Simple
Long-term interchangeable limits	Simple
Long-term/short-term – 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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	195.00	[ICRA]A2+
NA	Interchangeable Limits	NA	NA	NA	(128.50)	[ICRA]A2+
NA	Interchangeable Limits	NA	NA	NA	(12.00)	[ICRA]A(Negative)
NA	Unallocated Limits	NA	NA	NA	1.25	[ICRA]A(Negative)/[ICRA]A2+

Source: Company

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

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

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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