

July 31, 2024

AVT McCormick Ingredients Private Limited: Ratings reaffirmed; outlook revised to Stable from Negative

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

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

Rationale

The reaffirmation of ratings and revision in outlook on the long-term rating to Stable from Negative factor in the improved performance of AVT McCormick Ingredients Private Limited (AM IPL) in FY2024. Although the company's overall revenue increased marginally by 2% YoY to Rs. 546 crore in FY2024 from Rs. 536 crore in FY2023, there was a material improvement in its operating profit margin (OPM) by ~190 bps YoY to 6.5% in FY2024. During Q1 FY2025, AM IPL achieved an export revenue of more than ~Rs. 165 crore and domestic sales of around ~Rs. 8 crore with a PBT of ~Rs. 11 crore and ICRA expects it to post meaningful growth in its top line and profit in FY2025 on a YoY basis. The primary reason for the improved operating margin in FY2024 was owing to better realisation of prices from customers and moderation of shipping and freight cost. In addition, AM IPL experienced marginal increase in product volumes in FY2024. ICRA expects AM IPL's sales volumes to improve over the coming quarters, as indicated by an order book for FY2025. Further, the ratings continue to favourably factor in the established market position of AM IPL in the spice 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, along with an adequate liquidity position with minimal capex requirements. While the company is expected to record substantial increase in revenue in FY2025, on account of stability achieved in demand, along with improved profitability, no significant improvement in the debt protection metrics is expected owing to likely increase in the debt level and interest cost.

The ratings, however, continue to remain constrained by AM IPL's customer and product concentration of revenues with its top five customers driving more than 65% of its revenues and its top three products accounting for more than 60% of its 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 (forex) rates also impact the ratings.

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

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 amid enduring relationships with its key stakeholders, as demonstrated by recurring order inflow from large customers over the years. The company also benefits from its strong parentage in the AVT Group, which has a long-track record in agricultural commodities, and McCormick & Co., which is a global leader in spices and flavouring ingredients. The company has developed a strong supplier base for sourcing raw materials and works closely with farmers for procuring key products, which would continue to support its operations.

Comfortable capital structure and liquidity position – AMIPL continues to maintain a comfortable capital structure as indicated by a gearing of 0.3 times and TOL/TNW of 0.9 times as on March 31, 2024, supported by a sizeable net worth base. The company does not have any long-term debt. AMIPL is likely to maintain a comfortable capital structure with no major capital expenditure (capex) 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 60% in FY2024.

Credit challenges

Weakening of debt coverage metrics – AMIPL's debt protection metrics have weakened considerably in FY2023 and FY2024 with interest cover of 4.1 times and total debt/OPBIDTA of 2.3 times in FY2024 owing to a substantial deterioration in profitability and increase in interest cost. While the company is expected to record substantial increase in revenue in FY2025 along with improved profitability, no significant improvement in the debt protection metrics is expected owing to likely increase in the debt level and interest cost. Persistent input cost pressure poses 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 50% of its revenue, exposing the business to risks arising from weak demand for the spice. Further, the McCormick Group remains AMIPL's largest customer accounting for 35-40% of its revenues, with its top five customers driving more than 65% of its revenues. However, an 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 forex rates – AMIPL's year-end working capital intensity remains high, as indicated by a NWC/OI of ~51% as on March 31, 2024, owing to stocking of red pepper during the harvest season (February to June). The company remains exposed to the inherent volatility in the prices of agricultural commodities, which could impact its margins. Moreover, being an export-oriented unit, the company's revenue and earnings remain exposed to fluctuations in forex 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 bank balance of Rs. 16 crore, as on March 31, 2024, and sufficient buffer in its working capital limits with an average utilisation of 60% in FY2024. The company's cash flow of operations have remained positive over the past few years. The cash flow from operations is likely to moderate in FY2025 given the fact that AMIPL's would require higher quantum of working capital to fund the revenue growth. Nevertheless, the company's liquidity would remain adequate, since it has no term debt repayment obligations nor any planned debt-funded capex.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company registers a material growth in its scale of operations and earnings on a sustained basis while maintaining a favourable working capital cycle and adequate liquidity profile.

Negative factors – Pressure on the ratings could arise if there is a sustained reduction in AMIPL's revenue and earnings, or if a significant deterioration in its working capital cycle adversely impacts its credit metrics and/or liquidity. Specific credit metrics that could result in a rating downgrade include interest cover below 4.0 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 was incorporated in 1993 as a **50:50 joint venture between A.V. Thomas Group (India) and McCormick & Co., Inc. (USA)**. The company is engaged in the **processing of spices and seasonings**. AMIPL is registered as an **Export Oriented Unit (EOU)** with manufacturing facilities at Aluva (near Kochi) in Kerala. The company has quality certifications like Hazard Analysis and Critical Control Points (HACCP), British Retail Consortium Global Standard (BRC), National Accreditation Board for Testing and Calibration Laboratories (NABL), International Organization for Standardization (ISO), McCormick vendor certifications, etc, and has complied successfully with several vendor audits.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	536	546
PAT	3	16
OPBDIT/OI	4.6%	6.5%
PAT/OI	0.6%	3.0%
Total outside liabilities/Tangible net worth (times)	0.8	0.9
Total debt/OPBDIT (times)	3.3	2.3
Interest coverage (times)	4.2	4.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jul 31, 2024	Aug 02, 2023	Jul 29, 2022	Apr 08, 2021
1	Working Capital Facilities	Short-term	195.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1
2	Interchangeable Limits	Short-term	(128.50)	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1
3	Interchangeable Limits	Long-term	(12.00)	[ICRA]A(Stable)	[ICRA]A(Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)
4	Unallocated Limits	Long-term/ short-term	1.25	[ICRA]A(Stable)/ [ICRA]A2+	[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	Working Capital Facilities	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(Stable)
NA	Unallocated Limits	NA	NA	NA	1.25	[ICRA]A(Stable)/[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 – Not applicable

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