

## AVT Natural Products Limited

January 07, 2019

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term / Short-term fund based (inter-changeable) bank facilities	21.50	21.50	[ICRA]A(Stable)/[ICRA]A1; reaffirmed
Long-term non-fund-based bank facility	0.18	0.18	[ICRA]A(Stable); reaffirmed
Short-term fund-based bank facilities	29.50	29.50	[ICRA]A1; reaffirmed
Short-term non-fund-based bank facilities	13.70	13.70	[ICRA]A1; reaffirmed
<b>Total limits</b>	<b>64.88</b>	<b>64.88</b>	

\*Instrument details are provided in [Annexure-1](#)

### Rationale

The re-affirmation of ratings reflects the expected consistent operational and financial performance of AVT Natural Products Limited (AVTNPL) over the medium term, supported by its established presence across key product segments, recent expansion of its processing capacity and the proposed launch of new products. AVTNPL's revenues are expected to record a growth of ~5% in FY2019 and around 10% in FY2020, primarily driven by the spice oleoresin segment in H2 FY2019 and volume growth across the three major product segments over the medium term. The company's performance has been under pressure in recent fiscals, constrained by the continued moderation of marigold oleoresin prices and moderate growth in spice oleoresins and beverage segments owing to competitive pressure and fluctuations in commodity prices. While revenues grew at a modest pace of 8% in FY2018, the same fell marginally in H1 FY2019. The operating margins fell to 12.6% in FY2018 and to 10.8% in H1 FY2019. The margin pressure witnessed in the recent fiscals is owing to falling marigold oleoresin prices (post the patent expiry of the drug in the US in FY2014, which consumes the lutein extracted from marigold) and increasing revenue contribution from lower-margin spice oleoresins and beverages segments. To support revenue growth and margin expansion, the company had recently established a processing facility in Karnataka at a cost of Rs. 42 crore, funded with internal accruals and cash reserves held. Besides reducing operating costs and improving efficiencies, the new facility would help AVTNPL in utilising the existing facility in Kerala towards processing of spices and beverages. Thus, the expected improvement in economies of scale and the proposed launch of value-added products in marigold are likely to support expansion of operating margins by around 100-150 bps over the medium term.

The ratings consider the comfortable financial profile of AVTNPL, characterised by conservative capital structure with adequate coverage metrics and stable liquidity position. With the proposed cumulative capital expenditure to be limited to Rs. 30-35 crore over the period FY2019 to FY2021, key ratios including net debt (adjusted for cash and equivalents held) to operating profits and interest coverage are likely to improve further to around 0.3 times and 17 times, respectively for FY2020. The ratings also factor in the moderately high working capital intensity in the business owing to seasonal availability of raw materials, quality and availability of the same being exposed to agro-climatic risks and vulnerability of earnings to fluctuations in raw material prices (pricing flexibility is limited because of increasing competitive pressure across segments. Nevertheless, these risks are mitigated to an extent by its operational strengths derived from its recurring order inflow from large customers, diversified supplier base and long-standing experience of the AVT Group of about 90 years in the agro-products industry. The company's ability to improve its volume growth

across the three product segments to effectively utilise its expanded capacities and improve profitability levels will remain key rating sensitivities.

## Outlook: Stable

ICRA expects AVTNPL to continue to benefit from its established presence in the marigold oleoresins segment and likely growth in volumes in the spice oleoresins and beverages segments. The outlook may be revised to Positive if revenues and earnings significantly exceed estimates and further strengthen the credit profile. The outlook may be revised to Negative if there is any sharp reduction in earnings or any elongation of its working capital cycle or any major debt-funded expenditure, which would result in deterioration in capital structure and debt coverage indicators.

## Key rating drivers

### Credit strengths

**Established operational profile** – AVTNPL enjoys an established presence in the oleoresin segment, with a stable customer base across product segments over the years. Further, it has developed a strong supplier base, where AVTNPL enters into contract farming for its entire marigold requirement and few spices, ensuring raw material availability and quality standards. Increase in revenues from spice oleoresins and beverages has also resulted in a decline in customer concentration levels in recent fiscals.

**Strong financial profile** – AVTNPL's financial profile remains strong on the back of relatively steady earnings from operations, despite the recent capacity expansion undertaken and moderately high working capital intensity. The same is evident from key ratios including gearing, total debt to operating profits and debt service coverage ratio of 0.2 times, 1.4 times and 9.6 times, respectively for H1 FY2019. With no major capital expenditure proposed over the medium term, steady earnings and adequate cash reserves are expected to support the credit profile of AVTNPL.

### Credit challenges

**Continued pressure on profit margins** – The operating margins of AVTNPL have been on a declining trend owing to continued pressure on marigold prices and change in sales mix in recent fiscals. The overall margins also remain exposed to agro-climatic risks and competition across segments. In the coming quarters, the operating margins are likely to improve to some extent on the back of better operating efficiencies, proposed launch of new value-added products, lower operating costs for feed grade marigold oleoresins and economies of scale given the expanding customer base across segments.

**High working capital intensity** – AVTNPL's working capital intensity has remained moderately high owing to the seasonal availability of raw materials. Nevertheless, marginal improvement witnessed in the recent past from the peak levels of FY2015 (with reducing concentration on marigold) and comfortable liquidity position lend comfort. The price risk on inventory is limited to an extent due to order-backed procurement for a considerable portion of its requirement and moderate pricing flexibility.

### Liquidity Position:

AVTNPL's liquidity position has remained comfortable in H1 FY2019, with steady earnings and no major capital expenditure incurred during the period. While the working capital funding requirements have increased to stock marigold and other raw materials, the utilisation of fund-based facilities stood at around 80% during the peak season and averaged at ~45% for the 12 months ending September 2018. Further, cash and equivalents held to the tune of Rs. 19.2 crore as on September 30, 2018 lend comfort, which is expected to increase to more than Rs. 30 crore by March 2019.

Going forward, the company's overall liquidity position is likely to improve further with steady growth in earnings from operations and limited capital expenditure proposed.

### 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 consolidated financial profile of AVTNPL with the details of subsidiaries consolidated given in annexure 2.

### About the company

Incorporated in 1986, AVTNPL is involved in extraction and marketing of marigold oleoresins, spice oleoresins and beverages. AVTNPL's manufacturing facilities are located near Cochin in Kerala and Tiptur in Karnataka. The company is listed on the National Stock Exchange and the Bombay Stock Exchange, with the promoters holding a stake of 74.36% as on September 30, 2018. AVTNPL is a part of the larger AV Thomas Group, which has diversified business interests across agricultural commodities, tea, solvent extraction, leather, rubber, cardamom, vanilla, and spices. Some of the key entities belonging to the Group include A V Thomas and Co. Limited, AVT McCormick Ingredients Private Limited (rated at [ICRA]A-(Stable)/[ICRA]A2+) and A V Thomas Leather & Allied Products Private Limited.

### Key financial indicators (audited and consolidated)

	FY2017	FY2018
Operating Income (Rs. crore)	313.1	338.1
PAT (Rs. crore)	24.5	24.2
OPBDIT/OI (%)	14.0%	12.6%
RoCE (%)	17.4%	15.6%
Total Debt/TNW (times)	0.1	0.2
Total Debt/OPBDIT (times)	0.3	0.8
Interest coverage (times)	27.2	16.8

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

**Any other information: Not applicable**

### Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
				Jan 2019	Mar 2018	Mar 2017	Jan 2016	
1	Non fund-based limits	0.18	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	
2	Fund-based working-capital limits	29.5	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	
3	Fund-based working-capital limits	21.5	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	
4	Non fund-based limits	13.7	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	FBL – BD/EPC	-	-	-	29.5	[ICRA]A1
NA	FBL – PCFC	-	-	-	21.5	[ICRA]A(Stable)/ [ICRA]A1
NA	NFBL-LC/BG	-	-	-	13.7	[ICRA]A1
NA	NFBL- BG	-	-	-	0.18	[ICRA]A(Stable)

Source: Company data

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
AVT Tea Services Limited	100.0%	Full Consolidation
AVT Tea Services North America LLC	100.0%	Full Consolidation

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