

January 11, 2021

AVT Natural Products Limited: Long-term rating upgraded to [ICRA]A+(Stable); short-term rating reaffirmed at [ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based term loans	15.00	12.00	[ICRA]A+(Stable); upgraded from [ICRA]A(Stable)
Short-term fund-based bank facilities	70.00	74.50	[ICRA]A1; reaffirmed
Short-term non-fund-based bank facilities	13.88	11.81	[ICRA]A1; reaffirmed
Long-term/Short-term unallocated	0.00	0.57	[ICRA]A+(Stable)/[ICRA]A1; upgraded from [ICRA]A(Stable)/[ICRA]A1
Total limits	98.88	98.88	

*Instrument details are provided in Annexure-1

Rationale

The rating action reflects better-than-expected operational and financial performance of AVT Natural Products Limited (AVTNPL) in FY2020 and H1 FY2021, and the expected consistent performance over the medium term driven by its established presence and a stable order book position across key product segments, and its healthy financial profile characterised by a conservative capital structure with strong credit metrics and a comfortable liquidity position. AVTNPL's performance has been supported by steady volumes across its diversified product portfolio with increasing contribution from new products. The company's revenues are likely to grow by around 10% in FY2021. AVTNPL's operating profitability also improved in FY2020, backed by better operating efficiencies and higher revenue contribution from marigold. It is likely to reduce to around 12-13% in the current fiscal owing to the withdrawal of export incentives under the Merchandise Export Incentive Scheme (MEIS) post December 2020. AVTNPL's margin expansion, going forward, would depend on further improvement in the operating efficiency upon optimal utilisation of both the plants, and the quantum of incentives made available to the industry under the proposed Remission of Duties or Taxes on Export Products (RoDTEP) scheme.

Steady earnings from operations have limited AVTNPL's reliance on external debt, as a result of which its credit metrics remained strong. Key ratios including total debt to operating profits and interest coverage are expected to remain at comfortable levels of 0.8 times and 13 times, respectively in FY2021 and remain healthy over the medium term with no major capital expenditure envisaged. AVTNPL's financial flexibility and liquidity position also remain supported by the adequate unutilised lines of credit and cash equivalents held. The ratings also consider the high working capital intensity in the business owing to seasonal availability of raw materials. Quality and availability of the same are exposed to agro-climatic risks. The earnings remain vulnerable to fluctuations in raw material prices. The Stable outlook reflects ICRA's expectation that AVTNPL's performance will continue to be supported by its operational strength derived from its recurring order inflow from large customers across a diversified product portfolio, its established supplier base and strong capitalisation levels, despite an intense competition and high working capital requirements in the business.

Key rating drivers and their description

Credit strengths

Established operational profile – AVTNPL enjoys an established presence in the oleoresin segment, with a stable customer profile across the product categories 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. Its operational profile has also been supported by its improving product diversification, lending stability to its revenues and earnings, and limiting the impact of the downturn in any segment on the overall performance of the company. While its revenues in FY2020 were driven by the growth in the marigold segment, its performance in the current fiscal has been supported by improved revenues from the spices and beverage segments, driven by continuous focus on new products and customer additions.

Strong credit metrics – AVTNPL's financial profile remains healthy, characterised by its conservative capital structure with strong coverage metrics and a comfortable liquidity position on the back of consistent earnings from operations generated over the years. Despite the high working capital funding requirements in the business, stable accruals have limited dependence on external debt over the years. Key credit metrics including total debt to operating profits and operating profits to interest and finance charges stood at around 1.1 and 20 times, respectively in H1 FY2021.

Credit challenges

Moderate operating profitability – AVTNPL's operating margins and the return on capital employed remained at moderate levels in the recent fiscals (except in FY2020) owing to the rising revenue contribution from the lower-margin spices and beverage segments and reduction in contribution levels from the marigold segment since FY2015. Post the improvement seen in FY2020, the operating margins are expected to reduce to the earlier steady-state levels with the withdrawal of the MEIS post December 2020. Nevertheless, the overall profitability levels over the medium term would remain supported by the improving operating efficiencies and steady revenue contribution from the higher-margin marigold segment. Further, any positive outcome on the incentive structure for the industry under the proposed RoDTEP scheme would also support margin expansion. Its profitability is also exposed to agro-climatic risks and commodity price fluctuations, with competitive pressure in a fragmented industry structure, limiting the pricing flexibility.

High working capital intensity – AVTNPL's working capital intensity remains high, primarily because of the seasonal availability of raw materials, necessitating higher stock levels at the end of the procurement season for marigold and spices. While the working capital intensity levels had increased towards the end of FY2019 and the beginning of the last fiscal, owing to some delay in offtake of marigold by its largest customer, it has corrected to the steady-state levels in the recent quarters. Despite the high stock levels, demand and price risks are limited to an extent because of order-backed procurement of marigold and few spices.

Liquidity position: Strong

AVTNPL's liquidity position remains comfortable, with cash equivalents (including liquid mutual funds) of around Rs. 25 crore and a buffer in utilisation of its fund-based facilities of ~Rs. 45 crore as on September 30, 2020. Supported by the steady earnings from operations, the major portion of the company's working capital requirements has been funded through accruals, reducing dependence on external debt. Going forward, despite the working-capital intensive nature of operations, the company's liquidity position is expected to remain strong, aided by the anticipated stable cash accruals

and absence of major capital expenditure envisaged apart from the cash reserves held and adequate unutilised lines of credit.

Rating sensitivities

Positive triggers – The ratings may be upgraded if the scale of operations and earnings continue to register a consistent growth on a sustained basis to further enhance its competitive position, and the business profile becomes more diversified, lending stability to earnings. The ratings may also be upgraded if the company's ROCE improves to more than 20% on a sustained basis while maintaining its strong credit metrics.

Negative triggers – Pressure on the ratings may arise if there is any sharp decline in revenues or earnings or any significant deterioration in the working capital cycle, which would adversely impact its credit metrics and liquidity position. Specific metrics that could trigger a downgrade include the company's OPBITDA/ Interest falling below 7 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 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 74.96% as on September 30, 2020. AVTNPL is a part of the larger AV Thomas Group, which has diversified business interests across agricultural commodities, tea, solvent extraction, leather, rubber 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]A1) and AV Thomas Leather & Allied Products Private Limited.

Key financial indicators (Consolidated and audited)

	FY2019	FY2020
Operating Income (Rs. crore)	337.56	401.74
PAT (Rs. crore)	19.84	34.00
OPBDIT/OI (%)	12.35%	15.54%
RoCE (%)	12.00%	15.36%
Total Outside Liabilities/Tangible Net Worth (times)	0.55	0.37
Total Debt/OPBDITA (times)	1.85	0.67
Interest Coverage (times)	8.19	11.23
DSCR	7.27	5.96

Source: AVTNPL and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Type	Amount Rated	Rating FY2021 Amount Outstanding	Current Rating 11-Jan- 2021	Rating History for the Past 3 Years		
						FY2020 7-Jan- 2020	FY2019 7-Jan- 2019	FY2018 26-Mar- 2018
1	Fund-based term loans	LT	12.00	12.00	[ICRA]A+ (Stable)	[ICRA]A (Stable)	-	-
2	Fund-based working-capital limits	ST	74.50	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
3	Non-fund-based limits	ST	11.81	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Unallocated	LT/ST	0.57	-	[ICRA]A+ (Stable)/ [ICRA]A1	-	-	-

Amount in Rs. crore; Source: AVTNPL

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 [click here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	FBL – Term Loans	FY2019	-	FY2024	12.00	[ICRA]A+(Stable)
NA	FBL – BD/EPC/PCFC	-	-	-	74.50	[ICRA]A1
NA	NFBL-LC/BG	-	-	-	11.81	[ICRA]A1
NA	Unallocated	-	-	-	0.57	[ICRA]A+(Stable)/ [ICRA]A1

Source: AVTNPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
AVT Natural Europe Ltd.	100.0%	Full Consolidation
AVT Tea Services North America LLC	100.0%	Full Consolidation
AVT Natural S.A. DE C.V.	100.0%	Full Consolidation
AVT Natural North America Inc.	100.0%	Full Consolidation

Source: AVTNPL

Analyst Contacts

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Balaji M

+91 44 4596 4317

balaji.m@icraindia.com

Athira Jayakumar

+91 44 4596 4300

athira.jayakumar@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

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