March 31, 2022

AVT Natural Products Limited: Long-term rating reaffirmed; Short-term rating upgraded to [ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	12.00	9.00	[ICRA]A+(Stable); reaffirmed
Short-term – Fund Based Working Capital	74.50	74.50	[ICRA]A1+; upgraded from [ICRA]A1
Short-term – Non-fund based bank facilities	11.81	13.76	[ICRA]A1+; upgraded from [ICRA]A1
Long-term/Short-term – Unallocated Limits	0.57	1.62	[ICRA]A+(Stable)/[ICRA]A1+; long-term rating reaffirmed; short-term rating upgraded from [ICRA]A1
Total	**98.88**	**98.88**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has assessed the consolidated financial risk profile of AVT Natural Products Limited (AVTNPL), which includes its subsidiaries and step-down subsidiaries, given the common management and significant operational and financial linkages among them.

The reaffirmation of the long-term rating and upgrade of the short-term rating reflect the healthy operating and financial performance of the company in FY2021 and 9M FY2022 along with a sustained improvement in its liquidity position. AVTNPL is expected to maintain its performance over the medium term, driven by its established presence in the natural extracts industry and a stable order book across key product segments. These translated into comfortable coverage metrics and a healthy liquidity. AVTNPL's operating income grew by 23% YoY to Rs. 492 crore in FY2021, driven by volume growth in the spice oleoresins and beverages segments and introduction of new product lines. In 9M FY2022, the company generated revenues of Rs. 430 crore on the back of higher volumes of marigold extracts and spices. The company's operating margins expanded to 20.0% in 9M FY2022 from 15.9% in FY2021, backed by better operating efficiencies and higher revenue contribution from the high-margin marigold extracts.

The ratings continue to favourably factor in the conservative capital structure and healthy debt protection metrics of the company, characterised by Total Debt/TNW, interest cover and DSCR of 0.2 times, 23.8 times and 11.3 times, respectively as on September 30, 2021. The ratings are also supported by high revenue visibility owing to strategic agreements with key customers across a diversified product profile.

The ratings, however, continue to factor in the high working capital intensity of the business owing to seasonality in availability of raw materials which translates into high inventory holding requirements. The company's raw materials comprise agricultural commodities, which are exposed to agro-climatic risks, lending uncertainty to the business both with respect to availability and market prices. Further, its earnings remain sensitive to fluctuation in foreign exchange rates due to the company's export-oriented business model. However, management's long track-record and experience in agricultural commodities coupled with defined forex hedging practices aid in mitigating the risks to an extent.

The Stable outlook on AVTNPL's long-term ratings reflect ICRA's opinion that AVTNPL's performance will continue to be supported by its operational strengths derived from its recurring order inflows from large customers across a diversified

product portfolio. The company is also expected to benefit from the promoters' experience, established supplier base and strong capitalisation levels despite competition and high working capital intensity of the business.

Key rating drivers and their description

Credit strengths

Diversified product portfolio – AVTNPL's product portfolio includes 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 recorded greater diversification with the share of marigold extracts reducing to 35-40% of the revenues, spice oleoresins contributing 30-40% and beverages the balance 25-30%. AVTNPL enjoys 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 – AVTNPL's financial 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 0.2 times as on March 31, 2021 while the interest cover improved to 19.5 times in FY2021 from 11.2 times in FY2020. Further, the DSCR improved to 9.1 times in FY2021 from 6.0 times in FY2020. 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 – AVTNPL has entered into long-term strategic agreements with key customers, including Kemin Industries, for exclusive supply of its products. Further, it has established relationships with its large customers, which translate into repeat orders and lend high degree of revenue visibility and give stability to operations.

Experienced promoters and management team – The company is 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 – AVTNPL's revenues have high degree of customer concentration risk as the company's top-3 customers accounted for ~60% of its revenues in FY2021 and 9M FY2022. 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. Moreover, dependence on agricultural commodities exposes the company to agro-climatic risks. Although backward integration in marigold provides some control over the prices for the product segment, the company continues to depend on market prices for other commodities. Further, its earnings are vulnerable to fluctuations in foreign exchange rates as AVTNPL is an export-oriented unit (exports account for ~98% of AVTNPL's revenues). 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 – AVTNPL's working capital intensity remains high, characterised by NWC/OI of ~50%, 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.

Liquidity position: Strong

AVTNPL's liquidity is expected to remain Strong, as evident from its cash and liquid investments of Rs. 35.5 crore and undrawn working capital limits of ~Rs. 40 crore as on September 30, 2021. Against this, the company has minimal debt repayment obligations of Rs. 3.0 crore in FY2023 and Rs. 1.5 crore in FY2024 and no major capital expenditure plans. Supported by steady earnings from operations, the major portion of the company's working capital requirements has been funded through accruals, reducing dependence on borrowing. ICRA expects the company to continue to generate cash flow from operations worth ~Rs. 55-60 crore per annum over the medium term.

Rating sensitivities

Positive factors – The ratings may be upgraded if the scale of operations and earnings continue to register a sustained growth and the business profile becomes more diversified, resulting in enhanced competitive position and stability of revenues. Specific credit metrics that could result in ratings upgrade include return on capital employed (RoCE) above 20% on a sustained basis.

Negative factors – Pressure on the ratings may arise if there is any sharp decline in revenue and/or profit margins. 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 Rating Approach - Consolidation
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of AVTN as detailed in Annexure – 2.

About the company

Incorporated in 1986, AVT Natural Products Limited (AVTN) is a producer and marketer of plant-based extracts and solutions for the food, feed and nutraceuticals industries. It is involved in extraction and marketing of marigold oleoresins, spice oils and oleoresins and beverages with manufacturing facilities in Cochin (Kerala) and Tiptur (Karnataka). The company is a part of the larger A.V. Thomas Group, which has diversified business interests across agricultural commodities, tea, solvent extraction, leather, rubber and spices, among others.

The company is listed on the National Stock Exchange of India and the Bombay Stock Exchange.

Key financial indicators (audited)

AVTN Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	401.7	492.2
PAT (Rs. crore)	34.0	45.3
OPBDIT/OI (%)	15.5%	15.9%
PAT/OI (%)	8.5%	9.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.4
Total Debt/OPBDIT (times)	0.7	0.6
Interest Coverage (times)	11.2	19.5

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 (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Mar 31, 2022	Jan 11, 2021	Jan 07, 2020	Jan 07, 2019
1	Term Loan	Long-term	9.00	4.50	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A (Stable)	-
2	EPC/PCFC	Short-term	74.50	-	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A1
3	LC/BG	Short-term	13.76	-	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Unallocated Limits	Long-term/ Short-term	1.62	-	[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 Working Capital	Very Simple
Short-term – Non-fund based bank facilities	Very 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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loan	FY2019	-	FY2024	9.00	[ICRA]A+(Stable)
NA	EPC/PCFC	-	-	-	74.50	[ICRA]A1+
NA	LC/BG	-	-	-	13.76	[ICRA]A1+
NA	Unallocated Limits	-	-	-	1.62	[ICRA]A+(Stable)/[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
AVT Natural Europe Limited, UK (formerly known as AVT Tea Services Limited)	100.0%	Full Consolidation
AVT Natural S.A. DE C.V.	100.0%	Full Consolidation
AVT Tea Services North America LLC	100.0%	Full Consolidation
AVT Natural North America Inc., USA	100.0%	Full Consolidation

Source: *AVTN annual report FY2021*

Note: *ICRA has taken a consolidated view of the parent, its subsidiaries and associates while assigning the ratings.*

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Vipin Jindal
+91 124 4545355
vipin.jindal@icraindia.com

Raunak Modi
+91 8377 850550
aunak.modi@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

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.