January 07, 2020

AVT Natural Products Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based term loans	0.00	15.00	[ICRA]A(Stable); reaffirmed
Short-term fund-based bank facilities	29.50	70.00	[ICRA]A1; reaffirmed
Short-term non-fund-based bank facilities	13.70	13.88	[ICRA]A1; reaffirmed
Long-term / Short-term fund-based (inter-changeable) bank facilities	21.50	0.00	-
Long-term non-fund-based bank facility	0.18	0.00	-
Total limits	**64.88**	**98.88**	

**Instrument details are provided in Annexure-1*

Rationale

The re-affirmation of ratings reflects the steady operational performance of AVT Natural Products Limited (AVTNPL) in FY2019 and H1 FY2020, and the expected consistent operational and financial performance of the company over the medium term, supported by its established presence and a stable order book position across key product segments. AVTNPL's revenues are expected to record a growth of ~5% in FY2020 and around 8% over the medium term, primarily driven by the growth in marigold and spice oleoresin segments. Revenue growth in the recent quarters has been limited by the lower-than expected revenues from the spice oleoresin segment and the postponement in offtake of new products in the marigold segment. Moderate demand and lower offtake during a major part of January-August 2019 period also resulted in a build-up of inventory, which was funded though a mix of internal accruals, cash reserves held and higher utilisation of its working capital facilities. While the same resulted in weakening of its leverage indicators and coverage metrics for FY2019, they remained at comfortable levels and in line with the rating category medians. Further, volumes supplied in the marigold segment have improved in the recent months, which coupled with the increase in realisations witnessed is likely to support earnings and result in reduction in debt levels over the coming quarters. Key ratios including Total Debt to operating profits and interest coverage are expected to remain at comfortable levels of 1.4 times and 8 times, respectively for FY2020 and improve further 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 reserves held (which is likely to improve to more than Rs. 30 crore by March 2020).

The ratings continue to factor in AVTNPL's moderate profitability levels, which have been under pressure in the recent fiscals owing to the falling contribution levels in the marigold segment and increasing revenue contribution from lower-margin spice oleoresins and beverages segments. AVTNPL's operating margins and return on capital employed were at around 12.5% and 12%, respectively for FY2019, down from the peak levels of more than 25% each witnessed prior to FY2015 (primarily owing to the patent expiry of the drug utilising the lutein extracted from marigold). Growing revenue contribution from the higher-margin marigold segment in the recent quarters, better contribution levels generated in the new products launches and improving operating efficiencies aided by the recent manufacturing facility established in Karnataka are likely to support margin expansion for AVTNPL in the coming fiscals. 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 being exposed to agro-climatic risks and vulnerability of earnings to fluctuations in raw material prices (limited pricing flexibility because of intense competition). Nevertheless, these risks are mitigated to an extent by the operational strength derived from its recurring order inflow from large customers, a diversified supplier base and AVTNPL's comfortable financial profile. The Stable outlook reflects ICRA's expectation that AVTNPL's performance will continue to be supported by its established presence in the marigold oleoresins segment and its strong capitalisation levels, despite the competitive pressure witnessed 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. Steady growth in revenues from spice oleoresins and beverages improved its business diversification and reduced customer concentration levels in the recent fiscals.

Strong financial profile – AVTNPL's financial profile remains strong on the back of steady earnings from operations, despite high working capital requirements in the business. Apart from a sharp increase in stock levels witnessed in the recent quarters, which was partly funded with debt, a major portion of its funding requirements has been met with internal accruals over the years with limited dependence on external debt. Despite the recent increase, key ratios including gearing, total debt to operating profits and debt service coverage ratio remained comfortable at 0.3 times, 1.4 times and 9.0 times, respectively for H1 FY2020. With no major capital expenditure proposed over the medium term, steady earnings and limited funding requirements are expected to continue to support the credit profile of AVTNPL.

Credit challenges

Moderate operating profitability – The operating margins and return on capital employed of AVTNPL have remained at moderate levels, limited by the modest value addition in the spices and beverage segments (with contribution levels from the marigold being stagnant in the recent fiscals). In the coming quarters, profitability levels are expected to improve on the back of better operating efficiencies and higher value addition in the marigold segment. The margins/earnings are also exposed to agro-climatic risks and price fluctuations, with competitive pressure limiting the pricing flexibility. The risk is limited to an extent because of order-backed procurement of marigold and few spices.

High working capital intensity – AVTNPL's working capital intensity remained high because of seasonal availability of raw materials. Further, some delay in off-take of marigold by its largest customer in the recent quarters also resulted in build-up of stock levels towards the end of FY2019 and beginning of the current fiscal. Nevertheless, liquidation of stock in the recent months coupled with AVTNPL's comfortable liquidity position lend comfort.

Liquidity position: Adequate

AVTNPL's liquidity position has remained comfortable in the recent quarters (despite the increase in working capital funding requirements) supported by steady earnings from operations, cash reserves held and adequate unutilised lines of credit (post the enhancement of its fund-based working capital limits). The average utilisation of fund-based facilities averaged at around 80% for the 12 months ending November 2019. Higher inventory resulted in an increase in utilisation levels and reduction in cash equivalents (including liquid mutual fund investments) at the end of March 2019 to around Rs. 20 crore (from around Rs. 40 crore in March 2018). However, utilisation of limits has reduced to less than 50% in Q3 FY2020 and cash reserves are likely to improve to more than Rs. 30 crore by the end of FY2020. Going forward, the company's liquidity position is expected to remain comfortable, supported by the expected steady growth in earnings from operations and no 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 register a strong growth, which would further enhance its competitive position and improve its business diversification. Upward rating pressure could build up if the company's ROCE improves to more than 17% on a sustained basis.

Negative triggers – Pressure on ratings may arise if there is any significant deterioration in AVTNPL's working capital cycle, which would adversely impact its liquidity position. Specific metrics that may trigger a downgrade include the company's OPBITDA/Interest falling below 5.5 times and its utilisation of fund-based working capital limits exceeding 75% 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 74.81% as on September 30, 2019. 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-(Positive)/[ICRA]A2+) and AV Thomas Leather & Allied Products Private Limited.

Key financial indicators (Consolidated and audited)

	FY2018	FY2019
Operating Income (Rs. crore)	338.07	338.28
PAT (Rs. crore)	24.21	19.84
OPBDIT/OI (%)	12.63%	12.54%
RoCE (%)	15.58%	12.00%
Total Outside Liabilities/Tangible Net Worth (times)	0.38	0.55
Total Debt/OPBDITA (times)	0.85	1.82
Interest Coverage (times)	16.83	8.33
DSCR	12.58	7.27

Source: AVTNPL and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

				Rating FY2020		Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Current Rating 7-Jan-2020	FY2019 7-Jan-2019	FY2018 26-Mar-2018	FY2017 9-Mar-2017
1	Fund-based term loans	LT	15.00	15.0	[ICRA]A (Stable)	-	-	-
2	Fund-based working-capital limits	ST	70.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
3	Non-fund-based limits	ST	13.88	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Non-fund-based limits	LT	0.00	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
5	Fund-based working-capital limits	LT/ST	0.00	-	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[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 www.icra.in

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	15.00	[ICRA]A(Stable)
NA	FBL – BD/EPC/PCFC	-	-	-	70.00	[ICRA]A1
NA	NFBL-LC/BG	-	-	-	13.88	[ICRA]A1

Source: AVTNPL

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

Source: AVTNPL

ANALYST CONTACTS

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

Balaji M
+91 44 4596 4317
balajim@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,
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