

Press Release

AVI Agri Business Limited

January 05, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	161.00	ACUITE BBB Stable Assigned	-
Bank Loan Ratings	39.00	-	ACUITE A3+ Assigned
Total Outstanding Quantum (Rs. Cr)	200.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs. 200.00 Cr bank facilities of Avi Agri Business Limited (AABL). The outlook is '**Stable**'.

Rationale for rating assignment

The rating factors the promoter experience and the long track record of business operations of more than 3 decades and improving financial risk profile marked by gearing (debt to equity) of 1.23 times as on March 31, 2022 against 3-year average of 1.54 times. The rating also considers stable liquidity profile apparent by low working capital cycle days, adequate cash accruals against repayment obligations and moderate bank limit utilization. Further, the revenue grew at a CAGR of 32 percent through FY2020-22. However, the rating remains constrained due to modest operating margins of 3-4 percent. Further, the seasonal nature of the raw material makes it susceptible to price fluctuations, also, the company derives 35 percent of its revenue through exports, and as a result the profits are susceptible to foreign exchange fluctuation. In addition, the business is highly susceptible to changing demand patterns thereby influencing the company's operations.

About the Company

Incorporated in 2009 Avi Agri Business Limited is a public limited company with registered office located in Indore, Madhya Pradesh. The company was initially constituted as a private limited company and was converted to a closely held public limited company. The company is promoted and managed by Mr. Vinod Kumar Jain. The company is a part of AV group. AV group consists of flagship company Suraj Impex India Private Limited and other group company Excel Agri Business private Limited. AABL is engaged in the manufacturing of Soya extraction (Soya Crude Oil & De-Oiled Cake), edible oil, Lecithin Liquid and powder, Soya flour and grits and soya white flakes. The company has an aggregate seed crushing capacity of 1400 MTPD, refining capacity of 300 MTPD, Lecithin plant of 27 MTPD, Soya flour and white flakes plant of 635 MTPD. The products manufactured are used in the manufacture of animal feeds (De-Oiled Cake and Soya Hiprotein meal), Lecithin is used by pharmaceutical companies, in infant food, make-up products etc.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of AABL

Key Rating Drivers

Strengths

- **Experience of promoters and established track record of operations:**

AABL was incorporated in 2009. The company is promoted and managed by Vinod Kumar Jain. Vinod Kumar Jain has an experience of 35 years in the agro industry. The company is ISO 9001:2015 certified towards quality management. The company deals in multiple products including Soya De-oiled cake, soya crude oil, Soya hi-protein meal, Lecithin power and liquid etc. However, revenue is mainly derived by sales Soya De oil cake (22 percent), Soya Refined Oil (31 percent) and Soya Hi-protein Meal (40 percent). Soya De oil cake and Soya refined oil are sold domestically whereas Soya Hi-protein meal is exported substantially to European countries due to non-genetically modified sources. Exports accounted for 35 percent of the total sales. Acuite believes the company shall benefit due to its diverse product portfolio and promoter experience over the medium term.

- **Moderate financial risk profile**

The financial risk profile of the company is moderate marked by net worth of Rs. 142.66 Cr as on March 31, 2022 and profit after tax of Rs. 33.12 Cr in FY2022. The debt of the company reduced by Rs. 50 Cr in FY2022 to Rs. 175.35 Cr as on March 31, 2022. The company repaid inter corporate loan of Rs. 5.00. Also, the improved working capital cycle reduced short term debt by Rs. 42.92 Cr. The financial risk profile has remained moderate through FY2020-22 marked by average gearing (debt to equity) of 1.54 times. Additionally, the coverage indicators including debt service coverage ratio and interest service coverage ratio stood at 3.80 times and 5.16 times as on March 31, 2022.

- **Improving revenue albeit decline in margins**

The company earned an aggregate revenue of Rs. 1954.56 Cr in FY2022 against Rs. 1283.26 Cr in the previous year. The increase in revenue to the extent of Rs. 186 Cr is due to increase in quantity sold to 2.88 lakh MT in FY2022 from 2.51 lakh MT in FY2021, rest is attributable to price hikes. The average selling price increased from 50.92 per kg in FY2021 to 67.95 per kg in FY2022. Soymeal rates in FY2022 jumped sharply in the domestic market due to strong overseas demand and rise in soybeans prices. Despite imports, soymeal prices in the domestic market continued to rule higher. In December 2022, prices were almost 61 per cent more than the same time in the last year. Additionally, the rise in soybean prices was flagged as an issue of hoarding and undue speculation of soybean futures. Further, despite the high revenue the operating margins reduced to 3.41 percent in FY2022 against 3.44 percent in FY2021 and 4.51 percent in FY2020. As the company procures large scale order from its customer at once that it eventually supplies in smaller lots throughout the year. However, the prices towards these supplies are pre-decided at the time of order procurement. As a result the margins are highly susceptible to price deviation in case of raw material price fluctuation at the time of delivery.

Weaknesses

- **Moderately working capital intensive nature of operations**

The operations of the company are moderately working capital intensive marked by gross current asset (GCA) days of 52 against 93 in the previous year. The high GCA days is on account of inventory days of 50 against 80 in the previous year. Due to seasonality, the company maintains an adequate inventory to meet the demand. Considering, the high GCA days the bank limit utilization stood at 64 percent for the 12 month period ended September 2022. Acuite believes, the operations will remain moderately working capital intensive considering the seasonality of raw material.

- **Susceptible to volatility in agriculture commodity prices and change in Government policies**

The prices of commodities are linked to agricultural production, which, in turn, is susceptible to

monsoon, acreage, and yield. Further, the company's dependence on exports exposes it to foreign exchange fluctuation risk, the company derives 30-35 percent of its revenue through exports. Also, agricultural commodities are highly regulated by the government on the basis of domestic demand and inflationary conditions.

Rating Sensitivities

- Sustained improvement in revenue while maintaining profitability.
- Deterioration in the financial risk profile due to reduction in revenue and profitability and overall stretch in working capital cycle days.
- Debt funded capital expenditure adversely impacting the financial risk profile

Liquidity Position

Adequate

The net cash accruals (NCA) of the company stood at Rs. 43.90 Cr in FY2022 against repayment obligation of Rs. 1.82 Cr. The NCA in FY2023 and FY2024 is expected to be around 35-36 Cr against repayment obligations of Rs. 6.00 in each of those years. Further, the operations of the company are moderately working capital intensive marked by working capital cycle days 45 in FY2022 and 68 in FY2021 therefore the average 12-month bank limit utilization stood at 64 percent. In addition, the unencumbered bank and cash balance and current ratio stood at Rs. 1.54 Cr and 1.34 times as on March 31, 2022.

Outlook: Stable

Acuité believes that AABL will maintain a 'Stable' outlook over the medium term supported by experienced promoters, geographical diversification and moderate financial risk profile. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of lower than expected revenues and profit margins, leading to deterioration in financial risk profile and/or deterioration in working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1954.56	1283.26
PAT	Rs. Cr.	33.12	11.02
PAT Margin	(%)	1.69	0.86
Total Debt/Tangible Net Worth	Times	1.23	2.06
PBDIT/Interest	Times	5.16	2.45

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None.

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entitie: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of

the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria “Complexity Level Of Financial Instruments” on www.acuite.in.

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	109.00	ACUITE BBB Stable Assigned
Central Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	26.00	ACUITE BBB Stable Assigned
Punjab National Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	15.84	ACUITE BBB Stable Assigned
Union Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	3.45	ACUITE BBB Stable Assigned
Union Bank of India	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	39.00	ACUITE A3+ Assigned
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	6.71	ACUITE BBB Stable Assigned

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Pradeep Singh Senior Analyst-Rating Operations Tel: 022-49294065 pradeep.singh@acuite.in	

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.