

RATING RATIONALE

3 July 2020

Avi Agri Business Limited

Brickwork Ratings reaffirms the long term rating of BWR BBB with revision in outlook from Stable to Negative and reaffirms the short term rating of BWR A3+ for the total bank limits of ₹ 174.10 Crs. of Avi Agri Business Limited (“AABL” or “the Company”).

Particulars:

Facility***	Amount (₹ Cr)		Tenure	Rating**	
	Previous	Present		Previous (April, 2019)*	Present
Fund based	175.85	174.10	Long Term	BWR BBB/Stable (Pronounced as BWR Triple B minus) [Assigned]	BWR BBB/Negative (Pronounced as BWR triple B) [Reaffirmed with revision in outlook]
Non Fund based	(55.00)	(2.00)	Short Term	BWR A3+ (Pronounced as BWR A three plus) [Assigned]	BWR A3+ (Pronounced as BWR A three plus) [Reaffirmed]
Total	175.85	174.10	INR One hundred and Seventy four crores and Ten Lakhs Only		

*Rating was moved to Not Reviewed Category in April 2020.

**Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

*** Details of Bank facilities are provided in Annexure-I.

Rating: Ratings reaffirmed with revision in outlook

RATING ACTION / OUTLOOK

The reaffirmation of the rating continues to take comfort from extensive experience of the Company’s promoters and management in the agri-commodity industry. The rating also factors the favourable location of the processing unit which is in proximity to soybean growing areas. The rating continues to derive comfort from the comfortable financial and liquidity profile of the Company.

However, the outlook stands revised to Negative on back of the expectation of deterioration in the Company’s business risk profile owing to the demand and supply disruptions resulting from the outbreak of COVID-19 pandemic. Also, Indian Soya de-oiled cakes are less competitive compared to other



countries in the overseas market resulting in limited demand in the overseas market. The performance for the first half of FY2021 is expected to remain muted amid weaker than anticipated demand conditions. Further, the rating is also constrained on account of the significant decline in revenue and margins during FY2020 due to COVID-19 impact and susceptibility of the profitability margins to volatility in soybean prices and forex rates. The rating is also constrained by the presence of the Company in a highly competitive soya processing industry, with many known brands vying for the attention of the consumers.

Outlook: Negative

The outlook has been revised to “Negative” on back of the expected deterioration in the business profile and also the expected constraint on profitability for the soya processing companies.

KEY RATING DRIVERS

Credit Strengths:

- **Established presence with diversified portfolio:**

The Company has an established presence in the soya bean processing industry for the last one decade. Further, the Company benefits from the integrated nature of operations with total seed crushing capacity of 1400 metric tonnes per day (TPD) and oil refining capacity of 300 TPD. The Company has also set-up a plant in 2018 for manufacturing powdered lecithin with installed capacity of 25 TPD which will help the Company to diversify its revenue profile and improve profitability. The Company offers a diversified product portfolio including refined soybean oil, soya de-oiled cake, lecithin, soya grits, soya flour, soya flakes and other products.

- **Extensive experience of the promoters and management**

The Company is promoted by the Indore based Jain family and is part of the AV Group which has presence in the agri-commodities industry for more than two decades. The extensive experience of the management has helped the Company to establish long standing relationships with its customers and suppliers in the domestic as well as overseas market.

- **Favourable location of the plant**

The manufacturing unit of the Company is favourably located in Ujjain, Madhya Pradesh a leading soybean producer state in the country. Further, the Company has set-up an authorised collection center at its unit to source soya bean seeds from local farmers. Hence, the Company benefits from low transportation cost and easy access to soybean seeds because of its proximity to raw material sources. The Company has also established mutually beneficial relationships with the nearby soya farmers, which helps in ensuring a regular supply of the seeds.

- **Comfortable Financial Risk Profile**

The Company also benefits from a comfortable financial risk profile marked by modest tangible net worth of Rs. 97.55 crores as on 31.03.2020 (provisional) as against Rs. 91.43 crores in the previous year. The gearing is comfortable at 1.35 times as on 31.03.2020 (provisional) as against 1.24 times in the previous year. The debt protection metrics is comfortable with interest coverage



at 2.16 times and debt service coverage ratio at 1.42 times as on 31.03.2020 (provisional). The Company is expected to maintain a comfortable financial risk profile going forward in the absence of a major debt funded capital expenditure plan over the near to medium term.

Credit Risks:

- **Impact of COVID-19 on revenue and margins**

The Company has reported a significant decline of around 33 percent in revenue FY 2020 due to decline in demand for soya de-oiled cake both in the domestic & overseas poultry sector following the outbreak of COVID-19 pandemic.. The operating margin has marginally deteriorated to 4.44% during FY2020(provisional) as against 4.65% in FY2019 however profit after tax (PAT) margin declined to 0.71% during FY2020(provisional) from 1.10% in FY2019 mainly on account of decline in operating profit and non-operating income. The performance of the Company is expected to remain under pressure during the FY2021 as well on account of the demand disruptions.

- **Susceptibility of the profitability to volatility in soybean prices and forex rate**

The main raw material required by the Company is soya bean seeds, the prices of which are highly volatile in nature. This is because it depends on the prices in the international market. Further, the operations are vulnerable to agro-climatic risks, which can affect the availability of soya bean seeds in adverse weather conditions. The profitability is also vulnerable to volatility in forex rate in the absence of adequate hedging mechanism as the company derives around 22 percent of its revenue from exports.

- **Presence in the highly fragmented and competitive industry**

The Company operates in a highly fragmented and competitive soya processing industry consisting of both large and small players. The Company faces stiff competition from both local and international players.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale). BWR has principally relied upon the standalone audited financials up to FY19 and provisional financials for twelve months ended as on 31.03.2020, publicly available information and clarification/information provided by the Company.

RATING SENSITIVITIES

Positive: The rating outlook can be revised to Stable from Negative if there is:

- Improvement in the operating income and profitability resulting in the improvement in the debt coverage indicators.
- Significant reduction in external debt of the Company.

Negative: The rating could be downgraded if there is:

- Significant decline in operating income and profitability leading to deterioration in debt coverage indicators and liquidity profile of the Company.
- Majorly debt funded capacity expansion plan resulting in highly leveraged capital structure.

LIQUIDITY POSITION: ADEQUATE

AABL has reported net cash accruals of Rs. 19.76 crores for FY 2020 (provisional) as against annual debt repayment obligation of Rs. 1.75 crores. The current ratio stood at 1.31 times as on 31.03.2020 (provisional). Further, the average working capital utilisation is comfortable at around 70 percent for the period from September 2019 to May 2020. The Company has not availed for the moratorium period available under the COVID-19 scheme and neither the Company is planning to apply for enhancement in the existing working capital limits. The Company also does not have any debt funded capital expenditure plan over the near to medium term. The long term borrowings includes only inter-corporate unsecured loan of Rs. 24.57 crores as on 31.03.2020 which is expected to be repaid over the next two years through internal accruals.

COMPANY PROFILE

Avi Agri Business Limited was initially incorporated in the year 2009 as a private limited Company with a registered office located in Indore, Madhya Pradesh and commenced its operations in the year 2010. Subsequently in the year 2016, the constitution of the Company was converted to a closely held public limited Company under the present name. The Company is presently promoted by Excel Agri Business Private Limited, Suraj Agri Business Pte. Limited, Koyna Enterprises Private Limited and Mr. Vinod Kumar Jain. The day to day operations of the Company is handled by Mr. P.K. Vyas and Mr. Mahendra L. Jalori as the directors of the Company alongwith team of experienced professionals. The Company is engaged in soya bean processing by carrying out solvent extraction and oil refining activities. The Company sells a wide range of products including refined soybean oil, high protein de-oiled cake, soya lecithin, soya grits, soya flour, soya flakes, powdered lecithin and other products. The manufacturing unit of the Company is located in Ujjain, Madhya Pradesh with a solvent extraction capacity of 1400 metric tonnes per day (MTPD), oil refining capacity of 300 MTPD and powder lecithin capacity of 25 MTPD. The key raw material required is soybean seeds which are mainly procured from farmers & traders mainly located in Madhya Pradesh. The Company derives around 22 percent of its revenue from export to Southeastern and European countries against letter of credit at sight while remaining 78 percent is derived from sale to domestic markets located in all over India. The Company is part of the AV group which is engaged in a similar line of business.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY2018	FY2019
Result Type		Audited	Audited
Operating Revenue	Rs. Crs	839.24	1277.28
EBITDA	Rs. Crs	46.90	59.40
PAT	Rs. Crs	12.41	14.05
Tangible Net worth	Rs. Crs	77.38	91.43
Total Debt/Tangible Net worth	Times	2.87	1.24
Current Ratio	Times	0.99	1.44

As per FY 2020 provisional financials, AABL has reported an operating income of Rs. 853.15 crores and profit after tax of Rs. 6.05 crores. AABL has reported tangible net worth of Rs.97.55 crores as against total debt of Rs.131.35 crores as on 31.03.2020.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

The terms of sanction include standard covenants normally stipulated for such facilities.

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : Not Applicable

RATING HISTORY FOR THE PREVIOUS THREE YEARS [INCLUDING WITHDRAWAL AND SUSPENDED]

Instrument / Facilities	Current Rating			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	2020	5, Apr, 2019	2018
Fund Based	Long Term	174.10	BWR BBB/ Negative (Reaffirmed with revision in outlook)	-	BWR BBB /Stable (Assigned)	-
Non Fund Based	Short Term	(2.00)	BWR A3+ (Reaffirmed)	-	BWR A3+ (Assigned)	-
Total		174.10	INR One Hundred and Seventy Four Crores and Ten Lakhs Only			



COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Rating Criteria for Manufacturing Companies](#)

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Avi Agri Business Limited

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1.	Punjab National Bank	Cash Credit	109.00	-	109.00
2.		Export Packing Credit (Sublimit of Cash Credit)	-	(109.00)	(109.00)
3.		FOBP/FOUBP/FOBNLC/FOUBNLC (Sub limit of Cash Credit)	-	(109.00)	(109.00)
4.		Letter of Credit (Sub limit of Cash Credit)	-	(2.00)	(2.00)
5.	Central Bank of India	Cash Credit	26.10	-	26.10 [^]
6.		Export Packing Credit (Sublimit of Cash Credit)	-	(26.10)	(26.10)
7.		EBN/EBP/EBD/EBRD (Sub limit of Cash Credit)	-	(26.10)	(26.10)
8.	Union Bank of India	Export Packing Credit	39.00	-	39.00
9.		Cash Credit (Sublimit of Export Packing Credit)	(39.00)	-	(39.00)
10.		FOBP/FUDBP (Sublimit of Export Packing Credit)	-	(39.00)	(39.00)



TOTAL	174.10
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^Includes sub limit of bank guarantee to the tune of Rs. 2.00 crores.

Total Rupees One Hundred and Seventy Four Crores and Ten lakhs only.

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