Rating Rationale

Avi Agri Business Limited

5 April 2019

Brickwork Ratings assigns the long term and short term rating for the Bank Loan Facilities amounting to ₹ 175.85 Crores of Avi Agri Business Limited. ('AABL' or 'The Company')

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based	1.75	Long Term	**BWR BBB** (Pronounced as BWR triple B) **Outlook: Stable** **[Assigned]**
	174.10	Short Term	**BWR A3+** (Pronounced as BWR A three plus) **[Assigned]**
Non Fund Based	(55.00)	Short Term	**BWR A3+** (Pronounced as BWR A three plus) **[Assigned]**
Total	175.85	Rupees One Hundred and Seventy Five crores and Eighty Five Lakhs Only	

*Please refer to BWR website www.brickworkratings.com/ for a definition of the ratings.
Complete details of Bank facilities are provided in Annexure-I

Long term and Short term ratings Assigned

Rationale/Rating sensitivities:
BWR has essentially relied upon the company's audited financial results of FY16 to FY18, projections for FY19 to FY20, publicly available information and clarifications/information provided by the management.

The ratings draw strength from the extensive experience of promoters & management and established position of AABL in the soya bean processing industry. Further, the rating also derives comfort from the company's favourable location which provide proximity to source of key raw material and moderate financial risk profile.

The ratings are, however, constrained by geographic concentration and vulnerability of profitability due to volatility in raw material prices. Further, the rating is also constrained by the company's presence in highly fragmented and competitive soya bean processing industry.

The ability of the company to substantially improve its revenue and profitability, improve its capital structure while maintaining comfortable liquidity profile will be the key rating sensitivity factor.

Description of Key Rating Drivers:
Credit Strengths:

- **Promoters Experience:** The promoter of the company Mr. Vinod Kumar Jain has more than three decades of experience in the agro-commodity industry. Further, the managing director. Mr. Mahendra Lakhichand Jalori has more than three decades of experience in solvent extraction and edible oil refining industry. The director of the company Mr. Praveen Kumar Vyas also has more than three decades of experience in this industry. The extensive experience of the promoter and management has helped the company to establish long standing relationships with its customers and suppliers in the domestic as well as overseas market.

- **Established presence with diversified product 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 (MTPD) and oil refining capacity of 300 TPD. The company has also set-up plant for manufacturing powdered lecithin with installed capacity of 25 TPD. This helps the company to improve its revenue and profitability.
  The company offers a diversified product portfolio including refined soyabean oil, soya de-oiled cake, lecithin, soya grits, soya flour, soya flakes and other products.

- **Location Advantage:** 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 authorised collection center at its factory to source soya bean seeds from local farmers, which is the main raw material for production of soya bean products.

- **Moderate Financial Risk Profile:** The company has moderate financial risk profile marked by modest adjusted tangible net worth of Rs.102.38 crore as on 31.03.2018 as against Rs. 64.90 crore in the previous year (for arriving at the networth, the unsecured loan from related parties to the tune of Rs. 25.00 crores has been considered as part of the equity as same is subordinated to bank debt). The gearing is comfortable adjusted debt to equity ratio stood at 1.93x as on 31.03.2018 as against 3.80x in the previous year. The debt protection metrics is comfortable with interest coverage ratio at 2.08X and debt service coverage ratio at 1.28X for FY2018. The adjusted total outside liabilities to tangible net worth (TOL/TNW) stood at 2.06x as on 31.03.2018 as against 3.06x in the previous year.

Credit risks:

- **Product Concentration:** The company derives around 41 percent of its revenue from the sale of soya de-oiled cakes to southeast asian and european countries along with domestic market. Indian soybean meal (SBM) is non-GMO (Non Genetically Modified) hence carries a premium; however India's exports depends on competitive pricing as against pricing of SBM by USA, Argentina and Brazil. Hence, any decline in demand for the product from these countries can adversely impact the operations and profitability of the company. However, the proportion of de-oiled cakes in the total sales mix has reduced from ~45 percent in FY 2016-17 to ~41 in FY 2017-18. This is in line with the company's strategy to increase the proportion of value added products as compared to de-oiled cakes in the total sales mix.

- **Operations and profitability is vulnerable to volatility in raw material 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.

- **Highly fragmented and competitive soya processing industry:**The company operated in a highly fragmented soya processing industry consisting of both large and small players. The company faces stiff competition from both local and international players.

Liquidity Position:
The company has reported strong growth in net cash accruals from Rs. 11.66 crore in FY 2017 to Rs. 21.20 crore in FY 2018 against annual debt repayments of Rs. 9.35 crore. The company has reported low current ratio as same stood at 0.99x as on 31.03.2018. However the net cash flow from operating activities is comfortable as same stood at Rs. 35.85 crore for FY 2018 as against negative cash flow of Rs. 28.93 crore in the previous year. Further, the company's average cash credit limit utilisation stood at around 66 percent for the last six months ended as on 28th February 2019. Hence, BWR expects the company to maintain comfortable liquidity profile in the absence of any major debt funded capex plan and moderate incremental working capital requirements.

Analytical Approach:
While assigning the Ratings, BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

Rating Outlook: Stable
BWR believes that **Avi Agri Business Limited's** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures resulting in sharp deterioration in the company's financial risk and liquidity profile.

About the Company:
AABL was originally incorporated as "Avi Agri Business Private Limited" in March 2009 by Mr. Vinod Kumar Jain and family in Ujjain, Madhya Pradesh . In 2016, the constitution of the company was changed to public limited company and name changed to its present name.

AABL is engaged in soya bean processing and carries out solvent extraction and oil refining activities. The company sells a wide range of products including refined soyabean oil, high protein de-oiled cake, soya lecithin, soya grits, soya flour, soya flakes and other products.The manufacturing unit of the company is located in Ujjain, Madhya Pradesh with solvent extraction capacity of 1400 MTPD, oil refining capacity of 300 MTPD and powdered lecithin capacity of 25 MTPD. The company derives around 28 percent of the revenue from exports to overseas market and remaining 72 percent from domestic market. The company procures the main raw material soya bean seeds from the local farmers in Madhya Pradesh.

Company Financial Performance:
The Company has recorded a TOI of Rs. 839.24 Crs in FY18 vs. a TOI of Rs. 756.54 Crs in FY17. PAT has increased to Rs. 12.41 Cr in FY18 from Rs. 2.65 Cr in FY17. During the current financial year, the company has achieved a TOI of Rs. 898.16 Crs and a PAT of Rs. 14.47 Crs for FY19 (9M).

Rating History for the last three years:

Sl. No.	Instrument/Facility	Current Rating (Year 2019)			Rating History		
		Type	Amount (Rs Crs)	Rating	2018	2017	2016
1	Fund Based	Long Term	1.75	BWR BBB (Pronounced as BWR triple B) Outlook: Stable [Assigned]	NA	NA	NA
		Short Term	174.10	BWR A3+ (Pronounced as BWR A three plus) [Assigned]	NA	NA	NA
3	Non Fund Based	Short Term	(55.00)	BWR A3+ (Pronounced as BWR A three plus) [Assigned]	NA	NA	NA
	Total: Rs. 175.85 Crs (Rupees One Hundred and Seventy Five crores and Eighty Five Lakhs Only)						

Status of non-cooperation with previous CRA:- Not Applicable

Any other information:- Not Applicable

Key Financial Indicators

Key Financial Figures			
Particulars	**Unit**	**FY18 (Audited)**	**FY17 (Audited)**
Operating Income	Rs. Crores	839.24	756.54
EBITDA	Rs. Crores	46.90	34.43
PAT	Rs. Crores	12.41	2.65
Adjusted Tangible Net Worth	Rs. Crores	102.38	64.90
Adjusted Total Debt	Rs. Crores	197.42	246.37
Adjusted Total Debt : Equity	Times	1.93	3.80
Current Ratio	Times	0.99	0.89

Avi Agri Business Limited

Bank Facilities

Annexure - I

Facilities	**Tenure**	**Amount (₹ Crores)**
Export Packing Credit	Short Term	174.10
Term Loan	Long Term	1.75
Sublimit of Export Packing Credit: Cash Credit	Long Term	(174.10)
Sublimit of Export Packing Credit: EBN/EBP/EBD/EBRD	Short Term	(109.00)
Sublimit of Export Packing Credit: FOBP/FOUBP/FOBNLC /FOUBNLC	Short Term	(26.10)
Sublimit of Export Packing Credit: FOBP/FOUBP	Short Term	(39.00)
Sublimit of Export Packing Credit: Letter of Credit	Short Term	(55.00)
Total		**175.85**

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Short Term Debt
- Manufacturing Companies

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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