

Stock Update

AVT Natural Products Ltd.

May 16, 2022





AVT Natural Products Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Solvent Extraction	Rs. 93.2	Buy in Rs. 90-96 band and add more on dips in Rs. 81-85 band	Rs. 108	Rs. 124	2-3 quarters

HDFC Scrip Code	AVTNATEQNR
BSE Code	519105
NSE Code	AVTNPL
Bloomberg	AVTH IN
CMP (May 13, 2022)	93.2
Equity Capital (RsCr)	15.2
Face Value (Rs)	1
Equity Share O/S (Cr)	15.2
Market Cap (RsCr)	1419
Book Value (Rs)	21
Avg. 52 Wk Volumes	495663
52 Week High	135.7
52 Week Low	52.75

Share holding Pattern % (Mar, 2022)	
Promoters	75.0
Institutions	0
Non Institutions	25.0
Total	100.0



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

AVT Natural Products Ltd (AVT) was incorporated in 1994 by the AV Thomas Group to diversify itself from the traditional plantation business. AVT is a leading manufacturer of plant-based extracts and natural ingredients solutions for the food, beverage, animal nutrition and nutraceutical industries of the world.

Founded in 1925 as a plantation company, AVT (A. V. Thomas Group) is a family owned, professionally managed group of companies with its headquarters in Chennai, India. The group's business interests include Plantations (tea, rubber, coffee and spice plantations), Consumer Products (tea, coffee and spices), Leather Goods, Medical Appliances (manufactures and markets Rusch Foley Catheters and distributes several other products in India), Biotechnology (plant tissue culture), Commodity Exports (spices, natural rubber, coir products and food items), Logistics (licensed custom agents, air & sea cargo agents and warehousing), Trading & Agencies (building materials, rubber chemicals etc) and Food & Feed Ingredients (via AVT Natural Products Ltd, AVT Integrated Spice Project and AVT McCormick Ingredients Pvt Ltd). The group's products have a fair brand value in South India and the family is respected for its business acumen. AVT has good credibility due to its long presence in the region and industry.

On March 14, 2022, we had initiated coverage ([Link](#)) on the stock with a recommendation to 'Buy in Rs 97-102 band add more on dips in Rs 87-91 band' for base case fair value of Rs 112 and bull case fair value of Rs 124. The stock had achieved our base case target on March 14, 2022 and bull case target on March 16, 2022.

Valuation & Recommendation:

AVT is a leading manufacturer of plant-based extracts and natural ingredients solutions. At its core, the company is focused on replacing synthetic additives, colours and flavourings with natural alternatives. In the past, products AVT produced answered customers' requests for specific ingredients. However, going ahead, with focus on R&D, the company looks to transform itself from product to solution based offerings provider. This should aid the profitability expansion whilst reducing the exposure to individual clients with widening of product basket.

Besides food ingredients, the company is the largest player in specialty teas (decaffeinated and instant) and is poised to capitalize on benefits of capacity expansion and increasing market share of instant tea products leading to better margin realization.



As per Transparency Market Research, the global marigold oleoresin market is estimated to reach US\$ 65.8 Mn in 2022. The global market is predicted to rise at a CAGR of 7.6% during the forecast period, from 2022 to 2032. The global marigold oleoresin market is anticipated to attain the valuation of US\$ 136.7 Mn by 2032. The demand for marigold oleoresins is likely to rise due to the steadily increasing use of natural coloring additives in different foods and drinks. Growing consumer preference for clean label as well as healthy & organic substances in food & beverages is likely to drive the global marigold oleoresin market. The global market is also being supported by the growing usage of marigold oleoresin in different end-use industries such as personal care & cosmetics, food & beverages, and pharmaceuticals. Marigold Oleoresins contribute 35% of sales of AVT in FY21.

AVT has reported a mixed financial performance over past decade. In FY10-14, the company witnessed revenue growth at ~35% CAGR, however, the growth plunged to 3.2% CAGR over FY14-18. Reporting a turnaround, the company grew at 20% CAGR over FY19-21. Going ahead, we expect the company to report ~15% CAGR growth over FY21-24E largely driven by instant tea and animal nutrition business. We expect margins to be in the range of 18-20% going ahead from as company transitions from commodity player to value added player. PAT likely to grow at 28% CAGR over FY21-24E.

The promoter groups' good reputation is also reflected in the financials of the company, which don't have any indication of misallocation of funds. Given the non-capital intensive nature of solvent extraction industry, the capex requirement is limited. The company, however, is planning to double its instant tea capacity with moderate capex requirement. Thus, with increasing profitability and reducing working capital requirements coupled with lower capex requirement, the company will generate superior RoCE going ahead.

Post our initiation on the company ([Link](#)), the stock hit our bull case target within three days, however, given the correction in broader markets, the stock has corrected ~31% from its recent highs. We continue to believe the fundamentals of company remain strong and recent correction only makes the company a more attractive risk-adjusted investment.

Key Risks: high working capital intensity, low barriers to entry, high volatility in raw material prices, high dependence on Kemin

We think the base case fair value of the stock is Rs 108 (17.0x FY24E EPS) and the bull case fair value of is Rs 124 (19.5x FY24E EPS). Investors can buy the in stock Rs 90-96 band (14.6x FY24E EPS) and add more on dips to Rs 81-85 (13.0x FY24E EPS) band.



Financials:

Income Statement

Particulars (Rs Cr)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	339	396	485	572	655	739
Growth (%)	3.4	16.9	22.4	18.0	14.5	12.8
Operating Expenses	297	339	414	464	532	599
EBITDA	42	57	71	109	124	140
Growth (%)	27.9	36.9	24.8	52.7	13.9	13.4
EBITDA Margin (%)	12.3	14.4	14.7	19.0	18.9	19.0
Depreciation	11	14	15	15	16	18
Other Income	4	7	9	8	9	10
EBIT	35	50	65	102	117	133
Interest expenses	5	6	4	5	5	3
PBT	30	45	61	97	112	130
Tax	9	11	15	24	28	33
PAT	21	34	45	72	84	97
Share of Asso./Minority Int.	0.0	0.0	0.0	0.0	0.0	0.0
Adj. PAT	7	34	45	72	84	97
Growth (%)	-75.5	414.4	33.2	59.7	15.9	15.6
EPS	0.4	2.2	3.0	4.7	5.5	6.4

Balance Sheet

Particulars (Rs Cr)As at March	FY19	FY20	FY21	FY22E	FY23E	FY24E
SOURCE OF FUNDS						
Share Capital	15	15	15	15	15	15
Reserves	236	260	295	355	425	507
Shareholders' Funds	252	275	310	370	441	522
Minority Interest	0	0	0	0	0	0
Total Debt	81	42	50	68	46	26
Net Deferred Taxes	7	3	3	3	3	3
Total Sources of Funds	340	320	363	441	489	551
APPLICATION OF FUNDS						
Net Block & Goodwill	98	99	89	79	85	82
Investments	7	0	0	0	0	0
Other Non-Curr. Assets	7	6	4	9	8	9
Total Non-Current Assets	112	105	93	88	93	91
Inventories	144	123	164	204	207	239
Debtors	82	75	102	123	134	150
Cash & Equivalents	12	19	16	37	66	86
Other Current Assets	39	56	50	69	79	85
Total Current Assets	276	272	333	433	486	560
Creditors	35	23	38	45	47	56
Other Current Liab & Provisions	14	35	25	35	44	44
Total Current Liabilities	49	58	63	80	91	100
Net Current Assets	227	214	270	353	396	460
Total Application of Funds	340	320	363	440	489	551



Cash Flow Statement

Particulars (Rs Cr)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	29.9	44.8	60.6	96.7	112.1	129.6
Non-operating & EO items	0.1	-3.0	-1.7	-4.6	1.7	-0.3
Interest Expenses	5.0	5.2	3.5	5.3	4.8	3.1
Depreciation	10.9	13.7	15.2	14.8	16.2	18.1
Working Capital Change	-66.9	23.3	-54.5	-61.3	-15.8	-44.0
Tax Paid	-8.6	-13.5	-15.3	-24.4	-28.2	-32.7
OPERATING CASH FLOW (a)	-29.6	70.6	7.6	26.4	90.7	73.9
Capex	-20.4	-14.5	-5.0	-5.0	-22.0	-15.0
Free Cash Flow	-50.0	56.1	2.6	21.4	68.7	58.9
Investments	23.6	0.0	0.0	0.0	0.0	0.0
Non-operating income	0.5	0.3	0.6	0.0	0.0	0.0
INVESTING CASH FLOW (b)	3.7	-14.2	-4.4	-5.0	-22.0	-15.0
Debt Issuance / (Repaid)	41.1	-35.4	8.2	17.5	-21.4	-20.4
Interest Expenses	-5.1	-5.3	-3.8	-5.3	-4.8	-3.1
FCFE	10.1	15.7	7.7	33.6	42.5	35.4
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0	0.0
Dividend	-7.3	-8.3	-9.9	-12.2	-13.7	-15.2
FINANCING CASH FLOW (c)	28.7	-49.0	-5.4	0.0	-39.9	-38.7
NET CASH FLOW (a+b+c)	2.8	7.4	-2.2	21.5	28.8	20.1

Key Ratios

Particulars	FY19	FY20	FY21	FY22E	FY23E	FY24E
Profitability Ratios (%)						
EBITDA Margin	12.3	14.4	14.7	19.0	18.9	19.0
EBIT Margin	10.3	12.7	13.3	17.8	17.8	17.9
APAT Margin	1.9	8.6	9.3	12.6	12.8	13.1
RoE	2.7	12.9	15.5	21.3	20.7	20.1
RoCE	11.5	15.5	19.1	25.6	25.3	25.7
Solvency Ratio (x)						
Net Debt/EBITDA	1.7	0.4	0.5	0.3	-0.2	-0.4
Net D/E	0.3	0.1	0.1	0.1	0.0	-0.1
PER SHARE DATA (Rs)						
EPS	0.4	2.2	3.0	4.7	5.5	6.4
CEPS	1.1	3.1	4.0	5.7	6.6	7.6
BV	16.5	18.0	20.4	24.3	28.9	34.3
Dividend	0.4	0.6	0.7	0.8	0.9	1.0
Turnover Ratios (days)						
Debtor days	78	72	67	72	72	70
Inventory days	128	123	108	118	114	110
Creditors days	37	26	23	26	26	25
VALUATION						
P/E	214.7	41.7	31.3	19.6	16.9	14.6
P/BV	5.6	5.2	4.6	3.8	3.2	2.7
EV/EBITDA	35.5	25.3	20.4	13.3	11.3	9.7
EV / Revenues	4.4	3.6	3.0	2.5	2.1	1.8

(Source: Company, HDFC sec)



AVT Natural Products Ltd.

One-year Share Price Movement:



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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AVT Natural Products Ltd.



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