

Current	Previous
CMP : Rs.46	
Rating : BUY	Rating : NR
Target : Rs.69	Target : NR

(NR-Not Rated)

STOCK INFO	
BSE	519105
NSE	AVTNPL
Bloomberg	AVTH.IN
Reuters	AVTN.BO
Sector	EDIBLE OILS & SOLVENT EXTRACTION
Face Value (Rs)	1
Equity Capital (Rs mn)	152
Mkt Cap (Rs mn)	6,586
52w H/L (Rs)	50.70/14.35
1m Avg Daily Volume (BSE)	260,490

Source: BSE, NSE India, Capitaline, Company, IndiaNivesh Research

SHAREHOLDING PATTERN	%
(as on June 2014)	
Promoters	74.33
FIIs	0.00
DIIIs	0.05
Public & Others	25.62

Source: BSE, NSE India, Capitaline, Company, IndiaNivesh Research

STOCK PERFORMANCE (%)	1m	3m	12m
AVT NATURAL	9.11	41.54	179.33
NIFTY	4.53	9.61	35.69

Source: BSE, NSE India, Capitaline, Company, IndiaNivesh Research

AVT Natural Products Limited (AVT Natural) is located in port city of Cochin, Kerala, India. It is an export oriented undertaking primarily into agricultural based businesses. The company specializes in extraction of colors and flavors from natural source. AVT Natural is a world leader in Nutraceutical grade Marigold Oleoresins. It is major supplier of Spice Oleoresins and Essential Oils. The company is striving hard to become leading player in Decaffeinated Tea and Nutraceutical products. AVT Natural being located in a port city enjoys strategic advantage of not only being closer to the source of raw materials but also excellent logistics for exports through sea route.

Key rationales for accumulating AVT Natural:

- 1) AVT Natural was formed in 1986 doing marigold cultivation on 200 acres of land during initial years. It has grown manifold since then. **The area under marigold cultivation now covers over 35,000 acres of land, producing around 100,000 metric tonnes of flowers by engaging more than 30,000 loyal farmers.** It is one of the principal players in the manufacture of Marigold Food grade/Nutraceutical grade products in the global market.
- 2) **Presently, Marigold business accounts for nearly 65 percent of annual revenues. It has state of the art backwardly integrated facilities making it one of the lowest cost Marigold Oleoresin producers in the world.** The company has one of the finest systems and processes in place having traceability from the farmer to the finished product adhering to stringent quality checks throughout the processes. Extraction facility complies with global food safety standards credited with several international certifications. The company has a dedicated R&D and Process Development facility having state of the art equipments and infrastructures to meet continuous evolution and new demands of market.
- 3) **Marigold Oleoresin is a dark brown viscous liquid extracted from marigold flower having characteristic herbal note; a natural pigment used in food& beverages as coloring agent and feed additives, in cosmetics for perfumes & skin wash products and in pharmaceuticals for eye care and skin health.** On heating it dissolves in oil, producing strong bright colour depending on its concentration. It is also used as animal feed which enhances yellow colour of egg yolk. The company is also a vendor to a certified unit of Kemin Foods, the world's largest producer of Lutein from marigold.
- 4) **To compete from low cost feed grade marigold extract exporters from China, the company has set up a representative office in China.** AVT Natural has strong plans to go in for a backward integration in China thereby de-risking impact of climatic changes and vagaries of nature to large extent. This will place AVT Natural more firmly whereby it can offer two country options to its customer while capitalizing on benefits of lower cost of production and favorable climatic conditions. While China continues its dominance in feed grade marigold extract, India retains the edge in food grade extracts for Nutraceutical sector.
- 5) AVT Natural is focused to grow its product and market diversification. **It has forayed into Value Added Beverages vertical where "Decaffeinated Tea" product is doing well overseas. Other products offered are Green Tea and Instant Black Tea.** It has set up a solvent based extraction plant in Cochin having processing capacity of 7000 MT for Decaffeinated Tea wherein caffeine is removed without compromising tea quality. Production capacity of "Instant Tea Plant" was enhanced by 1000-1200 MT in the existing extraction plant at Cochin towards the end of 2013-14. The company expects capacity utilization of Decaffeination plant to pick up from around 50% in FY'14 to around 75% -

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80% by end of FY'17. The company has set up a subsidiary in UK to meet growing demand for Decaffeinated Tea.

- 6) **AVT Natural has forayed into condition-specific health supplements under the brand name of "Optim Health" in select cities during second half of 2013-14.** It is a niche segment where the company has soft launched exclusive range of products in few select cities for now. Optim Health is a line of quality dietary supplements aimed at meeting nutritional needs. The condition-specific health supplements addresses needs such as Immune Support, Digestion Support, Blood Sugar Support, Cardiovascular Health, Weight Control, Stress and Multivitamin Support. The products are available to consumer through OTC channel of Chemists and Modern Trade stores.
- 7) **Optim Health products and Decaffeinated Tea product has potential of being major revenue grosser going forward.** Decaffeinated Tea is a new concept product among tea consumers which is picking up fast in UK while Nutraceutical health supplements market size is expanding at a fast pace. AVT Natural looks decently poised to reap advantage of both.
- 8) AVT Natural stands on strong balance sheet being net debt free as on 31st March 2014. **Its revenue grew at a CAGR of around 36% in last 4 years, in an economically tough global environment.** During the same period Shareholders fund posted CAGR of 35% while that for fixed assets gross block came at 7%, depicting management's resolve to add on capacities despite challenging environment. Profit after tax delivered a CAGR of 57% and cash & bank balance had a CAGR of 48% from FY'10 to FY'14.
- 9) Q1FY15 saw revenue rise by 38.54% y-o-y while PAT slipped by (1.83%) y-o-y due to lower blended realization as there was sharp decline in prices of company's flagship products especially Marigold Oleoresins. Going forward we expect blended realization to improve as contribution to top line from Decaffeinated Tea along with Optim Health products picks up. Further company is poised to capitalize on benefits of capacity expansions of Value Added Beverages and increasing market share of Optim Health products leading to better margin realization.
- 10) **Assuming the company is able to sustain its top line growth momentum picked up in Q1FY15, we expect AVT Natural to deliver over 25% revenue growth in FY'15.** Based on annualized consolidated PAT margin of 14.50% (same as in FY'14); its FY'15 EPS works out to be Rs 3.45. **Valuing the company at P/E multiple of 20x for FY'15 the target stock price comes at Rs 69.**

We recommend buy and accumulate on 'AVT Natural' for a target price of Rs 69.

YE March (Rs. Crores)	REVENUE	EBITDA	PAT	EBITDA %	PAT %	EPS (Rs.)	P/E (x)
FY12A	239.21	90.22	54.78	37.72%	22.90%	3.59	12.05x
FY13A	267.10	83.33	47.78	31.20%	17.89%	3.14	13.77x
FY14A	290.44	74.44	42.08	25.63%	14.49%	2.76	15.67x

Source: BSE, NSE India, Capitaline, Company, IndiaNivesh Research



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