

## ACRA AFFIRMS BBB(RU) TO JSC AVANGARD-AGRO, OUTLOOK STABLE, AND BBB(RU) TO BOND ISSUES

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The credit rating of **JSC Avangard-Agro** (hereinafter, Avangard-Agro, or the Company) has been affirmed due to the Company keeping its credit metrics within the ranges established for the rating level.

The rating is based on the Company's standalone creditworthiness assessment (SCA) at bbb, which includes event risk. This risk stems from a possible deterioration in the financial standing of other related companies controlled by the controlling shareholder, which may have negative consequences for Avangard-Agro.

The SCA is based on the high assessment of geographic diversification, medium assessment of the business profile (taking into account the significant share of products with high added value), and the medium assessments of product diversification and vertical integration. The SCA is supported by Avangard-Agro's medium financial risk profile, which in turn stems from very high profitability, medium leverage, high coverage, and medium assessments of the Company's size and liquidity. The weak free cash flow (FCF) margin limits the Company's financial risk profile.

Avangard-Agro is an agroholding focused on cereals and technical crops in the northern and central areas of Russia's Central Black Earth Region. The Company manages 450,000 hectares of farmland; its agricultural machinery fleet includes 500 combine harvesters, 1,300 tractors, and 1,600 vehicles.

### KEY ASSESSMENT FACTORS

**High geographic diversification assessment and medium business profile assessment.** The Company has the necessary production infrastructure for growing the main types of agricultural crops, as well as its own facilities for the production of malt (obtained from processing its own barley and wheat). The product portfolio of crops is well diversified, including wheat and barley, which account for most of the harvest, sugar beet, sunflower, and corn. Geographic diversification takes into account the well-developed logistics chain for selling the Company's products, which include a high share of exports (around 35% in 2022). The main products imported to foreign countries in 2022 were wheat, corn, and malt. The Company grows its crops in the Voronezh, Oryol, Kursk, Belgorod, Lipetsk, and Tula Regions, which have moderately favorable climate conditions for agriculture, and also allow the northern and southern transportation and logistics corridors to be used for exporting products.

**The low assessment of market position** is based on the high fragmentation of the grain market and Avangard-Agro's complete dependence on the prices that are formed in the market as a result of yields at the end of the year. In 2022, the Company increased its total yield of agricultural products to 1.6 mln tons, which is about 1% of the national figure (157.6 mln tons).

The Agency positively views the fact that high-margin malt accounts for around half of the Company's revenues.

**The medium assessment of corporate governance** is a reflection of the concentration of shareholder risks on the sole owner, who plays an active role in the strategic and operational management of the Company, as well as the presence of operations with related parties represented by "AVANGARD" JSB (ACRA rating **BB+(RU)**, **outlook Stable**). There are no formalized corporate procedures (including a dividend policy and a risk management policy).

**Very high profitability and medium size of the Company.** In 2022, revenues amounted to RUB 25.6 bln (a 7.8% decline compared to 2021). These moderately negative dynamics are explained by the price environment in markets; at the same time the Company decided not to sell wheat at low prices and instead to build up stocks in anticipation of higher prices. FFO before net interest payments and taxes weighted from 2020 to 2025 amounts to RUB 13 bln. ACRA notes that these indicators have changed as Avangard-Agro's business profitability has grown. The ratio of FFO before interest and taxes to revenues for 2022 was around 51% compared to 49% a year before. This very high profitability stems from the Company's efforts to achieve high crop yields, as well as the substantial profitability of malt, which is occupying a growing share in the revenue structure. In addition, due to the absence of export duties, malt is seen as one of the promising areas for the Company's exports.

**Medium leverage and high interest payment coverage.** In 2022, the Company increased its total debt to RUB 30.8 bln (48% growth). However, most of the new borrowings (around RUB 7 bln) remained on the Company's balance sheet as balances in foreign currency accounts, foreign currency deposits and other liquid assets denominated in foreign currency. As of the end of 2022, the ratio of total debt to FFO before net interest was to 2.36x compared to 1.5x in 2021. Coverage of interest payments (FFO before net interest payments to interest payments) was 8.25x in 2022. ACRA expects a gradual decline in debt load in the forecast period as debt portfolio repayments are made and financial indicators grow. Despite the fact that the Agency calculates debt load excluding cash and liquid financial assets, ACRA takes into account the fact that in theory, these foreign currency assets may be sold and used to repay debts. The Company's debt portfolio is made up of loans from two major Russian banks, three bond issues, and borrowings from related parties. The lion's share of these obligations is denominated in rubles and was raised at floating and fixed rates. As of March 31, 2023, around 14% of debt obligations were denominated in foreign currencies.

**Weak cash flow.** The trend of generating negative FCF continued in 2022. The FCF margin declined to -20% vs. -9% in 2021 due to substantial dividend payments. The Agency expects this indicator to at least return to neutral territory or possibly turn positive over the forecast horizon of 2023–2025 (average FCF margin should be around 10–15%) amid high operating cash flow, moderate, as expected by the Agency, dividend payments (no more than 50% of net profits), and moderate capital expenditures. The ratio of capital expenditures to revenues in 2022 declined to 6% vs. 9% a year earlier. According to ACRA's estimates, over the aforementioned forecast horizon this indicator will remain at 5–7%. The Company can access internal liquidity (FCF, liquid financial assets) and external liquidity, which means it is able to refinance its debts. In addition, the Agency takes into account the Company's certain flexibility in terms of being able to modify its investment program and the size of dividends depending on the market situation.

## KEY ASSUMPTIONS

- Stable area of farmland of around 450,000 hectares;
- Capital investments at RUB 1.5 bln a year;
- Annual dividend payments at no more than 50% of net profits.

## POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Stable outlook** assumes that the rating will highly likely stay unchanged within the 12 to 18-month horizon.

### A positive rating action may be prompted by:

- Further increase in the share of malt in the structure of production;
- Weighted average FCF profitability exceeding 10%;
- Ratio of total debt to FFO before net interest declining below 1.0x and FFO before net interest payments to interest payments exceeding 8.0x.

### A negative rating action may be prompted by:

- Ratio of total debt to FFO before net interest payments exceeding 3.5x;
- Ratio of FFO before net interest payments to net interest payments falling below 5.0x;
- FFO profitability before interest payments and taxes declining below 15%.

## RATING COMPONENTS

SCA: **bbb**.

Support: none.

## ISSUE RATINGS

JSC Avangard-Agro, BO-001P-01 series (RU000A0ZYC31), maturity date: September 23, 2027, issue volume: RUB 3 bln — **BBB(RU)**.

JSC Avangard-Agro, BO-001P-02 series (RU000A0ZYH02), maturity date: November 16, 2027, issue volume: RUB 3 bln — **BBB(RU)**.

**Rationale.** The issues listed above are senior unsecured debt instruments of Avangard-Agro. Due to the absence of either structural or contractual subordination of the issues, ACRA regards them as *pari passu* to other existing and future unsecured and unsubordinated debt obligations of the Company. According to ACRA's methodology, the unsecured debt repayment level corresponds to the first category as per the detailed approach. Therefore, the credit ratings of the issues are equivalent to that of Avangard-Agro.

## REGULATORY DISCLOSURE

The credit ratings have been assigned to JSC Avangard-Agro and the bond issues (RU000A0ZYC31, RU000A0ZYH02) of JSC Avangard-Agro under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Non-Financial Corporations Under the National Scale for the Russian Federation](#) and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#). The [Methodology for Assigning Credit Ratings to Financial Instruments under the National Scale for the Russian Federation](#) was also applied to assign the credit ratings to the above issues.

The credit ratings of JSC Avangard-Agro and the bond issues (RU000A0ZYC31, RU000A0ZYH02) of JSC Avangard-Agro were published by ACRA for the first time on July 31, 2017, October 9, 2017, and November 28, 2017, respectively. The credit rating of JSC Avangard-Agro and its outlook and the credit ratings of the bond issues are expected to be revised within one year following the publication date of this press release.

The credit ratings were assigned based on data provided by JSC Avangard-Agro, information from publicly available sources, and ACRA's own databases. The credit ratings are solicited and JSC Avangard-Agro participated in their assignment.

In assigning the credit ratings, ACRA used only information, the quality and reliability of which were, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

ACRA provided no additional services to JSC Avangard-Agro. No conflicts of interest were discovered in the course of credit rating assignment.

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