

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

OLEG MORGUNOV
Expert, Corporate Ratings Group
+7 (495) 139 04 80, ext. 175
oleg.morgunov@acra-ratings.ru

ILYA MAKAROV
Director, Corporate Ratings Group
+7 (495) 139 04 80, ext. 220
ilya.makarov@acra-ratings.ru

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. At the same time, ACRA notes the positive movement of financial sub-factors, as well as well as qualitative characteristics of the Company's business profile.

The rating is based on the Company's standalone creditworthiness assessment (SCA), reduced by one notch to bbb to due to 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 positively influenced by Avangard-Agro's strong financial profile, which in turn stems from very high profitability, strong cash flow, low leverage, high coverage, and medium assessments of the Company's size and liquidity.

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. The boost in malt production in 2021 (473,000 tons) was positive for the assessment of the share of products with high added value (around 50%), but also led to a deterioration in the product diversification assessment due to the growth of the share of a single product in the total volume of production. Geographic diversification takes into account the well-developed logistics chain for selling the Company's products, which include a high share of exports (around 47%). The main products imported to foreign countries in 2021 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 2021, the Company increased its total yield of agricultural products to 1.3 mln tons, which is about 1.1% of the national figure (121.4 mln tons). The Agency is positive about the growth in malt production, which accounted for half of the Company's revenues for 2021.

The average 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. The Agency notes that the Company has recorded stable growth of revenues over the past three years — in 2021, they amounted to RUB 27.8 bln (20% growth compared to 2020). These positive dynamics stem from growth in the production of crops and processed products, as well as a good price environment in world markets. FFO before net interest payments and taxes weighted from 2019 to 2024 also grew and amounts to RUB 11 bln. It is noteworthy that these indicators have changed as Avangard-Agro's business profitability has grown. The weighted ratio of FFO before interest and taxes to revenues for 2019–2024 will be around 44.2% compared to 42% a year before. This 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.

Low leverage and high interest payment coverage. In 2021, the Company reduced its total volume of debt and increased FFO before net interest payments. As of the end of 2021, the ratio of total debt to FFO before net interest was to 1.5x in 2020, compared to 2.3x in 2020. Coverage of interest payments (FFO before net interest payments to interest payments) was 10.8x in 2021. ACRA assumes that although coverage of interest payments will deteriorate in 2022 due to the sharp growth of interest rates in Russia, the weighted indicator for 2019–2024 will remain at 6.9%. The Company's debt portfolio is made up of loans from two major Russian banks and two bond issues. These obligations are denominated in rubles and were raised at floating and fixed rates. At the same time, the share of short-term liabilities at the end of 2021 was about 70% of the portfolio.

Strong cash flow. Free cash flow (FCF) profitability decreased to -9.4% compared to 23% in 2020 due to higher capital expenditures and substantial dividend payments. The Agency expects this indicator to return to positive territory over the forecast horizon of 2022–2024 (average FCF profitability should amount to 10%) amid high operating cash flow, dividend payments (no more than 50% of net profits), and moderate capital expenditures. The ratio of capital expenditures to revenues in 2021 grew to 9.3% vs. 5.9% a year earlier. According to ACRA's estimates, over the aforementioned forecast horizon this indicator will remain at 8.0–8.4%. 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 2 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;
- Ratio of capital expenditures to revenues falling below 8%;
- FCF profitability exceeding 10% coupled with ratio of total debt to FFO before net interest declining below 2.0x and FFO before net interest payments to interest payments exceeding 5.0x;
- Better liquidity.

A negative rating action may be prompted by:

- Ratio of total debt to FFO before net interest payments exceeding 3.5x and 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% and FCF profitability falling below 2%.

RATING COMPONENTS

SCA: **bbb**.

Support: none.

ISSUE RATINGS

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

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

Rationale. The bonds listed above are senior unsecured debt instruments of JSC Avangard-Agro. Due to the absence of either structural or contractual subordination of the issues, ACRA regards them as *pari passu* with 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. Therefore, the credit ratings of the issues are equivalent to that of JSC Avangard-Agro.

REGULATORY DISCLOSURE

The credit ratings have been assigned to JSC Avangard-Agro and the bonds (RU000A0ZYC31, RU000A0ZYH02) issued by 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 Individual Issues of Financial Instruments on 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 bonds (RU000A0ZYC31, RU000A0ZYH02) issued by 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 bonds 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 was, 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.

(C) 2022

Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)
75, Sadovnicheskaya embankment, Moscow, Russia
www.acra-ratings.com

The Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bln. ACRA's main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with Russian legislation and with regard to global rating industry best practices.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA's opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA's opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA's website — www.acra-ratings.com/criteria.

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA's official website — www.acra-ratings.com. Information is provided on an "as is" basis.

Information shall be considered by users exclusively as ACRA's statement of opinion and must not be regarded as advice, recommendation or suggestion to buy, hold or sell securities or other financial instruments of any kind, nor shall it be viewed as an offer or advertisement.

Neither ACRA, nor its employees and persons affiliated with ACRA (further referred to as the ACRA Parties) provide any direct or implied guarantee expressed in any form or by any means regarding the accuracy, timeliness, completeness or applicability of Information for making investment and other decisions. ACRA does not act as a fiduciary, auditor, investment or financial advisor. Information must be regarded solely as one of the factors affecting an investment decision or any other business decision made by any person who uses ACRA's information. It is essential that each of such persons conduct their own research and evaluation of a financial market participant, as well as an issuer and its debt obligations that may be regarded as an object of purchase, sale or possession. Users of Information shall make decisions on their own, involving their own independent advisors, if they deem it necessary.

ACRA Parties shall not be responsible for any action taken by users based on Information provided by ACRA. ACRA Parties shall under no circumstances be responsible for any direct, indirect or consequential damages or losses resulting from interpretations, conclusions, recommendations and other actions taken by third parties and directly or indirectly connected with such information.

Information provided by ACRA is valid only as of the date of preparation and publication of materials and may be amended by ACRA in the future. ACRA shall not be obliged to update, modify or supplement Information or inform anyone about such actions, unless the latter was recorded separately in a written agreement or is required by legislation of the Russian Federation.

ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by legislation of the Russian Federation.