BBB	ISSUER RATING Long-Term
Outlook	Stable
BBB	INSTRUMENT RATING Neu MTN
EF1	ISSUER RATING Short-Term
EF1	INSTRUMENT RATING Neu CP
Initiation date	30/11/2022
Rating date	10/07/2023

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RATING ACTION AND RATIONALE

- EthiFinance Ratings has reaffirmed its long-term corporate rating and its rating for the NEU MTN programme of up to €75m for Avril SCA, at BBB with a Stable outlook. In addition, EthiFinance Ratings has reaffirmed its short-term corporate rating and its rating for the NEU CP programme of Avril SCA of up to €300m - which could be increased to up to €500m in the coming months - at EF1.
- These ratings reflect: 1) a satisfactory company competitive positioning: Avril is a leader in its markets through its various brands, which makes the group an essential player in France. Avril enjoys good market shares and excellent product diversification: the group is notably present in the oleochemicals, edible oils, biodiesel, vegetable proteins and agricultural services sectors; 2) its well-organized governance: Avril benefits from high-quality management and a stable shareholder base, which have more than withstood the recent political and economic instabilities thanks to the prudence and relevance of their long-term objectives in a sector with strong temporal inertia: today's harvests are partly the result of decisions taken several years ago; 3) a solid financial profile: Avril's credit metrics improved significantly in FY22, due to the exceptional year both in terms of revenues and EBITDA. As a result, credit ratios are expected to normalize in our forecast period, but this does not affect the overall strength of the group's financial position. On the other hand, our ratings are slightly constrained by our assessment of the industry which implies a rather low and volatile profitability (measured by EBIT margins) and moderate growth perspectives.
- In line with our methodology, the agribusiness has medium-to-high ESG risks (heatmap score of between 3.5 and 4) given its impact on the environment, which slightly constrains our industry assessment. Meanwhile, our assessment of the company's ESG policy is advanced (company ESG score of between 0 and 1), which weighs positively on our financial assessment and therefore more than offsets the impact resulting from our industry assessment.

ISSUER DESCRIPTION

Avril Group is a large French private group specializing in the industrial processing and transformation of oilseed grains into oils and proteins (crushing, refining, etc) for various applications such as biodiesel, edible oils, and oleochemicals. The group also has a financial branch (Sofiproteol), rated by EthiFinance Ratings, through which it invests in the agribusiness and food industries, especially companies in the edible oils and protein sectors. For FY22, Avril reported revenues of €9.0bn along with an EthiFinance Ratings-adjusted EBITDAR of €625m, equivalent to a 6.9% margin, and a net adjusted leverage ratio of 1.3x. The group is active in 19 countries through 73 industrial facilities and had 7,367 employees at end-2022.

FUNDAMENTALS

BUSINESS RISK PROFILE

INDUSTRY RISK ASSESSMENT

- **Moderate growth perspectives, driven by growing sustainability practices, but limited by the current economic environment**

Avril is well positioned to benefit from the ongoing pro-sustainability trends. Its renewable energies business (mainly through its biodiesel product) plays a significant role in the transition towards cleaner energy. Meanwhile, other divisions enjoy resilient demand as their products are either central or connected closely to people's habits, such as edible oils (Lesieur, Puget). 2022 was a rather difficult year marked by shortages of seed crushing and refining units in Europe, from which Avril benefited in terms of both volumes and prices.

- **Technical know-how and capital required constitute high barriers to entry in our view**

Entering the industrial processing and refining sector can be challenging because of the technical know-how and capital required to do so. This, in our view, establishes quite solid barriers to entry. However, the group may face some threats from newcomers in its consumer goods business (c. 19% of its revenues in FY22), which has lower investment requirements. The group could also suffer from fraudulent competition from Asian suppliers offering recycled oils such as used cooking oil (UCO) for biodiesel production or directly used cooking oil Methyl Ester (UCOME / biodiesel), although the European authorities are currently monitoring the situation.

- **Moderate-to-high volatility since results depend largely on commodity prices, but EGALIM negotiations partly mitigate the impacts for edible oils**

The moderate-to-high volatility of the market for Avril's products constrains our ratings as the group's performance depends on commodity prices, which follow market trends. On the bright side, under the new EGALIM law, French agricultural production companies engage in price negotiations on a regular basis with large French retailers. These talks play an essential role in the players' profitability as they can mitigate the impacts of commodity price swings.

COMPANY'S COMPETITIVE POSITIONING

- **Strong business positions with good business diversification and significant market share, but moderate geographic diversification**

Our ratings are supported by the group's size (in terms of revenues and EBITDA), in particular through its biodiesel division. Avril also enjoys rather strong business positions (notably in the edible oils segment, where the main companies Lesieur and Lesieur Cristal, both Avril subsidiaries, enjoy very good market share respectively in France and in North Africa), and good product diversification (with many applications for oils and proteins through the different steps of the refining process, especially through the oleochemicals division). However, the moderate geographic diversification - with c. 49% of revenues realized in France and 51% from other countries in FY22 - is a slightly constraining factor.

GOVERNANCE

- **Good management quality with proven track record**

Management has a solid track record of growth and improvement in margins, with notably strong resilience through the pandemic and strong improvement in the group's financial profile despite a deteriorating economic environment (rising commodities prices and interest rates, very high inflation). We assess Avril's financial policy as prudent. It is characterized by currently no dividends (apart from the non-significant mandatory dividend to the foundation). In addition, as per the by-laws, any dividend payment would be limited to a maximum of 30% of net income.

- **Stable, private shareholding with strong ties to Avril's main business**

Avril SCA, the group's holding company, has been a limited partnership with share capital ('Société en Commandite par Actions, or 'SCA') since 2014. The specific shareholding and governance structures aim to prevent a buyout of Avril Group while allowing shareholders to have their voice heard. Avril Gestion is the 'associé commandité' and controls the group. The Fonds de Développement Interprofessionnel de la Filière des Oléagineux et des Protéagineux (FIDOP), Fondation Avril, FCPE Avril, Avril Partenaires SLP and the Fédération française des producteurs d'oléagineux et de protéagineux (FOP) are the 'associés commanditaires'. As per the by-laws, Jean-Philippe Puig represents Avril Gestion, the associé commandité, and is the 'gérant' (equivalent to the CEO of the group).

- **ESG Policy: Avril's purpose, "Serving the Earth" and its related commitments pave the way for more sustainable practices**

The group is committed to helping transitioning to a more sustainable world. While biodiesel - an ingredient blended with diesel - may be at risk over the very long term, it is nevertheless a significant part of the transition towards cleaner mobility in road transport and offers reliable alternative solutions to oil-sourced energy. Avril is also very active on the R&D front to provide clean, fossil-free alternative solutions to different industries through its oleochemicals business.

FINANCIAL RISK PROFILE

CASHFLOW AND LEVERAGE

- **Strong revenue and profitability growth driven by commodity prices in 2022; the situation is expected to normalise in 2023**

Avril reported sales of €9.0bn for FY22, representing a rise of 31.8% versus FY21. The increase was mainly driven by surging commodity prices, especially energy prices, which benefited Avril's biodiesel business, as well as the outcome of negotiations with retailers. This strong momentum has started to ease off in 1H23 - as we have already observed the first signs of price normalisation - and we expect it to continue in 2H23 and 2024, resulting in a revenue decline in FY23 and limited growth going forward.

The consolidated EthiFinance Ratings'-adjusted EBITDAR in FY22 amounted to €625m, compared to €396m for the previous year. The strong rally was mainly due to good purchase price management, where selling price increases outpaced those of costs. Going forward, we expect margins to normalize along with revenues growth. Despite its sound performance in FY22, Avril's adjusted free cash flow after dividends was a negative €122m for the period, mainly reflecting working capital and capex increases. We have forecast an improvement of FCF to broadly breakeven levels by 2025.

- **Solid financial profile**

Our rating is strongly supported by Avril's solid and improved financial profile. The EthiFinance Ratings-adjusted net leverage ratio - adjusted for operating leases, employee benefits, and readily marketable inventories (RMI) - stood at 1.3x at end-2022. Although this ratio is expected to increase in 2023, it should remain below 2019/2020 levels (i.e., 2.5x). On the other hand, interest coverage is expected to suffer from the sharp rise in interest rates, although the slight improvement in EBITDA from 2020/2021 levels (which are more normative than 2022) will somewhat mitigate the impact. The FFO/NFD ratio is expected to broadly follow the trajectory of the interest coverage ratios with a high point at end-2022, followed by some normalization for the remainder of our forecast period.

LIQUIDITY AND SOLVENCY PROFILES

- **Sound profiles bolstered by July refinancing**

As of end-December 2022, Avril's consolidated gross debt was €1.57bn: €0.3bn for Sofiproteol and €1.2bn for industrial divisions. The latter is mainly held by Avril SCA, especially through its Club Deal facilities and bank loans.

Adjusted for 50% of RMI, deconsolidated factoring, employee benefits, and operating leases, EthiFinance Ratings-adjusted net debt stood at €796m, resulting in an adjusted net leverage ratio of 1.3x (0.4x as per Avril's calculation with €249m for the covenant net debt, which is notably adjusted for 75% of RMI as per its revised debt contracts).

In July 2022, the group entered into a new sustainability-linked facility package totaling €900m. This package comprised a €100m term loan with a maturity date in 2027, as well as two revolving credit facilities (RCFs) of €300m and €500m, maturing in 2025 and 2028 (after exercising a one-year maturity extension), respectively. Both RCFs also include an option to further extend their maturity by an additional year (ie until 2026 and 2029, respectively).Avril also has a €280m receivables securitization program maturing in July 2027, to enhance liquidity. The covenants outlined in the Club Deal are expected to be complied with during our forecast period.

In December 2022, Avril issued an ESG-linked Schuldschein totaling €90.0m, divided into several tranches: €47.0m due in December 2027, €6.5m in December 2028, and the remaining amount in December 2029. The majority of this debt carries a variable interest rate, with only €30.0m (maturing in December 2029) being fixed-rate. The financial covenants associated with this debt are tested semi-annually and are expected to be complied with throughout the projected period.

As of end-December 2022, Avril's liquidity score was 'superior' as per our methodologies. Avril's excellent liquidity profile results from the refinancing of its Club Deal facilities in July 2022, through which the group significantly extended its maturities and could further improve it by exercising the remaining one-year maturity extension option.

MODIFIERS

- **Controversies**

These ratings are not subject to controversies.

- **Country risk**

With 70% of its facilities located in France and revenues evenly split between France and other non-risky countries, Avril does not have any specific country risk.

MAIN FINANCIAL FIGURES

Main financial figures. In €m.	FY20	FY21	FY22	22vs21
Revenues	5 766	6 854	9 031	31.8%
EBITDAR (adjusted)	280	396	625	58.1%
EBITDAR margin	4.9%	5.8%	6.9%	1.2pp
EBIT (adjusted)	95	207	440	113.0%
EBIT margin	1.7%	3.0%	4.9%	1.9pp
Interest	-31	-33	-43	30.5%
EBT (adjusted)	65	173	397	128.8%
Total Assets	4 196	5 032	5 577	10.8%
Adjusted equity	1 714	1 872	2 131	13.8%
Total adjusted debt	1 684	2 064	2 095	1.5%
Cash & equivalents	1 048	1 341	1 299	-3.2%
Net adjusted debt (NFD)	635	723	796	10.1%
Adjusted equity / Total adjusted debt	102%	91%	102%	11.1pp
NFD/ EBITDAR	2.3x	1.8x	1.3x	-0.6x
Adjusted Funds From Operations	138	266	458	72.3%
Adjusted FFO/ NFD	21.7%	36.7%	57.5%	20.7pp
EBITDAR / Interest	9.1x	11.9x	14.4x	2.5x

Please note that the company presents its accounts under French GAAP, so we have made adjustments in line with IFRS rules when analysing financial ratios.

The only adjustment made to EBITDAR (which corresponds to EBITDA before operating lease payments amounting to €58m for FY22 according to the company) concerns the adjustment to recognize capitalized R&D as an expense (€15m for FY22).

Regarding adjustments to total financial debt at YE22, we have added factoring (€281m) as well as a portion of RMIs (€258m), since we have a larger discount (50% versus 25% for the company) on the value of this specific inventories. We have also included the capitalization over 3 years of lease payments (€173m) and pensions (€68m).

CREDIT RATING GRID

Credit Rating	
Business Risk Profile	**BBB-**
Industry Risk Assessment	*BB-*
Sector ESG Adjustment	*Negative*
Competitive Positioning	*A-*
Governance	*BBB+*
Financial Risk Profile	**BBB+**
Cash flow and leverage	*BBB*
Solvency	*BBB*
Company's ESG Adjustment	*Positive*
Anchor Rating	**BBB**
Modifiers	-
Rating	**BBB**

As mentioned at the beginning of this report, we have made two adjustments concerning ESG aspects. The first, linked to the industry (agribusiness) in which Avril operates, has a negative impact on our risk assessment of the industry. The second, specific to the company, is positive, as the company has demonstrated a high level of consideration for these aspects and therefore more than offsets the impact resulting from our industry assessment.

CREDIT METRICS EXPECTED EVOLUTION (CMEE)

- **Stable CMEE**

Our Stable CMEE reflects our view that credit metrics will remain strong and broadly unchanged over the next twelve months on what we consider to be a normative assessment level for Avril. In absolute terms we expect a slight deterioration in credit metrics in 2023 but only when compared with exceptional levels reached in 2022 as a result of exceptional circumstances.

INSTRUMENT RATING

- **BBB rating reaffirmed for the existing NEU MTN programme, and EF1 for the existing NEU CP programme**

In order to diversify funding sources, the company has implemented both NEU MTN and NEU CP programmes - €75m for the NEU MTN programme and €300m for the NEU CP programme. In this regard, the NEU CP programme could be increased to up to €500m in the next few months. According to our instrument rating methodology, with the NEU MTN instrument being unsecured and unsubordinated, the rating is similar to the long-term corporate rating, which results in a BBB rating for the existing NEU MTN programme.

The NEU CP rating derives from our short-term methodology and is similar to the corporate short-term rating.

RATING SENSITIVITY

- **List of ratings:**
  - **LT issuer rating: BBB**
  - **NEU MTN rating: BBB**
  - **ST issuer rating: EF1**
  - **NEU CP rating: EF1**

- **Factors which could influence positively the long-term and short-term ratings(↑)**

An upgrade to our long-term ratings could result from an improvement in margins and cash generation, which would result in improved credit metrics. For instance, an EthiFinance Ratings-adjusted net leverage ratio below 1.0x on a sustainable basis could entail an upgrade of the long-term ratings. Better geographic diversification would also help to improve the credit profile.

With respect to the short-term ratings, an upgrade is improbable at present and would result from a significant unforeseen change in credit metrics and financial policy.

- **Factors which could influence negatively the long-term and short-term ratings(↓)**

A downgrade of both LT and ST ratings may derive from an unexpected deterioration of credit metrics, should margins deteriorate or should the group adopt a more aggressive financial policy. For instance, an EthiFinance Ratings-adjusted net leverage ratio above 3.0x on a sustainable basis could lead to a downgrade of the ratings.

REGULATORY INFORMATION

Rating initiation: Initiated at BBB for the corporate LT rating and NEU MTN rating and at EF1 for the ST corporate rating and NEU CP rating on November 30, 2022.

Last rating action: Rating initiation at BBB for the corporate LT rating and NEU MTN rating and at EF1 for the ST corporate rating and NEU CP rating on November 30, 2022.

Rating nature: Solicited, public, short-term corporate rating and NEU CP instrument rating, long-term corporate rating and NEU MTN instrument rating.

With rated entity or related third-party participation: Yes, the rating report was issued after having been reviewed by the issuer.

With access to internal documents: Yes

With access to management: Yes

Ancillary services provided to the rated entity: In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.

Name of the rating committee chair: Marc PIERRON, Senior Director

Material sources used to support the rating decision:

- Consolidated financial statements 2020, 2021, 2022
- Management presentation on 2021 and 2022 results.
- Call with management

Limitation of the rating action:

- EthiFinance Ratings believes that the quality and quantity of information available on the rated entity is sufficient to provide a rating
- EthiFinance Ratings has no obligation to audit the data provided

Our methodologies used for this rating

https://files.qivalio.net/documents/methodologies/CRA_190_V3.CorporateRatingMethodology_Long_Term.pd

https://files.qivalio.net/documents/methodologies/CRA_191.Corporate_Rating_Methodology_Short_Term-202303.pdf

https://files.qivalio.net/documents/methodologies/CRA_127_V2.Corporate_Rating_Methodology_Instruments.pdf

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