

## Venky's India Limited

November 16, 2021

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	16.68 (Reduced from 22.81)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Long Term / Short Term Bank Facilities	260.00 (Reduced from 280.00)	CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable / A One Plus)	Revised from CARE A; Stable / CARE A1 (Single A; Outlook: Stable / A One)
Short Term Bank Facilities	7.50	CARE A1+ (A One Plus)	Revised from CARE A1 (A One)
Short Term Bank Facilities	0.00	-	Withdrawn
<b>Total Facilities</b>	<b>284.18</b> <b>(Rs. Two Hundred Eighty-Four Crore and Eighteen Lakhs Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE has withdrawn the rating assigned to the short-term loans of Venky's India Limited (VIL) as the company has repaid the aforementioned facility and there is no amount outstanding under the same as on date.

The revision in the long term and short-term ratings to the bank facilities of Venky's India Limited factors in the improvement in the financial risk profile of the group marked by stable scale of operations, improvement in profitability resulting in healthy accretions to reserves, reduction in debt and significant improvement in the liquidity position.

The ratings continue to derive strength from experienced promoters and management, established presence and brand name of the VH Group across value chain in the poultry industry including large share of pure line breed in domestic market and wide geographic presence. The ratings also take a note of the financial performance during H1FY22 (refers to the period from April 1 to September 30) marked by growing scale of operations and moderate cash flow generation despite high raw material cost.

The above strengths are moderated by susceptibility of the margins to movement in the feed prices along with limited control on poultry prices due to fragmented nature of industry, cyclicity in the poultry industry and risk associated with outbreaks of bird flu and other diseases which are likely to have a negative impact on volume and profitability.

### Key rating Sensitivity

#### Positive Factors: Factors that could lead to positive rating action/upgrade

- Income from operations on a combined basis to more than Rs.5000 crore on a sustained basis
- Sustained improvement in profitability resulting in healthy accretion to reserves and decline in overall gearing to 0.10 or below

#### Negative Factors: Factors that could lead to negative rating action/downgrade

- Significant decline in revenue and profitability, leading to lower-than-expected cash accrual below Rs 50 crore on a sustained basis.
- Delayed realization of debtors of group companies putting pressure on liquidity position of the company
- Any unenvisioned increase in debt profile resulting in deterioration of overall gearing to 0.70x or above

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Stable scale of operations, improvement in profitability margin and cash accrual levels in FY21**

During FY21, the income from operations though declined marginally remained stable at Rs.3141.77 crore as compared to the income from operations of Rs.3285.70. The decline was attributable to the outbreak of Covid-19 pandemic which resulted in severe disruption of economic activities throughout the world. The poultry industry was adversely affected from the mid of February 2020 due to the rumors of chicken being the carrier of Corona Virus. Further, the lockdown announced by the Government of India in March 2020 had further exaggerated the issue affecting the sales volume and profitability of the company.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

However, the losses arising out of the high raw material prices and low chicken prices during January'20 – April'20, had started reversing from May'20. Further, with the rumor associated with chicken being a carrier of Corona Virus confirmed false, there was a pick-up in the demand while supply was limited resulting in increase in prices of poultry products. In June 2020, the retail prices of chicken went up to Rs.320 per Kg. Moreover, the input cost has also declined marginally in H1FY21. The decline in input cost and increase in finished goods prices has resulted in improved realization. This has resulted in improvement in profitability margins for the company.

The total operating income of the company has grown significantly to Rs.2072.44 crore in H1FY22 as compared to Rs.1243.60 crore in H1FY21 owing to the increase in demand. However, due to increase in the prices of raw material the PBILDT margin for H1FY22 stood at around 8%. Going forward the margins are expected to improve with softening of input prices.

#### ***Healthy capital structure and debt protection metrics***

With decline in total debt and improvement in net-worth base, the capital structure of the company improved as on March 31, 2021 as marked by the overall gearing of 0.17x (P.Y. 0.38x). Further, with healthy profitability, the debt protection metrics also improved as reflected by total debt/GCA and PBILDT interest coverage of 0.59x and 15.78x respectively as at the end of FY21 as against the negative total debt/GCA and PBILDT interest coverage of 0.13x as at the end of FY20.

#### ***Established track record and experience of the promoters in poultry business***

VIL is currently managed by Ms Anuradha Desai (Chairperson). She has an extensive experience of more than four decades within the company and has been a chairperson of the National Egg Co-ordination Committee (NECC). The group has grown significantly from its first poultry business in 1971 as a small farm in Hyderabad to becoming one of the largest integrated poultry players in India. The group has a team of experienced scientists who carry out R&D and around 350 veterinarian doctors. Being in the industry for so long has helped the promoters in gaining adequate acumen about the industry.

#### ***Strong market position with an established brand name and marketing network***

The group is the largest player in the regulated poultry market in India. It has a strong brand name of 'Venky's' in the field of poultry products. The group has around 14 express outlets for processed chicken under Venky's India Limited (VIL) located at various Tier-1 and Tier-2 cities. The group has developed pan India presence over the years with VIL primarily concentrating on Northern region and VHPL on the southern region of India. VIL is one of the largest producers of SPF eggs in Asia. Further, parent breeds developed by Venco Research and Breeding Farm Private Limited (Venco) and Venkateshawara Research and Breeding Farm Private Limited (VRB) (group companies) are the largest selling breed in India as these are suited to Indian agro-climatic and market conditions.

#### ***Largest fully integrated poultry player in India***

The VH Group's operations are fully integrated covering entire spectrum of poultry activities. The operations of group are vertically and horizontally integrated ranging from Pure Line Farms (PLF) rearing of parent chicks, broiler breeding, hatcheries, layer birds for table/ value added eggs, processing of chicken, retail stores, feed mills, vaccines, AHP, Solvent extraction, etc. The group has a pan India presence with presence in more than 20 states.

#### **Key Rating Weaknesses**

##### ***Vulnerability of profits to raw material price movements***

With raw material costs accounting for about 75% of the overall cost and limited control over the selling prices of broiler birds, VH group's profitability is vulnerable to volatility in raw material (key ingredients - maize and soybean) prices. Maize is the primary source of energy and constitutes about 65% of the feed, whereas soybean is the primary source of protein and forms about 30% of the feed. As the poultry industry is virtually a buyers' market, any sharp increase in raw material prices may not be fully passed on to the consumers. The input prices rose significantly from Q3FY21 and were at historically high price in Q1FY22. However, from May 2021, the prices of input are decreasing. The soya prices declined from around Rs.47000 per MT in May 2021 to Rs.41000 per MT in September 2021. while the prices of Maize declined from Rs.22000 per MT in May 2021 to Rs.17000 per MT in September 2021. With harvesting season of Soya and Maize being in H2, the prices are expected to remain stable or decline in coming months.

##### ***Inherent risk associated with poultry business such as disease outbreak***

There have been instances of disease outbreaks in poultry products in India, impacting the poultry market and thereby reducing the demand suddenly and inventory losses. Although, VIL has developed its farm at different location with distance of approximately 5 to 10 km between any two farms to reduce the chances of spread of any contagious disease. Also, large part of the company broiler processing capacity is under contract farming, which is spread across the country, thereby reducing the impact of any major disease outbreak. Besides VH Group has its in house poultry vaccine plant, poultry pharmaceutical and poultry bio security products manufacturing units as well as nationwide network of poultry disease diagnostic laboratories as measures to minimize the risks arising out of poultry disease outbreaks. Irregular outbreaks like

Corona Virus, bird flu have affected poultry industry. Nonetheless the vulnerability of such flu outbreaks still exist and may impact the fortunes of the companies related to the poultry sector.

### Liquidity Analysis

**Strong** - The company has strong liquidity position marked by free cash balance of Rs.19.73 crore & current Investment in mutual fund Rs.45.16 crore as on March 31, 2021. Further, GCA is expected to be in the range of Rs.150-170 Crore as against the debt repayment obligation of around Rs.8-10 crore. The company continues to derive strength from availability of sufficient liquidity as against the minimal repayment.

Further, the fund based working capital limits of the company have remained utilized nearly to 65-70%. Its unutilized bank lines (approx. Rs.95 crore) are more than adequate to meet its incremental working capital needs over the next one year. The company has no plans to avail any additional debt in projected years.

The working capital of the company is largely funded by cash credit facilities and short-term loans from bank and the internal accruals. It operates in a working capital-intensive industry. The working capital cycle remains stable to 44 days in FY21 from 40 days in FY20 led by slightly increase in the collection days of 43 days in FY21 as compared to 34 In FY20.

### Analytical Approach: Standalone

#### Applicable Criteria:

[Criteria on assigning 'Outlook' and 'Credit Watch'](#)

[Criteria for Short-Term Instruments](#)

[Care's Policy on Default Recognition](#)

[Financial Ratios - Non-Financial Sector](#)

[Rating Methodology: Manufacturing Companies](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology: Factoring Linkages](#)

### About the Company

Incorporated in 1971, Venky's India Limited (VIL; Market Cap: Rs.3826.54 crore as on October 25, 2021) is a part of Pune based Venkateshwara Hatcheries Group (VH Group). The company is engaged in integrated poultry business and majorly deals in broiler bird segment and solvent extraction & vegetable oil refinery segment with activities primarily concentrated in the north and north-eastern part of India.

VH Group was established and promoted by late Padmashree Dr B. V. Rao and is the largest integrated poultry player in India covering entire spectrum of poultry segment from pure line breeding to processed chicken. Over the years, the group has created a strong brand of 'Venky's' and has pan India presence in both the organized and unorganized poultry segments. VHPL is the flagship company of the group which holds 51.02% stake in VIL.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY21 (UA)	H1FY22 (UA)
Total operating income	3285.70	3141.77	1258.92	2072.44
PBILDT	3.63	414.06	145.04	142.30
PAT	(27.16)	267.74	83.34	85.78
Overall gearing (times)	0.38	0.17	0.27	0.18
Interest coverage (times)	0.13	15.78	9.29	16.10

A: Audited UA: Unaudited

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating History for last three years:** Please refer Annexure-2

### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	March 2023	16.68	CARE A+; Stable
Fund-based/non-fund-based-LT/ST	-	-	-	-	60.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	-	7.50	CARE A1+
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	-	200.00	CARE A+; Stable / CARE A1+
Fund-based - ST-Term loan	-	-	-	-	0.00	Withdrawn

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	16.68	CARE A+; Stable	-	1)CARE A; Stable (30-Dec-20)	1)CARE A; Stable (08-Jan-20)	1)CARE A-; Stable (19-Oct-18)
2	Fund-based/non-fund-based-LT/ST	LT/ST*	60.00	CARE A+; Stable / CARE A1+	-	1)CARE A; Stable / CARE A1 (30-Dec-20)	1)CARE A; Stable / CARE A1 (08-Jan-20)	1)CARE A-; Stable / CARE A2+ (19-Oct-18)
3	Non-fund-based - ST-BG/LC	ST	7.50	CARE A1+	-	1)CARE A1 (30-Dec-20)	1)CARE A1 (08-Jan-20)	1)CARE A2+; Stable (19-Oct-18)
4	Fund-based - LT/ST-CC/PC/Bill Discounting	LT/ST*	200.00	CARE A+; Stable / CARE A1+	-	1)CARE A; Stable / CARE A1 (30-Dec-20)	1)CARE A; Stable / CARE A1 (08-Jan-20)	1)CARE A-; Stable / CARE A2+ (19-Oct-18)
5	Fund-based - ST-Term loan	ST	-	-	-	1)CARE A1 (30-Dec-20)	1)CARE A1 (08-Jan-20)	1)CARE A2+; Stable (19-Oct-18)

**Annexure-3: Detailed explanation of covenants of the rated facilities:**

Name of the Instrument	Detailed explanation
<b>A. Financial covenants</b>	
NA	NA
<b>B. Non-financial covenants</b>	
1. Non-Submission of Stock Statement	Monthly stock and book debt statement submit to bank by 20 <sup>th</sup> of succeeding month, delay in submission will attract penal interest as applicable, at rates circulated from time to time.
2. Non submission of CMA/Renewal data for the period beyond 3 months	Will attract penal interest as applicable, at rates circulated from time to time.
3. Non submission of Financial Statement of previous year within 6 months of closure of financial year	Will attract penal interest as applicable, at rates circulated from time to time.
4. Account remains overdrawn due to irregularities such as nonpayment of interest, nonpayment of installments within one month of falling due, reduction in drawing power, excess borrowing due to over limit.	Will attract penal interest as applicable, at rates circulated from time to time.

**Annexure 4: Complexity level of various instruments rated for this Company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3.	Fund-based - ST-Term loan	Simple
4.	Fund-based/non-fund-based-LT/ST	Simple
5.	Non-fund-based - ST-BG/LC	Simple

**Annexure 5: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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