

Venkateshwara Hatcheries Private Limited

January 05, 2024

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	463.36 (Enhanced from 442.77)	CARE A+; Stable	Reaffirmed
Long-term / Short-term bank facilities	101.78 (Reduced from 114.40)	CARE A+; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	52.52 (Reduced from 64.64)	CARE A1+	Reaffirmed

Details of facilities in Annexure-1

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Venkateshwara Hatcheries Private Limited (VHPL) continues to derive strength from experienced promoters, the established presence, and the brand name of the Venkateshwara Hatcheries Group (the VH Group) across the value chain in the poultry industry including the large share of pureline breed in domestic market and wide geographic presence. The ratings continue to take support from the healthy scale of operations, strong liquidity position of the group, comfortable capital structure and debt coverage indicators.

The above strengths are however moderated by the susceptibility of the margins to movement in the feed prices along with limited control on poultry prices due to the fragmented nature of the industry, the cyclical nature in the poultry industry and the risk associated with the outbreaks of bird flu and other diseases which are likely to have a negative impact on volume and profitability. The ratings also take into account significant moderation in its profitability due to elevated input prices during FY23 (FY refers to the period from April 1 to March 31) though same had some recovered in H1FY24 and VHPL's continued support to loss-making foreign subsidiary that are not related to the group's core business.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors:

- Increase in combined income from operations to ₹18,000 crore and above on a sustained basis.
- Sustained improvement in profitability with PBILDT margin of 10% and above.
- Decline in combined overall gearing to 0.10 or below on a sustained basis.

Negative factors:

- Significant decline in revenue and profitability, leading to cash accrual of below ₹500 crore on a sustained basis.
- Any un-envisaged increase in debt profile resulting in deterioration of combined overall gearing to 0.90x or above.

Analytical approach: Combined

While assigning ratings, CARE Ratings has considered the combined performance of VHPL (Consolidated), Venco Research & Breeding Farm Private Limited (Venco), and Venkateshwara Research & Breeding Farm Private Limited (VRB), Venkateshwara B.V. Bio Corp Private Limited (VBPL- Consolidated), Uttara Foods and Feeds Private Limited (UFPL), and Uttara Impex Private Limited (UIPL) hereinafter referred as "VH group". The combined view has been taken on account of common promoters and management, similar field of operations and significant inter-company transactions with cash flow fungibility.

VHPL (consolidated) financials consider following entities:

Name of the entity	Holding percentages
Venky's India Limited (VIL)	51.02
Venky's London Limited (VLL)	100.00
Venky's Overseas Limited (VOL)	100.00

VBPL (consolidated) financials consider following entities:

Name of the entity	Holding percentages
Blue Ridge Avian Services Inc.	100.00
Wayward Acres Inc.	98.32

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Outlook: Stable

The "stable" outlook reflects CARE ratings Limited's (CARE Ratings) expectation that the VH group is likely to sustain its financial risk in medium term on back of benefits derived from its integrated operations with strong presence in Poultry Industry including the large share of pureline breed in domestic market.

Detailed description of the key rating drivers:**Key strengths****Largest fully integrated poultry player in India**

The VH Group's operations are fully integrated, covering the entire spectrum of poultry activities. The operations of the group are vertically and horizontally integrated, ranging from pure line farms (PLF) rearing of parent chicks, broiler breeding, hatcheries, layer birds for table and value-added eggs, processing of chicken, retail stores, feed mills, vaccines, Animal Health Products (AHP), solvent extraction, etc. It has a pan-India presence, with a presence in more than 20 states. It 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 research and development (R&D) and around 350 veterinarian doctors. Being the largest integrated player strengthens the competitive and market position of the group, as reflected by its growing scale of operations.

Strong market position of the group with an established brand name and marketing network

The group has a strong brand name of 'Venky's' in the field of poultry products and has around 14 express outlets for processed chicken under Venky's India Limited (VIL) located in various Tier-I and Tier-II cities. The group has developed a pan-India presence over the years, with VIL primarily concentrating on the Northern region and its flagship company – VHPL – being concentrated in the Southern region of India. VIL is one of the largest producers of SPF eggs in Asia. Furthermore, the parent breeds developed by Venco Research and Breeding Farm Private Limited (Venco) and Venkateshwara 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. Further, the breeds have a favourable Feed Conversion Ratio (FCR), which is a crucial factor for profitability. Feed preparation is under Uttara foods & Feeds Private Limited and export is housed under Uttara Impex Private Limited.

Significant experience of the promoters in poultry business

The VH Group is currently managed by second generation with Ms Anuradha Desai being the chairman. 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). She is supported by a team of well-qualified and experienced management. Being in the industry for so long has helped the promoters in gaining adequate acumen about the industry.

Stable scale of operations albeit decline in profitability and cash accrual levels

On combined basis (after netting of inter-company transactions), during FY23, VH group's scale of operations remained in line with FY22 and stood at around ₹12,942 crore as against ₹12,522 crore. However, due to the high prices of raw material the PBILDT margin for FY23 declined significantly to 4.30% as against 9.04% in FY22. The raw material prices increased significantly and being in the commodity nature of business along with intense competition the company was not able to pass on the entire increase in input cost to customers resulting in moderation in profitability. With lower PBILDT and stable fixed capital charges, the PAT margin also declined to 1.77% in FY23 from 6.63% in FY22. Going forward, CARE Ratings expects total operating income (TOI) to grow with moderate rate and profitability to improve on the back of softening of its key input prices (maize and soya prices) in FY24.

VHPL Standalone:

Further, on standalone basis, VHPL has registered a TOI of ₹6,648.37 crore during FY23 as against ₹6,563.89 crore. Additionally, the company has registered PBILDT margins of 1.01% as against 4.43% FY22.

Furthermore, on standalone basis, VHPL has registered a total operating income of ₹3,626.45 crore during H1FY24 as against ₹3,396.03 crore. Further, the company has registered PBILDT margins of 9.71% as against losses registered in H1FY23 as the input prices have started to come down owing to the sufficient availability of raw materials in the domestic market. VHPL being the flagship company of the group, the promoter group has exposure to various group entities routed through VHPL. VHPL continues to support its loss-making foreign subsidiary. However, VHPL's (standalone) the incremental amount of investment would be restricted to around ₹150 to ₹200 crore every year. In FY23, the company has invested around ₹134 crore as against ₹179.82 crore in FY22 in VLL. The operation of these subsidiaries is not related to core operations of the VH group.

Comfortable capital structure and debt protection metrics

With decline in total debt and improvement in net worth base, the capital structure of the VH group has improved and remain comfortable as on March 31, 2023 (UA) as marked by the overall gearing of 0.26x (P.Y. 0.29x). The VH group has total debt of ₹1,215.06 crore as against ₹1,319.54 crore and has liquid investment of ₹1,484.94 crore reflecting groups net debt free position as on March 31, 2023 (UA). The debt protection metrics though deteriorated but remained comfortable with total debt/GCA and PBILDT interest coverage of 3.00x and 4.87x respectively as at the end of FY22 (UA) as against the total debt/GCA and PBILDT interest coverage of 1.28x and 9.41x respectively as at the end of FY22 (UA). Capital structure and debt coverage indicators are expected to remain comfortable in medium term with improvement in profitability and no major debt-funded capex planned. On standalone level, capital structure of VHPL stood comfortable with overall gearing remaining below unity levels.

Key weaknesses

Vulnerability of profits to raw material price movements

The raw material costs account for about 75% of the overall cost. Maize is the primary source 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 a buyers' market, any sharp increase in the prices of raw materials may not be fully passed on to the consumers, making company's profitability vulnerable to volatility in raw material prices. The impact of same on profitability was seen in past including in FY23.

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, VHPL has developed its farms at different locations with a 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 group broiler processing capacity is under contract farming, which is spread across the country, thereby reducing the impact of any major disease outbreak. Besides the 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 a measure to minimise the risks arising out of poultry disease outbreaks. Irregular outbreaks like Corona Virus and bird flu have affected the poultry industry. Nonetheless the vulnerability of such flu outbreaks still exists and may impact the fortunes of the companies related to the poultry sector.

Liquidity: Strong

The VH group has strong liquidity position marked by free cash balance and liquid investments of ₹1,484.94 crore as on March 31, 2023, and GCA of ₹400 crore as against the moderate repayment obligation of around ₹100-120 crore. Furthermore, the cash flow from operations stood at around ₹200 crore for FY23. The working capital of the company is largely funded by cash credit facilities, overdraft and short-term loans from bank and the internal accruals. The maximum fund-based utilisation remained low in the range of 60-70%. Further the working capital cycle of the VH group stood better among the other large players in the industry due to better bargaining power of VH group on account of well-established brand name, leading position in market with supply of broiler as well as layer parent bird and presence in end-to-end value chain of poultry industry.

CARE Ratings also takes note of seizure of certain non-operating assets (immovable properties) of the VHPL in Maharashtra and Karnataka by Enforcement Directorate (ED) during 8MFY24 as a part of FEMA (Foreign Exchange Management Act) investigations towards certain remittances to its foreign subsidiary (value of assets seized are equivalent to amount of the remittances). However, due to impending implication of the on-going investigation, the same remain key monitorable.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Food Products	Meat Products including Poultry

VHPL is the flagship company of the VH group and commenced its operation in 1971 to support the group's operations in poultry segment by producing day-old broiler and layer chicks. The VH group, promoted by late Padmashree Dr B. V. Rao is the largest integrated poultry player in India covering the 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 organised and unorganised poultry segments.

VH Group-Combined

Brief Financials (₹ crore)	March 31, 2022 (UA)	March 31, 2023 (UA)	H1FY24 (UA)
Total operating income	12522.40	12942.02	NA
PBILDT	1131.67	557.14	
PAT	829.96	228.78	
Overall gearing (times)	0.29	0.26	
Interest coverage (times)	9.41	4.87	

A: Audited; UA: Unaudited NA: Not Available. Note: 'the above results are latest financial results available'
The financials are classified as per CARE Ratings' Standards.

VHPL-Consolidated

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	9724.02	9931.01	NA
PBILDT	355.66	(0.42)	
PAT	263.11	(208.70)	
Overall gearing (times)	0.84	0.92	
Interest coverage (times)	2.51	NM	

A: Audited; NM: Not Meaningful; NA: Not Available Note: 'the above results are latest financial results available'
The financials are classified as per CARE Ratings' Standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure 4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	01-04-2026	167.86	CARE A+; Stable
Fund-based - LT-Working Capital Limits		-	-	-	295.50	CARE A+; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	101.78	CARE A+; Stable / CARE A1+
Fund-based-Short Term		-	-	-	49.67	CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	2.85	CARE A1+

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	167.86	CARE A+; Stable	-	1)CARE A+; Stable (22-Nov-22)	1)CARE A+; Stable (16-Nov-21)	1)CARE A; Stable (30-Dec-20)
2	Non-fund-based - ST-BG/LC	ST	2.85	CARE A1+	-	1)CARE A1+ (22-Nov-22)	1)CARE A1+ (16-Nov-21)	1)CARE A1 (30-Dec-20)
3	Fund-based - LT/ST-CC/PC/Bill Discounting	LT/ST*	101.78	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (22-Nov-22)	1)CARE A+; Stable / CARE A1+ (16-Nov-21)	1)CARE A; Stable / CARE A1 (30-Dec-20)
4	Fund-based-Short Term	ST	49.67	CARE A1+	-	1)CARE A1+ (22-Nov-22)	1)CARE A1+ (16-Nov-21)	1)CARE A1 (30-Dec-20)
5	Fund-based - LT-Working Capital Limits	LT	295.50	CARE A+; Stable	-	1)CARE A+; Stable (22-Nov-22)	1)CARE A+; Stable (16-Nov-21)	1)CARE A; Stable (30-Dec-20)

Annexure-3: Detailed explanation of covenants of the rated facilities: Not Applicable
Annexure 4: Complexity level of various instruments rated

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

Annexure-5: Lender details

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Saikat Roy Senior Director CARE Ratings Limited Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in</p>	<p>Analytical Contacts</p> <p>Akhil Goyal Director CARE Ratings Limited Phone: 02267543437 E-mail: akhil.goyal@careedge.in</p> <p>Manohar S Annappanavar Associate Director CARE Ratings Limited Phone: 02267543436 E-mail: manohar.annappanavar@careedge.in</p> <p>Anup Nandkumar Purandare Assistant Director CARE Ratings Limited E-mail: anup.purandare@careedge.in</p>
---	--

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

For the detailed Rationale Report and subscription information, please visit www.careedge.in