

## Venkateshwara Hatcheries Private Limited

January 09, 2025

Facilities	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	438.20 (Reduced from 463.36)	CARE A+; Stable	Reaffirmed
Long-term / Short-term bank facilities	70.00 (Reduced from 101.78)	CARE A+; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	87.85 (Enhanced from 52.52)	CARE A1+	Reaffirmed

Details of facilities in Annexure-1

### Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Venkateshwara Hatcheries Private Limited (VHPL) continues to derive strength from experienced promoters, established presence, and brand name of the Venkateshwara Hatcheries Group (the VH Group) across the value chain in the poultry industry, including large share of pure line breed in domestic market and wide geographic presence. Ratings continue to take support from the healthy scale of operations, strong liquidity position of the group, comfortable capital structure and debt coverage indicators. Ratings also factors in recovery in profitability in FY24 (FY refers to April 01 to March 31), driven by the decline in major input costs, particularly maize and soybean which are used as feed.

However, rating strengths are moderated by margins susceptible to movement in feed prices and limited control on poultry prices due to the fragmented nature of the industry, inherent cyclicity in the poultry industry, where disease outbreaks, climatic conditions are likely to have a negative impact on volume and profitability. Ratings also consider 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 (TOI) to ₹18,000 crore and above on a sustained basis.
- Sustained improvement in profitability with profit before interest, lease rentals, depreciation and taxes (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.
- Un-ensured increase in debt profile resulting in deterioration of combined overall gearing to 0.90x or above.
- At a combined level, deterioration in liquidity position defined by unencumbered cash, bank balance and investments in mutual funds below the FY24 level by incremental support to other group companies.

### Analytical approach: Combined

While assigning ratings, CARE Ratings has considered 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 considering 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

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited'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 the medium-term considering benefits derived from its integrated operations with strong presence in poultry industry, including large share of pure line breed in domestic market.

### **Detailed description of 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 group's operations 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), and solvent extraction, among others. It has a pan-India presence, with a presence in over 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 ~350 veterinarian doctors. Being the largest integrated player strengthens 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 VH group has a strong brand name of 'Venky's' in the field of poultry products and has ~14 express outlets for processed chicken under Venky's India Limited (VIL) in 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 – having presence in rest of India. VIL is one of the largest producers of Specific Pathogen Free (SPF) eggs in Asia. The parent breeds developed by Venco and VRB (group companies) are the largest-selling breed in India, as these are suited to Indian agro-climatic and market conditions. 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 promoters in poultry business**

The VH Group is currently managed by second generation with Anuradha Desai being the chairman. She has an extensive experience of over 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 promoters in gaining adequate acumen about the industry.

##### **Stable scale of operations and improved profitability and cash accrual levels**

On a combined basis (after netting of inter-company transactions), VH group reported stable revenue of ₹13,093 crore in FY24, in line with ₹12,937 crore in FY23. However, the PBILDT margin recovery with improvement by 400 bps after a decline in FY23, driven by stabilising input costs and favourable market conditions. While the poultry and poultry products segment faced subdued realisations up to December 2023, its performance rebounded in Q4FY24, supported by better realisations from the sale of old chicks and grown-up broilers. The segment's profitability further benefitted in FY24 from reduced costs of key inputs such as maize and soya compared to the previous year. With improvement in PBILDT and stable fixed capital charges, profit after taxes (PAT) margin increased to 6.63% in FY24 from 1.77% in FY23, reflecting a strong recovery in the group's profitability in the year. Going forward, CARE Ratings anticipates a gradual recovery in prices as demand-supply balance improves, with seasonal demand in festive periods and winter season supporting stabilisation.

##### **VHPL Standalone:**

On a standalone basis, VHPL has registered a TOI of ₹6,731.47 crore in FY24 against ₹6,648.37 crore. The company has registered PBILDT margins of 7.09% against 1.01% FY23. On a standalone basis, VHPL has registered a total operating income of ₹3,652.55 crore in H1FY25 against ₹3,626.45 crores. The company registered PBILDT margins of 10.94% against 9.71% in H1FY24 considering improved realisation and softening input prices, owing to sufficient availability of raw materials in the domestic market. VHPL is the flagship company of the group and promoters have exposure to group entities routed through VHPL. VHPL continue to support its loss-making foreign subsidiary. In FY24, the company has invested ~₹153 crore against ₹134 crore in FY23 in VLL and VOL, whereas there is no further outflow to these companies in 8MFY25. Going forward, as articulated by the management, VHPL's (standalone) incremental amount of investment would be restricted to ~₹150 to ₹200 crore per year. The operation of these subsidiaries is not related to core operations of the VH group.

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

At a combined level, with decline in total debt and improvement in net worth base, capital structure of the VH group improved and remained comfortable marked by the overall gearing of 0.17x as on March 31, 2024 (UA) compared to 0.26x as on March

31, 2023. The group is net debt free as on March 31, 2024 (UA). Its total debt stood at ₹996.70 crore as on FY24-end (₹1,215.39 crore as at the end of FY23), against which, it has liquid investment (cash and mutual funds) of ₹2,195.47 crore reflecting group's net debt free position as on March 31, 2024 (UA).

Improved profitability in the year strengthened the group's debt coverage metrics, with an interest coverage ratio of 9.02x in FY24 (PY:4.87x) and a total debt to gross cash accruals (TD/GCA) ratio of 0.90x in FY24 (PY:3.00x). Going forward, capital structure and debt coverage indicators are expected to remain comfortable in medium term with no major debt-funded capex planned.

### **Key weaknesses**

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

The poultry industry, consuming over 50% of domestic maize production, is highly sensitive to feed costs, with maize and soybean forming 70-75% of production expenses. The VH group's profitability remains susceptible to fluctuations in raw material prices, as raw material costs account for ~75% of the overall cost structure. Maize and soybean are key inputs in feed, prices of which, have a direct bearing on the profitability of players. In FY23, average prices of maize and soybean were ₹24/kg and ₹53/kg, respectively. However, in FY24, prices reduced to ₹22.50/kg for maize and ₹47.50/kg for soybean, supporting profitability. Going forward, prices of soybean are expected to remain stable, however, with maize being diverted towards ethanol production, its prices would remain key monitorable.

The poultry industry remains a buyers' market, and sharp increase in raw material costs may not be fully passed on to consumers, leaving the group's profitability exposed to raw material price volatility.

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

There have been instances of disease outbreaks such as avian influenza (bird flu) in poultry products in India, impacting the poultry market and reducing demand suddenly and inventory losses. Although, VHPL has developed its farms at different locations with a distance of ~5 to 10 km between two farms to reduce chances of spread of contagious diseases. A large part of the group broiler processing capacity is under contract farming, which is spread across the country, reducing impact of major disease outbreaks. The VH group has its in-house poultry vaccine plant, poultry pharmaceutical and poultry bio-security products manufacturing units and nationwide network of poultry disease diagnostic laboratories as a measure to minimise risks arising from poultry disease outbreaks. Irregular outbreaks such as Corona Virus and bird flu have affected the poultry industry. Vulnerability of such flu outbreaks still exists and may impact fortunes of companies related to the poultry sector.

#### **Liquidity: Strong**

The VH group has strong liquidity position marked by free cash balance and liquid investments of ₹352.45 and ₹1843.02 crore respectively (totaling to ₹2195.47 crore) as on March 31, 2024, and GCA of ₹1100 crore against the minimal repayment obligation of ~₹90-100 crore. It is to be noted that majority cash balance and liquid investment are in VBPL and Venco and these companies' infused funds, when required, in other group companies. Cash flow from operations stood at ~₹592 crore for FY24. The company's working capital is largely funded by cash credit facilities, overdraft and short-term loans from bank and the internal accruals. Maximum fund-based utilisation remained in the range of 65-70%. Working capital cycle of the VH group stood better among the other large players in the industry due to better bargaining power of the group considering well-established brand name, leading position in market with supply of broiler and layer parent bird and presence in end-to-end value chain of poultry industry.

CARE Ratings notes seizure of non-operating assets worth ₹90.22 crore by the Enforcement Directorate (ED) under FEMA, 1999, citing alleged non-compliance in VHPL's overseas investments. VHPL has appealed the seizure, asserting compliance with FEMA norms. The management remains confident of a favourable resolution, with no financial adjustments made. Seized assets, being inactive land parcels, have no impact on operations, supported by the group's robust liquidity of over ₹2,100 crore as of March 31, 2024. Resolution of the matter remains a key monitorable.

### **Applicable criteria**

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

[Consolidation](#)

## About the company and industry

### Industry classification

Macroeconomic 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 organised and unorganised poultry segments.

### VH Group-Combined

Brief Financials (₹crore)	March 31, 2023 (UA)	March 31, 2024 (UA)
Total operating income	12936.71	13093.41
PBILDT	556.67	1088.01
PAT	228.74	857.03
Overall gearing (times)	0.26	0.17
Interest coverage (times)	4.86	9.02

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

### VHPL-Consolidated

Brief Financials (₹crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	9931.01	9726.42
PBILDT	-0.42	388.68
PAT	-208.70	283.07
Overall gearing (times)	0.92	0.53
Interest coverage (times)	0.00	2.57

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

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

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated facility:** Annexure-3

**Complexity level of 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 and Rating Outlook
Fund-based - LT-Term Loan		-	-	01-04-2026	157.70	CARE A+; Stable
Fund-based - LT-Working Capital Limits		-	-	-	280.50	CARE A+; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	70.00	CARE A+; Stable / CARE A1+
Fund-based-Short Term		-	-	-	85.00	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 Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
1	Fund-based - LT-Term Loan	LT	157.70	CARE A+; Stable	-	1)CARE A+; Stable (05-Jan-24)	1)CARE A+; Stable (22-Nov-22)	1)CARE A+; Stable (16-Nov-21)
2	Non-fund-based - ST-BG/LC	ST	2.85	CARE A1+	-	1)CARE A1+ (05-Jan-24)	1)CARE A1+ (22-Nov-22)	1)CARE A1+ (16-Nov-21)
3	Fund-based - LT/ST-CC/PC/Bill Discounting	LT/ST	70.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (05-Jan-24)	1)CARE A+; Stable / CARE A1+ (22-Nov-22)	1)CARE A+; Stable / CARE A1+ (16-Nov-21)
4	Fund-based-Short Term	ST	85.00	CARE A1+	-	1)CARE A1+ (05-Jan-24)	1)CARE A1+ (22-Nov-22)	1)CARE A1+ (16-Nov-21)
5	Fund-based - LT-Working Capital Limits	LT	280.50	CARE A+; Stable	-	1)CARE A+; Stable (05-Jan-24)	1)CARE A+; Stable (22-Nov-22)	1)CARE A+; Stable (16-Nov-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated facilities: Not applicable**
**Annexure 4: Complexity level of 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 rated instrument:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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