

Venkateshwara Hatcheries Private Limited

November 22, 2022

Ratings

Facilities	Amount (₹ crore)	Ratings ¹	Rating Action
Long-term bank facilities	442.77 (Reduced from 532.15)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long-term / Short-term bank facilities	114.40 (Reduced from 151.40)	CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)	Reaffirmed
Short-term bank facilities	64.64 (Reduced from 80.66)	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	621.81 (₹ Six hundred twenty-one crore and eighty-one lakh only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the long-term and short-term 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 pure-line breed in domestic market and wide geographic presence. The ratings continue to take support from the growing scale of operations, strong liquidity position of the group, healthy capital structure and the comfortable 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.

Rating sensitivities

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

- 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 the combined overall gearing to 0.10x or below on a sustained basis

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

- 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 the combined overall gearing to 0.90x or above

Detailed description of the key rating drivers

Key rating 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 improvement in scale of operations and favourable cost structure.

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

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

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.

Significant experience of the promoters in poultry business

The VH Group is currently managed and promoted by Ms Anuradha Desai. 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.

Growing scale of operations and moderate profitability

During FY22 (UA, FY refers to the period April 01 to March 31), the scale of operations of the VH group grew by around 24% to ₹14,426.25 crore from ₹11,646.72 crore in FY21 (UA). The growth was attributable to pick-up in demand of poultry products along with increase in selling price of the finished product.

Due to considerable increase in the prices of raw material, the PBILDT margin for FY22 (UA) declined significantly and stood at around 8% as against around 20% in FY21 (UA). The raw material prices increased significantly and being in the commodity nature of business along with intense competition, the group is not able to pass on the entire increase in input cost to customers resulting in moderation in profitability. Given lower PBILDT, the PAT margin also declined to around 6% in FY22 (UA) from around 12% in FY21 (UA). The profitability is likely to remain moderate in FY23 owing to the high input prices in H1FY23.

However, the group was able to generate sufficient cash flow from operations of around ₹1,000 crore for FY22 (UA) to meet its debt obligation and working capital requirements.

Healthy capital structure and debt protection metrics

Decline in total debt coupled with improved net-worth base, the capital structure of the group remained strong marked by overall gearing at 0.27x as on March 31, 2022 improved from 0.41x as on March 31, 2021. The group is cash rich and net debt free as on March 31, 2022 (UA). Since the group has no debt funded capex plans in the near future and the working capital utilisation is also expected to remain at about 40-50% the capital structure of the company is expected to remain comfortable at the current level.

The debt protection metrics though deteriorated, remained comfortable with total debt/GCA and PBILDT interest coverage of 1.14x and 9.63x respectively as at the end of FY22 (UA) as against the total debt/GCA and PBILDT interest coverage of 0.90x and 14.07x respectively as at the end of FY21 (UA) which is expected to be sustained in the medium term.

Key rating weaknesses

Vulnerability of profits to raw material price movements

The raw material costs being about 75% of the overall cost and limited control over the selling prices of broiler birds, the 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 FY22 and were at historic high in H1FY23. H2 of the fiscal being the harvesting season of soya and maize, 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 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 measures 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 group has strong liquidity position marked by free cash balance and liquid investments of around ₹1,300 crore as on March 31, 2022 and GCA of more than ₹1000 crore as against the minimal repayment obligation of around ₹100-120 crore. Furthermore, the cash flow from operations stood at around ₹1,000 crore for FY22.

The working capital of the group is largely funded by cash credit facilities, overdraft and short-term loans from bank and the internal accruals. The maximum fund-based utilisation remained in the range of 40-50%. Furthermore, the working capital cycle of the VH group stood better among the other large players in the industry due to better bargaining power of the VH group on account of the 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 the poultry industry.

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 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). The combined view has been taken on account of common promoters and management, similar field of operations and significant inter-company transactions.

VHPL (consolidated) financials consider following entities:

Name of the entity	Holding percentages
Venky's India Limited	51.02
Venky's London Limited	100.00
Venky's Overseas Limited	100.00

VBPL (consolidated) financials consider following entities:

Name of the entity	Holding percentages
Blue Ridge Avian Services Inc.	100.00
Wayward Acres Inc.	97.64

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Factoring Linkages Parent Sub JV Group](#)

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

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

[Rating Outlook and Credit Watch](#)

[Short-term Instruments](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company

Venkateshwara Hatcheries Private Limited (VHPL) is the flagship company of the 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 Financials

Brief Financials (₹ crore)	FY21 (UA)	FY22 (UA)	H1FY23
Total operating income	11646.72	14426.25	Not Available
PBILDT	2291.66	1168.39	
PAT	1451.19	869.79	
Overall gearing (times)	0.41	0.27	
Interest coverage (times)	14.07	9.63	

UA: Un-Audited

Note: Financials have been classified as per CARE's internal standard

VHPL – Consolidated Financials

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	H1FY23
Total operating income	7994.12	9851.88	Not Available
PBILDT	1494.58	483.51	
PAT	869.37	263.11	
Overall gearing (times)	1.02	0.84	
Interest coverage (times)	8.26	3.41	

A: Audited

Note: Financials have been classified as per CARE's internal standard

Status of non-cooperation with previous CRA: Not applicable**Any other information:** Not applicable**Rating history for the last three years:** Please refer Annexure-2**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3**Complexity level of various instruments rated for this company:** Annexure-4**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	30-09-2025	172.27	CARE A+; Stable
Fund-based - LT-Working capital limits	-	-	-	-	270.50	CARE A+; Stable
Fund-based - LT/ ST-CC/PC/Bill discounting	-	-	-	-	114.40	CARE A+; Stable / CARE A1+
Fund-based-Short term	-	-	-	-	61.79	CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	-	2.85	CARE A1+

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term loan	LT	172.27	CARE A+; Stable	-	1)CARE A+; Stable (16-Nov-21)	1)CARE A; Stable (30-Dec-20)	1)CARE A; Stable (08-Jan-20)
2	Non-fund-based - ST-BG/LC	ST	2.85	CARE A1+	-	1)CARE A1+ (16-Nov-21)	1)CARE A1 (30-Dec-20)	1)CARE A1 (08-Jan-20)
3	Fund-based - LT/ ST-CC/PC/Bill discounting	LT/ST	114.40	CARE A+; Stable /	-	1)CARE A+; Stable / CARE A1+ (16-Nov-21)	1)CARE A; Stable / CARE A1 (30-Dec-20)	1)CARE A; Stable / CARE A1 (08-Jan-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	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	Date(s) and Rating(s) assigned in 2019-2020
				CARE A1+				
4	Fund-based-Short term	ST	61.79	CARE A1+	-	1)CARE A1+ (16-Nov-21)	1)CARE A1 (30-Dec-20)	1)CARE A1 (08-Jan-20)
5	Fund-based - LT-Working capital limits	LT	270.50	CARE A+; Stable	-	1)CARE A+; Stable (16-Nov-21)	1)CARE A; Stable (30-Dec-20)	1)CARE A; Stable (08-Jan-20)
6	Fund-based - LT-Proposed fund-based limits	-	-	-	-	-	-	1)CARE A; Stable (08-Jan-20)

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Non-financial covenants	
I. Non submission of Stock statement	Monthly stock and book debt statement submit to bank by 20th of succeeding month, delay in submission will attract penal interest as applicable, at rates circulated from time to time
II. 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
III. 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.

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of 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: 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 instruments: CARE Ratings 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.

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