Venky's (India) Limited

November 30, 2022

Ratings

Facilities	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	8.76	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long-term/short-term bank facilities	257.00	CARE A+; Stable/CARE A1+ (Single A Plus; Outlook: Stable/A One Plus)	Reaffirmed
Short-term bank facilities	32.50 (Enhanced from 7.50)	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**298.26 (₹ Two hundred ninety-eight crore and twenty-six lakh only)**		

Detailed rationale and key rating drivers

The reaffirmation of the long-term and short-term ratings assigned to the bank facilities of Venky's (India) Limited (VIL) continues to derive strength from the experienced promoters, the established presence and the brand name of the Venkateshwara Hatcheries Group (VH Group) across the value chain in the poultry industry, including the large share of pure line breed in the domestic market, and the wide geographical presence. The ratings continue to take support from the growing scale of operations, the strong liquidity position of the company, the healthy capital structure, and the comfortable debt coverage indicators.

The ratings also take note of the financial performance during H1FY23 (refers to the period from April 1 to September 30), marked by the growing scale of operations and moderate cash flow generation despite the high input prices.

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

Rating sensitivities

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

- Increase in income from operations to ₹5,000 crore and above on a sustained basis.
- Sustained improvement in profitability, resulting in healthy accretion to reserves and a decline in the overall gearing to 0.10x 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 accruals below ₹50 crore on a sustained basis.
- Delayed realisation of debtors of the group companies, putting pressure on the liquidity position of the company.
- Any un-envisaged increase in the debt profile, resulting in a deterioration of the overall gearing to 0.70x 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

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

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 the 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 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 – Venkateshwara Hatcheries Private Limited (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. Furthermore, the breeds have a favourable feed conversion ratio (FCR), which is a crucial factor for profitability.

Significant experience of the promoters in the poultry business: VIL is promoted and currently managed by Anuradha Desai, Chairperson. She has an extensive experience of more than four decades within the company and has been chairperson of the National Egg Co-ordination Committee (NECC). She is supported by a well-qualified and experienced management team. Being in the industry for so long has helped the promoter/promoter's family in gaining adequate acumen about the industry.

Growing scale of operations and moderate profitability: During FY22 (refers to the period from April 01 to March 31), the total operating income (TOI) grew by around 40% to ₹4,400 crore from around ₹3,117 crore in FY21. The growth was attributable to the pick-up in demand for poultry products along with an increase in the selling prices of the finished products.

Furthermore, the income from operations grew by around 4% in H1FY23 to ₹2,171.22 crore from ₹2,088.70 crore in H1FY22. Due to the increase in the prices of raw materials, the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin for FY22 stood at around 6% as against 12% in FY21. The raw material prices increased significantly and being in the commodity nature of business with limited control on poultry prices due to the fragmented nature of the industry, the company is unable to pass on the entire increase in input costs to customers, resulting in moderation in profitability. With lower PBILDT and stable fixed capital charges, the profit-after-tax (PAT) margin also declined to 4% in FY22 from 9% in FY21. The input prices remained on the higher side during H1FY23, resulting in a drop in the profitability margins with a PBILDT margin of 3.03% and a PAT margin of 1.32% for the said period. However, the prices of raw materials are expected to stabilise or decline in the near future with the start of the harvesting season and accordingly the profitability margins are expected to improve.

Healthy capital structure and debt protection metrics: In the absence of any new debt and improvement in the tangible net worth (TNW) supported by accretion to reserves, the capital structure of the company remained comfortable with an overall gearing of 0.16x as on March 31, 2022. Since the company has no debt-funded capex plans in the near future and the working capital utilisation is also expected to remain at about 65-70%, the capital structure of the company is expected to remain comfortable at the current level.

Furthermore, the debt protection metrics also continue to be comfortable with interest coverage of 14.04x for FY22 (PY: 14.83x) and total debt (TD)/gross cash accruals (GCA) of 0.97x as at the end of FY22 (PY: 0.59x), 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 account for about 75% of the overall cost and on account of limited control over the selling prices of broiler birds, the company's profitability is vulnerable to the 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 the prices of raw materials may not be fully passed on to the consumers.

Inherent risks associated with the poultry business such as disease outbreaks: There have been instances of disease outbreaks in poultry products in India impacting the poultry market, thereby reducing the demand suddenly and ending in inventory losses. That said, VIL has developed its farms at different locations with distances of approximately 5-10 km between any two farms to reduce the chances of the spread of any contagious diseases. Also, a large part of the company's 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 a nationwide network of poultry disease diagnostic laboratories as measures to minimise the risks arising out of poultry disease outbreaks. Irregular outbreaks like the Coronavirus 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 present in the poultry sector.

Liquidity: Strong

The company has a strong liquidity position, marked by a free cash balance of around ₹10 crore and current investments in mutual funds of around ₹80 crore as on September 30, 2022. Furthermore, the GCA is expected to be in the range of ₹180-200 crore as against the debt repayment obligations of around ₹8-10 crore. The company continues to derive strength from the availability of sufficient liquidity as against the minimum repayments. Furthermore, the fund-based working capital limits of the company have remained utilised nearly to 65-70% only. Its unutilised bank lines (approximately ₹70 crore) are more than adequate to meet its incremental working capital needs over the next year. The company has no plans to avail of any additional debt in the coming years. It operates in a working capital-intensive industry. The working capital of the company is largely funded by cash credit facilities and short-term loans from banks and internal accruals. The working capital cycle remains stable at 44 days in FY22.

Analytical approach: Standalone

Although the standalone performance of the company is analysed, CARE Ratings Limited (CARE Ratings) has factored in the operational and managerial linkages of the company with the VH Group.

Applicable criteria

Policy on default recognition
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

Incorporated in 1976, VIL (market cap: ₹2,611.72 crore as on November 30, 2022) is part of the Pune-based VH Group. The company is engaged in the integrated poultry business and mainly deals in the broiler bird segment and the solvent extraction and vegetable oil refinery segments with activities primarily concentrated in the North and North-Eastern part of India. The VH Group was established and promoted by the late Padma Shree, Dr BV Rao, and is the largest integrated poultry player in India covering the entire spectrum of the poultry segment – from pure line breeding to processed chicken. Over the years, the group has created a strong brand of 'Venky's' and has a pan-India presence in both, the organised and unorganised poultry segments. VHPL is the flagship company of the group, which holds a 51.02% stake in VIL.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	3,116.84	4,400.90	2,171.22
PBILDT	389.13	246.75	65.84
PAT	267.74	164.78	28.72
Overall gearing (times)	0.17	0.16	0.16
Interest coverage (times)	14.83	14.04	7.28

A: Audited; UA: Un-audited.

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	-	-	-	30-09-2023	8.76	CARE A+; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	-	197.00	CARE A+; Stable/CARE A1+
Fund-based/non-fund-based-LT/ST	-	-	-	-	60.00	CARE A+; Stable/CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	-	32.50	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	8.76	CARE A+; Stable	1)CARE A+; Stable (17-Nov-22)	1)CARE A+; Stable (16-Nov-21)	1)CARE A; Stable (30-Dec-20)	1)CARE A; Stable (08-Jan-20)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST*	60.00	CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (17-Nov-22)	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)
3.	Non-fund-based - ST-BG/LC	ST	32.50	CARE A1+	1)CARE A1+ (17-Nov-22)	1)CARE A1+ (16-Nov-21)	1)CARE A1 (30-Dec-20)	1)CARE A1 (08-Jan-20)
4.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	197.00	CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (17-Nov-22)	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)
5.	Fund-based - ST-Term loan	ST	-	-	-	1)Withdrawn (16-Nov-21)	1)CARE A1 (30-Dec-20)	1)CARE A1 (08-Jan-20)

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I. TD/EBITDA	Should not exceed 4.5x
B. Non-financial covenants	
I. Non-submission of stock statement	Monthly stock and book debt statement to be submitted to the bank by 20th of the 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 a period beyond three months	Will attract penal interest as applicable, at rates circulated from time to time
III. Non-submission of the financial statement of the previous year within six months of closure of the financial year	Will attract penal interest as applicable, at rates circulated from time to time.

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

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

Annexure-5: Bank lender details for this company

To view the lender-wise details of the bank facilities, please click here.

Note on the 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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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.

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