

## Venkateshwara Hatcheries Private Limited

January 08 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term/Short-term Bank Facilities	173.08 (reduced from 234.61)	CARE A; Stable/CARE A1 (Single A; Outlook: Stable/A One)	Revised from CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)
Long term Bank Facilities	718.05 (Enhanced from 545.27)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Short term Bank Facilities	141.94 (Reduced from 148.81)	CARE A1 (A One)	Revised from CARE A2+ (A Two plus)
<b>Total</b>	<b>1033.10</b> <b>(Rupees One Thousand Thirty Three Crore and Ten Lakhs only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the ratings to the bank facilities of Venkateshwara Hatcheries Private Limited (VHPL, hereafter also referred to as VH Group) takes into account steady improvement in the capital structure, debt coverage indicators and liquidity indicators in FY19 (refers to April 1 to March 31) supported by growing scale of operations and healthy cash flow generation. The ratings continue to derive strength from experienced promoters, 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 rating strengths, however, continue to remain constrained by susceptibility of the margins to movement in the feed prices along with limited control on poultry prices due to fragmented nature of industry, cyclical nature of the poultry industry and risk associated to any outbreaks of bird flu and other diseases which are likely to have a negative impact on volume and profitability.

The ratings also factor in VHPL's sizeable investments in ventures with activities that are not related to the group's core business, significant diminution of value of these investments and low likelihood of generation of returns from these investments in near future. The ratings also take into account contingent liabilities in the form of corporate guarantees given to entities within and outside the group.

The ratings also take a note of subdued performance of poultry operations during H1FY20 (refers to April 1 to September 30) mainly as a result of high feed cost.

### Key Rating Sensitivities

#### Positive Sensitivity

- Sustained improvement in scale of operations and PBILDT margin for poultry business
- Significant reduction in debt going forward, overall gearing at consolidated level below 0.30x.

#### Negative Sensitivity:

- Any unenvisioned debt funded capital expenditure leading to significant deterioration in capital structure
- More than incremental support to other group companies

### Detailed description of the key rating drivers

#### Key Rating Strengths

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

The capital structure (combined financials for VHPL (consolidated), Venco, and VRB) has shown steady improvement over the years, supported by healthy cash flow generation, which has been utilized for debt reduction. Debt profile as on March 31, 2019 consisted of working capital borrowings from banks, term loans from banks and unsecured loans from group companies.

Debt to equity stood comfortable at 0.20x as on March 31, 2019 (0.25x as on March 31, 2018 and 0.46x as on March 31, 2017), Overall gearing improved and stood at 0.55x as on March 31, 2019 (0.72x as on March 31, 2018).

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

Total debt to GCA was seen at 1.78x vis-à-vis 1.73x as at March 31, 2018 (3.01x as at March 31, 2017). Interest coverage for FY19 improved to 9.41x vis-à-vis 8.84x for the year FY18. Sustained improvement in debt protection matrices is key rating monitorable

#### ***Growing scale of operations, moderation in profitability***

VHPL's operations are divided in three segments including Poultry & poultry products, Egg powder products and Vaccines. Venco is engaged in research and breeding of parent broiler and broiler breeds. VRB was established for undertaking pure-line research and breeding work for layer parent chicks suited to Indian agro-climatic and market conditions. It has developed the BV-300 layer and BV 380 layer and layer breeder for the production of layer birds and the breed captures large markets share in the Indian markets for layer breed.

On a combined basis, TOI increased by 10.23% during FY19 to Rs. 7522.66 crore from Rs.6824.38 crore. While FY18 witnessed exceptionally high profitability resulting from low feed costs, PBILDT margin moderated to 17.68% during FY19 as against 21.56% in FY18 mainly on account of higher raw material costs (46% in FY19 vs 62% in FY18 of TOI). PAT margin moderated to 8.68% in FY19 as against 10.54% for FY18. Venco and VRB are highly profitable entities with no bank borrowings as on March 31, 2019.

During H1FY20, VHPL (standalone) achieved TOI of ~Rs.2569 crore with PBILDT margin of 9.61%.

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

The promoter group has a successful track record of operations of more than four decades from the first poultry formed in 1971 as a small farm in Hyderabad to becoming one of the largest integrated poultry players in India.

#### ***Strong market position as India's largest fully integrated poultry player with an established brand name and marketing network***

The VH group's operations are fully integrated covering entire spectrum of poultry activity from pure-line breeding, grandparent and parent breeding and sale of commercial day old chicks (DOC) to contract commercial farming. Venky's India Limited (VIL) one of the group companies is the largest producer of SPF eggs in Asia. Also the group has wide geographic presence in the domestic markets along with the successful chain of processed chicken restaurants across Tier I cities.

#### **Liquidity Analysis**

**Superior/ Strong** - Liquidity is marked by strong accruals against negligible repayment obligations and liquid investments to the tune of Rs.447 crore as on March 31, 2019. The company has sufficient gearing headroom, to raise additional debt for its capex. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. The operating cycle was seen at 60 days in FY19 as compared with 56 days in FY18. The average of maximum monthly utilization of working capital limits was seen at 70% for 12 months ended October 31, 2019. The current ratio stood at 1.04 as on March 31, 2019.

#### **Key Rating Weaknesses**

##### **Exposure Towards Group companies**

VHPL being the flagship company of the group, the promoter group has exposure to various group entities routed through VHPL. VHPL's (standalone) total exposure towards group companies stood at Rs. 1622.05 crore (IND AS) as on March 31, 2019 as compared with Rs.1413.89 crore (IND AS) as on March 31, 2018.

Apart from the investment made above, VHPL has extended corporate guarantees to its group companies and other entities. The amount of corporate guarantees outstanding stood at Rs. 295.68 crore as on March 31, 2019 as against Rs. 232.75 crore as on March 31, 2018.

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

VHPL's profitability is vulnerable to volatility in raw material (key ingredients - maize and soybean) prices. The prices remain volatile on account of movement in global prices, production and the monsoon.

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

There have been several instances of disease outbreaks in poultry products in India, impacting the poultry market and thereby reducing the demand suddenly and inventory losses. Although, VH group 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.

### Analytical Approach: Combined

While assigning ratings, CARE has considered the combined performance of VHPL (consolidated), Venco Research & Breeding Farm Private Limited (Venco) and Venkateshwara Research & Breeding Farm Private Limited (VRB).

The combined view has been taken on account of common promoters and management, similar field of operations and significant inter-company transactions. With the operations of the above three entities, the entire value chain of the poultry division is covered (from research of pure line to sale of hatching eggs, grown-up commercial broiler birds and processed chicken).

VHPL (consolidated) financials take into account following entities:

Name of subsidiary	% of holding
Venky's India Limited (VIL)	51.02
Venky's London Limited (VLL)	100.00
Venky's Overseas Limited (VOL)	100.00
Blackburn Rovers Football and Athletics PLC (a subsidiary of VLL)	
<b>Associates</b>	
Bala Industries and Entertainment Private Limited (BIEPL)	48.56
Srivenk Biological Laboratories Private Limited	50.00
Venky's Middle East FZCO	50.00

### Change in analytical approach:

(Change in CARE's criteria separation of listed and unlisted entity)

VIL, being a listed entity has been separated from the previously considered combined performance. Consolidated financials of VHPL have been considered instead of standalone financials considered earlier.

### 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](#)

[Factoring Linkages in Ratings](#)

### About the Company

The VH group, promoted by late Padmashree Dr B. V. Rao 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 and commenced its operation in 1971 in order to support the group's operations in poultry segment by producing day old broiler and layer chicks.

Brief Financials (Rs. crore) (Combined)	FY18 (UA)	FY19 (UA)
Total operating income	6824.38	7522.66
PBILDT	1471.83	1330.03
PAT	719.55	653.09
Overall gearing (times)	0.73	0.55
Interest coverage (times)	8.84	9.41

UA: Unaudited

Brief Financials (Rs. crore) (VHPL consolidated)	FY18 (A)	FY19 (A)
Total operating income	6447.55	7093.48
PBILDT	1164.95	993.46
PAT	509.23	414.38
Overall gearing (times)	1.92	1.44
Interest coverage (times)	5.79	5.56

A: Audited

**Status of non-cooperation with previous CRA:** No

**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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	April 2024	434.87	CARE A; Stable
Non-fund-based - ST-BG/LC	-	-	-	5.75	CARE A1
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	173.08	CARE A; Stable / CARE A1
Fund-based-Short Term	-	-	-	136.19	CARE A1
Fund-based - LT-Working Capital Limits	-	-	-	243.75	CARE A; Stable
Fund-based - LT-Proposed fund based limits	-	-	-	39.46	CARE A; Stable

**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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	434.87	CARE A; Stable	-	1)CARE A-; Stable (12-Nov-18) 2)CARE A-; Stable (19-Oct-18)	1)CARE BBB+; Stable (29-Dec-17)	1)CARE BBB; Stable (25-Jan-17)
2.	Non-fund-based - ST-BG/LC	ST	5.75	CARE A1	-	1)CARE A2+ (12-Nov-18) 2)CARE A2+; Stable (19-Oct-18)	1)CARE A2 (29-Dec-17)	1)CARE A3+ (25-Jan-17)
3.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	173.08	CARE A; Stable / CARE A1	-	1)CARE A-; Stable / CARE A2+ (12-Nov-18) 2)CARE A-; Stable / CARE A2+ (19-Oct-18)	1)CARE BBB+; Stable / CARE A2 (29-Dec-17)	1)CARE BBB; Stable / CARE A3+ (25-Jan-17)
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	-	-	-	-	1)Withdrawn (29-Dec-17)	1)CARE BBB; Stable / CARE A3+ (25-Jan-17)
5.	Fund-based - ST-Term loan	ST	-	-	-	-	1)Withdrawn (29-Dec-17)	1)CARE A3+ (25-Jan-17)
6.	Fund-based-Short Term	ST	136.19	CARE A1	-	1)CARE A2+ (12-Nov-18) 2)CARE A2+; Stable (19-Oct-18)	1)CARE A2 (29-Dec-17)	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
7.	Fund-based - LT-Working Capital Limits	LT	243.75	CARE A; Stable	-	1)CARE A-; Stable (12-Nov-18) 2)CARE A-; Stable (19-Oct-18)	1)CARE BBB+; Stable (29-Dec-17)	-
8.	Fund-based - LT-Proposed fund based limits	LT	39.46	CARE A; Stable	-	-	-	-

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). 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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