Venkateshwara Hatcheries Private Limited

December 30, 2020

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	617.84 (Reduced from 678.62)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	156.95 (Reduced from 173.08)	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable / A One)	Reaffirmed
Short Term Bank Facilities	117.48 (Reduced from 141.94)	CARE A1 (A One)	Reaffirmed
Total Facilities	892.27 (Rs. Eight Hundred Ninety-Two Crore and Twenty-Seven Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of long term and short term ratings to the bank facilities of Venkateshwara Hatcheries Private Limited (VHPL, hereafter also referred to as VH Group) continues 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 ratings continue to take support from strong liquidity position of the group, healthy capital structure and comfortable debt coverage indicators. The ratings also take a note of improvement in performance of poultry division, and liquidity indicators in H1FY21 (refers to April 1 to September 30) supported by growing scale of operations and healthy cash flow generation along with stable raw material cost.

The above strengths are moderated by significant losses registered by the company in FY20 due to high input cost and decline in sales realization during February’20 & March’20 owing to the outbreak of COVID-19, 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 outbreaks of bird flu and other diseases which are likely to have a negative impact on volume and profitability.

The ratings continue to 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 the contingent liabilities in the form of corporate guarantees given to entities within and outside the group.

Key rating Sensitivity

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

- Ability of the company to scale up its income from operations on a combined basis to more than Rs.12000 crore while maintaining its operating profit margins between 18-20% going forward on a sustained basis.

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

- Significant decline in operating profit margin below 8% on a sustained basis.
- Any unenvisaged increase in debt profile resulting in deterioration of overall gearing to 0.90x or above
- Significant elongation in working capital cycle from current levels, affecting liquidity position of the Company.
- Any incremental support to other group companies over and above Rs 200 crore every year

Detailed description of the key rating drivers

Key Rating Strengths

Established track record and experience of the promoters in poultry business

VH group is currently managed by Ms Anuradha Desai (Chairperson). 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). The group 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 R&D and around 350 veterinarian doctors. Being in the industry for so long has helped the promoters in gaining adequate acumen about the industry.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Strong market position with an established brand name and marketing network
The group is the largest player in the regulated poultry market in India. It has a strong brand name of **'Venky's** in the field of poultry products. The group has around 14 express outlets for processed chicken under Venky's India Limited (VIL) located at various Tier-1 and Tier-2 cities. The group has developed pan India presence over the years with VIL primarily concentrating on Northern region and VHPL on the southern region of India. VIL is one of the largest producers of SPF eggs in Asia. Further, parent breeds developed by Venco Research and Breeding Farm Private Limited (Venco) and Venkateshawara 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.

Largest fully integrated poultry player in India
The VH group's operations are fully integrated covering entire spectrum of poultry activities. The operations of group are vertically and horizontally integrated ranging from Pure Line farms (PLF) rearing of parent chicks, broiler breeding, hatcheries, layer birds for table/ value added eggs, processing of chicken, retail stores, feed mills, vaccines, AHP, Solvent extraction, etc. The group has a pan India presence with presence in more than 20 states.

Healthy capital structure
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, 2020 consisted of working capital borrowings from banks, term loans from banks and unsecured loans from group companies aggregating to Rs.1456.36 Crore. During FY20, the tangible net-worth of the company declined to Rs 2220.69 crores as compared to Rs 2545.03 crores due to the losses booked in FY20. Despite of the same the capital structure remained comfortable with overall gearing of 0.66x as on March 31, 2020 (P.Y. 0.55x). This was on account of lower reliance on external debt and availability of sufficient funds to meet fixed expenses and working capital requirements.

Key Rating Weaknesses
Decline in profitability margin in FY20, however, the same has recouped in H1FY21
The Total operating Income (TOI) of the group registered a growth of 3.68% in FY20 vis-à-vis FY19 on account of better performance in 9MFY20 and stood at Rs. 7799.44 crore during FY20 (as against Rs.7522.66 crore during FY19). However, it has booked loss of around Rs.10 crore at PBILDT level as compared to the profit of Rs.1330.03 crore in FY19. Further, with reduced operational levers and increase in fixed capital charges, the group reported a net loss of Rs.254.11 crore in FY20 as compared to profit booked of Rs 653.08 crore in FY19.
The performance of the group was severely impacted in Q4FY20 owing to the high input cost and significant decline in prices of chicken. The company suffered sizable losses in the last quarter of FY20 which wiped out the profit booked in the first three quarters of FY20. The prices of Soybean (major raw material) increased from around Rs.35000 per metric ton in Q1FY20 to Rs.38000 per metric ton in Q4FY20 while the prices of chicken fell to as low as Rs.5 per kg in March 2020 as players (majorly small farmers) were only focused on selling their livestock to reduce the cost of maintaining them. Further, post selling the livestock, farmers stopped production due to the prevailing uncertainty. However, with the rumor associated with chicken being a carrier of Corona Virus confirmed false, there is a pick-up in the demand while supply was limited resulting in increase in prices. In June 2020, the prices of chicken went up to substantially. Moreover, the input cost has declined. The decline in input cost and increase in finished goods prices is expected to result in better operating performance for poultry players. After suffering unprecedented losses in the fourth quarter of FY20 due to the outbreak of Covid-19 pandemic and related developments, the overall performance of the Company has improved during the H1FY21 and reached pre COVID-19 levels due to better sales realizations.
On standalone basis VHPL has registered a PBILDT margin of 20.86% (Rs 503.58 crore) in H1FY21 as compared to 9.86%(Rs 248.76 crore) in H1FY20 and has registered a PAT margin of 11.67% in H1FY21 as against 3.85% for H1FY20. Further, the company has generated Cash profit of Rs 312.13 crores in H1FY21 as against Rs.133.10 crore in H1FY20. Further, as on 30th September 2020, VHPL Standalone had free cash of Rs 65.38 crore and unutilized CC limits of around Rs.54 crore providing additional cushion.

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. 1780.99 crore (IND AS) as on March 31, 2020 as compared with Rs.1622.05 crore (IND AS) as on March 31, 2019. Significant diminution in the value of these investments and low likelihood of generation of return from these investments in near future will remain the key rating monitorable. 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. 337.41 crore as on March 31, 2020 as against Rs. 295.68 crore as on March 31, 2019.

Vulnerability of profits to raw material price movements

With raw material costs accounting for about 75% of the overall cost and limited control over the selling prices of broiler birds, VH 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. Profit margins of the industry had contracted over last two years owing to steady increase in feed prices, especially maize. Maize prices declined in Q1FY21 while the prices of soybean remained stable. Demand for maize & Soya, a crucial component for poultry industry was hit and there had been a dip in prices as well. This was owing to the problems faced by food processing industry such as low demand, shortage of staff, logistic disruption etc. owing to COVID-19.

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, 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. Irregular outbreaks like Corona Virus, bird flu have affected poultry industry. In the past (these avian flu outbreaks lead to a drastic fall in demand followed by crash in poultry prices and also led to heavy loss to poultry farmers as government agencies had to destroy the birds in substantially high numbers to prevent an outbreak). Nonetheless the vulnerability of such flu outbreaks still exist and may impact the fortunes of the companies related to the poultry sector.

Liquidity Analysis

Adequate - Liquidity is marked by strong accruals against negligible repayment obligations along with liquid investments to the tune of Rs.374.74 crore as on March 31, 2020 (P.Y. Rs 447.06 Crore). Further, the Company expected to generate sufficient GCA in FY21 to meet the debt repayment obligation. Further, the utilization of fund based working capital limits as around 80-85% as on September 30, 2020. Its unutilized bank lines (approx. Rs.54 crore) are more than adequate to meet its incremental working capital needs over the next one year.

VHPL had opted for moratorium with few of its bankers (5 out of 9) for the period April 2020 to August 2020 for its existing term loans as well working capital facilities (principal and interest both).

The operating cycle was seen at 40 days in FY20 as compared with 60 days in FY19 led by slightly increase in the creditor days of 40 days in FY20 as compared to 33 In FY19. Current ratio as on March 31, 2020 to 0.76x as compared with 1.09x as on March 31, 2019.

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)	
Associates	
Bala Industries and Entertainment Private Limited (BIEPL)	48.56
Srivenk Biological Laboratories Private Limited	50.00
Venky's Middle East FZCO	50.00

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
Liquidity Analysis of Non-Financial Entities
Consolidation
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)	FY19 (UA)	FY20 (UA)
Total operating income	7522.66	7799.45
PBILDT	1330.03	25.29
PAT	653.09	(218.01)
Overall gearing (times)	0.55	0.66
Interest coverage (times)	9.41	0.17

UA: Unaudited

Brief Financials (Rs. crore) (VHPL consolidated)	FY19 (A)	FY20 (A)
Total operating income	7093.48	7375.31
PBILDT	993.46	(320.32)
PAT	414.38	(500.68)
Overall gearing (times)	1.44	2.48
Interest coverage (times)	5.56	(1.71)

A: Audited

Status of non-cooperation with previous CRA: Not applicable

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	379.34	CARE A; Stable
Non-fund-based - ST-BG/LC	-	-	-	8.65	CARE A1
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	156.95	CARE A; Stable / CARE A1
Fund-based-Short Term	-	-	-	108.83	CARE A1
Fund-based - LT-Working Capital Limits	-	-	-	238.50	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	379.34	CARE A; Stable	-	1)CARE A; Stable (08-Jan-20)	1)CARE A-; Stable (12-Nov-18) 2)CARE A-; Stable (19-Oct-18)	1)CARE BBB+; Stable (29-Dec-17)
2.	Non-fund-based - ST-BG/LC	ST	8.65	CARE A1	-	1)CARE A1 (08-Jan-20)	1)CARE A2+ (12-Nov-18) 2)CARE A2+; Stable (19-Oct-18)	1)CARE A2 (29-Dec-17)
3.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	156.95	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (08-Jan-20)	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)
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	-	-	-	-	-	1)Withdrawn (29-Dec-17)
5.	Fund-based - ST-Term loan	ST	-	-	-	-	-	1)Withdrawn (29-Dec-17)
6.	Fund-based-Short Term	ST	108.83	CARE A1	-	1)CARE A1 (08-Jan-20)	1)CARE A2+ (12-Nov-18) 2)CARE A2+; Stable (19-Oct-18)	1)CARE A2 (29-Dec-17)
7.	Fund-based - LT-Working Capital Limits	LT	238.50	CARE A; Stable	-	1)CARE A; Stable (08-Jan-20)	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	-	-	-	-	1)CARE A; Stable (08-Jan-20)	-	-

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
NA	NA
B. Non-financial covenants	
1. Non Submission of Stock Statement	Monthly stock and book debt statement submit to bank by 10th of succeeding month/quarter, delay in submission will attract penal interest as applicable, at rates circulated from time to time.
2. Non submission of CMA/Renewal data for the period beyond 3 month	Will attract penal interest as applicable, at rates circulated from time to time.
3. 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.
4. Account remain overdrawn due to irregularities such as nonpayment of interest, nonpayment of installments within one month of falling due, reduction in drawing power, excess borrowing due to over limit.	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 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

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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