

Venky's India Limited
 October 19, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	114.15 (reduced from 235.35)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Short term Bank Facilities	52.50	CARE A2+ (A Two Plus)	Revised from CARE A3+ (A Three plus)
Long-term/Short-term Bank Facilities	305.00 (reduced from 335)	CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/A Two Plus)	Revised from CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)
Total	471.65 (Rs. Four Hundred Seventy One crore and Sixty Five lakh Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to bank facilities of Venky's India Limited (VIL) takes into cognizance of improvement in financial risk profile of Venkateshwara Hatcheries group (VH Group) during FY18 (refers to the period April 1 to March 31) and Q1FY19 (refers to the period April 1 to June 30 unaudited) marked by increased in scale of operations along-with healthy growth in profit margins, improved capital structure and debt coverage indicators. Further ratings take into account improvement in operational and financial risk profile of one of the group entity Uttara Foods and Feeds Private Limited where VHPL has provided corporate guarantee to the debt obligations.

The ratings continue to take into account established brand name and strong market share in pure line breed of VH Group in the field of poultry and poultry products, the group's status as the largest fully integrated poultry player in India and wide geographic presence along with the presence of the group in value-added poultry products and quick service restaurant chains for processed chicken. The ratings strengths continues to be moderated by susceptibility of the margins to movement in the feed prices along with lack of control on poultry prices, 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 profitability of the group.

The rating strength are also constrained on account of sizable exposure (though decline in incremental exposure) of VH group towards group companies Venky's London Limited (VLL), Venkys Overseas Limited (VOL) engaged in non-core activities through VHPL leading to a strain in the capital structure of VH group in the event of further impairment of the said investment as it is not expected to yield returns in near to medium term.

Increase in exposure to group companies or other non core investment adversely impacting the capital structure of the group is a key rating sensitivity.

Further the group's ability to maintain its market share of the broiler and layer breed, profitability margins along with efficient management of its working capital cycle. Further improvement in the risk profile and repayment track record of Uttara is a key rating monitorable.

Detailed description of the key rating drivers**Key Rating Strengths****Improved financial risk profile marked by growth in operating income and profitability, improved capital structure and gearing levels and moderate working capital cycle**

On a combined basis, TOI increased by 12.72% during FY18 to Rs. 6710.49 crore from Rs.5950.44 crore during FY17 supported by increase in income from VHPL and VIL. The combined PAT increased substantially to Rs. 837 crore in FY18 from Rs.496.20 during FY17 on account of improved sales realization of grownup birds, day old chicks and hatching eggs. The combined GCA for FY18 was Rs.951.79 crore as compared to Rs.621.27 crore during FY17. The PBILDT margin has improved substantially to 23.62 in FY18 from 19.23 in FY17.

The overall gearing improved to 0.47x as on March 31, 2018 as against 0.80x as on March 31, 2017 and Total Debt to Gross cash accruals was at 1.29x for FY18 as against 2.43x for FY17.

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

The current ratio as on March 31, 2018 improved to 1.02x as compared with 0.84x as on March 31, 2017. The same was largely on account of reduced creditors and short term borrowings. The working capital cycle stood at 55 days in FY18.

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. VIL one of the group companies is the largest producer of SPF eggs in Asia. Also the group has widest geographic presence in the domestic markets along with the successful chain of processed chicken restaurants across Tier I cities.

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. The total exposure towards group companies stood at Rs. 1373.63 crore (IND AS) as on March 31, 2018 as compared with Rs.1168.73 crore (IND AS) as on March 31, 2017.

However, as informed by the management the investment in the group companies are made out of profits generated from the group and not from the borrowed funds from the banks/financial institutions.

Apart from the investment made above, VHPL has extended corporate guarantees to its group companies and other entities. The outstanding amount of corporate guarantees reduced to Rs. 232.75 crore as on March 31, 2018 from Rs.336.75 crore as on March 31, 2017.

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.

Analytical Approach: Combined

While assigning ratings, CARE has considered the combined performance of four group companies namely, Venkateshwara Hatcheries Private Limited, VIL, Venco Research and Breeding Farm Private Limited and Venkateshwara Research and Breeding Farm Private Limited. With the operations of the above four 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).

Applicable Criteria:

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology- Manufacturing Companies](#)

[Financial ratios- Non Financial Sector](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Criteria for Short Term Instruments](#)

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.

VIL is the listed company of the group and is engaged in poultry and poultry products, Specific Pathogen Free (SPF) Eggs, Processed chicken, animal healthcare products, pellet feed, solvent extraction and also have express food outlets. It is also an integrated poultry company. VIL is majorly dealing in broiler birds segment and oil extraction segment.

Brief Financials (Rs. crore) (Combined)	FY17 (UA)*	FY18 (UA)
Total operating income	5950.44	6710.49
PBILDT	1117.77	1547.38
PAT	496.20	837.00
Overall gearing (times)	0.80	0.47
Interest coverage (times)	5.40	9.84

UA: Unaudited *figures are restated based on FY18 financials

Brief Financials (Rs. crore) (VHPL standalone)	FY17 (A)*	FY18 (A)
Total operating income	3860.95	4267.03
PBILDT	608.10	846.88
PAT	225.08	426.98
Overall gearing (times)	2.25	1.41
Interest coverage (times)	3.68	5.63

A: Audited *figures are restated based on FY18 financials

Status of non-cooperation with previous CRA: No

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	March 2025	114.15	CARE A-; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	60.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-BG/LC	-	-	-	7.50	CARE A2+; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	245.00	CARE A-; Stable / CARE A2+
Fund-based - ST-Term loan	-	-	-	45.00	CARE A2+; 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	114.15	CARE A-; Stable	-	1)CARE BBB+; Stable (29-Dec-17)	1)CARE BBB; Stable (01-Feb-17)	1)CARE BBB (04-Dec-15)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	60.00	CARE A-; Stable / CARE A2+	-	1)CARE BBB+; Stable / CARE A2 (29-Dec-17)	1)CARE BBB; Stable / CARE A3+ (01-Feb-17)	1)CARE BBB / CARE A3+ (04-Dec-15)
3.	Non-fund-based - ST-BG/LC	ST	7.50	CARE A2+; Stable	-	1)CARE A2 (29-Dec-17)	1)CARE A3+ (01-Feb-17)	1)CARE A3+ (04-Dec-15)
4.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	245.00	CARE A-; Stable / CARE A2+	-	1)CARE BBB+; Stable / CARE A2 (29-Dec-17)	1)CARE BBB; Stable / CARE A3+ (01-Feb-17)	1)CARE BBB / CARE A3+ (04-Dec-15)
5.	Fund-based - ST-Term loan	ST	45.00	CARE A2+; Stable	-	1)CARE A2 (29-Dec-17)	1)CARE A3+ (01-Feb-17)	1)CARE A3+ (04-Dec-15)

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