

Venky's India Limited

January 08, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term/Short-term Bank Facilities	280.00 (reduced from 305.00)	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	65.20 (reduced from 235.35)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Short term Bank Facilities	52.50	CARE A1 (A One Plus)	Revised from CARE A2+ (A Two plus)
Total	397.70 (Rupees Three Hundred Ninety Seven Crore and Seventy Lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings to the bank facilities of Venky's India Limited (VIL) 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, cyclical nature of the poultry industry and risk associated to any diseases outbreaks of bird flu and other diseases which are likely to have a negative impact on volume and profitability.

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 Sensitivities:

- Sustained improvement in scale of operations and PBILDT margin for poultry business
- Significant reduction in debt going forward, overall gearing at consolidated level below 0.20x.

Negative Sensitivities:

- Any un-envisaged debt funded capital expenditure leading to significant deterioration in capital structure

Detailed description of the key rating drivers

Key Rating Strengths

Financial risk profile marked by growth in scale of operations, moderation in profitability in FY19, subdued performance in H1FY20

TOI increased by 14.93% during FY19 to Rs. 3063.90 crore from Rs.2706 crore during FY18 supported by increase in sales volume of Poultry & Poultry Product as well as oil refinery division. While FY18 witnessed exceptionally high profitability resulting from low feed costs, PBILDT margin moderated to 10.85% during FY19 as against 15.06% in FY18 mainly on account of higher raw feed costs. Subsequently, PAT margin declined to 5.68% in FY19 as against 7.38% for FY18.

During H1FY20, VIL achieved total operating income of Rs.1737.55 crore as against Rs 1413.42 crore in H1FY19, with PBILDT margin of 6.70% vs 10.61% in H1FY19.

Healthy capital structure and debt protection metrics

Capital structure and debt coverage indicators improved further during FY19. Debt to equity stood comfortable at 0.09x as on March 31, 2019 (0.25x as on March 31, 2018). Overall gearing improved and stood at 0.30x as on March 31, 2019 (0.49x as on March 31, 2018). Total debt to GCA improved to 1.30x vis-à-vis 1.50x. Interest coverage for FY19 improved to 11.11x vis-à-vis 8.96x for the year FY18.

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

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 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), contract commercial farming and retailing of processed products. VIL 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.14.01 crore. VIL 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 of VIL has stood at 49 days in FY19 as compared with 50 days in FY18. The average monthly utilization of working capital limits was seen at 58% for 12 months ended August 31, 2019. The current ratio stood at 1.26 as on March 31, 2019.

Key Rating Weaknesses**Vulnerability of profits to raw material price movements**

VIL'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: Standalone

Since its initial rating of VIL, CARE had taken a combined view of the performance of four companies including: VHPL (standalone), Venky's India Limited (VIL), Venco Research and Breeding Farm Private Limited (Venco) and Venkateshawara Research and Breeding Farm Private Limited (VRB). The combined view was taken on account of common promoters and management, similar field of operations and significant inter-company transactions. While assigning ratings, CARE has considered the Standalone performance of Venkys India Limited on account of change in CARE's criteria separation of listed and unlisted entity.

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.

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

VH group of which VIL is subsidiary Company was 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) (VIL standalone)	FY18 (A)	FY19 (A)	H1FY19 (A)	H1FY20 (A)
Total operating income	2706.0	3063.90	1413.42	1737.55
PBILDT	407.48	332.31	150.00	116.49
PAT	199.71	174.14	76.53	75.43
Overall gearing (times)	0.49	0.30	0.28	0.27
Interest coverage (times)	8.96	11.10	8.30	9.09

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	-	-	March 2025	65.20	CARE A; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	60.00	CARE A; Stable / CARE A1
Non-fund-based - ST-BG/LC	-	-	-	7.50	CARE A1
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	220.00	CARE A; Stable / CARE A1
Fund-based - ST-Term loan	-	-	-	45.00	CARE A1

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	65.20	CARE A; Stable	-	1)CARE A-; Stable (19-Oct-18)	1)CARE BBB+; Stable (29-Dec-17)	1)CARE BBB; Stable (01-Feb-17)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	60.00	CARE A; Stable / CARE A1	-	1)CARE A-; Stable / CARE A2+ (19-Oct-18)	1)CARE BBB+; Stable / CARE A2 (29-Dec-17)	1)CARE BBB; Stable / CARE A3+ (01-Feb-17)
3.	Non-fund-based - ST-BG/LC	ST	7.50	CARE A1	-	1)CARE A2+; Stable (19-Oct-18)	1)CARE A2 (29-Dec-17)	1)CARE A3+ (01-Feb-17)
4.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	220.00	CARE A; Stable / CARE A1	-	1)CARE A-; Stable / CARE A2+ (19-Oct-18)	1)CARE BBB+; Stable / CARE A2 (29-Dec-17)	1)CARE BBB; Stable / CARE A3+ (01-Feb-17)
5.	Fund-based - ST-Term loan	ST	45.00	CARE A1	-	1)CARE A2+; Stable (19-Oct-18)	1)CARE A2 (29-Dec-17)	1)CARE A3+ (01-Feb-17)

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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