

## Venkys India Limited

December 30, 2020

### Rating

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	22.81 (Reduced from 32.81)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	280.00	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable / A One)	Reaffirmed
Short Term Bank Facilities	46.50 (Reduced from 52.50)	CARE A1 (A One)	Reaffirmed
<b>Total Facilities</b>	<b>349.31</b> <b>(Rs. Three Hundred Forty-Nine Crore and Thirty-One Lakhs Only)</b>		

*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 Venkys India Limited (VIL) 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.

### 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 to more than Rs.5000 crore while maintaining its operating profit margins between 12-15% going forward on a sustained basis.

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

- Significant decline in operating profit margin below 7% on a sustained basis.
- Any unenvisaged increase in debt profile resulting in deterioration of overall gearing to 0.40x or above
- Significant elongation in working capital cycle from current levels, affecting liquidity position of the Company.

### Detailed description of the key rating drivers

#### Key Rating Strengths

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

VIL 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.

##### **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.

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

**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 of VIL 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 and term loans from banks aggregating to Rs.309.75 Crore. During FY20, the tangible net-worth of the company declined to Rs 825.94 crores as compared to Rs 871.27 crores due to the losses booked in FY20. Despite of the same the capital structure remained comfortable with overall gearing of 0.38x as on March 31, 2020 (P.Y. 0.31x). 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 company registered a growth of 7.30% in FY20 vis-à-vis FY19 on account of better performance in 9MFY20 and stood at Rs. 3285.70 crore during FY20 (as against Rs.3063.90 crore during FY19). However, it has booked profit of around Rs.3.63 crore at PBILDT level as compared to the profit of Rs.332.31 crore in FY19. Further, with reduced operational levers and increase in fixed capital charges, VIL reported a net loss of Rs.27.16 crore in FY20 as compared to profit booked of Rs 174.14 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.24500 per metric ton in Q1FY20 to Rs.27000 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 VIL has registered a PBILDT margin of 11.52% (Rs 145.04 crore) in H1FY21 as compared to 6.70%(Rs 116.49 crore) in H1FY20 and has registered a PAT margin of 6.62% in H1FY21 as against 4.34% for H1FY20. Further, the company has generated Cash profit of Rs 101.04 crores in H1FY21 as against Rs.91.25 crore in H1FY20. Further, as on 30<sup>th</sup> September 2020, VIL Standalone had free cash of Rs 6.52 crore and unutilized CC limits of around Rs.95 crore providing additional cushion.

**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, VIL'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, VIL 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.10.66 crore as on March 31, 2020. Further, the company is expected to generate sufficient GCA in FY21 to meet the debt repayment obligation. Further, the utilization of fund based working capital limits as around 70-75% as on September 30, 2020. Its unutilized bank lines (approx. Rs.95 crore) are more than adequate to meet its incremental working capital needs over the next one year. Despite the challenges faced by the company during the initial lockdown period, the Company has not requested for any deferment of interest, moratorium for term loan repayments during the lockdown period and has not availed any fresh borrowings.

The operating cycle was seen at 40 days in FY20 as compared with 49 days in FY19 led by slightly increase in the creditor days of 36 days in FY20 as compared to 33 In FY19. Current ratio as on March 31, 2020 to 1.00x as compared with 1.26x as on March 31, 2019.

#### Analytical Approach: Standalone (Venkys India Limited)

##### 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

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.

Brief Financials (Rs. crore) (VIL standalone)	FY19 (A)	FY20 (A)	H1FY20 (A)	H1FY21 (A)
Total operating income	3063.90	3285.70	1737.55	1258.92
PBILDT	332.31	3.63	116.49	145.04
PAT	174.14	(27.16)	75.43	83.34
Overall gearing (times)	0.30	0.38	0.27	0.27
Interest coverage (times)	11.10	0.13	9.09	9.29

A: Audited UA: Unaudited

**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	-	-	March 2023	22.81	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	-	-	-	39.00	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 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	22.81	CARE A; Stable	-	1)CARE A; Stable (08-Jan-20)	1)CARE A-; Stable (19-Oct-18)	1)CARE BBB+; Stable (29-Dec-17)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	60.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (08-Jan-20)	1)CARE A-; Stable / CARE A2+ (19-Oct-18)	1)CARE BBB+; Stable / CARE A2 (29-Dec-17)
3.	Non-fund-based - ST-BG/LC	ST	7.50	CARE A1	-	1)CARE A1 (08-Jan-20)	1)CARE A2+; Stable (19-Oct-18)	1)CARE A2 (29-Dec-17)
4.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	220.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (08-Jan-20)	1)CARE A-; Stable / CARE A2+ (19-Oct-18)	1)CARE BBB+; Stable / CARE A2 (29-Dec-17)
5.	Fund-based - ST-Term loan	ST	39.00	CARE A1	-	1)CARE A1 (08-Jan-20)	1)CARE A2+; Stable (19-Oct-18)	1)CARE A2 (29-Dec-17)

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

Name of the Instrument	Detailed explanation
<b>A. Financial covenants</b>	
NA	NA
<b>B. Non-financial covenants</b>	
1. Non Submission of Stock Statement	Monthly stock and book debt statement submit to bank by 20 <sup>th</sup> of succeeding month, 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/ ST-CC/PC/Bill Discounting	Simple
3.	Fund-based - ST-Term loan	Simple
4.	Fund-based/Non-fund-based-LT/ST	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. 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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