ICRA

March 21, 2017

# Venky's (India) Limited

| Instrument | Amount Rated | Rating Action |
|---|---|---|
| Term Loan | Rs.291.10 crore | [ICRA]BBB reaffirmed; outlook revised to positive from stable |
| Cash Credit | Rs. 390.00 crore | [ICRA]BBB reaffirmed; outlook revised to positive from stable |
| Fund-based | Rs. 75.00 crore | [ICRA]A3+ reaffirmed |
| Non Fund Based | Rs. 7.50 crore | [ICRA]A3+ reaffirmed |

ICRA has reaffirmed the rating assigned to the Rs. 291.10 crore[1] term loan and Rs. 390.00 crore cash credit facilities of Venky's India Limited (VIL, 'the company') as [ICRA]BBB (pronounced ICRA triple B)†. The outlook on the long term rating has been revised to 'positive' from stable. ICRA has also reaffirmed the rating assigned to the Rs. 75.00 core short term fund based facilities and Rs. 7.50 crore non fund based facilities of VIL as [ICRA]A3+ (pronounced as ICRA A three plus)†.

The revision in rating outlook reflects strong improvement in profitability estimated in this fiscal and usage of these accruals to pare debt which is expected to result in improved capital structure and liquidity profile of the company. The company has also received back part of unsecured loans entities in Q4 FY2017 given to the group and same combined with modest capex plans is expected to support cash accruals of the company in FY2017. The ratings continue to derive comfort from strong position enjoyed by the Venkateshwara Hatcheries (VH) group in domestic poultry business on back of fully integrated operations starting from 'Pureline breeding' to contract broiler farming and from animal healthcare products to captive feed mills. VH group has widest geographic presence in the domestic industry and established relations with poultry farmers along with strong presence in value added segments like animal healthcare products and processed chicken. The group has strong R&D capabilities and its broiler and layer breed command dominant market share in commercial poultry farming in the country on back of proven operating parameters of the breed. The company has presence in value added segments like animal healthcare products, SPF eggs and processed chicken providing stable revenue stream and better margins. The company has scaled up its soybean solvent business over the years which provide backward integration to feed mills along with additional revenue stream. ICRA also takes note of healthy long term demand prospects for the domestic poultry industry on back of favourable socio-economic factors. The poultry industry has come together to regulate supply in broiler market to ensure remunerative realizations though co-ordination of such efforts over a sustained period of time remain crucial. The poultry industry is expected to benefit from supply control measures adopted and sharp drop in soymeal prices resulting in lower production costs in FY2017 and strong improvement in margins. Profitability for poultry business remains susceptible to highly volatile broiler realizations combined with seasonal nature of demand for the poultry products in India though FY2017 is expected to be much better year for the industry compared to last few years. Given favourable monsoon, feed prices are expected to remain affordable in near term supporting margins for the industry though ensuring remunerative broiler realizations through continued co-ordination of supply control measures remain critical.

The rating , however, remain constrained by sizeable direct/indirect support provided to parent company VHPL (Venkateshwara Hatcheries Private Limited, rated ICRA BBB-/Positive/ A3). Same combined with sizeable debt funded capex done over last few years has resulted in leveraged capital structure with gearing standing at 1.9x as on March 2016 and TD/OPBITDA at 5.8 times. Further the RoCE has

[1] *100 lakh = 1 crore = 10 million*

† For complete rating definition, please refer to ICRA website www.icra.in or any of the ICRA Rating Publications.

remained muted at 10-11% on back of un-yielding support. The profitability, though, has improved considerably in 9M FY2017 on back of favourable broiler realizations and sharp drop in soymeal prices supporting production costs along with improved profitability in solvent division. The margins remain susceptible to highly volatile broiler realizations and feed prices combined with seasonal nature of demand for the poultry products in India. The operating environment for poultry industry has improved over last few quarters on back of co-ordinated efforts of industry players to regulate supply in market to ensure remunerative realizations and lower feed costs especially in H2 FY2017. The company is exposed to inherent industry risk of disease outbreak (bird flu) though wide geographic presence provides some cushion against regional outbreaks.

ICRA take note of sizeable funds (~Rs. 165 crore as on Mar'16) committed as margin for bank facilities of VHPL and sister concerns along with ~Rs. 100 crore given as advance to VHPL for purchasing land parcel since FY2015. This financial support to VHPL along-with extended credit terms given to VHPL has strained financial flexibility of VIL though improved accruals in current fiscal is expected to result in improved financial flexibility. Any sizeable incremental support to group companies can adversely affect the liquidity profile of the company and continued ability to refinance remain critical given sizeable scheduled debt repayments.

**Key Rating Driver**

**Credit Strengths**

- Long standing experience of the group in poultry and poultry related business; Fully integrated poultry business with the group being the largest integrated poultry group in the country
- Strong R&D capabilities with group's broiler and layer breed enjoying dominant position in domestic commercial poultry farming
- Healthy long term demand prospects for the poultry industry given favourable socio-economic factors
- Presence in value added segments like processed chicken, animal healthcare products and SPF egg provides VIL strong positioning in terms of business opportunity and supports overall profitability
- Diversified geographic presence of broiler operations in Northern and Western India provides some cushion against seasonality associated with the poultry business
- Scale up of solvent business with Nanded plant becoming operational in Q4FY2016 provided strong revenue growth in FY2016
- Strong improvement in profitability in current fiscal on back of lower feed costs and favourable realizations for broiler as well as related products like day old chick (DOC) and hatching egg (HE); Improved margins in solvent business has also supported overall profitability

**Credit Challenges**

- Leveraged capital structure with gearing at 1.9x as on March 2016 and TD/OPBITDA of 5.8 times; gearing expected to improve to 1.3-1.4x as on March 2017 with improved accruals and targeted debt reduction
- RoCE strained over last few years on back of volatile operating margins in CBF business and incremental un-yielding support provided to parent; improved margins in FY2017 with 9M FY17 operating margins at 10% as against 6% in FY2016
- Strained liquidity profile and sizeable scheduled repayments result in continued dependence on refinancing though usage of improved accruals to pare debt in current fiscal expected to provide comfort

- Exposed to high volatility in broiler realizations on back of seasonal nature of demand
- High susceptibility to raw material price fluctuations which largely consists of Maize and Soyameal; remain exposed to vagaries of agro climatic conditions and international demand supply scenario for same
- Exposed to inherent industry risk of disease outbreak (bird flu) though regional outbreaks have marginal impact only

**Description of key rating drivers highlighted above**

The capital structure of the company has deteriorated over last few fiscals with gearing increasing from 0.6x as on Mar'12 to 1.9x as on Mar'16 on back of sizeable direct/indirect financial support given to parent and debt funded capex undertaken on one side while decline in accruals on other side given unfavourable operating environment prevailing in domestic poultry industry for last few years. The capital structure, though, is expected to improve with expected gearing of 1.4-1.5x in current fiscal with improved accruals, debt repayments, receipt of part of unsecured loans given to one group company and no major capex plans. With sizeable interest burden and moderate margins, interest coverage had come down from 4.4x in FY2012 to 1.5x in FY16 which is expected to improve sharply in FY2017 on back of operating margins estimated to improve sharply by 300-400 bps from FY2016 levels. Given improved profitability in current fiscal, financial parameters are expected to improve though sustainability of these improvements remain to be seen. Further the profitability remains vulnerable to fluctuations in feed prices with maize/soyameal forming ~70% of raw material costs and prices of same remain contingent on agro climatic conditions prevailing in the country and global demand-supply scenario. The company is exposed to inherent industry risk of disease outbreak (bird flu) though India wide geographic presence provides some cushion against regional outbreaks. The operating environment in poultry industry has improved given co-ordinated efforts by industry to ensure remunerative realizations and moderation in feed prices though improvement in distribution infrastructure and shift towards processed poultry products from existing wet market will provide long term sustainable solution to extreme volatility being seen in industry margins.

**Links to Applicable Criteria**

Corporate Credit Ratings: A Note on Methodology

**Company Profile**

Venky's (India) Limited (VIL) is a part of the VH group which is the largest and most integrated poultry player in India with strong presence in poultry broiler as well as layer segment along with sizeable presence in value added segments like animal healthcare products and processed chicken. The VH group was promoted by late Dr. B.V. Rao and started its operations in 1971 as a sole franchisee in India of Babcock Farm Inc., USA. The group's operations span the entire spectrum of poultry activities from pure-line breeding, grandparent and parent breeding and sale of commercial day-old chicks (DOCs) to contract commercial farming.

The company derives 50% of its business from poultry and poultry products with rest coming from animal healthcare products (AHP) and oil seed division. Within poultry division, company sells broiler/layer DOC, commercial grown up birds, processed chicken and SPF (specific pathogen free) eggs. VIL is one of the largest manufacturers of SPF eggs in Asia and these eggs are used for manufacturing poultry and human vaccines.

**Recent Results**

VIL reported operating income of Rs. 2122 crore in FY2016 with profit after tax (PAT) of Rs. 29.9 crore as against operating income of Rs. 1731 crore in FY2015 with PAT of Rs. 19.3 crore. For 9M FY2017, VIL has reported operating income of Rs. 1855 crore with PAT of Rs. 83.0 crore.

**Status of non-cooperation with previous CRA:** Not Applicable.

**Rating History for last three years:**

**Table: Rating History**

| Name of Instrument | Current Rating | | | Chronology of Rating History for past 3 years | | |
|---|---|---|---|---|---|---|
| | **Type** | **Rated Amount (Rs crore)** | **Month – Year & Rating** | **Month – Year & Rating** | **Month – Year & Rating** | **Month – Year & Rating** |
| | | | Mar 2017 | Nov 2016 | Sep 2015 | Oct 2014 |
| **Term Loans** | Long Term | 291.10 | [ICRA]BBB /Positive | [ICRA]BBB /Stable | [ICRA]BBB+ /Stable | [ICRA]A- /Stable |
| **Cash Credit** | Long Term | 390.00 | [ICRA]BBB /Positive | [ICRA]BBB /Stable | [ICRA]BBB+ /Stable | [ICRA]A- /Stable |
| **Fund Based** | Short Term | 75.00 | [ICRA]A3+ | [ICRA]A3+ | [ICRA]A2 | [ICRA]A1 |
| **Non Fund Based** | Short Term | 7.50 | [ICRA]A3+ | [ICRA]A3+ | [ICRA]A2 | [ICRA]A1 |

**Complexity level of the rated instrument:**
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

**Annexure I**
**Details of Rated Instrument**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue | Current Rating and Outlook |
|---|---|---|---|---|---|
| **Term Loan** | NA | NA | FY2018-FY2021 | 291.10 | [ICRA]BBB/Positive |
| **Cash Credit** | NA | NA | NA | 390.00 | [ICRA]BBB/Positive |
| **Fund Based** | NA | NA | NA | 75.00 | [ICRA]A3+ |
| **Non Fund Based** | NA | NA | NA | 7.50 | [ICRA]A3+ |

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