Venky’s (India) Limited

November 05, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount	Current Rated Amount	Rating Action
Term Loan	Rs.222.96 crore	Rs.114.15 crore	[ICRA]A-(Stable); Upgraded from [ICRA]BBB+(Stable)
Cash credit	Rs.305.00 crore	Rs.350.00 crore	[ICRA]A-(Stable); Upgraded from [ICRA]BBB+(Stable)
Short-term Loans	Rs. 75.00 crore	-	-
Non-fund Based	Rs. 7.50 crore	Rs. 7.50 crore	[ICRA]A2+; Upgraded from [ICRA]A2
Total	**Rs. 610.46 crore**	**Rs. 471.65 crore**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating outstanding on the Rs. 114.15 crore (revised from Rs 222.96 crore) term loan facilities and Rs.350.00 crore (revised from Rs 305.00 crore) cash credit facilities of Venky’s (India) Limited (VIL / the company) from [ICRA]BBB+ (pronounced ICRA triple B plus) to [ICRA]A- (pronounced ICRA A minus). The outlook on the long-term rating is ‘stable’. ICRA has also upgraded the short-term rating outstanding on the Rs.7.50 crore non-fund based facilities of VIL from [ICRA]A2 (pronounced ICRA A two) to [ICRA]A2+ (pronounced ICRA A two plus).

Rationale

The ratings upgrade takes note of the strong improvement in profitability in FY2018 and H1FY2019 on the back of improved broiler realisations and muted feed costs; and the consequent improvement in liquidity profile, capitalisation and coverage indicators of the company. Supported by strong cash accruals in FY2018, VIL’s coverage indicators like total debt/OPBIDTA and interest-coverage improved to 0.9x (2.0x - FY2017) and 7.8x (3.6x – FY2017), respectively. VIL’s debt level has reduced from Rs 545 crore in March 2017 to Rs 350 crore in March 2018, and it has further reduced to Rs 220 crore in September 2018. ICRA believes VIL’s coverage indicators and capital structure will remain comfortable over the medium term supported by healthy accruals and moderate capex plans. Liquidity position of VIL remains comfortable, with unutilised bank lines of over Rs 230 crore available with company as on Sep-2018.

The ratings continue to derive comfort from strong position enjoyed by the Venkateshwara Hatcheries group (VH group) in the domestic poultry business on the 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 poultry industry and established relations with poultry farmers. The group has strong R&D capabilities and its broiler & layer breed command dominant market share in commercial poultry farming in the country on the back of proven operating parameters of the breed. VH group has presence in value added segments like animal healthcare products, poultry vaccines, SPF eggs and processed chicken providing stable revenue stream and better margins. ICRA also takes note of healthy long-term demand prospects for the domestic poultry industry because of favorable socio-economic factors.

The poultry industry has benefited from the favorable supply-demand scenario and muted feed prices resulting in lower production costs over last two years and consequent improvement in margins. Profitability for poultry business remains susceptible to volatile broiler realisations combined with seasonal nature of demand for the poultry products in India though industry is expected to sustain healthy performance in current fiscal as well. Given favorable monsoon, feed prices are expected to remain modest in the near term supporting margins for the industry though ensuring remunerative broiler realisations remain a sensitivity indicator for the industry. While profitability for poultry business remains susceptible to volatile broiler realisations combined with seasonal nature of demand for the poultry products in India, ICRA expects VIL's coverage indicators to remain comfortable over the medium term. Management's commitment to further deleverage VIL's balance sheet and achieve debt free status over next two years provides additional comfort.

The ratings, however, remain constrained by sizeable direct & indirect financial support provided to parent company Venkateshwara Hatcheries Private Limited (VHPL, rated [ICRA] BBB+ (Stable) and [ICRA]A2), which ultimately strained VIL's liquidity position as well as financial flexibility in the recent past. There has been conscious step by VIL to reduce its exposure to VHPL, with recovery of over Rs 48 crore in the last 12 months. Moreover, as confirmed by the management, there will not be any incremental support to other group companies; and timely recovery of past investments remains crucial and a key rating sensitivity. ICRA does not expect any incremental support by VIL to group companies, which if happens could be credit negative.

VIL's profitability remain susceptible to the volatility in feed prices, especially maize and soymeal. Moreover, perishable nature of product and seasonal demand pattern restricts pricing flexibility for industry participants. The company is exposed to inherent industry risk of disease outbreak (bird flu) though wide geographic presence provides some cushion against regional outbreaks.

Outlook: Stable

ICRA expects VIL's credit profile to improve further in near to medium term with comfortable debt coverage indicators and healthy cash accruals. Over the medium term, the gearing level and TD/OPBIDTA is likely to remain under 0.5 times and 1.5 times, respectively. The outlook may be revised to 'Positive' if there is sustainable reduction in the support provided by VIL to the other group companies. Also, the outlook may be revised to 'Negative' in case of a significant downturn in the Indian poultry industry, substantial increase in raw material prices or weakening in market position, thereby materially impacting profitability and return indicators, which may have a bearing on the company's leverage indicators. Any incremental bank borrowing plans to support stressed group entities could result in downward rating pressure.

Key rating drivers

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 - The founder of VH group Mr.BV Rao is a pioneer in the Indian Broiler industry. With presence in the industry for over four decades, the group has developed its own variety of domestically adapted Cobb series – Vencobb 300, 400 and 400s, making it the dominant breed in the poultry market. Currently, Cobb commands two third market share as per the management. Further the group is vertically integrated with poultry feeds to processed chicken and animal health products.

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- VIL is a leading player in the domestic animal health care market. It supplies to all its contract farms and other players who source cobb chicken. The PBIT margins in the animal health care segment was around 22% in FY2018 and this segment contributed to 8% of VIL's revenues and 11% of VIL's PBIT in FY2018. Presence in this segment has enhanced VHPL's overall contribution margins resulting in superior profits when compared to peers.

Strong R&D capabilities resulting in higher operating efficiencies, resulting in lower production costs- With well-developed research units (Venco Research and Venkateshwara Research), VH group's overall operating efficiencies have improved with lower feed requirement by way of better feed conversion ratio of 1.6-1.7 and lower mortality rates (5%-5.5%) of chicks

Diversified geographic presence of broiler operations in the country along with strong share in layer market provides some cushion against volatility associated with the poultry business- VIL has poultry farms in the northern and western regions of India. It has presence in over 10 Indian states directly. Apart from broilers, it has a strong presence in the layer industry also, resulting in favourable diversification.

Strong improvement in profitability in current fiscal on back of lower feed costs and favourable realisations 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- Domestic feed prices have remained stable over last two years. Further, broiler realisations have improved following higher demand driven by rising disposable incomes and ban on illegal beef slaughtering. Poultry consumption is expected to grow by 7-8% in the near term driven by increase in fast food chains and other socio-economic factors.

Improvement in capacity utilisation in Solvent plants led to robust revenue growth- Due to ample availability of soymeal in the domestic market, utilisation levels in VIL's solvent extraction plants improved in FY2018, leading to revenue growth of 6% to Rs. 1,140 crore.

Credit challenges

Direct & Indirect support to the group companies, which are yielding low/no returns thereby dragging overall profitability- While there has been reduction in exposure to relatively stressed group companies, overall exposure remains sizeable (over Rs 250 crore) which is a drag on overall return as well as coverage indicators.

Exposed to high volatility in realisations on back of seasonal nature of demand; margins remain exposed to vagaries of demand supply scenario and product pricing in open market- Industry wide efforts to maintain broiler supply in market have resulted in improved operating environment which gets reflected in improved performance across all poultry players. In the near to medium term, lack of cold chain infrastructure and preference towards live bird will restrict growth of poultry imports. Nevertheless, regulatory uncertainty like dumping from USA remains a challenge for industry's profitability over the longer term.

High susceptibility to raw material price fluctuations which largely consists of Maize and Soymeal; remain exposed to vagaries of agro climatic conditions and international demand supply scenario for same – Around 70% of total cost for the company is feed cost, which largely comprises of Soymeal and Maize. Prices of these commodities are driven by agro-climatic conditions and international prices.

Exposed to inherent industry risk of disease outbreak (bird flu) though regional outbreaks have marginal impact only – The industry is exposed to outbreak of diseases such as Avian Influenza (bird flu). However, any such occurrence is generally localised and shouldn't have any meaningful impact on overall domestic demand.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

Impact of Parent or Group Support on an Issuer's Credit Rating

About the company:

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 India and these eggs are used for manufacturing poultry and human vaccines.

In FY2018, VIL recorded a PBT of Rs.336.9 crore on an operating income of Rs.2688.8 crore as against a PBT of Rs.205.9 crore on an operating income of Rs.2475.6 crore in FY2017. During Q1 FY2019, VIL reported net profit of Rs 71 crore on operating income of Rs 756 crore as compared to net profit of Rs 52 crore on operating income of Rs 663 crore in Q1 FY2018.

Key financial indicators (audited)

Standalone	**FY2017**	**FY2018**
Operating Income (Rs. crore)	2,475.6	2,688.8
PAT (Rs. crore)	124.7	199.7
OPBDIT/OI (%)	11.2%	14.5%
RoCE (%)	26.3%	39.1%
Total Debt/TNW (times)	1.0	0.5
Total Debt/OPBDIT (times)	2.0	0.9
Interest Coverage (times)	3.6	7.8

Source: Company Data, ICRA Research

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE:PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Sr. No.	Instrument	Type	Current Rating: Amount Rated (Rs. Cr)	Current Rating: Amount Outstanding* (Rs. Cr)	Current Rating: Date & Rating in FY2019 Nov 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2018 Nov 2017	Date & Rating in FY2017 Mar 2017	Date & Rating in FY2017 Nov 2016	Date & Rating In FY2016 Dec 2015	Date & Rating In FY2016 Sep 2015
1	Term Loan	Long-term	Rs.114.15 crore	Rs. 78.16 Crore	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Cash credit	Long-term	Rs.350.00 crore	Rs.140.61 crore	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
4	Short-term loans	Short-term	-	-	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A2	[ICRA]A2
5	Non-fund based	Short-term crore	Rs. 7.50 crore	Rs. 7.50 crore	[ICRA]A2+	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A2	[ICRA]A2

Source: VIL; *-as on September 30, 2018

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-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
NA	Long-term Loan 1	March, 2015	NA	October, 2019	Rs.6.20 crore	[ICRA]A-(Stable)
NA	Long-term Loan 2	June, 2019	NA	March, 2024	Rs.40.00 crore	[ICRA]A-(Stable)
NA	Long-term Loan 3	August, 2013	NA	August, 2020	Rs.41.20 crore	[ICRA]A-(Stable)
NA	Long-term Loan 4	March, 2013	NA	September, 2018	Rs.1.85 crore	[ICRA]A-(Stable)
NA	Long-term Loan 5	July, 2015	NA	July, 2020	Rs.24.90 crore	[ICRA]A-(Stable)
NA	Cash credit	NA	NA	NA	Rs.350.00 crore	[ICRA]A-(Stable)
NA	Non-Fund Based	NA	NA	NA	Rs. 7.50 crore	[ICRA] A2+

Source: VIL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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