



## Venky's (India) Limited

Instrument	Amount Rated	Rating Action
Term Loan	Rs. 318.30 crore	[ICRA]BBB+/Stable reaffirmed
Cash Credit	Enhanced from Rs. 35.50 crore to Rs. 215.00 crore	[ICRA]BBB+/Stable reaffirmed
Fund-based	Reduced from Rs. 394.50 crore to Rs. 215.00 crore	[ICRA]A2 reaffirmed
Non Fund Based	Rs. 12.50 crore	[ICRA]A2 reaffirmed

ICRA has reaffirmed the rating assigned to the Rs. 318.30 crore<sup>\*</sup> term loan and Rs. 215.00 crore (enhanced from Rs. 35.50 crore) cash credit facilities of Venky's India Limited (VIL, 'the company') as [ICRA]BBB+ (pronounced ICRA triple B plus) with stable outlook<sup>†</sup>. ICRA has also reaffirmed the rating assigned to the Rs. 215.00 crore (reduced from Rs. 394.50 crore) short term fund based facilities and Rs. 12.50 crore non fund based facilities of VIL as [ICRA]A2 (pronounced as ICRA A two)<sup>†</sup>. ICRA had earlier revised the ratings assigned to VIL from [ICRA]A-/Stable/A1 to [ICRA]BBB+/Stable/A2 with its release dated September 22,2015.

The rating reflects moderation in financial profile characterized by gearing increasing to 2.1x as on Mar'15 and interest coverage deteriorating to 1.4x for FY15 on back of sizeable debt addition over last few fiscals to meet capex requirements as well as to provide for indirect support provided to parent company VHPL (Venkateshwara Hatcheries Private Limited, rated [ICRA] BBB/Stable/A3+). Further the profitability also declined to 10% in FY15 on back of muted revenue growth as chick placements were reduced intentionally to support realizations while margin improvement was below expectations though company has reported strong revenue and margin growth in Q1 FY16 supported by favourable broiler realizations in Jun'15 and new solvent plant of 500 TPD at Nanded becoming operational in Mar'15. The operating environment for poultry industry is expected to improve going forward on back of co-ordinated efforts of industry players to regulate supply in market to ensure remunerative realizations. The margins, though, remain susceptible to highly volatile broiler realizations and feed prices combined with seasonal nature of demand for the poultry products in India. 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'15) committed as margin for bank facilities of VHPL along with ~Rs. 100 crore given as advance to VHPL for purchasing land parcel. This financial support to VHPL along-with extended credit terms given to VHPL has strained financial flexibility of VIL as well. Any sizeable incremental support to group companies can adversely affect the liquidity profile of the company though healthy refinancing ability provides some cushion.

The ratings continue to derive comfort from strong position enjoyed by the 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. The company setup additional solvent and refining unit at Nanded in Q4FY15 which will provide strong revenue growth in current fiscal. ICRA also takes note of healthy

<sup>\*</sup> 100 lakh = 1 crore = 10 million

<sup>†</sup> For complete rating definition, please refer to ICRA website [www.icra.in](http://www.icra.in) or any of the ICRA Rating Publications.



long term demand prospects for the domestic poultry industry on back of favourable socio-economic factors. The profitability of industry, though, has suffered due to non remunerative broiler realizations due to over-supply and seasonal variations while poultry feed prices remaining high. The poultry industry benefitted from supply control measures adopted and increased chick mortality rates in Q1FY16 and same supported the realizations, especially during June 2015, resulting in healthy profits for the company though continued effectiveness of supply control measures remain to be seen.

### **Company Profile**

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 60% 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.

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