

Venky's (India) Limited

Instrument	Amount Rated	Rating Action
Term Loan	Rs.291.10 crore (reduced from Rs. 318.30 crore)	Revised to [ICRA]BBB/Stable from [ICRA]BBB+/Stable
Cash Credit	Rs. 390.00 crore (enhanced from rs. 215.00 crore)	Revised to [ICRA]BBB/Stable from [ICRA]BBB+/Stable
Fund-based	Rs. 75.00 crore (reduced from Rs. 215.00 crore)	Revised to [ICRA]A3+ from [ICRA]A2
Non Fund Based	Rs. 7.50 crore (reduced from Rs. 12.50 crore)	Revised to [ICRA]A3+ from [ICRA]A2

ICRA has revised the rating assigned to the Rs. 291.10 crore¹ (reduced from Rs. 318.30 crore) term loan and Rs. 390.00 crore (enhanced from Rs. 215.00 crore) cash credit facilities of Venky's India Limited (VIL, 'the company') to [ICRA]BBB (pronounced ICRA triple B) from [ICRA]BBB+ (pronounced ICRA triple B plus) with stable outlook†. ICRA has also revised the rating assigned to the Rs. 75.00 crore (reduced from Rs. 215.00 crore) short term fund based facilities and Rs. 7.50 crore (reduced from Rs. 12.50 crore) non fund based facilities of VIL to [ICRA]A3+ (pronounced as ICRA A three plus) from [ICRA]A2 (pronounced as ICRA A two)†.

The rating revision reflects strained liquidity profile with continuous dependence on refinancing given limited accruals over last few fiscals and sizeable direct/indirect support provided to parent company VHPL (Venkateshwara Hatcheries Private Limited, rated ICRA BBB-/Stable/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 remained muted at 10-11% on back of un-yielding support along with less than expected improvement in operating margins in FY2016. The profitability, though, has improved considerably in Q1FY2017 on back of favourable broiler realizations though Q2FY2017 is expected to be marginally loss making for poultry business and 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 months on back of co-ordinated efforts of industry players to regulate supply in market to ensure remunerative realizations. 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 resulting in incremental working capital borrowings despite improved accruals in current fiscal. 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.

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 Q4FY2015 which provided strong revenue growth in last fiscal. ICRA also takes note of healthy long term demand prospects for the domestic poultry industry on back of favourable socio-economic factors. The profitability of industry, though, has suffered over last few fiscals on back of 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 along with seasonal nature of demand and

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.



relatively stable feed prices during Q1 and Q4 of last fiscal and Q1 of current fiscal supporting margins though continued effectiveness of supply control measures remain crucial.

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 Q1 FY2017, VIL has reported operating income of Rs. 644 crore with PAT of Rs. 42.2 crore.

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