

Venky's India Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Term Loans	222.96 (revised from 291.10)	[ICRA]BBB+(Stable); Upgraded from [ICRA]BBB(Positive)
Cash credit	305.00 (revised from 390.00)	[ICRA]BBB+(Stable); Upgraded from [ICRA]BBB(Positive)
Short-term loans	75.00	[[ICRA]A2; Upgraded from [ICRA]A3+
Short-term Non fund Based	7.50	[ICRA]A2; Upgraded from [ICRA]A3+

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating of [ICRA]BBB (pronounced ICRA triple B) outstanding on the Rs. 222.96 crore¹ term loan facilities and Rs.305.00 crore cash credit facilities of Venky's India Limited (VIL / the company)² to [ICRA]BBB+ (pronounced ICRA triple B plus). The outlook on the long-term rating has been revised from 'positive' to 'stable'. ICRA has also upgraded the short-term rating of [ICRA]A3+ (pronounced ICRA A three plus) outstanding on the Rs.75.00 crore short-term loans and 7.50 crore short-term non-fund based facilities of VIL to [ICRA]A2 (pronounced ICRA A two).

Rationale

The ratings upgrade factors in the strong improvement in profitability in FY2017 and in Q1FY2018 on the back of improved broiler realisation and low feed costs; and the consequent improvement in liquidity profile, capitalisation and coverage metrics of the company. VIL's operating margin expanded by 420bps to 10.2% in FY2017 which when coupled with lower debt level resulted in substantial improvement in coverage indicators with Total Debt (TD)/OPBIDTA at 2.2x (5.8x in FY2016) and interest cover at 3.2x (1.5x in FY2016). While profitability for poultry business remains susceptible to volatile broiler realizations combined with seasonal nature of demand for the poultry products in India, ICRA expects VIL to maintain FY2017 performance indicators in current fiscal as well which will further strengthen its capital structure over the medium term. The ratings continue to derive comfort from the 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 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. The company has presence in value added segments like animal healthcare products, Specific Pathogen Free (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 on account of favourable socio-economic factors. The poultry industry is expected to benefit from favourable supply-demand scenario and sharp drop in soymeal prices resulting in lower production costs in FY2017 and consequent impact on profitability. Given favourable monsoon, feed prices are expected to remain subdued in the near term supporting margins for the industry though ensuring remunerative broiler realizations remain a sensitivity indicator for the industry.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

The ratings, however, remain constrained by sizeable direct/indirect support provided to parent company VHPL (Venkateshwara Hatcheries Private Limited, rated ICRA BBB/Stable/ A3+). ICRA takes note of significant direct and indirect financial support rendered to the holding entity, which ultimately strained VIL's liquidity position as well as financial flexibility in the recent past. ICRA does not expect any incremental support by VIL to group companies over the next two year, which if happens could be credit negative. Moreover, given large repayment obligations over next 12 months, VIL is exposed to moderate refinancing risk in the near term. The company is exposed to inherent industry risk of disease outbreak (bird flu) though wide geographic presence provides some cushion against regional outbreaks.

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” making it the dominant breed in the poultry market. 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. The profit margins in the animal health care segment was over 23% in Q1FY2018 and roughly contributed to 7% of VIL's revenues and 10% of profits in FY2017. Presence in this segment has enhanced VIL's overall contribution margins resulting in superior profits when compared to peers. Further, VIL is also present in the processed chicken segment through its Venky's Express outlets.
- **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 and lower mortality rates.
- **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. 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 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**- Domestic Soymeal prices have remained stable in the range of Rs.23-24 per kg in the last one year due to surplus availability in Indian market on account of lower exports. Further, broiler realisations have improved following higher demand driven by rising disposable incomes and ban on illegal slaughter and sale of cattle implemented in February 2017. The strong improvement in realisations was complemented by reduction in feed costs resulting in improvement in profitability.
- **Higher accruals and faster collections from customers resulting in lower working capital requirement, leading to improvement in capitalisation and coverage indicators** – Aided by strong operational performance, capitalisation and coverage indicators improved in FY2017 (refer KFIs).

- **Improvement in capacity utilisation in Solvent plants led to robust revenue growth - Capacity utilisation in the solvent segment improved to over 70% on the back of availability of soymeal at affordable prices.** This resulted in robust growth of segment revenues and improvement in segment profit margins through better absorption of fixed expenses.
- **Healthy long term demand prospects for the poultry industry given favourable socio-economic factors-** With rising income levels, higher disposable incomes and growing number of fast food outlets, demand for poultry meat is increasing. Moreover, recent action like ban on illegal slaughter of beef and consequent impact on supplies of beef augurs well for poultry suppliers. This has been accelerated by the recent ban imposed on beef in February 2017.

Credit weaknesses

- **Direct/ Indirect financial support extended to group companies, constrain financial flexibility-** The Company has extended direct & indirect financial support to group companies which has constrained liquidity position as well as financial flexibility of VIL in the recent past. With improving accruals the impact of the same on the company's liquidity is expected to reduce.
- **Exposed to high volatility in realizations on back of seasonal nature of demand; margins remain exposed to vagaries of demand supply scenario and product pricing in open market-** The poultry industry is cyclical, with religious sentiments creating seasonal variations in demand. Given, the commoditised nature of the product, realisations are largely driven by demand and supply. Hence, margins remain exposed to vagaries in demand. This was evident in the years between FY2012 and FY2016 when realisations were lower on account of supply glut. The pertaining price risk is partially addressed by industry wide supply control measures during lean seasons.
- **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 (which determine domestic supply).
- **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). In CY2017, outbreaks were reported in Madhya Pradesh, Delhi and Gujarat; however, any such occurrence is generally localized and has minimal impact on 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](#)

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

In FY2017, VIL registered a PAT of Rs.124.7 crore on an operating income of Rs.2,447.5 crore as against a PAT of Rs.29.9 crore on an operating income of Rs.2,121.8 crore in FY2016. For 3M FY2018, VIL has reported operating income of Rs. 663.50 crore with PAT of Rs. 52.0 crore.

Key Financial Indicators (Provisional)

	FY2016	FY2017
Operating Income (Rs. crore)	2121.9	2447.5
PAT (Rs. crore)	29.9	124.7
OPBDIT/ OI (%)	6.0%	10.2%
RoCE (%)	11.4%	26.3%
Total Debt/ TNW (times)	1.9	1.0
Total Debt/ OPBDIT (times)	5.8	2.2
Interest coverage (times)	1.5	3.2
NWC/ OI (%)	21.7%	18.7%

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: Not applicable

**Rating history for last three years:
Table:**

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. Cr)	Amount Outstanding (Rs. Cr)	Date & Rating	Date & Rating in FY2017	Date & Rating In FY2016	Date & Rating in FY2015	
					November 2017	Mar	Sep	Oct	
1	Term Loans	Long-term	222.96	195.25	[ICRA] BBB+ (Stable)	[ICRA] BBB (Positive)	[ICRA] BBB+ (Stable)	[ICRA] A- (Stable)	
2	Cash credit	Long-term	305.00	151.00	[ICRA] BBB+ (Stable)	[ICRA] BBB (Positive)	[ICRA] BBB+ (Stable)	[ICRA] A- (Stable)	
4	Short-term loans	Short-term	75.00	16.00	[ICRA] A2	[ICRA] A3+	[ICRA] A2	[ICRA] A1	
5	Non fund Based	Short-term	7.50	2.50	[ICRA] A2	[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-1
Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	NA	NA	March 2024	222.96	[ICRA]BBB+(Stable)
NA	Cash Credit	NA	NA	NA	305.00	[ICRA]BBB+(Stable)
NA	Short-term loans	NA	NA	NA	75.00	[ICRA]A2
NA	Short-term Non-fund based	NA	NA	NA	7.50	[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.

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