

# VENKY'S (INDIA) LTD

- SILENT BREEDER -



## EQUITY STRATEGISTS

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Industry : Food Products  
Category : Strong Growth  
NSE/ BSE Code : VENKEYS/523261

Present Price : Rs 83  
Projected Price : Rs. 150  
Holding Period : 12 Months

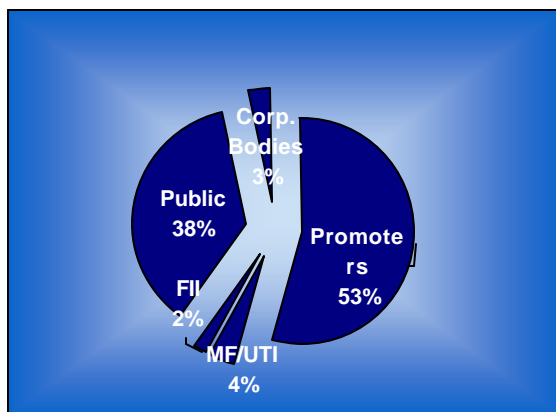
### MARKET DATA

Current Equity : Rs. 9.39 cr.  
Face Value : Rs 10  
Book Value : Rs. 78.55  
Market Cap. : Rs. 77.93 cr.  
Free Float : 46.44 %  
High / Low : Rs 99/37  
Listing : BSE / NSE  
BSE Code : 523261/ VENKEYS

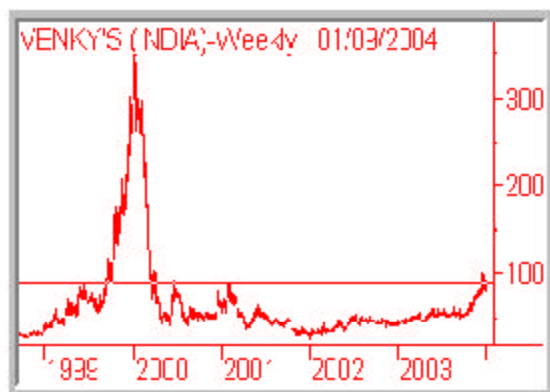
### EXECUTIVE SUMMARY

- ✓ Venky's (India) Ltd (VIL), promoted by Dr. B.V. Rao, a visionary in poultry sector, is the only listed stock of the Rs. 1200 crore Venkateshwara Hatcheries (VH) group. VIL is a fully integrated company with impressive portfolio which includes animal health products, pellet feeds, processed chicken products, solvent oil extraction, and SPF Eggs.
- ✓ VIL enjoys most prominent position in the broiler and layer breeds market. It supplies one day old chicks to poultry farmers. BV-300 enjoys 85% share in the layer market while Vencobb enjoys 65% share in the broiler market. VIL sells its processed chicken under the Venky's brand name. Venky's is the first national brand in the processed chicken segment. VIL is a preferred supplier to the Indian outlets of McDonalds, KFC, Pizza Hut, and Domino's.
- ✓ VIL, new ventures in regular succession, besides adding significant value, gave it an edge in technology and high returns on investment. VIL has technical collaboration with SPAFAS Inc. USA to manufacture Specific Pathogen Free Eggs. Its unit is among four such units in the world and the only one of its kind in the developing world. VIL has a technical tie up with Specialty Enzymes and Biochemicals, US to produce high value enzyme-based products for poultry, human & cattle segments.
- ✓ VIL has tied up with Australian Food Rite Pty and Natures Gift Pty to further enhance its manufacturing range for pet foods.
- ✓ Liberalisation of trade barriers by European Union as per WTO agreements, would provide huge market for poultry products as the prices in EU are 4-5 times of the prices ruling in India.
- ✓ The fall in maize prices and rise in prices of poultry products would put VIL back on growth path which was affected by poor monsoon, rising maize prices and falling realizations from poultry products in FY03.
- ✓ VIL was ranked 67th by Forbes among the 100 best global small companies in the year 1999-2000. VIL is regularly paying dividends/ bonus to provide decent returns to investors. VIL bought back 8.75 lac equity shares to further enhance share holder's value.
- ◊ VIL, a fully integrated, market leader in poultry industry, future FMCG company in fast growing food market at CMP of Rs 83 is available at a low P/E 6 and 5 on FY04 & FY05 expected earnings offers immense growth potential for bargain hunters.

### SHAREHOLDING PATTERN (%)



### PRICE CHART



# BUSINESS PROFILE

Venky's (India) Limited (VIL) formerly known as Western Hatcheries Limited was established in 1976, mainly to produce day-old layer and broiler chicks for the dense poultry markets of North India. Venky's impressive portfolio includes animal health products, pellet feeds, processed, and further processed chicken products, solvent oil extraction, SPF eggs, nutritional health products for humans, and pet food & health care products. It has primarily three divisions namely poultry, animal health products, feed and feed ingredients.

## Poultry Division

The Company is a franchisee of Vencobb and BV-300 breeds and has farms and hatcheries in the states of Maharashtra, Gujarat and North Indian states of UP, Punjab, Haryana, Jammu Kashmir, Delhi and Bihar. It supplies one day old chicks (broilers and layers) to poultry farmers of these states. BV-300 enjoys 85% share in the layer market while Vencobb has 65% share in the broiler market. The product range, catered to retail as well as institutional markets, includes Fresh Chilled Chicken, Frozen Chicken and several Economy products. Venky's Mintomein, an array of ready-to-cook products have created a market space for themselves among homemakers. VIL, state of art, fully automated set-up equipped with a dressing facility imported from the Dutch company Stork processing plant situated at Kamshet. VIL has technical collaboration with SPAFAS Inc. USA to manufacture Specific Pathogen Free Eggs, its unit is among four such units in the world and the only one of its kind in the developing world.

## Animal Health Products

The wide range of products includes Antibiotics, Feed Supplements, Growth Promoters, Anticoccidials, Electrolytes and Disinfections. To enter in fast growing pet food market, VIL has set up Royal Pet as a division of Venky's (India) Limited. Royal Pet, with its strong sense of customer service and expertise in scientific formulations and technology utilization, is strategically placed to live up to its customer's expectation by creating high quality products through extensive research, an innovative spirit, and state-of-the-art manufacturing facilities by investing Rs. 8 crore. The pet food business possess huge growth potential from present level of Rs. 150 crore. VIL has tied up with Australian Food Rite Pty and Natures Gift Pty to further enhance its manufacturing range for pet foods. VIL is also planning to venture later in medicaments for the segment under the Venky's Pet brand to drive margins in coming years.

## Feed and Feed Ingredients

Feed and its ingredients constitute more than 50 % of cost for poultry industry, VIL, in order to have better cost control has its own De-oiled Soya Cake (DOC) and Edible Oil Refinery. It supplies feed to farmers and also markets edible soya oil in bulk. The acid oil, which is converted from a by-product of the oil refinery, is supplied to local soap manufacturers.

## Nutritional Health Products

Egg based protein is considered as among the best for human bodies. VIL introduced products for the nutritional well being of humans in 1998 to meet the growing demand from the increased health consciousness among urban societies of India. VIL products include several compositions for conditions like pregnancies, diabetes, and good health for growing children. Recently it has also launched OTC products for sportsmen, athletes, and bodybuilders. Many of VIL's Nutritional Health Products are being prescribed and recommended by various doctors.

## OPPORTUNITIES IN INDIAN POULTRY INDUSTRY

The Poultry Industry has excellent potential in India in the years to come. An earlier study of Indian Food Industry by CII and McKinsey & Co. projected a very bright future for the Indian Poultry Industry.

**“The poultry sector in India has a potential to grow at over 20% a year over the next 10 years. This will enable it to at least quadruple in size, growing from the present Rs. 75 billions to approx. Rs. 300 billions (in real terms) by 2005.”**

The statement though made in 1997 reflects the unrealised potential of poultry industry in India. A fully integrated modern plant of VIL is now fully geared to exploit this untapped potential. It offers tremendous opportunities for growth in the rapidly expanding poultry industry. The per capita poultry consumption in India is just 0.44 Kg per year, which is very much lower as compared to developing countries like Pakistan (2.3 Kgs), China (4 Kgs), Thailand (9 Kgs) USA (44 Kgs). Awareness program for use of eggs as a major protein input to growing children would also drive the growth of poultry industry.

# FINANCIAL HIGHLIGHTS

## FINANCIAL PERFORMANCE

Particulars	FY03	H1FY04	H1FY03	% Change	FY04P	FY05P
Net Sales	298.09	138.00	149.03	-7.40	323.00	377.00
Other income	2.67	1.88	1.60	17.50	3.05	2.44
Total Income	300.76	139.88	150.63	-7.14	326.05	379.44
Total Expenditure	281.31	129.96	138.41	-6.11	297.94	347.65
Operating Profit	19.45	9.92	12.22	-18.82	28.11	31.79
Interest	4.37	1.96	2.38	-17.65	3.68	2.92
Gross Profit	15.08	7.96	9.84	-19.11	24.43	28.87
Depreciation	5.75	3.13	2.79	12.19	6.45	6.75
PBT	9.33	4.83	7.05	-31.49	17.98	22.12
Tax	1.65	1.05	1.41	-25.53	5.05	6.77
Net Profit	7.68	3.78	5.64	-32.98	12.93	15.35
Equity	9.75	9.39	10.27	9.37	9.39	9.39
EPS	7.88	4.03	5.49	-26.70	13.77	16.35
CPS	13.77	7.36	8.21	-10.35	20.64	23.54
Dividend	30				40	50
OPM %	6.47	7.09	8.11		8.62	8.38
PBDT %	5.01	5.69	6.53		7.49	7.61
NPM %	2.55	2.70	3.74		3.97	4.05

The projections for FY04 do not include Rs 4.16 cr. benefit arising out from sale of investment in wholly owned subsidiary VMSL. The earnings growth would come from rise in demand of poultry products in rural market due to enhanced purchasing power as a result of good monsoon. The prices of key raw material Maize are also in downward trend thereby boosting margins of the company. We expect these factors coupled with interest saving will propel the EPS to Rs. 13.77 in FY04 and further to Rs 16 plus in FY05.

### KEY GROWTH FACTORS FOR VIL

- ⇒ Market Leader, a pioneer in Poultry Industry with fully integrated and world class facilities
- ⇒ Converting itself into a FMCG company with a large array of branded products
- ⇒ Huge outsourcing potential remains to be untapped as stores like Walmart, etc, are looking toward India for its various shelf products including Ready to Eat Chicken products. Venky is ideally placed to capitalise this opportunity.
- ⇒ Poultry industry has tremendous growth potential with low consumption of eggs and poultry meat when compared to world standards.
- ⇒ WTO agreements may force EU to cut subsidies thereby offer huge export potential
- ⇒ Early entrant in high margin pet food business
- ⇒ Proximity to Middle East market with its own brand

## TECHNICAL ANALYSIS



## INVESTMENT STRATEGY

VIL, a fully integrated, market leader in poultry industry, future FMCG company in fast growing food market at CMP of Rs 83 is available at a low P/E 6 and 5 on FY04 & FY05 expected earnings offers immense growth potential for bargain hunters.

**BUYING IS RECOMMENDED STRONGLY**

## EQUITY STRATEGISTS

### Product A

TECHNO FUNDA newsletter catering to all market participants through various columns.

#### BENEFITS-

- ✓ A trader/investor can choose strategy suiting his risk profile, investment attitude and desired holding period.
- ✓ Returns are commensurate with strategy.

Occasionally we add columns like INFORMED GOSSIP - activities of market operators, FIIs, Mutual funds.

MARKET COMMENTARY COLUMN - a must read column captures index outlook, sector in flavour and strategy to be adopted.

### Product B

BUY/SELL ADVICE THROUGH SMS DURING MARKET HOURS

FEATURES - Momentum based trades with a low holding period ( 1-7 days)

**We recommend only when we have conviction in advices. Therefore we may not send even single advice in a day at times and 4-6 advices in a day. On an average one can expect 50 advices in a month.**

#### BENEFITS

- ✓ Focussed short term trading
- ✓ Optimum returns
- ✓ Logical Stop losses.

COLUMN	HOLDING PERIOD	APPRX RETURN	RISK PROFILE
INTRADAY TRADES	ONE DAY	3-5 %	HIGH RISK/LOW RETURNS
DERIVATIVE PICK	1-2 Weeks	5-10%	MEDIUM RISK/MEDIUM RETURNS
STOCK WATCH	2-5 Weeks	15-20 %	LOW RISK/ HIGH RETURNS
INVESTMENT PICK	3-6 Months	35-40%	LOW RISK/HIGH RETURNS
FUNDAMENTAL PICK	6-12 MONTHS	50-60%	LOW RISK/SUPER RETURNS

OUR EARLIER RECOMMENDATIONS APPRECIATED BY : Jindal Steel & Power (450%), Jindal Strips (450%), Matrix Labs ( 500%), Mphasis BFL ( 200%), JPIND ( 200%), MoserBaer ( 300%), Hexaware ( 200%),Lupin(250%), Shasun Chem(200%), Polyplex(200%), Bharat Forge ( 200 %), Aurobindo Pharma (300%), Sterlite (350%), Bong Ref (400%) etc.,

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