FINANCIAL STATEMENT ANALYSIS

OF

VENKY'S (INDIA) LTD.

CONTENTS

The analysis is done on the annual report of Venky's for the Financial Year 18-19.
http://venkys.com/wp-content/uploads/2019/09/Venkys-Annual-Report-2018-19_web_compressed.pdf

ABOUT VENKY’S

The **VH group** was established in 1971 by Padmashree Dr. B.V. Rao. VH group stands for **Venkateshwara Hatcheries group.** Today the group is popularly known the world over as “**Venky’s**”. With a unique combination of expertise and experience and supported by strategic collaborations, the company diversified its activities to include SPF(Specific Pathogen Free) eggs, chicken and eggs processing, broiler and layer breeding, genetic research and Poultry diseases diagnostic, Poultry vaccines and feed supplements, vaccine production, bio-security products, Poultry feed & equipments, nutritional health products, soya bean extract and many more. Today the group is the largest fully integrated poultry group in Asia.

BUSINESS PRODUCTS AND BUSINESS MODEL

BUSINESS PRODUCTS

1) ANIMAL HEALTH CARE PRODUCTS
   - Nutritional Supplements
   - Toxin Binders
   - Early chick nutrition
   - Liver Tonics
   - Acidifiers
   - Growth Promoters
   - Iron Tonic
   - Antibiotics
   - Anticoccidial
   - Anti Mycoplasma
   - Dewormers
   - Anti Gout
   - Electrolytes
   - Fly control
2) BIO SECURITY PRODUCTS
   - Disinfectants
   - Water Sanitizers
   - Cleaners / Suractants
   - Others
   - Equipments
   - Hitech Feed Supplements
3) BIOTECH
   - Vitamin Premixes
   - Probiotics and other feed supplements
4) AQUA
   - Premixes & Feed Additives
   - AHP & Disinfectants
   - Equipments
5) HUMAN HEALTH CARE PRODUCTS
   - Sports Nutrition
   - Medical Nutrition Therapy Products
6) EGG POWDER
   - Pasturiezed Spray Dried hen Whole yolk powder

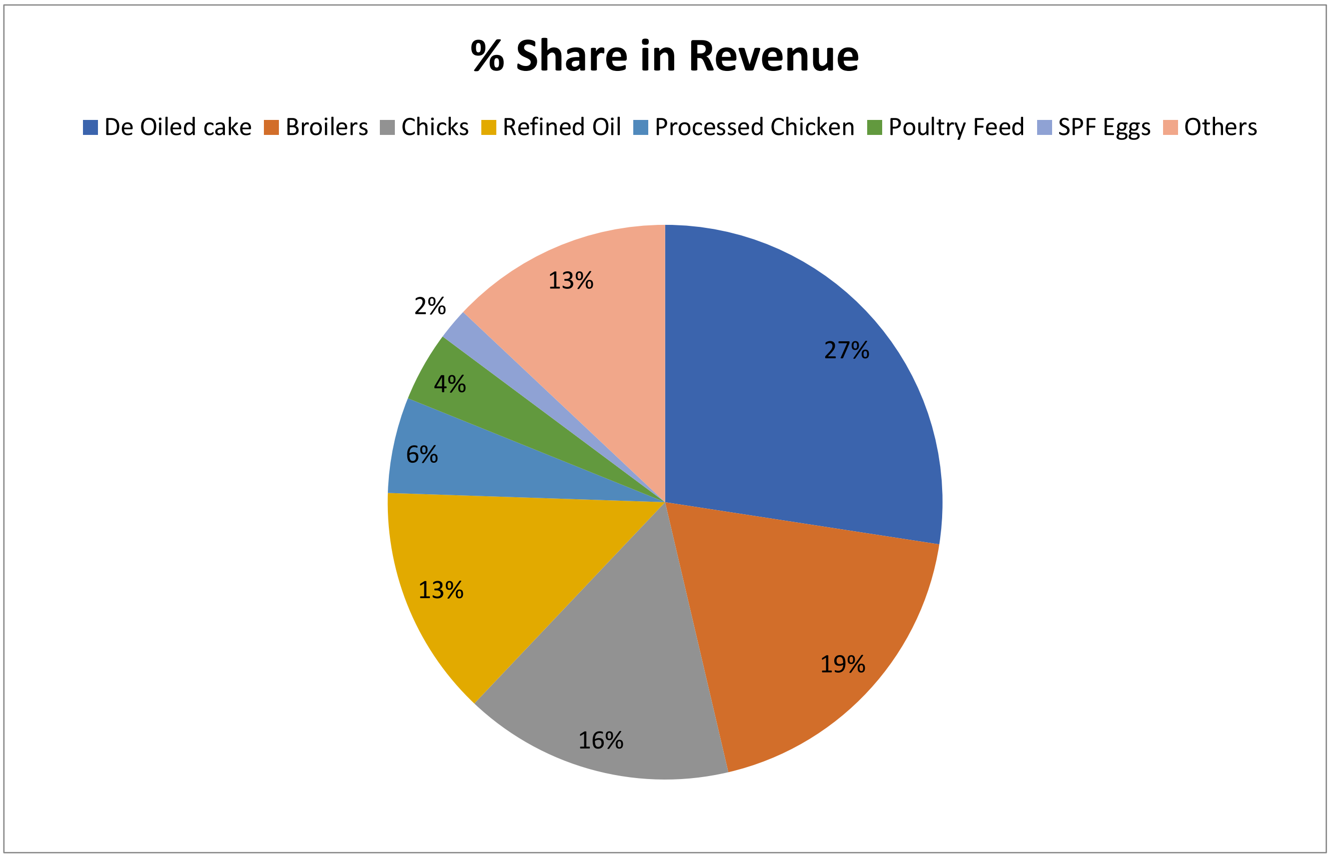
- Pasturiezed Spray Dried hen Whole egg powder
- Heat Stable Hen Egg Yolk Powder
- Desugared Spray Dried Hen Egg Albumen Powder

7) FMCG
   - Venky's Chicken in Min
   - Processed Chicken
   - All Kleen
   - GermiZap
   - Relizon
   - Venky's Nutrition
8) VH BREED
   - BV 300 Layer Breeder
   - BV 300 Brown Layer
   - Vencob 400 Broiler Breeder
   - Vencob 100 Broiler Breeder
   - Vencobb 400Y
9) VACCINES
10) EQUIPMENT
11) FEED SUPPLEMENTS

BUSINESS MODEL

SEGMENT WISE REVENUE GENERATION

De oiled cakes are the major revenue generator of the company, 27% of total revenue generted which is Rs .737.77 crore. Next major contributer to the revenue generation is the sales of commercial broiler chickens, which generate 19% of company's total revenue which is Rs. 508.69 crore. Chicks contribute 16% to the revenue, i.e. Rs. 422.99 crore. These are the major segments which contribute more than 60% of the total revenue.



BUSINESSES

- Venkateshwara Hatcheries Pvt. Ltd.
- Venky's (India) Limited
- VENCO
- VRB
- B.V.Bio-Corp Pvt. Ltd.
- Uttara Foods & Feeds Pvt. Ltd.
- Uttara Impex Pvt. Ltd.
- Eastern Hatcheries Ltd.
- Venky's Brazil Ltd.
- Venky's London Ltd. (holding company for Blackburn Rovers F.C.)
- Venky's Vietnam Ltd.
- Venky's Singapore Pvt. Ltd.
- VH Group Bangladesh
- Bala Industries & Entertainment Pvt. Ltd.

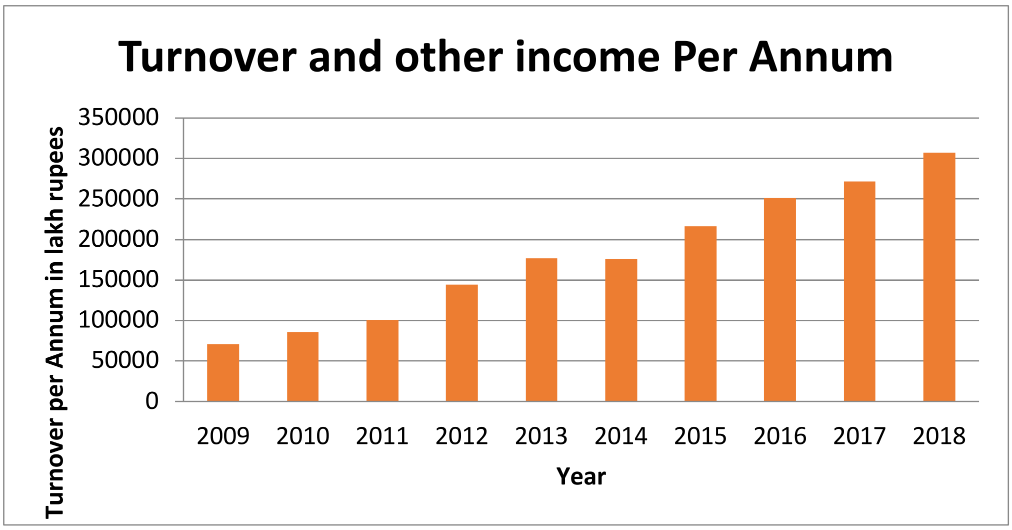
OVERALL GROWTH OF VENKY'S

OPPORTUNITIES AND CONCERNS

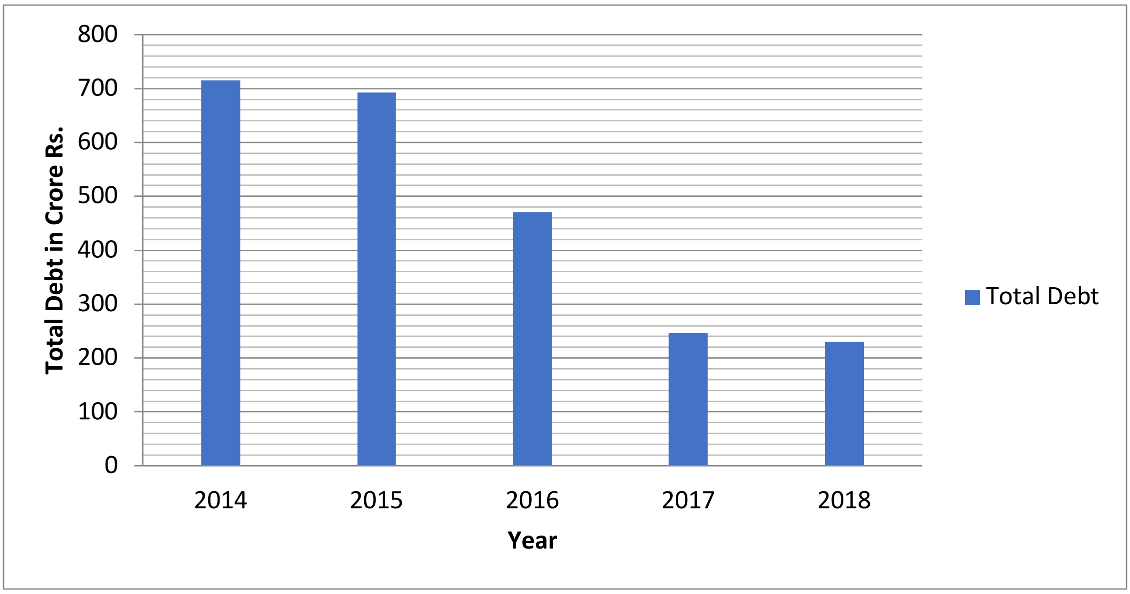
The vast gap between our present per capita consumption (65 eggs and 3.9 kgs of meat) and National Institute of Nutrition (NIN) recommended level (180 eggs and 11 kg of meat) offers an excellent opportunity for the growth of poultry industry at least for the next 20 years. Various factors like increasing disposable income and
expected revival in government and private sector investments will contribute to the growth in demand for poultry products and the industry has good future. However, lack of adequate cold storage facilities at key locations and retail infrastructure are the main reasons which are impacting the industry's growth. Further, sudden
and steep price behaviour of feed ingredients like maize and soya is a major concern to the poultry industry.

OVERALL GROWTH

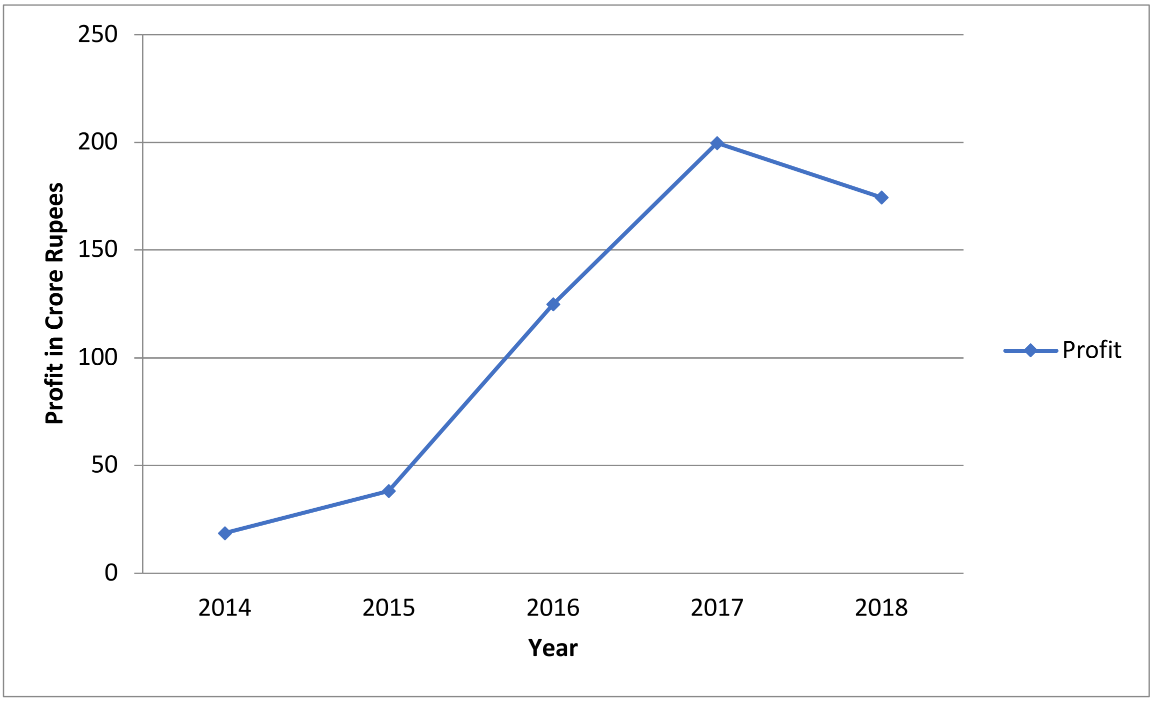
1) Growth of annual Turnover per annum for last 10 years is 15.765% per annum on average. Turnover increased from Rs. 71066 lakh in the year 2009 to Rs. 307215 lakh in the year 2018, which is 332.29% increase in 10 years.



2) Total Debt has decreased from Rs. 715.52 crore in year 2014 to Rs. 229.33 crore in the year 2018, which is a decrease of 212% in 5 years.



3) Profits of the company have increased from Rs. 18.7 crore in year 2014 to Rs. 174.41 crore in year 2018, which is annual growth rate of 56.29% per annum.



INTERESTING POINTS ABOUT VENKY’S

- Today the group is the largest fully integrated poultry group in Asia. The VH group today plays proud parent to a number Today the group is the largest fully integrated poultry group in Asia. The VH group today plays proud parent to a number of reputed organizations under its wide umbrella and successfully caters to poultry and its allied sectors.

- The company was converted into a public limited company on December 12, 1998. Over the years, the company embarked upon new ventures in regular succession, adding tremendous value to the company, giving it an edge in technology and high returns on investment.

- They increased their investment on capital which could be seen by the facts that it raised the production of its various products

- Venkys has an efficient meat producer product known as **vencobb 400Y,** a product of indigenous breeding program tailor made to maximize profits for the vertically integrated poultry operation under tropical climate with open sided housing system. This product is the out come of 17 years of R & D efforts of the team of geneticists of Venco Research and breeing Farm Pvt. Ltd. Exceptional feed conversion. A consistent breeder performance with high chick numbers and least feed required per hatching egg. Vencobb 400 Y is known for its proven adaptability to varied climatic conditions and husbandry practices. Vencobb chicks are placed in india through its network of more than 300 franchisee hatcheries. Vencobb products enjoy 75% market share of the 2.5 billion Broiler Industry in India.

- Over the past few years, this company has not only satiated the hunger of consumers of its products, but also investors who had an appetite for risk in the past two years, Venky's (India) has jumped nearly 1,100 per cent from Rs 376 levels to around Rs 4,500 levels now.

- The sales of its products is growing at a great pace. Venky's (India) Ltd reported sales of 30.43 billion Indian Rupees (US$426.34 million) for the fiscal year ending March of 2019. This represents an increase of 13.2% versus 2018, when the company's sales were 26.89 billion Indian Rupees. This was the fourth straight year of sales growth at Venky's (India) Ltd

- The company's operational revenue grew 11.7 per cent at Rs 829 crore on year-on-year (YoY) basis, even though the raw material expenses rose 23.5 per cent at Rs 599.

PARTS OF THE ANNUAL REPORT

Parts of Venky's Annual Report 2018-19 and Their Importance

Venky's annual report 2018-19 can broadly be categorised into the following parts:

Introduction

- Notice: addressed to the members of Venky's Limited, the notice of the 43rd general meeting summarises the ordinary and special business concerns of the venture which may be of importance to the shareholders of the company.
- Director's Report: the director addresses the shareholders, briefing them about the company's financial results, dividends, annual returns, performance etc. This segment also declares the standards maintained regarding organisational well-being and preparation of accounts of the company along with an overview of the company's board of directors.
- Management Discussion and Analysis Report: discusses the segment-wise performance, structure, conduct, risks, opportunities and concerns of the company. Also provides a brief statistical report on various financial instruments.
- Report on Corporate Governance: introduces the shareholders to the company's motto and provides all significant details of the board of directors. Venky's venture over the years and its current state in the country are also discussed here.
- Auditor's Report: provides an independent auditor's opinion on the validity and reliability of the company; ensuring it follows accounting standards free of errors.

Balance Sheet

The balance sheet is a financial statement which provides a time-specific report on a company's assets, liabilities, and equity, and helps in determining the rates of return as well as the company's financial operations. Since balance sheets are compared with those of previous periods, it helps investors derive clarity in ascertaining the health and growth of the company through the means financial ratios. Balance sheet uses the accounting equation given below.

Assets=Liabilities+Shareholders' Equity

Statement of Profit & Loss

Profit and Loss (P&L) or income statements sum up the time-specific revenues, costs and expenses incurred by the company. Shareholder can deduce the company's capability in generating future profits and plan their investments ahead of time. Income statement may be used to calculate several metrics, such as the operating ratio, gross profit margin, operating profit margin and the net profit margin.

Cash Flow Statement

Cash Flow Statement (CFS) is a mandatory financial statement which helps measure the efficiency of the management of inflow and outflow of funds. CFS, therefore, lets shareholders figure out the extent of the financial footing of the company by giving an insight into how it pays off its debt obligations and funds its operational expenses.

Statement of Changes in Equity

Common in annual reports, the statement of changes in equity starts with a beginning equity balance and arrives at the ending balance by adding or subtracting profits, dividends etc.

Beginning equity + Net income – Dividends +/- Other changes = Ending equity

This comprehensive report on the movement of shareholder's equity over a period helps in making informed decisions regarding the investments.

Notes Forming Parts of Financial Statements

The notes forming parts of financial statements provide an in-depth review of various accounting policies under different accounts such as income tax, intangible assets, trade and other receivables etc. The notes also provide specifications of each account and their various constituents. Note forming is an important feature of the annual report as it furnishes complete information about every aspect of the balance sheet.

Together with the balance sheet and cash flow statement, the income statement provides an in-depth look at a company's financial performance.

Policies

- Dividend DIstribution Policy: enables the company in striking a balance between retained earnings and dividends pay-out. This policy holds importance in the company's perspective of future growth and shareholder loyalty.
- Business Responsibility Report: lists the business practices adopted by the company of making exhaustive disclosures on a regular basis in public interest.

LIQUIDITY RATIOS

Liquidity ratios are a financial metric that measures a company's ability to pay its short-term debts. These ratios are an important indicator to company's financial health. Liquidity ratios compare a company's most liquid asset to its short-term liability. The higher the value of these ratios the more the company is likely to cover its short-term debts. The most commonly used liquidity ratios are current ratio, quick ratio and operating cash flow ratio.

CURRENT RATIO

The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. It tells investors and analysts how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables.

Current Ratio= Current Assets/Current Liabilities

OPERATING CASH FLOW RATIO

The operating cash flow ratio is a measure of how well current liabilities are covered by the cash flows generated from a company's operations. The ratio can help gauge a company's liquidity in the short term. Using cash flow as opposed to net income is considered a cleaner or more accurate measure since earnings are more easily manipulated.
Operating cash flow ratio=Operating cash flow/ Current liabilities

QUICK RATIO

The quick ratio is an indicator of a company's short-term liquidity position and measures a company's ability to meet its short-term obligations with its most liquid assets.

Since it indicates the company's ability to instantly use its near-cash assets (that is, assets that can be converted quickly to cash) to pay down its current liabilities, it is also called the acid test ratio.

An acid test is a quick test designed to produce instant results—hence, the name.

Quick ratio= (Current assets - inventory - prepaid expenses)/ Current liabilities

Quick ratio=*CLC*+*MS*+*AR*/*Current liablities*
C=cash & cash equivalents*MS*=marketable securities*AR*=accounts receivable*CL*=current liabilities

WHAT DOES ACID TEST RATIO INDICATE?

Companies with an acid-test ratio of less than 1 do not have enough liquid assets to pay their current liabilities and should be treated with caution. If the acid-test ratio is much lower than the current ratio, it means that a company's current assets are highly dependent on inventory.
This is not a bad sign in all cases, however, as some business models are inherently dependent on inventory. Retail stores, for example, may have very low acid-test ratios without necessarily being in danger.
For most industries, the acid-test ratio should exceed 1. On the other hand, a very high ratio is not always good. It could indicate that cash has accumulated and is idle, rather than being reinvested, returned to shareholders or otherwise put to productive use.

VENKY'S

(RUPEES IN LAKHS)

CURRENT ASSETS	89,034.84
CURRENT LIABILITIES	58,768.30
INVENTORIES	20,883.96
PREPAID EXPENSES	-
OPERATING CASH FLOW	15,890.72

1. **Current Ratio= Current Assets/Current Liabilities**

   CURRENT RATIO = (89,034.84/58,768.30)
   =**1.515**

2. **Quick ratio= (Current assets - inventory - prepaid expenses)/ Current liabilities**

   QUICK RATIO = ((89,034.84 – 20,883.96 – 0)/58,768.80)
   =**1.1596**

3. **Operating cash flow ratio=Operating cash flow/ Current liabilities**

   OPERATING CASH FLOW = (15,890.72/58,768.30)
   =**0.27039**

DEBT TURNOVER RATIO

The Debtors Turnover Ratio also called as Receivables Turnover Ratio shows how quickly the credit sales are converted into the cash. This ratio measures the efficiency of a firm in managing and collecting the credit issued to the customers.

Debtors Turnover Ratio = Net Credit Sales/Average Account Receivable.

Average Account Receivable = (Opening balance of account receivable + Closing balance of account receivable)/2

The higher the Ratio the better it is. It must be compared with the firms that have similar business operations and revenue and lie in the same industry.

For Venky's :

Average Account Receivable = (29,542.74 +30,554.92)/2 = 30,048.83 Lakh Rupees

Net Credit Sales (we take net sales as net credit sales as we assume all the sales were made on credit) = 304313.51 Lakh Rupees

Venky's is one of the companies that do not report cash and credit sales separately.

Debtors Turnover Ratio (Mar' 19) = 304313.51/30048.83 = **10.13** (source: https://www.moneycontrol.com/financials/venkys/ratios/V03)

Inferences:

We can interpret the ratio to mean that Venky's collected its receivables 10.13 times on average that year. In other words, the company converted its receivables to cash 10.13 times that year.

Also we would divide the ratio of 10.13 by 365 days to arrive at the average duration. The average accounts receivable turnover in days would be 365 / 10.13 or 36.03 days.

For Venky's, customers on average take 36 days to pay their receivables.

First of all, not all companies reports their cash and credit sales separately so it is not always verifiable. Also accounts receivables can vary dramatically throughout the year. For example, companies that are seasonal will likely have periods with high receivables along with perhaps a low turnover ratio and periods when the receivables are fewer and can be more easily managed and collected. So we have assume in our case that that such fluctuations are not so much prevalent.

For the year Mar' 19, the industry receivable days were 42.42. Correspondingly the debtors turnover ratio is 8.6. The venky's number is better than the industry average as a higher ratio is always better. But not so much high that will push away customers to buy on credit.

RETURN ON SHAREHOLDER'S EQUITY

The return on shareholders' equity ratio shows how much money is returned to the owners as a percentage of the money they have invested or retained in the company.
It is calculated by dividing a company's earnings after taxes (EAT) by the total shareholders' equity, and multiplying the result by 100%.

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Average Shareholders' Equity}}$$

The return on shareholders' equity ratio is typically used to track a company's performance over time or to compare businesses within the same industry.
The higher the percentage, the more money is being returned to investors.
The DuPont analysis is an expanded formula for calculating ROE.

$$\text{DuPont Analysis} = \text{Net Profit Margin} \times \text{AT} \times \text{EM}$$

where:

$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Revenue}}$$

$$\text{AT} = \text{Asset turnover}$$

$$\text{Asset Turnover} = \frac{\text{Sales}}{\text{Average Total Assets}}$$

$$\text{EM} = \text{Equity multiplier}$$

$$\text{Equity Multiplier} = \frac{\text{Average Total Assets}}{\text{Average Shareholders' Equity}}$$

From the profit and loss statement,
Earnings after tax (EAT) or Net Income **= Rs 17,414.07 lakhs**
Total Income or Revenue or Sales = **Rs 307,214.68 lakhs**

From the balance sheet,
Shareholder's equity or Total Equity = **Rs 88,149.23 lakhs**
Total Assets = **Rs 155,732.86 lakhs**

Net Profit Margin = (17,414.07)/ (307,214.68) = 0.0567
Asset Turnover = (307,214.68)/ (155,732.86) = 1.9727
Equity Multiplier = (155,732.86)/ (88,149.23) = 1.7667

DuPont Analysis = 0.0567 * 1.9727 * 1.7667 = 0.1976
Therefore, Venkys ROE = 19.76%

What does ROE show?

ROE is used to track a company's performance over time or to compare businesses within the same industry.
ROE is deemed good or bad on a relative basis by comparing it with other peers. A company has a good ROE if it is equal or above the average of the industry's average ROE.
Limitation: Venkys is a conglomerate comprising of companies related to processed food, animal vaccines, human and animal pharmaceutical and healthcare but here we are only comparing its ROE with that of the average of the food industry.
Average ROE in the food industry = 8.7%
Venkys ROE = 19.76%
The ROE of Venkys is higher than its peers in food industry which is clearly a positive sign.

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31ST MARCH, 2019

(Rupees in Lakhs)

Particulars		Note No.	For the year ended 31st March, 2019	For the year ended 31st March, 2018
INCOME				
Revenue From Operations		8.1	304,313.51	268,621.23
Other Income		8.2	2,901.17	2,882.09
TOTAL INCOME (I)			307,214.68	271,503.32
EXPENSES				
Cost of materials consumed		9.1	206,919.83	169,412.59
Purchases of bearer biological assets		9.2	4,835.41	3,397.55
Purchases of Stock-in-Trade		9.3	12,061.07	14,493.44
Changes in inventories of finished goods, Stock-in -Trade , work-in-progress and Biological assets		9.4	(3,680.48)	(2,203.92)
Employee benefits expense		9.5	19,448.72	17,074.42
Finance costs		9.6	3,154.86	4,987.43
Depreciation and amortization expense		2.1, 2.3	2,934.96	2,813.30
Impairment of goodwill		2.3	257.80	-
Other expenses		9.7	33,630.14	27,832.64
TOTAL EXPENSES (II)			279,562.31	237,807.45
PROFIT BEFORE TAX (I-II)			27,652.37	33,695.87
Less: Tax expense:				
Current tax			9,950.00	11,275.00
Deferred tax			10.60	453.25
Tax adjustment in respect of earlier period			277.70	1,996.45
		10	10,238.30	13,724.70
PROFIT FOR THE YEAR	A		17,414.07	19,971.17
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss				
Re-measurement gains / (losses) on defined benefit plans			(123.72)	84.58
Less: Income tax effect			(43.23)	29.27
			(80.49)	55.31
Items that will be reclassified subsequently to profit or loss				
The effective portion of gains/(loss) on hedging instruments in a cash flow hedge			89.44	3.95
Less: Income tax effect			31.06	1.37
			58.38	2.58
OTHER COMPREHENSIVE INCOME FOR THE YEAR	B		(22.11)	57.89
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(A+B)		17,391.96	20,029.06
EARNINGS PER SHARE		15		
[Nominal value of shares: Rs. 10/-per equity share; Previous year: Rs. 10/-]				
Basic			123.62	141.77
Diluted			123.62	141.77
Summary of significant accounting policies	1			

The accompanying notes form an integral part of the financial statements

BALANCE SHEET AS AT 31ST MARCH, 2019

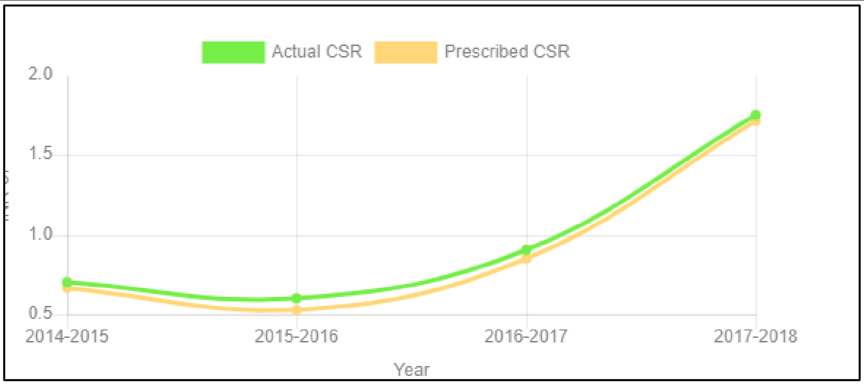
(Rupees in Lakhs)

Particulars	Note No.	As at 31st March, 2019	As at 31st March, 2018
ASSETS			
Non-current Assets			
Property, Plant and Equipment	2.1	49,081.63	45,895.40
Capital work-in-progress	2.2	6,643.22	1,742.80
Goodwill	2.3	1,009.94	1,267.74
Other intangible assets	2.3	12.40	21.71
Financial Assets			
- Loans	2.4	17.77	19.30
- Other financial assets	2.5	7,291.60	1,120.57
Income tax assets (net)	6.6	516.21	552.86
Other non-current assets	2.6	2,125.25	13,116.27
(a)		66,698.02	63,736.65
CURRENT ASSETS			
Inventories	3.1	20,883.96	16,220.14
Biological assets	3.2	18,561.55	13,613.79
Financial assets			
- Investments	3.3	614.72	-
- Trade receivables	3.4	30,554.92	29,542.74
- Cash and cash equivalents	3.5	930.25	908.53
- Bank balances other than cash and cash equivalents	3.6	14,459.95	14,456.42
- Loans	3.7	118.20	2,506.30
- Other financial assets	3.8	1,752.16	1,159.93
Other current assets	3.9	1,159.13	974.78
(b)		89,034.84	79,382.63
Total Assets (a+b)		155,732.86	143,119.28
EQUITY AND LIABILITIES			
Equity			
Equity Share capital	4.1	1,408.74	1,408.74
Other Equity	4.2	86,740.49	70,707.18
(a)		88,149.23	72,115.92
Liabilities			
Non-current liabilities			
Financial liabilities			
- Borrowings	5.1	3,993.21	7,386.28
- Other financial liabilities	5.2	86.10	27.25
Provisions	5.3	1,186.20	1,038.00
Deferred tax liabilities (net)	5.4	3,522.86	3,524.44
Other non current liabilities	5.5	26.96	29.95
(b)		8,815.33	12,005.92

CSR ACTIVITIES

According to CSR law in Companies Act 2013 , companies with a net worth of Rs 500 crore or more, or turnover of Rs 1,000 crore or more, or net profit of Rs 5 crore or more were required to spend 2 per cent of their average profit of the previous three years on CSR activities every year. Hence Venky's has contributed a part of its profit towards CSR activities.
The table and graph below gives the amount of money invested by Venky's in CSR Activities-

CSR Financial Details (INR Cr.)			
Year	2017-2018	2016-2017	2015-2016
Actual CSR	1.75 Cr	0.90 Cr	0.60 Cr
Prescribed CSR	1.72 Cr	0.85 Cr	0.52 Cr



It can be seen that Venky's has invested more than the required amount to be invested in all its financial years. Venky's carry out its CSR activities under the name of the following foundations-

1. Lord Venkateshwara Charitable trust
2. Smt. Uttara Devi Charitable & Research Foundations

They both bear the responsibilities of VH Group's major social activities. They carry out several projects and programs individually as well as in association with other NGOs and charitable organizations. Following are various programs undertaken by them-

1. Education and employment

Venkateshwara school which provides English and Marathi medium education to children free of cost from Primary level to SSC level and employing teachers for the same.
In the financial year 2018-19 Rs 6 lacs were contributed towards government schools for the promotion of education.

2. Eradicating hunger, Poverty and Encouraging Sports

The trust has contributed for supply of free chicken and eggs to orphanage and certain sportsman of rural, national, Paralympic and Olympic Sports.

3. Promotion of Healthcare

The Ventakeshwara hospital and Ventakeshwara mobile clinic have significantly contributed to social welfare. One full time doctor and one visiting doctor are at service for people and the Mobile clinic covers over 12 villages providing free medical check-ups to farm employees of VH Group.

Along with these activities Venky's has also built a Balaji temple in Pune which is a replica of the spiritual Balaji temple of Tirupati for community welfare.

FUNDING OF VENKY'S

Following tables gives the idea about the funding that venky's get from different sources and shareholders' pattern.

Sources of Funds	
Particular	**Amount** (in RS crore)
Share Capital	14.09
Reserves	867.40
Total Shareholders' Funds	881.49
Secured loans	203.33
Unsecured loans	77.28
Total Debt	280.61
Total Liabilities	**1162.10**

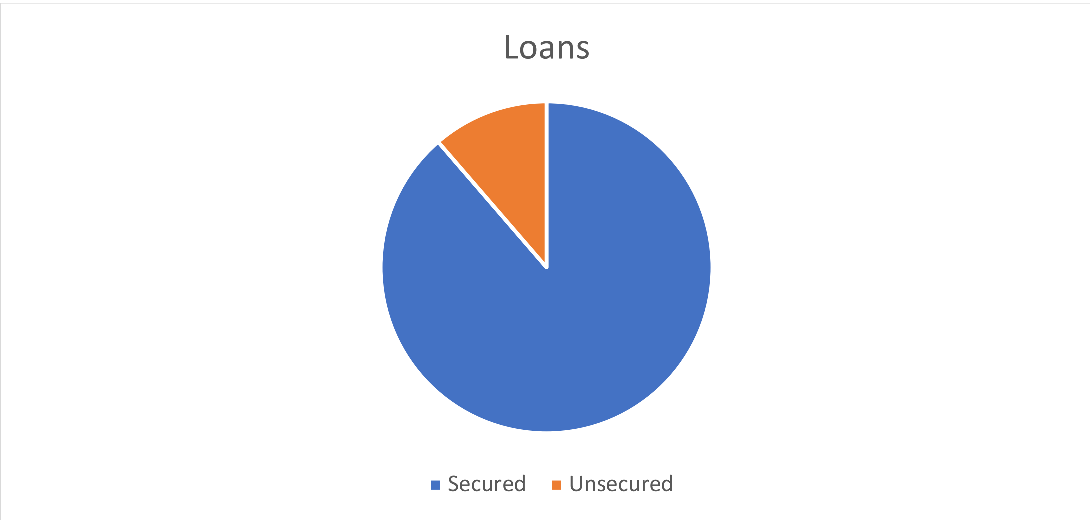
Shareholders' Pattern		
Category	**No. of Shares**	**%**
Promoters	78,01,558	55.38
Mutual Funds/Unit Trust of India	878	0.01
Financial Institutions/ Banks	25,503	0.18
Foreign Institution Investors	1,02,885	0.73
Private Bodies Corporate	9,85,347	7.00
Non-Resident Indians	75,124	0.53
Public	50,96,041	36.17
Total	1,40,87,336	100

SECURED AND UNSECURED LOANS

Secured Loans: It represents loans and advances from banks/ subsidiaries/ others raised by a company, after creation of charge on its assets. These are loans backed with a collateral. Collateral is something of value that you own. They also include debentures.

Unsecured loans: It represents loans and advances from banks/ subsidiaries/ others obtained without creation of charge on its assets. It is the money borrowed without a collateral. Due to lack of collateral, lender faces a higher level of risk. They also include fixed deposits received from public.

For the financial year ending on 31st March 2019,
Total Unsecured loans = 26 Rs. (in crores)
Total secured loans = 203.33 Rs. (in crores)



The ratio of secured to unsecured loans is 7.82 which has decreased from 26.68.

DEBT VS EQUITY

Debt and Equity are the two primary financial resources used for raising money for capital expenditure. Debt involves selling of debt instruments (such as bonds, bills, debentures etc.) to individual/investors with a promise to repay the capital along with the interest. Whereas, equity involves selling of company stock for which the investors gain ownership in the company. Equity instruments may include preferred stocks, common shares, warrants etc.

Issuing debt instruments over equity instruments provides a tax advantage as the interest paid is a deductible expense on the federal and state income tax returns for the company. Dividends, a feature of equity finance, are not a deductible expense as they are issued to the owners/stockholders from the profits of the corporation.

Tax deductibility involves the exemption of interest paid on debt instruments from the company's taxable income. This results in an overall decrease in the cost of debt due to income tax savings. Therefore, the extent of the tax advantage depends on the income tax rate of the company for the respective interest rates.

Venky's: Tax Deductibility of Interests

Venky's Annual Report 2018-19 displays the company's financial results in the fiscal year and summarises the financial account. The dividend and dividend distribution tax categories are mentioned under the appropriations account; earnings retained for a specific purpose by the board of directors. Since retained earnings are a company's after-tax profits, Venky's is not required to pay income tax on its dividends. Hence, dividends paid on stockholder's equity from the retained earnings are not tax-deductible.

The profit and loss statement for Venky's in the fiscal year 2018-19 includes Finance Costs under the company's expenses. The Finance Costs account comprises of the company's interest expenses on its debt instruments. The net expenses are then deducted from net income to calculate profits before tax is applied. Subsequently, after-tax profits are determined. Therefore, interests on debt instruments are tax-deductible.

Some important debt-equity statistics for Venky's are given below,

Retained earnings (2019): 86,740.49

Retained earnings (2018): 70,707.18

Net Profits (2019): 17,414.07

Dividends: 17414.07 - (86740.49 - 70707.18) > 0

Since net profit is not equal to the difference in retained earnings in the year 2018-19, Venky's must have distributed some of its profits as dividends among its shareholders.

Total Debt: 26,761.60 (As at 31st March, 2019) and 35,042.06 (As at 31st March, 2018)

Total Equity: 88,073.03(As at 31st March, 2019) and 72,098.10(As at 31st March, 2018)

Debt Equity Ratio: 0.3 (2019) and 0.49 (2018)

Venky's observed a 38% decrease in debt equity ratio, indicating a decrease in financing by debts via borrowing or/and an increase in funding through equity via shareholders.

INVENTORIES POSITION

Particulars	Note No.	As at 31st March, 2019	As at 31st March, 2018
			(Rupees in Lakhs)
9.1 COST OF MATERIALS CONSUMED			
Inventories at the beginning of the year		10,374.49	7,632.08
Add: Purchases (net of returns)		212,847.54	172,155.00
		223,222.03	179,787.08
Less: Inventories at the end of the year		16,302.20	10,374.49
Total		206,919.83	169,412.59

Cost of Inventory consumed as at 31st March 2018 = Rs 169,412.59 lakhs
Cost of Inventory consumed as at 31st March 2019 = Rs 206,919.83 lakhs
Change in cost of inventory consumed = 216,919.83 – 169,412.59
= Rs 47,507.24

Percentage change in cost of inventory consumption = ((206,919.83-169,412.59)/ 169,412.59) * 100 **= 22.139%**

There has been a growth of 22.14 % in the cost of consumption of inventories by Venkys.
(Here inventory means raw materials and packing materials)

	As at 31st March, 2019	As at 31st March, 2018
		(Rupees in Lakhs)

Value of Inventories as at 31st March, 2019 = Rs 20,883.96 lakhs
Value of Inventories as at 31st March, 2018 = Rs 16,220.14 lakhs
Change in the value of inventories = 20,883.96 – 16,220.14
= Rs 4,663.82
Percentage changes in inventories = ((20,883.96-16,220.14)/ 16,220.14) * 100 **= 28.753%**

There has been an increase of 28.753% in the value of the inventories at the end of the financial year.
It means that the company has purchased more goods than it has sold during the fiscal year 2018-19(on value basis).

COST OF DEBT AND COST OF OWNER'S EQUITY

The cost of debt can never be higher than the cost of equity.

Debt is a contractual obligation between a company and its creditors. The contract outlines the repayment of borrowed money typically with interest or fees to the creditors in payment for the use of that capital. The legal contract between creditor and company always places the creditors repayment rights above those of any distributions to equity holders. In addition to this debt is secured against securities while equity is not. Therefore risk faced by equity holders is greater than the risk faced by debt holders. Since the risk faced by equity holders is more compared to the debt holders, therefore greater risk brings greater returns and thereby greater cost of owner's equity compared to cost of debt.

Equity holders are always subordinate to debt holders and do not receive a contractual obligation to be repaid their capital. There is also the uncertainty of receiving dividends for equity holders but debt holders receive fixed interest. Therefore, due to the higher risk for equity holders, cost of debt is often lower than the cost of owner's equity.

9.6 FINANCE COSTS			
Interest expense		**3,137.74**	4,567.22
Interest on Income Tax		**162.52**	437.47
		3,300.26	5,004.69
Less: interest capitalised during the year		**145.40**	17.26
	Total	**3,154.86**	4,987.43

		(Rs. In Lakhs)
Particulars	**As at 31st March, 2019**	As at 31st March, 2018
Total debt	**26,761.60**	35,042.06
Total equity	**88,073.03**	72,098.10
Debt – Equity ratio	**0.30**	0.49

Cost of debt = (Interest expense for 2018-19 * (1-t)) / (Total debt)

= (3137.74 * (1 – 34.944%)) / (26761.60)

= 7.63%

Year	Dividend per share(DPS)	Growth rate in dividends
2014-15	5	-
2015-16	5	0%
2016-17	6	20%
2017-18	8	33.33%
2018-19	8	0%

Average growth rate in dividends = (0+20+33.33+0)/4

= 13.33%

Cost of equity = *(Expected DPS next year / Market Price) + Growth rate in dividends* = ((8*(1+0.1333)) / 3249.88) + 0.1333

(Market price = (2018-19 Highest share price + 2018-19 Lowest share price)/2 =(4711.25+1788.50)/2 = 3249.88)

Cost of equity = 13.61%

Thus, the cost of debt is lower than the cost of equity.

ASSET STRUCTURE

Asset structure is the proportion of various types of assets held by a firm as shown in the balance sheet.

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2018-19

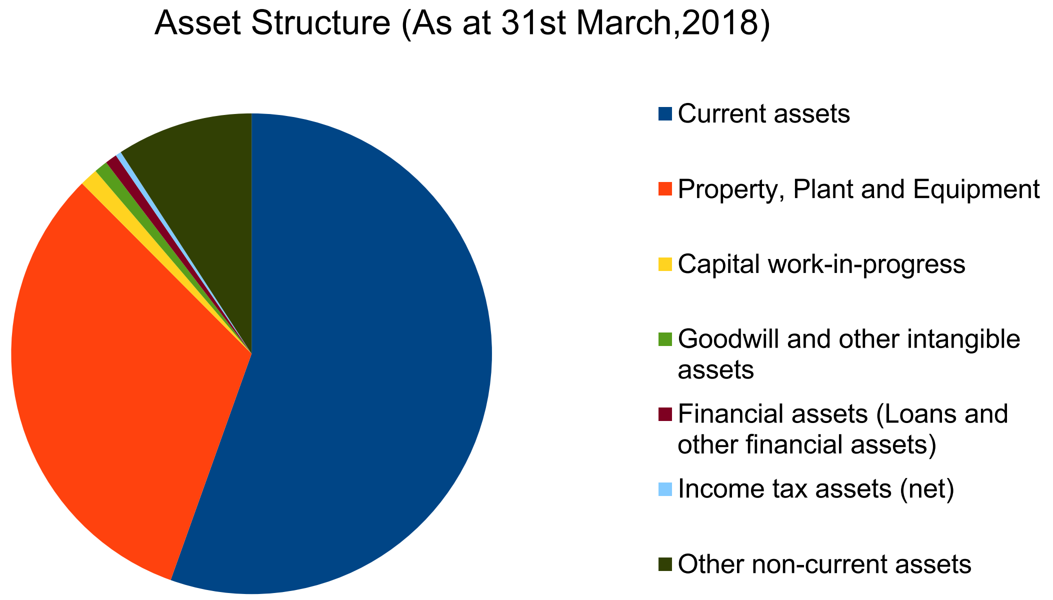
BALANCE SHEET AS AT 31ST MARCH, 2019

(Rupees in Lakhs)

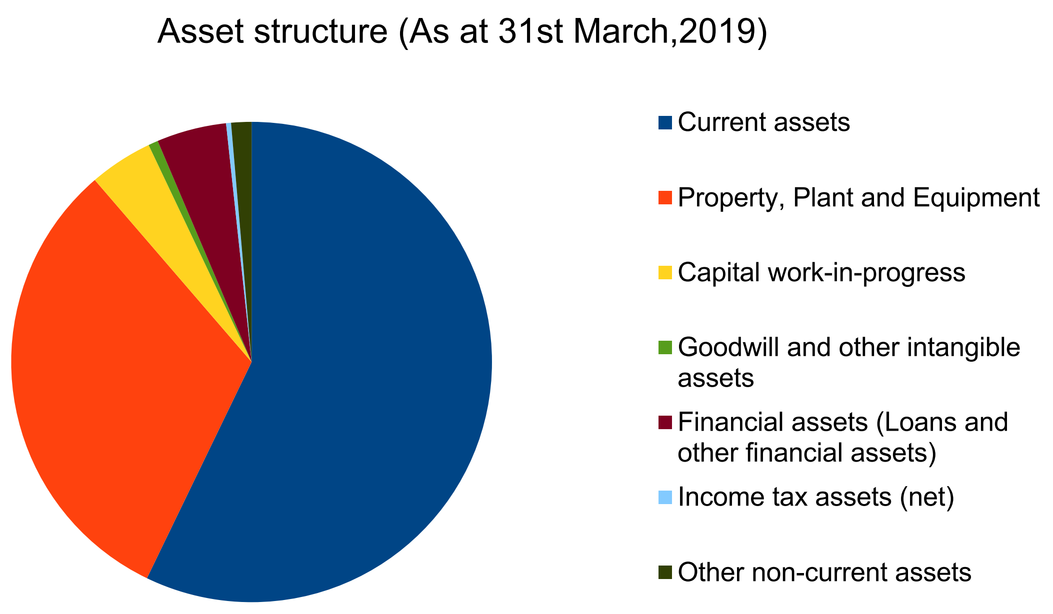
Particulars	Note No.	As at 31st March, 2019	As at 31st March, 2018
ASSETS			
Non-current Assets			
Property, Plant and Equipment	2.1	49,081.63	45,895.40
Capital work-in-progress	2.2	6,643.22	1,742.80
Goodwill	2.3	1,009.94	1,267.74
Other Intangible assets	2.3	12.40	21.71
Financial Assets			
- Loans	2.4	17.77	19.30
- Other financial assets	2.5	7,291.60	1,120.57
Income tax assets (net)	6.6	516.21	552.86
Other non-current assets	2.6	2,125.25	13,116.27
(a)		66,698.02	63,736.65
CURRENT ASSETS			
Inventories	3.1	20,883.96	16,220.14
Biological assets	3.2	18,561.55	13,613.79
Financial assets			
- Investments	3.3	614.72	-
- Trade receivables	3.4	30,554.92	29,542.74
- Cash and cash equivalents	3.5	930.25	908.53
- Bank balances other than cash and cash equivalents	3.6	14,459.95	14,456.42
- Loans	3.7	118.20	2,506.30
- Other financial assets	3.8	1,752.16	1,159.93
Other current assets	3.9	1,159.13	974.78
(b)		89,034.84	79,382.63
Total Assets (a+b)		155,732.86	143,119.28

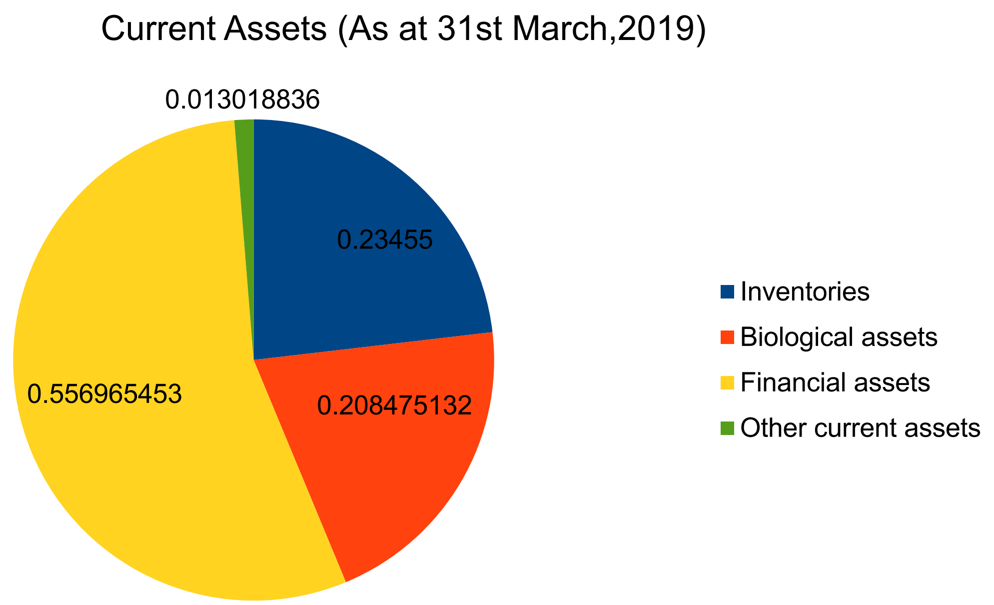
The following pie charts show the proportion of the various types of assets held by the organization:

Assets (As at 31st March,2018)	% of total assets
Current assets	55.47%
Property, Plant and Equipment	32.07%
Capital work-in-progress	1.22%
Goodwill and other intangible assets	0.90%
Financial assets(Loans and other financial assets)	0.80%
Income tax assets (net)	0.39%
Other non-current assets	9.16%



Assets (As at 31st March,2019)	% of total assets
Current assets	57.17%
Property, Plant and Equipment	31.52%
Capital work-in-progress	4.27%
Goodwill and other intangible assets	0.66%
Financial assets(Loans and other financial assets)	4.69%
Income tax assets (net)	0.33%
Other non-current assets	1.36%





The above piecharts show that the % of current assets in the asset structure of Venky's is high compared to the fixed assets(Property, Plant and Equipment). This is because Venky's is involved in the production and sale of day old broiler and layer chicks and it produces poultry products. Due to this, it has a large inventory and a large number of biological assets and therefore, higher current assets.

GROSS PROFIT MARGIN

It is an important measure. Gross profit margin is a metric used to assess a company's financial health and business model by revealing the amount of money left over from sales after deducting the cost of goods sold.

Gross profit margin is often shown as the gross profit as a percentage of net sales. The gross profit margin shows the amount of profit made before deducting selling, general, and administrative costs, which is the firm's net profit margin. Gross profit only includes variable cost and not fixed costs.

Formula of calculating the Gross profit margin is

Gross Profit Margin = (Revenue(net sales) – Cost of Goods Sold)/Revenue(net sales)

For the Financial Year ending 31st March 2019,
From Annual Report:

Particulars	Note No.	For the year ended 31st March, 2019	(Rupees in Lakhs) For the year ended 31st March, 2018
INCOME			
Revenue From Operations	8.1	**304,313.51**	268,621.23
Other Income	8.2	**2,901.17**	2,882.09
TOTAL INCOME (I)		**307,214.68**	271,503.32
EXPENSES			
Cost of materials consumed	9.1	**206,919.83**	169,412.59
Purchases of bearer biological assets	9.2	**4,835.41**	3,397.55
Purchases of Stock-in-Trade	9.3	**12,061.07**	14,493.44
Changes in inventories of finished goods, Stock-in -Trade , work-in-progress and Biological assets	9.4	**(3,680.48)**	(2,203.92)
Employee benefits expense	9.5	**19,448.72**	17,074.42
Finance costs	9.6	**3,154.86**	4,987.43
Depreciation and amortization expense	2.1, 2.3	**2,934.96**	2,813.30
Impairment of goodwill	2.3	**257.80**	-
Other expenses	9.7	**33,630.14**	27,832.64
TOTAL EXPENSES (II)		**279,562.31**	237,807.45
PROFIT BEFORE TAX (I-II)		**27,652.37**	33,695.87

Revenue (net Sales) = 304313.51 Lakh Rupees

Cost of Goods Sold = 2,27,496.79 Lakh Rupees

Gross Profit = 76,816.72 lakh rupees

Gross Profit Margin = Gross Profit/Cost of Goods Sold **= 25.2 %**

As per industry standard it is not a good gross profit margin. For food industry **50-60% gross profit margin** is considered good.

REVENUE TREND

Venky's has seen a growth in their revenue due to the following reasons-

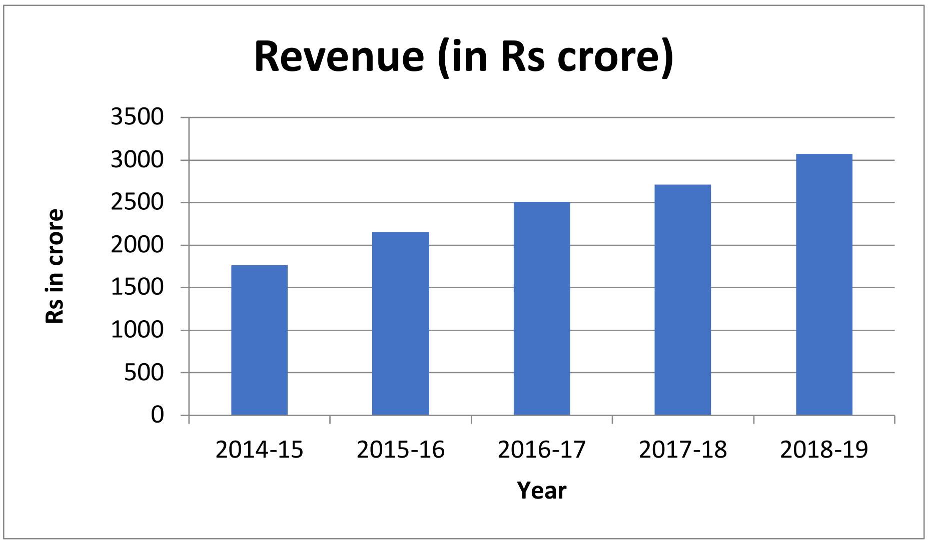
1. **Increasing Incomes Coupled by Changing Food Habits:** As a result of increasing levels of urbanization and higher levels of disposable incomes, poultry meat is increasingly seen as less of a luxury product and more as a daily staple. Further with changing food habits and increasing exposure to global cuisines, the Indian population is increasingly converting to a non-vegetarian diet.

2. **Growth in the Food Services Market:** Growth in the food services market such as restaurant and fast food joints are also creating a positive impact on the consumption of broiler meat and eggs.

3. **Growth in the Bakery Foods Market:** Eggs represent an important ingredient in bakery foods. The Indian bakery foods market is currently exhibiting strong growth rates.

Given below is the revenue generated by Venky's (India) Ltd in past % years

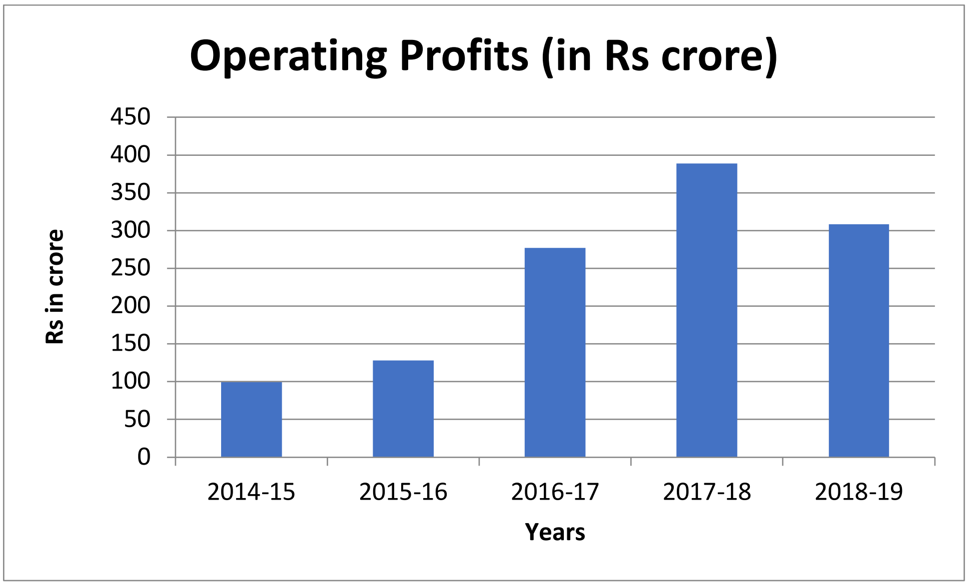
Year	Revenue (in Rs crore)
2014-15	1764.26
2015-16	2157.6
2016-17	2509.68
2017-18	2715.03
2018-19	3072.15



OPERATING PROFIT TREND

Following are table and graph reflecting the operating profit trend of venky's for the last 5 years.

Years	Operating Profits (in Rs crore)
2014-15	99.06
2015-16	128.09
2016-17	277.37
2017-18	388.75
2018-19	308.41



The decline in profits for the year 2018-2019 can be explained from the following facts-

1. Increase in input costs of poultry feed ingredients
2. The company has undertaken expansion projects of solvent extraction plant and vegetable oil refinery in Srirampur, Maharashtra.
3. Expansion of Specific Pathogen Free eggs capacity by setting up a new production unit Patan, Maharashtra.

CASH POSITION

A cash position represents the amount of cash that a company, investment fund, or bank has on its books at a specific point in time. The cash position is a sign of financial strength and liquidity. Cash Flow statement for VENKYS for the year end 31st March,2019 is –

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31ST MARCH, 2019

(Rupees in Lakhs)

	For the year ended 31st March, 2019	For the year ended 31st March, 2018
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	1,385.72	820.25
Repayment of long-term borrowings	(10,389.79)	(6,681.00)
Repayment of short-term borrowings (net of proceeds)	1,650.29	(12,812.32)
Finance cost paid	(3,355.97)	(4,810.22)
Dividend paid (including dividend distribution tax)	(1,332.62)	(1,000.03)
NET CASH USED IN FINANCING ACTIVITIES	(12,042.37)	(24,483.32)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	21.72	(1,819.57)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	908.53	2,728.10
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	930.25	908.53
COMPONENTS OF CASH AND CASH EQUIVALENTS		
Balances with banks in:		
current accounts	148.05	257.54
deposit accounts with original maturity of less than three months	3.03	-
unclaimed dividend accounts*	143.05	117.03
unclaimed fractional shares account*	3.80	3.83
Cheques, drafts on hand	492.85	418.81
Cash on hand	139.47	111.32
TOTAL CASH AND CASH EQUIVALENTS	930.25	908.53

* The Company can utilise these balances only towards settlement of the unclaimed dividends and fractional shares proceeds.

VENKYS (I) LIMITED Cash Flow Statement 2018-19

Particulars	No. of months	12	12	% Change
	Year Ending	Mar-18	Mar-19	
Cash Flow from Operating Activities	Rs m	2,559	1,589	-37.9%
Cash Flow from Investing Activities	Rs m	-293	-383	-
Cash Flow from Financing Activities	Rs m	-2,448	-1,204	-
Net Cash Flow	Rs m	-182	2	-

- VENKYS (I) LIMITED's cash flow from operating activities (CFO) during FY19 stood at Rs 2 billion on a YoY basis.
- Cash flow from investing activities (CFI) during FY19 stood at Rs -383 million, an improvement of 30.7% on a YoY basis.
- Cash flow from financial activities (CFF) during FY19 stood at Rs -1 billion, an improvement of 51% on a YoY basis.
- Overall, net cash flows for the company during FY19 stood at Rs 2 million from the Rs -182 million net cash flows seen during FY1

A cash position can also be found by looking at a company's free cash flow (FCF). This FCF can be found by taking a company's operating cash flow and subtracting its short-term and long-term capital expenditures .The free cash flow (FCF) for past 10 years is shown

An exceedingly high FCF might be an indication that a company is not investing in its business properly, such as updating its plant and equipment. Conversely, negative FCF might not necessarily mean a company is in financial trouble, but rather, investing heavily in expanding its market share, which would likely lead to future growth.