April 13, 2021

Parag Milk Foods Limited: Ratings placed on watch with developing implication

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based- Term loan	103.00	103.00	[ICRA]A &, Placed on watch with developing implication; removed from negative outlook
Fund -based- working capital facilities	400.00	400.00	[ICRA]A &, Placed on watch with developing implication; removed from negative outlook
Non-fund-based facilities	100.00	100.00	[ICRA]A2+ &, Placed on watch with developing implication
Total	**603.00**	**603.00**	

- **Instrument details are provided in Annexure-1; &: Rating placed on watch with developing implications*

Rationale

Material Event

On April 5, 2021, Parag Milk Foods Limited (PMFL) disclosed its plans to raise Rs. 316.0 crore by preferential allotment of equity shares, foreign currency convertible bonds (FCCBs) and convertible share warrants. This is subject to shareholder approval in the ensuing Extraordinary General Meeting (EGM) scheduled on April 26, 2021 as well as regulatory approvals. The company plans to raise Rs. 155.0 crore by way of preferential issue of equity share (Rs. 75.0 crore) and FCCBs (of $11million, or about Rs. 80.0 crore) from International Finance Corporation (IFC), Rs. 50.0 crore by way of preferential issue of equity share from Sixth Sense Venture Advisor LLP and Rs. 111.0 crore by way of convertible share warrants from its promoter group. In addition, the company has proposed a subscription of NCD of Rs. 150 crore from IFC. The FCCBs will be used only for capex plans, while the remaining funds will be used primarily towards working capital purposes, including reduction of current working capital bank lines.

Impact of Material Event

ICRA has noted the above event and has removed the negative outlook on the long-term rating and placed the outstanding ratings of [ICRA]A (pronounced ICRA A) and [ICRA]A2+ (pronounced ICRA A two plus) on rating watch with developing implications. ICRA will monitor successful completion of the fund raising plan as per proposed timelines, future growth plans and its impact on the credit profile of the company. Accordingly, ICRA will take appropriate rating action, going forward.

Please refer to the following link for the previous detailed rationale that captures key rating drivers and their description, the liquidity position, rating sensitivities, and key financial indicators: Click here

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	ICRA has considered the consolidated financials of PMFL. As on March 31, 2020, the company had one subsidiary, which is enlisted in Annexure-2.

About the company

PMFL is promoted by the Shah family, who have been in the dairy business for more than two decades. It has three milk processing plants—one each at Manchar (Maharashtra), Palamaner (Andhra Pradesh) and Sonipat (Haryana). PMFL is present across the supply chain of procurement, processing and marketing of liquid milk and milk products under its brands—Gowardhan, Go, Pride of Cows, Avvatar, Slurp and Topp Up. The dairy products manufactured and marketed by the company include cow's milk, clarified butter (*ghee*), cheese, butter, Skimmed milk powder(SMP), cottage cheese (*paneer*), curd, whey powder, yoghurt, UHT milk, whey powder, flavoured milk and traditional dessert mixes. PMFL has a diversified portfolio with seven brands and over 170 stock keeping units (SKUs).

Bhagyalaxmi Dairy Farms Private Limited's (BDFPL, wholly-owned subsidiary of PMFL) unique farm-to-home initiative, branded as Pride of Cows, allows customers to access milk processed without any human interference using latest technologies and best global practices. BDFPL has also introduced a range of certified organic fertilisers by commercialising cow manure.

Key financial indicators (audited)

Refer the previous detailed rationale on the following link***: Click here***

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					Apr 13, 2021	August 17, 2020	March 17, 2020	July 11, 2019	July 4, 2018
1	Fund-based - term loan	Long-term	103.0	51.9	[ICRA]A &	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
2	Working capital facilities	Long-term	400.0	--	[ICRA]A &	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
3	Non-fund-based facilities	Short term	100.0		[ICRA]A2+&	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A2+

- *&= Under watch with developing implications*

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 click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan 1	Sept 2013		Dec 2021	27.38	[ICRA]A &
NA	Term Loan 2	Sept 2017		Feb 2023	7.20	[ICRA]A &
NA	Term Loan 3	Sept 2017		Feb 2023	5.40	[ICRA]A &
NA	Term Loan 4	Feb 2019		Jan 2024	8.78	[ICRA]A &
NA	Term Loan 5	Jun 2018 July 2018 Aug 2018 Dec 2018		May 2023 Jun 2023 Aug 2023 Dec 2023	17.70	[ICRA]A &
NA	Term Loan 6	Apr 2020		Mar 2022	31.00	[ICRA]A &
NA	Term Loan 7	Apr 2020		Mar 2022	5.50	[ICRA]A &
NA	Working Capital Loan	-	-	-	400.00	[ICRA]A &
NA	Non-fund Based Limit	-	-	-	100.00	[ICRA]A2+ &

- ***Source:*** *Company; &= Under watch with developing implications*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Bhagyalaxmi Dairy Farms Private Limited	100%	Full Consolidation

- ***Source:*** *Company*

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About ICRA Limited:

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