

April 08, 2024

Bhagyalaxmi Dairy Farms Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – fund-based – term loans	65.50	64.31	[ICRA]BB+ (Negative); reaffirmed
Long-term – fund-based – cash credit	10.00	10.00	[ICRA]BB+ (Negative); reaffirmed
Long-term – unallocated	0.00	1.19	[ICRA]BB+ (Negative); reaffirmed
Total	75.50	75.50	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation of Bhagyalaxmi Dairy Farms Private Limited (BDFPL) derives comfort from the strong parent support from Parag Milk Foods Limited (PMFL¹), since BDFPL has significant operational and management linkages with its parent. The rating also favourably factors in the growing presence and recognition of the flagship brand, Pride of Cows, in the premium milk category with a hi-tech processing centre, where milk is processed and packaged without human intervention. The distribution network is primarily targeted towards affluent customers across seven cities in India, including Mumbai, Pune, Bengaluru and New Delhi.

The Negative outlook on the long-term rating reflects ICRA's expectation that PMFL's credit profile is expected to continue to be impacted by stretched liquidity and elevated debt levels on account of the high customer advances and working capital intensity. A reduction in the advances and improvement in working capital intensity resulting in lower debt requirement and improvement in liquidity position and debt metrics shall be key for improvement in PMFL's financial profile.

Moreover, BDFPL's rating continues to remain constrained by the company's moderate scale of operations and operating losses in FY2023 and 9M FY2024. Nonetheless the losses have reduced considerably over the past one year aided by increase in both average realisations and sales volumes, and further improvement in margins is likely with expected scaling up of operations. However, despite the same, the company's debt protection metrics are likely to remain suppressed over the near term due to the sizeable debt-funded capex undertaken for setting up the new farm at Bota, Maharashtra.

Key rating drivers and their description

Credit strengths

Strong parent support – BDFPL is a 100% subsidiary of PMFL, an established private dairy player in the liquid milk and VADP² categories with recognised brands (including Gowardhan, Go, Pride of Cows, Avvatar, Slurp and Topp Up). The two entities share operational, financial and management linkages, being in the same business sector.

Growing recognition and distribution of 'Pride of Cows' in premium milk category – BDFPL sells most of its processed milk via its flagship brand—Pride of Cows, while the remaining milk is sold to PMFL. Pride of Cows, allows customers to access superior quality milk processed without any human interference, using latest technologies and best practices without any

¹ rated [ICRA] BBB- (Negative)/[ICRA] A3

² VADP: value-added dairy products

preservatives and chemicals. The company also launched Pride of Cow VADPs like clarified butter (*ghee*) and yoghurt in September 2020. The revenue from these products remains minimal at present.

State-of-the-art processing centre – The company has an ultra-modern processing centre, which allows customers to access milk processed without any human interference, using the latest technology and best global practices. The centre is equipped with one of India's first rotary parlours, mechanising the whole milking process while maximising quality and hygiene. The facility follows specialised farming, nurturing, breeding, and milking programmes to ensure that the milk is of the highest quality, while the cows are bred in a comfortable habitat to yield the best possible results. The company is further expanding its presence in the segment by adding another similar farm in Bota, Maharashtra.

Credit challenges

Moderate scale of operations and losses at operating level – The company has a moderate scale of operations with a total revenue of Rs. 80.7 crore in FY2023 and Rs. 71.6 crore in 9M FY2024. Of this, revenue contribution from the Pride of Cows Milk sales was Rs. 37.6 crore and Rs. 33.1 crore for FY2023 and 9M FY2024, respectively. The company also generates a substantial part of its revenues through the sale of surplus milk to PMFL. Moreover, the company continues to remain in operating losses and growth in its margins and accruals, though increasing sales of its main brand continues to remain a key monitorable for its performance.

Ongoing debt-funded capex likely to keep coverage metrics suppressed over near term – The company is undertaking debt-funded capacity expansion to set up a new farm of approximately 500 acres in Bota, to support future growth. The project is at advanced stages of completion, with a total cost of around Rs. 100 crore, funded through debt of ~Rs. 75 crore and the remaining from equity/ accruals. Given the sizeable debt availed for the new farm and the time taken in material scaling up of accrual generation, BDFPL's debt protection metrics are likely to remain suppressed over the near term.

Profitability vulnerable to movement in cattle feed prices – Cattle feed is the key raw material for the company. The price of cattle feed is dependent on agro-commodities like de-oiled rice bran (DORB) and maize. Thus, any adverse movement in prices of DORB or maize may impact the profitability of the company.

Liquidity position: Stretched

BDFPL's liquidity is stretched, as evidenced by negative cash flow from operations, full utilisation of its working capital limits (against available drawing power) and modest cash and cash equivalent of less than Rs. 1 crore as on March 31, 2023. The company has debt repayments of ~Rs. 4.4 crore in FY2024, and Rs. 3.1 crore and Rs. 5.4 crore in FY2025 and FY2026, respectively. It also plans to incur capex of ~Rs. 20-25 crore in FY2024, followed by ~Rs. 3.0-4.0 crore per annum in FY2025 and FY2026. The capex in FY2024 is partially funded by a sanctioned term loan. Given that internal accrual generation is expected to remain low, BDFPL will continue to depend on funding support from its parent (PMFL) to meet its near-term commitments. Increase in scale and internal accrual generation will be crucial in improving the company's liquidity position, going forward.

Rating sensitivities

Positive factors – The outlook can be revised to Stable, if there is an improvement in the credit profile of the parent, PMFL.

Negative factors – The rating of BDFPL can be downgraded if there is a deterioration in the credit profile of its parent, PMFL. Moreover, negative pressure on the rating may arise if the company is unable to scale up and register an improvement in its cash accrual generation, resulting in continued pressure on its credit profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	The rating assigned to BDFPL factors in the high likelihood of PMFL extending financial support to it as its wholly-owned subsidiary and because of close business linkages between them. ICRA also expects PMFL to be willing to extend financial support to BDFPL to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	Standalone financials

About the company

BDFPL is a wholly-owned subsidiary of PMFL. Its 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. Spread over 35 acres, the company's farm houses over 3,000 Holstein cows. It is equipped with one of India's first rotary parlours, which has mechanised the whole milking process and maximised quality and hygiene. The facility follows specialised farming, nurturing, breeding, and milking programmes to ensure highest quality of milk. Pride of Cows has a niche target group of health conscious and affluent consumers, with an expanding distribution network in Maharashtra and other regions including Delhi NCR. The company is also setting up a new farm in Bota, Maharashtra, which is expected to be spread over around 500 acres.

About the parent

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), Palamner (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 clarified butter, cheese, butter, SMP, curd, whey powder, yoghurt, UHT milk, flavoured milk and traditional dessert mixes.

Key financial indicators (audited)

BDFPL - Standalone	FY2022	FY2023	H1 FY2024*
Operating income	68.1	78.5	43.5
PAT	-3.3	-16.7	2.9
OPBDIT/OI	-12.2%	-25.3%	-1.3%
PAT/OI	-4.9%	-21.3%	6.6%
Total outside liabilities/Tangible net worth (times)	1.0	2.7	1.2
Total debt/OPBDIT (times)	-5.5	-5.4	-63.0
Interest coverage (times)	-1.8	-3.7	-0.2

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years						
		Amount rated (Rs. crore)	Amount outstanding as of Feb 29, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022		
				Apr 08, 2024	May 10, 2023	Dec 27, 2022	July 20, 2022	Dec 10, 2021	July 09, 2021	Apr 13, 2021
1 Term loans	Long term	64.31	64.31	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A-&
2 Fund-based bank facilities	Long term	10.00	-	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A-&
3 Unallocated	Long term	1.19	-	[ICRA]BB+ (Negative)	-	-	-	-	-	-

&: Rating Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based- Term loan	Simple
Fund -based- CC	Simple
Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	April 2020	~12.0%	FY2028	64.31	[ICRA]BB+ (Negative)
NA	Working capital Limits	NA	NA	NA	10.00	[ICRA]BB+ (Negative)
NA	Unallocated	NA	NA	NA	1.19	[ICRA]BB+ (Negative)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

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