

April 08, 2024

Parag Milk Foods Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loans	13.62	1.09	[ICRA]BBB- (Negative); Reaffirmed
Fund-based Working Capital Facilities	330.00	330.00	[ICRA]BBB- (Negative); Reaffirmed
Short-term – Non-fund Based Facilities	33.00	33.00	[ICRA]A3; Reaffirmed
Non-Convertible Debenture Programme	150.00	150.00	[ICRA]BBB- (Negative); Reaffirmed
Long-term/ Short-term – Unallocated	36.69	49.22	[ICRA]BBB- (Negative)/ [ICRA]A3; Reaffirmed
Total	563.31	563.31	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings factor in some improvement in the company's performance in 9M FY2024, as marked by steady revenue growth (12.3% YoY growth in 9M FY2024) and improvement in its operating profit margins (OPM) (6.8% in 9M FY2024 against 4.2% in FY2023) aided by softening of milk prices, high revenue contribution from VADP¹ and higher incentive/PLI income. Additionally, PMFL's credit profile continues to be supported by extensive experience of its promoters in the dairy industry, its wide product portfolio and established pan India brand presence with healthy market share in key product categories, supported by a well-entrenched distribution network. PMFL's operations are supported by its sizeable manufacturing capacities and an established procurement base of dairy farmers, network of bulk coolers and chilling centres, ensuring a regular supply of raw milk.

The continuation of the Negative outlook on the long-term rating of Parag Milk Foods Limited (PMFL) reflects ICRA's expectation that PMFL's credit profile will continue to be impacted by high debt levels, moderate debt protection metrics and stretched liquidity position. Improvement in internal accrual generation and working capital intensity, translating into lower reliance on debt and improvement in liquidity position will be key for improvement in PMFL's financial profile.

The ratings remain constrained by PMFL's relatively high working capital intensity than its peers, which has continued to result in high funding requirements, elevated debt levels and stretched liquidity position (as marked by high utilisation of the working capital limits availed from the bank). PMFL's inventory levels increased to Rs. 604.8 crore as on September 30, 2023, against Rs. 573.5 crore as on March 31, 2023, while its debt levels increased to Rs. 625.6 crore from Rs. 606.2 crore over the same period. Consequently, the company's debt protection metrics are likely to remain moderated over the near term, despite some improvement witnessed in 9M FY2024. Any considerable buildup in the inventory levels, resulting in elevated reliance on debt and, thereby, impacting the company's credit metrics and liquidity position will remain a key monitorable for PMFL's credit profile.

ICRA also notes that the company had witnessed attrition at the mid to senior management level over FY2022 and FY2023. However, it has strengthened its management bandwidth by roping in experienced personnel from the FMCG sector. Moreover, the ratings continue to factor in the risks from its exposure to agro-climatic and environmental factors prevalent in the dairy sector, high competitive intensity in the industry and vulnerability of its profitability to volatility in milk prices, as

¹ VADP: value-added dairy products

demonstrated by a considerable contraction in OPM in FY2023. While the company reported an improvement in its OPM in 9M FY2024, its ability to sustain the same amid continued volatility in milk prices, remains to be demonstrated.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters with strong procurement network – PMFL’s promoters have an extensive experience of more than three decades in the dairy industry and have developed a well-entrenched milk procurement network among local farmers in Manchar (Maharashtra). This partly mitigates the inherent risk in the dairy business, given the highly fragmented farmer/ supplier base and seasonality in milk production. PMFL has tie-ups with over five lakh farmers in 29 districts, supported by chilling centres and bulk milk units across Manchar and Palamner (Andhra Pradesh). PMFL also has its own dairy farm under its 100% subsidiary, Bhagyalaxmi Dairy Farms Private Limited (BDFPL), which supplies premium quality milk through its ‘Pride of Cows’ brand.

Established brand and distribution network – PMFL has a primary unique selling point (USP) of all its products being processed from 100% cow’s milk, along with well established brands like ‘Gowardhan’, ‘Go’, ‘Avvatar’ and ‘Pride of Cows’, which are recognised across the country. Moreover, PMFL’s business is supported by a strong distribution network across India with 29 depots, ~6,200 distributors, ~700 stockists and more than 5.0 lakh retail touch points. The company has reputed institutional and HORECA² customers for various product such as cheese, SMP³, and whey, along with a dedicated sales and marketing team.

Diversified product profile with sizeable market share in clarified butter and cheese segments – In line with the past trend, liquid milk generated around 10% of PMFL’s consolidated revenues in 9M FY2024, while the remaining was generated by SMP and VADPs including clarified butter (*ghee*), butter, cheese, yoghurt, ultra-high temperature (UHT) milk, and other milk products. PMFL is one of the leading players in the Indian cheese industry with ~35%⁴ market share (market leader in the institutional and HORECA cheese business) and has a healthy share of ~20% in the cow *ghee* segment in the organised market.

Credit challenges

High working capital intensity of business – The company’s inventory days are high, primarily due to cheese, which typically needs to be aged over months. PMFL also maintains a high inventory of butter, which is used as a buffer raw material for ensuring an uninterrupted flow of *ghee*. The company has also extended sizeable advances to its key vendors (milk aggregators) to ensure timely supply of milk to sustain its large scale of operations, which has also blocked a part of its working capital. As a result, working capital intensity of the business has remained high with high utilisation of working capital limits.

Moderate debt protection metrics – PMFL’s debt levels have remained elevated with total debt (including lease liability) of Rs. 625.6 crore as on September 30, 2023, against Rs. 606.2 crore as on March 31, 2023, on account of high level of advances extended to vendors as well as increase in inventory levels with scale up in operations. This has also led to considerable increase in the company’s interest costs to Rs. 60.2 crore in 9M FY2024 (Rs. 43.0 crore in 9M FY2023). Despite some improvement aided by improvement in accrual generation, debt protection metrics are expected to remain moderate with estimated Total Debt/OPBDITA of almost 3.0 times and interest cover of ~2.8 times for FY2024.

High competitive intensity of the industry; vulnerability of OPM to volatility in milk prices – The dairy industry is a highly competitive and fragmented industry with the unorganised sector accounting for a big portion of the overall industry size. This limits the pricing flexibility of industry participants including PMFL; however, the company benefits to some extent from its established brand presence as well as higher contribution from the VADP segment to its revenues. PMFL’s profitability also

² HORECA: Hotel, Restaurant and Catering

³ SMP: Skimmed milk powder

⁴ as per company’s investor presentation

remains vulnerable to volatility in milk prices, as demonstrated by moderation of its OPM to 4.2% in FY2023 due to higher milk prices. While the company's OPM improved to 6.8% in 9M FY2024 with reduction in milk prices, PMFL's ability to sustain the same amid continued volatility in milk prices, remains to be seen.

Vulnerability to external factors such as adverse weather conditions and disease outbreaks – Alike its peers, PMFL's revenues and earnings continue to remain susceptible to agro-climatic factors such as droughts and livestock disease outbreaks, which may adversely impact milk production as well as the procurement prices of milk.

Environmental and Social Risks

Environmental concern: The dairy industry is exposed to physical climate risks, which could result in variations in the availability of fodder for cattle and impact their productivity. Extreme weather conditions like harsh summers or floods can also impact raw milk productivity. However, PMFL procures milk from a large network of farmers with strong procurement supply chains, which mitigate the environmental risks to an extent.

Social concern: PMFL procures milk from over two lakh farmers in the vicinity of its manufacturing units. To ensure the continuous availability of good quality of milk and to support farmers, PMFL assists them to improve milk productivity and quality through technical assistance, providing veterinary services, medicines and promotion of sustainable practices for improving the productivity and yield of their cattle. Overall, PMFL's exposure to social risks remains moderate.

Liquidity position: Stretched

PMFL's liquidity is stretched as evidenced by continued high utilisation of its working capital limits (average of ~94% in 10M FY2024) given that the funding requirements of the business have remained high, driven by increase in scale of operations as well as increase in inventory levels. However, cash and liquid investments of ~Rs. 55 crore as on December 31, 2023 support the company's liquidity position to some extent. The company has consolidated debt repayment of ~Rs. 27-32 crore per annum over FY2024 to FY2026, which can be sufficiently serviced by its internal accruals. However, steady internal accrual generation and increased cushion in the form of undrawn bank lines shall remain a key monitorable for the improvement in its liquidity profile.

Rating sensitivities

Positive factors – The outlook can be revised to Stable, if the company demonstrates continued improvement in its business performance resulting in higher accrual generation, leading to an improvement in its liquidity profile and debt protection metrics.

Negative factors – Negative pressure on PMFLs ratings may arise if any significant decline in internal accrual generation or stretch in working capital cycle weakens its debt protection metrics and liquidity position further. Specific credit metrics that could lead to a rating downgrade include Total Debt/OPBDITA above 3.5 times on a sustained basis.

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 December 31, 2023, the company had one subsidiary and one associate, which are enlisted in Annexure-II.

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), 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.

Its wholly-owned subsidiary, BDFPL's 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)

PMFL - Consolidated	FY2022	FY2023	9M FY2024*
Operating income	2071.8	2892.6	2348.6
PAT	-532.5	53.4	80.8
OPBDIT/OI	-20.8%	4.2%	6.8%
PAT/OI	-25.7%	1.8%	3.4%
Total outside liabilities/Tangible net worth (times)	1.5	1.1	-
Total debt/OPBDIT (times)	-1.2	5.0	-
Interest coverage (times)	-8.5	2.2	-

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		
				April 08, 2024	May 10, 2023	Dec 27, 2022	July 20, 2022	Dec 10, 2021	July 09, 2021	Apr 13, 2021
1 Fund-based - Term loan	Long-term	1.09	1.09	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A &
2 Working capital facilities	Long-term	330.00	-	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A &
3 Non-fund-based facilities	Short term	33.00	-	[ICRA]A3	[ICRA]A3	[ICRA]A3+	[ICRA]A2	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+&
4 Non-Convertible Debenture	Long-term	150.00	127.5	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	-
5 Unallocated	Long-term/ Short term	49.22	-	[ICRA]BBB- (Negative)/ [ICRA]A3	[ICRA]BBB- (Negative)/ [ICRA]A3	[ICRA]BBB (Negative)/ [ICRA]A3+	[ICRA]BBB+ (Negative)/ [ICRA]A2	-	-	-

&: Rating Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based- Term loan	Simple
Fund -based- working capital facilities	Simple
Non-fund-based facilities	Very Simple
Non-convertible Debenture Programme	Simple
Unallocated	NA

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
INE883N07011	Non-Convertible Debenture	May 2021	11.5%	June 2029	150.00	[ICRA]BBB-(Negative)
NA	Term Loan	Mar 2019	12.25%	Sep 2025	1.09	[ICRA]BBB-(Negative)
NA	Fund based Limits – CC	-	-	-	330.00	[ICRA]BBB-(Negative)
NA	Non-Fund Based Limits	-	-	-	33.00	[ICRA]A3
NA	Unallocated	-	-	-	49.22	[ICRA]BBB-(Negative)/ [ICRA]A3

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	PMFL's Ownership	Consolidation Approach
Subsidiary		
Bhagyalaxmi Dairy Farms Private Limited	100.00%	Full Consolidation
Associate		
TP Solapur Saurya Limited	26%	Equity Method

Source: Company

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