April 08, 2025

Parag Milk Foods Limited: Rating placed on 'Rating watch with developing implications' for NCDs; ratings placed on 'Rating watch with developing implications' and withdrawn for bank facilities

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
NCD Programme^	150.00	150.00	[ICRA]BBB-; placed on rating watch with developing implications
Long term - Fund based – Term loans	1.09	0.00	[ICRA]BBB-; placed on rating watch with developing implications and withdrawn
Long term - Fund based – Cash credit	330.00	0.00	[ICRA]BBB-; placed on rating watch with developing implications and withdrawn
Short term - Non-fund based facilities	33.00	0.00	[ICRA]A3; placed on rating watch with developing implications and withdrawn
Long term/ Short term - Unallocated	49.22	0.00	[ICRA]BBB-/[ICRA]A3; placed on rating watch with developing implications and withdrawn
TOTAL	**563.31**	**150.00**	

**Instrument details are provided in Annexure I; ^ Unlisted NCD*

Rationale

On April 03, 2025, Parag Milk Foods Limited (PMFL) announced that its board of directors approved the issue of convertible warrants on a preferential basis amounting to Rs. 161 crore, subject to shareholders' approval. Upon receiving the approval, ~25% of the total funds will be brought in within two weeks. The proposed issue aims to deleverage the company's balance sheet and also support its working capital and capital expenditure funding requirements. Following the announcement, ICRA placed the company's ratings on 'Rating Watch with Developing Implications' as the above-mentioned development, if materialised, is expected to impact PMFL's capital structure and overall credit profile. ICRA will continue to monitor the developments in this regard. Additionally, ICRA has placed the ratings on PMFL's bank facilities on 'Rating Watch with Developing Implications' and simultaneously withdrawn these ratings, at the request of the company, based on the No Objection Certificate received from the lenders and in accordance with ICRA's policy on Withdrawal.

PMFL's rating draws comfort from the company's improved operating performance in 9M FY2025, as marked by steady revenue growth (7% YoY) and expansion in its operating profit margins (7.9% in 9M FY2025 against 6.8% in 9M FY2024), aided by relatively stable milk prices and high revenue contribution from VADP[1]. Further, PMFL's business profile continues to be supported by the extensive experience of its promoters in the dairy industry, its wide product portfolio and its established pan-India brand presence with healthy market share in key product categories such as butter (ghee) and cheese, with a well-entrenched distribution network. PMFL's operations are supported by its sizeable manufacturing capacities, an established procurement base of dairy farmers and a network of bulk coolers and chilling centres, ensuring a regular supply of raw milk.

[1] *VADP – value added dairy products*

The rating is, however, constrained by PMFL's elevated debt levels, which increased to Rs. 648.5 crore as on September 30, 2024 (as against Rs. 625.6 crore as on September 30, 2023), primarily due to growing scale of operations, high working capital intensity of the business driven by the need to maintain sizeable inventory levels, advances extended to milk suppliers along with capex and continued funding support extended to its wholly owned subsidiary (Bhagyalaxmi Dairy Farms Private Limited (BDFPL)) as it remains loss making at a net level. Moreover, the ratings also factor in the refinancing risk stemming from the outstanding foreign currency convertible bonds (FCCBs), which shall be due for redemption in May 2026, in case of non-conversion to equity prior to the due date. The redemption will result in an estimated cash outflow of Rs. 80-90 crore. ICRA also notes while the company has made considerable efforts to strengthen its operations-related management team over the past two years, its inability to retain and hire key managerial persons remains a monitorable and a reflection of the company's efforts to enhance its corporate governance standards and adoption of best practises to some extent. Moreover, the ratings continue to factor in PMFL's exposure to agro-climatic and environmental factors prevalent in the dairy sector, high competitive intensity in the industry and the vulnerability of its profitability to volatility in milk prices.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters with strong procurement network in the dairy industry – PMFL's promoters have 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). Also, PMFL acquired Westen Hill Foods Limited (WHFL) in FY2025, to expand its cold storage capacities near its existing Manchar plant. PMFL also has its own dairy farm under 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 4.5 lakh retail touchpoints. The company has reputed institutional and HORECA[2] customers for various products such as cheese, SMP[3] and whey, along with a dedicated sales and marketing team.

Diversified product profile with sizeable market share in clarified butter (ghee) and cheese segments – In line with the past trend, liquid milk continued to generate ~9-10% of PMFL's consolidated revenues in FY2024 and H1 FY2025 while the remaining was generated by SMP and VADPs, including clarified butter (ghee), cheese, butter, yoghurt, ultra-high temperature (UHT) milk, and other milk products. Milk, SMP, butter (ghee) and cheese accounted for ~70-75% of revenue in H1 FY2025. 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 ~22% in the cow ghee segment in the organised market.

Credit challenges

High working capital intensity of business – The company's inventory days (at 80-85 days) are relatively higher vis-à-vis other industry peers. This is primarily due to the company's product mix, skewed in favour of product categories such as branded ghee and processed cheese, which typically need to be aged over months. PMFL also maintains a high inventory of butter, which is used as a buffer raw material to ensure the uninterrupted flow of ghee. In addition, the company also extends sizeable advances (aggregating to Rs. 214 crore as on December 31, 2024) to its key vendors, (milk aggregators) especially those based

[2] *HORECA: Hotel, Restaurant and Catering*
[3] *SMP: Skimmed milk powder*
[4] *as per Q3 FY2025 investor presentation*

in Maharashtra (accounts for majority of company's milk sourcing) to ensure timely milk supply to sustain its large scale of operations, which has also blocked a part of its working capital. As a result, the working capital intensity of the business remains high, translating into high utilisation of working capital limits (averaging at ~91% over the past 12 months ending February 2025) availed from the bank.

Continued high debt levels and moderate debt protection metrics – PMFL's debt levels have remained higher, despite the improvement in earnings over the past three quarters. Growing scale of operations, high working capital requirements of the business as well as the incurred capex have continued to result in high reliance on debt, which stood at Rs. 648.5 crore as on September 30, 2024, against Rs. 625.6 crore as on September 30, 2023. This has led to further increase in the company's interest costs to Rs. 67.8 crore in 9M FY2025 (Rs. 60.2 crore in 9M FY2024). In addition, possible redemption of the FCCBs in FY2027 could further exert pressure on the company's cashflows besides the scheduled debt repayments. However, ICRA takes note of company's plans to raise funds through share warrants, which will reduce its reliance on debt.

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 sizeable portion of the overall industry size. This apart, the organised private sector companies also face competition from cooperative dairy players in different states both in terms of milk procurement as well as pricing. This limits the pricing flexibility of industry participants, including PMFL, especially in the pouched milk and related products categories. However, the company benefits to some extent from its established brand presence as well as higher contribution from the VADP segment, particularly cheese and butter (ghee), to its revenues. PMFL's OPM also remains vulnerable to volatility in milk prices, as demonstrated by considerable contraction in operating margins in the past. While the company's OPM improved in 9M FY2025 on the back of benign milk prices, PMFL's ability to sustain the same remains to be seen.

Vulnerability to external factors such as adverse weather conditions and disease outbreaks – Similar to 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 remains stretched, evidenced by continued high utilisation of its working capital limits (average of ~91% over the past 12 months ending February 2025) given that the funding requirements of the business have remained high. This is driven by the increase in scale of operations, sizeable inventory levels and advances extended to suppliers. There has been a recent enhancement in working capital limits by Rs. 87 crore. The cash/liquid investment balance of ~Rs. 51.25 crore as on December 31, 2024 supports the company's liquidity position to some extent. However, PMFL has consolidated debt repayments of ~Rs. 28-30 crore, along with a capex of Rs. 80-90 crore in FY2026, which are expected to be funded through internal accruals and debt. In addition, the possible redemption of FCCBs could further constrain the company's overall liquidity, given the outflow of ~Rs. 80-90 crore, besides the scheduled debt repayments of ~Rs. 32 crore in FY2027.

Rating sensitivities

Positive factors – The rating can be upgraded if PMFL demonstrates continued healthy revenue growth and internal accrual generation, leading to an improvement in its liquidity profile and debt protection metrics on a sustained basis.

Negative factors – Pressure on PMFL's rating may arise if any significant decline in internal accrual generation or stretch in the 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 Policy On Withdrawal of Credit Rating
Parent/Group support	Not applicable
Consolidation/Standalone	ICRA has considered the consolidated financials of PMFL. As on December 31, 2024, the company had one subsidiary, which is 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 the 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)	FY2023	FY2024	H1 FY2025*
Operating income	2892.6	3138.7	1629.2
PAT	53.4	90.6	56.5
OPBDIT/OI	4.2%	6.4%	7.7%
PAT/OI	1.8%	2.9%	3.5%
Total outside liabilities/Tangible net worth (times)	1.1	1.1	1.0
Total debt/OPBDIT (times)	5.0	3.2	2.6
Interest coverage (times)	2.2	2.6	3.0

*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

Current (FY2026)				Chronology of rating history for the past 3 years					
FY2026				FY2025		FY2024		FY2023	
Instrument	Type	Amount rated (Rs. crore)	Apr 08, 2025	Date	Rating	Date	Rating	Date	Rating
Fund-based - Term loan	Long-term	0.00	**[ICRA]BBB-; rating watch with developing implications and withdrawn**	April 08, 2024	[ICRA]BBB- (Negative)	May 10, 2023	[ICRA]BBB- (Negative)	Dec 27, 2022	[ICRA]BBB (Negative)
			-	-	-	-	-	July 20, 2022	[ICRA]BBB+ (Negative)
Working capital facilities	Long-term	0.00	**[ICRA]BBB-; rating watch with developing implications and Withdrawn**	April 08, 2024	[ICRA]BBB- (Negative)	May 10, 2023	[ICRA]BBB- (Negative)	Dec 27, 2022	[ICRA]BBB (Negative)
			-	-	-	-	-	July 20, 2022	[ICRA]BBB+ (Negative)
Non-fund-based facilities	Short term	0.00	**[ICRA]A3; rating watch with developing implications and withdrawn**	April 08, 2024	[ICRA]A3	May 10, 2023	[ICRA]A3	Dec 27, 2022	[ICRA]A3+
			-	-	-	-	-	July 20, 2022	[ICRA]A2
Non-Convertible Debenture	Long-term	150.00	**[ICRA]BBB-; rating watch with developing implications**	April 08, 2024	[ICRA]BBB- (Negative)	May 10, 2023	[ICRA]BBB- (Negative)	Dec 27, 2022	[ICRA]BBB (Negative)
			-	-	-	-	-	July 20, 2022	[ICRA]BBB+ (Negative)
Unallocated	Long-term/ Short term	0.00	**[ICRA]BBB- /[ICRA]A3; rating watch with developing implications and withdrawn**	April 08, 2024	[ICRA]BBB- (Negative)/ [ICRA]A3	May 10, 2023	[ICRA]BBB- (Negative)/ [ICRA]A3	Dec 27, 2022	[ICRA]BBB (Negative)/ [ICRA]A3+
			-	-	-	-	-	July 20, 2022	[ICRA]BBB+ (Negative)/ [ICRA]A2

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-; rating watch with developing implications
NA	Term loan	Mar 2019	12.25%	Sep 2025	1.09	[ICRA]BBB-; rating watch with developing implications and withdrawn
NA	Fund based limits – Cash credit	-	-	-	330.00	[ICRA]BBB-; rating watch with developing implications and withdrawn
NA	Non-Fund based limits	-	-	-	33.00	[ICRA]A3; rating watch with developing implications and withdrawn
NA	Unallocated	-	-	-	49.22	[ICRA]BBB-/[ICRA]A3; rating watch with developing implications and withdrawn

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
Bhagyalaxmi Dairy Farms Private Limited	100.00%	Full Consolidation

Source: PMFL's Q3 FY2025 results

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