

August 17, 2020

## Bhagalaxmi Dairy Farms Private Limited: Rating reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Term loan	50.00	65.50	[ICRA]A- (negative); reaffirmed
Long term - Unallocated	10.00	-	-
Fund based-Long term CC	-	10.00	[ICRA]A- (negative); reaffirmed
<b>Total</b>	<b>60.00</b>	<b>75.50</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmed rating for Bhagalaxmi Dairy Farms Private Limited (BDFPL) derives comfort from the strong parent support from Parag Milk Foods Limited (PMFL; rated [ICRA] A/Negative/A2+), given the management and operational linkages between the two entities. BDFPL is a 100%-owned subsidiary of PMFL. The ratings also consider the growing presence and recognition of the flagship brand, Pride of Cows, in the premium milk category with a state-of-the-art processing centre, where milk is processed and packaged without human intervention. The distribution network is primarily targeted at affluent customers in Mumbai, Pune and Surat and surrounding areas at Rs. 99/litre. It also supplies milk in New Delhi at a premium price of Rs. 120/litre.

The rating is constrained by the company's moderate scale and operating margins, as it is primarily a single-product company. The company has further forayed into the production of a range of certified organic fertilisers by commercialising cow manure; however, this forms a smaller part of its current revenue profile (though expected to scale up, going forward).

BDFPL is undertaking significant debt-funded capacity expansion by setting up a new farm of approximately 500 acres for handling the increasing demand for its Pride of Cows milk product. The medium-term strategy of the company is to leverage the existing brand and manufacture value-added premium cow's milk products like clarified butter (*ghee*) and yoghurt from the excess capacity at the new farm. The total project cost is estimated at ~Rs. 90 crore, of which Rs. 67.5 crore is to be financed by long-term debt and the remaining from internal accruals. The long-term debt facility has been sanctioned, but is pending disbursement due to documentation formalities. This capex is expected to start operations from FY2023 onwards. With a gestation period of 12-18 months for the capex, achieving the desired levels of profitability and accruals remains a key sensitivity.

The Negative outlook is driven by deterioration in the financial profile of its parent, PMFL, led by a stretched working capital cycle and lower demand offtake owing to the Covid-19 related lockdown.

### 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 value-added product category with recognised brands (including Gowardhan, Go, Pride of Cows, Avvatar, Slurp and Topp Up). The two entities share operational, financial and management linkages, as part of the same business sector.

**Growing recognition and distribution of Pride of Cows in premium milk category** - Pride of Cows is BDFPL's flagship product and a value-added product in the commoditised liquid milk category for its parent, PMFL, making it an integral part of the product portfolio. BDFPL supplies most of its processed milk via its brand, while the rest is sold to PMFL. This is marketed as superior quality milk, devoid of human interference, with no preservatives or chemical additions. Besides supplying milk in Mumbai, Pune and Surat (increased to Rs. 99/litre in February 2020), the Group also supplies milk in New Delhi at a premium price of Rs. 120/litre. The medium-term strategy of the company is to leverage the existing brand and manufacture value-added premium cow's milk products like *ghee* and yoghurt from the excess capacity at its new farm.

**State-of-the-art processing centre** - The company enjoys a state-of-the-art processing centre, which allows customers to access milk processed without any human interference, using the latest technology and best global practices. 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 that the milk is of the highest quality, while the cows are bred in a comfortable habitat to yield the best possible results.

## Credit challenges

**Moderate scale and size of operations** - The company has moderate scale and size of operations because of its concentration on a single product brand, Pride of Cows, which generated revenues of Rs. 42.1 crore out of the total operating income (OI) of Rs. 71.9 crore in FY2020. The company also generated revenues from the sale of surplus milk to PMFL. The company has further forayed into the production of a range of certified organic fertilisers by commercialising cow manure. However, this forms a smaller part of its current revenue profile (though expected to scale up, going forward).

**Debt-funded capex likely to adversely impact coverage metrics** - The company is undertaking debt-funded capacity expansion to set up a new farm of approximately 500 acres for handling the increasing demand for its Pride of Cows milk and planned value-added product extensions. The total project cost is estimated at ~Rs. 90 crore, of which Rs. 67.5 crore is to be financed by long-term debt and the remaining from internal accruals. The long-term debt facility has been sanctioned (pending disbursement). This capex is expected to start operations from FY2023 onwards. With a gestation period of 12-18 months for the capex, achieving the desired levels of profitability and accruals remains a key sensitivity.

## Liquidity position: Adequate

BDFPL recorded modest accruals of Rs. 7.8 crore in FY2020. However, the liquidity position remains supported by its parent, PMFL.

## Rating sensitivities

**Positive triggers** – A rating upgrade is unlikely in the near term for BDFPL. However, the rating could also be positively impacted if there is an improvement in the credit profile of its parent, PMFL. Other factors that could contribute to an upliftment is an improvement in its scale, revenues and operating margins on a sustained basis. Another key sensitivity is achieving the desired levels of revenue and accruals, from its significant capex activity.

**Negative triggers** – The ratings can come under negative pressure if there is a further deterioration in the credit profile of its parent, PMFL (rated [ICRA] A/Negative/A2+). Further a deterioration in operating metrics or liquidity profile of the subsidiary can also negatively impact the ratings.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	The rating assigned to BDFPL factors in the high likelihood of PMFL extending financial support to it, as a 100%-subsidiary of PMFL, and also because of close business linkages between them. We also expect PMFL to be willing to extend financial support to BDFPL to protect its reputation from the consequences of a Group entity's distress. In the past, PMFL has supported BDFPL by way of a corporate guarantee.
Consolidation/Standalone	Standalone Financials

## About the company

Bhagyalaxmi Dairy Farms Private Limited is a wholly-owned subsidiary of PMFL, an established private dairy player in the liquid milk and value-added product category with renowned brands (including Gowardhan, Go, Pride of Cow, Avvatar, Slurp and Topp Up). 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. Spread over 35 acres, the farm houses over 2,500 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 that the milk is of the highest quality. Pride of Cows has a niche target group of health conscious and affluent consumers, with an expanding distribution network in Maharashtra and Delhi NCR.

PMFL generated OI, OPBDIT and PAT of Rs. 2,437.9 crore, Rs. 212.6 crore and Rs. 93.7 crore, respectively, in FY2020 on a consolidated basis.

## Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	65.8	71.9
PAT (Rs. crore)	6.7	3.0
OPBDIT/OI (%)	10.5%	1.4%
PAT/OI (%)	10.1%	4.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.4
Total Debt/OPBDIT (times)	0.8	5.2
Interest Coverage (times)	11.8	1.2

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020		FY2019	FY2018
					17-Aug-2020	17-Mar-2020	11-Jul-2019	07-Jan-2019	-
1	Fund based- Term loan	Long Term	65.5	-	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
2	Long term - Unallocated	Long Term	0.0	-	-	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
3	Fund based-Long term CC	Short Term	10.0	-	[ICRA]A- (Negative)	-	-	-	-

Amount in Rs. crore

### 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 [www.icra.in](http://www.icra.in)

## 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	Apr 2020		Mar 2028	65.50	[ICRA]A- (Negative)
NA	Working Capital Loan	-	-	-	10.00	[ICRA]A- (Negative)
NA	Long term- unallocated	-	-	-	-	-

Source: Company

## Annexure-2: List of entities considered for consolidated analysis – Not applicable

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