

Prabhat Dairy Limited

January 29, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based – TL	45.5	45.5	[ICRA]A+& Rating Placed on watch with developing implications
Long Term – Fund Based – CC	175.0	175.0	[ICRA]A+& Rating Placed on watch with developing implications
Long Term / Short Term – Unallocated	22.0	22.0	[ICRA]A+&/[ICRA]A1& Rating Placed on watch with developing implications
Short Term – Non Fund Based – LC/BG	45.0	45.0	[ICRA]A1& Rating Placed on watch with developing implications
Total	287.5	287.5	

ICRA has taken a consolidated view of Prabhat Dairy Limited and its 100% step down subsidiary Sunfresh Agro Industries Private Limited (together referred as Prabhat Group) while arriving at the ratings; given strong management, business and financial linkages

Material Event

The rating has been placed under watch with developing implication on account of Prabhat Dairy Limited's (PDL/ the company) announcement of entering into definitive agreements with Tirumala Milk Products Private Limited (TMPPL), a wholly owned subsidiary of French dairy multinational Groupe Lactalis, for the sale of its dairy business for a consideration of Rs 1,700.00 crore on January 21, 2019. The transaction is subject to customary closing adjustments and regulatory conditions, including shareholder's approval, Competition Commission of India (CCI) approval and receipt of NOCs from all the existing bankers of PDL.

The transaction has two parts, wherein Sunfresh Agro Industries Private Limited (SAIPL) (stepdown subsidiary of PDL) would be sold to TMPPL for Rs. 1,227.18 crore. The additional Rs 472.81 crore agreed in the deal would come from the slump sale of the PDL's dairy business on a going concern to SAIPL, which includes specified tangible and intangible assets, contracts, rights, personnel and employees, data and records, inventory and other assets and liabilities as agreed by the parties in the deal. The transaction is expected to complete in Q1FY2020.

Impact of Material Event

ICRA takes note that the transaction implementation, wherein, Prabhat group will exit its core dairy business (98.24% of the PDL's consolidated revenues in FY2018), is likely to have a material impact on its operational and financial profile going forward. PDL intends to foray into animal nutrition business which includes cattle feed, nutrition supplements and animal genetics, as a part of backward integration. To that effect, it has entered into strategic alliance with Denmark-based Dansk Landbrugs Grovvarerelskab (DLG group), which is into production of high-quality vitamin-mineral feeds and farm supplies.

The extent of utilisation of transaction net proceeds in the animal nutrition business by the company and its resultant impact on the financial risk profile in terms of capital structure, coverage indicators and liquidity position remain to be seen and will be a key monitorable from rating perspective.

The previous detailed rating rationale is available on the following link: [Click here](#)

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