

July 11, 2019

Bhagalaxmi Dairy Farms Private Limited: Rating reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|-----------------------------|--------------------------------------|-------------------------------------|------------------------------|
| Proposed term loan facility | 60.00 | 50.00 | [ICRA]A-(Stable); reaffirmed |
| Long-term unallocated | - | 10.00 | [ICRA]A-(Stable); reaffirmed |
| Total | 60.00 | 60.00 | |

*Instrument details are provided in Annexure-1

Rationale

The reaffirmed rating derives comfort from the strong parent support from Parag Milk Foods Limited (PMFL, rated [ICRA]A+(Stable)/[ICRA]A1), given the management and operational linkages between the entities. Bhagalaxmi Dairy Farms Private Limited (BDFPL) is a 100%-owned subsidiary of PMFL. The rating also considers the growing presence and recognition of the flagship product, Pride of Cows, in the premium milk category with a state-of-the-art processing centre, whereby milk is produced and packaged without human intervention.

The rating is, however, constrained by the company's moderate scale and size, as it is primarily a single-product company. BDFPL is undertaking debt-funded capacity expansion by setting up a new farm to cater to the increasing demand for the Pride of Cows milk. This will adversely impact the debt protection metrics in the near term till operations scale up to generate sufficient accruals.

Outlook: Stable

ICRA expects BDFPL to continue to benefit from the strong parent support and the fast-growing brand presence of Pride of Cows. The outlook may be revised to Positive with increasing sustained growth in revenue and profitability, and better working capital management. The outlook may be revised to Negative if cash accrual is lower than expected, or if any stretch occurs in the debt and coverage metrics.

Key rating drivers

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). There are operational, financial and management linkages between the two entities, being in a similar line of business.

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 majority of the total produced milk via its brand, while the remaining is sold to PMFL. This is marketed as superior quality milk, void of human interference, with no preservatives or chemical additions. Besides supplying milk in Mumbai, Pune and Surat (at Rs. 90/litre), the Group supplies the milk in New Delhi at

a premium of Rs. 120/litre. The Group has also tapped demand in the Singapore market and will airlift supplies from its farm in Manchar, Maharashtra to Singapore.

State-of-the-art processing centre - The company enjoys a state-of-the-art processing centre, which allows customers to access milk produced without any human interference, using 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 by virtue of concentration in a single product - Pride of Cows, which generated revenues of Rs. 38.2 crore out of the total operating income (OI) of Rs. 65.8 crore in FY2019. The company also generated revenues from the sale of surplus milk to PMFL. The company has further forayed into the cattle feed business and 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 to adversely impact coverage metrics in near term - The company is undertaking debt-funded capacity expansion to set up an alternate farm and expand its presence in the cow farming business, catering to the growing demand of the Pride of Cows brand. This debt-funded capex is expected to adversely impact the company's debt and coverage metrics in the near term till accruals scale up.

Liquidity position

Moderate accruals and proposed debt-funded capex are expected to adversely impact its cash flows, debt and coverage indicators; however, the liquidity position remains supported by the parent, PMFL.

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 because of close business linkages between them and it being a 100%-subsidiary of PMFL. 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. There also exists a consistent track record of PMFL having extended timely financial support to BDFPL in the past or whenever a need has arisen. |
| 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 produced 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, Delhi NCR and Singapore.

PMFL generated OI, OPBDIT and PAT of Rs. 2,395.7 crore, Rs. 224.6 crore and Rs. 120.7 crore, respectively, in FY2019 on a consolidated basis.

Key financial indicators (audited)

| | FY2018 | FY2019 |
|------------------------------|--------|--------|
| Operating Income (Rs. crore) | 74.01 | 65.78 |
| PAT (Rs. crore) | 8.58 | 6.67 |
| OPBDIT/OI (%) | 10.06% | 9.80% |
| RoCE (%) | 22.53% | 18.07% |
| Total Debt/TNW (times) | 0.00 | 0.07 |
| Total Debt/OPBDIT (times) | 0.00 | 0.70 |
| Interest Coverage (times) | 30.63 | 53.72 |

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

| Instrument | Type | Current Rating (FY2020) | | | Chronology of Rating History for the Past 3 Years | | |
|----------------------|-----------|--------------------------|--------------------------------|------------------------|---|-------------------------|-------------------------|
| | | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating Jul 2019 | Date & Rating in FY2019 Jan 2019 | Date & Rating in FY2018 | Date & Rating in FY2017 |
| 1 Proposed term loan | Long Term | 50.00 | 50.00 | [ICRA]A-(Stable) | [ICRA]A-(Stable) | - | - |
| 2 Unallocated | Long Term | 10.00 | 10.00 | [ICRA]A-(Stable) | - | - | - |

Source: Company

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

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 | Proposed term loan | NA | NA | NA | 50.00 | [ICRA]A-(Stable) |
| NA | Unallocated | NA | NA | NA | 10.00 | [ICRA]A-(Stable) |

Source: Company

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

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