February 11, 2025

Compliance Department, **BSE Limited,** Phiroze Jeejeebhoy Tower, Dalal Street, Fort, Mumbai - 400 001	Compliance Department, **National Stock Exchange of India Ltd.** Exchange Plaza, Plot No. C/1, G-Block, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051
Scrip Code:- 539889	**Scrip Symbol: PARAGMILK**

Dear Sir / Madam,

Sub: Intimation of Credit Rating under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, ('Listing Regulations'), we wish to inform that the Company has obtained a credit rating from India Ratings and Research Pvt. Ltd. ('India Ratings'). Vide its press release dated February 10, 2025, India Ratings has assigned credit rating to the Company as mentioned in the table below:

Instrument Description	Size of Issue (Million)	Rating Assigned along with Outlook/Watch	Rating Action
Issuer rating	-	IND BBB/Stable	Assigned
Fund-based / Non-fund-based working capital limit	INR 4,500	IND BBB/Stable/IND A3+	Assigned
Term loan	INR 450	IND BBB/Stable	Assigned
Proposed fund-based / Non-fund-based working capital limit	INR 500	IND BBB/Stable/IND A3+	Assigned
Proposed term loan	INR 550	IND BBB/Stable	Assigned

Copy of aforesaid press release issued by India Ratings is enclosed herewith in **Annexure**.

Kindly take the same on records and oblige.

Thanking you.

For Parag Milk Foods Limited

Virendra Lalbahadur Varma

Digitally signed by Virendra Lalbahadur Varma
Date: 2025.02.11 15:37:54 +05'30'

Virendra Varma
Company Secretary and Compliance Officer
FCS No. 10520

Encl: As above.

ANNEXURE

India Ratings & Research
A Fitch Group Company

India Ratings Assigns Parag Milk Foods 'IND BBB'/Stable

Feb 10, 2025 | Dairy Products

India Ratings and Research (Ind-Ra) has assigned Parag Milk Foods Limited (PMFL) a Long-term issuer rating of 'IND BBB'. The Outlook is Stable. The detailed rating actions are as follows:

Details of Instruments

Instrument Description	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Issuer rating	-	-	-	-	IND BBB/Stable	Assigned
Fund-based/Non-fund-based working capital limit	-	-	-	INR4,500	IND BBB/Stable/IND A3+	Assigned
Term loan	-		4 April 2029	INR450	IND BBB/Stable	Assigned
Proposed fund-based/Non-fund-based working capital limit	-	-	-	INR500	IND BBB/Stable/IND A3+	Assigned
Proposed term loan	-	-	-	INR550	IND BBB/Stable	Assigned

Analytical Approach

To arrive at the ratings, Ind-Ra has taken full consolidated view of PMFL and its wholly owned subsidiary Bhagyalaxmi Dairy Farms Private Limited (BDFPL), based on 100% ownership and management control.

Detailed Rationale of the Rating Action

The rating reflects the company's established brand presence and strong market position in the dairy value-added products (VAP), especially, cheese and ghee. PMFL has demonstrated healthy growth in scale and an uptick in EBITDA margins over the past two years and 9MFY25, driven by significant revenue from VAP. The company also benefits from its integrated operations and extensive distribution network.

The high inventory stocking requirements due to the nature of the industry have resulted in stretched liquidity for the company. However, the enhancement in working capital borrowings in 3QFY25 is likely to support near-term liquidity. The rating is constrained by the moderate EBITDA margins and elevated debt levels over FY22-FY24, which resulted in modest credit metrics. The rating also factors in the company's exposure to the unpredictability of monsoons, demand-supply dynamics and intense competition.

List of Key Rating Drivers

Strengths:

- Strong market position backed by brand recognition
- Integrated operations with wide distribution network
- Strong growth in revenue; expected to continue

- Improved EBITDA margin over FY23-9MFY25; likely increase further over the medium term
- No inventory write-offs after the one-time significant inventory write-off in FY22

Weaknesses:

- Moderate credit metrics in FY24; improvement likely in FY25-FY26
- Intense competition

Detailed Description of Key Rating Drivers

Strong Market Position Backed by Brand Recognition: PMFL has well-known brands under its portfolio, including Gowardhan and Go, which enjoy a strong brand-recall. The company also has a strong position in the domestic value-added dairy product (VAP) segment, with a 35% market share in cheese and around 22% in cow ghee (FY22: 20%), according to the International Mining and Resources Conference. PMFL primarily focuses on the VAP segment, which accounted for 68.3% in FY24, 69.3% of FY23 revenue. PMFL is also expanding its presence in the high-value-added product segments through premium and branded offerings, including Avvatar (whey protein) and Pride of Cows (milk, ghee, curd, low fat milk, paneer, etc.). A higher contribution from these products and new product offerings such as Govardhan Sweets would further improve the premiumisation of the product portfolio.

Integrated Operations with Wide Distribution Network: PMFL has a milk processing capacity of 3.4 million litres per day, and procures milk from over 500,000 farmers across Maharashtra and Andhra Pradesh. The company's procurement channel includes a network of over 2,500 village level collection centres (VLCC), over 100 milk chillers and over 300 bulk milk coolers. The company operates three integrated processing plants, with a combined capacity of 140 tonnes per day (TPD) for ghee and cheese, 40TPD for lactose, 20TPD for paneer, and 12LLPD for whey. In addition, PMFL has its own integrated dairy farm, through which it sells milk directly to consumers. The farm has over 5,000 cows, with plans to rapidly expand the total count.

Strong Growth in Revenue; Likely to Continue: The consolidated revenue grew at a CAGR of 8.21% over FY18-FY24 with a revenue of INR31,387 million in FY24 (FY23: INR28,926 million, FY22: INR20,717 million) and INR25,140 million in 9MFY25. The growth was driven by a healthy year-on-year improvement in the volume sales across product categories, including ghee (up 7% yoy), cheese (up 18% yoy), skimmed milk powder (SMP; up 16% yoy), liquid milk (up 11% yoy), and protein (up 46% yoy), among others. The revenue growth was further aided by higher realisations across ghee (up 43% yoy), cheese (up 17% yoy), SMP (up 16% yoy), and liquid milk (up 12% yoy), among others. Ind-Ra expects the revenue to continue to grow over the medium term, led by a higher contribution from the new businesses, led by both capacity expansion as well as increase in the product offerings.

Improved EBITDA Margin over FY23-9MFY25; Likely to Increase Further in the Medium Term: The consolidated EBITDA margin improved strongly to 6.3% in FY24 and to 7.9% in 9MFY25 (FY23: 4.1%) with an EBITDA of INR1,971 million and INR1,990 million (INR 1,183 million). However, the EBITDA in FY22 was impacted by significant inventory write-off of INR5,095 million on account of ageing beyond permissible shelf-life, contamination of some value-added products, and government regulations impacting offtake of whey protein. When adjusted for inventory write-offs, the EBITDA margin stood at 3.4% in FY22. (FY22: unadjusted EBITDA: negative 21.2%). The average milk procurement prices have been volatile, which is usually offset by a corresponding increase in realisations, as the company is largely able to pass on the increase in procurement price to its customers.

Around 70% of FY24 revenue (FY23: 70%, FY22: 70%) was accounted for by B2C segment. Furthermore, around 68.3% of FY24 revenue (69.3% of FY23 revenue) was accounted for by VAP. Both the factors combined allow the company the ability to pass on the increase in costs to the customers, albeit with a minor lag. Ind-Ra expects the profitability to continue improving in the medium term, with increasing premiumisation, led by an expansion of product offerings in the premium, new-age products under its Pride of Cow and Avvatar brands.

No Inventory Write-offs after the One-time Significant Inventory Write-off in FY22: The company made a sizeable inventory write-off and price settlement expense with milk aggregators amounting to INR5,095 million in FY22. The sizeable inventory write-off was due to a combination of factors including - a) ageing beyond permissible shelf life; b) contamination of certain value-added milk products; and c) change in government policy with respect to the formulation of infant food, thereby impacting whey powder offtake. The company's high milk procurement during the various pandemic waves, coupled with a tepid demand from the institutional/hotel, restaurant, and café/catering segment resulted in the inventory pile-up in FY22. In addition, the company had to compensate milk aggregators as per the support price announced by the Maharashtra government resulting in an expense of INR1,180 million towards milk price settlement for the milk procured in FY21 and FY22. Nevertheless, there has been no such instances of the inventory write-offs post this and the company has been taking various steps to closely monitor the inventory levels to avoid such instances in future. The company has witnessed high senior management attrition in the past; stability in management and consistency in financial reporting will also be monitored by Ind-Ra.

Moderate Credit Metrics in FY24; Improvement Likely in FY25-FY26: The consolidated interest coverage improved to 2.59x in FY24 (FY23: 2.15x, FY22: negative 8.85x unadjusted and 1.65x when adjusting for inventory write-offs of INR5,095 million) while the net leverage improved to 2.75x in FY24 (4.13x, 5.41x with EBITDA adjustment for inventory write-offs). The improvement was primarily on account of a better EBITDA base; however, it was slightly offset by increased outstanding debt (FY24: INR6,446.97 million, FY23: INR6,062.39 million, FY22: INR5,341.29 million), on account of a higher drawdown on the working capital limits and the debt undertaken to fund the expansion of the dairy farm under the Pride of Cow brand. Furthermore, the company's interest coverage improved to 2.9x in 9MFY25, which is likely to remain at similar level at FYE25. Ind-Ra expects the credit metrics to improve further over the medium term, majorly supported by an improvement in the profitability.

Exposure to Industry Risks and Intense Competition: PMFL faces stiff competition from co-operative and private dairy players for milk procurement, sharing a common catchment area. The ratings factor in the risk of volatility in skimmed milk prices due to the demand-supply-economics and unpredictable monsoons affecting cattle feed and milk production. To maintain a higher market share, PMFL must continuously enhance procurement channels, invest in bulk milk coolers and chilling centers, and offer competitive prices to farmers. Ind Ra believes PMFL's ability to effectively manage competition while maintaining its margin profile is a key monitorable.

Liquidity

Adequate: The cash and equivalents at end-September 2024 stood at INR44.8 million and at end-March 2024 stood at INR105.58 million (FY23: INR138 million). The Ind-Ra-calculated cash flow from operations (CFO) turned positive at INR633.96 million in FY24, on account of an improvement in the EBITDA and a lower increase in the net working capital. However, capex stood at INR611.85 million, which was on account of an expansion of operations at BDFPL. There was no dividend paid in FY23 and FY24. The CFO margins turned positive at 0.9% in FY24 (FY23: negative 8.2%) while the free cash flow remained negative in FY23 and FY24. Ind-Ra expects the CFO to remain positive and FCF to turn positive in FY25 as well despite the capex expected to be undertaken by the company. The average utilisation of the fund-based working capital limits for the 12 months ended December 2024 was around 92%. The company has received an enhancement in its working capital limits of around INR870 million, along with a term loan of INR450 million towards the reimbursement of capex completed over FY24 and 1HFY25. The company also plans to further increase its working capital limits by INR500 million by FYE25, which is likely to boost the company's liquidity. PMFL also had an income tax contingent liability amounting to INR455.99 million during FY24, development on which remains a monitorable.

Rating Sensitivities

Positive: A sustenance of the scale of profitability with the net leverage reducing below 2.25x, and/or the CFO margins reaching around 4.5%-5% will be positive for the ratings. Additionally, the regular sharing of high-quality financial information with a reduced frequency of write/offs or restatements will be positive for the ratings.

Negative: Any deterioration in the scale of cash flow generation, and/or any unexpected write-offs/ provisions, and/or an elongation in the working capital cycle, and/or a higher-than-Ind-Ra-expected capex, leading to deterioration in the liquidity profile with the net leverage staying above 3.0x will be negative for the ratings.

About the Company

Incorporated in 1992, PMFL is engaged in the procurement, processing, and marketing of liquid milk and milk products under its brands Gowardhan, Go, Pride of Cows, Avvatar, Slurp and Topp Up. The products sold by the company include ghee, butter, cheese, SMP, curd, whey powder, yogurt, ultra-high temperature milk, flavoured milk and traditional dessert mixes. It has three processing plants, one each at Manchar (Maharashtra), Palamner (Andhra Pradesh) and Sonipat (Haryana). It is listed on the BSE Ltd and National Stock Exchange of India Ltd.. PMFL has three milk processing plants at

Manchar (Maharashtra), Palamaner (Andhra Pradesh) and Sonipat (Haryana).

BDFPL is engaged in a farm-to-home initiative, branded as Pride of Cows, with end-to-end control over the procurement of milk from own cattle to delivery of milk to the end-consumer.

Key Financial Indicators

Particulars (INR million; Consolidated)	FY24	FY23
Revenue	31,387	28,926
Operating EBITDA	1,971	1,183
EBITDA margins (%)	6.28	4.10
Gross interest expenses	762.4	551.6
Interest coverage (x)	2.59	2.15
Net leverage (x)	3.22	5.01
Source: PMFL		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings/Outlook
Fund-based/non-fund-based working capital limit	Long-term/Short-term	INR5,000	IND BBB/Stable/IND A3+
Term Loan	Long-term	INR1,000	IND BBB/Stable
Issuer Rating	Long-term	-	IND BBB/Stable

Bank wise Facilities Details

The details are as reported by the issuer as on (10 Feb 2025)

#	Bank Name	Instrument Description	Rated Amount (INR million)	Rating
1	Union Bank of India	Fund/Non-Fund Based Working Capital Limit	3130	IND BBB/Stable/IND A3+
2	SVC Co-operative Bank	Fund/Non-Fund Based Working Capital Limit	300	IND BBB/Stable/IND A3+
3	Karnataka Bank Ltd	Fund/Non-Fund Based Working Capital Limit	550	IND BBB/Stable/IND A3+
4	IDBI Bank	Fund/Non-Fund Based Working Capital Limit	520	IND BBB/Stable/IND A3+
5	NA	Proposed Fund/Non-Fund Based Working Capital Limit	500	IND BBB/Stable/IND A3+
6	SVC Co-operative Bank	Term loan	450	IND BBB/Stable

7	NA	Proposed Term loan	550	IND BBB/Stable

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fund-based/Non-fund-based working capital limit	Low
Term loan	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity- indicators.

Contact

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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For more information, visit www.indiaratings.co.in.

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APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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