



Ideas for a new day

May 12, 2023

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

Dear Sir / Madam,

Sub: Intimation of Revision in Credit Rating

In continuation to our letter dated May 11, 2023 regarding Intimation of Revision in Credit Rating and with reference to the e-mail dated May 12, 2023 received from NSE, we wish to inform that the Credit Rating of our Company has been revised as mentioned below.

Pursuant to the intimation under 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 ICRA Limited has downgraded the credit rating for the credit facilities availed by the Company, for the Long-term Rating to [ICRA] BBB-(Negative) from [ICRA] BBB (Negative) and for Short-term Rating to [ICRA]A3 from [ICRA]A3+. In case of Non-Convertible Debentures, the rating is Long-term Rating of [ICRA]BBB-(Negative) from [ICRA] BBB (Negative) due to the announcement of Q4 & FY 2022-23 Results.

Rating Rationale published by ICRA Limited is enclosed herewith in **Annexure**.

Kindly take the same on records.

Thanking you.

For Parag Milk Foods Limited

Virendra Varma
Company Secretary and Compliance Officer
FCS No. 10520

Encl.: a/a



Parag Milk Foods Ltd.,

CIN-L15204PN1992PLC070209

Regd. Office: Flat No. 1 Plot No. 19, Nav Rajasthan Co-Op Housing Society, Behind Ratna Memorial Hospital, Senapati Bapat Road, Shivaji Nagar, Pune - 411016. Ph.: +91 72764 70001

Corporate Office: 10th floor, Nirmal building, Nariman point, Mumbai - 40021 Tel.: 022-43005555 Fax: 022-43005580

Website: www.paragmilkfoods.com | **email:** investors@paragmilkfoods.com

Rationale of Credit Rating published by ICRA Limited pursuant to announcement of Q4 & FY 2022-23 Results of the Company:

The rating action on Parag Milk Foods Limited (PMFL) considers its weaker than expected financial performance in FY2023 as marked by modest operating margins and elevated debt levels, leading to moderation in the company's liquidity profile and debt protection metrics; and ICRA's expectation that PMFL's credit metrics are likely to remain moderated in FY2024.

PMFL's operating margins have remained under pressure in FY2023, because of elevated milk prices, which the company was unable to fully pass-on to the end-consumers. Moreover, PMFL has extended sizeable advances to its suppliers to secure the supply of milk/ butter in recent years and there has been a considerable increase in the same in FY2023, amid volatility in milk availability during the year. Accordingly, elevated funding requirements translated into higher reliance on debt (Rs. 589.4 crore as of March 31, 2023, against Rs 517.7 crore as of March 31, 2022), leading to weakening of debt protection metrics (Total Debt/OPBITDA of 4.6x for FY2023) and liquidity profile, despite sizeable fund infusion of ~Rs 200 crore in FY2023¹. Also as highlighted earlier, there has been continued attrition at the senior management level, which the company has not been able to fully address thus far. Given the scale of operations, inability to strengthen the senior management bandwidth in a timely manner can potentially impact PMFL's business operations, internal controls and implementation of its strategic roadmap to some extent.

The Negative outlook on the long-term rating reflects ICRA's expectation that PMFL's earnings are expected to remain under pressure due to high raw material prices. Coupled with elevated debt levels, this is likely to result in moderate debt protection metrics for FY2024 as well. Improvement in accrual generation and reduction in working capital intensity, leading to reduced reliance on debt and improvement in the liquidity profile, along with strengthening of management team in timely manner will be key for improvement in PMFL's financial profile in the near term.

The ratings also continue to factor in the relatively high working capital intensity in PMFL's operations via-à-vis its peers in the dairy industry and risks from its vulnerability to agro-climatic and environmental factors prevalent in the dairy sector. Higher working capital requirement emanates from high stock holding period for its value-added dairy products (VADP) division.

However, the ratings draw comfort from PMFL's sizeable scale of operations, established brand position in the processed cheese and clarified butter (*ghee*) segment, its expansive distribution network and its diversified product profile with sizeable market share in certain VADP categories. Leveraging on the same, PMFL has reported healthy revenue growth in FY2023. The company's business profile is characterised by the extensive experience of the promoters in the dairy industry, leading to an established procurement base of dairy farmers, supported by a network of bulk coolers and chilling centres, ensuring a regular supply of raw milk. The company is geographically diversified with a pan India presence through its strong marketing and distribution network.

¹ Through preferential issue of equity and share warrants in August 2022 and November 2022, respectively.