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**CARE ASSIGNS CARE BB+/CARE A4+ RATINGS TO THE BANK FACILITIES
OF PARAG MILK FOODS PVT LTD**

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long Term Bank Facilities (Term Loan)	137.35	CARE BB+ [Double B Plus]	Assigned
Long Term Bank Facilities (Fund Based)	200.00	CARE BB+ [Double B Plus]	Assigned
Short Term Bank Facilities (Non-Fund Based)	5.50	CARE A4+ [A Four Plus]	Assigned
Total Facilities	342.85		

Rating Rationale

The rating assigned to the bank facilities of Parag Milk Foods Pvt Ltd (Parag Milk) is constrained by the average financial risk profile reflected in its stretched liquidity position due to working capital intensive nature of its operations leading to high average working capital utilization. Moreover, the liquidity further remains strained given higher debt repayment in the near term. The ratings are also constrained by supply side risk and intense competition from both the organized and unorganized channel coupled with risk from inconsistency in government policy towards milk.

However, the ratings are strengthened by the experience of the promoters in the dairy business, and its established brands and growth potential in the organized dairy market. The ratings are further strengthened by long term relationships with the farmers and wide distribution network. Besides, its diversified product range (with majority revenue contribution coming from value added segments) and flexibility in its product mix are other credit positives.

The ability of the company to sustain its profitability margins amidst intense competition, successful commissioning of its ongoing projects and consequent commercial production while maintaining liquidity in the company by effectively managing its working capital utilization constitute the key rating sensitivities.

Background

Parag Milk Foods Pvt Ltd (Parag Milk) incorporated in 1992 is a Pune (Manchar) based dairy with a multi-product portfolio ranging from fresh packaged milk to value added products like cheese, yoghurt, butter, UHT milk and ghee. The company sells its various products under three distinct brands 'Gowardhan', 'Go' and 'Pride of Cows' and the latter is processed by its subsidiary Bhagyalaxmi Dairy Farms Pvt Ltd. In addition, the company offers skimmed milk powder, whole milk powder, processed cheese, butter oil, curd, dairy whiteners and flavored yogurt all of which are processed from cow's milk. Parag Milk operates an integrated cheese plant in Manchar with a production capacity of 40 TPD and has tie-ups with big large-scale customers such as fast food chains.

The processing plants are located in Manchar, near Pune and Palamner in Chittoor district of Andhra Pradesh (A.P), its procurement network in both West and South India to capitalize on the fast-growing branded dairy products market in India. The company has milk processing capacity

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

of 12 lakh litres per day at Manchar (Pune) facility and additional 8 lakh litres per day capacity at Palamner (A.P), taking it's total capacity to 20 lakh litres per day.

Apart from selling its products to customers through retail outlets, the company also serves hotels, restaurants, institutions, and caterers. The company exports its products to the Middle East, South East Asian, and African countries and in FY13, with approximately 5.3% of net sales was derived from exports of various products compared to 1.1% in FY12.

In FY13, the company achieved a PAT of Rs 13.19 crore (compared to PAT of Rs 9.57 crore in FY12) on a total income of Rs 925.48 crore (Rs 879.02 crore in FY12). Moreover, in H1FY14 (unaudited), the company reported a PBILDT of Rs 30.83 crore on a total income of Rs 457.98 crore.

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