



Press Release

KVG Agro Private Limited

February 20, 2025

Ratings

Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long-term Bank Facilities	124.27 (including proposed limit of 35.42)	IVR BBB-/ Stable (IVR triple B minus with Stable outlook)	-	Rating assigned	Simple
Short-term Bank Facilities	0.73	IVR A3 (IVR A Three)	-	Rating assigned	Simple
	125.00 (Rs. One hundred Twenty-five crore only)				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The ratings assigned to the bank facilities of KVG Agro Private Limited (KVGA) derives comfort from its experienced promoters and established presence in the dairy industry, adequate milk procurement network spread across north India, satisfactory distribution network, significant share of value-add dairy products in the revenue profile with established brand name, continuous growth in scale and moderate financial risk profile. These rating strengths are partially offset by stiff competition from organised co-operatives, private players and unorganised sector pressurizing profitability of dairy companies, sensitivity to Skimmed Milk Powder (SMP) stock and institutional demand, exposure of milk production to external factors such as climatic conditions and cattle diseases; as also to Government regulations on pricing of milk and milk products and working capital intensive nature of operation.

The long-term rating outlook is Stable on the back of satisfactory demand outlook of the respective industry coupled with favourable financial risk profile.

Key Rating Sensitivities:

Upward Factors

- Sustained revenue growth coupled with improvement in profitability on a sustained basis
- Growth in cash accrual and prudent working capital management
- Improvement in capital structure



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Downward Factors

- Any decline in revenue and profit margin on a sustained basis
- Further moderation in the capital structure
- Withdrawal of subordinated unsecured loan treated as quasi equity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced Promoters and established presence in the dairy industry**

The promoters have adequate experience in the dairy industry. The rich experience of the promoters has helped KVG Agro Private Limited maintains healthy relationship with the suppliers as well as customers. Furthermore, the company commenced its operation since 2017 as a partnership firm and has established operation existence of nearly a decade.

- **Adequate milk procurement network spread across north India, satisfactory distribution network**

KVGA's procurement matrix is spread across the states of Uttar Pradesh, Haryana and NCR. Presence of the procurement network which consists of chilling centers and network of bulk cooling centers which is in proximity to the Haryana, provides location advantage in terms of logistics given the physiological sensitivity of the product (milk) as also provides for some cost advantage. On the other hand, the company over the years has established an efficient distributor network covering a large network of dealers and retailers spread across Uttar Pradeshm Haryana, NCR and other parts of the country.

- **Significant share of value-add dairy products in the revenue profile with established brand name**

The revenue profile remains dominated by value-add dairy products (83% in FY24- refers to period April 1st, 2023, to Mar 31st, 2024). Within the dairy products, the revenues in the past have been dominated by traditional products like ghee, paneer, dahi etc. KVGA though focusses on traditional milk products, it has also initiated new products like skimmed milk power, butter, white milk power etc. For these new products, shelf-life is longer and fetches higher operating margin. The company market its products under the brand name of "Ayufarms", which has received recognition among retailers and also received orders from Indian railway and other state Government.



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- **Continuous growth in scale**

KVGA's total operating income has been increasing at CAGR of ~118% during last three financial years ending in FY24 and the same has increased y-o-y by 49% over FY23 (refers to period April 1st, 2022, to Mar 31st, 2023) and ended at Rs.245 crore on the back of increase in production and sale of various value added products along with increase in average realisation. This apart, introduction in second manufacturing unit in Kurukshetra since January 2023, also increases the capacity as well as helps to increase scale of operation. Further, during 10MFY25 (refers to period April 1st, 2024, to Jan 31st, 2025), the company has already earned a turnover of ~Rs.210 crore.

- **Moderate financial risk profile**

Financial risk profile of the company has been moderate over the years. Profitability of the company remain volatile and range bound during last three financial years. However, EBITDA margin has improved in FY24 over FY23 by 74bps to 4.82% on the back of proportionate increase in sales of value-added long shelf-life products which provides better margin along with economic of scale. However, PAT margin, though remained low at 0.93% in FY24, has increased continuously with the higher increase in absolute operating profit compared to increase in capital charges. Capital structure of the company remained leveraged over the years due to high utilisation of bank borrowing and availment of term loan in past years for installation of machineries for manufacturing value added products. However, considering subordinated unsecured loan from promoter as quasi equity of ~Rs.35 crore, overall gearing stood moderate at 1.64x as on March 31, 2024, deteriorated from 0.73x as on March 31, 2023, on account of higher utilisation of bank borrowing to fund the escalated scale of operation. Interest coverage ratio, though remained satisfactory in FY24 at 2.88x, has declined over FY23 on account of higher increase in capital charges compared to increase in absolute operating profit. Further, total indebtedness of the company as reflected by the TOL/ATNW remained moderate at 1.92x as on March 31, 2024. Current ratio remained satisfactory at 1.44x as on March 31, 2024.

Key Rating Weaknesses

- **Stiff competition from organised co-operatives, private players and unorganised sector pressurizing profitability of dairy companies, sensitivity to SMP stock and institutional demand**



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The milk and milk products industry is characterised by intense competition from the organised co-operatives, large private players and unorganized players. Apart, the profitability of dairy entities also remains vulnerable to the skimmed milk powder inventories as well institutional demand, any adverse movement is likely to have a bearing on their profitability.

- **Exposure of milk production to external factors such as climatic conditions and cattle diseases; as also to Government regulations on pricing of milk and milk products**

Milk availability is influenced to a great extent by agro-climatic conditions, which plays a major influence in the tropics. The industry is vulnerable to risks associated with the failure of milk production due to external factors like cattle diseases and extension of the lean season due to drought-like conditions, which ultimately affect milk availability and hence prices. The price of the dairy industry's raw material, milk, is sensitive to Government policies, environmental conditions, and epidemic-related factors. The Milk and Milk Products Order (MMPO) regulates milk and milk products production in the country.

- **Working capital intensive nature of operation**

The operation of the KVG is working capital intensive as the company needs to procure its raw materials i.e. raw milk mostly on advance basis or with minimum credit period and on the other hand it has to store finish goods at the end of the year to supply in summer season. Operating cycle has elongated to 100 days as on March 31, 2024. Average collection period remains low at 27 days in FY24 (15 days in FY23). Inventory days as on March 31, 2024 stood at 86 days (PY:65 days) and creditor days as on March 31, 2024 stood at 13 days (PY:14 days). Average working capital utilization remained moderate at around 81% over the past 12 months ended December 2024.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies.](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\).](#)

[Criteria for assigning Rating outlook.](#)

[Policy on Default Recognition](#)

[Complexity Level of Rated Instruments/Facilities](#)



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Liquidity – Adequate

KVGA has earned a gross cash accrual of Rs. 6.99 crore in FY24. Further the company is expected to earn a gross cash accrual in the range of ~Rs. 9 to 16 crore as against its debt repayment obligations around ~Rs. 4 crore per year during FY25-27. Accordingly, the liquidity position of the company is expected to remain adequate in the near to medium term. Further, average cash credit utilisation of the company remained high at ~82% during the past 12 months ended Nov 2024 indicating a moderate liquidity cushion.

About the Company

KVG Agro Private Limited (KAPL) was established in 2016 as a partnership firm in Sonipat (Haryana) and was later converted into a private limited company in 2021. Later, since January 2023, the company has initiated its second processing unit in Kurukshetra in Haryana. The company is engaged in manufacturing of products like Pasteurized packaged milk, milk powder, dairy whitener, butter, pure ghee, curd, lassi & paneer and markets its products under the brand name of “Ayufarms”. The company’s marketing network consists of distributors & dealers/sub dealers/retailers across the country. The company is presently operating at an installed capacity of 5,00,000 litres per day. The directors look after day-to-day affairs of the company along with the team of experienced personnel.

Financials (Standalone):

For the year ended/ As on*	(Rs. crore)	
	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	164.16	245.01
EBITDA	6.71	11.81
PAT	1.39	2.28
Total Debt	28.25	71.31
Adjusted Tangible Net Worth	38.54	43.52
EBITDA Margin (%)	4.08	4.82
PAT Margin (%)	0.84	0.93
Overall Gearing Ratio (x)	0.73	1.64
Interest Coverage (x)	4.92	2.88

* Classification as per Infomerics’ standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil



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Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
1.	Term Loans	Long Term	15.85	IVR BBB-/ Stable	-	-	-
2.	Cash Credit (including proposed limit)	Long Term	103.42	IVR BBB-/ Stable	-	-	-
3.	Working Capital Demand Loan	Long Term	5.00	IVR BBB-/ Stable	-	-	-
4.	Dropline OD	Short Term	0.73	IVR A3	-	-	-

Analytical Contacts:

Name: Sanmoy Lahiri
Tel: (033) 4803 3621
Email: s.lahiri@infomerics.com

Name: Sandeep Khaitan
Tel: (033) 4803 3621
Email: sandeep.khaitan@infomerics.com

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Annexure 1: Instrument/Facility Details:

Name of Facility/ Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan 1	-	-	-	Apr. 2028	1.73	IVR BBB-/ Stable
Term Loan 2	-	-	-	Jun. 2028	0.95	IVR BBB-/ Stable
Term Loan 3	-	-	-	Sept. 2028	1.67	IVR BBB-/ Stable
Term Loan 4	-	-	-	Oct. 2029	3.04	IVR BBB-/ Stable
Term Loan 5	-	-	-	Sept. 2029	8.46	IVR BBB-/ Stable
Cash Credit 1	-	-	-	-	33.00	IVR BBB-/ Stable
Cash Credit 2	-	-	-	-	10.00	IVR BBB-/ Stable
Cash Credit 3	-	-	-	-	25.00	IVR BBB-/ Stable
Proposed Cash Credit	-	-	-	-	35.42	IVR BBB-/ Stable
Working Capital Demand Loan	-	-	-	-	5.00	IVR BBB-/ Stable
Dropline OD	-	-	-	-	0.73	IVR A3

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-KVGAgro-feb25.pdf>

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.