VRS Foods Limited

March 07, 2025

Ratings

Facilities	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facility	520.00	IVR BBB; Stable (IVR Triple B with Stable Outlook)	-	Rating Assigned	Simple
Short-Term Bank Facility	65.00	IVR A3+ (IVR A Three Plus)	-	Rating Assigned	Simple
Total	**585.00 INR Five hundred eighty-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 VRS Foods Limited (VFL) is driven by long track record of operation of the company supported by experienced promoters, favourable plant location supported by strong procurement network along with VFL's strong brand presence through its brand 'Paras' with diversified geographical presence. The ratings also derive comfort from VFL's large scale of operation with satisfactory profitability coupled with moderated capital structure. However, these rating strengths are constrained by working capital-intensive nature of business of the company coupled with its exposure to intense competition due to fragmented nature of industry and limited control over procurement costs. The ratings also factor VFL's exposure of milk production to external factors and perishable nature of its products.

The stable outlook reflects expected stable business performance of the company in the near term underpinned by satisfactory demand outlook of milk products supported by diversified geographical presence of the company with established customer base.

Key Rating Sensitivities:

Upward factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis

- Improvement in the capital structure and debt protection metrics marked by improvement in overall gearing to below 2x and interest coverage ratio to above 3x

Downward Factors

- Moderation in operating income and/or profitability impacting the debt protection metrics on a sustained basis
- Withdrawal of subordinated unsecured loan of Rs.28.27 crore treated as quasi equity, any unplanned debt funded capex and/or substantial increase in working capital borrowings leading to impairment in capital structure with moderation in overall gearing ratio to over 3x
- Pilling up of inventory or stretch in receivables leading to moderation in operating cycle affecting the liquidity of the company

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

Experience promoter with long operational track record

VFL had been in the industry since 1986 under the name of Ved Ram & Sons when the founding member of the company Late Ch. Ved Ram got engaged in the diary firm industry and started business as a partnership firm in April 1986 and established its first unit in 1987. Over the years, the company has embraced technological advancements, ensuring state-of-the-art production facilities to meet the growing demand for dairy products and today, VFL processes over 4 million litters of milk daily. Presently the company is led by the Managing Director Mr. Rajinder Singh, who supervises overall affairs and directly oversees financial matters and international revenue generation and has four decades of experience in this industry. He is well supported by two brothers Mr. Gijender Singh and Mr. Narendra Singh who are also the directors of the company supported by a team of experience professionals.

Established brand presence with diversified geographical presence

VFL has established a strong market presence with its brand ‘Paras’, catering to both domestic and international markets. Under the brand name ‘Paras; the company has diversified product offering such as liquid milk, flavoured milk, yoghurt, buttermilk, cottage cheese, butter, clarified butter, whey protein concentrate, milk protein concentrate, skimmed milk powder, casein. In addition to its vast product folio, VFL also has strong geographical presence as it generates ~10% of its revenue from international markets, mainly from US, Singapore, Malaysia, the Philippines and countries in the Middle East. Whereas most sales are being generated from domestic operations. During FY24, [FY refers to the period from April 1 to March 31] domestics revenue is mainly generated from Uttar Pradesh [UP] (~33%-35%), Delhi (~20%) along with other key states such as Haryana, Rajasthan, Maharashtra, Tamil Nadu and West Bengal all contributes ~3-5% each.

Favourable plant location supported by strong procurement network

Uttar Pradesh ranks as the top milk-producing state in India, contributing ~16% of the total milk production nationwide. The dairy industry in Uttar Pradesh is considered favourable due to its a large population of cattle suitable for dairy farming, which are essential for milk production, providing a readily available raw material source along with supportive government initiatives and a growing market demand for dairy products within the state. Since four out of five processing units of the VFL are located in UP, it provides some additional comfort. Further, VFL has strong procurement network backed by Franchise Model and Village-Level Collection System covering 5400 villages along with ~10-12K farmers and franchise partners across Western U.P., Haryana, Rajasthan, Maharashtra and Gujarat that ensures uninterrupted, timely and quality procurement of milk.

Large scale of operation

Backed by the strong established brand presence of ‘Paras’ along with its distinct product offerings and diversified geographical presence, which is well supported by huge distribution network, total operating revenue of VFL has grown at a CAGR of ~28% from FY21 to FY23 as the topline has gradually improved from Rs.2021.27 crore in FY21 to Rs.2547.61 crore in FY22 followed by a substantial improvement to Rs.3314.77 crore in FY23. However, owing to softening of dairy products prices primarily milk powder, ghee, butter, casein across the industry in FY24, coupled with dip in export revenue (typically yields better margins) from ~Rs.591 crore in FY23 to ~Rs.277 crore in FY24 amid geopolitical crisis and unfavourable price dynamics has led to moderation in topline top to Rs.2750.06 crore in FY24. The operating margin of VFL had hovered around 4.20%-3.33% during FY21 to FY23 which though moderated, continues to remain satisfactory at 3.07% in FY24. The moderation in operating margin is mainly driven by dip in average sales price of finished products leading to inventory loss coupled with lower absorption of fixed overhead as compared to previous years. Furthermore, owing to availment of fresh term loan for the major ongoing capex in one of its manufacturing units in Newasa (Maharashtra) coupled with higher working capital utilisation, the finance cost has gone up from Rs.40.34 crore in FY23 to Rs.59.48 crore in FY24 leading to moderation in PAT margin to 0.08% in FY24 as against 0.78% in FY23.

In the current fiscal year, prices have stabilized and till 9MFY25, VFL has churned out revenue of Rs.2051.29 crore with an EBITDA and PAT margin of 3.95% and 0.85% respectively. With expected average monthly sales of ~Rs.250-300 crore in the last quarter, Infomerics believes that VFL would comfortably achieve a topline of ~Rs.2800 crore in FY25.

Moderate capital structure

The capital structure of the company had remained moderate over the past three account closing dates marked by its moderate net worth base and heavy reliance of external borrowing in the form of term loans owing to its continuous upgradation and modernisation capex in its manufacturing units coupled with high dependence on working capital borrowings. As on March 31, 2024, after considering subordinated unsecured loan of Rs.28.27 as quasi equity and adjusting the investments and loans & advance to related parties of Rs.5.17 crore and disputed receivable of Rs.1.67 crore, the adjusted net worth of VFL stood at Rs.229 crore. Owing to the recently concluded capex relating to shift the existing casein plant to Newasa (Maharashtra) from Sahidabad (Uttar Pradesh) and to establish a new plant for cheese production coupled with high working capital utilisation, the debt level has elevated to Rs.639.25 crore in FY24 from Rs.528.56 crore leading to moderation in adjusted overall gearing and TOL/ATNW to 2.79x and 4.17x as on March 31, 2024 as compared to 2.33x and 3.63x as on March 31, 2023. However, with no further planned capex and with gradual repayment of term loans, the capital structure is expected to improve gradually over the coming years.

Affected by the dip in absolute EBITDA from Rs.110.30 crore in FY23 to Rs.84.48 crore in FY24 coupled with higher finance cost, the interest coverage ratio has moderated to 1.42x in FY24 as against 2.73x in FY23. Owing to elevated debt level, other debt protection metrics marked by Total Debt to EBITDA and Total Debt to GCA has moderated and remains stretched at 7.57x and 22.71 years respectively as on March 31, 2024, as compared to 4.79x and 11.17 years respectively as on March 31, 2023. Despite the moderation in PAT, gross cash accruals in FY24 stood at Rs.18.15 crore which was sufficient to serve its scheduled debt repayment obligations. However, with increase in profitability the debt protection metrics is expected to improve in the near term.

Key Rating Weaknesses:

Highly competitive nature of Industry

Commoditised nature of the products and intense competition from organised cooperatives, private dairies, and unorganised players, which impacts the pricing flexibility of players in the industry. Apart, the profitability of dairy entities also remains vulnerable to the SMP (Skimmed Milk Powder) inventories as well institutional demand, any adverse movement is likely to have a bearing on their profitability. However, on the back of its established presence VFS has better flexibility to absorb the increase in costs and maintain/ grow market share.

Working capital intensive nature of business

Characteristically dairy business is considered as highly working capital intensive as it requires a large amount of capital to maintain facilities, buy feeds, which needs to be continuously replenished during the milk production cycle, meaning a significant portion of the business's assets are tied up in inventory that needs to be constantly managed to avoid spoilage due to the perishable nature of milk. Further, VFL has to maintain an inventory of around 50-60 days of different varieties of SMP thereby maintaining adequate buffer in each of these variety to ensure on time delivery to its diversified customer base. Also, the procurements are largely made in flush seasons, owing to which the company carries higher inventory in non-flush period. This necessitates a high level of working capital to cover operational costs until the milk is sold. The operating cycle of VFL slightly elongated yet stood satisfactory at 76 days in FY24 (PY:51 days). The elongation in the operating cycle is on account of higher inventory days in F24 which moderated to 87 days as compared to 56 days in FY23. Both average collection period and average creditor days stood satisfactory at 19 days and 30 days respectively in FY24 (20 days and 26 days in FY23).

Limited control over procurement costs

The industry players have limited control over the procurement costs of liquid milk as these are impacted by intense competition from state-owned milk cooperatives and other private dairies, along with low switching costs for farmers. However, the company’s strong relationships with farmers ensure milk availability even during the lean season. VFS’s demonstrated ability to partially pass on the increase in costs to customers mitigates the impact of fluctuation in procurement costs to an extent.

Exposure of milk production to external factors and perishable nature of products

Milk availability is influenced largely 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 factors. Milk and some milk-based products have a perishable nature and cannot be stored for longer periods or transported over long distances. To maintain the quality & freshness of the products, milk-based products require specific storage conditions which may increase the cost of storage to an extent. Further, Rising temperatures and erratic rainfall are severely affecting India's dairy sector. Heat stress can reduce milk yield by 10-30%, especially during the first lactation. Erratic monsoon patterns also disrupt fodder production, leading to higher feed costs and hence effect the profitability.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Criteria for assigning Rating outlook

Policy on Default Recognition and Post-Default Curing Period

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria on Complexity

Liquidity: Adequate

The liquidity of the company is expected to remain adequate in the near to medium term marked by its expected sufficient cash accruals vis-à-vis its debt repayment obligations. VFL is expected to earn cash accruals in the range of ~Rs.50-73 crore which is expected to be sufficient to meet its debt obligations ranging from ~Rs.24 crore- Rs.35 crore during FY25-FY27. VFL has unincumbered cash balance of ~Rs.17.00 crore as on January 31,2025. The average working capital utilisation for the twelve months ended January 2025, stood satisfactory ~82% indicating a satisfactory liquidity buffer.

About the Company

Incorporated in May 2007, VRS Foods Ltd. has established a strong market presence with its brand 'Paras, catering to both domestic and international markets. The organization was formally started as Ved Ram & Sons in April 1986, followed by the establishment of its first production unit in 1987. Over the years, the company has embraced technological advancements, ensuring state-of-the-art production facilities to meet the growing demand for dairy products. Today, the company processes over 4 million litters of milk daily. The company has a diversified product folio which consists of products such as liquid milk, flavoured milk, yoghurt, buttermilk, cottage cheese, butter, clarified butter, whey protein concentrate, milk protein concentrate, skimmed milk powder, casein. To maintain product quality & penetrate deep into the market, VRS operates multiple processing units in Sahibabad, Gulaothi, Sandila, Malanpur, and Newasa. The company serves both retail and institutional customers.

The company is being managed by Mr. Rajendra Singh, the Managing Director who has nearly four decades of experience in the dairy industry well supported by other directors and a team of highly experienced professionals.

Financials of VRS Foods Limited: **Standalone**

(Rs. crore)

For the year ended* / As On	31-03-2023	31-03-2024	31-12-2024
	Audited	Audited	Unaudited
Total Operating Income	3314.77	2750.06	2051.29
EBITDA	110.30	84.48	81.11
PAT	25.84	2.27	17.39
Total Debt	528.56	639.25	-
Tangible Net worth	205.21	207.56	-
Tangible Net worth (Adjusted)	226.56	229.00	-
EBITDA Margin (%)	3.33	3.07	3.95
PAT Margin (%)	0.78	0.08	0.85
Overall Gearing Ratio (x) (Adjusted)	2.33	2.79	-
Interest Coverage	2.73	1.42	2.13

Classification as per Infomerics' standards

Status of non-cooperation with previous CRA:

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	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

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	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.	Cash Credit/Packing Credit	LT	335.00	IVR BBB/ Stable	-	-	-
2.	Term Loan	LT	132.50	IVR BBB/ Stable	-	-	-
3.	WCDL	LT	49.00	IVR BBB/ Stable	-	-	-
4	Sales Invoice Discounting	ST	65.00	IVR A3+	-	-	-
5	Proposed	LT	3.50	IVR BBB/ Stable			

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About Infomerics:

Infomerics Valuation and Rating Limited [Formerly Infomerics Valuation and Rating Private Limited] (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of 7 India (SEBI) and accreditation from Reserve Bank of India (RBI). Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by indepth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks. Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations. Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

Annexure 1: Instrument/Facility Details

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook
Cash Credit/Packing Credit	-	-	-	335.00	IVR BBB/ Stable
Term Loan	-	-	Jan 2030	132.50	IVR BBB/ Stable
WCDL	-	-	-	49.00	IVR BBB/ Stable
Sales Invoice Discounting	-	-	-	65.00	IVR A3+
Proposed (Fund Based)	-	-	-	3.50	IVR BBB/ Stable

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-VRSFoods-mar25.pdf
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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