DECEMBER 31, 2016
CARE REAFFIRMS THE RATINGS ASSIGNED TO THE BANK FACILITIES OF
MEHSANA DISTRICT COOPERATIVE MILK PRODUCERS’ UNION LTD

Ratings

<table>
<thead>
<tr>
<th>Facilities</th>
<th>Amount (Rs. crore)</th>
<th>Ratings(^1)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long term Bank Facilities</td>
<td>433.45 (reduced from 524.12)</td>
<td>CARE AA+; Stable (Double A Plus; Outlook: Stable)</td>
<td>Reaffirmed</td>
</tr>
<tr>
<td>Long term / Short term Bank Facilities</td>
<td>673.60</td>
<td>CARE AA+; Stable / CARE A1+ (Double A Plus; Outlook: Stable / A One Plus)</td>
<td>Reaffirmed</td>
</tr>
<tr>
<td>Total facilities</td>
<td>1,107.05 (Rupees One Thousand One Hundred Seven crore and Five lakh only)</td>
<td></td>
<td></td>
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</tbody>
</table>

Rating methodology
Milk suppliers (farmer owners) are at the base of the dairy cooperative structure. Profit is not a motive of organizations working under this structure and maximum returns to these farmers are passed on by way of milk procurement prices at two stages – provisional milk prices during the year and surplus at the year-end. Furthermore, the cooperative structure has a robust cash flow mechanism, wherein the Marketing Federation releases funds to its Dairy Processing Units (DPUs), and DPUs make payments to Village Cooperative Society (VCS) which in-turn distribute payment to member farmers for their milk supply. Hence, ratings of such cooperative sector entities are derived on the basis of the sustainability and growth of the structure, stability of the milk supply base, trend in milk procurement, distribution network and brand created by the federation and average annual milk procurement prices paid to farmers.

Rating Rationale
The ratings of Mehsana District Cooperative Milk Producer’s Union Ltd (MDCMPUL, the union) continue to be underpinned by its established operations as one of the largest unions of Gujarat Co-operative Milk Marketing Federation Ltd (GCMMF) with well recognized brands ‘Amul’ and ‘Sagar’.

The ratings also continue to factor in union’s geographically diversified revenue stream with own milk processing facility outside Gujarat, its strong milk procurement network within and outside Gujarat, measures undertaken to enhance milk production and its comfortable liquidity.

The ratings also factor in moderation in union’s milk processing capacity utilization in recent years, owing to huge capacity build-up over past few years and stagnancy in milk procurement in recent years, led by high inventory levels. The ratings also take cognizance of union’s envisaged capex in the medium term for expansion of value added milk processing capacities, expected to be funded through fresh equity infusion and debt, having associated implementation and stabilisation risks.

The long-term rating continues to be constrained by risks associated with milk supply. Any environment and epidemic-related factors having a significant impact on the union’s operations for a longer term, any adverse changes in the Amul cooperative structure, optimal utilization of existing milk processing capacities and extent of returns to farmer members in light of debt-funded capex in the medium term shall be the key rating sensitivities. Further geographical diversification of milk procurement base shall also be a key rating monitorable.

Background
Incorporated in 1964, MDCMPUL is a cooperative DPU established under the three-tier cooperative structure of Gujarat, known as ’Anand Pattern’ or ’Amul Structure’.

The union procures milk from around 1,297 member VCS consisting of around 5.39 lakh farmers, which hold the entire shareholding in MDCMPUL. It is the largest among the 18 member DPUs of GCMMF with a total milk processing capacity of 50 lakh litres per day (LLPD) as on March 31, 2016 from its dairy plants in Gujarat and Haryana.

\(^1\) Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications
As per the audited results for FY16, MDCMPUL registered a total operating income of Rs.4,193 crore with a profit after tax of Rs.16 crore as against a total operating income of Rs.4,244 crore and profit after tax Rs.13 crore in FY15. During 8MFY17, the union registered sales of Rs.3,048 crore.

**Analyst Contact**
Name: Mr Naresh M. Golani  
Tel: 079-40265618  
Email: naresh.golani@careratings.com

**For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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CONTACT
Head Office Mumbai

Mr. Amod Khanorkar
Mobile: + 91 98190 84000
E-mail: amod.khanorkar@careratings.com

Mr. Saikat Roy
Mobile: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-909028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99880 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. 0-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell: + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr. Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamurda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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