

## Ahmedabad District Cooperative Milk Producers' Union Limited

January 04, 2023

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	95.95 (Reduced from 101.60)	CARE AAA (CE); Stable [Triple A (Credit Enhancement); Outlook: Stable]	Reaffirmed
<b>Total bank facilities@</b>	<b>95.95</b> <b>(₹ Ninety-five crore and ninety-five lakh only)</b>		

Details of facilities in Annexure-1

@ The above rating is backed by credit enhancement in the form of unconditional and irrevocable corporate guarantee extended by Gujarat Cooperative Milk Marketing Federation Limited (GCMMF).

<b>Unsupported rating<sup>2</sup></b>	<b>CARE AA- (Double A Minus) [Reaffirmed]</b>
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Unsupported ratings do not factor in the explicit credit enhancement

### Detailed rationale and key rating drivers for the credit enhanced debt

The rating assigned to the bank facilities of Ahmedabad District Cooperative Milk Producers' Union Limited (ADUL; the union) is based on the credit enhancement in the form of unconditional and irrevocable corporate guarantee extended by Gujarat Cooperative Milk Marketing Federation Limited (GCMMF).

The credit profile of GCMMF continues to factor in the strength of its brand 'Amul', dominant market position in the Indian organised dairy industry, adept marketing strategies, diversified product portfolio and wide-spread distribution network.

The credit profile of GCMMF is further underpinned by its strong position as the apex marketing federation of the three-tier co-operative 'Amul Structure', which aims at passing on maximum price to the farmer members (the ultimate owners of the structure) by way of milk procurement prices through a two-step price payment mechanism under which GCMMF and its various dairy processing units (DPUs) retain a reasonable amount of funds to ensure their timely debt repayments along with meeting their capital and operational expenses, while the balance is paid to the farmers. This objective provides stability in milk supply, albeit restricts GCMMF's profitability and net worth base. With healthy growth in the scale of operations and good growth prospects for the dairy industry, GCMMF and its DPUs have from time-to-time enhanced their milk processing capacities through a mix of debt and internal accruals.

The credit profile of GCMMF also takes cognisance of its strong liquidity due to its 'cash and carry' sales model on the back of strong brand recognition and flexibility to control the milk procurement prices paid to farmers. Furthermore, GCMMF has a diversified milk procurement base through its affiliated DPUs; however, these strengths are partially offset by the risk related to any unforeseen environment or epidemic outbreak in a particular region, which could adversely affect the milk supply in the structure. In addition, the dairy industry is susceptible to the risk arising out of regulatory changes, volatility in international prices of dairy products (mainly skimmed milk powder [SMP]) and competition; however, GCMMF is largely able to mitigate such challenges by virtue of its dominant position in the organised dairy industry, which has good growth prospects.

### Key rating drivers of ADUL for unsupported rating

The unsupported rating of ADUL derives strength from it being one of the unions of GCMMF which has established operations, its gradually expanding milk procurement network, steady growth in its scale of operations, measures undertaken to enhance milk production and its adequate liquidity.

The unsupported rating is, however, constrained by the moderate capacity utilization of its enhanced milk processing capacity, limited product portfolio, geographically-concentrated milk procurement making it susceptible to environment and epidemic-related risk and regulatory risks.

### Rating sensitivities (of the guarantor, GCMMF)

**Positive factors – Factors that could lead to positive rating action/upgrade:** Not applicable

**Negative factors – Factors that could lead to negative rating action/downgrade:**

- Any adverse changes in the Amul cooperative structure
- Any environment and epidemic-related factors in the milk procuring region of the DPUs having a significant impact on the GCMMF's operations

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

- Any adverse changes in SMP prices or regulations governing the dairy industry having material impact on the extent of returns/ milk procurement prices paid to the farmer members on sustained basis
- Significant increase in financial support to its DPU's leading to worsening of debt protection metrics of GCMMF

## Detailed description of the key rating drivers (of the guarantor, GCMMF)

### **Key rating strengths**

**Dominant position in the Indian dairy industry with strong brand 'Amul' and adept marketing strategies:** GCMMF, with strong brands 'Amul' and 'Sagar', commands a prominent market share in pouched milk and various milk products (ranging from 40%-73% market share) in the Indian dairy industry. This is reflected by the healthy scale of operations of the federation. During FY22 (refers to the period April 1 to March 31), GCMMF's total operating income (TOI) registered significant growth of 19% on y-o-y basis to ₹46,631 crore. GCMMF's dominant position in the industry has been built through its adept marketing strategies, including dynamic advertisements, promotional offers and penetration into new markets along-with gradual expansion of product portfolio. With this, it possesses strong pricing power for its products and largely heralds the prices of milk and milk products in the country.

### **Apex marketing federation with an objective of passing maximum price to the farmers; ensuring stability in milk supply:**

GCMMF is the apex marketing federation of the 'Amul' co-operative structure, which aims at providing maximum price to farmer members who are the ultimate owners of the structure. This has resulted in build-up of a strong milk procurement network of more than 36 lakh farmers ensuring a stable milk supply with significant growth in milk procurement prices paid to farmer members, over the years. Milk procurement by DPU's witnessed a growth of 7.14% on y-o-y basis during FY22 and stood at 263.66 lakh kilograms.

### **Diversified product portfolio and wide-spread distribution network:**

GCMMF has a diversified product portfolio comprising more than 50 products, including pouched milk, milk powder, butter, ghee, ice-cream, cheese, sweets and bakery products; with over 500 product varieties. Based on their market assessment, GCMMF continuously adds new products and product varieties to its portfolio. To ensure availability of these products to the customers within their reach, GCMMF has a widespread distribution network comprising 76 sales offices along with more than 10,000 distributors and 1,000,000 retailers. Furthermore, the federation also changed its last mile supply chain strategy during the COVID-19 pandemic-induced lockdown by partnering with online food delivery platforms, booking bulk orders and launching 'Amul cart' application for retailers to place orders directly with distributors. It also caters to the milk and milk product requirement of Hotels, Restaurants and Catering (HoReCa) segment.

Over the years, GCMMF has expanded its geographical presence by increasing its penetration in the existing markets as well as entering new markets, which has resulted in large part of its sales from outside Gujarat. Federation has a strong presence in regions, such as Gujarat, Delhi, Mumbai, Uttar Pradesh, Rajasthan and Kolkata and it has also started sales of milk pouches in Bihar and Jharkhand in past few years.

### **Debt coverage indicators are underpinned by the presence of two-step milk procurement price payment mechanism; albeit its overall gearing remains moderate due to its co-operative structure:**

GCMMF passes on maximum price to farmer members by way of milk procurement prices after retaining a reasonable amount for meeting its debt servicing, capital and operational expenses. While this ensures adequate debt servicing coverage, it restricts its profitability and consequently results in a low net worth base.

Also, GCMMF avails debt for meeting its own capital expenditure and working capital requirements, as well as for meeting the working capital requirements of its DPU's (mainly for inventory). The inventory generally increases at year-end due to flush season and is also dependent upon the domestic and international demand-supply dynamics of select products such as SMP. This apart, GCMMF has also extended corporate guarantees to facilitate availment of debt by its various DPU's for their various funding requirements. Thus, a low net worth (inherent to its co-operative structure) along with availment of debt/facilitation of debt for its member DPU's results in a moderate overall gearing for the federation.

With increase in milk procurement and conversion of excess milk into SMP coupled with moderation in demand due to COVID-19, its working capital borrowings had increased as on March 31, 2021. However, its working capital borrowings did not increase much as on March 31, 2022, despite significant growth in its scale of operations during FY22. Resultantly, the overall gearing (including guaranteed debt) improved to 3.88x as on March 31, 2022, as against 4.46x as on March 31, 2021. GCMMF's debt protection metrics remained adequate marked by PBILDT interest coverage of 5.95x during FY22.

**Diversified milk procurement base:**

The farmer base of the 18 DPUs of GCMMF is spread across various districts of Gujarat, which contributes majority of the total milk supply in the structure. Its milk procurement base is also spread across other states such as Rajasthan, Haryana, Maharashtra and Punjab.

**Good growth prospects for the dairy industry:**

During FY21, the revenues of the organised dairy sector was affected to an extent owing to the impact of COVID-19 pandemic on the institutional demand. To protect the Co-operatives from the COVID-19 pandemic situation and for ensuring regular and remunerative payment to farmers, the Ministry of Fisheries, Animal Husbandry and Dairying, Government of India had introduced a new scheme 'Interest subvention on Working Capital Loans for Dairy sector'. The scheme made provisions for giving interest subvention of 2% per annum, with an additional incentive of 2% per annum to be given in case of prompt and timely repayment/interest servicing on working capital blocked in SMP, whole milk powder (WMP), white butter and ghee for FY21. However, after the impact of COVID-19 in FY21 and the second wave in Q1FY22, the dairy sector rebounded significantly owing to the strong demand revival of milk and its value-added products. Also, Government is progressively taking initiatives to promote the dairy industry in India, in which inclination towards cattle breeding, clean milk production, dairy development and cattle feed management are included. In this regard, it has implemented the Rashtriya Gokul Mission from FY22 to improve productivity and enhance milk production. These schemes aim to improve remuneration for farmers for which an allocation of ₹2,400 crore has been made over the next five years.

In the medium term, the demand for dairy and its allied products is expected to witness healthy demand due to pick-up in demand of value-added products, steady sales of liquid milk and rising retail rates in the year. Over the long-term, the demand outlook is expected to remain favourable due to various factors, such as steady supply of milk with India being the world's largest milk producer and government extending various interest subvention schemes / incentives for modernisation of dairy infrastructure to promote its higher production; along with growing demand for milk and milk products backed by increasing population and per capita consumption, increase in expenditure on packaged food, brand awareness and urbanisation. The growth would be primarily driven by increase in the demand for value-added milk products, which is also margin accretive for the players.

**Liquidity: Strong**

GCMMF's liquidity continues to remain strong with majority of its sales being on 'cash and carry' basis owing to its strong brand recognition and widespread distribution network. This results in a lean operating cycle for the federation along with low utilisation of fund-based working capital limits. Moreover, GCMMF has the flexibility to control the prices to be paid to the farmers as the surplus available with the federation is passed on to DPUs periodically only after ensuring retention of a reasonable amount for its debt repayments, capital expenditure and operational expenses. Thus, this fund is available with the federation during the year, aiding its liquidity.

Also, as on March 31, 2022, GCMMF had unencumbered fixed deposit and cash balance of ₹1,124 crore, which along with sufficient headroom in the working capital limits and generation of adequate cash accruals, is expected to sufficiently cover federation's term debt repayment obligations of around ₹25 crore during FY23. Furthermore, GCMMF has no major capex plans, and hence has no plans to avail additional term debt in the near to medium term.

**Key rating weaknesses****Exposed to environmental and epidemic-related event risks associated with geographically-concentrated milk collection:**

The dairy industry inherently remains exposed to the risk related to occurrence of any unforeseen environmental or epidemic outbreak/bovine diseases in a particular region adversely affecting the milk supply. Due to the ongoing Lumpy virus in animals, milk procurement of GCMMF has been impacted, but only marginally. GCMMF's relatively diversified milk procurement base mitigates such risks to a certain extent; however, further geographical diversification in the milk procurement base shall be beneficial for long-term prospects of the federation.

**Risks related to changes in regulatory environment and competition:**

The Indian dairy industry remains susceptible to the volatility in prices of products, such as SMP due to its linkages with domestic and international demand-supply dynamics, which determines its inventory levels. It also remains exposed to the regulatory changes such as change in government incentives / ban on export of dairy products (mainly SMP), and demand for signing of free trade agreements (FTAs) by surplus milk producing countries such as Australia and New Zealand to gain access to the Indian dairy market. Furthermore, the demand for dairy analogues, which are used as a substitute for milk and milk fats, also pose challenges to some extent as they are lookalike dairy products and provide significant cost-cutting opportunities. This apart, the industry also remains fragmented with presence of large number of players. Nevertheless, GCMMF, by virtue of its dominant position in the industry, is largely able to mitigate such challenges.

### Analytical approach:

**For credit enhanced rating:** Assessment of the guarantor, GCMMF

CARE Ratings Limited (CARE Ratings) has analysed ADUL's credit profile by considering credit enhancement in the form of unconditional and irrevocable corporate guarantee extended by GCMMF to the lender of ADUL for the rated bank facilities.

**For un-supported rating:** For credit risk assessment of ADUL without considering the explicit credit enhancement from GCMMF, CARE Ratings Ltd. has considered the standalone financials of ADUL along with benefits derived from the co-operative structure and group support.

Milk suppliers (farmer owners) are at the base of the dairy co-operative structure. Profit is not a motive of organisations working under this structure and maximum price to these dairy farmers are passed on by way of milk procurement prices after ensuring retention of a reasonable amount for their debt repayment, capital and operational expenses. Furthermore, the Amul dairy co-operative structure has a robust cash flow mechanism, wherein the Marketing Federation (GCMMF) releases funds to its DPUs through a two-step price payment mechanism during the year, and DPUs make payments to village co-operative societies (VCS), which in-turn distribute payment to member farmers for their milk supply. Hence, the credit risk of such co-operative sector entities is assessed based on sustainability and growth of the structure, stability of the milk supply base, trend in milk procurement and that of the average annual milk procurement prices paid to the dairy farmers, along with reach of its distribution network and strong brand of 'Amul' created by the federation.

### Applicable criteria

[Criteria on assigning 'Outlook' and 'Credit Watch' to credit ratings](#)

[CARE'S policy on default recognition](#)

[Rating methodology - Notching by factoring linkages in ratings](#)

[Criteria for rating Credit Enhanced Debt](#)

[Rating methodology - Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

### About the guarantor, GCMMF

Incorporated in 1973, GCMMF is India's largest food product marketing organisation. It is the apex marketing federation of the three-tier dairy co-operative structure known as 'Amul Model' or 'Anand Pattern'. The structure comprises 18 DPUs affiliated to GCMMF, which process the milk supplied by more than 36 lakh farmer members via 18,565 VCS and sell the processed milk and milk products to GCMMF. GCMMF markets these products in domestic as well as the export markets under the brands 'Amul' and 'Sagar' and passes on the sales proceed to DPUs by way of milk procurement prices to a large extent, which is then passed on to the farmer members by way of milk procurement prices through VCS under DPUs.

Besides acting as a marketing federation, GCMMF also facilitates decision making of its member DPUs in areas, such as milk collection, capital expenditure, product pricing, financial resource planning and research and development. The federation also processes surplus milk collected by its DPUs at its own manufacturing facility located in Gandhinagar, Gujarat. GCMMF, along with its 18 DPUs, collectively had an average daily milk collection of around 264 lakh kilograms per day (LLPD) in FY22 and milk processing capacity of 390 LLPD as on March 31, 2022.

Brief Financials of GCMMF - Standalone (₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (Prov.)
Total operating income	39,325	46,631	NA
PBILDT	221	209	NA
PAT	61	74	NA
Overall gearing (times)	3.47	2.90	NA
Interest coverage (times)	4.56	5.95	NA

A: Audited; Prov.: Provisional; NA: Not available

Financials are classified as per CARE Ratings' standards.

### About the union, ADUL

Incorporated in 1985, ADUL is one of the 18 DPUs established under the three-tier dairy co-operative structure known as 'Amul Model' or 'Anand Pattern'.

ADUL procures milk from 718-member VCS consisting of 73,016 farmers who hold the entire shareholding in ADUL. It had a total milk processing capacity of 8 lakh litre per day (LLPD) (expandable up to 13 LLPD) as on March 31, 2022, at its dairy plant in Navapura, Ahmedabad, which became operational from January 2018. This plant was set-up at a total cost of ₹160 crore, which was funded through term debt of ₹131.40 crore and balance through a mix of grant of ₹10 crore from the Ministry of Food Processing Industries (MoFPI) and its internal accruals. Subsequently, the union closed its old plant at Gomitpur, Ahmedabad,

which had milk processing capacity of 3 LLPD. During FY22, ADUL contributed around 2% share in GCMF's total income (FY21: 2%).

Brief Financials of ADUL - Standalone (₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (Prov.)
Total operating income	739.41	886.42	488.25
PBILD	25.69	27.04	NA
PAT	11.94	13.45	NA
Overall gearing (times)	2.46	2.03	NA
Interest coverage (times)	4.46	6.20	NA

A: Audited; Prov.: Provisional; NA: Not available

Financials are classified as per CARE Ratings' standards.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer to Annexure-2

**Covenants of the rated instruments:** Not applicable

**Complexity level of the various instruments rated for this company:** Please refer to Annexure-3

#### Annexure-1: Details of instrument/ facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	August 2031	95.95	CARE AAA (CE); Stable
Un Supported Rating-Un Supported Rating (Long term)		-	-	-	0.00	CARE AA-

#### Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term loan	LT	95.95	CARE AAA (CE); Stable	-	1)CARE AAA (CE); Stable (20-Dec-21)	1)CARE AAA (CE); Stable (15-Mar-21)	1)CARE AAA (CE); Stable (05-Feb-20)
2	Un Supported Rating-Un Supported Rating (Long term)	LT	0.00	CARE AA-	-	1)CARE AA- (20-Dec-21)	1)CARE AA- (15-Mar-21)	1)CARE AA- (05-Feb-20)

\*Long-term/Short-term.

#### Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple
2	Un Supported Rating-Un Supported Rating (Long term)	Simple

#### Annexure-4: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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