

Ajmer Zila Dugdh Utpadak Sahkari Sangh Limited

January 06, 2023

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	65.00 (Enhanced from 40.00)	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Total Bank Facilities	65.00 (₹ Sixty-Five Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the rating assigned to the bank facilities of Ajmer Zila Dugdh Utpadak Sahkari Sangh Limited (AZSL) is on account of decline in profitability marked by cash losses, deterioration in capital structure and debt coverage indicators during FY22 (refers to April 01, 2021 to March 31, 2022) and H1FY23 (Refers to April 01, 2022 to September 30, 2022). The rating also continues to remain constrained on account of environment-related risk associated with geographically concentrated milk collection and competition from the organized and unorganized sector.

The ratings, however, derive strength from its stable scale of operations with wide product portfolio, longstanding and established track-record of operations, strength of cooperative structure with strong ownership pattern of the union under three-tier cooperative structure along with wide product portfolio under the renowned brand name 'SARAS' and established distribution network.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustaining scale of operations marked by Total operating income (TOI) and generating cash profits of Rs.3 crore or more.
- Improvement in capital structure with overall gearing below 5.00x on sustained basis
- Sustained improvement in debt coverage indicators

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

- Significant decline in scale of operations as well as deterioration in operating profitability from current levels.
- Further deterioration in capital structure

Detailed description of the key rating drivers

Key rating weaknesses

Deterioration in profitability marked by cash losses during FY22

Owing to the cooperative structure of the union, profit margins remain inherently thin with profits being passed on to the farmers by way of milk prices. The union has the flexibility in terms of passing on milk prices to the farmer members depending on its fund requirement for operational and debt servicing purpose.

During FY22, AZSL's operating profit (PBILDT) margin moderated to 2.10% from 3.91% in FY21 due to relatively higher price paid to farmers members. However, interest cost and depreciation were higher due to commencement of new plant which led to net loss of Rs.45 crore in FY22. Further, it also reported cash loss of ~Rs.5 crore during FY22. During H1FY23, AZSL reported operating profit of Rs.1.57 crore and net loss of Rs.21.80 crore.

Deteriorated capital structure and weak debt coverage indicators: AZSL concluded its expansion capex in FY21 with availing term loan of Rs.164 crore along with unsecured loans from district cooperative societies (DCS). This coupled with increase in working capital loan led to higher outstanding debt over the past three years. Furthermore, trust reported net losses for two consecutive years on the back of higher interest cost and additional depreciation charges resulted in erosion of net worth leading to highly leveraged capital structure marked by overall gearing of 76.41x as on FY22 end (P.Y: 5.14x). Debt coverage indicators continued to remain weak in FY22 on the back of higher interest cost as well as net losses in FY22.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Environment and epidemic related risk associated with geographically concentrated milk collection: AZSL collects milk entirely from its milk procurement centre, spread across Ajmer district in Rajasthan. AZSL's milk procurement channel has grown over last decade; nevertheless, geographical concentration in milk procurement exposes it to environmental risks such as epidemic and could adversely affect its milk supply. Geographical diversification in milk procurement network shall be crucial from credit perspective.

Competition from the organized and un-organized sector: AZSL faces competition in the dairy segment from other established brands in the organized market as well as from local unorganized players leading to pricing pressure. Foray of dairy companies in the manufacturing of value-added milk products on account of increasing demand in the domestic market is also expected to increase competition for dairy unions like AZSL.

Key rating strengths

Stable scale of operations with wide product portfolio: AZSL has a wide product portfolio comprising products such as packaged liquid milk, ghee, milk powder, butter, paneer, buttermilk, and curd. Package liquid milk contributed ~50% of AZSL's sales in FY22, providing stability to its operations. During FY22, AZSL's total operating income increased by ~20% to Rs.725.76 crore mainly on account of revival in institutional demand post Covid-19 pandemic as against ~Rs.604 crore registered in FY21. During H1FY23, AZSL reported net sales of Rs.418.23 crore.

Longstanding and established track-record of operations: AZSL has a longstanding track record of operations of more than four decades having commenced its operations in February 1972. Mr Umesh Chandra Vyas (Managing Director of AZSL) has an experience of around three decades in the dairy business. He is supported by well qualified and experienced management team.

Strong ownership pattern of the union under three tier cooperative structure: AZSL is jointly owned by DCS (farmer members who hold 99.63%) and Government of Rajasthan (0.37% stake). AZSL operates under a three-tier structure wherein farmers (milk suppliers) own DCS which owns milk producer unions like AZSL. The unions collectively own the Rajasthan Cooperative Dairy Federation (RCDF). It is a vertically integrated structure that establishes a direct linkage between those who produce the milk and those who consume it. RCDF provides service and support to unions, marketing within & outside the state, liaison with government and NGO agencies; mobilization of resources, product pricing, standardization, coordinating & planning programmes/projects. AZSL develops village/dairy milk cooperative network, procures milk from DCS, processes & sells it. Majority ownership with farmers (milk producers) instils trust in the cooperative model, which ensures quality products to the consumers and remunerative milk procurement prices to the farmer members, while ownership with state results in financial support to the union in the form of interest-free unsecured loans and grants from the state governments.

Strong brand name along with established distribution network: RCDF through its unions, provides a complete range of milk and milk products such as ghee, butter, buttermilk, curd, and paneer under the brand name of 'Saras' to parlours/outlets, booths and shop agencies in Rajasthan. AZSL procures milk from DCS, processes it and sell it under the brand name of 'SARAS'. The union sells its products to the consumers through a well-spread distribution network. The district is divided in 36 milk routes and each route has a separate distribution network including distributors and retailers with products being delivered via milk booths, parlours, and agencies.

Liquidity: Stretched

The union had stretched liquidity with high debt repayment obligations vis-à-vis the expected cash accruals along with high utilization of working capital limits. However, cash balance as on March 31, 2022 stood comfortable at Rs.24.56 crore. Also, operating cycle remained comfortable at 16 days in FY22 with comfort derived from 'cash and carry' sales and some credit period received for payment to be made to DCS.

As per interaction with the lenders, utilization of union's working capital borrowings remained high at ~85-90% for the past 12 months ended November, 2022. Also, the union avails working capital demand loan on periodic basis as per its requirement which it gets at a competitive rate.

Analytical approach: Standalone

AZSL is a cooperative dairy union which aims at providing remunerative returns to its farmer members who are also its majority shareholders. This keeps its profitability moderate. Furthermore, RCDF also assists its member unions in production, sales, and capital expenditure planning, along with facilitating cash flows between them and Government of Rajasthan. Hence, ratings of

such cooperative sector entities are derived based on the sustainability and growth of the structure, stability of the milk supply base, trend in milk procurement, distribution network & brand created by the federation and average annual milk procurement prices paid to farmers.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the Union

AZSL was established in February 1972 under Rajasthan Co-Operative Act, 1965 with an aim to pay remunerative milk price long with other services such as animal health care, bovine vaccination, breed improvement and infertility camps to its milk producers (farmer members) and provide quality products to consumer at competitive price. In the union, 99.59% shareholding is held by farmer members while balance 0.41% is held by Government of Rajasthan. In September 2020, AZSL expanded its milk processing capacity to 10 lakh litres per day (LLPD) and skimmed milk powder capacity to 40 metric tons per day (MTPD). Its key products include ghee, milk, paneer, curd and buttermilk. These are sold under the brand name of 'SARAS'. The union is an ISO 9001:2008 & IS 15000 (HACCP) certified organization and is affiliated to Rajasthan Co-operative Dairy Federation Limited, Jaipur (RCDF).

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (Prov.)
Total operating income	603.59	725.76	418.23
PBILDT	23.62	15.23	1.57
PAT	(19.31)	(44.88)	(21.80)
Overall gearing (times)	5.14	76.41	NM
Interest coverage (times)	1.89	0.76	0.15

A: Audited; Prov.: Provisional; NM: Non-Meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/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-Working Capital Limits		-	-	-	65.00	CARE BB; Stable

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-Working Capital Limits	LT	65.00	CARE BB; Stable	-	1)CARE BB+; Stable (03-Jan-22) 2)CARE BB+; Stable (25-Oct-21)	1)CARE BB+; Stable (20-Oct-20)	-

*Long term/Short term.

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

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Working Capital Limits	Simple

Annexure-5: Bank lender details for this company

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

Note on 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 for any clarifications.

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