# Mother Dairy Fruit and Vegetable Private Limited

December 21, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 1,850.00 (Enhanced from 1,254.50) | CARE AA+; Stable | Reaffirmed |
| Short-term bank facilities | 375.00 (Enhanced from 75.25) | CARE A1+ | Reaffirmed |
| Commercial paper* | 100.00 | CARE A1+ | Reaffirmed |

*carved out of the sanctioned working capital limits of the company

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

The ratings assigned to the bank facilities and the commercial paper (CP) issue of Mother Dairy Fruit and Vegetable Private Limited (MDFVPL) continue to derive strength from its established brand presence through its extensive marketing and distribution network, well-established milk procurement system, and increasing focus on value-added dairy products business. The need-based financial, technical and managerial support from its parent - National Dairy Development Board (NDDB), along with its experienced management team continue to underpin its ratings. Furthermore, the ratings also factor in the improvement in profitability during H1FY24 (refers to the period April 1 to March 31) post subdued performance in FY23. Furthermore, the ratings also continue to factor in the cooperative structure of MDFVPL, which aims at passing on the maximum return to the dairy farmers by way of remunerative milk prices, thus providing stability in milk supply; albeit restricts its profitability.

The long-term rating is, however, constrained by its large-size debt-funded capex plan in the medium term, susceptibility to continuous volatility in milk procurement prices, changes in government policies, inherent environment and epidemic-related event risks and competition from other established dairy players as well as from the unorganised sector.

## Rating sensitivities: Factors likely to lead to rating actions

### Positive factors

- Significant growth in its scale of operations through greater geographical diversification of both, its sales and sourcing, along with widening of its product profile on a sustained basis.
- Significant improvement in the capital structure with overall gearing below 0.50x along-with improvement in its debt coverage indicators on a sustained basis.
- Demonstration of its ability to pass on increase in milk procurement cost by way of timely increasing the prices of its final products on a sustained basis.

### Negative factors

- Any dilution of shareholding by NDDB or delay in support from NDDB and/or any significant deterioration in the credit profile of NDDB.
- Overall gearing remaining above 3.50x on a sustained basis.
- Any environment and epidemic-related factors in the milk-procuring regions of the company having a significant impact on the company's operations.
- Any adverse changes in skimmed milk powder (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 a sustained basis.

**Analytical approach:** Standalone. Furthermore, the ratings also factor the need-based financial, technical and managerial support received by MDFVPL from NDDB by virtue of being its 100% subsidiary.

Furthermore, maximising the return (by way of actual milk procurement prices and incentives) to the ultimate milk suppliers (farmer owners, who form the base of the supply chain) rather than increasing its profit, is the main motive of the organisation. The ratings of MDFVPL are derived on the basis of sustainability and growth of the structure, stability and trend of milk supply and that of the average annual milk procurement prices being paid to the farmers, along with the reach of its distribution network and the brand created by the company.

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

**Outlook:** Stable

CARE Ratings Limited (CARE Ratings) believes that MDFVPL, by virtue of its dominant position in the Delhi and National Capital Region (NCR), shall be able to timely pass on milk procurement cost by adequate price revision of its final products to maintain its credit risk profile. Furthermore, the company is expected to benefit from need-based support from its parent – NDDB in a timely manner.

## Detailed description of the key rating drivers:

## Key strengths

**Established brands supplemented by its strong marketing and distribution network**

The brands of MDFVPL – 'Mother Dairy', 'Dhara' and 'Safal' are well established in dairy, edible oil and horticultural segments, respectively. MDFVPL meets almost 43% of the organised dairy and 66% of the branded milk demand in the NCR of Delhi. MDFVPL is the only company in NCR with bulk vending booths facility. The company derives significant competitive advantage in NCR from its unique distribution network of more than around 70,000 retail outlets and over 3,000 exclusive outlets. MDFVPL continues to derive more than 85% of its revenue from Delhi-NCR region only.

**Established milk procurement system**

MDFVPL procures a significant part of its requirement of liquid milk from farmer owned and managed organisations, which are strategically located in major milk-producing states in India. The diversification tends to insulate it from any unforeseen environmental or epidemic outbreak in a particular region affecting the milk supply. Around 70% of the milk procurement of MDFVPL is carried out through the producer companies and balance through the Village Cooperative Societies (VCS). MDFVPL procures milk from around 24,300 affiliated VCS, which covers over 10.20 lakh farmers. The annual milk procurement of the company witnessed a nominal growth of 3% in FY23 largely owing to the Lumpy skin disease (LSD) impact in the dairy industry. However, during H1FY24, the company's milk procurement increased by around 15% on a y-o-y basis. Going forward, CARE Ratings expects continuation in increased milk procurement by the company on the back of healthy demand.

**Gradual diversification towards value-added products; albeit its contribution to the total income continues to remain low**

MDFVPL has a diversified product portfolio through its four strategic business units (SBUs) – dairy, dairy products, horticulture and edible oils, comprising products, such as bulk vended milk, polypack milk, ice cream, dahi, ghee, lassi, paneer, cream, animal feed, buttermilk, edible oil, frozen vegetables, fresh fruits and vegetables, sweets, processed fruits and pulp, etc. The profitability margins in the dairy segment (comprising bulk vended milk and poly pack milk) are on the lower side, as it is a commodity product. As an ongoing strategy to improve the profitability, MDFVPL has been increasing its focus towards value-added dairy product segment and edible oil segment, which has higher profitability margin. Majority of MDFVPL's revenue of around 57% (FY22: 56%) continues to be from milk, while the share of other dairy products and edible oil segment stood at 17% and 23%, respectively, in FY23. The company actively strives towards diversifying its product portfolio.

**Support from NDDB and experienced management**

NDDB, which was initially registered as a society under the Societies Act, 1860, was merged with the erstwhile Indian Dairy Corporation, a company formed and registered under the Companies Act 1956, by an Act of India's Parliament – the NDDB Act 1987 and was declared an institution of national importance by the Act. NDDB's objective is to promote, finance and support producer-owned and controlled organisations. Its programmes and activities seek to strengthen farmer-owned institutions and support national policies that are favourable to the growth of such institutions.
NDDB is the 100% holding/promoter entity of MDFVPL. Being its wholly-owned subsidiary, NDDB provides need-based financial, technical and managerial support to MDFVPL, and the same has been also demonstrated by NDDB in the past.
MDFVPL has an experienced and professional management team with presence of representatives from NDDB on the Board of Directors. Meenesh C Shah is the Chairman of both NDDB and MDFVPL. Manish Bandlish, the Managing Director of MDFVPL, is also the Director on the board of NDDB Dairy Services (wholly-owned subsidiary of NDDB).

**Improvement in operating profitability during H1FY24, post losses in FY23**

The company's total operating income (TOI) witnessed a 16% growth in FY23 largely owing to around 20% revenue growth in the dairy segment. Furthermore, horticulture and edible oil segment contributed to the increased revenue growth by around 13% and 5%, respectively. However, the company incurred losses during FY23 largely due to shortage in availability of milk due to LSD impact and high cattle feed and fodder costs for dairy farmers leading to higher procurement costs despite price hikes undertaken by the company. This led to moderation in the net worth of the company significantly during FY23 at ₹351 crore (FY22: ₹514 crore).
However, during H1FY24, the company earned profit before tax (PBT) of ₹89 crore as against losses of ₹120 crore during H1FY23 owing to full benefit of price hikes taken in FY23. Furthermore, with improvement in the profitability witnessed during H1FY24 and expected healthy cash accruals, the net worth is expected to improve in the medium term.

**Favourable growth prospects for the dairy industry**

Milk production in India reached 230 million tonnes in FY23, expanding by around 4% as compared with FY22. However, the raw milk procurement costs increased substantially largely owing to decline in milk output due to the LSD outbreak, together with increased fodder prices. To commensurate the increased input costs, the dairy industry players had taken multiple price hikes across the product segments in FY23. However, with gradual moderation in fodder costs and subsiding impact of the LSD and

thereby leading to reduction in the procurement costs, the final product prices are expected to have reached the peak and the players may not resort to additional price hikes in the near term.
The 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 extended 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 budget for FY24, the government set agricultural credit target at ₹20 lakh crore with a focus on animal husbandry, dairy, and fisheries. In addition to this, there is an increase in the budgetary allocation for animal husbandry and dairying by about 40% to ₹4,327.85 crore. The government has also extended the benefit of tax payment at a concessional rate of 15% to new co-operatives. All these incentives are expected to boost the dairy industry in the country.
In the medium term, healthy demand for dairy and its allied products is expected 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

The liquidity profile of MDFVPL stood strong with the company deriving comfort from the sales made on 'cash and carry' model due to its strong brand equity and flexibility in fixing supply rates, resulting in a lean operating cycle of around 20-30 days. Average utilisation of its working capital facilities remained at around 85% for the past 12 months ended September 2023. However, unutilised working capital limits along with expected healthy cash accruals is expected to be sufficient to meet the debt obligations in the medium term. Moreover, MDFVPL being a wholly-owned subsidiary of NDDB, receives need-based financial support from NDDB as has been demonstrated in the past, which provides additional comfort to its liquidity.

## Key weaknesses

### Debt-funded capex plan in the medium term

MDFVPL has envisaged major capex of ₹625 crore for FY24-FY26. Of this, capex of ₹540 crore pertains to expansion of facilities at its Nagpur plant in Maharashtra over a period of next 2 years ending FY25. With the said capex, the company plans to expand the milk processing capacity along with manufacturing facilities of other value-added products like ice-cream, paneer, curd, buttermilk, SMP, etc. The envisaged capex is expected to be funded through 80% term debt and balance through internal accruals. The term debt is expected to have a tenor of around 8 years including 2 years of moratorium. The Nagpur plant is already at an advanced stage and is expected to aid the company in geographical diversification. With this debt-funded capex envisaged, CARE Ratings expects the overall gearing of the company sto remain elevated in the near to medium term.

### Susceptibility to volatile product prices, regulatory changes and environmental changes

The dairy industry has low profitability margins as raw material costs (milk) form a major proportion of its cost (approximately 85%-90% of the total cost). MDFVPL, being a 100% subsidiary of NDDB, focuses more on the welfare than profits. The availability of milk and price of the products are exposed to several external risks like regulatory changes (e.g., export restriction, free import allowances), cattle/bovine diseases arising from outbreak of epidemic, yield, etc. During FY23, MDFVPL incurred losses on account of substantial increase in raw milk procurement prices despite price hikes, as the same were not enough against increased costs. Any fluctuation in prices of milk might impact the profitability margins of the company.

### Competition from organised and un-organised sector

The dairy product industry has relatively low product differentiation. Furthermore, the demand for dairy analogues, which are used as a substitute for milk and milk fat, may cause a major threat as they are look-alike dairy products and provide significant cost-cutting opportunities. At the same time, the industry is unorganised with presence of large number of small players leading to pricing pressures. In India, around 46% of the milk produced is either consumed at the producer level or sold to non-producers in the rural area, while balance 54% of the milk is available for sale to organised and unorganised players. Other organised players in the market possess a strong pricing power for their products and largely herald the prices of milk and milk products in the country. However, established brand presence of 'Mother Dairy' mitigates the risk to a large extent. Furthermore, MDFVPL is expanding its geographical presence as per their strategy and is planning to invest more to enhance its milk procurement systems.

## Applicable criteria

CARE's policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Rating Methodology - Short Term Instruments
Rating Methodology - Manufacturing companies
Factoring Linkages Parent Sub JV Group
Policy on Withdrawal of Ratings

## About the company and industry

### Industry classification

| Macro-economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Fast moving consumer goods | Fast moving consumer goods | Food products | Dairy products |

MDFVPL, a wholly-owned subsidiary of NDDB, was incorporated in March 2000 as a public limited company. Subsequently, MDFVPL was converted to private limited company w.e.f. November 2003. MDFVPL operates through four SBUs – dairy, dairy products (combined contribution 74% of its FY23 total income) under the brand name of 'Mother Dairy', edible oils under the brand name of 'Dhara' (23% of its FY23 total income), and horticulture products under the brand name of 'Safal' (3% of its FY23 total income).
MDFVPL is an ISO 9001:2008 (QMS), ISO 22000:2005 (FSMS) and ISO 14001:2004 (EMS)-certified organisation. It also has a Certificate of Approval from the Export Inspection Council of India.

| Brief Financials (₹ crore) | FY22 (A) | FY23 (A) | H1FY24 (Prov.) |
|---|---|---|---|
| Total operating income | 12,560.49 | 14,542.59 | 7,505.94 |
| PBILDT | 295.92 | -49.79 | 184.24 |
| PAT | 99.67 | -133.32 | NA |
| Overall gearing (times) | 1.35 | 3.07 | NA |
| Interest coverage (times) | 7.48 | NM | 4.09 |

A: Audited; Prov.: Provisional; NA: Not available; Note: 'the above results are latest financial results available'

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

**Any other information:** Not applicable.

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

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

**Complexity level of various instruments rated**: Please refer to Annexure-4.

**Lender details**: Please refer to Annexure-5.

### 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 |
|---|---|---|---|---|---|---|
| Commercial paper-Commercial paper (Carved out)* | - | - | - | 7-364 days | 100.00 | CARE A1+ |
| Fund-based - LT-Cash credit | - | - | - | - | 1350.00 | CARE AA+; Stable |
| Fund-based - LT-Term loan | - | - | - | Proposed | 500.00 | CARE AA+; Stable |
| Fund-based - ST-EPC/PSC | - | - | - | - | 55.00 | CARE A1+ |
| Fund-based - ST-Term loan | - | - | - | Proposed | 300.00 | CARE A1+ |
| Non-fund-based-Short term | - | - | - | - | 20.00 | CARE A1+ |

*No commercial paper was outstanding as on November 30, 2023

## 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 2023-2024 | 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 |
| 1 | Fund-based - LT-Cash credit | LT | 1350.00 | CARE AA+; Stable | - | 1)CARE AA+; Stable (26-Dec-22) | 1)CARE AA+; Stable (23-Nov-21) | 1)CARE AA+; Stable (10-Dec-20) |
| 2 | Non-fund-based-Short term | ST | 20.00 | CARE A1+ | - | 1)CARE A1+ (26-Dec-22) | 1)CARE A1+ (23-Nov-21) | 1)CARE A1+ (10-Dec-20) |
| 3 | Fund-based - ST-EPC/PSC | ST | 55.00 | CARE A1+ | - | 1)CARE A1+ (26-Dec-22) | 1)CARE A1+ (23-Nov-21) | 1)CARE A1+ (10-Dec-20) |
| 4 | Commercial paper-Commercial paper (Carved out) | ST | 100.00 | CARE A1+ | - | 1)CARE A1+ (26-Dec-22) | 1)CARE A1+ (23-Nov-21) | 1)CARE A1+ (10-Dec-20) |
| 5 | Fund-based - LT-Term loan | LT | 500.00 | CARE AA+; Stable | - | 1)CARE AA+; Stable (26-Dec-22) | 1)CARE AA+; Stable (23-Nov-21) | 1)CARE AA+; Stable (10-Dec-20) |
| 6 | Fund-based - ST-Term loan | ST | 300.00 | CARE A1+ | - | 1)CARE A1+ (26-Dec-22) | 1)CARE A1+ (23-Nov-21) | 1)CARE A1+ (10-Dec-20) |

*Long term/Short term.

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

## Annexure-4: Complexity level of the various instruments rated

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Commercial paper-Commercial paper (Carved out) | Simple |
| 2 | Fund-based - LT-Cash credit | Simple |
| 3 | Fund-based - LT-Term loan | Simple |
| 4 | Fund-based - ST-EPC/PSC | Simple |
| 5 | Fund-based - ST-Term loan | Simple |
| 6 | Non-fund-based-Short term | Simple |

## Annexure-5: Lender details

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|---|
| 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 for any clarifications.

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**About us:**

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



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