

Mother Dairy Fruit and Vegetable Private Limited

August 23, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	1,450.00 (Reduced from 1,850.00)	CARE AA+; Stable	Reaffirmed
Short-term bank facilities	100.00	CARE A1+	Assigned
Short-term bank facilities	675.00 (Enhanced from 375.00)	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

Ratings assigned to bank facilities and 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. 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, ratings also factor in improvement in profitability in FY24 (refers to April 01 to March 31) and Q1FY25 post subdued performance in FY23 (due to lumpy skin disease and poor availability of milk resulting in high milk procurement prices). Performance improved in FY24 and Q1FY25 with improved milk supply and full impact of price hikes undertaken in FY23. Ratings continue to factor in MDFVPL's cooperative structure, which aims at passing on maximum return to dairy farmers through remunerative milk prices, thus providing stability in milk supply; albeit restricts its profitability.

However, ratings are constrained by its large-size debt-funded capex plan in the medium term, increased borrowings to fund higher inventory level, susceptibility to 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 factoring linkage with its parent, NDDB. Ratings factor need-based financial, technical and managerial support received by MDFVPL from NDDB by virtue of being its 100% subsidiary.

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

¹Complete 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 New 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 key rating drivers:

Key strengths

Established brands supplemented by its strong marketing and distribution network

MDFVPL's brands – 'Mother Dairy', 'Dhara' and 'Safal' are well established in dairy, edible oil and horticultural segments, respectively. The company derives significant competitive advantage in NCR from its unique distribution network of over ~70,000 retail outlets and over 3,000 exclusive outlets. MDFVPL continues to derive over 85% of its revenue from Delhi-NCR region only.

Established milk procurement system

MDFVPL procures a significant part of its liquid milk's requirement from farmer owned and managed organisations, which are strategically in major milk-producing states in India. Diversification tends to insulate it from unforeseen environmental or epidemic outbreak in a particular region affecting the milk supply. ~70% of MDFVPL's milk procurement is carried out through producer companies and balance through Village Cooperative Societies (VCS). MDFVPL procures milk from ~24,000 affiliated VCS, which covers over 9.30 lakh farmers. The company's annual milk procurement witnessed a nominal growth of 3% in FY23 largely owing to the lumpy skin disease (LSD) impact in the dairy industry. However, in FY24, the company's milk procurement grew by ~14%. Going forward, CARE Ratings expects continuation in increased milk procurement by the company, considering 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, and processed fruits and pulp among others. Profitability margins in dairy segment (comprising bulk vended milk and poly pack milk) is on the lower side, as it is a commodity product. As an ongoing strategy to improve profitability, MDFVPL has been increasing its focus towards value-added dairy product segment and edible oil segment, which has higher profitability margin. MDFVPL's majority revenue of ~59% (FY23: 57%) continues from milk, while the share of other dairy products and edible oil segment stood at 16% and 19%, respectively, in FY24. 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 MDFVPL's 100% holding/promoter entity. Being its wholly-owned subsidiary, NDDB provides need-based financial, technical and managerial support to MDFVPL, and this 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 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 in FY24 and Q1FY25, post losses in FY23

The company's total operating income (TOI) witnessed a 3% growth in FY24 owing to higher sales realisations leading to increased revenue in the dairy segment. Increased revenue of milk and milk products y-o-y offset the decrease in revenue in edible oil segment due to lower realisations, in FY24. The company's profitability improved in FY24 owing to full benefit of price hikes taken in FY23.

Further, in Q1FY25, the company earned profit before tax (PBT) of ₹72 crore as against PBT of ₹14 crore in Q1FY24 owing to higher sales y-o-y and increased prices. Furthermore, the company increased its liquid milk prices by ₹2 per litre across all operating markets from June 03, 2024, onwards to pass on increasing procurement costs. Overall financial performance is expected to remain satisfactory in FY25.

Favourable growth prospects for the dairy industry

Milk production in India reached 236 million tonnes in FY24, expanding by ~3% as compared to FY23. To commensurate the increased input costs, dairy industry players had taken multiple price hikes across product segments in FY23. There was another price hike on milk (of ₹2/litre) recently taken by major players in June 2024.

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 FY25, government allocated ₹1.52 lakh crore for agriculture and allied sectors, with a focus on animal husbandry, dairy, and fisheries.

Government 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. . Over the long term, 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 interest subvention schemes/incentives for modernisation of dairy infrastructure to promote its higher production; and 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. Growth would be primarily driven by increase in the demand for value-added milk products, which is also margin accretive for players.

Liquidity: Strong

MDFVPL's liquidity profile stood strong with the company deriving comfort from 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 ~20-30 days. Average utilisation of its working capital facilities remained at ~82% for the last 12 months ended June 2024. Its unutilised working capital limits and expected healthy cash accruals is expected to be sufficient to meet debt obligations in the medium term. MDFVPL being a wholly-owned subsidiary of NDDDB, receives need-based financial support from NDDDB as has been demonstrated in the past, which provides additional comfort to its liquidity.

Key weaknesses**Leveraged capital structure and ongoing debt-funded capex**

Working capital borrowings has increased over the last two years with rise in inventory levels, resulting in a leveraged capital structure. Overall gearing ratio stood at 3.12x as on March 31, 2024 (3.07x as on March 31, 2023). Further, MDFVPL is undertaking major capex of ₹615 crore for FY25-FY27. Of this, capex of ₹530 crore pertains to expansion of facilities at its Nagpur plant in Maharashtra for next three years ending FY27. With this capex, the company plans to expand the milk processing capacity and manufacturing facilities of other value-added products like ice-cream, paneer, curd, buttermilk, and SMP among others. Envisaged capex is expected to be funded at a debt equity ratio of 4:1. Term debt is expected to have a tenor of around six years including one year of moratorium. With this debt-funded capex envisaged, CARE Ratings expects the company's overall gearing to remain elevated in the near-to-medium term.

Susceptibility to volatile product prices, regulatory changes and environmental changes

Dairy industry has low profitability margins as raw material costs (milk) form a major proportion of its cost (~85%-90% of the total cost). MDFVPL, being a 100% subsidiary of NDDDB, focuses more on welfare than profits. Availability of milk and price of products are exposed to several external risks like regulatory changes including export restriction, free import allowances, cattle/bovine diseases arising from outbreak of epidemic, and yield among others. In FY23, MDFVPL incurred losses considering substantial increase in raw milk procurement prices despite price hikes, as these were not enough against increased costs. However, in FY24, the company posted profits as it received full benefit of price hikes taken in FY23. Any fluctuation in prices of milk might impact the company's profitability margins going forward.

Competition from organised and un-organised sector

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 many small players leading to pricing pressures. In India, ~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' largely mitigates the risk. Furthermore, MDFVPL is expanding its geographical presence per their strategy and is planning to invest more to enhance its milk procurement systems.

Applicable criteria

[Definition of Default](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Rating Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Factoring Linkages Parent Sub JV Group](#)

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 on November 2003. MDFVPL operates through four SBUs – dairy, dairy products (combined contribution 76% of its FY24 total income) under the brand name of 'Mother Dairy', edible oils under the brand name of 'Dhara' (19% of its FY24 total income), and horticulture products under the brand name of 'Safal' (4% of its FY24 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)	FY23 (A)	FY24 (Prov.)	Q1FY25 (Prov.)
Total operating income	14,541.08	15,006.98	4,227.01
PBILDT	-51.30	317.37	121.15
PAT	-133.32	106.27	NA
Overall gearing (times)	3.07	3.12	NA
Interest coverage (times)	NM	3.62	3.77

A: Audited; Prov.: Provisional; NA: Not available; NM: Not Meaningful; Note: these are latest available financial results

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

Any other information: Not applicable.

Rating history for last three years: Annexure-2.

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4.

Lender details: Annexure-5.

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	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	-	-	-	-	1150.00	CARE AA+; Stable
Fund-based - LT-Term loan	-	-	-	Proposed	300.00	CARE AA+; Stable
Fund-based - ST-EPC/PSC	-	-	-	-	55.00	CARE A1+
Fund-based - ST-Line of Credit	-	-	-	-	100.00	CARE A1+
Fund-based - ST-Working Capital Demand loan	-	-	-	-	600.00	CARE A1+
Non-fund-based-Short Term	-	-	-	-	20.00	CARE A1+

*No commercial paper was outstanding as on June 30, 2024

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	1150.00	CARE AA+; Stable	-	1)CARE AA+; Stable (21-Dec-23)	1)CARE AA+; Stable (26-Dec-22)	1)CARE AA+; Stable (23-Nov-21)
2	Non-fund-based-Short Term	ST	20.00	CARE A1+	-	1)CARE A1+ (21-Dec-23)	1)CARE A1+ (26-Dec-22)	1)CARE A1+ (23-Nov-21)
3	Fund-based - ST-EPC/PSC	ST	55.00	CARE A1+	-	1)CARE A1+ (21-Dec-23)	1)CARE A1+ (26-Dec-22)	1)CARE A1+ (23-Nov-21)
4	Commercial Paper-Commercial Paper (Carved out)	ST	100.00	CARE A1+	-	1)CARE A1+ (21-Dec-23)	1)CARE A1+ (26-Dec-22)	1)CARE A1+ (23-Nov-21)
5	Fund-based - LT-Term Loan	LT	300.00	CARE AA+; Stable	-	1)CARE AA+; Stable (21-Dec-23)	1)CARE AA+; Stable (26-Dec-22)	1)CARE AA+; Stable (23-Nov-21)
6	Fund-based - ST-Working Capital Demand loan	ST	600.00	CARE A1+	-	1)CARE A1+ (21-Dec-23)	1)CARE A1+ (26-Dec-22)	1)CARE A1+ (23-Nov-21)
7	Fund-based - ST-Line of Credit	ST	100.00	CARE A1+				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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-Line of Credit	Simple
6	Fund-based - ST-Working Capital Demand loan	Simple
7	Non-fund-based-Short Term	Simple

Annexure-5: Lender details

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

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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About us:

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