

Indore Sahakari Dugdh Sangh Maryadit

October 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Short Term Bank Facilities	20.00	CARE A4+; ISSUER NOT COOPERATING*	Rating continues to remain under ISSUER NOT COOPERATING category and Downgraded from CARE A2

Details of instruments/facilities in Annexure-1.

*Issuer did not cooperate; based on best available information.

Rationale and key rating drivers

CARE Ratings Ltd. had, vide its press release dated April 02, 2024, placed the rating(s) of Indore Sahakari Dugdh Sangh Maryadit (ISDSM: the union) under the 'issuer non-cooperating' category as ISDSM had failed to provide information for monitoring of the rating as agreed to in its Rating Agreement. ISDSM continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and emails dated September 24, 2024, September 17, 2024 and September 10, 2024. ISDSM continues to be non-cooperative. Thus, in pursuant to the extant Securities and Exchange Board of India (SEBI) guidelines, CARE Ratings has reviewed the ratings on the basis of the best available information which however, in CARE Rating's opinion is not sufficient to arrive at a fair rating.

Further, the revision in the rating of ISDSM is pursuant to SEBI's circular no. SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dated January 3, 2020, regarding 'Strengthening of the rating process in respect of Issuer Non-Cooperation (INC) ratings'. SEBI has in this circular mentioned that "If an issuer has all the outstanding ratings as non-cooperative for more than 6 months, then the CRA shall downgrade the rating assigned to the instrument of such issuer to non-investment grade with INC status".

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The rating continues to be constrained by the environment and epidemic-related event risks associated with geographically concentrated milk procurement, exposure to regulatory changes and volatile skimmed milk powder (SMP) prices and implementation and stabilization risks associated with union's proposed capex plans. Ratings also continue to take cognisance of significant delay in submission of audited financial statements by the union due to a delay in conducting statutory audit of the same. Presently, the union has not submitted audited financial statements for the past three years i.e., FY22 to FY24 (FY refers to the period from April 1 to March 31).

The rating continues to positively factor in strong ownership pattern of the union under the three-tier dairy cooperative structure, and its established operations as one of the largest unions of Madhya Pradesh Cooperative Dairy Federation (MPCDF) with a wide product portfolio under the renowned brands 'Sanchi' and 'Sneha'. The rating also continues to factor in the union's moderate scale of operations, moderate profitability inherent to the cooperative structure, adequate liquidity, comfortable capital structure with financial support from Government of Madhya Pradesh (GoMP) for establishment as well as expansion of processing facilities and good growth prospects for the dairy industry.

Analytical approach: Standalone

ISDSM is a dairy cooperative union which aims at providing remunerative returns to its farmer members who are also its majority shareholders. This keeps its profitability moderate. However, ISDSM, along with other 'Sanchi' group unions, sells its products under the brands 'Sanchi' and 'Sneha', which have been established as the leading dairy brands of Madhya Pradesh by these unions and their apex body, MPCDF. Furthermore, MPCDF also assists its member unions in their production, sales, and capital expenditure planning, together with facilitating cash flows between them and GoMP. Hence, the 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.

Outlook: Not Applicable

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

Detailed description of key rating drivers:

At the time of the last rating on April 02, 2024, the following were the rating weaknesses and strengths:

Key weaknesses

Non-submission of its audited financial statement for past three financial years i.e. FY22-FY24: The union has not been able to submit the audited accounts for FY22 to FY24 due to delay in completion of statutory audit of accounts for the mentioned period. Audit for FY20 & FY21 is completed and union has submitted the audited financials for the mentioned period. In the absence of audited financials, CARE Ratings has reviewed the rating based on the detailed provisional financials for these years which are audited by an internal auditor of the union and approved in its Annual General Meeting.

Risk associated with proposed expansion of manufacturing facilities:

As per the last review, ISDSM was planning on setting up a new milk powder plant at an estimated cost of ₹76.50 crore which was expected to be funded through term loan from National Cooperative Development Corporation (NCDC), government grant and internal accruals. Details of capex undertaken during last two financial years i.e FY23-FY24 and current year i.e FY25 is not available.

Apart from this, union also planned on setting up Ultra High Temperature (U.H.T.) milk plant and automation of milk processing and packaging. However, capex plans were articulated to depend upon cash flows of the union, alongwith extent and timeline of government grant and funding from NCDC.

Exposure to volatile SMP prices and regulatory changes: The dairy industry remains exposed to the inherent risks associated with changes in regulatory environment such as change in incentives / ban on export of dairy products (mainly SMP), and demand for signing of free trade agreements by surplus milk producing countries such as Australia and New Zealand to gain access to the Indian dairy market. Also, the union remains exposed to volatility in SMP prices, which are largely determined by domestic and international demand-supply dynamics along with export competitiveness of Indian players.

Environment-related risks associated with geographically concentrated milk collection:

ISDSM collects its entire milk from 12 milk procurement centres spread across eight districts adjoining Indore. Geographical proximity in milk procurement thus exposes it to risks related to any unforeseen environment or epidemic outbreak (bovine diseases) in a particular region, which could adversely affect its milk supply.

Key strengths

One of the largest unions of MPCDF with strong recognition of brands 'Sanchi' & 'Sneha':

ISDSM is one of the largest amongst the six member unions of MPCDF - collectively referred as 'Sanchi group', in terms of total operating income (TOI) and milk processing capacity.

Strength of cooperative structure with strong ownership pattern; along with initiatives taken to enhance milk production:

ISDSM is jointly owned by village cooperative societies (VCS), GoMP, Government of India (GoI) and MPCDF, which provides it with stability in milk supply, financial support in the form of interest-free unsecured loans and grants from state and central governments; along with requisite support required for various managerial decisions from MPCDF.

ISDSM's milk procurement network in FY22 consisted of 1,554 VCS with 59,276 farmers. Strong milk procurement network results in availability of quality products to consumers and remunerative returns to farmer members, as is aimed by the cooperative structure. Furthermore, the union also undertakes various initiatives to enhance milk production such as providing cattle feed, artificial insemination, scientific feeding practices, animal healthcare and management and installation of coolers at a village level to its farmers.

During FY22, annual milk procurement of the union stood at to 3.12 lakh litres per day (LLPD) from 3.26 LLPD in FY21.

Moderate income and profitability with a wide product portfolio:

ISDSM has a wide product portfolio comprising products such as packaged milk, ghee, milk powder, butter, paneer, buttermilk, curd, and various sweets.

During FY23, TOI of ISDSM increased moderately by 13% y-o-y at ₹729 crore (P.Y.: ₹648 crore). Furthermore, union registered sales of around ₹506 crore during 9MFY24.

Inherent to cooperative structure, profitability remains moderate since maximum profit is passed on to farmers by way of remunerative milk procurement prices. During FY23, PBILDT margin moderated to 0.31% (P.Y:2.50%) as surplus profit was passed on to the farmers. With this, union's net profit declined to ₹1.80 crore in FY23 (₹9.57 crore in FY22).

Comfortable capital structure:

ISDSM's outstanding debt as on FY23 end mainly comprised short term working capital borrowings, which union occasionally avails to fund its inventory, based on the milk procurement level. Accordingly, capital structure of the union stood comfortable with an overall gearing of 0.22 times at FY23 end.

Further, the debt coverage indicators of the union stood comfortable with PBILDT interest coverage and total debt/GCA of 4.11 times and 5.19 years respectively in FY23. Government of Madhya Pradesh (GoMP) through Madhya Pradesh State Cooperative Dairy Federation (MPCDF) had extended interest-free unsecured loans to the union to set up its manufacturing facilities, which have largely been repaid. This apart, it also provides the union with grants under various schemes for expansion of its processing facilities.

Good growth prospects for the dairy industry:

India has been the leading producer and consumer of dairy products with sustained growth in the availability of milk and milk products.

Also, 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 the medium term, the demand for dairy and its allied products is expected to witness healthy demand due to the 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 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: Not Applicable

Applicable criteria

[Definition of Default](#)

[Factoring Linkages Parent Sub JV Group](#)

[Policy in respect of non-cooperation by issuers](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Food Products	Dairy Products

Incorporated in 1976, ISDSM is a dairy cooperative union of Madhya Pradesh which aims at providing remunerative returns to its farmer members who are also its majority shareholders. ISDSM operates under a three-tier structure having farmers (milk suppliers) at the base and Madhya Pradesh Cooperative Dairy Federation (MPCDF) at the apex. In addition to ISDSM, the structure has five other similar dairy unions, all together referred to as 'Sanchi Group' after the brand name 'Sanchi' under which the products of all unions are sold, through distributors and retail outlets.

ISDSM procures milk from 1,554 member VCS consisting of 59,276 farmers, who hold 82% stake in the union. The balance stake is held by Government of Madhya Pradesh (10%), Government of India (5%) and MPCDF (3%). The union had a total milk processing capacity of around 4.60 lakh litres per day (LLPD) as on March 31, 2022, from its five milk processing plants in different districts of Madhya Pradesh. Presently, besides dairy plant, the milk union has Butter and Ghee manufacturing facility of 8 MT/day each. In addition, a Cattle Feed plant of 150 MTs per day capacity at Mangliya, Indore is in operation.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (Prov.)	March 31, 2023 (UA)
Total operating income	563.04	647.78	728.90
PBILDT	22.30	16.18	2.28
PAT	14.69	9.57	1.80
Overall gearing (times)	0.15	NM	0.22
Interest coverage (times)	72.54	58.56	4.11

A: Audited UA: Unaudited; 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

Detailed explanation of 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - ST-Working Capital Demand loan		-	-	-	20.00	CARE A4+; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information.

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 - ST-Working Capital Demand loan	ST	20.00	CARE A4+; ISSUER NOT COOPERATING*	1)CARE A2; ISSUER NOT COOPERATING* (02-Apr-24)	-	1)CARE A2+ (RWD) (31-Mar-23) 2)CARE A2+ (RWD) (27-Dec-22)	1)CARE A2+ (CW with Developing Implications) (25-Mar-22)

*Issuer did not cooperate; based on best available information.

ST: 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	Fund-based - ST-Working Capital Demand loan	Simple

Annexure-5: Lender details

To view the 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.

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About us:

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Disclaimer:

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