

## Ajmer Zila Dugdh Utpadak Sahkari Sangh Limited

December 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	110.00 (Enhanced from 65.00)	CARE BB; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The rating assigned to bank facilities of Ajmer Zila Dugdh Utpadak Sahkari Sangh Limited (AZSL) is constrained considering its modest profitability marked by net losses reported for four consecutive years ended FY24 leading to deterioration in capital structure and debt coverage indicators. The rating also continues to remain constrained considering environment-related risk associated with geographically concentrated milk collection and competition from organised and unorganised sector.

However, the rating derives strength from its long-standing, and established track-record growing scale of operations. The rating also derives strength from its cooperative structure with strong ownership pattern of the union under three-tier cooperative structure and wide product portfolio under the renowned brand name 'SARAS' and established distribution network.

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

#### Positive factors

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

#### Negative factors

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

### Analytical approach: Standalone

AZSL is a cooperative dairy union, aimed at providing remunerative returns to its farmer members, who are also its majority shareholders. This keeps the dairy union's profitability moderate. Rajasthan Cooperative Dairy Federation (RCDF) also assists its member unions in production, sales and capital expenditure planning, together with facilitating cash flows between them and Government of Rajasthan. Hence, ratings of such cooperative sector entities are derived based on the structure's sustainability and growth, stability of milk supply base, trend in milk procurement, distribution network and brand created by the federation and average annual milk procurement prices paid to farmers.

### Outlook: Stable

The 'Stable' outlook reflects CARE Ratings Limited's (CARE Ratings') view that AZSL is likely to maintain growth in its scale of operations supported by its wide product portfolio under the renowned brand name 'SARAS' and established distribution network.

### Detailed description of key rating drivers:

#### Key weaknesses

##### Modest profitability

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

In FY24, AZSL's operating profit (PBILDT) margin stood at 2.92% (PY: 2.23%). Availing ₹164 crore term loan for the capacity expansion project, repayment of which commenced from September 2020 onwards, resulted in higher interest cost and

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

depreciation; leading to AZSL reporting net losses for past consecutive four years ended-FY24. AZSL reported net loss of ₹9.43 crore in FY24 (PY: ₹21 crore).

#### **Modest capital structure and weak debt coverage indicators**

AZSL reported net losses for four consecutive years ended FY24 on the back of higher interest cost and additional depreciation charges considering large sized debt funded capex completed in FY21, this has resulted in erosion of net worth turning negative in FY23 and FY24, which resulted in a highly leveraged capital structure.

Debt coverage indicators continued to remain weak in FY24 with PBILDT interest coverage of 1.63x (1.08x in FY23) and modest total debt to gross cash accruals (TD/GCA).

However, of the ₹164 crore of term loan availed for the capex, term loan of ₹16.43 crore is outstanding as on September 30, 2024, with only one half yearly installment pending, to be completely paid off by March, 2025. AZSL being a dairy cooperative, all its capex plans are government approved and facilitated by National Cooperative Development Corporation (NCDC) and shortfall in repayments are met by equity infusion by members or infusion of unsecured loans by District Cooperative Society (DCS) or from working capital loans (soft loans) received at concessional terms considering it being a dairy cooperative with strong support of Government schemes.

Moreover, CARE Ratings believes that with only one half yearly instalments pending for the term loan, and decrease in interest cost and depreciation charges, the net worth shall improve going forward.

#### **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 in the last decade; however, geographical concentration in milk procurement exposes it to environmental risks such as epidemic and could adversely affect its milk supply. CARE Ratings notes that geographical diversification in milk procurement network shall be crucial from a credit perspective and will continue to monitor it.

#### **Competition from the organised and un-organised sector**

AZSL faces competition in the dairy segment from other established brands in the organised market and local unorganised players leading to pricing pressure. Foray of dairy companies in manufacturing value-added milk products considering increasing demand in the domestic market is also expected to increase competition for dairy unions such as AZSL.

#### **Key strengths**

##### **Increase in 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 ~51% of AZSL's gross sales in FY24 (PY: ~53%), providing stability to its operations. AZSL's TOI has increased at CAGR of 15% in FY21-FY24. In FY24, TOI increased by ~13% to ₹910.55 crore (PY: ₹804.63 crore). In H1FY25, AZSL reported net sales of ₹459.42 crore (₹449.65 crore in H1FY24). With that, full year sales for FY25 are expected to reach ~₹950 crore.

##### **Long-standing and established track-record of operations**

AZSL has a long-standing track record of operations of over four decades having commenced its operations in February 1972. Umesh Chandra Vyas (Managing Director, AZSL) has 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 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 such as AZSL. The unions collectively own the RCDF.

RCDF provides service and support to unions, marketing within and outside the state, liaison with government and NGO agencies; mobilisation of resources, product pricing, standardisation, coordinating and planning programmes/projects. AZSL develops village/dairy milk cooperative network, procures milk from DCS, processes and 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 and established distribution network

Through its unions, RCDF 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 sells 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 utilisation of working capital limits, which have remained at over ~90% in 12 months ended October 2024. Term debt availed for the capex is expected to be completely repaid in FY25 and considering low expected cash accruals the same is expected to be met by working capital loans availed by the union from RCDF at concessional rates.

The union's operating cycle stood comfortable at 17 days in FY24 (PY: 13 days), with some comfort derived from 'cash and carry' sales and some credit period received for payment to be made to DCS.

The union also avails working capital demand loan on periodic basis per its requirement, which it gets at a competitive rate. Cash balance stood at ₹9.17 crore as on March 31, 2024.

### Environment, social, and governance (ESG) risks: Not applicable

### Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

### 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

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 organisation and is affiliated to RCDF, Jaipur.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (Prov.)
Total operating income	804.63	910.55	459.42
PBILDT	17.97	26.60	NA
PAT	(20.79)	(9.43)	NA
Overall gearing (times)	NM	NM	NA
Interest coverage (times)	1.08	1.63	NA

A: Audited Prov.: Provisional; NM: Not Meaningful; NA: Not Available 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 - LT-Working Capital Limits		-	-	-	110.00	CARE BB; Stable

**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-Working Capital Limits	LT	110.00	CARE BB; Stable	-	1)CARE BB; Stable (05-Dec-23)	1)CARE BB; Stable (06-Jan-23)	1)CARE BB+; Stable (03-Jan-22) 2)CARE BB+; Stable (25-Oct-21)

LT: Long 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 - LT-Working Capital Limits	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](mailto:care@careedge.in) for clarifications.

## Contact us

<b>Media Contact</b>  Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a>	<b>Analytical Contacts</b>  Kalpesh Ramanbhai Patel Director <b>CARE Ratings Limited</b> Phone: 079-40265611 E-mail: <a href="mailto:kalpesh.patel@careedge.in">kalpesh.patel@careedge.in</a>
<b>Relationship Contact</b>  Pradeep Kumar V Senior Director <b>CARE Ratings Limited</b> Phone: 044-28501001 E-mail: <a href="mailto:pradeep.kumar@careedge.in">pradeep.kumar@careedge.in</a>	Nikita Goyal Associate Director <b>CARE Ratings Limited</b> Phone: 079-40265616 E-mail: <a href="mailto:nikita.goyal@careedge.in">nikita.goyal@careedge.in</a>
	Arpita Alax Christian Lead Analyst <b>CARE Ratings Limited</b> E-mail: <a href="mailto:Arpita.Christian@careedge.in">Arpita.Christian@careedge.in</a>

### About us:

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