

## Vaishal Patliputra Dugdh Utpadak Sahkari Sangh Limited

January 22, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	1.00	CARE A-; Stable	Assigned
Short-term bank facilities	50.00	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1

### Rationale and key rating drivers

Ratings assigned to bank facilities of Vaishal Patliputra Dugdh Utpadak Sahkari Sangh Limited (Vaishal) continue to derive strength from being one of the milk unions (MUs) of Bihar State Milk Co-operative Federation Limited (Comfed), which has a leading market position in the organised segment of the dairy industry in Bihar and Jharkhand with well-recognised brand, 'Sudha'. Ratings further factor in Vaishal's established milk procurement network in Bihar despite geographic concentration risk, comfortable capital structure, growing scale of operations and increasing portfolio of value-added products, and favourable growth prospects for the dairy industry. Ratings also derive significant comfort from the presence of a cash flow mechanism towards payment of milk procurement prices.

However, ratings are constrained by moderate capacity utilisation, competitive and fragmented industry, risk of regulatory changes and competition, and exposure to environment and epidemic-related risk.

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

#### Positive factors

- Significant increase in scale of operation and increase in share of value-added products in sales mix, resulting in sustained increase in average milk procurement price paid to members.

#### Negative factors

- Deteriorating capital structure as a result of incremental debt constraining total outside liabilities to tangible net worth (TOL/TNW) over 2.5x on a sustained basis.
- Deterioration in credit risk profile of Comfed and/or weakening linkages of Vaishal with Comfed.

### Analytical approach: Standalone with group support

For credit risk assessment of Vaishal, CARE Ratings Limited (CARE Ratings) has considered standalone financials of Vaishal and benefits derived from the co-operative structure and operational linkage with group.

The milk suppliers (farmer owners) are at the base of the dairy cooperative structure. Profit is not a motive of organisations working under this structure and maximum returns to these dairy farmers are passed through milk procurement prices after ensuring retention of a reasonable amount for their debt repayment, capital and operational expenses. Hence, the credit risk of such cooperative sector entities is assessed based on the sustainability and growth of the structure, stability of the milk supply base, trend in milk procurement and average annual milk procurement prices paid to the dairy farmers, and reach of its distribution network, and strong brand of 'Sudha' created by Comfed.

### Outlook: Stable

The 'Stable' outlook on the ratings reflect that the rated entity is likely to continue benefit from being a part of three-tier 'Amul Model' with Comfed being apex marketing federation, having leading market position in the organised segment of the dairy industry in Bihar and Jharkhand with well-recognised brand, 'Sudha'.

<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.

## Detailed description of key rating drivers

### Key strengths

#### **Member of the apex dairy marketing federation, Comfed having significant market share in Bihar's organised dairy industry**

Vaishal is one of the 8-member milk unions (MUs) of Comfed under the three-tier structure. Comfed is the apex marketing federation in the structure, and Vaishal holds ~13% share in Vaishal. Comfed also provides support in the form of grant, loans, and advances to MUs for capex, which receive budgetary support from Government of Bihar (GoB) /National Dairy Development Board (NDDB). One member of Comfed is also part of board of directors of Vaishal and other 14 members.

With a visible brand 'Sudha', Comfed has a significant share in the organised Bihar dairy market and facilitates decision making of its member MUs. Through its affiliated MUs/own units, Comfed built on a cooperative structure, has a strong milk collection base of 14.0 lakh farmers spread across over 29,245 cooperatives, and aggregate daily milk collection of all member MUs stands at ~54 lakh litres per day (LLPD). The Comfed has distribution network of over 800 distributors, 33,000 retailers and 550 milk booths. Other than Bihar, Sudha branded products are sold in Jharkhand, Kolkata, Northeastern states, Uttar Pradesh, and Delhi. Sudha commands a prominent market share in pouched milk and milk products in the organised Bihar dairy industry.

#### **Presence of cash-flow mechanism towards payment of milk procurement price**

Comfed and its MUs operate on a two-step pricing mechanism, resulting in robust cash flows to pass on remunerative returns to farmer members through milk procurement prices after ensuring adequate cushion for meeting its debt servicing, capital, and operational expenses. Considering the business model's inherent strengths, CARE Ratings expects it to sustain going forward.

#### **Established milk procurement network**

The dairy's milk procurement network comprises 2,925 Dairy Co-operative Societies (DCS) with ~177,803 farmer members in FY24, accounting for Vaishal's entire shareholding and ensuring smooth and steady supply of milk to the MUs. The milk procurement of Vaishal increased by 102% in the last two years in FY24 to 1,498 lakh litres per annum (LLPA) from 742 LLPA in FY22. Average milk procurement increased to 4.10 LLPD in FY24 from 2.03 LLPD in FY22. Average milk procurement price paid to its farmer members has also increased to ₹41.53 per litre in FY24 from ₹35.03 per litre.

#### **Growing scale of operations and increasing portfolio of value-added products**

Vaishal's total operating income (TOI) grew at compounded annual growth rate (CAGR) at ~12% in last three fiscals to ~₹909 crore in FY24 from ~₹649 crore in FY21. Liquid milk sales (packaged and raw) contributed highest share at ~65% in the total sales of Vaishal in FY24 followed by value-added products such as butter, ghee, buttermilk, paneer, peda, ice-cream, khoa, and lassi of ~17%, cattle feeds of ~9%, and balance from others.

#### **Favourable growth prospects for the dairy industry**

India is the world's largest milk producer contributing 25% of global milk production per Ministry of Fisheries, Animal Husbandry & Dairying. Milk production grew at an annual growth rate of ~6% in the last nine years reaching 236.35 million tonnes in FY24, with per capita availability of 459 grams per day. The government is progressively taking initiatives to promote the dairy industry in India, including inclination towards cattle breeding, clean milk production, dairy development, and cattle feed management. In the medium term, healthy demand for dairy and its allied products is expected due to pick-up in demand for value-added products, steady sales of liquid milk, and rising retail rates. Demand outlook is expected to remain favourable in the long term due to factors, such as steady supply of milk, with government extending 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. The growth would be primarily driven by an increase in demand for value-added milk products, which is also margin accretive for players.

### Key weaknesses

#### **Moderate capacity utilisation**

Vaishal has three milk processing plants in Patna, Hajipur, and Chhapra in Bihar. Capacity utilisation (CU) of milk processing plant continued to remain moderate in the last three fiscals ending March 31, 2024. CU of plants remain moderate and stood at ~60% in the last three years. In absolute terms, milk collection and processing of milk increased at CAGR of ~26% to 1498 lakh litres in the last three years fiscals ending March 31, 2024, attributable to increase in installed capacity by 133% in the last three financial years ending March 31, 2024, to 2555 lakh litres attributable to completion of capacity enhancement project in H1FY23.

### Geographical concentration risk

Milk procurement operations of Vaishal are restricted across Patna, Vaishali, Nalanda, Saran, and Shekhpura with its dairy plants in Patna, Hajipur, and Chhapra in Bihar. Vaishal earns majority (over 80%) of its revenue from sale in Patna and adjoining regions only. Vaishal's overall business activity is restricted in five districts of Bihar, exposing the entity to geographical concentration risk. However, Vaishal is also expanding its operation in some parts of Uttar Pradesh, including Balia.

### Exposure to environmental and epidemic-related event risks associated

The dairy industry inherently remains exposed to risk related to unforeseen environmental or epidemic outbreak/bovine diseases in a particular region adversely affecting milk supply. MUs, including Vaishal, are exposed to such environmental risks associated with concentration in milk collection, since most of their milk procurement is from four districts and its surrounding villages. The quantity and quality of milk is associated with natural factors such as weather conditions- a temperate weather is more conducive to higher milk production, and feed availability- a drought or a rainfall deficit results in reduced availability of cattle fodder constraining milk supply. The quality and quantity of milk also depends on biological factors such as genetic quality of the milking animal. Disease such as lump skin disease also poses risk to cattle wealth and milk production. There also exists an operational risk such as handling and transportation as milk is perishable product, which requires timely handling and dispatch.

### Risk of regulatory changes and competition

The Indian dairy industry remains exposed to inherent risks associated with regulatory changes, such as change in government incentives/ban on export of dairy products, and demand for signing free trade agreements (FTAs) by surplus milk-producing countries such as Australia and New Zealand to gain access to the Indian dairy market. The demand for dairy analogues used as a substitute for milk and milk fats also pose challenges to some extent, as they are lookalike dairy products and provide significant cost-cutting opportunities. The industry also remains fragmented with a large number of players. Considering its dominant position in Bihar dairy industry, Vaishal is largely able to mitigate such challenges.

### Liquidity: Strong

Vaishal's liquidity remains strong with the MUs deriving comfort from sales made on 'cash-and-carry' basis, while provisional payment to DCS is made at every 10-days cycle, resulting in a negative operating cycle in the last three fiscals ending March 31, 2024. MUs also has flexibility to change prices paid to farmers, as funds available with MUs are passed on to the DCS through raw material prices only after retaining a reasonable amount for its debt repayments, capital expenditure, and operational expenses. Vaishal had free cash and bank balance of ₹20 crore as on March 31, 2024.

Going forward, Vaishal's liquidity position is projected to remain adequate due to negligible debt repayment obligations of ₹0.50 crore payment, which can be met through cash accruals in FY25.

### Applicable criteria

[Definition of Default](#)

[Factoring Linkages Parent Sub JV Group](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non-financial Sector](#)

[Short Term Instruments](#)

### About the entity and industry

#### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast-moving consumer goods	Fast-moving consumer goods	Food products	Dairy products

Started as Patna Dairy Project, Vaishal was incorporated in 1987 and is one of the eight MUs established under the three-tier dairy co-operative structure known as 'Amul Model' or 'Anand Pattern'. Vaishal procures milk from 2,925 DCS with 177,803 farmer members, accounting for the entire shareholding in Vaishal. It has a total milk processing capacity of seven lakh litre per day (LLPD) as on March 31, 2024, at its dairy plants at Patna, Hajipur, and Chhapra in Bihar. Apart from milk processing capacity, it also has capacities for processing of value-added milk products such as buttermilk, curd, ghee, sweets, paneer, and lassi. It also

has a cattle feed plant with an installed capacity of 250 metric tons per day (MTPD) as on March 31, 2024, for production of cattle-feed, which is provided to farmer members at subsidised rates.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	8MFY25 (UA)
Total operating income	833.86	909.47	634.45
PBILDT	9.47	20.54	NA
PAT	4.10	11.88	NA
Overall gearing (times)	0.67	0.78	NA
Interest coverage (times)	2.58	5.60	NA

A: Audited; UA: Unaudited; 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-Cash Credit	-	-	-	-	1.00	CARE A-; Stable
Fund-based - ST-Working Capital Limits	-	-	-	-	50.00	CARE A2+

#### 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 Limits	ST	50.00	CARE A2+	1)CARE A2+ (22-Oct-24)	-	-	-
2	Fund-based - LT-Cash Credit	LT	1.00	CARE A-; Stable				

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

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

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

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-Working Capital Limits	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](mailto:care@careedge.in) for clarifications.

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### About us:

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