

Kutch District Co-Operative Milk Producers Union Limited

February 21, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	100.33	CARE AA-; Stable	Reaffirmed
Short-term bank facilities	150.00 (Enhanced from 99.67)	CARE A1+	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Kutch District Co-Operative Milk Producers Union Limited (KDCMPUL; also known as Sarhad dairy) continue to derive strength from it being one of the unions of the Gujarat Co-operative Milk Marketing Federation Ltd (GCMMF), which has a leading market position in the organised segment of Indian dairy industry with well-recognised brands such as 'Amul' and 'Sagar'. Ratings also derive strength from established milk procurement network, increasing share of value-added products (VAPs), and favourable growth prospects for the dairy industry. Ratings also derive comfort from presence of a cash-flow mechanism towards payment of milk procurement prices, which ensures adequate cushion for debt-servicing and its strong liquidity, and the same mechanism is expected to continue going forward.

However, long-term rating remains constrained by environment and epidemic-related event risks associated with geographically concentrated milk procurement, exposure to risks associated with regulatory changes, relatively modest total operating income (TOI) with contribution of ~2% to TOI of GCMMF for FY24 (refers to April 01 to March 31) and moderate credit profile.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant growth in scale of operations through greater geographical diversification of both its sales and sourcing, and widening of its product profile.

Negative factors

- Any adverse changes in the Amul cooperative structure and/ or weakening in the credit profile of GCMMF.
- Any environment and epidemic-related factors in the milk-procuring region of the union having a significant impact on the union's operations for a long term.
- Any adverse changes in regulations governing dairy industry having material impact on the extent of returns/ milk procurement prices paid to the farmer members on a sustained basis.
- Deterioration in overall gearing beyond 3x, on a sustained basis.

Analytical approach: Standalone with group support.

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 on by way of milk procurement prices after ensuring retention of a reasonable amount for their debt repayment, capital and operational expenses. Amul dairy cooperative structure has a robust cash flow mechanism, where the Marketing Federation (GCMMF) releases funds to its dairy processing units (DPUs) through a two-step price payment mechanism during the year, and DPUs make payments to village cooperative societies (VCS), which in-turn distribute payment to the member farmers for their milk supply. 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, average annual milk procurement prices paid to the dairy farmers, along with reach of its distribution network and the strong brand of 'Amul' created by the federation.

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that KDCMPUL shall continue to benefit from being a part of three-tier 'Amul structure' with GCMMF being apex marketing federation, having leading market position in the organised segment of the Indian dairy industry, and favourable growth prospects of the industry.

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

Detailed description of key rating drivers:

Key strengths

Member of strong apex dairy marketing federation, GCMMF, which has a significant market share in the organised dairy industry in India

KDCMPUL is one of the 18-member DPUs of GCMMF under three-tier 'Amul structure'. GCMMF is the apex marketing federation in the structure and KDCMPUL sells its products to GCMMF, which in turn, sells it to the end users. GCMMF has established brands 'Amul' and 'Sagar' as leading dairy brands in India and facilitates decision making of its member DPUs. Through its DPUs, GCMMF built on a cooperative structure, has a strong milk collection base of over 36.41 lakh farmers spread across 18,600 villages. Daily milk collection of all member DPUs grew by 20% y-o-y to ~320 lakh litres per day (LLPD) in FY24 (FY23: 259.60 LLPD). With a collective milk processing capacity of 440 LLPD, GCMMF commands a prominent market share in pouched milk and in milk products (ranging from 40% to 73% market share) in the Indian dairy industry. KDCMPUL has a modest contribution of ~2% to GCMMF's TOI in FY24.

Presence of cash-flow mechanism towards payment of milk procurement price, likely to sustain

Having a prominent market share in the Indian organised dairy industry across dairy products, GCMMF possesses strong pricing power for its products and largely heralds milk and milk product prices in the country. GCMMF and its DPUs operate on a two-step pricing mechanism, which results in robust cash flows, where the aim is to pass on remunerative returns to the farmer members by way of milk procurement prices but only after ensuring adequate cushion for meeting its upcoming debt servicing, capital and operational expenses. Considering inherent strengths of this business model, CARE Ratings expects the mechanism to sustain going forward.

Established milk procurement network and gradual increase in share of value-added products

As on November 30, 2024, KDCMPUL has a milk procurement network comprising 947 VCS with 48,927 farmer members in Gujarat, who holds the entire shareholding in union. Established milk procurement network ensures smooth and steady supply of milk to the union. Milk procurement in FY24 increased by 16% y-o-y to 4.31 LLPD. The same stood at 4.47 LLPD in 8MFY25 and currently owing to flush season milk procurement has increased to 5.35 LLPD. Average milk procurement price paid to farmer members increased to ₹828/kg fat in FY24 (FY23: ₹799/kg fat). Current procurement prices stood at ₹791/kg fat. Remunerative prices to farmers is expected to ensure sustained healthy milk procurement going forward. To enhance the milk production, the union provides cattle-feed at concessional rates to its member VCS. The union also undertakes timely animal vaccination, and animal husbandry services among others, and has set up 18 veterinary centres for the benefit of its VCS.

The dairy has gradually diversified its product portfolio from liquid milk (raw and poly packed milk) to value-added products. Share of value-added products in total revenue has gradually increased from 13% in FY19 to 17% in 8MFY25. Addition of ice-cream in the product portfolio in March 2024 is expected to further increase the share of value-added products in the overall revenue.

Favourable growth prospects for the dairy industry

India is the world's largest milk producer contributing 25% of global milk production as per Ministry of Fisheries, Animal Husbandry & Dairying. Milk production grew at an annual growth rate of ~6% in the last nine years and is estimated at 236.35 million tonnes in 2023-24 (FY23: 230 million tonnes) with per capita availability of 459 grams per day. There has been an increase in the SMP inventory in FY24 and is likely to remain high in FY25 as well. However, strong demand especially from value-added products is anticipated to assist the dairy companies to partially aid in liquidation of SMP. Short-term borrowings are expected to rise to meet increased working capital requirements.

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. It has extended Rashtriya Gokul Mission from FY22 to improve productivity and enhance milk production. There is an increase in the budgetary allocation for animal husbandry and dairying by ~15% to ₹4,521.24 crore in FY25 from ₹3,913.93 crore in FY24 (revised). The government has also extended benefit of tax payment at a concessional rate of 15% to new co-operatives. All these incentives are expected to boost the country's dairy industry.

In the last two years, dairies have undertaken a sustained price increase to offset increase in production cost, while demand has continued to remain healthy. In the medium term, demand growth is expected to sustain with rising population, urbanisation, higher purchasing power, and increasing per capita income. 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 higher production, growing demand for milk and milk products, increase in expenditure on packaged food, and brand awareness. Growth would be primarily driven by increase in demand for value-added milk products, which is also margin accretive for players.

Liquidity: Strong

Liquidity of the union is strong with the union deriving comfort from sales made on 'cash-and-carry' basis with weekly receipts from GCMMF while provisional payment to VCS is made at every 15-days cycle, resulting in a comfortable operating cycle. Moreover, the union also has the flexibility to change the prices paid to the farmers, as the funds available with a DPU is passed on to the VCS by way of raw material prices only after retaining a reasonable amount for its debt repayments, capital expenditure, and operational expenses during the year.

The union had free cash and bank balance of ₹15.90 crore available as on March 31, 2024. Average utilisation of its fund-based working capital limits stood moderate at ~75% for the past 12 months ended November 2024. Going forward, the union has no major capex plans in the medium term. The dairy has moderate net worth base and gearing owing to the structure wherein maximum returns are passed on to farmers.

Key weaknesses

Relatively modest TOI; moderate debt protection metrics

As compared to most of the other dairies under the GCMMF structure, KDCMPUL has relatively modest TOI with contribution of ~2% to the total revenue of GCMMF in the last few years. The union's TOI witnessed y-o-y growth of 20% to ₹1,099 crore wherein sales volume of milk [bulk and poly-packed milk (PPM)] registered 14% y-o-y growth, while ghee, buttermilk, and curd sales quantity registered 25%, 13%, and 10% y-o-y growth, respectively. In 10MFY25, the union registered TOI of ₹990 crore. CARE Ratings observes, going forward, the scale of operations is expected to increase supported by higher milk procurement and increased contribution from newly added VAPs.

Debt coverage indicators remained moderate in view of recently concluded debt-funded capex at a total cost of ₹100 crore funded through term debt of ₹75 crore and decline in the profitability owing to increase in the milk procurement cost.

Exposure to environmental and epidemic-related event risks associated with geographically concentrated milk procurement

The dairy industry inherently remains exposed to the risk related to the occurrence of unforeseen environmental or epidemic outbreak/bovine diseases in a particular region adversely affecting the milk supply. For instance, the union's milk procurement had declined by ~8% in FY23 to 3.73 LLPD owing to spread of lumpy skin disease. KDCMPUL collects its entire milk from its milk shed area in Gujarat, Kutch region, and hence, the union remains exposed to the risks associated with concentrated milk procurement.

Risks related to changes in regulatory environment and competition

Indian dairy industry remains exposed to the inherent risk associated with regulatory changes such as change in government incentives / ban on export of dairy products. The demand for dairy analogues, which are used as a substitute for milk and milk fats, also pose challenges to some extent as they are look-alike dairy products and provide significant cost-cutting opportunities. This apart, the industry also remains fragmented with presence of large number of players. The risk is partially offset by dominant position of GCMMF in the dairy industry, which benefits its DPUs.

Applicable criteria

[Definition of Default](#)

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

[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 2009, KDCMPUL is one of the 18 DPUs established under the three-tier dairy co-operative structure known as 'Amul Model' or 'Anand Pattern'. The union procures milk from 947-member VCS consisting of 48,297 farmers who hold the entire shareholding of the union. It had a total milk processing capacity of 3 lakh litre per day (LLPD) (expandable up to 6 LLPD) as on March 31, 2024, at its dairy plant in Kutch, Gujarat. Apart from milk processing capacity, it also has capacities for manufacturing

value-added products such as buttermilk, curd, ghee, paneer, lassi, rabri, butter, yoghurt, kaju katri, and peda. In March 2024, the union has also set up manufacturing facility for ice-cream with capacity of 50,000 litre per day.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	10MFY25 (UA)
Total operating income	917.51	1,098.68	989.91
PBILDT	35.52	19.74	NA
PAT	2.49	1.30	NA
Overall gearing (times)	0.48	0.76	NA
Interest coverage (times)	6.85	3.43	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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based-Short term		-	-	-	150.00	CARE A1+
Term loan-Long term		-	-	August, 2031	100.33	CARE AA-; 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-Short term	ST	150.00	CARE A1+	1)CARE A1+ (09-Jan-25)	1)CARE A1+ (19-Feb-24)	-	-
2	Term loan-Long term	LT	100.33	CARE AA-; Stable	1)CARE AA-; Stable (09-Jan-25)	1)CARE AA-; Stable (19-Feb-24)	-	-

LT: Long term; 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-Short term	Simple
2	Term loan-Long 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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