Modi Dairy

March 17, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	60.00	CARE BBB+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of the rating assigned to the long-term bank facility of Modi Dairy (MDY; Combined, hereafter referred to as the Modi Group) continues to derive strength from the growing scale of operations, long track record of operations, comfortable capital structure and debt coverage indicators, locational advantage of manufacturing plants, and strong milk procurement network. The rating also factors in well-recognised brand and reputed clientele though exposure to customer concentration.

However, these rating strengths remain constrained due to susceptibility of profit before interest, lease rentals, depreciation and taxation (PBILDT) margins to the volatility in milk prices, intense competition from large private, co-operatives, and unorganised players. The rating also remains constrained due to the partnership nature of MDY's constitution. The rating also takes note of the group's plans to undertake sizeable debt-funded capital expenditure (capex).

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- The total operating income (TOI) of ₹1,500 crore and PBILDT margins above 7-8% leading to substantial increase in gross cash accruals (GCA) on a sustained basis.
- Diversifying product profile with increase in the proportion of value-added products leading to improved margins.

Negative factors

- Total debt to GCA (TDGCA) deteriorating to over 4.5x on a sustained basis.
- Significantly deteriorating business or financial risk profiles of group entities.
- Un-envisaged debt-funded capex resulting in the overall gearing ratio above unity on a sustained basis.

Analytical approach: Combined

CARE Ratings Limited (CARE Ratings) has considered a combined view of – Modi Dairy (MD; standalone), Lotus Dairy Products Private Limited (LDPL), and Milk Food Aids Private Limited (MFA), as all these entities are engaged in the same line of business, have common promoters, and have operational and financial linkages. **(Refer annexure -6)**

Outlook: Stable

CARE Ratings believes that the group shall sustain its operational metrics and financial risk profile over the medium term.

Detailed description of key rating drivers:

Key strengths

Growing scale of operations

MDY's TOI increased by ~9% to ₹1,208.05 crore in FY24 (refers to April 01 to March 31) against ₹1,116.28 crore in FY23. The improvement was mainly due to higher demand for value-added products (VAP) and better realisation for chilled milk and skimmed milk concentrate (SMC). The growth trend continued in 10MFY25 (refers to April 01 to January 31), as MDY reported TOI of

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

₹1,077.29 crore against ₹1,006.26 crore in 10MFY24. The y-o-y improvement in performance is attributable to the increase in demand for skimmed milk powder (SMP) and ghee.

The group's long track record of operations

The Modi Group was started as a family business promoted by Late H. P. Modi and has had a presence in the dairy industry since 1968. The group is presently managed by the second generation, Arun Kumar Modi and Ashok Modi, both having extensive experience of over two decades in the dairy industry.

Comfortable capital structure and debt coverage indicators

The group had fully repaid its term debt in FY24 and debt profile includes unsecured loans, working capital borrowing, and minimal vehicle loans as on March 31, 2024. The capital structure remined comfortable with overall gearing ratio of 0.26x as on March 31, 2024 (0.57x as on March 31, 2023). The comfortable debt protection metrices are marked by interest coverage ratio and TDGCA of 0.61x and 25.91x, respectively, in FY24 (13.30x and 2.04x, respectively, in FY23). The group is planning to incur large debt-funded capex, which is expected to result in slight moderation capital structure and debt protection metrics in the medium term. Any higher-than-envisaged capex will remain key monitorable going forward.

Locational advantage and strong procurement network

All the manufacturing units of the group entities are located closer to the milk-producing belt of Rajasthan, Sri Ganganagar, Hanumangarh, and Churu, among others, assuring ample supply of good quality raw material to the group entities at lower logistics cost. The strength of the group emanates primarily from its supplier base. The group procures milk from over 27,000 farmers around the plant locations.

Established brand and reputed customer base, though exposure to customer concentration risk continues

The products of Modi Group (ghee, buttermilk, flavoured milk, and milk) are marketed in the retail segment under the brand name 'Lotus' and cow Ghee under brand of 'Shreeji', which are well known and well-accepted brands in Rajasthan. The group's products carry standardised marks (Agmark for Desi Ghee & Cow Ghee). Under its institutional business, the Modi group has large and reputed clientele for bulk chilled milk, skimmed milk concentrate (SMC), and SMP. However, sales to top five customers accounted for over 30% of MDY's TOI in FY24 reflecting moderate customer concentration risk.

Key weaknesses

Susceptibility to volatility in milk prices

There are risks associated with a wide milk procurement chain, which is the mode of operation of milk industry in India. The quantity and quality of the milk is associated with natural factors such as disease outbreak and weather conditions. Temperate weather is more conducive to higher milk production, and feed availability, while droughts or 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 the genetic quality of the milking animal. There also exists operational risk such as handling and transportation of milk due to its perishable nature which requires timely handling and dispatch. The group's PBILDT margins remain susceptible to these factors and continue to be a function of the proportion of VAP to overall sales.

In FY24, PBILDT margin improved significantly from 4.99% in FY23 to 9.01% in FY24 mainly due to higher contribution from sale of VAP, change in procurement strategy, higher processing income, and improved realisation for milk sale. CARE Ratings observes, going forward, the PBILDT margin is expected to moderate as the group is planning to expand senior level teams and increase the spend on marketing and branding activities.

Intense competition from large private players, cooperatives, and the unorganised sector

The dairy industry has relatively low product differentiation. At the same time, the industry is unorganised with a large number of small players. Organised dairy industry accounts for small portion of the total milk produced. The Modi Group faces tough competition with the presence of large cooperatives and private players with pan India network, given the sales of the group are majorly concentrated in Rajasthan.

Constitution as a partnership concern

MD's constitution as a partnership firm with a low capital base restricts its overall financial flexibility in terms of limited access to external funding for future expansion plans. There is also the inherent risk of withdrawal of the capital and dissolution of the firm in case of death/ insolvency of the partners. Any significant withdrawals from the capital account will impact its capital structure.

Project risk associated with planned large-sized debt-funded capex

The group is planning to undertake capex with an estimated cost in the range of ₹150-200 crore towards a new manufacturing unit in Kota, Rajasthan. The new manufacturing unit will focus on value-added products such as canned flavoured milk, curd, and ice cream. This large capex will primarily be funded by mix of debt and internal accruals. Currently, the plan is at drawing board stage. Successful completion of the capex within the defined timelines, stabilisation, and quick ramp-up of operations will remain key monitorable.

Liquidity: Adequate

Liquidity is adequate, supported by expected annual GCA of ₹50-60 crore against minimal debt repayment obligations in the form of small vehicle loans. The group had free cash and bank balance and liquid investments of ₹53.33 crore as on March 31, 2024. The group's working capital requirements are moderate marked by a working capital cycle of 30-40 days. Average utilisation of working capital borrowings of MDY was 55.72% in the last 12 months ended January 2025, whereas working capital limits of LDPL remained largely unutilised.

Assumptions/Covenants: Not applicable

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

Applicable criteria

Consolidation
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

Bikaner-based (Rajasthan) MDY is a partnership firm formed in May 2011. It is promoted by the members of the Modi family, with Arun Kumar Modi and Ashok Modi being the present partners. Since inception, MDY was involved in selling processed chilled milk apart from trading other dairy products. Subsequently, MDY has set-up plant and machinery at Bikaner for manufacturing different value-added dairy products, including condensed skimmed milk, SMP, butter, and ghee. MDY has capacity of processing 7 lakh litres per day (LLPD) of raw-milk and producing 50 tonnes per day (TPD) of milk powder as on March 31, 2024. MD is a part of the Modi group, which had started dairy business in 1968 with small milk procurement and trading firm. Over the years, the Modi group has increased its operations and has established a presence in different fields encompassing dairy and dairy products, real estate, finance, and cattle feed trading among others.

LDPL is engaged in the same line of business of processing milk and manufacturing value-added dairy products, such as ghee, paneer, and buttermilk, among others, and sells its products under brand – Lotus.

MFA was also engaged in the same line of business; however, in FY22, MFA operations shifted to MD, where MDY manufactures sweets. MFA receives rental income from MDY for the plant.

Brief Financials – Combined (₹ crore)	March 31, 2023 (UA)	March 31, 2024 (UA)	10MFY25 (UA)
Total operating income	1,104.84	1,208.05	1,077.29
PBILDT	55.17	108.86	Not Available
PAT	38.53	79.89	
Overall gearing (times)	0.57	0.26	
Interest coverage (times)	13.30	25.91	

A: Audited; UA: Unaudited; Note: 'these are latest financial results available'

Brief Financials – Standalone (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	10MFY25 (UA)
Total operating income	458.02	431.57	343.38
PBILDT	39.67	46.36	Not Available
PAT	32.73	40.12	
Overall gearing (times)	1.02	0.80	
Interest coverage (times)	11.99	13.55	

A: Audited; UA: Unaudited; Note: 'these are latest financial results available'

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 - LT-Cash Credit		-	-	-	60.00	CARE BBB+; 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-Term Loan	LT	-	-	-	-	1)Withdrawn (04-Apr-22)	1)CARE BBB; Stable (06-Apr-21)
2	Fund-based - LT-Cash Credit	LT	60.00	CARE BBB+; Stable	1)CARE BBB+; Stable (03-Apr-24)	1)CARE BBB; Stable (07-Apr-23)	1)CARE BBB; Stable (04-Apr-22)	1)CARE BBB; Stable (06-Apr-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-Cash Credit	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated with MD

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Lotus Dairy Products Private Limited	Full	Operational and financial linkages
2	Milk Food Aids Private Limited	Full	Operational and financial linkages

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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