

## Amreli District Co-Operative Milk Producers' Union Limited

February 24, 2023

Facilities	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term / Short-term bank facilities	50.00	CARE AA-; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	22.00	CARE A1+	Assigned

Details of facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Amreli District Co-Operative Milk Producers' Union Limited (AMR dairy, the Union) 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 the Indian dairy industry with well-recognised brands, such as 'Amul' and 'Sagar'; along with good growth prospects for the dairy industry.

The ratings further factor in the measures underway to enhance milk procurement, growing share of value-added products, 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.

The long-term rating, however, continues to be constrained by the moderate capacity utilisation of its enhanced milk processing capacity, environment and epidemic-related event risks associated with geographically concentrated milk procurement and exposure to the risks associated with regulatory changes and competition.

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

#### Positive factors

- Significant growth in the scale of operations through greater geographical diversification of both its sales and sourcing; along with 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 or 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 regulations governing the dairy industry having a material impact on the extent of returns/ milk procurement prices paid to the farmer members on sustained basis.
- Deterioration in overall gearing beyond 4x, on a sustained basis.

### Analytical approach: Standalone with group support

The milk suppliers (farmer owners) are at the base of the dairy cooperative structure. Profit is not a motive of the 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. Furthermore, the Amul dairy cooperative structure has a robust cash flow mechanism, wherein 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 Co-operative 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 and that of the 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.

### Key strengths

**Member of the strong apex dairy marketing federation, GCMMF, which has a significant market share in the organised dairy industry in India; likely to further strengthen going forward:** AMR dairy is one of the member DPUs amongst the 18-member DPUs of GCMMF under the three-tier 'Amul structure'. GCMMF is the apex marketing federation in the structure and AMR dairy sells 100% of its products to GCMMF, which in turn, sells it to the end-users as indicated by around 1% contribution to GCMMF's total sales during FY22 (refers to the period April 1 to March 31).

GCMMF has established brands 'Amul' and 'Sagar' as the leading dairy brands in India and facilitates decision making of its member DPUs. GCMMF, through its DPUs, built on a cooperative structure, has a strong milk collection base of 36 lakh farmers

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

spread across more than 18,565 villages, and the daily milk collection of all member DPUs aggregates to around 264 lakh litres per day (LLPD) for FY22 (FY21: 246 LLPD). Furthermore, with a collective milk processing capacity of 390 LLPD, GCMMF commands a prominent market share in pouched milk and in various milk products (ranging from 40% to 73% market share) in the Indian dairy industry. Going forward, CARE Ratings expects GCMMF to further consolidate its position in the Indian dairy sector with greater expansion in value-added products.

**Strong pricing power over dairy products which is likely to sustain:** GCMMF, having a prominent market share in the Indian organised dairy industry across various dairy products, possesses strong pricing power for its products and largely heralds the prices of milk and milk products in the country. Furthermore, GCMMF and its DPUs operate on a two-step pricing mechanism, which results in robust cash flows whereby 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 the inherent strengths of this business model, CARE Ratings Limited (CARE Ratings) expects the said mechanism to sustain going forward.

**Good growth prospects for the dairy industry:** During FY21, the revenues of the organised dairy sector were affected to an extent, owing to the impact of COVID-19 pandemic on the institutional demand. To protect the cooperatives from the COVID-19 pandemic situation and for ensuring regular and remunerative payment to the farmers, the Ministry of Fisheries, Animal Husbandry and Dairying, Government of India, introduced a new scheme 'Interest subvention on Working Capital Loans for Dairy sector'. The scheme made provisions for giving interest subvention of 2% per annum, with an additional incentive of 2% per annum to be given in case of prompt and timely repayment/interest servicing on working capital blocked in skimmed milk powder (SMP), whole milk powder (WMP), white butter and ghee for FY21. However, after the impact of COVID-19 in FY21 and the second wave in Q1FY22, the dairy sector rebounded significantly owing to the strong demand revival of milk and its value-added 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 this regard, it has implemented the Rashtriya Gokul Mission from FY22 to improve productivity and enhance milk production. These schemes aim to improve remuneration for farmers for which an allocation of ₹2,400 crore has been made over the next five years. In the recently announced budget for FY24, the government has set agricultural credit target at ₹20 lakh crore with a focus on animal husbandry, dairy, and fisheries. In addition to this, there is an increase in the budgetary allocation for animal Husbandry and dairying by about 40% to ₹4,327.80 crore. The government has also extended the benefit of tax payment at a concessional rate of 15% to new co-operatives. All these incentives are expected to boost the dairy industry in the country. In the medium term, healthy demand for dairy and its allied products is expected due to 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 the 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: Strong**

AMR dairy's liquidity remains strong with the union deriving comfort from sales made on 'cash-and-carry' basis with timely receipts from GCMMF and payment to VCS on every 10-days' interval, resulting in a comfortable operating cycle of 27 days in FY22. 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 has sanctioned working capital facilities of ₹50 crore which remains fully utilised as on December 31, 2022. Furthermore, the union also has an overdraft facility of ₹22 crore with minimal utilisation on need basis.

### **Key weaknesses**

**Low milk procurement base and moderate utilisation of enhanced milk processing facility along with limited product profile; albeit gradually growing share of value-added products:** The Union enhanced its milk processing capacity from 2 LLPD to 3.20 LLPD during FY20; albeit its milk procurement has not immediately increased in proportion to it, and hence, the capacity utilisation remained low at 39% during FY22. Although its milk procurement network has largely remained stagnant over the past few years, the union is making efforts to increase the same. Out of 646 villages in the Amreli district, AMR dairy has, as of now, covered around 490 villages. The Union is, therefore, making efforts to expand its milk procurement network by reaching maximum villages of the Amreli district, and thus, enhance its milk procurement. AMR dairy's milk procurement network comprised of 709 VCS with 30,856 farmer members in FY22, who hold the entire shareholding in

AMR dairy and ensure smooth and steady supply of milk to the Union. It also provides cattle-feed at concessional rates to its members' VCS to enhance the milk productivity.

During FY22, AMR dairy's sales constituted around 1% of GCMMF's TOI for FY22. With GCMMF's industry leadership position in the organised domestic dairy industry, the milk procurement and sales of AMR dairy is also expected to gradually increase. The Union's product profile includes ghee, curd, lassi and buttermilk, apart from packaged milk. Over the last four years ended FY22, the share of value-added products has witnessed an improving trend, and it increased from 24% in FY19 to 32% in FY22. The union is already in the process of adding capacities for manufacturing ice-cream and paneer, which should also help in passing on more remunerative prices to the farmers. The union has envisaged to incur a capex of around ₹26 crore for the next two years ending FY24 towards setting up an ice-cream plant of 15,000 litres per day and a paneer plant of 2 tonne per day. The said capex is expected to be funded by government grant of around ₹16 crore and the balance through its internal accruals.

#### **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 occurrence of any unforeseen environmental or epidemic outbreak/bovine diseases in a particular region adversely affecting the milk supply. DPUs, including AMR dairy, are exposed to such environmental risks associated with concentration in milk collection, since most of its milk procurement is from one district and its surrounding villages. With respect to AMR dairy, it collects its entire milk from its milk shed area in Gujarat, and hence, the Union remains exposed to the risks associated with concentrated milk procurement.

**Exposure to inherent regulatory changes:** The Indian dairy industry remains exposed to the inherent risks associated with regulatory changes, such as change in government incentives/ban on export of dairy products, and demand for signing of free trade agreements (FTAs) by surplus milk-producing countries such as Australia and New Zealand to gain access to the Indian dairy market. Furthermore, 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 lookalike dairy products and provide significant cost-cutting opportunities. This apart, the industry also remains fragmented with the presence of large number of players. Nevertheless, GCMMF, by virtue of its dominant position in the industry, is largely able to mitigate such challenges.

#### **Applicable criteria**

[CARE's policy on Default recognition](#)

[Criteria on assigning 'Rating Outlook' and 'Credit Watch' to credit ratings](#)

[Rating methodology - Notching by factoring linkages in ratings](#)

[Rating methodology - Manufacturing companies](#)

[Rating methodology - Short term instruments](#)

[Financial Ratios – Non financial Sector](#)

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

#### **About the company and industry**

##### **Industry Classification**

Macro-Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Food Products	Dairy Products

Incorporated in 2002, AMR dairy is one of the 18 DPUs established under the three-tier dairy co-operative structure of Gujarat, known as 'Amul Model' or 'Anand Pattern'. The union procures milk from around 709-member VCS consisting of around 30,856 lakh farmers, who hold the entire shareholding in AMR dairy. It had a total milk processing capacity of 3.20 LLPD, as on March 31, 2022, at its milk processing unit in Amreli, Gujarat. Apart from milk processing capacity, it also has capacities for manufacturing value-added products like curd, ghee, lassi and buttermilk. It also has a cattle feed plant at Amreli, with an installed capacity of 300 tonne per day.

Brief financials of AMR Dairy- Standalone (₹ crore)	FY21 (A)	FY22 (A)	9MFY23 (Prov.)
Total operating income	267.73	292.47	223.42
PBILDIT	21.43	18.71	NA
PAT	9.55	9.60	NA
Overall gearing (times)	0.38	0.41	NA
Interest coverage (times)	8.04	10.18	NA

A: Audited; Prov.: Provisional; NA: Not available

Financials are classified as per CARE Ratings' standards.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments:** Not applicable

**Complexity level of the various instruments rated:** Please refer to Annexure-3

**Lender details:** Please refer to Annexure-4

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - ST-Bank Overdraft	-	-	-	22.00	CARE A1+
Fund-based-LT/ST	-	-	-	50.00	CARE AA-; Stable / CARE A1+

#### Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based-LT/ST	LT/ST*	50.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (21-Feb-22)	-	-
2	Fund-based - ST-Bank Overdraft	ST	22.00	CARE A1+				

\*Long term/Short term.

#### Annexure-3: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - ST-Bank Overdraft	Simple
2	Fund-based-LT/ST	Simple

#### Annexure-4: Lender details

To view the lender wise details of bank facilities please [click here](#)

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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