October 07, 2024

Bengaluru Co-Operative Milk Union Ltd: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – Others	0.00	200.00	[ICRA]BBB+(Stable); reaffirmed
Long Term – Fund Based – Cash Credit	200.00	0.00	-
Long Term / Short Term Interchangeable	(25.00)	(25.00)	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed
Total	**200.00**	**200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action considers ICRA's expectation that Bengaluru Co-operative Milk Union Ltd (BAMUL/the union) will maintain a healthy credit profile, aided by growth in value-added products (VAP) sales supporting recovery in margins. The union's revenues declined by 2.9% to Rs. 2,673.7 crore in FY2024, owing to declining VAP sales, while liquid milk sales grew 7%. The decline in skimmed milk powder (SMP) and butter prices led the union to delay the sale of associated products. Moreover, BAMUL's milk procurement declined to 14.7 lakh litres per day (LLPD) in FY2024 from 15.3 LLPD in FY2023 due to reduced availability in Karnataka. Such a factor impacted the company's VAP sales.

However, milk availability has increased in Q1 FY2025 on account of improved cattle farming and better yield, given the favourable monsoon season. The company's milk procurement increased to 15.5 LLPD in Q1 FY2025 from 14.7 LLPD in FY2024, on account of improved milk availability, which is expected to aid revenue growth for FY2025. BAMUL's operating profit margin moderated to 1.5% in FY2024 from 2.0% in FY2023 owing to higher sales proportion of liquid milk (which commands lower margins) and inventory write-down of SMP and butter. Adjusting for trade fluctuation fund and infrastructure fund provisions, its margin contraction was steeper at 210 bps. However, the union's margins are expected to improve in FY2025 with the expected VAP sales recovery and revision in prices of certain products, such as whole-milk powder, leading to improvement in debt coverage metrics.

The ratings consider BAMUL's dominant position in the Karnataka dairy industry, as the largest union under Karnataka Co-operative Milk Producer's Federation Limited (KMF/the federation). BAMUL receives grants and funding support through various schemes of the KMF and the Government of Karnataka (GoK). The ratings consider BAMUL's long track record and strong brand name, Nandini, with a sizeable presence across the range of milk and related products. The union's established procurement network of dairy farmers also provide comfort to the ratings take comfort from the union's established procurement network of dairy farmers, supplemented by the presence of bulk coolers and chilling centres, ensuring a regular supply of milk. The union's ability to undertake periodic price corrections on the sales of milk and feed to protect its margins remains monitorable.

The ratings are constrained by BAMUL's modest profitability, given the nature of the dairy cooperative model. This model involves passing on the benefits to farmers and increasing milk procurement during periods of weak demand to protect them from losses owing to lower offtake. The profitability is constrained by BAMUL's limited pricing power, wherein the selling price is fixed by the KMF, while procurement costs are driven by market conditions. BAMUL's margins have been impacted over the past two years due to increased procurement costs amid muted milk selling prices. The union's margins are expected to improve in FY2025, given the increase in VAP prices. However, BAMUL's profitability also remains vulnerable to external factors, such as bad weather, disease outbreaks like lumpy skin disease (LSD), and government regulations. ICRA also notes that the union has sizeable capex plans of ~Rs. 140-150 crore in FY2025, which is expected to affect its capital structure with expected net debt / adjusted OPBITDA increasing over 1.7 times. However, the union's debt metrics are estimated to improve in the next 12-24 months, owing to its expected improvement in earnings. The ratings continue to remain constrained by the commoditised nature of its operations, and stiff competition from organised cooperatives, private players and unorganised players.

The Stable outlook reflects ICRA's opinion that BAMUL will maintain a healthy financial profile and adequate liquidity position, supported by its vast procurement network, favourable demand prospects for dairy products and support from the KMF and state government in the form of grants, schemes and others.

Key rating drivers and their description

Credit strengths

Established market position in cooperative value chain of KMF with robust procurement setup – BAMUL is the largest union among the 15 milk unions within the KMF. The union has an aggregate milk processing capacity of 18.0 lakh litres per day (LLPD) and it procures ~ 15.6 LLPD of milk across Bengaluru urban, Bengaluru rural and Ramnagara districts of Karnataka under the dairy cooperative model. At present, BAMUL is associated with ~2,200 dairy cooperative societies covering ~3,500 villages. Milk procurement is facilitated by bulk milk coolers and chilling centres to maintain the cold chain. Milk procurement declined to 14.7 LLPD in FY2024 from 15.3 LLPD in FY2023 owing to lower milk availability in Karnataka. The union's revenue declined by 2.9% in FY2024 on account of lower VAP sales due to reduced milk procurement. Nevertheless, milk availability has improved sequentially as the flush season commenced with the onset of monsoon in June 2024. Going forward, such factors will be key monitorable, and ICRA expects BAMUL to record revenue growth of 8-12% in FY2025.

BAMUL sells liquid milk through a network of retailers, franchised outlets, and its own milk parlours through 363 distribution routes. As per the cooperative union model, outside the local market, all milk products processed by BAMUL, and are purchased by the KMF, which are marketed under the Nandini brand. BAMUL sells the excess milk to KMF, which is then sold to deficit unions and in bulk to retailers across South India.

Grants, funds and schemes from KMF and state government support cash flows – All the unions within the KMF receive support in the form of grants to support their capex requirements. In addition, BAMUL earmarks various funds linked to milk sales, volumes and purchases, utilising the funds for its various requirements. Besides the aforesaid flexibility, the GoK extends a milk purchase subsidy of Rs. 5.0/litre procured through Dairy Cooperative Soceity (DCS) to farmers. BAMUL's revenue base benefits from the Government schemes for selling milk and milk products apart from grants and incentives (shared directly with farmers).

Credit challenges

Modest operating margin, vulnerable to product prices – Under the cooperative nature of its operations, the union's margins remain relatively modest as it endeavours to pass on benefits in various forms to farmers. The operating margin moderated to 1.5% in FY2024 from 2.0% in FY2023, owing to lower VAP sales, which command higher margins, and inventory write-down of SMP and butter. After adjusting for provisions made for infrastructure and trade fluctuation funds, the decline in margin was steeper at 210 bps. BAMUL's margins are expected to improve in FY2025, given the increase in VAP prices, which would support the margins going forward. Despite moderation in margins in FY2024, the union's leverage remained comfortable as indicated by net debt (adjusted for cash) / adjusted OPBITDA (adjusted for the appropriation of funds to infrastructure fund) of 0.9 times for FY2024. Given the sizeable capex plans of Rs. 140-150 crore in FY2025, the union's net debt / adjusted OPBITDA is expected to increase to over 1.7 times. However, the entity's debt metrics are expected to improve in the next 12-24 months with the expected improvement in earnings and scheduled debt repayments.

Intense competition within the dairy industry – BAMUL is exposed to intense price competition, restricting its profitability margins. The selling price of milk and related products is generally fixed by the KMF, whereas the procurement price of milk is decided upon by the respective milk unions and is subject to market conditions. This affects the union's margins, as witnessed in the past two years. The union, like all dairy players, is exposed to volatility in global milk powder prices and any adverse movement in the prices could result in weak profitability or high inventory positions.

Susceptibility to changes in Government regulations and environmental conditions – BAMUL's revenue, like all dairy players, is susceptible to Government regulations, such as a ban on SMP exports. In addition, the control over revising the selling prices resides with the GoK, leading to limited control over the profitability. In addition, the union is also susceptible to adverse milk production conditions, resulting from agro-climatic factors such as drought and cattle diseases like LSD, as seen in FY2023.

Liquidity position: Adequate

The liquidity is adequate on the back of free cash and investments of Rs. 122.5 crore as on March 31, 2024, with a buffer of ~Rs. 200.0 crore in working capital limits. The union has repayment obligations of ~Rs. 25.0 crore over the next 12 months. BAMUL is expected to incur ~Rs. 140-150 crore towards capacity expansion in FY2025, which would be funded partly through debt and internal accruals.

Rating sensitivities

Positive factor – ICRA could upgrade BAMUL's ratings if the union demonstrates a sustained improvement in its scale of operations, along with improving its profitability and maintaining its liquidity position.

Negative factor – Pressure on BAMUL's ratings could arise if there is a substantial reduction in its scale and profitability, or if elevated capex weakens the liquidity position. Specific credit metrics that could lead to a downgrade of BAMUL's ratings is net debt/ Adjusted OPBITDA increasing to over 1.7 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

BAMUL was established as Bangalore Dairy on January 23, 1965, with a milk processing capacity of 50,000 litres per day, with a current capacity of 18.0 LLPD. The union has dairy facilities in three locations—Mega Dairy with a processing capacity of 10.0 LLPD, Hoskote Dairy (2.0 LLPD) and Kanakapura Dairy (6.0 LLPD). In addition, BAMUL owns seven chilling centres with a total capacity of 14.0 LLPD and 246 bulk coolers of 7.8 LLPD, facilitating procurement from the associated DCS. It derives a major portion of its sales through sales to retailers, franchised outlets and its own milk parlours through ~363 distribution routes. It sells the excess milk and related products to KMF.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	2754.2	2673.7
PAT	10.3	2.3
OPBDIT/OI	2.0%	1.5%
PAT/OI	0.4%	0.1%
Total outside liabilities/Tangible net worth (times)	0.5	0.5
Total debt/OPBDIT (times)	3.3	4.0
Net debt/ Adjusted OPBDIT (times)**	(0.3)	0.9
Interest coverage (times)	3.8	2.6

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; **Net debt = Total debt adjusted for Cash and cash equivalents; Adjusted OPBDIT is calculated by reversing the appropriation of funds to infrastructure fund*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount Rated (Rs. crore)**	**Oct 07, 2024**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Fund Based – Others	**Long Term**	**200.00**	**[ICRA]BBB+ (Stable)**	-	-	-	-	-	-
Fund Based – Cash Credit	**Long Term**	**0.00**	**-**	July 14, 2023	[ICRA]BBB+ (Stable)	May 30, 2022	[ICRA]BBB+ (Stable)	-	-
Interchangeable	**Long Term/ Short Term**	**(25.00)**	**[ICRA]BBB+ (Stable)/ [ICRA]A2**	July 14, 2023	[ICRA]BBB+ (Stable)/ [ICRA]A2	May 30, 2022	[ICRA]BBB+ (Stable)/ [ICRA]A2		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Others	Simple
Long-term / Short-term – Interchangeable	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long Term – Fund Based – Others**	NA	NA	NA	200.00	[ICRA]BBB+(Stable)
NA	**Long Term / Short Term – Interchangeable**	NA	NA	NA	(25.00)	[ICRA]BBB+(Stable)/[ICRA]A2

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar K
+91 44 45964318
Ksrikumar@icraindia.com

Nithya Debbadi
+91 40 40 6939 6416
nithya.debbadi@icraindia.com

Raviteja Etikala
+91 40 6939 6418
Etikala.teja@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches