April 24, 2025

Mehsana District Co-Operative Milk Producers' Union Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term Fund-based – Cash Credit/Working Capital Limits	1,570.00	1,544.00	[ICRA]AA+ (Stable); Reaffirmed
Short -term – Non-Fund based Limits	25.00	45.00	[ICRA]A1+; Reaffirmed
Long-term/ Short-term – Unallocated Limits	5.00	11.00	[ICRA]AA+ (Stable)/[ICRA]A1+; Reaffirmed
Total	**1,600.00**	**1,600.00**	

**Instrument details are provided in Annexure I*

Rationale

The reaffirmation of ratings for Mehsana District Cooperative Milk Producer's Union Limited (Dudhsagar/ the union) considers the established position of the company as a leading dairy processing unit (DPU) under Gujarat Co-operative Milk Marketing Federation (GCMMF/ Amul), the apex marketing federation with significant pricing power in the domestic market. Dudhsagar reported a top line growth of 9% in FY2024 on a YoY basis to Rs. 7,444 crore[1], driven by increase in sales volumes. ICRA also notes that GCMMF provides assured inventory off-take to its DPUs. ICRA notes that the company has already commenced the new ultra high temperature (UHT) plant in October 2024 and the powder milk plant is expected to commence operations in Q2 FY2026. The ratings also consider the robust procurement setting under the cooperative model in Mehsana (Gujarat), which ensures regular supply of milk to the union by village cooperative societies (VCS). Additionally, Dudhsagar has an arrangement for procuring milk from non-VCS members outside Gujarat, which ensures uninterrupted supply of raw milk throughout the year. Further, the ratings are supported by DPUs' control over milk prices under the cooperative model through dual price payment mechanism, wherein milk is purchased at provisional prices from VCS throughout the year and most of the surplus pool price is distributed to farmers at the end of the year. The ratings derive comfort from the fact that the union enjoys flexibility to retain funds and make the payouts after analysing all their payment obligations, including debt and capital expenditure (capex).

The ratings, however, remain constrained by the average financial risk profile of the union, characterised by modest profitability and net worth base owing to the nature of the dairy cooperative business model wherein most of the operating surplus is passed on to milk producers, leading to limited retention of profits in the business. The capital structure and coverage indicators moderated in FY2024 owing to debt-funded capex and high working capital borrowings amid high receivables and inventory days as on March 31, 2024. The capital structure and coverage indicators are estimated to have remained at moderate levels in FY2025 and gradually improve from FY2026, with benefits derived from the increased capacities and gradual repayment of term loans. The ratings continue to factor in the union's exposure to agro-climatic and environment risks, regulatory changes, and disease outbreaks among livestock, which could have a material impact on its dairy operations. ICRA also notes the contingent liabilities pertaining to the buffalo cess of ~Rs. 415.6 crore levied by the Government of Haryana, as of March 31, 2024. Dudhsagar has challenged the jurisdiction of the state to levy such a cess and the matter is sub judice at presesnt. Any unfavourable outcome on this matter remains critical from the credit perspective, given the large value at dispute. The issue will remain a monitorable from the rating perspective.

The Stable outlook reflects ICRA's expectations that Dudhsagar will be able to witness a steady volume growth, benefitting from its strong milk procurement capability and its established market position by virtue of its association with GCMMF, which

[1] Excluding Rs. 49.61 crore received from GCMMF and paid to the union

will also allow passing on the increase in milk procurement costs. Along with calibrated expansion plans, going forward, this would lead to a gradual improvement in the financial profile.

Key rating drivers and their description

Credit strengths

Established market position; strong parentage of GCMMF and likely support from the parent – Dudhsagar is one of the leading unions among the 18 milk unions under GCMMF and has an aggregate milk processing capacity of up to 50 lakh litres per day (LLPD). Dudhsagar contributed ~12.6% to GCMMF's total income in FY2024. Through its unions, GCMMF has built a cooperative structure with a strong milk collection base of over 36.4 lakh farmers from more than 18,500 villages. It commands a significant market share in the Indian dairy industry and largely controls the prices of milk and milk products in India. Dudhsagar derives significant financial flexibility for being a part of the GCMMF cooperative structure. ICRA also takes comfort from the business links with GCMMF and need-based funding support from the same.

Established milk procurement system from VCS; flexibility with respect to retention of pool surplus – Dudhsagar has an established milk procurement system under its cooperative model in Mehsana, which ensures regular supply of milk to the district union by VCS. Also, Dudhsagar has an arrangement for procuring milk from non-VCS members outside Gujarat, which ensures uninterrupted supply of raw milk throughout the year. Further, under the cooperative model, GCMMF's DPUs maintain control over raw milk prices by the dual price payment mechanism wherein milk is purchased at provisional prices from VCS throughout the year and most of the surplus pool price is distributed to the farmers at the end of the year. The union, however, has the flexibility to retain funds and make the payouts after analysing all its payment obligations, including debt and capex.

Geographically diversified presence with two dairy processing units in North India – Dudhsagar owns six dairy plants in and around Mehsana with a combined processing capacity of 25 LLPD, along with two plants in Haryana (Manesar and Dharuhera) with a capacity of 10 LLPD and 15 LLPD, respectively. The union also owns chilling plants across Rajasthan, Haryana and Uttar Pradesh in addition to its processing facilities. Dudhsagar's geographically diversified presence provides operational flexibility in terms of a diversified revenue stream and a strong milk procurement arrangement.

Favourable dairy industry growth prospects – The Indian dairy industry is expected to continue to grow on the back of steady supply of milk, with the country being the world's largest milk producer. Increase in demand for milk and milk products due to rising disposable income and increasing health consciousness are other positive demand factors.

Credit challenges

Moderate financial risk profile – Despite its long operational history, large scale of operations and a strong business risk profile, Dudhsagar has an average financial risk profile, characterised by a relatively moderate net worth, leverage capital structure, modest operating profitability level and consequently, moderate coverage indicators. The union follows a business model, wherein the price differential for their milk supply is paid to members at the end of the year, which provides them with strong flexibility over the surplus payouts after analysing all their payment obligations, including debt and capex. In FY2024 and FY2025, the company has incurred debt-funded capex towards modernising its powdered milk facilities and expanding its UHT capacity at the Mehsana plant, while expanding its capacity for ice cream, yogurt and paneer at its Haryana plants. The total capex for the project stood at Rs. 651 crore, funded by Rs. 586 crore of term loans and the remaining from internal accruals. The company has pending capex of ~Rs. 30 crore towards powdered milk facility, which will be incurred in FY2026 with undrawn term loans of Rs. 28 crore. While the aforementioned capex is expected to improve operational efficiencies and increase capacities, this has impacted the coverage metrics in FY2025. Nonetheless, the same is expected to improve from FY2026. Further, high inventory has been built up over the last two years, resulting in higher working capital borrowings, however, the management expects it to reduce in FY2026. Dudhsagar's credit profile remains adequately supported by its healthy financial flexibility, adequate liquidity and stable cash flows emanating from the assured offtake from GCMMF.

Exposure to volatility in product prices and regulatory changes along with external factors like weather and disease outbreaks – The union is exposed to risks related to agro-climatic factors, such as droughts and disease outbreaks, leading to an increase in cattle diseases, which may adversely impact milk production and have a significant material impact on its dairy operations. The same was witnessed in FY2023 with the emergence of the lumpy skin disease that had affected milk supply. The cash flows also remain vulnerable to changes in government regulations such as imposition of cess, as witnessed in the past, which led to high contingent liabilities as on March 31, 2024.

Contingent liabilities largely pertaining to Haryana Murrah Buffalo Cess – The union has a sizable contingent liability pertaining to the Haryana Buffalo Cess. The said milk cess was started in 2001 by the Government of Haryana under the Haryana Murrah Buffalo and Other Milch Animals Breed (Preservation and Development of Animal Husbandry and Dairy Development Sector) Act, 2001. The cess is applicable to milk processing plants in the state. The contingent liability due to the cess as of March 31, 2024 stood at ~Rs. 415.6 crore (~Rs. 318.9 crore as on March 31, 2023). Dudhasagar has challenged the jurisdiction of the state to levy such a cess and the matter is currently sub judice. Any unfavourable outcome on this matter remains critical from the credit perspective, given the large value at dispute.

Liquidity position: Adequate

Dudhsagar has adequate liquidity with average working capital utilisation of ~81% of the drawing power and ~42% of the sanctioned limits over the last 12 months ending in March 2025 with buffer of Rs. 686 crore as on March 31, 2025, resulting in requisite cushion in terms of unutilised limits. Dudhsagar has moderate repayment obligations of ~Rs. 158 crore in FY2026 against the expected Rs. 530-580 crore cash flow from operations before making the surplus payment to members. Overall, ICRA expects Dudhsagar to comfortably meet its near-term commitments through internal accruals. Dudhsagar passes back the surplus to farmers at the end of the year in the form of price differences, which stood at Rs. 402 crore in FY2024 and is expected to remain higher than Rs. 402 crore in FY2025. This is provided from the surplus after meeting all obligations of the union, which provides much-needed flexibility to the company. Absence of any major debt funded capex in FY2026 supports liquidity profile to an extent.

Rating sensitivities

Positive factors – A substantial increase in its scale of operations and purchase share with GCMMF, while being prudent with financial leveraging, will be a positive rating trigger.

Negative factors –,Pressure on the ratings could emerge if there is significant decline in sales, resulting in a reduction in profitability, or any material weakening of the coverage indicators or liquidity position. Pressure could also emerge if there is a weakening of the credit profile of GCMMF or reduced strategic importance of the union for GCMMF.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology]
Parent/Group support	The rating assigned to Dudhsagar factors in the high likelihood of GCMMF extending financial support to it because of the cooperative structure and it (GCMMF) is the apex marketing federation for all unions in Gujarat. Further, most of Dudhsagar's sales is routed through GCMMF and, hence, given the close business linkages between them, ICRA expects GCMMF to be willing to extend need-based financial support to Dudhsagar to avoid any disruption in operations of GCMMF.
Consolidation/Standalone	The ratings are based on the standalone financial statements of Mehsana District Co-Operative Milk Producers' Union Limited

About the company

Incorporated in 1960, Dudhsagar is a co-operative district producers' milk union established under the three-tier cooperative structure of Gujarat, known as 'Anand Pattern' or 'Amul Structure'. Dudhsagar procures milk from 1,265-member VCS of around 6.1 lakh farmers, who has the entire shareholding in Dudhsagar Dairy. It had a total milk processing capacity of 50 LLPD as on March 31, 2024, from its dairy plants in Gujarat and Haryana.

Key financial indicators (Standalone, audited)

Dudhsagar	FY2023	FY2024
Operating income *	6,833	7,444
PAT	394	421
OPBDIT/OI	4.7%	5.8%
PAT/OI	5.8%	5.7%
Total outside liabilities/Tangible net worth (times)	2.5	4.4
Total debt/OPBDIT (times)	1.2	3.2
Interest coverage (times)	6.3	6.8

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore , * Excludes Rs. 49.61 crore (PY-106.29 crore) received from GCMMF and paid to the union*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current rating (FY2026)				Chronology of rating history for the past 3 years					
					FY2025		FY2024		FY2023	
Instrument	Type	Amount rated (Rs. crore)	April 24, 2025		Date	Rating	Date	Rating	Date	Rating
Fund-based – Cash Credit/Working Capital Limits	Long term	1544.00	[ICRA]AA+ (Stable)		-	-	10-Jan-2024	[ICRA]AA+ (Stable)	25-Oct-2022	[ICRA]AA+ (Stable)
Non- Fund based Limits	Short term	45.00	[ICRA]A1+		-	-	10-Jan-2024	[ICRA]A1+	25-Oct-2022	[ICRA]A1+
Unallocated Limits	Long term and short term	11.00	[ICRA]AA+ (Stable)/ [ICRA]A1+		-	-	10-Jan-2024	[ICRA]AA+ (Stable)/ [ICRA]A1+	25-Oct-2022	[ICRA]AA+ (Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term fund-based – Cash Credit/Working capital Limits	Simple
Short -term – Non- Fund based Limits	Very Simple
Long-term/ Short -term – Unallocated Limits	Not Applicable

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	**Fund-based – Cash Credit/Working Capital Limits**	NA	NA	NA	1544.00	[ICRA]AA+ (Stable)
NA	**Non-Fund based limits**	NA	NA	NA	45.00	[ICRA]A1+
NA	**Unallocated limits**	NA	NA	NA	11.00	[ICRA]AA+ (Stable)/ [ICRA]A1+

Source: Company

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

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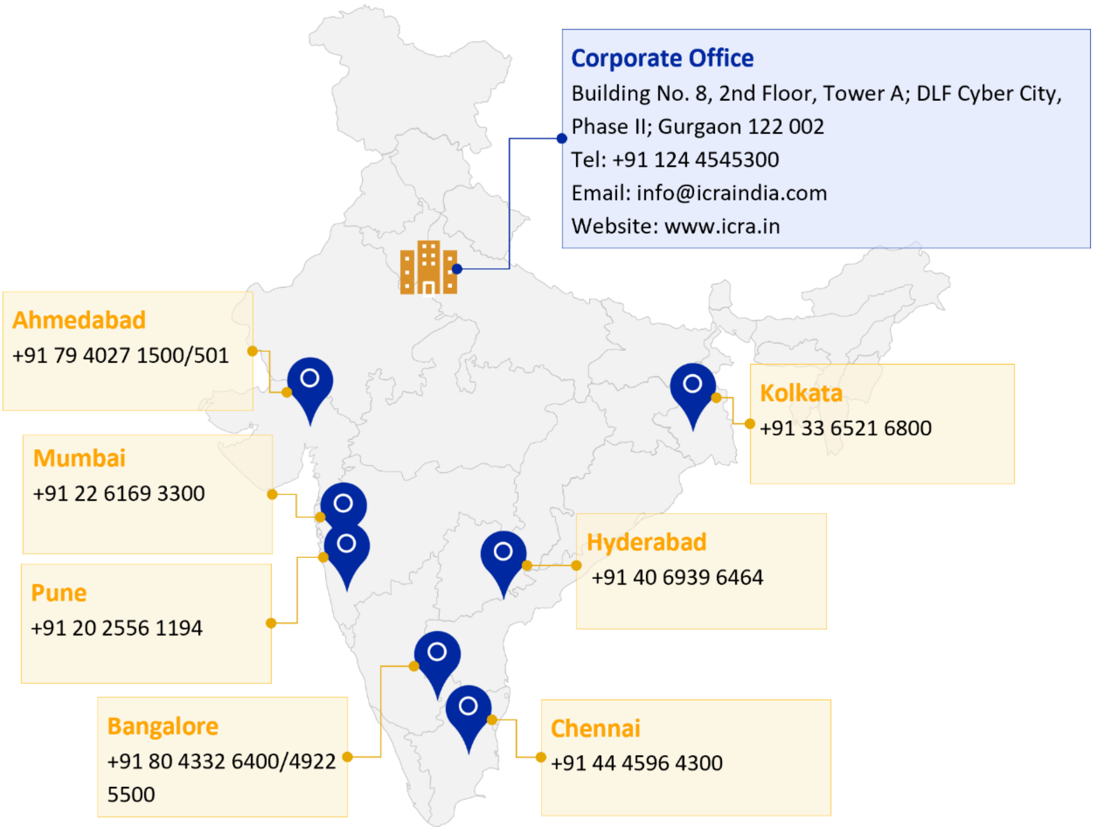

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