October 14, 2025

Karnataka Co-Operative Milk Producers' Federation Limited: Ratings upgraded to [ICRA]A+ (Stable)/[ICRA]A1+

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term – Fund-based/ Cash credit	70.00	70.00	[ICRA]A+(Stable); upgraded from [ICRA]A (Stable)
Short-term – Interchangeable	(30.00)	(30.00)	[ICRA]A1+; upgraded from [ICRA]A1
Long-term/ Short-term – Unallocated	30.00	30.00	[ICRA]A+ (Stable)/[ICRA]A1+; upgraded from [ICRA]A (Stable)/ [ICRA]A1
Total	**100.00**	**100.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings upgrade factors in improvement in Karnataka Co-Operative Milk Producer's Federation Limited's (KMF/ the federation) credit profile in FY2025 characterised by healthy growth in revenues and earnings, leading to a strong liquidity position and comfortable debt metrics with expected sustenance of the same, going forward. The company's revenue grew by 28% on the back of upward revision in cattle feed prices in February 2024 and improved milk availability, which coupled with healthy demand led to healthy growth in revenues from milk and milk products. KMF's average milk sales rose to over Rs. 1.0 crore per day in FY2025 against around Rs. 0.9 crore per day in FY2024 owing to increase in milk procurement supported by improved availability due to better monsoons. Procurement remained healthy at over 1.0 crore lakh litres per day (LLPD) in 5M FY2026. Moreover, KMF's operating margin improved to 4.1% in FY2025 from 2.0% in FY2024, backed by increased scale and moderation in prices of a key raw material, de-oiled rice bran (DoRB), following a ban on its exports. Continued high milk availability and healthy demand are likely to support the company's revenues and earnings, going forward. However, margins are estimated to moderate from FY2025 levels with normalisation of DoRB prices. KMF's ability to take periodic price corrections on sales of milk and feed to protect its margins remains a monitorable. KMF's debt coverage indicators are comfortable with interest coverage of 115.8 times and DSCR of 10.6 times in FY2025, which are likely to remain healthy going forward as well.

The ratings consider KMF's long track record and dominant position in the dairy industry. KMF is strategically important to the Central and state governments as it is the largest dairy cooperative in Karnataka; hence, its operations are supported by various Government schemes and grants. The ratings consider KMF's diversified product portfolio, which includes milk and milk products under its established brand, 'Nandini', as well as cattle feed. Further, KMF has built a robust procurement network with 16 unions, which have an established base of dairy farmers.

The ratings remain constrained by the commoditised nature of operations, and high competition from organised cooperatives, private dairies, and unorganised players. Also, milk production remains vulnerable to external factors such as weather conditions and cattle diseases, along with Government regulations. The ratings also consider KMF's low profitability given the nature of the dairy cooperative model, which focuses on passing on benefits to unions and farmers. KMF's earnings are vulnerable to fluctuations in input costs due to its limited pricing flexibility, as price revisions are subject to approvals from the Government, unlike private dairies. Moreover, ICRA notes that the company has extended corporate guarantees of Rs. 800 crore to working capital limits availed by its 16 milk unions, which impacts its leverage metrics and would be a key monitorable.

The Stable outlook on the rating reflects ICRA's opinion that KMF's credit profile will remain stable, supported by healthy growth in its scale of operations aided by robust demand and its dominant market position. The increase in demand for milk and milk products due to rising disposable income and health consciousness supports the demand outlook.

Key rating drivers and their description

Credit strengths

Market leadership in Karnataka backed by an established procurement chain – KMF is the apex body for the dairy cooperative value chain in Karnataka. It is the second-largest dairy cooperative in the country. At present, KMF and its 16-member cooperative milk unions procure over 0.9 crore LLPD of raw milk under the dairy cooperative model, with the federation being associated with more than 27.0 lakh milk producer members across Karnataka through over 15,000 dairy cooperative societies covering more than 23,000 villages. KMF has an installed capacity of around 320 MT/day for processing raw milk into milk powder. To meet the unions' pouch film demand, KMF has established a pouch film plant with a capacity of 9 MTPD. It also owns five cattle feed plants and sells the same to milk producers via unions.

Diversified revenue and wide product range of milk and milk products – KMF's product portfolio includes cattle feed/fodder, milk, buttermilk, curd, cream, butter, ghee (clarified butter), skimmed milk powder (SMP), whole milk powder (WMP), flavoured milk, milk-based sweets, chocolates, ice creams, etc. From a pure-play liquid milk brand, KMF has expanded into milk derivatives, and all the products are sold under the brand, 'Nandini', which has an established presence in its Karnataka market. Its revenue streams are diversified, with the sale of milk products in FY2025 accounting for around 49%, followed by cattle feed (around 28%) and milk (around 19%), with conversion charges and pouch film sales accounting for the rest. The federation markets its in-house milk and milk products as well as that of the 16 milk unions in Karnataka and other states. The federation owns 18 sales depots in Karnataka and eight in other states. KMF revised milk prices by Rs. 4 per litre in April 2025; however, the same was passed on to farmers with an increase in procurement prices.

Standalone credit profile remains healthy – KMF's standalone debt coverage indicators are comfortable with interest coverage of 115.8 times, total debt/OPBDITA of 2.6 times and DSCR of 10.6 times in FY2025. It plans to incur capex of Rs. 280-320.0 crore over FY2026 and FY2027 towards setting up a pouching plant, which will be funded through existing cash balances and internal cash accruals. Its standalone coverage indicators are expected to remain healthy, despite the sizeable capex plans. KMF extended around Rs. 800 crore corporate guarantee to its milk unions for their working capital limits, which has moderated the adjusted leverage metrics (factoring in the corporate guarantee) to an extent.

Importance of sector to state government – At present, the Government of Karnataka (GoK) provides a milk purchase subsidy of Rs. 5.0/litre of procured milk to the farmers through KMF's member cooperative milk unions. Further, the GoK has provided various grants to unions and milk producers cooperative societies (MPCS) through KMF, to encourage capacity expansion and training. Apart from grants and incentives (directly to farmers), KMF's revenue base benefits from Government schemes for selling milk and milk products.

Credit challenges

Vulnerable to cattle feed prices and raw material costs – KMF derives around 49% from sales of value-added products, followed by cattle feed (around 28%) and milk (around 19%), with conversion charges and pouch film sales accounting for the rest. Given the limited pricing flexibility in processed milk and cattle feed segments, the company's margins remain vulnerable to fluctuations in input costs. Fluctuations in prices of key raw materials for cattle feed such as DoRB and maize, impact the company's margins. In FY2025, the operating margin improved to 4.1% from 2.0% in FY2024, supported by moderation in DoRC prices following the Government of India's ban on DoRB exports. While the company's operating margin is expected to moderate from the high levels of FY2025 with normalisation of DoRB prices, its earnings are likely to be supported by healthy growth in its scale of operations.

Intense competition in dairy industry – KMF is exposed to intense competition, which restricts its profitability, despite its leadership position in Karnataka. Typically, the selling prices of milk are fixed by KMF in consultation with the GoK, which renders the federation with low bargaining power on procurement prices of milk. On the other hand, private dairies procure milk based on the end-market prices, thereby often providing an edge over dairy cooperatives.

Susceptibility to changes in Government regulations and environmental conditions – KMF's revenue, like all dairy players, is susceptible to Government regulations, such as the ban of SMP exports, as seen in the past. Moreover, regulatory developments with respect to raw materials such as DoRB also impact the company's margins. GoI had banned export of DoRB in July 2023, which was subsequently lifted in October 2025. Lower DoRB prices supported the company's margins in FY2025. In addition, the federation is also susceptible to adverse milk and cattle feed production conditions resulting from agro-climatic factors such as drought and cattle diseases, as seen in lumpy skin disease (LSD) in FY2023.

Liquidity position: Strong

KMF's liquidity position is expected to be strong, given its sizeable cash balances. The entity's cash flows from operations are estimated to be in the range of Rs. 170-190 crore over the next 12 months. The entity also had cash balances and investments of Rs. 530.0 crore as on March 31, 2025, besides unutilised working capital lines of Rs. 70.0 crore. In comparison, KMF's cumulative funding needs towards capital expenditure and repayment obligations are estimated to be around Rs. 170-190.0 crore over the next 12 months, lending comfort to the liquidity profile.

Rating sensitivities

Positive factors – ICRA may consider upgrading KMF's ratings if there is a significant expansion in scale, along with a higher proportion of value-added products, leading to improved profitability metrics.

Negative factors – Pressure on KMF's ratings could arise from a significant drop in its earnings, or if its debt metrics or liquidity position weakens due to significant increase in support to unions or debt-funded capex.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered KMF's standalone financials while adjusting its debt for the corporate guarantee (CG) extended to the milk unions.

About the company

KMF is the apex body for the dairy cooperative movement in Karnataka. It is governed as per the Karnataka Cooperative Societies Act, 1959, and has 16 milk union members covering around 32 districts across Karnataka. The unions operate with individual dairy processing facilities and chilling centres catering to the nearby districts. KMF is the second-largest dairy cooperative in the country. The main function of the federation is to regulate the milk supply across its member unions to combat inadequate milk supply in certain districts of Karnataka, and market the unions' milk products under its 'Nandini' brand. KMF owns 18 sales depots, and the federation is associated with more than 23,000 retailers and over 600 wholesale distributors across India. In 1975, the Karnataka Dairy Development Cooperation (KDDC) was set up to organise village-level dairy production and procurement on a cooperative basis, with financial assistance from the World Bank/ International Development Agency. KDDC was converted to KMF in 1984 and dairy development activities were extended to cover the entire state under Operation Flood II.

Key financial indicators (audited)

Standalone	FY2024	FY2025
Operating income	5949.1	7615.5
PAT	36.2	184.1
OPBDIT/OI	2.0%	4.1%
PAT/OI	0.6%	2.4%
Total outside liabilities/Tangible net worth (times)	1.5	1.3
Total debt/OPBDIT (times)	7.4	2.6
Interest coverage (times)	24.2	115.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; 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

Instruments	Current (FY2026)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Oct 14, 2025	FY2025		FY2024		FY2023	
				Date	Rating	Date	Rating	Date	Rating
Cash credit	Long term	70.00	[ICRA]A+ (Stable)	Jul 31, 2024	[ICRA]A (Stable)	Apr 10, 2023	[ICRA]A+ (Stable)	Apr 29, 2022	[ICRA]A+ (Stable)
Interchangeable	Short term	(30.00)	[ICRA]A1+	Jul 31, 2024	[ICRA]A1	Apr 10, 2023	[ICRA]A1+	Apr 29, 2022	[ICRA]A1+
Unallocated	Long term/ Short term	30.00	[ICRA]A+ (Stable)/ [ICRA]A1+	Jul 31, 2024	[ICRA]A (Stable)/ [ICRA]A1	Apr 10, 2023	[ICRA]A+ (Stable)/[ICRA]A1+	Apr 29, 2022	[ICRA]A+ (Stable)/[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term – Fund-based - Cash credit	Simple
Short-term – Interchangeable	Very simple
Long-term/Short-term – Unallocated	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	**Cash credit**	NA	NA	NA	70.00	[ICRA]A+ (Stable)
NA	**Interchangeable**	NA	NA	NA	(30.00)	[ICRA]A1+
NA	**Unallocated**	NA	NA	NA	30.00	[ICRA]A+(Stable)/[ICRA]A1+

Source: Company

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

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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.

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