

## Research Team

## Issue Details

Issue Details	
Issue Size (Value in Rs. Million, Upper Band)	5201.77
Fresh Issue (No. of Shares in Mn)	11.68
Offer for Sale (No. of Shares in Mn)	109.85
Bid/Issue opens on	16-June-21
Bid/Issue closes on	18-June-21
Face Value	Rs. 10
Price Band	421-428
Minimum Lot	35

## Objects of the Issue

## Fresh Issue: ₹500 Million

The company proposes to utilize the Net Proceeds towards funding the following:

- Repayment and/ or pre-payment, in full or part, of certain borrowings availed by the company.
- Funding capital expenditure requirements of the Company
- General corporate purposes.

## Offer for Sale: ₹4702 Million

The company will not receive any proceeds from the Offer for Sale.

Book Running Lead Managers	
ICICI Securities Limited	
Axis Capital Limited	
Registrar to the Offer	
KFin Technologies Private Limited	

Capital Structure ((₹ Million)	Aggregate Value
Authorized share capital	750.00
Subscribed paid up capital (Pre-Offer)	583.25
Paid up capital (Post - Offer)	594.93

Share Holding Pattern %	Pre-Issue	Post Issue
Promoters & Promoter group	68.52	65.3
Public	31.5	34.7
Total	100	100

## Financials

Particulars (Rs. In Mn)	6M-FY21	FY20	FY19	FY18
Total Revenue	9,163.1	21,393.7	16,916.7	15,904.8
Operating expenses	7,801.0	19,984.5	15,575.2	14,777.6
<b>EBITDA</b>	<b>1,362.1</b>	<b>1,409.3</b>	<b>1,341.5</b>	<b>1,127.2</b>
Other Income	19.1	62.8	77.9	65.4
Interest	69.9	161.4	115.7	108.9
Depreciation	253.9	491.9	370.9	279.3
PBT	1,057.4	818.7	932.8	804.4
Tax	309.6	320.0	305.2	235.9
<b>Consolidated PAT</b>	<b>747.8</b>	<b>498.7</b>	<b>627.6</b>	<b>568.5</b>
EPS	13.43	8.96	11.27	10.21
Ratio	6M-FY21	FY20	FY19	FY18
EBITDA Margin	14.9%	6.6%	7.9%	7.1%
PAT Margin	8.2%	2.3%	3.7%	3.6%

## Company Description

Dodla Dairy Ltd is an integrated dairy company based in south India primarily deriving all of its revenue from the sale of milk and dairy based VAPs in the branded consumer market. Amongst private dairy players with a significant presence in the southern region of India, they are the third highest in terms of milk procurement per day (Source: CRISIL Report) with an average procurement of 1.02 million liters of raw milk per day ("MLPD") as of Dec 31, 2020 and second highest in terms of market presence across all of India amongst private dairy players with a significant presence in the southern region of India (Source: CRISIL Report). Their operations in India are primarily across the five Indian states of Andhra Pradesh, Telangana, Karnataka, Tamil Nadu and Maharashtra. They process and sell retail milk and produce dairy based value-added products ("VAPs") such as curd, Ultra-High Temperature processed ("UHT") milk, ghee, butter, flavored milk and ice cream amongst others. They also manufacture and sell cattle feed to farmers through their procurement network. Their revenue from sale of milk and dairy based VAPs constituted 72.81% and 27.18% respectively, of their revenue in FY20.

They commenced their overseas operations in FY15 through the acquisition of the operations of Hillside Dairy and Agriculture Limited through their Subsidiary Lakeside Dairy Limited in Africa. For their overseas operations, they procure raw milk from cooperative societies and follow a similar integrated business model as their India operations. Packaged milk and dairy based VAPs for retail are produced from their processing plant in Uganda and are distributed in Uganda and Kenya. Their distribution operations in Uganda are conducted through their African Subsidiary Lakeside Dairy Limited. And include distribution of their milk and dairy based VAPs as of December 31, 2020 through 22 distributors and 18 "Dodla Retail Parlors". Their distribution operations in Kenya are conducted through their African Subsidiary Dodla Dairy Kenya Limited and include distribution of their milk and dairy based VAPs as of December 31, 2020 through 57 distribution agents and 53 distributors.

## Valuation

Dodla Dairy Ltd is available at 4.8x P/BV and 47.8x its FY20 earnings at the upper end of the price band. India being the largest milk producer and consumer in the world, we believe in the long term prospects of the domestic dairy industry. It has immense potential for growth for Company. We believe Dodla Dairy is available at fair valuations considering the opportunity size lying ahead of the company in the dairy industry that is constantly in the process of evolution from raw milk to focus towards value added milk and milk products.

Considering the company has a diversified product basket, strong brands and wide distribution network, we believe that the company will continue to perform well on both the top-line and the bottom-line front. Hence we recommend investors to **Subscribe** to the issue from a longer term perspective.

The Company's integrated business model in India consists of procurement, processing, distribution and marketing operations. Their procurement operations are spread across the states of Andhra Pradesh, Telangana, Tamil Nadu, Karnataka and Maharashtra. These consist of an average procurement of 1.02 MLPD as of Dec 31, 2020 from approximately 114,920 farmers through 6,624 Village Level Collection Centers ("VLCCs"), 254 dairy farms and third-party suppliers as of Dec 31, 2020. The raw milk collected is then transported to their chilling centers and thereafter to their processing plants. Further, their dependence on third party suppliers has reduced from 13.58% in FY18 to 2.83% of their total average raw milk procurement as of Dec 31, 2020.

Their processing operations consist of processing of the collected raw milk into packaged milk and manufacturing of other dairy based VAPs by 13 processing plants with an aggregate installed capacity of 1.70 MLPD. These include the Vedesandur and Batlagundu processing plants which were acquired by the Company pursuant to a business transfer agreement dated Feb 8, 2019 with KC Dairy Products Private Limited and its shareholders. Their aggregate installed capacity increased from 1.29 MLPD in FY18 to 1.70 MLPD in FY20. Their distribution and marketing operations consist of distribution of their milk and dairy based VAPs through 40 sales offices, 3,336 distribution agents, 863 milk distributors and 449 milk product distributors across 11 states in India. Additionally, as of Dec 31, 2020, their milk and dairy based VAPs are also available through 371 "Dodla Retail Parlors" which commenced operations in 2016. Their processing plants are in close proximity to their milk procurement operations and their target market which enables them to optimize transportation and raw milk handling costs. In FY19 they acquired a cattle feed and mixing plant with a capacity of 80 MTPD for the purpose of manufacturing and selling cattle feed to farmers through their procurement network.

They place significant emphasis on quality control across their integrated business model and have obtained several quality control certifications and registrations for their operations. Their milk and dairy based VAPs have received certifications from the FSSAI. They have well defined documented quality system which is monitored at various stages of procurement and processing.

Their revenue from operations increased at a CAGR of 15.98% over FY18 to FY20 and amounted to `21,393.73 million, while their EBITDA increased during the same period at a CAGR of 11.81% and amounted to `1,409.26 million, their PAT amounted to `498.71 million in FY20. Despite cumulative capital expenditure of `2,644.86 million over the past three years, towards inter alia, commissioning a new processing plant at Rajahmundry, acquisition of the processing plants at Batlagundu and Vedesandur from KC Dairy Products Private Limited, acquisition of the cattle feed and mixing plant by Orgafeed Private Limited at Kadapa and establishment of new VLCCs, their return on equity and return on capital employed for FY20 were at 11.50% and 17.34% respectively.

#### **Strengths:**

##### ➤ **Consumer focused dairy company with a diverse range of products under the "Dodla Dairy" and "Dodla" brands**

The company has developed one of the leading brands in the dairy products industry in south India with strong consumer recognition, particularly in the States of Andhra Pradesh, Karnataka, Tamil Nadu and Telangana. Its Indian operations are undertaken under the brands "Dodla Dairy" (for milk and perishable products such as curd, flavored milk) and "Dodla" (for VAPs such as ghee, butter, paneer, butter milk and ice creams). They primarily derived all of their revenue in Fiscal 2020 and six-months period ended September 30, 2020, from sale of milk and dairy based VAPs in the branded consumer market. They are the third largest private milk company in south India in terms of procurement (Source: CRISIL Report) and second highest in terms of market presence across all of India amongst private dairy players with a significant presence in the southern region of India (Source: CRISIL Report). They have a varied portfolio of dairy-based VAPs targeted at various consumer segments, allowing them to adapt to their retail clients' shifting preferences. The management feels that the power of their brands aids them in many facets of their business, including expanding into new areas, forming partnerships with distributors and retailers, and cultivating relationships with customers, investors, and lenders.

##### ➤ **Focused engagement and long-term relationship with dairy farmers**

Farmers have benefited from the company's farmer-friendly policies and ongoing engagement with welfare programmes, which has strengthened their relationships with farmers and, as a result, their raw milk procurement process. They provide a number of programmes for the farmers from whom they obtain raw milk. They rely on farmers and third-party suppliers as part of their diverse procurement network. To ensure transparency, they use electronic milk analyzers to check the quality and quantity of raw milk obtained from farmers. They pay the farmers once every 10 to 15 days with the money being sent directly to the bank accounts of their farmers, which motivates them to engage with them more frequently. They have consistently improved their direct procurement from farmers from 2018 from 0.50 MLPD to 1.02 MLPD as of December 31, 2020. They also work with regional banks and facilitate sanctioning of loans to farmers which they utilize to invest in their cattle. They have also diversified into an ingredient input providing company by supplying upfront cattle feed under the "Orga" brand, manufactured by their Subsidiary Orgafeed Private Limited, directly to their farmers through their procurement network. They've partnered with a number of vets to offer services to farmers for their dairy animals. They also host a number of training camps with veterinarians to teach farmers on how to best prevent common diseases in their dairy cows. As a result of their ongoing interaction with farmers and their expertise of the dairy business, along with farmer welfare programmes, they have built a robust procurement network that has helped them control raw milk costs and ensure the supply of high-quality raw milk.

##### ➤ **Stringent quality control procedures**

They are dedicated to ensuring the quality and safety of their products. Well-defined quality and food safety procedures at all stages from procurement to distribution of their products reflect their commitment to quality and food safety. To ensure that they only procure raw milk that satisfies their criteria for further processing, all quality inspections are documented in a quality manual. Their VLCCs are fitted with GPRS-enabled electronic milk analyzers that test the raw milk for fat and solid not fat (SNF) content. They also conduct tests such as color and odor, allowing them to separate low-quality raw milk at their VLCCs. Adulteration and neutralizer tests are performed in their chilling centers. Adulteration tests and neutralizer tests are performed on raw milk at their processing plants to detect impurities. One of the key drivers of their business is quality and food safety, which is a key component of their policy. Their processing plants at Nellore, Palamaner, Penemuru, Badvel and Dharmapuri are ISO 22000:2018 certified for food management system. Their products have also received certifications from FSSAI.

➤ **Integrated business model with well-defined procurement, processing and distribution capabilities**

Their integrated business model enables them to provide end to end capabilities from procurement till distribution and marketing in a cost-efficient manner. The key components of their integrated business model are as follows:

- **Procurement:** Raw milk is one of the key raw materials for their business. Their procurement operations are spread across various states and consist of an average procurement of approximately 1.02 MLPD of raw milk, as on Dec 31, 2020 which has improved from 0.5 MLPD in 2018. Management believes that a robust raw milk procurement process is essential for their business to consistently procure quality raw milk for their operations. The strategic location of their processing plants, chilling centers and VLCCs enables them to minimize the transportation and handling costs, without any loss in quality or nutritional value.
- **Processing:** Their processing operations are spread across 13 processing plants with an aggregate installed capacity of 1.70 MLPD. Their processing infrastructure, with fully automated processing lines, is designed in a manner to ensure efficient operations and high product quality standards.
- **Distribution & Marketing:** The Company sells its products under the "Dodla" and "Dodla Dairy" brand in India. As of December 31, 2020 they distributed milk and dairy based VAPs through 40 sales offices, 3,336 distribution agents, 863 milk distributors and 449 milk product distributors. They also engage in various marketing and promotional campaigns in order to market their products such as undertaking, door to door campaigning for their products, hoardings, signages, direction boards and kiosk promotions.

➤ **Experienced Board and senior management team**

They are led by an experienced Board of Directors, who have extensive knowledge and understanding of the dairy business and have the expertise and vision to organically and inorganically scale up their business. The Board, is led by the Chairman Dodla Sessa Reddy, who has led the Company through sustained period of growth and has also taken initiatives to improve their processes and efficiencies, implementation of enterprise resource planning system in the year 2000 and replication of the India business model in Uganda and Kenya which led to their overseas operations turning profitable. Their core managerial team has an average dairy industry experience of more than 20 years and most of them have been associated with the Company since the formative years.

➤ **Financial Growth and operational efficiencies**

They have delivered consistent growth over the last three financial years both in terms of financial and operational metrics. Their revenue from operations increased at a CAGR of 15.98% over Fiscal 2018 to Fiscal 2020 and amounted to `21,393.73 million in Fiscal 2020, while their EBITDA increased during the same period at a CAGR of 11.81% and amounted to `1,409.26 million, their profit after tax amounted to `498.71 million in Fiscal 2020. Their return on equity and return on capital employed for FY20 were at 11.50% and 17.34%, respectively which the management believes is due to the successful integration of the acquisitions with their operations. Their debt-to-equity ratio was 0.20, 0.35, 0.39 and 0.37 as on September 30, 2020, FY20, FY19 and FY18 respectively. Further, their receivable days were 1.23 days and 1.27 days as on FY20 and September 30, 2020 respectively.

**Key Strategies:**

➤ **Enhance their brand visibility and expand the reach of their products**

Management believes that their brands are recognized by their consumers given their presence across the south Indian markets for over 23 years and robust quality of their processed milk. Further, presence across multiple VAPs such as curd, flavored milk, ice cream, butter milk, ghee and butter has also enabled them to strengthen their brand visibility and they plan to leverage upon it to launch new value-added products. Going forward, they intend to increase their brand visibility of the VAPs by undertaking more advertisement campaigns. Additionally, during the previous fiscal year, they redesigned their milk packaging to improve brand visibility. They plan to expand their distribution network and engage with hypermarkets, supermarkets, and retailers as part of their product outreach campaign so that all of their items are more accessible to their customers. They recently launched some of their products in Africa, including full cream milk under the trademark "Dodla+." They also want to raise "Dodla+" brand awareness in the African markets where they do business.

➤ **Further strengthen their procurement and processing operations**

The Company's present raw milk procurement procedures rely heavily on dairy farmers and third-party suppliers to supply them with raw milk. They are charged a commission by third-party suppliers, which raises the cost of core raw material. In Tamil Nadu and Andhra Pradesh, they have eliminated third-party suppliers from their procurement network, and they want to do so across the country. For the nine months ending December 31, 2020, their total average raw milk procurement was 1.02 MLPD. They will be able to lower their raw milk expenses and maintain their goods competitively priced as a result of this. For their processing operations, they are identifying various strategic initiatives to improve their operational efficiencies and reduce operating costs. For example, they intend to continue to (i) adopt more efficient production process to decrease milk reprocessing and reduce their water use; (ii) decrease their electricity consumption due to refrigeration by refining the current plant and machinery; and (iii) switch from conventional to non-conventional sources of energy.

➤ **Expand their operations domestically and internationally by way of organic and inorganic growth**

The company intends to continue to grow domestically and internationally by way of organic and inorganic growth in order to increase their presence and revenue. For their Indian operations, they have in the past grown both organically by setting up their own processing plants and inorganically by either acquiring processing plants or business units from third parties. They have been able to take over the supply and distribution chains of the plants that they have acquired and integrate these acquisitions into the Company's supply and distribution channels through which they believe they have started obtaining synergies as their Company got first mover advantages into new markets. They feel that their ability to properly integrate organic and inorganic assets with current operations has resulted in significant growth. They are always evaluating future expansion through acquisitions in new underpenetrated markets in India and worldwide to complement their growth strategy of putting up processing plants and purchasing processing facilities and businesses in regions where they find potential.

➤ **Increase their revenues from dairy based VAPs**

Sales of processed milk have always been their main source of earnings. In order to expand further and boost profits, they have focused on dairy-based VAPs in recent years. To optimize their product portfolio, they plan to augment their earnings by expanding VAP sales and

striking a balance between processed milk and VAPs. They feel that their current product portfolio is in line with changing dairy consumption patterns and preferences, and that it can be adjusted accordingly.

➤ **Research and Development in dairy farming and allied activities**

The company is committed towards implementation of scientific techniques in dairy farming and allied activities. Their research and development activities are focused towards increased productivity of cattle leading to production of quality and safe milk and milk products. Their research activities are divided into the following focus areas:

- *Genetic Research*- Investigation into genetic diversity and relationship between HF breed cows and varied India cattle breed to lead to improvement of dairy herd genetics that affect health, longevity and reproductive traits in cattle used for raw milk production.
- *Breeding Research*- They undertake research to reduce the breeding cycle of cows and on related activities including semen selection for more productive cows.

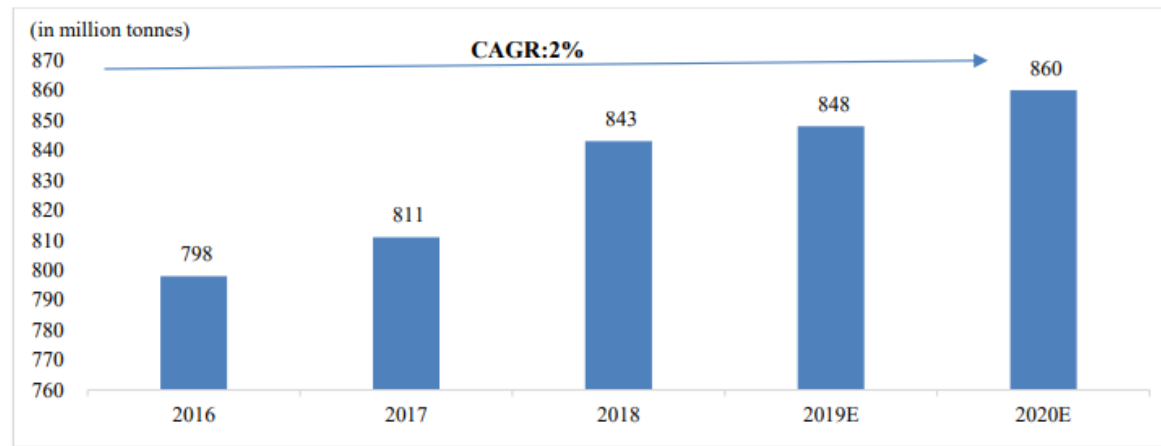
**Industry Snapshot:**

**Overview of the Global dairy industry**

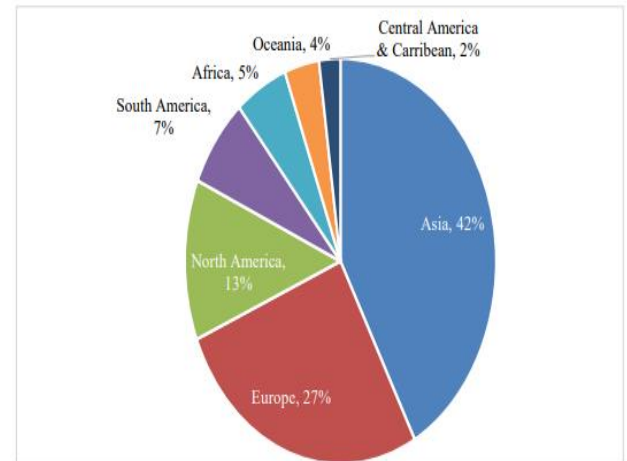
**Global milk production increased by 1.4% in 2020**

Global milk production increased by 1.4% in 2020 Global milk output is estimated to have reached ~860 million tonnes in CY2020, up nearly ~1.4% from 2019. The growth is in account of increase in milk production in Asia, Europe and USA. In Asia, milk output is estimated to have reached ~362 million in 2020, up ~2% on-year as a result of expansions in India, Pakistan, China and Turkey. In Turkey & China, rising cattle numbers and operational efficiency are leading to higher output. In Japan, government price support provided during the early phase of Covid-19 market disruptions helped stabilize milk output. India, the largest milk producer in the world, is also estimated to have witnessed an increase in milk production underpinned by increase in dairy cattle and improved feed & fodder availability resulting from favourable monsoon (July – September 2020). In European Union and United States, the production is bolstered by yield improvements and government assistance.

**Trend in global milk production (in million tonnes)**



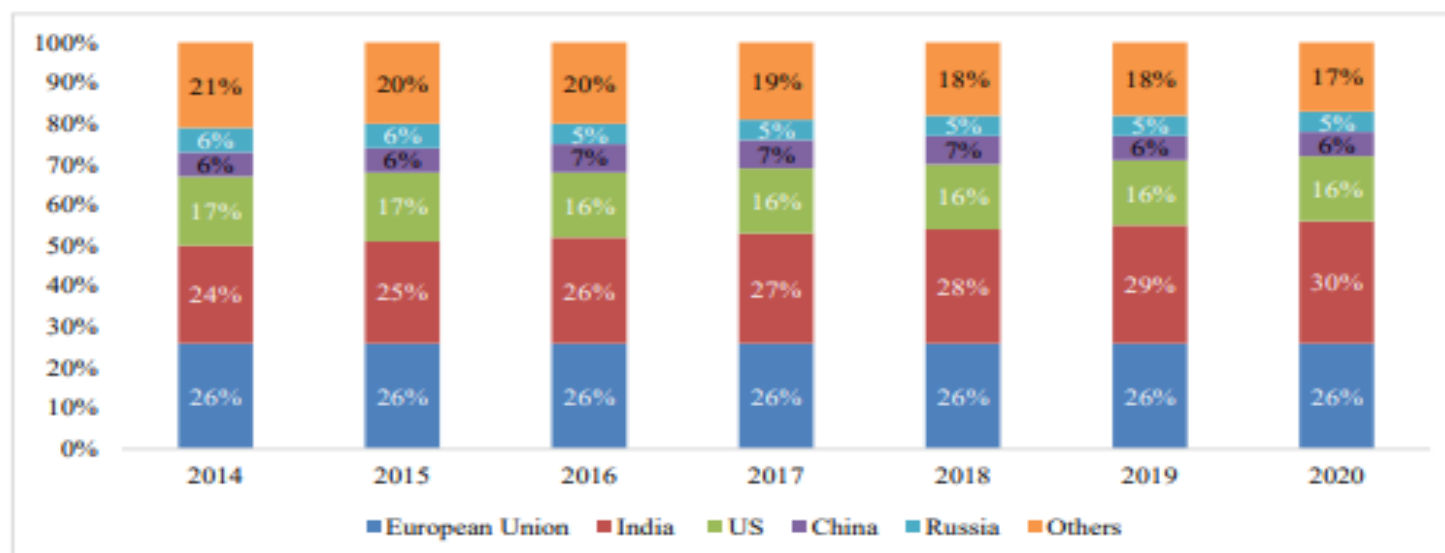
Note: E: Estimated  
Source: FAO, CRISIL Research



Source: FAO, CRISIL Research

India is the largest milk producer in the world India is the global leader in milk production, contributing ~30% of milk production in 2020. Top six milk-producing countries, viz., India, USA, China, Pakistan, Brazil and Germany, together contributed more than ~60% of the world’s milk production. India’s share in overall production increased to 25% in 2015 from 30% in 2020.

**India continues to be the largest milk producer (CY 2020)**

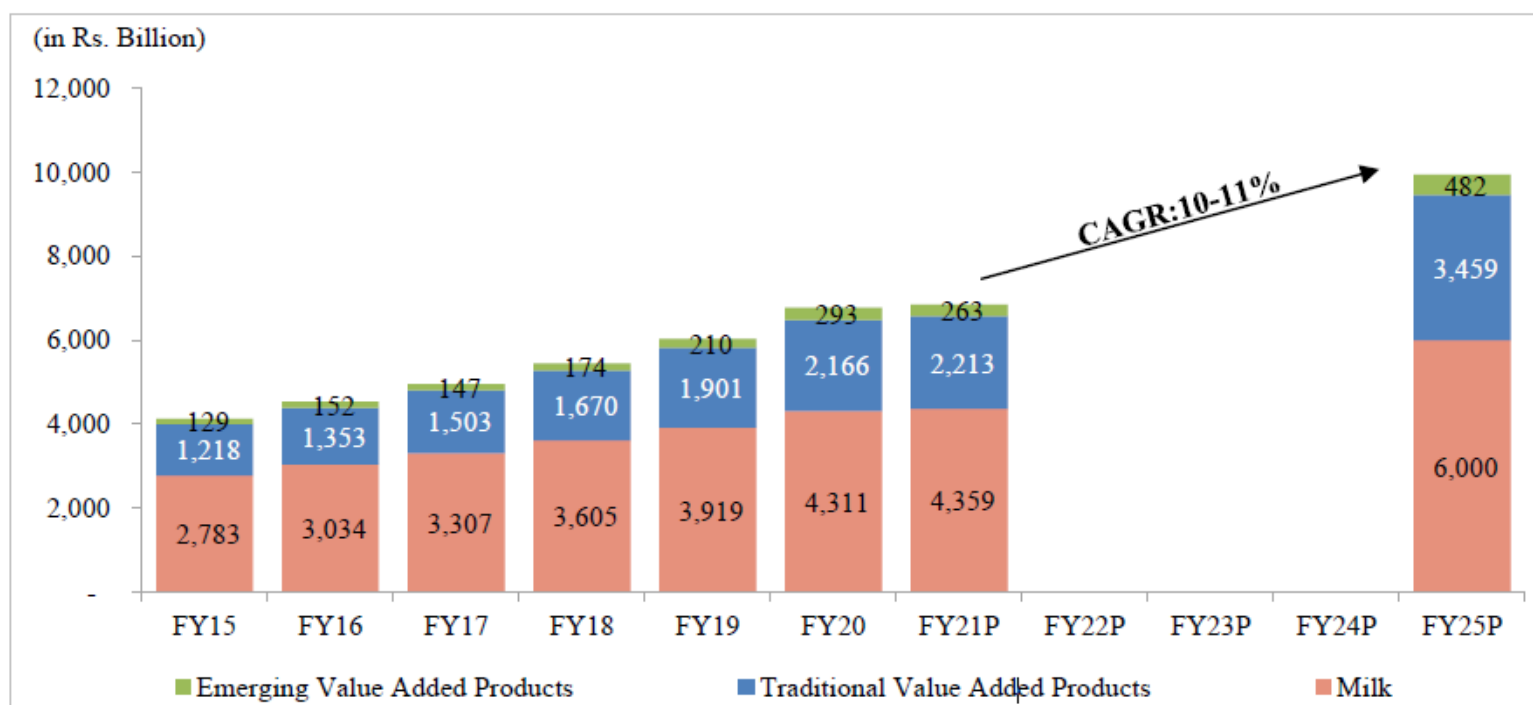


Source: USDA, Industry, CRISIL Research

**Indian Dairy Industry Growth**

The Indian dairy market industry has grown at a CAGR of ~10% between fiscal 2015 and 2020 to reach ₹6.7 trillion in fiscal 2020. This growth has come on the back of a 6-7% increase in volumes and 3-4% increase in price realizations. The dairy industry includes milk, traditional value-added products (include Butter, Ghee, Paneer, Khoa, Curd & Skimmed milk powder) and embedded value products (flavored milk, ice cream, yoghurt, cheese and whey). Over the last five years, the growth in the industry has been driven by the value-added products (~35% of the industry in value terms) which have witnessed a growth of 12- 14% between fiscal 2015 and 2020. Amongst the value-added products, emerging value-added products has grown at a faster rate of ~18% as compared to 12-13% for traditional value-added products.

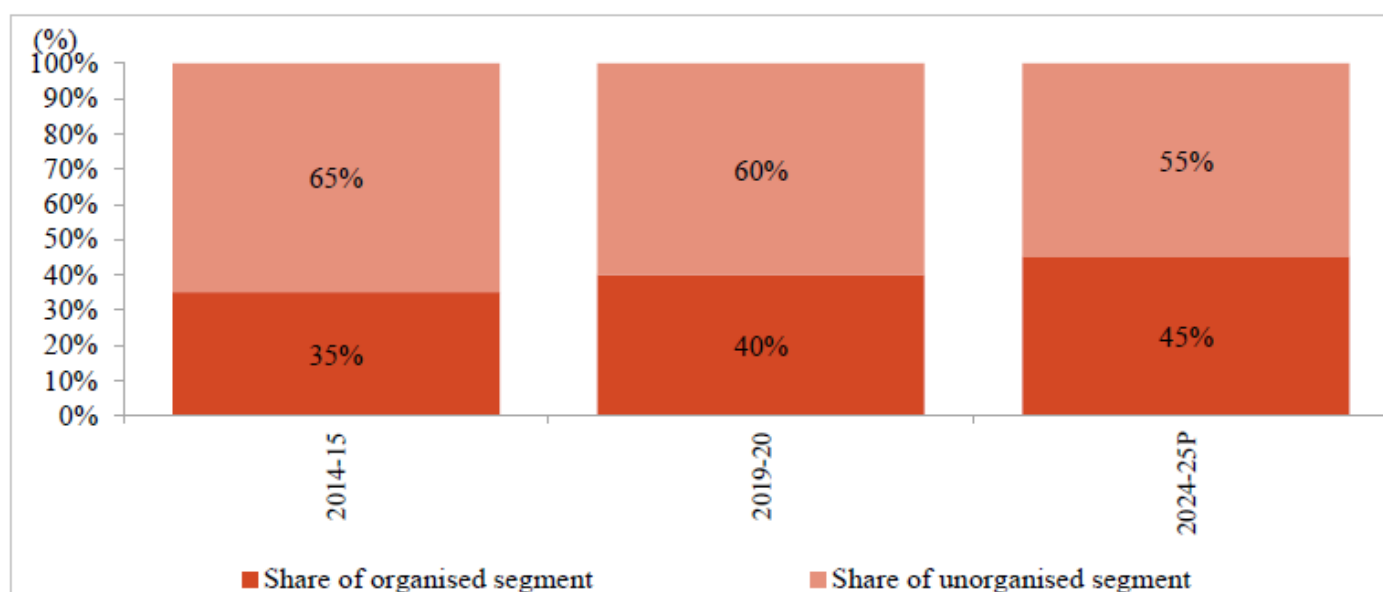
The structural factors like increasing young population, inclination towards healthier, high protein diet, higher demand for value added products and aggressive growth plans of quick service restaurants (QSR) is expected to propel the growth of the industry. With economic growth expected to gradually pick up and demand from the HORECA segment also expected to return, the industry may grow at a CAGR of 10-11% between FY21 to FY25. Within this, embedded value products are expected to outpace other segment and grow faster at ~14-16% between FY21 and FY25. Traditional value-added products and milk is expected to grow by 10-12% and 6-8% between the same time periods.



Note: 1) Traditional value added products include Butter, Ghee, Paneer, Khoa, Curd & Skimmed milk powder, 2) Emerging value added products include flavoured milk, ice cream, yoghurt, cheese and whey; 3) P: Projected  
Source: Industry, CRISIL Research

**Indian dairy sector is highly fragmented and unorganized**

As of FY20, the unorganized segment dominated the Indian dairy industry with ~59-60% market share, while the organized sector accounted for the rest, at the retail level sales of dairy products. In fiscal 2021, outbreak of Covid-19 pandemic accelerated the shift towards organized players, on account of supply chain disruptions and increased focus on hygiene and health. Going forward, the organized segment is expected to grow at a faster pace of 12-13%, while the unorganized segment is expected to grow at 8-10%, thus enhancing the share of the organized players in the near future. Rising consumerism, growing urbanization, some cooperatives being impacted due to lack of professionalism and preference for branded packaged foods will primarily drive this trend. In addition, rising capital investments from private players will give them a strong foothold to eat into the market share of unorganized players



Note: Data is in terms of value, P: Projected  
Source: Industry, CRISIL Research

**Key Risk:**

- Operations are dependent on the supply of large amounts of raw milk, and inability to procure adequate amounts of raw milk from farmers and third party suppliers, at competitive prices, may have an adverse effect on the business, results of operations and financial condition.
- The coronavirus disease (COVID-19) has had an adverse effect on company business and operations and the extent to which it may continue to do so in the future, is uncertain and cannot be predicted.
- Any actual or alleged contamination or deterioration of their products or their raw materials could result in legal liability, damage company reputation and adversely affect their business prospects and consequently financial performance.
- The supply of raw milk is subject to seasonal factors, and does not necessarily match the seasonal change in demand for products. Consequently, company inability to accurately forecast demand for their products, may have an adverse effect on company business, results of operations and financial condition.
- Company processing plants, procurement operations in relation to procurement of raw milk and distribution operations are primarily concentrated in southern India and any adverse developments affecting this region could have an adverse effect on their business, results of operations and financial condition.
- Inability to compete with dairy cooperatives may adversely affect their results of operations and financial condition.
- Subsidiaries, OPL and Dodla Dairy Kenya Limited have incurred losses in the past and may incur losses in the future.
- The dairy products business in India is evolving rapidly and is highly competitive and an inability to compete effectively with established and new competitors may adversely affect the growth prospects, results of operations and financial condition.
- Failure to comply with environmental laws and regulations could lead to unforeseen environmental litigation which could impact company business and its future net earnings.
- Shortage or non-availability of electricity, firewood, gas or water may adversely affect the processing or manufacturing operations and have an adverse effect on the business, results of operations and financial condition.

**Valuation:**

Dodla Dairy Ltd is available at 4.8x P/BV and 47.8x its FY20 earnings at the upper end of the price band. India being the largest milk producer and consumer in the world, we believe in the long term prospects of the domestic dairy industry. It has immense potential for growth for Company. We believe Dodla Dairy is available at fair valuations considering the opportunity size lying ahead of the company in the dairy industry that is constantly in the process of evolution from raw milk to focus towards value added milk and milk products.

Considering the company has a diversified product basket, strong brands and wide distribution network, we believe that the company will continue to perform well on both the top-line and the bottom-line front. Hence we recommend investors to **Subscribe** to the issue from a longer term perspective.

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