

Dodla Dairy Ltd.



Dodla Dairy Ltd

Issue Opens On
June 16, 2021

Issue Closes On
June 18, 2021

Price Band (INR)
421 – 428

Issue Size (INR Cr)
520

Rating
SUBSCRIBE

Dodla Dairy Ltd. (DDL), incorporated in 1995, is an integrated dairy company with a significant presence in the southern markets. Notably, DDL is the 3rd largest company in terms of raw milk procurement with an average procurement of 1.03mn liters per day (MLPD) as of 31st Mar'21 and the 2nd largest private dairy player in terms of market presence. DDL's Indian operations are undertaken under "Dodla Dairy", "Dodla" and "KC+" brands, while overseas operations are undertaken under "Dodla Dairy", "Dairy Top" and "Dodla+" brands. DDL's operations consist of processing the raw milk into packaged milk and manufacturing other dairy-based value-added products (VAPs) at 13 plants with an aggregate installed capacity of 1.7 MLPD.

OFFER STRUCTURE

| Particulars | IPO Details |
|-----------------------------|-----------------------|
| No. of shares under IPO (#) | 12,173,092-12,153,668 |
| Net offer (# shares) | 12,173,092-12,153,668 |
| Price band (INR) | 421 – 428 |
| Post issue MCAP (INR Cr.) | 2,505-2,546 |

Source: IPO Prospectus

| Indicative Timetable | |
|--------------------------------------------------------|---------------------------------------|
| Offer Closing Date | June 18, 2021 |
| Finalization of Basis of Allotment with Stock Exchange | On or about 23 rd Jun 2021 |
| Initiation of Refunds | On or about 24 th Jun 2021 |
| Credit of Equity Shares to Demat accounts | On or about 25 th Jun 2021 |
| Commencement of Trading of Eq.shares on NSE | On or about 28 th Jun 2021 |

Source: IPO Prospectus

| Issue | # Shares | INR in Cr | % |
|------------------|-------------------|------------|-------------|
| QIB | 6,076,833 | 260 | 50% |
| NIB | 1,823,051 | 78 | 15% |
| Retail | 4,253,784 | 182 | 35% |
| Net Offer | 12,153,668 | 520 | 100% |

Source: IPO Prospectus

| Objects of the Offer: The net proceeds will be utilized for the following purpose |
|--------------------------------------------------------------------------------------------------------------------------------|
| Repayment and pre-payment of certain borrowings availed by the company from ICICI Bank, HSBC Bank and HDFC Bank (INR 32.26 Cr) |
| Funding incremental capital expenditure requirements of the company (INR 7.15 Cr) |

| Shareholding Pattern | Pre-Issue (%) | Post-Issue (%) |
|-----------------------------|---------------|----------------|
| Promoters & Promoters Group | 68.52% | 64.17% |
| Others | 31.48% | 35.83% |
| Total | 100.0% | 100.0% |

Source: IPO Prospectus

| Particulars (In INR Cr)* | FY18 | FY19 | FY20 | 9MFY21 |
|--------------------------|-------|-------|-------|--------|
| Revenue | 1,590 | 1,692 | 2,139 | 1,413 |
| EBITDA | 113 | 134 | 141 | 206 |
| EBITDA Margin | 7.1% | 7.9% | 6.6% | 14.6% |
| PAT | 57 | 63 | 50 | 116 |
| PAT Margin | 3.6% | 3.7% | 2.3% | 8.2% |
| Net Worth | 339 | 406 | 433 | 550 |
| RONW | 16.7% | 15.4% | 11.5% | 21.2% |

Source: IPO Prospectus, * Restated Statement

Dodla Dairy Ltd

Company Overview

Dodla Dairy Limited (DDL) is an integrated dairy company based in south India mainly deriving most of their revenue from the sale of milk and dairy based Value-Added Products (“VAPs”). Amongst private dairy players with a significant presence in the southern region of India, Dodla Dairy is the third highest in terms of milk procurement per day with an average procurement of 1.03 mn litres of raw milk per day (“MLPD”) as of 31 March 2021 and second highest in terms of market presence across all of India amongst private dairy players. DDL’s operations in India are spread across five states of Andhra Pradesh, Telangana, Karnataka, Tamil Nadu and Maharashtra, while overseas operations are based in Uganda and Kenya.

Business Model

DDL’s aggregate installed capacity increased from 1.29 MLPD in FY18 to 1.70 MLPD in FY21. Additionally, DDL has commissioned a UHT milk processing plant in Rajahmundry in April 2019 to support its operations. DDL’s distribution and marketing operations consist of distribution of their milk and dairy based VAPs through 40 sales offices, 3,285 distribution agents, 861 milk distributors and 544 milk product distributors across 11 states in India. DDL’s processing operations consist of processing of the collected raw milk into packaged milk and manufacturing of other dairy based VAPs by its thirteen processing plants with an aggregate installed capacity of 1.70 MLPD. These include the Vedasandur and Batlagundu processing plants which were acquired by DDL pursuant to a business transfer agreement (“BTA”) dated 8 February 2019 with KC Dairy Products Pvt. Ltd. and its shareholders.

Installed Capacity and Capacity Utilisation across various Plants

| Name of Plants | FY20 | | | FY21 | | |
|-----------------------|---------------------------|--------------------------|--------------------------|---------------------------|--------------------------|--------------------------|
| | Installed Capacity (MLPD) | Actual Production (MLPD) | Capacity Utilisation (%) | Installed Capacity (MLPD) | Actual Production (MLPD) | Capacity Utilisation (%) |
| Andhra Pradesh | | | | | | |
| Badvel | 0.05 | 0.05 | 100% | 0.05 | 0.05 | 105% |
| Kurnool | 0.05 | 0.04 | 94% | 0.05 | 0.05 | 101% |
| Palamaner | 0.38 | 0.27 | 73% | 0.38 | 0.19 | 49% |
| Penumur | 0.05 | 0.06 | 138% | 0.05 | 0.04 | 85% |
| Nellore | 0.20 | 0.25 | 122% | 0.20 | 0.17 | 82% |
| Rajahmundry | 0.15 | 0.03 | 22% | 0.15 | 0.04 | 24% |
| Sattenapalle | 0.04 | 0.02 | 63% | 0.04 | 0.03 | 70% |
| Tamil Nadu | | | | | | |
| Batlagundu | 0.09 | 0.05 | 54% | 0.09 | 0.08 | 82% |
| Dharmapuri | 0.10 | 0.12 | 122% | 0.10 | 0.09 | 93% |
| Vedasandur | 0.05 | 0.05 | 103% | 0.05 | 0.005 | 9% |
| Karnataka | | | | | | |
| Indragi | 0.20 | 0.15 | 75% | 0.20 | 0.14 | 68% |
| Tumkur | 0.03 | 0.03 | 112% | 0.03 | 0.03 | 97% |
| Telangana | | | | | | |
| Hyderabad | 0.29 | 0.15 | 55% | 0.29 | 0.13 | 47% |
| Overseas | | | | | | |
| Uganda | 0.10 | 0.08 | 80% | 0.30 | 0.05 | 18% |
| Total | 1.78 | 1.35 | | 1.98 | 1.10 | |
| Nellore (SMP) * | 15,000 | 11,192 | 75% | 15,000 | 5,486 | 37% |
| Vedasandur (SMP) * | 10,000 | 3,155 | 32% | 10,000 | 3,551 | 36% |

Source: IPO Prospectus *KG/day

Dodla Dairy Ltd

INVESTMENT RATIONALE

Integrated business model with well defined procurement, processing and distribution capabilities :

DDL has an integrated business model which enables the company to provide end to end capabilities from procurement till distribution and marketing of its products in a cost-efficient manner. The company procures raw milk directly from the farmers and through third party suppliers. Over the years, DDL has consistently improved its direct procurement from farmers, with 0.50 MLPD in 2018 to 0.95 MLPD as of FY21 end, with such direct procurement comprising 92.75% of DDL's total raw milk procurement as of March 31, 2021. Company's processing operations are spread across 13 processing plants (12 of which are owned and 1 is leased) located in the states of Andhra Pradesh, Telangana, Karnataka and Tamil Nadu in India with an aggregate installed capacity of 1.70 MLPD, excluding 2 SMP plants in Nellore and Vadasandur which have an aggregate installed capacity of 15,000 and 10,000 kgs per day respectively. DDL regularly incurs capital expenditure to upgrade technology across its various processing plants and expand into new geographies by way of introduction of modern automated plants.

Stringent food safety and quality control policy of DDL is one of the main drivers of its business:

DDL is committed towards quality and safety of its products. The company's determination towards quality and food safety is demonstrated by well-defined quality and food safety procedures at various stages from procurement to distribution of its products. DDL maintains a cold storage chain from the procurement stage till the time the milk and dairy based VAPs reach the consumer. All quality checks are documented in a quality manual to ensure that they only procure raw milk which meets their standards for further processing. Quality and food safety forms a part of DDL's policy which is one of the main drivers of its business.

DDL is purely consumer focused with a diverse range of products under the "Dodla Dairy" and "Dodla" brands:

DDL 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. DDL's Indian operations are undertaken under the brands "Dodla Dairy" (for milk and perishable products such as curd, flavoured milk) and "Dodla" (for VAPs such as ghee, butter, paneer, butter milk and ice creams). The company offers a diverse portfolio of dairy based VAPs targeted at various consumer segments and this enables them to cater to the changing preferences of their retail customers. DDL sell fresh milk, ghee, butter, curd, paneer, gulab jamun, doodh peda, basundhi and junnu, which are targeted at consumption at home. The company also sells UHT milk, flavoured milk, ice cream and beverages such as buttermilk under their brand, primarily for direct consumption. The strength of its brands helps DDL in many aspects of its business, including expanding to new markets, entering into agreements with distributors and retailers and building relationships with their customers, investors and lenders.

Focused engagement and long-term relationship with dairy farmers:

DDL's farmer friendly policies and continuous engagement with farmers with welfare programs have strengthened its relationships with farmers which in turn has strengthened the company's raw milk procurement process. DDL offers a variety of initiatives for the farmers from whom it procures raw milk. As part of its diversified procurement network, DDL relies on third party suppliers and farmers. In order to ensure transparency, DDL tests the quality and quantity of the raw milk collected from the farmers with electronic milk analysers. The company's VLCCs are equipped with GPRS enabled milk analysers and weigh scales which provide a transparent acknowledgement for quantity and quality components for the milk supplied by the farmers. DDL also works with regional banks and facilitates sanctioning of loans to farmers which they utilise to invest in their cattle.

Impressive financial performance and operational efficiency:

DDL has delivered consistent growth over the last three financial years both in terms of financial and operational metrics. The company has improved its debt to equity ratio (D/E) over the years. The D/E ratio of the company was 0.17, 0.35, 0.39 and 0.37 as on 9MFY21, FY20, FY19 and FY18 respectively. Further, DDL has also improved its receivable days from 1.23 days in FY20 to 0.66 days in 9MFY21, with its trade receivables amounting to INR 7.20 crore and INR 3.39 crore as on FY20 and 9MFY21 respectively.

Highly experienced board of directors and senior management team:

DDL is led by an experienced Board of Directors, who has extensive knowledge and understanding of the dairy business and has the expertise and vision to organically and inorganically scale up their business. Their Board, led by the Chairman Dodla Sessa Reddy, 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 their India business model in Uganda and Kenya which led to their overseas operations turning profitable. Further, since 2012, the company has benefited from marquee investors being shareholders of the company and represented on the Board of the company by undertaking a number of initiatives such as, inter alia, formulating a future growth strategy, further strengthening the corporate governance standards, entry into new line of VAPs, internal processes and controls including migration to SAP and introducing KPI based formal appraisal systems for the management. The Board is supplemented by their senior and middle-level management team members. The 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.

Dodla Dairy Ltd

Future Growth Strategies

Further strengthen the procurement and processing operations:

DDL's current raw milk procurement operations are primarily dependent on dairy farmers as well as third party suppliers supplying them raw milk which is costly and also leads to farmers being paid lesser compared to direct procurement. They have eliminated third party suppliers from their procurement network in Tamil Nadu and Andhra Pradesh and plan to implement this throughout their procurement network. For their processing operations, the company is identifying various strategic initiatives to improve their operational efficiencies and reduce operating costs. DDL intends to continue to (i) adopt more efficient production process to decrease milk reprocessing and reduce water use; (ii) decrease the electricity consumption due to refrigeration by refining the current plant and machinery; and (iii) switch from conventional to non-conventional sources of energy. Further, the company continues to invest in modern technology and equipment to address changing customer preferences as well as to improve operational efficiencies.

Expand the 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 its presence and revenue. For its India operations, DDL in the past had 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 acquired plants, including, in FY16, a processing plant in Dharmapuri, Tamil Nadu which provided them access to the markets in central and southern Tamil Nadu. In FY13, they acquired a processing plant in Kurnool. They commenced operations at their new processing plant in Rajahmundry, Andhra Pradesh, in April 2019, which provided them access to the markets of coastal Andhra Pradesh. DDL entered into a business transfer agreement with KC Dairy Products Pvt. Ltd. and Chellamuthu Sureshkumar on February 8, 2019 ("BTA"). Pursuant to the BTA, the company has acquired 2 new processing plants at Vendasandur and Batlagundu in Tamil Nadu and 1 SMP plant at Vendasandur. In FY19 they, through their Subsidiary Orgafeed Pvt. Ltd., acquired the cattle feed and mixing plant in Andhra Pradesh for the purpose of manufacturing and selling cattle feed to farmers through their procurement network. For their overseas operations, the company entered into the markets of Uganda in FY15 with the acquisition of operations of Hillside Dairy and Agriculture Ltd by their Subsidiary Lakeside Dairy Ltd. Their entry in the Ugandan market allowed them to expand their reach to the East African markets. DDL has been able to take over the supply and distribution chains of the aforesaid plants that they have acquired and have been able to integrate these acquisitions into their supply and distribution channels through and obtained synergies as well as first mover advantages into new markets.

Enhance its brand visibility and expand the reach of its products:

DDL's brands are recognised by consumers given their presence across the South Indian markets for over 23 years and robust quality of their processed milk. Going forward, the company intends to increase brand visibility of its Value Added Products (VAPs) by undertaking more advertisement campaigns. As part of product outreach program, they intend to actively increase their distribution network and engage with hyper markets, super markets and retailers so that all of their products become more accessible to their consumers. DDL also intends to convert its multi-brand dealer network into exclusive suppliers who house only DDL's products in a phased manner to have better control over its brand. The company also intends to increase the number of Dodla Retail Parlours in the states of Andhra Pradesh, Telangana, Karnataka and Tamil Nadu based on the existing franchise model. In Africa, they recently introduced some of their products such as full cream milk under the brand "Dodla+".

DDL intends to increase its revenues from dairy based VAPs:

DDL's revenue from sale of processed milk grew at a CAGR of 16.44% from INR 1,144.33 crore in FY18 to INR 1,551.44 crore in FY20, while the revenues from VAPs grew at a CAGR of 73.45% from INR 450.20 crore in FY18 to INR 579.25 crore in FY20. Historically, sales of processed milk have been their primary revenue driver. In order to grow further and also increase margins, over the last few years the company has focused on dairy based VAPs. DDL intends to supplement its revenue by increasing the sales of its VAPs and strike a balance between processed milk and VAPs to optimise its product portfolio. While DDL's current product portfolio includes curd, the company proposes to introduce new variants of cheese and other products at price points as low as INR 10, to expand its product portfolio and reach a wider variety of consumers. The company in the past three fiscals introduced products such as ice creams, UHT milk and flavoured milk in pet bottles. Further, they currently sell buttermilk, lassi, doodhpeda, milk and curd at price points of INR 7, INR 10, and INR 15, which cater to a large number of consumers. Key drivers of their dairy based VAPs are curd, UHT milk, ghee, butter, flavoured milk, paneer, and ice creams for their Indian operations and liquid milk yogurt, ghee, paneer, cheese and UHT milk for their overseas operations.

Enhance the scope of Research and Development in dairy farming and allied activities:

DDL's research and development activities are focused towards increased productivity of cattle leading to production of quality and safe milk and milk products, through their Associate Company GVC. DDL's research activities are divided into i) genetic research and ii) breeding research. The company intends to enhance its scope of R&D activities in the above two subfields going forward.

Dodla Dairy Ltd

Outlook and Valuation:

Due to lower procurement prices of milk in FY21, many dairy companies reported EBITDA margin expansion for FY21. DDL reported a margin expansion of 802 bps, from 6.6% in FY20 to 14.6% in FY21. If we look into DDL's peer companies like Hatsun Agro and Heritage Foods, they have reported an EBITDA margin expansion of 362 bps and 622 bps respectively. Though Parag Milk Foods have reported a decline of 188 bps in its margin for FY21. With sequential recovery in economy, the milk procurement prices have started inching upwards. However, we have noticed of late, post covid wave-2 induced localised lockdowns, the milk procurement prices have again contracted by INR 3-4/litre and is likely to benefit dairy companies in H1FY22. Though going forward, structural recovery in economy post vaccination may result in steady increase in milk procurement prices in our view, thereby impacting the margins of the dairy companies.

DDL's IPO size is INR 520 Cr, which includes a fresh issue of INR 50 Cr and offer for sale (OFS) of INR 470 Cr. The price band of the issue is INR 421-428. On the upper price band of INR 428 and EPS of INR 14.57 for FY20, the P/E ratio works out to be 47.8x. If we annualise the 9MFY21 EPS, then P/E ratio works out to be 15.4x, which is reasonable. If we compare DDL with its peers like Hatsun Agro and Heritage Foods, then Heritage Foods is available at a P/E of 12.1x, which is lower than DDL. Though, Hatsun Agro is available at a P/E of 79.1x its FY21 earnings, which is significantly higher than DDL. **We believe, DDL has a good potential for future and is also available at a reasonable valuation compared to its peers. As a result, we recommend a 'SUBSCRIBE' rating for the DDL IPO.**

Peer Comparison:

| Company Name | CMP (INR) | Mkt Cap (INR Cr) | Sales (INR Cr) | Sales Growth (%) | EBITDA (INR Cr) | EBITDA Margin (%) | PAT (INR Cr) | PAT Margin (%) | P/E (x) |
|------------------------|-----------|------------------|----------------|------------------|-----------------|-------------------|--------------|----------------|---------|
| Dodla Dairy Ltd. (DDL) | 428 | 2,383 | 1,885* | (11.9) | 275* | 14.6* | 155* | 8.2* | 15.4 |
| Heritage Foods | 415 | 1,926 | 2,473 | (9.3) | 271 | 11.0 | 148 | 6.0 | 12.1 |
| Hatsun Agro | 901 | 19,431 | 5,570 | 4.9 | 779 | 14.0 | 246 | 4.4 | 79.1 |
| Parag Milk Foods | 139 | 1,322 | 1,842 | (24.5) | 125 | 6.8 | 21 | 1.2 | 55.5 |

Source: Bloomberg, IPO Prospectus, KRChoksey Research *9MFY21 Annualised Figures

Dodla Dairy Ltd

Financials:

| Income Statement (INR Cr) | FY18 | FY19 | FY20 | 9MFY21 |
|--------------------------------------|--------------|--------------|--------------|--------------|
| Total Revenue from Operations | 1,590 | 1,692 | 2,139 | 1,414 |
| YoY Growth (%) | NA | 6.4% | 26.5% | NA |
| EBITDA | 113 | 134 | 141 | 207 |
| EBITDA Margin (%) | 7.1% | 7.9% | 6.6% | 14.6% |
| Other Income | 7 | 8 | 6 | 4 |
| Depreciation | 28 | 37 | 49 | 38 |
| EBIT | 91 | 105 | 98 | 172 |
| Interest expense | 11 | 12 | 16 | 10 |
| Exceptional Item | 0 | 0 | 0 | 0 |
| PBT | 80 | 93 | 82 | 162 |
| Tax | 24 | 31 | 32 | 46 |
| Share of Profit / MI | 0 | 0 | 0 | 0 |
| PAT | 57 | 63 | 50 | 116 |
| EPS (INR) | 10.1 | 11.3 | 9.0 | 20.9 |

Source: IPO Prospectus, KRChoksey Research

| Balance Sheet (INR Cr) | FY18 | FY19 | FY20 | 9MFY21 |
|----------------------------------------|------------|------------|------------|------------|
| ASSETS | | | | |
| Fixed Assets | 326 | 451 | 482 | 471 |
| Capital work-in-progress | 16 | 11 | 11 | 22 |
| Other intangible assets | 3 | 16 | 12 | 10 |
| Goodwill | 0 | 36 | 44 | 44 |
| Investments | 67 | 26 | 12 | 5 |
| Other Non-Current Assets | 13 | 15 | 18 | 12 |
| Inventories | 134 | 125 | 120 | 113 |
| Trade Receivables | 4 | 7 | 7 | 3 |
| Loans & Advances | 22 | 24 | 13 | 13 |
| Other Current Assets | 8 | 18 | 11 | 7 |
| Trade Payables | 62 | 76 | 78 | 77 |
| Other Current Liabilities & Provisions | 31 | 36 | 55 | 57 |
| Cash & Cash Equivalents | 14 | 22 | 69 | 162 |
| Other Financial Assets | 0 | 0 | 1 | 1 |
| Total Assets | 513 | 639 | 668 | 730 |
| LIABILITIES | | | | |
| Equity Share Capital | 3 | 56 | 56 | 56 |
| Reserves | 336 | 351 | 378 | 494 |
| Net Worth | 340 | 406 | 433 | 550 |
| Non-controlling interest | 0 | 0 | 0 | 0 |
| Borrowings | 155 | 208 | 198 | 143 |
| Other Non-current liabilities | 0 | 0 | 0 | 0 |
| Deferred tax liabilities (net) | 19 | 26 | 36 | 38 |
| Total Liabilities | 513 | 639 | 668 | 730 |

Source: IPO Prospectus, KRChoksey Research

Dodla Dairy Ltd

ANALYST CERTIFICATION:

I, Parvati Rai (MBA-Finance, M.com), Head Research, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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