

## Dodla Dairy

**BUY**  
Maintained

### Acquisition of Sri Krishna Milks to strengthen footprint in Karnataka and South Maharashtra

**Rs460**

#### Company Update

## Dairy

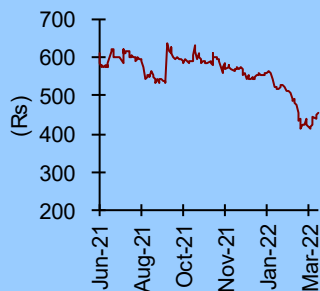
Target price Rs615

#### Shareholding pattern

	Jun '21	Sep '21	Dec '21
Promoters	62.5	62.5	62.5
Institutional investors	18.7	21.8	21.4
MFs and others	9.2	10.2	10.5
FIs/Bank/Ins	0.1	0.0	0.0
Other inst.	4.9	4.6	4.5
FIs	4.5	7.0	6.4
Others	18.8	15.7	16.1

Source: BSE

#### Price chart



We believe acquisition of Sri Krishna Milks to be value accretive in medium term as (1) Sri Krishna operates in key region of Dodla i.e. South India and same products where Dodla has strong understanding i.e. milk and curd, (2) While Sri Krishna was loss making, it has Gross margin of ~22% over FY18-21 which indicates strong consumer acceptance of the brand and (3) post acquisition Dodla will be able to consolidate its position in North Karnataka, South Maharashtra and Goa. However, we believe the acquisition will be earnings decreative in FY23 and also likely in FY24 as the interest income on acquisition value of Rs500mn will be likely higher than profits generated by Sri Krishna. We remain structurally positive on Dodla due to its competitive advantages and strong growth opportunity in South India, with a DCF-based TP of Rs615 (19.4x FY24E EPS).

- **Acquisition of Sri Krishna Milks:** Dodla has acquired Sri Krishna Milks for a cash consideration of Rs500mn on a slump sale basis. We note Sri Krishna Milks operates in milk and milk products in Karnataka and Goa. The acquisition is likely to strengthen Dodla's presence (the procurement and sales) in North Karnataka, Goa and south Maharashtra. Sri Krishna Milks has one milk processing unit at Kirwatti with capacity of 0.15mlpd and has also created investments in milk procurements.
- **Gross margin of ~22% over FY18-21 indicates acceptance of Sri Krishna brand:** Sri Krishna was loss making in five years out of FY16-21. However, we note it was generating healthy gross margin of ~22% and the losses were largely attributable to higher depreciation (likely lower capacity utilization) and high interest costs.
- **Strong presence in value added products:** Apart from milk, Sri Krishna also sells value added products such as curd, flavored milk and mithai products. Its key brand is Sri Krishna but it also sells flavored milk under the brand Sri Krishna MUST.
- **Details of capacity and procurement:** Sri Krishna has milk handling capacity of 150,000 lpd, It also has production capacity of sterilized flavored milk capacity of 3,000lpd. It also has strong production capacity to manufacture paneer, ghee and sweets. It has 5 chilling centers and 9 bulk milk chilling centers.
- **Maintain BUY:** We model Dodla to report revenue and PAT CAGR of 13.7% and 14.3% respectively, over FY21-24E and RoE to be upwards of 16% in FY24E. We remain structurally positive on Dodla due to its competitive advantages and strong growth opportunity in South India, we maintain **BUY** rating with a DCF-based TP of Rs615 (implied P/E 19.4x FY24E EPS). Key risks: Delay in distribution and procurement expansion, and failure of some of the new products.

Market Cap	Rs27.4bn/US\$358mn	Year to March	FY21	FY22E	FY23E	FY24E
Bloomberg	DODLA IN	Revenue (Rs mn)	19,440	22,413	25,349	28,568
Shares Outstanding (mn)	59.5	Adj. Net Profit (Rs mn)	1,260	1,190	1,520	1,883
52-week Range (Rs)	672/385	Dil. Rec. EPS (Rs)	21.6	20.0	25.6	31.7
Free Float (%)	37.5	% Chg YoY	110.4	(7.4)	27.8	23.9
FII (%)	6.4	P/E (x)	21.3	23.0	18.0	14.5
Daily Volume (US\$'000)	667	CEPS (Rs)	30.3	29.4	35.5	42.5
Absolute Return 3m (%)	(19.6)	EV/EBITDA (x)	10.2	12.5	10.6	9.0
Absolute Return 12m (%)	NA	Dividend Yield (%)	0.0	-	-	-
Sensex Return 3m (%)	1.7	RoCE (%)	27.1	16.9	17.4	18.2
Sensex Return 12m (%)	17.4	RoE (%)	21.5	15.1	16.0	16.8

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## Summary financials of Sri Krishna Milks

Table 1: Income Statement

Particulars (Rs mn)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Net Revenues	380	452	538	645	812	834	861	938	902	763	673
Cost of materials consumed	361	432	516	621	779	801	754	712	673	650	507
Employee benefit expense	9	10	12	14	18	19	44	57	60	63	50
Other Expenses	-	-	-	-	-	-	140	156	157	137	106
<b>EBITDA</b>	<b>9</b>	<b>10</b>	<b>10</b>	<b>11</b>	<b>15</b>	<b>14</b>	<b>-78</b>	<b>13</b>	<b>13</b>	<b>-87</b>	<b>10</b>
Depreciation	6	5	5	6	10	10	10	13	32	23	21
<b>EBIT</b>	<b>4</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>-88</b>	<b>-0</b>	<b>-19</b>	<b>-110</b>	<b>-11</b>
Interest	5	5	5	6	7	6	4	4	12	22	22
Other Income	2	2	3	11	2	3	87	2	1	1	1
<b>PBT</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>10</b>	<b>1</b>	<b>1</b>	<b>-5</b>	<b>-2</b>	<b>-30</b>	<b>-131</b>	<b>-33</b>
Tax	0	1	1	1	1	1	-1	5	-8	-26	-3
<b>PAT</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>9</b>	<b>0</b>	<b>-1</b>	<b>-3</b>	<b>-6</b>	<b>-22</b>	<b>-104</b>	<b>-30</b>
Prior period/Exceptional /Extra Ordinary Items	-	-	-	-	-	-	-6	-	-	-	-
<b>PAT</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>9</b>	<b>0</b>	<b>-1</b>	<b>2</b>	<b>-6</b>	<b>-22</b>	<b>-104</b>	<b>-30</b>

Source: Company data, I-Sec research

Table 2: Balance Sheet

Liabilities (Rs mn)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Share capital	4	4	4	4	9	9	11	11	11	11	12
Reserves and surplus	13	14	16	24	20	19	123	131	132	33	60
Share application money pending allotment	-	3	2	2	-	-	-	-	-	-	-
<b>Total shareholders funds</b>	<b>18</b>	<b>21</b>	<b>22</b>	<b>31</b>	<b>29</b>	<b>28</b>	<b>134</b>	<b>142</b>	<b>143</b>	<b>44</b>	<b>71</b>
<b>Non-current liabilities</b>											
Long-term borrowings	20	22	22	13	15	9	3	91	57	62	113
Deferred tax liabilities (net)	2	2	2	2	2	2	0	-	-	-	-
Other long-term liabilities	2	2	2	2	3	3	3	4	5	45	16
<b>Total non-current liabilities</b>	<b>24</b>	<b>26</b>	<b>27</b>	<b>17</b>	<b>19</b>	<b>13</b>	<b>6</b>	<b>95</b>	<b>63</b>	<b>107</b>	<b>129</b>
<b>Current liabilities</b>											
Short-term borrowings	17	16	27	23	34	30	21	49	84	116	96
Trade payables	15	24	26	18	33	27	33	66	95	83	81
Other current liabilities	2	1	1	6	8	7	4	28	57	45	25
Short-term provisions	1	1	1	2	1	2	0	-	-	-	-
<b>Total current liabilities</b>	<b>35</b>	<b>41</b>	<b>55</b>	<b>49</b>	<b>75</b>	<b>65</b>	<b>58</b>	<b>143</b>	<b>236</b>	<b>244</b>	<b>201</b>
<b>Total equity and liabilities</b>	<b>76</b>	<b>89</b>	<b>104</b>	<b>97</b>	<b>123</b>	<b>107</b>	<b>198</b>	<b>379</b>	<b>441</b>	<b>395</b>	<b>401</b>
<b>Assets</b>											
Total fixed assets	36	34	41	44	51	50	68	246	303	290	270
Non-current investments	10	17	17	5	5	-	-	-	-	0	0
Deferred tax assets (net)	-	-	-	-	-	-	-	-5	4	30	33
<b>Current assets</b>											
Inventories	12	12	25	28	44	34	58	63	70	38	65
Trade receivables	3	6	9	7	11	13	20	25	32	23	24
Cash and bank balances	2	5	2	2	3	5	44	24	4	2	2
Short-term loans and advances	14	15	10	10	10	6	8	26	28	12	7
<b>Total current assets</b>	<b>30</b>	<b>37</b>	<b>45</b>	<b>47</b>	<b>67</b>	<b>57</b>	<b>130</b>	<b>138</b>	<b>135</b>	<b>74</b>	<b>98</b>
<b>Total assets</b>	<b>76</b>	<b>89</b>	<b>104</b>	<b>97</b>	<b>123</b>	<b>107</b>	<b>198</b>	<b>379</b>	<b>441</b>	<b>395</b>	<b>401</b>

Source: Company data, I-Sec research

**Table 3: Ratio Analysis**

Particulars	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
<b>Profitability ratios (%)</b>											
Gross margin	4.8	4.4	4.0	3.9	4.1	4.0	12.4	24.1	25.4	14.8	24.6
EBITDA margin	2.4	2.2	1.9	1.7	1.9	1.7	-9.0	1.4	1.4	-11.4	1.5
EBIT margin	1.0	1.1	1.0	0.8	0.6	0.5	-10.2	-0.0	-2.1	-14.4	-1.6
PBT margin	0.2	0.5	0.6	1.5	0.1	0.1	-0.5	-0.2	-3.3	-17.1	-4.9
PAT margin	0.2	0.3	0.4	1.3	0.0	-0.1	-0.4	-0.7	-2.4	-13.7	-4.4
Effective tax rate	25.0	31.8	22.6	14.1	77.8	280.0	30.4	-270.6	28.1	20.2	9.1
RoE		7.7	11.0	32.1	0.7	-3.2	-4.0	-4.6	-15.1	-111.8	-51.8
RoCE		8.3	7.8	6.7	6.7	5.5	-75.4	-0.0	-6.6	-39.5	-4.0
<b>Major Costs as % of Net Sales</b>											
Cost of materials consumed	95.2	95.6	96.0	96.1	95.9	96.0	87.6	75.9	74.6	85.2	75.4
Employee benefit expense	2.4	2.3	2.1	2.2	2.3	2.3	5.1	6.1	6.6	8.2	7.4
Other Expenses	-	-	-	-	-	-	16.2	16.7	17.4	17.9	15.7
<b>Working Capital Days</b>											
Inventories	11.1	9.8	17.0	16.1	19.5	14.9	24.7	24.6	28.2	18.1	35.3
Trade receivables	3.2	4.6	5.9	4.1	4.9	5.6	8.6	9.7	13.1	10.8	13.2
Short-term loans and advances	13.1	11.7	6.7	5.4	4.5	2.4	3.4	10.0	11.5	5.7	3.6
Trade payables	14.8	19.0	17.8	10.1	14.8	11.9	13.8	25.7	38.4	39.9	43.7
Other current liabilities	1.6	0.8	0.3	3.4	3.5	2.8	1.7	10.8	23.1	21.7	13.4
Short-term provisions	0.9	1.0	0.7	1.4	0.3	0.7	0.1	-	-	-	-
<b>Net Working Capital Days</b>	<b>10.1</b>	<b>5.2</b>	<b>10.8</b>	<b>10.8</b>	<b>10.4</b>	<b>7.4</b>	<b>21.1</b>	<b>7.8</b>	<b>-8.7</b>	<b>-26.9</b>	<b>-5.0</b>
Net Debt/Equity (x)	2.2	1.7	2.3	1.2	1.7	1.4	-0.1	0.8	1.0	5.1	3.1

Source: Company data, I-Sec research

**Table 4: Production capacity details**

Particulars	Details
Milk Handling (LPD)	1,50,000
Fermented Milk Products (LPD)	30,000
Sterilized Flavoured Milk (LPD)	3,000
Ghee Production (Tons/Month)	100
Paneer Production (Tons/ Month)	75
Sweets Production (Tons/ Month)	30

Source: Company data, I-Sec research

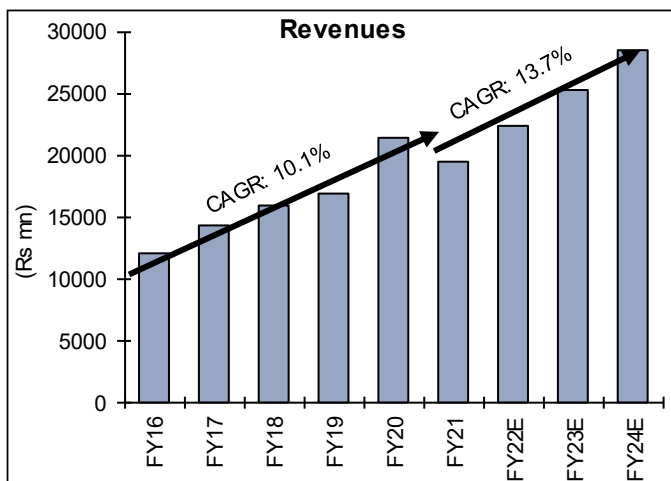
**Table 5: Milk procurement facilities**

Particulars	Details
Chilling Centers	5
Bulk Milk Chilling Centers	9
Villages covered	825
Milk Collectors	850
Dairy Farmers	18,000

Source: Company data, I-Sec research

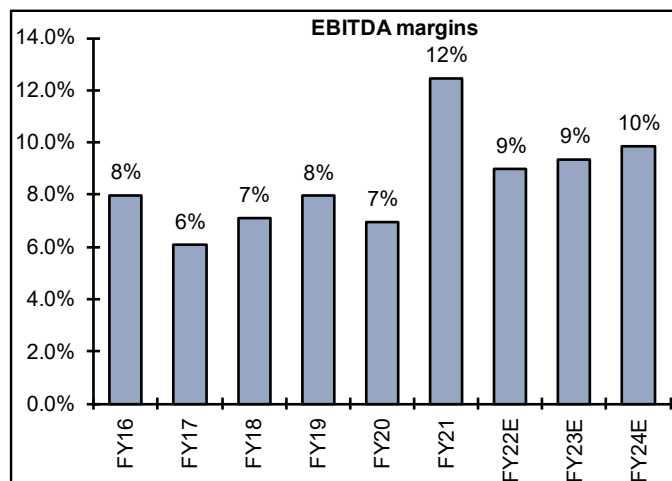
### Key ratios – Annual

**Chart 1: Revenue and revenue growth**



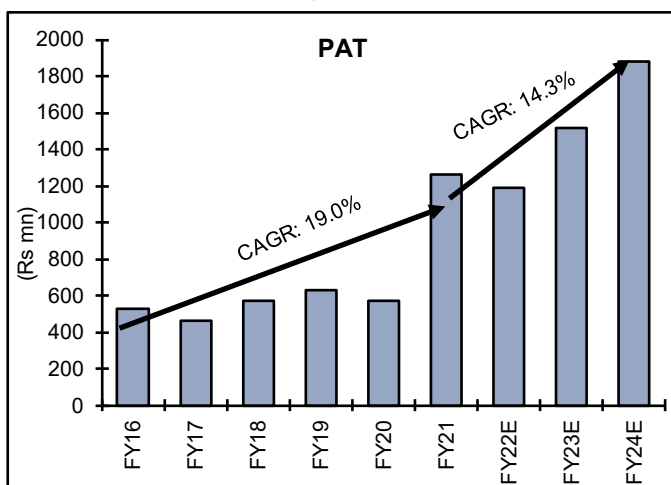
Source: Company data, I-Sec research

**Chart 2: EBITDA margin**



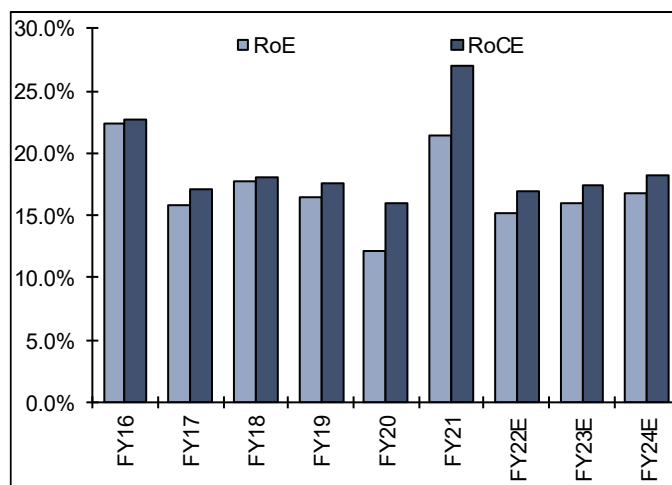
Source: Company data, I-Sec research

**Chart 3: PAT and PAT growth**



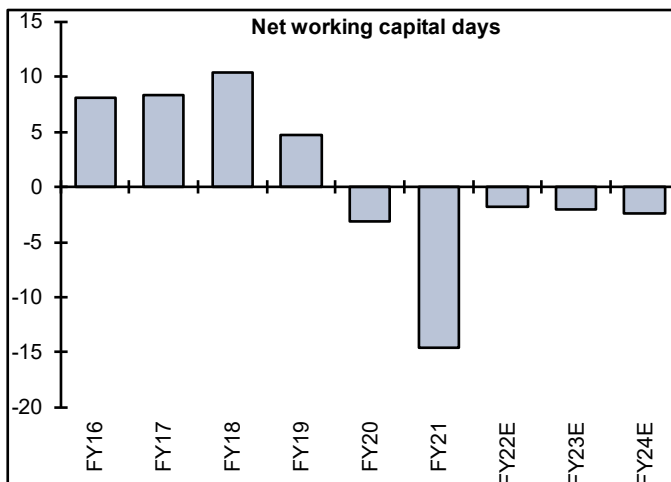
Source: Company data, I-Sec research

**Chart 4: RoE and RoCE**



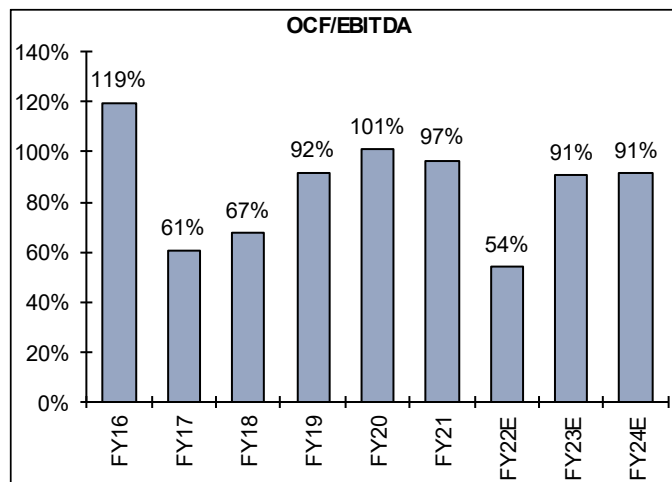
Source: Company data, I-Sec research

**Chart 5: Net working capital days**



Source: Company data, I-Sec research

**Chart 6: OCF/ EBITDA**



Source: Company data, I-Sec research

## Valuation and risks

We model Dodla to report revenue and PAT CAGRs of 13.7% and 14.3% over FY21-FY24E and RoE to move to 16.8% in FY24E from 21.5% in FY21. At our DCF-based target price of Rs615, the implied P/E works out to 19.4x FY24E EPS. Maintain BUY.

**Table 6: DCF-based valuation**

Particulars	Amt (Rs)
Cost of Equity (%)	11.3
Terminal growth rate (%)	4.0
Discounted interim cash flows (Rs mn)	14,037
Discounted terminal value (Rs mn)	22,551
Total equity value (Rs mn)	36,588
<b>Value per share (Rs)</b>	<b>615</b>

Source: Company data, I-Sec research

## Risks

### Sharp increase in input prices and competitive pressures

Major increase in milk procurement prices and/or increase in competitive pressures will result in downside to our estimates.

### Delays in launch of new plants/products

Any delays in launch of new products and/or plants may result in lower earnings than estimated.

## Financial summary

**Table 7: Profit & Loss statement**

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Net Sales</b>	<b>19,440</b>	<b>22,413</b>	<b>25,349</b>	<b>28,568</b>
<b>Operating Expenses</b>	<b>17,015</b>	<b>20,396</b>	<b>22,979</b>	<b>25,754</b>
<b>EBITDA</b>	<b>2,425</b>	<b>2,017</b>	<b>2,370</b>	<b>2,814</b>
% margins	12.5	9.0	9.4	9.9
Depreciation & Amortisation	507	562	592	647
Gross Interest	119	67	67	67
Other Income	64	233	237	314
<b>Recurring PBT</b>	<b>1,862</b>	<b>1,621</b>	<b>1,949</b>	<b>2,414</b>
Less: Taxes	602	431	429	531
Less: Minority Interest	-	-	-	-
<b>Net Income (Reported)</b>	<b>1,260</b>	<b>1,190</b>	<b>1,520</b>	<b>1,883</b>
Extraordinaries (Net)	(0)	-	-	-
<b>Recurring Net Income</b>	<b>1,259</b>	<b>1,190</b>	<b>1,520</b>	<b>1,883</b>

Source: Company data, I-Sec research

**Table 8: Balance sheet**

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Assets</b>				
Total Current Assets	3,415	2,152	2,734	3,755
of which cash & cash eqv.	2,244	580	977	1,796
Total Current Liabilities & Provisions	1,946	1,681	1,901	2,143
<b>Net Current Assets</b>	<b>1,469</b>	<b>471</b>	<b>833</b>	<b>1,613</b>
Investments	130	130	130	130
Net Fixed Assets	5,021	5,292	5,450	5,553
Capital Work-in-Progress	83	-	-	-
<b>Total Assets</b>	<b>7,776</b>	<b>9,466</b>	<b>10,986</b>	<b>12,869</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>742</b>	<b>742</b>	<b>742</b>	<b>742</b>
<b>Deferred Tax Liability</b>	<b>454</b>	<b>454</b>	<b>454</b>	<b>454</b>
Minority Interest	-	-	-	-
Equity Share Capital	583	595	595	595
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	5,996	7,675	9,195	11,078
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	<b>6,580</b>	<b>8,270</b>	<b>9,790</b>	<b>11,673</b>
<b>Total Liabilities</b>	<b>7,776</b>	<b>9,466</b>	<b>10,986</b>	<b>12,869</b>

Source: Company data, I-Sec research

**Table 9: Quarterly trend**

(Rs mn, year ending March 31)

	Mar 21	Jun 21	Sept 21	Dec 21
Net sales	5,305	5,121	5,664	5,752
% growth (YoY)	0.6%	12.5%	22.9%	15.7%
EBITDA	360	510	619	520
<b>Margin (%)</b>	<b>6.8</b>	<b>10.0</b>	<b>10.9</b>	<b>9.0</b>
Other income	28	26	31	37
Extraordinaries (Net)	4	39	(4)	9
<b>Adjusted Net profit</b>	<b>100</b>	<b>400</b>	<b>290</b>	<b>277</b>

Source: Company data, I-Sec research

**Table 10: Cashflow statement**

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Operating Cashflow</b>	1,840	1,752	2,112	2,530
Working Capital Changes	507	(666)	35	39
Capital Commitments	(562)	(750)	(750)	(750)
<b>Free Cashflow</b>	<b>1,784</b>	<b>335</b>	<b>1,397</b>	<b>1,819</b>
<b>Cashflow from Investing Activities</b>	<b>(1,472)</b>	<b>(2,500)</b>	<b>(1,000)</b>	<b>(1,000)</b>
Issue of Share Capital	982	500	-	-
Inc (Dec) in Borrowings	(631)	-	-	-
Dividend paid	(107)	-	-	-
<b>Change in Deferred Tax Liability</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>555</b>	<b>(1,665)</b>	<b>397</b>	<b>819</b>

Source: Company data, I-Sec research

**Table 11: Key ratios**

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Per Share Data (Rs)</b>				
EPS	21.6	20.0	25.6	31.7
Cash EPS	30.3	29.4	35.5	42.5
Dividend per share (DPS)	1.8	-	-	-
Book Value per share (BV)	120.6	146.6	172.2	203.8
<b>Growth (%)</b>				
Net Sales	(9.1)	15.3	13.1	12.7
EBITDA	62.7	(16.8)	17.5	18.7
PAT	120.4	(5.5)	27.8	23.9
DPS	110.4	(7.4)	27.8	23.9
<b>Valuation Ratios (x)</b>				
P/E	21.3	23.0	18.0	14.5
P/CEPS	15.2	15.6	13.0	10.8
P/BV	3.8	3.1	2.7	2.3
EV / EBITDA	10.2	12.5	10.6	9.0
EV / Sales	1.3	1.1	1.0	0.9

### Operating Ratios

Raw Material / Sales (%)	69.5	73.4	73.0	72.5
Employee cost / Sales (%)	4.6	4.6	4.6	4.6
SG&A / Sales (%)	0.3	0.5	0.5	0.5
Other Income / PBT (%)	3.4	14.3	12.2	13.0
Effective Tax Rate (%)	32.4	26.6	22.0	22.0
Working Capital (days)	(14.6)	(1.8)	(2.1)	(2.3)
Inventory Turnover (days)	18.1	21.9	21.9	21.9
Receivables (days)	0.9	1.1	1.1	1.1
Payables (days)	34.4	27.0	27.0	27.0
Net D/E (x)	(0.3)	(0.3)	(0.4)	(0.5)

### Profitability Ratios (%)

Net Income Margins	6.5	5.3	6.0	6.6
RoACE	27.1	16.9	17.4	18.2
RoAE	21.5	15.1	16.0	16.8
Dividend Payout	8.5	-	-	-
Dividend Yield	0.4	0.0	0.0	0.0
EBITDA Margins	12.5	9.0	9.4	9.9

Source: Company data, I-Sec research

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