

Rating: Subscribe for listing gain

Issue Offer

Issue Summary

Price Band (INR)	421 – 428
Face Value (INR)	10
Implied Market Cap (INR Cr)	2,505 - 2,546
Market Lot	35 shares
Issue Opens on	June 16, 2021
Issue Close on	June 18, 2021
No. of shares	12,173,092 - 12,153,668
Issue Size (INR Cr)	512.49 - 520.18
Listing	NSE / BSE

Issue Break-up (%)

QIB Portion	50
NIB Portion	15
Retail Portion	35

Book Running Lead Managers

Axis Capital
ICICI Securities

Registrar

KFin Technologies Pvt. Ltd.

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	68.52%	64.17%
Public & Others	31.48%	35.83%

Particulars	FY20	FY21E (9MFY21 annualized)
Revenue (INR cr)	2,139	1,885
EBITDA %	6.6	14.6
PAT (INR cr)	50	155
EPS (INR)	9.0	27.9
P/E (upper price band)	47.8x	15.4x

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Incorporated in 1995, Dodla Dairy Limited (DDL) is an integrated dairy company in South India that is engaged in the procurement, processing, distribution, and marketing of milk and other dairy products. It processes and sells milk including standardized, toned, double toned milk, and produces dairy products like curd, butter, ghee, ice cream, flavoured milk, etc.

Its Indian operations are mainly undertaken under the brand name of "Dodla", "Dodla Dairy", and "KC+" whereas it serves overseas market under the brand name of "Dodla Dairy", "Dairy Top", and "Dodla+". Telangana, Andhra Pradesh, Karnataka, Tamil Nadu, and Maharashtra are the key Indian market segments served by the company while in the overseas market, it mainly serves countries like Uganda and Kenya.

It has a total of 13 processing plants to process raw material into packaged milk and manufacture dairy-based value-added products. The company has a strong distribution network of 40 sales offices, 3336 distribution agents, 863 milk distributors, and 449 product distributors across 11 states in India.

Amongst private dairy players with a significant presence in the southern region of India, it claims the third highest in terms of milk procurement per day with an average procurement of 1.03mn litres of raw milk per day (MLPD) as of March 31, 2021 and second highest in terms of market presence across all of India amongst private dairy players with a significant presence in the southern India.

Financials

DDL's financial performance has not been impressive over FY18-FY20, mainly due to higher procurement milk prices and higher depreciation. DDL reported a Revenue/EBITDA CAGR of 16%/11.8%, respectively over FY18-FY20. Company margins were in a declining trend from 7.1% in FY18 to 6.6% in FY20. Further, the company recorded a negative net profit CAGR of 6.2% FY18-FY20.

Due to Covid-led disruptions, the company saw 20% drop in volumes and 12% fall in sales 9MFY21. If we annualize the 9MFY21, the weakness in HoRECA, out-of-consumption and also attributable to consumers not returning to urban regions, the revenue declined by 11.9% in FY21. With lower procurement prices during FY21, DDL has witnessed improvement in EBITDA margin of 14.6%. The company reported a PAT at INR155cr in FY21 as against average annual profit of INR56cr over the last three years. Further, its OCF generation continues to remain steady with cumulative OCF of INR392cr during FY18-9MFY21 period.

Valuations & Recommendations

The company issues an IPO worth INR520cr, as it looks to strengthen its footprint in the southern Indian states. This includes a fresh issue of INR50cr and offer for sale (OFS) of INR470cr. On the upper price band of INR428 and EPS of INR14.57 for FY20, the P/E ratio works out to be 47.8x. On annualizing the 9MFY21 EPS, the P/E ratio is 15.4x. If we compare it with its peers, Heritage trades at 12.1x below at DDL, however, Hatsun trades at a significant premium of 79.1x in FY21. The company margins were on declining mode between FY18 to FY20, however it posted high margins for 9MFY21. We feel that the 9MFY21 margins were abnormal and will normalize going forward which in turn will also lower the RoE of 23.7% in FY21. We believe the key determinants of revenue growth as well as profitability for DDL in the coming 3-5 years will be: 1) strengthening direct milk procurement, 2) right product mix, 3) rising acceptance of value added milk, and 4) distribution expansion. Hence, we believe the IPO can be SUBSCRIBED for listing gain.

Objects of Issue

The Offer includes a fresh equity of INR50cr and an offer for sale (OFS) up to 1,00,85,444 equity shares of face value of INR10 per share, by the promoters.

Objects	Amount (INR cr)
Repayment and/ or pre-payment, in full or part, of certain borrowings availed by the company from ICICI Bank, HSBC Bank and HDFC Bank	32.26
Funding incremental capital expenditure requirements of the company	7.15
General Corporate Purposes	*
Total	*

Source: RHP and Arihant Research

Offer Details

The Offer	Equity Shares
Fresh Issue (INR 50cr)	Upper Price Band : 1,168,224 Lower Price Band: 1,157,648

Source: RHP and Arihant Research

Offer for Sale by	Upto 10,085,444 Equity Shares
Dodla Sunil Reddy – The Promoter Selling Shareholder	Upto 416,604 Equity Shares
Dodla Family Trust – The Promoter Selling Shareholder	Upto 1,041,509 Equity Shares
Dodla Deepa Ready. – The Promoter Group Selling Shareholder	Upto 327,331 Equity Shares
TPG Dodla Dairy Holdings Pte Ltd (TDDHPL)- The Investor Selling Shareholder	Upto 9,200,000 Equity Shares

Source: RHP and Arihant Research

Shareholding Pattern

Shareholder	Pre-Offer		No. Of Shares Added	Post-Offer	
	No. Of Equity Shares	% of Total Equity Share Capital		No. Of Equity Shares	% of Total Equity Share Capital
Promoter & Promoter Group	39,96,1356	68.52%	1,785,444	38,175,912	64.17%
•Dodla Sunil Reddy	8,26,9038		4,16,604	7,852,434	
•Dodla Family Trust	16,14,4877		1,041,509	15,103,368	
•Dodla Deepa Ready	7,43,3958		3,27,331	7,106,627	
•Other Promoter & Promoter Group	8,11,3483				
Total Public	1,836,3155	31.48%	9,200,000	21,316,823	35.83%
•TPG Dodla Dairy Holdings Pte Ltd (TDDHPL)	1,503,1434		9,200,000	5,831,434	
•Public – Others	3,33,1721			15,485,389	
Total Equity Share Capital	5,832,4511	100.00%	10,985,444	59,492,735	100.00%

Source: RHP, Company, Arihant Research

Peer Comparison

Many dairy companies except Hatsun Agro, have reported decline in revenue growth in FY21 because of negative impact led by Covid 19; albeit a positive effect on margins. Weakness in HoReCa and out-of-home consumption related demand resulted in lower milk prices during the year. Dodla Dairy (DDL)/Hatsun Agro/Heritage/Parag has reported revenue growth in FY21 of (11.9%)/4.9%/(9.3%)/(24.5%), respectively. The demand situation is currently similar to that in Q1FY20. However, with Covid cases having peaked, it should start to normalize from June.

As the procurement milk prices were lower in FY21, many dairy companies reported margin expansion. DDL reported a margin expansion from 6.6% in FY20 to 14.6% in FY21, an improvement of 802bps. However, we feel that these margins are not sustainable and will taper down going forward. The other peer companies Hatsun Agro/Heritage/Parag reported an EBITDA margin expansion of 362bps/622bps/(188bps), respectively.

With sequential recovery in economy, the milk procurement prices have started inching upwards. However, we note post covid wave-2 and localised lockdowns, the milk procurement prices have again contracted by INR3-4/Litre and is likely to benefit dairy companies in H1FY22. Structural recovery in economy post vaccination may result in steady increase in milk procurement prices.

We note that all the milk products have different profitability as well as return ratios. It is extremely important to have a right product mix for optimisation of RoCE at the company level. There are five critical factors which will determine return ratios in the dairy business, viz. 1) direct procurement of milk from farmers to control costs and working capital, 2) right product mix, 3) distribution expansion, 4) branding, and 5) spread of manufacturing units. Dairy companies in India are in different stages of moat creation and we believe those with direct milk procurement and right product mix will move ahead in the race. DDL had improved its RoCE from 9.6% in FY20 to 18.6% in FY21. The other peer companies viz Hatsun Agro/Heritage/Parag has registered a RoCE of 9.6%/12.9%/8.5%/13.4% in FY20 and 18.6%/21.3%/31.5%/5.7% in FY21, respectively.

Thus, we feel that DDL compared to its peers had shown the potential to grow going forward. Currently, the stock trades at 47.8x in FY20 and 15.4x in FY21 on an upper price band. However, Hatsun commands premium and trades at 173.3x in FY20 and 79.1x in FY21. Whereas, Heritage trades at below DDL at 12.1x. The industry average is 40.5x in FY21.

Comparative Analysis

Company	CMP INR	Market Cap INR Cr	Sales (INR Cr)		Growth % YoY	EBITDA (INR Cr)		EBITDA%		PAT (INR Cr)		PAT%	
			FY20	FY21		FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21
Dodla Dairy	428	2,383 [^]	2,139	1,885*	(11.9%)	141	275*	6.6%	14.6%*	50	155*	2.3%	8.2%*
Hatsun Agro	901	19,431	5,308	5,570	4.9%	550	779	10.4%	14.0%	111	246	2.1%	4.4%
Heritage Foods	415	1,926	2,726	2,473	(9.3%)	129	271	4.7%	11.0%	(332)	148	(12.2%)	6.0%
Parag Milk Foods	139	1,322	2,438	1,842	(24.5%)	211	125	8.7%	6.8%	94	21	3.9%	1.2%

Source: RHP, Company and Arihant Research

*Calculated on 9MFY21 annualized

[^]Existing Equity

Calculated on Upper Price Band

...contd Comparative Analysis

Company	RoE		RoCE		P/E		EV/EBITDA	
	FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21
Dodla Dairy	11.9	23.7*	9.6	18.6*	47.8	15.4*	17.7	9.3*
Hatsun Agro	12.3	24.0	12.9	21.3	173.3	79.1	45.5	26.5
Heritage Foods	8.9	29.0	8.5	31.5	NA	12.1	14.7	7.0
Parag Milk Foods	11.0	2.3	13.4	5.7	12.4	55.5	7.5	12.7
Industry Average	11.0	19.7	11.1	19.3	77.8	40.5	21.4	13.9

Source: RHP, Company and Arihant Research

*Calculated on 9MFY21 annualized

Calculated on Upper Price Band

Company Background

Dodla Dairy Limited (“Dodla Dairy”) is an integrated dairy company based in south India primarily deriving all of their revenue for Fiscal 2020 and for the 9 months period ended December 31, 2020 from the sale of milk and dairy based Value Added Products (“VAPs”) in the branded consumer market. Amongst private dairy players with a significant presence in the southern region of India, Dodla Dairy is the 3rd highest in terms of milk procurement per day with an average procurement of 1.03 million litres of raw milk per day (“MLPD”) as of March 31, 2021 and 2nd highest in terms of market presence across all of India amongst private dairy players with a significant presence in the southern region of India. Their operations in India are primarily across the 5 Indian states of Andhra Pradesh, Telangana, Karnataka, Tamil Nadu and Maharashtra. Their overseas operations are based in Uganda and Kenya.

Company’s Indian operations are undertaken under their brands “Dodla Dairy”, “Dodla” and “KC+”. Their overseas operations are undertaken under their brands “Dodla Dairy”, “Dairy Top” and “Dodla+”. They process and sell retail milk (full cream, standardised, toned and double toned) and produce dairy based value added products (“VAPs”) such as curd, Ultra-High Temperature processed (“UHT”) milk, ghee, butter, flavoured milk and ice cream amongst others. They also manufacture and sell cattle feed to farmers through their procurement network.

Business Model

DDL’s integrated business model in India consists of procurement, processing, distribution and marketing operations. Its procurement operations are spread across the states of Andhra Pradesh, Telangana, Tamil Nadu, Karnataka and Maharashtra. 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. Its distribution and marketing operations consist of distribution of its 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. Its processing plants are in close proximity to its milk procurement operations and its target market which enables to optimise transportation and raw milk handling costs. In FY19 DDL acquired a cattle feed and mixing plant with a capacity of 80 MTPD in Andhra Pradesh for the purpose of manufacturing and selling cattle feed to farmers through its procurement network. It has successfully integrated its cattle feed operations with its existing procurement network through its subsidiary OPL.

Overseas Operations

For its overseas operations, it procures raw milk from cooperative societies and follows a similar integrated business model as its India operations. Packaged milk and dairy based VAPs for retail are produced from its processing plant in Uganda and are distributed in Uganda and Kenya. Its distribution operations in Uganda are conducted through its African Subsidiary Lakeside Dairy Limited. and include distribution of its milk and dairy based VAPs as of March 31, 2021 through 23 distributors and 11 “Dodla Retail Parlours”. The distribution operations in Kenya are conducted through its African Subsidiary Dodla Dairy Kenya Limited and include distribution of its milk and dairy based VAPs as of March 31, 2021 through 43 distribution agents and 56 distributors.

Quality Control

DDL place significant emphasis on quality control across its integrated business model and has obtained several quality control certifications and registrations for its operations. The raw milk procured by it is tested by electronic milk analysers which tests for the fat and solid not fat (SNF) content of the raw milk and undergo further tests during the procurement stage. Its milk and dairy based VAPs have received certifications from the FSSAI. Quality food safety forms a part of its policy and is one of the main drivers of its business. It has well defined documented quality system which is monitored at various stages of procurement and processing.

Company Product Portfolio

- ❑ **Consumer Products (India):** Pasteurized pouch milk, UHT milk, Sterilized flavored milk, Curd (Dahi), Butter, Clarified butter (ghee), Butter milk, Lassi, Ice creams, Paneer, Kulfi, Milk based sweets
- ❑ **Consumer Products (Africa):** UHT milk, yogurt with different flavours, ghee, paneer, cheese and UHT milk

Competitive Strengths:

- 1) Company has large product portfolio.
- 2) It is a leading dairy player in the entire southern region of India.
- 3) Company has strong distribution network.
- 4) It has integrated business model with stringent quality control procedure.
- 5) Company with experienced board and managerial team.

Company Strategy:

- 1) Enhance their brand visibility and expand the reach of its products
- 2) Further strengthen its procurement and processing operations
- 3) Expand operations domestically and internationally by way of organic and inorganic growth
- 4) Increase revenues from dairy based VAPs
- 5) Research and Development in dairy farming and allied activities

Business Impact – Covid 19

The COVID-19 pandemic has affected and may continue to affect company's business, results of operations and financial condition in a number of ways, including a decrease in their sales volume by 20% and in their revenues by 12% from the period December 31, 2019 to December 31, 2020, such as

- A decrease in sales of their products such as processed milk, ice cream, curd and butter milk in the metro cities of Bengaluru and Chennai. This was primarily because of the migration of their retail customers to their base home town;
- An adverse impact on their sales to commercial establishments;
- A reduction in the consumption of their products led to a decrease in the production at certain of their processing plants such as Nellore and Palamner;
- Reduction in the budget for sales and marketing for Fiscal 2021;
- Increased risks emanating from process changes being implemented, such as increased reliance on technology, increased work-from-home measures.

While COVID-19 has directly affected their business and operations, there is significant uncertainty regarding the duration and impact of the COVID-19 pandemic, as well as possible future responses, which makes it impossible for them to predict with certainty the impact that COVID-19 will have on them and their customers at this time. Any intensification of the COVID-19 pandemic or any future outbreak of another highly infectious or contagious disease may adversely affect their business, results of operations and financial condition.

Brief Biography of Promoters

Dodla Sesha Reddy is the Promoter, Chairman and non-executive Director on the Board of the company. He has been associated with the company for more than 22 years and has dairy industry experience of more than 22 years.

Dodla Sunil Reddy is the Promoter and Managing Director of the company. He has been associated with the Company since incorporation and has more than 25 years of experience in the dairy industry. He is responsible for setting up their business strategy with a focus on accountability, competitive performance and value creation.

Key risks:

- 1) Operations are dependent on the supply of large amounts of raw milk, and any inability to procure adequate amounts of raw milk at competitive prices may have adverse impact
- 2) Any actual or alleged contamination or deterioration of products or raw-materials could result in legal liability and damage to reputation
- 3) The supply of raw-milk is subject to seasonal factors and does not necessarily match the seasonal change in demand for products
- 4) The company's processing plants, procurement, and distribution operations are primarily concentrated in southern India
- 5) The company did not have an adequate controls for managing its historical secretarial records and compliances as a result of which there have been certain inaccuracies and non-compliances with respect to certain provisions of the Companies Act and applicable FEMA regulation

Financial Performance

Income Statement

Y/e 31 Mar (INR cr)	FY18	FY19	FY20	9MFY21	FY21E*
Revenues	1,590	1,692	2,139	1,414	1,885
yoy growth (%)	NA	6.4	26.5	NA	(11.9)
Operating profit	113	134	141	207	275
OPM (%)	7.1	7.9	6.6	14.6	14.6
Depreciation	(28)	(37)	(49)	(38)	(51)
Interest expense	(11)	(12)	(16)	(10)	(13)
Other income	7	8	6	4	5
Profit before tax	80	93	82	162	216
Taxes	(24)	(31)	(32)	(46)	(61)
Reported PAT	57	63	50	116	155
yoy growth (%)	NA	10.7	(20.5)	NA	211.2
EPS (INR)	10.1	11.3	9.0	20.9	27.9
P/E (x)	42.3	38.0	47.8	20.5	15.4
Price/Book (x)	7.1	5.9	5.5	4.3	42.8
EV/EBITDA (x)	21.9	19.0	17.7	11.4	9.3
Debt/Equity (x)	0.5	0.5	0.5	0.3	2.2

Source: RHP and Aриhant Research

*9MFY21 annualized

Calculated on Upper Price Band

Balance sheet summary

Y/e 31 Mar (INR cr)	FY18	FY19	FY20	9MFY21
Equity capital	3	56	56	56
Reserves	336	351	378	494
Net worth	340	406	433	550
Minority Interest	0	0	0	0
Debt	155	208	198	143
Other non-current liabilities	0	0	0	0
Deferred tax liab (net)	19	26	36	38
Total liabilities	513	639	668	730
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
Sundry debtors	4	7	7	3
Loans & Advances	22	24	13	13
Other current assets	8	18	11	7
Sundry creditors	(62)	(76)	(78)	(77)
Other current liabilities & Prov	(31)	(36)	(55)	(57)
Cash & Cash equivalents	14	22	69	162
Other Financial Assets	0	0	1	1
Total assets	513	639	668	730

Source: RHP and Aриhant Research *9MFY21 annualized

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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