

Increase in demand for VAP products will drive margins and profitability

CMP: INR 830

Rating: BUY

Target Price: INR 1,366

Stock Info

BSE	543306
NSE	DODLA
Bloomberg	DODLA:IN
Reuters	DODL. NS
Sector	Dairy Products
Face Value (INR)	10
Equity Capital (INR Cr)	59.5
Mkt Cap (INR Cr)	4,986
52w H/L (INR)	886/ 417
Avg Yearly Vol (in 000')	99

Shareholding Pattern %

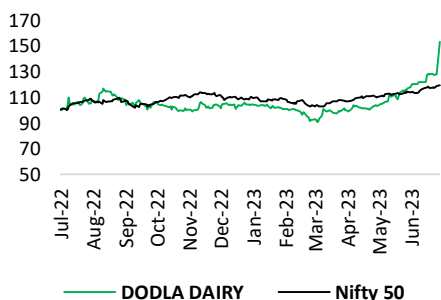
(As on June 2023)

Promoters	62.21
FII	10.59
DII	18.06
Public & Others	9.15

Stock Performance (%)

	1m	6m	12m
Dodla	42.53	64.43	71.01
Nifty 50	5.25	9.95	18.29

Dodla vs Nifty 50



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Dodla Dairy has reported strong in-line performance with a minor beat of our estimate and the revenue was at INR 8,306 Mn which is an increase of 15% YoY from INR 7,213Mn in Q1FY23 and saw an increase of 13.7% QoQ. **The company has reported an EBITDA of INR 603 Mn which was a beat to our estimate of INR 591 Mn, also seen a higher EBITDA margin of 7.3% in Q1FY24 which was a beat to our expectations by 150bps**, this margin expansion led due to lower raw material prices and a decline in other expenses, the company is also optimistic about its increase in demand for VAP products which will give increase the company's margins going forward this will lead to increase in profitability of the company. From INR 249 Mn in Q1FY23 to INR 350 Mn in Q1FY24 (up 55% QoQ), the company's PAT increased by 40% YoY.

Margins are expected to increase by 100-150 bps going forward. Largely because of two factors expecting raw material prices to decrease, with increase in milk procurement. We are expecting closing margins of FY24 to be 150 bps higher than current levels. VAP's market share was about 27% in FY23, and it is predicted to increase by 1-2% per year.

Growth: Strong YoY growth in quarterly revenue figures driven by rising milk production and robust sales of value-added products. Low levels of debt and strong economic growth result in excellent capital efficiency and effective working capital management.

Value added percentage as a share to continue and seen an increase in this quarter led by higher VAP i.e. higher margin products (Ice Cream, Lassi, Curd etc). VAP has increased by 13% YoY to INR 2,586 Mn, we believe that VAP sales will be stable around current levels for next quarters. VAP's market share was about 27% in FY23, and it is predicted to increase by 1-2% per year.

Valuation and Outlook:

We believe that Dodla Dairy is well-positioned to develop ahead of the industry and establish itself as a market leader in the coming years, especially given the structural changes in the sector and the bold strategy the business is using to expand into unexplored markets.

The company has a history of consistently investing across the value chain, demonstrating that it does not shirk from both organic and inorganic expansions. Despite this, it nevertheless manages to keep a clean balance sheet with no net debt. As the procurement costs have started to decline in FY24, as well as in Q1FY24, the company intends to maintain its current pricing in order to maintain and expand its customer base. This is due to a good cow flush, which started in June 2023, and a good buffalo flush, which will start in September-October 2023, as well as a good monsoon and moderating feed prices. Due to the increased demand in the summer, more high-margin VAP items will be sold, stabilizing margins and improving realizations. The company is continually churning out new goods and adding lines to existing facilities to respond to VAP demand in specific locations where the company see it arise in order to make the portfolio more VAP-heavy. **In terms of procurement volume, sales, realization, VAP shares, and margin expansion, we anticipate that the upcoming year will be significantly better.** Given that procurement costs have started to return to normal levels, we have a bullish outlook on the stock over the long run.

We assign a TP of INR 1,366 valued at a P/E multiple of 25x the FY26E EPS of INR 54.7, indicating an upside of 64.5% and a BUY rating.

Particulars (in INR million)	Q1FY24	Q4FY23	Q1FY23	Q-o-Q	Y-o-Y
Total Revenue	8,234.3	7,242.8	7,170.0	13.7%	14.8%
Raw Material	6,448	5,725	5,500	12.6%	17.2%
Employee cost	349	299	283	16.8%	23.2%
Other Expenses	834	882	934	-5.4%	-10.7%
EBITDA	604	337	452	79.1%	33.4%
EBITDA margin %	7.3%	4.7%	6.3%	268bps	102bps
Depreciation	165	147	150	12.0%	9.7%
EBIT	439	190	302	131.3%	45.1%
EBIT margin %	5.3%	2.6%	4.2%	271bps	111bps
Other Income	72	63	44	14.7%	64.0%
Finance costs	4	3	3	13.6%	32.0%
PBT	507	249	344	103.3%	47.7%
Tax Expense	158	25	94	532.0%	68.1%
Effective tax rate %	31.1%	10.0%	27.4%	2112bps	378bps
PAT	349	224	250	55.6%	40.0%
PAT margin %	4.2%	3.1%	3.5%	114bps	76bps
EPS (INR)	5.9	3.8	4.2	55.1%	40.3%

Source: Company Reports, Arianth Research

Q1 FY24 Conference Call Highlights:

International Business: The company reported a revenue of INR 600 Mn from Kenya, with EBITDA at INR 140 Mn and margins at 23.1% in Q1FY24. Currently, the Uganda plant is at 75-80% capacity utilization. The company will start trial runs in the Kenya plant in October and will be operational by December. The company has taken approval of INR 400 Mn for the capex, but it is expecting to finish within INR 250 Mn.

Competition: The company faces competition from Nandini in Karnataka, it's paying the same amount to the farmers for milk procurement that Nandini is paying and on the sales side the company is selling at a higher price than the competition and is still maintaining the market share and margins, due to its premium and quality products. To maintain a competitive advantage the company pays its farmers on time for their hard work company and pays the price including subsidy upfront which the company gets from the government, while the competitor just pays the price of milk for procurement and then after 1-2 month pays the subsidy to the farmer.

Commodity Prices: In certain states, there was a decline in commodity prices, still the company didn't do any price cuts keeping in view farmers' requirements and long-term relationships with the farmers.

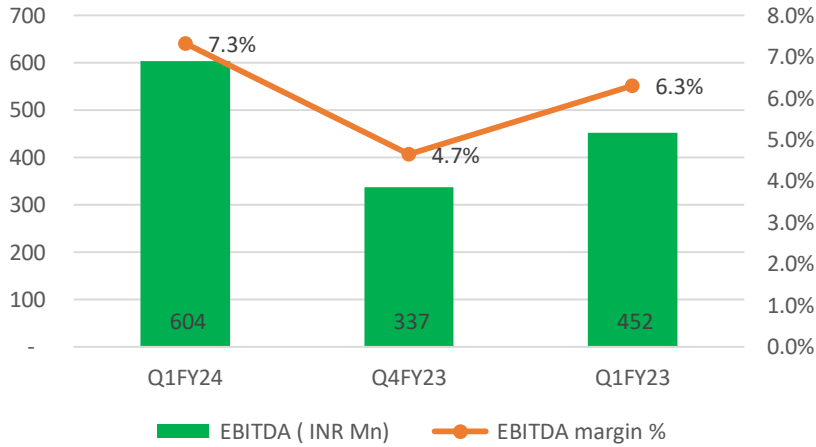
Operational performance: Milk procurement has increased to 15.9 LLPD in Q1FY24, which is an increase of 7.4% YoY, with 87.2% milk directly from the farmers. Average milk sales have increased in Q1FY24 as compared to 10.4 LLPD in Q1FY23 which is a 6.2% increase YoY. By the end of Q1FY24, the company had a **total of 596 Dodla Retail Parlours** with 1770+ milk & milk products distributors.

The company's average milk procurement price was INR 39.62 while the average sales realization price was INR 56.54 in Q1FY24.

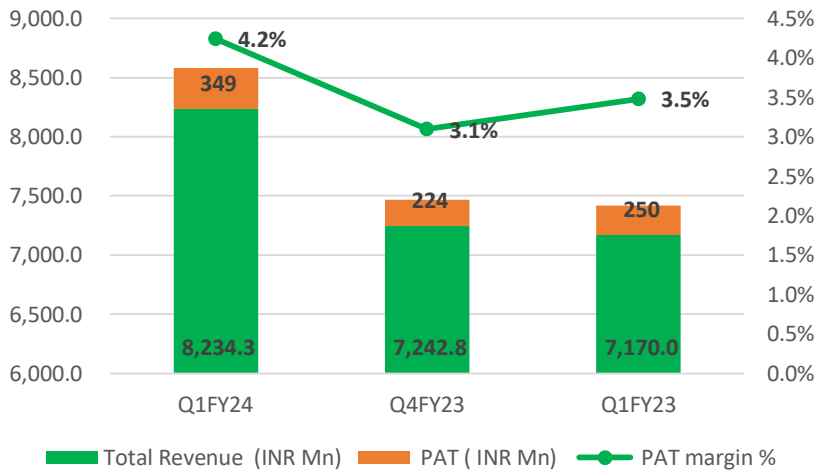
VAP Performance: Sales from VAP (Value added products) contributed 32% of the overall revenue and have increased to INR 2586 Mn in Q1FY24 an increase of 12.9% YoY. VAP has seen great growth in past years, this is because the company is maintaining a strong portfolio and rising disposable incomes will drive demand for VAP dairy products.

Key Financials

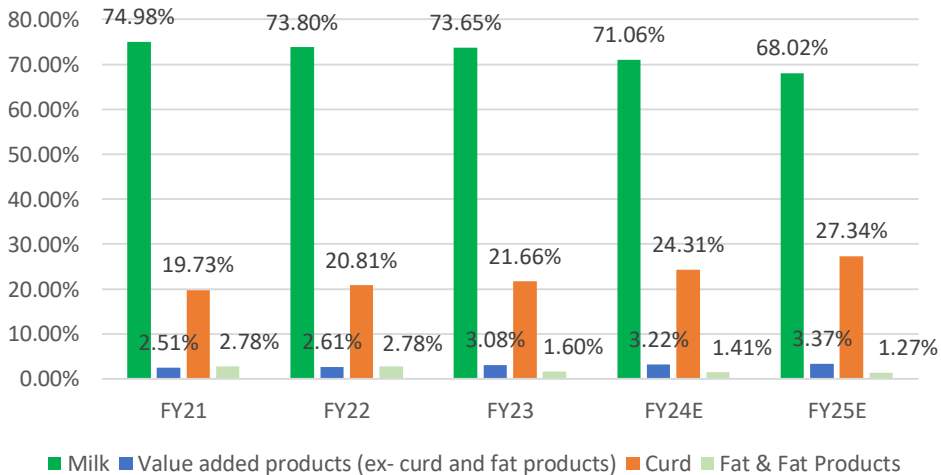
EBITDA margins have improved substantially YoY, and the company aims to maintain in coming quarters and expected to increase in coming coming years



Highest ever quarterly revenue in Q1FY24 registering a 14.8% YoY growth



Revenue Contribution (in %)



Source: Company Reports, Arianth Research

Key Financials

Income Statement (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue from operations	22,434	28,120	33,665	39,849	47,410
Cost of materials consumed	16,262	21,409	24,912	29,090	34,135
Employee benefit expenses	1,024	1,191	1,347	1,594	1,896
Other expenses	3,040	3,607	4,713	5,579	6,637
EBITDA	2,107	1,913	2,693	3,586	4,741
EBITDA Margin	9.39%	6.80%	8.00%	9.00%	10.00%
Depreciation & amortisation expense	524	612	719	786	858
Finance Cost	65	12	15	15	22
Other income	137	230	337	398	474
PBT after exceptional items	1,656	1,518	2,295	3,184	4,335
Cash Tax	327	296	574	796	1,084
PAT	1,328	1,223	1,722	2,388	3,251
EPS after exceptional items:					
Basic (INR)	22.43	20.55	28.94	40.14	54.65
Diluted (INR)	22.24	20.39	28.71	39.82	54.22

Balance Sheet (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	595	595	595	595	595
Other Equity	7,837	9,127	10,917	13,373	16,692
Net Worth	8,432	9,722	11,512	13,968	17,287
Total debt	474	764	972	921	1,397
Deferred tax liability (net)	346	230	230	230	230
Other non current liabilities	131	119	337	398	474
Total Liabilities	951	1,113	1,539	1,549	2,101
Net Block	5,152	5,589	5,648	5,699	5,737
CWIP	41	581	637	696	759
Goodwill	442	516	567	624	686
Other intangible assets	43	115	125	148	176
Biological assets	22	16	21	25	30
Investments	2,027	2,795	3,346	3,960	4,712
Other non current assets	470	118	244	288	343
Net Working Capital	87	355	113	-119	128
Inventories	1,210	1,199	1,629	1,830	2,228
Trade receivables	48	87	74	116	110
Cash and cash equivalents (INR Mn)	1,099	750	2,350	4,195	6,816
Bank Balances (INR Mn)	220	496	166	196	233
Other current assets	111	253	190	225	268
Trade payables	1,029	1,269	1,424	1,877	1,996
Other current liabilities	472	410	521	609	714
Total assets	9,383	10,835	13,050	15,517	19,388

Cash Flow (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	1,656	1,518	2,295	3,184	4,335
Depreciation & amortization	524	612	719	786	858
Tax paid	327	296	574	796	1,084
Working capital Δ	-844	268	-242	-232	247
Goodwill Δ	-	74	52	57	62
Operating cash flow	2,695	1,493	2,632	3,349	3,799
Capital expenditure	678	1,589	834	896	959
Free cash flow	2,017	-96	1,798	2,453	2,840
Equity raised	469	-0	-	-	-
Investments made	1,285	767	551	615	751
Other asset purchases	411	-286	141	72	87
Debt financing	-897	289	209	-51	476
Other items	-35	-60	285	130	143
Net Δ in cash	-142	-348	1,600	1,845	2,621
Opening cash balance	1,241	1,099	750	2,350	4,195
Ending cash balance	1,099	750	2,350	4,195	6,816

Source: Company Reports, Arianth Research

Key Ratios

Ratios	FY22	FY23	FY24E	FY25E	FY26E
Growth Matrix (%)					
Revenue	15.40%	25.35%	19.72%	18.37%	18.97%
EBITDA	-13.09%	-9.20%	40.76%	33.17%	32.19%
EBIT	-13.14%	-11.05%	50.97%	38.44%	36.22%
PBT	-11.09%	-8.28%	51.16%	38.73%	36.14%
PAT	5.43%	-7.92%	40.77%	38.73%	36.14%
PAT after OCI	9.82%	-6.67%	38.62%	37.26%	35.15%
Profitability (%)					
EBITDA Margin	9.39%	6.80%	8.00%	9.00%	10.00%
EBIT Margin	7.62%	5.40%	6.80%	7.95%	9.10%
Net Profit Margin	5.88%	4.31%	5.06%	5.93%	6.79%
Net Profit Margin after OCI	6.13%	4.55%	5.26%	6.10%	6.93%
RoCE	19.32%	14.60%	18.51%	21.49%	23.32%
RoNW	15.75%	12.58%	14.95%	17.10%	18.81%
RoA	14.84%	12.10%	14.41%	16.72%	18.63%
Per Share (INR)					
Basic EPS	22.43	20.55	28.94	40.14	54.65
Diluted EPS	22.24	20.39	28.71	39.82	54.22
DPS	0.00	0.00	0.00	0.00	0.00
Basic Cash EPS	31.27	30.85	41.02	53.36	69.07
Diluted Cash EPS	31.00	30.60	40.70	52.93	68.52
BVPS	142.40	163.42	193.50	234.78	290.57
Sales	268.61	267.34	267.34	267.34	267.34
Valuation (x)					
P/E	27.56	30.07	21.36	15.40	11.31
P/CEPS	19.77	20.04	15.07	11.59	8.95
P/B	4.34	3.78	3.19	2.63	2.13
P/Sales	2.30	2.31	2.31	2.31	2.31
EV/EBITDA	17.07	19.23	13.14	9.34	6.61
EV/EBIT	20.91	24.04	15.32	10.47	7.20
EV/Sales	1.60	1.31	1.05	0.84	0.66
Dividend Yield	0.00	0.00	0.00	0.00	0.00
Liquidity (x)					
Current Ratio	1.79	1.66	2.27	2.64	3.56
Quick Ratio	0.98	0.94	1.43	1.90	2.74
Defensive Interval Ratio	26.53	22.08	32.77	47.64	63.54
Cash Ratio	0.73	0.45	1.21	1.69	2.51
Activity (x)					
Receivables turnover	464.80	418.86	418.86	418.86	418.86
Inventory turnover	14.98	17.77	17.62	16.82	16.82
Payables turnover	17.17	18.63	18.50	17.62	17.63
Total asset turnover	2.51	2.78	2.82	2.79	2.72
Fixed asset turnover	4.39	4.95	5.41	6.29	7.36
Working capital turnover	257.12	79.13	298.20	-335.18	369.19
Days					
Receivable days	0.79	0.87	0.87	0.87	0.87
Inventory days	24.37	20.54	20.72	21.70	21.69
Cash Conversion cycle	25.16	21.41	21.59	22.57	22.57
Payable days	21.25	19.59	19.73	20.71	20.71
Operating cycle	3.90	1.82	1.86	1.86	1.86
Leverage (x)					
Interest Coverage	26.40	126.49	149.99	219.21	196.87
Debt Equity	0.06	0.08	0.08	0.07	0.08
Net Debt Equity	-0.07	0.00	-0.12	-0.23	-0.31
Assets to Equity	1.06	1.04	1.04	1.02	1.01
Du Pont					
Tax burden	0.80	0.81	0.75	0.75	0.75
Interest burden	0.96	0.99	0.99	1.00	0.99
EBIT Margin	0.08	0.05	0.07	0.08	0.09
Asset turnover	2.51	2.78	2.82	2.79	2.72
Leverage	1.06	1.04	1.04	1.02	1.01
ROE	16%	13%	15%	17%	19%

Source: Company Reports, Arianth Research

Key Financials

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Stock Rating Scale

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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