

CMP: INR 664

Rating: BUY

Target Price: INR 1,398

Stock Info

| | |
|-------------------------|----------------|
| BSE | 543306 |
| NSE | DODLA |
| Bloomberg | DODLA:IN |
| Reuters | DODL.NS |
| Sector | Dairy Products |
| Face Value (INR) | 10 |
| Equity Capital (INR Cr) | 59 |
| Mkt Cap (INR Cr) | 3,950 |
| 52w H/L (INR) | 908/ 417 |
| Avg Daily Vol (in 000') | 81 |

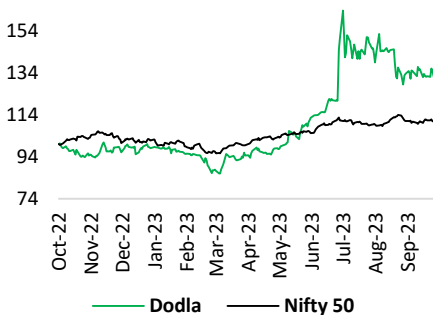
Shareholding Pattern %

(As on September 2023)

| | |
|-----------------|-------|
| Promoters | 62.21 |
| FII | 10.92 |
| DII | 16.99 |
| Public & Others | 9.89 |

| Stock Performance (%) | 1m | 6m | 12m |
|-----------------------|-------|------|------|
| Dodla | 3.7 | 46.3 | 39.1 |
| Nifty 50 | (0.7) | 10.8 | 11.1 |

Dodla vs Nifty 50



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Dodla's Q2FY24 Consolidated Revenue was up 12.03% YoY to INR 7,678 Mn (-6.76% QoQ), missing our estimate by 2.58%. Gross Margin expanded 227bps YoY to 26.82% (+312bps QoQ), beating our estimate of 24%. EBITDA grew 43.6% YoY to INR 702 Mn (+16.41% QoQ). EBITDA Margin expanded 201bps YoY to 9.15% (+182bps QoQ), beating our estimates of INR 615 Mn and 7.8% respectively. PAT grew 48.05% YoY to INR 436 Mn (+24.67% QoQ), beating our estimate of INR 393 Mn. Volumes remained flat this quarter and most of the growth was price-led from hikes taken in previous months.

Inventory build ups: Dodla has purposefully built up inventories of Skimmed Milk Powder (SMP) with the goal to strengthen procurement and become a net supplier rather than a net buyer. This is expected to result in inventory days of 25-30 this year vs the usual ~20 days

Procurement and realization: The average procurement price for the quarter was INR 38.39 and average realization for the quarter was INR 57.5. A part of these price hikes are regularly passed on to farmers which ensures stability in supply.

Expanding presence in Maharashtra: The company has acquired a land parcel in Maharashtra worth INR 15 Cr to increase milk procurement from the state. Current milk procurement from Maharashtra stands at 2.2LLPD which is targeted to reach 5LLPD over the next 2-3 years. The Dodla brand will enter this market in the next couple of years.

Milk price and margin trajectory: During the quarter, procurement prices saw some softening and this trajectory is expected to continue with the incoming flush season. This will reflect on margins as well as we expect the company to hit double digit margins in H2FY24.

Capex plans for the new capacity: The land in Maharashtra will be used for the expansion of chilling faculties which will entail a capex of INR 100-150 Cr. Capex for the year will be around INR 60-70 Cr out of which INR 40 Cr has been spent.

Valuation and Outlook: We assign a TP of INR 1,398 valued at a P/E multiple of 30x the FY26E EPS of INR 47, entailing an upside of 111% and a 'Buy' rating. Dodla's growth trajectory is promising as the company endeavors to grow through organic and inorganic means. This, coupled with the judicious use and generation of cash along with the turnaround in operating environment ensure it can sustain profitability into the future.

| INR Mn | FY22 | FY23 | FY24E | FY25E | FY26E | FY27E |
|---------------|--------|--------|--------|--------|--------|--------|
| Revenue | 22,434 | 28,120 | 32,755 | 37,665 | 44,644 | 52,428 |
| YoY | 15.40% | 25.35% | 16.48% | 14.99% | 18.53% | 17.44% |
| EBITDA | 2,107 | 1,913 | 2,948 | 3,766 | 4,241 | 5,505 |
| EBITDA Margin | 9.39% | 6.80% | 9.00% | 10.00% | 9.50% | 10.50% |
| EBIT | 1,721 | 1,531 | 2,579 | 3,458 | 3,982 | 5,302 |
| EBIT Margin | 7.62% | 5.40% | 7.80% | 9.09% | 8.83% | 10.01% |
| PAT | 1,328 | 1,223 | 1,795 | 2,409 | 2,773 | 3,694 |
| YoY | 5.43% | -7.92% | 46.75% | 34.21% | 15.11% | 33.23% |
| EPS (INR) | 22.43 | 20.55 | 30.17 | 40.49 | 46.61 | 62.09 |
| YoY | -0.21% | -8.36% | 46.77% | 34.21% | 15.11% | 33.23% |
| P/E (x) | 29.56 | 32.26 | 21.98 | 16.38 | 14.23 | 10.68 |
| P/B (x) | 4.66 | 4.06 | 3.43 | 2.83 | 2.36 | 1.93 |
| EV/EBITDA (x) | 18.34 | 20.62 | 13.19 | 9.19 | 7.92 | 5.22 |
| EV/EBIT (x) | 22.45 | 25.78 | 15.08 | 10.01 | 8.43 | 5.42 |
| D/E (x) | 0.06 | 0.08 | 0.04 | 0.04 | 0.04 | 0.04 |
| RONW | 15.75% | 12.58% | 15.58% | 17.30% | 16.60% | 18.12% |
| ROCE | 19.32% | 14.60% | 21.48% | 23.85% | 22.89% | 24.98% |

Source: Company, Arihant Research

| INR Mn (Consolidated) | Q2FY24 | Q1FY24 | Q2FY23 | Q-o-Q | Y-o-Y | Q2FY24E | Surprise |
|----------------------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|
| Net Revenue | 7,678 | 8,234 | 6,853 | -6.76% | 12.03% | 7,881 | -2.58% |
| Raw Material Costs | 5,619 | 6,283 | 5,171 | -10.57% | 8.66% | 5,990 | -6.20% |
| Gross Profit | 2,059 | 1,952 | 1,683 | 5.49% | 22.37% | 1,891 | 8.85% |
| <i>Gross Margin</i> | <i>26.82%</i> | <i>23.70%</i> | <i>24.55%</i> | <i>312bps</i> | <i>227bps</i> | <i>24.00%</i> | <i>282bps</i> |
| Employee costs | 339 | 349 | 294 | -2.79% | 15.37% | 331 | 2.54% |
| Other Expenses | 1,017 | 999 | 899 | 1.80% | 13.11% | 946 | 7.55% |
| EBITDA | 702 | 603 | 489 | 16.41% | 43.60% | 615 | 14.26% |
| <i>EBITDA margin</i> | <i>9.15%</i> | <i>7.33%</i> | <i>7.14%</i> | <i>182bps</i> | <i>201bps</i> | <i>7.80%</i> | <i>135bps</i> |
| Other Non Operating Income | 67 | 72 | 57 | -7.46% | 17.11% | 71 | -5.74% |
| Depreciation | 172 | 165 | 156 | 4.65% | 10.51% | 158 | 9.39% |
| EBIT | 597 | 511 | 390 | 16.82% | 52.96% | 528 | 13.03% |
| Finance costs | 4 | 4 | 3 | 8.17% | 32.78% | 4 | -0.75% |
| PBT | 593 | 507 | 387 | 16.89% | 53.11% | 524 | 13.14% |
| Tax Expense | 157 | 158 | 93 | -0.41% | 69.18% | 131 | 19.73% |
| <i>Effective tax rate</i> | <i>26.46%</i> | <i>31.05%</i> | <i>23.95%</i> | <i>-459bps</i> | <i>251bps</i> | <i>25.00%</i> | <i>146bps</i> |
| PAT | 436 | 350 | 294 | 24.67% | 48.05% | 393 | 10.94% |

Source: Company, Arianth Research

Q2FY24 Operational Highlights:

- Average milk procurement during Q2FY24 grew 18.9% YoY to 17LLPD.
- Average milk sales were flat at 10.9LLPD.
- Average curd sales during Q2FY24 grew 5.8% YoY to 309.3MTPD.
- Q2FY24 VAP sales were 26.1% of revenues amounting to INR 1,953 Mn vs INR 1,727 Mn at 25.3% of revenues in Q2FY23.
- **The feed business:** Orgafeed yielded revenues of INR 385 Mn in H1FY24 with an EBITDA of INR 530 Mn. The plant has a capacity of 480 MTPD. Expansion of this plant was commissioned this September and will add another 10,000 tonnes of capacity, which can scale up to 30-40% of utilization going forward.
- **The Africa business:** Performance of the international business on both top and bottom line was muted due to seasonality. There will be a pick up in volumes in the next year. The new plant Kenya will commission by December- January of this FY.

Key Financials

Income Statement

| INR Mn | FY22 | FY23 | FY24E | FY25E | FY26E | FY27E |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Revenue from operations | 22,434 | 28,120 | 32,755 | 37,665 | 44,644 | 52,428 |
| Cost of materials consumed | 16,262 | 21,409 | 24,566 | 28,249 | 33,706 | 39,059 |
| Employee benefit expenses | 1,024 | 1,191 | 1,310 | 1,507 | 1,786 | 2,097 |
| Other expenses | 3,040 | 3,607 | 3,931 | 4,143 | 4,911 | 5,767 |
| EBITDA | 2,107 | 1,913 | 2,948 | 3,766 | 4,241 | 5,505 |
| EBITDA Margin | 9.39% | 6.80% | 9.00% | 10.00% | 9.50% | 10.50% |
| Depreciation & amortisation expense | 524 | 612 | 664 | 685 | 706 | 727 |
| Finance Cost | 65 | 12 | 15 | 17 | 21 | 25 |
| Other income | 137 | 230 | 295 | 377 | 446 | 524 |
| PBT after exceptional items | 1,656 | 1,518 | 2,564 | 3,441 | 3,961 | 5,277 |
| Cash Tax | 327 | 296 | 769 | 1,032 | 1,188 | 1,583 |
| PAT | 1,328 | 1,223 | 1,795 | 2,409 | 2,773 | 3,694 |
| EPS after exceptional items: | | | | | | |
| Basic (INR) | 22.43 | 20.55 | 30.17 | 40.49 | 46.61 | 62.09 |
| Diluted (INR) | 22.24 | 20.39 | 29.93 | 40.16 | 46.23 | 61.60 |

Balance Sheet

| INR Mn | FY22 | FY23 | FY24E | FY25E | FY26E | FY27E |
|------------------------------------|--------------|---------------|---------------|---------------|---------------|---------------|
| Equity Share Capital | 595 | 595 | 595 | 595 | 595 | 595 |
| Other Equity | 7,837 | 9,127 | 10,922 | 13,331 | 16,104 | 19,798 |
| Net Worth | 8,432 | 9,722 | 11,517 | 13,926 | 16,698 | 20,393 |
| Total debt | 474 | 764 | 486 | 576 | 696 | 835 |
| Deferred tax liability (net) | 346 | 230 | 230 | 230 | 230 | 230 |
| Other non current liabilities | 131 | 119 | 328 | 377 | 446 | 524 |
| Total Liabilities | 951 | 1,113 | 1,043 | 1,182 | 1,372 | 1,589 |
| Net Block | 5,152 | 5,589 | 6,203 | 5,813 | 5,405 | 4,979 |
| CWIP | 41 | 581 | 95 | 98 | 101 | 104 |
| Goodwill | 442 | 516 | 516 | 516 | 516 | 516 |
| Other intangible assets | 43 | 115 | 164 | 188 | 223 | 262 |
| Biological assets | 22 | 16 | 21 | 25 | 30 | 35 |
| Investments | 2,027 | 2,795 | 3,255 | 3,743 | 4,437 | 5,210 |
| Other non current assets | 470 | 118 | 131 | 151 | 179 | 210 |
| Net Working Capital: | 87 | 355 | 1,120 | -825 | 611 | -858 |
| Inventories | 1,210 | 1,199 | 3,108 | 865 | 3,172 | 1,505 |
| Trade receivables | 48 | 87 | 70 | 110 | 103 | 147 |
| Cash and cash equivalents (INR Mn) | 1,099 | 750 | 1,056 | 5,399 | 6,569 | 11,524 |
| Bank Balances (INR Mn) | 220 | 496 | 161 | 185 | 220 | 258 |
| Other current assets | 111 | 253 | 185 | 213 | 252 | 296 |
| Trade payables | 1,029 | 1,269 | 1,890 | 1,606 | 2,430 | 2,247 |
| Other current liabilities | 472 | 410 | 514 | 591 | 705 | 817 |
| Total assets | 9,383 | 10,835 | 12,561 | 15,108 | 18,071 | 21,982 |

Cash Flow

| INR Mn | FY22 | FY23 | FY24E | FY25E | FY26E | FY27E |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Profit before tax | 1,656 | 1,518 | 2,564 | 3,441 | 3,961 | 5,277 |
| Depreciation & amortization | 524 | 612 | 664 | 685 | 706 | 727 |
| Tax paid | 327 | 296 | 769 | 1,032 | 1,188 | 1,583 |
| Working capital Δ | -844 | 268 | 765 | -1,945 | 1,436 | -1,469 |
| Goodwill Δ | - | 74 | - | - | - | - |
| Operating cash flow | 2,695 | 1,493 | 1,694 | 5,039 | 2,042 | 5,890 |
| Capital expenditure | 678 | 1,589 | 792 | 298 | 301 | 304 |
| Free cash flow | 2,017 | -96 | 902 | 4,741 | 1,742 | 5,586 |
| Equity raised | 469 | -0 | - | - | - | - |
| Investments made | 1,285 | 767 | 461 | 488 | 694 | 774 |
| Other asset purchases | 411 | -286 | 67 | 49 | 67 | 75 |
| Debt financing | -897 | 289 | -278 | 90 | 120 | 139 |
| Other items | -35 | -60 | 208 | 49 | 70 | 78 |
| Net Δ in cash | -142 | -348 | 305 | 4,343 | 1,171 | 4,954 |
| Opening cash balance | 1,241 | 1,099 | 750 | 1,056 | 5,399 | 6,569 |
| Ending cash balance | 1,099 | 750 | 1,056 | 5,399 | 6,569 | 11,524 |

Source: Arian Research, Company Filings

Key Ratios

| Ratios | FY22 | FY23 | FY24E | FY25E | FY26E | FY27E |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Growth Matrix (%) | | | | | | |
| Revenue | 15.40% | 25.35% | 16.48% | 14.99% | 18.53% | 17.44% |
| EBITDA | -13.09% | -9.20% | 54.07% | 27.77% | 12.60% | 29.80% |
| EBIT | -13.14% | -11.05% | 68.47% | 34.12% | 15.14% | 33.16% |
| PBT | -11.09% | -8.28% | 68.85% | 34.21% | 15.11% | 33.23% |
| PAT | 5.43% | -7.92% | 46.75% | 34.21% | 15.11% | 33.23% |
| PAT after OCI | 9.82% | -6.67% | 39.04% | 34.21% | 15.11% | 33.23% |
| Profitability (%) | | | | | | |
| EBITDA Margin | 9.39% | 6.80% | 9.00% | 10.00% | 9.50% | 10.50% |
| EBIT Margin | 7.62% | 5.40% | 7.80% | 9.09% | 8.83% | 10.01% |
| Net Profit Margin | 5.88% | 4.31% | 5.43% | 6.33% | 6.15% | 6.98% |
| RoCE | 19.32% | 14.60% | 21.48% | 23.85% | 22.89% | 24.98% |
| RoNW | 15.75% | 12.58% | 15.58% | 17.30% | 16.60% | 18.12% |
| RoA | 14.84% | 12.10% | 15.34% | 17.41% | 16.71% | 18.45% |
| Per Share (INR) | | | | | | |
| Basic EPS | 22.43 | 20.55 | 30.17 | 40.49 | 46.61 | 62.09 |
| Diluted EPS | 22.24 | 20.39 | 29.93 | 40.16 | 46.23 | 61.60 |
| DPS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Basic Cash EPS | 31.27 | 30.85 | 41.33 | 52.00 | 58.47 | 74.31 |
| Diluted Cash EPS | 31.00 | 30.60 | 41.00 | 51.58 | 58.00 | 73.72 |
| BVPS | 142.40 | 163.42 | 193.59 | 234.07 | 280.68 | 342.77 |
| Sales | 268.61 | 267.34 | 267.34 | 267.34 | 267.34 | 267.34 |
| Valuation (x) | | | | | | |
| P/E | 29.56 | 32.26 | 21.98 | 16.38 | 14.23 | 10.68 |
| P/CEPS | 21.20 | 21.50 | 16.04 | 12.75 | 11.34 | 8.92 |
| P/B | 4.66 | 4.06 | 3.43 | 2.83 | 2.36 | 1.93 |
| P/Sales | 2.47 | 2.48 | 2.48 | 2.48 | 2.48 | 2.48 |
| EV/EBITDA | 18.34 | 20.62 | 13.19 | 9.19 | 7.92 | 5.22 |
| EV/EBIT | 22.45 | 25.78 | 15.08 | 10.01 | 8.43 | 5.42 |
| EV/Sales | 1.72 | 1.40 | 1.19 | 0.92 | 0.75 | 0.55 |
| Dividend Yield | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Liquidity (x) | | | | | | |
| Current Ratio | 1.79 | 1.66 | 1.91 | 3.08 | 3.29 | 4.48 |
| Quick Ratio | 0.98 | 0.94 | 0.61 | 2.69 | 2.28 | 3.99 |
| Defensive Interval Ratio | 26.53 | 22.08 | 18.02 | 63.60 | 64.54 | 95.09 |
| Cash Ratio | 0.73 | 0.45 | 0.44 | 2.46 | 2.10 | 3.76 |
| Activity (x) | | | | | | |
| Receivables turnover | 464.80 | 418.86 | 418.86 | 418.86 | 418.86 | 418.86 |
| Inventory turnover | 14.98 | 17.77 | 11.41 | 14.22 | 16.70 | 16.70 |
| Payables turnover | 17.17 | 18.63 | 15.55 | 16.16 | 16.70 | 16.70 |
| Total asset turnover | 2.51 | 2.78 | 2.80 | 2.72 | 2.69 | 2.62 |
| Fixed asset turnover | 4.39 | 4.95 | 5.25 | 6.17 | 7.82 | 9.90 |
| Working capital turnover | 257.12 | 79.13 | 29.24 | -45.66 | 73.06 | -61.10 |
| Days | | | | | | |
| Receivable days | 0.79 | 0.87 | 0.87 | 0.87 | 0.87 | 0.87 |
| Inventory days | 24.37 | 20.54 | 32.00 | 25.67 | 21.85 | 21.85 |
| Cash Conversion cycle | 25.16 | 21.41 | 32.87 | 26.54 | 22.73 | 22.72 |
| Payable days | 21.25 | 19.59 | 23.47 | 22.59 | 21.85 | 21.85 |
| Operating cycle | 3.90 | 1.82 | 9.40 | 3.95 | 0.87 | 0.87 |
| Leverage (x) | | | | | | |
| Interest Coverage | 26.40 | 126.49 | 176.81 | 200.18 | 190.62 | 211.69 |
| Debt Equity | 0.06 | 0.08 | 0.04 | 0.04 | 0.04 | 0.04 |
| Net Debt Equity | -0.07 | 0.00 | -0.05 | -0.35 | -0.35 | -0.52 |
| Assets to Equity | 1.06 | 1.04 | 1.02 | 0.99 | 0.99 | 0.98 |
| Du Pont | | | | | | |
| Tax burden | 0.80 | 0.81 | 0.70 | 0.70 | 0.70 | 0.70 |
| Interest burden | 0.96 | 0.99 | 0.99 | 1.00 | 0.99 | 1.00 |
| EBIT Margin | 0.08 | 0.05 | 0.08 | 0.09 | 0.09 | 0.10 |
| Asset turnover | 2.51 | 2.78 | 2.80 | 2.72 | 2.69 | 2.62 |
| Leverage | 1.06 | 1.04 | 1.02 | 0.99 | 0.99 | 0.98 |
| ROE | 0.16 | 0.13 | 0.16 | 0.17 | 0.17 | 0.18 |

Source: Arianth Research, Company Filings

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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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