

**Network expansion and international operations to pilot future growth.**

**CMP: INR 506**

**Outlook: Positive**

**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)	3,006
52w H/L (INR)	385 / 615
Avg Daily Volume (in 000')	28

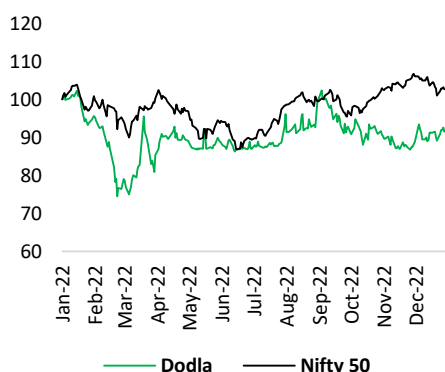
**Shareholding Pattern %**

(As on Sept, 2022)

Promoters	62.2
FII	13.0
DII	14.4
Public & Others	10.3

Stock Performance (%)	1m	3m	12m
Dodla Dairy	2.9	(1.6)	(8.2)
Nifty 50	(2.8)	6.7	6.0

**Dodla Vs Nifty 50**



We visited the Hyderabad plant of Dodla Dairy Ltd (Dodla) and interacted with the MD, Mr. Dodla Sunil Reddy, as well as the plant head.

Incorporated in 1995, it is an integrated dairy company based in Telangana. Dodla derives its revenue from the sale of Milk and dairy-based value-added products in the branded consumer market. Currently, its procurement is centered in 5 states and its products are available for purchase in 11 states. It has 113 milk chilling centers, 15 processing plants, and is the 3rd largest domestic dairy company by Daily Milk Procurement and the 2nd biggest by Market Presence among Private Dairy companies in India. Dodla also has a presence in Uganda and Kenya. Its international operations contribute ~10% of total revenues.

**Management Interaction KTAs:**

**Capacity & competitors:** Dodla has a combined procurement of 13LLPD milk and curd, with a 22LLPD installed capacity. Their competitors in the private space are Hatsun Agro.

**About the factory:** The Hyderabad plant is the 1st automated factory belonging to Dodla. It has a 24-hour milk replacement cycle. The plant area is 75 acres (90 including new land). This is the only plant in Telangana that manufactures Ice Cream. There is a cheese plant upcoming too. It has a curd capacity of 50,000 LPD (Avg 30,000 LPD) and an ice cream capacity of 15,000 LPD. Currently, the plant uses 10,000 units of power a day out of which 2,000 are supplied internally. Half of the internal supply comes from solar power. They are currently installing more solar panels. Post completion, 50% of the usage will be supplied internally, and the remaining 50% from the board. The plant currently has 300 outsourced employees and 150 permanent. During peak season in summer, they get ~500 outsourced employees. Some of the SMP is procured from external sources when the needs aren't met internally.

**State-wise procurement:** Karnataka 5LLPD, Andhra Pradesh 4 to 5 LLPD, Tamil Nadu 5LLPD, Maharashtra 95,000 LPD, and Telangana 18,000 LPD.

**Farmer Network:** They have the 3rd largest farmer network among dairy companies in India. The dairy farmers are paid INR 4 more than the actual procurement cost to match the rates of other cooperative dairies. Payments are made directly to farmers, previously they used to flow through agents.

**Cooperative vs Private Markets:** Cooperative players are generally more widespread than private players, but in Andhra Pradesh, it is the other way around.

**Price Increases:** They have been taken every quarter and are well received by the market though they are passed on with a 1-month time lag. Procurement prices are high and so are packaging materials. They will remain stable from here on but are unlikely to go down.

**Capex Plans:** INR 40 Cr of Capex is planned for the cattle feed business and INR 15-20 Cr of Capex is planned for the Africa business. Previously they had spent INR 42 Cr of Capex for the Africa business, and it holds 17 Cr of cash.

**Valuation & Outlook:** We are looking forward to significant margin expansion and price-led growth in revenues over the next few years. As they continue to expand their distribution and procurement networks to a pan- India level. Their international operation in Africa is also seeing healthy growth which is expected to increase with the planned capacity expansions. The stock is currently trading at a TTM P/E of 22.71x.

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**Management Interaction KTAs:**

**Gross Margins:** For FY23 are expected to be 24-25%, and going forward will be 30-31%.

**EBITDA Impact:** An INR 1 increase in selling price can increase the EBITDA by INR 45 Cr from milk and curd. They plan to maintain EBITDA to the tune of INR 200-300 Cr this year, in double-digit margins.

**Africa Operations:** The Africa business maintains double-digit margins and is displaying good growth. It is currently giving INR 100 Cr of revenues. Going forward, volume and profitability growth from this segment will be good. Post the planned Capex, the revenue from this business will reach INR 150 Cr. In the African market they face competition from Danone.

**Distribution Network:** Around 60-65% of it is in T2 & T3 cities. Going forward one can expect the metro city share to remain low.

**Guidance:** Expect volume growth to be to the tune of 8-9%, and value growth to be 12-14%.

**SMP (Skimmed Milk Powder) in India:** The commodity has faced a global price correction (about 40% from the high in March 2022) but the high duties on imports cause there to be continued shortages in India. Due to this, Dodla is facing issues on the supply side though demand remains robust.

**VAP (non-curd):** is expected to grow by a steady 1-2%. The growth is currently compromised because of low ghee sales. They are expanding on premium products like ice cream to add to the bottom line. Curd has good profit margins and the majority of the sales are from the bottom of the pyramid- smaller packs.

**Geographical Expansion:** The expansion of the distribution and procurement network in Orissa and Maharashtra is planned. Tamil Nadu is a maybe. They are still evaluating numerous penetration opportunities.

**Modern Trade:** It is a small portion of revenues when compared to general trade. It is more for brand visibility than profitability.

**Competitive Advantage over cooperative players:** Cooperative players do not prioritize operating efficiency the way private players like Dodla do with it comes to the farmer network and procurement. The private market is currently 50% of the total market and this share is expected to increase going forward.

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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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