

Margins expansion from RM prices easing up and growing VAP sales; Strong summer upcoming.

CMP: INR 512

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)	3,058
52w H/L (INR)	578/ 417
Avg Yearly Volume (in 000')	20

Shareholding Pattern %

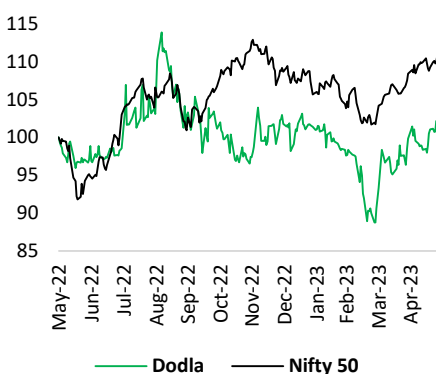
(As on March 2023)

Promoters	62.21
FII	12.83
DII	16.06
Public & Others	8.91

Stock Performance (%)

	1m	3m	12m
Dodla	3.6	5.2	3.4
Nifty 50	3.0	7.5	11.1

Dodla Vs Nifty 50



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Dodla Dairy Ltd (Dodla) is one of India's leading integrated dairy companies. The product portfolio consists of Milk, Butter Milk, Ghee, Curd, Paneer, Flavored Milk, Doodh Peda, Ice Cream, and Milk Based Sweets. Procurement is centered in 5 states and products are available for purchase in 9 states. It has 118 milk chilling centers/plants. Distribution and marketing are conducted through 40+ sales offices, 2,600+ distribution agents, and 1,750+ milk and milk product distributors across India. Milk and dairy-based Value-added Products (VAPs) are also available through 580 'Dodla Retail Parlours' spread across Andhra Pradesh, Telangana, Tamil Nadu, and Karnataka. It has international operations in Uganda and Kenya.

Recovery expected in FY24: Summers in FY24 are looking to be hotter and drier than last year which will be beneficial for overall VAP sales which were impacted slightly in FY23 due to unseasonal rain. The flush season in October- November is also expected to be much better as signs of improvement are already visible. This will improve procurement volumes and drive down procurement costs.

Margin expansion through higher VAP sales and lower procurement costs: The company is endeavoring to push high-margin VAP sales (27% of FY23 revenues), targeted to grow 1-2% in FY24. This is already seeing support from the hotter summer. Additionally, lower procurement costs during the year will also aid in improving profitability. Margin expansion is expected from Q1FY24 onward. On a full-year basis, GM improvement can be 100-150bps. Margins for curd will be maintained at 14-17% and 7-8% for milk

Growth targets: They target a 15% volume growth with a healthy volume growth of 10-12% in FY24 owing to increased procurement volumes.

International business: The international business generated INR 30-35 Cr of cash during the year. They are going to invest INR 5-10 Cr in a new acquisition in Kenya next year.

Moderating feed costs: Inflation in feed costs was passed on through the Orgafeed business and is now seeing significant corrections but is unlikely to dip below the same level as last year. Farmers that utilized feed saw an increase in milk yield.

Growing visibility: Branding & marketing expenses were INR 9.7cr in FY23 and the target for FY24 is INR 15 Cr.

Good cash position and healthy balance sheet: Cash balances are maintained at INR 386 Cr as of FY23. INR 100 Cr of this has been parked in the Singapore entity at 4-4.5% interest. Every year they generate INR 150-200 Cr of cash. Since the business is not WC intensive they will be declaring a dividend policy soon.

Recovery in the dairy industry: Milk procurement prices in India have been slashed by ~10% over the past 2 weeks and consumers are expected not to face any further price hikes. The upcoming flush season from October onward is expected to be better than last year as lumpy skin disease has mostly been done away with and feed prices have also corrected a fair bit which will lead to better milk yields supported by expected rainfall. The previously curtailed demand (from the aforementioned high inflation in milk to the tune of ~15%) will start to revive as summers were delayed this year which discouraged the sale of dairy products like buttermilk, curd, and ice cream in the latter half of FY23. The prices of SMP (Skimmed Milk Powder) and butter have also corrected by 5-10% as the Indian dairy sector approached the central government demanding a reduction in SMP import prices as they were facing supply-side shortages that could not be met domestically.

Outlook: We expect the next year to be much better in terms of procurement volumes, sales, realization, VAP shares, and margin expansion. We have a positive view of the stock for the long term as procurement costs have begun to trend back to normal levels.

The impact of a better flush season is already visible as of Q1FY24. Given the industry recovery, our view is positive for private dairy players like Dodla Dairy, Heritage Foods, Parag Milk Foods, etc. They are likely to get the benefits of reduced procurement costs and have high milk procurement in FY24 which will lead to improvements in profitability considering their strategy of growing the share of high-margin VAPs.

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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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