

**Issue Details**

Listing	BSE & NSE
Open Date	16 June 2021
Close Date	18 June 2021
Price Band	Rs.421-428
Market Lot	35 shares
Minimum Lot	1 Lot

**Dodla Dairy Limited (DDL)** is a South India based integrated dairy company ranked 3<sup>rd</sup> largest among private players in terms of milk procurement per day (average 1.02MLPD). DDL's operations in India are primarily across the five Indian states of Andhra Pradesh, Telangana, Karnataka, Tamil Nadu and Maharashtra. Its overseas operations are based in Uganda and Kenya. The Indian operations are undertaken under brands "Dodla Dairy", "Dodla" and "KC+" while the overseas operations are undertaken under brands "Dodla Dairy", "Dairy Top" and "Dodla+".

**Issue Structure**

Offer for sale	~90.0%
Fresh Issue	~10.0%
Issue Size	Rs.520 cr
Total shares in cr	1.21
QIB share (%)	≤ 50%
Non Inst share (%)	≥ 15%
Retail share (%)	≥ 35%

Over FY18-21E\*, DDL's revenues/ EBITDA / PAT grew at a CAGR of 5.7%/ 33.6% / 38.2% to Rs.1,880.0 cr / Rs.268.8 cr / Rs.150.0 cr, respectively. DDL's revenue from the sale of milk and dairy based VAPs constituted 72.8% and 27.2% respectively in FY20 and 74.5% and 25.5% respectively in 1HFY21. EBITDA and net margins grew by 721 bps and 441 bps to 14.3% and 8.0% respectively over the same period. Consequently, return ratios RoE and RoIC improved by 988 bps and 2,134 bps to 26.6% and 37.3%, respectively in FY21E.

The sharp gains in EBITDA margins was due to cost cutting measures implemented to tackle the COVID-19 impact . These heightened margins are unlikely to sustain and management too has guided towards normalisation. As a result, we expect overall revenues / EBITDA / PAT to grow at a CAGR of 9% / -4.9% / -4.4% to Rs.2,433.2 cr / Rs.231.2 cr / Rs.131.3 cr, respectively, by FY24. EBITDA and net margins are expected to degrow by 480 bps and 259 bps to 9.5% and 5.4%, respectively over the same period. Consequently, return ratios RoE and RoIC are also expected to fall by 611 bps and 345 bps to 20.5% and 33.9%, respectively by FY24.

Despite the lack of earnings growth over the forecast period (given the high base effect of net earnings for FY21), we expect a re-rating of the valuations given the

**Shareholding Pattern**

	Pre (%)	Post(%)
Promoters	68.5	64.2
Public	31.5	35.8

**Key Financials (in ₹ crores)**

	Sales	EBITDA	Net Profit	EBITDA (%)	Net Profit (%)	EPS ₹	BV ₹	RoE (%)	RoCE (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)
<b>FY20</b>	2,139.4	140.9	49.9	6.6	2.3	9.0	77.9	11.5	11.8	48.6	5.6	17.5
<b>FY21*</b>	1,880.0	268.8	150.0	14.3	8.0	26.9	101.2	26.6	25.0	16.1	4.3	8.5
<b>FY22E</b>	1,992.8	209.2	114.9	10.5	5.8	20.3	111.2	18.3	17.6	21.1	3.8	10.5
<b>FY23E</b>	2,192.0	208.2	116.6	9.5	5.3	20.6	112.0	18.4	16.9	20.8	3.8	10.4
<b>FY24E</b>	2,433.2	231.2	131.3	9.5	5.4	23.2	113.0	20.5	18.9	18.5	3.8	9.3

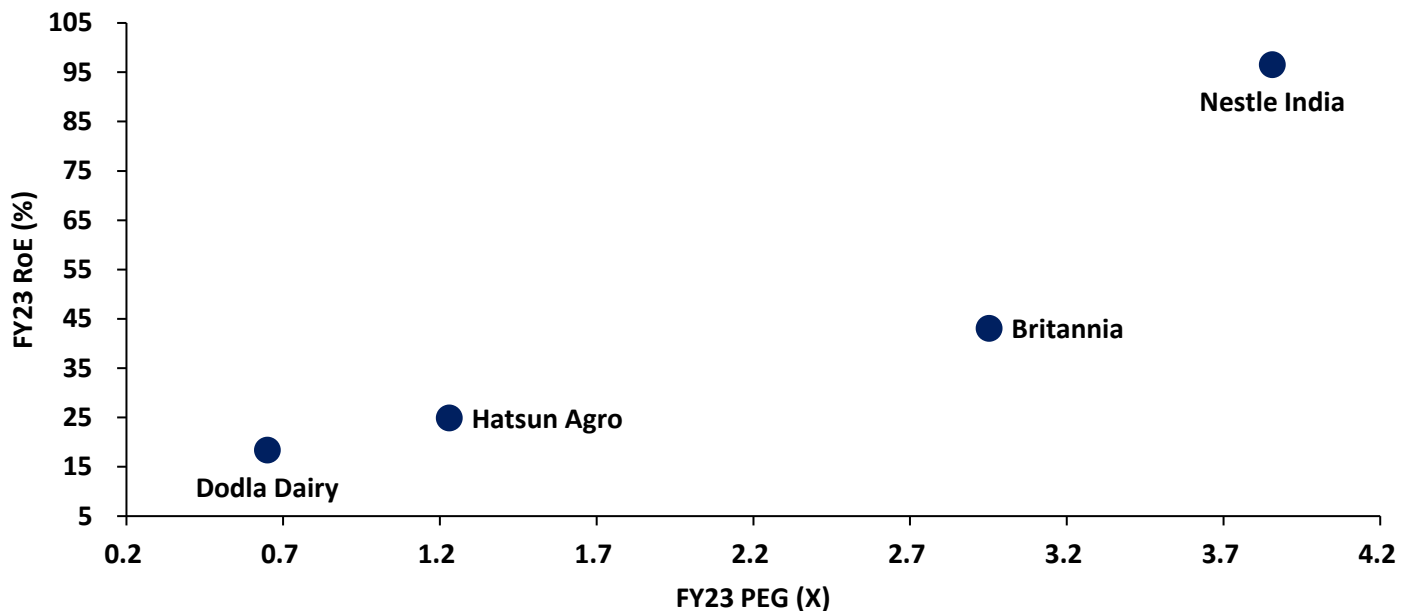
\*FY21 numbers are available only till 9MFY21, Last quarter is Ventura estimate



- Market leadership
- Strong sectoral growth trends
- Improved efficiencies (by eliminating market intermediaries)
- Thrust on expanding retail footprint
- Debt free status
- Completion of capex cycle
- High return ratios

We value the stock at Rs 580 (25x FY24E) representing potential upside of 35.4% from the IPO higher band price of Rs 428 over the next 24 months.

**DDL – Valuations look reasonable as compared to peers**



Source: Bloomberg & Ventura Research

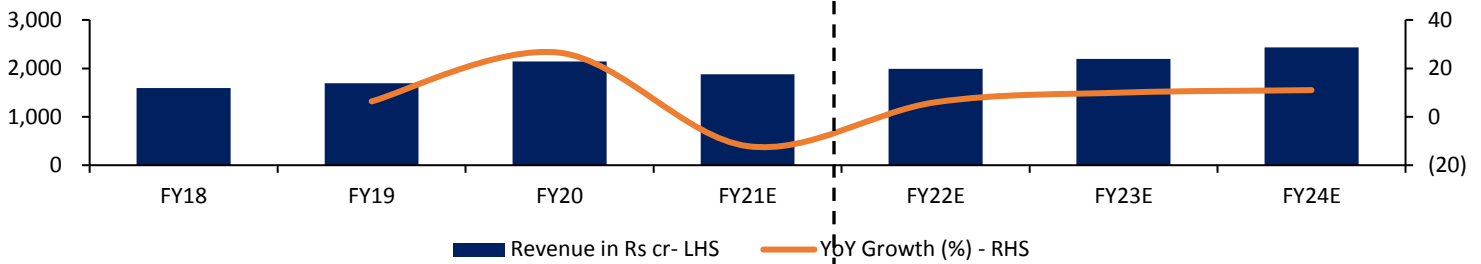

**Peer comparison**

Particulars	Revenue	EBITDA	Net Profit	EBITDA Margin (%)	Net Margin (%)	EPS ₹	BVPS ₹	RoE (%)	RoIC (%)	P/E	P/B	EV/EBITDA
<b>Dodla Dairy Ltd (CMP: Rs.428 Mkt Cap: Rs.2546 cr)</b>												
FY19	1,692	134	63	7.9	3.7	11	73	15.4	13.7	38.6	6.0	18.8
FY20	2,139	141	50	6.6	2.3	9	78	11.5	13.8	48.6	5.6	17.5
FY21	1,880	269	150	14.3	8.0	27	101	26.6	37.3	16.1	4.3	8.5
FY22	1,993	209	115	10.5	5.8	20	111	18.3	27.0	21.1	3.8	10.5
FY23	2,192	208	117	9.5	5.3	21	112	18.4	28.1	20.8	3.8	10.4
<b>Parag Milk Foods Ltd. (CMP: Rs.141.9 Mkt Cap: Rs.1353 cr)</b>												
FY19	2,396	223	137	9.3	5.7	14.4	98.5	14.6	15.2	9.9	1.4	7.0
FY20	2,438	211	106	8.7	4.4	11.2	98.5	11.3	11.3	12.7	1.4	8.1
FY21	1,906	156	71	8.2	3.7	7.4	NA	NA	NA	19.2	NA	NA
FY22	2,325	200	100	8.6	4.3	10.5	NA	NA	NA	13.5	NA	NA
FY23	2,613	234	123	8.9	4.7	12.9	NA	NA	NA	11.0	NA	NA
<b>Nestle India Ltd. (CMP: Rs.17547.1 Mkt Cap: Rs.169182 cr)</b>												
CY19	12,295	2,926	1,968	23.8	16.0	204.2	199.0	102.6	(1,230.6)	85.9	88.2	57.1
CY20	13,290	3,202	2,082	24.1	15.7	216.0	199.0	108.5	(868.5)	3.6	88.2	52.1
CY21	14,999	3,644	2,464	24.3	16.4	255.6	247.5	103.3	(713.9)	68.7	70.9	45.6
CY22	16,622	4,168	2,819	25.1	17.0	292.4	302.9	96.5	(608.1)	60.0	57.9	39.7
CY23	18,365	4,682	3,144	25.5	17.1	326.1	351.1	92.9	(357.4)	53.8	50.0	35.2
<b>Hatsun Agro Products Ltd. (CMP: Rs.956.2 Mkt Cap: Rs.20612 cr)</b>												
FY19	4,752	443	116	9.3	2.4	5.4	37.3	14.5	13.5	177.3	25.6	48.8
FY20	5,300	550	113	10.4	2.1	5.2	37.3	14.1	11.1	182.4	25.6	40.0
FY21	5,570	NA	246	NA	4.4	11.4	50.7	22.5	NA	83.9	18.9	NA
FY22	6,459	NA	276	NA	4.3	12.8	57.0	22.5	NA	74.7	16.8	NA
FY23	7,433	NA	358	NA	4.8	16.6	66.7	24.9	NA	57.6	14.3	NA
<b>Britannia Industries Ltd. (CMP: Rs.3577.9 Mkt Cap: Rs.86179 cr)</b>												
FY19	10,973	1,733	1,162	15.8	10.6	48.3	177.0	27.3	44.0	74.2	20.2	49.3
FY20	11,444	1,839	1,405	16.1	12.3	58.4	177.0	33.0	34.1	61.3	20.2	47.1
FY21	13,126	2,557	1,916	19.5	14.6	79.6	159.2	50.0	61.5	45.0	22.5	33.7
FY22	13,956	2,487	1,820	17.8	13.0	75.6	167.1	45.2	58.1	47.3	21.4	34.6
FY23	15,479	2,820	2,083	18.2	13.5	86.5	200.8	43.1	60.4	41.4	17.8	30.4

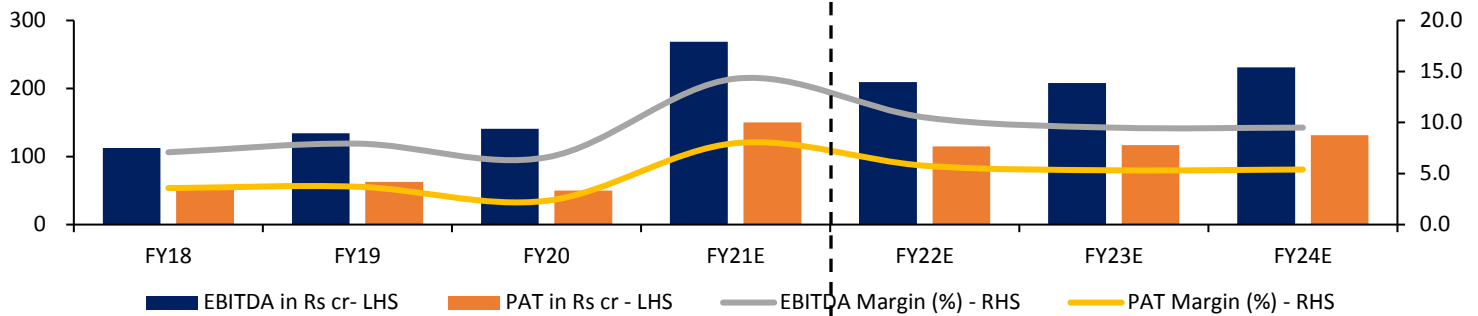
Source: Company Reports &amp; Ventura Research

## DDL story in charts

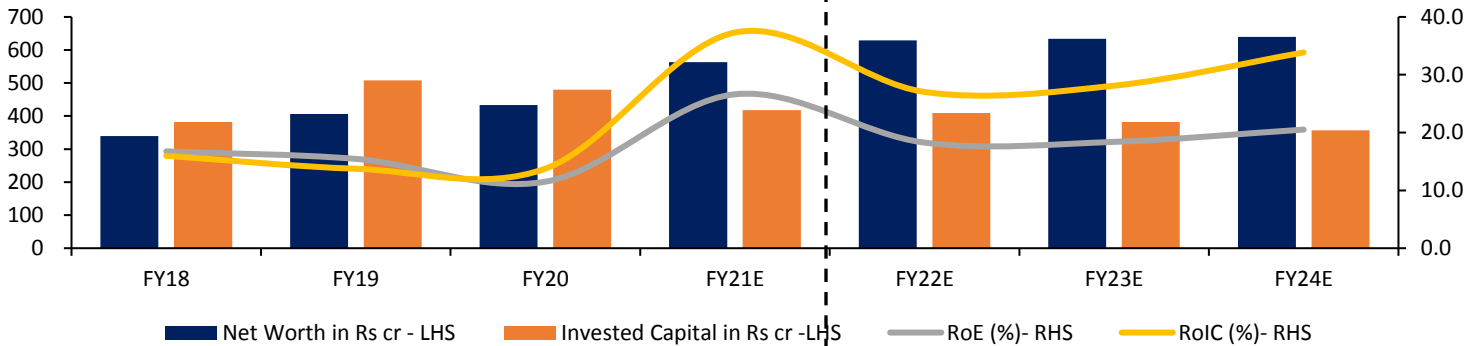
Revenues are expected to grow at 9.0% CAGR over FY21-24



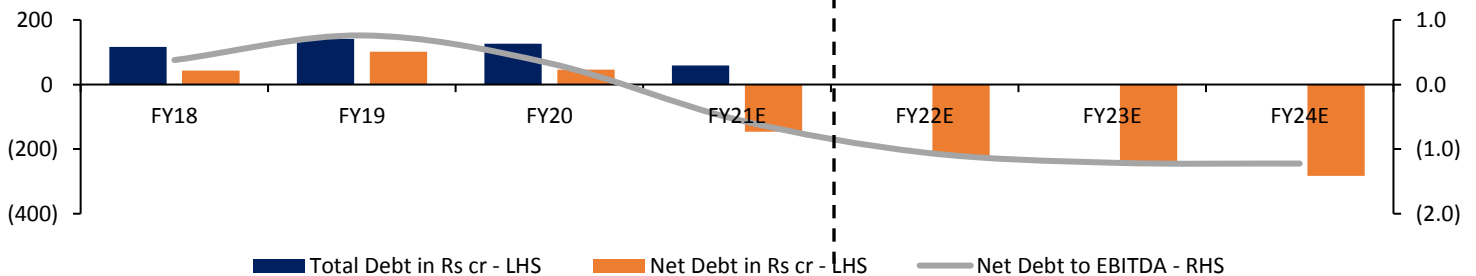
EBITDA/PAT is expected to degrow over FY21-24 as cost savings due to COVID are expected to subside



As costs savings due to COVID seen in FY21 are expected to subside, return ratios can fall from here



DDL is a net debt positive company



Source: Company Reports and Ventura Research



## Management Team

Key Person	Designation	Details
<b>Mr Dodla Sesha Reddy</b>	Chairman & Non Executive Director	Associated with the company for more than 22 years. Has dairy industry experience of more than 22 years.
<b>Mr Dodla Sunil Reddy</b>	MD	Associated with the Company since incorporation and has more than 25 years of experience in the dairy industry. Responsible for setting up their business strategy with a focus on accountability and value creation.
<b>Mr Madhusudhana Reddy Ambavaram</b>	Whole Time Director	Joined the company in October, 2006. Has 14 years of experience in the dairy industry. Is in charge of the legal compliance in relation to industrial and labour laws and the human resource functions of the company.
<b>Mr Anjaneyulu Ganji</b>	CFO	Has several years of experience in accounting roles in various industries. Has joined the company on January 25, 2021.
<b>Mr Venkat Krishna Reddy Busireddy</b>	CEO	Has over 35 years of experience in the dairy sector. Has been with the company for more than 23 years.

Source: Company Reports

## ❖ Key investment highlight

## Strong sectoral growth trends augur well for the dairy players

The dairy industry is expected to grow at a CAGR of 10-11% to Rs 9.9 lac crore by FY25 from the current Rs 6.8 lac crore reported in FY21. This growth is the outcome of

- Rising urbanization
- Preference for packaged milk and improving share of VAPs
- Continued government support
- Improvement in supply chain infrastructure
- Product innovations and improving quality across price points.

**Integrated business model with well-defined procurement & processing capabilities**

DDL's procurement operations are spread across the states of Andhra Pradesh, Telangana, Tamil Nadu, Karnataka and Maharashtra. DDL procures on an average 1.02MLPD of raw milk from ~1,14,920 farmers, 254 dairy farms & 90 chilling centres. It has consistently improved direct procurement from farmers from 0.50 MLPD in 2018 to 0.98MLPD as of December 31, 2020. Direct procurement comprises 95.5% of total raw milk procurement as of December 31, 2020.

DDL's installed capacity for milk handling and SMP						
	FY18		FY19		FY20	
State/Country	in MLPD	in kgs	in MLPD	in kgs	in MLPD	in kgs
<b>Andhra Pradesh</b>						
Badvel	0.05		0.05		0.05	
Kurnool	0.01		0.01		0.01	
Palamaner	0.38		0.38		0.38	
Penumur	0.05		0.05		0.05	
Nellore	0.20		0.20		0.20	
Nellore (SMP)	-	15,000	-	15,000	-	15,000
Rajahmundry	-		0.15		0.15	
Sattenapalle	0.04		0.04		0.04	
<b>Karnataka</b>						
Indragi	0.20		0.20		0.20	
Tumkur	0.03		0.03		0.03	
Batlagundu	-		0.09		0.09	
Dharmapuri	0.10		0.10		0.10	
Vedasandur	-		0.05		0.05	
Vedasandur (SMP)	-		-	10,000	-	10,000
<b>Telangana</b>						
Hyderabad	0.21		0.29		0.29	
<b>Uganda</b>	0.10		0.10		0.10	

Source: Company, Ventura Research

DDL has 272 milk procurement routes which have a regular procurement plan with timely pick up of raw milk from VLCCs and dairy farms. The raw milk is then transported to the nearest chilling centres & thereafter to the processing plant (DDL has 13 processing plants) through tankers for onward processing into retail milk packages or manufacture of dairy based VAPs.

The strategic location of DDL's processing plants, chilling centres and VLCCs enables the company to minimize the transportation and handling costs, without any loss in quality or nutritional value.

### **Vast distribution network coupled with franchised Retail parlours enables larger sales coverage**

DDL sells its products under the “Dodla” and “DodlaDairy” brand in India. As of December 31, 2020 it distributed milk and dairy based VAPs through 40 sales offices, 3,336 distribution agents, 863 milk distributors and 449 milk product distributors.

Besides, its products are also available through 371 “Dodla Retail Parlours” which are operated on a franchise model and spread across the states of Andhra Pradesh, Telangana, Tamil Nadu and Karnataka.

Also, as part of its product outreach program, DDL intends to actively increase its distribution network by engaging with hyper markets, super markets and retailers. It also intends to convert its multi-brand dealer network into exclusive suppliers who would house only DDL’s products in a phased manner to have better control over the brand.

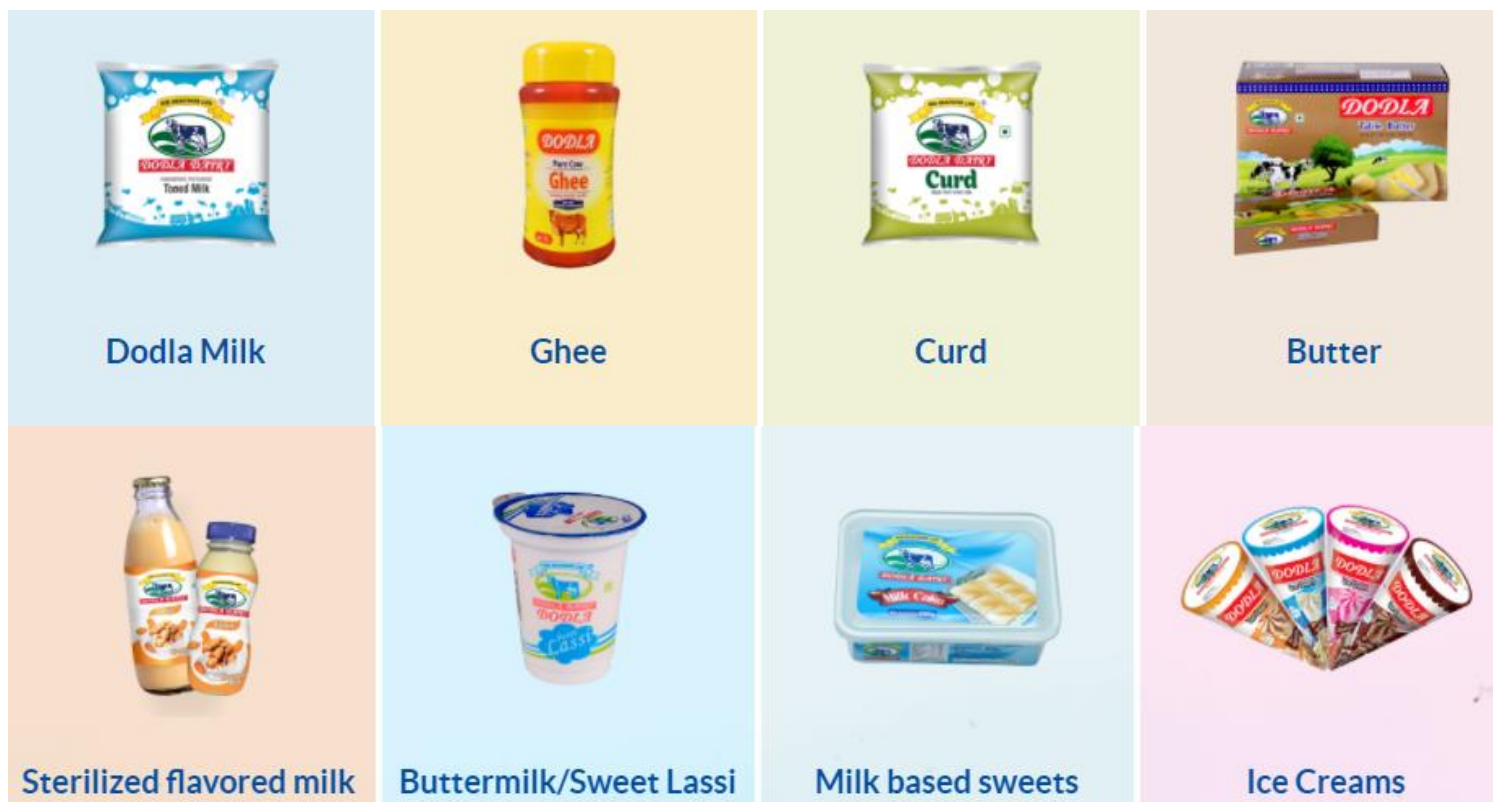
DDL is also looking at expanding Dodla Retail Parlours on the existing franchise model going forward.

### **Faster growth of Value added products (VAP’s) to aid margin growth in the long term**

Historically, sales of processed milk has been the primary revenue driver for DDL. However, over FY18-20, DDL’s revenue from sale of processed milk grew at a CAGR of 16.4% to Rs 1,551.4 cr while revenues from VAPs grew at a faster CAGR of 73.5% to Rs 579.3 cr.

In the long run, DDL intends to supplement its revenue by increasing the sales of VAPs and strike a balance between processed milk and VAPs & hence expand its current portfolio to include new variants of cheese and other products at price points of as low as Rs 10 and reach a wider variety of consumers. However, recovery of the HORECA segment will be a key driver to continue the growth rate in VAPs in the future.

### Dodla Dairy Product offering



Source: Company, Ventura Research

#### ❖ Key risk and concern areas

##### Competition among Co-operative and private players remains intense

The Indian dairy market is witnessing an increased investment and consolidation. Smaller firms are selling to the bigger ones in order to cope up with rising input costs and challenges in achieving scale.

Given the challenges of the industry, numerous sub scale players have sold off to larger players in the past and in future also, this trend will continue.

Also, with players like Britannia, Nestle and ITC entering the sector, the competition in the dairy sector is intense and hence margins are always in check.

**Recovery of HORECA (Hotels/Restaurants/Cafe) key for VAPs growth**

Products like cheese, yoghurt, flavored milk and ice-cream are not staple to the Indian household and are mostly consumed out-of-home. With closure of HORECA, such consumption was completely cut off in April and May 2020 and reopened gradually in H2FY21.

Even after opening of hotels and restaurants, store footfalls remained subdued whereas an uptick in consumption was visible from order-in for the QSR. Although yoghurt is largely consumed in households, low penetration and high ticket size would have few takers for it as muted income growth would discourage higher spending.

Going forward, recovery of the HORECA segment will be a key driver for volume growth of value added products of the company.

**❖ Issue Structure and Offer Details**

The proposed issue size of DDL's IPO is ~Rs.520 cr consisting of Rs 50 cr as fresh issue while the rest is offer for sale. The price band for the issue is in the range of Rs.421-428 and the bid lot is 35 shares and multiples thereof.

Issue Structure at upper price band		
Category	No. of shares offered	No of shares Offered
QIB	Not more than 60,76,833	Not more than 50% of public issue
Non-Institutional Bidders	Atleast 18,23,051	Atleast 15% of public issue
Retail	Atleast 42,53,784	Atleast 35% of public issue

\* No of shares based on higher price band of Rs.428

Source: Company Reports & SEBI

Shareholding Pattern		
Category	Pre-issue	Post-issue
Promoters	68.5%	64.2%
Public	31.5%	35.8%

Source: Company Reports and SEBI

## Financial Projections

Figures in INR Crores	FY20	FY21E	FY22E	FY23E	FY24E	Figures in INR Crores	FY20	FY21E	FY22E	FY23E	FY24E
<b>Income Statement</b>						<b>Per share data &amp; Yield</b>					
Revenue	2,139.4	1,880.0	1,992.8	2,192.0	2,433.2	Adjusted EPS (Rs)	8.8	26.5	20.3	20.6	23.2
YoY Growth (%)	26.5	(12.1)	6.0	10.0	11.0	Adjusted CEPS (Rs)	17.5	35.8	30.2	31.0	34.4
Raw Material Cost	1,640.6	1,278.4	1,434.8	1,600.2	1,776.2	Adjusted BVPS (Rs)	76.6	99.6	111.2	112.0	113.0
YoY Growth (%)	30.6	(22.1)	12.2	11.5	11.0	CFO per share (Rs)	29.3	42.2	29.1	31.2	34.6
Employee Cost	91.1	88.4	89.7	98.6	109.5	CFO Yield (%)	6.8	9.8	6.8	7.3	8.1
YoY Growth (%)	18.9	(3.0)	1.5	10.0	11.0	FCF per share (Rs)	14.5	36.7	22.8	23.8	25.7
Other Expenses	266.8	244.4	259.1	285.0	316.3	FCF Yield (%)	3.4	8.6	5.3	5.6	6.0
YoY Growth (%)	18.9	(8.4)	6.0	10.0	11.0	<b>Solvency Ratio (X)</b>					
EBITDA	140.9	268.8	209.2	208.2	231.2	Total Debt to Equity	0.3	0.1	0.0	0.0	0.0
YoY Growth (%)	5.0	90.8	(22.2)	(0.5)	11.0	Net Debt to Equity	0.1	(0.3)	(0.4)	(0.4)	(0.4)
Margins (%)	6.6	14.3	10.5	9.5	9.5	Net Debt to EBITDA	0.3	(0.5)	(1.1)	(1.2)	(1.2)
Depreciation & Amortization	49.2	52.5	55.7	59.2	63.3	Interest Coverage Ratio	5.7	16.8	25.6	NA	NA
EBIT	91.7	216.4	153.5	149.1	167.9	<b>Return Ratios (%)</b>					
YoY Growth (%)	(5.5)	135.9	(29.1)	(2.9)	12.6	Retrun on Equity	11.5	26.6	18.3	18.4	20.5
Margins (%)	4.3	11.5	7.7	6.8	6.9	Return on Capital Employed	11.8	25.0	17.6	16.9	18.9
Other Income	6.3	4.9	12.1	12.9	14.4	Return on Invested Capital	13.8	37.3	27.0	28.1	33.9
Finance Cost	16.1	12.9	6.0	0.0	0.0	<b>Working Capital</b>					
PBT	81.9	208.4	159.6	161.9	182.3	Inventory Days	21	22	22	22	22
YoY Growth (%)	(12.2)	154.5	(23.4)	1.4	12.6	Receivable Days	1	1	1	1	1
Margins (%)	3.8	11.1	8.0	7.4	7.5	Payable Days	13	15	13	13	13
Reported Tax	32.0	58.3	44.7	45.3	51.0	Net Working Capital Days	8	8	10	10	10
Tax Rate	39.1	28.0	28.0	28.0	28.0	Net Working Capital to Sales (%)	2.3	2.1	2.7	2.7	2.7
PAT	49.9	150.0	114.9	116.6	131.3	<b>Valuation (X)</b>					
YoY Growth (%)	(20.5)	200.8	(23.4)	1.4	12.6	P/E Ratio	48.6	16.1	21.1	20.8	18.5
Margins (%)	2.3	8.0	5.8	5.3	5.4	P/BV Ration	5.6	4.3	3.8	3.8	3.8
<b>Balance Sheet</b>						EV/EBITDA	17.5	8.5	10.5	10.4	9.3
Share Capital	55.7	55.7	56.6	56.6	56.6	EV/Sales	1.2	1.2	1.1	1.0	0.9
Total Reserves	377.8	507.9	572.8	577.4	583.2	<b>Cash Flow Statement</b>					
Shareholders' Fund	433.5	563.5	629.4	634.0	639.8	Profit Before Tax	81.9	208.4	159.6	161.9	182.3
LT Borrowings	86.7	58.5	0.0	0.0	0.0	Adjustments	108.4	78.9	64.8	65.7	71.2
Other LT Financial Liabilities	7.1	8.4	8.9	9.8	10.9	Change in Working Capital	7.3	9.7	(15.2)	(5.5)	(6.6)
Deferred Tax Liabilities	36.5	37.9	40.1	44.2	49.0	Less: Tax Paid	(32.0)	(58.3)	(44.7)	(45.3)	(51.0)
LT Government Grants	2.8	2.6	2.8	3.1	3.4	<b>Cash Flow from Operations</b>	<b>165.6</b>	<b>238.6</b>	<b>164.6</b>	<b>176.9</b>	<b>195.9</b>
LT Provisions	9.5	10.7	10.9	12.0	13.3	Net Capital Expenditure	(95.0)	(40.0)	(40.0)	(42.0)	(50.4)
<b>Total Liabilities</b>	<b>576.1</b>	<b>681.7</b>	<b>692.1</b>	<b>703.0</b>	<b>716.4</b>	Change in Investments	18.0	(70.9)	5.0	8.8	10.6
Gross Block	601.6	641.6	681.6	723.6	774.0	<b>Cash Flow from Investing</b>	<b>(77.0)</b>	<b>(110.9)</b>	<b>(35.0)</b>	<b>(33.2)</b>	<b>(39.8)</b>
Less: Accumulated Depreciation	119.3	171.8	227.5	286.7	350.0	Proceeds from issue of equity	0.0	0.0	50.9	0.0	0.0
<b>Net Block</b>	<b>482.3</b>	<b>469.8</b>	<b>454.1</b>	<b>436.9</b>	<b>424.0</b>	Change in Borrowings	(14.9)	(68.2)	(58.5)	0.0	0.0
Capital WIP	11.2	0.0	0.0	0.0	0.0	Less: Finance Cost	(16.1)	(12.9)	(6.0)	0.0	0.0
Goodwill	44.2	44.2	44.2	44.2	44.2	Dividend Paid	(18.2)	(20.0)	(100.0)	(112.0)	(125.4)
Other Intangible Assets	9.9	7.4	7.4	7.4	7.4	Change in Other Liabilities	23.6	0.0	0.0	0.0	0.0
Biological Assets	2.5	2.3	2.3	2.3	2.3	<b>Cash Flow from Financing</b>	<b>(25.7)</b>	<b>(101.1)</b>	<b>(113.6)</b>	<b>(112.0)</b>	<b>(125.4)</b>
Non Current Investments	0.3	0.0	0.0	0.0	0.0	<b>Net Cash Flow</b>	<b>62.9</b>	<b>26.7</b>	<b>16.0</b>	<b>31.7</b>	<b>30.7</b>
LT Loans & Advances	9.4	9.4	10.0	11.0	12.2	Opening Balance of Cash	5.1	68.7	95.0	111.0	142.6
Current Tax Assets	8.8	1.8	1.9	2.1	2.4	<b>Closing Balance of Cash</b>	<b>68.7</b>	<b>95.0</b>	<b>111.0</b>	<b>142.6</b>	<b>173.3</b>
Deferred Tax Assets	0.0	0.2	0.2	0.2	0.2						
Other Non Current Assets	8.8	10.4	11.0	12.2	13.5						
Net Current Assets	(95.2)	(75.7)	(77.0)	(79.3)	(82.1)						
<b>Total Assets</b>	<b>482.3</b>	<b>469.8</b>	<b>454.1</b>	<b>436.9</b>	<b>424.0</b>						

Source: Company Reports & Ventura Research

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