

Company Overview

Incorporated in 1995, Dodla Dairy Limited is an integrated dairy company in South India that is engaged in the procurement, processing, distribution, and marketing of milk and other dairy products. It processes and sells milk including standardized, toned, and double toned milk, and produces dairy products like curd, butter, ghee, ice cream, flavoured milk, etc. Its Indian operations are mainly undertaken under the brand name of "Dodla", "Dodla Dairy", and "KC+" whereas it serves overseas market under the brand name of "Dodla Dairy", "Dairy Top", and "Dodla+". Telangana, Andhra Pradesh, Karnataka, Tamil Nadu, and Maharashtra are the key Indian market segments served by the company while in the overseas market, it mainly serves countries like Uganda and Kenya. It has a total of 13 processing plants to process raw material into packaged milk and manufacture dairy-based value-added products. The firm has a strong distribution network of 40 sales offices, 3336 distribution agents, 863 milk distributors, and 449 product distributors across 11 states in India.

Objects of the issue

The IPO proceed will be used towards the following purposes;

1. Repayment and/ or pre-payment, in full or part, of certain borrowings availed by the company
2. Funding incremental capital expenditure requirements of the company.
3. General corporate purposes.

Investment Rationale

Consumer focused company with a diversified range of portfolio

Dodla dairy is one of the top dairy product brands in south India particularly in the States of Andhra Pradesh, Karnataka, Tamil Nadu and Telangana with a presence for over 23 years. It has strong consumer recognition, due its wide range of high quality products. Dodla is the third largest private milk company in south India in terms of procurement and second highest in terms of market presence across all of India amongst private dairy players. Their Indian operations are undertaken under their brands "Dodla Dairy" and "Dodla" with increasing brand visibility. The company offers a diverse portfolio of dairy based VAPs targeted at various consumer segments which enable them to cater to the changing preferences of their retail customers. They sell fresh milk, ghee, butter, curd, paneer, gulab jamun, doodh peda, basundhi and junnu, which is targeted at consumption at home. They sell UHT milk, flavoured milk, ice - cream and beverages such as buttermilk under their brand, primarily for direct consumption.

Integrated business model with well-defined procurement, processing and distribution capabilities

Dodla Dairy has an integrated business model which enables them to provide end to end capabilities from procurement, distribution and marketing in a cost efficient manner. Dodla's procurement operation are spread across the states of Andhra Pradesh, Telangana, Tamil Nadu, Karnataka and Maharashtra and has an average procurement of approximately 1.03 MLPD of raw milk from approximately 109,670 farmers across 7,003 villages through 6,771 VLCCs, more than 283 milk procurement routes, 232 dairy farms and 94 chilling centres as of March 31, 2021. The company also has strong distribution capabilities with 40 sales offices, 3,285 distribution agents, 861 milk distributors and 544 milk product distributors. Their also sell their products through 393 "Dodla Retail Parlours" which are operated on a franchise model. They engage in various marketing and promotional campaigns such as door to door campaigning for products, hoardings, signages, direction boards and kiosk promotions.

Valuation and Outlook

Dodla Dairy (DDL) is an integrated dairy company based in the southern region of India. It is one of the largest dairy company in the branded consumer market. Moreover the company's diversified range of products, strong brand recognition, distribution network and stringent quality control procedures provide for further growth visibility. On the valuation front, at the upper price band, the company is valued at 15.36x P/E considering the diluted equity shares and FY21 annualized earnings, which is at a discount compared to its listed industry peers (i.e, Hatsun Agro- 81.15x, Heritage Foods- 13.6x and Parag Milk- 36.72x). Considering the factors such as their integrated business model, financial growth & operational efficiencies and further expansion plans we give a "SUBSCRIBE" rating on this issue for the long term.

Issue Details

Offer Period	16 June - 18th June, 2021
Price Band	INR.421 to INR.428
Bid Lot	35
Listing	BSE&NSE
Issue Size (no. of shares in mn)	12.1
Issue Size (INR. in bn)	5.2
Face Value	10

Issue Structure

QIB	50%
Retail	35%
NIB	15%
BRLM	ICICI Securities Ltd, Axis Capital Ltd.
Registrar	KFIN Technologies Pvt. Ltd.

Particulars Pre Issue % Post Issue %

Promoter	68.52	64.17
Public	31.48	35.83
Total	100	100

(Assuming issue subscribed at higher band)

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Income Statement (In mn)

Particulars	FY18	FY19	FY20	9MFY21
Revenue				
Revenue From Operations	15,905	16,917	21,394	14,135
Total Revenue	15,970	16,995	21,457	14,170
Expenses				
Raw Material Consumed	12,744	12,425	15,831	9,957
Changes in Inventories of Finished Goods and Work-In-Progress	(427)	141	575	(408)
Employee Benefit Expenses	650	767	911	666
Other Expenses	1,811	2,243	2,668	1,855
Total Operating Expenses	14,778	15,575	19,985	12,070
EBITDA	1,193	1,419	1,472	2,100
Depreciation and Amortisation Expense	279	371	492	382
Other Income	-	-	-	-
EBIT	913	1,049	980	1,718
Finance Costs	109	116	161	97
Exceptional Item	-	-	-	-
Share in Profit/(Loss) of Joint Ventures	-	-	-	-
PBT	804	933	819	1,621
Current Tax	186	238	211	445
Deferred Tax Charge	50	67	109	13
Total Tax	236	305	320	457
PAT	569	628	499	1,164
Diluted EPS	10.2	11.3	9.0	20.9

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY18	FY19	FY20	9MFY21
Cash flow from operating activities	875	1,356	1,656	1,954
Cash flow from investing activities	(658)	(1,477)	(770)	(1,312)
Cash flow from financing activities	(414)	600	(257)	(743)
Net increase/(decrease) in cash and cash equivalents	(197)	478	629	101
Cash and cash equivalents at the beginning of the period	(232)	(429)	51	687
Cash and cash equivalents at the end of the period	(429)	51	687	582

Source: RHP, BP Equities Research

Balance Sheet (In mn)

Particulars	FY18	FY19	FY20	9MFY21
Liabilities				
Share Capital	33	557	557	557
Other Equity	3,363	3,507	3,778	4,940
Net Worth	3,395	4,064	4,335	5,497
Long-Term Borrowings	223	1,102	867	585
Lease Liabilities	57	77	71	84
Deferred Tax Liabilities	207	258	365	379
Long-Term Provisions	69	65	95	107
Other Non Current Liabilities	35	31	28	26
Total Non Current Liabilities	591	1,533	1,426	1,182
Trade Payables	625	757	782	766
Current Tax Liability	133	178	338	341
Borrowings	943	314	400	-
Other Financial Liabilities	318	569	611	742
Lease Liabilities	9	14	26	15
Other Current Liabilities	53	63	56	52
Short Term Provisions	23	28	28	44
Total Current Liabilities	2,104	1,922	2,242	1,960
Total Equity & Liabilities	6,090	7,519	8,003	8,638
Assets				
Property, Plant & Equipment	3,262	4,512	4,823	4,711
Capital Work in Progress	160	112	112	217
Goodwill	-	359	442	442
Other Intangible Assets	7	134	99	74
Biological Assets other than Bearer Plants	28	27	25	23
Financial Assets	219	164	97	94
Other Tax Assets	46	36	88	18
Deferred Tax Assets (net)	19	3	0	2
Other Non-Current Assets	86	112	88	104
Total Non current assets	3,827	5,459	5,774	5,685
Investment	598	181	115	53
Trade Receivables	36	73	72	34
Cash and Cash Equivalents	139	214	687	582
Other Current Assets	79	183	109	69
Bank Balances	1	1	0	1,041
Other Financial Assets	69	159	44	46
Inventories	1,341	1,249	1,202	1,127
Total Current Asset	2,263	2,060	2,229	2,953
Net Current Assets	159	138	(13)	994
Total Assets	6,090	7,519	8,003	8,638

Source: RHP, BP Equities Research

Key Risks

- ⇒ The Operations are dependent on the supply of large amounts of raw milk, and the inability to procure adequate amounts of raw milk from farmers and third party suppliers, at competitive prices, may have an adverse effect on their business.
- ⇒ The dairy products business in India is evolving rapidly and is highly competitive and an inability to compete effectively with established and new competitors may adversely affect their growth prospects.
- ⇒ The company's processing plants, procurement and distribution operations are primarily concentrated in southern India and any adverse developments affecting this region could have an adverse effect on their business.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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