



## Dodla Dairy Limited

Issue Opens	Wednesday, June 16, 2021
Issue Closes	Friday, June 18, 2021
Price Band (in Rs)	421/428
Bid Lot	35 shares and multiples thereafter



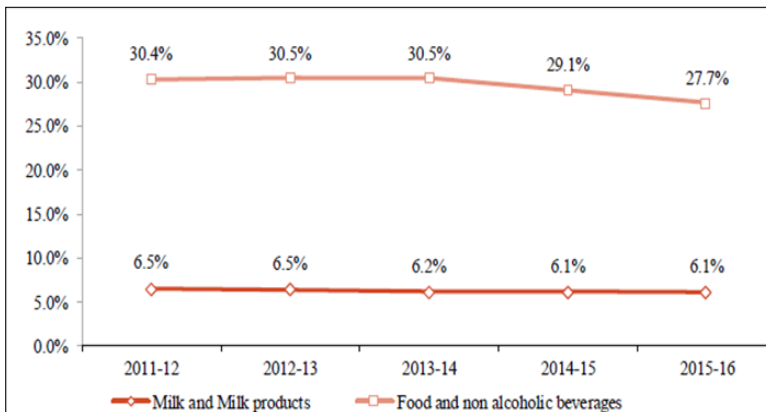
## IPO UPDATE

### Dodla Dairy Limited

#### Industry Overview:

Consumption of milk and dairy products is a dominant part of Indian consumers' diet. As per the National Account Statistics 2017 Report, dairy products comprise nearly 22% of total spend by households on food and non-alcoholic beverages. Overall, dairy products accounted for 6.1-6.5% of the total Private Final Consumption Expenditure (PFCE) between FY12 and FY16 (at constant prices). Various rounds of NSSO's surveys on expenditure pattern of Indian households have shown that recently, the food consumption pattern in India has undergone a change in favour of high-value and more nutritious food items such as milk and milk products, mulberry fruits extracts, fruits and vegetables, and away from staple and starch centric cereals. This shift has been accompanied by falling share of food expenditure in total expenditure as with rise in income levels, the proportion of expenditure on food falls. In absolute terms, the expenditure on food as well as dairy has been increasing.

**Exhibit 01: Total PFCE Spend**



Source: Company RHP

#### Low Protein Consumption in the Overall Nutritional Intake:

A large vegetarian population has resulted in low protein intake in India in overall nutritional needs. As per FAOSTAT, statistical division of the Food and Agricultural Organisation, the average protein intake in India is ~60g/person/day. This dismal protein intake comes from various sources such as cereals, pulses, milk and dairy products as well as egg, fish and meat and some other food items.

#### Global Milk Production:

Global milk output is estimated to have reached ~860mn tonnes in CY2020, up nearly 1.4% from 2019. The growth is on account of increase in milk production in Asia, Europe and USA. In Asia, milk output is estimated to have reached ~362mn in 2020, up ~2% on-year as a result of expansions in India, Pakistan, China and Turkey. In Turkey & China, rising cattle numbers and operational efficiency are leading to higher output. In Japan, government price support provided during the early phase of Covid-19 market disruptions helped stabilize milk output. India, the largest milk producer in the world, is also estimated to have witnessed an increase in milk production underpinned by increase in dairy cattle and improved feed & fodder availability resulting from favourable monsoon (July-September, 2020). In European Union and United States, the production is bolstered by improvements and government assistance.

SNAPSHOT		
Issue Opens	Wednesday, June 16, 2021	
Issue Closes	Friday, June 18, 2021	
Price Band (Rs)	421/428	
Bid Lot	35 shares and multiples thereafter	
Face Value	Rs10	
Listing	BSE & NSE	
Type of Issue	Fresh Issue & OFS	
Offer Size (Rs Mn)	Fresh Issue	500
	OFS	4,702
	Total	5,202
*Implied Market Cap (Rs Mn)	25,463	
P/E (based on FY20 Earnings)*	51.06	

\*Note: Implied Market Cap & P/E are calculated at upper price band of Rs428

Issue Allocation	
Reservations	% of Net Issue
QIB	50
NIB	15
Retail	35
<b>Total</b>	<b>100</b>

Object of the Offer
<ul style="list-style-type: none"> <li>To repay or prepay company's borrowings fully or partially</li> <li>To finance capital expenditure requirements</li> <li>To meet general corporate purposes</li> </ul>



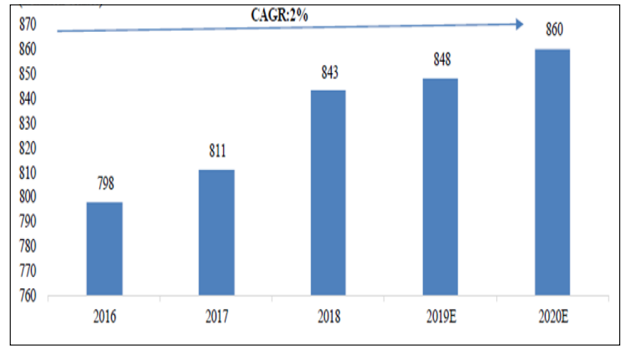
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**Industry (contd.):**

**India– Largest Milk Producer:**

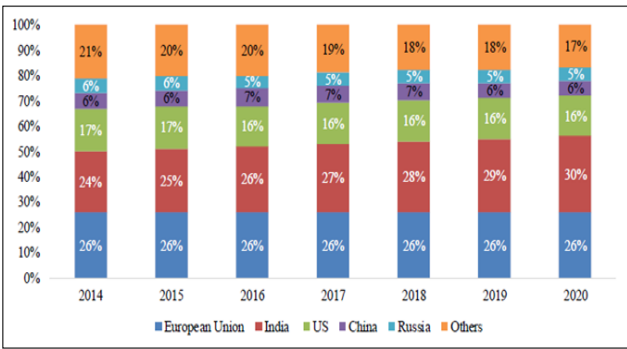
India is the global leader in milk production, contributing ~30% of milk production in 2020. Top six milk -producing countries, viz., India, USA, China, Pakistan, Brazil and Germany, together contributed more than ~60% of the world’s milk production. India’s share in overall production increased to 30% in 2020 from 25% in 2015.

**Exhibit 02: Global Milk Production Trend (in mn tonnes)**



Source: Company RHP

**Exhibit 03: Geographical Milk Producers Breakup (CY20)**



Source: Company RHP

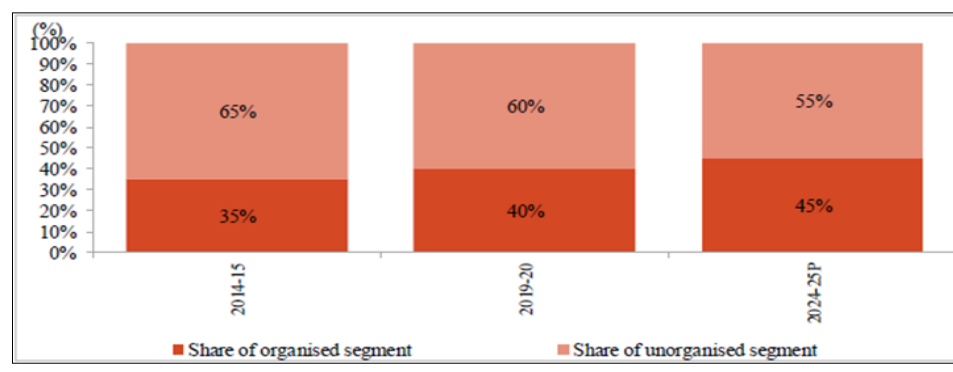
**Indian Dairy Industry:**

The Indian Dairy industry has grown at a CAGR of ~10% between FY15-20 to reach Rs6.7trn in FY20. This growth has come on the back of a 6-7% increase in volumes and 3-4% increase in price realizations. The dairy industry includes milk, traditional value-added products (include butter, ghee, paneer, khoa, curd & skimmed milk powder) and embedded value products (flavoured milk, ice cream, yoghurt, cheese and whey). Over the last five years, the growth in the industry has been driven by the value-added products (~35% of the industry in value terms) which have witnessed a growth of 12-14% between FY15 and FY20. Amongst the value-added products, emerging value-added products has grown at a faster rate of ~18% (owing to ~12% increase in volumes and 6% increase in prices) as compared to 12 -13% for traditional value-added products. The fastest-growing products during this five-year period were ice cream at ~21%, followed by paneer (19%) and cheese (14%). Milk was classified as an essential item and hence the industry wasn’t severely impacted despite supply and demand side challenges due to Covid-19. In the initial months of lockdown, however, the dairy industry faced challenges in last mile customer reach, availability of labour at plants, logistical issues such as availability of vehicles for transportation, and adhering to Covid-19 safety protocols for all employees.

**Structure of Dairy Industry:**

The Indian Dairy industry is classified into organized and unorganized segment. As of FY20, the unorganized segment dominated the Indian dairy industry with ~59-60% market share, while the organized sector accounted for the rest, at the retail level sales of dairy products. In FY21, outbreak of Covid-19 pandemic accelerated the shift towards organized players, on account of supply chain disruptions and increased focus on hygiene and health. Going forward, the organized segment is expected to grow at a faster pace of 12-13%, while the unorganized segment is expected to grow at 8-10%, thus enhancing the share of the organized players in the near future. Rising consumerism, growing urbanization, some cooperatives being impacted due to lack of professionalism and preference for branded packaged foods will primarily drive this trend. In addition, rising capital investments from private players will give them a strong foothold to eat into the market share of unorganized players.

**Exhibit 04: Share of Organized and Unorganized Segments**



Source: Company RHP



## IPO UPDATE

# Dodla Dairy Limited

### About the Company:

Dodla Dairy Limited was incorporated on 15th May, 1995 at Hyderabad. Dodla Dairy is an integrated dairy company based in South India primarily deriving all of their revenue for FY20 and for the 9MFY21 from the sale of milk and dairy based Value-Added Products (VAPs) in the branded consumer market. The company sells fresh milk, ghee, butter, curd, paneer, gulab jamun, doodh peda, basundhi and junnu, which are 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. Dodla Dairy is the 3rd highest in terms of milk procurement per day with an average procurement of 1.03mn litres of raw milk per day (MLPD) as of FY21 and 2nd highest in terms of market presence across all of India amongst private dairy players with a significant presence in the southern region of India. Their operations in India are primarily across the 5 Indian states of Andhra Pradesh, Telangana, Karnataka, Tamil Nadu and Maharashtra. Their overseas operations are based in Uganda and Kenya. The company's Indian operations are undertaken under their brands "Dodla Dairy", "Dodla" and "KC+" whereas the overseas operations are undertaken under their brands "Dodla Dairy", "Dairy Top" and "Dodla+". The company has an average procurement of 1.03 MLPD from approximately 109,670 farmers through 6,771 Village Level Collection Centres, 232 dairy farms (farmers rearing multiple cattle for supplying raw milk in bulk quantities) and third-party suppliers as of FY21. Company's processing operations consist of processing of the collected raw milk into packaged milk and manufacturing of other dairy based VAPs by 13 processing plants with an aggregate installed capacity of 1.70 MLPD.

The company places significant emphasis on quality control across their integrated business model and have obtained several quality control certifications and registrations for their operations. The raw milk procured by Dodla Dairy is tested by electronic milk analysers which tests for the fat and solid not fat (SNF) content of the raw milk and undergo further tests during the procurement stage. Their milk and dairy based VAPs have received certifications from the FSSAI. Quality food safety forms a part of the company's policy and is one of the main drivers of the business. The company has well defined documented quality system which is monitored at various stages of procurement and processing.

### Strengths:

1. Consumer focused dairy company with a diverse range of products under the "Dodla Dairy" and "Dodla" brands
2. Integrated business model with well-defined procurement, processing and distribution capabilities
  - Procurement
  - Processing
  - Distribution and Marketing
3. Focused engagement and long-term relationship with dairy farmers
4. Stringent quality control procedures
5. Financial growth and operational efficiencies
6. Experienced Board and Senior Management Team

### Strategies:

1. Enhance brand visibility and expand the reach of the products
2. Further strengthen the procurement and processing operations
3. Expand the operations domestically and internationally by way of organic and inorganic growth
4. Increase the revenues from dairy based VAPs
5. Research and Development in dairy farming and allied activities
  - Genetic Research
  - Breeding Research

### Capacity Utilisation:

The company regularly monitors the performance of its processing plants through a number of performance indicators commonly used in the dairy industry. The adjacent table provides information relating to the aggregate estimated capacity utilization rates of the processing plants for FY19-21. The capacity utilization for processing plants has been calculated on the basis of the actual aggregate production of the relevant product during the relevant period, divided by the average aggregate installed production capacity for such product for such period, as adjusted for scheduled and unscheduled downtime.

**Exhibit 05: Capacity Utilisation**

Processing Plant	Capacity Utilisation					
	Fiscal 2019		Fiscal 2020		Fiscal 2021	
	(in MLPD)	(%)	(in MLPD)	(%)	(in MLPD)	(%)
Badvel, Andhra Pradesh	0.05	100%	0.05	100%	0.05	105%
Kurnool, Andhra Pradesh	0.04	82%	0.04	94%	0.05	101%
Palamaner, Andhra Pradesh	0.26	70%	0.27	73%	0.19	49%
Penumur, Andhra Pradesh	0.06	131%	0.06	138%	0.04	85%
Nellore, Andhra Pradesh	0.23	114%	0.25	122%	0.17	82%
Rajahmundry, Andhra Pradesh	0.02	15%	0.03	22%	0.04	24%
Sattenapalle, Andhra Pradesh	0.02	54%	0.02	63%	0.03	70%
Indragi, Karnataka	0.13	69%	0.15	75%	0.14	68%
Tumkur, Karnataka	0.04	123%	0.03	112%	0.03	97%
Batlagundu, Tamil Nadu	0.04	49%	0.05	54%	0.08	82%
Dharmapuri, Tamil Nadu	0.12	127%	0.12	122%	0.09	93%
Vedasandur, Tamil Nadu	0.05	101%	0.05	103%	0.005	9%
Hyderabad, Telangana	0.15	54%	0.15	55%	0.13	47%
Uganda	0.05	50%	0.08	80%	0.05	18%
<b>Total</b>	<b>1.26</b>		<b>1.35</b>		<b>1.10</b>	

Source: Company RHP



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**Financials:**

On the financial performance front, revenue from operations increased at a CAGR of 15.98% over FY18-20 and amounted to Rs21393.73mn in FY20, while EBITDA increased during the same period at a CAGR of 11.81% and amounted to Rs1409.26mn, profit after tax amounted to Rs498.71mn in FY2020. Revenue from operations, EBITDA and profit after tax for the 9MFY21 were Rs14135.12mn, Rs2065.08mn and Rs1163.85mn respectively. Additionally, the sales (sale of goods) increased from Rs15891.60mn in FY18 to Rs21361.64mn in FY20. Despite cumulative capital expenditure of Rs2644.86mn over the past three years, towards *inter alia*, commissioning a new processing plant at Rajahmundry, acquisition of the processing plants at Batlagundu and Vedasandur from KC Dairy Products Private Limited, acquisition of the cattle feed and mixing plant by Orgafeed Private Limited at Kadapa and establishment of new VLCCs, the ROE and ROCE for FY20 stood at 11.% and 17.1% respectively. For the last three fiscals, the company has posted an average EPS of Rs.9.94 and an average RoNW of 13.69%. While the company has not paid any dividend for FY18 and FY19, it has paid a dividend of 52% for FY20. It has not declared any dividend so far for FY21. It will follow the prudent dividend policy based on its financial performance and future prospects.

**Exhibit 06: Financials Snapshot**

Revenues (Rs mn)	FY18	FY19	FY20	9MFY21
Sales	15,905	16,917	21,394	14,135
EBITDA	1,127	1,342	1,409	2,065
EBITDA Margin %	7.1	7.9	6.6	14.6
Net Profit After Tax	569	628	499	1,164
Net Profit Margin %	3.6	3.7	2.3	8.2
Earning Per Share	10.2	11.3	9.0	20.9
RoNW (%)	16.7	15.4	11.5	21.2

Source: Company RHP, Progressive Research

**Risks & Concerns:**

- The company's operations are dependent on the supply of large amounts of raw milk and inability to procure adequate amounts of raw milk from farmers and third-party suppliers, at competitive prices, may have an adverse effect on the business, results of operations and financial condition.
- The supply of raw milk is subject to seasonal factors, and does not necessarily match the seasonal change in demand for the products.
- Any significant interruption in continuing operations of the chilling centres could have a material adverse effect on the business.
- Improper storage, processing or handling of raw milk and dairy products may result in spoilage of, and damage to, such raw milk and dairy products which may adversely affect on business prospects.
- The company do not have long term agreements with suppliers for their raw materials other than raw milk and an increase in the cost of or a shortfall in the availability of such raw materials could have an adverse effect on the business.

**Outlook and Recommendations:**

Amongst private dairy players with a significant presence in the southern region of India, the company is the third highest in terms of milk procurement per day and second highest in terms of market presence across all Indian dairy players. It is one of the largest dairy company in the branded consumer market. Hatsun Agro, Heritage Foods and Parag Milk are its listed peers, although not fully comparable. The super profits clocked during 9MFY21, does alarm some concern. However, based on FY20 earnings the issue is fully priced. A sudden spurt in profitability just before the IPO remains a question before investing. Also, in the past the dairy listings didn't have much to offer to the investors. The company has the positives of a strong brand recall in the South region and pipeline of new product additions going forward. Overall, its at the discretion of the investors to take a call on the IPO from a long term perspective. **We do not have any rating and maintain this document for information purpose only.**



**IPO UPDATE**  
**Dodla Dairy Limited**

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