



**SMC Ranking**

★ ★ ☆ ☆ ☆ (2/5)

### Issue Highlights

Industry	Dairy
Offer for sale (Shares)	10,985,444
<b>Fresh Issue (Shares)</b>	<b>1,168,224</b>
Net Offer to the Public	12,153,668
Issue Size (Rs. Cr.)	512-520
Price Band (Rs.)	421-428
Offer Date	16-Jun-21
Close Date	18-Jun-21
Face Value	10
Lot Size	35

### Issue Composition

	In shares
Total Issue for Sale	12,153,668
QIB	6,076,834
NIB	1,823,050
Retail	4,253,784

### Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	68.52%	64.17%
QIB	31.48%	25.62%
NIB	0.00%	3.06%
Retail	0.00%	7.15%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

\*calculated on the upper price band

### Objects of the Issue

- To repay or prepay company's borrowings fully or partially.
- To finance capital expenditure requirements.
- To meet general corporate purposes.

### Book Running Lead Manager

- Axis Capital Limited
- ICICI Securities Limited

### Name of the registrar

- KFin Technologies Private Limited

### About the company

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. It has distribution and marketing operations consisting of distribution of its products through 40 sales offices, 3,336 distribution agents, 863 milk distributors and 449 milk product distributors across nine states in India. As of December 31, 2020, its products are also available through 371 'Dodla Retail Parlors' which commenced operations in 2016 and are spread across the states of Andhra Pradesh, Telangana, Tamil Nadu and Karnataka.

### Strength

**Consumer focused dairy company with a diverse range of products under the "Dodla Dairy" and "Dodla" brands:** Dodla Dairy has developed one of the leading brands in the dairy products industry in south India with strong consumer recognition, particularly in the States of Andhra Pradesh, Karnataka, Tamil Nadu and Telangana. Its Indian operations are undertaken under the brands "Dodla Dairy" (for milk and perishable products such as curd, flavoured milk) and "Dodla" (for Value Added Products (VAPs) such as ghee, butter, paneer, butter milk and ice creams). The company believes that strength of its brands helps them in many aspects of its business, including expanding to new markets, entering into agreements with distributors and retailers and building relationships with its customers, investors and lender.

**Integrated business model with well-defined procurement, processing and distribution capabilities:** its integrated business model enables the company to provide end to end capabilities from procurement till distribution and marketing in a cost efficient manner. The key components of its integrated business model are as follows Procurement, Processing and Distribution and marketing. As of March 31, 2021, its procurement of raw milk from VLCCs and dairy farms is 94.35% and this amounted to 0.97 MLPD. As on March 31, 2021, it operates more than 283 milk procurement routes. These routes have a regular procurement plan with timely pick up of raw milk from VLCCs and dairy farms and transport to the nearest chilling centres. This enables it to preserve the freshness of the raw milk. Its processing operations are spread across 13 processing plants (12 of which are owned and one is leased) located in the states of Andhra Pradesh, Telangana, Karnataka and Tamil Nadu in India with an aggregate installed capacity of 1.70 MLPD, excluding two SMP plants in Nellore and Vedasandur which have an aggregate installed capacity of 15,000 and 10,000 kgs per day respectively. As of March 31, 2021 it distributed its milk and dairy based VAPs through 40 sales offices, 3,285 distribution agents, 861 milk distributors and 544 milk product distributors. As of March 31, 2021, its products are also available through 393 "Dodla Retail Parlours" which are operated on a franchise model and spread across the states of Andhra Pradesh, Telangana, Tamil Nadu and Karnataka.

**Focused engagement and long term relationship with dairy farmers:** The company's farmer friendly policies and continuous engagement with them with welfare programs have strengthened its relationships with farmers which in turn has strengthened its raw milk procurement process. The company also diversified into an ingredient input providing company by supplying upfront cattle feed under the "Orga" brand, manufactured by its

Subsidiary Orgafeed Pvt. Ltd., directly to its farmers through its procurement network which is adjusted against the value of the raw milk supplied to them by such farmers. The continuous engagement with farmers and its knowledge in the dairy industry combined with its welfare programs for the farmers have enabled them to have a strong procurement network in the regions in which it operates and thus helped the company to contain the cost of raw milk and ensure supply of quality raw milk.

**Financial Growth and operational efficiencies:** Dodla Dairy has delivered consistent growth over the last 3 financial years both in terms of financial and operational metrics. The debt to equity was 0.17, 0.35, 0.39 and 0.37 as on December 31, 2020, March 31, 2020, March 31, 2019 and March 31, 2018 respectively. Further, its receivable days were 1.23 days and 0.66 days as on March 31, 2020 and December 31, 2020 respectively with its trade receivables amounting to ₹ 7.20 crore and ₹ 3.39 crore as on March 31, 2020 and December 31, 2020 respectively.

### Strength

**Enhance the brand visibility and expand the reach of the products:** The company believes that its brands are recognised by its consumers given its presence across the south Indian markets for over 23 years and robust quality of its processed milk. As part of its product outreach program, it intends to actively increase its distribution network and actively engage with hyper markets, super markets and retailers so that all its products become more accessible to its consumers. It also intends to convert its multi-brand dealer network into exclusive suppliers who house only its products in a phased manner to have better control over its brand. The company also intends to increase the number of Dodla Retail Parlours in the states of Andhra Pradesh, Telangana, Karnataka and Tamil Nadu based on the existing franchise model. In Africa, it recently introduced some of its products such as a full cream milk under the brand "Dodla +". It also intends to increase the brand visibility of "Dodla" in the African markets where it operates.

**Further strengthen its procurement and processing operations:** The company's current raw milk procurement operations are primarily dependent on dairy farmers as well as third party suppliers supplying raw milk which is costly and also leads to farmers being paid lesser compared to direct procurement. It has eliminated third party suppliers from its procurement network in Tamil Nadu and Andhra Pradesh and plans to implement this throughout its procurement network. For its processing operations, the company is identifying various strategic initiatives to improve its operational efficiencies and reduce operating costs. It intends to continue to (i) adopt more efficient production process to decrease milk reprocessing and reduce its water use; (ii) decrease the electricity consumption due to refrigeration by refining the current plant and machinery; and (iii) switch from conventional to non-conventional sources of energy. Further, it continues to invest in modern technology and equipment to address changing customer preferences as well as to improve operational efficiencies.

**Expand the operations domestically and internationally by way of organic and inorganic growth:** The company intends to continue to grow domestically and internationally by way of organic and inorganic growth in order to increase its presence and its revenue. The company has acquired plants, including, in Fiscal 2016, a processing plant in Dharmapuri, Tamil Nadu which provided them access to the markets in central and southern Tamil Nadu. In Fiscal 2013, it has acquired a processing plant in Kurnool. It commenced operations at its new processing plant in Rajahmundry, Andhra Pradesh, in April, 2019, which provided it access to the markets of coastal Andhra Pradesh. For its overseas operations, the company entered into the markets of Uganda in Fiscal 2015 with the acquisition of operations of Hillside Dairy and Agriculture Ltd by its Subsidiary Lakeside Dairy Ltd. its entry in the Ugandan market allowed it to expand its reach to the East African markets.

**Increase the revenues from dairy based VAPs:** In order to grow further and also increase margins, over the last few years the company has focused on dairy based VAPs. It intends to supplement its revenue by increasing the sales of its VAPs and strike a balance between processed milk and VAPs to optimise its product portfolio. While its current product portfolio includes curd, it proposes to introduce new variants of cheese and other products at price points as low as ₹10, to expand its product portfolio and reach a wider variety of consumers. It has in the past 3 fiscals introduced products such as ice creams, UHT milk and flavoured milk in pet bottles. Further, it currently sell buttermilk, lassi, doodhpeda, milk and curd at price points of ₹ 7, ₹ 10, and ₹ 15, which cater to a large number of consumers.

Research and Development in dairy farming and allied activities: The company's research and development activities are focused towards increased productivity of cattle leading to production of quality and safe milk and milk products, through its Associate Company GVC. Research activities are divided into Genetic Research and Breeding Research.

### Risk factors

- The company operations are dependent on the supply of large amounts of raw milk. Its inability to procure adequate amounts of raw milk from farmers and 3rd party suppliers at competitive prices can affect business and financial conditions of the company.
- Raw milk supply is subject to seasonal factors. Company inability to accurate forecast demand for its products can affect business
- The company processing plants and even its business are from south India region. Any adverse developments in this region can affect company business.

### Peer comparison

Company	Net sales	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Heritage Foods	2473.11	149.20	32.16	13.23	3.31	128.42	5	425.45	1974.00
Hatsun Agro	5569.74	246.35	11.43	81.15	19.57	47.39	1	927.50	19994.28
Parag Milk Foods	1841.76	20.71	4.24	34.55	1.32	110.66	10	146.50	1397.26
Dodla Dairy Limited	1884.68	155.18	19.56	21.88	4.25	100.80	10	428.00	2546.29

\*\* Financials are estimated annualised FY21

### Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.428, the stock is priced at pre issue P/E of 21.45x on its annualised FY21 EPS of Rs. 19.95. Post issue, the stock is priced at a P/E of 21.88x on its EPS of Rs. 19.56. Looking at the P/B ratio at Rs. 428 the stock is priced at P/B ratio of 4.54x on the pre issue book value of Rs.94.25 and on the post issue book value of Rs. 100.80 the P/B comes out to 4.25x.

Considering the P/E valuation, on the upper end of the price band of Rs.421, the stock is priced at pre issue P/E of 21.10x on its annualised FY21 EPS of Rs. 19.95. Post issue, the stock is priced at a P/E of 21.52x on its EPS of Rs. 19.56. Looking at the P/B ratio at Rs. 421 the stock is priced at P/B ratio of 4.47x on the pre issue book value of Rs.94.25 and on the post issue book value of Rs. 100.80 the P/B comes out to 4.18x.

### Industry overview

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 25% in 2015 from 30% in 2020. The Indian dairy market is witnessing an increased investment and consolidation under which smaller firms are selling to the bigger ones in order to cope up with rising input cost 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, we expect this trend of increased mergers and acquisitions to sustain. Being regional players, these smaller players provide readymade regional procurement and consumption market but may have other challenges that impede their ability to run operations efficiently. Consumption of milk and dairy products is a dominant part of Indian consumers' diet.

### Outlook

The company is an integrated dairy company based in the southern region primarily deriving all of revenue for FY20 and H1FY21 from the sale of milk and dairy based value added products (VAPs) in the branded consumer market. However any contamination or deterioration of company milk products or raw materials can pose legal liability, damage its reputation and affect its business. A long term investor may opt the issue. Moreover, major amount raised through this issue is offer for Sale.

**An Indicative timetable in respect of the Issue is set out below:**

<b>EVENT</b>	<b>INDICATIVE DATE (On or about)</b>
Bid/Offer Opens Date	June 16, 2021
Bid/Offer Closing Date	June 18, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about June 23, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about June 24, 2021
Credit of Equity Shares to depository accounts of Allottees	On or about June 25, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about June 28, 2021

**Consolidated Financials**

**Profit & Loss**

Rs. in Cr.

<b>Particulars</b>	<b>Period ended</b>	<b>Period ended</b>	<b>Period ended</b>
	<b>31-Dec-20 (9 Months)</b>	<b>31-Mar-20 (12 Months)</b>	<b>31-Mar-19 (12 Months)</b>
Revenue from operations	1,413.51	2,139.37	1,691.67
Total expenditure	1,207.01	1,998.45	1,557.52
<b>Operating Profit</b>	<b>206.51</b>	<b>140.93</b>	<b>134.15</b>
OPM%	14.61	6.59	7.93
Other Income	3.523	6.276	7.786
<b>PBDIT</b>	<b>210.03</b>	<b>147.20</b>	<b>141.94</b>
Depreciation	38.22	49.19	37.09
<b>PBIT</b>	<b>171.81</b>	<b>98.01</b>	<b>104.85</b>
Interest	9.68	16.139	11.565
<b>Profit before tax</b>	<b>162.13</b>	<b>81.87</b>	<b>93.28</b>
Tax	45.74	32.00	30.52
<b>Profit After Tax</b>	<b>116.39</b>	<b>49.87</b>	<b>62.76</b>

**Balance sheet is on next page**

## Balance Sheet

Rs. in Cr.

Particulars	As on 31-Dec-20	As on 31-Mar-20	As on 31-Mar-19
<b>Asset</b>			
<b>Non-current assets</b>			
Property, plant and equipment	471.07	482.26	451.17
Capital Work-in-Progress	21.70	11.24	11.22
Goodwill	44.17	44.17	35.94
Other intangible assets	7.40	9.87	13.37
Biological assets other than bearer plants	0.00	0.00	0.00
Matured biological assets	1.70	1.99	2.06
Immatured biological assets	0.63	0.55	0.64
<b>Financial Assets</b>			
Investments	0.00	0.34	7.86
Loans	9.42	9.37	8.50
Other Financial Assets	0.01	0.00	0.00
Other tax assets	1.81	8.76	3.65
Deferred tax assets (net)	0.15	0.02	0.31
Other Non-Current Assets	10.42	8.84	11.16
<b>Total non-current assets</b>	<b>568.47</b>	<b>577.42</b>	<b>545.87</b>
<b>Current assets</b>			
Inventories	112.66	120.17	124.85
<b>Financial assets</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Investments	5.33	11.52	18.14
Trade receivables	3.39	7.20	7.32
Cash and cash equivalents	58.24	68.67	21.45
Bank balances other than (ii) above	104.15	0.03	0.08
Loans	3.54	3.76	15.69
Other financial assets	1.10	0.65	0.23
Other current assets	6.92	10.88	18.29
<b>Total current assets</b>	<b>295.32</b>	<b>222.89</b>	<b>206.05</b>
<b>Total Assets</b>	<b>863.79</b>	<b>800.31</b>	<b>751.92</b>
<b>Non-current liabilities</b>			
Borrowings	58.54	86.73	110.24
Lease liabilities	8.40	7.07	7.65
Deferred tax liabilities (net)	37.87	36.51	25.82
Government grants	2.62	2.84	3.13
Provisions	10.72	9.49	6.50
<b>Total Non-Current Liabilities</b>	<b>118.15</b>	<b>142.64</b>	<b>153.34</b>
<b>Current liabilities</b>			
Borrowings	0.00	40.00	31.37
Lease liabilities	1.47	2.65	1.45
<b>Trade payables</b>			
Total outstanding dues of MESE	0.69	0.79	0.27
Total outstanding dues of creditors other than MI ESE	75.92	77.43	75.41
Other financial liabilities	74.17	61.13	56.86
Government grants	0.29	0.30	0.30
Provisions	4.35	2.80	2.76
Current tax liabilities (net)	34.12	33.79	17.85
Other current	4.93	5.30	5.95
<b>Total current liabilities</b>	<b>195.95</b>	<b>224.18</b>	<b>192.21</b>
<b>Total</b>	<b>314.10</b>	<b>366.81</b>	<b>345.55</b>
<b>NET Worth</b>	<b>549.69</b>	<b>433.50</b>	<b>406.37</b>
Net worth represented by:			
Share capital	55.67	55.67	55.67
Other equity	494.02	377.82	350.70
<b>Total Network</b>	<b>549.69</b>	<b>433.50</b>	<b>406.37</b>

## RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

E-mail: [smc.care@smcindiaonline.com](mailto:smc.care@smcindiaonline.com)



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**Corporate Office:**  
11/6B, Shanti Chamber,  
Pusa Road, New Delhi - 110005  
Tel: +91-11-30111000  
[www.smcindiaonline.com](http://www.smcindiaonline.com)

**Mumbai Office:**  
Lotus Corporate Park, A Wing 401/402, 4th Floor,  
Graham Firth Steel Compound, Off Western  
Express Highway, Jay Coach Signal, Goreagon  
(East) Mumbai - 400063  
Tel: 91-22-67341600, Fax: 91-22-67341697

**Kolkata Office:**  
18, Rabindra Sarani, Poddar Court, Gate No-4,  
5th Floor, Kolkata - 700001  
Tel.: 033 6612 7000/033 4058 7000  
Fax: 033 6612 7004/033 4058 7004

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