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Issue Details	
Price Band (Rs)	Rs.421-428
Face Value (Rs)	10
Issue Size (Rs)	Rs.520.18 Cr
Issue Type	Book Building
Minimum lot	35
Issue Opens	June 16, 2021
Issue Closes	June 18, 2021
Listing on	BSE, NSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	June 23, 2021
Unblocking of Funds	June 24, 2021
Credit of shares to Demat Account	June 25, 2021
Listing on exchange	June 28, 2021

Other Detail	
Book Running Lead Managers	ICICI Securities Limited, Axis Capital Limited.
Registrar	KFintech Private Limited

Dodla Dairy Limited-IPO

Company Background

Incorporated in 1995, Dodla Dairy Limited ("Dodla Dairy") 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, flavored milk, etc. Telangana, Andhra Pradesh, Karnataka, Tamil Nadu, and Maharashtra are the key Indian market segments served by the company while in the overseas markets; it mainly serves countries like Uganda and Kenya. 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+".

Issue Details

The offer comprises Fresh issue of equity shares aggregating upto Rs 50 crore and Offer for sale of Equity Shares aggregating upto Rs.470.18Cr.

Issue Objectives

- Repayment and/or pre-payment, in full or part, of certain borrowings availed by the company: 32.26Cr
- Funding capital expenditure requirements of company: 7.15Cr
- General corporate purposes:10.59Cr

IPO share allotment pattern

Category	Allocation	Number of Shares at Rs.421	Number of Shares at Rs.428	Issue Size* (Rs.Cr)
QIB	50%	60,86,546	60,76,834	260.09
Non-Institutional	15%	18,25,964	18,23,050	78.03
Retail	35%	42,60,582	42,53,784	182.06
Total		1,21,73,092	1,21,53,668	520.18

*Issue at Upper price band
Source: Company RHP, ACMIIL Research

Outlook and Valuations

Dodla Dairy Limited is engaged in the procurement, processing, distribution and marketing of milk and other VPA products. Amongst private dairy players with a significant presence in the southern region of India they are the third highest in terms of milk procurement per day and second highest in terms of market presence across all of India amongst private dairy players. The Indian dairy industry is expected to grow at a CAGR of 10-11% between FY21 to FY25. Within this, embedded value products (which includes flavored milk, ice cream, yoghurt, cheese and whey) is expected to outpace other segment and grow faster at 14 -16% between FY21 and FY25. The company plans to add more milk products going forward makes it good investment avenue. At the upper price band of Rs.428/-, stock is valued at 15.68x of FY21E Earnings of Rs.27.30 (based on weighted average diluted basis). **We recommend to subscribe the issue from a long-term prospective.**

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Investment Rationale

Large product portfolio

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. Their Indian operations are undertaken under the brands "Dodla Dairy" (for milk and perishable products such as curd, flavoured milk) and "Dodla" (for VAPs such as ghee, butter, paneer, butter milk and ice creams).

They offers a diverse portfolio of dairy based VAPs targeted at various consumer segments and this enables them to cater to the changing preferences of their retail customers. **They sell fresh milk, ghee, butter, curd, paneer, gulab jamun, doodh peda, basundi 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.

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

Company's integrated business model enables them to provide end to end capabilities from procurement till distribution and marketing in a cost efficient manner. The key components of their integrated business model are as follows:

- **Procurement-** Raw milk is one of the key raw materials for business. Their procurement operations are spread across the states of Andhra Pradesh, Telangana, Tamil Nadu, Karnataka and Maharashtra and consist of 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. They procure raw milk directly from the farmers and through third party suppliers. 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 them to preserve the freshness of the raw milk.
- **Processing-** The company's 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 Vadasandur which have an aggregate installed capacity of 15,000 and 10,000 kgs per day respectively. They regularly incur capital expenditure to upgrade technology across their processing plants and expand into new geographies by way of introduction of modern automated plants. They have introduced fully automated processing lines, along with semi-automated processing lines, which they believe has led to efficiencies in our processing operations.
- **Distribution and marketing-** They sell products under the "Dodla" and "Dodla Dairy" brand in India. As of March 31, 2021 they distributed 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, their 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

Company's farmer friendly policies and continuous engagement with them with welfare programs have strengthened their relationships with farmers which in turn has strengthened their raw milk procurement process. The offer wide variety of initiatives for the farmers from whom they have procured raw milk. They pay the farmers once every 10 to 15 days with money being sent directly to the bank accounts of 77.00% of their farmers as of March 31, 2021 and pay the remaining 23.00% of farmers by way of direct cash payments, which motivates them to engage with company more frequently. They also work with regional banks and facilitate sanctioning of loans to farmers which they utilize to invest in their cattle. They have also diversified into an ingredient input providing company by supplying upfront cattle feed under the "Orga" brand, manufactured by their Subsidiary Orgafeed Private Limited, directly to their farmers through their procurement network which is adjusted against the value of the raw milk supplied to them by such farmers. The company has tied up with various veterinarians to provide services to farmers for their milch animals.

Stringent quality control procedures

The company's determination towards quality and food safety is demonstrated by well defined quality and food safety procedures at various stages from procurement to distribution of their products. They maintain cold storage chain from the procurement stage till the time the milk and dairy based VAPs reach the consumer. All quality checks are documented in a quality manual to ensure that they only raw milk which meets their standards for further processing. Their VLCC's are equipped with GPRS enabled electronic milk analyzers which test for the fat and solid not fat (SNF) content of the raw milk. They also conduct tests including for color and smell which enables them to segregate poor quality of poor raw milk at their VLCCs. At their chilling centres they conduct adulteration tests and neutralizer tests. Their products have received certifications from FSSAI.

Increase the revenues from dairy based VAPs

Company's revenue from sale of processed milk grew at a CAGR of 16.44% from Rs.1,144 crore in FY2018 to Rs.1,551 crore in FY2020, the revenues from VAPs grew at a CAGR of 73.45% from Rs.450.20 crore in Fiscal 2018 to Rs.579.25 crore in FY2020. Historically, sales of processed milk have been their primary revenue driver. In order to grow further and also increase margins, over the last few years they have focused on dairy based VAPs. They intend to supplement their revenue by increasing the sales of their VAPs and strike a balance between processed milk and VAPs to optimise their product portfolio.

Financials Snapshot

Particulars (Rs. Million)	FY18	FY19	FY20	9MFY21
Equity share capital	33	557	557	557
Net worth	3,395	4,064	4,335	5,497
Net asset value per share	61	73	78	99
Debt to Equity Ratio	0.37	0.39	0.35	0.17
Revenue from Operations	15,905	16,917	21,394	14,135
EBITDA	1,127	1,342	1,409	2,065
EBITDA %	7.1%	7.9%	6.6%	14.6%
Net Profit	569	628	499	1,164
Diluted EPS (Rs)	10.21	11.26	8.96	20.91
ROE	16.74%	15.44%	11.50%	21.17%
ROCE	19%	19%	17%	29%

*Not annualized

Source: Company RHP, ACMIIL Research

Comparison With Listed Peers

Company	Standalone/ Consolidated	Net Worth (Rs. Million)	EPS	NAV	TTM P/E	ROE (%)
Dodla Dairy Limited	Consolidated	4,335	8.96	78	15.6^	11.5
Hatsun Agro Products	Consolidated	9,045	6.99	56	78.9	12.41
Heritage Foods	Consolidated	4,402	(34.55)	95	12.9	(38.48)
Parag Milk Foods	Consolidated	9,112	11.14	108	56.3	10.28

*All the financial information for listed industry peers mentioned above is on a consolidated basis (unless otherwise available only on standalone basis) and is sourced from the financial statements of the respective company for the year ended March 31, 2020 submitted to stock exchanges; P/E Ratio has been computed based on the closing market price as on June 14, 2021. ^P/E Ratio has been computed based on the Issue price and annualize December 2020 earnings.

Risk and Concern

1. The operations of the company are dependent on the supply of large amount of raw milk, and their inability to procure adequate amount of raw milk from farmers and third party suppliers, at competitive prices, may have an adverse effect on their business, results of operations and financial condition.
2. The corona virus disease (COVID-19) has had an adverse effect on Dodla Dairy's business and operations and the extent to which it may continue to do so in the future, is uncertain and cannot be predicted.
3. Company's processing plants, procurement operations in relation to procurement of raw milk and distribution operations are primarily concentrated in southern India and any adverse developments affecting this region could have an adverse effect on business, results of operations and financial condition.

ACMIIL Retail Research Products

Informational Products	Recommendation Products
Morning Notes	Momentum Calls
Equi-Tea	Positional Calls
Market Watch	Smart Delivery Calls
Investor First Magazine	Investment Ideas
IPO/NCD/ETF/OFS/BOND	Master Trades High Risk
Market Pulse	Master Trades Medium Risk
RBI Monetary Policy	Techno-Funda
Union Budget Report	Top Mutual Fund Schemes
Weekly Derivative Synopsis	Portfolio Review
Rollover Snapshot	Stock Basket

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