

Strong dairy player in South India..

Dodla Dairy Limited (Dodla Dairy) was incorporated on May 15 1995 at Hyderabad. The Company was promoted by Dodla Sessa Reddy and Dodla Sunil Reddy, who each have over 22 years of experience in dairy industry which have been instrumental in the growth of the company. Further their CEO, Venkat Krishna Reddy Busireddy, has over 35 years of experience in the dairy industry. Dodla Dairy is an integrated dairy company based in south India primarily deriving all of their revenue for Fiscal 2020 and for the 9 months period ended December 31, 2020 from the sale of milk and dairy based Value Added Products ("VAPs") in the branded consumer market. The company sell fresh milk, ghee, butter, curd, paneer, gulab jamun, doodh peda, basundhi and junnu, which are targeted at consumption at home. The Company sells 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 1.03 million litres of raw milk per day ("MLPD") as of March 31, 2021 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. Company's Indian operations are undertaken under their brands "Dodla Dairy", "Dodla" and "KC+". Their 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 ("VLCCs"), 232 dairy farms (farmers rearing multiple cattle for supplying raw milk in bulk quantities) and third party suppliers as of March 31, 2021. The company pays the farmers once every 10 to 15 days, with the money being sent directly to the bank accounts of 77% of their farmers as of March 31, 2021 and pay the remaining 23% of their farmers by way of direct cash payments, which motivates them to engage with the company more frequently. As of March 31, 2021, their procurement of raw milk from VLCCs and dairy farms is 94.35% and this amounted to 0.97 MLPD. 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.

Business impacted in COVID19 crisis

The COVID-19 pandemic has affected and may continue to affect company's business, results of operations and financial condition in a number of ways, including a decrease in their sales volume by 20% and in their revenues by 12% from the period December 31, 2019 to December 31, 2020, such as

- A decrease in sales of their products such as processed milk, ice cream, curd and butter milk in the metro cities of Bengaluru and Chennai. This was primarily because of the migration of their retail customers to their base home town;
- An adverse impact on their sales to commercial establishments;
- A reduction in the consumption of their products led to a decrease in the production at certain of their processing plants such as Nellore and Palamner;
- Reduction in the budget for sales and marketing for Fiscal 2021;

Decent past financial performance

Dodla Dairy has delivered consistent growth over the last 3 financial years both in terms of financial and operational metrics. During the period FY18-20, topline has registered a CAGR of 15.98 percent. In the same period, EBITDA has witnessed a CAGR of 11.81 percent. Revenue from the sale of milk and dairy-based VAPs constituted 72.81 percent and 27.18 percent respectively in FY20, and 75.32 percent and 24.68 percent respectively in nine months period

Issue date	June 16 - June 18, 2021
Listing date	June 28, 2021
Price Band	₹ 421 - 428
Bid lot	35 shares and in multiple thereof
Issue size and type	Total issue size: ₹ 520 crores Fresh issue: ₹ 50 crores Offer for sale: ₹. 470 crores (Upto 10,985,444 equity shares)
Issue structure	QIB - 50%, NIB-15%, Retail - 35%
Post issue shares	5.94 crore equity shares
Promoter holding	Pre IPO: 68.52%/Post IPO: 64.17%
Post issue market cap	₹ 2,546 crores
BRLMs	Axis Capital, ICICI Securities
Registrar to the issue	KFin Technologies Pvt. Ltd.

Particulars (₹ crores)	9MFY21	FY20	FY19	FY18
Topline	1,413	2,139	1,692	1,590
EBITDA	207	141	134	113
EBITDA (%)	14.61	6.59	7.93	7.09
Profit after tax	116	50	63	57
PAT margin (%)	8.23	2.33	3.71	3.57
Equity share cap.	55.67	55.67	55.67	3.28
Networth	549.69	433.50	406.37	339.53
Post IPO EPS (₹)	19.53	8.42	10.61	9.60
P/E (x)	16*	51	40	45
RoNW (%)	21.17	11.50	15.44	16.74
Debt/Equity (x)	0.17	0.35	0.39	0.37

Source: RHP, # denotes P/E on annualised 9MFY21 numbers

ended December 2020. The Company has done a cumulative capital expenditure of ₹ 264.49 crore over the past 3 years, towards inter alia, commissioning a new processing plant at Rajahmundry, acquisition of the processing plants at Batlagundu and Veda sandur from KC Dairy Products Pvt. Ltd. acquisition of the cattle feed and mixing plant by Orgafeed Pvt. Ltd. at Kadapa and establishment of new VLCCs.

Investment recommendation and rationale

We recommend to "AVOID" the issue due to the following factors: At the upper end of the price band of ₹ 428, the Company's IPO is valued at P/E multiple of 51x on FY20 earnings (Pre - COVID scenario) which is expensive. Moreover, the Company has reported sudden significant PAT growth of 132 percent for 9MFY21 over FY20 during COVID-19 crisis which raises concerns and its sustainability over the long term. Owing to sudden spike in PAT growth, on 9MFY21 annualized EPS of ₹26, the IPO is valued at a P/E multiple of 16x which may not paint correct picture as it can be an exception due to unprecedented times of COVID-19 era. The major portion of topline is accounted by sale of milk which is a low margin business (75.32 percent of 9MFY21 topline). We believe lockdown in southern states in second wave of COVID-19 may also have its effect in Q1FY22 result which may not support IPO valuations. In addition, fresh issue component in the IPO is also very small and major portion is accounted by Offer for sale which does not augur well for the Company.

Company Background

The company was incorporated as Dodla Dairy Limited on May 15, 1995 at Hyderabad. Dodla Sunil Reddy, Dodla Sesha Reddy and the Dodla Family Trust are the Promoters of the company. The RISE Fund, which is a social impact fund of TPG Growth, through TPG Dodla Dairy Holdings Pte. Ltd. invested in the company. APIDC-Venture Capital and BR CPF (Mauritius) Ltd. were their shareholders in the past. The International Finance Corporation is currently their lender and a shareholder. TPG Dodla Dairy Holdings (TDDHPL) held 25.77 percent stake and International Finance Corporation has 4.55 percent shareholding in the company.

Competition Mapping - Peers in South India

Particulars	Dodla Dairy	Hatsun Agro Product Limited	Heritage Foods Limited	Creamline Dairy Products Limited	Tirumala Milk Products Pvt. Ltd*
Milk procurement (Tonnes per day)	1,178	2,651	1,375	NA	NA
Milk processing capacity (Tonnes per day)	2,023	NA	2,651	1,178	NA
Procurement reach/network	180,000+ farmers	400,000+farmers across 12,500 villages	300,000+farmers across 8 states	NA	NA
Chilling centres	72+ chilling centres	-	111 bulk coolers & 77 chilling plants	~102 chilling centres	NA
No of plants	14 (including cattle feed plant acquired from OPL)	18	16	9	9
Plant location (State)	Andhra Pradesh Karnataka Tamil Nadu Telangana	Andhra Pradesh Karnataka Tamil Nadu Telangana Maharashtra	Andhra Pradesh Haryana Karnataka Maharashtra Tamil Nadu Telangana	Karnataka Maharashtra Tamil Nadu Telangana	NA
Brands	Dodla Dairy Top	Arun Icecreams Arokya Milk Hatsun Ibaco Santosa Oyalo Aniva	Heritage Dairy Life Dairy Pure	Jersey	Tirumala Lactel Sshup
Market presence (India)	Andhra Pradesh Gujarat Himachal Pradesh Karnataka Maharashtra Rajasthan Tamil Nadu Telangana West Bengal Madhya Pradesh	Andhra Pradesh Karnataka Maharashtra Tamil Nadu Telangana	Andhra Pradesh Delhi NCR Gujarat Haryana Karnataka Kerala Madhya Pradesh Maharashtra Odisha Punjab Rajasthan Tamil Nadu Telangana Uttarakhand Uttar Pradesh	Andhra Pradesh Karnataka Maharashtra Tamil Nadu Telangana	Andhra Pradesh Karnataka Kerala Madhya Pradesh Tamil Nadu Telangana Uttar Pradesh West Bengal

Source: RHP, * denotes as of FY2019

Financial comparison with Industry listed peers as on FY21 (₹ in crores)

Particulars	Dodla Dairy (9MFY21)	Hatsun Agro	Heritage Foods	Parag Milk Foods
CMP (₹)	428	938.30	431.45	146.10
FV (₹)	10	1	5	10
Market Cap as on June 15, 2021	2,546 (Post issue)	20,227	2,001	1,393
Net Sales	1,413	5,569	2,473	1,842
EBITDA	207	779	259	125
EBITDA (%)	14.65	14	10	7
PAT	116	246	150	21
EPS	19.53	11.43	32.16	2.46
P/E (x)	16 at FY21 (annualised EPS)	82	13	59
RoE (%)	21.17	24.11	25.25	2.23
D/E (x)	0.17	1.08	0.04	0.38

Note: CMP and Market Cap as on June 15, 2021

Objects of the issue

The net proceeds of a fresh issue (i.e. after reducing the offer expenses) will be utilised for repaying of certain borrowings (₹ 32.26 crore) availed by the company from ICICI Bank, Hongkong and Shanghai Banking Corporation, and HDFC Bank; funding capital expenditure requirements (₹ 7.15 crore); and general corporate purposes.

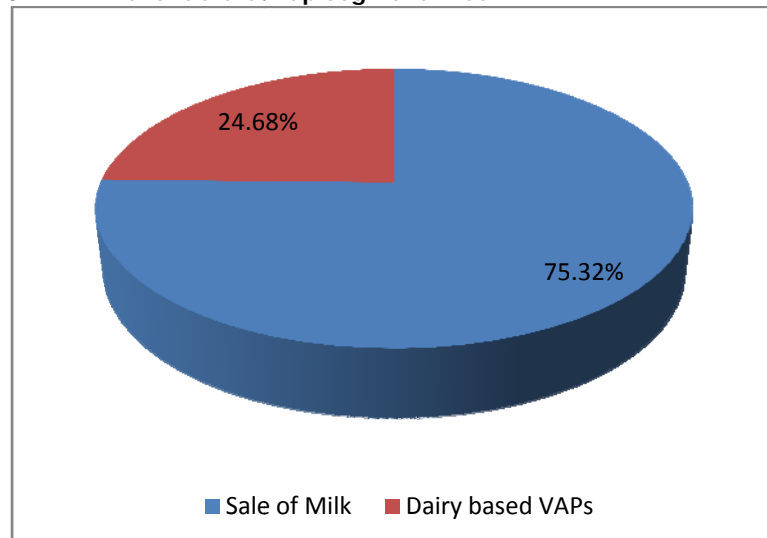
The objects of the Offer are to (i) to carry out the **Offer for Sale of up to 10,985,444 Equity Shares by the Selling Shareholders**; and (ii) achieve the benefits of listing the Equity Shares on the Stock Exchanges The Company expects that listing of the Equity Shares will enhance its visibility and brand image and provide liquidity to its shareholders and will also provide a public market for the equity shares in India.

Selling shareholders:

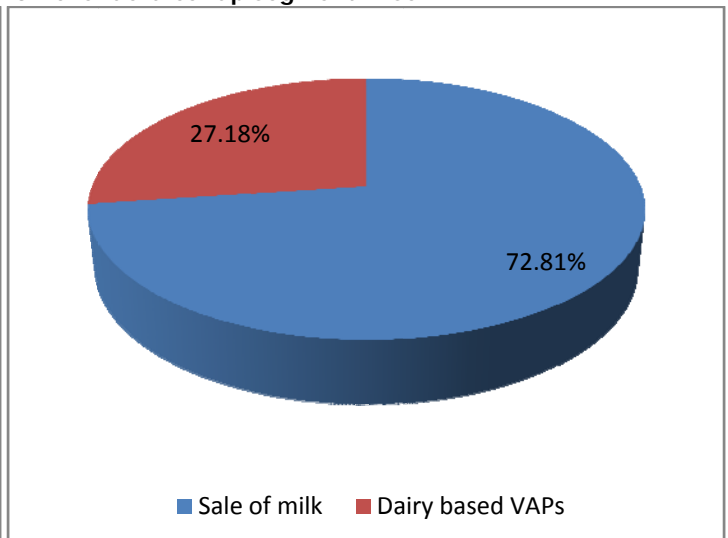
Name of the shareholder	
Dodla Sunil Reddy - The Promoter Selling Shareholder	Upto 416,604 Equity Shares
Dodla Family Trust - The Promoter Selling Shareholder	Upto 1,041,509 Equity Shares
Dodla Deepa Reddy - The Promoter Group Selling Shareholder	Upto 327,331 Equity Shares
TPG Dodla Dairy Holdings Pte Ltd. (TDDHPL) - The Investor Selling Shareholder	Upto 92,00,000 Equity Shares
Total	126,37,192

Revenue breakup

9MFY21 Revenue breakup segment wise



FY20 Revenue breakup segment wise



Source: RHP

Key business strategies

- 1) Enhance the 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 Value Added Products (VAPs)

Promoter and Management background**Brief Biographies of Directors**

Dodla Sessa Reddy is the Promoter, Chairman and non-executive Director on the Board of the company. He has been associated with the company for more than 22 years and has dairy industry experience of more than 22 years.

Dodla Sunil Reddy is the Promoter and Managing Director of the company. He has been associated with the Company since incorporation and has more than 25 years of experience in the dairy industry. He is responsible for setting up their business strategy with a focus on accountability, competitive performance and value creation.

Madhusudhana Reddy Ambavaram is the whole-time Director of the company. He joined the company in October, 2006 and has 14 years of experience in the dairy industry. He is in charge of the legal compliance in relation to industrial and labour laws and the human resource functions of the company.

Akshay Tanna is the Non-Executive Nominee Director on the Board of the company. He has been with TPG Capital India Pvt Ltd since 2011 and is a partner at TPG Growth & Rise Fund in Mumbai.

Raja Rathinam is the Independent Director on the Board of the company and has more than 40 years of experience in the dairy industry.

Ponnavolu Divya is the Independent Director on the Board of the company and has several years of experience.

Rampraveen Swaminathan is the Independent Director on the Board of the company and has over 10 years of experience in various industries.

Raman Tallam Puranam is the Independent Director on the Board of the company and has over 15 years of experience in various industries.

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