

24 October 2024

India | Equity Research | Q2FY25 results review

Dodla Dairy

Dairy

Strong growth led by likely sales of SMP; Investments in Maharashtra to increase

Takeaways: (1) VAP sales contribution to total sales increased materially to 39.2% (+1,310bps YoY). Sales of butter and skimmed milk powder increased YoY; curd sales remained flat. This may have led to limited percolation of strong growth in revenues to profitability. (2) Lower inventory at Sept'24 balance sheet hints at the possibility of SMP liquidation during H2FY25. (3) Acquisition of land parcel in Maharashtra indicates that Dodla is progressing well on its plan to expand business operations in Maharashtra (in-line with its cluster approach). We reckon establishing its Maharashtra plant may primarily result in operational efficiencies. (4) Milk procurement prices may remain stable in H2FY25, in our view.

We raise our FY25E/FY26E EPS by 1.3%/3.3% to factor in the strong Q2FY25. Our DCF-based revised TP stands at INR 1,365 (earlier INR 1,320; implied P/E of 34x/28x FY26/27E EPS). Retain **ADD**.

Q2FY25 result review

Dodla reported revenue/EBITDA/PAT growth of 29.9%/37%/45.4%, YoY. Gross margin contracted 136bps YoY. However, EBITDA margin expanded 50bps YoY led by operational efficiencies. Standalone revenue/PAT grew 26.2%/48.8% YoY. We believe the company has sold SMP worth INR 1,500mn in H1FY25.

Segment-wise performance

Revenue from VAP nearly doubled (+93.5% YoY) and its share in total sales expanded 1,310bps YoY/380bps QoQ. Curd volume was flat YoY (+4.7% YoY) while it declined QoQ. Average milk procurement grew marginally by 1.5% YoY, while milk sales (volumes) increased 7.2% YoY. India sales were up 26.2% YoY while Africa sales reported strong 80.9% growth YoY.

VAP sales scale to record highs

Contribution of VAP sales expanded 1,310bps YoY to 39.2% in Q2FY25, highest-ever for the company. While VAP sales have reported robust growth, we note higher sale of butter and skimmed milk powder. With lower revenue contribution of the margin-accretive curd segment in VAP sale (in our view), we reckon gross margin contracted YoY.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	31,255	36,407	42,198	48,954
EBITDA	2,888	3,622	4,009	4,651
EBITDA Margin (%)	9.2	9.9	9.5	9.5
Net Profit	1,667	2,383	2,934	3,438
EPS (INR)	28.0	40.0	49.3	57.8
EPS % Chg YoY	36.4	42.9	23.2	17.2
P/E (x)	44.9	31.4	25.5	21.8
EV/EBITDA (x)	25.0	18.6	16.2	13.3
RoCE (%)	13.5	17.0	15.8	15.6
RoE (%)	15.8	19.1	19.6	19.2

Aniruddha Joshi

aniruddha.joshi@icicisecurities.com
+91 22 6807 7249

Manoj Menon

manoj.menon@icicisecurities.com

Karan Bhuwania

karan.bhuwania@icicisecurities.com

Nilesh Patil

nilesh.patil@icicisecurities.com

Market Data

Market Cap (INR)	76bn
Market Cap (USD)	903mn
Bloomberg Code	DODLA IN
Reuters Code	DODL BO
52-week Range (INR)	1,346 /651
Free Float (%)	38.0
ADTV-3M (mn) (USD)	1.4

Price Performance (%)	3m	6m	12m
Absolute	1.3	26.1	88.0
Relative to Sensex	1.8	17.5	64.0

ESG Score	2021	2022	Change
ESG score	NA	NA	Na
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	0.6	0.6
EBITDA	1.1	0.6
EPS	1.3	3.3

Previous Reports

23-07-2024: [Q1FY25 results review](#)

20-05-2024: [Q4FY24 results review](#)

Lower inventory indicate liquidation of SMP inventory

The inventory position on the balance sheet has reduced to INR 2.3bn, at Sep'24 vs 3.9bn at Mar'24. We note liquidation of excess inventory in the system at relatively higher prices. While the company may keep adequate inventory levels for its captive consumption, we reckon, it may further liquidate this in coming quarters.

Cluster-based approach - Expanding to peripheral markets

Dodla has acquired a 32.2acre land parcel in Maharashtra. It aims to establish an integrated manufacturing plant at the Maharashtra. At present, the company transports the milk procured in Maharashtra to Telangana and Andhra Pradesh. We reckon, establishing a plant in Maharashtra may result in lower costs.

Milk procurement prices may remain stable in near term

We expect the milk procurement prices may have largely remained stable in Q2FY25 YoY. While the prices dipped at the start of the quarter, it inched up in Sep'24, ruling out the possibility of a sharp deterioration in the prices QoQ. However, they may have slipped marginally QoQ. We expect the milk procurement prices trend to remain stable in the near term.

Maintain ADD

We model Dodla to report revenue and PAT CAGRs of 16.1% and 27.3%, respectively, over FY24-27E and RoCE of 15.6% in FY27E. Our DCF-based revised TP stands at INR 1,365 (earlier TP: INR 1,320; implied P/E of 34x/28x FY26/27E EPS); retain **ADD**.

Key risks: Steep increase in input prices and competitive pressures.

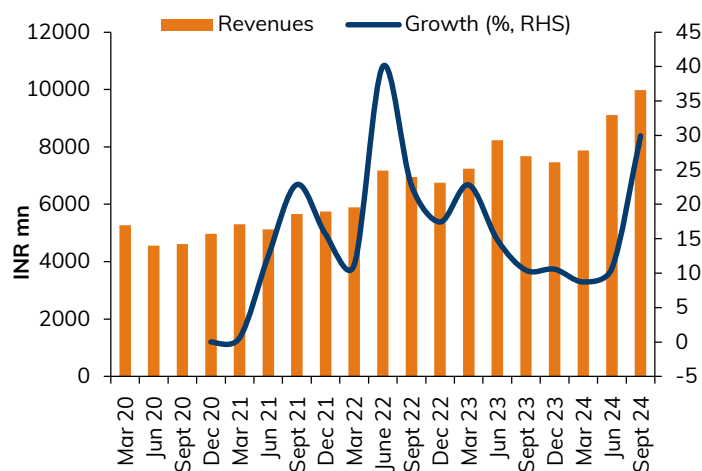
Exhibit 1: Q2FY25 financial performance (consolidated)

Y/e March INR mn	Q2FY25	Q2FY24	YoY % chg.	Q1FY25	QoQ % chg.	H1FY25	H1FY24	YoY % chg.
Revenue	9,976	7,678	29.9	9,116	9.4	19,092	15,912	20.0
Expenditure								
Raw materials	7,436	5,619	32.3	6,460	15.1	13,896	11,901	16.8
% of revenue	74.5	73.2		70.9		72.8	74.8	
Employee cost	397	339	17.0	395	0.6	792	689	15.0
% of revenue	4.0	4.4		4.3		4.1	4.3	
Other expenditure	1,181	1,017	16.1	1,210	(2.4)	2,391	2,016	18.6
% of revenue	11.8	13.2		13.3		12.5	12.7	
Total expenditure	9,014	6,975	29.2	8,065	11.8	17,078	14,606	16.9
EBITDA	963	702	37.0	1,051	(8.4)	2,014	1,306	54.2
EBITDA margin	9.6	9.1		11.5		10.5	8.2	
Other income	96	67	43.1	69	37.9	165	139	18.6
PBDIT	1,058	769	37.6	1,121	(5.6)	2,179	1,445	50.8
Depreciation	187	172	8.5	182	2.8	369	337	9.4
PBIT	871	597	46.0	939	(7.2)	1,810	1,108	63.4
Interest	8	4	112.3	11	(20.0)	19	8	148.3
PBT	863	593	45.5	928	(7.0)	1,791	1,100	62.8
Prov. for tax	229	157	46.0	278	(17.6)	507	314	61.2
% of PBT	26.5	26.5		29.9		28.3	28.6	
Adjusted PAT	634	436	45.4	650	(2.5)	1,284	786	63.4
Extra ordinary items	12	3		32		44	10	
Reported PAT	646	439	47.1	682	(5.3)	1,328	795	67.0

Source: Company data, I-Sec research

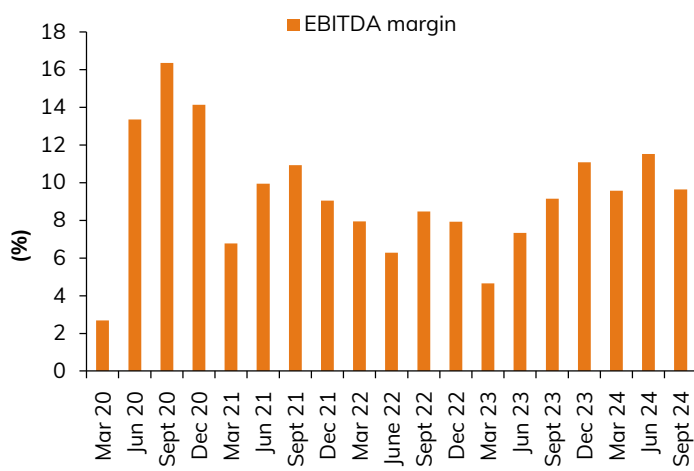
Key performance highlights

Exhibit 2: Revenue and revenue growth



Source: Company data, I-Sec research

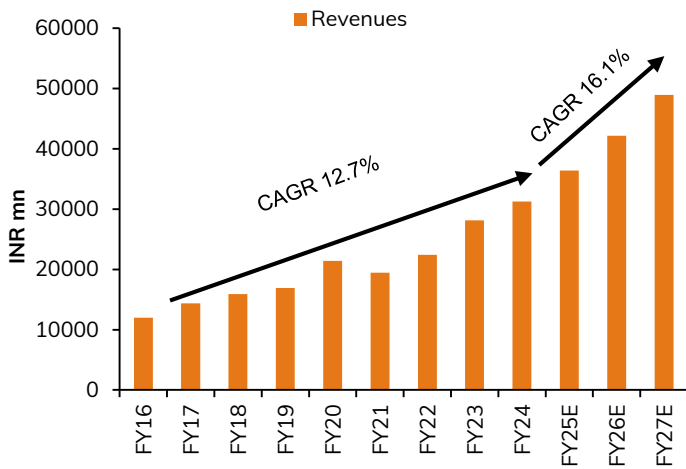
Exhibit 3: EBITDA margin (%)



Source: Company data, I-Sec research

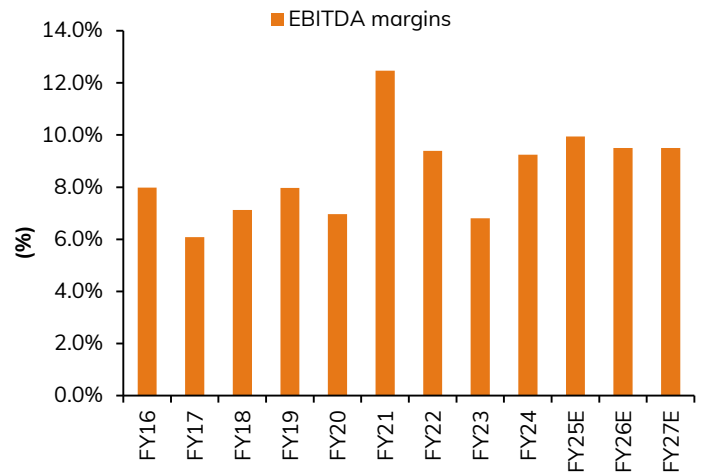
Key indicators – Annual

Exhibit 4: Revenue and revenue growth



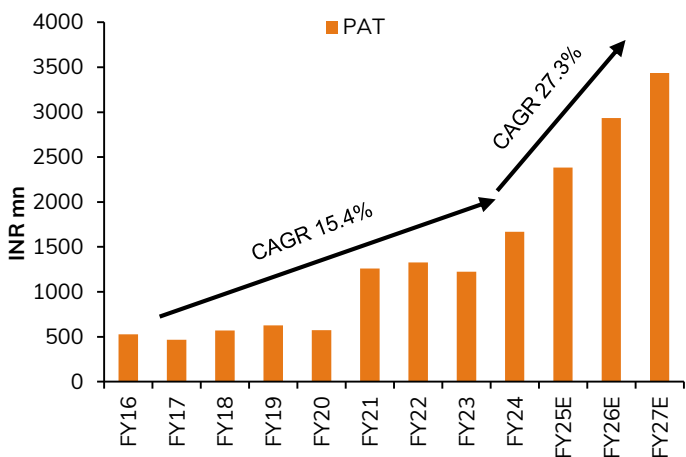
Source: Company data, I-Sec research

Exhibit 5: EBITDA margin trend



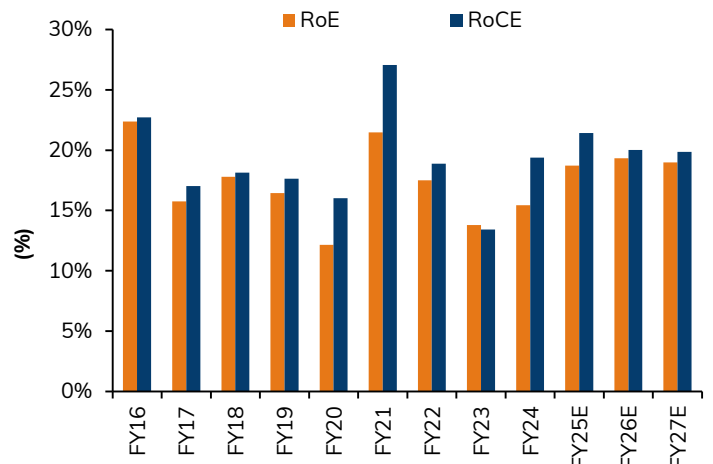
Source: Company data, I-Sec research

Exhibit 6: PAT growth



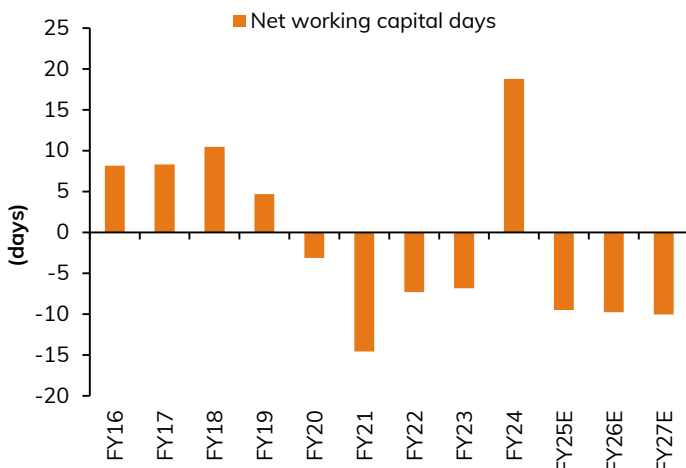
Source: Company data, I-Sec research

Exhibit 7: RoE and RoCE



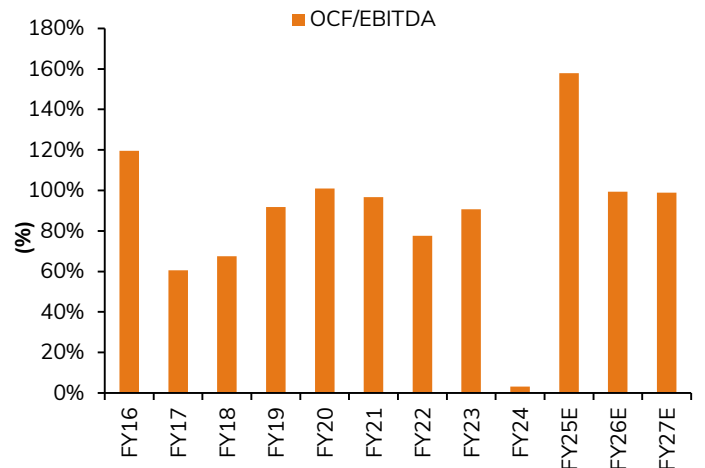
Source: Company data, I-Sec research

Exhibit 8: Net working capital days



Source: Company data, I-Sec research

Exhibit 9: OCF/EBITDA



Source: Company data, I-Sec research

Valuation and risks

We model Dodla to report revenue and PAT CAGRs of 16.1% and 27.3%, respectively, over FY24–27E with RoCE moving up to 15.6% in FY27E, from 13.5% in FY24. Our DCF-based revised TP stands at INR 1,365 (earlier INR 1,320), implied P/E works out to 34x/28x FY26/27E EPS.

Exhibit 10: DCF-based valuation

Particulars	
Cost of Equity (%)	11.2%
Terminal growth rate (%)	4.0%
Discounted interim cash flows (INR mn)	31,387
Discounted terminal value (INR mn)	49,802
Total equity value (INR mn)	81,189
Value per share (INR)	1,365

Source: Company data, I-Sec research

Risks

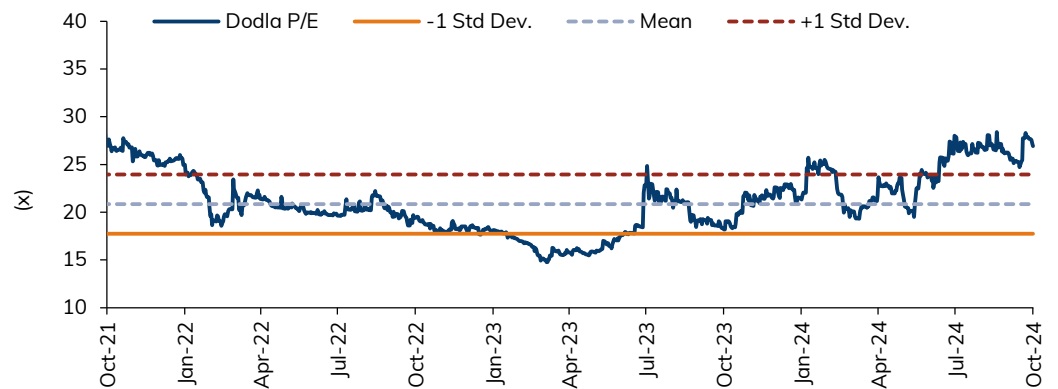
Sharp increase in input prices and competitive pressures

Major increase in milk procurement prices and/or increase in competitive pressures may result in downside risks to our estimates.

Delays in launch of new plants/products

Any delays in launch of new products and/or plants may result in lower earnings than estimated.

Exhibit 11: Mean PE (x) and standard deviations



Source: Company Data, I-Sec research, Bloomberg

Exhibit 12: Shareholding pattern

%	Dec'23	Mar'24	Sep'24
Promoters	62.2	60.5	60.0
Institutional investors	29.0	29.9	29.9
MFs and other	15.1	16.1	15.5
Banks/ FIs	0.0	2.4	2.3
Insurance Cos.	0.1	0.1	0.2
FIIIs	13.8	11.3	11.6
Others	8.8	9.6	10.8

Source: Bloomberg, I-Sec research

Exhibit 13: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	31,255	36,407	42,198	48,954
Operating Expenses	28,366	32,785	38,189	44,303
EBITDA	2,888	3,622	4,009	4,651
EBITDA Margin (%)	9.2	9.9	9.5	9.5
Depreciation & Amortization	701	781	864	949
EBIT	2,188	2,841	3,145	3,702
Interest expenditure	24	43	43	43
Other Non-operating Income	274	267	672	763
Recurring PBT	2,438	3,064	3,774	4,421
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	771	682	840	984
PAT	1,667	2,383	2,934	3,438
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(1)	-	-	-
Net Income (Reported)	1,666	2,383	2,934	3,438
Net Income (Adjusted)	1,667	2,383	2,934	3,438

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	5,251	5,941	3,864	4,793
of which cash & cash eqv.	1,034	3,973	1,618	2,224
Total Current Liabilities & Provisions	2,609	2,913	3,376	3,916
Net Current Assets	2,643	3,028	488	877
Investments	2,267	3,867	8,867	11,367
Net Fixed Assets	6,619	6,961	7,197	7,449
ROU Assets	-	-	-	-
Capital Work-in-Progress	124	-	-	-
Total Intangible Assets	516	516	516	516
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	12,168	14,372	17,069	20,209
Liabilities				
Borrowings	541	541	541	541
Deferred Tax Liability	239	239	239	239
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	595	595	595	595
Reserves & Surplus	10,794	12,998	15,694	18,834
Total Net Worth	11,389	13,593	16,289	19,429
Minority Interest	-	-	-	-
Total Liabilities	12,168	14,372	17,069	20,209

Source Company data, I-Sec research

Exhibit 16: Quarterly trend

(INR mn, year ending March)

	Dec'23	Mar'24	Jun'24	Sep'24
Net Sales	7,468	7,874	9,116	9,976
% growth (YOY)	10.6%	8.7%	10.7%	29.9%
EBITDA	828	754	1,051	963
Margin %	11.1	9.6	11.5	9.6
Other Income	57	78	69	96
Extraordinaries	(3)	(8)	32	12
Adjusted Net Profit	413	468	650	634

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	94	5,717	3,983	4,603
Working Capital Changes	(2,333)	2,553	185	216
Capital Commitments	(1,065)	(1,000)	(1,100)	(1,200)
Free Cashflow	(946)	4,717	2,883	3,403
Other investing cashflow	1,256	(1,600)	(5,000)	(2,500)
Cashflow from Investing Activities	190	(2,600)	(6,100)	(3,700)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(3)	-	-	-
Dividend paid	-	(178)	(238)	(297)
Others	-	-	-	-
Cash flow from Financing Activities	(3)	(178)	(238)	(297)
Chg. in Cash & Bank balance	281	2,939	(2,355)	605
Closing cash & balance	1,034	3,973	1,618	2,224

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	28.0	40.0	49.3	57.8
Adjusted EPS (Diluted)	28.0	40.0	49.3	57.8
Cash EPS	39.8	53.2	63.8	73.7
Dividend per share (DPS)	-	3.0	4.0	5.0
Book Value per share (BV)	191.4	228.5	273.8	326.6
Dividend Payout (%)	-	7.5	8.1	8.7
Growth (%)				
Net Sales	11.1	16.5	15.9	16.0
EBITDA	51.0	25.4	10.7	16.0
EPS (INR)	36.4	42.9	23.2	17.2
Valuation Ratios (x)				
P/E	44.9	31.4	25.5	21.8
P/CEPS	31.6	23.7	19.7	17.1
P/BV	6.6	5.5	4.6	3.9
EV / EBITDA	25.0	18.6	16.2	13.3
P / Sales	2.4	2.1	1.8	1.5
Dividend Yield (%)	-	0.2	0.3	0.4
Operating Ratios				
Gross Profit Margins (%)	27.0	27.5	27.3	27.3
EBITDA Margins (%)	9.2	9.9	9.5	9.5
Effective Tax Rate (%)	31.6	22.3	22.3	22.3
Net Profit Margins (%)	5.3	6.5	7.0	7.0
NWC / Total Assets (%)	13.2	(6.6)	(6.6)	(6.7)
Net Debt / Equity (x)	(0.2)	(0.5)	(0.6)	(0.7)
Net Debt / EBITDA (x)	(1.0)	(2.0)	(2.5)	(2.8)
Profitability Ratios				
RoCE (%)	13.5	17.0	15.8	15.6
RoE (%)	15.8	19.1	19.6	19.2
RoC (%)	20.4	29.6	38.7	45.2
Fixed Asset Turnover (x)	3.4	3.4	3.6	3.8
Inventory Turnover Days	48	18	18	18
Receivables Days	1	1	1	1
Payables Days	30	29	29	29

Source Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Aniruddha Joshi, CA; Manoj Menon, MBA, CMA; Karan Bhuwania, MBA; Nilesh Patil, MBA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report.

Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122
