

Dodla Dairy

BUY
Maintained

Muted flush season impacts margin; we model recovery in H2FY24

Rs502

Q4FY23 result review and earnings/TP change

Dairy

Target price: Rs600

Earnings revision

(%)	FY24E	FY25E
Sales	↑ 2.0	↑ 2.3
EBITDA	↓ 3.8	↓ 0.6
EPS	↓ 8.6	↓ 5.7

Target price revision

Rs600 from Rs620

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	62.2	62.2	62.2
Institutional investors	21.5	29.1	28.9
MFs and others	12.8	14.2	14.2
FIs/Bank/Ins	0.0	0.0	0.0
Other inst.	4.5	0.0	0.0
FIs	10.2	14.9	13.7
Others	10.3	8.7	8.9

Source: BSE

ESG disclosure score

Year	2020	2021	Chg
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 score indicating higher ESG disclosures.
Source: Bloomberg, I-sec research

Muted flush season and heat wave have impacted the milk production and milk procurement prices. While Dodla reported healthy growth of 9.8% in milk procurement, we note the steep increase in input prices contracted the gross margins by 416bps YoY to 21.4%, lowest level in past 12 quarters. With correction in global SMP prices and stable cattle feed prices, we model the milk procurement prices to correct in H2FY24 and also model margin recovery in H2FY24. We model EBITDA margin of 8.4% in FY24E (vs 6.8% in FY23).

We model Dodla to report PAT CAGR of 31.4% over FY23-25E with: (1) high single-digit growth in milk procurement and market share gains and (2) distribution expansion. We remain positive on Dodla due to its competitive advantages and strong growth opportunity in South India. Maintain BUY with a DCF-based revised TP of Rs600 (implied P/E of 17x FY25E; Earlier TP: Rs620).

- **Q4FY23 results:** Dodla reported revenue growth of 22.8% YoY but EBITDA and PAT declined 28.1% and 44.3%, respectively YoY. Higher milk procurement prices resulted in gross and EBITDA margin contraction of 416bps and 330bps YoY, respectively. Other income was up 47.7% YoY due to cash accumulation on balance sheet.
- **Segment-wise performance:** Milk procurement was up 9.8% whereas milk sales (volume) were up 11.3% YoY. Value added product sales were up 20.9% YoY. We believe the price hikes were ~10% YoY. While India sales were up 23.1%, Africa revenue increased 19.6% YoY. Cattle feed revenues were up 26% YoY.
- **Higher milk procurement prices to hurt margin in H1FY24:** We model the steep increase in milk procurement prices led by muted flush season and heatwave in CY23 to continue to hurt margins in H1FY24. However, we model the margin recovery in H2FY24 as the global SMP prices have corrected and cattle feed prices have also stabilized. We model the EBITDA margin to normalize in FY24 at ~8.4%.
- **Strong growth in Value added products:** We note with normalization of economy and opening up of HoReCa sales, the VAP sales are likely to be strong (>15%) in FY24-25. We model higher revenues of curd are likely to be RoCE accretive.
- **Maintain BUY:** We model Dodla to report revenue and PAT CAGR of 14.6% and 31.4% respectively, over FY23-25E and RoCE to be ~18% in FY24-FY25. We maintain **BUY** rating with DCF-based TP of Rs600 (implied P/E of 17x FY25E EPS). Key risks: Delay in distribution and procurement expansion, and failure of some of the launches.

Market Cap	Rs29.9bn/US\$361mn
Bloomberg	DODLA IN
Shares Outstanding (mn)	59.5
52-week Range (Rs)	566/441
Free Float (%)	37.8
FII (%)	13.7
Daily Volume (US\$'000)	97
Absolute Return 3m (%)	1.6
Absolute Return 12m (%)	4.4
Sensex Return 3m (%)	1.5
Sensex Return 12m (%)	18.5

Year to March	FY22	FY23P	FY24E	FY25E
Revenue (Rs mn)	22,434	28,120	32,218	36,931
Adj. Net Profit (Rs mn)	1,328	1,223	1,735	2,112
Dil. Rec. EPS (Rs)	22.3	20.6	29.2	35.5
% Chg YoY	3.4	(7.9)	41.9	21.7
P/E (x)	22.5	24.4	17.2	14.1
CEPS (Rs)	31.1	30.8	40.7	48.6
EV/EBITDA (x)	12.5	13.8	9.8	8.3
Dividend Yield (%)	-	-	-	-
RoCE (%)	18.9	13.4	17.8	18.2
RoE (%)	17.5	13.8	16.0	16.6

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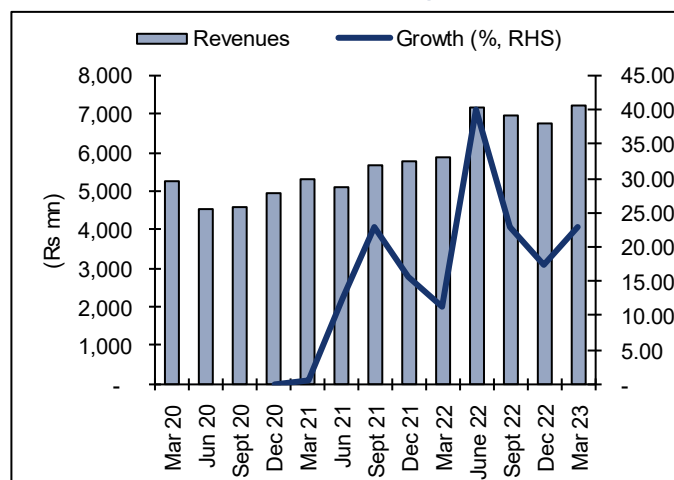
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Table 1: Q4FY23 financial performance*(Rs mn, year ending March 31)*

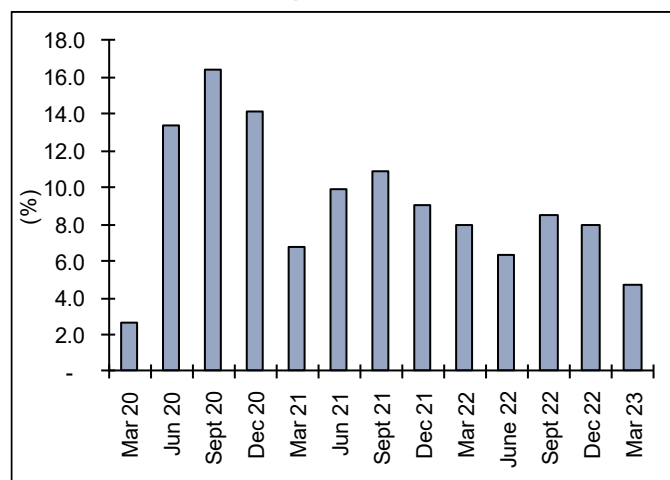
Y/E March	Q4FY23	Q4FY22	YoY gr.	Q3FY23	QoQ gr.
Revenue	7,243	5,897	22.8	6,754	7.2
Expenditure					
Raw materials	5,694	4,391	29.7	5,043	12.9
% of revenue	78.6	74.5		74.7	
Employee cost	299	260	14.8	315	(5.0)
% of revenue	4.1	4.4		4.7	
Other expenditure	913	777	17.4	861	6.0
% of revenue	12.6	13.2		12.7	
Total expenditure	6,906	5,428	27.2	6,218	11.1
EBITDA	337	469	(28.1)	536	(37.1)
EBITDA margin	4.7	8.0		7.9	
Other income	63	43	47.7	65	(3.5)
PBDIT	400	512	(21.8)	601	(33.4)
Depreciation	147	132	11.8	159	(7.4)
PBIT	253	380	(33.4)	443	(42.8)
Interest	3	3	11.8	3	4.2
PBT	250	377	(33.7)	439	(43.1)
Prov for tax	25	(28)	(188.8)	86	(71.2)
% of PBT	9.8	(7.3)		19.5	
Adjusted PAT	225	405	(44.3)	354	(36.3)
Extraordinary items	(32)	11		59	
Reported PAT	194	416	(53.5)	413	(53.1)

Source: Company data, I-Sec research

Key performance highlights

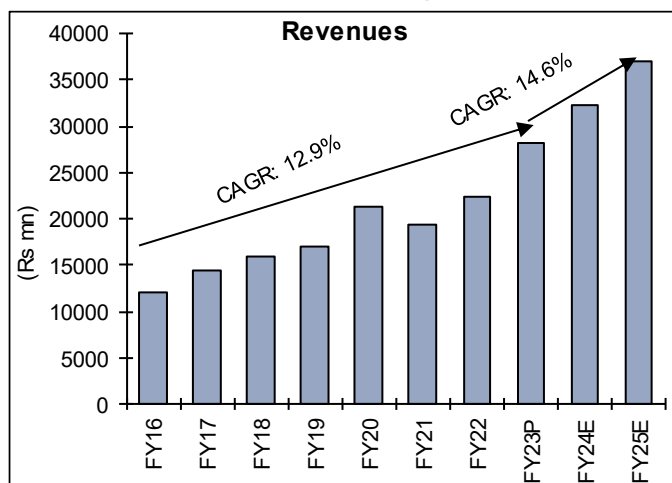
Chart 1: Revenue and revenue growth

Source: Company data, I-Sec research

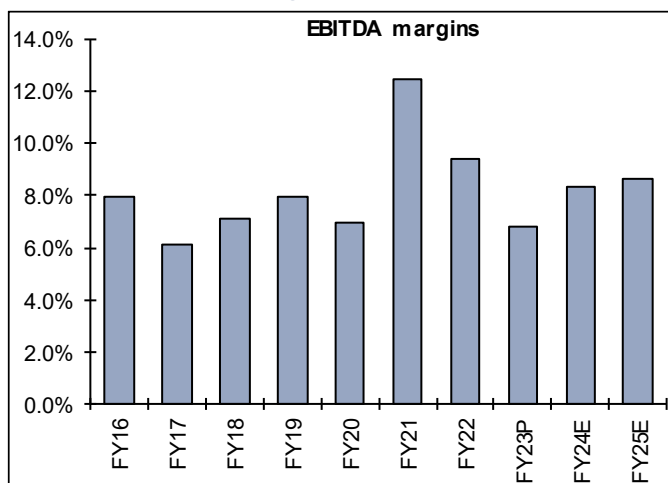
Chart 2: EBITDA margin

Source: Company data, I-Sec research

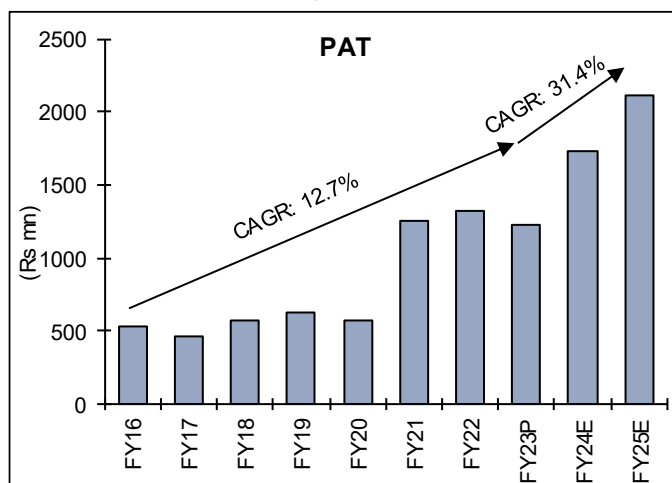
Key ratios – Annual

Chart 3: Revenue and revenue growth


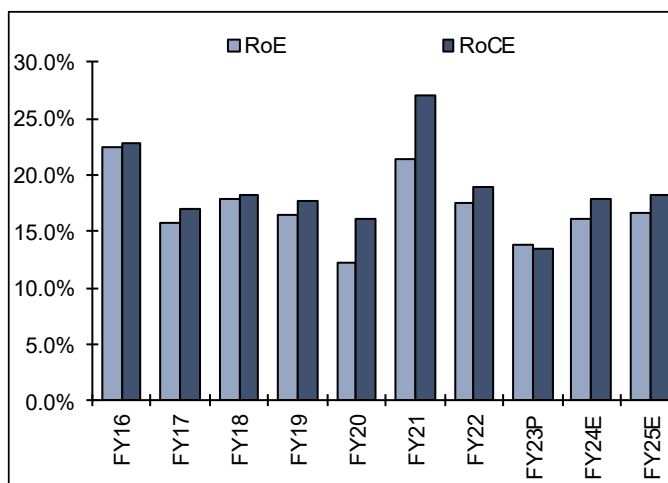
Source: Company data, I-Sec research

Chart 4: EBITDA margin


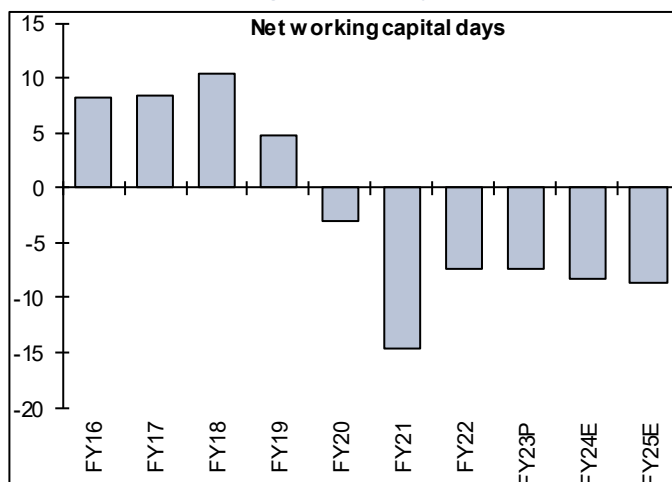
Source: Company data, I-Sec research

Chart 5: PAT and PAT growth


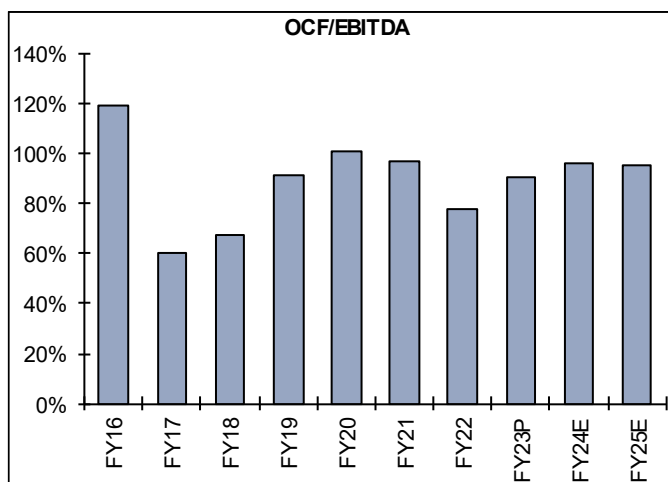
Source: Company data, I-Sec research

Chart 6: RoE and RoCE


Source: Company data, I-Sec research

Chart 7: Net working capital days


Source: Company data, I-Sec research

Chart 8: OCF/ EBITDA


Source: Company data, I-Sec research

Valuation and risks

We model Dodla to report revenue and PAT CAGRs of 14.6% and 31.4% over FY23-FY25E and RoE to move to 16.6% in FY25E from 13.8% in FY23. At our DCF-based TP of Rs600, the implied P/E works out to 17x FY25E EPS. Maintain BUY.

Table 2: DCF-based valuation

Particulars	Amt (Rs)
Cost of Equity (%)	11.7
Terminal growth rate (%)	4.0
Discounted interim cash flows (Rs mn)	15,957
Discounted terminal value (Rs mn)	19,738
Total equity value (Rs mn)	35,696
Value per share (Rs)	600

Source: Company data, I-Sec research

Risks

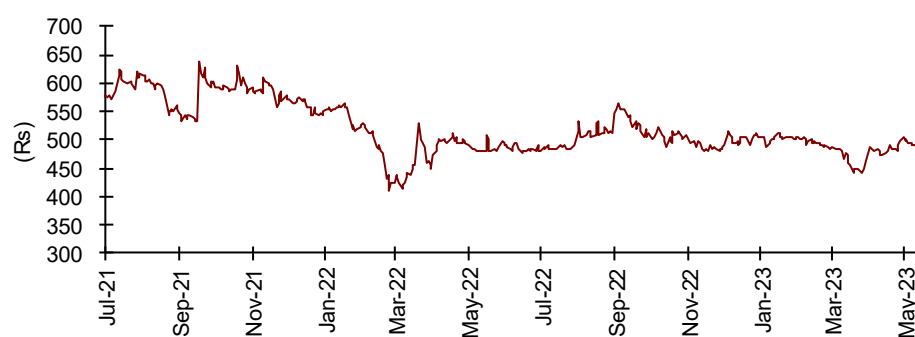
Sharp increase in input prices and competitive pressures

Major increase in milk procurement prices and/or increase in competitive pressures are likely to result in downside 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.

Price chart



Source: Bloomberg

Financial summary

Table 3: Profit & Loss statement

(Rs mn, year ending March 31)

	FY22	FY23P	FY24E	FY25E
Net Sales	22,434	28,120	32,218	36,931
Operating Expenses	20,326	26,207	29,528	33,755
EBITDA	2,107	1,913	2,690	3,176
% margins	9.4	6.8	8.4	8.6
Depreciation & Amortisation	524	612	689	780
Gross Interest	65	12	33	33
Other Income	137	230	270	363
Recurring PBT	1,656	1,518	2,239	2,726
Less: Taxes	327	296	504	613
Less: Minority Interest	-	-	-	-
Net Income (Reported)	1,328	1,223	1,735	2,112
Extraordinaries (Net)	55	68	-	-
Recurring Net Income	1,383	1,291	1,735	2,112

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23P	FY24E	FY25E
Assets				
Total Current Assets	2,746	2,838	3,184	3,854
of which cash & cash eqv.	1,318	1,246	1,332	1,776
Total Current Liabilities & Provisions	1,877	2,155	2,577	2,955
Net Current Assets	869	683	607	899
Investments	595	259	259	259
Net Fixed Assets	5,195	5,704	6,496	6,716
Capital Work-in-Progress	41	581	-	-
Total Assets	9,007	10,359	12,094	14,206
Liabilities				
Borrowings	230	407	407	407
Deferred Tax Liability	346	230	230	230
Minority Interest	-	-	-	-
Equity Share Capital	595	595	595	595
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	7,837	9,127	10,862	12,975
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	8,432	9,722	11,457	13,570
Total Liabilities	9,007	10,359	12,094	14,206

Source: Company data, I-Sec research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	June 22	Sept 22	Dec 22	Mar 23
Net sales	7,170	6,953	6,754	7,243
% growth (YoY)	40.0%	22.8%	17.4%	22.8%
EBITDA	451	589	536	337
Margin (%)	6.3	8.5	7.9	4.7
Other income	44	57	65	63
Extraordinaries (Net)	15	25	59	(32)
Adjusted Net profit	264	419	413	194

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23P	FY24E	FY25E
Operating Cashflow	1,672	1,640	2,424	2,893
Working Capital Changes	(36)	94	162	151
Capital Commitments	(704)	(1,048)	(900)	(1,000)
Free Cashflow	932	686	1,686	2,044
Cashflow from Investing Activities	(424)	(973)	(1,600)	(1,600)
Issue of Share Capital	500	-	-	-
Inc (Dec) in Borrowings	(869)	146	-	-
Dividend paid	-	-	-	-
Change in Deferred Tax Liability	-	-	-	-
Chg. in Cash & Bank balance	(143)	(348)	86	444

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY22	FY23P	FY24E	FY25E
Per Share Data (Rs)				
EPS	22.3	20.6	29.2	35.5
Cash EPS	31.1	30.8	40.7	48.6
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	147.5	167.3	196.4	232.0
Growth (%)				
Net Sales	15.4	25.3	14.6	14.6
EBITDA	(13.1)	(9.2)	40.6	18.1
PAT	5.4	(7.9)	41.9	21.7
DPS	3.4	(7.9)	41.9	21.7
Valuation Ratios (x)				
P/E	22.5	24.4	17.2	14.1
P/CEPS	16.1	16.3	12.3	10.3
P/BV	3.4	3.0	2.6	2.2
EV / EBITDA	12.5	13.8	9.8	8.3
EV / Sales	1.2	0.9	0.8	0.7

Operating Ratios

Raw Material / Sales (%)	72.5	76.1	74.0	73.8
Employee cost / Sales (%)	4.6	4.2	4.6	4.6
SG&A / Sales (%)	0.3	0.2	0.5	0.5
Other Income / PBT (%)	8.3	15.1	12.1	13.3
Effective Tax Rate (%)	19.8	19.5	22.5	22.5
Working Capital (days)	(7.3)	(7.3)	(8.2)	(8.7)
Inventory Turnover (days)	19.7	15.6	16.4	16.4
Receivables (days)	0.8	1.1	1.1	1.1
Payables (days)	28.3	26.1	27.4	27.4
Net D/E (x)	(0.33)	(0.3)	(0.4)	(0.5)

Profitability Ratios (%)

Net Income Margins	5.9	4.3	5.4	5.7
RoACE	18.9	13.4	17.8	18.2
RoAE	17.5	13.8	16.0	16.6
Dividend Payout	-	-	-	-
Dividend Yield	-	-	-	-
EBITDA Margins	9.4	6.8	8.4	8.6

Source: Company data, I-Sec research

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