

Dodla Dairy Ltd : Good Issue :

IPO Note: Good growth in Top line but bottom line decreased:Fully Priced: Ranking***



Issue details

Price band (Rs)	Rs.421-428
IPO Opening Date	16/06/21
IPO Closing Date	18/06/21
Issue Size	Rs.520.18 Cr.

Recommendation

On the financial performance front, DDL has posted a turnover/net profit of Rs. 1597.01 cr. / Rs. 56.85 cr. (FY18), Rs. 1699.46 cr. / Rs. 62.76 cr. (FY19) and Rs. 2145.65 cr. / Rs. 49.87 cr. (FY20). For the first nine months ended on December 31, 2020, of FY21, it has earned a net profit of Rs. 116.38 cr. on a turnover of Rs. 1417.04 cr. The sudden boost in the bottom line in pre-IPO year raises concern. As per offer documents, DDL has shown Hatsun Agro, Heritage Foods and Parag Milk as its listed peers. They are currently trading at a P/E of around 81.15, 13.6 and 36.72. **If we annualize FY21 super earnings and attribute it on fully diluted post issue equity, then the asking price is at a P/E of 16.41. Based on the FY20 earnings issue is priced at around 51 P/E making it a fully priced offer.**

Highlights

- DDL's operations in India are primarily across the five Indian states of Andhra Pradesh, Telangana, Karnataka, Tamil Nadu and Maharashtra.
- It is one of the largest dairy company in the branded consumer market.
- The company's revenue from the sale of milk and dairy-based VAPs constituted 72.81% and 27.18% respectively, of our revenue in Fiscal 2020 and 75.32% and 24.68% respectively, for the nine months period ended December 31, 2020.

Company Introduction

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. The firm has a strong distribution network of 40 sales offices, 3336 distribution agents, 863 milk distributors, and 449 product distributors across 11 states in India.

Company Promoters:

Dodla Sunil Reddy, Dodla Sessa Reddy, and Dodla Family



trust are the company promoters.

Objects of the Issue:

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

IPO Issue Proceed

To part finance its plans for repayment/pre-payment of certain borrowing in full or part (Rs. 32.26 cr.), Capital expenditure (Rs. 7.15 cr.) and general corpus fund needs, DDL is coming out with a maiden book built IPO having fresh equity issue worth Rs. 50 cr. (approx. 1168230 shares) and an offer for sale of 10985444 equity shares of Rs. 10 each to mobilize Rs. 520.18 cr. It has fixed the price band of Rs. 421 - Rs. 428 and minimum application is to be made for 35 shares and in multiples thereon, thereafter. The issue opens for subscription on June 16, 2021, and will close on June 18, 2021. Post allotment, shares will be listed on BSE and NSE. The issue constitutes 20.43% of the post issue paid-up capital of the company. The company has allocated 50% for QIBs, 15% for HNIs and 35% for retail investors. Post issue, DDL's current paid-up equity capital of Rs. 58.32 cr. will stand enhanced to Rs. 59.50 cr. Based on the upper cap of the issue price, the company is looking for a market cap of Rs. 2546.29 cr.

Financial Summary (Rs. In Crore)

Particulars	Nine months ended Dec. 30, 2020	FY2020	FY2019	FY2018
Total Income	1417.03	2145.64	1699.45	1597.01
Net Profit	116.38	49.87	62.76	56.85
EPS (Rs)	19.55*	8.38	10.54	9.55

*EPS not annualized

Source: RHP and ACE Equity

RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

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