

September 05, 2024

Dodla Dairy Limited: Ratings reaffirmed; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term – Fund-based – Cash Credit	72.50	72.50	[ICRA]AA- (Positive)/ [ICRA]A1+; reaffirmed and Outlook revised to Positive from Stable
Long-term – Unallocated	127.50	127.50	[ICRA]AA- (Positive); reaffirmed and Outlook revised to Positive from Stable
Short-term – Fund-based – Overdraft	50.00	50.00	[ICRA]A1+; reaffirmed
Total	250.00	250.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in the outlook on the long-term rating of Dodla Dairy Limited (DDL) to Positive from Stable considers the expected healthy increase in revenues and earnings, supported by stable rise in milk volumes and strong growth in value-added products (VAP) along with healthy realisations. DDL's revenues grew by 11% in FY2024 and ~17% in Q1 FY2025, driven by robust growth in VAP (~35% of revenues in Q1 FY2025 and ~28% in FY2024, compared to ~27% in FY2023), including curd, skimmed milk powder (SMP), and butter amongst others. DDL's milk procurement increased to 16.8 lakh litres per day (LLPD) in FY2024 from 13.8 LLPD in FY2023 which supported revenue growth. Increased share of VAP in the revenue-mix is expected to support the company's margins. This apart, the company plans to set up SMP and milk processing plant in Maharashtra at an estimated project cost of Rs. 200.0 crore, which will be spread out over 18-24 months, and will be funded through internal accruals. The increased processing and procurement capacities will augment DDL's revenue growth over the medium term.

The ratings consider DDL's established presence in South India with a diversified presence across districts of Andhra Pradesh, Karnataka, parts of Tamil Nadu and Telangana with a well-connected distribution network. The ratings factor in DDL's wide procurement base, supported by a network of bulk coolers and chilling centres, and its strong connection with farmers, helping in steady sourcing of liquid milk. The company has also expanded its procurement base to Maharashtra in the past three years on the back of favourable raw material prices. Milk procurement is expected to increase sharply in FY2025 as well, supporting its revenue growth. The ratings also draw comfort from the favourable long-term growth prospects for the dairy industry, given the low penetration of organised players.

The ratings are, however, constrained by the commoditised nature of the products and intense competition from organised cooperatives, private-sector, and unorganised players, which limits the pricing flexibility of the players. The company also faces competition in procuring milk with limited control over procurement costs of liquid milk. However, given the pricing premium enjoyed by the company over the milk cooperatives, it has better flexibility to absorb the increase in costs and maintain/ grow market share. Also, the company remains vulnerable to external factors, such as weather and disease outbreaks.

Key rating drivers and their description

Credit strengths

Established brand presence – Dodla brand is an established name in the liquid milk segment in southern India and has a diversified presence across the districts of Andhra Pradesh, Karnataka and parts of Tamil Nadu and Telangana. It has favourable long-term growth prospects, given the low penetration of the organised sector in the dairy industry. Further, DDL's wide procurement base ensures regular milk supply at competitive prices from farmers and is supplemented by a wide network of

150 milk chilling centres as on March 31, 2024. DDL had been procuring milk from Andhra Pradesh, Tamil Nadu, Maharashtra, Karnataka and Telangana. DDL's milk procurement improved to ~16.8 LLPD in FY2024 from ~13.8 LLPD in FY2023 and is expected to support healthy revenue growth.

Healthy revenue growth at a CAGR of ~27% between FY2021 and FY2024; increasing share of value-added products – The company's revenue witnessed a healthy rise at a CAGR of ~27% in the past four years ending in FY2024. The same was driven by an increase in sales volumes amid healthy demand given changing preferences towards dairy products and changing lifestyles, especially in urban centres. ICRA expects the company to record healthy revenue growth in FY2025, on the back of strong growth in sales of VAP and improved realisations, along with steady growth in liquid milk volumes. The increased processing and procurement capacities will augment revenue growth over the medium term. The revenues from VAP rose to ~28% in FY2024 and 35% in Q1 FY2025 from ~27% in FY2023. The company has started bulk sales of SMP and butter, which would support revenue growth. Increased share of value-added products in the revenue-mix is expected to support margin improvement.

Comfortable financial profile – The company's financial risk profile is comfortable with negligible debt as on March 31, 2024, and healthy coverage indicators with an interest coverage of 101.1 times (92.1 times in FY2023), NCA/TD of 511% (519% in FY2023), TOL/TNW of 0.3 times (0.3 times in FY2023), Total Debt/OPBITDA of 0.2 times (0.2 times FY2023) on account of low debt levels and healthy operating margins. The company's debt metrics are expected to remain comfortable going forward as well, given the expected improvement in earnings and absence of any debt-funded capex. The company is planning to set up a milk processing and SMP plant in Maharashtra at an estimated cost of Rs. 200.0 crore, which would be incurred over 18-24 months. Also, the company is expected to incur capex towards expansion / automation of its existing units in India and Africa along with regular maintenance capex. The entire capex is expected to be funded through internal accruals. Despite the material capex plans for the near term, the company is likely to maintain comfortable cash balances.

Credit challenges

Intense competition with limited pricing flexibility – Commoditised nature of the products and intense competition from organised cooperatives, private dairies, and unorganised players, which impacts the pricing flexibility of players in the Industry. However, ICRA notes that given the pricing premium enjoyed by the company compared with milk cooperatives, it has better flexibility to absorb the increase in costs and maintain/ grow market share. Moreover, increasing revenue share from VAP is expected to support DDL's margins. The company's revenues and earnings also remain vulnerable to external factors such as weather and disease outbreaks.

Limited control over procurement costs – The industry players have limited control over the procurement costs of liquid milk as these are impacted by intense competition from state-owned milk cooperatives and other private dairies, along with low switching costs for farmers. However, the company's strong relationships with farmers ensure milk availability even during the lean season. DDL's demonstrated ability to partially pass on the increase in costs to customers mitigates the impact of fluctuation in procurement costs to an extent.

Liquidity position: Strong

DDL's liquidity is strong with healthy cash balances and liquid investments of Rs. 286.7 crore as on March 31, 2024, and buffer in working capital limits of Rs. 122.5 crore against sanctioned limits in the last twelve months. The company is expected to generate healthy cash flows of more than Rs. 250 crore per annum over the near term. The company is planning to setup a milk processing and SMP plant in Maharashtra at an estimated cost of Rs. 200.0 crore which would be incurred over 18-24 months, apart from this the company is expected to incur capex towards expansion/automation of its units along with regular maintenance capex. The entire capex is expected to be funded through internal accruals. The company has no repayment obligations (apart from lease liability) on a standalone basis.

Rating sensitivities

Positive factors – ICRA may upgrade DDL's long-term rating if the company demonstrates a significant improvement in its scale with increased geographical diversification while increasing the share of value-added products and maintaining its profitability.

Negative factors – Pressure on the ratings may arise if a significant decline in revenue and profitability, higher-than-projected capex, or any major debt-funded capex leads to weakening of debt protection metrics or liquidity position. Specific credit metrics that could lead to ratings downgrade include TD/OPBITDA above 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of DDL. A list of consolidated entities considered for this rating is provided in Annexure-2.

About the company

Incorporated in 1995, Dodla Dairy Limited is promoted by Mr. D. Sessa Reddy and Mr. D. Sunil Reddy. The company processes and sells milk and milk products under the Dodla brand, with a market presence predominantly in Andhra Pradesh, Karnataka, Tamil Nadu and Telangana. The company is listed on the BSE and the NSE. DDL has 16 processing and packaging units in India with a processing capacity of ~22.5 LLPD. DDL ventured into Uganda in FY2015 through its subsidiary, Lakeside Dairy Limited, with the acquisition of Hillside Dairy and Agriculture Limited. The company runs a milk processing unit with 3-LLPD capacity in Uganda. DDL has also incorporated a company in Kenya in FY2024, called Dodla Dairy Kenya Limited (DDKL), which largely acts a trader of dairy products.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	2,812.0	3,125.5
PAT	122.3	166.7
OPBDIT/OI	7.0%	9.3%
PAT/OI	4.3%	5.3%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	0.2	0.2
Interest coverage (times)	92.1	101.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	Sep 05, 2024	Date	Rating	Date	Rating	Date	Rating
Fund based – Cash Credit	Long term / Short term	72.50	[ICRA]AA-(Positive)/[ICRA]A1+	Jul 31, 2023	[ICRA]AA-(Stable)/[ICRA]A1+	Jul 28, 2022	[ICRA]AA-(Stable)/[ICRA]A1+	Jul 29, 2021	[ICRA]AA-(Stable)/[ICRA]A1+
Fund based – Overdraft	Short term	50.00	[ICRA]A1+	Jul 31, 2023	[ICRA]A1+	Jul 28, 2022	[ICRA]A1+	Jul 29, 2021	[ICRA]A1+
Unallocated limits	Long term	127.50	[ICRA]AA-(Positive)	Jul 31, 2023	[ICRA]AA-(Stable)	Jul 28, 2022	[ICRA]AA-(Stable)	Jul 29, 2021	[ICRA]AA-(Stable)
Term loans	Long term	-	-	-	-	-	-	Jul 29, 2021	[ICRA]AA-(Stable)
NCD	Long term	-	-	-	-	Jul 28, 2022	[ICRA]AA-(Stable)*	Jul 29, 2021	[ICRA]AA-(Stable)

*Withdrawn**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term / Short term – Fund based – Cash Credit	Simple
Short Term – Fund based – Overdraft	Very simple
Long Term – unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit/Short term loan	NA	NA	NA	30.00	[ICRA]AA-(Positive)/[ICRA]A1+
NA	Cash credit/Short term loan	NA	NA	NA	22.50	[ICRA]AA-(Positive)/[ICRA]A1+
NA	Cash credit/Short term loan	NA	NA	NA	20.00	[ICRA]AA-(Positive)/[ICRA]A1+
NA	Overdraft	NA	NA	NA	20.00	[ICRA]A1+
NA	Overdraft	NA	NA	NA	30.00	[ICRA]A1+
NA	Unallocated limits	NA	NA	NA	127.50	[ICRA]AA-(Positive)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Lakeside Dairy Limited	100.0%	Full Consolidation
Dodla Holding Pte Ltd (Singapore)	100.0%	Full Consolidation
Dodla Dairy Kenya Limited (Kenya)	99.00%	Full Consolidation
OrgaFeed Private Limited	100.00%	Full Consolidation
Global VetMed Concepts Pvt Ltd (India)	47.88%	Equity Method
Country Delight Dairy Limited, Kenya	100.0%	Full Consolidation

Source: DDL annual report for FY2024, ICRA has taken consolidated financials of DDL, its subsidiaries and associates while assigning the ratings

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