July 29, 2021

Dodla Dairy Limited: Long-term rating upgraded to [ICRA]AA- from [ICRA]A+, outlook revised to Stable from Positive; short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	110.00	110.00	Upgraded to [ICRA]AA- from [ICRA]A+; outlook revised to Stable from Positive
Fund-based Term Loan	30.00	1.56	Upgraded to [ICRA]AA- from [ICRA]A+; outlook revised to Stable from Positive
Unallocated	4.40	85.44	Upgraded to [ICRA]AA- from [ICRA]A+; outlook revised to Stable from Positive
Long-term / short-term Fund-based#	135.00	72.50	LT rating upgraded to [ICRA]AA- from [ICRA]A+; outlook revised to Stable from Positive; ST rating reaffirmed at [ICRA]A1+
Short-term fund-based limits	40.00	50.00	[ICRA]A1+ Reaffirmed
Total	**319.50**	**319.50**	

**Instrument details are provided in Annexure-1; #cash credit interchangeable with short-term loans*

Rationale

The rating upgrade factors in the Dodla Dairy Limited's (DDL) improved and comfortable financial profile as infusion of equity through IPO and pre-IPO money raised significantly increased cash balance which would be utilised to repay its term loans entirely. In FY2021, while the company's sales volumes declined by 14.1% (consolidated milk sales volumes), its milk realisations increased by 8.1%, supporting its revenues. The procurement prices declined marginally as the Covid-19 pandemic lowered demand from hotels and confectioneries for milk and milk products. Improved realisations and lower procurement prices led to an increase in the operating margins to 12.5% in FY2021 from 6.6% in FY2020. Higher margins and accruals and equity infusion led to a significant improvement in coverage indicators. The company is expected to witness a healthy revenue growth in FY2022 on the back improved demand after ~9% decline in revenues in FY2021. While the margins are expected to moderate given the increasing raw milk prices, the company's financial profile is expected to remain comfortable.

The ratings consider established brand presence of Dodla in South India, and its diversified presence across the districts of Andhra Pradesh (AP), Karnataka and parts of Tamil Nadu (TN) and Telangana. 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 which help in steady sourcing of liquid milk. The company has also expanded its procurement base to Maharashtra in FY2021. DDL's milk procurement declined marginally to ~10.3 lakh litres per day (LLPD) in FY2021 (for Indian entity) from ~11.3 LLPD in FY2020 because of lower demand and increased prices in H2 FY2021. However, milk procurement is expected to increase to 14 LLPD in FY2022, supporting revenue growth. DDL's entry into new geographies and its ability to improve sales of value-added products are crucial. The ratings also draw comfort from the favourable long-term growth prospects, given the low penetration of the organised players in the dairy industry.

The ratings are, however, constrained by the commoditised nature of products and intense competition from organised co-operatives, private-sector and unorganised players. Also, the company remains vulnerable to external factors, such as weather and disease outbreaks. Given the intense competition from milk co-operatives, especially in Karnataka and TN (which account for more than half of DDL's turnover), DDL's pricing flexibility could remain constrained by its existing high price differential with the milk co-operatives. The company also faces competition in milk procurement and has limited control over procurement costs of liquid milk. However, the company's demonstrated ability to partially pass on the increase in costs to customers mitigates this risk to an extent. ICRA notes that any large debt-funded acquisition could adversely impact the company's leverage or coverage metrics.

The Stable outlook on the rating factors in ICRA's belief that the company will continue to benefit from its diversified and established presence in South India and its strong connection with farmers along with a robust distribution network. The outlook also factors in ICRA's belief that the company will continue to maintain a comfortable financial profile with strong coverage metrics.

Key rating drivers and their description

Credit strengths

Established brand in southern India with wide procurement base – The Dodla brand is an established name in the liquid milk segment in southern India and has a diversified presence across the districts of AP, Karnataka, and parts of TN 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 94 milk chilling centres including 18 bulk milk coolers. DDL had been procuring milk from AP, TN, Karnataka and Telangana. It started procuring from Maharashtra in FY2021 and plans to increase its procurement base in the state. DDL's milk procurement declined marginally to ~10.3 LLPD in FY2021 from ~11.3 LLPD in FY2020 because of lower demand and increased prices in H2 FY2021. However, milk procurement is expected to increase to 14 LLPD in FY2022, supporting revenue growth.

Healthy revenue growth expected in FY2022; improvement in profitability in FY2021 – DDL's revenues witnessed a healthy rise at a CAGR of 16% during the five-year period ending FY2020. While revenues declined by ~9% in FY2021 because of a decline in sales volumes as the Covid-19 pandemic impacted demand, the company is expected to witness a healthy growth in FY2022. The profitability improved significantly in FY2021, driven by increased realisations and marginal a reduction in procurement prices of raw milk as the Covid-19 pandemic lowered demand from hotels and confectioneries for milk and milk products. However, margins are expected to moderate in the current year with increasing raw milk prices.

Comfortable financial profile – The company's financial profile is comfortable with low leverage and healthy coverage indicators. In FY2021, the company had sizeable equity infusion though pre-IPO money raised and Rs. 50 crore has been raised through IPO in FY2022. This has increased its cash balances to Rs. 285 crore as on March 31, 2021 against the total debt of Rs. 98.6 crore (Rs. 86.9 crore excluding lease liability). A part of the cash would be used to repay its entire term loans in the current year. Moreover, increased margins resulted in an improvement in debt metrics as the interest coverage increased to 20.4 times in FY2021 from 8.7 times in FY2020, and Total Debt / OPBITDA improved to 0.4 times in FY2021 from 1.1 times in FY2020. The company's debt metrics are expected to remain comfortable going forward.

Credit challenges

Intense competition with limited pricing flexibility – The business has a commoditised nature of operations with intense competition from organised co-operatives, private dairies and unorganised players. Further, the company remains vulnerable to external factors such as weather and disease outbreaks. In Karnataka and TN, which account for more than half of DDL's turnover, pricing flexibility could remain constrained given the existing high price differential between the price set by milk co-operatives and DDL's consumer pack price. In the past, the company was able to partially pass on the increase in input costs with a lag.

Limited control over procurement costs - The company has little control over the procurement costs of liquid milk as these are impacted by intense competition from state-owned milk co-operatives and other private dairies and low switching costs for farmers. However, the company's strong relationships with farmers along with support provided to them ensures milk availability even during the lean season. The company's demonstrated ability to partially pass on the increase in costs to customers in the past mitigates the impact of fluctuating procurement costs to an extent.

Liquidity position: Strong

DDL's liquidity is strong as indicated by healthy cash balances of Rs. 285 crore as on March 31, 2021, a part of which would be utilised to repay the entire term loans in the current year. The company has a negative net debt position and its Rs. 122.5 crore working capital limits remain unutilised. The company is expected to generate healthy cash flows. DDL does not have any major capex plans in the near term, apart from the maintenance capex of Rs. 30-40 crore, which would be funded through internal accruals.

Rating sensitivities

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

Negative factors – Pressure on the ratings may arise if there is a significant decline in revenue and profitability or if there is any major debt-funded acquisition resulting in weakening of debt protection metrics or liquidity position. Specific credit metrics that could lead to a downgrade of ratings include TD/OPBDITA 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	Consolidated; list of entities consolidated is provided in Annexure-2

About the company

Incorporated in 1995, Dodla Dairy Limited is promoted by Mr. D. Sesha 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 four southern states viz. AP, Karnataka, TN and Telangana. In July 2017, TPG Dodla Dairy Holdings Private Limited (TPG) acquired a 27% stake in DDL. The company came out with an IPO in June 2021 and its shares are listed on BSE and NSE. At present, the promoters hold a 62.5% stake and TPG holds a 9.8%. DDL has 13 processing and packaging units in India with a processing capacity of ~17 LLPD. DDL also entered into the markets of Uganda in FY2015 through its subsidiary, Lakeside Dairy Limited with the acquisition of Hillside Dairy and Agriculture Limited. The unit runs a milk processing unit with 3 LLPD capacity.

Key financial indicators (audited)

LTHL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	2139.4	1944.0
PAT (Rs. crore)	49.9	126.0
OPBDIT/OI (%)	6.6%	12.5%
PAT/OI (%)	2.3%	6.5%
Total Outside Liabilities/ Net Worth (times)	0.8	0.5
Total Debt/OPBDIT (times)	1.1	0.4
Interest Coverage (times)	8.7	20.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Interest coverage is calculated as OPBITDA / Interest
Note: Amount in Rs. crore; All calculations are as per ICRA research; ***Source: Company, ICRA research***

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					July 29, 2021	July 20, 2020	May 24, 2019	Mar 25, 2019	Sep 20, 2018
1	NCD	Long Term	110.0	50.3	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)		
2	Term Loan	Long-Term	1.56	36.6	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)
3	Fund-based	Long-term / short-term	72.50		[ICRA]AA- (Stable) / [ICRA]A1+	[ICRA]A+ (Positive) / [ICRA]A1+	[ICRA]A+ (Positive) / [ICRA]A1+	[ICRA]A+ (Positive) / [ICRA]A1+	[ICRA]A+ (Positive) / [ICRA]A1+
4	Fund-based	Short-term	50.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Unallocated	Long-term	85.44		[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible Debenture Programme	Simple
Fund-based Term Loan	Simple
Unallocated	Not Applicable
Long-term / short-term Fund-based#	Simple
Short-term fund-based limits	Very Simple

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
INE021O07016	NCD	Jan-2019	9.00%	Mar-2027	110.00	[ICRA]AA- (Stable)
HDFC Bank	Term Loan	FY2015	NA	FY2022	1.56	[ICRA]AA- (Stable)
Kotak Mahindra bank	Cash credit / ST loan	NA	NA	NA	30.00	[ICRA]AA- (Stable) / [ICRA]A1+
ICICI Bank	Cash credit / ST loan	NA	NA	NA	22.50	[ICRA]AA- (Stable) / [ICRA]A1+
HDFC Bank	Cash credit / ST loan	NA	NA	NA	20.00	[ICRA]AA- (Stable) / [ICRA]A1+
HSBC	Overdraft	NA	NA	NA	20.00	[ICRA]A1+
Standard Chartered bank	ST loan	NA	NA	NA	30.00	[ICRA]A1+
NA	Unallocated	NA	NA	NA	85.44	[ICRA]AA- (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
Lakeside Dairy Limited	100%	Full Consolidation
Dodla Holding Pte Ltd	100%	Full Consolidation
Dodla Dairy kenya Limited	99.9%	Full Consolidation
OrgaFeed Private Limited	100%	Full Consolidation
Global VetMed Concepts Pvt Ltd	47.94%	Equity Method

Source: *Company*

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About ICRA Limited:

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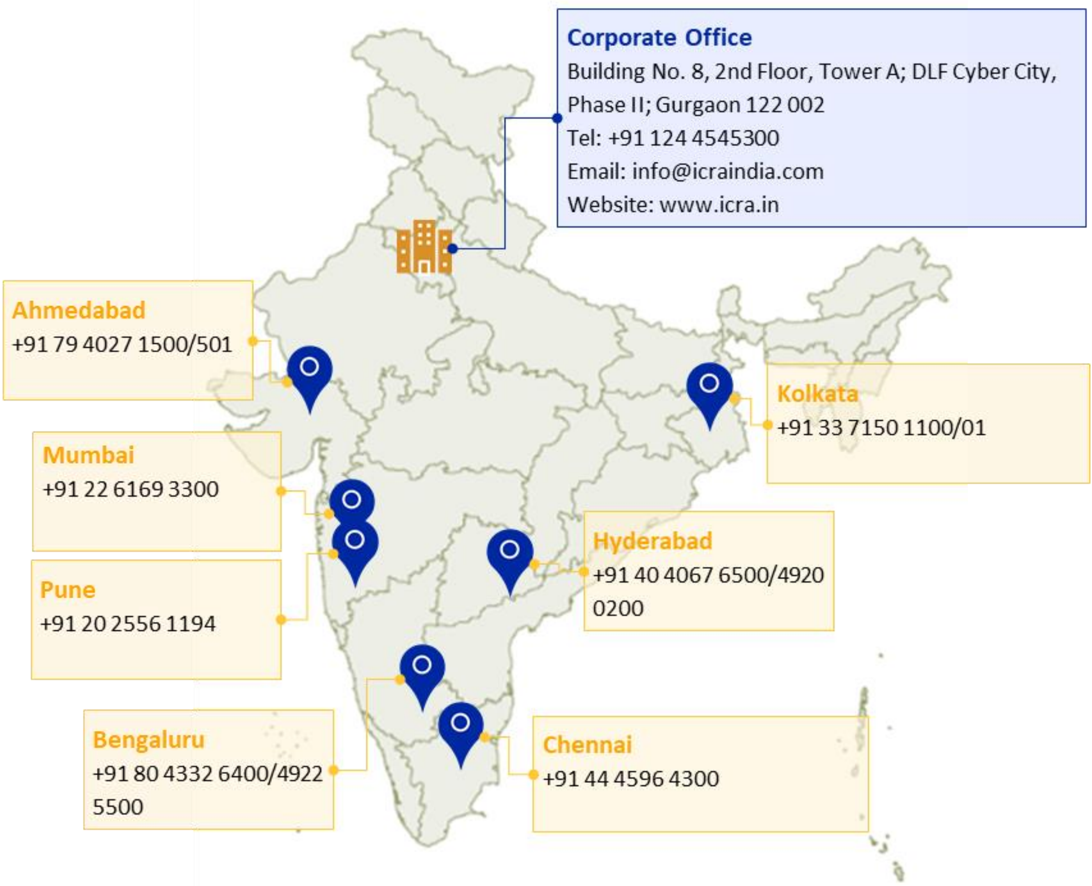

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