

July 31, 2023

Dodla Dairy Limited: Ratings reaffirmed

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-(Stable)/[ICRA]A1+; reaffirmed
Long-term – Unallocated	127.50	127.50	[ICRA]AA-(Stable); reaffirmed
Short-term – Fund-based – Cash Credit	50.00	50.00	[ICRA]A1+; reaffirmed
Total	250.00	250.00	

*Instrument details are provided in Annexure-I

Rationale

The rating factors in expectation that Dodla Dairy Limited's (DDL) credit profile will remain comfortable on the back of healthy growth in revenues and earnings, supported by favourable demand prospects, improving milk availability, and price increases taken by DDL in the past few months. DDL has an established brand 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 company witnessed healthy revenue growth of 25.3% at a consolidated level and of 23.3% at a standalone level in FY2023, on the back of 12.3% growth in milk sales volumes (for Indian operations) and 8.6% growth in milk realisations (for Indian operations). ICRA expects the company to record 12-15% growth in FY2024 backed by growth in milk sales volumes and value-added products, given the favourable demand and improving availability of raw milk.

The share of value-added products increased to 26.8% in FY2023; while growth in value-added products is expected to exceed the growth from milk in the near term, supporting margins to an extent. 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. DDL's milk procurement improved to ~13.8 lakh litres per day (LLPD) in FY2023 (consolidated) from ~12.5 LLPD in FY2022 with increasing demand for milk and milk products. Milk procurement is expected to increase by 10-15% in FY2024 as well, supporting its revenue growth. The rating also considers DDL's comfortable financial profile as indicated by a robust capital structure with marginal debt and healthy coverage indicators, owing to healthy OPBITDA. 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. Also, the company remains vulnerable to external factors, such as weather and disease outbreaks. Given the intense competition from milk cooperatives, especially in Karnataka and Tamil Nadu (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 cooperatives. The company also faces competition in procuring milk with limited control over procurement costs of liquid milk. This was reflected in moderation in the OPM in FY2023, owing to the increased procurement prices. However, DDL's demonstrated ability to partially pass on the cost increase to end-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 opinion that the company will continue to maintain a comfortable financial profile with strong coverage metrics benefiting from favourable demand prospects, its diversified and established presence in South India, its strong connection with farmers and a robust distribution network.

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 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 118 milk chilling centres, including 18 bulk milk coolers as on March 31, 2023. DDL had been procuring milk from Andhra Pradesh, Tamil Nadu, Karnataka and Telangana. It started procuring milk from Maharashtra in FY2021 and has increased its procurement base in the state over the past two years. DDL's milk procurement improved to ~13.8 LLPD in FY2023 from ~12.5 LLPD in FY2022 and is expected to increase by 10-15% in FY2024, supporting revenue growth.

Healthy revenue growth in FY2023 – DDL's revenues witnessed a healthy growth of 25.3% on a consolidated level in FY2023 to Rs. 2,812.0 crore from Rs. 2,243.4 crore in FY2022, because of an increase in sales volumes supported by improvement in demand given changing preferences towards dairy products and changing lifestyles, especially in urban centres. The revenues are expected to improve by 12-15% in FY2024, along with the increasing brand presence of Dodla in southern India.

Comfortable financial profile – The company's financial profile is comfortable with low leverage and healthy coverage indicators. In FY2023, the company has marginal debt in its books and utilisation of working capital limits was minimal, which led to a robust capital structure as on March 31, 2023. Although moderated to an extent, the OPBITDA remained healthy in FY2023 led to strong coverage metrics. The interest coverage increased to 91.9 times (28.6 times in FY2022) and Total Debt/OPBITDA of 0.2 time (0.1 time in FY2022). 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 has sizeable free cash and bank balances of about Rs. 314.8 crore (as on March 31, 2023), which are sufficient for meeting the funding requirements of its planned capital expenditure.

Credit challenges

Intense competition with limited pricing flexibility – The business has a commoditised nature of operations with intense competition from organised cooperatives, private dairies, and unorganised players. Further, the company remains vulnerable to external factors such as weather and disease outbreaks. In Karnataka and Tamil Nadu, 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 cooperatives and DDL's consumer pack price. Procurement prices increased substantially in FY2023, which impacted the company's margins. However, ICRA notes that in the past, the company was able to partially pass on the increase in input costs with a lag and, thus, the margins are expected to improve from FY2023 levels.

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 cooperatives and other private dairies, along with low switching costs for farmers. However, the company's strong relationships with farmers ensures 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 fluctuating procurement costs to an extent.

Liquidity position: Strong

DDL's liquidity is strong as indicated by healthy cash balances of Rs. 314.8 crore as on March 31, 2023, and buffer in working capital limits of Rs. 122.5 crore. The company is expected to generate healthy cash flows of more than Rs. 150 crore per annum over the near term. DDL has capex plans of Rs. 80-100 crore in FY2024, which would be funded by internal accruals.

Rating sensitivities

Positive factors – ICRA may upgrade DDL’s 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 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 rating 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 the four southern states of Andhra Pradesh, Karnataka, Tamil Nadu and Telangana. The company is listed on the BSE and the NSE. At present, the promoters hold a 62.5% stake in it, while the rest is held by the public (individuals and institutions). DDL has 14 processing and packaging units in India with a processing capacity of ~19.5 LLPD. DDL also 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.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income (Rs. crore)	2,243.4	2,812.0
PAT (Rs. crore)	132.8	122.3
OPBDIT/OI	9.5%	7.0%
PAT/OI	5.9%	4.3%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	0.1	0.2
Interest coverage (times)	28.6	91.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Source: Company data, ICRA Research; All ratios as per ICRA’s calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Amount o/s as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	FY2023	FY2022	FY2021
				July 31, 2023	Jul 28, 2022	Jul 29, 2021	Jul 20, 2021
1 Fund based	Long term / Short term	72.50	--	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]A+(Positive)/ [ICRA]A1+
2 Fund based	Short term	50.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3 Unallocated limits	Long term	127.50	--	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Positive)
4 Term loans	Long term	-	--	-	-	[ICRA]AA-(Stable)	[ICRA]A+(Positive)
5 NCD	Long term	-	--	-	[ICRA]AA-(Stable)*	[ICRA]AA-(Stable)	[ICRA]A+(Positive)

Withdrawn in FY2023*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term / Short term – Fund based	Simple
Short Term – Fund based	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/ST loan	NA	NA	NA	30.00	[ICRA]AA-(Stable)/[ICRA]A1+
NA	Cash credit/ST loan	NA	NA	NA	22.50	[ICRA]AA-(Stable)/[ICRA]A1+
NA	Cash credit/ST loan	NA	NA	NA	20.00	[ICRA]AA-(Stable)/[ICRA]A1+
NA	Overdraft	NA	NA	NA	20.00	[ICRA]A1+
NA	ST loan	NA	NA	NA	30.00	[ICRA]A1+
NA	Unallocated limits	NA	NA	NA	127.50	[ICRA]AA-(Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Instrument Name	Date of Issuance	Consolidation approach
Dodla Dairy Limited	100.0% (Rated Entity)	Full consolidation
Lakeside Dairy Limited	100.0%	Full Consolidation
Dodla Holding Pte Ltd (Singapore)	100.0%	Full Consolidation
Dodla Dairy Kenya Limited (Kenya)	99.9%	Full Consolidation
OrgaFeed Private Limited	100.0%	Full Consolidation
Global VetMed Concepts Pvt Ltd (India)	47.94%	Equity Method
Country Delight Dairy Limited, Kenya	100.0%	Full Consolidation

Source: DDL annual report for FY2023, ICRA has taken consolidated financials of DDL, its subsidiaries and associates while assigning the ratings

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Branches



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