July 28, 2022

Dodla Dairy Limited: Rating reaffirmed and withdrawn for NCD; ratings reaffirmed and rated amount enhanced for BLR limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture programme	110.00	-	[ICRA]AA-(Stable); reaffirmed and withdrawn
Long-term – Fund based/Term loans	01.56	-	-
Long-term – unallocated limits	85.44	127.50	[ICRA]AA-(Stable); reaffirmed and assigned
Long-term/ Short-term – Fund based	72.50	72.50	[ICRA]AA-(Stable)/[ICRA]A1+; reaffirmed
Short-term – Fund based	50.00	50.00	[ICRA]A1+; reaffirmed
Total	**319.50**	**250.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating considers the established brand presence of Dodla Dairy Limited (DDL) in South India, its diversified presence across the districts of Andhra Pradesh (AP), Karnataka, parts of Tamil Nadu (TN) and Telangana, and its well-connected distribution network in these states. The company witnessed healthy revenue growth of 15.4% at consolidated level and 14.1% at standalone level in FY2022 on the back of 8.5% growth in milk sales volumes (for Indian operations) and 1.8% growth in milk realisations (for Indian operations). The share of value-added products increased to 27% in FY2022; growth in value-added products is expected to exceed the growth from milk products 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 FY2021 and FY2022. DDL's milk procurement improved to ~11.7 lakh litres per day (LLPD) in FY2022 (for Indian entity) from ~10.3 LLPD in FY2021 because of increased demand. Milk procurement is expected to increase by 15-20% in FY2023, supporting its revenue growth. The rating also considers DDL's comfortable financial profile as indicated by robust capital structure with nil 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 the 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 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. This was reflected in moderation in the OPM in FY2022, owing to the increased procurement prices, which continue to remain elevated in the current year, and is expected to exert pressure on the company's margins in FY2023. 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 and 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.

ICRA is withdrawing the rating for NCD programme upon the receipt of request from client and No Dues Certificate (NDC) from International Financial Corporation.

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 110 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 FY2022 and plans to increase its procurement base in the state. DDL's milk procurement improved to ~11.7 LLPD in FY2022 from ~10.3 LLPD in FY2021 because of the increased demand and despite the increased prices. Milk procurement is further expected to increase by 15-20% in FY2023, supporting revenue growth.

Healthy revenue growth in FY2022 – DDL's revenues witnessed a healthy rise of 15% in FY2022 to Rs.2243.4 crore, after moderating in FY2021, because of an increase in sales volumes supported by a recovery in demand post the pandemic. The revenues are expected to improve over the medium term with increasing brand presence of Dodla over southern India along with other parts of India, specially as seen in the improvement in revenue from Maharashtra in FY2022.

Comfortable financial profile – The company's financial profile is comfortable with low leverage and healthy coverage indicators. In FY2022, the company repaid its entire term debt and utilisation of working capital limits was minimal, which led to a robust capital structure as on March 31, 2022. With healthy OPBITDA in FY2022 and significant repayment of long- term debt the company's coverage metrics remain strong. The interest coverage increased to 32.3 times (20.4 times in FY2021) and Total Debt / OPBITDA improved to 0.1 times (0.4 times in FY2021). The company's debt metrics are expected to remain comfortable going forward as well. The company has a sizeable free cash and bank balances of about Rs. 260.4 crore as on March 31, 2022, which are sufficient for meeting their funding requirement for planned capital expenditure.

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 cooperatives and DDL's consumer pack price. Procurement prices increased in FY2022 and continued to remain at elevated levels in the current year as well, which is expected to exert pressure on 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.

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. 260.4 crore as on March 31, 2022 and Rs. 122.5 crore working capital limits remain unutilised. The company is expected to generate healthy cash flows over the near term. DDL has capex plans of Rs. 100-150 crore in FY2023, 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 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 downgrade of ratings include TD/OPBITDA above 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Policy on withdrawal of credit ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of DDL. 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. The company is listed on the BSE and the NSE. At present, the promoters hold a 62.5% stake and the rest is held by public (individuals and institutions). DDL has 13 processing and packaging units in India with a processing capacity of ~17.6 LLPD. DDL also entered the markets of 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.

Key financial indicators (audited)

DDL Consolidated	FY2021	FY2022
Operating income	1944.0	2243.4
PAT	126.0	132.8
OPBDIT/OI	12.5%	9.4%
PAT/OI	6.5%	5.9%
Total outside liabilities/Tangible net worth (times)	0.5	0.3
Total debt/OPBDIT (times)	0.4	0.1
Interest coverage (times)	20.4	32.3

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

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated	Amount o/s as of Mar 31, 2022	Date & rating in FY2023	FY2022	FY2021	FY2020
					Jul 28, 2022	Jul 29, 2021	Jul 20, 2020	May 24, 2019
1	Term loans	Long term	-	-	**-**	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	[ICRA]A+(Positive)
2	NCD	Long term	110.0	-	**[ICRA]AA-(Stable)***	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	[ICRA]A+(Positive)
3	Fund based	Long term /short term	72.5	-	**[ICRA]AA-(Stable)/ [ICRA]A1+**	[ICRA]AA-(Stable) /[ICRA]A1+	[ICRA]A+(Positive)/ [ICRA]A1+	[ICRA]A+(Positive)/ [ICRA]A1+
4	Fund based	Short term	50.0	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Unallocated	Long term	127.5	-	**[ICRA]AA-(Stable)**	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	[ICRA]A+(Positive)

*Amount in Rs. Crore; Withdrawn**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term – fund-based	Simple
Short-term – fund-based	Very simple
Non-convertible debentures	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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE021O07016	**NCD**	January 2019	9.0%	March 2027	110.0	[ICRA]AA-(Stable)*
NA	**Cash credit/ST loan**	NA	NA	NA	30.0	[ICRA]AA-(Stable)/[ICRA]A1+
NA	**Cash credit/ST loan**	NA	NA	NA	22.5	[ICRA]AA-(Stable)/[ICRA]A1+
NA	**Cash credit/ST loan**	NA	NA	NA	20.0	[ICRA]AA-(Stable)/[ICRA]A1+
NA	**Overdraft**	NA	NA	NA	20.0	[ICRA]A1+
NA	**ST loan**	NA	NA	NA	30.0	[ICRA]A1+
NA	**Unallocated limits**	NA	NA	NA	127.5	[ICRA]AA-(Stable)

Source: *Company; Withdrawn**

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	DDL Ownership	Consolidation Approach
Lakeside Dairy Limited	100.00%	Full Consolidation
Dodla Holding Pte Limited	100.00%	Full Consolidation
Dodla Dairy Kenya Limited	99.99%	Full Consolidation
OrgaFeed Private Limited	99.99%	Full Consolidation
Global VetMed Concepts Pvt. Ltd.	47.88%	Equity method

Source: DDL annual report FY2022

Note: ICRA has taken a consolidated view of the parent (DDL), its subsidiaries and associates while assigning the ratings.

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 4596 4318
ksrikumar@icraindia.com

Nithya Debbadi
+91 40 4067 6515
Nithya.debbadi@icraindia.com

Akshay Dangi
+91 40 4067 6528
akshay.dangi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches