

# **DODLA DAIRY LIMITED**

**MILK & MILK PRODUCTS**

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**Date: 30 May 2023**

The General Manager Department of Corporate Services <b>BSE Limited</b> Phiroze Jeejeebhoy Towers Dalai Street, Fort Mumbai-400 001	The Manager Listing Department <b>National Stock Exchanges of India Limited</b> "Exchange Plaza", 5th Floor, Plot No.C/1, G Block Bandra-Kurla Complex Bandra (East), Mumbai 400051.
<b>Scrip Code : 543306</b>	<b>Scrip Code : DODLA</b>

Dear Sir/Madam,

**Sub: Transcript of Q4 FY23 Results Conference Call held on Wednesday, 24 May 2023.**

In Continuation to our letter dated 20 May 2023 the Company had organized a Q4 FY23 Results Conference Call with the Investors/ Analysts on Wednesday, 24 May 2023 at 11:00 Hrs (IST). A copy of Transcript of conference call held with the Investors/ Analysts is enclosed herewith and the same has also been uploaded on the Company's Website at [www.dodladairy.com](http://www.dodladairy.com).

This is for your information and records.

Thanking you,  
Yours Faithfully,  
**For Dodla Dairy Limited**

**Surya Prakash M**  
Company Secretary & Compliance Officer

★ An ISO 22000-2005 & 50001 EnMS Certified Company ★



# “Dodla Dairy Limited Q4 FY23 Results Earnings Conference Call”

**May 24, 2023**



**MANAGEMENT:** **MR. SUNIL REDDY –MANAGING DIRECTOR, DODLA  
DAIRY LIMITED**  
**MR. BVK REDDY – CEO, DODLA DAIRY LIMITED**  
**MR. MURALI MOHAN – FINANCIAL CONTROLLER,  
DODLA DAIRY LIMITED**

**MODERATOR:** **MR. ANIRUDDHA JOSHI – ICICI SECURITIES**



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**Moderator:** Ladies and gentlemen, good day and welcome to Q4 FY23 Results Earnings Conference Call of Dodla Dairy Limited hosted by ICICI Securities.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing \* then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities. Thank you and over to you.

**Aniruddha Joshi:** Thanks, Yashashri. On behalf of ICICI Securities, we welcome you all to Q4 FY23 & FY23 Results Conference Call of Dodla Dairy Limited.

We have with us senior management represented by Mr. Sunil Reddy – Managing Director, Mr. BVK Reddy – CEO. Now I hand over the call to the management for their initial comments on the quarterly performance and then we will open the floor for a question-and-answer session. Thanks and over to you, sir.

**Sunil Reddy:** Thank you, Aniruddha. Thank you very much. Hello, everyone. This is Sunil here. I welcome you all to Dodla Dairy Q4 & FY'23 Earnings Conference Call.

I am happy to share that Dodla Dairy reported its highest ever revenue in INR 28,120 million, registering a strong growth of 25.3% YoY in FY23. The Company successfully navigated a lot of sectorial challenges and delivered growth in both domestic and international operations with a 23.3% YoY and a 55.2% YoY growth respectively in the FY'23.

Dodla Dairy's Africa business is shaping up well. We continue to reap the benefits of our international presence in the coming years. The Company's value-added sales surged by 26% YoY to INR 7,408 million, owing to the strong brand recall and wide distribution network. Dodla's VAP sales contributed 26.8% to the overall revenue in FY23. The industry is likely to benefit from a much-anticipated flush during the October - November of 2023, but we are already seeing signs of prices compared to last quarter sort of correcting itself. Dodla Dairy is well placed to create value for the stakeholders with its robust business models, state-of-the-art plants, diversified product portfolio, strong balance sheet coupled with adequate cash balance for fuelling organic and inorganic opportunities.

Now taking a glance at the financial highlights for the Financial Year ended March 31<sup>st</sup> 2023:

Operating revenue stood at INR 28,120 million in FY23 as compared to INR 22,434 million in FY22, registering a growth of 25.3% YoY. The Company's domestic business grew by 23.3% YoY to INR 25,840 million whereas international business surged by 55.2% YoY to INR 2,277



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million. EBITDA was at INR 1,913 million in FY23 as compared to INR 2,107 million in FY22. Profit after tax was at INR 1,223 million in FY23 vis-à-vis INR 1,328 million in FY22. The PAT margin declined by 157 bps YoY to 4.3% in FY23. The contraction in PAT margin was lower than EBITDA margin at 259 bps YoY is due to partially benefit from very low financial costs and higher other income. EPS for FY23 stood at INR 20.39 as compared to INR 22.24 in FY22.

Now talking about our operational highlights:

Average milk procurement during FY23 was at 13.8 lakh liters per day as compared to 12.5 lakh liters per day in FY22, registering an 11.1% YoY growth. Average milk sales during FY23 were at 10.7 lakh liters per day as compared to 9.3 lakh liters per day in FY22, registering a 14.5% YoY growth. Curd sales during FY23 were at 324 metric tons per day as compared to 269 metric tons per day in FY22, increasing by 20% YoY. Revenue from value-added, including fat and fat-based products, grew 26% YoY to INR 7,408 million as compared to FY22 sales of INR 5878 million. The VAP including fat and fat-based contributions stood at 26.8% of the overall dairy revenue during FY23 as compared to 26.6% contribution of the overall dairy revenue in FY22.

During the period from FY19 to FY23, the Company's operating revenues, EBITDA and PAT registered 14%, 10% and 18% CAGR respectively. Dodla Dairy's balance sheet continues to remain strong with the net debt free status. The management's financial prudence has led the Company to maintain high capital efficiency, negligible debt stance resulting from sound working capital management. I would like to extend my gratitude to all our stakeholders for their continued support to Dodla Dairy's vision. We have a strong governance framework. Our business model is an end-to-end socially active. We positively impact over a lakh dairy farmers at one end and on the other end we ensure health and nutrition to millions of consumers through our milk and value-added products. Our long-term growth engines are continual focus on ESG practices and a sustained business model with a balanced ecosystem.

Before I hand it over to BVK for taking you further, I will also like to introduce that we have with us today Mr. Murali Mohan, who is also a financial controller who will be adding any of the details that we need. Now I hand over to BVK Reddy for taking over the next part.

**BVK Reddy:**

Thank you so much, sir. A very good afternoon to all the participants. We have delivered a healthy quarter showing the growth in revenue and other parameters. We are moving towards enhancing our footprints and strengthen our Pan-India stance.

So, as on 31<sup>st</sup> March 2023, we procured milk around 1.2 lakh dairy farmers daily, of which 86% provided with the regular direct payment in bank accounts. Our direct procurement model has further strengthened wherein we are buying almost all the milk directly from the farmers across more than 7,900 villages as compared resulting in cost saving and establishment of deep-rooted relationship with them.



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Our Orgafeed operations, wherein we provide high quality feed to the dairy farmers, help us strengthen this relationship with them and this also ensures both the parties get benefited. Orgafeed revenues stood INR 57 crores in FY23 with EBITDA approximately INR 5 crores during the same period.

In terms of our presence, we continue to have 3rd highest market presence across 9 states in India, supported by 15 processing plants with nearly 22 lakh liters per day capacity. We currently have 118 chilling centers as on 31<sup>st</sup> March 2023. We have around 580 Dodla Retail Parlors. We also have a strong network of 1,750 milk and milk distributor channels. We have around 2,600 distribution agents network that are all established in many areas of the country. We aim to adopt state-of-the-art dairy processing technology with a focus on automation which helps us in reducing operational costs and increase efficiencies. We continue to strive for enhancing our footprints and brand visibility with every passing year and we are making constant efforts to expand our geographical footprints, distribution network, strengthen brand recognition and improve our margins to our unmatched growth in the industry. That concludes our update on the strategy, which we believe has been positive in most yardsticks. With that being said, we would now like to open the floor for the question and answers. Thank you.

**Moderator:** Thank you very much. We have our first question from the line of Avi Mehta from Macquarie. Please go ahead.

**Avi Mehta:** I just wanted to get your sense, picking up from your last comment about milk prices, you said about flush season suggesting being a relatively positive kind of outlook. If you could give us a sense on how you see milk prices trending in the coming year and your thoughts on what could drive the risks around it that will help us better understand how should we get milk. Thank you.

**Sunil Reddy:** So, Avi, thank you very much for getting on the call. Predominantly what happens is normally when we look at flush season when the Northeast monsoon sets in, things start to improve, let's say from June from Kamataka side and comes down to October, November for buffalo side and there's a whole chain of reaction that comes in under procurement which is why we generally say that flush period starts from October and therefore prices will correct. But what is happening is I think in a few of the states, we're beginning to see that uptake of milk production improving already. So, I think that will show its impact as we go forward in terms of the current year, which we are very confident will be on a positive side for us as we go forward. So, unlike last year where the deficit was huge, this year we don't foresee that deficit.

**Avi Mehta:** And sir, has these milk prices corrected? The way I should see this is margins in the value-added portfolio should kind of remain stronger or how does that kind of behave because we have to pass it on, is there a lag which is why they'll remain strong. If you kind of help us understand or appreciate that part.



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**Sunil Reddy:** So, actually, if you look at the reason compared to our volume, our value seems to be higher when we gave that numbers, when we talked about it. It is predominantly because of stagflation that happens in the system, but the number of packs that we sell has actually increased the packs because not only the price, but we have also corrected on volumes and that is why you will see the value being higher than the volume growth. I think we will continue to maintain that because currently I think after taking the price increases due to the shortage period, we will not be taking some dramatic price increase as we go forward because we anticipate the milk to come in and the milk prices to soften and therefore we'll keep the consumer prices stable.

**Moderator:** Thank you. We have our next question from the line of Amresh Kumar from Geosphere Capital. Please go ahead.

**Amresh Kumar:** Sir, I wanted to ask you on your dividend policy. You are carrying so much cash on the books, almost it can cover for 3 years of CAPEX and we are generating almost INR 150 to 200 crores of cash every year. And it is not that your business is working capital intensive as such. So, what about the clear dividend policy from your side?

**Sunil Reddy:** So, actually, we're working on it, Amresh because we have to look at it as a 2-way thing. We were earlier keeping the reserves of cash, looking at saying we'll get inorganic opportunities for us to go and acquire. And invariably we have a regular CAPEX of INR 50 to 90 crores if our procurement has to continue and our brand and marketing expenses continue. Keeping that in view, we were holding for period, but I think we'll surely be coming out of the policy very soon where we'll be declaring what our dividend policy would be.

**Amresh Kumar:** And sir on the data point, can you also give some color on your milk procurement from your regular areas, original areas and also from Maharashtra?

**Sunil Reddy:** I will hand it over to BVK, Amresh.

**BVK Reddy:** See from Andhra Pradesh, we are procuring 36% our procurement and Karnataka is 22% and Tamil Nadu is 29% and Telangana is 5%, Maharashtra is 9%. See in future Maharashtra will go up further and also, we are anticipating Karnataka, we are adding some more chilling centers, Karnataka also we will go up, we are close to 30% and Maharashtra also going forward, we will go up to 15% to 20%.

**Amresh Kumar:** Sir, regarding your earlier comment about inorganic opportunities, so just wanted to understand if you buy anything, do you also get the procurement network along with it or how does it happen?

**Sunil Reddy:** Yes, we normally get procurement network, but what is happening is the pricing if it is too high, we don't go for it because we have investment in the 5-7 year period. Currently, the opportunities that are coming are very highly priced, that is why we're waiting and watching.



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- Amresh Kumar:** Your overseas businesses, are you planning to infuse more money into that or they are self-sustaining for their expansion?
- Sunil Reddy:** They are self-sustaining and actually generate more cash for us, which is also piling up and we also have done a small acquisition in Kenya like we announced earlier for which we have spent a very small amount of INR 5 crores for the acquisition and maybe we'll spend another INR 5. However, Africa invariably generates towards INR 30-35 crores of cash every year.
- Amresh Kumar:** So, you are planning to set up something in Kenya because given the Kenya problem, so how far are you there?
- Sunil Reddy:** One the problem was is there earlier and other thing is also to act as an insurance for future that if anything happens in one, we have another one to back us.
- Amresh Kumar:** So, have we reached anywhere on that plan?
- Sunil Reddy:** I think it has been acquired. I think it'll take another 6 months because we have to refurbish it and then start production.
- BVK Reddy:** Yes, we acquired in the month of March. Now, we are refurbishing. Maybe from October onwards, we'll start production in Kenya.
- Moderator:** Thank you. We move on to the next question from the line of Sameer Gupta from India Infoline. Please go ahead.
- Sameer Gupta:** First question is that you mentioned that there is a good anticipation of a flush season from October, November. I just wanted to ask that last year we had several impacts which were seen on the milk production like a lumpy skin disease, there were late rainfalls in October, there was high inflation in cattle feed and cereal prices. Now this year, while unseasonal rainfall is anybody's guess, the majority of the rest of the factors are still present. I mean, just today we had an article in Business Standard with 10,000 cases of lumpy skin reported in May, so just that flush season have been good this year. Is it more of a statement of hope at this point or there are some structural reasons which exudes confidence?
- Sunil Reddy:** Yes,. See, as far as South India is concerned, not much of cases have been registered. Earlier last year, it was registered. Now mostly, see where we are operating Andhra Pradesh, Tamil Nadu, Karnataka and Maharashtra predominantly this is more cow milk area. See one round of flush starts only from June onwards and it is indicating that already. So, because from April end and May 1st week and recently also couple of showers that has helped for the farming. Now that sign is showing now. October-November, mostly we see that Buffalo flush especially in Northern India in Madhya Pradesh, UP wherever Buffalo population is more. There you see from October-



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November you know that is Buffalo flush, but now cow flush first round already started in Maharashtra, Tamil Nadu and Karnataka that is showing already signs.

**BVK Reddy:**

And also, Sameer, I will add to it like you are saying inflation on feed cost and all that, that has now been taken into consideration in the price increase that has been given as a much higher price increase. Although, we are saying we will anticipate a correction in price, it is not going to go lower than what was in previous years because the selling price has adjusted accordingly. Our procurement price, whatever it comes down, the farmer will still have the benefit of it because he will still get elevated prices over the previous year. So, that takes care of inflation. I think even the COVID uncertainty of non-veterinarians and not able to inseminate is also being sorted out. So, it is not a thing of hope, but we're very confidently saying that based on the ground figures it will do better.

**Sameer Gupta:**

So, I was asking that the cow milk flush in June that you are seeing, was it similar last year or was it also deeply impacted last year and this year it is better? Secondly, how much of the milk inflation is really related to the cow milk and you know my understanding was that it's the October, November Buffalo flush which basically impacted the milk prices.

**Sunil Reddy:**

Correct. See, predominantly our collection is more than 90% cow's milk. So, Buffalo flush starts from October onwards, now you know first round of cow flush has already started because of you know couple of shepherds at this month and last month, already cow flush has started in Maharashtra and Tamil Nadu, parts of Karnataka.

**Sameer Gupta:**

In this cow flush which has started this year, was it a normal flush over the last year or was it an impacted flush as compared to last year?

**Sunil Reddy:**

Last year was impacted because of lumpy skin and other things. This year, it's not impacted and it has improved.

**Moderator:**

We'll move on to the next question from the line of Rajat Setiya from Ithought PMS. Please go ahead.

**Rajat Setiya:**

With regards to your milk procurement targets, what are those targets to achieve your sales growth objectives over the next 3 to 4 years and what's the strategy to increase the milk procurement if you can help us understand through some, let's say bottoms of numbers like normally how many clients we add and how many farmers per VLC or milk per farmer, if you can help us understand these points.

**Sunil Reddy:**

So, basically what we do normally is we target growth of around 15% or a little higher depending on the seasonality that comes in, in terms of revenue. We normally comfortably take a standard growth rates of 10% to 12% coming on volume and 15%-17% coming on in terms of sales that what has been historically coming and we continue to go with that. That is done predominantly





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with the view of balancing the procurement locations versus the sales locations because we cannot procure some place where the prices are low, but the distance is extraordinarily larger. For example, I cannot procure let us say Northern part of India to move the milk to Southern part of India because the freight might add up on my costing and pricing. So, with that in view, we will continue with this 15% growth as a standard growth with plus or minus 5% this way that we will continue, but we will average at least 15% growth rates.

**Rajat Setiya:** So, this growth in procurement comes from adding new farmers or new centers or how does that happen sir, if you can and what are your targets?

**Sunil Reddy:** It is both ways I think the depth and the width continues to increase. The depth will be a little lesser compared to the width because like I said, as we get into more markets, we'll try to procure around those areas, plants surrounding those areas. So, that is how we grow. So, the depth would, let's say, if it is 30%, width would be 70% width.

**Rajat Setiya:** So, what is our current per farmer milk procurement and where do you think you can grow to?

**Sunil Reddy:** Our current milk procurement is entirely with the farmer base. Maybe when the seasonality when we don't have milk is when we buy from outside, otherwise, we try to plan entirely from the farmer side. I think this year the growth we are looking will be as BVK was saying earlier, Maharashtra and Karnataka will be more of our concentration areas.

**Rajat Setiya:** My question was per farmer; how much milk are we procuring right now and what are our targets?

**BVK Reddy:** Yes, 8 liters average. Throughout the year if you take, 8 to 9 liters average.

**Rajat Setiya:** And this will remain like that only. So, at any center we need to increase the number of farmers to procure more from that center, correct?

**BVK Reddy:** A number of farmers has to increase and year-on-year also that is also improving. Earlier 6 liters, 6 becomes 7, now it is coming close to 9 liters.

**Rajat Setiya:** And how many farmers do we have at the central level?

**Sunil Reddy:** Right now, we have 1,20,000 farmers.

**Rajat Setiya:** No, per center.

**Sunil Reddy:** Per center, We just don't have the numbers right now with the location wise. We can take it offline.



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- Rajat Setiya:** Sure sir, no problem. I'll reach out over the email, no problem. Sir, with regards to branding and marketing spend, our spends are as a percent of sales lower than our top 2 competitors. So, how do you think about it because it's really one of the most important aspects of our business given we are into consumer sales and to increase value-added products, we really need to be up there and grab some mindshare. So, how do you think about it?
- Sunil Reddy:** So, actually this year you will be seeing a lot more of the marketing and ad spend coming into play Rajat because the earlier years we were concentrating a lot more on the reach because it's a fine balance between spending and the reach. Now, I think wherever the reach is where we're confident the reach is higher, we are going to be doing an ad spend. I think this year it will be far more different than the previous years of our ad spends.
- Rajat Setiya:** How much did we spend in FY23?
- Sunil Reddy:** FY23 would have spent around roughly INR 9.7 crores.
- Rajat Setiya:** And what is the target for this year?
- Sunil Reddy:** The target will be a little higher than that, it will be around INR 15 crores I think maybe the target.
- Moderator:** Thank you. We have our next question from the line of Binoy from Sunidhi Securities & Finance. Please go ahead.
- Binoy:** Just a few data points, sir. What was the milk procurement volume for the India business in Quarter 4 of FY23 and FY23 as a whole?
- Sunil Reddy:** FY22 to 23 is what you were asking for Binoy?
- Binoy:** Yes.
- Sunil Reddy:** Murali will answer that, is it for the whole year and then he'll give you the quarter.
- Murali Mohan:** For India standalone FY22, we have 11,73,468 LPD vis-à-vis in FY23, 12,85,016 LPD that is 9.5% growth.
- Binoy:** Can you give me in million liters per day?
- Murali Mohan:** Yes, that is 12.85 lakh per day. From 11.73 lakhs to 12.85 lakh liters per day and well AP contributes 36%, Karnataka 22%, Tamil Nadu 29%, Telangana 5% and Maharashtra 9%. That's total to 100%.
- Binoy:** And this was for FY23, right?



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**Murali Mohan:** Yes.

**Binoy:** And how about Quarter 4 of FY23?

**Murali Mohan:** Quarter 4 of FY23 is 12,36,273, more or less we are at the average of year.

**Binoy:** Understood. And what was the average milk procurement price for Quarter 4 as well as FY23?

**Murali Mohan:** FY23 average quarter price for the full year is INR 37, for the Q4 is INR 40.10 paisa.

**Binoy:** Is this Indian business or consolidated?

**Murali Mohan:** This is standalone.

**Binoy:** And how is the average selling price for Quarter 4 of FY23 as well as FY23?

**Sunil Reddy:** You want to look at standalone, right? Not consolidated?

**Binoy:** Standalone, yes.

**Sunil Reddy:** Standalone again, Murali will give you.

**Murali Mohan:** The standalone Q4FY23 is INR 55.50 paisa and full year it is INR 53.

**Binoy:** What would be the total cash and equivalents on our balance sheet as on 31<sup>st</sup> of March at the consolidated level?

**Sunil Reddy:** Total cash, right. You're saying cash and cash equivalents?

**Binoy:** Yes.

**Sunil Reddy:** It will be around INR 386 crores.

**Binoy:** Sir, just to get a sense on the milk procurement side of the business, what are the precedents that we can track in order to understand how will the milk procurement for the upcoming year and out? Is it the carving season, if you could just help me with understanding what can we drag as to get a sense of the upcoming milk procurement?

**Sunil Reddy:** Binoy, it's basically what happens is although it is dependent on agriculture, we will talk about rains, we will talk about disease and we will talk about cattle feed. The dairy industry also will be following the path and trend like most of the Agri commodities that you see that when the prices have gone up, there will be more interest from the farmers and you will see a uptake of production happening. And somewhere if there's too much production and the price is correct



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lower, maybe the following year it will be a little lower. So, my view is that as the profitability increases, the farmers start increasing the production and it's not only in India, it's a global trend. But dairy unfortunately has a longer time lag, right, because it is inseminating, carrying and the animals giving milk takes a cycle of 9 to 10 months, so you can't change things immediately. So, that's how the cycle normally follows. Whenever we have a bad year, it will be followed by a very good year.

**Binoy:** So, essentially, sir, are you saying that let's say in FY23 when we saw very high milk procurement price inflation and therefore it would have resulted in better realization for the farmers, the higher milk procurement volumes would essentially translate into not FY24, but you would start seeing that in FY25, is that we have to look at?

**Sunil Reddy:** FY25 will start because FY23, this is 9 months period, right? So, let's say if insemination, there's a good price increase is coming in July, August, September, October, November, December. The animals that have been inseminated then will start producing more by October, that's why this October depending on the areas you're in, so it translates the 9-month line assuming you're getting animal delivery.

**Binoy:** Understood. And sir, as on date average for the farmer at the farmer level, what would be the cost of producing let's say a liter of milk for the farmer?

**Sunil Reddy:** That is a brilliant question which nobody will be able to answer, Binoy because the whole problem is statistically you have different ranges of farmers, you have backyard farmer with 1, 2 animals who doesn't even do a costing for himself. It is basically the animal can go graze and come and then whatever milk he gets, he gets revenue. Then you have small size farmers will have 5-7 animals whereby concentrate feed and feed. And a few farmers coming out now are coming into being the commercial farmers, where they're doing larger animal farms or the 30-40 animals. So, I think we still are like when BVK was saying earlier that the average yields have increased from, every year they're increasing, they're moving away from the backyard farmer to the 5-7 animal farmer who's maintaining 5-7 animals. And even for them, predominantly they don't cost their own labor. They don't give cost to their own labor dues that they give. So, it's a very wildly fluctuating price. But I think thumb rule will look at it as saying that if feed cost is INR 18, milk price should be double of that as milk procurement price kind of a thing. I think currently if there is INR 20, it will be INR 40, but it's a very thumb rule kind of a guesstimate. It's not anything set in stone.

**Moderator:** Thank you. We have a next question from the line of Vivek Tulshyan from New Mark Capital. Please go ahead.

**Vivek Tulshyan:** So, I heard you mentioned that the cow flush season has started in the quarter. Did you say that our EBITDA margins, which are in the last quarter at about 4.7%, will you start seeing some



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improvement in first quarter itself or do you think it will take for the full year for these numbers to get back to our guided range?

**Sunil Reddy:** I think you will see it in the 4th Quarter itself, Vivek. As already one and half months has done, it's already we are seeing that. So, we are seeing positive trends. It will definitely show in the first quarter.

**Vivek Tulshyan:** Understood. And on the sale price, so the realizations are not improving, but we are seeing the purchase prices coming down, is that the correct concern?

**Sunil Reddy:** The sales prices as we were telling you earlier, our exit price of March what you're seeing with the blend of both the product mix, which summer seasons we have a lot more of value-added in terms of curd and buttermilk which is now coming and staying at higher realization of that INR 53 or Rs. 55 will continue to maintain, whereas our procurement price will come down.

**Vivek Tulshyan:** Just one more question. When I look at our performance compared to some of the peers who reported numbers, our growth on the volume side is slightly higher. So, is it that we are being more aggressive in the market right now versus some of our peers?

**Sunil Reddy:** Yes, we are being more aggressive in the market right now and trying to grow, see that also is the reason why sometimes when we move aggressively in the market like I used to keep saying earlier matching procurement to say we might have a differential in profit margins. But we will continue to focus on increasing the market keeping in mind profitability also, but we will be moving aggressively for marketing. And international help a lot more in that aggression.

**Vivek Tulshyan:** Is there any specific market that we are being more aggressive in?

**Sunil Reddy:** We are going to be all over. Wherever we are present, trying to improve our depth and keep expanding our width.

**Vivek Tulshyan:** Would it be possible to share the sales mix for the full year statewide?

**Sunil Reddy:** Sales mix in terms of milk and value-added products or just the overall sales mix?

**Vivek Tulshyan:** The overall sales mix.

**Sunil Reddy:** I'll just give it to Murali. He will just tell you the overall sales with state wise.

**Murali Mohan:** So, overall state mix; from AP we have 36%, from Karnataka we have 36% and Tamil Nadu 17% and Telangana it's 11. That's totaling to 100%.

**Vivek Tulshyan:** Murali, would you have this data for last year as well?



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**Murali Mohan:** Yes, we have last year. Last year AP 38% vis-à-vis current year of 36% and Karnataka 34% vis-à-vis current year of 36%, Tamil Nadu 17% it's the same in the current year also, Telangana it is 11%, it is the same. There is a small change in the AP and Karnataka sales.

**Moderator:** Thank you. We have our next question from the line of Vandit Dharamshi from Alpha Invesco. Please go ahead.

**Vandit Dharamshi:** I just wanted to understand going ahead, what kind of value-added mix are we targeting and what kind of impact can that have on our working capital cycle? That's question number one. Question number two is you have already guided or maybe indicated that for Q1 we are looking at a better procurement, so maybe for FY24 or 25, what kind of gross margin improvement can you look at broadly?

**Sunil Reddy:** I think what I'm saying in terms of value-added like we've been saying that we can keep increasing by that 1%-2% has been shown and that's what we have done in the current year also because although in FY23 we had a little bit of lesser fat and we didn't sell ghee. In spite of that, our value-added have moved forward. So, considering the mix, I think we will continue with the 1%-2% growth in value-added and bringing it to the working capital margins, we are still very strong that we don't give products which are very long term in the modern trade and such. We normally try to get our money as cash and carry and forward. We have a small portion of modern trade, which might take a few days to come, but it's a very small portion of the overall sale, so no major impact on the working capital. Looking at the forward guidance that we're giving it, I can just say it will be definitely a good improvement over the previous year in the current year and FY25 it should maintain the same status quo if there's no major happening. So, we will be improving and going forward to a better number.

**Vandit Dharamshi:** So, just a broad idea, so should we look at 100-150 bps increase in our gross margins for FY24?

**Sunil Reddy:** I think around that should be comfortable.

**Moderator:** Thank you. We have our next question from the line of Ramesh from Smart Investment Solutions. Please go ahead.

**Ramesh:** So, congratulations for your revenue growth of almost 25% for the year but the gross margin there is a drop of 3.5%, can you just guide me through what factors contributed to it? Is it completely procurement or any other factors which have given it?

**Sunil Reddy:** It's a completely procurement that normally drives that margin drop, which is there and basically like I keep explaining earlier, whenever procurement goes up, what happens is by the time we translate it to the sales, it takes the time lag of that 1-1.5 months and that's why you will see the drop in overall realization for the year. But when it comes the other way around, with the procurement price drop, it immediately improves our bottom line. And I think Murali can give



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you the differential of the exact thing in terms of procurement differential for the year to how it has happened.

**Murali Mohan:** So, basically, the sales realization of FY22 INR. 49 has increased to INR 53 that is 8% increase whereas the milk procurement price from INR 34 increased to INR 38.7 that resulted into 14%. So, there is a gap of 6% which we compensated with other savings and all other stuff. The gap basically because of the time it takes 15 days, whatever charge line overlap will be there. That is the reason.

**Ramesh:** This INR 38.7 what you're saying is the procurement raw milk price increase is what you're saying, right?

**Sunil Reddy:** Yes, consumption price, which is the raw milk price, but what we are saying, even if it corrects smally as an improvement in margin.

**Ramesh:** I was listening to the call; you were telling me the procurement price average for FY23 was INR 37?

**Sunil Reddy:** Procurement price versus consumption, we have a slight difference because we used other things like powder which is required. Milk procurement price still remains the same, but consumption will be INR 38.7.

**Ramesh:** I understand. And the second question of mine is on this working capital. You have a negative working capital, if I see your balance sheet around INR 6 crore or something, what steps you have taken to achieve that? And I heard you will do very less modern trade and those stuff, what kind of revenue you do in modern trade and e-com?

**Sunil Reddy:** The modern trade and e-com will be very insignificant, less than even, I don't have the exact number which I can give it to you later, but modern trade and e-com will be less than 0.2 or 0.5% at the most. So, that is one thing which is there in terms of our working capital issues which are there and basically when we look, I think the specific numbers Murali will be giving it to you now and when it comes to the working capital margin that small INR 5-6 crores difference in variably can happen even with our stocking of fat if we have or powder that we have, which forms a major portion. Other than that, we don't see major changes in the working capital. This year, you might see a small uptake in the number of days of whatever we say that no sales due because the government introduced GST on curd and other products. Earlier we were building at the point of sale, now we are billing at the point of dispatch itself, and because for us it's the timing of 12 at night changing that added a day to us, so that's why there's a slight uptake there, otherwise it's normal.

**Ramesh:** And can I know the liquid milk selling price, I think what Murali had told in the previous answer was overall products, can he tell me the only liquid milk...?



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- Sunil Reddy:** Between milk and value-added products, breakup is what you want, right?
- Ramesh:** Yes.
- Sunil Reddy:** Murali just give you the milk price and the product price.
- Murali Mohan:** The selling price of milk we have INR 51.2. Value-added products is INR 55.2 per liter and fat products is INR 450.
- Ramesh:** These are full year averages or only Q4?
- Murali Mohan:** These are full year averages.
- Ramesh:** Can you just let me know for Q4 also?
- Murali Mohan:** So, FY22, milk is INR 47.1 and value-added products is INR 50.4 and fat products is INR 374.
- Moderator:** Thank you. We have our next question from the line of Resha Mehta from Greenedge Wealth Services. Please go ahead.
- Resha Mehta:** So, you did mention that the milk procurement price for Q4 was around INR 40. And if I combine that with your commentary on the milk price trends, so would it be fair to say now that as we are almost like 1.5 months into Q1, the milk prices have softened from INR 40. Your procurement prices have softened?
- Sunil Reddy:** Yes, ma'am. They are softened.
- Resha Mehta:** Right. And also, on ground at your village level collection centers, have you seen that the consumption of feed, cattle feed especially since the costs had really risen over the last 18 months, the consumption of cattle feed has kind of come back with your set of farmers? And that the yield per animal has improved, maybe what you're gathering from your collection centers.
- Sunil Reddy:** Yes, ma'am. It's improved. Like I was saying earlier, the backyard farmer of 1 to 2 moving to 5 to 7 will be the bigger trend of cattle feed being consumed higher yield because it's not only the feed and the animal number increasing, but also the genetic profile of the breed across the country are becoming for higher yield. And so that's the overall trend why we see that on an average per farmer, yield improvements are happening.
- Resha Mehta:** Right. So, overall, like of late, we had seen a lot of reports in terms of the economics of dairy farming not working out for a lot of farmers because of inflation, etc., But now with the increased milk procurement prices that these farmers are seeing and the improved animal health focus or





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maybe the last 12 months, would you say that the economics of dairy farming is now again favorable, especially in your markets that around your village level collection centers?

**Sunil Reddy:** Yes, it is favorable now and there are 2 things is one is the favorability in terms of P&L because like I was saying, majority of them don't look at it as a proper P&L of capital versus their own work but more look at it from a cash flow that they get on every 10 days. They get money for their expense and as long as they don't lose money on that, they're very happy with the dairy sector as such. That is why I guess dairy becomes as large as all the pulses put together in the Indian Agrarian Society because of the primary ability to deliver money to them on every 10-day basis as and when they need. As long as it doesn't burn money for them, they're happy and I think yes, they're not burning now.

**Resha Mehta:** Right. And on the value-added product side, right? So, Q4 saw unseasonal rains in South as well, right? And so, because of that, would you say that 10% volume growth incurred in Q4, is it something that you are happy with, was it in line with your expectations or below your expectations and also Q1 now, how is that panning out in terms of value-added products like curd or ice creams, milkshakes etc.

**Sunil Reddy:** Yes, so basically what happens is the same unseasonal rains from the first, actually the last quarter continued towards especially in Hyderabad or Tamil Nadu, we had this under showers and things like that where there was a slight drop in terms of ice cream and curd. But I think in the longer term it is going to be more of a convenience of consumers coming forward to use these products that is driving the sales. So, seasonal variations will be there, but things like people not eating ice cream during winter or not using curd during winter, I think we're beginning to see that trend beginning to change, that people are using it throughout the year and hopefully in the years to come it will improve.

**Moderator:** Thank you. We have our next question from the line of Aditya from Securities Investment Management. Please go ahead.

**Aditya:** So, I wanted to understand more about our distribution strategy. So, as you deliver milk and value-added products in new geographies, what is motivating customers to switch to Dodla Dairy as opposed to the incumbent milk brand Company, because there would be multiple milk and curd brands in the geographies you target. And since we don't spend much on advertising also, what forms the customer to switch to Dodla's products?

**Sunil Reddy:** So, predominantly it is the service and quality that actually matter the most that everyday delivering and not having a delay for delivering. And also, the quality is allowed lot more word of mouth right. Advertisement is a double-edged sword. If advertised too much in the product doesn't actually deliver, it has a negative impact. So, for us I think we bet very heavily on quality and we emphasize on trying to improve quality, so quality improvement is across the chain. It is not just saying the word in front, right. When we said we have automated our plant to our



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backend procurement refrigeration becoming on time, bacterial counts being lowered. We need not tell this. At end of the day, it reflects the product with the consumers consume and case in point is at some locations we will have a huge price difference in terms of competitors in terms of like the cooperators and consumers still buy our product because of quality. I would rather say they're mass premium, which in that way and continue to go forward.

**Aditya:** Right. And if you could let us know on a broad base of the margins we make on curd and is there a scope for this margin to improve

**Sunil Reddy:** Curd will be roughly 14% to 16% depending on the period of the year, is what we will be. making and milk would be between 7%-8%.

**Aditya:** And is there a scope for this margin to improve in the curd segment with increase in sales?

**Sunil Reddy:** The margin I think will keep it around the same level because the distortion will be too large, but I think it will remain the same, but volumes we're trying to push more. And also, the variants right like buttermilk, lassi, all these variants of the fermented products we're trying to increase.

**Aditya:** Right. And I wanted to understand what management think in terms of newer value-added products they target? You know what criteria or factors you can do before getting into newer value-added products and generally what kind of revenue or scale should one reach that the newer value-added products would be able to make margin similar to the curd or any other products?

**Sunil Reddy:** Basically, when we look at it as an overall market segment built followed by Ghee, followed by Curd, I think then it is followed by a smaller slice of Paneer and then the host of other products adding to the play. So, according to the basic consumption segment, what the segment is, is where we are also at the moment. So, the 1%-2% addition that we are seeing is that the VAP of the Company is continued to grow and people are then moving to more of the higher value products. It's the same trends that we are seeing reflected for us also as we are going forward.

**Moderator:** Thank you. We have our next question from Aejas Lakhani from Unifi Capital. Please go ahead.

**Aejas Lakhani:** Mr. Sunil, first question is that if you look at your standalone cash ex of investments and the consolidated cash, your consol has about INR 130 crores of cash and standalone has 30, which means that INR 100 crores is parked in your Singapore entity. Is that understanding firstly correct?

**Sunil Reddy:** Yes, that's correct sir.

**Aejas Lakhani:** So, could you just tell me that let's say you want to utilize that capital, do you repatriate it back to India? Is there a cost attached to that or do you plan to keep that in Singapore for some



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purposes that you may want to do in the African Belt. So, could you just call out that? What are you doing of that INR 100 crores cash?

**Sunil Reddy:** So, INR 100 crores cash, actually they're earmarked for a little bit of our Kenya expansion, which we were doing and thought that we will use it there. And basically, Singapore cash can come down in 2 ways to be more cost effective if India requires the money. One is in the form of dividend. If I'm dividing it out to the shareholders, it doesn't cost as much it flows through the same and the second is if I need to do in terms of equity or whatever the parent subsidy can buyback to the two options of bringing the cash back to India. At the moment, we are generating enough cash both in India and Singapore, so they're maintaining status quo. So, that is what it is. The cash sitting in Singapore, we will look at it if we required in terms of India requirement, we will be bringing it back through either of the route if it is for dividend requirement for dividends or if it is for capital requirement through equity buyback. At the moment because we don't need it and thankfully the returns that we're getting even in Singapore is around 4-4.5% dollar term. So, we just keeping both of them there, waiting for the opportunity and see how we get them back.

**Aejas Lakhani:** Got it. That makes a lot of sense. And could you just quantify that if you were to do that, what would be the cost implications of bringing back the money here from Singapore?

**Sunil Reddy:** Basically, if it is a dividend, it will be a pass through or if it's capital gains in Singapore, here we will be paying 10%-15% of the dividends. But if they actually bring the money into Dodla as a dividend and rest it in Dodla, we will be taxed at Indian tax rates as our income.

**Aejas Lakhani:** And sir could you just update on the Orgafeed expansion, you were increasing capacities here, is that on stream and when does it go live etc.? Thanks.

**Sunil Reddy:** Orgafeed was supposed to go on stream maybe in the April, but I think it will be delayed by a month, month and a half and I think we are looking forward for taking it on stream by July mostly.

**Moderator:** Thank you. We have our next question from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

**Sarvesh Gupta:** Just wanted to understand the spreads that you were mentioning that in last quarter, I think the spreads had dropped to around INR 13 odd. So, compared to where we were in the last quarter, what is the drop in procurement prices as we speak?

**Sunil Reddy:** I think we can look at it as an average of between 75 paise to a rupee will be what we anticipate as to be the drops in prices that we will get.

**Sarvesh Gupta:** So, that is still a while away from a full recovery, right?



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- Sunil Reddy:** Yes, that is what we are saying. It started now, maybe give it another couple of months, then we will see even further recoveries improved.
- Sarvesh Gupta:** Understood. And secondly, if I look at your curd sales profile, it's also increasing more or less in line with the overall sort of milk growth. So, what is going to be a big driver of your value-added products mix changing favorably going forward?
- Sunil Reddy:** So, basically, we are doing a lot more in terms of Indian sweets, ice cream, paneer and all the other products and fat. This year, we had a lack of fat. We did lower fat, but placement in terms of these is improving. So, taking all those whole ratio, I think that is where you will see more of the expansion happening from the value-added products other than curd.
- Moderator:** Thank you. We have our next question from the line of Sameer Gupta from India Infoline. Please go ahead.
- Sameer Gupta:** Just one follow up. Can you just give me the price hikes you have taken in the last 6 months in both milk and value-added products as a percentage?
- Sunil Reddy:** Basically, shows you the difference in terms of what the price, you want quarter wise or you want year wise?
- Sameer Gupta:** No, just the quantum of price hike. So, let's say right now you mentioned around INR 50 or INR 51.2 is the milk selling price. It would be how much like let's say in December or any way you can quantify this in percentage terms?
- Sunil Reddy:** Yes. So, basically I think if I look at it as Dodla's standalone in terms of a sales realization per liter..
- Murali Mohan:** Q1 is INR 50.90, Q2 is INR 52.19, Q3 is INR 53.76, Q4 is INR 55.45, so that the average into INR 53.02. There's a plus or minus always 5%, less than 5%.
- Sameer Gupta:** And how would it be for the liquid milk?
- Sunil Reddy:** Yes, this is total, all put together. We have the yearly milk and we'll give you the yearly milk and product price and then we'll get back to the quarter.
- Murali Mohan:** Yes, FY23 price is basically INR 51.18 is the milk, VAP, it is INR 55.25 and value-added product is INR 451.
- Sunil Reddy:** INR 451 is VAP and INR 55.25 is other value-added products.
- Sameer Gupta:** Which would be largely curd, right?



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- Sunil Reddy:** Yes, largely curd. Curd is having a INR 51.65. And out of total value products of INR 6521 million, INR 5398 million is only curd.
- Moderator:** Thank you. We have our next question from the line of Rajat Setiya from. I thought PMS. Please go ahead.
- Rajat Setiya:** Sir, what is our replacement CAPEX on an annual basis?
- Sunil Reddy:** Replacement and I think the regular CAPEX, we will be spending around INR 40 to 50 crores in terms of our regular CAPEX that we do. That is I think mostly we modernized all our old plants and all that and that is going forward, but our major CAPEX comes invariably from our procurement and little bit on the marketing side because as we continue to grow, we will be adding more and more procurement at village levels, those equipment that we added followed by on the marketing side, call it as freezer placements and getting more of those. So, those are the 2 major areas. I think coming from a plant side, we have revamped most of our major plants. Going forward, we have only very small expense on the plant side, it will be basically procurement and sales. So, we would look at between the INR 50 to 70 crores as regular CAPEX.
- Rajat Setiya:** So, out of this, how much is expansionary in the sense that it will help you increase your business or how much is just to maintain the business, I mean, without expecting any growth?
- Sunil Reddy:** So, the procurement and marketing are only for expansion of business is what we keep on investing. The others are for because we have built in capacity now, right? That is why if you look at all the newer plants that we built, they built with larger capacity in view, so taking the next 2 or 3 years we still have inbuilt capacity, maybe after the 3rd year when we need more, we will go add more capacity, but we will constantly be adding capacity on the procurement and the sales side.
- Rajat Setiya:** Sure sir, how much from this INR 50 crores is the expansionary capacity building CAPEX?
- Murali Mohan:** The total CAPEX we incurred in FY23 is INR 1341 million. Out of that as sir told existing plant expansion, we have done INR 450 million. Out of that, Kurnool is the highest and second is procurement is INR 197 million which is on CC, milk and all other stuff, so totaling to INR 760 million. And on the new projects, we have spent a total of INR 572 million. Out of that, capacity expansion is INR 292 million and Sri Krishna is INR 223 million and Kenya project is 56 million.
- Rajat Setiya:** And sir our tax rates are on the lower side. So, what is the reason for that?
- Sunil Reddy:** This time we got INR 9 crores of tax refund and also the 25% regime, we were earlier in the 30% regime which have come down to 25% regime and we also got a benefit of one of the deferred tax benefit, which was given to us as a credit.



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- Rajat Setiya:** So, our tax rate is 25% now.
- Sunil Reddy:** Yes, 25% is where we are right now.
- Rajat Setiya:** From the feed plant where we are putting up some INR 45 crores, what's the kind of revenue, how much revenue can you generate and what kind of margin do you expect?
- Sunil Reddy:** So, normally I think full capacity of that the plant should give us around INR 200 crores of revenue and we expect it to give around 10% of EBITDA margins at a full capacity play.
- Moderator:** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to management for closing comments. Over to you sir.
- Sunil Reddy:** So, thank you everyone for joining Dodla's Q4 and FY23 Results Concall. Looking forward to seeing you guys again next quarter. Thank you so much.
- Moderator:** Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.