DODLA DAIRY LIMITED
MILK & MILK PRODUCTS
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Date: 31 October 2022

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

Dear Sir/Madam,

Sub: Transcript of Q2 FY23 Results Conference Call with Analyst / Investors.

In Continuation to our letter dated 22 October 2022 the Company had organized a conference call with the Investors/ Analysts on Thursday, 27 October 2022 at 12:30 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.

Kind take on record and oblige us.

Thanking you,
Yours Faithfully,
For Dodla Dairy Limited

SURYA PRAKASH MUNGELKAR
Digitally signed by SURYA PRAKASH MUNGELKAR
Date: 2022.10.31 16:50:23 +05'30'

Surya Prakash M
Company Secretary & Compliance Officer

“Dodla Dairy Limited

Q2 FY ‘23 Earnings Conference Call”

October 27, 2022

MANAGEMENT: **MR. DODLA SUNIL REDDY – MANAGING DIRECTOR – DODLA DAIRY LIMITED**
MR. B.V.K. REDDY – CHIEF EXECUTIVE OFFICER – DODLA DAIRY LIMITED
MR. ANJANEYULU GANJI – CHIEF FINANCIAL OFFICER – DODLA DAIRY LIMITED

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

Moderator: Good day, ladies and gentlemen, Welcome to Dodla Dairy Q2 FY '23 Earnings Conference Call, hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode. 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 star then zero on your touchstone 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, sir.

Aniruddha Joshi: Yes. Thanks, Lizann. On behalf of ICICI Securities, we welcome you all to Q2 FY '23 Results Conference Call of Dodla Dairy Limited. We have with us Senior Management represented by; Mr. Sunil Reddy, Managing Director; Mr. B.V. K. Reddy, CEO and Mr. Anjaneyulu Ganji, CFO. Now I hand over the call to the management for their initial comments on the quarterly and half yearly performance. And then we will open the floor for a question-and-answer-session. Thanks, and over to you, sir.

Sunil Reddy: Thanks, Aniruddha. This is Sunil here. Thank you very much, and once again, Aniruddha for getting us on the call. Hello, everyone. I welcome you all to our Q2 and half yearly FY '23 Earnings Conference Call, and I hope all of you are doing well. I'm glad to announce that the operating revenues grew by 22.8% in year-on-year to INR 695 crores, supported by a gradual rise in selling prices, coupled with the strong demand for milk and value-added products for in the festive season.

Our milk procurement grew by 11.2% year-on-year to 14.3 lakh liters per day in Q2 FY '23. On average, our milk sales also increased by 14.7% year-on-year to almost close to 11 lakh liters per day. The company successfully navigated a lot of sectorial headwinds, including lumpy skin disease, our break among cattle, which all of you must be aware of, which impacted milk procurement, rise in material and packaging costs and inflationary trend due to global reasons.

VAP sales grew by also 19.3% year-on-year to INR 173 crores during the Q2 of FY '23. This is thanks to a strong recall of Dodla brands, which is also because of the strong quality focus that we have on our products. The VAP share of the overall daily revenue stood at 35.3% in Q2 of FY '23. The integration of Sri Krishna Milks price is progressing as planned, and we continue to strengthen our footprint in Southern Karnataka and Goa markets.

Dodla remains committed to strengthening its procurement network in its existing states and continuing to also scout for organic and inorganic opportunities without compromising its existing balance sheet strength and also looking forward to creating long-term value for the esteem stakeholders.

I would also like to extend my gratitude to all our stakeholders for their continued support of Dodla Dairy Vision. We have a strong governance framework. Our business model is an end-to-end enterprise, which positively impacts over 1 lakh dairy farmers on one end. And on the other end, we ensure health and nutrition to millions of our consumers through our milk and by-products.

Our long-term growth engines and our continual focus on ESG practices and sustainable business model with the balanced ecosystem. With this brief, I'll hand over to CEO, Mr. B. V. K. Reddy for taking it further. Thank you.

B.V. K. Reddy: Thank you, Sunil, sir. Very good afternoon to all the participants. We have very healthy quarter, showing growth in revenue and other parameters. We are moving towards enhancing our footprints, strengthening our pan-India stance. As on 30th September '22, we have procured milk around 1.2 dairy farmers daily, of which 88% have provided regular direct payment to the bank accounts.

Our direct procurement model has further strengthened wherein we are buying almost all the milk directly from the farmers more than 8,000 villages as compared, resulting in cost savings and establish a deep-rooted relationship with them. Our Orgafeed operations, wherein we have provided a high-quality feed to the dairy farmers, help us strengthen this relationship with them and also ensure that both the parties get benefitted.

Orgafeed revenue stood at INR 28 crores in H1 '23 with EBITDA approximately INR 3 crores during the same period. In terms of our presence, we continue to have third highest market presence across 13 states in India, supported by third largest procurement network, 15 processing plants with the 22 lakh liters per day capacity. We currently have 113 chilling centers as on 30th September '22.

We have around 555 Dodla retail partners. We also have a strong network, 1,300 milk and milk distributor channel. So we have around 2,700 distribution agents networks that all are well established in many years of the country. We aim to adapt to state of art dairy processing technology with a focus on automation, which help us in reducing operational costs and increase efficiencies.

We continue to strive our enhancing our footprint and brand visibility with every passing year. And we are making constant efforts to expand our geographical footprints, distribution network, strengthen the brand recognition and improve our margins to over unmatchable growth in the industry.

With that said, I would request our CFO, Mr. Anjan to give a financial overview of this quarter. Thank you.

Anjaneyulu Ganji: Thank you, Sir. Good morning, everyone. I would like to briefly touch upon the key performance parameters for the second quarter of the financial year 2023. We have also submitted a detailed presentation of our financial performance on the stock exchanges. And also we have uploaded the same on our website.

Now taking a glance and the financial highlights for the quarter ended September 30th 2022. The operating revenues stood at INR 695 crores for Q2 financial of 2023, compared to INR 566 crores of Q2 FY '22, with a strong growth of 22.8% year-over-year. The company's domestic business touched by 20.1% year-over-year to INR 644 crores, whereas the international business registered a strong growth of 70% year-over-year to INR 52 crores for the quarter.

EBITDA was at INR 59 crores in Q2 of FY '23 compared to INR 61 crores in Q2 of FY '22. Profit after tax was at INR 39 crores in Q2 FY '23 compared to INR 29 crores in Q2 FY '22, registering a growth of 34% year-over-year, owing to the decline in the finance cost, raise in other income, coupled with decline in effective tax rates. Earnings per share for Q2 FY '23 stood at INR 6.58 compared to INR 4.90 in Q2 of FY '22.

Now talking about our operational highlights for the quarter ended September 30th. Average milk procurement during quarter 2 of FY '23 was at 14.3 lakh liters per day as compared to 12.8 lakh liters per day in Q2 of FY '22, registering a 11.2% year-over-year growth. Average milk sales during Q2 FY '23 were at 10.9 lakh liters per day as compared to 9.5 lakh liters per day in Q1 of FY '23, growing by 14.7% year-over-year.

Curd sale during Q2 FY '23 was at 292 metric tonnes per day as compared to 252 metric tonnes per day in Q2 FY '22, increasing by 16% year-over-year. Revenue from value-added products, including fat and fat-based products grew by 19.3% year-over-year to INR 173 crores in Q2 of FY '23 vis-a-vis INR 145 crores in Q2 of FY '22.

VAP, including fat and fat-based products contribution stood at 25.3% of the overall dairy revenue during the second quarter of FY '23 as compared to 26% contribution of the overall dairy revenue during the same period last year. That concludes our update on the financial strategy, which we believe have been positive in most of the [inaudible 0:09:29]. With that we said, we would now like to open the floor for questions. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. Anyone, wishing to ask a question may please press star and one on your touchtone telephone. If you wish to remove yourself from the question queue you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Ramesh from Smart Investment Solutions. Please go ahead.

Ramesh: I have seen that in an investor presentation, and it is very good actually. You have improved quarter-on-quarter. So I have a couple of questions. When I see quarter-on-quarter, your Q1 versus Q2, you have improved your gross margin on a standalone basis. Is it something specific you have done or it is based on procurement price reduction or something happened?

Sunil Reddy: it's actually a lot of effort that goes there on specific things that have been done. So selling price has moved up, and considerately, we kept our procurement prices almost on an even yield. So the earlier quarters when our procurement prices had gone up, our selling prices didn't move up because there's always a time lag of what happened. So second quarter, we got the benefit of the full price increases that happened. So that's the reason the gross margin shows an improvement, which is shown in the EBITDA improving.

Ramesh: And is there any flush concept coming this year because the last couple of years, we were not having any flush in dairy industry. So do we have some flush this year?

Sunil Reddy: This year also, we won't see any pressure because it's not only that because also we are digesting the growth in terms of volume has also been high. If you compare it to pre-COVID, its caught up with more than INR 3 core, let's say the 15% more. So I guess whatever was subdued earlier by the farmers will take another year for it to catch up to come to the flushes. So this year, we don't see a flush.

Ramesh: And for my record keeping, can you just share the procurement price for quarter and selling price per quarter from milk, liquid milk?

Sunil Reddy: Quarter for the current quarter, sir?

Ramesh: Yes.

Sunil Reddy: Anjan will just give you the Q2 procurement and selling prices.

Anjaneyulu Ganji: So the procurement prices for the Q2 FY '23 stood at INR 35 per liter. It is procurement not the consumption. So per liter of procurement and coming to the sale, so we have INR 52.90 net sales realization.

Ramesh: This is only for liquid milk or entire your product base?

Sunil Reddy: The whole mix, sir.

Anjaneyulu Ganji: It is a whole.

Ramesh: Okay. And one small question. As I was hearing Heritage call also previously. So they were seeing some BMCM mix, they use 25%, 75%. What mix we use, sir in our…?

Sunil Reddy: Buffalo and cow mix, sir. One minute, we will tell answer the buffalo and cow mix.

Anjaneyulu Ganji: Yes, we have only 5% Buffalo, balance 95% is cows.

Ramesh: Is this because our geography, what we are catering is different compared to Heritage or is it…

Sunil Reddy: Correct. See because where we are selling in Karnataka, 40% of sales quantity is coming from Karnataka. Karnataka predominantly in the cow's milk sales.

Ramesh: In last quarter also, we'll be in the same BMCM ratio, or is it something we were changing consciously quarter-on-quarter to improve our margins? Because I understand buffalo is costly than cow?

Sunil Reddy: No, almost all the same. It's almost 95%, but consciously earlier itself we have corrected and now we are carrying forward. So because the Buffalo if it is costly also because Heritage is selling more milk in Hyderabad, the MRPs are very high.

Moderator: Thank you. The next question is from the line of Resha Mehta from GreenEdge Wealth Services. Please go ahead.

Resha Mehta: So congrats on a good set of numbers and also on your Silver Jubilee year. So firstly, I wanted to understand that in your annual report, you've spoken about having agents and distributors. So what are these two different distribution models between agents and distributors and which model is adopted in which, let's say, urban, rural? And if you could just expand a little bit on this. That's the first question.

Sunil Reddy: Yes. So thank you very much for your good wishes Resha. Basically, the difference is between agent and a distributor, agent is somebody where he is a retailer himself and we directly deliver to him as a company, and he delivers it to the customers. Whereas the distributor is some where we give it to him as or any other FMCG distributor, we de-market a larger area and give it to him and he takes care of the secondary transportation and distributing it to the consumer itself. And we have another model, which is DRPs, which basically our Company-Owned Franchise Operated, retail outlets. These are the three broad distribution methodologies that we adopt.

Resha Mehta: All right. So rural would essentially see the distributor model, right?

Sunil Reddy: Yes, majority of yes, the smaller the B&C class also we have almost a substantially large market share and we are very strong. We have now, we've got distributors and we control our sales through our distributors.

Resha Mehta: And secondly, if you could just talk about what is your revenue from B2C and HoReCa, these two channels?

Sunil Reddy: Majority of ours is B2C and some of the things maybe where we don't have our own direct controls through the distributor might go to a few of the tea shops, but we are predominantly B2C, which was demonstrated during COVID that we didn't see much of a drop.

Resha Mehta: And sir, HoReCa would be negligible, is that understanding correct?

Sunil Reddy: Yes.

Resha Mehta: And even within the southern states, if you could just break up your sales between metros, Tier-1, Tier-2 towns, or would it largely be metros?

Sunil Reddy: No. It will be almost, let's say, metros will be a smaller comparatively, it should be around 30% metros. So I don't have the specific numbers, but 30%, 35% metros compared to 60%, 65% of non-metros. That will be a rough range.

Resha Mehta: On your operating costs, so when I look at your annual report, so your ad spends are very negligible. They are just 0.3% of your net sales. So can you just talk a little bit about how do you think about marketing? What are the budgets like? How much would be ET and how much would be trade promotions, can you just expand on this?

Sunil Reddy: Yes. So basically, I also think it's a question of how do you look at the ad spend cost that we normally take. Now for us, ad spend costs are very direct in terms of what we do in terms of outdoor visibility and painting and that ad that kind of thing. The other spends, which we have, we reduced it from our cost, whatever we give a state promos and all that, we do not consider it as a part of the ad spend.

In the dairy industry, the ad spend is very visible with our regular moving media point-of-sale spend is what we do. So we're very cautious in what we do as our ad spend because although we do a large spend, but if availability is not there, it doesn't seem to be very effective for us. So that way, we do a lot of localized guys and we do it very cost consciously, that is the reason why our ad spend is low.

Resha Mehta: So when you say this localized marketing, so below the line, so what would be the quantum of these trade promotions as a percentage of net sales? I understand that when you report these numbers, they are netted-off from your topline, but if you could just talk about?

Sunil Reddy: It would be very small, it should be only 0.2%, 0.3% at the most that we give it as other than at the point of sale promos that happen, nothing more.

Resha Mehta: So basically, above the line, below the line, all put together would be less than 1% of topline?

Sunil Reddy: Yes.

Resha Mehta: And also, if I look at the freight outward line item in your operating other expenses, so that's almost 8% of your net sales, which is almost 2x that of the other two listed dairy companies in the South. So, is there some issue of reclassification of expenses that is why this number is looking very big, almost 2x that of other two companies, or is it that structurally our freight costs have been higher?

Sunil Reddy: So basically, it also depends on how reclassification can happen, ma'am. Some of them will not consider, fuel as a part of it and give fuel more as a reimbursement to the petrol pumps, and I don't know where they book it at. Some of them will be booking -- we booked a whole lot of fuel, whatever all under outward freight outward. So that's why if we look at all the costs put together, we'll invariably be in the same base.

Anjaneyulu Ganji: Anjan here. So that's why you also see the same level, the gross profit vary, very much. When you compare to gross margin itself to our fees also. It is basically the way of booking, sometimes based upon the agreements as far the regulator, there could be some research, sometimes they have to book it on the topline and some agreements require us to book it in other expenses.

Resha Mehta: And what would be your annual Capex plans and what's your maintenance Capex number?

Sunil Reddy: So annual Capex plans for us, we broadly you can look at it as procurement, which will be one which will have the INR 15 crores, INR 20 crores of every year that we keep spending. For the current year we have taken a budget of almost INR 90 crores to INR 95 crores of Capex, out of which we have already spent around INR 66 crores, majorly what we did was we had another plant for thermal, which we have updated and made it to on par. And we are spending a bit on going into being more environmentally friendly and going for solar powering all the plants and trying to maximize solar wherever we can and that's a major expense that we have done.

Resha Mehta: So this INR 90 crores would also include your maintenance Capex?

Sunil Reddy: Maintenance Capex also, yes. So invariably, it would be around INR 50 crores, INR 60 crores of maintenance Capex and chilling centers, normally, if you look at the years going forward because every year, if you take 1 lakh, 1.5 lakh of volume that is added in sale, we have to add over some kind of number in the back end of procurement also to keep matching the growth of sales. So that will be our constant expenditure in terms of Capex and maintenance Capex will be maybe INR 10 crores at the most for all the 14, 15 plus put together.

Anjaneyulu Ganji: Maintenance Capex will be INR 10 crores to INR 15 crores. Remaining things is either expansion in procurement and our distribution networks.

Resha Mehta: Sure. And any guidance that you would like to provide for Capex for the next, let's say, two years, three years, broadly?

Sunil Reddy: Other than mergers and if we do any acquisitions or major Capex plan, we will be in the same INR 30 crores to INR 40 crores at the most of expansion, in chilling centers and regular Capex.

Resha Mehta: And lastly, just one data question. So there's this Q1. So if you could just share the selling price for Q1 FY '23?

Sunil Reddy: Market sales realization was INR 50.9 roughly, INR 0.90 paisa per liter that is a standalone. That is for the standalone.

Moderator: Thank you. Reminder to the participants, anyone wishing to ask a question, may please press star and one. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.

Sameer Gupta: Just one from my side. So I just wanted to understand your outlook on margins. So right now, it is around 8.5%, there is a lumpy skin disease which has gone, unseasonal rains this quarter, and as you rightly pointed out, under investments by dairy farmers so there is an expectation of a tepid flush. You have already taken large price hikes and passed it on to consumers. So technically, is this understanding correct that at least for this season where you are not expecting a great flush, EBITDA margins should only trend downward over the next few quarters from the current level?

Sunil Reddy: More than download, sir, I think if we are actively involved in managing it, we can manage to keep it with the same trends that we are now. Maybe a little bit of the one month more of price differential might happen to procurement, again, increases dramatically to see where we can pass on, but tentatively, we can keep these margins at these levels at the moment.

Sameer Gupta: And any guidance on a business?

Sunil Reddy: Medium term would be the same. As said, current margins will continue to be going forward the same, it may be 0.5% plus or minus that can happen in current term, especially for us, that's what we are looking at. And the next year onwards, the productivity increases and for milk procurement prices come down, we will see a reasonably good margin improvements.

Moderator: Thank you. The next question is from the line of Abhishek Maheshwari from SkyRidge Wealth Management. Please go ahead.

Abhishek Maheshwari: So just a follow-up on previous participant's question. So you've already mentioned that flush season will be tepid. And in North, we are already hearing about shortages and lack of availability. So in South in your geographies, are you facing any procurement issues?

Sunil Reddy: Procurement issues, meaning there is demand is higher than production. Therefore, the prices have gone up and are maintaining that. This normally should get corrected by the next monsoons because of higher production, higher prices will normally get the farmers' interest back and productivity should increase and come back because the animal cycles things take at least six months to nine months for animals to carve and production to increase and better feeding systems coming into play. So that is how it will be that. In the South, I think we'll still continue with the same trends of matching our input and output, then we'll have to look at it next season, how would take forward from that well.

Abhishek Maheshwari: And secondly, the larger peers, I would say, like Amul, Mother Dairy and all, they have started, they're still hiking their prices, are you also able to do that in your geographies or we are maintaining as a previous quarter?

Sunil Reddy: So we also keep continuing to increase the prices and correcting and fine tuning the prices as and when required. So there's a procurement increase, we do increase the prices proportionately and keep going, but we are also cautious not to out-price it from comparative to say, market to let people have a shortfall in growth. It's very easy to increase price, but it's a tight balance between growth and margin with price increase. So we're very cautious to do that and keeping and we even growth not to get in there.

Abhishek Maheshwari: So sir, say in the sense, if procurement prices are increasing, is there a set of from the fall in other raw material prices? For instance, packaging costs have started to come down and what is the cattle feed prices like [inaudible 0:26:51]?

Sunil Reddy: B. V. K. will answer that. So but from my broad view, the price correction will be given the uncertainty, yes has stated a bit, but I don't think we will see dramatic, but B. V. K. will answer it more in detail.

B. V. K. Reddy: In the feed also now slightly lastly, three months, four months, the raw material, the grains and all have now gone up, but slightly now, it is coming down.

Abhishek Maheshwari: And packaging costs?

B. V. K. Reddy: Packaging costs also slightly have come down. First quarter to second quarter, so the packaging material cost also has come down. First quarter, it was slightly higher side and second quarter is down.

Sunil Reddy: So this we don't think will come down dramatically, sir, but it will -- they're keeping in view that, assuming the same status quo is maintained. That is what we are saying margins also will be the same status.

B. V. K. Reddy: Overall see, procurement enough correction has already been done. So the sales price correction also now we keep on doing as and when it is required. So mostly it is done, I think it become a stable now.

Abhishek Maheshwari: And one last question. Any price hikes are we planning in Q3 also, or you will decide when it stands?

Sunil Reddy: When it stands normally what we do is there'll be a slight correction, which only will benefit the company's pricing structure as we go forward. And also taking a mix of both products and price, I think it will go maintain status quo, and we are confident that we'll maintain status quo comfortably.

B. V. K. Reddy: Comfortably this third quarter, nothing will happen. Let us see after even Pongal maybe in the month of February, March.

Moderator: Thank you. The next question is from the line of Rohan Kamath from Finterest Capital. Please go ahead.

Rohan Kamath: Sir, my first question is on the outlook on this business going ahead, what is the exploration growth are you looking for this business?

Sunil Reddy: Rohan, basically, if you look at us historically, we've been growing by 10%, 11% by volume and around 15% of value. I think in the short-term basis, we think we can continue with that kind of a trajectory for the next two years, three years, I think. So that will be our immediate short-term two years to three years goal. And as we go beyond that, as a normal global scenario, dairy companies normally tend to go into becoming the food company in the longer term because we have the network of ability of placement of product and other items, even if you compared Amul in India, so they've gone into a whole host of other products like chocolates also.

I think we are following the same path that we still have a lot more room to grow in milk for the short term of two years, three years and later will be multiple products to food can also come into play.

Rohan Kamath: And sir, on the Capex, our Capex expectation for financial '24 and financial '25?

Sunil Reddy: Subject to not getting the good opportunity in terms of M&A, we have regular Capex to the tune of around INR 40 crores to INR 50 crores, out of which INR 20 crores, INR 25 crores will go to procurement and INR 15 crores for regular maintenance of Capex. We still are identifying the actual opportunity to go into Kenya, which we have already announced earlier as and when we get there because Africa normally takes time. That will be one which we'll have can be to the tune between INR 25 crores to INR 30 crores there.

And if it is an acquisition opportunity in India, we'll have to wait and watch. So we'll only wait and see if we get a good opportunity, if we do get an opportunity, we will go there. So nothing more than that majorly. And maybe if we come to a greenfield also, it will take another two years to basically start and complete a greenfield. We have already announced our earlier cattle feed that we're spending at INR 40 crores, which we have spent INR 20 crores already, and that should be done by the [inaudible 0:30:37]. So not much, INR 50 crores, INR 60 crores may be subject to acquisitions.

Moderator: Thank you. Reminder to the participants, anyone wishing to ask a question, may please press star and one. The next question is from the line of Aejas Lakhani from Unifi Capital. Please go ahead.

Aejas Lakhani: Mr. Reddy, just one quick question. You mentioned about productivity increases and milk procurement prices coming down to 24. So what I'm looking to learn is do you have any levers in the sort run -- just want to check that you mentioned that levers for the coming years would be productivity increases by farmers and milk procurement prices coming down? So a quick check here is do you have any levers to accelerate your volume growth from the existing 10%, 12% to slightly more higher levels in the short duration? And if yes, what are those drivers?

Sunil Reddy: So basically, sir, when you look at it in terms of the sales and procurement, we have actually been well geared up for a larger procurement volume, saying that we were net buyers of milk powder where we wouldn't be there and we would be having our own milk procurement network and increase in our sales. But presently, because of the lower volumes that network is still not fully utilized. We are confident that as we go forward, levers are already in place for the procurement to absorb a larger volume in terms of when we grow forward, which we're confident will happen in 2024 and in terms of sales also, there's been a lot of work that we have done regarding our DRPs and streamlining our sales and distribution process. So the levers are in place. We're just trying to match we are cautious of both in terms of the growth and our profitability. So we have to be very careful about both input and output. So it won't be a substantial large change in number for growth, but it will be measured growth between that 15% to 17% by value and 10% to 12% by volume because you have to balance both the input and the output to maintain even the bottom line as much as the profit.

Aejas Lakhani: But sir, is it fair to say that you're choosing to not accelerate paddle on volume growth because the prices of procurement are slightly higher, and the minute it starts to taper down, you could just accelerate the volume growth and that could help even on the margin front in 2024 as we look forward?

Sunil Reddy: So actually, even if the price gets corrected by even an INR 1 or INR 2 in terms of procurement, that itself will accelerate the margin growth because even if I take a conservative, let's say, 13 lakh, 14 lakh liters of India standalone sales, if you look at it also, that gives around INR 28 lakh per day as a profitability improvement, and the profitability goes through the roof.

So at that point of time, we also have to ensure that we will also keep making sure that our sales are doing well, obviously. But keeping a longer-term view, we have to be careful about both the prices, the procurement and the selling. So for example, if Tamilnadu prices really crash, there is no point in me just picking up milk in Tamilnadu, because I have to transport it to, let's say, my North Andhra Pradesh market. So we try to keep that synergy of input and output prices matching. So that even when there is a fluctuation, we are sort of stable. We don't want to be caught in back foot. Potential is there, yes, for growth. We will continue to move it forward. When we get better margins, we are more aggressive in trying to do placement into other areas also. So that way, it does help us. We will grow forward a little more aggressively when it comes to the year when it's good.

Aejas Lakhani: And sir, is this a fair statement to make that the gross profit per liter from a spread perspective, is at the levels what it was in 2Q FY '22? Because last year was the -- far more favorable year. This year is a tougher year, but despite that, the gross profit is per liter on milk is relatively same?

Sunil Reddy: Yes. So because this is we are maintaining that relatively same because the selling price increase, we have been able to compensate along with our procurement price increase. So that is what we are saying that this is a procurement prices are always coming up with an all-time high. We never at these high prices average, which are coming up to the all-time high. which, in my view, will get the farmers to be more interested, more production will come, more efficient production will come, which will taper down the procurement prices, therefore, leading to our margin expansion.

Moderator: Thank you. The next question is from the line of Tarak Mehta from Kotak Securities Limited. Please go ahead.

Tarak Mehta: Sir, I'm just new to the company. I just want to explore what are the cash balance that we have as on September?

Sunil Reddy: Tarak, that Anjan, the CFO will give you the exact numbers on that. Go ahead, Anjan.

Anjaneyulu Ganji: So overall, we have excellence of INR 340 crores in terms of overall cash balance that we have. So that is for the farmer payments that we utilize around INR 40 crores to INR 50 crores of first, so net-net, we will have around INR 300 crores cash balance as on 30th September.

Tarak Mehta: Sir, I can see some finance cost during the quarter of INR 3 lakh?

Anjaneyulu Ganji: Yes, and there is one fixed adjustment. So for long-term leases, you have to convert that under one -- in one that is not actual finance costs.

Tarak Mehta: One more thing. Sir, we are currently focusing on a Karnataka, can you just explore more in case we want to go for pan-India growth? What are the levers to see forward? And what can be the strategy?

Sunil Reddy: So basically, normally, we try to see as far as possible if we get contiguous growth, for example, Orissa is contiguous to us now because we have almost reached all the parts of Northern Andhra, and Orissa does add to us to be one of our contiguous growth plans. Maharashtra is available for us. We're doing procurement there. Slowly, we will have to enter into marketing in Maharashtra. But we are also open for other acquisitions that come up subject to return on capital being healthy based on whatever we can do locally. So immediately, we look at contiguous advantages. If we get opportunities, we are okay as long as return on capital is good.

Moderator: Thank you. The next question is from the line of Amresh Kumar from Geosphere Capital. Please go ahead.

Amresh Kumar: Sir, I just wanted to understand how does the transmission of external factors into procurement prices happen so quickly? I mean what are the forces there? I mean, how many buyers are there in, say, particular village along with you so that these external factors are so quickly transmitted?

Sunil Reddy: Basically, we will have at least three companies to four companies, one cooperative or two or three private sectors in every village that we go and procure four to five at least will be there. So the transmission does not happen more than the outside price. I think it's a supply-demand issue that majorly happens. So in the hurry somebody who's having a shortage, will try to increase their price, hoping that they'll get a little more is one of the way to look at it.

The other way that company is also look at it is coming from a farmer's point of view, for example, if the cattle feed prices are going up, the farmer also has to get that price increase because 50% of the cost for a farmer will be the feed that we incurred. So the thumb rule is normally cattle feed price is increasing will add on to the farmers, I think of milk price increasing. And for us, the other things that add is our own cost of freight or transport, which can add fuel prices increase. So that's how the transmission happens very quickly because even for us or the farmers, this is a daily business. Profit and loss can be seen every 10th day or the 20th day the farmer is losing money. We will feel the pinch immediately. So that is why the transmission happens quicker.

Amresh Kumar: So related question would be -- so as I understand your answer, you take into view the farmers' profitability in mind and adjusted the price accordingly?

Sunil Reddy: Yes. Because basically, the farmer viability also happens to be a core. We can't just squeeze them out of this business so that we always -- if we get rid of the animals to get an animal back into cycle takes almost two years to three years.

Amresh Kumar: And so what is the farmer stickiness with you in these circumstances? Can you just add on that?

Sunil Reddy: Farmer stickiness has been good, so for the past 25 years, if you look at it, I mean, there will be a little bit of fluctuation here and there. But I think it has been reasonable. We can see 70%, 80% of our farmers continue to stay with us.

Moderator: The next question is from the line of Pranjal Garg from ICICI Securities. Please go ahead.

Pranjal Garg: Sir, my first question is regarding, can you help with the update on Sri Krishna Milk? How was the performance of the business during the third quarter revenue in margins?

Management: Yes, Sri Krishna has done well. Anjan will give you the specifics of what the numbers are being

Anjaneyulu Ganji: So thank you, sir. on the Sri Krishna milk, so for this quarter ended Q2 FY '23, we have made sales of around 36,000 litres per day with a net revenue of INR 17.6 crores for the quarter. and an EBITDA of around 3.8%. In terms of YTD, we have made around EBITDA of INR 81 lakhs from Sri Krishna. So with an NPD of 34,000 litres, we generated INR 30.3 crores in terms of net revenue.

Pranjal Garg: Sir, next is also a little bit of a bookkeeping question. I just wanted to understand your territory-wise revenue and procurement mix for the quarter.

Management: Could you repeat the question, sir?

Pranjal Garg: I wanted to understand your territory-wise revenue and procurement mix.

Management: Territory-wise, revenue and procurement. So we will normally give it to you broadly as state-wise that we normally have with us, sir. We'll give that will be okay, I guess. Yes. state-wise, Anjan will just give you the state wise procurement and sales realization.

Anjaneyulu Ganji: So coming to the sales for quarter 2 of FY '23. So from AP, we have sold around 4,42,000 litres per day and Karnataka around 5.3 lakh litres per day. in Tamil Nadu, we have sold 2,10,000 litres per day and from Telangana on 1.3 lakh litres per day. So overall, this is for Indian business. So that is a territory-wise sales in terms of volume, and coming to the procurement of our Q2 FY '23. So from AP, we have precluded around 4.8 lakh litres per day, and Karnataka, 2.7 lakh litres per day and coming out around 4.4 lakh litres, Telangana around 40,000 litres and Maharashtra, around 1.1 lakh litres per day in India.

Pranjal Garg: Sir, what has been our exit price hikes during the quarter? And what has been the net of tension on the consumer demand for dairy products?

Sunil Reddy: So the price hike, we have almost got an INR 1, from quarter-to-quarter, I think we've got almost close to INR 1 plus price hikes, whereas the procurement has been almost static. From a consumer demand point of view, I think milk will be the last strategy, repeating and saying that milk being an essential commodity, people do look forward to it and our price hikes, if you compare with other inflation, the impact on the household budget will normally be to the tune of even if it is one litre is there an INR 1 or INR 2 increase that comes to INR 50, INR 60 increase it becomes a INR 30 to INR 60 increase, which consumers are able to take in their stride.

So I think the consumer impact of food we will be the last of the food to get impacted they will rather sacrifice hopefully, on the other sources of expensive food is what we look at, sir. That is from the impact point of view. The exact price increase is Anjan will just tell you now for quarter-on-quarter.

Anjaneyulu Ganji: So if I go year-on-year basis, the sales net realization, the sales revenue per litre So last year, for this quarter, Q2, we have a net realization of INR 49.36 whereas this year, we have a net realization of INR 52.75 paisa. So around INR 3.40 paisa is where the net improvement year-on-year, and quarter-on-quarter, last quarter, we have a net realization of around INR 51.78 paisa it is at a console level, not stand-alone, compared to last quarter, INR 51.78 paisa to INR 52.75 paisa around a rupee on the increase from the last quarter.

Pranjal Garg: And sir, my last question is regarding the performance of Africa business that we are seeing a good growth in that business as well during the quarter. So what are the primary growth drivers there? And what is your outlook for the business

Sunil Reddy: So Africa has always been good and Anjan will give you the breakup of details, sir. So Africa also like India, we have that a little bit of a price fluctuation depending on the seasonality. Compared to last year, this year is doing much better, and Anjan will give you the specifics of what was as a comparison between last year to this year in terms of the improvement that we had. So, the guidance for that, it will be that this year will be a much better year than last year in terms of both top line and bottom line. Continuing with the same half yearly trend, I think it will be going forward also to continue at the same time. Anjan, can you give us specification, please?

Anjaneyulu Ganji: Yes. So coming to the quarter, this quarter, we have around 93,000 litres per day in terms of volume from our African operations. We generated a revenue of around INR 52 crores and an

EBITDA margin of 13% for this quarter. Coming to year-over-year comparison, the volume improved from INR 63,000 to INR 93,000, which is a 47% volume improvement and revenue improved from on a year-on-year basis, INR 30.5 crores to INR 52 crores which is a 70% improvement in terms of revenue.

Moderator: Thank you. Reminder to the participants anyone who wishes to ask question may please press star and one. The next question is from the line of Aniruddha Joshi from ICICI Securities.

Aniruddha Joshi: Sir, three questions. How do you see the ice cream business panning out? Then secondly, we had also introduced Dodla plus premium milk. So any update on that? Second question, how is cattle feed business doing? Any growth plan that you can indicate 3-year 5-year growth plan that you can indicate for cattle business as well as Capex plans here? And lastly, the third question is how do you see the global SMP prices situation now, do you see any structural downtrend in the global SMP prices?

Sunil Reddy: So three questions regarding ice cream, cattle feed future and global SMP, I guess say, global SMP prices seem to be pulling off. and BVK will give us now thing of what we expect the cattle feed in the short term or, let's say, the two or three year period, what size we think we'll get there. And the capital was also INR 30 crore, 40 crores that we're looking at deploying and ice cream and other milk BVK will just give you that specification.

See, the cattle feed this half yearly we have done INR 28 crores top line and roughly about 9.5%, 10% EBITDA. And this year now, we are as per the target, so we will achieve 100% in the cattle feed. And also we are putting up another cattle feed plant in cities in the middle, March, we'll be commencing the new cattle feed plant. So that is as for the plan now it is going ahead. And I think cattle feed we are hoping that we'll get there. So I think the total capacity installed for the old existing one and the new one will BVK will explain.

Management: Yes, existing one only 2,000 tonne capacity, that 100% we are doing now. And the new cattle feed now is picking up 12,000 tonne capacity. So that will be ready by only in the month of March or April. So with the 2,000 capacity, we have done around INR 28 crores to INR 30 crores for the half year. So it will be the INR 60 crores, and you can extrapolate from the 12,000-tonne capacity over a period of three years where we'll be going another. Regarding ice cream and dairy plus milk variant, I think milk variants, we keep trying, ice cream BVK will again give you a brief idea about what I see are doing and where do we think we can go with

B. V. K. Reddy: So ice cream, I think this year, we have done fairly comparative to last year, we have done around 3,000 litres per day ice-cream sales and roughly would turn over as much is last year compared to quarter. So last year, we have sold around 1,800 litres per day. So this year, for the same period, we were selling around 3,000 litres per day. So almost double the volumes in terms of revenue generated around INR 2.7 crores is what revenue generated from the ice creams and this year, we have made INR 4.44 crores in terms of revenue. So it will not be something substantially large another, but it will keep improving year-on-year.

Aniruddha Joshi: Sir. Last, how do we see about the Dodla plus premium milk that we had introduced? Yes, that's it from myself.

Management: Plus is, not there it is there only Dodla plus in Africa. So we are trying to -- wherever we have other brands, we also try to keep pushing better and seeing how the offtake is. If the Dodla brand improves, then we can start the relaunch of other brand.

Management: There we have only Dairy Top, which is our own brand. So we started co-packing in Kenya from Kenya, we started in a Dodla plus. That is a small quantity. And also we are doing even from Uganda also now started the second brand as a Dodla plus. It is picking up. not in India much.

Moderator: The next question is from the line of Hanumantha Rao an Individual Investor. Please go ahead.

Hanumantha Rao: I have two, three questions. One is what is the general market share, average market share in your operating area and the second one is what is your IT spend for the day to day back information evolve from various works? Third question is that, how do you incentivize the farmers for retaining them continuity with them like advances or something like that. This and fourth one is curd business. Please elaborate these 3 process.

Management: Yes. So I'll curd and IT spend Anjan will be giving you, sir. Basically, our normally market, we take an average, we will be now 7% of the market share in the areas where we are operating. That is our numbers which we have computed that is what our numbers indicate to us, sir.

Hanumantha Rao: Are there an incremental from year to year? Or what is your further plans for the future is 7% to 10% like that.?

Management: Basically, the increment does happen, sir, because there is a national statistics says that there's a 3%, 4% growth by volume in terms of general consumption, so that itself is we have to, 7% is indicates a certain amount of growth. And we also add maybe our market share previous year to year has been growing by maybe 0.5% overall as market share has been increasing for us other than the growth compared to that.

And when we look at the incentives to panel, I think at the present day, the farmers are more happy with the service that we provide in terms of on prompt payment, now we have eliminated the middleman and they get clarity of what milk we are giving them, giving them the facility of cattle feed being door delivered -- and as we go on adding, we try to make it more convenient for them to do dairy business of dairy farming rather than having to run around for 10 people.

So today, when we are paying all our farmers directly into the bank account without any middlemen based on the quality, which is automated and comes to the company when we keep verifying. So those eliminations are keeping the farmers more comfortable with us. Now regarding the IT spend and the IT spend normally, I think, was averaging around INR 2 crores to INR 3 crores because not considering the hardware that we -- we have to spend a bit on the hardware where we call it the testing equipment for each village that we enter into. And other than that, we have our own in-house that when you're doing their SAP upgradation, security, all those things that keep happening. Those are the two major areas of our

So apart from the general IT expenditure this is three courses on the improvements of the programs for automation. That is what we normally spend on budgeted in there. Apart from that, we have regular IT expenditures, everything going on as per the planned budget. So this is for the improvements in the automation in the IT projects for SSB developments that will be spent on

Management: And also because our IT is one of our key enablers. Right now, when we look at it every day, the 8,000 villages of lack out farmers, we are now on a daily basis, we monitor what they're getting? Is there any variation and the whole process being automated with thanks to GST now coming in, invoices have to be generated live and the whole thing so that upgrades been happening here. And coming to third, I think we had an improvement in our third volume compared to last year, we have been improved. So Anjan will give specific for the third one.

Hanumantha Rao: A little more specific about the curd business. Is it a substantial volume on your specific?

Management: Third volume specific Anjan will give you sir.

Anjaneyulu Ganji: Also curds as we discussed earlier also, FY '23, we have sold around 92 metric tonnes per day compared to last year, year-over-year, we have 252 metric tonnes per day. So it is a 16% year-over-year improvement -- coming to the revenue generated from the curd sales. So this quarter, we have generated a revenue of INR 125 crores from curds, with an average EBITDA margin hovering around 15% to 16%.

Moderator: Thank you. Ladies and gentlemen, that is the last question. I now hand the conference over to the management for the closing comments.

Management: So thank you, everyone, for joining the call of Dodla Dairy for the second quarter. We really appreciate you spending time with us. If there's any other queries, we have our email id on the investor presentation, please do reach out to us, and we'll get back to you. Thank you so much for getting here give you a sparing time with us.

Moderator: Thank you. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.