

# **DODLA DAIRY LIMITED**

**MILK & MILK PRODUCTS**

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**Date: 30 January 2023**

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<b>Scrip Code : 543306</b>	<b>Scrip Code : DODLA</b>

Dear Sir/Madam,

**Sub: Transcript of Q3 FY23 Results Conference Call held on Tuesday, 24 January 2023 .**

In Continuation to our letter dated 17 January 2023 the Company had organized a Q3 FY23 Results Conference Call with the Investors/ Analysts on Tuesday, 24 January 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  
Q3 FY '23 Results Conference Call”  
January 24, 2023



**MANAGEMENT:** **MR. DODLA SUNIL REDDY – MANAGING DIRECTOR –  
DODLA DAIRY LIMITED  
MR. BVK REDDY – CHIEF EXECUTIVE OFFICER –  
DODLA DAIRY LIMITED**

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



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**Moderator:** Ladies and gentlemen, good day, and welcome to the Q3 FY '23 Results Conference Call of Dodla Dairy Limited, hosted by ICICI Securities Limited. 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 star then zero 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:** Yes. Thanks, Michelle. On behalf of ICICI Securities, we welcome you all to Q3 FY '23 Results Conference Call of Dodla Dairy Limited. We have with us senior management represented by Mr. Dodla Sunil Reddy, Managing Director and Mr. BVK Reddy, CEO.

Now, I hand over the call to the management for initial comments on the quarterly performance and then we will open the floor for question-and-answer session. Thanks. And over to you, sir.

**Sunil Reddy:** Thank you, Aniruddha. Thank you very much. Good morning. Hello, everyone. I welcome you all to the Q3 and 9M FY'23 Results Conference Call. On behalf of Dodla Dairy Board and the entire team, I wish you all a Happy New Year. I'm glad to announce that operating revenues for the year have grown by 17.4% YoY to INR 675 crores in Q3 FY23. This was aided by the gradual rise in selling price, coupled with the higher milk and value-added product sales.

Dodla Dairy continues to move forward in the journey of operational excellence by overcoming the sectoral headwinds. The company took a price hike to partially mitigate the increase in cost of milk production, owing to the rise of fodder and other prices. Additionally, the extension of the monsoon in the southern states impacted the flush season for FY'23. Despite industry challenges, the VAP sales surged to 11.1% YoY to INR 153 crores during Q3 FY '23, demonstrating the strong brand recall for Dodla products. The VAP share of overall dairy revenue stood at 23.1% in Q3 FY'23. The company continues to strengthen its footprints in Northern Karnataka and Goa markets through Sri Krishna acquisition. It gives me immense pleasure to share that Dodla Dairy bagged the 'CII Award for the Food Safety 2022' from CII's Food and Agriculture Center of Excellence (FACE). Dodla Dairy is geared towards creating value for the stakeholders with its diversified product portfolio, excellence-driven corporate culture and coupled with a strong balance sheet position.

Now, taking a glance at the financial highlights for the Q3FY23. Operating revenues stood at INR 675 crores in Q3 FY '23 as compared to INR 575 crores in Q3 FY'22, registering a growth of 17.4% YoY. The company's domestic business grew by 16.2% YoY to INR 618 crores, whereas the International business surged by 32.7% YoY to INR 57 crores. EBITDA was at INR 54 crores in Q3 FY '23 as compared to INR 52 crores in Q3 FY '22. Profit after tax was at INR 35 crores in Q3 FY '23 vis-à-vis INR 27 crores in Q3 FY '22, registering a strong growth of 31.7% year-on year. This is all due to a decline in financial costs, rise in other income, coupled



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with a decline in effective tax rate, which has come down to 19.5% in the Q3 FY '23 vs. 36.4% in Q3 FY'22. EPS for Q3 FY' 23 stood at INR 5.9 as compared to INR 4.48 in Q3 FY '22.

Now, talking a bit of our operational highlights for the Q3 FY23. Average milk procurement in Q3 FY '23 was at 12.8 lakh liters per day (LLPD) as compared to 12.4 LLPD in Q3 FY '22, registering a growth of 3.8% YoY growth. Average milk sales during Q3 FY '23 were at 10.5 LLPD as compared to 9.9 LLPD in Q3 FY '23, growing by around 6.7% YoY. Curd sales during Q3 FY' 23 was at 260 metric tons per day (MTPD) as compared to 245 MTPD in Q3 FY '22, increasing by 5.9% YoY. Revenue from value-added products, including fat and fat-based products grew by 11.1% YoY to INR 153 crores in Q3 FY '22, vis-à-vis INR 138 crores in Q3 FY '22. VAP including fat and fat-based products contributions stood at 23.1% of the overall dairy revenue during Q3 FY '23 as compared to 24.4%, contribution of the overall dairy during Q3 FY '22.

I would like to extend my gratitude to all our stakeholders for their continued support of Dodla Dairy. We have a strong governance framework. Our business model is an end-to-end socially positive impacts over one lakh dairy farmers at one end. On the other end, we ensure health and nutrition to millions of consumers through our milk and VAP products. Our long-term growth engines are continual focus on ESG practices and sustainable business model with a balanced ecosystem.

With this brief, I hand it over to our CEO of our company, Mr. BVK Reddy. Thank you.

**BVK Reddy:**

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

As on 31 December '22, we procured milk around 1.2 lakh dairy farmers daily, out of which 86% are provided with the regular direct payment to their bank accounts. Our direct procurement model has further strengthened, wherein we are buying almost all the milk directly from the farmers across more than 7,800 villages as compared, resulting in cost savings and establishment of deep-rooted relationship with them.

Our Orgafeed operations, wherein we provide a high-quality feed to the dairy farmers, help us strengthen this relationship with them and also ensure both the parties get benefitted. Orgafeed revenue stood at INR 43 crores in 9M FY '23 and EBITDA approximately INR 4 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, with 15 processing plants with nearly 23 lakh liters daily capacity. We currently have 115 chilling centers as on 31 December, '22.

We have around 565 Dodla Retail Parlors. We also have a strong network of 1,600 milk and milk distributor channel. We have around 2,700 distribution agents networks that all are well established in many areas of this country. We aim to adapt the state-of-art dairy processing



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technology with a focus on automation, which will help us in reducing operational costs and increase efficiencies.

We continue to strengthen our enhancing our footprints 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 to improve our margins to power unmatched growth in the industry.

That concludes our update on the strategy, which we believe has been a positive in most yardsticks. With that being said, we would like to open the floor for the questions. Thank you.

**Moderator:** We have the first question from the line of Ramesh Thota from Smart Investment Solutions. Please go ahead.

**Ramesh Thota:** So, I was just following Dodla and retail from last two, three quarters. So, I have couple of questions to ask management. So, I was looking at the top line grew by 17.4% YoY on standalone. Is it because of that market share or inflation, whatever sales hikes you're getting because of it or is it because of population increase or something? Can you just update on it?

**Sunil Reddy:** Yes. So basically, our volumes grew by roughly 15%, so coupled with the revenue growth.

**Ramesh Thota:** And other thing I was looking at your nine-month YTD for last year versus this year, there is a drop of 0.3% in PBT. So how do you analyze that gap? Is it because of your procurement prices increase or how much percentage of it is because of procurement? And are they taking our external factors including PBT?

**Sunil Reddy:** So yes the drop was in terms of the gross margin because of our procurement prices increasing. However, other financial costs not being there and other income coming in, our EBITDA has also improved and it has been getting stronger.

**Ramesh Thota:** How much of your gross margin is impacted by your procurement prices? Is it all or any other parting material?

**Sunil Reddy:** I think majority of the further difference that you see is impacted only at the gross margin levels, which has come down from that — against maybe from what used to be around high 20s.

**Ramesh Thota:** Yes. I see 4% drop in gross margin.

**Sunil Reddy:** Yes. So Q2FY23, the gross margin on a consolidated level is 25.6%. It has come down to 25.3% in Q3 FY23.

**BVK Reddy:** Okay. Yes. So that's a drop in the margins.

**Sunil Reddy:** Yes. So that is in consol level.



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- Ramesh Thota:** And one more thing I was keen in seeing was, yesterday, I was listening to Heritage Foods call back, they were saying about their other expenses, which is like 7.5% of their grosses, but our company — in Dodla it is like 30-ish percent. Is it — structurally, it is different or is it because of grouping issues in financial?
- Sunil Reddy:** Majorly because of grouping issue, it's not structurally different. So majorly grouping issues.
- Ramesh Thota:** You mean to say dairy industry across it will be — in the overall PBT, it is a standard, means we are under compression?
- Sunil Reddy:** Yes.
- Ramesh Thota:** Are you in same opinion?
- Sunil Reddy:** Yes. You can refer it that way.
- BVK Reddy:** And how do you foresee your raw material prices for coming FY '24?
- Sunil Reddy:** I think FY '23, at least for the fourth quarter, we think it will turn up a little bit more, raw material prices will turn up. But I think we'll still be able to transmit to our consumers as we go forward, maybe with a slight lag of 15 days. I think that's what we've been doing for the whole year. I think that will continue as we go forward. But as the summer sets in, we normally have a product mix change which will also help in improving the margins.
- Ramesh Thota:** And one last question. Can you just tell me your numbers like procurement cost per liter and selling price per liter of milk?
- Sunil Reddy:** So, I'll just give you the numbers. Procurement, year-to-date procurement is around INR 36 for 9M FY23, which was at INR 31.7 in 9M FY22.
- Ramesh Thota:** Selling price of per liter of milk?
- Sunil Reddy:** The selling price per liter of milk moved up from INR 48.9 9M FY22 to INR 52.2 in 9M FY23.
- Ramesh Thota:** Okay. Thank you, sir.
- Sunil Reddy:** This is only India.
- Moderator:** We have the next question from the line of Nitin Avasthi from InCred Equities.
- Nitin Avasthi:** Had a couple of questions on different aspects of the business. Firstly, on the feed plant, where are we on the expansion? And can you just give an update on where we stand as of today on the expansion?
- Sunil Reddy:** Nitin, BVK will answer it.



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- BVK Reddy:** Yes. See, the new plant, which is coming up in Kuppam, that is the border between Tamil Nadu and Andhra, so it will commence by end of March or first week of April, we are going to commence it with a 12,000 ton capacity per month.
- Nitin Awasthi:** And ramp-up, how do you expect the ramp-up to be?
- BVK Reddy:** Yes. Now see, out of 1 lakh, 20,000 to 25,000 farmers now, we are only catering only 19,000 to 20,000 farmers. So the present existing plant is, we have a capacity of only 2,000 tons capacity, so that now we are yielding 100%. And once this plant comes to operational, then definitely at least another 15,000 to 20,000 tons, this FY'24 itself we are targeting.
- Nitin Awasthi:** Sir, also because now your feed project will keep getting bigger and you will keep getting bigger in the feed business, I wanted to ask you whether in the feed segment, can you use DDGS as a substitute for raw material because the availability of DDGS is going up in the country, Distiller's Dried Grains Soluble feed?
- Sunil Reddy:** So basically, product mix is something which we have a multiple of options, which we keep looking at what is the optimal because in terms of the protein content to fiber content — to fiber content and energy. So normally, DDGS is also use to certain extent depending on what the prices are in the local area available. So it's a huge range of mix that we managed to keep our price under control.
- Nitin Awasthi:** Noted, sir. Sir, how much percentage of our total sales happens from the Dodla Parlors that we have?
- Sunil Reddy:** The retail parlor sales are between 11% to 12% of our sales. We are actively trying to streamline it, which is non-viable to bring them down and only pushing good products available still around 11%.
- Nitin Awasthi:** And how much — what would be the EBITDA difference for the product mix in Dodla Parlors and non-Dodla parlors?
- Sunil Reddy:** See, we basically try to keep the costs the same in terms of what we get as realization because are encouraging the franchisee who is operating there, but it gives us a lot of ability to be present in where areas we're finding difficult to get our foothold.
- Nitin Awasthi:** Sir, again, the question I'm going to ask you was in a numerical terms, EBITDAs from the Dodla Parlors, if you do your sales, would it be higher than the non-Dodla Parlor sales or would be lower?
- Sunil Reddy:** It would be almost the same. It won't be higher than the parlors. But the parlors gives us the strength of controlling our market share because we know exactly where the retail is happening, which is customer A and B, wherever we are finding it difficult to penetrate into new areas or not getting traction, we are able to use the parlors and grow.



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- Nitin Awasthi:** So it's more strategic in nature. Understood. Sir, finally, the cash on books and liquid investments.
- Sunil Reddy:** Yes. So cash on — the quantum of the cash on books and liquid investments, sir?
- Nitin Awasthi:** Correct.
- Sunil Reddy:** The cash on books right now is INR 388 crores, sir.
- Nitin Awasthi:** INR 388 crores?
- Sunil Reddy:** INR 388 crores is the cash on things. We have in bonds and debenture of around INR 122 crores, mutual funds INR 138 crores and the balance in fixed deposits.
- Nitin Awasthi:** This question was related to something I'm going to ask right now, which is, how do you see the stress in the industry? Do you think the industry in the last decade, this will be the more stressful time for the industry?
- Sunil Reddy:** The stress in the industry, I think, has been felt by more of the people who are not been able to pass on the price to the customers and also those who had not invested in the back-end in the earlier days of procurement and taking it forward. So the stress is there in industry, more from a point-of-view, I think as overall food inflation itself, it's been increasing.
- So, we have to be careful not to go overboard on price increases and just trying to pass on. In the same manner, not to be too conservative in terms of getting affected to our bottom line. So the stress has always been there. It's been typically — this part of the year, I think it has extended for a little longer period. I hope by next quarter of — the first quarter of the next year, things will improve a lot more.
- Nitin Awasthi:** Understood. Sir, that's the hope because you'll have the flush coming in and things stabilizing and the rains should bring down the product cost. I understand all that. But what I'm trying to understand is because we have cash on the books, which makes us a very different company compared to the industry, because the industry is threshold capital to some extent. Are there bargains out there that we're looking for?
- Sunil Reddy:** So the bargains are there, but we'll have to make sure that they're at the right bargains. So that's what we are looking at. We will actively keep looking. So for example, this year we have already acquired in Kenya. We have expanded our operations in feed and then, we have expanded our operations in Sri Krishna this year. Again, the same thing we will continue. We're actively looking, but trying to see the best possible outcome for us.
- Moderator:** We have the next question from the line of Vinayak Mohta from Stallion Asset Management.





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- Vinayak Mohta:** Sir, just had a few questions. I'm new to the company. So just wanted to understand, I was looking at the broad capacity additions that you have done on the processing side. However, that kind of addition has kind of not being able to follow-up with the growth in the sales volumes and the milk procurement volumes.
- So could you help me with understanding two fold, like how do you see the volumes growth going forward? And simultaneously, what kind of capacity additions are we doing on the 20 number that is mentioned in the presentation?
- Sunil Reddy:** So, basically, I think capacity addition on the front-end, we are not looking at anything now until we get an acquisition, which gives us a new area or territory for us to enter, sir. In terms of capacity expansion on the backend, BVK will explain what we're doing. So, this is predominantly what we do is to go hand-in-hand with what volumes we get as procurement and sales.
- We are actually built-up for handling the larger volume of procurement in this year, but unfortunately because of weather conditions and others, the volumes didn't income, which we're confident will come next year and it will add to our capacity. So BVK will explain more about how much of procurement capacities you are adding. And depending on the price increases, we're trying to also keep that even still. I'll hand it over to BVK to give you more.
- BVK Reddy:** See, the plant capacity is now, if you see the nine months cumulative, now we are roughly about 64% to 65% plant capacity utilization what we are doing. But this year unlikely now, we have two fodder plants because there is no surplus milk in the system. So, we were not able to utilize our fodder plant capacities. See, if we had utilized the fodder plant capacity, then we would have been at 77% to 80% capacity utilization.
- Vinayak Mohta:** So basically, what kind of growth can we expect following through in the next two to three years broadly? What is the management targeting?
- BVK Reddy:** So basically, as we have been doing, historically, that we have been growing by 10% to 11% by volume and 15% by value, because inflation has always been in the system a little bit. So, I think we will continue the same trend going forward for the next two years to three years.
- Vinayak Mohta:** And where would the margins settle on a broad level? Because there have been quite recently volatile even after the value-added product mix increasing in the chains? So where would you see this settling in?
- Sunil Reddy:** So basically what happens, sir, I have been saying that we normally try to look at also the absolute number of margin as comparative with an easier methodology in the dairy industry. But even if you look at it as a percentage, this is comparatively one of the years, which is the toughest years in terms of operational prices going up in terms of fuel, packaging material, procurement price, everything going up.



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And we've been able to maintain this margin level. Even now we are passing it on to the customer. Even if there is a slight improvement in milk or milk volumes, our margins will move up instantly. So basically, what happens is when there is an increase in procurement price or other costs, because there is a time lag of 15 days to a month before we passed on to the customer.

But when prices come down, there is instinctively accretion to the bottom line. So that's why our margins will improve very rapidly. So, I think we can look at what was in the previous year, coming to the higher profitability what we have been closer to the double-digit numbers.

- Vinayak Mohta:** So the 10%, 11% that you had done before?
- Sunil Reddy:** Yes.
- Moderator:** We have the next question from the line of Resha Mehta from GreenEdge. Please go ahead.
- Resha Mehta:** Yes. Thanks. So first is the clarification. The procurement price of milk and the selling price of milk that you mentioned was that for Q3 or was that for average of nine months?
- Sunil Reddy:** Average of nine months, ma'am.
- Resha Mehta:** Can you also share for this particular quarter, which is Q3 FY23?
- Sunil Reddy:** Yes. Q3 price is INR 37.8, procurement price. And the sales price for Q3 is INR 53.76.
- Resha Mehta:** And also, can you just broadly share on an average for the full year, typically what has been your cow to buffalo mix procurement?
- Sunil Reddy:** For us, I think 95% is cow. Only 5% is buffalo, ma'am.
- Resha Mehta:** And also if you could share the procurement from AP, Tamil Nadu, Karnataka, Telangana for the full year on an average? I'm not talking for this quarter.
- Sunil Reddy:** For the volume or in terms of rate?
- Resha Mehta:** Volume. Maybe if you can share in percentage terms that is also fine. Like in FY '22, you procured around 12 lakh liters. So...
- Sunil Reddy:** So looking at year-to-date volume, AP is around 4.73 lakh liters. In percentages, it's far better. I'll go with percentages.
- Resha Mehta:** Sure. Anything is fine.
- Sunil Reddy:** 38% is AP. 21% is Karnataka. 31% is Tamil Nadu. 2% Telangana and 8% Maharashtra.
- Resha Mehta:** And how — in terms of revenue percentage, how much comes from AP, Tamil Nadu, Karnataka, Telangana?



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- Sunil Reddy:** In terms of sales revenue?
- Resha Mehta:** Yes. Top line or whichever, nine months, not looking for the quarter or even if your past history, if you can talk about?
- Sunil Reddy:** This quarter, right? So this quarter, I'm giving you by volume number, not by value. By volume...
- Resha Mehta:** Actually, I'm not looking for the quarter. I'm looking from an annualized basis. So maybe if you can share like for FY '21 or '22, what has it been on an averages? Ballpark will also do.
- Sunil Reddy:** Yes. So for the year end — for the year, AP sales is 34%, Karnataka 40%, Tamil Nadu 16%, Telangana 10%. That is for the 9M FY'23.
- Resha Mehta:** Right. And this is Tamil Nadu, 16%, right, you said?
- Sunil Reddy:** Tamil Nadu, 16%, yes.
- Resha Mehta:** And anything in Maharashtra?
- Sunil Reddy:** No sales in Maharashtra.
- Resha Mehta:** All right. Got it.
- Sunil Reddy:** Because it's all there in Goa, which we have included in Karnataka.
- Resha Mehta:** And lastly, if you could just comment on your procurement journey like when did you embark on a, building a direct procurement from farmer model? And also that — so if I see, if I were to just crudely calculate the milk procured per farmer, right, in terms of volumes, if I see 12 lakh liters procured in FY '22 and 1.2 lakh farmers.
- So that's broadly 10 liters per farmer. I know this is a very crude way of calculating. But if I were to just compare you with your peers, this number seems on a very high side, which probably implies that you have a very dense procurement network, right? So is it because you've started this direct procurement network journey very recently or if you could just comment on your direct procurement network journey and also your procurement density? Because I think your procurement for farmers seems on the higher side versus the industry?
- Sunil Reddy:** So, I'll just give a broad picture and then BVK will take over for the detail and all. BVK will explain when we started the journey and how the things happen. But I think from a procurement side, the team has put in a lot of effort in terms of, actually, as you rightly said, bringing in more density, cutting out longer distances and that has been the effect of what you're seeing now in terms of more improvement. BVK will give you more in terms of when it started and how the change happened.



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**BVK Reddy:** See, basically, this procurement model, earlier it was only agent-model. So, we used to procure milk directly from the agents from the village and in turn the agent used to make a payment and the agent used to be responsible to the direct farmers. But see, that we have been trying since seven, eight years, almost it took 10 years that now we have converted 100% into direct farmer accounts. So no longer the agent in the middle.

There is no agent model now. It is only aggregator in the middle. So, we are making all the payments from the corporate office 1,20,000 to 1,25,000 farmers directly from the corporate office once in two, three days. So the aggregator what he is doing in the village, we are paying that separate charges for you. So, this took almost — to implement 100%, it took more than 10 years. And efficiency is also per farmer — that's what you said by dividing 2 lakh farmers — 120,000 farmers with 10 liters, that is true. So, we started with seven, eight and then slightly nine. Now it is almost nine to 10 liters per farmer is giving yield. That also we are tracking sales numbers.

**Resha Mehta:** So do you see that as you expand your procurement network, do you see this number coming down drastically, which is average 10 liters per farmer? Because it seems a little or quite on the higher side versus the industry?

**Sunil Reddy:** So, I think it's actually improving...

**BVK Reddy:** It is improving year-on year. When we started, it was six liters. Then after one year, it becomes seven liters, eight liters. See, that is — it is improving.

**Sunil Reddy:** For me, the way you look at it, even for me, I think it was — per liter, still low for farmer because if you take a good hybrid cow during a lactation cycle of her, she should be giving at least 12 to 15 liters because it's a good hybrid. But even eight liters to nine liters, I don't think we have any more of the smaller volume animals left. So that is the thumb rule, which is saying that we are — which will only go higher and not come down.

**Resha Mehta:** And typically, what — how many other dairy companies would be present in the, let's say, the villages that you all are present for procuring the milk from farmers on an average? I'm sure it will be a mix of cooperative?

**Sunil Reddy:** Three, four, five of us will be there.

**BVK Reddy:** All major dairies are there. Each and every villages, there are — five major dairies are even competing each other. And even small, small dairies in certain areas. But major four to five dairies, each and every village, we are competing each other.

**Resha Mehta:** And anything that you can comment on in terms of the farmer attrition rate that you all may be seeing or let's say, even the same farmers may not necessarily supply milk to you on two consecutive days, right? So anything here that you would like to comment on that? How do you all really manage this?



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**BVK Reddy:** See, that is normally — see, whenever price is going up or whenever price is going down, there is a slight fluctuation. See, roughly about, we used to have 125,000 farmers. So now this Q3 FY23, we have about only 120,000 farmers. Because this year April to December, almost four times price increase has happened in a procurement. So, during this price increase, if somebody in a certain area quickly, so before us if he is taking a price hike in this or one week before us, there'll be a slight, as a percent, 2% people will see the change.

**Sunil Reddy:** But coming to your question about daily change, it doesn't happen that rapidly, ma'am. We keep track of every farmer on every month, every day, every basis or whether there is even a variation. And we have some bots which keep running through. So, we don't see that alternative day drop, but it happens at a point of time and then again, they might come back and might go forward. The slight variation continues.

**Resha Mehta:** And you mentioned that now we only have aggregators, right? So, these are — sir, basically with the village level, collection center assets are owned by you, right, your electronic milk analyzers, etcetera?

**Sunil Reddy:** Everything is owned by us, even including the majority of the villages, small rentals also we are paying. Aggregator doesn't own anything.

**Resha Mehta:** And the other thing I wanted to check, right, the leader in the south, the largest private dairy, right, they are really focusing on building active bulk coolers at the village level collection centers. So if you could share your thoughts on how desirable this is, when does this become viable, let's say, your market share from a village, let's say, if there are five major dairies, then you have like a 30% market share from a village and that's when it becomes viable to install an active bulk coolers at the village level collection center? And how do you all think about this and how are you all planning to ramp-up active bulk coolers, if you all think this is a desirable trend?

**Sunil Reddy:** Yes. See, this we have been -- it is called, what we call CMC, Conventional Milk Cooler. We don't call it a bulk cooler conventional -- milk cooler, only 1,000 liters capacity. Now, we have been trying since one, one and a half years, we have already established around 22 CMC. And then we are already experienced. We got some kind of experience with us. Now next year, we are trying to explore. So the community number of what the budget and per village that we are looking at, ma'am, the team actually goes and makes a route and sees wherever the viability is there.

So sometimes if there is a little or so viability, we're able to manage a couple of villages and also get them going there because it not only is the benefit in terms of costing and return on capital, which is reasonably good when it comes to that — because vehicles don't go twice a day, they go once a day, but also improves tremendously the quality of milk. So, we do it with the two-way adjusting of quality of milk improvement as well as cost savings. But



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implementation, like you said, it's work-in progress based on the volume number of villages. So, we hope that we'll be able to increase these numbers as we go along.

**Moderator:** We have the next question from the line of Rajesh Aynor from ITI Limited.

**Rajesh Aynor:** Yes. Sir, thanks for the opportunity. Sir, not very familiar with the status. So just wanted to understand. We mentioned that there is some weather-related factors because of each -- volume increase of procurement.

So can you explain on this more, as well as how the dynamics -- why the prices have certainly moved up, what is the outlook and what are the factors because of which we expect the prices to move up and down and those factors? I mean, can you please throw some light?

**Sunil Reddy:** So basically, Rajesh, the animals, when it has to be impregnated, deliver the milk during the lactation period, an average cycle of an animal's lactation period will tend to be between 14 months or 16 months depending on the other factors. So bringing it to the factors of what can be other factors, by nature, when the weather is cooler when there is lot more fodder available for the animal to eat, it's an optimal time for an animal to get impregnated and deliver. And that was how the cycle used to keep going.

In the recent past, when COVID had come, the cycle got disrupted because there was no — not much of uptake and farmers didn't have the technicians to come in, innate the animals. And so that was one. Two, more of monsoon or more of rain, for example, if one month there is excessive monsoons and there is no place for the animals to go graze, disease or anything else come, that also pulls back.

So the differential happens if there is a one month or a two month of a drop in production then from a normal cycle. Consumption continues to go and starts to get depleted. I think this year it's added towards — there was a lot of global variation, even when the global prices went up, and India exported a lot of the stocks that they had of powder and fat, which made sure, which also has led sure that would have been a deficit of milk and milk products in the country compared to the — and also the market volumes came back with a bang.

So, I think there is a reason why there was this shortage and it will continue. It was there for a while. But we think coming — going forward when good prices are being paid, the farmers will in turn come back actively and unfortunately, like I said, this is a little longer in terms of cycles of six months to nine months of cycles. I think that's the worst cycle that we have gone through. We are hoping that the cycle will improve and become better than expected.

**Rajesh Aynor:** On a steady, state, what is generally the rate at which the demand is growing in a country like India?

**Sunil Reddy:** In terms of sales?



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- Rajesh Aynor:** Yes, the volume and overall, the volume.
- Sunil Reddy:** The volume for us has been historically growing around 10% by volume and around 14%, 15% by value, with 15% being a factor of product mix and inflation.
- Rajesh Aynor:** And the market, by and large, would be growing at what rate, similar or lower?
- Sunil Reddy:** 3% to 5% is what we estimates.
- BVK Reddy:** All over India, it is roughly about 5% to 6%.
- Moderator:** We have the next question from the line of Akshat Mehta from Pioneer Investcorp. Please go ahead.
- Akshat Mehta:** Sir, I have three questions from my side. Sir, what is our farmer network as of today? And what's the addition we did during the quarter?
- BVK Reddy:** Yes. See, the first quarter — see, last FY '22 March, see, my farmer count was around 1,21,000. And then in the first quarter, it went up by 1,29,000 and the second quarter, it has come down to 1,24,000. Now third quarter is 1,21,000 again.
- Akshat Mehta:** 1,21,000?
- BVK Reddy:** Yes.
- Akshat Mehta:** So, sir, of these farmers, sir, like what percentage of farmers buy feed from us, our feed business? So what percentage buy from us?
- Sunil Reddy:** Yes. Roughly about 22,000 farmers are buying feed.
- Akshat Mehta:** Okay, 22,000 farmers. So, sir, what would be the average procurement price that we get from these farmers?
- Sunil Reddy:** These farmers, we are getting average procurement -- year-to-date has been INR 36. That is the price.
- Akshat Mehta:** And sir, my last question, what is the attrition rate that we're seeing for farmers?
- Sunil Reddy:** Like BVK earlier said, it's partly the 4,000, 3,000 — 4,000 fluctuation on a base of 1,25,000.
- Moderator:** We have the next question from the line of Bhavya Gandhi from Dalal & Broacha Stock Broking.
- Bhavya Gandhi:** So just wanted to understand how is the procurement amount paid? Like we pay directly to the bank account of farmers. And what is the role of agent?



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**Sunil Reddy:** So the agent is basically a consolidator, meaning that he is doing a service where, when the milk comes from the center, he basically measures the milk, see what quantity it is and then the quantity and quality measurement, and he is responsible for the quantity and quality that comes in from the farmer, which is done from an automated system of milk analyzer where it has done and the way men being automated. And when the same milk comes from the consolidated to the chilling centers or wherever the collection to be, it has to be there. He takes the responsibility for discrepancy in quantity or quality, which will be penalized. And that's what he does.

So he has nothing to do with either the price or the payments. The prices, once we decide on the price it is announced. Then the consolidator automatically updates it on all the analyzers and based on that, the farmer gets his daily information of what quantity of milk he is pour and what price he has got.

And once in a 10 day some prices, most of the places once in 10 days, 11 day, the payment is made into the bank account based on that systems generated reports that we get. So the consolidator only is responsible for the quantity that comes to him and maintaining the quantity, quality parameters is equivalent to receiving end from the company.

**Bhavya Gandhi:** So he gets a fixed remuneration, or is it a variable remuneration? How is this?

**Sunil Reddy:** It's a variable remuneration. Initial raise maybe when it starts, we might give them a small fixed remuneration if it's a new area. But otherwise, it's a variable remuneration fixed on a per liter basis.

**Bhavya Gandhi:** And in terms of pricing, we pay MSP to the farmers, how is it, because you have other cooperative societies also competing, right?

**Sunil Reddy:** So price is, basically, I think it depends on the company to company. Certain companies will — if you have a lot more of it, then strength and stickiness will delay like what the retailers and 15 days or 20 days later. But majority of the places, the price differential will be on par. It will not be — not much of a difference, might be marginal differences, but they will be on par.

**Bhavya Gandhi:** No. That's based on what? Is it market supply-demand, MSP or based on competitor price?

**Sunil Reddy:** Market supply MSP -- Market Supply Demand.

**Bhavya Gandhi:** It's not on MSP, right? There is no MSP as such that you have to pay a bare minimum 30 or maybe whatever the amount may be?

**Sunil Reddy:** No.





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- Bhavya Gandhi:** Nothing of that sort. Market supply-demand. Okay. And in terms of value-added products, wanted to understand which is the top product, which is showing high growth? Because as I see, you've been selling cheese in African market, but not in Indian market, maybe the unit economics. Or what is the thought process behind? Because large FMCG players are betting big on cheese and they are saying about the high-double digit growth. So what's your take on that?
- Sunil Reddy:** Cheese and those products, basically the base volume is very low. So if I don't add Paneer to it — even if I remove Paneer and take processed cheese, the average base volume is very low. Therefore, it will show little larger growth. But our take is that there is still lot more room left in products like curds, the flavored milk, we have ice-cream as a category, the Indian sweets and Paneer, which I think are growing.
- This year, we would have had a little better and 1%, 1.5% growth in our value-added segment. But as we were saying earlier because lack of adequate milk and prices going up, we curtailed our large format sale of ghees, consumer levels or the 5 kg levels and brought it down to smaller level. That is the reason why it is showing a slight dip otherwise, our other products have increased by another 1%, 1.5%. So, we think those will go on increasing as we go forward.
- Bhavya Gandhi:** Sir, possible to quantify in the value-add, which could be the sort of high-growth products or -- that you are targeting?
- Sunil Reddy:** So, basically, if I look at values like you were saying earlier, if I take FY '22, our curd was around INR 107 crores. And this year, it has become INR 127 crores. If we take our other VAPs, which was around just INR 12 crores in '22 has now become INR 17 crores in '23. And if I take my fat, which you said has come down, it has come down in Q3 from INR 18 crores to INR 7.9 crores. So that's why we are seeing that lower, but is there.
- So like we were saying the other VAPs, which have increased from INR 12 crores to INR 17 crores, which include also products like ice-creams, flavored milk, Paneer, Indian sweets, we believe that will exceed a little more as we go forward. And curd, I think will also have another percentage of increase.
- Bhavya Gandhi:** In terms of growth percentage, if you can quantify maybe curd is growing industry-wide, I'm not talking about company per se. Say, industry-wide, what is the growth rate -- which is the product which is growing at maybe fast double-digit or high-double digit growth?
- Sunil Reddy:** So not double-digits. Especially when you look at curd, I think everybody is know -- we have moved it into every level of operation, but now we think that the growth is coming, because people look at it as more of a health product. So if I add the fermented products because people are going to be re-phasing with your -- maybe your aerated beverage or things like that. So that is why we are seeing some traction on growth coming from curd. So that will be. So that is the reason I say it will be in the single-digit growth.



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- Bhavya Gandhi:** And sir, any thoughts going — for going into cheese or maybe allied products related to cheese?
- Sunil Reddy:** No, sir. Cheese is basically, in my view, our MRP seems to be higher, but if you consider all the costs of it, cheddar cheese, there is holding costs too. If you're not able to use whey properly as a byproduct and all that, the cost differential in cheese is normally I keep looking at it see I don't truly think it will be a value-added product. It depends on how you view in terms of appropriating your costs.
- Moderator:** We have the next question from the line of Himanshu Nayyar from Systematix.
- Himanshu Nayyar:** So, firstly, just wanted to understand the status of our Africa expansion project. By when do we complete that and what's the revenue potential overall, I mean, once we reach full utilization, both of our existing and upcoming capacities?
- Sunil Reddy:** Yes. Himanshu, BVK will give you the existing utilization, what we foresee with this acquisition. So basically what we have done is we had one manufacturing unit in Uganda and we were selling from that unit into Uganda and Kenya. Now, we have acquired another unit in Kenya, because that would also derisk each country in the future, if something doesn't happen. Also, we'll be able to have market share.
- I'll now hand it over to BVK to see where we are doing currently in terms of our African volumes and what we see in the -- there's no short-term, maybe in the couple of years where we will be. Go ahead, BVK.
- BVK Reddy:** Yes. See, right now we are doing roughly about 1 lakh sales together in both the countries, Uganda, as well as Kenya. Now almost 60,000 liters we are selling in Uganda and 40,000 liters on an average now we are selling in Kenya. And see this -- just before COVID, there were some restrictions from Kenya's side.
- So, they were putting the permit system area -- there is no permit system. So, they are restricting quantity — more quantity coming to Kenya. So, they are giving only 42 for 50 permit every month. That's why you see our quantity now received today earlier in a prior to COVID in 2019, we Sold average 70,000 liters in Kenya. Now that has become only 36,000 liters, 40,000 liters because of the permit. system.
- So now, see the -- keeping that in view, now, recently, we acquired a plant in Kenya. So it is in the process. Maybe in the month of February, we will -- handover will take place. We'll take couple of months to start the production.
- Sunil Reddy:** I think we will come back to -- at least initially we will be able to add to that additional 20,000, 30,000 liters of sales.
- BVK Reddy:** Because beginning, in the first financial year, maybe 20,000, 30,000 liters we will add.



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**Himanshu Nayyar:** Sir, second bit was on our — I mean, on our acquisitions. Given that we have not closed anything in the recent past and our cash balance on books is accumulating. I mean, in case we are not able to close any acquisitions in the near future in the medium-term, say, next couple of years, do we have — I mean, have we already finalized our organic expansion plans in terms of entry into new states in the country?

**Sunil Reddy:** So, basically, we will be doing organic or inorganic growth as we go along the way, Himanshu, because we are actively looking at wherever we can get opportunities to grow. And I think this year we will find a few coming up because of the stress on the system for the dairy industry. We are actively evaluating a few of them.

But as we go forward, yes, our cash will start to accumulate more, even though we are spending, I think between our capital requirement for procurement and going into newer territories. We might have marginal surpluses, but we will continue with this growth journey as we go forward. So, I think our cash will be used for our growth for the next couple of years.

**Himanshu Nayyar:** Any states we have finalized where we want to go next beyond our current markets?

**Sunil Reddy:** So, we look at all our adjoining states, we have opportunities from Maharashtra to Odisha that we are looking at. So, we will have to evaluate and go. Because current year the price is being so volatile. We didn't want to make acquisition because it might hurt us in the short-term. That's why we were a little low key this time.

**Himanshu Nayyar:** And my final question, sir, is a bit more strategic. I mean, given the way we've seen milk prices behave, do we see even if flush comes next season, do we see prices going back to historical levels? Or we see that structurally things have changed and milk prices will be much higher than historical levels? And what do you think, if that is the case, what could the impact be on price elasticity, whether people would cut back on consumption because of the elevated price levels on a more structural basis?

**Sunil Reddy:** I think long-term, strategically wise, with current prices, I think that's been holding forward in terms of consumption, not getting impacted that much. Maybe the companies could have -- by changing volumes size or pack size and keeping it, therefore, we might see some small volume uptake. If prices go up further, I think they will -- what you're saying strategically consumption might get affected.

But at the current moment, no, the prices are not getting affected. I mean the consumption volumes are still going strong. From a procurement point of view, once the flush comes in, we can at least hope to see it's not a major correction, back to the old levels, but at least a couple of rupees differential is a normal scenario in the industry, which will be there and the selling prices will continue to remain the same.

**Moderator:** We have the next question from the line of Ankit from JHP Securities.



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- Ankit Shah:** What is the main reason for the revenue growth? Is it a combination of volume increase as well as the price hike?
- Sunil Reddy:** Yes. It's a combination of volume and price. This year, in fact, price has been contributing a little more than usual. But historically, we've been at 10% by volume and 15% by value. So 5% by price and 10% by volume, historically.
- Ankit Shah:** Okay.
- Sunil Reddy:** And this year, I think it is a little more skewed to 8.9% by value.
- Ankit Shah:** Okay, sir.
- Sunil Reddy:** The remaining coming from up to third quarter now slightly, the revenue growth is roughly about 2%, and the volume growth is around 15%, YTD of nine months.
- Ankit Shah:** And any guidance for the next two years to three years in terms of revenue growth?
- Sunil Reddy:** Next two years to three years, we will continue with the same historical numbers that we've been looking at, right, the 10%. Even though the sales have increased, we'll strive to keep the volume growth growing because as I keep saying earlier, it is not just the sales growth, but we have to also commensurately buildup the procurement, which comes with the right price and the right locations that we are operating from a sales and procurement point of view. So that's what we'll be targeting first, growing at the historical ways of growth with the base being increased.
- Moderator:** We have the next question from the line of Bharat Gianani from Moneycontrol Pro.
- Bharat Gianani:** So just wanted to understand in these 9M FY 23, one factor that I want to understand that there is also an impact of the Sri Krishna acquisition that you did. So, what was the impact of that on the margins? If you see why I wanted to understand what's the Sri Krishna acquisition doing in terms of the margins and how much impact that had on our margins in the first nine months?
- Sunil Reddy:** So Sri Krishna in terms of revenue has done from the year -- for the year-to-date around INR 47 crores for us. Margins, BVK will be answering.
- BVK Reddy:** Sri Krishna, we have done INR 48 crores top line and the EBITDA level is only 2.68%. So because of the Sri Krishna, slightly overall very slight, maybe less than 0.5% may be impacted of our EBITDA. Overall domestic.
- Sunil Reddy:** Overall domestic.
- Bharat Gianani:** And sir, another thing is on the tax rate. So this nine months, we have seen the tax rate going below the 20% mark. So what should be the tax rate we should look going forward? What we should be building?



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- Sunil Reddy:** It will be the same 23% because, basically, this little difference came through the goodwill that we have when we acquired KC Dairy. And in the current bucket, whatever the Finance Ministry has made an announcement, we had the advantage of costing written back to us. And that is the reason why it was. It will continue to be in the -- it will be in the 23% range.
- Bharat Gianani:** And sir, just one clarification. In nine months, our selling price was INR 52.2 and last corresponding figure was INR 48.9, whereas the procurement price in the nine months this year was how much, sir? I missed that actually, sorry.
- Sunil Reddy:** Procurement INR 36, sir. This is what we have reported. INR 36 for 9MFY'23 and INR 31.7 for 9MFY'22.
- Moderator:** Ladies and gentlemen, this would be the last question for today, which is from the line of Dhiral from PhillipCapital.
- Dhiral:** Sir, how much incremental price hike we need to take in order to cover the entire cost push that we have seen in last multiple quarters?
- Sunil Reddy:** The price increase, we need to look at the INR 31.70 to INR 36 procurement price, I guess you should take a price increase of the INR 5 odd is what the procurement price basically had gone up. So it was an impact of around 12% overall. We have taken around the sales realization increase of around 8%. Remaining we improved in operational efficiency, and that is the reason we're able to maintain this. So, I think the differential of 3% to 4% would have compensated the increase.
- Dhiral:** Yes. So are we expecting any price hike in coming -- maybe in days or months?
- Sunil Reddy:** Normally, not much. If the procurement does go up, maybe there will be a marginal correction that will be done to keep the same increase in procurement prices, but no major price increases.
- Dhiral:** And sir, do you still foresee the flush season kind of a situation, because already three months has been passed if we consider October to February?
- Sunil Reddy:** So the flush season again, I think post April, we are hoping for a good recovery coming in because certain states -- in the Northeast, monsoon comes in milk procurement does to start to increase. So, we are hoping that it will come up and it will ease the situation.
- Moderator:** As that was the last question for today, I would now like to hand the conference over to the management for closing comments.
- Sunil Reddy:** So thank you, everyone, for joining our call. If you need any further information, you can always get in touch with us. Our CFO, Anjan, unfortunately was not here today for a personal emergency. But I think on the presentation we have our contact details. You can get in touch with us, and we'd more than happy to give you more information. And thank you very much for joining us and have a great day.



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**Moderator:**

Thank you. On behalf of ICICI Securities, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.