India: Overview of Dairy Industry

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**Key Economic Indicators**

- **1st**
  - Largest producer of milk in the world

- **5th**
  - Largest economy in the world

- **USD 140+ Bn**
  - Value of Indian dairy industry in FY20

- **15.87%**
  - Contribution of agricultural sector in GDP in FY19

- **26%**
  - Milk contribution in agricultural sector GDP in FY19

- **11%**
  - Existing CAGR of Dairy Industry over FY16 to FY20

- **197.1 MMT**
  - Milk Production in India in FY20

**Sources:** National Dairy Development Board, GoI; Indian Dairy Association, GoI; Tecnova Research; Industry Reports and Journals

- **Bn:** Billion; **CAGR:** Compounded Annual Growth Rate; **FY:** Fiscal Year; **GDP:** Gross Domestic Product; **GoI:** Government of India; **HORECA:** Hotel, Restaurant, Café; **MMT:** Million Metric Tones; **Mn:** Million; **SMP:** Skimmed Milk Powder; **USD:** United States Dollar; **VAP:** Volume at Price; **YoY:** Year on Year
Dairy Industry Trend

Milk Production (MMT)

Milk production volume break-up by Marketability (2019-20)

Sources: National Dairy Development Board, GoI; Indian Dairy Association, GoI; Tecnova Research; Industry Reports and Journals

Bn: Billion; CAGR: Compounded Annual Growth Rate; FY: Fiscal Year; GDP: Gross Domestic Product; GoI: Government of India; HORECA: Hotel, Restaurant, Café; MMT: Million Metric Tones; Mn: Million; SMP: Skimmed Milk Powder; USD: United States Dollar; VAP: Volume at Price; YoY: Year on Year
• Considerable presence of unorganized segment due to huge demand of raw material for direct consumption and lower level of value additions required in traditional milk products

• In the organized segment, sales of cooperatives are dominated by fresh liquid milk followed by traditional value added products like butter, curd, etc.

• Private players focus on value-added products due to better avenues for product differentiation and profitability. Hence, western product categories such as yogurt, cheese, whey protein etc. are dominated by these players

Key Headlines

• India’s milk production in Q1 2020 improved over 2019
• Farm gate milk prices have gone down by over 25% in India
• Local milk powder prices have fallen by 25-30 %
• Lockdown to flatten revenue, hit profit of dairies: Crisil
• Technology saves the day for India’s leading dairy brands as lockdowns become new normal
• Sales of dairy products soar as people work & eat from home

Government Initiative & Policies

• Union budget has set the ambitious target of doubling milk processing capacity to 108 mn tones by 2025
• 18% increase in allocation of funds to Animal Husbandry and Dairying sector in 2020-21 to USD 469 mn
• Setting up a Kisan Rail in Public-Private-Partnership mode to transport perishable goods and also refrigerated coaches in express and freight trains to deficit areas in the country
• GoI’s initiative of milk fortification in India has been taken positively by the organized sector. There is an increased demand for fortified milk with Vitamin A and D at retail platforms

Sources: National Dairy Development Board, GoI; Indian Dairy Association, GoI; Tecnova Research; Industry Reports and Journals
18% increase in allocation of funds to Animal Husbandry and Dairying sector in FY21 to USD 469 mn
COVID-19 Impact on Dairy

01 Market has seen substantial increase in Ghee, cheese, Paneer, UHT consumption during the COVID-19 situation due to a significant increase in at-home consumption.

02 Sales of value-added products account for over a third of organized dairy revenue, contracted by 2%-3% last fiscal.

03 On account of surplus milk being converted to skimmed milk powder (SMP) and unsold value added product inventory, increased the working capital needs of dairies and test the liquidity of mid-sized ones.

04 Closure of hotels and restaurants because of the nationwide lockdown halted institutional value added product sales, which account for almost 20% of the organized dairy revenue.

05 Logistical challenges and apprehensions about consuming cold products (ice creams, flavored milk and yogurt) during the pandemic impacted sales in the first quarter.

“New Normal” - Dairy Sector

01 Steady demand for milk and higher value added product prices (hiked 10% in the second half of last fiscal) will help partially offset lower VAP, and arrest any decline in the dairy sector’s revenue.

02 Earlier onset of Monsoons and good coverage across India, milk production is expected to remain strong going forward. However raw milk prices are expected to Increase by around 5-7% once the situation normalizes.

03 Now HORECA outlets have also started opening. However, their focus is on home delivery and takeaway, and with few outlets operation. Resulting in pick up of demand from the channel.

04 Commodity sales have started picking up With the re-opening of major user industries. However, commodity prices would be Subdued due to higher Inventory levels across the country.

Sources: National Dairy Development Board, GoI; Indian Dairy Association, GoI; Tecnova Research; Industry Reports and Journals.
We Deliver the India Advantage

Indian Dairy Market Value (USD Bn)

- One of the primary factors propelling the market growth of dairy products is mounting population and elevating disposable incomes. Due to this, a large section of population is willing to spend more on milk and milk products.
- Changing eating patterns and rising health-consciousness amongst the consumers remain some of the factors that have resulted in a shift towards organic dairy products. This has in turn stimulated the growth of the dairy industry in India.
- Owing to the rise in the working population, the demand for ready-to-eat products is witnessing a soaring demand. Moreover, the Government of India has provided various subsidies in order to promote the production of dairy products.

### Milk Consumption and Utilization Type (2019-20)

**Milk Consumption**

- Buffalo: 55%
- Cow: 45.0%
- Others: 4.0%
- Base: 197.1 MMT

Faster growth is expected in Cow milk consumption in line with developed markets

**Milk Utilization for Organized Market**

- Milk: 57%
- Ghee: 19%
- Paneer: 6%
- Koha: 6%
- Curd & Yoghurt: 5%
- Milk Powder: 2%
- Others: 5%
- Base: 197.1 MMT

Sources: National Dairy Development Board, GoI; Indian Dairy Association, GoI; Tecnova Research; Industry Reports and Journals
International Trade

- Laying a special thrust on dairy sector, Prime Minister reviewed the vision of India to become a major dairy products exporter in next 3-5 years. The government is also aiming to fast-track organized off-take of milk produce to 50%.

- India had exported dairy products worth USD 303 mn (2018-19) and USD 270 mn in 2019-20. Products include Buttermilk, Milk and Cream not concentrated, Butter and other fats, Milk and Cream concentrated or sweetened, Curd and SMP

- India also looks at reducing its import dependence as it currently has a very limited import, majority of which is protein powder.

- India also imports plant and machinery that helps in dairy production, preservation, etc. India imported dairy machinery worth USD 13 mn during 2019-20

- Turkey, UAE, Egypt, Bangladesh, and Bhutan were the major destinations for India’s dairy exports

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Tecnova’s Experience in Dairy Industry

- Market research and distributor search for Europe based dairy companies

- Industry research for Australia based milk and milk products manufacturer

- Market research and strategy for India based dairy companies

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Sources: National Dairy Development Board, GoI; Indian Dairy Association, GoI; Tecnova Research; Industry Reports and Journals
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