India: Overview of Dairy Industry

Quarterly Update: Q4 FY 2020 (Jan’2020 – Mar’2020)

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The Dairy Industry

Key Economic Indicators
- 6th Largest economy in the world
- 1st Largest producer of milk in the world
- 15.87% Contribution of agricultural sector in GDP
- 26% Milk contribution in agricultural sector GDP
- 5% CAGR of India’s milk production
- 197.1 MMT Milk Production in India (2019-20)
- USD 130+ Bn Value of Indian dairy industry
- 8.47 Mn Current Employment

Dairy Industry Trend
- Production (Million Tonnes)
- CAGR 5%

Milk Production
- Organized Dairy (14%)
- Unorganized Dairy (86%)

Cooperatives Procures 57%
Private dairies Procure 43%
Traditional Milkmen/ Vendors (37%)
Self consumption at home (63% is retained)

Summary
- 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 yogurts, cheese, whey proteins etc. are dominated by these players

Milk Consumption and Utilization Type (2019)
- Faster growth is expected in Cow milk consumption in line with developed markets
- Milk Utilization for Organized Market

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; MMT: Million Metric Tones; Mn: Million; SKU: Stock Keeping Unit; SMP: Skimmed Milk Powder; USD: United States Dollar; YoY: Year on Year
**Dairy Industry: Quarterly Update**

**Key Quarterly Headlines**

- India is ensuring uninterrupted supply of milk during COVID-19 lockdown: **Milk and Milk products are in Essential Items**
- COVID-19: Milk consumption down 25% in one month as eateries remain shut
- Indians Stocking Up Milk Help Lift Dairy Shares During Lockdown
- Surplus milk being converted to Skimmed milk powder or value added products with higher shelf life
- Milk delivery companies see jump in demand during lockdown

**Dairy Sector Post COVID-19**

- No change in procurement and production of milk, still continues to grow at 4-5% annually
- Fresh dairy products – Liquid Milk, Cottage Cheese, Curd and Butter will continue to grow
- Institution(B2B) channel – Demand and growth will be slow; channel contributes ~25% of the value
- In retail channel; organized retail will be impacted as people will prefer to buy from near by mom and pop stores
- E-commerce will pick up as delivery option will be preferred with large variety of SKU’s available and convenience
- Short term focus for all the companies will be to consolidate rather than product expansion

**Government Initiative & Policies [2020-21]**

- Union budget set the ambitious target of doubling milk processing capacity to 108 million tones by 2025
- Increase the coverage of artificial insemination from the present 30% to 70% in the Union Budget 2020-21 is a significant step in improving the productivity
- 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

**Growth Drivers**

- **Huge Vegetarian Population**
  Vast vegetarian population and Source of animal protein is through dairy products only
- **Largest Producer and consumer of Milk**
  India is the largest producer of milk, and consumes ~95% of milk produced
- **Essential goods**
  Milk and dairy products are list of essential goods and will be available
- **Culturally Routed**
  Deep rooted presence in Indian culture for dairy products.
- **Changing Lifestyle**
  Consumers are moving towards health conscious segment and try to include more health based products in their diet

**International Trade**

![India SMP Exports Chart]

- For the year between April 2018 and March 2019, India exported 45082 MT of SMP as compared to 11476 MT previous year
- Exports have reduced significantly due to very low carryover stocks and attractive domestic prices and exports at halt due to COVID-19 i.e. April 2019 to Jan 2020 it was only 760 MT and no major further additions
- Milk production to grow by 4%-5% through 2020 (compared with recent averages annual growth rates of 5%-6%)

**Notable Deals in FY 20**

- No notable deals in this quarter as companies are in a consolidation phase and observing the current situation

**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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