

INDIAN DAIRY INDUSTRY

Industry prospects remain stable with steady recovery in demand; value added products to grow at higher pace

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Domestic milk production expected to grow by 5-6% in FY2022



India continues to maintain its leadership position as a milk producer with 22% of the total global milk production in FY2021e. India's milk production rose by 5.7% to 198 million metric tonnes (MMT) in FY2020 and is estimated to have grown by 5.0% to 208 MMT in FY2021. ICRA expects a similar 5-6% production growth for FY2022 as normal monsoon and early onset of flush season in some regions is expected to support production and the impact of second Covid-19 wave was softer on production.

Industry revenue growth pegged at 9-11% for FY2022 aided by improving demand, stable production growth, increasing organised share and higher contribution of VADPs



Owing to Covid-19 disruptions, industry demand for dairy products was moderately affected, especially the impact was severe in institutional segment. However, with the economy gradually returning to normalcy, there has been a strong demand recovery. ICRA expects revenues of organised players to grow by 9-11% in FY2022 led by improving demand, stable production growth, increasing organised share and contribution of Value Added Dairy Products (VADPs).

Organised dairy segment, which forms 26-30% of the overall dairy industry, shall continue to grow at fast pace over medium term



Organised dairy segment generally accounts for 26-30% of overall dairy industry (by value). This segment has been growing at a faster pace compared to unorganized segment and we expect this trend to continue. Revival of demand from institutional segment (including that for VADPs), increasing penetration of dairy players will support the growth momentum of the organised segment in FY2022.



For the near term, the industry is unlikely to face major supply or demand issues given the healthy raw milk availability, growing demand and expanding organised trade. Revival in economic activities, increasing per capita consumption of milk and milk products, changing dietary preferences due to rising urbanisation and continued Government support towards investment in dairy industry shall act as key growth catalysts. In this backdrop, ICRA maintains stable outlook on the dairy sector.

Liquid milk continue to corner large share of demand and shall grow by 6-7% in FY2022. VADPs like ghee, curd and SMP to grow at higher rate of 13-15%.

Average raw milk procurement prices are higher in FY2022 YoY. However, in the absence of equivalent rise in selling prices and inflation in the fuel costs, we expect ~150 bps contraction in profit margins for FY2022 on YoY.

With demand recovery in institutional and HoReCa segments, SMP inventory is expected to be gradually liquidated

Private players to focus on VADP capacity, credit metrics for integrated players to be stable in FY2022



Liquid milk segment corner a larger share of domestic dairy industry (~51%) and is expected to grow at 6-7% in FY2022. Majority of VADP categories (ghee, curd, butter etc) are expected to grow at a healthy clip of 13-15%. However, demand recovery of few VADP categories such as frozen yogurt, ice-cream etc., shall be slow owing to consumer's aversion for consumption of cold dairy products during the second wave of pandemic.



In FY2021, stable milk procurement and low demand pushed players to convert excess liquid milk to skimmed milk powder (SMP) thus resulting in elevated inventory levels and subdued SMP prices. With expected recovery in demand during festive season, SMP prices are likely to improve and leading to liquidation of stocks in FY2022.



Raw milk procurement prices was subdued in FY2021 due to weak demand. However, the prices have increased in the current fiscal supported by recovery in demand. Cooperatives and large private players continued to procure high volumes to support farmers during Covid-19 second wave. Nevertheless, the higher procurement costs were not compensated by equivalent increase in selling prices thus resulting in moderation of profit margins for dairy players in FY2022.



ICRA's sample set is expected to witness revenue growth of ~10% in FY2022 after declining by 8% in FY2021 due to impact of Covid-19 onset. However, operating margins are expected to moderate by ~150 bps with reduced spread between procurement and retail prices. With demand recovery, ICRA expects moderate capex to continue with focus on VADP capacity by most private players. ICRA expects debt metrics for integrated players to be stable in FY2022.

1 Trends in milk production



2 Procurement and selling prices



3 Government support and initiatives



4 Key dairy products and demand drivers



5 Industry dynamics and competitive landscape



6 International dairy trade



7 Outlook



8 Peer comparison



9 Company section



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