

Thoughts

Reflexion and Analysis for the Indian Market

October 2019

India's Dairy Sector – The Revolution continues!



Foreword

India's dairy market presents lucrative and impactful opportunities. The dairy sector in India grew at a rate of 6.4% annually in the last four years against the global growth rate 1.7%. India is the leading milk producing country in the world, accounting for ~19% of the global market share. The milk processing industry in India is expected to expand at a compound annual growth rate (CAGR) of ~14.8% between FY 2018 and FY 2023, and will reach INR 2,458.7 Bn in FY 2023. Despite being ranked number one in milk production, the per animal productivity is 1,806 kg a year, whereas the world average is 2,310 kg. Apart from milk, the revenue of the Indian dairy and milk processing industry is generated from several value-added products such as butter, curd, paneer, ghee, whey, flavored milk, ultra-high temperature (UHT) milk, cheese, and yogurt. During the period FY 2016 to FY 2020, the market size of butter is expected to grow by 14.5%, curd by 14.4%, paneer by 14.1%, and ghee by 14.1%, among others.

Today, India's 150 million dairy farmers produce more milk than any other country (when milk from all species are combined). The vast majority of these farmers are small land holders, owning just two or three cows or buffaloes. Although the average milk production per animal is very low (3 litres/animal/day) compared to industrialised countries (30 litres/animal/day), Indian dairy farmers nevertheless have managed to ensure the availability of a nutritious yet affordable food for an ever increasing Indian population. Per capita milk availability in India has increased from 130 grams per day in 1950 to 374 grams per day in 2018, considerably higher than the world average of 294 grams per day.

Milk is the lifeblood for much of the Indian countryside. It is the number one farm product in value, generating US\$100 billion a year. And half of India's milk is either consumed by its producers or sold to non-producers in rural areas. The rest is marketable surplus, delivered to public cooperatives or private dairies, or sold directly to households. Thanks to India's extensive network of strong dairy cooperatives and small scale vendors, a large portion of the money paid by consumers goes to the primary milk producers. On average, farmers get more than 70 percent of what consumers pay. For producers affiliated with a cooperative, in which farmers control a large share of production, processing and marketing, this share increases to 80 percent. Today, around 17 million farmers belong to 186,000 village level cooperatives in India, and more than 32,000 of these cooperatives are led by women.

The shift from cooperatives to private companies

Because of India's tariff and non-tariff barriers on dairy imports, the only entry for foreign dairy corporations is through joint ventures, mergers or acquisitions of local dairy companies. Even this, however, only became possible in 1991, when an effective ban on new private processing companies was lifted. Since then, the number and size of private dairy companies, many backed by foreign companies and private equity groups, has rapidly increased, with private companies now having a larger share of the dairy market than India's longstanding cooperatives. The National Dairy Development Board says that the private dairies constructed as much processing capacity in the past 15 years as the cooperatives generated in over 30 years.

The increasing shift from cooperatives to private companies as the lead actors in milk procurement in the so-called 'organised sector' has major implications for farmers. Under India's cooperative set-up, the state-level cooperative federation shares its profits with the milk producers at the end of the year. But the new private players do not share their profits with milk producers, nor will they provide additional services the way cooperatives do. In fact, the private players procure milk from the farmers only when prices of their end products, skim milk powder (SMP) and butter oil, are high and yield good profit.

The greater industrialization of livestock production

The entry of foreign dairy corporations is also leading to a greater industrialisation of livestock production and the Indian government has supported this tendency through a national dairy action plan that provides incentives to major dairy corporations like Fonterra, Lactalis and Nestle to import production and processing technologies. These technologies are not suited to the needs and traditional practices of India's small scale farmers, but to larger scale industrial farms, including mega factory farms, the first of which have started to appear in India.

So far much of the focus of the private players in India's dairy sector has been on value-added products like cheese and yoghurt or processed foods. The companies market these products to urban consumers in fancy packaging, as a more hygienic choice than the milk typically sold in metal cans by small vendors on their bicycles or motorbikes. Many are targeting wealthy consumers with expensive pro-biotic drinks,

ice creams and other dairy products, and several small private dairies even sell high-end milks from indigenous breeds of cows like Gir, Sahiwal, Tharparker.

Contribution of the value added dairy products

The key to success in the dairy industry in India has been largely based on the capacity of the player to grab a share of a consumers' monthly basket. Hence, each player has been focusing on providing a gamut of products across price ranges. This will enable them to get as many dairy products consumed as possible when it comes to the monthly budget of the consumers. While pasteurized milk is a volume driven market, value-added products such as cheese, probiotics, and flavored milk-based drinks along with flavored yogurts have picked up sales like never before. They are likely to be a staple product for urban consumers very soon.

One of the key reasons for the increase in the demand of such products has been the change in the lifestyles of the urban population which is seeking convenience-oriented and on-the-go products that can complement their fast and time-pressured routines. This has been a high growth area where growth of more than 30% has been registered year-on-year for the past couple of years. This has paved a way for the organized dairy segment in India to sharpen its focus on value-added product segment which is the highest profit margin business segment amongst its contemporary dairy products.

Value-added products require high-end infrastructure for manufacture, storage and logistics and are being eyed by several investors. Most of the domestic and multinational players present in the industry are striving to grab a share of this pie. It is expected that the value-added product market will increase the share of the organized dairy industry over 26% by 2020 as compared to 22% in 2016. Since dairy is a consumer-driven market, there has been a continuous need for innovation in all aspects of marketing in the wake of the changing customer landscape. In the quest for gaining visibility, stakeholders in the dairy industry have been investing in packaging to create brand loyalty and awareness. Innovative technologies of packaging are coming into the picture for milk and especially value-added products because of an overall tropical condition of the subcontinent. A huge scope exists here in terms of investment and innovation in aseptic packaging in the dairy industry.

The next big dairy product – the Cheese revolution

The world's primary cheese markets in Europe and North America are saturated, a situation that is forcing suppliers to look elsewhere, such as to Japan and Russia, which are currently major importers, and to developing markets like India. The Indian cheese market is presently worth around US\$300 million, but is expected to grow at roughly 15 to 20% annually in the coming years. The Indian cheese market is expected to grow at a CAGR of 20% between 2018 and 2020.

Product-wise, the global market features almost 3,000 varieties of cheese, whereas only about 50 variants are marketed in India, presenting much room for the market's expansion. By industry estimates, current household penetration in terms of cheese consumption is less than 7%. Per capita consumption of cheese in India is a mere 200 grams per year in contrast to the global average of nearly 10kg per annum. The average for urban India, however is 700 grams per person and the country's six largest cities consumer approximately 60% of all cheese sold in India.

Processed cheese represents 45% of the total dairy market in India and is likely to grow by an above-average CAGR of around 25%. Unspreadable processed cheese accounts for around 60% of the processed cheese segment. The unprocessed cheese market is largely associated with the soft cheese category in India, usually paneer. This traditional soft cheese constitutes over 55% of this market, with only a small fraction thereof being contributed by the organised sector.

The market has been dominated by cooperatives and regional players with only a few international players making any inroads. The GCMMF with its Amul brand of cheese has been a forerunner and holds a majority share of the market, followed by Britannia. The imported gourmet cheese market currently occupies a mere 5 to 7% of the total cheese market, but this niche segment is growing at over 30% a year. The rest of the market is split between other players such as Parag Milk Foods, Gowardhan Foods, Danone, Milky Mist, Heritage Foods, Mother Dairy, Vijaya Foods, Milkfed and Verka.

India's four metro cities alone account for more than 60% of total cheese consumption. Mumbai is the largest market – 30%, followed by Delhi – 20%, Kolkata – 7% and Chennai – 6%.

Cheese is one of the fastest-growing markets among dairy products. Traditionally, India has been a paneer-consuming market which is dominated by the unorganised players. The rise in food service outlets (e.g. Pizza Hut, Domino's...) across the

country and changing food habits have triggered a robust increase in the demand for cheese in India. The Indian fast-food market is a major driver for India's cheese industry and is currently worth over a billion dollars and growing at 30% annually. Cheese is quite popular used with a number of fast foods such as pizzas, burgers, garlic breads and sandwiches. Cheese is also being added as a taste enhancer in a number of traditional Indian recipes such as dosa, parathas and uttapam.

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