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Value added dairy products to boost up profits: CARE

CARE Ratings' report on Indian Dairy Industry

The time has arrived for dairy players to skim the cream out of the milk business. Rising consumption coupled with better margins in the value added dairy products (VADPs) are driving the dairy players to get into the growth and higher profitable trajectory. Change in demographics and rapid urbanization have resulted into manifold surge in the demand for VADPs. Milk products such as curd which were largely home products are currently available under various brands. Due to convenience, health benefits and increased consumerism, milk derivatives like buttermilk, low fat yogurt and flavored milk are nowadays part of regular consumption.

Increasing participation from the private sector....

Consumer preference towards VADPs is taking forward the dairy sector. Besides brown-field/ green-field expansion, global dairy companies too are venturing into milk derivatives business in this part of the world. The most recent one is the 100% acquisition of Tirumala Milk Products Pvt Ltd by Groupe Lactalis SA, France, one of the largest dairy players in the world. Another French dairy major Danone has also increased its presence in the Indian dairy sector with slew of product launches such as flavored curd, yoghurt etc.

Right product mix likely to have a positive impact on the credit profile of dairy companies

Traditionally, the credit risk profile of dairy companies was characterized by low profitability and moderate liquidity. The dairy companies rated by CARE are largely in the BBB or BB category (refer the graph below) primarily on account of moderate solvency profile. However, Mother Dairy Fruit And Vegetable Private Ltd, Co-operatives associated with Gujarat Cooperative Milk Marketing Federation and some private dairies are in the 'AA' and 'A' rating category on account of their superior procurement and marketing channels and high share of VADPs in product portfolio. During FY14, the credit profile of CARE rated dairy companies have broadly remained stable.

The entities with the right product mix of liquid milk and VADPs are expected to have better profitability and solvency parameters. Consequently, there is a high possibility of improvement in the credit profiles of such companies given the robust milk procurement and distribution system.

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