

## Dairy sector growth to stay high for now

Capacity expansion and brand building to improve margins

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A study by ICICI Securities estimates India's dairy sector to grow annually in low double-digits for the medium term. Triggered, it says, by an increase in per capita consumption of milk, with improving affordability, shift towards premium milk and an increase in consumption of value-

added products. This has also prompted many global players to enter India, through the inorganic route, and commit to big investments in value-added products.

“Milk production in India has been growing at a four per cent compounded annual growth rate (CAGR) over 1991-92 and 2015-16. Milk price inflation averaged around seven per cent per annum over the same timeframe. Dairy exports from India are negligible, given that the country produces largely buffalo milk and that indigenous value-added products are considerably different from those in developed countries. Hence, the milk produced in India will be largely consumed in the domestic market and the sector would continue to grow in low double-digits,” said Aniruddha Joshi, analyst at ICICI Securities.

Strengthening of direct milk procurement, the right product mix and distribution expansion would be key for revenue and profit growth. Indian consumption trends are still evolving and products such as cheese, spreads and premium milk will need investment, despite strong growth potential, in the foreseeable future. Companies focusing more on fresh milk products such as *dahi* (curd), buttermilk or *paneer* will enjoy healthy profitability and return on capital.

A CARE Ratings report showed global multinationals have invested immensely in Indian dairy over recent years. KKR India, local arm of the New York-based buyout entity, has invested Rs 600 crore in Kwality, producer of dairy products with the same brand name. The world's largest dairy product group, Lactalis, from France, has invested Rs 1,750 crore and Rs 470 crore in Tirumala Milk and Anik Industries, respectively. Cargill Ventures has invested Rs 110 crore in Dodla Dairy, a Hyderabad-based entity.

Following these moves of multinational companies, Indian private sector players and co-operatives have also changed their strategy, investing in brand building, expansion, direct procurement and distribution. Heritage Foods has spent Rs 70-75 crore. Gujarat Cooperative Milk Marketing Federation, producer of the Amul brand of dairy products, proposes to invest Rs 3,000 crore by 2020. Parag Milk Foods and Prabhat Dairy have invested Rs 64 crore and Rs 40 crore, respectively, on strengthening their industry presence.

“The growth in the dairy industry, driven by value added products, largely from the organised players, will drive margin growth. In the medium term, the players will have to focus on improving their procurement strategy and initiate capital expenditure for enhancing capacities and investing in the supply chain. Post stabilisation of the capex, the return ratios and leverage ratios are expected to improve. We expect the credit profile of private dairy players to remain stable over the medium term, till the capex phase is complete,” said Milind Gadkari, senior director, CARE Ratings.

Amul has increased milk procurement at a CAGR of 11.2 per cent in the past decade. It started collecting milk outside Gujarat from FY11 and this now accounts for 15 per cent of all the milk it collects.

## INVESTMENT CATCHING UP

Investor	Recipient/purpose	Amount (₹cr)
KKR India, local arm of New York-based buyout firm	Kwality	600
Lactalis	Tirumala Milk	1,750
Lactalis	Anik Industries	470
Cargill Ventures	Dodla Dairy	110

### DOMESTIC COMPANIES

Godrej Agrovet	Creamline Dairy	150
Heritage Foods	Brand expansion	70-75
Amul	Cheese and chocolates	3,000
Kwality	Dairy Best	520
Parag Milk Foods	Brand expansion	64.5
Prabhat Dairy	Upgradation	40

Source : Icra Ratings