

Dairy Industry Update

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Overview

After the announcement of complete lockdown on March 22, 2020, the Indian dairy industry initially witnessed a sharp contraction in demand from bulk consumers as Hotels, Restaurants and Cafes (hoReCa), tea stalls, sweet shops etc were completely shut. This was coupled with limited clarity on lockdown regulations, supply chain issues, which disrupted the sales of milk and milk products.

Meanwhile, dairy cooperatives continued to source milk from dairy farmers, possibly in volumes higher than usual, which led to oversupply of milk in the market.

The slump in institutional demand was somewhat gradually offset by rise in demand from retail consumers as at-home consumption of food increased.

Liquid Milk

One of the main challenges the cooperatives had to experience in Q1 FY21 was increase in procurement of milk. They procured milk not only from their producer members but also from dairy farmers that before lockdown were supplying milk to private dairies and unorganised players. As per one of the top players in the market, they sourced around 30% more milk compared to prior months.

Private, small and unorganised dairy players either stopped or reduced their operations. This happened mainly because of a steep drop in demand for milk and its products from Hotels, Restaurants and Cafes (HoReCa) segment, sweet shops and tea stalls etc. Dairy cooperatives, due to their commitment to source milk continued to procure it despite challenging business environment. According to FICCI, average procurement of milk by cooperatives increased by 7% for Q1 FY21 compared with the same period last year.

Many dairy cooperatives had to alter their supply chains for ensuring uninterrupted supply of milk to consumers. It is estimated that the supply of milk improved significantly by 18% from 288 lakh litres per day (LLPD) on 27th March 2020 to 340 LLPD as on 14th June 2020.

SMP and Butter:

During the lockdown, as majority of cooperatives continued to procure additional milk from dairy farmers, the surplus stock of milk had to be converted into milk products such as SMP and butter. This is evidenced by chart 1 and 2 below. The production of SMP rose from 51,153 tonnes in Q1 FY20 to 69,276 tonnes in Q1 FY21, a 35% increase. Similarly, the production of butter saw a 26% Q-o-Q rise to 26,066 tonnes in Q1 FY21, from earlier 20,670 tonnes in Q1 FY20.

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Chart 1: SMP Production (in tonnes)

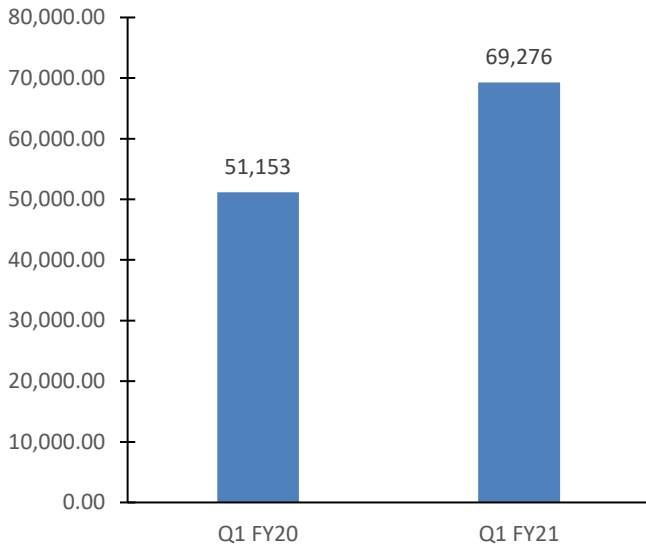
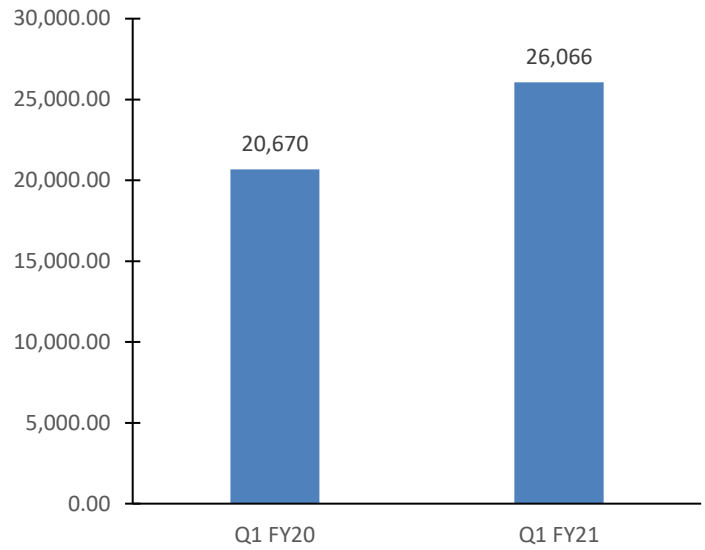


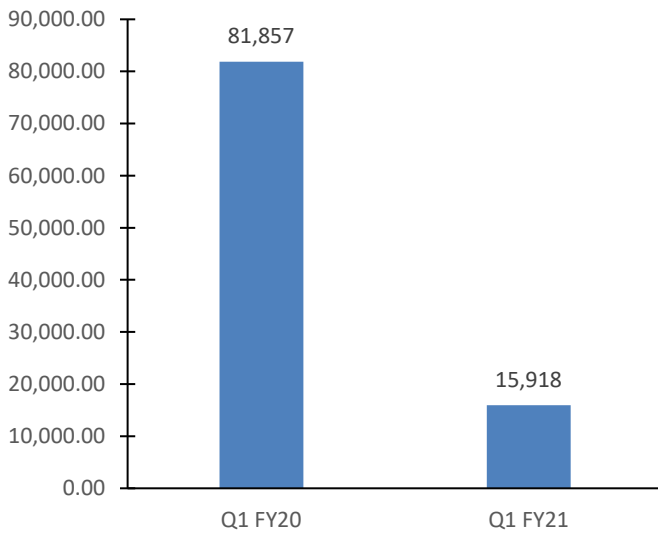
Chart 2: Butter Production (in tonnes)



Source: CMIE

Ice-cream:

Chart 3: Ice Cream Production (in thousand litres)



Source: CMIE

Ice Cream as a milk product was affected the most. It is believed that apprehensions with respect to consumption of cold products during Covid-19 pandemic adversely impacted demand which in turn led to an extensive fall in production of ice cream during its peak demand season – summers. As can be seen from chart 3, the production shrank by 81% from 81,856 thousand litres in Q1 FY20 to 18,918 thousand litres, compared to the same period last year. Also, for the month of April 2020, the production was just 513 thousand litres, a steep fall of 97% as compared to 28,562 thousand litres in April 2019. It is believed that with easing of Covid-19 induced restrictions, the demand for ice creams has picked up to some extent in the month of July, 2020.

Other Milk Products:

According to market sources, the demand for products like packaged milk, ghee, cheese, paneer, UHT etc went up whereas demand for impulse category products like flavoured milk, yogurt etc reduced. Also, consumers switched to online platforms and home delivery of milk and its products due to fears of virus contraction.

Concluding remarks:

- Initially after the announcement of lockdown, the demand for milk and milk products was adversely impacted due to muted demand from bulk consumers but as at-home consumption increased, the demand for commodities like packaged milk, ghee, cheese, paneer and UHT gradually picked up
- Additional procurement of milk by dairy cooperatives during the period of Q1 FY21 led to conversion of excessive milk into surplus stocks of SMP and butter
- Ice cream sales were the worst affected due to Covid-19, which led to a massive fall of 97% in its production in the month of April, 2020 to 513 thousand litres from 28,562 thousand litres compared to the same month last year
- With the reopening of major user industries, sales for milk commodities overall have started gaining traction but it is expected that it will take time to normalise as take away and home deliveries are preferred over dine in by some customers

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