

# Indian Dairy Industry

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Gross margins for dairy companies  
to improve sequentially in FY2024

July 2023





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*Raw milk procurement prices are expected to witness correction due to improvement in milk availability with the onset of the flush season in H2 FY2024. Consequently, industry profit margins are expected to start improving sequentially.*



Domestic milk supply was impacted in FY2023 due to the incidence of Lumpy Skin Disease (LSD) in cattle and its impact on the milk yields during the flush season, thus resulting in a demand-supply gap as demand remained steady. ICRA expects healthy improvement in milk supply by H2 FY2024 as these factors are likely to ease.



Raw milk demand remained buoyant in FY2023 with both liquid milk and value-added dairy product (VADP) segments witnessing a healthy volume growth of 8-10% and 18-22%, respectively, for ICRA's sample set. This was despite industry-wide raw milk price hikes. ICRA expects the raw milk demand to remain healthy in FY2024 from both the retail and the HORECA\* segments.



Fodder and cattle feed prices increased in FY2023 due to erratic weather conditions. With delayed onset of monsoons, inadequate and uneven rainfall through June 2023 and consequent YoY lag in kharif sowing across most crops, fodder and feed prices remained firm. However, pick-up in monsoon over the last few weeks is likely to accelerate kharif sowing pace, which would determine price corrections. Nevertheless, ICRA expects green fodder availability to be adequate for the season.



ICRA's sample set witnessed a YoY increase of 17-19% in raw milk procurement prices during FY2023. Although the dairy companies took around 11-13% retail price hikes over the last few quarters, the increased costs were not passed on completely. With normal flush season in the South in early FY2024, milk procurement prices are witnessing a correction. Prices in North India are expected to moderate during the flush season in H2 FY2024 amid better milk availability. The gross margins for dairy companies are thus expected to improve on a sequential basis.



ICRA's sample set witnessed a healthy revenue growth of 21% during FY2023, driven by both volume growth and price hikes. The OPM witnessed an improvement in H1 FY2023 driven by price hikes, though H2 witnessed some moderation with sharp increase in raw milk prices. It is expected to start improving in FY2024 with expected normalisation of milk supply and correction in raw milk prices.

# Dairy product prices witnessed a sharp increase in FY2023

## KEY TRENDS



Milk supply impacted due to Lumpy Skin Disease (LSD) and lower induction of new cattle during the pandemic



Domestic milk demand remained robust owing to its essential nature



Elevated fodder and feed prices kept input costs higher



Decline in buffalo milk share, which has higher fat content, impacted fat availability, resulting in increased fat prices



Increased exports of fat in FY2022 and FY2023

## Price increases in FY2023



12-14% increase in raw milk prices



13-15% increase in wholesale price of fat-based products such as ghee



7-8% increase in Skimmed Milk Powder (SMP) prices\*

Source: Indian Dairy Association, ICRA Research; lower YoY growth in FY2023 as there was 15% increase in March 2022

# Milk demand remained buoyant in FY2023; expected to be healthy in FY2024

## 15-18% growth in raw milk procurement

ICRA's sample set witnessed a double digit increase in milk procurement volumes in FY2023 to meet growing demand for both liquid milk and VADPs



## 8-10% increase in liquid milk sales volume

Despite multiple price hikes undertaken by dairy companies, the liquid milk sales volumes witnessed around 8-10% growth during FY2023. The demand for liquid milk is expected to remain robust due to its essential nature



## 18-22% increase in VADP volumes

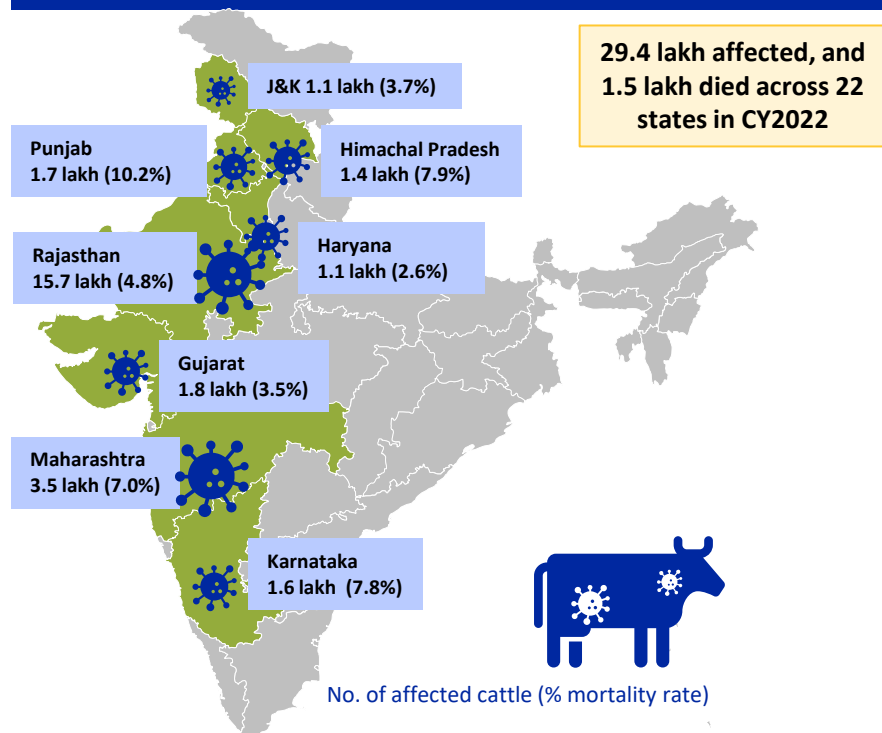
VADPs continued to witness strong volumes, which along with price increases, resulted in revenue growth of 28-32% in FY2023. The demand for VADPs is expected to remain healthy owing to growing disposable incomes and increasing demand from the HoRECA segment



Source: ICRA Research, based on ICRA sample set of four large dairy companies (Dodla Dairy, Hatsun Agro Product Ltd, Heritage Foods Ltd, Parag Milk Foods Ltd,)

# Milk supply impacted in FY2023; availability to improve in FY2024

## Exhibit: LSD spread in India in CY2022



### LSD infection

Widespread incidence of LSD impacted cow population and milk productivity in FY2023, particularly in North and West India, which will take a few more quarters to recover.



### Slow pace of new cattle addition

Due to restrictions on cattle movement during the Covid-19 pandemic in FY2022 and subsequently LSD in FY2023, the farmers could not replenish/ increase their cattle holdings. This is expected to pick up pace gradually.



### Lower milk yields

High fodder prices in FY2023 impacted farmers' ability to feed cattle adequately, impacting milk yields. Fodder prices are expected to moderate post the kharif harvesting season in FY2024.



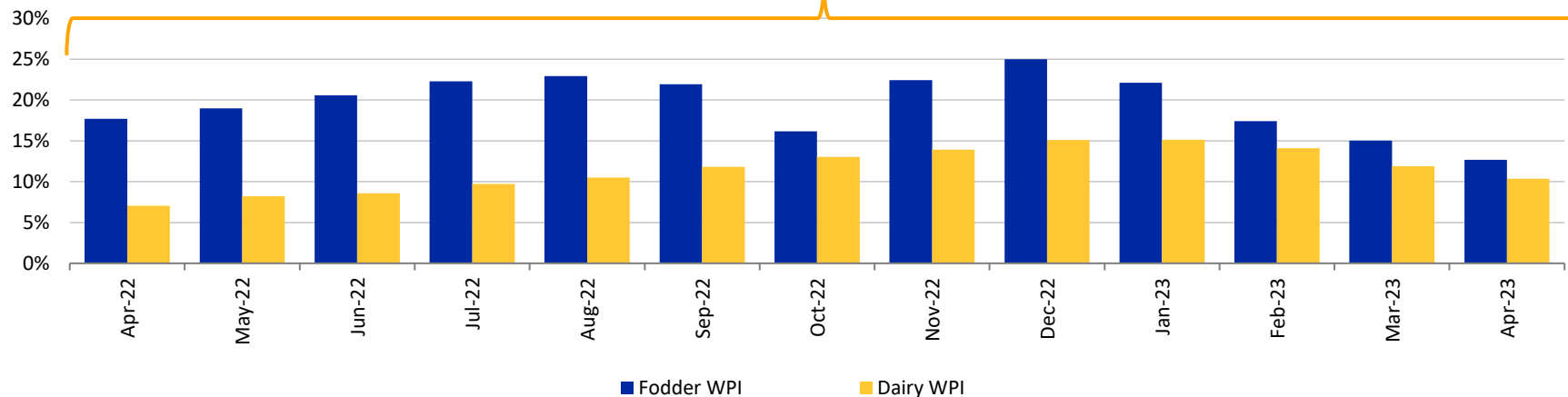
### Increased stocking by dairy companies

Due to the inflationary scenario and anticipated milk supply issues, large dairy companies, especially from LSD-affected states, increased their milk stocks, thus impacting overall milk availability.

# Fodder prices remained firm in FY2023

Exhibit: Fodder and Dairy WPI inflation – % YoY growth

17% inflation in fodder WPI and 12% in dairy WPI in FY2023



- Fodder prices continued to increase at double-digit rates in the past two years (fodder WPI grew by 17% in FY2023 and 12% in FY2022) due to unusually warm rabi season and unseasonal rains during August-September 2022, which impacted wheat production and thus dry fodder availability. Consequently, dairy wholesale inflation increased to the tune of 12% in FY2023 on a YoY basis.

# Fodder/feed prices to moderate if sowing accelerates following pick-up in monsoon in recent weeks

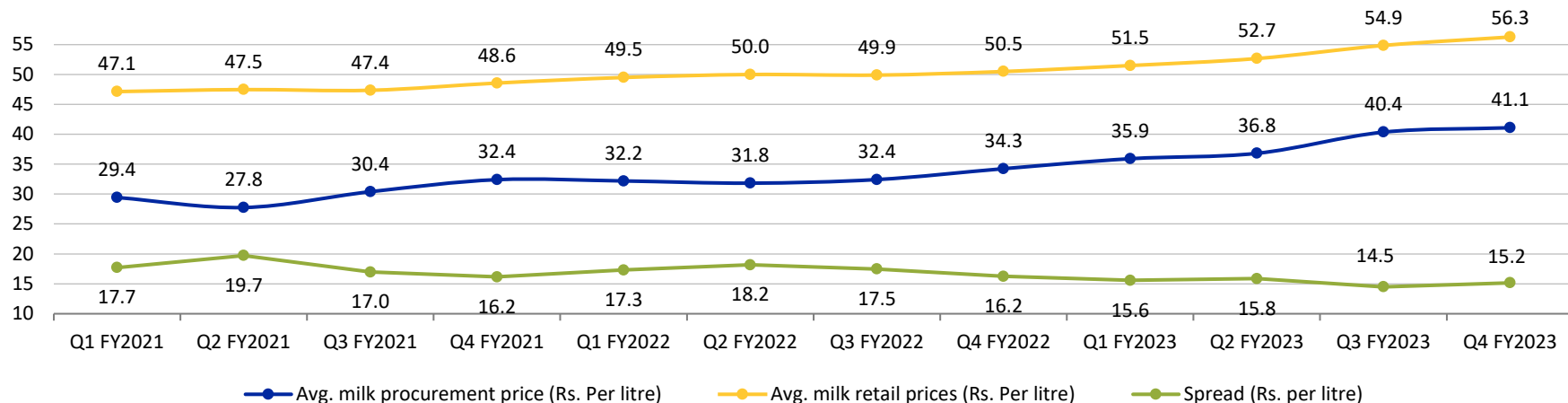
## Exhibit: YoY price change for feed constituents – FY2023



- Maize, a key constituent of cattle feed, witnessed elevated domestic prices due to increased maize exports amid global shortage during the Ukraine-Russia war and rising domestic demand from ethanol plants and starch companies in addition to delay in harvest during October-November 2022. Rice bran prices also increased due to higher demand as a replacement for other imported edible oils.
- With a delayed onset of the monsoon, inadequate and uneven rainfall through June 2023 and the consequent YoY lag in kharif sowing across most crops, fodder and feed prices have remained firm. However, the pick-up in monsoon over the last few weeks is likely to accelerate the pace of kharif sowing going forward, which would support availability of feed and fodder in FY2024.

# Softening in raw milk prices during flush season to support spreads in FY2024

Exhibit: Monthly milk procurement and retail price trends

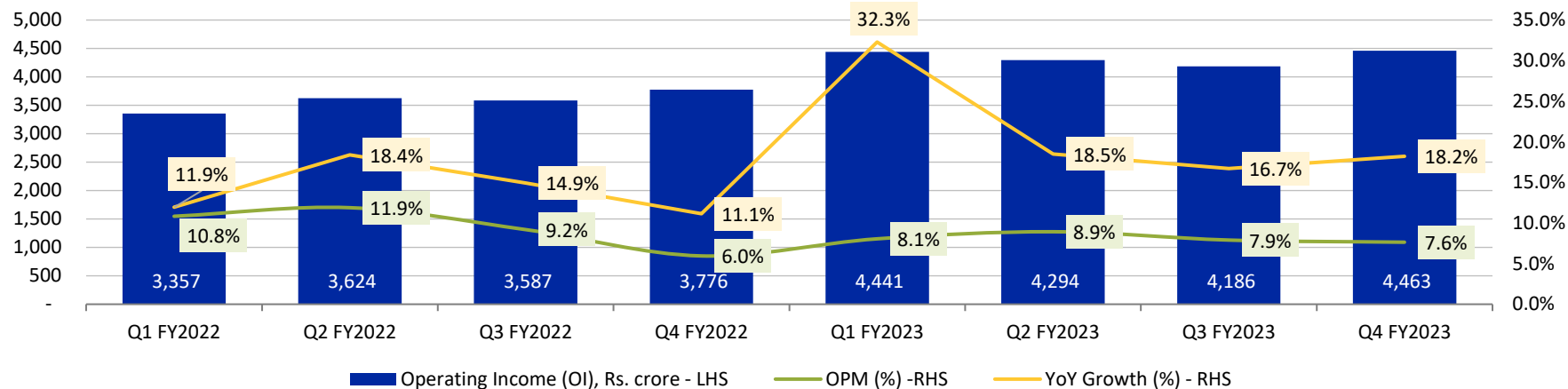


- Amid supply-side pressures resulting from LSD and rising feed and fodder prices, raw milk procurement prices witnessed an upward trend in FY2023. During the strong demand in the mid-festive season in Q3 FY2023, milk supply was impacted by LSD, resulting in significant increase in procurement prices, triggering price hikes, which supported spreads in Q4. ICRA's sample set witnessed a YoY increase of 15-17% in raw milk prices during FY2023. Although the dairy companies took around 3-4 retail price hikes (11-13%) during FY2023, the increased costs were not passed on completely.
- Owing to the onset of the flush season in the southern states in early FY2024, milk procurement prices have been witnessing correction. With milk availability expected to improve in the flush season in the northern states in H2 FY2024, procurement prices are likely to moderate. Consequently, ICRA expects dairy players to witness sequential improvement in their gross margins in FY2024.



# Profit margins to improve in FY2024

Exhibit: Quarterly performance of ICRA sample set of dairy companies



- ICRA's sample set witnessed a healthy revenue growth of 21% during FY2023, driven by growing VADP demand and a significant increase in realisations. The OPM for the sample set witnessed an improvement in Q1 and Q2 FY2023, a result of price hikes taken to pass on increased costs to customers. During Q3 FY2023, there was a sharp uptick in milk procurement prices due to high festive season demand and lower milk availability, especially in LSD-affected states. This resulted in a moderation in the OPM in H2 FY2023, despite retail price hikes in Q4 FY2023.
- As the milk procurement prices have started correcting and are expected to further reduce with the onset of the flush season in the northern regions, the profit margins of dairy companies are expected to improve in FY2024.

## Outlook

### Milk Availability



Healthy improvement in milk availability in FY2024 supported by normal flush season in the South in early FY2024 and expectations of a good flush season in North in H2 FY2024

### Milk Demand



Liquid milk demand to remain healthy in FY2024 from both the retail and the HORECA segments. The demand for VADPs is also expected to remain healthy owing to growing disposable incomes and increasing demand from the HoRECA segment

### Procurement Prices



Milk procurement prices to witness correction in FY2024 due to improved milk availability and easing of feed and fodder prices.

### Industry Margins



Industry profit margins to improve sequentially in FY2024 with moderation in milk procurement prices

### Credit Profile



Credit metrics for dairy companies likely to improve in FY2024, led by margin improvement and moderate debt addition



## ICRA Ratings in Dairy Sector

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# Ratings distribution for ICRA-rated entities

Exhibit: ICRA rating distribution for dairy industry

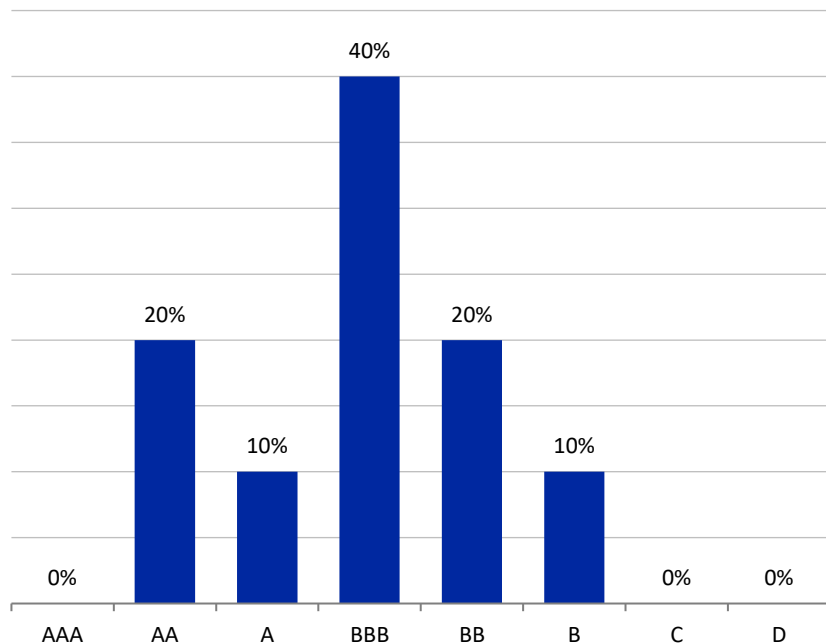
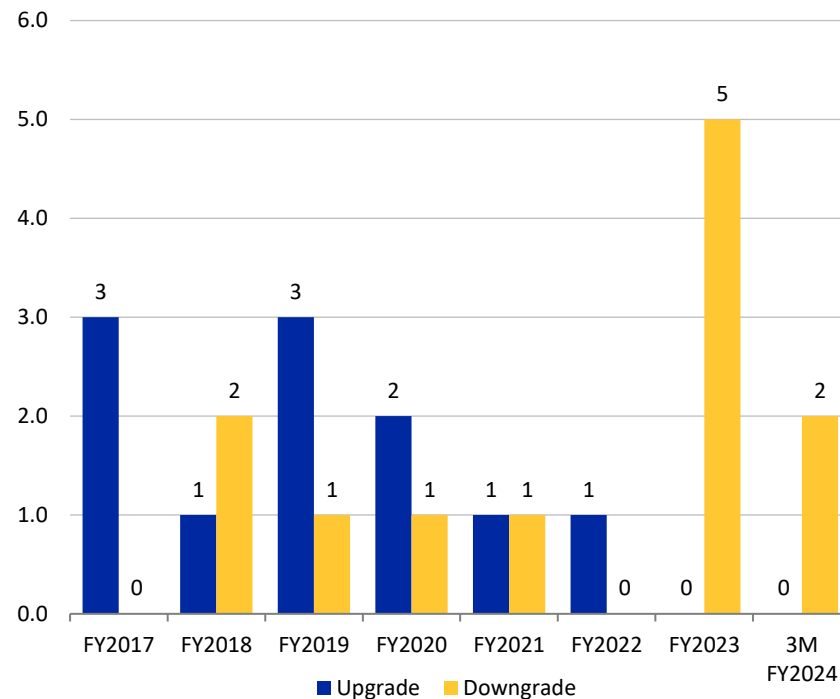


Exhibit: Rating movement in Dairy Industry



Source: ICRA Research; as of July 21, 2023, and does not include ratings under issuer non-cooperation category

# ICRA-rated entities in the dairy sector

| Name of Issuer  | Long-term Rating | Outlook  | Short-Term Rating |
|---|------------------|----------|-------------------|
| Adya Dairy Products Private Limited                         | [ICRA]BBB-       | Stable   | [ICRA]A3          |
| Bengaluru Co-operative Milk Union Ltd                       | [ICRA]BBB+       | Stable   | [ICRA]A2          |
| Bhagyalaxmi Dairy Farms Private Limited                     | [ICRA]BB+        | Negative |                   |
| Charotar Casein Company                                     | [ICRA]BB         | Stable   |                   |
| Dairy Tales Namdhari Pvt Ltd                                | [ICRA]B          | Stable   |                   |
| Dodla Dairy Limited   | [ICRA]AA-        | Stable   | [ICRA]A1+         |
| Ideal Ice Cream   | [ICRA]BBB        | Stable   |                   |
| Karnataka Co-operative Milk Producer's Federation Limited   | [ICRA]A+         | Stable   | [ICRA]A1+         |
| Mehsana District Co-Operative Milk Producers' Union Limited | [ICRA]AA+        | Stable   | [ICRA]A1+         |
| Parag Milk Foods Limited                                    | [ICRA]BBB-       | Negative | [ICRA]A3          |
| S.P.Mani And Mohan Dairy (India) Private Limited            | [ICRA]BBB-       | Stable   |                   |

Source: ICRA Research; as of July 21, 2023, and does not include INC cases



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