



## Indian Dairy Industry – The Quest to Grab a Share of the Consumer’s Monthly Basket

### “Growth is Never by Mere Chance; it is the Result of Forces Working Together”

India has seen a substantial increase in the per capita income and growth in disposable income has significantly improved the purchasing power over the past decade. Rapid urbanization has led to a major increase in the demand for packaged/processed foods, favorably impacting the dairy industry in the country. In the era of digitization and increased access to actionable information, the Indian populace is becoming health and product quality conscious, which has led to the improved variety of food products available in the country. The ever-increasing demand for value-added milk products has also increased the demand for milk production.

India is one of the world’s largest producer and consumer of milk.<sup>1</sup> It contributes to almost 9.5% of the global milk production. Government sources (PIB<sup>2</sup> of GoI<sup>3</sup>) from the Ministry of Agriculture and Farmers Welfare report that milk production has increased by 20.13% in 2016-17 as compared to 2013-14<sup>4</sup>. An entire population that views milk as a vital protein source, coupled with the fact that approximately 29% of India’s 1.3 billion<sup>5</sup> population is vegetarian, makes milk and milk-based value-added products highly sought-after food products.

As the adage goes “Growth is never by mere chance; it is the result of forces working together.” Modernized infrastructure and transportation is aiding growth in the dairy industry. There has been an ever-increasing demand for technology in production, distribution and marketing which is subsequently helping to create more opportunities arising out of the dairy industry in India. This advent of newer technologies brings in an excellent opportunity for the dairy sector as a whole.

The expected growth rate for the dairy sector between the periods of 2016 to 2020 is expected to be 15%. Investments worth INR 150 billion will flow into the dairy industry in India by 2018. It is estimated that currently, about 80 players account for 60% of the dairy capacity in India. The organized dairy sector accounts for about INR 750 billion in terms of revenue.

1. <http://pib.nic.in/newsite/PrintRelease.aspx?relid=136849>
2. PIB – Press Information Bureau
3. GoI- Government of India
4. <http://pib.nic.in/newsite/PrintRelease.aspx?relid=175649>
5. <https://data.worldbank.org/indicator/SP.POP.TOTL?locations=IN>

## Where is all the Big Money going?

The dairy industry is witnessing continuous investments across various segments. The organized players consisting of cooperatives and private firms together procure around 20% of milk. This market is dominated by home-grown players such as Amul and Mother Dairy. GCMMF (Amul) is targeting a revenue of INR 650 billion by 2020 and to meet this goal, each year they are investing capital in the market towards infrastructure, technologies and more. The company is planning to come up with new infrastructure like manufacturing units in Orissa, West Bengal and few other states. Over the past a few years, homegrown players such as Nandini, Prabhat Dairy, Parag Milk Foods and Kwality Ltd have made their presence felt too. Prabhat Dairy is expecting a 40% Compound Annual Growth Rate (CAGR) in terms of growth from 2018 to 2020. As a part of its expansion plan, the company has decided to come up with 200,000 retail outlets around several locations in India.

Lactalis SA, one of the largest dairy corporates, has collaborated with Hyderabad-based Tirumala Milk to invest in the Indian market. ITC is planning to invest INR 100 billion in food processing in the coming 5 to 7 years. ITC recently also entered in the liquid milk segment. The company has launched a liquid pouch milk product under its brand Ashirvaad Svasti in the Munger region. This pouch milk launch in Bihar is a part of ITC's INR 5 billion investment plan in Bihar's dairy sector.

Parag Milk Foods has also raised about INR 7.5 billion in an Initial Public Offering (IPO) to strengthen its overall operation in the dairy sector. The company's investment and innovation are focused towards the value-added product segment. Creamline dairy (Godrej Agrovet) has recently invested in infrastructure.

The dairy segment is expecting overall investments of INR 100 billion by 2020-21 from new market entrants as well as existing players. Private sector players and cooperative sector players, like Mother Dairy farm and Nandini, are investing to expand their line of merchandise and conjointly enhance their farm network.



## Where's the Cake?

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 as follows:

- Chemical free Aseptic packing, such as BluStream sterilization using ebeam technology, which ensures milk and milk-based drinks are completely free of any toxic chemicals.
- Pet bottles are an excellent packing option. They are tougher and are a convenient option for all consumer groups as they are pocket-friendly.
- Spoon lid packing, for immediate consumption of value-added products, such as curd, ice-cream, etc. is a hygienic solution overall.

Currently, the dairy industry has been grappling with the challenge of both inbound and outbound logistics. Supply chain management is critical for shortening the lead time, especially as milk/milk products are highly perishable with a short shelf life. While cold chain availability and integrity is a major challenge in India, pre and post-processing storage has been a key area of investment in dairy. Additionally, foreign investors have been eyeing areas such as the Internet of Things (IoT), Blockchain, or Radio-Frequency Identification (RFID) for proper tracking and management of the value chain.

- Blockchain can revolutionize the overall value chain in the dairy industry. It can create a digital chain starting from milk cattle's health to reaching the consumer's location. Additionally, it can allow the consumers to understand and visualize the overall value chain, hence increasing transparency in the system.
- RFID enabled vehicles and packing systems can overhaul the transportation value chain. RFIDs will not only make the transport system traceable in each stage but will also help in tackling issues related to adulteration, mishandling, etc.
- IoT enabled storage-processing system in the value chain will enhance quick checks for various factors (location wise) to reduce the adverse effects of changing factors such as temperature change, etc.

### What is the Government doing?

The government is creating strategies for additional milk processing infrastructure which will help to double the income of dairy farmers by 2022.<sup>6</sup> Various initiatives taken by the government to promote the dairy industry include feed fodder management, milk procurement, etc. The government is actively participating in the investment space by the means of various schemes such as National Dairy Plan Phase I (NDP I), National Programme for Dairy Development (NPDD) and the Dairy Entrepreneurship Development Scheme (DEDS). The government has also allowed 100% FDI for the food processing industry to boost the growth of dairy processing and value-added dairy products.

While the dairy industry globally has been largely stagnant, the Indian dairy industry has been demonstrating stable growth. Dairy sector projects present opportunities for investments, both in infrastructure and technology upgradation. Newer packaging solutions with increased consumer utility, supported by growing awareness and demand are creating opportunities for investors. Various socio-economic growth drivers will have a significant impact on the upcoming changes in the overall dairy segment. Now traditional drivers of taste, price and more are substituted by various dynamic drivers such as health and wellness, change in consumers' behavior, transparency, etc.

### Obstacles leads to opportunity

The dairy sector in India holds an incomparable space in the country, though there are a few bottlenecks yet to overcome. Masses of unorganized players shifting towards the organized sector is set to increase the scope of competition in the dairy space along with the opportunity to provide employment to masses.

The giant dairy sector is poised for accelerated growth. The value-added dairy food segment is steadily grabbing the consumer's basket. New technologies, and transporting and packing techniques are making the way in the dairy sector faster. Moreover, government initiatives and policies for foreign peers in the dairy segment are very encouraging. These sectors provide a plethora of investment opportunities for foreign peers. With the combination of a high demand for dairy products, government's positive outlook and stellar performance of the industry in production and consumption, signs to immense growth of the Indian dairy sector in the future.

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6. <http://dahd.nic.in/about-us/divisions/cattle-and-dairy-development>

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