



# Dairy

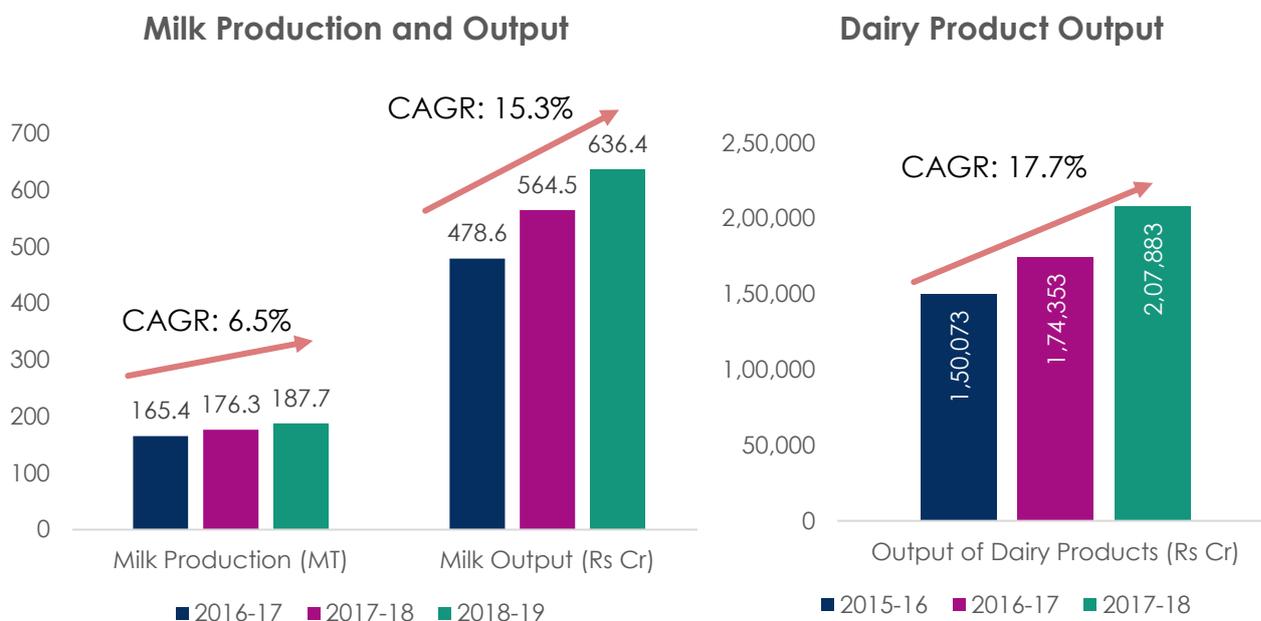
## Scenario Building Post COVID- 19

Both the Milk and Processed Milk Product Segments are expected to be severely impacted by the COVID-19 Crisis, in terms of a demand crunch. While the demand-supply gap may impact farmers' prices significantly; the industry will suffer from a diminished export market and conserved domestic demand.

Key Impact Factors	Scenario 1 Lock down till end April	Scenario 2 Lock down till end May
Change in Liquidity for companies	Minor	Working Capital Constraint
Change in Labor availability	Manageable situation in labour	Manageable situation in labour
Supply of Raw Materials	Raw material (corn) available — challenge of logistics	Raw material (corn) available — challenge of logistics
Freight Cost Escalation	Moderate impact	Moderate impact
Milk Demand	Impacted by 30%	Impacted by 33%
Milk Products (Value Added) Demand	Cascading Impact of 50-60% over 6 months	Cascading Impact of 50-60% over 6 months

## Sector Overview

Over the past 3 years, production of milk in India has increased at a CAGR of 6.5%. Meanwhile, the output of dairy products has been increasing at a much steeper CAGR of 17.7%.



Source: NDDDB and National Account Statistics-2019

## Covid -19 Impact on Global Dairy Supply Chains

Globally, the dairy supply chain has been majorly impacted by the Covid-19 Pandemic. Despite domestic demand for milk increasing with consumers displaying a propensity to save and stock-up essentials such as milk, the supply chains have been impacted with logistics being a challenge. In the US, Trucking companies that haul dairy products are struggling to get enough drivers as some who fear the virus have stopped working.

Further, mass closures of restaurants and schools have forced a sudden shift from those wholesale food-service markets to retail grocery stores, creating logistical and packaging challenges for plants processing milk, butter and cheese.

While other food sectors have also been impacted, Dairy has been hit much harder because the products are highly perishable - milk cannot be frozen, like meat, or stored in a silo, like grain.

In the US, dairy farmers have been dumping thousands of gallons of milk since the pandemic impacted supply chains. This has led to the Government intervening with announcement of a USD3 billion relief package for the dairy industry, aimed at assisting fresh produce, dairy, and meat industries. Further, the USDA has announced that USD100 million per month will be spent on purchasing dairy products for food banks. Thus, helping

maintain demand. While this may not be sufficient towards offsetting the demand fall by restaurants and schools, US Dairies are welcoming the step.

Meanwhile, the UK Dairy Industry also impacted severely by Covid-19 is requesting the Government for immediate action. The industry is demanding a fully funded government-run production reduction scheme to effectively furlough dairy cows; and engagement of the EU Commission to introduce market support measures, such as private storage aid.

## Post Covid-19 Scenario-India

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Currently, given the ongoing lockdown, the Hotel-Restaurant-Catering (HoReCa) sector, Quick Service Restaurant (QSR), unorganized sector (roadside tea stalls), as well as sweetmeat shops are closed. Together, these have an impact of around 30-35% on liquid milk consumption.

Even with the lockdown lifting in early May, the hotel industry is not expected to bounce back to pre-COVID levels immediately. It is expected to take 6 to 15 months for hotel businesses to return to normal as the normalcy in international tourism will take around 12 to 15 months and domestic tourism may take 6 to 9 months. Similarly, QSR footfalls are expected to be down by 50% even after the lifting of the lockdown.

Only the unorganized tea stalls and the sweetmeat segments are expected to revive, both of which will have a minor impact on the subverted demand which may be to the tune of 7% as the public confidence on food safety will still have lingering effect.

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*Liquid Milk demand has fallen by 30-35% given closure of HoReCa segment. This has led to a pressure on milk procurement prices.*

*Even Post Lockdown, the hotel industry is expected take 6 to 15 months to bounce back. Similarly, QSR footfalls are expected to be down by 50% even after the lifting of the lockdown.*

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### Impact on Farmers

The loss of demand has led to a pressure on milk procurement prices. Over the next weeks, farmers may be impacted in two ways- while on one hand milk procurement may reduce; on the other hand, procurement prices may crash. In both cases, dairy farmers will be impacted substantially.

### Impact on Industry

With Business as usual, the months of April- September are lean milk production months, thus, industries procuring milk to covert to Skimmed Milk Powder (SMP) usually function at 10-30% capacities during these months. SMP and butter oil is reconstituted to liquid milk during these lean months to cover the demand and supply gap and meet industry demand.

However, given the COVID-19 situation, there is an oversupply of milk with respect to (reduced) demand. Thus, industries procuring milk to convert to SMPs are running at 80-100% capacities as on date against 30 to 50%; procuring milk at a cheaper price and stocking up as SMP and butter.

This excess production will lead to SMP prices crashing domestically from Rs 340/MT to around Rs240/ MT or even lower in the coming months.

Further, the consumption of SMP during these summer (lean months) by the Ice Cream Industry is also minimal due to Lock Down. The available ice cream season (February to July) will be impacted by minimum 60% that will make more SMP available in the country.

Simultaneously export opportunity of excess SMP will also not be possible, given the global scenario. The global

prices of SMP have also crashed from USD 3000/MT in Jan 2020 to USD 2514/MT in April 2020 which is expected to fall further post Covid 19 challenge is over.

SMP prices are expected to crash further over the next 6 months due to higher stock level in countries like New Zealand, Australia and USA.

In terms of liquidity, dairy industry will be in crisis over next 6 months, as working capital will be locked up in the form of SMP in the warehouses.

From mid-September, the flush season will start, with milk production increasing overall. During this period the demand is less than the milk production. During this period most plants convert excess milk into SMP and Butter Oil for lean period.

However, during the upcoming flush season, Industry will face the challenge of already available high stocks of SMP and Butter Oil, thus limiting their availability to procure 100% fresh milk. This will further be compounded by the challenge working capital availability.

This will in turn again impact dairy farmers significantly as procurement will go down, further depressing sourcing prices.

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*The Oversupply of Milk due to COVID-19 will lead to SMP prices crashing domestically from Rs 340/MT to around Rs240/ MT or even lower, in the coming months.*

*SMP consumption by Ice Cream Industry will be minimal, as the industry will be impacted by 60% due to lockdown.*

*Global SMP prices have crashed from USD 3000/MT in Jan 2020 to USD 2514/MT in April 2020 and is expected to fall further. Thus, export will be a challenge.*

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## Recommendations



### Create Domestic Demand

- Towards maintaining domestic demand for Milk Powder, the Government should consider creating a strategic reserve.
- New Channels in PDS should be created to distribute Medium Fat Dairy Whitener and/or WMP immediately. Distribution in PDS will be an added consumption opportunity that can be considered for at least for all BPL families.



### Balancing Nutrition

- Dairy distribution through PDS will also help the population in terms of nutrition intake. The purchasing power of the poorer section of India is expected to be significantly hit, post COVID-19. As observed from consumer behavior, lower purchasing power leads to consumption of higher starch and less protein. The availability of Milk through PDS may offset the same to some extent. Further, Milk may be distributed through Mid-Day Meal Schemes (MDMS) towards ensuring nutrition availability for children.



### Stabilize Liquid Milk Sourcing

- All state governments may consider the Karnataka Government Model wherein Karnataka Milk Federation (KMF) is distributing liquid milk in Bangalore city and other parts of Karnataka through its Milk Union to the poor families till 14<sup>th</sup> April 2020. Similar practices for longer period may be followed by other State Governments to increase the off take of milk.



### Value-Added Products

- Balancing the consumption of SNF (SMP) and FAT (Butter / Butter Oil / Ghee) is very important for the industry. Towards enabling the value-added products such as Butter and Ghee, the Government may consider certain measures such as temporary removal of GST or reducing it to 5% to reduce the selling prices of Butter and Ghee.



### Working Capital Access

- In the long run, towards stabilizing the liquidity crunch and dearth of working capital across these industries, the Banking System should be guided to invest in 'One Health' and ESG (Environmental, Social and Governance) projects as priority sector while restructuring the current NPAs. This will allow access to capital for the sector.