



*A Dairy Sector Investment  
Report*

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2017

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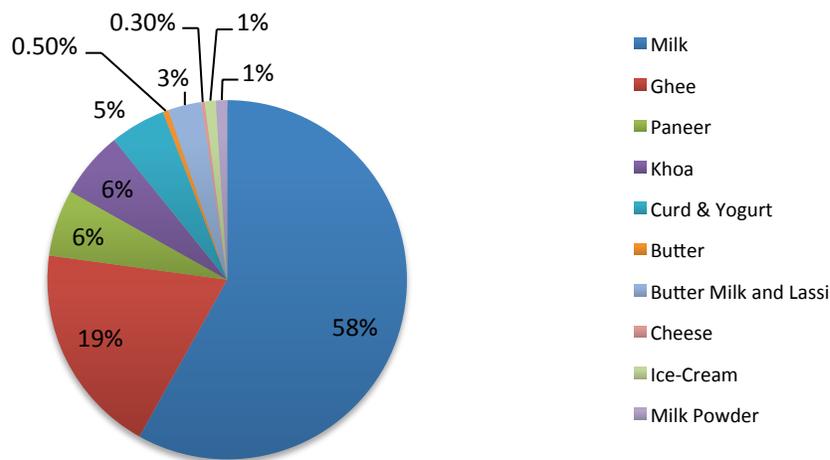
## Intro:

India's dairy market presents lucrative and impactful opportunities. A growing market that is poised for success, this report details the underlying factors that are fueling such growth. Moreover, this report is meant to give the reader a deeper understanding of the Indian dairy market by providing a holistic overview of market drivers, challenges, opportunities, investment metrics, and insights from leading companies and investors in the space.

## Market Overview:

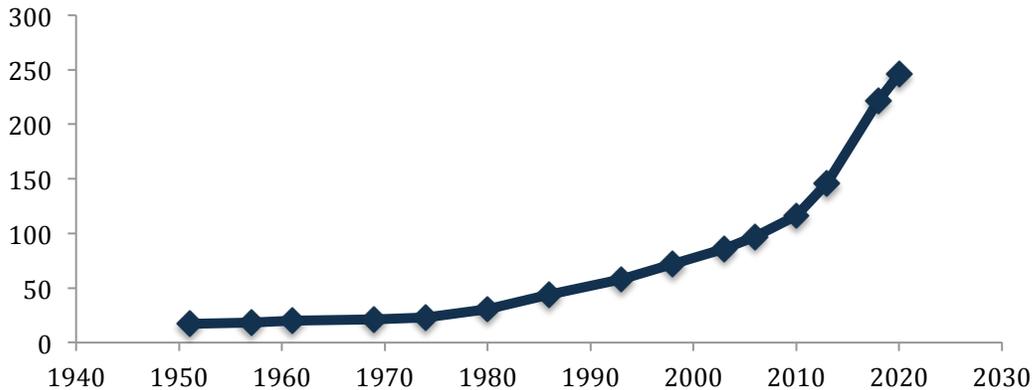
India ranks [number one](#) globally for milk production (yielding 146M metric tons per year), holding an 18.5% global market share. Nonetheless, the market is severely fragmented. In India there are over [75M](#) dairy farmers, 40% of whom operate in the organized sector, accounting for [approximately 20%](#) of total volume production. The unorganized sector is characterized by unincorporated players that sell dairy products within their respective communities. The dairy market is [expected](#) to grow at 16% annually and reach \$155B by FY 2020. While liquid milk constitutes the largest market share (58%), value added products are rising in consumption and include ghee, paneer, khoa, curd/yogurt, butter, cheese, ice-cream and milk powder.

**Market Share of Dairy Products ('14-'15)**



Since the 1950's, India's dairy market has seen steady growth, picking up significant traction with each passing decade. In the early 1990's, global players such as Danone, Lactalis, Kraft, Nestle, and Hatsun began to enter the market. Milk production is projected to reach 200M metric tons by 2018, of which 75% will be produced for domestic consumption and 25% will be produced for export. Despite significant increases in overall milk production, the export of milk has not increased, suggesting that domestic consumption is the primary factor fueling growth.

### Milk Production (million tons)



### Policy Environment:

The [government of India's](#) Department of Animal Husbandry, Dairying and Fisheries (DAHDF) supports state governments through programs for breed improvement, dairy development, feed and fodder resources development, and animal disease control. One initiative implemented by the Indian government is the [National Dairy Plan](#) (NDP) dedicated to dairy market development. The two-phased plan (FY 2012-2013; FY 2018-2019) is aimed at increasing the productivity of milch animals (animals that yield milk) and providing rural milk producers with greater access to the organized milk-processing sector in 18 states.

As of July 2016, the Indian government was planning its [National Action Plan](#) with the hope of doubling farmers' incomes by 2021 by opening the dairy sector to foreign direct investment. Currently, regulations are lax around FDI in most of the dairy space, and recently the government further relaxed norms for FDI in animal husbandry hoping to spur research and development in non-controlled conditions.

The government has also spearheaded the [National Programme for Bovine Breeding and Dairy Development](#), to create and strengthen: (1) infrastructure for production of quality milk, including cold-chain infrastructure linking the farmer to the consumer; (2) infrastructure for procurement, processing and marketing of milk and milk products; (3) dairy co-op's; and (4) production by providing technical input services.

### Growth Factors:

Over the past decade, India has seen a substantial rise in per capita income and [purchasing power](#) parity. Rapid urbanization has led to a consolidated and accessible dairy market. With increasing access to information the Indian population is becoming more [health and product](#) conscious, embracing milk-based products for health related matters. The [increasing preference](#) for value-added milk products has also fueled demand for milk production. Rajesh Babu, Director at [Lok Capital](#), a leading impact investor who has participated in the dairy sector, expressed that:

*From an investor's perspective, what's most attractive about the dairy sector is the coming boom in dairy products. Historically, the sector has not seen a great deal of product diversification, but with the enhancement of technology, distribution networks, and branding there has been an increase in the variety of milk products, which will fuel the growth of the sector.*

Moreover, an aging population that views milk as a vital protein source, coupled with [the fact](#) that approximately 29% of the India's 1.2B population is vegetarian, makes milk and milk-based products highly sought-after sources of protein. Moreover, infrastructure has evolved to encompass systems and processes that are designed to safely transport and sustain dairy products. The increase in technology for production, distribution, and marketing is helping to create market linkages. This trend is indicative of the tremendous opportunity that awaits, as more of the unorganized dairy sector comes into the organized sector, which, from 2011-2015 [grew](#) at 22% annually.

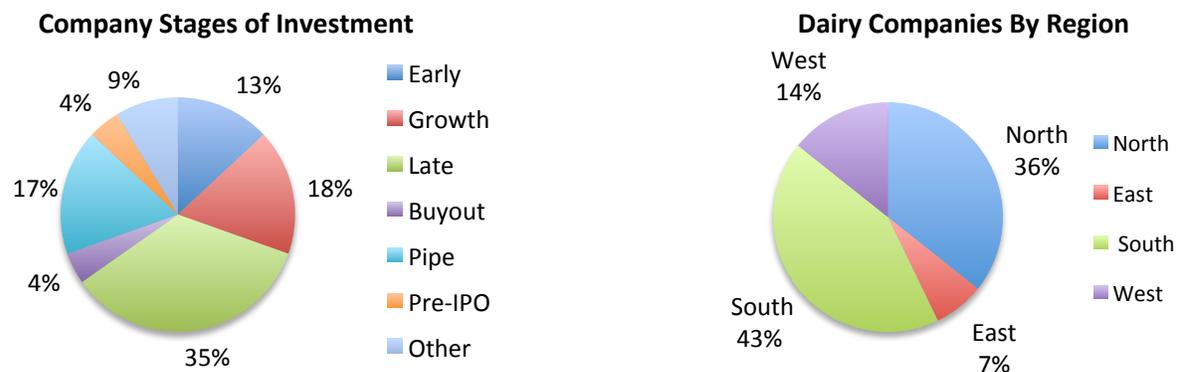
### **Trade:**

In 2014, India [exported](#) 66,424 MT of dairy products worth an estimated USD \$179M. The major export destinations included Bangladesh, Pakistan, UAE and Nepal. India's share in the global milk trade has historically been low, due to: (1) limited quantity available for exports, after accounting for domestic demand; (2) regular bans on export of high-volume products like milk powder by the government; and (3) uncompetitive pricing of Indian dairy products in global markets.

As the world leader in dairy production, India's imports are minimal. The dairy products that India does import (milk powder and butter) are used as reserves when there is glut in domestic supply.

### **Investment:**

While investment deal data for the dairy sector is incomplete, it does offer a general pulse on the happenings in the dairy space. Analyzing dairy sector deal data from the past five years, the sector has seen significant investment into approximately 15 dairy companies, with a median initial investment of USD \$8.2M (average ~USD \$12.1M). Most of the investments are still unexited. Over the past 5 years there has been approximately USD \$266M of total investment into the space. A large portion of investment came during companies' growth and late stages. South India is host to a greater portion of dairy companies due to the growing demand for value added milk products, coupled with a more organized dairy market. Of the exits that have occurred in the dairy sector, they have been primarily facilitated through secondary sales, while exits have also occurred by way of initial public offering (IPO). Both commercial and impact investors have invested into the sector and have seen strong returns. Investment has been dominated by Indian-dedicated investors, but there is a growing presence of foreign investors entering the space as well.



### Challenges:

India is susceptible to volatile market fluctuations and, as it experiences growing pains, the Indian macro-economy may be prone to instability. For example, a fluctuation in the price of maize could lead to an increase in feed prices, directly affecting the dairy and farming sector, especially farmers. Dairy is a highly perishable product and more development is needed in cold-chain infrastructure and logistics regarding procurement and distribution. As Abhinav Shah, CEO of [Osam Dairy](#), a leading dairy company based in Jharkand, suggests:

*The cold-chain process has been largely non-existent (in India). If you look at US milk producers, they're able to afford cold-chain technologies, subsidized by their government. Small Indian farmers, who produce milk, have not been able to buy cold-chain technologies limiting their distribution spread. Most milk producers don't have access to cold-chain technologies and many retailers don't have adequate refrigerators. Herein lies both the problem and the opportunity.*

Moreover, from an investor's perspective, one of the biggest challenges is finding companies with quality management teams and sound corporate governance policies.

### Social Impact:

The dairy industry is a significant contributor to India's GDP, providing livelihoods to a significant portion of small farming households. Companies are dedicated to advancing their double bottom line through scale and social impact. When assessing where the dairy sector holds the most promise in affecting livelihoods, Srikumar Misra, Founder and CEO of [Milk Mantra](#), a leader in the dairy sector and based out of Odisha, has stated:

*The dairy sector impacts around 60 million rural households every day. This is the amount of lives that get impacted directly or indirectly. Throughout the value chain, milk procurement is considered to be the key factor that creates an impact in the Indian economy as well as the acceptability of the life index. India being an agrarian economy relies on agriculture for its*

*sustenance, and dairy products contribute around 1/5<sup>th</sup> of the total income generated through this sector. Milk Mantra understands the necessity of this segment and through its unique Ethical Milk Sourcing program it ensures that farmers not only get paid fairly and on time, but also have adequate access to its extension services aimed at bringing in clean and high quality milk production.*

By providing access to capital and scaling dairy companies with a livelihood focus, the market will become more efficient, impactful, and sustainable due in part to supply chain innovation. Such advancement in the dairy sector will have a significant and measurable impact on the livelihoods of small farmers and consumers of dairy, contributing to economic growth and empowerment.

### **Key Insights:**

There are a handful of variables that investors take into consideration when evaluating prospective investments in Indian dairy companies. First, investors focus on geography, looking for underserved regions with high market demand coupled with unorganized dairy sectors with limited private players. Second, companies must have a strong focus on producing quality products while building a strong brand name. Promoters and senior management must have a steadfast passion for being a catalyst in the regional dairy industry and, ideally, should have a farming or agriculture background combined with business smarts. Thirdly, successful companies tend to embrace innovative technologies and processes to enhance the quality and delivery of their products along with selling a diverse variety of dairy products. Finally, having a strong procurement network, in order to build a strong sourcing backbone, is another key variable that positions companies for success.

### **Conclusion:**

The Indian consumption story has attracted the attention and presence of some of the largest global dairy brands. Global dairy companies are eyeing the markets in Asia to meet the increasing demand of dairy and value-added dairy products. Sluggish growth in existing markets, which are predominantly developed markets, is leading to an opportunity for western players to enter new geographies and consolidate local industries via acquisitions or strategic partnerships, which is evident from recent M&A activities. A strong and growing demand for dairy products from Indian consumers, active investment behavior by major players, coupled with market liberalizing policies from the government signaling its intent to boost FDI in the dairy sector, suggests a positive forecast for the future of the Indian dairy market.

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