

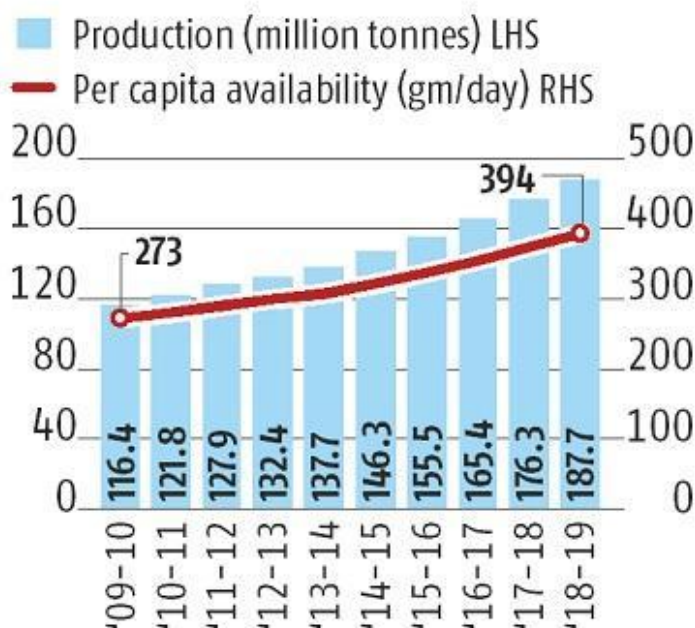


Covid 19: Impact on the dairy sector

TAKING A HIT

- Milk farmers' realisation plunges ₹5-7/litre
- Many farmers are selling in distress, at a 50% discount
- Working capital paucity hits production of milk powder by dairies
- Dairies say milk procurement prices will recover with the onset of summer in a month

SUPPLY GLUT



Source: Livestock Census, DAHD&F, GoI
Compiled by BS Research Bureau

Context:

- The economic crisis unleashed by COVID-19 had also impacted the milk sector.

How Milk Sector is unique?

- **Regular income:** Milk is a unique “crop” that farmers harvest daily.
- **Balancing Demand:** Since it is consumed daily, supply-demand balancing isn't as difficult as in, say, wheat that is harvested over 2-3 months
- **Institutional Capabilities built:** While production of milk is subject to seasonal fluctuations — animals, particularly buffaloes, produce more during winter-spring and less in the summer — dairies know to manage it
- **Balanced Model:** Surplus milk of the “flush” season is usually converted into skimmed milk powder (SMP) and ghee/butter for reconstitution in the “lean” months, when demand for curd, lassi and ice-cream also goes up

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- **Fast Consumption:** Dairies don't face the problem of unsold inventories, unlike sugar mills or the Food Corporation of India. This is because India's milk output has more than doubled in the last 15 years, so too has consumption due to rising incomes.

What are the Challenges faced by Sector due to COVID-19?

- **Disruption of Existing Model:** The above balancing model is being rendered dysfunctional by the demand destruction wrought by the post-COVID shutdown of hotels, restaurants etc
- **Accumulation of Produce:** With institutional sales collapsing — these make up a quarter of the country's market for milk and milk products — dairies have been accumulating powder and fat stocks through the summer & monsoon months.
- **Future Dangers:** Not only is the drop in demand unprecedented, the situation will worsen once production increases in the coming months with improved fodder availability, calving of buffaloes and drop in temperatures
- **Drop in Prices:** Dairies selling only commodities (SMP and ghee) have already, since the March 25 lockdown, slashed milk prices by Rs 10-13 per litre. Even those largely into liquid milk marketing have cut by Rs 3-5/litre.

Way Ahead:

- The government should direct the National Dairy Development Board to create a buffer stock of about 60,000 tonnes of SMP and 30,000 tonnes of butter
- The cost of this — at Rs 200/kg for SMP and Rs 300/kg for butter, corresponding to a Rs 25/litre cow milk procurement price — may come to around Rs 2,100 crore, which can be managed
- The funds for buffer stock can be recouped in the next "lean" summer season, when some demand normalcy would also have returned.

Conclusion

- Not intervening now will hurt farmers.