

Review Article

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Milk Producer Companies in India: A Review

Devesh Thakur*

Department of Veterinary and Animal Husbandry Extension Education, CSK Himachal Pradesh Agricultural University, Palampur, Himachal Pradesh, India

*Corresponding author

ABSTRACT

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Livestock farming is livelihood source to millions of small, marginal and landless farmers in India. These farmers face numerous challenges in livestock feeding, poor animal health care, weak extension services, poor credit mechanisms and improper milk marketing. Many of these challenges can be solved by organizing farmers into collective action. Co-operatives as means to collectivize dairy farming have made limited success in India. Therefore, alternative institutional mechanisms for farmer collectivization are needed. Milk producer companies as hybrid of dairy co-operatives and business companies are an emerging concept. Experiences of many milk producer companies suggest that members benefit from improved delivery of input mechanisms and also have better access to milk marketing. Milk producers are able to receive quality inputs at lower prices, provision of artificial insemination and veterinary services improves, extension advisory services are more regular and milk marketing improves considerably. The empirical reviews on functioning and operations of milk producer companies are lacking under Indian context. The present article would be useful for grass root dairy development organizations to orient their activities in this direction.

Introduction

Livestock production in India is dominated by marginal, small and landless farmers. Huge number (100 million) of small holder farmers in India contributes to 90% of livestock production (Leitch *et al.*, 2014). These marginal and small farmers contribute to 73% of total milk production in India (Kumar *et al.*, 2018). Such farmers face innumerable constraints: lack of quality feed and fodder, high cost of inputs, weak extension support, lack of timely veterinary services and lower

prices of milk (Kumar and Parappurathu, 2014). On the other hand, the institutions dealing with these smallholder farmers also face challenges; smaller scale of operations of these farmers, scattered locations, underdeveloped infrastructure to access them, involvement of multiple intermediaries and low marketable surplus (Trebbins and Hassler, 2012; Satyasai and Mehrotra, 2016). Collective action of the farmers can minimize most of these problems. Farmer producer organizations are recognized instruments of collective action in India (Kujur *et al.*, 2019).

Producer Organization is a generic name that represents various cooperatives, self help groups (SHG's), federation of SHGs, commodity interest groups, farmers Club and producer company etc. (Pustovoitova, 2011) These organizations aim to improve farmers' accessibility to credit, inputs and markets (Chander and Sulaiman, 2014 and Jose *et al.*, 2019). Among all these organizations, producer companies have found fervor in agricultural sector across India.

Dairy co-operatives as means to collectivize milk production and processing have made limited success in India. Restrictive co-operative laws prevented co-operatives from becoming autonomous business entities (Singh, 2019). Bureaucratic control, elite capture, political entrenchment and corruption have marred the efficiency of dairy co-operatives (Bhandari, 2010; Bhattacharjee, 2010).

Co-operatives need more freedom to operate as business entities in competitive market. Alternative design of producer institutions was required to make co-operatives more likely to succeed (Singh and Singh, 2013). So Indian Companies Act, 1956 was amended in 2003 and concept of producer company came into existence (Alagh, 2007). A Producer company is the hybrid between a private limited company and a co-operative society. It combines benefits of professional management of former and welfare consideration of the latter (NABARD, 2015).

Difference between dairy co-operative and dairy producer company

A producer company has done away with the features which affected the efficiency of co-operatives. The differences apply for dairy co-operative and dairy producer company and are mentioned in table 1.

Status of Milk Producer Companies (MPCs) in India

The foremost dairy company registered in India is Vijaya Visakha Milk Producers Company Telangana, which initially was known as Visakha Dairy union in the year 2006 (Sood, 2015). National Dairy Development Board (NDDB) spearheaded the formation of dairy producer companies in regions where cooperatives were not present or had low coverage and procurement (Singh, 2019). It began organizing milk producer into milk producing institutions in year 2005 in Saurashtra-Kutch region. Such milk producing institutions gradually evolved as milk producer companies (NDDB, 2020). The initial dairy producer companies established by NDDB were Payas and Maahi in 2012 (Singh, 2019).

At present 210 active milk producer companies exist in India; 81 percent of them are less than 5 years old; 50 percent of top 20 farmer producer companies are dairy based (Neti *et al.*, 2019). Some of India's large milk producer companies Maahi (Gujarat), Paayas (Rajasthan), Saahaj (UP), Baani (Punjab) and Sreeja (AP) have been supported by NDDB (Shah, 2016). More than half of the active MPCs are in just four states: Maharashtra, Rajasthan, Madhya Pradesh and Uttar Pradesh (Govil *et al.*, 2020) (Table 2).

Unlike other farmer based producer companies, MPCs tend to have large number of farmer shareholders. Also, many MPCs have been converted from older dairy cooperatives with significant membership and capital. Furthermore, even new dairies find it relatively easier to ramp up their membership and operations quickly because the dairy sector has a well-established blueprint for collectivization, procurement, processing and sales (Neti *et al.*, 2019).

Benefits offered by milk producer companies

Most of the bigger MPCs procure and process milk. They offer balanced cattle feed, specific mineral mixture, ration balancing, quality fodder seed and timely credit to farmers. Several MPCs have initiated doorstep artificial insemination delivery. They also organize several extension training programme such as producer awareness, women awareness, rural youth awareness program and rural school children program. The Shreeja all women milk producer company uses animated PPT module and pico-projectors to make extension education activities more interesting to the farmers.

The extension education activities involve producer awareness program in which benefits of becoming milk members and procedure of becoming members of MPC are explained. The program provides importance of quality and clean milk production, factors affecting quality of milk (including breeding and feeding practices). Similarly youth are encouraged to undertake dairying as profession and become members of MPC. Besides rural leadership program and school children program are some other extension education activities undertaken.

Formation of milk producer company

Formation of milk producer company initially requires formation of smaller farmer interest groups engaged in milk production. This group of 10-20 producers frames and follow certain rules; regular meeting, saving, training etc. The group selects two representatives and requires external support by nongovernmental organization or state development department. Once viable groups are formed (25 number), minimum share capital (Rs 1000) is collected by the members to form a milk producer company. Few

selected members from individual farmer interest groups would be part of board of the company. Further out of these, few members will act as board of directors of the company. NABARD /SFAC official of the concerned region support registration of the company

Formation of a milk producer company requires following steps



Dairy based Farmer Interest Groups (FIG) can undertake following activities

Each dairy based FIG assesses the required cattle inputs such as feed, feed additives by farmers. This information is shared with the FPO and feed is made available to milk producers

It should collect share capital from the members and hand over the money to Milk Producer Company

FIG can collect savings from the members and disburse loan to its members and ensure repayments from its members.

Maintain books of accounts and ensure updating and auditing of books of accounts annually with assistance from the Milk Producer Company

Functions of milk producer company

Input supply to farmers

One of the initial functions which MPC can take up is ensuring supply of feed, fodder and other inputs to farmers.

Initially company should opt for bulk buying of feed and fodder seeds for its members. The farmers will benefited by lower feed prices, inputs at doorsteps and better quality.

The margin from the cattle feed business can be used to meet its various operational costs (Jose and Meena, 2019).

Milk procurement

Milk producer company can up milk pooling points in villages and engage in milk procurement and processing. Use of electronic milk testing facility, GIS and other ICT tools ensures transparency in its operation (Payas, 2019).

Table.1 Difference between co-operatives and producer company

Parameters	Co-operatives	Producer Company
Registration	Cooperative Societies Act	Indian Companies Act
Area of Operation	Registered operational area	No restriction if permitted in Ministry of Agriculture
Nature of Business	Marketing, service and delivery agencies	Primarily agencies to provide marketing solutions to pooled produce
Membership	Based on ownership of land /residence	Based on concept of shareholding
Share	Non-transferable	Transferable to active members as decided by board
Profit sharing	Limited dividends on shares	Commensurate with volume of business
Voting rights	One member, one vote	One member, one vote. Members not having transactions with company cannot vote
Governance	Government and Registrar of Cooperatives hold veto power	Stand-alone, self-reliant bodies with self-governing Capabilities
	Federated into the District Cooperative Union/ Regional cooperative Union	
	Receive financial, technical and administrative support from the government	
Reserves	Created if there are profits	Mandatory
Borrowing Power	Restricted to loans granted and disbursed by the co-operative bank to which the PAC is linked	More freedom and more alternatives available. FPCs are allowed to raise capital from external sources
Relationship with other business and non-profit entities	Transaction based	Producers and corporate/non-profit entities can together float a Producer Company

Source: SFAC, 2013

Table.2 Prominent milk producer companies in India

Name of Milk Producer Company	Year of registration	Area of operation	Salient features
1. Sri Vijaya Visakha Milk Producer Company	2006	Andhra Pradesh	Earlier as Vaishaka dairy co-operative and got converted into Milk Producer Company. 2.Fastest growing Milk and Milk Products Manufacturing Company with turnover of Rs.1000 at CAGR of Rs 14 %
2. Payas Milk Producer Company	2012	Rajasthan	Supported by NDDB Milk procurement from 3526 villages with daily milk procurement of 8.57 lakh litres per day.
3. Maahi Milk Producer Company	2012	Gujarat	Supported by NDDB Milk procurement of 8.12 lakh litres per day with 1,11,967 members
4. Sahaj Milk Producer Company	2014	Uttar Pradesh	Supported by NDDB Milk procurement of 5.94 lakh litres per day with more than 80,000 members
5. Karimnagar Milk Producer Company	2012	Telangana	Average procurement per day is 1.5 lakh litres from 70,000 milk producer members
6. Maval Dairy Farmer Services Producer Company Ltd	2019	Pune, Maharashtra	Supported by Tata Power Maharashtra’s first all-women milk producer company
7. Sakhi Mahila Milk Producer Company	2016	Mewat region, Rajasthan	Supported by TATA Trust 1,10,000 liters of milk per day from more than 18,000 active women share holder members

Sources: Gupta, 2019; Neti *et al.*, 2019; Agriculture today, 2020; Singh, 2019

Table.3 Challenges of dairy farmers and possible remedial measures through milk producer companies

Problems in Livestock sector	Challenges as Individual Farmer	Possible interventions through Milk Producer companies
I Livestock feeding problems		
i)Unaffordable cattle feed cost	Lower input requirement limits bargaining power, presence of intermediaries results in higher cost of feed. Discretion in selection of feed and other inputs is minimal	Farmer producer company takes up feed selling activity and buys in bulk. Experiences suggestive that price of feed and inputs decreases and individual discretion to choose feed and inputs increases. Bigger companies can establish their own feed units
ii)Shortage of green fodder	Non availability of land for fodder production by marginal and smallholder livestock producers	MPC/FIGs can make use of community lands by tying up through local organization for green fodder cultivation
iii)Shortage of dry fodder (wheat, rice straw/stubble	Majority of livestock owners have minimal landholdings	Farmers organized as farmer interest groups under Milk Producer Company can directly

and other crop residues)	and do not have enough dry fodder. Landholding farmers possess crop residues. But lack sufficient labor to collect and transport dry fodder. Livestock producers buy dry fodder at high costs (Rs 6-12) per kg. (NITI Aayog,2018)	contact landholding farmers and collect, transport and store dry fodder. This will increase availability, reduce wastage and cost of dry fodder to dairy farmers
II. Poor Health care		
Unavailability of timely Veterinary services.	The veterinary services is largely a public sector domain and there is shortage of 40-50% trained manpower (Rao <i>et al.</i> , 2015). The farmers are dependent on government machinery for veterinary services which does not differentiate in quality and non quality livestock.	Milk producer companies can hire veterinary services on user charge basis .This will bring more employment opportunities for the trained manpower in the sector and improve availability as per quality of animal.
Non availability of Artificial Insemination (AI) services	AI coverage is still 26% of the breed able population. The number of AI performed per day is 1.92 as against the required average of at least 4 per day (GOI, 2017)	Many leading producer companies have initiated pilot model of AI delivery (Payas MPC, 2019). Govt. of India has allowed Milk Producer Companies (FPO) to establish multipurpose AI technicians in Rural India after necessary approval (GOI, 2020). This enables increased AI coverage through MPCs
III Poor Extension and Credit mechanisms		
Weak dairy information support resulting in poor awareness about animal health practices	Transaction cost to reach individual farmer is high Sporadic extension activities. Lack of communication skills	Farmers in MPCs have extension linkages with various actors in dairy value chain (Vishnu and Gupta, 2017). MPCs using innovative extension mechanism such as model dairy farms, use of digital and ICT tools for members.
Poor credit availability	Institutions do not lend credit due to resource poor nature Many dairy farmers are women who lack collateral to seek loan	Savings and credit facility offered by many MPCs Women MPCs can help to overcome this problem of lack of collateral .
IV Milk marketing related constraints		
1.Non remunerative milk price 2.Difficulty in transportation 3.Poor bargaining power	Milk has poor shelf life Intermediaries take up share of price Individual farmers have limited resources to preserve and process milk.	Direct milk marketing as company undertakes milk procurement from farmers This enables dairy producers to save in terms of time, transaction costs, forced sales, price fluctuations, transportation and quality maintenance.

Marketing

Dairy producer companies are positioned better for sale of milk and milk products. Milk transport and storage services can be offered to farmers through milk pooling. Thus, improved milk quality, packaging and branding is possible through milk producer companies (Shreeja MPC, 2018).

Veterinary services

The dairy company can ensure delivery of artificial insemination and veterinary services through hired veterinarian and para-veterinary staff. Government of India has recently allowed farmer producer companies to establish multipurpose AI technicians in Rural India after necessary approval (GOI, 2020). This enables increased AI coverage through MPCs to the farmers.

Social security services

Dairy producer companies offer loans, savings to the farmers (Jose and Meena, 2019). Vijaya Visakha Milk Producer Company extends medical services to farmers and their families at subsidized rates. It offers education to the farmers' children, preference to producers' children in employment, irrigation projects, bridges, canals etc. (Rao, 2019).

Challenges of dairy farmers and possible remedial measures through milk producer companies

NITI Aayog (2018), Sreeram *et al.*(2018), Singh *et al.*, (2015) and Subburaj *et al.*, (2015) have discussed various challenges faced by farmers in India. Table 3 explains how farmers as members of milk producer companies can overcome these problems than individually.

In conclusion the small scale dairy farmers face numerous challenges in animal feeding, health care, extension & milk marketing constraints. Many of these problems can be overcome by milk producer companies.

The concept of MPCs is gaining prominence in India. Government of India has fixed a target of 10,000 farmer producer organisations by 2023-24 (GOI, 2020). This may mean setting up of several milk producing companies in India by earmarked cluster based organisations.

The state departments of animal husbandry, ICAR institutes, agricultural and veterinary universities, KVKs and dairy development organizations have huge role in formation and support to Milk Producer Companies.

They need to reorient their activities in the changing circumstances, to retain their societal relevance. Evidences are suggestive of milk producer companies helping farmers to reap benefits of market linkages and technological innovations.

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