SECTOR STUDY | 12 AUGUST 2026

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Dairy

Research Team

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Introduction

- Dairy products encompass foods made from goat, cow, buffalo or camel milk as the primary raw materials. These mainly include milk powder, whey powder, whey protein powder, colostrum powder, sterilized milk, modified milk, fermented milk, various types of cheese, cream, and anhydrous cream.

- Milk is a highly perishable commodity and needs to be processed (pasteurized) soon after it is collected to increase its durability. In terms of volume, liquid milk is the most widely consumed Dairy product across the developing world.

- The range of milk products varies significantly between regions and among countries within the same region, influenced by dietary habits, available milk processing technologies, market demands, and social and cultural norms.

- Per capita consumption of milk and milk products is higher in developed countries. However, the disparity with many developing countries is narrowing. Increasing incomes, population growth, urbanization, and dietary changes are driving the growing demand for milk and milk products in developing countries.

- Less than ~7% of world milk output crosses borders as most Dairy products are consumed within close proximity of production. Major exporters of Dairy products include New Zealand, European Union and the USA. Meanwhile, imports are spread more widely globally with China being a major import destination.

Source: USDA, OECD

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Global | Production

- Global cow milk production remained stable at ~561.3Mn MT in CY25, up ~1.2% YoY (CY24: ~554.7Mn MT). Growth was led by the USA (~2.5% YoY), where Dairy farmers expanded herds to keep pace with new cheese, butter, and yogurt processing capacity. India also saw a ~2.2% YoY increase, driven by steady herd growth and gradual productivity improvements. On the other hand, the European Union saw a ~0.4% YoY decline due to continued herd contraction amid disease outbreaks, environmental regulations and processors prioritizing high-margin cheese over raw milk expansion. Declines were also witnessed for China and Russia by ~0.5% and ~0.2%, respectively.

- Moving into CY26, growth is expected to moderate to ~0.7% YoY, taking global output to ~565.4Mn MT, as India remains the single largest driver of incremental volume, adding ~2.2Mn MT and lifting the India-China combined share to ~25.8% of global production (CY25: ~25.6%). China's output is projected to hold flat at ~40.6Mn MT, as larger, more efficient farms continue to absorb volumes lost from smaller producers exiting the market, keeping China's overall contribution to global growth comparatively consistent next to the more herd-driven expansion seen in South Asia (India, Pakistan etc.).

Production | Cow Milk ('000' MT)							
Sr.	**Countries**	**CY21**	**CY22**	**CY23**	**CY24**	**CY25**	**CY26***
1	**European Union**	144,833	144,378	145,122	146,073	145,500	144,800
2	**USA**	102,620	102,701	102,653	102,452	104,959	106,193
3	**India**	96,000	97,000	99,000	101,000	103,200	105,400
4	**China**	36,830	39,200	41,970	40,790	40,600	40,600
5	**Russia**	32,289	32,978	33,800	34,072	34,000	33,900
Rest of the World		132,813	129,445	130,151	130,273	133,010	134,540
Total		**545,385**	**545,702**	**552,696**	**554,660**	**561,269**	**565,433**

***Note**: Data shows production figures for selected countries, as per USDA classification of major producers. *Forecast*

Source: USDA, OECD

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Global | Production

- In CY25, Whole Milk Powder production held broadly flat at ~4.4Mn MT. On the other hand, Non-Fat Dry Milk production declined by ~1.3% YoY to ~4.8Mn MT. The decline was primarily driven by a sharp ~12.1% contraction in production in the USA. This reflected processors diverting raw milk toward higher-margin cheese and butter production amid expanding processing capacity. India, meanwhile, continued to post steady gains in Non-Fat Dry Milk, supported by rising raw milk availability and growing demand for low-fat, protein-rich Dairy products.

- Moving into CY26, the outlook diverges further. Whole Milk Powder production is set to remain broadly steady at ~4.4Mn MT in CY26, as pullbacks from traditional producers like New Zealand and China are offset by continued gains from Brazil and Argentina. While Non-Fat Dry Milk rebounds to ~4.9Mn MT (~1.4% YoY growth) on a USA recovery and continued Indian expansion.

Production | Whole Milk Powder ('000' MT)							
Sr.	**Countries**	**CY21**	**CY22**	**CY23**	**CY24**	**CY25**	**CY26***
1	**New Zealand**	1,600	1,400	1,400	1,420	1,420	1,400
2	**China**	1,010	1,050	1,200	1,170	1,140	1,120
3	**Brazil**	594	568	566	585	595	605
4	**European Union**	663	616	645	619	600	590
5	**Argentina**	234	240	190	173	182	196
Rest of the World		518	463	446	453	482	492
Total		**4,619**	**4,337**	**4,447**	**4,420**	**4,419**	**4,403**

Production | Non-Fat Dry Milk ('000' MT)							
Sr.	**Countries**	**CY21**	**CY22**	**CY23**	**CY24**	**CY25**	**CY26***
1	**European Union**	1,504	1,517	1,480	1,448	1,440	1,430
2	**USA**	1,249	1,189	1,165	1,132	995	1,050
3	**India**	680	700	730	755	770	790
4	**New Zealand**	330	390	390	440	450	445
5	**Australia**	157	155	165	172	170	170
Rest of the World		861	862	880	897	955	964
Total		**4,781**	**4,813**	**4,810**	**4,844**	**4,780**	**4,849**

***Note**: Data shows production figures for selected countries, as per USDA classification of major producers. *Forecast*

Source: USDA,OECD

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Global | Trade

Global Exports | Milk and Cream (USD Mn)						
Sr.	**Countries**	**CY21**	**CY22**	**CY23**	**CY24**	**CY25**
1	**New Zealand**	7,837	7,726	6,790	6,877	7,685
2	**Germany**	3,210	3,553	3,464	3,191	3,353
3	**Netherlands**	2,351	2,970	2,861	3,129	3,340
4	**Belgium**	1,756	2,192	2,139	2,196	2,499
5	**USA**	2,811	3,453	2,614	2,331	2,283
Rest of the World		16,308	17,099	15,993	15,283	14,909
Total		**34,273**	**36,993**	**33,874**	**33,007**	**34,069**

Global Imports | Milk and Cream (USD Mn)						
Sr.	**Countries**	**CY21**	**CY22**	**CY23**	**CY24**	**CY25**
1	**China**	6,476	6,105	4,542	3,857	3,720*
2	**Germany**	2,154	2,817	2,635	2,820	3,299
3	**Belgium**	1,311	1,772	1,636	1,668	1,932
4	**Netherlands**	1,863	1,451	1,579	1,565	1,593
5	**Italy**	1,016	1,261	1,265	1,281	1,381
Rest of the World		21,453	23,587	22,217	21,816	22,144
Total		**34,273**	**36,993**	**33,874**	**33,007**	**34,069**

Note: *Data is representative of HS Codes 0401 and 0402. *China dairy import figures based on 5-year CAGR.*

Source: UN Comtrade

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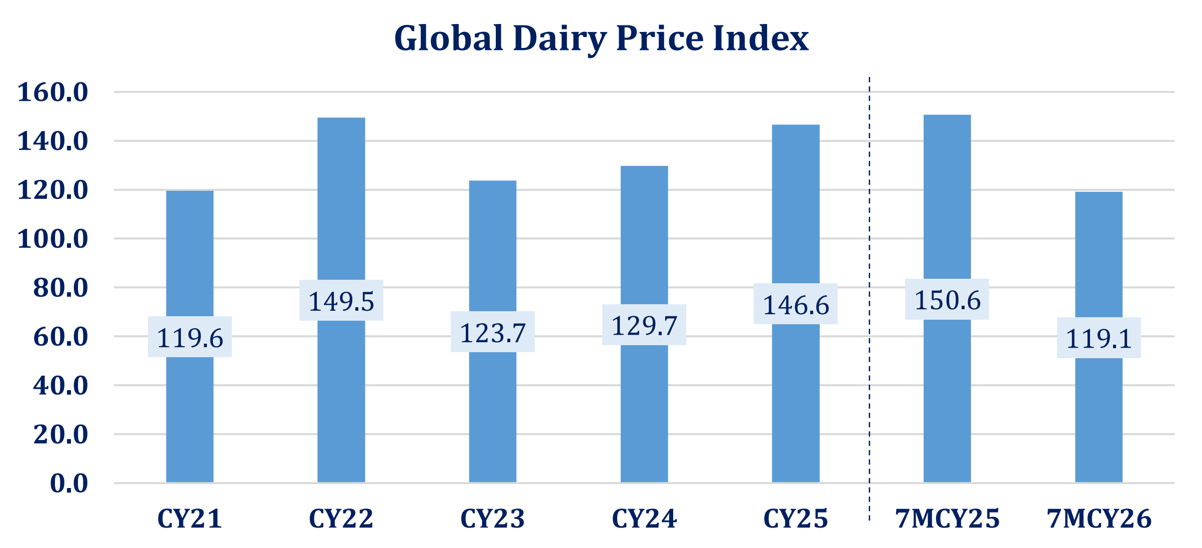
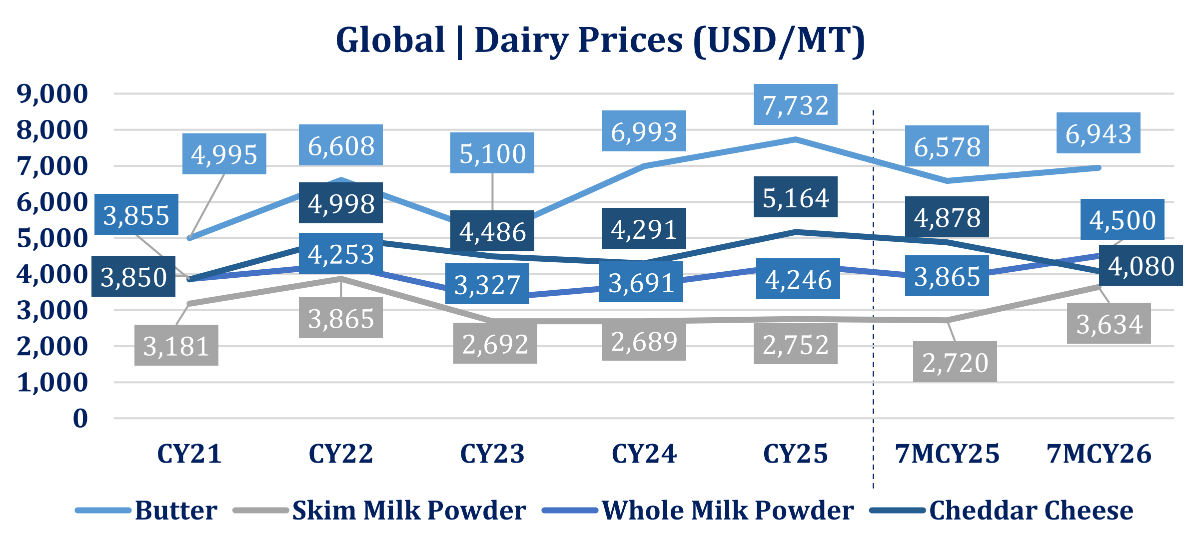
Global | Prices

- The Dairy Price Index rose to ~146.6 in CY25, up ~13.0% YoY (CY24: ~129.7). The rally was driven by tight butter supplies and firm cheese demand from Asia, compounded by limited exportable stocks out of New Zealand and the EU. The index averaged eased to ~119.1 in 7MCY26 from ~150.6 in 7MCY25, on the back of improving milk supply from major exporters such as the USA.

- Butter led CY25 price gains, surging to USD ~7,732/MT (~10.6% YoY) from USD ~6,993/MT in CY24 on the back of persistently tight global supplies, while Skim Milk Powder rose to USD ~2,752/MT (~2.3% YoY) and Whole Milk Powder to USD ~4,246/MT (~15.0% YoY). Cheddar Cheese also rose to USD ~5,164/MT (SPLY: USD ~4,291/MT), up ~20.4% YoY.

- 7MCY26 saw a broad-based recovery from 7MCY25 levels, with cheese as the exception. Skim Milk Powder led the rebound, rising to USD~3,634/MT (~33.6% YoY increase) from USD~2,720/MT. Butter also firmed, up to USD~6,943/MT (~5.5% YoY increase), while Whole Milk Powder climbed to USD~4,500/MT (~16.4% YoY increase). Cheddar Cheese bucked the trend, easing to USD~4,080/MT (~16.4% YoY decline) from USD~4,878/MT





Note: The Dairy Price Index consists of butter, SMP, WMP, cheese price quotations; the average is weighted by world average export trade shares for 2014-2016.

Source: OECD

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Global | Key Takeaways

- **India and Pakistan are the primary engines of global consumption growth:** Asia, led by India and Pakistan, is expected to post the strongest growth in Dairy consumption, with per capita milk solids consumption projected to rise to ~33kg and ~44kg respectively by CY35. India alone is expected to contribute more than half of global production growth over the decade.

- **Cow milk still dominates, while buffalo milk retains a structurally significant share:** World milk production is composed of ~81% cow milk, ~16% buffalo milk, and the remaining ~3% from goat, sheep, and camel milk combined. This mix is expected to hold broadly steady even as India and Pakistan, the two largest buffalo-milk producers, drive a disproportionate share of incremental global output**.**

- **International trade remains thin and concentrated among 3 exporters:** Less than ~7% of world milk production is traded internationally due to perishability and high-water content. World Dairy trade is projected to reach ~13.7Mn MT by CY35 (~11% above base), with the EU, US, and New Zealand jointly accounting for ~70% of global exports.

- **The Butter–SMP (Skimmed Milk Powder) price gap is a structural feature, not a cyclical one:** Since CY15, stronger global demand for milk fat relative to non-fat solids has kept butter prices elevated versus SMP, and this spread is expected to persist through CY35 even as both product prices gradually increase in nominal terms.

- **CY25 saw price gains give way to a supply-driven correction:** Dairy Price Index rose through the first half of CY25, led by cheese, whole milk powder, and butter (the latter hitting a record high in June).

- **Structural risks are building on both the supply and demand side:** Tightening environmental/Greenhouse Gas policy (particularly in the EU and New Zealand), growing competition from plant-based and high-protein alternatives, and recurring animal disease outbreaks all pose downside risks, though none are currently assumed to derail the base-case production trajectory.

Global milk production is projected to grow at ~2.0% YoY to reach ~1,223Mn MT by CY35, with India and Pakistan contributing over half of this growth, while Dairy trade remains concentrated among just three exporters (the EU, US and New Zealand) accounting for ~70% of global exports.

Source: USDA, OECD

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Local | Overview

- In FY26, Pakistan's GDP (nominal) stood at PKR~126.9Tn, increasing, in nominal terms, by ~11.3% YoY (FY25: ~8.3% growth). The agriculture segment amounted to ~23.5% share in the GDP, while industrial activities and services made up ~18.1% and ~58.4%, respectively.

- The Livestock Sector is a significant component of agriculture, contributing ~66.0% of total agriculture in the country and ~14.6% to the total GDP, during FY26. ~97% of the total milk consumption in the country is attributed to fresh milk, while the remaining ~3% is consumed as processed Ultra High Temperature (UHT) milk. Dairy farms are predominantly small-scale, focusing on subsistence or market-oriented farming, with some engaged in peri-urban or commercial-level operations

Pakistan Economy | FY26

Agriculture (23.5%)
- Crops (34.0%)
- Livestock and Others (66.0%)

Industrial (18.1%)
- Manufacturing (66.9%)
- Mining and Quarrying (7.7%)
- Electricity, Gas and Water Supply (12.5%)
- Construction (12.9%)

Services (58.4%)
- Wholesale Retail and Trade (30.5%)
- Transportation and Storage (17.7%)
- Real Estate Activities (10.0%)
- Others (41.8%)

**FY26 values are Provisional – Sectoral Shares in real GDP.*

Source: PBS

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Local | Snapshot

- Pakistan’s Dairy Sector is one of the largest contributors to the Country's agricultural economy, with the Country ranking among the world's top milk producers. Livestock accounting for a substantial share of agricultural value addition, making it a critical pillar of rural livelihoods and food security nationwide.
- Livestock population expanded to ~244.4 Mn in FY26 (FY25: ~237.7 Mn), a rise of ~2.8% YoY, continuing a steady upward trend from ~231.2 Mn in FY24.
- Milk production climbed to ~74.7 Mn MT in FY26 (FY25: ~72.3Mn MT), a YoY increase of ~3.2%, tracking closely with the growth in livestock numbers over the same period.
- Trade volumes reflect imports rising to ~PKR 11.6Bn in FY26 (FY25: ~PKR 9.1Bn), a ~26.1% increase, while exports declined to ~PKR 4.5Bn in FY26 from ~PKR 6.2Bn in FY25 (~27.4% decrease).
- Looking ahead, Pakistan's Dairy Sector carries significant untapped potential. Recent developments suggest the Sector is beginning to act on it, with provincial governments rolling out investment plans aimed at expanding processing capacity and supply chain infrastructure, while formal Sector players engage federal authorities on financing and export policy reforms.

Particulars	Units	FY24	FY25	FY26
Livestock	No. Mn	231.2	237.7	244.4
Production | Milk*	000’MT	70,071	72,343	74,689
Imports	PKR Bn	10.1	9.1	11.6
Exports	PKR Bn	6.1	6.2	4.5
Population	No. Mn	244.4	249.5	254.6
Association	Pakistan Dairy Association (PDA)			

Note:. *Imports and Exports classified as Milk, cream, butter milk, and curdled milk as per PBS (HS Codes 401, 402, 403, respectively) .*

Source: PBS, SBP, PES

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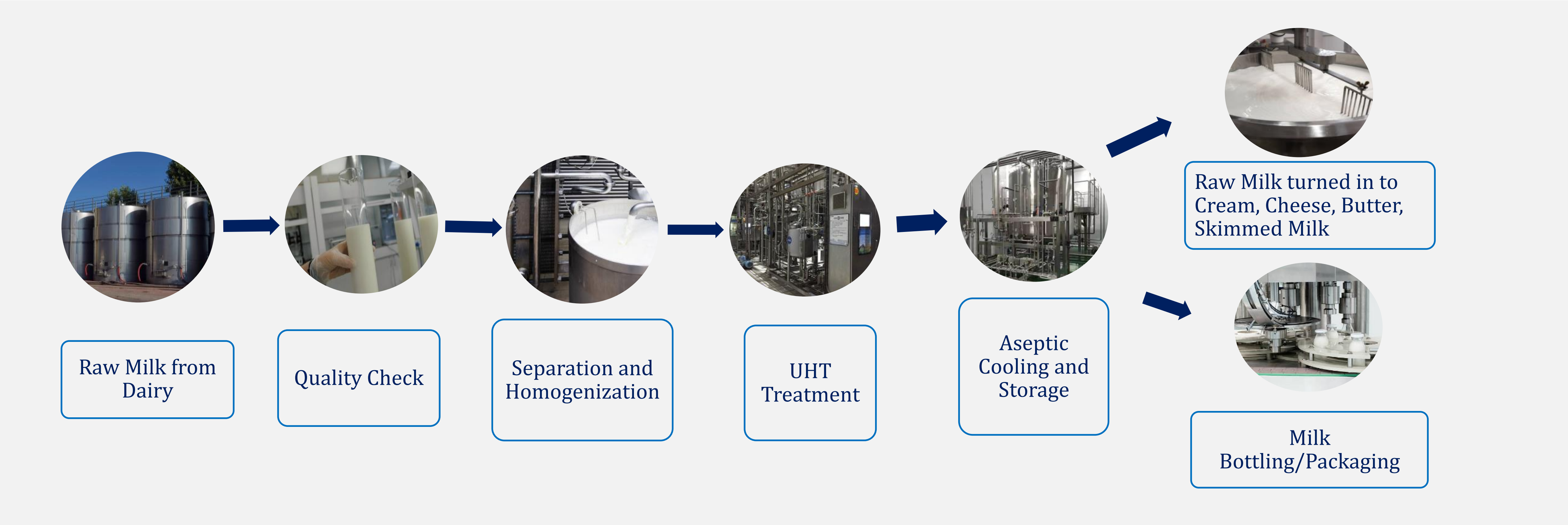
Local | Dairy Processing

- Milk processing companies use milk as a raw material to formulate different types of milk i.e. pasteurized milk, UHT treated milk, condensed milk, skim milk and milk powder, etc.
- Different value-added products like ghee, khoya, yogurt, ice cream, butter and cheese are also prepared from raw milk. Processed milk market has increased its share in quality conscious consumers. Over the last two decades, the processed milk segment has expanded to capture an estimated ~4% share of Lahore's milk market.



Source: SMEDA

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Local | Dairy Farming Overview

- **Production Scope:** Dairy production is an all-inclusive activity covering animal care, reproduction, feeding and management across every phase of an animal's life, with the ultimate goal of maximizing hygienic milk output.
- **Animal Health:** Genetic worth is treated as a top priority, with preferred animals showing excellent body condition, average daily milk production of ~35 liters or above in first lactation, and essentially no history of disease.
- **Housing:** Good housing directly supports good management and optimum production; ideal structures are pre-engineered (tunnel-type), ventilated, dry, and hygienic, with easy drainage of dung, urine, and waste, apparent temperature kept under ~27°C, minimal sun exposure, and design flexibility for future expansion.
- **Milking Hygiene:** Manual milking remains common among smallholder farmers, while larger commercial farms rely on milking machines and automated systems to improve both efficiency and hygiene standards.
- **Nutrition:** Traditional feed relies on crop residues, green fodder, and locally available feedstuffs, while commercial farms increasingly use concentrate feed and balanced nutritional supplements; cows are fed Total Mixed Ration (TMR), a high energy, protein-rich formulated feed made up of ~60% roughage and ~40% concentrate, delivering ~16% Crude Protein to boost productivity.
- **Animal Welfare:** Strong emphasis is placed on preventive care, with regular vaccination and deworming programs forming the backbone of disease management practices.
- **Breeds:** Nili-Ravi and Kundi buffaloes, along with Red Sindhi cows, remain the most common breeds, while crossbreeding with foreign breeds like Holstein Friesian and Jersey is increasingly practiced to improve milk yield.
- **Housing Innovation:** The Environmental Controlled Housing (ECH) system marks a notable shift in Pakistan's Dairy Sector, creating a self-sufficient environment that maintains optimal temperature, humidity, air quality, and lighting for livestock.
- **Farm Location:** The most suitable locations are rural and peri-urban areas surrounding major cities, offering abundant water and feed supply, easy access to livestock markets, and availability of veterinary services; key demand centers include Lahore, Karachi, Multan, Rawalpindi, and Faisalabad.
- **Market Demand:** At the national level, milk demand grows by ~10-15% annually while supply increases by only ~3-4%, creating a persistent demand-supply gap of several million tonnes that has widened over the years.

Source: SMEDA

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Local | Dairy Farming Overview

Description	~50 Cows	~75 Cows	~100 Cows
Initial Employment	~6 Individuals	~7 Individuals	~8 Individuals
Employment at year 10	~19 Individuals	~26 Individuals	~29 Individuals
Initial Milk Production Capacity Utilization	~80%	~80%	~80%
Maximum Milk Production Capacity Utilization	~95%	~90%	~90%
Average Milk Production per Cow per Lactation	~11,000-12,000 liters	~11,000-12,000 liters	~11,000-12,000 liters
Milk Production in Year 1 (at ~80% capacity)	~388,360 liters	~572,320 liters	~766,500 liters
Annual Mortality Rate for Newborn Calves	~5%	~5%	~5%
Annual Mortality rate for Adult Cows	~1%	~1%	~1%

Source: SMEDA

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Local | Raw Material Requirement

Daily Feeding Requirements for One Wet Cow*

Description	Daily Feed Allowance (Kgs)	Rate (PKR/ Kg)*	Feed Cost (PKR/Day)	Milk Days (No.)	Total Cost (PKR/ Cow)
Total Mixed Ration (TMR)	21	74.4	1,323	305	403,515

Daily Feeding Requirements for One Dry Cow*

Description	Daily Feed Allowance (Kgs)	Rate (PKR/ Kg)*	Feed Cost (PKR/Day)	Dry Days (No.)	Total Cost (PKR/ Cow)
Total Mixed Ration (TMR)	16	60.2	803	60	48,195

**One lactation period of cow is estimated to be 305 +_ 5 days and dry period is 60 days. Data pertains to Dairy Farm with ~100 cows. * Rate (PKR/Kg) updated using maize YoY growth rates.*

Source: SMEDA

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Local | Dairy Farming Types

Aspect	Small-Scale Dairy Farming	Large-Scale Dairy Farming
Farm Size	~2-10 animals per farm	~50-1,000+ animals per farm
Production System	Traditional methods, often grazing on common lands	Modern, intensive systems with controlled feeding regimes
Breed Types	Local breeds (e.g., Nili-Ravi buffalo, Sahiwal cows)	Exotic breeds (e.g., Holstein Friesian) and crossbreeds
Milk Production	~4-6 liters per animals per day	~15-25 liters per cow per day
Advantages	Low input costs, Resilient local breeds, Provides rural employment	Higher productivity, Better market integration, Economies of scale
Challenges	Low productivity, Limited market access, Lack of resources and training	High input costs, Dependency on technology and imports

Source: SMEDA

Local | Milk Production Systems

- **Smallholder subsistence production system:** The smallholder subsistence production system in Pakistan involves farmers who produce milk primarily to meet their family needs, with limited market access. Typically, these farms have ~3 buffaloes, with an average milk yield of ~3 liters per animal per day. Production relies on noncash resources like family-owned land and labor, and ~70% of smallholder farmers fall into this category.

- **Smallholder market-oriented production system:** The smallholder market-oriented production system is evolving from subsistence farming. Typically, households have ~5–7 animals, including cows and buffaloes, with ~3–4 being lactating. Feeding includes fodder, wheat straw, and seed cake. Over ~70% of the milk is sold directly to retail shops or intermediaries.

- **Rural commercial production system:** Since CY06, Pakistan's Dairy Sector has shifted towards commercial farming, with progressive farmers investing in larger operations. A typical rural commercial Dairy farm has about ~30 animals. The farm sells over ~90% of its milk, with average yields of ~10 liters per animal per day. Milk is marketed through commercial milk collection companies, making this system the second largest contributor to commercial milk collection after large peri-urban farms.

- **Peri-urban production system:** The peri-urban production system involves commercial Dairy farms on the outskirts of major cities. These farms range from small ~20-200 animals to large ~200-2,000 animals, averaging ~50 animals per farm These farms use both family and hired labor, with the latter paid at urban rates, and deliver milk to the market daily. Milk is sold directly to city retail shops after de-creaming, with a focus on selling nearly all the milk produced.

- **Large peri-urban commercial Dairy farms**: These Dairy farms, driven by urbanization over the past two to three decades, focus on maximizing milk production with high-quality feeding and management. These farms, known as corporate or mega farms, use elite breeds like Holstein Friesians and their crosses, producing around ~25 liters of milk per day per animal. They operate with high inputs such as advanced feeds, and machinery. Although these farms make up less than ~1% of total Dairy operations in Pakistan, they collectively produce significant volumes of milk, ranging from ~20,000 to ~100,000 liters per day.

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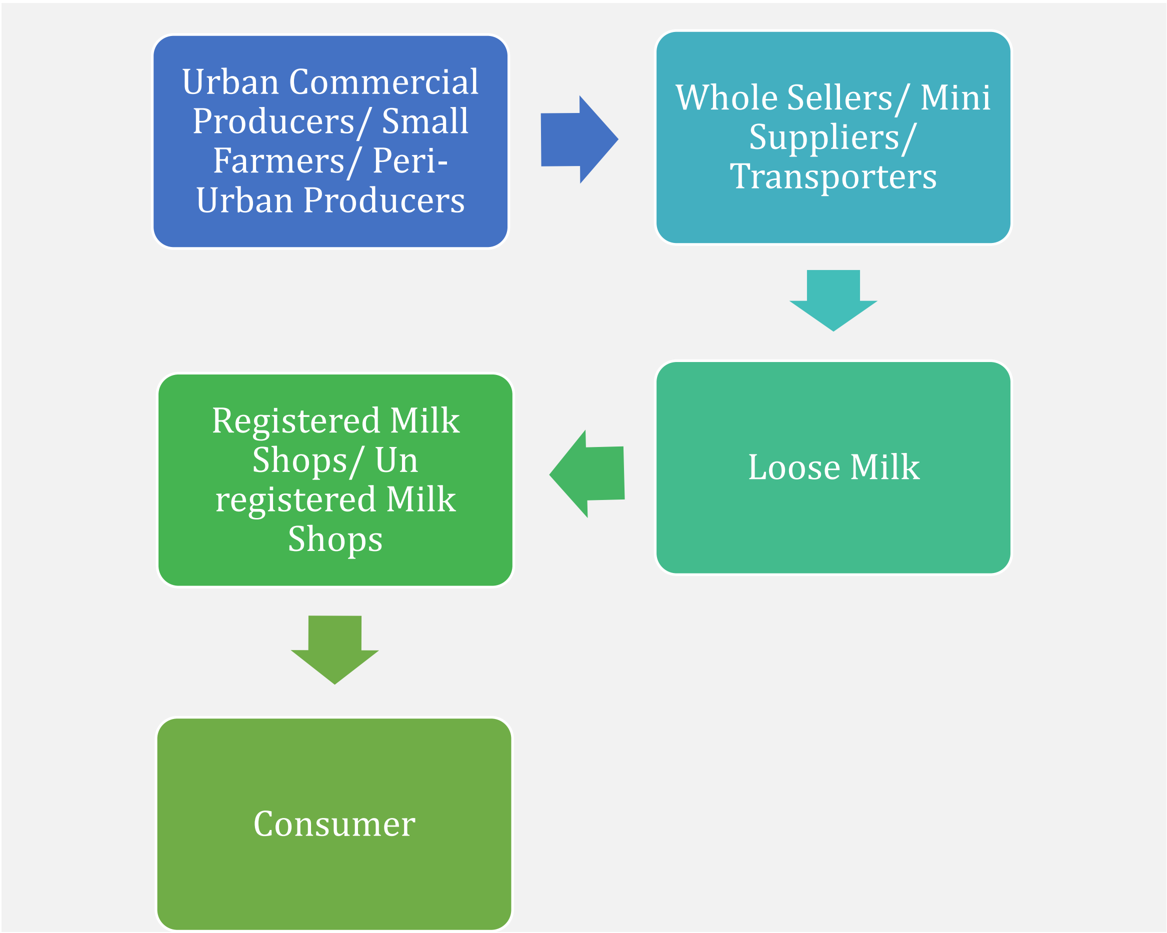
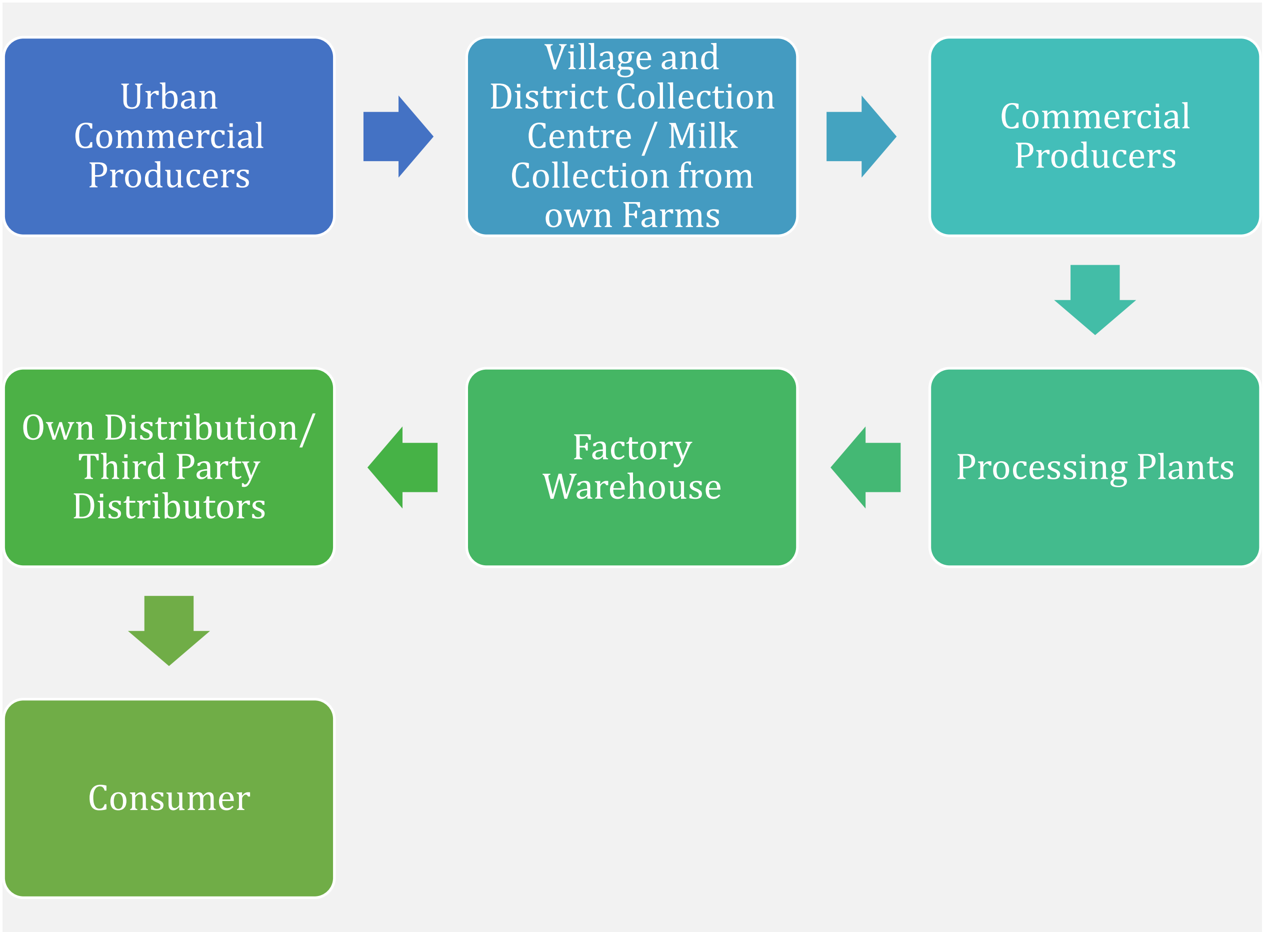
Local | Supply Chain

Supply Chain | Loose Milk (Unorganized Segment)



Supply Chain of Packaged Milk (Organized Segment)



Note: *District Price Regulations apply when setting the price, Food and Health Authority ensures quality control checks.*

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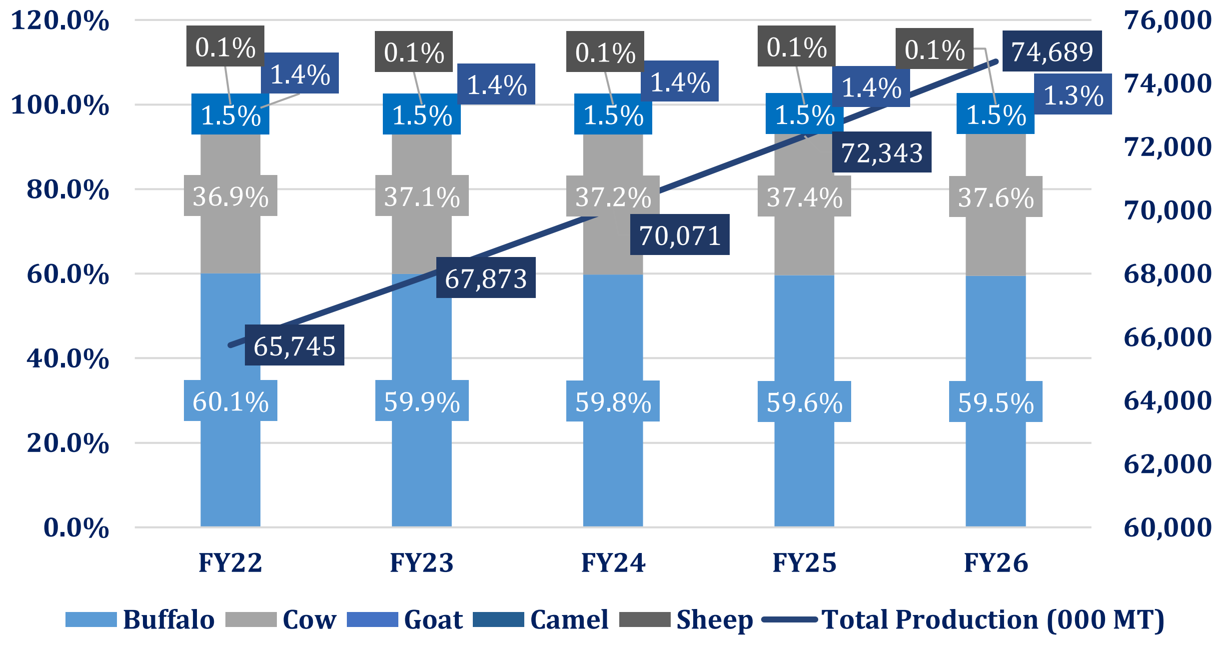
Local | Production

- Total milk production grew from ~72.3Mn MT in FY25 to ~74.7Mn MT in FY26, a ~3.2% YoY increase. This was driven primarily by buffalo, up ~3.0% YoY to ~44.4Mn MT from ~43.1Mn MT, and cow milk, which grew faster at ~3.8% YoY to ~28.1Mn MT from ~27.1Mn MT.
- Buffalo's share of total production remained stable at ~59.5% in FY26 (FY25: ~59.6%), while cow milk's contribution edged up to ~37.6% (FY25: ~37.4%), continuing the gradual mix shift toward cow milk.
- Goats, camels and sheep together held their combined share broadly steady at ~2.9% in FY26 (FY25: ~3.0%), with camel milk growth softening to ~1.3% YoY (FY25: ~1.4%). Of the gross milk production, ~80.6% was fit for human consumption in FY26 (same as SPLY).

Local | Milk Production ('000' MT)

Livestock	FY22	FY23	FY24	FY25	FY26
Buffaloes	39,503	40,678	41,887	43,132	44,414
Cows	24,238	25,151	26,099	27,083	28,104
Goats	1,018	1,046	1,074	1,103	1,133
Camels	944	956	956	981	994
Sheep	42	42	42	43	44
Total	**65,745**	**67,873**	**70,071**	**72,343**	**74,689**

Milk Production | Category Wise (%)



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Local | Prices

- Fresh milk averaged PKR~205/liter in FY26, up ~4.1% YoY from PKR~197/liter in FY25, reflecting rising feed, fuel, and labor costs, a trend also visible at the retail level, where regulated milk prices in major cities (such as Karachi) were revised upward multiple times over the course of the year.
- Curd rose to PKR~240/kg from PKR~231/kg, up ~3.9% YoY, largely tracking fresh milk cost pass-through since curd is a direct milk derivative with limited independent cost drivers.
- Powdered milk saw the steepest rise, to PKR~1,124/390gm bag from PKR~1,036.3/390gm bag, up ~8.5% YoY. This was more than double the pace of fresh milk, likely reflecting the continued impact of the ~18% GST on packaged/processed dairy products in FY25.
- This aligns with the broader inflation trajectory, with national CPI averaging ~7.1% YoY in FY26 versus ~4.5% in FY25, suggesting Dairy prices are moving in step with an economy-wide inflation upswing that could keep cost pressures elevated into FY27.

Local | Prices (PKR)					
	FY22	FY23	FY24	FY25	FY26
Fresh Milk Price (PKR/liter)	116	152	185	197	205
Curd | Price (PKR/KG)	134	176	216	231	240
Powdered Milk | Price (PKR/390 Gm bag)	507	641	820	1,036	1,124

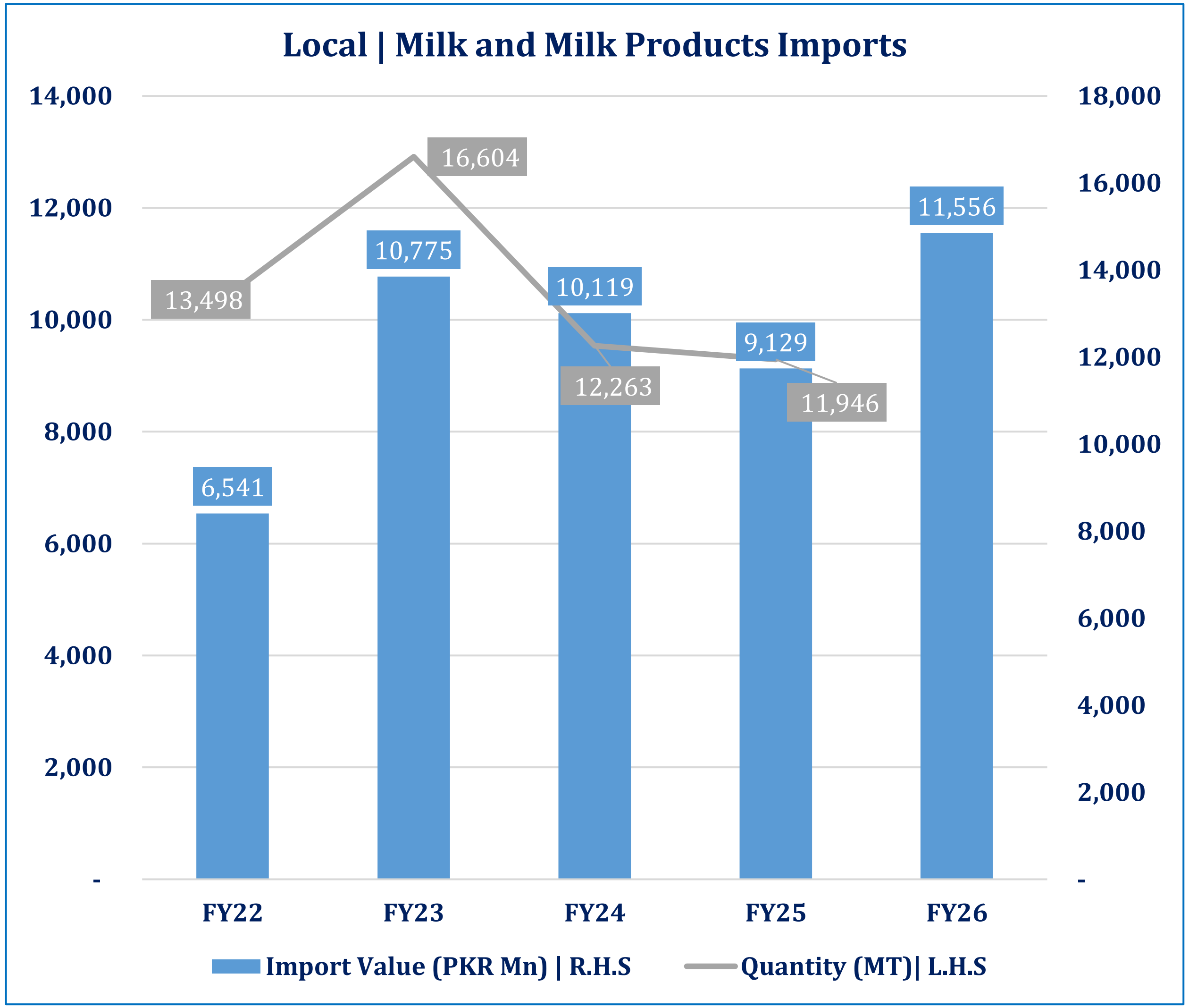
**For human consumption.*

Source: PBS

Dairy

Local | Imports

- Import value rose sharply to PKR ~11,556Mn in FY26 (FY25: PKR ~9,129Mn), up ~26.6% YoY, marking the highest import bill in the five-year series.
- On the other hand, import volumes eased to ~11,946MT in FY25 (FY24: ~12,263MT), down ~2.6% YoY, continuing the downtrend since the FY23 peak. This came despite domestic milk production growing ~3.2% YoY. This is majorly due to the fact that Pakistan's raw milk output is largely liquid milk consumed fresh. It does little to offset the country's structural dependence on imported WMP and SMP which are key inputs for the formal processing and infant formula segments.
- The FY26 value surge alongside a prior-year volume decline points to rising per-unit import cost, consistent with firm global WMP/SMP prices.



Note: *Data pertains to exports classified as Milk, cream, butter milk, and curdled milk (HS Codes 401, 402, 403, respectively).*

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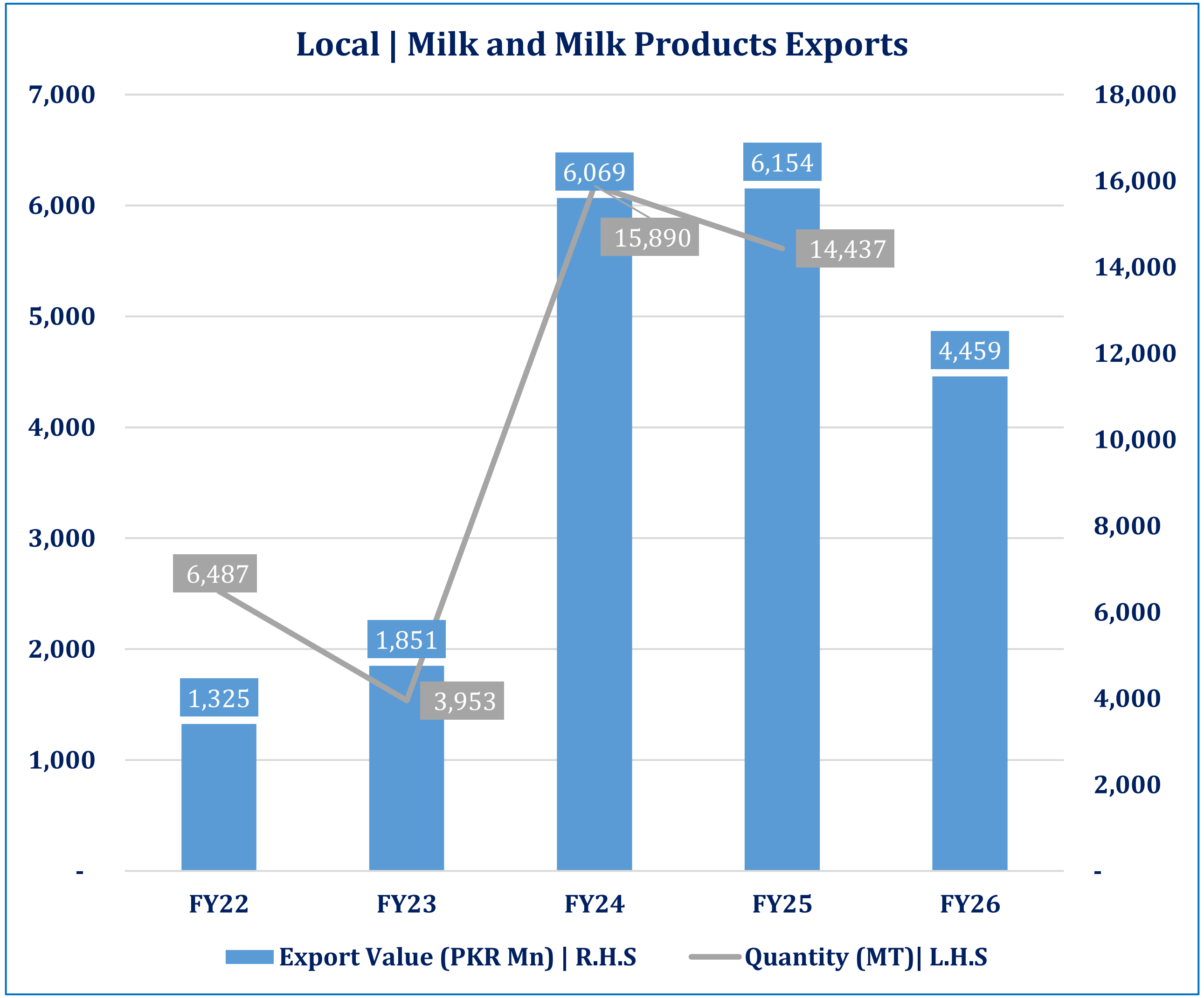
Local | Exports

- Export value fell to ~PKR 4,459Mn in FY26 (FY25: ~PKR 6,154Mn), down ~27.5% YoY, reversing two consecutive years of growth.
- Export volumes had already begun moderating a year earlier, easing to ~14,437MT in FY25 (FY24: ~15,890MT), down ~9.1% YoY, foreshadowing the sharper value decline that followed in FY26.
- A key driver was reduced offtake from Saudi Arabia, Pakistan's largest dairy export market, as its Vision 2030 push toward dairy self-sufficiency boosted local production and displaced import volumes from suppliers like Pakistan.
- The decline in export in FY26 stemmed from a shrinking export market rather than any supply-side constraint.

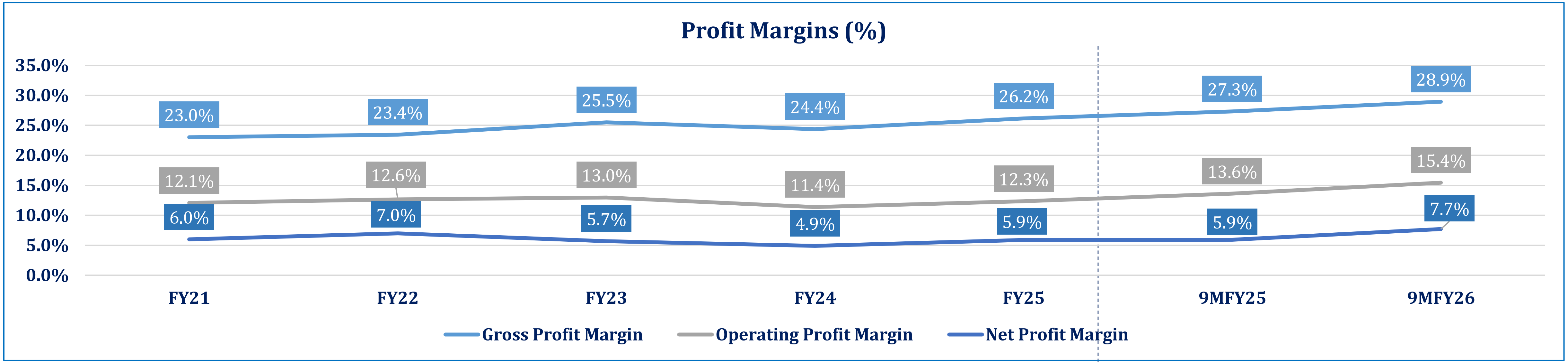


Note: Data pertains to exports classified as Milk, cream, butter milk, and curdled milk (HS Codes 401, 402, 403 respectively).

Source: PBS, SBP

Dairy

Local | Business Risk



- For 9MFY26, the Sector's margins improved across the board. Gross margins rose to ~28.9% (9MFY25: ~27.3%), while operating and net margins strengthened to ~15.4% and ~7.7%, respectively (9MFY25: ~13.6% and ~5.9%). The improvement was driven by a continued shift toward higher-margin, value-added products such as tea whiteners and cream, alongside easing finance costs. However, SBP's 100bps hike in April 2026 reverses this tailwind going forward, while elevated feed and raw milk costs continue to pressure margins at the farm level.

- During FY25, gross margins improved to ~26.2% (FY24: ~24.4%) mainly due to a ~5.0% YoY decline in total cost, despite a ~2.7% decline in sales revenue following the imposition of an 18% GST on dairy products in July 2024. Operating margins rose to ~12.3% (FY24: ~11.4%), while net margins increased to ~5.9% (FY24: ~4.9%), mainly on the back of a ~58.4% YoY contraction in finance cost, in line with SBP's rate-cutting cycle through FY25, which lowered mark-up for players across the Sector.

***Note**: Calculations are based on ~9 Rated / Sector players financials. 9M data is reflective of ~7 sector players.*

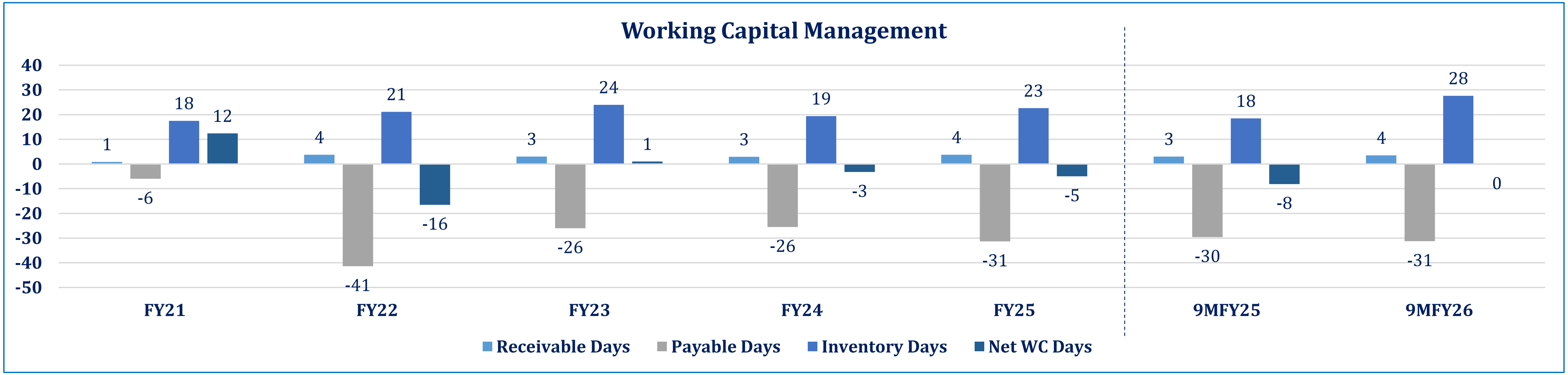
Source: PACRA Database

Dairy

Local | Financial Risk

- In 9MFY26, inventory days rose sharply to ~28 days (9MFY25: ~18), coinciding with a firming trend in global milk powder prices, SMP and WMP prices rose meaningfully through early 2026, likely inflating the value of imported input stock and prompting forward buying ahead of further increases. Receivable days remained largely stable at ~4 days (9MFY25: ~3), reflecting the sector's cash sales model. Payable days edged up slightly to ~31 days (9MFY25: ~30). Net working capital days moved to ~0 days (9MFY25: ~-8), as the rise in inventory outpaced the modest extension in payables, pointing to greater reliance on short-term borrowing to fund the buildup.

- On a full-year basis, the Sector's inventory days rose to ~23 days in FY25 (FY24: ~19), consistent with processors carrying heavier stock buffers amid input cost volatility. Receivable days ticked up marginally to ~4 days (FY24: ~3), while payable days expanded to ~31 days (FY24: ~26), likely concentrated among smaller players with tighter liquidity. This extension outpaced the rise in inventory and receivables, pushing net working capital days further into ~-5 days (FY24: ~-3).



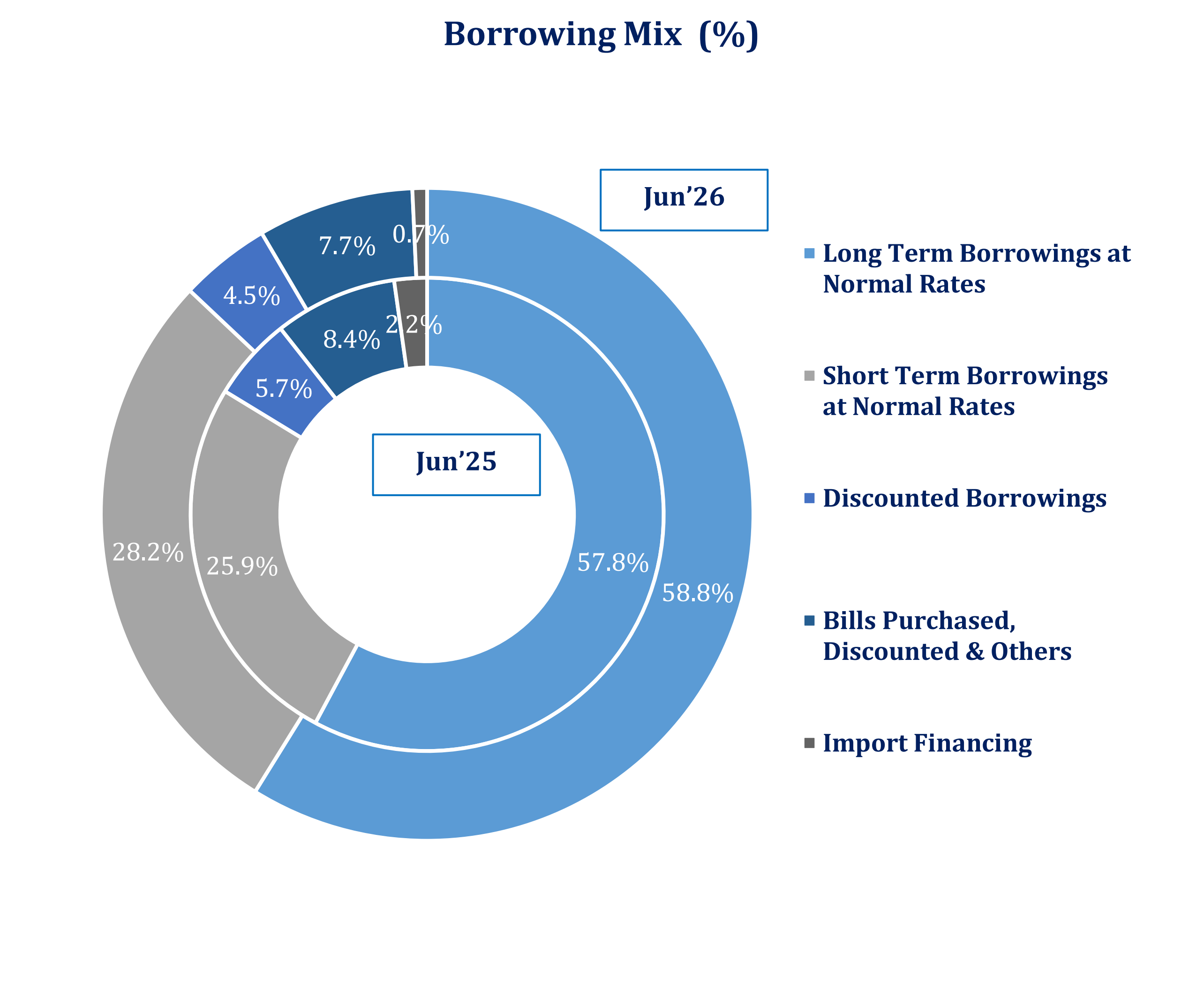
***Note**: Calculations are based on ~9 Rated / Sector players financials. 9M data is reflective of ~7 sector players.*

Source: PACRA Database

Together. Creating Value.

Financial Risk | Borrowing Mix

- The total borrowings of the Sector as at End-June'26, stood at PKR~147.8Bn (End-June'25: PKR~138.1Bn), up ~7.0% YoY.
- Long-term borrowings at normal rates held the highest share of total borrowings at ~58.8% as of End-June'26 (SPLY: ~57.8%), rising ~8.9% YoY to PKR~86.9Bn (SPLY: PKR~79.9Bn), while short-term borrowings at normal rates comprised ~28.2% (SPLY: ~25.9%) and stood at PKR~41.7Bn (SPLY: PKR~35.7Bn), up ~16.6% YoY.
- Bills purchased, discounted and others represented ~7.7% of total borrowings and stood at PKR~11.4Bn as at End-June'26 (SPLY: ~8.4%; PKR~11.6Bn), registering a decline of ~1.4% YoY.
- Discounted borrowings held ~4.5% share in total borrowings and stood at PKR~6.7Bn (SPLY: ~5.7%; PKR~7.8Bn), down by ~14.8% YoY.
- Import financing represented the smallest share at ~0.7% of total borrowings and stood at PKR~1.1Bn (SPLY: ~2.2%; PKR~3.1Bn), down sharply by ~65.4% YoY.



Note: Data pertains to SBP Classification "Manufacture of Dairy Products" and "Raising of Cattle and Buffalos"

Source: SBP

Dairy

Duty Structure

HS Code	Description	Customs Duty		Additional Customs Duty		Income Tax		Sales Tax		Regulatory Duty	
		FY26	FY27	FY26	FY27	FY26	FY27	FY26	FY27	FY26	FY27
0401.4000	Milk and Cream FAT- 6% to10%	20%	20%	4%	2%	12%	12%	18%	18%	0%	0%
0402.1000	Milk in Powder FAT- 1.5%	20%	20%	4%	2%	12%	12%	18%	18%	20%	16%
0402.2100	Milk in Powder FAT- <1.5%	20%	20%	4%	2%	12%	12%	18%	18%	20%	16%
0402.2900	OTH Milk in Powder FAT- <1.5%	20%	20%	4%	2%	12%	12%	18%	18%	20%	16%
0402.9100	OTH Milk/Cream Not Solid	20%	20%	4%	2%	12%	12%	18%	18%	20%	16%
0402.9900	OTH Milk/Cream Not Solid	20%	20%	4%	2%	12%	12%	18%	18%	20%	16%
0403.9000	Butter Milk, Curdled Milk	20%	20%	4%	2%	12%	12%	18%	18%	20%	16%
0404.1010	Whey Powder	20%	20%	4%	2%	12%	12%	18%	18%	20%	16%
0405.1000	Butter	20%	20%	4%	2%	12%	12%	18%	18%	20%	16%
0405.2000	Dairy Spread	20%	20%	4%	2%	12%	12%	18%	18%	20%	16%
0405.9000	OTH FAT Oil derived from Milk	20%	20%	4%	2%	12%	12%	18%	18%	20%	16%
0406.1010	Cheese	20%	20%	4%	2%	12%	12%	18%	18%	40%	20%
0406.9000	Other Cheese	20%	20%	4%	2%	12%	12%	18%	18%	40%	20%

Source: FBR

Dairy

SWOT Analysis

- **High Demand for Dairy products:** Milk, cheese and yogurt are staple items in many diets.
- **Employment Opportunities**: From farming and processing to distribution and retail.

- **High Production Costs**: Cost for feed and equipment can be high.
- **Dependency on climate**: Climate conditions can affect milk production and quality..
- **Labor Intensive:** Requires significant manual effort for milking, feeding etc.

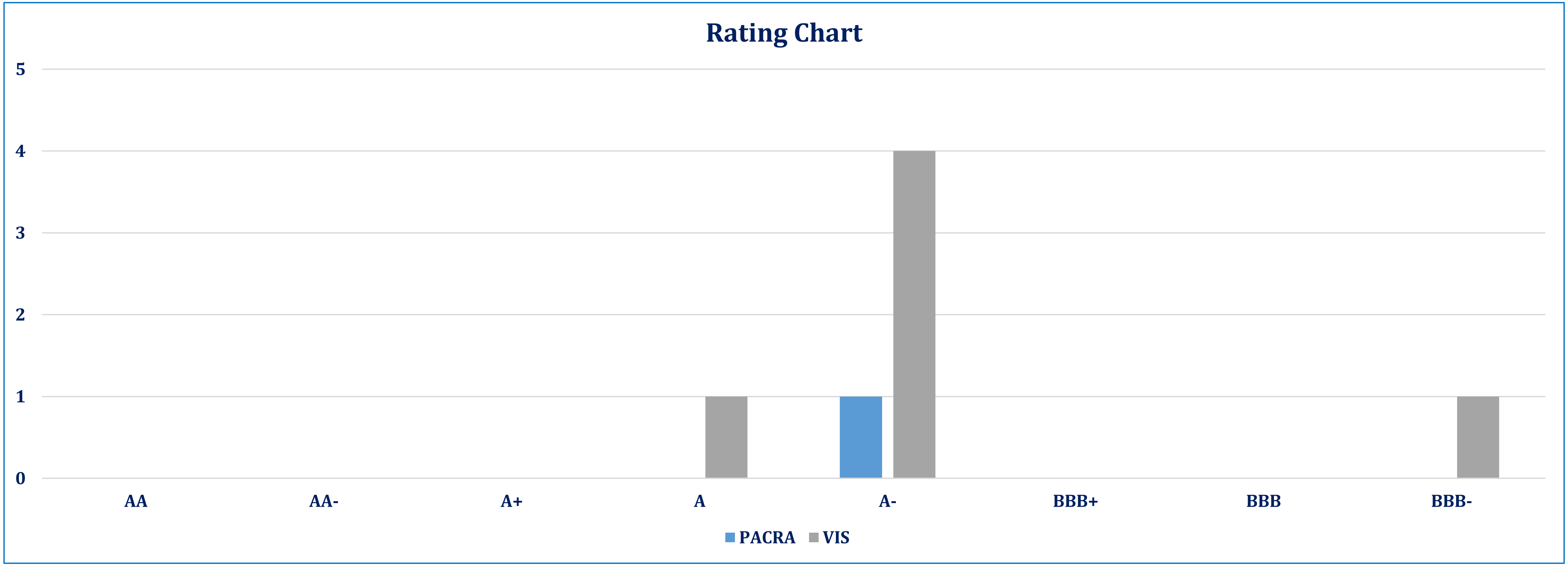
- **Disease Outbreaks**: Livestock diseases can severely impact milk production and quality.
- **Consumer preferences**: Shifts in consumer preferences towards plant-based or alternative milk products can affect traditional Dairy sales.
- **Key Export Market Risk:** Saudi Arabia's Vision 2030 push for dairy self-sufficiency is displacing Pakistani exports.

- **Growing demand in emerging markets:** Rising incomes and changing diets increase demand for Dairy products.
- **Technological Innovation:** Can improve efficiency i.e. precision farming, better disease management and feed formulations.
- **Sustainable Practices:** Adoption of sustainable and environmentally friendly practices can attract environmentally conscious consumers and reduce costs.

Dairy

Rating Curve

- PACRA rates 1 entity of the Dairy Sector with a Rating of A-.



Dairy

Outlook: Stable

- Pakistan's GDP (nominal) in FY26 reached PKR ~126.9Tn, reflecting a YoY growth of ~11.3% in nominal terms, compared to ~8.3% in FY25. Within the economy, agriculture accounted for ~23.5% of GDP, industry contributed ~18.1%, while the services sector held the largest share at ~58.4%. Looking ahead, the GoP has projected real GDP growth of ~4.0% for FY27.

- Milk production rose to ~74.7Mn MT in FY26 (up ~3.2% YoY), led by buffalo and cow milk, though demand still outpaces supply growth, keeping the Sector's structural gap wide. Prices climbed across the board in FY26 (fresh milk up ~4.1% YoY, curd ~3.9% YoY and powdered milk up ~8.5% YoY) broadly tracking a ~7.1% national CPI , with the FY25 GST still feeding through to processed products.

- In 9MFY26, gross margin widened to ~28.9% (9MFY25: ~27.3%), with the gain carrying through to the bottom line. Operating margin improved to ~15.4% (9MFY25: ~13.6%), while net margin rose to ~7.7% (9MFY25: ~5.9%). FY25 saw a similar trend, with gross margin rising to ~26.2% (FY24: ~24.4%), operating margin improving to ~12.3% (FY24: ~11.4%), and net margin advancing to ~5.9% (FY24: ~4.9%).

- Trade showed a widening gap in FY26. Import value rose ~26.6% to PKR ~11,556Mn (FY25: PKR ~9,129Mn), even as volumes had already eased ~2.6% YoY a year earlier. Exports moved the opposite way, with value falling ~27.5% to ~PKR 4,459Mn (FY25: ~PKR 6,154Mn), extending the ~9.1% volume decline seen in FY25. The export drop was driven largely by a sharp Saudi Arabia pullback (Pakistan's top dairy export market) as it ramps up self-production under Vision 2030.

- On the policy front, momentum is building for the formal Dairy Sector. The Federal Cabinet Committee on Regulatory Reforms met in Jul'26 to streamline licensing, cut approval times and improve investment access for the Dairy and beverage segment, while the Corporate Dairy Farmers Association separately engaged the Ministry of Commerce in May'26 on taxation, financing, and export-support proposals to feed into upcoming budget discussions.

- On investment, Punjab has unveiled a PKR ~149.9Bn public-private plan to overhaul the meat and Dairy value chain, targeting livestock exports beyond USD ~4Bn through new processing capacity, disease control and farmer support. Also, Friesland Campina, Engro's Dutch ownership reaffirmed its commitment to Sector growth and future investment following a Jul'26 ambassadorial visit. Should these initiatives translate into committed capital and faster regulatory approvals, they could meaningfully ease the Sector's structural constraints, particularly around cold-chain losses and export market access positioning formal-sector players for improved margins and volume growth over the medium term.

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