

FOOD PROCESSING INDUSTRY IN INDIA

ADDING VALUE BY CREATING SYNERGY BETWEEN
AGRICULTURE AND INDUSTRY

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EXECUTIVE SUMMARY

Food Processing Industry (FPI) in India is a sunrise sector that has gained prominence in the recent years. Easy availability of raw materials, changing lifestyles and favourable fiscal policies has given a considerable push to the industry's growth. FPI serves as a vital link between the agriculture and manufacturing sectors of the economy. Strengthening this link is critical to reduce wastage of agricultural raw materials, improve the value of agricultural produce by increasing shelf-life as well as by fortifying the nutritive value of the food products and ensure remunerative prices to farmers as well as affordable prices to consumers.

India has a population of one hundred crore plus and feeding this large a population calls for a strong FPI. The industry also assumes importance in the national economy due to the immense employment generation opportunities it offers and the export revenue it earns.

India is one of the leading exporters of the processed food products. It has a competitive edge over other countries due to the wide variety of crops cultivated as a result of geographical and climatic diversity. Government too is trying to support the industry by formulating favourable policies. With adequate government focus on the infrastructural support, research and development and technological innovation in this sector, India could alleviate its domestic concerns on food security, malnutrition and food inflation.

INTRODUCTION

As per Ministry of Food Processing of India (MOFPI), the term 'food processing' is mainly defined as a process of value addition to the agricultural or horticultural produce by various methods like grading, sorting and packaging. In other words, it is a technique of manufacturing and preserving food substances in an effective manner with a view to enhance their shelf life; improve quality as well as make them functionally more useful. It covers a wide spectrum of products from sub- sectors comprising agriculture, horticulture, plantation, animal husbandry and fisheries. It also includes other industries that use agricultural inputs for manufacturing of edible products.

SEGMENTS IN THE FPI

The food processing sector comprises of three segments based on the levels of processing

- **Primary processing of food**

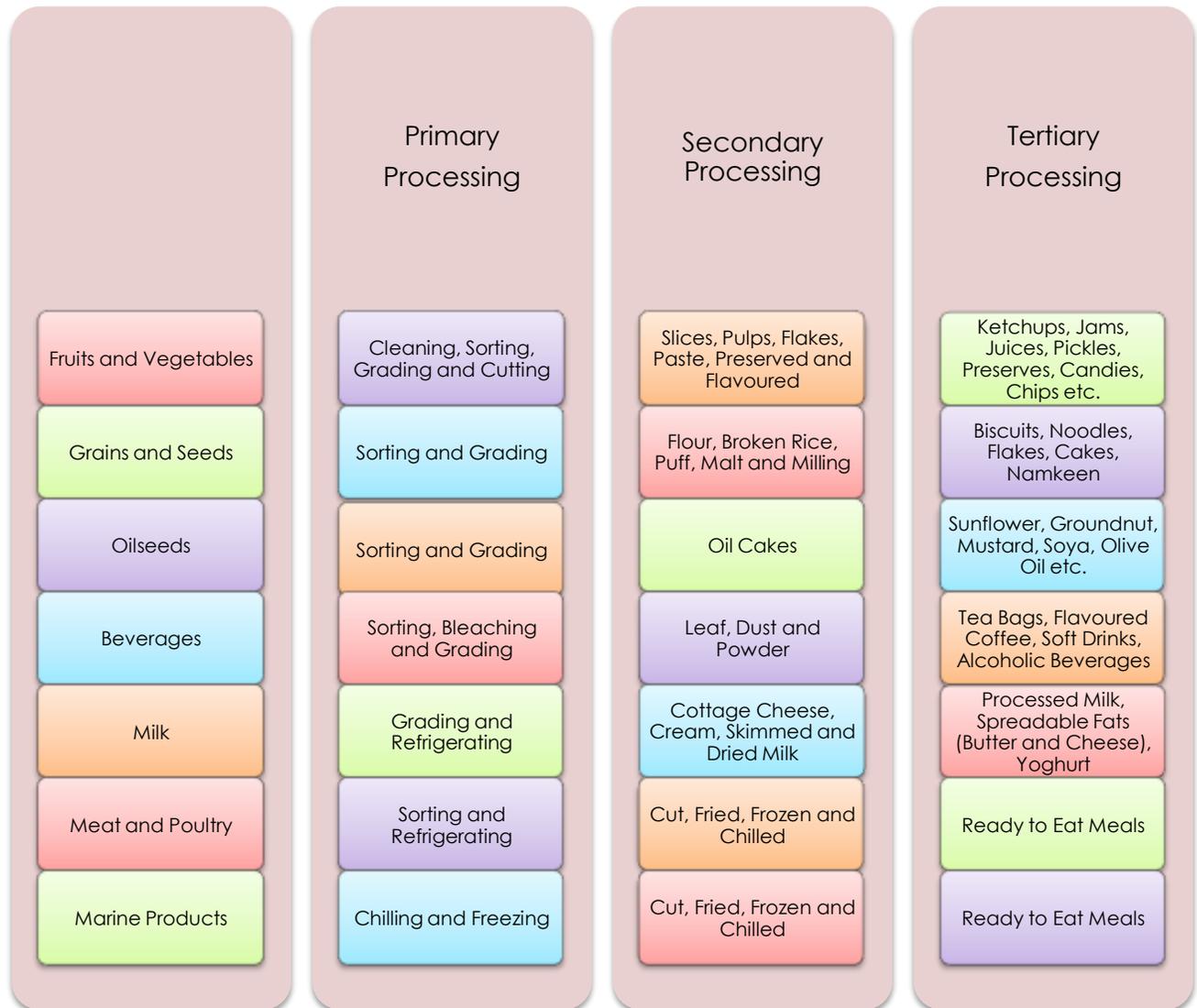
Primary processing of food comprises of sorting, grading and packaging of fruits and vegetables, milk, rice, spices, etc.

- **Secondary Processing of Food**

Secondary processing of food comprises of re-shaping of food for ease of consumption. It includes flour, oil cakes, tea leaf and beverages powder etc. Together with primary processing, the two segments constitute around 62% of the processed foods in value terms.

- **Tertiary Processing of Food (or) Value Added Food Segment**

Value added food segment includes processed fruits and vegetables, juices, jam & jelly etc and holds around 38 % share in the total processed food market.



MOFPI indicates the following segments within the food processing industry on the basis of the raw material used:

- **Fruits & Vegetables**

Beverages, Juices, Concentrates, Pulps, Slices, Frozen & Dehydrated products, Wine, Potato wafers/Chips etc.

- **Fisheries**

Frozen & Canned products mainly in fresh form

- **Meat & Poultry**

Frozen and packed food mainly in fresh form, Egg powder

- **Milk & Dairy**

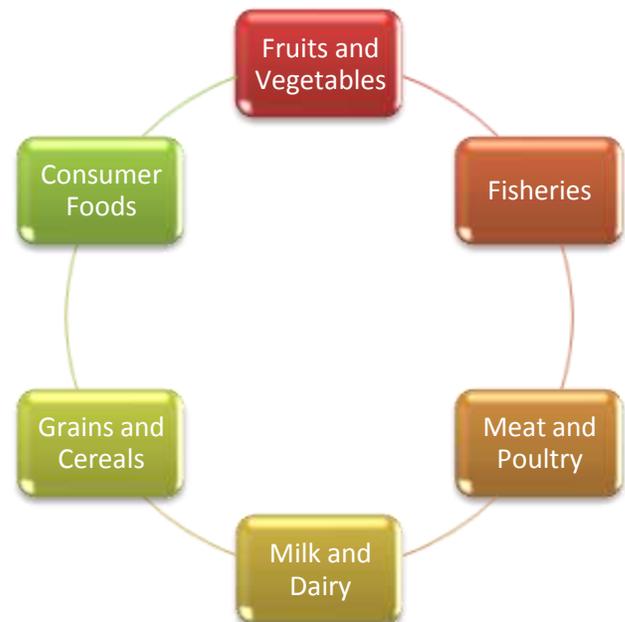
Whole milk powder, Skimmed milk powder, Condensed milk, Ice cream, Butter and Ghee

- **Grain and Cereals**

Flour, Bakeries, Biscuits, Starch, Glucose, Cornflakes, Malted foods, Vermicelli, Pasta foods, Beer and Malt extracts, Grain based alcohol

- **Consumer Foods**

Chocolates, Confectionery, Soft/Aerated beverages



The industry is largely unorganized, with a small but growing organized sector. The organized sector contributes approximately 30% of the food processing industry in India. The highest share of the organized processed food is contributed by the meat and poultry segment, contributing approx. 27% of the total food processing sector.

The food processing industry includes a diverse group of companies involved in the processing of products like fish, meat, milk, crops and water. It comprises of large corporate as well as SMEs operating at various, and in some cases multiple levels in the food processing value chain.

FOOD PROCESSING INDUSTRY IN INDIA

The Indian food processing industry is valued at approx. ₹ 78,094 crore for the year 2011-12. The industry is still in its nascent stage and contributes only 1.49% to the total Gross Domestic Product (GDP) of the economy. It has been accorded the status of priority sector by the Government of India. The industry has shown an impressive Compounded Annual Growth Rate (CAGR) of 8.4% during the period 2006-07 to 2011-12, which is higher than the CAGR registered by either the national economy at 8.0% or the agriculture sector at 3.8%. This implies that the level of food processing has increased in terms of both – value and volume.

The FPI has got a boost due to a healthy harvest of agricultural goods induced by a good rainfall. The benefits derived by the industry due to the priority status of the sector and the fiscal initiatives launched for the sector by the government at various levels have also contributed to the impressive growth exhibited by the industry. A major proportion of the FPI produce is eventually exported due to the quality offered and the demand of the processed Indian food products in the markets abroad. A major share of the export produce is held by Guargum and Basmati Rice.

Commodity	₹ in crore		Growth %	2012-13
	2011-12	2012-13		Share (%) in Exports by FPI
Guargum	1833	2142	16.82	10.87
Basmati Rice	1758	1946	10.68	9.87
Marine Products	1882	1892	0.54	9.60
Meat and Preparations	1596	1799	12.68	9.13
Oil Meals (Oil, Oil Cakes etc.)	1323	1606	21.40	8.15
Spices	1503	1538	2.34	7.81
Rice (Other than Basmati)	942	1447	53.63	7.34
Wheat	110	1057	857.18	5.36
Total Food Processing Industry Exports of India	17355	19702	13.52	
Total Exports of India	167184	164075	-1.86	

India is ranked 5th in the world in terms of production, consumption and export of processed food. It is a leading producer of quite a few agriculture based and dairy based items. It is ranked 1st in the world in production of rice, milk (Fresh, Whole, Buffalo Milk), pulses, ginger, chick pea, and fruits such as banana, guava, papaya and mango. India also holds 2nd position in the world in production of wheat, potato, garlic, cashew nut, ground nut, dry onion, green pea, pumpkin, guard and cauliflower. A good agricultural and dairy produce enables India to expand its food processing industry and meet the global demand easily after satisfying the domestic needs.

The macroeconomic environment offers immense opportunities for growth and investment to the registered players in the industry and has the potential to boost the national economy. The industry employed more than 1.3 crore workers directly and about 3.5 crore indirectly in 2008-09. According to an estimate of the Confederation of Indian Industry (CII), the sector may generate employment of 0.9 crore people days in the next ten years. The registered units in the organized sector are expected to lead the employment generation in the FPI.

SEGMENTAL ANALYSIS

Segment	Opportunities	Market Structure	Key Players
Fruits and Vegetables	<ul style="list-style-type: none"> · India is the world's 2nd largest producer of fruits and vegetables · Presently 10% of the products in this segment are processed. It is expected that the processing will grow to 25% by 2025 · Highly export oriented segment as the domestic penetration is low. Domestic demand is expected to grow 	<ul style="list-style-type: none"> · An almost equal division of the market between organized and unorganized players · Organized players mostly produce juices and pulp products; while unorganized players have a foothold in traditional areas like pickles, sauces and splashes · Pickles hold the major share in this segment 	<ul style="list-style-type: none"> · Mostly SMEs are operating in both the organized and unorganized segments. Some brands include Mothers Recipe, Tops etc.
Fisheries	<ul style="list-style-type: none"> · Third largest producer of fish · Second largest inland fish producer · An entirely export oriented segment 	<ul style="list-style-type: none"> · Small scale organized sector rules this segment 	<ul style="list-style-type: none"> · The units are largely small scale proprietary/ partnership firms, or fishermen cooperatives
Meat and Poultry	<ul style="list-style-type: none"> · Largest producer of buffalo meat · Second largest producer of goat meat · Only 1-2% of the raw meat is converted into value added products, remaining purchased in raw form for domestic consumption · The processed food is mainly exported to Maldives and Oman. · Eggs and Broilers are leading the growth in this segment with a growth rate of 16% and 20% respectively 	<ul style="list-style-type: none"> · The unorganized sector dominates this segment 	<ul style="list-style-type: none"> · Brands such as Venky's and Godrej's Real Chicken are popular in India

<p>Milk & Dairy</p>	<ul style="list-style-type: none"> · Largest Producer of Milk and Milk Products · India shelters the maximum number of cows and buffaloes across the world 	<ul style="list-style-type: none"> · This segment is controlled by the unorganized market · Organized market holds less than 15% of the share · Estimated size of market is ₹ 100 crore 	<ul style="list-style-type: none"> · Mostly cooperatives such as AMUL · Nestle and Britannia have shifted their focus on this segment
<p>Grains and Cereals</p>	<ul style="list-style-type: none"> · India is a self sufficient country in terms of grain production · Largest producer of rice in the world, but most of it is consumed domestically · Rice, wheat and pulses milling is the most important food processing activity in this segment 	<ul style="list-style-type: none"> · Approx. 80% of the market is controlled by the unorganized sector · This sector also lacks the technological up gradations resulting in higher wastages 	<ul style="list-style-type: none"> · Most of the milling happens in the SME segment and is unorganized · Some of the big players in this industry are R S Rice Mill, LT Foods Limited etc.
<p>Consumer Foods</p>	<ul style="list-style-type: none"> · The fastest growing segment in India, which includes: <ul style="list-style-type: none"> - Packaged Food - Aerated Soft Drinks - Packaged Drinking Water - Alcoholic Beverages · The packaged food consists of snacks, chips, namkeens and bakery foods · The segment is growing at approx. 6-7% annually · The largest component of the segment is tea followed by packed biscuits and then by aerated drinks · India is the third largest market of alcoholic beverages 	<ul style="list-style-type: none"> · A highly organized segment · World market leaders operate in the aerated soft drinks segment and alcoholic beverages segment 	<ul style="list-style-type: none"> · Pepsi, Coca Cola, Nestle, Britannia, Dabur, ITC

ADVANTAGE INDIA

With its varied geographic and climatic profile and the variety of crops cultivated, India has a natural advantage in the food and food processing industry. In 1999, the FPI became a focus area for the Government of India and it was included in the list of priority sector for bank lending. With various infrastructural thrusts being provided to the industry regularly, India is projected to achieve the highest growth rate in the industry across the globe.

- **Supply side advantages**

- **Abundance of raw material**

India is rich in most of the raw materials used in the food processing industry. It is amongst the leading producer of cereals and grains, livestock, milk, fish, etc. An agrarian economy, a favourable climate for agriculture and a wide variety of crops has helped India to provide abundant agricultural supply to the sector. Rich endowment of natural inland water bodies and a long coast line has helped the marine product segment of the FPI.

- **Cost competitiveness**

A low raw material cost resulting from domestic sourcing and labour cost offers competitiveness to the food processing units. This lends support to the units in the export markets to capture a higher share in the global markets.

However, due to increased consumer awareness, there are pressures on the units operating in the industry to improve the quality of the processed food and at the same time maintain their cost competitiveness.

- **Easier Credit**

Year	Mar-10	Mar-11	Mar-12
Bank Credit in FPI (₹ in crore)	79490	100279	118756
Growth %	18.76	26.15	18.43

There has been significant growth in the bank credit in the FPI sector post 2009. As per RBI, the share of food processing in the total credit outstanding to all industries was 5.2% in FY12, which is almost the same as it was during the previous year.

Easier credit has facilitated the creation of fixed assets in the industry, which have increased at a faster rate than pre 1999 period. While the growth in fixed asset creation was pegged at 18.45% for the period 2007-2009, it increased to 21.96% for the period 2009-2011.

- **Policy Support**

The FPI comprises a lot of segments within itself and each segment has some different needs in terms of industrial ecosystem, infrastructural support and policy impetus required from the government. The Government of India has recognized the uniqueness of each segment and has formulated policies specific to each segment to help them grow independently. Even while creating export zones, separate export hubs have been created for sea food, vegetarian food, organic food and halal food.

DEMAND DRIVERS

India is the seventh largest country in the world, with the largest area under cultivation and a strong agricultural base. India has one of the biggest emerging markets, with over 100 crore population, and a 25 crore plus strong young middle class. It is one of the largest producers of the agricultural and allied goods; and yet the food processing segment in India contributed only 1.49% to the GDP. The sector is in its nascent stage as traditionally Indians prefer the consumption of raw and fresh products.

Recently, the trend has been changing as the FPI has shown an impressive growth in the last few years. Some of the factors that have triggered the change are listed below:

- **Changing profile and tastes of the consumer**

Rapid urbanization, increase in the number of nuclear families, increase in the number of working women, less time devoted in the household have changed a lot of habits of the Indian families. Increased literacy and rising per capita income have induced the customers to increase their spend on value added food, which has a higher shelf life, packs greater nutritive value and takes less time to cook. This has led to change in consumer tastes and preferences towards processed food.

- **Product innovation**

Companies are offering a wider range of products to the consumers as a result of their investments into product innovation, research and development. They are moving up the value chain, e.g. cooperatives are transitioning from being pure producers of milk to offering a wide range of dairy products such as flavoured yogurts, ice creams, etc.

New entrants are trying to entice the markets and capture market share by offering new flavours and localized versions of international products such as chips made in Indian flavours and from Indian spices.

- **Increased spending on healthy and nutritional foods**

The changing lifestyle and working habits of the younger India has lead to a rise in lifestyle diseases such as diabetes, blood pressure, cardiac problems, muscular pains, etc. With a rise in disposable income levels and increasing awareness, consumers spend on healthy and nutritional food has also gone up.

- **Advent of branded food and organized retail**

With a higher disposable income and a higher propensity to spend, the consumers are looking for quality branded food. Organized retail has helped a greater penetration in the rural and tier II markets in India and has improved the shopping experience of the consumers. It has also helped to maintain the shelf life of the packaged food by providing the required infrastructure.

- **Rising export opportunities**

The demand of processed food is higher in the developed economies where the pace of life is much faster than that of emerging markets. Moreover, the preference for Indian processed food such as pickles has added to the global demand. India has a greater integration with the global economy and its proximity to key export markets serves as a stronger link between the trading countries.

- **Better Preservation and Packaging techniques**

With improvement in technology, better preserving and packaging techniques have been developed that not only increase the shelf life but also improve the nutritive value of the processed food. A more conscious consumer is increasingly demanding such processed food as it promises to be more hygienic and nutritive than the raw agricultural produce which has high levels of pesticides, insecticides sprayed upon it.

GOVERNMENT INITIATIVE AND REGULATORY FRAMEWORK

Given the criticality of the food situation in India, Government of India is continually striving to provide the required infrastructural support to the industry. More number of mega food parks, modernized abattoirs, agri-export zones are being approved and set up. Private sector is being encouraged by offering various fiscal and tax incentives and other sops for promotion of the segment. Approval has been granted to the national mission on food processing. A vision (Vision 2015) has been strategized for the industry.

- 100% deduction of profit for first five years and 25% of profit in the next five years has been permitted under the Income Tax Act in case of new agro processing industries set up to package and process fruits and vegetables.
- Excise duty on dairy machinery has been fully waived off and excise duty on meat, poultry and fish products has been reduced from 16% to 8%.
- 100% Foreign Direct Investment (FDI) in the industry (except for items reserved for small scale and alcoholic beverages) through automatic route has already been approved to facilitate investment into the segment.
- Full repatriation of profits and capital is allowed.
- Full exemption on duty is allowed for all imports by export oriented units.

FOREIGN DIRECT INVESTMENT (FDI)

FDI is permissible for all the processed food products up to 100% through automatic route except for items reserved for MSMEs. For MSMEs, the permissible FDI limit through automatic route is 24%. For any foreign investment more than 24%, the government route can be opted. In such a case, the enterprise will have to be licensed under Industrial License and Industries (Development & Regulation) Act, 1951.

An inflow pattern of the FDI in food processing units is given in the table below:

Year	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
FDI (₹ in crore)	279.01	455.59	1314.23	858.03	826.16	2193.65

Nearly 30% of the FDI is made by the European Union (EU) countries such as Netherlands, Germany, Italy, and France. Some of the successful ventures from EU countries include Perfetti, Cadbury, Godrej-Pillsbury, Nutricia International, Manjini Comaco, etc.

FOOD SAFETY AND STANDARD ACT, 2006

Thirteen different laws were applicable on the food and food processing sector till a Group of Ministers (GoM) was set up to rationalize and simplify the laws governing the industry in 2005. Thus, the Food Safety and Standard Act (FSSA) was formulated in 2006. The salient features of the act are:

- Food Safety and Standard Authority (regulating body of FSSA) will be aided by scientific panels and central advisory committee to lay down standards for food safety. These standards will include specifications for ingredients, contaminants, pesticide residue, biological hazards and labels.
- The law will be enforced through State Commissioners of Food Safety and local level officers.
- Everyone in the food sector is required to get a license or registration which would be issued by local authorities.
- Every distributor is required to be able to identify any food article to its manufacturer, and every seller is required to identify any food article to its distributor. Anyone in the sector should be able to initiate recall procedure if he finds that the food sold has violated specified standards.

NATIONAL MISSION ON FOOD PROCESSING

The national mission on food processing was approved by the Government of India with an outlay of ₹ 1600 crore during the period 2012-17. The share of the central and the state government was ₹ 1250 crore and ₹ 350 crore respectively. The schemes taken up under the mission included:

- Scheme for technology upgradation/ establishment/ modernization of food processing industries
- Scheme for cold chain, value addition and preservation infrastructure for non-horticulture products
- Setting up/ modernization/ expansion of abattoirs
- Scheme for human resource development (HRD)
- Scheme for promotional activities
- Creating primary processing centres/ collection centres in rural areas
- Modernization of meat shops
- Reefer vehicles
- Old Food parks

VISION 2015

MOFPI commissioned a vision document for the industry in 2005, which aims to treble the size of the food processing sector from 2005 to 2015. The tripling of size of the industry is estimated to generate a direct employment of 0.28 crore and an indirect employment of 0.74 crore persons. The salient features are:

- Increase the processing levels of perishables from 6% to 20%,
- Increase the value addition from 20% to 34%
- Increase the share in global trade from 1.6% to 3.0%

A review mechanism of the achievements of Vision 2015 was not available to us at the time of publication of this document. However, from the various data sources, it was gathered that the progress of the vision needs to be accelerated and some key points identified in the twelfth five-year plan include a greater state co-operation, inducing higher levels of cluster farming, accelerated agricultural growth through high value segment (horticulture, livestock, fisheries) and infrastructure development. There is a need to improve the fragmented and unreliable supply chain and set up more mega food parks, integrated cold chains and modernized abattoirs at a faster rate.

INFRASTRUCTURE DEVELOPMENT AND SUPPORT

A study sponsored by MOFPI in 2010 estimated that the harvest and post harvest losses were to the tune of ₹44,143 crore per annum at 2009 wholesale prices for 46 agricultural produces in 106 randomly selected districts.

Crop	Cumulative Wastage (%)
Cereals	3.9-6.0
Pulses	4.3-6.1
Oil Seeds	6.0
Fruits and Vegetables	5.8-18.0
Milk	0.8
Fisheries	2.9-6.9
Meat	2.3
Poultry	3.7

Currently, the FPI lacks suitable infrastructure such as adequate grading and packaging centers, fully equipped cold chains and warehouses, sufficient modernized abattoirs etc. A fully automated supply chain solution connecting the agro product's producer to end consumer is missing. This has resulted in losses and wastages for the producers of food and processed food at various levels. In fact, the proportion of wastage in India is amongst the highest in the world.

In order to address the problem of infrastructure, various schemes specific to different segments of the FPI have been launched and implemented by the government in the following areas:

- Food Park Schemes
- Grading and Packaging Centres
- Integrated Cold Chain Facility
- Value Added Centres
- Irradiation Facilities
- Modernized Abattoir

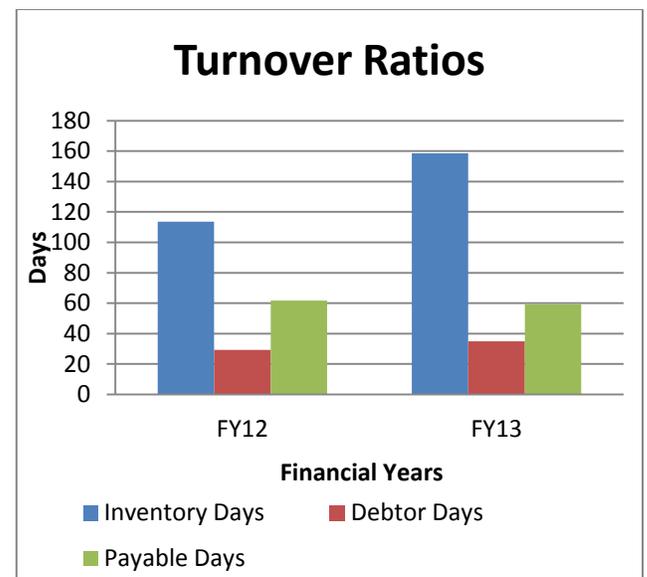
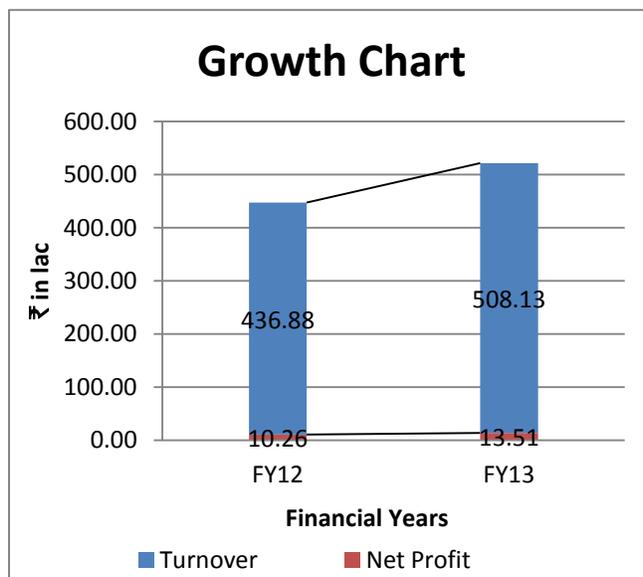
Any improvement in the infrastructure shall serve to reduce the wastages and improve the value addition to the end product. This will help to improve the nutritive value of the product and make it more cost competitive. The government has set aside budgetary allocations for the establishment, and modernization of infrastructural development. Needless to add, a better infrastructural support not only ensures the growth of the industry but also helps attract FDI.

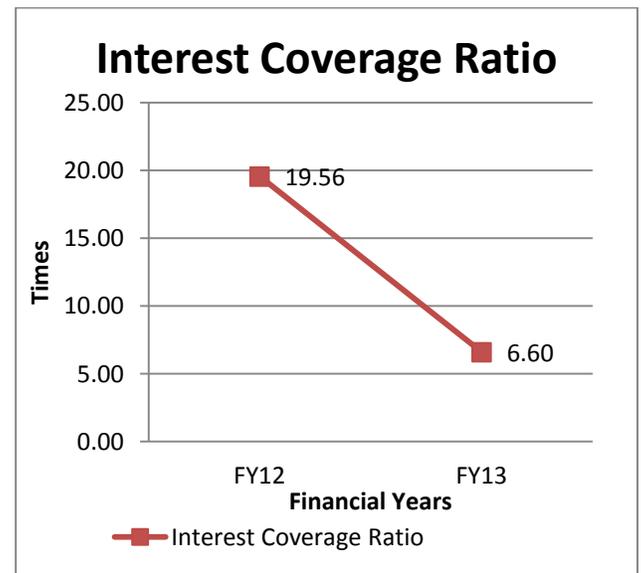
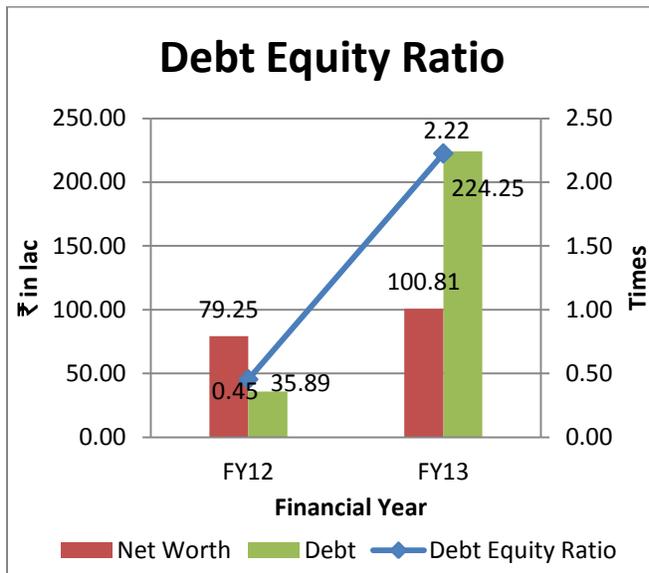
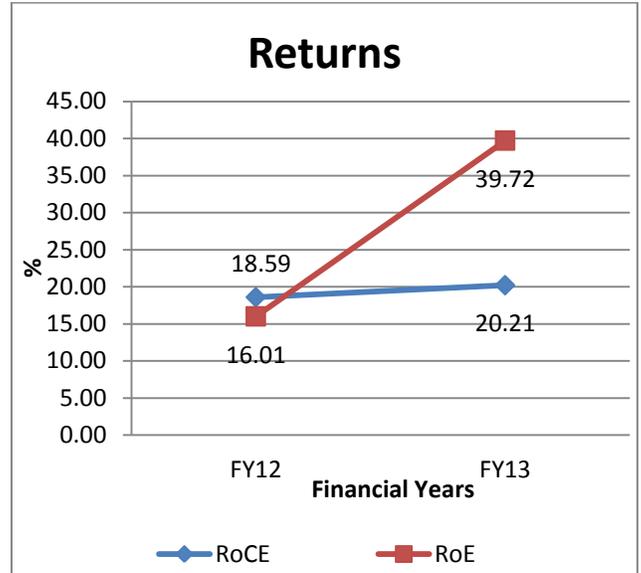
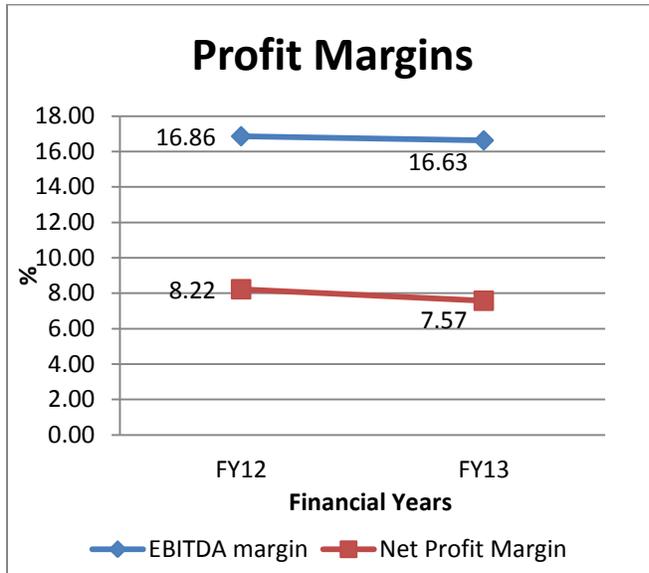
ONICRA'S OUTLOOK ON SMEs IN INDIA

The food processing industry in India comprises of various segments based on agriculture, horticulture and animal husbandry. SMEs operating in the food processing industry are spread out across the country including remote locations. Many of these small units or individuals come together to form cooperatives to reach out to the intended market.

A financial analysis of small scale units engaged in food processing business was undertaken to understand the dynamics of the SMEs. A sample set of 30 units was chosen from the entities that have been rated by Onicra over the period January 2014 to March 2014. The results of the financial analysis have been detailed below.

FINANCIAL ANALYSIS





Revenue growth remained strong however tough competition forced the operating margin to remain constrained: The turnover of the SMEs in food processing increased by 16.31% in FY13 re-iterating the growth rate of the food processing in the Indian economy. The demand of the industry received impetus from both the domestic and export market.

The EBITDA margin of the units has been constrained. There is greater awareness level in the consumers about the nutritive values of processed food and an increase in the quality consciousness. This has forced the SMEs operating in the industry to improve the quality of the processing while maintaining the price levels. Increasing competition due to increased investment in the sector has also impacted the operating profitability of the units. However, the units have been able to post better net profit margins on account of lower interest cost.

The returns have improved as the units were able to trade on equity. The SME units operating in the segment mostly relied on equity funding till some time back. Due to the favourable government policies and the inclusion of the industry in the priority lending list of the banks, the component of debt in the capital structure has increased. At the same time, the cost of debt is lower than the cost of equity financing, which has resulted in better net profit margins and a higher return on equity.

The exposure to debt of the SME units rated by Onicra is more than double of equity invested in the business in FY13. The debt of the SME units has increased on account of increase in bank credit. This is a reflection of the increase in the financial inclusion of the units. More number of units are being registered and the share of the organized sector is also increasing in the FPI of India.

The cash conversion cycle of the SME units has increased in FY13. The cash turnaround cycle for the SME units in the food processing has increased from 81 days in FY12 to 134 days in FY13. This is a result of the increase in the inventory holding period, which has increased from 114 days in FY12 to 159 days. Overall, the working capital cycle has been stretched.

CHALLENGES FORESEEN BY ONICRA FOR SMEs

Food has always been a critical issue in the Indian economy. Even though India is a self sufficient country in terms of food grain production, yet it suffers from undernutrition and malnutrition. The food processing industry assumes prominence as it helps to increase farm gate prices, reduce wastages, ensure value addition, promote crop diversification, generate employment opportunities, as well as contribute to export earnings.

However, the challenges faced by the units, especially SMEs, operating in the sector are diverse and need to be addressed on several fronts.

- **Inadequate infrastructure**

Unlike large corporates, SMEs cannot invest heavily to create their own infrastructural support and rely heavily on common facilities such as grading and packaging, cold storage, warehouse facilities, customized transportation, logistics parks, integrated supply solutions.

- **Lack of adequate trained manpower**

With a lot of development happening in the food processing sector, emerging skill shortages between the demand and supply of specific skills can potentially hamper the competitiveness of the industry. The impact will be more severe on the SMEs as the investment in training and human resource development is minimal at their level. The number of institutes providing proper training suitable to the industry is also not adequate.

- **Seasonality of raw material**

Since the industry is largely based on agricultural and horticulture produce, the seasonality of the raw material makes it imperative for the units to hold larger proportion of inventory. This increases the investment in inventory holding facilities at the premises and also blocks the capital, which is already scarce for the SME.

- **Access to Credit**

Like in any other industry, the biggest challenge for any SME is access to credit. Even though the industry has been included for priority sector lending, the credit facilities extended to the SMEs is still lower due to the inherent risk involved with small enterprises.

OUTLOOK

As of 2013, India ranks 5th in the world in terms of the value of food processing. The industry is expected to grow to ₹ 126,840 crore by 2016, growing at 13% each year since 2012. The expected growth rate is higher than the expected growth rate of the economy. The industry has really taken off in India and abroad as convenience is the most important factor for the consumers. Consumers are willing to pay more as their work habits and lifestyle changes. Moreover, increasing media penetration and awareness levels have increased the demand for 'quality food', 'nutritional food' and 'healthy eating habits'.

Many companies are investing in the product innovation and trying for newer technologies that can make the units more cost competitive, while offering a better product. The industry provides a win-win situation to all the people involved – consumers (in terms of better quality of food), producers (in terms of profit generation) and society (in terms of generating employment and providing adequate and nutritional food).

The industry is critical from the economic point of view and hence the government has its focus on the development of this industry. Moreover, it is supported by various climatic and geographic advantages that India enjoys. Under the right guidance, the industry can take India to the leadership position in the export of processed food products.

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