

## Indian Food Processing Industry – Opportunities for US Companies

India ranks first, globally, in the production of milk and pulses and second in the production of tea, fruits and vegetables. Despite being a major food producer, India's share in world food trade is less than 2 per cent. At present, just 6% of the food-items produced in the country India are processed in contrast to the developed nations where 60% to 80% of the food items are processed. While the sector grew at an impressive 14.7% in 2008–09 despite the global slowdown, the country's highest authority, the Prime Minister, expects the National Food Processing Policy to the necessary boost to the sector.

In India, most foods are consumed in the fresh form and a small quantity is processed for value addition. In recent years, however, the market for branded processed food products has expanded. As per a study conducted by McKinsey and the Confederation of Indian Industry, the total food market turnover is over Rs. 2,500 billion (US\$ 69.4 billion). Of this, value-added food market comprises Rs. 800 billion (US\$ 22.2 billion). Growing at about 14%, the processed food industry has started attracting increased investment to cater to both, the domestic and export demand. The food processing industry contributes around 10% to India's manufacturing GDP and 13% of the country's export.

Food processing involves any type of value addition to the agricultural produce starting, the post harvest level. The processed food industry provides safe convenience foods to consumers, and promotes diversification and commercialisation of agriculture by providing effective linkages between the farmer and consumers in both domestic as well as international markets.

The extent of processing can be categorised as follows:

- ❑ **Primary Processing:** cleaning, grading, powdering and refining of agricultural produce, e.g., grinding wheat into flour.
- ❑ **Secondary Processing:** basic value addition, e.g., tomato-puree, ground coffee, cleaning and processing of meat products.
- ❑ **Tertiary Processing:** high value addition products like jams, sauces, biscuits and other bakery products that is ready for consumption at the point of sale.

The industry employs over 16 million workers directly and has a wide scope covering activities such as agriculture, horticulture, plantation, animal husbandry and fisheries. It also includes other industries that use agriculture inputs for manufacturing of edible products. The Ministry of Food Processing, Government of India (GOI), classifies the following under processed food industry:

- ❑ Dairy, fruits and vegetables
- ❑ Grains
- ❑ Meat and poultry
- ❑ Fisheries
- ❑ Consumer foods including packaged foods, beverages and packaged drinking water

**Table 1: Segmentation of Different Sectors in Food Processing Industry**

Sectors	Products
Dairy	Whole milk powder, skimmed milk powder, condensed milk, ice cream, butter and ghee, cheese
Fruits and vegetables	Beverages, juices, concentrates, pulps, slices, frozen and dehydrated products, potato wafers, potato chips
Grains and cereals	Flour, bakeries, starch glucose, cornflakes, malted foods, vermicelli, beer and malt extracts, grain-based alcohol
Fisheries	Frozen and canned products
Meat and poultry	Frozen and packed products, egg powder
Consumer foods	Snack food, <i>namkeen</i> , biscuits, ready-to-eat food, alcoholic and non-alcoholic beverages

India with a population of 1.16 billion (growing at about 1.7% per annum) provides a large and growing market for food products. India is amongst the three largest producers of agricultural commodities in the world. In addition, food is the single largest component of private consumption expenditure, accounting for about 37.8% of the total spending.

The land under major crops including horticulture is about 362 million hectares. India produces 101 million tonnes of milk, annually, 185 million tonnes of fruits and vegetables, more than 485 million livestock, 187 million tonnes food grain, 6.9 million tonnes of fish, over 489 million poultry and 50,700 million eggs.

**Table 2: Indian Agriculture – a snapshot**

	Area/Production
Land under major crops/horticulture (million hectares)	362
Food grains (MT)	231
Milk (MT)	101
Fruits and vegetables (MT)	185
Fish (MT)	6.9
Edible oilseeds (MT)	29
Pulses (MT)	15
Sugarcane (MT)	341
Poultry (no.)	489
Eggs (million no.)	50,700
Tea (MT)	0.98
Livestock (million no.)	485

Source: Department of Agriculture & Cooperation, IMaCS Research

The ten most produced agricultural commodities of India are sugarcane, rice (paddy), wheat, milk, fresh vegetables, potatoes, mangoes (mangosteen and guavas), banana, maize and millets. Other major produces are coconut, soybean, groundnut, tomatoes, eggplant, cassava, onions and rapeseed. India is the largest producer of fresh fruits, indigenous buffalo meat, mango (mangosteen and guava), okra, chickpeas, chilly and dry pepper, tropical fresh fruits, ginger, goat milk, lemons and limes, lentils, millets, pulses and seeds of safflower, sunflower and sesame. It is the second largest producer of fresh vegetable, indigenous goat meat, dry onions, cow milk, egg plant, garlic, groundnut (with shell), green peas, pumpkin, squash, gourd, rice (paddy, sugarcane, tea and wheat). Other prominent produces of the country are cashew nuts, hen eggs, dry peas, sorghum, oranges, papayas, piper pepper, soybean, indigenous chicken and sheep meat, green coffee and sweet potatoes.

**Table 3: Global Ranking by Agricultural/Processed Product**

Product	Rank	Product	Rank
Rice bran	1	Rapeseed cake	3
Buffalo meat	1	Soybean cake	4
Cake of maize	1	Castor oil seed	4
Oilseed cake	1	Cereal flour	8
chickpea	1	Coconut oil	9
Chilly and pepper dry	1	Bagasse	10
Dried egg	1	Hen eggs in shell	10
Mango, mangosteen,	1	Cereals	11

Product	Rank	Product	Rank
guava			
Anise, badian, fennel,			
coriander	2	Fresh fruits	12
Sesame seed	2	Pulses	13
Cashew nuts	2	Fatty acids	13
		Coffee husk and	
Mustard oil	2	skin	15
Onions dry	2	Fruits dried	15

Despite being the one of the largest producers of agricultural commodities, India does not figure among the top twenty exports of such commodities or their processed products. For example, the country is amongst the largest producers of the primary products listed above but is not a large exporter of cereal preparations, cheese of skimmed cow milk, chicken meat, citrus fruits, fresh cream, wheat flour or food preparations, frozen potatoes, fruit juices and preparations, tropical dried fruits, ice cream and edible ice, juices of tomatoes and vegetables, concentrated lemon juices, lemons and limes or even mango juice.

While agricultural production is significant, the food processing industry is still under developed. Of the country's total agriculture and food produce, only around 2% is processed. The highest share of the processed food is in the dairy sector, where 35% of the total produce is processed, of which only 13% is processed by the organised sector. The processing level is around 2.2% in fruits and vegetables, 21% in meat and 6% in poultry products.

**Table 4: Level of Processing in Food Sector**

	Level of Processing in the Organised Sector	Level of Processing in the Unorganised Sector	Total Processing
Fruits & vegetables	1.2%	1.0%	2.2%
Dairy	13.0%	22.0%	35.0%
Meat	21.0%	-	21.0%
Poultry	6.0%	-	6.0%
Marine fisheries	1.8%	9.0%	10.7%
Shrimps	0.4%	1.0%	1.4%

Source: Ministry of Food Processing

There is immense potential for investment in this sector. Upward mobility of income classes and increasing need for convenience and hygiene is driving demand for

perishables, non-food staples and processed foods. Also, eating out has become a common practice in urban India and processed foods are more acceptable as alternatives to the home cooked food because of the convenience they offer. In addition, with the globalisation of trade and availability of high-speed logistics, food retailers in developed countries have started sourcing fruits and vegetables from developing countries, round-the-year. Thus, both for local consumption as well for export, there is ample business opportunity for fruits and vegetables, meat and poultry products, and ready-to-eat processed foods.

### **Factors driving demand**

India's urbanisation is expected to be faster than that of the rest of the world. The mix of urban population is expected to increase from about 29% currently to about 44% by 2035 as per estimates of the UNPD. This will lead to increased number of nuclear families and the proportion of working women, which in turn will provide a fillip to the growth of branded consumer goods. The industry is expected to capitalise on these opportunities especially, in the business segments of branded packaged foods and retailing.

The foods business is to be supported with investments in manufacturing and distribution infrastructure capable of handling larger scale to derive benefits of growing business volumes in the future. Supply chain logistics for competitive freshness and cost efficiencies is critical to this business. Till requisite scale is achieved, the companies in the sector would have to bear a high cost base as the benefits of distributed product to service closer markets are yet to be fully exploited. The businesses need to build competitiveness by scaling up whilst enhancing process and supply chain efficiencies.

Brand building will assume importance in the coming years to drive sales and enhance consumer recall. Innovative campaigns with high buzz factors, supported by focused consumer activation, will be essential for building strong consumer franchise and trade loyalty. Well researched and robust product development processes will be required for the launch of differentiated offerings across segments.

The product platforms of taste, energy, health and wellness are expected to provide the next level momentum in sales growth. Affordability will be a key determinant of the growth of the branded foods business in India.

### **Competitive Landscape**

The food processing sector in India is multi-segmented, with each segment being highly fragmented. Some multinational companies and a few local players enjoy nation-wide

recognition in specific product segments. The unorganised sector dominates each of the above segments, although market leadership may be vested with large organised manufacturers. The high level of fragmentation in the industry is reflected in the large number of food processing units in the organised sector alone. The table below presents the number of units registered under the Factories Act and in operation.

**Table 5: Units in Operation – Organised Sector**

Product	No. of units
Flour mills (large)	820
Flour mills (small)	260,000
Fish processing units (+cold storage units)	569 (482)
Fruit and vegetable processing units	5,293
Meat processing units	171
Sweetened and aerated water units	656
Milk product units	266
Sugar mills	429
Solvent extraction plants	725
Oil extraction mills	250,000
Rice mills	139,208
Modernised rice mills	43,000

Source: Ministry of Food Processing Industries, Annual Report, 2003–04; IMaCS Research

Unorganised, small players are estimated to account for more than 70% percent of the industry’s output in volume and 50% in value terms. Most of them operate locally, add little if any value to products, and use outdated technologies. The government’s policy of reserving the food-processing sector for small-scale units, effective until 1991 discouraged large-scale domestic and foreign direct investment. However, following economic liberalisation in 1991, the food-processing industry was opened, resulting in increased investment in this sector, both domestic and foreign. Over the last few years, several large companies, both Indian and foreign, have invested in the food-processing business in India, resulting in significant growth in this sector.

Low entry barriers and apparently attractive economics of industry continuously attract new entrants. Significant variations in food habits and culinary traditions across the country translate into a competitive advantage for small and medium local players, who are familiar with local food habits and markets. Some Indian food-processing companies have increased market share by decreasing product prices. Besides some product categories that enjoy country-wide consumption, high variance in products profile, tastes and preferences has led to creation of regional niche markets in some

product categories which have been successfully addressed by regional players and have led to a flourishing unorganised segment in the industry. Large number of players and largely undifferentiated nature of most products leads to price competition, often losses, because of which staying power gives competitive advantage.

**Table 6: Leading Food Processing Companies**

Company		Products
Hindustan Limited	Lever	Ice creams, packaged wheat flour, salt, tea, bread, oils, fats and dairy products
Haldirams food	Snack	traditional Indian sweets
MTR Foods		Convenience food, ice creams, snack food
Cadbury India		Chocolates, sugar confectionery, malt drinks
Ruchi Group		Soya products, palmolein oil, sunflower oil, hydrogenated vegetable fat and oil
Dabur		Fruit juices, cooking paste and sauces
GlaxoSmithKline		Malt drinks
Gujarat Milk Federation	Co-operative Marketing	Ice creams, butter, cheese, milk powder, traditional Indian sweets, chocolates
Godrej Foods		Fruit juices, tomato puree, nuts, groundnut oil, refined palmolein oil and hydrogenated oil
Pepsi Foods India		Soft drinks but also large consumer of tomatoes and chillies for preparing pastes for exports
Britannia Industries		Biscuits, milk products like cheese and butter
Parle Foods		Biscuits and other related products
Mother Dairy		Ice creams, butter, cheese, milk powder, traditional Indian sweets, chocolates
Venkateshwara Hatcheries		Frozen chicken
Nestle India		Chocolates, sugar confectionery, malt drinks, milk powder

## Outlook

With an estimated population of over 1.1 billion, rising disposable incomes, exposure to western lifestyle, increase in the population of working women and prevalence of nuclear double income families, especially in urban areas; India is rapidly becoming a key market for processed, ready-to-cook and ready-to-eat food, leading to high growth in food processing sector. Busy lifestyle, heightened awareness, and a desire to achieve

western standards of living makes India a very suitable market for prepared foods. Significantly, increased urbanisation has seen the rise of the middle classes and it is predominantly the lifestyle preferences of this group that mark a change with the past. Moreover, economic growth has altered the structure of the labour force in urban areas characterized by increased female participation with important consequences for the family diet. The growing number of food retail chains in the large and smaller cities is also expected to impact the sector positively.

The consumption of readymade meals, or foods that cut the long preparation time of traditional dishes, have increased and are likely to be a more common feature of the diet for families where there is a high female participation rate. This is expected to increase demand for processed food products, giving a boost to the domestic food-processing industry, and providing opportunities for increased imports of processed foods and food ingredients. The Indian food-processing industry has started looking outward to acquire the latest food ingredients and technology. An indication of this is the presence of numerous multinational food flavour, ingredient, and machinery companies in India. Health consciousness is popularizing sugar-free low calorie diet foods and natural foods containing dietary ingredients.

## FACT SHEET

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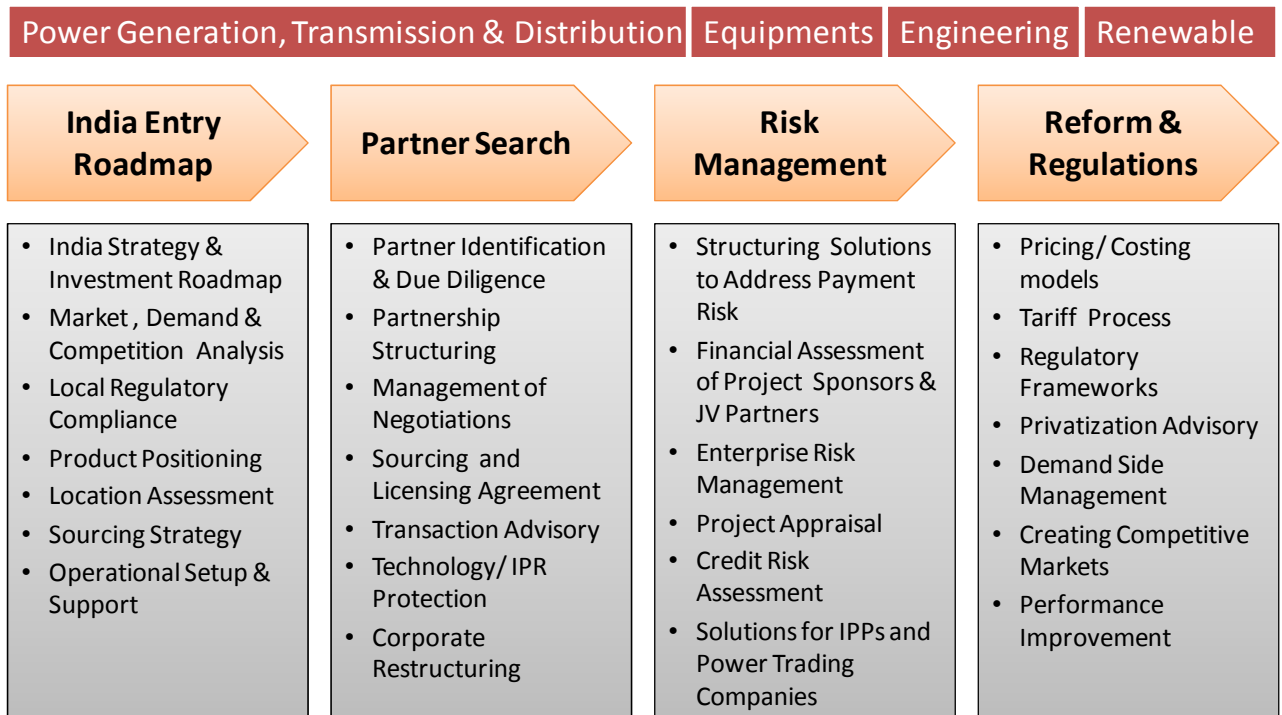
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Our team possesses a deep understanding of the business environment, both in the US and India and is well connected with companies, financial institutions, governmental agencies, and private equity firms in both markets. We have an established track record of over 15 years and 1,000 engagements providing advisory services to a diversified client base across energy, manufacturing, infrastructure, and retail. We also work with multilateral and bilateral government agencies, banks and financial institutions, and regulators. We are headquartered in New York with eight offices in India.

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Below is a partial list of our power related engagements in India for North American and European companies:

- ✚ India Entry Strategy for a global power developer, including location assessment, investment roadmap, and partner search
- ✚ Risk Assessment of a copper cathode manufacturing project for a financial investor that included market, technical, business, and financial risks
- ✚ India Market Study and Commercial Viability Assessment for setting up a 150 MW power plant in India for a global power generation company
- ✚ Preparation of India Entry Strategy for a leading global EPC contractor, including power sector policy and regulatory framework, market size, and investment/ implementation roadmap
- ✚ Assessment and Due Diligence of joint venture partner for a global power project investor
- ✚ Assistance in developing a cost-to-serve model for a leading power distribution company, including collection of field data, consumer based load curve, and voltage-level losses
- ✚ Entry Strategy into the gas transportation business, including analysis of bulk supply to industrial consumers, availability, and price elasticity of gas
- ✚ Contracting strategy for a proposed coal based power plant, including demand-supply situation, simulation of merit order situation, assessment of financial health of utilities and market analysis
- ✚ Power sector financing and strategy study for the Asian Development Bank (ADB)

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