



FOOD PROCESSING INDUSTRY IN INDIA: AN EVALUATION

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Abstract: *India's economy is mainly based on agriculture sector but there is more wastage and still inadequate facilities of processing the food products. The share of Indian Food Processing Sector in Gross Value Addition (GVA) of manufacturing sector was 8.6% in 2014-15 whereas During FY11-16, India's exports of processed food and related products (inclusive of animal products) grew at a CAGR of 11.74 per cent, reaching US\$ 16.2 billion. This paper examines the status and identifies the problems slowing down its growth. The paper also focuses on many promising dynamics which support the potential for growth of this industry. However, the problems if not addressed timely, can negatively affect the growth prospects of Food Processing Industry in India.*

Keywords: *India, Food Processing, Industry, Problems, Growth, Prospects.*

INTRODUCTION

The Indian food processing industry accounts for 32 per cent of the country's total food market, one of the largest industries in India and is ranked fifth in terms of production, consumption, export and expected growth. Food Processing Sector in India has been growing faster than agriculture as well as manufacturing sectors and has the potential to create jobs mainly in rural areas, bridge the gap between the retail price paid by the consumer and that received by the farmer and create value addition and earn foreign exchange by export of value-added farm produce. In addition, this sector does not only remain a bridge between farmers and entrepreneurs, it converts the farmer into an entrepreneur. Though, this sunrise sector is facing various bottlenecks like lack of infrastructure, packaging and grading centers, quality control and testing facilities. However, availability of skilled manpower is as one of the most important impediments in the development of this sector.

Major food companies working in India are Nestle India Ltd., Kelloggs India, Cadbury's India Ltd., MTR Foods Ltd., Hindustan Lever Ltd., Godrej Foods, ITC-Agro, Coca-Cola, Britannia etc. Major industries constituting the food processing sector are grain milling, sugar, edible oils, alcoholic beverages, fisheries, poultry and meat, chocolates, and confectionery, fruits &



vegetables processing and dairy products. The foundation of National Institute of Food Technology and Entrepreneurship Management (NIFTEM) is expected to bring a pioneering work in development of Human Resource in the food processing sector. It is hoped that besides developing world class managerial talent and advanced knowhow in the area of food science, food technology and management, it will function as a knowledge repository in the food processing domain, conduct frontier area research for development of the sector and facilitate business incubation services.

PROBLEMS FACED BY THE SECTOR

Major problems faced by the Indian food processing industry include the absence of adequate infrastructure, particularly rural road connectivity, inadequate availability of trained man power, inadequacy of information and marketing linkages, lack of electricity supply, and absence of adequate cold chain systems. Maintaining the standards of quality is another major constraint due to poor infrastructure for storing raw food materials (warehouses and the cold storages) as well as poor quality standards and control methods for implementing the quality standards for processing and packaging the processed foods. Further, the pests infest the grains sometimes due to lack of monitoring, proper use of pesticides and proper ventilation. As per the study conducted by National Spot Exchange Ltd. (NSE) in December 2010 to analyze production and consumption pattern of major fruits and vegetables, estimated cold storage requirements is of 61.13 million tons in the country and their available capacity was worked out at 23.51 million MT only. This was estimated on the basis of peak season production and highest arrival/harvesting of storable fruits and vegetables in a month. Further, due to power shortage the quality of food material in the cold storages becomes questionable. High costs and low availability of credit remain a problem because even within the priority sector, lending by banks for agriculture, food processing receives only 4.5 per cent of the earmarked credit and increasing the dependency of farmers on private lenders who charge high rate of interest. Packaging is usually poor but its cost is high and become unbearable for small producers.

GROWTH POTENTIAL OF THE SECTOR

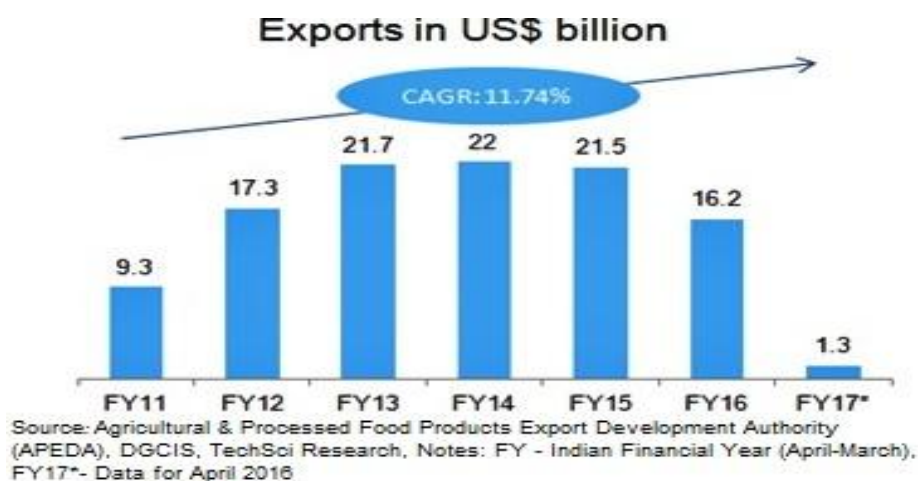
India is the second biggest food producer next to China in the world and it has the potential to become the largest producer of food in the whole world as its contribution to world food trade increasing every year. It is no wonder that India is fast becoming an essential player in



the global food ingredients market. AC Nielsen has named India as a hotspot for food manufacturers, food producers and food ingredient professionals and the country is now becoming an integral part of the global food ingredient network.

The food sector has emerged as a high-growth and high-profit sector due to its immense potential for value addition, particularly within the food processing industry. It is expected to grow at a compounded annual growth Rate (CAGR) of 11 per cent to US\$65.4 billion by 2018. India was ranked 12th in the world in exports of food and food products in 2015. Main export destinations for food products have been the Middle East and Southeast Asia. During FY2011–16, as shown in graph given below that India's exports of processed food and related products (inclusive of animal products) has grown at a CAGR of 11.74 per cent, reaching US\$ 16.2 billion. 100% FDI is permitted under the automatic route in food processing industries.

The contribution of the food processing sector to the Gross Value Addition (GVA) in 2014-15 amounts to USD 22 billion at 2011-12 prices. In FY2014-15, GVA in food processing grew by 5.78%. The share of Food Processing Sector in GVA of manufacturing sector was 8.6% in FY2014-15. Food processing industry is one of the major employment intensive segments contributing 11.69% of employment generated in all registered factory sector in FY2013-14. Given this trend, India has become one of the most important destinations for investment in food processing industry.



According to the data provided by the Department of Industrial Policies and Promotion, the food processing sector in India has received around US\$ 6.82 billion worth of FDI during the period April 2000-March 2016. The Confederation of Indian Industry (CII) estimates that the food processing sectors have the potential to attract as much as US\$ 33 billion of



investment over the next 10 years and also generate employment of nine million person-days.

REASONS FOR THE GROWTH OF THE FOOD INDUSTRY

The Government of India has been instrumental in the growth and development of the food processing industry. The government through the Ministry of Food Processing Industries is making all efforts to encourage investments in the business. It has approved proposals for joint ventures, foreign collaborations, industrial licenses and 100 per cent export oriented units. Majority of the women in the country are working as a result of which families have extra income which they are spending in buying food. The standard of living in the country has improved as a result of which there has been an increased demand for food. Opening of supermarkets, malls and food chains have helped in making shopping for food a pleasurable experience. The consumers can select, inspect and pick up food items that they like in an ambience that is comfortable. This too has helped to boost the sale of food products in the country.

India is fast emerging as a sourcing hub of processed foods due to its large agricultural resource base, abundant livestock and cost competitiveness. Moreover, population size of 1.22 billion of which 604 million were under the age of 24 in 2011 is likely to increase India's overall food consumption. Consumption in India is driven towards branded packaged and ready-to-eat foods due to rising youth population as well as increased spending power due to rising income levels and a growing middle class. Increased urbanization in the country has further given a boost to the food industry in India. Due to favourable economic & cultural transformation, shift in attitudes & lifestyles, consumers are experimenting with different cuisines, tastes and new brands. There is an increase in awareness and concern for wellness and health, high protein, low fat, wholegrain and organic food. That is the reason that Gujarat Cooperative Milk Marketing Federation (GCMMF), popularly known as 'Amul', plans to invest Rs 5,000 crore (US\$ 733.6 million) to establish ten new processing plants as well as expand the current capacity to touch 32 million litres per day (MLPD) capacity by 2020 as well as ITC Limited plans to invest Rs 800 crore (US\$ 117.4 million) to set up a world-class food processing facility in Medak, a district located in Telangana. The company has also formulated plans to enter the dairy market.



Further, liberalization and growth of organised retail sector has made the Indian market more attractive for global players. Hence, American doughnut chain Dunkin' Donuts has tied up with local online grocery delivery platform Grofers for home-delivery of its packaged and freshly made products and a number of foreign investor has either invested or made plans to invest in this sector such as:

- Swiggy, a food delivery start-up owned by Bundl Technologies Private Limited, has raised Rs 230.34 crore (US\$ 33.80 million) in a Series C funding round, with its existing investors SAIF Partners, Accel Partners, Norwest Venture Partners and Apoletto Asia Ltd contributing 79 per cent of the new funds raised.
- Mondelez International, the US-based confectionery, food, and beverage major, inaugurated its new manufacturing plant in Andhra Pradesh set up for Rs 1,265 crore (US\$ 190 million), with an annual production capacity of 250,000 tonnes.
- KKR & Co LP, the US-based private equity firm, plans to invest about Rs 520 crore (US\$ 77.38 million) in dairy company Kwality Ltd, which will be used to strengthen its milk procurement infrastructure and increase processing capacity.
- Henry Ford Health Systems (HFHS), a US-based health and wellness group, plans to enter India by signing a franchise partnership with Chandigarh-based hospitality and food services firm KWalls Hospitality, and set up 'Culinary Wellness' branded stores across the country.
- PureCircle, a Malaysia-based natural sweetener producer, plans to invest around Rs 1,300 crore (US\$ 200 million) in India to set up a manufacturing plant and make the country its regional production and export hub in the next five years.
- Di Bella, the Australia-based coffee chain, plans to invest Rs 67 crore (US\$ 10 million) for setting up around 20 new outlets in Mumbai, besides entering Delhi and Bangalore by 2017.
- Private Equity (PE) firm India Value Fund Advisors (IVFA) plans to invest around US\$ 100-150 million in the food business in India over the next two years.

GOVERNMENT INITIATIVES TO BOOST THE SECTOR

The government has recognized the food processing industry as a priority sector in the new manufacturing policy in 2011. In order to promote food processing industries, increase level of processing and exploit the potential of domestic and international market for processed



food products, Vision Document 2015 was prepared by the Ministry of Food Processing Industries. Further, the government has set up a special fund called "Food Processing Fund" of approximately USD 300 million (at Rs. 67.25 to 1 USD) in National Bank for Agriculture and Rural Development (NABARD) for extending affordable credit to designated food parks and the individual food processing units in the designated food parks. As on 31.05.2016 about a quarter of the fund as term loan has been sanctioned to 12 mega food parks projects. Reserve Bank of India has classified loan to food & agro-based processing units and Cold Chain under agriculture activities for Priority Sector Lending (PSL) subject to aggregate sanctioned limit of USD 15.38 million per borrower from the banking system. It will ensure greater flow of credit to entrepreneurs for setting up of food processing units and attract investment in the sector.

The government had already permitted 100% FDI in all the processed food items through the automatic route which means that there is no approval required, companies are free to decide. It will help to boost food processing sector by increasing the foreign direct investment in it. The Ministry of Food Processing Industries has taken some new initiatives to develop the food processing sector which will also help to enhance the income of farmers and export of agro and processed foods among others. The Ministry of Food Processing Industries has also provided financial assistance for expansion of the cold chain infrastructure. The initiatives are aimed at filling the gaps in the supply chain, strengthening of cold chain infrastructure, establishing value addition with infrastructural facilities like sorting, grading, packaging and processing for horticulture including organic produce, marine, dairy, poultry etc.

There is provision of financial assistance for the cold chain in the form of govt. grant-in-aid of 50% of the total cost of plant and machinery and technical civil works in general areas, and of 75% of the total cost of plant and machinery and technical civil works in difficult areas subject to a maximum of Rs.10 crore. The assistance is given under the Scheme for Cold Chain, Value Addition and Preservation Infrastructure. The other government agencies like National Cooperative Development Corporation, Agricultural and Processed Food Products Export Development Authority, National Horticulture Board and State government also provide assistance for cold storages under their respective schemes. Some other major initiatives taken by the Government of India to improve the food processing sector in India are as follows:



- All of the ration cards in India have been digitised and 42 per cent of the digitised ration cards are now linked to Unique Identification (UID) or Aadhaar cards.
- The Government of India allocated Rs 1,500 crore (US\$ 225.7 million) and announced various measures under the Merchandise Exports from India Scheme (MEIS), including setting up of agencies for aquaculture and fisheries in coastal states and export incentives for marine products.
- In the Budget 2015-16, a corpus of Rs. 2,000 crore (US\$ 293.44 million) was created under National Bank for Agriculture and Rural Development (NABARD) to provide cheaper credit to food processing industry. Excise duty on plant and machinery for packaging and processing has been brought down to six per cent from 10 per cent.
- Union Budget 2016-17 has proposed 100 per cent FDI through FIPB (Foreign Investment Promotion Board) route in marketing of food products produced and manufactured in India.
- Government of India plans to allow two Indian dairy companies, Parag Milk Foods and Schreiber Dynamix Dairies, to export milk products to Russia for six months, after these companies got approval for their products by Russian inspection authorities.
- Ms Harsimrat Kaur Badal, Union Minister for Food Processing Industries, Government of India inaugurated the first of its kind Rs 136 crore (US\$ 20 million) mega international food park at Dabwala Kalan, Punjab. She has also expressed confidence that the decision to allow 100 per cent Foreign Direct Investment (FDI) in multi-brand retail with 100 per cent local sourcing condition, will act as a catalyst for the food processing sector, thereby controlling inflation, uplifting the condition of farmers, and creating more jobs in the country.
- The Food Safety and Standards Authority of India (FSSAI) has issued new rules for importing products, to address concerns over the entry of sub-standard items and simplify the process by setting shelf-life norms and relaxing labelling guidelines.
- The Ministry of Food Processing Industries announced a scheme for Human Resource Development (HRD) in the food processing sector. The HRD scheme is being implemented through State Governments under the National Mission on Food Processing. The scheme has the four components i.e. creation of infrastructure facilities for degree/diploma courses in food processing sector, Entrepreneurship



Development Programme (EDP), Food Processing Training Centres (FPTC) and training at recognised institutions at State/National level.

- The Food Safety and Standards Authority of India (FSSAI) under the Ministry of Health and Family Welfare has issued the Food Safety and Standards (Food Product Standards and Food Additives) Regulations, 2011 and the Food Safety and Standards (Contaminants, Toxins and Residues) Regulations, 2011 which prescribe the quality and safety standards, respectively for food products.
- Spices Board, set up by the Ministry of Commerce to develop and promote Indian spices worldwide, aims spice exports of US\$ 3 billion by 2017.
- The Government of India has approved the setting up of five numbers of Mega Food Parks in the states of Bihar, Maharashtra, Himachal Pradesh and Chhattisgarh. The Government plans to set up 42 such mega food parks across the country in next three to four years.
- Attractive fiscal incentives have been instated by central and state governments and these include capital subsidies, tax rebates, depreciation benefits, as well as reduced custom and excise duties for processed food and machinery.

CONCLUSION

India is the second biggest food producer in the world and it has the potential to become the largest producer of food in the whole world as its contribution to world food trade increasing every year as this sector has been growing faster than agriculture as well as manufacturing sectors in India. Strategic geographic location and proximity to food-importing nations makes India favourable for the export of processed foods. The cost of skilled manpower is relatively low as compared to other countries. There are many promising dynamics which support good growth of this industry in India but there are still some significant constraints which, if not addressed timely may affect the growth of this sector negatively.

This sector is a capital intensive so limited number of players enter in this market which reduces efforts to improve quality standards. Major problems faced by the Indian food processing industry include the absence of adequate cold chain systems and other required infrastructure particularly rural road connectivity, inadequacy of information and marketing linkages, lack of electricity supply, and strengthening institutional framework to develop manpower for improving R&D capabilities to address global challenges. However, the



government has taken a number of initiatives to address the problems of food processing sector but still more efforts are required to achieve full potential of the Indian food processing industry.

Further, it is the need of the hour that Indian Food Processing Industry has to follow the food safety and quality assurance mechanisms such as Total Quality Management (TQM), Good Manufacturing Practices (GMP) and Good Hygienic Practices (GHP). It would enable adherence to stringent quality and hygiene norms and thereby protect consumer health, prepare the industry to face global competition, enhance product acceptance by overseas buyers and to make the industry technically sound as well as globally competitive.

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