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India

Food Processing Sector Report

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Report Highlights:

India offers excellent opportunities in the food processing sector. In 1998, sales of value-added food products totaled \$42 billion, representing 30 percent of total food market sales. The Indian food processing sector is expected to grow by approximately 20 percent per year over the next five years.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
New Delhi [IN1], IN

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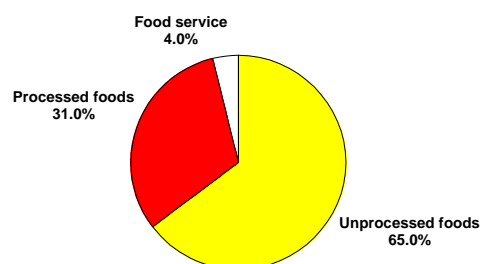
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I. Market Summary

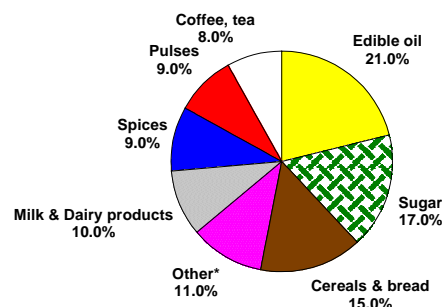
India offers excellent opportunities in the food processing sector. The size of the Indian food market totaled approximately US\$138 billion in fiscal year 1998. Value added foods account for \$42 billion, i.e. 30 percent of the food market in India. The Indian food processing sector is expected to grow by approximately 20 percent per year over the next five years. Primary processing accounts for more than 70 percent of the Indian food processing industry.

Consumers in India spent approximately 73 percent of total private consumption (\$147 per capita) on food in fiscal year 1998. American consumers, by comparison, spent only 10.9 percent of their disposable income (\$2,605 per capita) on food in 1996.

Indian Food Market
Industry Sub-Sectors
Sales to Indian Consumers
FY 1998
100 percent = \$138 billion



Indian Food Processing
Industry Sub-Sectors
Sales to Indian Consumers
FY 1998
100 percent = \$42 billion



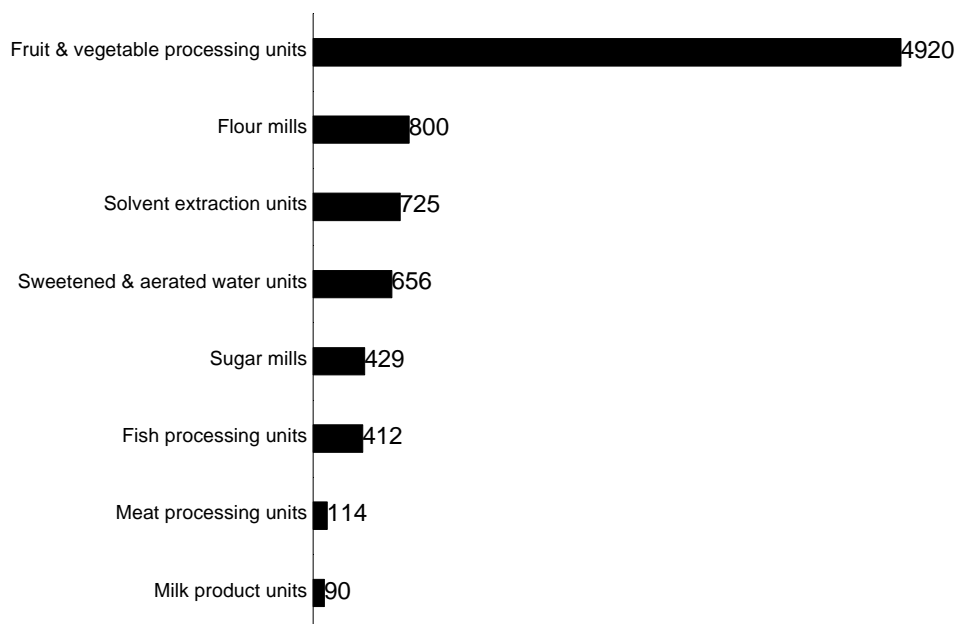
* Includes processed fruits, vegetables and beverages, etc.
 Source: Central Statistical Organisation, PSi analysis

The structure of the Indian food processing industry is highly fragmented. There are 4,920 fruit and vegetable processing units in India. Most units have small capacities, less than a metric ton per day. A few large Indian and multinational companies have capacities of more than 720 metric tons per day.

India is the world's largest fruit and vegetable producer and grows a wide range of horticultural products. However, less than two percent of India's fruit and vegetable production is processed. The installed capacity of India's fruit and vegetable processing industry increased from 0.9 million metric tons in 1991 to two million metric tons in 1998. However, capacity utilization remains low at 45 to 50 percent.

Medium and Large Food Processing Units in India

Number of Units, 1998



Source:
Ministry of Food Processing

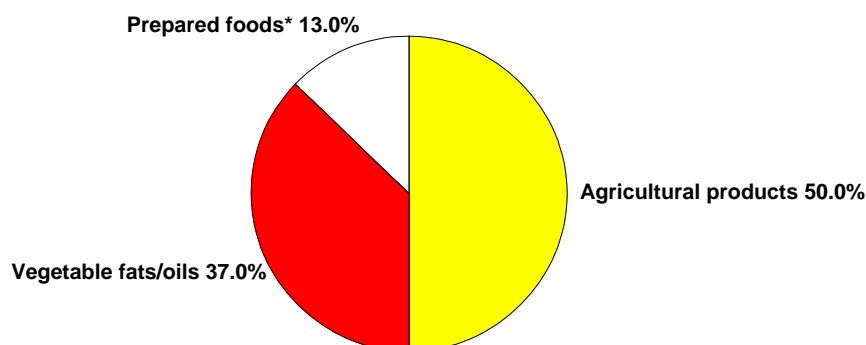
Most of the companies operating in India's grain processing industry are small players. India has approximately 91,000 rice hullers and 260,000 small flour mills engaged in primary milling. In addition there are approximately 43,000 modern rice mills/huller-cum-shellers. There are over 800 large flour mills in India producing wheat products. Also, approximately 10,000 pulse mills process 75 percent of India's pulse production.

Indian fish processors mainly cater to the export market. There are 399 freezing units, 13 canning units, 150 ice-making units, 16 fish meal units and 47 cold storage units used for fish processing.

India has 3,600 slaughter houses, 7 modern abattoirs and 128 meat processing units. There are only six modern integrated poultry processing units in India. However, many small poultry processing plants are producing dressed chicken and cut parts.

There are approximately 90 large dairy product units in India and many small dairy units located throughout the country.

India imported approximately \$2.1 billion worth of food in fiscal year 1998. Indian food processing companies buy approximately half of the total food exports to India (mainly edible oil). These processors purchase approximately 15 percent of U.S. food exports to India. Food imports into India are growing fast at over 37 percent per year (from fiscal year 1994 to 1998). India's edible oil imports grew approximately 78 percent per year (from fiscal year 1994 to 1998) and were 37 percent of total food imports in fiscal year 1998. Almost half of India's food imports are of agricultural produce such as cereals, fresh vegetables, fruits and nuts. Processed consumer food imports into India are low.

Processed Food/Food Ingredient Imports in India (FY1998)**100 percent = \$2.1 billion**

* Includes raw animal products, excludes edible oil
Source: ITPO, NCAER, PSi analysis

A number of factors are driving growth in the food processing market in India:

Household Income: The number of high, upper and middle-income families in India is growing faster than the number of lower income families. Approximately 23.6 million households have been added to the high, upper and middle-income segments of Indian consumers from 1990 to 1998. The number of households in middle, upper and high income categories has grown by more than 12 percent per year, while the total number of households in India has increased by less than 3 percent per year from 1990 to 1998.

Smaller Indian Households: The size of Indian households has declined over the past few years (from 5.9 in 1990 to 5.5 in 1998). Smaller Indian families typically have more income per member and are more willing to spend on ready to cook and convenience foods as an alternate to preparing traditional meals.

Urbanization: Indian consumers living in urban areas spend most of their time at or commuting to work. These consumers prefer using processed foods to reduce meal preparation time at home. Approximately 50 percent of middle, upper and higher income group Indian households live in urban regions. The percentage of Indians living in cities has increased from 19.9 percent in 1971 to 27 percent in 1997, and is expected to increase to 30.5 percent in 2000.

Women in the Workforce: The number of dual income households where both husband and wife work is increasing. Approximately 16 percent of the population of Indian women work full-time and spend most of their time away from home. Indian women are generally responsible for buying decisions related to the household and are increasingly choosing processed food for its convenience.

Preference for Processed Food: The influence of international media, overseas travel and the entry of foreign affiliated companies is increasing the Indian consumer's awareness of processed foods. Young urban Indian consumers are aware and willing to try new processed foods. Indian consumers will increasingly switch from unbranded commodities to branded processed food products as income levels and disposable income increase.

Current Indian regulations are constraining growth of the Indian processed food market. The Indian government protects small companies from competition by larger companies in some sectors. The government allows only small companies to manufacture selected processed foods such as pickles, bread, pastries and some edible oils. By definition, a small-scale company has less than \$230,000 invested in plant and machinery. Because of the small-scale reservation law, small-scale units dominate the entire Indian food industry. The Indian government has removed some key product categories (e.g., biscuits, ice-cream, etc.) from reservation for small scale companies in the last two years, and has allowed large foreign affiliated companies to enter the Indian food industry. However, foreign companies continue to require prior approval from the government to manufacture food products reserved for small scale units. Under current rules, an MNC or a large Indian company can manufacture products reserved for the small scale sector if 50 percent of the production is exported. The Indian government is seriously considering a major reduction in the number of items reserved for small-scale manufacturing.

In the last five years, several MNCs (e.g., ConAgra, Kellog, Del Monte, Perfetti, Pepsi Foods and Groupe Danone) have set up or are in the process of setting up operations in India.

The Indian government restricts or levies high duties on the import of many food products. Therefore, availability of imported food products is limited and prices are unaffordable for most Indian consumers. The Indian government has started to de-regulate the industry and has begun allowing import of many food products previously restricted. The Indian government is expected to increasingly allow imports due to India's commitments to the World Trade Organization. India has committed to the WTO that it will remove quantitative restrictions and reduce duties by 2003.

The following is a summary of advantages and challenges facing U.S. food products in India:

Advantages	Challenges
Many multinational food processing companies (e.g. Nestle, Kellogg's and Heinz) are already in India.	Food habits vary widely across the country.
A large number of processed foods/food ingredients are not available in India (e.g. Parmesan cheese, asparagus, olives, etc.).	Owing to a dearth of cold storage facilities, processing units buy small quantities of raw materials locally and prefer frequent deliveries.
Popularity of American culture and food is growing (e.g. Domino's, McDonald's, Baskin Robbins, television programs).	Indian consumers are accustomed to home-made and freshly-cooked traditional food.
As Indian processors grow, they will prefer using semi-processed food inputs to increase their efficiency.	Low income levels make processed/branded foods unaffordable for most Indian consumers.
The consumption pattern of Indian consumers is shifting from unbranded commodities to branded food products.	Middle/higher income urban consumers, who represent the target market for value added food products, typically have domestic help and therefore have little incentive to buy convenience foods.
The number of women working outside the home (in factories, offices) is increasing.	Few supermarkets exist since margins are very low and rent control provides a significant cost advantage to entrenched small shops.
Consumers' expectations regarding health and service are becoming increasingly complex and demanding.	The Indian government levies high duties on food imports into India.

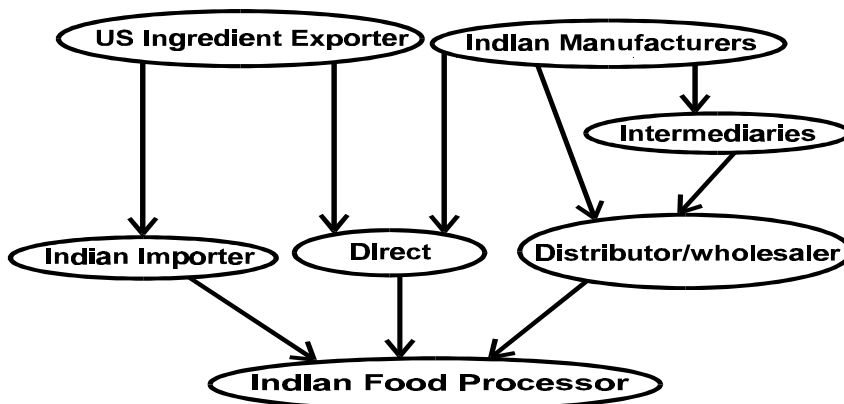
II. Road Map for Market Entry

Entry Strategy

U.S. food exporters should analyze demand for their products in the Indian food processing industry and barriers to entry before selecting the best market entry route. Small U.S. companies should select a trading company (possibly based in the U.S.) which can support their marketing efforts in the Indian market. For low and mid-value commodity food inputs, U.S. exporters should appoint distributors for each major region of India. U.S. exporters of branded food ingredients may prefer to appoint agents (rather than distributors) for each region of India. These agents will be able to market U.S. food ingredients to small food processors scattered throughout India. U.S. exporters of high-value food ingredients and inputs may prefer to enter into agreements with American food processors already established in India. In addition to their own requirement, these American food processors can also market food products of U.S. exporters through their distribution network. Large U.S. food ingredient companies can also export directly to Indian food processors having regular requirements. U.S. food processors may consider the option of starting a joint venture in India for manufacturing processed foods. The Indian government allows 51 percent foreign ownership in the food processing sector, and many companies have received government approval for higher levels of foreign ownership.

Distribution Channels

Food Distribution in India To Food Processing Buyers



Source: Interviews

Large-scale food processors import food products directly from foreign manufacturers whereas small processors buy from Indian importers. For domestic raw materials, Indian food processors either buy directly from manufacturers/farmers or buy from local trade channels (wholesalers and distributors).

Indian food processors import only a small portion of their total food requirement due to local availability of most food inputs. Indian importers generally do not sell low-value foreign food inputs because of high duties and shipping costs. Indian food processing companies import high-value foods, such as frozen juice concentrate, but procure other raw materials from local manufacturers and traders.

Local intermediaries have limited transport and storage capacities. Therefore, several intermediaries are typically involved in the collection and consolidation of domestically produced fruits, vegetables, milk and other commodity products.

To control costs and quality, a number of food processors in India have developed direct sourcing relationships with local farms and ingredient manufacturers. Pepsi Foods, for example, provides technical assistance to its suppliers.

Indian food ingredient manufacturers use two distribution channels to reach food processing companies: they supply to large food processors through their own sales offices and work with distributors to supply to smaller processors. In supplying to distributors, the clearing & forwarding (C&F) agents perform the same function as the brand owner's warehouse. Manufacturers typically pay C&F agents a flat fee for transferring goods from the manufacturers central warehouse to their own depot. Distributors obtain goods from the depot and deliver them to retailers.

Indian consumer food brands use a multi-layer distribution system consisting of C&F agents, distributors/wholesalers and retailers to reach the end consumer. They also supply directly to hotels, restaurants and institutions.

Company Profiles

Company	Sales (\$Mln)	End-User Channels	Production Location	Procurement Channels
ITC-Agrotech (ConAgra)	203.2 (1998-9)	Retail, HRI*	2 (Jaipur, Hyderabad)	Imports: Importers; Local: Brokers
Nestle	412.9 (1998)	Retail, HRI*	16 production locations all over India	Imports: Direct; Local: Manufacturers and distributors
Britannia	242.4 (1998-9)	Retail, HRI*	5 company owned and approx. 50 contract manufacturers all over India	Local: Manufacturers
Haldiram	10.8 (1998-9)	Retail	NA	Local: Manufacturers and distributors
Dabur	3.0 (1998-9)	Retail, HRI*	2	Imports: Direct; Local: Manufacturers and distributors
Perfetti	NA	Retail, HRI*	1 (Gurgaon)	NA
Pepsi Foods	NA	Retail, HRI*	NA	Imports: Direct; Local: Manufacturers
Tropicana Beverages	NA	Retail, HRI*	1 (Baramati)	Imports: Direct
Godrej Foods	108.2 (1998-9)	Retail, HRI*	2 (new plant in Mysore)	NA

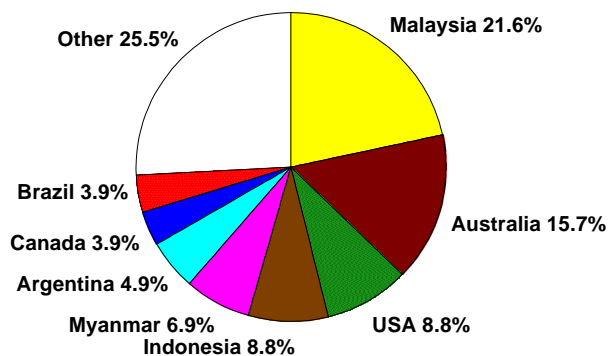
* Hotels, Restaurants, Institutions

III. Competition

The United States is the third largest food exporter to India and accounts for approximately 9 percent of India's food imports. The United States' food aid to India accounts for almost half of total U.S. food exports to India. Although U.S. food exports to India are growing at 9 percent per year (from fiscal year 1994 to 1998), the U.S. share of the imported food market in India has declined from 23 percent in fiscal year 1994 to 9 percent in fiscal year 1998. Brazil, Australia, Canada and Argentina are the primary competitors of the United States in India's imported food market, and have taken market share away from U.S. suppliers over the past several years. India also imports fruits and nuts from Iran, Guinea and Tanzania.

Country Competition in the Indian Food Sector FY 1998

100 percent = \$2.1 billion



Source: DGCIS, PSi analysis

Domestic raw materials and food ingredients are very competitive and their prices are a major barrier to the entry of U.S. foods to the Indian market. However, with the growth in India's food processing industry, demand for high-quality semi-processed food inputs and food ingredients is expected to grow. US exports of malt extracts (a type of cereal preparation) account for more than 95 percent of total Indian imports of malt extract.

The U.S. supplies approximately 57 percent of India's soybean oil imports. Brazil and Argentina compete with U.S. suppliers in this market. U.S. sunflower seed oil exports to India compete with exports from Argentina and the Netherlands. The U.S. is the main exporter of corn oil to India and also exports hydrogenated oils (competing with Malaysia) and dehydrated oils (competing with Nepal).

The U.S. is the main exporter of thickeners to India (competing with exports from Italy and Germany), and supplies approximately 60 percent of food flavoring ingredient exports to India. The U.K. also exports some flavoring ingredients to India.

Some U.S. food product exports to India are losing market share. India has not imported U.S. wheat, whereas

Australia supplied more than 80 percent of wheat exports to India; Canada supplied approximately 12 percent. Wheat accounted for more than 10 percent of India's food imports in fiscal year 1998. The decline in export of U.S. wheat to India is primarily due to non-tariff barriers which were successfully resolved in 1999. The Indian government is currently considering development of a code for monitoring the quality of food imports and increasing quality norms for food imports into India. Such steps will improve the prospects for U.S. food exports to India.

IV. Best Product Prospects

Prospect in the Indian Market	Product
Products that are present in the market	food commodities, vegetable oil, butter, margarine
Products not present in significant quantities but which have good sales potential	cocoa products, groundnut oil, crude soy bean oil, virgin olive oil, palm oil, crude sunflower/safflower oil, crude rapeseed/mustard oil, oilseeds, semi-processed food inputs such as preserved vegetables, frozen vegetables, thickeners, fruit juice concentrate, flavoring/coloring ingredients, soft drink concentrates
Products that will not do well or cannot be used in the market	bovine meat, live animals, animal fats

A. Products that are present in the market:

Demand for edible vegetable oil in India is increasing while domestic supply is stagnant, leading to large-scale imports of edible oil. Indian consumers use edible oil in the preparation of traditional meals. The Indian government has recently reduced basic duties on edible vegetable oils to 15 percent. India's imports of butter are steadily growing. The Indian government has allowed the import of margarine, which was previously restricted.

Neighboring countries such as Malaysia, Indonesia and Myanmar are the largest exporters of food (primary food inputs such as edible oils) to India. These countries have almost doubled their share of the imported food market in India in the last few years (fiscal year 1994 to 1998). South Asian countries benefit from preferential duty rates. Owing to their locational advantage, neighboring countries have low shipping costs and can export large volumes of primary foods at competitive prices. Nevertheless, India's growing demand for high quality refined oil is an opportunity for U.S. exporters.

B. Products not present in significant quantities but which have good sales potential:

Food exports to India are currently low because of high duties. Some food exports to India are growing despite high duties (e.g. cocoa product exports to India are growing at over 80 percent per year).

In accordance with its commitments to the WTO, India is reducing restrictions on imports in a phased manner. In

its latest budget, the Indian government has allowed the import of 894 items and special import license for another 414 previously restricted items. As a result, the Indian government has allowed companies to directly import many food flavoring and coloring ingredients, crude vegetable oils and oilseeds that were either restricted from import or channelized through specified government agencies. Although import of prepared foods represent a small portion of India's food imports, the growing Indian food processing industry is expected to spur the demand for semi-processed food inputs such as fruit juice concentrate, preserved vegetables (in brine water or other solutions) and frozen vegetables.

C. Products that will not do well or cannot be used in the market:

The Indian Customs restricts the import of live animals and meat (including poultry). Although the duties on meat are low, Indian Customs rarely allow imports (South Asian countries are an exception). Even if an exporter can obtain permission, duties on live animals are prohibitively high. Indian Customs strictly prohibits import of bovine meat and animal fats.

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