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India

Retail Foods

Organized Sector Consolidating While Mom and Pop Format Dominates

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Report Highlights:

Organized retail consolidated in 2017 with larger players expanding their presence through acquisition of regional players. Modern retail valued at two percent of the total food and grocery business remains constrained by low profitability though domestic and international players are building a stronger cash and carry wholesale business which affords higher margins. India's e-commerce grocery business continues growing and ranks fifth in size across the Asia Pacific region. A growing number of importers are establishing independent retail outlets to showcase their range of products in addition to stocking shelves of other retailers.

Post:

New Delhi

Executive Summary:**SECTION I. MARKET SUMMARY**

India has one of the world's fastest growing large economies and, by some estimates; India is projected to become the world's third largest economy by 2025. The Government of India (GOI) reports that the gross domestic product (GDP) is forecast to grow at 7-8 percent per annum over the next few years. However, the GDP rate for the first quarter of Indian Fiscal Year (April-March) 2017-18 was 5.7 percent. Which, although strong, was less than analysts expected and is attributed to India's demonetization of specific currency notes in November 2016 which led to a cash crunch and reduced purchasing which had ripple effects throughout the economy as factories slowed down, exports declined, and currency uncertainty persisted.

According to [World Bank's Doing Business 2017 report](#), India was ranked 100th out of 190 countries. Despite efforts to improve business and trade, the GOI has not lowered tariffs or noticeably improved access for imported food and agricultural products over the past several years. On July 1, 2017, the GOI rolled out nationwide a Goods and Services Tax (GST), which replaced the existing state-by-state taxes and duties structure. In addition, the country's food safety authorities are looking at a move to more risk-based inspection of imported items. The "Make in India" program continues encouraging manufacturing development as a major goal.

Table 1: India: Grocery Retailers Outlets by Channel (in Thousand Outlets)

	2011	2012	2013	2014	2015	2016
Modern Grocery Retailers	5.30	5.50	5.90	5.90	6.20	6.30
Traditional Grocery Retailers	12,298.30	12,360.30	12,426.50	12,488.70	12,555.20	12,626.60
Total	12,303.60	12,365.90	12,432.30	12,494.60	12,561.40	12,629.80

Source: Euromonitor

Snapshot: India Food Retail Sector

India's food and grocery (F&G) retail business is estimated at U.S. \$380 billion out of which the modern food retail sector is valued at two percent of the total market. The F&G retail sector is dominated by

traditional trade formats like neighborhood shops or *kirana* stores, which hold about 98 percent of the total market share. Modern trade formats like supermarkets and hypermarkets are stepping up to fulfil the needs of consumers and the market is reportedly growing at 15 percent per annum and is estimated to double in the size by 2020. A Euromonitor report on India's food retail industry projects steady upward growth of hypermarkets and supermarkets by 15 percent and 12 percent, respectively in 2016. This growth has been riding on the sudden demonetization in November 2016, which led to a consumer shift away from cash purchases at *kirana* shops towards electronic payment options first at organized retailers, but has since returned back as the small shops enrolled in electronic payment programs or allowed e-wallet transfers.

India: Imported Food Market Overview

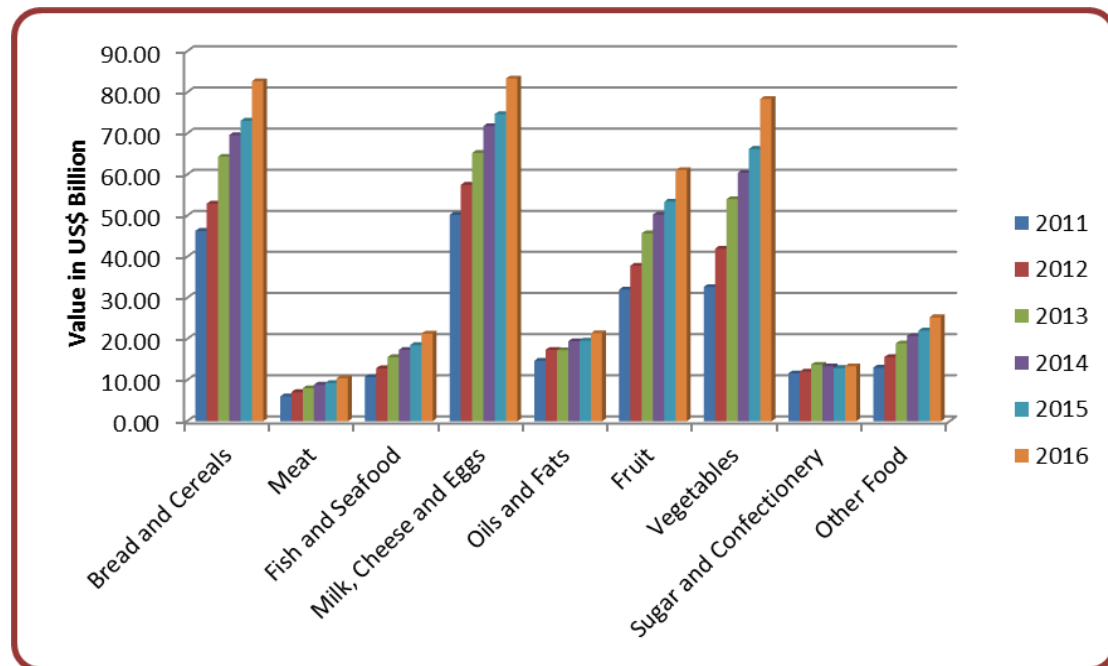
The retail market for imported foods has grown slowly though developments over the past few years indicate a growing number of professional, brand-oriented importers and an increase in the number of modern retail outlets and hotels wanting to carry imported products. Unique labeling requirements, ongoing non-tariff trade restrictions, recently implemented GST, a weaker rupee, and a slow-to-develop distribution infrastructure continue to complicate the import process.

As India's modern retail sector develops, it will become an increasingly important vehicle for introducing imported food product to consumers before moving those products to the traditional retail sector. India now has several 24-hour food networks and cooking competition shows are popular on television. So much so that retail management has indicated that shoppers enter stores and look to repeat menus and recipes from shows aired the previous evening. Increased exposure to foreign foods and the opportunity to consume them is expected to bring growth in the sector.

Imported nuts and fruits feed easily into India's traditional retail channels. An estimated 90 percent of imported fresh fruit is sold in roadside stands and open markets. Imported packaged and consumer-ready foods are found primarily in a small number of gourmet grocery stores that specialize in imported foods, in the imported foods sections of larger store formats, and in thousands of small neighborhood stores. While the modern retail sector is expected to become an increasingly important means of selling imported foods, India's traditional retail system will remain an important way of reaching consumers for years to come.

Private Label - Imported Products Consumers Don't Necessarily Recognize as Imports: These products are relatively new in India, but a number of large format retailers and several importers have launched their own private label brands. Retailers have greater control over the supply chain with their own private labels and minimize stock outages. Among the many categories of products falling under private labels, staple foods such as packaged rice, cereals and pulses, flour, sugar, breakfast cereals and packaged tea are the most popular categories and find greater acceptance among consumers. For certain specialty items like sauces and condiments, vinegars, dried fruits and tree nuts, and microwaveable popcorn, retailers often turn to private label suppliers. One of India's largest domestic grocery and Ayurveda retailers is advancing its private label brand and challenging many of the multinational food manufacturing and consumer goods (FMCG) companies.

Figure 1. India: Consumer Expenditures by Food Category 2011-2016



Source: Euromonitor

Figure 2. India: Population by Rural/Urban Composition



Source: Euromonitor

Table 2. India: Advantages and Challenges for U.S. Food Products

ADVANTAGES	CHALLENGES
<ul style="list-style-type: none"> High growth of Indian retail and wholesale 	<ul style="list-style-type: none"> Tariff and non- tariff restrictions.
<ul style="list-style-type: none"> Increasing urbanization and growing number of working women that has led to dual-income households. 	<ul style="list-style-type: none"> Competition from countries with closer geographical proximity and freight advantage.
<ul style="list-style-type: none"> Expanding young population and increasing inclination towards organized retail culture. 	<ul style="list-style-type: none"> Developing food distribution infrastructure and a long and fragmented supply chain.
<ul style="list-style-type: none"> Growing popularity of American culture and foods. Many U.S. fast food franchisees are present in the market. 	<ul style="list-style-type: none"> Strong competition from the local suppliers including multinational food companies.
<ul style="list-style-type: none"> Increased inclination to make shopping an experience, and consumers willing to buy more foreign products. 	<ul style="list-style-type: none"> U.S. exporters' unwillingness to work with small volumes, consolidated shipments, and special labeling requirements.
<ul style="list-style-type: none"> U.S. products generally have a 	<ul style="list-style-type: none"> Specific labeling and clearing requirements and

good quality image among consumers.	procedures.
<ul style="list-style-type: none"> Strengthening economic ties between India and the United States. 	<ul style="list-style-type: none"> The Indian economy is challenged by year- long depreciation of rupee, stubborn inflation, and a looming fiscal deficit. Demonetization in November 2016 followed by recently implemented GST is also playing a role in poor attendance at the hotels and restaurants

SECTION II. ROAD MAP FOR MARKET ENTRY

Entry Strategy:

- Determine if your product has market access.
- Make sure you understand India's varied food laws, particularly those pertaining to use of additives, labeling requirements, shelf life, and sanitary and phytosanitary regulations.
- Identify an Indian importer/distributor who services the food retail sector.
- Examine prospective candidates and thoroughly research the more promising ones.
- Check the retailers' presence across India and their share of shelf space for imported food products. Generally retailers function via an established importer or agent and rely on their expertise.
- Recognize that agents with fewer principals and a smaller set-up may be more adaptable and committed.
- Avoid conflicts of interest where a potential agent handles similar product lines from competing suppliers.
- Consider whether participating in an Indian trade show would be an effective means of identifying a key retailer.
- Consider if partnering in USDA endorsed promotional activities would be an effective way to create market awareness.
- Survey other potential opportunities by reviewing FAS policy and market reports and consider engaging a market research firm to assist with opportunities and challenges.
- For products with a potentially longer shelf life and/or larger order volumes (e.g. from large retail chains), consider whether operating through regional consolidators will allow your company to service the India market.

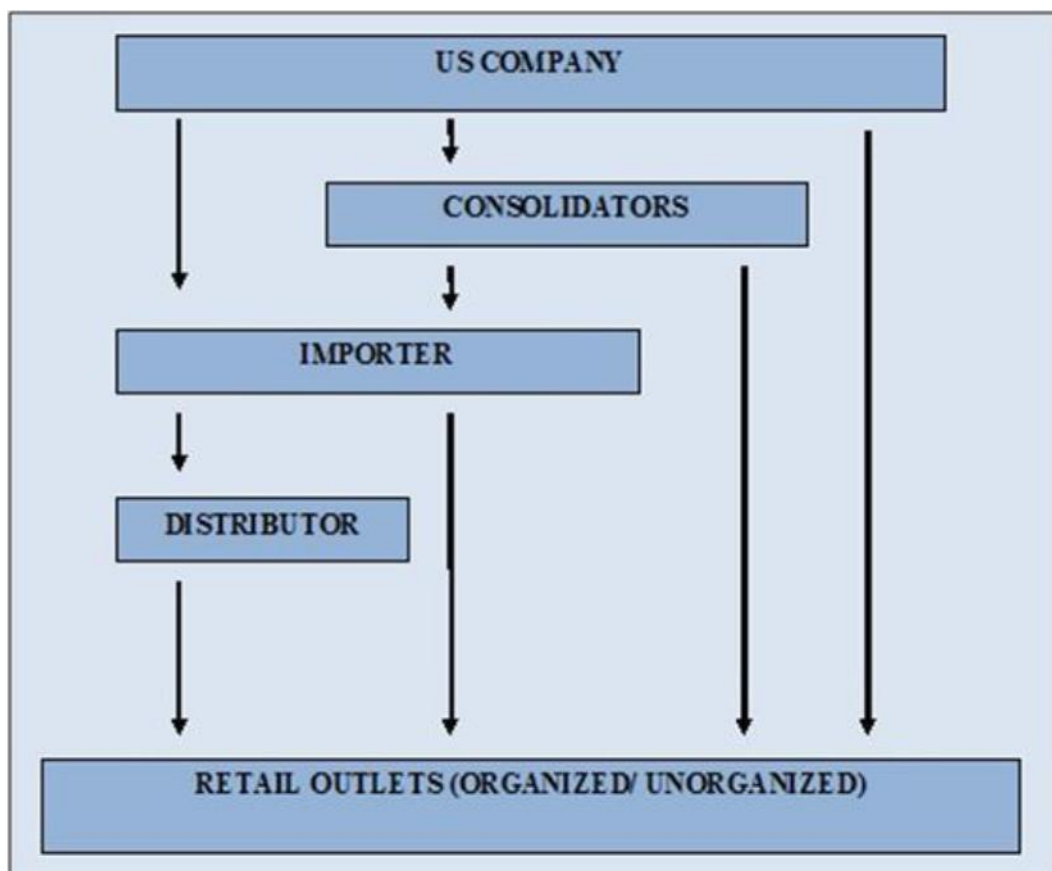
Ensuring payment is another important consideration when establishing a relationship with an importer. Until a successful working relationship is established, exporters may wish to consider vehicles such as an irrevocable Letter of Credit. Alternatively, Indian importers are accustomed to operating without credit and may be willing to pay prior to shipment. While FAS India receives a few notices concerning delinquent Indian importers, our offices do not have the authority to mediate contractual disputes or serve as a collection agent when differences over payment or other commercial issues arise. For information about local legal services, refer to [IN6155](#), though most established trade members indicate these situations can be avoided with proper preparation and sale terms.

Market Structure:

Organized and unorganized retailers supply imported food and beverage items based on their target audience. With the rise in organized retail chains and their expansion across value formats, there is an increasing awareness and specialization among companies to supply these businesses. These firms are equipped to comply with rigorous temperature and quality specifications on behalf of their clients and offer modern warehousing and transportation facilities. Retailers rarely import directly, relying on importers and distributors to handle the clearing and storage of products. However, a few of the larger modern retail chains import directly when they can spread the consignment across stores or value formats. Imported foods enter India from regional trading hubs such as Dubai, Singapore and Hong Kong as well directly from supplying countries. Major importers are located in Mumbai, Delhi, Bengaluru, Hyderabad, and Chennai.

The following flow chart gives an overview of the distribution network for imported food for retail sector.

Figure 3. India: Distribution Flow Chart for Retail Food and Beverage Products



For domestically produced foods, clearing and forwarding agents transport merchandise from the factory or warehouse to “stockists” or distributors. While the agents do not take title to the product, they receive four to six percent margins, then invoice the stockist, and receive payment on behalf of the manufacturer. The stockists have exclusive geographical territories and a sales force that calls on both the wholesalers and on large retailers in urban areas. They usually offer credit to their customers and receive margins in the range of five to seven percent. The wholesalers provide the final link to those rural and smaller retailers who cannot purchase directly from the distributors.

Wholesalers receive a margin of four to six percent and margins for retailers vary from 15 to 40 percent, and the total cost of the distribution network represents between 10 and 20 percent of the final retail price. As a rule of thumb, retail prices of imported foods are typically two to three times higher than FOB export prices after tariffs, excise, margins and transportation costs added on. Added costs for products requiring refrigeration or special handling are even higher.

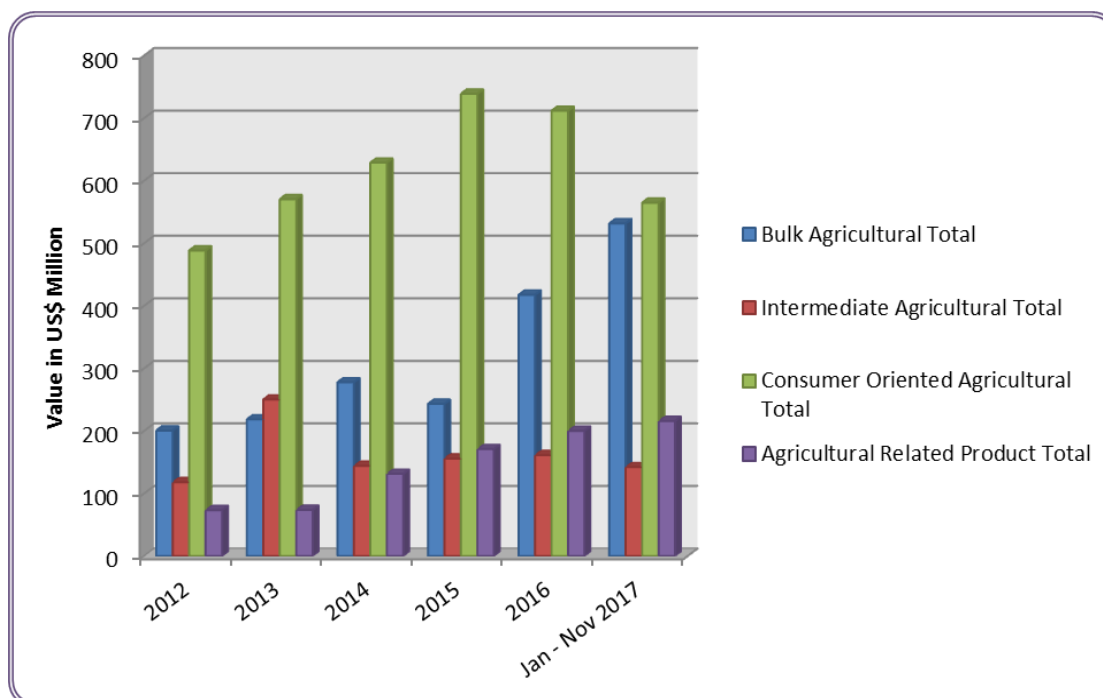
With the rise of chain restaurants, modern companies specializing in the handling of food have also emerged. These firms are equipped to comply with rigorous temperature and quality specifications on behalf of their clients and offer modern warehousing and transportation facilities.

Table 3. India: Imported Food Product Pricing (Margins at Various Channels)

Distribution Channel	Margins
Clearing and forwarding agents	4-6 percent
Wholesalers	4-6 percent
Super Stockists	5-7 percent
Distributor	8-12 percent
Importers	10-35 percent
Retailer	15-40 percent

Source: USDA/FAS Analysis

Figure 4: India: Imports from the United States



Source: USDA/FAS Global Trade Database

Unique Distribution Structural Patterns

Cold Chain: Refrigerated warehousing and transportation facilities are limited and costly, but improving. In some cases, high electricity costs and/or erratic power supplies have constrained cold chain development. Road travel can be slow and difficult. India has 3.3 million kilometers (2 million miles) of roads and many have not been improved over the past 10 years. India also has over 65,000 km (40,389 miles) of railroads that carry over 30 million passengers and 2.8 million tons of freight per day.

India has a coastline of 7,600 kilometers and is serviced by 13 major ports in Kandla, Mumbai, Mundra, Cochin, Murmagoa, and New Mangalore on the west coast, and Chennai, Tuticorin, Vishakhapatnam, Paradeep, Ennore and Kolkata on the east coast. Container handling facilities are available at most major ports and in several major cities. Mumbai, followed by Chennai, is India's largest container port and the port where most containerized food enters India. Air shipments typically land at the Mumbai or Delhi airports. Freezer and refrigeration facilities at the Mumbai and Delhi airport are limited and

present a challenge for importers seeking to clear high-value food products with a short shelf life.

Kirana Shops and the Emergence of Modern Retail, Internet Retailing and Cash and Carry

Formats: India's retail sector is dominated by thousands of small neighborhood grocery shops (i.e., *kirana* stores) that account for 98 percent of food sales. These neighborhood shops are located both in urban and rural parts of the country and offer convenience, proximity, ability to extend credit, and have a relatively low infrastructure.

During the mid-1990s, there were an estimated 200 modern grocery stores operating in India. These were typically chains in south Indian cities (mainly Bengaluru) that were not much larger than *kirana* stores. These stores were distinguished by their emphasis on a more modern self-service shopping environment that offered a range of products. A few cities had cooperative stores that were owned by consumer societies. The emergence of larger chains and stores began around 2005 and the sector has since grown to over 4,800 supermarkets and 500 hypermarkets across India. While many retailers are expanding and opening new stores, profitability continues to be an issue for many as factors such as high real estate costs, high capital borrowing costs, high debt levels, training levels of staff, and a costly supply chain add significantly to operating costs.

Several internet grocery retailers have launched over the past few years and India's first e-retailer dedicated to imported foods recently opened. Some brick and mortar stores sell food online or have plans to do so and are considered omnichannel retailers. The ability to order online could enable modern retailers to better compete with services that *kirana* stores provide. According to Euromonitor International, India's online food and drink market grew to \$135 million in 2016. For more information on the e-retailing grocery market, please refer to IN7064.

The presence of cash and carry remains very limited in India, with most of the companies involved in the channel engaging mainly in business-to-business sales. Cash and carry companies operating in India generally operate purely as business-to-business entities, positioning themselves as inexpensive mass retailers through which businesses can purchase stock in bulk and save substantial sums of money in the process. Indian consumers have access to these cash carry outlets only when their employers or a business body has a membership card with the retailer, and this membership card is presented by the individual customer at the time of purchase. As the government policy has maintained its position on restricted access to foreign investment in multi-brand retail, a growing number of domestic and international players are looking to expand their presence in India via the cash and carry wholesale retail format. The cash and carry model can be much more cost effective and profitable as stores can sell unbranded goods to the traditional retailers and provide them access to their large warehousing instead of small stores keep larger inventory in their own space.

SECTION III: COMPETITION

India's domestic industry is the primary competitor for U.S. food products in the retail sector. India,

with its diverse climatic conditions, produces a variety of foods and ingredients at prices below most imported products or products made from imported ingredients. The quality is improving steadily, too. In addition, many third-country competitors enjoy a freight advantage and can supply at lower costs. Too, consolidators in markets like Dubai and Singapore offer quick delivery of small quantities; including for retail products that originated from the United States. High import duties, labeling requirements, and restrictions on a number of imported packaged retail goods pose additional challenges for direct U.S. exports to the market.

Table 4. India: Competition in Major Product Categories

Product Category	Total Imports (In \$ Million) CY 2016	Major Supply Sources	Strengths of Key Supply Countries	Advantages (A) and Disadvantages (D) of Local Suppliers
Animal or Vegetable Oils, Fats and their products	10,514	Indonesia Malaysia Argentina Ukraine	Major production hubs and competitive prices	Local production is inadequate and more than 40 percent of total edible oil consumption is dependent on imports.(A)
Leguminous Vegetables, Dried Shelled/ Pulses	4,014	Canada Myanmar Australia USA Tanzania	Price competitiveness, freight advantage (for countries like Myanmar) and the ability to produce specific kind of pulses demanded in India.	Local production is inadequate and more than 20 % of total demand for pulses is met through imports.(A)
Edible Fruits and Nuts	2,808	USA Côte d'Ivoire Guinea-Bissau Tanzania Afghanistan	Growing market demand, preference for specific quality, popular at certain holidays	Domestic production of some of the major fruits and nuts is insignificant (A)
Sugars and sugar confectionery	1,013	Brazil Germany USA Netherlands	Price competitiveness	India is usually a net exporter of sugar (D)

Coffee, Tea, Mate And Spices	760	Vietnam Indonesia Sri Lanka Nepal	Price competitiveness and proximity	Most imports are for re-export (D)
Dairy produce; birds' eggs; natural honey; edible prod. Of animal origin	42	France New Zealand Uganda Denmark	Price competitiveness, sanitary requirements	Domestic production is not keeping pace with demand (A). The Indian import protocol is very stringent and effectively prohibits imports of dairy products from the United States. (D)

Source: Ministry of Commerce and Industries and FAS India analysis

SECTION IV: BEST PRODUCT PROSPECTS

Table 5. India: Products Present in the Market Which Have Good Sales Potential

Product Types	Import Value (\$ Million) CY 2016	Import Volume (Metric Tons) CY 2016	5-yr. Import growth by value (in %)	Basic Import Tariff	Key Constraints	Market Attractiveness For USA
Tree Nuts (mainly almonds and walnuts)*	1,066	200,384	18	In shell Almonds (Rs. 35/Kg) Pistachios (10%)	Competition from other suppliers exists but is not substantial	High demand and growing retail industry
Cocoa and Cocoa Preparations	205	53,715	10	30%	Strong competition from domestic and international suppliers	Strong quality and brand preference
Leguminous	3,613	5,414,320	12	30% to 50%	Price competitiveness	Local production is

Vegetables, Dried Shelled/ Pulses					, freight advantage and the ability to produce specific kind of pulses demanded in India.	inadequate and more than 20% of total demand for pulses is met through imports.
Apples, Pears and Quinces Fresh	236	215,676	10	Apples 50% Pears 30%	Competition from domestic and foreign suppliers like Chile, and New Zealand	Seasonal shortages and high prices, increasing interest in quality fruits and growth of organized retail
Grapes Fresh or Dried	66	202,259	21	30%	Competition from domestic and foreign suppliers	Seasonal shortages and high prices, increasing interest in quality fruits and growth of organized retail
Fruit Juices	33	20,542 liters	3	30%	Competition from domestic manufactures and foreign suppliers from neighboring countries	Increasing health awareness and shortage of quality products
Beverages, Spirits and Vinegar	569	392,140,30 2 liters	16	150%	High import duty and competition from domestic suppliers	Growing consumption and lack of domestic production

*Includes almonds, walnuts, pistachios, hazelnuts, chestnuts etc.

Source: Ministry of Commerce and Industry, GOI and Post analysis

Products Not Present Because They Face Significant Barriers

Currently, there are several trade restrictions that limit market access for U.S. food products. Imports of most animal and livestock-derived food products are effectively banned due to established Indian import requirements. This includes certain sub-categories in the Harmonized Tariff Schedule under Chapters 2,

3, 4, 5, 16 and 21 (e.g., milk and dairy products, poultry meat, certain seafood, sheep and goat products, as well as pork products and pet food). Furthermore, imports of beef are banned due to religious concerns. If allowed, some of these products (e.g., cheeses and poultry) may have good sales potential for the retail sector.

Effective July 8, 2006, the Government of India's (GOI) Foreign Trade Policy (2004-2009) specified that all imports containing products of modern biotechnology must have prior approval from the Genetic Engineering Approval Committee (GEAC), Ministry of Environment and Forests. The policy also made a biotech declaration mandatory. Soybean oil and canola oil derived from select events are the only biotech food/agricultural product currently approved for import. For more information on India's biotech import policy, please see –IN7135 Agricultural Biotechnology Annual 2017.

SECTION V. POST CONTACT AND FURTHER INFORMATION

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Web: <http://mumbai.usconsulate.gov/business/agriculture-related-business.html>

The following reports may be of interest to U.S. exporters. These, and related reports, can be accessed via the FAS Home Page: www.fas.usda.gov by clicking on “Data & Analysis” and then selecting GAIN reports and choosing the “search reports” function.

Report Number	Subject
IN 7155	Exporter Guide- 2017
IN 7150	Food Processing Ingredients 2017
IN 7149	Food Service - HRI 2017
IN 7152	Food and Agricultural Import Regulations and Standards – Narrative
IN 7135	Agricultural Biotechnology Annual 2017
IN 7153	India Food and Agricultural Trade Show Calendar 2017
IN 7166	Foreign Direct Investment in Retail Permitted with Limitations

