Food Processing

NOVEMBER 2011

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Contents

- Advantage India
- Market overview and trends
- Growth drivers
- Success stories: Operation Flood, Amul
- Opportunities
- Useful information

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Advantage India

2009

Domestic food spending: USD181 billion

2020E

Domestic food spending: USD318 billion

Advantage India

Strong demand growth

- Demand growth for processed food will rise with increase in disposable income; household consumption to double by 2020
- Urbanisation, young population, and nuclear families to aid growth

Food processing hub

- India benefits from a large agriculture sector, abundant livestock, and cost competitiveness
- Investment opportunities will arise in agriculture, food infrastructure, and contract farming

Increasing investments

- Government expects USD21.9 billion of investments in food processing infrastructure by 2015
- Investments, including FDI, will rise with strengthening demand and supply fundamentals

Policy support

- Sops to private sector participation; 100 per cent FDI under automatic route
- Setting up of Agri Export Zones; mega food parks to be established under the government's Vision 2015 plan

Notes: 2020E – Estimate for 2020; estimates are from Flavours of Incredible India (Ernst & Young, 2009)
FDI – Foreign direct investment

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The food processing sector comprises six major segments

Food processing

Segment	
Fruits and vegetables	India is the world's second largest producer of fruits and vegetables
Milk and milk products	India is the largest producer of milk in the world
Meat and poultry	India produced 6.5 million tonnes of meat in FY07
Marine products	India is the third largest fish producer in the world; it ranks second in inland fish production
Grain processing	India produces 200 million tonnes of food grains every year
Consumer food	Among the fastest growing segments in India; it includes –

- Packaged food
- Aerated soft drinks
- Packaged drinking water
- Alcoholic beverages

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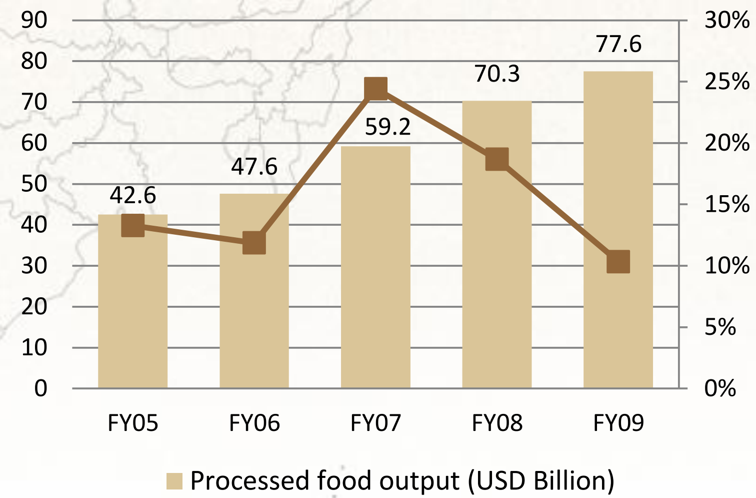
Sector has recorded steady growth over the years … (1/2)

- Food processing output increased at a CAGR of 16.2 per cent over FY05-09
- The sector accounted for 14 per cent of the country's manufacturing sector in FY09

Source: Ministry of Food Processing Industries (MOFPI), Aranca Research
Notes: CAGR – Compound Annual Growth Rate,
FY – Indian financial year (April – March)

Total processed food output was USD77.6 billion (FY09)



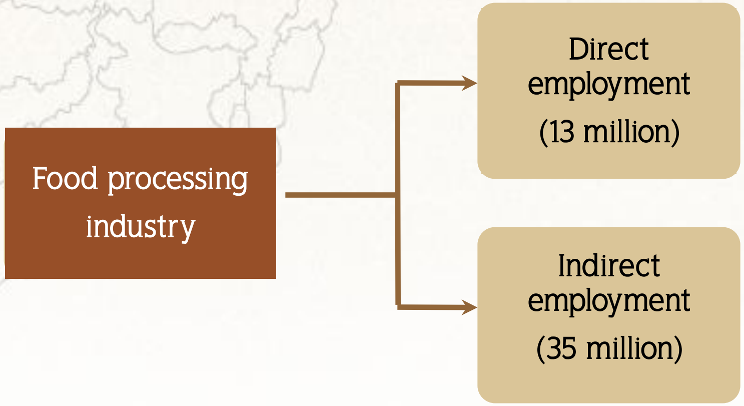
Source: Flavours of Incredible India (Ernst & Young, 2009), Aranca Research

Sector has recorded steady growth over the years … (2/2)

- In FY09, the sector employed 48 million people
- Policymakers have identified the food processing sector as a key one in encouraging labour movement from agriculture to manufacturing

Notes: FY – Indian financial year (April – March)

Healthy contribution to employment generation (FY09)



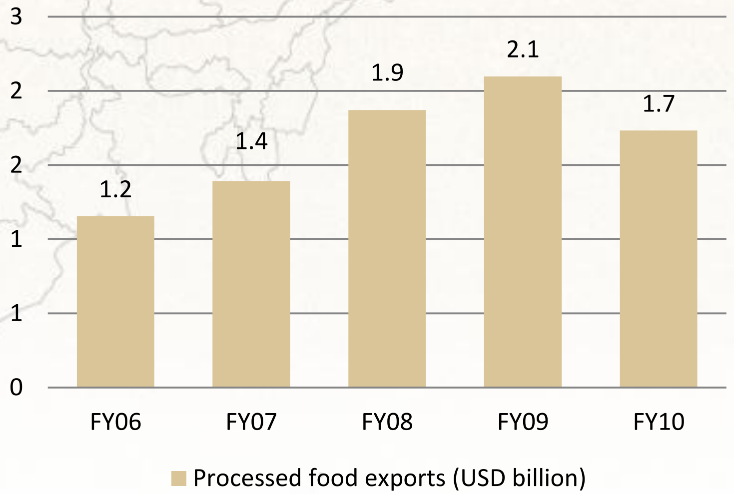
Source: Ministry of Food Processing Industries, Aranca Research

Growth in exports has also been healthy … (1/2)

- Exports in the sector totalled USD1.7 billion in FY10
- Main export destinations for food products have been the Middle East and South East Asia

Notes: FY – Indian financial year (April – March)

Exports (USD billion) (FY10)



Source: Ministry of Food Processing Industries, APEDA, Aranca Research;

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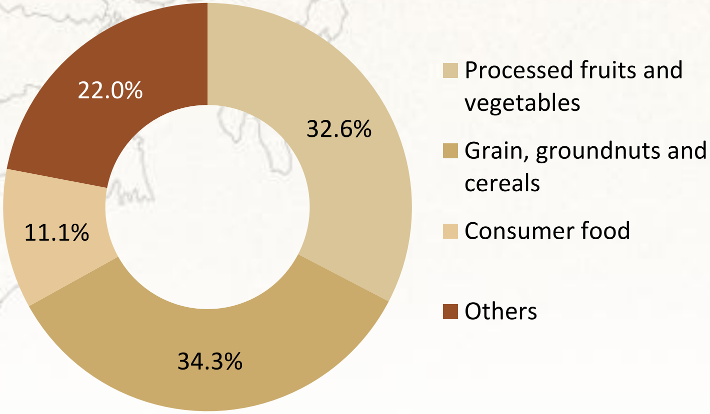
Growth in exports has also been healthy … (2/2)

- In FY10, grain, groundnuts and cereals accounted for the largest share in processed food exports
- Mango pulp accounted for 9 per cent of the total

Shares in total processed food exports (FY10)

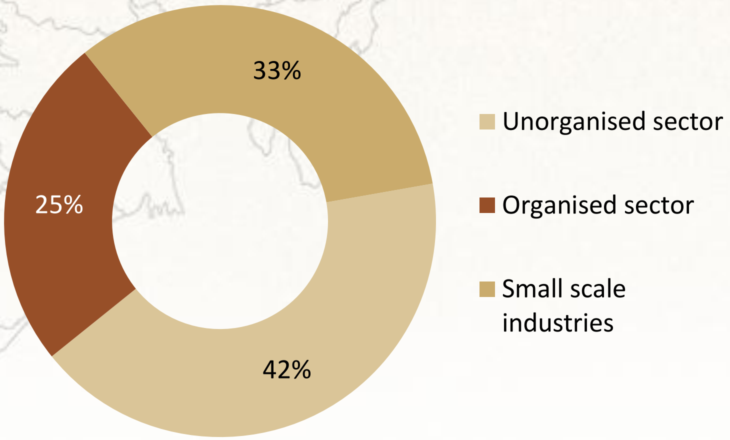


Source: APEDA, Aranca Research

Large presence of the unorganised sector … (1/2)

- The unorganised sector accounts for 42 per cent of India's processing industry
- The sizeable presence of small scale industries points to the sector's role in employment generation

Unorganised sector has the largest share in the sector *



Source: Ministry of Food Processing Industries, Aranca Research

* The figures have been taken from MOFPI's annual report for FY10 where FY indicates Indian financial year (April – March)

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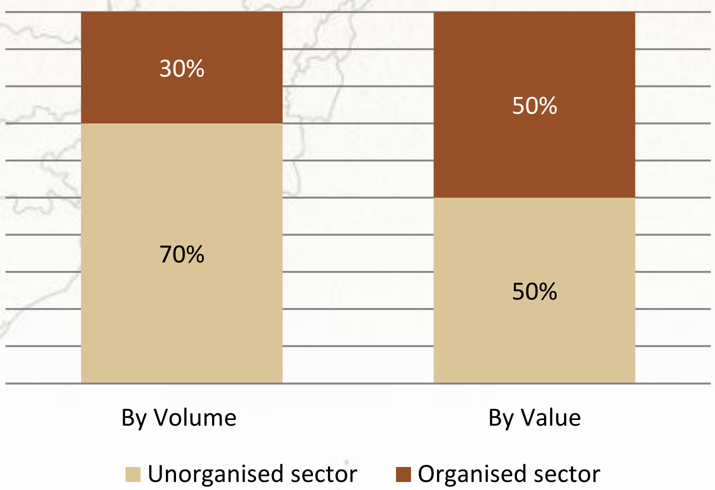
Large presence of the unorganised sector … (2/2)

- Rice mills account for the largest share of processing units in the organised sector
- The government's focus on infrastructure is likely to see a sharp rise in the number of cold storage units

Shares in production by value and volume (FY11)



Source: Ministry of Food Processing Industries, Aranca Research

Notable trends in the Indian food processing sector

Changing consumer tastes

- Wide array of products, coupled with increasing global connectivity has led to a change in the tastes and preference of domestic consumers
- This trend has been bolstered by rising incomes, increasing urbanisation, a young population, and the emergence of nuclear families

Entry of international companies

- Liberalisation and growth of organised retail have made the Indian market more attractive for global players
- With a large agriculture sector, abundant livestock, and cost competitiveness India is fast emerging as a sourcing hub of processed food

Rising business and product innovation

- Companies have been moving up the value chain; for example, cooperatives are transitioning from being pure producers of milk to offering a wide range of dairy products
- Firms, both domestic and global, have been focussing on product innovation to cater to domestic tastes, while also introducing international flavours

Cooperatives dominate dairy sector; private players lead others

- Fruits, vegetables, processed grain → Dabur, Godrej, Parle, MTR
- Milk and milk products → Cooperative societies: Gujarat (GCMMF), Andhra Pradesh (APDDCF), Karnataka (KMF), Maharashtra (Mahasangh), Punjab (MILKFED), Tamil Nadu (TCMPF), Delhi (NDDB)
- Meat, poultry and marine products → Hind Group, V H Group, Al Kabeer, allana
- Consumer food
  - Alcoholic beverages → UB Group, Shaw Wallace, Sula Vineyards, Seagram
  - Aerated soft drinks and packaged drinking water → Pepsi, Coca-Cola, Parle
  - Packaged food → MTR, FritoLay, Heinz, Hindustan Unilever Limited, Cadbury, Britannia, Nestlé

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Strong fundamentals and policy support aiding growth

Strong domestic demand

- Rising disposable incomes
- Growing middle class, urbanisation, a young population
- Changing lifestyles and food habits

Rising export opportunities

- India's greater integration with the global economy
- Proximity to key export destinations
- Expected spike in global demand as emerging markets grow at a fast pace

Supply-side advantages

- Favourable climate for agriculture; wide variety of crops
- Large livestock base aids dairy and meat processing sector
- Inland water bodies, long coastline help marine products

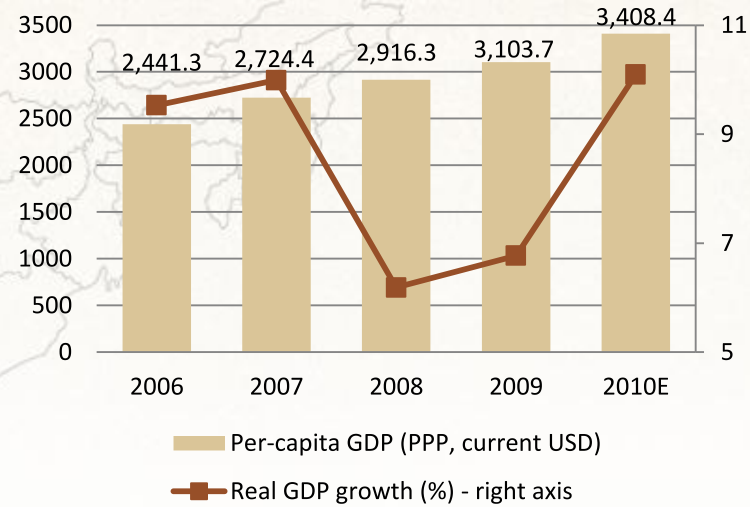
Policy support

- Vision 2015 plan targets trebling of food processing sector
- Mega food parks, Agri Export Zones to attract FDI and aid infrastructure
- End goal is to make India a global food processing hub

Rising incomes, urbanisation fuelling demand growth … (1/2)

Rising disposable incomes

- Strong growth in per-capita income has resulted in greater demand for food items in general
- There has also been a shift in demand –
    - From carbohydrates to meat products (in line with the various phases of economic growth)
    - To convenience foods, organic and diet foods

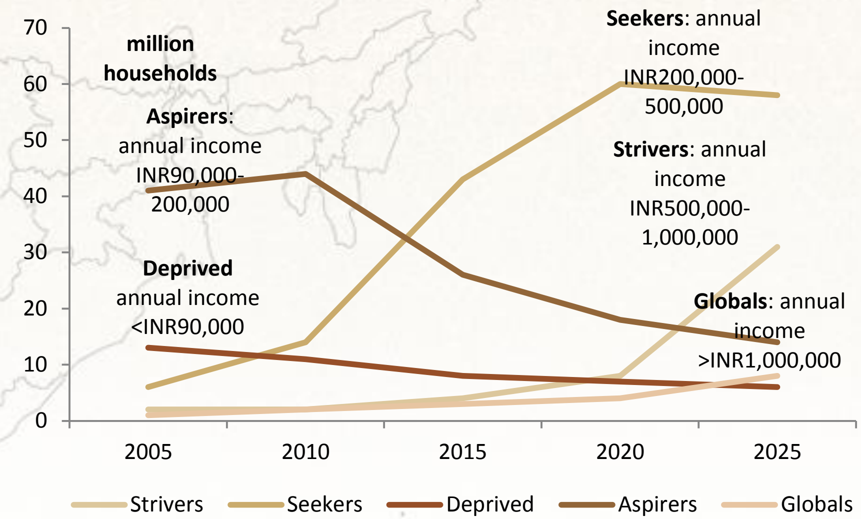


Source: IMF WEO (October), Aranca Research

Rising incomes, urbanisation fuelling demand growth … (2/2)

Growing middle class, urbanisation

- Strong economic growth since the 1990s has led to–
  - Rapid urbanisation and a growing middle class
  - Nuclear families and dual income households
- Coupled with a young population and increasing media penetration, this has led to a surge in demand for packaged food, alcoholic and non-alcoholic beverages, snacks, savouries, etc

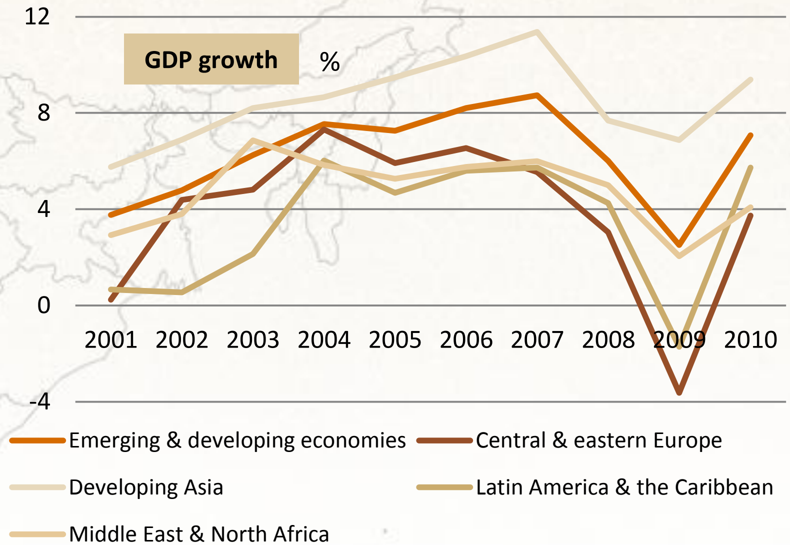


Source: McKinsey Quarterly, Aranca Research

Exporters gaining from global demand, location advantages … (1/2)

Rising demand from rest of the word

- Share of exports in India's total output of processed food rose to 2.7 per cent in FY09 from 1.4 per cent in FY05
- This has primarily resulted from –
  - Greater exports to advanced economies
  - More demand from emerging/ developing economies as they experience strong growth



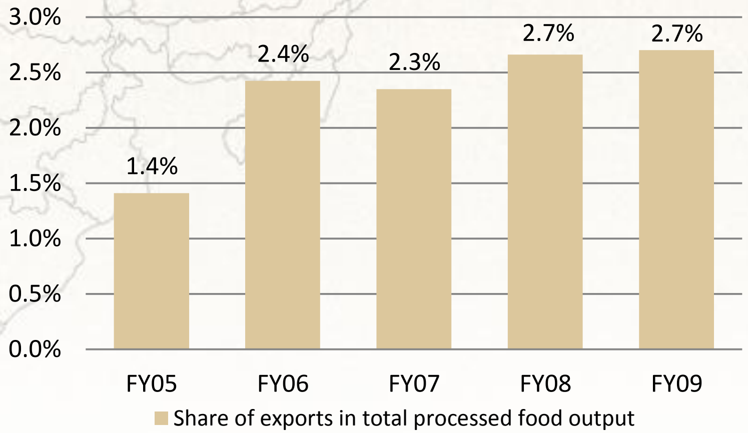
Source: IMF WEO (October), Aranca Research

Exporters gaining from global demand, location advantages … (2/2)

Supply-side advantages

- Growth in food product exports has been aided by –
  - Significant improvements in product and packaging quality
  - Greater private sector participation
- India has a location advantage – it is geographically close to key export destinations (Middle East, South East Asia)

Share of exports in total processed food output almost doubled over FY05 - FY09



Source: Ministry of Food Processing Industries, Aranca Research

India has a distinct competitive advantage over peers

- India's comparative advantage lies in its favourable climate, large agriculture sector and livestock base, long coastline, and inland water resources
- India also has an edge in cost of production compared to its competitors in Asia and the developed world

	Units	Global rank
Arable land (million hectares)	161	2
Irrigated land (million hectares)	55	1
Coast line ('000 kilometers)	8	19
Cattle (million)	226	1

Source: Cygnus Report - India Food Processing Sector (2005), Aranca Research
Notes: We have used 2005 data for comparison purposes with the rest of the world; for a latter date global ranks are not available for some indicators

	Production (million tonnes)	Global rank	Share in world total (%)
Milk	88	1	16
Pulses	12	1	21
Tea	0.9	1	28
Fruits	47	2	10
Rice	132	2	22
Sugarcane	289	2	21
Vegetables	82	2	10
Wheat	65	2	12
Edible oilseeds	25	3	7
Major food crops	35	3	4

Strong policy support gives food processing sector a boost

Encouragement to private sector

- 100 per cent export-oriented units are allowed to sell up to 50 per cent of their produce in the domestic market
- Export earnings are exempted from corporate taxes

Tax incentives and other sops

- Import duty scrapped on capital goods and raw materials for 100 per cent export-oriented units
- 100 per cent tax exemption for 5 years followed by 25 per cent tax exemption for the next 5 years for new agro-processing industries

Relaxed FDI norms

- 100 per cent FDI under automatic route (except for alcohol, beer, and sectors reserved for small scale industries)
- Repatriation of capital and profits permitted

Focus on infrastructure

- Assigned priority sector for bank credit
- 60 Agri Export Zones (AEZ) have been set up across the country
- Setting up of 10 mega food parks with investments worth USD23 million

Notes: FDI – Foreign Direct Investment

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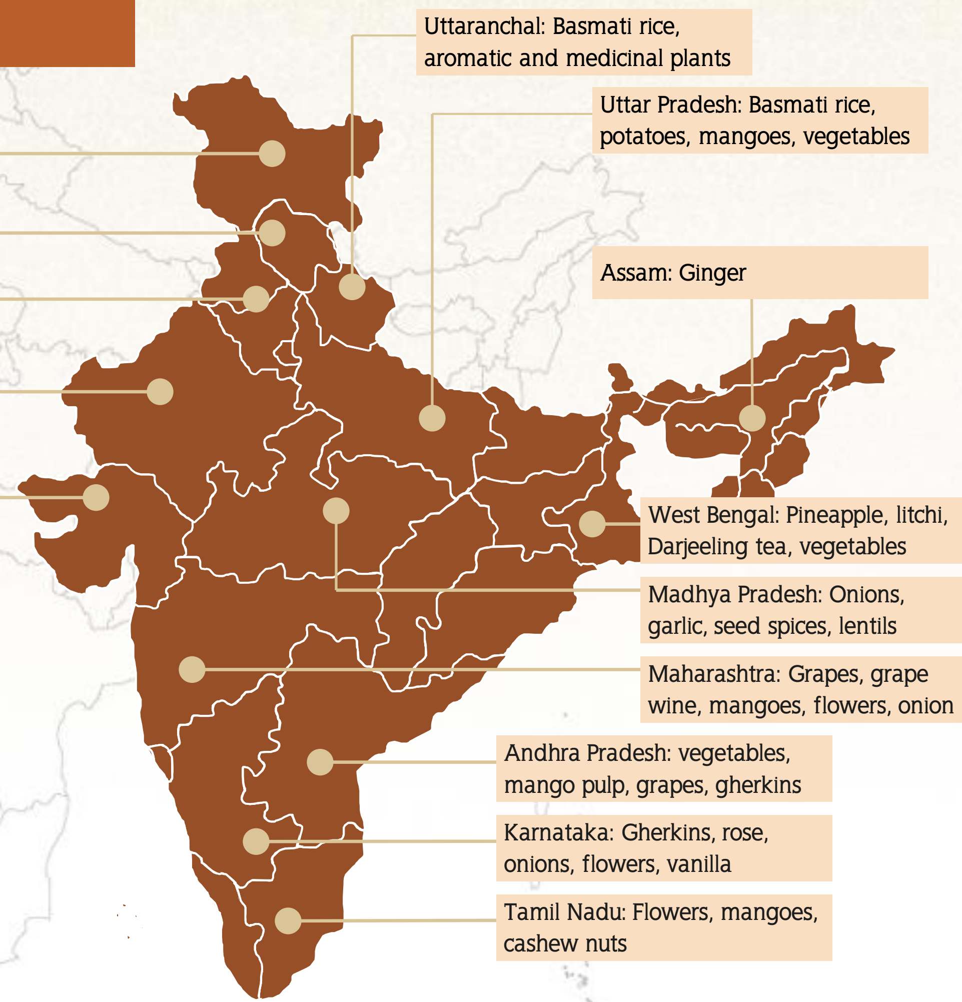
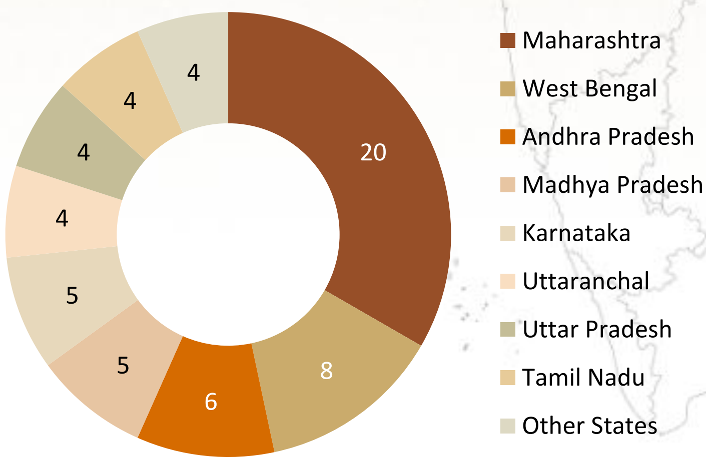
Agri Export Zones in India





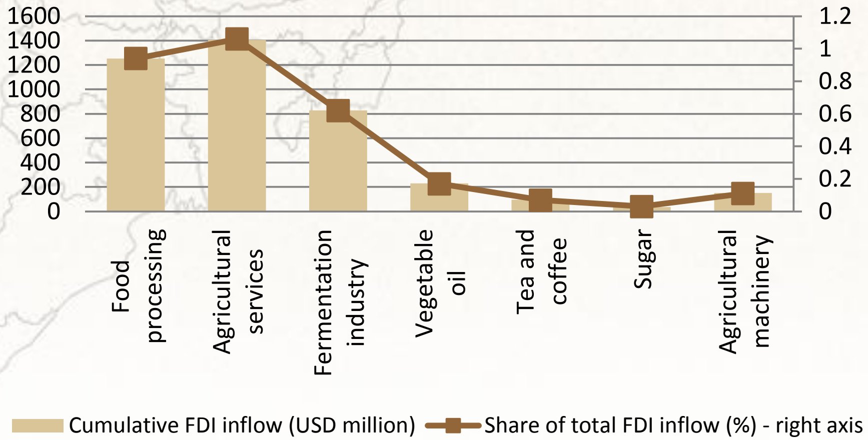
Source: APEDA, Aranca Research

Foreign investments flowing in; rise in plan expenditure … (1/2)

- FDI inflows into agriculture and food processing between Apr 2000 and Apr 2011 was USD4 billion
- Demand growth, supply advantages, and policy support have been instrumental in attracting FDI

Notes: FDI – Foreign Direct Investment,

FDI inflows (Apr2000–Apr2011): food and agriculture sector



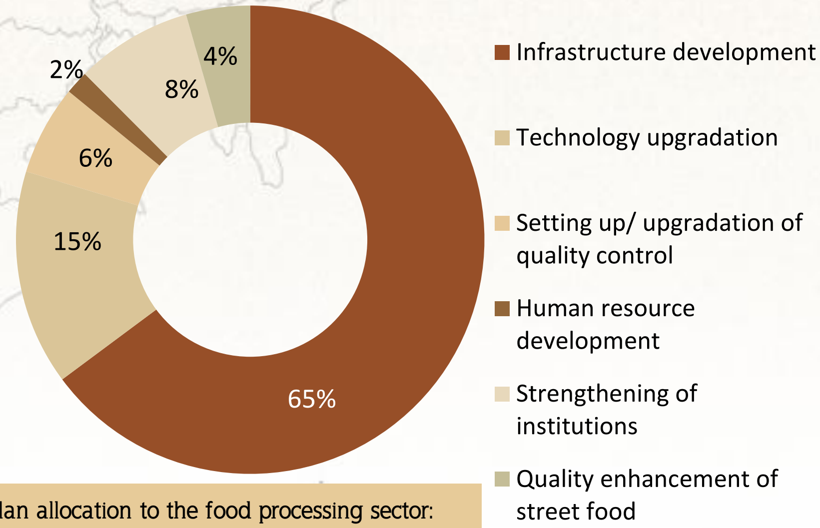
Source: Department of Industrial Policy & Promotion, Aranca Research

Foreign investments flowing in; rise in plan expenditure … (2/2)

- GOI expects USD21.9 billion of investments in food-related infrastructure from the private sector
- The government's main focus is on supply-chain related infrastructure like cold storage, abattoirs and food parks

Notes: GOI – Government of India

11th Five Year Plan (2007-12) outlay shares: food processing



Plan allocation to the food processing sector: INR40.3 billion

Source: Ministry of Food Processing Industries (2009-10 Annual Report), Aranca Research

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Rising Private Equity (PE) funding; M&A activity also up … (1/2)

PE investments in the food and agriculture totaled USD650 million during 2008-11

	Company	Investor	Type of business	Deal value (USD million)
PE deals Jan 2010 – Apr 2011	Nuziveedu Seeds	Blackstone Group	Floriculture	80.0
	Amalgamated Beans Coffee Trading Co	Darby Asia Investors	Non-citrous fruit farming	25.0
	Tirumala Milk Products	Carlyle Group	Milk production	22.0
	The CREMICA Group	Motilal Oswal Private Equity Advisors	General food products	15.0
	Nashik Vinters	Verlinvest SA	Wine and liquor	15.0
	Parag Milk & Milk Products	Motilal Oswal Private Equity Advisors	Dairy products	14.1
	Godrej Tea	IL&FS Investment Managers Coffee	Coffee and tea	13.5

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Rising Private Equity (PE) funding; M&A activity also up … (2/2)

M&A activity picked up pace yet again in 2010; EID Parry's 51% acquisition of GMR Industries Ltd was the highest by value

M&A deals Jan 2010 – Apr 2011	Target company	Acquirer company	Type of business	Deal value (USD million)
	GMR Industries Ltd	EID Parry	Sugar	114.8
	Eastern Condiments	McCormick & Co	Seasonings, sauces	35.0
	Krishidhan Seeds	Summit Partners	Agricultural seeds	30.0
	Bajaj Hindustan Sugar & Ind	Bajaj Hindusthan	Sugar, ethanol	14.1
	Associated Distilleries	Globus Spirits	Liquor	14.0
	Candico India	Keventer Agro	Candy items	11.2

Source: Thompson One Banker, Aranca Research
Notes : M&A – Mergers and Acquisitions

Sector has been attracting foreign JV partners for a long time

- Players like McCormick had identified India as a strategic market way back in the 1990s
- Global players like Hershey are now keen on entering the increasingly attractive Indian market
- Established players like Nestle and Coke are extending their global JVs to India

Foreign Players	Indian Partner	Type of business	Stake ratio	Year
Dan Cake	Phadnis Group	Cake and biscuits	66:34	2011
McCormick	Kohinoor Foods Ltd	Basmati and food products	85:15	2011
McCormick	Eastern Condiments	Seasonings	26:74	2010
Nestle, Coca Cola	--	Beverage	50:50	2010
Hershey	Godrej	Chocolates	51:49	2007
McCormick	AVT	Spices	50:50	1994

Source: Thompson ONE Banker, Aranca Research

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Operation Flood: India gains self sufficiency in milk production … (1/2)

- Operation Flood was initiated in 1970 by the National Dairy Development Board to achieve national self sufficiency in milk production by creating nationwide milk grids; under Operation Flood –
    - India's milk production rose to 88.1 million metric tonnes (mmt) in FY04 from 21.2 mmt in FY1969
- India is now the world's largest milk producer; annual value totals INR880 billion
- Dairy cooperatives offer employment opportunities to about 12 million farm families

Source: GCMMF (www.amul.com), Aranca Research
Notes: FY – Indian financial year (April – March)

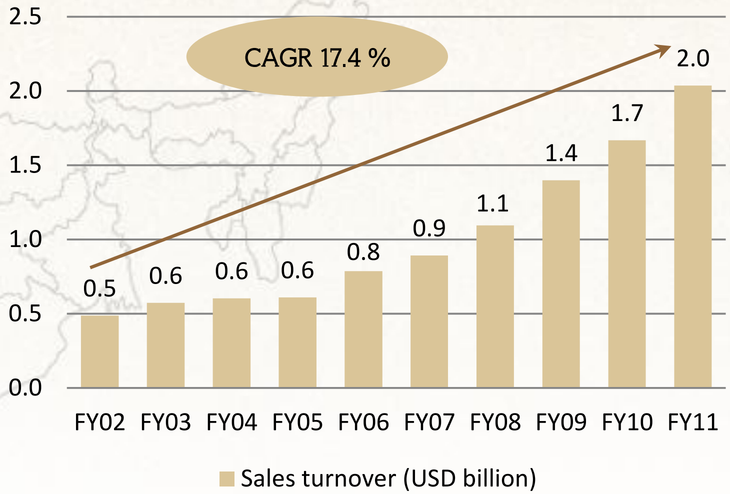
Operation Flood: India gains self sufficiency in milk production … (2/2)

	PHASE I (Jul-1970 to Mar-1981)	PHASE II (Oct-1979 to Mar-1985)	PHASE III (Jul-1985 to Mar-1996)
Dairy cooperative societies ('000)	13.3	34.5	72.5
Members (million)	1.8	3.6	9.3
Milk procurement (million kg/ day)	2.6	5.8	11.0
Liquid milk marketing (million litres/ day)	2.9	5.0	10.0
Milk drying capacity (million tonnes/ day)	261	507.5	842

Source: GCMMF (www.amul.com), Aranca Research

The Amul saga: a cooperative movement leads the way … (1/2)

- Gujarat Cooperative Milk Marketing Federation (GCMMF) is the largest food products marketing organisation in India
- Set up in 1967, it is India's largest exporter of dairy products and has been accorded 'trading house' status



Source: GCMMF (www.amul.com), Aranca Research
Notes: CAGR – Compound Annual Growth Rate
FY – Indian financial year (April – March)

The Amul saga: a cooperative movement leads the way … (2/2)

- Main brand: Amul
- Products: milk (including flavoured), butter, margarine, cheese, curd, desserts, infant food

Source: GCMMF (www.amul.com), Aranca Research

Facts and Features	
Producer members (million)	3.03
Village societies	15,712
Milk handling capacity (million litres/ day)	13.67
Total milk collection (FY11, billion litres)	3.45
Daily milk collection (FY11, million litres)	9.2
Milk drying capacity (million tonnes/ day)	647

NOTABLE AWARDS	Authority
Excellent performance in dairy product exports for 11 consecutive years	APEDA
CIO International IT Excellence Award (2003) for positive business performance through resourceful IT management and best practices	IDG's CIO Magazine (USA)
International Dairy Federation Marketing Award (2007) for Amul'spro-biotic ice cream launch	International Dairy Federation

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Opportunities

Untapped market with strong growth potential

- Fragmented market leads to lower processing levels and value addition
- The government plans to raise value addition to 35 per cent by 2015 (from 20 per cent in 2015)
- PPP modules ideal for the private sector
- Strong demand growth – household consumption set to double by 2020

Potential global outsourcing hub

- Global supermarket majors are looking at India as a major outsourcing hub
- India enjoys favourable supply-side fundamentals (abundant raw materials supply, cost advantages)
- The government has helped by investing in AEZs, mega food parks, easier credit

Supply chain infrastructure and contract farming

- Both firms and the government are eager to boost efficiency and access to markets
- Investment potential of USD22 billion in food processing infrastructure; 100 per cent FDI in this area
- Firms increasingly taking recourse to contract farming in order to secure supply

Notes: PPP – Public Private Partnership,
AEZ – Agri Export Zones
FDI – Foreign Direct Investment

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Industry Associations

Agricultural and Processed Food Products Export Development Authority (APEDA)

NCUI Building 3, Siri Institutional Area,
August Kranti Marg, New Delhi – 110 016
Phone: 9111 26513204, 26514572, 26534186
Fax: 91 11 26526187
E-mail: headq@apeda.com

Marine Products Export Development Authority (MPEDA)

MPEDA House, Panampilly Avenue
PB No 4272, Cochin-682 036
Phone: 91 484 2311979/2311803
Fax: 91 484 2313361
e-mail mpeda@vsnl.com, mpeda@mpeda.nic.in

Glossary

- **AEZ:** Agri Exports Zones
- **CAGR:** Compound Annual Growth Rate
- **FDI:** Foreign Direct Investment
- **FY:** Indian Financial Year (April to March)
  - So FY09 implies April 2009 to March 2010
- **GOI:** Government of India
- **INR:** Indian Rupee
- **PPP:** It could denote two things (mentioned in the presentation accordingly) –
  - Purchasing Power Parity (used in calculating per-capita GDP)
  - Public Private Partnership (a type of joint venture between the public and private sectors)
- **PE:** Private Equity
- **USD:** US Dollar
  - Conversion rate used: USD1= INR48
- Wherever applicable, numbers have been rounded off to the nearest whole number

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