



# FOOD PROCESSING

April 2010

## Contents

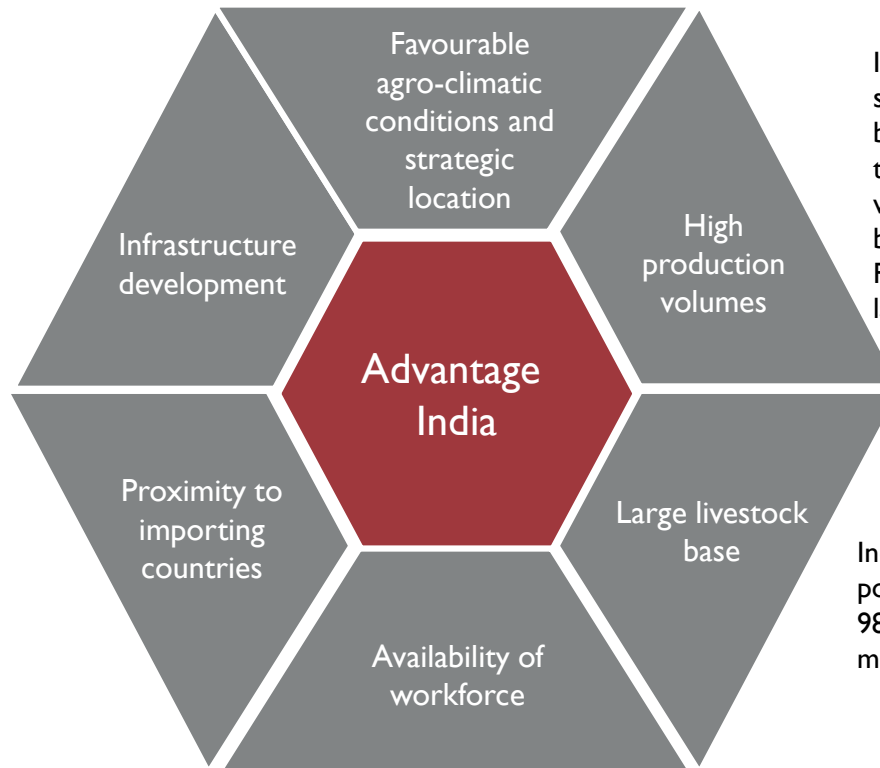
- ❖ **Advantage India**
- ❖ Market overview
- ❖ Industry Infrastructure
- ❖ Investments
- ❖ Policy and regulatory framework
- ❖ Opportunities
- ❖ Industry associations

# Advantage India

India's tropical climate favours the cultivation of several exotic food and flower crops.  
The peninsular coastline of the country drives growth of the marine industry.

The establishment of 60 fully equipped Agri Export Zones (AEZs), in addition to food parks, act as an incentive for attracting foreign investment.

The Middle East and Southeast Asia are major export destinations for Indian agricultural (agri) commodities and milk.



India is the largest producer of several fruits, such as banana, mango and papaya, and the second-largest producer of vegetables such as brinjal, cabbage and onion. Further, India is also one of the largest producers of rice.

India has the largest livestock population in the world with 98.7 million buffaloes and 176 million cows (2008).

The sector employs about 13 million people directly and 35 million people indirectly. The presence of several agricultural institutes, such as the Indian Agricultural Research Institute (IARI), serves as a perfect platform for research and innovation.

Sources: Ministry of Food Processing Industries, Government of India (GoI), Annual Report 2008–09; Flavors of Incredible India, Ernst & Young, 2009; "Agri Export Zones of India," APEDA website, [www.apeda.com](http://www.apeda.com), accessed 29 December 2009.

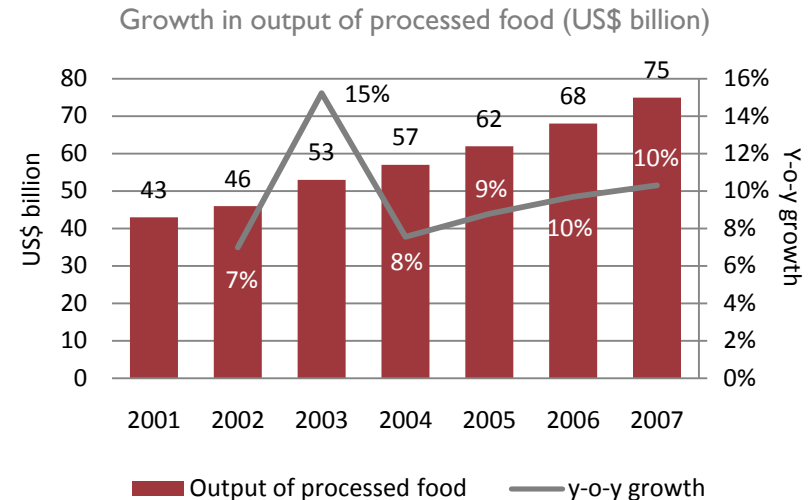
# Contents

- ❖ Advantage India
- ❖ **Market overview**
- ❖ Industry Infrastructure
- ❖ Investments
- ❖ Policy and regulatory framework
- ❖ Opportunities
- ❖ Industry associations

## Market overview

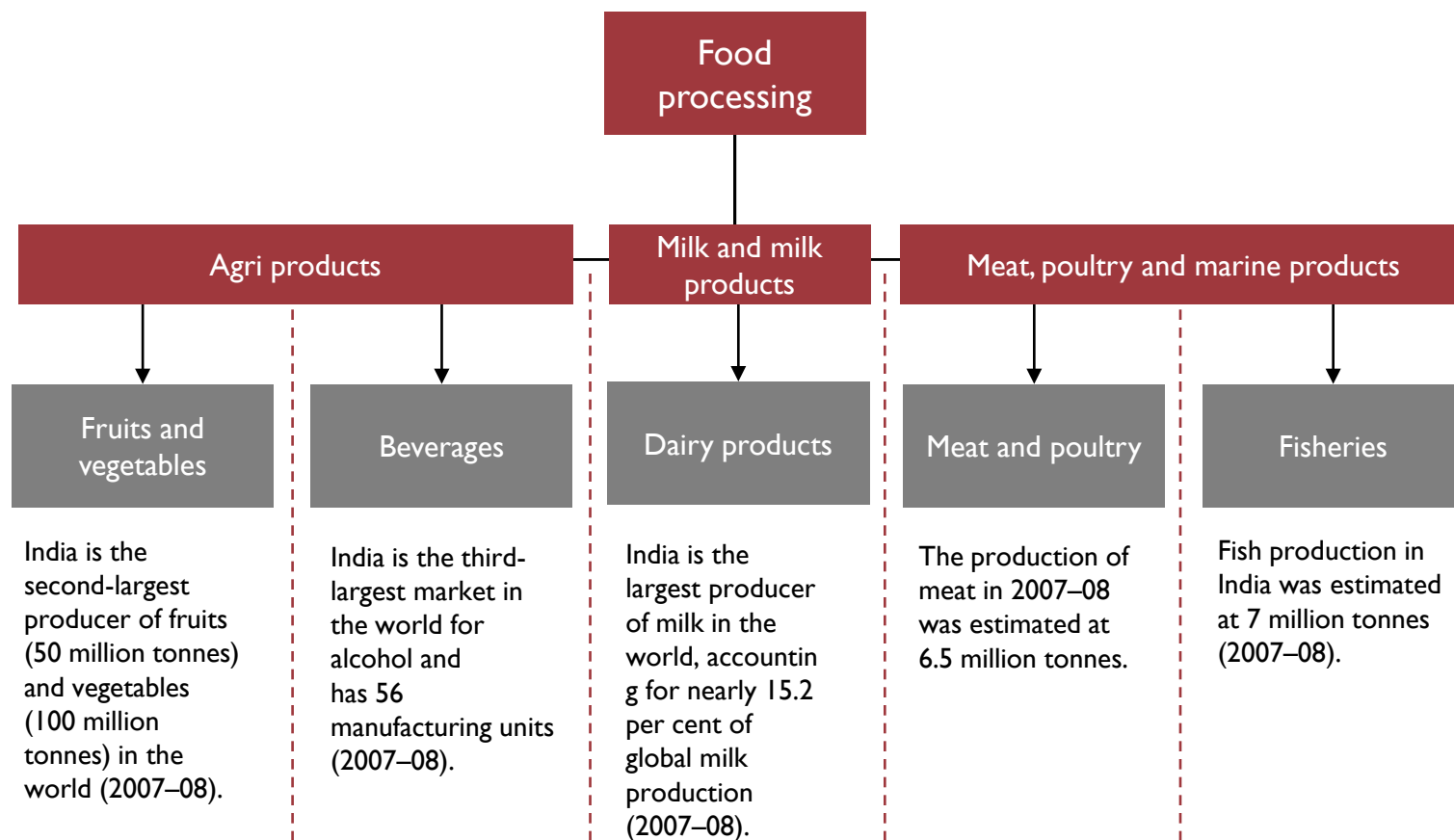
The food processing industry in India is at an early growth stage, with low penetration levels and high potential.

- The size of the food processing industry in India has increased from US\$ 57 billion in 2004 to US\$ 75 billion in 2007.
- During this period, the number of registered operating units increased from 24,000 to 25,725 units.



Source: Flavors of Incredible India, Ernst & Young, 2009

## Market segments



Sources: Ministry of Food Processing Industries, GoI, Annual Report 2008–09; Ernst & Young analysis.

## Overview of processing activities across categories

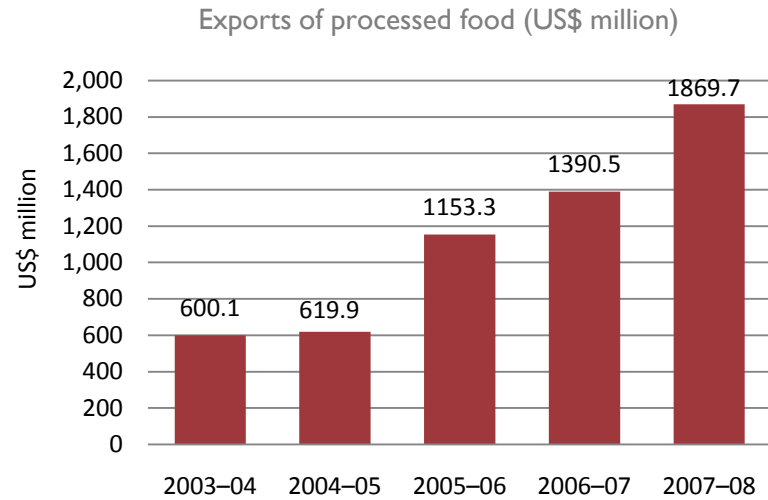
In the global context, India has a comparatively low penetration (of processing activities) across product categories, providing considerable opportunity for new players.

Products	Level of processing		
	Organised	Unorganised	Total
Fruits and vegetables	1.4%	0.8%	2.2%
Milk and milk products	13%	22%	35%
<b>Meat and poultry</b>			
Buffalo meat	21%	-	21%
Poultry	6%	-	6%
Marine products	8%	-	8%

Source: Flavors of Incredible India, Ernst & Young, 2009

# Exports

- India's processed food exports constituted 1.5 per cent of the global food trade in 2008–09.



Source: Ministry of Food Processing Industries, Govt, Annual Report 2008–09

## Domestic demand

### Agri-based products

#### Potato chips

- Potato chips or wafers, a popular snack item in India, are manufactured in a large scale not only by big firms, but also by cottage industries or homegrown players.

#### Ready-to-eat meals

- Societal changes in India (more number of nuclear families), as well as evolving consumer preferences, are driving the demand for ready-to-eat foods.

### Milk and milk products

#### Flavoured milk

- Milk features prominently in the Indian diet. With consumer tastes evolving, flavoured milk is gaining popularity, especially among the urban population in the country. It is currently being manufactured by medium and large-scale cooperatives and private companies. Popular flavours include cardamom, saffron and chocolate.

### Meat and marine products

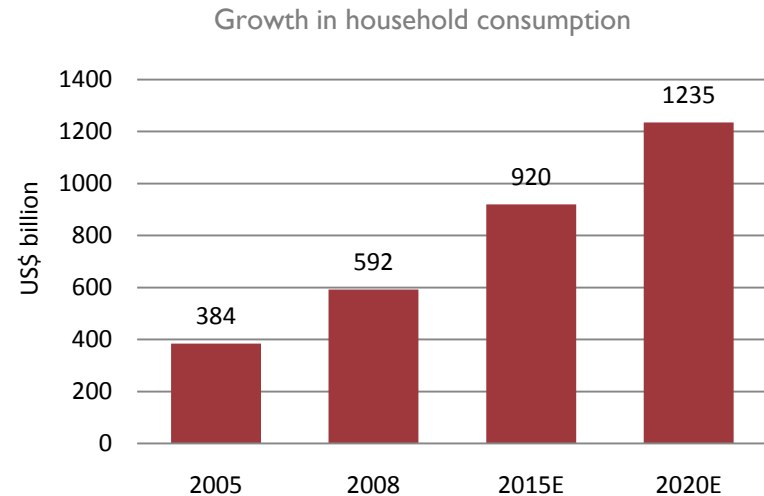
#### Poultry processing

- In India, consumption of chicken is increasing faster than any other category of meat. Poultry processing is currently being undertaken by small- and medium-sized firms, with the presence of a few organised players.

## Growth drivers

By 2015, the Indian food industry is estimated to grow by about 40 per cent over the level in 2007. This growth is expected to be driven by two key factors

- Socio-economic changes across India’s population base, in terms of growth in the number of households in the higher income category, increasing youth population and migration from rural to urban areas.
- Changing and evolving lifestyle trends, such as emergence of nuclear families, increasing health awareness and growing exposure to international markets.



**Household consumption is expected to double by 2020.**

Source: Flavors of Incredible India, Ernst & Young, 2009

## Key trends

In addition to large number of initiatives undertaken by the Government of India to drive consumption, increased activity by domestic and international players has also resulted in an increased availability of products.

Increase in  
the depth of  
distribution

- Indian companies, which earlier focussed only on back-end processing and manufacturing, have now extended their presence into the processed food segment. Andhra Pradesh Dairy Development Cooperative Federation Ltd (APDDCF) was established in 1981 with an objective of supplying milk and dairy development. Presently, it is exploring to establish 1,000 franchisee for retail sales and offering products like packed curd, butter, *ghee*, *paneer*, etc.

Entry of  
international  
companies

- With the opening up of the Indian economy, major international food product manufacturers have entered the market and introduced processed products in the agri products and milk products categories. Pepsico, India, launched 'Nimbooz' on February 28, 2009. As per the company, Nimbooz is India's first packaged nimbu pani — a popular traditional home-made drink in India.

Source: Flavors of Incredible India, Ernst & Young, 2009  
<http://www.apddcf.gov.in>

## Key players — agri products

Company	Major brands	Categories/products
Dabur India Ltd	Dabur, Real Activ, Vatika, Pudín Hara, etc.	Juice, honey, spices, cooking pastes, coconut milk, etc.
Godrej Industries Ltd	Godrej, Jumpin, Xs, etc.	Oils and vanaspati, bakery fats, fruit drinks and fruit nectar. Non-food items include chemicals, consumer products, etc.
Parle Agro Ltd	LMN, Bailey, Appy, Frooti, etc.	Water, beverages, confectionery, etc.
MTR Foods	MTR	Ready-to-eat and frozen food, spices, dessert mix, pickle, papads, beverages, etc.
Nestle India	Nestle, Maggi, Nescafe, etc.	Chocolates, snack foods, milk, coffee, infant food, etc.
PepsiCo	Pepsi, Frito-Lay	Carbonated drinks, juices, snack foods, etc.
Cadbury India Ltd	Dairy Milk, Perk, Five star, Gems, etc.	Chocolates, malt food, cocoa powder, etc.
Hindustan Unilever Ltd	Brooke Bond, Annapurna, Kissan, Knorr, Kwality Walls	Tea, coffee, biscuits, ice creams, <i>atta</i> (flour), instant drinks, soups, jams and squash and other FMCG products
Britannia Industries Ltd	Britannia, Tiger, Bourbon, Goodday, etc.	Biscuits, flavoured milk, dairy whitener, ghee, bread, cheese, cake, etc

Source: Flavors of Incredible India, Ernst & Young, 2009

Note: This is an indicative list

## Key players — milk and milk products

Company	Capacities	Major brands	Categories/products
Gujarat Cooperative Milk Marketing Federation (GCMMF)	6.6 million litres per day from 19 dairy plants	Amul	Ice cream, skimmed milk powder, <i>ghee</i> , dairy whitener, paneer, <i>shrikhand</i> (sweet yogurt), pizza, cheese, butter, etc.
Andhra Pradesh Dairy Development Cooperative Federation (APDDCF)	2.4 million litres per day from 12 dairy plants	Vijaya	Table butter, Ultra High Temperature (UHT) milk, skim milk powder, <i>ghee</i> , flavoured milk, <i>khoa</i> , pasteurised butter, <i>kulfi</i> , processed cheese
Karnataka Cooperative Milk Producers' Federation (KMF)	2.13 million litres per day from 15 dairy plants	Nandini	Skim milk powder, <i>paneer</i> (cottage cheese), pure <i>ghee</i> , <i>badam burfi</i> , <i>gulab jamun</i> , pasteurised butter, <i>khoa</i> , ice cream, toned milk, curd, etc.
Maharashtra Rajya Sahakari Maryadit Dugdh Mahasangh (Mahasangh)	3.8 million litres per day from 29 dairy plants	Mahanand ,Gokul	Pasteurised butter, pure <i>peda</i> , etc.
Punjab State Cooperative Milk Producers' Federation (MILKFED)	1.6 million litres per day from nine dairy plants	Verka	<i>Ghee</i> , flavoured milk, <i>paneer</i> , ice cream, skim milk powder, <i>lassi</i> , table butter, sweets, cheese
Tamilnadu Cooperative Milk Producers' Federation Ltd (TCMPF)	2.7 million litres per day from 15 dairy plants	Aavain	Skim milk powder, <i>khoa</i> , milk <i>peda</i> , pure <i>ghee</i> , butter, cheese, yogurt, table butter, ice cream, UHT standardised milk, curd, buttermilk, etc.
National Dairy Development Board (NDDB)	2.8 million litres per day	Mother Dairy	Milk, cheese, butter, ice cream, <i>ghee</i> , cheese, UHT milk, curd, <i>lassi</i> , flavoured milk

Source: Flavors of Incredible India, Ernst & Young, 2009.

Note: This is an indicative list.

## Key players — meat and marine products

Company	Capacities	Major brands	Categories/Products
Hind Agro Industries Ltd	400 tonnes	Fast Prax (fast food outlets)	Meat of buffalo, sheep and goat
Allanasons Limited	Sale of more than 333,000 tonnes of frozen food in 2008	Premier (fruits and vegetables) Saffa (meat)	Meat of buffalo and goat, fish Processed fruits and vegetables, coffee, cereals, pulses, spices, etc.
VH Group	194 units across hatcheries and broiler units	Venky's	Chicken and eggs
Al Kabeer	Processed meat (8,600 tonnes) (as of 2004)	Al Kabeer	Vegetables and fruits, snacks, meat and poultry, ready-to-eat meals and seafood

Source: Flavors of Incredible India, Ernst & Young, 2009

Note: This is an indicative list

## Other key players

Processed food category	Components	Major companies
Alcoholic beverages	Beers, ciders, spirits, wines	United Breweries Ltd, Shaw Wallace, Radico Khaitan, Mohan Meakins, Sula Vineyards, Seagram India, Mount Shivalik Group
Non-alcoholic beverages	Carbonated drinks, bottled water, health/energy drinks, (fruit) juices, malted beverages	Pepsi Foods, Dabur Foods, Coca Cola, Mother Dairy, GlaxoSmithKline (GSK), Cadbury, Nestle, Heinz, Amul, Rasna International
Confectionery	Sugar confectionery, chocolates, gum, cereal bars, cocoa products, bakery products (cakes, biscuits, bread, pastries, rusk etc.), toffees, candies, chewing gum	Britannia Industries Limited, Modern Industries, Parle Products, ITC Foods, United Biscuits, McVities, Cadbury, Nestle, Nutrine, Parry's Confectionary, Parle Products
Savory snacks	Potato chips, nuts and seeds, processed snacks, popcorn; wheat-based products, such as noodles, vermicelli, macaroni and spaghetti	McCain Foods, Hindustan Unilever Limited (HUL), Nestle, Heinz, Top Ramen, Frito-Lay, Pepsi Foods
Others	Packaged flour, semi-processed/ready-to-eat food, edible oil	DCW Group, HUL, Godrej Pillsbury, Nature Fresh, ITC, Shakti Bhog, MTR Foods, Marico

Source: Ernst & Young research

Note: This is an indicative list

## Contents

- ❖ Advantage India
- ❖ Market overview
- ❖ **Industry Infrastructure**
- ❖ Investments
- ❖ Policy and regulatory framework
- ❖ Opportunities
- ❖ Industry associations

## Industry infrastructure — Agri export zones (AEZs) ... (1/2)

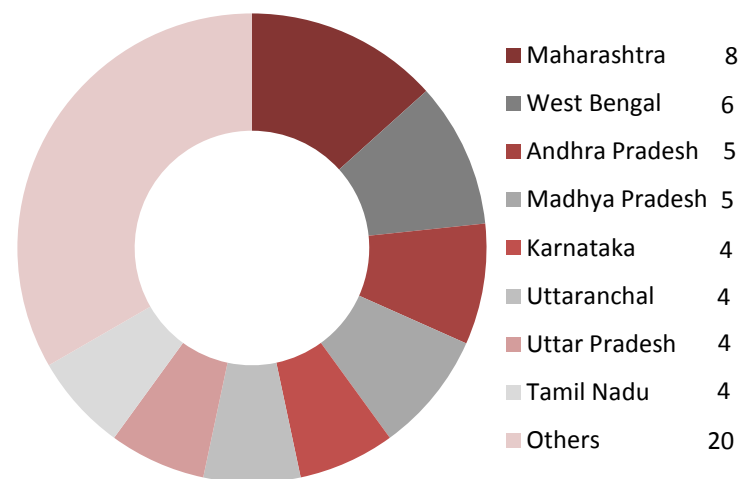
State	Products
Andhra Pradesh	Mango pulp and fresh vegetables, grapes, mangoes, gherkins, chillies
Assam	Fresh and processed ginger
Bihar	Litchi
Gujarat	Mangoes and vegetables, dehydrated onions, sesame seeds
Himachal Pradesh	Apples
Jammu & Kashmir	Apples and walnuts
Jharkhand	Vegetables
Karnataka	Gherkins, rose onions, flowers, vanilla
Kerala	Horticulture products, medicinal plants
Madhya Pradesh	Potatoes, onions and garlic, seed spices, wheat, lentil and grams, oranges
Maharashtra	Grapes and grape wine, mangoes including Kesar mango, flowers, onions, pomegranate, banana, oranges
Orissa	Ginger and turmeric
Punjab	Vegetables, potatoes, basmati rice
Rajasthan	Coriander, cumin

## Industry infrastructure — Agri export zones (AEZs) ... (2/2)

State	Products
Sikkim	Ginger, flowers (orchids) and cherry pepper
Tamil Nadu	Flowers, mangoes, cashew nuts
Tripura	Pineapples
Uttar Pradesh	Potatoes, mangoes, vegetables, basmati rice
Uttaranchal	Basmati rice, litchi, flowers, medicinal and aromatic plants
West Bengal	Pineapples, litchi, potatoes, mangoes, vegetables, Darjeeling tea

Source: "Agri Export Zones of India," APEDA website, [www.apeda.com](http://www.apeda.com), accessed 29 December 2009.

Distribution of AEZs among states



**Total number of AEZs in India is 60**

Source: "Agri Export Zones of India," APEDA website, [www.apeda.com](http://www.apeda.com), accessed 29 December 2009.

# Contents

- ❖ Advantage India
- ❖ Market overview
- ❖ Industry Infrastructure
- ❖ **Investments**
- ❖ Policy and regulatory framework
- ❖ Opportunities
- ❖ Industry associations

## Investments ... (1/2)

- The largest inbound deal between January 1, 2009 to November 30, 2009 was the acquisition of the businesses of Bacardi Martini India Ltd, by Bacardi Ltd, for US\$ 10.5 million.
- In 2009 — in a major outbound deal — Britannia Brands Ltd was acquired by Bombay Burmah Trading Corporation.

M&A scenario — details		
Period : January 1, 2009 to November 30, 2009		
Deal type	No of deals	Deal value (US\$ million)
Inbound	2	10.5
Outbound	1	-
Domestic	4	12.9

Sources: Bloomberg, accessed 4 December 2009; Ernst & Young analysis.

Cumulative FDI inflows	
Period: April 2000 to January 2010	
Sector	Amount of FDI inflows (US\$ million)
Agricultural services	1,496.76
Food processing industries	1,018.97
Fermentation industries	767.72
Agricultural machinery	149.31
Vegetable oils and vanaspati	129.82
Tea and coffee	89.14
Sugar	41.68
Total	3,693.4

Source: “Fact Sheet on Foreign Direct Investment (FDI)”, Department of Industrial Policy and Promotion website, [www.dipp.nic.in](http://www.dipp.nic.in), accessed 29 April 2010.

## Investments ... (2/2)

- The largest domestic deal during the period was the acquisition of Garden Namkeens Pvt Ltd by Cavinkare Pvt Ltd for US\$ 10 million.

Deal	Deal type	Announcement date	Announced total value (US\$ million)	Target name	Target country	Acquirer name	Acquirer country
Domestic	ACQ	November 23, 2009	2.9	Tern Distilleries Pvt Ltd	India	United Spirits Limited	India
Domestic	ACQ	September 16, 2009	N/A	Atcomaart Services Ltd	India	Nhn Corp Ltd	India
Domestic	ACQ	August 20, 2009	10.0	Garden Namkeens Pvt Ltd	India	Cavinkare Pvt Ltd	India
Inbound	DIV	June 15, 2009	10.5	Bacardi Martini India Ltd	India	Bacardi Ltd	Bermuda
Outbound	DIV	April 16, 2009	N/A	Britannia Brands Ltd	Britain	Bombay Burmah Trading Corp	India
Inbound	ACQ	March 5, 2009	N/A	Carotino India	India	J C Chang Group	Malaysia
Domestic	ACQ	February 17, 2009	N/A	Microsec Financial Services	India	Kohinoor Foods Limited	India

Source: Bloomberg, accessed 4 December 2009; Note: ACQ:Acquisition; DIV: Divestment

# Contents

- ❖ Advantage India
- ❖ Market overview
- ❖ Industry Infrastructure
- ❖ Investments
- ❖ **Policy and regulatory framework**
- ❖ Opportunities
- ❖ Industry associations

## Policy and regulatory framework ... (1/2)

- FDI in the Indian food processing industry is allowed under the automatic route\* in agri products, milk and milk products, and marine and meat products, except the following (broadly)
  - Proposals that require an industrial licence; and cases where foreign investment exceeds 24 per cent equity in units that manufacture items reserved for the small-scale industries.
  - Proposals in which the foreign collaborator has a previous venture or tie-up in India, as on January 12, 2005.
  - Proposals falling outside notified sectoral policy/caps or are generally restricted/prohibited.

Source: Flavors of Incredible India, Ernst & Young, 2009

\* Note: Entry of foreign/large players is restricted for a few food items

## Policy and regulatory framework ... (2/2)

- Repatriation of profits and capital permitted.
- Automatic approvals for foreign investment and technology transfer in most cases.
- Units based on agri products that are 100 per cent export-oriented, are allowed to sell up to 50 per cent in domestic market.
- No import duty on capital goods and raw material for 100 per cent export-oriented units.
- Exemption of earnings from export activities from corporate taxes.

*Source: Flavors of Incredible India, Ernst & Young, 2009*

# Contents

- ❖ Advantage India
- ❖ Market overview
- ❖ Industry Infrastructure
- ❖ Investments
- ❖ Policy and regulatory framework
- ❖ **Opportunities**
- ❖ Industry associations

## Opportunities ... (1/2)

### Development of food parks

- India has set itself a target of doubling its processed food production by 2015.
- The Government of India is actively promoting the concept of mega food parks and is expected to set up 30 such parks, each with a cold storage facility. The parks will also have facilities for sorting, grading, processing, packaging and quality control, thereby providing an investment opportunity to integrated players, as well as developers.

### Investment in supply chain technology

- Sophisticated techniques and applications are required in areas such as demand forecasting, data integration, funds flow management and information sharing.
- About 30 to 35 per cent of fruits and vegetables production in India get wasted due to lack of adequate storage facilities, providing an opportunity to set up more cold chain facilities.

## Opportunities ... (2/2)

### Investment in infrastructure through public-private partnerships (PPP)

- Approximately 25 to 40 per cent of the agricultural produce is lost after the harvest season due to inadequate infrastructure.
- It is estimated that by 2012, India's marketable surplus is set to increase to 870 million tonnes per annum (MTPA), 40 per cent of which would be accounted for by perishable foods, creating opportunities for development of storage infrastructure.
- Considerable investment is required in rural infrastructure and components of the supply chain, which is undertaken with the involvement of all stakeholders on a PPP basis. This will add value and help producers obtain better prices and income.

### Contract farming

- Contract farming is an agreement between the food processor (contractor), typically a large organised player, and the farmer, where the latter is contracted to plant and produce the former's crop on his land.
- Contract farming in wheat is being practiced in Madhya Pradesh by Hindustan Unilever Ltd (HUL), Rallis and ICICI. Under the system, Rallis supplies agri inputs and know-how and ICICI finances (farm credit) the farmers. HUL, which requires the farm produce as raw material for its food processing division, provides the buyback arrangement for the farm output.

## Contents

- ❖ Advantage India
- ❖ Market overview
- ❖ Industry Infrastructure
- ❖ Investments
- ❖ Policy and regulatory framework
- ❖ Opportunities
- ❖ **Industry associations**

## 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: 91-11-26513204, 26514572, 26534186

Fax: 91-11-26526187

E-mail: [headq@apeda.com](mailto:headq@apeda.com)

## Note

Wherever applicable, numbers in the report have been rounded off to the nearest whole number.

Conversion rate used: US\$ 1 = INR 48

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