

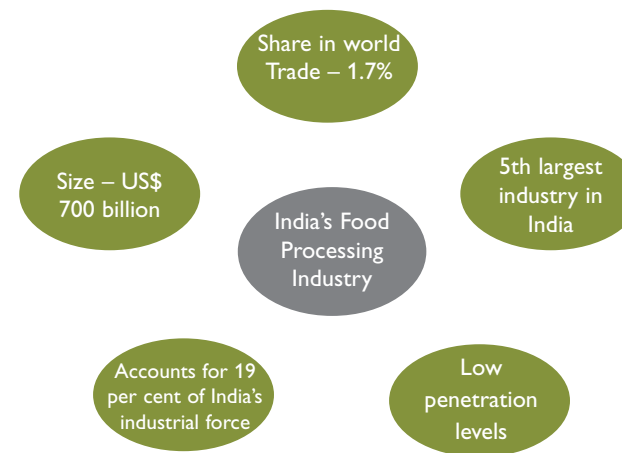


FOOD PROCESSING

December 2008

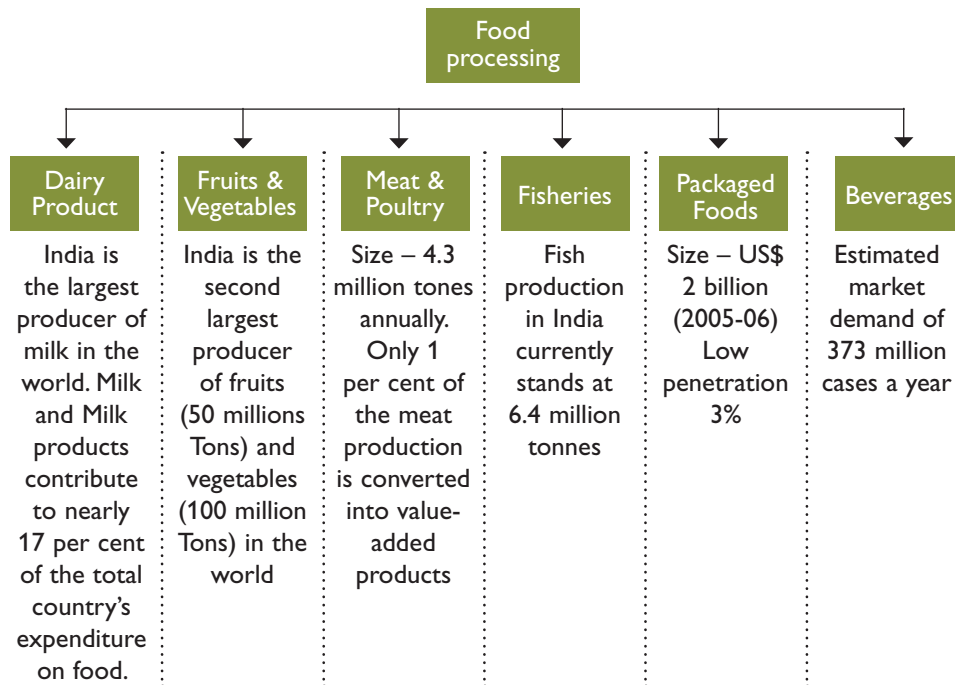
India's Food Processing Industry - highlights

India's Food Processing Industry - highlights



Source: Ministry of Food Processing Industries, GoI; Cygnus Research, Oct 2008

The industry is composed of six key segments



Some key features of the industry:

- Relatively low levels of processing / value add in most segments
- Low penetration levels
- Largely unorganised

Source: Ministry of Food Processing Industries, GoI, Annual Report 2007-08

India offers very favourable factor conditions to enable the food processing sector to flourish

- High availability of land – India ranks first in the world in irrigated land area and second in overall arable land area
- Ample availability of marine and fresh water fish, through the long coast line of over 7,000 kilometres, several large rivers and lakes
- India ranks first in availability of cattle
- Ranks first in availability of milk, pulses and tea, and second in fruits, vegetables, rice and wheat
- Low cost of labour – production costs in India are estimated to be 40 per cent lower than in developed markets

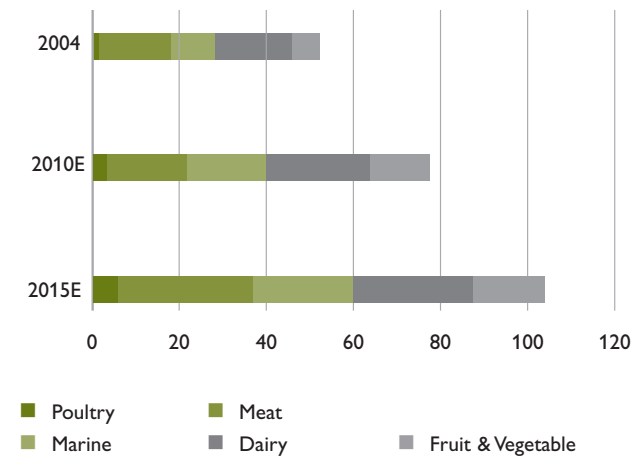
These factors have not only helped the domestic market to grow, but have also boosted exports

Source: KPMG Research

Food Processing exports from India have been growing rapidly

Processed food exports constitute nearly 5 per cent of the total exports of the country

Export Targets for Processed Food (as a percentage of total production)



Source: Cygnus Indian Food Processing Sector Report, 2007
 India Infoline Food Processing Sector Study
 Ministry of Food Processing Industry, India

The Government has taken several initiatives to support the sector

- The national policy aims to increase the level of food processing from 2 per cent to 10 per cent in 2010 and to 25 per cent in 2025
- The level of institutional credit to be provided by banks and FI's has been increased from US\$ 17.41 billion during 2003-04 to about US\$ 23.76 billion in 2005-06
- Full repatriation of profits and capital is allowed
- Automatic approvals for foreign investment up to 100 per cent, except in few cases, and also technology transfer

The Government has taken several initiatives to support the sector

- Zero import duty on capital goods and raw material for 100 per cent export-oriented units. Custom duty on packaging machines reduced. Central excise duty on meat, poultry and fish reduced to 8 per cent
- Income tax rebate allowed (100 per cent of profits for five years and 25 per cent of profits for the next five years) for new industries in fruits and vegetables besides institutional and credit support

All the key segments offer potential for investment and growth

- The segments can be assessed for attractiveness based on size, growth, penetration levels and level of organisation
- Fruits & Vegetables, dairy products and fisheries appear attractive options for investments

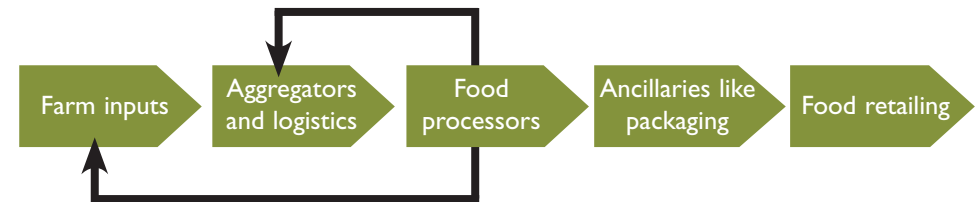
Segment	Size – Output / Value	Projected Growth	Penetration	Percentage of Organised Players
➔ Dairy Products	US\$ 375 million	15%	37%	55%
➔ Fruits & Vegetables	2.33 million tonnes	20%	10%	48%
➔ Meat & Poultry	US\$ 13 million	10%	6%-10%	5%
Fisheries	6.4 million tonnes	20%	12%	NA
Packaged Foods	US\$ 2 billion	8%	3%	80%
Beverages	US\$ 155 million	27%	NA	77%

New Business Models are emerging, as manufacturers look to integrate backward along the value chain

- The Government of India is looking to promote terminal markets in 8 cities - Mumbai, Nashik, Nagpur, Chandigarh, Rai, Patna, Bhopal and Kolkata
- Several players have successfully tried out contract farming in India. These include MNCs such as Pepsi Foods

Terminal Markets

Jointly participate through investments in a one-stop modern market offering grading, sorting, electronic auctioning, quality testing, cold storage and banking facilities



Contract Farming

The farmer is contracted to crop on his land and the produce of an agreed yield and quality is bought by the processor at an agreed price

Source: KPMG Research

Attractive States for Investing

- The various states realising the importance of this industry from an employment as well as revenue generation perspectives have been extremely forthcoming in bolstering growth in this industry
- Some states that have gone an extra mile by providing various fiscal as well as non-fiscal initiatives include Andhra Pradesh, Punjab, Madhya Pradesh, Uttar Pradesh and Karnataka

State	Andhra Pradesh	Punjab	Uttar Pradesh	Madhya Pradesh	Karnataka
Investment Opportunities	High	High	High	Moderate	Moderate
Fiscal Incentives	High	High	High	High	High
Non-Fiscal Incentives	High	Moderate	High	High	High
Overall Attractiveness	Very high	High	Very High	Very High	High

Successful MNC's – Brief Case Studies – Indo Nissin Foods

Nissin Food Products Co. Ltd./ Nissing Foods entered India in 1988 through a joint venture with Brooke Bond India Ltd. Brooke Bond later merged with HUL to form Indo Nissin Foods Ltd.

Key Success Factors

Early entry in ready-to-eat food market

- One of the early players in the Indian ready-to-eat food market, it has been offering instant cup noodle since 1991. This helped the company to take an initial lead over its competitors

Successful MNC's – Brief Case Studies – Indo Nissin Foods

Targeting specific consumer base

- Indo Nissin Foods has always been innovative in terms of new product development. It has launched new innovative products in India to cater to a specific user segment. In order to target the younger segment, it launched new cup noodles

Adapting products to local taste

- The company has the capability of quickly adapting its product to the tastes of the local people. It has emphasised on studying local tastes, culinary traditions and eating habits of the country in which it operates. This strategy has helped in increasing sales in the regions of operation

Successful MNC's – Brief Case Studies – Perfetti Van Melle

Perfetti Van Melle India, a 100 per cent subsidiary of the global conglomerate, started operations in India in 1992 with the setting up of its factory

Key Success Factors

Innovative products

- Perfetti Van Melle has introduced several innovative products such as Center Shock, Alpenliebe Swirl and Happydent Gum

Strong brand building:

- The company has focused on diligently building its brands through effective advertising and promotions. Examples include brands such as Alpenliebe, Big Babol and Chlor-mint - all brands built in the past decade

Successful MNC's – Brief Case Studies – Perfetti Van Melle

Constant re-invention of brands

- The brand Cofitos was relaunched at a lower price because of the market demands. Variants of Alpenliebe were also launched in the year 2002 to take the brand forward and to create excitement in the market

Key take-aways for investors

The nature of the Indian food processing market and the experiences of successful Indian and MNC players, indicate the following key success factors for growth in this sector

- Effective distribution network and supply chain
- Product range that is customised to suit local market requirements
- Superior processing technology
- Brand building and marketing

Appendix – Profiles of Key Players

Player	Segment	Products	About the company
Dabur India Ltd.	Beverages and Culinary	Fruit juice, cooking pastes, coconut milk, tomato puree, lemon drink, chilli powder and honey	<ul style="list-style-type: none"> • Closely held listed company with promoters' holding at 78.4 per cent of the total share capital • Dabur Foods is a 100 per cent subsidiary of Dabur India • Turnover of US\$ 600 million in 2007-08
Gits Food Products Pvt Ltd	Snack Foods and Dairy	Sweet mix, namkeens, snack mixes, meal mix, pure ghee, dairy whitener and milk powder	<ul style="list-style-type: none"> • Gits exports to Europe, UK, USA, Australia, Canada, and the Middle East contributing to the extent of approximately 35 per cent of its total revenue • Gits is an unlisted private family owned business
Haldiram Marketing Pvt. Ltd.	Snack Foods	Sweets, namkeens, syrups, crushes, chips and papads	<ul style="list-style-type: none"> • Started in 1936 • Major share in the namkeen and snack food market in India. Strong presence in northern India especially in New Delhi • Strong presence in northern India especially in New Delhi • Exports to USA, UK, Canada, Australia, Singapore and the UAE
MTR Foods Ltd	Snack Foods, Ice creams	Ready-to-eat curries and rice, ready-to-cook gravies, frozen foods, ice creams, instant snack and dessert mixes, spices (turmeric, coriander, black pepper), pickles and papads	<ul style="list-style-type: none"> • Turnover is estimated at US\$ 36 million in 2006-07 • An ISO 9002 and HACCP certified company is amongst the top five processed food manufacturers in India • The company was recently acquired by Orkla, a Norway-based company

Appendix – Profiles of Key Players

Player	Segment	Products	About the company
Parle Agro Pvt. Ltd.	Beverages and Bottled Water	Fruit drinks and mineral water	<ul style="list-style-type: none"> • Leading player in the fruit based beverages segment and the bottled water segment • Its flagship product is the fruit based drink Frooti Mango, which has 75 per cent market share
Hindustan Unilever Ltd. (HUL)	Beverages, Staples, Dairy, Snack Foods	Tea, instant coffee, biscuits, ice creams, salt, wheat flour (atta), instant drinks, soups, jam and squash	<ul style="list-style-type: none"> • The parent company Unilever holds 51.55 per cent of HUL's equity. Unilever is a Fortune 500 transnational, which sells Foods and Home and Personal Care brands in about 100 countries worldwide. • India's largest fast moving consumer goods company, with leadership in Home & Personal Care Products and Foods & Beverages. • HUL's brands, spread across 20 distinct consumer categories, with combined volumes of about 4million tons and sales of US\$ 3.4 billion. • HUL's Foods segment is at 9 per cent, beverages are at 12 per cent of its businesses.
Britannia Industries Ltd.	Bakery Products	Biscuits, flavoured milk, dairy whitener, ghee, bread, cake and rusk	<ul style="list-style-type: none"> • A leading player in the Indian organized biscuit market with nearly 30 per cent value share. • The Nusli Wadia group, one of the oldest business houses in India and Groupe Danone, French multi-products food company, equally share the 48.5 per cent promoter holding in Britannia. • Estimated Sales of US\$ 650 million in 2007-08

DISCLAIMER

This presentation has been prepared jointly by the India Brand Equity Foundation (“IBEF”) and KPMG Advisory Services Private Limited (“Author”).

All rights reserved. All copyright in this presentation and related works is owned by IBEF and the Author. The same may not be reproduced, wholly or in part in any material form (including photocopying or storing it in any medium by electronic means and whether or not transiently or incidentally to some other use of this presentation), modified or in any manner communicated to any third party except with the written approval of IBEF.

This presentation is for information purposes only. While due care has been taken during the compilation of this presentation to ensure that the information is accurate to the best of the

Author’s and IBEF’s knowledge and belief, the content is not to be construed in any manner whatsoever as a substitute for professional advice.

The Author and IBEF neither recommend or endorse any specific products or services that may have been mentioned in this presentation and nor do they assume any liability or responsibility for the outcome of decisions taken as a result of any reliance placed in this presentation.

Neither the Author nor IBEF shall be liable for any direct or indirect damages that may arise due to any act or omission on the part of the user due to any reliance placed or guidance taken from any portion of this presentation.