India’s Food Processing Industry - highlights

- Size – US$ 70 billion
- Employs 1.6 million people
- Share in world trade – 1.7%
- 5th largest industry in India
- Low penetration levels

Source: KPMG Research
The industry is composed of six key segments:

- **Dairy Product**: Milk and milk products contribute to nearly 17% of the total country's expenditure on food.
- **Fruits & Vegetables**: India is the second largest vegetable and third largest fruit producer in the world.
- **Meat & Poultry**: Size - US$ 13 Million (2004-05). Only 1% of the meat production is converted into value-added products.
- **Fisheries**: Fish production in India currently stands at 6.4 million tonnes.
- **Packaged Foods**: Size - US$ 2 billion (2005-06). Low penetration 3%.
- **Beverages**: Size - US$ 155 million.

Some key features of the industry:
- Relatively low levels of processing / value add in most segments
- Low penetration levels
- Largely unorganised

Source: KPMG Research
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% 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

- The total exports in 2004-05 stood at US$ 7.9 billion
  * constituting nearly 5% of the total exports of the country
The Government has taken several initiatives to support the sector

- The national policy aims to increase the level of food processing from 2% to 10% in 2010 and to 25% in 2025

- The level of institutional credit to be provided by banks and Financial Institutions 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%, 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% export-oriented units. Custom duty on packaging machines reduced. Central excise duty on meat, poultry and fish reduced to 8%

• Income tax rebate allowed (100% of profits for 5 years and 25% of profits for the next 5 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

<table>
<thead>
<tr>
<th>Segment</th>
<th>Size – Output/Value</th>
<th>Projected Growth</th>
<th>Penetration</th>
<th>Percentage of Organised Players</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dairy Products</td>
<td>US$ 375 million</td>
<td>15%</td>
<td>37%</td>
<td>55%</td>
</tr>
<tr>
<td>Fruits &amp; Vegetables</td>
<td>2.33 million tonnes</td>
<td>20%</td>
<td>10%</td>
<td>48%</td>
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<tr>
<td>Meat &amp; Poultry</td>
<td>US$ 13 million</td>
<td>10%</td>
<td>6%-10%</td>
<td>5%</td>
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<tr>
<td>Fisheries</td>
<td>6.4 million tonnes</td>
<td>20%</td>
<td>12%</td>
<td></td>
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<tr>
<td>Packaged Foods</td>
<td>US$ 2 billion</td>
<td>8%</td>
<td>3%</td>
<td>80%</td>
</tr>
<tr>
<td>Beverages</td>
<td>US$ 155 million</td>
<td>27%</td>
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<td>77%</td>
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</table>
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.

<table>
<thead>
<tr>
<th>State</th>
<th>Andhra Pradesh</th>
<th>Punjab</th>
<th>Uttar Pradesh</th>
<th>Madhya Pradesh</th>
<th>Karnataka</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Opportunities</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td>Fiscal Incentives</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
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<tr>
<td>Non-Fiscal Incentives</td>
<td>High</td>
<td>Moderate</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Overall Attractiveness</td>
<td>Very high</td>
<td>High</td>
<td>Very High</td>
<td>Very High</td>
<td>High</td>
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</tbody>
</table>
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 % 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

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<th>About the company</th>
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<tr>
<td>Dabur India Ltd.</td>
<td>Beverages and Culinary</td>
<td>Fruit juice, cooking pastes, coconut milk, tomato puree, lemon drink, chilli powder and honey</td>
<td>• Closely held listed company with promoters’ holding at 78.4% of the total share capital.</td>
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<td></td>
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<td>• Dabur Foods is a 100 % subsidiary of Dabur India</td>
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<td></td>
<td>• Turnover of US$ 21.45 million in 2004</td>
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<td>Gits Food Products Pvt Ltd.</td>
<td>Snack Foods and Dairy</td>
<td>Sweet mix, namkeens, snack mixes, meal mix, pure ghee, dairy whitener and milk powder</td>
<td>• Gits exports to Europe, UK, USA, Australia, Canada, and the Middle East contributing to the extent of approximately 35% of its total revenue</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>• Gits is an unlisted private family owned business</td>
</tr>
<tr>
<td>Godrej Industries Ltd</td>
<td>Beverages and Staples</td>
<td>Edible oils, vanaspati, bakery fats, fruit drinks, fruit nectar, fruit juices and tomato puree</td>
<td>• Revenues from the food segment were US$ 250 million in FY04</td>
</tr>
<tr>
<td>Haldiram Marketing Pvt. Ltd.</td>
<td>Snack Foods</td>
<td>Sweets, namkeens, syrups, crushes, chips and papads</td>
<td>• Started in 1936</td>
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<td></td>
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<td>• Major share in the namkeen and snack food market in India. Strong presence in northern India especially in New Delhi</td>
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<td></td>
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<td>• Exports to USA, UK, Canada, Australia, Singapore and the UAE</td>
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<tr>
<td>MTR Foods Ltd</td>
<td>Snack Foods, Ice creams</td>
<td>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</td>
<td>• Turnover is estimated at US$ 261 million, with the export market accounting for approximately 10% of MTR's total sales</td>
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<td></td>
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<td>• An ISO 9002 and HACCP certified company. It is amongst the top five processed food manufacturers in India</td>
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<td></td>
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<td>• The company was recently acquired by Orkla, a Norway-based company for US$ 80 million</td>
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| Parle Agro Pvt. Ltd.       | Beverages and Bottled Water | Fruit drinks and mineral water                                           • 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% market share |
| Hindustan Unilever Ltd.    | Beverages, Staples, Dairy, Snack Foods | Tea, instant coffee, biscuits, ice creams, salt, wheat flour (atta), instant drinks, soups, jam and squash | • The parent company Unilever holds 51.55% of HUL's equity. Unilever is a Fortune 500 transnational, which sells foods, home care 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, are spread across 20 distinct consumer categories, with combined volumes of about 4 million tonnes and sales of US$ 2.17 billion  
• HUL's foods segment is at 9%, beverages are at 12% of its businesses |
| Britannia Industries Ltd.  | Bakery Products          | Biscuits, flavoured milk, dairy whitener, ghee, bread, cake and rusk     • A leading player in the Indian organised biscuit market with nearly 30% value share  
• The Nusli Wadia group, one of the oldest business houses in India and Groupe Danone, a French multi-products food company, equally share the 48.5% promoter holding in Britannia  
• Sales of Rs. 14.7 billion in 2004 |
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