

FOOD PROCESSING



SECTOR OVERVIEW

The Indian food industry is poised for huge growth, increasing its contribution to world food trade every year. In India, the food sector has emerged as a high-growth and high-profit sector due to its immense potential for value addition, particularly within the food processing industry.

The food industry, which is currently valued at USD 39.71 billion, is expected to grow at a Compounded Annual Growth Rate (CAGR) of 11 per cent to USD 65.4 billion by 2018. Food and grocery account for around 31 per cent of India's consumption basket.

Accounting for about 32 per cent of the country's total food market, the Government of India has been instrumental in the growth and development of the food processing industry. The Government through the Ministry of Food Processing Industries (MoFPI) is making all efforts to encourage investments in the business. It has approved proposals for joint ventures (JV), foreign collaborations, industrial licenses, and 100 per cent export oriented units.

REASONS TO INVEST

- ✦ A rich agriculture resource base - India was ranked No. 1 in the world in 2013 in terms of production of arecanut, bananas, castor oil seed, chick peas, chillies and peppers dry, ginger, lemons and limes, mangoes, mangosteens, guavas, millet, okra, papayas, pigeon peas, meat-buffalo, milk-whole fresh buffalo and goat, ghee, butter oil of cow milk, ghee of buffalo milk, sesame seed.
- ✦ India ranks second in the world in the production of anise, fennel, coriander, beans-dry, cabbages and other brassicas, cauliflower and broccoli, egg plants (aubergines), garlic, groundnuts with shell, lentil, onions dry, peas green, potatoes, pumpkins, squash and gourds, rice/paddy, safflower seed, sugar cane, tea, tomatoes, wheat, meat-goat, milk whole fresh cow. Further, India is at third position in the production of cashew nuts with shell, coconuts, lettuce and chicory, nutmeg, mace and cardamoms, pepper (piper spp.), rapeseed.
- ✦ The Country's gross cropped area amounts to 194.39 million Hectares, with cropping intensity of 139%. The net irrigated area was 66.10 million hectare in 2012- 13.
- ✦ A total of 127 agro-climatic zones have been identified in India.

- ✦ Strategic geographic location and proximity to food-importing nations makes India favorable for the export of processed foods.
- ✦ Extensive network of food processing training, academic and research institutes.
- ✦ 42 Mega Food Parks (MFP) are being setup with an investment of USD 2.38 billion. The parks have around 1250 developed plots with basic enabled infrastructure that entrepreneurs can take on lease for the setting up of food processing and ancillary units. As on 25.07.2016, out of 42 MFP projects 8 projects have been operationalised.
- ✦ The cost of skilled manpower is relatively low as compared to other countries.
- ✦ Attractive fiscal incentives have been instated by central and state governments and these include capital subsidies, tax rebates, depreciation benefits, as well as reduced custom and excise duties for processed food and machinery.
- ✦ Major global players in the food domain are already present in India.
- ✦ 134 cold chain projects are being setup to develop supply chain infrastructure. As on 22.07.2016, out of 134 Cold Chain Projects, 87 projects have been completed.

GROWTH DRIVERS



- ✦ Liberalization and the growth of organized retail has made the Indian market more attractive for global players; with a large agricultural resource base, abundant livestock and cost competitiveness, India is fast emerging as a sourcing hub of processed foods
- ✦ With a population size of 1.22 billion of which 604 million were under the age of 24 in 2011, this rising youth population is likely to increase India's overall food consumption.
- ✦ Rising income levels, affluence and a growing middle-class.
- ✦ One-third of the population will be living in urban areas by 2020.
- ✦ Increasing desire for branded food as well as increased spending power.
- ✦ Large distinct consumer segments to support customized offerings/ new categories and brands within each segment.
- ✦ Consumption in India is driven towards packaged and ready-to-eat foods.
- ✦ Favorable economic and cultural transformation, shift in attitudes and lifestyles, consumers are experimenting with different cuisines, tastes and new brands. There is an increase in awareness and concern for wellness and health, high protein, low fat, wholegrain and organic food.
- ✦ Exports of food items have been rising steadily, the main export destinations being Middle East and South East Asia.

STATISTICAL DATA

- ✦ India was ranked 12th in the World in exports of food and food products in 2015.
- ✦ Major industries constituting the food processing sector are grain milling, sugar, edible oils, beverages, fruits and vegetables processing and dairy products.
- ✦ The contribution of the food processing sector to the Gross Value Addition (GVA) in 2014-15 amounts to USD 22 billion at 2011-12 prices. In 2014-15, GVA in food processing grew by 5.78%.
- ✦ The share of Food Processing Sector in GVA of manufacturing sector was 8.6% in 2014-15.
- ✦ Investment in fixed Capital in registered food processing sector had grown from USD 24.5 billion in 2012-13 to USD 25.85 billion in 2013-14, making a growth rate of 6%.
- ✦ The number of registered food processing units has increased from 37,175 in 2012-13 to 37,445 in 2013-14.
- ✦ Food processing industry is one of the major employment intensive segments contributing 11.69% of employment generated in all Registered Factory sector in 2013-14.

SECTOR POLICY

- ✦ Food processing is recognized as a priority sector in the new manufacturing policy in 2011.
- ✦ Government has set up a special fund called "Food Processing Fund" of approximately USD 300 million (at Rs. 67.25 to 1 USD) in National Bank for Agriculture and Rural Development (NABARD) for extending affordable credit to designated food parks and the individual food processing units in the designated food parks. As on 31.05.2016 about a quarter of the fund as term loan has been sanctioned to 12 mega food parks projects.
- ✦ Reserve Bank of India has classified loan to food and agro-based processing units and Cold Chain under agriculture activities for Priority Sector Lending (PSL) subject to aggregate sanctioned limit of USD 15.38 million per borrower from the banking system. It will ensure greater flow of credit to entrepreneurs for setting up of food processing units and attract investment in the sector.



FDI POLICY

- ✦ 100% FDI is permitted under the automatic route in food processing industries
- ✦ 100% FDI is allowed through government approval route for trading, including through e-commerce in respect of food products manufactured or produced in India.

INVESTMENT OPPORTUNITIES

- ✦ Fruits and vegetables: preserved, candied, glazed and crystallized fruits and vegetables, juices, jams, jellies, purees, soups, powders, dehydrated vegetables, flakes, shreds and ready-to-eat curries.
- ✦ Food preservation by fermentation: wine, beer, vinegar, yeast preparation, alcoholic beverages.
- ✦ Beverages: fruit-based, cereal-based.
- ✦ Dairy: liquid milk, curd, flavored yoghurt, processed cheese, cottage cheese, Swiss cheese, blue cheese, ice cream, milk-based sweets.
- ✦ Food additives and nutraceuticals.
- ✦ Confectionery and bakery: cookies and crackers, biscuits, breads, cakes and frozen dough.
- ✦ Meat and poultry: eggs, egg powder, cut meats, sausages and other value added products.
- ✦ Fish, seafood and fish processing – processing and freezing units.
- ✦ Grain processing – oil milling sector, rice, pulse milling and flour milling sectors.
- ✦ Food preservation and packaging: metal cans, aseptic packs.
- ✦ Food processing equipment: canning, dairy and food processing, specialty processing, packaging, frozen food/refrigeration and thermo-processing.
- ✦ Consumer food: packaged food, aerated soft drinks and packaged drinking water.
- ✦ Spice pastes.
- ✦ Supply chain infrastructure – this niche has investment potential in food processing infrastructure, the government's main focus is on supply chain related infrastructure like cold storage, abattoirs and food parks.
- ✦ The establishment of food parks – a unique opportunity for entrepreneurs, including foreign investors to enter in the Indian food processing sector.



FINANCIAL SUPPORT

- ✦ Services of pre-conditioning, pre-cooling, ripening, waxing, retail packing, labeling of fruits and vegetables have been exempted from Service Tax (Full Exemption Ref. Service Tax notification No. 25/2012- Service Tax dated 20th June 2012 as amended by Notification 3/2013 dated 1st March 2013 and 6/2015 dated 1st March 2015 issued under Section 93 Chapter V of the Finance Act, 1994- Power to grant exemption from service tax).
- ✦ Exemption to transportation of 'food stuff' by rail, or vessels or road will be limited to transportation of food grains including rice and pulses, flours, milk and salt only. Transportation of agricultural produce is granted full exemption (Ref. Service Tax notification No. 25/2012- Service Tax dated 20th June 2012 as amended by Notification 3/2013 dated 1st March 2013 and

612015 dated 1st March 2015 issued under Section 93 Chapter V of the Finance Act, 1994- Power to grant exemption from service tax).

- ✦ For generating more employment, an amendment regarding eligibility threshold of minimum 100 workmen has been reduced to 50, is made in the provisions of section 80JJAA of the Income-Tax Act (w.e.f. 01/04/2016).
- ✦ The entry "waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavored" in the Seventh Schedule to the Finance Act 2005 related to levy of additional duty of excise @ 5% has been omitted.

AGENCIES

- ✦ Ministry of Food Processing Industries
- ✦ Food Safety and Standards Authority of India
- ✦ Agriculture and Processed Foods Export Development Authority
- ✦ National Institute for Food Technology and Entrepreneurship Management
- ✦ All India Food Processors Association
- ✦ Commodity Boards under the Ministry of Commerce and the Ministry of Agriculture/Ministry of Food Processing: coffee, tea, spice, meat and grapes.
- ✦ Indian Grape Processing Board



FOREIGN INVESTORS

- ✦ Kraft (USA)
- ✦ Mars (USA)
- ✦ Nestle (Switzerland)
- ✦ McCain (Canada)
- ✦ Danone (France)
- ✦ Ferrero (Italy)
- ✦ Del Monte (USA)
- ✦ Kagome (Japan)
- ✦ Kelloggs (USA)
- ✦ Pepsi (USA)
- ✦ Unilever (United Kingdom)
- ✦ Perfetti (Italy)
- ✦ Cargill (USA)
- ✦ Coca Cola (USA)
- ✦ Metro Cash and Carry (Germany)

Going forward, the adoption of food safety and quality assurance mechanisms such as Total Quality Management (TQM) including ISO 9000, ISO 22000, Hazard Analysis and Critical Control Points (HACCP), Good Manufacturing Practices (GMP) and Good Hygienic Practices (GHP) by the food processing industry offers several benefits. It would enable adherence to stringent quality and hygiene norms and thereby protect consumer health, prepare the industry to face global competition, enhance product acceptance by overseas buyers and keep the industry technologically abreast of international best practices.

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SOURCES

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<https://www.ibef.org/industry/indian-food-industry.aspx>