

FOOD PROCESSING



SECTOR OVERVIEW

Fast-moving consumer goods (**FMCG**) sector is India's fourth largest sector with household and personal care accounting for 50% of FMCG sales in India. Growing awareness, easier access and changing lifestyles have been the key growth drivers for the sector. The urban segment (accounts for a revenue share of around 55%) is the largest contributor to the overall revenue generated by the FMCG Sector in India. However, in the last few years, the FMCG market has grown at a faster pace in rural India compared to urban India. Semi-urban and rural segments are growing at a rapid pace and FMCG products account for 50% of the total rural spending.



REASONS TO INVEST

- ✓ The Indian food and grocery market is the world's sixth largest, with retail contributing 70 per cent of the sales. The Indian food processing industry accounts for 32 per cent of the country's total food market, one of the largest industries in India and is ranked fifth in terms of production, consumption, export and expected growth. It contributes around 8.80 and 8.39 per cent of Gross Value Added (**GVA**) in Manufacturing and Agriculture respectively, 13 per cent of India's exports and six per cent of total industrial investment. The Indian gourmet food market is currently valued at USD 1.3 Billion and is growing at a

Compound Annual Growth Rate (**CAGR**) of 20 per cent. India's organic food market is expected to increase manifold in the coming times.

- ✓ The online food ordering business in India is witnessing exponential growth. With online food delivery players like FoodPanda, Uber, Zomato and Swiggy building scale through partnerships, the organised food business has a huge potential and a promising future.



MARKET SIZE

The retail market in India is estimated to reach USD 1.1 Trillion by 2020 from USD 840 Billion in 2017, with modern trade expected to grow at 20-25% per annum, which is likely to boost revenue of FMCG Companies. Revenue of FMCG Sector reached Rs. 3.4 lakh Crore (USD 52.75 Billion) in FY18 and is estimated to have reached to USD 103.7 The growth rate of FMCG Market is around 9-10% annually. It is expected that rise in rural consumption will drive the FMCG Market even faster.

GROWTH DRIVERS

- The Budget of the Department of Agriculture & Farmers' Welfare has gone up more than six times in the past six years. This sector employs nearly 42 per cent of our total population and contributes 16 per cent to the GDP while experiencing a year-on-year growth rate of 2 per cent.
- The exports of Agri commodities showed a sharp increase of 23.24% during March - June 2020 witnessing an export of INR. 25,552.7 Crore against the export of INR. 20,734.8 Crore during the same period in 2019.
- The food grains production during 2019-20 was 296.65 MMT and horticulture production was 319.57 MMT.
- Under the Ministry of Food Processing Industries, 284 State-wise proposals approved under the Scheme of Creation / Expansion of Food Processing & Preservation Capacities (**CEFPPC**) of Pradhan Mantri Kisan Sampada Yojana (**PMKSY**).

- Ministry in pursuance of sub-clause (c) of clause 22 of the Fertilizer (Inorganic, organic or mixed) (Control) Order, authorizes the manufacturers of City Compost to sell City Compost in bulk directly to farmers.
- Cabinet approved Minimum Support Price of Copra for 2021 season as INR 10,335 per quintal from INR 9,960 per quintal in 2020.

FDI POLICY



- i) 100% FDI is permitted under the automatic route in the Food and Processing Industry in India.
- ii) 100% FDI is allowed through Government approval route for trading, including through e-commerce in respect of food products manufactured or produced in India.
- iii) The cumulative FDI equity inflow in the Food Processing industry is USD 10,201 Million during the period from April 2000 to September 2020. This constitutes 2.04% of the total FDI inflow received across sectors.

SECTOR POLICY

- ✓ Food Processing is recognized as a Special Focus Sector in the National Manufacturing Policy.
- ✓ Food and agro-based processing units can avail loans under Priority Sector Lending. It will ensure a greater flow of credit to entrepreneurs for setting up food processing units and attract investment in the industry.
- ✓ Government has set up a special fund called "Food Processing Fund" of approximately USD 265 Million 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.
- ✓ Ministry of Food Processing Industries is also keen on developing an integrated and comprehensive National Food Processing Policy, for which a draft has already been circulated among the stakeholders to receive suggestions and recommendations. It aims to build India's National Food Grid and National Cold Chain Grid apart from the retail markets at every nook and corner of the country.
- ✓ Ministry of Food Processing Industries (**MoFPI**) provides a host of financial assistance to food processing companies in India, under the umbrella scheme of Pradhan Mantri Kisan Sampada Yojna (**PMKSY**). The following schemes are included under PMKSY:

- 1) Mega Food Parks
- 2) Integrated Cold Chain and Value Addition Infrastructure
- 3) Creation/ Expansion of Food Processing/ Preservation Capacities (Unit Scheme)
- 4) Infrastructure for Agro-processing Clusters
- 5) Creation of Backward and Forward Linkages
- 6) Food Safety and Quality Assurance Infrastructure
- 7) Human Resources and Institutions
- 8) Operation Greens

- ✓ The Union Cabinet of India has announced a new Central Sector Scheme of Agriculture Infrastructure Fund. Under the Scheme, INR 1 lakh Crore will be provided by banks and financial institutions to feasible projects for post-harvest management infrastructure and community farming assets. The financial support will be in the form of medium - long term debt financing facility and all loans under this financing facility will have interest subvention of 3% per annum up to a limit of INR 2 Crore.
- ✓ The Cabinet Committee on Economic Affairs of the Government of India has approved setting up of Animal Husbandry Infrastructure Development Fund (**AHIDF**). AHIDF will incentivize investments in infrastructure for dairy and meat processing and value addition infrastructure and establishment of animal feed plant in the private sector. Farmer Producer Organizations (FPOs), MSMEs, Section 8 companies, private companies and individual entrepreneurs with a minimum 10% margin money will be the eligible beneficiaries of the scheme. The remaining 90% would be the loan component which will be provided by scheduled banks. A total amount of INR 15000 Crore. has been approved for the Animal Husbandry Infrastructure Development Fund (AHIDF).



INVESTMENTS/ DEVELOPMENTS

Some of the recent developments in the FMCG sector are as follows:

- ❖ In November 2020, Hindustan Unilever (**HUL**) launched a new brand in the naturals segment—Nature Protect — that will include over half a dozen products in the hygiene segment, as part of its strategy to launch plant-based products in the backdrop of the COVID-19 outbreak.

- ❖ On November 4, 2020, Amway India announced plans to invest Rs. 150 Crore (USD 20.16 Million) to improve manufacturing automation and home delivery and enhance its digital capabilities.
- ❖ In October 2020, Nestle India announced plan to infuse Rs. 2,600 Crore (USD 348.82 Million) into its eight manufacturing plants for enhancing production capabilities over the next four years.
- ❖ PepsiCo India announced to double its business from the snacks segments in October 2020. The Company has increased investment in its new greenfield snacks plant in Uttar Pradesh from Rs. 500 Crore (USD 68 Million) to about Rs. 814 Crore (USD 111 Million)—generating 1,500 direct/indirect jobs and enabling a local sourcing ecosystem.
- ❖ In October 2020, Britannia has signed a Memorandum of Understanding (**MOU**) with the Tamil Nadu government, stating increase of investment in the state from Rs. 300 Crore (USD 41 Million) to Rs. 550 Crore (USD 75 Million) over a period of seven years.
- ❖ In September 2020, Orkla, a Norway based consumer goods company acquired 68% stake in Eastern Condiment.
- ❖ In May 2020, Tata Consumer Products Limited (**TCPL**) acquired PepsiCo's stake in Nourish Co Beverages Limited.
- ❖ In March 2020, Hindustan Unilever Limited (HUL) signed an agreement with Glenmark Pharmaceuticals Ltd to acquire its intimate hygiene brand VWash.
- ❖ In November 2019, ITC Ltd acquired 33.42% stake in Delectable Technologies, which is a vending machine start-up.
- ❖ Nestle plans to invest Rs. 700 Crore (USD 100.16 Million) to open a new plant in Sanand for Maggi.
- ❖ ITC to invest Rs. 700 Crore (USD 100 Million) in food park in Madhya Pradesh.
- ❖ Patanjali will spend USD743.72 Million in various food parks in Maharashtra, Madhya Pradesh, Assam, Andhra Pradesh and Uttar Pradesh.



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)
- Hershey (USA)
- Metro Cash & Carry (Germany)
- Walmart (US)
- Yakult (Japan)
- Amazon (USA)

GOVERNMENT INITIATIVES

Some of the major initiatives taken by the Government to promote the FMCG Sector in India are as follows:

- ❖ The Government of India has approved 100% FDI in the Cash and Carry segment and in single-brand retail along with 51% FDI in multi-brand retail.
- ❖ The Government has drafted a new Consumer Protection Bill with special emphasis on setting up an extensive mechanism to ensure simple, speedy, accessible, affordable and timely delivery of justice to consumers.

- ❖ The Goods and Services Tax (**GST**) is beneficial for the FMCG industry as many of the FMCG products such as soap, toothpaste and hair oil now come under the 18% tax bracket against the previous rate of 23-24%. Also, GST on food products and hygiene products have been reduced to 0-5% and 12-18% respectively.
- ❖ GST is expected to transform logistics in the FMCG sector into a modern and efficient model as all major corporations are remodelling their operations into larger logistics and warehousing.



ROAD AHEAD

Rural consumption has increased, led by a combination of increasing income and higher aspiration levels. There is an increased demand for branded products in rural India. The rural FMCG market in India is expected to grow to USD 220 Billion by 2025 from USD 23.6 Billion in FY18.

On the other hand, with the share of unorganised market in the FMCG sector falling, the organised sector growth is expected to rise with increased level of brand consciousness, augmented by the growth in modern retail.

Another major factor propelling the demand for food services in India is the growing youth population, primarily in urban regions. India has a large base of young consumers who form majority of the workforce, and due to time constraints, barely get time for cooking.

Online portals are expected to play a key role for companies trying to enter the hinterlands. Internet has contributed in a big way, facilitating a cheaper and more convenient mode to increase a company's reach. It is estimated that 40% of all FMCG consumption in India will be made online by 2020. The online FMCG market is forecast to reach USD 45 Billion in 2020 from USD 20 Billion in 2017.

It is estimated that India will gain USD 15 Billion a year by implementing GST. GST and demonetisation are expected to drive demand, both in the rural and urban areas, and economic growth in a structured manner in the long term and improved performance of companies within the sector.

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