

FOOD PROCESSING



An abstract graphic in a light orange color. It features several long, curved, leaf-like shapes that sweep upwards from the bottom left towards the top right. Three solid orange circles of varying sizes are positioned along these curves. The text 'FOOD PROCESSING' is centered horizontally across the middle of the image, overlaid on the graphic.

FOOD PROCESSING

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A report by KPMG for IBEF

Market Overview

The food processing industry is one of the largest industries in India - it is ranked fifth in terms of production, consumption, export and expected growth. The industry size has been estimated at US\$ 70 billion by the Ministry of Food Processing, Government of India. The food processing industry contributed 6.3 per cent to India's GDP in 2003 and had a share of 6 per cent in total industrial production. The industry employs 1.6 million workers directly.

Food processing is a large sector that covers activities such as agriculture, horticulture, plantation, animal husbandry and fisheries. It also includes other industries that use agriculture inputs for manufacturing of edible products. The Ministry of Food Processing, Government of India indicates the following segments within the Food Processing industry

- Dairy, fruits & vegetable processing
- Grain processing
- Meat & poultry processing
- Fisheries and
- Consumer foods including packaged foods, beverages and packaged drinking water.

While the industry is large in size, it is still at a nascent stage in terms of development. Of the country's total agriculture and food produce, only 2 per cent is processed. The highest share of processed food is in the dairy sector, where 37 per cent of the total produce is processed, of this only 15 per cent is processed by the organised sector.

Level of processing in food processing sector

Item	Level of Processing in Organised Sector	Level of Processing in Unorganised sector	Total Processing
Fruits & Vegetables	1.2%	0.5%	1.8%
Dairy Products	15%	22%	37%
Meat	21%		21%
Poultry	6%		6%
Marine Fisheries	1.7%	9%	10.7%
Shrimps	0.4%	1%	1.4%

Source: Cygnus Report, Indian Food Processing Sector, 2005

Segmentation of different sectors in food processing industry

Sectors	Products
Dairy	Whole Milk Powder, Skimmed milk powder, Condensed milk, Ice cream, Butter and Ghee, Cheese
Fruits & Vegetables	Beverages, Juices, Concentrates, Pulps, Slices, Frozen & Dehydrated products, Potato Wafers/Chips, etc
Grains & Cereals	Flour, Bakeries, Starch Glucose, Cornflakes, Malted Foods, Vermicelli, Beer and Malt extracts, Grain based Alcohol
Fisheries	Frozen & Canned products mainly in fresh form
Meat & Poultry	Frozen and packed - mainly in fresh form, Egg Powder
Consumer Foods	Snack food, Namkeens, Biscuits, Ready to eat food, Alcoholic and Non-alcoholic beverages

Food Processing Units in Organised Sector (numbers)

Flour Mills	516
Fish processing units	568(+ 482 cold storage units)
Fruit & vegetable processing units	5,293
Meat processing units	171
Sweetened & aerated water units	656
Milk product units	266
Sugar mills	429
Solvent extract units	725
Rice mills	139,208
Modernized rice mills	35,088

Source: Ministry of Food Processing India, Annual Report 2004

The industry is estimated to grow at 9-12 per cent, on the basis of an estimated GDP growth rate of 6-8 per cent, during the tenth five-year plan period. Value addition of food products is expected to increase from the current 8 per cent to 35 per cent by the end of 2025. Fruit & vegetable processing, which is currently around 2 per cent of total production will increase to 10 per cent by 2010 and to 25 per cent by 2025.

Given the size of the industry and the nascent development stage, the food processing sector is a key focus area for the Government of India. The importance of the sector is further enhanced by the fact that over 70 per cent of the population depends upon agricultural activity for livelihood.

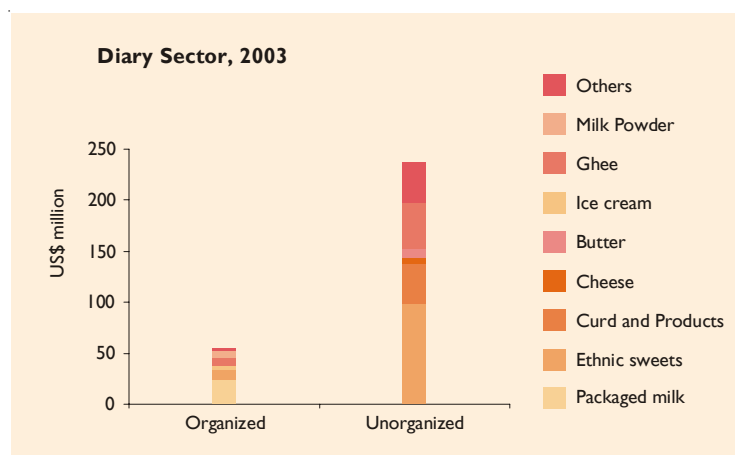
The government has therefore been focusing on commercialisation and value addition to agricultural produce, minimising pre/post harvest wastage, generating

employment and export growth in this sector, through a number of regulatory and fiscal incentives.

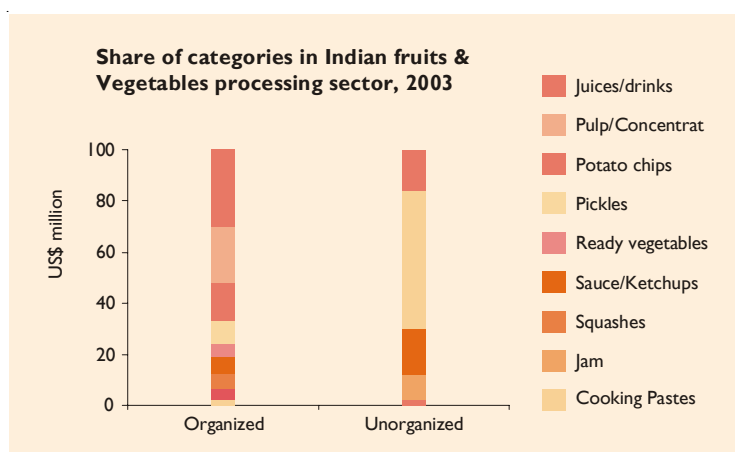
The industry is largely unorganised, with a small but growing organised sector

Primary food processing is a major industry with a highly fragmented structure that includes hundreds of thousands of rice-mills and hullers, flour mills, pulse mills and oil-seed mills, several thousands of bakeries, traditional food units and fruits, vegetable and spice processing units in the unorganised sector. In comparison, the organised sector is relatively small, with around 516 flour mills, 568 fish processing units, 5,293 fruit and vegetable processing units, 171 meat processing units and numerous dairy processing units at state and district levels.

The share of the organised and unorganised sectors varies across different segments of the industry.



Source: Cygnus-Indian Food Processing Industry, 2005



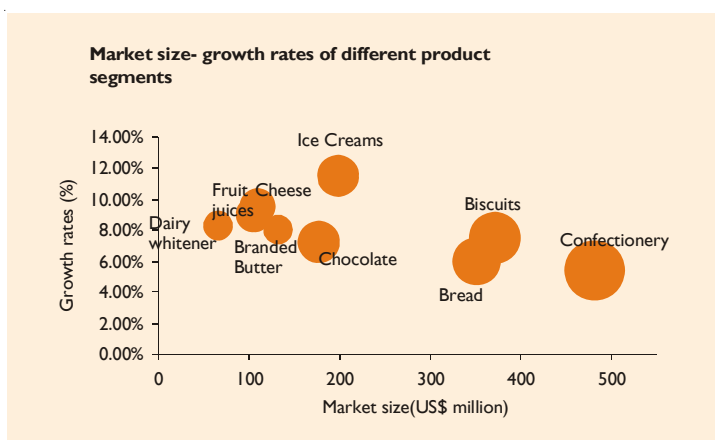
Source: Cygnus-Indian Food Processing Industry, 2005

- In the **dairy sector**, most of the processing is done by the unorganised sector. Though the share of organised sector is less than 15 per cent, it is expected to rise rapidly, especially in the urban regions. Among the milk products manufactured by the organised sector, some of the prominent ones are ghee, butter, cheese, ice creams, milk powders, malted milk food, condensed milk and infant foods.
- **Fruit and vegetable processing** in India is almost equally divided between the organised and unorganised sectors, with the organised sector holding 48 per cent of the share. While products like juices and pulp concentrate are largely manufactured by the organised sector, the unorganised sector's foothold is in the traditional areas of processed items like pickles, sauces and squashes. By size, pickles form the strongest category.
- In the **meat processing** sector, India has 3,600 slaughter houses, 9 modern abattoirs and 171 meat processing units licensed under Meat Products Order. A few modern pork processing plants are also coming up in the country.
- The units in the **fish processing** sector are largely small scale proprietary/ partnership firms or fishermen co-operatives. In the past ten years, the corporate sector has increased its operations in preservation, processing and export of coastal fish.
- The **packaged food industry** has around over 60,000 bakeries, 20,000 traditional food units and several pasta food units. In the past decade several new biscuits & confectionery units, soya processing units and starch/glucose/ sorbitol producing units have come up. Multinational Companies are coming up in confectionery and cocoa based products areas.

The industry structure and ongoing transformation offers opportunities for organised players to invest and grow. As the Indian market matures and consumers become more quality and brand conscious, the organised sector is poised to grow and gain prominence.

Indian food processing industry offers significant growth potential

The market size and growth rates of some of the products in organised dairy and consumer food segments are shown in the graph below.



Most sectors in the food processing industry are growing at a significant rate. The industry shows the potential for sustained growth based on different aspects such as growth in the domestic market, trade and foreign direct investment. These are discussed in detail in the following sections.

Significant growth, across all segments

Dairy

India is the largest producer of milk in the world. Milk and milk products account for a significant 17 per cent of India's total expenditure on food. India's total milk production is projected to grow to 108 million tonnes by end of 2007 according to the tenth five-year plan estimates. India is on the verge of assuming an important position in the global dairy industry.

The 50,000 ton branded butter market, valued at US\$ 133 million is estimated to be growing at 8-10 per cent per annum. The cheese market is estimated to be US\$ 110 million in value terms and an estimated 54,000 tonnes in volume terms, and has been growing at a compounded annual growth rate (CAGR) of 8-9 per cent during 1999-2003. The growth in urban areas has been higher at about 15 per cent per annum. The ice cream market in India is estimated to be about US\$ 199 million per annum.

A few corporate players, including MNCs are now focusing on this market. For example, Nestle and Britannia have forayed into emerging segments such as Ultra Heated Treatment (UHT) and flavoured milk. Ultra Heat Treated (UHT) milk is becoming popular and the market is estimated at US\$ 33.4 million (Rs1.5 billion).

The growth and future potential in the dairy sector have resulted in significant investments into this sector in the last decade. Total investment in the dairy sector during 1991-2002 was around US\$ 3.3 billion, of which foreign investment was of US\$ 245.5 million. Current consumer trends like increasing urbanisation indicate that this segment will continue to be attractive in the future.

Fruit and Vegetable Processing

The installed capacity of fruit and vegetable processing industry has increased from 1.11 million tonnes in 1993 to 2.33 million tonnes in 2004. The industry, however, is still nascent and just about 2 per cent of the total output of fruits and vegetables was processed in the organised and unorganised sectors.

Over the last few years, the industry has seen a positive growth in ready-to-serve beverages, fruit juices and pulps, dehydrated and frozen fruits and vegetable products, pickles, processed mushrooms and curried vegetables. The government expects the processing in this sector to grow to 10 per cent in 2010 and 25 per cent of the total produce by 2025.

Most of the units engaged in above are currently export oriented. Domestic consumption of processed fruits & vegetable products is low, indicating a potential for growth through increased penetration of the domestic market.

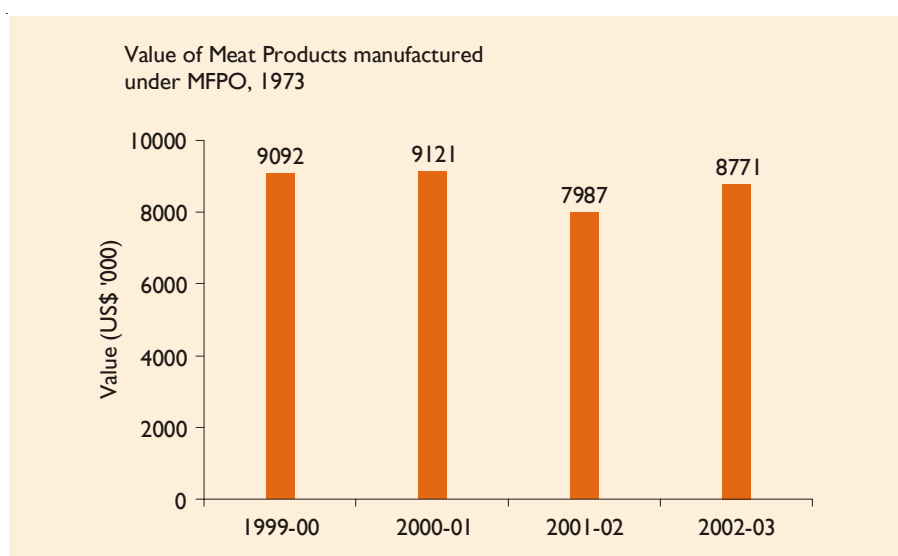
Grains

India produces more than 200 million tonnes of different food grains every year. All major grains – rice, wheat, maize, barley and millets like jowar (great millet), bajra (pearl millet) & ragi (finger millet) are produced in the country. About 15 per cent of the annual production of wheat is converted into wheat products. There are 10,000 pulse mills in the country with a milling capacity of 14 million tonnes, milling about 75 per cent of annual pulse production of 14 million tonnes.

The country is self sufficient in grain production and is the second largest rice producer in the world with a 20 per cent global share. Primary milling of rice, wheat and pulses is the most important activity in food grains processing. Total investment in the grain milling sector up to December 2002 was around US\$ 1.5 billion, of which US\$ 253.5 million was foreign investment.

Branded rice is becoming popular in both the domestic as well as the export market. Indian Basmati rice commands a premium in the international market. This segment thus offers opportunities in marketing of branded grains, as well as grains processing.

Meat and poultry processing



Source: Ministry of Food Processing, Annual Report 2004

India has a livestock population of 470 million, which includes 205 million cattle and 90 million buffaloes. Processing of meat products is licensed under Meat Food Products Order, (MFPO), 1973. Total meat production in the country is currently estimated at 5 million tonnes annually. Only about 1-2 per cent of the total meat is converted into value added products. The rest is purchased raw and consumed at home. Poultry processing is also at a nascent stage. The country produces about 450 million broilers and 33 billion eggs annually. Growth rate of egg and broiler production is 16 per cent and 20 per cent respectively.

There is a large potential for setting up modern slaughter facilities and development of cold chains in the meat and poultry processing sector. For example, buffalo meat is surplus in the country and also has good export potential. In the case of poultry, export from India is mostly to Maldives and Oman. Other markets such as Japan, Malaysia, Indonesia and Singapore are being explored.

The growing number of fast food outlets in the country has had a significant impact on the meat processing industry in India. As per capita incomes rise and urban families live in smaller units, the demand for processed meat products, which can be quickly cooked, has been rising. Most of the production of meat and meat products continues to be in the unorganised sector. Some branded products like Venky's and Godrej's Real Chicken are, however, becoming popular in the domestic market.

Fish processing

India is the third largest fish producer in the world and is second in inland fish production. The fisheries sector contributes US\$ 4.4 billion to the national income, which is about 1.4 per cent of the total GDP. With its over 8,000 km of coastline, 3 million hectares of reservoirs, 1.4 million hectares of brackish water, 50,600 sq km of continental shelf area and 2.2 million sq km of exclusive economic zone, India is endowed with rich fishery resources and has vast potential for fishes from both inland and marine resources.

Processing of fish into canned and frozen forms is carried out almost entirely for the export market. It is widely felt that India's substantial fishery resources are under-utilised and there is tremendous potential to increase the output of this sector. Total investment in the sector since 1991 has been around US\$ 600 million. With the liberalised policy, fish-processing sector has been attracting more foreign investments. Foreign investment up to 2003 has been US\$ 122.5 million.

Consumer foods

Consumer food industry includes packaged foods, aerated soft drinks, packaged drinking water and alcoholic beverages.

Packaged or convenience foods

This segment comprises bakery products, ready-to-eat snacks, chips, namkeens (salted snacks and savouries) and other processed foods/ snack foods.

The market size of confectioneries is estimated at US\$ 484.3 million growing at the rate of 5.7 per cent per annum. Biscuits have a market of US\$ 373.4 million, growing at 7.5 per cent per annum. Other products like bread, chocolates are also growing at a significant rate.

There is a demand for Indian snack food (Ready-To-eat) in overseas markets. The exports market is estimated at US\$ 33.4 million and is growing at around 20 per cent annually.

Aerated soft drinks

The aerated soft drinks industry in India comprises over 100 plants across all States. It provides direct and indirect employment to over 125,000 employees. It has attracted one of the highest foreign direct investments in the country, amounting to around US\$ 1049 million. Two of the biggest global brands in this segment are well established in India.

Presently there are more than 7000,000 outlets retailing soft drinks in the country. Soft drinks constitute the third largest packaged foods segment, after packed tea and packed biscuits. Total export earnings of the industry are over US\$ 156 million per annum.

Penetration levels of aerated soft drinks in India are quite low compared to other developing and developed markets, an indication of further potential for rapid growth.

Packaged drinking water

The market size for packaged drinking water in India has been estimated at around US\$ 223 million. The industry comprises 215 companies which have been granted licence for manufacturing packaged drinking water and 3 for manufacturing packaged natural mineral water.

Trends such as shortage of drinking water in the large metropolitan cities, changes in consumer lifestyles leading to demand for convenience and availability of various packaged sizes to suit different needs have led to a spurt in growth over the last 3-4 years and these trends are expected to continue to fuel demand in this sector.

Alcoholic beverages

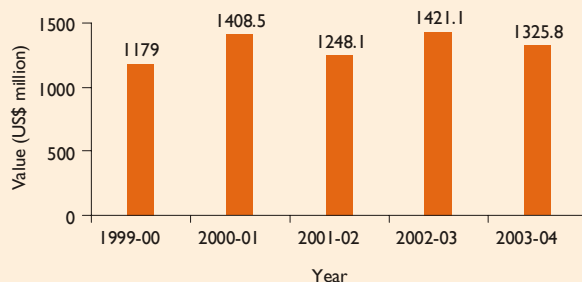
India is the third largest market for alcoholic beverages in the world. The demand for spirits and beer is estimated to be around 373 million cases per annum. There are 12 joint venture companies producing grain based alcoholic beverages that have a combined licensed capacity of 33.9 million litres per annum. 56 units are engaged in manufacturing beer under licence from the Government of India. The demand per annum for wine in the domestic market is estimated to be around 6 million bottles (750 ml), while the domestic production of wine is over 2.4 million bottles.

The market is estimated to grow at a healthy rate of around 25 per cent per annum in the next five years, indicating attractive investment potential.

Growth in Trade

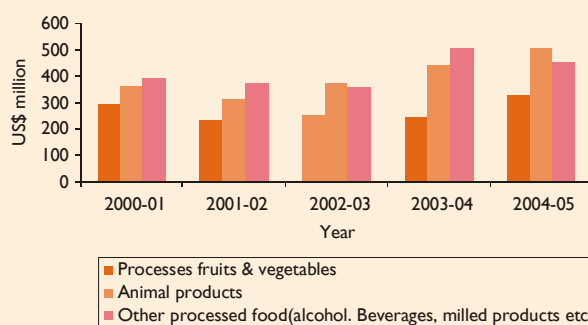
India had a 1 per cent share of overall global trade in 2004. In the food category the gross Indian trade was US\$ 9,862.34 million during fiscal year 2004, which was 10.6 per cent higher than the previous year figure of US\$ 8,914.82 million.

Export of Processed marine Food Products



Source: Ministry of Food Processing Industry, Annual report 2005

Exports (US\$ million)



Source: Ministry of Food Processing Industry, Annual report 2005

Exports of marine food products were around US\$ 1325.7 million in fiscal year 2004. Exports in this category have been almost consistent for the past few years.

Exports of processed fruits and vegetables increased to US\$ 326.5 million in 2005 from US\$ 245 million in 2004. The exports of animal products from India also increased from US\$ 440.6 million in 2004 to US\$ 502.7 million in 2005.

Exports of food products constituted 10 per cent of total Indian exports. The major food and agro items exported from India are marine items, cereals and preparation, nuts, processed foods, beverages etc.

India also imports several food products, valued at US\$ 3,665.98 million in fiscal year 2004. This was 21.1 per cent higher than the previous year figure of US\$ 3,026.2 million. The major import commodities and products pertaining to this sector are edible oil (mainly palm oil), pulses and nuts. Food imports constituted nearly 5 per cent of total imports for India.

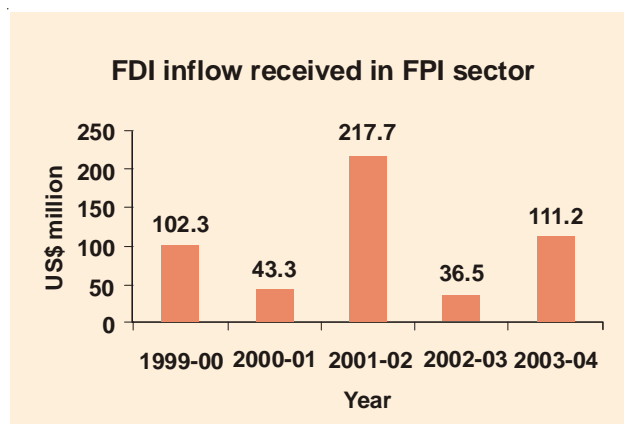
The significant share of food products in India's trade reflects the importance of this sector for India's growth as a global economy. Increasing trade in food products indicates not only opportunity for growth in food processing, but also greater acceptance and demand for processed food from India in overseas markets.

Growth in Foreign Direct Investment (FDI)

According to the Reserve Bank of India, the actual inflow of foreign direct investment (FDI) in the food and food processing sector has been over US\$ 711.4 million till March, 2004. Total FDI in 2004 in the sector was US\$ 111.2 million up from US\$ 36.5 million in 2003.

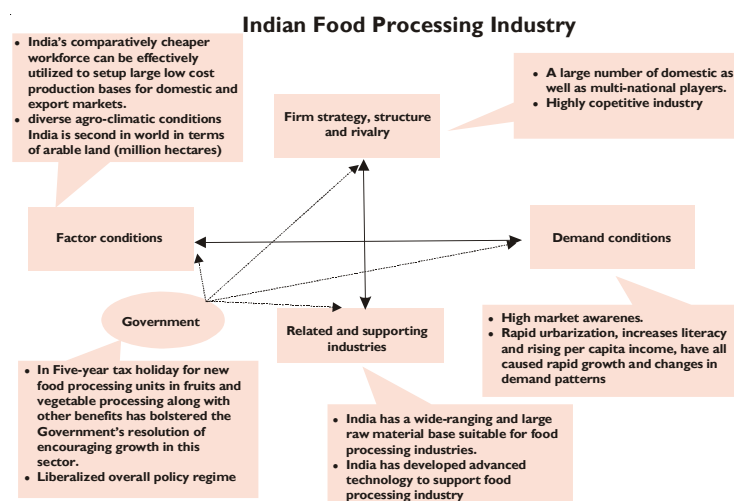
Nearly 30 per cent of FDI in this sector comes from EU countries such as Netherlands, Germany, Italy and France. Some of the successful ventures from EU countries are Perfetti, Cadbury, Godrej-Pilbury, Nutricia International, Manjini Comaco, etc.

Competitive Advantage



Source: Ministry of Food Processing Industry, Annual Report 2005

India has several competitive advantages in the food processing sector, which have been analysed using the framework shown below.



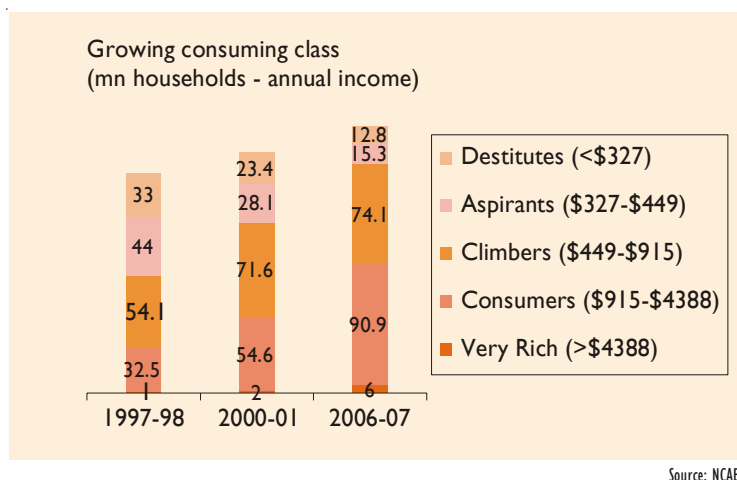
Source: KPMG Analysis

Demand conditions

India offers a huge growth opportunity for the food processing sector due to the positive impact of demographic trends and expected regulatory changes.

Large target consumer base and rising income levels:

India population is nearly 23 per cent of the global population and is one of the most attractive consumer markets in the world today.



Income levels across population segments have been growing in India. According to NCAER data, the consuming class, with an annual income of US\$ 980 (INR 45000) or above, is growing and is expected to constitute over 80 per cent of the population by 2009-10. The increase in income levels of the Indian population and the emergence of the consuming class that has higher propensity to spend, offers great growth opportunities for companies across various sectors.

Changing age profile of the Indian population

As a consequence of the high birth rates prevalent until the 1990s, a large proportion of the Indian population is relatively young - in the age group of 20-59 years. This group is also high in consumption and therefore, this trend is expected to provide a further boost to the growth of consumption in India.

Changing lifestyles

Urban consumers in India have become more exposed to western lifestyles, through overseas travel and presence of foreign media in India. For example, more than 5 million Indians travelled abroad last year and this number is expected to increase by 15 per cent to 20 per cent per annum. Increase in the population of working women and increasing prevalence of nuclear double-income families, especially in urban areas, are other trends shaping lifestyles.

The food processing sector has been impacted by these trends as there has been an increase in the demand for processed, ready-to-cook and ready-to-eat food. It has been assessed by Euromonitor International, a market research company, that the amount of money Indians spend on meals outside the home has more than doubled in the past decade to about US\$ 5 billion a year, and is expected to further double in the next 5 years. These trends imply significant growth potential for the sector in future and add to its investment attractiveness.

Factor conditions

India has a comparative edge over several other nations in terms of its access to natural resources.

India's Competitive edge in Food Processing			
	India	Global Rank	Share in Global Production (%)
Arable Land (million hectare)	161	2	
Irrigated Land (million hectare)	55	1	
Coast line (km)	7000	19	
Major Food Crops (MT)	35	3	4
Fruits (MT)	47	2	10
Vegetables (MT)	82	2	10
Rice/Paddy (MT)	132	2	22
Wheat (MT)	65	2	12
Milk (MT)	88	1	16
Sugarcane (MT)	289	2	21
Pulses (MT)	12	1	21
Tea (MT)	0.88	1	28
Edible Oil seed (MT)	25	3	7
Cattle (million)	226	1	16

Source : Cygnus report, India food processing Sector, 2005

Due to its diverse agro-climatic conditions, it has a wide-ranging and large raw material base suitable for food processing industries. Presently a very small percentage of these are processed into value added products. The semi-processed and ready to eat packaged food segment is relatively new and evolving.

India has the largest irrigated land in the world. It is also world's largest producer of milk, tea and pulses. India has large marine product and processing potential with varied fish resources along the 8,041 km coastline, 28,000 km of rivers and millions of hectares of reservoirs and brackish water. India also possesses the largest livestock population in the world with 50 per cent of world's buffaloes and 20 per cent of cattle. Also, India is the world's largest milk producer.

India's comparatively cheaper workforce can be effectively utilised to set up large low cost production bases for domestic and export markets. Cost of production in India is lower by about 40 per cent over a comparable location in EU and 10-15 per cent over a location in UK.

Along with these factor conditions, India has access to significant investments to facilitate food processing industry. There have been increasing investments not only by domestic firms and Indian government, but also foreign investors.

Related and supporting industries

The Indian food processing industry has significant support from the well-developed R&D and technical capabilities of Indian firms.

India has a large number of research institutions like Central Food Technological Research Institute, Central Institute of Fisheries Technology, National Dairy Research Institute, National Research and Development Centre etc to support the technology and development in food processing sector in India.

Industry competitiveness

The Indian food processing sector is highly competitive.

There are a large number of players in the organised as well as unorganised sector. The organised sector is small but growing - for example, it forms less than 15 per cent of the dairy sector and around 48 per cent of the fruits and vegetable processing.

The sector offers potential for growth and a large number of MNCs have entered into India to leverage this opportunity.

Some of the successful overseas players in this sector include Unilever, Cadbury, Nestle and Pepsi. These players face competition from strong Indian brands. Companies have adopted various strategies to maintain and increase their market share in India. These include competitive pricing, aggressive advertising campaign, expansion plans etc. Examples of such strategies are:

- Agro Tech Foods uses two strategies to counter the threat of low priced competition. By launching lower-priced blended oils under the Sundrop umbrella, and acquiring a fairly strong presence in the mass market for edible oils through its low priced brand, Crystal. Secondly, it has re-engineered its costs to lower its own fixed cost structure.
- In the mass segment, Britannia has introduced biscuit packs at lower price points.
- Gits is strategically growing and broadening its export market and has launched new international style export packaging.
- The strategy followed by Haldiram is competitive pricing and labour intensive products that predominantly cater to the Indian palette. It follows aggressive marketing in terms of TV advertisements, print ads and kiosks of Haldiram's range of products at railway stations.
- Hindustan Level Limited has followed the strategy of divesting its non-core businesses and focusing on its food business as a growth driver.
- New products are being continuously launched in all product segments by Nestle. The dairy portfolio consisting of regular and flavoured curds, skimmed milk and fruit-based milk, condensed milk and butter is being expanded by launch of lassi and cheese.

High level of competition within the industry has lead to innovations in several areas, thereby raising the overall capability levels in the sector. This will facilitate sustained growth in the sector and help it to become globally competitive.

Government regulations and support

The Government of India has been working to develop the food processing industry in India through several initiatives. One indication of the importance that the sector receives is the almost doubling of the present outlay for the sector from US \$19.5 million in 2004-05 to US\$ 41.35 million next year. The government has been developing agri-zones and the concept of mega food parks to promote food processing industry in India. It is considering investing US\$22.97 million in at least 10 mega food parks in the country besides working towards offering 100 per cent foreign direct investment and income tax benefits in the sector.

In order to promote investment in the food processing sector, several policy initiatives have been taken during recent years. The liberalised overall policy regime, with specific incentives for high priority food processing sector, provides a very conducive environment for investments and exports in the sector. Some of the initiatives include:

- Allowing full repatriation of profits and capital.
- Automatic approvals for foreign investment up to 100 per cent, except in few cases, and also technology transfer.
- Zero duty import of capital goods and raw material for 100 per cent export-oriented units.
- Allowing sales of up to 50 per cent in domestic tariff area for agro-based, 100 per cent export oriented units.
- Government grants given for setting up common facilities in Agro Food Park.
- Full duty exemption on all imports for units in export processing zones.

Sector-specific government policies

Sector	Policy
Fruits & Vegetables(F&V)	<ul style="list-style-type: none">• Though no industrial license is required for setting up Fruits & Vegetable Processing industries, setting-up 100 per cent Export Oriented Units require specific Govt. approvals.• Many Fruits & Vegetables Processing industries are eligible for automatic approval of foreign technology agreement and up to 51 per cent foreign equity participation including tomatoes, mushrooms & other frozen vegetables, fruit, nuts, fruit-peel, fruit jellies, marmalades, fruit juices & vegetable juices etc.

	<ul style="list-style-type: none"> • This sector is regulated by the Fruit Products Order, 1955 (FPO), issued under the Essential Commodities Act. • All processing units are required to obtain a license under this order. • Some items like: pickles & chutneys, tapioca sago and tapioca flour are reserved for exclusive manufacture in the small scale sector. • Export of fruit & vegetable products is freely allowed.
Fisheries	<ul style="list-style-type: none"> • Foreign equity is permitted in fish processing sector. Fish processing projects with a minimum of 20 per cent value addition can be set up as 100 per cent Export Oriented Units. • All items can be exported freely except for silver pomfrets of weight less than 300 gms. • Export of marine products is allowed only after registration of the units as an exporter with the Marine Products Export Development Authority (MPEDA), Cochin.
Meat & Poultry	<ul style="list-style-type: none"> • The Meat Products Control Order, 1973 under the Essential Commodities Act, 1954 regulates the manufacture, quality and sale of all meat products • A license is required under this order to set up of a factory for producing/processing meat products. • Export of meat is subjected to pre-shipment inspection and a certificate is required from State Animal Husbandry Department/Directorate of Marketing and Inspection • Slaughter of cows is banned in most of the States. Export of beef is prohibited. • A No Objection Certificate (NOC) has to be obtained from the District administration for the slaughter of cattle, buffaloes etc. • Permission from the civic bodies/State Government (Department of Animal Husbandry) is also required before setting up a meat processing unit integrated with a slaughter house.
Milk & Milk products	<ul style="list-style-type: none"> • Milk and Milk Products Order (MMPO) regulates milk and milk products production in the country. The order requires no permission for units handling less than 10,000 litres of liquid milk per day or milk solids up to 500 tonnes per annum. • All the milk products except malted foods are covered in the category of industries for which foreign equity participation up to 51 per cent is automatically allowed. • Ice cream, which was earlier reserved for manufacturing in the small scale sector, has now been de-reserved. As such, no license is required for setting up of large scale production facilities for manufacture of ice cream.

- Subsequent to decanalisation, exports of some milk based products are freely allowed provided these units comply with the compulsory inspection requirements of concerned agencies like: National Dairy Development Board, Export Inspection Council etc.

Grains

- The Rice Milling Industry (Regulation) Act 1958 & Rice Milling Industry (Regulation & Licensing) Rules 1959 have been repealed from 28 May, 1997.
- Rice milling and pulse milling sectors, which were earlier reserved for the small scale sector, have now been dereserved.
- Since liberalisation, there is no license requirement for setting up or capacity expansion of roller flour mills. The mills can obtain their wheat supply from any source.
- There is no license requirement or price/distribution controls on manufacture of wheat products.

Packaged Foods

- The industry is delicensed and automatic approval for foreign investment up to 51 per cent of equity (except for items like malted food and items which are reserved for production in small scale sector) is granted.
- The setting up of 100 per cent export oriented units requires specific govt. approval.
- The packaging laws and regulations affecting food products are mainly covered under the Standards of Weights and Measures Act, 1976, and the Standards of Weights and Measures (Packaged Commodities) Rules, 1977 (SVMA) specifying the quantity and package-labelling regulations for all products.
- The Prevention of Food Adulteration Act, 1954, and the Prevention of Food Adulteration Rules, 1955 (PFA) specify food adulteration/contamination norms and permissible ingredients' from consumer health and safety point of view.
- The Agmark Rules relate to the quality specifications and needs of certain agricultural products to be eligible for Agmark certification.

Profile of domestic and overseas players

Profile of domestic 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% of the total share capital.• Dabur Foods is a 100% subsidiary of Dabur India• Turnover of Rs 858 million in 2004

The company will focus on boosting institutional sales to hotels, restaurants and caterers in addition to retail sales

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% of its total revenue.• Gits is an unlisted private family owned business.
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Gits is strategically growing and broadening its export market and has launched new international style export packaging.

Godrej Industries Ltd	Beverages and Staples	Edible oils, vanaspati, bakery fats, fruit drinks, fruit nectar, fruit juices and tomato puree.	<ul style="list-style-type: none">• Revenues from the food segment were US\$ 41.3 million (Rs1.9bn) in FY04.
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The company's strategy is to increase capacity utilization in edible oils and to tap the niche health conscious market

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.• Exports to USA, UK, Canada, Australia, Singapore and the UAE.
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Player	Segment	Products	About the company
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The strategy followed is competitive pricing and labor intensive products that predominantly cater to the India palette

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\$ 261 million (Rs12bn), with the export market accounting for approximately 10 per cent of MTR's total sales. An ISO 9002 and HACCP certified company is amongst the top five processed food manufacturers in India.
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After establishing itself in the south, MTR is developing its brand in the west and north Indian markets in line with the rapid expansion of its product

Parle Agro Private 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.
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The Backward integration and aggressive media campaign for its products launches has broadly been its strategy.

Milkfood	Dairy Products	Milk powder, baby food, cheese and other milk products.	<ul style="list-style-type: none"> The company is a subsidiary LP Investments Ltd. which is a wholly owned subsidiary of Jagatjit Industries Ltd. PBDIT of around US\$ 0.8 million in 2004.
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Player	Segment	Products	About the company
Hindustan Lever Limited(HLL)	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 percent of HLL'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. HLL's brands, spread across 20 distinct consumer categories, with combined volumes of about 4mn tonnes and sales of US\$ 2.17 billion (Rs100billion). HLL's Foods segment is at 9 per cent, beverages are at 12percent of its businesses.

HLL has followed the strategy of divesting its non-core businesses and focusing on its food business as a growth driver.

Britannia Industries Ltd.	Bakery Products	Biscuits, flavored milk, dairy whitener, ghee, bread, cake and rusk	<ul style="list-style-type: none"> A leading player in the Indian organised 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. Sales of Rs. 14.7 bn in 2004
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Britannia will strengthen its position by launching new products and improving volumes and introducing variants of the existing ones

Player	Segment	Products	About the company
Agro Tech Foods	Staples and snack food	Wheat flour (atta), edible oil, vanaspati, popcorn, french fries and green peas.	<ul style="list-style-type: none"> · A dominant player in the edible oils and branded foods sector, in India. · ConAgra Foods Inc of USA, world's third largest foods company, along with Tiger Brands of South Africa holds a majority stake of 52.3 percent in Agro Tech Foods Ltd, through CAG Tech Holdings, Mauritius. · Revenue: US\$ 274.2 million (Rs 12.6 bn in 2004)

Intends to diversify its product portfolio and faray into new markets by focusing on vending as an important mode for product and brand differentiation

ITC Ltd.	Staples and Snack Foods	Wheat flour-atta, salt, ready-to-eat meals, biscuits, confectioneries, snacks and cooking paste.	<ul style="list-style-type: none"> · ITC is a listed company with British American Tobacco (BAT) holding 33 per cent stake and Institutions holding 50 per cent stake. · ITC made its entry into the branded & packaged foods business in August 2001 with the launch of the Kitchens of India brand. · A more broad based entry was made in mid 2002 and the company currently has a wider portfolio in the confectionery, staples and snack foods segments.
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ITC's Corporate strategy aims at creating multiple drives of growth using its wide distribution reach, superior brand building capabilities, effective supply chain management and acknowledged service skills in hoteliering.

Player	Segment	Products	About the company
Nestle India Pvt Ltd	Dairy, Beverages and Snack Foods	Instant coffee, condensed milk, dairy whitener, infant food, chocolates and confectioneries.	<ul style="list-style-type: none"> · Incorporated in 1959 as Food Specialties, Nestle Alimentana, Switzerland promoted Nestle India (NIL). · Nestle India is a 51 percent subsidiary of Nestle SA (founded 1866), which is today the world's largest food and beverage company. · Gross turnover in the year 2003 was US\$ 475 million (Rs 23 billion)

The company is focusing on launching new products in all product segments.

Pepsico India Holdings	Beverages and Snack food	Soft drink, fruit juice and chips	<ul style="list-style-type: none"> · PepsiCo was founded in 1965 through the merger of Pepsi-Cola and Frito-Lay. · Tropicana was acquired in 1998 and PepsiCo merged with The Quaker Oats Company, including Gatorade, in 2001.
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Pepsi's focus is high volume scales and is planning to raise capacity by setting up of new greenfield plants as well as appointing new franchisee bottlers.

Cadbury India Ltd.	Confectionery	Chocolates, hard boiled confectionery, malt foods, cocoa powder	<ul style="list-style-type: none"> · Cadbury, a subsidiary of Cadbury Schweppes is a dominating player in the Indian chocolate market with strong brands like Dairy Milk, Five Star, Perk, Gems etc. · Dairy milk is the largest chocolate brand in India. · Chocolates and confectionery contribute to 75 per cent of Cadbury's turnover. · Sales of around US\$ 166 million in 2004.
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The company plans to increase franchise of its existing brands and continue to explore new product opportunities including adjacent market opportunities.

Positive outlook for the future

Indian food processing industry has seen significant growth and changes over the past few years, driven by changing trends in markets, consumer segments and regulations. These trends, such as changing demographics, growing population and rapid urbanisation are expected to continue in the future and, therefore, will shape the demand for value added products and thus for food processing industry in India. The Government of India's focus towards food processing industry as a priority sector is expected to ensure policies to support investment in this sector and attract more FDI. India, having access to vast pool of natural resources and growing technical knowledge base, has strong comparative advantages over other nations in this industry. The food processing sector in India is clearly an attractive sector for investment and offers significant growth potential to investors.

Exchange rates used

The following exchange rates have been used for Rupee to Dollar conversion. (Source: <http://www.x-rates.com>)

Financial Year	1 US\$ = Rupees
1995-96	33.48
1996-97	35.58
1997-98	37.22
1998-99	42.13
1999-00	43.40
2000-01	45.75
2001-02	47.73
2002-03	48.42
2003-04	45.95
2004-05	44.8

CONTACT FOR INFORMATION

Information on the market and opportunities for investment in the food processing sector in India can be obtained from the Confederation of Indian Industry (CII), which works with the objective of creating a symbiotic interface between industry, government and domestic and international investors.

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