

FOOD PROCESSING INDUSTRY IN INDIA: OPPORTUNITIES, CHALLENGES AND FUTURE

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ABSTRACT

The present paper deals with the food processing industry and its meaning. It also deals with the Indian context of Food Processing Industry. India ranks first in production of milk pulses and tea & second in the production of fruits and vegetables in the world and second largest food producer in the world after China. The paper further discusses the opportunities in food processing industry. India being a fast growing economy has a lot of scope and opportunities in this sector. Paper also takes concern of the challenges and problems that the food processing sector in India face. There are a lot of reasons why one should invest in the food processing industry which has been discussed herein. In the end the paper gives a brief about the future of the industry in India.

KEYWORDS: *Food Processing Industry, Fast Growing Economy, Food Producer.*

Introduction

Food processing is the set of methods and techniques used to transform raw ingredients into food or to transform food into other forms for consumption by humans or animals either in the home or by the food processing industry.

Indian Context and Role of Ministry of Food Processing Industries

India ranks first in the production of milk, pulses and tea & second in the production of fruits and vegetables in the world. Despite being a major food producer, India's share in world food trade is less than 2%. The level of processing in India is extremely low at around 6% compared to 60-80% in developed countries and over 30% even in most other Asian and Latin American developing countries. There is clearly very high wastage and very low value addition in our country, with corresponding loss of business opportunities as well as losses in farm income.

The food processing sector has undoubtedly the potential to be an industry driver that can transform India's rural economy. There are a number of constraints both in the forward and backward linkages in the sector. But if we can get our act together, as we must, India can emerge as a leader in the global food processing industry. That should be our ambition. Most of India's large industrial houses have a growing presence in the food processing sector. Despite the economic slowdown, the food processing industry in India grew at an impressive rate of 14.7% in 2008-09.

The Ministry of Food Processing Industries is in the process of formulating a National Food Processing Policy, which will spell out the vision of the government for the rapid growth of the food processing sector.

The policy to be effective will have to be comprehensive and adopt a number of legislative, administrative and promotional measures. The policy should evolve through discussions with the States and industry both in the public and private sector. It should promote the development of viable agri-business and agro industry models based on different agro-climates and regions of this vast country. It should look at institutional strengthening and capacity building across the value chain.

The policy should seek to promote innovation and technological development. Improved technologies to prolong the shelf life of vegetables and fruits, better packaging machinery and cold storage systems are just some of the areas where more work is needed. The Central Food Technology Research Institute should play a more central and pro-active role in promoting the knowledge base of the industry through greater public private partnerships in technology development.

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The R&D base of the industry also needs considerable strengthening. While basic agricultural research has a very strong and large institutional network in the country, there is inadequate focus on the food processing sector.

Another critical objective should be for the industry to reach international standards of food safety and quality. This requires a multi pronged effort. There is no reason why Indian consumers should not demand and get products meeting the highest quality and safety standards in the world.

According to many industry experts, Indian food processing industry is a sleeping giant and government initiatives will definitely encourage the rapid growth in this sector.

Opportunities for the Food Processing Industry in India

In India agricultural and dairy sectors have achieved remarkable successes over the last three and a half decades. Besides being one of the world's largest producers of food-grains, India ranks second in the world in the production of fruits and vegetables, and first in milk production providing much needed food security to the nation.

This report has also identified some of the major challenges for the emerging food industry in India.

Major Challenges for the Indian Food Industry

- Consumer education that processed foods can be more nutritious
- Low price-elasticity for processed food products
- Need for distribution network and cold chain
- Backward-forward integration from farm to consumers
- Development of marketing channels
- Development of linkages between industry, government and institutions
- Taxation in line with other nations

Reasons for Investing in Food Processing Sector

- **Vast Source of Raw Material**

India is one of the largest producers of wheat and rice.

Coconuts, cashew nuts, ginger, turmeric and black pepper is widely grown in some parts of the country. India is the second largest producer of groundnuts, fruits and vegetables. That it accounts for about 10 per cent of the world's fruits production with the country topping in the production of mangoes and bananas.

Alcoholic beverages have been categorised as the new high opportunity sector in India. Liquor manufactured in India is categorised as Indian Made Foreign Liquor (IMFL). The sector is still barred from the import of potable alcohol as it is subject to government licensing. In the meanwhile, India has recently started producing wine for domestic consumption.

- **Market in the Form of Large Urban Middle Class**

With a huge population of 1.08 billion and population growth of about 1.6 % per annum, India is a large and growing market for food products. Its 350 million strong urban middle class with its changing food habits poses a huge market for agricultural products and processed food.

- **Low Production Cost**

The relatively low-cost but skilled workforce can be effectively utilised to set up large, low-cost production bases for domestic and export markets.

- **Government Assistance**

The Government has introduced several schemes to provide financial assistance for setting up and modernizing of food processing units, creation of infrastructure, support for research and development and human resource development in addition to other promotional measures to encourage the growth of the processed food sector.

- **Foreign Direct Investment**

Foreign direct investment (FDI) in the country's food sector is poised to hit the US\$ 3-billion mark in coming years. FDI approvals in food processing have doubled in last one year alone. The cumulative FDI inflow in food processing reached US\$ 2,804 million in March '06. In '05-06, the sector

received approvals worth US\$ 41 million. This figure is almost double the US\$ 22 million approved in 2004-05. The US-based private equity fund, New Vernon Private Equity Limited (NVPEL), has decided to invest Rs 45 crore in Kochi-based spice major, Eastern Condiments, which is the flagship company of Eastern Group. America's largest chocolate and confectionery-maker Hershey is acquiring 51 per cent stake in Godrej Beverages and Foods for US\$ 54 million.

- **Food Parks**

In an effort to boost the food sector, the Government is working on agri zones and the concept of mega food parks. Twenty such mega parks will come are proposed across the country in various cities to attract Foreign Direct Investment (FDI) in the food-processing sector. The Government has released a total assistance of US\$ 23 million to implement the Food Parks Scheme. It has so far approved 50 food parks for assistance across the country. The Centre also plans US\$ 22 billion subsidy for mega food processing parks.

- **Conducive Food Processing Policy Environment**

The national policy on food processing aims at increasing the level of food processing from the present 2 per cent to 10 per cent by 2010 and 25 per cent by 2025. The government has allowed 100 per cent FDI in processing sector.

The Policy will seek to create an appropriate environment for entrepreneurs to set up Food Processing Industries through:

- Fiscal initiatives and interventions like rationalization of tax structure on fresh foods as well as processed foods and machinery used for the production of processed foods.
- A concerted promotion campaign to create market for processed foods by providing financial assistance to Industry Associations, NGOs/Cooperatives, Private Sector Units, State Government Organization for undertaking generic market promotion.
- Harmonization and simplification of food laws by an appropriate enactment to cover all provisions relating to food products so that the existing system of multiple laws is replaced and also covering issues concerning standards Nutrition, Merit goods, futures marketing, equalisation fund etc.
- Efforts to expand the availability of the right kind and quality of raw material round the year by increasing production, improving productivity.
- Strengthening of database and market intelligence system through studies and surveys to be conducted in various States to enable planned investment in the appropriate sector matching with the availability of raw material and marketability of processed products.
- Strengthening extension services and to the farmers and co-operatives in the areas of post harvest management of agro-produce to encourage creation of pre-processing facilities near the farms like washing, fumigation, packaging etc.
- Efforts to encourage setting up of agro-processing facilities as close to the area of production as possible to avoid wastage and reduce transportation cost.
- Promotion of investments, both foreign and domestic.

Future Ahead

The vision 2015 of the Government of India for the food-processing sector aims at:

- Enhancing and stabilizing the income level of the farmers
- Providing choice to consumers in terms of wide variety and taste including traditional ethnic food
- Providing greater assurance in terms of safety and quality of food to consumers
- Promoting a dynamic food processing industry
- Enhancing the competitiveness of food processing industry in both domestic as well as international markets
- Making the food processing sector attractive for both domestic and foreign investors
- Achieving integration of the food processing infrastructure from farm to market
- Having a transparent and industry friendly regulatory regime
- Putting in place a transparent system of standards based on science

The following specific targets would be to increase:

- The level of processing of perishables from 6% to 20%
- Value addition from 20% to 35%
- Share in global food trade from 1.5% to 3%, by the year 2015

Conclusion

Given the trends in the Indian food and beverage sector including key industry consideration, it is imperative for the Indian industry to leverage the emerging opportunities at once. These could be:

- Exploitation of the huge untapped potential in processed foods.
- Opportunities presented by contract farming, captive supplies of raw materials, disintermediation and direct access to farmers, availability of new and improved seeds and farm technology.
- Value addition to unprocessed categories of food such as dairy, fruits and vegetable, staples and edible oils.
- Exploitation of increasing health and safety awareness of the Indian consumer - this would pave the way for value added products on a health platform.
- Investment in supply chain in order to improve costs, tighten supplies and minimize wastage.
- Investment in better packaging and cold chain infrastructure will aid the processed food and beverage sector as these would aid in processing of fruits and vegetables.
- Exploration of appropriate regional branding strategies in order to appeal to the deep rooted traditions, values and customs of the consumer
- Taking advantage of the inherent ethnic tastes and food habits of the Indian consumer -- this provides the local food players a distinct advantage over foreign entrants into the sector and poses an entry barrier for the latter
- Exploitation of the increasing consumerism fuelled by new job opportunities, larger disposable incomes and the emerging boom in modern retail trade.
- Opportunities for growth through the inorganic route, both domestically and outbound this would provide access to new product categories, brands, markets and new technologies.
- The SEZ /AEZ opportunity would also provide players the added incentive to develop greenfield projects within these zones and enjoy additional fiscal benefits.

The Indian Foods & Beverage industry is poised for a significant leap forward- these are interesting times and continued success will depend on a proper understanding of the landscape and challenges therein, quickly exploiting emerging opportunities, skillful execution of strategic mergers and acquisitions and effecting a seamless organisation to evolve into truly global players.

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