



A STUDY ON CHALLENGES AND OPPORTUNITIES FOR THE READY TO EAT FOOD PRODUCTS IN INDIA

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ABSTRACT :

Food processing sector is a key industry in India. India is the second largest producer of food products in the world next to China. The growth in food processing industry will bring overall development in the economy as it establishes a vital synergy between the two main pillars of economy, agriculture and industry. With India is making a shift in its policy to 'Make in India' numerous gates of growth and development opens up for the food processing industry. The present paper is an attempt to identify the various prospects that will lead the development path of the food processing



sector in India. Also study makes an attempt to identify constraints that may create hurdles in the path of development. . This study has been done on the basis of secondary data. Secondary data was collected from journals, books, magazines and the Internet as well as government agencies.

KEYWORDS : Food Processing, Make in India, Economic Growth.

INTRODUCTION

India is a country with a population of 1.2 billion growing at a rate of 1.25% per annum (GOI, 2011). If we take into consideration the land resources, India, with the second largest arable land in the world, and with diverse agro-climatic zones across the country, has tremendous production advantages in agriculture, with the potential to cultivate a vast range of agricultural products. With the success of Green Revolution, in the later half of the 1960s, India became a food surplus country. In 2014-15 the food grain production in the country was 241.5 million tonnes (MOFPI, Government of India, 2015) (Department of Agriculture and Co-operation) and fruits and vegetable production reaching to 88.97 Million Metric tonnes and 162.89 Million Metric Tonnes (Department of Agriculture and Co-operation) respectively. India ranks first in the world in the production of Milk, Pulses, Ginger, Bananas, Guavas, Papayas and Mangoes. Further, India ranks second in the world in the production of Rice, Wheat, Vegetable and horticulture products. (MOFPI, Government of India, 2015) These abundant supplies of raw materials show immense potential that could be trapped in order to boost the food processing sector in India. The food processing industry in India is a promising sector that has gained prominence over the recent years. It is one of the largest industries and ranks fifth in terms of production, consumption, export and expected growth. With the huge production base, India can easily become a leading food supplier to the world (Devi, 2014). Food products are the single largest component of private consumption expenditure, accounting for as much as 49 per cent of the total

spending(Viswanadham, 2008). With such a huge population base in India has the potential to become the largest producer and market both for the processed food products.

Food processing industry is the connecting link between agriculture and manufacturing sector. Understanding the importance of this link Government of India, under its Make in India initiative included Food Processing Sector among 25 sectors that were given priority in the initiative. The food processing industry is critical in an agriculture-based economy like India, where it not only commercializes the farming, but also helps in raising the income of farmers. The Make in India program is aimed to facilitate investment, foster innovation, enhance skill development, protect intellectual property rights, and built best-in-class manufacturing infrastructure. The prime motive of the initiative is to make India a manufacturing hub. Make in India is a new initiative of Government of India which aims to encourage manufacturers both multinational and domestic to manufacture in India. The main motive of this initiative is to make India as a top destination for foreign direct investment. The main focus of the policy is to enhance skill development and job creation in various sectors of the economy. The initiative also aims at attracting capital and technology investments also the focus is on meeting high quality standards with a minimal impact on the environment. Of the 25 sectors identified government has allowed 100% FDI through automatic route except space 74%, defence 49% and news media 26%.(DIPP, Ministry of Commerce, 2014)

1. Objectives of Study

- a) To analyze the present status of food processing industry in India.
- b) To identify the key growth drivers for the food processing industry in India.
- c) To identify the major constraints that has to be addressed for boosting growth in the industry.
- d) To identify the possible impetus that Make in India could provide to boost up the growth of the sector.

2. Research Methodology

The present study is based on secondary data. The relevant material and secondary data were collected from various sources, official and unofficial both. The various sources of information are as follows:

- Reports from various government agencies like, Ministry of Food Processing Industries, Ministry of finance, Ministry of Agriculture and Co-operation, Department of Industrial Policy and Promotion, etc.
- Reports from various other institutions like ASSOCHAM, CII, CCI, etc.

3. RESULT AND DISCUSSION

3.1. Present Status of Food Processing Industry in India

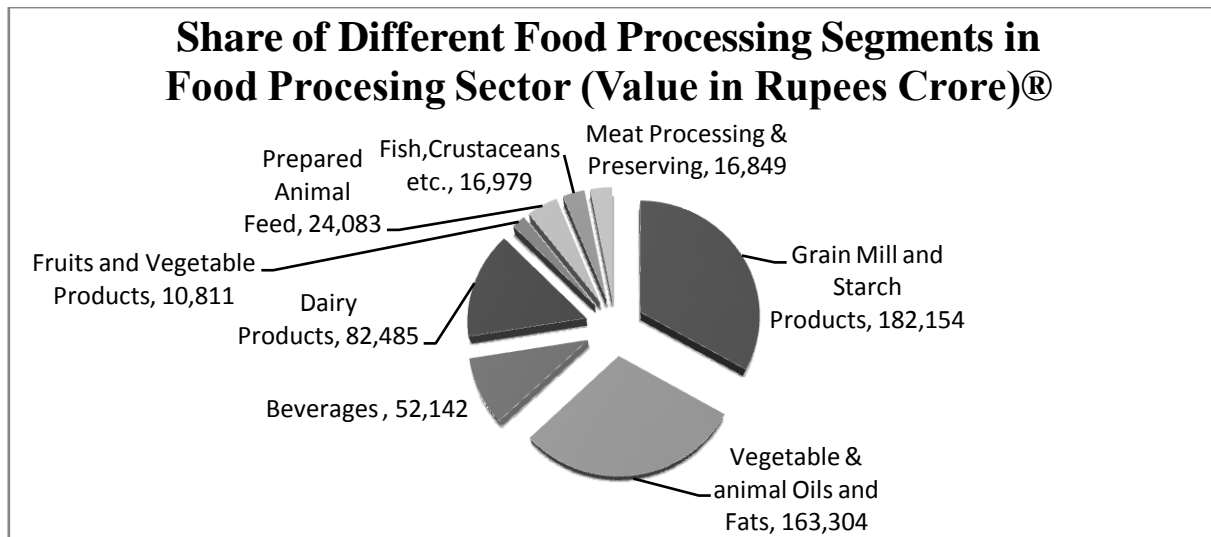
India is a vast land that constitutes almost 2.4 per cent of world's land, with 195.25 million hectares of gross cropped area, 62.26 million hectares of net irrigated area and with 127 agro-climatic zones, (Ministry of Finance, 2015) India has a vast potential in agricultural sector. This is one of the major factors for a large raw material base for India food industry.

The food industry in India covers a wide range of activities such as agriculture, horticulture, animal husbandry, plantation crops, and fisheries. Ministry of Food Processing Industries, Government of India categorises the food processing into following:

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

The segment wise share is given in the chart given below, where it is clearly visible that the largest share in the food processing sector belongs to grain mill and starch products followed by

vegetable & animal oils and fats. There is also a prominent share of fruits and vegetables and animal feed, this shows that still agriculture and horticulture forms a large base for raw materials for the food processing industries. Though, the level of processing of agro-products is 2.2 per cent in India, as compared to more than 80 per cent in Malaysia, 78 per cent in Philippines, 70 per cent in Brazil, and 40 per cent in China(Food and Agricultural Organisation, 2014). This shows that Indian food processing sector has tremendous opportunity for development.



(Source: Ministry of Food Processing Industries, Annual Report, 2014-15)

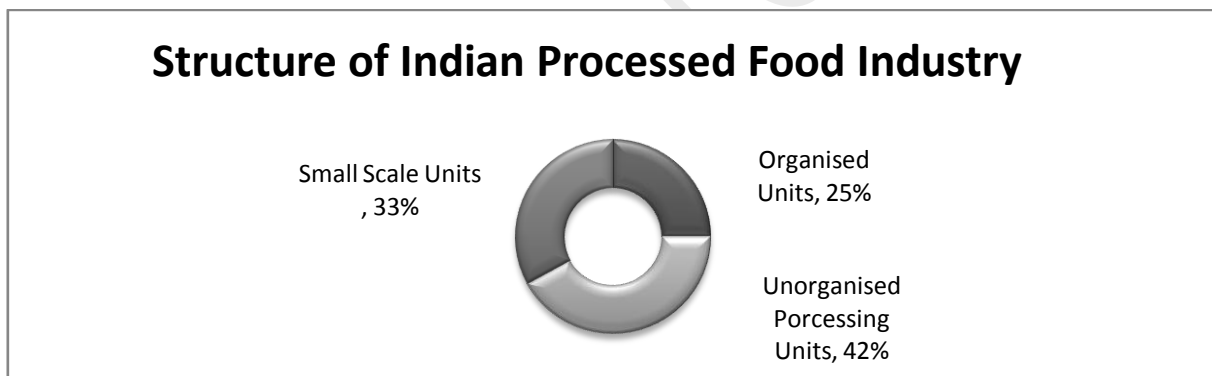
The Indian food processing industry is ranked fifth in terms of production, consumption, export and expected growth, this account for almost 32% of the country’s food market.(CCI, 2015)The food processing industry is an important contributor to the GDP of the country. The mentioned fact is evident from the table given below. From the table this can also be seen that the food processing sector is growing faster than agriculture sector. As mentioned earlier, food processing sector is the connecting link between agriculture and manufacturing, from the table this can also be verified that the food processing industry is having a prominent share in the GDP of both agriculture and manufacturing sector.

S. No	Description	2008-09	2009-10	2010-11	2011-12	2012-13	
	GDP at Factor Cost, of which	41,58,676	45,16,071	49,18,533	52,47,530	54,82,111	
	GDP-Agriculture*	5,88,757	5,92,110	6,47,305	6,82,016	6,90,646	
	GDP-Manufacturing	6,56,302	7,30,435	7,95,152	8,54,098	8,63,876	
	GDP-FPI	60,378	58,752	67,508	82,063	84,522	
	Growth (%)						AAGR**
	GDP at Factor Cost	6.7	8.6	8.9	6.7	4.5	7.1
	GDP-Agriculture*	-0.1	0.6	9.3	5.4	1.3	3.3
	GDP-	4.3	11.3	8.9	7.4	1.1	6.6

	Manufacturing						
	GDP-FPI	5.3	-2.7	14.9	21.6	3.0	8.4
	Share of FPI in GDP (%)						Average
	GDP FPI as a share of GDP in Agriculture*	10.3	9.9	10.4	12.0	12.2	11.0
	GDP FPI as a share of GDP in Manufacturing	9.2	8.0	8.5	9.6	9.8	9.0
Source: MOFPI Annual Report, 2014-15: *Excludes Forestry and Logging: **Five Year Average Annual Growth Rate							

From the above figures it is clear that sector has shown a significant growth rate in recent years. In the financial year 2011-12 FPI has shown a record growth of 21.6%, though in preceding financial years there is a tremendous decline in the growth rate of FPI, still it is higher than manufacturing and agriculture sector. Taking this growth rate trend into consideration the FPI has been given its due importance in the new Make in India initiative.

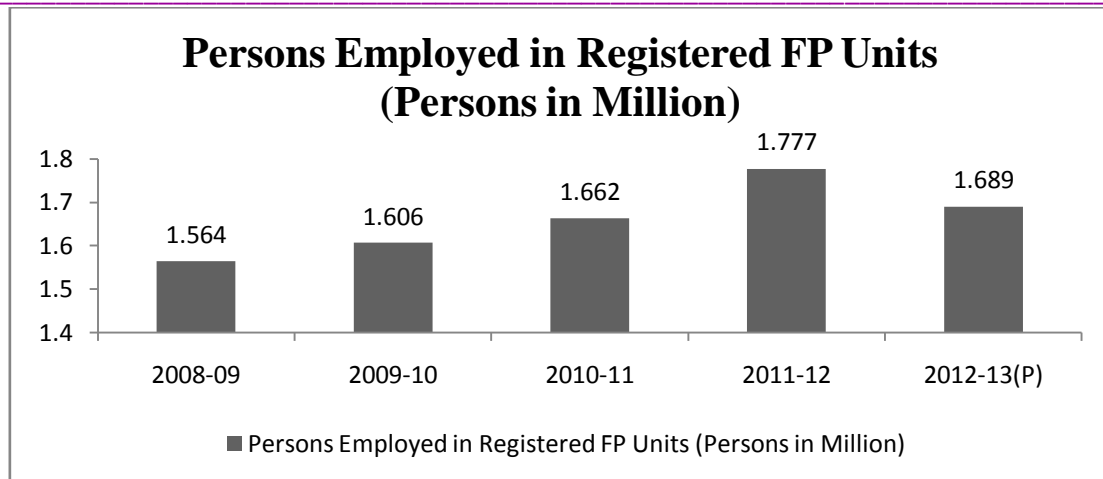
The size of Indian food-processing industry is around 2675 billion rupees, growing at a rate of 10%. Though there is investment and growth in organized units, but the industry is mainly unorganized as more than 3/4th of the processing units are unorganized or of small scale in nature. The growth in food production, which is expected to be doubled by 2025, is expected to benefit the economy with an overall development of the sector. (MOFPI, Government of India, 2015)



(Source: Annual Report 2014-15 Ministry of Food Processing Industries)

The Indian food industry represents an important and socially impactful business within the country's economy. With an addressable population of more than one billion individuals and food constituting the major part of the consumer's budget, this sector has a prominence next to no other business in the country. There is tremendous scope for improving production, introducing new food products to suit the changing tastes of the Indian consumer and for future export (Young, 2009). The food processing industry is one of the largest industries in India, ranking fifth in terms of production, consumption, export and expected growth. CII has estimated that by 2020 the food processing sector has the potential of attracting US \$ 33 billion of investment and generate employment of 9 million person days. (CCI, 2015)

Food processing sector is a major employer constituting 13.04 per cent of the all registered factory in the manufacturing sector, giving employment to 1.689 million people (MOSPI, 2012-13). NSSO 67th round suggests that organised food processing sector is supported by 4.78 million people who belongs to unorganised sector.



(Source: MOFPI, Annual Report, 2014-15)

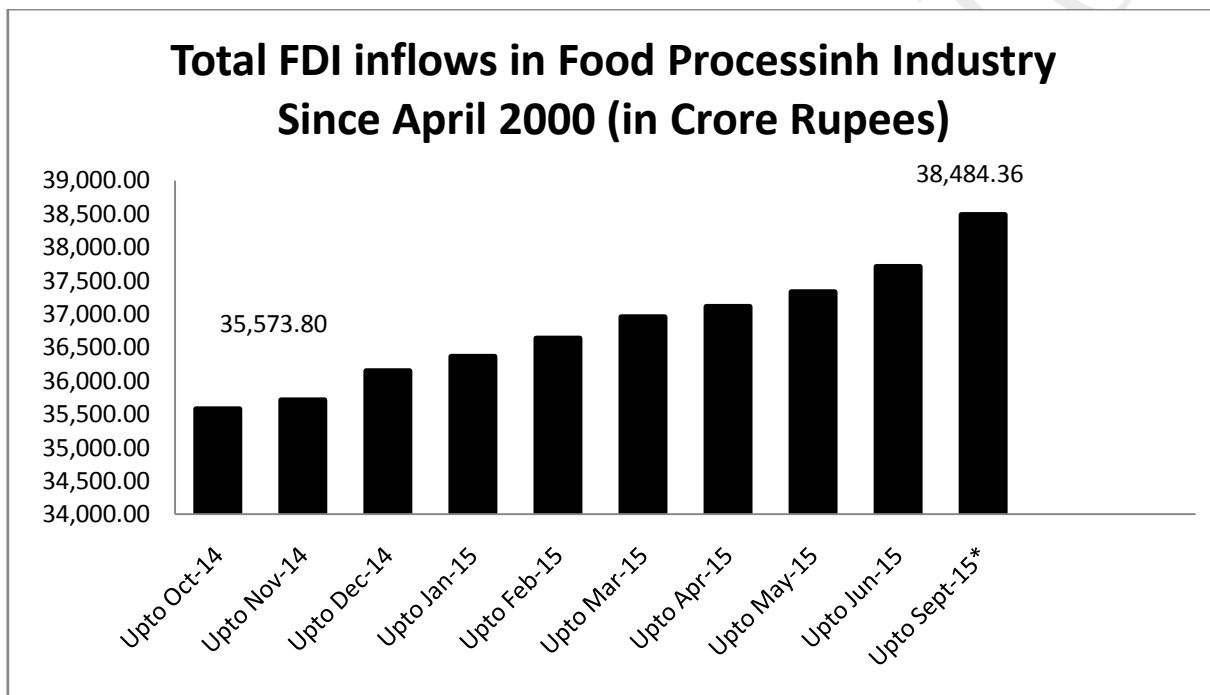
Hence, from the above analysis this can be concluded that the Indian food processing sector is still in its infant stage, it is having immense potential for growth and development. The focus should be on increasing the volume of processed food of the total agriculture produce.

4.2 Key Growth Drivers of Food Processing Industry in India

In the last decade of the 20th century, when India opened up the gates of its market to the world by adopting the policy of liberalization, privatization and globalization, it became an attractive market for the global players. With a huge base of raw materials India is on its runway to become as a sourcing hub for the processed food. Apart from this India has got a natural advantage with its diverse agro-climatic conditions and different cropping pattern. Thus, it can be said that the supply side is more than self sufficient to cater the need of the growing food processing sector in India. There are other drivers of food processing sector in India, which are as follows:

- Census data shows that India's demographic dividend is favouring the youth, with 604 million people under the age of 24 (GOI, 2011), shows that how large Indian food market is going to be in coming times.
- Studies show that one third of the total population will be living in urban areas by 2020 (GOI, 2011). Urbanization is a major factor for the development of the food processing industry in India. Hence, with such a huge population residing in the urban area there will be an increased demand of the food especially packaged and processed food.
- Census data clearly show that there is an increase in nuclear families and population of working women as well. This increasing trend will turn into a potential market for processed food products in the future.
- Various reports of government of India suggest that the consumption pattern of Indian consumer is driving towards processed packaged food. This changing pattern along with increasing population base will give a boost to demand side of the food processing sector.
- There is an extensive network of food processing training and research institutes like National Institute of Food Technology Entrepreneurship and Management, Sonapat (Haryana), Indian Institute of Crop Processing Technology, Thanjavur (Tamil Nadu), Central Food Technological Institute, Mysore (Karnataka) etc. These institutions provide training and working on new technologies to boost growth in food processing.
- Along with demographic and economic changes there are key lifestyle changes expected, which will result in transition in consumer's consumption pattern:
 - a. Growing number of nuclear working families who have limited time for cooking.
 - b. An increased incidence of lifestyle diseases such as diabetes, asthma and obesity resulting in a demand of healthy products.

- c. A growing level of international exposure, which has led to consumer awareness of newer concepts.
- d. An increased consumer awareness driven by media penetration which is not restricted to urban India.
- Favourable economic & cultural transformation, shifts in attitudes & 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.
- The most important driver is the FDI inflows for the sector, by September 2015, the total amount of FDI inflows in the food processing sector amounted to 38,484.36 Crore rupees(DIPP, Ministry of Commerce, 2014). The major destination of these FDI inflows is the food parks and mega food parks which offer various facilities to food processors, farmers, retailers and exporters, helping achieve faster growth in food processing industries. Following figure shows the trend of FDI inflows in food processing sector in past one year, especially after September 2014, when the Make in India initiative was announced.



*data of July and August 2015 not published by DIPP.

(Source: FDI Fact Sheets Released monthly by the Department of Industrial Policy and Promotion, Government of India)

These increasing trends clearly show that the confidence of foreign investors in food processing sector in India is strengthening. Within the time period of October 2014 and September 2015 the total FDI inflow was 2910.56 Crore Rupees, at a growth rate of 8.2per cent. With the initiation of the make in India policy this confidence of the foreign investors in Indian food processed industry will become stronger.

4.3 Major Constrains in the Development Path of Food Processing Sector

Like other sectors of the economy food processing sector also suffers from certain constraints. After studying various reports from different government and non government organizations following constrains has been identified that need immediate attention to smoothen the growth path of the sector.

- i. **Inadequate infrastructural facilities:** Indian food industry suffers from inadequate infrastructural facilities. Though on policy papers there have been various programmes to provide infrastructural facilities to the sector. Indian food industry has along and fragmented supply chain. The last mile connectivity is still missing from the supply chains. This is evident from the fact that transportation losses constitute the major part of the losses that is suffered by the food industry. The study conducted by MOFPI in 2010 has estimated harvest and postharvest losses of major agricultural produces at national level to be of the order of Rs. 44,143 crore per annum at 2009 wholesale prices.(MOFPI, Government of India, 2015)
- ii. **Lack of skilled and trained manpower:** Though the food processing industry is major employer, but still it suffer from shortage of skilled and semi-skilled man power. This has become a critical constrain in the development path of the sector. Today the need of the sector is not only limited to supply chain, but has extended to value chain management. This requires skilled and semi skilled manpower.
- iii. **Quality of Raw Materials:** This is a well known fact that India is the second largest food producer in the world. Thus giving a huge base of raw materials to the food processing industry, still the quality of the products received by the industry is not up to the world standard.(FICCI, 2010) Hence a major part of the produce could not be exported, and has to be sold at lower value in the domestic market. Not all varieties that are cultivated in India are fit for processing; there is a lack of processable varieties in India.
- iv. **Seasonal Availability of raw materials:** Indian agriculture is a gamble of monsoon. There always exists an uncertainty in the crop production. Apart from this the raw materials, especially fruits and vegetables are not available throughout the year, this proves to be a major hurdle in the growth of the industry.

Other than the above mentioned constraints, there are certain other constraints which need attention from various stakeholders of the processed food industry, they are:

- Lack of consumer education on nutritional importance of processed food.
- Pricing and Taxation in Indian processed food market is not at par with that of other developed and developing nations, thus making it less competitive in the global market.
- With the entrance of MNCs into the domestic market, domestic producers face a much higher competition in the domestic market in terms of price as well as the quality and standard.
- The promotion strategy adopted by the MNCs is highly intensive that it shadows the domestic products.

With the fast changing technologies the requirements of better technology are also changing, but the actual situation is that research and development could not make pace with the demand of the sector. This is emerging as a big threat for the sector.

4.4 Food Processing Industry and Make in India

Recognising the importance of food processing, Government of India gave it the status of a priority sector in New Industrial Policy, 2011. This recognition opened the gates of various opportunities for the sector. Various other initiatives were taken to give impetus to boost the growth in the sector. Some of them are:

- Cabinet Committee on Economic Affairs has allowed 100% FDI in the sector under the automatic route on most of the food products.(DIPP, Ministry of Commerce, 2014)
- In the Union Budget of 2014-15 following measures were taken for the food processing sector: (Ministry of Finance, 2015)
 - Services of pre-conditioning, pre-cooling, ripening, waxing, retail packing, labelling of fruits and vegetables have been exempted from Service Tax.
 - Exemption for 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 exempted.
 - The following services are covered under exempted category from service tax:

- Construction, erection, commissioning or installation of original works pertaining to post-harvest storage infrastructure for agricultural produce including cold storages for such purposes.
- Mechanised Food grain handling system, machinery or equipment for units processing agricultural produce as food stuff excluding alcoholic beverages.
- Services of loading, unloading, packing, storage or warehousing of agricultural produce.

With such initiatives and food processing sector being included among 25 sectors under Make in India will give the required impetus to the food processing sector. Through Make in India both domestic and foreign investors will be attracted towards the sector. Make in India will help India turning into a global outsourcing hub as this will attract large retailers due to abundant raw materials and supply & cost advantage. With a view to attract investment in this sector, Ministry of Food Processing Industry has been investing in infrastructure for promoting food processing industries. Mega Food Parks with common utility like road, electricity, water supply, sewage facility and common processing facility like pulping, packaging, cold storage, dry storage and logistics are being promoted in areas with strong agricultural resource base. These parks provide fully developed plots and factory sheds to entrepreneurs on long term lease basis where they can set up food processing units in “plug & play model”. In India, there is a huge cold chain gap of 29 Million MT(FICCI, 2010). With a view to encourage investment in cold chain logistics, income tax benefits are extended by the Government of India for attracting private investment to the sector.

4. CONCLUSION

India is the second largest producer and consumer of food, with agriculture sector playing an important role in the economic development of the country. The food processing sector is the connecting link between the agriculture and manufacturing sector becomes of vital importance in the overall economic development of the country. From the above study it is clear that the food processing industry is large in size ranking fifth in industries having a share of around 9 per cent and 11 percent in the share of manufacturing and agriculture, respectively(ASSOCHAM, 2015), still with only 2.2% of the total food produce being processed shows the technological and infrastructural drawbacks. With the initiation of Make in India policy it seems that these bottlenecks will be addressed by the increased investment form both domestic and foreign players. The policy of the government to allow 100 per cent FDI in the processed food sector is a welcomed step, but at the same time the government should also protect the interest of the domestic players. Apart from this there are many bottlenecks that need urgent attention, like supply chain management, skilled man power, and policy should be made to link the farmers with the corporate players in the form of contract farming, but the interest of the farmer should be taken care of. The challenges for the food processing sector are diverse and demanding, and need to be addressed on several fronts to derive maximum market benefits. A combination of uncontrollable and controllable factors has affected the growth of the sector and has acted as a hindrance in achieving its potential. With food processing sector being included among the 25 selected sectors in Make in India, the sector shows ample opportunity and potential for growth. A well developed food processing industry is expected to increase farm gate prices, reduce wastages, ensure value addition, promote crop diversification, generate employment opportunities as well as export earnings.

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