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Food Processing Sector in India

One of India's largest food parks seeks liaisons with international players

Date: 27th January, 2015

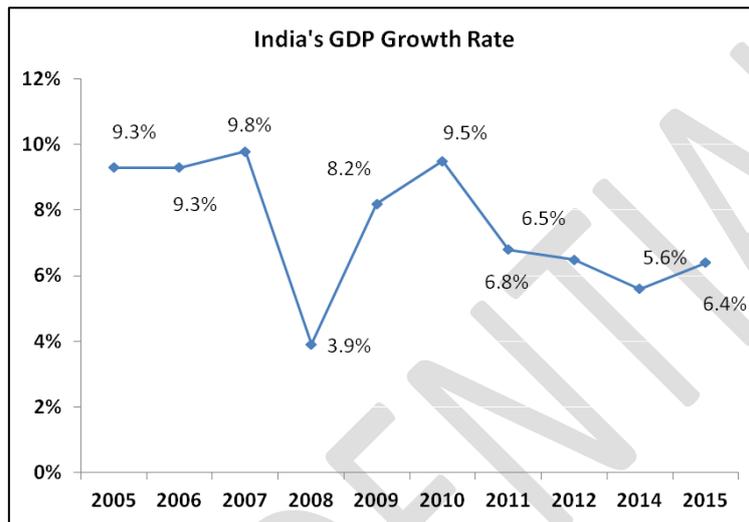
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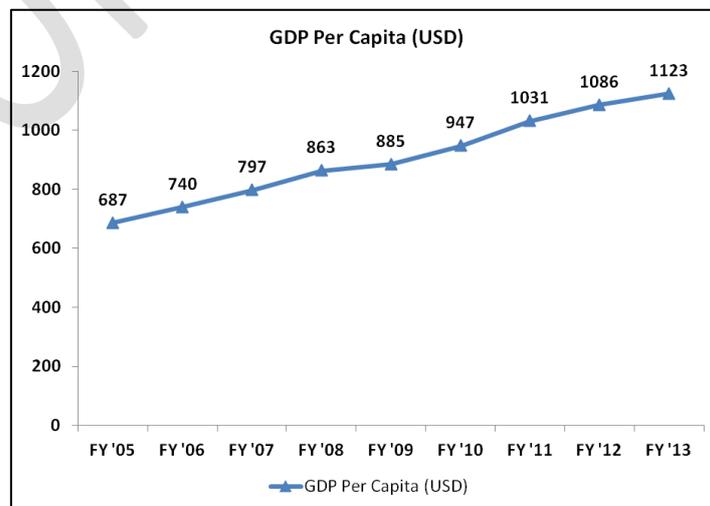
India: An Overview

Over the previous decade, India's position in the global marketplace had undergone a complete transformation, owing to an unprecedented growth rate, the emergence of a growing middle class with high disposable incomes, consumer demand and favourable government policies geared towards foreign investment and infrastructure development.



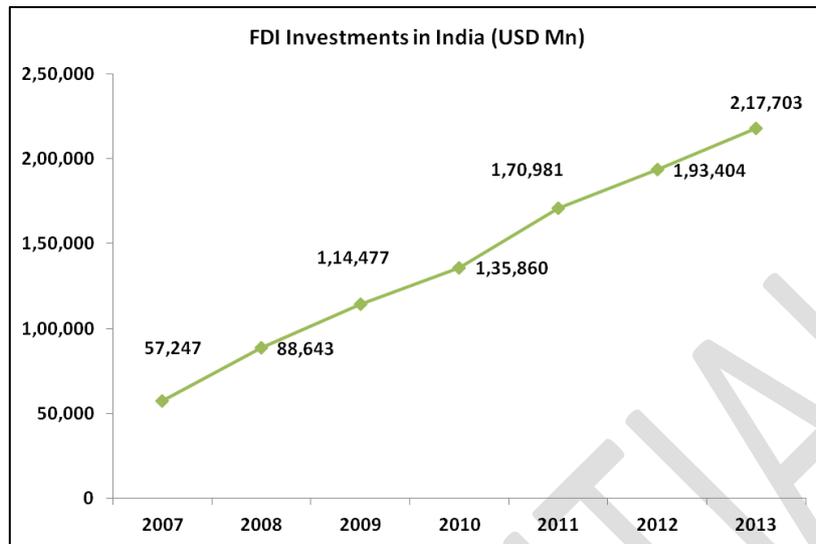
Source: World Bank (2014)

India's growth rate reached an all time high of 10% in 2007 and the country has continued to show immense potential ever since. Today, it still remains one of the fastest growing economies in the world, second only to China. Continual increase in GDP per capita income has been spurred by rising disposable incomes— the product of a rising middle class with spending power.



Source: World Bank (2014)

Increasing FDI Investments also tell a story of continued growth and investor confidence.



Source: Directorate General of Commercial Intelligence & Statistics (2014)

Bolstered by a CAGR of 6.8% (2005-15) and high performing sectors including food processing, manufacturing and technology, India remains a market destination with immense potential for foreign investors and corporations.

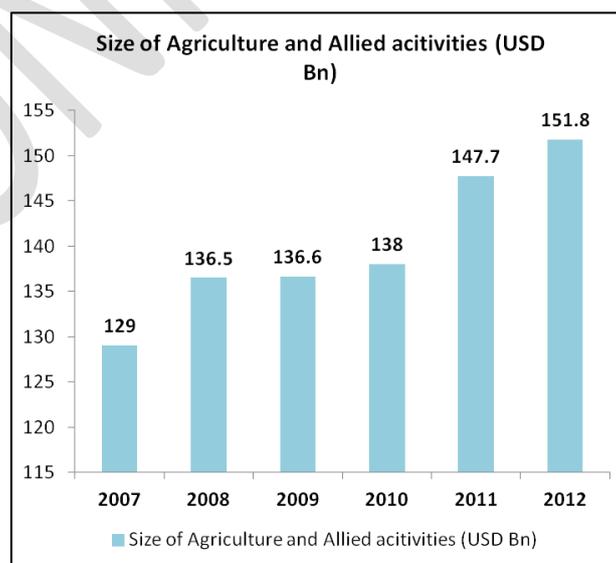
From Farm to Fork: India's Agriculture, Food and Retail Sectors

Agriculture:

India holds the second largest agricultural land proportion (179.9 million hectares) in the world and is host to 20 agri-climatic regions and 46 of the 60 known soil types in the world. With a traditional economy built on agriculture, the presence of a large farming populace and an abundance of water and land resources, agriculture remains one of the leading sectors to the Indian economy to this day. Today, the agriculture sector accounts for 18% of India's gross domestic product and employs just a little less than 50% of the country's workforce.

India has always been one of the largest and most prominent food producers worldwide. The country is the largest producer of pulses, milk, tea, dairy, cashew and jute; and the second largest producer of wheat, rice, fruits and vegetables, sugarcane, cotton and oilseeds. In 2013-14, India achieved food production was pegged at a record breaking 264 million tonnes as opposed to the previous year's 257 MT. Rice and wheat production in the country stood at 105.3 and 94.9 MT.

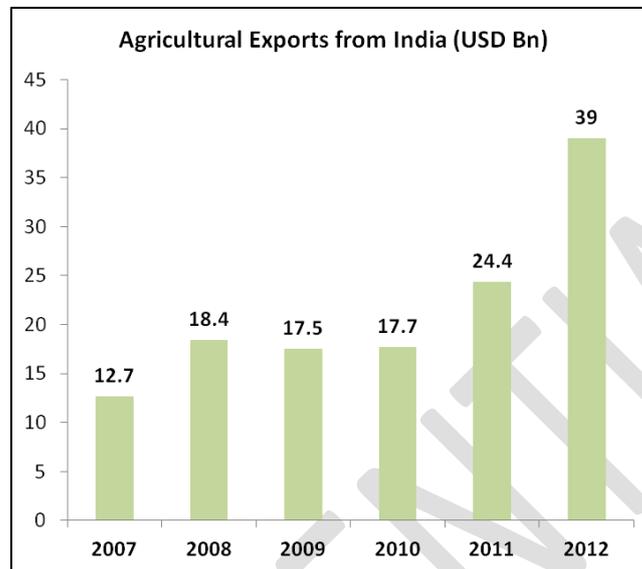
Thanks to high demand for agricultural products, government incentives and support and growing opportunities for high yield investment, the sector has registered continuous growth over the last five years (CAGR OF 3.3.%) and cumulating at USD 152 Bn by 2012-13.



Source: India Brand Equity Foundation, Agriculture Report (2014)

International demand and exports from India

Continuous growth of the sector is also apparent in the surging international demand for India's agricultural products. India now ranks as the seventh largest exporter for agricultural commodities, accounting for 2% of the total agricultural trade worldwide.



Source: India Brand Equity Foundation, Agriculture Report (2014)

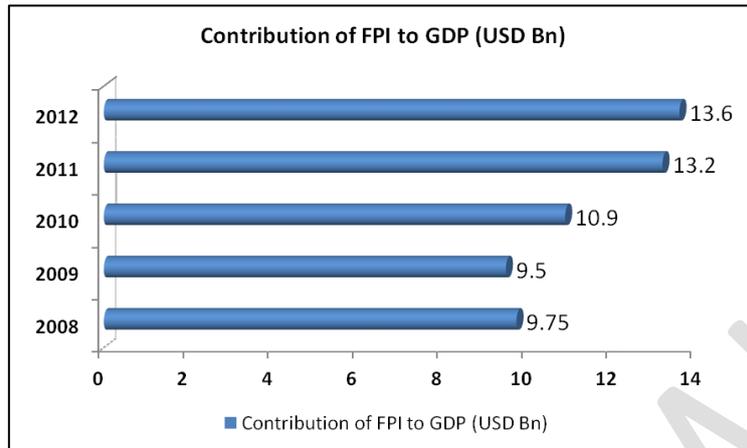
Agricultural exports from India grew at a CAGR of 25.5% from 2007-12, and are expected to continue this upward growth trajectory in the coming decade as well. Iran ranks as the largest importer on Indian agricultural goods (accounting for 37.5% of the country's rice exports), followed closely by Vietnam, USA, Saudi Arabia, UAE and Bangladesh. Malaysia, Indonesia, Egypt and Yemen comprise the remaining top ten nations receiving India's agricultural exports. Cumulatively, these countries account for 60% of India's agricultural exports.

Food Processing:

Recent years have seen a rapid increase in the importance of the Indian food processing industry. Accounting for 32% of the India's total food market, the sector has emerged as one of the largest industries in India— ranking fifth in terms of production, consumption and expected growth.

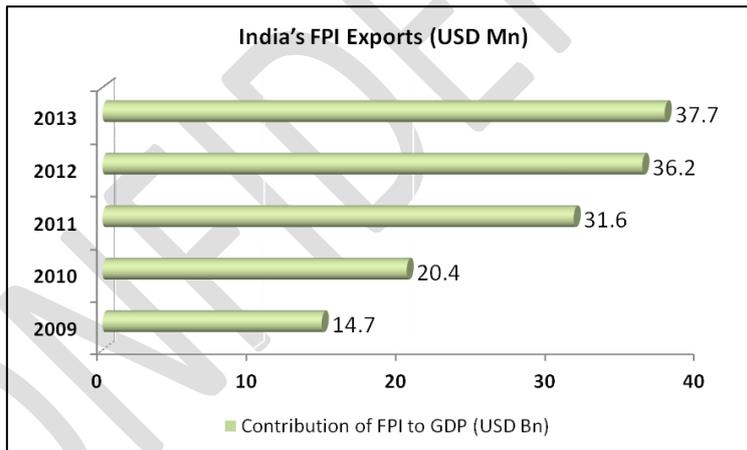
Pegged at USD 135 Bn in 2012, FPI (Food Processing Industry) has continued its upward trajectory in terms of CAGR (10%) and is expected to rise to USD 200 Bn by 2015.

The industry's importance is also increasing as a major contributor to India's GDP. The Ministry of Food Processing Industries reported that the sector contributed to 1.5% of the total GDP in 2012-13 with considerable increases expected in the next decade.



Source: Ministry of Food Processing Industries, National Account Statistics (2014)

The share of the FPI sector in exports has also seen an rise with the sector contributing to over 12% of total country exports in 2014.



Source: Directorate General of Commercial Intelligence & Statistics (2014)

The result of government initiatives and a robust foreign investment policy is also apparent within FDI. Foreign Direct Investment in FPI has seen an unparalleled rise with the sector garnering around USD 3.9 Bn in 2013-14, making a contribution of 17% of India's total FDI.

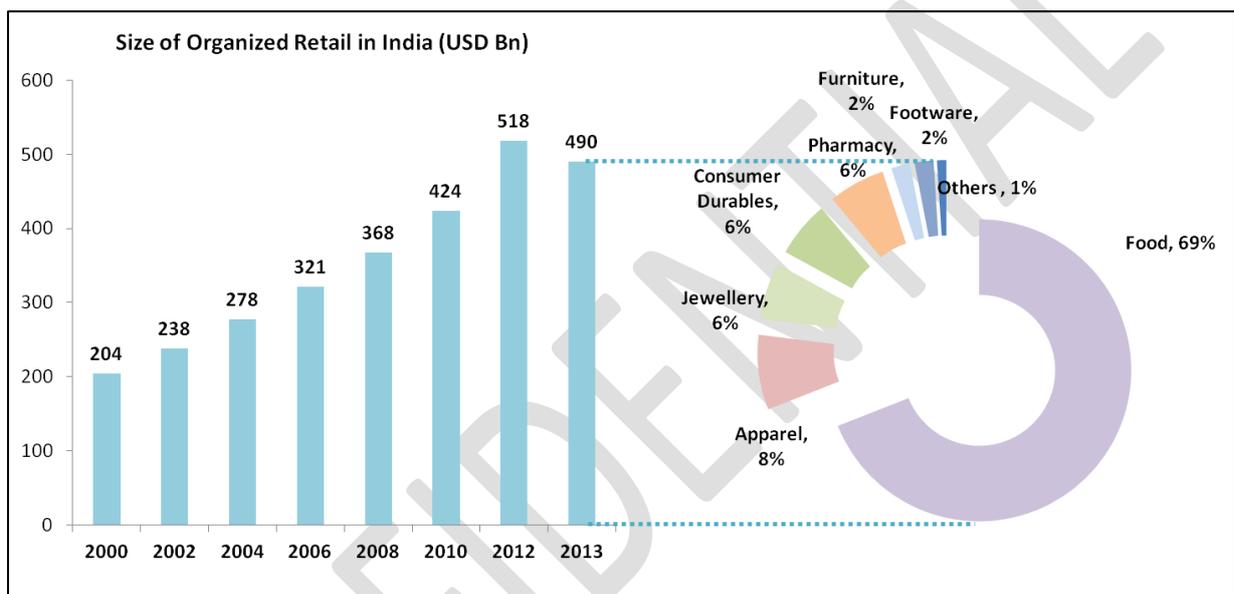
Retail:

The Indian retail industry has emerged as one of the most dynamic and fast paced sectors in the country. Accounting for over 10% of the country's GDP, the sector has

undergone a transition in recent years with supermarket chains and intensive branding replacing the traditional fragmented market structure.

Today, India is the fifth largest global destination for retail, owing to rapid urbanization, a growing consumer base, rise in disposable income and recent FDI allowances for international players.

Food and groceries accounted for nearly 69% of the USD 490 Bn Retail market with organized retailing growing rapidly in processed, dry and packaged foods than fresh food markets.



Source: India Brand Equity Foundation, Retail Report (2014)

By 2018, the Indian retail sector is likely to grow at a compound annual growth rate (CAGR) of 13 per cent to reach USD 950 billion. Food retail will amount to approximately USD 665 Bn. As the Modi Government's 'Make in India' campaign continues to gain popularity, focus on indigenous manufacturing and home grown brands will have a big role to play in the retail sector.

However, the changes in foreign direct investment (FDI) norms by the government will also go a long way in fostering growth and international investment in the sector. The government has allowed 100% FDI in Single-Brand Retail Trading and 51% FDI in Multi-Brand Retail Trading (MBRT). Several notable international brands have already taken the initiative and actively invested in Indian retail. These include IKEA, Walmart, Tesco and Japan's Uniqlo.

Thus, as multi brand retail sector continues to grow and attract foreign investment, it is expected to bridge the gap between growing consumer demand and supply limitations of

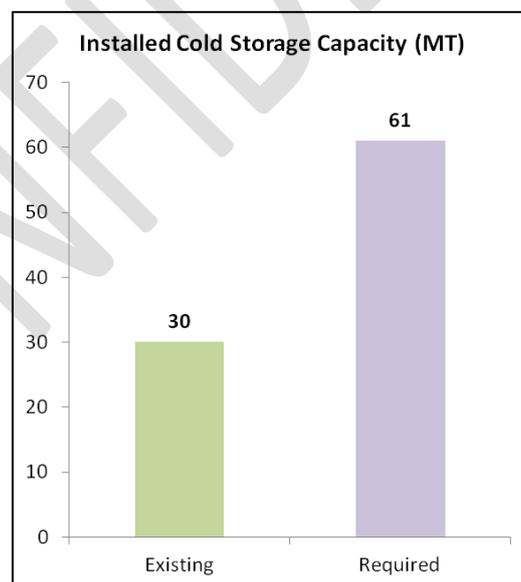
the existing retail structure through increased investment in infrastructure and focus on new retail formats.

Challenges in Agriculture: Food wastage

The Indian agri-food sector faces a number of challenges due to poor infrastructure. Wastage is a core concern for food producers, with fresh produce to the tune of INR 13,300 Crore (USD 2.18 Bn) being discarded every year due to lack of cold storage facilities. This amounts to 18% of India's total fruit and vegetable production. It is also perceived that the total wastage of fruits, vegetables and grain amounts to INR 44,000 Crore (USD 7.1 Bn) annually.

The biggest causes of food wastage across India is lacking infrastructure in terms of refrigeration and cold storage units. Thus, major improvements are crucial to India's cold storage facilities in order to counter food problems and protect reserves of perishable items.

There is a considerable gap between existing cold storage facilities and requirements to be met by 2015-16. As per industry estimates, more than twice the existing capacity will have to be established to meet the forecasted demand, and an investment of INR 55,000 Crore (USD 8.8 Bn) will be required to achieve this.



Source: The Economic Times (November 28,2013)

The biggest challenges for this are based on the high lifecycle costs for cold storage facilities and requirements for land and buildings capable of holding 6,000 MT of food. In addition, uneven distribution of cold storage facilities (60% of such facilities located near

the point of production and too few closer to distribution points) and low awareness of best storage practices amongst industry players further complicate the issue.

Support from the Government

Recently, the Indian FDI policy for agriculture was amended to allow 100 per cent FDI under automatic route for development of seeds. The government has allowed up to 51 per cent FDI in multi-brand retail which is expected to boost foreign investments and enable modernisation in agriculture to a major extent. Agriculture continues to remain a priority for the government in 2014, with this year's budget outlining some significant plans for further development, including:

- Allocated of USD145.8 Bn for agriculture credit— an increase of USD 26.04 Bn compared in 2013
- Funds allotted to the Agriculture Ministry increased by 22% to USD 5.63 Bn, of which USD 711.4 Mn is planned for farm research
- The Government plans to launch crop diversification programmes in states like Punjab and Haryana and has allotted USD 104.1 Mn to improve yields
- National Food Security Mission, a scheme to bridge yields gap of major crops, has been provided USD468.7 million
- Development of 30 mega food parks across India with public and private players to garner foreign investment and create specialised infrastructure for food producers.

The Indian government has also been especially instrumental in the food processing sector's continued growth and resilience. The Ministry of Food Processing Industries has made several key efforts to encourage investments and development across the sector. These include issuing industry licenses, facilitating joint ventures, launching subsidy schemes to encourage export and creation of 100% export units. A detailed view of some of these initiatives can be found below:

- Allocation of USD 29.4 Mn across several core food producing states under the National Mission on Food Producing for technological upgrades and modernisation of food processing units.
- Spices Board of Department and Commerce under Ministry of Commerce & Industry has established a Spice Park in the Idukki district of Kerala as a processing centre for cardamom and pepper with specialised facilities including an e-auction centre.

- The Ministry of Food Processing is also undertaking the development of several Food Parks across India in collaboration with private players to encourage efficiency across the supply chain and attract further foreign investment.

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Opportunity

The Company is a Public Private Partnership approved by the Ministry of Food Processing and spearheaded by large national private food and retail players, located in Tumkur, Karnataka. With an investment of INR 113 Crores (USD 18.2 Mn), the state of the art food park was developed and executed with the aim of 'creating a food eco system that links up all food supply chain stakeholders in an integrated manner to enhance value addition in food processing'.

By creating a transparent network focused on timely delivery, outstanding quality and technical specialisation, they aim to improve the food processing sector at all possible stages— including improvement in marketability of produce, creation of highly developed and state of the art infrastructure and the development of an efficient supply chain focused on minimising cost and time delays.



Note: The name of concerned parties has not been disclosed due to confidentiality reasons.

Infrastructure in India

Spread over 110 acres, the company hosts highly specialised, technologically consistent facilities for agro-processing, collection, quality control and food testing, trade and social functions. These include:

Procurement:

- Receiving bays, washing, sorting and grading facilities
- Reefer vans

Handling of raw material:

- Integrated pack house with unloading and handling bays
- Pre cooling facilities
- Pulping, milling, flouring, spice and 'dal' units

Storage and Warehousing:

- 80,000 sq ft cold storage facility to supply fruits and vegetables
- Dry warehousing
- Bulk silo facilities

Processing:

- Ripening sheds and chambers
- Individual quick freezing facilities
- Aseptic pulping and concentrate lines
- Grain milling

R&D and Quality Control Infrastructure:

- Food testing labs
- R&D labs
- Soil testing and farm extension services

Ready to Eat Product Centre:

- Manufacturing centre for 60 medium-sized food processing units

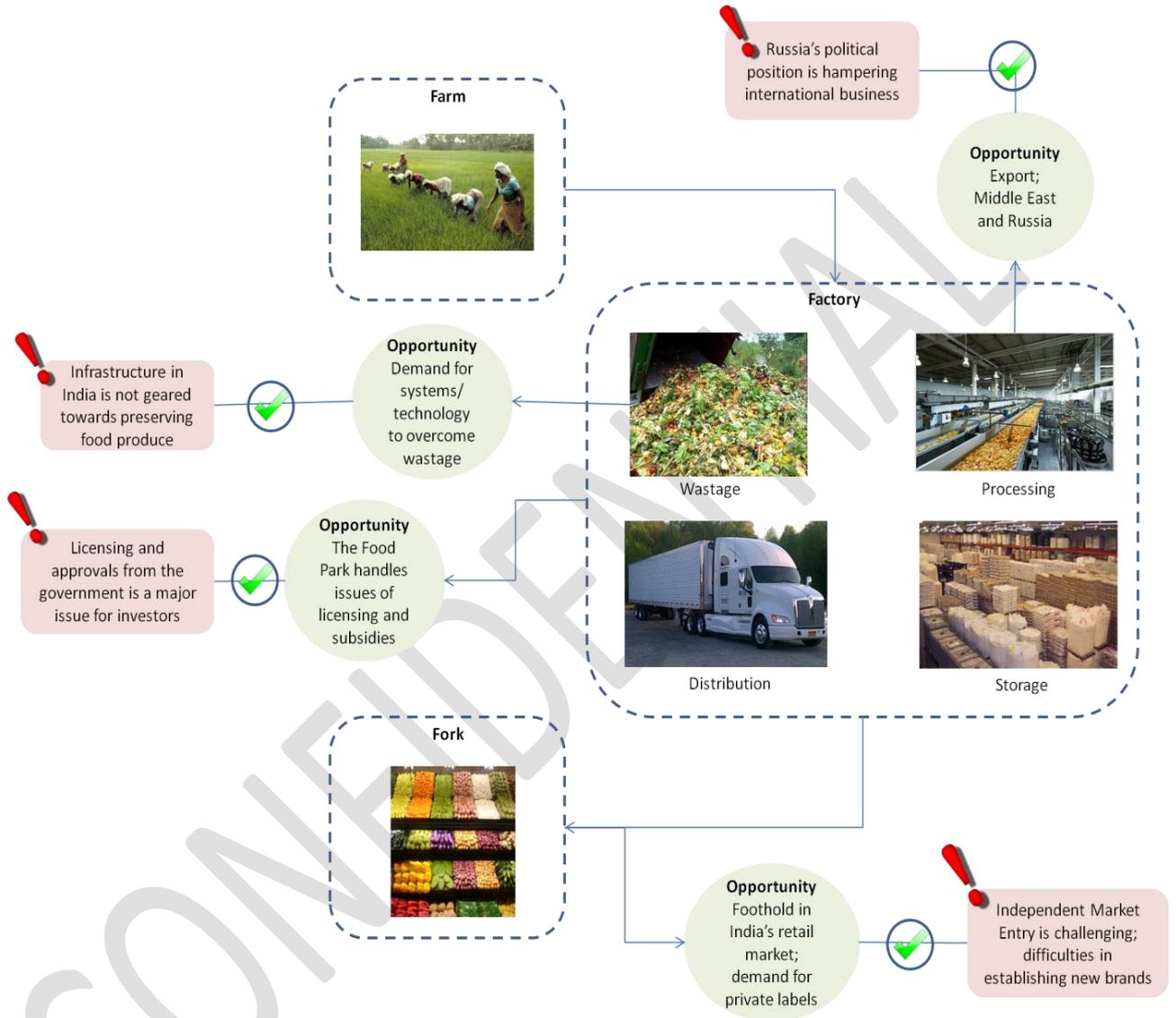
The facilities also include a number training and education centres offering specialised and structured programs for manpower and material handling, updates on the latest food processing trends world-wide and equipment handling.

The Company is also structured to minimise cost and time delays via a structured expanse of roads, drainage, water supply, backed by electricity supply including captive power plant, effluent treatment, telecommunication lines, parking bay including traffic management system and weighbridges.

Key Opportunity

The company is interested in connecting with globally established agri food and processing companies who are interested in exploring the Indian food sector. They hope to leverage the technical knowledge and specialisation of international players and the immense potential of India's food sector to establish mutually beneficial partnerships.

From Farm to Fork: Opportunity



Future Plans

Need for technical specialisation:

The Company aims to facilitate operations in the food processing sector through specialised processes, technologically upgraded infrastructure and an integrated approach across the value chain. Although India is one of the largest food producers in the world, wastage across the supply chain is still a major issue. Collaborating with international players and leveraging on specialised technological upgrades will be the core focus for them.

Unique market position:

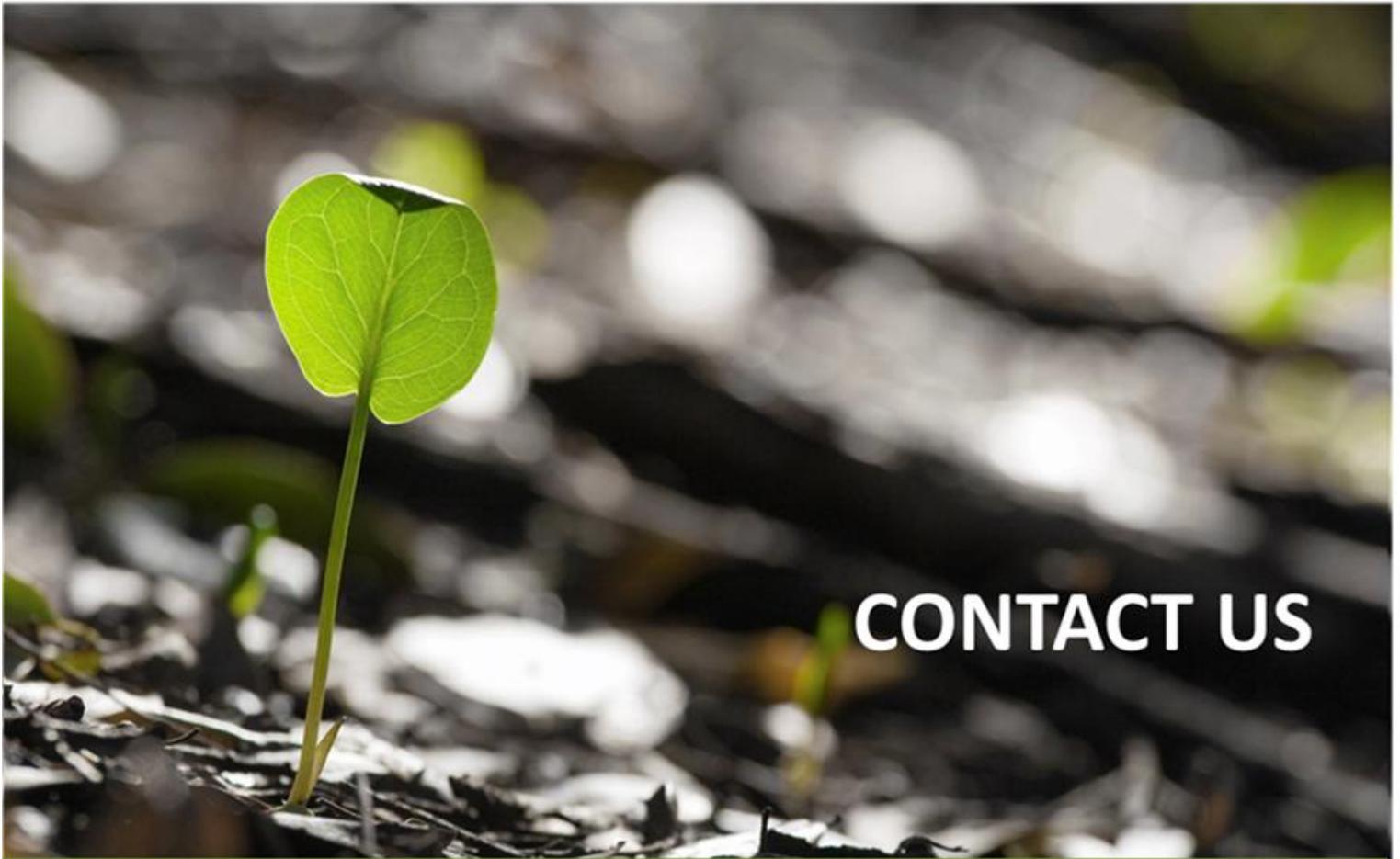
They are uniquely positioned as one of the most extensive forays of the government (and the private sector) in food processing. Therefore, increased investments and mutually beneficial partnerships with international players are a key focus for them. Global players seeking to explore the Indian market independently will have to contend with several challenges including licensing and registration, infrastructure establishment and attracting suppliers for the target market. The company is ideally placed to facilitate these challenges and enable a strong link between the producers and the market.

Other Opportunities

One of the primary developers of the company recently bought out one of the largest supermarket chains in South India, thus securing a foothold in the Indian retail sector. They are also keen to increase the presence of private labels in their venture. Therefore, players collaborating with the company can also extend their foray into marketing and retail.

Our Support

Abroader Consultancy is the preferred implementation partner for the company. With a well developed international network and extensive experience in the agri-food space in India, we expect to identify relevant investors and interested industry players to enter into liaisons with the company and thus, expand their sales reach and market penetration in the Indian food sector. Abroader will be instrumental in assisting these players on market adaptation, business feasibility and exploration and entry opportunities.



CONTACT US

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Pratap Raju

Director

Email: Pratap@abroader.com

Carin Rustema

Director

Email: Carin@abroader.com

Abroader Consultancy India Pvt Ltd

Plot# 161, PDA Colony,
Porvorim, Goa - 403521

Office: +91-832-2415616
Web: www.abroader.com

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