



Processed Food and Agribusiness Opportunities for Investment in India

A KNOWLEDGE PAPER

Foreword



The food processing industry in India is one of the largest in terms of production, consumption, export and growth prospects. Buoyed by a favorable policy environment and the demand-push impact of a young consuming class with growing disposable incomes, India offers significant investment opportunities in the food and agri-business sector and is likely to become a world player in this business.


The Indian economy is agrarian in nature, with agriculture contributing to approximately 20 percent of the country's GDP and providing livelihood to almost 67 percent of the population. With a leadership position in the production of several key agricultural commodities including cereals, fruits & vegetables and dairy products, India's supply strength in agriculture is immense, with a potential to emerge as the leading agro-economy of the world.



India is making an important mark in the global food arena - both as a large producer and exporter of agricultural products and as a very large and growing market for processed foods. The favorable policy environment and increasing interest of corporates in agriculture and agri-food business augurs well for India.

Considering the growth witnessed by the sector in the last decade and further improvement in growth rate expected in the years to come, this sector presents varied opportunities for investment across the entire agri-value chain.

We are confident that this publication will be instrumental in further strengthening the global ties between India and global food businesses, by highlighting the investment attractiveness and business potential in the agri-food business sector. Both FICCI and KPMG remain committed to the concerned stakeholders in deliberating on the economic and business partnership, thus creating an overall positive image for the Indian agri-food business in times to come.


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Executive Summary



The global food landscape is rapidly evolving as consumer needs shift with changing lifestyles. Food habits and tastes are amalgamating in the global melting pot. Food lovers from around the globe now want to try ethnic foods from different parts of the world and make it an integral part of their daily diet. Consumers are increasingly aware of internationally established brands and are open to experimenting with processed and convenience food. With these changes, manufacturers, retailers and suppliers of food are reorienting their businesses to meet these demands. Today, processors from high-cost countries are dealing with stiff international competition, not only in terms of cost, but also product variety and innovation.

India is an agri-rich country and the world's second largest producer of fruits and vegetables. According to industry estimates, the processed food market accounts for 32 percent of the total food market which is valued at EUR 67.9 billion. The total exports of the Food Processing Industry have jumped from EUR 4.7 bn in 2002-03 to EUR 13.8 bn in 2006-07. The Ministry of Food Processing Industries (MOFPI) aims to increase India's share in the global processed food trade to 3 percent in the next 8 years from 1.6 percent at present. India is well placed to take advantage of growing food trade due to its strong agricultural base and become a sourcing hub for food products.

In India, agriculture is changing from a sector dominated by family farms, to one that is characterized by large companies that are better aligned across the supply chain. The booming retail chain business is likely to lead to more consolidation in the fragmented food sector and be a force behind the increase of processed food.

The government's focus on this sector is exemplified in the 2007 Union Budget, where it has been accorded priority status for lending by banks. Government subsidized food parks, tax breaks, increased FDI (Foreign Direct Investments), proposals for public-private investment partnerships, increased spending on supply chain infrastructure, a burgeoning middle-class, modern retail formats and international road shows by the government have propelled the industry's growth. MOFPI, the nodal ministry for development of food processing industry, along with the Agricultural and Processed Food Product Export Development Authority (APEDA) and the Marine Product Export Development Authority (MPEDA) have aligned their vision on the three pillars of the industry, namely, market access, export growth and domestic support.

"I see immense opportunities for private enterprise in the transformation of agriculture. There are opportunities both for supplying inputs and for processing and marketing the agricultural produce. India is becoming a new granary of the world."
- Dr. Manmohan Singh,
Prime Minister of India

Today, multinational companies are betting on India as a source to feed the world. Large investors and corporations, both Indian and international, are capitalizing on the Indian agribusiness as an emerging market with twin opportunities, to cater to the growing Indian middle-class and to export premium processed food. Companies from Wal-Mart to Rothschild Group to PepsiCo are wagering that India could parlay its tropical climate and the latent energies of hundreds of millions of farm dwellers. It could position itself as an agribusiness powerhouse and become an exporter of fruits & vegetables, ready-to-eat food, dairy products, spices, wine, ice cream, meat, poultry, shrimp, fish and many other products.

In the last one year alone, FDI approvals in food processing have doubled, and FDI in the food sector alone is poised to breach the EUR 2.1 billion market. Private Equity (PE) players too have been joining the action. According to a Venture Intelligence Report, while the food and beverage sector witnessed PE investments of a mere EUR 4.2 million in two deals last year, this year has already seen 11 deals worth EUR 106.4 million. There appears to be high scope for consolidation in a fragmented market, with most businesses promising good and sustainable returns. In fact, companies are recording higher growth rate from this sector compared to the home and personal care segment.¹

Some of the key Indian initiatives and local-foreign Joint Ventures (JV) include Hershey acquiring 51 percent stake in Godrej Foods & Beverages for EUR 37.9 million; Indian Hotels of Tata Group acquiring Amalgam Foods and the Sumeru fast food brand; Field Fresh-Bharti Group's 50:50 joint venture with Rothschild; Snowman Frozen Food, a joint venture with the Mitsubishi group; local giant Reliance setting up rural business hubs across the country to source and process farm produce; and ITC developing its 'e-Choupal' and 'Choupal Sagar' model for agri-sourcing.

According to a recent "Food and Beverages" Survey conducted by FICCI, the segments which are expected to record high growth i.e. between 10-20 percent include branded flour (atta) (16 percent), bakery items like bread, cakes (11 percent), biscuits (16 percent), fruit juices, pulp and concentrates (18 percent) and sauces/ketchups (17 percent). Segments like semi processed/cooked ready-to-eat, ice-cream, wine and sugar are expected to achieve 24 percent, 30 percent, 22 percent and 25 percent growth respectively. The market for branded foods across different segments of the industry is growing by 15 to 20 percent.

¹IBEF September 2007

This jointly produced knowledge paper from KPMG and FICCI, aims at highlighting India's potential in the food processing industry. The development of stronger backward and forward linkages within the agri-food chain and the local economy will result in improved productivity and quality.

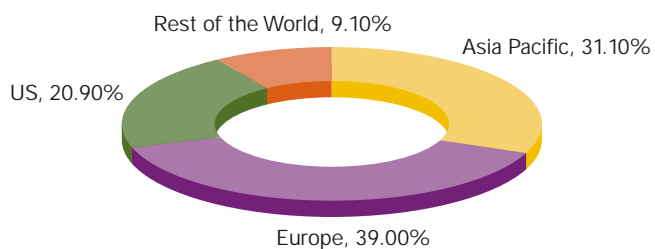
The increasing focus on food processing dovetails well with the nascent food retailing theme. While collaborative efforts to augment infrastructure (storage, cold chain, irrigation) are already being planned, companies can play a greater role in strengthening market linkages. This report encapsulates the opportunities both for supplying inputs as well as processing and marketing the agricultural produce.

Overview



Global Processed Food Industry

Market Segmentation as per Geography



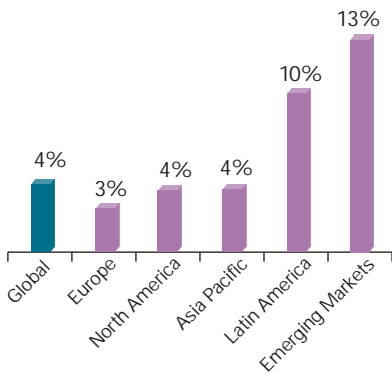
Source: Market Research Report

The shape of the global food industry is constantly changing and evolving thereby reinforcing the key themes of health, convenience and value. The global processed food industry is estimated to be valued around EUR 2.5 trillion and accounts for three-fourth of the global food sales. Despite the large size of the industry, only 6 percent of processed foods are traded across borders compared to 16 percent of major bulk agricultural commodities. The U.S., EU and Japan together account for over 60 percent of total retail processed food sales in the world.²

Trade liberalization policies through multi-lateral and regional trade agreements have led to a rapid growth in this field. In the Asian region Japan is the largest food processing market, but India as well as China are likely to grow at a faster rate. The processed food industry is strong in Japan and South Korea, as they are the leading meat importing countries in the world and consumption of meat is high in these countries. The Australian processed food industry is one of the most technically advanced in the world as it produces products of international standards at comparatively lower prices. The U.S. continues to live up to its reputation as the "breadbasket to the world". More than one-third of U.S. Food and Beverage (F&B) manufacturers look to foreign expansion to capture additional revenues. Countries in the Sub-Saharan African region, Latin America and parts of Asia continue to be on the lower-end of technology prowess in food items are inclined to their staple diets, whereas, those in Europe, North America, and Japan are on the higher-end of technology, with a sharper shift towards convenience and diet foods.

²Cygnus APF Quarterly Report May 2007

YoY growth of Food & Beverage Product by region' (mid 2005 - 2006)



Source: AC Nielson What's Hot Around the Globe in F&B 2006

According to the AC Nielson 'What's Hot Around the Globe in F&B 2006' report, the growth in global F&B categories was recorded at 4 percent. Many of the large global players primarily from developed countries are now targeting developing countries in quest for new opportunities. Developing countries across the globe are now set to account for most of the growth in future food demand. At the same time, newer, emerging markets are showing signs of building infrastructure to modernize their food distribution channels.

Changes in income patterns, demographics, and lifestyles have led to changing eating habits, where consumers have begun purchasing fewer staples and more high valued food items.

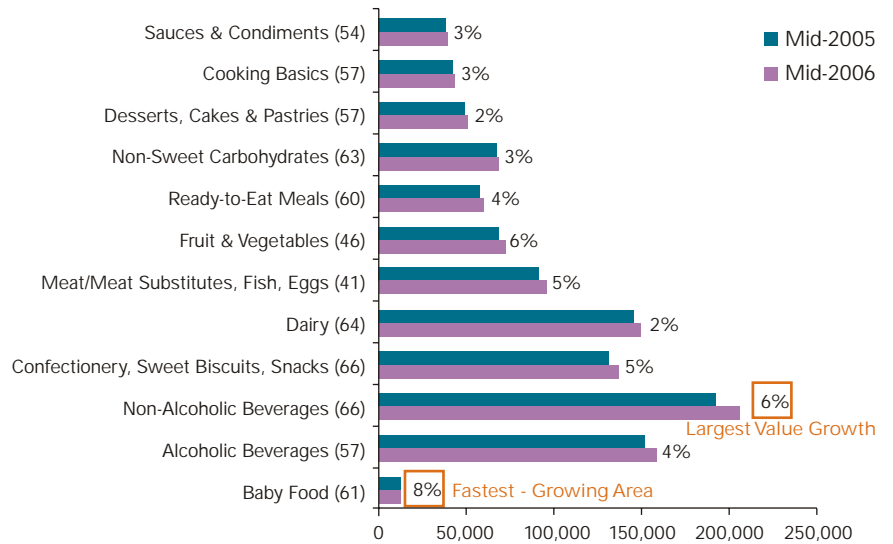
Global Trends in Food Processing

<p>Global FPI is increasingly transitioning towards a world wide sourcing model</p> <p>↓</p> <ol style="list-style-type: none"> 1. With socio-economic progress, consumer tastes are increasingly inclined towards convenience; health and organic foods offering value for money 2. Increasing cost pressures 3. World's major food processors looking for low cost sourcing partners with proven quality standards and strong backward and forward linkages within the agro-food system 	<p>Proximity to Suppliers</p> <p>Past USA ➔ Mexico & South Africa Europe ➔ Spain & East Europe</p>
	<p>India Well Positioned</p> <p>Present Chosen as regional hub for exports by majors players Enjoys a competitive advantage in value-added foods, one of the largest agri producers Retail boom to provide further impetus to growth</p>
	<p>Shift in focus from developed markets to LCC</p> <p>Future Global geographical expansion by players and transition by consumers from unorganized products to packaged brands Product innovation, new categories, inorganic growth, consolidation and PPP</p>

LCC - Low Cost Countries; PPP - Public - Private - Partnership
KPMG

According to the AC Nielson "What's Hot Around the Globe in F&B 2006" Survey, 12 product categories showed growth rates of or above the overall average for Food & Beverages, including baby food as the fastest growing product area and non-alcoholic beverages as the one contributing the largest value growth amount.

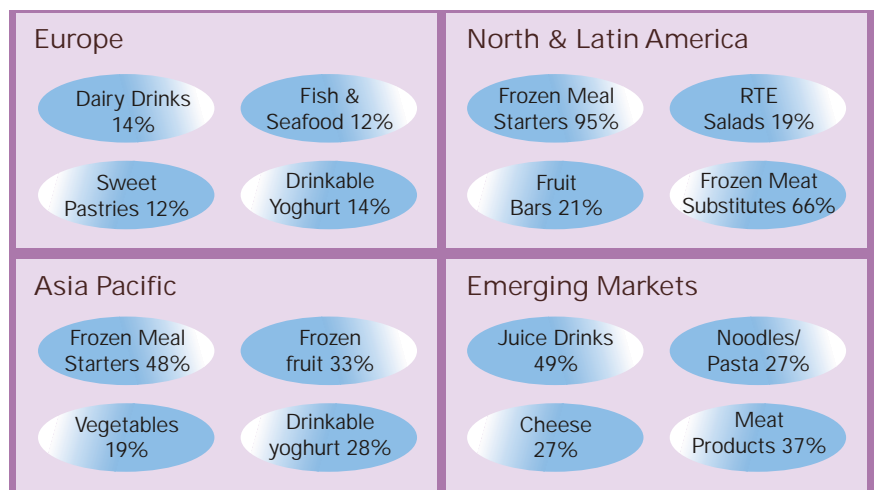
Global Growth by Product Area (US \$ million)



Source: AC Nielsen What's Hot Around the Globe in F&B 2006

The survey also revealed the following growth trends in various categories

Global Trends in Food Choices across Various Regions



Source: ACNielsen What's Hot Around the Globe in F&B 2006

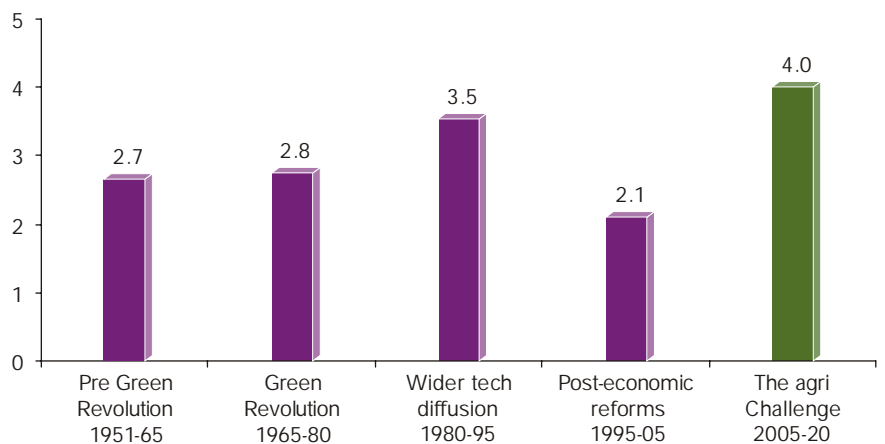
These trends have created immense opportunities for both manufacturers and retailers. There is a definitive need to acknowledge and address the consumer's requirement for healthy and convenient products. Since consumers are willing to purchase both private labels and branded products, global food markets have become all the more competitive and are looking at expansion beyond their own local boundaries.



Indian Processed Food Industry

India's agricultural sector, especially food processing and allied activities is going through a major transformation driven by improving policy environment, increasing public private participation and an increasing thrust on the improvement of rural infrastructure. The government is targeting Four percent growth for the agri-sector from 2005-20.

Agri GDP growth (% CAGR)



Source: RBI, Chand (2005): WTO & Indian Agriculture: Issues and Experience

The revival of the agriculture sector is expected to open up a plethora of opportunities for players having strong linkages in the agri value chain. The FPI is expected to be one of the biggest beneficiaries of this whole process. Significant investment opportunities are yet to be tapped in the areas of supply chain management, cold storages, financing, retailing and exports. Historically, the Agriculture and FPI have been plagued by factors such as low public investment, poor infrastructure, inadequate credit availability and high levels of fragmentation. However, in the last couple of years there have been significant improvements in almost all the fronts.

The regulatory environment is changing for the better. Though the agri sector in India is one of the highly regulated sectors, the government has been taking selective steps to liberalize and create an encouraging investment climate. The Agricultural Produce Marketing Committee (APMC) act that deals with the functioning of agri-marketing activities within each state is being amended by various states in order to allow greater private participation and help end users to source raw materials or farm produce directly from the farmers. This will not only infuse more efficiency in the system but will also allow increased participation from corporates for contract farming and direct sourcing.

"To my mind, this opportunity of agriculture is an opportunity which is larger than telecom, which is larger than IT. India has become the back office of the world, what we are trying to create here is BPO in the agricultural sector. We will grow for the world."

- Rakesh Mittal,
Vice-Chairman, Bharti Enterprises

In order to achieve 4 percent plus growth in the agri-sector, the government has been increasing investments in the areas of irrigation, storage and post-harvest infrastructure and connectivity. Private participation is increasing across the various segments of the agri-value chain. Corporates are increasingly focusing on areas of contract farming, raw material sourcing and creating agri-linkages. Companies like HLL, ITC, and Pepsi have taken a lead in terms of contract farming initiatives. Contract farming by corporates would not only yield better prices to farmers but also help them access superior farming techniques, better management and risk mitigation methods.

Indian Agribusiness - Key Facts

- Varied agro climatic zones
- 2nd largest arable land (161 million ha) in the world
- Largest irrigated land (55 million ha) in the world
- Largest producer of Wheat (72 million tons), accounting for nearly 15 percent of global Wheat production
- Largest producer of Pulses (15 million tons), accounting for nearly 21 percent of global Pulse production
- Largest producer of Milk (96 million tons), accounting for nearly 17 percent of global Milk production
- Largest producer and exporter of Spices
- 2nd largest producer of Tea, accounting for nearly 28 percent of the global Tea production
- 2nd largest producer of Rice (92 million tons), accounting for nearly 22 percent of global Rice production
- Largest exporter of the world's best Rice Basmati
- 2nd largest producer of Fruits (50 million tons) & Vegetables (100 million tons)
- 2nd largest producer of Sugarcane (296 million tons), accounting for nearly 21 percent of the global Sugarcane production
- 3rd largest producer of Coarse grains (31 million tons), including maize, accounting for nearly four percent of the global Coarse grain production
- 3rd largest producer of Edible Oilseeds (25 million tons), accounting for nearly seven percent of the global Edible Oilseed production

Source: FICCI, Ministry of Agriculture



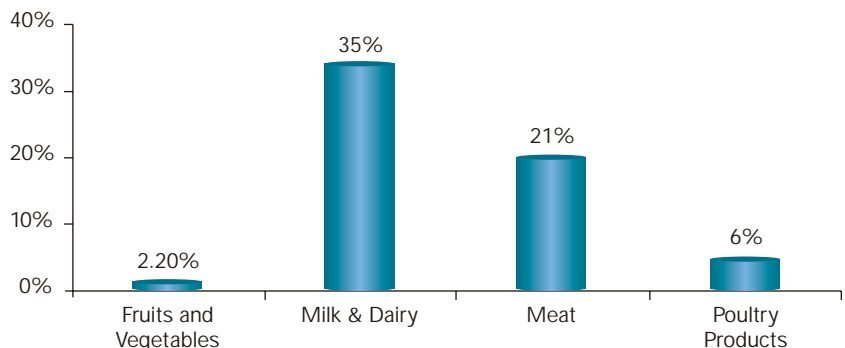
Food Processing

According to industry estimates, the processed food market accounts for 32 percent (EUR 21.8 billion) of the total food market which is valued at EUR 67.9 billion. India is the world's second largest producer of food next to China, but accounts for only 1.6 percent of international food trade. The Government aims at increasing this share to 3 percent in the next 8 years. This indicates vast potential for both investors and exporters.

Though the Food Processing Industry (FPI) has been growing at an average rate of 7 percent, it has the potential to achieve double digit growth. F&V processing, which is currently around 2 percent of total production is likely to increase to 10 percent by 2010 and further to 25 percent by 2025. Value-addition in food products is expected to increase from the current 8 percent to 35 percent by the end of 2025. Total exports of the FPI have jumped from EUR 4.7 billion in 2002-03, to EUR 13.8 billion in 2006-07. The industry ranks fifth in size in the country, representing over six percent of GDP. It accounts for around 13 percent of the country's exports, 6 percent of total industrial investment, and approximately 12-15 percent of manufacturing GDP.³

With only 2.2 percent of processing levels for Fruit and Vegetable (F&V), 35 percent for milk, 21 percent for meat, 6 percent for poultry products and 38 percent for agri-produce, India's levels are significantly low compared to international levels. Processing of agriculture produce is around 40 percent in China, 30 percent in Thailand, 70 percent in Brazil, 78 percent in the Philippines and 80 percent in Malaysia. India's consumption of processed food products is also low, considering a population of 1.1 bn and a strong 350 million urban middle class. However, this is expected to change significantly on account of increasing urbanization, changing lifestyles and increasing income levels and the growth of the organized retailing. Increasing Public-Private-Partnerships (PPP) and enabling measures taken by the government will also boost the growth of this sector.⁴

Processing Levels for Key Segments in the Food Processing Industry



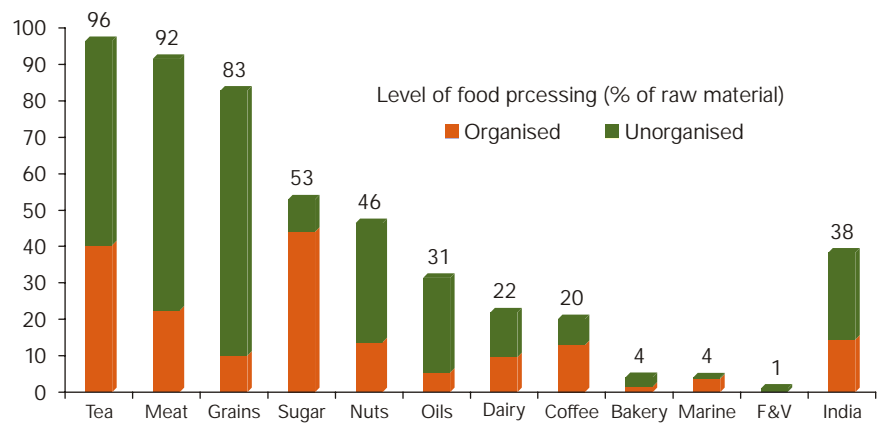
Source: Ministry of Food Processing Annual Report 2005-06

³ APEDA

⁴ Ministry of Food Processing Annual Report 2005-06

Though India's agricultural production base is reasonably strong, wastage of agricultural produce is estimated at around EUR 9 bn. Value-addition to the agricultural produce in India is just 20 percent, which could be increased by leveraging on the country's huge raw material base and propelling exports. Organized players remain at fringes of this market accounting for only a third of the country's total agri-processed products.

Food processing represents a significant opportunity



Source: Inter Ministry Task Group, Planning Commission Report, Jan 2005

The organized sector is relatively small, in comparison to the unorganized sector, 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 the state and district levels. The share of the organized and unorganized sectors varies across different segments of the industry.⁵

Sector-wise Overview

The main product lines within the food processing sector include fruit and vegetable processing, dairy processing, meat, poultry, marine processing, edible oil, alcoholic beverages & non alcoholic beverages, grain processing and Ready-to-Eat (RTE), and health and convenience foods. We have tried to high light India's attractiveness for business and the emerging business opportunities in the following sectors.

Dairy

India ranks first in the world in terms of milk production. At present, the dairy sector has an estimated consumer demand for milk and milk products at EUR 26 billion, growing at about 8 percent per annum.⁶

⁵ CLSA

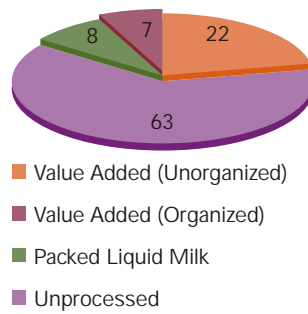
⁶ CMIE



About 35 percent of milk produced in India is processed. The organized sector (large scale dairy plants) processes about 13 million tons annually, while the unorganized sector processes about 22 million tons per annum.

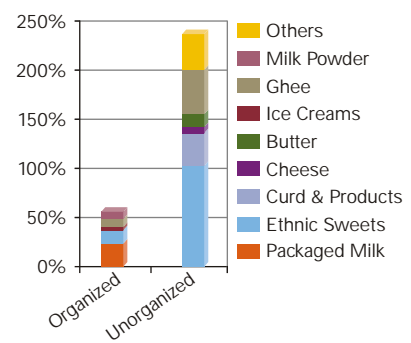
Chief products manufactured are infant milk food, malted food, condensed milk and cheese. The southern and western regions collectively contribute for 80 percent of the milk produced in India.

Milk Uses in India



Source: Cygnus

Small organized Sector (in US\$ mn)



The rapid growth of the dairy-processing industry is likely to lead to a greater demand for value-added, milk-based products, such as processed cheese, table butter, sour milk, yoghurt and ice cream. A higher demand for branded and probiotic milk has also led to a rise in investment for milk processing.

Some Major Dairy Product Manufacturers:

Company	Brands	Major Products
Cadbury	Bournvita	Malt food
Gujarat Co-operative Milk Marketing Federation Ltd	Amul	Milk, Butter, cheese, yoghurt and other milk products
H.J. Heinz Limited	Complan, Glactose, Bonniemix, Vitamilk	Infant milk food, malted milkfood
Indodan Industries Ltd	Indana	Condensed milk, skimmed milk powder, whole milk powder, dairy milk whitener, chilled and processed milk
Milkfood Limited	Milkfood	Ghee, ice cream, and other milk products
Mother Dairy	Mother Dairy	Milk and milk Products
Nestle India Limited	Everyday, Milkmaid, Boost, Cerelac, Lactogen, Milo	Milk, Dairy whiteners, sweetened condensed milk, nutritional drink and infant milk food, yoghurt
SmithKline Beecham Ltd.	Horlicks	Condensed milk, malted milk food, ghee, butter, powdered milk, milk fluid and other milk based baby foods
Wockhardt	Farex, Protinex	Baby-food and nutritional beverages

Source: Company Websites, News

As per Dairy India 2007, by 2011 private dairies are slated to outpace the co-operative sector and become the largest producers of milk in the industry. Private dairies are likely to contribute double the quantity of milk that would be contributed by co-operatives in 2011.

Sensing the big business opportunities in the dairy sector, with rising demand for processed milk and milk products, many corporates are planning a foray into the dairy business. For Example Indian and foreign companies like Reliance and Walmart have already made an entry into this business by signing deals with farmers to procure seven lakh litres and 15 lakh litres of milk per day. Cola manufacturing companies, PepsiCo and Coke are also, reportedly, planning to launch milk-based health drinks. Yakult Danone plans to launch health drinks and yoghurts based on probiotics bacteria. Amul has also forayed into the flavored yoghurt segment.

Growth Prospects for Dairy Processing:

- Industry profitability has been good and there is good potential for introduction of new value added products and their exports
- Market for yoghurt in India is growing at 18 percent and that for sour milk at 33 percent⁷
- The manufacture of casein and lactose has good scope in the country; at present these are generally imported

Meat, Poultry and Marine

The existing levels of processing for Meat, Poultry & Fish are low with majority of the processed production dedicated to exports. The country has 3,600 slaughter houses, nine modern abattoirs and 171 meat processing units licensed under the Meat products order. A few modern pork processing plants are also coming up in the country.

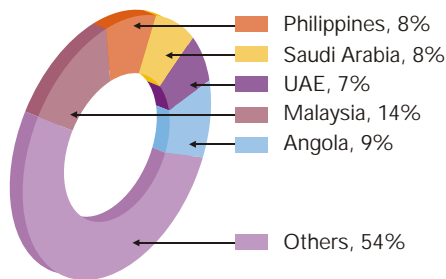
⁷ Euromonitor



Meat

Indian buffalo meat is witnessing strong demand in international markets, due to its lean character and near organic nature. India is the fifth largest exporter of bovine meat in the world. Indian buffalo meat exports have the potential to grow significantly and hence present an opportunity for exporters in the food processing segment.⁸

Country-wise Exports of Meat Products in Value Terms (April 06-March 07)

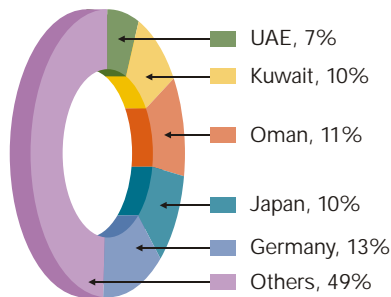


Source: CMIE

Poultry

Poultry meat is the fastest growing source of animal protein in India (Compounded Annual Growth Rate (CAGR) 11 percent). India ranks among the top six egg producing countries and ranks among the top five chicken countries. There are limited number of integrated poultry processing plants in the organized sector, though the small poultry processing units are in plenty. There are also a few egg processing units engaged in exporting egg products.⁸

Country-wise Exports of Poultry Products in Value Terms (April-March 2006- 07)

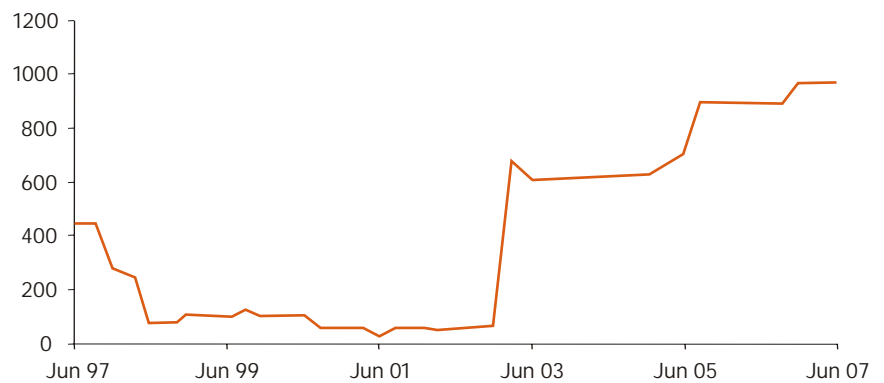


Source: CMIE

⁸MOFPI

The Government plans to set up a National Meat Board with the objective of promoting the meat processing industry and overseeing aspects such as Research and Development (R&D), quality assurance and hygiene. The Government also plans to set-up about 100 slaughter houses through PPP.

Poultry & Meat Products: Trend in Investments (INR Crore)



Source: CMIE

As per CMIE's CapEx survey, for the quarter ended June 2007, the total outstanding investment in the poultry and meat segment stood at EUR 177 million spanning across 12 projects. Poultry projects account for the majority (96 percent) of the investments taking place in the industry. The highest investment of EUR 106.6 mn was in the egg market by Toubro Infotech and Industries.

Marine:

With its long coast line of over 8000 km, 50600 sq. km of continental shelf area and 2.2 million sq. km. of exclusive economic zones, India is endowed with rich fishery resources. It is the largest producer of fish and the second largest producer of inland fish.

The Government plans to increase its share of marine exports by focusing on non-traditional export markets such as Japan and China. The Marine Products Export Development Authority has envisioned that the share of value-added products such as frozen fins and squid and cuttlefish in the export portfolio be augmented from 5 percent to 75 percent over the next five years. Total marine exports have been targeted at EUR 2.82 bn in the next five years.⁹

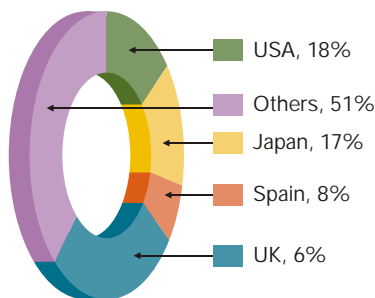
⁹ CMIE

A five-pronged vision document has been formed by the Ministry of Commerce, to step up India's marine products exports from EUR 1.3 billion to EUR 3 billion in the next five years. As per the Ministry, the following would be concentrated upon for reaching the target;

1. Product diversification.
2. Focus on potential brackish water aquaculture in Maharashtra, Gujarat and Orissa.
3. Substantial increase in value addition of exports from 15 to 75 percent.
4. Developing India as a major hub for outsourcing and reprocessing of marine products.
5. Creating a Bio-security zone.

Source: CMIE

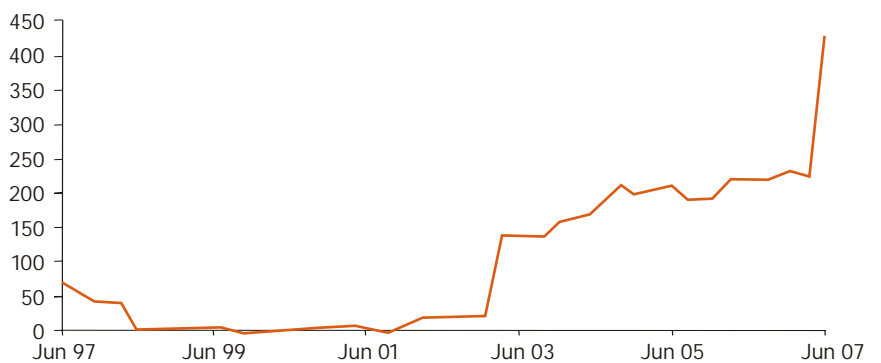
Country-wise Exports of Marine Products in Value Terms (April-Nov 2006)



Source: CMIE

As per the CMIE Capex survey for the quarter ended June 2007, the total outstanding investment in marine products industry stood at EUR 76.13 mn spread over twelve projects.

Marine Foods: Trend in investments (INR Crore)



Source: CMIE



Some Major Players in Meat, Poultry and Fisheries

Company	Major Products	Brands
A.P. Meat & Poultry Corporation, Hyderabad	Pork and other meat products	APSMPC
Alkabeer Exports Limited, Mumbai	Frozen buffalo meat, Chilled/ Frozen sheep and Goat meat	Alkabeer
ASF Seafoods	Seafood	ASF Seafoods
Bell Foods	Marine foods	Bell Foods
DeeJay, Bangalore	Poultry products	
Deep Sea Products	Marine products	Deep Sea Products
Frigo Refico Allana Limited, Mumbai	Frozen buffalo and other meat	Allana
Godrej Agrovet	Poultry products	Real Good Chicken
Hind Industries Limited, New Delhi	Frozen buffalo meat, Chilled/ Frozen sheep and Goat meat	Sibaco, Eatco
MAFCO, Mumbai	Pork and other meat products	MAFCO
PM.L. Industries, Chandigarh	Frozen buffalo meat	PML
Rajasthan Meat and Wool Marketing Federation, Alwar	Canned meat Manufactures	Private Label
Ranchi Bacon Factory, Ranchi	Pork and other meat products	Private Label
U.P. Pashudhan Udyog Nigam Ltd. Uttar Pradesh	Pork and other meat products	CDF
Venkateshwara Hatcheries, Pune	Poultry products	Venky's Food

Source: Company websites, News

Growth Prospects for Meat, Poultry and Marine Processing:

- Large potential for setting up modern slaughter facilities and development of cold chains in the meat and poultry processing sector
- Buffalo meat is surplus in the country and has good export potential
- Poultry production and egg processing industries have come up in the country in a big way and are exporting egg powder, frozen egg yolk, albumin powder to Europe, Japan and other countries
- As per market estimates, poultry meat is likely to grow at a CAGR of 11 percent
- Key export products are: shrimp, lobster, cattle fish, clams and fish fillets
- The Government plans to reduce dependence on frozen shrimps and focus on higher exports on value added marine products (Currently, frozen shrimps account for 55 percent of total marine exports)

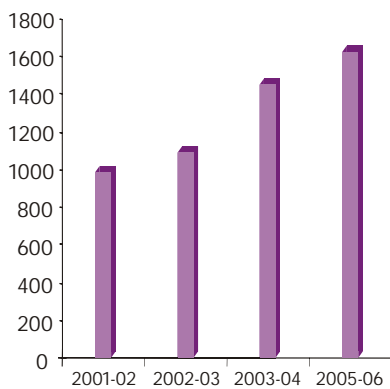
Fruits and Vegetables:

India is the second largest producer of Fruits & Vegetables (F&V) in the world¹⁰ (82 mn tons- 10.9 percent of global production and 47 mn tons - 8.4 percent of global production respectively).

¹⁰ Cygnus

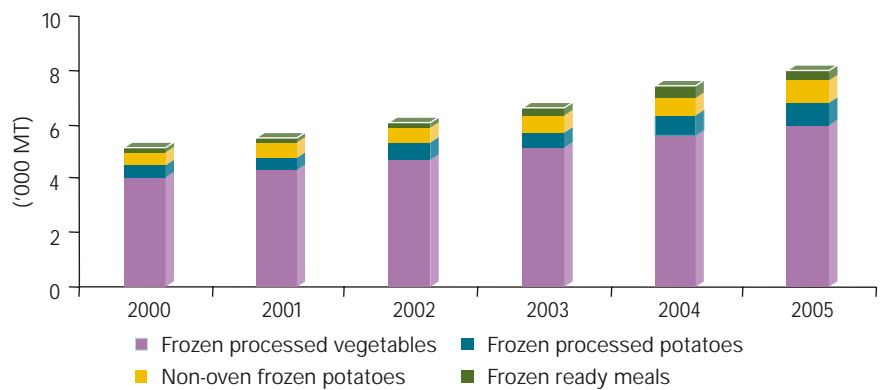
The prominent processed items are fruit pulps and juices, fruit based ready-to-serve beverages, canned F&V, jams, squashes, pickles, chutneys and dehydrated vegetables. The fruit and vegetable processing industry in India is highly decentralized. A large number of units are in the cottage/home scale and small scale sector, having small capacities up to 250 tons/annum. But big Indian and multinational companies in the sector have large capacities in the range of 30 tons per hour or more.

F&V Exports (Rs. Cr.)



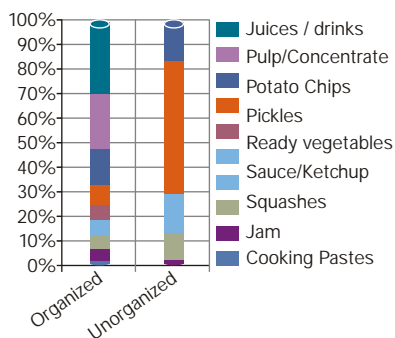
Source: APEDA

Sale of 'Frozen' F&V



- Fresh F&V exports have demonstrated a CAGR of 13 percent in value terms over the last four years¹¹
- Large organized players like ITC, Bharti Field Fresh, Mahindra Shubhlabh have entered into this segment recently, spotting the high potential
- Total volumes of "frozen" F&V ~ 8,000 MT

Share of Product Categories



Source: Cygnus

Some Major Players:

Company	Products
Capital Foods	Frozen Foods, IQF Vegetables
Dabur India Ltd.	Jams, Pickles, Fruit Beverages
Godrej F&B	Fruit Juices, Fresh F&V (Retail)
Green Valley	Frozen Fruits and Vegetables
HLL	Jams, Ketchups, Fruit Beverages
Mafco	Frozen fruits and vegetables
Mother Dairy (Safal)	Frozen processed F&V
MTR Foods	Pickles, chutneys (Dips)
Priya Foods	Pickles, Fruit Juices
Temptation Foods	Frozen fruits and vegetables, Purees
V.PBedeekar & Sons Pvt.Ltd	Spices, Pickles, Fruit & Vegetables Foods, Gravy Mixes

Source: Company websites, Media Reports

¹¹ APEDA



Growth Prospects in Fruit and Vegetable Processing:

- Abundant investment opportunities in expanding domestic market and exports
- Changes in export-import policies and exchange rate adjustments to help in improving export potential
- Considerable international demand for certain fresh fruits as well as processed fruit products such as: mango, grapes, bananas, lichees and exotic fruits like sapotas, pomegranates, custard apples and other tropical fruits
- Among vegetables, the items having good export potential are: onion, potato, okra, bitter gourd, green chillies and other seasonal vegetables. Many non-traditional vegetables mainly processed mushrooms and gherkins, and others like: asparagus, celery, bell pepper, sweet corn, green and lima beans and organically grown vegetables are also increasingly being exported
- The sauces/ketchups segment is expected to record 17 percent growth in 2007-08¹²

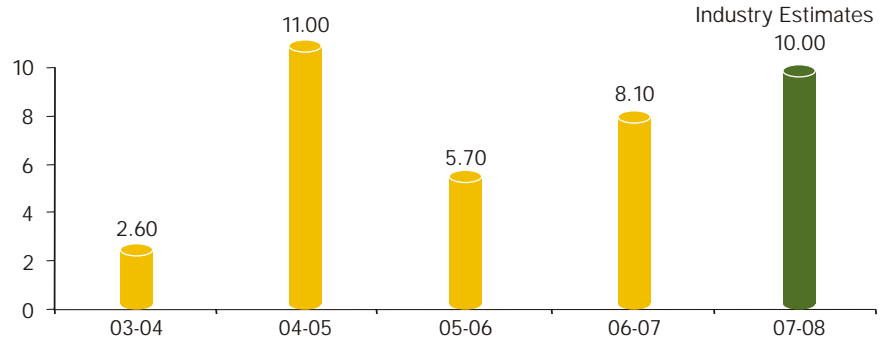
Bakery Products:

India is ranked among the top ten producers of all major grains. It is one of the major producers of paddy, wheat, maize, barley and millets (great millet, pearl millet and finger millet).

The Bakery industry consists of products ranging from biscuits, bread, cakes, rusk, buns, breakfast cereals and other edible items with key raw materials such as wheat flour or other grains, sugar, edible oils etc. The two major segments viz., bread and biscuit account for about 82 percent of the total bakery products. The organized sector has a market share of 45 percent and the balance 55 percent is with the unorganized sector. With rising demand and entry of big companies like ITC, competition has heated up in this segment. The bakery industry has been reporting brisk growth and is likely to continue the trend in the future with growing demand for low-fat products like healthy snacks, low-sugar biscuits, fat-free cakes etc.

¹² FICCI F&B Survey

Biscuit Production Growth (%)



Source: Cygnus, CMIE

Increasing health consciousness and changing consumer preferences in favour of packaged bakery products is growing. These trends are expected to continue in the future. A case in point, Atta which was traditionally milled at local mills, now is a branded product which is available at affordable prices. Also, the demand for products like Maida (one of the milled grain products) has found its new value added use in noodles, vermicelli, macaroni and pasta.

The Breakfast cereals segment is estimated to grow at a CAGR of seven percent with projected sales expected to reach EUR 35 million in 2010.¹³ The immense growth potential for breakfast cereals stems from the vast untapped demand and high scope of penetration for these offerings in the affluent urban areas. In addition to this, there is a potential to upgrade existing consumers from basic product types such as flakes to more value-added offerings such as muesli, hot cereals, and other Ready-to-Eat (RTE) cereals. The expected foray of new local and international players, tied with the on-going retail boom, is also expected to spur higher sales of breakfast cereals.

¹³ Euromonitor



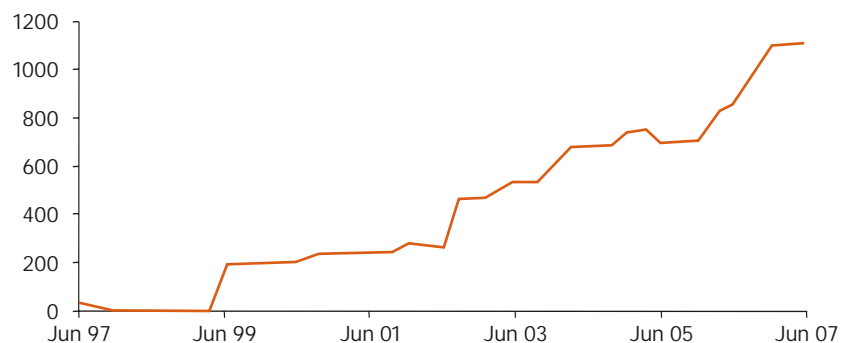
Some Major Players - Milling Products, Bread, Biscuits, Breakfast Cereals

Company Name (in Alphabetical order)	Product
Bagrrys India	Oats, Sugar-free Crunchy Muesli
Bambino Agro Inds	Pasta, Idlis, Gulab Jamuns
Britannia Industries	Biscuits, Bread, Cakes
General Mills	Cornflakes, Atta
Godrej Foods Ltd.	Cereal, Cookies
Hindustan Vegetable Oils Corpn	Porridge, Cornflakes, Oats
ITC	Atta, Pasta
Kellogg's	Cornflakes, Biscuits
Modern Foods Inds	Bread
Parle	Biscuits
Priya Food Products	Biscuits, RTE
Shakti Bhog Foods	Atta, Semolina, Porridge, Corn Flour
Surya Foods and Agro	Biscuits

Source: Company websites, News

For the quarter ended June 2007, investments in the bakery and milling sector rose by 30.4 percent year-on year to EUR 196.3 mn spread over 39 projects.

Trend in Investments (Rs. Crore)



Source: CMIE

Growth Prospects in Bakery:

- The bakery segment is expected to record robust growth between 10-20 percent in 2007-08¹⁴
- In 2007-08, branded flour (atta) is likely to grow at 16 percent, bakery items like bread, cakes at 11 percent, and biscuits at 16 percent respectively¹⁴
- With rising popularity of branded rice and flour among urban population, the investment scope in this field has increased
- Surge in exports of Indian basmati and non-basmati rice backed by rising international demand

¹⁴ FICCI F&B Survey

Confectionery

The Indian confectionery industry can be segmented into sugar-boiled confectionery, chocolates, mints and chewing gums. The confectionery market is highly fragmented with players having a strong regional presence. The annual per capita consumption of branded confectionery in India is estimated to be under 100 gms. The chocolate market in India is dominated by two major players, Cadbury India Ltd and Nestle India Ltd, which together account for about 90 percent of the total chocolate market.¹⁵

The total market for sugar boiled confectionery (comprising plain/hard boiled candies, toffees, eclairs and gums) is estimated at EUR 1.15 bn of which the organised sector is around EUR 460 mn.

Some Major Players:

Company Name	Brand
Cadbury India	Dairy Milk, Eclairs, Gems, Temptations, Celebrations, Nutties
Candico (I)	Loco Poco, Koffi Toffi, Gumbo Jumbo
Lotte India Corp	Coffee bite, Lacto King, Caramilk, Coconut Punch
Nestle India	Kit Kat, Milky Bar
Parle	Melody, Poppins, Kismi, Mangobite
Perfetti Vanmelle Products	Mentos, Centerfresh, Alpenliebe, Chlormint, Happydent
Ravalgaon Sugar Farms Ltd.	Coffee break, Mango Moods, Pan Pasand, Klearmint

Source: Company websites, News

Growth Prospects in Confectionery:

- Market is estimated to grow at a CAGR of five percent with projected sales expected to reach EUR 691 million in 2010
- The western concept of pick 'n' mix sugar confectionery is expected to gain ground in India over the forecast period, and may bring other Western confectionery specialists in their wake
- Sugar-free confectionery will dominate adult confectionery sales in the future

Confectionery (including Edible Gums)

Demand : Past & Future	
Year	Euro mn
2004-05	480
2009-10	649
2014-15	792

Source: IndiaStats

¹⁵ Euromonitor

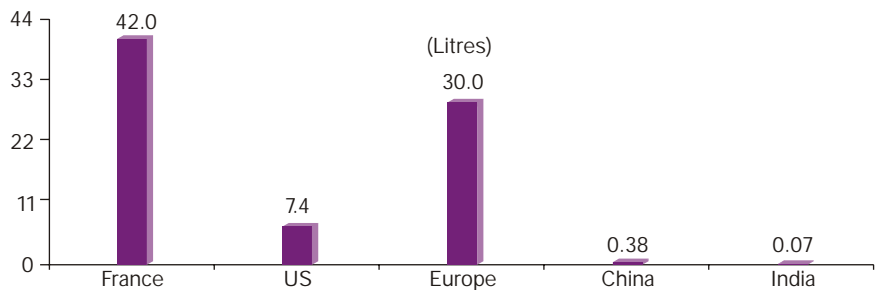


Alcoholic Beverages: Wine, Beer, Indian Made Foreign Liquor

The wine industry in India has shown robust growth potential. The EUR 46 mn market has grown at over 25 percent per annum over the last three years. The Government has introduced special wine policies to encourage grape cultivation and wineries in the states. For example: Maharashtra has taken initiatives such as an excise holiday for wine makers till 2011, sales tax concessions, fixed license fees for ten years and creation of a wine institute and grape board for quality control. The industry is estimated to report a 60 percent CAGR over FY06-10 and 24 percent CAGR over FY10-15, to EUR 355 mn and EUR 1.06 bn respectively.¹⁶

In the recent past, the sector has attracted a lot of interest in investment in India. While foreign companies are trying to tap the growing Indian wine market, a leading liquor group in India, UB Group is planning to launch its wines in overseas markets like the U.K., France, Australia and New Zealand.

Per Capita consumption of wine in various countries



Source: www.IndiaWine.com

India is one of the world's fastest-growing beer market with per capita consumption rising from a very low base. Favorable demographics, rapid economic growth, rising disposable incomes and increasing social acceptance of alcohol consumption are key growth drivers. The Indian beer market is poised to grow at a 14.3 percent CAGR over the next three years. The supply side is highly consolidated with United Breweries and SABMiller being the dominant players.

In keeping with Indian consumer tastes, about 61 percent of the beer consumed in India is "strong beer", i.e. beer with an alcohol content of 6-8 percent. "Mild beer", i.e. beer with an alcohol content below five percent, accounts for the remaining 39 percent. The strong beer segment is also the faster growing of the two and this is likely to continue, in keeping with Indian tastes.

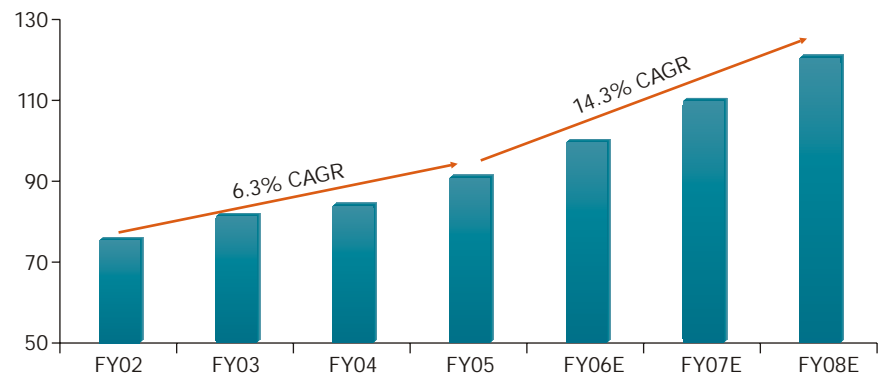
Key Players in the Indian Wine Industry

Company Name
Flamingo Wines
Grover
Indage
Mandala Valley
ND Wines
Renaissance Wines
Sankalp Wines
Sula
Vinicola
Vintage Wines

Source: FICCI

¹⁶ SSKI

Aggregate beer consumption (m cases)



Source: Euromonitor

Some Major Players Beer Industry

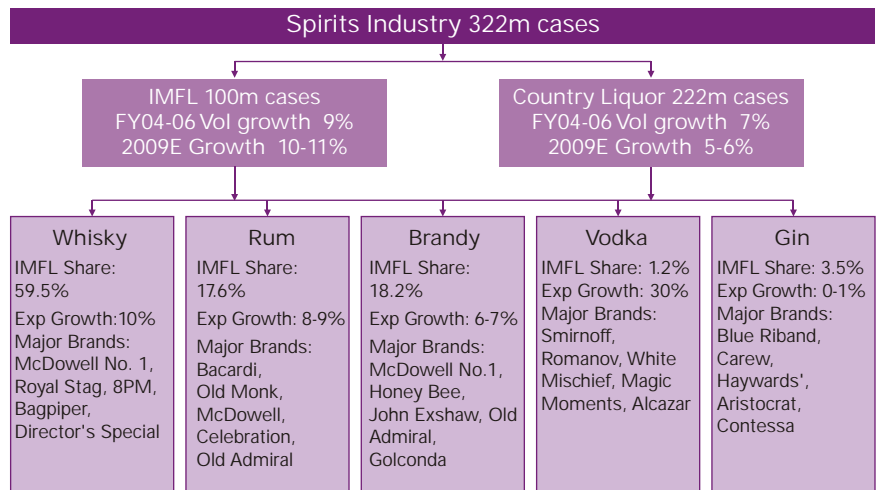
Company Name	Brand
Mohan Meakin	Golden Eagle
SabMiller	Haywards, Royal Challenge Premium, Knock Out
United Breweries	Kingfisher Premium, Kingfisher Strong, Zingaro, Sandpiper

Source: Euromonitor, Trade Press

The IMFL (Indian Made Foreign Liquor) market in India constitutes 31 percent of the total liquor market in India. The rest is accounted for by country liquor. However, there is a discernible shift in consumption from country liquor towards IMFL. The IMFL segment is growing at 9-10 percent (in volume terms) as against 6-7 percent growth in country liquor.¹⁷

The industry has been witnessing a lot of M&A activity over the last few years. The consolidation wave, spanning both the IMFL and beer segments, has seen merger of companies, and acquisition of brands, manufacturing facilities and bottling units. The IMFL industry is expected to record robust volume growth across segments.

¹⁷ Motilal Oswal Report, March 2007



Source: Motilal Oswal Report, March 2007

Growth Drivers:

1. India's per capita consumption of alcoholic beverages is one of the lowest in the world. Favorable demographics, coupled with increasing disposable incomes, and western lifestyle influence is likely to lead to a significant increase in per capita consumption of spirits across categories.
2. Urbanization is creating demand for alcoholic beverages and also creating a pub culture
3. The wine sector is estimated to grow at 22 percent 2007-08
4. Wine & Beer offer good export potential

Non Alcoholic Beverages: [Includes soft drinks, juices, tea and coffee]

Soft Drinks (Carbonated):

The soft drinks industry is the third largest packaged food industry after tea and biscuits in India. The soft drinks industry's total export earnings are estimated to be over EUR 1250 mn per annum.¹⁸

Beverages such as colas, lemonade, squash, and fruit punch are among the most common types of soft drinks. There are more than 100 plants across India. These provide direct or indirect employment to over 1,25,000 employees and contribute over EUR 215 mn annually to excise duty, sales tax and other related taxes. In India, consumption of soft drinks is higher in the urban areas than in the rural areas; however, this is slowly changing. Brands such as Coca Cola, Pepsi, Thums Up, Limca, Mirinda, 7Up are popular in India.

¹⁸ Cygnus Agro Processed Food Sept 200



Fruit Juices (Non-carbonated):

Convenience and natural taste together with health-consciousness has played an important role in the growth of packaged fruit juices. The fruit drink market has grown at 20 - 25 percent, of this, the exotic fruit juices segment has grown at 40 percent this year. Fruit-based milk drinks and fruit-based soya milk is another emerging segment is valued at around EUR 2.7 - EUR 3.5 million and expected to grow rapidly.¹⁹

Cola sales have fallen dramatically after health concerns and this seems to have benefitted the fruit beverage industry. Tetra Packs have offered a solution to provide fruit juice practically fresh and preservative free. These factors have resulted in an increased consumption of juices. Industry estimates state a 25 percent compounded annual growth in the juices segment between 2007-2010.

Some Major Players:

Company	Brand Name
Coca-Cola	Minute Maid
Dabur Foods	Real, Activ, Twist, Coolers
Godrej Industries	Xs
Ladakh Foods	Lehberry, Fruit Mix
Mother Dairy	Safal
Parle (Exports)	Frooti, Appy
Pepsi-Foods	Tropicana
Surya	Fresh Gold

Source: Company websites

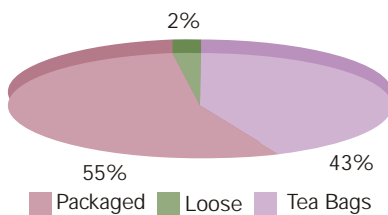
Tea

Tea is indigenous to India and is an area where the country can take a lot of pride being the largest producer in the world. In all aspects of tea production, consumption and export, India has emerged to be among the world leaders, mainly because it accounts for 31 percent of global production. Indian tea production has grown at 1.2 percent CAGR over the last ten years. Tea is an essential item of domestic consumption and is a major beverage in India. Domestic demand for tea has grown at over 4 percent in the last three decades. The tea Industry provides gainful direct employment to more than a million workers mainly drawn from the backward and socially weaker section of the society. It is also a substantial foreign exchange earner.²⁰

²⁰ Crisil

Due to the highly competitive nature of the market, brand differentiation emerges as the most important factor. Value addition strategies include: introduction of new variants in the form of special blends (ice tea, flavored tea, diet tea, herbal tea, organic tea, ready-to-drink tea in liquid and granulated form) and new packaging techniques that help preserve freshness, aroma and increase convenience. The U.K. and the U.S. have shown an increasing preference for instant ice tea and companies such as Tata Tea and HLL have been able to access this market.

Packaged Tea:
Segment-wise breakdown



Source: Industry Estimates

Tea is primarily produced in four states in India Assam, West Bengal, Tamil Nadu and Kerala. Tea is either sold in loose or packaged form in the domestic and export markets. India is the fourth largest tea exporter in the world. Key destinations for exports include the Russian Federation, the UAE, Iraq, the U.K., and Kazakhstan. India mainly exports bulk and packaged tea comprising instant tea, packet tea and tea bags.

India's packaged tea market has around 300 brands, with some brands having a regional presence, and others enjoying national presence.

Some Major Players:

Company Name	Brand
Assam Co.	Cheetah and Jumbo
Apeejay Tea	Mantra and Maha Mantra
Duncan Industries	Sargam, Double Diamond, Shakti and Runglee
Dhunseri Tea and Inds.	Chote Lal
Goodricke Group	Goodricke Perfect
Girnar	Girnar
Harrisons Malayalam	Touramulla
Hasmukhrai & Co	Society Tea
HLL	Brooke Bond
Mcleod Russel India	Williamson
Tata Tea	Tata Tea, Tetley
Wagh Bakri	Wagh Bakri

Source: Company websites, News



Coffee

India is the sixth largest producer and exporter of coffee in the world. About 72 percent of coffee production is exported. (4 percent of total global coffee exports), leaving the balance for domestic consumption. Italy is the largest export destination for Indian coffee, accounting for 25 percent of total exports. Germany is the second-largest destination, followed by the Russian Federation, Belgium and Spain. India is one of the few countries that produce both the Arabica and Robusta varieties of coffee.²¹

The industry can be segmented into filter coffee and instant coffee. Among all the beverages consumed in India, coffee ranks third, after tea and plain milk.

In India, HLL manufactures only mixed instant coffee. Nestle is the market leader in instant coffee, with a 59.3 percent share in the instant coffee market, followed by HLL which accounts for nearly 40.7 percent. In the filter coffee segment, HLL is the market leader accounting for 60 percent of the market share with its Deluxe Green Label Brand. Tata Coffee Ltd (TCL) is the second largest with a share of 12 percent. The share of regional players in the coffee segment is very low.

Some Major Players:

Company Name	Brand
HLL	Bru, Deluxe Green Label
Nestle	Nescafe, Sunrise
TCL	Tata Coffee

Source: Company websites, News

Growth Prospects in Non-alcoholic Beverages:

- Flavoured tea, diet drinks and fresh natural juices are likely to dominate the future of the beverage industry
- Fruit juices, pulp and concentrates are likely to register 18 percent growth in 2007-08
- Potential to export innovative flavors of tea

²¹ Crisil



Ready-to-eat

The Ready-to-eat industry is estimated to be around EUR 92.5 mn, growing at 30 percent. This can be attributed largely to the demand from global Indians, Non Resident Indians (NRIs) and others looking for convenient food, (almost) authentic dishes and entrée on the go. The industry is estimated to cross EUR 277.5 mn by 2010.²² This demand for ready-to-eat meals has captured a large amount of the food retail market in India and around the world. Another reason for this boom is the use of new technology and ensured sterilization which has helped reduce prices and increase shelf life without the need for refrigeration.

Some Major Players in the Global Indo (NRI / Indian) Ethnic Ready-to-Eat industry:

Brands	Products
Amul	Processed cheese, nutramul and mithaee gulab jamuns among its offerings.
Capital Foods	RTE Indian delicacies.
Gits	Variety of ethnic Indian cuisine, where the recipes have "global palette acceptance".
Haldirams	Packaged bhel puri chats such as sev puri, chana masala, samosa, pakoras, alu tikki, pao bhaji, gol gappa, dhokla among others.
ITC	Ready to cook foods and dishes ranging from bukhara (uzbek recepie) to murgh methi and other exoctic cuisines and includes "regular" biryanis, curry pastes and dishes.
MTR	Twenty-two delicious and completely authentic Indian curries, gravies and rice.
Priya Foods	Traditional recipes starting from dal makhani, navaratan kurma to palak paneer, paneer butter masala, punjabi chhole and rajma masala along with true southern delicacies like andhra veg pulav, mango dal, gongura dal.
Rajbhog Foods Inc.	Manufacturing and distribution of sweets, snacks, savories, frozen foods, ice cream and beverages.
RainbowFoodsIndia	All types of Indian frozen vegetables, meals & snacks, frozen vegetables, meals, fruits, parathas, punjabi veg curries, vegetables, fruits, pickles, pastes and snacks.
Satnam Overseas Ltd	RTE Indian delicacies.
Tasty Bite	Range of entrées and Ready meals.

Source: Company websites, News

Organic Food

In large parts of the world today, consumers are averse to Genetically Modified (GM) foods and chemical additives, and are gravitating towards organic/bio-foods. Organic foods is a EUR 25 bn market growing at 8-10 percent annually, this is an exciting opportunity for India across key segments.

²² IBEF

Organic Foods include almost everything that is used in the kitchen from fruits, vegetables, pulses, cereals, bread, and sweeteners such as honey, brown sugar and raw sugar to all cereals, pulses, flours and spices, bakery and dairy products, typically sourced from farmers practicing organic farming, free from conventional chemical systems of farming using artificial fertilizers and pesticides.

Some of the Major Players:

Adi Naturals
Association for the Promotion of Organic Agriculture (APOF)
Eaternal Health and Organic Foods
Ecofarms
Era Organic
FabIndia
Godrej AgroVet
Green World
Nature Food
REI Agro

Source: Business Line, Company Websites

By default, a majority of the farming in India is organic with minimal use of agri-chemicals and GM seeds. India's export of organic produce is quite low, however, the entry of larger and more organized companies is likely to give a boost to the industry.

Diet Snacks

Diet snacks is another segment which is gaining vast popularity with improving standards of living and increasing health-consciousness. While the market for low-calorie foods is small in developing countries, India already ranks among the top 10 consumers of diet foods. The market size is expected to nearly double in the next five years. Total sales in this category is estimated to have grown by 3.8 percent in value in 2006. The current market size of the sweetener category, is close to EUR 12.4 million, and is growing at about 15 percent per annum. In recent times, the positioning of these products has also changed, with the target audience no longer being diabetics, but healthy people for whom sweeteners are preventive products.²³

Some Major Players	Products
Anjali Mukherjee Products	Breadsticks, Soya Nuts
Eaternal Health and Organic Foods	Variety of Health and Organic Foods
Emami Foods	Variety of Snacks

Source: Company websites, News

Growth Prospects in Packaged Goods:

- The convenience foods segment offers the greatest potential
- The ready-to-eat segment is estimated to record 22 percent growth in 2007-08
- Exports of soya based products like: soya meal, deoiled cake and other value added products are increasing at a rapid pace
- Technological revolution in processing and packing of food products, coupled with fast growing inland and export markets presents an excellent potential for further investment in this sector

²³ Cygnus

India's Potential as a Market and an Investment Destination



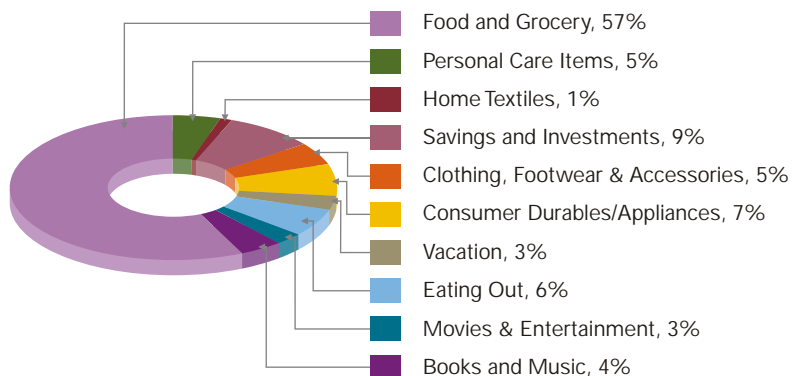
India presents a huge untapped opportunity for the food processing sector enhanced with low penetration levels and a liberal regulatory regime. Increased economic growth, evolving food-consumption patterns, a higher standard of living due to rising disposable incomes and a trend towards nuclear dual-income families all present considerable potential. Government studies show that an average Indian spends majority of his income on food consumption.

Recognizing an opportunity to grow, multinational food companies have entered this industry to meet consumer demand for convenience and value-added products. U.S. brands such as McDonald's, Pizza Hut and Kentucky Fried Chicken (KFC) have already become household names in India while more are set to enter.

Demographic Dividend

India's population is nearly 17 percent of the global population and is one of the most attractive consumer markets in the world today.

The Rupee Spending



Source: NCAER

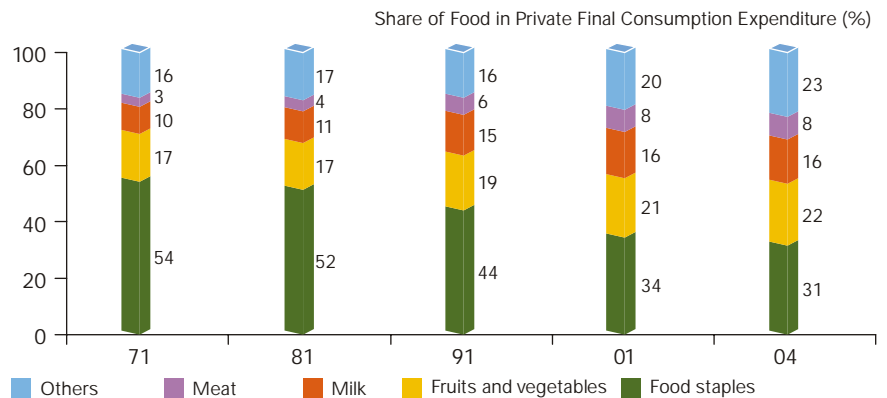
India has observed an upward mobility in the income classes and rising disposable income. According to the National Council for Applied Economic Research (NCAER) data, the consuming class, with an annual income of EUR 701 or above, is growing and is expected to constitute over 80 percent of the population by 2009-10. The increase in income levels of the Indian population and the emergence of the consuming class that has higher penchant to spend, offers great growth opportunities for companies across various segments.

Changing Lifestyles/Increasing Consumer Awareness

Over the years, increasing literacy and exposure to developed nations via foreign media and overseas work experience/travel has brought about a change in the mindset and preferences of urban Indians. Increase in the population of working women and dominance of nuclear double income families, especially in urban areas, are other trends shaping the changing lifestyles.

Lack of time due to a busy lifestyle and changing consumption patterns has led to an increase in the demand for processed, ready-to-cook and ready-to-eat food, leading to increased brand-consciousness.

India's food demand pattern shifting



Source: CLSA Asia-Pac Markets

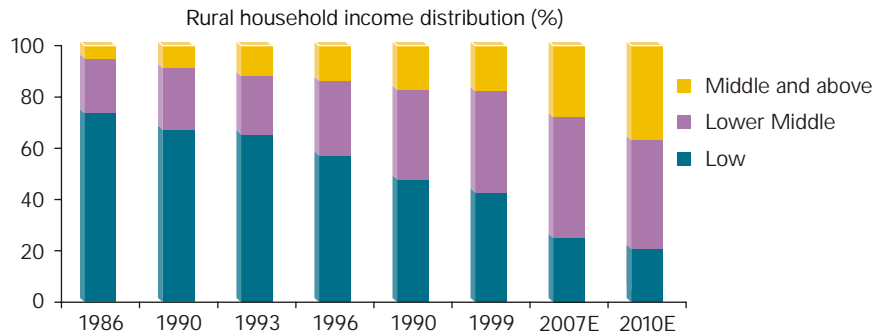
Rural Market Potential:

The opposing growth path of the farm and non-farm sectors has widened the gap between rural and urban incomes. Rural areas are home to 70 percent of India's population and have historically accounted for more than half of India's consumption. Even with increasing urbanization and migration it is estimated that 63 percent of India's population will continue to live in rural areas in 2025.²⁴

Higher agri-incomes and a gradual shift from farm to non-farm employment (both with rural India as well as via migration to urban areas) will also see average income levels for rural India increase. Successive NCAER surveys and estimates suggest that the as many as 37 percent of rural households could move into the middle income-and-above consuming class by 2010 - for perspective, this was only 15-17 percent in the late 1990s.

²⁴ Business World September 27, 2007

More and more rural households will join the consuming middle class



Source: NCAER India Demographic Report 2002, Business World

This translates to a consuming class of 56 mn rural households by 2010 more than half of India's overall estimated middle class by this time. Clearly, consumption growth in rural India will get a strong boost, thus opening up the vast and relatively unexplored strata of India to companies.

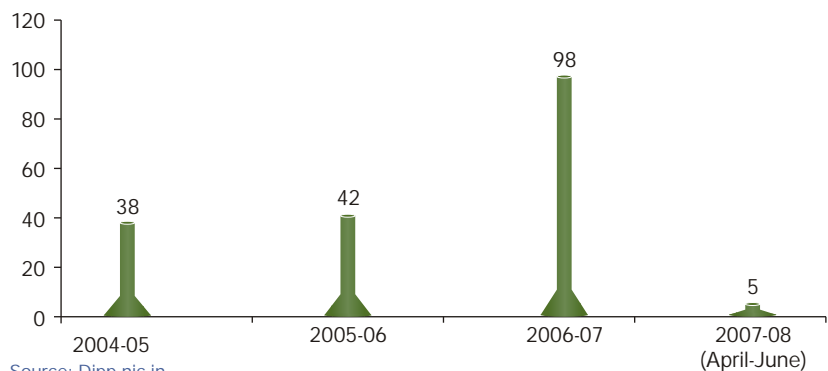
With these promising trends and India's ready availability of raw materials, India has several competitive advantages in the food processing sector.

“Time has come to invite the big players from world over to India to see for themselves the changing environment and the technological strengths of the domestic food processing industry”
 - Subodh Kant Sahai,
 Minister for Food Processing Industries in India

Total FDI inflow in the FPI sector

The FPI continues to attract investors. FDI inflows in the FPI from August 1991 to June 2007 stood at USD 1,282.06 mn, 2.43 percent of total inflow in value terms.

FDI in USD (mn)



Source: Dipp.nic.in



Share of top five investing countries in FDI approvals for food processing industries (from August 1991 to October 2006):

Rank	Country	No. of FDI approvals	Amount of FDI approved		Percentage with total FDI for Food Processing Industries
			INR in Crore	USD \$ in million	
1.	U.S.	137	5,499.74	1,579.7	55.97
2.	Netherland	74	591.54	161.8	6.02
3.	France	30	464.68	121.8	4.73
4.	Italy	36	438.18	137.0	4.46
5.	Thailand	19	393.98	126.8	4.01
Total of above		296	7,388.12	2,127.1	75.19

Source: DIPP, FICCI

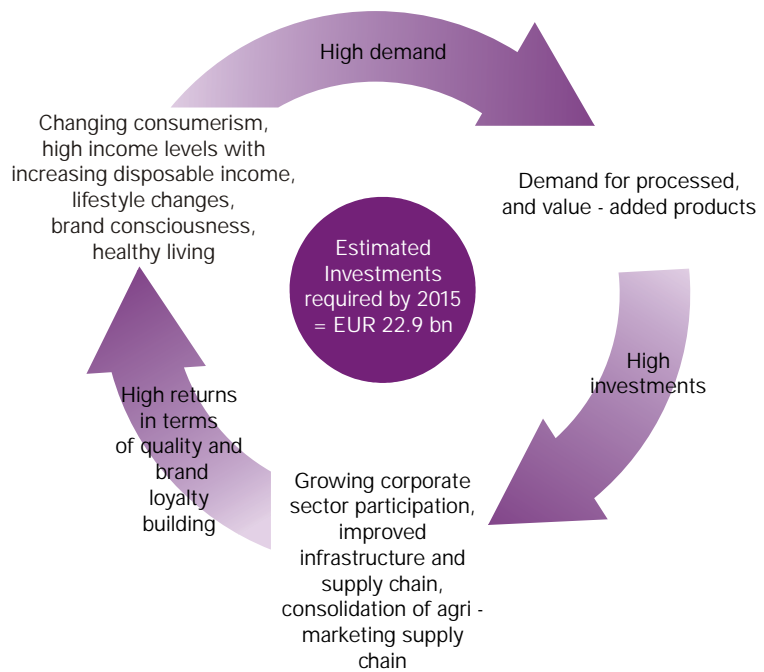
Recently, India has received an encouraging response from investors in the U.K. For establishing joint quality control testing facilities for agriculture product and establishing cold storage facilities in the country

Details of top investing companies in food processing industry: (from August 1991 to October 2006):

S.no.	Name of the Collaborator	Country	State	Amount of FDI approved Rupees/ (USD\$) Percentage of FDI
1	Coca-Cola South Asia Holding Inc	U.S.	-	Rs.23, 870 (US \$694) 100.00%
2	Hindustan Coca-Cola Holdings P. Ltd	U.S.	-	Rs.5,950 (US \$ 165.9) 100.00%
3	C.P. Aquaculture Business Group	Thailand	Tamil Nadu	Rs.3,660.0 (US \$ 191.4) 50.00%
4	Heinz Italia, SPA Milan	Italy	-	Rs.2,840.0 (US \$ 90.5) 100.00%
5	Groupe Danone	France	-	Rs.2,450.0 (US \$ 71.2) 80.00%
6.	Cerestar Holdings B.V.	Netherland	Maharashtra	Rs.1,900.0 (US \$ 48.1) 100.00%
7.	Kellogg India P. Ltd	U.S.	Delhi	Rs.1,650.0 (US \$ 46.0) 100%
8.	Artal Foods	Belgium	-	Rs.1,520.0 (US \$ 38.5)100%
9.	Y.F.Asia Ltd	Mauritius	Delhi	Rs.1,520.0 (US \$ 38.5) 100.00%
10.	Coca-Cola South Asia Holdings Inc.	U.S.	Gujarat	Rs.1,364.0 (US \$ 39.7) 100%

Source: DIPP, FICCI

Untapped Potential



Source: SSKI, Vision2015 Document

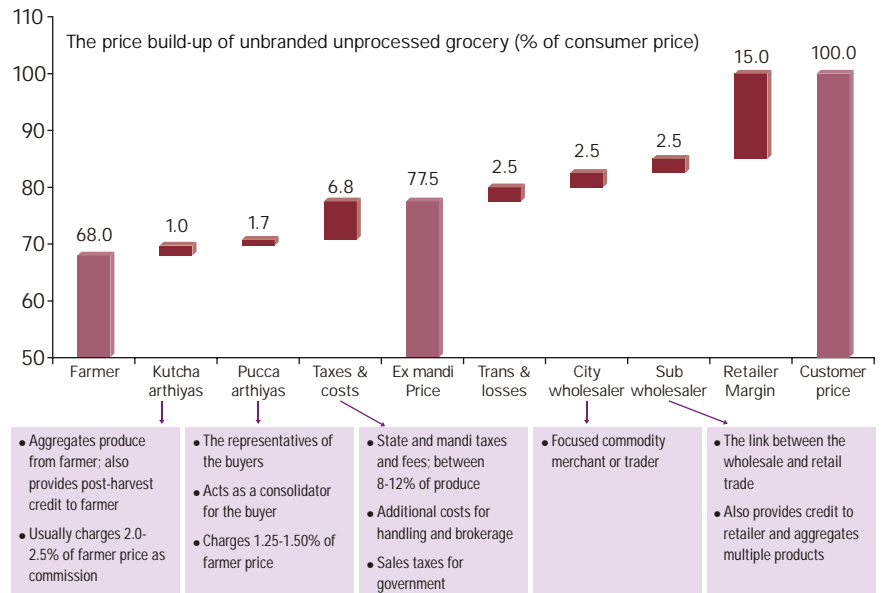
Challenges & Opportunities



Affordability and Cost

In developed countries the price of processed foods and fresh foods are more or less, the same. At times, processed foods are even cheaper than fresh food. In India, however, due to a variety of factors processed food prices are substantially higher than fresh food. Given the objectives which are achieved by processing there is a need to take measures to reduce costs and make processed food affordable.

The agri-supply chain in India today



Source: REI Agro, ITC, Planning Commission

Infrastructure

Deficiencies in infrastructure exist across the sector. The cold storage capacity today caters to less than 15 percent of the produce, this too is of rudimentary nature with over 80 percent designed only to handle potatoes. There is also a paucity of chilling infrastructure for milk and a lack of modern abattoirs for the meat processing sector. Fish processing, more specifically for exports requires a major step-up in infrastructure availability. Physical marketing and warehousing infrastructure also needs to be upgraded.

India's limited controlled atmosphere storage facilities, technologies, protocols and machinery are chiefly imported. India needs to develop expertise to assess and modify and if necessary upgrade manufacturing capabilities according to our specific requirements. These areas need support and new paradigms of PPP. Government subsidy schemes, partnership with banks, creation of models for JVs, Special Purpose Vehicles (SPVs) for implementation as well as dedicated infrastructure financing institutions are required to give this area the requisite push.

Financing and credit availability

Inadequate and high cost of credit has been one of the major reasons for the subdued agri-sector growth. According to industry estimates, rural credit penetration in India is just 15 percent of the all India average of 40 percent. Due to inadequate formal credit delivery mechanism farmers have to rely on informal sources such as money lenders and traders who charge higher interest rates.

Factors such as lopsided regulatory policies and non-availability of timely and adequate credit have led to the highly fragmented nature of the industry. Lack of economies of scale and uncertainty in raw-material availability has resulted in higher inventory holdings and low capacity utilization. Due to the unorganized industry structure, most of the units in the FPI are stand alone without significant backward or forward linkages. All these factors are responsible for the significant constraints on banks with regard to credit assessment evaluations increasing the cost of borrowing.

Food Laws

Currently there are more than twenty Indian laws relating to food, which are administered by a number of different Ministries and Departments. Food processors have to comply with these rules.

"The food processing industry in India is on an assured track of growth and profitability over the coming decades and we expect phenomenal investment capital, human, technological and financial in the next decade,"
- Piruz Kambhatta,
Chairman and Managing Director,
Rasna Foods



Among the more important food laws are:

- Prevention of Food Adulteration Act (PFA) of 1954 and the PFA Rules of 1955 : Covers specifications related to food color, preservatives, pesticide residues, packaging and labeling, and regulation of sales.
- The Standards of Weights and Measures Act, 1976, and the Standards of Weights and Measures (Packaged Commodities) Rule, 1977: Designed to establish fair trade practices with respect to packaged commodities.
- The Fruit Products Order, 1955: Specifications and quality control requirements regarding the production and marketing of processed fruits and vegetables, sweetened aerated water, vinegar, and synthetic syrups.
- Meat Food Products Order, 1992: Administers the permissible quantity of heavy metals, preservatives, and insecticide residues for meat products.
- Milk and Milk Products Order, 1992: Regulates the production, distribution, and supply of milk products; establishes sanitary requirements for dairies, machinery, and premises; and sets quality control standards for milk and milk products
- The Food Safety and Standards Act, 2006: In August 2006, Government of India has passed a new legislation Food Safety and Standards Act. The Act proposes establishment of a new authority; the Food Safety and Standards Authority, reorganization of scientific support pertaining to the food chain through the establishment of an independent risk assessment body and a new Food Law, merging eight separate Acts.

However, in spite of these challenges, India presents a significant untapped opportunity for the FPI sector enhanced by low penetration levels and a liberal regulatory regime. The role of food processing has become more critical since food production is targeted to double in the next 10 years.

“The Indian food sector has the potential to attract Rs. 1,500 bn investments in the next 10 years”
- Y C Deveshwar,
Chairman, ITC

Potential Areas for Investments

Infrastructure investments through greater PPP involvement

Poor infrastructure for storage, marketing and distribution of food products in India is one of the key reasons for low processing levels. It is estimated that approximately 25-40 percent of agri-produce is lost post the harvest season costing around EUR 7.6 -13.4 bn. Poor infrastructure and an inadequate supply chain are the major reasons behind this. It is estimated that by 2012, India's marketable surplus is set to increase by 350 mtpa to 870 mtpa . 40 percent of the increase or 150 mtpa would be accounted for by perishable fruits and vegetable. Given that India's current storage infrastructure for all food items with different public sector entities and in the co-operative sector stands at 100 mt the need for investment is evident.

A 350 mtpa increase in marketable surplus-Horticulture accounts for 40% (mt)

MT	Production		Marketable surplus	
	FY01	FY12	FY01	FY 12
Food grains	213	321	110	166
Oilseeds	21	46	16	37
Sugarcane	297	433	276	402
Fruits and vegetables	132	300	116	265
Total	663	1,100	518	870
Increase		437		352

Sources : Inter Ministry Task Group, Planning Commission Report, Jan 2005

The government has recognized this and announced various policy and fiscal measures to augment the storage capacity. It has indicated an outlay of EUR 2.16 bn over 2002-07 to augment infrastructure; much of this is in partnership with private players. The government is assisting states who have modified their APMC Acts to develop market infrastructure. It has also announced a 15-25 percent capital subsidy scheme to facilitate the construction of rural go-downs and has sanctioned 16mt of new capacity in the last five years.

Strengthening India's market infrastructure

Period 2002 - 07	Physical	Outlays (Rsbn)
Wholesale markets	561	11
Rural primary markets	6,984	28
Grading and testing	1	
Storage	13.0 mt	35
Cold Chains	5.6mt	47
Total		121

Source : National Commission on Farmers

Paucity of proper storage infrastructure is an issue for almost all crops; but it is more important for the F&V category due to their perishable nature.

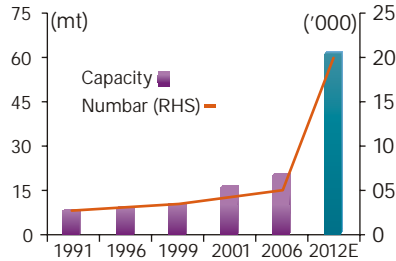
An efficient supply chain is an integral part of the overall strategy of all the players in the organized retail market. This will not only bring down the price of the end-product, but also eliminate intermediaries, by linking farmers directly to the super stores, thus increasing the income levels of farmers.

The transformation in Indian agriculture sector and the FPI coincides with the growth of the organized retailing and increased corporate participation. In order to fully leverage on the opportunities in value-added foods, food processing and also food retail, significant ram-up and improvements are required to create world class infrastructure for an efficient supply chain.

Cold Chain:

India's estimated cold-storage capacity of 19.5 mt is less than 15 percent of the annual horticulture production and is dominated by potatoes (80 percent of capacity). The rising focus on horticulture, large-scale corporate participation and the advent of Food Parks and Agri Export Zones should see cold-chain infrastructure (both storage and transport linkages) being restructured with estimated investments of Euro 5.5 - 6.6 billion over the next decade.²⁵

Rapid capacity ramp-up expected



Source: CLSA

Cold storage capacity is insufficient

	Number	Capacity (mt)	% share
Commodity			
Potato	2,797	16.0	81.7
Multi purpose	1,073	3.3	16.7
Fruits and Vegetables	12.3	0.0	0.2
Meat and Fish	445	0.2	0.9
Milk and milk products	209	0.1	0.4
Others	86	0.0	0.1
Total	4,733	19.5	100.0
Sector			
Private	4,210	18.4	94.6
Cooperative	398	1.0	5.0
Public	125	0.1	0.4
Total	4,733	19.5	100.0

Source : CLSA

The estimated size of the cold chain industry is around EUR 1.4 -1.7 bn and is expected to grow at 20- 25 percent annually. 100 percent FDI is allowed in this sector. Existing cold-storage players and equipment suppliers include Voltas, Blue-Star and Kirloskar Pneumatic and major service providers are Radhakrishna Foodland and Snowman Frozen Foods among others. Container Corporation (Concor) is also setting up a countrywide network of over 14 cold-chain complexes for horticulture in Delhi, Bombay and Bangalore among other places.

Supply Chain Technology:

As the FPI is at a nascent stage in India, sophisticated applications such as demand forecasting, data integration, financial flow management, supply-demand matching, information sharing and good movement synchronization will enable it to become mature and efficient. The food supply chain in India is fragmented with the existence of numerous intermediaries and the lack of economies of scale. This logistical vacuum provides lucrative opportunities for players wanting to enter this market.

²⁵ SCS Agribusiness Consultants Pvt. Ltd.



Food safety management systems:

Food safety is a growing concern across both developed and developing nations. This tightening of restrictions and the introduction of the Sanitary and Phytosanitary Agreement by global industry bodies like the World Health Organization (WHO), have led to increased adherence of safety norms and regulations. Therefore, to gain a larger share of world trade, Indian companies will have to strictly adhere to international food safety standards.

Machinery:

In recent times, quite a number of new technologies, both in processing and packaging, have emerged and made an impact on the shelf-life of food products. These technologies have also matched some consumer trends, such as concerns regarding freshness and health. Despite a considerable increase in the supply provided by the local food-processing and packaging machinery manufacturers, there is ample demand for foreign machinery featuring state-of-the-art technology in India.

Food Parks:

In a bid to boost the food sector, the Government is working on agri zones and the concept of mega food parks. 30 such mega parks are coming up across the country in various cities to attract Foreign Direct Investment (FDI) in the food-processing sector. These food parks will span around two to three districts in each location and will require a total investment of EUR 71 million each. The government will provide a EUR 8 bn grant to set up infrastructure.²⁶

Each food park will have a cold storage facility, apart from facilities for sorting, grading, food processing, packaging and quality control, and R&D laboratories, among other things. The government has already identified five locations in Maharashtra, Andhra Pradesh, Punjab and Jharkhand and one in the North-East region.

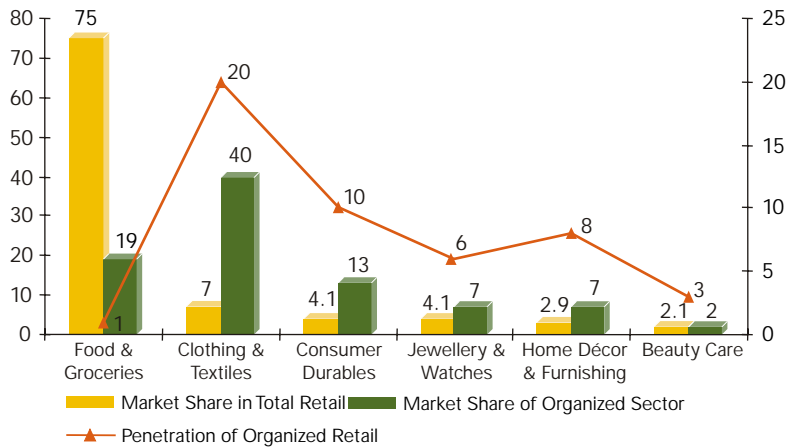
The ministry is seeking to double India's share in the global trade of fresh produce to 3 percent in the next eight years and the setting up of 30 food parks across the country is an important initiative in this direction.

²⁶ Mint - India to kick-start the process for food-parks Sept 20, 2007

Food Retail:

The market for branded foods across different segments of the industry is growing by 15 to 20 percent. For India, food and groceries form the biggest category of the retail pie, accounting for 75 percent. However, this category has the lowest organized retail penetration of 1 percent, which is indicative of the opportunity available for organized retail.

Category-wise retail market shares and organized penetration



Source: AT Kearney Retail Report 2007

Player Expansion Plans

Player	Format	Current outlets	Expansion Plans	Expected year	Estimated investment (Euro million)
Aditya Birla Group	More (Supermarket)	14	1000	2010	2070
	Trinethra Super Retail	1	4	na	
Bharti Wal-Mart	Wholesale Stores	-	15	2012	27.6 to 184
Express Retail Services	Big Apple/Big Apple Fresh	16	100	na	23
Godrej Group	Aadhar	31	1000	na	
Heritage Foods	Fresh (Flagship Stores, Daily Stores)	12	100	na	34.5
Pantaloon	Big Bazar	62	100	na	230
	Food Bazar	95	na	na	
	KB's Fairprice Value Stores	-	1500	2009	
Reliance Retail	Reliance Fresh	240	471	2010	
	Hypermarket	2	500	2010	5750
	Reliance Town Centres	-	784	2010	
RPG	Spencer's (Fresh, Express, Daily, Super, Hyper)	200	5000	2011	575
Sahakari Bhandar	Sahakari Bhandar	18	na	na	
Subhiksha	Subhiksha	870	150	2009	
Wadhawan Food Retail (Spinach)	Super Local, Express	94	1500	2010	276 to 345

Source: Media report

India as a Sourcing Point



With the second largest arable land area in the world and diverse agro-climatic zones across the country, India has a production advantage with the potential to cultivate a vast range of agricultural products. Current global consumer trend towards organic food and herbal products also open up new export opportunities in areas where India is well positioned to compete.

For example, India produces 41 percent of world's mangoes, 30 percent of

[How India Stacks up in the World](#)

Item No	Item	India	World	India's Position		
				Percent Share	Rank	Next to
1	Area (m ha)					
	Total Area	329	13,425	2.5	7th	Russia, Canada, U.S. China, Brazil, Australia
	Land Area	297	13,062	2.3	7th	Russia, Canada, U.S., China, Brazil, Australia
	Arable Land	162	1,364	11.9	2nd	U.S.
	Irrigated Area	58	272	21.3	1st	
2	Population (m)					
	Total	1,025	6,134	16.7	2nd	China
	Agriculture	739	3,211	23	2nd	China
3	Crop Production (mt)					
	Cereal	231	2,086	11.1	3rd	China, U.S.
	Wheat	72	619	11.6	2nd	China
	Paddy (Rise)	88	419	21	2nd	China
	Pulses	11	52	21.2	1st	
4	Fruits and Vegetables					
	Veg and Melons	68	698	9.7	2nd	China
	Fruits excluding Melons	49	466	10.5	2nd	China
	Potatoes	25	308	8.1	3rd	China, Russia
	Onions	5	47	10.6	2nd	China
5	Livestock (m heads)					
	Cattle	220	1,352	16.3	1st	
	Buffalo	94	166	56.6	1st	
	Sheep	58	1,056	5.5	3rd	China, Australia
	Goat	124	738	16.8	2nd	China
6	Animal Products					
	Chicken	413	14,859	2.8	6th	China, U.S., Brazil, Indonesia, Mexico
	Total Milk (mt)	84	583	14.4	1st	
	Eggs Total (m)	1,906	56,594	3.4	5th	China, U.S., Japan, Russia
	Total Meat (mt)	5	237	2.1	7th	China, U.S., Brazil, Germany, France, Spain
7	Implements (000)					
	Tractor-in-use	1,525	25410	6	4th	U.S., Japan, Italy

Source: Ministry of Agriculture, FAO, CLSA

cauliflowers, 28 percent of tea, 23 percent of bananas, 24 percent of cashew nuts, 36 percent of green peas and 10 percent of onions. This strong footing in agriculture provides a large and varied raw material base for food processing. These advantages if leveraged optimally, can lead to India becoming a leading food supplier to the world.

At present, the Indian food-processing industry is primarily export oriented. India's geographical situation gives it the unique advantage of connectivity to Europe, the Middle East, Japan, Singapore, Thailand, Malaysia, and Korea. One such example indicating India's location advantage is the value of trade in agriculture and processed food between India and the Gulf region which has grown from EUR 6.05 billion in 2001 to EUR 38.9 billion at the end of 2006. Food exports to the Gulf Cooperation Council (GCC) region is estimated at EUR 2.1 billion a year with agricultural and processed food exports from India to the UAE alone accounting for more than EUR 218.4 million in 2004-2005.

Indian food brands are increasingly filling prime shelf-space in the U.S. and Europe. MTR Foods' ready-to-eat food, Cobra Beer, Bikanervala Foods, ITC's Kitchen of India and Satnam Overseas' Basmati rice are the favorites of the Indian Diaspora spread across the world. In fact, even foreigners have started relishing Indian foods and fruits, especially in the U.K. and the Middle East.

While marine products form the largest chunk at 40 percent of India's agri-product exports, there are several opportunities that beckon. Global trade is dominated by horticulture, dairy and eggs, meat and cereals - areas in which India should be able to leverage its natural advantage. The rise of processing intensity, investments into the horticulture supply chain and a renewed thrust on livestock and marine products should help it garner a greater share of world agri-trade. Horticulture, for example, is already a focus area of companies like Reliance and Bharti, while the organic foods market is also exciting. Fiscal incentives by the government to spur agri-exports are also expected to help.

Contract Farming:

Contract farming, which companies have largely used to strengthen their backward linkages to agriculture basically involves four things - pre-agreed prices, quality, quantity or acreage (minimum/maximum) and time. Some contracts also provide the grower with production inputs, credit and extension services, as well as a guaranteed sale price, in return for market obligations on the methods of production, the quantity that must be delivered and the quality of the product. One of the first ventures was led by PepsiCo in tomato contract farming in the early 1990s; subsequent initiatives have also seen crops like barley, potato, maize, corn and cotton come under contract farming.

"We have stores in 15 countries, and there are some very attractive products grown in India which we would like to explore as a source of premium exports."
- Beth Keck,
Walmart Spokeswoman



In addition to the domestic Fast Moving Consumer Goods (FMCG), leaders like HLL and ITC, MNCs too, have an established presence in contract farming in India. Giant retailer, Wal-Mart already has a strong presence in India as far as sourcing is concerned. The company started direct sourcing operations from India in 2001 as part of its global procurement operations. At present, the company sources products worth EUR 429 million from India. The company also plans to start sourcing milk directly from the farmers in some North Indian states at a price significantly lower than existing channels. The company is also looking at direct sourcing of processed dairy products.²⁷

Reliance Industries, has signed a deal with the Punjab government to source about 7,00,000 litres of milk a day from farmers in the state. The company is now looking at similar arrangements in Bihar and Uttar Pradesh.

Reliance and Bharti Enterprises are planning to invest EUR 537 million for agri-processing and farming in Punjab. Companies in India have taken conscious steps over the last few years to strengthen their agri-linkages. Most of these initiatives were focused on ensuring security of supplies both quality and quantity; contract and direct marketing initiatives are examples.²⁸

Globally, players are typically integrated both vertically and horizontally in the food sectors that they operate in. What India is implementing from the successful operations of these global players is:

Backward Integration

- From farm to the Cold Store
 - Collection Points close to farms: Farmer not required to go to market
 - Transparency in prices: Better realization for farmers
 - Maintaining the Cold Chain Refrigerated logistics
- Developing Quality
 - Better Varieties
 - Post Harvest Management
 - Education/Extension Programs: Eco-friendly, organic farming, tissue culture, etc.

Forward Integration:

- Selling in the Domestic Market
 - Develop markets from existing levels
 - Reduce number of middlemen
- Selling in Foreign Markets
 - Developing International Standards
 - Marketing on Competitive Terms



²⁷ Economic Times Wal-Mart plans dairy processing in India August 3, 2007

²⁸ Cygnus Quarterly Performance Feb 2006

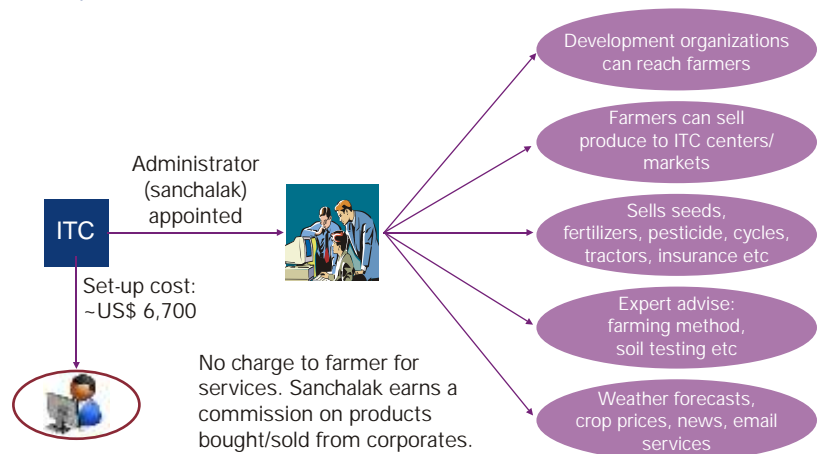
Case Studies:

ITC e-Choupal

ITC's initiative to explore wider opportunities in India brings us to the e-Choupal example. ITC, a leading FMCG company, was one of the first companies to recognize the rural potential and set-up the e-choupal initiative in 2000. An e-choupal is a low-cost IT-enabled rural hub to establish relationships with farmers. Each e-choupal generally covers five or six villages and is managed by a local (called the sanchalak or organizer) who earns a commission on the transactions at the hub, turning this individual into an active entrepreneur.²⁹

The simple hub allowed farmers to access accurate prices and also receive prompt payments by ITC if the farmers chose to sell to ITC instead of going to the notified market-places. Over time, farmers have embraced the concept due to accessibility to free and accurate pricing information and lower trading costs. ITC has also developed a "Choupal Sagar" model for agri-sourcing.

The e-choupal initiative



Source: Company website

²⁹ ITC website

Reliance Farm-to-Fork Model

Reliance is gearing up to revolutionize the retailing industry in India. Through multiple formats and a wide range of categories, Reliance is aiming to reach almost every Indian customer and supplier.

Contract farming	Integrated rural hubs for procurement and processing	Cold chain and warehouses	Transportation	Food Retailing
<ul style="list-style-type: none"> Contract farming for fruits and vegetables along with integrated production management Fruits and vegetables to be focus areas but other cash crops and grains also on the radar 	<ul style="list-style-type: none"> Acquiring tracts of land in several states to serve as integrated rural procurement and processing hubs for aggregation and segregation Already in advanced negotiation for 700 acres in Punjab Similar plans to be replicated in 4-6 states across India Modeled along the traditional village marts, these will also serve as retailing points selling agri-inputs and delivering credit and financial services Also investing in food parks and processing hubs in Punjab and Haryana to enhance value addition 	<ul style="list-style-type: none"> Hub and spoke model with large wholesale terminals feeding into distribution centers Focus on cold chain as well as green houses 	<ul style="list-style-type: none"> Integrated logistics services across road, rail, sea and air 	<ul style="list-style-type: none"> A network of discount stores, hypermarkets, supermarkets and convenience stores to cater to both the urban and rural population Largely owned but convenience stores under franchisee model for quick rollout Dry groceries, fruits & veg, dairy to be focus areas Export opportunities to Europe and Middle East

Source: Company Website, Press Articles

Inorganic Growth Imperative



Acquisitions have largely revolved around brands and businesses over the last decade. Acquisitions, JVs and Consolidations enable companies to access markets beyond their niche segments of focus.

Domestic Consolidation and Inbound Acquisitions

The Indian market has witnessed a few outright acquisitions, JVs and PE investments in the packaged foods segment, like:

Company	Target/Acquisition/Investment	Value (EUR mn)
Actis	Over 51 percent stake in Nilgiri Dairy Farm Ltd.	45.9
Bharti Group	50:50 JV Rothschild	NA
Britannia Industries	Kwality Biscuits	14.8
Cadbury Schweppes	Stake in Indian Subsidiary	NA
Champagne Indage Ltd.	52.63 percent stake in Seabuckthorn Indage Ltd.	NA
GlaxoSmithKline	Viva and Maltova Brands	13.4
Godrej Beverage Foods	Nutrine confectionery	40.8
Hershey	51 percent stake in Godrej Beverage & Foods	38
Hindustan Lever	Modern Foods	14.8
Hindustan Lever	International Bestfoods	4.2
Lotte confectionery	Parry confectionery	14.8
New Vernon PE Ltd.	Eastern Condiments	7.9
Orkla	MTR Foods	70.3
SAIF Partners	Asian Dhall Industries Ltd.	5.6
Snowman Frozen Food	JV with Mitsubishi Group	NA
Taj Group of Hotels	Amalgam Foods and Sumeru Fast Food	NA
Tata Tea	70 percent stake in Innovative foods Ltd.	NA
UB Group	Whyte and Mackey	830
UTI Venture Funds (UVF)	Vallabhdas Kanji Ltd.	4.2

Source: Merger Market

Multinationals like Heinz, Schreiber (Dynamix Dairy), and Lotte (GSK Division-Parry's) have paid a market entry premium on their acquisitions. Other multinationals opted for the inorganic route, like ConAgra (which acquired Agrotech Foods from ITC in 1997) and Frito Lay (which bought out companies like Uncle Chipps in 1999). Some like Danone, Fonterra, and Pillsbury have used the JV route. Others like Kellogg, Mars Inc. and Perfetti have preferred to enter the Indian market organically.

In the near future, consolidation could be driven by the entry of more global F&B companies such as Associated British Foods, Kraft Foods, Masterfoods / Mars Inc., Hersheys, United Biscuits, etc. which are keen on establishing an Indian footprint.

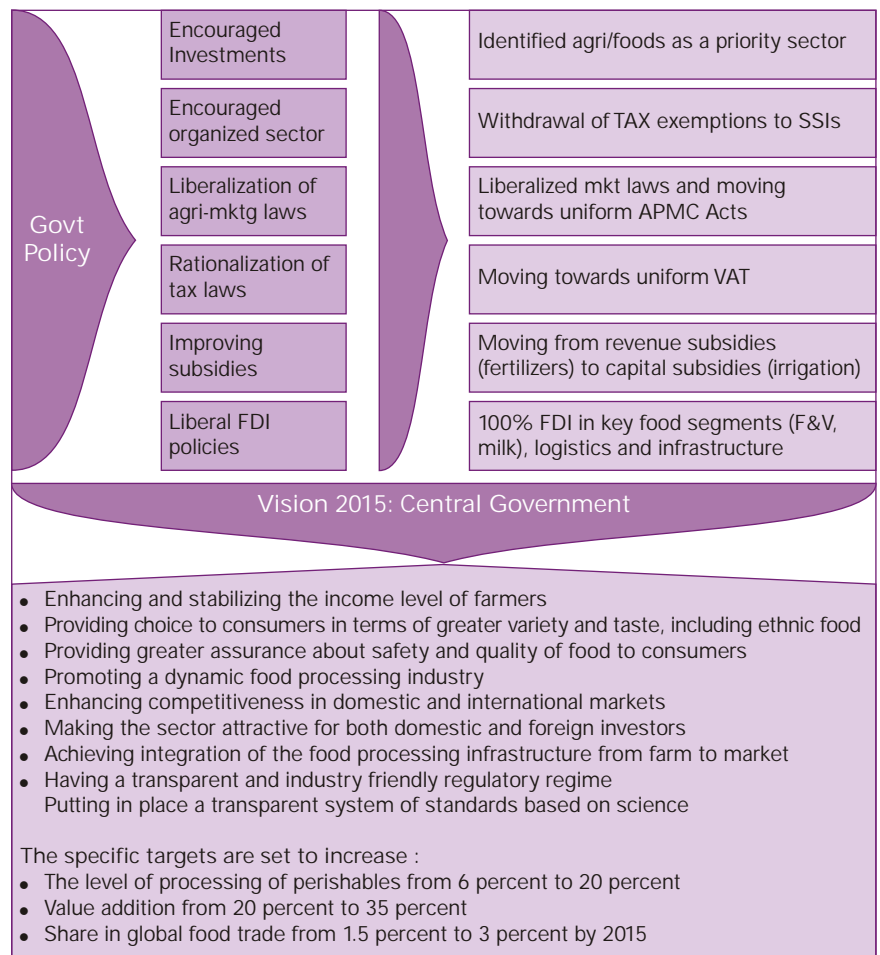
In the beverages sector, Coca Cola re-entered India with the high profile acquisition of Thums Up and other brands from Parle. Between Pepsi and Coca Cola, most Indian soft beverages brands were acquired.

Given the similar lifestyles and consumption habits in the neighboring Southeast Asian countries and the Middle East, and the vast Indian diaspora in the North American and European markets, opportunities exist for Indian food companies to tap these markets through acquisitions. In fact, companies such as Dabur, Britannia, Godrej and Marico are reported to be exploring overseas market for expansion.

Government Initiatives



FPI occupies a centre stage in the government's quest to increase growth of the agri-sector and augment farm incomes. The government has formulated and implemented several plan/schemes to provide financial assistance for setting up and modernizing food processing units, creation of infrastructure, and support for R&D and human resource development in addition to other promotional measures to encourage the growth of the processed food sector.³⁰



Source: Vision 2015 Document

Modernization of agriculture is high priority for the Government. The private sector has roles cut out in agri-marketing, crop diversification programmes, induction of post-harvest technologies and food processing."

- Montek Singh Ahluwalia, Deputy Chairman, Planning Commission

³⁰ Cygnus AFPI Quarterly Performance Analysis August 2006

Following are some initiatives taken by the Government to provide an impetus to the FPI:

- No industrial license required for food and agro-processing industries except for alcoholic beverages and a few items reserved for small scale sector.
- Foreign investments are allowed in SSI reserved items under an export obligation (pickles, chutneys, bread, pastry, hard-boiled sugar candy, rapeseed oil, sesame oil, groundnut oil, sweetened cashew nut products, ground and processed spices other than spice oil and oleoresin, tapioca sago and its flour).
- Automatic approval to FDI of upto 100 percent equity for all foods and beverages except for alcoholic beverages and items reserved for small-scale sector.
- Foreign equity ownership of upto 24 percent is allowed even in categories of items reserved for the small-scale sector.
- An industrial license carrying a mandatory export obligation of 50 percent is required for equity beyond 24 percent in these categories: Agro-based units established in Special Economic Zones (SEZ) and 100 percent Export Oriented Units allowed (a) sales up to 50 percent in domestic traffic area and (b) import of capital goods and raw materials at zero duty.
- The import of food processing machinery is allowed freely with low levels of duties. Import of capital goods for exports of agricultural products and their value-added variants under the Export Promotion Capital Goods (EPCG) is allowed duty-free and Foreign Technology Agreement within norms has been made automatic.
- Liberal corporate tax policy is applicable for export and domestic earnings, corporate tax is 35 percent, income tax rebate allowed (100 percent of profits for five years and 25 percent of profits for the next five years) for setting up of new agro-processing industries to process and package F&V.
- Fruits and vegetables, and dairy machineries are completely exempt from Central Excise Duty. Central Excise Duty on preparation of meat, poultry and fish, pectin, pats and yeast is also completely exempt.
- Quantity restrictions on all food products have been removed. Peak rate of customs duty has been reduced from 30 percent to 25 percent (excluding agricultural and dairy products) and duty structure on designated items has been rationalized.
- Customs duty on refrigerated goods transport vehicles has been reduced from 20 percent to 10 percent.
- Excise Duty of 16 percent on dairy machinery has been fully waived off and excise duty on meat, poultry and fish products has been reduced from 16 percent to 8 percent.

Opportunity Matrix

	India Advantage	Player Penetration	Export Potential	Current Infrastructure and Technology	Current Mkt Size	Investment Reqd 2005-2015 EUR bn	Potential in 2015 EUR bn
F&V	High	Low	High	Low	NA	1.96	9.8
Dairy Products	High	Low	High	Medium	Dairy products EUR 8 bn	5.69	78.1
Meat, Poultry, Marine Products	High	Low	High	Medium	Fresh poultry EUR 5bn	357mn	10
Grain Based Products	High	Medium	High	Medium	Atta EUR 536 mn, RTE EUR 268 mn, Snack foods EUR 286 mn, Bakery EUR 1.25 bn	2.2	54.83
Confectionery and Sugar	High	Medium	Medium	Medium	Sugar EUR 7 bn, Chocolates EUR 447 mn	3.1	9.2
Alcoholic Bev.	Medium	Low	Low	Low	NA	1.2	20.5*
Non - Alcoholic Beverages	High	Medium	Medium	Medium	Tea EUR 708 mn, Coffee EUR 212 mn, Juices EUR 88 mn	NA	4.5
Health and Organic Foods	High	Low	Low	Medium	NA	NA	NA

* includes wine, IMFL and beer

Source: SSKI, KPMG

With the support of Ancillary Business

Ancillary Business	Total Investment Reqd (by 2015)
Cold chain logistics	EUR 411 mn
Packaging and Bar coding	EUR 268 mn
Warehousing and Containerization	EUR 35 mn
QC and R&D Labs	EUR 70 mn
Agri inputs and irrigation	EUR 70 mn
Commodity exchanges	NA

Thus, the industry is poised for a significant leap forward 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 emergence of a seamless organization to evolve into truly global players.

Conclusion



“There's huge interest at this point of time and corporates are willing to step up investments, it means higher yields for the farmer, more efficiencies in infrastructure and improved rural purchasing power. The processing industry will power future growth rates for the corporate sector.”

- Adi Godrej,
Chairman, Godrej Industries

The FPI is estimated to grow at 9-12 percent in the near future. F&V processing, which is currently around 2 percent of total production is likely to increase to 10 percent by 2010, and further to 25 percent by 2025. Value-addition in food products is expected to increase from the current 8 percent to 35 percent by the end of 2025. The food processing sector has the potential of attracting EUR 2.7 bn of investment by 2015. Higher sales growth, increased earnings of the companies, rising exports of agri-processed foods and government policy initiatives have set the stage for a buoyant performance by the FPI.³¹

The Government aims to treble the size of the food processing sector. Following are some areas for co-operation which companies can leverage upon:

- Capitalize on the 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, farm technology and machinery
- Value-addition in unprocessed categories of food for domestic and international demand
- Investment in supply chain in order to improve costs, tighten supplies and minimize wastage
- Investments in better packaging and cold chain infrastructure
- Exploration of appropriate regional branding strategies in order to appeal to the deep-rooted traditions, values and customs of the consumer
- Capitalize on 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 arrival of large organized retail chains in major cities is likely to speed up the introduction of processed food across India. The ongoing retail boom in India will drive the expansion of supermarkets/hypermarkets, facilitating greater exposure and visibility for processed food, as well as improving storage facilities
- The introduction of food counters in modern retail outlets is expected to help educate people about processed food through sampling, as well as cross-promotional offers and discount schemes to help drive sales.

³¹ Cygnus Quarterly Performance May 2007

About FICCI

FICCI the largest and oldest apex organization of Indian business and industry, is the rallying point for free enterprises in India. It has empowered Indian businesses, in changing times, to shore up their competitiveness and enhance their global reach.

FICCI not only provides institutional support to food trade, hotel industry and processed food industries manufacturing different types of food and allied products at the national level but also plays a pivotal role as a facilitator in partnering the Government in preparing the policy framework and the private sector in promoting the development of food processing in India through various interactive forum like seminars, workshops, conferences etc. The following divisions in FICCI are engaged in gamut of activities encompassing Agri food Business.

Ficci Food Processing Division

FICCI has constituted a Food Processing Committee to focus on macro issues that have a larger bearing on the sector like:

- Supportive Infrastructure: Focusing on systems to ensure backward linkages, addressing the impediments in the form of regulations at state levels, and creating an enabling environment for drawing private investment so that it becomes the prime mover of the processed food revolution.
- Fiscal Reforms: Recognizing the importance of demand creation in this sector through fiscal reforms and changes in the tax regime.
- Regulatory and Legal Affairs: Need to change the approach to food laws and regulatory structure. Further, the Committee has launched Codex Cell the first and the only one of its kind for the food industry

Agri-business Division

In view of the strategic and economic importance of agriculture in the Indian economy, FICCI has constituted a Task Force on Agriculture. The objective of the Task Force is to identify major bottlenecks that hinder the growth of Indian agriculture, its competitiveness in the global market, and suggest a policy framework that would rejuvenate it.

The Food Research and Analysis Centre (FRAC)

FRAC is an independent analytical, research and development center, which ensures sample integrity and authenticity of analysis. It also assists in advising on improvement in quality and safety of food to meet the requirements of domestic and export markets.

With a nationwide membership of over 1500 corporates and over 500 chambers of commerce and business associations, FICCI espouses the shared vision of Indian businesses and speaks directly and indirectly for over 250,000 business units. It has an expanding direct membership of enterprises drawn from large, medium, small and tiny segments of manufacturing, distributive trade and services. FICCI maintains the lead as the proactive business solution provider through research, interactions at the highest political level and global networking.

About KPMG in India

KPMG is the global network of professional services firms of KPMG International. Our member firms provide audit, tax and advisory services through industry focused, talented professionals who deliver value for the benefit of their clients and communities. With nearly 1,13,000 people worldwide, KPMG member firms provide services in 148 countries.

The member firms of KPMG International in India were established in September 1993. As members of a cohesive business unit, they respond to a client service environment by leveraging the resources of a global network of firms, providing detailed knowledge of local laws, regulations, markets and competition. We provide services to over 2,000 international and national clients, in India. KPMG has offices in India in Mumbai, Delhi, Bangalore, Chennai, Hyderabad, Kolkata and Pune. The firms in India have access to more than 2000 Indian and expatriate professionals, many of whom are internationally trained. We strive to provide rapid, performance-based, industry-focused and technology-enabled services, which reflect a shared knowledge of global and local industries and our experience of the Indian business environment.

Abbreviations

APEDA	- Agricultural and Processed Food Product Export Development Authority
APMC	- Agricultural Produce Marketing Committee
Bn	- Billion
CAGR	- Compounded Annual Growth Rate
EUR	- Euro Currency
F&B	- Food & Beverages
F&V	- Fruits & Vegetables
FDI	- Foreign Direct Investments
FPI	- Food Processing Industry
Ha	- Hectare
IMFL	- Indian Made Foreign Liquor
JVs	- Joint Ventures
LCC	- Low Cost Countries
M&A	- Merger and Acquisition
Mn	- Million
MOFPI	- Ministry of Food Processing Industry
MPEDA	- Marine Product Export Development Authority
NCAER	- National Council for Applied Economic Research
PPP	- Public Private Partnership
R&D	- Research and Development
Rs	- Indian Rupee
RTE	- Ready- to - Eat
SPVs	- Special Purpose Vehicles
Tn	- Tons
Tpa	- Tons per annum
VAT	- Value Added Tax
YoY	- Year on Year

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