CHAPTER III
PROFILE OF FOOD PROCESSING INDUSTRY IN INDIA

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

• Fruits and Vegetables
• Dairy Products
• Grain Processing
• Fish, Meat and Poultry Processing
• Other food industry includes packaged foods, Beverages and packaged drinking water.

Though the industry is large in size, it is still at nascent stage in terms of development of the country’s total agriculture and food produce and only 2 per cent is processed. The industry size has been estimated at US $70 billion by the Ministry of Food Processing, Government of India. The food processing industry contributed 6.3 per cent to India’s GDP in 2006 and had a share of 8 per cent in total industrial production. The industry employs 1.6 million workers directly. The industry is estimated to be growing at 10-15 per cent during the period 2008-2009. Value addition of food products is expected to increase from the current 8 per cent to 35 per cent by the end of 2025. Fruits & Vegetables
processing, which is currently around 2 per cent of total production, will increase to 25 per cent by 2025. The industry is composed of six key segments.

### Food Processing

- **Dairy**
- **Fruits & Vegetables**
- **Grains & Cereals**
- **Fisheries**
- **Meat & Poultry**
- **Consumer Goods**

#### Segmentation of different sectors in Food Processing Industry

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dairy</td>
<td>Whole Milk Powder, Skimmed milk powder, condensed milk, Ice cream, Butter and Ghee, Cheese.</td>
</tr>
<tr>
<td>Fruits &amp; Vegetables</td>
<td>Beverages, Juices, Concentrates, Pulps, Slices, Frozen &amp; Dehydrated products, Potato, wafers / chips, etc.,</td>
</tr>
<tr>
<td>Grains &amp; Cereals</td>
<td>Flour, Bakeries, starch Glucose, Cornflakes, Malted Foods, Vermicelli, Beer and Malt extracts, Grain based Alcohol.</td>
</tr>
<tr>
<td>Fisheries</td>
<td>Frozen &amp; Canned products mainly in fresh form</td>
</tr>
<tr>
<td>Meat &amp; Poultry</td>
<td>Frozen and packed- mainly in fresh form, Egg Powder</td>
</tr>
<tr>
<td>Consumer Foods</td>
<td>Snack food, Namkeens, Biscuits, Ready to eat food, Alcoholic and Non-Alcoholic beverages.</td>
</tr>
</tbody>
</table>

*Source: Ministry of Food Processing India, Annual Report, 2008.*
Primary food processing is a major industry with a highly fragmented structure that includes hundreds of rice-mills and hullers, flour mills, pulse mills and oil-seed mills, several thousands of bakeries, traditional food units and fruits, vegetable and spice processing units in the unorganized sector.

**Fruits and Vegetables:**

India produces the widest range of fruits and vegetables in the world. It is the second largest vegetable and third largest fruit producers accounting for 8.4 per cent of the world’s food and vegetable production. The share of organized sector in fruit processing is estimated to be nearly 48 per cent. Fruit production in India registered a growth of 3.9 per cent during 2008-09 whereas the fruit processing sector grew several times faster at 20 per cent over the same period.

Fruit and Vegetable processing in India is almost equally divided between the organized and unorganized sectors, with the organized sector holding 48 per cent of the share. While products like juices and pulp concentrate are largely manufactured by the organized sector, the unorganized sector’s foothold is in the traditional areas of processed items like pickles, sauces and squashes. By size, pickles form the strongest category.

The Government expects the processing in this sector to grow to 10 per cent in 2010 and 25 per cent of the total produce by 2025. Most of the units engaged in the above are export oriented. Domestic consumption of processed fruits & vegetables produce
is low, indicating a potential for growth through increased penetration of the domestic market.

**Dairy Processing:**

India stands first in the world in terms of milk production. The output is expected to be about 1.08 million tonnes growing at a compounded growth rate of 5 per cent. Consumption of milk has registered a growth of nearly 8.4 per cent in urban areas and is currently valued at US $ 16 billion. The dairy sector ranks first in terms of processed foods with 67 per cent of the produce being processed.

In the dairy sector, most of the processing is done by the unorganized sector. Though the share of organized sector is less than 15 per cent, it is expected to rise rapidly, especially in the urban regions. Among the milk products manufactured by the organized sector, some of the prominent ones are ghee, butter, cheese, ice-creams, milk powders, malted milk food, condensed milk and infant foods.

Milk and milk products contribute 17 per cent of country’s total expenditure on food. Traditional dairy products accounts for about 60 per cent of the total milk produced. The dairy product was expected to grow at 15-20 per cent over the next three years.

- Ghee is the most widely marketed and branded product in the nation.
- The dairy whitener market comprises of sweetened milk powders, condensed milk and creamers.
- The Cheese is estimated at US$2.49 million for 2008-09, growing at a rate of nearly 12 per cent per annum.
The ice-cream market in India is estimated at US$ 226 million 2008-09, with the organized market at US $ 158.2 billion. This is currently growing at 20 per cent. Organised dairy Industry accounts for less than 15 per cent of the milk produced in India.

**Grain milling:**

India produces more than 200 million tonnes of different food grains every year. All major grains—rice, wheat, maize, barley and millets like jowar, bajra & ragi are produced in the country. About 15 per cent of the annual production of wheat is converted into wheat products. There are 10,000 pulse mills in the country with a milling capacity of 14 million tonnes, milling about 75 of annual production. The country is self- sufficient in grain production and is the second largest rice producer in the world with a 20 per cent global share.

**Meat and Poultry processing:**

India has a livestock population of 470 million, which includes 205 million cattle and 90 million buffaloes. Processing of meat products is licensed under Meat Food Products Order, (MFPO), 1993. Total meat production in the country is currently estimated at 5 million tonnes annually. Only about 1-2 per cent of the total meat is converted into value added products. The rest is purchased raw and consumed at home. Poultry processing is also at a nascent stage. The country produces about 480 million broilers and 33 billion eggs annually. Growth rate of egg and
broiler production is 16 per cent and 20 per cent respectively.

**Fisheries:**

India is the third largest fish producer in the world and is the second in inland fish production. The fisheries sector contributes US$4.4 billion to the national income, which is about 1.4 per cent of the total GDP. With its over 8000 km of coastline, 3 million hectares of reservoirs, 1.4 million hectares of backish water, 50,600 sq km of continental shelf area and 2.2 million sq million of exclusive economic zone, India is endowed with rich fishery resources and has vast potential for fisheries from both inland and marine resources. Processing of fish into canned and frozen forms is carried out almost entirely for the export market. It is widely felt that India’s substantial fishery resources are under-utilised and there is tremendous potential to increase the output of this sector. The units in the fish processing sector are largely small scale proprietary/partnership firms or fishermen co-operatives.

**Other Food products:**

This classification includes the following.

**Consumer Foods:**

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

**Packaged or Convenience Foods:**

The packaged foods segment in India registered a growth of 10 per cent in 2007-08. Noodles/vermicelli is the fastest growing category on this segment with
a CAGR at 15 per cent. The branded noodles are estimated at 230 million servings per year. The soups market is still small and nascent in India and is approximately US $ 14 million in value. Products like tomato ketchup and jams have low penetration levels, but are growing rapidly.

**Packaged Drinking Water:**

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

**Aerated soft Drinks:**

Two of the biggest global brands in this segment are well established in India. Soft drinks constitute the largest packaged food segment, after packaged tea and packed biscuits. Penetration levels of aerated soft drinks in India are quite low compared to other developing and developed markets, an indication of further potential for rapid growth.

**Alcoholic Beverages:**

India is the third largest market for alcoholic beverages in the world. The demand for spirits and beer is estimated to be around 373 million cases per annum. There are 12 joint venture companies producing grain based alcoholic beverages that have a combined licensed capacity of 33.9 million litres per annum. 56 units are engaged in manufacturing beer under license from the Government of India.
SWOT Analysis:

Strengths:
- Large and growing middle class divergent food habits
- Increasing exposure to American products and lifestyle
- Preference for fresh products and traditional foods
- A slow but steady transformation of the retail food sector in cities
- Plentiful availability of raw materials
- Move towards a new “food safety and standards” legislation by the Government
- Good health and hygiene awareness among the middle class

Source: Indian Brand Equity Foundation, www.ibef.org

Weaknesses:
- Difficulties in accessing vast untapped rural markets.
- Poor infrastructure or inadequate infrastructure facilities like cold storage and roads
- High tariffs, dated food laws and unscientific methods
- They are lacking the availability of the trained manpower
- Consumer preference for fresh foods

Source: Indian Brand Equity Foundation, ibef.org

Opportunities:
- Food processing industry is rising at the rate of 8 per cent yearly. It shows the potential of the industry to grow in future
India is governed by a strong income growth, change in lifestyle nuclear family and both parent working culture and favourable demographic pattern for food processing industry.

It is the seventh largest country, with extensive administrative structure and a sound financial and infrastructural network.

Demand for processed/ convenience food is constantly on the rise.

Source: Investment Opportunities in India for FPI

Threats:

- Due to globalization threats from the MNC’s is increasing day by day
- The facilities given by the non-branded local retailers will reduce the market share.
- Technology is upgrading day by day due to which requirement of trained manpower is also increasing
- A feeling of unstable Government and self-centered political leadership
- Fast change internet-information technology & new inventions- technology- innovations

Source: Ministry of Food Processing Industry.