

Food Processing Industry: Service Concepts, Issues and Its Scenario in India

Rukmathan R.

Ph.D., Research Scholar in Management, P.K.R Arts College for Women, Gobichettipalayam.

Abstract: *The Indian food industry is poised for huge growth, increasing its contribution to world food trade every year. In India, the food sector has emerged as a high-growth and high-profit sector due to its immense potential for value addition, particularly within the food processing industry. The food industry, which is currently valued at US\$ 39.71 billion is expected to grow at a Compounded Annual Growth Rate (CAGR) of 11 per cent to US\$65.4 billion by 2018. Food and grocery account for around 31 per cent of India's consumption basket. Accounting for about 32 per cent of the country's total food market, The Government of India has been instrumental in the growth and development of the food processing industry. The government through the Ministry of Food Processing Industries (MoFPI) is making all efforts to encourage investments in the business. It has approved proposals for joint ventures (JV), foreign collaborations; industrial licenses and 100 per cent export oriented units.*

Keywords: *Food, Processing, Service, Scenario*

I. Introduction

The food processing industry in India is a sunrise sector that has gained prominence in recent years. Availability of raw materials, changing lifestyles and relaxation in policies has given a considerable push to the industry's growth. This sector is among the few that serves as a vital link between the agriculture and industrial segments of the economy. Strengthening this link is of critical importance to improve the value of agricultural produce; ensure remunerative prices to farmers and at the same time create favorable demand for Indian agricultural products in the world market. A thrust to the food processing sector implies significant development of the agriculture sector and ensures value addition to it.

The Indian food processing industry holds tremendous potential to grow, considering the still nascent levels of processing at present. Though India's agricultural production base is reasonably strong, wastage of agricultural produce is sizeable. Processing of fruits and vegetables is a low 2%, around 35% in milk, 21% in meat and 6% in poultry products. By international comparison, these levels are significantly low - processing of agriculture produce is around 40% in China, 30% in Thailand, 70% in Brazil, 78% in the Philippines and 80% in Malaysia. Value addition to agriculture produce in India is just 20%, wastage is estimated to be valued at around US\$ 13 bn (Rs 580 bn).

India, with an arable land of 184 mn hectares is, the highest producer of milk in the world at 90 mn tones p.a., second largest producer of fruits & vegetables (150 mn tones), third largest producer of food grains and fish and has the largest livestock population. Considering the wide-ranging and large raw material base that the country offers, along with a consumer base of over one billion people, the industry holds tremendous opportunities for large investments.

II. Ministry Of Food Processing Industries

The Ministry was set up in 1998 and the industry segments that come under its purview are:

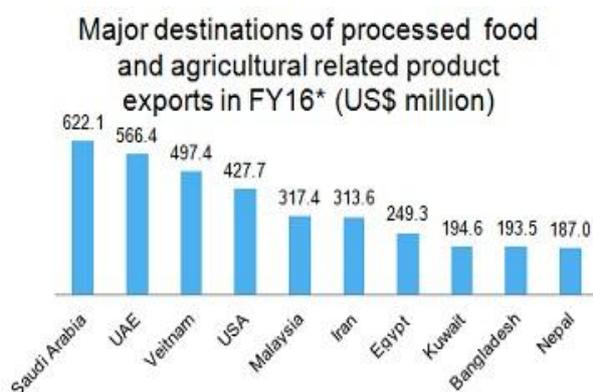
- Fruit & Vegetable processing (including freezing and dehydration)
- Grain Processing
- Processing of Fish (including canning and freezing)
- Processing and refrigeration of certain agricultural products, dairy products, poultry and eggs, meat and meat products
- Industries related to bread, oilseeds, meals (edible), breakfast foods, biscuits, confectionery, malt extract, protein isolate, high protein food, weaning food and extruded food products (including other ready-to-eat foods)
- Beer, including non-alcoholic beer
- Alcoholic drinks from non-molasses base
- Aerated water and soft drinks

- Specialized packaging for food processing industries.

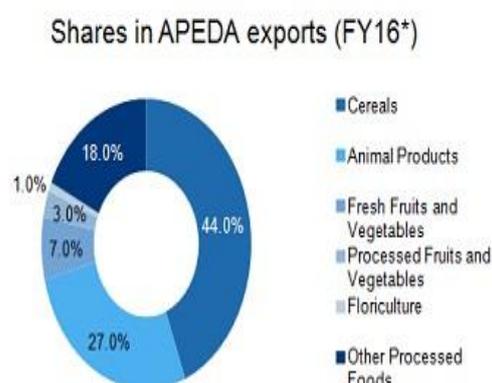
The Ministry of Food Processing Industries, GoI, has estimated the size of the Indian food market at US\$ 191 bn (Rs 8,600 bn). The processed food market is projected to be over US\$ 100 bn, of which the primarily processed food market accounts for 60%, while the value-added processed food market is around 40%.

The average annual growth of the food processing industry has been around 8% between FY01-FY06. The segments that have driven the growth are the beverages and meat & meat products and processed fish sectors. The food processing industry in India has a share of 1.5% in the total GDP of the country, and as part of total manufacturing accounts for 9%. India's share in world trade in respect of processed food is about 1.6%.

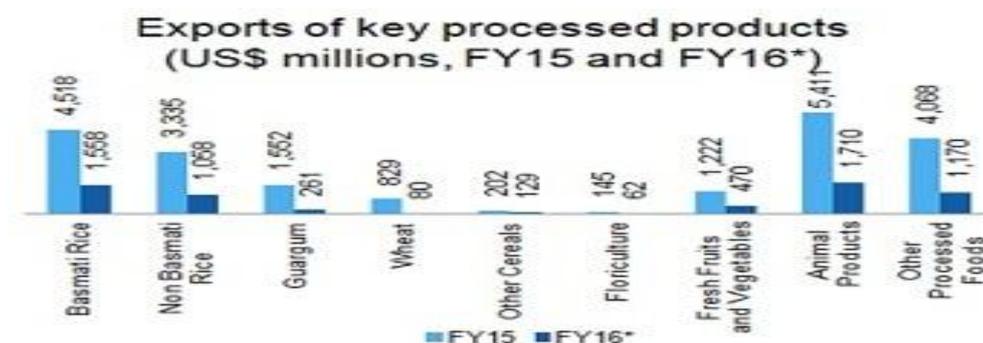
An extensive and highly fragmented industry, the food processing sector largely comprises of the following sub-segments: fruits & vegetables, milk and milk products, beer & alcoholic beverages, meat and poultry, marine products, grain processing, packaged/convenience food and packaged drinks. A large number of players in this industry are small sized companies, and are largely concentrated in the unorganized segment. This segment accounts for more than 70% of the output in volume terms and 50% in value terms. However, though the organized sector is comparatively small, it is growing at a much faster pace.



Source: Ministry of Food Processing Industries, APEDA, Ministry of Commerce & Industry, TechSci Research FY16* - Data is for April-August 2015



Source: APEDA, Agri Exchange, TechSci Research
Note: FY16* - Data is for April-August 2015



Source: APEDA, Agri Exchange, TechSci Research
Note: FY16* - Data is for April-August 2015

III. New Demand

In the upcoming years, there will be good demand for healthy, modern food products due to following reasons:

1. Youth population (age group 15 – 25): doesn't shy away from trying new food products.
2. More Nuclear families: usually working couple => less cooking time + expensive maids=need ready to eat / ready to cook food.
3. Rising incomes, middle class and rich families=can afford processed food.
4. Emergence of Tier 1 and Tier 2 cities, shopping mall culture.
5. Growing migration from rural to urban India + rising income = demand for bread, butter etc.
6. Media penetration, advertisements=> "demand" is created for health-drinks, noodles, cream-biscuits, cornflakes etc.

7. Celebrity chefs, cookery channels= new dishes, international cuisines introduced=>demand for their ingredients, vegetables in India.
 8. Diabetes, obesity, Blood pressure, lifestyle diseases =>demand for healthy food.
- As a result, food processing industry is expected to reach

year	turnover USD
2015	>250 billion
2020	>300 billion

IV. Government Initiatives

- Many food processing sectors that were earlier reserved for small scale industries (SSI) have been de-reserved
- FDI limits have been relaxed, Excise duties have been reduced, export subsidies given
- National mission on food processing, Vision2015 for food processing,
- New schemes for mega food parks, cold chain etc.
- Many states have reformed their outdated APMC laws.

V. Challenges, Constraints And Concerns

Despite policy initiatives, growth potential and significant achievements, there are several disturbing trends as delineated here: In India, the value addition to food fortification is only 7% compared to as much as 23% in China, 45% in Philippines and 188% in the UK. Further, there are few large or medium sized companies in the organized sector against many small ones. The small-scale and unorganized sectors account for 75% of the total industry. Despite its importance to India's well-being, the food industry has in the past been neglected. Food is usually the first industry to develop and has importance in most economies. In India, it is still relatively small and not regarded attractive. External liberalization opens up new export avenues and seeks to integrate the economy with the global market. But it also poses threats of stiffer competition under a new world trade order with WTO agreements relaxing quantitative restrictions and non-tariff/sanitary barriers on importing countries. This exposes the Indian farmer to world market forces. Strategies to convert the potential disadvantage, on account of the new import regime, into advantage are needed. The inherent strength of high raw material production and large domestic market base has to be buttressed and energized by evolving the right international-level infrastructure and growing suitable raw material. This, coupled with operating processing units at optimum capacity levels as per economies of scale, would enable achieving a competitive edge over imported products. The food sector will be confronted by challenges of trade related Intellectual Property Rights, comprising patent laws, copyrights, trade links, etc. These have already appeared in some countries. GM foods need be critically examined on their good and adverse impacts on human health. India is the second largest producer of food in the world but its share in world's exports is very low despite its inherent strength in tea, spices and rice. The share of agricultural exports in the country's total export basket has been fluctuating, from 27% in 1985–1986 to 16% in 1994–1995 and to 20% in 1996–1997. In 1996–1997, India exported Rs.24,618 crore worth of agro products. During 1997–1998, marine products, rice, coffee, oil and spices were major export items. The share of horticulture crops, plantation crops, meat and meat preparations and sugar in the country's agri exports is much less than its competitive potential. Taxes on processed food in India are among the highest in the world. No other country imposes excise duty on processed food. No country distinguishes between branded and unbranded food sectors for taxation. There are no suitable insurance schemes for such projects, most of which deal in export of perishables. In financing projects like high density farming, greenhouse floriculture, controlled environment livestock farming, bio-technology, tissue culture, embryo transfer technology, bio-pesticides and bio-fertilizer, etc., the banks face considerable risk like credit risks. With new technology, the risk perception is higher than the existing one. Since it has not been tested in actual situations, the chances of failure of new technology are higher. For risk of rejection by consumer or by sovereign intervention foreign exchange risks, ECGC cover is available only in cases of insolvency/default of importers. Branded food items attract higher sales tax and excise duty as against the unbranded ones. It is reasonable to expect that any meaningful investment in this sector will necessitate branding of products. It is noteworthy that no country treats branded food differently for levying duties. The exemption to unbranded and unorganized sector from excise and sales tax leads to low quality consciousness among manufacturers and consumers. There is a growing disparity between the actual and potential results in the food industry, exposing the gulf between research and extension agencies. The sector has been characterized by poor marketing, transport and communication infrastructure. The market density of fruits and vegetables is low and facilities for storage and cold chains in the hinterlands are woefully inadequate. With the signing of the GATT and the coming up of World Trade Organization, this sector is facing internal and external pressures stemming from policies of economic liberalization.

VI. Conclusion

Food processing seems to have promising future, provided adequate government support is there. Food is the biggest expense for an urban Indian household. About 38 % of the total consumption expenditure of households is generally spent on food. This share is declining consistently. As mentioned, food processing has numerous advantages which are specific to Indian context. It has capacity to lift millions out of under nutrition. Government has challenge to develop industry in a way which takes care of small scale industry along with attracting big ticket domestic and foreign investments.