

A Review on Food Processing Sector in India

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SUMMARY

Food processing sector is a key industry in India. India is the second largest producer of food products in the world next to China. The growth in food processing industry will bring overall development in the economy as it establishes a vital synergy between the two main pillars of economy, agriculture and industry. With India is making a shift in its policy to 'Make in India' numerous gates of growth and development opens up for the food processing industry. India's agricultural base is quite strong but wastage is very high and processing of food products is very low. The country's processing sector is small and processing of food to consumable standards in India has reached only 10 percent recently. India's share in exports of processed food in World trade has remained at about 1.5 percent. Though there are many promising dynamics which support the potential for growth of this industry, there are still some significant constraints which, if not addressed sooner, can impede the growth prospects of the Food Processing Industry in India.

INTRODUCTION

Food processing industry is the connecting link between agriculture and manufacturing sector. Understanding the importance of this link Government of India, under its "Make in India" initiative included Food Processing Sector among 25 sectors that were given priority in the initiative. The food processing industry is critical in an agriculture-based economy like India, where it not only commercializes the farming, but also helps in raising the income of farmers. The Make in India program is aimed to facilitate investment, foster innovation, enhance skill development, protect intellectual property rights, and built best-in-class manufacturing infrastructure. The prime motive of the initiative is to make India a manufacturing hub. Make in India is a new initiative of Government of India which aims to encourage manufacturers both multinational and domestic to manufacture in India. The main motive of this initiative is to make India as a top destination for foreign direct investment. The main focus of the policy is to enhance skill development and job creation in various sectors of the economy. The initiative also aims at attracting capital and technology investments also the focus is on meeting high quality standards with a minimal impact on the environment of the 25 sectors identified government has allowed 100percent FDI through automatic route except space 74percent, defense 49percent and news media 26percent. (DIPP, Ministry of Commerce, 2014). The agro food processing industry is one of the largest in India, employs around 18percent of the country's industrial work force and is ranked fifth in terms of production, consumption, export and expected growth (Merchant, 2008). India also produces a variety of temperate to tropical fruits, vegetables and other food products. Processing of food products plays an important role in the conservation and effective utilization of fruits and vegetables. India's strong agricultural base, variety of climatic zones and accelerating economic growth holds significant potential for food processing industry that provides a strong link between agriculture and consumers. Generally, in developing country markets, higher incomes result in diet upgrades, with increased demand for meats, dairy products, and other high value products. In India also sustained economic growth and increasing urbanization are fueling rapid growth in demand for high value food commodities like fruits, vegetables, milk, meat, eggs and fish (Rao et al 2004; Ali et al 2007). There is an increasing trend of a shift from food security to nutritional security (World of Food India, 2011).

Present Status of Food Processing Industry in India

India has a vast potential in agricultural sector. This is one of the major factors for a large raw material base for India food industry. Ministry of Food Processing Industries, Government of India categorizes the food processing into following:

- Fruits and Vegetable Processing
- Meat, Poultry & Fish Processing
- Dairy Processing
- Consumer Foods
- Grain Processing

The largest share in the food processing sector belongs to grain mill and starch products followed by vegetable & animal oils and fats. There is also a prominent share of fruits and vegetables and animal feed, this shows that still agriculture and horticulture forms a large base for raw materials for the food processing industries. This shows that Indian food processing sector has tremendous opportunity for development. The Indian food processing industry is ranked fifth in terms of production, consumption, export and expected growth, this account for almost 32percent of the country's food market. The food processing industry is an important contributor to the GDP of the country.

Table 1: Segments of Food Processing Industry and Products Produced in India.

Sectors	Products
Dairy	Whole milk powder, skimmed milk powder, condensed milk, ice cream, butter and ghee, cheese
Fruits & Vegetables	Beverages, juices, concentrates, pulps, slices, frozen & dehydrated products, potato wafers/chips, etc
Grains & Cereals	Flour, bakeries, starch glucose, cornflakes, malted foods, vermicelli, beer and malt extracts, grain based alcohol
Fisheries	Frozen canned products mainly in fresh form
Meat & Poultry	Frozen and packed –mainly in fresh from egg powder
Consumer Foods	Snack food, namkeens, biscuits, ready to eat food, alcoholic and non-alcoholic beverages

Source: Ministry of food processing India, Annual report, 2004

Key Growth Drivers of Food Processing Industry in India

With a huge base of raw materials India is on its runway to become as a sourcing hub for the processed food. Apart from this India has got a natural advantage with its diverse agro-climatic conditions and different cropping pattern. Thus, it can be said that the supply side is more than self sufficient to cater the need of the growing food processing sector in India. There are other drivers of food processing sector in India, which are as follows:

- India's demographic dividend is favouring the youth, with 604 million people under the age of 24, shows that how large Indian food market is going to be in coming times.
- Studies show that one third of the total population will be living in urban areas by 2020. With such a huge population residing in the urban area there will be an increased demand of the food especially packaged and processed food.
- The consumption pattern of Indian consumer is driving towards processed packaged food. This changing pattern along with increasing population base will give a boost to demand side of the food processing sector.
- Along with demographic and economic changes there are key lifestyle changes expected, which will result in transition in consumer's consumption pattern.
- Favourable economic & cultural transformation, shifts in attitudes & lifestyles, consumers are experimenting with different cuisines, tastes and new brands. There is an increase in awareness and concern for wellness and health.
- The most important driver is the FDI inflows for the sector which offer various facilities to food processors, farmers, retailers and exporters, helping achieve faster growth in food processing industries.

Table 2: Factors Affecting Production, Processing, and Distribution in India

	Production	Output Trading	Processing	Distribution/Retailing
Skill	Traditional methods of farming	Trading by Adthiyas whose skills sets are traditional.	Exposure to low scale operations. Limitations in Retail Management purchase skill and management of large operations.	Skills required for modern retail formats relatively unknown.

Technology	Low use of technology. Low levels of mechanization. Low use of hybrids, biotechnology.	Low investment in storage & handling technology. Few upcoming commodity exchanges.	Outdated technology due to small scale operations. Low capacity units.	Use of technology is low Bar coding, supply chain linkages and use of IT is low
Regulations	Corporates not allowed in non-plantation farming. Lack of enforceability in contract farming	Procurement intervention by Govt. agencies. Restriction on storage and movement	Favorable to small scale investments. Scope for large processors limited	Foreign Direct Investment not allowed. Land cost high due to inaction on land development.
Capital	Funds availability to farmers is poor. 80percent borrow from Adthiyas at very high rates	Controlled by small trader financiers	High cost finance	Flow of capital is restricted.
Structure	Subscale farm sizes. Farmer indebtedness 70 percent rainfall dependent.	Large number of small trader financiers. Upcoming exchanges. High wastage and transaction costs.	Predominant small scale sector. Low efficiency	Dominance of informal sector. Small traditional family owned stores Limited backwards linkages Large MNCs have good distribution channels

Major Constrains in the Development Path of Food Processing Sector

Following constrains has been identified that need immediate attention to smoothen the growth path of the sector.

- **Inadequate infrastructural facilities:** Indian food industry suffers from inadequate infrastructural facilities. Though on policy papers there have been various programmes to provide infrastructural facilities to the sector. Indian food industry has along and fragmented supply chain. The last mile connectivity is still missing from the supply chains. This is evident from the fact that transportation losses constitute the major part of the losses that is suffered by the food industry.
- **Lack of skilled and trained manpower:** Though the food processing industry is major employer, but still it suffer from shortage of skilled and semi-skilled man power. This has become a critical constrain in the development path of the sector. This requires skilled and semi skilled manpower.
- **Quality of Raw Materials:** This is a well known fact that India is the second largest food producer in the world. Thus giving a huge base of raw materials to the food processing industry, still the quality of the products received by the industry is not up to the world standard. Hence a major part of the produce could not be exported, and has to be sold at lower value in the domestic market.

- Seasonal Availability of raw materials: Indian agriculture is a gamble of monsoon. There always exists an uncertainty in the crop production. Apart from this the raw materials, especially fruits and vegetables are not available throughout the year, this proves to be a major hurdle in the growth of the industry.

Table 3: SWOT Analysis of Agro-Processing Industry Infrastructure in India

Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none"> • Round the year availability of raw materials. • Social acceptability of agro-processing as important area and support from the central government. • Vast network of manufacturing facilities all over the country. • Vast domestic market. 	<ul style="list-style-type: none"> • High requirement of working capital. • Low availability of new reliable and better accuracy instruments and equipments. • Inadequate automation. • Less attractive Remuneration for talent in comparison to contemporary disciplines. • Inadequately developed linkages between R&D labs and industry. 	<ul style="list-style-type: none"> • Large crop and material base in the country due to agro- ecological variability offers vast potential for agro-processing activities. • Integration of developments in contemporary technologies. • Opening of global markets may lead to export of our developed technologies and facilitate generation of additional income and employment opportunities. 	<ul style="list-style-type: none"> • Competition from global players. • Loss of trained man- power. • Rapid developments in contemporary and requirements of the industry may lead to fast obsolescence.

Food Processing Industry and Make in India

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

- Cabinet Committee on Economic Affairs has allowed 100percent FDI in the sector under the automatic route on most of the food products. (DIPP, Ministry of Commerce, 2014)
- In the Union Budget of 2014-15 following measures were taken for the food processing sector: (Ministry of Finance, 2015)
- Services of pre-conditioning, pre-cooling, ripening, waxing, retail packing, labelling of fruits and vegetables have been exempted from Service Tax.
- Exemption for transportation of ‘food stuff’ by rail, or vessels or road will be limited to transportation of food grains including rice and pulses, flours, milk and salt only. Transportation of agricultural produce is exempted.
- The following services are covered under exempted category from service tax:
- Construction, erection, commissioning or installation of original works pertaining to post-harvest storage infrastructure for agricultural produce including cold storages for such purposes.
- Mechanised Food grain handling system, machinery or equipment for units processing agricultural produce as food stuff excluding alcoholic beverages.
- Services of loading, unloading, packing, storage or warehousing of agricultural produce.

With such initiatives and food processing sector being included among 25 sectors under Make in India will give the required impetus to the food processing sector. Through Make in India both domestic and foreign investors will be attracted towards the sector. Make in India will help India turning into a global outsourcing hub as this will attract large retailers due to abundant raw materials and supply & cost advantage. With a view to attract investment in this sector, Ministry of Food Processing Industry has been investing in infrastructure for promoting food processing industries. Mega Food Parks with common utility like road, electricity, water supply,

sewage facility and common processing facility like pulping, packaging, cold storage, dry storage and logistics are being promoted in areas with strong agricultural resource base. These parks provide fully developed plots and factory sheds to entrepreneurs on long term lease basis where they can set up food processing units in “plug & play model”. In India, there is a huge cold chain gap of 29 Million MT (FICCI, 2010). With a view to encourage investment in cold chain logistics, income tax benefits are extended by the Government of India for attracting private investment to the sector.

CONCLUSION

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

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