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Performance of Food Processing Industry in India

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ABSTRACT

India is the highest producer of milk and second largest producer of fruits and vegetables. Unfortunately, a large amount of that production is lost due to deficient post harvest technology. According to an estimation by Associated Chamber of Commerce and Industry of India, the post harvest loss of fruits and vegetables range between Rs.200 to 250 crore annually. The establishment of Food Processing Industries (FPIs) can help to mitigate these colossal losses effectively and efficiently. Furthermore, generating full-time employment opportunities for the rural workforce is another positive facet of food processing industries. The fact remains that FPIs share to Gross Domesti Product (GDP) far exceeds the contribution by other manufacturing industries. As such, India can hardly afford to ignore the importance of FPIs as it can unify and combat several diverse national issues. The creation of a ministry, dedicated to the implementation of Food processing, stands as testimony to the fact that the Indian Government has taken initiatives to develop the prospect of growth in FPIs. This article focuses on the performance of FPIs in India.

Key words : *Food processing, Industry, India, Post-harvest losses*

Introduction

In India, Food Processing Industries (FPIs) is considered as a sunrise sector that has gained importance in the recent years. Availability of raw materials, varying lifestyles and encouraging fiscal policies have given a significant push to the growth of the industry. This sector serves as a crucial link between the agriculture and industrial sectors of the economy (Government of India (GoI), 2012). Strengthening the FPIs is one of the most acknowledged remedial measures to condense post harvest losses of agricultural and horticultural production all over the world. Of course, it is very arduous to precisely quantify the extent to which the present post harvest losses, estimated to be around 40 % of horticultural production and 10 % of agricultural production in India, could be prevented. But, unambiguously it can be proclaimed that the FPIs can completely wipe out storage losses of perishable produces.

The importance of FPIs extends further for its high potential to generate assured and remunerative employment opportunities to the rural poor. Chandrashekar Rao and Dasgupta (2009) indicated that about 53% of the total annual earnings of the agricultural labourers was earned from various types of FPIs. The study further revealed that FPIs offers more number of working days in a year than the farming. The attraction of women workforce towards FPIs in the recent years, noticed by this study, is more encouraging aspect.

Significant contribution to Indian export revenue is another feather in the cap of FPIs. The data of Directorate General of Commercial Intelligence and

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Statistics (DGCIS) (2006-07) indicated FPIs had an export value of Rs 485.61 crore. It added 28.43 % in the subsequent year. Though, it did not sustain the same growth for next two years in per cent terms, the growth remained, more or less, positive in absolute terms and, by the end of 2012 -13, FPIs exported to the tune of Rs 1970.18 crore. This works out to a staggering growth of more than 300 % in just six to seven years.

Till recent years, agriculture and manufacturing industries almost dominated, as far as share in GDP is concerned. But, according to GoI (2013a) data, from 2006 – 07 FPIs took over the burden of building-up GDP and accomplished the task so incredibly that within a span of five years the per cent growth of contribution to GDP by other two sectors looked meager as compared to more than 15 % enhanced contribution of FPIs between the years 2010 -11 and 2011-12 period.

With this introduction on importance of FPI to Indian Economy, this article focuses on the performance of FPIs on various aspects such as growth of industries, contribution to GDP, export revenues, employment generation, inflow of foreign investment and hurdles for the growth of FPIs.

Growth of FPIs in India

Even before proceeding with FPIs growth and other aspects, it would be worthwhile to have a brief idea about meaning of food processing. All operations involved after harvest of agricultural and horticultural produce like cereals, pulses, oil seeds, fruits, vegetables, nuts until they attain a 'fit for consumption' stage is termed as food processing. It also encompasses transformation of live animals such as sheep, goat, pig and chicken into edible food stuffs. Thus, food processing is simply converting raw form of food to consumable status by adopting processing techniques such as grinding, threshing, chopping, mixing, emulsifying and so on (GoI, 2012).

Basically, there are three types of food processors. The primary processors take-up simple tasks like converting wheat or jowar grains into flour. Secondary processors convert flour into bread. The tertiary processors perform complex tasks such as converting sugarcane into jaggery or sugar, fruits into pulp, groundnut into oil. Traditional food processing meant that much of the primary and secondary processing was done manually. The Ministry of Food processing Industries (MOFPI), lists the FPIs into following 4 categories:(i) Production, processing and preservation of meat, fish, fruits, vegetables, oils and fats manufacture of dairy products, (ii) Manufacture of grain mill products, starches and starch products and prepared animal feeds, (iii) Manufacture of other food products, and (iv) Manufacture of beverages (GoI, 2012).

Initially, food processing did not receive much attention from GoI. Gradually, as its scope for growth in Indian agriculture was understood, a separate Food Processing ministry was constituted at the central level in 1988, and through the efforts of this ministry, the Indian food processing industry experienced significant growth. By the end of 2010-11 the Annual Survey of Industries (ASI) recorded the existence of 35,835 (including 1811 beverages industries) registered FPIs and 22,41,192 (includes 2,10,908 beverage enterprises) unregistered Food Processing enterprises in India. Nearly 50 % of the registered FPI units are located in South India, particularly in Andhra Pradesh and Tamil Nadu. Out of the four types of FPIs considered by the ASI, the manufacture of grain mill products, starches and starch products constitute around 50 % (17,792 Nos.) of the total registered FPIs units in India.

FPIs Contribution to GDP

The growth rate in the number of FPIs from 2006 -07 to 2009 -10 ranged between 0.3 % to 3.85 % and increased to more than 30 % from 2009 -10 to 2010-11 in part the work of the Indian government (GoI, 2012).

The contribution of FPIs to GDP at the end of year 2006- 07 was Rs. 52161 crore and grew at Compounded Annual Growth Rate (CAGR) of 8.40 % to reach a total Rs. 78094 crore by the end of 11th five year plan. The FPI accounts for a higher CAGR than other manufacturing sectors which grew at a rate of 7.60 % during the same period. The performance of FPI is especially impressive when compared to CAGR of the agriculture sector as a whole, which is less than half. Figure 1 shows the comparative per cent contribution of agriculture, manufacturing and FPI to total GDP (excludes forestry and logging).

The recovery of FPIs from its sharp decline in 2009-10 is remarkable and managed to surpass the growth of both the manufacturing and agriculture sectors. The overall contribution of FPIs to GDP by the end of 2011-12 stood at seven per cent. The figure 2 provides evidence to the notion that more and more of agricultural products are being converted

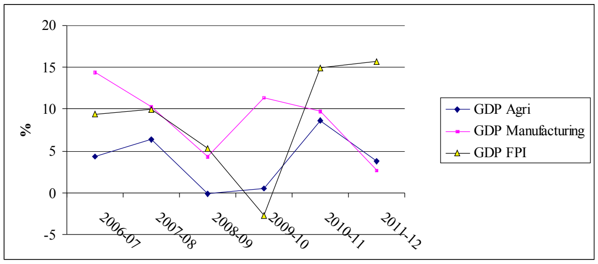

Fig. 1. Comparative Growth Rates of Agriculture, Manufacturing and FPI to GDP at Factor Cost
Source: GoI (2013a)

into food products in value terms rather than in the form of an increase in raw material supply from agriculture sector. ASA & Associates LLP (2013) estimates that the value addition increases by 35 % by the end of 2025 from the current eight per cent. In one of their annual reports, The MOFPI targets a CAGR of FPIs to 10 % in the coming years. The factors influencing these estimations are:

- Under the Income Tax Act, the centre has permitted a deduction of 100 % of profit for five years and 25 % of profit in the subsequent five years for those who proposes to setup agro-processing industries related to fruits and vegetables.
- The previous excise duty of 16 % on dairy machinery has been fully waived and the excise duty on meat, poultry, and fish products has been reduced from 16 % to 8 %
- Most of the processed food items have been exempted from the purview of licensing under the Industries (Development and regulation) Act, 1951 excluding items reserved for small-scale sectors and alcoholic beverages.
- Food processing industries were included in the list of priority sectors for bank lending in 1999.
- Automatic approval for foreign equity up to 100 % is available for most processed food items except alcohol, beer and those reserved for small-scale sector subject to certain conditions.

An article in Hindu Business Line of 19 December 2013, describes that the Ministry of Agriculture has proposed to introduce single Goods and Services Tax (GST) for food industry to resolve some existing issues with respect to tax structure. All these steps by the central government suggest a bright prospect for the Indian food processing industry.

Export of FPIs

Per cent share value of food processing in India's exports was 9.60% during the year 2007-08 which grew to 12 % by the end of 2012 -13, with the expectation of higher returns in the future. The percentage growth in total export value and of FPIs has declined during the last two years. But the growth of FPI remained higher than the total export value. Figure 2 compares the growth of FPI exports vis-a-vis growth of total Indian exports.

The Average Annual Growth Rate (AAGR) of

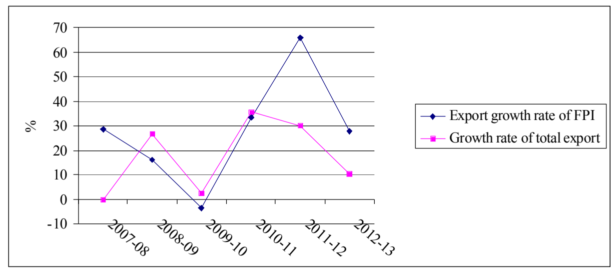

Fig. 2. Comparative Percentage Growths of Export of Processed Food and Total Export of India
Source: GoI(2012)

FPIs for the last five years ending in 2012-13 is more than 20 % which indicates that FPIs growth potential has helped to drive Indian food exports to new heights. It should be noted that South Asia and Middle East imports account for about one-third of the total processed food exported from India. Of the remaining third, 27 % is exported to East Asia and Western Europe and while the rest is absorbed by other parts of the world.

In order to further augment the export of processed food and retaining the existing market share, India needs to adopt strong measures to overcome some impediments like high level of wastage across the value chain, low technology equipment and knowledge coupled with the high costs of packaging, loss in variety of raw materials (mostly due to poor quality) and poor grading mechanisms.

The other major hindrance to the export of processed food is restrictions or bans on certain agricultural commodities such as wheat, rice, onion and milk. An article from the Financial Express dated.17 January 2013 by Sandip Das indicates that the cabinet is all set to clear the ban on export of several processed foods products. This step would help in tapping the global market for export of processed food and to increase the export earnings from FP industries.

Per cent share

Employment Generation

FPIs are extremely labour intensive. At the end of 2004-05 the registered FPIs had provided employment, directly or indirectly, to 13.42 lakh persons. The employment opportunities in FPIs steadily grew and achieved a CAGR of 3.62 % as per Annual Survey of Industries, MOSPI data (2010-2011). Unlike cultivation, FPIs offers employment almost throughout the year. Traditionally, this sector engages a large number of women in the workforce, and therefore the generation of women employment is likely to continue to increase. The following Figure 3 shows the total employment in FPIs.

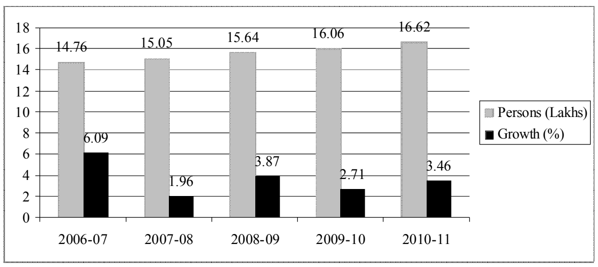

Fig. 3. Number of Persons Engaged in Registered FPI
Source: GoI, 2010 -11

Inflow of FDI in FPIs

The prior approval of the Foreign Investment Promotion Board (FIPB), (a body under the auspices of the Ministry of Finance, GoI) is essential for the inflow of Foreign Direct Investment (FDI) due to the need to meet certain stringent rules and regulations as mandated by the GoI. But, for some selected sectors, FDI may not need approval of either the central government nor the Reserve Bank of India. FPIs is one of those select sectors. Therefore, 100 % FDI for FPIs can come through this expedited funding process. However, the FPI grouped as Micro and Small Enterprises (MSEs) the FDI need to come under government auspices if it exceeds 24 % of the total investment. Table 1 provides the FDI inflow for FPI sector.

Beginning from 2000 -01 the cumulative FDI inflow in FPIs, reached Rs. 8681.31 crores by the end of 2012-13 (GoI, 2013b). Nearly 30 per cent of FDI in this sector comes from EU countries such as Netherlands, Germany, Italy, and France. Some of the successful ventures from EU countries are Perfetti, Cadbury, Godrej-pilsbury, Nutricia Internation, Manjini comaco and so on (ASA & Associates LLP, 2013). Other private firms such as Hindustan Liver Ltd., Amul, MTR, foods Ltd., ITC Ltd., Gits Foods Products Pvt. Ltd., etc. may also invest in FDI in the coming years.

Table 1. Inflow of Foreign Direct Investment under FPI sector.

Year	Amount (Rs. In Crores)	Per cent share of FPI in total FDI
2007-08	279.01	0.29
2008-09	455.59	0.33
2009-10	1414.23	1.08
2010-11	858.03	0.88
2010-12	826.16	0.48
2012-13	2193.65	1.79

Source: GoI (2013b)

Efforts are also being made by the government to attract the FDI by offering several fiscal incentives which includes (GoI, 2014).: (i) Full exemption from excise duty has been given to specified equipments for preservation, storage or transport of apiary, horticultural, dairy, poultry, aquatic and marine produce and meat; (ii) Project imports status, with concessional rate of basic customs duty of 5 per cent has been granted to the initial setting up or substantial expansion of a cold storage, cold room for preservation or storage raw materials, and (iii) Exemption from service tax has been provided to services relating installation of several equipments required by food processing industries.

Hurdles in Further Growth of FPI

With all these, FPIs is not devoid of several hurdles in its growth. It has problems like inadequate infrastructure, difficulty in obtaining raw materials, lack of credit facilities, taxation, etc. These are common to all activities of Indian agriculture. But, FPIs has some hurdles identified as very specific to FPIs. They are: comprehensive national level policy on food processing sector, availability of trained manpower, processing plants with cost effective technologies, cost effective food machinery and packaging technologies, constraints in raw material production, inadequate infrastructural facilities, access to credit, market Intelligence, inconsistency in central and state policies, lack of applied research Adequate value addition, lack of specific plan to attract private sector investment across the value chain, food safety laws, weights and measures act and packaging commodity rules (FICCI, 2010).

Conclusion

The sector is expected to attract phenomenal future investments. The ongoing transformation offers opportunities for organized players to invest and grow. As the Indian market matures and consumers become more quality and brand conscious, the organized sector is poised to grow and gain prominence. Few corporate players, including Multi National Corporations are now focusing on this market. For example, Nestle and Britannia have entered into emerging segments such as Ultra Heated Treatment (UHT) and flavored milk. Recognizing its potential, Indian government has formulated and implemented several schemes for development of infrastructure, technology up-gradation and modernization, human resources development, and research and development in the food Processing sector. Additionally encouraging fiscal policies has given a significant push to the growth of the sector. Estimation by MOFPI indicates that India needs around USD 25 billion to restructure FPIs and central investment and FDIs is essential in the development of sector. To conclude, the food processing sector is a coming-up sector and is worth encouraging as it provides additional employment in agriculture, reduces rural poverty, improves food security, reduces food inflation, improves nutrition, and prevent food wastage.

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