

Food Processing Sector in India

An Overview

In India, most food is consumed in fresh form and only a small quantity is processed for value addition. However, with this trend changing gradually, the market for processed food products is expanding in India. Increased mobility and aspirations, the exposure to and the availability of a wider range and products, easily available credit facilities, and higher disposable incomes have resulted in greater spending and consumption.

Among the affluent and middle-income classes, the share of expenditure on food vis-à-vis other consumption categories has declined, despite the fact that the total expenditure on food has increased across all classes. Initially, food expenditure was concentrated on basic items like grains, vegetable oils, and sugar. However, there is now an increase in the inclusion of fruits & vegetables, eggs, meats, beverages, and processed foods, thanks to both increased availability and affordability. There has been an accelerating shift from food security to nutritional security and convenience foods in the recent past.

According to the MoFPI, Government of India (GoI), the Food Processing Industry (FPI) contributes 1.5% of India's GDP and provides direct employment to 13 million people. The industry is dominated by many small scale enterprises and involves limited value addition. The FPI has grown at a CAGR of 8.5% over the past five years, whereas registered food processing units are growing at 11%.

Currently, the Indian food industry is worth INR 13.96 lakh crore which is anticipated to reach INR 17.96 lakh crore, by 2016. The Indian processed foods market is worth about INR 685,000 crore, or about 49% of the total food industry. A large part of the Indian food market is dominated by unorganized players (42%) and the small scale sector (33%), leaving only around 25% with the organized players.

Food processing activities can be broadly classified into two categories:

- **Commodity-based Processing** which includes primary processing of commodities like wheat, rice, sugar, spices, etc.
- **Value-added Processing** including such secondary and tertiary processing as done for bakery items, milk products, honey, Ready-To-Eat (RTE)/Ready-To-Cook (RT C), etc.

Commodity-based processing currently makes up nearly 66% of the processed food market. Value-added processing, although currently low, is experiencing faster growth, at a CAGR of 10%. The high growth sectors are dairy, health foods, RTE, organic foods, fruit juices and convenience foods, among others.

Key Issues and Challenges

The potential of the Indian Agriculture and Food Processing Industry for growth cannot be disputed. However, certain challenges need to be tackled in order to unleash this potential; these include:

Decreasing Land holdings

The continued decline in the average size of land holdings has put Indian agriculture under immense duress. India's 140 million hectare-wide farmlands are now worked upon by 14 crore farmers, up from 7 crore farmers forty years ago. The costs associated with necessary inputs and bank loans have also shot up in this period, making it difficult to sustain livelihoods purely through agriculture.

Poor Market Linkages

A fragmented supply chain, along with inadequate forward integration, has resulted in suboptimal quality, lower prices, and high wastage of produce at the farm level. For smaller and distant farmers, it is still a stiff challenge to directly access markets and get the desired price for their produce.

Inadequate Farm and Marketing Infrastructure

The lack of adequate storage and market infrastructure like weighing, auction platform, and packaging has added to the complexity of the problems facing Indian agriculture.

Lack of Processing-worthy Produce

Indian agriculture is still dominated by the practice of production-driven market supply instead of market-driven production, which leads to an inconsistency in the quality of produce and the supply thereof. Thus, there is a severe need to focus on processing-worthy varieties of produce and ensure a year-round supply of the same.

Processing Equipment and Latest Technology

The quest is on to discover newer methods, technology, and machinery for the food processing industry, with least impact on sensory qualities - color, texture, etc. Therefore, technological progress is necessary for the growth of the food processing sector. The development and diffusion of quality-enhancing and yield-increasing technologies remains a key challenge.

Lack of Adequate Manpower

At each level in the food processing value chain, there are marked deficiencies in technical knowhow and support. Further, in comparison to the amount of research carried out in this field, there is still a gap in the transference from laboratory to industry. Knowledge flows from academic centers to the centers of commercial manufacturing are very critical.

Inadequate Infrastructure and Supply Chain

The non-availability of such core infrastructure as high-tech controlled production facilities, grading and packaging units, cold chain logistics, warehousing and integrated processing units, besides an inefficient supply chain, poor transportation, and erratic power supply, are major concerns across the food value chain. The lack of specialized distribution companies for perishable produce and processed food products is another problem that the sector urgently needs to address.

Growth of SMEs

SMEs provide the essential link between the agricultural and industrial segments of the economy by enhancing the value of agricultural production. The main challenges faced by SMEs are the increasingly rigorous quality standards demanded by export markets, and a shortage of technical grade manpower. In addition, SMEs are also facing survival challenges given the highly competitive market environment.

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