

A Study on Growth & Employment Trends of Food Processing Sector in India

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Abstract

India has a population of one hundred crore plus and feeding this large a population calls for a strong FPI. The food processing industry in India also assumes importance in the national economy due to the immense employment generation opportunities it offers and the export revenue it earns. In 1999, the FPI became a focus area for the Government of India and it was included in the list of priority sector for bank lending. With various infrastructural thrusts being provided & the fiscal initiatives launched over the years for the sector by the government at various levels have also contributed to the impressive growth exhibited by the industry. Food processing sector has become the second largest employment provider after agriculture. Direct relation with agriculture is a feature of this industry which has better prospects for production, consumption, export and growth. Food processing industry is slowly and steadily becoming one of the major industries of our economy. Its share in GDP is on continuous rise, with an AAGR of 8.4% from 2008-09 to 2012-13. This paper provides a detailed analysis of food processing industry in India, its untapped potential, growth trends, capability, and employment opportunities.

Introduction

As per Ministry of Food Processing of India (MOFPI), the term 'food processing' is mainly defined as a process of value addition to the agricultural or horticultural produce by various methods like grading, sorting and packaging. In other words, it is a technique of manufacturing and preserving food substances in an effective manner with a view to enhance and improve quality as well as make them functionally more useful. It covers a wide spectrum of products from sub-sectors comprising agriculture, horticulture, plantation, animal husbandry and fisheries. It also includes other industries that use agricultural inputs for manufacturing of edible products. Food processing industry in India is a sunrise sector that has gained prominence in the recent years. Availability of raw materials, changing lifestyles and appropriate fiscal policies has given a considerable push to the industry's growth. This sector serves as a vital link between the agriculture and industrial segments of the economy. Strengthening this link is of critical importance to reduce waste of agricultural raw materials, improve the value of agricultural produce by increasing shelf-life as well as by fortifying the nutritive capacity of the food products; ensure remunerative prices to farmers as well as affordable prices to consumers.

The Indian Agribusiness and Food sector is one of critical importance, not only because of its contribution to the country's Gross Domestic Product (GDP) but also because of the number of people it employs and its capacity as a lever for achieving food security and a tool for bringing about inclusive and sustainable development. This sector is highly dynamic and also evolving rapidly. Its complexity is thus set to increase due to a number of changing parameters including growing population, expected increase in per capita disposable income, changes in dietary patterns, rise in urbanization, shrinking land base for agricultural usage, globalization, etc. Moreover, the sector's performance is also dependent on not only climatic conditions and natural resources but also on the performance of other sectors such as infrastructure and energy. This ecosystem as a whole is governed by the regulatory environment which is also undergoing a speedy transformation. All these constantly changing parameters, which interact with each other, underpin the complexity of the food ecosystem. The existing level of processing and the extent of value addition are very low as compared to other developing countries. In India the food processing industry is ranked fifth in terms of production, consumption, export and expected growth. A strong and dynamic food processing sector plays a significant role in diversification of agricultural activities, improving value addition opportunities and creating surplus for export of agro-food products

According to a brief report on food processing sector in India February 2015 The Confederation of Indian Industry (CII) has estimated that the food processing sectors has the potential of attracting US\$ 33 billion of investment in 10 years and generate employment of 9 million person-days. The Government has formulated and implemented several Plan Schemes to provide financial assistance for setting up and modernizing food processing units, creation of infrastructure, and support for research and development and human resource development in addition to other promotional measures to encourage the growth of the processed food sector.

Contribution of Food Processing Industries to Gross Domestic Product

Performance of this sector has improved significantly in the recent years. Manufacturing sector was generally growing at a higher rate than FPI till 2009-10. Performance of FPI improved substantially in 2011-12 registering a record growth of 21.6 per cent.

S.No	Description	2008-09	2009-10	2010-11	2011-12	2012-13	
	GDP at factor cost of which	4158676	4516071	4918533	5247530	5482111	
1	GDP-Agriculture*	588757	592110	647305	682016	690646	
2	GDP: Manufacturing	656302	730435	795152	854098	863876	
3	GDP-FPI	60,378	58752	67,508	82,063	84,522	
	Growth (%)						AAGR \$
4	GDP at Factor Cost	6.7	8.6	8.9	6.7	4.5	7.1
5	GDP-Agriculture*	-0.1	0.6	9.3	5.4	1.3	3.3
6	GDP: Manufacturing	4.3	11.3	8.9	7.4	1.1	6.6
7	GDP-FPI	5.3	-2.7	14.9	21.6	3.0	8.4
	Share of FPI in GDP (%)						Average
8	GDP FPI as a share of GDP in Agriculture*	10.3	9.9	10.4	12.0	12.2	11.0

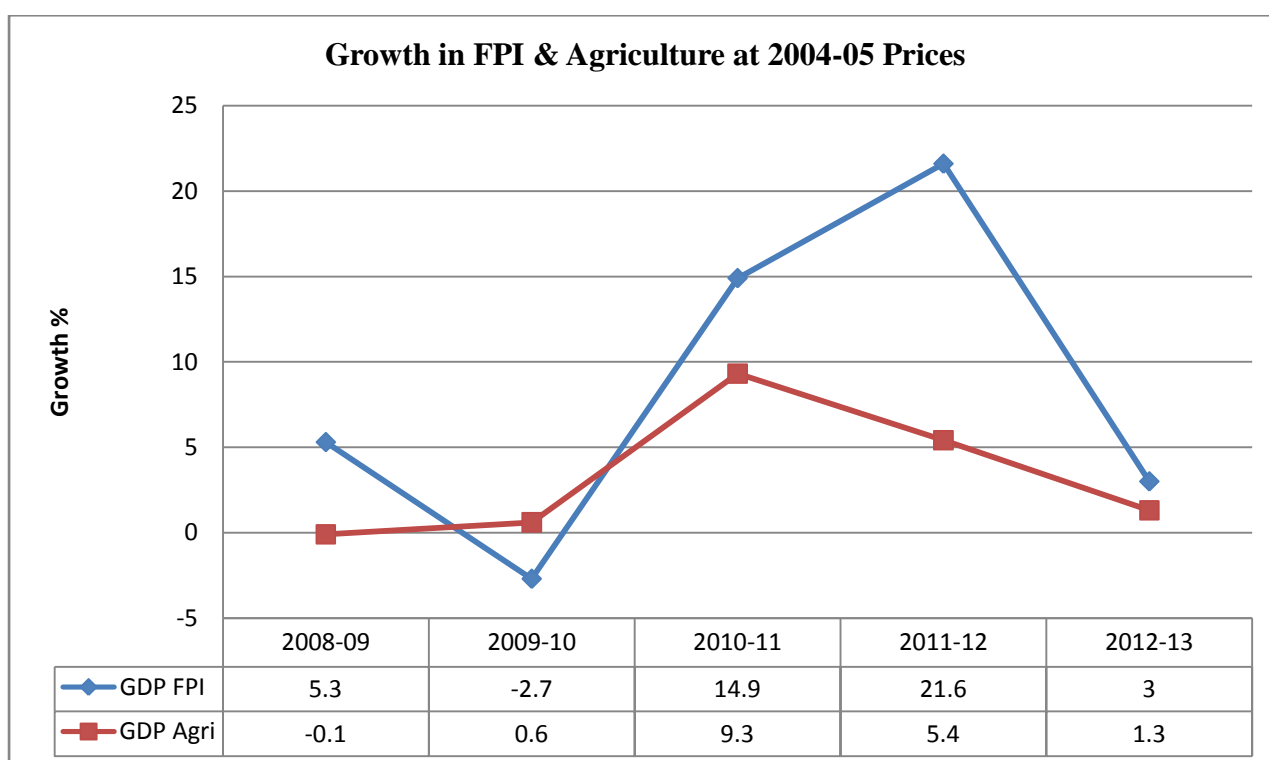
9	GDP FPI as a share of GDP in Manufacturing	9.2	8.0	8.5	9.6	9.8	9.0
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Source: National Accounts Statistics-2014; *Excludes Forestry & Logging; \$: Five Year Average Annual Growth Rate

As it is evident from data table above in the year 2012-13, the growth of food processing sector decelerated along with slow growth both in agriculture and manufacturing sectors though the growth of the sector was higher than both agriculture and manufacturing sector.

Growth in Food Processing Sector and Agriculture

In the post-independence period, India witnessed rapid growth in food- processing sector specifically during 1980s. It followed the first phase of the Green Revolution that had resulted in increased agricultural production and the need for its post harvest management. The importance of the sector was realized by the business community leading to diversification from grain trading to processing.



Source: National Accounts Statistics (NAS), CSO

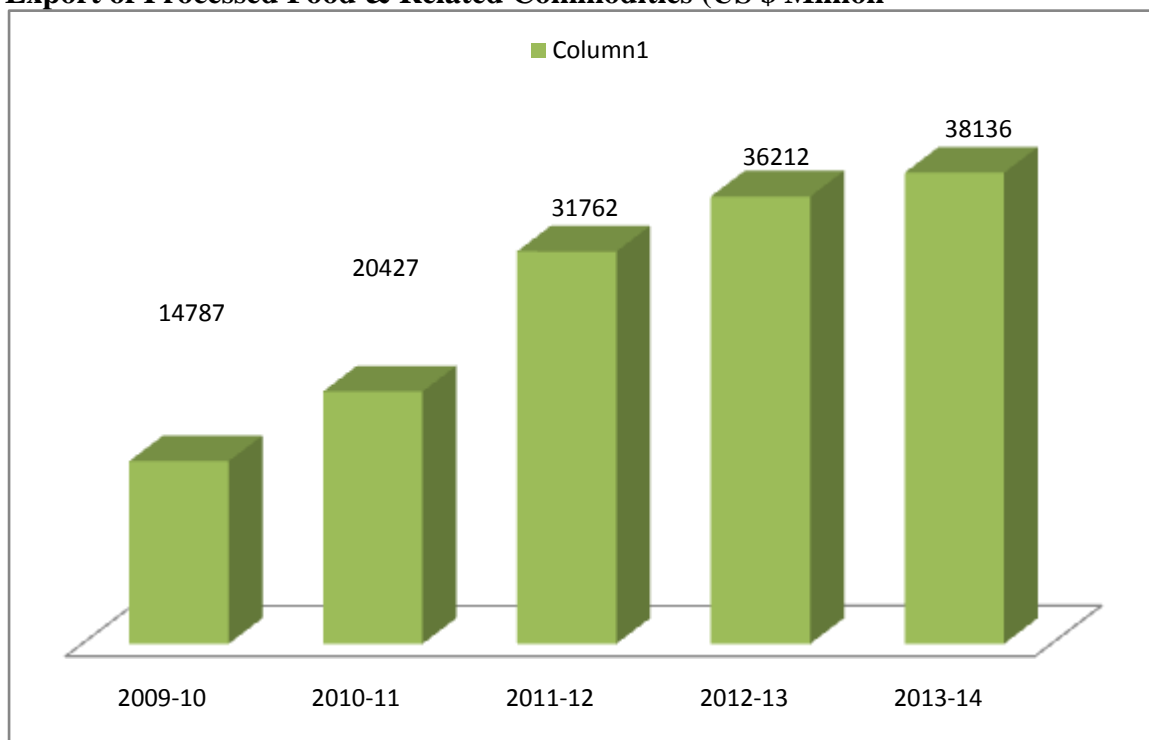
As seen in the graph, the contribution of food processing sector to GDP has been growing faster than that of the agriculture sector. If the contribution to GDP of both agricultural sector and food processing sector were growing at the same rate, then it would mean that the growth in food processing sector is only due to increased agricultural raw material supply. However, what this graph indicates is that more and more agricultural products are being converted (in value terms) to food products. This means that the level of processing in value terms has been increasing. At present there is no other estimate on the level of physical processing of various agricultural products in the country. This Ministry proposes to continue using this method to determine the level of food processing in the country.

Exports of Food Processing Related Items

All agricultural produce when exported undergo an element of processing. Hence all edible agricultural commodities exported are included in the export data. The value of exports in the sector has been showing an increasing trend with Average Annual Growth Rate (AAGR) of 20.53 per cent for five years ending 2013-14.

The value of processed food exports during 2013-14 (Provisional results) was of the order of US \$ 37.79 Billion (total exports US \$ 312 Billion) constituting 12.1 per cent of India’s total exports (DGCI&S, Kolkata). Though the food processing industry is large in size, it is still at a nascent stage in terms of development of the country's total agriculture and food produce, only 2 per cent is processed. Growth has primarily resulted from greater exports to advanced economies and more demand from emerging/ developing economies as they experience strong growth. Main export destinations for food products have been the Middle East and Southeast Asia. The trends in exports of processed food & related commodities, is given below:

Export of Processed Food & Related Commodities (US \$ Million)



Source: Source: DGCI&S, Kolkata; & Agricultural and Processed Food Products Export Development Authority (APEDA), Aranca Research

From the above table it is also visible that during the course of financial year the exports of processed foods have risen considerably well right from the 11th financial year till 14th financial year. The Indian food industry stood around US\$ 39.03 billion in 2013 and is expected to grow at a rate of 11 per cent to touch US\$ 64.31 billion by 2018. Indian agricultural and processed food exports during April-May 2014 stood at US\$ 3,813.63 million, according to data released by the Agricultural and Processed Food Products Export Development Authority (APEDA).

DEMAND DRIVERS

India is the seventh largest country in the world, with the largest area under cultivation and a strong agricultural base. India has one of the biggest emerging markets, with over 100 crore population, and a 25 crore plus strong young middle class. It is one of the largest producers of the agricultural and allied goods; and yet the food processing segment in India contributed only 1.49% to the GDP. The sector is in its nascent stage as traditionally Indians prefer the consumption of raw and fresh products.

Recently, the trend has been changing as the FPI has shown an impressive growth in the last few years. Some of the factors that have triggered the change are listed below:

- **Changing profile and tastes of the consumer**

Rapid urbanization, increase in the number of nuclear families, increase in the number of working women, less time devoted in the household have changed a lot of habits of the Indian families. Increased literacy and rising per capita income have induced the customers to increase their spend on value added food, which has a higher shelf life, packs greater nutritive value and takes less time to cook. This has led to change in consumer tastes and preferences towards processed food.

- **Product innovation**

Companies are offering a wider range of products to the consumers as a result of their investments into product innovation, research and development. They are moving up the value chain, e.g. cooperatives are transitioning from being pure producers of milk to offering a wide range of dairy products such as flavoured yogurts, ice creams, etc.

New entrants are trying to entice the markets and capture market share by offering new flavours and localized versions of international products such as chips made in Indian flavours and from Indian spices.

- **Increased spending on health and nutritional foods**

The changing lifestyle and working habits of the younger India has led to a rise in lifestyle diseases such as diabetes, blood pressure, cardiac problems, muscular pains, etc. With a rise in disposable income levels and increasing awareness, consumers spend on healthy and nutritional food has also gone up.

- **Advent of branded food and organized retail**

With a higher disposable income and a higher propensity to spend, the consumers are looking for quality branded food. Organized retail has helped a greater penetration in the rural and tier II markets in India and has improved the shopping experience of the consumers. It has also helped to maintain the shelf life of the packaged food by providing the required infrastructure.

- **Rising export opportunities**

The demand of processed food is higher in the developed economies where the pace of life is much faster than that of emerging markets. Moreover, the preference for Indian processed food such as pickles has added to the global demand. India has a greater integration with the global economy and its proximity to key export markets serves as a stronger link between the trading countries.

- **Better Preservation and Packaging techniques**

With improvement in technology, better preserving and packaging techniques have been developed that not only increase the shelf life but also improve the

nutritive value of the processed food. A more conscious consumer is increasingly demanding such processed food as it promises to be more hygienic and nutritive than the raw agricultural produce which has high levels of pesticides, insecticides sprayed upon it.

Rising Consumption Pattern of Processed Food

In volume and value terms, sales of every category of processed foods increased significantly between 2008 and 2013. Industry sources estimate that over 300 million consumers consume some type of processed food regularly. A number of factors have combined to spur the increase in the consumption of packaged foods such as strong economic growth in recent years, more working women, urbanization, the nascent development of modern retail, the emergence of foreign and international brands, significant improvements in packaging and quality and savvy marketing campaigns.

India: Sales Value of Processed Foods 2008 and 2013 (\$ billions)

Category	2008	2013	Percent Change
Baby Food	0.24	0.44	86
Bakery	2.44	4.73	94
Canned Food	0.05	0.09	100
Confectionary	0.86	2.56	199
Dairy	4.48	9.91	121
Dried Processed Food	0.71	1.77	147
Frozen Processed Food	0.03	0.08	137
Ice Cream	0.24	0.60	153
Meal Replacement	0.06	0.60	997
Noodles	0.25	0.74	191
Oils And Fats	2.83	6.75	139
Pasta	0.00	0.01	200
Ready Meals	0.01	0.02	117
Sauces, Dressings, Condiments	0.57	1.15	103
Snack Bars	0.00	0.02	450
Soup	0.02	0.04	160
Spreads	0.06	0.13	123
Sweet And Savory Snacks	0.58	1.85	221
Impulses or Indulgence Products	3.24	8.42	160
Staples	9.18	20.49	123
Meal Solutions	0.71	1.45	104
Total Packaged Food*	13.12	30.33	131

Source: Euromonitor

Expansion is being driven by domestic and multinational companies. Urban areas account for over 75 percent of sales as consumers seek convenience and quality in processed foods. For higher value frozen and refrigerated foods, sales are almost exclusively in urban areas. Rural

areas tend to have lower incomes and a preference for fresh ingredients. Nevertheless, rural areas are emerging as a market for well-priced shelf-stable foods.

Foreign Direct Investment Policy

The Government of India has simplified investment procedures in the food processing sector in an effort to attract foreign investment. The number of food products reserved for small scale industries has been reduced; investments are permitted under the “automatic route” which simplifies capital reporting procedures; up to 100 percent foreign equity can be invested for most products as listed under the Consolidated FDI Policy 2014; certain taxes have been reduced for investors; import tariffs on some equipment have been reduced; and there are incentives for setting up processing plants. A few food items are reserved for the micro and small scale sector where automatic approval is available for up to 24 percent foreign direct investment. The food processing industry has attracted \$6 billion in foreign direct investment over the past 14 years accounting for two percent of total foreign direct investment inflows.

According to a study which find out the impact of foreign direct investments on Indian economy and concluded that Foreign Direct Investment (FDI) as a strategic component of investment is needed by India for its sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries, short and long term project in the field of healthcare, education, research and development.

Foreign Direct Investment (FDI) inflows in Food Processing sector in the country during last 6 years and current year is as below:

S.No	Year (April-March)	FDI(Rs Crore)	FDI (US\$ Million)
1	2007-08	279.01	70.17
2	2008-09	455.59	102.71
3	2009-10	1314.23	278.89
4	2010-11	858.03	188.67
5	2011-12	826.16	170.21
6	2012-13	2193.65	401.46
7	2013-14	25,106.78	3,982.88

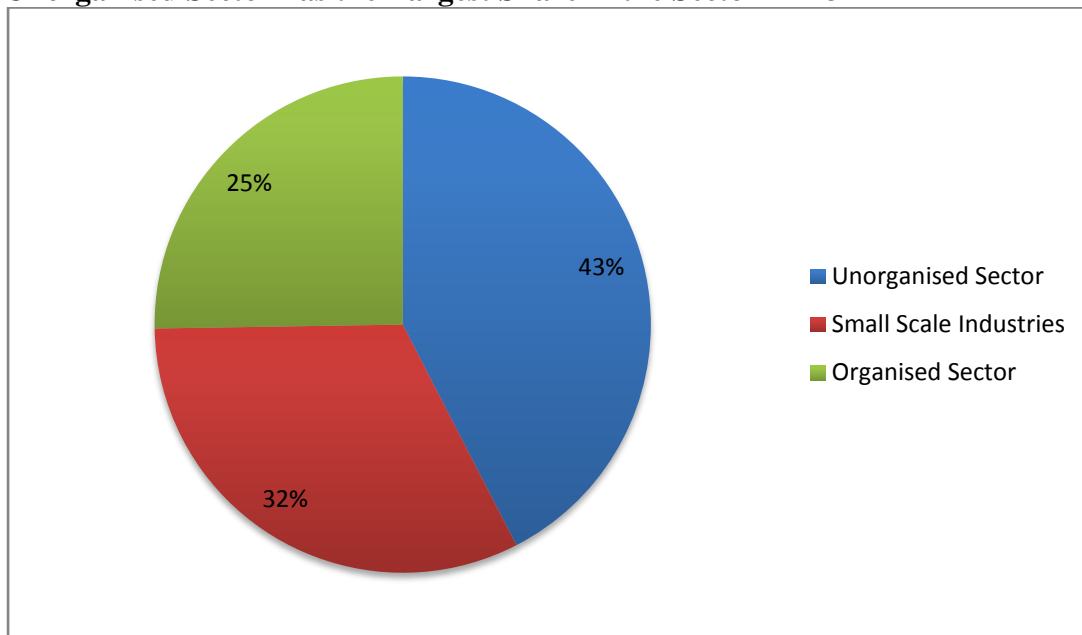
Source: Department of Industrial Policy and Promotion (DIPP)

According to Ministry of Commerce & Industry the FDI inflows in food processing sector were worth Rs.198 crore in the year 2000, these FDI inflows were rose to Rs.1314 crore in 2009 and then it was fallen to Rs.826 crore in 2011. During this period the growth were registered 11.1 per cent per annum respectively.

Large Presence of the Unorganised Sector

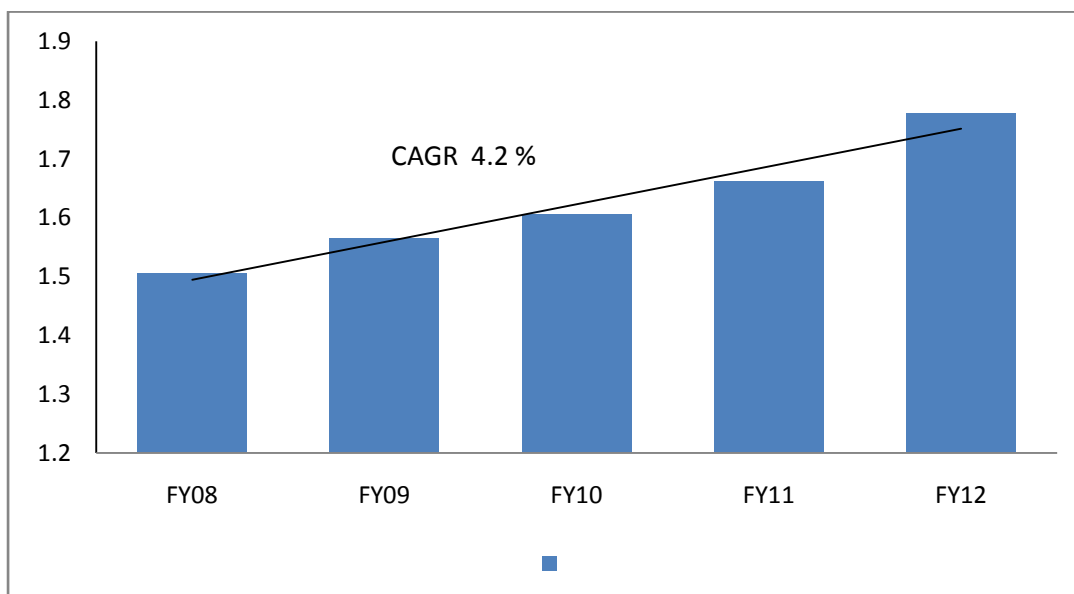
The unorganised sector accounts for 43 per cent of India’s food processing industry. The sizeable presence of small-scale industries points to the sector’s role in employment generation. Though the market falls under the unorganised sector in the country, the organised sector has a larger share in the secondary processing segment than the primary one. Rice mills account for the largest share of processing units in the organised sector.

Unorganised Sector has the Largest Share in the Sector FY13



Food retail is expected to grow well due to low penetration of organised retail and the potential market thereof. With the rising competition between private retail players, strict quality norms and operating standards are implemented by the retailers to attract consumers. There is a considerable focus of retailers on processed food rather than fresh food (which requires more front and back-end efficiencies). This may help the sector, which is currently a fresh produce/primary processing dominated sector, to evolve into a value-added secondary processing dominated sector

Employment Generation in Registered Food Processing Sector (In Millions)

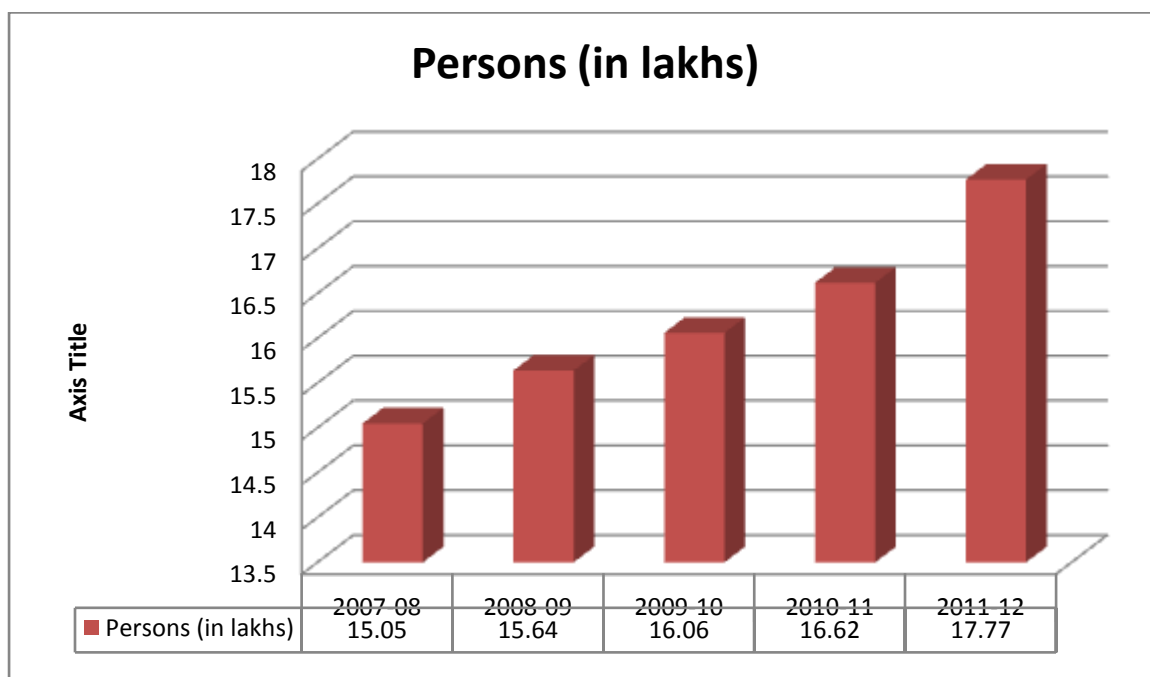


Food Processing Industry is one of the major employment intensive segments constituting 12.13 per cent of employment generated in all Registered Factory sector in 2011-12. According to the latest Annual Survey of Industries (ASI) for 2011-12, the total number of persons engaged in registered food processing sector is 17.77 lakhs.

During the last 5 years ending 2011-12, employment in registered food processing sector has been increasing at an Annual Average Growth Rate of 3.79 per cent. Unregistered food processing sector supports employment to 47.9 lakh workers as per the NSSO 67th Round, 2010-11.

No of Persons Employed in FPI

The employment share of registered units has increased from 18 percent to 26 percent during FY06–11. However, the total employment in the sector has decreased due to a considerable decline in the employment of the unorganised sector. Industry is moving from the unorganised to organised sector due to demanding quality standards and technology adoption.



Policymakers have identified food processing as a key sector in encouraging labour movement from agriculture to manufacturing. As per Annual Survey of Industries for 2011–12, there were 1.7 million persons engaged in registered food processing sector. During FY08–12, employment in the registered food processing sector rose at a CAGR of 4.2 per cent. The sector employs 13 million people directly and 35 million people indirectly.

Conclusion

The demand for food and agricultural products is changing in unprecedented ways. Increases in per capita incomes, higher urbanization and the growing numbers of women in the workforce engender greater demand for high-value commodities, processed products and ready-prepared foods (FAO, 2007). The Indian food industry is poised for huge growth,

increasing its contribution in world food trade every year. In India, the food sector has emerged as a high-profit sector on the back of the scope it offers for value addition, particularly with the food processing industry getting recognised as a high-priority area. Accounting for about 32 per cent of the country's total food market, the food processing industry is one of the largest industries in India and is ranked fifth in terms of consumption, export and expected growth. The total food production in India is likely to double in the next 10 years with the country's domestic food market estimated to reach US\$ 258 billion by the end of 2015.

The role of the Indian government has been instrumental in the growth and development of the industry. The government through the Ministry of Food Processing Industries (MoFPI) is making all efforts to encourage investments in the sector. It has approved proposals for joint ventures (JV), foreign collaboration; industrial licences and 100 per cent export oriented units. There has been some optimism about the growth potential & possibilities of employment creation in the food processing sector in the economy.

Although based on the above overall analysis of the food processing sector it has been noted that the industry has lot of potential in terms of growth and employment opportunities and with proper investment in food processing, technical innovation and infrastructure for agriculture sector, India could well become the food basket of the world. Although Food processing industry provides plenty of direct and indirect employment opportunities, because it acts as bridge between Agriculture and Manufacturing, as per ASI survey in 2013, Food processing industry generated highest employment among all industry by giving employment to more than 17 lakh people. The Twelfth Five Year Plan (FYP) wants to create more than 50 million jobs. Out of that, Food processing sector is to create one million jobs.

As mentioned in the approach to 12th Plan, the Ministry would be making skill development a core objective of its future plan in alignment with the national objective. The proposed skill development programme of the Ministry may be said to be guided by two major factors: (i) To meet the employment needs of the burgeoning rural youth and (ii) To provide a large pool of skilled workers to food processing industry.

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