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Food Processing Industry in India and Foreign Direct Investment

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ABSTRACT

There has been diversification of Indian diets away from food grains to high value products like milk, meat products, vegetables and fruits. Food-processing industry has been registering good growth since the past few decades and particularly after nineties. The conditions are now ideal for the growth of this industry. The food processing Industries was set up in July 1988 to give an impetus for development of food processing sector in the country. The food processing industries are concerned with formulation and implementation of the policies and plans within the overall national priorities and objectives with the surplus production of cereals, fruits, vegetables, milk etc. The ministry acts as catalyst for bringing in greater investment into this sector, guiding and helping the industry and creating a conducive environment for healthy growth of the food processing industry.The Indian food processing industry stands at $135 billion and is estimated to grow with a CAGR of 10 percent to reach $200billion by 2015.The food processing industry contributed 7 percent to India's GDP. The industry employs around 13 million workers directly and about 35 million in directly. India ranks No.1in the world in production of milk, pulse,ginger, bananas and mangoes. Further India ranks No.2 in the world in production of rice,wheat, potatoes, groundnuts and cauliflower etc,.

INTRODUCTION

Food Processing Sector is indispensable for the overall development of an economy as it provides a vital linkageand synergy between the agriculture and industry. It helps to diversity and commercialise farming. 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 packing. The food processing sector comprises of two segments primary processed food and value added food. Primary segments comprises of packaged fruits and vegetables, milk, flour,rice,spices etc,. And around 62 percent in value terms of the processed foods.

Food processing industries have a crucial role to play in reduction of post harvest losses. The most important point in the food industry is that a substantial portion being rural based has a very high employment potential with significantly lower investment. The fruits and vegetable farming for processing is not only employment intensive, but also enhances the gross as well as net returns of the farmers. Further, agro-industry generates new demand on the farm sector for more and different agricultural output, which are more suitable for processing. On the other hand, the development of these industries would relax wage goods constraint to economic growth by enhancing the supply of their products.

India has all the potential to become one of the largest food processing countries in the world. Potential for production is also matched by strong demand for processed food products due to rapid urbanization, change in preferences and practices in consumption. The Agricultural production has consistently recorded higher output and has become self-sufficient in the world in production of milk, pulses, ginger, mangoes, and rice, wheat, vegetables and horticulture products.

METHODOLOGY

The study has been conducted on the basis of secondary data. The data has been compiled from Ministry of Food Processing Industry (MFPI)reports , various books, internet sources and other published works etc,.

OBJECTIVES OF THE STUDY

The following objectives for study are given bellow:

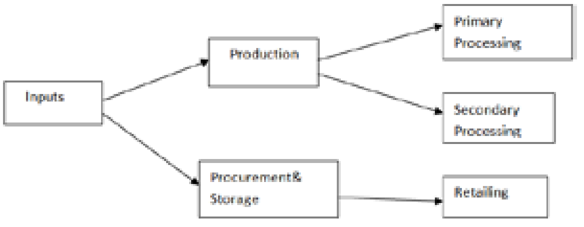
1. to study the Foreign Direct Investment (FDI) in food processing sector.
2. to study the opportunities and challenges for food processing sector.
3. to discuss the Characteristics of micro, small and medium enterprises.

STAGES OF FOOD PROCESSING

The Food processing Industries does not deal with a few

Food items such as Coffee,Tea, Oil seeds, Sugar etc., nevertheless, since food processing industries from the Economic activity point of view include all edible processed food data analysed by this in the entire sector. The different stages of processing of food, are depicted in the flow chart given below.

Supply Chain in Food Processing Industries



Food processing Industries usually deal with higher levels of processing where new or higher value food products are manufactured from an analytical perspective. Food processing can be viewed as different levels of processing – primary, secondary and tertiary.

OPPORTUNITIES IN FOOD PROCESSING SECTOR:

- Process able varieties ofcrop
- Contract farming
- Investment in infrastructure through public private partnership (PPP)
- Food safety management systems.
- Mega food parks.

FOOD PROCESSING SECTOR-IMPEDIMENTS

High level of wastage of agricultural produces is primarily on account of the inherent dis advantages faced by the sector. This sector is characterised by preponderance of small farmers, small scale and tiny processors, out dated technology, poor infrastructure and a maze ofmiddle man. Therefore, this sector needs supportin terms of creation and strengthening ofinfrastructure

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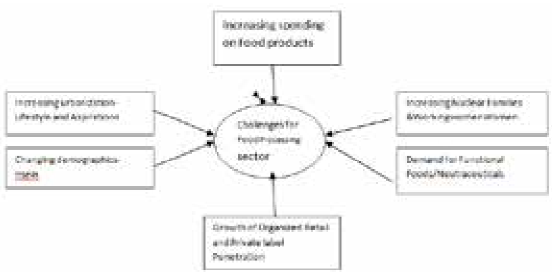
which individual farmers and processors will not be in a position to create and sustain. The major challenges facing the sector are illustrated below:

FOOD PROCESSING SECTOR-GROWTH MODEL



The above diagram indicates various factors which are likely to increase the demand for food processing programmes. Increase in the output of Indian agriculture without corresponding investments in processing facilities is likely to lead to a mismatch resulting in rural distress and decline in farmers income. The processing industries and retailers can provide the necessary demand for the agricultural produce and facilitate the flow of market information, technology and inputs to the farmers. The consumers are also likely to be benefitted as there will be an increase in the supply of food products with a higher shelf life.

EMPLOYMENT IN FOOD PROCESSING SECTOR

Food Processing Industry is one of the major employment intensive segments constituting 12.13 percent of employment generated in all Registered Factory sector in 2011-2012. According to the latest Annual survey of Industries (ASI) for 2011-2012, the total number of persons engaged in registered food processing sector is 17.77 lakhs. During the last 5 years ending 2011-2012, employment in registered food processing sector has been increasing at an Annual Average Growth Rate of 3.79 percent. Unregistered food processing sector supports employment to 47.9 lakh workers as per the NSSO 67thRound ,2010-2011.

FIXED CAPITAL IN FOOD PROCESSING INDUSTRIES

In terms of fixed capital, FP sector is growing at an average annual growth rate (AAGR) of 20.35 percent during five years ending 2011. As per the latest, ASI 2011-12 the fixed Capital in FP Industry stood at Rs. 1,45,038 crore.

Fixed Capital in Registered Food Processing Industries

Year	2007-08	2008-09	2009-10	2010-11	2011-12 (p)	AAGR #
Fixed Capital (Rs.Crore)	68,335	81,156	99,482	1,20,705	1,45,047	
Growth Rate (%)	18.76	18.76	22.58	21.33	20.17	20.35

FOOD PROCESSING IN MSME SECTOR

Information on the principal characteristics of micro, small and medium Enterprises (MSME) is generated through periodic census conducted by the office of development Commissioner, MSME. The fourth all India census of micro, small and medium enterprises (2006-07) registered sector gives an extensive information on employment, number of enterprises, market value of fixed Assets, and other important economic parameters on MSME registered in the district Industries Centres (DICs).

FOREIGN DIRECT INVESTMENT (FDI)

The government of India is planning to offer 100 per cent foreign direct investment andincome tax benefits in the food processing sector.Foreign direct investment (FDI) in the country's food sector is poised to hit the US$ 3-billion mark. In the last one year alone, FDI approvals in food processing have doubled.

Nearly 30 per cent of FDI in this sector comes from EU countries such as Neither lands,Germany, Italy and France. Some of the successful ventures from EU countries are Perfetti,Cadbury, Godrej-Pilsbury, Nutricia International, ManjiniComaco, etc. The US-based private equity fund, New Vernon Private Equity Limited (NVPEL), has decided to invest Rs 450 million in Kochi-based masala major, Eastern Condiments, theflagship company of Eastern Group.America's largest chocolate and confectionery-maker Hershey is acquiring 51 per cent stakein Godrej Beverages & Foods for US$ 54 million.

FOREIGN DIRECTINVESTMENT (FDI) IN FOOD PROCESSING SECTOR:

Foreign Direct Investment (FDI) is permissible for all the processed food products up to 100%percent on automatic route except for items reserved for Micro and Small Enterprises (MSEs) subject to applicable laws/regularities, securities and other conditionality's. For manufacture of items reserved for Micro, Small and Medium enterprises, FDI is permissible under automatic route up to 24 percent of the capital. If the foreign investment is more than 24 percent, Industrial Licence under Industries Act 1951 is required. Foreign Direct Investment (FDI) inflows in Food Processing sector in the country during last 7 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	1,314.23	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	25,106.73	3,982.88

source: Department of Industrial Policy and Promotion (DIPP)

CONCLUSION

Indian food industry is making an important mark in the global food arena as a large producer and exporter of agro food products. At present small players dominate the Indian food processing industry. The industry needs larger companies, which have financial muscle for establishing a large market network and also to invest in technology. The favourable policy environment and increasing interest of corporate in agro food processing sector, augurs well for India, which is well on track to become one of the leading food nations of the world. In fact, food processing is one of the world's largest industries from the perspective of the number of companies involved in the sector, as well as in terms of its total economic value.

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