CS Market Research report
Country: India
Sub-sector: Food Additives (FOD)

Summary:

India is the world's second largest producer of fruits and vegetables. The total food production in India is likely to double in the next ten years leading to new opportunity for large investments in food and food processing technologies, skills and equipment. Canning, dairy and food processing, specialty processing, packaging, frozen food/refrigeration and thermo-processing are some of the major areas offering high growth potential. Fruits, vegetables, fisheries, milk and milk products, meat and poultry, packaged/convenience foods, alcoholic beverages and soft drinks, and grains are important sub-sectors of the food processing industry. Health food and health food supplements are other rapidly rising segments of this industry. Food additives are used in all these sectors to add flavor and/or to increase the shelf life of the products. In 1990s, Indian food processing ventures demanded small quantities of food additives. Lack of product (food additives) awareness, and a misconception that these chemicals could create health problems, impeded growth of food additives demand in India. However, with the entry of multinationals such as Pepsi, Coca Cola, Nestle, Heinz and Cadbury, demand for food additives has been on the increase. U.S. companies interested in this sector are encouraged to contact the U.S. Commercial Service (CS) in India. The CS offers programs to introduce U.S. products and technologies in the global market. Please visit CS India's web site http://www.buyusa.gov/india to contact us and to know more about our programs for U.S. firms.

Market Overview and Trends

Although India is one of the world's major food producers, it accounts for less than 1.5 per cent of international food trade. This indicates vast scope for both investors and exporters.

India's food processing sector covers fruit and vegetables, meat and poultry, milk and milk products, alcoholic beverages, fisheries, plantation, grain processing, and other consumer product groups like confectionery, chocolates and cocoa products, soy-based products, mineral water, and high protein foods.

The most promising sub-sectors includes soft-drink bottling, confectionery manufacturing, fishing, aqua culturing, grain-milling, meat and poultry processing, alcoholic beverages, and milk processing. Other sectors include: tomato paste, fast food, ready-to-eat breakfast cereals, food additives, and good flavors.

Indian food processing industry holds a promise for a speedy growth. Factors such as changing food consumption patterns, increased spending on value-added food products spurred by increases in income levels, increasing numbers of women joining the workforce, rapid urbanization, changing lifestyles, and mass media promotion are fueling this growth. In recent years there been a marked shift among consumers for packaged food items in India.

Anticipating the future growth potential of the Indian processed food market, a host of foreign companies have entered the Indian market and several others are evaluating entry options. The entry of these new companies offers good market prospects for food-processing equipment suppliers. Several multinationals have entered India's food-processing sector, the oldest being Nestle of Switzerland and Brooke Bond Lipton of the Unilever group. Over the last few years, U.S. companies, Coca Cola, PepsiCo, Kellogg's, Pillsbury, Sara Lee Bakery, General Mills, and Heinz, have all established their presence in India.

Fast food ventures are also successfully operating in India. U.S. majors such as Kentucky Fried Chicken (KFC), McDonalds, and Subway are operating in the country. Pizza ventures have also received a warm welcome in the country with several brands engaged in the business successfully. These ventures have a potential to support the growth of food additives.

Since the onset of liberalization of the Indian economy in 1991, the Government of India (GOI) has announced various incentives to attract investment in the food-processing sector to encourage commercialization and value addition to agricultural produce, and also to reduce wastage and value loss.

The Indian food processing industry has changed considerably in recent years to adapt to the demands and lifestyles of domestic consumers, particularly the growing middle class. This is also due to the rapid expansion of the retail distribution system replacing mall stores and wet markets with modern supermarkets, superstores and convenience stores. Dairy products, deli products, snack foods, ready-to-eat and ready-to-prepare meals are currently the most rapid growth product categories in the domestic market. Domestic processed food consumption will continue to grow as India's population increases, and as incomes increase and lifestyles change, a higher proportion of processed food and beverages are included in the diet. In addition, India's food exports are expected to remain strong as the food processing industry continues to improve its productivity and capitalizes more fully on its abundant source of high quality local raw materials.

India must import a large portion of the raw materials for processing, as they are either not available or not produced in adequate quality or volume within the country. Food chemicals, seafood, dairy products, cereal products, fats and oils, starches and derivatives, and colorings are the leading food ingredients by volume. The food ingredient and additive market in India mainly depends on the Indian consumer food industries. The consumer food industry mainly consists of ready-to-eat or ready-to-cook products such as noodles, cocoa based products, bakery products, biscuits, soft drinks, and snack food. Some of the industry segments with good market prospects for food ingredients and additive markets are:

Bakery, with an output of 3 million (mn) tons, it is India's largest segment in food processing, although more than 60% of the output comes from thousands of unorganized small-scale industries. Bread and biscuits account for almost 3.78 million tons, of which large units account for 35% of the output. Unilever recently bought 74% equity in India's largest Government owned bread company.

Cocoa products such as chocolate beverages, malted milk foods, chocolate, etc. are produced in India by some of the world's leading brands- Smith Kline Beecham, Cadbury and Nestle among other Indian units. Annual production of cocoa products is estimated to be 35,000 tons; India imports a substantial part of its cocoa beans from Ivory Coast, Indonesia, and other origins.

Aerated beverages or soft drinks as popularly known in India have seen brisk competition by the two global players Coca Cola and Pepsi Co, in the 6 billion bottles Indian market. Pepsi Co has the larger market share in India because of its earlier entry and aggressive distribution and franchise network. Both players have now entered the large mineral water segment, which is slated for high growth in India.

Alcoholic drinks are allowed to be produced only by units having licenses from the state Government besides other approvals. There are 36 licensees for beer, having an output of 400 hectoliters per annum. India's potable alcohol market (popularly called Indian made Foreign Liquor) is estimated to be 70 million cases, valued at $690 billion. Foreign brands from leading players such as Bacardi, Seagram, IDV and others are now bottled in India under specific licenses and subject to export obligations. The market for premium, imported brands is less than 0.1% of the overall volumes. Alcoholic beverages are another area where India witnessed substantial foreign investment. The Indian beer market is estimated at $160.9 million a year, which is about 70 percent of the total investment made so far. One of the major advantages for any investor eyeing the Indian liquor market is that India offers enough raw materials like molasses, barley, maize, potatoes, grapes, yeast and hops for the industry.

Snack food market is another area, which continues to grow India. The Indian snack food market comprising ready to eat mixes, curries, chips, namkeens and other processed foods are large, diverse, and dominated by the unorganized sector. The total size of the Indian snack food market is at an estimated over 400,000 tons in volume and $230 million in value terms, and is growing at over10% for the last three years. (2001-2004). The three largest consumed categories of packaged foods are packed tea, biscuits and soft drinks. Opportunities for U.S. companies exist to supply snack flavorings, coatings, preservatives, and other ingredients.

Import Market

Indian consumers are becoming increasingly interested in healthy food. This has led to the development of several entirely new additive categories. One main focus on healthy eating is fat and sugar reduction in the diet, which has influenced development of the fat replacers and sweeteners categories. Other additives such as hydrocolloids, many of which can be used is fat replacers, have also benefited from consumer concerns about fat and sugar intake. Multi-national companies such as International Flavors and Fragrance, and Quest International dominate the food additive, and flavor market in India. Major suppliers of food additives to India are the U.S., Sweden Korea, Switzerland, France, Germany, and Japan.

Competition

The rapid expansion of the local food processing industry has stimulated increased demand for both food and feed additives. Specialty ingredients and additives used in food processing in India include both natural and synthetic chemicals. The main additives include amino acids, preservatives, colors and flavors, enzymes, and natural sweeteners.

An important factor, which has provided substantial stimulus to the food-processing equipment industry, is the emphasis on the rapid growth of processed food exports from India. The export policy has been placing emphasis on value-addition. Indian food processors are upgrading their production technologies and packaging machinery to maintain international quality.

End Users

Small and large Indian food processing ventures are the end-users of food additives. The Ministry of Food Processing Industry's website carries useful information on Indian market and Government regulation. Please visit http://www.mofpi.nic.in/ for further information.

Market Entry

Distribution of imported food ingredients is generally via two main channels. The first is through traditional importers who distribute through their own marketing and delivery network to the food processors. However, as India's food processing industry has grown and become more sophisticated over the years, food processors are increasingly importing directly from foreign suppliers in order to reduce costs. This is especially true for large, integrated food processors, which export much of their production and are well acquainted with international trade.

A reputable and experienced local agent or importer possesses good understanding of the market and maintains a good contact with end users. The agent maintains good connections with government officials, which will be helpful in securing the necessary product and labeling licenses and clearances. A good local agent can also provide valuable support in arranging meetings and promotional events, placing advertisements in local newspapers and trade publications, and other marketing and sales activities.

Opportunities for Profile Building

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Upcoming Trade Shows/events

U.S. firms are advised to participate in major Indian exhibitions related to food processing industry, and packaging to display their products. Known Indian industry associations organize these exhibitions. A large number of end-users and decision-makers attend these exhibitions, which offer the best exposure for U.S. food ingredient suppliers. U.S. companies are recommended consider participation at the FoodPro 2005 http://www.ciionline.org/southern/events/933/default.asp – food and food technology fair to be held in Chennai between Nov. 12-15, 2005.