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FOOD PROCESSING INDUSTRY IN INDIA: ISSUES AND CHALLENGES

Food Processing Industry in India: Issues and Challenges

Mrs. Savita Kumari

Asst. Prof. Kurukshetra University, Kurukshetra, Haryana

Abstract – Food Processing involves any type of value addition to agricultural or horticultural produce and also includes processes such as grading, sorting and packing which enhance shelf life of food products. India is one of the world's major food producers but account for less than 2% of international food trade. This indicates best scope for both investors and exporters. The FPI is of enormous significance for India's development because the vital linkages and synergies that promotes between the two pillars of the economy namely industry and agriculture. No doubt the FPI in India is on assured track of growth and profitability over the coming decades. Green revolution has transformed India from a land of shortage to a land of surplus. India is presently the world's second largest producer of food and has the potential of being the biggest with developing food and agricultural sector. Growing economy, surplus food and changing life style has shifted the consumption pattern, from cereals to more varied and nutritious diet of fruit and vegetables, milk, fish, meat and poultry products. This gradual progression has given rise to the food processing industry in India. The food processing sector in the country with its vast potential has emerged as one of the major driver of economic growth and is after hailed as a sunrise industry. However, market experts are of the opinion that in future, the food products is going to contribute majority towards India's GDP growth. In this paper attempt is made to explore the growth opportunities and major challenges to FPI in India.

Key Words: Food Processing Industry (FPI), Opportunities, Challenges

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INTRODUCTION

India is the world's second largest producer of food next to China and has the potential of being the biggest with the food and agriculture sector. The total food production in India is likely to double in the next ten years and there is an opportunity for large investments in food and food processing technologies, skills and equipment, especially in areas of canning Dairy and Food Processing. Specially Procession, Packing, Frozen Food/ Refrigeration and Thermo Processing Fruits and vegetables play an important role human diet and nutrition but a Major portion never benefits Mankind and most human beings are malnourished, because such good items are perishable. Man has tried to control these natural destructive forces and has accumulated a technology for preserving foods, and now Food Processing is considered to be one of the most profitable industries all over the world, especially developed countries. Food Processing Industry (FPI) helps to avoid post harvest loss of agriculture produce by changing it into durable and value added products. FPI can play a significant role in India economy by converting raw agriculture commodities to value added finished products. India is one of the world's major food producers but account for less than 2 percent of international food trade. This indicates best scope for both investors and exporters. The FPI is of enormous

significance for India's development, because of the vital linkages and synergies that is promotes between the two pillars of the economy, namely industry and agriculture. No doubt the FPI in India is on assured track of growth and profitability over the coming docades.

FOOD PROCESSING INDUSTRY :

Food Processing involves any type of value addition to agricultural or horticultural produce and also includes processes such as grading, sorting and packing which enhance shelf life of food products. Food Processing Industry (FPI) helps to avoid post harvest loss of agriculture produce by changing it into durable and value added products. FPI can play a significant role in Indian economy by converting raw agriculture commodities to value added finished products. India's Food Processing sector covers a wide range of products fruits and vegetables, meat and poultry, milk and milk products, alcoholic beverage, fisheries, plantation, grain processing and other consumer products like confectionery, chocolates and cocoa products, soya –based products, mineral water, high protein foods etc.

REVIEW OF LITERATURE

The efforts have been made to collect the literature concerning 'Food Processing Industry in India' which is related with the topic of research paper . In India, these have been very limited literature work done on the Food Processing Industry. We have come across only few studies on this topic. **Jain and Yadav (2006)**, conducted a study on 'Driving Improvement Opportunities in Food Processing Industry through Bench Marking'. They concluded that increasing competition, ever-changing customer's needs and rapid technological advances exert a tremendous amount of pressure on the food processing companies to stay competitive. These companies also have to deal with a growing variety of products, short delivery times, high service level, increased focus on quality and competitive cost. To complete in the global world, these companies need to learn continuously and use appropriate business improvement tools such as bench marking to improve their operation. **Rajarajan (2007)** explored Implications of Trade Liberalization on Indian Dairy Sector, an empirical Analysis has studied and they found that due to liberalization and globalization of India economy in 1991, the Food Processing Industry has gained a high growth prospect in future. By entering in Uruguay Round and signing the GATT the Indian Govt. has opened the economy for the foreign direct investments. Due to these policies the FPI in India is growing at a rate of 13% as compared to 7% growth rate of GDP of country as a whole, this rate is the indicator of bright growth prospects of FPI in India. **Chintala (2007)** conducted a study on 'Food Processing: The Rising Indian Industry'. She found that Indian Food Processing Industry has a great growth potential but, there is a need of relaxation in Govt. Rules regarding FPI. The FPI also needs a huge investigation, infrastructure facilities and liberalized polices. The required investment in FPI should be financed by both Public and Private Investors. It is due importance is given the Indian FPI will contribute a large share in total GDP of the country which is at present very small in comparison to total agriculture and food production of the country. **Abdullah (2008)** conducted a study on 'The Indian Food Processing Industry opportunities & Galore'. He found that FPI would be the largest industry in the country in future but at present it is in its introductory stage. Out of whole agriculture and food production of country only 2% is processed which is very small. But due to the opening of Indian Economy and liberalized policies of the Government the FPI is expected to attract huge investments in coming years. The size of FPI is expected to grow up to Rs. 6,60,000 crores till 2014-15. The FPI requires about Rs. 29000 crores of investment over the next five years to grow more fastly and expand Indian export of processed food which is now only 1.5% of international food trade.

OBJECTIVES :

1 To know the performance of India food industry in GDP of India.

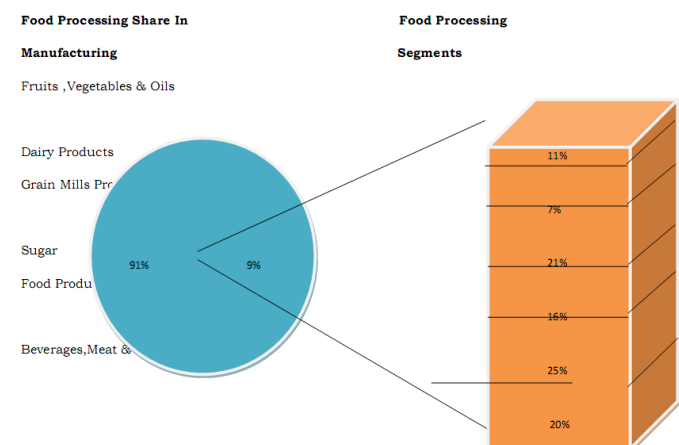
2 To study the challenges to food processing industry in India.

3 To explore the growth opportunities of food processing Industry in India.

RESEARCH METHODOLOGY :

This parer is based on descriptive research. In this study the secondary data is used which is taken from various publications, articles of magazines and Government Publications etc .The data regarding GDP has taken from annual reports of the Ministry of Food Processing Industry.

Present Status Of FPI In India: India ranks first in the world in production of cereals and milk. It is the second largest fruit and vegetable producer and is among the top five producers of rice, wheat, groundnuts, tea, coffee, tobacco, spices, sugar and oilseeds. The food Processing Industry consists of sub segments like Dairy Products, Fruits & Vegetables, Oils , Beverages, Sugar, Meat & Poultry etc. The following Pie-Chart shows the share of FPI In total GDP and contribution of its sub segments in total.



Contribution of FPI to GDP at 2004-05 Prices

Sl No		2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	CAGR Last 5 Yrs
	GDP(Overall, Agri, Manf, FPI)	2,971,464	3,253,073	3,564,364	3,896,636	4,158,676	4,516,071	4,937,006	5,243,582	8.0
1	GDP Agriculture*	503,786	531,745	554,395	589,383	588,757	592,110	643,111	667,446	3.8
2	GDP Manufacturing	453,225	499,021	570,458	629,073	656,302	730,435	801,477	823,023	7.6
3	GDP-FPI	44,355	47,689	52,161	57,320	60,378	58,782	67,508	78,094	8.4
4	GDP-Industry	829,783	953,872	1,140,197	1,330,270	1,500,254	1,695,796	2,003,304	2,233,183	14.4
	GROWTH (%)									AAGR: Last 5 Yrs
4	GDP at Factor Cost		9.5	9.6	9.3	6.7	8.6	9.3	6.2	8.0
5	GDP Agriculture*		5.5	4.3	6.3	-0.1	0.6	8.6	3.8	3.8
6	GDP Manufacturing		10.1	14.3	10.3	4.3	11.3	9.7	2.7	7.7
7	GDP-FPI		7.5	9.4	9.9	5.3	-2.7	14.9	15.7	8.6
	SHARE OF FPI IN GDP(%)									AVG Last 5 Yrs
8	GDP FPI as a share of GDP in Agriculture*	8.8	9.0	9.4	9.7	10.3	9.9	10.5	11.7	10.4
9	GDP FPI as a share of GDP in Manufacturing	9.8	9.6	9.1	9.1	9.2	8.0	8.4	9.5	8.9
	GDP FPI as a share of GDP-Industry	5.3	5.0	4.6	4.3	4.0	3.5	3.4	3.5	3.7
11	GDP FPI as a share of GDP	1.5	1.5	1.5	1.5	1.5	1.3	1.4	1.5	1.4

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	CAGR Last 5 Yrs	
GDP-FPI: REG & UNREG										
1	GDP-FPI Registered	22,148	26,780	30,709	34,753	39,253	37,813	45,042	51,877	11.1
2	GDP-FPI UnRegistered	22,207	20,910	21,453	22,568	21,125	20,939	22,467	26,217	4.1
3	GDP-FPI	44,355	47,689	52,161	57,320	60,378	58,752	67,508	78,094	8.4
SHARE OF REG & UNREG FPI (%)										
1	Share of Regd FPI	49.9	56.2	58.9	60.6	65.0	64.4	66.7	66.4	64.6
2	Share of UnRegd FPI	50.1	43.8	41.1	39.4	35.0	35.6	33.3	33.6	35.4
Source: National Accounts Statistics-2013; * Excludes Forestry & Logging										
GDP: Sum of GVA (value of output less the value of input used in the process of production) of all resident producer units of the economy during the reference period.										

The Table-1 shows the overall GDP of India at 2004-05 prices in India has gone up to Rs. 52,43,582 crore in 2011-12 from Rs.29,71,464 crore in 2004-05 with Compound Annual Growth Rate(CGAR) of 8%.Contribution of FPI sector has increased toRs.78,094 crore in 2011-12 from Rs.44,355 crore in 2004-05with CGAR Of 8.4%.The CGAR for manufacturing and agriculture sector during the same period has been growing at 7.6% and 3.8% respectively. GDP of FPI contributed 9% in manufacturing GDP and 1.4% in overall GDP of the country. The share of registered food processing units has increased to 66.4% in 2011-12 from 49.9% in 2004-05 and share of unregistered units has decreased to33.6% in 2011-12 from 50.1% in 2004-05.This indicates the sector has become more organized. But besides this huge production Indian FPI's share in global processed food trade is only 2%.

ISSUES/CHALLENGES TO FPI IN INDIA :

(1) Large Unorganized Segment: The Indian FPI comprises a large unorganized segment more than 70% of the industry's output in volume terms and 50% in value terms. The organized sector is very small so the problem arises in planning and development of the food processing sector **(2) Absence of Proper Grading Standards:** In the recent years some standards are established for food processing industry in India but these are not up to the international standards so Indian products do not get much attention in the international market. **(3) Low Consumer Awareness :** In Indian domestic market the demand for processed food is very low due to the belief that the processed food is less nutritious for health. Low demand hindrances the growth of the industry **(4) Poor preservation and storage facility:** In India due to the poor preservation and storage facility more than 50% food production goes waste, due to this factor the supply for food processing industry is low despite of the huge production **(5) Lack of Proper Distribution and Marketing Channels:** The food industry needs proper distribution and marketing channels for proper supply of its products as these products require specific handling and preservation. In India these facilities are very less which limits the growth of the industry. **(6) Huge Investment Requirement:** The Indian economy is a developing economy, so there is a need of large investment for development of every sector. So there

is deficiency of investible funds in food industry which restricts the development of industry **(7) Difference in Tax Structure:** The Indian tax structure is stricter as compared to the other countries. This affects the prices of the food products in the international market. The high prices results in low demand which result in low share in international trade **(8) Lack of Integration between Govt. and Industry:** The Indian economy is a mixed economy but there is a lack of co-operation among public and private sector. The food processing industry requires huge investments for its growth which is possible only through the participation of Govt. and private investors both which impossible without the integration and co-operation between Govt. and industry.

Opportunities in FPI in India: In the preceding section we have discussed the problems in growth of food industry in India. But in spite of these problems the Indian FPI is on the rise according to the latest available data. The value of output for registered food processing industries was Rs. 4,46,701 crores in 2011-12.The average annual growth rate for 2007-08 to 2011-12 was 16.3% in this sector. The food processing industry has a great potential for growth and investment in India due to the following factors **(1) Vast Source of Raw Material :** As India is one of the largest producer of food grains and vegetables in the world. So India has a great potential to be a leading global food supplier if it employs the right strategies and creates an efficient supply chain **(2) Conventional Farming to Commercial Farming:** The recent years there has been a shift from conventional farming of food grains to horticulture which includes fruits, vegetables, ornamental crops, medical and aromatic plants, spices, plantation crops which include coconut, cashew nuts and cocoa and allied activities. This shift has given opportunity to food industry for future growth **(3) Huge Market in the form of Large Urban Middle Class:** With a huge population of 1.20 billion and population growth about 1.6% per annum India is a large and growing market for food products. Its 150 million strong urban middle class with its changing food habits posses a huge market for agricultural products and processed food **(4)Low Production Cost:** The relatively low-cost but skilled workforce can be effectively utilized to set up large, low cost production based for domestic and export markets. **(5) Change in Consumption Patterns:** The increased income has result in a change in consumption pattern. A large part of demand for cereals grains and pulses has shifted to processed food. The food processing industry is one of the largest Industry in India with the market of US \$ 29.4 billion in a total estimated market of US \$ 91.66 billion **(6) Government Assistance:** The Govt. has introduced several schemes to provide financial assistance for setting up and modernizing of food processing units, creation of infrastructure, support for research and development and human resource

development in addition to other promotional measures to encourage the growth of FPI (7) **Foreign Direct Investment:** To increase the FDI in food processing sector, the Government had permitted 100% FDI in all the processed food items through the automatic route which means that there is no approval required, companies are free to decide. This resulted in inflow of Rs. 826 Crores in 2011-12 as FDI as compared to Rs. 174.00 Crores in 2003-04 in food processing sector in India.

CONCLUSION:

From the above discussions we can conclude that the Indian food processing industry has a great growth potential due to the many favorable things like vast raw material, low production cost, Govt. assistances etc. The huge size of market makes Indian Food Processing Industry an attractive destination for foreign investors. The change in Indian agriculture production and change in consumption pattern has opened new growth opportunities for the industry. But there are some serious challenges also exists in the way of growth like low standard production due to lack of proper standardization. The Indian FPI lacks marketing and distribution facility due to less capital availability. The Indian Govt. should take some effective steps like improvement in infrastructure, proper storage facility and proper quality standards for food processing industry. If the Govt. and Industry takes joint steps to overcome these challenges the Indian FPI can become one of the largest producers of processed food.

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