

Future of the Indian food processing industry

January 21, 2024, 7:32 PM IST / Dr. Prashant Prabhakar Deshpande in Truth, Lies and Politics, Business, Economy, India, TOI



Dr. Prashant Prabhakar Deshpande

Dr. Prashant Prabhakar Deshpande has post-graduated in Economics with a Gold Medal in 1976 and was awarded a Ph.D in Social Sciences from Nagpur University in 2007.

Introduction

Increased urbanisation in India has propelled growth of the country's food processing industry with her domestic processing capacity reaching 20 million metric tonnes since 2014, following efforts by the government to modernise the agro-industry ecosystem, presenting increasing opportunities to the foreign investors and the start-ups.

Introduction of the PLI Scheme for the Food Processing Industry

Production Linked Incentive Scheme for India's food processing sector has been in operation since the fiscal year FY 2021-22 up to FY 2026-27, approved by the Union Cabinet on 31st March 2021 with a budget provision of Rs. 10,900 crores. The Initiative aims to **encourage manufacturing in four specific categories in the industry, namely:**

1. Ready-to-cook and ready-to-eat products;
2. Processed fruits and vegetables;
3. Marine products, and;
4. Mozzarella cheese.

The scheme aims to:

1. Endorse innovative and organic products from SMEs, and;
2. Provide incentives for branding and marketing initiatives to promote Indian brands in the global market.

The PLI Scheme is expected:

1. To upgrade the food processing infrastructure;
2. Attract technology to optimise farm-to-industry output, and;
3. Boost exports.

Reportedly, the Companies that have successfully applied to the scheme have made investments worth Rs.7126 crores in the food processing industry and generated cumulative sales worth Rs. 49825 crores up to April-September quarter of 2023.

According to the PLI scheme guidelines, beneficiaries are required to furnish incentive claims for a specific financial year by December 31 in the following financial year. For the FY 2022, incentives disbursed under the scheme reportedly amounted to Rs. 584 crores.

The PLI scheme's Quarterly report indicates that 237,335 persons were employed by PLI beneficiaries up to September 30, 2023.

Urbanisation & Changing Consumer habits

With the rapid increase in urbanisation, the demand for ready-to-eat and packaged food has reportedly increased. India hopes to modernise her agro-industry ecosystem, so that the changing consumer habits benefit farmers, start-ups, and SME businesses.

India is the 2nd largest producer of fruits and vegetables in the world after China, and is a global leader in the production of a variety of fruits like mango, banana, guava, papaya, sapota, pomegranate, lime, and aonla.

Besides manufacturing food products, India is seeking technology and capital investments to provide solutions **to reduce post-harvest losses and sustainable packaging, creating opportunities for foreign investors and start-up entrepreneurs.**

By 2025, India's food processing market is expected to grow at a compound annual growth rate of 15.2 %. Tier-2 and Tier-3 cities are said to be the key consumer markets for FMCG businesses, as they are mirroring consumption trends in the Metropolitan cities.

FDI for the industry

Food processing is considered a **Sunrise Sector** in India and has attracted **Foreign Direct Investment** worth Rs. 500 billion in the past 9 years. In the country, while 100 % FDI is authorised in the food processing industry **through automatic route**, 100 % FDI is permissible **through the government approval route** for trading, including e-commerce, **specifically for food products manufactured or produced within India.**

Contribution of the Industry to Agricultural Exports

The food processing industry's contribution to agricultural exports has since grown to 23 % from 13 % in 2014 with India ranked 7th in the world in agricultural and processed food exports in 2022-23.

In November in 2023, the **Ministry of Food Processing Industries** organized the Second edition of World Food India. For the 2023 event, Japan as the focus country and the Netherlands as the partner country hosted **knowledge sessions on best practices, discussing financial empowerment, quality assurance, innovations in machinery and technology, e-commerce, and logistics in the food processing sector.**

MoUs worth Rs. 33129 crores were signed with various companies at the event. Over 70 CEOs representing leading companies in the food processing and allied sectors attended the event.

Creation of Modern Infrastructure

Since 2014, India's domestic processing capacity has grown 15 times to reach 20 million metric tonnes. There are reportedly more than 20 operational mega food parks, 371 cold chain projects, and 68 agro-processing clusters in the country today.

According to the country's Investment Facilitation Agency, **Invest India**, reportedly 474 proposals under the **Creation/Expansion of Food Processing & Preservation Capacities**, 61 backward and forward linkage projects, 46 Operation Green projects, and 186 food testing Laboratory projects have been approved.

India reportedly implemented the **Mega Food Park Scheme** until April 2021, under which it approved 41 projects, of which, 24 are operational as of December 2023. The goal of this scheme is to create modern infrastructure for the food processing sector along the value chain from farm to market.

Incentives offered to the Food Processing Industry:

1. **Income tax Incentives**
2. a)Eligibility for 100 % profit exemption for the initial five years, followed by 25 % deduction for the subsequent 5 years;
3. b)Full deduction equivalent to 100 % allowed for capital expenditure related to cold chain or warehouse investments.
4. **Credit facilities**
5. a)Loans to food & agro-based processing units and cold chain, categorised under agricultural activities for **Priority Sector Lending**;
6. b)Capital investments aimed at establishing modern storage capacity eligible for the **Viability Gap Funding scheme**, aimed at supporting infrastructure projects that are economically justified but fall marginally short of financial viability. **Cold chain and post-harvest storage have now been acknowledged as a distinct infrastructure sub-sector.**

An exclusive food processing fund amounting to Rs. 20 billion has been established under NABARD, dedicated to offering affordable credit to **Mega Food Parks** and units set up under MFPs and designated food parks.

Epilogue

The future of the food processing industry in India looks promising with her large and growing population, increasing urbanisation and rising disposable incomes. Additionally, her diverse agricultural base provides a wide range of raw materials for the food processing sector.

Several incentives are provided by the government to support the growth of the food processing industry, including incentives:

1. For setting up food processing units;
2. Creating a favourable regulatory environment, and;
3. Providing infrastructure support.

The future of the sector therefore looks bright.