**Investment Opportunities Galore as Indian Food Industry Poised to Grow From US$ 181 bn. to US$ 258 bn. by 2015 & US$ 318 bn. by 2020, says FICCI-Ernst & Young Study**

**NEW DELHI, October 24, 2009.** The Indian food industry is poised to grow by a whopping 42.5% from US$ 181 billion (Rs 843460 crore) now to US$ 258 billion (Rs 1202280 crore) by 2015 and by 76% to US$ 318 billion ( Rs 1481880 crore) by 2020, throwing up huge opportunities for investment across the entire value chain,according to a **FICCI-Ernst & Young study.**

The study, **‘Flavours of Incredible India – Opportunities in the Food Industry’,** notes that the Indian food industry is a significant part of the Indian economy with food constituting about 30% of the consumer wallet. The key drivers for growth in the sector are:

        An increase in per capita disposable income by 8% over last five years which has led to an increase in per capita consumption expenditure on food by 20% over the same period. A large part of the increase in income will go towards expenditure on food as the data clearly suggests. The current per capita expenditure on food is 1/6th that of China and 1/16th that of US with a significant opportunity for growth in the future.

        Growth in the size of the middle to very rich class which is projected to increase at more than 300% between 2005 and 2015. During the same period the youth population (age group 15- 25) in India is expected to grow by 11%. This will lead to an increasing demand for food products to meet demands of convenience, variety, health and a changing palate.

        Emergence of Tier 1 and Tier 2 cities which will present a key opportunity for future growth due to rising income, increased awareness and limited availability of products currently in these markets.

India is a one of the largest producers of agri, milk and meat products. Considering the current yield which is the lowest amongst the BRIC countries, this presents a significant opportunity for growth to meet the increasing demand for food. The contributors or producers can look forward to increase yield substantially through better technology and processes. As a result, this sector presents opportunities for participation amongst players in farming, infrastructure, storage and logistics, etc. to meet the demand of food products both ocally as well as the international markets, says the FICCI-Ernst & Young study.

The FICCI-Ernst & Young study lists out key opportunities in the food sector in India, which include:

* Driving growth in food consumption and spending through increased market penetration, addressing new emerging markets and launch of new value added products to meet the needs of convenience, health and variety.
* Supporting the Indian creator by providing technology to improve yield, faster and improved access to credit and better sourcing to maximize returns for the creator.
* Re-organizing the supply chain to enable reduction of post harvest losses especially in fruits and vegetables which now amounts to up to 25% by value. This would mean an opportunity to set up warehouses, cold stores and logistics infrastructure.
* Launching products and increasing penetration of tertiary and processed foods which has a huge potential for growth. Tertiary processed foods currently account for almost 26% of the consumption with a large part of just beverages and oil.
* Creating a base for exports of value added food products with current exports of tertiary food products only at 9% of overall food exports.

The study points out that as much as 70% of the current food spending by the Indian consumer is on agri-products. Additionally, two-thirds of this spending is on primary and secondary processed products. In agri-products, fruits and vegetables (F&V) is the largest consumption category and accounts for over 50% of the total consumption.

While, milk and milk products and meat and marine products contribute the remaining 30% of consumer food spending, they have been growing at a faster rate as compared to agri products.

This has been driven by the rise in disposable income along with a steady rise in

the youth population where the acceptance of meat and marine products is higher. Further, in case of milk and milk products, the presence of established and organized players has resulted in increased availability and accordingly increased consumption of these products.

The key socioeconomic changes which will impact the growth of the food industry are:

* A fourfold growth in the size of Indian households in the middle to very rich class which will result in the Indian household consumption to doubling by 2015
* An increase in the youth population in the country
* A growing migration of population from rural India to urban India

The FICCI-Ernst & Young study states that along with the socio-economic changes, there are key lifestyle changes expected which will result in a transistion of the consumers’ consumption patterns:

* A growing number of nuclear working families who have limited time for cooking and hence are driven by a high need for convenience.
* An increasing incidence of lifestyle diseases such as diabetes, asthma and obesity resulting in a demand for heathy products.
* A growing level of international exposure, which has led to consumer awareness of newer concepts in international cuisines along with an acceptance of such products.
* An increased consumer awareness driven by media penetration and celebrity chefs promoting new cuisines and product categories. This phenomenon is not restricted to urban areas, because rural Indians are often exposed to such processed products through their urban family members.

These lifestyle changes are expected to create a demand for products which meet the needs of convenience, health and variety. This also provides an opportunities for companies to increase consumption in new and high value added processed products and to reach and target beyond the Indian metro cities.

* Food companies can look at increasing the per capita consumption and spending of the Indian consumer through new product introduction, improved availability and targeted consumer education. While India’s consumption of grains and cereals is comparable to global levels, an opportunity exists for companies to drive and increase the consumption of fruits and vegetables, milk and milk products and meat and marine products.
* Additionally, companies can leverage on the low penetration of tertiary processed products and introduce products in this space. However, companies would need to focus on meeting the three key consumer requirements of convenience, health and variety (in terms of international cuisines).
* Also, companies can look beyond the metro cities of India to tap the potential offered by the Indian food industry. Companies can look to build and focus on new emerging consumer markets in the upcoming Tier I1 and Tier II2 cities of India.

However, the study notes that there are three key critical success factors which need to be considered to tap the opportunity offered by the Indian food industry.

* **Local market delivery incorporating local tastes and preferences** – The consumption habits of the Indian consumer are diverse across the different regions of the country. Hence new product launches should incorporate the local preferences.
* **Price-value offering** – Price being one of the most important considerations for choice of food, the price/value equation has to be carefully evaluated before any new product launch.
* **Communication to increase consumer awareness** – Investment in increasing consumer awareness and marketing is essential to reach target consumer across all geographies. With different languages in each state, the task of reaching consumers is a unique challenge in India.

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