



FOOD AND WINE SECTOR IN INDIA

Presentation for Italian Delegation at IFDE INDIA 2009

On behalf of



INDIA – an overview

A Brief Profile

Geography

- Total Area : 3.28 million sq km
- Land Boundaries : 14,103 km
- Coast Line : 7,000 km
- 29 States & 6 Union Territories

Population & Demographics

- 1.17 billion people
- Population growth rate : 1.548%
- 31.5% population are under the age of 15 yrs., 63.3% between 15-64 yrs.
- National Language : Hindi, spoken by 33% population; 14 officially recognized languages
- English: widely used in business and everyday life
- Literacy: overall 59.5%; male: 70.2%; female: 48.3%



Economy

- GDP growth average 8.8% in the past five years from 2003-04 to 2007-08 (over 6% in 2008-09)
- Increasing importance of trade and external capital inflows. The share of merchandise trade to GDP increased to over 35% in 2007-08 from 23.7% in 2003-04.
- The 11th plan (2007-12) targets 8-10% growth for Indian economy.

Main Cities

- Delhi: Seat of Government and Important Business Centre
- Mumbai: Commercial centre, fashion and film City
- Chennai: Commercial capital of south India
- Bangalore & Hyderabad : Major IT Hubs
- Kolkata: Industrial and Commercial centre, a key trading port of East Asia

Business Environment

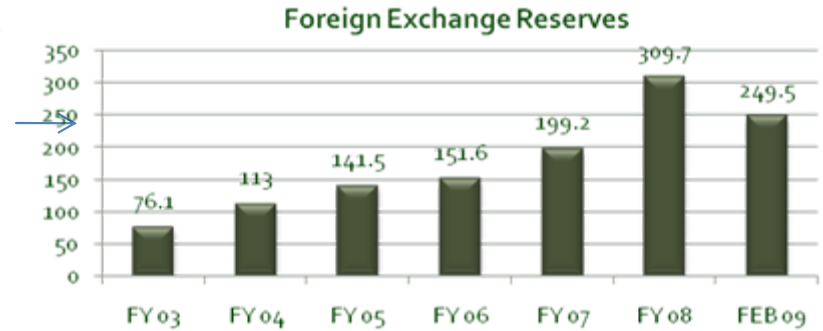
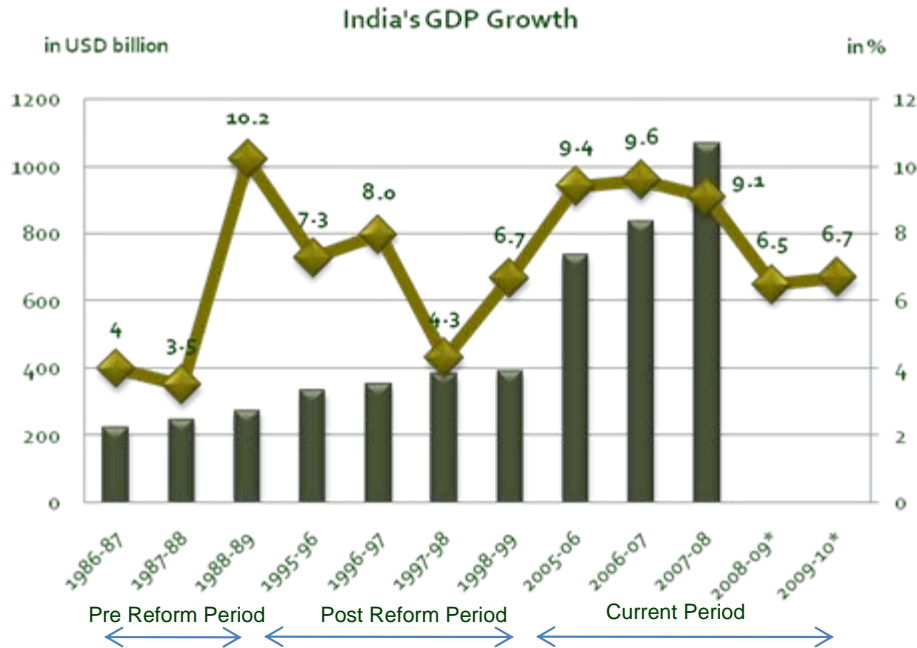
- Fairly open business regulatory environment, with liberalized Trade and Investment policies
- According to latest World Bank report – ‘Doing Business with India 2009’, it is easier to do business in India now, than it was three years ago.
- Import tariffs still high but being progressively reduced to ASEAN levels
- Well laid legal systems/ processes, though overloaded and slow

Income distribution

- Per capita income in 2008-09 - Rs 31,278.
- Wealthiest cities: Mumbai, Delhi, Kolkata Chennai and Hyderabad / Bangalore
- 150,000 households with annual income > Rs. 5 mn
- 25% of population is below poverty line



Economic Outlook



In spite of the Global slowdown, the Economy is expected to grow at a modest 6.5% & 6.7% during FY'09 & FY 10

■ GDP current prices (USD bn) ◆ GDP growth rates at constant prices (in %)





The India Opportunity

Why India

- Stable 6-8% economic growth, led by private sector- among fastest growing economies, steady economic reforms
- A continent-sized market, driven by rising disposable incomes
- Increasingly open market for international goods, with steadily reducing tariffs
- Sector on a high growth path
- Brand 'ITALY' is already well established and accepted in India in many sectors
- Liberal trade and investment policies allow flexibility in business structure (subsidiary, joint venture, branch office, liaison office...)



- 52% cultivable land compared to 11% world average

- All 15 major climates in the world exist in India

- 46 out of 60 soil types exist in India

- 20 agri-climatic regions

- Sunshine hours and day length ideally suited for round the year cultivation

- Largest livestock population

- Largest producer of milk

- Largest producer cereals

- Second-largest fruit and vegetable producer

- Among the top five producers worldwide of rice, wheat, groundnuts, tea, coffee, tobacco, spices, sugar and oilseeds.

Significant Opportunity

India as a global sourcing hub

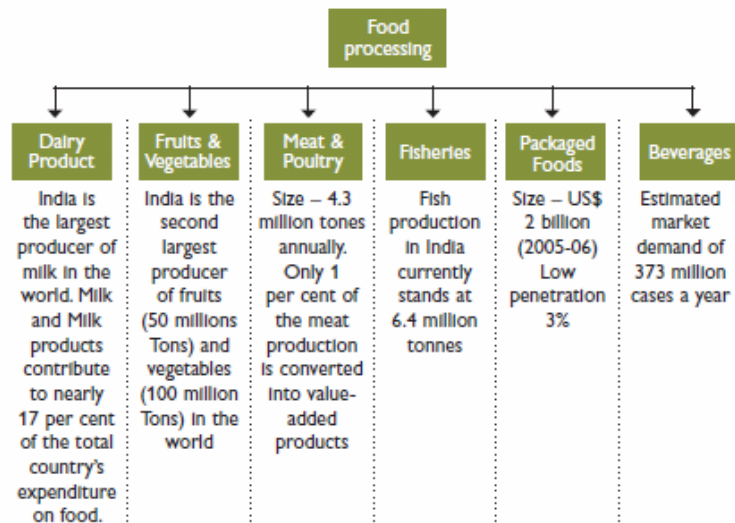


India's Food Processing Industry - highlights



Source: Ministry of Food Processing Industries, GoI; Cygnus Research, Oct 2008

The industry is composed of six key segments



Some key features of the industry:

- Relatively low levels of processing / value add in most segments
- Low penetration levels
- Largely unorganised

Source: Ministry of Food Processing Industries, GoI, Annual Report 2007-08



Food Processing

- Potential for investment and growth in key segments

Segment	Size – Output / Value	Projected Growth	Penetration	Percentage of Organised Players
Dairy Products	US\$ 375 million	15%	37%	55%
Fruits & Vegetables	2.33 million tonnes	20%	10%	48%
Meat & Poultry	US\$ 13 million	10%	6%-10%	5%
Fisheries	6.4 million tonnes	20%	12%	NA
Packaged Foods	US\$ 2 billion	8%	3%	80%
Beverages	US\$ 155 million	27%	NA	77%

- Vision 2015
 - Processing of perishables to be increased from 6% to 20% (10% by 2010)
 - Value addition to be increased from 20% to 36%
 - Share in world trade to be increased from 1.7% to 3%



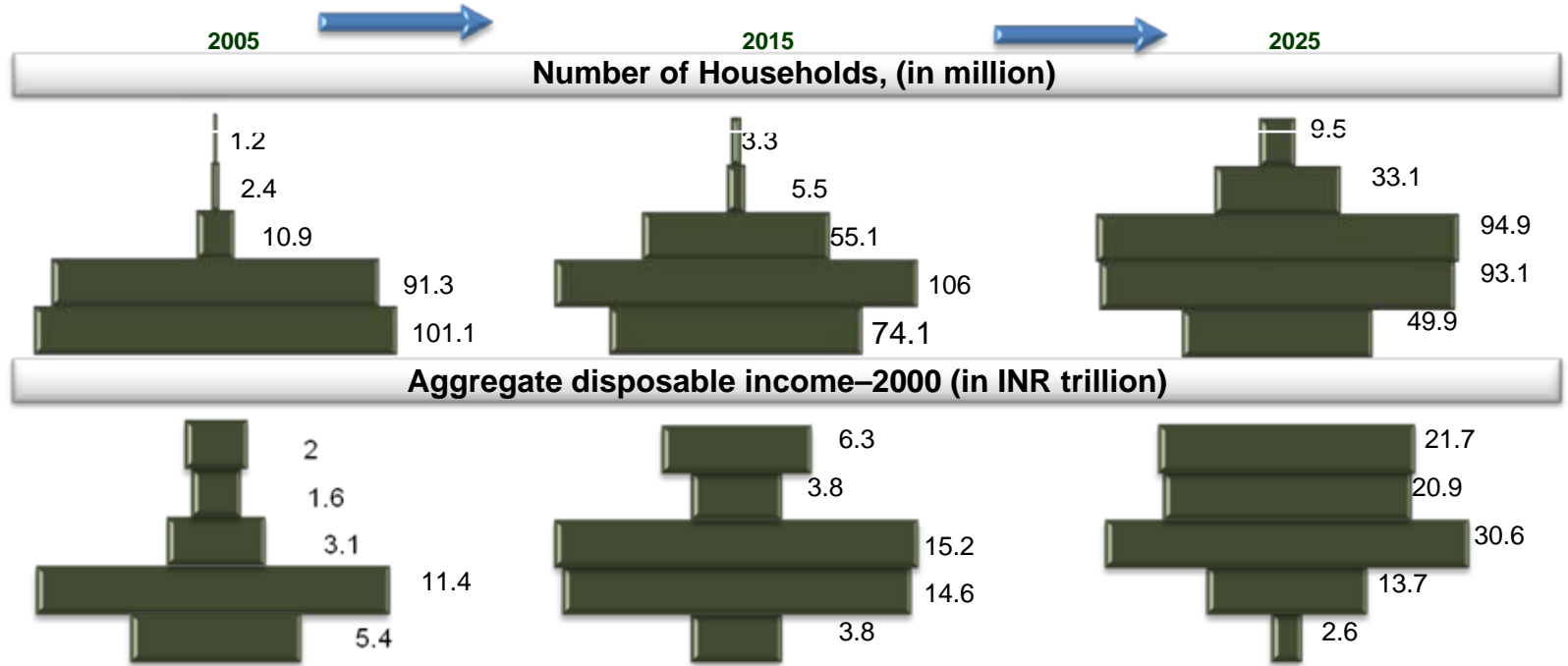
Emerging Middle Class

Definition of household income brackets based on annual household income: Globals (more than INR 1,000,000), Strivers (INR 500,000 to 1,000,000), Seekers (200,000 to 500,000), Aspirers (90,000 to 200,000), Deprived (less than 90,000)

Household income brackets



Middle Class

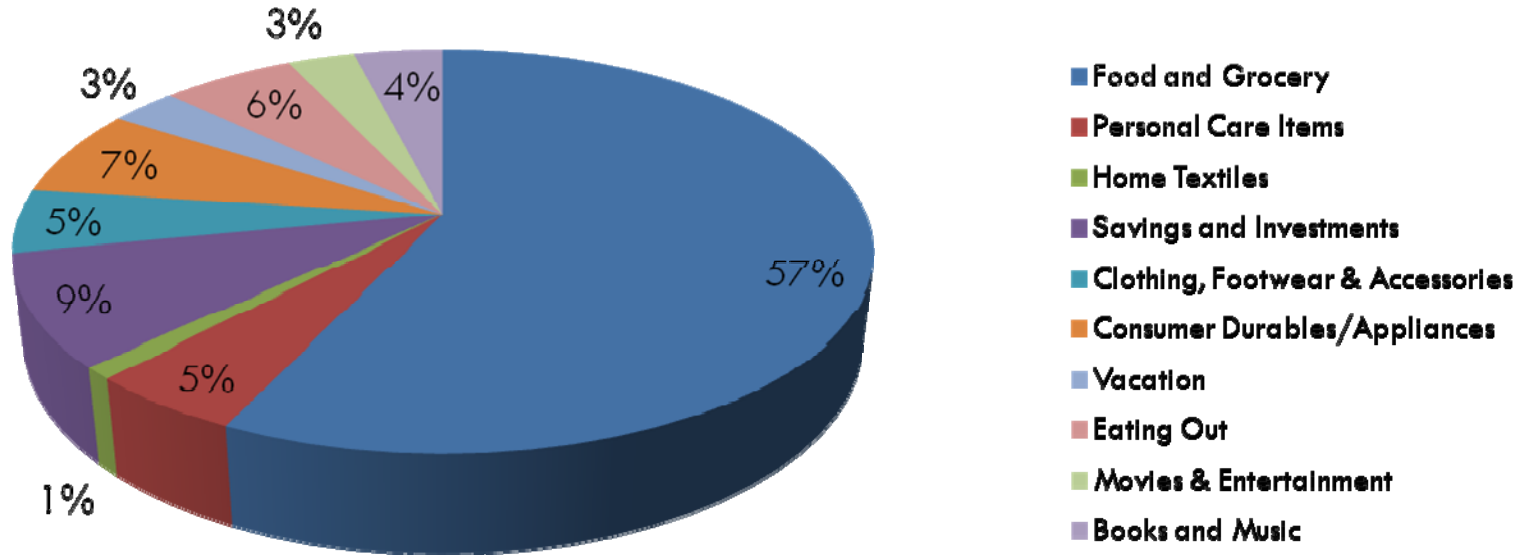


Some important market features

- In many products, the rural market is bigger than the urban market in volumes
- As per a survey by AC Nielsen in 28 countries
 - Urban Indians are among the top 10 most-frequent consumers of fast food across the globe
 - 71% of urban Indians consume food from take-away restaurants once a month
 - 37% do so at least once a week.
- Highly price-sensitive market
- Incumbency factors are strong, and consumers do not switch over very easily



Expenditure on Food



Food and Grocery accounts for 57% of consumers' total expenditure



Import Policy

- ❑ Quantitative Restrictions (QRs) on imports removed in April 2001
- ❑ Hotels & Restaurants eligible for duty-free imports up to 5% of foreign exchange earnings
- ❑ Imports of edible/food products must have residual shelf life of 60% at the time of import
- ❑ Products, ingredients and additives containing bio-engineered organisms, cannot be imported without GEAC approval
- ❑ Specific definitions and quality standards have to be complied with for food products



- Packing & Labeling: All imported packaged commodities should carry the following declarations:
 - Country of origin
 - Name and address of the importer
 - Generic or common name of the commodity
 - Net quantity (using Indian standard units of weights and measures)
 - Month and year of manufacture, packing, or import
 - Maximum Retail Price for the ultimate consumer



Import Duties

	Total Effective Duty
Wine	140% to 250%
Olive Oil	7.73% - 12.03%
Pasta	36.14%- 47.61%
Cheese	36.14%
Sugar Confectionery	41.87%
Baked Products (Bread, Pastry, Cakes, Biscuits)	36.14% - 47.61%
Coffee	111.12%



Sub-Sectors of Interest



- Demand in India - 1.2 million cases (12 bottles of 750 ml each) - € Rs. 3 billion
- Growth 25% per year over the last three years.
- Projected growth of 25% up to 2015
- Wine Imports in 2008-09
 - Value about 12 million Euros
 - Italy's share 13% (France - 37% ; Australia – 15%)
 - Quantity ~200,000 cases (75% increase over previous year)



- Per capita consumption about 9 ml (400 ml in China, 30 l in Europe)
- 80% of wine sales are in the major cities - New Delhi, Mumbai, Chennai, Kolkata, Pune and Bangalore
- West India accounts for over 41% of total volume sales of wine in India, followed by North India (29%)
- Nearly 90% of wine sales are for still (red and white) wines. Sparkling and Rosé wines target select segments of particularly affluent consumers.
- About two-thirds of the volume sales are through off-trade channels – 5 star hotels, pubs and bar-restaurants



- Incentives offered by state governments (Maharashtra)
 - Excise holiday for wine makers till 2011, sales tax concessions, fixed license fees for ten years
 - Two wine parks established, one **Godawari Wine Park** at Vinchur, Nashik and **Krishna Wine Park** at Palus, Sangli
 - Grape Processing and Research Institute(GPRI) established
- Retail
 - Some states (Maharashtra, Haryana) are considering a new excise policy to liberalize retail of wine and beer through large department stores and other selected retail outlets.
 - Wine major Chateau Indage plans to open more than 1,000 outlets for wine retail in India



Olive Oil

- Market size – 4,500 MT in 2008-09
 - About 60% for edible use
- Growth about 30 - 40% per year
- Imports in 2008-09
 - Virgin olive oil
 - 630 MT
 - Italy's share 53%
 - Other grades
 - 2200 MT
 - Italy's share 36% (Spain 56%)
 - Spanish and Italian brands are most popular (~ 90% market share)



Olive Oilcontd.

- ❑ Seasonal demand – peak during winter months, dropping by about 40% during summers
- ❑ Mumbai is the largest consuming centre (30%), followed by Delhi (20%).
- ❑ Available on up-market shelves for over a decade
- ❑ Well accepted for medicinal and cosmetics uses.
- ❑ As a food ingredient, usage restricted to seasoning of pasta sauces or adding a dash of olive oil to perk up a salad.
- ❑ International Olive Council has launched an India focused campaign for promoting use of olive oil and table olives as a medium of cooking for Indian food (1 million Euros for three years)



Pasta

- Pasta remains an urban product in India with niche demand
- Total consumption around 9000 ~ 9500 MT
 - Growth 14%
- Pasta imports about 1,940 tons in 2008-09
 - increase 70% over previous year
 - Italy's share 33%
 - 10 pasta brands are available in the market (leading brands are San Remo – 125 tons, and Barilla – 250 to 300 tons)
 - Wheat & vegetarian pasta preferred
- Leading Indian brands are Bambino Agro and Sunfeast of ITC
- No significant market for canned, chilled pasta



Cheese

- Market size of organized cheese industry
 - 50 million Euros
 - Over 8000 tons. (~1% of total dairy production)
- Industry growth rate about 10%-12% per year (volume) and 16-17% per year (value)
- Household penetration of branded cheese is about 5%
- 60% of the market is for processed cheese, 30% by cheese spreads and the remaining 10% by flavoured /specialty cheese
- Main consumption centres: Mumbai (30%), Delhi (20%), Chennai (6%), Kolkata (7%)



- ❑ Top players in branded cheese in India - Amul, Britannia, Le Bon, Mother Dairy. Of these, Amul has a market share of 65%
- ❑ Imported cheese has a 7.5% market share (about 600 MT) in the overall cheese market, which is dominated by local brands
- ❑ Imported brands – Kraft of Australia, Remia of Holland etc.
- ❑ Italy's share in imports – about 6% (2008-09)



Bakery products

- About 1 billion Euro industry
- Projected growth of 8% per year - driven by changing life style, rapid urbanization and increased awareness on healthy and safe food
- High degree of fragmentation, large presence of informal sector
- The market share is about 22.5% (rural) and 77.5% (urban) in the country
- With an estimated size of 25 million Euros, the bakery machinery industry is expected to witness a growth of 50% in the next two-three years
- Scope for imports of high quality and specialty ingredients for the sector
- Bread and Biscuits account for about 82% of the market
 - ▣ only 35% is in the organized sector



- Bread
 - ▣ Market size - 1.5 million MT (Production capacity 2.7 million MT)
 - ▣ Puratos of Belgium, has launched wellness and health breads, including a ladies' bread
 - Biscuits
 - ▣ Market size - 1.1 million MT
 - ▣ Growth rates between 13 and 17% per year from 2003 to 2007/08
 - ▣ About 150 organized players - mainly small and medium companies
 - ▣ The unpackaged biscuits market is valued at US\$ 414 million with a CAGR of 5%,
 - Cakes and Pastries market valued at about 150 million Euros and 15 million Euros respectively
 - ▣ growing at 10% (CAGR)
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Dairy sector

- The current size of the Indian dairy sector is 45 billion Euros
 - The sector has been growing at a rate of 15% a year, slated to touch 75 billion Euros by 2011
 - The dairy exports in 2007-08 rose to US\$ 210.50 million against US\$ 113.57 million in the previous year
 - Milk and milk products contribute to a significant 17% of the country's total expenditure on food
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Ice Cream

- Market size about Rs 20 billion
 - Branded market about 40% by value; 100 million litres by volume
 - Leading players – Amul (38%), Kwality Walls (14%), Vadilal (12%), Mother Dairy (8%)
 - Vanilla, Strawberry and Chocolate flavours constitute approximately 60% of the market.
- Growing at 12% per year
- Per capita consumption – 300 ml per year (World average 2.3 litres)
- Challenges
 - Competition from other desserts and cold beverages
 - Distribution network and cold chain infrastructure



Snacks and Confectionery

- Market size about 2 billion Euros
 - Organised sector share is only about 45-50%
 - Growing at 15-20% a year (unorganized sector 7-8%)
 - Snacks segment - largely dominated by potato chips and potato-based products with over 85% share of the salty snack market.
 - Confectionery market - 400 million Euros
 - Sugar confectionery accounts for 60% of the market
 - Balance made up of chocolates, mints and gums
 - Growing at over 6 % annually over the last five years
 - The gum-based confectionery segment has grown even faster at over 10% p.a
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Coffee

- India has a 4% market share in the total world output of coffee
 - Total production - 262,000 MT
 - ▣ Domestic consumption - 94,400 MT (about one-third)
 - ▣ Exports - 219,583 MT in 2008-09
 - ▣ Italy, Germany and Russia are the top three buyers of Indian coffee
 - Organized coffee retail business – Rs 800 million
 - ▣ growing at 25%-30%
 - ▣ Potential for nearly 3,000 additional outlets
 - ▣ India's coffee consumption is projected to double in the next 5-10 years
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Ready to Eat (RTE) Foods

- RTE Food market estimated around 10 million Euros in 2007
 - fastest growing category (CAGR 73%) in packaged foods
 - Canned/Preserved foods are more popular, contributing to approximately 90% of the market and growing at a CAGR of 63%
 - The Chilled and Dried ready meal segments are very small
 - Growth restricted due to consumer preference for fresh and home-cooked food.
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Doing Business in India

Options for Business presence in India

- **As a foreign company through a**
 - Liaison Office/Representative Office (no business activity)
 - Project Office (to execute a project of an Indian company)
 - Branch Office (specified activities only. No manufacturing, processing activities directly/indirectly)
 - Technical Collaboration
 - Direct Sale

- **As an Indian company through a**
 - Joint Venture (including takeover / strategic alliances)
 - Wholly Owned Subsidiary



Key Factors for Success

- Deal with India on its own terms, don't clone other models
- India is poly cultural; each region is different.
- Invest long term. Be prepared to burn your bridges.
- Be willing to Indianize.
 - Product customization (e.g. Dabon 'paneer')
 - Advertising and promotion
 - Distribution network and supply chain
- Brand building is important



WELCOME TO INDIA



Thank you



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