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## **A Study on Food Processing Industry**

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### ***Abstract:***

*The food processing industry is an important sector of the Indian economy. Nearly 52% of the Indian household budget is spent on food items and the share of processed food entering the market is expected to rise rapidly. In terms of Foreign Investment and number of joint ventures/ foreign collaborations, the consumer food segment has top propriety. The Indian market is growing rapidly and Indian industry is making remarkable progress in various Industries like Manufacturing, Precision Engineering, Food Processing, Pharmaceuticals, Textile & Garments, Retail, IT, Agro and Service sectors. SMEs are finding increasing opportunities to enhance their business activities in core sectors.*

*The objective of the present study is to examine the Food Processing Industry in India. It is one of the largest industry in terms of production, consumption, export and growth prospects. The government has already declared food-processing sector as a priority sector with a number of fiscal reliefs and incentives to encourage commercialization and value addition to agricultural produce. Food processing industry at all the levels of tiny, small, medium and large scale provides several promising opportunities not only for entrepreneurs but also financial institutions like Banks.*

*Central and State governments have come up with various kinds of support including infrastructure, financial support, modernization, setting up of infrastructure, testing facilities and even for human resource development also.*

**Keywords:** MSMEs, De-Cent ration, financial institutions, food processing

### **1. Introduction**

The Food Processing Industry in India is one of the largest upcoming industry in terms of production, consumption, export and growth prospects. The government has already declared food-processing sector as a priority sector with a number of fiscal reliefs and incentives to encourage commercialization and value addition to agricultural produce. The industry is mainly in the unorganized sector which occupies 70% share in the industry in volume terms.

With the changing life styles of the consumers and rising disposable income of the growing middle-income group, branded foods, health foods and convenient foods are rapidly rising. The market for branded foods is upward at a healthy rate of 10%-15%. Semi processed foods/ Cooked/ Ready to eat foods sector is growing by 20 per cent due to increasing demand. Food processing industry primarily covers products of dairy, meat, poultry, fishery, consumer food, non-molasses based alcoholic drinks, aerated water and soft drink. Food processing involves any type of value addition to agricultural or horticultural produce and also includes processes such as grading, sorting and packaging which enhance shelf life of food products. The Industry provides vital linkages and synergies between industry and agriculture.

#### ***1.1. Fruits and Vegetables***

It has the potential to develop into a Sunshine Industry of the country. Domestic consumption of processed items is quite meager because of economic reasons and also as a matter of habit. As a result of growing influence of urbanization, processed fruits and vegetables are now gaining popularity. There have been significant investments in this sector with even big industries like Reliance showing interest in entering this market. Presently there are over 6000 units registered under the Fruit Products Order of 1955 distributed all over the country. Most of the units fall in the cottage and/or small-scale sector. Quite a few modern processing plants have, come up and many more are in the pipeline.

#### ***1.2. Meat and Poultry Products***

Another potential processed food product is meat and poultry products. India ranks first in world cattle population. Buffalo meat is surplus in India. There is vast scope to set up modern slaughter facilities and cold store chains in meat and poultry processing sector. Compared with meat, poultry industry has registered significant growth. Both poultry and egg processing units have come in a very big way in the country. India is exporting egg powder, frozen egg yolk and albumin powder to Europe, Japan and other countries.

Poultry exports are mostly to Maldives and Oman. Indian poultry meat products have good markets in Japan, Malaysia, Indonesia and Singapore. While meat products registered a growth of 10 per cent, eggs and broilers registered a 20 per cent growth.

### *1.3. Milk and Milk Products*

It is rated as one of the most promising sectors which deserve foreign investment in a big way. The current value of Indian dairy produce is expected to be Rs 1,000,000 million.

### *1.4. Food Grains*

Grains could emerge as a major export earner for India in coming years. India's food grains production is now at around 225-230 million tones. These include rice, jawar, bajra, maize, wheat, gram and pulses. Indian basmati rice enjoys command in the international market. Besides growing Middle East market for basmati rice, many other countries are showing interest for this food grain. There is a total rice milling capacity of 200 million tones in the country.

### *1.5. Plantation Crops*

Among plantation, tea emerged as major foreign exchange earner. India is the largest producer and exporter of black tea. India exports between 150-170 million kilogram's of tea per annum.

### *1.6. Alcoholic Beverages*

This is another area where India witnessed substantial foreign investment. Foreign investment in this sector stood at Rs 7000 million. One of the major advantages for any investor eyeing the Indian liquor market is that India offers enough raw materials like molasses, barely, maize, potatoes, grapes, yeast and hops for the industry. Production of Alcohol drinks from non-molasses sources is very small in the country compared to the total production of Alcoholic drinks. It is in this context that Government of India encourages foreign investments as well as up gradation of technology in the field of non-molasses based alcoholic drinks.

### *1.7. Fisheries*

Yet another catchy investment sector is fisheries. There is a growing global demand for canned and processed marine products from India. The marine fish include prawns, shrimps, tuna, cuttlefish, squids, octopus, red snappers, ribbon fish, mackerel, lobsters, cat fish etc. In last six years there was substantial investment in fisheries to the tune of Rs 30,000 million of which foreign investments were of the order of Rs 7000 million.

## **2. Role of Government in Food Processing Industry in India**

Special thrust and recent Policy Initiatives have helped During the late 1990s, Ministry of Food Processing Industries was set up to provide support to this sector. Several incentives and schemes both from the central and state governments by providing exemption from excise duty on several products, subsidies on various counts including investment have contributed to the growth in the recent past. The Agricultural and Processed Food Products Export Development Authority (APEDA) set up in 1986 provides thrust for the export of various agricultural commodities and processed foods. To encourage setting up of small food processing units by the rural women and youth, the government has decided to set up 150 'Food Processing Training Centers' (FPTC) throughout the rural side. In February 1999, the Government classified the food processing industry as a priority sector for bank lending. The move was in line with its strategy to increase value addition in the output from the agricultural sector and is expected to help projects in the sector through quicker access to bank credit. One major incentive given by government of India is the scheme for Technology Upgradation. The details of the scheme are as listed below.

### *2.1. Scheme for Technology Upgradation/ Establishment/ Modernization of Food Processing Industries*

This scheme covers the following activities:

- a. Setting up/expansion/modernization of food processing industries covering all segments
- b. Modernization of pulse milling unit installation of driers and dust control system
- c. Setting up of mini pulse processing unit

### *2.2. Eligibility and Pattern of Assistance*

All implementing agencies engaged in setting upgradation/expansion/ modernization of food processing industries covering all segments would be eligible for financial assistance. The assistance will be in the form of grant subject to 25% of the plant and machinery and technical civil works subject to a maximum of Rs. 50 lakhs in General areas and 33.33% up to Rs.75 lakhs in difficult areas. However separate schemes exist for Modernization of Abattoirs, Integrated Cold Chains, Irradiation Facilities and Technology Up gradation/ Modernization. Govt. of India has also come up with special schemes for Human Resource Development through funding of Training Centre's, setting up of Food Quality Control Laboratory and R & D in Processed Food Sector. A scheme for backward and forward integration has also been launched.

### *2.3. Food Parks*

As part of the strategy to develop food processing infrastructure, the Ministry has been pro actively pursuing the task of setting up of food parks in different parts of the country. The idea behind setting up of food parks is that Small & medium entrepreneurs find it

difficult to invest in capital intensive facilities such as cold storage, warehouse, quality control labs, effluent treatment plant etc. Assistance for development of these as common facilities can make the cluster of food processing units in such food parks not only more cost competitive, but also have a better market orientation. Units are eligible to get a part of the project cost as grant for provision of common facilities such as uninterrupted power supply, water supply, cold storage/ice plant, warehousing facilities, effluent treatment plant, quality control & analytical laboratories. Processing facilities like common aseptic plants are also eligible for subsidy as part of the food park.

#### *2.4. Potentialities of Food Processing Industry*

As a result of growing influence of urbanization, processed foods are gaining popularity. The socio-economic factors such as rise in per capita income, expansion of media and increase in the cost of household labour have led to an increase in the demand for processed food. The trend is clearly seen in urban areas and for certain range of products in the rural consumer segments as well. The important changes that the industry is witnessing currently relate to diversification of the industry into non-traditional foods, capacity expansion due to increase in the consumer demand, Modernization and introduction of new technologies, increased exports and growing foreign direct investment. Various initiatives have been/are being taken up by various agencies and Government. Banks also need to play a key role/co-ordinate in these areas to promote the sector as well as enhance business to the Bank.

#### *2.5. Infrastructure*

Promote modern integrated cold chain (from farm to processing facility to retail outlet), set up pre-processing centres and pre-cooling facilities near farms and mandis, encourage Investor-friendly food parks, upgrade food processing clusters, modernise agriculture markets/warehouses and abattoirs.

#### *2.6. Credit*

Ensure adequate and timely credit to investors particularly for working capital through simplified procedures and overall conducive investment climate.

#### *2.7. Processing*

Encourage existing food processing units and prospective investors in a big way to adopt most efficient technology & processes and best management practices so as to reduce cost, enhance quality and increase market-ability. Develop world class technology & machinery through a network of R&D institutions, develop entrepreneurs and managers to meet the global competition, encourage agro-processing facilities close to areas of production to avoid wastage & to reduce transportation cost.

### **3. Drawbacks related to Food Processing Industry in India**

However SMEs in this sector suffer from lack of suitable infrastructure and quality control equipment. The industry also suffers from an inefficient supply chain and lack of process able varieties. Other factors like seasonality of raw material, high inventory carrying cost, packaging cost and high taxation also affect the industry. However, the biggest bottleneck in expanding the food processing sector, in terms of both investment and exports, is lack of adequate infrastructure. Without a strong and dependable cold chain, vital sector like food processing industry which is based mostly on perishable products cannot survive and grow. A large amount of farm produce is being wasted every year only because there is scarcity of storage space, transportation, cold chain facilities and other infrastructure supports. Cold chain facilities are miserably inadequate to meet the increasing production of various perishable products like milk, fruits, vegetables, poultry, fisheries etc. Cost of power, water, cold storages, handling, transportation etc is high and availability is inadequate or inappropriate. Availability, cost and timeliness of credit are major issues facing the industry. Banks have looked at segmented financing of the food supply chain (producer to processor to retailer to consumer) leading to high-risk lending regime. Working capital is even a bigger problem for this sector and its inventory requirements are high. This sector does not often use the best technology, machinery and management practices. Product innovation is sporadic and low.

### **4. Conclusion**

Food processing industry at all the levels of tiny, small, medium and large scale provides several promising opportunities not only for entrepreneurs but also financial institutions like Banks. Value addition enables remunerative prices to farmers. Enhanced shelf life leads to reduction in wastages. Huge investments are lined up for the food processing industry. India with a huge basket of food resources has huge scope for development. Central and State governments have come up with various kinds of support including infrastructure and financial support. Government has come up with schemes of all types including schemes for modernization, setting up of infrastructure, testing facilities and even for human resource development. Huge inflow of foreign funds is expected in this sector. Many foreign and Indian companies have plans of entering this sector in a big way. However, the most crucial input to this industry is capital and banks need to play a crucial role. Many food parks are lined up and they pose good opportunity for the banks to increase their business. Many AEZs and APZs have been sanctioned in various parts of the country and banks have huge business potential.

The Ministry of Food Processing Industries and Ministry of MSME are implementing various schemes for food processing industry and MSMEs respectively. You may also find CSIR labs specially for this industry located at Mysore and also for other related verticals on this website which may prove useful for you. Therefore, quickly register and avail several benefits of virtual cluster websites.

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