

“INDIA FOOD AND DRINK SECTOR OVERVIEW”

BY

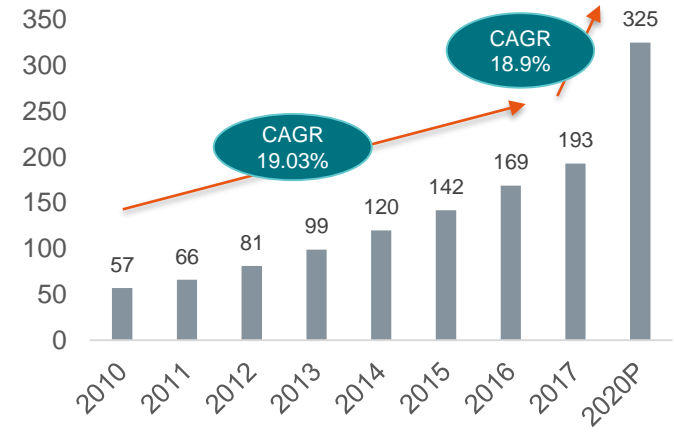
UK INDIA BUSINESS COUNCIL

JULY, 2018

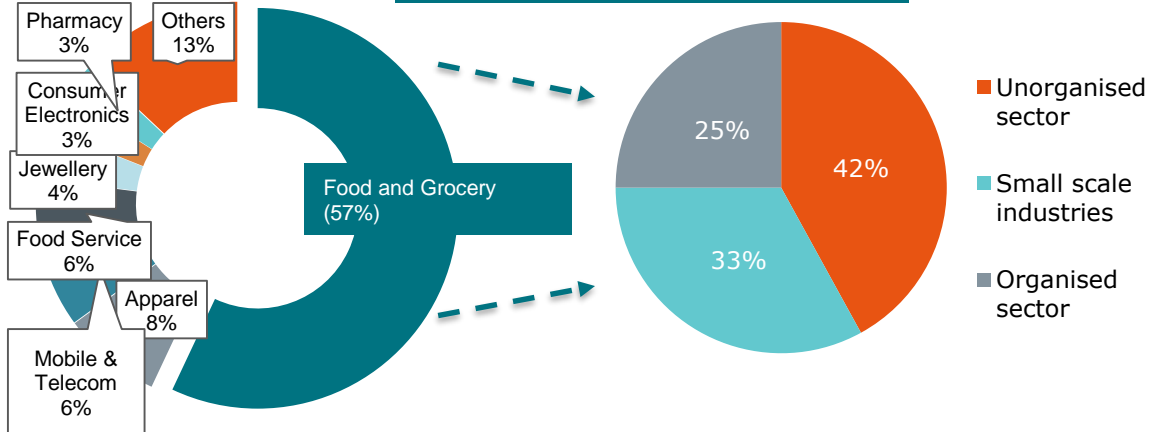
FOOD AND DRINKS SECTOR – OVERVIEW

- Market size of the food and drink industry in India was estimated to be GBP 193 billion in 2017, and will reach ~GBP 325 billion by 2020.
- It contributes around 14% of manufacturing gross domestic product (GDP), 13% of India's exports, and 6% of total industrial investment.
- The Indian gourmet food market is currently valued at GBP 1 billion, and is growing at a compound annual growth rate (CAGR) of 20%. India's organic food market is expected to increase by three times by 2020.
- The industry is a key employment generator and employs 13 million people directly and 35 million people indirectly.
- It is expected to grow at 18.9% CAGR between 2017 and 2020, driven by strong domestic demand, rising exports, increasing investments, and government support.
- Between April 2000 and June 2017, the Indian food and drink sector received FDI worth GBP 5.9 billion, making it the 13th largest sector receiving FDI in the country. In fact, 80 percent of the FDI in the food and drink sector was received in the period since April 2012.
- The Indian Food and Drink industry is dominated by the unorganised sector, which accounts for 42% of the market share.

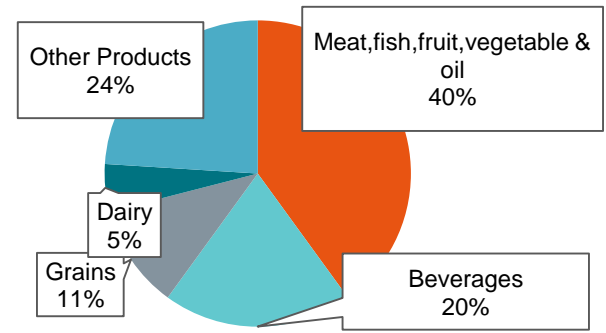
Market Size (£ bn)



Market breakup of retail sector



Market Segmentation



Source: Indian Brand Equity Foundation (IBEF) Report, UKIBC Analysis

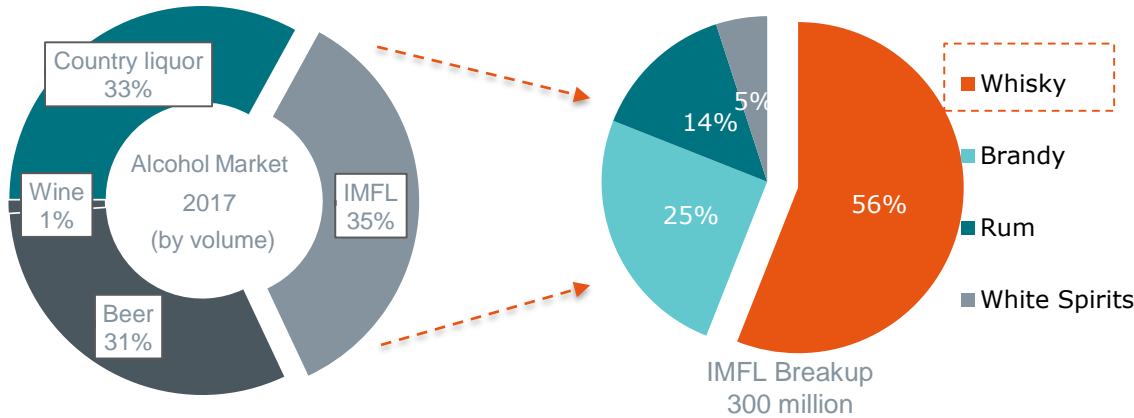
Source: UKIBC Analysis

1 Other products include packaged foods

MAJOR ALCOHOLIC SPIRIT: WHISKY

- India is the third largest market for alcoholic beverages worldwide, with a market size of ~GBP26.8bn (2017) by value. Due to higher average selling prices (ASP), IMFL accounts for ~65% share of the market in terms of value.
- In terms of volume, the size of the industry is ~850 million cases, wherein a case equals nine litres of alcohol (12 X 750 ml).
- The three main segments – country origin liquor, Indian made foreign liquor (IMFL) and beer – have almost the same market share in volume.
- Market is dominated by domestically produced spirits, with foreign imports accounting for a mere 1% of the market.

Market share breakup of Indian alcoholic beverages and IMFL market (by volume)

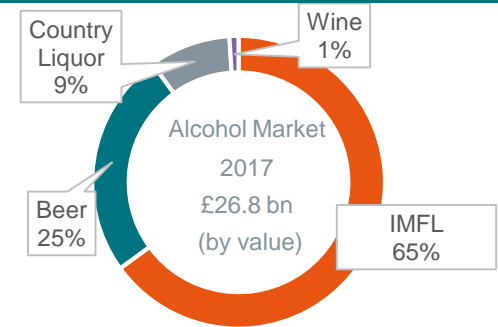


IMFL category is dominated by brown spirits (whisky, rum and brandy), with a combined market share of 95%

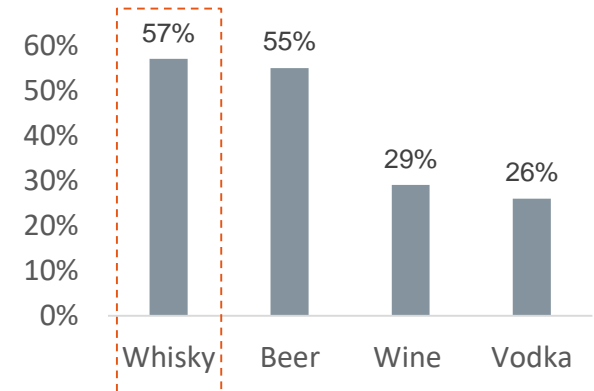
Key focus area

Source: Indian Brand Equity Foundation (IBEF) Report, UKIBC Analysis

Market share (by value)



Most popular alcohol beverages in India



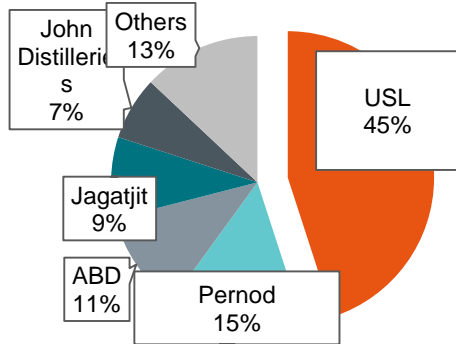
MAJOR ALCOHOLIC SPIRIT: WHISKY

- Whisky is decidedly the spirit choice of India. India consumes 48% of the world's whisky produced in 2017.
- India drinks over three time more whisky than any other country. In 2017, the total consumption of whisky was recorded 1775 mn liters.
- The market for whisky grew at a CAGR 5.8%, in value, to £14 bn from 2011-17. whisky accounts for 61.2% of India's total spirit market by volume in 2017.
- Whisky accounts for 60%, i.e. £135 mn of the total alcohol imports in 2017.
- UK is the largest exporter of whisky in India, accounting for 69% of the total export of whisky in 2017, followed by France and USA.

Whisky consumption 2017 (mn litres)



Market players breakup 2017



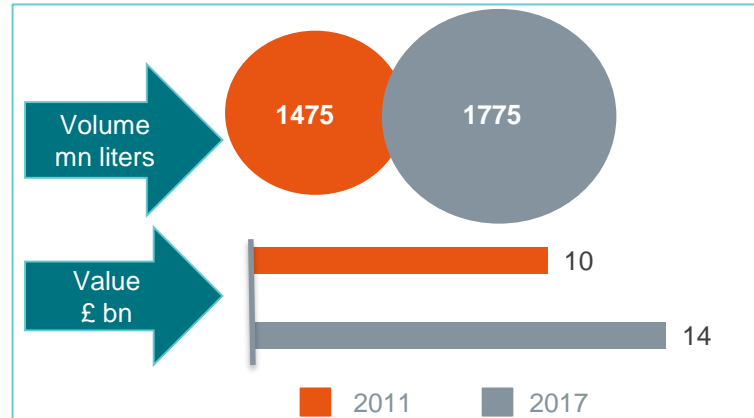
Diageo acquired USL in India

Diageo, through its Indian subsidiary USL – Indian largest beverage alcohol company, and the world's second-largest spirits company by volume, had sales of £ 3,070 mn in 2017 showing 25% growth in revenues than previous year, with major contribution from its luxury segment Johnnie Walker Black label and Double Black.

Share of UK in total Indian alcohol imports

- Out of around 50 countries that are exporting alcoholic beverage to India, United Kingdom is the largest exporter of alcoholic beverage, followed by France, USA, Mexico and Belgium.
- Whisky accounts for 60%, i.e. £135 mn of the total alcohol imports in 2017.
- UK is the largest exporter of whisky in India, 69% of total whisky is imported from UK in 2017.

Market Size (By volume and by value)



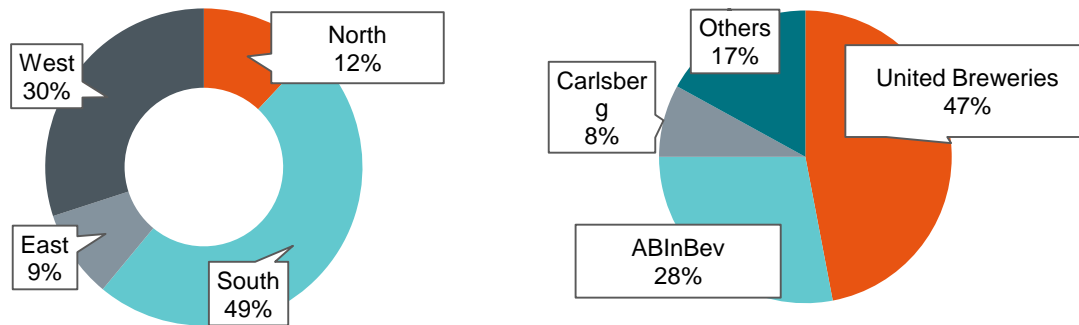
BEER AND CIDER

- Beer emerged as the second most popular alcoholic beverage after whisky in India, having 4.7 bn liters sales by volume in 2017 and expected to reach 6.5 bn liters in 2022 with a CAGR growth of 6.9%, owing to rise in the disposable income.
- Strong beer (~5-8% of alcohol) is dominating the market, with nearly 85% of the total beer consumption, with the major driver/ intend to 'get buzzed'.
- The beer market in India was valued at ~GBP 6.7 billion in 2017, and is projected to grow at a CAGR over 7.6% during 2017-2022 to reach GBP 9.7 billion.

NOTE: After ABInBev acquired SABMiller, the share of ABInBev increased to 28% in the Indian market and is currently the second biggest player after United Breweries.

- Indian Cider market is at a nascent stage, contributing 4% of global market, and is valued at £0.3 bn in 2017, and is expected to grow at a CAGR 15% during 2017-23.
- Beer and Cider consumption is mainly in south region of India, followed by west, north and east.

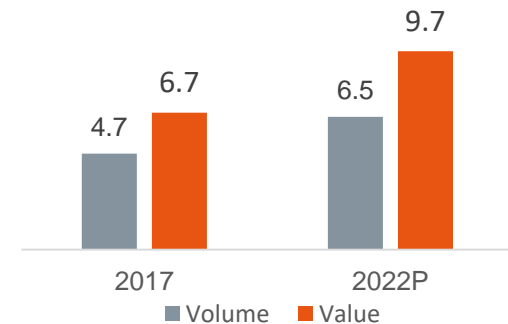
Beer and Cider consumption, by region (middle), and Indian beer industry players breakup, by volume (right)



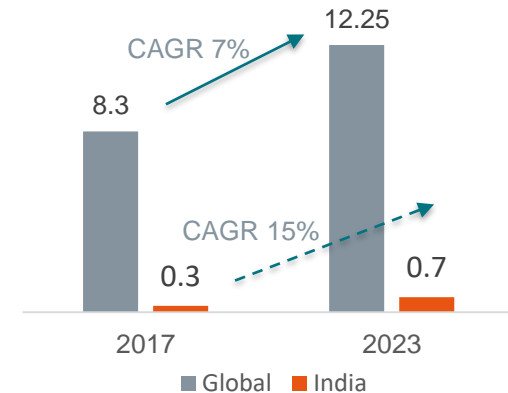
IMPORT TRADE:

Beer is the second most imported alcoholic beverage in India after whisky. Belgium is the largest exporter of beer (43%) in India, in 2017. Corona and Hoeg Whit are the topmost brands imported in India.

Beer sales in volume (bn litres) and value (£bn)



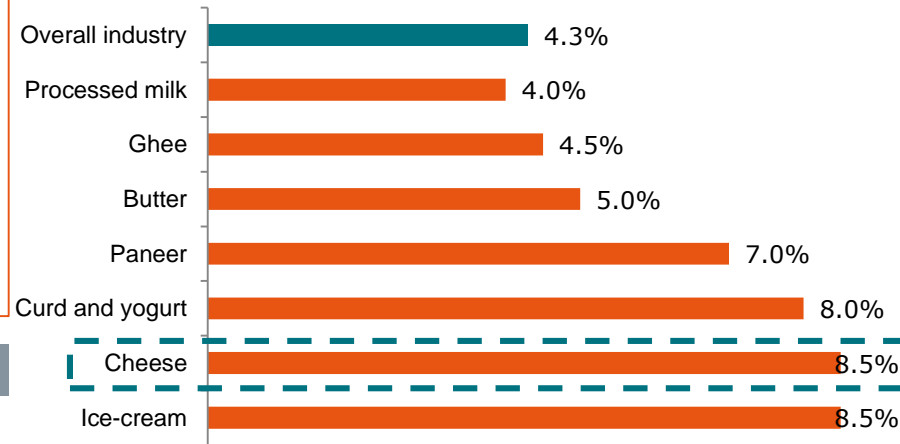
Cider Market – Global vs India (£ bn)



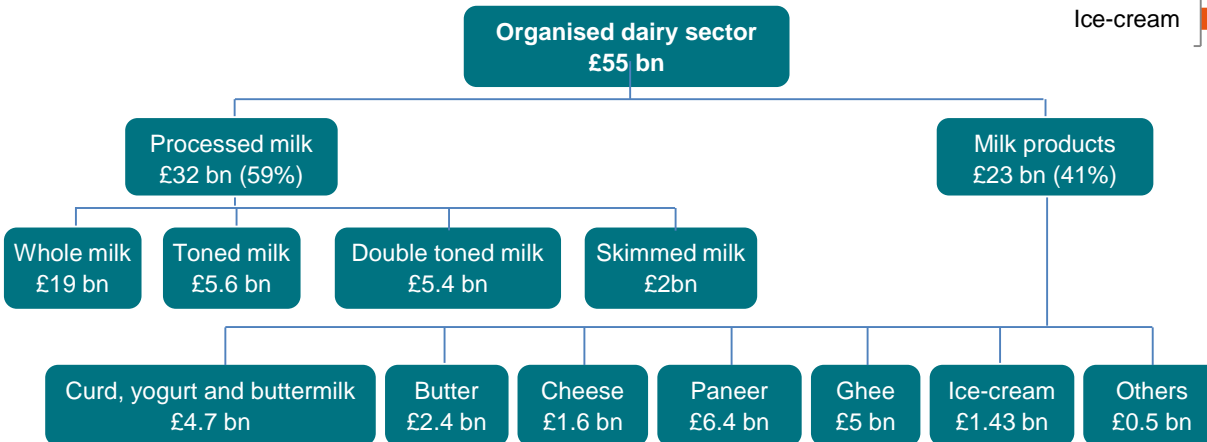
DAIRY SECTOR

- India is the largest producer of milk in the world. With an estimated production of ~165 million tonnes in 2017, the country enjoys 18% share of the total global milk production. It is expected to reach 185 million tonnes by 2020.
- Milk is one of India's major agricultural produce, contributing 22% to the agricultural GDP.
- India is also one of the major producers of milk products, and leads in the production of butter and clarified butter (ghee).
- Organised dairy sector processes a little more than half of the total milk production, of which 59% is directed towards the processed milk segment and the rest is used to make various milk products. The unorganised sector mainly comprises of milk sold directly to the households or sweet shops.

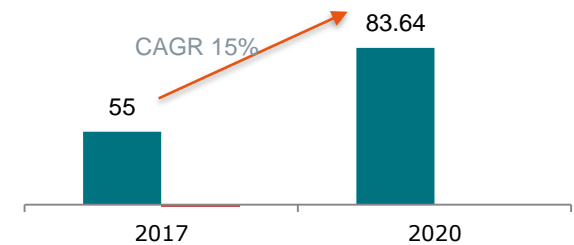
Expected growth (volume) of various dairy sub-segments(2017-20)



Segmentation of Indian organised dairy industry)

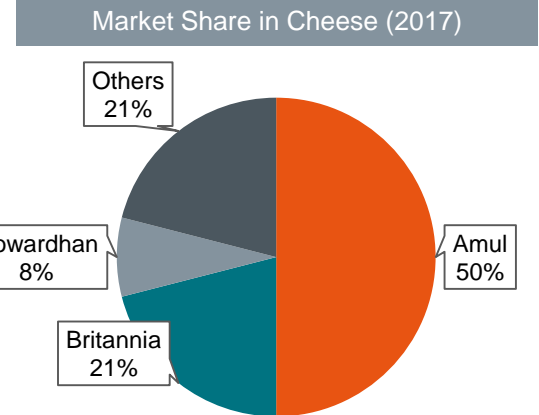
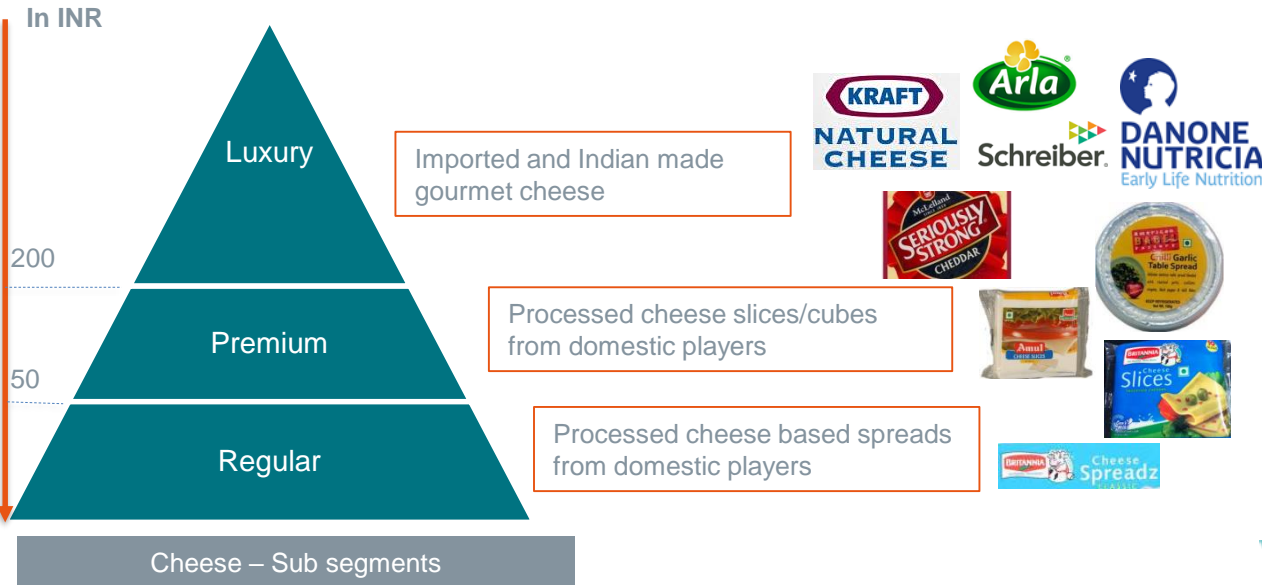
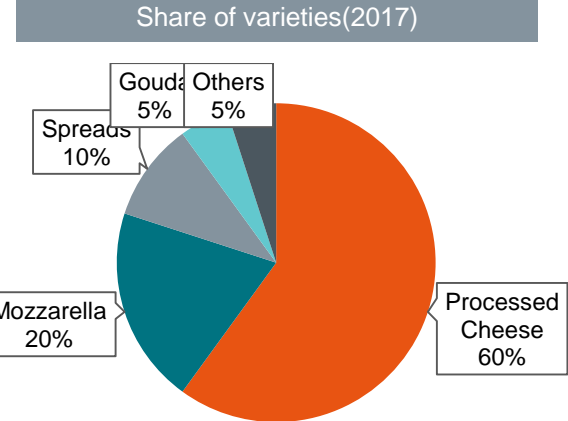


Dairy Sector Market Size (£ bn)



DAIRY SECTOR - CHEESE MARKET

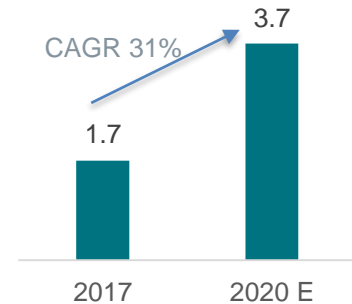
- Cheese is the fastest growing segment in the dairy industry. Currently the market size is ~0.1 million tonnes in volume and is expected to grow at a CAGR of 10% till 2020. By value, Cheese market size is pegged at £1.6 bn in 2017.
- The category is mostly organised, with niche players accounting for less than 10% share.
- Cheese is predominantly consumed in the urban regions of India. Metro cities account for more than two third of the demand, while non-metro cities account for a fifth of the consumption.
- Processed cheese accounts for more than half of the Indian cheese consumption, with mozzarella being the second most used cheese type. Other important cheese types are cheese spreads and gouda.
- Amul is the market leader, accounting for half of the market. Britannia is the second largest player, with one fifth of the market. Other important players are Gowardhan and Milky Mist



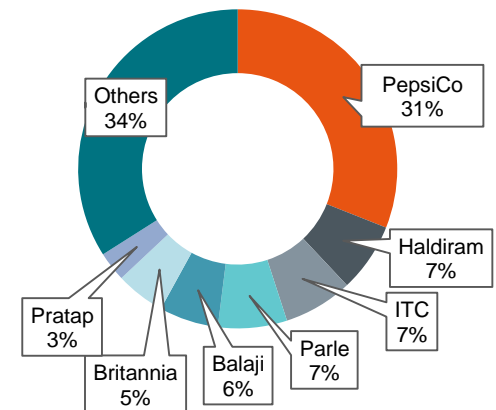
SNACK FOOD - OVERVIEW

- Indian snack food market size is valued at £1.7 bn in 2017 and is expected to reach £3.7 bn by 2020, growing at a CAGR of 31% This growth is expected to be driven by regional snack companies like Balaji wafers, Prataap snacks, Bikaji foods and DFM foods.
- The traditional segment is more popular as compared to western. The leading traditional brands in this sector are Haldiram and 'Uncle Chips' from Amrit Agro.
- Other domestic players ITC Ltd., Bikanervala Foods Pvt. Ltd., DFM Foods Ltd., Balaji Wafers Pvt. Ltd., Balaji Wafers Pvt. Ltd., MTR Foods Pvt. Ltd., Prataap Snacks Pvt. Ltd., Parle Agro Pvt. Ltd. and Ushodaya Enterprises Pvt. Ltd.
- The organised sector takes the lions share in the Indian snack industry because of growing packaged food market, and big presence of international companies operating in India.

Growth of Snack Food (£bn)

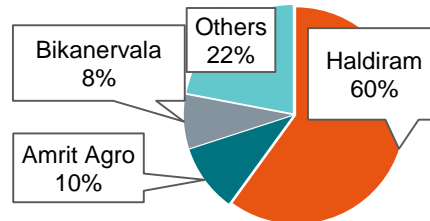


Savory Snack – Major player share, by value, 2017

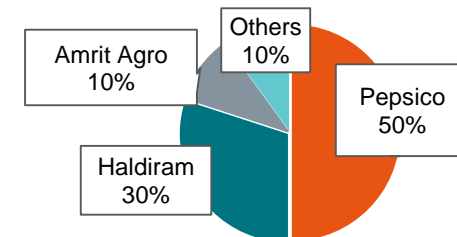


Snack Food

Traditional (60%)
Namkeen, Bhujija, Dal, Khakara, Chevada, Gathiyas, Bombay Mix, etc



Western (40%)
Chips/ crisps, extruded/ finger sticks, nuts and seeds, popcorn



Market Segmentation (2017)

Source: Indian Brand Equity Foundation (IBEF) Report, UKIBC Analysis

SOFT BEVERAGE - NON ALCOHOLIC

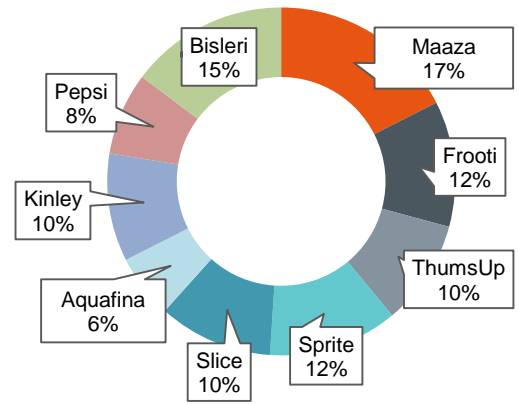


Soft Drink Market - Overview

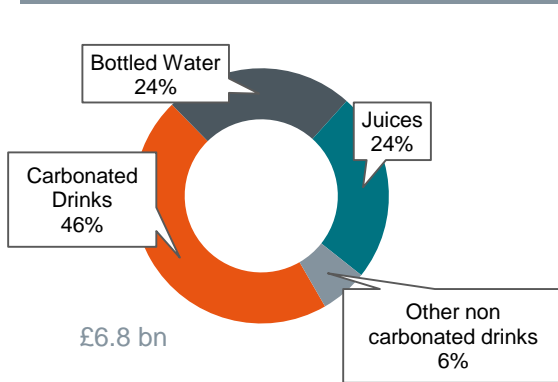
- India drinks 6 bn liters of soft drink in a year
- India soft drink market is pegged at £6.8 bn , and growing at a healthy 9.7% per annum.
- Carbonated soft drink accounts for 46% of the market, 24% for bottled water segment which has shown tremendous increase in last 5 years, rest 30% includes non carbonated drinks/ juices/ energy drinks. Specifically, juices hold 24% of the soft drink market
- In carbonated drinks, Coca Cola and Pepsi together hold 96% of market share
- Dabur, Parle, Hector Beverages (Paper Boat), ITC, Manpasand Beverages, and many others have shown significant growth in the soft drink non carbonated market.
- In 2017-2021, bottled water is expected to rise at 17% CAGR, in comparison to carbonated drinks which is growing at 4% CAGR during the same time.



Best selling soft drink brands



Soft Drink Market Breakup

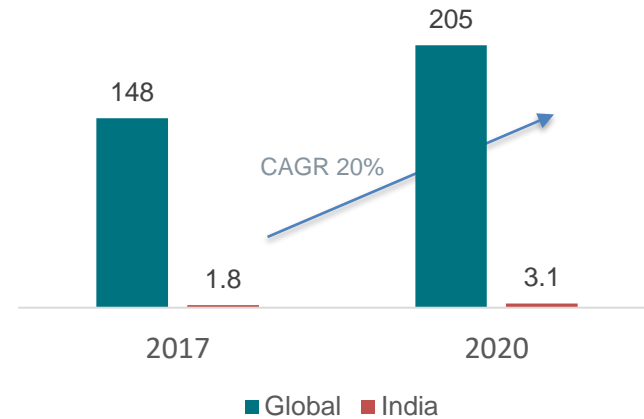


Source: Indian Brand Equity Foundation (IBEF) Report, UKIBC Analysis
 GST : Goods and Service Tax

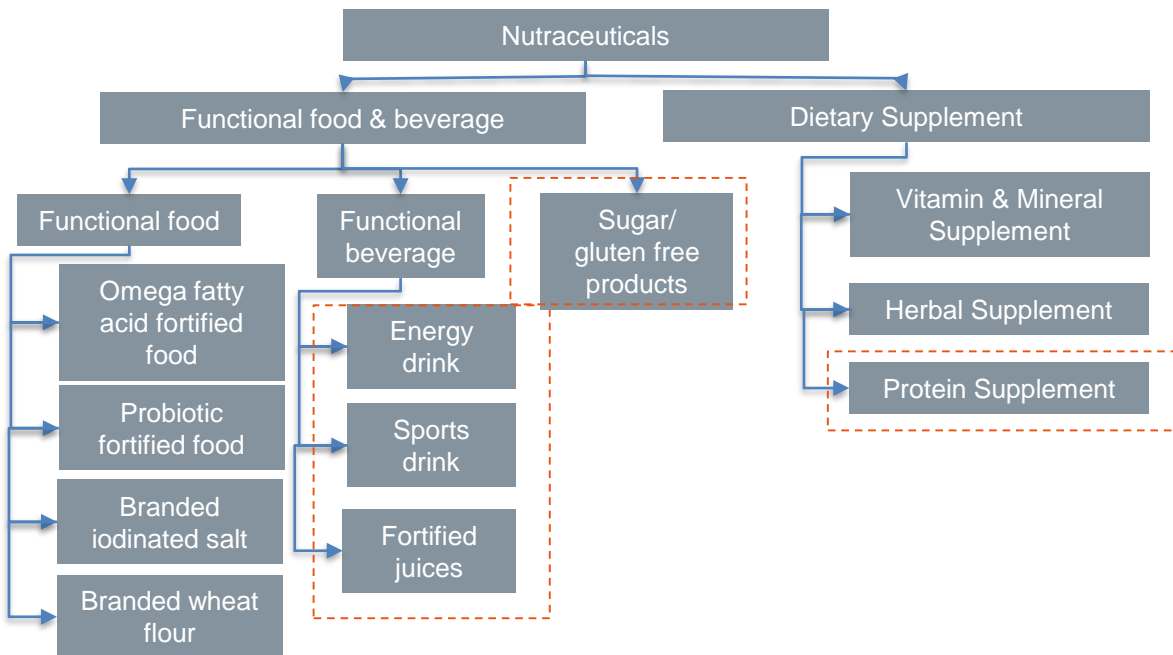
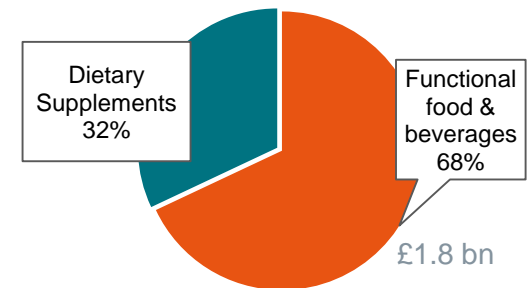
HEALTH AND NUTRITION SECTOR – SNAPSHOT

- The Indian nutraceutical industry is pegged at £1.8 bn and is expected to grow at 20% to £3.1 bn by 2020 due to rising awareness about health and fitness and changing lifestyle.
- Indian nutraceutical market is 1.2% of the global nutraceutical market which is £148 bn industry. This gives a tremendous opportunity to the international players to invest in India, owing to its GDP growth and increase in disposable income.
- Dietary supplements, specifically protein and herbal supplements will form the greatest opportunity areas for nutraceutical manufacturers, driven by growing demand from an evolving consumer base.
- **Gluten free product market, under functional food and beverages, has huge opportunity as India has a severe shortage of gluten free food despite an urgent need of it.**

Market Size India vs Global (£ bn)



Nutraceutical Market breakup



 Key focus area

Source: Indian Brand Equity Foundation (IBEF) Report, UKIBC Analysis

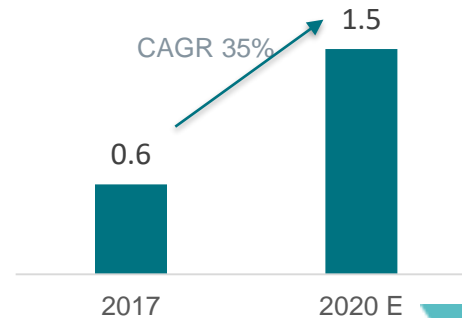
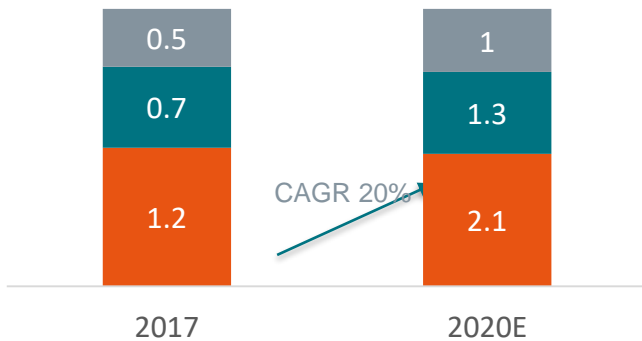
FUNCTIONAL FOOD AND BEVERAGE AND DIETARY SUPPLEMENTS

- Functional food and beverages market is pegged at £1.2 bn, 68% of the total nutraceutical market in India, and is expected to reach £2.1 bn by 2020 growing at a CAGR of 20%.
- Functional food, which primarily consist of Omega fatty acid fortified food and probiotic fortified food, accounts for 60% of the share, i.e. £0.7 bn in 2017.
- Functional beverage market (40%) is pegged at £0.5 bn in 2017, out of which nutritional beverage holds the lions share (55%) by type. International companies like PepsiCo and Coca Cola have introduced hydrotonic drinks in the Indian market. Domestic player Patanjali in Ayurvedic products market has further fueled the growth in the recent 2-3 years.

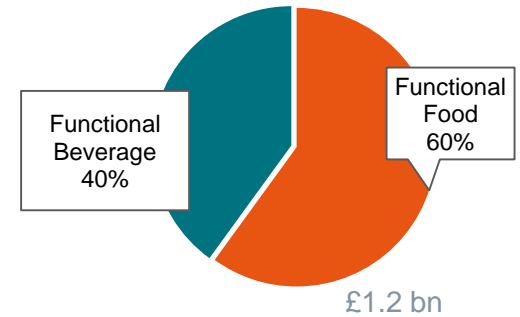
High opportunity in Gluten free food market

- India has the largest population of celiac disease sufferers in the world, in millions, but the amount of gluten free products produced is very less, as only 7.55 kilo tonnes of gluten free food was produced in 2016, where the need was for 2347 kilo tonnes.
- India gluten free food market is expected to grow at 9% from 2017-2020. owing to foreseeable increase in the rate of diagnosis and awareness of gluten free products.

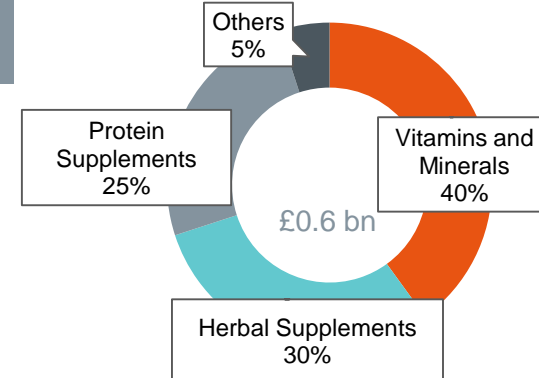
Market Size of Functional F&B, Functional Food and Functional Beverage 2017 (Left), and growth of dietary supplements (Right), in £ bn



Functional food and beverage breakup



Dietary Supplements breakup by type



■ Functional F&B ■ Functional Food ■ Functional Beverage

Source: Indian Brand Equity Foundation (IBEF) Report, UKIBC Analysis

REGULATORY LANDSCAPE – FOOD IMPORT

Food Safety and Standards Authority of India (FSSAI) (Central Licensing Authority) assigns an authorised officer on the article of food imported

FSSAI comes under Ministry of Health and Family Welfare, Government of India

Importer or Custom House Agent shall file an Integrated Declaration Form in the Customs Single Window Integration for Facilitating Trade

Importer must have:

- Import license from FSSAI
- Registered certificate with DGFT
- Valid Import-Export code

The form is forwarded to the Food Import Clearance System after securitizing of documents, visual inspection, and drawing of sample

Applicant shall pay fee to the authorised Officer for each category of article of food



authorised Officer shall direct the customs authorities to issue an order for de-stuffing the container

Food Importer should remain present at the customs area to facilitate visual inspection, collection of sample, and de-stuffing the container

Note: DGFT – Directorate General Foreign Trade

Sources: <http://www.fssai.gov.in/home/imports/import-regulations.html> UKIBC Analysis

STANDARDS OF PACKAGING AND LABELING

| Information | Description | Label type |
|-----------------------------------|--|-------------------------------------|
| • Name of the product | • The name of the product | • On primary label |
| • List of Ingredients | • Product constituents in descending order in English • Not required in case of single ingredient product | • On primary label |
| • Nutritional details | • Nutritional information in descending order • Information required in numerical terms | • On primary label |
| • Manufacturer info | • Including manufacturer name and address • With a prefix of "Mfd. By; / Prd By: / Pkd By:" | • On primary label |
| • Net quantity | • Net weight of the product in case of a fixed quantity product | • On primary label |
| • Lot/batch info | • Lot/batch number | • On primary label |
| • Manufacture date | • Production Date | • On primary label |
| • Expiry date | | • On primary label |
| • Price | • Maximum retail price information in INR | • On primary label |
| • Vegetarian/Non-vegetarian logo | • Green and red mark for vegetarian and non-vegetarian stuff respectively   | On primary label |
| • Importer details | • Importer's name and address prefixed by "Imported by:" | • Secondary label (sticker) allowed |
| • Importer's FSSAI license number | | • Secondary label (sticker) |
| • Country of import | | • Secondary label (sticker) |



Food Safety and Standard Authority of India (FSSAI)

Labelling requirements for food and beverage products in India.

Food labelling regulations come under the purview of the Food Safety and Standards Authority of India (FSSAI). FSSAI was created under Food Safety and Standards Act, 2006 for laying down standards for articles of food and to regulate their manufacture, storage, distribution, sale, and import to ensure availability of safe and wholesome food for human consumption. These regulations are applicable to the food and beverage articles imports as well. The table to the left gives information required for compliance with labelling norms laid by FSSAI.

Source: Indian Brand Equity Foundation (IBEF) Report, UKIBC Analysis

FOOD AND DRINK – MARKET ENTRY BARRIERS

Alcohol Sector – Whisky and Beer

- **High taxes on alcoholic beverages**
 - ❑ Total duty on import of whisky is 165%
 - ❑ Total duty on import of beer is 100%
- **Higher Duties** on Inter-State Movement
- Lack of Uniformity in Distribution Structure
 - ❑ Few Indian states like Gujarat, Bihar, Nagaland, some districts of Manipur and Union territory of Lakshadweep have prohibited sale of alcohol
- Ban on Advertisement
- Regional diversity and Opacity
- **New Labelling Norms**
 - ❑ According to new FSSAI norms, companies must list on the label all the ingredients used in the product in the form of imprints and not stickers

Dairy Sector

- **Dominance of co-operatives**
 - ❑ Dairy sector in India is dominated by the state co-operatives led by Amul. These co-operatives source milk from individual farmers at a village level. Due to this, sourcing milk for a new player will be a challenge
- **Low availability of cow milk**
 - ❑ Cow milk, which has low fat content, accounts for only one-fourth of the total milk production. This coupled with the fact that the major growth segments, including low calorie variants of yogurt, milk and cheese, are best when made from cow milk presents a challenge for the new entrants.
- **Massive investment in distribution network**

Snack Food and Beverage

- **Strong preference to traditional snack food**
- **Dominance of local players**
- **The rural–urban distribution (68.84% and 31.16% respectively)**
 - ❑ India mass population lives in rural areas, having preferences towards conventional snack food, because of lower disposable income and lack of awareness of western products.
- **India – not a homogeneous country**
 - ❑ India has 29 uniquely different states, with absolutely different preference for snack food

Health and Nutrition

- Complex regulations on nutraceuticals, labelling, packaging and advertising, and claims
- Low awareness of dietary supplements
- Barriers to Adoption
 - ❑ One of the concerns from General Practitioners/ Nutritionists/ Fitness Instructors is side-effects that Nutraceuticals may cause. The other reservation is that these products are not 'natural'
- **Salt concentration laws and guidelines**

FOOD AND DRINK - MARKET ENTRY ROUTES

| Entry Route | Key Points |
|-------------------------|---|
| Wholly-Owned Subsidiary | <ul style="list-style-type: none"> • Establish wholly-owned subsidiary and manufacturing facility locally to cater to large market • Allows advantage of beneficial taxation relative to importing and additional initiatives being offered under the “Make in India” plan to encourage manufacturing in India • Allows for greater control over operations |
| Joint Venture | <ul style="list-style-type: none"> • Establish joint venture with domestic players to outsource manufacturing operations • Outsource contract manufacturing to third-party players while focusing on distribution and marketing • Allows for additional focus on core activities and leverage domestic partner’s manufacturing expertise |
| Franchising | <ul style="list-style-type: none"> • Appoint domestic franchisee/distributor to retail and market the product • Limited control over operations relative to subsidiary and joint venture • High costs as a result of imports to be a challenge in price-sensitive Indian market |
| Licensing | <ul style="list-style-type: none"> • License brand to a local partner. • Quickest way to gain entry and needs minimum investment from foreign brand • Manufacturing, marketing and distribution done by the licensee • Brand has minimum control over business operations |
| Distributorship | <ul style="list-style-type: none"> • Appointing a national/ regional distributor for the products to cater the Horeca sector and the retail market • Wider reach for locations where supermarkets are unviable • Higher penetration in semi-urban regions • Higher reach than all other channels • Low marketing spend from brand required |

• Post 2000, franchising became the preferred route of entry as foreign brands started viewing India as a major market and an engine for growth. Consequently, need for greater control over marketing activities such as brand positioning led to franchising as a preferred market entry route

• Most UK companies, including RB, Hindustan Unilever, follow a wholly-owned subsidiary model to have more control over operations and a challenging supply chain and distribution network



Thank You