Voluntary _ Public

Date: 9/30/2015

GAIN Report Number: IN5125

India

Post: New Delhi

Cheese Demand Rising - New Market Opportunities

Report Categories:

Dairy and Products
Retail Foods
Food Processing Ingredients
Food Service - Hotel Restaurant Institutional

Approved By:

Scott Sindelar

Prepared By:

Joshua Emmanuel Lagos and Vijay Intodia

Report Highlights:

Cheese production is growing at approximately 15 percent per year, in response to growing demand driven by India's young demography and increasing urban middle class. Imported cheeses are a fraction of the total market; however, demand remains strong as organized retailers, high-end hotels, and restaurants feature these products to aspirational consumers.

Executive Summary:

Cheese production is growing at approximately 15 percent per year, which is partially driven by India's young demography and growing urban middle class. Urban cheese demand represents 60 percent of total Indian sales. Eighty percent of the total cheese market is processed cheese, which reportedly is mostly used by quick service restaurants and fast food chains for pizzas and burgers. Imported cheeses are a fraction of the total market; however, demand remains strong as organized retailers, high-end hotels, and restaurants feature these products to aspirational consumers. An underdeveloped and inconsistent cold chain is a major challenge for high-quality cheese distribution.

General Information:

Production

Sources report India's organized and unorganized milk and dairy market size is valued at approximately $70 billion. Although fluid milk constitutes the largest portion, no data is available to further break down this estimate into subcategories such as cheese. Euromonitor estimates that in 2014, retail sales of packaged dairy products were $10.2 billion, comprising cheese sales of $ 244 million (Table 1). In terms of volume, Euromonitor projects that retail cheese sales were 47,600 tons in 2014, and estimates that total restaurant and hotel cheese purchases were 51,800 tons; over the past several years, domestic cheese retail sales by volume has increased approximately 13.5 percent per year (For information, see Table 1, Table 2, Table 3, and Consumption and Marketing section below). Industry contacts believe that total cheese production has been growing at least 15 percent per year.

Table 1: India: Estimated Retail Sales of Packaged Dairy Products

($ million)	**2010**	**2011**	**2012**	**2013**	**2014**
Fluid Milk	4,559 (84.02)	5,252 (83.06)	6,055 (81.96)	7,042 (80.86)	8,098 (79.69)
Powder Milk	186 (3.43)	207 (3.27)	232 (3.14)	261 (3.0)	293 (2.88)
Dairy Only Flavored Milk Drinks	115 (2.12)	152 (2.4)	198 (2.68)	257 (2.95)	325 (3.2)
Yoghurt and Sour Milk Products	297 (5.47)	399 (6.31)	537 (7.27)	716 (8.22)	933 (9.18)
Cheese	99 (1.82)	124 (1.96)	155 (2.1)	195 (2.24)	244 (2.4)
Other Dairy	160 (2.95)	178 (2.82)	198 (2.68)	223 (2.56)	251 (2.47)
Non-Dairy Milk Alternatives	9 (0.19)	11 (0.18)	13 (0.17)	15 (0.17)	18 (0.18)
Total Milk and Dairy Market	5,426 (100)	6,323 (100)	7,388 (100)	8,709 (100)	10,162 (100)

2015 Exchange Rate 1 USD= INR 61.693
Figures in parentheses represent a percentage share of the total market value
Source: Euromonitor

Table 2: India: Cheese Market Size: Retail Sales of Cheese

(1,000 tons)	**2010**	**2011**	**2012**	**2013**	**2014**
Processed Cheese	**10.8**	**12.1**	**13.6**	**15.4**	**17.6**
Spreadable Processed Cheese	2.0	2.2	2.5	2.8	3.2
Other Processed Cheese	8.8	9.8	11.1	12.6	14.4
Unprocessed Cheese	**17.8**	**20.4**	**23.3**	**26.5**	**30.0**
Soft Cheese	17.8	20.4	23.3	26.5	30.0
Total Cheese Sales	**28.6**	**32.5**	**36.9**	**41.9**	**47.6**

Source: Euromonitor

Table 3: India: Cheese Market Size: Total Food Service* Cheese Purchases

(1,000 tons)	**2010**	**2011**	**2012**	**2013**	**2014**
Processed Cheese	**2.5**	**2.6**	**2.9**	**3.1**	**3.3**
Spreadable Processed Cheese	0.5	0.5	0.6	0.6	0.6
Other Processed Cheese	2.0	2.1	2.3	2.5	2.7
Unprocessed Cheese	**37.7**	**40.7**	**43.5**	**46.2**	**48.5**
Soft Cheese	37.7	40.7	43.5	46.2	48.5
Total Cheese Consumption	**40.2**	**43.3**	**46.4**	**49.3**	**51.8**

* Includes hotels and restaurants (not institutions)
Source: Euromonitor

The organized cheese market is dominated by a few players (see Table 4). According to Post contacts, one business has an estimated 50 percent market share. Smaller players generally cater to regional, state, or city markets. Unregistered businesses (unorganized sector) sell *paneer* and other dairy products in local wet markets. The organized cheese sector mainly produces two items: *paneer* and processed cheese, although some are expanding to more specialty cheeses.

Paneer, a typical household food used in Indian curries, is one of the largest consumed dairy products. Many years ago, most families traditionally produced *paneer* at home using high fat water buffalo milk; today, *paneer* production in the organized sector has slowly grown to meet rising demand due to changing lifestyles (e.g. more family households have two income earners and often have less time for food preparation).

According to industry sources, organized processed cheese production began approximately 30 to 40 years ago, initially focusing on canned cheese cubes. Later, processed cheese was produced in a wider range of retail packaging (e.g., sliced cheese for sandwiches). Recently, some organized businesses have expanded their product line to include semi-hard/hard cheeses and other cheese styles, which primarily cater to hotels, restaurants, institutions, and middle to high income consumers.

Table 4: India: Local Companies that Produce Cheese

Company /Brand	Popular Variants / Description
Amul	Cheddar, Emmenthal, Gouda, Mozzarella, and Processed Cheese
Britannia	Cheddar, Cream, and Cheese Spread
Gowardhan	Cheddar, Mozzarella, and Processed Cheddar
Milkana	Cheeses Slice and Cheese Spread
Milky Mist	Cheddar Cheese, Cheese Blends, Cheese Spread, and Mozzarella Cheese
Mother Dairy	Cheeses Slice, Cheese Cubes, and Cheese Spread
Choudhery Cheese Bazar	Mozzarella, Cheddar, Scarmozza, Cheddar, Gouda, Smoked Cheese, Feta, Emmenthal, Mascarpone, Edam, Ricotta, Parmesan
Flanders	Gouda, Kwark, Scamorza, **Bocconcini,** Mascarpone, Ricotta, Burrata
Acres Wild	Gouda, Fetta, Ricotta, Halloumi
Passion Cheese	Gouda, Feta, Parmesan, Cheddar, Edam, Mozzarella, Processed Cheese, Emmenthal, Ricotta
Dairy Craft	Mozzarella, Bocconcini, Mascarpone, Scamorza, Ricotta, Processed Cheese, Cheddar
Exito Gourmet	Mozzarella, Bocconcini, Burrata, Mascarpone, Ricotta, Scamorza, Parmesan, Cheddar, Gouda, Edam, Emmenthal, Monterey Jack, Processed Cheese
La Ferme Cheese	Mozzarella, Feta, Ricotta, Lofabu, Auroblochon, and Parmesan.

Source: Information collected from various industry contacts

Consumption

Cheese demand is driven by India's young demography and growing urban middle class. According to contacts, these consumers are more experimental, and willing to try new foods due to increased international exposure through travel and quick service restaurants. In general, in organized retail, Indian consumers largely purchase *paneer* and processed cheese due to its lower price. However, increased visibility of several cheese styles and modern packaging including slices, cubes, and non-*paneer* products in modern retail stores is attracting more consumer interest.

Urban cheese demand constitutes approximately 60 percent of total Indian sales. Eighty percent of the total cheese market is processed cheese, which reportedly is mostly used for fast food such as pizza and burgers. Urban per capita consumption is 700 grams per year while the national average is 200 grams per year. Consumption is much lower than the world average of seven kilograms per year.

Trade

Cheese and curd imports have remained steady (see Marketing section). Shipments are arriving at major ports by both sea and air and can be further distributed inland from those locations (see Table 5 below). India has enjoyed a trade surplus in cheese and curds in the last few years, with exports steadily rising to regional and neighboring export markets (see Figure 1 below).

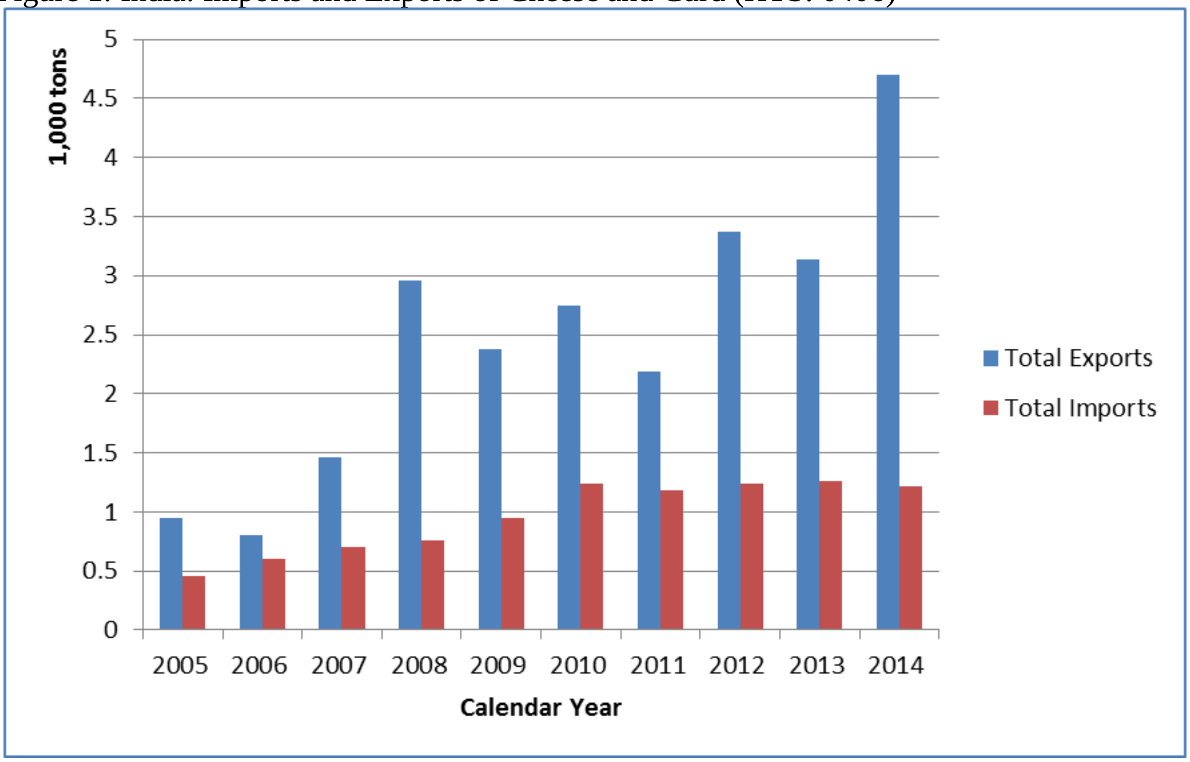
Table 5: India: Imports of Cheese and Curd by Port of Entry (HTS: 0406)

(tons)	**2012**	**2013**	**2014**
Nhava Sheva Sea	1,046	1,115	1,088

Mumbai Air	106	89	96
Chennai Sea	15	16	16
Delhi Air	54	33	15
Jogbani	11	5	3
Chennai Air	2	0	0
Bangalore Airport	1	0	0
All Ports	**1,236**	**1,259**	**1,218**

Source: Ministry of Commerce, Government of India

Figure 1: India: Imports and Exports of Cheese and Curd (HTS: 0406)



Source: Global Trade Atlas

<u>Marketing</u>

Organized retail, and to a lesser degree hotels/restaurants have spurred growth in cheese demand. However, an underdeveloped and inconsistent cold chain sector creates transportation challenges for high-quality cheese, which currently hampers distribution to new city markets and modern retail outlets. Travel time between states can also be laborious and delay orders. Truck drivers reportedly have been known to turn off refrigeration, which will cause product to spoil or quality degradation. The overall cold chain system likely would benefit from further development and modernization.

Despite growing cheese demand, only 40 to 45 varieties of cheese are available in the Indian market, which is very low compared to other markets (the United States produces over 300 varieties). Excluding *paneer*, processed cheese can be found in many small grocery stores as well as large retail outlets, and is the most ubiquitous cheese on the market. It is sold in a variety of packaging and styles such as cubes, slices, wedges, blocks, sauces, and spreads. Cheese cubes are generally salted and ready-to-eat while slices are used for sandwiches. Cheese spreads sometimes are substituted for butter. Processed cheese is used in home-cooked meals, including pastas, pizzas, *Kebabs*, *toasts*, *parathas*, fritters, and cakes, and is popular due to its long shelf-life and uniform appearance.

More middle to upper class Indian consumers are buying different styles of imported and domestic cheese, such as cheddar, Mozzarella, Parmesan, Emmenthal, Gouda, Ricotta, feta, and Mascarpone (see Table 4). These cheese styles can only be found in modern retailers and gourmet grocery stores. In a very niche market segment, a few of these cheeses, such as cheddar, are eaten on a daily basis in sandwiches and other convenient snack foods, while other styles are consumed only on special occasions. According to contacts, restaurants, hotels, and institutions constitute the majority of imported cheese demand, which may be due to the tourist industry (both Indian and international tourists). The increased availability of cheese styles like mozzarella and cheddar, coupled with growing awareness about usage is likely to drive further growth.

According to contacts, there may be more opportunity for sales in major cities such as Delhi, Mumbai, and Bangalore due to a higher concentration of high income earners. Other Tier 1 and some Tier 2 cities may also represent potential markets; however, issues such as lacking or inefficient cold chain operations currently create distributional challenges. For more information on specific opportunities in emerging markets as it relates to cheese and other products, please reference these FAS GAIN reports below:

Emerging Growth Market…Bangalore – 2015
Ahmedabad… Third Fastest Growing City of the Decade – 2015
Pune… Fastest Growing City of India - 2015

Policy

The Department of Animal Husbandry, Dairying, and Fisheries (DAHDF) regulates dairy imports, including cheese. Two documents are required to export cheese to India: a) a sanitary import permit issued by DAHDF and b) a veterinary health certificate issued by the veterinary authority of the exporting country. Currently, the United States is unable to meet Indian requirements for milk and dairy product imports. Table 6, at the end of this report, provides tariff structure details.

DAHDF and Food Safety Standards Authority of India (FSSAI) regulations are inconsistent regarding the use of animal rennet in cheese. FSSAI's Food Safety and Standards (Food Products Standards and Food Additives) Regulations, 2011defines cheese as a product produced from non-animal rennet or another suitable coagulating agent, which applies equally to both domestic and imported foods. However, DAHDF's veterinary health certificate notes that animal rennet should be declared as an ingredient, but does not explicitly prohibit cheese imports produced from animal rennet.

India's Geographical Indications of Goods (Registration & Protection) (GI) Act, 1999 officially went into effect on September 15, 2003. Currently, no cheese names are registered under India's GI Act but several are pending review (e.g., feta, Queso Manchego, Roquefort, Camembert en Normandie, Brie de Meaux, Emmental de Savoie, Parmigiano Reggiano). If any cheeses are registered in the future, some Indian cheese companies likely will be required to select a different name for their product(s). More details on India’s GI Act can be accessed here: http://ipindia.nic.in/girindia/.

Table 6: India: Tariff Structure for Cheese, 2015

HS CODE	**ITEM DESCRIPTION**	**BASIC**	**CVD**	**SPL CVD**	**TOTAL DUTY w/ 3 % EDUCATION CESS**	**IMPORT POLICY**
04061000	Fresh (unripened or uncured) cheese, including whey cheese & curd	30	0	0/4		Free San P
04062000	Grated or powdered cheese of all kinds	30	0	4	36.136	Free San P
04063000	Processed cheese not grated or powdered	30	0	4	36.136	Free San P
04064000	Blue-veined cheese and other cheese containing veins produced by Pencilliumroqueforti	30	0	4	36.136	Free San P
04069000	Other cheese	40	0	4	36.136	Free San P