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India

Retail Foods

Food and Grocery Product Opportunities Stemming from Internal Sector Shifts.

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Report Highlights:
Organized retail continues consolidation with larger players expanding through acquisition. Domestic and international retailers are building stronger cash and carry wholesale businesses. India's e-commerce grocery business growth is driven by robust investment complemented by technological advancement. These factors, coupled together, suggest increased demand for imported products and more opportunity to slot higher-value products on store shelves or e-retail platforms in the long run.

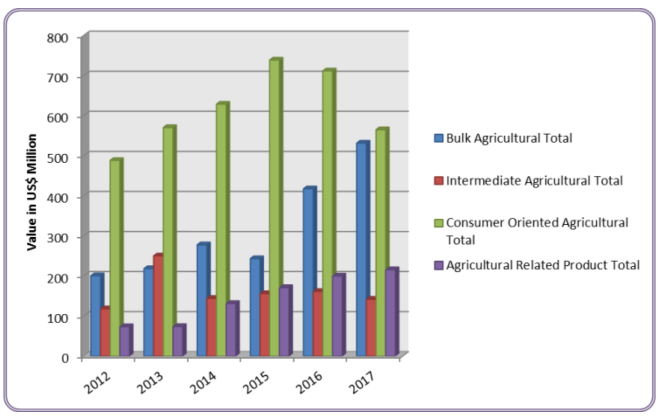
Executive Summary:

India is the world's second most populous country with a population of 1.3 billion of which 62.3 percent is below the age of 35. India's GDP is expected to grow 7.8 percent in Indian Fiscal Year 2018-2019 and already exceeds $2.4 trillion. The economy is on track to become the world's third-largest economy by 2025. Food processors, importers, wholesalers, retailers, food service operators are all part of a developing agribusiness sector. Apart from being a large food producer, India's bulk, intermediate, consumer oriented, and agricultural related imports grew from $22.2 billion in 2013 to $30.2 billion in 2017 and exports went from $44.5 billion to $39.4 billion during the same period.

Imports of Consumer-Oriented Products:

Imports of consumer-oriented foods, led by tree nuts and fresh fruits, are among the fastest growing segment of imported agricultural products and reached $4.9 billion in 2017. The market for imported foods has grown slowly though a growing number of professional, brand-oriented importers are emerging and there has been an increase in the number of modern retail outlets and hotels carrying imported products.

Imported nuts and fruits feed into India's traditional retail channels with an estimated 90 percent of imported fresh fruit sold in roadside stands and open markets. Imported packaged and consumer ready foods are found in a small number of gourmet grocery stores, in the imported foods sections of larger store formats, and in thousands of small neighborhood stores. While opportunities for imported food in the HRI and food processing sectors are improving, the India market remains relatively small due to high tariffs, ongoing import restrictions, and strong competition from the domestic industry.



Food Retail Industry:

India's food and grocery (F&G) retail business is estimated at U.S. $380 billion. The F&G retail sector is dominated by traditional trade formats like neighborhood shops or kirana stores, which hold about 98 percent of the total market share. The market share held by modern trade formats like supermarkets and hypermarkets is expected to double from two to four percent by 2020 as stores fulfil the evolving needs of consumers.

Food Retail Sector Key Updates:

IFY 2017-2018 has seen significant changes in the retail and e-retail space in India through the acquisition and takeover of several smaller formats of retail chains by larger domestic and international players in the food retail segment. The acquisition of Bengaluru-headquartered e-retailer Flipkart by Walmart for U.S. $16 billion stood out as the biggest acquisition by a foreign retailer in India.

Quick Facts Calendar Year 2017

Imports of Consumer-Oriented Products: $4.9 billion

List of Top Import Growth Products in India

- Tree Nuts (e.g. almonds and walnuts)
- Apples, Pears, Grapes, Non-Local/Seasonal Fruit
- Leguminous Vegetables and Dried Pulses
- Intermediate Products (e.g., malt, starch, insulin, wheat, gluten)
- Beverages, Spirits and Vinegar
- Cocoa and Cocoa Preparations

Food Industry by Channels (U.S. billion) 2017

Food Industry Output	$258 billion
Food Exports	$39.4 billion
Food Imports	$30.2 billion
Retail	$380 billion
Food Service	$48.3 billion
Wet Market/Food Stalls/Street Karts	$Unknown

Top Indian Food Retailers:

- Aditya Birla Retail Limited – More HyperMarket
- Avenue Supermarts Limited – DMart
- Future Value Retail – Big Bazaar, Food Bazaar, KB Fair Price, FoodHall, Food Right, Big Apple, Nilgiris, HyperCITY, Easy Day Stores
- Godrej Industries Limited – Godrej Nature's Basket
- Walmart India – Best Price Modern Wholesale, Flipkart

Top Indian Food E-Retailers:

- Amazon Pantry
- Big Basket
- Grofer's

GDP/Population:

- Population (billions): 1.3 billion
- GDP (billions USD): $2.4 trillion
- GDP per capita (USD): ~,$1,850

Sources:

- Global Trade Atlas
- Annual Survey of Industries

Strengths	**Weaknesses**
U.S. products held in high regard	*Awareness of the range and value of U.S. products*
Opportunities	**Threats**
Growth Potential in Food Retail and E-Retail	*Tariff and Non-Tariff Barriers*

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Useful FAS Websites and FAS India GAIN Reports

- FAS Homepage
- FAS India Exporter Guide
- FAS India Food Processing Report
  FAS India Food Service – Hotel Restaurant Institution

Post:
New Delhi

Section I. Market Summary

India has one of the world's fastest growing large economies and is projected, by some estimates, to become the world's third largest economy by 2025. The Government of India (GOI) reports that the gross domestic product (GDP) is forecast to grow at 7-8 percent per annum over the next few years. The Central Statistics Office of the GOI estimated the economy grew 6.6% during the April 2017 to March 2018 Indian Fiscal Year (IFY) – a two year low. Economists estimate the economy will grow by 7.3% in IFY 2018-2019 as the effects of the 2016 demonetization and the 2017 implementation of the Goods and Services Tax (GST) fade.

Although improving its rank to 100 out of 190 countries in the most recent World Bank's Doing Business 2017 report and despite efforts to improve the business investment climate and support Indian exports, the GOI continues to raise tariffs for imported food and agricultural commodities. As such, the business climate for imports, though demand is growing, is subject to risk and exporters should conduct their full due diligence when exporting to India. Moreover, the opportunities in the Indian retail market are not evenly distributed across the country and could more closely be considered as unique opportunities in many of India's leading Tier-1, Tier-2, Tier-3 and beyond cities, though the sense of a national marketplace is emerging.

Table 1: India: Grocery Retailers Outlets by Channel (in Thousand Outlets)

	2012	2013	2014	2015	2016	2017
Modern Grocery Retailers	5.5	5.8	5.9	6.2	6.4	6.5
Traditional Grocery Retailers	12,360.30	12,426.50	12,488.70	12,555.20	12,626.60	12,695.20
Total	12,365.5	12,432.3	12,494.60	12,561.40	12,633	12,701.7

Source: Euromonitor

Snapshot: India Food Retail Sector and Unique Distribution Structural Pattern:

India's food and grocery (F&G) retail business is estimated at U.S. $380 billion and the modern food retail sector is valued at two percent of the total market. Modern trade formats like supermarkets and hypermarkets are reportedly growing at 15 percent per annum and could double in size by 2020. A Euromonitor report on India's food retail industry projects steady upward growth of hypermarkets and supermarkets by 40 percent and 21.8 percent, respectively.

Kirana Shops and the Emergence of Modern Retail, Internet Retailing, and Cash and Carry Formats:

India's retail sector is dominated by thousands of small neighborhood grocery shops (i.e., *kirana* stores) that account for 98 percent of food sales. These neighborhood shops are located across the country and offer convenience, proximity, ability to extend credit to consumers, and have a relatively low-cost infrastructure. The route to accessing these *kirana* shops is often through national level importers and distributors as well as by some, less formal, distribution means.

The emergence of larger chains and stores began around 2005 and the sector has since grown to over 4,900 supermarkets and 500 hypermarkets across India. While many retailers are expanding and opening new stores, profitability continues to be an issue for many as factors such as high real estate costs, high capital borrowing costs, high debt levels, training levels of staff, and a costly supply chain add significantly to operating costs. Several internet grocery retailers have launched over the past few years and India's first e-retailer dedicated to imported foods recently opened. Organized retailers often use vetted importers and distributors. (Refer to IN7064)

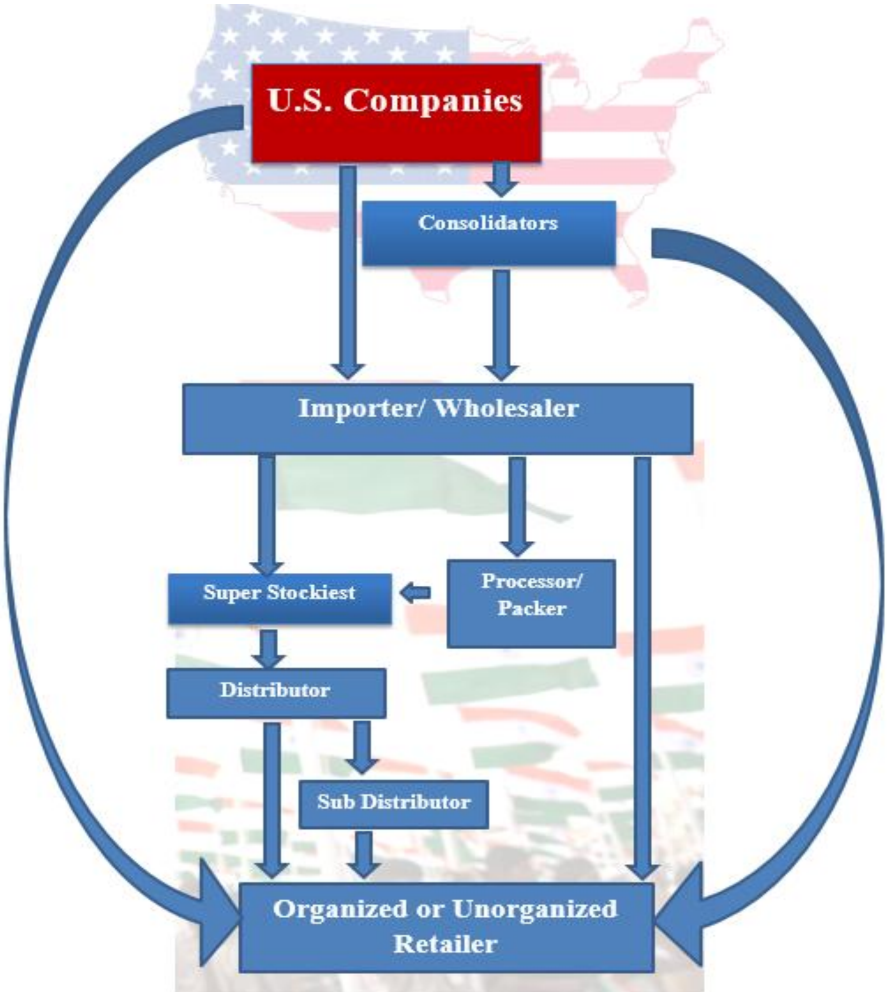
Most of the companies involved in the cash and carry channel engage in business-to-business sales. As government policy has maintained its position on restricted access to foreign investment in multi-brand retail, a growing number of domestic and international players are looking to expand their presence in India via the cash and carry/wholesale retail format. (Refer to IN7166)

Section II. Road Map for Market Entry
Entry Strategy:

- **Can your product come into India and the local laws:**
    1. Determine if your product has market access in Indian commerce
    2. Study India's varied laws, particularly those pertaining to food and beverages
    3. Review FAS policy and market reports and consider engaging a market research firm to assist with opportunities and challenges
- **Find the Right Partner:**
    1. Identify a reliable importer/distributor who services the food retail sector
    2. Avoid conflicts of interest
    3. Consider whether participating in an Indian trade show would be an effective means of identifying a key importer/distributors/partner
    4. Consider if collaborating/ participating in USDA endorsed promotional activities would be an effective way to create market awareness and penetration
- **Secure Payment Terms:**
    1. Until a successful working relationship is established, exporters may wish to consider vehicles such as an irrevocable Letter of Credit, advance payment, payment at sight.
    2. FAS India offices do not have the authority to mediate contractual disputes or serve as a collection agent when differences over payment or other commercial issues arise. For information about local legal services, refer to IN6155.

Market Structure:
Organized and unorganized retailers procure imported food and beverage items based on their target audience and current market trends. With the rise in organized retail chains and their expansion across value formats, there is an increasing awareness and specialization among companies to supply these businesses.

Figure 1: India: Distribution Flow Chart for Retail Food and Beverage Products



Section III. Competition

India's domestic industry is the primary competitor for U.S. retail food products. India, with its diverse climatic conditions, produces a variety of foods and food ingredients at prices below most imported products or products made from imported ingredients. In addition, many third-country competitors enjoy a freight advantage and can supply at lower costs. High import duties, labeling requirements (currently under draft revision), and restrictions on a number of imported packaged retail goods pose additional challenges for direct U.S. exports to the market.

Table 2. India: Competition in Major Product Categories

Product Category	Total Imports (In $ Million) CY 2017	Major Supply Sources	Strengths of Key Supply Countries/ domestic industry	Advantages (A) and Disadvantages (D) of Local Suppliers
Edible Fruit And Nuts; Peel Of Citrus Fruit Or Melons	3,431	USA Côte d'Ivoire Tanzania Afghanistan Guinea-Bissau	Preference for specific quality, freight advantage	Domestic production of some of the major fruits and nuts is insignificant (A)

Sugars and sugar confectionery	1,163	Brazil Germany USA Netherlands UAE	Price competitiveness.	India is usually a net exporter of sugar (D)
Miscellaneous Edible Preparations	184	USA China Vietnam Netherlands Thailand	Price competitiveness, and freight advantage	Domestic processing industry willing to replicate several recipes using low-cost inputs. (D)
Preparations Of Vegetables, Fruit, Nuts, Or Other Parts Of Plants	96	USA China Thailand Spain UAE	Price competitiveness, and freight advantage	Domestic processing industry willing to replicate several recipes using low-cost inputs. (D)
Animal Or Vegetable Fats And Oils	11,901	Indonesia Argentina Ukraine Malaysia Brazil	Major production hubs and competitive prices.	Local production is inadequate and more than 40 percent of total edible oil consumption is dependent on imports.(A)

Source: Ministry of Commerce and Industries and FAS India analysis

Table 3. India: Imports of Consumer-Oriented Ag. Products by Top 25 Suppliers in U.S. $1,000

Partner (Unit $1,000)	2014	2015	2016	2017	Jan - Mar 2017	Jan - Mar 2018
World Total	3,859,198	4,474,923	4,206,934	4,931,075	1,136,695	1,158,695
United States	628,929	739,030	711,836	867,697	190,526	286,021
Tanzania	184,437	223,673	241,381	321,537	236,426	206,756
Cote d Ivoire	353,848	414,936	325,977	302,548	13,256	5,039
Afghanistan	164,492	227,563	189,436	290,517	48,323	68,258
Guinea-Bissau	160,106	197,157	210,392	254,785	362	991
Sri Lanka	154,178	260,781	135,470	190,393	37,702	34,456
Indonesia	100,183	169,746	177,065	185,866	46,070	50,031
Vietnam	152,809	148,537	180,403	177,558	33,426	47,582
China	134,364	79,151	163,862	174,187	75,858	14,744
Nepal	186,231	191,676	175,847	165,911	51,492	35,233
Iran	100,576	117,884	111,873	155,869	56,859	62,658
Australia	118,302	162,411	97,584	141,639	4,254	3,140
Pakistan	112,016	101,360	122,135	125,390	30,866	24,094
Benin	143,783	191,943	123,627	121,300	588	228
Ghana	92,896	98,198	70,394	111,123	17,913	24,921
Mozambique	10,825	10,169	29,570	98,053	54,732	4,234
Madagascar	40,026	101,694	74,501	85,057	37,446	43,909
Nigeria	37,351	64,010	58,796	72,321	2,307	2,572
Italy	52,434	58,338	57,962	69,476	20,142	12,519
Iraq	61,860	56,392	58,675	59,042	23,960	29,026
Thailand	38,832	45,499	48,125	56,024	12,994	17,845
Chile	59,754	29,258	42,451	54,055	1,368	2,107
Netherlands	57,727	50,189	45,564	53,234	10,413	16,994
Gambia	33,789	27,697	39,645	50,976	93	117
Burkina Faso	5,467	15,197	37,941	41,917	100	0

All Others	673,979	692,432	676,421	704,605	129,217	165,225

Source: India Customs through GTIS

Section IV. Best Product Prospects

Table 4. India: Products present in the market which have good sales potential

Product Types	Import Value ($ Million) CY 2017	Import Volume (Metric Tons) CY 2017	Basic Import Tariff*	Key Constraints	Market Attractiveness For USA
Tree Nuts (mainly almonds and walnuts)*	2,575	913,528	In-shell Almonds (Rs. 35/Kg) Walnuts In shell 100% Pistachios (10%)	Competition from other suppliers .High tariff	Health awareness, aspiring middle class, and growing retail industry
Cocoa and Cocoa Preparations	224	67,606	30%	Strong competition from domestic and international suppliers	Strong brand and quality preference
Fresh Fruits	421	444,457	30% to 50%	Competition from domestic and foreign suppliers like Chile, and New Zealand	Seasonal shortages and high prices, increasing interest in quality fruits and growth of organized retail
Fruit Juices	46	28,055 liters	30%	Competition from domestic manufactures and foreign suppliers from neighboring countries	Increasing health awareness and shortage of quality products
Beverages, Spirits and Vinegar	707	671,615,601 liters	30-150%	High import duty and competition from domestic suppliers	Growing consumption and lack of domestic production

*NOTE: Several tariffs of the above items have proposals that will increase them. To date, however, the new proposed rates are not implemented and the above information uses existing information.

Products Not Present Because They Face Significant Barriers

Currently, there are several trade restrictions that limit market access for U.S. food products. With the exception of poultry meat and poultry products, imports of most animal and livestock-derived food products are banned due to established Indian import requirements. This includes certain sub-categories in the Harmonized Tariff Schedule under Chapters 2, 3, 4, 5, 16 and 21.

Effective July 8, 2006, the Government of India's (GOI) Foreign Trade Policy (2004-2009) specified that all imports containing products of modern biotechnology must have prior approval from the Genetic Engineering Approval Committee (GEAC), Ministry of Environment, Forest and Climate Change. The policy also made a biotech declaration mandatory. Soybean oil and canola oil derived from select events are the only biotech food/agricultural product currently approved for import. (Refer

GAIN: IN7135 Agricultural Biotechnology Annual 2017).

Table 5: India: Top Consumer-Oriented Product Imports

Table 5.A: Top Consumer-Oriented Products Imported From the World

Description	United States Dollars (in Million)	
	2016	2017
Cashew Nuts, Fresh Or Dried, In Shell	1,182	1,455
Almonds, Fresh Or Dried, In Shell	617	701
Apples, Fresh	238	307
Dates, Fresh Or Dried	214	242
Pepper Of Genus Piper, Neither Crushed Nor Ground	183	165
Others	1,771	2,057
Total	4,207	4,927

Table 5.B: Top Consumer-Oriented Products Imported From the United States

Description	United States Dollars (in Million)	
	2016	2017
Almonds, Fresh Or Dried, In Shell	531	581
Apples, Fresh	56	97
Walnuts, Fresh Or Dried, In Shell	17	43
Almonds, Fresh Or Dried, Shelled	29	29
Food Preparations Nesoi	19	24
Others	60	94
Total	712	867

Source: Ministry of Commerce, Government of India

Section V. Post Contact Information

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