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Government allures foreign investors by relaxing FDI norms

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India has shifted its gear by reforming the Foreign Direct Investment (FDI) norms to speed up the process. The government has recently relaxed the norms and allowed 100 per cent FDI in manufacturing under automatic route and 100 per cent FDI in trading in respect of food products manufactured and produced in India. The industry experts feel that this is a masterstroke which will not only help in growth of the food industry but will also provide an international platform. NuFFooDS Spectrum analyses the new FDI norms, feels the pulse of the market on the issue and gives the overview on how this bold step can change the entire face of Indian Food Industry.

India’s food processing industry is growing exponentially with a market size which is around $39.70 billion. It is ranked fifth in the world in terms of production, consumption, and exports. The Indian food industry is expected to grow at a Compounded Annual Growth Rate (CAGR) of 11 per cent to $ 65.4 billion by 2018. Food and grocery account for around 31 per cent of India’s consumption basket. The Government of India has been instrumental in the growth and development of the food processing industry.

The government through the Ministry of Food Processing Industries (MoFPI) is making all efforts to encourage investments in the sector. It has approved proposals for joint ventures (JV), foreign collaborations, industrial licenses, and 100 per cent export oriented units. Recently, MoFPI held three meetings with Ambassadors and High Commissioners in India of various foreign countries, namely Australia, China, Canada, France, Indonesia, Japan, Korea, Netherland, Poland, Russia, Singapore, UK, New Zealand, UAE, Thailand, Germany, Belgium, Brazil, USA, Malaysia, Mexico, Switzerland, Spain and Italy.

These meetings were facilitated by the External Affairs Ministry. In the first two meetings, the foreign missions were appraised about the recent path breaking policy initiatives of Government of India allowing 100 per cent FDI in manufacturing under automatic route and 100 per cent FDI in trading, including e-commerce, in respect of food products manufactured and/or produced in

India.

The MoFPI further explained them the opportunities will be available as a result of these policies for the investors in their countries to invest in India’s Food Processing sector for exploring new food business tie-ups as well as the expansion of their food business already existing in India.

They were also requested to disseminate this information to the investors of their countries. “Recently, the Government of India has allowed 100 per cent FDI in the marketing of foods products produced and manufactured in India. This initiative has opened up vast opportunities for international companies to invest in India in the food processing, manufacturing, supply, and marketing. Additionally, attractive incentives have been offered by state and central governments to include capital subsidies, tax rebates, and reduced custom and excise duties,” said Harsimrat Kaur Badal, Union Minister of Food Processing Industries.

The government is taking various steps to attract more FDI as it expects that expenditure level of food is expected to double in next 6 years (from $ 386 billion to $772 billion). According to the estimation of the Confederation of Indian Industry (CII), Indian food processing sector has a great potential and since FDI norms are now relaxed, it will attract an investment of $33 billion in the coming years. “This is a good move since the focus will now only be on large projects with 100 per cent FDI. This will reduce the burden of the Foreign Investment Promotion Board (FIPB),” said Akash Gupt, Partner, PwC India.

To attract more foreign investment, MoFPI is organizing World Food India 2017, a three-day flagship event from November 3rd to 5th, 2017. The event will focus on showcasing achievements and opportunities of the Indian Food Processing Sector and fostering maximum investment commitments. It will also provide a platform for exhibiting innovative products and manufacturing processes, showcasing the entire value chain of food processing industry with a

vision to leverage innovation, technology, development & sustainability of the sector.

In its another recent move, MoFPI formed a highpowered team headed by Jagdish Prasad Meena, Special Secretary, MoFPI. The team visited Chicago and had several meetings with high-level officials from several companies such as Chicagoland food & beverages network, different ogistics companies and restaurants managements. In the meetings, Meena urged the investors to make the best use of India's liberalised foreign investment rules, readymade infrastructure and improving the ease-of-doing-business climate. Apart from meeting regular companies, Indian team also met some of the giants of this sector including Potbelly, headquartered in downtown Chicago, Mondelez, Sensient, Griffith Foods, and Ingredion.

This is the first time that such kind of visit was organised to open the gate for the foreign investors to invest in the sector which is currently witnessing growth. The visit was planned right after the government relaxed FDI norms which have acted as a perfect fodder to attract the foreign investors. Apart from that, the government has allowed 100 per cent FDI in the manufacturing of food products 100 per cent FDI in trading including e- commerce in food products manufactured and produced in India. "India has launched several national and state-level programmes to improve the nation's standing in the World Bank's annual Ease of Doing Business Index.

Country's food processing industry is experiencing significant growth and boasts existing infrastructure in new Mega Food Parks around the country as well as state-of-the-art Cold Chain facilities," said Meena. The initiative like permitting FDI in the marketing of fruits and vegetables will also help companies realise their true value. Dhanraj Bhagat, Partner, Grant Thornton India LLP, said more clarity was needed on whether this would be permitted for retail or only wholesale marketing. "In the event that this applies to retail marketing, it could be a prelude to opening up of multi-brand retail, beginning with the food sector. The opening up of this sector for food would be beneficial to the farmer, which is one of the key directions in this

Budget.”

MoFPI is also encouraging organization of seminars, workshops, and conferences to exhibit opportunities in the food processing sector and ‘Make in India’ initiative in all fields including latest equipment and technologies. New policy initiatives such as ease of doing business, ‘Make in India’ and 100 per cent FDI policy in the manufacturing of food products and trading of food products manufactured/produced in India, will also help to bring latest technologies to this sector.

INTERNATIONAL CALL

These various steps of MoFPI appears to have hit the target as many big foreign players have shown interest in shelling out more funds to spread their nexus across the country. Global retail giant Walmart has shown interest in putting their steps in India’s food processing sector. “Walmart is showing a lot of interest. Now we are hoping that they will come on their own and they will add to the growth story of food sector in this country,” said A K Srivastava, secretary, MoFPI.

The Walmart had earlier sailed their ship in India’s market to check the profit ratio. But that didn’t go well. Now the company believes that the new steps by the government will strike a right cord with them. Rajneesh Kumar, spokesperson, Walmart India, had described the FDI policy as “very progressive”. “We will study the policy document and then will decide how to go about it,” he said. The company is keen to sell food products directly to Indian consumers through brick-andmortar and online stores. “US retail giant Walmart and one of the world’s largest food companies based out of Brazil are interested in setting up stores in India following the government’s decision to allow 100% foreign direct investment in the marketing of locally-produced food items,” said Srivastava.

Tomasz Lukaszuk, Ambassador, Republic of Poland, said, “Many Polish companies look at the decision of allowing 100 per cent FDI in food products as a huge business opportunity. They want to take this relationship further by expanding collaborations and investing in food processing.”

Another US food company Cargill Inc. sees this move as a positive stroke and they want to spread their wings to other unexplored destinations across the country. It aims to double its branded consumer business in India by 2020 by doubling its retail reach to about 800,000 outlets and increase market share to become a national leader in the sunflower oil category. It will help the company to be among the top three leading brands in India.

Recently, during the launch of USA’s Foreign Direct Investment (FDI) Confidence Index, Wendy Cutler, who was the Acting Deputy US Trade Representative under Obama administration has appreciated Narendra Modi’s efforts to attract foreign investment in India. “India under Modi has emerged as among the favourite destinations for foreign investors.” “With the young skilled workforce, its growth rate that is going to surpass China for the coming years, as well as the market opening and deregulation undertaken by Prime Minister Narendra Modi, will make this a really important destination for foreign investment,” said Cutler.

Commenting on the Chinese business environment, she said that things have changed. “The investment climate is getting worse in China. Companies are facing a lot of restrictions, whether it be licensing or approval process or favourable treatment of domestic competitors or requirements to share technology. We are hearing from our companies in China that their optimism is declining,” she said. Patting the government’s back, she said that India has transformed itself from a closed market to an open market which is commendable. “When you look at India, it is moving from a closed market to an open market.

The reforms that are being undertaken are perhaps not as ambitious as one would hope for. But under Prime Minister Modi, India is really under track towards the opening," she further added. Sharing same views, Paul Laudicina, Chairman, Global Business Policy Council said that India has been proactively shifting its gears for foreign investment.

Compared to China, India has more youth which gives it upper hand over the neighbouring nation. In China, average manufacturing wages have tripled between 2006 and 2015. Another foreign company from Australia, Di Bella (Coffee Chain) has already cleared the air by narrating its expansion plans in India with the investment of Rs 67 crore. Uber is also moved by the new FDI norms and it is gearing up to launch its food delivery service, UberEATS in India with a massive investment across multiple cities. KKR & Co LP, the US-based private equity firm, plans to invest about Rs 520 crore (US$ 77.38 million) in dairy company Kwality Ltd, which will be used to strengthen its milk procurement infrastructure and increase processing capacity. India is expecting huge investment from countries such as USA, Malysia, Australia, Brazil and Canada.

Companies like Mondelez International, the US-based confectionery, food, and beverage major and PureCircle, a Malaysia-based natural sweetener producer has already announced their plans of investing of Rs 1,265 crore and 1300 crore respectively in Indian food market. Australian and Brazilian high commission have also welcomed the new FDI norms with open arms. Both the countries feel that this is a very huge opportunity for them to increase their trade with India. Since India is not only one of the biggest countries of Asia, but it also has second largest population which needs to be fed, so there is a plethora of prospects available here.

DOES GOLDEN DAYS ARE BACK FOR ECOMMERCE PLAYERS?

The online food ordering business in India is in its nascent stage, but it is witnessing exponential growth. The organised food business in India is worth US$ 48 billion, of which food delivery is valued at US$ 15 billion. With online food delivery players like FoodPanda, Zomato, TinyOwl and Swiggy building scale through partnerships, the organised food business has a huge potential and a promising future. The online food delivery industry grew at 150 per cent year-on-year with an estimated Gross Merchandise Value (GMV) of US$ 300 million in 2016.

According to the data provided by the Department of Industrial Policies and Promotion (DIPP), the food processing sector in India has received around US$ 7.47 billion worth of Foreign Direct Investment (FDI) during the period April 2000-December 2016. The Confederation of Indian Industry (CII) estimates that the food processing sector has the potential to attract as much as US$ 33 billion of investment over the next 10 years and also to generate employment of nine million person-days.

The government has claimed that some of the e-commerce players have recently shown interest in investing in e-retail of food products after trading was fully opened up for the foreign direct investment (FDI). However, in the back-end, the food processing sector has not seen much activity in terms of investment. While announcing the 100 per cent FDI in trading of food products through channels, including e-commerce, the government had said in two years it wanted to double the food processing level of fruits and vegetables, which currently stood at 10 per cent.

After the opening up of trading, Amazon, Big Basket and Grofers have come up with proposals for investing in online retail of food products. But the investments that came into the food processing sector in the past one year have not shown any momentum. As per the data from Venture Intelligence, private equity and venture capital investments in the food processing sector came down to $62 million between June 2016 and March 2017.

Between June 2015 and March 2016, the investments were relatively higher at US $82 million. Rajesh Shrivastava, Chairman and MD, Rabo Equity Advisors said, “Allowing 100 per cent FDI in trading is good move. But if the agriculture sector has to really improve; India has to address the supply chain and aggregation issues related to farm produce. India has small farms and aggregating produce across several farms is a difficult task. States have different laws with regard to aggregation and procurement of food products. Some of them have modified APMC Act, while others have not. We need to have a standardised structure at the national level, which will make procurement easy.” Echoing the similar thoughts, Piruz Khambatta, Chairman and MD, Rasna and Chairman CII, said, “FDI in trading alone will not solve the issues in the food sector.

The backbone of the sector is agricultural infrastructure and that is where we need more money and technology. We need world class farms for which private participation has to be allowed. Between the farm and the factory, logistics and cold chain has to improve so that we become competitive in food processing. The transportation cost from two places in India is several times higher than that from China to India. This has made the price of processed foods in India is higher than that in China.” “FDI in marketing will be a boost for retail companies like us and even international majors like Walmart. It is going to be an indirect entry of FDI for food retail companies which had been opposed by the BJP in the past. It will boost agriculture and supply chain efficiencies of food retail companies,” Khambatta added.

Sumit Saran, Head, International Foods, Future Consumer Enterprise, said, “The Centre is finally applying the Make in India policy on food and there will now be more sourcing from the country.’’ The government move to attract FDI in food sector has certainly opened up opportunities to the international players. Now the task is how the country manages to actually attract more foreign investors on its domain. As per the recent media reports, the business environment in China has become hostile for the foreign companies. As India shares close borders with China, there is a golden opportunity for India to take its foreign investment in food sector to a next level.

REASONS TO INVEST IN FOOD PROCESSING INDUSTRY

- A rich agriculture resource base-India was ranked No. I in the world in 2013 in terms of production of Arecanut, Bananas, Castor oil seed, Chick peas, Chillies & Peppers dry, Ginger, Lemons & limes, Mangoes, Mangosteens, guavas, Millet, Okra, Papayas, Pigeon peas, Meat-buffalo, Milk-whole fresh buffalo & goat, Ghee, butter oil of cow milk, Ghee of buffalo milk, sesame seed.

- India ranks second in the world in the production of Anise, fennel, coriander, beans-dry, cabbages and other brassicas, cauliflower & broccoli, Egg plants (aubergines), Garlic, Groundnuts with shell, Lentil, Onions dry, Peas green, Potatoes, Pumpkins, Squash and Gourds, Rice/Paddy, Safflower seed, Sugar cane, Tea, Tomatoes, Wheat, Meat-goat, Milk whole fresh cow. Further, India is at third position in the production of Cashew nuts, with shell, Coconuts, Lettuce and chicory, Nutmeg, mace and cardamoms, Pepper (piper spp.), Rapeseed.

- The Countrys gross cropped area amounts to 194.39 million Hectares, with cropping intensity of 139%. The net irrigated area is 66.10 million hectare in 2012- 13(P).

- A total of 127 agro-climatic zones have been identified in India.

- Strategic geographic location and proximity to food-importing nations makes India favourable for the export of processed foods.

- Extensive network of food processing training, academic and research institutes.

- 42 Mega Food Parks (MFP) are being setup with an investment of $ 2.38 billion. The parks have around 1250 developed plots with basic enabled infrastructure that entrepreneurs can take on lease for the setting up of food processing and ancillary units. As on July 25, 2016, out of 42 MFP projects 8 projects have been operationalised.

- The cost of skilled manpower is relatively low as compared to other countries.

- Attractive fiscal incentives have been instated by central and state governments and these include capital subsidies, tax rebates, depreciation benefits, as well as reduced custom and excise duties for processed food and machinery.

- Major global players in the food domain are already present in India.

- 134 cold chain projects are being setup to develop supply chain infrastructure. As on July 22, 2016, out of 134 Cold Chain Projects 87 projects have been completed.

Source: http://www.makeinindia.com

Read online: https://nuffoodsspectrum.in/views/24/11479/government-allures-foreign-investors-by-relaxing-fdi-norms.html
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