



THE INDIAN FOOD INDUSTRY: FOOD SAFETY PERSPECTIVE



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ABBREVIATIONS

| | |
|---------|---|
| CBs | Certification Bodies |
| FBOs | Food Business Operators |
| FDA | Food and Drugs Administration |
| FDI | Foreign Direct Investment |
| FSMS | Food Safety Management Systems |
| FSS Act | Food Safety and Standards Act |
| FSSAI | Food Safety and Standards Authority of India |
| GDP | Gross Domestic Product |
| GFSI | Global Food Safety Initiative |
| GMP | Good Manufacturing Practice |
| HACCP | Hazard Analysis Critical Control Point |
| ISI | Indian Standards Institute |
| ISO | International Organization for Standardization |
| PFA | Prevention of Food Adulteration Act |
| QSR | Quick Service Restaurant |
| RTC/RTE | Ready to Cook/Ready to Eat |
| SOPs | Standard Operating Procedures |
| WTO | World Trade Organization |
| NABCB | The National Accreditation Board for Certification Bodies |

1 FOREWORD



The Indian Food Industry, valued at approximately USD 500 Bn, is a significant contributor to sustainable growth and development of the farm and non-farm segments of the Indian economy. The three constituents of the industry, namely Food Processing, Food Services and Food Retailing, have been undergoing rapid transformation, largely led by demand side changes.

The industry is increasingly recognizing the relevance of international food safety standards (both voluntary and mandatory) and is thus shifting from an end-production inspection and testing approach to a systems approach. This has fuelled the growth of the food safety and certification industry in India in a big way. However, the paradigm of food safety regulation, administration and implementation is at a critical point in India today. Consumers are increasingly demanding better, safer and healthier products in both urban as well as rural areas and there is a marked shift towards convenience and processed foods. The government is keen to support the industry by creating an enabling regulatory environment that is scientific, practical and easy to administer. The industry on its part has been pushing for alignment with Codex standards, efficient and science-based regulation and a collaborative approach with the Government in rolling out regulations in line with global best practices.

We are happy to release this joint knowledge report **“The Indian Food Industry: Food Safety Perspective”** by BRC Global Standards and YES BANK, which will serve as an effective reference for stakeholders of the food and food safety industries as well as policy makers.

Thank You.

Sincerely,

Rana Kapoor

Managing Director & CEO 

Chairman 

2 MESSAGE FROM BRC



BRC Global Standards is very pleased to share a summary of the research that Yes Bank conducted for us on the food manufacturing, food retail and food service sectors in India.

Our motivation in commissioning the research was to understand the market better in order to support our continued growth in India and plan our future investment in the country.

The research highlights a dynamic and vibrant food processing industry and we are privileged to play our part in helping the industry meet the growing demands from retailers, food service companies and consumers for food safety and quality.

I hope you find the report as interesting and valuable to your business as we did.

Mark Proctor

CEO

3 EXECUTIVE SUMMARY

The Indian food processing industry has registered a growth of 8.4% during 2008-2013 and is valued at around USD 181 billion¹. The food processing levels in India are still at much lower levels as compared to the developed nations and there is tremendous potential for growth in the industry as we move towards: a larger share of the wallet being dedicated to value added items, the growing consumer awareness of food safety and quality, increase in disposable income and changing consumption patterns.

The following report titled **“The Indian Food Industry: Food Safety Perspective”** is a snapshot of food processing, food retailing, food services and food safety industry in India. It also highlights food safety and quality practices followed in the food industry.

The Indian food retail sector has gained significance since mid last decade with growing demand for convenience, variety, quality, changing consumption patterns and rising disposable income. This segment has traditionally been highly fragmented and is largely unorganized. Grocery retail is estimated at USD 270 billion in 2013 and a paltry 2% of this grocery amounting to USD 5.4 billion was sold through modern retail formats. Recognising this opportunity many domestic as well as global private players are investing in modern retail in India.

The food service sector is amongst the fastest transforming and growing sectors in India, driven by demographics, lifestyle and economic changes being witnessed across the country. The size of the total market (organized and unorganized) is estimated at USD 48 billion in 2013 and is projected to grow to USD 78 billion by 2018 posing a CAGR of 11%. With supporting liberalization policies and 100% foreign direct investment (FDI) under automatic route, more international food service chains are opening their branches in various cities of the country either directly, through franchisees or in partnership with local companies.

With globalization of the food supply chain, changing world trade scenarios and obligations emerging from the World Trade Organization (WTO), conformance to international/importing countries' standards is necessary for access to overseas markets.

It has also resulted in unprecedented interest in the development of the food standards and regulations and a strengthening of the food quality control infrastructure in India. There is a gradual shift from end product testing to a systems approach with food manufacturers opting for standards like GMP and HACCP. In the past, food safety standards were enforced by law like PFA, ISI mark, AGMARK standard, but with the increase in international trade, demand for voluntary certification standards is expected to increase.

¹Indian Brand Equity Foundation (IBEF)

4 FOOD PROCESSING INDUSTRY IN INDIA

The food processing industry is rightly regarded as the sunrise sector of Indian economy because of its large potential for growth, employment and income generation. The Indian food processing industry has registered a growth of 8.4% during 2008-2013 and is valued at around USD 181 billion². The sector has generated employment for approximately 1.8 million people,³ more than any other sector. Despite this India lags behind other developed and developing countries in food processing. In fruits and vegetables, the processing levels in India is around 2-3% compared to 23% in China, 65% in US and 70% in Brazil.⁴ India processes 8% of its marine products, 6% of poultry and 20% of buffalo meat as against 60-70% in developed countries.⁵

Table 1: Processing levels of perishable agriculture produce in India

| Category | Production (Million MT) | Processing Level |
|---------------------|-------------------------|------------------|
| Fruits & Vegetables | 251 | 2% |
| Marine Produce | 9 | 8% |
| Poultry | 3 | 6% |
| Meat | 3 | 20% |
| Dairy | 140 | 35% |

Source: MoFPI, National Skill Development Corporation, DAHD, MoA

The unorganized sector in India forms a major part of the food processing industry (42%) followed by small scale industries (33%) and the organized sector (25%)⁶. This suggests the need for greater private sector participation to bring in more organized sector investments into food processing.

Snapshot of Food Processing Industry

- ✓ India's food processing sector ranks fifth in the world in exports, production and consumption
- ✓ Major parts of the food processing sector are milled grain, sugar, edible oils, beverages and dairy products.
- ✓ 100% FDI is permitted in the automatic route for most food products except for items reserved for micro and small enterprises.
- ✓ India's food processing industry has grown annually at 8.4% for the last 5 years, up to 2012-13
- ✓ Investment in fixed capital in registered food processing sector had grown annually at 18.8% during last five years ending 2012-13.
- ✓ The number of registered processing factories has increased from 36,881 in 2011-12 to 37,175 in 2012-13, marking a growth of 0.8%.

Source: <http://www.makeinindia.com/sector/food-processing>

² Indian Brand Equity Foundation (IBEF)

³ Ministry of Food Processing Industries (MoFPI)

⁴ Economic Services Group, National Productivity Council, New Delhi

⁵ Dun and Bradstreet

⁶ Indian Brand Equity Foundation (IBEF)

4.1 MAJOR SUB-SECTORS OF FOOD PROCESSING INDUSTRY

The major sub-categories in food industry comprise staples (rice, wheat, oilseeds, pulses & sugar), alcoholic beverages, fresh fruits & vegetables, dairy, non-alcoholic beverages, chocolates and confectionery, ready to eat segment, breakfast cereals and bakery products, frozen foods and food additives. The table below capture a snapshot of major sub segments.

Table 2: Major highlights of sub-sectors of food processing industry

| Segments/Criterion | Major Highlights of the Sector |
|---------------------|---|
| Rice | <ul style="list-style-type: none"> Rice is majorly consumed in loose and unbranded form sold through wholesalers and local mom and pop stores. The overall domestic market and consumption volume is estimated at USD 44.2 billion and 99.1 million MT respectively with approximately 5-10% in the organized segment. |
| Wheat | <ul style="list-style-type: none"> The wheat milling is largely unorganized with over 300,000 small scale millers operating in the country. The overall wheat consumption is estimated at 79.1 million MT. In the branded flour market, the segment is valued at around USD 0.8 billion. |
| Oils & Fats | <ul style="list-style-type: none"> The domestic market size and consumption of edible oil in the country during 2013-14 is estimated at around USD 24.4 billion and 20.7 million MT respectively. Out of this around 8.0 million MT is domestically produced while around 60% of the total demand is met by imports (primarily Palmolein, Sunflower and Soybean Oil) mostly in the crude form. |
| Sugar | <ul style="list-style-type: none"> The industry is largely dominated by co-operative mills operating in Maharashtra and Gujarat and private players in Uttar Pradesh, Karnataka etc. The overall Indian sugar industry is valued at around USD 13.0 billion in value terms and 24.3 million MT in volume terms. |
| Pulses | <ul style="list-style-type: none"> India is the largest producer of pulses in the world with production of 19.0 million MT (2013-14 estimates). The main regions with highest production of pulses are Maharashtra, Karnataka, Madhya Pradesh, Uttar Pradesh, Gujarat and Andhra Pradesh. The consumption of pulses is estimated at 22.5 million MT. |
| Alcoholic Beverages | <ul style="list-style-type: none"> India is the 3rd largest liquor market in the world and more than one-fifth of alcohol produced in the world is consumed by Indians. The size of alcoholic beverages industry is 7.0 billion liters in volume terms including country liquor. In value terms it is estimated at USD 35.0 billion at consumer prices in the year 2013-14. This includes alcoholic beverages sold through both retail and foodservice industry.⁷ |
| Fresh Foods | <ul style="list-style-type: none"> The fresh foods segment is the largest segment in agricultural production in India amounting to 258 million MT. The industry is dominated by the unorganized segment with more than 90% market share. Fresh fruits and vegetables accounts for 95% of the segment followed by meat or poultry and fish & sea food accounting for 2% and 3% respectively. The domestic market size of marine industry is estimated at 8.0 million MT translating to approximately USD 10.5 billion in the year 2013-14. The domestic market size of poultry is estimated at USD 12.3 billion with domestic consumption of poultry meat being 3.7 million MT during 2013-14. |
| Dairy | <ul style="list-style-type: none"> Indian dairy market is amongst the largest and fastest growing market in the world. The domestic market size of the industry is around USD 60.0 billion. The industry is still predominantly unorganized with only 20-25% of milk production being routed through the organized channel. |
| Beverages | <ul style="list-style-type: none"> The overall market of soft drinks industry is estimated at 16.7 billion liters translating to USD 8.6 billion. The Indian hot drinks industry is mainly dominated by two hot beverages i.e. tea and coffee. Tea continues to be the most popular beverage in India followed by coffee. The domestic market size and consumption of hot drinks in India is estimated at USD 5.6 billion and 1.3 million MT respectively. |

⁷ At company realization level (including excise duty) this translates to USD 12.2 billion. For alcoholic drinks category, company realization is below 50% of consumer prices at retail level and even lower for volumes sold through foodservices

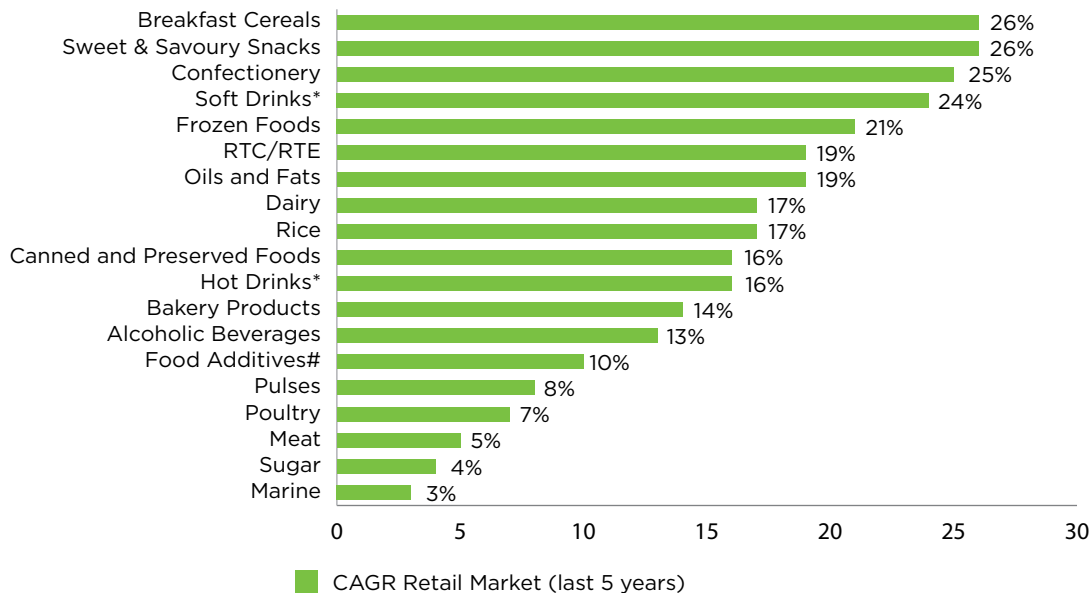
| Segments/Criterion | Major Highlights of the Sector |
|----------------------------|---|
| Bakery Products | <ul style="list-style-type: none"> Bakery industry consumes a large amount of raw material from the staples sub-sector: primarily wheat flour, edible oil and sugar. The overall bakery industry is estimated at USD 7.1 billion. The organized retail bakery market is valued at around USD 5.0 billion and 4.3 million MT in volume terms (2014). |
| Confectionery | <ul style="list-style-type: none"> The retail confectionery industry is valued at USD 3.0 billion in value terms and 0.5 million MT in volume terms (2014). In value terms, amongst the sub-categories chocolate confectionery enjoys the maximum share (54%) followed by sugar confectionery (30%) and gum (16%). Confectionery is a very low-involvement category driven by impulse purchases and majority of sales happen through small grocery shops. |
| RTC/RTE & Ready Meals | <ul style="list-style-type: none"> The RTC/RTE segment comprises sub-categories like noodles, pasta, sauces, dressing, condiments, soups, spreads and ready meals. The retail RTC/RTE Industry is valued at USD 2.8 billion in value terms and 0.9 million MT in volume terms (2014). In value terms, amongst the sub-categories sauces, dressings & condiments have the maximum share (53%) followed by noodles (30%) spreads (6%), pasta (6%), ready meals (3%) and soups (2%). In this segment, companies are launching their products in smaller pack sizes and at low price points to attract consumers. |
| Sweet & Savoury Snacks | <ul style="list-style-type: none"> The domestic sweet and savoury snacks market is estimated at USD 8.0 billion. An increasing number of consumers have started buying branded sweet and savoury snacks instead of loose products from bakeries, due to hygiene concerns. |
| Food Additives/ Ingredient | <ul style="list-style-type: none"> The food additives/ingredients industry comprises flavors, colours, preservatives, emulsifiers, stabilizers and sweeteners. While the global market for food additives is largely controlled by few large companies, the Indian market is served by subsidiaries of those global players and few local Indian companies. |
| Breakfast Cereals | <ul style="list-style-type: none"> The retail breakfast cereal industry is valued at around USD 0.2 billion and 36,900 MT in volume terms (2014). Under breakfast cereals, hot cereals category is expected to register fastest growth, followed by Ready to Eat (RTE) cereals. |
| Canned & Preserved Food | <ul style="list-style-type: none"> The retail canned and preserved foods industry is estimated at USD 102 million in value terms and 48,900 MT in volume terms (2014). Canned/preserved fruit is the fastest growing segment under canned/preserved food. |
| Frozen Foods | <ul style="list-style-type: none"> The domestic frozen foods market is estimated at 0.1 million MT translating to USD 0.3 billion. Foodservices segment has a major share (approx 50%) of total volume sales. Export of frozen produce is around USD 8.6 billion with major share of frozen marine and meat. The frozen foods industry is one of the fastest growing food processing industries in India. The category has grown mainly due to increasing consumer appetite and acceptance of frozen foods and deeper penetration by organized retail players. |

Sources: CRISIL Research, USDA, Dept of Food & Civil Supplies, Ministry of Consumer Affairs, various news articles, Euromonitor, Agricoop, Importance of food processing sector in India- CII-Rabo Equity Report

Segments like frozen foods, marine which are export oriented have organized supply chain and those supplying to the food services sector have high level of quality adherence and follow many voluntary standards like FSSC, BRC Global Standards and ISO. Sectors which are largely unorganized like rice, wheat, sweet and savoury snacks mainly adhere to regulatory standards only.

Retail market CAGR of major sub sectors over the last 5 years is depicted in the graph below. Breakfast cereals, sweet and savoury snacks, confectionery and soft drinks have been growing at a CAGR of about 24%-26%.

Figure 1: Retail market CAGR of major sub-sectors (2009-14)



Source: Euromonitor, CRISIL Research, Industry Sources, Various News Articles, Indiastat, APEDA, MPEDA, YES Bank Analysis

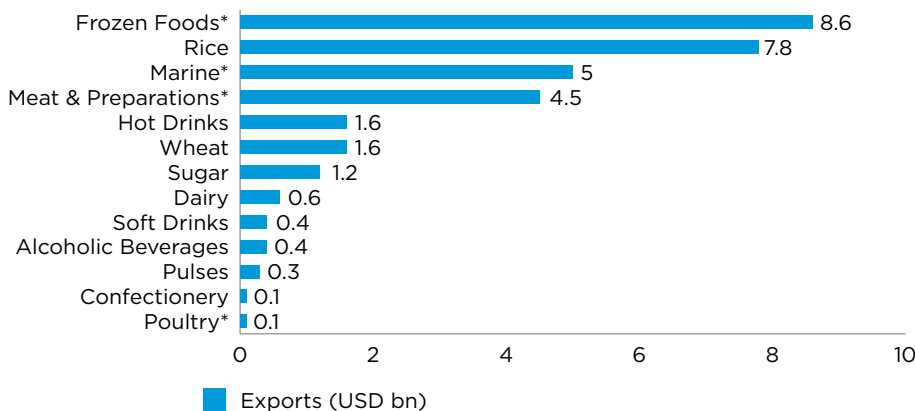
*Data for 2008-13, # Data for 2012

Note: CAGR for all categories is in value terms except for sugar, meat, marine, pulses and poultry.

For alcoholic drinks and sugar, CAGR is for overall market

Majority of the share of processed food exports comes from guar gum, rice (basmati & non basmati), marine products and meat & preparations. India exported agriculture and processed produce worth USD 38.9 billion in year 2013-14 as compared to USD 15.8 billion in 2009-10, registering a CAGR of 20%. Main export destinations for food products are the Middle East and Southeast Asia.

Figure 2: Exports from India by sector (in USD Billion)



Source: Euromonitor, CRISIL Research, Industry Sources, Various News Articles, Indiastat, APEDA, MPEDA, YES Bank Analysis

Note - *Frozen foods includes exports of frozen meat, marine and poultry

4.2 FOOD SAFETY AND QUALITY PROCEDURES FOLLOWED BY FOOD PROCESSORS

As a result of growing consumer awareness on the importance of food safety and quality, enactment of the Food Safety and Standards (FSS) Act and rapid globalization, food companies are increasingly realizing the importance of food safety. The private sector is gradually recognizing the increased relevance of international standards (both voluntary & mandatory) and are thus shifting from end production inspection and testing approach to a systems approach.

There are multiple quality specifiers in the food processing supply chain depending on the commodity being handled. The food safety requirements apart from the legal requirements are mainly specified by the end user (processors purchasing the raw material). The quality management systems followed by the majority of the players include BRC Global Standards, FSMS, ISO 9001, GMP (WHO/EU Norms), FDA, HACCP, FSSC 22000 and ISO 22000. Some of the key quality specifiers in the sector are mentioned below.

- ✓ In organized market, retailers like Walmart, TESCO will require one of the GFSI benchmarked standards such as BRC Global Standards.
- ✓ Majority of the organized players and Multi National Corporations (MNCs) have their own quality corporate compliance guidelines. Suppliers are selected on the basis of their standard operating procedures (SOPs) for quality compliance. They also specify quality certifications like HACCP, FSSC 22000 which the suppliers need to obtain in order to fulfill their requirement.
- ✓ For raw material such as cereals (wheat, rice, corn, oats and barley), sugar, etc. the quality guidelines are specified by the processors in line with their internal food safety standards and SOPs. In addition, processors also use certifications like BRC, ISO 22000 and other GFSI recognised schemes to set and maintain high quality standards.
- ✓ When procuring oilseeds, the traders/commission agent and processors (in case of direct procurement) specify the quality requirement with respect to oil content, moisture content and presence of foreign material. Payment to the farmers is based on these parameters
- ✓ For tolling plants, the branded players specify quality guidelines and certifications such as BRC Global Standards which plants need to adhere to. Plant audits are also undertaken to ensure compliance to specified quality guidelines.
- ✓ Importers of Indian sourced products specify the quality certification requirements to the processors. (BRC Global Standards is widely required certification for European markets)
- ✓ Small players like mithai or traditional sweet shops which operate in the unorganized segment do not have any set quality protocols.

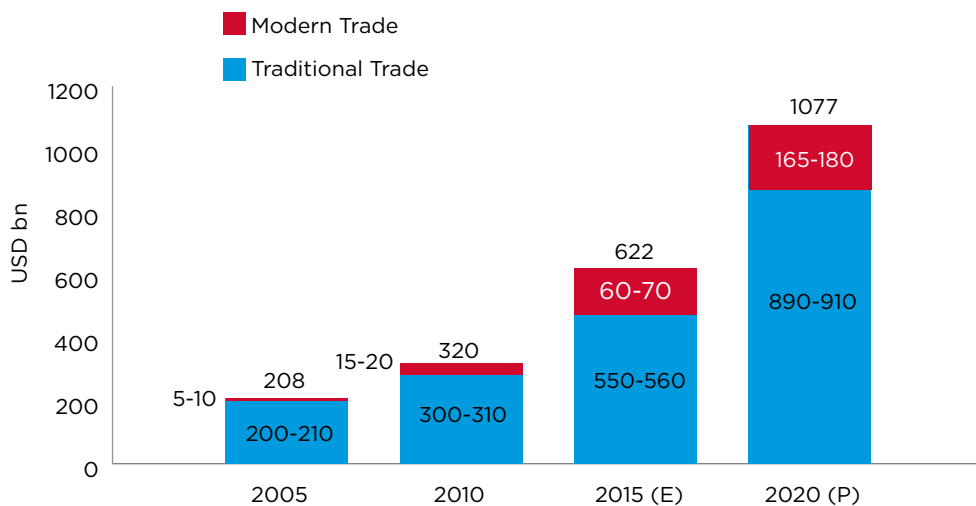
4.3 CONCLUDING REMARKS

The food processing industry in India is small compared to other countries and there is tremendous potential for growth in the industry. The growth rate forecast across segments is encouraging and indicate, a fast expanding domestic market and a growing export market. The Government is playing a key role in streamlining the supply chain with introduction of mandatory certification for food safety and quality standards across all the segments.

5 FOOD RETAILING SECTOR IN INDIA

The retail industry is one of India’s biggest industries, providing large scale employment and contributing significantly to the country’s GDP. The retail sector is divided into modern retail format and traditional or unorganized channel and is largely dominated by the latter. The traditional retail format faces critical challenges with respect to quality, hygiene and transportation of consumer goods. The modern format retailing is primarily dominated by apparel and textile segment followed by food, grocery and beverages.

Figure 3: Growth of modern retail vis-a-vis traditional retail



Source: BCG Report on "Retail 2020: Retrospect, Reinvent, Rewrite (Leadership Perspectives on Trends in Indian Retail)"

In 2013, the retail sector was estimated at around USD 450 billion, of which 6-7% was through modern retail formats. 60% was contributed by grocery retailers, estimated at around USD 270 billion and a paltry 2% of grocery, amounting to USD 5.4 billion, was retailed through modern retail formats. The Boston Consulting Group (BCG) estimated that, by 2020 the market is expected to exceed USD 1 trillion with modern retail formats having a significant share of 16-17%.

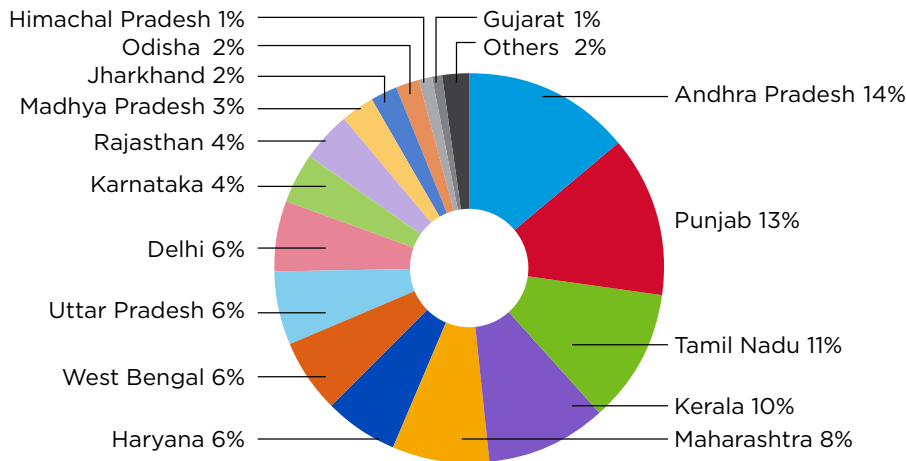
While there is continuous expansion and investment into new stores in the retail industry, a number of players have been struggling due to: low profitability, high real estate costs, high capital borrowing costs, margin shrinkage, high debt levels, training of qualified staff, costly supply chain and competition. However, the industry is slowly adapting to manage these challenges and the last couple of years have seen some of the large players breakeven.

To facilitate the growth of retail sector, FDI in retail is allowed upto 100% for single brand retailing and 51% for multi-brand retailing. Under multi brand retailing, states have been given freedom to decide on the implementation of the policy.

Geographic Concentration of Retailers

In India large retailers are present across states whereas smaller players have regional concentration. The chart depicts the concentration of stores of four major retailers: Future Group, Reliance Retail, Aditya Birla Retail (More) and Bharti Retail (Easy Day).

Figure 4: State-wise Concentration of Future Group, Reliance Retail, Aditya Birla Retail and Bharti Retail (2013)



Source: http://www.business-standard.com/content/general_pdf/012414_03.pdf

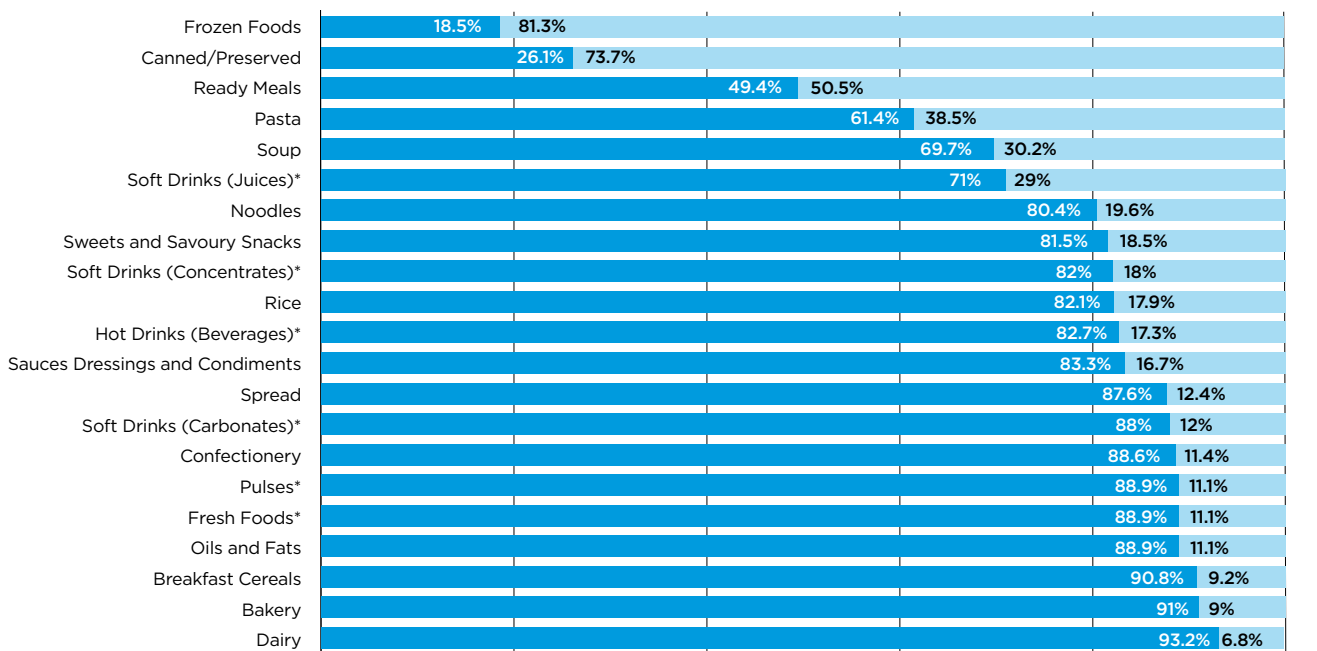
Store based retailing of various Sub-Segments

In India, most of the processed food products are largely sold through store based retailers. Additionally, there is a large unorganized segment which includes: road side grocery vendors, wholesale markets, push-carts, haats etc.

The following chart represents retail sales distribution of various categories through modern and traditional retail channels (only store based retailing).

Modern grocery retailers representing convenience stores, hypermarkets, supermarkets and others (including discounters and forecourt retailers) have witnessed growth in various categories. Traditional grocery retailers still dominate most of the categories. In case of frozen, canned/preserved food and RTC or RTE foods, modern grocery retailers occupy comparatively larger share.

Figure 5: Category wise store based retailing (2014)



*Data for 2013
Source: Euromonitor

■ Traditional Grocery Retailers ■ Modern Grocery Retailers

5.1 FOOD SAFETY AND QUALITY PROCEDURES FOLLOWED BY RETAILERS IN INDIA

With incorporation of FSS Act and Regulations, food retailers in India have increasingly become more conscious of food safety and quality procedures. But the food safety SOPs followed by each of these retailers vary, particularly between the international and domestic retailers.

5.1.1 FOOD SAFETY AND QUALITY PROCEDURES FOLLOWED BY DOMESTIC RETAILERS

Majority of the domestic food retailers like Reliance Retail, Spencer's and Future Retail follow mandatory standards and also require their suppliers to be FSSAI compliant. The retailers have strict internal quality benchmarks for their own operations and vendors but generally do not follow any voluntary international standards like BRC Global Standards, SQF and other GFSI standards. As most of the vendors supply other large Indian companies, they have other certifications as well, however the retailers do not necessarily require adherence to such standards.

Currently, few of these retailers undertake second party audits for their vendors through their respective audit and QC teams. For a few retailers, it is handled by certain certification bodies. Post incorporation of FSS Act 2006, there has been substantial improvements in the quality standards of the retailers as all vendors have to mandatorily be registered with Food Safety and Standards Authority of India (FSSAI).

5.1.2 FOOD SAFETY & QUALITY PROCEDURES FOLLOWED BY PREMIUM FOOD RETAILERS

Premium food retailers like Godrej Nature's Basket have certifications like ISO 22000, HACCP and organic certification along with being FSSAI compliant. Costs incurred by premium retailers on their food safety requirements are incurred on audits, training of manpower and sample testing through laboratories.

5.1.3 FOOD SAFETY AND QUALITY PROCEDURES FOLLOWED BY INTERNATIONAL RETAILERS

International retailers like Walmart, TESCO follow their global quality policy requirements of third party audits such as BRC Global Standards and their own requirements. Certification bodies approved by the standard owner conduct the third party audits. The retailer identifies potential suppliers of product, these are then shortlisted and assessed. The retailers generally require all their suppliers to have a GFSI benchmarked standard certifications. GFSI benchmarked scheme include BRC Global Standards and other standard owners.

It can be difficult for suppliers to comply with the standards required by retailers at first. They may need to invest in facilities, training and upgrade plant & machinery. However retailers will often take a step by step approach and help the supplier reach the required standards. BRC Global Standards also has a Global Markets programme specifically designed to help suppliers meet the requirements in BRC Standards.

5.2 CONCLUDING REMARKS

The Indian food retail market has expanded significantly in the last few years. Ensuring quality of the products procured through various channels is becoming all the more important with growth of the organised food retailing sector. Consumers also expect that the products they buy through organized retailers are safe and meet high quality standards.

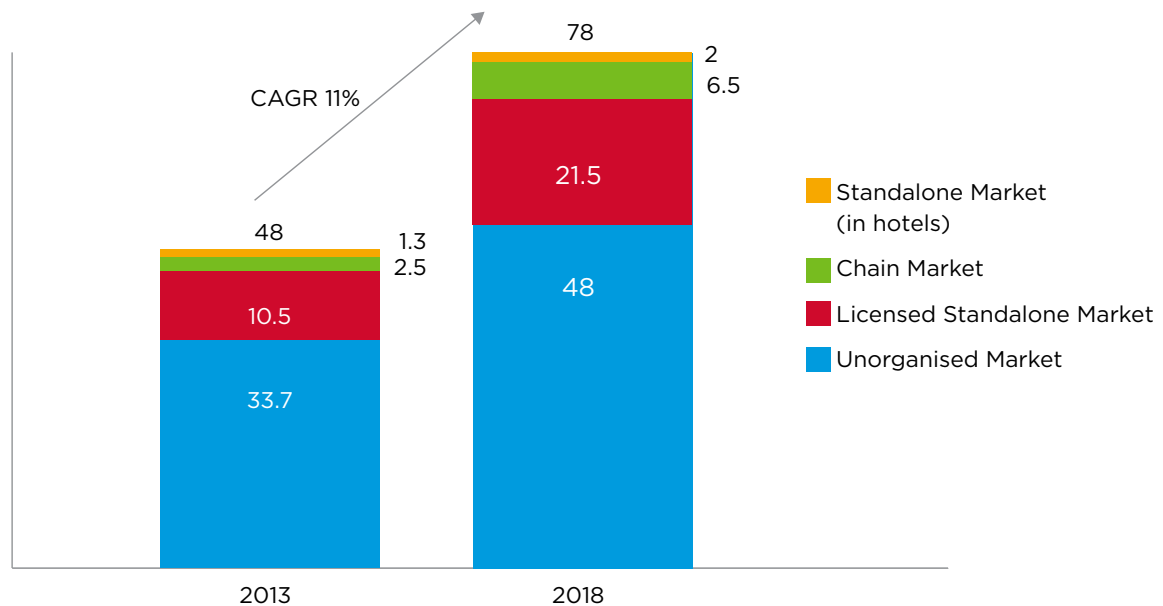
International players entering the market has pushed the retailing industry to call for high quality standards from their suppliers. Suppliers are therefore also working diligently in adopting high standards and systems. Currently not more than 1% of total sales turnover is spent on food safety which includes overhead cost of the QC teams, quality audits, both in store and at supplier locations, and cost of second/third party audits. As the industry is gradually moving towards generating profits, more retailers would be willing to increase spend on food safety and getting their suppliers to adhere to international voluntary standards.

6 FOOD SERVICES SECTOR IN INDIA

The food service sector is amongst the fastest growing sectors in India. The growth is driven by demographics, lifestyle and economic changes across the country. Dietary habits of Indian consumers are changing on the back of a growing middleclass, rising disposable income and evolving lifestyle. With supporting liberalization policies and 100% FDI under automatic route, more international food service chains are opening their branches in various cities of the country either directly, through franchisees or in partnership with local majors.

Based on outlet presence and regulatory and accounting transparency, the food services market can be segregated into the three broad segments – the unorganized segment, the licensed standalone segment and the chain segment. The size of the total food service market (organized and unorganized) is estimated at USD 48 billion in 2013 and is projected to grow to USD 78 billion by 2018 at a CAGR of 11%. Within this, the unorganized market holds a 70% share with an estimated market size of USD 33.7 billion. The organized market (chain and licensed standalone outlets) was estimated at USD 13 billion in 2013 and is expected to touch USD 28 billion by 2018 at a CAGR of 16%.

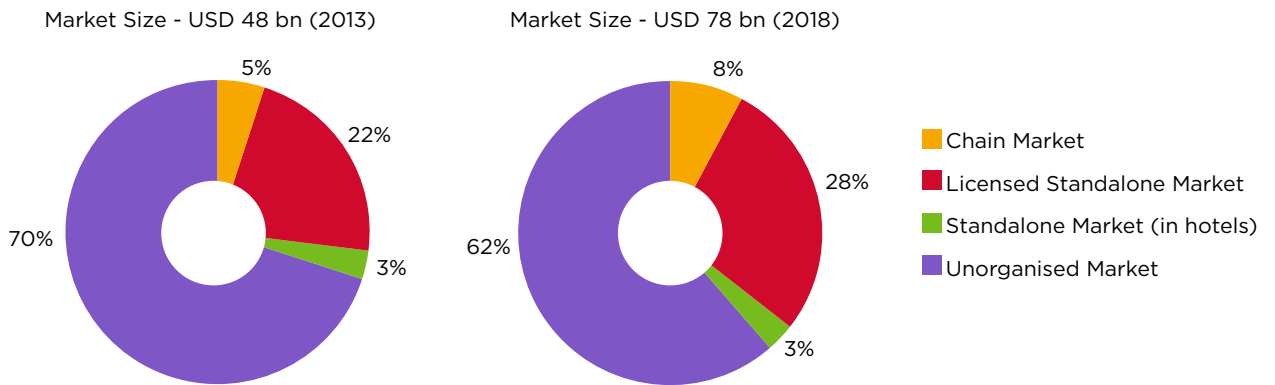
Figure 6: Size of food services market in India (USD billion)



Source: Indian Food Services Report, 2013

The chain segment accounts for around 5% of the total foodservice market and is expected to grow from the present USD 2.5 billion to USD 6.5 billion by 2018 at a CAGR of approximately 21% to increase its share to 8% by 2018. In comparison, the licensed standalone segment, which currently forms 22% of the overall market at around USD 10.5 billion in 2013, is expected to record a growth of 15% over the next five years to reach a size of USD 21.5 billion.

Figure 7: Share of the food services market in 2013 & 2018

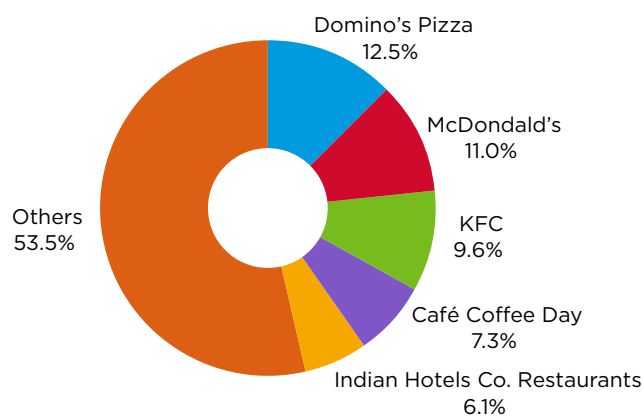


Source: Indian Food Services Report, 2013

The growth in food services sector is mainly driven by an increase in the average spending on eating out by middle-class households. Growth was fuelled by the increase in urban areas, an increase in the number of nuclear families and working women, steady growth in incomes and greater accessibility to a wide choice of restaurants. India also offers a wealth of young people, a key consumer group for food chains. There has also been a drastic change in lifestyles and eating patterns, which has led to a large increase in the number of people eating out regularly.

Major brands in the chain food services market⁸ including hotel chains are depicted in the graph below. Domino's Pizza has the highest share of 12.5% followed by McDonald's, KFC and Café Coffee Day at 11%, 9.6% and 7.3% respectively.

Figure 8: Percentage brand shares (2013)



Source: Euromonitor

Quick Service Restaurants (QSR) are amongst the largest food service segment where operating chains have standardized the procurement of raw materials across the country in order to maintain same taste, quality protocols and standards. Majority of QSR players operate on the concept of centralized kitchen/ commissaries from where food is delivered to smaller outlets around the city through reefer trucks/ vans. Only the final cooking or assembling process is done in the particular retail outlets.

⁸This includes major food service chains as well as standalone segment in hotels with 10 or more units

6.1 FOOD SAFETY & QUALITY PROCEDURES FOLLOWED BY FOODSERVICE PLAYERS IN INDIA

The foodservice players in India are currently facing increasing pressure due to the weak economic environment, increasing costs and competition from new sources. Consumers have become more quality conscious and expect healthy options, value and experience in a foodservice outlet. Adding to that, FSSAI had mandated in August 2011 that all eateries in the country, which includes multinationals such as KFC, Pizza Hut, McDonalds and domestic restaurant chains, canteens and cafeterias will need a 'food business operator' license from the authority.

Under the guidelines, every restaurant in every city will require a separate license. In addition, a food business firm will need a central license, to be obtained from the head office. To acquire the 'food business operator' license, all restaurants and hotels, snack bars, cafes, school and office cafeterias and cafes within hospitals will need to comply with a series of stringent guidelines including specific hygiene practices. To continue operations, they need to display copies of the license at prominent places within the restaurant premises and employ at least one technical person to supervise the production process. This person will need to possess a minimum a degree in science with chemistry, biochemistry or microbiology equivalent.

6.2 CONCLUDING REMARKS

The foodservices industry in India is currently valued at USD 48 billion and is facing challenges to juggle rising food costs and maintenance of a quality, safe and consistent product. Among the foodservices industry it is the QSRs which will drive food safety mainly because of its highly organized nature. Brands dominating the sector are Yum!, McDonalds and Dominos all of whom themselves follow stringent food safety and quality standards. It is the brand owner who specifies quality standards down their supply chain. The foodservice industry in India, growing at a CAGR of 11%, is comparatively more organized than the Food Retailing sector. This offers immense scope for international voluntary standards to fill the existing gaps in food safety standards and also to address the pain points of the foodservices industry.

7 FOOD SAFETY INDUSTRY IN INDIA

For decades, the Indian food industry was undermined by the existence of fragmented legislation, multiple jurisdictions and weaknesses in surveillance, monitoring and enforcement. Understanding this, the Government enacted the FSS Act in 2006 to consolidate the laws related to food, lay down science based standards for articles of food and to regulate their manufacture, storage, distribution, sale and import.

Because of the growing consumer awareness of food safety and quality, enactment of the FSS Act and rapid globalization, food companies are increasingly realizing the importance of food safety. The private sector is gradually recognizing the increased relevance of international standards (both voluntary & mandatory) and are thus shifting from end production inspection and testing approach to a systems approach. This has fuelled the growth of the food safety and certification industry.

The food safety industry can be divided into three sub categories as follows:

7.1 FOOD TESTING LABORATORIES

Food testing is one of the emerging areas of interest with the introduction of FSS Act, 2006. Currently, there are approximately 140 food testing labs in India for testing of food products as per standards prescribed under the FSS Act, 2006 and Regulations, 2011.

- Of these, 68 are NABL accredited labs which have been authorized by FSSAI..
- Remaining 72 labs have been setup by state governments.
- These laboratories are equipped to check the quality of food articles as per standards prescribed under the FSS Rules/Regulations for various parameters. In addition, there are 12 referral laboratories.

Central and state laboratories require improvements in infrastructure, equipment and manpower. This gap is bridged by private food testing agencies. FSSAI has laid procedures and guidelines in the FSS Act for recognizing such independent accredited laboratories.

There are more private food testing labs and they are growing at double digit rates, totalling to around 800. The main private food testing laboratories in India are Geochem Laboratories, Equinox Laboratories, and Vimta Labs. In addition, most of the certification bodies (CBs) have their own food testing facilities including SGS India, TUV- India, TUV-SUD and others.

7.2 FOOD CERTIFICATION

Food safety certification is a procedure for verifying that products, processes or services conform to certain standards, either mandatory/compulsory or voluntary. When products are sold to the domestic market or exported, national Governments and exporting countries normally require standards and certification as a part of food safety regulations (e.g., maximum residual level on pesticides use, product traceability). These are the mandatory/compulsory food safety standards. When the decision to adhere to the standards and certifications is primarily undertaken by the producing entity for environmental, social, cultural, food safety purposes, it is voluntary. Currently, there are many CBs providing food safety audits and certifications in India. The National Accreditation Board for Certification Bodies (NABCB) is the parent body under Quality Council of India (QCI) which provides accreditation to certification and inspection bodies based on assessment of their competence as per the board's criteria and in accordance with international standards and guidelines.

The food safety certification industry in India has experienced double digit growth since 2006 fuelled by the incorporation of FSS Act and FDI in food retailing. There were 222 ISO 22000 certifications in 2007 which has increased to 1,489 in 2013 i.e. more than 500% growth over a period of 7 years. There are 120 CBs, the majority (90%) of which operate as franchisee with independent consultants working on their behalf. The table below details the list of CBs accredited with NABCB.

Table 3: List of CB's (FSMS) accredited with NABCB

| Certification Bodies | |
|---|---|
| Bureau Veritas Certification (India) Pvt. Ltd. | One Cert Asia Agri Certification (P) Ltd. |
| Foodcert India Pvt. Ltd. | Intertek India Pvt. Ltd. |
| TUV SUD South Asia Pvt. Ltd. | Vexil Business Process Services Pvt. Ltd. |
| TUV India Pvt. Ltd. | International Standards Certification Pty. Ltd. |
| IRCLASS Systems and Solutions Private Limited (Operating certification services through its Division Indian Register Quality Systems) | BSI Group India Pvt. Ltd. |
| INDOCERT | MS Certification Services Pvt. Ltd. |
| SGS India Pvt. Ltd. | DNV Business Assurance India Pvt. Ltd. |

Source: NABCB

7.3 FOOD SAFETY INSPECTION AND AUDITS

Food Safety Inspection & Audits are also a mix of mandatory (FSSAI Regulations) and voluntary requirements. FSS Act 2006 provides a mechanism for the accreditation of certification bodies for food safety management systems. A list of recognised inspection/auditing/certification bodies for carrying out inspection/auditing of FBOs as per FSS Act, 2006 are given in the table below.

Table 4: List of recognized Inspection/Audit agencies as per FSS Act, 2006

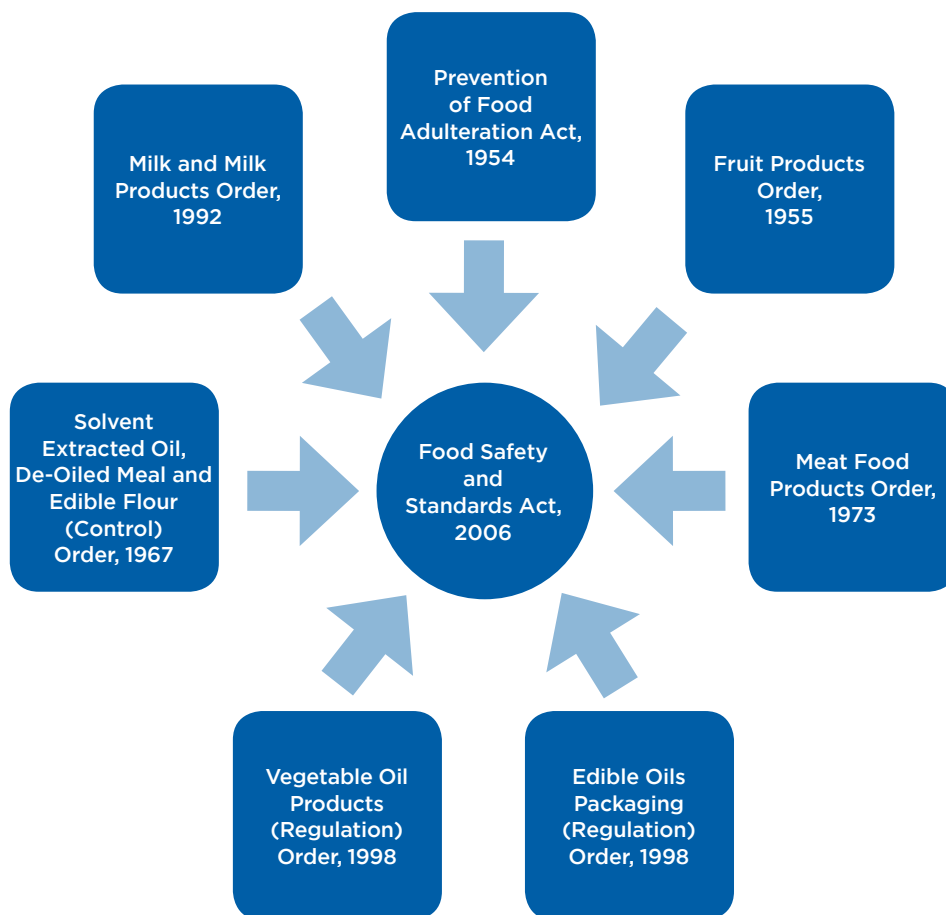
| Inspection & Audit Agencies | |
|--|---|
| Export Inspection Council of India | One Cert Asia Agri Certification (P) Ltd. |
| Indian Register Quality Systems (A department of Indian Register of Shipping) | Intertek India Pvt. Ltd. |
| INDOCERT | FoodCert India Pvt. Ltd. |
| TUV-SUD South Asia | M/s. National Productivity Council (Productivity House) |
| TUV India Pvt. Ltd. | Det Norske Veritas, AS (Business Assurance) |
| SGS India Pvt. Ltd. | Bureau Veritas Certification (India) Pvt. Ltd. |

Source: <http://www.pfndai.com/Gazette%20pdfs/5.pdf>

8 FOOD SAFETY REGULATION AND CURRENT STATUS

Previously the Indian food processing industry was regulated by several laws which governed aspects of sanitation, licensing and other necessary permits required to start up and run a food business. The legislation that dealt with food safety in India was the Prevention of Food Adulteration Act (PFA), 1954. PFA had been in place for over five decades, there was a need for change because of the changing requirements of Indian food industry, consumer awareness of food safety and quality and changing eating habits. The Government realized the need for harmonizing the food laws as a pre-requisite for fostering growth in the food processing industry and introduced the Integrated Food Safety Bill. In 2006, this bill ultimately became the Food Safety and Standards Act (FSS Act). The act specifically repealed seven laws which were in operation prior to the enforcement of FSS Act.

As defined, “Food Safety and Standards Act, is an Act to consolidate the laws relating to food and to establish the Food Safety and Standards Authority of India for laying down science based 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 and for matters connected therewith or incidental thereto.”



The purpose of the Act is to improve consumer safety through Food Safety Management Systems and to set standards based on science and transparency to meet the dynamic requirements of Indian food industry as well as international trade.

8.1 PRESENT STATUS OF IMPLEMENTATION OF THE FSS ACT

- Around 2.4 million out of 50 million Food Business Operators (FBOs) (approximately 6%) have completed the registration procedure up to January 2015.
- Since the enactment of Food Safety and Standards Regulations, 2011 the deadline for food licensing and registration of FBOs has been extended six times, the latest deadline being 4th February 2016.
- As on 15 January 2015, a total of 2,357,047 FBOs had registered and 545,653 had been licensed under the Regulations.
 - Apart from States like Madhya Pradesh, Uttar Pradesh, Gujarat, and Maharashtra, which have registered healthy levels of licensing and registration most States and Union territories like Chhattisgarh, Jharkhand, Bihar, Delhi, Chandigarh and Puducherry seem to be trailing with poor figures of registration.
- FSSAI will come out with new regulations on product approvals in coming months and has recently released a notification seeking legal assistance.
- Food Import Clearance System (FICS) is being implemented at five locations namely at Mumbai, Chennai, Delhi, Kolkata and Cochin.
- FSSAI has started 24x7 Food Import Clearance at Delhi and Mumbai and is in process of operationalizing the same at other locations also. FSSAI has also started single window clearance in coordination with customs authorities.

8.1.1 CURRENT STATUS OF THE FSSAI REGULATIONS ON HARMONIZATION OF STANDARDS

The harmonization of the Indian standards with that of Codex is being done by FSSAI and the work on horizontal standards has been completed along with general standards on food additives. For vertical standards⁹, the harmonization is in progress and only 40% had been completed till now. Most of the horizontal standards¹⁰ have been approved by the Authority and sent to the Ministry for approval. In the case of food additives, the draft will go to scientific committee and then to the Authority. Thereafter, the process of notification is expected to commence.

For vertical standards, the work done by the electronic working groups was not satisfactory and the work has been redone. On certain commodities like milk, fish and their products, the work had been completed and was approved by the Authority. For meat-related products, alcoholic beverages and spices, specific task forces have been made under the Authority.

⁹ Vertical standards relate to commodities like fruit, vegetables and their products, milk, fish and meat products, cereals and spices

¹⁰ Horizontal standards relate to microbiological contaminants, antibiotic and veterinary drugs, heavy metals, maximum residue limits (MRL) and pesticide residues

ABOUT YES BANK

YES BANK, India's fifth largest private sector Bank with a pan India presence across all 29 states and 7 Union Territories of India, headquartered in the Lower Parel Innovation District (LPID) of Mumbai, is the outcome of the professional & entrepreneurial commitment of its Founder Rana Kapoor and its top management team, to establish a high quality, customer centric, service driven, private Indian Bank catering to the future businesses of India.

YES BANK has adopted international best practices, the highest standards of service quality and operational excellence, and offers comprehensive banking and financial solutions to all its valued customers.

YES BANK has a knowledge driven approach to banking, and offers a superior customer experience for its retail, corporate and emerging corporate banking clients. YES BANK is steadily evolving as the Professionals' Bank of India with the long term mission of "Building the Finest Quality Large Bank of the World in India" by 2020.

