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## India

### Exporter Guide

### Annual

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**Report Highlights:**

High tariffs, dated food laws, unwarranted sanitary and phytosanitary restrictions, combined with poor infrastructure and a underdeveloped food retailing sector make India a difficult market to penetrate for high value food products. Nonetheless, the increasing size of the upwardly mobile segment of the population, increasing income levels, and changing demographics and social structure provide growth opportunities in coming years.

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## I. MARKET OVERVIEW

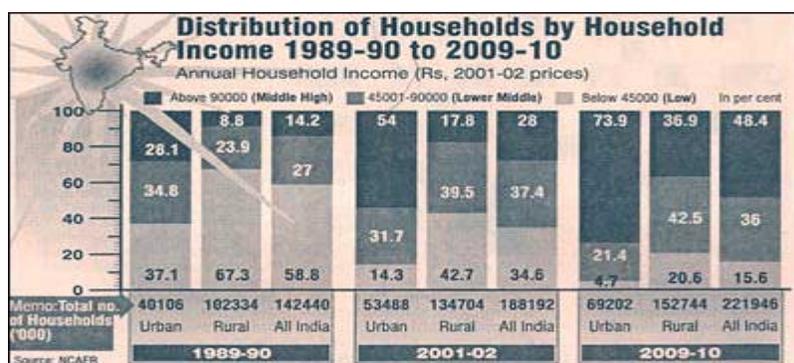
India is a country of striking contrasts and enormous ethnic, linguistic, and cultural diversity. It is roughly one-third the size of the United States with four-times its population (1.1 billion) and is comprised of 28 states and 7 Union Territories (under Federal government rule). The states differ vastly in resources, culture, food habits, living standards, and languages. Vast disparities in per capita income level between and within India's states persist. About 70 percent of the country's more than one billion people live in its 550,000 villages; the rest in 200 towns and cities. There are 27 cities with a population above one million.

India has the largest number of poor, with 433 million people surviving on less than \$1 per day. Nearly 52 percent of Indians' consumption expenditures go for food (55 percent in rural areas and 43 in urban areas); mostly for basic items like grains, vegetable oils, and sugar, and very little for value added food items. In recent years, however, there has been an increased shift towards vegetables, eggs, fruits, meat, and beverages. Religion has a major influence on eating habits and, along with low purchasing power, supports a predominantly vegetarian diet.

Some observers of India's economic scene are, however, highly optimistic about consumption growth potential, and believe that rising income levels, increasing urbanization, a changing age profile (more young people), increasing consumerism, a significant rise in the number of single men and women professionals, and the availability of cheap credit is expected to push India onto a new growth trajectory. These segments of the population are aware of quality differences, insist on world standards, and are willing to pay a premium for quality. Nonetheless, a major share of Indian consumers has to sacrifice quality for affordable prices. Potential US exporters should also bear in mind that India's diverse agro-industrial base already offers many items at very competitive prices.

According to a recent study by DSP Merrill Lynch, household consumption spending, which is growing at 15 percent per year, is expected to double to \$510 billion by 2008. By 2007, approximately 22 percent of households (44 million) should have an average annual income of rs. 145,000 (\$3,150 = \$17,300 on purchasing power parity basis), compared with less than 7 percent in 1995. The number of households in the upper middle/high income group should almost double from 25 million in 2002 to 45 million in 2007.

Results of the Market Information Survey of Households conducted by the National Council of Applied Economic Research (NCAER) supports this finding. The NCAER survey shows that the share of households in the upper middle/high income group (annual household income > rs. 90,000, or \$11,200 on purchasing power parity basis) has grown from 14% in 1989-90 to 28% in 2001-02, and is projected at 48 percent in 2009-10. Correspondingly, there has been a decline in the low - income group.



Sixty-five million people are expected to enter the 20-34 year age group from 2001 to 2010. Today closer to 30 percent of the population lives in cities and, by 2025, 40 percent Indians are expected to be urban dwellers.

Structural reforms and stabilization programs during the 1990s have contributed to India's sustained economic growth, which has been relatively strong over the past two decades, averaging 6 percent annually. Since 1996, the Indian government has gradually lifted import-licensing restrictions, which had effectively prohibited imports. On April 1, 2001, all remaining quantitative restrictions were removed, putting India in compliance with its WTO commitment. Nonetheless, the government continues to discourage imports, particularly agricultural, with the use of high tariffs and non-tariff barriers. Import tariffs on most consumer products, although declining, are still high, ranging from 31 to 52 percent. Some sensitive items, such as alcoholic beverages, poultry meat, raisins, vegetable oils, wheat, rice, etc., attract much higher duties. Non-tariff barriers include unwarranted sanitary and phytosanitary restrictions and onerous labeling requirements for pre-packaged foods. Other factors adversely affecting imports include a poorly developed infrastructure (transportation and cold chain), a predominantly unorganized retail sector, and ambiguous food laws. However, as mentioned earlier, some positive factors are:

- **Rising disposable income levels**
- **Increasing urbanization and exposure to Western culture**
- **Growing health consciousness among the middle class**
- **Growing consumerism**
- **Changing age profile**
- **Increasing availability of cheap consumer credit**

 <b>Advantages</b>	 <b>Challenges</b>
<ul style="list-style-type: none"> <li>● <b>Large and growing middle class</b></li> </ul>	<ul style="list-style-type: none"> <li>● <b>Divergent food habits</b></li> </ul>
<ul style="list-style-type: none"> <li>● <b>Increasing exposure to American products and lifestyle</b></li> </ul>	<ul style="list-style-type: none"> <li>● <b>Preference for fresh products and traditional foods</b></li> </ul>
<ul style="list-style-type: none"> <li>● <b>A slow but steady transformation of the retail food sector in cities</b></li> </ul>	<ul style="list-style-type: none"> <li>● <b>Difficulties in accessing vast untapped rural markets</b></li> </ul>
<ul style="list-style-type: none"> <li>● <b>Growing number of fast food chains</b></li> </ul>	<ul style="list-style-type: none"> <li>● <b>Poor infrastructure</b></li> </ul>
<ul style="list-style-type: none"> <li>● <b>Increasing urbanization and growing number of working women</b></li> </ul>	<ul style="list-style-type: none"> <li>● <b>Diverse agro-industrial base offering many products at competitive prices</b></li> </ul>
<ul style="list-style-type: none"> <li>● <b>A growing food processing industry looking for imported food ingredients</b></li> </ul>	<ul style="list-style-type: none"> <li>● <b>High tariffs, dated food laws, and unscientific sanitary and phytosanitary restrictions</b></li> </ul>
<ul style="list-style-type: none"> <li>● <b>Improving Indo-US political relations</b></li> </ul>	<ul style="list-style-type: none"> <li>● <b>Competition from countries with better geographic proximity</b></li> </ul>

## II. EXPORTER BUSINESS TIPS

### A. Food Preferences

India is well known for its tradition of vegetarianism. Among those who are not vegetarians, beef is still generally taboo to most Hindus (81.4 percent of the population), and Sikhs (1.9 percent of the population), and Jains (0.4 percent of the population), all of whom consider cows sacred. Many Indians are vegetarians because they cannot afford a non-vegetarian diet. As India has been at the crossroads of many peoples and cultures over the centuries, some foreign elements have invariably seeped into the local culinary culture. Thus, India's culinary tradition is constantly changing. Nonetheless, Indians have a strong preference for fresh products and traditional spices and ingredients, which has generally slowed the penetration of American and other Western type foods. However, with urbanization, rising incomes, more working women, the arrival of some food multinationals, and a proliferation of fast food outlets, the acceptance of packaged and ready-to-eat food products is increasing, especially among the urban middle class. These products, nonetheless, are usually tailored to Indian tastes. Many Indians are quite willing to try new foods, but usually return to traditional fare. While Western foods have a reasonably good chance of succeeding in casual dining, integrating them into the main meal will be more difficult.

Demand for specialty and high value food items, including those imported, such as chocolates, dry fruits (almonds, cashews, pistachios, etc.), cakes, pastries, exotic fruits, and fruit juices, typically peaks during the fall festive season, especially at Diwali – the Festival of Lights. Hence, from October to December is the best time to introduce new food products into the Indian market.

Imported food items that can be typically spotted in retail stores in cities include chocolates, biscuits, cake mixes, fruit juices, canned soups, popcorn, potato chips, canned fish and vegetables, ketchup, ice creams, and fruits such as apples, grapes, and Kiwis.

### B. Shopping Habits

Lacking home refrigeration and purchasing power, most Indians shop daily at neighborhood *kirana* shops (small retail outlets) or roadside vendors. Most consumers regard shopping as a chore, and few are familiar with alternatives to traditional store formats. Convenience to one's home is important, since daily shopping and sensitivity to food freshness is an integral part of shopping habits. Indians buy fruits and vegetables in one shop, dairy products in another, groceries in a third, and meats and fish in yet another. Quality is important, but there is a reluctance to pay a price premium. Trust in the retailer, especially with regard to quality of food and replacement of defective goods, is important. Although added services such as home delivery are welcome, consumers are unwilling to pay a premium for this service. Women do most of the shopping and make most of the food purchase decisions. Households able to afford Western imports usually have servants who buy, clean, and prepare foods. Availability of many fresh foods, particularly fruits and vegetables, is seasonal, and people are accustomed to adjusting their diet to the season.

Processed/packaged foods in great demand include ketchup and sauces, jams and jellies, table butter and *ghee* (melted butter), cooking oils, various *masalas* (spice mixes), pickles, wheat flour, noodles, snack foods (mostly Indian types), and health drinks. Most packaged food items are sold in small containers due to customers' limited purchasing power. Only in the past few years have Indians, mostly in cities, been exposed to supermarkets in the Western sense. Semi-urban, non-metropolitan, and rural areas have yet to feel the impact of large-scale retailing. Most people, even in cities, still associate supermarkets with

“expensive” rather than “cost effective”. However, in recent years the Shopping Mall culture is catching on in India, with several large malls built in large cities and suburbs.

### **C. Distribution Systems**

Consumer goods are distributed through a multi-level distribution system. With the cost of establishing warehouses becoming prohibitive, clearing and forwarding agents (CFAs) are fast becoming the norm. Typically the CFAs transport merchandise from the factory or warehouse to “stockists” or distributors. While the CFAs do not take title to the product, they receive 2.0 to 2.5 percent margins, invoice the stockists, and receive payment on behalf of the manufacturer. The stockists have exclusive geographical territories and a sales force which calls on both the wholesalers and on large retailers in urban areas. They usually offer credit to their customers and receive margin in the range of 3 to 9 percent. The wholesalers provide the final link to those rural and smaller retailers who cannot purchase directly from the distributors. Sales to these retailers are typically in cash only and the wholesalers receive a margin of 2 to 3 percent. Margins for retailers range from 5 to 15 percent, and the total cost of the distribution network represents between 10 and 20 percent of the final retail price.

Most imported food products are transshipped through regional hubs such as Dubai and Singapore, due to their liberal trade policies and efficient handling. Major importers are located in Mumbai, Kolkata, Delhi, and Goa. Although a large share of imported foods used to enter through illegal smuggling, with the recent liberalization and declining tariffs, smuggling is likely to diminish. Under invoicing is a commonly used practice to lessen the burden of import tariffs.

### **D. Infrastructure**

With a coastline of nearly 4,000 miles, India has 11 international and 139 minor ports. The international ports are Kandla, Mumbai, Jawaharlal Nehru, Cochin, Mormagoa, and New Mangalore on the west coast, and Chennai, Tuticorin, Vizagh, Paradeep, and Calcutta on the east coast. Container handling facilities are available at most major ports and in several major cities. India has a vast railway network connecting most major cities and towns. Refrigerated warehousing and transportation facilities are limited and costly, resulting in high storage losses in perishable food items. An inadequate and erratic electric power supply is a factor constraining cold chain development. Whereas infrastructure projects were previously reserved for the public sector, private investors are now being encouraged to participate. Telecommunications, in particular, is benefiting from privatization and strong foreign investor interest. The pace is much slower, however, for power generation, roads, and other infrastructure needs, where the returns on investment take longer to materialize.

### **E. Finding a Business Partner**

It is essential to survey existing and potential markets for products before initiating export sales to India. Market research firms in India can assist new exporters. If the aspiring US companies do have products of promising sales potential in India, they can either set up a base in India or appoint a distributor or an agent. If possible, setting up base is preferable, because Indians like to see foreign companies investing in their country rather than selling from abroad. US companies should avoid the temptation to establish a relationship with an agent/distributor merely because he is the most persistent suitor. Consider the following before selecting an agent:

- ☞ Determine who their potential customers are and where in India these customers are located through surveys.
- ☞ Recognize that agents with fewer principals and smaller set-ups often are more adaptable and committed than those with large infrastructure and big reputations.
- ☞ There may be a conflict of interest where the potential agent handles similar product lines, as many agents do.
- ☞ US firms should examine all distributor prospects, and thoroughly research the more promising ones. Check the potential agent's reputation through local industry/trade associations, potential clients, bankers, and other foreign companies/missions.

Franchising is another way of introducing Western products. Companies with franchises in the food sector in India include McDonalds, KFC, Domino's Pizza, Baskin Robbins, Wimpy's, TGIF, Ruby Tuesday, and Pizza Hut. Indian companies with strong brand recognition also franchise. Direct marketing, although becoming more popular, is still limited.

## F. Advertising and Sales Promotion

Advertising and trade promotion are highly developed in India, and most major U.S. advertising firms choose local partners, as these know India and Indians well. In addition to government-controlled television in various regional languages, there are several popular national, international, and regional privately owned channels. Most urban households have televisions, and they are increasingly popular in rural areas.

India also has a diverse and growing number of newspapers and glossy magazines appealing to various social, cultural, and gender groups. According to the Indian Readership Survey 2002, the urban cable and satellite penetration has touched more than half of the audience surveyed, adversely impacting cinema advertising in theatres. A similar movement has been witnessed in rural India. Statistically, the urban and rural reach of the printed media is 33 percent, television 52 percent, cable and satellite 26 percent, radio 15 percent, cinema 7 percent, and Internet 1 percent. Although the growth of Internet has been "faster than expected" reaching 20 percent of the urban population, the newly launched medium of FM radio, also confined to metros, has emerged as the "happening medium for advertising."

Delhi's Annual Food Exposition (AAHAR) and smaller food shows in Delhi and other cities provide opportunities for US exporters to showcase their food products to potential clients (please see GAIN Report # IN3088, which can be accessed from the FAS/USDA website: [www.fas.usda.gov](http://www.fas.usda.gov)).

## G. Business Etiquette

Although Hindi is India's leading national language, almost all Indian officials and business people have an excellent command of English. Most Indian businessmen have traveled abroad and are familiar with Western culture. Indians appreciate punctuality, but don't always practice it themselves. Keep your schedule flexible enough for last minute rescheduling of meetings. Business is not conducted during numerous religious holidays, which are observed throughout the many regions and states of India. Verify this information with your Consulate or Embassy before scheduling a visit. Indian executives prefer late morning or afternoon appointments between 11:00 a.m. and 4:00 p.m.

Indians are famous for having longer-than-scheduled meetings, so be sure to leave plenty of time between appointments. The climate in India can be very hot, so it is advisable to wear lightweight clothing to avoid discomfort. Men should wear a jacket and tie (and women corresponding attire) when making official calls or attending formal occasions. Always present a business card when introducing yourself. Refer to business contacts by their surname, rather than by their given name. Use courtesy titles such as "Mr.", "Mrs.", or "Miss." Talking about your family and friends is an important part of establishing a relationship with those involved in the negotiating process. Hospitality is a key part of doing business in India; most business discussions will not even begin until "chai" (tea), coffee, or a soft drink is served and there has been some preliminary "small talk." To refuse any beverage outright will likely be perceived as an insult. While an exchange of gifts is not necessary, most businessmen appreciate token mementos, particularly if they reflect the subject under discussions. Business lunches are preferred to dinners. Try to avoid business breakfasts, especially in Mumbai. The best time of year to visit India is between October and March, so that the seasons of extreme heat and rains can be avoided. Although Delhi (the capital) has a cool, pleasant winter (November - March), summers (April - June) are fierce with temperatures of up to 120 degrees Fahrenheit. Mumbai (the business hub) and most other major cities have a subtropical climate - hot and humid year around. Most Indian cities have good hotels and are well connected by domestic airlines.

The following websites were found to be informative and user-friendly in providing information on Indian business culture and business etiquettes. These websites are mentioned for readers' convenience; USDA does **NOT** in any way endorse, guarantee the accuracy of, or necessarily concur with the information contained in the below sites:

[http://stylusinc.com/business/india/cultural\\_tips.htm](http://stylusinc.com/business/india/cultural_tips.htm)  
[www.executiveplanet.com/business-etiquette/India.html](http://www.executiveplanet.com/business-etiquette/India.html)

## H. Import Duties

Imports into India are subject to a high, confusing array of duties, which include the following: a "basic" duty, an Additional Duty (AD) also known as Countervailing Duty (CVD), and a Special Additional Duty (SAD). Although the SAD was dropped in the interim Budget presented by the previous government in January 2004, the 2 percent Education Cess (EC), a special surcharge on all direct and indirect taxes, was introduced in this year's Budget, presented by the new government on July 8, 2004.

The basic duty on most processed food products is 30 percent. Exceptions in the agriculture/food group include "sensitive" items such as wine, liquor, poultry meat, wheat, rice, corn, coffee, tea, vegetable oils, cigarettes and tobacco, and several dairy products, which attract much higher basic duties. The CVD equals the excise duty on similar products produced domestically (16 percent on most consumer food products) and is levied on the total of the assessed value plus the basic duty. The calculation of the CVD on packaged goods is based on the Maximum Retail Price (MRP), minus the abatement, notified for similar domestic goods in India, which makes the calculation more difficult. The total import tariff on most consumer food products ranges from 31 percent to 52 percent.

For a product attracting a 30 percent basic duty, a 16 percent AD, and the 2 percent EC, the total applied import tariff will not be 48 percent as one might think (30+16+2), but rather 52.2 percent. The new import duty calculation is as follows:

CVD Rate	=	16 % on total import value
EC at 2% on 16%	=	0.32%
Effective CVD rate	=	16% + 0.32% = 16.32%
Basic Import duty	=	30%

Applied CVD	=	16.32% of 130% = 21.216%
Total import duty	=	30% + 21.216% = 51.216%
EC on Import duty	=	2% of 51.216% = 1.02432%
Applied import duty	=	51.216% + 1.02432% = <b>52.24032%</b>

The following table provides a detailed calculation of the retail pricing of imported food products in India.

#### Cost Breakdown of Imported Processed Food Products

Costs	Rate	Mumbai	Delhi
FOB Price at US Port (New York)	\$1 per unit	\$1	
Ocean freight, insurance, etc.	5% of FOB Invoice price 1/	\$0.05	
<b>CIF Value at Indian Port</b>		<b>\$1.05</b>	
Basic Import Duty	30% of CIF value	\$0.32	
Additional Duty (AD)	16.32% of 65% of MRP 2/	\$0.40	
EC on Import duty	2% on (Basic + AD)	\$0.01	
<b>Total Import Duty</b>		<b>\$0.73</b>	
Clearing Charges	5% of CIF price 3/	\$0.05	
Domestic freight from Mumbai	3% of CIF value 4/	\$0.0	\$0.03
<b>Landed cost</b>		<b>\$1.83</b>	<b>\$1.86</b>
Octroi	6% in Mumbai 5/; 0% in Delhi	\$0.11	0.00
Importer Margin	18% on landed cost 6/	\$0.33	\$0.33
<b>Invoice Price</b>		<b>\$2.27</b>	<b>\$2.19</b>
Central Sales Tax	4% of the Invoice Price	\$0.09	\$0.09
<b>Distributor Cost Price</b>		<b>\$2.36</b>	<b>\$2.28</b>
Local sales tax	16% in Mumbai; 8% in Delhi	\$0.38	\$0.18
Distributor Margin	11% of the distributor cost 7/	\$0.26	\$0.25
<b>Retailer Cost Price</b>		<b>\$3.00</b>	<b>\$2.71</b>
Retailer Margin	25% of retailer cost (20% of MRP)	\$0.75	\$0.68
<b>RETAIL PRICE</b>		<b>\$3.75</b>	<b>\$3.39</b>

Note: Calculations based on an assumed FOB value of \$25,000 for a 20 ft container

1/ Varies from 4 to 6%

- 2/ Maximum Retail Price (MRP) of \$3.75/unit declared by importer in Mumbai
- 3/ Varies from 4 to 5%
- 4/ Varies from 2 to 3%
- 5/ Varies from 5 to 7 percent depending on the product
- 6/ Varies from 15 to 20%
- 7/ Varies from 10 to 12%

## I. Food Laws

Food exporters will have to grapple with India's varied and somewhat dated food sector laws, particularly those pertaining to the use of additives and colors, labeling requirements, packaging, weights and measures, shelf-life, and phytosanitary regulations. Following the removal of quantitative restrictions on imports of food products, the GOI issued several notifications to make imported food products comply with domestic laws. Details on India's food laws are available in our "Food and Agricultural Import Regulations and Standards Country Report 2004" (IN4077), which can be accessed from the FAS/USDA website: [www.fas.usda.gov](http://www.fas.usda.gov)

Some of the major food laws affecting Indian food importers are:

● **The Prevention of Food Adulteration (PFA) Act, 1954, and PFA Rules of 1955**, as amended. This is a basic statute established to protect consumers against adulterated foods, and encompasses food colors and preservatives, pesticide residues, packaging, labeling, and regulation of sales. This is similar to the Federal Food, Drug, and Cosmetic Act of the United States Food and Drug Administration. PFA standards and regulations apply equally to domestic and imported products. The PFA Act and Rules, and recent notifications are available at: <http://mohfw.nic.in/pfa.htm>

● **The Standards of Weights and Measures Act, 1976, and the Standards of Weights and Measures (Packaged Commodities) Rules, 1977**, as amended. This Act established standards for weights and measures to regulate interstate trade and commerce in goods that are sold or distributed by weight, measure, or number. The Rules formed under the Act require labeling regarding the nature of the commodity, the name and address of the manufacturer, quantity, date of manufacture, best-before date, and the MRP. These labeling requirements apply equally to imported and domestic packaged foods. This Act and Rules and recent notifications can be accessed from: [http://fcamin.nic.in/wm\\_ind.htm](http://fcamin.nic.in/wm_ind.htm)

● **The Plant Quarantine (Regulation of Import into India) Order, 2003, and amendments**. These legislative measures regulate imports of planting seeds and agricultural products into India. These can be accessed from: <http://agricoop.nic.in/gazette/gazette.htm>. Please also see Post's innumerable GAIN reports (IN3126; IN4012; IN4032; IN4066; IN4099)

## III. MARKET SECTORS: STRUCTURE AND TRENDS

### A. Food Retail

Food retailing in India is not yet an organized industry, probably resulting from the sheer size of the country, its regional diversity, and the fairly limited infrastructure support. According to some experts, food and grocery retailing in India has a market size of rs. 3 trillion (\$67 billion), of which the organized retail sector has been able to capture only a fraction of a percent. India has no hypermarkets in the Western sense of the word and very

few supermarkets. While several larger stores and specialty shops in major cities cater to the less price sensitive wealthy segment of the population, virtually all other retailers are small, independent, owner-managed grocery stops (mainly "Mom & Pop" or, more accurately, "Pop & Son" stores). Most of these outlets have very basic offerings, fixed prices, no information technology, and little or no ambience.

Supermarkets are a recent phenomenon in India. These are basically larger grocery and convenience stores located in and around major cities. These "Indian Supermarkets" are typically 3,000 to 5,000 square feet, and are self-service stores stocked with a wide range of Indian and, more recently, imported groceries, snacks, processed food, confectionary, personal hygiene, and cosmetic products. Imported items in the supermarkets consist mainly of almonds and other dry fruits, fruit juices, ketchup, chocolates, sauces, specialty cheese, potato chips, canned fruits/vegetables, cookies, and cake mixes. These shops generally are open from 9:30 a.m. to 7:30 p.m., six days a week. They stock most national brands, regional and specialty brands, their own brand of packaged dry products, and some international brands. Many have a small bakery/confectionary section, and some have fresh produce and dairy products. Some sell small quantities of frozen foods, as cold storage availability is limited and electric power supply is erratic. A typical supermarket carries about 6,000 stock-keeping units. Most, however, have no item-based inventory control. Their margins typically range from 14 to 16 percent. These higher margins are largely due to the ability to get somewhat better prices from suppliers on bulk purchases, and the ability to generate income from selling advertising space and special in-store promotions to manufacturers. The cost structure of a supermarket is typically 3 percent for property; 3.5 percent for labor; air conditioning and lighting utilities up to 3.5 percent; interest cost of 1.5 percent; leaving 3 to 5 percent of sales as profit before tax.

There are only a few multi-unit supermarket chains in India, mostly in the south. Most Indian supermarkets cater to the segment of the population that seeks wider selection and has financial means, storage space (including refrigerators), and their own means of transport. Although the exact size of this population segment is not available, roughly 15 to 20 percent of the urban population is estimated to shop mostly in these supermarkets. The size of the segment is expected to grow. Large corporate groups are becoming interested in diversifying into retailing. However, the government recently rejected a proposal to permit foreign direct investment in the retail sector, which could have a negative impact on the growth of this segment.

The convenience stores at petrol pumps (gas stations), which sell all sorts of "impulse buys" like chocolates, soft drinks, cakes and cookies, potato chips, etc., have made some inroads in major metropolitan areas.

The concepts of shopping malls and hypermarkets are beginning to take shape in India's major cities. Space and cost constraints are prompting shopping areas to move to city suburbs. Over 200 such retail malls in 25 cities are under construction or in the active planning stage. Shopping malls such as DLF City Center, The Metropolitan, Big Bazar, Center Stage Mall, around Delhi; Crossroads and R-Mall in Mumbai; and Spencer's in Chennai; are revolutionizing the way the Indian middle class shop.

## **B. Food Service**

After a slump in 2002, the Indian hotel industry is getting back on the global tourist map. India has some excellent hotel chains, including Indian Hotels Ltd. (Taj Group); East India Hotels Company Ltd. (Oberoi Group); ITC Ltd. (Welcome Group); Asian Hotel; and Leela Venture. Several international chains such as Radisson, Best Western, Hilton, Marriott, Country Inn and Suites By Carlson, and Quality Inn have also established a presence

through franchising. The premium segment (including 5 star deluxe and 5 star hotels) dominates the hotel business in India, and accounts for roughly 65 percent of the total revenues to the industry. Hotels in this segment are concentrated in major metropolitan cities such as New Delhi, Mumbai, Chennai, Bangalore, and Kolkata, and also have a moderate presence along major tourist circuits. Most of the 5-star business is generated from business travelers, and most of those are international. The mid-market segment (comprising 3 and 4 star hotels) caters to a mix of business and leisure travelers, and is mostly concentrated in second-tier cities and in major tourist locations. The budget segment (2 star ratings or below) is present in most towns and cities and places of tourist interest.

Most premium and mid-market segment hotels source their food and beverage imports through consolidators located in Dubai, Amsterdam, Singapore, and Australia. Because of the high freight costs and small quantities involved, very little is directly imported from the United States. While leading hotels appreciate the excellent reputation of US food products, the higher cost is a constraint. Nevertheless, the hotel and tourism sector (which has great potential in India) provides opportunities for US exporters to position themselves in the market place.

After a slow start, the fast food industry has registered impressive growth in recent years. Most US chains, such as McDonald's, Dominos, and Pizza Hut, TGIF, along with local chains, are doing well in the major urban areas and are spreading into smaller cities. To "curry" favor with Indian diners, pizza, burger, and other fast food makers have developed a range of Indianized products to suit local tastes. Some outlets serve exclusively vegetarian food, catering to the country's large vegetarian population. Although fast food chains source most of their raw materials locally, several products, such as french fries, specialty cheeses, some meat and fishery products, flavors, condiments, and ingredients, are often imported. In the past few years, the "coffee shop" culture has spread throughout major cities and seems poised for further growth, which should provide an opportunity for US companies to supply products such as syrups, specialty coffees, etc.

The ready-to-eat (RTE) industry, while still nascent in India, is growing fast. The growing number of nuclear families (a family group consists only of father, mother, and children) vis-à-vis joint families, an increase in household incomes, and a significant rise in the number of single men and women professionals in recent years have opened opportunities in the RTE segment. At present there are only a few Indian companies like ITC and MTR focusing on this segment.

### **C. Food Processing**

Only about two percent of India's agricultural output is further processed. These value-added food products, however, amount to \$22.2 billion in sales and account for one-third of the value of the formal food sector. Although the quality tends to be mediocre, domestic production is the primary source of competition for foreign suppliers.

With investment reforms, including deregulation of the food processing industry in the early 1990s, the processed food sector initially attracted foreign direct investment. Several multinational companies such as PepsiCo, Cargill, Coca-Cola, Kellogg's, ConAgra, and Pillsbury have established operations in India. Existing Indian and foreign companies such as Hindustan Lever, Nestle, Cadbury's, Britannia, Dabur, Amul, the National Dairy Development Board, ITC, and Godrej have expanded their operations. Despite initial enthusiasm, foreign investment in the Indian food-processing sector has waned. The Indian government is in the process of formulating a "processed food development policy" to spur growth in the food processing sector, which seeks to create an appropriate environment for

entrepreneurs to set up food processing operations. It includes an Integrated Food Law, which is conceived as radical legislation that would provide a single window to provide guidance regarding marketing, processing, handling, transportation, and sale of foods. For details about India's Food Processing Industry, see the Department of Food Processing Industry's website: <http://mofpi.nic.in>

## IV. BEST HIGH-VALUE PRODUCT PROSPECTS

Product Category	Market Size 2002	Imports 2002/03 \$ million	Expected Avg. Annual Import Growth	Import Tariff Rate	Key Constraints	Market Attractiveness for USA
Apples	1.3 mmt	10.5	10%	50%	Competition from domestic and key established suppliers like Australia	Seasonal shortages and high prices; increasing interest in quality fruits among India's elite
Grapes	1.1 mmt	0.4	5%	30.6%		
Pears	neg.	1.1	5%	30.6%		
Chocolate	n.a	5.2	10%	52.2%	Competition from other suppliers and domestic suppliers	Import liberalization and consumer preference for imported products
Biscuits	1.2 mmt	2.3	10%	30% +AD		
Almonds	25 tmt	55.5	5%	Rs.35/kg	Competition from Iran and Afghanistan	High seasonal demand; increasing use; health consciousness
Pistachios	6 tmt	18.0	5%	30.6%		
Prunes	neg.	0.3	10%	25.5%		
Fruit juices	n.a.	9.3	10%	30.6%	Competition from nearby suppliers and domestic production	Increasing health awareness among middle class and shortage of quality products locally
Wine	n.a.	0.8	5%	143.6% to 258.1%	High import duty; competition from other suppliers	Growing consumption, poor quality domestic products
Sauces, spreads, salad dressings, condiments	n.a.	0.8	10%	30.6	Competition from domestic suppliers	Increasing popularity; growing food processing sector, fast food sector
Protein concentrate		3.0	5%			

**V. KEY CONTACTS AND FURTHER INFORMATION**

The following reports may be of interest to US exporters interested in India. These, and related reports prepared by this office, can be accessed via the FAS Home Page: [www.fas.usda.gov](http://www.fas.usda.gov) by clicking on "Attaché Reports" and searching by the report number.

<b>Report Number</b>	<b>Subject</b>
<b>IN4077</b>	<b>Food &amp; Agricultural Import Regulations and Standards Report</b>
<b>IN4104</b>	<b>India: Promotional Opportunities, Annual</b>

The Country Commercial Guide prepared by the Commercial Section of the US Embassy, New Delhi, will also be of interest to exporters. This can be accessed through [www.usatrade.gov/website/ccg.nsf](http://www.usatrade.gov/website/ccg.nsf)

For additional information and guidance please contact:

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## APPENDIX I. STATISTICS

Table A: Key Trade &amp; Demographic Information

Agricultural Imports From All Countries (\$Mil)/U.S. Market Share (%) 1/	3,993 (6)
Consumer Food Imports From All Countries (\$Mil)/U.S. Market Share (%) 1/	627 (15)
Edible Fishery Imports from All Countries (\$Mil)/U.S. Share (%) 1/	8 (8)
Total Population (Millions)/Annual Growth Rate (%) 2/	1,072 (1.95)
Urban Population (Million)/ Annual Growth Rate (%) 3/	297 (2.7)
Number of Major Metropolitan Areas 3/	27
Size of Middle Class (Millions)/Growth Rate (%) 4/	280 (8)
Per Capita Gross Domestic Product (U.S. \$)	511
Per Capita Food Expenditure (U.S. \$) 5/	114
Exchange Rate (US\$1 = Rupees)	46.0
Unemployment Rate (%)	7.3
Percent of Female Population Employed	26

1/ UN Trade Database for the year 2002

2/ Census India 2001

3/ Population in excess of 1 million: Greater Mumbai, Kolkata, Delhi, Chennai, Bangalore, Ahmedabad, Hyderabad, Pune, Kanpur, Surat, Jaipur, Lucknow, Nagpur, Indore, Bhopal, Ludhiana, Patna, Varanasi, Thane, Agra, Kalyan, Varanasi, Nashik, Meerut, Faridabad, Haora, Pimprichinchwad.

4/ People living in households with annual income of rs. 90,000 (\$1,895) or above (2001/02 NCAER Data)

5/ In urban areas. Source: Consumer Expenditure Survey Data –58<sup>th</sup> Round, 2002

**Table B: Consumer Food & Edible Fishery Product Imports**

<b>India Imports (in million of dollars)</b>	<b>Imports from the World</b>			<b>Imports from the U.S.</b>			<b>U.S. Market Share</b>		
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
CONSUMER-ORIENTED AGRICULTURAL TOTAL	564	486	627	12	106	95	21	22	15
Snack Food (excl nuts)	7	9	8	1	1	1	3	5	2
Breakfast Cereals & Pancake Mix	4	9	14	5	9	14	94	99	99
Red Meats, Fresh/Chilled/Frozen	1	1	1	0	0	0	0	0	0
Red Meats, Prepared/Preserved	1	1	1	1	0	1	6	0	0
Poultry Meat	1	1	1	0	0	0	0	0	0
Dairy Products (Excl. cheese)	10	7	12	1	1	1	2	4	3
Cheese	1	1	2	1	1	1	1	0	11
Eggs & Products	1	1	2	1	1	1	18	15	28
Fresh Fruit	57	66	43	1	6	4	2	9	9
Fresh Vegetables	4	23	18	1	1	1	6	0	0
Processed Fruit & Vegetables	18	15	16	1	1	1	4	3	6
Fruit & Vegetable Juices	2	9	9	1	1	1	0	1	1
Tree Nuts	319	175	336	63	42	38	19	24	11
Wine & Beer	2	4	3	1	1	1	5	1	1
Nursery Products & Cut Flowers	2	1	2	1	1	1	8	4	8
Pet Foods (Dog & Cat Food)	1	1	1	1	1	1	29	28	26
Other Consumer-Oriented Products	135	166	162	49	47	36	38	29	22
<b>FISH &amp; SEAFOOD PRODUCTS</b>	<b>7</b>	<b>8</b>	<b>8</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>7</b>	<b>10</b>	<b>8</b>
Salmon	1	1	1	0	0	1	0	0	13
Surimi	1	1	0	0	0	0	0	0	0
Crustaceans	1	2	4	0	1	1	0	44	18
Groundfish & Flatfish	1	1	1	0	0	0	0	0	0
Mollusks	1	2	1	1	0	0	85	0	0
Other Fishery Products	5	4	4	1	1	1	0	0	0
<b>AGRICULTURAL PRODUCTS TOTAL</b>	<b>2845</b>	<b>3705</b>	<b>3993</b>	<b>215</b>	<b>297</b>	<b>256</b>	<b>8</b>	<b>8</b>	<b>6</b>
<b>AGRICULTURAL, FISH &amp; FORESTRY TOTAL</b>	<b>3351</b>	<b>4271</b>	<b>4412</b>	<b>219</b>	<b>299</b>	<b>259</b>	<b>7</b>	<b>7</b>	<b>6</b>

Source: FAS Global Agricultural Trade System using data from the United Nations Statistical Office.

Table C: Top 15 Suppliers of Consumer Food &amp; Edible Fishery Products

CONSUMER-ORIENTED AGRICULTURAL TOTAL (\$1000)			FISH & SEAFOOD PRODUCTS (\$1000)		
	2001	2002		2001	2002
United States	105,867	94,991	Bangladesh	4,292	3,913
Tanzania, United Republic of	35,221	53,515	Indonesia	54	1066
Cote d'Ivoire	19,753	49,901	United States	866	635
Guinea-Bissau	9,760	46,972	United Kingdom	8	305
Indonesia	23,133	46,693	United Arab Emirates	278	280
Iran	50,845	40,761	Norway	2	242
China (Peoples Republic of)	28,991	30,134	Belgium	0	241
Sri Lanka	26,460	28,900	Malaysia	149	211
Nepal	21,878	24,822	Yemen	179	164
Benin	7,993	22,089	Burma	287	148
Mozambique	3,093	21,058	Areas NES	53	132
Afghanistan	14,026	17,057	Spain	0	125
Netherlands	10,208	12,001	Iran	0	94
New Zealand	5,567	10,768	Denmark	7	81
Pakistan	29,950	9,942	Italy	45	70
Other	93,511	117,492	Other	2,108	445
<b>World</b>	<b>486,298</b>	<b>627,140</b>	<b>World</b>	<b>8,334</b>	<b>8,155</b>

Source: United Nations Statistics Division