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Sector Report Retail, Lifestyle & Logistics

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Sector Report Retail, Lifestyle & Logistics

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Report highlights:

- *Overview of Food & Beverage sector in India with a focus on route-to-market/distribution*
- *Regulatory environment: initiatives, challenges and opportunities*
- *Prospects of FDI in e-commerce and online retail growth*

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SECTOR:
RETAIL, LIFESTYLE & LOGISTICS

SECTOR OVERVIEW: March 2014

In this quarter's UKIBC sector report on Retail, Lifestyle & Logistics, we cover key highlights of India's food and beverage (F&B) sector, with a focus on route-to-market, and other associated challenges and opportunities. Considering that the government is taking various initiatives, India's F&B market has huge potential. With the increasing population and income levels, the sector is expected to grow drastically. UKIBC conducted several events to discuss the route-to-market for food and drink companies, and for fashion, lifestyle and consumer goods companies from the UK.

Our Market and Investment Update sections include updates on FDI prospects in e-commerce in India and online retail growth, followed by an outlook on the logistics sector.

We hope you will find this report useful, and we look forward to your comments and suggestions.

Economic Indicators

Indicator	Q2	Q3
Real GDP Growth (%)	4.7	5.0 (F)
FDI (GBP bn, Monthly Average)	1.5	1.0
FII (GBP bn, Monthly Average)	(1.3)	0.5
CII Business Confidence Index	45.7	54.9
FDI in Hotel & Tourism (GBP mn)	38	68
FDI in Food Processing (GBP mn)	1,082	894
FDI in Air & Sea Transport (GBP mn)	12	14
FDI in Retail Trading - Single Brand (GBP mn)	0.2	0.2

Relevant Indices	3 Months	6 Months
S&P BSE FMCG Index: Returns (%)	0.9	3.2

References: Reserve Bank of India, Department of Industrial Policy and Promotion, Bombay Stock Exchange

Note: Data retrieved on Feb 28th 2014

In Focus: Food & Beverage (Route-to-Market)

With the second-largest population in the world, and growing income levels, India is one of the world's largest consumer markets. One of the biggest beneficiaries of this increasing consumer power is the Indian food and beverage industry. Total expenditure on food and non-alcoholic beverages in India increased 46% between 2007 and 2012 to an estimated GBP 195 billion, which accounted for 30% of total expenditure in the country in 2012. The primary driver of this growth was India's huge population (1.3 billion in 2012), of which nearly 60% is under the age of 30. The country's emerging middle class is expected to grow to 570 million by 2021 from approximately 470 million people in 2010, resulting in high consumer spending power (estimated at GBP 597 billion by 2021).

Supported by the increase in disposable income levels, changing urban lifestyles and modern retail trade, the Indian food processing industry is expected to grow to GBP 116 billion by 2015 from GBP 72 billion in 2012. In addition, the packaged food sector is likely to double by 2015 to touch GBP 18 billion from the current GBP 9 billion.

Though the Indian food industry as a whole is large, imported food products account for a small proportion. This is because food exporters face high tariffs, bans on specific products and tough competition from domestic producers. However, demand for these imported food products continues to grow as they become increasingly popular among India's middle class especially with younger consumers in urban areas, leading to market growth. Urban consumers in India (~380 million) are not only becoming increasingly open to processed/packaged food products, but are also eating out more and trying international cuisines. In addition, they are the largest consumers of processed food, consuming 78% of all packaged food in 2011.

Shopping habits and the presence of imported food

Traditionally, Indians purchased their groceries from the neighbourhood retail store. However, with the emergence of modern retail chains in tier 1 and tier 2 cities, more aspirational Indians are switching to organised retail and branded products to supplement their regular shopping. Most packaged food items are sold in small containers to keep the pricing low for the cost-conscious Indian consumer.

Imported food items typically found in retail stores include chocolates and chocolate syrups, dry fruits and nuts, , seasonings, cakes and cake mixes, biscuits, pastas, noodles, canned fruit juices, canned soups, popcorn, potato chips, canned fish and vegetables, ketchup, breakfast cereals, and fresh fruits such as apples, pears, grapes and kiwi fruit.

Imported alcohol is also popular; however, alcoholic beverages follow a different supply chain and the market is highly regulated, with retailers having to procure a separate licence to sell alcoholic beverages.

Route-to-market/distribution channels

With growing consumer demand, the Indian food market presents an attractive opportunity to international food and drink companies. However, foreign exporters interested in the Indian market should first gain a thorough understanding of the various marketing channels that are typically used for imported foods, as these channels are complex and involve several intermediaries.

Indian business partners import with the help of a clearing and forwarding agent, distributing food products to retailers. Several importers have their own warehouses while others store and distribute products through clearing and forwarding agents, as high costs are involved in operating warehouses and maintaining truck fleets. National-level importers either operate regional offices or designate local distributors in different regions.

Of late, a new brand of professional importers has emerged in the country. These importers seek to manage brands rather than just trade in food. They have well-established sales channels in the domestic market and are aware of the relevant local regulatory requirements. Moreover, they usually seek exclusive rights to market a brand or a product in India.

Leading importers in India include Suresh Kumar and Co, Dugar Overseas Pvt. Ltd, Sri Roda Foods and L-Comps & Impex Pvt Ltd.

Foreign exporters must understand typical distribution channels used in India even if Indian importers handle the sales process once a product reaches Indian ports. Illustration 1 describes the process followed for locally produced foods from manufacturing to retail and indicates margins earned at each level.

Illustration 1: Marketing channels for locally manufactured food and margins at each level

Intermediaries	Margin
Manufacturer's Factory/Importers Warehouse	
Clearing and forwarding agents Transport the goods to stockists and invoice them to receive payments on behalf of the manufacturer	2.0-2.5%
Stockists or distributors have exclusive territorial rights and the sales force to contact wholesalers and large retailers; usually offer credit to customers	3-9%
Wholesalers act as the final link to rural and smaller retailers that cannot buy from distributors; typically transactions are in cash at this stage	2-3%
Retailers	5-30%

The total cost of the distribution network is approximately 10-20% of the final retail price. Moreover, as a norm, retail prices of imported foods are typically 2-3 times higher than free on board FOB export prices after adding tariffs, duties, margins and transportation costs. Additional costs are even higher for products that require refrigeration or special handling.

Alternative channels–The Hospitality and QSR industries: Apart from the usual importer-to-retailer channel, other channels such as the hospitality industry can be utilised to introduce new products.

An increasing number of global restaurant chains, including casual dining, fast food and cafe businesses, are coming up in India These businesses usually source foods from the local markets; however, they do import certain specialised ingredients that are not readily available in the country. Moreover, the hotel sector has traditionally represented a small but consistent market for certain high-value food products that cannot be readily sourced in India.

Government regulations and challenges

For exporters, the first and most crucial step is finding the right importers and distributors that are aware of local customs and import regulations. Although importers can provide local know-how, exporters must educate themselves about various imposed industry standards, labelling requirements and the intricate structure of duties and tariffs.

Tariffs and duties: Import tariffs vary, depending on the product, but tend to be quite high. The overall tariffs paid on products generally range from 26.0% to 74.6%. In addition, a range of taxes is paid on imports. The main duties and tariffs include Basic Duty (~30% for most products), Additional Duty (AD) or Countervailing Duty (CVD) and Special Additional Duty (SAD) or Special Countervailing Duty (SCVD), which is ~4%. For more information on duties and tariffs, visit the website: www.cbec.gov.in.

Industry standards: To comply with industry standards, unprocessed food products require Phytosanitary certification (for plant products) and Sanitary Health certification (for animal products) from the Ministry of Agriculture. Processed food products generally do not require certification; however, food and beverage products need to conform to domestic standards, which are governed by the Food Safety Standards Authority of India (FSSAI). The objective of the FSSAI is to consolidate various food laws and establish a single regulatory agency in place of the multiple regulatory agencies that operate currently. All the five major Indian ports have FSSAI inspection officers to ensure that imported goods conform to standards.

On 5 August 2011, the FSSAI formally implemented its Food Safety and Standards Rules, 2011, which contain the provisions for establishing enforcement mechanisms, sampling techniques and other legal aspects.

Some key requirements, under FSSAI standards, for food exporters are maximum retail pricing, markers for vegetarian (green dot) or non-vegetarian (red dot) products, and dates of production, import and expiration, along with specific requirements that imported products have 60% of their shelf life remaining at the time of import.

In November 2012, the Ministry of Consumer Affairs formally applied a rule requiring standard-sized packages. The rule specifies what a standard package weighs (such as, but not limited to, 100 grams or 250 grams) and states that non-standard weights (i.e., 413 grams) are not allowed.

Labelling: The Food Safety and Standards Regulation 2011 also outlines labelling requirements for food and beverage products. In general, the information required includes name and description; ingredients; net content by weight, volume, number and drained weight; unique lot number, code number and batch number; date of manufacturing and packing; name and address of the manufacturer; best before and expiry dates, instructions for use and maximum retail price (MRP). Moreover, there are labelling requirements for packaged food products that include energy value (kcal); numerical information on protein, carbohydrates fat; vitamins, minerals and other nutrients.

All of the above information must be printed in the exporting country and cannot be added onto packaging in India. Additional labelling requirements for imported products are available in FSS (Packaging and Labelling) regulation, 2011.

The UKIBC has been approached by several food and drink exporters in the UK that have been severely affected by the FSSAI's sudden enforcement of labelling regulations. Due to this, major consignments of perishable goods are being held up at ports and are not being cleared by customs authorities. Most shipments are abandoned or are likely to be shipped back to the country of origin. Understandably, this state of affairs has caused major concern not just to UK manufacturers and exporters but to the wider international community that sees this move by the FSSAI as economically unviable and a real barrier to trade over the long term.

For its part, the FSSAI upholds that its zero-tolerance policy is based on the law of the land. Dismissing charges of being unfair, FSSAI officials have said that they do allow some information on whether the product is vegetarian or non-vegetarian and the importer's name and address to be affixed as a sticker. They argue that companies have had two years of 'common sense' interpretation to comply with the new rules.

Our members are committed to full compliance with FSSAI's regulations and are accordingly keen on seeking more clarity on the application of these new guidelines. We are dealing with this by putting in a formal letter to the Indian High Commission requesting it to appeal to the FSSAI and the Ministry of Health to allow food and drink products from the UK to enter the country and give enough time to comply with these new labelling requirements, taking into consideration that printing and registering new labels with the local excise authorities can take as long as six months.

If you would like to share any further inputs or your experiences, please contact enquiries@ukibc.com.

Other challenges relate to a corrupt and inefficient bureaucracy, which makes it more difficult for foreign players to gain quick and easy access to the Indian market. Submitting relevant documentation can also be time consuming and can add to the cost of exporting. Apart from these factors, there is a lack of suitable infrastructure such as cold chains, packaging centres, value-added centres and modernised abattoirs.

Although the food import business in India is in its nascent stage, the government is formulating and implementing policies to ease international trade and is taking several initiatives to promote cross-border exchange of goods and services. The imported food and beverage sector represents a significant opportunity for foreign players, many of whom are already making a beeline to tap the growing market.

References: India Brand Equity Foundation (IBEF), Global Agricultural Information Network, Dun & Bradstreet, FnBnews.com, New Zealand Trade & Enterprise, The Times of India, The Hindu, NDTV Profit

Market Update

Indian government may allow FDI in e-commerce before April 2014

The Department of Industrial Policy & Promotion (DIPP) hinted at the government's plan to allow FDI in retail e-commerce. The new policy is expected to open the sector for foreign investors before the end of fiscal year 2013-14. Currently, 100% FDI is allowed in B2B e-commerce but not for B2C businesses. In addition, foreign players in the B2B or B2C business are required to source at least 30% of their goods locally.

Business Standard, 31st Dec

Growing online retailing

The online retail market, including direct channels and online marketplaces with an annual growth rate of 50-55%, is expected to be valued at GBP 5 billion by 2016.

The increasing popularity of online retail sales is becoming a threat for brick-and-mortar retailers, not just in the sales of books, music and electronics, but also in the sales of apparel and groceries.

The Economic Times, 24th Feb

Outlook for logistics sector stable: India Ratings

India Ratings has kept the outlook stable for the logistics sector for FY15, as it expects moderate growth for the industry despite the economic slowdown.

Most segments of the industry have low leverage and the value-added offerings of large players help support margins.

The Hindu, 24th Feb

Rajasthan and Delhi governments cancel approvals for FDI in retail sector

The Union Ministry of Commerce and Industry has sought legal opinion on whether it can reverse its decision to approve FDI in the retail sector. The successor governments of Delhi and Rajasthan have announced that they were cancelling the approval given by predecessors.

Union Commerce and Industry minister Anand Sharma had objected, saying that such a revocation could not be allowed. However, the Constitutional position is not very clear.

Business Standard, 3rd Feb

Food subsidy to implement NFSA for 2014-15 increased to GBP 12 billion

The Centre has increased the food subsidy to GBP 12 billion for the financial year 2014-15 mainly for the implementation of the National Food Security Act. This is GBP 2.3 billion more than the 2013-14 estimate of GBP 9.2 billion.

FnB news.com, 19th Feb

Bharti Group in talks with Carrefour and Aeon to form retail joint venture

Bharti Group, which runs India's largest mobile operator Airtel, was considering two global retail chains — French major Carrefour and Japan's largest retailer Aeon — to form a new joint venture. The new partner will replace Walmart with which Bharti had a strategic partnership till October 2013.

Economic Times, 7th Mar

Investment Update

JPSML Copthall acquires stake in Future Retail

JPMSL A/c Copthall Mauritius Investment announced the purchase of 1.465 million equity shares, representing a 0.6% interest, in Future Retail, formerly known as Pantaloon Retail. The acquisition deal is valued at GBP 1.3 million.

VC Post, 15th Feb

ICAR invests GBP 0.2 million to set up food processing lab at UAS in Karnataka

The Indian Council of Agricultural Research (ICAR) has offered GBP 0.2 million to the University of Agricultural Sciences (UAS), Dharwad, in Karnataka for establishing a food processing laboratory within its campus. The lab will provide practical knowledge to food technology students in the areas of developing novel food products and focussing on research areas pertaining to small fruits, cereal bars, soya products and probiotics. It is also being looked at as a means to augment the quality of the food technology department and provide hands-on training to students. The remaining amount will be used to install the required instruments. The grant for the UAS-D is under an externally funded scheme of the ICAR.

FnB news.com, 25th Feb

Events Update

Business is great in Chandigarh

The UKIBC event offered companies from the UK an opportunity to participate in a series of events to help promote their goods and services in a city which is the capital of Haryana & Punjab, two key states in northern India.

The events focused on agriculture, ICT, education, food & drink and fashion & luxury lifestyle.

UKIBC, 04th Dec

The Indian retail and logistics opportunities

The UKIBC event featured renowned Professor Arpita Mukherjee, a visionary leader and highly respected researcher from ICRIER (Indian Council for Research on International Economic Relations). Professor Mukherjee specialises in Indian domestic policy reforms and international trade, with a key focus on retail, logistics and infrastructure. She commented on FDI developments in these sectors and highlighted new opportunities for companies in the UK-India economic corridor and production networks.

UKIBC, 31st Jan

Finding route-to-market for UK food & drink Companies

The UKIBC organised an event that focused on highlighting the ways in which food and drink companies from the UK can navigate the difficult Indian market and reach Indian consumers who are eager to purchase these products.

Expert speakers from Dooley Rumble, Pettywood, Eversheds, Ramsden International and the Food and Drink Exporters Association shared their insights and experience and offered advice on ways in which one can achieve success in India.

UKIBC, 19th Mar

53rd India International Garment Fair (IIGF) to be held in July 2014

The 53rd edition of India International Garment Fair (IIGF) would be held from 14-16 July, 2014 at Pragati Maidan, New Delhi, India. Entry is exclusive for overseas buyers and buying agents only. Through over 350 exhibitors, IIGF shall showcase the latest characteristic trends and fashion in the apparel industry from entire India.

IIGF

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Please note:

- Conversion rate used across the report is for Feb 28th 2014. 1 GBP = 103.16 INR and 1 GBP = 1.67 USD
- Numbers rounded across the report

Information provided in this report is for reference only. When negotiating supply contracts and before beginning actual export, companies are advised to consult closely with their importer or distributor.