Changing consumer preference driving growth of ready-to-eat snack food products

Background
Packaged food industry comprises bakery products, biscuits, ready-to-eat snacks, chips, namkeens (salted snacks and savories), etc. Packaged food industry in India has witnessed an exponential growth over past few years. The market size of confectioneries is estimated at Rs.5,146 crore and that of biscuits is estimated at Rs.24,000 crore. Furthermore, the market size of ready-to-eat snacks and namkeens is estimated at more than Rs.50,000 crore; having grown at a compounded annual growth rate (CAGR) of around 13% since 1998 till 2014 and expected to grow at a CAGR of 22% during 2014-2019. Major growth drivers for the segment are attributed to changing lifestyle, growing urbanization, increase in nuclear families and rise in disposable income. Other factors which have contributed to its growth include product innovations, strong marketing initiatives and low cost pricing strategies making products more affordable for consumers (starting from Rs.5 per packet). The sale of snack food category (ready-to-eat packed foods like chips, extracted food, etc.) alone have grown more than six-fold from Rs.8,000 crore in 2004 to more than Rs.50,000 crore in 2014.

The key demand accelerators

The primary factors that have provided an impetus to the packaged food industry in India are elaborated as under:

Demographic factors
Demographic factors like change in the consumer lifestyle has been one of the primary reasons for the growth of packaged food (snack) industry. Profile of an urban consumer in India is changing with increase in working population, predominance of married couples with double income, singles/ professionals
staying away from home, nuclear families, etc, which coupled with increase in per capita disposable income, has opened opportunities for the ready-to-eat snack food segment. Furthermore, a need for convenience due to fast-paced lifestyle and a cultural tradition of eating snacks between meals has led to an increased demand for these products.

The next 20 years are likely to see India add approximately 245 million youth to its workforce. At the same time, there will also be a rise in the middle-class population, as well as increase in disposable income across the socio-economic spectrum which could aid sustainable growth of the packaged food (snack) industry.

**Increasing urbanization**

One of the increasing phenomena observed in India is the formation of urban agglomerations, which is the geographic concentration of urban population and economic activities. Over the years, India has been experiencing a steady increase in the share of urban population, emergence of new cities/towns underpinned by growth in population, rural to urban migration and reclassification of rural areas in to urban.

Continued migration from villages to cities means that by 2020, one-third of all Indians will live in urban areas, which bodes well for packaged food (snack) industry, as the urban areas comprise nearly 66% of their market. Furthermore, the emergence of organized modern trade and new retail formats create more choice for consumers and will facilitate changes in shopping habits.

**Innovative product and marketing initiatives**

Product innovation, branding and attractive packaging have also provided impetus to the packaged food (snack) industry. The players in the packaged food (snack) industry have primarily tweaked their product offerings to suit the taste of Indian consumers and have launched new variants of the products to cater to region-specific demand which have widened their consumer base. The industry players also consider factors like freshness, crispiness and flavor of the product, which the consumers consider important, before launching new products.

Adoption of low cost pricing strategies to make the product affordable for consumers has also enhanced the consumer base for the industry. Newer preservation techniques have led to advent of products which are suitable to consumers during fasting season. Extruded products and those with different shapes and tastes have been some of the innovations that have widened the consumer base for the packaged food (snack) industry players. Innovations in the packaging industry like sophisticated packaging products made of biaxially-oriented polyethylene terephthalate (BOPET), biaxially-oriented polypropylene (BOPP) and
cast polypropylene (CPP) films have enabled packaged food (snack) industry players to offer products in colorful packs to attract consumers.

**Policy initiatives and Government support**

Food processing segment has been a key focus area of the Government considering the fact that around 70% of India’s population depends on agricultural activity. Government has formulated and implemented several schemes covering financial assistance for creating infrastructure, support for research and development and human resource development to encourage growth of processed food sector. The government is facilitating expansion and technology up-gradation through schemes like Mega Food Park and cold chain, value addition and preservation infrastructure scheme. Imaginative and targeted policies such as ‘Food Parks’ are designed to address weaknesses throughout the value chain. By 2017, 50 Food Parks are expected to be built across the country, providing accessible transport and processing facilities to even small farmers. Furthermore, tax incentives, direct as well as indirect tax, are given to the players in form of income tax deductions, excise duty wave off, 100% foreign direct investments through automatic route, full repatriation of profits & capital and duty exemptions for export-oriented units.

**Profile of major players**

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of Company</th>
<th>Brand</th>
<th>Major Products offered</th>
<th>Geographical Presence</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PepsiCo India Holdings Pvt. Ltd.</td>
<td>Lays, Kurkure, Cheetos, Uncle Chippis</td>
<td>Wafers, extruded products, juices</td>
<td>Pan India</td>
</tr>
<tr>
<td>2</td>
<td>Haldiram Foods International Pvt. Ltd.</td>
<td>Haldiram</td>
<td>Snacks like wafers, bhuji, sev, frozen food products</td>
<td>Western and Southern India</td>
</tr>
<tr>
<td>3</td>
<td>Haldiram Snacks Pvt. Ltd.</td>
<td>Haldiram</td>
<td>Snacks like wafers, bhuji, sev, frozen food products</td>
<td>Northern India</td>
</tr>
<tr>
<td>4</td>
<td>ITC Foods Ltd.</td>
<td>Bingo, B Natural</td>
<td>Ready to eat food, wafers, other snacks, juices</td>
<td>Pan India</td>
</tr>
<tr>
<td>5</td>
<td>Balaji Wafers Pvt. Ltd.</td>
<td>Balaji</td>
<td>Wafers and traditional Indian snacks</td>
<td>Western India</td>
</tr>
<tr>
<td>6</td>
<td>Gopal Snacks Pvt. Ltd.</td>
<td>Gopal</td>
<td>Wafers and traditional Indian snacks</td>
<td>Western India</td>
</tr>
<tr>
<td>7</td>
<td>Laxmi Snacks Pvt. Ltd.</td>
<td>Real</td>
<td>Ready to eat packaged snacks</td>
<td>Western India</td>
</tr>
<tr>
<td>8</td>
<td>Bikaji Foods International Ltd.</td>
<td>Bikaji</td>
<td>Ready to eat packaged snacks</td>
<td>North-western India</td>
</tr>
<tr>
<td>9</td>
<td>Prataap Snacks Pvt. Ltd.</td>
<td>Yellow Diamond</td>
<td>Ready to eat packaged snacks</td>
<td>Central India</td>
</tr>
</tbody>
</table>

**Challenges and Way Ahead**

Indian packaged food (snacks) industry still has untapped segments and an under-penetrated rural market. Furthermore, export opportunities are rising with India’s growing integration with the global economy.
economy, its proximity to key export destinations like Middle East and expected spike in global demand as emerging markets grow at a fast pace. Despite huge potential, Indian packaged food (snacks) industry faces challenge in terms of basic infrastructure, such as lack of adequate number of cold storage warehouses, efficient supply chain management for movement of perishable items etc. The industry is also prone to the vagaries of price fluctuations in the commodity that they utilize and is highly fragmented with presence of several regional players apart from few national level players. Recently, many small regional players have mushroomed across the country which has added to competitive intensity of the industry. Hence, the biggest challenge for the industry players would be scaling up their regional presence to a national level while maintaining highest quality standards.

In order to achieve long-term sustainable growth, the industry players would be required to upgrade their supply chain management practices, secure and widen raw material procurement sources, adhere to global quality standards and periodically introduce new/fresh products in the market. The players should focus on improvement of basic infrastructure by adopting technically advanced storage processes and efficient supply chain management practices for minimizing wastage and transit losses. Developing strong ties for raw material procurement is another key success factor for any agricultural commodity based business. Adopting best practices in contract manufacturing for key inputs or sharing greater economic benefits with farmers may help in creating long-standing relationship so as to minimize supply-related uncertainties. Periodic product innovation could be helpful in expanding target audience through addition of new customer segment or entering newer geographies so as to cater to region specific tastes & preferences. Furthermore, players should develop strong Internal Quality Control policies at each stage of the production process starting from raw material to packaging of finished goods.
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so as to eliminate any deviation from quality benchmarks. Furthermore, the implemented practices should be largely inclusive and be beneficial to all intermediaries across the value chain, ie, from farmers to manufacturers as well as from stockiest to retailers.

Efficient procurement and management of raw materials complemented by control over quality, product innovation and efficient supply chain management would be essential to create a strong brand with a national presence.

Rating Dispersion

As presented above, of the sample of 11 rated companies from the packaged food (snacks) industry, 9 companies have been rated in investment grade. Rating of players in the investment grade derive strength from their established brand and strong regional presence, effective distribution model which has resulted in steady growth in income along with moderate profitability and comfortable debt coverage indicators. Furthermore, these players have better control over working capital requirement through their policy of working either on advance payment basis or offering very low credit period to distributors.

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