

# Redefining Food Processing Sector through Startups

In the inaugural event of 'World Food India 2023' held in New Delhi on 03 November 2023, the Hon'ble Prime Minister of India referred to the food processing sector as a 'Sunrise' sector and underscored the role played by the entrepreneurial abilities of startups in its phenomenal growth. Startups in the food processing ecosystem are found at various stages of the value chain and together have the potential and dynamism to complete the value chain and lead to transformational changes in the economy.

#startupindia



**Dr. Ishita G. Tripathy**

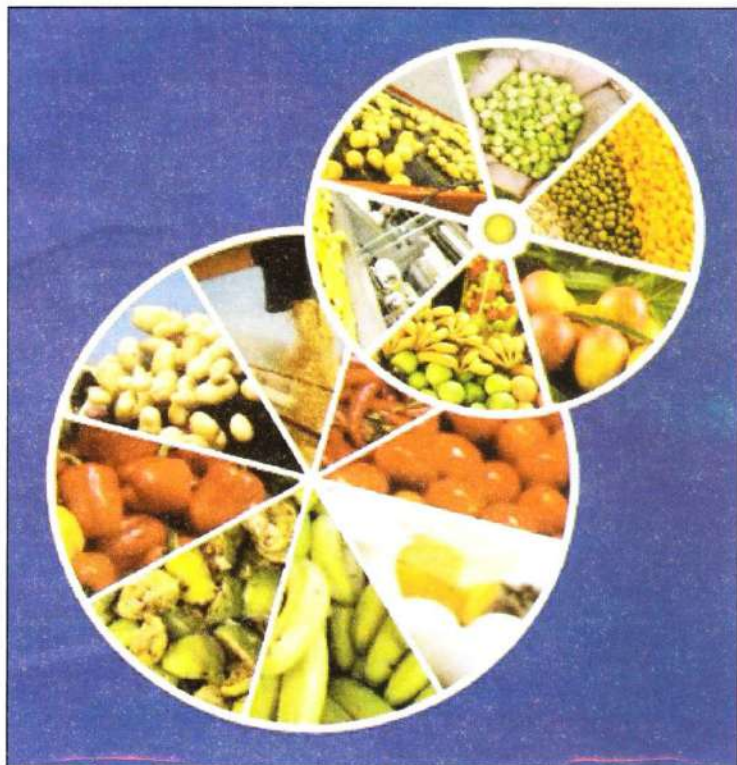
**T**he food processing sector of an economy is the quintessential example of mutually reinforcing primary and secondary sectors in terms of demand-supply dynamics and forward and backward linkage effects. This sector is extremely vital for an agrarian country like India. It not only acts as an effective link between agriculture and industries but also helps in reducing wastages of perishable agricultural produce, ensuring value addition, and diversifying and commercialising agriculture, thereby generating incremental employment and income for farmers.

Socio-economic changes, such as rapid urbanisation, impact the food consumption behaviour of citizens. Consumption diversity and dietary diversification needs with modified food behaviours prompt demand shifts towards specific food categories, requiring an overhaul in the food demand-supply system too. It is the startups that bring new ideas into the food sector and work on creating innovative products and reinvigorating supply chains.

## Importance of Food Processing Sector

Unquestionably, the food processing sector is one of the most important sectors of the Indian economy,

both in terms of its contribution to economic output and also in terms of overall economic growth. From 2012–13 to 2020–21, the Gross Value added by the food processing industries at 2011–12 constant prices grew from Rs. 1.30 lakh crore to Rs. 2.37 lakh crore, as depicted in the Annual Report 2022–23 of the Ministry of Food Processing Industries. This sector is one of the fastest growing sectors in the country, having grown at



10.3% during 2015–16 to 2020–21, vis-à-vis the growth rate of 5.1% in the overall manufacturing sector. This sector is also one of the sectors where consumer dynamism is highly palpable and easy to comprehend.

### Startups: Sunrise and Inclusive Growth

The Union Budget 2023–24 stated that India has the third-largest ecosystem for startups, globally. India has the potential to become a global culinary hub and can combat global hunger. In the inaugural event of 'World Food India 2023' held in New Delhi on 3 November 2023, the Hon'ble Prime Minister of India referred to the food processing sector as a 'sunrise' sector and underscored the tremendous inherent entrepreneurial potential of startups in the food sector. In this context, this article endeavours to evaluate the growth chart of the food processing sector in India and the enhanced contribution of startups to this growth story.

A study by NABARD Consultancy Service Pvt. Ltd. estimated in 2022 the percentage of harvest and post-harvest loss of perishable food (Table-1). Tackling such losses, though challenging, is extremely important, considering the broader objective of food security for all. In this context, food processing startups need to be facilitated through specialised interventions that can ensure the presence of new research and development, technology, innovative processes, and products, and thereby enlarging the scope of an improved supply chain, value chain, and demand system in the food sector of the country.

**Table1: Estimated Loss of Perishable Commodities**

Perishable Commodities	Estimated Loss (in %)
Fruits	6.02-15.05
Vegetables	.4.87-11.61
Milk	0.87
Fisheries (Marine)	8.76
Fisheries (Inland)	4.86

*Source: Rajya Sabha Starred Question No. 252 answered on 11 August 2023.*

The role of women in food processing industrial startups has always been important. Out of more than 3.13 crore registered micro, small, and medium enterprises in the country, as many as 19 lakh are in the food processing sector, of which 33% are owned by women entrepreneurs. As per the Ministry of Food Processing Industries' Annual Report, 2022–23, 11.18% of total 20.32 lakh registered employment is that of women workers and out of 51.11 lakh employees in the unincorporated non-agricultural enterprises in the food processing sector, 25% are women. There is a concentration in the southern States of Andhra Pradesh (14%), Tamil Nadu (12%) and Telangana (10%), which together constitute 36% of all registered food processing factories in the country. Besides, there are food processing products approved under One District One Product which range from coconut-based products of the districts of Andaman & Nicobar Islands and spices of Andhra Pradesh to walnuts of Arunachal Pradesh and bakery products of Chandigarh.

## Startups: Growth Facts and Figures

From 2017 to 2021, there have been as many as 2,713 startups set up in the Food & Beverages sector, with the number enhanced every year (Table-2) as per a Press Release of the Department for Promotion of Industry and Internal Trade (DPIIT). In addition to this, there are 1,000 agri-tech startups to aid farmers to improve their techniques and another 500 working in the millet value chain (Economic Survey, 2022–23). Digital infrastructure supports the growth of the agri-tech startups, in particular.

**Table 2: No. of Startups recognised by DPIIT in the Food & Beverages Sector**

2017	2018	2019	2020	2021
170	357	533	643	1,010

Source: <https://pib.gov.in/Pressreleaseshare.aspx?PRID=1881492>

Since its launch in 2020, Self-Reliant Fund for MSMEs has provided equity support to growth-oriented MSMEs, including startups. On an average, the Fund has provided Rs. 13 crore equity support to the beneficiary enterprises. Out of the 373 MSMEs, which have benefitted from equity infusion under SRI Fund

in the past two years, 15 are from the food processing sector.

### Meeting Challenges through Focused Attention

The major challenges faced by a startup are the 4 'A's, viz. Availability, Accessibility, Affordability, and Awareness regarding the three essentials of any business, viz. finance, technology, and markets. These challenges among startups in the food processing sector can be further nuanced as product development and innovation; a strengthened supply chain; linking production and processing; addressing issues related to seasonality; quality and safety standards; and reducing post-harvest wastage.

The notification of a separate Ministry of Food Processing Industries in 2001 by the Government of India highlighted its focused intervention in this sunrise sector. The growing importance of the sector can also be gauged by the enhanced outlays, as evident from Budget of 2023–24. The Budget data indicates that while the actual expenditure of the Ministry of Food Processing Industries was Rs. 1,147 crore in 2021–22, the Revised Estimate for 2022–23 was pegged at Rs. 1,902 crore and the Budget Estimate for 2023–24 is Rs. 3,288 crore.

A number of initiatives are being taken by the Government of India to address the challenges faced by the food processing sector, including those faced by startups. Among these are 'Make in India', which recognises this sector as a priority sector. Resting on the principle of reaping benefits from economies of scale, a cluster approach or a plug-and-play model

## FOOD PROCESSING STARTUPS





on which mega food parks are based would work well for this sector. Recent initiatives also include implementation of schemes of the Government of India such as Pradhan Mantri Kisan Sampada Yojana, Prime Minister Formalisation of Micro Processing Enterprises, Production Linked Incentive, etc.

For startups in the food processing sector to flourish, backward linkages with agriculture, fisheries, dairying, animal husbandry, etc. need to be strong. This objective is strengthened by the Production Linked Incentive scheme, Agri-Infra Fund, etc. Like in all other sectors, the involvement of technology in the food processing sector, especially since the advent of the Covid pandemic in 2020, has been increasing. As one moves towards higher levels of technology, the need for investment rises, and, therefore, foreign direct investment (FDI) is attracted. In the last nine years, the food processing sector in the country has attracted Rs. 50,000 crore of FDI (PIB-5 November 2023).

### Promoting Startups

DPIIT recognises entities as startups as per the eligibility conditions mentioned in notification no. GSR 127(E) dated 19 February 2019, which defines a startup in terms of tenure, objectives, and turnover. To elaborate, an entity is considered to be a startup up to a period of ten years from the date of its incorporation or registration, depending upon whether it is a private limited company defined as per Companies Act, 2013; or a partnership firm registered under Section 59 of the Partnership Act, 1932; or a limited liability partnership under the Limited Liability Partnership Act, 2008. The entity should be working towards innovation, development, or improvement of products, or processes, or services, or if it is a scalable business model with a high potential for employment

generation or wealth creation. The turnover of the entity for any of its financial years since incorporation or registration should not exceed Rs. 100 crore. The Government of India, vide its notification no. S.O.2119 (E) dated 26.06.2020 defines Micro, Small and Medium Enterprises (MSMEs) in terms of both investment in plant & machinery or equipment and turnover. MSMEs registered on the official Udyam registration portal can be proprietorship, partnership, company, trust, society, etc.

As evident from Table 3, if enterprises satisfy both conditions of investment in plant and machinery, or equipment and turnover, they can not only be categorised as 'micro', 'small', or 'medium', but also as startups, if their turnover is not more than Rs. 100 crore. Further if there is an upgradation in the classification of the enterprise, e.g. from micro to small or medium or large, from small to medium or large, or from medium to large, as per notification S.O.4926(E) dated 19 October 2022, the enterprise can continue to avail of non-tax benefits under various schemes and programmes that it was eligible for under its previous category for three years from the date of such upward change.

**Table 3: Criteria for defining MSMEs**

Category	Investment Not exceeding (Rs. crore)	Turnover Not Exceeding (Rs. crore)
Micro	1	5
Small	10	50
Medium	50	250

*Source: Ministry of MSME's notification No. S.O.2119 (E) dated 26.06.2020*

The startup initiative of the Government has been multi-pronged. It includes a Rs. 10,000 crore Fund of Funds, which aims at making capital available for startups at the early stage, seed stage, and growth stage. There is a separate Credit Guarantee Scheme for loans taken by startups. Central Ministries and Departments have been advised to relax the conditions of prior turnover and experience when procuring from startups. Besides, startups are eligible for fast-tracked patent application examination and disposal. The Startup India Online Hub connects all stakeholders on the same platform, viz., startups, investors, funds, mentors, academic

institutions, incubators, corporations, Government bodies, etc.

To promote startups, there is a 100% deduction allowed for their profits and gains for three consecutive years out of ten years. To tie over the adverse impact of the pandemic, Budget 2023–24 announced that the period of incorporation of eligible startups would be extended up to 31 March 2024 from 31 March 2023. For startups, there is a condition of continuity of at least 51% share-holding for setting off of carried forward losses, which is relaxed for seven years for an eligible startup if all the share-holders of the company continue to hold those shares. Budget 2023-24 proposed to extend this benefit to ten years, instead of seven years from the incorporation of such startups. The Budget also announced the establishment of an Agriculture Accelerator Fund to encourage agri-startups, especially those by young entrepreneurs in rural areas. The objective of the fund would be to bring innovative and affordable solutions for challenges faced by farmers and to bring in modern technologies to transform agricultural practices, increase productivity, and enhance profitability. Further, the Budget proclaimed to promote research by startups by bringing in a National Data Governance Policy to enable access to anonymised data.

## Linking Startups to Global Markets

The Central and State Governments promote export-oriented enterprises. The Central Government's Agricultural and Processed Food Products Export Development Authority (APEDA) which was set up under the APEDA Act, 1985, is mandated, inter alia, to aid in the registration of exporters of scheduled products, provide financial assistance to them, fix standards and specifications for the scheduled products, carry out inspection, improve packaging and marketing of scheduled products, etc. Consequently, between 2014 and 2023, the share of processed foods in India's exports has risen from 13% to 23%, with APEDA having linked importers with exporting startups. There is tremendous potential in the food processing sector to collaborate with other countries, as is evident from the recent high-level meetings held with countries like Brazil, wherein discussions were held to facilitate greater exchange of goods and ideas. This is also an affirmative step towards ensuring world food security.

## Concluding Remarks

Technological advances, changes in consumer demographics, and tastes and preferences have been pivotal in shaping the journey of startups in the food processing sector. Startups in the food processing ecosystem are found at various stages of the value chain and together have the potential and dynamism to complete the value chain and lead to transformational changes in the economy. The support required by them at different stages is obviously different. If the recent growth in this sector is to be taken as an indicator, then the contribution of this sector to the economy in the immediate future can be expected to be even more rapid. □

## Sources

1. <https://pib.gov.in/PressReleasePage.aspx?PRID=1974998> dated 5.11.2023.
2. <https://pib.gov.in/PressReleasePage.aspx?PRID=1976726> dated 13.11.2023.
3. Annual Report 2022-23 of Ministry of Food Processing Industries.
4. Lok Sabha Starred Question No. 392 answered on 29.03.2023.
5. [https://www.mofpi.gov.in/sites/default/files/final\\_revised\\_odop\\_list\\_of\\_713\\_districts\\_with\\_om.pdf](https://www.mofpi.gov.in/sites/default/files/final_revised_odop_list_of_713_districts_with_om.pdf)

