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India

Food Service - Hotel Restaurant Institutional

A Sector evolving amidst the Devaluating Rupee & Push for Local Sourcing

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Report Highlights:

India's foodservice sector continues to rise as the number of restaurant diners grows. The growth of household income fueled by the rise of dual-income households is making family vacations and dining out more accessible. With the recent depreciation of the Indian Rupee, the hotel and restaurant players across India see an opportune period which could attract more foreign tourists, and increase spending within the sector. However, the weakened Indian Rupee also poses a significant challenge as it raises the price for imported ingredients, foods, and beverages slated for use in the hotel and restaurant sector.

Post:

New Delhi

Commodities:

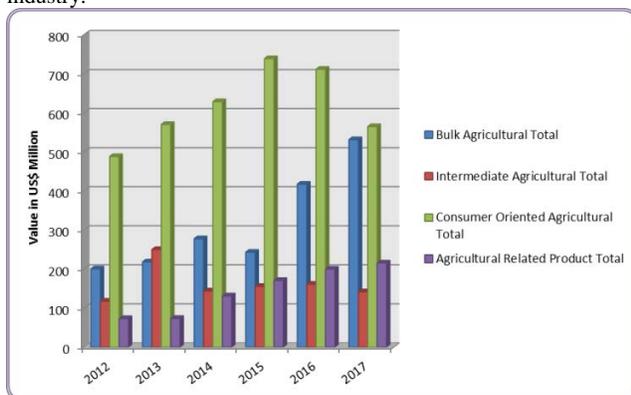
Executive Summary:

India is the world's second most populous country with a population of 1.3 billion of which 62.3 percent is below the age of 35. India's GDP is expected to grow 7.8 percent in Indian Fiscal Year 2018-2019 and already exceeds \$2.4 trillion. The economy is on track to become the world's third-largest economy by 2025. Food processors, importers, wholesalers, retailers, food service operators, hotel and restaurants are all part of a developing agribusiness sector. Apart from being a large food producer, India's bulk, intermediate, consumer-oriented, and agricultural related imports grew from \$22.2 billion in 2013 to \$30.2 billion in 2017 and exports went from \$44.5 billion to \$39.4 billion during the same period.

Imports of Consumer-Oriented Products:

Imports of consumer-oriented foods, led by tree nuts and fresh fruits, are among the fastest growing segments of imported agricultural products and reached \$4.9 billion in 2017. The market for imported foods has grown slowly, though a growing number of professional, brand-oriented importers are emerging and there has been an increase in the number of hotels, restaurants and avenues for institutional supplies using imported ingredients in their operations.

Although a majority of the imported nuts and fruits feed into the retail channels, there are opportunities for them to be used as ingredients in the Hotel, Restaurant and Institutional (HRI) sector whose cuisines demand the use of quality imported ingredient. Many of the five-star hotel chains across India have their central purchasing departments procure imported nuts and fruits through wholesale markets or importers. While opportunities for imported food in the HRI sector are improving, the Indian market remains relatively small and poses unique challenges due to high tariffs, ongoing import restrictions, price sensitivity, the weakening of the rupee, and strong competition from the domestic industry.



Food Service, Hotel Restaurant & Institutional:

With over 1903 hotels and resorts constituting the organized hotel sector and an estimated 100,000 modern organized restaurants in India, there is plenty of potential and room for industry growth. India's total food service market is valued at U.S. \$48.3 billion (INR 309,110 crores) and is expected to grow to U.S. \$77.8 billion (INR 498,130 crores) by 2021.

Food Service, Hotel Restaurant & Institutional Sector Key Updates:

Financial Year 2017-2018 has seen significant changes in the hotel, restaurant and institutional sector in terms of the application of the nationwide Goods and Service Tax (GST), which replaced previous state-by-state taxes and duties. Indian consumers have not been too receptive to the GST in this sector, as it has significantly increased the amount they spend on food consumption outside their homes.

Quick Facts Calendar Year 2017

Imports of Consumer-Oriented Products: US \$4.9 billion

List of Top Import Growth Products in India

- Tree Nuts (e.g. almonds and walnuts)
- Apples, Pears, Grapes, Non-Local/Seasonal Fruit
- Leguminous Vegetables and Dried Pulses
- Intermediate Products (e.g., malt, starch, insulin, wheat, gluten)
- Beverages, Spirits, Sauces, Condiments and Vinegar
- Cocoa and Cocoa Preparations

Food Industry by Channels (U.S. billion) 2017

Food Industry Output	\$258 billion
Food Exports	\$39.4 billion
Food Imports	\$30.2 billion
Retail	\$380 billion
Food Service	\$48.3 billion
Wet Market/Food Stalls/Street Karts	Unknown

Top Indian Hotel Chains (Five Star and Above):

- Taj Group of Hotels - Indian Hotels Company Limited
- Oberoi Hotels - East India Hotels Limited
- ITC Group of Hotels - ITC Limited

Top American Hotel Chains in India:

- Marriott International
- Hilton Hotels & Resorts
- Hyatt Hotels Corporation

GDP/Population:

- Population (billions): 1.3 billion
- GDP (billions USD): \$2.4 trillion
- GDP per capita (USD): \$1,850

Sources:

- Global Trade Atlas and Annual Survey of Industries

SWOT Analysis:

Strengths	Weaknesses
U.S. products are held in high regard	Awareness of the range and value of U.S. products
Opportunities	Threats
Growth Potential for imported ingredients and intermediate products in high-end hotels & restaurants.	Tariff and Non-Tariff Barriers. Value of the Indian Rupee against the US Dollar.

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Useful FAS Websites and FAS India GAIN Reports

- [FAS Homepage](#)
- [FAS India Exporter Guide](#)
- [FAS India Food Processing Report](#)
- [FAS India Retail Foods](#)

Author Defined:

SECTION I: MARKET SUMMARY

General Economy and Policy Environment:

India has one of the world's fastest growing large economies and is projected, by some estimates, to become the world's third largest economy by 2025. The Government of India (GOI) reports that the gross domestic product (GDP) is forecast to grow at 7-8 percent per annum over the next few years. The Central Statistics Office of the GOI estimated the economy grew 6.6% during the April 2017 - March 2018 Indian Fiscal Year (IFY), which has been the slowest growth in the last two years.

Although improving its rank to 100 out of 190 countries in the most recent [World Bank's Doing Business 2017 report](#), and despite efforts to improve the business investment climate and support Indian exports, the GOI continues to raise tariffs for imported food and agricultural commodities. As such, although demand is growing, the business climate for imported products is subject to risk, and exporters should conduct their due diligence when exporting to India. With the recent 6 percent depreciation of the Indian Rupee against the American Dollar starting in October 2017, the hotel and restaurant players across India see it as an opportune period to attract more foreign tourists, and increased spending within the sector. At the same time, however, the weakened Indian Rupee also poses a significant challenge in terms of ingredient imports, and foods and beverages slated for use in the hotel and restaurant sector.

India overall continues running a trade surplus in agricultural products. India's bulk, intermediate, consumer-oriented, and agricultural related total imports grew from \$23.1 billion in 2012 to \$30.2 billion in 2017. Imports of consumer-oriented foods, led by tree nuts, are among the fastest growing segment of imported agricultural products and reached \$4.9 billion in 2017 from \$4.2 billion in 2016. India's food and agricultural exports went down from \$41.7 billion in 2012 to \$39.4 billion in 2017 owing largely to a decline in bulk and intermediate product exports; this was due to market conditions and weather-related issues that drove Indian agricultural product prices higher.

For an additional overview of the Indian agricultural market, read the [USDA Foreign Agricultural Service's Exporter Guide 2017 \(GAIN IN7155\)](#) and International Agricultural Trade Report from October 2017: [Growing Opportunities for U.S. Agricultural Exports in India](#).

Hotel, Restaurant, and Institutional (HRI) Service Sector Overview:

India's HRI sector is benefiting from India's relatively strong economic growth, foreign investment, rise in dual income earning households, rising overall incomes, high aspirational levels, a young population, increasing tourism, and changing consumer consumption patterns. While opportunities for foreign food exporters to supply into the HRI sector are improving, the market for imported food products remains relatively small due to high tariffs, ongoing import restrictions, and strong competition from the domestic industry.

Factors Impacting HRI Food Service Sector:

- Foreign and Indian fast food and casual dining chains are increasing in number and existing chains are adding outlets, which potentially increases the opportunity for the use of imported F&B products and ingredients.
- Chefs from some high-end hotel chains and restaurants use imported ingredients to achieve a

unique taste and provide consistency of the final product. These hotels and restaurants are willing to pay the additional cost for imported F&B products and ingredients to maintain their brand image with their consumers.

- With increased global exposure, chefs are keen to introduce new cuisines and culinary practices, and this in turn increases the potential for unique imported ingredients and ingredients necessary for these cuisines.
- The GOI safe food initiative (Surakshit Khadya Abhiyan) is intending to ensure quality food at all levels of the value chain. This could present a significant opportunity for imported products and ingredients; however, effective marketing from both the exporter and importer is essential to establish that the product or ingredient is high quality and has health benefits for the consumer.
- The increasing number of shopping centers and shopping destinations make foodservice through retail a more preferred venue because of location and convenience. There is a growing trend for convenience in food courts and full-service restaurants in shopping centers.
- India has the ninth-largest civil aviation market by passengers with an estimated worth of US\$20 billion and by some estimates is expected to become the world's third largest aviation market by 2020. There exists a proven and unique opportunity for high-end imported products and ingredients to be used by carriers in their first and business class operations onboard, as well as airport lounges. This has presented an increase in opportunity for imported products such as chocolates, alcoholic beverages and the use of imported ingredients for prepared foods.
- Emergence of the office café culture and subsidized food programs are leading to growth in the institutional sector. With increased income, global exposure and awareness about healthful benefits of imported goods, the demand for imported F&B products has increased. However, the institutional sector remains price sensitive and will only source those ingredients, which cannot be found domestically.
- The GOI's through its *Make in India* campaign encourages the food processing industry, hotels, restaurants and institutions to source most of their products from within India, discouraging the use of imported products.
- With the GOI's *Make in India* campaign, and even prior to that, a few domestic brands started manufacturing domestically produced versions of imported products, offering a price competitive alternative to the HRI sector. However, many of these processing companies still procure some imported ingredients to manufacture these high-end products.
- Several five-star hotel chains who also have parallel food processing operations have begun to use domestically made foods and beverages in the minibars of their hotel outlets. This enables them to sell these products at the local *maximum retail price* (MRP) (priced lower than imports), capturing higher sales from their guests.
- Of late, the push for locally sourced ingredients has increased from chefs who want to promote local cuisine or a flavor profile, which can only be achieved through the use of local ingredients. The *Make in India* campaign and the sourcing of local ingredients coupled with high price sensitivity of the Indian consumer poses a significant threat for imported products and ingredients.

Tourism on the Rise:

Over the years, India has strengthened its position as a key destination for tourists to visit and has moved up 12 places to reach the 40th position globally in the list of the most improved countries in the travel and tourism competitiveness index 2017.

The Indian culture which is known for its hospitality has prompted the Central Government of India,

as well as several state governments, to market India with the “**Incredible India**” promotional campaign (www.incredibleindia.org) and the “**Atithi Devo Bhav**” (Sanskrit for “the Guest is God”) program, which are designed to entice Indian stakeholders to value tourists and tourism.

With growing domestic tourism and the increased arrival of international tourists in India, the possibility for penetration of imported food and beverages increases. Despite being highly price sensitive, the HRI sector is willing to procure food and beverage products for their clientele in their four and five-star hotels. Some of these specialty items and ingredients cannot be sourced in India are imported and are incorporated on menus. Imported products include wine, other alcoholic beverages, dairy products, meat, seafood, fruits, frozen french fries, sauces, seasonings, condiments, drink mixes, and ingredients for foreign cuisines such as Italian, Thai, Japanese, Chinese, Peruvian, Mexican, and Spanish.

In addition, many five-star luxury hotel chains in India acquire and manage historical palaces and convert them into heritage hotels, offering guests an ultra-luxury and high-end experience. Such hotel chains offer an opportunity for imported products and ingredients as their clientele are ready to pay a high price for a luxury experience.

However, it is important to note that some well-known Indian destinations like the state of Punjab, Rajasthan, Madhya Pradesh, Kerala, and Goa attract tourists for their recognized traditional, regional food, which leaves little opportunity for international cuisine to penetrate.

Table 1: India: Key Indicators of the Travel and Tourism Industry

International Tourist Arrival	8,027,133
International Tourist Inbound Receipts	US\$ 21,012 million
Average Receipt per Arrival	US\$ 2,617
Travel and Tourism Industry GDP (% of total)	US\$ 41,582 million (2%)

Source: World Tourism Organization and World Travel and Tourism Council

SECTION II. ROAD MAP FOR MARKET ENTRY

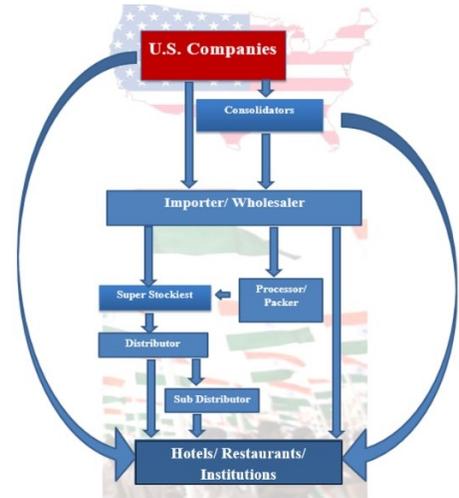
Entry Strategy:

- **Can your product come into India within the local laws?**
 1. Study India’s varied laws to determine if your product has market access in Indian commerce.
 2. Review FAS policy and market reports and consider engaging a market research firm to assist with opportunities and challenges.
- **Find the Right Partner:**
 1. Identify a reliable importer/distributor who services the HRI sector.
 2. Avoid conflicts of interest – i.e. find a partner who is able to ensure that all channels followed are within Indian laws.
 3. Consider whether participating in an Indian trade show or collaborating/ participating in USDA endorsed promotional activities would be an effective means of identifying a key importer/distributor/partner.
- **Secure Payment Terms:**
 1. Until a successful working relationship is established, exporters may wish to consider vehicles such as an irrevocable Letter of Credit, advance payment, or payment at sight.
 2. FAS India offices do not have the authority to mediate contractual disputes or serve as a

collections agent when differences over payment or other commercial issues arise. For information about local legal services, refer to the December 2016 [GAIN Report IN6155](#).

Market Structure and Distribution Channels:

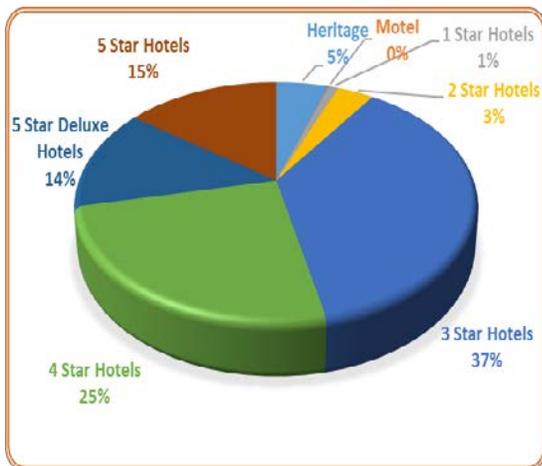
More food choices, changing demographics, urbanization, culture, and consumer attitude are leading to increased willingness to try new and international cuisines, which in turn suggests strong growth prospects for imported food and beverages, albeit from a small base. However, unique labeling requirements, a significant rupee depreciation, and a slow-to-develop distribution infrastructure continue to remain limiting factors.



For more information on the Sub-Sector Profiles of the Hotel, Restaurant and Institutional Sector refer to the December 2017 [GAIN Report IN7149](#)

Sub-Sector Profiles:

Breakdown of Indian Hotel Sector



Source: Ministry of Tourism, Government of India

Organized Hotels: India has a vast hotel sector, but only a small percentage of hotels are considered four stars and above. The overwhelming majority of hotels are small, traditional outlets that provide inexpensive accommodations and source all of their food locally. The GOI, Ministry of Tourism reports there are over 1903 hotels and resorts in India that constitute the “organized” or modern sector.

Some hotels are able to obtain a special license that enables them to purchase food and beverage items (and other items such as equipment and furniture) duty-free subject to their foreign exchange earnings. Hotels tend to use the duty-free licenses to purchase

items with the highest import tariffs and may not use the licenses to purchase food.

Restaurants: A large percentage of the restaurant sector in India is “unorganized” where small restaurants and street-side stalls are common. According to information from the Federation of Hotels and Restaurant Associations of India, there are approximately 100,000 restaurants in the “organized” or modern sector, which is defined as restaurants with more than twenty seats and a restaurant menu. (Refer to the January 2018 [GAIN Report IN7160: Restaurant Sector Growing - Back on Course](#))

Institutional: The institutional food service sector comprises catering services for the event organizers, armed services, railways, ships, airlines, hospitals, schools, government meal programs, prisons, and government and corporate offices. Cost is a major consideration, and procurement of most food and beverage requirements, including the imported goods, are purchased through local importers or distributors rather than directly from the source.

SECTION III: COMPETITION

High import duties and the depreciating rupee, coupled with concerns about the trade outlook are major points of deliberation for Indian businesses in making imported food purchase decisions. India's domestic industry remains the primary competitor for U.S. food, beverages and ingredients within the hotel and restaurant sector. In addition, many third-country competitors enjoy a freight and preferential trade advantage over the United States, and can supply at lower costs.

Table 2. India: Competition in Major Product Categories

Product Category	Total Imports (\$ Million) CY 2017	Major Supply Sources	Strengths of Key International Suppliers	Advantages (A) and Disadvantages (D) of Local Suppliers
Animal or Vegetable Oils, Fats and their products	11,900	Indonesia Malaysia Argentina Ukraine	Major production hubs and competitive prices	Local production is inadequate and more than 40 percent of total edible oil consumption is dependent on imports. (A)
Leguminous Vegetables, Dried Shelled/Pulses	3,936	Canada Myanmar Australia USA Tanzania	Price competitiveness, freight advantage and the ability to produce specific varieties of pulses in demand in India.	Historically about 20 percent of the total consumption demand for pulses was met through imports. However, back-to-back record domestic harvests in the last two years has resulted in the GOI imposing severe import restrictions, including quantitative restrictions on imports of peas and other pulses, which have slowed down imports since 2017 (D).
Edible Fruits and Nuts	3,431	USA Côte d'Ivoire Guinea-Bissau Tanzania Afghanistan	Growing market demand, preference for specific quality, popular at certain holidays	Domestic production of some of the major fruits and nuts is insignificant (A)
Sugars and sugar confectionery	1,162	Brazil Germany USA Netherlands	Price competitiveness	India is a large producer, consumer and usually a net exporter of sugar (D)
Coffee, Tea, Mate and Spices	830	Vietnam Indonesia Sri Lanka Nepal	Price competitiveness and proximity to India	Most imports are for re-export
Dairy; birds' eggs; natural honey; edible products of animal origin	44	France New Zealand Uganda Denmark	Price competitiveness, sanitary requirements	Domestic production is not keeping pace with demand (A). The Indian import protocol is very stringent and effectively prohibits imports of many products from the United States. (D)

Source: Ministry of Commerce and Industries and FAS India analysis

SECTION IV. BEST PRODUCT PROSPECTS

Table 3A: Products Present in Market and have Good Sales Potential

Product Types	Import Value (\$ Million) CY 2017	U.S. Market Share (%)	Impacting Factors
Tree nuts (Almonds)	801	76.06	United States with 81 percent market share of imported almonds has a supplier advantage.
Chocolate & Cocoa Products	167	2.28	Strong preference for recognized brands. Competition from domestic & international suppliers.
Beverages, Spirits and Vinegar	707	35.33	Increased consumption and lack of domestic production.
Fresh Fruits (Primarily Apples)	307	31	Counter-season supplier advantage. Brand preference for U.S. apples.

Table 3B: Products Not Present in Significant Quantities but which have Good Sales Potential

Product Types	Import Value (\$ Million) CY 2017	U.S. Market Share (%)	Limiting & Impacting Factors
Tree nuts (Except Almonds)	1,773	3.44	India imports a large variety of other types of tree nuts such as pistachios from Iran and other competing regions, thus limiting exports from the United States. Lack of awareness for tree nuts such as pistachios and pecans.
Leguminous Vegetables, Dried Shelled/Pulses	3,936	2.61	About 20 percent of India's total consumption demand for pulses previously was met through imports. However, back-to-back record domestic harvests in last two years has resulted in GOI imposing severe import restrictions, including quantitative restrictions on imports of peas and few other pulses have slowed down imports of pulses since 2017. But, India being a protein consuming country will always have a requirement for pulses, whose demand may not be always met by local production.
Sugars and sugar confectionery	1,162	1.91	India is a large producer, consumer and exporter of sugar. Indian consumers consume many sweets, so innovative and new products in sugar confectionery are always preferred by consumers of all ages and class.
Fresh Fruits (Except Apples)	114	6	Seasonal availability of domestic fresh fruits and imports from other preferred destinations limit U.S. imports
Poultry Meat & Products. (ex. eggs)	0.5	0	Recently gained market access which offers a large opportunity for the US poultry industry.

Source: Ministry of Commerce and Industries and FAS India analysis

Table 4. India: Top Consumer-Oriented Product Imports

Table 4A: Top Consumer-Oriented Products Imported from the World			Table 4B: Top Consumer-Oriented Products Imported from the United States		
Description	US Dollars (Millions)		Description	US Dollars (Millions)	
	2016	2017		2016	2017
Cashew Nuts, Fresh or Dried, In Shell	1,182	1,455	Almonds, Fresh or Dried, In Shell	531	581
Almonds, Fresh or Dried, In Shell	617	701	Apples, Fresh	56	97
Apples, Fresh	238	307	Walnuts, Fresh or Dried, In Shell	17	43
Dates, Fresh or Dried	214	242	Almonds, Fresh or Dried, Shelled	29	29
Pepper of Genus Piper, Neither Crushed nor Ground	183	165	Food Preparations: food flavoring material, soft drinks other than sharbat, custard powder, other diabetic foods	19	24
Others	1,771	2,057	Others	60	94
Total	4,207	4,927	Total	712	867

Source: Ministry of Commerce and Industries, Government of India

Products Not Present Because They Face Significant Barriers:

Currently, there are several trade restrictions that limit market access for U.S. food products. Imports of most animal and livestock-derived food products are effectively banned due to established Indian import requirements. This includes certain sub-categories in the Harmonized Tariff Schedule under Chapters 2, 3, 4, 5, 16 and 21 (e.g., milk and dairy products, certain seafood, sheep and goat products, as well as pork products and pet food). Furthermore, imports of beef are banned due to religious concerns. If allowed, some of these products (e.g., cheeses) may have good sales potential for the food processing, retail and HRI sectors.

Effective July 8, 2006, the Government of India’s (GOI) Foreign Trade Policy (2004-2009) specified that all imports containing products of modern biotechnology must have prior approval from the Genetic Engineering Approval Committee (GEAC), Ministry of Environment and Forests. The policy also made a biotech declaration mandatory at the port of entry. Soybean oil and canola oil derived from select events are the only biotech food products currently approved for import. For more information on India’s biotech import policy, please see: [GAIN Report IN7135: Agricultural Biotechnology Annual 2017](#).

SECTION V. POST CONTACT

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