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The construction equipment industry has witnessed substantial investments in the recent past with several companies setting up manufacturing bases. ...pg 38

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ANALYSIS

Opportunities in the cold chain sector

It remains to be seen if the National Food Processing Policy will help reduce wastage of perishables and improve the supply situation.

"There should be zero tolerance towards waste. Currently, about Rs 44,000 crore ($7 billion) worth of food is being wasted and unless we work towards removing that, our growth story cannot be completed. The cold chain capacity of the country is 30 million tonnes, whereas it produces around 200 million metric tonnes of products." - Food Processing Minister Harsimrat Kaur Badal at the National Cold Chain Summit.

Badal's speech at the National Cold Chain Summit, organized by CII jointly with the Ministry of Food Processing Industries (MoFPI), the Ministry of Agriculture and the National Centre for Cold Chain Development (NCCD), made a quiet buzz. It is my belief this was brought forth at the right time as a good push for integrated cold chain is the need of the hour, especially if we wish to combat the more than 40 per cent loss in annual produce.

FISCAL INCENTIVE FOR INVESTMENT IN COLD CHAIN

- Section 80-IB of the Income Tax Act provides deductions in respect of profits from industrial undertakings related to Cold Chain. For the first 5 years the deductions are @ 100% and then @25/30% for next 5 years.
- Under Section 35-AD of the Income tax Act 1961 deduction @ 150% is permitted for expenditure incurred on capital investment in setting up a cold chain facility.
- Cold chain projects are eligible for External Commercial Borrowings.
- Concessional rate of custom duty @ 5% on imported equipment for cold chain facility under the project import benefits.
- Many activities pertaining to cold chain are included in the exempted and the negative list for the purpose of service tax.
- All refrigeration machineries and parts used for installation of cold storage, cold room or refrigerated vehicle, are exempted from Excise Duty.

IS THE FOOD PROCESSING INDUSTRY GROWTH IN PARALLEL WITH COLD CHAIN?

Consumer spend on food and food products has risen dramatically over the years. Given this growth, India's domestic food market is expected to witness high growth, thus pushing the growth of the food processing industry.

India has strong agricultural production, but wastage of produce such as fruits and vegetables is high due to the lack of adequate processing and storage facilities. The growth in food processing and packaging will create the need for cold storage solutions across the country.

The Indian government has initiated many efforts to stimulate the food processing sector. Despite this, penetration is low regardless of the fact that India is one of top producers. So this raises the question - will the introduction of policy to improve infrastructure in the food processing industry have a positive impact on cold chain? Let's get some facts together to analyse this.
FISCAL INCENTIVE FOR INVESTMENT IN COLD CHAIN

Recorded national level data, India created 6488 cold storage with a cumulative installed capacity of approximately 30 mt.

- More than 25% of the cold storage units (→ 10 mt) have been built post 2005.
- Growth (CAGR 2004-12) : Numbers of Cold Storage : 3.57%, Capacity : 5.19%, Growth in Transport capacity: 22%.
- Current short fall of reefer transportation; reports states another 30+ mt capacity to be built.

POLICIES INITIATED, HAVE THEY HELPED?

Development of Mega Food Parks

i. The “Vision 2015 Action Plan Mega Food Parks Scheme” was introduced primarily to improve infrastructure facilities for the food processing industry along with value chain from farm to market. This mechanism will bring together farmers, processors and retailers, and link agriculture production to the market. It will facilitate the establishment of an efficient supply chain, including collection centres, a central processing centre and integrated cold chain.

ii. The central processing centre of the food park will offer backward linkage at farm gates such as cool rooms or cold storages. In order to integrate infrastructure facilities, MoFFI is offering financial assistance from both public and private organisations for integrated cold chain infrastructure development.

- The Mega Food Park Scheme is based on cluster approach which aims at facilitating efficient supply chain, including collection centres, a central processing centre (CPC) and cold chain infrastructure.
- Under the scheme (2008-09) of mega food parks, the government sanctioned 42 projects across the country.
- Currently 25 projects are under implementation in various states.
- For the rest of the 17 Mega Food Parks, the ministry has received 72 eligible expressions of interest, with each park estimated to attract a minimum investment of about ₹125 crore.

- Tax exemptions & relaxed FDI norms

i. To encourage the private sector to invest in the processing industry, the Govt has exempted earnings from corporate taxes

ii. 100 per cent FDI under automatic route plus 100 per cent tax exemption for five years for new agro-processing industries

iii. The policy allows full excise duty exemption on goods that are used to install cold storage facilities. This will attract higher investments by foreign players to enhance the supply chain and backward linkages to the farm gates.

- R&D and modernisation

In order to upgrade the quality and shelf life of the produce and processed food, the government has launched initiatives to set up or upgrade food testing laboratories, and modernising food processing centres.

- Investments in road, rail & port infrastructure

The government is expected to introduce various initiatives in infrastructure development during the upcoming fiscal, and the ongoing Five-year Plan. These include improving the quality of existing road infrastructure and capacity addition. The initiatives are expected to greatly improve accessibility between regions and lead to greater demand for efficient cold storages.

i. Road: Projects such as the Golden Quadrilateral, the Delhi Mumbai Industrial Corridor, and the National Highway Development.
ii. Rail: Initiatives such as Dedicated Freight Corridor and Diamond Rail Corridor Project

iii. Port: The government plans to invest Rs 540bn in 276 projects and has permitted 100 per cent FDI under the automatic route for port development projects in order to improve port efficiency while handling increasing port traffic.

**OPPORTUNITIES FOR INTEGRATED COLD CHAIN**

The local mandis (markets), where produce is collected for further distribution to processing units or to consumers, may or may not have cool rooms or cold storages. This is a major bottleneck where the wastage of produce is high. The image depicts the bottlenecks which require immediate attention.

As a part of the 12th Year Plan, the government is focusing mainly on supply chain related infrastructure development such as integrated cold chain, food parks, abattoirs, etc. In order to support the scheme, it has allocated Rs 5,900 crore ($1 billion). The Cabinet Committee on Economic Affairs (CCEA) has approved the continuation of the NMFP for the rest of the 12th Year Plan. This outlay for 2012-2017 is Rs 1,600 crore ($0.2 billion). According to MoPFI, nearly 35 per cent of the outlay share in the food processing sector has been assigned for infrastructure development.

This is a good start given the non-availability of cool rooms, cold storages and refrigerated transport from farm gates to the processing centres.

The lack of proper infrastructure is leading to huge losses in agricultural produce. To combat this, integrated cold chain solutions need to be developed especially in remote parts that are rich in agricultural farming.

Investment in infrastructure is one of the vital drivers since it will solve the predicament of capital and capacity deficit in cold storages. It will further increase the connectivity between remote regions and lead to greater reach across the country. I strongly believe that the demand for cold storages and refrigerated transport will grow three-fold in the coming years, and with the introduction of policy to improve the food processing sector in India, the future seems very bright.

The author, Shilpa Eguwani, is a team leader at ValueNotes, which specialises in the management of competitive and market intelligence, information and research. She manages various projects such as market sizing, India entry strategy and voice of customer studies, across industries including infrastructure, mining and construction.