

**Required Report:** Required - Public Distribution

**Date:** October 29,2019

**Report Number:** IN2019-0089

**Report Name:** Food Service - Hotel Restaurant Institutional

**Country:** India

**Post:** New Delhi

**Report Category:** Food Service - Hotel Restaurant Institutional

**Prepared By:** Uma Patil

**Approved By:** Lazaro Sandoval

**Report Highlights:**

The Indian HRI sector continues to expand as consumers increasingly demand a greater variety of food and beverage products at hotels and restaurants. Consumer demand for healthier and natural food options has become a major trend that the sector is working hard to accommodate. The ongoing growth of household incomes along with a shift in tastes and preferences by Indian consumers presents a great opportunity for high-value food and beverage imports to penetrate the Indian market.

## Executive Summary:

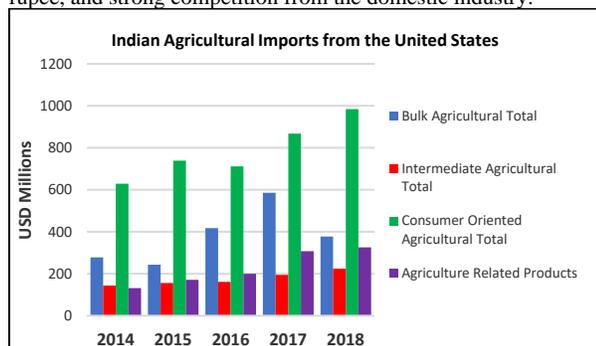
India is the world's second most populous country with a population of 1.3 billion of which 62.3 percent is below the age of 35. The median age in India is 27.1 years. India's GDP is expected to grow 7.5 percent in Indian Fiscal Year 2019-2020 and already exceeds \$2.9 trillion. The economy is on track 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 massive agribusiness sector. Apart from being a large food producer, India's bulk, intermediate, consumer-oriented, and agricultural related imports grew from \$24.6 billion in 2014 to \$24.9 billion in 2018.

## Imports of Consumer-Oriented Products:

Imports of consumer-oriented foods, led by tree nuts, spices, processed and fresh fruits, are among the fastest growing segments of imported agricultural products and reached USD \$5.3 billion in 2018, up from USD \$4.9 billion in 2017. The market for imported foods has grown steadily, though a growing number of professional, brand-oriented importers, Hotels, restaurants and other foodservice entities are increasingly importing ingredients for their operations.

Although the majority of imported nuts and fruits are directed towards retail channels, there are opportunities for these products in the Hotel, Restaurant and Institutional (HRI) sector whose menus demand the use of high-quality imported ingredients. In most of India's four- and five-star hotel chains have specialty restaurants serving authentic global cuisines (Chinese, Japanese, Italian, Mexican, etc.) which require imported food ingredients and beverages to meet quality and taste standards. Many five-star hotels across India have their central purchasing departments procure imported nuts, meats, alcoholic beverages, fresh fruits and consumer-oriented products through wholesale markets or importers. Interestingly, chefs and bar managers are increasingly driving the selection of imported ingredients. In the past, chefs relied on the product catalog available to them by the hotel or restaurant procurement manager. Today, more chefs are visiting food shows and reaching out to suppliers to obtain new, high-quality ingredients.

While opportunities for imported food in the HRI sector are improving, there remain 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 2,503 hotels and resorts constituting the organized hotel sector and an estimated 1,137 modern, organized restaurants in India, the sector is expected to continue to expand. The independent/non-branded segment (unorganized sector) constitutes the majority of the hospitality industry in India representing 72

percent of the total. The Indian food service market is valued at U.S. \$63.71 billion and is expected to grow to USD 95.75 billion by 2024.

## Food Service, Hotel Restaurant & Institutional Sector Key Updates:

In 2017-2018, the HRI sector experienced the application of the nationwide Goods and Service Tax (GST), which replaced previous state-by-state taxes and duties. The sector along with Indian consumers were not too receptive to this change. However, the hotel sector has received some relief through new tax cuts that have lowered the GST for hotel rooms and premium category rooms by 33 and 36 percent, respectively. This measure was part of a larger set of stimulus measures to reinvigorate the economy.

### Quick Facts Calendar Year 2018

#### Imports of Consumer-Oriented Products: US \$5.3 billion

#### List of Top Import Growth Products in India

- Tree Nuts (e.g. almonds and walnuts)
- Fresh Fruits (e.g. 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) 2018

Food Industry Output	\$358 billion
Food Exports	\$40 billion
Food Imports	\$25 billion
Food Imports from U.S.	\$1.9 billion
Retail	\$500 billion
Food Service	\$63.7 billion

#### Top Indian Hotel Chains (Five Star and Above):

- Taj Group of Hotels - Indian Hotels Company Limited
- The Lalit Hotels; The Leela Palace
- 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 (2019):

- Population (USD): 1.37 billion
- GDP (USD): \$2.97 trillion (nominal)
- GDP per capita (USD): \$2,199 (nominal)

Sources: Trade Data Monitor and Annual Survey of Industries

## SWOT Analysis:

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• U.S. products are held in high regard</li> <li>• Demand for U.S. cuisine and restaurant franchises</li> </ul>	<ul style="list-style-type: none"> <li>• Awareness of the range and value of US products</li> <li>• Inadequate infrastructure for product handling</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Growth potential for imported ingredients and intermediate products in high-end hotels &amp; restaurants</li> <li>• Changing consumer habits and shift towards healthier food options.</li> <li>• Growing tourism sector</li> </ul>	<ul style="list-style-type: none"> <li>• Tariff and non-tariff barriers</li> <li>• Product substitutes and competition from local and international suppliers</li> <li>• Value of the Indian Rupee against the US Dollar</li> </ul>

## Section I: MARKET SUMMARY

### General Economy and Policy Environment:

India is 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 backed by its strong democracy and trade partnerships. The Central Statistics Office of the Government of India (GOI) estimates the economy grew 6.8 percent during the April 2018 - March 2019 (IFY-Indian Fiscal Year). The GDP growth rate of the economy has slipped to 5 percent in the first quarter of IFY 2020, the lowest in over six years. GOI reports that India's economic growth may be slowing down, but the country could stage a turnaround to expand by more than 7 percent in the next financial year.

While the country has improved its rank to 77 out of 190 countries in the most recent [World Bank's Doing Business 2018 report](#), and has made efforts to improve the business investment climate, the GOI continues to raise tariffs on imported food and agricultural commodities. As such, although demand is growing, the business climate for imported products is risky and exporters should conduct their due diligence when exporting to India. The hotel and restaurant sector currently see an opportunity to attract more foreign tourists as a result of year-to-date depreciation of the Indian rupee by 12 percent. Last year, global tourist arrivals surpassed 1.4 billion, registering a 6 percent year-over-year growth, the second strongest since 2010. At the same time, however, the weakened Indian Rupee also poses a significant challenge in the affordability of imported ingredients and inputs for the hotel and restaurant sectors. January-July 2019 trade data already indicate that Indian imports of U.S. agricultural products have fallen by 15 percent compared to the previous year.

India overall continues running a trade surplus in agricultural products. India's bulk, intermediate, consumer-oriented, and agricultural related total imports grew from \$24.6 billion in 2014 to \$24.9 billion in 2018.. India is the biggest importer of consumer-oriented products including tree nuts from the US. India's food and agricultural exports went down from \$43.2 billion in 2014 to \$39.6 billion in 2018 due to intense competition, global market shifts, and internal pressures that have hurt the competencies of Indian exports.

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

India's HRI sector is benefiting from India's relatively strong economic growth, foreign investment, increasing tourism, rising incomes, a young population, improving living standards and high aspiration levels. All these factors have facilitated the ascension of foreign cuisine preferences and mobile applications that source freshly prepared ready-to-eat food. 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/quick service restaurants and casual dining chains are increasing in number and existing chains are adding outlets, which potentially increases the opportunity for the use of imported food and beverage products.
- Chefs from high-end hotel chains and restaurants increasingly 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 products and ingredients to maintain their brand image with their consumers.
- With increased global exposure and developing taste of Indian consumers, 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.
- Leading high-end restaurants and five star hotel chains have started a trend of celebrating international festivals (Thanksgiving, Chinese New Year etc.) with country specific cuisines. The

hotels/restaurants also invite expat chefs to serve authentic international cuisines (Chinese, Japanese, Italian, Mexican etc.).

- Increasing number of expats and Non-Resident Indians (NRI) are living in or spending a significant amount of time in India. This has the potential to contribute to the imports of food products and ingredients. This is especially evident in tier-2 cities such Hyderabad, Chennai, and Bangalore
- The newly introduced cloud kitchen concept providing takeaways and online food delivery is booming in India.
- 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 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.
- India's armed forces is the second largest military force and the largest volunteer army force in world. It has a strength of more than five million personnel which may provide an opportunity for certain food products/ingredients not available in domestic market. Procurement of food products and ingredients is done in bulk through tendering system.
- Increasing number of foreign tourists preferring international cuisines also contribute to imports of food products and ingredients.
- 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 the health benefits of imported goods, the demand for imported food and beverage products is increasing. However, the institutional sector remains price sensitive and will only source those ingredients, which cannot be found domestically.
- 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.

### **Tourism on the Rise:**

Over the years, India has strengthened its position as a key destination for tourists to visit and has moved up to reach the 34<sup>th</sup> position globally in the list of the most improved countries in the travel and tourism competitiveness index 2019. Total contribution by the travel and tourism sector to India's GDP is expected to increase from US\$ 234 billion in 2017 to US\$ 492 billion in 2028. During May 2019, arrivals through e-tourist visa increased by 22 percent (compared to the previous year) to 1.23 million.

Growth in India's tourism sector is bolstered by its culture, natural attractions, relative price attractiveness, and developing infrastructure. This has prompted the GOI as well as several state governments, to market India with the “**Incredible India**” promotional campaign ([www.incredibleindia.org](http://www.incredibleindia.org)) and the “**Atithi Devo Bhava**” (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 and high-end specialty restaurants. 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, and drink mixes.

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.

International Tourist Arrival	15,542,900
International Tourist Inbound Receipts	US \$27,365.1 million
Average Receipt per Arrival	US \$451.5
Travel and Tourism Industry GDP (% of total)	US \$96,427.4 million (3.6%)

**Source:** [World Tourism Organization and World Travel and Tourism Council](#)

## **Section II. ROAD MAP FOR MARKET ENTRY**

### **Entry Strategy:**

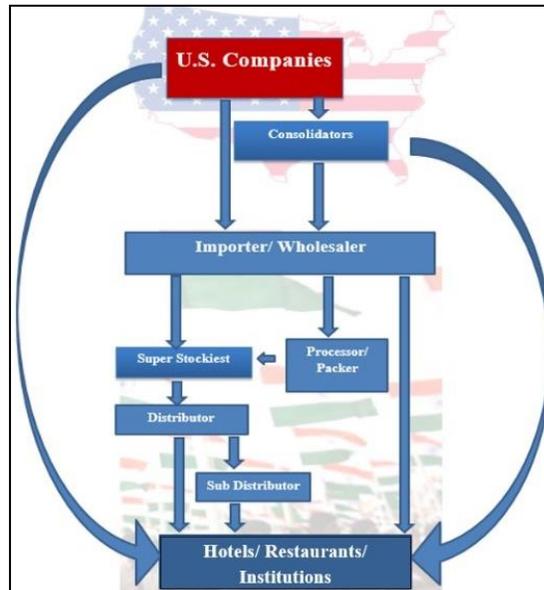
- **Can your product come into India within the local laws?**
  1. Study India's varied laws to determine if your product has market access in Indian commerce.
  2. Review FAS policy and market reports and consider engaging a market research firm to assist with opportunities and challenges.
- **Find 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 collection's 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:**

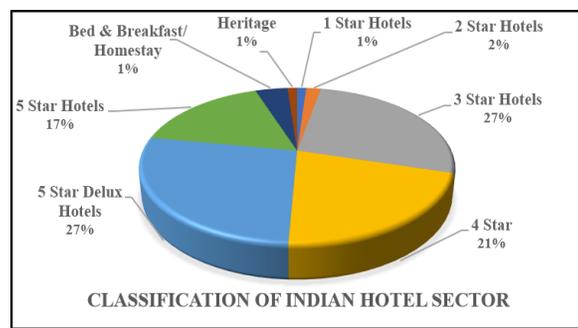
More food choices, changing demographics, sizeable young population, urbanization, culture, growing and aspiring middle class, consumer attitude, and tourism are leading to increased willingness to try new and international cuisines, which in turn suggests strong growth prospects for imported food and beverages, albeit from a small base. However, regulatory and unique labeling requirements, significant rupee depreciation, and a slow-to-develop distribution infrastructure (cold chain environment, transport means) 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 Organized Indian Hotel Sector**



Source: Ministry of Tourism, Government of India

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 their food locally. According to the survey conducted by the Federation of Hotel & Restaurant Associations of India (FHRAI) there are over 2,503 hotels and resorts in India that constitute the “organized” or modern sector.

Some hotels are obtaining 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 1,137 restaurants in the “organized” or modern sector, which is defined as restaurants with more than twenty seats and a restaurant menu. There are an estimated 63 foreign restaurants brands across India compared to 57 in 2015. (Refer to the January 2018 [GAIN Report IN7160: Restaurant Sector Growing - Back on Course](#))

**Institutional:** The institutional food service sector comprises catering services for event organizers, Indian armed services, railways, ships, airlines, hospitals, schools, government meal programs, prisons along with 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.

Product Category	Total Imports (\$ Million) CY 2018	Major Supply Sources	Strengths of Key International Suppliers	Advantages (A) and Disadvantages (D) of Local Suppliers
Animal or Vegetable Oils, Fats and their products	10,198	Indonesia Ukraine Argentina Malaysia Brazil	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	1,063	Myanmar Canada Mozambique Australia Russia	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, quantitative restrictions which have slowed down imports significantly (D).
Edible Fruits and Nuts	3,767	USA Côte d'Ivoire Benin Afghanistan Tanzania	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	681	Brazil Netherlands Germany USA China	Price competitiveness	India is a large producer, consumer and usually a net exporter of sugar (D)
Coffee, Tea, Mate and Spices	787	Vietnam Sri Lanka Madagascar Indonesia Nepal	Price competitiveness and proximity to India	Most imports are for re-export
Dairy; birds' eggs; natural honey; edible products of animal origin	35	France Italy Germany Spain United Kingdom	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

Product Types	Import Value (\$ Million) CY 2018	U.S. Market Share (%)	Impacting Factors
Almonds	817	80.40	United States with 80 percent market share of imported almonds has a supplier advantage.
Chocolate & Cocoa Products	188	2.12	Strong preference for recognized brands. Competition from domestic & international suppliers.
Beverages, Spirits and Vinegar	742	34.42	Increased consumption and lack of domestic production.
Fresh Fruits (Primarily Apples)	304	54.40	Counter-season supplier advantage. Brand preference for U.S. apples.

Source: Ministry of Commerce and Industries and FAS India analysis

Product Types	Import Value (\$ Million) CY 2018	U.S. Market Share (%)	Limiting & Impacting Factors
Tree nuts (Except Almonds)	2,045	2.9	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	1,063	1.75	Historically about 20 percent of the total consumption demand for pulses was met through imports. However, quantitative restrictions which have slowed down imports significantly. 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	682	2.88	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)	125	4.5	Seasonal availability of domestic fresh fruits and imports from other preferred destinations limit U.S. imports
Poultry Meat & Products. (ex. eggs)	0.6	12	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)	
	2017	2018		2017	2018
Cashew Nuts, Fresh or Dried, In Shell	1,455	1,704	Almonds, Fresh or Dried, In Shell	581	645
Almonds, Fresh or Dried, In Shell	701	763	Apples, Fresh	97	165
Apples, Fresh	307	304	Walnuts, Fresh or Dried, In Shell	43	24
Dates, Fresh or Dried	244	257	Almonds, Fresh or Dried, Shelled	29	12
Pepper of Genus Piper, Neither Crushed nor Ground	165	136	Food Preparations: food flavoring material, soft drinks other than sherbet, custard powder, other diabetic foods	24	22
Others	2,061	2,185	Others	94	117
Total	4,933	5,349	Total	868	985

Source: Ministry of Commerce and Industries and FAS India analysis

### 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 sensitivities. 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 IN8129: Agricultural Biotechnology Annual 2018](#).

## SECTION V. POST CONTACT

### **Office of Agricultural Affairs**

#### **Embassy of the United States of America**

Chanakyapuri, New Delhi: 110021

Tel: +91 11 24198000

Email: [agnewdelhi@fas.usda.gov](mailto:agnewdelhi@fas.usda.gov)

Website: [U.S. Embassy – New Delhi](#)

Website: [U.S. Embassy – Agriculture Related Business](#)

Twitter: [@USDAIndia](#)

### **Office of Agricultural Affairs**

#### **Consulate General of the United States of America**

C-49, G Block, Bandra-Kurla Complex,

Bandra (East), Mumbai: 400051

Tel: +91 22 26724000

Email: [agmumbai@fas.usda.gov](mailto:agmumbai@fas.usda.gov)

Website: [U.S. Consulate General – Mumbai](#)

Twitter: [@USDAIndia](#)

**Attachments:**

No Attachments