

# Assessment of credit facilities for the food processing sector in India

June 2025



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## Foreword

It is my pleasure to introduce this report, which highlights the significant progress made in promoting the growth and development of the food processing sector in India. The food processing industry is a vital component of our country's economy, providing employment opportunities, increasing farmers' incomes, and contributing to the nation's food security. The government has been committed to supporting the growth of this sector, and I am delighted to say that our efforts have yielded positive results. Through initiatives such as the Production Linked Incentive Scheme for Food Processing Industry (PLISFPI) and the PM Formalisation of Micro food processing Enterprises (PMFME) scheme, we have been able to provide support to micro, small, and medium enterprise (MSMEs) in the food processing sector, enabling them to upgrade their technology, improve their productivity, and expand their market reach.



**Dr. Subrata Gupta**

Our focus on strengthening the food processing sector is not only aimed at promoting economic growth but also at ensuring that our farmers receive a fair price for their produce and that our consumers have access to safe, nutritious, and affordable food. We have made significant progress in reducing production costs, improving supply chain management, and enhancing market linkages, which has led to increased affordability and availability of processed food products for the masses.

As we move forward, we recognize that there are still challenges to be addressed, particularly in terms of credit affordability and accessibility for small and rural processors. We are committed to working with all stakeholders to increase access to credit and support the growth of this critical sector.

I am confident that this report will provide valuable insights into the progress we have made and the challenges we still face. I hope that it will serve as a useful resource for policymakers, industry stakeholders, and all those who are interested in the development of the food processing sector in India.

New Delhi

**Dr. Subrata Gupta**  
Secretary, Ministry of Food Processing Industries  
Government of India

## Preface

The Indian food processing sector is a vital component of the country's economy, providing employment opportunities and contributing to food security. To support its growth, it is crucial to understand the credit landscape that underpins it. This report explores the complexities of the sector's credit requirements, challenges, and experiences, shedding light on the financial ecosystem that drives its development.

Through in-depth research and interactions with key stakeholders, including food processing units, financial institutions, and industry experts, we have gained valuable insights into the sector's credit dynamics. Our findings reveal that small and rural food processors face significant challenges in accessing credit due to inadequate financial documentation, limited credit history, and high interest rates. However, government initiatives such as co-lending and alternative credit models have improved credit accessibility for micro and small enterprises. Additionally, digital lenders and peer-to-peer lending platforms have provided short-term working capital based on cash flow analysis, rather than traditional collateral-based assessments.

The Indian government has introduced several initiatives to promote the food processing sector, including the Pradhan Mantri Kisan Sampada Yojana, the Production-Linked Incentive (PLI) scheme, and the Mega Food Park Scheme. These initiatives have aimed to provide an integrated approach to food processing, reduce logistics costs, and encourage investments in the sector. As a result, manufacturers are now able to produce high-quality products at competitive prices. The Ministry of Food Processing Industries (MoFPI) has played a key role in reducing production costs, improving supply chain management, and enhancing market linkages, ultimately leading to increased affordability and availability of processed food products.

This report also outlines policy recommendations and a roadmap to improve the affordability and accessibility of credit facilities for the food processing sector, with the goal of supporting its continued growth and development. By addressing the credit challenges faced by the sector, the government and financial institutions can work together to create a more supportive and inclusive financial ecosystem that benefits all stakeholders.

Mumbai

**Mr Aniket Dani**  
Director

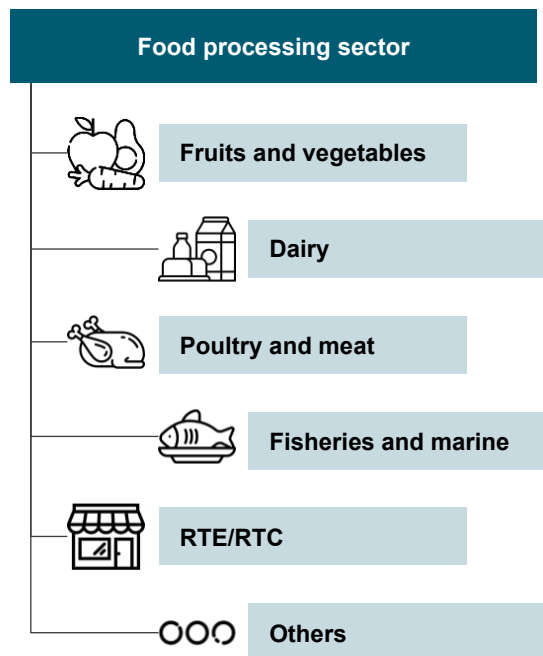
**Mr Prateek Jain**  
Manager  
Crisil Limited



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# Overview of the food processing industry in India

## 1.1. Introduction



The food processing industry serves as a crucial link between the agriculture and industrial sectors, adding value to agricultural produce. As one of the largest industries, it plays a pivotal role in India's economic growth, employment generation and rural development.

During the eight years ending 2022-2023, the food processing sector has grown at an average annual rate of ~5.35%, compared with around 4.46% growth in the agriculture and allied sector (at 2011-2012 prices).

The food processing sector has also emerged as an important segment of the Indian economy in terms of its contribution to the gross domestic product (GDP), employment and investment. The sector constituted as much as 7.66% and 8.45% of GVA in the manufacturing and agriculture sectors, respectively, in 2022-2023 (at 2011-2012 prices)

According to the latest Annual Survey of Industries (ASI) for 2022-2023, 22.96 lakh people were engaged in the registered food processing sector. The unregistered food processing sector employed 46.57 lakh workers, according to the Annual Survey of Unincorporated Sector Enterprises, 2022-2023.

The industry encompasses a wide range of sub-sectors, including dairy, fruits and vegetables, meat and poultry, marine products, grains and beverages, contributing significantly to the GDP and export earnings. India's vast agricultural base ensures abundant supply of raw materials for the sector, positioning the country as a potential global food processing hub.

The government has taken proactive measures to strengthen the industry through various policy initiatives, financial incentives and infrastructure development. Schemes such as the Pradhan Mantri Kisan SAMPADA Yojana aim to boost the sector's growth by encouraging the creation of modern infrastructure, enhancing farmer income and reducing food wastage.

## 1.2. Value-chain analysis

The food processing value chain in India is extensive, starting from the procurement of raw materials to the final delivery of processed goods to consumers. It has the following four stages:



**Primary production (raw material):** This includes cultivation, harvesting and procurement of agricultural produce, such as grains, fruits, vegetables, dairy, meat and fish. India has diverse agro-climatic zones, congenial for production of a wide range of crops, contributing to the availability of raw material for the food processing industry.



**Processing and manufacturing:** In this stage, raw farm products are converted into processed and packaged goods. Food processing ranges from simple preservation and cleaning to sophisticated techniques, such as canning, freezing, fermentation and packaging. This stage involves both primary processing (cleaning, grading and milling) and secondary processing (converting raw products into ready-to-eat foods, snacks and beverages).



**Packaging and distribution:** In this stage, processed products are packed and labelled, preparing them for distribution. The processes followed in this stage are crucial for a food product's safety, quality and shelf-life. Distribution involves transporting the finished products to various points of sale, including retail stores, supermarkets, restaurants and export destinations.



**Retail and consumption:** This is the final stage, wherein the end-consumers purchase and consume the processed food products. The retail landscape in India has evolved significantly, with organised retail and e-commerce playing a major role in the distribution of processed foods.

## 1.3. Food processing segments

### **Growth momentum of the organised consumer food industry should continue in fiscal 2026**

The organised consumer food industry sales grew 14% between fiscals 2018 and 2024 and a further 13% in fiscal 2025 (April 2024–January 2025). A further 13-15% sales growth is expected in fiscal 2026.

The rapidly growing modern retail shops (supermarkets and hypermarkets) in urban areas, driven by consumers' increasing preference to buy 'all under one roof', are expected to drive the sales of packaged foods. Online sales are estimated to have risen to more than 5% in fiscal 2024 from 1% in fiscal 2019, as more number of consumers prefer to order from the convenience of their home.

The industry is expected to grow at a healthy 13-15% on-year in fiscal 2026, mainly driven by the snacks and ready-to-eat (RTE)/ready-to-cook (RTC) segment. With rising income and rapid urbanisation, the transition to premium, nutritious and healthy foods is expected to be the big trend for the consumer food sector. Changing food habits and consumption patterns, coupled with a rise in discretionary spending on processed foods should further contribute towards higher demand. Demand is also expected to be supported by new product launches and a rising distribution network, with most of the players catering to multiple segments.

The bakery segment is expected to register a relatively slower 9-10% on-year growth in fiscal 2026 due to slower growth in the biscuit segment as the realisation of the players is anticipated to decline over a high base. Chocolates and confectionery items, being impulse products, should witness a healthy pick-up in demand and sales in the fiscal. Improved penetration of the organised snacks sector following the pandemic and new product offerings in regional flavours should drive the growth of the industry in fiscal 2026. RTE/RTC food products should witness a strong demand from the B2C channel due to convenience and an increase in demand from key sectors such as hotels, restaurant and catering (HORECA), railways and airlines.

### **Dairy products industry poised for continued growth in 2024**

*Milk production to rise ~5-6% in fiscal 2025 versus 4.2% CAGR during the past 5 years*

Artificial insemination with improved breeding techniques is expected to help increase milk production in India in 2024, while stable fodder prices and good monsoon rains should further contribute to ensuring better livestock health and feed availability. The government raised the allocation to the livestock health and disease control programme by 65% to Rs. 2,465 crores in FY 2025. This should enhance animal yields and boost production.

*Procurement prices set to increase a marginal 1-2% in FY2025, after growing 3.5% last fiscal*

Dairy farmers face significant fodder expenses, which surged in fiscals 2022 and 2023 due to erratic monsoon patterns. This increase impacted milk procurement prices, which saw the highest rise (11%) in the fourth quarter of 2023, compared with fiscal 2022, mainly due to decreased fodder and water availability. The Wholesale Price Index of fodder (base year: 2011-2012) declined to 236 in fiscal 2024 from 248 in fiscal 2023. With anticipated normal monsoon conditions in fiscal 2025, fodder prices are expected to stabilise and decrease around 4-5%. Procurement prices are likely to increase a marginal 1-2% in fiscal 2025.

*Demand to pick up, driven by value-added products*

Value-added products (VAP) remain integral to Indian households, with a robust growth trajectory anticipated for fiscal 2025. After a resurgence in fiscal 2023, with a double-digit growth rate, VAP sales (traditional and emerging) are projected to surge 19% in fiscal 2024 and maintain a steady upward trend in fiscal 2025, growing 19%. Despite the challenges faced in

fiscal 2022-2023 due to lumpy skin disease and scanty monsoon, sales of VAP such as buttermilk, flavoured milk and khoa rebounded, while curd, panner, butter, SMP and ghee-related products grew notably.

*Industrial consumption back on track; ghee and packaged dairy products poised for growth in 2025*

Sales of milk and value-added products should increase at a steady pace in 2025 with a rise in institutional and HORECA sales. The ghee market is expected to remain strong in 2025, driven by factors such as rising disposable income, increasing urbanisation and growing awareness of the health benefits associated with ghee consumption. The packaged curd and paneer segment is expected to continue to grow in 2025, driven by rising concerns regarding hygiene and convenience.

*Profit recovery expected in FY24 and FY25, led by a slower rise in procurement prices*

Operating margin is expected to improve 100 basis points (bps) over the next two fiscals, following a stabilisation in procurement prices and a moderation in freight and packaging costs. The sharp increase in procurement prices (accounting for ~85% of the total costs) last fiscal pulled down the margin despite several retail milk price hikes. VAP-focused players showed resilience due to a better ability to pass on the input price hikes.

Rice-milling industry is likely improve 4-5% on a high base in the projected rice year 2025

In rice year 2025 (Apr-Mar 2024-25), domestic rice production is expected to increase ~3-4% on-year, with anticipated above normal monsoon boosting paddy acreages in the country. Paddy acreages have been adversely impacted in the rice year 2023 on account of erratic monsoon leading to deficit in rainfall in the eastern states such as West Bengal, Bihar, and eastern UP. Acreages have improved partially during the estimated rice year 2024 and are likely to rebound to normal in the projected rice year 2025. However, in the current rabi season, the acreages have declined 6-7% on-year owing to lower reservoir levels in the country, especially in the southern and eastern states where rabi paddy is sown.

On the demand side, domestic consumption is expected to increase organically by 1-2% on-year on account of steady increase in rice-eating population, coupled with increase in demand for industrial purposes, such as animal feed, ethanol production, food processing into flakes, and ready-to-eat (RTE) foods. In case of exports, the growth is expected to be hampered ~15% on a low base if the export restrictions continue. India has banned exports of broken rice and white rice varieties and imposed a 20% export duty on parboiled rice, to tame the domestic prices and stabilize the domestic stock. However, as of April 2024, FCI has reported 30.2 million metric tonnes of rice stock, which is ~21% higher on year and ~2% above that of past five-year average. The unmilled paddy stocks are ~22-24% higher than last year levels and ~45-46% than past five year's average indicating ample stocks of paddy and rice with FCI.

*Note: RY: Rice Year (April-March)*

**India's tea production to improve in calendar year 2025 on a lower base due to favourable weather conditions**

In calendar year 2023, tea production grew 2% on-year to 1,394 million kg due to increase in production in North and South India by 2% on-year, respectively.

Tea production in India fell ~7.8% on-year to 1,285 million kgs in calendar year 2023. During the year, North India tea production fell 8.6% on-year due to fall in Assam and West Bengal tea production, which contributed 50% and 29%, respectively of total India's tea production. High area under cultivation in Assam and high acreage in West Bengal make these states the highest tea producers in India.

Tea production in South India fell ~4.2% on-year due to fall in tea production in Tamil Nadu, Kerala and Karnataka. In South India, Tamil Nadu has high area under cultivation and high acreage compared with Kerala and Karnataka and contributes 12% in country's total production. Well drained slops, fertile soil and two monsoons per year with fog, cold weather and humidity help high yield in Tamil Nadu.

In calendar year 2025, we expect tea production to increase ~7-9% on-year due to increase in production from both North and South India due to favourable weather conditions.

Segment	Assessment of structural factors	Risk factors
Packaged foods	1) Deepening penetration and higher disposable income; 2) improvement in supply chain and distribution network	Volatility in raw material prices, limited diversity in revenue stream
Milk and dairy products	1) Improvement in procurement and storage facilities; 2) changing lifestyles of people	High fragmentation, competition from foreign players
Poultry	1) Increasing popularity of quick-service restaurants; 2) change in demographics	Volatility in raw material prices, lack of processing facilities

## 1.4. Growth drivers

The food processing sector serves as a crucial bridge between agriculture and industry, transforming raw agricultural products into value-added goods that cater to both domestic and global markets, contributing to employment generation and rural development and enhancing food security by narrowing post-harvest losses. As consumer preferences shift towards convenient, healthy and packaged foods, the sector is undergoing a rapid transformation. With strong government backing, through policy reforms and financial incentives, the industry is expected to see faster growth.

Key growth drivers for the sector are:

### Growing middle class and changing consumption patterns

With rising income and growing middle class, the popularity of packaged, RTE and convenience foods is increasing, boosting demand for processed food products in urban and semi-urban areas.

### Government support and policy initiatives

The government has introduced various schemes, such as the Pradhan Mantri Kisan SAMPADA Yojana and the Production-Linked Incentive (PLI) scheme to promote investments, reduce wastage, and improve infrastructure in the food processing sector.

### Export opportunities

India's vast agricultural base produces various farm products, offering tremendous potential for exports of processed food products. The country's proximity to key markets in Asia, the Middle East and Europe, and rising global demand for healthy, organic and ethnic foods offer significant export opportunities for domestic food processors.

### Increasing investments and foreign direct investments

The sector has seen a steady flow of both domestic and foreign investments, and the government has relaxed foreign direct investment (FDI) norms in the food retail and e-commerce sectors, attracting investments from multinational companies.

### Growth of e-commerce and organised retail

The growth of e-commerce platforms and expansion of organised retail have created new distribution channels for processed foods. Online grocery shopping has surged, especially after the pandemic, providing food processing companies

direct access to consumers. Large retail chains also offer extensive shelf space for packaged and processed goods, driving demand.

### **Technological advancements and innovation**

Adoption of modern technologies in processing, packaging and supply-chain management have significantly improved efficiency, product quality, and shelf life. Automation, artificial intelligence (AI) and Internet of Things (IoT) are increasingly being used in food-processing operations, helping businesses scale up and reduce wastage.

### **Food Safety and Standards Regulation**

The implementation of stringent food safety regulations by the Food Safety and Standards Authority of India (FSSAI) has boosted consumer confidence in processed foods. As standards improve, both domestic and international demand for Indian processed foods is expected to rise, encouraging investments in quality control and certification.

### **Food parks and infrastructure development**

The government's Mega Food Park Scheme (*discontinued w.e.f. April 2021*) and other infrastructure development initiatives aim to provide an integrated approach to food processing. These parks offer modern facilities for storage, processing and packaging, reducing logistics costs and encouraging investments in the sector.

## 1.5. Challenges

The food processing sector holds immense potential as a key contributor to the country's economy, employment, and rural development. It serves as a bridge between farmers and consumers, transforming raw agricultural produce into a range of value-added products. However, despite its importance and growth potential, food processing units in India face a lot of challenges that hinder their full development and competitiveness. Understanding these obstacles is crucial for targeted solutions that can unlock the sector's potential and drive growth.

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### Wastage of cereals, fruits and vegetables



One of the major issues in India's food processing sector is the high level of wastage, especially in cereals, fruits and vegetables. A significant portion of domestic agricultural produce is wasted, because of inefficient harvesting techniques, inadequate storage and poor transportation infrastructure. Absence of proper cold storage and preservation facilities results in spoilage, reducing the availability of raw materials for processing units.

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### Gaps in supply-chain infrastructure



The food processing sector suffers from critical gaps in supply-chain infrastructure, including lack of cold chains, refrigerated transport and proper warehousing facilities. The fragmented nature of the supply chain adds to the complexity, making it difficult for the processors to source raw material efficiently and on time.

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### Seasonality of operations



The food processing industry, particularly in segments such as fruits and vegetables, is highly seasonal. Availability of raw material is often limited to certain times of the year, rendering the operations of the processing units irregular. The seasonality also creates significant challenges for maintaining consistent production schedules and meeting market demand throughout the year. As a result, the processing plants often operate below their capacities, leading to inefficiencies and financial losses.

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### Inadequate link between production and processing



There is a disconnect between the production of agricultural raw materials and their processing. Many farmers lack awareness about processing requirements and the quality standards specified for food products. Absence of organised systems to aggregate produce exacerbates the gap, leaving small farmers at a disadvantage.

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### Low-capacity utilisation



Many food processing units operate well below their installed capacities, owing to challenges posed by supply chain gaps, seasonality and inadequate access to raw materials. Lack of proper forward and backward linkages further reduces the operational efficiency, leading to higher cost per unit of production, making products more expensive.

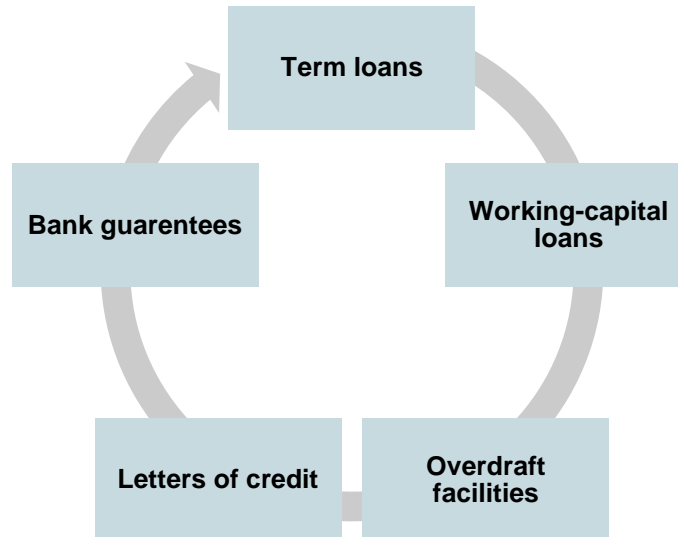
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# Credit facilities available for the food processing sector

## 2.1. Credit facilities available now

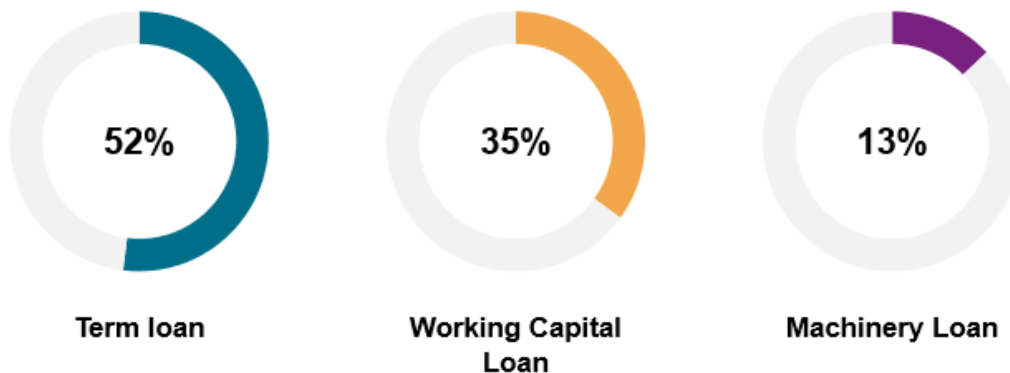


The food processing sector in India is a significant contributor to the country's economy, with a large number of players operating across the value chain. The government identifies it as a priority sector and various credit facilities have been made available to support its growth and development. These credit facilities cater to different segments of the value chain, from micro, small, and medium enterprises (MSMEs) to large players.

### Credit facilities available through financial institutions:

 <b>Term loans</b>	 <b>Working capital loans</b>	 <b>Overdraft facilities</b>	 <b>Letter of credit</b>	 <b>Bank guarantees</b>
<p>Term loans are available from banks and non-banking financial companies (NBFCs) for a specific period, usually ranging from three to 10 years. These loans can be used for capital expenditure, such as purchasing equipment, land and buildings.</p>	<p>Working capital loans are available to meet the day-to-day operational expenses of food processing units. These loans are usually provided for shorter tenures, ranging from one to three years.</p>	<p>Overdraft facilities are available for food processing units to meet their short-term working capital requirements. These are usually provided for one year and the interest is charged only on the amount withdrawn.</p>	<p>A letter of credit is a guarantee provided by a bank to the supplier of goods or services, ensuring payment upon presentation of specified documents.</p>	<p>Bank guarantees are provided by banks to ensure the performance of a food processing unit's contractual obligations.</p>

## 52% of the respondents availed term loan



Source: Based on primary interactions with entities

**Credit facilities available through government subsidies:** The government provides subsidies to food processing units for specific projects or activities, such as setting up a new unit, expanding an existing unit, or implementing food safety and quality control measures.

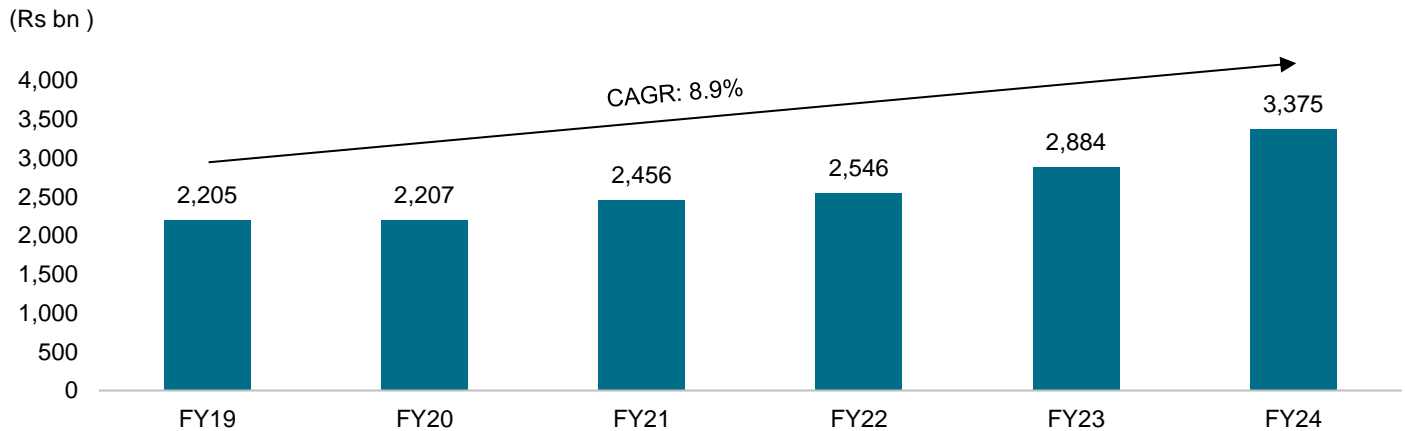
- **Capital subsidy for food processing units:** Under the scheme for Creation/Expansion of Food Processing and Preservation Capacities (CEFPPC), a 35% capital subsidy (50% in difficult areas) is available for setting up and expanding food processing units
- **Credit Linked Capital Subsidy Scheme (CLCSS):** This scheme is available for MSMEs in the food processing sector to upgrade their technology. The subsidy is generally up to 15% of the investment in eligible technology
- **Integrated Cold Chain and Value Addition Infrastructure Scheme:** A subsidy of up to 35% (up to 50% in hilly areas) is provided for setting up cold-chain infrastructure to reduce post-harvest losses in perishable food items
- **Mega Food Parks Scheme:** This scheme provides subsidies for developing mega food parks, which are clusters of food processing industries. These parks received 50% of the project cost (up to Rs 50 crore) in subsidies. (*discontinued w.e.f. April 2021*)
- **Pradhan Mantri Kisan SAMPADA Yojana (PMKSY):** This umbrella scheme provides support for infrastructure development, integrated cold chains, food safety and quality assurance, and value addition
- **Support for Technology Upgradation/Modernisation of Food Processing Industries:** The scheme helps food processing units modernise and adopt new technology. The government generally provides 25-50% of the project cost for eligible projects
- **Backward and Forward Linkages Scheme:** The scheme strengthens supply-chain infrastructure, connecting farmers with processing units and markets. The government provides up to 35% of the project cost
- **Agro-Processing Cluster Scheme:** The scheme helps to develop clusters focused on agro-processing, allowing for a minimum of five food processing units per cluster. This scheme offers up to 35% of the project cost, with a maximum of Rs 10 crore per project

## 2.2. Bank credit to food processing sector

The food processing sector in India has been a significant beneficiary of bank credit, with loans and credit to food and agro-based processing units and cold chains classified as priority sector lending (PSL) by the Reserve Bank of India (RBI). This categorisation offers several benefits, including easier access to credit, increased lending quotas, and support for government initiatives and socio-economic development.

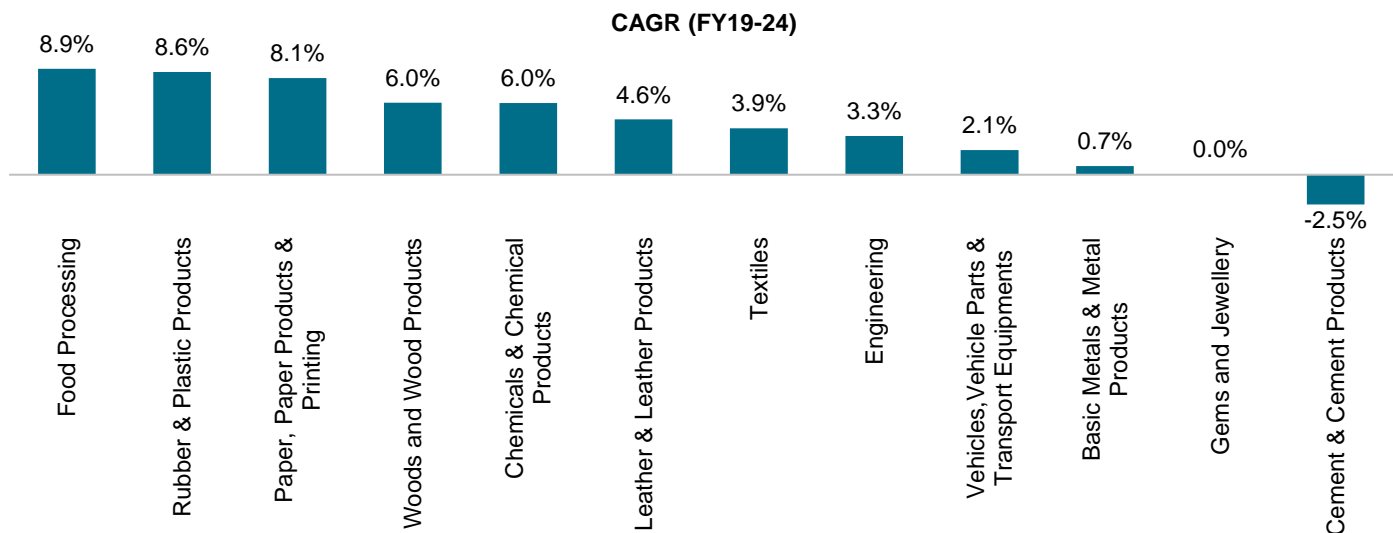
The domestic food processing sector is one of the largest in the world and has been instrumental in linking farmers to consumers in the domestic and international markets. The sector recorded the highest CAGR of 8.9% between fiscals 2019 and 2024. It has considerable potential to become an export powerhouse, owing to the country's wide agriculture base and proximity to food importing countries and presence of several academic and research facilities that offer food processing training in the country.

### Bank credit to food manufacturing and processing logged moderate CAGR between FY19 and FY24...



Sources: RBI, Crisil Intelligence

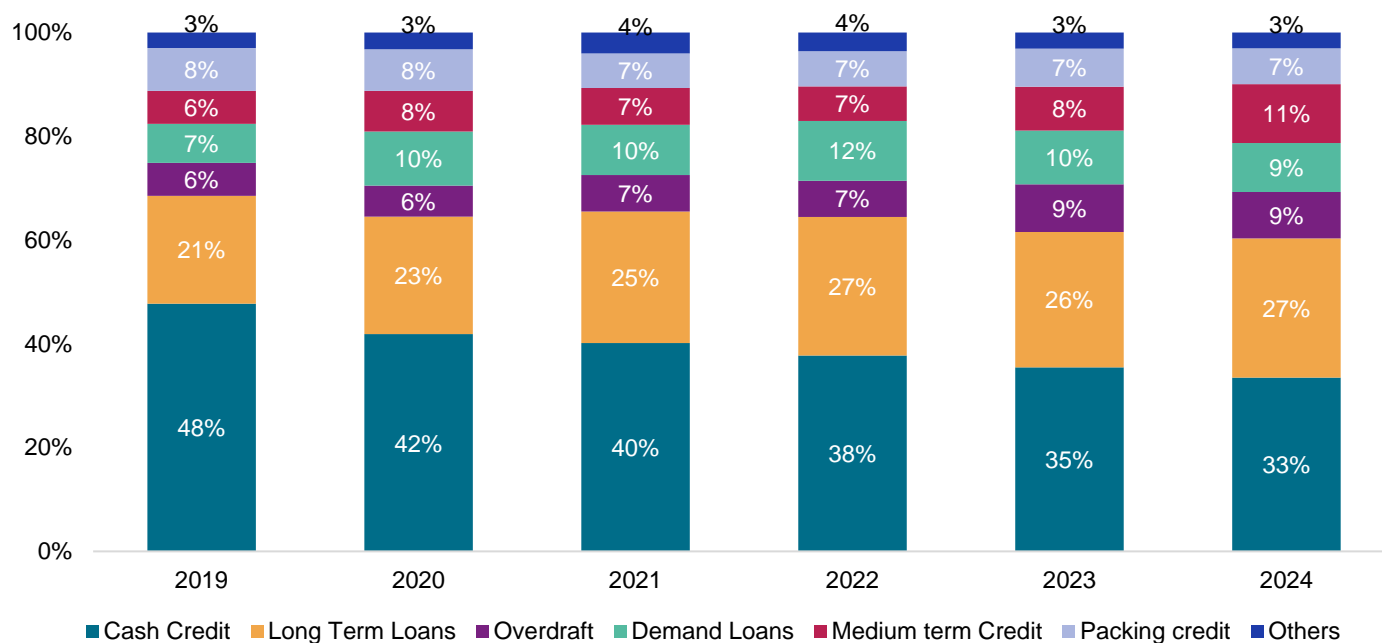
### ...But the sector's CAGR outpaced others during the period



Note: Non-infra industries include all, except mining and quarrying, electricity, gas and water, and construction

Sources: RBI, Crisil Intelligence

### Bank credit facilities available by food processors in India



Note: Bank credit data; others include inland and export bill purchased/ discounting

Sources: RBI, Crisil Intelligence

In bank credit, cash credit was the most favoured product as it help the units meet daily working capital requirements and bridge the liquidity gap. Even in fiscal 2024, cash credit accounted for 33% of the total credit facilities available by food processors. Long-term loans saw a steady rise annually, with their share forming 27% in fiscal 2024 as food processors focused on capacity expansion, automation and establishment of new units. Overdraft facilities (used to manage daily cash flow fluctuations) have also registered a healthy rise of late.

## 2.3. Cluster analysis of bank credit

Growth in bank credit to the food processing sector has been uneven across clusters in India, with varying trends observed at the state and district levels. An analysis of credit data reveals that certain clusters have witnessed significant growth in bank credit, while others have lagged. For instance, Rajasthan, Chhattisgarh and Bihar have seen a substantial increase in credit flow to the food processing sector. In contrast, Delhi, Maharashtra and West Bengal have seen relatively slow growth in credit flow, despite having a strong agricultural base.

This disparity can be attributed to factors such as inadequate infrastructure, limited access to markets and lack of institutional support. However, certain districts within these states have shown promise, with credit growth driven by government initiatives and private investments.

The nuances of credit growth vary from one geography to another, with factors such as local regulations, infrastructure and cultural preferences influencing the type of food processing activities and the corresponding credit requirements.

Understanding these regional disparities and cluster-specific trends is crucial for banks and financial institutions to design targeted lending programmes that cater to the unique needs of each cluster. By doing so, they can support growth of the food processing sector, promote economic development, and increase access to credit for SMEs and farmers in these clusters.

State	Bank credit in FY24 (Rs billion)	CAGR (FY19-24)	Major three districts		
			Number 1	Number 2	Number 3
Maharashtra	429	5%	Mumbai suburban	Pune	Nashik
Tamil Nadu	314	11%	Chennai	Madurai	Virudhunagar
Gujarat	282	10%	Ahmedabad	Anand	Rajkot
Uttar Pradesh	270	10%	Varanasi	Gautam Buddha Nagar	Lucknow
NCT of Delhi	218	-2%	All districts		
West Bengal	205	7%	Kolkata	Purba Bardhaman	North 24 Parganas
Karnataka	194	8%	Bengaluru urban	Dakshin Kannada	Dharwad
Andhra Pradesh	187	12%	Guntur	West Godavari	Visakhapatnam
Madhya Pradesh	178	11%	Indore	Bhopal	Jabalpur
Haryana	175	12%	Kaithal	Gurugram	Karnal
Punjab	163	10%	Bathinda	Ludhiana	Amritsar
Rajasthan	132	21%	Kota	Jaipur	Bikaner
Chhattisgarh	115	21%	Rajnandgaon	Bilaspur	Raipur
Bihar	59	16%	Patna	East Champaran	Muzaffarpur
Assam	28	16%	Jorhat	Dibrugarh	Kamrup Metropolitan

*Note: Data is of bank credit; NCT is National Capital Territory*

*Source: RBI, Crisil Intelligence*

In fiscal 2024, Maharashtra topped in bank credit flow to food processors (Rs 429 billion), followed by Tamil Nadu (Rs 314 billion). Between fiscals 2019 and 2024, Chhattisgarh and Rajasthan clocked the highest CAGR in bank credit, at 21% each. Meanwhile, Assam and Bihar logged a CAGR of 16% each.

## 2.4. Methodology for shortlisting locations for primary interactions

Given the regional disparities and cluster-specific trends in bank credit growth, Crisil's team conducted extensive primary research, engaging with a diverse set of stakeholders across the country. The team held physical meetings and telephonic interviews with about 200 entities (~80 entities from northeastern states), including food processing units, manufacturers, traders and other industry players. Additionally, the team interacted with 10-15 financial institutions, comprising public sector banks, private sector banks and NBFCs, to gain insights into their lending practices, product offerings and risk assessment criteria for the food processing sector.

These interactions provided valuable insights into the credit requirements, challenges and experiences of food processing units, as well as the lending strategies and priorities of financial institutions.

The feedback and insights gathered from these interactions have been analysed and incorporated into this report, providing a comprehensive understanding of the credit landscape for the food processing industry in India. The findings and

recommendations outlined in this report are based on the primary research exercise and are intended to support growth and development of the food processing sector, while also informing the lending strategies of financial institutions.

### Sample size

The sample set for our study comprised about 200 entities, including food processing units, manufacturers, traders and other industry players. The sample size was determined based on a combination of factors, including research objectives, scope of the study, and available resources.

### We selected a sample set of 200 entities for several reasons:

- **Representation:** We aimed to ensure that our sample set was representative of the food processing industry in India, covering various sectors, sizes and regions. A sample set of 200 entities allowed us to achieve a reasonable level of representation across the industry
- **Data quality:** With a sample set of 200 entities, we were able to collect a sufficient amount of data to support our research objectives. This sample size also allowed us to identify patterns, and relationships between variables

### Regional representation

To ensure adequate regional representation, we distributed our sample set of 200 entities across multiple states in India. This included the following:

- **Northeastern states:** We focused 80 interactions on the northeastern states, recognising the unique challenges and opportunities faced by the food processing industry in this region. The northeastern states have significant potential for growth in the food processing sector, and we wanted to ensure that our study captured the perspectives and experiences of entities operating in this region
- **Other states:** The remaining 120 interactions took place in other states, covering the northern, southern, eastern, western and central regions. This allowed us to capture the diversity of the food processing industry across India and identify regional trends and patterns

### Financial institution interactions

In addition to the 200 entity interactions, we conducted 10-15 interactions with financial institutions, including public sector banks, private sector banks and NBFCs. These interactions took place across various states and regions, allowing us to gather insights into the lending practices, product offerings and risk assessment criteria of financial institutions operating in the food processing sector.

The 10-15 financial institution interactions were selected based on the following criteria:

- **Representation:** We aimed to ensure that our sample of financial institutions was representative of the various types of financial institutions (banks, NBFCs and fintechs) operating in the food processing sector
- **Geographic spread:** We selected financial institutions with a presence in various states and regions, allowing us to capture regional differences in lending practices and product offerings
- **Expertise:** We selected financial institutions with expertise in lending to the food processing sector, ensuring that our interactions provided valuable insights into the industry's credit landscape

By combining the 200 entity interactions with the 10-15 financial institution interactions, we were able to gather a comprehensive understanding of the credit landscape of the food processing industry in India, including the perspectives and experiences of both food processing units and financial institutions.

To identify the top states and districts for the primary survey, a multi-criteria approach was adopted. The selection process involved a combination of quantitative and qualitative parameters to ensure a representative and diverse sample.

### State selection criteria

To select the top states, the following parameters were considered:

- **Highest bank credit for food processing in fiscal 2024:** The state with the highest bank credit flow to food processors in fiscal 2024 was identified as the one with the highest banking activity in the sector
- **Highest and lowest CAGR in bank credit between fiscals 2019 and 2024:** The state that clocked the highest CAGR in bank credit flow to food processing units between fiscals 2019 and 2024 was identified as the one with the fastest growth in banking activity in the sector, and the state that logged the lowest CAGR as the one with the slowest growth in banking activity in the sector
- **Regional representation:** To ensure geographic diversity, states from all five regions of India — northern, southern, eastern, western and central — were identified based on population and size

### District selection criteria

To select the top three districts within each state, the following parameters were considered:

- **Highest bank credit for food processing in fiscal 2024:** The district with the highest bank credit flow to food processing units in fiscal 2024 was identified as the one with the highest banking activity in the sector
- **Highest and lowest CAGR in bank credit between fiscals 2019 and 2024:** The district that clocked the highest CAGR in bank credit flow to food processing units between fiscals 2019 and 2024 was identified as the one with the fastest growth in banking activity in the sector, and the district that logged the lowest CAGR as the one with the slowest growth in banking activity in the sector
- **Comprehensive assessment of all districts:** A thorough assessment of all the districts in all the states was conducted to identify the top three districts that best represent the banking landscape for food processing units in the state



3

## Initiatives to promote the food processing sector

## **3.1. Government initiatives**

### **3.1.1. Mega Food Parks**

The government has set up mega food parks to ensure state-of-the-art food processing infrastructure with strong backward and forward linkages. This has brought together farmers, processors and retailers to ensure maximum value addition and minimal wastage. Common facilities such as cold storages, warehouses and processing units are also now available for SMEs. The Mega Food Park Scheme has, however, been discontinued with effect from April 2021.

### **3.1.2. Initiatives for ease of doing business**

The government has set up single-window clearance for approvals and licences in several states. Also, the option to file applications and obtain permits via digital platforms, along with simplified rules for setting up food processing units, has encouraged businesses to set up new units.

### **3.1.3. Investment in modern food processing technologies**

Investments have been made in modern food processing technologies to enhance efficiency, reduce wastage and increase the shelf life of food products. Adoption of automation and advanced technologies, such as precision agriculture, artificial intelligence and Internet of Things, by food processing units are optimising production processes. Investments are also being made in modern packaging solutions to maintain product freshness and meet global export standards.

### **3.1.4. 100% FDI in food processing**

The government has allowed 100% foreign direct investment (FDI) under the automatic route in food processing, including in sectors such as dairy, poultry and meat products. 100% FDI is now also allowed through the government approval route for trading, including through e-commerce, with respect to food products manufactured or produced in India.

### **3.1.5. Cluster-based development approach**

A cluster-based approach provides collective benefits, given the challenges posed by the progressive reduction of farm acreage in the country and the large number of small processing units. By grouping multiple small players in a geographic area, the clusters can overcome the limitations of individual entrepreneurs, such as limited access to finance and credit, inadequate technology and infrastructure, insufficient market access and bargaining power, and inability to achieve economies of scale.

### **3.1.6. Funding under a new scheme for MSMEs**

The MoFPI is working on a new scheme for MSMEs, earmarking Rs 3,000 crore for small food processing units. The amount will be invested primarily in setting up micro units, along with providing access to credit, training, and research and development (R&D).

## 3.2. Central government schemes

Scheme	Objective	Key beneficiaries
Pradhan Mantri Kisan Sampada Yojana	To supplement agricultural income, modernise processing and decrease agricultural waste by providing integrated and comprehensive support to the food processing sector, and to create employment opportunities and increase income of farmers	Farmers, food processors, agricultural labourers
Pradhan Mantri Formalisation of Micro Food Processing Enterprises	To formalise and upgrade micro food processing enterprises, improve their competitiveness, and increase their access to markets, credit and technology, thereby generating employment and income opportunities for the rural youth and entrepreneurs	Micro food processing entrepreneurs, rural youth, women entrepreneurs
Production Linked Incentive Scheme for Food Processing Industries	To boost the food processing industry by providing incentives for investments, production and job creation, and to promote the development of a robust and competitive food processing sector in India	Food processing industries, MSMEs, large enterprises
Pradhan Mantri Mudra Yojana	To provide access to credit and financial services to non-corporate, non-farm sector income-generating activities, and to promote entrepreneurship, job creation and economic growth among small and micro enterprises	Small and micro entrepreneurs, artisans, small businesses
National Bank for Agriculture and Rural Development Fund	To support rural development and agriculture by providing financing for agricultural and rural infrastructure projects, and to promote financial inclusion and access to credit for rural communities	Farmers, rural communities, agricultural cooperatives
Agriculture Infrastructure Fund	To finance agriculture infrastructure projects, such as warehouses, cold storage facilities and processing units, and to improve the efficiency and competitiveness of the agricultural sector	Farmers, agricultural entrepreneurs, agri-businesses
Credit Guarantee Fund Trust for Micro and Small Enterprises	To provide credit guarantees to micro and small enterprises, and to promote access to credit and financial services to MSMEs, thereby supporting their growth and development	Micro and small enterprises, MSME entrepreneurs, women entrepreneurs

### 3.2.1. Pradhan Mantri Kisan Sampada Yojana (PMKSY)

#### Integrated Cold Chain and Value Addition Infrastructure

As per the scheme's guidelines, grant-in-aid is provided to cover 35% of the eligible cost for projects in general areas and 50% of the eligible cost for projects in difficult areas, as well as for projects by those belonging to scheduled castes (SCs)/ scheduled tribes (STs), farmer producer organisations (FPOs) and self-help groups (SHGs), subject to a maximum of Rs 10 crore per project.

#### Creation/ Expansion of Food Processing and Preservation Capacities (Unit Scheme)

The grant covers 35% of the eligible project cost, subject to a maximum of Rs 5 crore, in general areas, and 50% of the eligible project cost, subject to a maximum of Rs 5 crore, in difficult areas. It is also provided for projects by those belonging to SCs/STs, FPOs and SHGs.

#### Infrastructure for Agro-processing Clusters

The maximum admissible grant is 35% of the eligible project cost in general areas and 50% of the eligible project cost in difficult areas, subject to a maximum of Rs 10 crore. This grant is also provided for projects by those belonging to SCs/STs, FPOs and SHGs.

## Food Safety and Quality Assurance Infrastructure

The ministry is implementing a scheme for setting up/upgrading quality control/food testing laboratories. With the growth of the market for and production of food products, there is a need for facilities to test domestic production in order to ensure compliance with domestic standards and international standards (for exports), as well as to test all imports to verify they meet the required standards.

## Human Resources and Institutions –Research & Development

The ministry has launched an R&D portal to provide information on products, processes and technology as well as latest innovations by different food technology development institutes in the country. The website ensures easy and wide access to all categories of users, including entrepreneurs, industry, promoters, consumers, researchers and students.

## Operation Greens

This scheme, with a budgetary allocation of Rs 500 crore since November 2018, seeks the integrated development of tomatoes, onions and potatoes by promoting FPOs and their capacity building, primary/secondary processing facilities, storage infrastructure, agri-logistics, etc.

## Approved projects under PMKSY for promoting Make in India (as of March 31, 2025)

Name of scheme	Total project sanctioned	Total project cost of sanctioned projects (Rs crore)	Total grant approved of sanctioned projects (Rs crore)	Total grant released to sanctioned projects (Rs crore)	Processing and preservation capacity of sanctioned projects (LMT)	Famers benefitted (sanctioned)	Employment (sanctioned)
MFP*	41	4,660.33	1,958.53	1,492.73	43.96	81,881	97,491
CC	394	11,466.38	2,970.89	2,420.29	207.47	3,763,488	236,400
APC	71	2,293.78	608.22	279.68	26.07	265,775	72,795
UNIT	526	8,443.43	2,023.4	1,289.3	118.04	186,523	183,713
BFL*	61	693.3	167.73	150.45	8.82	413,420	30,794
OG	44	2,102.54	545.1	237.48	12.8	319,474	101,958
FTL	205	1,176.63	503.48	353.24	0	0	7,585
HRI-R&D	236	97.16	94.82	82	0	0	0
HRI-Skill*	26	18.84	9.06	9.03	0	0	0
<b>Total</b>	<b>1,604</b>	<b>30,952.39</b>	<b>8,881.22</b>	<b>6,314.21</b>	<b>416.16</b>	<b>5,030,561</b>	<b>730,736</b>

Note: (\*) Scheme component discontinued; MFP – Mega Food Park, CC – Cold Chain, APC – Agro Processing Cluster, BFL – Backward Forward Linkages, OG – Operation Greens, FTL – Food Testing Lab, HRI – Human Resource Institution

Source: MOFPI

### 3.2.2. Pradhan Mantri Formalisation of Micro Food Processing Enterprises (PMFME) scheme

The scheme follows a one district, one product approach to reap the benefits of scale, in terms of procurement of inputs, access to common services and marketing of products.

The scheme provides a framework for the development of value chain and alignment of support infrastructure. It has been approved for 713 districts in 35 states/union territories (UTs), with 137 unique products.

The scheme is operational for five years, i.e. from fiscal 2021 to 2025, with a total outlay of Rs 10,000 crore.

Provisions under the scheme include:

- Support for setting up/upgrading micro food processing enterprises
- Support for setting up common infrastructure facilities
- Support to SHGs
- Support for branding and marketing

#### Achievements under PMFME for strengthening Make in India

Sr no	Components	Overall achievement
1	Credit-linked subsidy – individual enterprises	127,758
2	Credit-linked subsidy – common infrastructure	83
3	Seed capital	327,150 members for Rs 1,088.42 crore
4	Capacity-building	100,018
5	Incubation centres approved	75 incubation centres with an outlay of Rs 205.36 crore in 23 states/UTs approved
6	Commissioned	17
7	Branding and marketing	17

Note: Data is as on March 1, 2025

Source: MoFPI

### 3.2.3. Production Linked Incentive Scheme for Food Processing Industry

India enjoys comparative advantage in terms of resource endowment, availability of raw material, large domestic market, scope for promoting exports to become a global leader in processed food product. Achieving full potential of this sector would require Indian companies to improve their competitive strength vis-à-vis their global counterpart in term of scale of output, productivity, value addition and their linkages with the global value chain. For enhancing India's manufacturing capabilities and improving exports, in November 2020, Government gave its approval to introduce the Production-Linked Incentive (PLI) Scheme in 10 key sectors, including food processing sector.

The food segment identified includes Ready to Cook/ Ready to Eat (RTC/ RTE) foods including Millets based products, Processed Fruits & Vegetables, Marine Products and Mozzarella Cheese, and production of Innovative/ Organic products of SMEs including Free Range - Eggs, Poultry Meat, Egg Products. The scheme would also support for branding and

marketing abroad to incentivise emergence of strong Indian brands for in-store Branding, shelf space renting and marketing. The Union Cabinet approved the Production Linked Incentive (PLI) Scheme for the food processing industries on 31.03.2021 with a total outlay of Rs. 10,900 crores to be implemented over six years from 2021-22 to 2026-27.

The Scheme supports food manufacturing entities with stipulated minimum sales and willing to make minimum stipulated investment for expansion of processing capacity and Branding abroad to incentivise emergence of strong Indian brands. It aspires to not only support creation of global food manufacturing champions, but also to strengthen select Indian brand of food products for global visibility and wider acceptance in the international markets, increase employment opportunities of off-farm jobs and ensure remunerative prices of farm produce and higher income to farmers. The implementation of the scheme would facilitate expansion of processing capacity and create employment for nearly 2.5 lakh persons by the year 2026-27. The detailed scheme guidelines were notified on 2nd May 2021. EOI was also issued on 02.5.2021 for inviting applications. With the saving under PLISFPI, a new component for millet based products was added in the FY 2022-23. Detailed guidelines for the Millet Based PLI Scheme were issued on 24.06.2022 and Expression of Interest (EOI) for this new segment were invited on 27.06.2022. From the savings earmarked for Category-II (Innovative and Organic Products), fresh applications were also invited on 27.06.2022 for Organic Products segment to allow increased participation by MSMEs. As on 31st March, 2025, a total 170 applications from 132 companies are approved under PLI Scheme with an investment of Rs.8910 crore has been done against the target of Rs.7722 crore along with 3.4 lakh employment generated.

### **3.2.4. NABARD special fund**

To boost the sector, the National Bank for Agriculture and Rural Development (NABARD) has set up a special fund of Rs 2,000 crore to provide credit at affordable rates to food processors.

Under this fund, loans are extended to entrepreneurs, cooperatives, FPOs, corporates, joint ventures, special-purpose vehicles and entities promoted by the government to set up, modernise and expand food processing units, and develop infrastructure in designated food parks.

Loans are extended up to 95% of the eligible project cost to entities promoted by state governments, while other categories of promoters are extended loans up to 75% of the project cost.

To avail a loan, entrepreneurs are required to apply, along with a detailed project report, to NABARD's regional office located in the state where the project is to be set up.

The rate of interest is linked to the prime lending rate of NABARD, and the applicable risk premium is based on the risk rating of the project.

As on November 30, 2024, 40 projects had been sanctioned term loans totalling Rs 1,179.71 crore.

### **3.2.5. Pradhan Mantri Mudra Yojana**

The flagship scheme of the Government of India provides micro credit/loans of up to Rs 10 lakh to income-generating micro-enterprises in the non-farm sector, including manufacturing, trading, and services, as well as allied agricultural activities such as poultry, dairy and beekeeping. The scheme provides financial assistance extended by member lending institutions to non-corporate, non-farm sector income-generating activities of micro and small entities.

The scheme has been classified into three categories — Shishu, Kishore and Tarun — to signify the stage of growth/development and funding needs of the beneficiary micro-unit/entrepreneur.

- Shishu: Covers loans up to Rs 50,000
- Kishore: Covers loans above Rs 50,000 and up to Rs 5 lakh

- Tarun: Covers loans above Rs 5 lakh and up to Rs 10 lakh

### 3.2.6. Credit Guarantee Fund Trust for Micro and Small Enterprises

The scheme provides credit guarantees to lenders, which can help reduce the risk of lending to MSEs, including those in the food processing sector.

### 3.2.7. Agriculture Infrastructure Fund (AIF)

Strong infrastructure is crucial for the development of agriculture and for improving its production capabilities. It is only through the development of infrastructure, especially at the post-harvest stage, that the produce can be optimally utilised through value addition, ensuring a fair deal for farmers.

In view of this, on May 15, 2020, the Hon'ble Finance Minister announced the setting up of a Rs 1 lakh crore AIF for farm-gate infrastructure for farmers. A financing facility of Rs 100,000 crore is provided for funding agriculture infrastructure projects at farm-gate and aggregation points (primary agricultural cooperative societies, FPOs, agriculture entrepreneurs, startups, etc.). Impetus is also given for the development of farm-gate and aggregation points, and affordable and financially viable post-harvest management infrastructure.



#### Objectives







The scheme is formulated to mobilise a medium-to-long-term debt financing facility for investments in viable projects related to post-harvest management infrastructure and community farming assets through incentives and financial support. The scheme benefits farmers, FPOs, primary agricultural credit societies, marketing cooperative societies and multipurpose cooperative societies through:

- Improved marketing infrastructure, allowing farmers to sell directly to a larger base of consumers and, hence, improving value realisation for farmers. This will improve the overall income of farmers
- Investments in logistics infrastructure, enabling farmers to sell in the market with reduced post-harvest losses and a smaller number of intermediaries. This will also make farmers independent and improve their market access

- Access to modern packaging systems and cold storage, allowing farmers to decide when to sell in the market, thereby improving their realisations
- Community farming assets, which will improve productivity. Optimised inputs will result in substantial savings for farmers

As on January 26, 2025, Rs 56,334 crore was sanctioned for 92,393 projects under AIF. Of the total sanctioned amount, Rs 41,996 crore is covered under scheme benefits. These sanctioned projects have mobilised investments of Rs 91,856 crore in the agriculture sector. Infrastructure projects sanctioned under AIF have helped generate over 8.19 lakh rural employment opportunities in the agriculture sector, as per MoFPI.

### 3.3. Other schemes and programmes

	<p><b>Deen Dayal Upadhyaya Grameen Kaushalya Yojana</b></p>	<p>Demand led skill training at no cost to the rural poor. Pioneers in providing incentives for job retention and career progression. Provides post placement support, migration support and has a strong alumni network.</p>
	<p><b>Pradhan Mantri Kaushal Vikas Yojana</b></p>	<p>Objective to enable Indian youth to take up industry relevant skill training that will help them in securing a better livelihood. Short term training courses are provided to enable quick learning and encourage on-the-job training.</p>
	<p><b>Scheme for Higher Education Youth in Apprenticeship and Skills</b></p>	<p>Providing industry apprenticeship opportunities to the general graduates. The program aims to enhance the employability of Indian youth by providing 'on-the-job exposure' and earning of stipend.</p>
	<p><b>A Scheme for Promoting Innovation, Rural Industry &amp; Entrepreneurship (ASPIRE)</b></p>	<p>The aim of this scheme is to create new jobs, promote entrepreneurship, facilitate innovation and boost economic development at grassroot level. MSME food processors can benefit from this scheme.</p>
	<p><b>Procurement and Marketing Support (PMS) Scheme</b></p>	<p>The scheme aims at developing the marketability of services and products in the MSME sector by promoting new market access initiatives like organizing/participation in National/International Trade Fairs/Exhibits/MSME Expo. Promoting access initiatives and awareness about various marketing relevant topics.</p>
	<p><b>Loan Manufacturing Competitiveness for MSMEs</b></p>	<p>To enhance the Domestic and Global Competitiveness of MSMEs through the application of various Lean Techniques. Financial Support to be provided to implement lean manufacturing techniques. 90% subsidy of Total Cost of Implementation.</p>



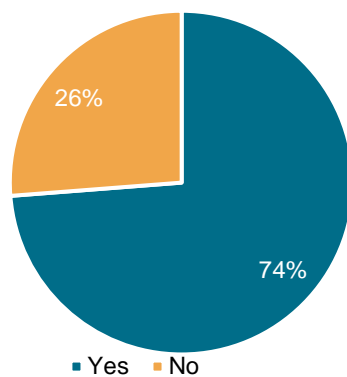
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# Credit accessibility

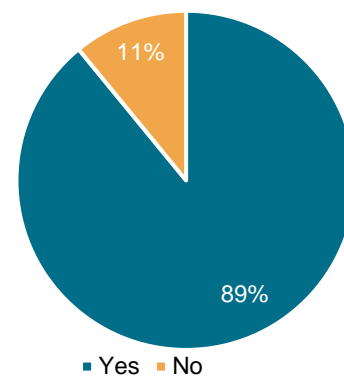
Access to credit is vital for the growth and development of the food processing sector, which has immense potential to enhance the agricultural value chain, reduce wastage and increase farmer incomes. The sector has witnessed significant improvements in credit accessibility in recent years, driven by various government initiatives and the increasing focus of banks and NBFCs on this sector.

Primary interactions with a sample of food processing units reveal 74% of them have applied for credit in the past two years, and a significant 89% are aware of government schemes and facilities for the sector. This increased awareness and willingness to access credit is a positive trend, indicating the increasing recognition of credit as a key driver of business growth.

**Entities who have applied for loan in past 2 years**



**Awareness about government schemes and initiatives**



Source: Primary interactions with entities

The following are some of the key drivers of growth in credit accessibility:

- PSL classification:** The government's decision to include food processing in PSL has been a significant catalyst for improved credit accessibility. This classification mandates banks to allocate a portion of their lending to this sector, ensuring a steady flow of credit, especially for SMEs. Additionally, institutions such as NABARD and Small Industries Development Bank of India (SIDBI) have been actively providing low-cost credit and refinancing options for banks lending to this sector.
- Continued focus from banks and NBFCs:** The increased focus of banks and NBFCs on the food processing sector has also contributed to improved credit accessibility. Many banks and NBFCs have created customised financial products to cater to the sector's working capital and capital expenditure (capex) needs. The exclusion of most sub-segments of food processing from the negative list of financiers has also facilitated credit availability.
- E-commerce and digital platforms boost creditworthiness:** The rise of e-commerce and digital platforms has been a game-changer for small food processors and SMEs, enabling them to sell their products nationwide and increase their revenue. This, in turn, has made them more creditworthy. Fintechs and NBFCs have partnered with major e-commerce and fast-moving consumer goods (FMCG) platforms to offer supply chain financing to SMEs.
- Rise of co-lending and alternative credit models:** The emergence of co-lending and alternative credit models has also expanded credit access to underserved micro and small enterprises, with digital lenders and peer-to-peer lending platforms providing short-term working capital based on cash flow analysis rather than traditional collateral-based assessments.



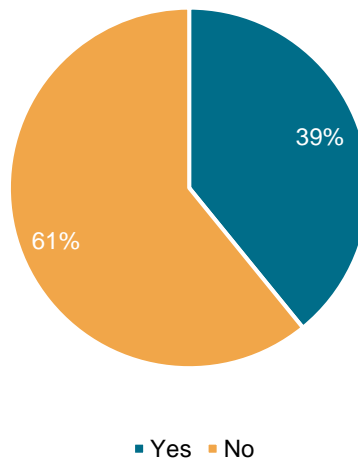
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# Credit affordability

The Indian government's efforts to enhance the affordability and accessibility of processed food products have yielded positive results, with manufacturers now able to produce high-quality products at competitive prices. MoFPI has played a crucial role in reducing production costs, improving supply chain management and enhancing market linkages, ultimately leading to increased affordability and availability of processed food products for the masses. This, in turn, is expected to boost consumer spending, create new employment opportunities and contribute significantly to economic growth, making the food processing sector a vital component of India's development story.

Despite the progress, there is still concern regarding interest rates on loans for food processing businesses. According to primary interactions with entities, a significant 61% were not satisfied with the interest rate on the loans provided. The high cost of borrowing often deters SMEs from seeking formal financial assistance, hindering their growth and innovation.

### Are entities satisfied with interest rate on loans?



Source: Based on primary interactions with entities

Fortunately, the affordability of setting up and expanding food processing businesses has improved significantly due to government incentives, financial innovation and technological advancements. The key factors fueling this positive trend are:

- **Lower cost of credit through government schemes:** Initiatives such as PSL, the PMFME scheme, AIF and CLCSS have made credit more accessible and affordable for food processors. These schemes offer subsidies, concessional credit and skill development, reducing the financial burden on small processors.
- **Availability of low-cost working capital:** Fintechs and NBFCs provide affordable working capital to food processors based on their transactions with large retailers, FMCG firms and e-commerce platforms. Digital lending platforms allow processors to get immediate cash against pending payments, reducing dependence on high-interest loans. Partnerships between banks and NBFCs have reduced financing costs, allowing borrowers to access lower interest rates and flexible repayment structures.
- **Reduction in input and operating costs:** FPOs produce at lower costs, reducing procurement expenses for food processors. Input tax credits on raw materials, machinery and packaging have lowered overall costs even as the adoption of solar and energy-efficient equipment has reduced power consumption and operating costs.
- **Rise of shared infrastructure and contract manufacturing:** Government-supported food parks and shared processing facilities have lowered the initial capital investment for small businesses. Small food processors can manufacture for established brands, reducing marketing and distribution costs while ensuring steady demand

- **Expansion of cold chain and logistics support:** Affordable credit options for cold storage have reduced spoilage and transportation costs. The rise of e-commerce, quick commerce and hyperlocal delivery models has made distribution cheaper and more efficient for food processors.

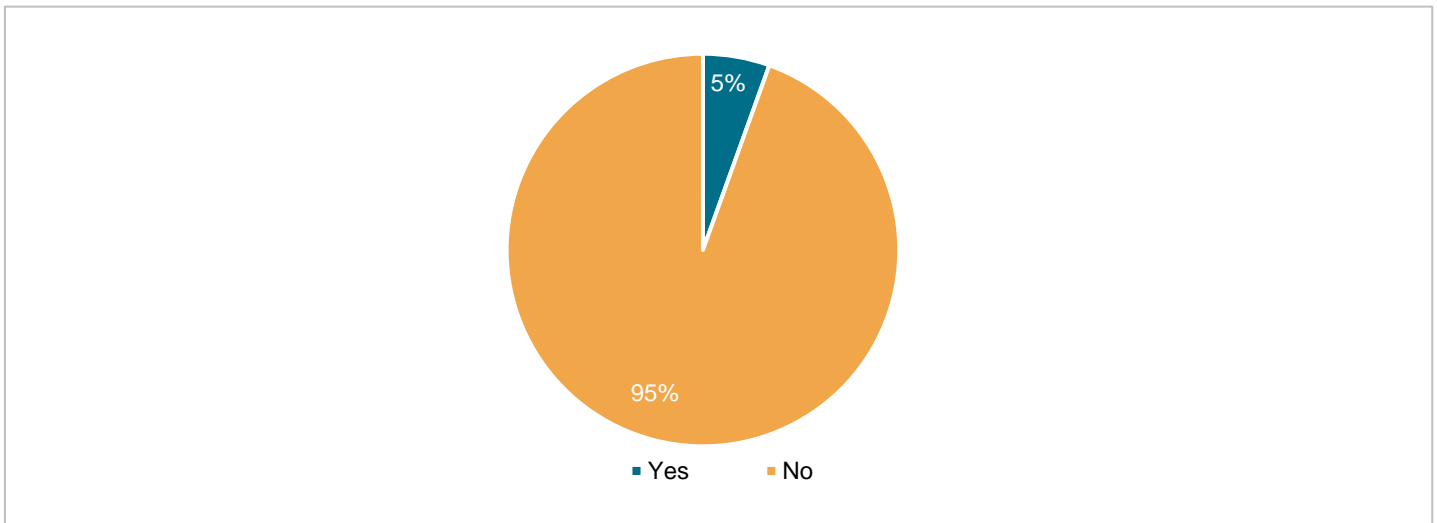


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# Adequacy of credit facilities

The adequacy of credit facilities has improved significantly for the Indian food processing sector, ensuring enterprises receive the right amount of funding at the right time. While accessibility focuses on whether businesses can obtain credit, adequacy emphasises whether the available credit meets their actual financial requirements—be it for working capital, expansion, technology upgrades or infrastructure development. The sector benefits from a well-diversified financing ecosystem, where multiple sources of funding, customised loan structures and policy-driven incentives have helped ensure sufficient liquidity.

### Entities seeking alternative financing sources



Source: Based on primary interactions with entities

Based on primary interactions with a sample of entities, 95% of the respondents still do not see alternative financing sources. Entities prefer financing sources such as banks, NBFCs and government schemes for availing loans because of the sense of trust and reliability. Entities believe these institutions are more likely to honour their commitments, provide transparent and fair dealings and offer reliable support, which is essential for their business operations. Banks have an extensive branch network, making it easy for them to access their services and conduct transactions.

### Factors ensuring adequacy of credit facilities

#### Diverse credit sources to meet varied financial needs

Unlike earlier years when food processing units relied primarily on bank loans, today's financing landscape offers multiple credit avenues serving different needs. Working capital needs are well-supported through bank overdrafts, invoice discounting and supply chain financing. Financial institutions now use cash flow-based lending models, ensuring credit limits are aligned with actual business performance rather than just collateral availability. Banks and NBFCs offer specialised credit solutions based on business size and needs—whether for MSMEs, large food processing units or export-oriented enterprises.

#### Credit expansion for MSMEs and rural processors

Traditionally, small food processors in rural areas faced credit underfunding, receiving loans that were too small for meaningful growth. This has improved with the expansion of the co-lending model, where NBFCs supplement bank credit to meet larger funding needs. Digitised loan processing has reduced loan sanction delays, ensuring businesses receive credit in time for peak demand cycles.



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# Effectiveness and impact of credit facilities

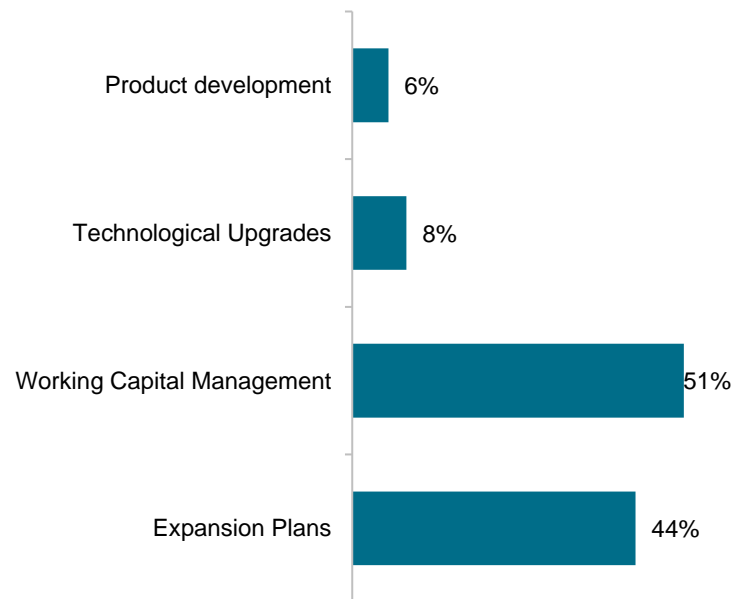
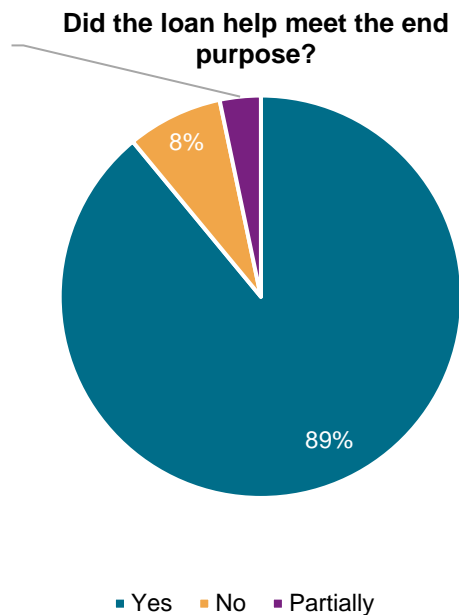
## 7.1. Effectiveness of existing credit facilities

Credit facilities play a crucial role in driving the growth of the food processing sector by fostering innovation and enhancing competitiveness. As a bridge between agriculture and the consumer market, food processing has the potential to reduce wastage, improve value addition and generate substantial employment opportunities, especially in rural areas.

However, the sector's expansion has been constrained by limited access to affordable and adequate financing, which is vital for investment in infrastructure, technology upgrades and new product development. When accessible and affordable, financial resources empower businesses to innovate and introduce products that cater to consumer demands, both domestically and internationally. Such credit can be highly impactful, allowing food processing units—particularly SMEs—to invest in modern processing technologies, streamline supply chains and achieve higher production efficiency. Additionally, it improves the competitiveness of food processors, enabling them to scale up operations, enhance product quality and enter larger markets

**Credit facilities enabled the respondents to meet the end purpose of working capital management and others**

**51% respondents were able to better manage their working capital needs**



Source: Based on primary interactions with entities

Source: Based on primary interactions with entities

Based on primary interactions with the sample set of entities, 89% of the respondents felt the end purpose of loans was met. Credit enabled firms to increase production, expand distribution and tap into new markets, thereby creating job opportunities and contributing to rural income growth. Secured loans helped 51% of the respondents manage their working capital needs and helped 44% of the respondents for their expansion plans.

## 7.2. Impact on growth

The food processing sector in India has been growing steadily, driven by rising demand for packaged and processed foods, evolving consumer preferences and a shift towards healthier, value-added products. Increased investment in technology, infrastructure and government policies aimed at reducing food wastage and enhancing efficiency of the agricultural supply chain have further aided this growth.



**Growth and expansion:** Credit has enabled firms to increase production, expand distribution and tap into new markets, thereby creating job opportunities and contributing to rural income growth. However, limited awareness and accessibility often restrict this growth to better-informed enterprises.



**Modernisation and capacity utilisation:** Affordable credit helps processors invest in technology upgrades, reducing waste, enhancing product quality and increasing shelf life. This leads to better capacity utilisation and higher output. Yet, smaller processors often miss out because of financial constraints since they have neither the funds nor the collateral to apply for loans.



**Employment generation:** The sector has significant potential for creating jobs, especially in rural areas. Better credit access can enable the setting up of more units, potentially transforming local economies by creating stable income sources.

## 7.3. Impact on innovation

Innovation is reshaping India's food processing sector, transforming how food is produced, packaged and delivered to consumers. Technological advances such as automation, cold storage solutions and smart packaging help reduce food waste, enhance product quality and extend shelf life. Innovations in food safety and traceability are also building consumer trust and enabling Indian food products to meet global standards.



**Technology adoption:** Affordable credit can incentivise firms to invest in advanced processing, packaging and cold storage technologies, enhancing the quality and competitiveness of Indian products. The current gap in financing innovation impacts smaller players who cannot afford high-tech solutions.



**Product diversification:** Credit availability can encourage processors to diversify their products and cater to higher-value markets (e.g., organic and health-conscious segments). However, without affordable financing, smaller firms face difficulties in exploring these niches.



**R&D and new product development:** Access to credit allows firms to invest in R&D to innovate and improve products, which is crucial in a competitive market. Currently, the impact of credit on R&D is limited, since funds are often directed towards meeting working capital needs rather than innovation.

## 7.4. Impact on competitiveness

Competitiveness is essential in India's food processing sector for its sustainable growth and domestic and international success. With rising consumer expectations, the sector is focusing on enhancing product quality, safety and efficiency. It is looking to gain a competitive edge through investments in advanced technology, skilled labour and streamlined supply chains, allowing food processors to produce high-quality and value-added products at scale.



**Market expansion:** Effective financing options can enable enterprises to expand their market reach through enhanced distribution channels, particularly for exports. Lack of capital hinders smaller firms from establishing the necessary supply chain infrastructure.



**Cost competitiveness:** Affordable credit helps reduce production costs through economies of scale, which is vital for competing with low-cost imports. However, smaller units often face a competitive disadvantage owing to higher borrowing costs from informal sources.



**Quality standards and compliance:** Credit facilities encourage adherence to quality and safety standards (such as FSSAI compliance) essential for export markets, thus enhancing global competitiveness. Limited credit access restricts smaller players from meeting these standards, impacting sector competitiveness.



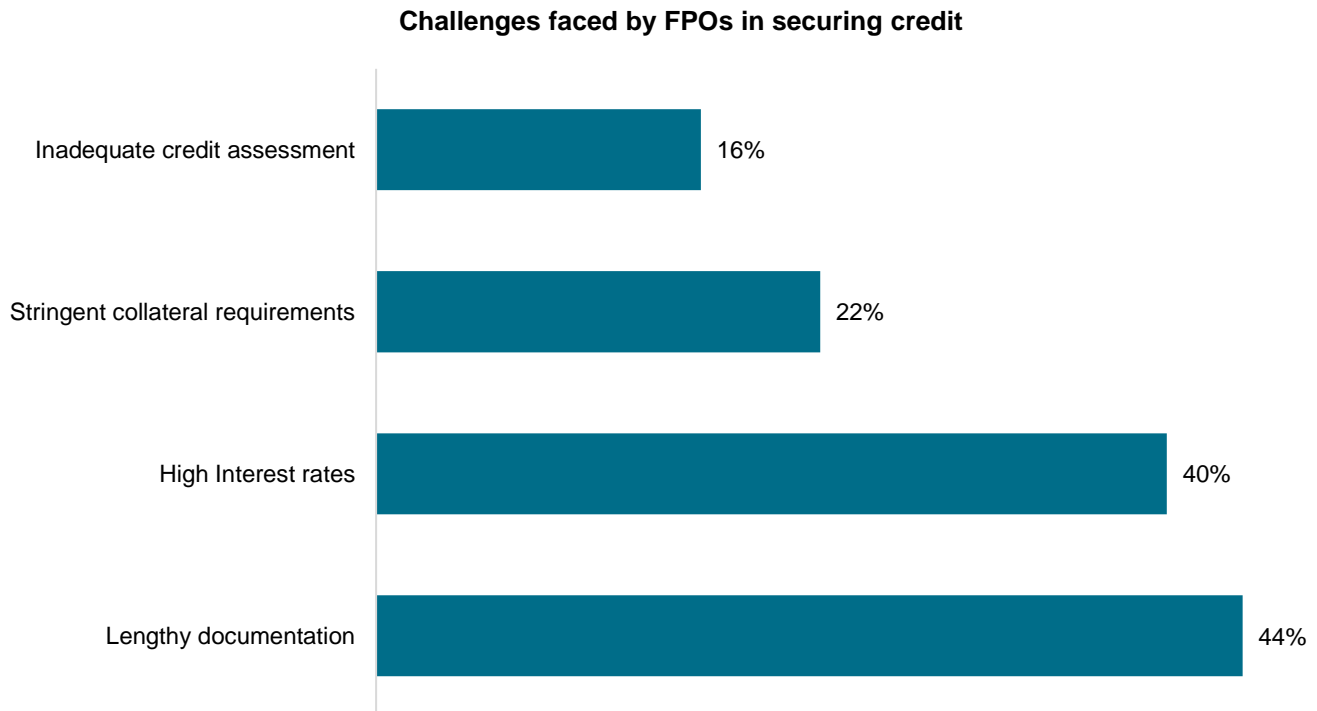
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## Challenges faced by entities when applying for credit

## 8.1. Key constraints

Entities play a critical role in strengthening India’s agricultural value chain by helping small farmers gain access to better markets, technology and inputs. However, despite their importance in supporting rural livelihoods and boosting agricultural productivity, the entities face considerable challenges in securing credit from formal financial institutions. Limited collateral, high interest rates and lengthy documentation often hinder their access to the credit needed for growth and innovation.

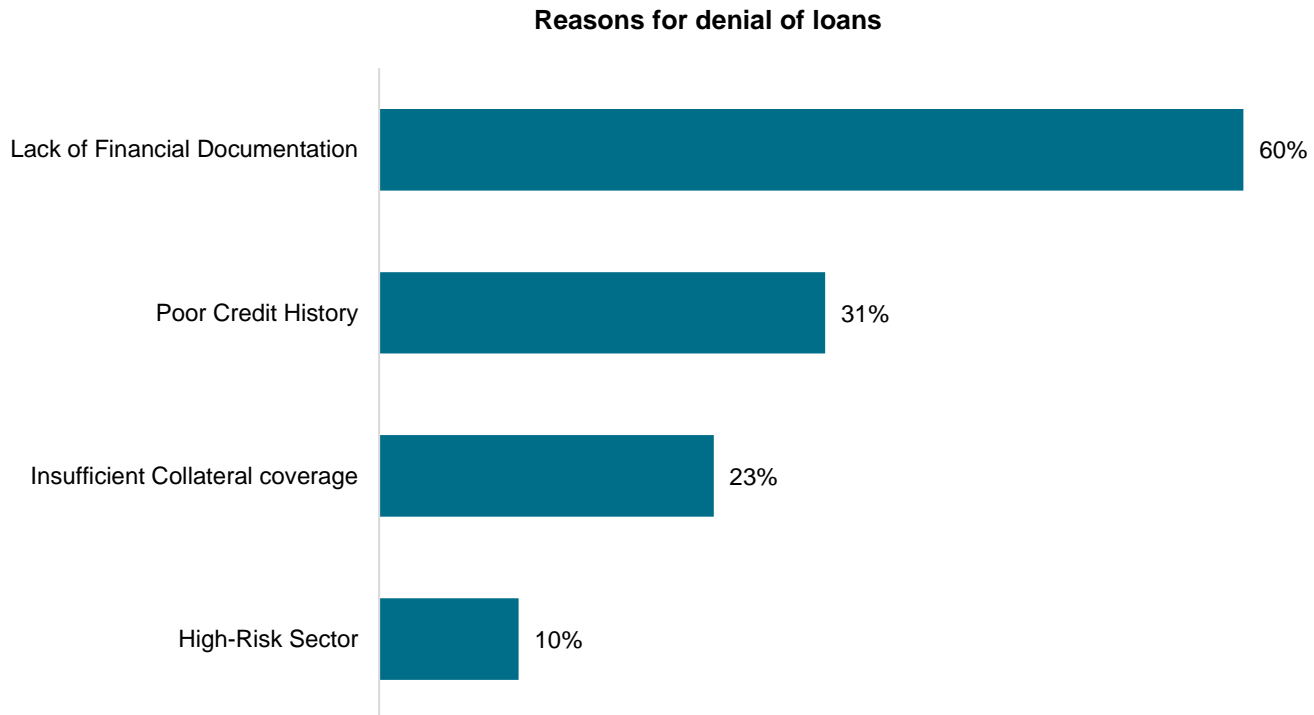
### Lengthy documentation and high interest rates major concerns



Source: Based on primary interactions with entities

Based on our primary interactions, 44% and 40% of entities cited lengthy documentation and high interest rates, respectively, as significant challenges in securing credit. The constraints limit their ability to access affordable financing. While government schemes aim to support agricultural and rural businesses through PSL, the interest rates charged by banks are still higher than what FPOs can afford (typically 12-14% per annum). This hampers growth and sustainability, making it harder for them to scale up their operations, improve productivity and contribute to the overall agricultural value chain.

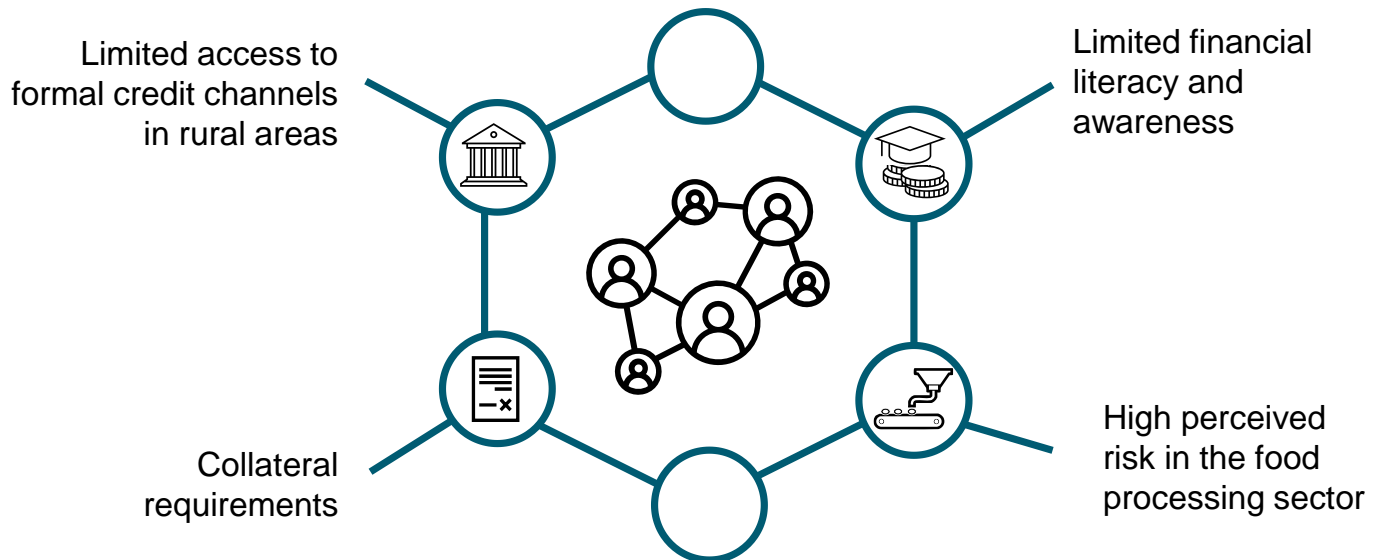
## Lack of financial documentation key reason for denial of loans



Source: Based on primary interactions with entities

- **Lack of adequate collateral** - Entities often lack adequate assets to provide as security for loans. Most member farmers have limited individual assets and the collective resources of an FPO may be insufficient. With lenders hesitant in approving loans without adequate collateral, their access to credit is restricted
- **Inadequate financial documentation** - Many entities struggle with maintaining detailed financial records and audited statements. Entities, especially smaller or newer ones, may not have proper accounting systems. Without comprehensive financial data, lenders find it difficult to assess an organisation's financial health, leading to rejection of credit or delay in disbursements
- **Limited credit track record** - Banks and financial institutions are cautious about extending credit to organisations without a proven repayment history, which makes securing loans more difficult. Entities often lack credit history, especially if they are new or have not availed a formal loan before
- **High interest rates and loan costs** - Because of the perceived risk of lending to agricultural entities, financial institutions, especially NBFCs, often impose high interest rates and service charges on loans. The elevated cost of borrowing can restrict the entities from applying for credit, limiting their ability to expand or manage operations
- **Lack of awareness of financial schemes** - While government schemes and subsidies are available to assist entities in accessing credit, many organisations are unaware of these programmes or struggle to navigate the application process. Without knowledge of these schemes, entities miss out on opportunities to obtain low-cost financing

## 8.2. Socioeconomic barriers



### Limited financial literacy and awareness

Many entities lack adequate financial literacy and awareness of available credit facilities, government schemes and financial products tailored for the food processing sector. The knowledge gap limits their ability to assess loan terms, compare financing options and comply with the necessary documentation, ultimately restricting their access to formal credit channels.

### High perceived risk in the sector

Financial institutions often consider the food processing sector as high risk due to seasonality, price volatility and uncertainties in supply chains. This perception leads to stringent lending norms, higher interest rates and reluctance among banks and NBFCs to extend credit to entities, making it difficult for them to secure funding.

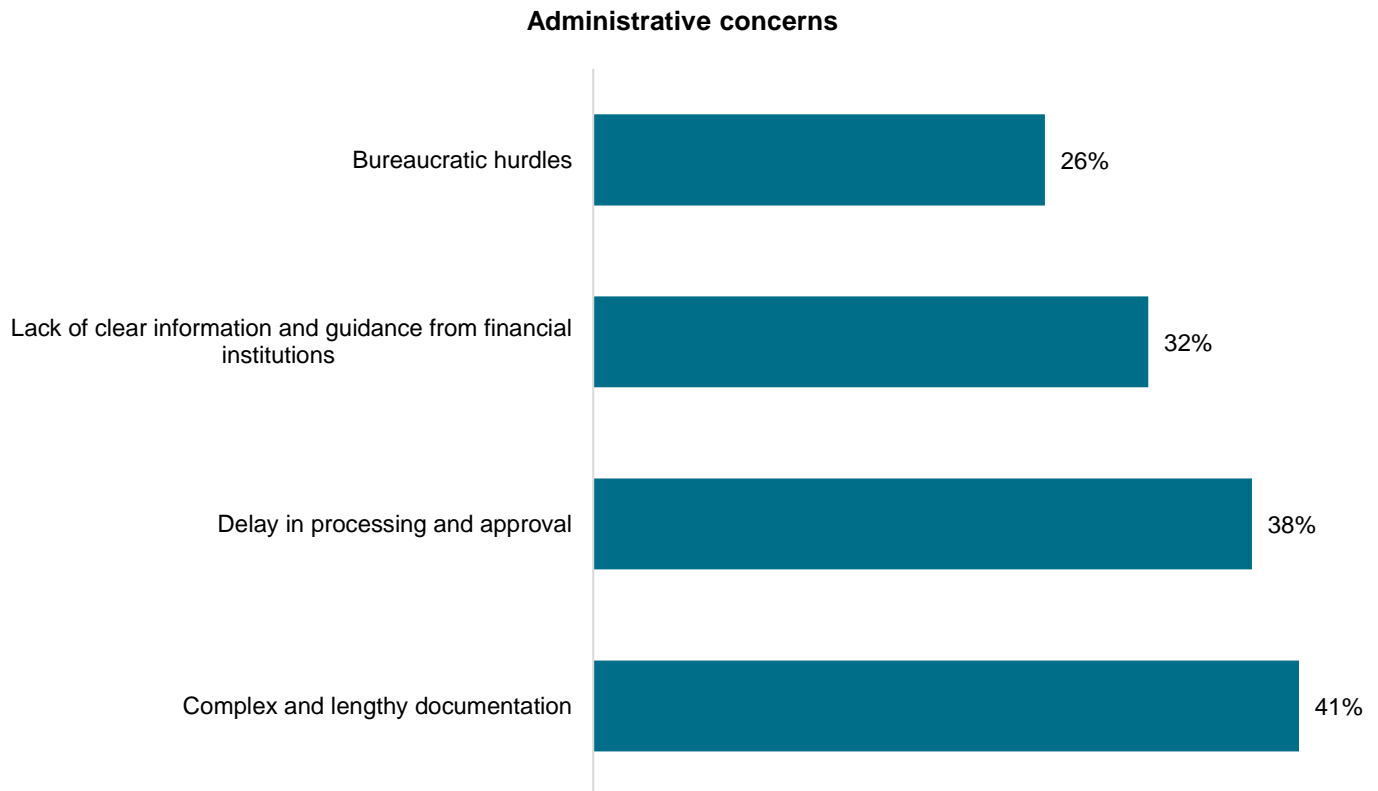
### Limited access to formal credit channels in rural areas

Rural areas, where most FPOs operate, often lack adequate banking infrastructure, financial institutions and formal credit providers. The limited presence of banks, coupled with complex loan application processes, discourages FPOs from seeking formal credit. As a result, many rely on informal lenders, who charge exorbitant interest rates, further increasing their financial burden.

### Collateral requirements

Most entities face challenges in meeting collateral requirements set by financial institutions. As these organisations are typically formed by small and marginal farmers, they often lack high-value assets to pledge as security. The absence of alternative credit assessment mechanisms further limits their eligibility for loans, forcing them to either opt for unsecured high-cost financing or forgo credit entirely.

### 8.3. Complex documentation major administrative barrier



Source: Based on primary interactions with entities

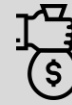
Based on primary interactions, 41% respondents cited complex and lengthy documentation as one of the major administrative barriers, followed by delay in loan processing and approval while applying for credit. Loan approval processes can be time-consuming due to multiple layers of verification and assessment within financial institutions. The time required for credit appraisal, collateral verification and documentation reviews can take several weeks or even months. For food processing SMEs, which often operate with limited cash reserves, such delays can result in missed growth opportunities as they may not receive funds in time to meet seasonal demands or invest in time-sensitive projects.

## 8.4. Scheme-level challenges



### Challenges faced by borrowers

- **Complexity:** The schemes have multiple components and sub-schemes, which can make it complex for borrowers to understand and access
- **Eligibility criteria:** Borrowers may not meet the eligibility criteria set by the scheme, such as minimum turnover or credit score requirements
- **Loan amount limitations:** The loan amount available under PMKSY may not be sufficient for borrowers requiring larger loans
- **Interest rate:** Although the scheme provides an interest subvention, interest rates may still be high, making borrowing expensive
- **Collateral requirements:** Borrowers may be required to provide collateral, which can be a challenge for small and micro enterprises
- **Repayment terms:** The repayment terms of the loan may be inflexible, which can be challenging for borrowers with irregular cash flows



### Challenges faced by lenders

- **Risk assessment:** Lenders may face challenges in assessing the creditworthiness of borrowers, particularly in the food processing sector, which can be prone to risks such as crop failures or market fluctuations
- **Documentation and compliance:** Lenders need to comply with the scheme's documentation and reporting requirements, which can be time-consuming and increase their operational costs
- **Claim settlement:** In the event of a default, lenders may face challenges in settling claims with the government, which can lead to delays and additional costs
- **Default risk:** Although the scheme's guarantee reduces the risk of lending, banks still face the risk of default by MSEs, which can lead to losses



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# Gaps in credit facilities and recommendations for policy change

The analysis of credit and financing facilities in the sector revealed critical gaps that hinder growth, efficiency and competitiveness of India's food processing sector. The gaps stem from structural and socioeconomic challenges that limit access to affordable credit, especially for SMEs and rural processors.

- **Limited accessibility to formal credit:** Many food processors, particularly in rural areas, have limited access to formal credit channels because of the lack of financial institutions in these regions. For instance, FPOs and SMEs often struggle to secure loans due to their perceived high-risk status and limited credit histories. The absence of targeted, sector-specific financial products further restricts these businesses from accessing the capital they need for growth and modernisation
  - **Suggestion:** To address this, policy changes could include promoting regional rural banks and other local financial institutions to actively support food processors. Coverage under PSL could also be expanded with more eligibility criteria.
- **Lack of tailored credit products:** Most credit products are generalised and there are few customised solutions unique to the food processing sector. Financial institutions offer standard lending products that do not adequately consider the specific needs and cash flow patterns of the food processing business
  - **Suggestion:** To address the gap, product-specific loan offerings can be introduced. Creating specialised financial products that align with the nature of different food processing segments, such as short-term loans for perishable goods and long-term loans for capital-intensive sectors, such as dairy processing, will help improve credit accessibility and affordability.
- **Risk aversion in lending:** The food processing industry is seen as high-risk on account of price volatility, seasonality and perishable goods. Financial institutions are often hesitant to extend credit to the sector, particularly to small-scale players
  - **Suggestion:** To overcome the issue, government-backed insurance schemes can be introduced to mitigate risks specific to the food processing industry, such as crop price fluctuations or equipment failure. Such schemes will make the sector more appealing for lenders, reducing the overall risk and making financial institutions more open to lending loans to the sector.
- **High cost of credit:** The affordability of credit remains a significant challenge. Even under schemes such as PSL, the interest rates for food processors are often higher than the businesses can afford, particularly for small-scale operations. Moreover, reliance on NBFCs or informal lenders, who charge even higher interest rates, exacerbates this issue
  - **Suggestion:** Policy change requirements include introducing interest rate subsidies or concessional loans for the sector, particularly for SMEs, to reduce the financial burden and encourage more businesses to access formal credit facilities.
- **Strict collateral and documentation requirements:** Banks and financial institutions typically require substantial collateral and complex documentation, which can be prohibitive for small and rural processors, lacking tangible assets or proper financial records, often disqualifying them from accessing necessary financing
  - **Suggestion:** Policy reforms could focus on revising collateral norms and creating alternative credit assessment frameworks that consider cash flow-based lending or group guarantees, especially for FPOs and smaller units.

- **Lack of financial literacy and awareness of schemes:** Many businesses in the sector, particularly small-scale ones, lack awareness of available credit facilities, subsidies and schemes that support their growth. Limited financial literacy prevents these businesses from understanding the loan terms or navigating the application process effectively, resulting in low uptake of available resources
  - **Suggestion:** Policy changes should focus on training programmes and awareness campaigns for rural processors and FPOs to enable them to identify the best financing options.
- **Inadequate support for innovation and technology upgradation:** Credit facilities that are currently available often do not account for the high costs associated with adopting new technology and infrastructure, which are essential for improving quality, efficiency and competitiveness. Without sufficient support for innovation, many processors are unable to modernise or meet global standards
  - **Suggestion:** Policies can introduce dedicated funds or grants aimed at technology adoption and loans that specifically target infrastructure upgrades in food processing.



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## Policy suggestions to improve affordability and accessibility of credit facilities

The food processing sector is crucial to India's economy but limited access to affordable credit impedes its growth. Many businesses, particularly small and medium enterprises, find it challenging to obtain financing that is cost-effective and flexible enough to meet their operational needs.

### **Strengthening priority sector lending norms**

PSL guidelines should be modified to include more specific and inclusive criteria for food processing businesses, such as a minimum lending target for the sector within the PSL mandate. Expanding the scope of PSL to include micro-level processors, FPOs and small food processing units would direct more bank resources toward these entities.

### **Enhanced credit-linked subsidy for technology upgrades**

The subsidy component under the existing schemes, such as the PMKSY, for technology upgrades in food processing should be increased and the subsidy cap should be raised from the current 35% to 50% for SMEs and 70% for enterprises in backward or tribal areas.

### **Working capital support through a revolving fund mechanism**

A revolving credit fund tailored to address liquidity issues during seasonal peaks and long credit cycles should be established. Many food processing units rely on agricultural raw materials harvested seasonally. Revolving credit will ensure they can purchase inputs during peak seasons without locking up capital.

### **Public Credit Registry integration**

The food processing sector must be integrated into the Public Credit Registry for better risk assessment and quicker credit disbursement and simplify the underwriting process for lenders, making it easier to assess rural and semi-formal units.

### **Expansion of subsidised export credit for processed foods**

The scope of the Export Credit Guarantee Scheme should be expanded to include small-scale food processors planning to export. Export-specific working capital loans should be offered at a reduced interest rate and a 1-2% export credit subsidy should be provided for value-added processed food exports.

### **Development of cluster-based financing models**

A cluster-based financing approach must be implemented where processors in the same region (for example, dairy, fruit and vegetable clusters) can jointly access credit. Moreover, concessional loans must be offered to clusters through NABARD or SIDBI and shared infrastructure (for example, cold storage and transport) should be promoted to reduce individual costs.

### **Introduction of Food Processing Credit Guarantee Scheme (FPCGS)**

The FPCGS (similar to CGTSME) can be introduced to provide a guarantee to lenders, covering a significant portion of the loan amount, thereby reducing the risk of lending to food processing units. This scheme can be designed to cater to the specific needs of the food processing sector, including small and medium enterprises, farmer producer organizations (FPOs), and micro-level processors.

### **Expansion of NABARD's special fund for food processing units**

The NABARD Special Fund, which currently provides support to units in food parks, can be expanded to cover all food processing units, including small and medium enterprises, farmer producer organizations (FPOs), and micro-level processors. This expansion can help to increase access to credit and other financial services for food processing units, promoting the growth and development of the sector.

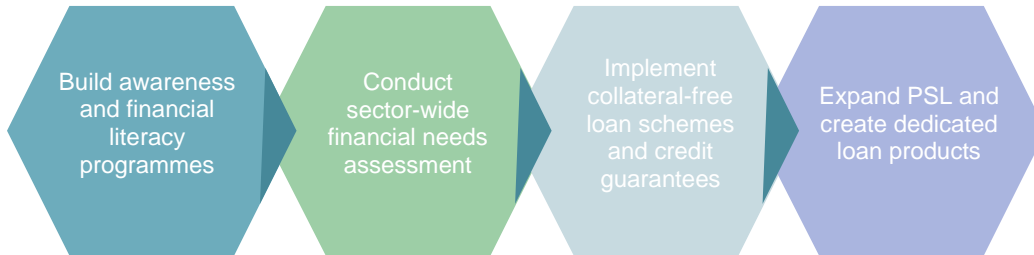


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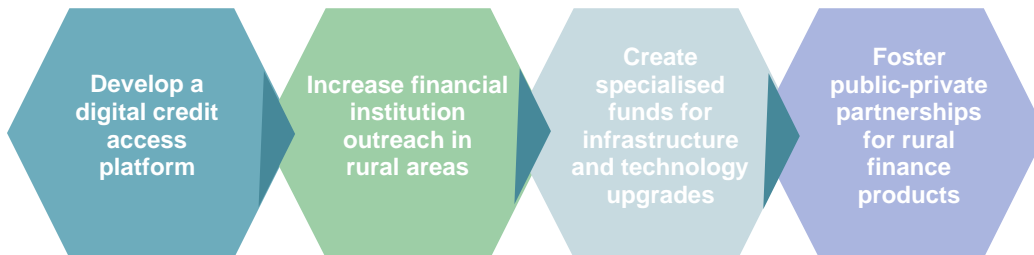
# Road map to augment and improve credit facilities for the food processing sector

A phased, multi-tiered strategy can be implemented to enhance the credit landscape for India's food processing sector. This road map focuses on addressing immediate financing needs, while bringing in long-term structural improvements that will make credit facilities more accessible, affordable and tailored to the sector's unique requirements.

**Phase 1: Foundation building (short term)**



**Phase 2: Infrastructure and digital transformation (medium term)**



**Phase 3: Policy reform and sustainable growth (long term)**





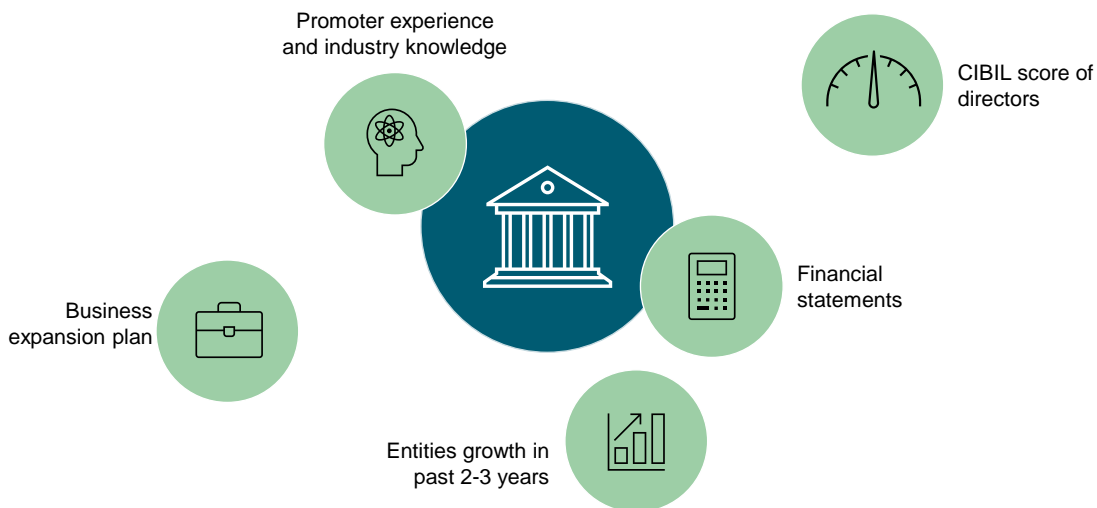
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# Annexures

## 12.1. Credit appraisal of entities

The credit appraisal of food processing entities by banks is a critical process that determines their access to formal credit, which is essential for their growth and sustainability. FPOs are collective organisations formed by small and marginal farmers to improve their bargaining power, reduce input costs and enable better access to markets. However, due to limited financial history, lack of collateral, and high perceived risk, many FPOs face significant challenges in securing bank loans. Banks typically view FPOs as high-risk borrowers, given their small-scale operations and seasonal cash flows.

### Important parameters checked by banks



#### Promoter's experience and industry knowledge

Banks consider the promoter's experience and knowledge critical for the FPO's sustainability and success. Experienced promoters with deep knowledge of the agricultural sector, market trends and challenges are more likely to steer the organisation toward profitability.

#### Business expansion plan

A solid, realistic business plan indicates that the FPO is forward-thinking, growth oriented and demonstrates that the FPO intends to scale operations responsibly. Banks look for well-defined goals, feasibility and alignment with market demand in the plan. They want to ensure the loan will support expansion that yields returns, thereby securing their investment.

#### Entity's growth performance over the past 2-3 years

Historical performance is a good predictor of future success. Banks examine the past growth in revenue, membership and market presence as indicators of an entity's stability and growth trajectory. A positive growth trend indicates that the entity is managing its operations well and has a growing base of customers, which lowers the risk for the bank.

#### Financial statements

Banks closely analyse the financial statements (balance sheet, income and cash flow statements) to assess profitability, liquidity, debt levels and cash flow. Strong financial health indicates the entity can meet its obligations, while issues in the statements could signal potential repayment challenges. A stable and profitable financial record helps banks assess an entity's ability to repay the loan.

## CIBIL score of directors

The Credit Information Bureau (India) Limited (CIBIL) score reflects the creditworthiness of the entity's directors based on their personal credit history. Banks assess this score to understand the directors' past financial behaviour, assuming their personal reliability reflects the entity's management quality.

## 12.2. Insights from primary interactions with banks

**Assessment of competition:** A leading private bank evaluates not only the FPO's profits and income tax returns, but also the level of competition for its products, including from major private players, such as Reliance and Amazon. This analysis helps the bank gauge the FPO's market positioning, price competitiveness and resilience in an industry that may be dominated by larger brands.

**Branch proximity and loan processing challenges:** One practical challenge in lending to FPOs is the absence of a bank branch within the agricultural belt, making loan processing and interactions with FPO representatives more complex and time-consuming.

**Preference for loans within agricultural lending belts:** The bank is policy-driven in its lending practices and inclined to support FPOs within the established agricultural lending belts. This preference aligns with the bank's commitment to bolstering the agricultural sector and ensures it lends to FPOs operating in areas where infrastructure, policies and market conditions are more favourable for agricultural activities.

**Agricultural sector exclusions and PSL compliance:** The bank does not place any agricultural sector on a negative list and all agricultural activities are eligible for lending consideration. A sizeable portion of the bank's portfolio is in the PSL category. By adhering to PSL guidelines, the bank provides a reliable source of funding for FPOs engaged in essential agricultural activities.

**Challenges in land conversion process:** A leading public sector bank identified land conversion — from agricultural to commercial use — as an area that needs improvement. The bank believes simplifying this process could significantly ease FPOs' ability to set up facilities or expand operations without the bureaucratic delays often involved in land conversion.

**Balancing demand with creditworthiness:** Banks acknowledge that demand for loans in the agricultural sector is strong. However, banks maintain strict lending criteria, particularly regarding the experience and financial health of FPOs. If an FPO lacks experience or has weak financials, the bank is unable to extend credit as these factors are the key indicators of the FPO's ability to manage and repay the loan.

**Limited awareness on scaling up FPOs:** Banks have noted a lack of awareness among small farmers regarding the process of scaling up to form larger and more impactful FPOs. While farmers are eager to grow and recognise the potential benefits of joining or forming an FPO, they often lack the necessary knowledge and connections to do so. Banks see this gap as an opportunity for greater support and guidance to help small farmers realise their growth aspirations.

**Lack of business knowledge among farmers:** A major reason for loan rejection is the limited business knowledge among farmers. Banks find that many farmers may have a strong understanding of agricultural practices but lack the broader business acumen necessary for financial management, strategic planning and operational scaling. This makes it difficult for banks to justify lending to FPOs as it increases the risk of mismanagement and potential defaults.

**Static growth rate policies:** Although banks lend to FPOs, they follow longstanding policies with predefined static growth rate expectations. These growth benchmarks have not been updated to reflect current market trends, technological advancements or the evolving needs of FPOs. As a result, these outdated expectations may limit a bank's ability to tailor its offerings to the dynamic agricultural sector.

**Apprehension due to high GNPA levels:** The bank's credit sanctioning team is often hesitant to approve loans for FPOs due to the high gross non-performing assets (GNPA) rate in this segment. As a result, credit teams exercise caution when evaluating FPO loan applications as defaults can affect the bank's financial stability.

**Concerns over internal accountability in case of default:** Credit officers at banks are cautious when lending to FPOs because they are subject to strict internal scrutiny in the event of a default. The heightened accountability increases the pressure on loan officers to minimise risk, making them wary of approving FPO loans without solid assurance of repayment.

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