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# LANDSCAPE STUDY OF BREAKFAST CEREALS (BFC) SECTOR - OPPORTUNITIES

Ind Food & Beverage Association

*food for a better tomorrow*

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# 1. CONCERN AND THE ASK

Breakfast cereals (BFC) are fast emerging as a "better" breakfast alternative in India – they provide a whole and nutritious meal (ensuring a good start to the day) and require little to no time and effort for preparation. Their constituent grains – wheat, rice, corn, millets like Ragi, Barley are all nutrient-dense, providing energy, micronutrients and fibre. Additionally, given that breakfast cereals are eaten with milk or yogurt, the meal also significantly contributes to an individual's daily requirement of the most important nutrients like calcium, fibre and protein.

The BFC sector is currently categorized into two distinct groups – Ready to Eat (RTE) cereals (comprising about 53% of saliency), Ready-to-Cook (RTC) including plain oats (about 39% saliency) and flavoured oats (about 9%)[1]. While oats used for breakfast cereals are majorly imported by manufacturers in India[2], the larger RTE segment is completely "Made in India" – from procurement to manufacturing to sales.

Breakfast cereals therefore offer 3 key advantages within the breakfast options available to consumers:

1. Superior convenience
2. Higher nutrition and
3. Large off take in form of high value grains and cereals from Indian farmers.

However, despite these clear advantages, the BFC sector does not uniformly experience the support of the government towards realising its true market potential. Specifically, the RTE category is taxed at the highest rate of GST amongst all common food products – i.e. 18% while the RTC category is taxed lower, such as oats at 5% GST and products such as pasta, instant noodles, all of which attract 12% GST while they do not provide the multiple benefits of RTE Breakfast cereals.

***This unjust and inequitable taxation provides a clear competitive barrier to the RTE segment, prohibiting it from growing to its full potential, and servicing the growing, hungry, and aspirational Indians. A rethink of the current tax structures is therefore necessary.***

This document captures the facts and information showcasing how rationalising the GST rates would effectively provide a win-win-win for the industry, the Indian consumer, as well as the government.

[1] The proportion of market share attributed to each category has been extracted from a 2023 market study of the Indian breakfast cereal scenario conducted by AC Neislen.

[2] India's total consumption of oats in (1000 MT) is identical to its import data for oats, Source for procurement (imports): https://wits.worldbank.org/trade/comtrade/en/country/IND/year/2019/tradeflow/Imports/partner/ALL/product/100400; Source for consumption (domestic): https://www.indexmundi.com/agriculture/?country=in&commodity=oats&graph=domestic-consumption

# 2. IMPORTANCE OF BREAKFAST AND ROLE OF BREAKFAST CEREAL

## Importance of Breakfast

Breakfast is widely considered as an important dietary component and is recommended by nutrition authorities across the world, based on evidence supporting its role in nutrition and energy delivery[3,4,5,6]. In India, the Ministry of Ayush recommends ***"breakfast as a necessary meal to combat under nutrition"*** which is also endorsed by the Ministry of Health and Family Welfare.

Research by Gibney et al (2018) indicates that, on an average, ***breakfast provides an essential 20-25% of the body's energy needs at the start of the day[7], enabling a healthier beginning of the day and contributing to a person's general wellbeing by helping reduce snacking*** (and consequently the intake of excess fat, sugar and salt) while providing essential macro and micronutrients including fibre.

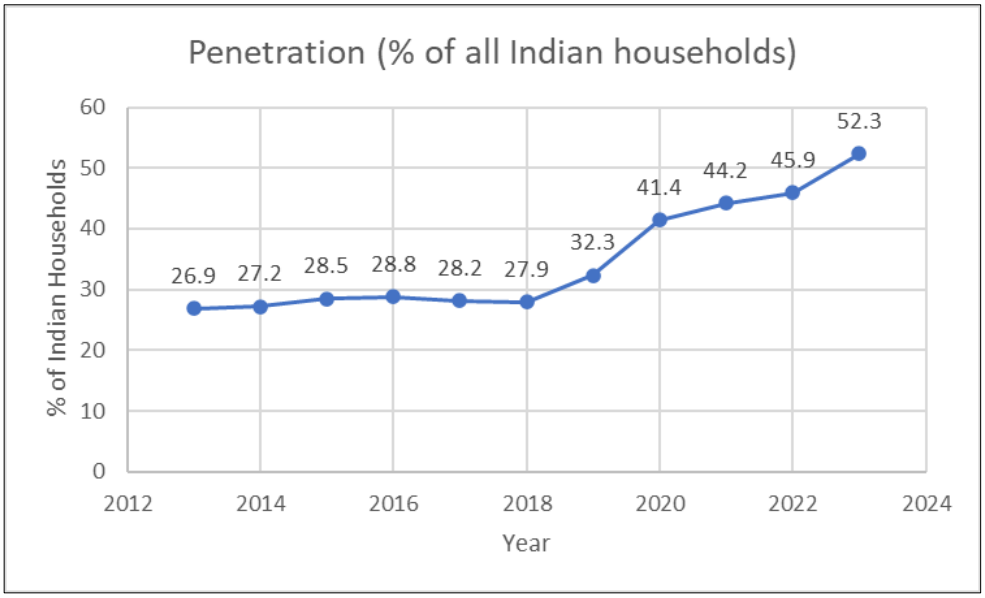
Morning breakfast is great for the development of children's cognitive capabilities, however due to ack of convenience even children often leave for school in the morning by only drinking a cup of milk . Research by Sivaramakrishnan et al (2012) reveals that as many as 25% of urban Indians between the ages of 18 to 50 tend to skip breakfast[8], a trend mirrored by the Gibney et al.'s research about U-shaped breakfast consumption patterns distributed by age. Further, Sivaramakrishnan et al (2012) find that almost 72% of Indians consume a nutritionally inadequate breakfast meal[9]. Their research indicates that the ***main causes for skipping breakfast is as a response to the paucity of time for working individuals early in the day*** and a preference for healthier and more nutritious foods that may not be adequately addressed by traditional breakfast.

It's been observed that in last one decade, a larger number of Indian households are realising the potential of breakfast cereals as a convenient and healthy meal, with minimal effort required for preparation but providing optimum nutrition in terms of micronutrients, proteins (via milk and ingredients such as seeds and nuts), and fibre (through whole grain properties).

[3] Currie, C et al. 2012. Social Determinants of Health and Well-Being among Young People. Health Behaviour in School-Aged Children (HBSC) Study: International Report from the 2009/2010 Survey. ISBN 978 92 890 1423 6.
[4] Purslow, L.R et al. 2007. Energy Intake at Breakfast and Weight Change: Prospective Study of 6,764 Middle-aged Men and Women. Am. J. Epidemiol, 167, 188–192.
[5] van der Heijden et al. 2007. A Prospective Study of Breakfast Consumption and Weight Gain among U.S. Men. Obesity 2007, 15, 2463–2469.
[6] Dhurandhar, E.J et al. 2014. The effectiveness of breakfast recommendations on weight loss: A randomized controlled trial. Am. J. Clin. Nutr. 2014, 100, 507–513.
[7] Gibney MJ et al. 2018. Towards an Evidence-Based Recommendation for a Balanced Breakfast—A Proposal from the International Breakfast Research Initiative. Nutrients. 2018; 10(10):1540. https://doi.org/10.3390/nu10101540
[8] Sivaramakrishnan M., Kamath V. Nutritional adequacy of breakfast: its relation to daily nutrient intake and health among children, adolescents and adults. Conducted by Research center, College of Home Science, Nirmala Niketan, Mumbai (unpublished data)
[9] Ibid

| Year | Penetration (% of all Indian households) | Avg Consumption (Kgs) |
|---|---|---|
| *2013* | 26.9 | 1.48 |
| *2014* | 27.2 | 1.43 |
| *2015* | 28.5 | 1.52 |
| *2016* | 28.8 | 1.63 |
| *2017* | 28.2 | 1.61 |
| *2018* | 27.9 | 1.54 |
| *2019* | 32.3 | 1.64 |
| *2020* | 41.4 | 1.54 |
| *2021* | 44.2 | 1.63 |
| *2022* | 45.9 | 1.67 |
| *2023* | 52.3 | 1.62 |

The overall proliferation of breakfast cereals in Indian households has increased by almost 100% in the last decade, indicating a perception shift of RTEs from aspiration to essential, as they realise the potential benefits of this product from a convenience and nutritional aspect. However, the per capita consumption of BFCs has remained largely constant, with only a 14% increase from 1.45kg per capita to 1.66kg which shows that the pricing of the products needs to be more affordable, with due taxation incentives.




***There exists, therefore, a need to fulfil the breakfast requirements of the large majority of Indians who either skip breakfast or eat a nutritionally inadequate breakfast.***

## Role of Breakfast Cereals

Breakfast cereal is a breakfast food made from processed cereal grains. With large scale evolution and adoption, the sector has come to be known for the range of highly nutritious breakfast cereals to fulfil the health requirements of the consumers across globe. Free of genetically modified organisms and gluten, breakfast cereals in India have carved a niche in the industry and have reached many households to provide nutrient-packed convenient meals.

Ready-to-eat breakfast cereals are generally made from single or multiple grains like corn, wheat, rice, millets etc. that has been broken down into grits, cooked with flavours and syrups, and then pressed into flakes or puffed, shredded or extruded and cut into various shapes. Often it is enriched with nutritious dried fruit, nuts and seeds. And as a final step in each process, the cereal is treated to fortify with vitamins and minerals.

Although warm cereals like oatmeal and grits have the longest history, ready-to-eat cold cereals appeared around the late 19th century and are most often served with dairy products, traditionally cow's milk. They can also be paired with yogurt or plant-based milks, or eaten plain.

***This tradition of consumption in a dairy base substantially adds to daily milk consumption thus adding the goodness of milk along-with that of cereals and micronutrients inherently present in the product.***

# 3. ECOSYSTEM

## Constantly Innovating Sector

The BFC sector stands as a pioneer in promoting health-conscious dietary choices. This paper delves into dedication of the sector to producing sought-after low-calorie products with minimal fat and sugar—specifically, limiting sugar, contrary to common belief, to a mere one and half teaspoons in an entire morning meal of about 200gms. This value corresponds to only about 15% of the daily sugar limit recommended by the World Health Organization (WHO). Additionally, ***innovative BFC with significantly reduced or zero sugar content have been introduced to address global concerns.***

In 2016, the introduction of millets-based cereal marked a turning point for the BFC sector, ushering in a new era of nutritional diversity. Despite the initial tepid response to millet-based options, the industry is experiencing a renewed interest thanks to well-crafted government initiatives – interest which must be further nurtured into its full growth potential. ***Big BFC brands are re-entering the market with innovative products that prominently feature millets, enriching the nutritional profile of their offerings.***

Further improvements and innovations are being constantly engineered in the aspects of:

- Pack sizes, pricing, & ease of purchase, attempting to gain better market proliferation in developing areas and offering serving and consumption convenience
- Portion control, ensuring that consumers receive the optimal nutrition and energy delivery
- Packaging innovations, in terms of materials and technique – smaller BFC packets are largely made of Multi-layered Packaging (MLP), and making these compliant to CPCB norms and ensuring Extended Producers Responsibility (EPR) compliances are met
- Enriching/ reinforcing micronutrient compositions within the cereal for added functional benefits
- A range of product tailored for rural and poorer populations – in terms of taste, pricing, and serving size

Additionally, there is an increasingly observable trend that BFCs are not eaten in isolation – but are instead eaten with supplements such as pulses, fruits, seeds, nuts etc to enhance the flavour and texture profile of the cereal thus adding a range of nutrients and fibre to the breakfast serving.

## Size of the Market

The Breakfast cereals market is a nascent market in India, with an estimated size of Rs 4458 Cr (USD 537 Mn)[10]. Of this, the ***Ready-to-Eat Cereal (RTEC) category, accounts for approx. 53% of the overall market share and is taxed at 18% GST, valued at Rs 2669Cr (USD 321 Mn).*** India is amongst the fastest-rising breakfast cereal consumers in the world. The country witnessed a growth in this sector of a steady CAGR of 9% between 2013 and 2023, relative to the 2-3% growth shown by the USA and UK, two of the largest consumers of breakfast cereal in the world during the same period.

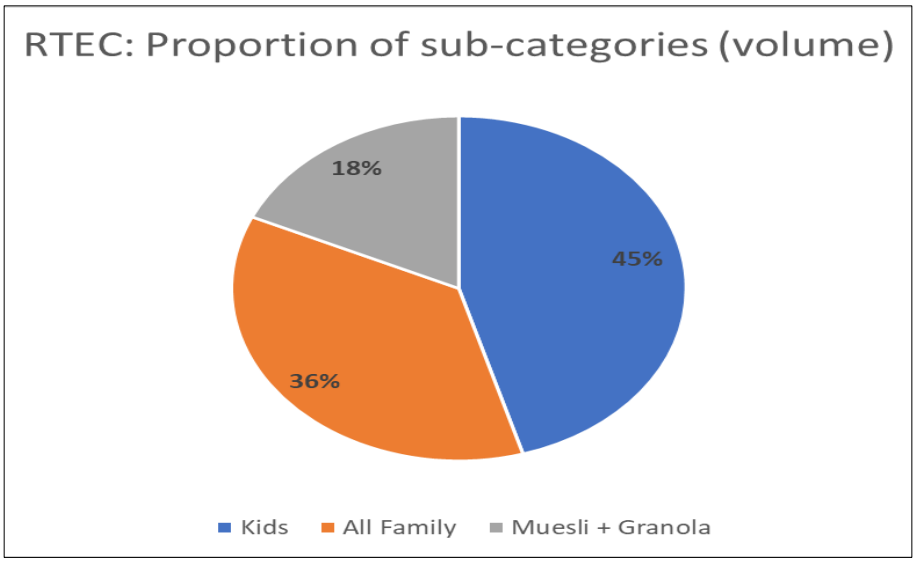
Given the market valuation for the Indian food processing sector is set to reach Rs 44 Lakh Cr (USD 535 Bn) by 2025[11], the BFC sector at present accounts for only 0.1% of this size. Given the importance of BFCs as a healthy breakfast option, it is clear that this is a heavily undervalued sector. ***For a breakfast solution that is as convenient and nutritionally dense, the BFC sector is deserving of a much larger uptake within the country.***

***In 2020, the global breakfast cereal industry was estimated at around $62.7 billion. The global market is expanding at a compound annual growth rate (CAGR) of 4.1%.***

[10] Euromonitor International. 2023. Passport: Breakfast Cereals in India.
[11] Invest India. 2024. Food Processing Sector: Industry Insights. https://www.investindia.gov.in/sector/food-processing

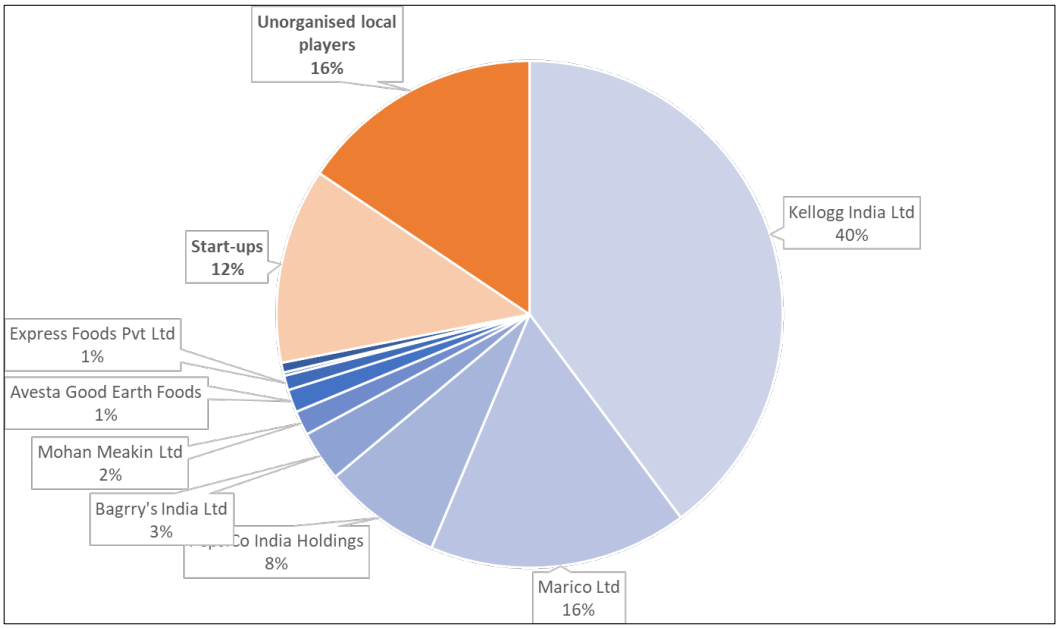
## Product Distribution

Within the RTEC segment, breakfast cereals are categorized as kids' breakfasts (45%), All-Family (36%), and Muesli + Granola (19%).




## Manufacturer Distribution

The Indian breakfast cereal market is largely dominated by bigger market players, with Kellogg's India, Marico Ltd, Tata Consumer, Pepsico India and Nestle capturing almost 64% of the BFC market.



***The unorganized sector in breakfast cereals currently stands at an estimated 16% of the market share, and start-ups stand at about 12%. There is a clear link between the high tax rate that the sector currently attracts, and the small number and stunted market share of start-ups. Policy support from the government is necessary to grow the involvement of start-ups and innovation within this sector, which are critical in rapidly scaling up this sector to meet the needs of the modern Indian consumer.***

While the unorganized BFC manufacturers face fewer roadblocks in retailing, however focus group discussion with Indian start-ups such as The Whole Truth, Slurrp Farm, Nourish Organics and Open Secret reveal that ***BFC start-ups in the country are currently facing challenges in both up-scaling and market entry***. Other noteworthy start-ups, such as Soulfull Foods (acquired by Tata Consumer), True Elements (acquired by Marico Foods) and Yogabar (acquired by ITC) have been acquired by larger FMCG players in India, contributing to the barriers in price setting being witnessed in this sector.

# 4. WHY THIS SECTOR DESERVES ATTENTION

As indicated above, BFC sector stands as a pioneer in promoting health-conscious dietary choices, which directly and indirectly contributes to all the facets of society and economic wellbeing.

## BFC contribution to Farmer's income

Being entirely grain-based and predominantly sourced (90%) from India, it significantly impacts farmers' income and contributes to the rural economy. ***Ready to Eat Cereal (RTEC) products, being entirely grain-based comprising staple grains (like Corn, Wheat, Ragi, Rice, Barley) and predominantly (90%) sourced from India, not only align with the dietary preferences of the Indian population but also contribute significantly to the economic well-being of farmers. This aligns seamlessly with the honourable Prime Minister's vision of doubling farmers' income.*** The scale-up of cereal products in the market is poised to have a considerable impact on grain intake, since ***for every 1 ton of RTEC production around 1.5 tons of grains from farmers are required***, consequently increasing the income of farmers engaged in grain cultivation. This may be clearly evident with reference to the section on the benefits to the exchequer as a result of the growth in the BFC sector from reduced taxes.

In tandem with the global initiative of observing the Millet Year, players in this domain incorporate millets into their products, emphasizing both global agricultural trends and enhancing nutritional value for consumers.

These products are characterized by minimal processing, with approximately 90% of the raw material derived from staple grains. The strategic sourcing of these grains directly from farmers plays a pivotal role in mitigating crop glut and reducing wastage. As a conservative estimate, the sector presently utilizes around 60,000 tonnes

of major grains, including wheat, rice, and corn, sourced directly from Indian farmers. The high value of these raw materials amplifies their impact on farmers, presenting a more substantial multiplier effect compared to other sectors, such as fruits and vegetables.

At 18% GST, the BFC sector is poised to grow at a CAGR of 13%[12] over a 7-year period, with an estimated market size of Rs 10,300 Cr and procurement volumes amounting to approx. 1,60,000 tonnes of cereal grains (corn, rice, wheat, barley, ragi).

***However, a reduction in the GST to T1 = 12% propels this sector further, prompting growth at an estimated CAGR of 20%. This translates to a market size of Rs 15,600 Cr and raw material procurement of approx. 3,50,000 tonnes and a proportional growth in the incomes of Indian farmers.***

Any reduction in GST rates within this sector will therefore promptly translate into tangible benefits for farmers, either through price reductions or an increase in product grammage, thereby delivering enhanced value for money. Furthermore, such regulatory adjustments create a conducive environment for additional investments in modern technology for high processing capacities within the country. This, in turn, fosters a higher intake of high-value cereals and grains directly from farmers, promoting economic sustainability and aligning with national initiatives aimed at doubling farmers' incomes. ***The synergy between market dynamics and governmental policies establishes a robust foundation for advancing the economic prosperity of farmers through the Ready to Eat Cereal sector.***

## Health Benefits of Breakfast Cereal

Minimally processed breakfast cereals provide several nutrients which aid in a healthy body, such as:

- Fibre (which aids in digestion, promotes gut health, and helps regulate blood sugar levels)
- Vitamins and minerals, such as in B-vitamins, folate, calcium, iron, magnesium, and zinc (which play crucial roles in various bodily functions)
- Antioxidants (which protect cells from damage caused by free radicals)
- Whole grains which lower the risk of developing type 2 diabetes, heart disease and certain types of cancer further promoting satiety (which can aid in weight management)

Breakfast cereal consumption is also associated with diets that are lower in fat but not with increased daily intakes of sodium or energy. Further, regular breakfast cereal consumers usually have higher daily milk intakes and are more likely to meet their recommended nutrient need for proteins as well.

[12] Euromonitor International. 2023. Passport: Breakfast Cereals in India

Williams (2014) evaluates numerous ***cross-sectional studies, all indicating an association between the consumption of breakfast cereal and reduced measures of overweight or obesity[13].*** The uniformity of this observation across studies conducted in various countries and age groups implies that there is no necessity for further investigations of a similar nature.

Further, Williams' (2014) comprehensive review of literature on ***the benefits of consuming breakfast cereal finds a positive association between eating breakfast cereals and diets which are higher in vitamins and minerals and lower in fat[14].***

Further, consumption of breakfast cereal shows a positive association with an overall healthy lifestyle. Additionally, breakfast cereals are often eaten with milk or yogurt, and are supplemented with fruits. Breakfast cereals have a lower content of sugar, sodium, and saturated fats, and their uptake may be encouraged to improve the overall wellbeing of the discerning consumer.

Breakfast cereals represent a nourishing breakfast choice which is globally accepted and is fast finding a foothold in India, especially in Tier 2 and Tier 3 cities and in packets of smaller sizes.

Research indicates that regular breakfast cereal consumers have a higher likelihood of meeting their recommended daily nutrient needs, attributed to the composition and nature of minimally processed whole-grain cereal.

***Regular breakfast cereals consumers are observed to:***

- ***Have higher daily milk intakes, as cereals and milk or yogurt are most often consumed together***
- ***Have better intakes of dietary fibres, since modern breakfast cereals are minimally processed and contain high amounts of fibre***
- ***Have lower intake of fat and cholesterol***
- ***Have enhanced micronutrients intakes - in particular, vitamin B, folate, calcium, iron, magnesium, and zinc***

Ready-to-eat breakfast cereal eaters also tend to have healthier body weights and have reduced risk of developing lifestyle related disorders like CVD, type 2 diabetes[15], hypertensions etc[16].

[13] Williams P.G. (2014) The Benefits of Breakfast Cereal Consumption: A Systematic Review of the Evidence Base, Advances in Nutrition, Volume 5, Issue 5, ISSN 2161-8313. https://doi.org/10.3945/an.114.006247.
[14] Williams P.G. (2014) The Benefits of Breakfast Cereal Consumption: A Systematic Review of the Evidence Base, Advances in Nutrition, Volume 5, Issue 5, ISSN 2161-8313. https://doi.org/10.3945/an.114.006247.
[15] Chen, Z. et al. 2023. Ultra-Processed Food Consumption and Risk of Type 2 Diabetes: Three Large Prospective U.S. Cohort Studies. Diabetes Care 2023; 46:1335–1344. https://doi.org/10.2337/dc22-1993
[16] Williams P.G. 2014. The Benefits of Breakfast Cereal Consumption: A Systematic Review of the Evidence Base, Advances in Nutrition, Volume 5, Issue 5, ISSN 2161-8313. https://doi.org/10.3945/an.114.006247.

Kaushik et al. (2011) observe that despite the acknowledged significance of breakfast as the primary meal of the day, a prevalent habit of skipping it persists among many individuals[17]. The repercussions of breakfast omission extend beyond mere energy depletion, influencing an increased likelihood of snacking throughout the day. This practice also exerts an impact on metabolism, especially within the context of busy schedules, with adolescents being particularly prone to skipping meals at home. Kaushik et al research notably assesses that when adolescents forego breakfast at home, their alternative food choices tend to incline towards fast food, cafeteria offerings, sodas, cold drinks, chips, and other items characterized by low nutritional value and high saturated fats. This shift in dietary habits heightens the propensity to resort to fast food establishments. The empirical evidence from Kaushik et al (2011) indicates a positive correlation: an escalation in fast food consumption, concurrent with the omission of breakfast, corresponds to an increase in the body mass index among adolescents[18].

Further to above the Institute Food Technologies found that 1 oz of the various cereals could increase potential protein value over that of milk alone by 26 to 117%, and that some of the mixtures could supply as much as 22% of the recommended daily allowance for an 8–10 year old child[16] indicating that ***regular consumers of breakfast cereal are likely to fulfil their daily requirements of proteins as per the recommended dietary allowances*** relative to those who do not regularly consume BFCs. Moreover, another study shows that frequent breakfast cereal eaters have healthier body weights as compared to non-frequent eaters.[17]

## Address Challenges related to Malnutrition/ Skipping of Breakfast/Nutritionally inadequate breakfast and Obesity

The BFC category represents numerous advantages for consumers and the community, standing out as a rare option that addresses multiple developmental objectives. In contrast to comparable products that have undergone reduction, BFC category underscores a discernible disparity in terms of the quantity given per rupee.

***In a nation contending with a dual nutrition challenge of malnutrition and obesity—holding the highest global rankings in underweight and stunted children, and the second-highest in child obesity—this sector assumes a pivotal role in addressing both by providing nutritionally balanced, very low fat, cholesterol free healthy breakfast. By enhancing the affordability of Breakfast Cereals, particularly for children who require optimal nutrition with a reduced calorie intake during early stages, it significantly contributes to the resolution of these challenges.***

[17] Kaushik, J. S. et al. 2011. Fast food consumption in children. Indian Pediatrics, 48(2), 97–101.https://doi.org/10.1007/s13312-011-0035-8
[18] Kaushik, J. S. et al. 2011. Fast food consumption in children. Indian Pediatrics, 48(2), 97–101.https://doi.org/10.1007/s13312-011-0035-8
[15] Euromonitor International. 2023. Passport: Breakfast Cereals in India.
[16] https://ift.onlinelibrary.wiley.com/doi/abs/10.1111/j.1365-2621.1974.tb02897.x
[17] Bertrais S. et al, Contribution of ready-to-eat cereals to nutrition intakes in French adults and relations with corpulence. Ann. Nutr. Metab. 2000; 44:249-255

The key advantage of Breakfast Cereals lies in their alignment with the functional requirements of a wholesome and nutritious breakfast. These cereals, predominantly composed of basic staple grains like Wheat, Corn, Barley, and Ragi, boast low calorie content, are rich in essential nutrients, fortified with micronutrients such as Iron and Vitamins, and undergo minimal processing.

Breakfast cereals are able to adequately address the preferences of today's consumers as they are

- Crafted from natural grains, serving as a valuable source of essential fibre in meals
- Low in fat and inherently free of cholesterol
- Fortified with key vitamins (A, C, B complex) and minerals (Iron, Calcium, Zinc), offering crucial nutrients in the primary and most important meal of the day

Moreover, ***the category is convenient to prepare and eat while still being minimally processed, preserving the inherent goodness of natural ingredients like cereals. (Note: Most minimally processed products today are subject to 5 or 12% GST.)***

Further, since BFCs are often consumed with milk or yogurt, they serve the function of a complete meal and incorporates the nutritional benefits of dairy.

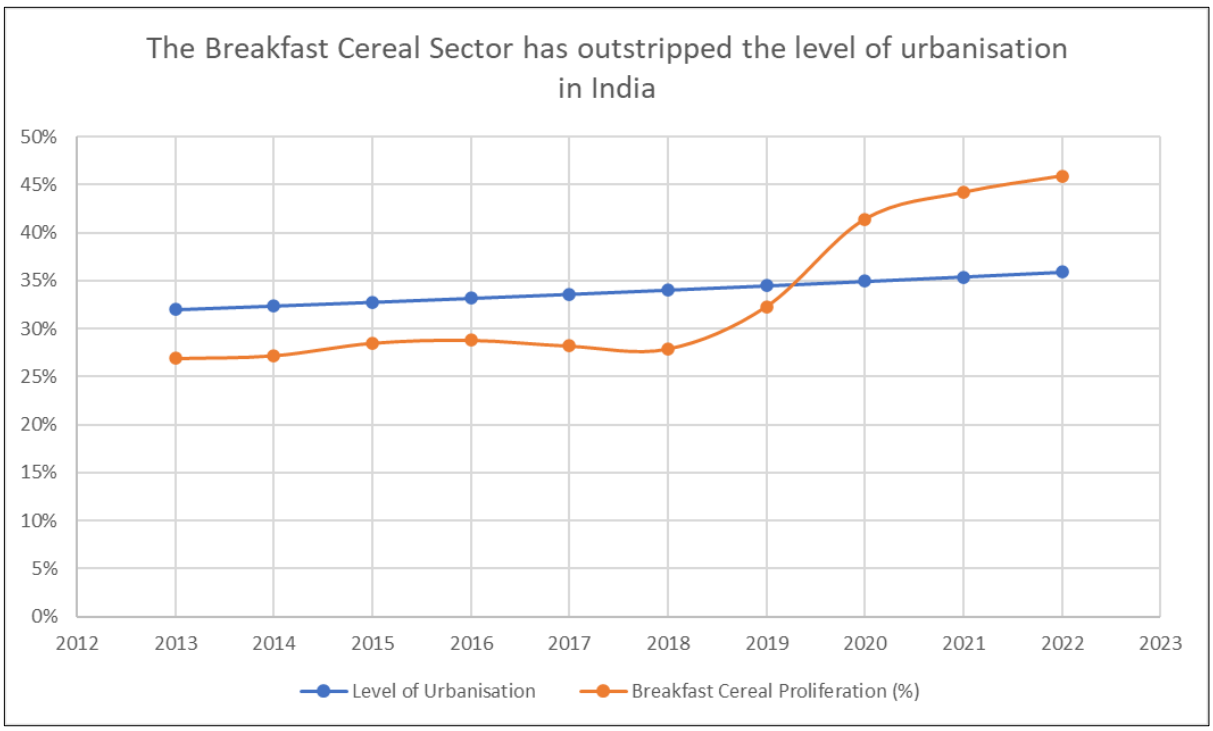
The nutritional benefits of these Cereal products are quite unparalleled amongst other commonly consumed processed food products. These are made from grains, often in multigrain format, with increasing use of millets and whole grains and hence are low in calories but nutrient dense with valuable nutrients like Protein, Fibre and in most cases fortified with many essential vitamins and minerals. It is typically a very low fat and cholesterol free product which fits into healthy eating recommendations.

## BFCs have transformed from an “Aspirational” to an “Essential” Food

Breakfast cereals are increasingly perceived as a convenient breakfast option, with an increasing market penetration observed in the country over the last 10 years.

***The increasing acceptance of BFCs, extending beyond urban areas and with notable traction in B & C category towns, is dispelling the notion that it is a luxury item exclusively for the urban elite. Instead, the provision of nutrition in a convenient format elevates it to the status of an "essential" product category.***

The higher market penetration is observed in Tier 1-2-3 towns (more than 6000 such towns are present in India), driven by factors such as convenience of preparation, higher satiety, and nutritional value at affordable prices.




The graph mentioned above assists in validating this hypothesis, as it indicates the pace of market penetration of the breakfast cereals outpaces that of India's level of urbanisation.

Small towns with populations fewer than 1 lakh have witnessed around doubling of the market penetration for breakfast cereals within 2020 and 2022. Similarly, peri-urban areas - towns with a population between 1-10 lakhs are especially telling of this trend, with more than a 200% growth in proliferation in BFCs in the same time period. This is a telling sign of the increasing acceptance of breakfast cereals in areas not traditionally known as big markets for BFCs, underscoring the people's perception that this convenient and nutritious meal is a necessity, rather than a luxury.

Additionally, the effect of the pandemic on the consumption patterns is especially noticeable during the pandemic, with market penetration rising sharply (a little over 9% between the end of 2019 and the end of 2020) in the period of the pandemic, and the higher penetration has been consistent in the post-pandemic period.

These trends underscore the expanding influence and widespread adoption of breakfast cereals as an easy and convenient breakfast alternative across diverse town categories in India.

## BFCs are Especially Attractive to Young Immigrant Populations

Considering the high nutritive value of BFCs and their ease of consumption, BFCs are finding strong footholds amongst immigrating populations, especially those with no or less domestic support (as they are living by themselves in non-native cities) and who need to commute for work.

***Considering Ready-to-eat cereals are nutritionally balanced and do not require much preparation before they can be consumed, the proliferation of breakfast cereal is most observed in such households. This consumption pattern is especially prominent in satellite cities and peri-urban regions of the country, which are popular residential areas for commuting populations.***

In a randomized survey by IFBA (n = 100), aimed at gauging the price elasticity of demand of breakfast cereals of Indians, it was found that young immigrating professionals, accounting for approximately ~30% of the sample, were the most likely to show a strong preference towards purchasing and consuming breakfast cereals. These individuals were the consumer group with the highest BFC consumption in the sample surveyed, and showed a price elasticity of demand of almost 2.5 in response to lowered prices of BFCs. They stated that they valued BFCs positively and highly because of their taste and convenience, and because they consumed it with milk (a beverage that they would normally tend to avoid in favour of coffee or tea).

This is an especially significant finding considering the current compositions of native and immigrant populations in major Indian cities. Data from the Census 1991, 2001, and 2011 all indicate rising trends of both interstate and intrastate immigration amongst the fastest growing Indian cities – Thane, Pune, Surat, Ahmedabad, and Hyderabad. All these cities indicated between a 20 to 45 percentage point increase in their immigrant compositions.

*Given the estimated size of these cities in 2023 is between 7 million (Pune) to 15 million (Thane), this gives us a conservative estimate of 28 million immigrated individuals in upcoming Indian cities, whose breakfast needs need to be met.*

As shown earlier, it is important to note that the largest uptake of breakfast cereals is observed in the Rs 5, 10, and 20 packets, and specifically in rapidly growing urban areas (with between populations 1 to 10 lacs) which offer one serving size of the breakfast cereal. This points to a link between the perceived convenience factor of BFCs and the preference shown towards them by young immigrant professionals

# 5. WHY HUGE INTEREST AMONGST PRIVATE SECTORS

## Size of the Market

As indicated above, the Breakfast cereals market is a nascent market in India, with an estimated size of Rs 4400 Cr (USD 530 Mn)[20]. Of this, the Ready-to-Eat Cereal category, which accounts for approx. 55% of the overall market share and is taxed at 18% GST, is valued at Rs 2420 Cr (USD 290 Mn).

Given the market valuation for the Indian food processing sector is set to reach Rs 44 Lakh Cr (USD 535 Bn) by 2025[21], the BFC sector at present accounts for only 0.1% of this size. Given the importance of BFCs as a healthy breakfast option, it is clear that this is a heavily undervalued sector. ***For a breakfast solution that is as convenient and nutritionally dense, the BFC sector is deserving of a much larger uptake within the country.***

# 6. THE GROWTH POTENTIAL

## Growth

In response to the current set of policy measures regarding the BFC sector, people's changing preferences for breakfast foods, and innovations within the sector, breakfast cereals are poised to grow at a CAGR of 13% between 2023 and 2030, with an estimated market valuation of Rs 10300 Cr in 2030.

As the breakfast cereal sector continues to witness substantial growth within the domestic market, it concurrently paves the way for increased export opportunities. Presently, India exports minimally processed grains for further processing abroad. However, fostering the growth of the domestic industry not only enhances its capacity but also opens avenues for expanded export capabilities. This phenomenon is already discernible on a smaller scale, where innovations catering to the growing demand for variants aligning with Indian tastes, flavours, and dietary preferences have resulted in increased market share.

***In the specific context of local manufacturing, the BFC sector has been practicing the "Make in India" approach for over 3 decades, and is now underscored by the presence of state-of-the-art plants across India that efficiently manufacture BFCs and make them ready to be delivered across the country. These facilities serve as manufacturing hubs, sourcing all grains locally for the entire South Asian region. Notably, the export footprint extends to countries such as Sri Lanka, Bangladesh, Nepal, and the Maldives, where the demand for domestically produced breakfast cereals is met through these Indian-manufactured products.***

[20] Euromonitor International. 2023. Passport: Breakfast Cereals in India.
[21] Invest India. 2024. Food Processing Sector: Industry Insights. https://www.investindia.gov.in/sector/food-processing

At present, more than 55% of the BFC sector, specifically the RTEC segment, procures and manufactures its products in India, using locally grown ingredients and enriching the lives of the farmers through procurement. It is therefore noteworthy and concerning that the RTEC segment that attracts an 18% GST – for manufacturing and bringing to market a product that is entirely Indian in makeup, if not yet in DNA.

This strategic approach is anticipated to play a pivotal role in propelling the cereal category towards broader growth and expansion by facilitating the conversion of the unorganized sector into an organized one.

# 7. POLICY CHALLENGES

## Global Taxation Policy on BFC

Presented below is a relative assessment of tax rates implemented on the breakfast cereal sector globally.

| Country | Tax Rates | Country | Tax Rates |
|---|---|---|---|
| *United States* | 0-6% (regulation in individual states) | *France* | 5.5% |
| *England* | 0% | *Singapore* | 9% |
| *Mexico* | 8% | *Indonesia* | 11% |
| *Canada* | 0% | *Malaysia* | 5% |
| *Australia* | 0% | *Thailand* | 5% |
| | | ***India*** | **18%** |

*It is noteworthy that globally, cereals are considered daily necessities, and as such, do not attract a high tax rate. An effective 0% tax rate on breakfast cereals is observed in the UK, Canada, Australia, and minimal tax in France, USA, and Mexico. Even South East Asian Countries, where traditional breakfasts like those in India are widely common, tax this sector at a nominal rate of 5%.*

These countries make up the top 5 consumers of beverage cereals, each with market valuations of over USD 1 billion. The majority of the top 10 countries opt to keep breakfast cereals outside of the ambit of high taxation, as they are considered domestic consumer goods.

***It is recommended that the GST framework in India follows suit and reduces the current tax levied on breakfast cereal, which would help the industry achieve its true potential and grow at a high and steady CAGR over the next decade.***

The discrepancy in GST rates between imported and domestic grains exacerbates the challenges faced by the indigenous sector, posing obstacles to its competitiveness within the market.

## Start-ups in the Sector Face Headwinds besides no Visible and Tangible Policy Support

The policy around regulation in any sector is a highly nuanced and complex facet, with sectoral contexts and the implementation of the policy explaining its success. In the context of the BFC sector in India, an observation of the market ecosystem pertaining to the level of investment and innovation, and more importantly, the entry and survival of start-ups, helps explain the impact of the current tax rate on the sector.

A competitor study of the BFC market in India, explained earlier in this document, reveals following challenges being faced by industry in general and start-ups in specific:

a) **Market Size:** Sectors which have the potential for exponential growth like e-commerce, transport, social media attracts and supports the growth of start-up eco system. However the current taxation rate doesn't support exponential growth of market size, even though there is latent demand. This leads to stunted growth of start-ups and also overall industry
b) **Start-ups Survival and growth:** A competitor study of the BFC market in India, explained earlier in this document, reveals not just small market share of start-ups but also their survival - with the larger BFC manufacturers taking over some of them – even though it doesn't help the sector per se.

Evidence suggests that all those sectors which had no taxation policy to start with or limited tax have attracted start-ups which not only allowed innovation thereby giving customers the choice but also resulted in the growth of market and leading to gain for everyone right from customer to industry to exchequer, some of the examples are given below:

a) Transport: There was no taxation policy at the beginning on OLA/Uber on their services to begin with, much later tax on their services was introduced. It not on created a new industry but benefited everyone
b) E-Commerce: Flipkart/Amazon started in 2011-12.
c) AI Lead Products in Health Tech, Education, Agriculture
d) Gaming: Very recently tax on online-gaming has come, when it have become billion dollar industry

***Evidence from academia points towards the need for prudently deciding the tax rate on sectors that attract start-ups and innovation. A review of literature reveals that higher taxes result in reduced retained earnings for companies (leaving them less capital to reinvest in growth and expansion)[22], act as indicators of financial risk (thereby discouraging the influx of start-ups in the sector), and discourage investment.[23] They further prohibit the free flow of skilled labour within the sector, inhibiting innovation[24].***

[22] Henrekson, M., & Sanandaji, O. (2011). Entrepreneurship and corporate income taxes: Evidence from the states. The Journal of Finance, 66(1), 123-144.
[23] Gentry, A. M., & Hubbard, R. G. (2000). Tax policy and entrepreneurial activity: Are superstars different? The Quarterly Journal of Economics, 115(1), 103-148.
[24] Wilson, D. N. (2000). Tax competition and the brain drain. Journal of Public Economics, 75(3), 457-482.

The remarkable success of the GOI's recent Make in India policies, targeted around providing manufacturing PLIs tax breaks for manufacturers, and consumer subsidies may be harnessed in the BFC sector to enhance innovation and the role of start-ups. These policies have proven to be successful in boosting the sectors they have been applicable to, such as consumer electronics and millets-based foods. They are easily replicable and may be designed and implemented with relative ease in the current socio-political scenario.

### Millets as an Example of Policies working against their Desired Outcomes

It is also worth noting that any prospective PLIs in encouraging the presence of start-ups in this sector will need to be designed with clear intent and limitations – the design of the policy is critical in ensuring the success of these schemes. A notable example where early successes of the policy have led into stagnation with millets-based products. While the early PLIs ensured that a supply for millets-based products rose rapidly, this also drove up the prices for the products, leading to a long-term demand stagnation.

On similar lines is the notable example of millet-based beverages, which attracts a 5% GST. The supplier-side uptake for these products (despite the low level of taxation) has been low, with very few suppliers in the Indian market. This is matched with the low demand of millet-based beverages.

***While the uptake of millets is heaviest in the BFC sector with constant innovation at play to integrate millets as mainstream breakfast cereals, it is noteworthy that at present, this sector experiences no policy benefits that are otherwise provided to manufactures of millets-based foods.***

## 8. GST REDUCTION LEADING TO WHOLISTIC BENEFIT

### Impact on Demand

As indicated above,

- while the overall proliferation of breakfast cereals in Indian households has increased by almost 100% increase in the last decade (indicating a perception shift of RTEs from aspiration to essential), ***however, the per capita consumption of BFCs has remained largely constant, with only a 9% increase from 1.48kg per capita to 1.62kg which shows that the pricing of the products needs to be more affordable, with due taxation incentives.***
- As many as 25% of urban Indians between the ages of 18 to 50 tend to skip breakfast,
- Almost 72% of Indians consume a nutritionally inadequate breakfast meal.

Basis empirical studies the demand for breakfast cereals are elastic in nature i.e. consumers are more responsive to price fluctuations. Evidence from analogous products in the Indian consumption basket indicates that this growth rate will find much impetus with a reduction in the GST, with estimated CAGRs of 25% at 12% GST and 30% at 5% GST. This will have a direct impact on the per capita consumption, reduction in percentage of people skipping breakfast or taking inadequate breakfast meal.

***At the end it shall be the consumers who will directly benefit with the reduction of GST.***

## GST Revenue Impact

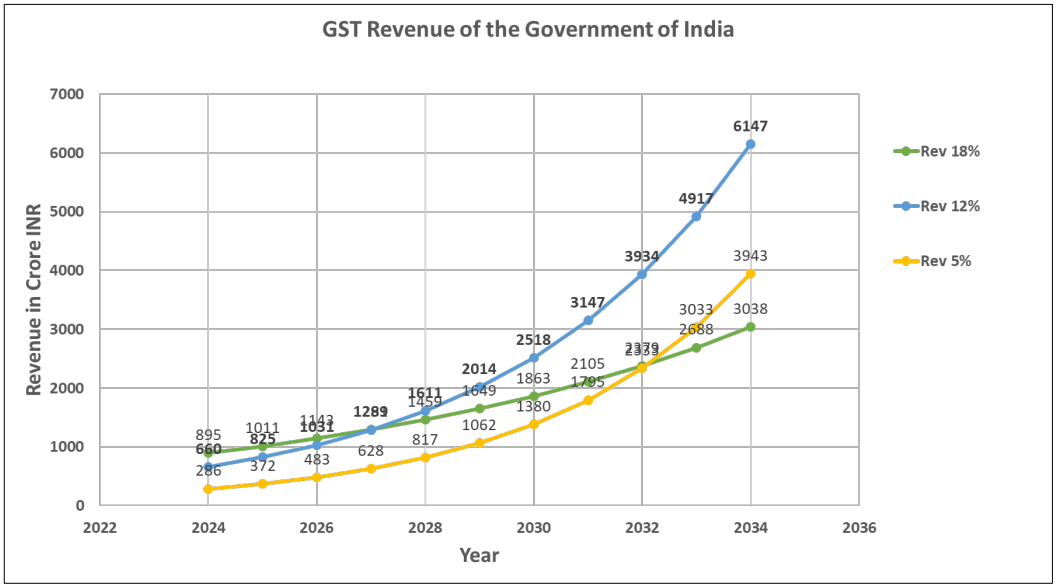
At the current GST rate of 18%, the BFC market shows a CAGR of 13%. However, as indicated above this growth rate will find much impetus with a reduction in the GST, with estimated CAGRs of 25% at 12% GST and 30% at 5% GST.

Given these metrics, the Indian exchequer stands to gain significantly in the mid to long run, as the initial reduction in tax collection after a decrease in the GST rate is offset by the increased and sustained consumption of BFC products. The estimated revenue generated by T0 (GST = 18%) is matched in year 2027 by T1 (GST = 12%).

***By 2030, the revenue collection at T1 is estimated to be 35% higher than what may be collected at T0, and this is accentuated even further as the sector grows with time – the calculations show that by 2034, the GST revenue at T1 is likely to be 100% higher than at T0. Therefore there is a clear incentive for the government to decrease the GST rate for the BFC sector from 18% to 12%.***

| *Year* | **BFC Market; CAGR at 13% at GST = 18 (Cr INR)** | **GST Revenue at GST = 18% (Cr INR)** | **BFC market: CAGR at 25% at GST = 12% (Cr INR)** | **GST Revenue at GST = 12% (Cr INR)** | **BFC Market; CAGR at 30% at GST = 5% (Cr INR)** | **GST Revenue at GST = 5% (Cr INR)** |
|---|---|---|---|---|---|---|
| *2024* | 4972 | 895 | 5500 | 660 | 5720 | 286 |
| *2025* | 5618 | 1011 | 6875 | 825 | 7436 | 372 |
| *2026* | 6349 | 1143 | 8594 | 1031 | 9667 | 483 |
| *2027* | 7174 | 1291 | 10742 | 1289 | 12567 | 628 |
| *2028* | 8107 | 1459 | 13428 | 1611 | 16337 | 817 |

| *Year* | BFC Market; CAGR at 13% at GST = 18 (Cr INR) | GST Revenue at GST = 18% (Cr INR) | BFC market: CAGR at 25% at GST = 12% (Cr INR) | GST Revenue at GST = 12% (Cr INR) | BFC Market; CAGR at 30% at GST = 5% (Cr INR) | GST Revenue at GST = 5% (Cr INR) |
|---|---|---|---|---|---|---|
| *2029* | 9161 | 1649 | 16785 | 2014 | 21238 | 1062 |
| *2030* | 10351 | 1863 | 20981 | 2518 | 27609 | 1380 |
| *2031* | 11697 | 2105 | 26226 | 3147 | 35892 | 1795 |
| *2032* | 13218 | 2379 | 32783 | 3934 | 46660 | 2333 |
| *2033* | 14936 | 2688 | 40978 | 4917 | 60658 | 3033 |
| *2034* | 16878 | 3038 | 51223 | 6147 | 78855 | 3943 |




Evidence suggests that globally, India is amongst the fastest-rising breakfast cereal consumers in the world. As of 2023, India's total market valuation of breakfast cereals stood at approx. Rs 1800 Cr (USD 210 million).

The country witnessed a growth in this sector of a steady CAGR of 9% between 2013 and 2023, relative to the 2-3% growth shown by the USA and UK, two of the largest consumers of breakfast cereal in the world during the same period.

# 9. CONCLUSION

The Breakfast Cereal sector offers demonstrably beneficial products to the Indian market, especially in context to the changing nutrition needs of Indians. In the 21st century, with a large number of Indian immigrating to urban cities, living with minimal domestic support, and working in professions that require commuting for long hours, the importance of a convenient and nutritious meal to begin the day cannot be understated.

The BFC sector requires support/level playing field in the form of tax to support innovation (start-ups) around a nutritious meal like breakfast cereals with the right mix of energy and nutrient delivery that benefits not just the consumer by providing an active start to the day and in the long term by regulating health and wellness but the entire eco system i.e. industry, exchequer. In the modern context, breakfast cereals appear to be a ready solution to these requirements.

However, in India, there is a mismatch between the official rhetoric and the lived reality of the preference and perception of BFCs. These products can now no longer be considered as luxury goods, and are increasingly perceived as necessities. It is therefore counterintuitive that BFCs must be taxed at the 18% GST bracket. A case may be made for the reduction of GST on BFCs based on three aspects as discussed in this research report and summarized below:

1. This is an underdeveloped sector, and the regulatory environment prohibits the sector from achieving the market size it can achieve. ***Given the increasing positive perception amongst Indians for convenient meals, this category is fast becoming a necessity than a luxury.*** The high tax incidence makes the BFC sector less competitive. Further, the high tax rate for BFCs is not reflected in developed countries, all of which have significantly larger total and per capita consumption of BFCs.

2. Given the domestic nature of this sector, BFCs are inherently beneficial to the Indian farmer as the primary ingredients are corn, rice, wheat, ragi, and barley that are produced and procured in India, helping to enhance the incomes of Indian farmers. Further, ***the domestic manufacturing of this product produces a win-win for Indian labour, and contributes to the Make in India initiative.***

3. The BFC sector is a ready answer for quick and whole nutrition. Given the minimally processed ingredients, BFCs are an ideal solution to the contemporary nutrition requirements of Indians. ***BFCs are further linked to holistic nutrition provision, and in the long term, help individuals regulate their health better and thus is in line with the broad three pillars of 'Eat Right India Movement' viz. 'Eat Healthy', 'Eat Safe' and 'Eat Sustainably'.***

BFCs are fledgling sector in India, achieving respectable growth in the last decade. It is therefore a prudent move for the exchequer to re-evaluate their perception on this product. The reality has moved far enough from the rhetoric to prompt a rethink of the current taxation policies surrounding this product.

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