

# GHERKINS – COOL FRUIT, COOLER GAINS

*What comes to your mind when you think of cucumbers? Peeled cucumbers discs on a platter... isn't it? Interestingly, this almost-solitary use of cucumbers in India means their supply is abundant and cheap, which is something a few agri-entrepreneurs have used to their advantage by processing and exporting them to the developed world.*

Sisir Pradhan | October 2015 Issue | The Dollar Business



*Gherkin cultivation, processing and exports started in India during the late 1980s at a modest scale in Karnataka.*

Dindigul, a city located about 420 km to the southwest of Chennai, apart from its famed tobacco industry – the city used to supply Winston Churchill his favourite cigars – is also home to many units that process, pack and export a very innocuous fruit to the West and Russia – cucumbers. But the export of processed cucumbers – generically called gherkins, although gherkins are actually a different variety of cucumbers – is such a lucrative business that many have made an absolute fortune out of it. The best validation of it being C. Asok Rose, President, Tamil Nadu Gherkin Exporters Association. An early entrant into the business, Rose has been exporting gherkins for over two decades. And

he, with all honest delight tells The Dollar Business that he has no plan to explore opportunities with other product since gherkins continue to remain an extremely lucrative return on investment.

***“Gherkins Offer Double-Digit Profit Margins In The Range Of 10-14% to Indian Exporters”***

**No peers**

Gherkins are exported in two forms – ready-to-eat (ITC HS Code: 20011000) and bulk, which needs further processing (ITC HS Code: 07114000). And India’s total domination of the market can be gauged from the fact that it is the top exporter in both the categories, accounting for 21.4% of total global exports of the former and an incredible 51.9% of that of the latter. So, what makes India such a powerhouse in gherkins?

**Profit est.: gherkin exports**  
*Due to rewards under MEIS, exports of gherkins offer double-digit margin*

Cost of Production (INR/MT) *	44,250.0
FOB Value (INR/MT) **	48,235.0
Operating Profit	3,985.0
Operating Margin (%)***	8.2

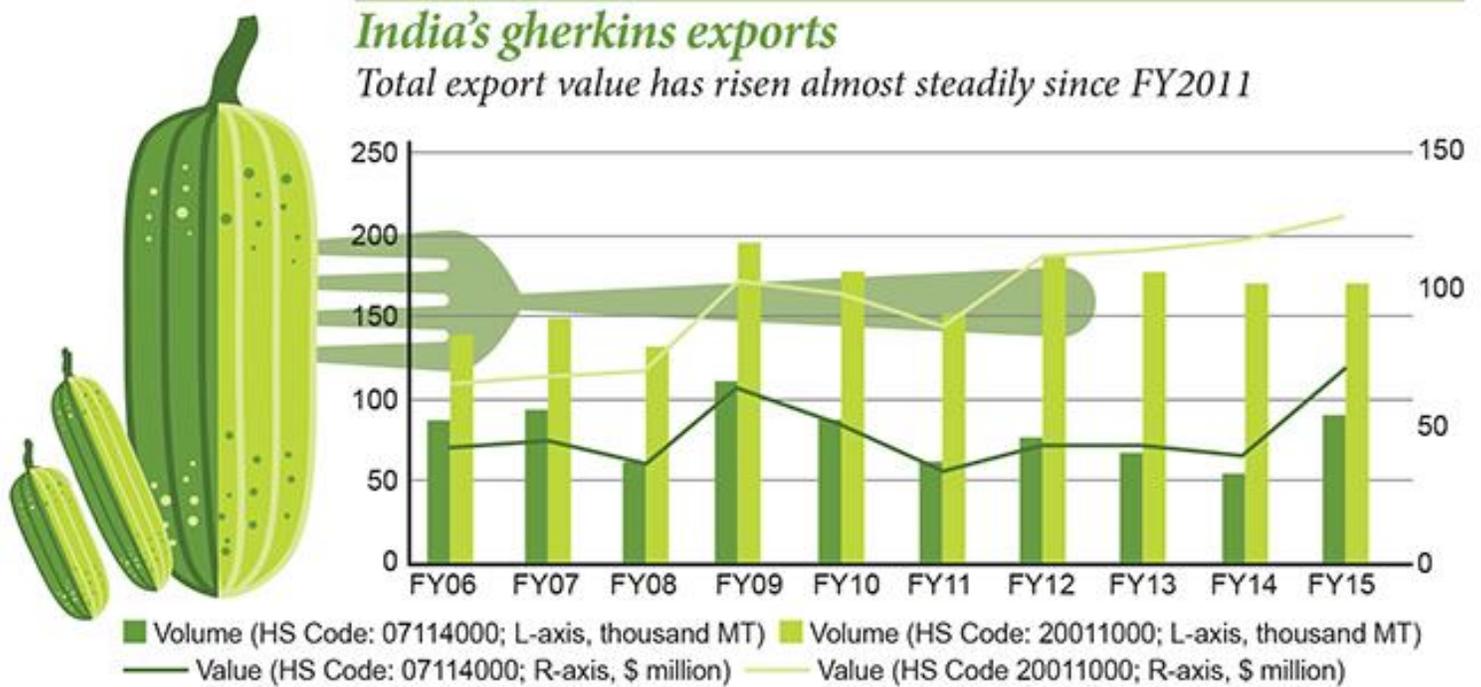
\*Ready-to-eat gherkins (HS Code 20011000); \*\* FOB Tuticorin; \*\*\* Exporters of gherkins are also eligible for 6% duty credit scrips under MEIS and 1% duty drawback on import of seed for cultivation.

Two elements – perfect weather conditions for cucumber farming in states like Andhra Pradesh, Telangana and Karnataka, and a relatively lower domestic consumption (as compared to that in market overseas like USA, Canada, Russia, Australia and Europe). Interestingly, although Andhra Pradesh is the largest producer of cucumbers in the country, gherkins exports actually started from Karnataka in the late 80s.

**All in place**

In many ways, India’s gherkins exports business owes a lot to several factors falling in place at the same time. In the late 80s and early 90s, farmers in traditionally large cucumber exporting countries like Turkey started giving up

their farming in favour of tomato cultivation, which was considered more profitable. Around the same time, India was starting to embrace economic liberalization, with the government encouraging exports in a big way. As part of such export promotion measures, it established agri-export zones (AEZs) in Karnataka and Andhra Pradesh and suddenly everything was in place for the country to take the global gherkins market by storm. Another factor which helped the growth of the country's gherkins exports was the fact that farmers too preferred a cash crop like cucumber, because it meant they needn't wait for months to harvest and monetize their produce.



Source: Ministry of Commerce, Govt of India

However, if one has to identify the single most important factor behind the success of India's gherkins industry, it has to be contract farming. Explaining the benefits of contract farming in general, V. A. Balamurali, Managing Partner, Murari Agrotech, a Hosur (Tamil Nadu)-based exporter of gherkins, says, "Under contract farming, corporate houses create large land banks by roping in a number of farmers and providing them seed, fertilizer and technical knowhow. Under it, even crop purchase prices are fixed, and farmers know in advance the price they will get for their produce."

### All ends covered

Since gherkins are exported from India in two forms, their exporters can also be

broadly classified into two categories – bulk gherkins exporters and canned/bottled ready-to-eat gherkins exporters. At the same time, even ready-to-eat gherkins exporters can be further categorized into two – MNCs like Reitzel that export only under their own brand, and others, who apart from exporting under their own brand also contract manufacture for large MNC brands, retail chains and quick service restaurants (QSRs). Interestingly, both bulk exporters and ready-to-eat exporters are convinced about their model being better and more sustainable than the other.



Speaking about the benefits of the bulk gherkins business, Rose says, “The taste of people varies from a country to another. Significant investments are needed to develop gherkins and cucumbers that tickle the taste buds of locals. Moreover, one also needs to invest heavily to compete with established brands in different markets. That’s why it’s safe and more sustainable to manufacture in bulk for

established branded players. It helps in reaching out to newer markets with minimum investment.” On the other hand, Adarsh Jalan, CEO, Neo Foods, a company which exports ready-to-eat gherkins under its own brand and also contract manufactures for several large MNCs, says, “We are in the final product business. The reason why we don’t prefer intermediate products is because they being low value-added products, offer lower margins.”



*Being an agri-product that is exported to the West and Russia, maintaining high quality is of paramount importance for gherkins producers, particularly since consignments that fell even slightly short of the promised quality and type have been returned by overseas importers.*

### **Puzzling**

A very interesting aspect of India’s gherkins exports is the fact that prices vary a lot on the basis of quality, brand and export market. In fact, depending on these three factors, even ready-to-eat gherkins can actually be cheaper than bulk varieties!



*High-quality bulk gherkins can, at times, be more expensive than ready-to-eat varieties.*

For example, in FY2015, the unit price of India's ready-to-eat gherkins exports to Russia – the top importer – was \$0.69 million/thousand MT as compared to \$0.71 million/thousand MT for bulk gherkins. On the other hand, in the same year, the unit price the country's bulk gherkins exports to France – the top importer – at \$0.92 million/thousand MT, was much lower than that for ready-to-eat gherkins, which was \$1.35 million/thousand MT. And since Russia imports almost three times more quantity of cheap ready-to-eat gherkins from India than what France does of expensive bulk gherkins, the unit price of the country's exports of the former, in FY2015, was, actually, lower than that of the latter! Given such massive price differences, quality is of paramount importance in this business. And it's not an easy task to maintain a ten-on-ten quality, given the fact that it's an agricultural product. Industry-insiders claim there have been instances where consignments with gherkins that were just 1-2 mm smaller than promised were returned by overseas buyers!

### **Not so cool**

While India is a major producer of cucumbers and the top exporter of gherkins, the lack of R&D in crop sciences means that the country continues to be

dependent on cucumber seed imports from countries like Holland. Similarly, most processing units are heavily dependent on imports even for machinery. And then, dependence on contract farming, although ensuring steady raw material supplies, has its own share of problems. “Most farmers in India hold very small areas of land. Hence, to achieve uniform quality and timely shipment of export consignments, business houses prefer contract farming. And to effectively communicate and convince farmers to join hands for large scale contract farming, they appoint field staff from the local community. But many times, the field staff join hands with farmers and indulge in malpractice and forge quality and quantity. It leads to delayed shipments and eventually, termination of contracts by overseas buyers,” J. S. Rao of Jupally Agro Products, which got out of gherkins exports business in 2011, tells The Dollar Business.

### Destination of India's gherkins exports (HS Code 07114000)

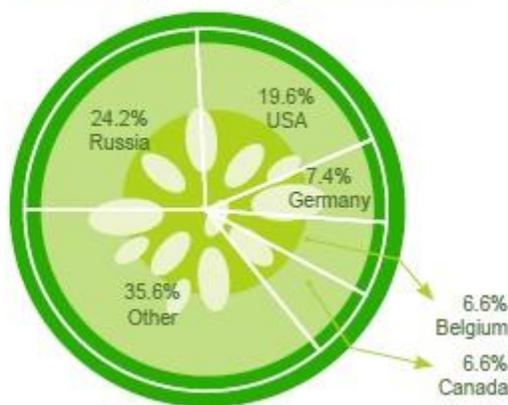
39% is exported to France & USA



Source: Ministry of Commerce, GoI; breakup for FY2015

### Destination of India's gherkins exports (HS Code 20011000)

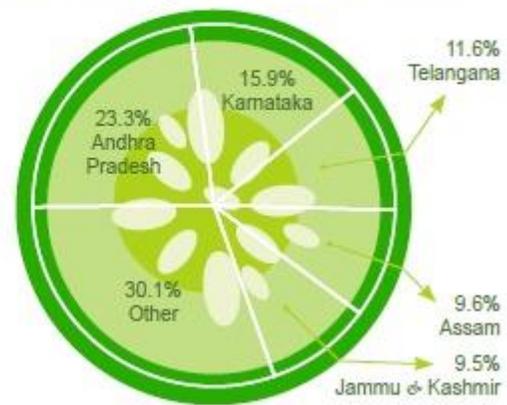
Almost a quarter is exported to Russia



Source: Ministry of Commerce, GoI; breakup for FY2015

### Cucumbers producing states in India

Over 50% is produced in South India



Source: APEDA, breakup for FY2014

Since cucumber is a cash crop, being successful in the gherkins exports business also requires continuous access to funds and immaculate working capital management. “To set up a plant with a capacity to process 300-400 MMT cucumber per year, investment worth Rs.8-10 crore is required. In this business, almost 90% of the raw material needs to be purchased in cash, while the buyer takes, on an average, 30-90 days to make the payment. Hence, one needs a lot of working capital to sustain,” Rao adds.

## A little push

Unfortunately, despite being an export product in which India is the undisputed market leader, gherkins don't get the kind of government support they deserve. The only encouragement their exporters get is 5% duty scrips under MEIS and

1% duty drawback despite the dependence on imported seeds for cucumber farming. In fact, several exporters The Dollar Business spoke to claim to not even take export incentives into consideration while making pricing decisions. This, given the amount of time, resource and paperwork that is involved.



*The southern state of Andhra Pradesh is the biggest cucumber producer in India.*

Outlining what the government should do to further consolidate the country's position as the top exporter of gherkins, Vijai Gill, MD & CEO, The Global Green Group, says, "Instead of trying to incentivize gherkins exports, the government should focus on investing in R&D to develop seed and farm technology." It's a no-brainer – government help will no doubt, give a boost to India's gherkins

exporting industry.

Exports in excess of Rs.1,200 crore of a lesser known product like “preserved cucumbers”, and one that’s growing each year for the past five years, is a sign of the potential of this fruit in overseas markets. Some reason why the government shouldn’t ignore those trying to make it a bigger business. As for those looking to diversify in exports, this is one cool, natural idea!

## “The Gherkins Exporting Industry Hardly Gets Any Support from Policymakers”



*Vijai Gill MD & CEO, THE GLOBAL GREEN GROUP*

**TDB: What makes India the largest exporter of processed cucumbers and gherkins?**

**Vijai Gill (VG):** Interestingly, India is not the world’s largest producer of cucumbers & gherkins. But since there is negligible domestic consumption, almost all of the produce is exported, making the country the world’s largest exporter.

**TDB: Since Russia is a major importer of processed cucumbers and gherkins, is the depreciation in ruble a concern for Indian exporters?**

**VG:** Market conditions in Russia is not only a concern for India, but also for others, especially for those who export similar products to it. EU sanctions over

the Ukraine crisis has cut down demand this year and we will see it in trade statistics going forward. But since Russia is one of the biggest consumers of gherkins and its consumption is not going to stop, I believe once the situation improves, exports from India will rise.

**TDB: Is the industry considering Australia and Japan as alternate export destinations? Do these countries represent untapped potential?**

**VG:** Australia is already a big market and India has a strong foothold there. Since the Australian population is quite low (around 25 million), the market is also limited. Japan, on the other hand, is an interesting market. It has, traditionally, been a difficult market for food companies to get an entry into. One needs to understand the Japanese market very well before entering it in a big way. It offers ample opportunity, but has very high quality requirements. Although, thankfully, our company's exports to the country have increased, from the whole industry's perspective, it's doesn't represent a great market.

**TDB: Tell us a bit about your business model. Do you market only your own brands or do you manufacture for other labels as well?**

**VG:** We have two segments, one being the domestic market and the other being exports. In India, we market processed foods, gherkins, jalapenos, tomato products, etc. under our in-house brand Tify. On the other hand, our products are sold globally through private labels. We manufacture value-added food products and provide them in jars to private brands all over the world. Although majority of gherkins exported from India are in bulk packaging, we are one of the largest exporters of gherkins, jalapenos, baby corn, etc. in canned form.

**TDB: Have Indian exporters ever faced any major quality-related issue?**

**VG:** Although Indian exporters haven't really faced any major quality-related problem, but anyone entering the food export business needs to have a thorough understanding of quality and regulatory norms of the destination country. These days, the bar for food safety and quality standards is constantly being raised by regulatory authorities across the globe, including India. And such rising quality parameters are making trade all the more challenging. In order to avoid any hindrance during shipping, one should ensure safe farming and processing practices. On the other hand, pricing challenges vary depending on the market. For example, Germany has the lowest fruit and grocery product prices in the whole of Europe. So, if one wants to export to the German market, one needs to be very competitive in terms of prices.

**TDB: Which issues, according to you, are holding back the processed cucumbers and gherkins export sector from realizing its full potential?**

**VG:** Despite being the world's largest cucumbers and gherkins exporter, we

hardly get any support from policymakers. This might be due to the fact that gherkins and cucumbers account for a very small chunk of India's overall fruits and vegetables exports. There has never been any support from the authorities to develop better seeds or combat fruit flies. There are also issues related to different import duties for jars and bulk packing. Several importing countries have higher import duty on gherkin jars and cans as compared to that on bulk-packaged varieties, which is encouraging for those exporting the latter and not those that export value-added products. This trade barrier pinches us as an exporter.