

Beer

The Indian Liquor Industry



IndigoEdge

Bangalore | Paris

THE INDIAN LIQUOR MARKET

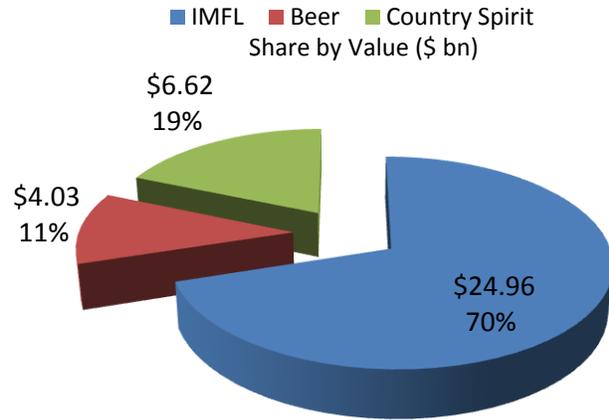
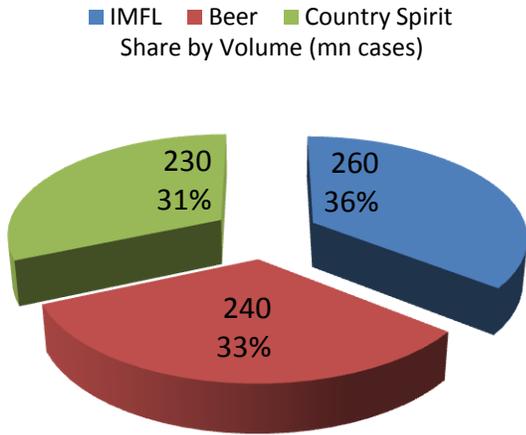
- India is the **3rd largest liquor market** in the world.
- One of the **fastest growing markets** in the world, on the back of demographics & economy.
- **Strong MNC presence** with Diageo, Beam Global, Pernod Ricard, Heineken, SAB Miller, Carlsberg and more.

There are 3 broad categories – IMFL (Indian Manufactured Foreign Liquor which includes whiskey, rum, brandy, vodka & gin), Beer and Country Liquor (cheaper, spiced liquor).

Each of these segments has a volume of between 230-260 million cases per annum. Hence, the market is divided almost equally **by volume**. However, the IMFL market is much larger in terms of value – by the sheer difference in price per bottle. Hence, the IMFL market would be over 65% by value and beer would be ~15% by value.

It is estimated that a significant portion of sales in India goes unreported due to taxation structures.

The overall retail market size of liquor is ~\$35 billion per annum. Overall growth of the market is ~8% per annum, mainly driven by IMFL and beer. Country liquor is a slow growth market. Beer has been consistently growing at over 15% per annum over the last few years.



CONSUMER TRENDS

IMFL is dominated by Whiskey – Almost 60% of the IMFL market is whiskey. India is the **world's largest whiskey** market. 6 of the top 7 selling brands in the world (by volume) are Indian.

Beer is dominated by Strong Beer – India has a distinct preference for strong beer (8% alcohol v/v). Over 80% of the market is strong beer.

Premiumization – On the back of growing income, there is a strong trend of premiumization. All liquor companies are increasingly looking at introducing better quality, more expensive brands in their portfolio.

High Growth White Spirits – This is the fastest growing segment in India. Vodka has emerged as the preferred liquor for the youth. Growth has been at over 25% per annum over the last few years (albeit on a smaller base of ~9 million cases).

Unexciting Wine – Wine has been a slow growth market in India, with a very niche audience. Although it is highly visible in the cities, the total market is just over 1 million cases. Sula, Four Seasons (UB Group) and Nine Hills (Pernod Ricard) are the leading brands. Maharashtra and Karnataka are the two states with most of the wineries as well as wine consumption. This is due to a preferential tax structure in these states.

REGULATORY STRUCTURE CREATES HIGH ENTRY BARRIERS

The Indian liquor market is characterized by very high regulation. The liquor industry is a State subject and hence subject to laws in each state. This means a company has to have licenses and permissions to operate in each state. Hence, there are very few players who are truly “National”.

Independent Licenses are required to produce, bottle, store, distribute or retail all liquor products. Licenses to produce and bottle are particularly scarce and contract manufacturing is a well-established market entry strategy.

FDI – 100% FDI is permitted in the alcoholic beverages sector. A foreign entity can invest in an Indian business through the automatic route, provided the required licenses are in place.

In some cases where the investor is an Indian entity with foreign owners (Eg: SAB Miller India), the investment

would require clearance from the Foreign Investment Promotion Board (FIPB). FDI approvals are issued on the basis of a particular licensed capacity and any further increase in capacity will require FIPB again.

Taxation is high, Price is controlled – Excise duties, sales tax, VAT and various intermediary margins contribute bulk of the retail price. To give you an idea, the typical manufacturer/ brand realizations are below. In most states, the government tightly controls the retail price of liquor. In many cases, a tender process is used to determine prices and volumes that will be bought by the distributors.

Market control – Distribution & retail are also subject to control as depicted below. There is a complete ban on liquor advertising in India. Brands try to go-around this by using surrogate products (Bacardi Music CDs, Johnnie Walker golf, Tuborg beverage).

Product (per bottle)	Retail MRP	Manufacturer Price
Regular Whiskey	\$ 7	\$ 1.2
Mid Price Whiskey	\$ 14	\$ 6
Premium Whiskey	\$ 24	\$ 10
Regular Beer	\$ 1.4 - \$1.8	\$ 0.5 - \$ 0.7
Premium Beer	\$2 - \$ 2.8	\$ 0.8 - \$ 1.1

Structure I: Distributor – Government; Retail – Government

Kerala

Tamil Nadu

Delhi

Structure II: Distributor – Government; Retail – Free

Andhra Pradesh

Orissa

Uttar Pradesh

Bihar

Rajasthan

Karnataka

Chattisgarh

Uttaranchal

Bihar

Structure III: Distributor – Free; Retail – Free

Assam

West Bengal

Daman

Pondicherry

Goa

Tripura

Jharkhand

Maharashtra

MARKET STRUCTURE AND MAJOR PLAYERS

In light of the taxation structure, it makes sense to talk about the market size for Brands – based on manufacturer price rather than on retail price. The market size works out to about \$ 3.5 bn for IMFL, \$ 1.8 bn for beer and \$ 1.7 bn for country liquor.

The Indian beer market is oligopolistic, with the top 2 brands accounting for nearly 80% of the volumes. The top 3 players are – **United Breweries** (57% share), **SAB Miller India** (20% share) and **Carlsberg India** (~6-8% share). There are another 8-10 significant players in the \$10 mn to \$50 mn revenue range.

The main states for beer include Andhra Pradesh, Maharashtra, Karnataka, Tamil Nadu and Delhi. Beer is seen as mostly an urban-youth drink and has increasing social acceptance. Hence, the beverage has a universal acceptance across the country.

Key Growth Drivers:

1. **Young population** – India has amongst the youngest population in the world. 60% of the population is under the age of 30. Further, over 50% of the population is in the working age of 22-54.
2. **Rapidly growing consumption** – Beer is increasingly acceptable as a social drink and the urban youth in particular favors it as the preferred alcoholic beverage. Per capita consumption of beer is 1.5 liter and has been growing at over 15% in the last few years.
3. **Home grown brands** – Even international giants like SAB Miller and Carlsberg have not been able to grow their own brands significantly. SAB Miller leveraged its acquired Indian brands like Haywards, Knock Out and Royal Challenge to become a leader in the industry.

FUTURE OUTLOOK FOR BEER

The beer market is increasingly attractive and we believe that the beer market will double in size over the next 5 years to reach about 450 million cases. At this size of market, companies will also be financially attractive.

We believe that the market is **ripe for an International player** to enter. The window of opportunity is probably about **2 years to enter the market**. The reason is that the only viable entry strategy available is to partner with an existing Indian player – through a **JV or a complete acquisition**. With increasing consolidation, after 2 years, there may be no suitable Indian brand for a foreign company to partner for entry.

A couple of case studies to illustrate:

1. **Heineken owns over 40% of United Breweries**, India's largest beer company. Heineken has been able to leverage on their Indian partner's strengths, as well as on the growing consumer awareness to introduce their flagship product at a huge premium. Heineken beer sells at 50-60% higher prices than regular beers in India. They have been able to ride on the Indian partner's distribution and sales strengths to establish their presence.
2. **SAB Miller entered India in 2000 through a JV** and eventual buy out of Narang Breweries. They significantly strengthened in 2003 by entering a JV with Shaw Wallace which had brands like Royal Challenge, Haywards and Knock Out. In 2005, SAB Miller bought out Shaw Wallace to become the second largest brewer. SAB Miller has continued to invest in and support its acquired portfolio, as well as introduce its own global brands.

POTENTIAL PARTNERS

A few **profiles of potential partners** for entry into the Indian Beer industry.

1. Company A has a strong brand in North India with **sales of \$40 million**. The company has a strong brand and has sales of over 7 million cases per annum. The company has **two breweries** in North India and its products are available in 20 states in India.
2. Company B is a dominant player in the Eastern part of India and has **sales of over \$25 million**. The company has **3 breweries** in the East and distribution presence in the North, East and West of India.
3. Company C is a market leader in the state of Tamil Nadu and has a rich history in the liquor market in India. The company has its own brands and **sells over 5 million cases** of beer in Tamil Nadu alone.

ABOUT US

IndigoEdge is a boutique investment bank headquartered in Bangalore, India with a partner office in Paris, France. Founded in 2006 with a vision to be an enabler in the entrepreneurial ecosystem, IndigoEdge has carved a niche as a trusted growth partner.

IndigoEdge has completed over 20 transactions in the last 3 years across diverse sectors like logistics, technology, manufacturing and hospitality.

IndigoEdge has a strong understanding of the alcohol market in India and is bullish on the potential for European & American beer companies in the country.

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