CIABC

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By Credible Media Voices Pvt Ltd (Ph. 98102 53698) mint

Liquor industry hopes for a festive high

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NEW DELHI

India's liquor sector hopes that cooling inflation and a normal monsoon will boost consumer spending in the festival period, helping the mainstay low-cost alcohol market overcome high input costs and stagnant margins, according to the head of an industry lobby.

"While the first quarter of the fiscal year was depressed to an extent on account of the long and drawn-out election process and excessive summer heat, the second quarter has seen companies doing better," said Anant S. Iyer, director general of Delhi-based spirits advocacy Confederation of Indian Alcoholic Beverage Companies (CIABC). "The upcoming quarters—three and four—will look positive," he told *Mint*, suggesting several categories could see better sales.

CIABC represents large distillers, including Radico Khaitan, Allied Blenders & Distillers Ltd, Tilaknagar Industries and 20 others.

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India's $32-billion liquor industry, according to London-based drinks consultancy IWSR, is estimated to grow by an incremental $7 billion by 2028. Makers of whiskies to beer are ramping up volumes, betting on a young population—460 million or 33% of Indians are in the legal drinking age, according to the Economic Survey.

The industry sold 385 million cases of 9 litres each in FY23, growing 14% above FY22 and 12% over pre-covid levels of FY20, as per CIABC data. Profitability, however, has been under pressure.

Over the past five years, while everyday products like face and body washes have seen prices rise 10-12% annually, the alcoholic beverage or alcobev sector has been unable to secure hikes due to state governments' reluctance, Iyer said. In India, alcohol is outside the purview of the goods and services tax, prices are regulated, and levies on liquor are one of the biggest sources of revenue for states.

Prices of ethanol, an essential raw material that accounts for about 40% of the total production cost, have seen a steady increase for over a year due to the rising prices of barley, maize, and sugarcane, said Manoranjan Sharma, chief economist of Infomerics Ratings.

Higher grain and packaging material prices could lead to reduced operating margins for the industry in FY25, Sharma said. "Additionally, the shift of grains towards ethanol production, spurred by government blending mandates, has intensified supply and pricing challenges for the alcobev sector."

Companies' commentary underscores concerns. In its April-June earnings call, Radico Khaitan, the maker of Magic Moments vodka, said its gross margin in the quarter was 2 percentage points lower at 41.5% from a year earlier "due to a significant food grain inflation".

Tilaknagar Industries said it had to negotiate better margins with vendors because of volatile and inflationary prices of extra-neutral alcohol.

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Liquor industry bets on festive binging to break free of 5-year margin squeeze

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Varuni Khosla

- *The alcobev sector has been unable to secure hikes due to state governments' reluctance even as input costs rose, says head of industry lobby CIABC.*

Anant S. Iyer was recently appointed head of the spirits body, CIABC

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Tilaknagar Industries said it had to negotiate better margins with vendors because of volatile and inflationary prices of extra-neutral alcohol. The maker of Mansion House brandy said its Ebitda margin of 14.5%, up 89 basis points on year, in Q1 has been driven by cost cuts and the rising share of premium products in the portfolio.

Allied Blenders and Distillers, too, flagged an unfavourable macroeconomic environment and persistent food inflation. The company, said managing director Alok Gupta in the company's Q1 earnings call, has focused on improving profitability by supplying brands based on regional consumption patterns and other cost-saving initiatives.

More dry days enforced before elections also affected business this year, according to Iyer. And the excise departments are reluctant to approve price increases, he said.

"Policymakers are of the view that this industry is making a lot of money. This is not the case," CIABC's Iyer said. "Over the last few years, input costs have gone up and across the economy, inflationary cost increases have affected all sectors and goods, but prices have not moved up for us as an industry."

The total revenue earned from the alcobev industry is upwards of ₹3 lakh crore for FY24, with Uttar Pradesh, Tamil Nadu, Karnataka, and Maharashtra generating the most, said Iyer. Price increases will help sustain the industry as it is among the top three contributors to state revenues, he said.

According to him, excise policies haven't changed, barring minor adjustments, across states this year. Karnataka made changes to the excise levy slabs and Andhra Pradesh has yet to announce its policy altogether, he said.

States should not pass on various cesses and fees to companies but to consumers directly, he said. These further erode the already stressed product margins, he said.

Several northern states, including Uttar Pradesh, have introduced new bottling and franchise fees, impacting smaller manufacturers. These states have also imposed additional levies, like cow cess, further increasing costs.

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A premium toast

Even as the industry faces a profitability challenge, growing demand for premium alcohol is providing some relief to most manufacturers. More consumers are choosing higher-quality alcohol even as the overall market slows. This shift is driven by younger consumers entering the legal drinking age.

“There is a big boom—post-pandemic—in premium spirits, while the ‘regular’ or entry-level segment has been relatively stagnant in several markets," Iyer said. In states where the end-consumer prices are reasonable because of “progressive" taxation (such as Haryana, Karnataka and Goa), Iyer said the consumption of premium spirits has been driven by consumers trading up if the price differences are marginal or affordable.

THE HINDU BusinessLine

Karnataka's proposed excise duty hike may impact beer demand, industry experts warn

Updated - September 10, 2024 at 11:50 AM. | Bengaluru

'State consumes around 3.8 million hectolitres of beer annually, roughly 12 per cent of the overall Indian beer volume'

BY SANJANA B

Following the Karnataka excise department's recent proposal to increase the excise duty on beer, industry players anticipate a significant decline in beer demand in Karnataka, which is one of the largest liquor-consuming States.

According to the latest industry estimates, the State consumes around 3.8 million hectolitres (MHL) of beer annually, roughly 12 per cent of the overall Indian beer volume. Estimates also indicate that over the past two years, beer sales in Karnataka have more than doubled, driven by post-Covid-19 consumer trends.

The Karnataka government has implemented several changes in the additional excise duty (AED) and excise duty (ED) since last year, with the first in July 2023. It proposed a 10 per cent increase in AED from 175 per cent to 185 per cent, with a ₹10-15 rise per 650 ml bottle. In February 2024, this was further increased from 185 per cent to 195 per cent at a ₹15 increase per bottle.

The third proposed change would be in the ED per bulk litre (BL). What previously was simply ₹10 per BL will now be classified into three categories based on alcohol strength: ₹10 per BL for beers with an alcohol by volume (ABV) of below 5 per cent, ₹16 per BL for 5 per cent-6.5 per cent ABV and ₹20 per BL for an ABV of 6.5 per cent-8 per cent.

MRP hikes

"The beer category in Karnataka has already witnessed two significant tax increases over the past 12 months, resulting in MRP hikes. If the proposed draft notification is implemented, it would mark the third major increase. Moreover, the magnitude of the proposed hike is substantial and could see a shift or change in consumer behavior," said Vinod Giri, Director General of the Brewers Association of India (BAI), an industry body established in partnership with the World Brewing Alliance (WBA). It represents companies like AB-InBev, Carlsberg, and United Breweries, accounting for around 85 per cent of the beer sales in the country.

He stated, "Such frequent rise in MRPs can diminish the market's attractiveness of Beer to consumers, adversely affecting the beer category's growth potential. If the effect on volumes is substantial, this could consequently impact, both current and future investments in the State."

According to a 2024 Infomerics Ratings report, Karnataka, at 83 per cent, charges the highest tax on alcohol in India. In the fiscal year 2023-24, the State excise department collected nearly ₹5,703 crore from beer, an increase from ₹2,757 crore in 2021-22.

“Unlike many other States, Karnataka’s progressive policies have created a level playing field for beer, a beverage category widely regarded as one of moderation, allowing it to compete fairly with IML segments. The State’s significance is highlighted by the substantial investments every major beer company has made, each with manufacturing units and a diverse product portfolio in the State,” Giri said, adding Karnataka ranks as the third-largest beer market in the country, trailing behind Telangana and Uttar Pradesh.

Decline in demand

He explained that however, MRPs going up across various segments could lead to a significant decline in beer demand. The growth seen in the beer category over the past few years could also stagnate, impacting the State’s revenue generation from this segment. “There would also be a significant impact on the trade and hospitality sector. We believe beer consumers may shift towards hard liquor because of the MRP gap, challenging the objective of moderation and responsible drinking.”

Anant Iyer, Director General, Confederation of Indian Alcoholic Beverage Companies (CIABC), said, “Karnataka has attracted huge investments across the alcobev sector — upstream and downstream — as it was a free pricing market with a healthy and robust distribution (RTM) structure. Unfortunately, the new rules in the current excise policy have some changes that make for an unfavorable environment for fresh investments and adversely impact the industry in terms of the bottom line,” adding that despite the increasing cost push, manufacturers have not received any price increase for years together, unaddressed this year also.

Iyer noted that due to the drop in AED in the higher slabs, the end consumer prices of premium and above brands will drop. The deluxe/semi-premium and above categories, comprising around 13 per cent of the Karnataka spirits industry, may expand as consumers upgrade.

“Incidentally, in most States, the ratio of prestige and above segments is around 50 per cent to 60 per cent compared to the lower segments. The brands operating in the lower slabs of 1 to 5 will continue to sustain their market share.”

Giri said the BAI is engaging with the authorities to present its concerns and recommendations.

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Anant S. Iyer takes over as Director General of CIABC

Anant S Iyer has taken over as the Director General of the Confederation of Indian Alcoholic Beverage Companies (CIABC), the apex body of the Indian alcohol beverage companies representing over 20 major domestic liquor manufacturers.

With over 33 years of experience in the alcobev industry, Iyer has assumed various challenging roles in the liquor industry. He has supervised large teams, by implementing efficient processes, setting performance metrics, and spearheading transformative business initiatives. His vast experience has allowed him to develop an intricate understanding of the industry's workings, relationships, and processes.

Prior to his current role, Iyer was the Chief Operating Officer of Alcobrew, where he was responsible for the company's overall business operations-sales & marketing, collectables, supply chain management and collectables amongst other leading to efficiencies in P&L management while spearheading growth initiatives. Under his leadership, Alcobrew grew and enriched its portfolio of premium offerings.


Anant S. Iyer

Iyer has also served as the Chief Operating Officer of Jagatjit Industries Ltd. from May 2016 to December 2019. Earlier he was the Chief Operating Officer of RPC-East & Nepal at United Spirits Limited for around four years. Iyer has also held the position of Senior Vice President & Business Head, Luxury Brands at United Spirits Limited, where he not only oversaw luxury brands such as Black Dog / Whyte &Mackay portfolio, but also set up Trade Marketing & Key Accounts. Under his leadership, the business experienced remarkable growth, with increased sales value and market share. Iyer has also essayed various other senior executive roles in United Spirits Limited. Prior to USL, Iyer was for eight years with the TTK Group.

CIABC is India's first and premier industry association representing the Indian Domestic Spirits and Wine organisations such as ABD Ltd, Radico Khaitan, Inbrew Beverages, Jagatjit Industries, Mohan Meakin, Khemani Distilleries, Modi Illva, Globus Spirits, Amrut Distilleries, Alcobrew Distilleries, SNJ Distillers, India Glycols, Sula Vineyards, Devans Modern, Piccadily Agro Industries, Tilaknagar Industries, Kyndal India, etc.