

Alcoholic beverages

Research Analysts:

Anand Mour

anand.mour@icicisecurities.com
+91 22 6637 7209

Aniruddha Joshi

Aniruddha.joshi@icicisecurities.com
+91 22 6637 7249

INDIA



Consumer

A growing market despite many hurdles

Reason for report: Key takeaways from meeting with expert

We hosted Mr. Shekhar Ramamurthy, Managing Director United Breweries (UB), in Mumbai to discuss developments in the Indian beer market. Key takeaways:

- ▶ **Indian beer industry.** Though India is a large liquor market, alcohol is largely consumed in the form of 'spirits' (distilled beverages). The revenue share of Indian Made Foreign Liquor (IMFL) is 65%, country liquor is 24%, and beer is 11%. The per capita consumption of beer in India is just 2 litres whereas global average is 70-80 litres, as a higher percentage of women and children do not consume alcoholic beverages. Contrary to global standards, ~85% of beer sold in India (urban and rural) is 'strong'. 'Strong' beer accounts for 84%, 65%, and 60% of consumption in Delhi, Mumbai and Bengaluru markets, respectively.
- ▶ **Distribution in India.** There are only 80,000 retail outlets selling beer in India and the number of outlets is stagnant. Various state governments are closing the liquor outlets near highways. Also, availability of cold beer is a challenge in various states. Hence, limited distribution creates a major hurdle for beer industry growth in India. Limited number of beer outlets is resulting in higher power of trade in beer industry compared to power of trade of FMCG industry.
- ▶ **Taxation of beer.** The government considers beer as IMFL for taxation. The state governments raise taxes on beer when economy is going through troubled times to limit raising taxes on other industries. Extended tough economic times are resulting in higher taxation for the beer industry. The panellist was of the view that roll out of GST may result in higher taxation by ~300bps on beer. Also the purchase of used bottles can attract a VAT rate of 18% compared to just 4% currently.
- ▶ **Ban on liquor in some states.** The panellist opined that the bans on consumption of liquor are unsustainable. If the ban is imposed but implemented poorly, it could result in smuggling/contraband of products.
- ▶ **Changing competitive landscape.** The competitive intensity has increased with the entry of Carlsberg and Tuborg. The new player, Carlsberg India is gaining market share but reporting losses of ~Rs2bn every year. UB remains the market leader in the beer industry with its market share in Off-trade and On-trade almost similar. Anheuser-Busch inbev (ABI) has 2.5% market share in India and SAB Miller has 20%. Merger of these two entities will increase the competitive intensity in India and the merged entity will have stronger distribution as well as manufacturing set up.
- ▶ **New products and segments.** The panelist indicated that investments are increasing in new segments of alcoholic beverages of the market. United Breweries has entered a new segment with the launch of Kingfisher Buzz which competes with Bacardi Breezer. Micro-breweries which are growing rapidly in Mumbai, Pune and Bengaluru are a new concept but still too small to have any impact on the beer industry.

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