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MARC Insights Alcoholic Beverages Industry

2023

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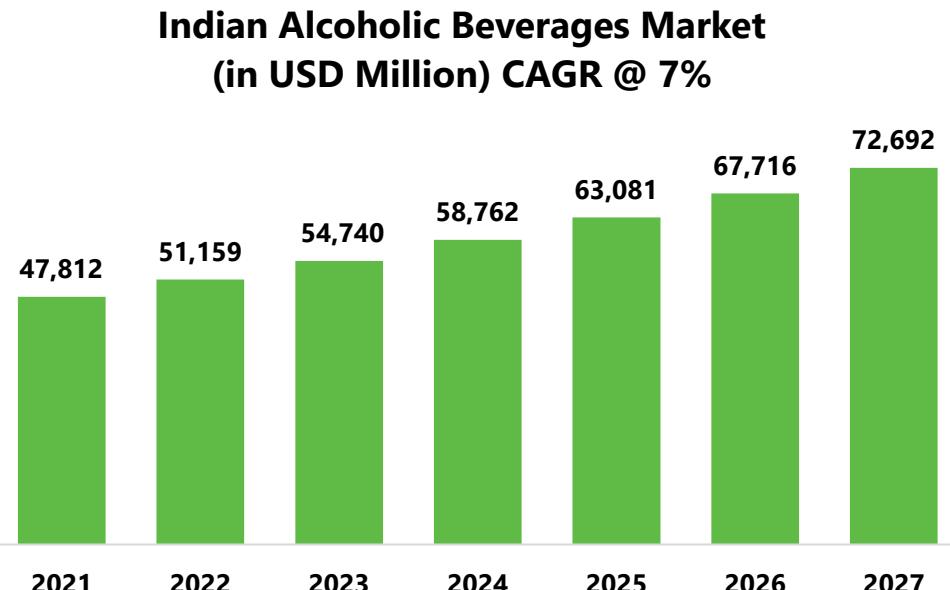
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Insight - India's Alcoholic Beverage Industry

5th

Revenue Generation

India ranks as the world's **fifth-largest market** in terms of revenue generated from alcoholic beverage sales.



Source: Future Market Insights



Growth Drivers

- Rapid urbanization.
- Thriving fine dining culture.
- Increasing Household consumption rate
- A sizable and expanding middle-class population.
- Increase in disposable income levels and rising purchasing power.
- Increase in the adoption of pub and cocktail culture.

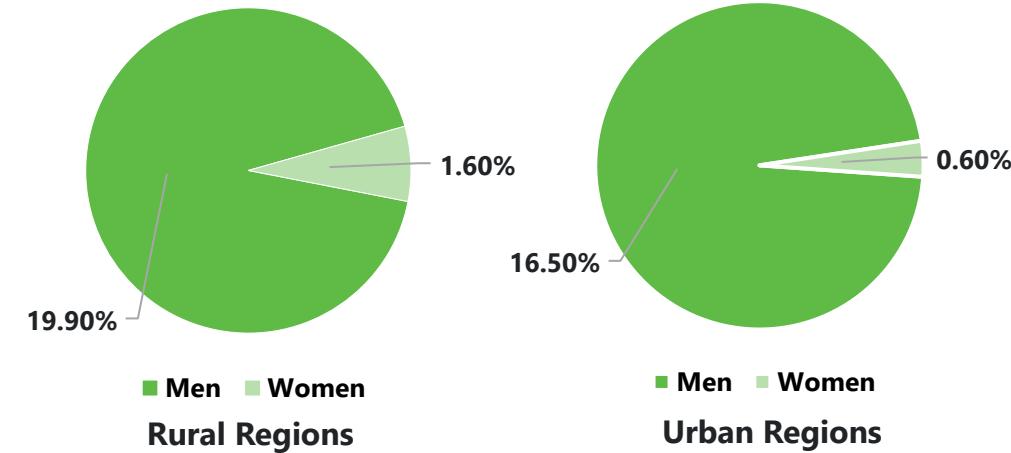
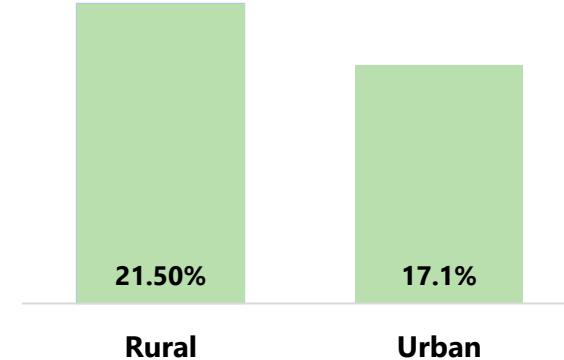


Challenges

- High tax impositions.
- Banned alcohol advertising.
- Bias towards premium and luxury segments.
- Restricted sale of alcohol during certain hours.
- Regulatory Barriers and rigid licensing systems.

Alcohol Consumption Statistics

Alcohol consumption in Rural vs Urban regions



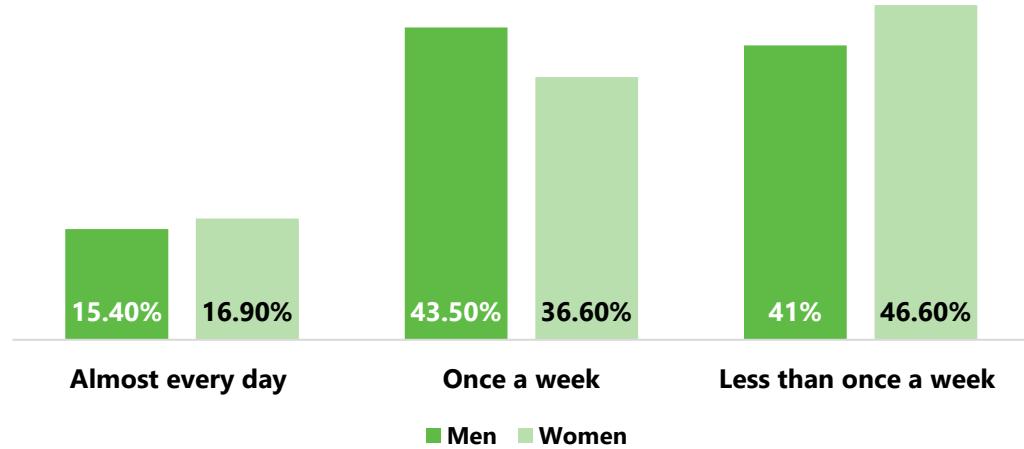
Source: National Family Health Survey 5 . Data collected from FY19 to FY21. The age of the population is 15+ years



Per capita Alcohol Consumption

India accounts for the **third largest market** for alcoholic beverages in the world having a per capita alcohol consumption of nearly **5.5 liters**.

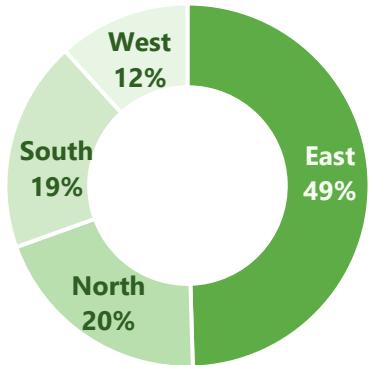
Alcohol consumption frequency



Regional Alcohol Consumption Patterns

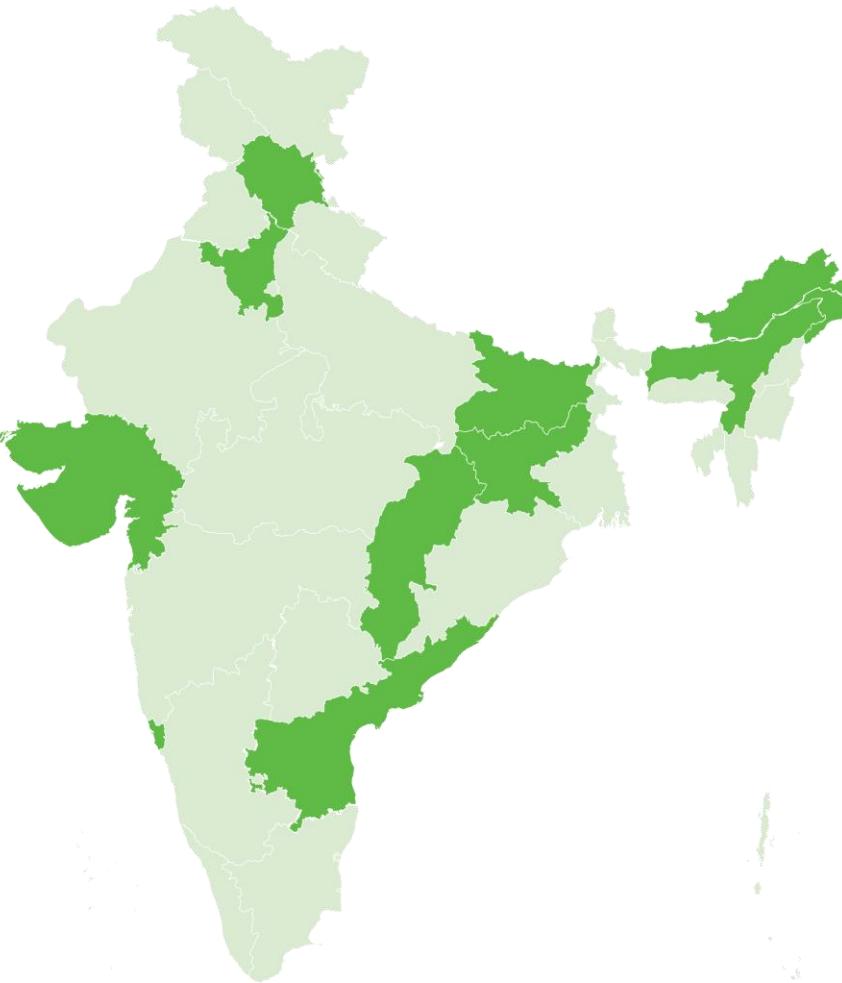
High consumption of Alcohol is found in the states of Arunachal Pradesh, Sikkim, Telangana, Goa, and Jharkhand.

Low consumption of Alcohol is found in the states of Uttar Pradesh, Maharashtra, Rajasthan, Gujarat, and Lakshadweep.



■ East ■ North ■ South ■ West

In the eastern region of India, alcohol consumption is recorded at 49%, whereas the western region reports a significantly lower alcohol consumption rate of 12%.



Name of State	Alcohol consumption (%)
Arunachal Pradesh	76.9
Sikkim	56.0
Telangana	50.0
Andaman and Nicobar Islands	44.1
Goa	42.4
Jharkhand	41.1
Chhattisgarh	39.8
Tripura	39.3
Manipur	38.4
Meghalaya	33.9

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*FY19-FY21 Alcohol consumption by the percentage of Men and Women (Addition) out of the total regional population.

Source: NFHS (National Family Health Survey-5)

Product Segmentation

The alcohol market in India is primarily divided into four categories:



Indian-made Foreign Liquor (IMFL): This term is used by the governments to designate the types of liquors that are domestically manufactured and includes drinks like Rum, brandy, whiskey, vodka, gin, etc.



Indian-made Indian liquor (IMIL) or Country Liquor: These are regional drinks that are locally produced. For instance, Feni is the most popular local drink which is produced in parts of Goa. Similarly, Mahua is prevalent in parts of Bihar, Bengal, and Jharkhand.

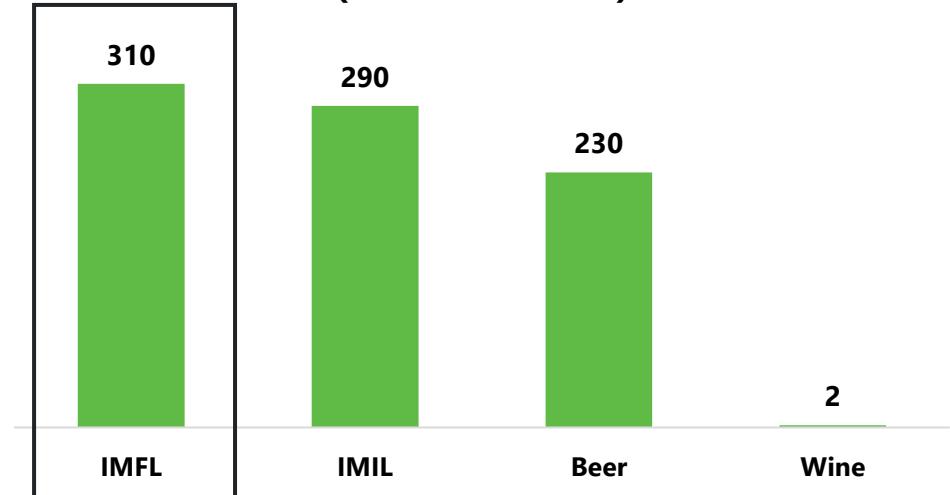


Beer: This segment comprises all sorts of beer, strong or mild. United breweries dominate the market with its Kingfisher beer.



Wine: It has three main types- red wine, white wine, and rose wine. India is also a huge market for wine that is both imported and produced in the country itself. Wine customers are mostly from the middle-class urban population. Maharashtra and Karnataka have the largest vineyards in India.

Market size of product segments as of 2021
(in Million cases)



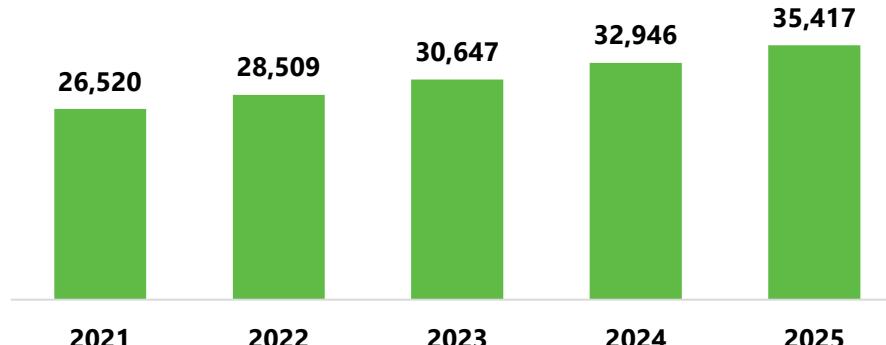
Source: Technopak analysis & Statista

IMFL holds the largest market share of the total market with 310 million cases while Wine held the least market share of 2 million cases in FY21.

*A case equals nine liters of alcohol (12 X 750 ml)

IMFL

Market Size of IMFL sector | (In USD Million)
CAGR @7.5%



Source: Statista

Top 4 Leading Brands in IMFL



Officer's Choice



McDowell's No. 1



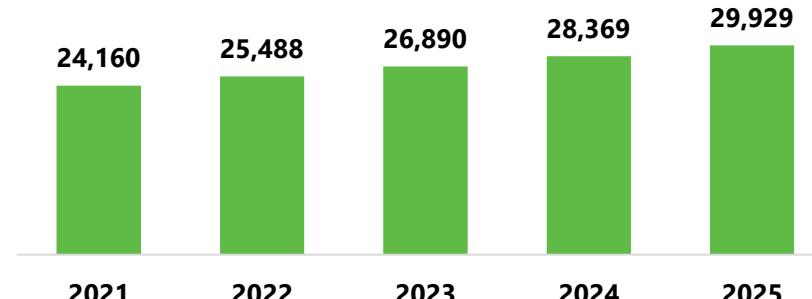
Royal Stag



Imperial Blue

IML

Market Size of IMIL sector | (In USD Million)
CAGR @5.5%



Source: Statista

Top 4 Leading Brands in IMIL



8 P.M



Mansion House



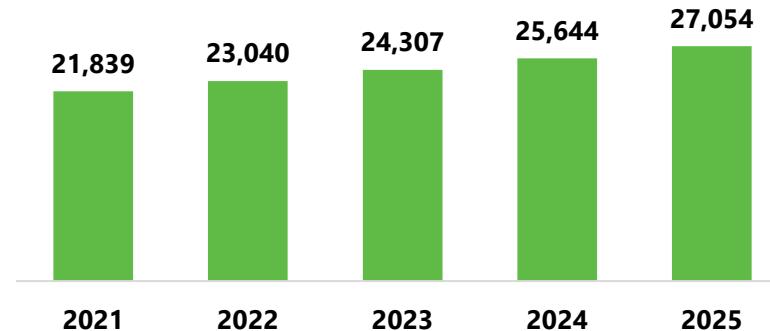
Golconda
Brandy



Amrut Fusion
Single Malt Whiskey

Beer

Market Size of Beer sector | (In USD Million)
CAGR @5.5%



Source: Statista

Top 4 Leading Brands in Beer



Kingfisher



Budweiser



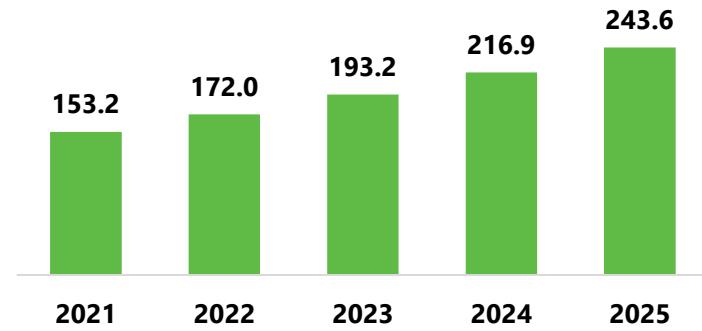
Carlsberg



Tuborg

Wine

Market Size of Wine sector | (In USD Million)
CAGR @12.3%



Source: Statista

Top 4 Leading Brands in Wine



Sula



GroverZampa



Four Seasons



Fratelli

Emerging Trends in the Alcohol Industry

Premiumization

The willingness of Indian consumers to spend on alcoholic beverages has driven the growth of premium and super-premium brands in the market.

Ready-to-drink cocktails

Amidst the surge in at-home entertaining, there's a rising demand for convenient pre-mixed cocktails, like canned gin and tonics or bottled Old Fashioneds, in India.

Online Retail

E-commerce for alcohol sales, particularly during COVID-19, offers convenience and diverse choices, gaining popularity.



Flavored Spirits

The demand for flavored spirits in India is rising as consumers seek unique taste experiences.

Craft Beers

The craft beer trend is growing in India, with an increase in microbreweries and artisanal beer brands, offering consumers variety and quality.

Health-conscious choices

As health and wellness gain prominence, there's a rising demand for healthier alcohol choices in India, including low-calorie options and drinks with natural ingredients.

Indian Startup Ecosystem

USD 1.2 Billion

Market size of Indian start-ups in the alcoholic beverage industry in FY23.

- Despite the pandemic, entrepreneurs have introduced innovative products, emphasizing authenticity and originality, leading to distinct niches in premium and semi-premium markets with local and traditional craft liquor.
- Indian start-ups are adopting advanced production techniques, promoting indigenous ingredients, and collaborating globally, positioning themselves as potential leaders in the global alcoholic beverage industry.
- Venture capitalists are increasingly investing in the Indian alcoholic beverage sector, with numerous start-ups securing substantial funding in recent years.

Regulations facilitating entry of start-ups in the Alcohol Industry



The government recently allowed **home delivery** of alcoholic beverages in several states including Maharashtra, Assam and others.



The Indian government's '**SAMPADA**' scheme aims to create modern infrastructure for the food-processing sector, including the alcoholic beverage industry.



Logistics infrastructure has been improved through the development of freight corridors and modernization of ports, facilitating the distribution of alco-bev products.



The government of India has streamlined licensing and registration procedures for alcohol-related businesses, **minimizing bureaucratic obstacles**.

Source: Times of India

Indian Startups in Alcohol Industry



Nao Spirits is a Delhi-based startup established in 2016 that has made a name for itself by producing artisanal gins and other spirits.

The startup has raised **USD 16 million** in 2022 from United Spirits.

The estimate post money valuation of the company is around USD 103 million.



Jimmy's Cocktails is a Mumbai-based startup established in 2019 that offers a range of ready-to-drink cocktails.

The startup has raised **USD 11 million** in 2022 in a bridge round ahead of its Series A, led by Roots Ventures and several start-up founders including Varun Alagh, Co-founder of Mama Earth. The post money valuation of the company jumped by 2.5x.



RockClimber is a Bengaluru-based startup established in 2019 producing a range of alcoholic/ non-alcoholic beverages.

The startup has raised **USD 1 million** in 2021 from angel investor Anand Sharma in a pre-Series A funding round and is targeting a revenue of over USD 83 million by 2024.

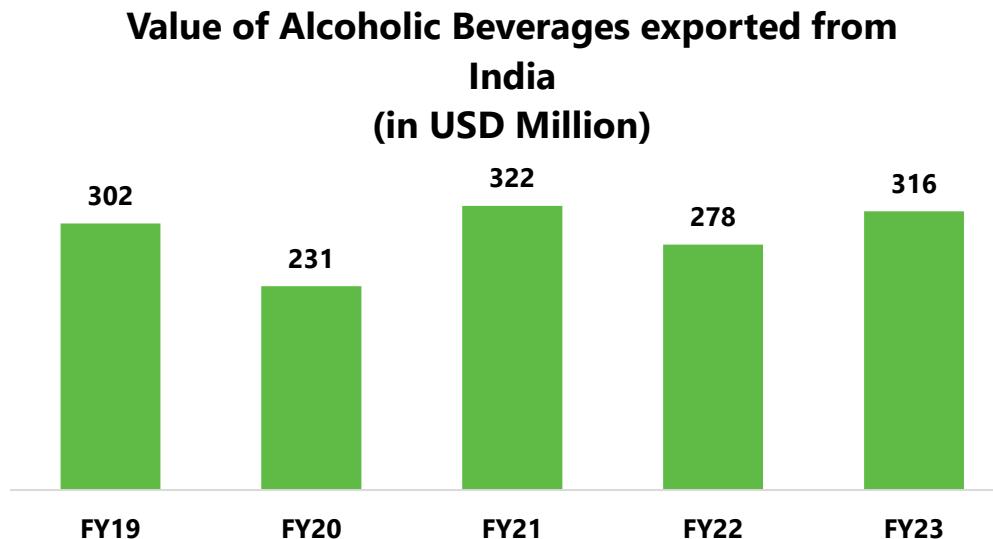


Salud is a Mumbai-based startup established in 2020 that produces premium quality tequila made from blue agave plants grown in the highlands of Jalisco, Mexico.

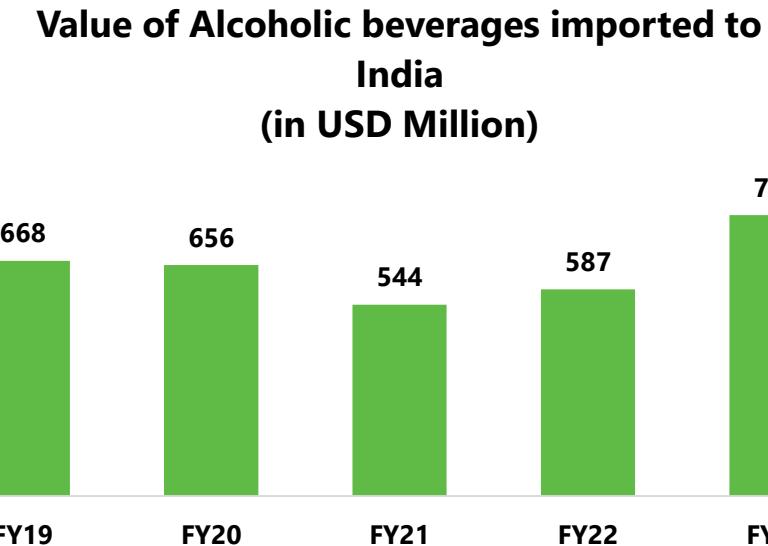
The startup raised **USD 1.1 million** in 2021 from actor Rana Daggubati, former managing director of Microsoft India Srinivas Koppolu, and Anthill Ventures.

Source: Startup Talky, Economic Times, Indian Retailer, F6s

Alcohol Trade Dynamics: Exports and Imports in India



Source: Statista



Source: Statista

- India imported maximum alcoholic beverages from the United Kingdom followed by United States and Singapore in FY23 whereas United Arab Emirates was the major export destination of Indian alcohol.
- The Confederation of Indian Alcoholic Beverage Companies (CIABC) Director-General Vinod Giri highlighted that the removal of non-tariff barriers in G20 nations such as minimum maturation condition for whisky will help in increasing exports of alcoholic beverages from India given their quality and suggested greater government support and promotion of Indian products abroad.
- CIABC also emphasized that India's exports of alcoholic beverages to G20 nations represent only 12% of its total alcohol exports, while G20 countries collectively import USD 56.8 billion worth of alcoholic beverages, with India's share being just USD 36.7 million as of 2022.

Source: The Telegraph India

Mergers and Acquisitions in Alcohol Industry

Seagram's joint acquisition by Diageo and Pernod Ricard – Dec 2000

Pernod Ricard and Diageo jointly acquired Seagram's spirits and wine business in a landmark deal in 2000, with Diageo acquiring **61.4%** stake and Pernod Ricard which acquired **38.6%** stake.

Sazerac and John Distilleries - January 2019

Sazerac, a U.S. spirits company, has acquired the remaining 20% stake in John Distilleries that was previously held by private equity investor Gaja Capital. This acquisition was made at a valuation of **USD 10 Billion**. As a result of this transaction, Sazerac's overall ownership in the company has increased to **43%**.

United Spirits and Diageo - July 2013

Diageo's acquisition of a **27.04%** stake in United Spirits enabled its significant presence in India's alcohol market and access to a diverse brand portfolio. The deal valued United Spirits at **20** times EBITDA.

Radico Khaitan and Radico Spiritz India– August 2021

Radico Khaitan approved the complete acquisition of Radico Spiritz at **Rs 10 per share** payable by cheque making it a wholly owned subsidiary of the company.

Source: Live Mint, Economic Times, Business Standard, New York Times

MARC's Key Takeaways

Premiumisation

Willingness to **spend higher** and consume a brand based on quality, taste and environment sustainability.

Growing demand for **premium and craft spirits**, low-alcohol and non-alcoholic beverages.

India's alcohol sector: An attractive investment

The conventional taboo around liquor consumption has diminished, leading to increased alcohol consumption within **family settings and among women**.

India has emerged as the most populous country, surpassing China. More than **88%** of Indians under the **age of 25** purchase or consume liquor.

Alcohol is now **easily accessible** through government-licensed outlets, government-run monopolies, private licensed retail chains as well as in restaurants and bars.

Currently, India is **Diageo's** second largest market and a major contributor to its global ambitions. Indian whisky consumption surged 200% in a decade, making India the **world's top whisky buyer**, surpassing France.

*Diageo is a leading British multinational alcoholic beverages company known for its extensive portfolio of popular brands.

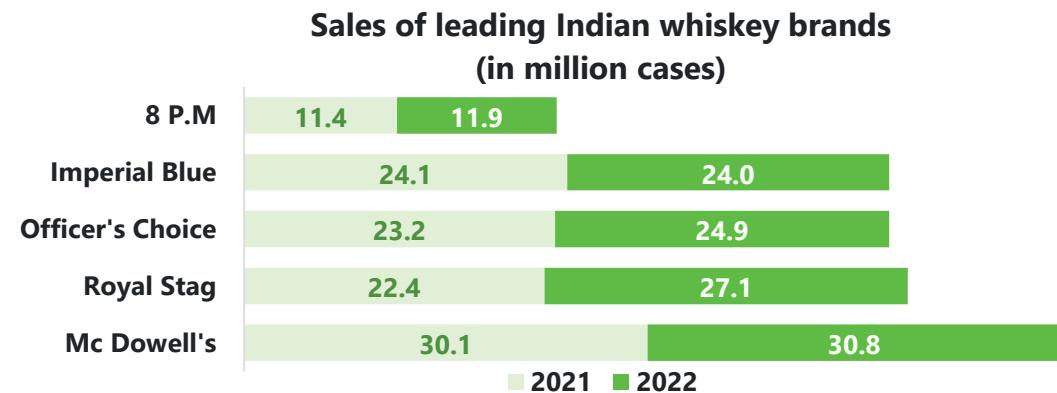
Source: MARC Analysis, Times of India, Lifestyle Asia, Annual Reports FY23: Globus Spirits, Associated Alcohol and Breweries Ltd.

Snapshot of the Indian Whiskey Industry

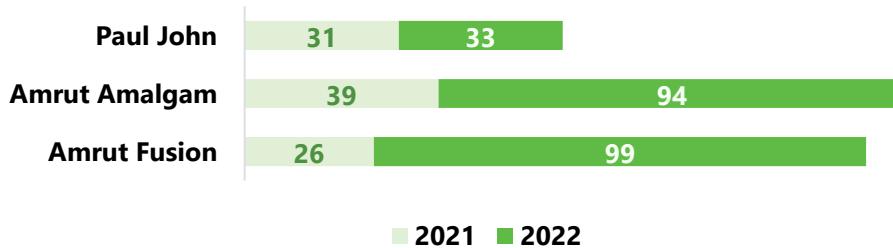


Factors driving growth

- **Emerging whiskey clubs in metro cities:** A trend transforming whiskey's image and attracting a new generation of enthusiasts eager to explore its rich history and flavors.
- **Higher angel's share:** In India, due to the higher evaporation rate known as the "angel's share," whiskey undergoes a more significant loss of alcohol during aging. This makes the whiskey's flavor more complex and deeper than that of Scotch whisky from Scotland.
- **Use of whiskey in cocktails:** Efforts to popularize whiskey in cocktails are underway, aiming to make it more appealing to younger consumers and the female market, with emerging trends showing that women in India's higher social strata are developing a taste for top-end whiskies.



Sales of leading Indian single malt whiskeys (In '000 cases of 9 litres)



Source: Statista, The Economic Times, The Spirits Business, The Week, IWSR

Leading Indian players and bestselling whiskey brands globally



UNITED SPIRITS
A DIAGEO Group Company



Source: Forbes, Expert Market Research



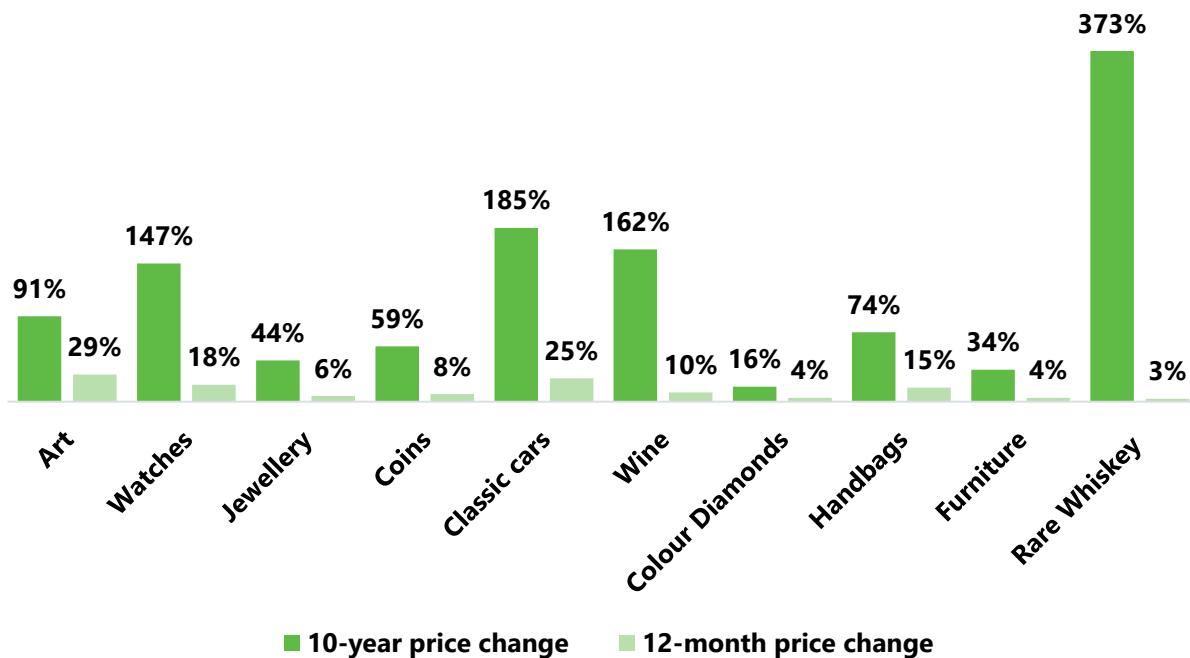
12 out of 25 bestselling Whisky brands in the world are Indian Brands.

Whiskey as an Investment Avenue



With **373%** growth in the past decade, rare whiskey is by far the highest performing luxury investment.

The Knight Frank Luxury Investment Index 2022



*The Knight Frank Luxury Investment Index is a globally recognized benchmark that tracks the performance of a basket of luxury assets.

Source: Forbes, Whiskey Partners, Hackstons, SCMP, Knight Frank Wealth Report 2023

- Whiskey as an asset is a tangible investment, making it ideal for passion investors who can enjoy it personally, gift it, or sell it. Historically, it has demonstrated impressive returns, averaging around **12-15%**.
- Investing in a cask is generally more advantageous as it captures the whisky's **maturation potential**, but it involves considerations like storage, maintenance, and other risks.
- The Macallan The Reach, 81-year-old single malt was the highest selling whiskey at a value of **USD 300 thousands**.
- The Platinum Whiskey Investment Fund was one of the world's first private equity funds to focus on rare, single-malt whiskies. From an initial funding of USD 12 million in 2014, the fund generated net proceeds of **USD 26 million** in 2021 when it was liquidated - a gross annual rate of return of 17%.

Growing Appetite for Homegrown Brands

The sales of Indian single malts are **surging**, driven by a new generation that is embracing a **shift away from traditional beliefs** regarding the superiority of imported brands.



With Prime Minister Narendra Modi's '**Vocal for Local**' campaign, it is certain that IMFL will continue to witness higher demand with home grown brands having a definite edge over international ones in the Indian market.

International giants are recognizing the growing demand for Indian single malt whiskies within India. Brands like **Godawan, Paul John, Amrut, and Rampur**, which were introduced internationally a few years ago, are now gaining a substantial share of the domestic market.

Indri Trini, Piccadi Agro's new Indian single malt from the northern state of Haryana, was launched in 2021 and has already won international awards. It has been picked as the best whisky brand in the world by Whiskies of the World.

Sales of Indian single malt whisky have surged 2.4 times to reach **281,000** cases, nearly catching up with the 35% growth in Scotch single malt sales, which reached **296,000** cases.

* Single malt whiskey is made exclusively from malted barley, must be distilled at a single distillery and aged for at least three years.

* Source: IWSR, The Guardian, Times of India, Times Now

Technological Advancements and Innovation



A new kind of aging

- **Smaller Barrels and UV Light:** Some companies use smaller barrels to increase oak contact, accelerating maturation. Heat and UV light break down alcohol molecules faster, expediting aging.
- **Pressure aging:** Some companies use pressure aging, which shortens the aging process by using intense pressure in stainless steel tanks to push young spirits in and out of wood, which gives the whiskey its flavor.



Filling the whisky casks

- **Cask filling:** Diageo has created an advanced cask filling technique which involves a cutting-edge mechanical station and digital system that will eventually replace traditional cask filling methods.
- **Primary goal:** Automating this process addresses the issue of inconsistent filling levels in casks, caused by either overfilling or underfilling. The new technology ensures precise control over the quantity of liquid entering each cask.



Paper bottles

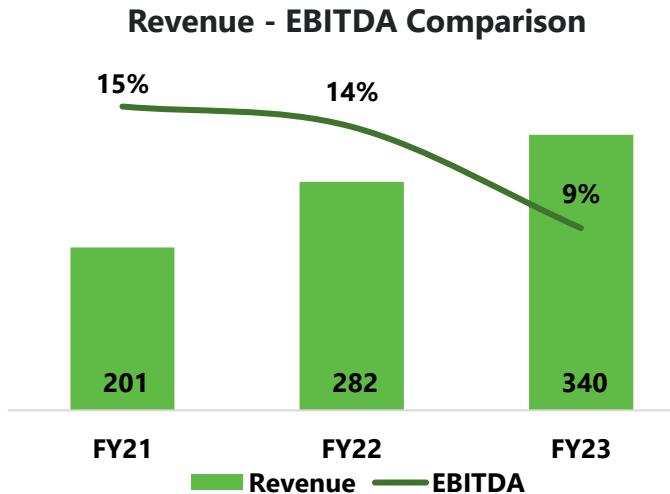
- **Paper bottles:** Diageo developed a revolutionary paper bottle that is entirely free of plastic in 2021 which was first utilized for Johnnie Walker whisky.
- **Sustainable development:** The decision to use this bottle for one of the world's most renowned Scotch whiskies, Johnnie Walker, represents a significant step forward for the whisky industry in its commitment to sustainability and environmentally-friendly solutions.

Source: CNBC, The Whiskey Wash, Forbes, Stil Novisti

Profit & Loss Snapshot

Particulars (in USD Million)	Actuals			Common size			Variance	
	FY21	FY22	FY23	FY21	FY22	FY23	FY22	FY23
Revenue From Operations	201	282	340	100%	100%	100%	40%	20%
Consumption	78	100	152	39%	35%	45%	29%	52%
Expenses								
Excise duty on sale of goods	53	92	86	26%	33%	25%	73%	-7%
Power and fuel	14	18	35	7%	7%	10%	33%	91%
Bottling expenses/fees	8	10	10	4%	4%	3%	29%	-2%
Employee Benefit Expenses	5	6	8	2%	2%	2%	30%	30%
Other Expenses	14	16	19	7%	6%	6%	19%	18%
Total Expenses	171	243	310	85%	86%	91%	42%	28%
EBITDA	31	40	30	15%	14%	9%	29%	-25%

Source: Audited Financials & MARC Analysis

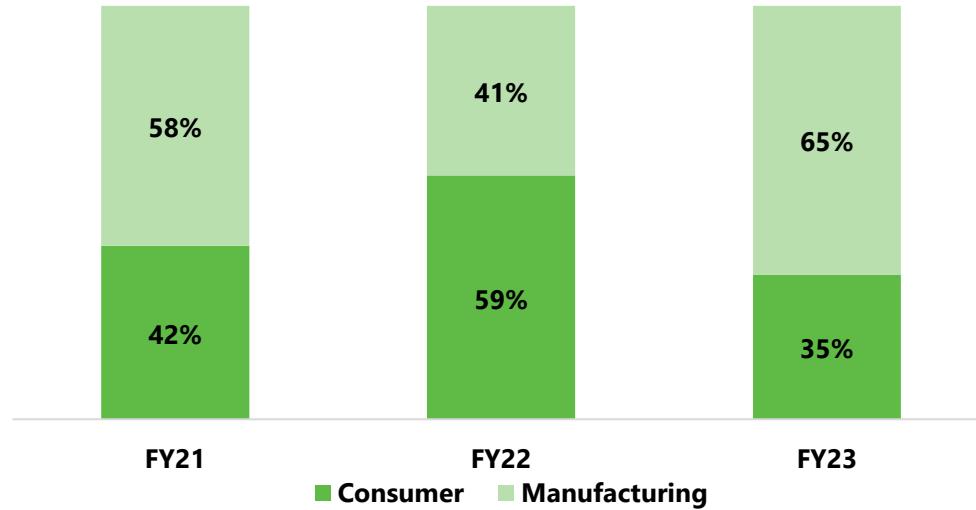


Although the company achieved YoY revenue growth from FY21 to FY23, the EBITDA declined due to rising costs of key expenses such as Consumption and Power & Fuel cost.

- Revenue from operations is bifurcated into revenue from consumers and revenue from manufacturing. In FY23, revenue from operations increased by 20% from USD 282 million to USD 340 million.
- The increase in revenue was primarily due to a growth in revenue from manufacturing by 91% from USD 116 million in FY22 to USD 221 million in FY23.
- Consumption cost as a % to revenue stood at 35% in FY22 and increased to 45% in FY23, primarily due to an increase in the per ton cost of grain from USD 200 in FY22 to USD 232 in FY23.
- Excise duty on sale of goods increased significantly by 73% in FY22 from USD 53 million in FY21 to USD 92 million in FY22 due to a hike in excise duty rates across various states.
- Power and Fuel expense as a % to revenue increased from 7% to 10% from USD 18 million in FY22 to USD 35 million in FY23 due to increased cost of coal.

Key Metrics

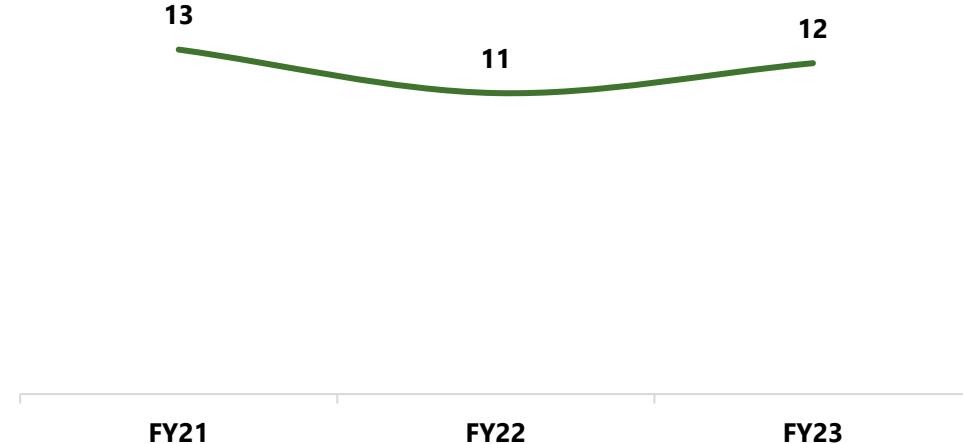
Segment wise revenue split



Source: Audited Financials & MARC Analysis

- Manufacturing business revenue comprises of bulk alcohol manufacturing, third party bottling and by-products.
- Consumer business revenue comprises largely of Value segment (IMIL) and Premium Segment (IMFL).
- In FY23, revenue from manufacturing increased by 14% in comparison to FY22. This increase was due to the government's focus on ethanol blending which will continue to drive demand in bulk alcohol.

Inventory Turnover Ratio

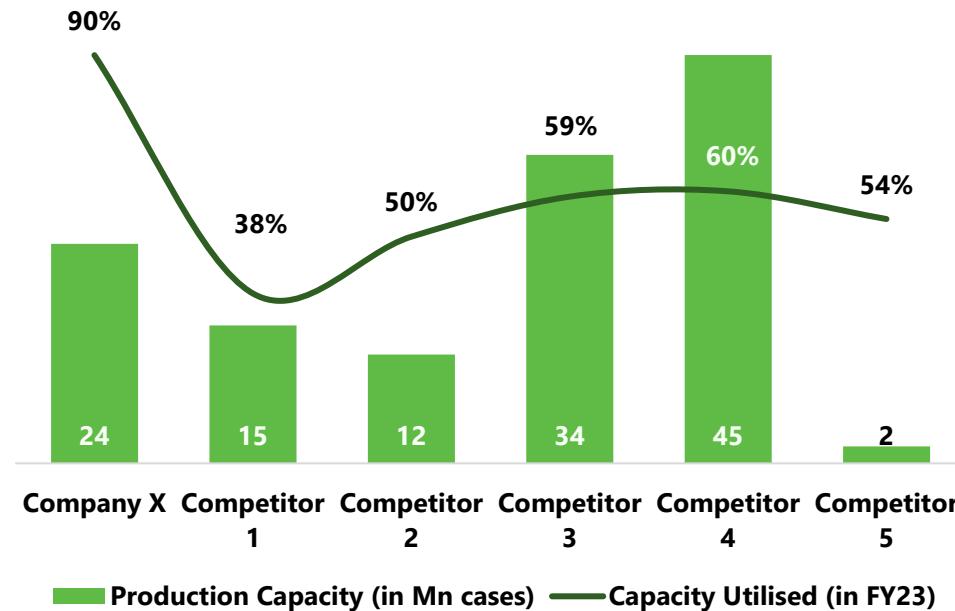


Source: Audited Financials & MARC Analysis

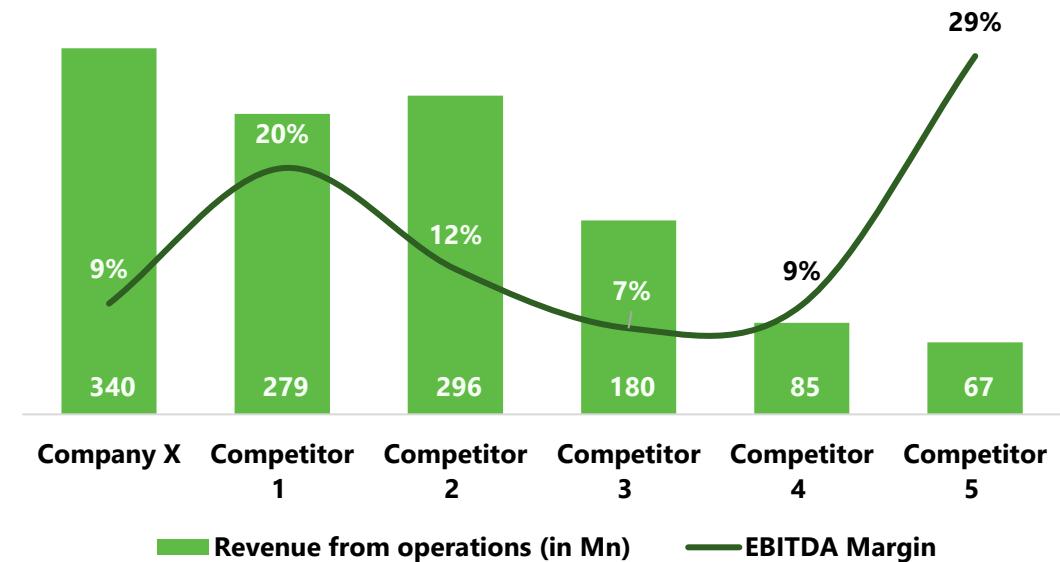
- The inventory turnover ratio is calculated by dividing the cost of goods sold (COGS) by the average inventory value.
- In this case, the company's inventory turnover ratio decreased marginally from 13 in FY21 to 11 in FY22 before increasing to 12 in FY23. The decline from FY21 to FY22 suggests a longer inventory holding period, while the subsequent increase in FY23 indicate slightly improved inventory management.

Competitor Analysis

Production Capacity v/s Capacity Utilised



Revenue from operations v/s EBITDA Margin



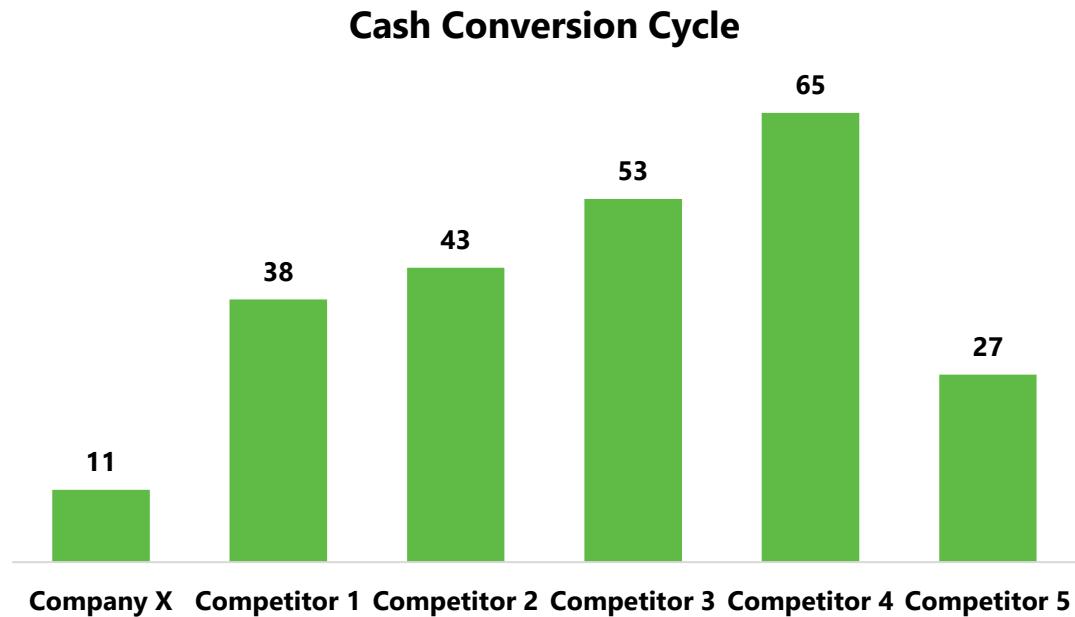
Source: Audited Financials & MARC Analysis

- Company X stands out with a 90% capacity utilization of its substantial 24 million case capacity, reflecting strong demand and efficient operations.
- Competitor 4 also performs well at 70%, while other competitors have room for capacity optimization to improve their efficiency and competitiveness.

Source: Audited Financials & MARC Analysis

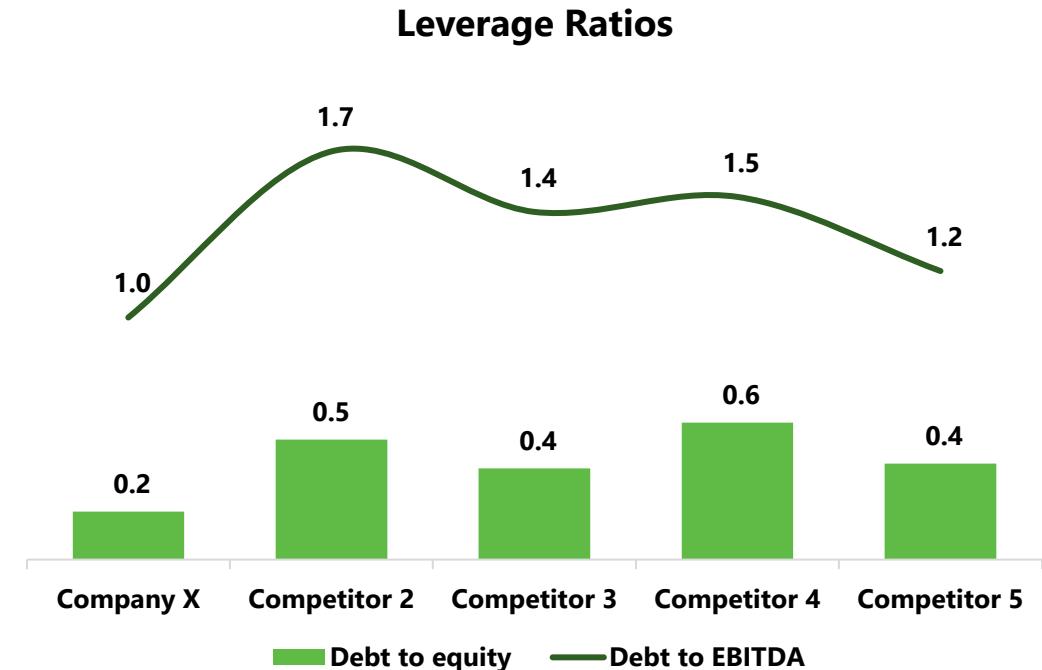
- Company X generated the highest revenue from operations in FY23. However, it had a lower EBITDA margin at 9% amongst its competitors.
- Pertinent to note that, on the contrary, competitor 5 generated the least revenue, however it had the highest EBITDA margin due to a strategic focus on premiumization and reduced sales of non-profitable third-party brands.

Competitor Analysis



Source: Audited Financials & MARC Analysis

- The cash conversion cycle (CCC) measures how long it takes for a company to turn its investments into cash.
- Company X and Competitor 5 have the shortest CCC at 11 and 27 days, respectively, suggesting efficient working capital management. Competitors 1 to 4 have longer CCCs, potentially indicating less efficient cash flow management and extended inventory holding periods.



Source: Audited Financials & MARC Analysis

- The debt-to-EBITDA ratio measures the amount of income available to pay debt before a company accounts for interest, taxes, depreciation, and amortization expenses whereas debt-to-equity ratio shows how much debt a company has compared to its assets.
- It is pertinent to note that Competitor 1 is a zero-debt company.
- The observed debt-to-EBITDA ratios of the companies mostly fall below the recommended minimum threshold of 1.5, with an exception for Competitor 2.



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