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## INDUSTRY OUTLOOK

### INDIAN LIQUOR INDUSTRY: IN HIGH SPIRITS

27 January 2023

"Alcohol is with us from the cradle to the grave, in the baby's rattle and the embalmer's fluid" 1

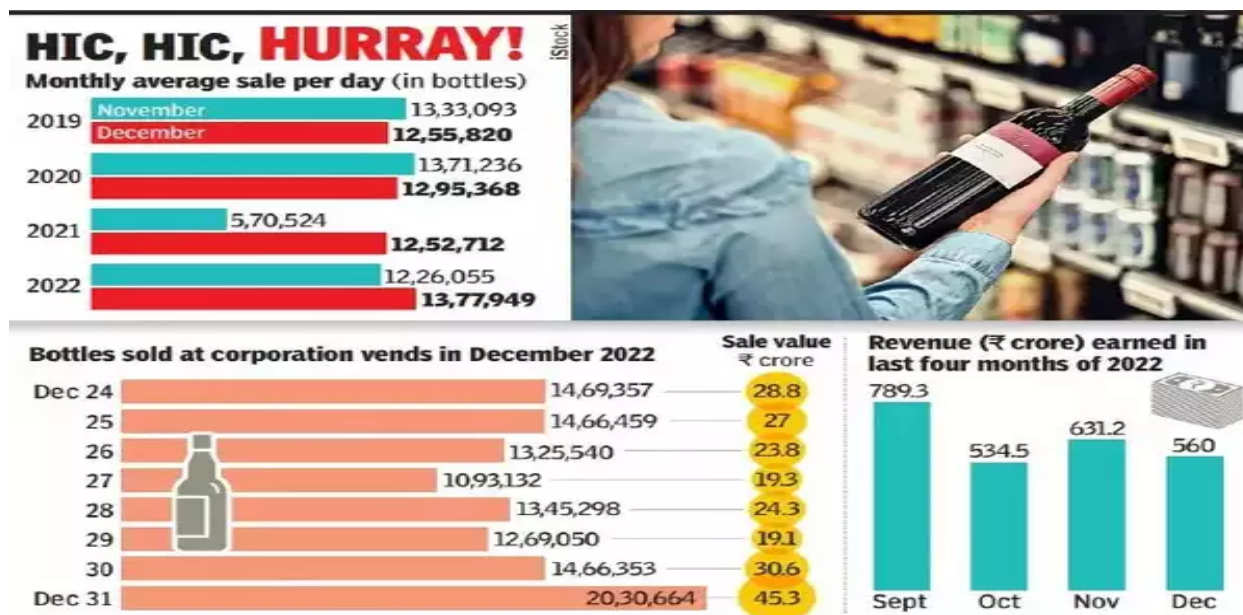
## Introduction

Prior to Covid-19, India ranked among the most attractive Alco-Bev (Alcoholic-Beverage) markets in the world. The alcoholic beverage industry and the liquor products it offers have been closely associated with social gatherings, celebrations, and festivities down through the ages. This was disrupted by the pandemic. The pandemic significantly changed people's lifestyle, both positively and negatively. Consumers realized the harmful consequences of drinking in contracting the ailment. But they stashed alcohol, implying that this industry will largely be impervious to the downturns of a volatile era.

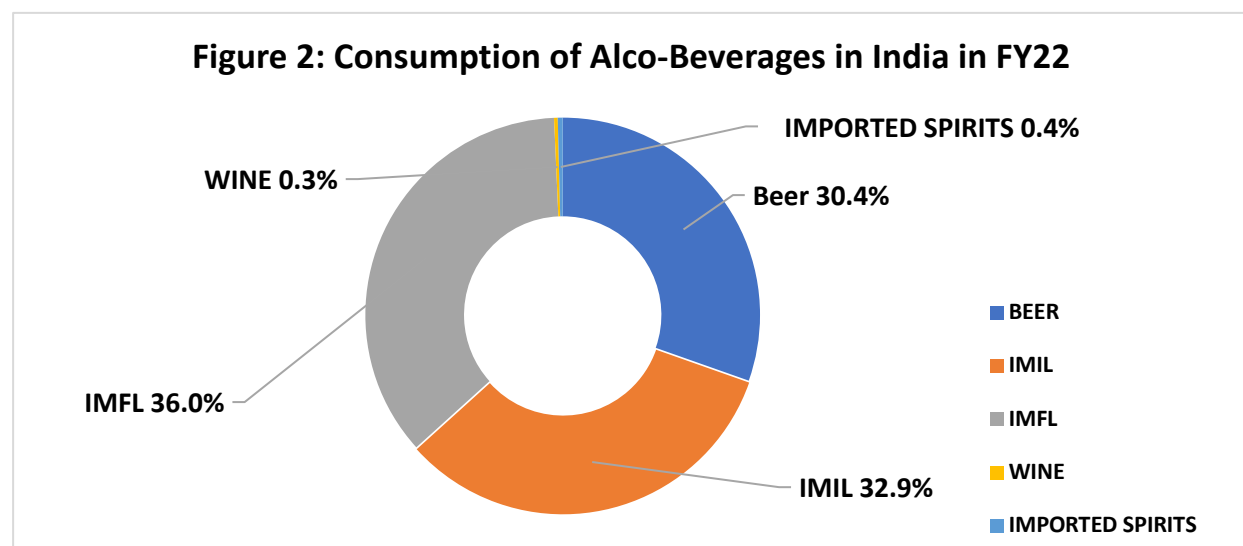
The crisis intensified some of the harmful consequences for alcohol use. The demographic dividend is the largest opportunity for growth in the Alco-Bev business. Currently, 33% of India's population is of drinking age, and that number is expected to swell to 39% soon. Indian Alco-Bev market size is estimated to be more than ₹ 2.6 lakh crore in FY22 making it the third largest markets in the world, i.e., after China and Russia. It is expected to grow at a compound annual growth rate (CAGR) of 7.7% by volume and 12% by value in FY25.



**Consumption pattern:** The states of Karnataka, Maharashtra, West Bengal, Odisha, Telangana, Delhi, Haryana, Punjab etc. are amongst the largest consuming states for Alco-Bev in India. The most popular channel of Alco-Bev sale in India is liquor stores as its consumption is primarily an outdoor activity and supermarkets and malls are present only in the tier I and tier II cities of India. Alcohol consumption in the world is divided into three major product categories i.e., Spirits, Beer, and Wine. Combined consumption of both un-distilled Alco-Bevs (Alcoholic beverages) i.e., Beer and Wine are almost as equal to the consumption of the distilled Alco-Bev, which is around 45%. During Covid, the Indian alcohol market observed lockdowns, higher restrictions, and higher taxes, post-covid driven sales, and changes in distribution patterns, etc. India also exports alcohol despite its high consumption. As per the Excise data from Delhi Government, a record 1.14 crore liquor bottles worth ₹ 218 crore were sold in the National Capital Territory (NCT) of Delhi during the Christmas week<sup>1</sup>. From Diwali to New year's, the sales figures rose by 2 lakhs.



**Figure 2: Consumption of Alco-Beverages in India in FY22**



Source: Liquor industry Report 2022.

Available at: <https://www.abdindia.com/media/htgiv1ie/industry-report-21-jun-2022.pdf>

**Dynamic regulatory environment:** In 2020, the Government in the State of Andhra Pradesh has changed the route to market by setting up state managed retail outlets and discontinuing private retailers. In contrast, the State of Chhattisgarh rolled back the decision to go from Government controlled to private parties. This decision is expected to provide an impetus to the industry.

**Growing prevalence of premium Alco-Bev:** Rapid urbanization is expected to enhance disposable income, which is favorable for the growth of the industry. With more Indians traveling abroad, rising aspirations, favorable environment for imported liquor and higher disposable income, consumers are upgrading towards premium segments in the country. The rise in premiumization is evident in the increased focus of the big players on semi-premium and premium categories with an increase in launches and increased marketing of these categories. Another trend, which is gaining traction in the Alco-Bev space, is the growing popularity of grain-based liquor as against traditionally popular molasses - based liquor.

During 2021-22, there was a change in route to the market in Delhi. States like Maharashtra and West Bengal reduced the prices of imported liquor by slashing liquor levies. Maharashtra government has recently decided to upgrade the liquor as browsable outlets of other cities such as Gurgaon, Hyderabad, and Kolkata, provide a superior consumer experience.

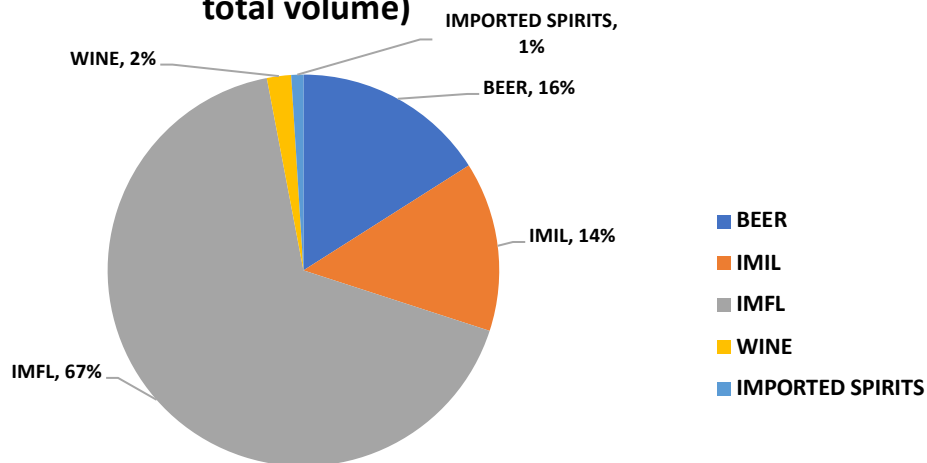
The Indian alcohol industry is comprised of mainly - Indian Made/Manufactured Foreign Liquor (IMFL), IMIL (Indian Made Indian Liquor), Wine, Beer, and Imported Alcohol. The ready-to-drink (RTD) alcohol category, which includes hard seltzers, flavored alcohol beverages, and pre-mixed cocktails, is under rapid transformation across leading global markets, with volume growth out-pacing that of other beverage alcohol categories. This segment is likely to attract the Indian consumer.



According to Euromonitor International, IMFL volume is expected to reach 353 million cases in CY25. During the CY21-25 period, IMFL sales volume is expected to grow at a CAGR of 4.2%. During the same period IMFL industry value is expected to grow by 4.6%. The vodka industry is expected to perform better during the same period with volume growth of 5.6% and value growth of 11%. As a result, the *per capita* income of individuals will also increase, which will lead to an increase in urbanization. Consequently, there have been cases of surging sales because of pent-up demand post the epidemic and people committing them to exclusively consuming high-grade alcohol. Premiumization has occurred.



**Figure 1: Market Share (by Volume) of Indian Alcoholic Beverages (% of total volume)**

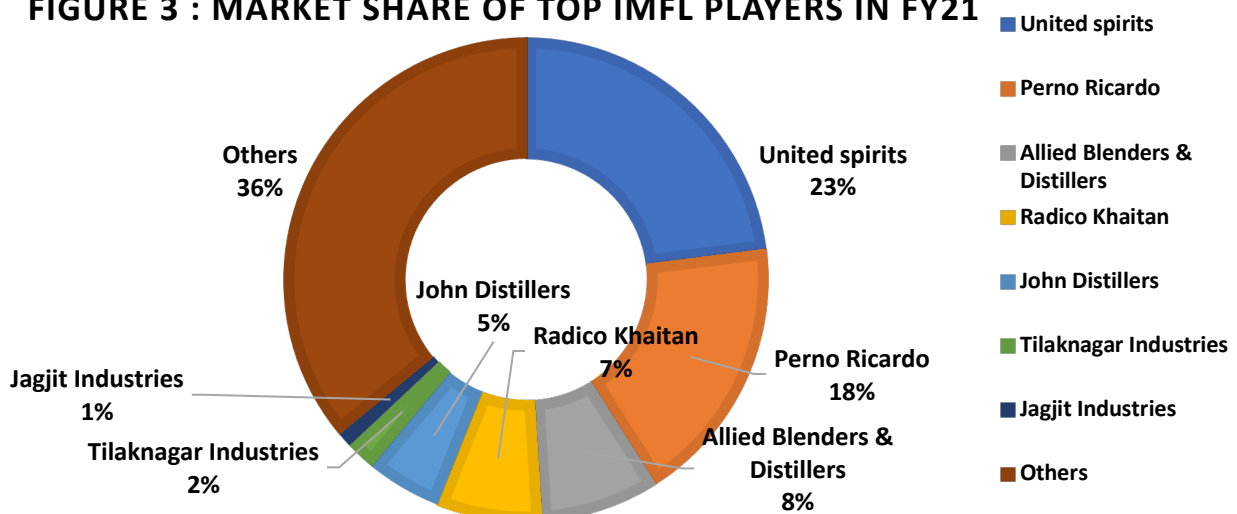


Source: Liquor industry Report 2022. Available at: <https://www.abdindia.com/media/htgiv1ie/industry-report-21-jun-2022.pdf>

## Indian Made/Manufactured Foreign Liquor (IMFL)

IMFL contributes around 66% to overall Indian Liquor market. The price of Beer rose sharply in the past five years. The higher Beer prices changed the pattern of consumption in favor of Brown liquor. The IMFL category includes drinks like Brandy & Cognac, Rum, Whiskies, White Spirits, and Others. Traditionally, brown spirits which include Whisky, Brandy, and Dark Rum, have been the major contributors to the overall IMFL sales volume, whereas whisky, which accounts for two-thirds of the overall market, grew by 17% despite a high base, while brandy, the second biggest category, expanded by 37%. According to the Excise data<sup>2</sup>, Rum and Vodka grew by 41% and 55%, respectively, and Gin sales surged by 129%, although on a low base.

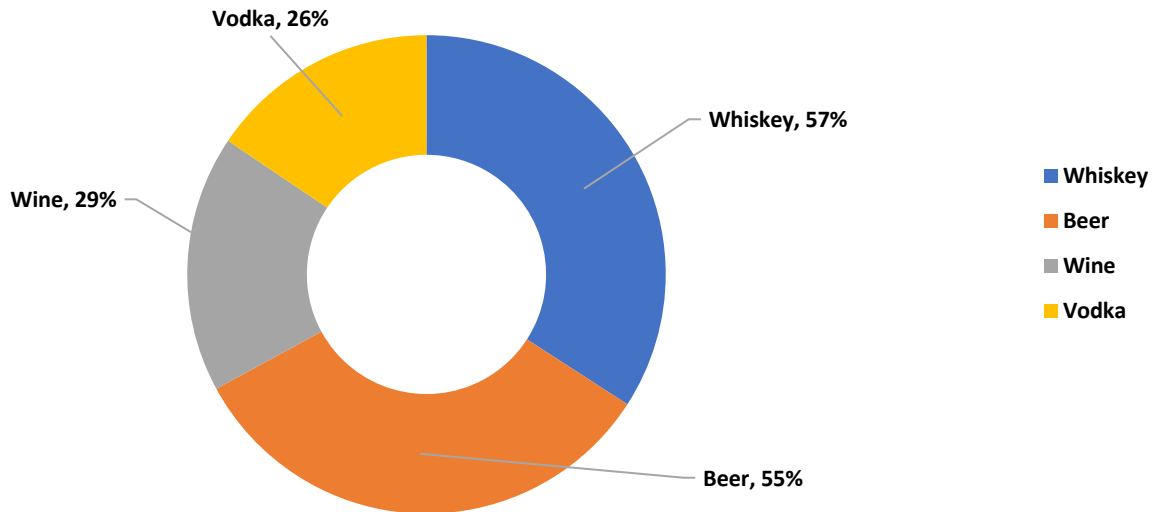
**FIGURE 3 : MARKET SHARE OF TOP IMFL PLAYERS IN FY21**



According to Euromonitor International, during CY20 overall IMFL volumes declined as much as 18% to 274 million cases of 9 liters each due to restrictions on mobility of people and closing/operational hour restrictions on restaurants/bars/pubs, but the sales rose by 13% to 353 million cases in 2022. The consumption of IMFL rose by 17.97% from 1,999.25 lakh bulk liters (LBL) in 2020-21 to end at 2,358.60 LBL in 2021-22.

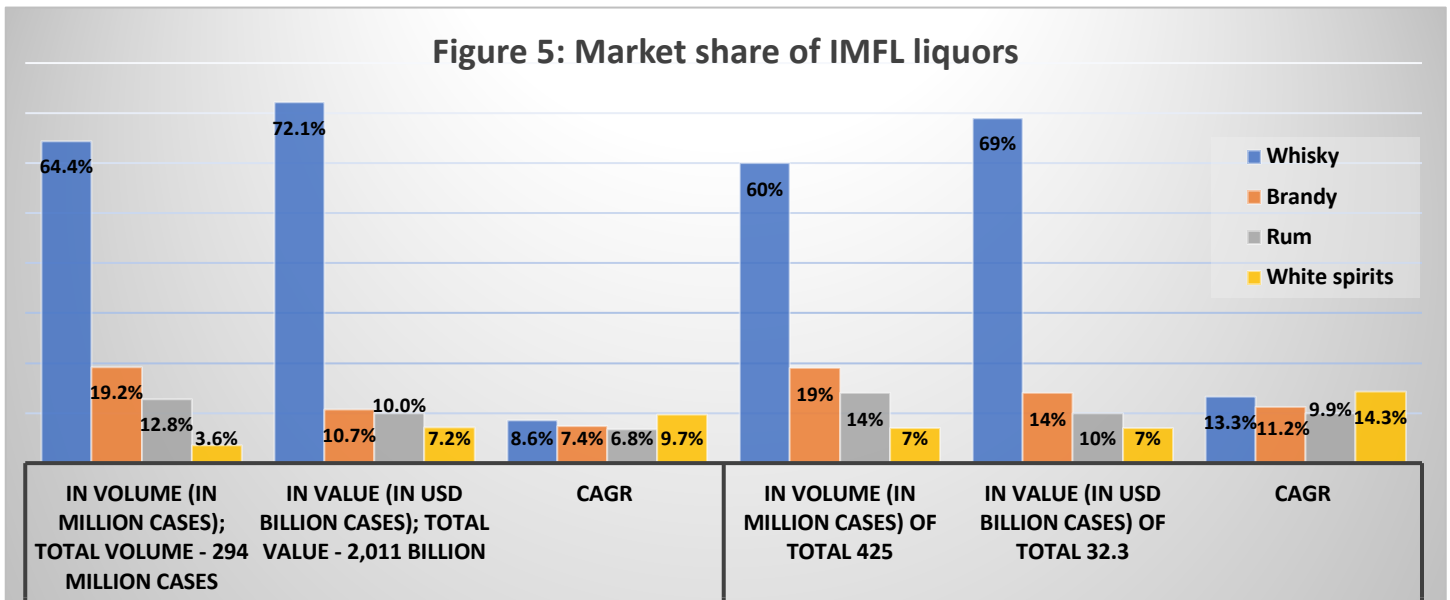


**Figure 4: Average Consumption of IMFL (%)**



During CY20, Whisky constituted the largest segment with 65.4% of the sales volumes and 74.2% of the value. The largest segment of the industry also suffered severely with a volume decline of 16.3% and value degrowth of 22.7%. White Spirits such as Vodka and Gin account for 3.6% of the total IMFL volumes and 6.8% of the value indicating a premiumization trend. Major players operating in the India alcohol market include United Spirits Limited, Tilaknagar Industries Ltd, Jagatjit Industries, Mohan Meakin, Globus Spirits, Allied Blenders and Distillers Pvt., SAB Millier, Radico Khaitan Limited, Khemani Group, SOM Distilleries and Breweries, and Carlsberg A/S.<sup>3</sup>

**Figure 5: Market share of IMFL liquors**



**Source:** Projections from Liquor industry Report 2022. Available at: <https://www.abdindia.com/media/htg1v1e/industry-report-21-jun-2022.pdf> and Data of CY21 is from Annual report for FY22 of Radico available at: <https://www.bseindia.com/bseplus/AnnualReport/532497/76509532497.pdf>



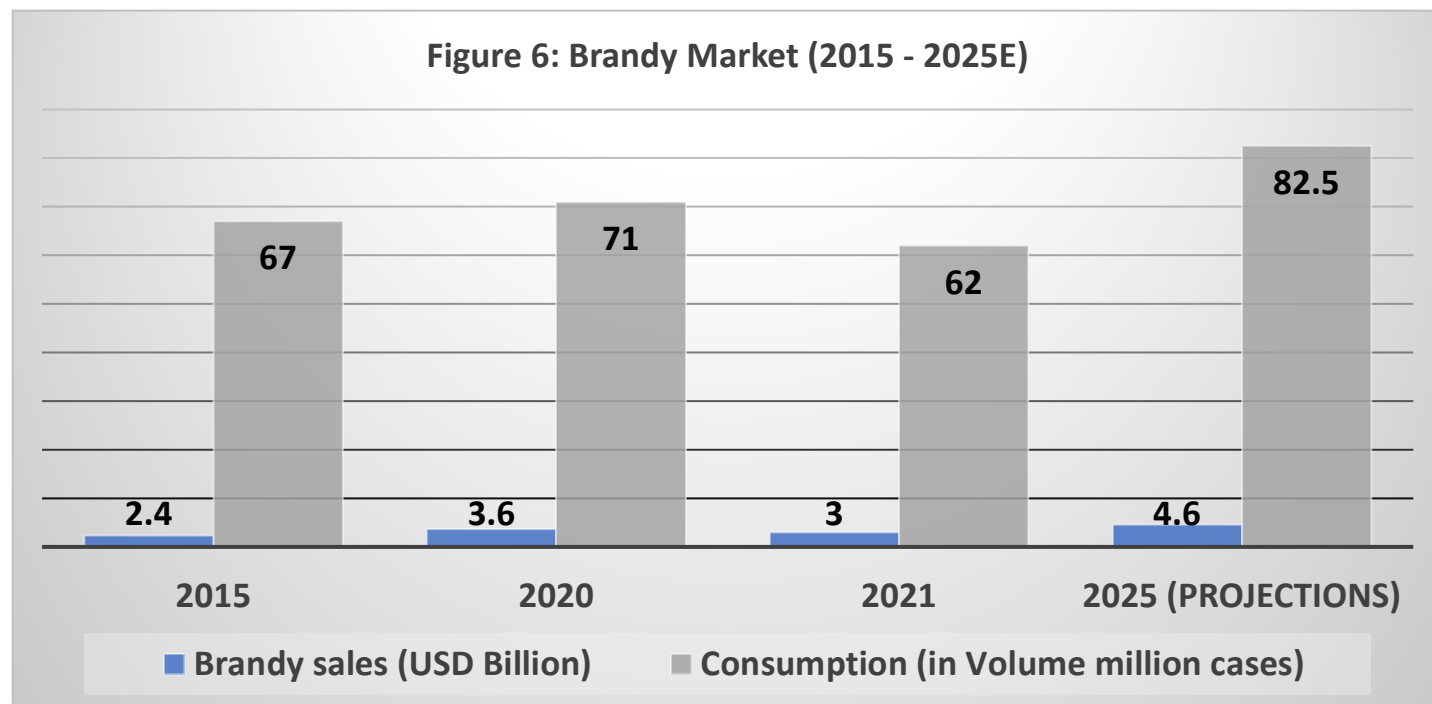
India is responsible for producing thirteen of the world's best-selling whisky brands, with these labels ranging from inexpensive spirits to blends and single malts of the most exclusive category. Some of the top Indian whisky players are United Spirits Limited, Pernod Ricard India (P) Ltd., Radico Khaitan Ltd., Jagatjit Industries Limited, Allied Blenders & Distillers Pvt. Ltd.'s, In-brew Beverages, etc. They categorize their Whisky based on raw materials like malt, wheat, rye, etc., on quality like premium, high-end premium, super premium, etc., on size like 180 ml, 375 ml, 750 ml, and others. Some of the top foreign Whisky brands in Indian market are Chivas Regal, Johny walker, Black Dog, Vat 69, 100 pipers, etc. UAE is the highest importer of Whisky from India.

Table 1: Bestsellers Indian Whisky Brands in 2021 (% growth of sales in 2021 over 2020)		
Sr. No.	Brand Name	% Change in sales
1	McDowell's No 1 Whisky	17.2%
2	Imperial Blue	13.4%
3	Officer's Choice	11.5%
4	Royal Stag	20.8%
5	Haywards	24.2%
6	8 PM	21.2%
7	Blender's Pride	20.8%
8	Bagpiper	6%
9	Royal challenge	8.8%
10	Old Tavern	-3.3%

Source: <https://www.thespiritsbusiness.com/2022/06/top-10-best-selling-indian-whiskies/>

## BRANDY

As per *Food Safety and Standards of India* (FSSAI)'s regulations 2018, it is a distillate made from wine or fruit juices, which is consumed mostly in winters, but surprisingly its sales are lesser in the eastern region (comparatively colder regions) vis-à-vis western states.<sup>4</sup> The South Indian states specially Tamil Nadu, Karnataka, Andhra Pradesh, etc. account for almost 60% of the total brandy sales in India.



Source: Projections from Liquor industry Report 2022.

Available at: <https://www.abdindia.com/media/htgiv1ie/industry-report-21-jun-2022.pdf>

The market share in Kerala is captured by Brandy sales, which is around 51%. It has a wide range of varieties like Cognac, Pomace, Armagnac, etc. It is the second most consumed drink in the Indian market with a market share of 19.1% in volume. Major players that dominate Indian Brandy market are same as Whisky market, i.e., as detailed in Table 1. India exported 2.4 million liters to 24 countries in CY20 out of which Singapore was the largest importer, whereas France is the highest exporter of Brandy to India.



## RUM

Rum is liquor made from fermenting sugarcane molasses or its juice. IMFL Rum segment contracted in Covid-19 and became a segment with USD 2.2 billion in FY21 from USD 2.5 billion in FY20. They are of two types, i.e., Dark and Light, Dark being the most preferred Rum. Old Monk is the oldest and most popular blend in India. Historically, the Canteen stores for the defense forces and consumers in southern and eastern India have been the drivers of rum sales in India, with mass brands holding a near monopoly. Its volume of sales was 45 million cases in FY21 and projected to grow to 59 million cases in FY25. Singapore was the biggest exporter of Rum to India in FY21, whereas UAE and Ghana were the biggest importer of Rum in CY20.



## VODKA

According to market research provider Euromonitor International, the vodka sector is expected to grow its volume to 334 million 9-liter cases by 2023. This is compared with 327.1 million cases in 2021, and a projected 327.8 million by the end of 2022. The vodka category appears to be in good health, with the million-case segment of the sector performing remarkably well in 2021, with just a handful of brands experiencing volume declines.

This year saw Russian vodka brands removed from bars and supermarket shelves in the UK after the country began a war against Ukraine in February. The US government imposed sanctions on state-run liquor stores to stop selling Russian-made vodka and spirits. Several major drinks companies including Diageo, Brown-Forman and Pernod Ricard pulled out of Russia, a profitable vodka market, in support of Ukraine. This abstention from Russian brands has left the country's spirits – particularly vodka – in a "precarious position".<sup>5</sup> Revenue in the Vodka segment amounts to USD 37.18 million in 2022. The market is expected to grow annually by 4.34% (CAGR 2022-2025). In global comparison, most revenue is generated in the United States (USD 20,220.00 million in 2022). In relation to total population figures, per person revenues of USD 0.03 are generated in 2022. The market for Vodka segment is expected to show a volume growth of 3.3% in 2023. The average volume per person in the Vodka segment is expected to amount to 0.01 L in 2022.<sup>6</sup>

## BEER

There is a wide range of beers included in the 'Beer' category, i.e., from strong to mild depending upon the alcohol content in the drink. The Indian beer market stood at a value of nearly ₹ 371 billion in 2020. Beer sales grew by a lower 14.95% from 2,011.93 LBL in 2020-21 to 2,312.81 LBL in 2021-22. As per market research, the industry is further expected to reach approximately ₹662 billion by 2026, exhibiting an estimated CAGR of about 9.2% during 2023-2028.<sup>7</sup>



The Excise department's new liquor policy was criticized. Unlike other growing nations, India's beer industry is traditional, and state controlled. High taxes, prohibitions on cross-border travel, manufacturing, retailing, and other structural bottlenecks hamper the faster growth of this industry. Many states monopolize wholesale and/or retail distribution. In nearly 60% of markets, state governments set beer prices. These state-controlled restrictions are in addition to all other central laws governing industries. Certain states enable e-commerce and internet aggregators to supply alcohol straight to customers.

## WINE

In the wine market, there are three primary categories: Red Wine, White Wine, and Rose Wine. Both imported and domestically produced wine has massive demand in India. The wine market in India is set to grow by USD 274 million from 2021-26. As per the latest market report by Technavio, the market's growth momentum is likely to decelerate at a CAGR of 19.78%.<sup>8</sup>



While there are several inherent challenges, wine selling businesses have penetrated the domestic market, and many local brands have carved out a distinctive niche for themselves within the industry. Sula Vineyards and Simba are two well-known Indian companies that sell their products in domestic and even international markets.

## IMIL (Indian Made Indian Liquor)

IMILs are locally produced regional liquor also known as Country Liquor (CL). For instance, Toddy and Feni are the most widely consumed indigenous liquor in southern regions of India. According to the National Family Health Survey-5 (NFHS-5) 2019-21, alcohol consumption among both men and women is higher in rural India than in urban India. It is consumed by the working and toiling classes. Its sales went up from 3,208.06 LBL in 2020-21 to 3,483.08 LBL (8.57%) in 2021-22.

## GROWTH DRIVERS

**Market segmentation:** The Indian Alco-Bev industry is segmented into IMFL (Indian Made Foreign Liquor), IMIL (Indian Made Indian Liquor), Wine, Beer and imported alcohol. Whiskey dominates the Indian spirits industry by a very wide margin. The IMFL category accounts for almost 72% of the market.

**Economic Growth:** The Indian economy has grown at a strong pace in the recent past, outperforming most of the emerging markets to become one of the fastest growing major economies in the world. Although, FY20 and FY21 were impacted by global slowdown, over the long haul, India is certain to grow at a fast pace and become an increasingly important contributor to the global economic growth.

**Favorable Demographics with significant state-wide variation:** India has a young demographic profile and over 15 million people are expected enter the drinking age every year which represents significant growth opportunities for the industry. Total household consumption is expected to reach 300 trillion by 2030. Further, with the proportion of high-income households getting widely distributed, the contribution from tier 2, 3 and 4 cities to the consumption is likely to increase.

In terms of the Seventh Schedule of the Constitution of India, liquor or alcohol is a State subject. This is why the age of consumption and also the age of purchasing of liquor differ markedly across states.

### States with minimum drinking age - 18

1. Andaman Nicobar Island [*Andaman and Nicobar Islands Excise Regulation, 2012 Section 24 Excise Policy Rule 14*]
2. Mizoram [*Mizoram Liquor (Prohibition and Control) Bill 2014 Section 58*]
3. Himachal Pradesh [*The Himachal Pradesh Liquor License Rules, 1986 Rule-16*]
4. Puducherry [*The Pondicherry Excise Act, 1970 Section 35*]
5. Rajasthan [*Rajasthan Excise Act, 1950 Section 22*]
6. Sikkim [*The Sikkim Home Guards Bill, 1992 Bill No. 1 of 19920 Section 20*]
7. Kerala [*Abkary Act, (1 of 1992) Section 20*]

### States with minimum drinking age - 21

1. Andhra Pradesh [*The Andhra Pradesh (Regulation of Wholesale Trade and Distribution and Retail Trade in Indian Liquor; Foreign Liquor; Wine and Beer) Act, 1993*]



2. Arunachal Pradesh [*The Arunachal Pradesh Excise Act, 1993 Section 42*]
3. Assam [*Rule 241 and 5.10 of the Assam Excise Act, 1993 Section 42*]
4. Chhattisgarh [*The Chhattisgarh Excise Act, 1915 Section 23*]
5. Jammu and Kashmir [*Jammu and Kashmir Excise Act, 1958 Section- 50B Jammu and Kashmir Liquor License and Sales Rules, 1984 Rule 11*]
6. Jharkhand [*The Bihar and Orissa Excise Act, 1915 Section 54*]
7. Dadra and Nagar Haveli [*The Dadra And Nagar Haveli Excise Regulation, 2012 Section 24*]
8. Daman and Diu [*The Goa, Daman and Diu Excise Duty Act And Rules, 1964 Section 19*]
9. Karnataka [*Karnataka Excise Department, 1967*]
10. Goa [*The Goa Excise Duty Act and Rules, 1964 Section 19*]
11. Madhya Pradesh [*The Madhya Pradesh Excise Act, 1915 Section 23*]
12. Odisha [*The Odisha Excise Act, 2005 Section 61*]
13. Tamil Nadu [*Tamil Nadu Liquor (License and Permit) Rules, 1981 Section 25 Rule XV*]
14. Telangana [*Andhra Pradesh Excise Act, 1968 Section 36*]
15. Tripura [*The Tripura Excise Act, 1987 Section 53*]
16. Uttar Pradesh [*United Provinces Excise Act, 1910 Section 2*]
17. Uttarakhand [*United Province Excise Act, 1910 The Uttaranchal (The Uttar Pradesh Excise Act, 1910) Section 2*]
18. West Bengal [*Bengal Excise Act, 1909 Section 51*]

#### **States with minimum drinking age - 25**

1. Chandigarh [*Punjab Excise Act, 1915 Section 23*]
2. Delhi [*Delhi Excise Act, 2010 Section 23 Delhi Liquor License Rules, 1976*]
3. Haryana [*Punjab Excise Act, 1914 Section 29*]
4. Meghalaya [*Eastern Bengal And Assam Act, 1910*]
5. Punjab [*Punjab Excise Act, 1914 Section 29*]

#### **States where liquor has been declared illegal**

These are “**dry states**” in which the sale of liquor in any form has been banned and declared illegal for any person living in the state.

1. Bihar [*Bihar Excise (Amendment) Bill, 2016 Section 19(4)*]
2. Gujarat [*Bombay Prohibition (Gujarat Amendment) Bill, 2009*]
3. Manipur [*The Manipur Liquor Prohibition Act of 1991*]

4. Lakshadweep [*Bombay Prohibition (Gujarat Amendment) Bill, 2009*]

5. Nagaland [*Nagaland Liquor Total Prohibition Act, 1989*]

**Urbanization:** Huge population in India is migrating towards bigger cities, where they are exposed to a wider variety of alcoholic beverage products, including IMFL and significantly contributing to the market growth. Rapid urbanization is expected to enhance disposable income, which is favorable for the growth of the industry.

**Growth of rural consumption:** Rural consumption is expected to grow faster with growing incomes and greater internet penetration. Even during the COVID-19 period, rural economy was more resilient over the last year due to better crops season and ongoing policy support.

**Increased Alcohol Accessibility and Availability:** Over the past few years, there has been a huge change in attitudes and lifestyle, making consumption of alcohol more socially acceptable. This acceptability of alcohol extends to drinking in family environments, at social events, and by females/youngsters. There has been an increase in the variety of Alco-Bevs and brands with most of them easily available in government licensed outlets, government shops, private licensed retail chains, restaurants, pubs, and bars. There also has been a considerable amount of increase in number of Bars and Pubs.

Regulatory oversight of both central and state governments encompasses a slew of restrictions on production, movement, and sale of Alco-Bev products. Alco-Bev also falls under the purview of Food Safety and Standards Authority of India (FSSAI). In addition, direct advertising of Alco-Bev products is not permitted in India. Prohibitively high inter-state duties compel national Alco-Bev players to set up owned or contract manufacturing setups in every state. Licenses are required to produce, bottle, store, distribute or retail all Alco-Bev products. Distribution is also highly controlled, both at the wholesale and retail levels. In states with government control on pricing, price increase is based on government notifications. In states where retailing is controlled by the state government, there is a specified quota that each player can sell, capping potential to increase market share for our products. These regulations make operations restrictive for the industry players.

**Premiumization:** Demand for premium brands is relatively less impacted by the industry slowdown due to the pandemic. Further, where spending on commute, social activities or holidays is reducing, consumers are left with more disposable incomes, which they can use to have quality experience at home. Therefore, premium brands are likely to show much more resilience and grow soon.

Several key firms in the alcohol business have modified their product-mix to provide premium category items to customers reflecting the growth trend. It indicates that the industry acknowledges the need for high-quality goods. Post-pandemic premiumization is also coinciding with such trend. According to estimates, the growing affluence among the middle class is expected to witness a 10% increase a year in the USD 55 billion liquor market.<sup>9</sup> The premium spirit segment was not dented majorly because of inflation. Infact, the affordability in some states improved due to changes in excise policy. American Company like Brown-Forman is considering India as a strategic emerging market, where it is strengthening its presence in Tier II cities and venturing into brand building and marketing to enhance its retail presence. The premium spirits category, especially the Alco-Bev segment, has seen reasonable growth as consumers are increasing their demand for international spirits, as well as are looking for newer brands. Millennials, with rising aspirations and exposure to global brands, are increasing their demand for latest trends and brands. The strategic focus is on premiumization. Certain brands like Jack Daniels competes with brands like Jeam Beam Suntory and Royal Challenge American Pride bourbon whiskey recently launched by Diageo through its Indian subsidiary United Spirits Ltd., Heinken business has also grown substantially through e-commerce.

## DELETERIOUS IMPACT OF ALCOHOL

Some of the enduring industry risks of alcohol consumption stem from alcohol use disorder (AUD) both at the global and the national level. The extremely damaging consequences of medical consequences of alcohol use have been extensively documented in the literature on the health issues in general and the alcohol industry in particular. Mention may here be made of gastrointestinal (GI) complications; the higher risk of cancers of the pharynx, oral cavity, esophagus and larynx; skeletal muscle weakness caused by acute alcoholic myopathy; Neurological complications, e.g., blackouts, blurred vision, impaired memory and slower reaction times and in severe cases of alcoholic tremors, myopathy, Wernicke's encephalopathy and cerebellar degeneration; and psychiatric complications, such as, depletion of the neurotransmitter serotonin in the brain, causing depression and anxiety leading to a vicious circle of increasingly greater consumption of alcohol.

There are adverse social consequences, e.g., domestic violence, greatly weakening impact on family finances; higher road accidents; sexual/physical assault, rape, exploitation of women in commercial sex work and homicide.

## CHALLENGES AHEAD

In terms of the conventional market structure, the alcohol industry of India provides a good example of the oligopolistic market structure. Businesses are under pressure to rapidly adapt their operations to develop a resilient customer experience while maintaining convenience. Covid-19 lockdowns left restaurants and bars closed for a part of the last year and led to the subsequent rise of at-home drinking. The launch of online sale and home delivery of liquor in certain states opened an all-new route to market for consumers. It is still at a nascent stage and requires a lot of effort from both the state governments and the brand owners to make it successful.

There are some brand specific challenges that need addressing viz., Rum deals with a popular myth that it's a winter drink, or that it is primarily consumed by the military. Many international corporations have tried and failed to break into the dark, gold, and spiced Rum markets with their own worldwide brands,<sup>10</sup> foreign whisky producers continue to face hurdles due to the massive 150% levy,<sup>11</sup> strictly regulated beer sector in India has 26 alcohol tariffs, tax rates vary by state in India, Beer franchisees pay excise tax for cross-state sales, and imports of beer are also limited by a quota system.<sup>12</sup> Ishwaraj Bhatia, Co-Founder & COO, Simba Craft Beer once said, ".....it is easier for me to supply my beer to another country than to another state."<sup>13</sup> ISWAI (International Spirits and Wine Association of India) CEO Nita Kapoor said, "*The Indian Alco-Bev industry is in deep crisis due to inflation on one hand and high taxation rates. In this context, it is needed to decrease taxes and raise product prices for the sector to sustain.*"<sup>14</sup>

The invasion by Russia in Ukraine this year has weakened the global economy through significant trade disruption and soaring energy prices causing high inflation and igniting the cost-of-living crisis. Distillers are seeing double-digit, and in some cases triple-digit increases for energy, shipping, glass, and raw materials. A report by Dutch financial-services company Rabobank on the impact of the recession predicts the demand for super-premium wine and spirits brands in the US will drop by mid-single digits in 2023. Despite the challenges, it's not all gloom. "*Spirits have seen a strong rebound post-pandemic...*" says Jose Luis Hermoso, IWSR drinks market analysis research director. He further added, "*.... Premium-and-above spirits price bands also grew strongly in H1 2022, with much of the growth generated by agave-based spirits in the US, although growth was also driven by premium-plus gin, rum, malt Scotch, and US and Irish whiskey.*"

The war in Ukraine has triggered a costly humanitarian crisis that demands a peaceful resolution. Global growth is expected to slow significantly in 2022, largely because of the war in Ukraine, the volatility in the price of oil and the emerging food crisis. The economic costs of war are expected to spread further through commodity markets, trade, and—to a lesser extent—financial interlinkages. Fuel and food prices have increased rapidly, hitting vulnerable populations in low-income countries hardest. Global growth is projected to slow from an estimated 6.1% in 2021 to 3.6% in 2022 and 2023. This is 0.8 and 0.2% points lower for 2022 and 2023 than projected in January. Beyond 2023,



global growth is forecast to decline to about 3.3% over the medium term. War-induced commodity price increases and broadening price pressures have led to 2022 inflation projections of 5.7% in advanced economies and 8.7% in emerging market and developing economies—1.8 and 2.8% points higher than projected last January. Multilateral efforts to respond to the humanitarian crisis, prevent further economic fragmentation, maintain global liquidity, manage debt distress, tackle climate change, and end the pandemic are essential.

Surprisingly, the latest National Health Survey (NFHS) of India reported that men in the age bracket of 16 to 35 kept themselves away from alcohol consumption. As per the National Family Health Survey (NFHS) data, the popularity of alcohol consumption declined over the past fifteen years. In 2005-06, for instance, 39% of the 35-49 age group used to consume alcohol. It dropped to 36.8% in 2015-16 and further dropped to 27.4% in 2019-21. For the age bracket of 20 to 34, almost 35% of the population consumed alcohol in 2005-06. This proportion dropped to 16% after 15 years. While 11% population in the 15 to 19 age group consumed alcohol in 2005, this dropped to 9% in 2015-16 and was at its lowest in 2021 at 2%.<sup>15</sup> It has, however, to be realized that the new Excise policy of the Delhi Government created uncertainties and unease among many liquor sellers/units. This is likely to impact displacements of existing employees who are engaged in the selling business. There was uncertainty among liquor vendors about how the license would be issued in the wake of the probe into the Delhi government's excise department by the Delhi Police's Economic Offences Wing (EOW). These Policy flip-flops have negatively impacted the industry.

Along with certain uncertainties created due to Delhi's new excise policy, some inter-state disparities are also happening, for instance, liquor sales in Goa have declined compared to previous months due to lower prices in Delhi, Maharashtra. The current inflation led to liquor companies charging higher prices in Maharashtra. As per the ISWAI estimates, wet alcoholic ingredients, such as extra neutral alcohol (ENA) and scotch, are now 5% more expensive than last year, while the cost of packaging materials such as glass bottles rose by 8%, cartons by 37%, and labels and closures by 5% and 15%, respectively, in just one year (FY21 and FY22 (Est)). An ISWAI statement pointed out, "additionally, costs of wages and statutory fees are mounting, while the transportation costs have shot up by 68% between FY18 and FY22. As an example, the costs of a fast-moving brand in the value segment have increased by Rs 60 per bottle (750ml) compared to the previous year".

Some of the top selling IMFLs include Royal Stag, Imperial Blue, McDowell's No.1, Officer's Choice and 8PM. Supply chain management issues, capacity expansion, bottles (volume drop by cans) remain major issues and are related to raw material availability. Barley-malt, the basic raw material in the manufacture of beer, has saw lower prices due to pandemic, which led to reduced demand from brewing and cattle feed sector. The prices of the competitive crops grown in the barley area, however, traded at all time high prices. This led to a significant drop in barley acreages and farmers shifted their acreages towards those rewarding competitive crops. Barley-malt, the basic raw material in the manufacture of beer, was under stress due to higher prices of competitive crops.

While many foreign liquor companies have shown interest in India in recent times, like Brown-Forman, the inflationary pressures have created challenges due to elevated raw material costs. As per the ISWAI estimates, wet alcoholic ingredients like extra neutral alcohol (ENA), scotch are now 5% more expensive than last year, while cost of packaging materials, such as, glass bottles rose by 8%, cartons by 37%, labels and closures by 5% and 15%, respectively in between FY21 to FY22. Costs of wages and statutory fees are escalating while transport costs have also increased by 68% between FY18 to FY22. Further, the Delhi government's new excise policy through which liquor sales through government owned shops were made mandatory due to the EOW's investigation into susceptible illegal liquor selling also created new confusion. Despite the challenge of change, the market for liquor in India seems promising.

Further, alcohol abuse is a growing concern of the authorities. During pandemic abuse against women increased significantly. The liquor industry leaders examined methods to assist Indian customers in becoming increasingly aware and promote conscientious drinking among the populace. Alcohol dependence is a significant problem in

India. According to research by India's Ministry of Social Justice and Empowerment (MoSJE), every third alcohol user in India requires assistance for alcohol use disorders, and only approximately 1 in 38 persons with alcohol dependency report receiving treatment or assistance. At the national level, about 14.6% of people (among 10–75-year-old) are current users of alcohol, i.e., about 16 Crore people. Prevalence is 17 times higher among men than women. Among people consuming alcohol in India, Country liquor ('desi') (about 30%) and spirits (IMFL – Indian Made Foreign Liquor) (about 30%) are the predominantly consumed beverages. About 5.2% of Indians (more than 5.7 crore people) are estimated to be affected by harmful or dependent alcohol use. In other words, every third alcohol user in India needs help for alcohol related problems. States with the high prevalence of alcohol use are Chhattisgarh, Tripura, Punjab, Arunachal Pradesh, and Goa. States with high prevalence (more than 10%) of alcohol use disorders are: Tripura, Andhra Pradesh, Punjab, Chhattisgarh, and Arunachal Pradesh. Only about one in 180 people with alcohol dependence report getting inpatient treatment / hospitalization for help with alcohol problems. Among people suffering from dependence on illicit drugs, one among 20 people has ever received inpatient treatment/ hospitalization for help with drug problems.<sup>16</sup>

The issue of provision of adequate and timely working capital and efficient working capital management for the liquor companies is also of considerable contextual significance in the steady growth of this industry.

## WAY FORWARD

India has an incredibly large young demography which presents many opportunities to firms in the industry. As the youth approaches the legal drinking age and becomes more affluent, they are likely to drive much of the expected and projected future demand. Brand owners are focused on appealing to the younger generation through online marketing and storefronts to capture as much of this segment as possible.

During the pandemic, customers explored new channels of sales, such as, in-home consumption, to save value added tax (VAT) at restaurants. The alcoholic beverage sector, which is already burdened with additional laws, has become increasingly cognizant of these rules, which govern manufacturing, the price of war materials, cold storage, transfer from one state to another state, consumption, and other aspects of the industry. Several states in India, viz., Gujarat, Bihar, Nagaland, and Mizoram, have implemented restriction on the sale of alcohol. Additionally, states in India have dry days during significant religious holidays and other events, a phenomenon that is unique to the Indian market. Drinks that are bottled in India are subject to excise charges according to the excise laws that have been handed down by each state. Customs duties are assessed on alcoholic beverages from other countries that are imported into India.

US major companies like Brown-Forman had some launches with Ready to Drink (RTD) offerings and some other variants, as well as planning to bring more innovation-based products (flavored whiskey for instance) in India. Besides strong & large beer Brew pubs have emerged in large cities such as Bengaluru, Pune, and Gurgaon over the last few years. These outlets have introduced consumers to new types of beers, for example 'wheat beer'. Due to health concerns, low alcoholic content breweries are also emerging. The Black & White Whiskey brand is using a 100% biodegradable and recyclable hipster pack now.

The alcohol business in India immediately recovered following lockdown, a proof of its strong and large customer base, which is increasingly made up of millennials and Gen Z. As alcoholic beverage businesses entered the domestic market, several local brands emerged. They maximize digital media's potential, which helps the segment's growth. Alcohol businesses may now advertise on internet platforms, social media, concerts, and events. This industry supports 20 million jobs, and its growth will produce many more. India's alcohol business is large and gives states up to 2 lakh crores in income and assists 40 lakh farmers.

In addition, States regulate the whole supply chain of alcoholic drinks via excise legislation, including manufacturing, distribution, registration, licensing, labelling, packaging, and sale. State regulation in this sector includes price

regulations. Inter-state pricing policies and governance frameworks provide diverse market routes. Frequent policy changes create uncertainty and discourage manufacturers/distillers in planning ahead. Variations in state rules and operating methods have increased supply chain players' compliance burden, reducing commercial ease. The alcohol market is fractured in India, eroding its status as a single market. India has not been able to harness its export potential in this industry.

State Excise departments should establish clear regulations at regular intervals to assist firms in expanding, making long-term investments, and fostering the growth of innovative business models. To promote transparency, excise departments should prioritize the adoption of a 'cost-based' Electronic data processing (EDP) formula above the 'minimum EDP' criterion and examine the effects of price adjustments across different beverage categories on the efficacy of taxing policy. To monitor the movement of goods from the producer to the distributor to the retailer, technologically driven tracking and tracing programs should replace physical surveillance. There is a need to invest in the collection of organized and frequent data on household consumption patterns and the effect of price rises or other policy changes on consumption patterns. State excise commissioners, finance ministers, and other stakeholders should engage in regular in-depth discussions to start off a process of transparent, predictable, and consultation-based price determination. To improve the trade balance, the government should reduce tariffs and other charges and encourage Indian enterprises to export. Reducing duties on intermediate items may strengthen India's industrial capacity. Above a threshold, duty reductions will only enable high-end products to enter.

In sum, despite considerable headwinds, the alcohol industry in India is on a high growth trajectory over the medium-term. It, however, needs an enabling ecosystem for sustained growth. Some of the basic elements of a conducive ecosystem could be clear and predictable policies with periodic revisions in two to three years; digital methods of granting licences and permits, greater use of data analytics and technology-based solutions; collecting structured and periodic data on household consumption patterns (by age, social indicators, area, type of alcohol, etc.) and the impact of price increase or other policy changes on consumption patterns; regular consultations with all stakeholders; and a gradual and calibrated tariff reduction and focus on exports.

Given the impact of State taxes on alcohol estimated at a whopping ₹2.25 lakh crore a year, despite their bewildering diversity across states, there is a compelling need for regulatory reforms with a sense of urgency. What is needed is a broad-spectrum policy with thrust on stability and transparency and 100% private retail for alcohol in conformity with the needs of all sections of the population and the avowed goals of development policy.



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