

## A REVIEW

# An overview of Indian alcohol industry

■ K. L. SOWMYA SHREE, C. KAVYA AND G. N. NAGARAJA

Received : 28.09.2015; Accepted : 20.03.2016

### ABSTRACT

India is the third largest global spirits market by volume in the world, just behind China and Russia. In some states, certain alcoholic beverages like wine and beer can be sold in supermarkets that further increase the availability. The Indian alcohol industry is a high-risk industry, on account of the high taxes and innumerable regulations governing it. The Indian liquor industry comprises the Indian Made Foreign Liquor (IMFL), country liquor, foreign Liquor Bottled in Origin (BIO), illicit alcohol, beer and wine segments. The overall IMFL market is increasing at the rate of 9 to 10 per cent annually and growth rate of 11.9 per cent in the last financial year (2011-12). Country liquor produced in local licensed distilleries and is made of cheap raw material, primarily rectified spirits of grains or molasses. The production cost for country liquor is low; the excise duties are also lower than they are for other liquor. Beer has become a popular beverage in the country only over the last two decades and it's growing at a rate of about 17 per cent per year. Imported liquor forms a very small part of alcohol consumption in India and growing at the rate of 25 per cent annually. Illicit alcohol also evades all national and state-level taxes and duties, thus, making it very cheap and affordable. South India dominates the alcohol market in India, with that region accounting for about 60 per cent of total IMFL sales and 45 per cent of total beer sales. The state governments receive a large part of their cash flow from this industry. The state governments should be allowed to make state-specific rules, which should be in conformity with the national legislation.

**KEY WORDS :** Indian alcohol industry, IMFL, Spirits market

**How to cite this paper :** Sowmya Shree, K.L., Kavya, C. and Nagaraja, G.N. (2016). An overview of Indian alcohol industry. *Internat. J. Com. & Bus. Manage.*, 9(1) : 80-86.

**A**n Alcoholic beverage is a drink containing ethyl alcohol of agricultural origin in any percentage, derived either through natural fermentation, or addition during process. Ethanol or ethyl alcohol is

produced through a natural process when the yeast converts the sugar contained in fruit, cereals and sugar-canes, into alcohol. Pure alcohol is a colorless, pure liquid. The process used for its preparation is called fermentation.

India is the third largest global spirits market by volume in the world, just behind China and Russia. It is also one of the fastest growing markets in the world. The domestic alcohol industry has recognized that the young people and women are the key target populations for them and they are assertively focusing on these vulnerable groups through their marketing campaigns.

India is one of the world's most restrictive places

### MEMBERS OF THE RESEARCH FORUM

#### Correspondence to:

**K.L. SOWMYA SHREE**, Department of Agricultural Marketing, Co-operation and Business Management, University of Agricultural Sciences, G.K.V.K. Campus, BENGALURU (KARNATAKA) INDIA

#### Authors' affiliations:

**C. KAVYA AND G.N. NAGARAJA**, Department of Agricultural Marketing, Co-operation and Business Management, University of Agricultural Sciences, G.K.V.K. Campus, BENGALURU (KARNATAKA) INDIA

for trade and doing business. In 2014, it is ranked 110 out of 152 countries, in terms of economic freedom, by the Economic Freedom of the World Report. Its Freedom to Trade Index was 6.2 (highest score 10.0), 124 Doing business in India remains difficult for both foreign and domestic companies. The country was ranked 133 out of 152 countries by the World Bank this year in its Doing Business Score. Many studies have indicated trade barriers continue to be a major hindrance to India's development and prosperity, making trade liberalization and further deregulation critical to its economy.

The industry is consistently launching new products, such as flavoured alcoholic drinks, to attract the non-drinkers in this group. The availability of alcohol is increasing in India; there are more outlets in shopping malls and popular market places, which make it easily accessible. In some states, certain alcoholic beverages like wine and beer can be sold in supermarkets that further increase the availability. Increase in physical availability of alcohol leads to rise in alcohol consumption and alcohol related harm. Intensive engagement of the alcohol industry is observed in social initiatives and policy related activities under the broad framework of corporate social responsibility (CSR), which now-a-days are part of a more general strategy that is designed to further the industry's political and economic interests.

The Indian alcohol industry is a high-risk industry, on account of the high taxes and innumerable regulations governing it. The international liquor industry, the Indian

one too has seen players with strong brands; diversified portfolios and large operations achieve market leadership positions. The Indian liquor industry comprises the IMFL, country liquor, foreign liquor bottled in origin (BIO), illicit alcohol, beer and wine segments.

#### Indian made foreign liquor :

The maximum permissible limit for alcohol content in spirits is 42.8 per cent v/v (volume to volume). The overall IMFL market is increasing at the rate of 9 to 10 per cent annually and growth rate of 11.9 per cent in the last financial year (2011-12). There is a tremendous growth in the vodka market. It is the fastest growing among all types of liquors. Vodka consumption has been growing at the rate of about 44 per cent over the past few years.

#### Country liquor :

The average alcohol content in country liquor is 33 per cent volume to volume. It is produced in local licensed distilleries and is made of cheap raw material, primarily rectified spirits of grains or molasses. In the southern states coconut and other palms are used as raw materials in the production of local liquor. It is called as arrack, desi sharaab, daru, tharra, toddy, fenny and tari. The production cost for country liquor is low; the excise duties are also lower than they are for other liquor. The idea behind country liquor was to provide cheap alcohol and thus check the illicit trade of alcohol.

**Table 1 : Top five beer producers of alcohol in the world during 2013**

Sl. No.	Brewer	Headquarters	Market share (%)	Rank
1.	Anheuser-busch InBev	Belgium	20.00	1
2.	SAB miller plc	UK	12.90	2
3.	Heineken NV	Netherlands	8.30	3
4.	Carlsberg breweries A/S	Denmark	6.50	4
5.	China Resources Enterprises Ltd.	China	5.30	5

Source: [www.ias.org.uk](http://www.ias.org.uk)

**Table 2: Market share of different liquors in India**

Sr. No.	Type of industry	Market share (%)
1.	IMFL	3
2.	Country liquor	48
3.	Beer	13
4.	Illicit liquor	NA
5.	Imported liquor includes wine	3

Source: Anonymous, 2012

**Beer :**

Beer has become a popular beverage in the country only over the last two decades. It's growing at a rate of about 17 per cent per year. In India, beer is manufactured in licensed breweries and there are more than 60 beer brands available in the market. The growth in the beer market appears to be driven by young consumers and professionals who consider beer a trendy drink, as compared with traditional spirits. There is also a small demand for foreign beer in the up market urban areas. The highest levels of beer consumption in India are observed in the southern states.

**Foreign liquor bottled in origin (BIO) :**

Imported liquor forms a very small part of alcohol consumption in India. It is usually consumed by the rich and upper middle class in metropolitan cities. It is also subjected to customs duty, making it much more expensive. The imported spirits market in India is growing at the rate of 25 per cent annually.

**Wine :**

Wine is an alcoholic beverage made from fermented fruit juice, usually that of grapes. Wines made from other fruits are usually named after the fruit from which they are produced (for example, apple wine or elderberry

wine) and are generically called fruit wine. The term "wine" can also refer to the higher alcohol content of starch-fermented or fortified beverages such as barley wine, sake, and ginger wine.

**Illicit alcohol :**

The alcohol produced illegally is called illicit alcohol. They do not follow any set standards and thus have no quality control. The alcohol produced from these units is usually adulterated and may contain a highly fatal substance called methylated spirit or methanol. This added methylated spirit can lead to death or blindness. Illicit alcohol also evades all national and state-level taxes and duties, thus making it very cheap and affordable.

**The liquor market in India :**

South India dominates the alcohol market in India, with that region accounting for about 60 per cent of total IMFL sales and 45 per cent of total beer sales. Globally, most spirits are derived from grains and other raw materials may include potatoes, sugarcane, and fruit spirit. However, in India, the most common raw material is molasses, a derivative of sugarcane. Some Indian alcohol industries are gradually introducing grain-based spirits.

The consumption of spirits and hard liquor accounts

Sr. No.	Company	Whisky	Rum	Vodka	Brandy	Beer	Gin
1.	Empee Distilleries		Old Secret, Victoria, Sixer		Napoleon		
2.	Globus Spirits	County club	Hannibal Rum		Le' Mans		White Lace
3.	Imperial Spirits	Glen Special, Gold Coast Malt	Black Magic, Hatrick	Black Magic, Imperial Iceberg Premium	Imperial, Imperial Exclusive VSOP		Seagull London Dry
4.	Mohan Meakins	Summer Hall, Colonel's special, Golden Eagle	Old Monk		Triple Crown, Doctor's Reserve No.1		Big Ben London
5.	Radico Khaitan	After Dark, 8PM	Contessa	Magic Moments	Old Admiral, Morpheus		
6.	Som Distilleries		Black Fort			Hunter, Wood pecker	
7.	Tilaknagar Inds.	Mansion House, Senate Royale	Madira XXX Rum	Castle Club	Mansion House		Savoy Club
8.	United Breweries					Kingfisher, Zingaro, London Pilsner Heineken, Sandpiper, Black label,	
9.	United Spirits	McDowell N0.1, RC, Bagpiper, Black Dog, Whyte and Mackay, Vat 69, Officer's Choice, Royal Stag.	McDowell Celebrations, Old Cask	Red Romanov, White Mischief	McDowell No.1, Honey Bee		Blue Riband

for the majority of alcohol consumption in India. However, the scenario is gradually changing. In fact, most countries are experiencing changing trends, with people switching over to white spirits like vodka and gin and to drinks with lower alcoholic content like beer and wine. In India, the IMFL (notably vodka) market is increasing at a higher rate as compared with country liquor categories and is likely to see tremendous growth in the distant future.

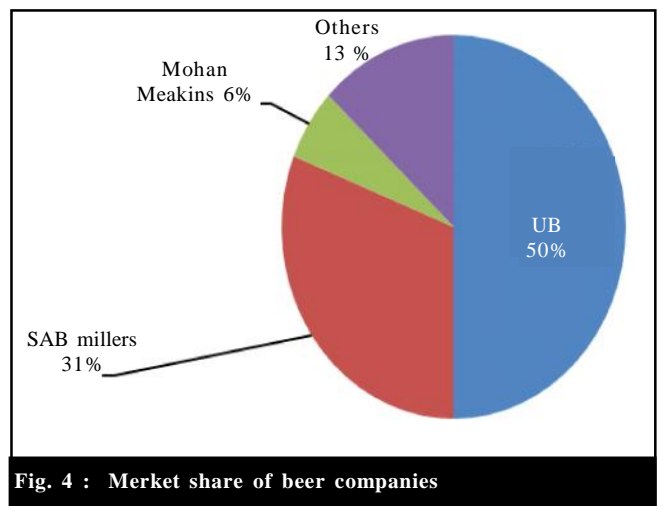
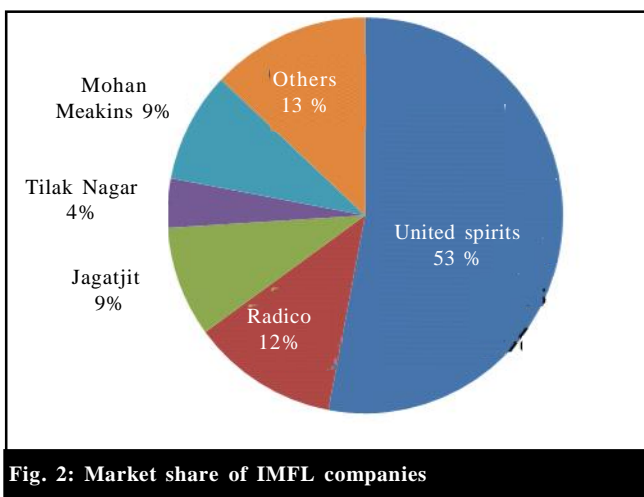
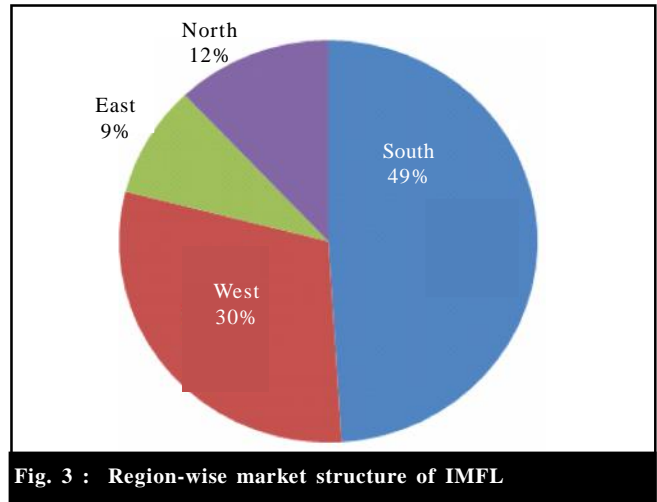
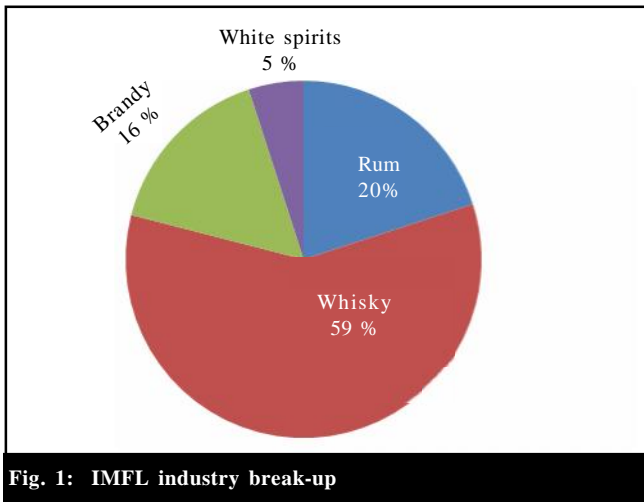
Though there is a huge market for country liquor and illicit alcohol in India, the most prominently visible markets are the ones for IMFL and beer. The reason for this is that these sectors have multiple production units, wide distribution networks, and strategic marketing plans. These industries have an established infrastructure and they constantly monitor their growth, market share, and

other competitors. On the other hand, the country liquor industry is more localized. It does not have nationwide known brands; the producers are regional or local and make local brands. This industry does not even engage in much advertising or promotion of its brands, partly because there is less competition and the market is local.

The illicit industry is also a local industry and is run by local criminals directly or sometimes indirectly when they provide protection to the owners of the illicit distilleries. The price of the product is very low and no marketing is done as the industry cannot be legally visible.

**Characteristics of the Indian liquor market :**

Characteristics of the Indian liquor market Indian liquors are predominantly molasses-based, however, with a portion of the appropriate grain/fruit spirit being added



to them. There is a shift in global demand from dark spirits (such as whisky, dark rum and brandy) towards white spirits (such as vodka, white rum and gin). Consumption of spirits exceeds that of beer and wine due to their lower cost per unit of alcohol. Large liquor multinationals enjoy high margins. Preference for brown spirits (molasses flavour) in Indian market. Liquor packed in 180, 375, 500, 750 and 1000 ML bottles - glass and plastic bottles. 180 ML and 750 ML are fast moving. The market is highly competitive with many local and international players vying for a share in the market. The alcohol industry is very important from the Government's revenue perspective. It generates an estimated Rs. 16,000 crores per annum. India is seeing an increasing trend of white spirits being adopted over brown spirits.

### **Factors influencing the growth of alcohol industry in India :**

#### *Urbanization :*

More and more people are migrating towards bigger cities, where they are exposed to a wider variety of alcoholic products, including IMFL.

#### *Favourable demographics :*

India is a young country, with more than 60 per cent of Indians falling in the 15-45 years age group. This is the cohort the industry targets as potential customers. About 485 million Indians are currently of drinking age and another 150 million will be added to this group in the next five years.

#### *Changing social norms :*

Over the years, there has been a change in attitudes, making consumption of alcohol more socially acceptable. This acceptability extends to drinking in family environments, at social events, and by females/youngsters.

#### *Rise in disposable income :*

More and more Indians are now moving towards the upper/middle-income group. The per capita income has witnessed a continuous growth, from just over Rs. 27,000 in 2006 to over Rs. 54,000 in 2011 (projected: over Rs. 1,00,000 in 2015).

#### *Increased alcohol accessibility and availability :*

There has been an increase in the variety of alcohol

brands and types and all of them are easily available in government-licensed outlets, government shops (monopolies), private licensed retail chains (permitted since the past couple of years), restaurants and bars.

### **Strategies for promotion and advertisements of alcohol products :**

#### *Surrogate advertising of alcohol products :*

Advertising of liquor products is banned in India; alcohol companies can promote their brands legally at points of sale. But they know that is not enough to boost their sales. As there is a complete ban on advertising of alcohol brands, the companies resort to covert advertising strategies such as surrogate advertising. Despite the fact that surrogate advertising is also prohibited under Indian laws, the companies manage to promote their products through such strategies. Surrogate advertising involves advertising for products (non-alcoholic) that use the same brand name as the alcohol products. For example, many alcohol companies advertise music CDs, packaged drinking water and other items under the same brand name as their alcohol product.

#### *Sponsorship of events :*

Among the many innovative ways that alcohol companies have devised to promote their products, one of the most effective has been sponsorship of events. In India the alcohol industry sponsors major cricket events since cricket is the most popular sport here and is highly watched across all ages and genders. It has the maximum youth viewership and that is what works very well for the alcohol industry.

#### *Promotion and the entertainment industry :*

The entertainment industry is used extensively to promote alcohol products. Earlier, only the bad guys in the movies were shown drinking. But now, it is the hero or the protagonist who is promoting alcohol brands.

#### *Attractive packaging and labeling of alcohol products :*

Another very important strategy that alcohol industry uses to market its products is making the products look attractive through eye-catching packaging and labeling of their bottles and cans.

*Newer promotion channels :*

Telemarketing through mobile networks by sending bulk promotional messages is now common in India.

**State excise policy :**

*Ban on sale and consumption of alcohol in public places :*

All the Indian states and UTs have implemented this ban, with penalties for violation varying from Rs. 200 to Rs. 50,000.

*Licensing of days and hours of sale :*

All states/UTs have provisions for closure of liquor shops generally on national holidays, election days, particular day(s) in week/month, and other occasions calling for special consideration - days of national solemnity, Public Order, homage to national figures, fairs, festivals, frenzied situations, or periods of tension.

*Minimum sale price :*

17 states and UTs have fixed minimum sale price to ensure uniformity and quality, and to prevent illegal sale.

*Restriction of outlet density :*

No license if the premises is located near an educational institution, place of worship, main bus stand, crematorium, burial ground, socio-economically backward colony, labour colony, market place, or established habitat. This guideline is observed by 14 states.

*Quota for retail sale/personnel limit :*

Provisions for quotas vary based on the type of product - and also from state to state. Most states observe this policy measure that upto 2 lit of alcohol can be brought by a person into India from a foreign country per visit. Defence personnel upto the rank of Brigadier (or equivalent) are allowed upto 10 bottles of liquor every month and a larger amount of beer stock too.

*Minimum legal drinking age (MLDA) :*

Different states in India have different MLDA prescribed for purchase and consumption of alcohol, varying from 18-25 years. Maharashtra, Punjab, Chandigarh, Haryana and Delhi have the maximum MLDA.

*Health warnings on alcohol containers/bottles and security holograms for quality control :*

Observed by 14 states. Some have warnings only on IMFL liquor.

*Ban on advertising, promotion and sponsorship (including POS advertising) :*

Complete ban in nine states, with Delhi offering an exception to the foreign print media.

POS advertising ban observed by 10 states.

Moreover, heavy taxes and non-uniformity of policies at federal state-level have turned liquor businesses into the biggest cash cow for government. It is estimated that the combined earning of the states and union territories (excise) from alcohol beverages in 2011 fiscal year is estimated to be around 4.67 billion USD, accounting for about 16 per cent of their own tax revenues (Dhanuraj and Kumar, Centre for Public Policy Research, 2014).

*Distribution structure in the industry :*

Based on the distribution channels of alcohol in each state, the markets are broadly divided into.

*Government – controlled market (or Government corporation) :*

In this market, the State Government undertakes the pricing and distribution under its territory. In this model, a representative body of the state Government purchases alcohol from the manufacturer and distributes it through retail network.

*Auction market :*

Under this system, the State Government auctions licenses for the sale of alcohol in a Particular geographical territory. The highest bidder (contractor) then becomes the sole distributor of alcohol for a specified period in that territory and distributes the product through its retail network.

*Open market :*

Under this system, the Government sells licenses to applicants for a fee which entitles them to sell alcohol in the market. The system is beneficial for both the alcohol companies and the end consumers as the pricing is market determined.

*SWOT analysis of alcohol industry :*

**Strengths :**

- High entry barriers
- Licensed industry
- Strong brand loyalty
- Challenging distribution set up
- Downside protection in demand.

**Weaknesses :**

- High incidence of taxes
- Fragmented manufacturing capabilities
- Difficulty in creating brands.

**Opportunities :**

- Increase in disposable income and urbanization
- Favourable demographic dividend
- Low per capita consumption
- Potential for shift from country liquor to IMFL segment.

**Threats :**

- Subject to agricultural prices
- Regulatory oversight which could impede growth.

**Conclusion :**

India is a diverse country and so it has diverse drinking patterns. It is generally considered a dry country, but the trends are changing now. Different parts of the country have different drinking practices. As alcohol is a state subject, every state has different legal provisions that govern alcohol and the alcohol industry, leading to non-uniformity of law. A multi-pronged strategy is thus needed to tackle the growing burden of alcohol use in

India. There is no uniform drinking pattern. The state governments receive a large part of their cash flow from this industry. Also, the demand in some markets is so high that banning alcohol may lead to an increase in spurious illicit liquor, which can prove fatal. Therefore, the best way forward is to combine best practices into a multi-component strategy and enact a national level legislation to regulate production, sale, distribution, and licensing of alcohol. The state governments should be allowed to make state-specific rules, which should be in conformity with the national legislation.

**REFERENCES**

Anonymous (2010). World alcoholic beverage companies 2010-15 Trends- Corporate Strategies, Global markets and competition.

Anonymous (2012). India consumer – Alcoholic beverages. *Anand Rathi Share and Stock Brokers Limited*, BSE FMCG:4779.

Dhanuraj and Kumar, Rahul V. (2014). *Liberalizing liquor trade in India*, Centre for Public Policy Research.

Holkar, J. and Jadhav, R. (2010). Indian wine industry current scenario and proposed corrective measures.

Sven, Andreasson, Thomas, F. Babor and Jernigan, David (2013). Alcohol Marketing and Regulatory Policy Environment in India, Public Health Foundation of India, NEW DELHI, INDIA.

Vivek, B. Indian Liquor Industry- A Regulatory Hangover.

**■ WEBLIOGRAPHY**

[www.indigoedge.com](http://www.indigoedge.com) .

[www.ias.org.uk](http://www.ias.org.uk).

