The International Spirits & Wines Association of India (ISWAI)

December2023

INTERNATIONAL SPIRITS & WINES ASSOCIATION OF INDIA

ISWAI

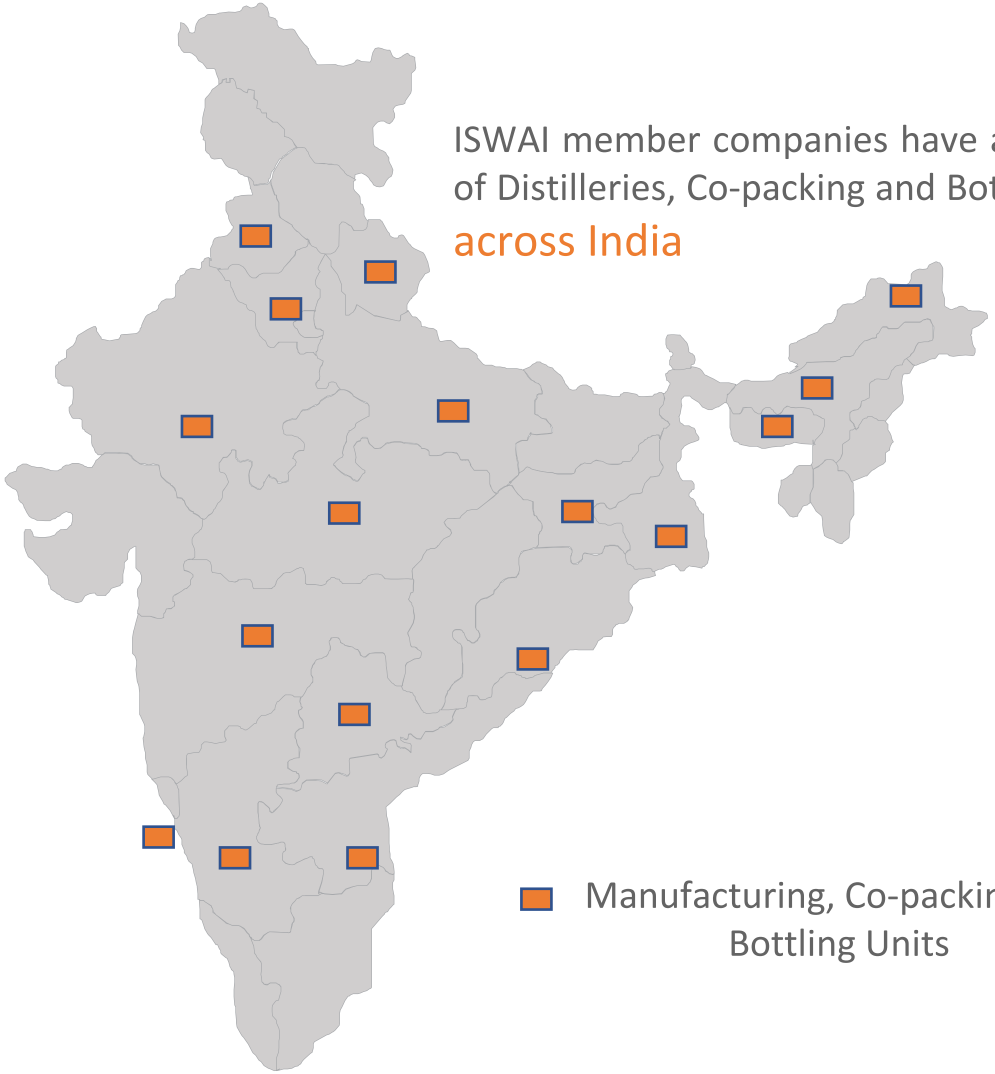
- The **International Spirits & Wines Association of India (ISWAI)** is a representative body of the national and international premium spirits & wine brands in India. The association serves as an interface between the industry and stakeholders providing a collective viewpoint on all aspects of the alcoholic beverage business

- The unwavering focus of ISWAI has consistently been on charting the ideal course for the Indian Beverage Alcohol Industry. ISWAI leads a focused effort to highlight the industry's perspective on government policy, best practices, and the responsible use of beverage alcohol products, thereby providing a common platform for its members

Members

DIAGEO
Pernod Ricard
Beam Suntory
BACARDÍ
William Grant & Sons
MoëtHennessy
Brown-Forman
CAMPARI

ISWAI – the apex body of the Indian and international premium spirits & wine brands in India



ISWAI member companies have a network of Distilleries, Co-packing and Bottling Units across India

Manufacturing, Co-packing and Bottling Units

PROMOTING LOCAL MANUFACTURING OF INDIAN MADE FOREIGN LIQUOR

SUPPORTING DIRECT & INDIRECT JOBS, SUPPORTING TOURISM, FARMERS AND GENERATING REVENUE FOR THE STATE

88

MANUFACTURING, CO-PACKING AND BOTTLING UNITS ACROSS INDIA

39%

ISWAI MEMBER COMPANIES CONSTITUTES 39% OF THE INDIAN SPIRITS INDUSTRY VOLUME IN 2022

~315 Brands

ISWAI MEMBERS HAVE~315 BRANDS OPERATING OUT OF THE ~800 KEY BRANDS IN INDIA

TOP 3

THE TOP THREE BRANDS SOLD IN INDIA ARE ISWAI MEMBER BRANDS

Members' brands - Indian made liquor (IML / IMFL)

McDowell's No.1 Celebration

McDowell's No1 Reserve Whisky Original

Seagram's Royal Stag Deluxe Whisky

Seagram's Imperial Blue

Royal Challenge

Bacardí

Captain Morgan

Seagram's Blenders Pride

Master Blender's Signature™

Smirnoff

Antiquity Blue

Oaksmith Gold International Blended Whisky

Made / bottled in India

SCOTCH/BOURBON

SINCE 1883 BLACK DOG SCOTCH WHISKY

SEAGRAM'S 100 PIPERS

Black & White

SOMETHING SPECIAL™

WILLIAM LAWSON'S

Grant's® BLENDED SCOTCH WHISKY

VAT 69®

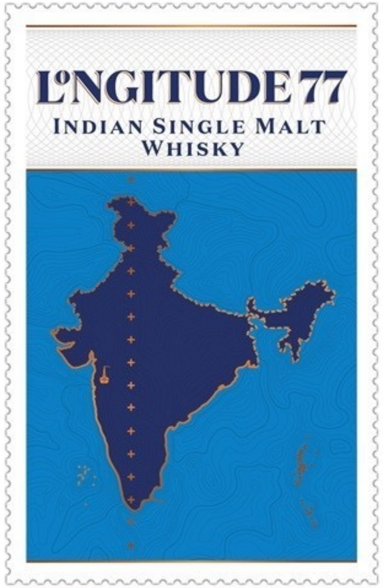
PASSPORT SCOTCH

JIM BEAM

INDIAN WHISKIES

BORN AND NURTURED IN RAJASTHAN

GODAWAN SINGLE MALT artisan whiskey



Bottled in Origin (BIO)

JOHNNIE WALKER

CHIVAS REGAL AGED 12 YEARS

JAMESON IRISH WHISKEY

THE SINGLETON

THE GLENLIVET

Glenfiddich SINGLE MALT SCOTCH WHISKY

ABSOLUT

ESTD 1846 Dewar's

GLENMORANGIE SINGLE MALT SCOTCH WHISKY

JACK DANIEL'S Old No. 7 BRAND Tennessee WHISKEY

GORDON'S ESTD 1769

HIBIKI SUNTORY WHISKY 響

BOWMORE Est. 1779 ISLAY SINGLE MALT SCOTCH WHISKY

BOMBAY SAPPHIRE

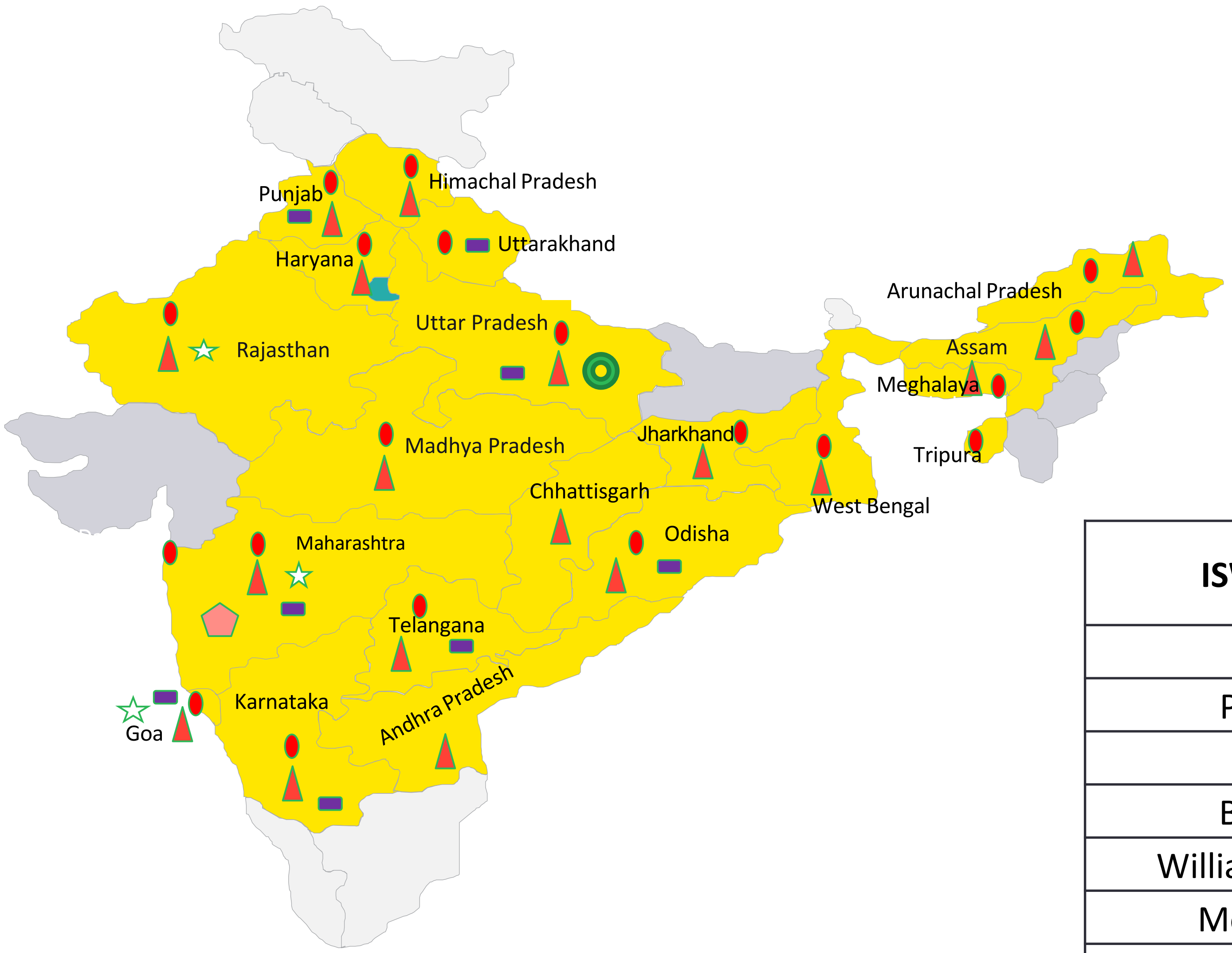
FONDÉ EN 1743 MOËT & CHANDON CHAMPAGNE

THE YAMAZAKI SINGLE MALT WHISKY 山崎

Maker's Mark

GREY GOOSE VODKA

ISWAI Members' India Manufacturing Footprint



- ISWAI members have made considerable investments across India to undertake local manufacture of Indian Made Foreign Liquor (IMFL)
- **~98% of the business of ISWAI members is produced in India**
- **ISWAI members have ~ 46% of the Indian market for branded spirits**
- Key non-ISWAI players – ABD, Radico Khaitan, Amrut, John Distilleries (60+% owned by Sazerac)

ISWAI Members	Manufacturing and Bottling Units
Diageo	44
Pernod Ricard	30
Bacardi	8
Beam Suntory	4
William Grants & Sons	1
Moet Hennessey	1
Total	**88**

The Conundrum that is India – 1/2

- India with a population of 1.3B has intrigued businesses and marketers for decades. Building successful businesses in India requires one to understand and adapt to India's heritage, complexity and scale.
  - ***Scale*** **-** India is the **7th largest country in the world**, covering 2.4% of the world's area; the **second most populous country**, and the largest democracy in the world, contributing to **17.5% of the world's population**.
- ***Cultural context*** **-** India's socio-cultural fabric is continuously evolving, and is an interesting, and often contradictory, juxtaposition of the old and the new.
- ***Complexity*** **-** The country's **diversity** is embedded in its demographic, economic and socio-cultural fabric:
  - ***Demographic diversity*** **- 28** states + **8** union territories; **100** languages and **20,000** dialects; home to multiple religions
  - ***Economic diversity*** **-** Manifested in differential rates of economic development and income distribution – **annual GDP per capita from € 4,800 in Goa to € 2,850 in Haryana to € 500 in Bihar**; India has more than a million Indians who are millionaires (in Rupee terms) - yet most Indians live on less than € 1.1 a day.
  - ***Fragmentation*** **-** An **urban population of 400M spread over 53 cities and 5000+ towns**, and a **rural population of 900M spread over 6,00,000+ villages**.
    - Additionally, fragmentation of consumer attention with the explosion in smart phone usage (750M users, @ 6% CAGR) enabling consumers to consume content over multiple screens.

The Conundrum that is India – 2/2 – Socio-economic trends

- ***Growing Middle and Upper Classes*** **-** Fuelled by better education and job opportunities, India is home to a burgeoning middle class. The sheer number of **middle income households (annual income between £2,300 - 5,800) is ~120M in 2020 *(an increase of 72% over 2016)***, while the **upper class (annual income exceeding £5,800) is ~26M *(an increase of 100 % over 2016)***.
- ***Increased urbanization*** **-** **Urban population**, **at over 50% in 2020**, has been fuelled by increase in job opportunities in urban areas. With the government's push for 'Make in India' & 'Smart Cities', more urban centres are likely.
- ***Growth in Nuclear Families*** **-** Traditionally known for its strong familial ties, Indian society has seen a rapid degeneration of the joint family system in the face of growing urban migration. Nuclear families are now more than 50% of the households in both rural and urban areas, drastically altering the social positioning of women, household consumption patterns, as well as value systems. However, the 'societal core' remains more traditional than what might be expected.
- ***Rising Rate of Technology adoption*** **-** With **internet penetration increasing rapidly to over 80 in 2022** along with the large size of the young population, the rate of technology adoption will only accelerate. While the millennials in 2020 are only 34% of the population, they account for 61% of its internet users and 78% of its online shoppers.
- ***More Globalized and Open Mindsets*** **-** The young population (i.e., Millennials & Gen Z) is better educated, with higher per capita income, more tech savvy and well informed. Therefore, they are also **more receptive to cultural changes giving up entrenched notions and acquiescent to globally accepted liberal values including gender equality, meritocracy, libertarianism, free market and consumerism. Wider acceptance of alcohol consumption.**

The Regulatory side of the Indian AlcoBev business

- Directive principles of Constitution envisage 'Prohibition' – a politically sensitive issue.
- ***Regulatory and Taxing powers of AlcoBev –***
  - Constitutionally, these powers are ***with the States***, ***not with* the Federal government** (empowered to levy only customs duty on imports).
  - India is therefore an **amalgam of 29 different excise territories**, each with its **own set of tariffs and rules** – doesn't make for ease of doing business and economies of scale.
- ***Alcoholic liquor for human consumption is OUTSIDE the Goods & Services Tax net –***
  - Individual **consumption state-wise taxes** applicable
  - **Taxes based both on alcoholic content and price-linked**
  - Subject to **regulatory fees / levies in both – the state of manufacture, and the state of consumption**
  - GST applicable on almost all industry inputs (goods + services) which remain stranded (leading to tax on tax)
- ***Revenues from AlcoBev are often the largest source of own tax revenue for the States –***
  - Consequently, subject to *ad hoc* increases in tax rates to fund budgetary deficits
  - Doesn't help long-term planning and investment decisions!
  - Post the pandemic, there's better appreciation of the criticality of the industry to the states' financial health, notwithstanding cultural mindsets
- ***Role of the federal government vis a vis the AlcoBev industry –***
  - Levy of Customs Duty on imports - **@ 150% of CIF value + 1%**
  - Administration of national regulations like **Food Safety Standards Act, Legal Metrology Act, Consumer Protection Act, Cable Television Network Rules, etc**.
  - Levy of GST and administration of regulations on the inputs for the Industry,

The Indian AlcoBev Market

Trends and insights

Alco Bev Industry completely recovered from COVID

Spirits grew at 12.1% over the last year; Wine up by 18% … Significant Growth in imported brands

Million 9-litre Cases

	2018	2019	2020	2021	2022	CAGR %	Growth vs LY
Beer	309.3	317.0	193.1	227.8	313.9	0.37%	38%
Cider	0.0	0.0	0.0	0.0	0.0	49.53%	
RTDs	3.5	3.8	2.2	2.9	4.0	3.02%	38%
Spirits	335.1	345.2	278.4	327.8	367.5	2.33%	12.1%
Wine	2.7	2.8	2.3	2.8	3.3	4.61%	18%
Grand Total	**650.6**	**668.8**	**476.0**	**561.1**	**688.6**	**1.43%**	**23%**

Million 9-litre Cases

Spirits	2018	2019	2020	2021	2022	CAGR %
IMFL	330.69	340.16	273.81	321.14	358.38	2.0%
BII	3.05	3.33	2.95	3.97	5.26	14.5%
BIO	1.37	1.66	1.63	2.65	3.84	29.4%
Grand Total	**335.11**	**345.16**	**278.39**	**327.76**	**367.49**	

'000 9-litre Cases

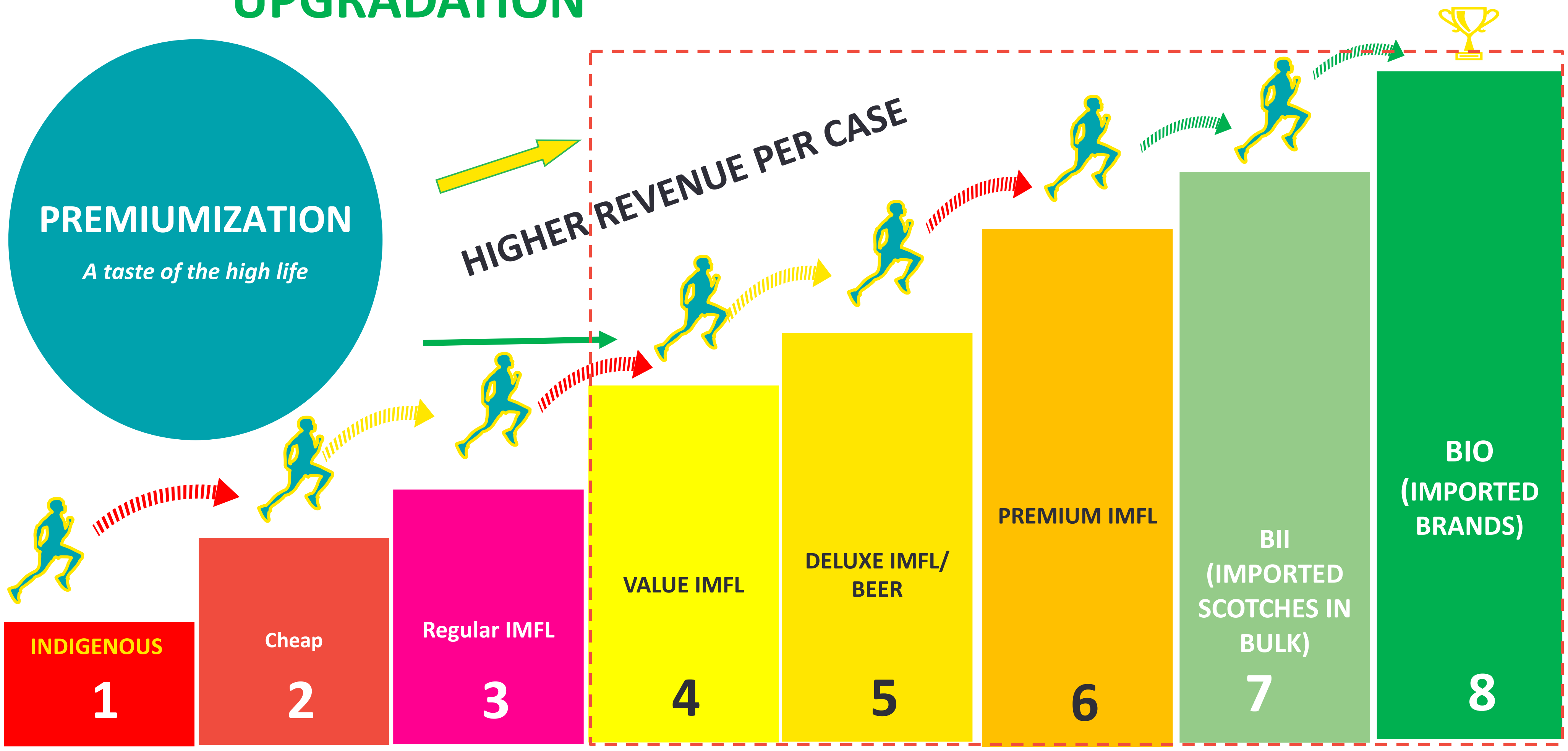
	Volume 2022	CAGR (2018-22)	GoLY
Standard BII	4448.13	13.8%	31.6%
Premium BII	521.67	19.7%	29.3%
Standard BIO	2361.32	30.8%	37.4%
Premium BIO	1769.52	25.6%	58.2%

- BIOs growing faster than BIIs
- Entry level & premium BIO brands have significantly increased since 2021

Premiumization

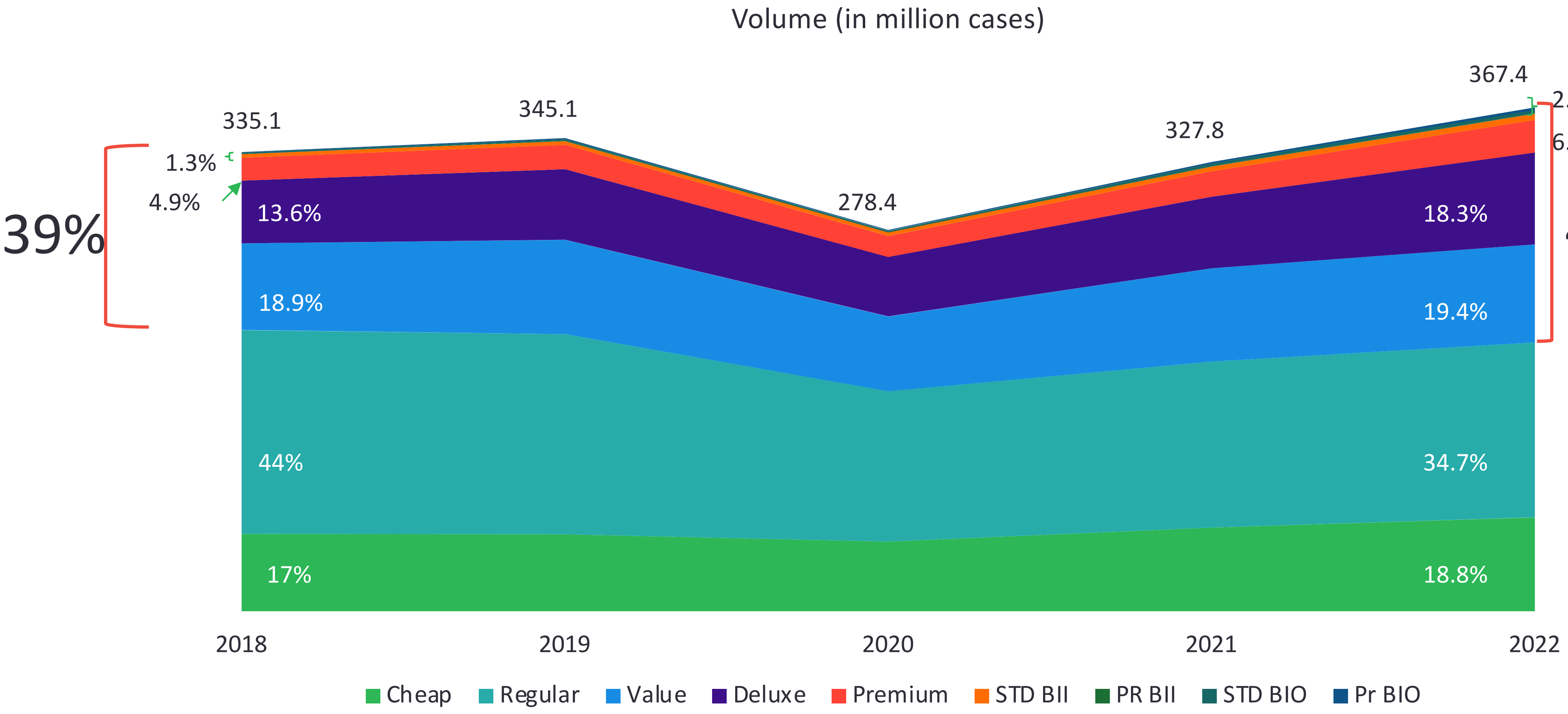
Better Quality and Superior Consumer Experience….

"ENABLING CONSUMER UPGRADATION"



Premium segment taking the lead in growth

Premiumization growth rate of 17% over the last year…



Premiumization Stats

7.1% CAGR (2018-22)

17.6% GoLY* (2021-22)

Segment	CAGR (2018-22)
IMFL total	2.0%
Cheap	4.8%
Regular	-3.7%
Value	3.0%
Deluxe	10.2%
Premium	9.3%
BII total	14.5%
PR BII	19.7%
STD BII	13.8%
BIO total	29.4%
Pr BIO	25.6%
STD BIO	30.8%
Total Volume CAGR	**2.3%**

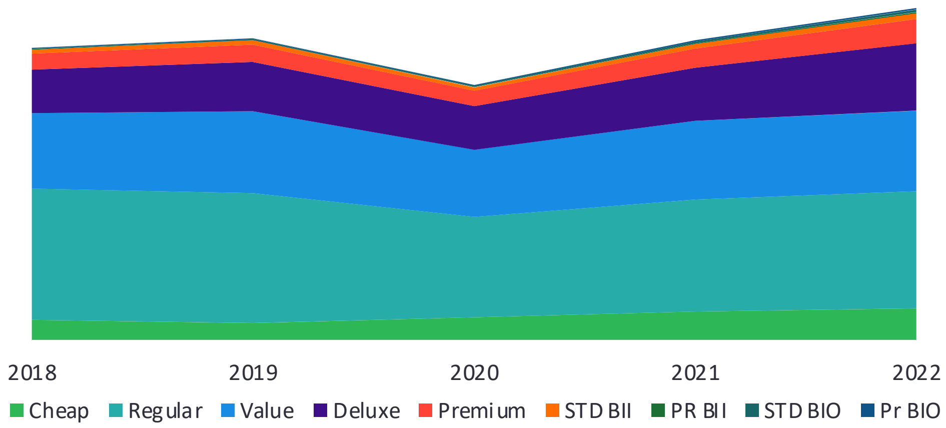
- Volumes have surpassed pre-covid levels.
- Low-priced segments showed a negative growth of -0.1% while premium products grew at 7.1%
- Premium IMFL consumption grew by 17.6% over the last year
- Overall share of premium brands increased from 39% in 2018 to 47% in 2022

*GoLY – Growth over last year

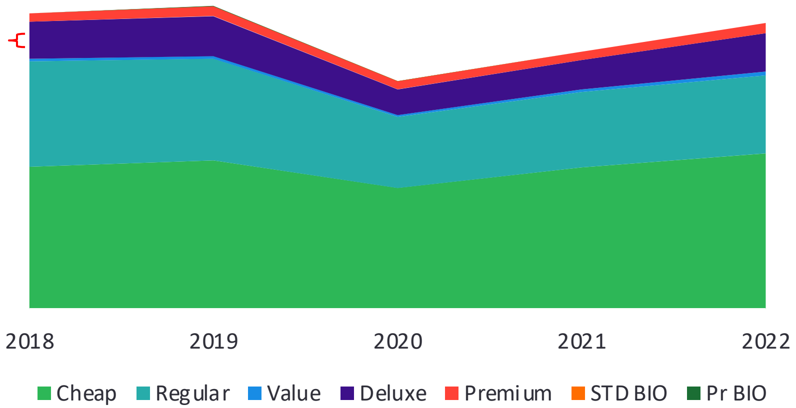
Vodka & Whisky are the biggest contributor in premiumization

Volumes of Whisky & Vodka almost doubled the since 2019…

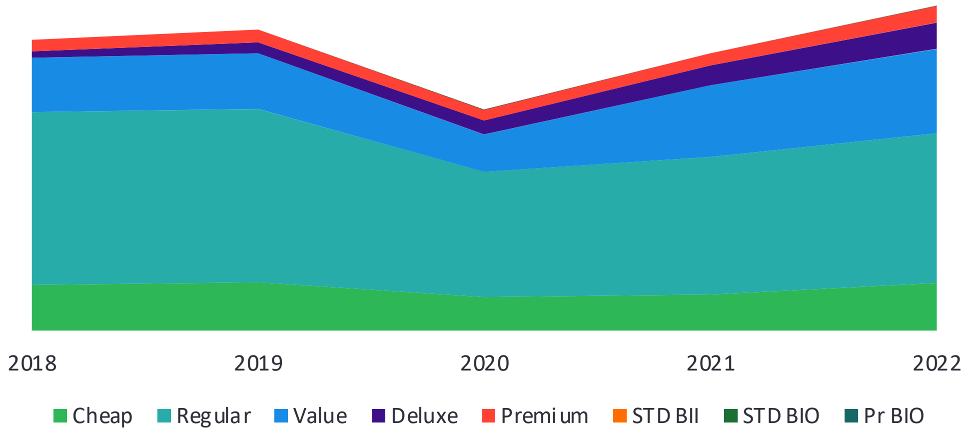
Whisky



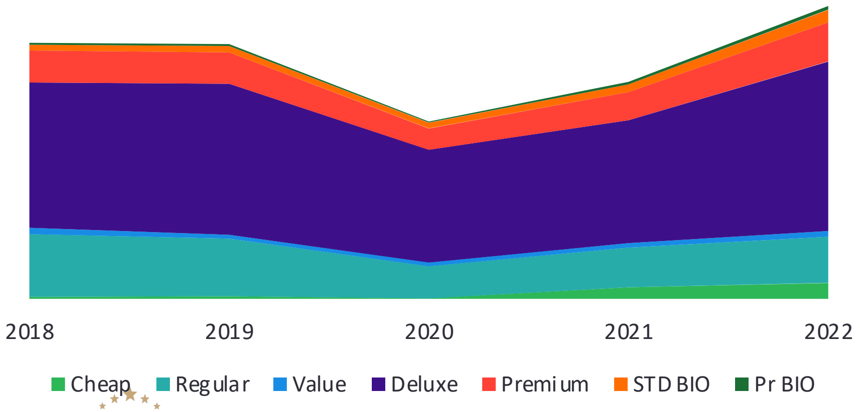
Brandy



Rum



Vodka



Premiumization*		
Category	**2018**	**2022**
Whisky	48%	55%
Brandy	16%	18%
Rum	25%	39%
Vodka	74%	78%

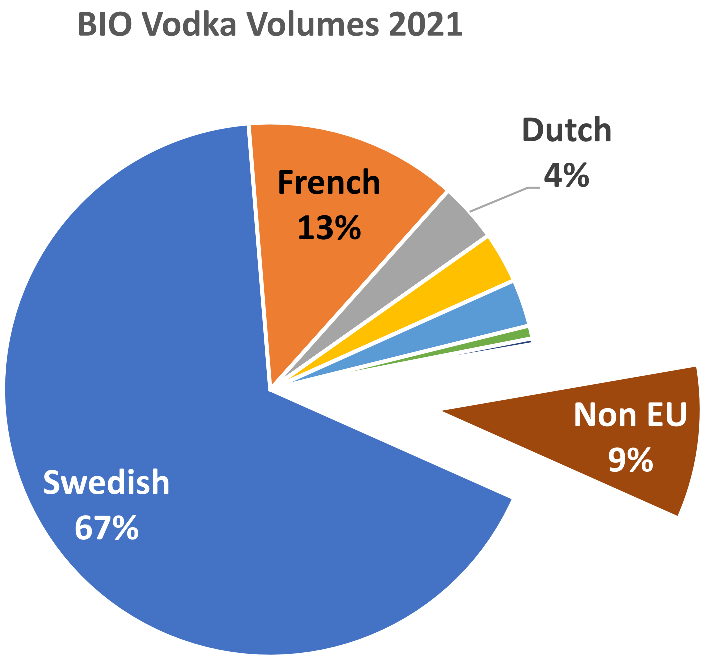
- Increasing premiumization across categories
- Vodka & Whisky are the highest contributor of premiumization
- Increase in premiumization significant for Whisky even at a higher base
- Whisky & Vodka contributes to higher share of imported brands

*Premiumization – Deluxe & Above

Vodka is the preferred white spirit, followed by gin

White Spirit	Domestic	BIO	Grand Total
Vodka	5,900	310	6,210
Gin and Genever	1,203	117	1,320
White Rum + Others	759	22	781
Grand Total	**7,862**	**449**	**8,311**

91% of Vodka Imports into India are from the EU
(Swedish and French Vodka being highly preferred)



Premium Gin as a category is exploding led by new Indian craft Gin brands

	2017	2018	2019	2020	2021	2017-2021 CAGR
Premium Indian Gin	0.3	3.6	114.7	124.5	178.24	394%
BIO Gin	37.53	42.79	64.75	67.89	117.03	33%

Snapshot of RTD Industry in India

Volume (in ‘000 cases)

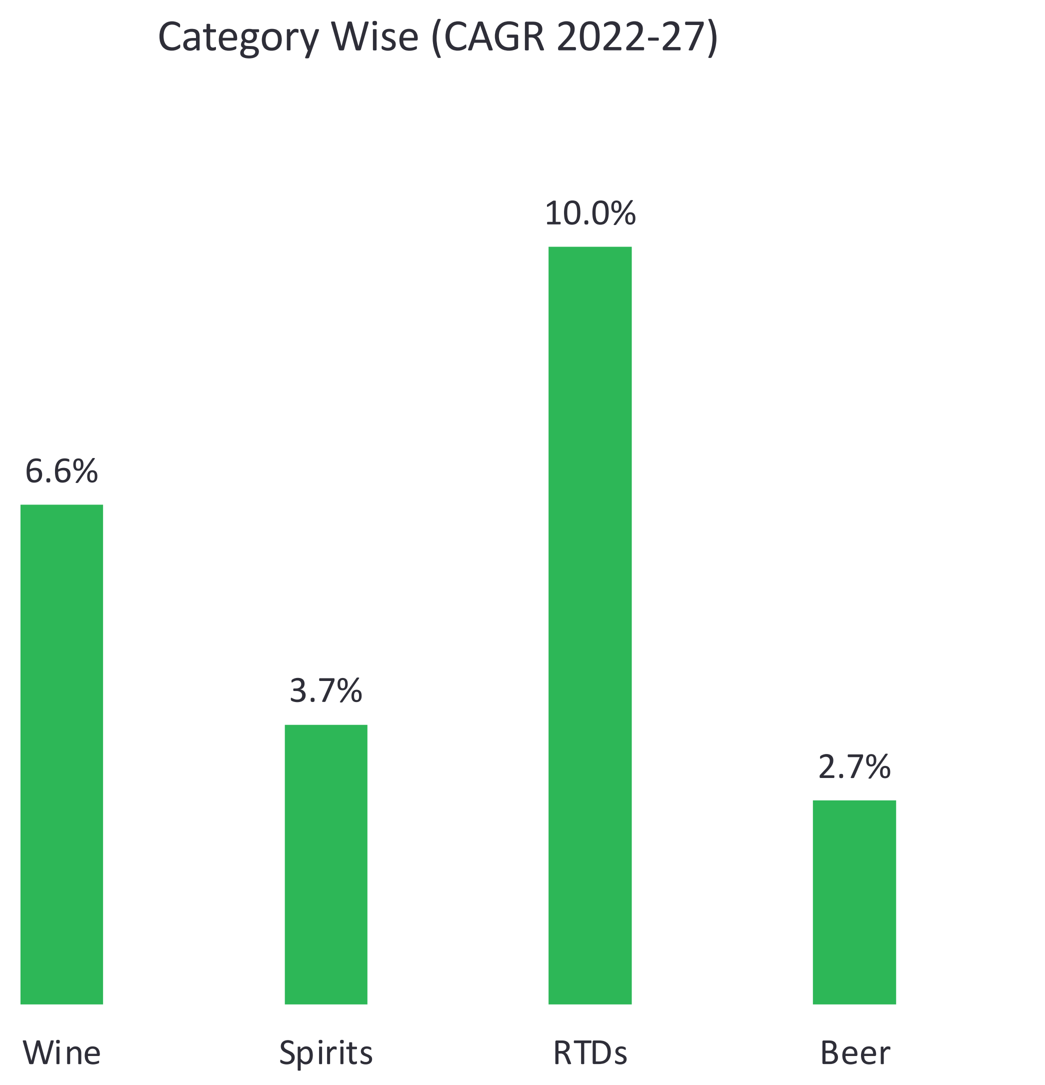
	2018	2019	2020	2021	2022	CAGR 2018-22	CAGR Outlook 2022-27
Cocktails and Long Drinks	943	1023	633	834	1166	5.5%	14.10%
FABs	2591	2818	1604	2018	2804	2.0%	7.40%
Hard Seltzers					10		
	3534	**3841**	**2237**	**2852**	**3980**	**3.0%**	**10.00%**

Key Facts

- Majority of RTDs are Indian made (>99%)
- 33% of total consumption is contributed on-premise
- More than 50% of total RTDs are consumed in the states of Karnataka, Telangana & Maharashtra
- Steady growth of RTDs after being impacted by COVID
- Highest growth outlook amongst the AlcoBev categories as per IWSR, albeit on a lower volume base

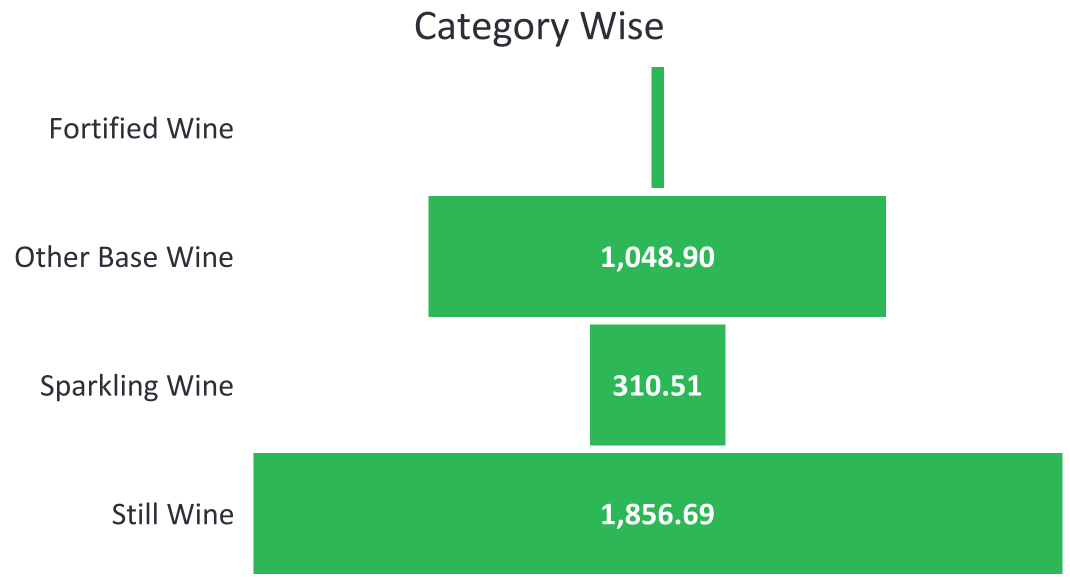
Outlook as per IWSR

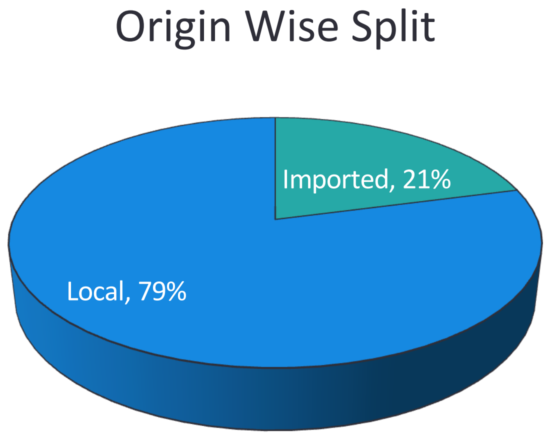
In spirits, outlook for whisky is higher than average growth rate…



*Source: IWSR Annual Report 2022

Snapshot of Wine Industry in India



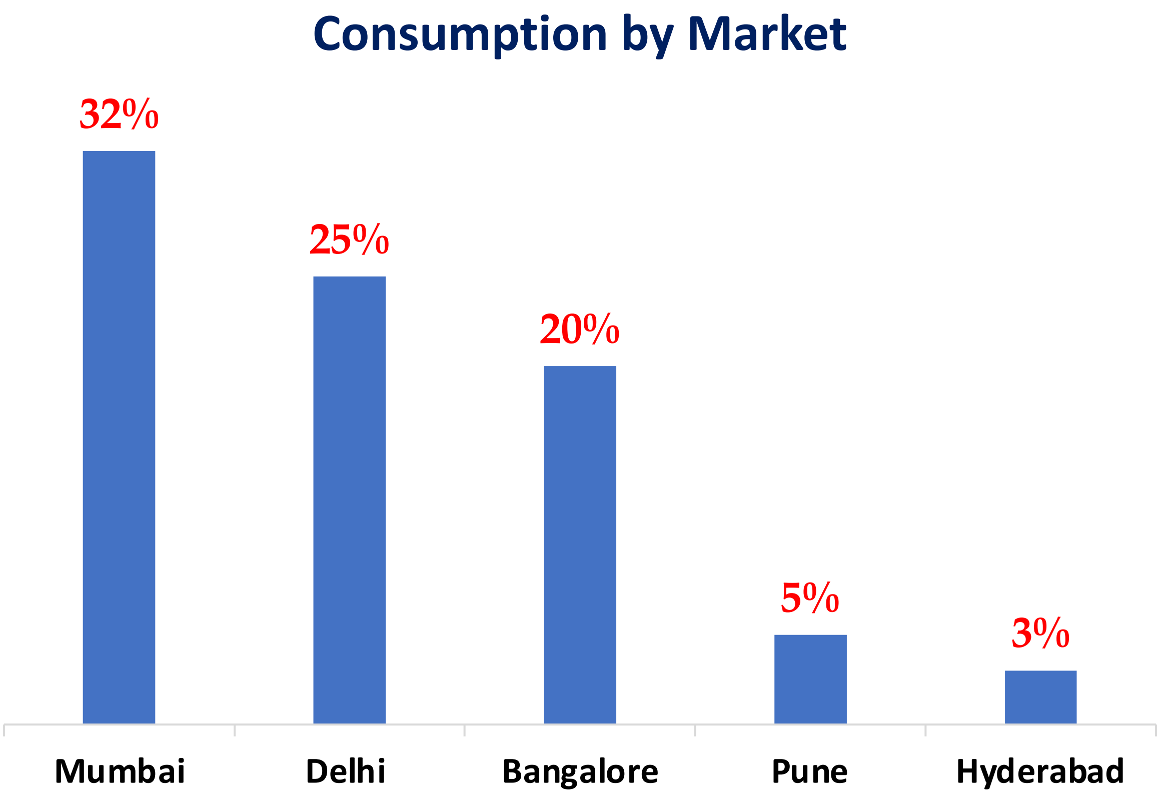


Key Facts

- Wine Category growing higher than the overall alcobev and most other categories, albeit on a lower base
- Majority of the consumption is Indian Made wine. Imported wine contributes ~21% of the total consumption
  - Australian Wines are the most preferred imported wine in India
- On-Premise contributes to ~33.6% consumption in Wine. (Highest among the other alcobev categories)
- Sula, Fratelli & John Distillers contribute to more than 50% of the entire Wine market

	CAGR 2018-22	CAGR 2022-27
Fortified Wine	-2.7%	11.7%
Light Aperitifs	9.8%	6.7%
Other Wines	1.1%	6.7%
Sparkling Wine	18.2%	9.4%
Still Wine	5.2%	6.0%
Total Wine	**4.6%**	**6.6%**

Wine consumption – by market

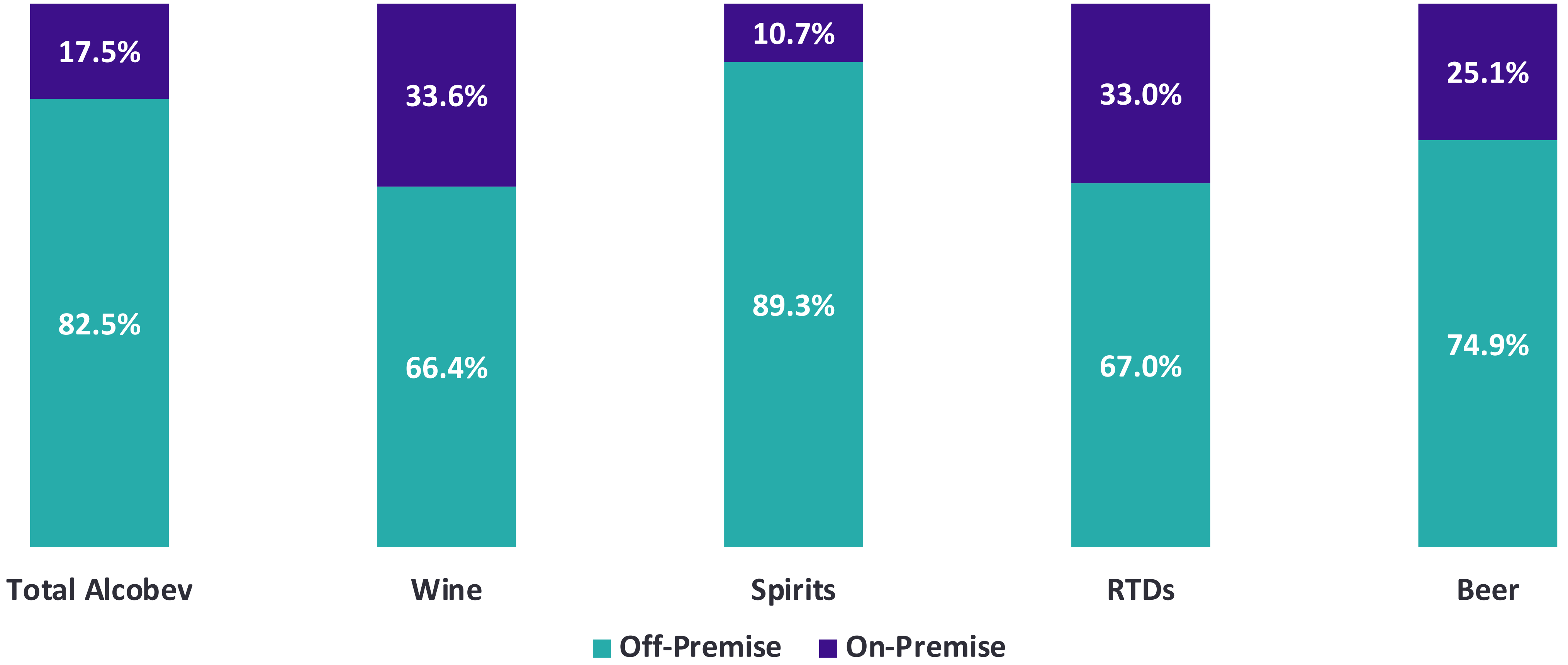


Source: https://www.india-briefing.com/news/emerging-opportunities-in-indias-wine-market-investment-industry-potential-22334.html/#:~:text=For%20example%2C%20in%202018%2C%20red,limited%20to%20experienced%20wine%20drinkers.

Source: https://agriexchange.apeda.gov.in/Weekly_eReport/Wine_Report.pdf

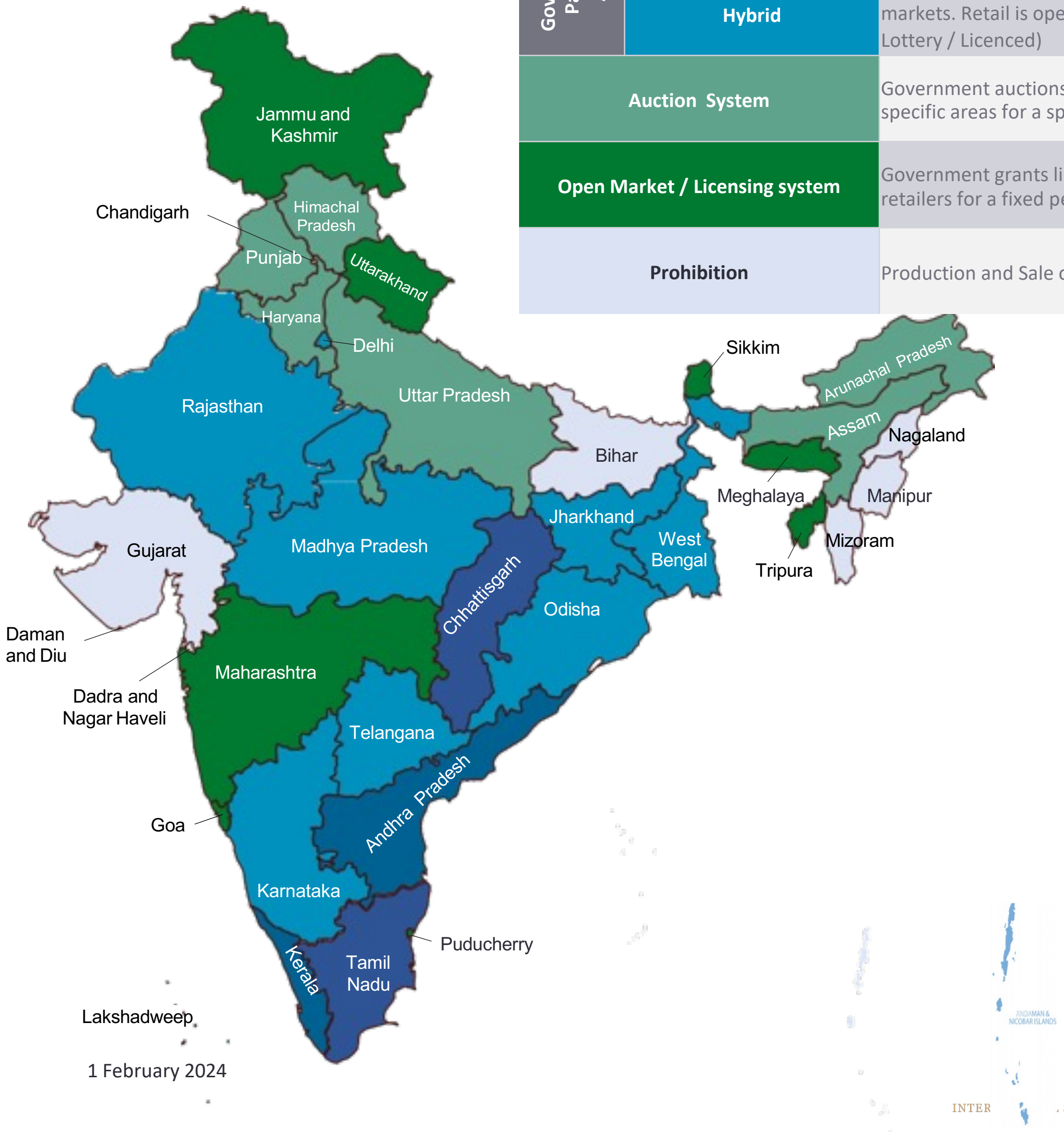
- According to Wine Intelligence, most of India's wine consumption takes place in urban centres, including Mumbai (32%), Delhi (25%) Bangalore (20%), Pune (5%) and Hyderabad (3%)
- by Delhi, Bangalore having significant consumer share for wine.
- These 5 cities together account for 85% of the total wine consumption in India.

Channel Split By Beverage Alcohol Category – 2022



AlcoBev Route-to-market

Government / Parastatal Agency	Full control	Government / Parastatal agency controls the entire RTM - both wholesale and retail
	Hybrid	Government / Parastatal agency controls the wholesale markets. Retail is open for private participation (Auction / Lottery / Licenced)
Auction System		Government auctions the right to wholesale and retail in specific areas for a specific period to private entities
Open Market / Licensing system		Government grants licenses to distributors as well as retailers for a fixed period and a fixed fees
Prohibition		Production and Sale of Alcohol is prohibited



- Regulations vary across states – India is 29 different 'countries' – 6 states 'dry'.
- Highly regulated - covering every facet of business. Rules that apply to other industries do not necessarily apply to Alcobev.
- Branded AlcoBev Retail trade outlets - just ~ 85,000 – increase is a political and very sensitive decision.
- Heavily taxed - Today, branded industry grosses over **INR 250,000** crore in taxes*
- The second largest revenue contributor to the States
- On average, State Levies are ~ 60-75% of the street price. (i.e., street turnover is between INR 350,000 - 400,000 Crore)
- State agencies play a big part in the AlcoBev trade – wholesale, retail or both.
    - Roughly 4-in-every-5 cases are sold to a state-owned parastatal agency.

* Source State Budget documents for the year 2022-23

Sharing the End Consumer price

- AlcoBev products are subject to state duties and taxes on the base price.
- Unlike other products, the taxation on AlcoBev is a ***multiple*** of the base, e.g., in **Maharashtra**, where the **consumer pays 6x of the suppliers' price**

  Supplier (including COM & Licence Fees) : Government Taxes & Duties : Gross Trade Margins :: 1 : 4.3 : 0.7

- In another case (**West Bengal**), where the **consumer pays 6x of the suppliers' price** –

  Supplier (including COM & Licence Fees) : Government Taxes & Duties : Gross Trade Margins :: 1: 4.5 : 0.3

- The consumer's rupee for BIO products in **Maharashtra** is split in the following proportion – the BIO consumer pays **2.94x** of the supplier's non-BCD price.

  Supplier : Trade : BCD : State Taxes :: 34% : 10% : 10% : 46%

- On average, 60-75% of the street price is made up of duties and taxes!

Thank you!

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