Wine Industry in Maharashtra: An Analysis

Sudipto Mitra

Two of the country’s biggest grape-producing districts, Nasik and Sangli, are in Maharashtra; 20,000 hectares of vineyards here grow more than one lac tons of grapes a year. As much as 99 per cent of the grapes is used for making honey, crushes and jams, or consumed fresh or dry. The rest is used for making wine. Thus the opportunity in this sector is immense and given proper help and guidance this sector can be of great help for employment as well as for earnings.

General rules for bar owners as framed and maintained by the local municipal corporation (as per schedule “e” or “fl3” for grant of licenses) are:

- Silver plating of the utensils to be used in the bars compulsory.
- Fire license to be procured before starting off with the operations.
- Glass tumblers a must for all bars for serving wines etc.
- Pest control to be done regularly.
- The minimum size to be operational is 450 sq. feet.
- Tiles compulsory for the floor.
- Clean uniforms for the waiters in the bars.
- Separate place for washing utensils.
- Kitchen to be a minimum distance from the actual serving place.
- Twice painting of the walls of the bars every year.
- Restaurant/bar to be cleaned twice per day.

Before actually applying for the license, one is required to operate the bar/restaurant for six months.

After applying for the license one is required to pay the fees which may vary between one and half lacs to two lacs depending on a number of factors.

When the bar premises is finally checked by the medical department of the municipal corporation then only license is issued after getting the signature of the concerned medical officer.

Then he is allowed to operate provided he pays the fees regularly for every year in time. Also there are surprise visits by the flying police squad to check if everything is under control. If not then heavy fines may be imposed on the owners. The challans are the official fees paid through the medium of banks to the municipal authorities and they may be the regular taxes (i.e. the taxes to be paid compulsorily per annum) or the fines imposed on the bars etc. The amount of fines imposed is generally in the range of twenty five to fifty thousand and these are huge source of income to the municipalities who make lacs of rupees only through these means.

Though all these procedures calls in for a lot of malpractice yet the level of corruption varies as there are also some generous people around so that has been one of the primary reasons for the opening up a large number of bars in the streets of Maharashtra.

Three types of licenses given for foreign liquor by the government

THREE ARE FL 1, FL 2, and FL 3.

- FL 1: permit for purchase of liquor directly from the distilleries and sale to fl2 or fl3 license holders.
• FL 2- permit for purchase of liquor directly from the fl 1 license holders and sale to the local public but can’t sell liquor to fl 3 license holders.
• FL 3- permit for purchase of liquor directly from the fl 1 but not from fl2 license holders and sale to all. This license is generally given to the hotel owners.

A few problems faced by the wine industry
One of the other reasons why wine drinking has not caught on is that quality wines are priced relatively high. Since the volumes are low, production costs are high, as are taxes. Thus the real challenge for winemakers in India is to develop a domestic market, and that is where the problem arises.

“Traditionally wine lovers around the world have some kind of a mental block against Indian wines. They are just not comfortable with the Made in India tag.”

The domestic excise policy, with an ‘insane’ 300 per cent duty slab on each bottle is the huge prohibiting factor: the growing breed of wine importers, as well as Indian makers of wine, are waiting for a rationalisation in the policy, which will allow freer, cheaper imports, as well as an opportunity for Indian wines to be available easily all over the country.

The wine industry is both competitive and challenging. It exhibits the characteristics of the consumer packaged goods (CPG) industry – aggressive brand building supported by large advertising and event budgets, combined with high manufacturing costs. But a key differentiation in the wine industry is the relatively higher packaging costs– glass bottles, labels, foils etc. So a key challenge for the company was to manage the distribution of the finished goods.

A few others are listed below:-

• Scarcity of water could be accounted for as the chief cause responsible for the wine industry as the grape cultivation suffers from unseasonal rains.
• Inadequate help by the government authorities to the wine sellers or bar owners as far as promoting this industry is concerned.
• Ministry of Finance has imposed additional duty on imported liquor with effect from 1.4. 2001 as countervailing duty in lieu of excise duties paid by domestic liquor products in different States. These were imposed at the rates of 75%, 100% and 150% on ad valorem basis for three different categories of CIF value. Considering the already high customs duty on such liquor, the overall duties on import of liquor have gone up to 463% to 706% on different types of products. Such high duties are totally counter productive and were not justified for providing protection to local liquor companies.
• State Government have also imposed very high Sales Tax on consumption of imported liquor in restaurants and bars.

Measures taken by the government for reviving the industry
The Maharashtra government has decided to pare the license fee hike for five liquor categories to 150-200 per cent. In October 2001, the government had announced a 200-400 per cent hike in the license fees for various categories. A government media release said while the license fee hike had been announced in 15 categories of liquor, a rethink in the wake of protests by the liquor industry has resulted in the new decision, restricting the hike to certain categories.

The five categories of liquor manufacturing and sale for which the license fee hike would be restricted to 150-200 per cent are the wholesale segment of foreign liquor, retail segment of foreign sale, permit rooms and wholesale and retail sale of country-made liquor.
The release said the decision was in response to repeated pleas by wholesalers’ and retailers’ associations that an unrealistic license fee hike would run these segments of the industry out of business.

The government also decided to levy an additional sales tax on country-made liquor manufacturing units at Rs 18 per box.

This will result in additional revenue of Rs 28 crore annually for the state and is intended to offset the notional loss that would arise out of the decision to restrict the license fee hike that has been announced, the official release said.

The state government’s decision in October, 2001, to raise the license fees for liquor manufacturing and sales had evoked widespread protests from wine merchants, restaurateurs, permit rooms and manufacturers who felt they were already burdened with a high levy. Wine shop owners in particular felt that their business would be the most hit as they could not pass on the cost to their customers since they are in the retailing sector where prices of products are pre-determined.

Hotel and restaurateurs, especially from Mumbai, contended that passing on the cost burden of the high license fee to the customer would be an unviable option in the wake of the already dwindling numbers in their clientele.

A couple of shutdowns were observed by the retailing sector and representations were made to the state government to desist from introducing such a huge hike in the license fee. The decision restricting the fee is seen as a fallout of these protests.

Maharashtra has also announced a grape processing industrial policy incorporating incentives like excise duty reduction on wines, sales tax concessions, simplified processes and procedures, fixed license fees for a 10 year period and creation of a wine institute and a grape board for quality control, certification and export promotion.

Wine Parks
Illustrating yet another instance of focusing on the comprehensive industrialisation of the state, the Government of Maharashtra announced a visionary Grape Policy; it incorporates incentives such as a drastic reduction in excise duty on wines.

To encourage value addition on grapes a Grape Board is proposed to be set up for quality control, certification and export promotion. Considering a long-term growth strategy for the industry, a Wine Institute is also to be set up, to ensure maintenance of International quality and provide trained manpower. After detailed and extensive research for the various regions in the state, an Agri Export Zone for the grapes, encompassing the districts of Nashik, Pune, Sangli and Solapur, has been approved by the Ministry of Commerce. Services rendered to export units shall also count as exports. MIDC is giving concrete shape to these government initiatives by setting up Wine Parks with International comparable infrastructure at Vinchur, near Nashik & Palus, near Sangli.

Horticulture Development Programme-new plans taken up by the Maharashtra Government
The Yashawantrao Chavan Open University, Nashik has developed course curriculum in local language i.e. Marathi, with a part time education pattern that too with more practicals normally conducted on weekends. Besides this there are private colleges wherein even the facility of biotechnology is available. The Maharashtra State Agricultural Education and Research Council conducted massive training courses of six months duration on minimum qualification basis to increase the human resource in the field of horticulture.
Maharashtra opens doors to wine bars, happy hours for vineyards

Wine bars could soon be dotting the lanes and by lanes of small towns in Maharashtra. The state government has permitted the setting up of exclusive wine bars - no other kinds of liquor will be allowed - for an annual license fee of Rs 5,000. However, the license fee for such wine bars in Mumbai will be higher, at Rs 37,500. The Rs. 5000 limit is applicable to all areas outside Mumbai, including Thane and Navi Mumbai. Industry sources said other states are also planning to follow Maharashtra’s example.

This is expected to provide a boost to the Rs 40 crore Indian wine industry which is in its infancy. Wine is yet far to figure in the average Indian tippler’s priority list. But a series of promotional events and tasting sessions organised last year by up market restaurants and five star hotels have created awareness and interest, at least in the metros. While licenses for liquor and beer bars are issued only in places where food is served, the wine bars will not have any such stipulation. It can restrict itself to serving wines. Ranjeet Samant, who set up Sula Vineyards at Nashik said “This is a major step that will promote the wine industry in Maharashtra.” Vikram Chaugule of the Indage group said he is all set to start exclusive wine bars in Mumbai and other parts of the country.

State Bank of India, for the first time in the country, has taken the initiative for helping the grape growers, project UPTECH, to increase their yield in Maharashtra. Talking to press persons, officials said the bank is allocating Rs 30 lac initially for the project. To begin with, the bank has identified 25 farmers each in the districts of Tasgaon (Sangli), Pimpalgaon (Nasik) and Pandharpur (Solapur). The project is expected to be completed within four years. They noted that the bank would play only a catalytic role in the development of grapes by bringing closer the scientist and the farmers for technological upgradation.

The Finance Minister has reduced the customs duty on import of liquor from 210% to 182%. Government had also given a commitment to WTO that this will be reduced to 150% by 2004. They have therefore started the gradual reduction. Last year Government had introduced CVD or additional duty on ad valorem basis in 3 slabs. This duty was 150% on imported liquor of CIF value of under US$20 per case, 100% on imported liquor with CIF value between US$20 to US$40 and 75% on imported liquor with CIF value of over US$40 per case. The combined effect of the basic duty, SAD and CVD took the total duty on imported liquor to 706%. Finance Minister has now reduced the CVD and made it into 2 slabs. Imported liquor with CIF value under US$25 per case will attract additional duty of 75%. All other liquor with CIF value over US$25 per case will have CVD of 50%. Thus there is a substantial reduction on CVD and the industry is happy with this. The peak total duty will now be as follows:

<table>
<thead>
<tr>
<th>CIF value</th>
<th>Wine &amp; beer</th>
<th>Other spirits</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to $25</td>
<td>Old 420%</td>
<td>New 266%</td>
</tr>
<tr>
<td>above $25</td>
<td>Old 316%</td>
<td>New 214%</td>
</tr>
</tbody>
</table>

These duties are applicable with immediate effect.

Note:
CIF - MEANS THAT THE SELLER DELIVERS WHEN THE GOODS PASS THE SHIP’S RAIL IN PORT OF SHIPMENT.
CVD - THE DUTY TO BE PAID ALONG WITH BASIC CUSTOMS DUTY AND SPECIAL ADDITIONAL DUTY FOR THE IMPORTED ITEMS.

Various taxes and duties applicable to the wine industry
Excise Duty
Additional Duty
Distillery/Brewery License Fee  
Bottling fee  
Litterage fee  
Assessment Fee  
Franchise Fee  
Permit Fee  
Gallon age Fee  
Raw Material Excise  
Availability Fee  
Brand/Label Fee  
Permit Fee  
Transportation Fee  
Import Pass Fee  
Export Pass Fee  
Educational/Welfare Cess  
Vend Fee  
Sales Tax/Surcharge  
License Fee  
Toll Tax  
TOT (full form)

**LIQUOR Bottled in India:** Products imported in bulk for bottling in India attract import duties of 222.4% besides local excise duties on par with Indian made products.

### Tariffs on imported wines and spirits

<table>
<thead>
<tr>
<th>Border duties</th>
<th>Additional Custom Duty</th>
<th>Total</th>
<th>Bound rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whisky, rum, vodka, liquours</td>
<td>222.40%</td>
<td>75% of landed value for CIF price greater than US$ 40 per case</td>
<td>468%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>100% of landed value for CIF prices US$ 20-40 per case</td>
<td>706%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>150% of landed value for CIF prices less than US$ 20 per case</td>
<td>150%</td>
</tr>
</tbody>
</table>

(Source: EXIM Tariffs)

### Comparison of the three types (Rupees)

<table>
<thead>
<tr>
<th>CIF value per case/ bulk litre</th>
<th>BIO</th>
<th>BIII</th>
<th>MFL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1000</td>
<td>1000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic Duty</td>
<td>2100</td>
<td>2100</td>
<td></td>
</tr>
<tr>
<td>Special Additional duty</td>
<td>124</td>
<td>124</td>
<td></td>
</tr>
<tr>
<td>Landed price</td>
<td>3224</td>
<td>3224</td>
<td>1000</td>
</tr>
<tr>
<td>Labelling packing</td>
<td>60</td>
<td>60</td>
<td></td>
</tr>
</tbody>
</table>
Markets & Regulations

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount 1</th>
<th>Amount 2</th>
<th>Amount 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport/Spl fee, 15.5/bulk litre</td>
<td>140</td>
<td>140</td>
<td></td>
</tr>
<tr>
<td>Vend fee, Rs 2 per litre</td>
<td>18</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Countervailing duty 70% BIO, Excise Rs.77 per litre BII/IMFL</td>
<td></td>
<td>2256.8</td>
<td>693</td>
</tr>
<tr>
<td>Octroi, 7%</td>
<td></td>
<td>439.9</td>
<td>240.9</td>
</tr>
<tr>
<td>Trade Permit, Rs 100 per case</td>
<td></td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Distributor price</td>
<td></td>
<td>6038.7</td>
<td>4475.9</td>
</tr>
<tr>
<td>Margin 10%</td>
<td></td>
<td>603.9</td>
<td>447.6</td>
</tr>
<tr>
<td>Retail Price</td>
<td></td>
<td>6642.6</td>
<td>4923.5</td>
</tr>
<tr>
<td>Sales tax 20%</td>
<td></td>
<td>1328.5</td>
<td>984.7</td>
</tr>
<tr>
<td>Consumer Price per case 9 litre</td>
<td></td>
<td>7971.1</td>
<td>5908.2</td>
</tr>
<tr>
<td>Price per bottle 750 ml</td>
<td></td>
<td>664.25</td>
<td>492.35</td>
</tr>
</tbody>
</table>

- Illustration based on a lower-end product attracting 70% countervailing duty
- Local tariffs applied based on Maharashtra values

Bio-Bottled in origin

BII-Bottled in India IMFL-Indian made foreign liquor

Case study: Success story of a new firm in midst of crisis

The most recent entrant into the Indian wine market is Sula, complete with labels of almost California sophistication. This is not so surprising since it was set up about seven years ago near the town of Nasik, 200 km north-east of Bombay, at an altitude of 600 metres, by a young returnee from Silicon Valley. Sula Brut and Sauvignon Blanc will be a welcome addition to India’s smarter wine lists.

“None of these wines is of premier rank but they are certainly up to good Vin de Pays status - although, as in all hot countries relatively new to wine, both local and imported wines are clearly extremely vulnerable to poor storage and transport conditions.” - Jancis Robinson

India is an unlikely place to find a serious winery, and Rajeev Samant is an unlikely candidate to create one. But his Sula Vineyards, now in its fourth vintage, is proving that success can be achieved against even the heftiest of odds. For starters, Samant, 35, is a city boy. Born into an affluent Bombay family, educated at Stanford University in California, he cruised through life in the comfort zone, getting invitations to the trendiest parties and landing top jobs, the most recent of them with Oracle in Silicon Valley during the dot-com boom years of the mid-1990s. Back then, he was a bon vivant with a penchant for snazzy shirts, pretty girls and exclusive night clubs. Friends looked at him askance when he announced grand plans to start a vineyard from scratch.
What Samant knew about the world of Indian farming—a realm of shocking poverty where lumbering oxen still pull the plow—could comfortably have been written on the back of a computer chip. Rural India is a world of early nights, arranged marriages, centuries-old traditions and fervent religious customs, a place where cows wander freely on the main highways and through food markets, women clad in brightly coloured saris balance large loads on their heads, and half-naked sadhus (wandering holy men) with waist-length beards pad around barefoot in a daze of incense.

Samant knew even less about wine than he did about life in his homeland’s agricultural provinces. He was a thoroughgoing amateur whose only foreknowledge of wine was that imparted by a wine-buff former girlfriend who hailed from Modesto, Calif., home of E. & J. Gallo. The technical side of winemaking, not to mention the actual physical process of planting, growing and tending grapes, had never entered Samant’s mind during his time at Oracle.

Nevertheless, Samant decided to give winemaking a try. "It was a leap into the unknown," he now concedes. In the end, however, he has created one of India’s first truly international-class wines, as well as a showcase facility that can hold its own aesthetically and viticulturally with those of California and Australia.

The whimsical, back-of-an-envelope plan progressed into serious research and detailed spreadsheets. One early piece of excellent news—that the climate in this northern part of Maharashtra state, some 120 miles northeast of Bombay, is suited for growing wine grapes—spurred Samant on. He staked a claim to his family’s land near the city of Nasik, cobbled together $1 million from family, friends and banks, and went to work.

"Basically, people invested their faith in me. That gives you complete freedom, but it also puts all the responsibility on you. Nobody had really tried before in India the way I tried—by analysing it scientifically and doing the homework. I looked at the climate data and realised it was similar to parts of Sonoma from a grape growing point of view."

But Sonoma was a world away, and Samant needed specialised knowledge that was not available locally. Enter California-based winemaker Kerry Damskey, whose consultancy, Terroirs, has been involved with Sula since the early days. During three decades in the business, Damskey has overseen start-ups and designed production systems that can crank out millions of cases of wine.

Damskey first visited the site in 1995. "When I was first approached, my initial reaction was ‘I didn’t know they had wine in India,’” Damskey says. Now he knows better. "It was very exciting, a real adventure. My role here is in defining the vision and creating a road map.”

He adds that Sula’s product showcases serious winemaking. "The Sauvignon Blanc has a floral intensity. It also has the character of New Zealand or South Africa, with both mineral content and structure."

The peculiarities of the climate—year-round dusty heat and dryness, alleviated by a monsoon dousing between June and September—prevents the vines from undergoing their usual winter shut-down. To deal with this, Sula’s staff prunes after harvest and saves new shoots, which become fruiting canes for the following year’s crop.

Water, the most precious commodity of all in the bone-dry summers in rural India, comes from an expansive lake, located a short stroll from the scenic 35-acre Sula Vineyards. All the main winery buildings were constructed from scratch, as was a ranch-style, four-bedroom house designed by top architect Rahul Mehrotra, who has studied at the Harvard Design School and whose résumé includes corporate offices, private homes, museums and an orphanage.

Another common hidden cost appears to have been avoided, or at least minimised. In a country where baksheesh ("bribery") is a way of life, the winery boss claims to have had no trouble with shakedowns. "It is routine, but there have been no major demands," Samant says. "Authorities have all sorts of discretionary powers. They can shut down your plant and there is nothing you can do about it. Before we started, it took us 18 months to get a total of 200 signatures. The village head man also had to give his assent." Not exactly the perfect situation into which a winemaking neophyte could plunge. But
Markets & Regulations

Centre for Civil Society

Samant foresees fewer problems for startups in the future. "Things are changing," he maintains. "A total of 10 new wineries have now applied for licenses."

This is just one of the many ways in which a club-crawling city kid has taken the nascent Indian wine business by storm. Far from being the white elephant venture predicted by the head-shakers and naysayers, Sula is garnering positive reviews, and its bottlings are now found at top restaurants and hotel bars in India. Samant’s marketing is simple and effective: Sula pitches itself as the first Indian wine of true quality, a homegrown product made with international techniques.

Interest has been such that Sula can barely meet the demand for its three main wines—Sauvignon Blanc, Chenin Blanc and a méthode champenoise sparkling wine made from local table grapes and Chenin Blanc. Recent additions to the small stable are a blush Zinfandel, made from grapes grown on the estate, and an imported Chilean Merlot, the latter labeled under the name Satori. Before long, Sula will introduce its first red wine, a Cabernet Sauvignon fleshted out with a small amount of Shiraz, again made from locally grown grapes.

"We are pretty much selling everything we are producing," Samant says. "We have started getting inquiries from abroad. This year we will do 8,000 cases, compared to last year’s 4,000. Next year, I think we could go up to 12,000."

Better than good, business looks to be on the verge of booming. "This year we will make an operating profit and a small profit after depreciation costs," Samant says. "In another two years, we should be able to pay off our loans. It is a very capital-intensive business, especially for a startup like ours. And all our supplies have to be brought in. We import corks from Portugal, foil from Spain, yeast from Australia and barrels from France." There are other obstacles to surmount. Drinking alcohol, for a multitude of economic, religious and cultural reasons, is not a major part of Indian culture. Only the bigger cities have the bars and nightclubs common in the West. But Sula’s timing has coincided nicely with India’s awakening from an extended period of economic slumber. Current government policy is to relax previously stifling foreign investment rules, a decision that has led to an avalanche of overseas money for the country’s computer, telecommunications and manufacturing industries.

Based on the gung-ho outlook for the economy at large, Sula is expanding apace through the rest of the vast country, targeting Himalayan hotels in the far north, castles of Rajasthan’s desert in the west, gourmet restaurants in the central capital, New Delhi, clubs in the commercial port of Bombay, and beach resorts in the hot and sunny south. Samant unashamedly basks in the high profile Sula has given him. The goateed entrepreneur’s grinning image can be seen regularly in magazines and newspapers. "He is a very sociable guy," says Udita Jhunjhunwala, entertainment editor of the Bombay newspaper Mid-Day and Samant’s longtime pal. "People here don’t know that much about wine, but they do know the image. I think Rajeev is cultivating a wine culture in India."

Two other people heavily involved in the wine boom are also friends of Samant. Importer Sanjay Menon and American-trained restaurateur Rahul Akerkar see it as their mission to educate people about wine, not just make a quick buck from selling it. "Some people are knowledgeable and others drink wine because it is the thing to do," says Akerkar, who stocks Sula and other India-made wines at his fashionable Indigo restaurant, along with bottlings from Bordeaux, California and Australia.

"I would say that, by and large, aromatic New World wines are more popular here than the big French wines. It has to do with the climate and the food. I think Sula is producing very good and very drinkable wine. We have it on our wine list—it would be criminal not to, because it is a fledgling industry which we want to support." Wine tastings and winery visits by suppliers are all part of the long-range program, designed to put Sula firmly on the map. Internationally, distributors are being sought in the United States and the United Kingdom with the aim of making Sula an option on Indian restaurant wine lists, the hope being that an association will form in much the same way Tsingtao beer resonates with Chinese restaurant diners. In the face of all this aggressive expansion, Samant’s skeptical friends have had to eat humble pie—accompanied, of course, by a glass of Sauvignon Blanc. The winemaker is now a
regular host to Bombayites keen to leave their elite clubs, bars and restaurants to see the winery firsthand; venturing into rural India is often as novel for them as it was originally for Samant.

"Almost all my friends are in banking, consultancy or the media," says Samant. "Originally, they wondered why I wanted to head out to this godforsaken place. They looked at me as if I had gone mad—they thought I would lose my shirt.

"I love coming up to the winery now. There are not many professions where you can get a life like this. There is great karma wherever you go. Doors open for you."

Mark Graham is a freelance writer and photographer based in Hong Kong. Germany’s Reh Kendermann Weinkellerei GmbH is rated among the world’s top five wine producers, boasting 11 production facilities in six countries and backed by a marketing and distribution network in 86 nations.

The company formed a joint venture called Reh Winery (India) Private Limited with the V.K. Gupta family to set up an integrated agro-based project for the manufacture, processing and bottling of international quality still and sparkling wines in India. The production unit was to be set up in Nasik, Maharashtra with an administrative office in Mumbai. The German partner would hold 74 per cent of the equity capital with the remainder with Vinit Kumar Gupta.

But things haven’t gone quite according to plan. Hans Simee, Managing Director of Reh Winery (India), said: “We are still awaiting approval of the FIPB of our application to start the joint venture operations.” (Source: http://www.tribuneindia.com/1998/98oct13/biz.htm - top#top)

Main factors for liquor manufacturers

Parameter Sensitivity Explanation

**Inflation:** High margins already under pressure; difficult to pass on higher costs

**FDI:** High FDI in this sector would enable the local manufacturers to acquire better manufacturing technologies and tap the markets of the foreign partner

**Excise duty:** High Excise duty is around 23% of sales

Other Sensitivities

Parameter Sensitivity Explanation

**Political Stability** Low demand being inelastic, would not be affected by political activity

**Interest rate / liquidity** Medium effective interest rate is 12%

**Income Levels** Medium An improvement in the standard of living would effect the shift of alcohol consumers to IMFL from country liquor (IMFL-INDIAN MADE FOREIGN LIQUOR)

**Import duty** Low imported raw material comprise less than 1% of total raw material cost

**Exchange rate medium** The company has a low net foreign exchange outflow

**Taxation**

**Income Tax** High effective tax rate is 35%

**MAT Low** High tax paying company (35% effective rate); MAT not applicable

**Government. Policies / Spending Low** Demand being fairly inelastic, it is not affected by government spending.

Cost Factors

Sales promotion costs: High Sales promotion costs account for around 22% of sales

Personnel costs: Low Employee cost accounts for around 4-5% of sales

Competition

Existing players: Medium McDowell has been able to hold its own in the existing competitive scenario and garnered a 26% market share in the IMFL segment

Imports High: Would heat up competition in the sector and could possibly affect the
New entrants low: Strong marketing and distribution networks, and brand equity of the existing players are extremely difficult to replicate

Steps taken by the companies to counter the competition:-

1) **Surrogate advertising**
   The ban on liquor advertising has in a way it came as a blessing in disguise since it created an entry barrier for any new prospective player. McDowell has used this ban to its advantage by using surrogate advertising for products like mineral water and soda, which also generated additional revenue for the company. With a view to actively develop this area, the company has franchised the bottling and sale of McDowell’s purified drinking water and soda, which are now available in over 75 cities in the country. The company is also planning to launch cigars in a high price range, which it plans to import and sell under its own brand name. It is primarily focusing on the youngsters as its target market with its USP being that cigars are less harmful than cigarettes. These areas used by the company for surrogate advertising, have been identified to be yielding high-margins, especially if one compares with the present margins in the liquor industry.

2) **Aggressive marketing and sales promotion**

3) **Rich brand portfolio**

4) **Web initiatives like joining the dotcom brigade**

5) **Amalgamation, restructuring and consolidation**

Concerns on the counter – existing and emerging

Bearing the brunt of government regulations for McDowell’s in spite of being one of the market leaders:

High excise duties- at the central as well as state level

The liquor industry has had to bear the brunt of heavy excise burden imposed by the various state governments – this largely being a state subject. The fact that the industry is governed by states and that there is no uniformity or consistency with regard to both regulation and taxation policies, puts this business through various challenges. For instance McDowell’s had to suspend supplies to AP for 4 months during the last fiscal due to an attempt by the AP Beverage Corporation to link prices in AP with those prevailing in Tamil Nadu. Also, VAT was introduced in Maharashtra, driving up the consumer price.

An unwanted cost structure- A dragon OPM as well as bottom line.

McDowell’s cost structure shows a very sorry picture, largely due to the high excise cost as well as the increasing ad spend, especially in times of a ban on liquor advertising as mentioned above. The first impact is felt on the operating margins, which have been forced to remain in the region of 4-7%. After allowing for normal interest, depreciation and extra-ordinary items, there’s never much left for its bottom line. This has precisely been the reason for such low PAT growth rates over the years for McDowell. The NPM has been hovering around 2%. However, going forward we expect this to improve with McDowell wisely pushing its product portfolio.

(NPM-NET PROFIT MARGIN.)

Low RONW, ROCE

Low returns have been dogging the company.
The company has had to do with low RONW and ROCE ratios since quite along time now. This has been largely due to the low profitability of the company and partly due to the relatively huge reserves built up by the company. In fact, the RONW and ROCE of the company are lower than that of the industry average of 22% and 29% respectively – this we believe is factored in the price (RONW-RETURN ON NET WORTH/ ROCE-RETURN ON CAPITAL EXPENDITURE)

**A hike in the procurement price of molasses?.....followed by sugar decontrol**

The recent announcement by the petroleum ministry regarding the use of ethanol to the extent of 5% in petrol had come as an indirect negative for the IMFL manufacturing fraternity in general and McDowell in particular which has already been reeling under the pressure arising out of the above mentioned factors. This is because ethanol would be extracted by the petrol manufacturers from molasses, thus giving sugar producers an option in terms of price as well as buyers for selling this by-product, resulting in a price hike for molasses. This bargaining power of the sugar manufacturers would put the IMFL manufacturers at the mercy of the sugar manufacturers who would be able to dictate terms to them. This would leave the liquor companies two options –continue to procure at higher prices or turn to malt – substitute raw material costing at least 15 times higher than molasses. McDowell would however be able to hedge, to an extent, against this through long-term agreements with contract manufacturers. Further, the recent announcement on sugar decontrol would also help in reducing the negative impact.

**Hope: Maharashtra’s grape policy 2001**

Accordingly, to give impetus to the grape processing and wine industry in the state, preparation of a separate policy was under active consideration of the State Government.

1. **Declaration as a Preferential Area:**
   As the Winery industry does not fall in the preferential area of granting loans, the financial institution like NABARD does not grant loans in such industries. Therefore, to get the high price of the product for farmers and to create better employment in the state, NABARD may be requested to declare preferential area for Winery Industries, enabling to grant such requisite loans.

2. **Declaration as a Small Scale Industry:**
   Within the limits of investments prescribed for the Small Scale Industry, wineries should be considered as a Small Scale Industry.

3. **Concessions in Excise Duty:**
   For those wine industries whose production has been started before 19th September, 2001, the excise duty will be charged at the rate of 50 per cent of the production expenditure incurred by such units instead of present 100 per cent rate. For those wine industries whose production have been started or would be started on or after 19th September, 2001, the excise duty will be charged at the rate of 25 per cent of the production expenditure incurred by such units. Such concessions will be admissible for period of 5 years.

4. **Concessions in Sales Tax:**
   It has been decided with the consent of all states in the country that the floor rate of Sales Tax on liquor will be at the rate of 20 per cent. However, the Wine Process is totally different from the Liquor Production Process and wine unit is considered as agriculture process unit by the Central Government. Therefore, to encourage the Grapes Processing Industry in the state, a request will be made to the Empowered Committee of Finance Ministers of all states constituted by the Government of India to reduce the floor rate of Sales Tax on wine.
5. **Wine Sales License:**
   Wine will be permitted for sale by Beer Bars and also licenses will be given to Wine Bars to sell wine on the basis of Beer Bars.

6. **Wine Sales License Fee:**
   An amount of Rs. 5000/- per year will be charged for License Fee for the sale of wine and this rate will not be changed for next 10 years.

7. **Simplification in the system of License/Permission for Wine Production:**
   If Wine production is taken in Winery Park as declared by the State Government, Wine Product License will be given at district level at the time of allotment of Plot. In other places for Wine Production, by simplifying the system of License the Collector of the district level will be empowered with a binding condition to issue licenses within 30 days.

8. **Establishment of Wine Institute:**
   To maintain the quality of Wine at the International Level and to make available trained man power, a separate Wine Institute will be established. For setting up of the Wine Institute, Government/ MIDC will allot the plot at the nominal rate as given to the other educational institute. Such Institute will look after the work of training, checking the quality of wine, research and information centre for the Wine Industry. These institutes will be established by forming separate trust firstly at Sangli and Nashik. For this purpose, by choosing appropriate alternative from the following alternatives, training institutes will be established:
   a) To help the existing trust for formation of training centre.
   b) To establish training institute in joint venture with the existing trust.
   c) To establish training institute by creating a separate trust.

9. **One Window System:**
   For Winery Industry, essential license, plot, electricity supply, telephone etc. infrastructure will be made available with One Window System.

10. **Establishment of Grapes Board:**
    A Grape Processing Industry Board would be established for Wine and other Grape Processing Industry in Maharashtra. The Board will consist of representatives from the concerned industry, Grapes producing farmers, State Government, government laboratories, wine institute etc. The organisation and functions of similar kinds of Boards existing in other countries will be examined before establishment of Grape Board in Maharashtra on same standards. The jurisdiction of the said Grapes Board will be as under:
    a) To inspect and control the Quality of Grape Cultivation and Wine Production.
    b) To give approval to Labels.
    c) To inspect Quality and Standard Norms.
    d) To draft various Schemes for Sale of Processed Grape Products on the Global Level.

11. **Facilities of Food Processing Industries:**
    The facilities which are given to the food processing industry units, will be given to the Winery Product Units by giving them the status of Food Processing Units.

12. **Wine Product Units - Permission for the Tourists:**
    In foreign countries, permission is given to watch the Wine Product Units. In similar manner, in Maharashtra also, permission will be given to the tourists to visit Wine Product Units for testing the wine. Also, licenses will be given to such Wine Product Units to sale wine on retail basis.
13 **Taxation on Imported Wine:**
   
a) **Excise Duty:** Excise Duty cannot be charged on the Imported Wine. It would be examined as how to charge tax equivalent to the percentage of excise duty on the Imported Wine by other ways.
   
b) **Fees on Labels and Brand:** No fee on Labels/Brands is charged on Imported Wine. However, fee is charged on the wine produced in the state and the country. This issue would be examined fees will be charged on labels and brands.

14. **Grapes Processing Industry - Easiness in the control of Excise Duty Dept.:**
   To simplify the procedure in the collection of excise duty and for creating easiness in the control of Excise Dept., a committee would be constituted under the Chairmanship of Principal Secretary (Excise) as under:-

   1. Principal Secretary (Excise), Home Dept. Chairman
   2. Secretary (Industries) Member
   3. Secretary (Agriculture) Member
   4. Development Commissioner (Industries) Member
   5. Representative of Winery Product Units Member
   6. Managing Director, MTDC Member
   7. Commissioner (Excise Dept.) Member Secretary

(Source: website of midcindia.com)

The grapes are exported from Nashik to Middle East, South East Asia, United Kingdom and Europe. Exporting to the Middle East is comparatively easy as the Arabs and the Indians in the Middle East are not very quality conscious and the transit time to these countries is just 5 days by sea. (It takes grapes 4 days to reach Delhi by road). The UK, Europe and South East Asia demand very high standard. These countries are used to receive very high quality grapes from South Africa, Chile, Australia, Mexico, Greece, Israel and California. India has to cope up with these countries. The Supermarkets in the UK demand very high standards of Quality and hygiene. They have their own code of practice, which needs to be followed. The best time to export grapes to UK and Europe is the third week of March to the 4th week of April and to the South East Asia is the 2nd week of May to the 2nd week of June. The best time to export to the Middle East is the Ramadaan time.