

# INDIA'S BOOMING MARKET

With wine sales doubling every two or three years, India could become a major market. Although taxes and complex legislation have long curbed demand, 2007 may one day be seen as the year everything changed, writes Subhash Arora.

Gordon's, London's oldest wine bar, serves wine to up to 400 customers a night - some of which is Grover's Cabernet Shiraz 'La Reserve', from India. Kapil Grover exported 750 cases to the UK last year and wants to grow that to 2,000 cases in 2008.

While the sophisticated and saturated British Isles may never be more than a niche market for Indian wines, it - like other markets - is a goal for Indian producers. They're thinking about the Indian diaspora of over five million potential consumers, as well as the increasing popularity of Indian cuisine.

## The big three

With wine sales expanding annually at 25% to 30% over the past five years, producers have never had it so good. The decade-old Sula Vineyards sold 129,000 nine litre cases last year, plans to market over 190,000 this year and hopes to continue growing at over 35% annually for the next three years. Grover, which sold 60,000 cases last year, plans to reach the 90,000 this year. Chateau Indage, the biggest producer, has already crossed the 200,000 case mark.

The big three may not be alone for long. United Spirits, owned by Vijay Mallya of Kingfisher beer, who bought French sparkling producers Bouvet Ladubay in 2006 for €15m, plans to change the Indian wine map. His business acumen is in sync with his political clout - and the grape power of the Pawar family of Maharashtra, with whom he has a strategic partnership. The family includes Sharat Pawar, the federal Agriculture Minister who dictates the wine policies in Maharashtra, where over 85% of all Indian wine is produced.

Apart from recently launching the entry level Zinzi, the new company already imports wine. "We do not wish to

be traders and small time producers. We will develop brands and work for long term gains," says Abhay Kewadkar, chief winemaker and senior vice president.

The multinational giants, Diageo and Pernod Ricard, are also producing Indian wines, partly to more effectively market their own imported wines. Diageo rolled out its Indian label Nilaya in Goa recently at a competitive price of Rs350 (\$8.95/€6) to Rs550 for premium Indian wines. Similarly, Pernod Ricard, which

entrants will have to create market if they want to expand."

Other new wineries such as Miazma, Vintage Wines, Mercury and Chateau d'Ori have also appeared. From only six wineries six years ago, Maharashtra now boasts 45, with more coming.

Growers have also benefitted from the sudden demand, with grape prices rocketing. Lucio Matricardi, the Italian winemaker for Big Banyan, which had its first vintage in 2006, says: "We had inspected the grapes and told some of our contracted farmers to wait for three or four days to allow the grapes to fully ripen, only to find later that they had sold them to the higher bidders."

## Spurt in wine consumption

In 2003, total consumption stood at about 450,000 nine litre cases, which included 60,000 cases of imported wines. Such factors as media, travel, higher income, a loosening of import restrictions and the elimination of customs duties for hotels resulted in accelerating growth from 20% annually five years ago to about 35% currently. The market in 2007 almost tripled to 1.2m cases, of which imports accounted for 200,000 cases.

The domestic wine industry has been the primary beneficiary, due to its price advantage. The sales price of the Indian wines has traditionally been kept at around Rs350-Rs550. With red grapes still costing about Rs35 a kilo (\$0.89/€0.60), but up from only Rs25 three years ago, profitability remains high despite taxes. To encourage sales of entry level wines, cheaper wines at around Rs280-300 are being introduced. Indage sells its cheapest table wine in plastic bottles for Rs100 (\$2.50/ €1.73); last month Sula introduced its new label Dia at Rs180, targeting urban women.

1	Benchmark Data	www.co.in
Population:	1.12b	
GDP nominal:	\$906bn (€616bn)	
Per head income:	\$863/€540	
Total wine consumption:	10.8m litres	
Per head consumption:	One teaspoon (5ml)	
Domestic production:	9m litres	
Imports:	1.8m litres	
Legal drinking age:	25	



imports over 12,000 cases of Jacobs Creek, launched Nine Hills in 2006 with a modest target of 10,000 cases. It plans to maintain annual growth of 60-70% over the next two years.

While the entry of these companies will change the market's equilibrium, the existing players show no outward signs of anxiety. Rajeev Samant, the owner of Sula Vineyards, says "we have a well established brand. The new

Imported wines remain more costly due to higher ex-cellar prices and the subsequent duties loaded on them. Another growth constraint has been the complex and stringent laws which have limited the number of importers. This has changed over the last couple of years. There were around 30 importers a couple of years ago, with ten controlling most of the market, but that number has already doubled and should reach 100 this year. Brindco and Sonarys continue to be the top importers, followed by Global Tax Free, Mohan Bros, and Pernod Ricard with Jacob's Creek.

There has been a visible change in market share among the producing countries. France at 30% still holds the top spot, but its share has dropped from around 80% ten years ago, being inched out by the New World: the estimated figures today are Australia (20%), Italy (15%), Chile (10%), USA (8%), Spain (6%) and others (11%).

### *Protectionist policies*

Although there is a clear market for imported wines, the policies of the federal and state governments are protectionist. The government did buckle under European and American complaints to the World Trade Organisation (WTO) and discontinued the Additional Customs Duty (ACD), which was adding over 150% to the original customs duty – but then promptly increased the latter duty from 100% to 150%, the outer limit agreed with the WTO. Imported wines are now slightly more expensive than before.

Hans Raj Ahuja, managing director of Wine Legend India, an importer of Californian wines, is one of India's most experienced wine marketers. He feels "the Indian consumer is very resilient. If you suddenly double the cost of a consumer product, there will be resistance, but all gradually adjust to a new regime. I am sure our premium offerings will be absorbed by five star hotels, whose customers expect to get premium wines."

### *The beat goes on*

Despite the negatives, consumption continues to grow. The middle class of 30m people and growing is the potential

market, although less than 1.5m of them drink wine at present.

Although the state's fiscal policies dampen the growth of premium quality wines, the vintage of 2007 will be remembered in India as the start of easier distribution norms, making wine more easily available. Sales through supermarkets were conditionally allowed in states like Maharashtra, Karnataka, Punjab and Haryana last year, which has added impetus to the growth. Today, there are several imported labels available for as little as €10-12 a bottle, which granted would retail for only €6-8 in Europe, but their availability has helped increase consumption.

### *Quality still an issue*

As producers can sell everything they produce, quality is still more talked about than demonstrated. There are no specific wine laws that define quality, specify grape varietals or the process of making wine. Even the ingredients need not be mentioned, so the consumer is often taken for a ride.

A recent case in point were 155,000 nine litre cases imported from Australia. Only 30-40,000 wine cases were in bottles. The balance of 120,000 cases, or about 20% of total domestic production, was bulk used to make 'Indian' wine. Aman Dhall, the biggest importer and a partner with Grover Vineyards, complains that "We know that a major producer bottles this imported bulk labelled as Nashik wine, but in the absence of any specific laws, the winery goes scot free".

Nonetheless, the results of the maiden India Wine Challenge held in London and Delhi indicate that the quality of true Indian wine also needs improvement. The best Indian red wine, the Nine Hills Cabernet Sauvignon 2007, mustered only a bronze medal. The Sauvignon Blanc 2007 from Sula, the best Indian white wine, did better and scraped through with silver, but there were no gold medals.

A wine board has been created to formulate laws that should help. Meanwhile, the consumer has to 'take it or leave it.' In this light, Chateau Indage

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*Aman Dhall*

*Aman Dhall is the owner of the Brindco imports and a minority share holder of Grover Vineyards.*



plans to open a wine university in collaboration with Australia, which should be operative in a year or two, while a college near Nashik already offers a technical diploma.

### *Opportunities galore*

Producers are fully attuned to the demands of the industry, with alliances and sub-leasing in evidence. One of the biggest corporations, Reliance, has bought a small chunk of Indage, for example, while Sula sold a stake to Future. Both minority partners are big in retail, offering marketing synergies as well as working capital for expansion.

Although foreign direct investment or distribution is not allowed, technical collaborations, marketing partnerships, cross-brand promotions and selling shares to Indian importers are a few ways in which foreign wineries can participate in the expected growth.

Despite the recent fiscal measures making premium wines more expensive, their easier availability has created a market for them, which will continue to grow. The opening of branded luxury goods stores in the large malls has allowed the latent demand for such icon products to explode. Patience and perseverance are mantras as applicable for the Indian wine market as yoga – or wine – for health. And who knows, we may soon see English wines at a fancy bar in Delhi. ■