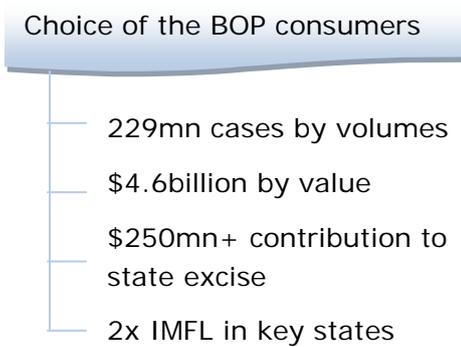


Indian Made Indian Liquor (IMIL)

Time to raise a toast to...

..... the liquor of the masses



Indian Made Indian Liquor (IMIL) is an attractive consumer play into India's large and growing bottom of pyramid consumers. Already at a substantial ~230mn cases (\$4.6bn), it is expected to reach 352mn cases (\$8.4bn) in next five years driven by positive demographics, improving consumer loyalty with branding and upward shift from illicit liquor with conducive regulations

Liquor of the masses ~40% of population

Flavoured local alcoholic beverage IMIL has long been the liquor of choice for the price sensitive, lower income group (~40% of India's population excluding below poverty line). It already has 30% share by volumes of Indian alcohol industry and is being further driven by positive demographics – a young and growing population as well as upward shift from illicit liquor and toddy with increasing affluence.

Robust 8.7%FY09-13 CAGR fuelled by eastern states

IMIL volumes grew at FY09-13CAGR of 8.7% and 6.0%YoY in FY13 (State excise, Four-S research, Now, with the eastern states taking off, future growth is well-set - combined volumes in 4 eastern states (Bihar, WB, Jharkhand, Orissa) grew 22%YoY in FY13 to reach 49mn cases, 22% share of all-India market growing from 19% a year ago. Per-capita consumption of IMIL ranged from 0.4 litres for Orissa to 2.2 for WB, much lower than national average of 3.0 litres indicating scope for further growth.

Branding, price differential from IMFL ups consumer stickiness

IMFL and IMIL segments cater to different sets of customers with distinct prices, consumption patterns, alcohol content and product types. Starting at Rs 30 per nip, IMIL is 50% cheaper than the cheapest IMFL making the shift from IMIL to IMFL difficult for an IMIL drinker. Further, given the improving IMIL product quality with use of Extra Neutral Alcohol in manufacturing like IMFL instead of Rectified Spirit, better packaging in bottles, branding etc., IMIL is delivering value and quality

Four-S estimates higher 9% CAGR to cross 350mn cases by FY18

Many states are promoting IMIL as a healthier alternative to illicit liquor as well as increase excise revenues (\$250mn+ in FY13). With improved quality and distribution of product, rising incomes aided by supportive policies like MGNREGA and food bill are pushing growth. Bihar and West Bengal will continue their 20%+ growth and have 32% share of total market in FY18, driving the overall IMIL growth slightly faster at 9%. We expect IMIL market to cross 350mn cases by FY18.

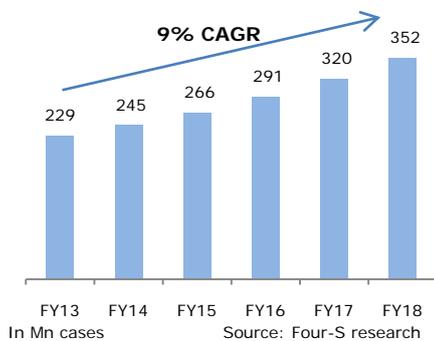
Attractive dynamics: high entry barrier, lower operating cycles

Licensing regulations present high entry barriers making IMIL incumbents attractive. Increasing raw material costs are largely passed to consumers with a lag due to the controlled price environment, however, short-term impact on margins has been countered by increasing manufacturing efficiencies and adoption of newer technologies. State controlled distribution results in leaner operating cycles. IMIL focused GSL and GM Breweries have FY13 operating cycles of just 76 and 13 days respectively, compared to IMFL leaders' 175 - 195 days. This helps IMIL companies operate at higher ROCEs compared to IMFL leaders

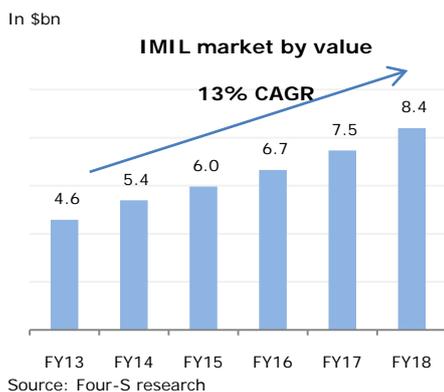
A \$8.4bn opportunity in next five years

IMIL's growth will be driven by its sizable & increasing consumer base, conducive regulatory environment and move towards ENA based branded products. The upward shift to IMFL has not been and is not expected to be significant to arrest growth.

...to robust volume growth



... a \$8.4bn market in 5 years



Indian Made Indian Liquor

Choice of the masses

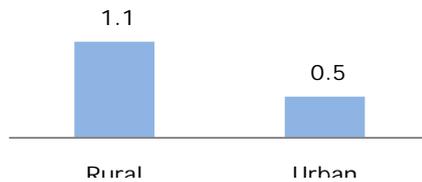
IMIL with ~30% alcohol content is flavoured to regional tastes and is priced as low as Rs 30

Indian Made Indian Liquor (IMIL) or erstwhile 'country liquor' is an alcoholic beverage with ~30% alcohol content usually produced locally. IMIL is a flavoured drink influenced by regional taste preferences. Popular flavours are fruit flavours, masala flavours, etc. Priced as low as Rs 30 per nip of 30ml, IMIL positions as the liquor of choice of the price-sensitive lower income strata.

Consumed by ~40% of population; more in rural

India, world's 2nd most populous nation, is also one of the youngest with median age of 26 years and 70% above 15+ years of age.¹ IMIL consumers typically belong to SEC D & E strata (~40% of population excluding below poverty line). We estimate the likely IMIL consumer base would be ~247mn. IMIL is also consumed more in Rural areas, 2.3x more than that consumed in urban. Rural's share of 72% in India's population also indicates that IMIL is indeed the liquor of choice of masses.

IMIL PER-CAPITA CONSUMPTION IN LITRES



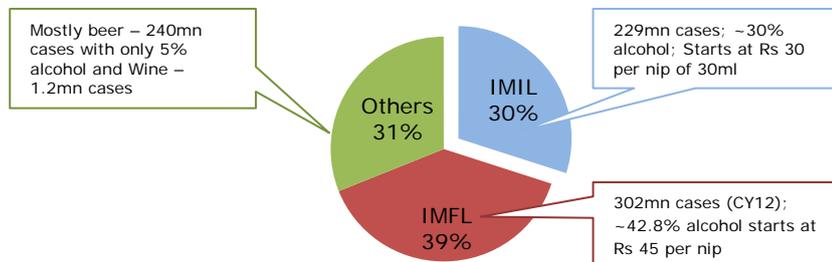
Source: NSSO 66th round

~1/3rd by volumes of Indian Alcobev Industry

IMIL, liquor of masses (lower income strata ~40% of population), comprises ~1/3rd of India's alcobev volumes

IMIL has 30% volume share of Indian Alcobev industry, in spite of not allowed to be sold in four Southern states that represent 1/5th of India's population and ~60% of IMFL consumption.

INDIAN ALCOBEV VOLUME PIE



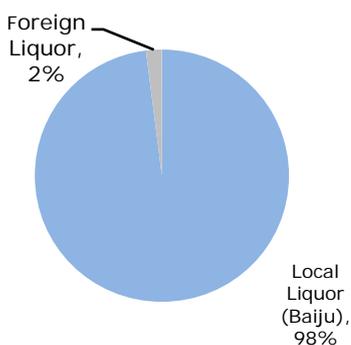
Source: Four-S research, International Wine & Spirits Research (IWSR), Industry reports

¹ OECD: 2012 health data by country

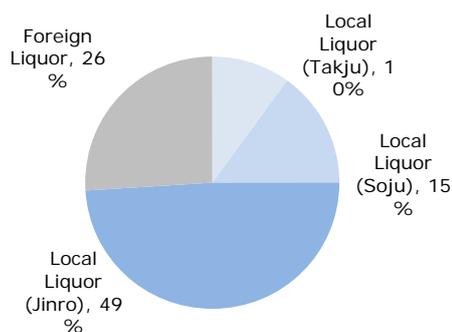
Local beverage usually has a substantial Alcobeve share globally

Established alcohol markets display strong preference to local liquor flavours, some examples being the markets of China and South Korea. India's case would be characterized by regional flavours like 'Mahua', 'Feni', and fruit-flavored local IMIL.

CHINA LIQUOR MARKET



SOUTH KOREAN LIQUOR MARKET



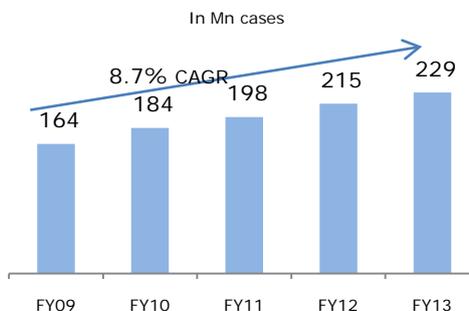
Robust & sustainable growth: \$8.4bn by FY18

Robust historical growth of 8.7% FY09-13 CAGR

Robust 8.7% CAGR a result of strong & sustainable growth drivers

Four-S research estimates Indian IMIL market to have grown from 164mn cases market in FY09 to 229mn cases market in FY13. This excludes the illicit market volumes, estimated ~2-3 times the reported alcohol consumption.

IMIL ALL INDIA VOLUMES



Source: Four-S research, State excise data. Refer Annexure 1

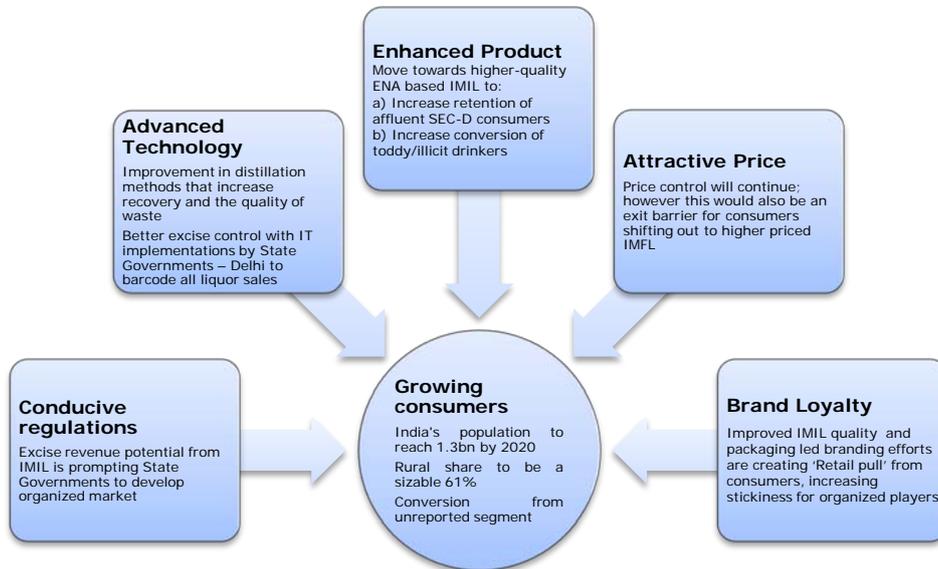
\$4.6bn value in FY13, generating \$250mn+ in excise

With sale price of at least Rs 100 per 750ml bottle in a 12 bottle, case, (highest MRP is Rs 200 per 750ml bottle in Uttar Pradesh) the 229mn cases Indian IMIL market is estimated to be over \$4.6bn in value.

IMIL is also an important contributor to state excise with over \$250mn generated assuming lower slab rate of Rs 15 per proof litre (see annexure 5)

Sustainable growth trends

IMIL market has multiple growth drivers leading to sustainability and robustness to its growth.



Expanding consumer base: ~40% of population

Growing drinking age population to boost alcobev industry

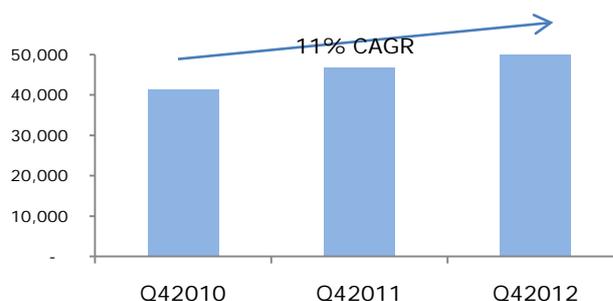
Growing consumer base – India's young drinking age population

India's population is expected to reach 1.4bn by 2025 overtaking China to become world's most populous countryⁱ. Current drinking age population of India is 485 mn and another 150 mn are expected to be added in next five yearsⁱⁱ. India also has low per capita consumption of alcohol, that itself builds a strong case for sustained growth with increasing societal acceptance.

IMIL consumed by growing base of lower-income strata

IMIL is likely consumed by lower socio economic groups. The growth of this segment can be inferred from the growth of households with Household premiumness index (HPI) between 6-10 measured on quarterly basis in Indian Readership Survey.

HOUSEHOLDS WITH HPI 6-10 GROWING AT 11% CAGR



*Household Premium Index (HPI) is an indicator of 'Living Standard' defined by Indian Readership Survey. Refer Annexure E for more details.

Consumed more in growing rural population

The share of Rural population in India would continue to be sizable close to 61% currently. Increasing affluence in Rural population driven by schemes like MGNREGA, Food Bill will be a key growth driver for IMIL.

Evolving IMIL offerings

Improved quality branded products build stickiness

Branded products up the value proposition giving consumers less incentive to switch to IMFL while encouraging lower end illicit drinkers to convert

IMIL market is evolving from commoditized to branded products, with more companies using higher-quality Extra Neutral Alcohol (ENA) for production, improved packaging and clear brand strategies for the evolving Bottom of the Pyramid consumers. India's first IMIL brand 'Nimboo' introduced by Globus Spirits is already a Rs 4.4bn retail brand.

The improved value proposition boosts retention of affluent SEC D consumers by creating 'retail pull' whereas controlled lower pricing makes the switching cost to IMFL a high exit barrier for less affluent SEC D, SEC E consumers.

TRADITIONAL IMIL OR 'DESI DAARU'



BRANDED IMIL PRODUCTS



Potential growth via conversion from illicit (~2-3x)

Positive demographics, regulatory support to make IMIL a ~350mn cases, \$8.4bn market by FY18

WHO, in 2005, estimated the illicit and unreported segment at ~3.3x the reported market. While the percentage may have reduced, it will be still a sizable share of the industry.

Increasing state Government's initiatives to curb illicit trade and prevent hooch tragedies coupled with increasing purchasing power and rising health consciousness of lower sec consumer indicate potential for IMIL growth by conversion from unreported segment.

Recent State level initiatives to boost IMIL sales

Excise revenue potential from IMIL is prompting State Governments to develop the organized market. Some examples of recent moves promoting better reporting of IMIL sales include:

- Bihar has eased licensing norms and offers incentives for

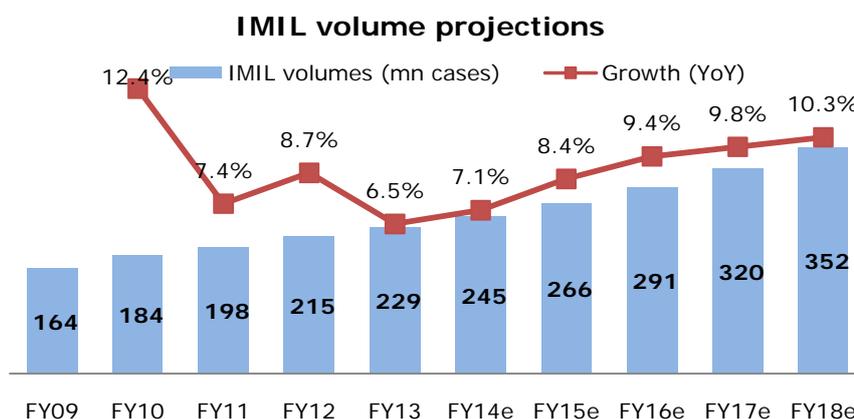
setting up a distillery in the state. Bihar is now one of the fastest growing IMIL markets (25% YoY FY13)

- Jharkhand introduced excise policy and state owned distribution in FY11 ending erstwhile local distribution consortium. Incorporation of Jharkhand State Beverage Corporation saw IMIL volumes grow 18% YoY in FY13
- Holograms are getting used in many states to curb illicit market and boost reported IMIL sales
- Haryana made it mandatory for CCTV cameras to be installed in distilleries, breweries and bottling plants to monitor and arrest illegal sale. Punjab did it in FY13.
- HP has mandated use of pilfer proof screw caps on glass bottles for sale of IMIL carrying the words HP Excise
- Delhi has initiated project to barcode all liquor sales.

Eastern states to fuel IMIL growth

Four Eastern states (Bihar, WB, Jharkhand, Orissa) have led the growth in recent years - 22%YoY in FY13 taking their share in all-India IMIL market up to 22% from 19% a year ago. Four-S expects the eastern states to continue growing at similar level, as the per-capita-consumption here is still lower than national average. We project that by FY18, Bihar and West Bengal combined will garner 32% share of all-India IMIL volumes.

Projecting the individual growth for other key states we estimate the overall market to grow at a slightly higher CAGR of 9% (compared to 8.7% in FY09-13) with improving economic outlook and assuming no drastic changes in existing regulatory or external environment. (Refer Annexure B)

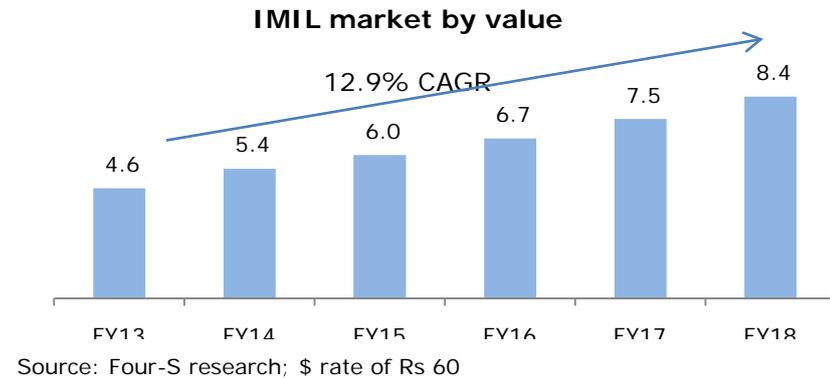


Source: State excise data, Four-S research

\$8.4bn by value in next five years

Key IMIL markets have received price increases in FY14 to the tune of 10% YoY from respective state Governments, largely due to inflationary increases in costs, particularly raw material prices. Thereafter, we expect sale price to grow at nominal rate of 2% p.a., the estimated sale price per 750ml bottle in FY18 is Rs 119 per bottle compared to current Rs 100 per bottle. The IMIL

market in value terms is expected to be \$8.4bn in FY18, growing at 5-year CAGR of 12.9%.



A nation of 25 distinct IMIL markets

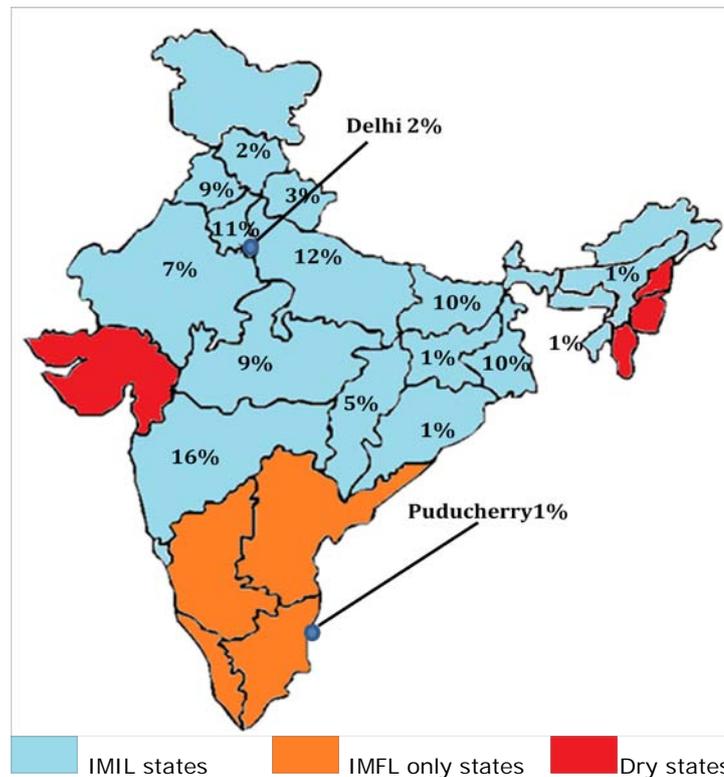
High impact of regulatory environment

Regulations: High entry barriers a boon; controlled pricing a bane

Alcohol, being an intoxicant in nature, is a highly regulated industry to ensure accessibility only to adult consumer. Also, since IMIL is usually locally produced at the State-level, unlike IMFL and Beer, it has more stringent local regulations effectively converting India into a nation of 25 small state-level markets.

A market of 25 individual states/UTs

INDIA'S IMIL MAP : STATE-WISE MARKET SHARES BY VOLUME



Source: Four-S estimates, State Excise data; Rest of states have <1% share.

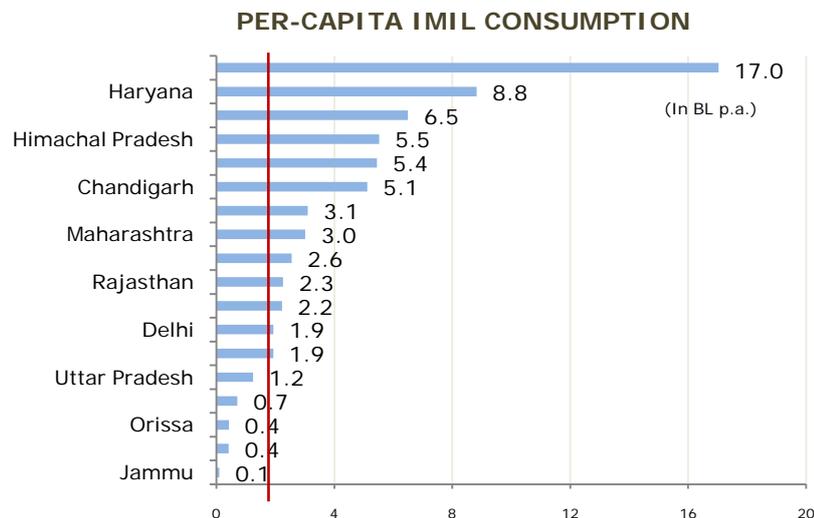
The state regulations typically define distribution, pricing, licensing, import-export etc, few of which are:

- Owning distillery in state is usually necessary to sell IMIL. Licenses are given at State level with a long gestation creating a strong entry barrier
- Excise rates, license fees and related charges are decided in state's excise policy usually on an annual basis
- Some states have quota defining minimum lifting volumes at the distribution level
- Most states have defined number of operating liquor vends for IMIL and IMFL/beer, usually parallel channels
- Some have state-owned monopolistic distribution model with state beverage corporation at the wholesale level
- Duties differ on import and export of liquor

Restrictions on liquor sale also vary with each state – the number of dry days, shop operating times, dry zones, etc. In fact four southern states of Andhra Pradesh, Karnataka, Tamil Nadu and Kerala that have 1/5th of India's population have disallowed sale of IMIL though IMFL is allowed.

Average per-capita IMIL consumption of 3 litres p.a.

Average per-capita consumption ranges from a high of 17 litres in Puducherry (surrounded by 4 IMIL banned states) and 8.8 litres in Haryana to a low of 0.4 liters in Orissa and 0.1 litres in Jammu. Excluding Puducherry, the average per capita IMIL consumption is 3.0 litres p.a. in FY13.



Source: Available State excise data, population as per Census 2011.

Note: Puducherry excluded from average, being an outlier

The states that have lower consumption than average could be due to any of the following reasons:

- High unreported consumption of illicit liquor like Orissa
- State Government supports a local segment priced in-

between IMIL and IMFL - Jammu has 'JK Desi Whiskey' starting at Rs 30 per nip apart from IMFL, and Delhi has recently launched Delhi Medium Liquor

- Low number of IMIL vends per capita – West Bengal has only ~2 IMIL vends (shops) per lakh of population whereas Haryana has 8.9 IMIL vends per lakh of population

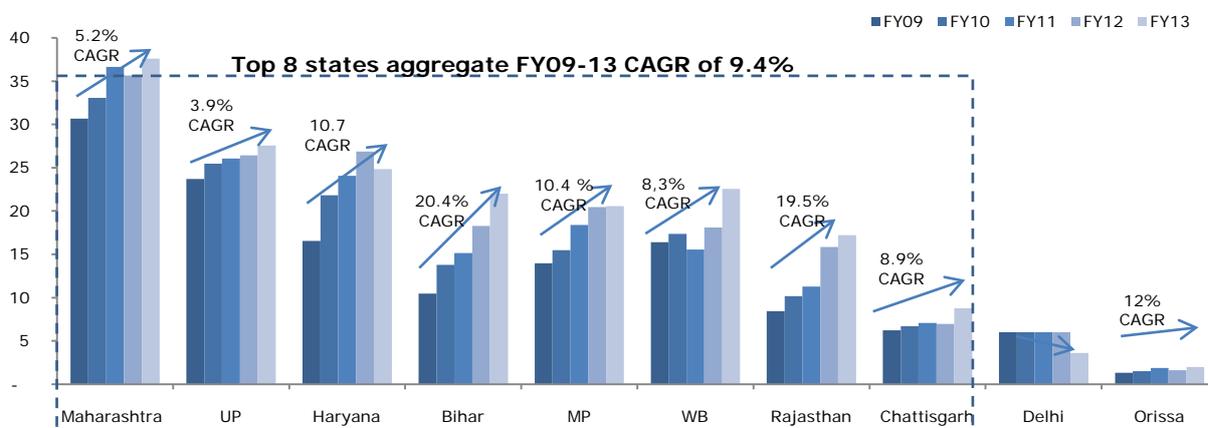
IMIL growth at average 8.7% CAGR in 10 key states

Robust and positive 4-year growth trend in most of the states

IMIL growth depends on number of factors that affect purchasing power of its lower income consumer base these could range from natural reasons like monsoon, to product proposition like pricing – excise duty increase, relative pricing of IMFL cheaper brands, relative pricing of IMIL in adjoining states, and other external factors like political environment, bulk alcohol availability, etc.

Overall, the growth trend is positive in key states with aggregate volumes across ten states that disclosed historical IMIL sales data growing at healthy rates of CAGR of 8.7% (FY09-13) and 6.0% YoY in FY13. In fact top 8 states (excluding Punjab for which historical sales data is not available) have grown at aggregate CAGR of 9.4% over last five years.

IMIL VOLUME GROWTH: TOP 8 STATES GROW AT 9.4% CAGR



Source: State excise data, Industry sources

In Mn Cases

Note: Historical IMIL sales data from excise sale not available for Punjab and 14 other states, hence not included

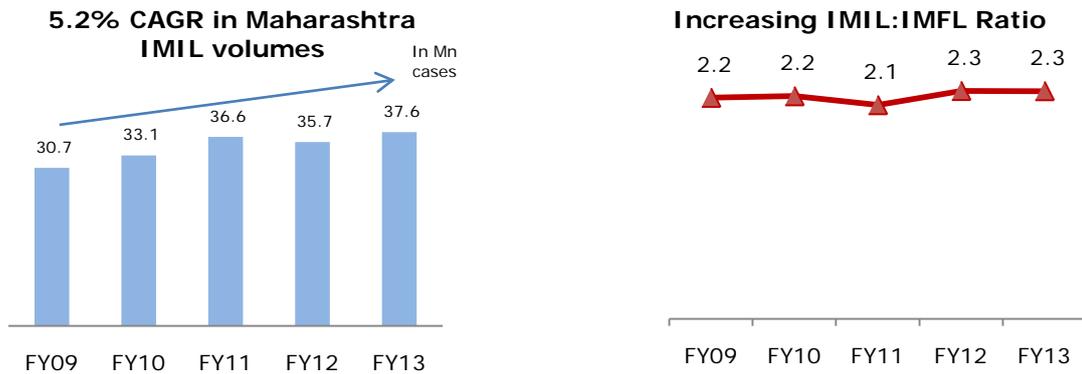
Key IMIL markets

Maharashtra – India’s largest IMIL market

Maharashtra accounts for 16% of India’s IMIL volumes. Per capita consumption of IMIL is 3.0 litres. The state has ~4,200 IMIL and 1,800 IMFL shops. This is the only IMIL state that allows for variable pricing linked to manufacturing cost and hence provides scope for premium IMIL brands.

Mostly molasses based market, local GM Breweries is the largest IMIL player in the region with sales of 7.3mn cases in FY13, a

growth of 5.8% YoY and market share of 19%.



Source: State excise website

In FY12, the excise duty for IMIL was hiked by 46% and for IMFL excise was increased at minimum 33% to generate more revenues in a drought ridden state. This resulted in decline in IMIL volumes by 2.6% whereas IMFL declined by nearly 8.7% YoY to reach 15.8mn cases. The IMIL: IMFL ratio improved to 2.3x in the year.

Growth revived in FY13 as it was a year of good monsoon that has direct impact on rural purchasing power. State's excise revenues increased 33% YoY to reach Rs 7.9bn in FY12 from both IMIL and IMFL. The share of IMIL in state's revenues was 30% in FY08 (latest available year with break-up of excise revenues).

Uttar Pradesh 2nd largest IMIL market

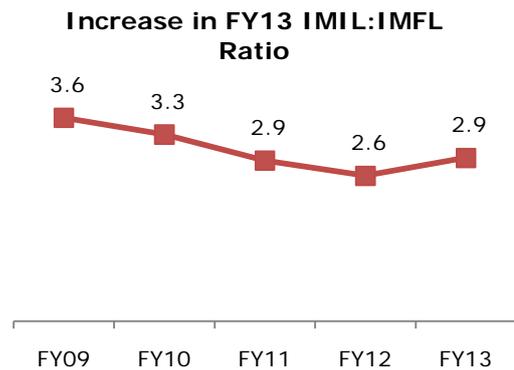
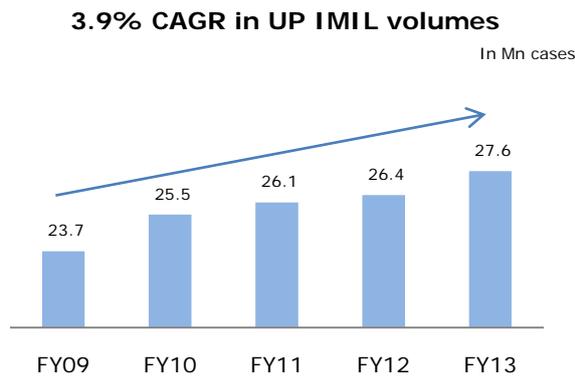
Low per capita consumption indicates high underreporting

UP's IMIL market is sized at 28mn cases having grown at CAGR of 3.9% during FY09-13. Though this is lower than IMFL's 9.7% CAGR, the IMIL segment is still sizable with 2.9x the IMFL market.

UP has one of the highest excise rates – Rs 159 per BL for IMIL. The state had 12,716 IMIL vends and 4,420 IMFL vends in FY12.

Per capita IMIL consumption of only 1.2 litres compared to national average of 3 litres indicates possibly high level of underreporting, hence scope for growth from conversion from illicit as regulatory environment improves. **The distribution is licensed but ~ 40% is dominated by Wave Group and parts by Deep Group.**

In recent initiatives to boost organized IMIL, State Government has started the use of holograms from current year and has also launched 25% alcohol content IMIL product priced at Rs 25 per quart to check smuggling from bordering Haryana. The state has also opened 114 new country liquor shops in FY13.



Source: State excise data

UP is mostly a Molasses based market, which is more affected by monsoons than grain. To ensure regular raw material supply for the industry, **the Government has given a quota to country liquor manufacturers and first right to molasses from sugar factories.**

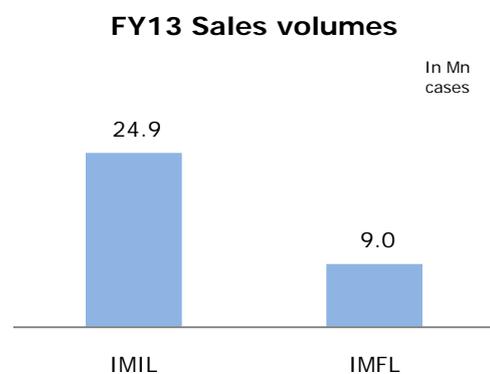
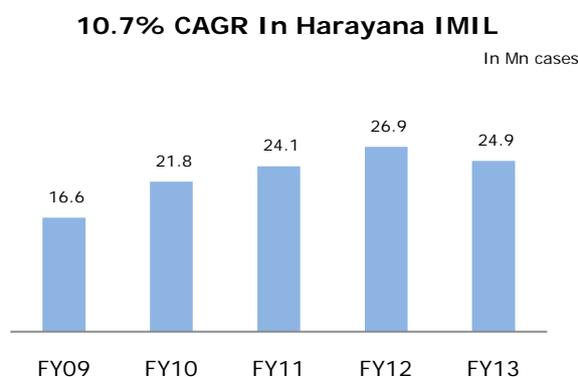
The key players include Wave Distilleries that also has contract for liquor distribution in the state.

Haryana IMIL: Facing transient headwinds

At ~25mn cases, Haryana is the 3rd largest IMIL market with 11% share. The IMIL market is 2.8x its IMFL market in FY13. Haryana IMIL has grown at a CAGR of 11% in volumes in FY09-13, though in FY13 the market declined by 7.5% YoY. The state has 2,265 IMIL vends and 1,235 IMFL vends.

In FY14, State Government increased IMIL price by 14% YoY to Rs 241 per quart bottle with excise duty of Rs 15 per proof litre.

This was one of the first markets in India to shift towards ENA based IMIL, with focus on health of its consumers. Market is fruit flavor based and has seen many IMIL brand launches recently



Source: State excise, industry

The market has a quota based system for IMIL, where 35% of the basic quota, i.e., 90mn Proof Litre is distributed among all

distilleries and the remaining 65% is open market. So, nearly 4% market share is assured for all distilleries via this quota system.

Faster growing East India Markets

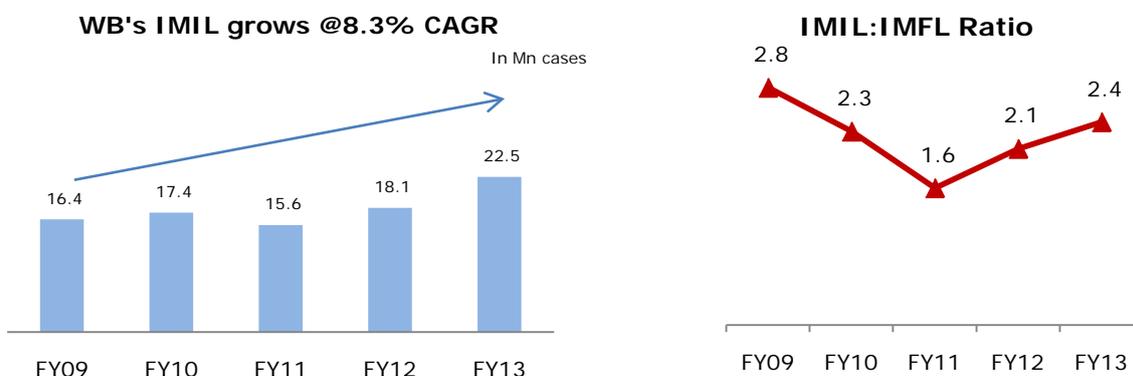
Eastern India states of West Bengal, Bihar, Orissa and Jharkhand have a combined population of 270mn with 22% share of India's population. The population in these four states has grown at decadal growth rate of 19%, marginally higher than the 18% decadal growth rate for all India. The combined rural population of the 4 states has a share of 79%, significantly higher than 69% share of rural in all-India population.

High share of rural population, growing population and increasing purchasing power and improving regulatory environment make a strong case for sustained growth in the eastern region

West Bengal: One of the fastest IMIL growth, 25%YoYFY13

West Bengal, with population of 91mn is a 22.5mn cases IMIL market that grew 25% YoY in FY13, significantly higher than 8% growth in IMFL. The ratio of IMIL to IMFL is 2.4x and per capita IMIL consumption is 2.2 litres, still lower than national average of 3x. IFB Agro is one of the key players in West Bengal.

Shortage of rectified spirit in the state due to delay in determining the price of rectified spirit by the earlier Government had led to a fall in IMIL sales in FY11. The IMIL growth has picked up since new Government came into power in 2011.



Source: State excise data

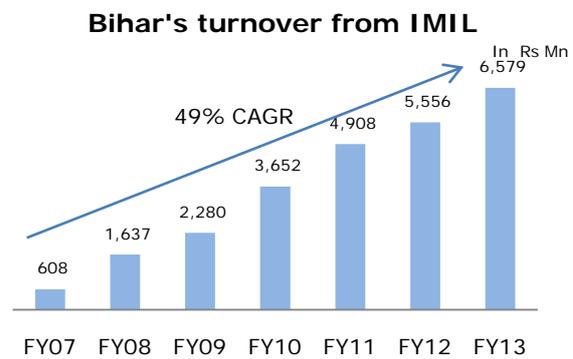
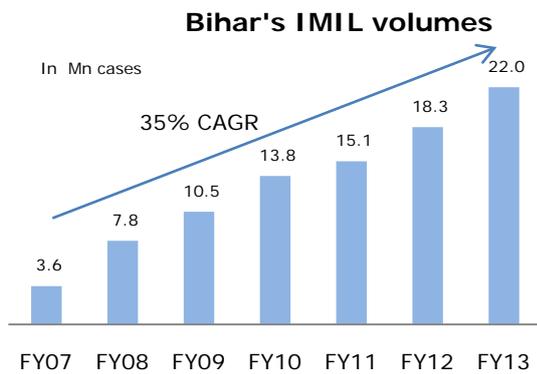
Bihar: Fastest growing in FY09-13@ 20.4% CAGR

At 22mn cases in FY13, Bihar has surpassed Madhya Pradesh to become the fifth largest IMIL market in India. Bihar's IMIL turnover was Rs 6,579mn in FY13. With 20% YoY volume growth and 18% YoY value growth in FY13, Bihar presents an attractive IMIL opportunity. With decadal growth rate of 2.3% and ~88% rural population, Bihar market is skewed towards IMIL with an IMIL: IMFL ratio of 3.4x.

Bihar State Government has conducive policies for setting up new

distilleries in the state including 20% capital subsidy, reimbursement on captive power generation, 100% exemption on stamp duty, and 25% VAT exemption. The excise duty is also one of the lowest at Rs 10 per BL. It is also considering sale of IMIL in bottles only from next year to check illegal trade.

In a move to promote organized market, Bihar state government started a nodal agency for implementing excise policy from October 2006 named Bihar State Beverage Corporation Limited. BSBCL is responsible for wholesale distribution. This initiative has seen turnover from IMIL grow at 49% CAGR from FY07 to FY13 and IMIL volumes grow at 35% CAGR in the period.

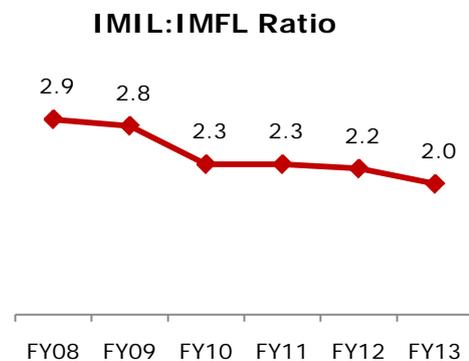


Source: State excise data

Madhya Pradesh: Improving regulations to help organized

At ~21mn cases Madhya Pradesh has 9% share of India's IMIL market. The IMIL has grown at 10% 4-year CAGR compared to 20.8% CAGR in IMFL. Still IMIL volumes are twice that of IMFL. Per capita consumption of IMIL is 2.6 litres.

The Government has taken various steps to check spurious IMIL sale recently, e.g., bottling of IMIL has been made mandatory. It has 8 IMIL bottling units in FY13 for the same. MP has over 2,200 country liquor shops. The state had increased excise duty on IMIL by 6.25% in FY13 to reach Rs 85 per proof litre. The same has been further increased to Rs 92 per proof litre in FY14.



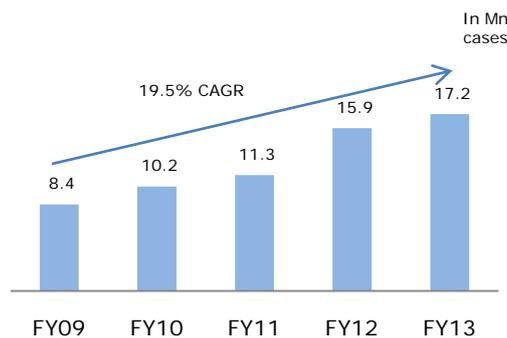
Source: State excise data

The state has nine country liquor manufacturing distilleries. Key players in MP include Agrawal Distilleries, Associated Alcohol & Breweries, Cox India, Gwalior Distillers and Great Galeon.

Rajasthan: Steadily growing

The Rajasthan IMIL market has grown at 19.5% CAGR in last four years with FY13 growth being 8.6% YoY. The state had increased prices by 6% in FY13. The state has an IMIL:IMFL ratio of 1.8:1 and per capita consumption of IMIL as 2.3x.

IMIL Sales volumes



Rajasthan State Ganganagar Sugar Mills (RSGSM) is a state government owned enterprise and is the largest player in Rajasthan IMIL market. Its share has been capped at 50% of the total market. RSGSM is also the single point wholesaler/distributor for IMIL marketed by all other players.

Outlook positive for most of the states

We expect IMIL volume growth trends in most of the states to continue especially with improved economic outlook. Recently Punjab increased its IMIL liquor quota for 2014-15 by 5.8% YoY to 95mn proof litres (~21mn cases).

Bihar and West Bengal expected to grow above 20%

Bihar is one of the fastest and most sustainably growing markets with 20.4% FY09-13 CAGR and 20.2% YoY FY13 growth. Its per-capita IMIL consumption at 1.9litres still remains significantly below national average of 3.0 litres. The Government has openly embraced alcohol sale as the most important contributor to state exchequer and is providing special incentives for new distilleries to be set up in the state. We expect Bihar to continue on its robust growth path and reach 56mn cases by FY18, taking its share in Indian IMIL volume pie from 10% in FY13 to 16% in FY18.

West Bengal's IMIL market has progressed since the new Government came into power in 2011. WB's IMIL market had declined 10%YoY due to a shortfall of rectified spirit due to regulatory delay in price-fixing. However, under the new

Government, the IMIL market has grown strongly. Distribution still remains skewed with 2,136 IMFL shops as compared to 1783 shops of IMIL. The new Government has decided to sanction licenses for setting up new distilleries and bottling plants and has already sanctioned seven more shops in the state. We expect West Bengal market to grow at 2-year CAGR of 20.3% for next five years reaching 57mn cases by FY18.

In Mn cases	FY11-13 CAGR	FY09-13 CAGR	FY13	FY14	FY15	FY16	FY17	FY18
Bihar	20.5%	20.4%	22	26	32	38	46	56
WB	20.3%	8.3%	23	27	33	39	47	57
Agg. Share in all India			19%	22%	24%	27%	29%	32%

Source: FY13 data on actuals from state excise websites

The expected per-capita consumption in FY18 would be 4.3litres and 5.2 litres for Bihar and West Bengal respectively, still lower than the current consumption levels in many developed states like Haryana (8.8litres in Haryana, 6.5 litres in Punjab, ~5.5litres in Uttarakhand and Himachal etc.)

IMIL 2x more than IMFL in key states

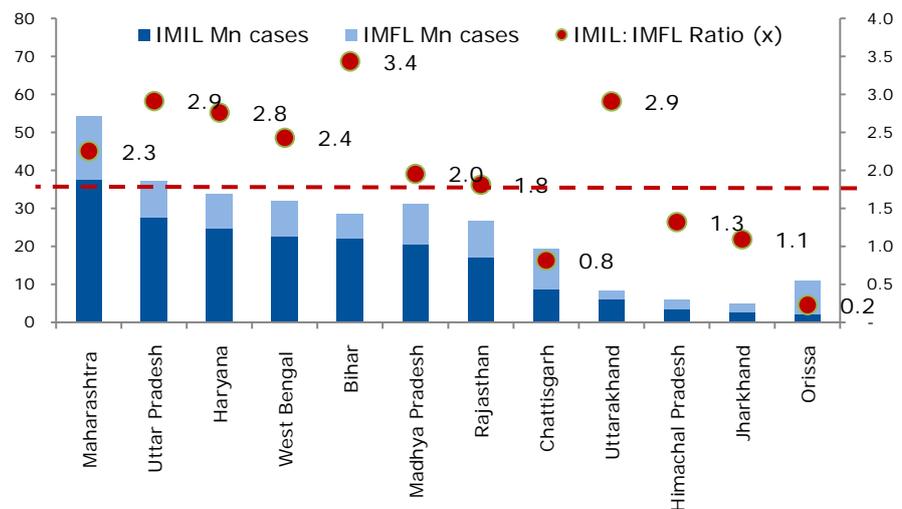
IMIL and IMFL, two distinct segments often growing in parallel influenced by external factors

We analysed excise sales data of 12 states that have disclosed IMIL and IMFL sales volumes. Research showed that the aggregate IMIL volumes sold in the 12 states were double than the IMFL volumes sold. This is in line with the size of consumer segments, clearly indicating strong distinction between the two.

Orissa, that may have a large unreported or illicit market, had the lowest IMIL:IMFL ratio whereas Bihar with high rural population combined with a more conducive regulatory environment under current Government had the highest ratio.

AVERAGE IMIL TO IMFL RATIO OF 2X

IMIL volumes are twice IMFL's in most of the key markets, supported by larger consumer base



Source: State excise data for FY13, Four-S research. Data for Himachal Pradesh for FY12. IMFL data for Delhi and IMIL sales volumes for other states not available, hence not taken here.

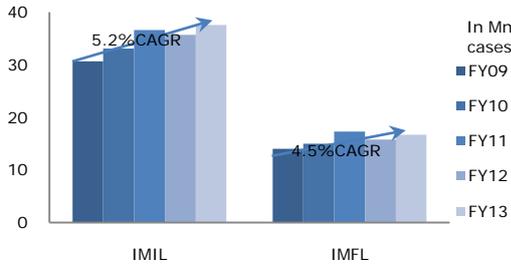
--- Average IMIL to IMFL volume ratio

Growth trends similar in both IMFL and IMIL

We have analysed available historical data for IMFL and IMIL in Maharashtra, Uttar Pradesh, West Bengal, Madhya Pradesh and Bihar that shows that IMFL growth is not at expense of IMIL's.

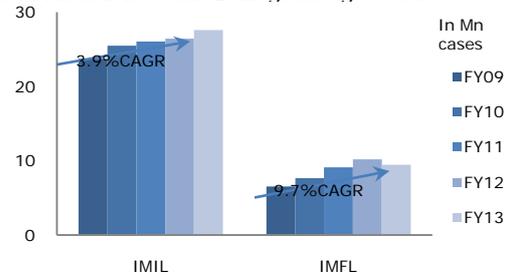
Maharashtra

Both grew at ~5% CAGR



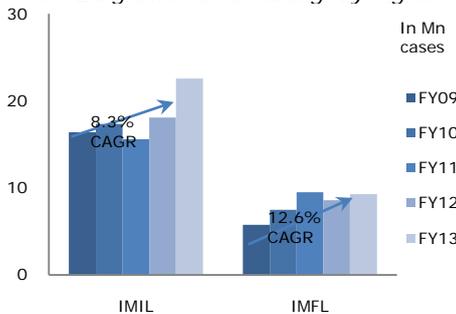
Uttar Pradesh

IMFL's CAGR higher than IMIL's but in FY13 trend is reversed with IMFL de-growing 7%YoY



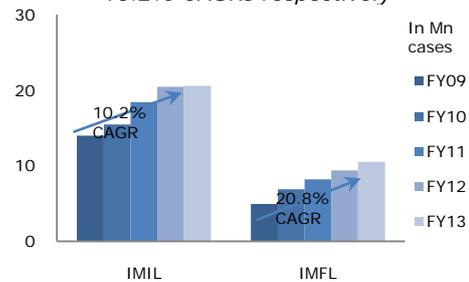
West Bengal

IMFL's growth CAGR is slightly higher



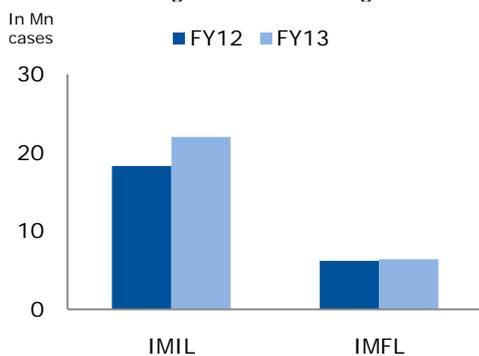
Madhya Pradesh

IMFL 2x IMIL; both in double-digits at 20.8% and 10.2% CAGRs respectively



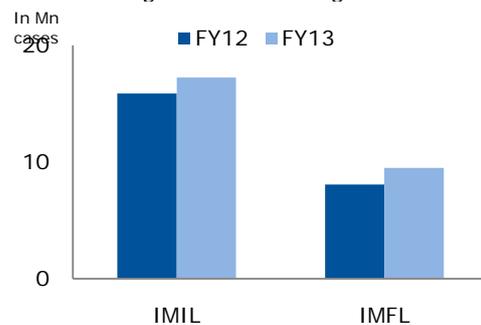
Bihar

IMIL's FY13 growth at 20% higher than IMFL's 3%



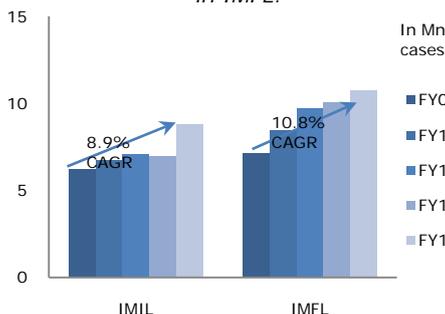
Rajasthan

IMFL's FY13 growth at 18% higher than IMIL's 9%



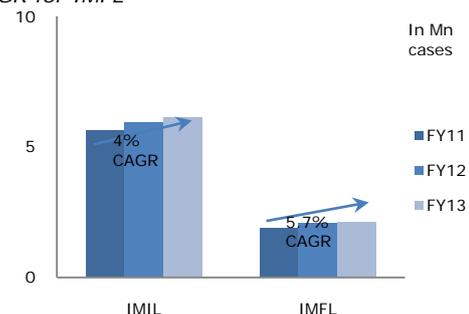
Chattisgarh

IMIL speeds up in FY13 with 26% YoY growth vs 7% YoY in IMFL.



Uttarkhand

Flat growth in both at 4% CAGR for IMIL and 6% CAGR for IMFL



Source: State excise data, Four-S research

Higher IMFL prices bring stickiness to IMIL volumes

As mentioned earlier, IMIL consumers are typically lower income strata likely belonging to SEC D, E classes (that form ~40% of population) and is consumed more in rural areas than urban. Hence, IMIL has a larger consumer base than IMFL – that is typically consumed by SEC C and above (~26% of population).

IMFL prices also start at minimum Rs 45 per nip for the cheaper brands; 40% higher than IMIL prices. With improving IMIL quality, consumer's switching cost to higher-priced cheaper branded IMFL is increasing.

While there would be some shift upwards from IMIL to IMFL with increasing incomes, there would be similar shift from Below Poverty Line population to IMIL with increasing affluence and health consciousness.

IMIL focused companies have delivered higher returns

Both GM Breweries and Globus Spirits have delivered higher returns than IMFL leaders in past two years and have lower debt requirements due to leaner operating cycle.

Company Name	ROE		ROCE		D/E	
	FY12	FY13	FY12	FY13	FY12	FY13
Tilak Nagar	11%	12%	14%	14%	1.1	1.2
Radico Khaitan	9%	11%	11%	8%	0.9	1.0
United Spirits	4%	-2%	9%	9%	1.6	1.5
GM Breweries	17%	15%	22%	28%	0.3	0.2
Globus Spirits	18%	11%	20%	16%	0.4	0.2

Source: Company reports; ROCE excludes WIP in computing capital employed

Other listed companies with IMIL presence like Piccadily and IFB Agro excluded as they have significant core businesses of non-alcoholic agro products

Advantage IMIL: Leaner operating cycle

State control leads to lower debtor and inventory days in IMIL

Companies with strong brand equity are able to operate with lower working capital cycles, largely due to lower receivable days. State controlled distribution in IMIL leads to leaner working capital cycle. The two IMIL focused players GM Breweries and Globus spirits consistently have one of the lowest debtor and inventory days in the industry compared to IMFL majors.

Company Name	Inventory Days			Receivable Days		
	FY11	FY12	FY13	FY11	FY12	FY13
Tilak Nagar	128	141	114	70	75	82
Radico Khaitan	66	64	69	107	106	117
United Spirits	134	127	116	67	67	62
GM Breweries	17	13	13	1	1	0
Globus Spirits	37	36	35	35	35	41

Source: Company reports

Annexures

A. IMIL Market estimation

State	IMIL sales (Mn cases)	Market Share	IMIL per capita consumption	Source
Maharashtra	37.6	16%	3.0	www.stateexcise.maharashtra.gov.in
Uttar Pradesh	27.6	12%	1.2	www.upexcise.in
Haryana	24.9	11%	8.8	www.haryanatax.com
West Bengal	22.5	10%	2.2	www.wbexcise.gov.in
Bihar	22.2	10%	1.9	www.bsbc.in
Madhya Pradesh	20.6	9%	2.6	www.mpexcise.org
Punjab	20.0	9%	6.5	Industry sources
Rajasthan	17.2	8%	2.3	www.rajexcise.gov.in
Chhattisgarh	8.8	4%	3.1	www.excise.cg.nic.in
Uttarakhand	6.1	3%	5.4	www.excise.uk.gov.in
Himachal Pradesh	4.2 [^]	2%	5.5	Minimum lifting quota for IMIL
Delhi	3.6	2%	1.9	Industry sources
Jharkhand	2.6	1%	0.7	Industry sources
Orissa	2.1	1%	0.4	www.203.193.146.66
Puducherry	2.4 [#]	1%	17.0	statistics.puducherry.gov.in
Assam	2.3 ^{##}	1%	0.4	Estimated by extrapolating FY07 data
Chandigarh	0.6	0%	5.1	chandigarh.gov.in
Jammu and Kashmir	0.0	0%	0.1	www.jkexcise.nic.in
Tripura	1.8	1%	3.0e	Estimated \$
Meghalaya	1.4	1%	3.0e	Estimated
Goa	0.7	0%	3.0e	Estimated
Daman	0.3	0%	3.0e	Estimated
Sikkim	0.3	0%	3.0e	Estimated
Andaman & Nicobar	0.2	0%	3.0e	Estimated
All India	229	100%	3.0*	

Notes:

[^]Minimum quota for FY14 as mentioned in excise policy

* Average per capita consumption for states where excise data discloses sales volumes.

\$ Data estimated by assuming 3.0 litres as per capita IMIL consumption

FY09 data point extrapolated at 8% CAGR

##FY07 data point extrapolated at 8% CAGR

Key conversion assumptions

1 case = 12 bottles of 750ml each = 9 Bulk litres = 4.5 proof litres

B. IMIL Market projections

Historical IMIL sales data for key states

	FY09	FY10	FY11	FY12	FY13	YoY FY13	CAGR FY09-13
Maharashtra	31	33	37	36	37.6	5%	5.2%
Uttar Pradesh	24	25	26	26	28	4%	3.9%
Haryana	17	22	24	27	25	-7.5%	11%
Bihar	10	14	15	18	22	20%	20.4%
Madhya Pradesh	14	15	18	20	21	1%	10.2%
West Bengal	16	17	16	18	22.5	25%	8.3%
Rajasthan	8	10	11	16	17	9%	19.5%
Chattisgarh	6	7	7	7	9	36%	8.9%
Orissa	1	2	2	2	2	23%	11%
Delhi	6	6	6	6	4	-40%	-12%
Ten states	134	151	162	176	187	6.0%	8.7%

In Mn Cases

Source: State excise websites

Volume projections

State	FY13A	FY14	FY15	FY16	FY17	FY18	FY13-18 CAGR
Maharashtra	37.6	40	42	44	46	48	5.2%
UP	27.6	29	30	31	32	33	3.9%
Haryana	24.9	23	23	24	25	26	0.9%
Bihar	22.0	26	32	38	46	56	20.4%
MP	20.6	21	21	21	21	21	0.6%
WB	22.5	27	33	39	47	57	20.3%
Rajasthan	17.2	19	20	22	24	26	8.6%
Chattisgarh	8.8	10	10	11	12	13	8.9%
Delhi	3.6	3	3	3	3	3	-5.0%
Orissa	2.1	2	3	3	3	4	12.1%
Agg. 10 states	187	199	216	236	260	288	9.0%
Rest of India	42	46	50	55	59	65	9.0%
All India IMIL volumes	229	245	266	291	320	352	9.0%
YoY increase	6.0%	7.1%	8.4%	9.4%	9.8%	10.3%	

In Mn Cases

Value projections

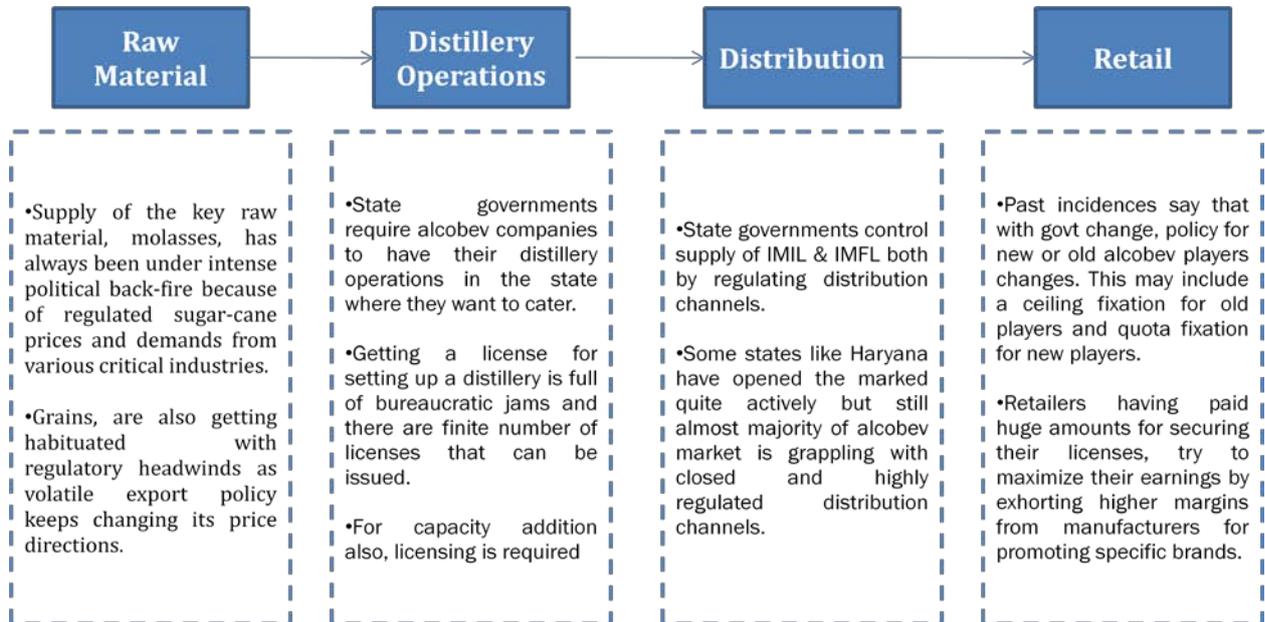
	FY13	FY14	FY15	FY16	FY17	FY18	CAGR
Volume (Mn Cases)	229	245	266	291	320	352	9%
MSP per case (in Rs)	1200	1,320	1,346	1,373	1,401	1,429	4%
Turnover (\$bn)	4.6	5.4	6.0	6.7	7.5	8.4	13%

Key assumptions:

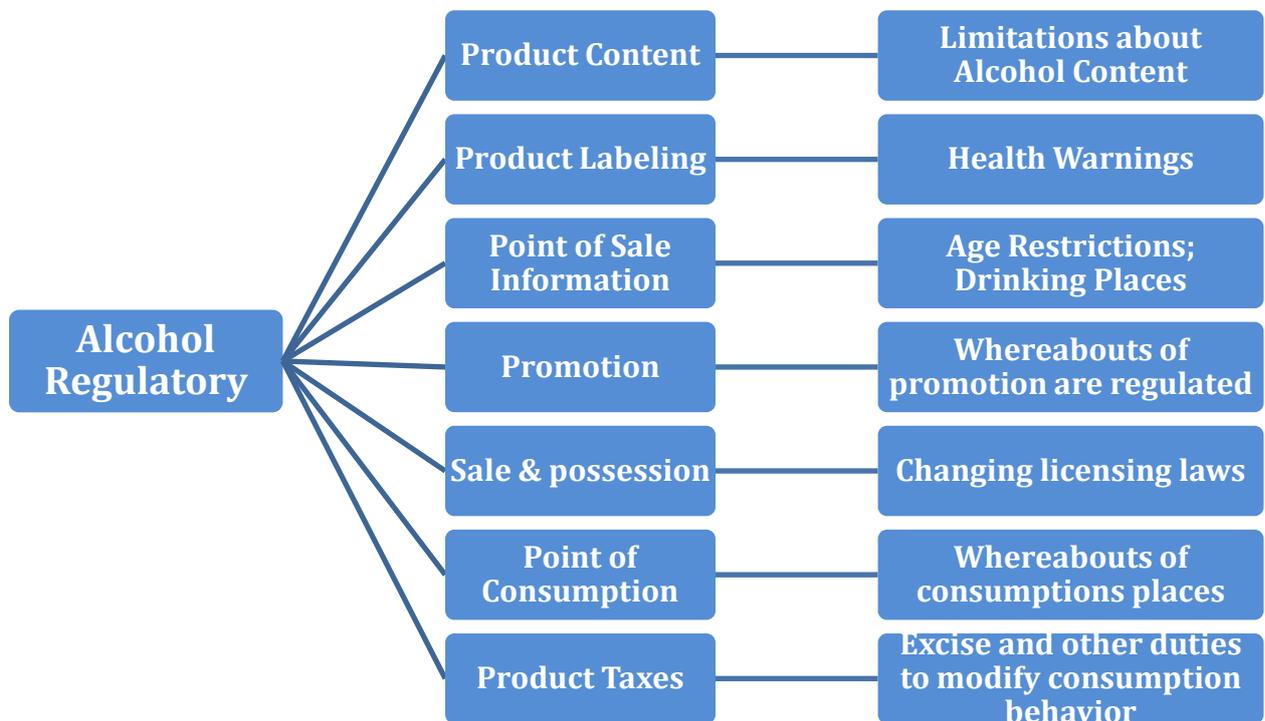
- Minimum sale price taken at the lower side of Rs 100 per bottle of 750ml. 12 bottles in a nine liter case.
- In FY14 many states have received a price hike of 10%. There after price is assumed to grow at nominal rate of 2% p.a.
- 1\$ = Rs 60

C. Regulatory environment

Laws across the value chain



Strict regulations from manufacturing to consumptions



Snapshot of excise policies

State	Rs per	Excise rate (~33% alcohol IMIL)			Minimum Sale Price (Rs Per quart bottle)	Distribution model	IMIL Shops	IMFL Shops
		FY12	FY13	FY14				
Maharashtra	PL	NA	95	110	Flexible: Cost plus	Licensed	4,200	1,800
Uttar Pradesh	BL	157	159	NA	200	Licensed	12,716	4,420
Haryana	PL	15	15	15	100	Licensed; Quota based	2,265	1,235
Punjab	PL			25	127	Licensed; Quota based		
Rajasthan	PL	117	117	117	NA	State owned Ganganagar Sugar Mills	6,602	4,795
Himachal Pradesh	PL	9	10	10	NA	Licensed; Quota based	1,815	NA
Madhya Pradesh	PL	80	85	92	NA	Licensed	2,207	581
Uttrakhand	BL	115	130	140	NA	Licensed	254	235
Bihar		NA	NA	NA	94	State owned Bihar State Beverage Corporation	NA	NA
West Bengal	PL	70	70	70	NA	Licensed	1,870	2,243
Chandigarh	PL	15	15	25	105	Licensed; Quota based	65	152
Odhisia		NA	NA	20	NA	State owned Odisha State beverage corporation	NA	NA

Source: State excise policies, websites and industry news

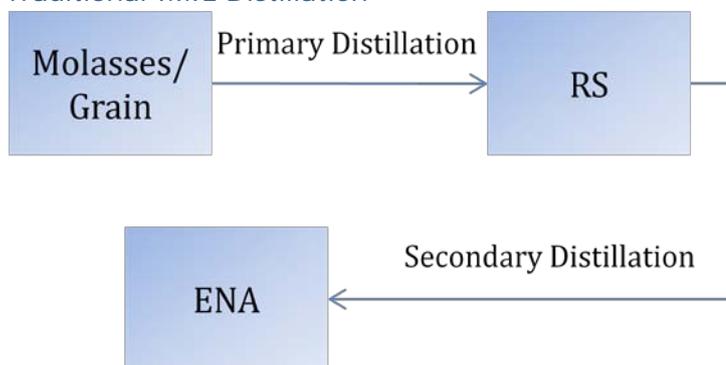
D. Changing distillation methods aid IMIL quality improvement

Improving IMIL product quality encouraging more people to shift from illicit

Scenario 10 years before

- Traditionally IMIL was made from rectified spirt (96% alcohol) whereas ENA (98% alcohol) was exclusively used for IMFL manufacturing
- Rectified spirt is cheaper and easier to produce but the final product (IMIL) has a malty smell carried through from the raw material.
- ENA is obtained after secondary distillation, and is 'neutral' of all characteristics of the raw material and, has a far 'cleaner' base.
- Because of this, RS is cheaper than ENA and thus used for cheaper IMIL **though it is less fit for human consumption**

Traditional IMIL Distillation



Present scenario

- IMIL is now increasingly made from ENA. This change has been brought about new distillation technologies being introduced like Fermented wash technology which converts molasses/grains to ENA in the first stage. Because of this, gap between cost of manufacturing ENA and RS has improved substantially.

Fermented Wash Distillation



E. Consumer base: Inferences from Indian readership survey

IMIL's likely consumer base is over 40% of population and growing positively

Indian readership survey is a quarterly survey aimed at capturing relevant information on growing media and product ownership & consumption based on industry needs. IRS is the *largest continuous study* of the world with a sample size of more than 250,000 households across India. IRS is conducted by Media Research Users Council (a registered not-for-profit body of members drawn from major Advertisers, Advertising Agencies, Publishers, and Broadcast/Other Media).

The MURC has defined a Socio Economic Categorization (SEC) that is used to classify households in India on basis of two variables:

- Education of chief earner
- Number of "consumer durables" (from a predefined list)- owned by the family. The list has 11 items, ranging from 'electricity connection' and 'agricultural land'- to cars and air conditioners.

There are 12 grades in the SEC system as shown below with ~70% falling below SEC D1. If we exclude the ~26% of below poverty line population, we can **derive likely consumer base of 46% of India's population.**

DISTRIBUTION OF HOUSEHOLDS India (urban + rural)



This round of analysis has been conducted using data from IRS 2008 (round 20). We have drawn a sub-sample of 39,441*

The IRS has also defined a measure of living standard in Household Premiumness Index (HPI), a composite of 50 demographic and consumption variables that is measured on a quarterly basis. As per the latest IRS Q42012 topline, all HPI segments except 0-6 (that is likely below poverty line segment) are growing positively.

Growth in Living Standards

Distribution of HHs by HPI Percentile (index to 1000)

HPI	2012 Q2	2012 Q3	2012 Q4	% CAGR (2012 Q2-2012 Q4)
0-5	121266	119478	118138	-5.1
6-10	48429	49612	50389	8.3
11-20	35076	35953	36639	9.1
21-30	10676	10834	11108	8.3
31-50	9665	9713	9964	6.3
51-70	3180	3251	3269	5.7
71-100	4665	5008	5395	33.7
101-150	2634	2737	2793	12.4
151-200	1621	1682	1704	10.5
200+	3177	3304	3361	11.9
Average HPI	17.3	17.8	18.1	9.1

Glossary

- **IMIL (Indian Made Indian Liquor):** Made from molasses or grain like IMFL, the spirit has lower alcohol content and is mostly fruit flavoured varying per state
- **IMFL (Indian Made Foreign Liquor):** Made from ENA (majorly grain based), the spirits has a defined 42.8% alcohol content and comes in various product categories like Vodka, Ruma, Zin etc
- **ENA (Extra Neutral Alcohol):** A highly concentrated ethanol (96% purity) which has been purified by means of rectification (repeated distillation). It's colourless and has a neutral smell of its ingredient (molasses or grain)
- **RS (Rectified Spirit):** A lesser concentrated ethanol (95%) which is of inferior quality as it smells and tastes of its ingredients (typically molasses)
- **Toddy:** An alcoholic beverage created from the sap of various species of palm tree such as the palmyra, date palms and coconut palms. Toddy manufacturing and consumption both are illegal in India.

About Four-S Services

Four-S Services provides customised business and financial research to organizations across the globe. The company also provides Investor Relations consulting to corporates based on in-depth sectoral and company research. The company has an impressive client profile and a team of analysts covering the key sectors including Finance & Banking, IT & Telecom, Retail, Media & Entertainment, Pharmaceuticals, Infrastructure and Manufacturing amongst others. For further information on the company please visit www.four-s.com

Disclaimer

The information contained herein has been obtained from sources believed to be reliable but is not necessarily complete and its accuracy cannot be guaranteed. No representation, warranty, guarantee or undertaking, express or implied, is made as to the fairness, accuracy or completeness of any information, projections or opinions contained in this document or upon which any such projections or opinions have been based. Four-S Services Pvt. Ltd. will not accept any liability whatsoever, with respect to the use of this document or its contents. This company commissioned document has been distributed for information purposes only and does not constitute or form part of any offer or solicitation of any offer to buy or sell any securities. This document shall not form the basis of and should not be relied upon in connection with any contract or commitment whatsoever. This document is not to be reported or copied or made available to others.

The company may from time to time solicit from, or perform consulting or other services for, any company mentioned in this document.

For further details/clarifications please contact:

Rupam Prasad

Seema Shukla

Gaurav Agrawal

Rupam.prasad@four-s.com

seema@four-s.com

Gaurav.agrawal@four-s.com

Tel: +91-124-4251443

Tel: +91-124-4251441

ⁱ United Nations, 2012 revision

ⁱⁱ Public Health Foundation of India