

Thirsting for volumes

GSL is making a shift from country liquor to the IMFL segment, but needs to drive new spirits at multiple price points

When you belong to a business family, setting up a new business comes naturally, as one is aware of the nuances of business. The same was the case with Ajay Kumar Swarup, managing director, Globus Spirits Ltd (GSL), when he decided to set up his own distillery two decades ago. Although he came from a business family, he had focussed on education. After passing out from Doon School, he went to St. Stephen's College, followed by an MBA from IIM, Kolkata. "Two decades back, in 1992, I decided to set up a distillery in Samalkha (Haryana) at an initial investment of ₹50 lakh," explains Swarup. The ₹715-crore company is expected to grow by 20 per cent this financial year. The company's plans of setting up newer manufacturing facilities and increasing exports will go a long way in achieving the target turnover.

Swarup and his immediate family have a 67 per cent stake in GSL, a listed entity; 13 per cent is with institutions and the public holding 20 per cent. The extended family also runs SVP Industries, which has sugar mills and a distillery in Muzaffarnagar (Uttar Pradesh), but it is not a part of GSL.

"We got listed in September 2009 and our issue was subscribed one-and-a-half times," says 26-year-old Shekhar Swarup, vice-president, GSL, who, like his father, attended Doon School and graduated from the UK. "This is the year I entered the business and have worked in different departments to get a hang of everything." Before joining GSL, he worked for a short while with a technical pharma consultancy. The IPO issued



Ajay Kumar Swarup: twenty years of GSL and going strong

at ₹100 is now trading at ₹94.

GSL caters to both the Indian Made Indian Liquor (IMIL; also known as country liquor) and the Indian Made Foreign Liquor (IMFL) categories in the domestic alcoholic beverages industry. It is also into IMFL bottling and sale of bulk alcohol. Nearly half of GSL's turnover comes from the country liquor segment, in which it enjoys a dominant market share in Haryana, Rajasthan and Delhi.

"I wanted to have a high-quality alcohol beverage even in this segment, with high standards of hygiene and quality. I opened a second plant at Behror in Rajasthan and was manufacturing extra neutral

alcohol (ENA), which has 96 per cent of alcohol content and is diluted with water to make the beverage. The by-product is rectified spirit, which is a low-grade alcohol used by various industries like chemicals, pharma, cosmetics and fertilisers, as well as for fuel blending," says Ajay, who was appointed president, All India Distillers Association (AIDA), for two years (1994-96). "It's our objective to double the presence of Globus products in all the states we are present, across all verticals," adds Ruchika Bansal, vice-president, GSL.

"Depending on state legislations, we package in PET or glass bottles. In Haryana, we sell our IMIL products



Shekhar Swarup: our issue was over-subscribed

in PET bottles and, in Delhi, in glass bottles, as mandated," says Shekhar. "We are planning to expand to other states like Bihar, Jharkhand and West Bengal too. Setting up a distillery is expensive; it is also difficult to get a licence. But we are trying to overcome these problems. GSL is also looking at exports of bulk alcohol to Africa and the Middle East. "We exported some quantity to Ghana, Cameroon and Angola in 2011-12. We also export ENA in bulk to Japan and in small volumes to Singapore. Since promotion and excise laws in almost all states prohibit advertising, promoting our products is difficult," adds Shekhar.

Branding and expanding

"Our present capacity from three plants is 84 million litres (15 million cases) a year. This would increase to 120 million litres by the end of September 2012," informs Shekhar. One case has nine litres of alcohol and, depending on the size (180 ml, 375 ml or 750 ml), the number of bottles vary. In Haryana, the preference is for 750 ml bottles while, in Delhi, it's mostly 750 ml and 375 ml and, in Rajasthan, 180 ml bottles.

Over the past few years, the rate of growth of country liquor (IMIL) sale has been steadily decreasing. Although it still has the highest share in the alcoholic beverage market, from 2005 to

2010, its consumption increased only by 65 million cases (from 195 million to 260 million) – at a CAGR of just 5.9 per cent. This decreasing market share is due to increase in premiumisation, changing consumer tastes and preferences, international influence and rising personal disposable incomes. "People are moving from country liquor to Indian made foreign liquor. Increasing urbanisation is also contributing to the decline in consumption of country liquor," observes Kushal Sanghrajka, analyst, HDFC Securities.

In fact, as a differentiator, companies that manufacture country liquor are now focussing on properly promoting, branding and positioning their products. GSL has moved towards branding country liquor and also promoting it in a manner similar to IMFL. "We are the market leaders in IMIL segment in the states we are present in and sell 12 million cases annually. Our flavoured products – Keenu and Nimbu are popular in Haryana. They are safe for consumption and have no pungent odour," says Shekhar.

"The demand for alcoholic products has been rising and the company has a fairly high market share in IMIL," says Ashish Kapur, CEO, Invest Shoppe. "It has started expanding its IMFL segments with the launch of several new brands and is also planning to enter into new states."

The bottomline has also been growing by 50 per cent annually. It has achieved a decent RoE of about 18 per cent on an average, with a low debt equity ratio under 0.3. However, the industry is bound by the risk of government regulations, with high level of taxes and corporate governance issues. The margins of the company are likely to dip due to higher expenditures in marketing new launches and distribution. "The company's future will depend on its ability to face the regulatory and competitive challenges," adds Kapur. "Given the excellent growth in the past few years, its continuing topline growth and persistence in bottomline margins will be keenly watched by the market participants," Kapur adds.

Although today, the country



High standard of hygiene and quality

liquor segment occupies a major market share (60 per cent) of the overall liquor market with an annual growth rate of 8 per cent, experts believe it is on the decline and the market share could be in the region of 40 per cent by 2015. In the long term, they feel, it will be overtaken by the IMFL segment, which logged an annual growth rate of 12 per cent. GSL entered the IMFL segment in 2008 and makes Hannibal Rum, Country Club Whisky and French Castle Brandy. "Hannibal will now also be sold through CSD and we expect around 100,000 cases to be lifted annually," says Shekhar.

Profitable pairings

India has over 100 manufacturers of spirits. Since states have highly protectionist policies for entry of alcohol from other states (usually by way of excise duty), for practical purposes, one can only sell in the state one manufactures in. Therefore, many companies use the manufacturing facilities of others to produce and sell their products. "United Spirits' Bagpiper brand is manufactured at our facility in Haryana. They have their own team supervising the products, getting it bottled and labelled. Similarly, ABD (Allied Blenders & Distillers) produce Officer's Choice in our Rajasthan plants," says Shekhar, adding that they also produce for Jagatjit Industries.

"We have been associated with

GSL for the last five years and our business with them has grown from 20,000 cases per month to 125,000 cases per month," says Deepak Roy, executive vice-president, ABD. "They bottle for us in Haryana and Rajasthan, are reliable suppliers and have adequate controls and capacity to bottle our mega brand Officer's Choice, which is the world's largest selling whisky. I have been associated with Globus Spirits since 1997, first when I used to work with United Spirits group and, thereafter, in Diageo, when they used to bottle the Gilbeys Green Label whisky. They have good bottling facilities, produce high quality grain spirit, required for our blends and have a high degree of spirit of partnership," adds Roy.

"We at AIDA have found that GSL has always been in the forefront in successfully deploying new technologies and best practices in all sectors of their distillery operations. They have moved early into implementation and adoption of technologies for effluent treatment to achieve zero-discharge norms fixed by the CPCB," says V.N. Raina, director general, AIDA.

Unlike in the West, where sales of wines are growing and spirits are flat or declining, "the Indian spirits industry is one of the largest and fastest growing in the world. We expect the growth to sustain at 13-15 per cent levels over the longer term. Though low profitability is a concern

that plagues the sector, we believe that the players are able to better manage their working capital cycles due to their focus on niche products or categories, which give them a definite advantage," says Abneesh Roy, associate director, Edel Capital.

India's per capita consumption of alcoholic beverages is among the lowest in the world at 3 litres per annum (excluding country liquor) - lower even when compared to other Asian countries like China, Thailand, Taiwan and the Philippines. Given the large population base in India in the age group of 15-59 years, a small increase in consumption is likely to enhance the industry size. "The IMFL industry in India is well-poised to capitalise on the opportunity offered by the low consumption of alcohol and the shift from country liquor to IMFL," says Amit Dahanukar, CMD, Tilaknagar Industries.

Further, there are health hazards posed by country liquor, which has forced various states (particularly in Northern India) to ban it. This is likely to boost sales of entry level IMFL brands. So, while GSL is raking in good money from the country liquor segment, the Swarups are gradually moving towards the IMFL entry level market as well. But GSL will do better, as it introduces more products across relatively higher multiple price points, in the long term.

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