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## INDUSTRY OUTLOOK

# INDIAN LIQUOR INDUSTRY WITH HIGHER SPIRITS THIS YEAR

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### Introduction

The liquor industry is seen as a sunrise industry because of its strong growth potential and growing societal acceptance. The size and diversity of India's alcohol market are among its most distinctive characteristics. Liquor includes a broad variety of alcoholic drinks, such as whiskey, rum, vodka, gin, beer, wine, and native mixtures that are specific to different geographical areas. There has been an optimistic growth in the industry accruing to rapid pace of urbanization, changing lifestyle and attitudes within the culture. The sales of alcoholic beverages (Alco-Bev) in the nation are likely to rise by 7 per cent CAGR in the next ten years.

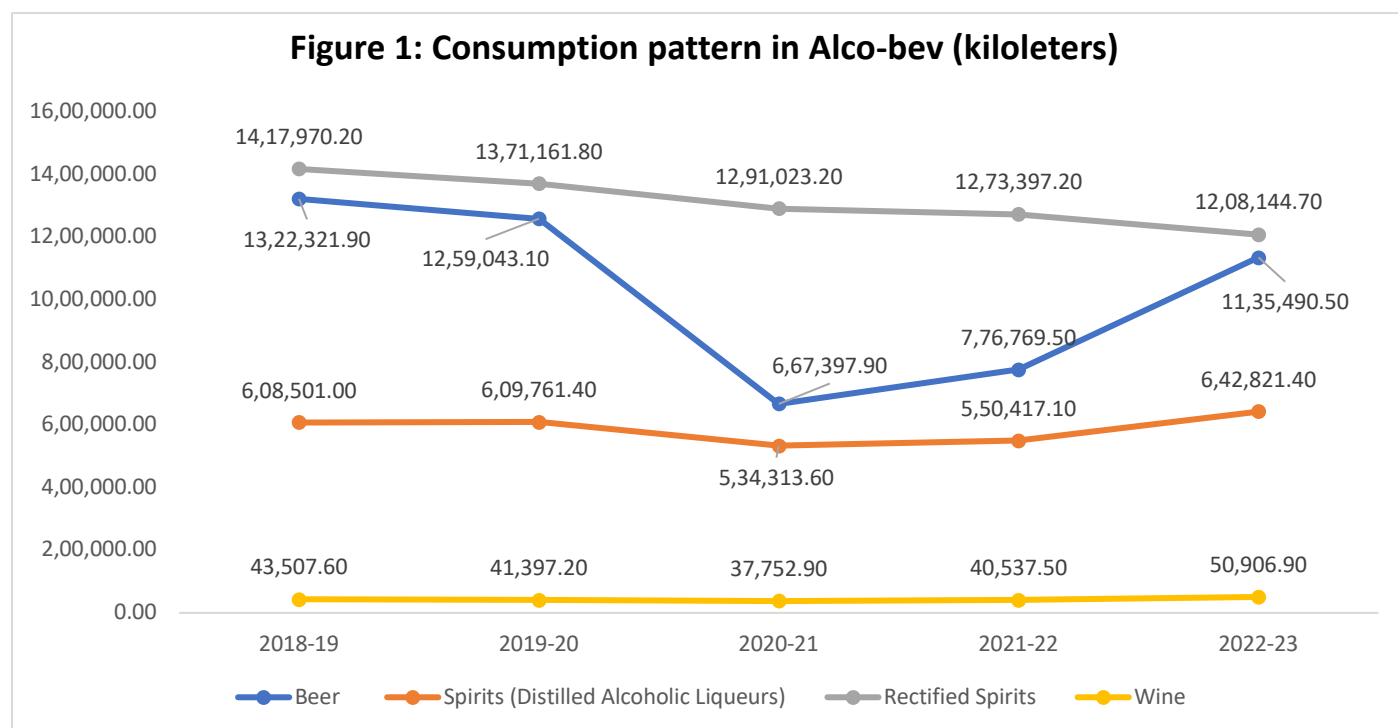


According to International Labour Organization (ILO) estimates, 30.7 per cent of the labor force employed in the services sector. Over 600 million people in India are between the ages of 18 and 35. The demographic dividend in India is predicted to last at least 30 years and peak in 2041, i.e., when the proportion of the working-age population (20–59 years) is predicted to reach 59 per cent.

It is a golden opportunity for the India to reap the benefits, further indicate an ideal environment for the liquor market. Currently, 33 per cent of the Indian population is of drinking age.

## Consumption Pattern

The states of Karnataka, Maharashtra, West Bengal, Odisha, Telangana, Delhi, Haryana, Punjab, etc. are amongst the largest consuming states for liquor in India. As per an analysis of the CMIE, out of home consumption of liquor recovered during FY23. FY23 was the first year without any restrictions, which came in the wake of the pandemic. Consumption of beer more than doubled to 1,134 thousand kiloliters during FY23 from 776 thousand kiloliters consumed in FY22. The consumption of spirits also surged from 550 thousand kiloliters in FY22 to 644 thousand kiloliters in FY23. An astounding 92 per cent of all alcohol consumption in India in 2021 was through spirits, making India a spirit loving nation. In value, the spirits segment is anticipated to a total of US\$ 50 billion in the next ten years.



Source: CMIE database

Comparing NFHS<sup>i</sup>-5 (2019-21) and NFHS-4 (2015-16) statistics, alcohol usage among males decreased to 19 per cent from 29 per cent and among women to 1 per cent from 1.2 per cent.<sup>1</sup> The latest publication of NFHS-6 (2023-24) is yet to come out. We anticipate an increase in the use of alcohol across demographics. According to the last survey, rural areas witnessed a higher growth in alcohol use among both genders than the metropolitan areas.

<sup>i</sup> National family health Survey

Reports	Men		Women	
NFHS-4 (2015-16)	31.9		2.2	
	Urban	Rural	Urban	Rural
	28.7	29.5	0.7	1.5
NFHS-5 (2020-21)	18.8		1.3	
	Urban	Rural	Urban	Rural
	16.5	19.9	0.6	1.6

Source: NFHS-4 and NFHS-5 reports; CMIE Economic Outlook.

According to a Statista survey, the northeast and eastern regions of India had higher alcohol consumption rates for both men and women. Both the southern and northern regions of the country have high rates of male alcohol use. Male alcohol consumption was also prevalent in both the southern and northern parts of the nation. Telangana and other northeastern states showed high rates of female alcohol use compared to the national average.

With a GDP per capita close to US\$ 2500 as of 2023, in India, the mix of alcohols is mostly determined by affordability. Spirits became a desirable option due to their high alcohol content and shelf life. They punch above their weight without breaking the bank. It is important to differentiate between Indian Made Indian Liquor (IMIL) and Indian Made Foreign Liquor (IMFL) even when it comes to spirits.

### **Indian Made Foreign Liquor (IMFL)**

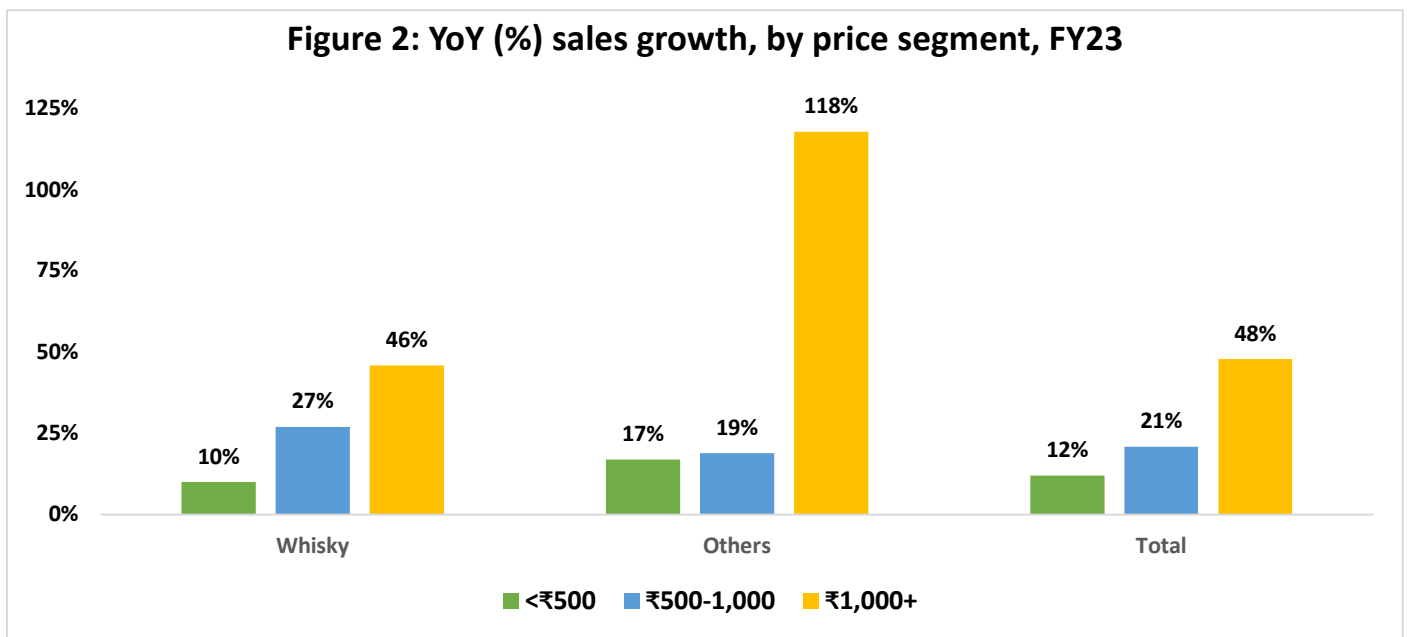
IMFL encompasses a wide range of alcoholic beverages such as whiskey, brandy, rum, gin, tequila, vodka, and more. Sales of IMFL rose by 14 per cent in volume in FY 2022-23 while premium products priced over ₹ 1,000 per 750 ml bottle grew by 48 per cent.<sup>2</sup> In FY23, whisky remained the largest segment with an expected sales volume of 243 million cases, contributing to 63 per cent of industry sales. As liquor imports multiplied 12 times in the past decade, share of whiskies in India's total consumable alcohol imports increased from 44.3 per cent to 63 per cent in the FY23. And, the share of Gin increased from 0.5 per cent to 2.5 per cent in the same period.<sup>3</sup>

### **Indian Made Indian Liquor (IMIL)**

IMILs are locally produced regional liquor also known as Country Liquor (CL). IMIL is also known as a liquor of masses (lower income strata ~40 per cent of population), for instance, Toddy and Feni are the most widely consumed indigenous liquor in southern regions of India. Established alcohol markets display strong preference to local liquor flavors, i.e., South Korea promoting soju (South Korean local liquor) everywhere on a very large scale. But in India, the market for local liquor is quite disorganized.

## Premiumization

Due to increased international travel, growing expectations, an enabling atmosphere for imported alcohol, and more disposable wealth, Indian consumers are shifting to more premium categories within the nation. The rise in value-based consumption coincided with a surge in premiumization, which outpaced volume-based consumption. The increased acceptance of grain-based alcohol over the more conventional molasses-based liquor is another trend in the Alco-Bev industry. This trend is illustrated by International Wine & Spirit Research (IWSR) market data forecasts, i.e., premium-and-above blended Scotch volumes were predicted to grow at a CAGR of 13 per cent between 2022-2027, and premium-plus malt Scotch at a 19 per cent CAGR.<sup>4</sup>



The data from the Confederation of Indian Alcoholic Beverage Companies (CIABC) shows that spirits priced above ₹1,000 have grown at a pace of 48 per cent YoY in FY23, compared to just 12 per cent for the less-than- ₹500 segment of spirits. And ₹ 1,000 + category, Indian offerings' share jumped from 18 per cent in FY22 to 20 per cent in FY23, showing a robust growth for Indian premium brands.<sup>5</sup>

Also, excise duties were halved in some states making foreign whiskies cheaper than the domestic ones. Delhi's new liquor policy had also increased the demand for imported spirits in the city.

## Packaging

On the lines of free trade agreement (FTA) between India and UK, UK is urging for the bottling to be done in Europe than in India, just for the sake of maintaining the quality of the product/brand. Also, it could hamper the perception of "premiumness" and could come out as a mass market product (like a Chinese-low quality products), if bottled in India. Moreover, the whole concern about the bottling rose when the duties were high. As the

duties are coming down because of the India UK-FTA, this dispute should not be a problem. The Alco-Bev industry is expected to commission projects worth ₹ 28.2 billion in the year FY24. This would bring in business for the glass and glassware industry as well.

## Market share

In 2023, the size of the Alco-Bev market was about US\$ 55 billion in India against US\$ 52.4 billion in 2021.<sup>6</sup> Against a backdrop of a +1 per cent volume growth for global total beverage alcohol in 2022, in 2024 spirits volumes in India increased by +12 per cent, with beer up by +38 per cent, wine up by +19 per cent, and RTDs (ready to drink) up by +40 per cent.<sup>7</sup> According to International Spirits and Wines Association of India (ISWAI) report, the Indian Alco-Bev industry is expected to reach US\$ 64 billion<sup>8</sup> over the next five years.

Major players operating in the Indian Alco-Bev market include United Spirits Limited, Tilak Nagar Industries Ltd, Jagatjit Industries, Mohan Meakin, Globus Spirits, Allied Blenders and Distillers Pvt., SAB Millier, Radico Khaitan Limited, Khemani Group, SOM Distilleries and Breweries, Carlsberg A/S, etc. Some of the top foreign Whisky brands in Indian market are Chivas Regal, Johny walker, Black Dog, Vat 69, 100 pipers, etc.

## Domestic market

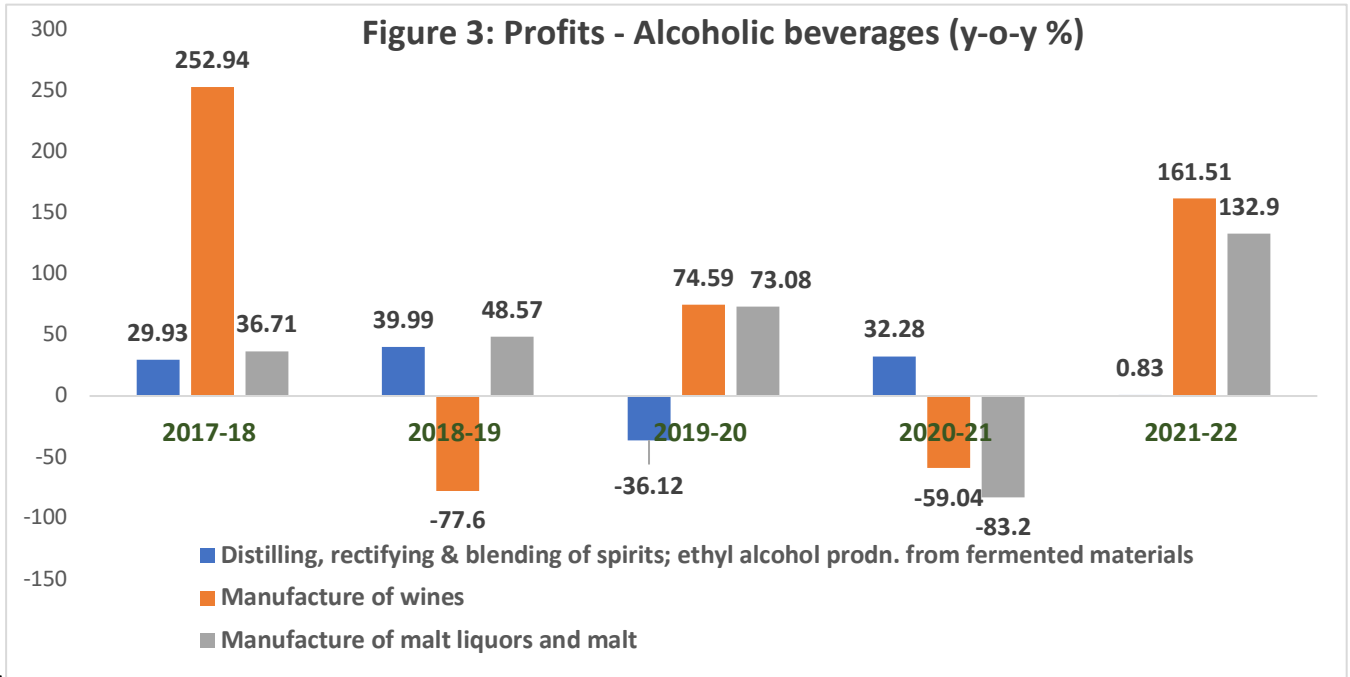
The Alco-Bev industry generates over ₹ 300,000 crores in taxes annually, directly supports the livelihood of 50 lakh farmers, and creates jobs for 20 lakh people in the manufacturing sector. It also fuels hundreds of ancillary industries with a combined annual turnover of ₹ 6000 – ₹ 7000 crores in the glass, tin, plastic, and paper sectors.<sup>9</sup>

**Table 2: IIP - Components of Alco-Bev: Base Year 2011-12**

Y-o-Y % change: 2018-19 to 2022-23					
Year	Spirits (Distilled alcoholic liqueurs) - whisky, gin, rum, vodka, etc.	Toddy and other country liquors	Rectified Spirit	Wines	Beer & other undistilled and fermented alcoholic liqueurs other than wines
2018-19	-4.85	10.12	20.04	-7.1	5.65
2019-20	-1.37	-0.83	-11.2	-2.99	-5.02
2020-21	-7.34	2.67	-6.03	-8.59	-46.96
2021-22	-0.6	14.31	2.61	1.26	18.09
2022-23	9.45	-0.6	28.63	22.17	43.62

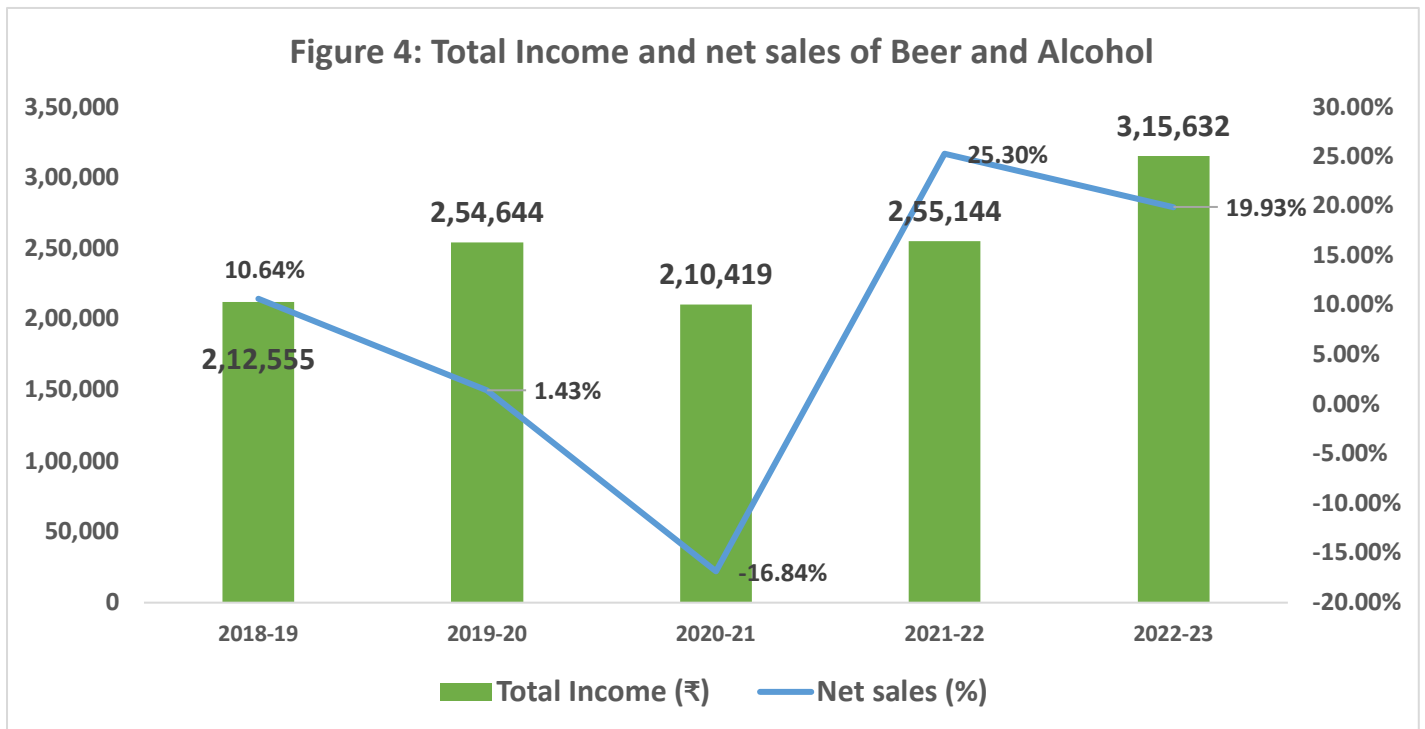
Source: CMIE economic outlook; CSO (MoSPI)

As per the CMIE, the domestic revenue in the Alco-Bev industry amounted to US\$ 50.3 billion in 2024, whereas revenue generated from trade amounted to US\$ 6,226 million in 2024. In the next ten years, India is projected to progress at a healthy 7 per cent CAGR, reaching a valuation of US\$ 112 billion. In volume, the domestic Alco-Bev market is expected to show a volume growth of 4.5 per cent in 2025.



Source: Annual survey of Industry, India; CSO (MoSPI).

The wine sales remained flat for big players while the rest of the industry has reported 30-40 per cent decline YoY for the first three quarters of the FY19 mainly due to the lack of availability of grapes and economic slowdown.<sup>10</sup> Though the segment tried to maintain the margins in FY20, it fell again in FY21. The wine market is expected to accelerate at a CAGR of 30 per cent in next five years. The manufacturing of malt liquors and malt showed exceptional resilience in this period. Rectified spirits and ethyl alcohol production, however, showed a marginal growth in profitability as compared to other segments (see figure above).



Source: Prowess database (aggregated from the company-wise data.)

The sales of alcoholic drinks account for around 14–19 per cent of the organized F&B sector's total income. Following the pandemic years, the Alco-Bev industry kicked off with a surge of optimism in FY23, driven by good demand across all segments - spirits and beer. Total sale of this segment rose by ~19 per cent (see figure 4) YoY in FY23. Domestically produced whiskies accounted for about 53 per cent of single malt sales in India in 2023, a YoY increase of ~25 per cent, surpassing for the first-time established brands like Glenlivet, Macallan, Laguvulin, and Taliskar.<sup>11</sup> Radico Khaitan alone sold 345,000 (of nine liters each) cases of Indian Single malts out of total 675,000 cases sold in India in FY24, while the rest 330,000 cases were of Scottish origin.

This is hard to comprehend as the domestic prices of single malts are not less but at par with their counter brands rages in between ₹ 3000 to ₹ 6000.<sup>12</sup> It is estimated by CIABC that local whisky brands grew by 23 percent YoY, whereas imported brands grew by ~11 per cent.

The latest addition to the list of single malts with a tagline of 'made in India' is Indri Diwali collectors' edition 2023, which was launched by the Piccadilly Distilleries in 2021. This brand broke all record in terms of sale and won 'Double Gold Best in show in the Malt' at the "whiskies of the world awards". In FY23, the distillery produced 15,145 cases of Indri Trini and was sold out.<sup>13</sup>

According to the investor's presentation of Radico Khaitan, for Q2 FY24, its Rampur Indian single Malt market, i.e., prestige and above segment, grew by 22 per cent on sales, marking 12.8 per cent YoY,<sup>14</sup> and expected to grow at 45 per cent CAGR in the next five years.

## Trade

India now contributes around 2.23 per cent of global exports in all commodities; in the next five years, the government hopes to raise that share to 4-5 per cent. India's alcohol import rose by 54 per cent in the first three quarters of FY23.<sup>15</sup> This decadal-high growth visible in imports was due to the fact that the economy is doing well. This makes people to spend more leading to more consumption of premium/imported products.

Whiskies imports increased by 55 per cent to US\$ 335 million compared to the pre-pandemic levels of US\$ 218 million in FY20.

**Figure 5: India's Exports and Imports to the world: Alco-Bev (₹ Million)**



Source: CMIE economic outlook; DGCI&S; Ministry of commerce and industry

India exported ₹ 26.2 billion in value and imported of about ₹ 63 billion in FY23. Due to the Red Sea situation and the Russia-Ukraine war, India's agricultural exports fell by 8.8 per cent between April-February of FY24 to US\$ 43.7 billion.<sup>16</sup> The Government is working on a strategy to boost exports of 20 'high potential' products, that also includes alcoholic beverages.<sup>17</sup>

### Government Initiatives

In March 2024, Member States of the European Free Trade Association— Iceland, Liechtenstein, Norway, and Switzerland – and the Republic of India signed a comprehensive Trade and Economic Partnership Agreement (TEPA). As per the official document, wines priced between US\$ 5 and US\$ 15 will see a 50 per cent reduction on custom duty in the next year, which will further reduce in the coming years, wine costing less than US\$ 5 will have no concessional cuts and for the wine costing above US\$ 15 there will be reduction of 25 per cent that will further decline in the coming decade.

Europe sees India as a growing market for liquor business in India as India is the second largest liquor market after China<sup>18</sup> and this time-bound reduction of custom duties will be good for the growth of domestic wine industry.

The excise duty on alcohol is an easy source of tax revenue to states, so the state government levy higher but varied amount of tax rate per state. Karnataka is the highest tax charger in that list, i.e., at 83 per cent, followed by Maharashtra (71 per cent), Telangana at 68 per cent. Goa and Haryana are lowest tax chargers at 49 and 47 per cent, resp.

The Advertising Standards Council of India (ASCI) had tightened its guidelines for brand extensions in restricted categories like liquor and tobacco in December 2023. The surrogate



advertisements that promote products in the disguise of other sub-products that they make, i.e., selling water/soda bottles with a liquor brand label, undermine consumer rights and can have serious implications.

Total prohibition from consumption of alcohol in states also leads to unlawful trade of poor quality-alcohol in state, and avert frequent incidents of hooch tragedies. In Motihari, Champaran district of Bihar, 26 people died from consuming spurious liquor in April 2023. In December 2023, the Manipur government announced the withdrawal of the Manipur Liquor (Prohibition) Act, 1991, and set down rules and regulations for the legalization of alcohol in the State. Manipur is expected to earn ₹ 600 to ₹ 700 crores just from the tax revenue annually whereas, Bihar is losing revenue from the illegitimate liquor trade, which is estimated at around ₹ 10,000 crore per annum and is advised to follow suit with Manipur.<sup>19</sup>

India does not impose GST on liquor. However, states adopt different practices while imposing GST on ENA (extra neutral alcohol), which is a key input used to produce liquor. In October 2023, GST (goods and services tax) on molasses was reduced to 5 per cent from 28 per cent and molasses-based ENA used for manufacturing liquor will be exempted from GST for an "interim" period. Earlier, ENA was taxed (as GST) at 18 per cent both by center and state. This is done to benefit the Sugar industry, especially those companies that sell molasses or have distilleries to produce alcohol. Since liquor is ultimately taxed by the state government in the form of excise duty and VAT, there was a dispute on payment of GST on ENA, which is just a raw material. The Centre insisted that it comes under GST and state claimed that it is subjected to VAT. After this tax policy, ENA shall only be subjected to State's VAT. Also, by bringing ENA into VAT is beneficial to the liquor industry as distillers can now claim ITC<sup>ii</sup> (input tax credit).

## Challenges ahead

The ENA<sup>iii</sup>, a raw material, makes up almost 40 percent of the total costs in Alco-Bev companies. The ENA costs have been high for over a year now due to an uptick in the cost of grains such as barley, maize, and sugarcane.

Year	Country liquor (ltr)	Foreign / refined liquor or wine (ltr)	Toddy (ltr)	Beer (ltr)
2021-22	186.9	187.6	219.9	188.1
2022-23	183.5	189.4	233.2	191.8
2023-24	193.7	195.5	237.7	197.9

Source: PIB; MoSPI; CMIE economic outlook

<sup>ii</sup> ITC is a proportionate returns available on the final tax liability already paid on the inputs.

<sup>iii</sup> ENA is nothing but the purest form of ethanol. It contains 95 per cent alcohol by volume and is used for producing liquor and for industrial purposes.

The supply and pricing challenges caused by the diversion of grains to ethanol production, which is witnessing rising demand as a result of government blending policies, have created an issue for the Alco-Bev business. Due to these cost pressures, especially grain prices and packaging materials, industry's operating margins may decline in FY25.

A crucial issue to be addressed here is supply disruptions happens because of sudden policy changes that makes some particular brands to not be available at peak times. In general, states choose supply reduction strategies, with excise policies directly affecting it that ranges from absolute prohibition to state-manufactured to its distribution. Currently, five states—Bihar, Gujarat, Mizoram, portions of Manipur, and Nagaland—completely outlaw the sale and consumption of alcohol.

States, where liquor has been declared illegal, are “dry states” in which the sale of liquor in any form has been banned and declared illegal for any person living in the state.

1. Bihar [Bihar Excise (Amendment) Bill, 2016 Section 19(4)]
2. Gujarat [Bombay Prohibition (Gujarat Amendment) Bill, 2009]
3. Manipur [The Manipur Liquor Prohibition Act of 1991]
4. Lakshadweep [Bombay Prohibition (Gujarat Amendment) Bill, 2009]
5. Nagaland [Nagaland Liquor Total Prohibition Act, 1989]

Contrarily, these policies are put in place to regulate the consumption of alcohol as well. Alcohol drinking causes enormous social harm across the world and is a primary cause of mortality and morbidity among adults. In India, alcohol accounts for 3.7 per cent of all fatalities and 3.1 per cent of disability adjusted life years (DALYs).<sup>20</sup>

As Bihar is advised to lift ban of liquor after Manipur, the National Family Health Survey 2019-20 report had provided data in favor of that because Bihar still consumes more alcohol than Maharashtra. Clearly, the ban has not worked. Bihar should find ways to educate these poor and backward classes about the harms of alcohol but at the cost of not losing ₹ 10,000 crores of annual revenue. That seems like a tricky job for the Bihar government.

## Way forward

Following the Covid lockdown, the Indian liquor industry quickly rebounded, demonstrating the strength and size of its huge clientele, which is becoming more and more dominated by millennials and Gen Z. Several local brands came up when the Alco-Bev companies joined the domestic market. Due to health concerns, low alcoholic content breweries are also emerging. According to the IWSR, the total volume of these beverages is expected to soar by 31 per cent by 2024.<sup>21</sup> During the pandemic, customers explored new channels of sales, such as, in-home consumption, to save value added tax (VAT) at restaurants, etc.

The sustained growth of the Alco-Bev sector requires an ecosystem that supports digital authorization, increased use of data analytics and technology-based solutions, structured and periodic data collection on household consumption patterns, regular stakeholder consultations, a gradual and calibrated tariff reduction, and an export-focused approach. Distilleries and breweries are increasingly adopting sustainable methods in production, sourcing, and packaging. Furthermore, advances in packaging are quite important. Many businesses are switching from using heavy, environmentally harmful glass bottles to lighter, more eco-friendly alternatives made of recycled materials.

In sum, state excise departments should establish clear regulations at regular intervals to assist firms in expanding, making long-term investments, and fostering the growth of innovative business models. States regulate the whole supply chain of alcohol via excise duty, including manufacturing, distribution, registration, licensing, labelling, packaging, sale, monitoring, etc.

The business is adapting creatively and ingeniously to customers' growing environmental consciousness and varied tastes. Drinking alcohol has to be balanced by sustainability, good health, and an appreciation of multiple cultures and cuisines. Drinking responsibly and not recklessly is important.

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