INDIA'S UPS AND DOWNS

India is a paradoxical market. On the one hand are investors planting vineyards and growing wine tourism. On the other stands a government hostile to alcohol. Subhash Arora takes a closer look at what's happening on the ground.

Grover Zampa Vineyards, India's second-biggest winery.

Despite no respite from heavy taxes and rising costs due to cumbersome procedures and an unprecedented currency devaluation last year, both domestic and imported wines managed significant sales growth during the fiscal year 2013 to 2014 (ending March), although with pressure on the value of wines sold because of faster growth in the cheaper wine segment.

Sula remains India's leading producer, with 650,000 cases produced in 2013 to 2014, with 250,000 being low-end wines. This makes them a significant player in India's 1.2 m-case low-end wine industry, which includes makers of 'Goan Ports' and fortified wines. Grover Zampa is next with 80,000 cases and 35,000 cases, respectively. The additional 800,000 cases produced in the 'premium segment' make it a total of 2m case market for domestic wines. Imported wines clocked a 15% growth at 380,000 (9-L) cases, with Brindco maintaining the leading importer status.

The industry upside

Despite several procedural hurdles, private equity investors have been showing an interest in investing in Indian wineries. Of particular interest are the activities of Reliance Capital and VisVires, a Singaporean fund run by Ravi Viswanathan, who together bought the 30% share from an existing fund at an amount putting the value of the Sula enterprise at about Rs. 7.5bn ($130m). Sula, which has always attracted private equity, was valued at $10m in 2004 and $100m in 2010. Despite a currency devaluation of more than 30% between 2010 and 2014, Sula has experienced a 13-fold increase in value in just 10 years. What's more, two other billionaires vied to buy the stake.

Interestingly, the same PE investors had also invested two years ago with Grover Zampa, the oldest operating winery. Viswanathan, an active negotiator for both deals, feels it might be prudent to merge the two complementary competitors, making the merged company a dominant player, thus helping them unlock their investment with higher profits for all. Rajeev Samant, CEO of Sula Vineyards, is not amenable to the idea now, but the merger remains on the table.

The industry is also witnessing interest from high net worth individuals with a passion for wine. Industrialist Ajit Gulabchand started a winery seven years ago but released the first vintage last year. The Charosa wines are excellent, partly a result of waiting for years to let the vines grow. Krishna Prasad Chigurupati, who owns a bulk drug manufacturing company with annual sales of $200m, has set up boutique winery KRSMA in Karnataka with his wife. Their Sauvignon Blanc 2013 won India the first Gold Medal in an international wine competition, at the San Francisco International Wine Competition in 2014.

Although exports account for less than 5% of India's production, the efforts of producers have borne fruit. Marks and Spencer are selling Jewel of Nasik in the UK, made for them by Sula. Another feather in Sula's cap has been getting a presence onboard Air India flights. Grover Zampa launched the Vijay Amritraj collection at Wimbledon this year, in honour of the legendary Indian tennis player.

The introduction of Chandon Brut and Rosé Brut, two Indian-produced sparkling wines by Moët Chandon India, is a milestone for the domestic industry. Released in October last year, the wines are produced at a leased Nashik winery, from grapes grown under the supervision of their viticulturists. Besides putting pressure on the existing producers to improve quality, the well-priced Brut – Rs.1,200 ($20.00) – is also expected to increase the consumption of other sparkling wines.

During the last couple of years there has been serious action to develop this aspect of the wine market in India. Sula was the pioneer, creating a tasting room and an amphitheatre with enough space for an annual Sulafest that attracts more than 10,000 visitors; 170,000 tourists flocked to the vineyards last year. The Beyond Vineyard Resort, 3 km from Sula, attracts Indians and expats alike. Another boutique winery is soon to open behind this property, with a restaurant and banquet halls for parties and weddings. Grover Zampa has already finalised with a Goa-based resort to run a wine resort at its Nashik vineyards.

Various other facilities have been added by other wineries like York and Fratelli Vineyards. Several companies have sprung up in Mumbai and Pune to facilitate tours to these wineries.

The industry downside

Sales would have been significantly higher but for the arbitrary actions of the Food Safety Standards Authority of India (FSSAI), formed by the Indian Government in 2011. The FSSAI has proved an obstacle to industry growth, threatening to negate the gains made in the past few years. Initially applicable to foodstuffs, the Act has been extended to include wine and spirits.

The most complicated and controversial issue is the requirement that ingredients must be mentioned on the label. While wine is typically made from a single ingredient – grapes or fruit – there are more than 70 additives that may legally be added during processing. It is not clear to the authorities what should be mentioned on the label. They expect the back label to have the information before it arrives in India. Since the quantities are generally small, most exporters are not willing to oblige; this also escalates the import costs with multi-cascading effects.

Another factor is that the information must be in English or Hindi only. Thus, a term such as 'Prodotto di Italia' is not acceptable. This could be avoided simply by allowing the importers to affix appropriate labels in the customs bonded warehouse with an undertaking that the labeling is genuine and that they would be responsible for the authenticity, with strict penalties for any faults. The authorities, however, are adamant.

The sampling procedure is complex and expensive: Two bottles must be submitted with a testing fee for each lot, even though only about 30mL liquid is needed for testing. This applies to even top Bordeaux wines in a six-bottle lot. FSSAI also refuses to accept test reports from recognised international laboratories.

Another irritant is that even after the sampling cost of about $53.00 per lot is deposited, the inspectors don't show up to collect samples out of the custom-bonded warehouse for up to a month.

Arun Kumar and Jackie Matai, Aspri

Importers have started reducing the number of labels they will carry, as several consignments are being sent back or there are inordinate delays. The mood of the importers is summed up by Arun Kumar, director of Aspri Spirits and Wines, the second-largest independent importer, who says, "The last few months were uncertain due to frequent interruptions by FSSAI and issues that dampened our efforts," he says- "The current impasse due to labelling and other norms have made operations complex and it's not the best start for the year. We have to continue trimming labels selectively to keep the business viable. The challenge in working in India is that it does not give enough room for flexibility and experimentation due to the various laws on registrations, expiry of bonds etc."

KRSMA Estate

The talks between the EU and India started in 2007 and reached the final stage in 2012. With national elections approaching in mid 2014, the negotiations were aborted last summer. The talks include reduction of existing customs duty on wines from 150% to 30% to 50% on more-expensive wines from the EU. Reduction of duties is a politically sensitive subject due to anti-alcohol public sentiment and the stance of the new government (NDA) which had a convincing victory after 10 years of Congress rule. Any duty reductions expected by 2015 are now pushed back to at least 2017.

A cautious optimism is, however, warranted as a wine drinking culture is on the increase in India. The rate of growth depends upon the government policies but the long-term increase in the domestic and imported wines consumption is very much on the cards. ■

TOP TEN IMPORTERS

There has been no significant change in the list of Top Ten importers barring the ouster of Global Tax Free. Most have reported an increase of over 10% in volume, though the increased sales have not translated to higher values.

As in the past, accurate statistics are not available, but based on frequent cross-checking with importers and producers, here are the Top Ten importers with the number of cases (9-L cases) sold from April 2013-March 2014:

Importer	2012-13	2013-14
1. Brindco	63,000	80,000
2. Pernod Ricard	35,000	50,000
3. LVMH	34,000	38,000
4. Aspri	30,000	30,500
5. Prestige	14,800	17,500
6. Berkmann India	14,200	16,000
7. Hema Connoisseur	12,200	15,200
8. Sula	14,000	15,000
9. Mohan Bros	8,500	10,500
10. Wine Park		6,000
Sales	225,700	278,700
Sales increase in 2013-14 over 2012-13		19.5%

Around 100 importers are estimated to exist, of which only 50 to 60 are active. A survey conducted by the Indian Wine Academy on 40 of the most visible importers indicated that the Top Ten contributed 70% of the consumption of imported wines.

Significant growth has been achieved by Pernod Ricard, who not only benefited by adding wines from Brancott Estate in New Zealand but also through aggressive marketing. Pernod Ricard and Moet Hennessey are both protective of their sales figures and perhaps indicated conservative figures last year, but this year estimates vary from 50,000 to 55,000 cases for Pernod. The ubiquitous Jacob's Creek has come to be known as the 'best' wine by new wine drinkers thanks to promotions and publicity. It has certainly helped Australian wines brush past French wines and attain the number one position in imported wines.