INDIA'S CURRENCY WOES

Although the number of Indian wine drinkers is going up, Subhash Arora finds that Indian importers aren't having an easy time of it. Not only has the government imposed a whole new set of regulations, but the rupee's dramatic devaluation has hit pockets hard.

Taj Mahal in India

After a consistent annual growth of around 25% in wine consumption until 2007 to 2008, the Indian industry was hit first by the Mumbai blasts and then the global recession. It showed signs of recovery during the last fiscal year, 2012 to 2013, but was hurt again by an unprecedented 12% depreciation of the Indian rupee during August and September alone of this year, while increasingly complex government procedures make imports more costly.

Road blocks ahead

Despite an all-time-high consumption of about 330,000 nine-L cases last year, the imported wine market is again facing rough weather. With the ongoing negotiations between the European Union and India over duty seemingly put on the back burner due to the general elections next year, the market is expected to remain under pressure, though the 1.8m-case domestic producers may not be hit as hard – and may even have an opportunity to increase exports.

The constant devaluation of the Indian rupee over the last four years has been putting a lot of pressure on the import costs, a majority of which were being absorbed by the importers in order to increase or maintain their market share. It was devalued by about 30% against the Euro, 32% against the US dollar, and 33% against the Australian dollar, the three major currencies our importers deal in. The sudden drop of 12% to 15% in two months after the contracts were signed for this year and the prices made known to the excise department for the whole year, is drastic.

Many of the importers sign a central purchase order for the whole year and the distributors are bound to supply the material at the pre-negotiated price for the whole year, even if the costs go up during the contractual period due to government policies; many face a profit squeeze and even losses due to the sudden and sharp devaluation.

Arun Kumar, director of Aspri Spirits, says his company is very apprehensive because of the price increase due to devaluation. "The first three months this year [April to June] looked very dismal in terms of sales, but we are hopeful we will be able to maintain our last year's levels." Aspri began in the liquor imports business earlier, added wine to their portfolio five years ago, then clocked the fastest growth in the industry. "Like Brindco and a few others, we have been fortunate that we are also in the liquor business, giving us the financial backing to support the wine business. Otherwise, we might have been in a precarious situation like many of the importers dealing with wine only," he says.

Other problems

The devalued rupee has caused significant damage to the importers but it is not their only woe. Government policies have created several short-term problems, with each step resulting in a price increase, either directly or indirectly, because it involves more greasing of palms. One such initiative has been making online booking orders mandatory by the licensed buyer, who must now also deposit the excise duty in advance, and online.

One cannot fault the government for streamlining procedures, but coupled with the advance deposit of excise by the restaurant or the outlet, this has made them very conservative in the order quantities, even though it results in some loss of sales due to shortage of a particular wine. Rohit Mehra, director of Mohan Brothers, one of the oldest importers, says "Earlier, we paid the excise duties and recovered with the full invoice later so we could push sales; now the quantities for each order have come down drastically. It is not uncommon for restaurants to order two bottles of an expensive wine at a time. This has resulted in higher operation costs for us since we make more deliveries with lower quantities." According to the new policy, the product has to be delivered within a couple of days.

Another roadblock has been the policy announced last year that wine sales for banquets, parties – or indeed any private or public event outside of the restaurant space with a license – must be wines purchased by the hotel and then supplied through their store with proper records. Earlier, hotels could allow the customer arranging a party to serve wine purchased in a licensed retail shop, if they had a receipt and had a one-day liquor- serving license. The restaurant could obtain the license on behalf of the consumer who could then bring any quality and quantity of wine, avoiding the high mark-ups by the hotel. With the new policy, wine and other liquor must be purchased from the hotel. Even though restaurants offer discounted prices for banquets, the added cost discourages consumption.

Wine and alcohol has been brought under the umbrella of Food Safety measures, like every other imported food item. A major bottleneck has been created by making sampling of each imported lot by the Food Safety and Standards Authority of India (FSSAI) compulsory. There is seemingly nothing illogical about the step as it involves protecting the consumer against any health risks. But the procedure is so lengthy, cumbersome and expensive that fine wines may be spoiled by the time they are released by the customs department. It also increases the cost, since two bottles are to be given for sampling, even if one imports only six bottles for a special order. Although the importers might have found a temporary way out, as usual, by greasing the right palms (thereby increasing the cost per bottle), the procedure has still not been streamlined. The government is slowly moving in the right direction of approving certain laboratories overseas for giving the necessary certification, and increasing the threshold of the number of bottles of wine that do not require this certification.

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While no one can fault the government for streamlining the system to avoid malpractice, the decisions seem to have been taken abruptly and without any logical explanation. For instance, during the peak marketing season in February 2013, the excise department in Delhi changed the existing system and insisted that wines must be bar-coded and orders placed online, with the outlet paying the excise duty in advance. The bar-coding machines were not easily available and the software had several glitches. This poorly-timed measure by the government during the peak season resulted in a supply breakdown, causing a huge loss to importers. The market went dry, with no wines in stock at many outlets. The government does not seem to appreciate that if the wine is not available at the precise moment the customer wants it, then the sale is lost forever, with the government losing revenues too. With the advent of shopping malls allowed to sell wine and the better-informed retail obliged to set up facilities for basic air-conditioning for better storage, the cost of storage has gone up steadily with real estate becoming much more expensive. The government allows a maximum of only Rs. 50 ($0.80) a bottle as the profit allowed to retailers in Delhi, which is not acceptable to any retail shop. Their insistence on a much higher mark-up by retail shops, sometimes up to 10 times more than allowed by law, makes the wines much more expensive and administration to circumvent the law more complex.

Producers in the EU have been awaiting the Foreign Treaty Agreement to be signed between the two governments, allowing a steep drop in the import duties from the current 150% to between 30% to 50%. Although there has been speculation that the reduction in duty to 40% was agreed upon by the Indian government for wines costing around $4.00 a bottle, the treaty has been put on the back burner after seven years of negotiations due to the impending 2014 general elections in India. Duty reduction is a politically sensitive subject because of strong anti-alcohol sentiment. Any price drops that might have taken place by 2015 are now pushed back to at least 2017, putting wines from the EU in an unenviable situation.

Short-term pain

While the long-term trends remain bullish, due to the increased number of wine drinkers and a gradual shift to wine, along with the better availability and quality of domestic wines, there are road blocks for imported wines in the short term, with no respite expected. The annual label registration costs are such a hurdle that the leading importer Brindco has already snipped its portfolio from 600 labels at its peak, to 300 now. Kumar says Aspri is evaluating each of its principals and the slow-moving wines will be removed from their list of 280 labels in order to bring the number down.

It appears the days of experimentation by the established importers with new labels are over, at least for the time being. Unless a new breed of importers enters the market or the spate of new hotels provide an outlet for newer drinkers, this is a cautionary advisory for producers seeking to chase the rainbow - the Indian wine market. ■

TOP 10 IMPORTERS

All 10 importers reported an increase in sales, except Brindco, which underwent a planned drop of 10% in numbers but an increase in value by 10%, and still maintained the top position in volume.

Accurate figures are not available in India and are based on a number of cross-checked sources. Here are the top ten importers with the number of cases (converted to 9-L cases) sold from April 2012 to March 2013:

1. Brindco	**63,000**
2. Pernod Ricard	**35,000**
3. LVMH	**34,000**
4. Aspri	**30,000**
5. Prestige	**14,800**
6. Berkmann India	**14,200**
7. Sula	**14,000**
8. Hema Connoisseur	**12,200**
9. Mohan Brothers	**8,500**
10. Global Tax Free	**7,500**

Around 100 importers are estimated to be operating, with 60 being active. A survey conducted by the Indian Wine Academy on 40 of the most visible importers indicates that with over 233,000 cases sold, the top ten contributed 70% of the sale of imported wines.

The total consumption of imported wines is estimated to be at 330,000 cases in 2012 to 2013. This includes the nominal sales at duty free shops and wines that are hand carried by passengers returning by air. There was an estimated increase of about 15% over the previous year, partly due to more sales outlets and hotels opening across India.