

# For beer makers, bigger kick lies in premium brands



High-end products will help them improve slipping margins

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Beer companies are expanding their offerings in the premium segment to improve shrinking margins that have been hit due to stiff competition, increased input costs and government's reluctance to bring prices in line with it.

Continuous margin erosion due to adverse market condition has already seen market leaders — United Breweries Ltd (UBL) and SABMiller India Ltd — extend their footprint in this segment with the launch of high-end products in the last few months.

The two companies, which together have over 80% of the Indian beer market with 53% and 34% shares, respectively, are planning to launch more premium brands this year in a bid to curb any further slip in the margins.

The Vijay Mallya-owned beer company, UBL, has seen its Ebitda margin drop to 11.4% in the fourth quarter-ended March 31 from 18.6% during the same period last year.

Kalyan Ganguly, managing director of UBL, said there were several reasons that have led to the

fall in the beer company's margins despite a revenue growth of 24%.

He said his company was working on premiumisation of its products that would help in safeguarding its margins.

"We have successfully introduced Kingfisher Ultra in the premium space and plan to launch Heineken later this year," he said.

Sandeep Kumar, director - corporate affair - SABMiller India, also said his company would be further pushing its premium brands like Forster's and Peroni to strengthen margins.

"These brands definitely improve the profitability of our business. If you see all the new brands in the market Carlsberg, Budweiser and Heineken are in the premium space," he said.

Kumar, however, says premium products offer better margins only if they are brewed and bottled in India. He says if they are imported then high import duties offset margin edge these high-end beer products bring.

Today, India's premium beer market is a miniscule 2% while the regular and low-end beer segments constitute over 70% of the market.

Ganguly believes the cost of beer in India is very high in proportion to its per capita income due to the very high cost structure and government regulated prices.

"Beer is a young man's drink

## On a high

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United Breweries Ltd and SABMiller India Ltd are planning to launch more premium brands this year

and any further increase in its prices will directly impact volumes. While premium brands will improve our margins, its impact (on margins) would be very small because its market size is still very small," said the UBL's chief of beer business.

Nikhil Vohra, Bhushan Gajaria and Swati Nangalia, analysts with IDFC SSKI, said in a report last week that premiumisation was one of reasons for UBL's better raw material to sales ratio in the fourth quarter.

"Steady barley prices and continued portfolio premiumisation (strong beer market growing 5 times the mild beer market) have resulted in 180 basis points improvement in raw material to sales ratio," they said.

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