

United Spirits on a new high as lifestyle drinks appeal to youth

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SELLING more high-priced drinks to Indian consumers who are eager to sample premium scotch whiskies, vodka and brandy is paying off for United Spirits Limited. The Vijay Mallya-led company has seen its pre-tax earnings grow to touch 17.18% this year from a low of 8.29% when it began adopting the premium sale strategy six years ago.

Since 2003, the profile of the Indian spirits drinker has changed as disposable income expanded by over 10%. Rising income levels together with a growing number of people entering the legal drinking age is pushing more liquor firms to adopt this strategy. More global interaction has led to liquor becoming a lifestyle product for the young, while older consumers have moved from a being a pure whisky or rum drinker to experimenting with multiple flavours.

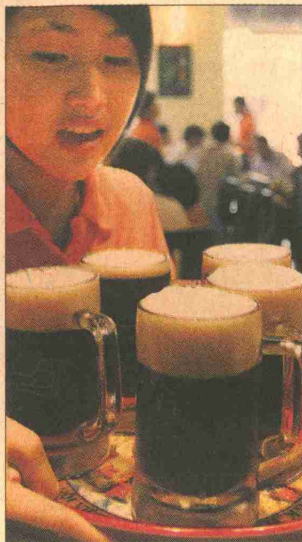
"The IT/BPO industry, BFSI sector and MNCs are employing a large chunk of youngsters today, redefining average salaries across the board. This has resulted in a lot more disposable income beginning from the age of 21," said Sujay Misra, MD of AZ Research Partners.

As a result, companies such as USL are moving away from hard-selling low-priced brands that offer volume growth to marketing premium drinks that appeal to the young and offer a higher profit margin.

Later this year, the ₹4,920-crore alcoholic beverages major will introduce a range of premium rums, brandy and value scotch brands.

"In any increasingly affluent market, consumers tend to opt for premium products, we are seeing this happen across the spirits segment in India," said Nikhil Vora, MD of IDFC Securities. "As a strong player in this premium segment, we expect USL's EBITDA to hold strong at around 20% this fiscal," he added.

United Spirits (USL), which is growing at 12% annually, has a market share of



55% in the first-line brands. Today, 60% of its brands are priced upwards of ₹550 for a 750 ml bottle. Its premium and luxury brands have grown at an average of 12%-15%, the company said.

"Premiumisation is an important pillar of our product portfolio and is set to enhance value both for consumers and stakeholders," said VK Rekhi, president and MD of USL.

The picture was very different six years ago when the company had a revenue of ₹1,091 crore and was focused on achieving scale by expanding distribution and building brands in the growing Indian Made Foreign Liquor (IMFL) market. That year, its net profit was ₹26.72 crore, and it had an EBITDA margin of 8.29%. The strategy shift to hawking more premium products began with the acquisition of its erstwhile competitor, Shaw Wallace. This was also the time of super-high growth for the Indian economy, the

stock market was booming and corporate India was doling out above-normal salary hikes. Company executives quickly realised that the profile of the average drinker was changing. He was not fixated so much on traditional rum and whisky brands but was moving up to scotch and premium vodka.

The average drinking age was steadily moving down and the young men and women of the era did not necessarily prefer the brand of their fathers. While the average age of a scotch whisky drinker in India was 43 years seven years ago, it was much lower now. Nearly 16% of men in the 26-30 age bracket claim scotch as their most preferred form of liquor according to data from AZ Research.

By 2006, the company began to aggressively chase higher profits by enhancing its presence in the prestige-plus segment (priced upwards of ₹350 a 750 ml bottle on an average). It bought over global drinks companies such as wine company Bouvet Ladubay as well as Scottish distiller Whyte & Mackay (W&M) in 2007 giving it a ready arsenal of high-end scotch brands such as Isle of Lura, and Filmore and a perennial source of Scotch whisky, which accounts for a dominant share of Indian spirit consumption.

USL had to master the trick of developing and sustaining a dual strategy, maintaining its market leadership in the IMFL space while pushing ahead in the premium segment where competition comes from both established players such as Diageo, the world's largest spirits maker as well as Pernod Ricard with brands such as Chivas Regal and Seagrams, Indian firms such as Radico-Khaitan too are active in this category.

By 2007-08, the company had delivered net profit of ₹311 crore and its EBITDA margins had expanded to 22.71%.

"The attempt is to make these brands a part of the social experience of core consumers," said Bobby Pawar, national creative director of Mudra Advertising which focused on more premium on-

premise outlets for McDowell's Platinum whisky. In the next few months, W&M will introduce John Barr, a value-priced scotch whisky, which will compete with brands such as VAT 69 and Teacher's. White spirits, which is winning strong franchise from the young drinker, will see combination-flavoured White Mischief variants, mixed with spices. This will be followed by Vladivar vodka from W&M's stable and a super-premium vodka next fiscal. USL is also toying with the possibility of owning or franchising a brand for tequila, the iconic party drink.

It is also reviving strong Indian favourites such as rum, which is the second largest selling alcoholic drink in the country after whisky. USL is reviving homegrown premium rums Royal Treasure and Rosa, to be positioned above McDowell's Celebration rum in the 44.55-million cases Indian rum market. It is also launching a bottled in India (BII) French brandy co-developed by wine subsidiary Bouvet Ladubay in six months to follow the most recent launch of McDowell's VSOP brandy.

"We are keen on buying running concerns to get economic results as soon as possible. We will look at greenfield growth at the last resort," Mr Rekhi said. The remainder will go towards sprucing up its back-end infrastructure.

Industry analysts reckon that such an increase in owned-bottling capacity and malt spirit will help the spirits company bring down input costs by 30% and 50%, respectively.

These steps can boost EBITDA margins by 2-2.5% but the impact would be felt after FY12, according to broking firm Motilal Oswal's recent analysis on USL.

Transforming into the largest spirits marketer by volume would see United Spirits' brand relevance increase in the global context while increasing the firm's standing from the point of view of the government and consumers, sectoral analysts said. "Expanded market share also typically tends to increase margins disproportionately," Mr Vora added.