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LOW-COST FLAVOUR

Boom time for country liquor



Investment track: Former World Bank economist Dilip Rao More has invested in a Sangli distiller, with which he plans to produce a type of grain alcohol-based country liquor.

Amid rising prices of foreign liquor, its country cousin is retaining its traditional devotees while gaining new ones in Maharashtra

By DAVID SHAFTEL
david.s@liveint.com

MUMBAI

Sethi Jagtar Singh says his father, who was known for his vigour, once killed a cheetah with only his kirpan, the knife all orthodox Sikhs carry as a symbol of their faith, after a lengthy hand-to-hand struggle. Indeed, on Singh's mobile phone is a photo of himself when he was seven, kneeling with his father behind a lifeless big cat. In 1986, when Singh went into the country liquor business, he named his product Cheetah, as homage to his father.

The reality of today's country liquor industry is rather less glamorous, but is nonetheless vigorous. Also called *deshi daru*, the cheap, flavoured liquor has long been the tipple of choice for the labour class habitual drinker. But sellers and makers of country liquor say that in the wake of rising prices of foreign liquor, country liquor has been a port in the storm, the product retaining its traditional devotees and gaining new ones.

Producers such as Singh say they're optimistic about the country liquor business in Maharashtra, where brand loyalty is high and a reliable customer base a constant.

"Country liquor drinkers don't consider it a long drink," Singh said. "Social drinking, as a concept, is not there. They just want to gulp it down and get intoxicated."

Maharashtra excise commissioner Sanjay Mukerjee agrees, calling the country liquor market "inelastic", compared with the market for high-end liquors such as single malt scotch, in which price hikes often alienate drinkers.

Increased competition in the state—there are six country liquor producers in Nagpur, where Cheetah is made—leads to higher quality products and lower prices, which keep customers from straying to illicit hooch, called arrack or hot botty, producers say. In spite of a burdensome tax structure, rising logistics costs and tough competition, which have led to the shrinking of his geographic market

and lower margins, Singh says his sales volumes are on the rise.

Singh has been a teetotaler for almost 30 years. A social drinker, he imbibed just "enough to make me feel good", but his father disapproved of his drinking, so at 23 he quit "at the drop of a hat".

Now, the only time alcohol passes Singh's lips is when he tastes his product for consistency of flavour.

Gulping it down

Licensed country liquor is often conflated with arrack, its down-market relative, the dirt cheap and often impure home-made rotgut notorious for the blindness, ulcers and broken homes it can leave in its wake; but the term actually refers to an indigenous liquor, most often distilled from molasses and sanctioned by many state governments. In comparison, liquor such as scotch and vodka can be made domestically but are considered "foreign" and subject to higher rates of taxation.

The country liquor business was born in the early 1970s when sugar manufacturers noticed the proliferation of arrack made from store-bought jaggery, said Yuvraj Gaikwad, general manager of Viraj Industries, a Sangli-based distiller. When manufacturers realized they could do the same with molasses, the waste product of sugar manufacturing, licit country liquor was born, he said.

Maharashtra excise commissioner Mukerjee says the state government's policy regulating country liquor has three aspects to it: providing the low-income customer with a safe, regulated form of cheap alcohol, enforcing the ban on illicit liquor, and creating tax revenue for the state. And make money it does. State excise data shows that of the projected ₹8,500 crore tax revenue generated by the sale of country liquor this year, ₹2,350 crore, or 27.65%, will be generated by country liquor.

State law stipulates that country liquor not be stronger than 42.8 proof, the label be in Marathi, the ingredients be listed on the label, and the liquid be clear so that consumers can see if it

contains particulate matter or detritus from the factory. It is consumed in specifically sanctioned bars by an overwhelmingly male clientele.

Regulars at country liquor bars typically drink *deshi daru* over ice, mixed with a soft drink such as orange soda or cola. A 180 ml bottle costs around ₹40. Cheetah's Singh says orange is by far the most popular flavour. He says he sells 840,000 cases, or 7.47 million litres, of country liquor per year, clearing around ₹10-₹14 profit per case, depending on how close it is to the peak sugar producing summer months, when prices of molasses are lowest.

A fine dividing line

Like Gujarat, Maharashtra is technically a prohibition state. Strict prohibition was enforced until 1963, when what the state excise department calls a "rationalized prohibition policy" was introduced, under which sobriety would be encouraged, partially, through high taxes.

Maharashtra raised its already robust liquor taxes in April to the consternation of Indian-made foreign liquor (IMFL) drinkers and sellers. But while taxes of IMFL, for example, were raised 25% from 225% to 300% of the manufacturing cost, country liquor taxes were only raised 10% from 225% to 250% of production cost, according to excise figures.

"Country liquor taxes must be kept low because it is produced for the poorer segments. They must be able to afford it and not go down to hot botty," Mukerjee said. "It's a fine dividing line."

A manager of an IMFL bar in Mumbai's Dadar neighbourhood, who is not authorized to talk to the press and requested anonymity, said that since the tax hike his customers' bills have gone up by 25% to 30%. He estimated that his bar had lost up to 40% of its regulars to a nearby country liquor bar. In fact, the manager said he, too, has started going to the country liquor bar, and has noticed a rise in the profile of the clientele there, which now includes social drinkers and professionals.

Santosh Goware, the manager of

Sharada, the nearby country liquor bar the manager of the IMFL bar has started frequenting, said his business was booming, thanks in part to the fact that his average customers' bills had only increased 10% to 12%.

State excise figures back him up. While total liquor sales across the board are down this financial year-to-date, country liquor has weathered the situation better. While IMFL sales have decreased by 6.25% from April to September, compared with the same period last year, country liquor sales dipped by only 2.93%. (Beer sales were off by 5.86%.)

And from the state's standpoint, the taxation policy is working. While total liquor sales are down, tax revenue is up, excise data shows, by 43%.

Changing times

India usually falls near the bottom of alcohol abuse rankings. The most recent World Health Organization (WHO) figures found that Indians consume 2.59 litres of alcohol per capita. By comparison, Moldova topped the list at 18.22 litres per person per capita, while Afghanistan, where people drink an average of 0.02 litre per capita, was at the bottom.

Ashish Deshpande, a psychiatrist and consultant to Alcoholics Anonymous, cautions that the WHO figures for India could be understated by half since they fail to take into account spurious alcohol consumption. The excise department concedes that smuggling of illicit foreign liquors and arrack still exists, be it from Goa, where liquor taxes are the lowest in the nation, or into dry Gujarat. So far this year, there have been 20,247 offences registered, resulting in 7,057 arrests and the seizure of goods worth more than ₹12 crore, excise figures show.

Deshpande is worried that India could start creeping up the list. "The trends are changing, especially in the metros," he said. "Young people are taking up drinking. Twenty years ago, the age of first drink was 19.6 years old. Now it's 15.4. A three-year fall in age of first drink is (an) enormous (change)," he said.

All liquor makers see it opportunity, and new ones are entering the market. Dilip Rao More, a former World Bank economist, has invested in a Sangli distiller, with whom he will produce a type of grain alcohol-based country liquor, Morenchi, which he plans to launch in Mumbai this month.

By making country liquor from grain alcohol, More hopes to capture the consumer who has just been priced out of the market for grain-based IMFL, such as vodka, gin and whisky. During a tour of his Sangli bottling plant—which smelled of ethanol, orange-scented detergent and label glue—More showed this reporter a flavour he hopes will be a stand-in for Bagpiper, the popular brand of lower cost whisky. Enhanced with a scotch-flavoured essence, Morenchi's whisky, called Blackpiper, is clear. Its label features the same colours as Bagpiper, but the text is in Marathi.

More says that the Sangli plant has the capacity to produce 50,000 cases containing 9.5 litres of country liquor every 25 days in flavours such as vanilla ice cream, mango, orange and a cola that, he says, mimics the taste of Thums Up. Kaustubh Mhatre, Morenchi's vice-president of sales, sees country liquor as an entry point into the more lucrative market for IMFL and imported foreign liquors. By producing country liquor from grain alcohol, he says he's already on the cusp, and someday he'd like to import "fancy drinks" like Jägermeister and Absinthe.

"The culture in India is changing. People are being more open towards alcohol," he said. "Previously when a child went to college, he used to drink secretly, hide it from his parents. It's more open now. The market size will definitely increase."

C.H. Unnikrishnan contributed to this story.