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INDIAN ALCOHOL BEVERAGE INDUSTRY

Despite steady demand, elevated input costs to result in ~90-140 bps margin contraction in FY2024

SEPTEMBER 2023

Agenda

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1 Consumption and production trends

2 Input price trends

3 Dynamic regulatory landscape

4 Industry Outlook

5 Key growth drivers and challenges for the industry

6 ICRA's ratings on alcobev companies

Highlights

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ICRA expects its sample set companies to report ~8-10% YoY growth in revenues in FY2024 led by steady demand and increasing premiumisation.

However, the operating profit margin (OPM) is likely to moderate by ~90-140 bps due to the rise in key input costs such as Extra Neutral Alcohol (ENA) and glass, partly offset by a decline in barley prices.

The Indian alcobev industry witnessed healthy revival in FY2023 led by strong demand across both the segments of spirits and beer. FY2023 was the first full year of normal operations after two consecutive pandemic-hit years of FY2021 and FY2022.

In FY2023, the industry witnessed a healthy volumetric growth of 17% for spirits* supported by favourable consumer sentiments amid waning impact of the pandemic. Further, beer consumption growth was robust at 46% led by low-base, strong demand and favourable change in Government policies, conducive weather conditions and a disruption-free peak season. ICRA expects alcobev consumption growth to remain steady in the near to medium term supported by growing urbanisation, rising disposable incomes, favourable demographics and easing regulatory environment by some states.

ICRA's sample set reported ~20% YoY growth in revenues in FY2023; while spirits' revenues grew by ~14%, beer revenues increased by ~34%, mainly led by healthy demand coupled with pemiumisation. ICRA's sample set is poised to report revenue growth of ~8-10% in FY2024 backed by volume growth and product mix benefits, though there was an impact of unseasonal rains during Q1 FY2024, the peak season for beer. Prevailing El Nino conditions, a sub-par monsoon and a dry climate would support industry growth.

The OPM for ICRA's sample set contracted by more than 300 bps to 11.4% in FY2023 owing to a sharp rise in input costs, particularly barley and glass bottles. ICRA expects the OPM to remain under pressure in FY2024 as well, with input prices (including grains for ENA and glass) likely to remain elevated. The OPM is likely to moderate by ~90-140 bps to ~10.2% in FY2024.

While ICRA's sample set undertook sizeable capex at ~5% of operating income in FY2023, the same is expected to moderate to ~2-3% in FY2024 and FY2025 as key players have enhanced capacities recently. ICRA expects the industry to continue to demonstrate stable and healthy credit metrics supported by strong cash flow generation and limited debt addition.

*ICRA sample set includes Associated Alcohols & Breweries Limited, GM Breweries Limited, Mohan Meakin Limited, Radico Khaitan Limited, Som Distilleries & Breweries Limited, Tilaknagar Industries Limited, United Breweries Limited and United Spirits Limited; ENA: Extra Neutral Alcohol * includes* Indian Made Foreign Liquor (IMFL) and Indian Made Indian Liquor or country liquor (IMIL or CL)

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Thank You!