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State of the Indian Wine Industry

State of the wine industry in India (1/2)

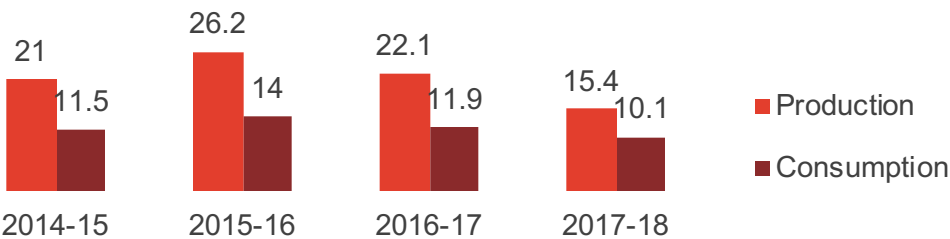


Wine production declined at a CAGR of 9.8% from 2014-18 as a result of various challenges faced by wineries such as multilayer tax structure, restricted inter-state movement, etc.



Wine production and consumption

in mn liters



- The wine production in India reached ~15.4 mn liters in 2016-17 and declined with a CAGR of 9.8% from 2014 to 2017. The decline in wine production is a result of many challenges faced by industry
- The country's wine consumption was at 11.5 mn liters in 2014 and estimated to reach at 10.1 mn liters by the end of 2017

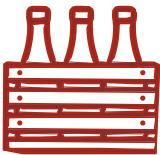
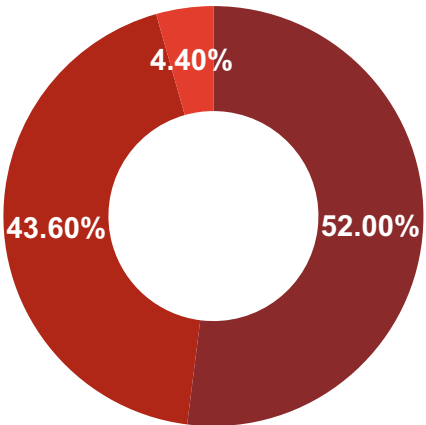


Growth drivers and trends

- Growing popularity of vineyards as tourism places
- Growing disposable income
- Growth in foreign tourists
- Global travel and experience of the culture of other countries
- Consumers shifting to wine due to health benefits as wine is fermented alcohol and not distill alcohol



Types of Wine



- Still wine
- Fortified wine
- Sparkling wine

- The Indian wine industry is classified into three categories: fortified wine, sparkling wine and still wine
- In 2016, still wine was the largest category (by volume) accounting for a share of 52%. Fortified wine was the second largest category, with 43.6% share (by volume), whereas sparkling wine held a share of 4.4%

State of the wine industry in India (2/2)



India has a total of ~93 wineries, of which almost 77 is in Maharashtra. India has around 2300 hectares of land under wine grape cultivation



Regional distribution of wine (production)

- The winery market is an organized and unfragmented market with limited number of local players
- India has total of ~93 wineries
- Maharashtra accounts for almost 90% of the grape wine production in India and has over 77 wineries accounting for ~83% of the total wineries in the country
- Karnataka is the second largest wine producing state
- According to the Karnataka Wine Board, there are ~17 wineries in the state
- Grape wineries are present in other states also such as Madhya Pradesh, Tamil Nadu and Goa



Regional distribution of wine (consumption)

- Majority of India's wine consumption takes place in Goa, which accounts for 26.40% of the market share
- Maharashtra consumes ~25.90% with the majority of consumption in the urban centers of Mumbai
- Other states include Karnataka at ~19%, Delhi/NCR and its tech center Gurugram at 10.7%, Assam at 2.2% and upcoming cities of Pune and Hyderabad at 5% and 3%, respectively



Major Wineries in India



The production of wine grapes could be increased further across other states as it will benefit farmers to increase their production volume.

India has a marginal share in the global wine industry



India's share in the global wine industry



India accounted for only 0.2% share in the global wine industry in 2016 (by volume) despite growing at a high CAGR of 23.2% during 2011–2016



Wine production in India is lagging far behind as compared to the global wine production



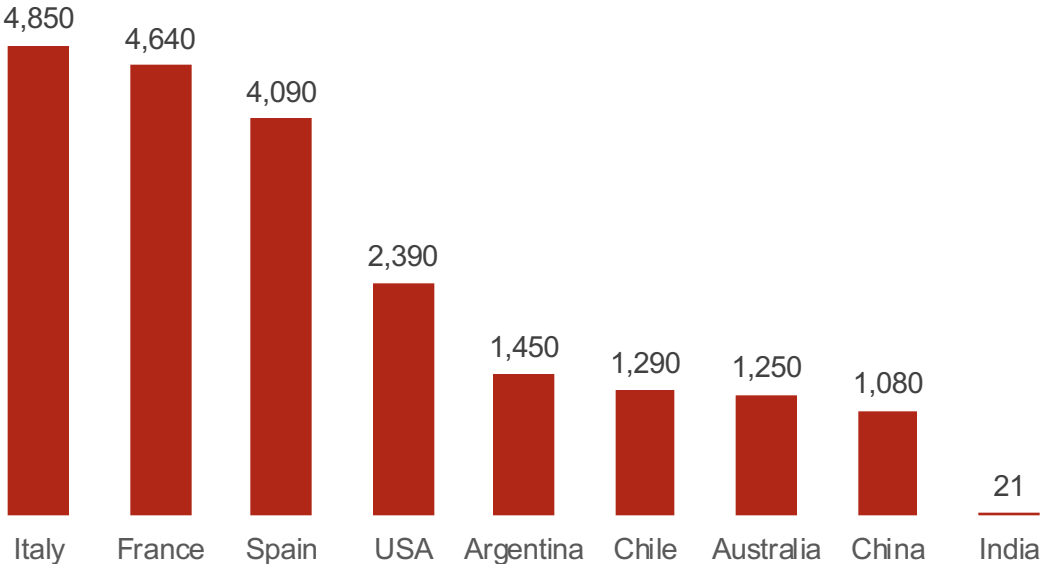
By the end of 2018, the global wine production volume is projected to reach ~282.0 mn hectoliters (Mhl)



According to the Organization of Vine and Wine (OIV) Italy is expected to be the largest wine producer with its production volumes reaching 48.5 Mhl, followed by France at 46.4 Mhl, Spain 40.9 Mhl, USA 23.9 Mhl and Argentina 14.5 Mhl



India's position in the global wine industry by volume (in mn liters), 2018P





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Prevailing Issues in the Wine Industry

Prevailing issues in wine industry



Wineries are facing stiff challenges of stringent regulations, restricted inter-state movement, complex tax structure, Duty-free schemes for import of wines, etc. impacting the wine industry and farmers at a large extent



Restricted inter-state movement

Complex tax structure restricts the movement of wines to larger demand centers including Delhi and Kerala



High label registration cost

- Fixed label registration cost, which is annually recurring in nature, increases per unit cost of wine
- Such costs exert additional burden on wine manufacturers in maintaining competitive pricing of wines



Multi-layer complicated tax structure

- Complex taxes covering ~30 different tax rates on wines including labeling fee, licensing fee and registration fee, inflating the costs of manufacturing wines within a state
- Complex tax structure cascading effect of taxes that increases price of wines



Incentive to Imported wines

- Duty-free scheme (SFIS/SEIS) benefits imported wines
- Such incentives also make imported wines cheaper than the domestic wines, specially in star properties
- Supports farmers of countries exporting wines to India
- Imported wines have free inter-state movement. These have an advantage over domestic wines as they do not require any state license and labeling charges



Different distribution system across states

- Different states in India follows different distribution systems like corporate, private distributors etc. causing differential pricing across states

Impact on different stakeholders related to wine industry (1/2)



Creating demand-supply bottleneck

- Complex taxation hinders the distribution of wines from wine manufacturing states to major demand centers
- Demand-supply mismatch in wines negatively impacts the demand for wine grapes forcing farmers to switch over on cultivating other crop



Restricted availability

- Availability of ~2-3 major wine brands across different states due to restricted inter-state movement
- Challenges for smaller wineries to cater the demand leading to closure of wineries due to declining operating effectiveness



Tapering in the wine business

- Stringent policies on wine labeling and distribution negatively impacts revenue streams of small and mid-sized wine manufacturers
- Such wineries are forced to shut their operations due to continuous pressure on maintaining costs and increasing volume of business



Increase in domestic wine prices

Higher duties, charges and margins on wines manufactured within states increase the cost of domestic wines



Reduction in domestic wine share

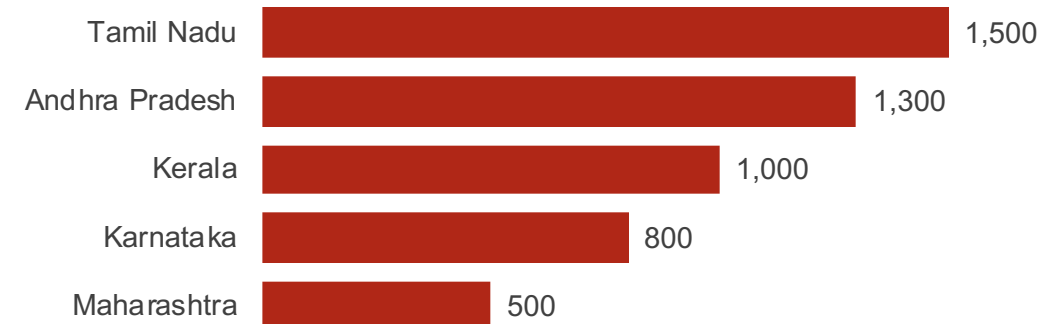
The domestic wine share is taken over by imported wine because of all the benefits imported wine holders are getting



Differential pricing

- Addition of various taxes and charges on wines during inter-state trade increases the prices of wines from one state to another
- Such differential pricing negatively affects operations of wineries

Illustration: state-wise change in prices of the same wine bottle (INR)



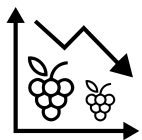
A consumer in **Maharashtra** pays **INR500** for a wine, while another consumer in **Kerala** pays **~INR1,000** for the same wine due to different tax rates for wines produced and consumed in different states.

Impact on different stakeholders related to wine industry (2/2)



Decline in wine consumption

- Increased wine prices from one state to another discourage consumers for wine consumption
- Decline in wine consumption hinders growth in the volume of wine production



Closure of wineries

- Stiff challenges for wine manufacturers in maintaining operating effectiveness due to high input and distribution costs
- Some of the wineries that failed to maintain their operating performance include Good Earth, Chateau Indage, Chateau D'Ori, Indus, Deccan Plateau Winery, Riona, Rico and Alpine



Decline in demand for wine grapes

- Decline in wine production has adverse ripple effects on the demand for wine grapes
- Discourages grape growers to cultivate wine grapes



Declining farmers' income

- Decline in demand for wine grapes forces grape growers to limit the production of wine grapes
- Declining wine grape production hinders remunerative income of farmers



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Solutions for wine industry

Solution to industry challenge



Uniform and fair tax structure, free movement of wines and quality standards will encourage ease of doing business for wineries that will benefit the farmers in maintaining their continuous flow of revenue.



Uniform tax structure - GST

- One Nation One Tax
- There should be no other levy than GST - directly or indirectly.
- CGST and SGST revenue could remain with the state so there is no loss to state.
- Rate to be considered akin to that of luxury goods.



Removal of non-tariff barriers

- Allow free movement of wines across states
- Remove state specific licenses and label registrations
- Include label registration under new norms of FSSAI



Adoption of OIV standards by FSSAI

- Implement OIV standards to ensure quality under FSSAI standards (India being the 45th member nation of OIV)
- Ease out trade with OIV countries through WWTG



Maintain import duty at 150%

- To avoid dumping and protect interest of farmers, maintain import duty at it's maximum permissible limit under WTO agreement
- Emphasize on Make-in-India initiative through partnership model
- There should be GST plus import duty on imported wines



Removal of duty free scheme under SFIS/SEIS

- Forex reserves in healthy state – the basic premise for this scheme.
- Import duty circumvented under the pretext of Duty Free.
- To protect interest of domestic industry and farmers, in turn.



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How Inclusion of Wines under GST will Benefit Farmers and Indian Wine Industry



Increase in area under cultivation

- Provide opportunities to utilize ~300,000 hectares of total area under cultivation
- Growth potential of over 100 times (considering a 70:30 ratio of wine grapes processed vis-à-vis fresh grapes) compared to other developing countries



Doubling of farmers' income

- GST in wines will cut down various taxes and charges
- Increase farmers' income as wine grapes give a high ROI and are one of the most profitable agro produces resulting in an income of up to INR 3 lakh per acre
- Encourage grape growers to enhance their return on investments by receiving remunerative income on their produces



Boost to agriculture

- Wine is a 100% agro-based product that can sustain in non-fertile land with less water consumption
- Central government devised a policy for drip irrigation with the agenda of 'per drop more crop'

Benefits to industry



Increase in demand in wines

- Inclusion of wines under GST will decline wine prices that will help in increasing the demand for wines across various regions

Removal of imbalance in the industry

- Growing demand of wines will allow wine manufacturers to cater to a larger customer base that will be helpful in matching with the volume of production

Revival of the industry

- Make in India initiative will benefit wine industry through reviving distressed wineries

Quality enhancement

- Implementation of GST to cut down various taxes and charges and allow wine manufacturers to produce more quality wines



Boost to domestic wineries through make-in-India

- Favorable regulatory environment across wine-producing states and demand centers will benefit international wineries
- Removal of trade barriers will allow international wine brands to establish businesses in India
- Encourage anti-dumping policies by maintaining import duty at 150%



Generation of rural employment

- Growth in wine industry will generate rural employment for over 10 lakh people in the vineyards and ~3 lakh people annually in the wine tourism and ancillary industries



Increase in wine tourism

- GST implementation will benefit wine manufacturers to enhance focus on wine tourism for attracting more consumers to taste, and purchase wines

Benefits to consumers



Availability of wines (improved availability)

- GST will remove complex taxes on wines and allow wine manufacturers to increase the availability across various demand centers



Consistent and reasonable prices of wines

- Removal of complex taxation on wines will significantly reduce the wine prices
- GST will bring uniform pricing on wine brands



Increase in wine tourism and agro-tourism

- Uniform pricing will encourage wine manufacturers to attract more customers that will increase the tourism traffic across existing vineyards



Health benefits to consumers

- Inclusion of wines under GST will allow wine manufacturers to promote wine consumption having low alcohol content
- Fermented wines will provide various health benefits to the consumers since wines are integrated with nutrients such as vitamins, minerals and carbohydrates

Benefits to government



Boost to agriculture

- Growing demand for wines will encourage grape growers to increase volume of wine grapes that will support rise in agriculture production
- Potential for wine grape cultivation is 300,000 hectares (more than 100 times growth potential considering a 70:30 ratio of grapes processed to fresh grapes in developing countries)
- Potential for wine grapes due to central government's policy for drip irrigation with the agenda of 'per drop more crop'



Make in India

- Post policy implementation interest of international players in wine manufacturing in India will increase resulting a boost to India's Make in India campaign



Boost to rural employment

- Employment generation for more than 10 lakh people in the vineyards and annual average of 3 lakh people in the wine tourism and ancillary industries



Ease of doing business

- GST/uniform taxes can help in the ease of doing business resulting country's better rank in ease of doing ranking



One-nation one-tax

- Inclusion of wines under GST will benefit the wine industry to transform the existing tax structure and prosper the industry in the long run



Revenue generation opportunity

- Post GST implementation this potential will give new revenue generation opportunity to government



Thank you