

# INDIA'S EMERGING WINE INDUSTRY

While India doesn't have the most ideal climate for growing wine grapes, its local industry is growing at a rate that more established countries can only envy. Subhash Arora looks at what's driving the growth and how the industry is responding.



Rajeev Samant, CEO, Sula.

After a gap of about three years when the global meltdown and the Mumbai terrorist attack in November 2008 brought the Indian wine industry to its knees, things are looking up once again, with an annual growth of about 25% – though not every producer is out of the woods.

The industry, which was barely 150,000-200,000-cases strong at the turn of the millennium, was growing at the rate of 25% to 30% for the five years prior to the downfall in 2008; it reached a peak of 1.5m cases, including about 250,000 cases of imported wines. The years 2008 to 2011 saw a slide in domestic wine production and consumption, though the market flirted with a peak in April to March 2011 to 2012, and a growth of 20% to 25% is expected to continue over the next five years.

## *The market at a glance*

India has a population of 1.13bn people, half of whom are under 35 years, offering a potentially huge opportunity for wine producers. About 300m people belong to the middle class, giv-

ing 30m potential wine drinkers, although there are less than 2m at present. India has traditionally been a liquor-guzzling country with over 400m cases of spirits consumed annually. Even the relatively new beverage beer has created a 160m-case market, because of lower prices and the youthful population. But as the younger population achieves adulthood, it is expected to also add wine as a choice.

The Indian Constitution discourages consumption of alcohol and authorises the states to formulate their own policies of production, distribution, procedures and pricing, making India complicated for the users, marketers and producers. In 2001, the state of Maharashtra – where the capital of Mumbai is located – announced a progressive policy for wine production, with special incentives and a single-window clearance system to help farmers, as they were already growing table grapes. This resulted in a spate of new wineries. Today, Maharashtra boasts 90% of the national total of 90. With the policy extended to 2021, the impetus continues for new wineries. The rest of the wineries are situated mostly in Karnataka, which announced a similar policy in 2008, encouraging new wineries to be set up in the state. Stung by recession, the response was initially lukewarm with an overall reduction of consumption by over one-third; nevertheless, a dozen wineries are now coming up. Recently, 10 wineries and the Karnataka Wine Board, which administers the state policy, signed a memorandum of understanding.

## *A long history*

India has had an ancient winemaking tradition. After the Portuguese conquered Goa in 1510, they planted vines. The British followed later and contributed towards the growth of Indian wine consumption, though winemaking went off the radar with the onslaught of phylloxera in the late nineteenth century. After India became independent in 1947, there was a wave of prohibition that did not allow for new vines. The industry started from

scratch in the 1980s when Champagne Indage began producing sparkling wine, primarily from the Thompson Seedless and Ugni Blanc grapes that grew well in Maharashtra; India had already been producing table grapes like Bangalore Purple and Anarkali, making it the ninth-biggest grape producer in the world. Grover Vineyards was established in Bangalore, Karnataka in 1988, with plantings of Shiraz, Cabernet Sauvignon and Clairette, with Michel Rolland as consultant winemaker. Sula introduced Sauvignon Blanc, Chenin Blanc and Zinfandel in 1999; Merlot and Chardonnay were added with varying success in parts of Maharashtra; Viognier, Riesling and Marsanne have since been added. Sangiovese, Nero d'Avola and Grillo have seen success, while Grenache and Tempranillo have good potential for blends. Red wine continues to be the most popular category with over 60% of consumption, due to perceived health benefits. Sparkling wine has about 6% of the market.

Maharashtra and Karnataka have emerged as the premium wine-producing states. Being in the tropical region, two crops in a year are possible but, due to the monsoon cycle, only one harvest is practical, with February-April being the harvest season. Due to this non-dormancy of vines, it may not be possible to grow the best crops in India, but with advances in technology, decent wines of increasingly better quality are possible. Indigenous grapes are also used for cheaper wine, or mixed with wine grapes to lower costs, resulting in lower quality.

Another of the challenges faced by the Indian industry has been consistency. An oft heard complaint is that one bottle may be delicious but the next one of the same label may be totally different. Rajeev Samant of Sula attributes his success to this, saying “we may not necessarily make the best-quality wines, but certainly the most consistent wines.” His global brand ambassador Cecilia Olden endorses his view. “If we can keep up the consistency, India can become one of the world's lead-

ing wine producers. China has been trying for years, but India has come far ahead," she says.

There are still no winemaking laws and production quality is still a matter for the producer. The Indian Grape Processing Board (IGPB) was formed in 2009 by the government, and one of its objectives, besides promoting Indian wines, is to introduce laws that will help improve quality. India joined the OIV last year as the forty-fifth member and expects to benefit from the membership in framing laws, to begin with. Although the government does not subsidise Indian producers, they do encourage production and protect domestic producers by imposing heavy customs duties and excise duties on foreign wines in different states. A VAT refund of 16% is given to Maharashtra producers for sale within the state.

### **Export ambitions**

Initially, there was not enough emphasis on exports due to lack of infrastructure and the inability to supply coupled with the need to

capture the domestic market. APEDA, the government agency to promote food exports did not see much interest from producers, although this has changed substantially in the last three to five years, as producers like Sula, Grover, Four Seasons, Good Earth, Nine Hills, Fratelli, Vintage, Mercury and York have been making concentrated efforts to increase exports. Sula has expanded its exports from 10 countries five years ago to 20, with new markets like Canada, Belgium, the Middle East, Nepal and Bhutan, besides consolidating in the traditional countries like Japan, UK and the US. Grover started exporting to France and UK over a decade ago and 20% of its wines are now exported. Four Seasons and Fratelli are extremely bullish about exports. A relatively new entrant, Nirvana Biosys, a Haryana-based wine manufacturer, also produces lychee and mango wines which have seen interest from countries like Japan, Canada and the Middle East, despite their relatively high cost of Rs. 800 (\$14.75).

Vintage, Mercury, York, Zampa have been exporting smaller quantities.

The India Grape Processing Board has participated in international wine trade shows and tastings, to help promote 'Brand India', successfully creating awareness about Indian wines. Optimistic estimates see exports as high as \$20m by 2015, from the estimated \$10m today.

New wineries coming up with a long term potential are Alpine in Karnataka, which has Stéphane Derenoncourt as the consultant winemaker, and Charosa Winery in Maharashtra. Their size and commitment to produce good wine, with the financial backing to match, has put them on a good footing.

While the industry is still in its infancy, it is growing steadily, aided not only by passion-driven producers but also by favourable consumer trends, plus higher disposable incomes and an increase in population of the middle class. Despite India's complex tax structure and a lack of EU-style government

## **WINERIES OF SIGNIFICANCE**

### **SULA**

Sula has not looked back since starting the business in 1999. Finishing the 2011 to 2012 period at about 460,000 9L cases, they control more than 35% of the market and have a national presence, across the price spectrum. Sula has introduced many classic grapes to India, such as Sauvignon Blanc and Chenin Blanc in 2000. In 2005, it launched its first reserve wine, the Dindori Reserve Shiraz, as well as India's first dessert wine, all with the help of Kerry Damskey from Sonoma, Sula's consultant winemaker. Sula is targeting 630,000 cases of domestic wines in 2013, besides foreign wines and spirits.

### **GROVER VINEYARDS**

Grover established its brand in the 1990s, with its high-end label La Reserve. Unfortunately, it has had some quality and management issues that have taken a heavy toll. Once the second-largest producer, with a record sale of 90,000 cases in 2008, Grover's production dropped to 50,000-55,000 cases last year. There was a merger and new capital last year and it's now Grover Zampa Wines. Kapil Grover, director of the new en-

tity, is optimistic about achieving sales of 90,000 cases once more.

### **FOUR SEASONS**

Owned by the beleaguered Kingfisher Airlines' promoter Vijay Mallya's UB group, this winery in Baramati, Maharashtra, has been gaining ground during the last five years, reaching the number two spot in the premium wine segment, with sales of 60,000-65,000 cases last year. Targeting an annual growth of 30%, the company is working to improve the quality, the brand and also gain a foothold in the export market. Abhay Kewadkar, business head and chief winemaker, says they plan to grow and take Sula head-on within this decade. In a recent announcement, the majority stakes of the parent company United Spirits Ltd. have been sold to Diageo. While the new management may not shift the emphasis on domestic production, slight uncertainty now exists about its future plans.

### **Indage Vintners**

Abhay Kewadkar started his winemaking career with Indage Vintners in the early 1990s (then Champagne Indage). The company had captured 70% of the market, including the

low-ended Port and table wines segments. However, it got caught in financial distress, ending up in near bankruptcy, leaving a gap for the likes of Sula and Four Seasons to fill.

### **Nine Hills**

Owned by Pernod Ricard, the Nashik-based winery started with poor quality wines, but after help from their viticulturists in Australia, got back on track. It reached about 35,000 cases last year, clocking a steady growth of 25% to 30%. Very secretive about the sales figures, the company benefits from the support from its foreign cousins Jacob's Creek and Chivas Regal.

### **OTHER WINERIES**

Some of the established wineries like Vinsura, Big Banyan-Goa (the parent has successful distillery operations there), York and Mercury are working hard to increase their market share. Fratelli is the new kid on the block, pumping a lot of investment and technology into the business, resulting in some very good quality wines thanks to their Tuscan hands-on winemaker Piero Masi. They also currently produce the most expensive Indian wine, Sette, at Rs. 1,650 (\$30.00).

subsidies, producers are optimistic about the future and more are entering the arena with collaborations in technology, equipment, viticulture and even equity. Around 90 wineries are registered today, as compared with less than 10 barely a decade ago.

Although wine education is crucial and proper storage for distributors and customers is still a challenge, the situation is changing for the better. The government is becoming more progressive in allowing retail sales and licensing concessions for sale of wines in the on-trade and off-trade.

The response from the Tier-2 and Tier-3 cities is very encouraging, with wine clubs opening in smaller cities like Ludhiana, Nagpur and Pune.

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### *Port and Goan Port*

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Indage is credited with pioneering modern day winemaking with their Marquise de Pompadour sparkling wine, first released in 1988 and exported successfully as Omar Khayyam. Around the same time, a company by the name of Vinicola was started in Goa by Dr Francisco Xavier Ivo da Costa Azaredo, a Portuguese-trained lung specialist. The company popularised Goan Port, an ordinary fortified wine which has become a symbol of inexpensive Goan wine. Made from indigenous grapes and fortified with neutral alcohol and unspecified additives including sugar, and branded as a Goan specialty wine, it sells for Rs. 65 to Rs.150. Over the years, this market has grown to around 400,000 9L cases and services the low-end, most price-sensitive segment.

The increasing popularity of these low-end wines caught the attention of mainstream producers like Indage, Big Banyan, Nirvana, Vinsura and even Sula, which brought out similar wines. An estimated 500,000 cases of these 'Port' wines form a part of the total wine market. The improper nomenclature notwithstanding, this price-sensitive, low-end segment is the fastest-growing wine segment.

As India moves into the next phase of wine production, brand building is becoming the key factor not only for growth, but also for survival. An industry shakeout and restructuring is expected during the next three to five years. The recent Grover Zampa merger is one clear example. However, the next decade will see India as a wine-producing country to be reckoned with. ■