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Crunch time for craft beer as pandemic, fees take their toll

Varuni Khosla
varuni.k@livemint.com
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Stiff fees, complex rules and the pandemic have snuffed out many of India's small but promising craft beer brands, with the remaining shrinking operations and entering adjacent segments.

Makers of Witlinger, Mad King and White Owl craft beers have either shut shop or started new ventures, while owners of Kati Patang, White Rhino and Beor 360 have scaled back their operations.

Kati Patang beer, a runaway hit with its unique small-batch flavours like saffron, turmeric and lemon rind, has shrunk

considerably in the six years since its launch. Its only available variant in the Delhi market now is Bareilly Bold, a strong lager, against four variants earlier. The company had to shell out ₹22 lakh to register the variant, a mandatory fee to sell each liquor brand or variant in the capital.

Co-founder Shantanu Upadhyay said Kati Patang had no choice but to shift gears. "While craft brands based in India do have a market, and we, along with our investors, strongly believe in this, the flip-flop in excise policies coupled with covid-19 have affected many businesses. We would love to have more support in India on the regulatory front. But until then, we are



Many smaller firms couldn't recover from the pandemic blow. ISTOCK

focused on cautiously investing in markets where we can gain share, launching our direct-to-consumer (D2C) play with four brewpubs with partners, and expanding to international geographies such as

the US and the UK where we see brand pull," he said.

Mad King shut down as its two working partners separated. Its founder Bharat Halwasiya has since launched a new beer named Joe's Craft

Beer, which is imported.

Kaama Breweries, which once sold the popular Witlinger brand, is trying to make a comeback. "We are re-entering the craft market with our new brand IBF—Indian Beer Cafe—which is based out of Goa. It will also be launched in Delhi and Haryana, followed by Uttar Pradesh next year. We earlier made Witlinger, which was launched in 2014 in a total of six states. Later, Carlsberg India made a strategic investment in the brand. The beer market has changed tremendously post covid. Companies are now focusing on ensuring product availability and offering better and distinctive products," said Anuj Kushwah, the founder of IBF Beers.

According to Kushwah, beer makers must ensure that their products are always available in the market since the business is a cash-guzzler without sufficient volumes. Mobility restrictions and curbs on the sale of liquor during the pandemic disrupted sales and logistics, and many smaller companies did not get back on their feet ever.

"The root of the problem in the craft beer business lies in the fact that many companies can't define their role clearly for themselves: Are they a unique product targeting a small but profitable target consumer, or are they a mass product meant for all? Additionally,

TURN TO PAGE 6

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FROM PAGE 1

beer is a very localized business; it doesn't travel well. So, unless a company has a wide production footprint, it's better off focusing on a few closer markets only to ensure a decent product. At the same time, beer is a volume product with high fixed costs. So, businesses which are not selling at least 400,000-500,000 cases a month would likely struggle to be profitable," said Vinod Giri, the director-general of the Confederation of Indian Alcoholic Beverage Companies.

The debt burden on many beer businesses also increased during the pandemic, pushing many over the edge. White Rhino Brewing Co.'s founder Ishaan Puri said the company has not gone out of business but is not registered in Delhi, its primary market, for some years now. He said the firm is a regional brewery focusing on north India and has had to shift focus to exports since there was an "excise policy mess" in the capital.

About 215 beer brands are currently registered for sale in the capital, but many are not available. Beor 360, which was produced in India, has shifted production to Bhutan because of complicated tax structures



Many states tax beer at the same rate as other alcohols.

and a trade treaty allowing duty-free imports from the Himalayan country.

Another challenge for businesses is that consumers aren't always ready to pay a premium to such brews at home, said Vikram Achanta, the co-founder and chief executive of Tulleeh, a beverage training and consulting firm.

In terms of value, beer makes up just about a fifth of India's overall spirits market, less than

the global average. One reason is that many states tax beer at the same rate as other alcohols, prompting many consumers to turn to stronger spirits. For instance, if beer has 4% alcohol by volume or ABV, and a spirit like whisky has

40%, beer is taxed on the total volume and not on the amount of alcohol in it. Besides, many craft brands popular in metros find it hard to enter new markets where consumers still pick stronger brews.

The maze of excise rules across a vast country also complicates state-to-state distribution. Given its limited shelf life, beer is at a disadvantage compared to other alcoholic beverages. The product can take typically take several weeks to months to reach the market, and the lockdown and logistics hurdles broke the back of many smaller firms. Time spent on annual excise licences and label renewals also lead to wastage.

Some owners also said craft beer isn't considered a craft at all in India, and the taxation feels like a punishment. A state like Haryana charges ₹2 crore per annum just for license fee registration.

According to data from drinks consultancy IWSR, India's beer volumes will grow at a compound annual growth rate of about 3% between 2022 and 2027. "Beer is taking its own time to reach the threshold. It is a perishable product to trade, and the business requires immense working capital. Very few brands survive the cash burn," said Rahul Singh, the founder of The Beer Café that recently got acquired by Sequoia Capital-backed beer brand Bira 91.

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