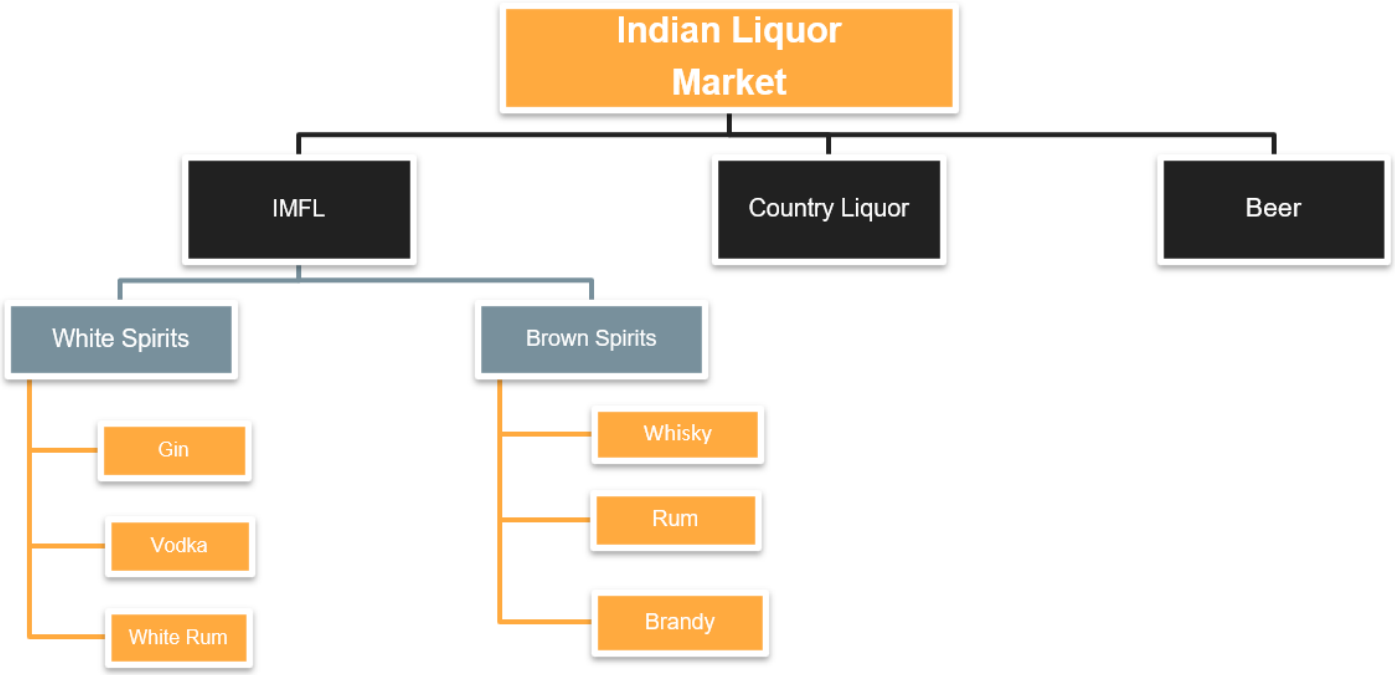
Twitter Thread by Ryuzaki ■

Ryuzaki ■
@FinTwitRyuzaki

Liquor talks @iramneek



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Type of industry	Market Share	Pricing	Geographical Consumption	Target Audience
IMFL	36%	Affordable and competitive	Mostly South India	Above 35
Country Liquor	48%	Cheap prices, that is the driving factor	All over / large scale in tribal belt	Above 35
Beer	13%	Expensive	Urban cities, AP	18-40 years
Illicit Liquor	NA	Extremely cheap / no duty levy	Small towns and villages	NA
Imported Liquor (BIO + Wine)	3%	Luxury	Metropolitan Cities	Women / 35 and above

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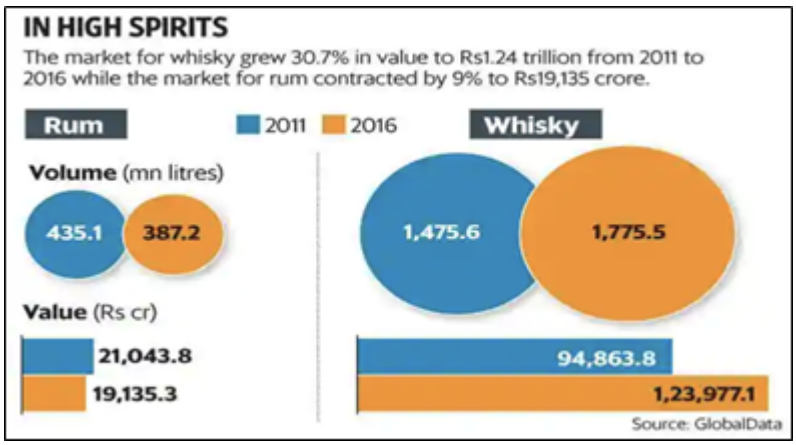

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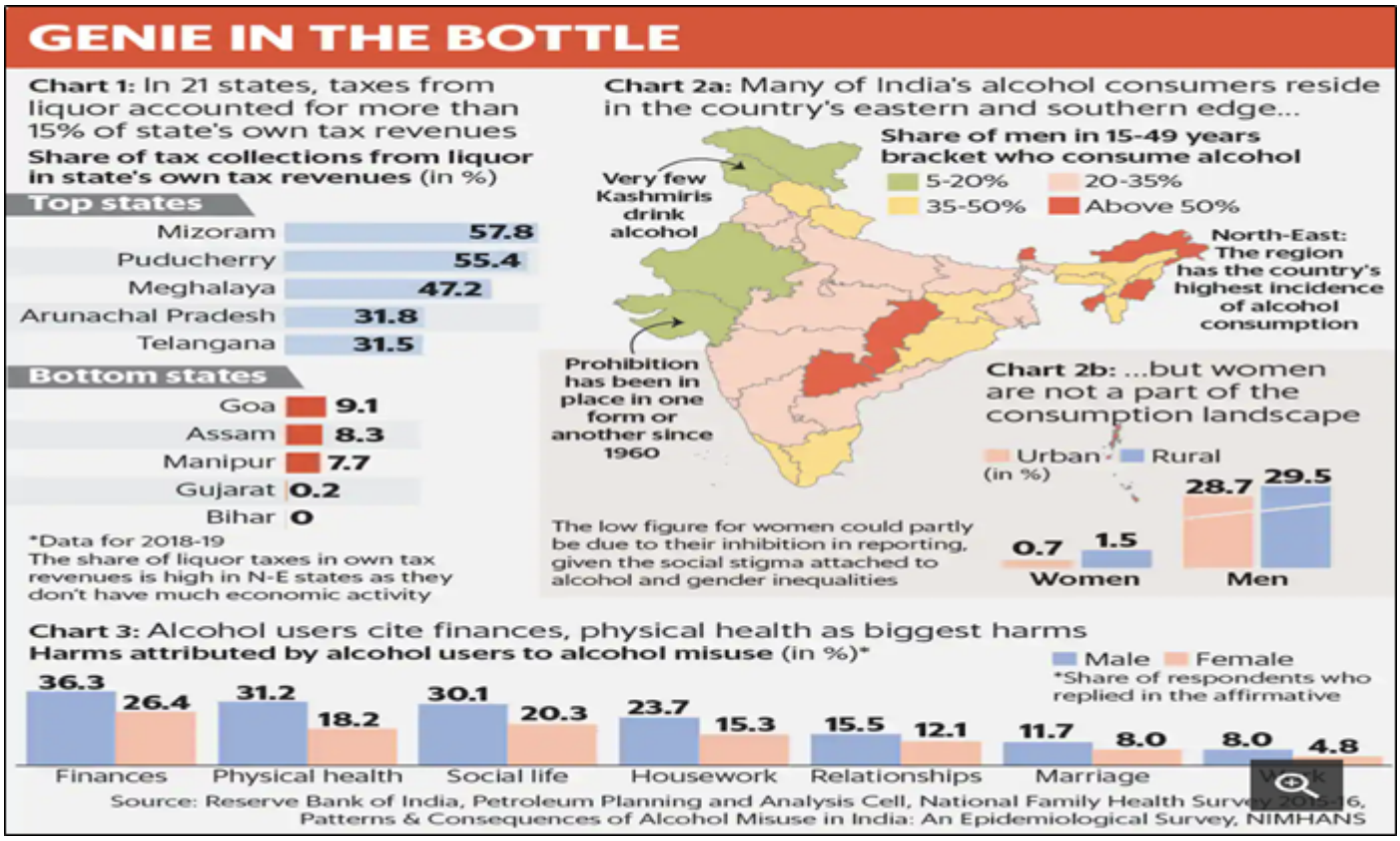

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Threat of New Entrants

1.High regulations

2.International players need to find right domestic partners

3.Limited distribution network

Bargaining Power of Buyers

1. Low bargaining power of buyers

2."High price " is used as a promotional strategy

Competitive Rivalry within the Industry

1.Looks of the liquor bottle

2.Higher Pricing

3.Innovative promotional campaign

Bargaining Power of Suppliers

1.Players with primary distillation facilities in their Plants directly consume molasses, rest all have to purchase Ethanol.

2.As molasses demand arises only from ethanol demand, the demand supply scenario for ethanol determines the raw material prices for the IMFL Players.

Threat of Substitutes

1. People getting more Health conscious

2.Non-alcoholic drinks like juices are the biggest substitutes

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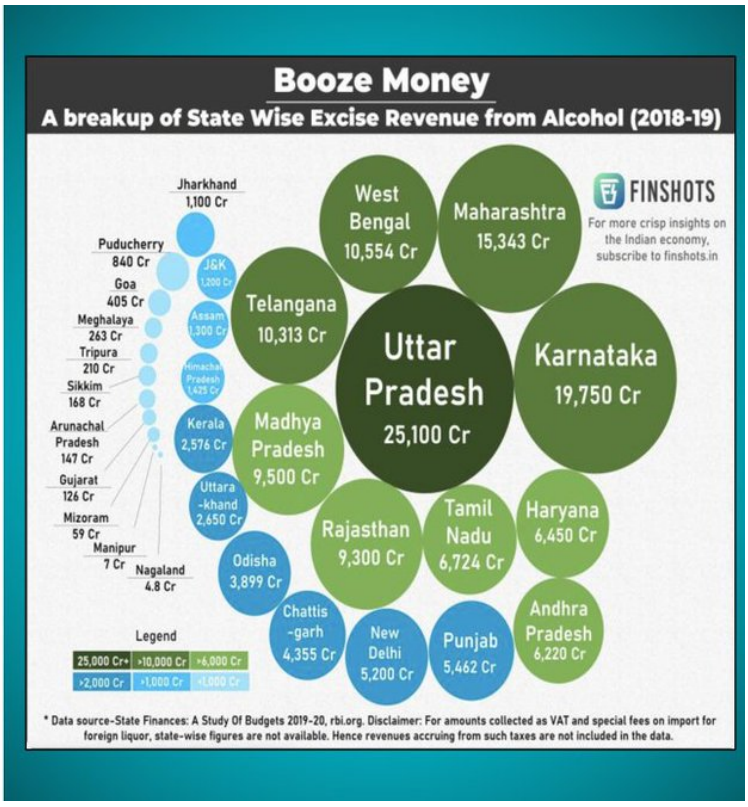
Tax Implication on Liquor Industry

- Alcohol revenues make up to 20% of a state's revenue.
- In 2017 as per the Kerela State Beverages Corporation (BEVCO) earned around Rs.600 for every Rs. 100 spent on alcohol. This example sums up why a government would actually consider investing in alcohol-based businesses.
- For nearly all state governments, liquor revenues are a cash cow. There are four states that collected above ₹20,000 crore in taxes from the sale of liquor in 2018-19.
- As many as 21 states, including several large states, derived more than 15% of their own tax revenues from the sale of liquor.



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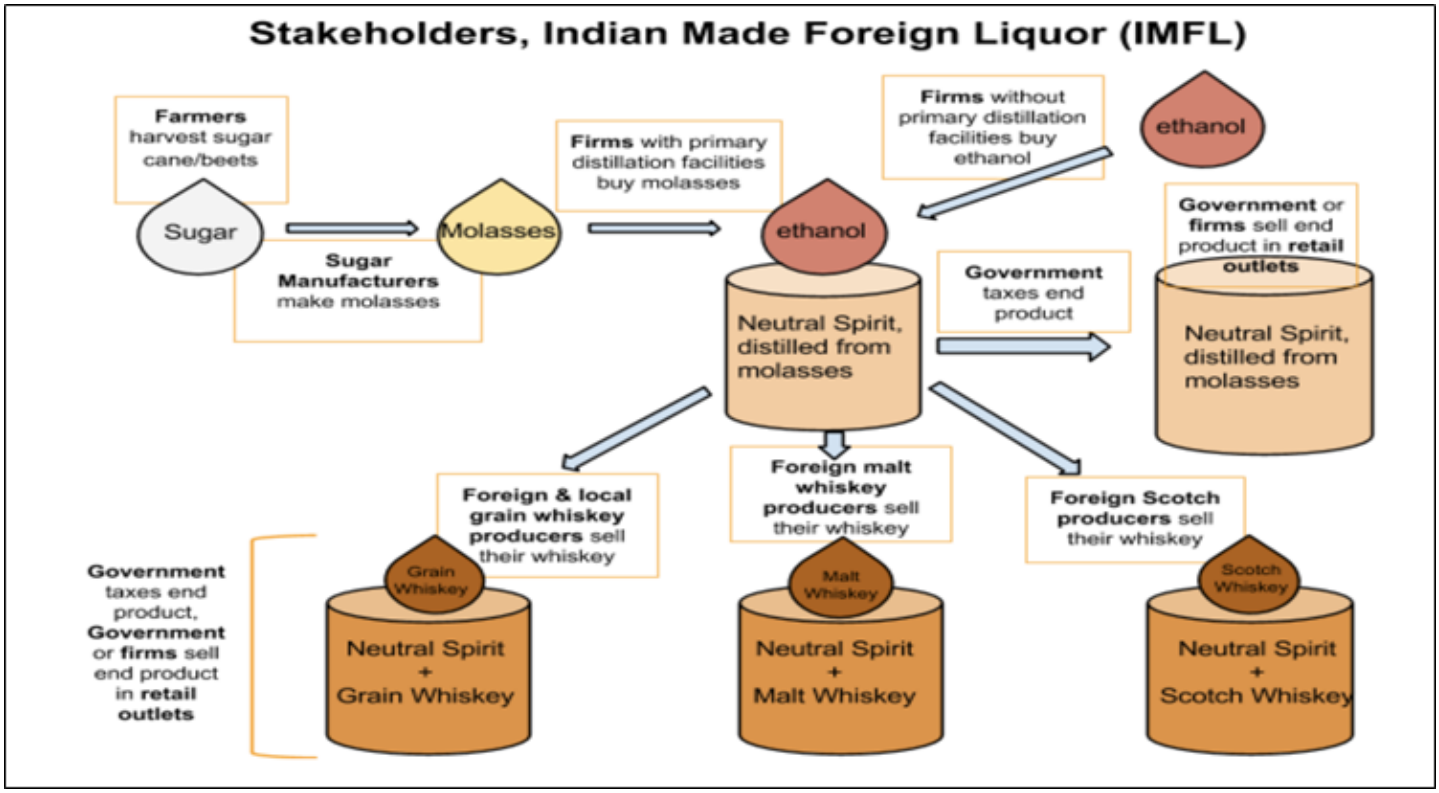
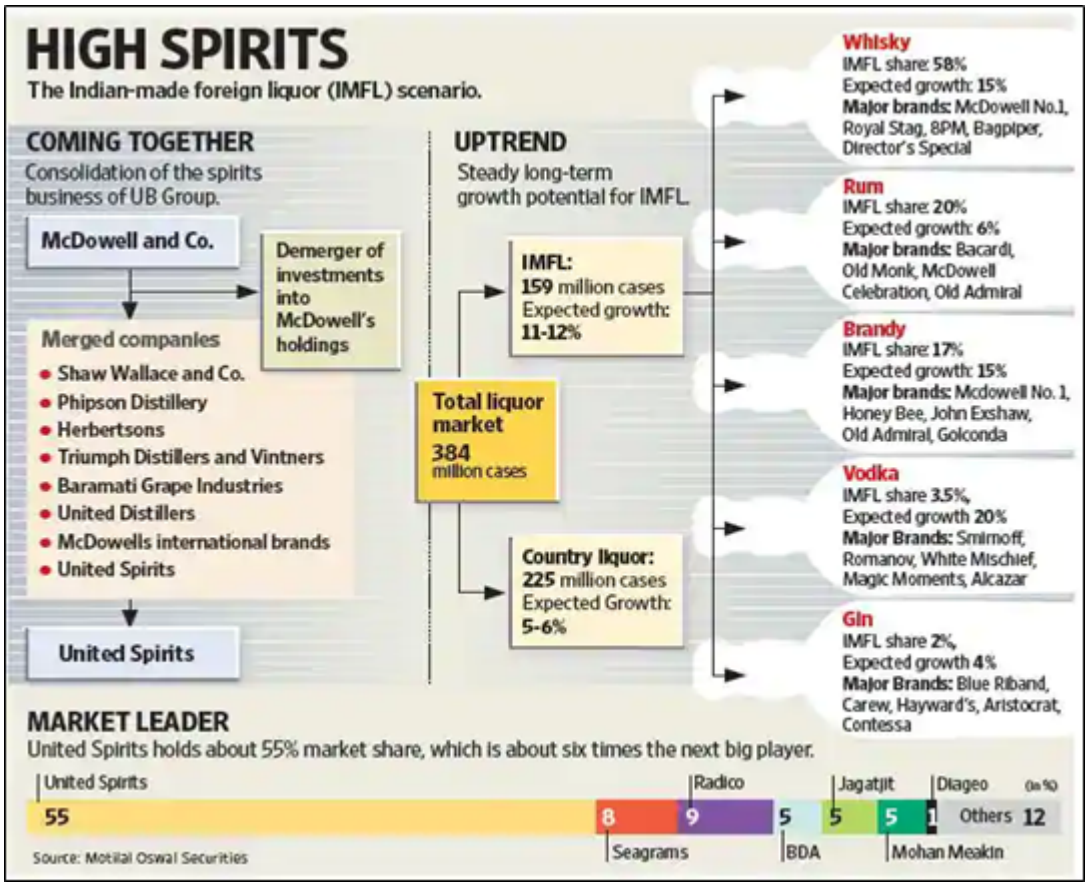


Leader insights



Diageo

- Diageo was created through the merger of Grand Metropolitan Public Limited Company (GrandMet) and Guinness PLC (the Guinness Group) in December 1997.
- Global company with products sold in more than 180 markets around the world.
- Diageo manages a broad range of brands across several categories. It manages eight of the world's top twenty premium spirits brands, including Smirnoff, the number one brand by volume and Johnnie Walker, the number one brand by value
- It serves an outstanding collection of beverage alcohol brands across categories like spirits, wines and beer.

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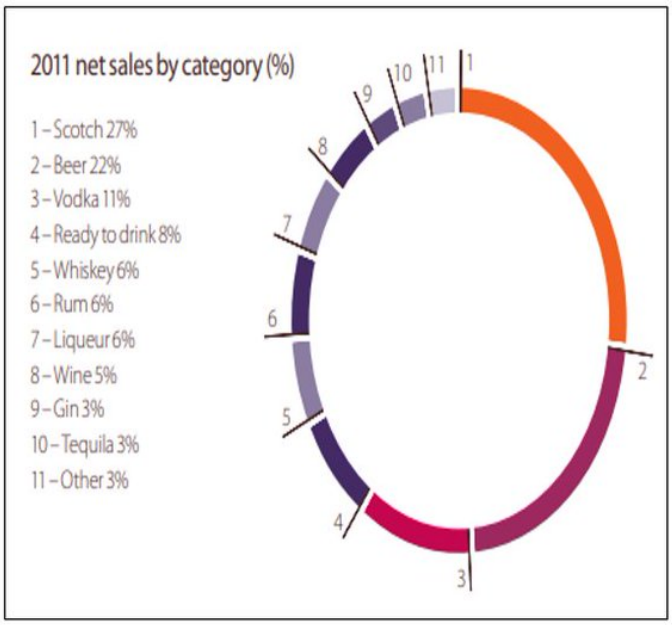
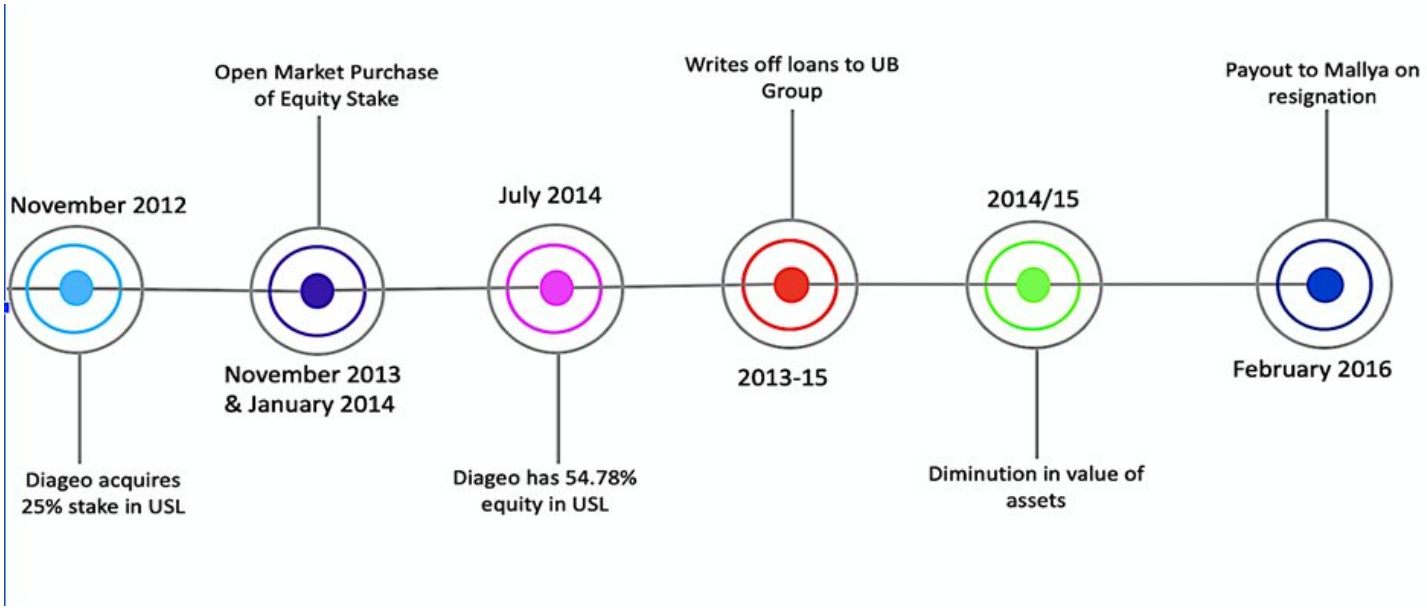
Diageo - Products and Services

1. Johnnie Walker,
2. Crown Royal,
3. J&B,
4. Buchanan's,
5. Windsor and Bushmills whiskies,
6. Smirnoff,
7. Cîroc and Ketel One vodkas,
8. Baileys Liquor,
9. Captain Morgan Rum,
10. Jose Cuervo Tequila,
11. Tanqueray Gin and
12. Guinness Beer



Deal timeline



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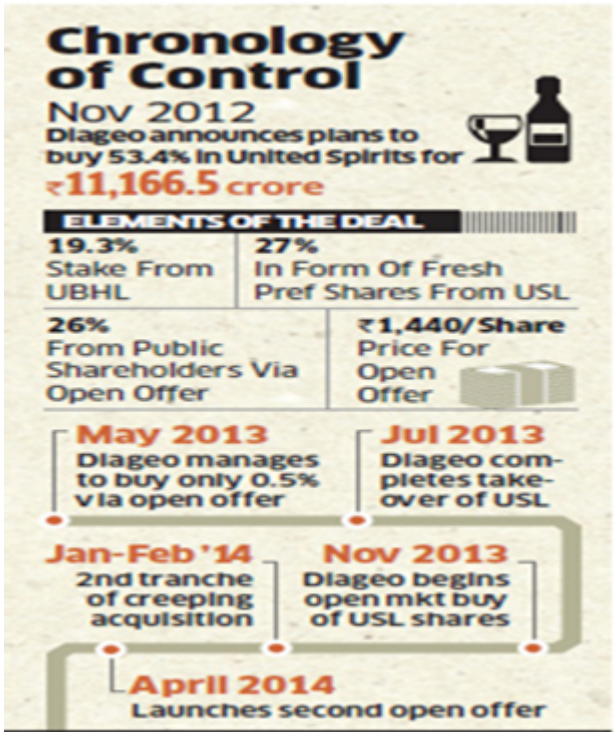

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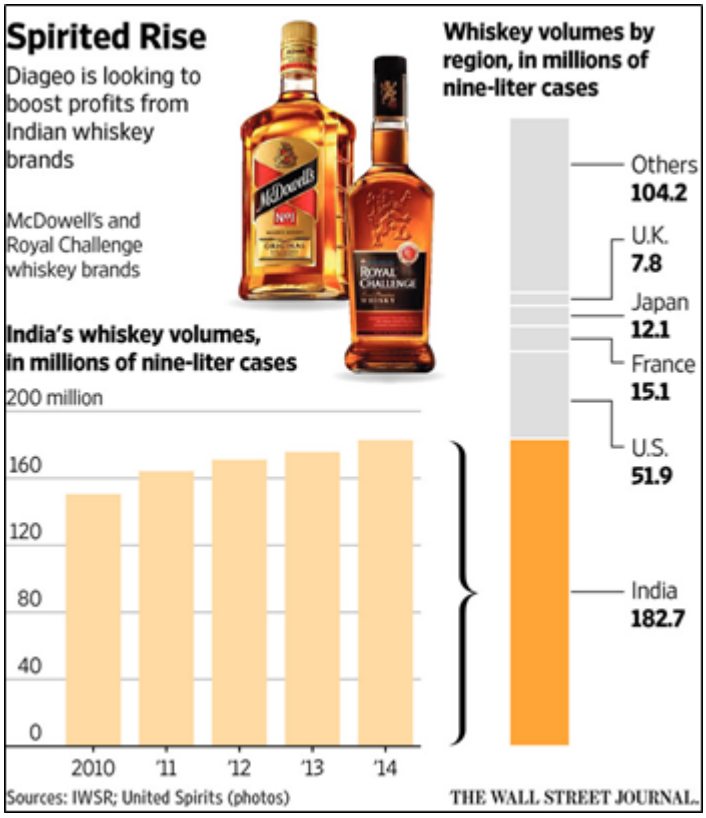

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Synergy

Operational Synergies

- Diageo would get access to wide distribution network of the USL.
- Diageo's Global expertise would help USL in several areas like portfolio premiumisation, efficient sourcing.
- USL could gain access to international Markets and premium brands
- Cost savings achieved through operational efficiency

Financial Synergies

- USL's earnings have been impacted due to high leverage. The acquisition would result in substantial reduction in interest cost, driving a strong growth in EPS in the near-term.

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USL'S 5-POINT TURNAROUND STRATEGY

1 Restructure the Board

The current board has just one director from 2013, when Diageo acquired majority stake in USL. The new Chairman of USL, M.K. Sharma, is a respected industry veteran who also chairs the board of ICICI Bank.

2 Professionalise operations

Anand Kripalu, a well-regarded FMCG veteran, was named CEO on May 1, 2014. The new management has weeded out (the company says they chose to quit) people considered close to Mallya like former Executive Director P.A. Murali and a host of others down the line.

3 Cut costs

The new management has divested non-core assets (like its operations in Nepal), cut down the number of subsidiaries from 73 to 22, and lowered debt from ₹8,500 crore to ₹4,700 crore.

4 Go premium

Company is aggressively focusing on a 'premium brand' strategy. Last fiscal, it moved 35 million cases in this category compared to 33 million cases in the previous year. This growth in the premium category, the company said, translated into 9 per cent growth in value.

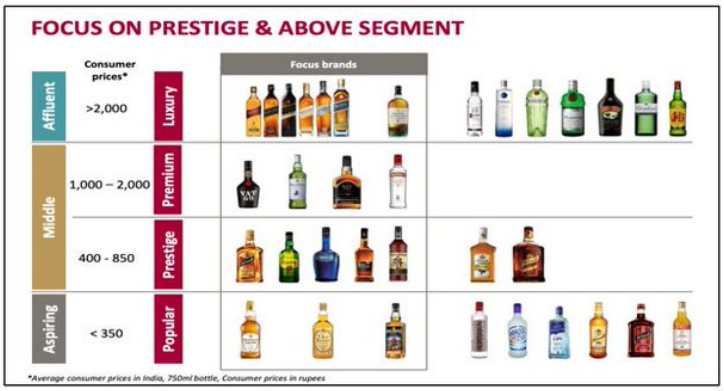
5 Pack a power punch

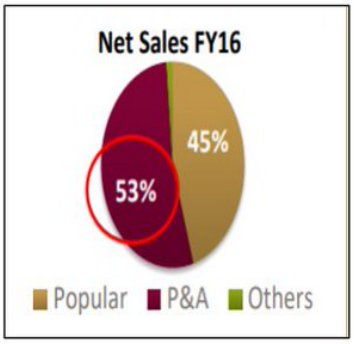
As a part of the premiumisation move, the company has identified 14 power brands behind which it will put marketing and distribution muscle (see 'Power Formula')

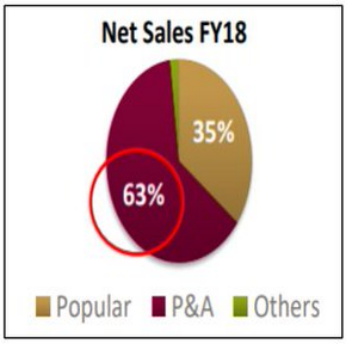
https://t.co/8bORHnl1MJ

PRODUCT FOCUS

- Focus on Prestige and above segments
- Fit for purpose in Operating Model
- **Product Segmentation**
- **Popular segment:** This includes entry level low priced brands that are made in India.
- **Prestige segment:** this is a step above the Popular segment, predominantly Indian brands made in India.
- **Premium segment:** this comprises International brands that are bottled or made in India
- **Luxury segment:** this comprises International brands that are bottled in origin and imported to India







https://t.co/PyOXToDCdb

Diageo maintained publicly that it became aware of the diversion only after it started combing through USL's accounts after takeover

Wall street Journal in June 2017 , reported that Diageo executives include the COO (Ivan Menezes) had seen a ledger containing the details of payments to various companies.

Unorthodox payments by USL to various companies which in turn lent money to Kingfisher

The money was used to settle fuel bills and other outstanding dues of Kingfisher

In Feb 2016 , $75 MILLION PAYMENT Settlement for Fund Diversion and Mismanagement



https://t.co/jNZCTLrSuJ

When Diageo acquired control of USL in 2012, it issued a guarantee to Standard Chartered against Watson Ltd's (affiliated with Mallya) debt to release USL stock that was to be acquired as part of the deal.

Diageo pursued enforcement steps against Watson Ltd for allegedly failing to pay more than $146 million (about Rs 1,020 crore) to the British liquor firm by June 21

Diageo decided not to pay the remaining funds of the settlement and also demanded the $ 40 million back which was paid in 2016 to Mallya citing breach on certain agreements .

