The Last LIQUOR BARON

For almost 40 years, Kishore Chhabria was overshadowed by the exploits of his late brother and Vijay Mallya. Today it's another story.

Kishore Rajaram Chhabria, 59, loves being driven across the United States. In September, Chhabria along with wife Rina travelled more than 900 km between two small American towns, Barreid in Vermont and Bedford in Pennsylvania, staying in hotels for several days in both towns. Empty roads and lonely towns inspire Chhabria. The sense of emptiness helps him “strategize”, he says. Though a frequent visitor to the US, Chhabria does not own a house there and prefers hiring chauffeur-driven cars. Soft-hand drives coach him.

For Chhabria - the businessman - this is the right time for strategizing. A lot is at stake. His company Allied Breweries and Distillers (ABD), which owns Officer’s Choice, the world’s largest selling whiskey brand by volume, has Blueprinted an aggressive growth plan. It includes the buyout of a competing brand, acquisition of distilleries and bottling units, heavy borrowing to fuel this binge, and finally, a public issue of shares in two years.

Chhabria’s story is inevitably linked with that of two other men - Indian Spirits chairman Vijay Mallya and Chhabria’s older brother, the late Manan Chhabria. The trio has over the last three decades joined hands and fallen out many times (see The Liquor Wars). Mann Chhabria passed away in 2002, and his family sold the liquor business to Mallya. Mallya has since handed over management control of his liquor business to Diageo and is struggling to hold on to his board seat and chairmanship. Only Kishore Chhabria, with Officer’s Choice, which accounts for 75% of ABD’s sales by volume, has the luxury to plan growth or take risks off in never heard-of towns in the US, which are almost cathartic for him.

Old-World Style

In India, Chhabria seems to have wrapped himself up in familiarity and tradition. Chhabria loves to be unconventional, as an industry where flamboyance is the convention. At home, which is Casa Grande on Little Gibbs Road, near south Mumbai’s Hanging Gardens, Chhabria prefers an old-world style. His office is in the same building as his residence, and he is surrounded by a group of old faithful and some anachronisms like CCTV cameras monitoring every room in the office with the monitor placed directly in front of his table. The office decor is anything but modern, and the drapes and chandeliers may even qualify as opulent.

“I have married only once. Indu (VH Balakrishnan), my secretary, was earlier my father’s secretary. My cook has been around for 36 years and my driver for 27 years. Once I grab hold of a person I rarely let go,” Chhabria says.

Chhabria’s company ABD is the third largest maker of Indian-made foreign liquor (IMFL), the rather curious contraction used by governments to differentiate liquor made in the organised sector from indigenous
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Chhabria's ABD is India's Fastest-Growing Liquor Maker

United Spirits
Pernod Ricard
ABD
Radico Khaitan
Jagati Industries
Tilaknagar Industries

Growth (April-August 2014)

5.5% 8.6% 9.8% 5.2%

"United Spirits is now controlled by Diageo. Source: ABD and industry estimates based on excise data.

The Liquor Wars

1986: Manu and Kishore Chhabria team up with Vijay Mallya to take over Shaw Wallace; the brothers fall out with Mallya who cried foul but Shaw Wallace stayed allied with the Chhabrias

1992: The Chhabria brothers fall out with each other and Kishore is left with one brand, Officer's Choice

1994: Kishore Chhabria and Mallya file up and OC brand owner BDA becomes a subsidiary of Herbertsons

1998: Dispute erupts between Mallya and Kishore Chhabria over stakes in Herbertsons

2002: Manu Chhabria dies, not too long after putting up with Kishore

2004: Kishore and Mallya part ways after years of bickering for control of Herbertsons; Kishore exits Herbertsons again with BDA

2008: Mallya acquires Shaw Wallace; revives old cases against Kishore

2012: Mallya and Kishore smoked the peace pipe

In 2004-5, it is aiming at a 33% rise in revenues and a doubling of EBITDA. Although United Spirits controls almost 40% of the Indian market (250 million cases) by volume, Pernod Ricard, by virtue of its premium play, controls more than half the value with 50% of volumes. Industry sources suggest that on an average Pernod Ricard's margins per case are three times those of United Spirits due to its focus on the premium segment.

Motif Capital analysts Maneesh Podder and Gautham Duggal recently said they expect ABD to launch a new brand for the premium segment by the end of this financial year. The analysts add: "However, the success rate in premium product launches is very low, with material investment requirements (average annual spend of €200m to build premium brand). In spite of the costs, the premium segments show greater potential today with Scotts showing a 17% growth in 2013 and premium growth at 22%. In comparison, the two lowest ranges of whisky—econo- my and regular—have de-grown."

The Chhabria Imprimatur
Clearly, Chhabria is looking for a foothold in more premium segments. With Pernod Ricard and United Spirits both intent on capturing the premium segment growth, Chhabria cannot sit back and wait. And he isn't. Note his recent moves to buy out Tilaknagar Industries whose majority is the Manish House brandy label, the second highest selling brandy in India. Tilaknagar is locked in litigation with Dutch company Herman Jansen, the original owners of the Manish House brand. Chhabria has engaged with the owners of a 51% stake in the brand, buying out a year, exploring a buyout. However, after a year's talk went nowhere, Chhabria's ABD bought 50% rights to the brand from Herman Jansen and became a party to the dispute.

Chhabria exclaims: "This move is more to block someone else from buying it. The litigation will take a long time and we don't want anyone else to grab the brand." Chhabria knows what he is talking about. He himself had developed Officer's Choice within Shaw Wallace while working for his brother Manu and managed to grow it to compete with the brand in tow. Again, he managed to keep Officer's Choice for himself when he extricated himself from Herbiont's, where he was a partner with Mallya; in 2004, a decade after they came together, Chhabria and Mallya parted ways, but the former not without the brand he had built.

So, when Roy says ABD could overtake Pernod Ricard by volume in the next 18 months, Chhabria does not sound very enthused. He is keen to stress that the tag of the only one surviving among Indian barons in India hardly means much. "We are god-fearing men in this company. We do not want to ride tigers," Chhabria says. "We want to aspire but not for the number one slot."

Perhaps, there is realization that the two number one slots, one by volume and the other by value, are both entrenched with United Spirits-Diageo and Pernod Ricard respectively, and their marketing and financial muscle will be something difficult to match. But on one of those rides on American roads if Chhabria had to sit back and contemplate his journey over the past three decades, he would not be too dissatisfied with his current position. "God has been kind," he adds.