



BSE Code	: 507526
Time Duration	: 1 year
CMP	: ₹204.60 (as on 28 November, 2019)
Target Price	: ₹265

Associated Alcohols & Breweries Limited AABL Will Enable Portfolio To Make A New High

Our Tiny Treasure for November is Associated Alcohols & Breweries Limited (AABL). It is the flagship company of the Associated Kedia Group involved in the manufacturing and bottling of liquor. It has now become one of the largest distilleries of India with a diversified product portfolio, comprising Indian Made Indian Liquor (IMIL), Extra Neutral Alcohol (ENA), Indian Made Foreign Liquor (IMFL), and several other quality blended products.

Geographical expansion

AABL has achieved an extensive geographical presence over 5 states in India. The company's principal revenue is derived from the state of Madhya Pradesh and has been allotted 9 districts by the Government of Madhya Pradesh for the sale of country liquor at pre-determined prices. In FY19, it focused on the sale of IMFL and forayed into various states, including Delhi, Kerala, Karnataka, and Chhattisgarh, by entering into manufacturing agreements with local distilleries. With this diversification, the company's dependence on a single state has reduced and, thereby, the risk has considerably reduced. It also sells ENA to leading eight states of India.

Expansion of ENA capacity

AABL had increased its ENA production capacity from 31.4 million liters to 45 million liters at a total cost of Rs. 26.5 crores, funded through a term debt of 10 crores and balance through internal accruals under phase one. The project was completed and the commercial operations started in October 2018. The company has undertaken further expansion initiatives to address the growing needs of domestic and international customers. It has proposed to increase its ENA production capacity from 45 million liters to 90 million liters by 2021 under phase two. It is also planning to make the whole production process automatic by 2022. This expansion plan depicts the increasing demand in the market and shows the company's capability to tap the opportunities.

The franchise agreement with United Spirits

In 2017, AABL was awarded a franchise agreement for marketing, distillation, blending, and bottling of several series of certain popular brands of United Spirits Ltd. (USL), which is India's largest distiller. This new venture has substantially contributed to the top line of the company in terms of sales volume and effectively on its bottom line which is evident from its FY18 and FY19 numbers. The contract of the franchise is for 3 years, which is extendable up to 5 years. This venture has brought a turnaround in the company's overall business and is expected to benefit it over the medium term.

Popular brands preference

AABL's in house brands include Central Province Superior Grain Whisky and Titanium Triple Distilled Vodka, which are quite popular, in terms of the demand. It holds the portfolio for manufacturing International brands, such as Bagpiper Whisky, MC Dowell No. 1 Celebration Rum, White Mischief Vodka, Blue Riband Gin, and Director Special Black. Also, under the franchise agreement with USL, it represents leading international brands, such as Vat69, Black & White, Black Dog, Captain Morgan, and Smirnoff, and they create a strong portfolio offering for retail and customers. Some set of people give preference to the specific brands of IMIL and IMFL over others. For these brands, the demand is always inelastic. Thus, as AABL has a strong brand portfolio, the demand always stays northwards and the company has less fear from price-change impact.

The alcohol beverage market in India

India is the third-largest and fastest-growing liquor market in the world. The Indian alcohol market is growing at a CAGR of 8.8 per cent and is expected to reach 16.8 billion liters of consumption by 2022. The increasing acceptance of alcohol consumption among the folks, the large base of young consumers, rising per capita income, considering alcohol as a status symbol, etc. are some of the major demand drivers for the alcohol beverage mar-

Continued On PG 2...

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ket in India. The popularity of wine and vodka is increasing at a remarkable CAGR of 21.8 per cent and 22.8 per cent, respectively. The country is the largest consumer of whiskey in the world and constitutes about 60 per cent of the global IMFL market.

Financial Performance

AABL's standalone revenue for the quarter Q2FY20 came in at Rs. 122.55 crores against Rs. 75.25 crores in the corresponding quarter last year, registering a 62.9 per cent YoY increase. The EBITDA for the quarter grew by 23.2 per cent YoY to Rs. 13.13 crores from Rs. 10.66 crore in the corresponding quarter last year, with a corresponding margin contraction of 345 bps. The EBITDA margin for the quarter stood at 10.7 per cent. The PAT for the quarter came in at Rs. 11.06 crores compared to Rs. 4.94 crores in the corresponding quarter last year, with a YoY increase of 123.9 per cent.

In terms of the half-yearly numbers for H1FY20, the revenue jumped by 45 per cent to Rs. 253.76 crores while EBITDA rose by

11 per cent to Rs. 34.66 crores. Further, the company reported a net profit of Rs. 22.77 crores, up 39 per cent YoY. In FY19, the company's debt-equity ratio reduced to 0.19x from 0.66x in FY15. Its interest coverage ratio improved to 22.2x in FY19 from 3.8x in FY15. Over the last 5 years, the company has paid a consistent dividend to its shareholders.

Valuation

AABL is trading at TTM P/E of 10.03x with TTM EPS of Rs. 20.25. In FY19, it delivered ROE and ROCE of 22.4 per cent and 30.9 per cent, respectively, which is better than its peers. Its foraying in states other than MP is helping it in strengthening its market share. AABL is catering to the ever-increasing demand by improving its ENA capacity. The venture with United Spirits has proved to be one of the major growth drivers for the company. Considering all these factors with stellar financial performance and attractive valuation, we see a potential upside of 30 per cent with a target price of Rs. 265 for the next one year.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201903	201803	201703	201603	201503
Net Sales	398.54	324.12	290.95	287.52	298.49
Total Income	402.75	327.19	293.59	288.71	300.45
Total Expenditure	340.90	272.61	251.34	250.06	267.83
PBIDT	61.84	54.59	42.25	38.65	32.62
PAT	30.26	25.19	16.91	14.29	12.34
Dividend %	10.00	10.00	10.00	5.00	5.00
Adj. EPS(Rs)	16.74	13.93	9.35	7.90	6.82

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201909	201906	Q on Q Var%	201809	Y on Y Var%
Net Sales	122.55	131.21	-6.60	75.25	62.85
Total Expenditure	109.42	109.68	-0.23	64.59	69.43
PBIDT (Excl OI)	13.13	21.53	-39.03	10.67	23.05
PAT	11.06	11.71	-5.53	4.95	123.57
PBIDTM% (Excl OI)	10.71	16.41	-34.73	14.18	-24.47
PBIDTM%	11.14	16.80	-33.69	14.65	-23.96
PATM%	9.03	8.92	1.23	6.58	37.23
Adj. EPS(Rs)	6.12	6.48	-5.56	2.74	123.36

Continued On PG 3...



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