

ASSOCIATED ALCOHOLS & BREWERIES LTD.

BSE Code: **507526**CMP : ₹**170.90**Face Value : ₹**10**Target price: ₹**250**HP* : **Two years**

Our Pearl Pick for the month of April is Associated Alcohols & Breweries Limited (AABL). It is the flagship company of Associated Kedia Group, which is 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.

The company's in-house brands include central province superior grain whisky and titanium triple distilled vodka, which are quite popular, in terms of 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.

Why to Invest?

Reopening of liquor shop could be a relief amid COVID-19 pandemic

Liquor shops amid lockdown have got permission to remain open, which can prove be a healthy step for companies like AABL. Liquor shops in Assam and Meghalaya have reopened. In Assam, Excise department's order said that liquor shops, wholesale warehouses, bottling plants, distilleries and breweries will remain open from Monday for seven hours daily. Similarly, in Haryana, Excise Department Commissioner has ordered to resume the operations of distilleries, bottling plants, breweries, wineries with immediate effect. There are almost 400 districts in the country, which have not recorded any COVID-19 cases, so far. If the centre announces some relaxation in restrictions and resumption of services in some sectors, including excise, it is possible that the liquor shops might get opened in some states.

Geographical expansion

AABL has achieved an extensive geographical presence over five Indian states. The company's principal revenue is derived from the state of Madhya Pradesh and has been allotted nine districts by 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 the leading eight states of India.

Expansion of ENA capacity

AABL had increased its ENA production capacity from 31.4 million litres to 45 million litres at a total cost of Rs 26.5 crore, funded through a term debt of Rs 10 crore 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 litres to 90 million litres 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.

* HP : Holding Period

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DSJJ INVESTMENT ADVISORY UNIT (CRU)

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 effectively on its bottom line, which is evident from its FY18 and FY19 numbers. The franchise contract is for three years, which is extendable up to five years. This venture has brought a turnaround in the company's overall business and is expected to benefit it in medium-term.

Financial performance

Over the last five years, the company's revenue has grown at 13 per cent CAGR. Also, the profit has grown at 39 per cent CAGR in the last five years. Looking at nine-month numbers i.e. for 9MFY20, the revenue jumped by 38 per cent YoY to Rs 399.21 crore while, EBITDA grew by 28 per cent YoY to Rs 60.1 crore. Further, the company reported net profit of Rs 38.59 crore, up by 57 per cent YoY.

Looking at the recently concluded quarter-Q3FY20, the consolidated revenue came in at Rs 145.44 crore as against Rs 115.11 crore in the corresponding quarter last year, registering 26.3 per cent YoY increase. EBITDA for the quarter grew by 60.7 per cent YoY to Rs 25.42 crore as against Rs 15.82 crore in the corresponding quarter last year, with a corresponding margin expansion of 373 bps. EBITDA margin for the quarter stood at 17.5 per cent. PAT for the quarter came in at Rs 15.82 crore as against Rs 8.13 crore in the corresponding quarter last year, with YoY increase of 94.6 per cent.

Investing in the stock

The company has a share capital of Rs 18.08 crore, with promoters' holdings at 58.45 per cent. Therefore, the free float available comes to 0.75 crore shares and the two-week average traded quantity comes around 14,000 shares. We urge our investors to enter the stock in a staggered manner and accumulate as per the table:

Price	Accumulation
140-160	40 per cent
130-140	20 per cent
110-130	20 per cent
<110	20 per cent

Valuation

AABL is trading at TTM P/E of 6.89x with TTM EPS of Rs 24.51. It has delivered ROE and ROCE of 22.4 per cent and 31 per cent, respectively, which is better than its peers. Its foraying in states, other than MP, is helping it in strengthening its market share. The company is catering to the ever-increasing demand by improving its ENA capacity. Its 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 45 per cent with a target price of Rs 250 in the next two years.

Inc/Exp Statement (Standalone)					
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	340.9	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	10	10	5	5
Adj. EPS(Rs)	16.74	13.93	9.35	7.9	6.82

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Quarter On Quarter (Standalone)

Particulars	201912	201909	Q on Q Var %	201812	Y on Y Var %
Net Sales	145.44	122.55	18.68	115.11	26.35
Total Expenditure	120.02	109.42	9.68	99.29	20.87
PBIDT (Excl OI)	25.43	13.13	93.72	15.82	60.74
PAT	15.82	11.06	43.03	8.13	94.61
PBIDTM% (Excl OI)	17.48	10.71	63.21	13.74	27.22
PBIDTM%	17.9	11.14	60.68	14.1	26.95
PATM%	10.88	9.03	20.49	7.06	54.11
Adj. EPS(Rs)	8.75	6.12	42.97	4.5	94.44

Stock vs. Index



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