

Stock Update

Som Distilleries and Breweries Ltd.

September 18, 2023





Som Distilleries and Breweries Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
AlcobeV	Rs. 323	Buy in Rs. 320-328 band and add more on dips in Rs. 285-291 band	Rs. 357	Rs. 385	2 -3 quarters

HDFC Scrip Code	SOMDISEQNR
BSE Code	507514
NSE Code	SDBL
Bloomberg	SDB IN
CMP (Sept 15, 2023)	323
Equity Capital (RsCr)	36.9
Face Value (Rs)	5
Equity Share O/S (Cr)	7.4
Market Cap (RsCr)	2497
Book Value (Rs)	71.3
Avg. 52 Wk Volumes (in '000s)	701
52 Week High	360
52 Week Low	94

Share holding Pattern % (June, 2023)	
Promoters	34.46
Institutions	1.23
Non Institutions	64.31
Total	100.0



* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst
Harsh Sheth
Harsh.Sheth@hdfcsec.com

Our Take:

Som Distilleries & Breweries Limited (SDBL) is based in Bhopal and is one of the leading alcoholic beverages manufacturers in India. It is primarily engaged in production of beer (~91% of revenues) and blending and bottling of IMFL. It offers a broad line of products at every price point to cater to varied preferences of the consumers. The product portfolio consists of various options across beer, rum, brandy, vodka and whisky. The company has three key millionaire brands in beer (sales more than 1 mn cases per annum) – Hunter, Black Fort and Power Cool. In FY20, SDBL launched Woodpecker Wheat Beer, India's first filtered wheat beer. The brand has created significant traction in very short period and is expected to gain further momentum.

The core markets of the company are Madhya Pradesh (~45-50% of total revenue; ~35% market share), Karnataka (~30-35% of total revenue; ~16% market share) and Odisha (~10% of total revenue; ~12% market share). The company remains committed to its strategic objective of entering into new markets and further strengthen its foothold in existing markets. SDBL will continue to evaluate markets based on its potential and profitability. This will enable the Company to enhance its market share in medium to long term.

Valuation & Recommendation:

SDBL's prospects seem exciting at this juncture as it has delivered strong operating performance over the past few quarters and the management is aggressively targeting market expansion in a growing liquor market. Company's performance in Q1FY24 was a beat on all fronts. The incremental capacity at Karnataka plant (doubled from 45 lakh cases to 90 lakh cases) which was commissioned in May 2023 is already fully utilised and the management is contemplating another round of expansion. This underscores the management's ability to capitalize on market opportunities and take on the competition.

Recently, the board has approved a fund raise of ~Rs 350 cr to facilitate organic and inorganic expansion. This comes after ~Rs 141 cr warrants issue to promoter and non-promoter group in July 2023. We believe the domestic market offers various opportunities in term of sub-geographic penetration and market diversification. The management of SDBL is cognizant of the same as it intend to seize and increase the company's market share by exploring untapped markets, through product innovations and undertaking capex.

We have revised upwards the FY24 and FY25 estimates (though higher tax would soften the increase in profit estimates) and upped the target price. **We think the base case fair value of the stock is Rs 357 (26x FY25E EPS) and the bull case fair value of is Rs 385 (28x FY25E EPS). Investors can buy the stock in Rs 320-328 band (23.5x FY25E EPS) and add more on dips in Rs 285-291 (21x FY25E EPS) band.**



Financial Summary

Particulars (in Rs Cr)	Q1FY24	Q1FY23	YoY-%	Q4FY23	QoQ-%	FY21	FY22	FY23	FY24E	FY25E
Operating Income	385	254	51%	253	52%	288	363	807	1,096	1,322
EBITDA	49	34	42%	28	73%	-10	16	102	155	192
APAT	34	26	31%	16	112%	-31	-11	60	89	114
Diluted EPS (Rs)	4.4	3.7	21%	2.2	105%	-4.8	-1.6	8.2	11.5	13.7
RoE-%						-10.3	-3.9	18.1	19.3	17.2
P/E (x)						-68	-202	40	28	24
EV/EBITDA						-281	173	27	17	13

(Source: Company, HDFC sec)

Q1FY24 results: Key Highlights

Continuing the stellar performance of the last one year; SDBL has posted encouraging results for Q1FY24. Revenue growth stood at 51.4% YoY, on the back of robust volume growth. Gross margin fell by 733 bps YoY in Q1FY24 to 35.9%, primarily due to increase in packaging costs. On YoY basis, prices of glass bottles have increased by 30-35% while that of malted barley have decreased by 6-7%. EBITDA margin drop was limited to 80 bps given the favourable operating leverage and successful implementation of cost saving measures. PAT grew by 31.2% to Rs 34 cr.

Company registered 39.2% YoY growth in Beer volumes to 65.8 lakh cases. Hunter, Black Fort and Power Cool, registered volume growth of 7.0%, 95.2% and 50.8%, respectively as compared to Q1FY23. Beer realization for Q1FY24 was Rs. 559 per case compared to Rs.506 in Q1FY23; primarily driven by price hikes and better brand mix. IMFL volumes stood at 2.2 lakh cases with 17.4% YoY growth. IMFL realization for Q1FY24 was Rs.760 per case as compared to Rs.791 in Q1FY23.

Gross debt declined by Rs 47.2 cr to Rs 195 cr in Q1FY24 vs. Rs 242.2 cr in Q4FY23. Cash and equivalents stood at Rs 44 cr as on June 30, 2023.

While Q1 and Q4 account for ~60% for overall sales of beer industry, we expect a healthy sales momentum in Q2FY24 (given unusually warm climate) and Q3FY24 (Cricket World Cup).

Capacity expansion on track: SDBL had increased the capacity of its Karnataka plant from 34 lakh cases p.a. in FY22 to 45 lakh cases p.a. in FY23 through de-bottlenecking. It was able to quickly ramp up the utilisation on the back of continued strong demand. The company further undertook the brownfield expansion and doubled its capacity in Karnataka to 90 lakh cases p.a. which has been commercialised in May 2023.



Noticeably, the company has already nearly run out of capacity at its Karnataka plant. As a result, it couldn't fully service the nearby markets including Kerala and Pondicherry despite getting order enquiries. It is further expanding capacity to 150 lakh cases p.a. at a cost of Rs.70 cr which will go on stream in April 2024.

Further, the company has increased the capacity of Odisha plant from 42 lakh cases to 60 lakh cases at ~Rs 35 crore (Rs 25 Cr through debt). With the launch of canning line at Bhopal, SDBL is well-positioned to meet the growing demand for canned beers in the market (especially UP). Noticeably, the realisations for canned beers is ~20% higher (due to lesser content compared to glass bottles) and can prices for the same are less volatile compared to glass bottle. Additionally, Uttar Pradesh market has higher sale of canned beers and new canning line shall help company sell more in the state.

Continued to gain the market share: The company strengthened its market share in Madhya Pradesh which stood at ~46% in June 2023 compared to May 2023, which was 42%. Market share in Karnataka reached 20% in May 2023, compared to 3% in FY20. It became the second largest player in Odisha's beer market with 18% market share as of June 2023 as compared to 12% in June 2022. Besides, the company has also started selling in states of Chhattisgarh and Jharkhand.

Entry in new markets: SDBL has already started supply some brands of beer in Chhattisgarh and the numbers will soon start showing up. It has recently prepared to enter Rajasthan from Q3FY24 with Beer and expects a meaningful contribution from the state from Q4FY24 as it takes about 6 to 9 months to establish a presence and seed the market. According to the management, company has been witnessing a healthy traction in UP market. According to the management, the company's flagship brand, 'Hunter' has achieved remarkable success and proudly holds the top spot as the best-selling strong beer in Delhi.

SDBL has entered into a bottling arrangement with Carlsberg from its Odisha plant which will begin from July 2023. This arrangement will consume 20% of capacity of the plant.

Approved fund raise of Rs 350 cr: In a board meeting on September 05, 2023, the company's board has approved a fund raise of ~Rs 350 cr. The manner of fund raise isn't known yet. The proceeds will be utilised for expansion purpose, working capital, expanding distribution, improving visibility of brand. SDBL is looking at strategic expansion plans through inorganic and organic growth opportunities. Through strategic acquisitions, the company aims to increase scale of operations, access new clients and enter high growth geographies in a cost – effective manner.



Beer Sales	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Revenues (in crore)	179	156	171	191	201	302	326	381	236	319	730
Volumes (in lakh cases)	48.2	43.3	44.7	50.1	53.9	75	75.9	83.5	50.21	68.3	149.6
Realisation (in Rs/ case)	371	361	383	381	372	403	429	456	470	466	488

Brand (lakh cases)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Hunter	13.8	13.0	15.0	16.8	21.2	30.1	32.5	35.9	22.4	24.8	49.4
Power Cool	10.8	13.0	11.8	15.8	17.1	54.4	22.3	31.6	15.9	28.0	78.5
Black Fort	23.6	17.2	17.8	17.5	15.6	20.1	18.9	14.4	10.6	12.0	19.9

Brand (lakh cases)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Hunter	2.5	5.1	5.5	9.2	5	6	4.8	8.9	20	9	5.6	14.8	21.4
Power Cool	2	3.5	4.2	6.2	2.8	4.4	7.2	13.4	19.4	16	17	26.1	29.3
Black Fort	1.3	1.9	3.2	4.2	2	2.7	3.2	4.1	7.2	3.4	3.6	5.7	14
Other	0.1	0.2	0.3	1.2	0.2	0.4	0.5	2.7	0.6	0.3	0.3	0.6	1.1
Total Volumes	5.9	10.7	13.2	20.8	10	13.5	15.7	29.1	47.2	28.7	26.5	47.2	65.8

IMFL Sales	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Revenues (in crore)	46	44	48	62	79	52	44	70
Volumes (in lakh cases)	7.6	6.8	7.5	9.7	12.0	7.4	5.7	8.9
Realisation (in Rs/ case)	603	647	644	641	659	695	773	785

(Source: Company, HDFC sec)

Key Concerns

Disruption in key markets: Madhya Pradesh, Odisha and Karnataka contribute >70% of company's sales. The alcobev industry is exposed to multiple regulatory risks emanating from state taxes, adverse ruling from courts and changes in regulations with respect to pricing, licensing, working of operating facilities, manufacturing processes, marketing, advertising and distribution. Any negative policy developments in company's key markets could affect company's performance.



Political Risk: There is an increased tendency towards prohibition in an election year. MP and Rajasthan are shortly going for elections and one cannot rule out populist announcements temporarily hurting alcohol industry. Another concern emerges from the dependence on state governments to get price increases. Margins may get severely impacted in case of inflation in raw material costs or any increase in cost due to change in regulations.

Seasonality: Demand for beer is highest during the months of March to June, which results in peak sales during Q1 and Q4 of financial year.

Volatility in Raw Material: The beer and IMFL industry can be adversely impacted due to the volatility in key input raw material prices such as barley, ENA and glass bottles. Since the pricing power is limited, companies cannot fully pass on the higher costs to consumers thereby margins get impacted.

Competition: Over last few years, many international companies have entered the Indian market due to the immense potential prevailing in the country. These players could impact volumes primarily in the metros as their products are well known among affluent or lifestyle seeking consumers. Furthermore, increasing trend of craft beer among urban population also increases the competition as beers can be manufactured with very limited investment in a smaller size brewery as compared to significant investment required in traditional breweries.

Aggressive expansion plans may lead to further equity dilution

In our Stock Note issued in April 2023 ([Link](#)), we had highlighted how management's ambitious expansion plans may need significant fund infusion. Likewise, the company's board on September 05, 2023 approved the fund raise of Rs. 350 cr.

Over past few years SDBL has expanded its operations outside of its home state (MP) in Karnataka and Odhisa. Additionally, SDBL's operations are working capital intensive due to its requirement of upfront excise duty payment and high inventory holding. Since FY18, the company has used following source to fund its growth:

- Rs 100 cr of equity raised in 2018 via private placement by issuing shares to Karst Peak Asia Master Fund and Vermilion Peak Master Fund.
- Rs 35 cr of equity raised by issuing warrants to promoters in 2018
- Rs 17 cr rights issue in February 2022 at Rs 35/share
- Rs 27.2 cr of warrants issue to promoters and non-promoter in Sept-Dec 2022 @Rs.72.
- Rs 49 cr rights issue in April 2023 at Rs 140/share
- Rs. 148.5 cr worth warrant issue to promoter @Rs.275 in July 2023 (25% money received) and shares issued to non promoter.
- On September 05, 2023, the company's board approved fund raise of ~Rs 350.



Additionally, total debt of the company increased from Rs 75 cr in FY18 to Rs 241 cr in FY23. However, the same has been reduced to Rs 192 cr as on June 30, 2023.

Additionally, the company has been receiving consistent advances from the promoter group, along with credit period from its suppliers, to support the working capital requirement and capex.

Going ahead, the company may further need to raise funds for expansion purpose. In an [interview with CNBC TV18](#), Mr. Jagadish Arora (promoter) highlighted company's ambitions to set up a unit in Maharashtra which may require an investment of ~Rs 300 cr. He also stated that the company is eyeing other states such as Telangana, Tamil Nadu, and Uttar Pradesh for further expansion. Materialisation of such ambitious expansion plans may require significant fund infusion.

The stock price of SDBL has risen since the lows of Covid and lately from the lows of late Feb 2023 reflecting the improving fundamentals and partly reflecting the recent creeping acquisition by promoters. Any untoward development in the risk appetite in the markets and/or towards the industry/company could result in sizeable correction. However, in absence of such an event, the stock has catching up to do in terms of earnings and valuations compared to its peers.

Entry into new states without manufacturing facility in that state can dilute margins due to interstate taxes.

About the company

Incorporated in 1993, Som Distilleries and Breweries Limited (SDBL) is primarily engaged in production of beer and blending and bottling of Indian Made Foreign Liquor (IMFL). It offers a broad portfolio of products at different price points to cater to varied preferences of consumers. SDBL's flagships brands include Hunter, Black Fort, Power Cool and Woodpecker in the Beer segment and Milestone 100 whisky and White Fox vodka in the IMFL segment. Other IMFL brands include Legend, Pentagon, Black Fort, Genius, Sunny, Gypsy and Blue Chip. Hunter and Woodpecker brands are supplied as draught beer to all major hotels in Madhya Pradesh and Karnataka. SDBL has recently launched 'Woodpecker' Wheat Beer, India's first filtered wheat beer. ~91% of revenues came from beer sales in FY23. SDBL's manufacturing unit is located at Bhopal (Madhya Pradesh).



Financials

Income Statement

Particulars (in Rs Cr)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Revenues	393	460	288	363	807	1096	1322
Growth (%)	12.2	16.9	-37.5	26.1	122.4	35.8	20.6
Operating Expenses	344	416	297	347	705	941	1130
EBITDA	49	44	-10	16	102	155	192
Growth (%)	-15.8	-10.1	-121.6	-262.1	557.5	51.3	24.1
EBITDA Margin (%)	12.5	9.6	-3.3	4.3	12.7	14.1	14.5
Depreciation	9	12	13	17	17	21	25
Other Income	3	4	3	3	1	2	3
EBIT	44	36	-20	1	86	136	169
Interest expenses	12	15	19	15	16	18	17
PBT	32	21	-39	-14	70	118	152
Tax	22	14	-8	-3	10	29	38
PAT	10	7	-31	-11	60	89	114
Share of Asso./Minority Int.	0	0	0	0	0	0	0
Adj. PAT	10	7	-31	-11	60	89	114
Growth (%)	-46.0	-29.4	-545.1	-64.0	-638.7	48.1	27.1
EPS	1.5	1.1	-4.8	-1.6	8.2	11.5	13.7

Balance Sheet

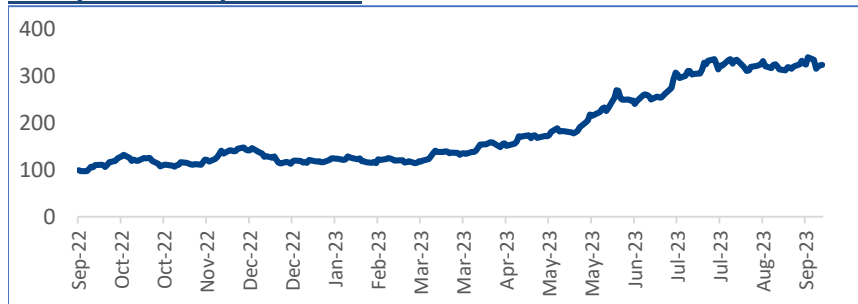
Particulars (in Rs Cr) - As at March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
SOURCE OF FUNDS							
Share Capital	32	32	32	35	37	39	41
Reserves	278	287	249	255	338	514	727
Shareholders' Funds	311	320	282	290	375	553	768
Minority Interest	0	0	0	0	0	0	0
Total Debt	149	199	208	197	242	177	148
Net Deferred Taxes	12	10	7	1	11	11	11
Total Sources of Funds	472	529	497	488	629	741	928
APPLICATION OF FUNDS							
Net Block & Goodwill	207	272	414	406	391	505	607
CWIP	150	142	2	0	97	42	21
Investments	0	0	0	0	0	0	0
Other Non-Curr. Assets	18	19	26	25	34	46	56
Total Non Current Assets	374	433	442	431	522	593	683
Inventories	95	104	68	85	135	183	221
Debtors	119	130	132	116	142	195	235
Cash & Equivalents	25	22	14	9	13	20	91
Other Current Assets	73	68	55	59	99	135	163
Total Current Assets	312	324	269	268	389	534	710
Creditors	64	87	89	69	110	150	181
Other Current Liab & Provisions	151	141	125	142	173	236	284
Total Current Liabilities	215	228	215	211	283	386	465
Net Current Assets	97	96	55	57	106	148	245
Total Application of Funds	472	529	497	488	629	741	928



Cash Flow Statement

Particulars (in Rs Cr)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Reported PBT	32	21	-39	-13	70	118	152
Non-operating & EO items	0	0	0	1	0	5	4
Interest Expenses	12	15	19	15	16	18	17
Depreciation	9	12	13	17	17	21	25
Working Capital Change	-39	17	33	-7	-89	-50	-40
Tax Paid	-10	-24	-3	-3	0	-29	-38
OPERATING CASH FLOW (a)	4	41	23	10	14	82	120
Capex	-195	-67	-16	-7	-99	-80	-105
Free Cash Flow	-191	-25	7	4	-85	2	15
Investments	0	0	0	0	0	0	0
Non-operating income	-2	-4	3	1	-9	0	0
INVESTING CASH FLOW (b)	-197	-70	-13	-6	-108	-80	-105
Debt Issuance / (Repaid)	74	50	-14	-12	45	-65	-29
Interest Expenses	-12	-15	-19	-15	-16	-18	-17
FCFE	-132	6	-22	-23	-65	-81	-32
Share Capital Issuance	135	0	0	18	0	91	106
Dividend	-4	-5	0	0	-2	-3	-4
Others	0	-3	14	1	70	0	0
FINANCING CASH FLOW (c)	241	79	17	39	76	54	105
NET CASH FLOW (a+b+c)	48	50	27	43	-18	57	120

One-year share price chart



Key Ratios

Particulars	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Profitability Ratios (%)							
EBITDA Margin	12.5	9.6	-3.3	4.3	12.7	14.1	14.5
EBIT Margin	11.2	7.9	-7.1	0.4	10.7	12.4	12.8
APAT Margin	2.5	1.5	-10.8	-3.1	7.5	8.2	8.6
RoE	4.2	2.2	-10.3	-3.9	18.1	19.3	17.2
RoCE	12.7	7.4	-4.0	0.3	15.7	20.2	20.5
Solvency Ratio (x)							
Net Debt/EBITDA	2.5	4.0	-20.2	12.1	2.2	1.0	0.3
Net D/E	0.4	0.6	0.7	0.6	0.6	0.3	0.1
PER SHARE DATA (Rs)							
EPS	1.5	1.1	-4.8	-1.6	8.2	11.5	13.7
CEPS	2.9	2.9	-2.7	0.8	10.5	14.2	16.8
BV	47.8	49.2	43.4	41.4	50.9	71.3	93.0
Dividend	0.0	0.0	0.0	0.0	0.3	0.4	0.5
Turnover Ratios (days)							
Debtor days	88	99	166	124	58	56	59
Inventory days	58	79	109	77	50	53	56
Creditors days	43	60	112	80	41	43	46
Valuation (X)							
P/E	212.8	301.2	-67.7	-202.1	39.6	28.1	23.5
P/BV	6.8	6.6	7.5	7.8	6.4	4.5	3.5
EV/EBITDA	53.1	60.3	-280.9	172.9	26.7	17.2	13.3
EV / Revenues	6.7	5.8	9.4	7.4	3.4	2.4	1.9

(Source: Company, HDFC sec)



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murlu V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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