ALLIED BLENDERS AND DISTILLERS LIMITED

June 24, 2024

Allied Blenders and Distillers Ltd.

SMC Ranking

★★☆☆☆ (2/5)

Issue Highlights

Industry	Alcoholic Beverages
Offer for sale (Shares)	17,793,594
Fresh Issue (Shares)	35,587,189
Net Offer to the Public	**53,380,783**
Issue Size (Rs. Cr.)	1425-1500
Price Band (Rs.)	267-281
Employee Discount	26
Offer Date	25-Jun-24
Close Date	27-Jun-24
Face Value	2
Lot Size	53

Issue Composition

	In shares
Total Issue for Sale	53,380,783
QIB	26,690,391
NIB	8,007,117
Retail	18,683,274

Shareholding Pattern (%)

Particulars	Pre-issue	Post -issue
Promoters & promoters group	100.00%	80.92%
QIB	0.00%	9.54%
NIB	0.00%	2.86%
Retail	0.00%	6.68%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

Prepayment or scheduled re-payment of a portion of certain outstanding borrowings availed by the Company; and

General corporate purposes

About the company

Incorporated in 2008, Allied Blenders and Distillers (ABD) is an Indian-made foreign liquor company. The company offers four Indian-made foreign liquor categories: whisky, brandy, rum, and vodka. In addition, the company sells packaged drinking water under the Officer's Choice, Officer's Choice Blue, and Sterling Reserve brands. The Officer's Choice Whisky was introduced in 1988 as the company's foray into the mass premium whisky market. It is one of the most-selling whisky brands in the world in terms of annual sales volumes from 2016 to 2019. As of December 31, 2021, the company's products were exported to 22 international markets, including the Middle East, North and South America, Africa, Asia, and Europe. The company owns and operates a distillery in Rangapur, Telangana, which is spread over 74.95 acres and has a built-up area of over 25,000 square meters. The company's in-house distillation capacity of Extra Neutral Alcohol (ENA), the key material used in manufacturing its products, is 5.48 crore liters annually. The company also has extensive bottling capabilities across India.

The following table sets forth certain details in relation to sales volume according to category of IMFL for the fiscals indicated:

Particulars	Fiscal					
	2021		2022		2023	
	Sales volume (million cases)	Percentage of total sales volume (%)	Sales volume* (million cases)	Percentage of total sales volume (%)	Sales volume* (million cases)	Percentage of total sales volume (%)
Whisky	24.60	96.39	27.49	96.79	30.59	94.88
Brandy	0.67	2.63	0.55	1.94	0.91	2.83
Rum	0.20	0.78	0.32	1.13	0.61	1.89
Vodka	0.05	0.20	0.04	0.14	0.13	0.40
Gin'	-	-	-	-	-	-
Volume Sold	25.52	100.00	28.40	100.00	32.24	100.00

** Launched in January 2024, i.e., subsequent to December 31, 2023.*

Strength

Among the largest IMFL companies in India with a diversified and contemporary product portfolio: ABD is the largest Indian owned IMFL company and the third largest IMFL company in India, in terms of annual sales volumes between Fiscal 2014 and Fiscal 2022. (Source: Technopak Report) Four of its brands, namely, Officer's Choice Whisky, Sterling Reserve, Officer's Choice Blue and ICONiQ Whisky are 'Millionaire Brands'. (Source: Technopak Report) As of December 31, 2023, its product portfolio comprised 16 major brands of IMFL with 10 brands of whisky that include its flagship Officer's Choice Whisky, Sterling Reserve Whisky and ICONiQ White International Whisky, three brands of rum, three brands of brandy and one brand of vodka, respectively. Further, the company has recently launched Zoya Special Batch Premium Gin in January 2024. Its products are present across various price points of IMFL categories in India.

Book Running Lead Manager

- ICICI Securities Limited
- Nuvama Wealth Management Limited
- ITI Capital Limited

Name of the registrar

- Link Intime India Private Limited

P.T.O.

Segment	Brand		
Premium	 Zoya Special Batch Premium Gin	 Sterling Reserve Blend 10 Whisky	 Kyron Premium Brandy
	 Sterling Reserve Premium Cellar Brandy		 X&O Barrel Premium Whisky
Semi-Premium	 Sterling Reserve Blend 7 Whisky	 Sterling Reserve B7 Whisky Cola Classic Mix	 Srishti Premium Blended Whisky
Deluxe	 Officer's Choice Blue Whisky	 Jolly Roger Rum	 ICONiQ White International Whisky
Mass Premium	 Officer's Choice Whisky	 Officer's Choice Star	 Officer's Choice Brandy
	 Officer's Choice Rum	 Class 21 Vodka	 Cheval Fort Café Rum

The table below provides details of its revenue from operations within India and from markets outside India in the years indicated therein:

Geographical market	Fiscal					
	2021		2022		2023	
	Revenue from Operations (₹ million)	Percentage of Revenue from Operations (%)	Revenue from Operations (₹ million)	Percentage of Revenue from Operations (%)	Revenue from Operations (₹ million)	Percentage of Revenue from Operations (%)
India	62,251.08	97.90	69,990.83	97.62	69,490.30	98.16
Outside India	1,335.53	2.10	1,707.93	2.38	1,299.66	1.84
Total	**63,586.61**	**100.00**	**71,698.76**	**100.00**	**70,789.96**	**100.00**

Strong brand recognition: Over the years, the company has developed a well-recognized product portfolio, and transformed from a single brand company to multi-product and multi-brand company with presence across various categories and segments of the IMFL industry in India. Since the launch of Officer's Choice Whisky in 1988 in the mass premium segment, the company has invested significant resources in enhancing the strength and appeal of the Officer's Choice brand. Officer's Choice Whisky is the market leader in the mass premium segment with a market share of 20.9% in terms of annual sales volumes in Fiscal 2023. Its proposition with Officer's Choice is aimed at offering high quality products at affordable price points that elevate a consumer's drinking experience. Towards this, it has extensively focused on packaging, communications and point of sale visibility to build appeal and heighten engagement with the brand. The company has also tactically associated with specialised premium stores across the country to improve its brand visibility and product reach.

Its consumer centric approach in building brands has enabled it to achieve high sales volumes. Its brands have been positioned based on relevant consumer insights.

Strategically located, large scale and advanced manufacturing facilities with a sophisticated research and development centre: The distillery of ABD is located in Rangapur, Telangana and is spread over an area of 74.95 acres and has a built-up area of over 25,000 square meters. Its in-house distillation capacity of extra neutral alcohol ("ENA") is 600.00 lakh litres per year. In addition, the company also has extensive bottling capabilities with an optimal mix of owned and third party facilities with a pan-India presence across 22 States and Union Territories, as of December 31, 2023. As of December 31, 2023, the company owned and operated nine bottling units, and had entered into arrangements with five third party bottling facilities where the entire licensed capacity is utilized by it. Its bottling units and distilleries incorporate niche technology for quality and environmental management. The company is required to comply with stringent regulatory requirements. To ensure efficient operations, it employs technologically enhanced operating procedures across all units that are to be followed by all personnel in manufacturing.

Access to extensive pan-India distribution network with ability to scale: ABD has access to a pan-India multi-channel distribution network and are one of only four spirits companies in India with a pan-India sales and distribution footprint. The Indian alco-beverage industry operates in a highly regulated environment with State-specific policies which impact industry volumes. High inter-state duties compel Indian spirits producers to set up owned or engage third party manufacturers in every state. Licenses are required to produce, bottle, store, distribute or retail alco-beverage products. Distribution is also highly controlled, both at the wholesale and retail levels. All these factors serve as potential entry barriers for new players. Further, distribution of alco beverage products is highly controlled by State governments and the entry of new players in distribution is prohibitive due to high regulation across states and strong relations between the current players and the retail outlets which may include exclusive arrangements. (Source: Technopak Report) The extensive operations of ABD across India, presence in multiple States and current capacity ensures that it is able to effectively address these issues which has allowed the company to garner a significant share of the mass premium market and noticeable and growing market share for its premium products.

Well-positioned to capture tailwinds in the Indian IMFL industry: India is one of the fastest growing alcoholic beverage markets in the world growing from a small base of 1.3 litres per capita of recorded consumption of pure alcohol in 2005 to 2.7 litres per capita consumption in 2010 and further to 3.2 litres per capita consumption in 2023. (Source: Technopak Report) India's per capita consumption is significantly lower compared to global per capital consumption. With a growing number of people joining the work force sooner than in the past and together with changing lifestyles and dismantling of social barriers to consumption of alcohol is driving growth in alcoholic beverage market in India. India's high population growth rate is adding 13 million drinking age adults every year out of which 3 million to 5 million people approximately end up consuming alcohol in some form.

Strategies

Increase market share of Officer's Choice Whisky across regions: The Company believes that it can address the requirements of large segments of audiences that currently consume country liquor or economy brands and are looking to upgrade. Given the positive change in attitude towards alcohol beverages with higher social acceptance and rising income levels, it intends to further expand penetration of Officer's Choice Whisky based on market dynamics and demand for its products. Further, the company also intends to position Officer's Choice Whisky as a brand for the younger generation and make it the first port of call for new entrants into the category. The mass-premium segment requires large scale of operations, multiple units across various states, a strong distribution network, and the ability to deliver products cost-efficiently while maintaining product quality to match consumer expectations. The company believes that Officer's Choice Whisky is best positioned for this role and there is a natural barrier to new entrants given the significant entry barriers and complexities.

Introduce new products within the premium, semi-premium and deluxe segments to strengthen presence in other categories: ABD has consciously developed its portfolio to provide consumers with products at various flavours, segments and price points. In order to strengthen its

presence in the more premium segments, it will continue to develop products based on consumer and market insights in whisky, rum, gin and white spirits. The company believes that its new product pipeline coupled with its strong existing portfolio will help it to widen its consumer base, facilitated by its quality infrastructure and distribution strength in all key States. It intends to import Scotch in bulk to grow its portfolio that will be bottled in India, and distribute certain bottled in origin products.

Continue to focus on improving operating efficiencies: The company is focused on further integrating its operations and optimizing product planning across product categories. It intends to continue to adopt best practices and standards across its facilities, drawing on its expertise and experience in distillation and bottling. ABD will continue to focus on reducing operating costs and improving utilization by investing in modernization of its manufacturing facilities with relevant technologies and production methods. This will increase its capacity, improve efficiency and operating performance and reduce the need for future capital expenditure. In addition, it continues to focus on creating economies of scale to gain increased negotiating power on procurement of raw and packaging materials and to realize cost savings through centralized deployment and management of production, maintenance, accounting and other support functions.

Evaluate growth opportunities through selective acquisitions: The company intends to selectively pursue strategic acquisitions and investments and other strategic alliance partnerships that are complementary to its growth strategy, particularly those that can help it to enrich its product portfolio and expand the customer base. Its extensive industry experience and insights enable it to identify suitable targets and effectively evaluate and execute potential opportunities. For example, in 2017, the company acquired the distillery located in Telangana by demerging the bottling and distillery business from Tracstar Investment Private Limited, one of its group companies. While the company has not recently acquired any brand however, it intends to search for opportunities to acquire or license third-party brands in India and overseas that it believes will add value to its existing portfolio.

Focus on environmental and social practices: Environment sustainability is a key focus across all parts of its business and operations. Its sustainability initiatives are aimed at zero harm, zero waste and zero discharge. To achieve this vision, quality and compliance controls are being established and revamped right from the supply chain to the value chain. The company intends to continue its growth into this area. It intends to reduce its consumption of fossil fuels and increase use of aseptic packaging, implementation of solar energy to power manufacturing operations and reduction in the use of water as part of its distilling and IMFL bottling operations. The company has created an exclusive limited-edition pack for its Sterling Reserve whisky using discarded fabric. This limited-edition packaging is hand-crafted and results in reduced waste in landfills, water saving and provides employment to handicraft artisans. It strives to operate a socially impactful company that considers the well-being of all persons involved in its process to deliver great products to its consumers.

Enhance brand awareness and engagement through digital marketing: With near-universal mobile phone penetration in the country, digital and social media are increasingly becoming hotspots to connect with consumers. Digital and social media delivers higher efficiency on account of ability to target basis geography and audience profiles. ABD will want to evolve to a digital-first company and continuously engage with its consumers through a mix of relevant content and appropriate targeting. The company has won several key awards for its digital activation in the past few years and will intend to capitalise on its digital marketing abilities innovatively and effectively in the future.

Risk factor

- ABD derives a very high percentage of its revenue (over 95%) from whisky sales. This makes them vulnerable to any decline in whisky consumption or changes in consumer preferences.
- The company's profitability has varied significantly in the past. There's no guarantee of improvement, and future returns might be lower than expected.
- The Indian-made foreign liquor (IMFL) industry is increasingly competitive. This competition could put pressure on ABD's market share, profitability, and cash flow.
- Any increase in taxes or changes in tax calculation methods could impact demand for ABD's products, affecting their financial health.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Radico Khaitan	4118.51	262.17	19.61	91.01	9.78	182.45	2	1784.70	23864.17
United Spirits	11320.30	1407.20	19.54	64.49	12.87	97.91	2	1260.10	91653.48
Globus Spirits	2414.68	96.48	33.47	23.45	2.32	338.07	10	784.80	2262.00
Allied Blenders and Distillers Limited**	7881.53	5.64	0.20	1393.87	5.57	50.43	2	281.00	7859.59

***Peer companies financials are TTM based**
****Allied Blenders and Distillers Limited is based on Estimated Annualised FY24**

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.281, the stock is priced at pre issue P/E of 1216.53x on an Estimated Annualised FY24 EPS of Rs.0.23. Post issue, the stock is priced at a P/E of 1393.87x on its EPS of Rs. 0.20. Looking at the P/B ratio at Rs.281 pre issue, book value of Rs. 16.82 of P/Bvx 16.70x. Post issue, book value of Rs. 50.43 of P/Bvx 5.57x.

Considering the P/E valuation, on the lower end of the price band of Rs.267, the stock is priced at pre issue P/E of 1155.92x on an Estimated Annualised FY24 EPS of Rs.0.23. Post issue, the stock is priced at a P/E of 1324.43x on its EPS of Rs. 0.20. Looking at the P/B ratio at Rs.267 pre issue, book value of Rs. 16.82 of P/Bvx 15.87x. Post issue, book value of Rs. 50.43 of P/Bvx 5.29x.

Industry Outlook

India is primarily a distilled alcohol market with more than 92.0% of recorded pure alcohol consumption in form of distilled spirits. India is one of the fastest growing alcoholic beverage markets in the world growing from a small base of 1.3 litres per capita of recorded consumption of pure alcohol in 2005 to 2.7 litres per capita consumption in 2010 and further to estimated 3.12 litres per capita consumption in 2023.

Outlook

ABD relies heavily on whisky sales, with over 95% of its revenue coming from this category. This dependence makes it susceptible to drops in whisky consumption or shifting consumer tastes. However, ABD is taking steps to diversify. By leveraging its strong position in the popular whisky segment, it has launched successful brands in both prestigious and premium categories. This strategic shift towards premiumization is evident in its recent introductions, such as ICONiQ White Whisky, Srishti Whisky, and X&O Barrel Whisky. The company is moving beyond the mass-market premium segment and focusing on higher-end offerings. A long term investor may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	25-June-24
BID/ISSUE CLOSES ON	27-June-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	28-June-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	01-July-24
Credit of Equity Shares to Demat Accounts of Allottees	01-July-24
Commencement of trading of the Equity Shares on the Stock Exchanges	02-July-24

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Dec-23 (9 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Revenue from operations	5911.14	7105.68	7196.92
Total expenditure	5728.78	6920.69	7000.61
Operating Profit	**182.37**	**184.99**	**196.31**
OPM%	0.31	0.26	0.27
Other Income	3.83	11.07	11.25
Total Net Income	**186.20**	**196.06**	**207.55**
Interest	127.93	134.97	145.09
PBDT	**58.27**	**61.09**	**62.46**
Depreciation	39.09	55.14	58.64
Profit before exceptional items and tax	**19.18**	**5.95**	**3.82**
Exceptional Items	4.99	0.00	0.00
Profit after exceptional items and tax	**14.20**	**5.95**	**3.82**
Tax	9.97	4.35	2.35
PAT	**4.23**	**1.60**	**1.48**

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Dec-23	As on 31-Mar-23	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	370.51	377.59	494.29
Capital work-in-progress	15.47	14.03	14.85
Right-of-use asset	123.64	129.71	130.44
Goodwill	3.85	3.85	3.85
Other intangible assets	62.89	64.29	63.05
Financial assets			
i. Investments	0.00	0.00	0.00
ii. Other financial assets	52.02	53.13	39.78
Deferred tax asset (net)	9.24	12.13	15.50
Non-current tax assets (net)	17.72	16.78	13.99
Other non-current assets	16.45	17.20	15.16
Total non-current assets	**671.80**	**688.72**	**790.92**
Current asset			
Inventories	516.25	559.18	352.49
Financial Assets			
Trade receivables	1269.87	957.61	954.03
Cash and cash equivalents	29.62	27.55	19.67
Bank balances other than (ii) above	27.55	25.48	35.00
Loans	0.17	0.08	4.11
Other financial assets	27.07	26.03	19.30
Other current assets	115.57	118.87	72.83
Assets classified as held for sale	83.50	84.19	0.00
Total current assets	**2069.59**	**1798.98**	**1457.43**
Total Assets	**2741.39**	**2487.70**	**2248.35**
Non-current liabilities			
Borrowings	194.86	138.66	188.38
Lease liabilities	8.24	13.34	13.83
Provisions	14.25	13.15	12.36
Total Non- Financial liabilities	**217.35**	**165.16**	**214.58**
Current liabilities			
Financial Liabilities			
Borrowings	603.10	637.58	658.53
Lease Liability	3.14	3.06	2.07
Dues of micro and small enterprises	215.62	163.13	163.29
Dues of creditors other than micro and small enterprises	535.37	402.76	373.09
Other financial liabilities	231.01	191.94	157.95
Other current liabilities	509.65	499.81	260.00
Liabilities classified as held for sale	0.18	4.60	0.00
Provisions	12.19	12.49	13.68
Current tax liabilities (net)	4.54	1.08	1.08
Total Financial liabilities	**2114.79**	**1916.45**	**1629.68**
Total	**2332.13**	**2081.60**	**1844.25**
Net worth represented by:			
Equity Share Capital	48.82	48.82	47.11
Other reserves	360.43	357.28	356.99
Net Worth	**409.26**	**406.10**	**404.10**

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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