



SOM Distilleries & Breweries Ltd

— 20th November, 2023 —

SOM Distilleries & Breweries Limited (SDBL) is a premier alcoholic beverages manufacturer headquartered in Bhopal, India. The company's core focus revolves around the production and sale of Beer and Indian Made Foreign Liquor (IMFL). With a strong presence in the beer segment, SDBL holds the market leader position in the state of Madhya Pradesh while actively serving both domestic and international markets.

Operating as a group, SDBL, along with its wholly-owned subsidiaries, Woodpecker Distilleries & Breweries Private Limited and Som Distilleries and Breweries Odisha Private Limited, brings together a comprehensive range of offerings in its consolidated financial statements. The product portfolio includes a diverse selection of beer, rum, brandy, vodka, and whisky, catering to various consumer preferences and price points. SDBL takes pride in its three key millionaire brands - Hunter, Black Fort, and Power Cool - each exhibiting impressive sales volumes, surpassing one million cases per annum. Strategic collaborations with industry stalwarts such as White Owl Distilleries and Jagatjit Industries further augment the company's market presence and growth prospects. With a steadfast commitment to quality, a diverse product portfolio, strategic alliances, and a keen understanding of consumer preferences, SOM Distilleries & Breweries Limited is poised for sustained growth and success in the global alcoholic beverages market.

Investment Rationale

Enduring Growth and Market Command: SDBL demonstrates robust growth and financial improvement, led by Hunter and Power Cool in key regions, with significant volume and revenue gains, enhancing its position as a strong investment in the alcobev market with promising future prospects.

Improved Credit Metrics and Liquidity: SDBL's financial stability is evident through its soaring interest coverage ratio, from 1.3 to 15.4 times, and a better Debt Service Coverage Ratio, which improved from 0.5 to 2.7. These positive trends in FY2023 and Q1 FY2024 reflect robust profitability and debt servicing capacity, supported by strategic capital infusion plans.

Emerging Dynamics in India's Alcobev Industry: India's alcobev industry thrives amid urbanization and higher disposable incomes, with a growing consumer base seeking premium, innovative beverages. This, along with e-commerce gains and out-of-home segment growth, presents a ripe investment landscape with opportunities for significant industry transformation and growth.

Outlook: India's alcobev industry is on the cusp of significant growth, driven by urbanization, rising incomes, and a shift toward premium products. The sector's vitality, boosted by e-commerce and social consumption, offers attractive investment opportunities. However, regulatory complexities and cultural attitudes present challenges, necessitating a nuanced approach for investors seeking to capitalize on this dynamic yet complex market.

Stock Data	
CMP	302
52 Week High/Low	390/109
Face Value	₹ 5
Market Cap (In Crs)	2,340
NSE	SDBL
BSE	507514
Bloomberg	SDB:IN
Sector	Breweries & Distilleries

Shareholding Pattern (in %)		
	Jun-23	Sept-23
Promoter	34.46	34.50
FII	1.08	0.86
DII	0.15	0.47
Public	64.29	64.17

Price Performance (in%)			
(%)	1M	6M	1Yr
Nifty 50	-0.40	8.53	7.57
SOM Distilleries	-14.15	67.72	149.30

Key Ratios	
P/E	31.2
P/B	4.54
Debt To Equity	0.31
ROE	18.1%
ROCE	15.6%
Dividend Yield	0.08%

Company Overview

SOM Group, founded by Mr. J.K Arora over three decades ago, stands as one of India's foremost companies with an exceptional portfolio of brands in Spirits, Beer, and Alcopop. From its inception, SOM's mission has been to deliver value-added, high-quality products, a commitment that remains steadfast for the years to come.

The company's journey commenced as a white label-bottling unit in the mid-1980s, starting with a humble presence at a single location. Over the years, SOM's unwavering dedication to excellence and innovation propelled it to establish a successful presence across multiple locations. Notably, SOM holds the distinction of being India's first company to own a comprehensive portfolio of spirits, beers, ready-to-drink beverages, Rectified Spirits (RS), and Ethyl Neutral Alcohol (ENA).



SOM's remarkable success is underpinned by its adaptability and ability to cater to the distinct tastes of customers in various regions. As a result, different parts of the country and the world recognize SOM for different products. Some regions savor SOM's strong beer offerings, while others prefer its light beer variants. In certain places, the company is renowned for its exceptional whisky, vodka, brandy, and rum brands.

SDBL, a part of SOM Group, stands as the only listed company in India exclusively focused on Beer and IMFL. Headquartered in Bhopal, it has emerged as one of India's leading alcoholic beverages manufacturers. The company's primary operations revolve around beer production and the blending and bottling of IMFL. With a diverse product portfolio that caters to varying consumer preferences across beer, rum, brandy, vodka, and whisky categories, SDBL serves both domestic and international markets.

At the core of SDBL's success are its flagship brands, which include Hunter, Black Fort, Power Cool, and Woodpecker in the Beer segment, and Pentagon, Milestone 100 whisky, and White Fox vodka in the IMFL segment. Additionally, popular IMFL brands such as Legend, Genius, Sunny, Gypsy, and Blue Chip contribute to the Company's extensive product lineup. Notably, beer constitutes approximately 90% of the Company's total revenue, with three key millionaire brands - Hunter, Black Fort, and Power Cool - boasting annual sales volumes exceeding one million cases each. Hunter and Woodpecker brands also enjoy strong demand as draught beer offerings supplied to major hotels in Madhya Pradesh.



To further diversify its portfolio and meet evolving consumer preferences, SDBL introduced 'Woodpecker' Wheat Beer, India's pioneering filtered wheat beer, in FY2020. Despite the challenges posed by the pandemic, the brand garnered an encouraging response, selling over 1 lakh cases in its inaugural year of launch. SDBL's commitment to providing the best quality products and services to its consumers is evident through various measures:

1. Maintaining international standards and specifications for its products.
2. Engaging in continuous research to enhance product quality.
3. Building state-of-the-art facilities for quality monitoring and assurance.
4. Developing new products to meet the ongoing and changing requirements of the market.
5. Cultivating lasting relationships with customers, employees, suppliers, communities, and shareholders.

These initiatives have bolstered SDBL's reputation for high-quality assurance, instilling trust among its stakeholders and setting it apart as a reliable and customer-focused company. The Company's production capacity stands at an impressive 23.2 million cases per annum for beer and 3.9 million cases per annum for IMFL. This capacity is spread across three state-of-the-art facilities situated in Bhopal (Madhya Pradesh), Hassan (Karnataka), and Bamburi (Odisha).

Moreover, SDBL has forged strategic partnerships with esteemed entities such as White Owl Distilleries and Jagatjit Industries, leveraging these collaborations to enhance its market presence and explore new growth opportunities.

In an effort to maintain consumer engagement and drive brand loyalty, SDBL continually introduces new products featuring seasonal themes. Notably, the Company introduced Hunter Pint Beer and a range of Ready-to-Drink (RTD) drinks in diverse flavors, effectively increasing consumer traction and involvement.

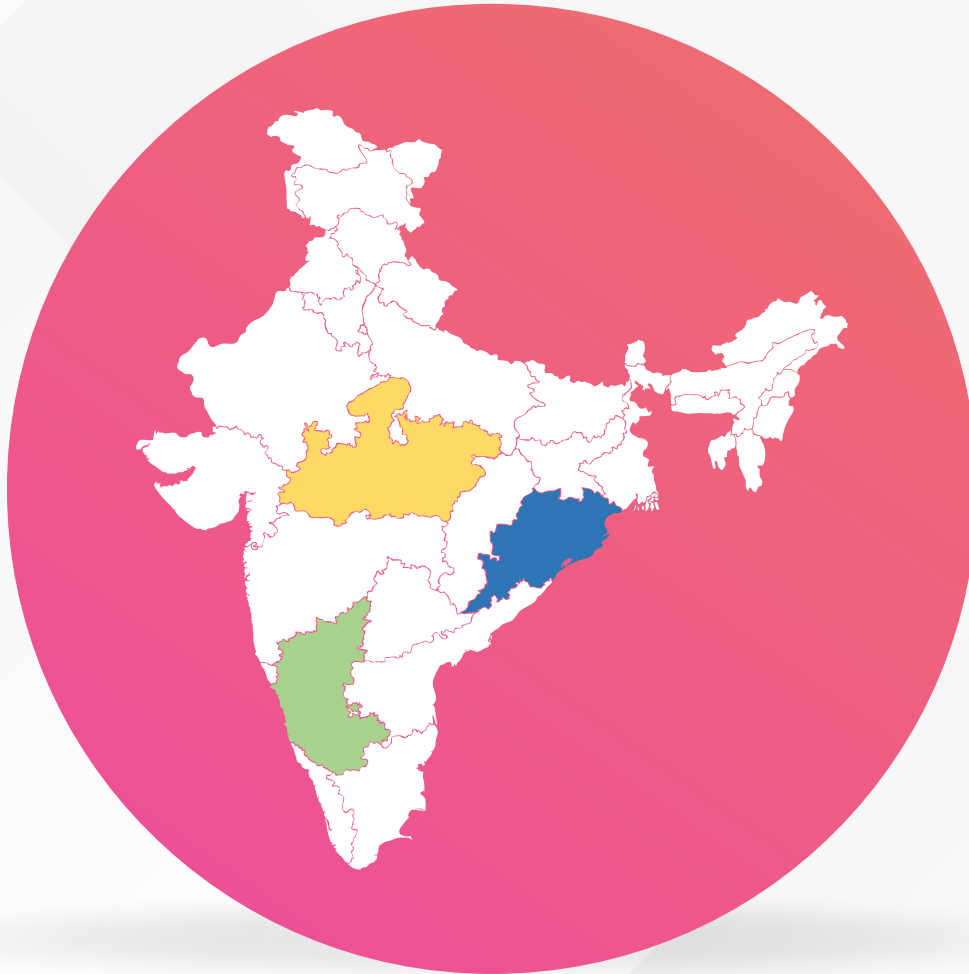
SDBL's consistent commitment to quality, diverse product offerings, strategic alliances, and continuous innovation have solidified its position as a trailblazer in the Indian alcoholic beverages industry. With its established market presence and a keen eye on consumer trends, SOM Distilleries & Breweries Limited remains well-poised for continued growth and success in the dynamic and competitive alcoholic beverages market.

Business Verticals

Product Portfolio



Geographical Presence



MADHYA PRADESH PLANT



CAPACITY (in Mn cases)

BEER	IMFL
15.20	0.60

KARNATAKA PLANT



CAPACITY (in Mn cases)

BEER	IMFL
9.0	2.70

ODISHA PLANT



CAPACITY (in Mn cases)

BEER	IMFL
6.0	0.60

Industry Analysis

The Indian alcobev industry has experienced unprecedented growth, becoming one of the fastest-growing beverage markets globally. According to the Indian Council for Research on International Economic Relations (ICRIER), the market size was estimated at 52.5 billion USD (approximately Rs. 4 lakh crore) in 2020, which grew at a CAGR of 6.8% from 2020 to 2023. India ranks as the third largest market for alcoholic beverages globally, with per capita alcohol consumption of 5-6 litres, slightly lower than the global average of 7-10 litres. This growth is driven by urbanization, rising disposable income, and changing consumer preferences.

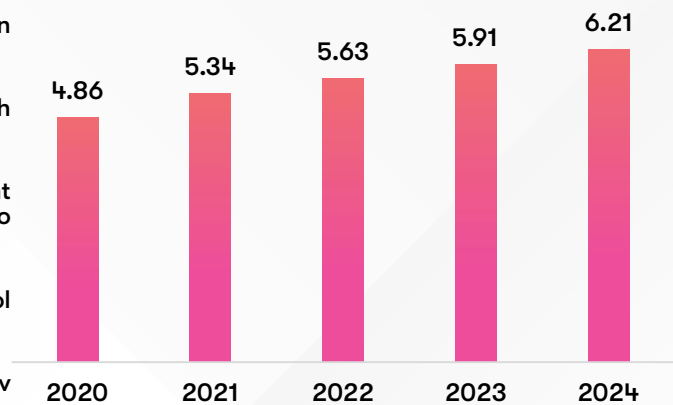
The industry has shown resilience during the pandemic, adopting innovative strategies like home delivery and online sales to meet evolving consumer needs. With strategic efforts from state governments and industry players, the Indian alcobev sector is poised for steady expansion, solidifying its position as a significant player in the global market and a pivotal component of India's economy.

Segmentation and Trends:

1. Indian Alcobev Categories:

- » Indian Made Foreign Liquor (IMFL): Dominated by brown spirits like whisky, rum, and brandy.
- » Indian Made Indian Liquor (IMIL): Includes white spirits such as gin, vodka, and white rum.
- » Foreign Liquor Bottled in Origin (BIO): A small segment consumed mainly by affluent urban populations due to higher costs.
- » Beer: Primarily dominated by strong beer with 6-8% alcohol content and mild or lager beer with 4-6% alcohol content.
- » Wine: Represents a smaller share in the Indian Alcobev market.

Alcoholic Beverage Consumption In India



■ Consumption (In billion litres)

2. Impact of the Pandemic:

- » The alcobev segment was significantly impacted by the COVID-19 pandemic, with restaurants and hotels operating at limited capacities and alcohol sales declining.
- » Total alcohol volume plummeted by 30%, but the market is expected to rebound with 8% volume growth (CAGR 2021-2025).
- » Spirits predicted to rise by nearly 5% and beer to increase by 13% over the four-year period (IWSR Report).
- » Sales of Indian made foreign liquor (IMFL) declined by 12% during FY2021 due to the lockdown and tax increases.

Key Drivers and Challenges

1. Home Delivery and Online Sales:

- » The pandemic led to a significant surge in home delivery and online sales of liquor, which is expected to continue even post-pandemic.
- » The convenience of ordering alcohol from the comfort of home has attracted consumers, driving the need for efficient and reliable delivery services.
- » Increased acceptance and popularity of alcohol e-commerce platforms are anticipated to boost the overall sales volume in the alcobev industry.

2. Increase in Point of Sales:

- » States like Uttar Pradesh, Delhi, and Madhya Pradesh have taken initiatives to increase the number of retail outlets, making alcoholic beverages more accessible to consumers.
- » Expanding the retail network to underserved areas can lead to improved market penetration and greater consumption in these regions.

3. Social Acceptance and Lifestyle Shifts:

- » Alcohol has gained greater social acceptance in India, moving away from the stigma of being a taboo product.
- » The shift in cultural norms, with social drinking becoming more common in various social gatherings, has contributed to an increase in alcohol consumption.

4. Favorable Demographics and Urbanization:

- » The rising urbanization and increasing disposable income among the Indian middle class have resulted in changing lifestyles and preferences.
- » Younger generations are more inclined towards adopting an affluent lifestyle, with alcohol being seen as a symbol of status and modernity.

5. Growing Tourism Industry:

- » India's thriving tourism sector attracts domestic and international tourists, leading to increased demand for alcoholic beverages at hotels, resorts, and popular tourist destinations.
- » Tourist spending on alcohol contributes to the industry's growth and provides opportunities for brand exposure and expansion.

6. Regulatory Environment and Taxation:

- » The alcobev industry faces varying regulations and tax structures across states, leading to challenges in supply chain management and pricing.
- » Frequent changes in excise duties and tax policies can impact production costs and influence consumer behavior.

7. Health and Safety Concerns:

- » Growing health consciousness among consumers has led to an increasing demand for low-alcohol or alcohol-free beverages.
- » Health campaigns and awareness programs may impact consumption patterns, especially among younger and health-conscious demographics.

8. Counterfeit and Illicit Alcohol:

- » The Indian alcobev industry faces the challenge of counterfeit and illicit alcohol, which poses risks to consumers' health and damages the reputation of genuine brands.
- » Strengthening measures to combat illicit trade and improving product traceability are essential for consumer safety and industry integrity.

9. Environmental Sustainability:

- » The industry's operations, particularly in the production and packaging of beverages, can have significant environmental impacts.
- » Emphasizing sustainable practices, such as water conservation, waste management, and eco-friendly packaging, can enhance the industry's reputation and appeal to environmentally-conscious consumers.
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The industry faced several challenges during the pandemic, with restaurants and hotels operating at limited capacity or being shut down altogether, severely impacting alcohol sales. However, as the market recovers, it is projected to rebound to more than 8% volume growth between 2021 and 2025. Spirits are predicted to rise by nearly 5% over the four-year period, while beer will witness an increase of about 13%.

The sales of Indian-made foreign liquor (IMFL) declined by 12% year-on-year during FY2021 due to the pandemic-induced lockdown and increase in taxes. Recovery in demand for alcohol may take some time as consumers remain skeptical about visiting bars and pubs, thereby affecting out-of-home liquor consumption. Out-of-home alcohol consumption contributes 15% to spirits and 25% to beer sales volumes, and its impact is expected to be significant.

However, the lockdown situation has presented an opportunity for the alcobev industry to explore authorization for online ordering and home delivery distribution route. If adopted, this new model of delivery can bring about a positive structural change in the alcobev industry.

Demand drivers for the alcobev industry in India are multifaceted. Post the pandemic, there has been a trend towards allowing home delivery and online sales of liquor. Currently, approximately eight states have permitted home delivery, and other states are likely to follow suit, potentially boosting industry growth in the medium to long term. Additionally, some states, such as Uttar Pradesh and Delhi, have increased the number of retail outlets, leading to an expansion of the point-of-sale locations. For example, Madhya Pradesh has allowed the sales of IMFL and beer through country liquor stores, resulting in a significant increase in point-of-sale outlets.

Over the years, alcohol has gained social acceptance as a part of family functions and social gatherings. The acceptability of social drinking by females and youngsters has also increased. Furthermore, India's growing middle-class population, rising disposable income, and influence of social media have enabled consumers to shift their preference towards more premium and lifestyle products. Various measures undertaken by the government, such as direct benefit transfer and agricultural reforms, are also expected to increase purchasing power and drive consumption in rural India.

The favourable demographics of India, with over 55% of the population in the age group of 18-45 years, provide a significant opportunity for the alcobev industry. Additionally, around 19 million people become eligible for legal drinking age every year, further expanding the consumer base. As Indian families move towards a more nuclear structure, social gatherings and celebrations have become more common, contributing to increased alcohol consumption. Decision-makers in households are generally younger individuals who are more inclined towards an affluent lifestyle.

Availability of a wide variety of choices, premiumization, and the entrance of international players in India have resulted in a broader range of options for aspirational Indian consumers. Craft beer has gained popularity in India, particularly in metro cities, catering to a trendier audience. These factors have led to an increased demand for the industry.

Currently, the per capita consumption of beer in India is among the lowest globally. Additionally, alcohol is sold through a limited number of outlets, approximately 86,000, compared to the rest of the world. Given the current low penetration level, there is immense scope for enhancing consumption, which is expected to benefit the overall industry.

The Indian Alcobev Industry:

The Indian Alcoholic Beverage (Alcobev) Industry has witnessed remarkable growth in recent years, establishing itself as one of the fastest-growing beverage markets globally and securing its position as the third-largest market for alcoholic beverages worldwide. Several factors have contributed to this growth:

- 1. Urbanization:** India's ongoing urbanization trend has led to an increase in consumer demand for alcoholic beverages, particularly in urban areas.
- 2. Rising Disposable Income:** The growth in disposable income among the population has made alcoholic beverages more accessible to a larger consumer base.
- 3. Changing Consumer Preferences:** Evolving consumer preferences, especially among the younger population, have driven demand for diverse alcoholic beverages.
- 4. Population Growth:** India's high population growth rate ensures a continuous influx of drinking-age adults, contributing to higher alcohol consumption rates.

The industry faced challenges over the past two years due to the COVID-19 pandemic, including lockdowns and higher taxes. However, it adapted by modifying distribution methods, introducing new product combinations, and complying with restrictions, leading to a post-pandemic rebound in sales. The demand for premium and luxury alcoholic beverages also grew, driven by a rising middle class with higher disposable incomes and a desire for sophisticated drinking experiences.

Prominent consuming states for alcoholic beverages in India include Karnataka, Maharashtra, West Bengal, Odisha, Telangana, Delhi, Haryana, and Punjab. Liquor stores are the preferred sales channel, primarily due to alcohol consumption being an outdoor activity, while supermarkets and malls are more prevalent in tier I and tier II cities.

The Beer Industry:

The beer industry in India has seen significant growth due to changing lifestyles, rapid urbanization, and increasing disposable incomes. India is a promising market for major players in the industry, with several key trends and factors contributing to its expansion:

- **Shift Towards Beer:** Consumers in India are gradually shifting towards beer due to its lower alcohol content compared to spirits, such as whisky, vodka, brandy, and rum.
- **Product and Packaging Innovations:** The industry has witnessed innovations in product offerings and packaging, with canned beer, draught beer, and craft beer gaining traction among consumers.
- **Emergence of Brewpubs:** The emergence of brewpubs in cities like Bengaluru, Gurgaon, and Pune has contributed to the overall expansion of the beer market in India.

The COVID-19 pandemic presented challenges to the beer industry but also drove innovation in distribution channels. Beer suppliers turned to home deliveries and online platforms to sustain sales, adapting to changing consumer behaviors. According to market research by the IMARC Group, the India beer market size reached INR 383 billion in 2022, with an expected growth rate (CAGR) of 8.1% to reach INR 622 billion by 2028.

The IMFL Industry:

The Indian-made foreign liquor (IMFL) sector experienced robust growth in FY2023, with sales volumes rising by 14.0% to reach 385 million cases. This growth can be attributed to several factors:

- **Economic Recovery:** Gradual economic recovery from the pandemic played a role in the IMFL sector's growth.
- **Increased Disposable Incomes:** Growing disposable incomes among consumers contributed to higher sales volumes.
- **Popularity of Premium Beverages:** The popularity of premium alcoholic beverages, especially whisky, drove growth in this sector.
- **Online Alcohol Market:** The expansion of the online alcohol market further contributed to the IMFL sector's growth.

The IMFL sector plays a vital role in the Indian economy and is expected to continue its upward trajectory in the coming years. The rising popularity of alcoholic beverages, the growth of the online alcohol market, and the demand for premium offerings are expected to drive continued growth in this sector.

Comprehensive Investment Rationale

Som Distilleries' Growth Trajectory: SDBL is compelling on multiple fronts. The company's rapid product success, exemplified by Genius Prestige whiskey's impressive 46.0% market share gain within just three months of launch and the nationwide approval of Legend Brandy and Pentagaon Whisky by the Canteen Stores Department, demonstrates its ability to introduce competitive and popular offerings. With a substantial Capex outlay of Rs 85 crores for a new canning facility and expanded brewing capacity, the company is poised to meet increasing production demands, supporting its robust growth strategy. Operational achievements, such as record-breaking sales in the Karnataka unit and strategic partnerships for manufacturing, underscore the company's strong market position and revenue potential. Additionally, notable improvements in operational efficiency, such as the doubling of beer dispatch from the Bhopal plant, further enhance its competitiveness. SDBL is underpinned by a strategic focus on portfolio premiumization, evident through its flagship 'Hunter' brand catering to the premium strong beer segment, as well as the introduction of 'Woodpecker,' India's first filtered wheat beer, and various limited editions. Furthermore, the company is actively expanding its export portfolio, recently signing an MOU for beer and IMFL exports to West and Central Africa. With a vision of becoming a top brewing company in India, SDBL is committed to nationwide expansion, regularly adapting its brand portfolio to meet evolving consumer preferences. These factors collectively make SDBL an attractive investment opportunity with the potential for sustained growth and profitability.

Enduring Growth and Market Command: SDBL has exhibited a strong and consistent growth pattern, with marked improvements in both volume and financial metrics over the last several fiscal periods. The company has successfully capitalized on the expanding market opportunities in regions like Karnataka, Madhya Pradesh, Odisha, Delhi, and UP, with its flagship products Hunter and Power Cool leading the charge. Hunter has nearly doubled its volume in FY2023 and continued to demonstrate sustained growth, while Power Cool has shown an impressive increase of over 2.8 times in FY2023, followed by a 39.2% growth in Q2FY24. The beer segment remains the cornerstone of the company's success, contributing to 94% of total volumes and 91% of revenue in FY2023, which further increased to 95.8% of total volumes and 92.7% of revenue during H1FY24. Price realizations for beer and IMFL have shown an upward trajectory, with H1FY24 figures surpassing those of the previous fiscal year, indicating enhanced profitability. The company's total volume growth of 60.9% in FY2023 and 40.7% in Q2FY24, alongside significant year-over-year revenue increases, reflect a robust business model and an effective market strategy. These factors combined—volume growth, geographic expansion, improved price realization, and a strong product portfolio—underscore a solid investment rationale for SDBL, positioning it as a resilient and growing player in the industry with promising prospects for prospective investors.

Lakh cases	Q2		Y-O-Y	H1		Y-O-Y
	FY2024	FY2023	Growth %	FY2024	FY2023	Growth %
Hunter	11.2	9.0	24.1	32.6	29.0	12.3
Black Fort	4.7	3.4	36.7	18.7	10.6	76.2
Power Cool	22.3	16.0	39.2	51.6	35.4	45.5
Total Beer	40.3	28.7	40.5	106.2	76.0	39.7
Total IMFL	2.5	1.7	43.7	4.7	3.6	30.0
Total Volume	42.8	30.4	40.7	110.8	79.6	39.2

Improved Credit Metrics and Liquidity: SDBL's financial health is reflected in its improved credit metrics and liquidity position. The interest coverage ratio, a key indicator of financial stability, impressively increased to 6.5 times in FY2023 from 1.3 times in FY2022, further improving to 15.4 times in Q1 FY2024. This trend suggests a sustainable improvement in profitability and debt servicing capability. The Debt Service Coverage Ratio (DSCR) also showed a positive uptrend, moving from 0.5 in FY2022 to 2.7 in FY2023. This improvement is attributable to better profit margins and efficient capital management. Plans for equity fundraising through warrants and preferential issue of shares in FY2024 underscore a strategic approach towards capital infusion, aimed at enhancing production capacity, meeting working capital needs, and reducing intercompany advances. The success of these initiatives will be crucial for further improvement in credit metrics.

Adequate Liquidity Position: SDBL's liquidity status is robust, supported by healthy cash flows from operations in FY2023 and Q1 FY2024. A notable reduction in cash credit limit utilization from May 2023, following an equity infusion of Rs. 49 crore, demonstrates prudent financial management. The company's strategy to maintain Rs. 15-20 crore of free cash at any given time provides a buffer for operational and strategic flexibility. Furthermore, the anticipated increase in the cash credit limit by Rs. 25-30 crore in the current fiscal year enhances its financial agility. SDBL's ability to secure additional credit and interest-free funding from group and promoter companies at short notice is a testament to its strong financial relationships and creditworthiness. With a repayment liability of approximately Rs. 20-23 crore annually over FY2024-FY2026 for its term loan and a planned capital expenditure of Rs. 75 crore to boost production capacity in FY2024, the company's liquidity position remains a vital aspect of its financial health.

Extensive Experience and Track Record of Promoters: The foundation of SDBL's strength lies in the extensive experience of its promoters, who have been a part of the alcobev business for over three decades. This depth of experience is vital in navigating the complexities and competitive nature of the industry. The group's other venture, Som Distilleries Private Limited (SDPL), has been active since 1986, offering products like extra neutral alcohol (ENA), Indian made Indian liquor (IMIL), and Indian made foreign liquor (IMFL). The promoters' involvement in multiple companies within the same industry is a testament to their expertise and understanding of market dynamics. This experience not only provides a robust operational foundation but also instills confidence in their ability to sustain and grow the business. Their track record demonstrates resilience and adaptability, essential traits for long-term success in a fluctuating market environment.

Emerging Dynamics in India's Alcobev Industry: The Indian alcobev (alcoholic beverages) industry is experiencing a remarkable phase of growth, primarily fueled by the country's rapid urbanization. This urban shift is significantly expanding the consumer base, exposing more individuals to a diverse array of alcoholic beverages. This trend is coupled with the rise in disposable incomes among Indian consumers, leading to a growing preference for premium alcoholic products. The willingness of consumers to invest in high-quality and innovative offerings is reshaping the market, indicating a maturing consumer base with refined tastes. These shifts in demographics and economic status are key drivers in the burgeoning demand for diverse and premium alcoholic beverages.

Additionally, changes in consumer preferences play a pivotal role in the industry's growth. Indian consumers are becoming increasingly discerning, seeking unique and premium experiences in their alcoholic beverage choices. This demand for novelty and quality is spurring the industry to innovate, leading to the introduction of new and exciting products. Complementing this is the rapid expansion of the out-of-home (OOH) segment, including bars, restaurants, and social venues. The growth of this segment is amplifying the consumption of alcoholic beverages in social settings, further fueling industry expansion. Moreover, the advent of e-commerce in India has revolutionized the alcobev industry's reach. Online platforms offer a convenient and accessible channel for the purchase of alcoholic beverages, significantly boosting sales and market penetration. This digital transformation has opened new avenues for the industry, making it more accessible to a broader consumer base. The synergy of these factors - urbanization, rising incomes, changing consumer preferences, growth in the OOH segment, and the rise of e-commerce - collectively create a dynamic and promising landscape for investment in India's alcobev industry. The sector stands at a cusp of significant transformation, offering lucrative opportunities for investors looking to tap into a market poised for continuous growth and innovation.

Strategic Advancements and Growth Projections: SDBL is poised for an auspicious Q3 FY24, marked by strategic milestones that underscore its growth potential and investment appeal. The company has successfully secured permissions to supply its beer brands to Rajasthan, a leading state in alcohol consumption, signaling a major leap in its national distribution capabilities. This expansion is complemented by the approval for the supply of Indian Made Foreign Liquor (IMFL) brands in Rajasthan, further diversifying SDBL's product portfolio and bolstering its market presence.

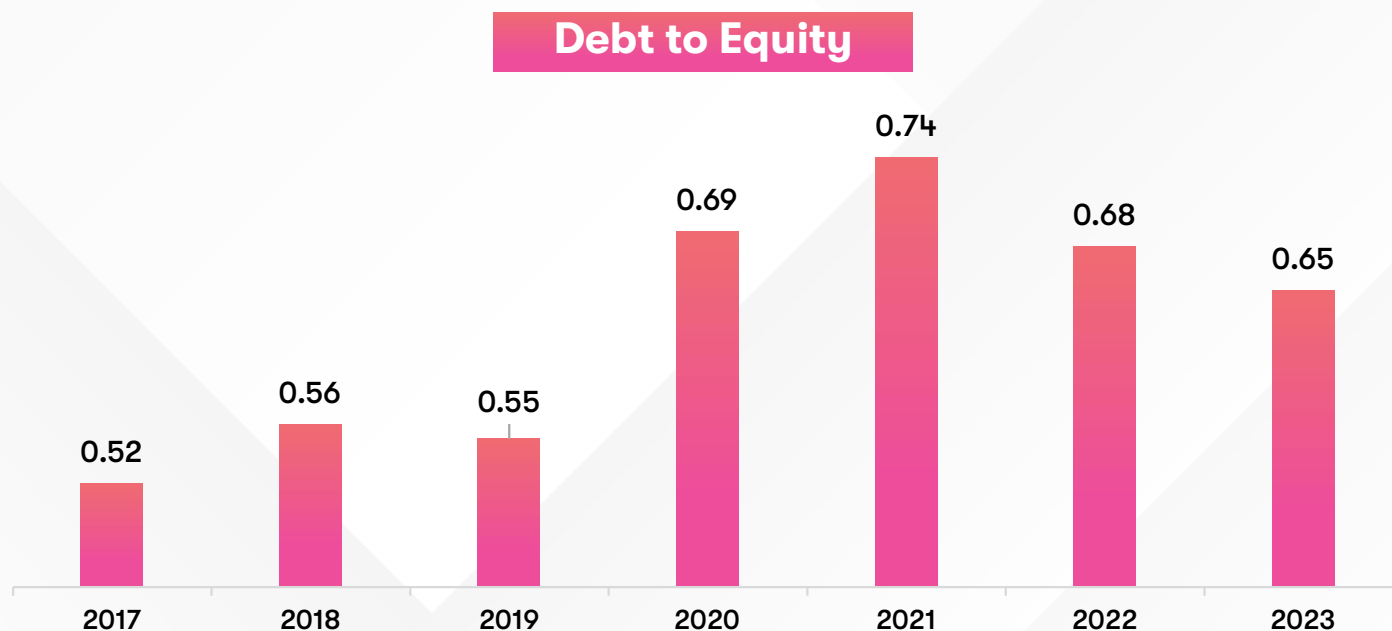
A testament to SDBL financial robustness and commitment to strategic growth is the upgrade of its long-term bank loan ratings from BBB to BBB+ by ICRA. This upgrade is indicative of a solid financial foundation and an affirmative outlook on its fiscal management. The company's foresight in enhancing production capacity is evident in the placed orders for expansion of the beer facility at the Hassan plant, with the impressive target of adding 60 lakh cases per annum, involving international collaboration with suppliers from Germany and India. Notably, the flagship brands

Hunter, Black Fort, and Power Cool have contributed to this success with remarkable volume growth of 24.1%, 36.7%, and 39.2%, respectively. On the realization front, SDBL has managed to enhance its profitability per case with beer realization climbing to Rs 547 in Q2 FY24, a substantial increment from Rs 467 in the same quarter the previous year. This increase has been attributed to a strategic price hike and an expanded mix of SKUs. Similarly, IMFL realization has improved to Rs 889 per case, up from Rs 712, reflecting the company's ability to leverage its product mix and pricing strategies effectively.

Furthermore, the company has initiated beer supply to Chhattisgarh, with initial dispatches already in motion. This expansion is aimed at establishing a significant market presence in the medium term. These developments, combined with Som Distilleries' strategic initiatives, position the company as a compelling proposition for investors, promising continued growth and market penetration in the dynamic alcobev industry.

Fortifying Financial Resilience in Q2 FY24: SDBL showcases a commendable fiscal consolidation in Q2 FY24, marked by a strategic deleveraging of its financial profile. The company has judiciously reduced its gross debt by Rs. 25 crores, bringing the consolidated debt down from Rs. 242.2 crores in March to Rs. 170 crores in September. This reduction is a testament to the company's effective debt management strategies and its focus on financial health. The net debt has seen a substantial improvement, with a reduction from Rs. 229.6 crores in March to Rs. 154 crores in September, reflecting a significant bolstering of the balance sheet.

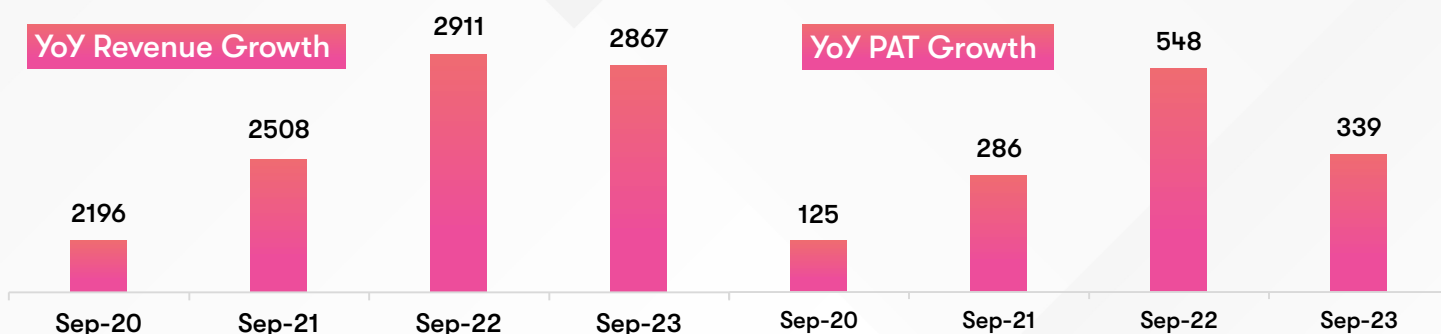
The financial prudence of SDBL is further underscored by the improved net debt to EBITDA ratio, which now stands at a more manageable 1.01x, a substantial improvement from the previous 2.2x. This ratio is indicative of the company's ability to service debt through its earnings before interest, taxes, depreciation, and amortization, demonstrating a robust operational profit performance. Furthermore, the gross debt to equity ratio has shown an optimistic contraction from 0.6x to 0.3x, signaling a stronger equity position and a healthier leverage status. These financial metrics paint a picture of a company that is not only dedicated to achieving operational efficiencies but also committed to maintaining a strong financial discipline.



Financial Highlights of Q2 Earnings: Som Distilleries & Breweries Limited's recent financial performance showcases a trajectory that underscores strategic growth and operational success, resonating with positive market sentiments. The sales figures have seen a remarkable year-over-year (YoY) surge, growing from 147 crores in September 2022 to an impressive 248 crores in September 2023. This 68% increase in sales is indicative of robust demand and effective market penetration. Quarter-on-quarter (QoQ) sales figures, despite exhibiting a decline, are part of a natural ebb and flow in the industry, often influenced by seasonal trends and cyclicity in consumer behavior.

On the profitability front, the operating profit has increased significantly YoY, from 17 crores to 27 crores. This improvement in operational efficiency, as evidenced by a sustained increase in operating profit margins (OPM) from 12% to 11%, despite a challenging economic environment, reflects the company's strong cost management and pricing strategies. Furthermore, the net profit numbers have been exemplary, with a YoY leap from 8 crores to 15 crores, reinforcing the company's ability to translate top-line growth into bottom-line results.

An investor's gaze often rests on earnings per share (EPS) as a measure of value, and Som Distilleries does not disappoint. The EPS has shown a commendable increase from 1.36 to 1.92 YoY, signaling not just profitability but also value creation for shareholders. The profit before tax (PBT) has mirrored this positive trend, with a significant climb from 10 crores to 19 crores YoY. The company's tax strategy has been prudent, as evidenced by the tax rate stabilizing around the 20% mark, despite an increase in profitability.



Management Commentary: The financial performance of the distillery in Q2 FY24 presents a compelling case for investment, characterized by robust growth and strong operational efficiency. The company reported a consolidated income of Rs. 2,480 million, marking an impressive 68% year-over-year (YoY) growth. This surge in revenue is further substantiated by a significant 80% YoY increase in Profit After Tax (PAT), which reached Rs. 149 million. Such figures not only demonstrate the company's capacity to generate profit but also its efficiency in managing expenses, as evidenced by a 48% YoY growth in EBITDA.

A noteworthy aspect of the company's financial health is the substantial decrease in net debt, from Rs. 2,296 million to Rs. 1,540 million, reflecting prudent financial management and a strong balance sheet. The upgrade of long-term bank loan ratings from BBB to BBB+ by ICRA further enhances investor confidence in the company's creditworthiness and fiscal stability.

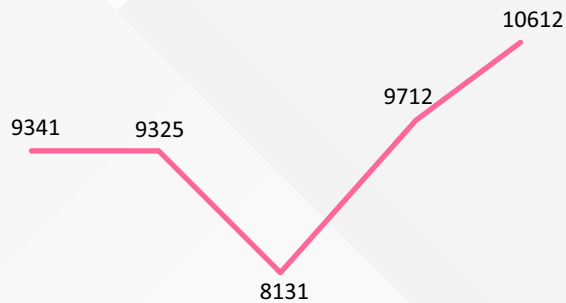
The production and capacity expansion initiatives, particularly the enhancement of the beer facility at Hassan, forecast an addition of 6 million cases per annum, signaling robust future growth potential. This expansion is expected to contribute significantly to net revenue, aligning with the company's target EBITDA margin of 12% to 12.5%. The strategic funding of these expansions through internal accruals and preferential warrants demonstrates a balanced approach to growth and financial prudence.

Market expansion and diversification efforts, such as entering new markets like Rajasthan and Chhattisgarh and securing contract manufacturing agreements in Jammu and Punjab, indicate a proactive approach to capturing new market shares and diversifying product portfolios. This geographical and product diversification reduces market-specific risks and paves the way for sustainable long-term growth.

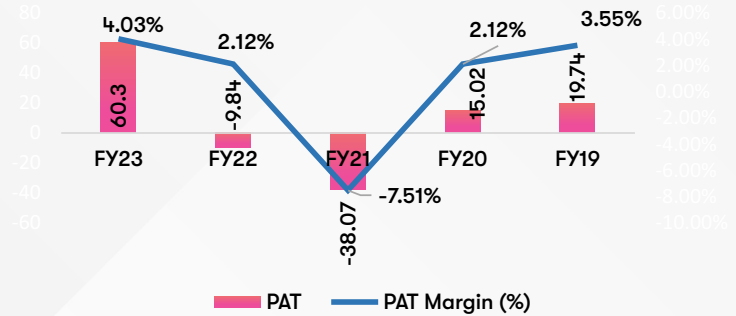
The company's marketing and advertising strategies, focusing on trade channels and ensuring product availability, are poised to strengthen brand presence and foster customer loyalty. This, coupled with a stable debt level and the avoidance of delays in acquisitions or greenfield projects, positions the company favorably for consistent growth.

Company Performance

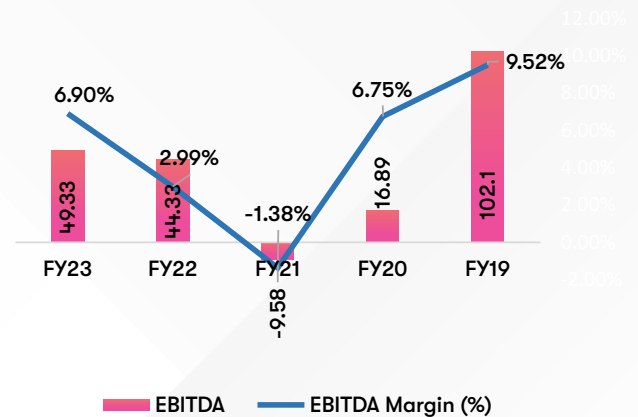
Revenue –5yrs (Crs)



PAT & PAT Margins (%)



EBITDA & EBITDA Margins (%)



9.26%
Revenue Y-O-Y

504.5%
EBITDA Y-O-Y

31.42%
PAT Y-O-Y

3.9 Mn Cases
IMFL Capacity

30.9 Mn Cases
Beer Capacity

18.14%
Return on Equity

15.65%
Return on Capital
Employed

7.49%
Return on Asset

Price

Price V/s P/E

P/E



Strengths

- **Diverse Product Portfolio:** SOM Distilleries offers a range of products including beer, rum, brandy, vodka, and whisky, catering to various consumer preferences.
- **Innovation and Seasonal Themes:** The launch of India's first filtered wheat beer and the introduction of new products like Hunter Pint Beer and RTD drinks highlight their focus on innovation.
- **Dual Segment Operation:** Being the only listed company in India with both beer and IMFL segments allows SOM Distilleries to reduce seasonality risk and achieve marketing efficiencies.

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Weaknesses

- **Regulatory Challenges:** The complex regulatory environment in India can lead to operational difficulties and requires constant monitoring to ensure compliance.
- **High Taxation Impact:** The high and variable tax structure across states can affect pricing strategies and profit margins.
- **Distribution Limitations:** The fragmented distribution system in India could pose challenges in reaching broader markets efficiently.

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Opportunities

- **Growing Alcobev Market:** The expanding urban population and rising disposable incomes in India present a significant opportunity for growth.
- **Shift in Consumer Preferences:** The increasing demand for premium and innovative alcoholic beverages offers a chance to introduce unique products.
- **E-Commerce Expansion:** The rise of online sales platforms can help SOM Distilleries reach a wider consumer base and boost sales.

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Threats

- **Intense Market Competition:** The presence of large players in the market requires SOM Distilleries to continuously innovate and differentiate its products.
- **Consumer Preference Shifts:** Evolving consumer tastes towards premium, craft, or non-alcoholic beverages demand constant adaptation in product offerings.
- **Geopolitical Uncertainty:** Changes in trade policies and international relations can impact supply chains and market access, requiring proactive strategy adjustments.

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Technical Outlook



Som Distilleries & Breweries Ltd has broken out of multi year consolidation on charts and is retesting the earlier breakout. The stock looks in a strong momentum backed by improvement in fundamentals.

Daily and Weekly RSI are reversed from the 30 levels indicating strength in the buying.

The MACD histogram has displayed a robust increase in momentum on monthly alongside the stock's upward price movement, reinforcing the strength of the bullish trend.

Moving Averages Days	Simple Moving Average	Exponential Moving Average
5	299.1	300.2
10	300.1	301.9
20	305.9	308.8
50	326.8	316.9
100	319.5	302.5
200	244.0	258.6

Pivot Levels : FIBONACCI		
R1 370.4	Pivot 324.3	S1 278.2
R2 3989.8		S2 249.7
R3 445.0		S3 203.6

Relative Strength Index (RSI)	Daily	Weekly
	44.32	53.32

Peer Comparison on TTM basis

	Som Distilleries	Tilaknagar Ind.	United Spirits
CMP (Rs) (16-11-2023)	302	272	1056
Revenue (Rs in cr)	808.01	1171.87	10684.7
EBIDTA (Rs in cr)	103.43	144.69	1490.0
PAT (Rs in cr)	60.30	149.90	1127.20
EBIDTA Margin %	12.82	12.42	14.04
PAT Margin %	7.47	12.87	10.62
ROCE %	14.53	19.45	19.67
ROE %	16.06	31.04	18.93
Debt To Equity (x)	0.65	0.52	0.00
EPS (Rs)	8.47	8.79	16.01
Diluted EPS (Rs)	8.40	8.56	16.01
P/E(x)	31.2	45.5	59.8
P/B (x)	4.54	9.16	11.3
P/S (x)	2.26	3.97	7.10
Enterprise value (Rs in cr)	1363.55	2294.94	54142.26
EV/EBIDTA (x)	13.18	15.86	36.34
Market cap (Rs in cr)	2354	5272	75764
Current ratio (x)	1.59	2.11	1.87
Book Value (Rs)	66.5	29.7	93.6
Dividend Yield %	0.08	0.09	0.38
Interest Coverage (X)	7.97	4.74	17.8
Asset T/O (x)	1.0	1.15	1.12
RoA %	6.61	14.81	11.64

Financial Snapshot

Particulars (Consolidated)	FY 23	FY 22	FY 21	FY 20	FY 19
Financial Position (₹ In Cr)					
Equity Share Capital	36.88	34.99	32.49	32.49	32.49
Reserve & Surplus	338.49	254.58	249.31	287.42	278.20
Fixed Assets	488.25	405.85	416.46	413.80	356.40
Current Assets	389.47	268.44	278.93	323.65	312.18
Cash and Cash Equivalents	12.04	9.49	14.47	21.94	24.66
Current Liabilities	317.46	292.82	296.31	280.77	264.06
Non Current Liabilities	219.02	117.0	133.38	156.01	111.79
Enterprise Value	1363.55	625.60	269.69	375.80	640.59
Operating Results (₹ In Cr)					
Total Income	808.01	365.46	290.15	463.49	396.73
Total Expenditure	737.56	378.0	329.18	442.60	365.12
Earnings Before Interest & Tax (EBIT)	86.42	2.81	-20.37	36.26	44.03
Tax	10.15	-2.70	-0.95	5.87	11.87
Profit/(loss) after tax (PAT)	60.30	-9.84	-38.07	15.02	19.74
Ratios					
EBDITA margin (%)	12.82	5.40	-2.43	10.42	13.42
Net profit margin (%)	7.47	-2.71	-13.23	3.26	5.02
Return on net worth (%)	16.06	-3.39	-13.51	4.69	6.35
Return on capital employed (%)	14.53	0.69	-4.90	7.61	10.42
Return on asset (%)	6.61	-1.40	-5.35	1.98	2.87
Debt To Equity Ratio	0.65	0.68	0.63	0.62	0.48
EPS	8.47	-1.45	-5.86	4.65	6.04
Earning Yield	0.05	-0.02	-0.36	0.08	0.04
Cash Flows (₹ in Cr)					
Operating Activities	14.27	10.28	36.41	41.15	0.44
Investing Activities	-108.43	-5.97	-12.89	-70.28	-192.77
Financing Activities	97.31	-9.29	-30.99	26.41	191.42
Net Cash Flows	3.15	-4.98	-7.47	-2.72	-0.92

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