

SPECIAL REPORT UPDATE

POTENTIAL 5-BAGGERS IN 5 YEARS

NEW STOCK INCLUSION

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FROM THE DESK OF OUR RESEARCH TEAM

Few important parameters which have been looked by our equity analysts while finalizing the stock selection are as under:

1. *Market leader in the business / any one segment in which the company is operating in.*
2. *Scalable business with significant moat (sustainable competitive advantage)*
3. *Prudent Management with promoters increasing their shares holding in the company*
4. *Manageable debt on books with healthy cash flows.*
5. *CAGR of above 15% with increase in operating and net profit margins in last 2-3 years.*
6. *Consistent dividend payment with dividend yield above 0.5% in last 2-3 years*
7. *Increasing EPS, low PE ratio compared to peers with ROE and ROCE above 15% in last 2-3 years.*

Each parameter is equally important and plays a vital role to ensure that you get healthy returns on your investment with limited downside risk in long term. One of the important key to successful investing is to pick the right business at decent valuations. Once you buy shares, you own a part of company's business.

We at Saral Gyan suggest our members to invest in good businesses with long term view and any change in our stock views will be based on strong structural trend and not on any short term movement in stock price.

NEW STOCK : POTENTIAL 5-BAGGER IN 5 YEARS

SOM DISTILLERIES & BR. LTD



NSE/BSE: SDBL/507514

CMP: 247.35

MARKET CAP: 681 CRORES

SECTOR: BREWERIES & DISTILLERIES

COMPANY BACKGROUND

Som Distilleries & Breweries Ltd was established in 1993. The company is one of the prominent players engaged in production of beer and IMFL. The product portfolio consists of options across beer, rum, brandy, vodka and whisky. With more than 80% of revenue contribution from beer segment, Som Distilleries has well established brands like Hunter, Black Fort and Power Cool.

The company operates a brewery, a distillery, support industries and a distribution network across the country. The company's diversification is an important factor in delivering the highest quality brands to the consumers. Bifurcating into three traits - Som Distilleries and Breweries Limited, Som Distilleries private Limited and Legend Distilleries Private Limited, the plant is well equipped with Distillation, Storage and Maturation facilities.

The company has made certain change in top management to drive future growth of its business. Recently, Mr Nilojit Guha has joined the company as President-Sales and Marketing. His last assignment was as Director, Sales with SAB Miller India where he was responsible for All India Sales. His responsibilities in Som Distilleries is to lead the sales and marketing function on a pan India basis. Also, Shirish K Pilankar has joined the company as Head of Sales - (West). His last assignment was with Bacardi India Private Limited as Cluster Head (Maharashtra, Daman, Diu, Silvassa & Gujrat). His responsibilities in Som Distilleries will be to lead the sales and marketing function for west region

The company has extensive marketing and distribution network covering states Madhya Pradesh, Chattisgarh, Delhi, Haryana, Himachal Pradesh, Chandigarh, Uttarakhand, Tamil Nadu, Andhra Pradesh, Pondicherry, Jharkhand, Orissa, Daman and Diu etc. The company has recently started its sales operations in states like Maharashtra, Karnataka, West Bengal and also made various acquisition to expand its capacity. Based on recent developments, the company is expected to grow its revenue and profitability by more than 50 percent YoY over next 2 years.

RECENT UPDATES & DEVELOPMENTS

i) Recently, the Board of Directors of the company has approved the allotment of 36,82,563 equity shares at a price of Rs. 271.55/- per share (inclusive of premium of Rs. 261.55/- per share), for which the company has received an amount of Rs. 99,99,99,982.65/- (100 Crores) to the following allottees on preferential basis:

1. Karst Peak Asia Master Fund - 24,55,042 (No. of shares)
2. Vermilion Peak Master Fund - 12,27,521 (No. of shares)

The Board of Directors also resolved that the issued equity shares shall be subject to lock-in for one year from the date of trading approval from the Stock Exchanges and subject to the provisions of the Memorandum of Association and Articles of Association of the Company.

ii) The company's proposed subsidiary – Som Distilleries & Breweries Odisha Pvt Ltd has acquired a brewery in the state of Odisha. The company expects the facility to be operational in next 3 to 4 months. The unit has been acquired at a cost of Rs. 46 crore and company anticipates expenditure of another Rs. 25 to 30 crore on upgradation of manufacturing asset. The capacity of the unit is 42 lakh cases per annum.

iii) The company has received approval for manufacturing of IMFL at its subsidiary Woodpecker Distilleries & Breweries Private Ltd at Hassan, Karnataka. The company expects to commence commercial production of IMFL from the said facility by end of this month / early next month.

iv) The company has commenced sales operations in the state of Maharashtra in Feb'18 and in West Bengal in May'18. In Maharashtra, the company has launched its products initially at Nagpur and gradually launch its products in other towns of the state.

v) Som Distilleries will declare its Jun'18 quarter results on 13th August, we expect company to post strong set of numbers with revenue growth of more than 45%. Stock price may rally after results announcement, hence decided to recommend the stock before quarterly results.

INVESTMENT RATIONALE

i) The company is in process to raise 136 crores to fund its expansion plan. The company is raising 100 crores from two Hong kong based investors for a preferential issue of shares at a price of Rs. 271.55 per share. It is also raising additional Rs. 36 crores by way of preferential issue of warrants to the promoters and promoter group.

ii) Inclusion of best talent in top management, significant addition of capacity and pan India expansion plans to drive future growth is expected to augur well for the company over next 2 to 3 years. The company generates nearly 83 percent of its revenue from beer segment. Beer sales in India is expected to see an annual growth of 7.5 percent in volume terms over the next five years despite regulatory hurdles, as rising disposable incomes in the hands of middle class will lead to higher spending. India holds significant long-term growth potential as a beer-drinking culture is gaining momentum and expected to grow at a faster pace.

iii) The company management is confident to achieve revenue growth of more than 50% in coming years with improved acceptance of its Hunter beer across the country which will boost its revenue in the next few years as it looks at adding capacity and acquisitions to boost output. Moreover, commercial production of IMFL at its subsidiary Woodpecker Distilleries & Breweries is expected to augur well for company in long run.

iv) Promoter's shareholding in the company is low at 23.3%, however we do not find it a major concern. Recently, Promoter and Director of the company, Mr. Jagdish Kumar Arora has increased his stake from 6.63% to 6.88%. He bought 70,000 shares from open market since Nov 2017. Som Distilleries Pvt Ltd also increased holding by buying 15,000 in Mar'18. Promoters increasing stake in the company through open market purchase and later raising funds through issue of equity shares on preferential basis to foreign investors and issue of warrants to promoters indicate strong business growth prospects in coming years.

v) The company is focusing on the upper middle class instead of targeting super premium range which belong to multinationals and contributes ~8-10% of total sales. The remaining 90% of the business in India belongs to company like Som Distilleries, offering quality products at lower prices.

INVESTMENT RATIONALE

vi) Maharashtra state government has recently bring down the excise duty on beer after witnessing significant drop in sales. As per notification issued by the state, from August 1, the excise duty on mild and strong beer has been reduced from 235 percent of manufacturing cost to 175 percent. This is a positive development for company like Som Distilleries which generates more than 80 percent of its revenue from beer segment and has recently launched its product in Maharashtra.

vii) Som Distilleries is paying regular dividends since 2010, the company has been maintaining healthy dividend payout of 28.48 percent. The dividend yield at current price is 0.53 percent.

viii) In Mar'18 quarter, net profit of Som Distilleries & Breweries rose 148.24% to Rs 6.33 crore as against Rs 2.55 crore during the previous quarter ended March 2017. Sales rose 50.49% to Rs 101.34 crore in March 2018 quarter as against Rs 67.34 crore in March 2017 quarter. We expect company to post strong revenue growth with improvement in margins in coming quarters as well.





ix) As per our estimates, Som Distilleries is expected to deliver PAT of Rs. 36.6 crores in FY18-19 with annualized EPS of Rs. 13.3. At current price of 247.35, stock is available at forward P/E multiple of 18.6X based on FY18-19 earnings and looks attractively valued with high earning visibility over next 2 to 3 years.

SARAL GYAN VIEWS & RECOMMENDATION

Considering robust growth outlook of liquor industry in India, recent developments of the company towards raising funds, increasing capacity through acquisitions, commencing operations in newer states and hiring best talent in sales and marketing to fuel future growth, we find Som Distilleries as one of the attractive investment opportunity from the sector.

We advise our members to invest in Som Distilleries & Breweries Ltd at current levels with initial portfolio allocation of 3% and add more on dips with maximum portfolio allocation of 5%.

SARAL GYAN SUBSCRIPTION SERVICES

SERVICE	INVESTMENT HORIZON	MARKET CAP / INDEX	NUMBER OF RECOMMENDATIONS	SELECTION CRITERIA	SUGGESTED ALLOCATION *	1 YEAR SUBSCRIPTION PLAN
 HIDDEN GEMS Know More Sample	1 - 3 Yrs	Small / Micro Cap (BSE Small Cap)	12 per year	Growth / Value (Mkt Cap < Rs. 500 Crs)	10% - 25%	Rs. 10,000 (\$180) SUBSCRIBE!
 VALUE PICKS Know More Sample	1 - 3 Yrs	Mid Cap (BSE Mid Cap)	12 per year	Growth / Value (Mkt Cap: Rs. 1,000 - 10,000 Crs)	20% - 40%	Rs. 6,000 (\$110) SUBSCRIBE!
 15% @ 90 DAYS Know More Sample	3 Months	Mid Cap (BSE - 500)	12 per year	Technical Analysis / Recent Developments	Not Applicable	Rs. 4,000 (\$75) SUBSCRIBE!
 WEALTH-BUILDER <small>An Offline Portfolio Management Service</small> Know More Sample	3 - 7 Yrs	Across Market Caps	12 - 18 Portfolio Updates per year	Long Term Wealth Creation	10 - 15 Stocks	Rs. 20,000 (\$360) SUBSCRIBE!

- Suggested allocation - This is the percentage of funds that you could allocate (out of your total equity portfolio) to each category of stocks. Please note that these allocations are purely indicative.

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