



# Industry Analysis

Team Epsilon

## Alcoholic Beverages Industry

# Agenda

- Overview
- Understanding the market
  - Whiskey
  - Rum
  - Vodka
  - Beer
  - Gin
  - Brandy
  - Cider & wine
- State wise analysis
- Company analysis
- Industry Review

# Overview

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India's alcohol industry is the third largest in the world only behind from two major countries such as China and Russia with a value of **\$35 billion**. The industry is divided into three categories: Indian Manufactured Foreign Liquor (IMFL), beer, and homemade liquor.



India alcoholic beverage industry is estimated to expand **25% to 2.92 trillion rupees (\$41 billion) by 2022**, according to Euromonitor International.



Goldstein Research has projected that the alcoholic beverages market in India is expected to grow at a **CAGR of 7.4%** between 2016 and 2024 and reach **\$39.7 billion.**

It is also demographically one of the youngest with around 50% of its population below the age of 25 and around **65% below the age of 35.**



The majority of alcohol volume is consumed by people between the ages of **18 and 40.**



The Indian spirits sector is led by the **'whiskey'** category in both value and volume terms. However, the 'liqueurs' category is expected to register fastest value and volume growth during 2018-2023.

The fastest growing segment of the Whiskey market in India between the year 2013 and 2018 was **Irish Whiskey** which registered a **CAGR of 31.57%**. The sales of these whiskeys, dominated in India almost wholly by **Pernod Ricard's Jameson**.







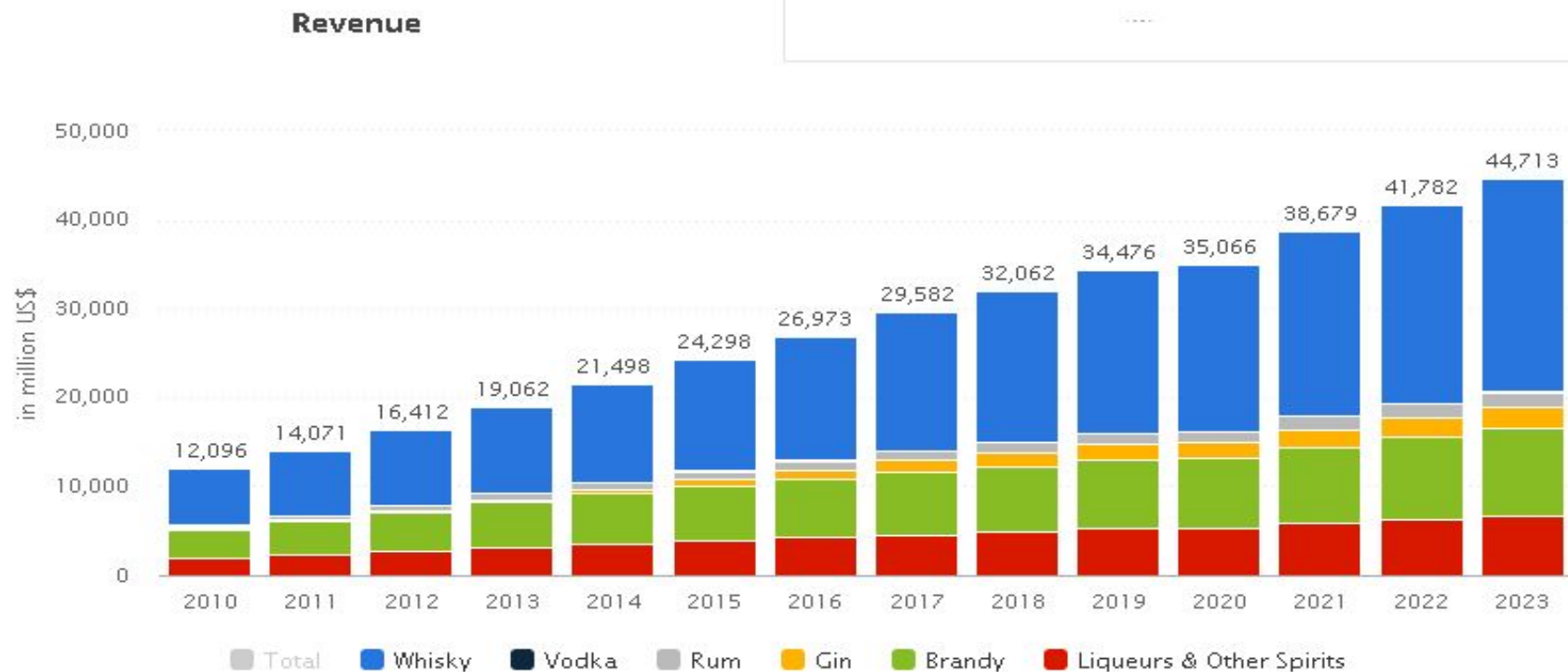
Glass is the only pack material used in the sector. **Diageo plc, Pernod Ricard SA and Allied Blenders And Distillers Pvt. Ltd.** are the leading players in the Indian spirits sector.





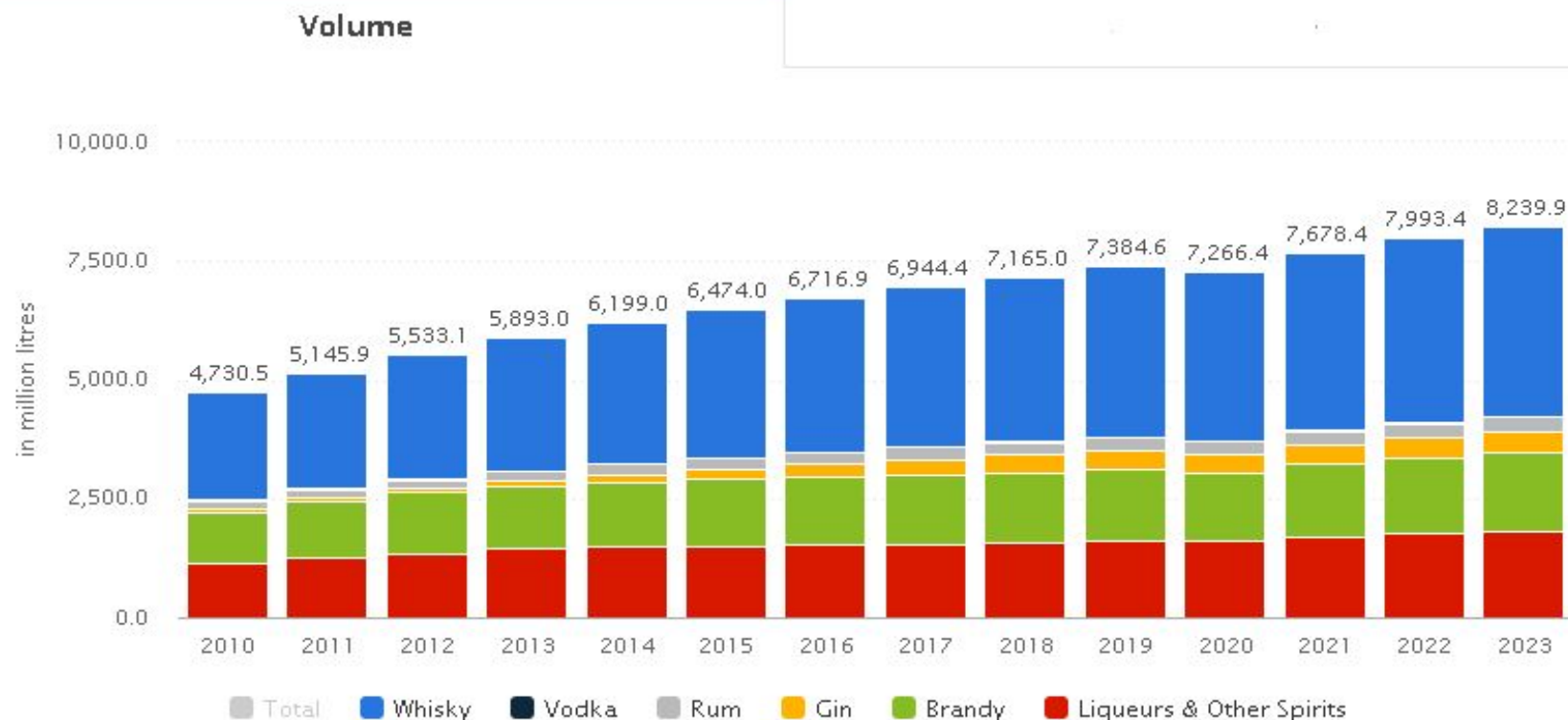
# Understanding the market

# Revenue Growth



Source: Statista (Forecast adjusted for expected impact of COVID-19), April 2020

# Volume

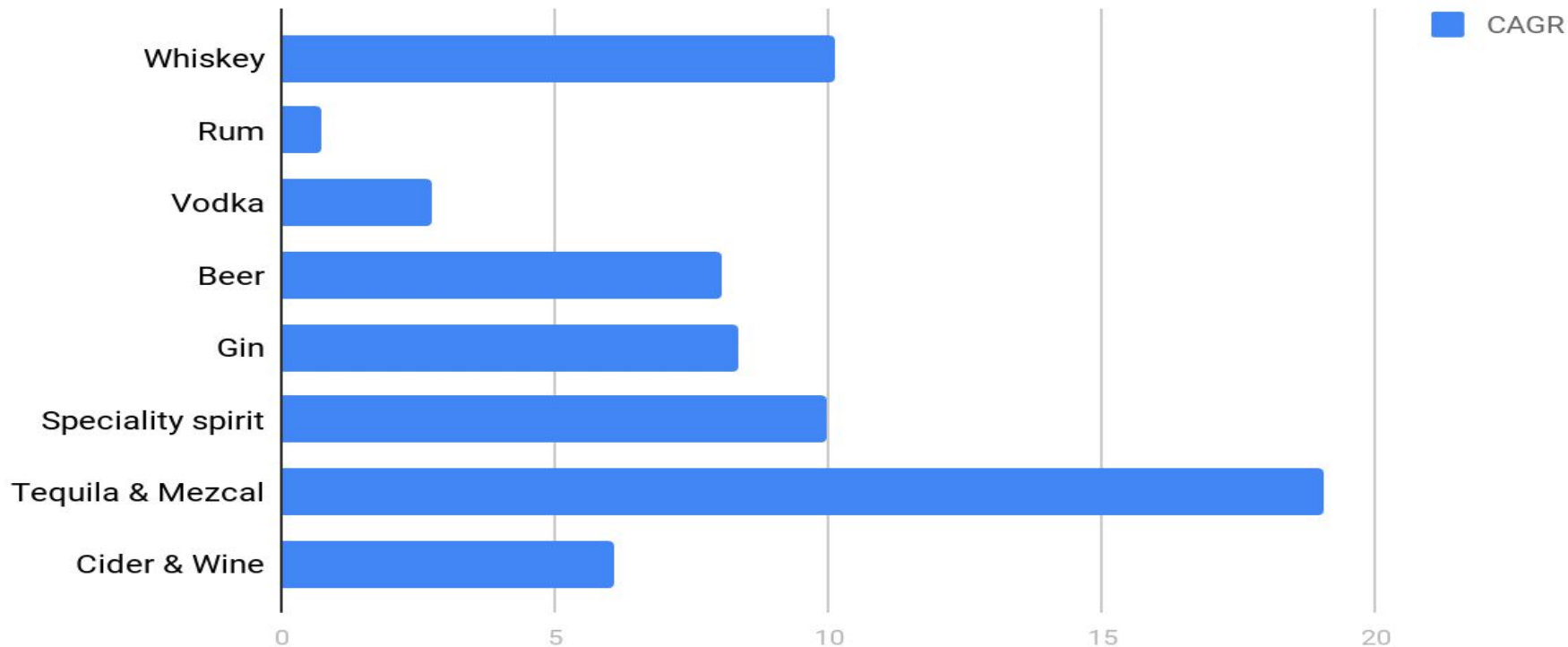


Source: Statista (Forecast adjusted for expected impact of COVID-19), April 2020



# Compound Annual Growth Rate(CAGR)

Points scored

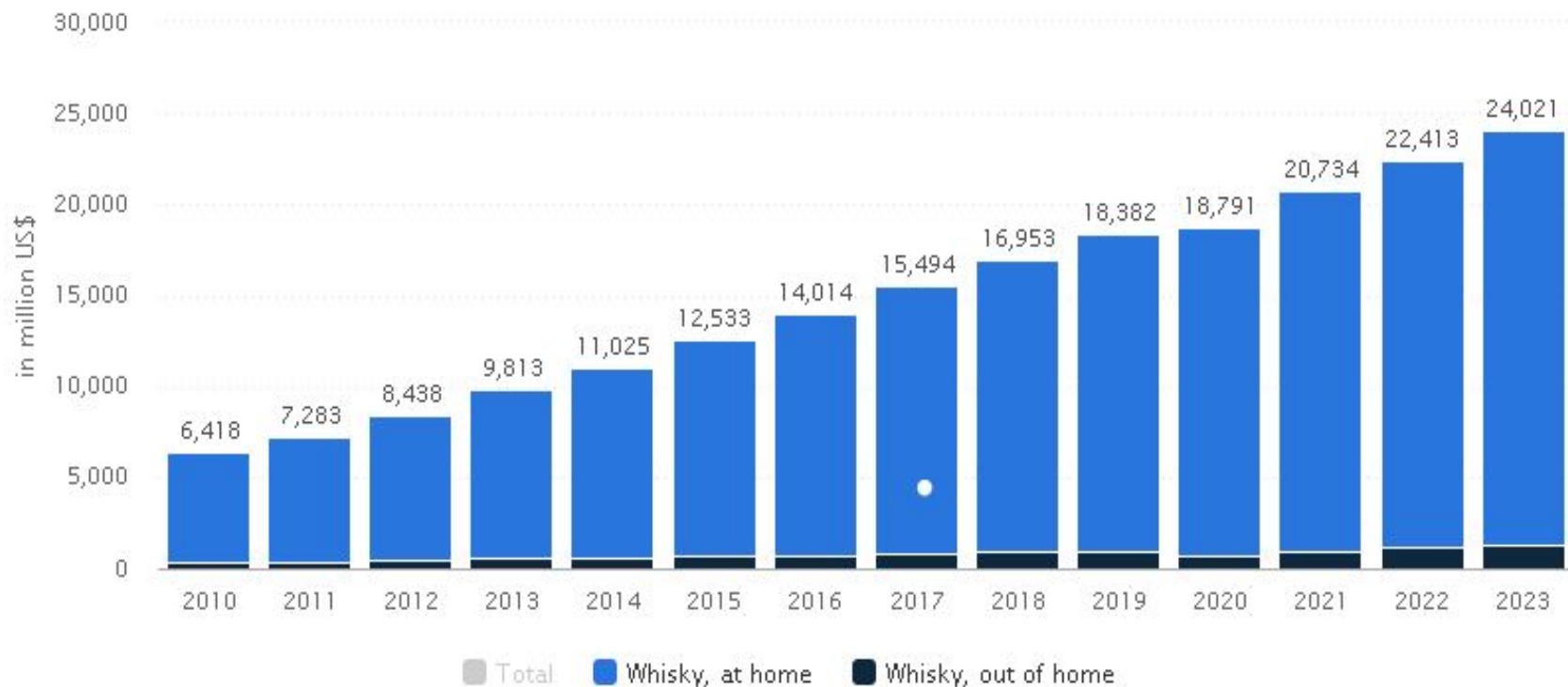




# WHISKEY

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## Revenue

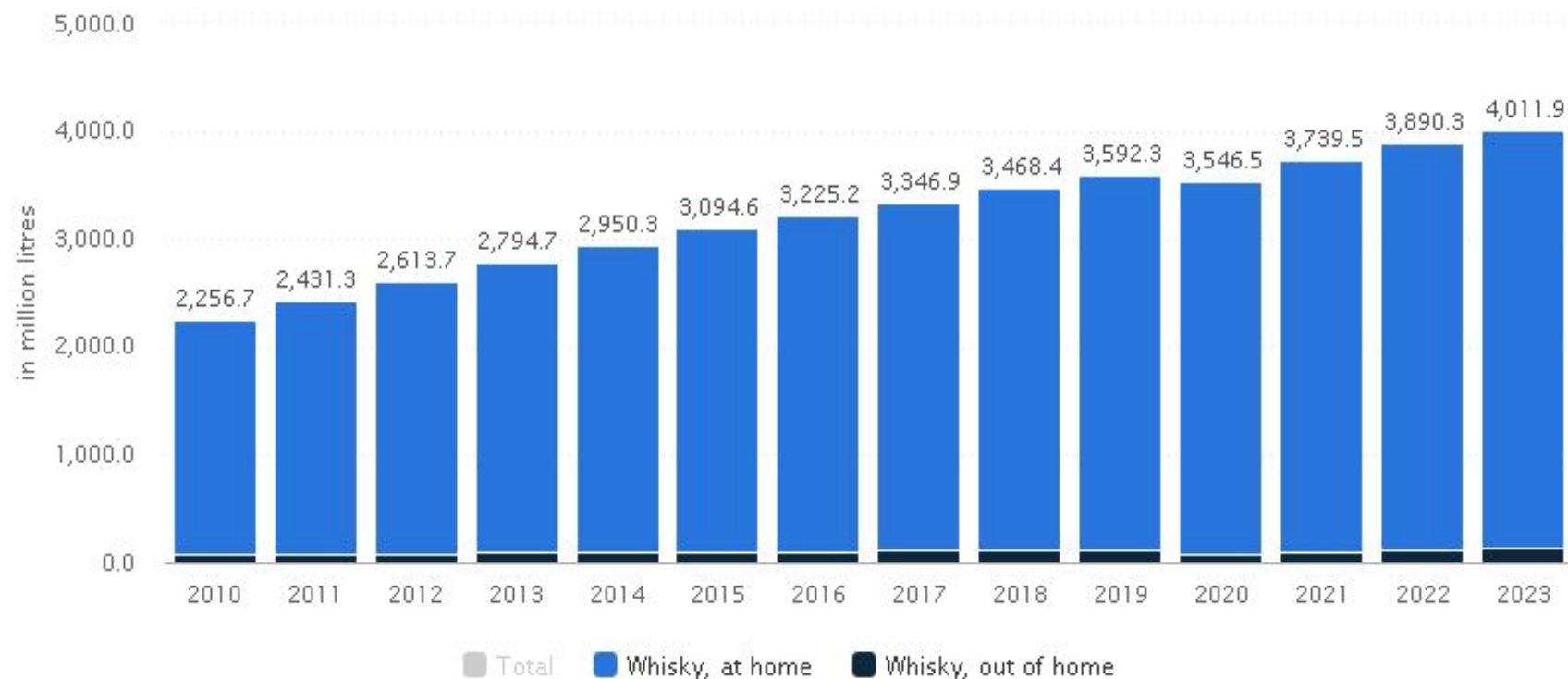


Source: Statista (Forecast adjusted for expected impact of COVID-19), May 2020

Info



## Volume



Source: Statista (Forecast adjusted for expected impact of COVID-19), May 2020

Whiskey dominates the IMFL category, and India has the largest whiskey industry in the world. India-based **United Spirits Limited's** McDowell's No. 1 is the most prominent whiskey. Its Royal Challenge and Bagpiper are also popular. Other prevalent whiskeys include **French Pernod Ricard's** Imperial Blue, Seagram's Blender's Pride, and Royal Stag and Japanese **Beam Global's** Teacher's.

- Revenue in the Whisky segment amounts to US\$18,791m in 2020. The market is expected to grow annually by 8.5% (CAGR 2020-2023)
- In global comparison, most revenue is generated in India (US\$18,791m in 2020)
- In relation to total population figures, per person revenues of US\$13.62 are generated in 2020.
- The average per capita consumption stands at 2.6 L in 2020

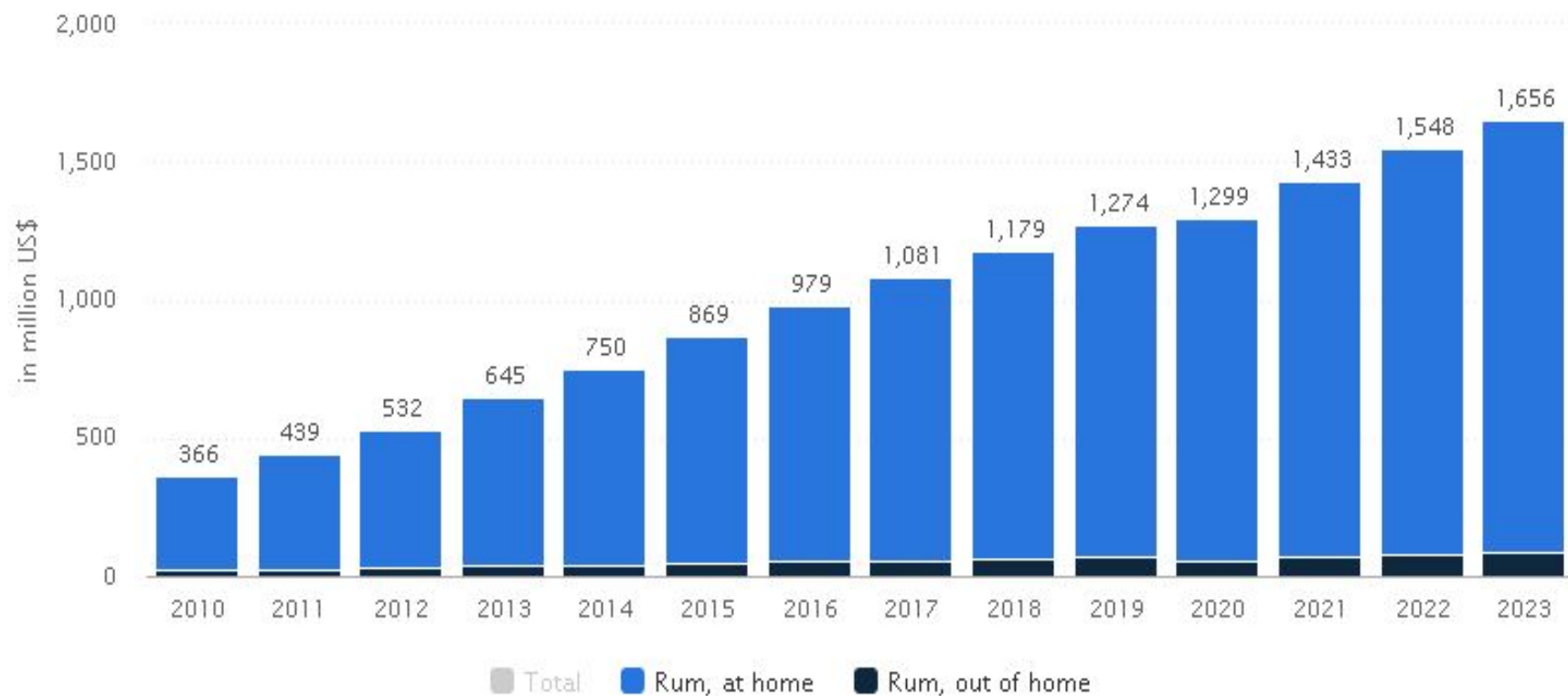


# RUM

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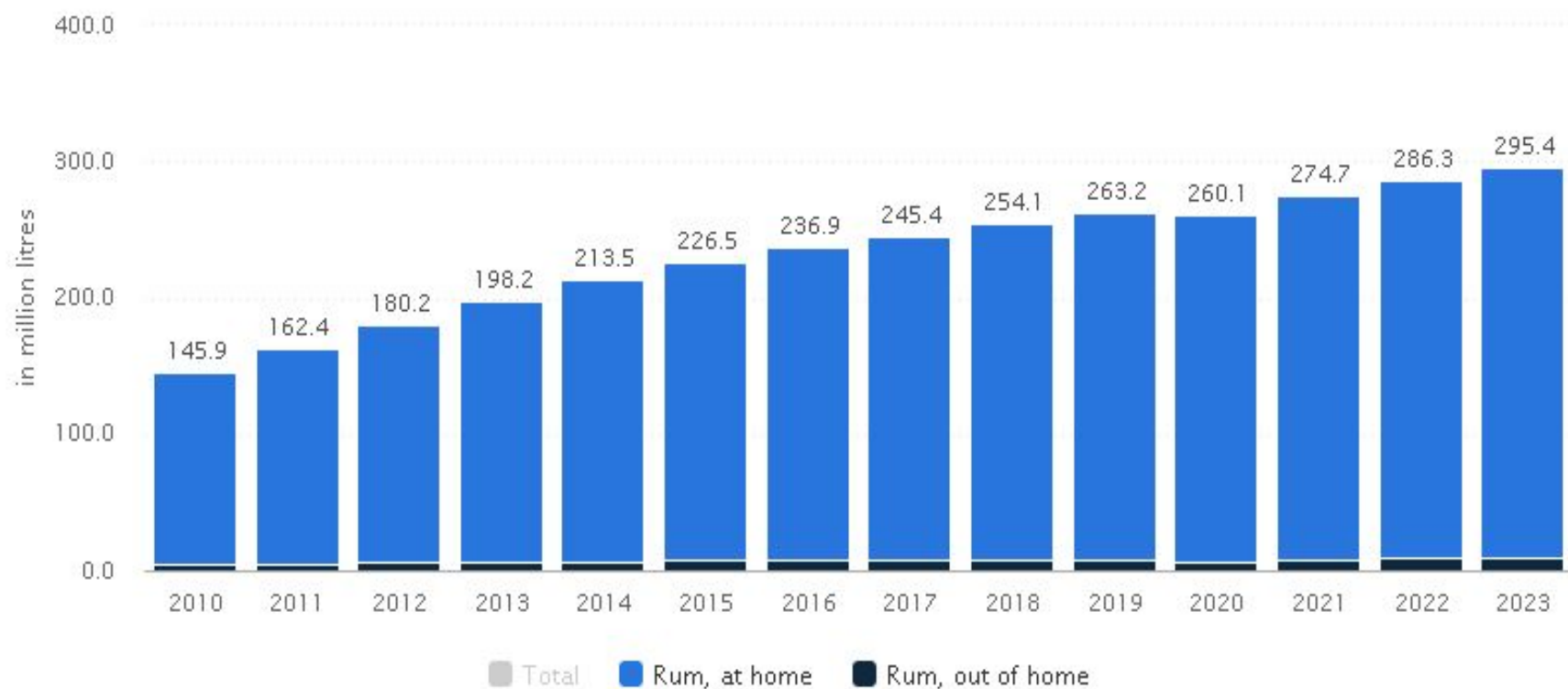


## Revenue



Source: Statista (Forecast adjusted for expected impact of COVID-19), May 2020

## Volume



Source: Statista (Forecast adjusted for expected impact of COVID-19), May 2020

Rum - includes both light and dark rums, is a spirit made from sugar cane. In 2018 Dark Rum segment in India Rum market accounted for a major share of 98.20%, while Light Rum stood in second position representing 1.80% of the market's 2018 share. Rum is the second most common spirit in India. India-based **Mohan Meakin Ltd.'s Old Monk** is popular.

- Revenue in the Rum segment amounts to US\$1,299m in 2020. The market is expected to grow annually by 8.4% (CAGR 2020-2023)
- In global comparison, most revenue is generated in the United States (US\$2,334m in 2020)
- In relation to total population figures, per person revenues of US\$0.9 are generated in 2020
- The average per capita consumption stands at 0.2 L in 2020



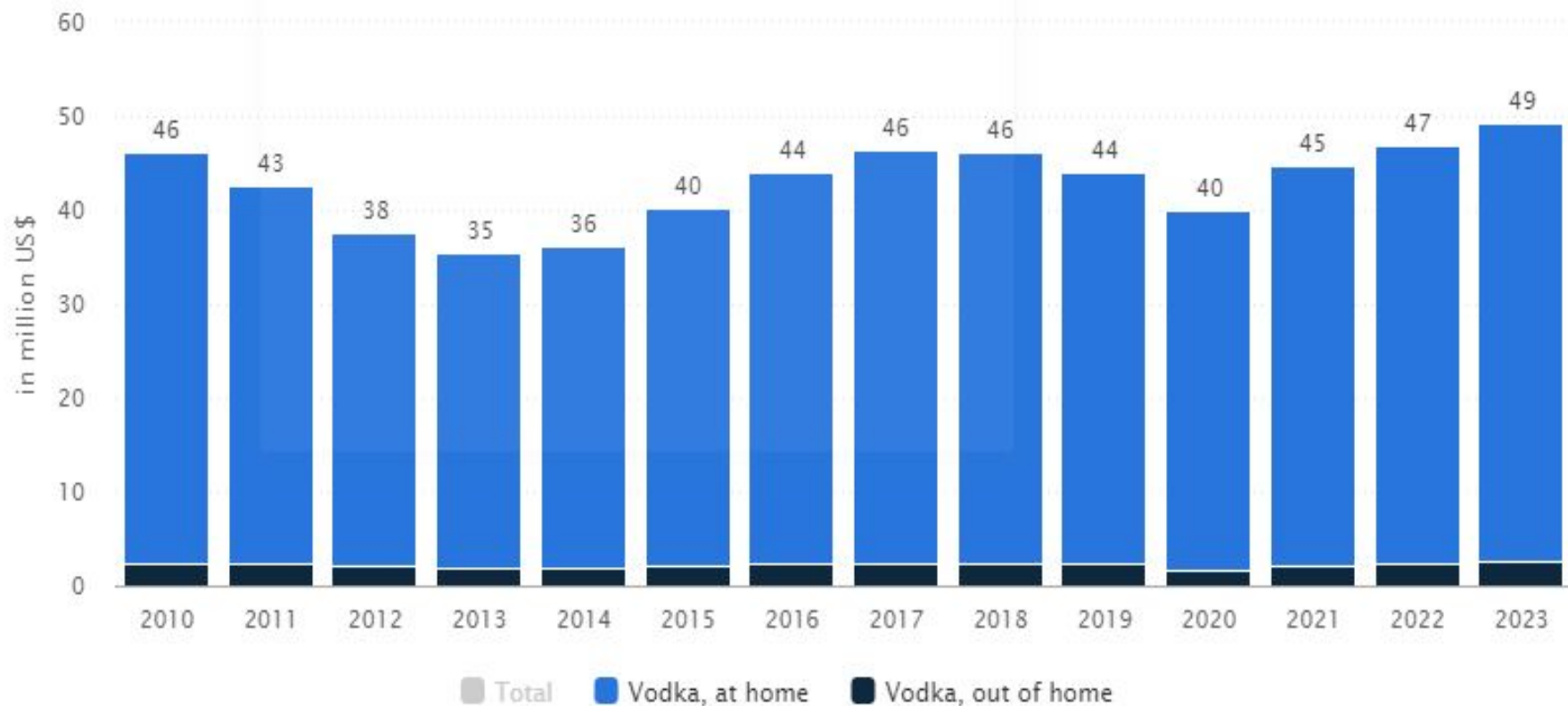
# VODKA

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## Revenue

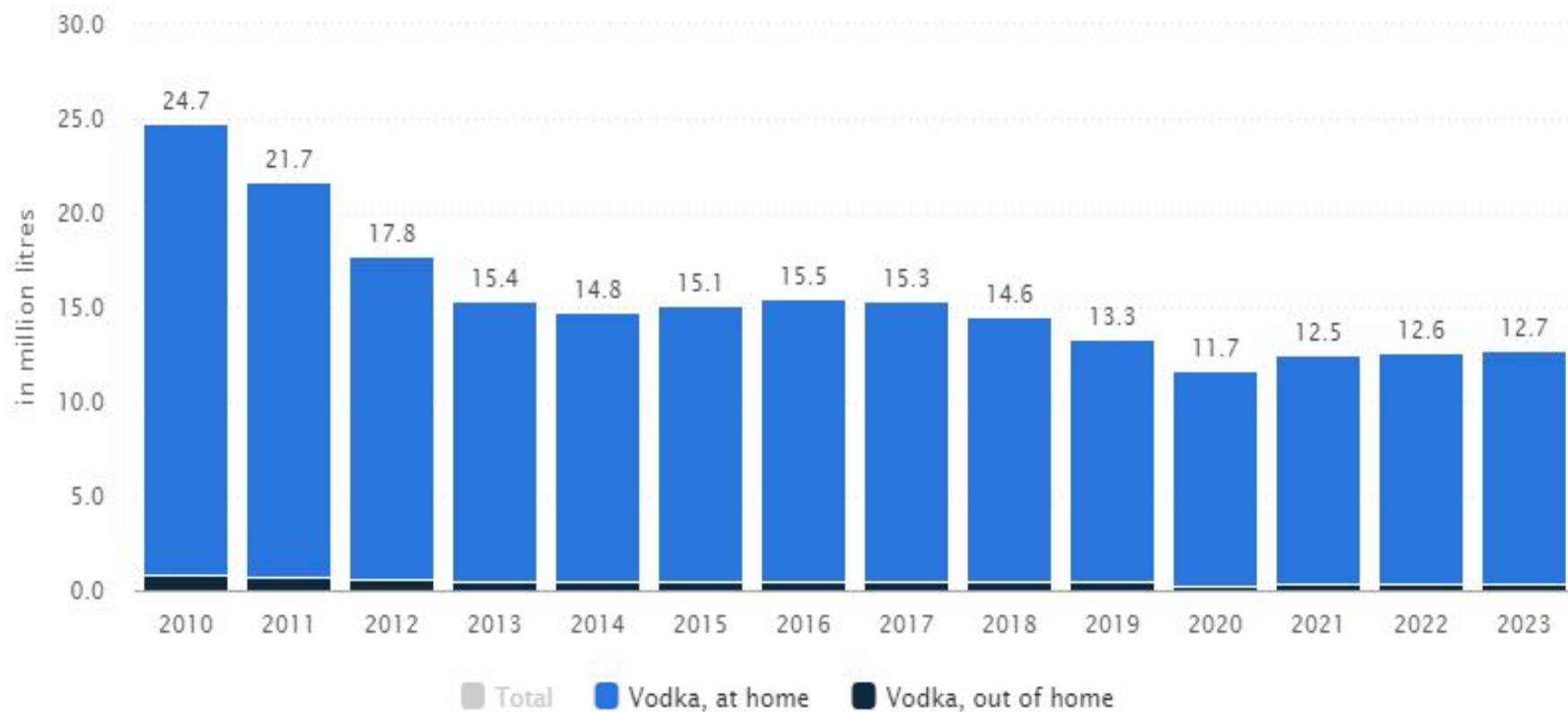
## Revenue Growth

Shipping Tool



## Volume

## Volume Growth





Vodka also comprise the IMFL category, growing in demand among urban youth and women. U.K.-based **Diageo's Smirnoff** vodka are top products. Many women believed Vodka provided more gender feasibility, and it was considered to be more of a gender-neutral spirit which led to more consumption of vodka by women.

- Revenue in the Vodka segment amounts to US\$40m in 2020. The market is expected to grow annually by 7.2% (CAGR 2020-2023)
- In global comparison, most revenue is generated in the United States (US\$18,803m in 2020)
- In relation to total population figures, per person revenues of US\$0.03 are generated in 2020
- The average per capita consumption stands at 0.008 L in 2020

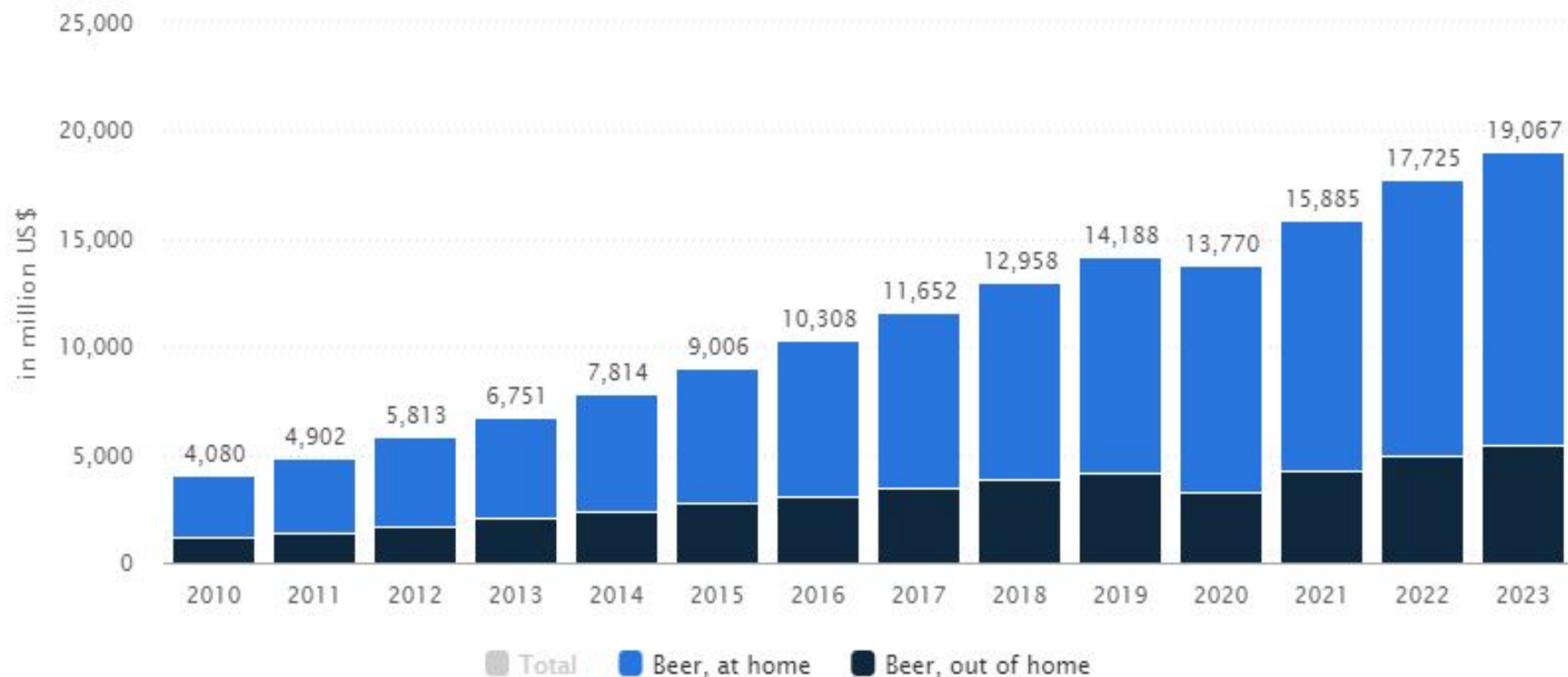


# BEER

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## Revenue

## Revenue Growth

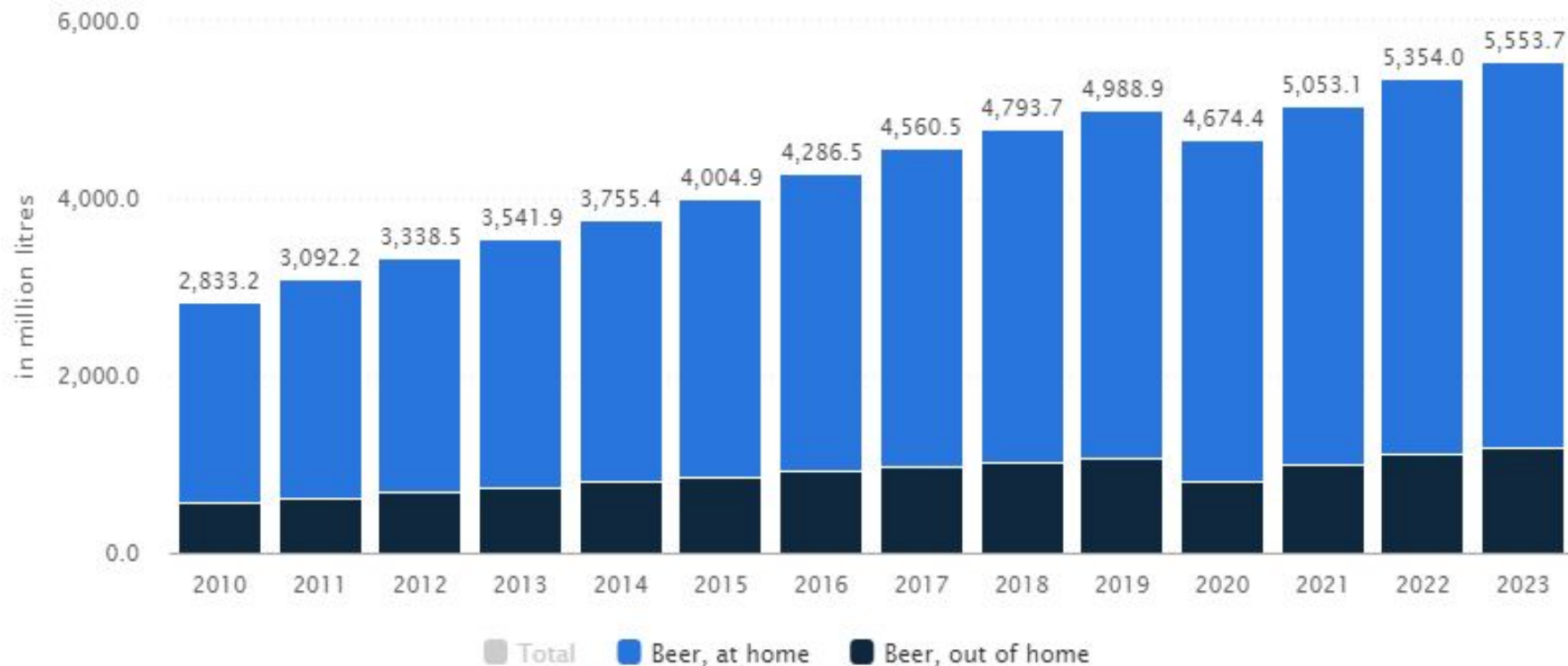


Source: Statista (Forecast adjusted for expected impact of COVID-19), April 2020

Info

## Volume

## Volume Growth



Source: Statista (Forecast adjusted for expected impact of COVID-19), April 2020

The beer category is mainly comprised of strong beer (with an alcohol content of at least 8%). India-based **United Breweries**, 42% owned by Dutch beer giant Heineken, dominates the market with its Kingfisher. U.K.-based **SAB Miller's** Miller, Foster's, and Royal Challenge and Denmark-based **Carlsberg's** Carlsberg and Tuborg are also popular options. While weaker beers are less common, brands such as *Bira* by **B9 Beverages**, *Kingfisher* provide options with lower alcohol content.

- Revenue in the Beer segment amounts to US\$13,770m in 2020. The market is expected to grow annually by 11.5% (CAGR 2020-2023)
- In global comparison, most revenue is generated in the United States (US\$101,847m in 2020)
- In relation to total population figures, per person revenues of US\$9.98 are generated in 2020
- The average per capita consumption stands at 3.4 L in 2020



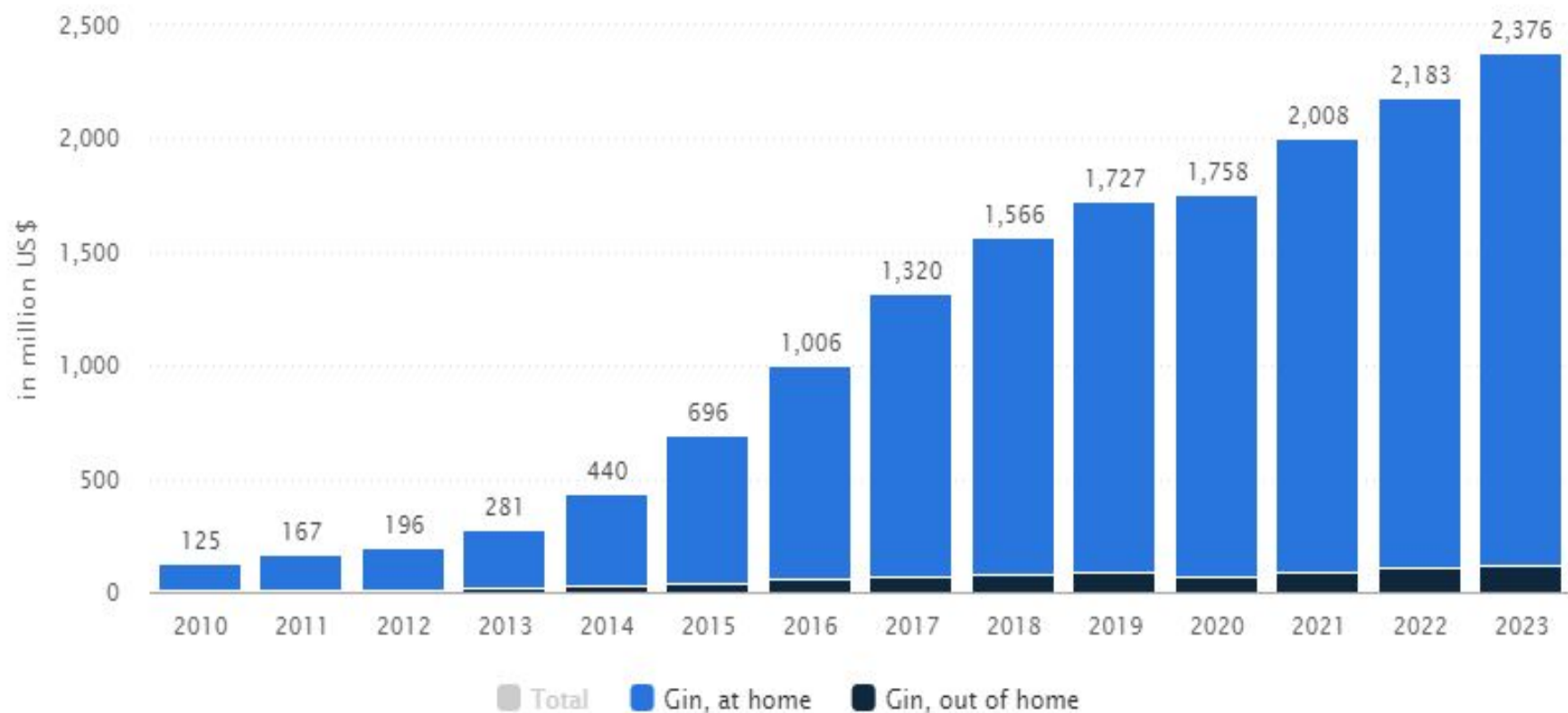
GIN

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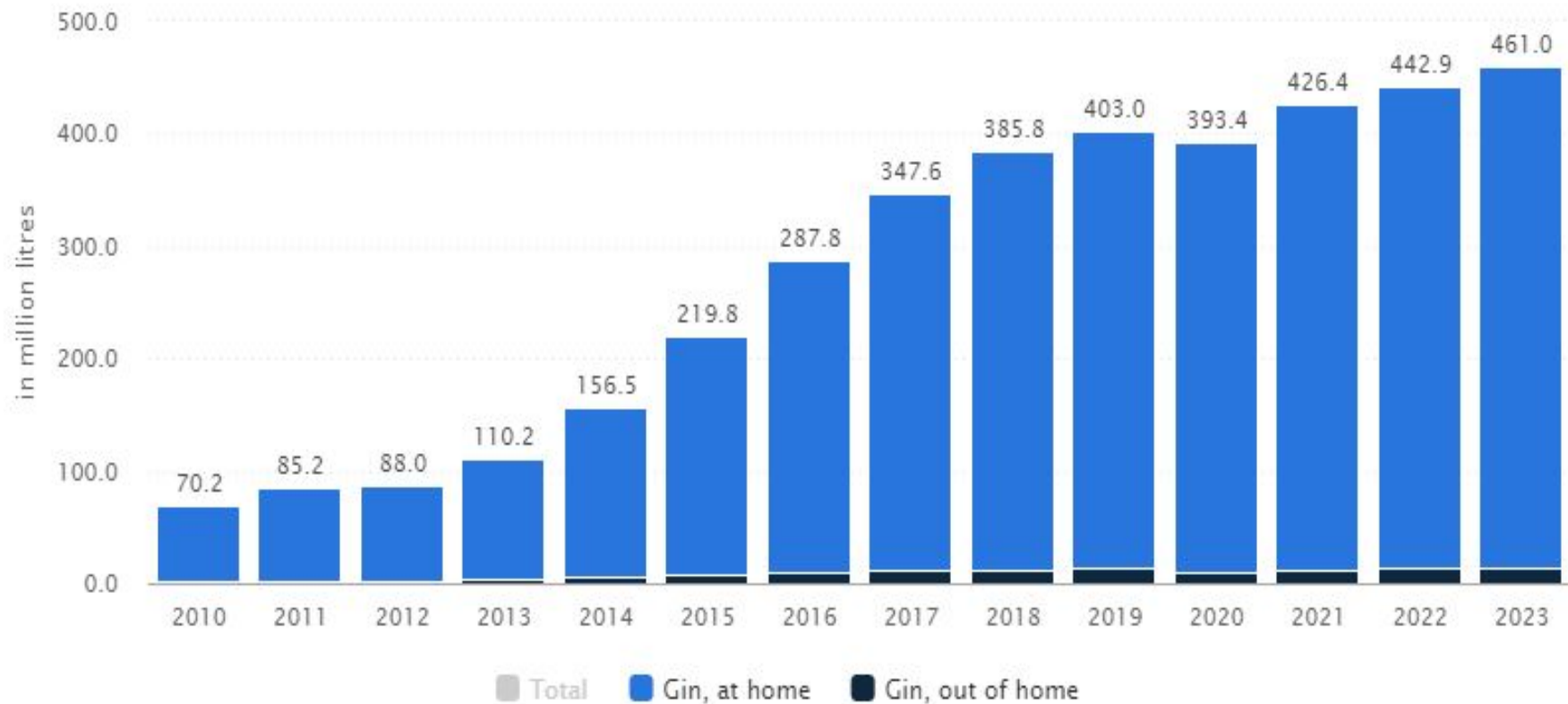
## Revenue

## Revenue Growth



## Volume

## Volume Growth



Source: Statista (Forecast adjusted for expected impact of COVID-19), May 2020

The consumption of gin is found to be highest in the south region of India as there is a well-developed alcoholic beverage market with many of the Alcoholic beverages firms having their corporates office in that region    Bermuda-based **Bacardi's** *Bombay Sapphire* gin is one of the top products.

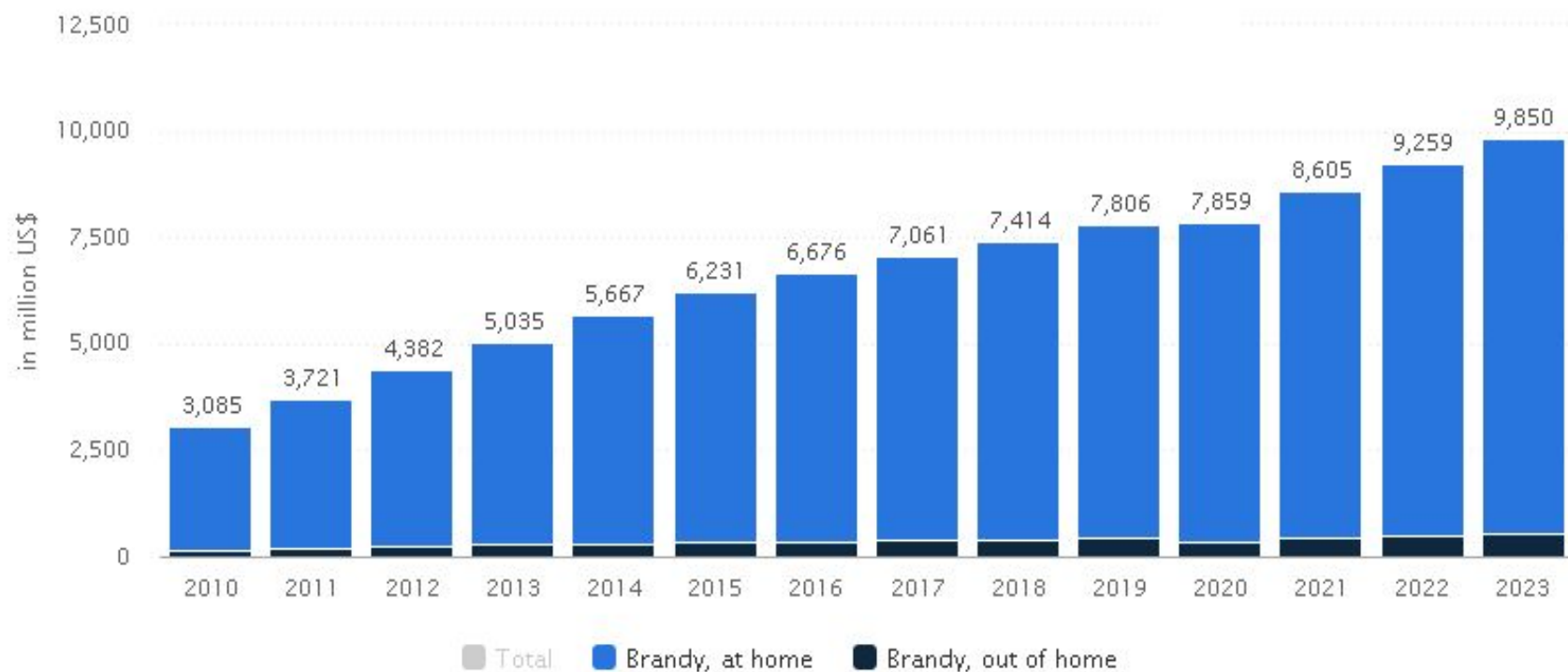
- Revenue in the Gin segment amounts to US\$1,758m in 2020. The market is expected to grow annually by 10.6% (CAGR 2020-2023)
- In global comparison, most revenue is generated in United Kingdom (US\$3,357m in 2020)
- In relation to total population figures, per person revenues of US\$1.27 are generated in 2020
- The average per capita consumption stands at 0.3 L in 2020



# BRANDY

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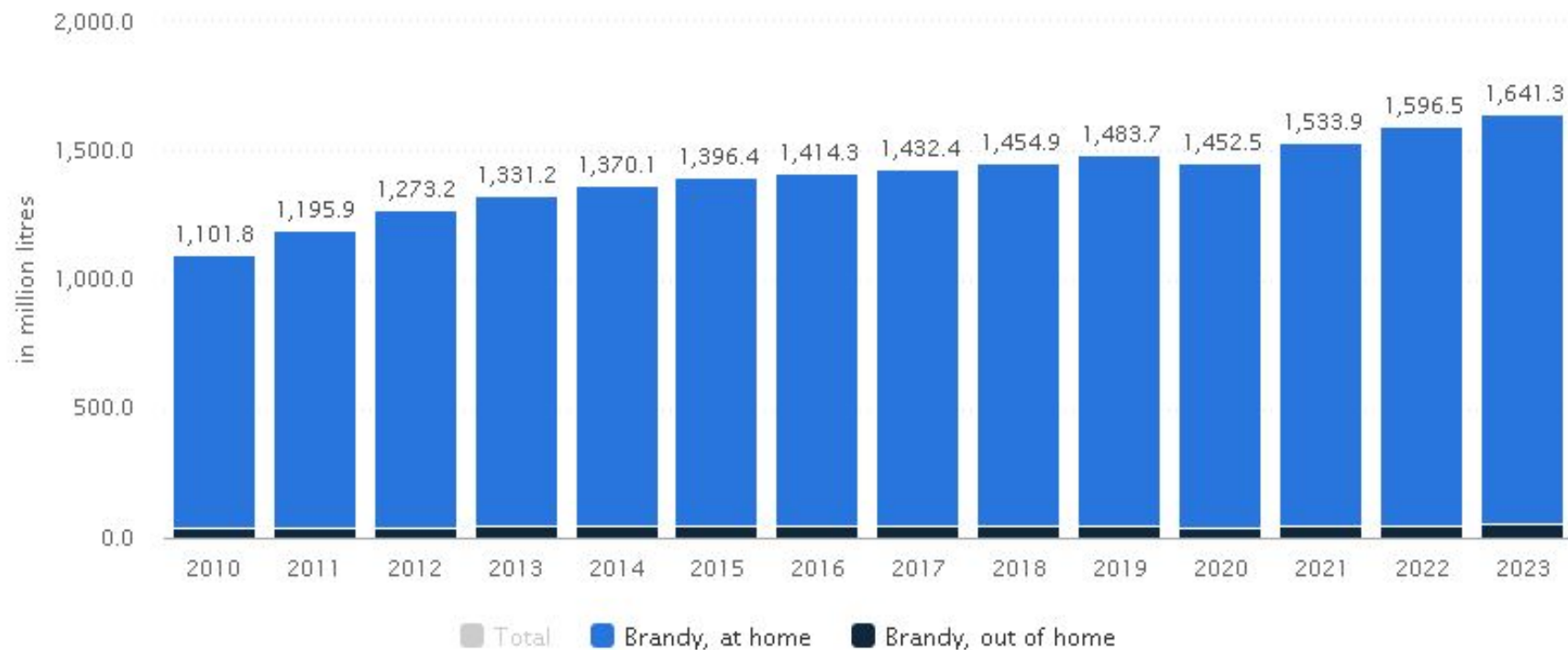
## Revenue



Source: Statista (Forecast adjusted for expected impact of COVID-19), May 2020

Info

## Volume



Source: Statista (Forecast adjusted for expected impact of COVID-19), May 2020

Info



Despite only high presence in south Brandy manages to secure **2nd** position in Indian alcoholic beverages market behind whisky. The companies in Indian brandy market have started focusing on the other regions. Brandy is promoted as a healthy drink which also provides many health benefits and cures different diseases.

- Revenue in the Brandy segment amounts to US\$7,859m in 2020. The market is expected to grow annually by 7.8% (CAGR 2020-2023)
- In global comparison, most revenue is generated in the United States (US\$13,078m in 2020)
- In relation to total population figures, per person revenues of US\$5.70 are generated in 2020
- The average per capita consumption stands at 1.1 L in 2020

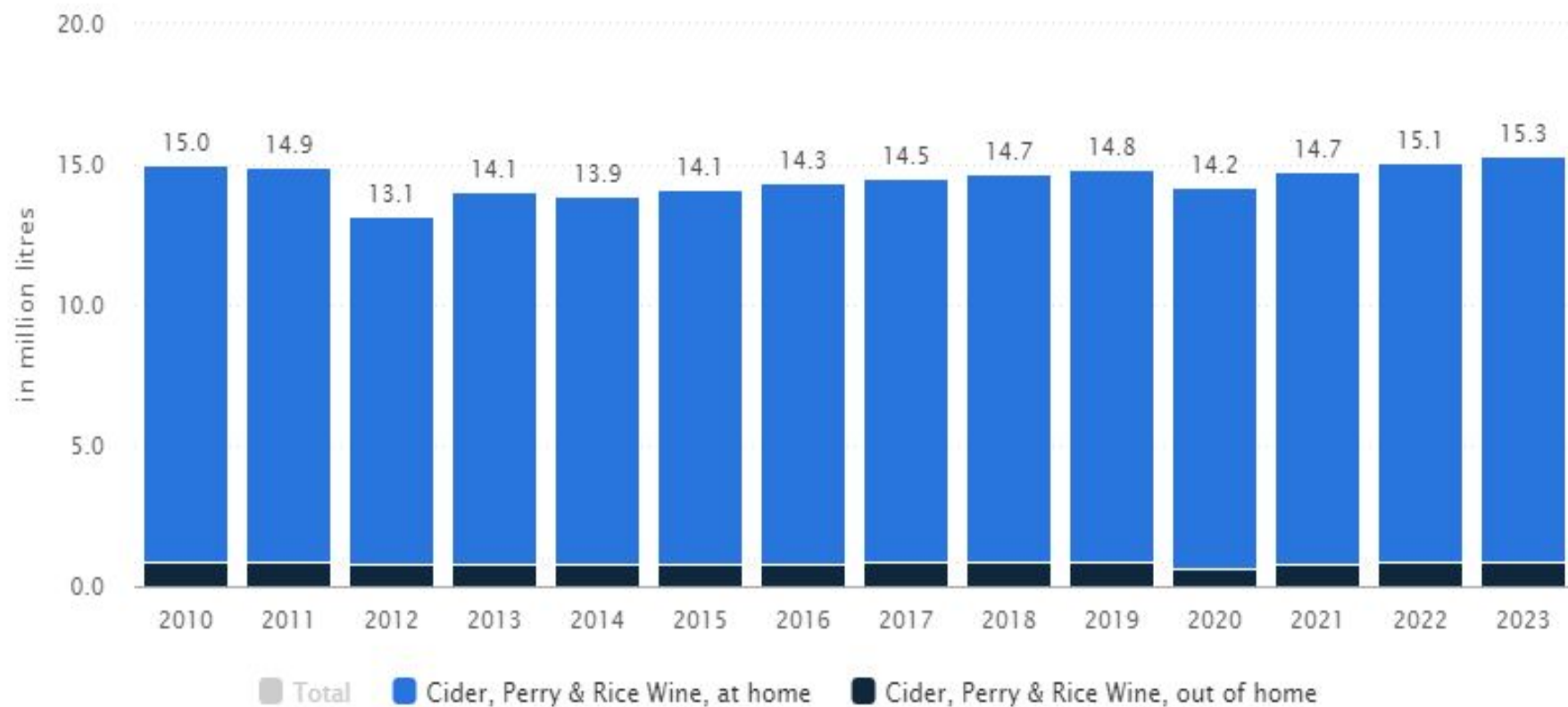


# Cider & Wine

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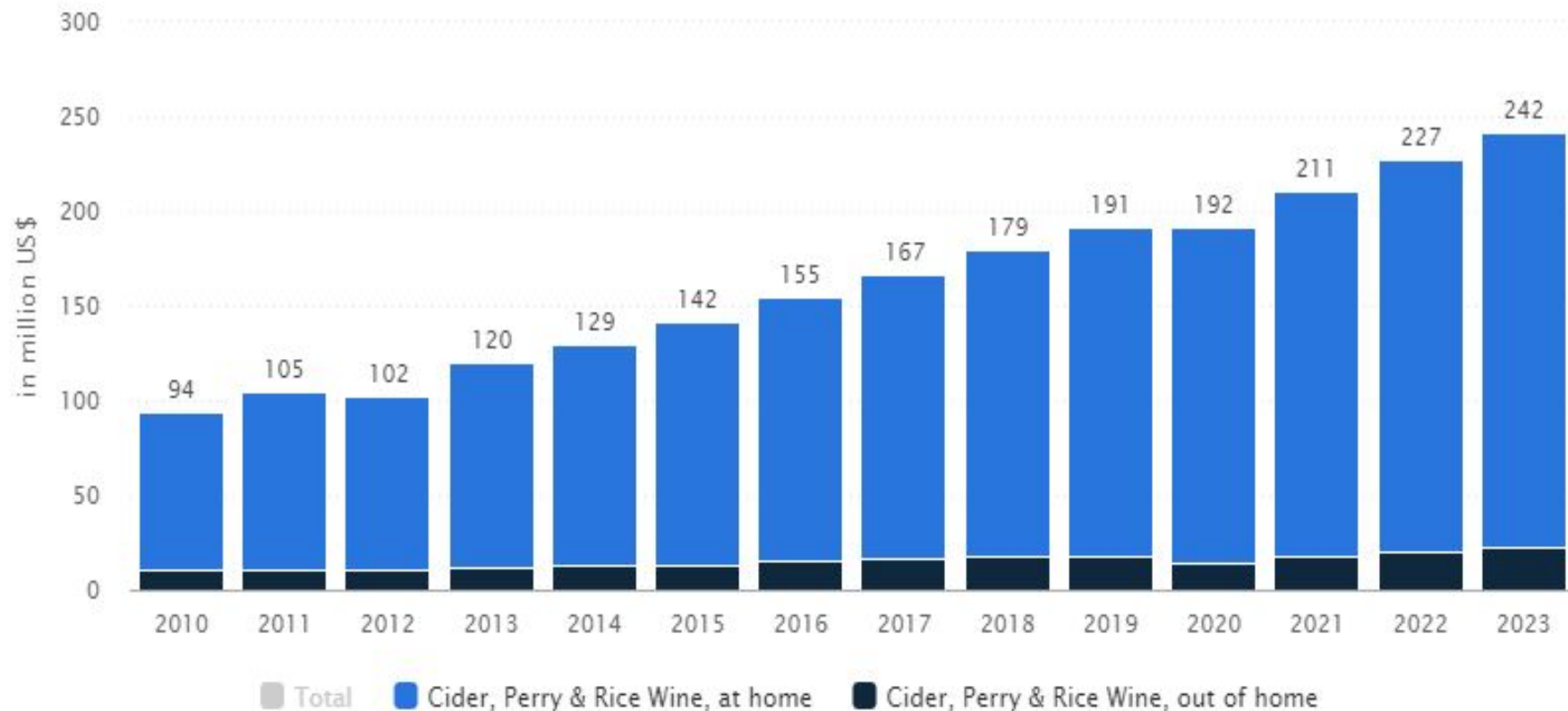
## Volume

## Volume Growth



## Revenue

## Revenue Growth



The global cider, Perry and rice wine market has experienced a stable growth over the past few years. The segment is strongly influenced by the growing consumption of low alcohol worldwide, prompted by the changing consumer lifestyle. In addition, consumers interested in healthier lifestyle are more prone to pay premium for ciders with full juice content. Pairing cider with food is another emerging trend, which is likely to change the positioning of the product.

- Revenue in the Cider, Perry & Rice Wine segment amounts to US\$192m in 2020. The market is expected to grow annually by 8.1% (CAGR 2020-2023)
- In global comparison, most revenue is generated in Japan (US\$31,098m in 2020)
- In relation to total population figures, per person revenues of US\$0.1 are generated in 2020.
- The average per capita consumption stands at 0.01 L in 2020

# State Wise Analysis



## WHAT STATES EARNED AS EXCISE DUTY (IN ₹ CRORE)

	2018-19 (RE)	2019-20 (BE)
All states + 2 UTs	1,50,657.959	1,75,501.422
Uttar Pradesh	25,100	31,517.41
Karnataka	19,750	20,950
Maharashtra	15,343.085	17,477.388
West Bengal	10,554.36	11,873.65
Telangana	10,313.685	10,901

*Top 5 earners listed above.*

*Source: State Finances: A Study of Budgets of 2019-20; RBI*

States have high revenue in Excise duty that's why they never let it come under GST

Market structure	Overview	Pricing Control	States
Free open market	A business may apply for a license for a fee defined by the state government subject to license availability	Company has reasonable independence over price increases	Arunachal, Assam, Goa, Maharashtra, Meghalaya, Tripura, Uttar Pradesh.
Auction Market	The license for sale of queen is achieved by the Government to the highest bidder on an annal hais head in an auction process	Company has to negotiate price increases with state appointed distributor	Chandigarh, Haryana, Punjab
State owned/Gov. corporations	The government is the wholesaler and/or distributor who purchases directly from a company. Some states also have retail shops run by the government	Strict control on pricing by the state government	Andhra Pradesh, Chhattisgarh, Delhi, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Rajasthan, Tamil Nadu, Telangana, West Bengal
Prohibition	States where sales of liquor is prohibited	Not Applicable	Bihar, Gujarat

# Company Analysis

# United Spirits Ltd.

## About

United Spirits Limited, abbreviated to USL, is an Indian alcoholic beverages company, and the world's second-largest spirits company by volume. It is a subsidiary of Diageo, and headquartered at UB Tower in Bangalore, Karnataka. USL exports its products to over 37 countries

# Products

USL has many top brands under their name, premium products like Antiquity, Bagpiper, McDowell's No.1, McDowell's No.1 Platinum, McDowell's Single Malt, Royal Challenge, Signature. Also scotch whiskey like Black Dog, Black n white, VAT 69 etc.



# Financials

- Sales cagr of 5 years is 0.15%
- OPM% -12%
- NPM% - 4.94%
- Tax-42.224%
- Shareholders' Equity:Rs. 2603.36cr ~ and growing at ~ 42.30%
- Total Debt: ~Rs.3452.12 cr & decreasing at 12.42%
- Cash in Bank & Investments: **Rs. 192.06 Cr. decreasing at ~ -30.28%**
- Two stage DCF: **Intrinsic value- 102(overvalued almost 5 times)**
- EPS CAP method: future price- **1854(Almost 3.5 time its current market price in 5 years)**
- Market price: 522.25
- SSGR: 18%;
- Quick ratio: 1.15
- Current ratio: 1.90
- PE:158.40
- ROE:16.36%
- ROCE: 20.82%
- Reserves: ~ Rs. 8913.84 Cr;
- Dividend Payout Ratio:**0%**
- FCF: ~ **Rs. 380.5 Cr ; decreasing at ~ 35.3%**

## Verdict

USL is the subsidiary of Diageo Inc., and the world's second-largest spirits company by volume. But if we look at the financials, they don't look so big now. They have negligible sales growth, their FCF and cash in bank is decreasing massively. They don't even pay dividend[ so much so for large cap company :( ].

Their DCF valuation shows they are overvalued 5 times, because their FCF is very bad. And EPS CAP shows it could grow to 3.5 times but that's because EPS takes profit and revenue into account.

Although they have profit margin, if we look at the CFI, their proceeds from borrowings and repayment of borrowings are similar from 2014 which indicates that they are unable to repay loans through revenue and they take loans to repay older loans every year.

	2014	2015	2016	2017	2018	2019	2020
Proceeds from borrowings	5707	2680	1254	2322	5044	232	410
Repayment of borrowings	-5731	-5465	-1940	-2421	-5755	-811	-968

So, we should **avoid** this company for investments.



# United Breweries Ltd.

## About:

In 1915, the foundation of Good Times was laid with the coming together of 5 breweries in South India. Today, our beer business has shown strong growth and we are the undisputed king of the Indian beer market.

United Breweries Limited is synonymous with innovation and aggressive marketing that is complemented by a strong distribution network which encompasses an impressive spread of owned and contract manufacturing facilities across the country..

# Products:

It owns one of India's most favourite beer brand" Kingfisher, Heniken and other beer brands like Edelweiss, UB Export, London Pilsner, Kalyani Black Label, Bullet, Affligem. Also some non alcoholic beverages like Kingfisher Radler Mint & Lime, Kingfisher Strong Power Soda, Kingfisher Ultra Non-Alcoholic, Kingfisher Premium Packaged Drinking Water



# Financials

- Sales cagr of 5 years is 6.78%
- OPM% -15%
- NPM% - 6.66%
- Tax-32.8%
- Dividend Payout Ratio:**12.808%**
- Shareholders' Equity:Rs. 2775.124cr  
~ and growing at ~ 13.72%
- Two stage DCF: **Intrinsic value-57(overvalued almost 17 times)**
- EPS CAP method: future price-**3925(Almost 4 time its current market price in 5 years)**
- FCF: ~ **Rs. 64.55 Cr ; decreasing at ~ 31.30%**
- Cash in Bank & Investments: **Rs. 37.634 Cr. growing at ~ 43.02%**
- SSGR: 12.8%;
- Quick ratio: 1.07
- Current ratio: 1.69
- PE:180.66
- ROE:12.77%
- ROCE: 16.74%
- Current market price:: 982.60
- Total Debt: ~**Rs. 435.19 cr & decreasing at 21.32%**
- Reserves: ~ Rs. 2748.684 Cr;

# Verdict

UBL is good company to buy if your risk appetite is greater than average. They have reasonable revenue growth and also they pay dividend. Their debt is high but it's decreasing. The weird thing is the FCF is decreasing but the Cash in bank is increasing, which should not be the case.

The drawback is that they are overvalued according DCF method because of poor FCF.

Invest with caution.

# Radico Khaitan Ltd

## About

Radico Khaitan Limited (RKL) is one of the oldest and the largest manufacturers of Indian Made Foreign Liquor (IMFL) in India. Earlier known as Rampur Distillery, RKL commenced its operations in 1943, and over the years emerged as a major bulk spirits supplier and bottler to other spirit manufacturers.

## Products:

Radico Khaitan Limited currently has four millionaire brands in its portfolio; 8 PM Whisky, Magic Moments Vodka, Contessa XXX Rum and Old Admiral Brandy.

The company's robust brand portfolio also includes Rampur Indian Single Malt Whisky, Jaisalmer Indian Craft Gin, Magic Moments Verve Vodka, Morpheus Premium and Morpheus Blue Super Premium Brandy, 8PM Premium Black Whisky, After Dark Whisky, Pluton Bay Rum, Regal Talon Whisky, Whytehall Brandy, 1965 - Spirit of Victory Rum to name a few.



# Financials

- Sales cagr of 5 years is 11.33%
- OPM% -14.6%
- NPM% - 6.96%
- Tax-27.37%
- Dividend Payout Ratio:**11.76%**
- Shareholders' Equity:Rs. 1194.12cr and growing at 12.89%
- Two stage DCF: **Intrinsic value- -76(overvalued almost 6.5 times)**
- EPS CAP method: future price- **1564(Almost 3.5 time its current market price in 5 years)**
- FCF: ~ **Rs. -24.41 Cr, decreasing at 164.59%**
- Cash in Bank & Investments: **Rs. 202.39 Cr, growing at 9.88%**
- SSGR: 10.4%;
- Quick ratio: 2.31
- Current ratio: 3.15
- PE: 25.78
- ROE: 17.30%
- ROCE: 18.40%
- Current market price: Rs. 421
- Total Debt: **Rs. 617.62 cr & decreasing at 13.97%**
- Reserves: ~ Rs. 1167.46 Cr

# Verdict

Radico Khaitan is a mid cap company. It has the possible potential to grow into a large cap, but their FCF is very poor.

According to DCF they are 6.5 times overvalued and EPS is projecting good values because of profit margin and revenue.

So, if the company improves their FCF they can be a good investment.



# G. M. Breweries (Our recommendation)

## About

**G.M.Breweries Limited** (GMBL) was set up in the year 1981 by Shri Jimmy William Almeida. **GMBL** is engaged in the activities of manufacturing and marketing of Alcoholic Beverages; such as Country Liquor (CL) and Indian made Foreign Liquor (IMFL). **GMBL** is having a state of the art fully automatic Bottling Plant at Virar, District Thane, in the state of Maharashtra with a capacity to produce about 50,000 cases a day. Initially The company started producing 200 cases a day which has now reached to more than 50,000 cases a day. **The country liquor industry** producers were producing only 750 & 375 ml bottles only in the old days but it was Mr. Jimmy Almeida who introduced 180 ml bottles in the country liquor industry. Further he was pioneer in introducing pet bottles to the country liquor industry.

# Products

**G. M. SANTRA** : The most leading and Prestigious blend, made from Premium distilled Molasses based Rectified Spirit of Multi Pressure Vacuum Distillation Plant.

**G.M. DOCTOR**: One of our Prestigious brand made from finely Distilled Vacuum distillation Plant. Balanced Blend with the toss of sugarcane juice spirit flavour.



**G.M. LIMBU PUNCH**: A mixed punch blend of Lemon and lime flavours, along with the most supervised quality of Rectified Spirit from MPVD plant.

**G.M. DILBAHAR SOUNF**: Superior blend of Extract fine Distilled Rectified Spirit and Anise flavour , added all spices flavours and herbs flavour for additional palate.



# Financials

- Sales cagr of 5 years is 8.8 %
- OPM% - 23%
- NPM% - 16%
- Tax~ 32%
- Dividend Payout Ratio: ~ 7%
- Shareholders' Equity: ~ Rs. 430 Cr and growing at ~ 27%
- Total Debt: ~ **zero (it's debt free since 2016)**
- Reserves: ~ Rs. 412 Cr; increasing at ~29%
- cCFO/cPAT: 97%
- FCF: ~ **Rs. 73 Cr ; growing at ~ 19%**
- Cash in Bank & Investments: **Rs. 247 Cr. Growing at ~ 23%**
- SSGR: 24%;
- Value created for MCAP with Retained earnings: Rs. -0.43

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- Value created for EPS with Retained earnings: -6.45%
- Earnings Yield: 8%
- ROE DuPont: decreasing YoY since 2019
- Book Value: **Rs. 235.48 growing at ~ 17%**
- DE ratio: **0 (Debt free company)**
- Material cost as % of Sales: ~ 42%
- Two stage DCF: **Intrinsic value-1057(Undervalued almost 3 times)**
- EPS CAP method: future price-**1583(Almost 5 time its current price in 5 years)**
- Quick ratio: 0.83
- Current ratio: 1.25
- Interest Coverage: 0
- Inventory Turnover: 29 (Superbly High)
- Inventory days: ~ 11 to 16 Days
- Receivable Days: ~ 16 days
- NFA Turnover (Sales/NFA): 2.8
- ROA: 31.8%
- ROIC: 28.6%

## Competitive advantage

**Zero inventory:** Many times when a company makes profit, that reflects in their P&L and balance sheet, but the company gets the money after 6 months or a year. So the amount goes to their inventory. In case of GMBL, the amount of total sale that happens, GMBL collects the entire amount from its supplier in advance. So their inventory stays clean, trade receivables low and high FCF.

**Maharashtra Presence:** As Maharashtra has low regulations regarding alcohol production and also has a huge market, GMBL gets a lot of advantage.

**Additional capacity:** The company has additional capacity for production. Till now GMBL has the capacity to process 13.76 cr. bulk litres of country liquor per annum out of which only about 49.20% has been utilized. So the company doesn't need to spend on CAPEX if they want to scale.

# Challenges

**Govt. Regulation:** Indian state govt. has a lot of regulations and tax structures. They charge the highest tax slab from these breweries. Historically, everytime when the govt. faces fiscal deficit, alcohol industry is the only cash cows they see.

**Raw material price:** Alcohol industry needs a lot of raw materials. And as the raw materials come from commodities, their price fluctuates a lot, which in turn hurts the company's profit.

**Zero export:** GMBL is entirely dependent on maharashtra. They don't export anywhere, so if any regulation or policy change happens, it can adversely affect them.

**No brand:** GMBL makes country liquor, AKA "Desi Daaru", which doesn't have a brand recognition, so if things like regulation change, commodity price change happens, company had to compromise it in its profit margin.

## Verdict

The company has a timid sales growth, but because of zero inventory company has a lot of cash reserves and FCF and it's also growing at a commendable rate. The company is debt free and has extra capacity to produce, which means no extra spend on CAPEX to increase their production. The market has its own advantages and limitations.

Promoters holding is 74% which is good. And according to two stage DCF valuation, the company is undervalued by 3 times than its current market price and EPS CAP method, its market price could reach 5 times its current price in 5 years.

So, **the company is a multibagger** according to our analysis, which could give return of at least **300%** in the next **2-3 years**.

# Industry Review

During the Covid-19 lockdown period all the liquor shops were closed for public and manufacturing of alcoholic beverages was also banned from 24th March to 4th May, which dragged USL's volumes 49.2% YoY. When shops were opened after a prolonged period, there were queues of people outside shops, some of them even went on to describe that drinking alcohol gives them inner strength to fight off the virus. Despite the increased excise duty, people were buying alcohol like their life's dependent on it.

All of this clearly indicates that Alcohol as an industry will never go down, even during a recession or a pandemic. This sentiment makes alcohol industry in India a forever growing industry.



*Cheers*

