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LIQUOR COMPANIES
Deep dive – Sep-24 edition

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Outlook and Q1FY25 summary

- In alco-beverages, we have a ‘**BUY’** each on **United Breweries** and **United Spirits.**
- ***UNSP is targeting double-digit sales growth for FY25***. It guided that revenue growth in H1FY25 would be less than double-digit, but would be in a double-digit in H2FY25. P&A pricing and mix would remain in a 6–8% range. ENA is inflationary; rest of the commodity basket is stable.
- UBBL expects industry volumes to grow at a high-single digit and premium to grow at a strong-double digit; ***it shall continue to grow ahead of the industry***. Premium portfolio volumes would grow in high double digits. Overall operating margins in double-digit is likely.
- **In spite of elections-related dry days and supply-side constraints, players turned in a decent performance in Q1FY25.**
- *Premium portfolio continues to do well*: UBBL’s premium portfolio volumes surged 44% YoY in Q1FY25 while Radico’s P&A portfolio grew 19.1%/14.3% YoY by value/volume. UNSP’s P&A portfolio grew 10.1%/5.1% YoY by value/volume.
- The Indian government has lifted restrictions on ethanol production and allowed distilleries to purchase rice from FCI stocks for ethanol production. We did channel checks to gauge the benefit; that said, we expect ENA prices to stay range-bound. We do not expect this benefit to be passed on meaningfully to alco-beverage players—***hence, the benefit to alco-beverage players would be a bit limited.***
- **UNSP’s P&A likely outperformed Pernod India by 1–2% in terms of value growth in Jun-24 quarter**. UNSP’s P&A grew by 10.1% YoY for the quarter while Pernod India’s growth likely stood at 8–9% YoY (FY24 growth 6% and 9MFY24 growth at 5%).
- ***In terms of YoY sales growth, Radico tops at 19% (for overall as well as P&A), followed by UNSP (P&A) at 10% and UBBL at 9%.***
- ***In terms of gross margins, UNSP tops at 44.5%, followed closely behind by UBBL at 43.2% and Radico at 41.5%.***
- ***In terms of EBITDA margin, UNSP tops at 19.5%; Radico follows at 13% and UBBL 11.5%.***
- ***On a three-year basis, all the three players suffered a dip in gross margins. UNSP was almost stable with gross margin contraction of 11bp. Radico is at the bottom with a sharp compression of 557bp.***
- On a three-year basis, Radico posted robust revenue/volume growth in the P&A segment of 129%/88% (versus Q1FY22), followed by UNSP at 92%/45%.

Valuation and ratings

Company name	Rating	CMP	EPS			P/E		
			FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
United Breweries	BUY	2,030	25	39	49	82	52	41
United Spirits	BUY	1,485	22	26	30	66	56	50
Radico Khaitan*	Not Rated	2,010	28	38	48	71	52	42

Source: Nuvama Research, Bloomberg

**Consensus estimates from Bloomberg; CMP as on 2nd September, 2024*

In the alco-beverage space, we have a **'BUY'** each on United Breweries (UBL) and United Spirits (UNSP).

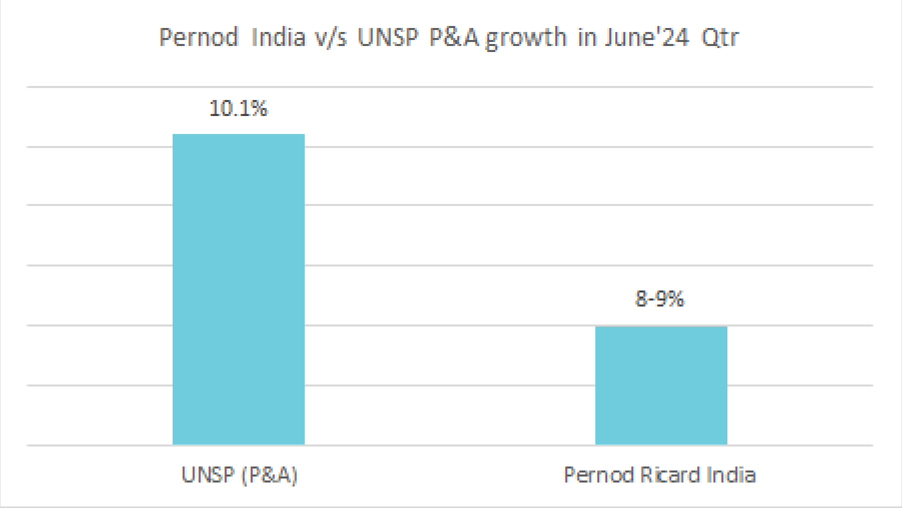
Trends over five years: UNSP, Radico and UBL

Particulars	United Spirits						Radico						United Breweries					
(INR mn)	Q1FY25	Q1FY24	Q1FY23	Q1FY22	Q1FY21	Q1FY20	Q1FY25	Q1FY24	Q1FY23	Q1FY22	Q1FY21	Q1FY20	Q1FY25	Q1FY24	Q1FY23	Q1FY22	Q1FY21	Q1FY20
Revenue	23,250	21,719	21,693	16,151	10,302	22,184	11,365	9,539	7,574	5,976	4,092	6,236	24,751	22,748	24,387	11,195	5,075	20,498
Revenue - P&A	20,660	18,760	15,480	10,770	6,800	14,230	4,995	4,195	2,989	2,182	1,518	2,534	NA	NA	NA	NA	NA	NA
Revenue - P&A Growth	10.1	21.2	43.7	58.4	-52.2	NA	19.07	40.3	37.0	43.7	-40.1	NA	NA	NA	NA	NA	NA	NA
Volume Growth (%) - P&A	5.1	10.3	25.0	60.0	-51.5	8.4	14.3	27.2	29.1	41.1	-47.1	16.0	44.0	-21.1	NA	NA	NA	NA
Volume Growth (%)	3.5	5.8	17.9	61.0	-49.2	6.0	-4.0	3.0	14.3	58.8	-43.5	12.0	5.0	-12.0	121.0	115.0	-77.0	5.0
Gross Profit	10,460	9,474	8,882	7,205	4,291	10,497	4,720	4,159	3,299	2,815	2,235	2,992	10,683	9,260	10,832	5,427	2,372	10,351
EBITDA	4,580	3,851	2,742	1,677	-776	3,951	1,482	1,189	921	917	752	1,001	2,854	2,231	2,661	956	-959	3,291
Margins:																		
Gross Profit margin (%)	44.5	43.6	40.9	44.6	41.7	47.3	41.5	43.6	43.6	47.1	54.6	48.0	43.2	40.7	44.4	48.5	46.7	50.5
EBITDA margin (%)	19.5	17.7	12.6	10.4	-7.5	17.8	13.0	12.5	12.2	15.3	18.4	16.1	11.5	9.8	10.9	8.5	-18.9	16.1

Source: Company, Nuvama Research

Pernod Ricard India versus UNSP's P&A

- UNSP's P&A outperformed Pernod India by 1–2% value gap in the Jun-24 quarter.
- We continue to commend the work being done by UNSP's incumbent MD Ms Hina Nagrajan to premiumise the portfolio and grow faster than Pernod.
- UNSP's P&A segment grew 10.1% YoY in the June quarter while Pernod India's growth stood at 8–9% YoY (as per our calculation given FY24 growth is 6% and 9MFY24 growth is 5%).
- Elections-related dry days and supply-side constraints dampened sales of alco beverages; nevertheless, both players turned in decent growth.
- Pernod highlighted that it witnessed strong consumer demand for spirits and continued premiumisation. Brands such as Royal Stag and Blenders Pride have seen strong momentum.
- By market share in Indian market, Pernod stands at 48% overall, 50% in Whiskies and 42% in imported spirits. India is now the second-largest market for Jameson (a premium whiskey).



Innovation to continue to fuel growth – Radico

Radico

Recent Launches

Enhancing the experience for connoisseurs of luxury brands with India launch

Radico
SPIRIT OF EXCELLENCE

Rampur Asava Indian Single Malt Whisky

- Matured in American Bourbon barrels and then meticulously finished in Indian Cabernet Sauvignon casks, which is first time in the single malt history
- Price starting at ~Rs. 10000 a bottle, it is currently available in 7 states
- Will also be introduced in CSD this year

Sangam World Malt Whisky

- "Sangam" is derived from the Hindi word meaning "confluence," which symbolises the seamless blend of Eastern tradition and Western whisky-making expertise
- Meticulous fusion of premium malts sourced from Europe and the New World
- Priced between Rs. 4000 & 7500, it is available in 4 states currently

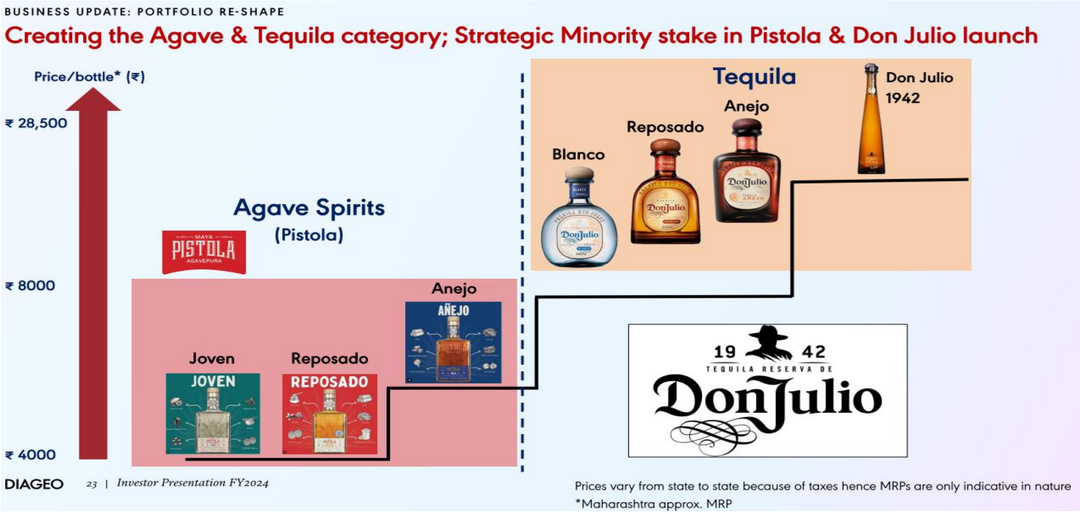
Jaisalmer Indian Craft Gin 'Gold Edition'

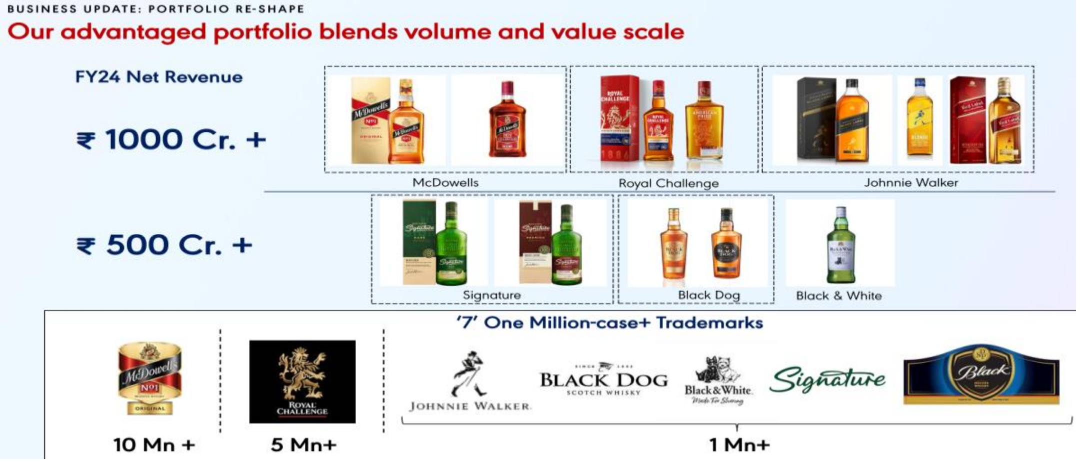
- Distinguishing itself with the inclusion of saffron, the world's most expensive spice
- Of the 18 botanicals used in this gin, 14 are sourced from the four corners of India
- Priced between Rs. 4000 & 7000, it is available in 3 states currently

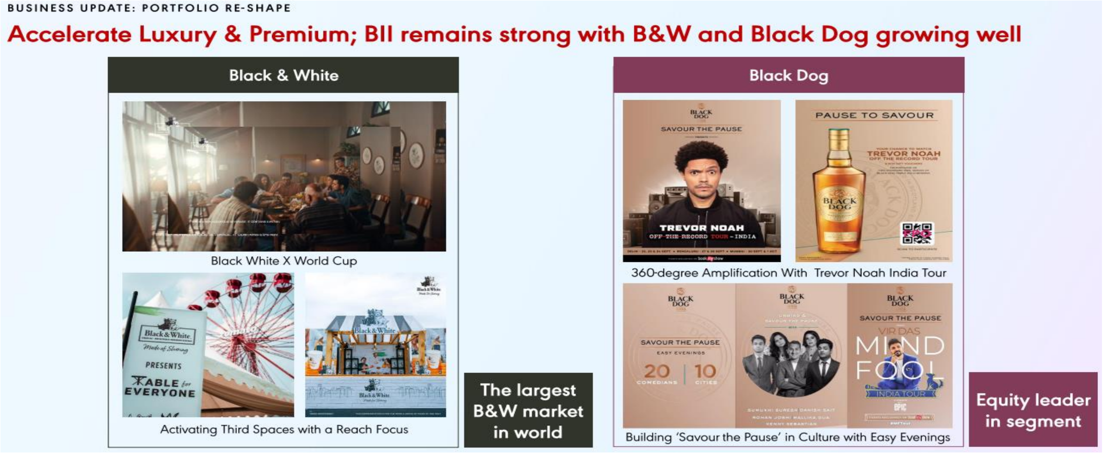
Source: Company presentation

Innovation – UNSP

United Spirits







Source: Company presentation

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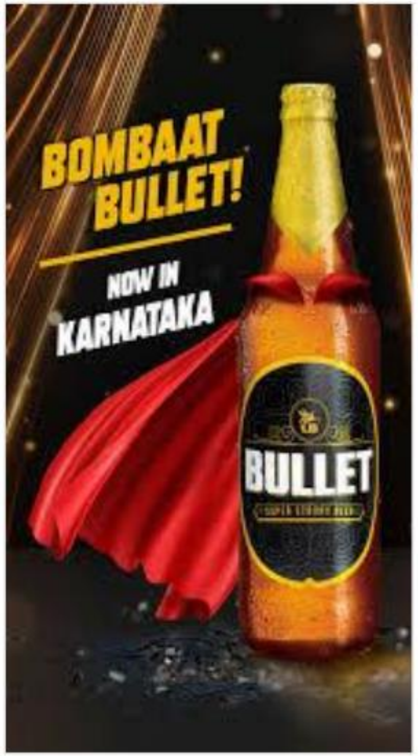
Innovation – UBBL

United Breweries

Examples of recent launches by UBBL



Source: Company, Nuvama Research

Government eases rules for ethanol production

- The Indian government has lifted restrictions on ethanol production from sugarcane-related products and allowed distilleries to purchase rice from FCI stocks for ethanol production.
- Given excess broken rice is now available for ENA production, production cost of grain-based ENA prices could cool off a bit.
- We did channel checks to gauge benefit to liquor companies due to this; that said, we expect ENA prices to remain range-bound. We do not expect this benefit to be passed on meaningfully to alco-beverage players since ENA is more of a sellers' market – ***hence the benefit to alco-beverage players would be a bit limited.***
- Instead of some inflation, ENA is likely to be range-bound.

Detailed update

In an order issued on 29th August, the government has lifted the cap on producing ethanol from sugarcane-related products. All sugar mills and distilleries have been granted permission to produce ethanol from sugarcane juice or sugar syrup and B-heavy and C-heavy molasses for the ethanol supply year (ESY) 2024–25.

Additionally, another order stated that ethanol distilleries can participate in rice auctions of the Food Corporation of India (FCI). Under this order, these distilleries will be allowed to purchase rice at the final fixed price through e-auction from August to October 2024 for ethanol production.

Distilleries would be able to procure a maximum of 2.3mn tonnes of rice from FCI stocks for ethanol production; thus, prices of broken rice shall moderate in the open market.

Experimentation and premiumisation to continue to rise

- According to IWSR, the Indian spirits market is likely to clock flat growth in CY24. It navigated through a complex year due to tax hikes and state elections, not to mention policy shifts in 2023.
- Overall, there is a slowdown in consumption while demand trends for spirits have not changed much sequentially. However, improved retail experiences, increase in OOH consumption and experimentation are giving rise to cautious optimism in the market.
- The prestige segment, also known as the deluxe segment, is the largest segment in the whisky market at 50% by volume in India and is projected to reach 53% by FY25. By volume, the popular segment or mass premium segment makes up 37% of India's whisky market. Together, the value segment (popular + prestige) accounts for a market share of 87%.
- Meanwhile, a strong presence in the value segment is key to driving growth in the premium and luxury categories. The contribution of premium and luxury segment by value is projected to touch 33% of the overall whisky market by FY25, from 31% in FY21.
- India-UK FTA talks continue to face delays due to some sensitive issues remaining unresolved. All in all, we await the FTA between India and the UK. This could benefit volumes at the top end for UNSP.
- Although prices of certain packaging materials have softened recently, prices of ENA and food grains remain a concern. Glass, on the other hand, is finally on a reversal trend with some consolidation taking place across the industry.
- For UBBL, watch out for gross margins due to its higher dependence on new glass bottles, particularly in the premium segment.
- Alco-beverage companies continue to focus on investing in their brands to drive longer-term equity. Building a strategic portfolio at different price points and driving the premiumisation trend remain the key focus areas.

Margin comparison: UNSP ahead on gross, EBITDA margins

- Gross margins (GM) of all the three companies are in a narrow range in the 40s.
- By gross margin, **UNSP tops at 44.5%, followed closely behind by UBBL at 43.2% and Radico at 41.5%.**

Gross Margin %	Q1FY25
United Spirits	44.5
United Breweries	43.2
Radico	41.5

Source: Company, Nuvama Research

- By **EBITDA margin, UNSP tops at 19.5%; Radico follows at 13% and UBBL thereafter at 11.5%.**

EBITDA Margin %	Q1FY25
United Spirits	19.5
Radico	13.0
United Breweries	11.5

Source: Company, Nuvama Research

YoY comparison – Revenue and volume

- In terms of YoY sales growth, Radico tops at 19% (overall and in P&A), followed by UNSP (P&A) at 10% and UBBL at 9%.
- In terms of YoY volume growth, United Breweries' premium performed the best at 44%, followed by Radico's P&A at 14%. UNSP's P&A posted volume growth of 5%. UBBL (overall) performed the best at 5%, followed by UNSP at 4%.

Revenue growth YoY

Revenue growth (%)	YoY
Radico	19
Radico - P&A	19
United spirits - P&A	10
United breweries	9
United spirits	7

Source: Company, Nuvama Research

Volume growth YoY

Volume growth (%)	YoY
United breweries - Premium	44
Radico - P&A	14
United spirits - P&A	5
United breweries	5
United spirits	4
Radico	-4

Source: Company, Nuvama Research

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YoY comparison – Margins

- UBBL registered good gross/EBITDA margin expansion of 245bp/172bp on a low base. UNSP's gross/EBITDA margin expanded 88bp/177bp; adjusted for a one-off, its EBITDA margin expanded 77bp.
- Radico lagged with gross margin contraction of 207bp and a small EBITDA margin expansion of 58bp.

Gross profit growth (%)	YoY
United Breweries	15
Radico	13
United Spirits	10

Source: Company, Nuvama Research

Gross margin change (bps)	YoY
United Breweries	245
United Spirits	88
Radico	-207

Source: Company, Nuvama Research

EBITDA growth (%)	YoY
United Breweries	28
Radico	25
United Spirits	19

Source: Company, Nuvama Research

EBITDA margin change (bps)	YoY
United Spirits	177
United Breweries	172
Radico	58

Source: Company, Nuvama Research

Margin analysis over three-years: UNSP fares better

- On a three-year basis, **all three players suffered a dip in gross margins. UNSP was almost stable** with a gross margin contraction of 11bp. Radico is at the bottom with a sharp compression of 557bp.

Gross profit growth (%)	3 year
United Breweries	97
Radico	68
United Spirits	45

Source: Company, Nuvama Research

Gross margin change (bps)	3 year
United spirits	-11
United breweries	-532
Radico	-557

Source: Company, Nuvama Research

- **Except Radico, the other two companies' EBITDA margins expanded**. UNSP performed the best with 912bp expansion, followed by UBBL with 299bp expansion. Radico lags with compression of 230bp.

EBITDA growth (%)	3 year
United breweries	199
United spirits	173
Radico	62

Source: Company, Nuvama Research

EBITDA margin change (bps)	3 year
United spirits	912
United breweries	299
Radico	-230

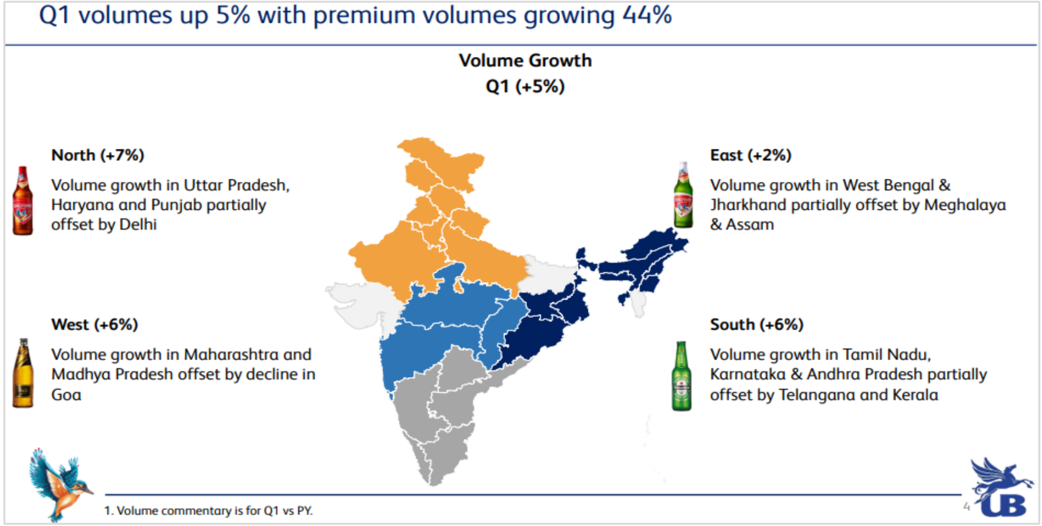
Source: Company, Nuvama Research

United Breweries: Q1FY25 – Transformation story endures

- Top-line growth was affected by election restrictions, particularly in Telangana where UBBL did not get approval for three shifts. UBBL's volumes grew 5% YoY; If there was no election-related impact, volume growth would have been 8–9%.
- Karnataka, Andhra Pradesh, Uttar Pradesh, Maharashtra, Haryana and West Bengal drove the volumes in Q1FY25. Premium portfolio volumes soared 44% YoY driven by Kingfisher Ultra, Kingfisher Ultra Max and Heineken Silver. The Kingfisher Ultra and Kingfisher Ultra Max portfolio expanded more than 50% YoY in Q1 while the Heineken portfolio clocked double-digit YoY growth in Q1FY25.
- The company has started seeing the long-awaited margin recovery; gross/EBITDA margin expanded 245bp/172bp YoY to 43.2%/11.5%. However, contribution of new bottles shall be higher for some periods due to focus on premiumisation, which can limit margin expansion.
- UBBL is expecting industry volumes to grow in high-single digits and premium to grow in high-double digits; it shall continue to grow ahead of the industry.

Q1FY25 versus	Q1FY24	Q1FY23	Q1FY22	Q1FY21	Q1FY20
Revenue Growth	9	1	121	388	21
Volume-P&A	44	NA	NA	NA	NA
Volume Growth	5	-8	104	339	1
Gross Profit Growth	15	-1	97	350	3
Gross margin (bps)	245	-126	-532	-358	-734
EBITDA Growth	28	7	199	-398	-13
EBITDA margin (bps)	172	62	299	3,043	-452

Source: Company, Nuvama Research



UBBL: Trends at a glance

Particulars	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net revenue (INR mn)	16,823	16,130	17,659	22,748	18,901	18,245	21,334	24,751
EBITDA (INR mn)	2,194	770	536	2,231	1,843	1,460	1,428	2,854
PAT (INR mn)	1,341	312	98	1,363	1,073	852	812	1,738
Volume growth (YoY %)	23	4	3.1	-12	7	8	10.9	5
Volume growth (YoY %) - Excl. RTM	NA	NA	NA	-4	9	NA	NA	NA
Premium segment volume	NA	NA	18.6	-21.1	10	14	21	44
Premium segment volume - Ecl. RTM	NA	NA	NA	FLAT	10	NA	NA	NA
Net revenue growth (YoY)	17.9	1.9	3.3	-6.7	12.3	13.1	20.8	8.8
Gross margin (%)	46.9	42.0	38.8	40.7	44.7	44.2	41.9	43.2
EBITDA margin (%)	13.0	4.8	3.0	9.8	9.8	8.0	6.7	11.5
Region wise volumes growth (%)								
- North	15	13	14	-15	1	-1	3	7
- West	22	2	10	2	2	9	0	6
- East	52	3	29	-8	11	22	10	2
- South	21	0	-10	-18	11	10	21	6

Source: Company, Nuvama Research

UNSP: Q1FY25 – Impressive margin delivery

- **The company is targeting double-digit revenue growth in FY25; it highlighted that H2FY25 is likely to be better than H1FY25.**
- The P&A segment posted value/volume growth of 10.1%/5.1% YoY driven by an improved footprint and saliency of innovation and renovation offerings and portfolio reshaping.
- The Popular segment disappointed with 4.6%/2.4% YoY decline in volume/value terms due to continued slowdown in demand as inflation has been impacting price-sensitive consumers.
- Gross margin is still below the pre-covid level. Meanwhile, the gap has now narrowed, indicating prudent raw material cost measures and efficient inventory management.
- The company is innovating heavily in white spirits (under-indexed at 5% of total market) and seeing strong growth potential in both white spirits and Indian single malts.
- RM cost, particularly ENA's, continues to be inflationary. Glass prices shall continue to remain soft.

Q1FY25 versus	Q1FY24	Q1FY23	Q1FY22	Q1FY21	Q1FY20
Revenue Growth	7	7	44	126	5
Volume-Premium	5	16	45	132	12
Volume Growth	4	10	29	108	6
Gross Profit Growth	10	18	45	144	-0
Gross margin (bps)	88	356	-11	285	-282
EBITDA Growth	19	67	173	-690	16
EBITDA margin (bps)	177	686	912	2,703	169

Source: Company, Nuvama Research

UNSP: Q1FY25 – Impressive margin delivery

UNSP acquired V9 Beverages Private Limited ("Sober") and Indie Brews and Spirits ("Quaffine").

V9 Beverages

It is a zero-alcohol beverage company engaged in the business of developing, producing, marketing and selling zero-proof alcohol beverages under the brand name "Sober". V9 aims to give consumers a wider choice of drinks on social/personal occasions. Turnover was INR5.9mn in FY23. Currently, the entire revenue of Sober is from India. The cost of acquisition was INR22.9mn for a 15% share capital.

Sober was founded by Mr Vansh Pahuja and Mr Aditya Aggarwal (first-generation entrepreneurs), who tapped into the demand traction witnessed in the non-alcoholic beverage market. Sober was incorporated on 4th November 2020 and started commercial operations of its distilled, non-alcoholic drink business in October 2021. Its products are Sober Gin, Sober Rum and Sober Whiskey (distilled non-alcoholic drinks).

Indie Brews and Spirits

It is an alcohol beverage company working under the brand name "Quaffine". Quaffine is a mid-proof alcohol in the premium craft segment. It uses Indian coffee beans and has the potential to cater to a wider drinking occasion, where casual-moderate drinking is on the rise. With this investment, the company continues to partner with breakthrough start-up entrepreneurs to experiment in the emerging consumer trends of the category. Turnover as on FY23 was INR6mn. Approximately, 93% of the revenue is generated from local sales in India. Additionally, Quaffine's products are available in Kenya and Thailand. The cost of acquisition was INR50mn for 25% of its share capital.

Quaffine was founded by Mr Isaac Vivek Mani and Mr Olson Pereira, who are seasoned professionals with a combined experience of over 35 years in the food & beverages industry. Quaffine was incorporated on 14th February 2022 and started commercial operations of its speciality alcohol beverage business in September 2022.

Our view: These new categories are gaining traction, and investments are at early stage to be future-ready. Craft ecosystem shall grow with Diageo support and brand equity. Based on performance, UNSP will decide whether to increase investments in their existing M&A investments.

UNSP: Trends at a glance

	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Sales growth (%)	34.3	18.7	(3.6)	2.4	0.1	(1.4)	7.5	6.9	8.3
Volume growth (%)	17.9	8.3	3.2	2.9	5.8	1.0	(1.8)	3.7	3.5
Prestige and above volume growth (%)	25.0	13.6	3.1	9.9	10.3	3.8	4.6	3.7	5.1
Popular volume growth (%)	11.0	1.6	3.2	(17.6)	(11.9)	(10.8)	(22.8)	4.0	(4.6)
Prestige and above net sales growth (%)	44.0	23.1	11.7	23.2	21.2	12.8	10.0	6.6	10.1
Prestige and above sales per case (INR)	1,556	1,735	1,872	1,812	1,709	1,885	1,967	1,861	1,790
Popular sales per case (INR)	872	875	879	978	999	993	998	972	1,019
Gross margins (%)	40.9	39.4	40.6	45.4	43.6	43.4	43.4	43.3	44.5
COGS per case (INR)	1,023	1,101	985	904	925	1,005	1,027	969	953
A&P spends (% of sales)	6.5	5.5	10.0	13.8	6.8	8.4	11.0	12.2	7.4
Employee spends (% of sales)	7.7	5.3	5.8	4.9	5.8	5.0	4.7	5.0	5.7
Other expenditure (% of sales)	14.2	13.5	11.6	13.1	13.4	13.6	11.3	12.5	11.9
EBITDA margins (%)	12.6	15.2	13.2	13.6	17.7	16.4	16.4	13.6	19.5
EBITDA per case (INR)	219	277	219	224	291	291	298	232	334
Net Sales (INR mn)	21,693	29,042	27,811	24,938	21,719	28,657	29,893	26,660	23,250
EBITDA (INR mn)	2,742	4,424	3,678	3,380	3,851	4,701	4,914	3,620	4,580

Source: Company, Nuvama Research

Radico Khaitan – Q1FY25

- **The company expects to continue to deliver double-digit premium volume growth in FY25.**
- Radico Khaitan turned in sales growth (19% YoY) with overall growth similar to P&A (P&A also grew 19% YoY) in Q1FY25. By YoY volume, P&A grew 14% while overall volumes dipped 4%.
- Non-IMFL (~34% revenue contributor) surged 57% YoY due to full capacity utilisation of the Sitapur plant (commissioned in Q3FY24).
- Gross margins contracted 207bp YoY; it was impacted majorly due to significant food grain inflation. Grain price inflation had a negative impact of 335bp YoY on gross margin.
- Despite commodity inflation in the ENA and grain prices, the company has been able to sustain gross margin due to ongoing premiumisation and price increases in the IMFL business.

Q1FY25 versus	Q1FY24	Q1FY23	Q1FY22	Q1FY21	Q1FY20
Revenue Growth	19	50	90	178	82
Volume-P&A	14	45	88	165	40
Volume Growth	-4	-1	13	79	1
Gross Profit Growth	13	43	68	111	58
Gross margin (bps)	-207	-203	-557	-1,310	-645
EBITDA Growth	25	61	62	97	48
EBITDA margin (bps)	58	88	-230	-535	-302

Source: Company, Nuvama Research

Three-year analysis – Revenue and volume

- On a three-year basis, among our coverage, UBBL clocked robust volume growth of 104%, followed by UNSP at 29% (overall).
- Premiumisation marks the most important theme for these companies given the consumer trend and low margins at entry level.
- ***For instance, on a three-year basis, Radico posted robust revenue/volume growth in the P&A segment of 129%/88% (versus Q1FY22), followed by UNSP at 92%/45%.***
- On a three-year basis (overall topline), UBBL posted robust revenue growth of 121% followed by Radico at 90% and UNSP at 44%.

Revenue growth in Q1FY25 on a three-year basis

Revenue growth (%)	3 year
Radico - P&A	129
United breweries	121
United spirits - P&A	92
Radico	90
United spirits	44

Source: Company, Nuvama Research

Volume growth in Q1FY25 on a three-year basis

Volume growth (%)	3 year
United breweries	104
Radico - P&A	88
United spirits - P&A	45
United spirits	29
Radico	13

Source: Company, Nuvama Research

Allied Blenders & Distillers – Q1FY25 performance

- ABD is the most recently listed company in the alco-beverage space.
- Its Q1FY25 net revenue of INR7.6bn is down 7% YoY/1.3% QoQ. Management highlighted that election and political changes led to an industry-wide slowdown in Q1.
- The company's overall volumes dipped 11.8% YoY. Despite good demand for its products, persistent delays in receivables from a key market since H2FY24 have impacted the industry as well, continued to affect its overall servicing needs and short-term volume growth in Q1FY25. If not for this issue, the company would have clocked double-digit volume growth on a QoQ basis in Q1FY25.
- P&A volumes' salience came in at 37% in Q1FY25 and value salience at 46%.
- Its EBITDA of INR741mn is up 42.5% YoY/24.1% QoQ; EBITDA margins expanded 340bp YoY/200bp QoQ to 9.8%.
- Gross margin expanded 424bp YoY, but contracted 28bp QoQ to 38.7%. Gross margin expansion breakdown: 310bp due to price and ~100bp from COGS reduction (versus Q1FY24). Margin improvement on account on cost savings has been due to packaging initiatives, e.g. PET conversion, mono carton reduction and improvement in market bottle utilisation.

ABD Q1FY25 results

Allied Blenders	Q1FY25	Q1FY24	YoY	Q4FY24	QoQ
Net revenues	7,576	8,143	-7	7,676	-1.3
EBITDA	741	520	42.5	598	24.1
Adjusted Profit	112	-27	NM	-24	NM
EBITDA Margin (%)	9.8	6.4		7.8	

Source: Company, Nuvama Research

Allied Blenders & Distillers

Outlook/guidance given during Q1FY25 conference call

- The company expects the mass premium segment to grow at mid-to-high single digit and P&A segment to grow at mid-double digits.
- Management guided for double-digit volume growth in FY25.
- Volume and value performance in Q2 is expected to be better than Q1. The company expects FY25 margins to be in low double digits. On an annual basis, interest costs would be lower by 50% in FY25.
- Utilising IPO proceeds, the company repaid all legacy bank dues and cleared all VAT liabilities.
- The tax rate will be 25% FY26 onwards.

State-specific commentary

Andhra Pradesh

- Andhra's policy is yet to be announced, but it shall be effective from 1st October.
- The company believes that the industry could get benefits such as direct access to retail outlets, which would be beneficial for private players. Sold around 1.7mn cases in AP in FY24.

Telangana

- Telangana is the biggest market for ABD by volume and value; it generates 25%-plus business in both volumes and value terms.
- Alco-bev players are facing delayed receivables from Telangana, which has affected the entire industry. However, the company has guided that the issue is expected to be resolved after another quarter. Industry associations have given their representation to the government regarding the matter.
- Total overdue receivables from Telangana are ~INR3.8bn.

Allied Blenders & Distillers: Recent meet key takeaways

We recently met with top management of Allied Blenders & Distillers (ABD); key insights from the meeting:

- ABD is the largest Indian-owned Indian-made foreign liquor (IMFL) company and third-largest spirits company in India by volume.
- With IPO money, the company repaid ~ INR8bn of gross debt and cleared its outstanding VAT liabilities. A strengthening balance sheet lifts the odds of a credit re-rating.
- ABD has two priorities: expand P&A market share and improve margins. New brand rollouts in the luxury and premium segment this year are being planned.
- The IMFL industry is likely to grow in mid-single digits by volume, and ABD intends to outpace it.
- India has low per capita alco-beverage consumption (versus global levels); this coupled with positive demographic factors make India an attractive market for alcoholic beverages.

ICONiQ White Whisky: ABD's recent millionaire brand

ABD boasts a portfolio of millionaire brands including *Officer's Choice Whisky*, *Sterling Reserve*, *Officer's Choice Blue* and *ICONiQ White Whisky*. A millionaire brand means a brand surpassing sales of 1mn 9-litre cases annually. The latest addition to millionaire brands is *ICONiQ White Whisky* launched in Sep-22; it achieved the millionaire status in its first year and crossed 2mn cases in its inaugural full year (i.e. FY24).

In fact, it achieved this milestone despite being available only in the states of North and East India along with Maharashtra and Telangana. It was the fastest growing spirits brand in CY23 as per Drinks International magazine, The Millionaire's Club 2024 list. Current annual-run rate for FY25 is 4–5mn cases (doubling from FY24 volumes). ABD plans to make it available pan-India by Q3FY25.

A cocktail to sip!

- India is **one of the most attractive/fastest growing** alcohol markets in the world.
- **India is the third-largest market** in the world after China and the US by volume and will likely have 39% drinking population by 2025.
- The market is dominated by whisky, followed by beer and wine.
- The premium end of the Indian spirits market is largely **dominated by the top two global companies: Diageo and Pernod Ricard.**
- The IMFL market is concentrated among the top three players. United Spirits (UNSP) is the leader in IMFL.
- **Key risk/issues**: Government control in almost all states in terms of pricing/distribution, sudden CAG/excise duty issues cropping up and cartel in glass supply, which is a key raw material. Competitive intensity remains high. Other key concerns are state elections leading to higher stimulus programmes driving sharp price hikes in the liquor industry, glass inflation (capacity constraints) and high ENA prices.

Key players in Indian Alco-beverage market

Alcohol	Company	Brands
Spirits	Diageo India	McDowell No. 1, Royal Challenge, Signature, VAT 69, Black Dog, Johnnie Walker
	Pernod Ricard	Imperial Blue, Royal Stag, Blenders Pride, 100 Pipers, Ballentine's, Chivas, Glenlivet
	Radico Khaitan	8 PM, Magic Moments
	Allied Blenders	Officer's Choice Blue, Officer's Choice Black, Sterling Reserve B7, Sterling Reserve B10
Beer	United Breweries	Kingfisher, Kalyani Black label, Sandpiper, Heineken
	Anheuser-Busch InBev NV	Haywards, Fosters, Budweiser, Corona
	Bira 91	Bira Light, Bira Strong, Bira Blonde, Bira White
	Carlsberg	Tuborg, Carlsber

Source: Nuvama Research, Industry reports

All price charts cannot be included given the large of number of companies in our coverage. Specific charts may be available upon request

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