**Pincon Spirit Perfect Blending of IMFL, IMIL & FMCG !!**

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**Sector –**  **Breweries & Distilleries**

**CMP – 75/-**

**M.Cap – 345 cr.**

**Business Snapshot –**

* **Overview - Pincon Spirit is engaged in manufacturing, blending, bottling, distributing and selling of Indian made foreign liquor (IMFL) and Indian made Indian liquor (IMIL) in West Bengal and surrounding states. In IMFL segment, Pincon mainly offers entry point products, being smart enough not to compete with the big players already with established brands in the market. This helped Pincon carve out a niche in the liquor industry of West Bengal. With a bouquet of 12 IMFL brands (in entry point segment only) and 3 IMIL brands, Pincon is the No.1 player in the West Bengal region in IMFL (entry point) and IMIL segment.**
* **Promoter Background/Management Quality - Promoter Mr. Manoronjan Roy started his career from a shop selling different brands of liquor. Slowly and gradually with the industry learning, he ventured into distribution of liquor. Today Pincon has successfully ventured into manufacturing, blending and bottling business. Mr. Roy is a very energetic and dynamic person. He understands the liquor industry well from its grass root level. He has been there in this industry for last 2 decades now. He is well versed with the political and regulatory challenges this industry faces. He is smart enough to offer the best quality product at lease cost. He knows that the least cost producer strategy will work in this industry. The entire top mgmt comprises of well experienced and educated professionals carefully hand picked from United Spirits, Radico Khaitan and HUL. Each segment of business has its own set of mgmt team driving its growth. This helps the mgmt team in focusing on one business segment and take effective decisions. On top of that, Mr. Roy and Mr.Arup Thakur oversees the entire business and take part in the strategic decisions made.**
* **Transformation/Expansions - Recently since last 2 years the company has ventured into its own liquor manufacturing and has been successful in killing competition and gain No. 1 position in both the liquor segments. Company plans to expand its IMIL capacity in FY16-17 from 4lac bottles to 8 lacs bottles per day which is 100% growth. West Bengal consumes 6cr IMIL bottles per month apart from the illicit liquor segment which throws wonderful opportunity for Pincon. Company has expanded its IMFL business in the surrounding states like Karnataka, Jharkhand, Orrissa, Andhra Pradesh and Telangana, etc. Karnataka is a very big market and company has been successful in that state so far. In IMFL it has a total capacity of 80000 bottles per day. Company plans to expand its IMFL business by growing geographically. It has recently entered into contracts with various bottling units in Karnataka, Jharkhand and Odisha for bottling of their IMFL products. In FMCG segment, it has 2 brands and the business is growing at 50-60% CAGR. It has a current capacity of 12000MT per annum. Company has its own oil refining and packaging facilities.**
* **Unique DNA/Main Focus - Company has done an excellent work by transforming the country liquor segment from low quality products being supplied earlier to high quality grain based liquor in PET bottles. Government’s thrusts on eliminating trade of illicit liquor in the state and increase their revenues from this segment by making the entire sector organized makes Pincon in a sweet spot. This has been a win win situation for all the stakeholders – govt. by increasing tax revenues, consumers by getting good quality liquor at almost same price, thereby safeguarding their lives and of course Pincon, growing aggressively.**
* **Conclusion - Currently 26% of the total revenues come from branded play (IMIL,IMFL and FMCG) and the rest comes from distribution and retail outlets owned by the company. Company aims at increasing the share of branded segment to 50-65% in next 2 years. Currently, the OPM is very low of close to 6%. The branded (manufacturing business) generates an OPM of 8-8.5%. Increase in market share and strengthening of competitive position, increasing operating leverage and increased share of branded business will contribute to increase the OPM to 14-15% in next 4-5 years. West Bengal is one of the most liquor deficient state of India. Demand is huge compared to supply. This all indicates that there is a lot more for Pincon.**

**Products -**

* **IMFL – Portfolio of 12 successful brands. No. 1 in West Bengal (in entry point segment only) and successful entry last year in Karnataka. Planning to expand to other states also and deeper penetration in Karnataka.**
* **IMIL – Portfolio of 3 brands. One own – Pincon Bangla No.1, and 2 acquired recently – Bengal Tiger and Udaan. No.1 position in West Bengal after acquisition. Planning to increase the capacity by 100% this year. Already enjoying 40% market share and planning to increase the market share to 60%. Two sources of growth – consumers shifting from illicit liquor to good quality grain based liquor in PET bottles and inorganic acquisitions.**
* **IMFL export – Pincon has recently acquired OSPL – a Singapore based company to export its premium segment newly launched brand - Ultra Force XXX Jamaican Rum to ASEAN countries. This will also facilitate the import of liquor and pulses for onward marketing in India.**
* **FMCG – Portfolio of 2 brands – Pincon and Kings Coin. Oil business growing at 50-60% CAGR. Planning to penetrate more in north Bengal which in not much penetrated and North East India.**
* **Wholesale Distribution – Company enjoys tie-ups with more than 3000 licenses in West Bengal. Major portion of its revenues come from this segment.**

**Company targets to achieve a turnover of 3000 cr by year 2020 !! This means 32% CAGR over next 4 years.**

**Corporate Structure -**

**Pincon Spirit has 3 subsidiaries –**

* **Paul Distributors Private Limited – Distribution business run through this subsidiary.**
* **Priya Laboratories Private Limited – Back end, bottling plant.**
* **Yours Laboratories Private Limited – Back end, bottling plant.**

**The standalone company operates in 3 major business – IMFL, IMIL and FMCG (oil). It has recently made an acquisition of a Singapore based company to export its products.**

**Valuations –**

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| **Particulars** | **Value (in cr)** |
| TTM Sales | 946cr. |
| TTM Net Profit | 25cr. |
| M.Cap | 338cr. |
| TTM PE | 13.60 |
| TTM EPS | 5.64 |

**Financial Characteristics –**

* **ROE – 34%**
* **ROIC – 39% (considering long term loans and advances).**
* **Asset turnover ratio – 3.11 times**
* **Sales Growth – 57% (standalone) and 42.63% (consolidated).**
* **Profit Growth -53% (standalone) and 58% (consolidated).**
* **OPM – 5.93% (branded play is very less, only 26%). This will rise to 14-15% in next 4-5 years.**
* **Bonus issued 2 times – in FY 16 and FY 17.**
* **P/E – 13.60 times.**
* **Debt-Equity Ratio – 2.8 times. (60 cr given by Mr. Roy as unsecured loan without interest, so effective D/E is 2.10).**
* **No. of equity shares – 4.41 cr shares. (2.2 cr shares earlier, doubled because of bonus issue).**
* **Working capital days – 116 days (high due to wholesale and retail business major part of revenues).**
* **Operating cash flow – Negative since last 2-3 years. This is mainly because of high growth in the business, which leads to high investment in working capital (inventory). The growth is expected to taper of over next 2-3 years which will make operating cash flow positive.**

**Triggers/Expansion –**

* **100% expansion planned in IMIL segment – from 4lac bottles per day to 8lac bottles per day. Current market share is 40%. Planning to increase it to 60% + in next 2 years. Government boosting and encouraging these companies to help it counter illicit liquor trade in the state.**
* **Aggressive expansion in new geographies. Successful expansion in Karnataka. Expanding and penetrating further in Jharkhand, Odisha, etc. 40-50% growth expected for next 2 years.**
* **Aggressive expansion and deeper penetration in FMCG products. North Bengal largely under penetrated yet. 50-60% growth expected for next 2 years.**
* **More and more business coming from high margin branded products. This should drive up the OPM to 14-15% over next 4-5 years. This should boost bottom line.**
* **Export of its Jamaican Rum XXX to ASEAN countries will help Pincon diversify its business further.**
* **Shifting from molasses to grain based products is encouraged by West Bengal govt. to safeguard the lives of people consuming the product. Providing the same product with improved quality and same price has helped Pincon tap the market successfully.**

**Risks -**

* **Highly regulated market - Government decides the market price for its products. Highly taxed sector and facing increased taxation every year. Pincon focuses on both – providing quality product at least cost. In such industry, where the market prices of product are already fixed, the least cost strategy can only help a company gain competitive advantage in the market. This is what Pincon has been doing. This does not mean that Pincon does not focus on quality. IT serves the best combination of quality and cost.**
* **High political risk - Kerala the largest alcohol consuming state of India recently banned alcohol in phased manner over 10 years. Even Bihar government decided to ban liquor to win the votes of women in the state. An increasing trend of liquor ban by political parties has been witnessed in recent past.**
* **Geographic Concentration – Companies major business is concentrated in West Bengal. However, it has started expanding to other states like Karnataka, Odisha and Jharkhand. It has also acquired a Singapore based company to venture into export markets of ASEAN countries.**
* **Industry Concentration Risk – Major portion of its revenues come from the liquor industry and very less portion comes from oil business. However, company is continuously trying to de- risk its business model from the very risky liquor segment.**

**Conclusion –**

**Management Quality – Good.**

* **Mr. Roy having 2 decades of experience in the liquor industry.**
* **A very energetic and dynamic team at the top level, with professionals having decades of experience in the industry, picked from United Spirits, Radico Khaitan and HUL, etc.**
* **Separate mgmt teams for each business segment.**
* **Mr. Roy having good knowledge about the regulatory and political risks faced by the industry. He was smart enough to go for the least cost provider strategy.**

**Business Quality – Good and will further improve over next 4-5 years.**

* **OPM set to improve to 14-15% from mere 6% today.**
* **Targeting 60% market share from 40% today.**
* **50-60% + contribution from manufacturing segment in next 3-4 years.**
* **Continuous De risking of business model, by expanding FMCG segment.**
* **Continuous efforts to reduce the concentration risk in West Bengal.**
* **Dominant position in IMIL and IMFL (entry stage only) in West Bengal.**
* **Focus on good quality combined with least cost.**

**Business is poised to grow at 60% Y-on-Y for next 2 years and at 30-40% for another 3 years. The stock is available at a PE of 13. With the improvement in the OPM every year, the bottom line is set to improve further which will boost the ROE of the business from the current levels of 39%. A perfect blending of IMFL,IMIL and FMCG makes it a perfect story to invest in.**