



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

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Institutional Equities

Tilaknagar Industries

22 May 2024

In-line performance with strong margins offset by flat topline given a high base; debt reduction key positive

RESULT UPDATE

Sector: Alco-Beverages Rating: BUY

CMP: Rs 227 Target Price: Rs 317

Stock Info

Sensex/Nifty	74,221/ 22,598
Bloomberg	TLNGR IN
Equity shares (mn)	185
52-wk High/Low	Rs 291/140
Face value	Rs 10
M-Cap	Rs 44bn/US\$ 0.53bn
3-m Avg volume	US\$ 2mn

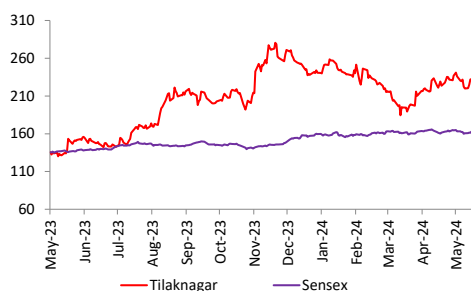
Financial Snapshot (Rs mn)

Y/E Mar	FY24	FY25E	FY26E
Sales	13,940	16,170	18,360
Adj. PAT	1,410	1,670	1,757
Adj. EPS (Rs)	7.3	8.7	9.1
PE (x)	31.0	26.2	24.9
EV/EBITDA (x)	24.0	19.3	15.8
P/BV (x)	6.7	5.4	4.5
EV/Sales	3.2	2.7	2.3
RoE (%)	24.8	22.8	19.7
RoCE (%)	21.6	25.4	28.7
NWC (days)	104	108	108
Net gearing (x)	0.1	0.0	-0.1

Shareholding Pattern (%)

	Mar24	Dec23	Sep23
Promoter	40.2	40.3	42.0
-Pledged	-	-	-
FII	11.4	11.6	11.3
DII	0.1	0.2	0.0
Others	48.3	48.0	46.7

Stock Performance(1-year)



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Tilaknagar Industries (TLNGR) reported revenue/ EBITDA/ PAT growth of 0.4%/ 10.9%/ 20.9% YoY respectively. Revenue growth was muted at 0.4% on a high base in 4QFY23 as the growth in the base quarter was boosted by aggressive primary sales helped by the equity funds raised in Dec 2022, further impacted by the company slowing down on pushing sales in Telangana. Volume growth stood at 0.4% to 2.9 mn cases while net sales realization grew 6.3% YoY to Rs 1,293 per case. Gross margin saw a sharp improvement to 48.5% (+380bps, YoY) despite ENA inflation led by premiumization, price hikes in key states and cost optimizations. EBITDA margin came at 13.4% (+128bps, YoY) despite employee cost and other expenses seeing an increase of 167 bps and 86 bps respectively. Reported EBITDA at Rs 482 mn grew 11% YoY. Adjusted PAT grew 21% to Rs 395 mn led by significant reduction (-38%) in finance costs and flattish depreciation. As a result of strong cash generation, CFO increased from Rs 712mn in FY23 to Rs 1.2bn in FY24, which helped the company reduce net debt significantly from Rs 1.82bn in FY23 to Rs 740mn in FY24, a reduction of Rs 450mn in 4QFY24. Company expects volumes to grow in mid double digits and revenue growth to be 300-400 bps higher compared to volume growth going forward.

With multiple launches in the recent past within the brandy category, company is fortifying its leadership by covering more price points in the category. It is also exploring newer categories in the alcobev space to open up new growth avenues. With a virtually debt-free balance sheet and limited capex plans, the company is stepping up marketing and promotion spends to build the category. Stable input costs, continued premiumization and improving state and brand mix should aid margin expansion. We estimate revenue/EBITDA/PBT CAGR of 14.8%/20.3%/29.1% over FY24-26E, respectively, led by 12.3% CAGR in volumes without building in any contribution from new non-brand segments. We reiterate our BUY rating on the stock with a target price of Rs 317, based on 35x FY26E earnings, which we find reasonable for the current business metrics and scale of operations. Key monitorables: a) success of new brandy launches, b) response to non-brand segments, c) ability to expand margins through premiumization, d) entry into TN and e) retention of key talent.

Muted topline growth at 0.4% - Revenue growth was subdued at 0.4% on a high base in 4QFY23, with increase in the base quarter driven by equity funds raised in December 2022. Volume increased by 0.4% to 2.9 mn cases, while net sales were up 6.3% yoy to Rs 1,293 per case. Furthermore, while the company's primary sales increased by 0.4%, secondary sales increased by 6% in Q4 (compared to 1-2% for the industry and 5-6% for the P&A industry). This disparity reflected the company's extended receivables position in Telangana in February, which it was unable to recover during the quarter. Moving forward, the company expects flattish growth in Q1FY25 due to the regulatory impact of elections. However, full-year guidance remains strong, with mid-double-digit volume growth and 300-400 bps higher revenue growth over volumes going forward. During FY24-26E, we anticipate revenue to grow at a CAGR of 14.8%, with a volume CAGR of 12.3%.

Resilient operating performance drove profitability - Despite ENA inflation, premiumization, price increases in key states, and cost optimizations drove gross margin sharply to 48.5% (+380bps, YoY). EBITDA margin was 13.4% (+128 bps YoY), despite increases in employee costs and other expenses of 167 and 86 bps, respectively. Adjusted PAT increased 21% to Rs 395 mn, driven by a 38% reduction in finance expenses and flat depreciation. On the cost front, ENA prices increased from Rs 67 in Q1 to Rs 72 in Q4. The company expects ENA prices to fall in the second half of FY25. Glass prices increased in the first half of FY24, but fell in the second half. The company anticipates further price corrections in glass. This softening was also observed in other packing material costs. Despite this volatility, the company was able to protect and grow its margins through a combination of premiumization efforts, price hikes in key states, cost efficiencies, and operating leverage. The company now has higher operating expenses than its peers; however, the majority of these expenses are fixed, and the company intends to benefit from operating leverage as it grows in scale. We anticipate an EBITDA margin increase of 131 bps from 13.3% in FY24 to 14.6% in FY26.

Significant debt reduction in FY24 - As a result of robust cash generation, CFO grew from Rs 712mn in FY23 to Rs 1.2bn in FY24, allowing the company to considerably reduce net debt from Rs 1.82bn in FY23 to Rs 740mn in FY24, a Rs 450mn reduction in 4QFY24. This sharp debt reduction has resulted in a significant drop in finance cost, from Rs 400 mn in FY23 to Rs 270 mn in FY24. The company intends to become net debt free by the end of FY25. In addition, the company's interest rate on the Kotak loan has been reduced from 13% to 9.95%, effective mid-Q1FY25.

Robust volume/ brand wise/ state wise performance in FY24 - Volume increase was 16% in FY24, led by premium brands Mansion House brandy and Courier Napoleon Brandy, which continue to outperform the general IMFL and brandy business. While MHB remains India's best-selling brandy, the CNB family of brands has expanded by 50% over the previous year. Mansion House Reserve, a luxury brandy distributed only in Tamil Nadu, increased volumes by more than twofold in FY24, acquiring more than 300 bps of market share in the state's relevant price point segment. TLNGR has risen to become the fourth largest IMFL participant and the third largest P&A player in the critical state of Telangana, thanks in part to state-wide marketing efforts that resulted in a 30% increase in visibility across consumer touch points in a single year. Furthermore, the company is the dominant player in Puducherry, accounting for more than 25% of the market and growing by more than 500 bps in a single year. Business also saw a 100 bps increase in market share in the top five states of Telangana, Andhra Pradesh, Karnataka, Puducherry, and Kerala. These states account for more than 80% of company volumes and 40% of total Indian IMFL volumes. The company has planned marketing communications and a few targeted launches for FY25 to increase brandy's visibility. TLNGR believes the brandy category has enormous potential to expand in the P&A sector, as the P&A category in brandy accounts for only 33%, but whiskey and vodka account for 55% and 60%, respectively. The company now controls a 12% share of the brandy market and expects to increase this proportion by acquiring shares from other IMFL players.

Exhibit 1: Quarterly performance

YE March (Rs mn)	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Net Revenues	3,588	3,575	3,767	0.4	(4.8)
Cost of materials	1,848	1,977	1,914	(6.5)	(3.5)
(% of sales)	51.5	55.3	50.8		
Gross Profit	1,740	1,598	1,853	8.9	(6.1)
Gross margin (%)	48.5%	44.7%	49.2%		
Employee cost	154	94	110	63.9	39.9
(% of sales)	4.3	2.6	2.9		
Others	1,104	1,069	1,229	3.3	(10.2)
(% of sales)	30.8	29.9	32.6		
EBITDA	482	435	514	10.9	(6.2)
EBITDA margin (%)	13.4	12.2	13.6		
Other income	41	51	84	(20.1)	(51.8)
PBIDT	523	486	598	7.7	(12.6)
Depreciation	78	79	80	(1.0)	(2.0)
Finance cost	49	80	81	(38.0)	(38.8)
PBT	395	327	438	20.9	(9.7)
Tax	-	(0)	-		
ETR (%)	0.0	(0.0)	0.0		
Adjusted PAT	395	327	438	20.9	(9.7)
PATAMI margin	11.0	9.1	11.6		
Exceptional item	(81)	264	0		
Reported PAT	315	591	438	(46.8)	(28.1)
No. of shares (mn)	192.7	185.3	192.4		
Adj EPS (Rs)	2.1	1.8	2.3		

Source: Company, Systematix Institutional Research

Exhibit 2: Change in estimates

	Old estimates		Revised estimates		Variation (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net sales	15,821	17,964	16,170	18,360	2.2%	2.2%
EBITDA	2,211	2,625	2,260	2,683	2.2%	2.2%
EBITDA margin	14%	15%	14%	15%		
Adj. PAT	1,375	1,747	1,670	1,757	21.4%	0.6%

Source: Company, Systematix Institutional Research

Conference call takeaways

Volume/ Brands/ State wise performance - Volume growth stood at 16% during FY24 which was led by flagship brands Mansion House brandy and Courier Napoleon Brandy which continue to grow faster than overall IMFL and brandy industry. While MHB continues to be the largest selling brandy in India, the CNB family of brands has grown by 50% over last year. Mansion House Reserve, premium brandy brand sold only in Tamil Nadu registered a more than 2x growth in volumes in FY24 gaining market share in the relevant price point segment in the state by more than 300 bps. TLNGR has become the 4th largest IMFL player and 3rd largest P&A player in the strategic state of Telangana partly aided by marketing efforts in the state which saw visibility of 30% across customer touch points in the state in one year. In addition, company is the largest player in Puducherry enjoying more than a 25% share of market with market share growth of more than 500 bps in one year. Business also saw around 100 bps expansion in market share in top five states of Telangana, Andhra Pradesh, Karnataka, Puducherry and Kerala. These states contribute more than 80% of companies volumes and 40% of total India IMFL volumes.

Cost - ENA prices grew from Rs 67 in Q1 to Rs 72 in Q4. Company expects ENA prices to taper down in 2HFY25. Glass prices increased in 1HFY24 while it softened in 2HFY24. Company expects to see further price correction in glass. This softening was also seen in other packing material costs. Despite this volatility, company was able to protect and expand its margins through a combination of premiumization drive, price increases received in key states, cost optimizations and operating leverage. Company currently has higher operating expenses compared to its peers however majority of these expenses are fixed and with growing scale company expects to see benefit of operating leverage.

Debt reduction - Ahead of industry growth and increase in profitability has enabled the company to repay more than Rs 1.3 bn of Gross debt in FY24, bringing its Net debt down to Rs 740 mn. This sharp reduction in debt has further reduced finance costs significantly from Rs 400 mn in FY23 to Rs 270 mn in FY24. Company targets to become net debt free over the course of FY25. Post that company plans to invest in new geographies and new categories. In addition, company has received a reduction in interest rate on Kotak loan from 13% to 9.95% effective mid-Q1FY25.

Election impact- Company is witnessing the impact of elections in Q1FY25 due to high level of regulations. However, the company expects to cover up the impacted sales in coming quarters. Company expects Q1FY25 sales growth to be flattish due to higher number of dry days.

Region wise - In FY24, states of Kerala and Karnataka saw significant price increases which led to subdued industry growth. Company expects the growth to bounce back in Kerala and Karnataka. Company remains strong in the states of Andhra Pradesh and Telangana. Flandy is gaining saliency compared to its mother brand in the states of Telangana, Andhra Pradesh and Puducherry. In Andhra Pradesh Flandy saliency stands at c. 10% while in Telangana and Puducherry it stands at 5%.

Growing the brandy space - Company has planned marketing communications, few strategic launches for FY25 to give brandy its share of voice. TLNGR believes the brandy category to have immense scope to grow in the P&A space as the P&A category in brandy accounts for only 33% while for whiskey and vodka at 55% and 60%. Company holds 12% share in the brandy space and has been taking shares from other brands.

Capacity utilizations - Karnataka and Prag facilities are working at full capacity. While Srirampur and Punjab are under-utilized. Company expects bottling to continue to be done contractually across IMFL industry.

Ad spends - Marketing spends accounted for 1.3% of revenue in FY24, 1.7% in Q4FY24. Company expects to increase this number moving ahead. Peers spend around 5-10% on ad spends, that is mainly because they operate in different categories (whiskey, vodka). TLNGR won't be spending at the level of its other peers as the brandy space does not require that high ad investments.

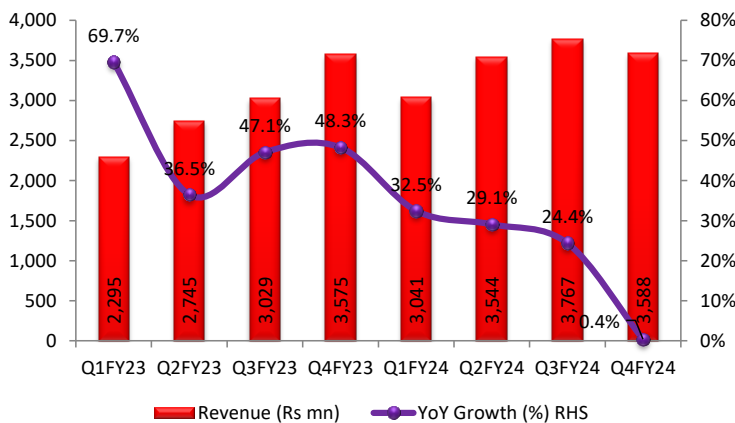
Capex - Capex for distillery is c. Rs 500 mn, however the company has no current plans on this. The regular maintenance capex for next 2 years is envisaged to be c. Rs 250 mn per year.

Tax rate - Company expects to see no taxes at least in the coming 2 quarters in FY25 due to unabsorbed losses. Company expects a tax rate of 13% in FY25.

Primary vs secondary sales - Primary sales for the company grew 0.4% while secondary sales growth stood at 6% in Q4 (vs 1-2% for the industry and P&A industry at 5-6%). This difference was account of the extended receivables position in Telangana.

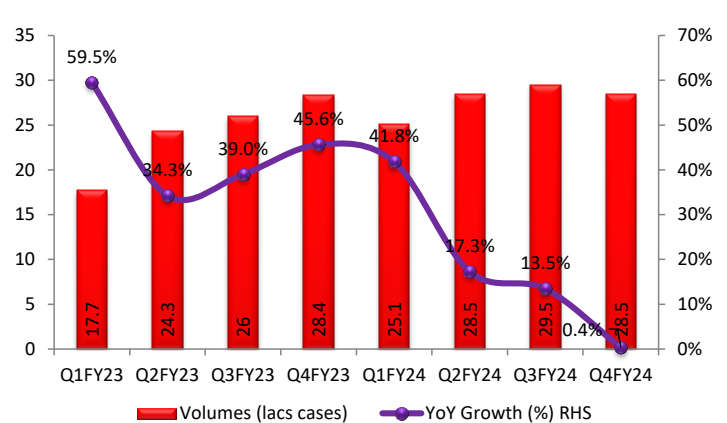
Outlook - Company expects mid double digit volume growth in FY25., 11-13% volume growth in FY26. Revenue growth expected to 300-400 bps higher compared to volume growth. EBITDA growth to be higher compared to net revenue growth. EBITDA margin for FY25 to be c. 14% and in coming 2-3 years company expects it to grow to +15%.

Exhibit 3: Revenue grew 0.4% YoY

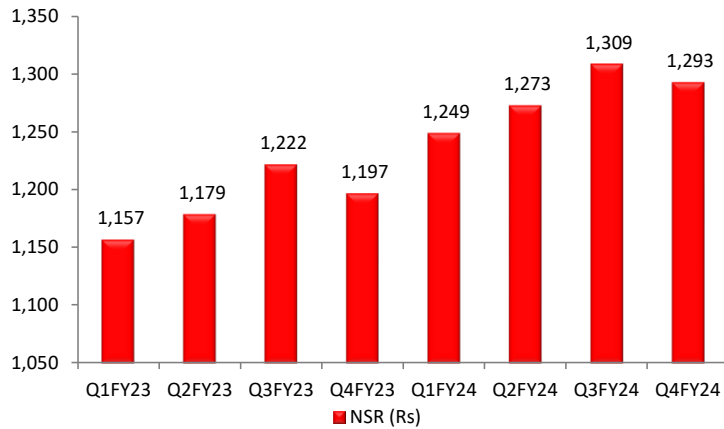


Source: Company, Systematix Institutional Research

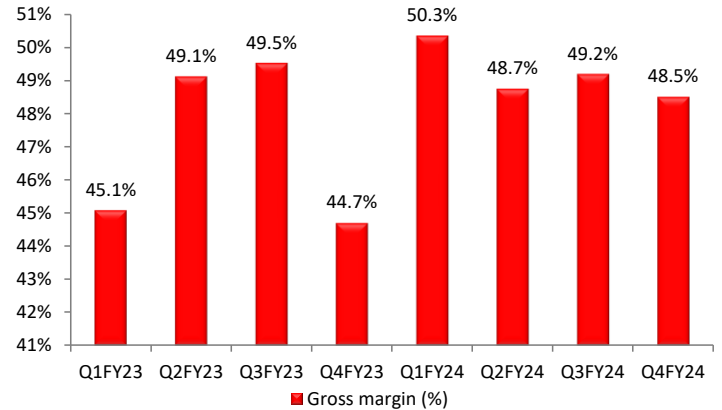
Exhibit 4: Volumes grew 0.4% YoY



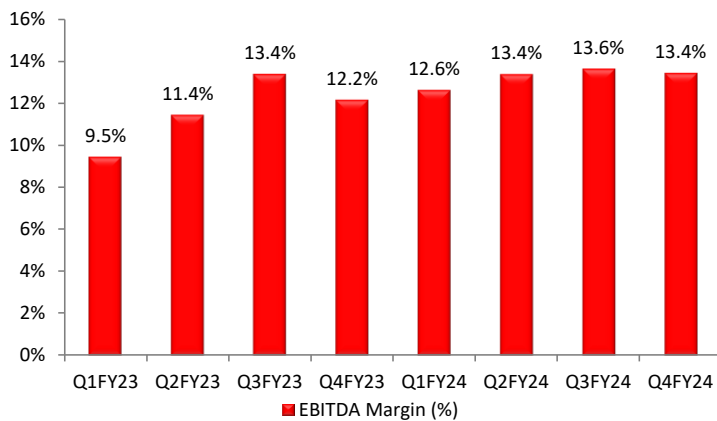
Source: Company, Systematix Institutional Research

Exhibit 5: Net sales realization grew 6.3% YoY

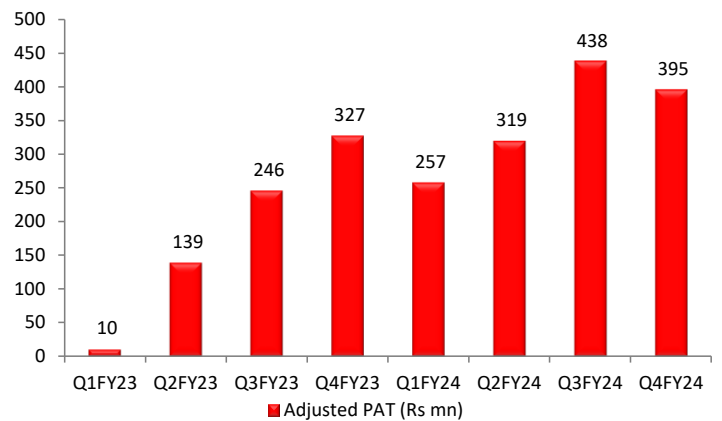
Source: Company, Systematix Institutional Research

Exhibit 6: Gross margin expanded 380 bps YoY

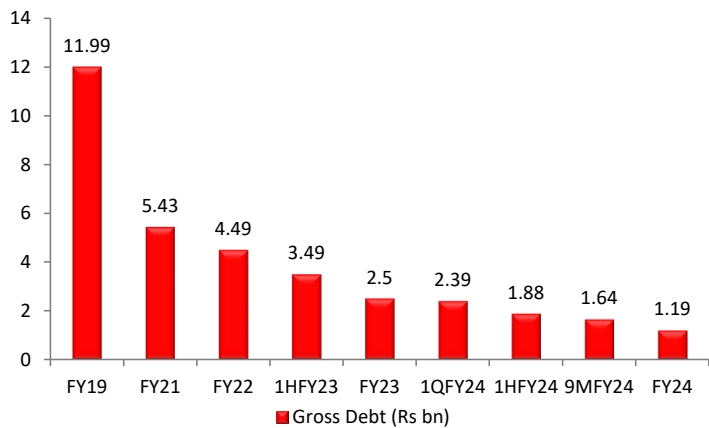
Source: Company, Systematix Institutional Research

Exhibit 7: EBITDA margin expanded 128 bps YoY

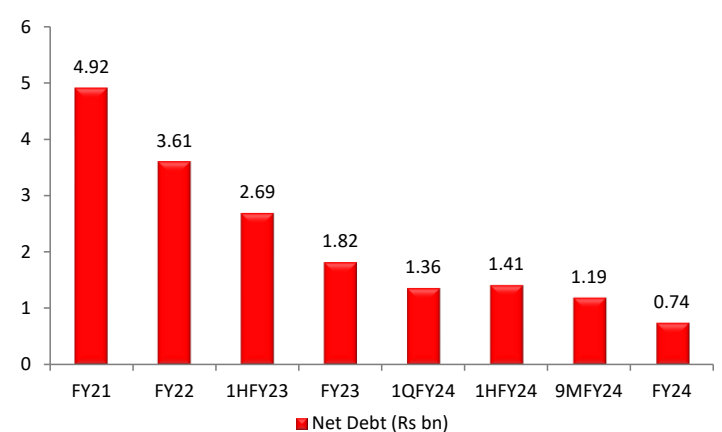
Source: Company, Systematix Institutional Research

Exhibit 8: Adjusted PAT at Rs 395 mn

Source: Company, Systematix Institutional Research

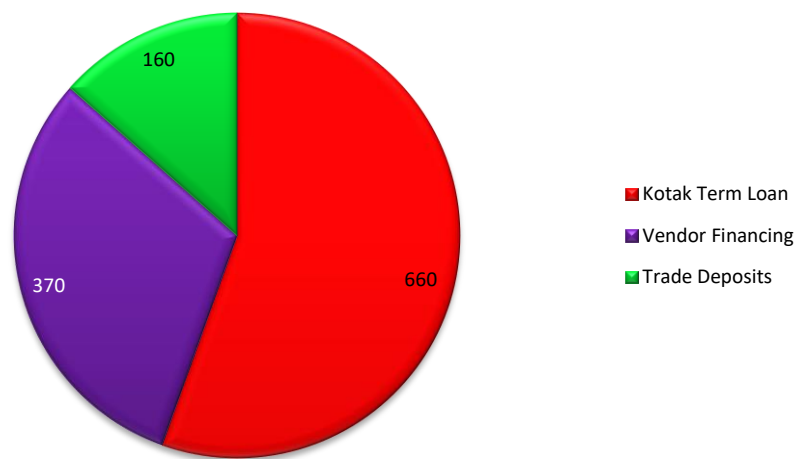
Exhibit 9: Gross debt at Rs 1.19 bn

Source: Company, Systematix Institutional Research

Exhibit 10: Net debt at Rs 0.74 bn

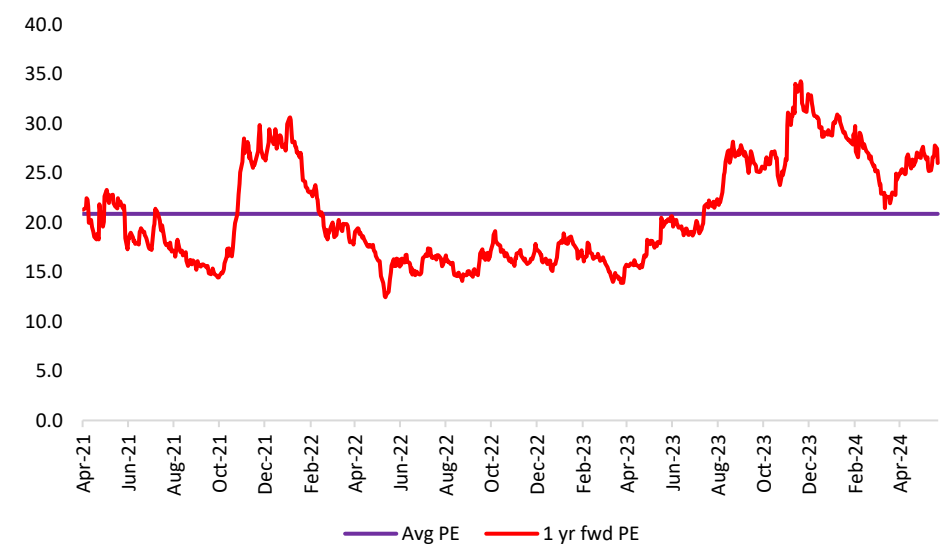
Source: Company, Systematix Institutional Research

Exhibit 11: Debt as on 31st March 2024 (Rs mn)



Source: Company, Systematix Institutional Research

Exhibit 12: : Currently trading at 26x one year forward earnings



Source: Company, Systematix Institutional Research

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	7,834	11,644	13,940	16,170	18,360
Gross profit	4,010	5,481	6,851	7,923	9,180
GP margin (%)	51.2%	47.1%	49.2%	49.0%	50.0%
Operating profit	1,121	1,372	1,854	2,260	2,683
OP margin (%)	14.3%	11.8%	13.3%	14.0%	14.6%
Depreciation	327	323	319	325	337
EBIT	794	1,048	1,536	1,935	2,346
Interest expense	619	402	267	113	107
Other income	105	75	141	97	110
Profit before tax	280	722	1,410	1,919	2,349
Taxes	(40)	(0)	-	250	592
Tax rate (%)	-14.3%	0.0%	0%	13%	25%
Minority/Associates					
Adj. PAT	320	722	1,410	1,670	1,757
Exceptional loss &					
Discontinued operations	132	777	(29)	-	-
Net profit	452	1,499	1,380	1,670	1,757
Adj EPS	1.7	3.7	7.3	8.7	9.1

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBIT	280	722	1,410	1,919	2,349
Depreciation	327	323	319	325	337
Tax paid	47	(12)	(11)	(250)	(592)
Working capital Δ	(676)	(728)	(745)	(760)	(608)
Other operating items	674	407	234	113	107
Operating cashflow	651	713	1,207	1,347	1,593
Capital expenditure	(33)	(109)	(82)	(200)	(200)
Free cash flow	618	604	1,125	1,147	1,393
Equity raised	922	1,982	324	-	-
Investments					
Debt financing/disposal	(745)	(2,262)	(1,310)	(600)	(31)
Interest Paid	(584)	(373)	(247)	(113)	(107)
Dividends paid	(1)	(16)	(48)	(96)	(96)
Other items	(231)	(14)	(89)	-	-
Net Δ in cash	(21)	(79)	(245)	338	1,159

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	1,586	1,853	1,927	1,927	1,927
Reserves	(251)	2,976	4,612	6,185	7,846
Debt	5,260	2,531	1,193	593	561
Deferred tax liab (net)	-	-			
Other non current liabilities	595	705	608	639	671
Total liabilities	7,190	8,065	8,340	9,344	11,006
Fixed Asset	4,391	4,178	3,946	3,820	3,683
Investments	0	226	118	118	118
Other Non-current Assets	1,606	472	400	420	440
Inventories	723	1,162	1,008	1,639	1,861
Sundry debtors	2,368	3,388	4,185	4,740	5,382
Cash & equivalents	706	442	418	756	1,915
Loans and Advances	338	247	260	272	285
Sundry creditors	1,713	1,292	1,207	1,595	1,811
Other current liabilities	1,229	758	788	828	869
Total Assets	7,190	8,065	8,340	9,344	11,006

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
Revenue growth (%)	42.8	48.6	19.7	16.0	13.5
Op profit growth (%)	107.3	22.4	35.2	21.9	18.7
Adj Net profit growth (%)	-183.3	125.7	95.3	18.5	5.2
OPM (%)	14.3	11.8	13.3	14.0	14.6
Net profit margin (%)	4.1	6.2	10.1	10.3	9.6
RoCE (%)	14.2	16.4	21.6	25.4	28.7
RoNW (%)	nm	23.4	24.8	22.8	19.7
EPS Adj (Rs)	1.7	3.7	7.3	8.7	9.1
DPS (Rs)	0.1	0.3	0.5	0.5	1.0
BVPS (Rs)	6.9	25.1	33.9	42.1	50.7
Debtor days	110	106	110	107	107
Inventory days	34	36	26	37	37
Creditor days	80	40	32	36	36
P/E (x)	136.8	60.6	31.0	26.2	24.9
P/B (x)	32.8	9.1	6.7	5.4	4.5
EV/EBITDA (x)	43.1	33.4	24.0	19.3	15.8

Source: Company, Systematix Institutional Research

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