

Buy
Empee Distilleries (EDL)

Face Value	Rs 10
Last Price	Rs 329
Target Price	Rs 480

Industry: Housing & Construction

Market Cap (Rs Crs)	625
Year High/Low (Rs)	489/290

Holding Pattern (%)

Foreign	NA
Institutions/Mutual Funds	NA
Corporate Holding	NA
Promoters	75
Public	NA

(As on 31 December 2007)

Performance (%)	1M	3M	12M
Stock (EDL)	3.5	-	-
BSE-200	7.2	-	-
BSE-500	8	-	-

The share was listed on the bourse from 26th November 2007

Price Chart: (Intra Day)


EDL 60-minutes intraday chart gives the bullish breakout from an ascending triangle pattern. Although initial target for the stock is Rs 390 it can be revised upwards above the target price.

Company Description:

EDL, part of the Empee Group promoted by M P Purushothaman and his family members, is manufacturing Indian-made foreign liquor (IMFL) since 1984 and sells it under own brands or through tie-ups with other companies. Its distillery located at Kanchipuram in Tamil Nadu has an installed capacity of 38.33 lakh cases per annum. Another distillery is at Palakkad in Kerala, with an installed capacity of 21.60 lakh cases per annum. The company is one of the major suppliers of IMFL products to the Tamil Nadu State Marketing Corporation (TASMAC) and one of the top ten selling brands in the IMFL 180-ml pack segment.

Highlights:

EDL has a strong brand like Club Royal, John Peter in the medium whisky segment. In popular whisky segment its brands are Marcopolo and Power. In the Rum category its brands are Elcanso in the medium segment & Old Secret, Power, Mclene & Marcopolo.

EDL came out with a public issue in November 2007 in the price band of Rs 350 to 400 per share while the allotment was made at the higher end of the price band of Rs 400 per share. It mobilised Rs 192 crore for expansion.

The proceeds will be utilised to set up a 60-kilo litres per day (klpd) grain-based distillery in Andhra Pradesh to cater to the medium and premium categories, a 0.70-lakh cases per month bottling plant in Andhra Pradesh, and a 7.5-MW biomass-based power plant in Tamil Nadu.

It is also expanding its Tamil Nadu unit's existing extra-neutral alcohol capacity from 20 klpd to 70 klpd and bottling capacity from 3.2 lakh cases per month to five lakh cases per month, and relocating and expanding the existing capacity of the distillery in Karnataka from 0.5 lakh cases per month to one lakh cases per month. With these expansions will be used to enter new markets of Andhra Pradesh and Karnataka and strengthen existing position in Tamil Nadu.

It is setting up of 100 KLPD Molasses based Alcohol Plant in Integrated Sugar Complex proposed in Tirunelveli by 2009. It is also setting up of Brewery Unit in Andhra Pradesh with a capacity of 5 Lac HL per annum under process of tie-ups with other breweries in the States of UP, Rajasthan, Punjab, Maharashtra, MP, AP, TN, WB, Orissa and Kerala.

EDL is setting up of two other 7.5-10 MW capacity Biomass based Power Plants in different locations of State of Tamil Nadu. It is Pursing setting wind based power projects in the States of Kerala & Karnataka. It is exploring emerging technologies opportunities of Thin Voltaic Panels and Hybrid technology in the renewable sector- solar based energy.

Key Financial: (Year end-Sept)

(Rs Crore)

Year End March	FY07	FY08E	FY09E	FY10E
Income	626	1100	1600	2100
Other Income	12	10	10	12
PBIDT	37.2	88	192	241
Interest	5.5	8	11	12
PBDT	31.7	80	181	229
Depreciation	1.8	3	6	6
Tax	9.8	9	27	45
PAT	20.1	64	148	178
Equity	19	19	19	19
Reserves	230	294	442	620
Book Value (Rs)	131	165	242	336
EPS (Rs)	10.5	34	78	94
OP Margin (%)	5.9	8	12	11.5
NP Margin (%)	3.2	5.8	9.3	8.1
P/E (x)		9.7	4.2	3.7

Real Estate Division:

The company is developing part of its 20.88 acres freehold property located at Sriperumbudur, Kanchipuram District, into 12.23 lakh sq. ft. of residential space and 3 lakh sq. ft. of basement. This project was approved by DTCP in March 2007 and hence eligible for deduction under Section 80-IB of the Income Tax Act. This would make the company eligible for 100% tax exemption on the profits to be earned from development of this property.

Remaining 2.38 acres of land would be used for setting up godown for storage of bottle and 1.53 acres for commercial use. EDL also owns 13 acres 10 cents land at Poonamalle Taluk in Tiruvallur Dist., 13 acres 3 cents in Gummidipundi Taluk in Tiruvallur District and 10,260 sq. ft. land in Kancheepuram Dist. as also 15 acres land at Kuthumbakkam near Chennai. These properties would get developed after about 12 months, over the next 4 -5 years, which would result in total area of above 25 lakh sq. ft. The profits from the real estate business would get realized in the next three years by September 2010.

Valuation & Recommendations:

In past, the Tamil Nadu government had not permitted any new entrants other than the existing six licensees to manufacture and market IMFL products. Even the national operators have to route their bottling operations through existing operators. Due to the entry barriers in the state, competition will not be severe. Also, opportunity to bag manufacturing contracts from national players.

The alcoholic beverages industry in India comprises 5 key segments, viz. Beer, Wine, Indian Made Liquor (IMFL), Bottled Origin (NIO) Alcoholic Products and Country Liquor. In 2006-07, the IMFL industry grew over 16 % to register sales of over 157 million cases of 9 Bulk Litres (BL) each. The industry was particularly buoyant with the opening up of the key Northern markets of Punjab, Haryana and Chandigarh. Changes in the alcohol policy in these states opened up the industry from one controlled by a few large syndicates to wide-spread ownership, thereby paving the way for reasonable prides and free play of market forces.

Availability of a wide range of alcoholic products, large untapped segment for low priced brands in unorganized markets, opening of new distribution channels, keen competition in production and distribution attributing to growth in consumption habits and entry of international brands/manufacturers leading to further expansion of market are the main demand drivers.

Indian economy is entering the demographic window with over half the country's population of 1.1 billion under 25 years of age. This is in contrast to most developed nations which are faced with greying populations and low or negative birth rates. The middle class is already in excess of 300 million and rapid urbanization, changing life styles, higher disposable income and shifts in expenditure patterns, particularly of the youth, are all contributing to growing demand for all manner of products including alcoholic beverages.

At the CMP of Rs 329, the share is trading at a P/E of 4.2x on FY09E and 3.7x on FY10E. We recommend BUY with a medium term price target of Rs 480.



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