Choice Institutional Equities

AAB: Inflation & Ethanol Drag Weigh on Margin

November 16, 2026 | CMP: INR 566 | Target Price: INR 530

REDUCE

Expected Share Price Return: -6.4% I Dividend Yield: 0.4% I Expected Total Return: -6.0%

Sector View: Positive

Q2FY27 Result Update

Change in Estimates	✓
Change in Target Price	✓
Change in Recommendation	✓

Company Info	
BB Code	AAB IN EQUITY
Face Value (INR)	10
52-w High/Low (INR)	1,076 / 525
Mkt Cap (INR Bn)	INR 11.4
Shares o/s (Mn)	20.1
3M Avg. Daily Volume	31,306

Change in CIE Estimates

	FY27E			FY28E		
INR Bn	New	Old	Dev. (%)	New	Old	Dev. (%)
Revenue	10.7	10.5	2.1%	12.0	11.8	2.1%
EBITDA	1.1	1.5	(26.8%)	1.4	1.8	(18.7%)
EBITDAM%	10.4%	14.5%	(409) bps	12.0%	15.1%	(307) bps
PAT	0.6	1.0	(34.5%)	0.8	1.1	(22.5%)

Actual vs CIE Estimates

INR Mn	Q2 FY27A	CIE Est.	Dev.%
Revenue	2,716	2,863	(5.1%)
EBITDA	177	289	(38.8%)
EBITDAM %	6.5%	10.1%	(358) bps
PAT	80	162	(50.7%)

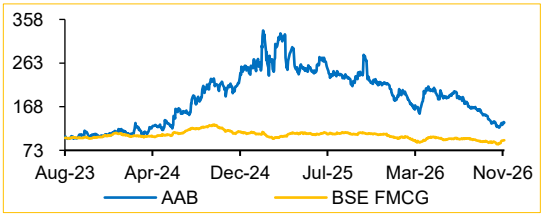
Key Financials

INR Mn	FY25	FY26	FY27E	FY28E	FY29E
Revenue	10,759	10,194	10,742	12,013	13,813
YoY (%)	41.6	(5.3)	5.4	11.8	15.0
EBITDA	1,281	1,429	1,115	1,442	1,823
EBITDAM %	11.9	14.0	10.4	12.0	13.2
Adj PAT	814	885	638	847	1,125
EPS (INR)	40.5	44.0	31.7	42.1	56.0
ROE %	17.3	14.6	8.8	10.6	12.6
ROCE %	19.2	17.1	10.7	13.4	15.9
PE(x)	34.4	12.9	17.8	13.4	10.1
EV/EBITDA (x)	22.6	11.9	10.6	8.1	6.3

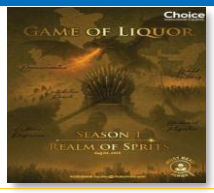
Shareholding Pattern %	Mar-26	Jun-26	Sep-26
Promoters	62.3	62.3	62.3
FIIs	0.3	0.7	1.0
DIIs	0.9	1.3	1.4
Public	36.4	35.7	35.3

Relative Performance (%)

	3Y	2Y	1Y
BSE FMCG	(6.2%)	(14.7%)	(13.4%)
AAB	24.5%	(32.5%)	(40.9%)



Indian AlcoBev Spirits Industry Thematic



Click here to read Q1FY27 Result Update

Click here to read Initiating Coverage Report

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IMFLP Revenue +39% YoY; Opex and Ethanol Drag Margin to 6.5%

IMFL Proprietary (IMFLP) remained the growth engine, with revenue up 39% YoY to INR 577 Mn on 28% volume growth to 0.73 Mn cases, while realisation improved ~9% YoY to ~INR 788/case on a richer mix. Consolidated revenue remained stable on continuous volume growth. However, consolidated EBITDA fell 26% YoY to INR 177 Mn, weighed down by realisation losses in the Ethanol segment aggravated by inflation in grain procurement. Margin compression was largely driven by heightened employee cost and other expenses outpacing revenue growth. **Ethanol compounded the pressure, turning into an operating loss of INR 21.5 Mn on lower volumes (9.3 Mn L, -5%) amid grain inflation and oversupply.**

View and Valuation

We cut our FY27E earnings estimate by ~35% to factor in (i) **IMFLP EBITDA margin compression on grain, glass and PET cost inflation**, (ii) **Operating loss in Ethanol on oversupply and a lower OMC** maize-ethanol price (iii) Inflationary impact on grain prices. **While IMFLP volume growth of 30–35% remains on track, margin relief hinges on cost-stabilisation and sale of malt from Q3FY28E, delays earnings recovery.** We now factor in a Revenue / EBITDA / PAT CAGR of 10.7% / 8.5% / 8.4%, respectively, over FY26–FY29E. **We now value AAB at INR 530/share (vs. INR 960) using the DCF approach. Our valuation implies 12.5x FY28E P/E and a consequent 'REDUCE' rating.**

Key Risks: Input/packaging cost inflation, ethanol margin drag, licensing volume decline, and adverse state excise changes.

AAB: Potable Alcohol Revenue Grew 14%; Margins Hit by Ethanol and Opex

- **AAB reported a net revenue of INR 2.7 Bn, growing by 7.0% YoY** (missing CIE estimate by 5.1%)
- **Revenue from Potable Alcohols segment increased by 14.1% YoY**, while the **Ethanol segment revenue declined by 3.7% YoY**
- **EBIDTA margin contracted by 295 bps YoY**; EBITDA stood at INR 177 Mn (-26.3% YoY) (missing CIE est. of INR 289 Mn by 38.8%)
- **PAT for the quarter stood at INR 80 Mn** (missing CIE. Est. by 50.7%). **PAT margin saw a decline of 257 bps YoY coming in at 2.9%** (vs CIE Est. of 5.7%)

Premiumisation Continues: Tequila, RTD and Malt to Drive FY29E Growth

Arcana tequila launch (MRP INR 7,500) and Kultur RTD registrations in four more states will drive revenue growth in the IMFLP segment. SDF Industries' acquisition (4.3 Mn cases p.a.) will save third-party bottling cost in Kerala by Q4FY27E enhancing margin and supporting the 2-Mn case FY27E target. The biogas plant (4–5% power and fuel savings) and PET line are also due in Q4FY27E. Malt maturation is anticipated to drive revenue growth FY28E onwards. Further, we expect healthier growth to kick in from FY29E as inflation impact stabilises and Ethanol segment turns positive.

INR Mn	Q2FY27	Q2FY26	YoY (%)	Q1FY27	QoQ (%)
Gross revenue	2,770	2,569	7.8%	2,863	(3.3%)
Excise duty	53	31	71.8%	54	(2.5%)
Net sales	**2,716**	**2,538**	**7.0%**	**2,809**	**(3.3%)**
Cost of goods sold	1,730	1,634	5.8%	1,780	(2.8%)
Gross profit	987	904	9.2%	1,029	(4.1%)
Gross margin (%)	36.3%	35.6%	*71 bps*	36.6%	*(29) bps*
EBITDA	**177**	**240**	**(26.3%)**	**299**	**(40.7%)**
EBITDA margin (%)	6.5%	9.5%	*(295) bps*	10.6%	*(411) bps*
Depreciation	71	57	25.2%	71	0.3%
Finance costs	16	10	68.6%	18	(12.3%)
PBT	**110**	**184**	**(40.3%)**	**241**	**(54.2%)**
Tax	30	44	(32.1%)	62	(51.7%)
PAT	**80**	**140**	**(42.9%)**	**178**	**(55.1%)**
EPS (INR)	4.0	7.0	(42.9%)	8.9	(55.1%)

Source: AAB, Choice Institutional Equities

Core Brand Metrics: Volume Leaders and Market Share Drivers

Brand	Segment	Spirit Segment	Volume (Mn Cases)	Market Share	Highlights
Arcana	P&A	Tequila	N/A	N/A	Luxury 100% Agave Tequila (INR 7,500 MRP in MP); expanding to KA, MH, HR, GA, DL
Central Province	Popular	Whisky, Vodka & XXX Rum	N/A	25% market share in MP	Standout performance with volumes surging 260% YoY (MRP INR 680–INR 1,000)
Hillfort Premium	P&A	Blended Malt Whisky	N/A	N/A	Flagship premium whisky (MRP INR 1,000+), leading premiumisation strategy
Nicobar	P&A	Handcrafted Gin	N/A	N/A	Triple-distilled Indian Dry Gin (MRP INR 1,000+); boosts high-margin mix
Titanium	P&A	Vodka	N/A	N/A	Triple-distilled vodka (MRP INR 1,000+); drives brand visibility & mix expansion
Lemount	Popular	White & Golden Brandy, Black Rum	>1 Mn cases in Kerala	Dominant Brandy share in Kerala	White Brandy pioneer; hit 1 Mn cases in <4 yrs, anchoring Top 3 private player rank in Kerala
Kultur	Ready to Drink (RTD)	RTD	N/A	N/A	3 variants at INR 130 MRP; targeting 10.9% CAGR segment, registering in 4 more states

Source: AAB, Choice Institutional Equities

View and Valuation

We cut our FY27E earnings estimate by ~35% to factor in (i) **IMFLP EBITDA margin compression on grain, glass and PET cost inflation**, (ii) **Operating loss in Ethanol on oversupply and a lower OMC** maize-ethanol price (iii) Inflationary impact on grain prices. **While IMFLP volume growth of 30–35% remains on track, margin relief hinges on cost-stabilisation and sale of malt from Q3FY28E, delays earnings recovery.** We now factor in a Revenue / EBITDA / PAT CAGR of 10.7% / 8.5% / 8.4%, respectively, over FY26–FY29E. **We now value AAB at INR 530/share (vs. INR 960) using the DCF approach. Our valuation implies 12.5x FY28E P/E and a consequent 'REDUCE' rating.**

DCF Assumptions

Particular *(INR Bn unless specified)*	
WACC (%)	12.7%
Terminal Growth Rate (%)	4.0%
Cost of Equity (%)	13.4%
PV of FCFF	5.2
Terminal Value	19.0
PV of Terminal Value	5.9
Implied EV	11.1
Net Debt	0.5
Implied Equity Value	10.6
Implied Equity Value Per Share (INR)	**530**

Source: AAB, Choice Institutional Equities

Sensitivity Analysis

		Terminal Growth Rate				
		2.0%	3.0%	4.0%	5.0%	6.0%
WACC	**10.7%**	600	650	710	800	920
	11.7%	530	560	610	660	740
	12.7%	470	490	**530**	570	620
	13.7%	420	440	460	490	530
	14.7%	380	390	410	430	460

Source: AAB, Choice Institutional Equities

Peer Comps (Coverage)

BBG Ticker	Rating	CMP (INR)	TP (INR)	Revenue CAGR (FY26-29E)	EBITDA CAGR (FY26-29E)	PAT CAGR (FY26-29E)	Avg. ROE (FY26-29E)	Avg. ROCE (FY26-29E)	P/E (FY28E)	P/E (FY29E)	EV/EBITDA (FY28E)	EV/EBITDA (FY29E)
UNITDSPR	ADD	1,417	1,260	10.4%	15.4%	13.8%	18.1%	22.3%	47.6x	40.9x	34.3x	29.6x
RDCK	BUY	4,605	4,820	16.9%	24.0%	30.2%	23.7%	30.2%	54.6x	46.2x	37.0x	31.7x
ABDL	BUY	758	850	16.7%	26.9%	42.1%	18.6%	21.3%	43.9x	33.6x	22.8x	18.5x
TLNGR	BUY	518	680	34.2%	32.3%	35.8%	8.5%	11.7%	31.4x	20.9x	13.6x	11.5x
AAB	REDUCE	566	530	10.7%	8.5%	8.4%	11.7%	14.3%	13.4x	10.1x	7.5x	5.9x
UBBL	BUY	1,216	1,480	13.0%	24.5%	29.6%	13.2%	17.0%	44.3x	35.7x	23.9x	20.3x

Source: Companies, Choice Institutional Equities

Management Call – Highlights

IMFLP momentum intact, with volumes +28% YoY and revenue of INR 577 Mn (+39%); grain and packaging inflation compress margins

*Premium push under way with **Arcana tequila at INR 7,500/bottle and Kultur RTD registrations in four states**; brand-building costs front-loaded*

Entry into Karnataka and Andhra Pradesh by FY27E-end broadens reach, while the FCI rice quota secures ethanol feedstock

IMFLP volume growth guidance of 30–35% reiterated, with margin recovery to 13–14% contingent on price hikes from Apr-27E and premium mix

Operational Performance

- **IMFLP volumes grew 28% YoY in Q2 and 34% in H1, with the Central Province series up 56% YoY**; IMFLP is ~30% of alcohol revenue (INR 1,953 Mn, +14% YoY)
- IMFLP EBITDA margin fell to ~10% (vs. 13–14% YoY) on higher grain, glass and PET cost, with PET up to INR 145/kg (from INR 101/kg) and glass up ~20% QoQ
- **H1 other expenses rose ~INR 130 Mn YoY, mainly led by ~INR 50 Mn higher bottling charges as contract manufacturing doubled**, ~INR 30 Mn selling expenses and equipment overhauls

Strategic and Portfolio Initiatives

- **Arcana launched in Madhya Pradesh in Oct-26**, with registrations in Delhi, Maharashtra, Karnataka, UP, Chhattisgarh and Goa targeted before the onset of the new year; brandy launch delayed on import issues
- **Tequila and Kultur together are expected to add ~INR 100 Mn to revenue in FY28E**, with Arcana targeting 4–5% share of a niche segment in year one
- A&P spend rose to INR 20–25 Mn in Q2 (vs. INR 5–6 Mn YoY); malt plant (6,000 LPD) maturation adds ~INR 30 Mn/month to inventory, with utilisation from Q3FY28E

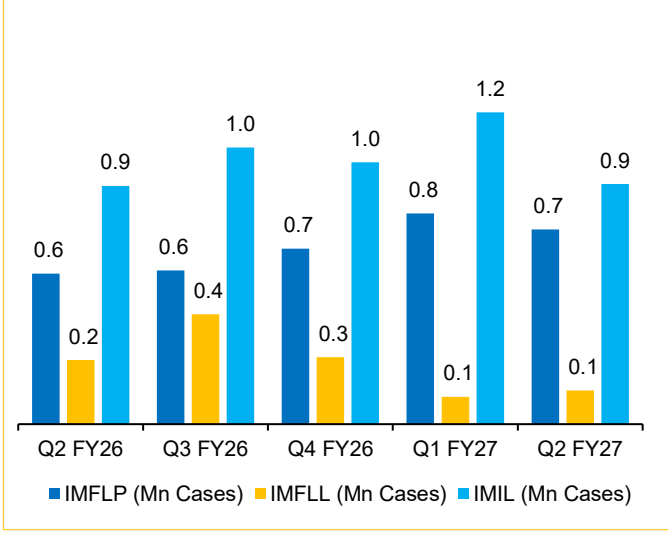
Geographic Expansion and Capacity Strategy

- **AAB is gaining share in Chhattisgarh and Delhi, with strategic entry into Karnataka and Andhra Pradesh by end-FY27E**; Maharashtra entry is a huge cost
- **Ethanol faces oversupply, with segment revenue of INR 763 Mn at ~1% EBITDA margin**; H1 volumes grew 10% YoY at ~95% utilisation, aided by an additional 8.74 Mn litre allocation for Q4 ESY 2025–26
- **The new OMC tender cuts the maize-ethanol price to INR 68/litre (from INR 71.8) and allots 36–40% to FCI rice**; maize at ~INR 30,000/ton (all-time high) is forecast to ease within ~a month on FCI rice supply and the January crop

Outlook

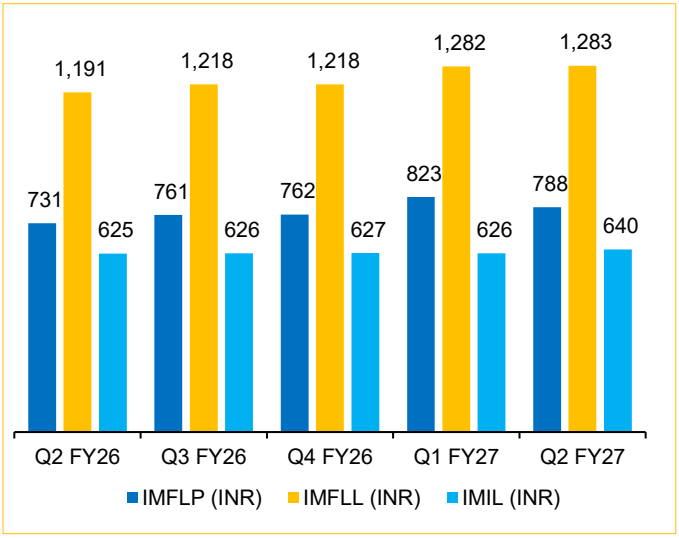
- **Management is on track for 30–35% IMFLP growth in FY27E, while near-term pressure persists**, with gross margin unlikely to return to ~45% until raw material cost normalises
- Margin levers are price hikes (mostly from Apr-27E), a premium mix (Prestige and above only 4–5% of the portfolio), malt maturation and lower input cost, targeting 13–14% IMFLP EBITDA margin (long-term aim 15–17%)
- **Premium brands need 2–3 years to establish, with ~5% of revenue earmarked for brand-building**

IMFLP Volume up ~28% YoY



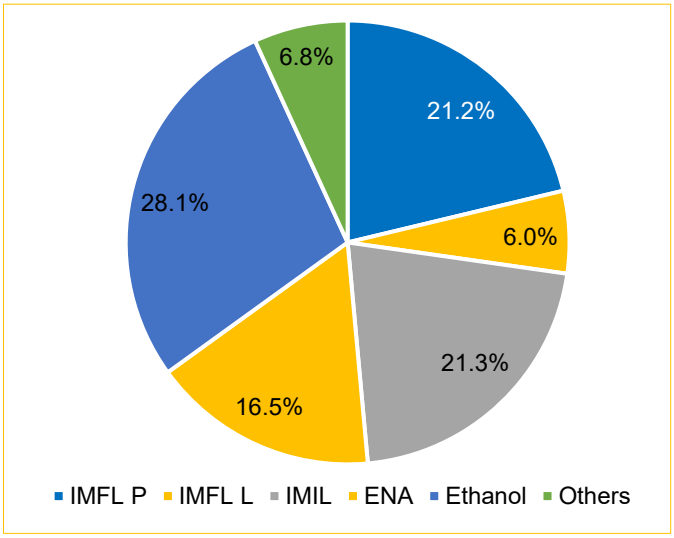
Source: AAB, Choice Institutional Equities

Realisation Grew ~6.5% YoY



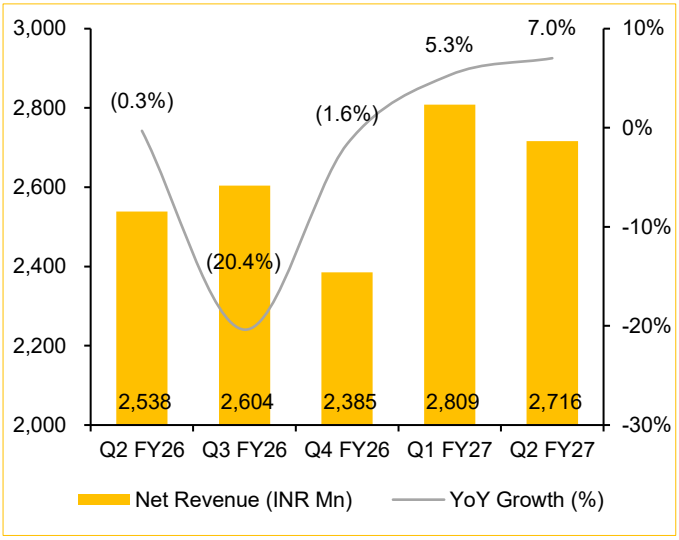
Source: AAB, Choice Institutional Equities

Ethanol Leads Revenue Mix in Q2 FY27



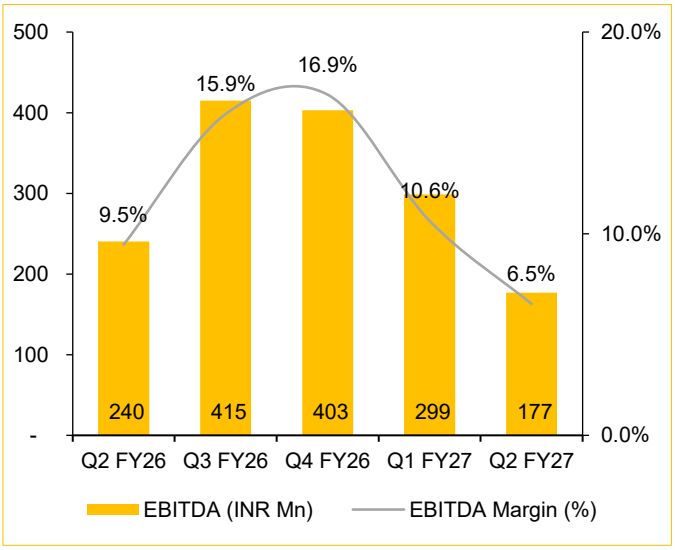
Source: AAB, Choice Institutional Equities

Net Revenue up 7% YoY at INR 2.7 Bn



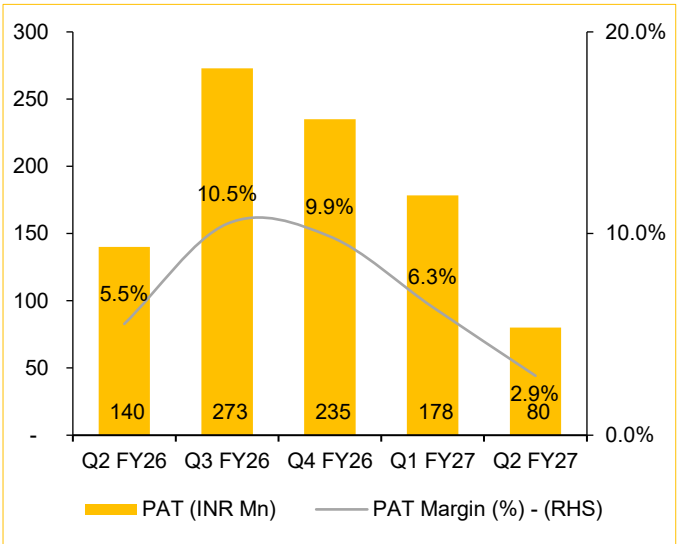
Source: AAB, Choice Institutional Equities

EBITDA Margin declined 295 bps YoY



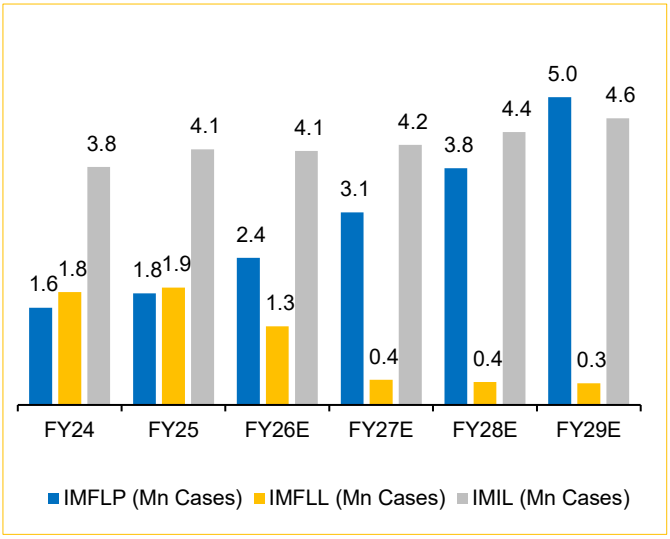
Source: AAB, Choice Institutional Equities

Net Profit Margin Declined by 257 bps YoY



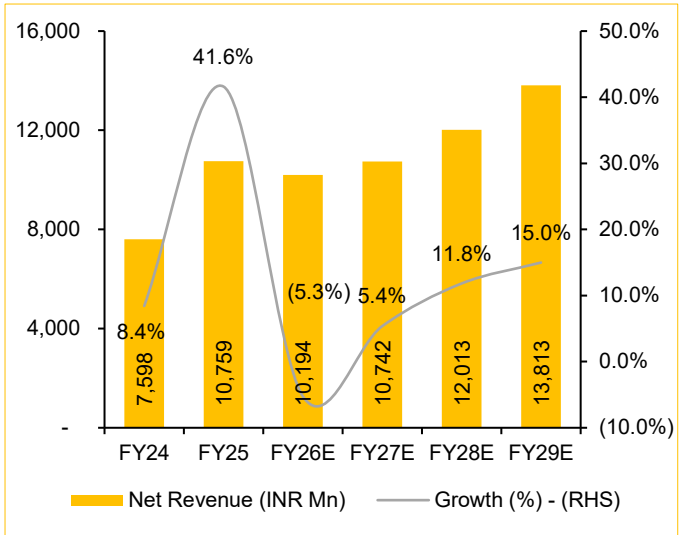
Source: AAB, Choice Institutional Equities

FY26–29E: IMFLP Volumes Forecast to Expand 27.9% CAGR



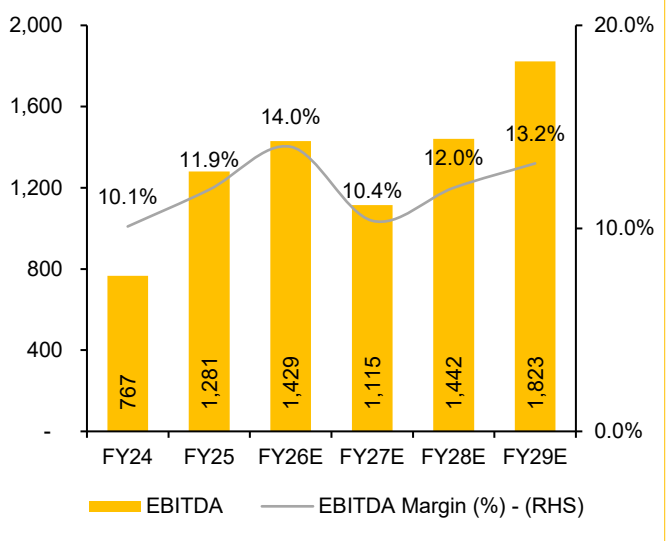
Source: AAB, Choice Institutional Equities

FY26–29E : Net Revenue Likely to Rise ~10.7% CAGR



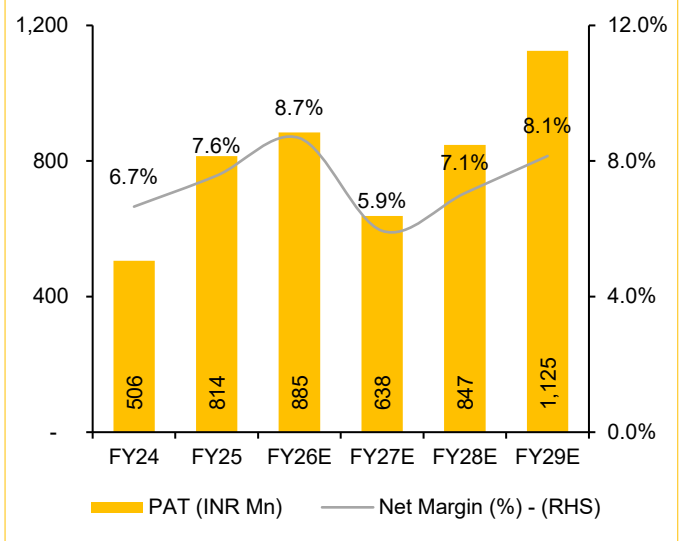
Source: AAB, Choice Institutional Equities

EBITDAM Estimated to Contract 82 bps over FY26–29E



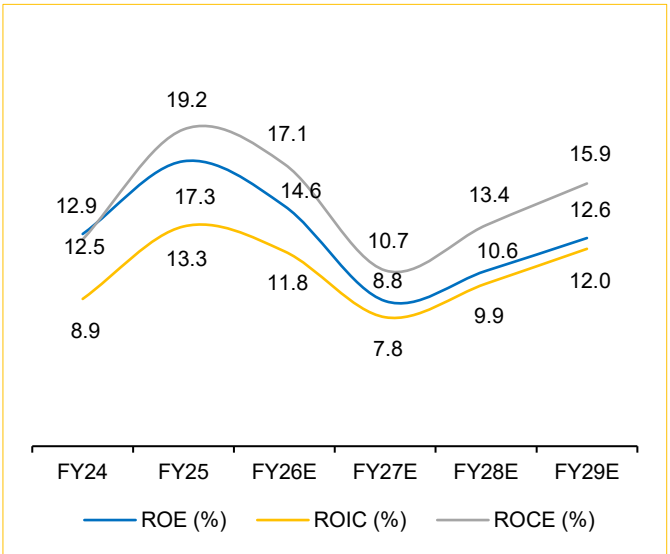
Source: AAB, Choice Institutional Equities

PAT CAGR of ~8.4% is Projected over FY26–29E



Source: AAB, Choice Institutional Equities

Return Ratios Trough in FY27E Before Gradual Recovery



Source: AAB, Choice Institutional Equities

1-year Forward PE Band (X)



Source: AAB, Choice Institutional Equities

Income Statement (Consolidated in INR Mn)

Particular	FY25	FY26	FY27E	FY28E	FY29E
Gross revenue	**10,966**	**10,333**	**10,918**	**12,192**	**14,020**
Excise duty	207	139	176	180	207
Net revenue	**10,759**	**10,194**	**10,742**	**12,013**	**13,813**
Gross profit	4,183	4,318	4,102	4,805	5,594
EBITDA	**1,281**	**1,429**	**1,115**	**1,442**	**1,823**
Depreciation	174	245	269	282	293
EBIT	**1,106**	**1,184**	**846**	**1,160**	**1,530**
Finance cost	57	62	50	50	50
Other income	47	61	66	30	35
Adjusted PAT	**814**	**885**	**638**	**847**	**1,125**
EPS (INR)	40.5	44.0	31.7	42.1	56.0

Ratio Analysis	FY25	FY26	FY27E	FY28E	FY29E
Growth Ratios (%)					
Revenues	41.6	(5.3)	5.4	11.8	15.0
Gross Profit	25.8	3.3	(5.0)	17.1	16.4
EBITDA	67.0	11.6	(22.0)	29.3	26.5
PBT	60.7	7.9	(27.1)	32.3	32.9
PAT	61.1	8.6	(27.9)	32.8	32.9
Margin ratios (%)					
Gross profit margin	38.9	42.4	38.2	40.0	40.5
EBITDA margin	11.9	14.0	10.4	12.0	13.2
PBT margin	10.2	11.6	8.0	9.5	11.0
Tax rate	25.7	25.2	26.0	25.7	25.7
PAT margin	7.6	8.7	5.9	7.1	8.1
Profitability (%)					
ROE	17.3	14.6	8.8	10.6	12.6
ROIC	13.3	11.8	7.8	9.9	12.0
ROCE	19.2	17.1	10.7	13.4	15.9
Working capital					
Inventory days	76	98	110	110	105
Receivable days	13	15	18	20	22
Payable days	25	24	24	24	24
Cash conversion cycle	65	89	104	106	103
Valuation					
PE(x)	34.4	12.9	17.8	13.4	10.1
Price to BV (x)	5.4	1.6	1.5	1.4	1.2
EV/OCF (x)	39.2	32.8	25.1	12.8	9.8
EV/ EBITDA (x)	22.6	11.9	10.6	8.1	6.3

Source: AAB, Choice Institutional Equities

Balance Sheet (Consolidated in INR Mn)

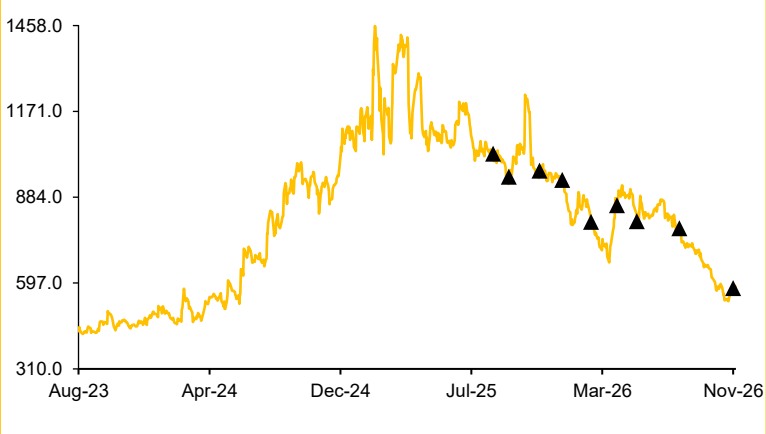
Particular	FY25	FY26	FY27E	FY28E	FY29E
Net worth	5,202	6,946	7,561	8,378	9,463
Borrowings	981	661	661	661	661
Trade payables	449	382	431	468	534
Other non-current liabilities	182	254	254	254	254
Other current liabilities	362	315	315	315	315
Total net worth & liabilities	**7,177**	**8,558**	**9,223**	**10,077**	**11,228**
Net block	3,473	3,922	3,966	3,948	3,917
Capital WIP	320	187	187	187	187
Intangible assets	1	2	2	2	2
Investments	643	1,000	1,000	1,500	2,000
Trade receivables	394	424	530	658	833
Cash & cash equivalents	12	108	207	293	621
Other non-current assets	223	199	186	173	160
Other current assets	2,110	2,716	3,145	3,316	3,509
Total assets	**7,177**	**8,558**	**9,223**	**10,077**	**11,228**

Cash Flows (INR Mn)	FY25	FY26	FY27E	FY28E	FY29E
Cash flows from operations	740	518	472	916	1,168
Cash flows from investing	(831)	(879)	(300)	(750)	(750)
Cash flows from financing	9	458	(73)	(80)	(90)

DuPont Analysis	FY25	FY26	FY27E	FY28E	FY29E
Tax burden	74.3%	74.8%	74.0%	74.3%	74.3%
Interest burden	99.1%	99.9%	101.8%	98.3%	99.0%
EBIT margin	10.3%	11.6%	7.9%	9.7%	11.1%
Asset turnover	1.6x	1.3x	1.2x	1.2x	1.3x
Equity multiplier	1.4x	1.3x	1.2x	1.2x	1.2x
ROE	**17.3%**	**14.6%**	**8.8%**	**10.6%**	**12.6%**

Source: AAB, Choice Institutional Equities

Historical Price Chart: AAB



Date	Rating	Target Price
August 04, 2025	BUY	1,210
August 12, 2025	BUY	1,300
November 12, 2025	BUY	1,300
January 09, 2026	BUY	1,300
February 06, 2026	BUY	1,210
April 17, 2026	BUY	1,110
May 21, 2026	BUY	1,070
July 28, 2026	BUY	960
November 16, 2026	REDUCE	530

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Large Cap*	
BUY	The security is expected to generate upside of 15% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 15% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -5% over the next 12 months
SELL	The security is expected to show downside of 5% or more over the next 12 months
Mid & Small Cap*	
BUY	The security is expected to generate upside of 20% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 20% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -10% over the next 12 months
SELL	The security is expected to show downside of 10% or more over the next 12 months
Other Ratings	
NOT RATED (NR)	The stock has no recommendation from the Analyst
UNDER REVIEW (UR)	The stock is under review by the Analyst and rating may change
Sector View	
POSITIVE (P)	Fundamentals of the sector look attractive over the next 12 months
NEUTRAL (N)	Fundamentals of the sector are expected to be in stasis over the next 12 months
CAUTIOUS (C)	Fundamentals of the sector are expected to be challenging over the next 12 months

*Large Cap: More Than INR 20,000 Cr Market Cap
*Mid & Small Cap: Less Than INR 20,000 Cr Market Cap

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KARAN KAMDAR

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