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RISK AND OPPORTUNITY

Alcohol Ban Another Drain on India's Weak Finances

1.Tax on liquor makes up at least a quarter of total income

2. Big Fiscal Gaps could see states borrowing more from market

Swelling Deficit

Banning Alcohol is increasingly seen as a vote Getter in a country where whisky sales are Highest In the world,Drunk driving is a leading cause of accidents and binge drinking is a Problem.But the moves are running up against surging state deficits and federal government aspirations to improve the country's Debt Rating.

Net Borrowing By states Will rise by 12 percent to 3.8 trillion rupees After surging 30% in march 2017.

Sales Drop

The nations Liquor companies are bracing for a drop in sales of as much 8% from highway ban alone Deepak Roy VC Allied Blender

United Spirits

UB GROUP DIAGEO

The liquor sector has hit a particularly bad patch , mostly because of the highway liquor ban introduced by the supreme court(SC). According to the SC directive,Liquor shops located within 500 meters of national and state highways need to be closed or relocated. As more than 35% of United Spirits revenue comes from theses shops ,It will take an immediate hit.

Though the SC order will come into effect from April, the company's numbers for the Fourth quarter of 2016-17 are expected to be Impacted by It.

The SC order came in January and the shops and retailers have been De stocking since.Though Diminished the effect of demonetisation will be felt in the fourth quarter as well.

However the analyst are getting bullish on United Spirits because they Say it is Time to get into the best player in the Industry. United spirits the largest liquor company in India with more than 50% Market share ,is the best stock to be in ,if you believe in structural long term story of the sector. Hurdles such as bans aside the Indian Indian liquor space promises results at faster pace over the long term because of favourable demographics and low per capita consumption.

Plugging Holes and Binge Drinking

Province like MP and Chattisgarh which are ruled by PM Narendra modi's pro hindu BJP and Daman are poised to ban alcohol. Southern States like Kerala which are huge alcohol consuming States is also reviewing whether to impose ban and join states like Bihar,Nagaland, Manipur and Gujarat.

Effects of Alcohol ban ON STATE REVENUE in Bihar and MP

- State has Directly lost 35 Billion rupees in revenue owing to liquor Ban.
- Madhya Pradesh Could Loose 75 billion in annual Revenues through Proposed ban.

"Ultimately every state will have to balance fiscal targets and constraints with social Goals"

Aditya Nayar ,ICRA

Binging and solitary Consumption to the Point of intoxication has become a hall mark and is practiced by more then half of Indian Drinkers 2013 Report by Public health Foundation.

United spirits enjoys strong brand recall and should also benefit from premiumisation. After getting majority control Diageo the largest global spirits player is transforming United Spirits.The new Business model should help the company improve its margin.

Though state wide bans and restriction on liquor sales will impact the sector,it is smaller companies that will be the worst affected. United spirits player , is transforming United Spirits.

Significant Underperformance 36% compared to Sensex during the last one year provides scope for upward price and is another Reason for analyst Bullishness. The word of caution is because of negative news flow for coming few quarters.

Investors Should Accumulate this stock in form of SIP