

United Spirits Ltd.

22nd May 2023

Bright Prospects: Demand Strengthens, Profitability Rises

United Spirits Ltd. (USL) sold 15 Mn cases in Q4 FY23, with an 80:20 ratio between Prestige & Above (P&A) and Popular categories. The Net Sales Value (NSV) for the quarter was ~Rs. 25 Bn, with an 88:12 split between P&A and Popular category. P&A category experienced a volume growth of -5% QoQ and 10% YoY, along with a value growth of -9% QoQ and 23% YoY. On the other hand, Popular category witnessed a volume decline of -21% QoQ and -69% YoY, as well as a value decline of -13% QoQ and -55% YoY. The annual decline in volume and value can be solely attributed to the discontinuation of 32 brands exited on sale and 11 brands given under franchise agreement in Q2 FY23. The retained portfolio has positively impacted NSV realization per case. For P&A category, there was a YoY increase of 12% and a QoQ decrease of -3%. The Popular category experienced an impressive YoY rise of 44% and a QoQ increase of 11% in NSV realization per case.

Brands expanding their reach and business

Royal Challenge American Pride achieved 75%+ market availability in the Upper Prestige segment by Q4 FY23, becoming the fastest-growing brand. Signature delivered the highest growth in the past 5 years, while Antiquity aims for a national rollout completion by July '24, amidst other brands like Black & White, Godawan, etc. expanding their reach.

Optimistic demand and pricing scenario

The Company achieved a remarkable 2.5% pricing growth in FY23, exceeding the typical range of 0.5-1.5%. During the year, the mid and upper prestige segments contributed to 35% of NSV growth, while luxury and premium accounted for 52%. Strong demand is expected to persist, with increased A&P spend driving higher NSV realization per case. Because the advertisement and promotion is done only for the P&A brands, it improves the average NSV realization per case. The P&A NSV realization per case grew at 12% YoY, popular at 44%, and overall at 40%.

Profitability set to rise ahead

The Company's supply agility program aims to improve the operating margin to the mid to high teens by FY26 from the current 13% for FY23. Additionally, from FY24, the Company anticipates to distribute dividends as their accumulated losses have been covered up by the end of FY23.

View & Valuation

Anticipated by the sustained demand of the mid, upper, luxury, and premium segments within the P&A category and improvement in operating margins ensure a healthy performance for FY24. Consequently, we revise our estimates and change our rating from BUY to NEUTRAL on USL with a target price of Rs. 891 (36x EV/EBITDA on FY24E EBITDA), suggesting a ~ 8% upside.

NEUTRAL

CMP: 824

TARGET Rs. 891 (+8%)

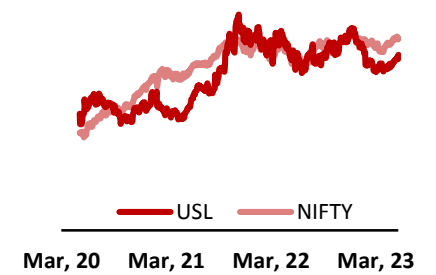
Company Data

MCAP (Rs. Mn)	5,94,427
O/S Shares (Mn)	727
52w High/Low	952/712
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	693

Shareholding Pattern %

	Mar-23	Dec-22	Sep-22
Promoters	56.68	56.73	56.73
FIIIs	15.38	15.98	16.07
DIIIs	12.71	12.09	11.62
Non-Institutional	15.23	15.2	15.58

USL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY22	FY23	FY24E
Revenue	97	106	112
EBITDA	16	14	18
Net Profit	8	11	10
Total Assets	89	97	109
ROCE (%)	14%	17%	18%
ROE (%)	18%	21%	15%

Source: Company, Keynote Capitals Ltd.

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Q4 FY23 Result Update

Result Highlights (Rs. Mn)

Particulars	Q4 FY23	Q4 FY22	Change % (Y-o-Y)	Q3 FY23	Change % (Q-o-Q)	FY23	FY22	Change % (Y-o-Y)
Net Sales	25,028	25,357	-1%	27,787	-10%	1,06,116	97,124	9%
COGS	13,623	14,130	-4%	16,436	-17%	60,641	52,915	15%
Gross Profit	11,405	11,227	2%	11,351	0%	45,475	44,209	3%
Gross Profit %	46%	44%	129 bps	41%	472 bps	43%	46%	-266 bps
Employee Benefit Expense	1,241	1,424	-13%	1,610	-23%	6,100	6,531	-7%
Advertisement and Sales Promotion	3,420	1,332	157%	2,790	23%	9,218	6,949	33%
Other Expenses	4,389	4,153	6%	3,233	36%	15,988	14,648	9%
EBITDA	2,355	4,318	-45%	3,718	-37%	14,169	16,081	-12%
EBITDA (%)	9%	17%	-762 bps	13%	-397 bps	13%	17%	-320 bps
Depreciation	6,88	774	-11%	647	6%	2,825	3,038	-7%
EBIT	1,667	3,544	-53%	3,071	-46%	11,344	13,043	-13%
EBIT (%)	7%	14%	- 738 bps	11%	-445 bps	11%	13%	274 bps
Finance Cost	360	165	118%	244	48%	1,039	880	18%
Other Income	180	238	-24%	213	-15%	731	355	106%
PBT	1,487	3,617	-59%	3,040	-51%	11,036	12,518	-12%
Exceptional Items	-180	-1,204	-85%	-1,487	-88%	1,764	-1,652	-207%
Tax	275	627	-56%	-591	-147%	1,528	2,760	-45%
Share of Associates	-4	0	0%	-2	100%	-14	0	-
PAT	1,028	1,786	-42%	2,142	-52%	11,258	8,106	39%
EPS	1.45	2.56		3.02		16.01	11.68	

Source: Company, Keynote Capitals Ltd. estimates

USL | Quarterly Update

Conference Call Highlights

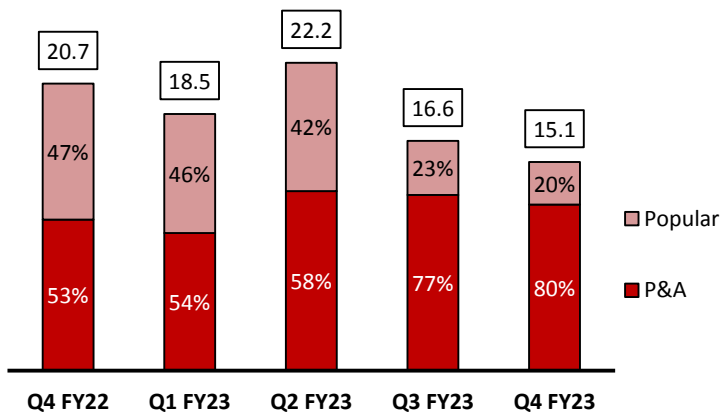
Brands

- Royal Challenge American Pride: Achieved 75%+ market availability in the prestigious Upper Prestige segment and recognized as the fastest-growing brand of the Company.
- Signature: Delivered the highest growth in the past 5 years, surpassing industry momentum.
- Antiquity: Recently launched in select states and aiming for a national rollout completion by July '24.
- Royal Challenge: Now available in 85%+ salient markets nationally has experienced a remarkable national volume growth of over 40% in FY23.
- Black & White: Sustained growth story, with India emerging as the largest NSV market globally. The brand expected to cross 1 Mn cases in FY24. Further. It is gaining market share in both Bottled in India (BII) scotch and international whiskey categories.
- Godawan: Gradually expanding its presence, including a recent launch in New York, USA.

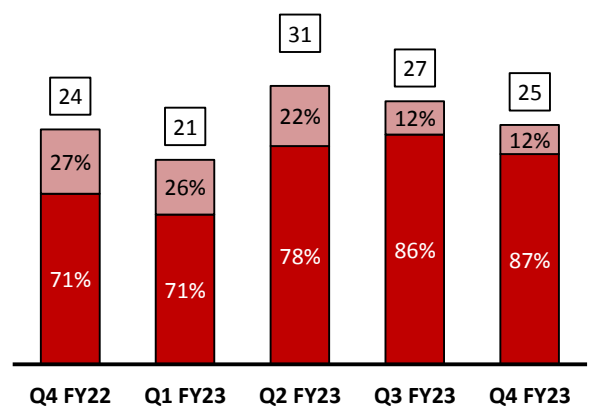
Others

- Accumulated losses nearly eliminated by the end of March 2023, whereby management is anticipating resumption of dividend distribution in FY24.
- The persistent high inflation on key commodities is expected to contribute to increased volatility in the market.
- The consumption demand is expected to remain robust in Upper Prestige and Mid Prestige categories going into FY24.
- The Company maintains a normalized A&P spend of about 9% to 10% on an annualized basis.
- Overall portfolio experienced a 2.5% price growth during the year.

Quarterly Volume Sales (in Mn cases)

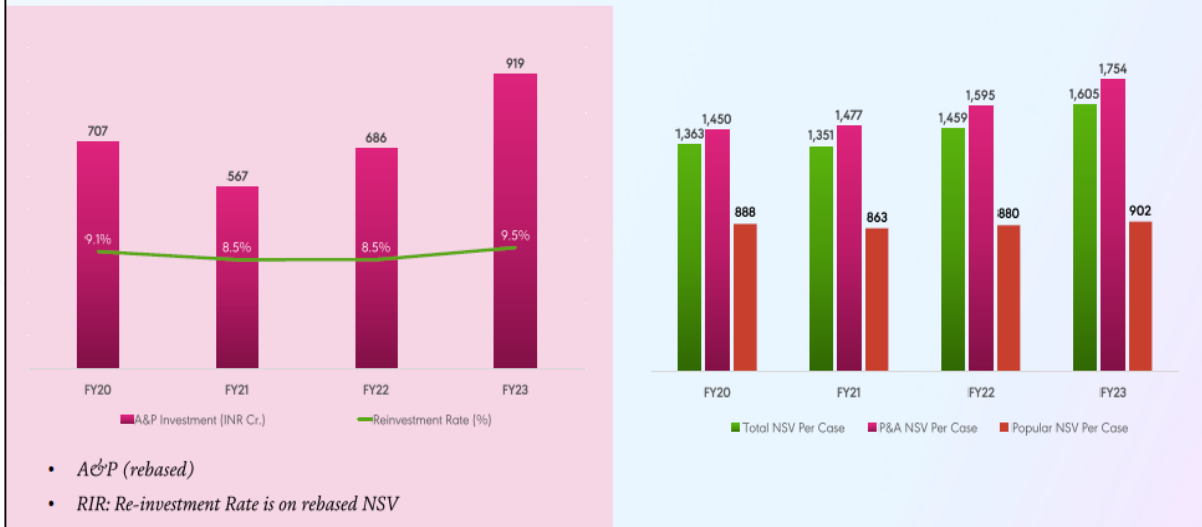


Quarterly NSV (in Rs. Bn, ex. Other Revenue)



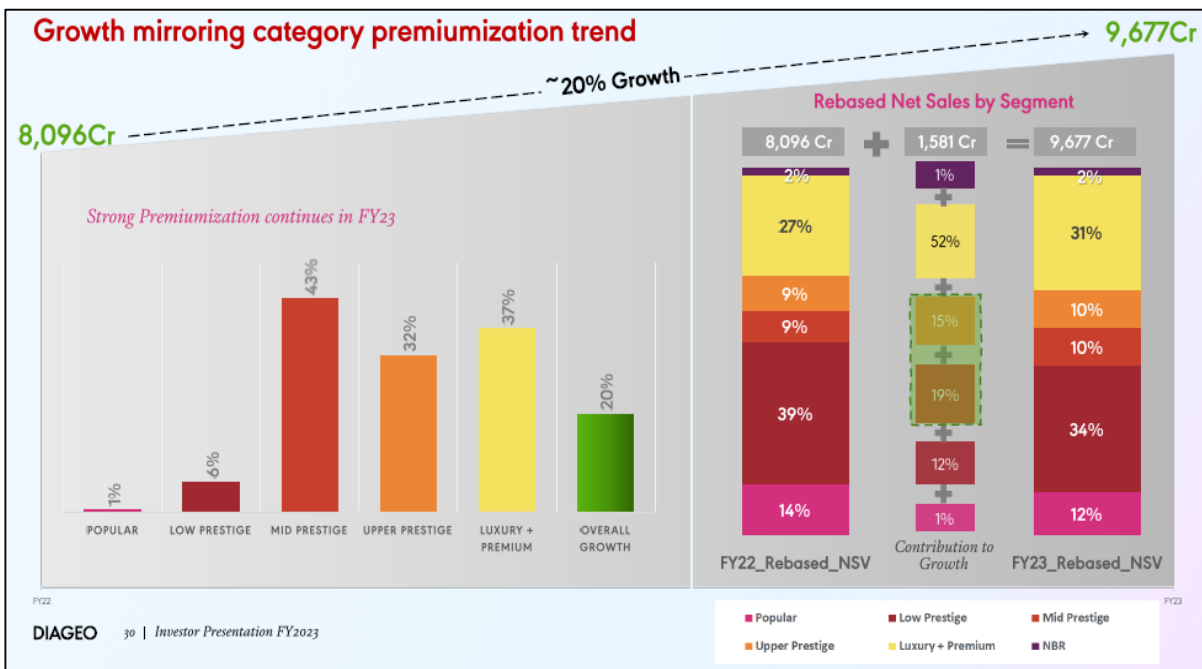
Source: Company, Keynote Capitals Ltd.

Sustained A&P investments enable better NSV per case realisation



Source: Company, Keynote Capitals Ltd.

Growth mirroring category premiumization trend



DIAGEO 30 | Investor Presentation FY2023

Source: Company, Keynote Capitals Ltd.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Net Sales	81,313	97,124	106,116	112,220	126,770
Growth %	19%	9%	6%	13%	13%
Raw Material Expenses	44,556	52,915	60,641	63,629	71,879
Employee Expenses	5,564	6,531	6,100	6,733	7,606
Other Expenses	20,666	21,726	25,206	24,127	27,256
EBITDA	10,527	15,952	14,169	17,731	20,030
Growth %	52%	-11%	25%	13%	13%
Margin%	13%	16%	13%	16%	16%
Depreciation	2,991	3,038	2,825	3,088	3,228
EBIT	7,536	12,914	11,344	14,643	16,802
Growth %	71%	-12%	29%	15%	15%
Margin%	9%	13%	11%	13%	13%
Interest Paid	1,876	880	1,039	755	755
Other Income & exceptional	-247	-1,168	2,495	-737	-737
PBT	5,413	10,866	12,800	13,150	15,310
Tax	1,779	2,760	1,528	3,288	3,827
PAT	3,634	8,106	11,272	9,863	11,482
Others (Minorities, Associates)	202	180	91	-14	-15
Net Profit	3,836	8,286	11,363	9,849	11,468
Growth %		116%	37%	-13%	16%
Shares (Mn)	727	727	727	727	727
EPS	5.28	11.41	15.64	13.55	15.78

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Cash, Cash equivalents & Bank	839	603	8,833	8,498	17,203
Current Investments	0	2,221	2,558	2,558	2,558
Debtors	21,872	23,736	24,340	26,933	30,425
Inventory	20,519	21,567	22,300	25,451	28,752
Short Term Loans & Advances	11,493	113	163	163	163
Other Current Assets	3,578	3,394	4,152	4,152	4,152
Total Current Assets	58,301	51,634	62,346	67,755	83,253
Net Block & CWIP	19,739	19,425	16,010	16,443	14,863
Long Term Investments	75	0	301	287	272
Other Non-current Assets	15,815	18,054	18,958	24,520	24,520
Total Assets	93,930	89,113	97,615	109,005	122,908
Creditors	14,172	15,821	17,825	19,366	21,802
Provision	19,234	4,880	3,731	3,731	3,731
Short Term Borrowings	8,745	4,704	1,030	1,030	1,030
Other Current Liabilities	11,497	12,978	13,657	13,657	13,657
Total Current Liabilities	53,648	38,383	36,243	37,784	40,220
Long Term Debt	22	1,350	803	803	803
Deferred Tax Liabilities (net)	-1,450	483	451	451	451
Other Long Term Liabilities	1,121	149	123	123	123
Total Non Current Liabilities	-307	1,982	1,377	1,377	1,377
Paid-up Capital	1,453	1,453	1,455	1,455	1,455
Reserves & Surplus	39,745	48,084	58,540	68,389	79,856
Shareholders' Equity	41,198	49,537	59,995	69,844	81,311
Non Controlling Interest	-609	-789	0	0	0
Total Equity & Liabilities	93,930	89,113	97,615	109,005	122,908

Cash Flow

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	5,413	10,866	12,800	13,150	15,310
Adjustments	5,810	5,531	1,675	3,093	3,233
Change in Working Capital	8,035	-2,053	-5,653	-4,203	-4,357
Total Tax Paid	-1,068	-4,570	-2,675	-3,288	-3,827
Cash flow from operating Activities	18,190	9,774	6,147	8,753	10,359
Net Capital Expenditure	-1,383	-956	-1,132	-1,459	-1,648
Change in investments	-20	-2,135	413	0	0
Other investing activities	411	-36	187	750	750
Cash flow from investing activities	-992	-3,127	-532	-709	-898
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	-3,405	-7,315	-3,392	0	0
Dividend (incl. tax)	0	0	0	0	0
Other financing activities	-2,253	-1,523	-1,617	-755	-755
Cash flow from financing activities	-5,658	-8,838	-5,009	-755	-755
Net Change in cash	11,540	-2,191	606	7,289	8,705

Valuation Ratios

	FY21	FY22	FY23	FY24E	FY25E
Per Share Data					
EPS	5	11	16	14	16
Growth %		116%	37%	-13%	16%
Book Value Per Share	57	68	83	96	112
Return Ratios					
Return on Assets (%)	4%	8%	11%	10%	10%
Return on Equity (%)	10%	18%	21%	15%	15%
Return on Capital Employed (%)	11%	14%	17%	18%	18%
Turnover Ratios					
Asset Turnover (x)	0.9	1.0	1.1	1.1	1.1
Sales / Gross Block (x)	2.7	3.1	3.2	3.3	3.5
Working Capital / Sales (x)	2%	9%	19%	25%	29%
Receivable Days	100	86	83	83	83
Inventory Days	163	145	132	137	138
Payable Days	104	101	100	102	100
Working Capital Days	159	129	115	119	120
Liquidity Ratios					
Current Ratio (x)	1.1	1.3	1.7	1.8	2.1
Interest Coverage Ratio (x)	4.2	15.2	11.6	20.4	23.2
Total Debt to Equity	0.2	0.1	0.0	0.0	0.0
Net Debt to Equity	0.2	0.1	-0.1	-0.1	-0.2
Valuation					
PE (x)	105.4	77.9	52.3	60.3	51.8
Earnings Yield (%)	1%	1%	2%	2%	2%
Price to Sales (x)	5.0	6.6	5.6	5.3	4.7
Price to Book (x)	9.8	13.0	9.9	8.5	7.3
EV/EBITDA (x)	39.2	40.6	42.1	33.7	29.8
EV/Sales (x)	5.1	6.7	5.6	5.3	4.7

Source: Company, Keynote Capitals Ltd. estimates

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
24 th March 2023	BUY	764	+16%
22 nd May 2023	NEUTRAL	824	+8%

Source: Company, Keynote Capitals Ltd. estimates

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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