

United Spirits Ltd.

24th July 2023

Promising Prospects to Continue

United Spirits Ltd. (USL) sold 11 Mn cases in Q1FY24, with an 83:17 ratio between Prestige & Above (P&A) and Popular categories. The Net Sales Value (NSV) for the quarter was ~Rs. 22 Bn, with an 89:11 split between P&A and Popular category. The P&A category experienced a volume growth of -9% QoQ and 10% YoY, along with a net revenue growth of -14% QoQ and 21% YoY. On the other hand, Popular category witnessed a volume decline of -26% QoQ and -74% YoY, as well as a net revenue decline of -25% QoQ and -60% YoY. The NSV per case for the P&A category observed a QoQ decrease of -6% and a YoY increase of 10%. For the Popular segment, the retained portfolio positively impacted its NSV realization per case with 2% increase QoQ and 51% increase YoY.

Innovation and renovation are leading the growth

The P&A segment's double-digit volume growth can be attributed to two main factors: the full resumption of BIO trade in markets where USL was absent temporarily and the successful distribution and penetration of innovated and renovated brands like Godawan entered New York and New Jersey (40+ outlets), Royal Challenge American Pride achieved 80% salience in India and expanded to Chandigarh and Orissa, Antiquity reached over 50% salience, and Johnnie Walker Blonde expanded to 9 states in India.

Profitability set to rise ahead

The Company's supply agility program aims to control raw material costs and improve the operating margin to high teens from the current ~15% (adjusting A&P spends to optimal levels).

View & Valuation

We hold a positive outlook on the growth of beverage alcohol, particularly spirits, and anticipate strong performance from a leader like USL in FY24. However, we perceive the valuations to be overpriced, whereby we revise our estimates and change our rating on USL to NEUTRAL, with a target price of 999 (36x EV/EBITDA FY24E).

NEUTRAL

CMP: 978

TARGET Rs. 999 (2%)

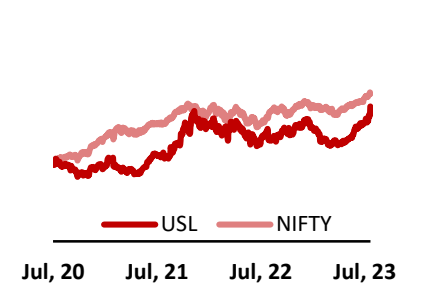
Company Data

MCAP (Rs. Mn)	7,11,006
O/S Shares (Mn)	727
52w High/Low	1,055/731
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	886

Shareholding Pattern %

	Jun-23	Mar-23	Dec-22
Promoters	56.68	56.68	56.73
FII's	15.92	15.38	15.98
DII's	12.65	12.71	12.09
Non-Institutional	14.77	15.23	15.2

USL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY23	FY24E	FY25E
Revenue	106	119	133
EBITDA	14	20	22
Net Profit	11	13	14
Total Assets	96	112	128
ROCE (%)	17%	20%	19%
ROE (%)	21%	19%	18%

Source: Company, Keynote Capitals Ltd.

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Q1 FY24 Result Update

Result Highlights (Rs. Mn)

Particulars	Q1 FY24	Q1 FY23	Change % (Y-o-Y)	Q4 FY23	Change % (Q-o-Q)	FY23
Net Sales	26,678	24,191	10%	25,028	7%	1,06,116
COGS	12,245	12,953	-5%	13,623	-10%	60,641
Gross Profit	14,433	11,238	28%	11,405	27%	45,475
Gross Profit %	54%	46%	765 bps	46%	853 bps	43%
Employee Benefit Expense	1,258	1,723	-27%	1,241	1%	6,100
Other Expenses	6,040	5,792	4%	7,809	-23%	25,206
EBITDA	7,135	3,723	92%	2,355	203%	14,169
EBITDA %	27%	15%	1,135 bps	9%	1,734 bps	13%
Depreciation	743	831	-11%	688	8%	2,825
EBIT	6,392	2,892	121%	1,667	283%	11,344
Finance Cost	43	225	-81%	360	-88%	1,039
Other Income	217	262	-17%	180	21%	731
PBT	6,566	2,929	124%	1,487	342%	11,036
Share of Associate	-5	-3	67%	-4	25%	-14
Exceptional Item	-171	-384	-55%	-180	-5%	1,764
Tax	1,623	-69	-2,452%	275	490%	1,528
PAT	4,767	2,611	83%	1,028	364%	11,258
EPS	6.7	3.8	79%	1.5	363%	16.0

Segmental Highlights

Particulars	Q1 FY24	Q1 FY23	Change % (Y-o-Y)	Q4 FY23	Change % (Q-o-Q)	FY23
Net Revenue						
Beverage Alcohol	21,719	21,946	-1%	24,938	-13%	1,03,737
Sports	4,986	2,264	120%	136	3566%	2,442
EBITDA						
Beverage Alcohol	3,850	2,694	43%	3,366	14%	14,230
Sports	3,285	1,029	219%	-1011	-425%	-61
EBITDA Margin (%)						
Beverage Alcohol	18%	12%	545 bps	13%	423 bps	14%
Sports	66%	45%	2,043 bps	-743%	80,927 bps	-2%

Source: Company, Keynote Capitals Ltd. estimates

Q1 FY24 Conference Call Highlights

Beverage Alcohol

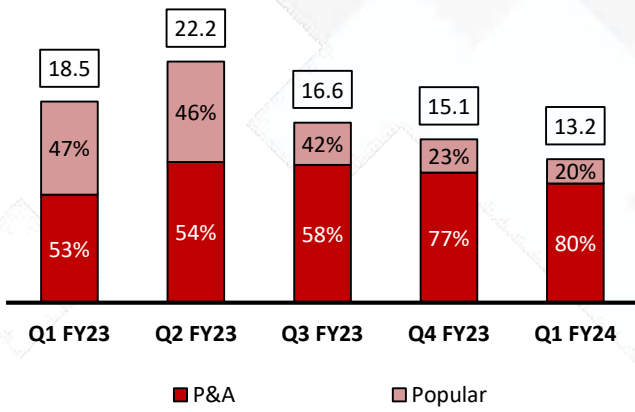
- The two main reasons for double-digit growth in volume of the P&A segment are the full-fledged resumption of BIO trade in markets where USL was absent and the increased distribution and penetration of innovated and renovated brands like Royal Challenge and Signature with high market visibility.
- Innovation and renovation have paved the way for increased distribution and penetration in various markets: Godawan established a presence in New York and New Jersey (40+ outlets), Royal Challenge American Pride achieved 80% salience in India and expanded to Chandigarh and Orissa, Antiquity reached over 50% salience in the market, and Johnnie Walker Blonde became available in 9 states across India.
- The excise duty in Karnataka has been raised by approximately 20%, causing MRP to increase by 14-17% for USL, fetching nothing incremental for the Company. Additionally, Karnataka being a Popular-heavy state, the Company's salience in the state has decreased after substantially exiting the popular segment in Q2FY23.
- The standalone EBITDA margins of approximately 17.7% can be attributed mainly to the lower than optimal A&P spending at 6-7%, which is below the guided range of 9-10%. However, with expenses being replenished to the guided levels, the margins are projected to initially reach 15% and gradually increase to mid to high teens.
- On the first anniversary of Godawan in Q1FY24, the Company introduced Godawan 100, a limited-edition handcrafted luxury collection for bottle collectors, achieving an average realization of over Rs. 90,000 during the quarter.
- The UK-India FTA's reduction of import duty from 150% to 100% will decrease the MRP of BIO brands by 5-7%, and a further discount to 50% will have an overall impact of ~12-15% on the selling price. Nevertheless, since state excise duty contributes significantly to the selling price, the reduction in import duty is expected to have a limited impact on the final price.
- Geographically, the North and West regions show higher consumption of premium-end brands, with the North having a dominant 60% share in Scotch consumption. On the other hand, the South region is characterized by higher volume consumption, particularly in the Popular segment.
- As a result of a Route to Market (RTM) change, the Delhi market has undergone a considerable contraction, resulting in the Company now providing only a fraction of the volumes it supplied in the past.
- Inflation persists for neutral alcohol, glass, and natural gas, while soda ash and furnace oil are beginning to ease.

Sports

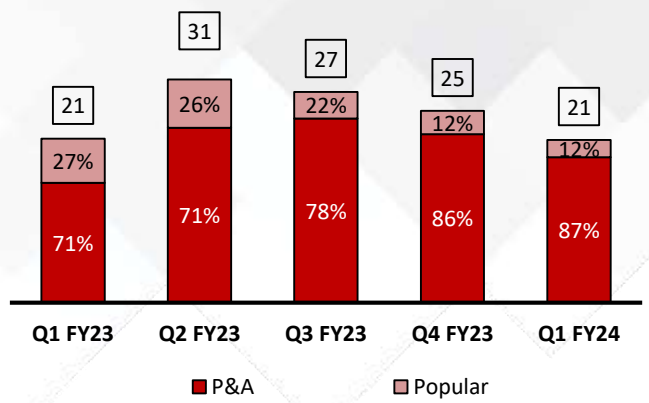
- The Men's IPL revenue has experienced a notable boost due to the new media rights cycle (CY23-27), following a staggered increase over five years. Consequently, the Women's IPL is anticipated to follow a similar trajectory. For the upcoming five years, the management anticipates a profit of ~Rs. 3 Bn from the Men's IPL and an expected loss of Rs. 0.9 Bn from the Women's IPL.

IPL operates on a revenue-sharing model with the BCCI selling broadcasting rights to TV and OTT companies, distributing the earnings between all teams, top 4 teams and itself in proportions of 40%, 10% and 50%, respectively. The current cycle (CY23-27) of media rights for Men's IPL were sold at ~ Rs. 484 Bn, rising by 200% over the previous cycle (CY18-22). As a result, the franchises/teams are expected to earn over Rs. 4-5 Bn/year for the next 5 years, almost double to what they made in the last cycle.

Quarterly Volume Sales (in Mn. cases)



NSV (in Rs. Bn, ex Other Revenue)



Source: Company, Keynote Capitals Ltd. estimates

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	97,124	1,06,116	1,18,519	1,33,495	1,50,398
Growth %	9%	12%	13%	13%	
Raw Material Expenses	52,915	60,641	67,200	75,692	85,276
Employee Expenses	6,531	6,100	5,926	6,675	7,520
Other Expenses	21,726	25,326	25,482	28,701	32,336
EBITDA	15,952	14,049	19,911	22,427	25,267
Growth %	-12%	42%	13%	14%	
Margin%	16%	13%	17%	17%	17%
Depreciation	3,038	2,825	3,034	3,204	3,396
EBIT	12,914	11,224	16,877	19,223	21,871
Growth %	71%	-13%	50%	14%	14%
Margin%	13%	11%	14%	14%	15%
Interest Paid	880	1,039	202	202	202
Other Income & exceptional	-1,168	2,615	300	300	300
PBT	10,866	12,800	16,975	19,320	21,968
Tax	2,760	1,528	4,244	4,830	5,492
PAT	8,106	11,272	12,731	14,490	16,476
Others (Minorities, Associates)	180	91	-14	-15	-15
Net Profit	8,286	11,363	12,717	14,476	16,461
Growth %	116%	37%	12%	14%	14%
Shares (Mn)	727	727	727	727	727
EPS	11.41	15.64	17.50	19.92	22.65

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	603	8,833	17,957	29,119	42,137
Current Investments	2,221	2,558	2,558	2,558	2,558
Debtors	23,736	24,340	27,852	31,371	35,344
Inventory	21,567	22,300	26,880	30,277	34,110
Short Term Loans & Advances	15,153	2,578	2,578	2,578	2,578
Other Current Assets	1,791	1,737	1,737	1,737	1,737
Total Current Assets	65,071	62,346	79,562	97,640	1,18,464
Net Block & CWIP	19,765	17,095	15,602	14,133	12,692
Long Term Investments	0	301	287	272	257
Other Non-current Assets	16,235	16,300	16,300	16,300	16,300
Total Assets	1,01,071	96,042	1,11,750	1,28,345	1,47,713
Creditors	15,821	17,825	20,816	22,936	25,842
Provision	21,082	6,560	6,560	6,560	6,560
Short Term Borrowings	3,392	0	0	0	0
Other Current Liabilities	11,525	11,858	11,858	11,858	11,858
Total Current Liabilities	51,820	36,243	39,234	41,354	44,260
Long Term Debt	9	3	3	3	3
Deferred Tax Liabilities (net)	-995	-1,122	-1,122	-1,122	-1,122
Other Long-Term Liabilities	1,490	923	923	923	923
Total Non-Current Liabilities	504	-196	-196	-196	-196
Paid-up Capital	1,453	1,455	1,455	1,455	1,455
Reserves & Surplus	48,083	58,540	71,257	85,733	1,02,194
Shareholders' Equity	49,536	59,995	72,712	87,188	1,03,649
Non-Controlling Interest	-789	0	0	0	0
Total Equity & Liabilities	1,01,071	96,042	1,11,750	1,28,345	1,47,713

Source: Company, Keynote Capitals Ltd. estimates

Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	10,866	12,800	16,975	19,320	21,968
Adjustments	5,531	1,689	2,436	2,607	2,799
Change in Working Capital	-2,053	-5,653	-5,101	-4,797	-4,900
Total Tax Paid	-4,570	-2,675	-4,244	-4,830	-5,492
Cash flow from operating Activities	9,774	6,161	10,067	12,300	14,375
Net Capital Expenditure	-956	-1,101	-1,541	-1,735	-1,955
Change in investments	-2,135	-8,087	0	0	0
Other investing activities	-36	8,656	800	800	800
Cash flow from investing activities	-3,127	-532	-741	-935	-1,155
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	-7,315	-5,371	0	0	0
Dividend (incl. tax)	0	0	0	0	0
Other financing activities	-1,523	-1,603	-202	-202	-202
Cash flow from financing activities	-8,838	-6,974	-202	-202	-202
Net Change in cash	-2,191	-1,345	9,124	11,163	13,018

Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	11	16	18	20	23
Growth %	116%	37%	12%	14%	14%
Book Value Per Share	68	83	100	120	143
Return Ratios					
Return on Assets (%)	8%	12%	12%	12%	12%
Return on Equity (%)	18%	21%	19%	18%	17%
Return on Capital Employed (%)	14%	17%	20%	19%	18%
Turnover Ratios					
Asset Turnover (x)	1.0	1.1	1.1	1.1	1.1
Sales / Gross Block (x)	3.1	3.5	4.1	4.3	4.6
Working Capital / Sales (x)	9%	19%	28%	36%	43%
Receivable Days	86	83	80	81	81
Inventory Days	145	132	134	138	138
Payable Days	101	100	98	101	100
Working Capital Days	129	115	116	118	119
Liquidity Ratios					
Current Ratio (x)	1.3	1.7	2.0	2.4	2.7
Interest Coverage Ratio (x)	15.2	11.6	87.4	99.0	112.0
Total Debt to Equity	0.1	0.0	0.0	0.0	0.0
Net Debt to Equity	0.1	-0.1	-0.2	-0.3	-0.4
Valuation					
PE (x)	77.9	66.4	59.4	52.2	45.9
Earnings Yield (%)	1%	2%	2%	2%	2%
Price to Sales (x)	6.6	7.1	6.4	5.7	5.0
Price to Book (x)	13.0	12.6	10.4	8.7	7.3
EV/EBITDA (x)	40.6	54.0	38.1	33.8	30.0
EV/Sales (x)	6.7	7.1	6.4	5.7	5.0

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%
24 th July 2023	NEUTRAL	978	+2%

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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