

## Near term impact on premiumisation trend...

Q4FY20 volumes of United Spirit de-grew 13%, mainly due to broad based consumption slowdown. In line with the weak performance of its major competitor Pernod Ricard, USL also faced strong headwinds in the P&A category (fell 20% YoY), while the Popular category de-grew 7%. The weak performance on the volume front comes on a weak base of 1% volume growth in Q4FY19. Further, H1FY21 is expected to remain muted, amid lockdown, excise and cess hikes by various states. EBITDA margins grew mere 101 bps YoY to 13.6% on a low base (mainly due to unfavourable product mix and higher other expenses). Subsequently, resultant EBITDA, PAT, de-grew 4%, 81%, respectively (weak operating leverage further impacted by higher depreciation, lower other income and higher tax rate).

## Alcohol home delivery may unclog distribution reach

Increased technology in the delivery of alcohol brings a better experience for customer and also shifts consumer behaviour (more acquisition of new customers and lowering the social stigma attached to alcohol). Historically there had been 60-70000 outlets for liquor compared to a distribution reach of several millions for FMCG companies. E-commerce channel would help drive liquor penetration among the vast potential customer base in India.

## Expect normalisation of liquor sector from H2 onwards

Post relaxation of lockdown, various state governments in light of stressed state coffers, went ahead and imposed special fees on liquor as it makes up 10-15% of states' own tax revenues (SOTR). The steep hike (in some cases 50-70% jump in MRP) is expected to impact P&A segment most in the near term, as purchasing decisions of consumers tend to get impacted in an environment where affordability becomes a challenge (choosing lower price variants). In Q4, USL Bottled in Origin (BIO) scotch segment was more severely impacted than Bottle in India (BII). However, with phase wise opening of economy and improvement in state fiscal situation, liquor sector is expected to report a better performance (growth, better cash collection).

## Valuation & Outlook

The management remains cautiously optimistic on the resilience of the business and ability to adapt to the difficult situation. On the balance sheet front, the management has actively lowered net debt by ~₹ 500 crore, even during a challenging FY20 (marred by general elections, economic slowdown and Coronavirus). Further, the management has dealt with higher input price inflation by managing its A&P, other expenses in FY20. Although concerns remain like uncertainty regards the pandemic, the management has displayed discipline and prudence when dealing with evolving customer needs. We value the stock at ~36x FY22 EPS to arrive at a target price of ₹ 650 and maintain our **BUY** rating.

### Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	CAGR (%)
Net Sales	8590.6	9340.8	9325.4	8545.9	10887.2	6.1
EBITDA	1207.2	1393.6	1572.3	1469.9	1981.5	13.2
EBITDA margin (%)	14.1	14.9	16.9	17.2	18.2	
PAT	633.8	700.2	658.9	867.5	1294.5	19.5
P/E (x)	64.2	58.9	64.7	46.9	31.4	
Market cap to Sales (x)	4.7	4.4	4.4	4.8	3.7	
RoCE (%)	22.4	21.0	23.8	22.0	28.4	
RoE (%)	26.2	22.3	16.9	18.9	22.0	

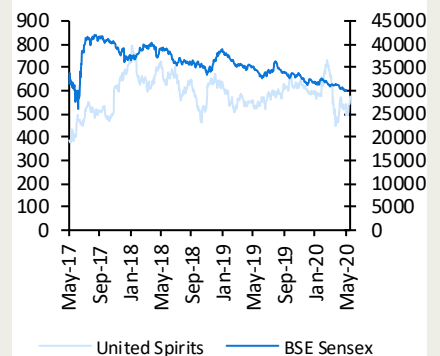
## UNITED SPIRITS

A DIAGEO Group Company

### Particulars

Particular	Amount
Market Capitalization (₹cr)	40,684.0
Total Debt (FY 20P) (₹cr)	1,620.7
Cash (FY 20P) (₹cr)	73.5
EV (₹cr)	42,231.2
52 week H/L	743/442
Equity Capital (₹cr)	145.3
Face Value (₹)	2.0

### Price Performance



### Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	56.8	56.8	56.8	56.8
Others	43.2	5.1	5.3	5.3

### Research Analyst

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## Exhibit 1: Variance Analysis

Standalone	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	1,993.8	2,118.6	2,250.0	-11.4	2,582.5	-22.8	Revenues de-grew 11% due to slowdown in consumption in the overall economy
Consumption of RM	1,153.0	1,186.4	1,203.8	-4.2	1,436.6	-19.7	Gross margins came in at 42.2% in Q4FY20 vs. 46.5% in Q4FY19, mainly due to unfavourable product mix
Employee Expenses	110.6	137.7	170.4	-35.1	126.6	-12.6	
A&P Expenses	120.0	190.7	179.9	-33.3	251.1	-52.2	Advertisement expenses lowered to 6% of sales, in contrast to the usual run rate of 9-10% levels
Other Expense	338.8	296.6	412.3	-17.8	344.2	-1.6	
Total Expense	1,722.4	1,811.4	1,966.4	-12.4	2,158.5	-20.2	
EBITDA	271.4	307.2	283.6	-4.3	424.0	-36.0	
EBITDA Margin (%)	13.6	14.5	12.6	101 bps	16.4	-281 bps	Higher gross margin compression and other expense to sales ratio negatively impacts EBITDA
Depreciation	67.8	54.9	40.1	69.1	52.4	29.4	
Interest	48.0	46.6	60.5	-20.7	45.5	5.5	
Other Income	4.1	15.7	11.9	-65.5	17.6	-76.7	
Exceptional Gain/Loss	1.3	0.0	-6.5	NA	0.0	NA	
PBT	161.0	221.4	188.4	-14.5	343.7	-53.2	
Total Tax	137.1	55.7	62.2	120.4	84.9	61.5	
PAT	23.9	165.6	126.2	-81.1	258.8	-90.8	

Key Metrics	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	
P & above vol (Mn cases)	8.4	10.0	10.5	-20.0	11.4	-26.3	YoY de-growth due to a general consumption slowdown
Regular	9.9	10.1	10.6	-6.6	10.1	-2.0	
Total volume (mn cases)	18.3	20.0	21.1	-13.3	21.5	-14.9	

Source: ICICI Direct Research

## Exhibit 2: Change in estimates

(₹ Crore)	FY21E					FY22E			Comments
	FY19	FY20	Old	New	% Change	Old	New	% Change	
Revenue	9,340.8	9,325.4	10,642.2	8,545.9	-19.7	11,816.9	10,887.2	-7.9	Muted volumes in FY21E impact revenues
EBITDA	1,393.6	1,572.3	2,011.4	1,469.9	-26.9	2,339.7	1,981.5	-15.3	
EBITDA Margin (%)	14.9	16.9	18.9	17.2	-170 bps	19.8	18.2	-160 bps	Impact mainly due to muted volumes in FY21 and unfavourable product mix
PAT	690.5	628.6	1,264.1	867.5	-31.4	1,556.4	1,294.5	-16.8	
EPS (₹)	9.5	8.7	17.4	11.9	-31.4	21.4	17.8	-16.8	

Source: Company, ICICI Direct Research

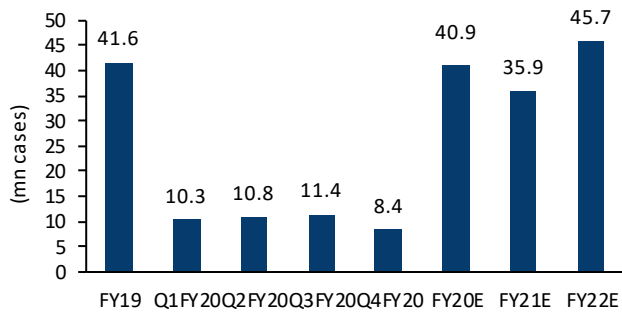
## Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
Volume (Standalone) Cr Cases	8.2	8.2	8.2	7.3	9.0	9.7	Prestige and above volumes expected to decline more than the popular segment
Volume Growth (%)	3.9	4.3	0.3	-11.2	6.6	7.2	
Net Realisation (standalone) ₹/case	1,070	1,062	1,062	1,115	1,151	1,193	
Realisation Growth (%)	2.9	2.2	-0.7	5.0	4.2	3.7	

Source: ICICI Direct Research, Company

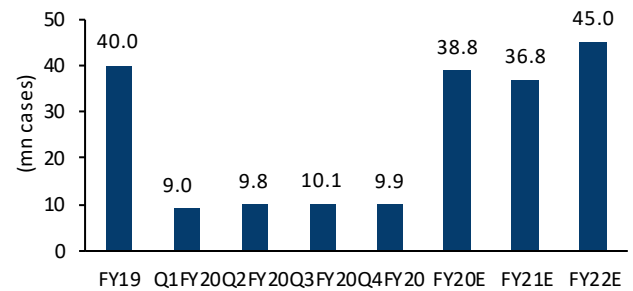
## Key Metrics

Exhibit 4: P&A expected to grow at 6% CAGR (FY20-22)



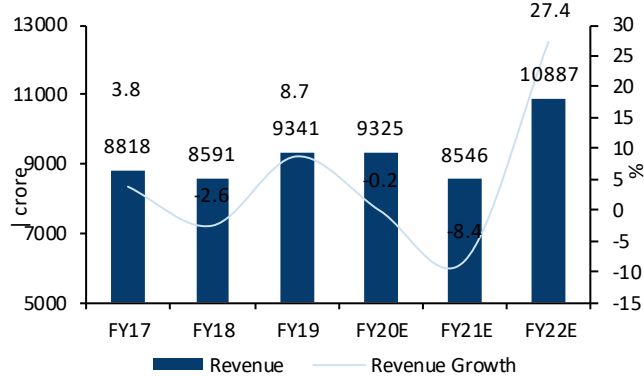
Source: ICICI Direct Research, Company

Exhibit 5: Popular expected to grow at 8% CAGR (FY20-22)



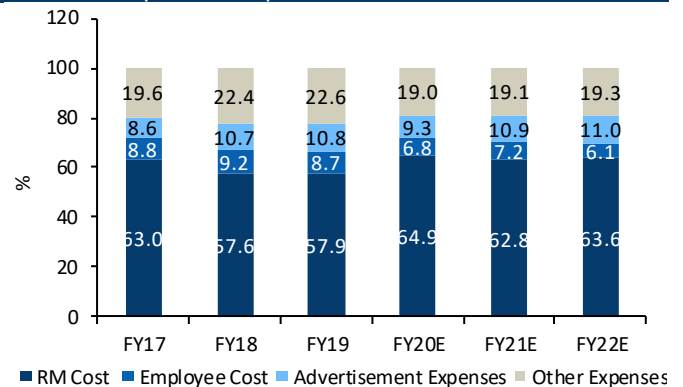
Source: ICICI Direct Research, Company

Exhibit 6: Revenues to grow at 5% CAGR over FY20-22E



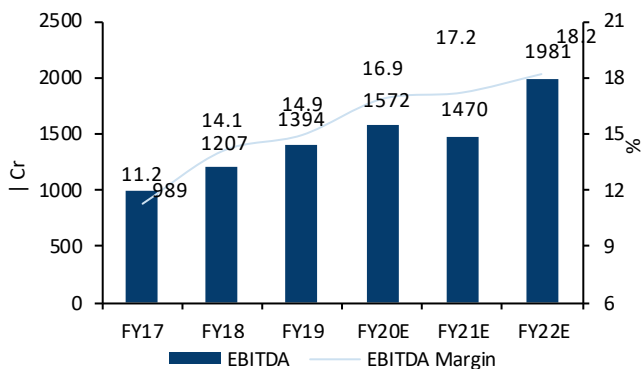
Source: ICICI Direct Research, Company

Exhibit 7: Expense composition



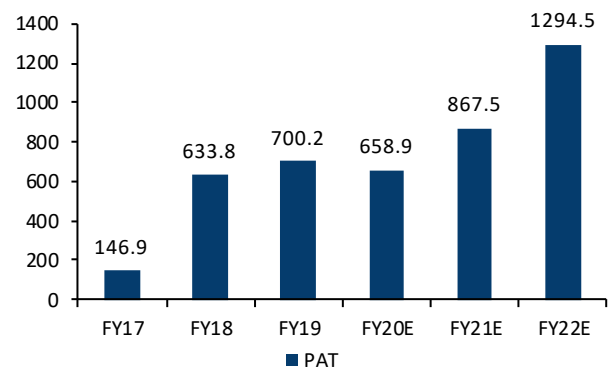
Source: ICICI Direct Research, Company

Exhibit 8: EBITDA expected to grow at 8% CAGR (FY20-22)



Source: Company, ICICI Direct Research

Exhibit 9: PAT expected to grow at 28% CAGR in FY20-22



Source: Company, ICICI Direct Research

Exhibit 10: Valuation ratios

	Sales	Sales	EPS	EPS	PE	EV/EBITD	RoNW	RoCE
	(₹cr)	rowth (%)	(₹ row th (%))		(x)	(x)	(%)	(%)
FY 18	8590.6	-2.6	8.7	533.2	68.8	37.2	26.2	22.4
FY 19	9340.8	8.7	9.5	9.0	58.9	32.1	22.7	21.0
FY 20	9325.4	-0.2	8.7	-9.0	64.7	27.8	17.7	23.8
FY 21E	8545.9	-8.4	11.9	38.0	46.9	29.0	18.9	22.0
FY 22E	10887.2	27.4	17.8	49.2	31.4	21.1	22.0	28.4

Source: Company, ICICI Direct Research

## Financial summary

## Exhibit 11: Profit &amp; Loss Statement ₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Income	9,340.8	9,325.4	8,545.9	10,887.2
Growth (%)	8.7	-0.2	-8.4	27.4
Cost of materials cons	4,603.4	5,028.9	4,443.9	5,661.3
Employee benefit exp	689.8	530.0	512.8	544.4
Advertisement&Promo	859.1	717.3	769.1	979.8
Other Expenses	1,794.9	1,476.9	1,350.3	1,720.2
EBITDA	1,393.6	1,572.3	1,469.9	1,981.5
Growth (%)	15.4	12.8	-6.5	34.8
Depreciation	214.7	285.3	295.8	313.8
EBIT	1,178.9	1,287.0	1,174.1	1,667.7
Interest	237.2	212.0	68.1	1.7
Other Income	69.2	22.0	53.4	63.9
Exceptional Item	2.6	66.6	0.0	0.0
PBT	1,013.5	1,163.6	1,159.4	1,729.9
Tax	328.1	539.7	291.8	435.4
Reported PAT	685.4	623.9	867.5	1,294.5
Adjustments	14.8	35.0	0.0	0.0
Adjusted PAT	700.2	658.9	867.5	1,294.5
EPS	9.5	8.7	11.9	17.8

Source: ICICI Direct Research

## Exhibit 12: Cash flow Statement ₹ crore

(Year-end March)	FY19	FY20P	FY21E	FY22E
Profit after Tax	700.2	658.9	867.5	1,294.5
Add: Depreciation	214.7	285.3	295.8	313.8
Add: Interest paid	237.2	212.0	68.1	1.7
Cash Profit	914.9	944.2	1,163.3	1,608.3
Increase/(Decrease) in	-308.5	240.8	-252.8	485.3
(Increase)/Decrease in	499.3	184.1	201.4	-972.1
Others	-394.6	-797.9	0	0
CF from Operating Act	948.3	783.2	1,180.1	1,123.2
Purchase of Fixed Ass	-76.8	-211.6	-156.1	-156.4
(Inc)/Dec in Investment	0.0	-149.8	-106.8	-159.6
Others	-129.5	85.0	217.8	58.9
CF from Investing Acti	-206.3	-276.4	-45.1	-257.1
Inc/(Dec) in Loan Fund	-477.9	-1,249.1	-800.0	-800.0
Inc/(Dec) in Sh. Cap. &	0.0	0.0	0.0	0.0
Less: Interest paid	-237.2	-212.0	-68.1	-1.7
Others	0.0	744.9	0.0	0.0
CF from financing activ	-715.1	-716.2	-868.1	-801.7
Op. Cash and cash Eq	256.0	282.9	73.5	340.4
Adjustments	0	0	0	0
Cl. Cash and cash Eq.	282.9	73.5	340.4	404.8

Source: ICICI Direct Research

## Exhibit 13: Balance Sheet ₹ crore

(Year-end March)	FY19	FY20P	FY21E	FY22E
Source of Funds				
Equity Capital	145.3	145.3	145.3	145.3
Reserves & Surplus	2,945.0	3,582.7	4,450.2	5,744.7
Shareholder's Fund	3,090.3	3,728.0	4,595.6	5,890.0
Minority Interest	-3.1	-41.3	-41.3	-41.3
Loan Funds	2,869.8	1,620.7	820.7	20.7
Provisions	53.5	8.2	9.0	9.9
Other Liabilities	0.0	196.5	216.2	237.8
Total Current Liabilities	3,098.4	3,339.2	3,086.4	3,571.7
Source of Funds	9,108.9	8,851.3	8,686.5	9,688.8
Application of Funds				
Gross Block	2,094.1	2,315.0	2,465.0	2,615.0
Less: Acc. Depreciated	675.9	961.2	1,257.0	1,570.8
Net Block	1,418.2	1,353.8	1,208.0	1,044.2
Intangible Assets	373.7	383.6	383.6	383.6
Capital WIP	118.4	121.1	127.2	133.5
Goodwill	49.3	21.0	21.0	21.0
Non-Current Investme	47.9	40.3	90.3	190.3
Deferred Tax Assets	290.0	159.0	0.0	0.0
Long term loans & adv	978.7	1,136.1	1,192.9	1,252.6
Other Non current ass	568.9	766.1	727.8	691.4
Current Investments	0.0	0.0	0.0	0.0
Inventories	1,934.3	1,927.5	1,756.0	2,237.1
Debtor	2,542.5	2,283.5	2,224.3	2,684.5
Cash	282.9	73.5	340.4	404.8
Loan & Advance, Oth	504.1	585.8	615.1	645.8
Total Current assets	5,263.8	4,870.3	4,935.8	5,972.3
Application of Funds	9,108.9	8,851.3	8,686.5	9,688.8

Source: ICICI Direct Research

## Exhibit 14: Key Ratios

(Year-end March)	FY19	FY20P	FY21E	FY22E
Per share data (₹)				
Book Value	42.5	51.3	63.2	81.1
Cash per share	3.9	1.0	4.7	5.6
EPS	9.5	8.7	11.9	17.8
Cash EPS	12.6	13.0	16.0	22.1
DPS	0.0	0.0	0.0	0.0
Profitability & Operating Ratios				
EBITDA Margin (%)	14.9	16.9	17.2	18.2
PAT Margin (%)	7.5	7.1	10.2	11.9
Fixed Asset Turnover	4.5	4.0	3.5	4.2
Inventory Turnover (D	75.6	75.4	75.0	75.0
Debtor (Days)	99.4	89.4	95.0	90.0
Creditors (Days)	55.0	46.9	45.0	55.0
Return Ratios (%)				
RoE	22.3	16.9	18.9	22.0
RoCE	21.0	23.8	22.0	28.4
RoIC	20.9	24.6	23.5	31.4
Valuation Ratios (x)				
P/E	58.9	64.7	46.9	31.4
Price to Book Value	13.6	11.3	9.2	7.2
EV/EBITDA	32.1	27.8	29.0	21.1
EV/Sales	4.8	4.7	5.0	3.8
Leverage & Solvency Ratios				
Debt to equity (x)	0.9	0.4	0.2	0.0
Interest Coverage (x)	5.0	6.1	17.2	970.6
Debt to EBITDA (x)	2.2	1.8	1.1	0.4
Current Ratio	1.7	1.5	1.6	1.7

Source: ICICI Direct Research

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Sell: <-15%



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