

### FY21 to be 2<sup>nd</sup> consecutive year of weak performance

- United Breweries (UBL's) Q4FY20 was in-line but weak with revenue/EBITDA/APAT declining by -12.6/-22.8/-39.4% YoY. Gross margin improved YoY by 40bps to 50.9% led by low-base of Q4FY19. The decline in EBITDA/APAT would have been even more severe but for favorable base. Q4FY19 EBITDA/APAT were -17.8/-25.3% YoY.
- After healthy operating performance over FY17-19, for second consecutive year UBL's performance is expected to be subdued due to loss of key season on account of Covid and steep excise increases by state government. Q1/H1 accounts for ~40/65% of its PAT.
- We like UBL owing to (a) strong volume growth potential of beer in India and (b) its superior execution. India is one of the few markets where beer and spirits consumptions are broadly equal vs. ~65:35 mix globally.
- Maintain Reduce rating with revised TP of Rs 1,035 @ 40x (earlier Rs 910 @ 35x). Increase in target multiple is on account of broader market re-rating and on account of likely costs benefits from suspension of discretionary spends, stepped up costs management and reduced capex. We expect UBL to go through a time and/or price correction led by weak short-term prognosis. Historically, UBL has traded at ~60x 1-yr forward earnings in trailing four years.

### Weak end to a tough FY20

FY20 was soft led by elections, high base and RM pressure. AP disruption has added pressure to the weak performance. Q4FY20 volume declined by 21% YoY (6% ex-Covid impact). Revenue/EBITDA/APAT at Rs 14.2/1.32/0.4bn were -13/23/39% YoY. Assessed profit impact of Covid was ~Rs 1bn viz. Rs 0.8bn on account of lost sales and 0.2bn provision for obsolete stock.

### FY21 to expected to be subdued

H1FY21 too is expected to be subdued. Management highlighted 70% decline in May sales, whereas breweries are operating at 55-60% capacity (implied sales) in June. Restaurants and bars accounts for ~30k out of 85-90k distribution outlets in the country and the visibility on their opening is bleak. Near-term prognosis remains weak for UBL.

### Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	14,242	16,294	(12.6)	14,533	(2.0)
Total Expense	12,919	14,582	(11.4)	12,325	4.8
EBITDA	1,323	1,712	(22.8)	2,208	(40.1)
Depreciation	734	639	14.8	735	(0.2)
EBIT	589	1,073	(45.1)	1,472	(60.0)
Other Income	6	106	(94.3)	35	(82.3)
Interest	48	118	(59.6)	99	(51.9)
EBT	547	1,062	(48.5)	1,408	(61.1)
Tax	135	383	(64.6)	344	(60.7)
RPAT	412	679	(39.4)	1,064	(61.3)
APAT	412	679	(39.4)	1,064	(61.3)
			(bps)		(bps)
Gross Margin (%)	50.9	50.5	38	52.7	(178)
EBITDA Margin (%)	9.3	10.5	(122)	15.2	(590)
NPM (%)	2.9	4.2	(128)	7.3	(443)
Tax Rate (%)	24.7	36.0	(1129)	24.4	30
EBIT Margin (%)	4.1	6.6	(245)	10.1	(600)

CMP	Rs 1,049
Target / Downside	Rs 1,033 / 1%
BSE Sensex	34,820
NSE Nifty	10,289

### Scrip Details

Equity / FV	Rs 264mn / Rs 1
Market Cap	Rs 277bn
	USD 4bn
52-week High/Low	Rs 1,439/Rs 750
Avg. Volume (no)	840,590
NSE Symbol	UBL
Bloomberg Code	UBBL IN

### Shareholding Pattern Mar'20(%)

Promoters	57.7
MF/Banks/FIs	8.2
FII's	11.9
Public / Others	22.2

### Valuation (x)

	FY20A	FY21E	FY22E
P/E	64.8	109.0	40.6
EV/EBITDA	31.8	42.1	22.1
ROE (%)	12.8	7.3	18.8
RoACE (%)	13.1	7.6	18.3

### Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	65,046	54,893	69,812
EBITDA	8,754	6,598	12,472
PAT	4,281	2,545	6,831
EPS (Rs.)	16.2	9.6	25.8

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## Key takeaways from conference call

### AP

- AP accounted for ~7% of volumes prior to distribution changes.
- In AP, most orders are being given to smaller players. UBL is making representations to state. There are press reports of consumers not getting the desired brands. All branded players are impacted and it is not only unique to UBL. There is no change in situation.
- AP situation is status quo in current QTD.
- The outstanding in AP as of Dec-19 were ~Rs 1.4bn which was 150 days' old. Company has seen only modest collections from the state Bevco.

### Q4/FY20 volume update

- In North the volumes were -18/-3% YoY for Q4/FY20. Delhi, UP and Punjab were growth markets, Rajasthan and Haryana were negative.
- In South the volumes were -27/-7%. TN registered high single digit growth. AP declined significantly due to distribution changes from 1<sup>st</sup> Oct, 2019.
- East was -2/+18% led by strong growth in WB. Jharkhand witnessed modest growth whereas Orissa was flat YoY.
- West was -29/-9%. Mumbai and Goa declined whereas ROM was flattish upto Covid-19.

### Price increases

- UBL witnessed price increases in earlier quarters (primarily in Q2 in our view) in states of Maharashtra, Rajasthan, Goa and Karnataka. Price/state/product mix was favorable by 10.6/4.5% YoY in Q4/FY20.

### RM outlook

- UBL has witnessed a 10% YoY correction in barley prices.
- Glass bottles have witnessed modest single-digit inflation.

### CCI case update

- No further updates on the CCI case. UBL has provided its comments and reservations on DG findings. Company would wait to see how the matter evolves from hereon which was on standstill due to Covid.
- In our view, a potential hit of ~Rs 5-7bn cannot be ruled out. But we would see it as one-time costs.

**Exhibit 1: Actual vs. Estimates**

(Rs Mn)	Actual	Estimate	% Variance	Remarks
Revenue	14,242	14,163	0.6	
EBITDA	1,323	1,244	6.3	Numbers marginally above estimate led by lower than expected other expenses
Margin %	9.3	8.8	50	
PAT	412	385	6.8	

Source: DART, Company

**Exhibit 2: Change in estimates**

(Rs mn)	Old		New		Chg (%)		Comment
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	
Volumes (Mn cases)	141.3	171.9	136.0	167.5	(3.7)	(2.6)	We have marginally tweaked our estimates
Realization (Rs/case)	394.0	409.9	403.5	416.8	2.4	1.7	
Revenue (Rs Mn)	55,678	70,461	54,893	69,812	(1.4)	(0.9)	
Gross Profit (Rs Mn)	29,159	37,877	28,757	37,529	(1.4)	(0.9)	
EBITDA (Rs Mn)	6,325	12,397	6,598	12,472	4.3	0.6	
Margin %	11.4	17.6	12.0	17.9	66	27	
PAT (Rs Mn)	2,433	6,878	2,545	6,831	4.6	(0.7)	

Source: Company, DART

**Exhibit 3: Standalone Quarterly Financials**

Rs Mn	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
<b>Net Revenue</b>	<b>14,512</b>	<b>16,294</b>	<b>20,485</b>	<b>15,786</b>	<b>14,533</b>	<b>14,242</b>
RM Costs	6,773	8,064	10,172	7,560	6,877	6,994
<b>Gross Profit</b>	<b>7,739</b>	<b>8,230</b>	<b>10,314</b>	<b>8,225</b>	<b>7,656</b>	<b>7,248</b>
Employee cost	1,109	1,235	1,231	1,224	1,254	1,279
Other Exps	4,152	5,283	5,793	5,067	4,194	4,647
<b>Total Operating Exps</b>	<b>5,260</b>	<b>6,518</b>	<b>7,024</b>	<b>6,291</b>	<b>5,448</b>	<b>5,926</b>
<b>EBITDA</b>	<b>2,479</b>	<b>1,712</b>	<b>3,289</b>	<b>1,935</b>	<b>2,208</b>	<b>1,323</b>
D&A	665	639	692	689	735	734
Interest costs	62	118	77	88	99	48
Other Income	21	106	32	18	35	6
<b>PBT</b>	<b>1,772</b>	<b>1,062</b>	<b>2,552</b>	<b>1,175</b>	<b>1,408</b>	<b>547</b>
Tax	681	383	907	15	344	135
<b>RPAT</b>	<b>1,092</b>	<b>679</b>	<b>1,645</b>	<b>1,160</b>	<b>1,064</b>	<b>412</b>
<b>APAT</b>	<b>1,092</b>	<b>679</b>	<b>1,845</b>	<b>960</b>	<b>1,064</b>	<b>412</b>

APAT in Q1FY20 and Q2FY20 is adjusted for corporate tax rate cut

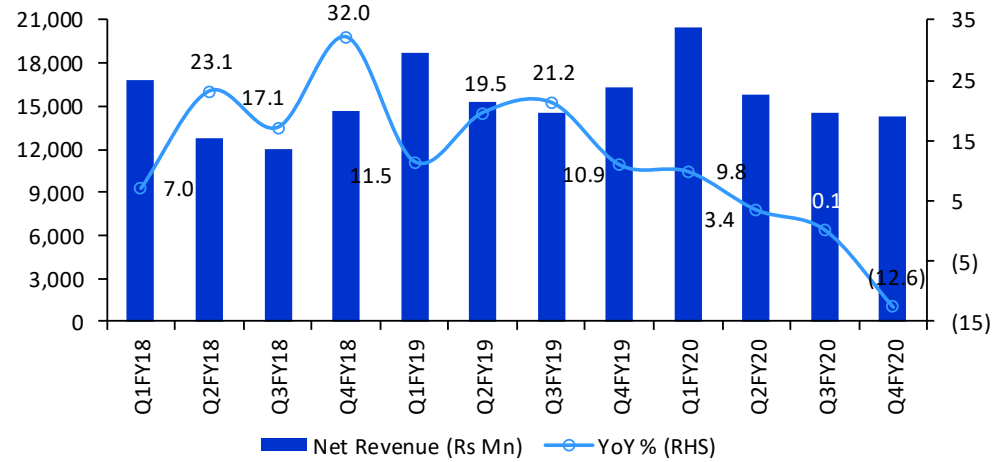
Revenue growth moderates on account of Covid and RTM changes impact in AP

**Exhibit 4: Margin Analysis**

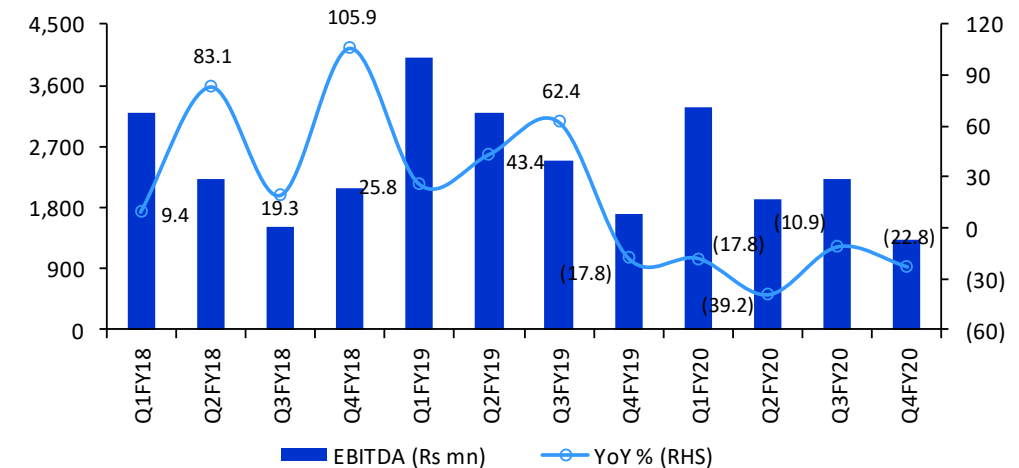
% of Net revenue	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
RM Costs	46.7	49.5	49.7	47.9	47.3	49.1
<b>Gross Profit</b>	<b>53.3</b>	<b>50.5</b>	<b>50.3</b>	<b>52.1</b>	<b>52.7</b>	<b>50.9</b>
Employee cost	7.6	7.6	6.0	7.8	8.6	9.0
Other Exps	28.6	32.4	28.3	32.1	28.9	32.6
Total Operating Exps	36.2	40.0	34.3	39.8	37.5	41.6
<b>EBITDA</b>	<b>17.1</b>	<b>10.5</b>	<b>16.1</b>	<b>12.3</b>	<b>15.2</b>	<b>9.3</b>
PBT	12.2	6.5	12.5	7.4	9.7	3.8
<b>RPAT</b>	<b>7.5</b>	<b>4.2</b>	<b>8.0</b>	<b>7.4</b>	<b>7.3</b>	<b>2.9</b>
APAT	<b>7.5</b>	<b>4.2</b>	<b>9.0</b>	<b>6.1</b>	<b>7.3</b>	<b>2.9</b>
Tax as % of PBT	38.4	36.0	35.5	1.3	24.4	24.7

**Exhibit 5: Growth YoY%**

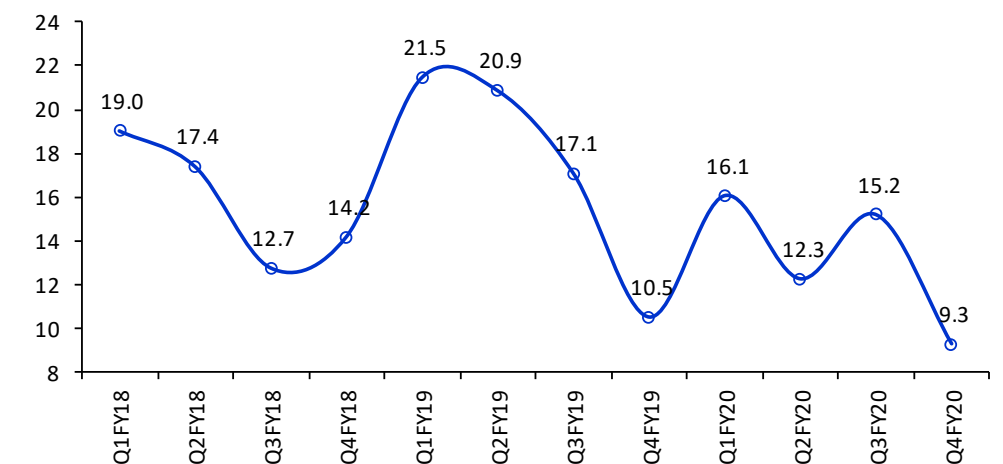
Particulars	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
<b>Net Revenue</b>	<b>21.2</b>	<b>10.9</b>	<b>9.8</b>	<b>3.4</b>	<b>0.1</b>	<b>(12.6)</b>
RM Costs	18.8	16.4	18.8	11.6	1.5	(13.3)
Gross Profit	<b>23.4</b>	<b>6.0</b>	<b>2.2</b>	<b>(3.1)</b>	<b>(1.1)</b>	<b>(11.9)</b>
Employee cost	15.8	12.6	15.2	19.2	13.1	3.5
Other Exps	9.6	15.3	15.3	18.5	1.0	(12.0)
<b>Total Operating Exps</b>	<b>10.8</b>	<b>14.8</b>	<b>15.3</b>	<b>18.6</b>	<b>3.6</b>	<b>(9.1)</b>
<b>EBITDA</b>	<b>62.4</b>	<b>(17.8)</b>	<b>(17.8)</b>	<b>(39.2)</b>	<b>(10.9)</b>	<b>(22.8)</b>
D&A	2.4	(1.3)	8.6	5.0	10.5	14.8
Interest costs	(33.6)	3.3	(16.7)	119.8	59.5	(59.6)
Other Income	172.7	123.6	(79.3)	(52.7)	64.3	(94.3)
PBT	124.1	(22.4)	(25.5)	(53.4)	(20.6)	(48.5)
Tax	114.6	(16.7)	(25.0)	(98.3)	(49.4)	(64.6)
RPAT	130.4	(25.3)	(25.9)	(29.2)	(2.6)	(39.4)
<b>APAT</b>	<b>130.4</b>	<b>(25.3)</b>	<b>(16.8)</b>	<b>(41.4)</b>	<b>(2.6)</b>	<b>(39.4)</b>

**Exhibit 6: Revenue Trend**


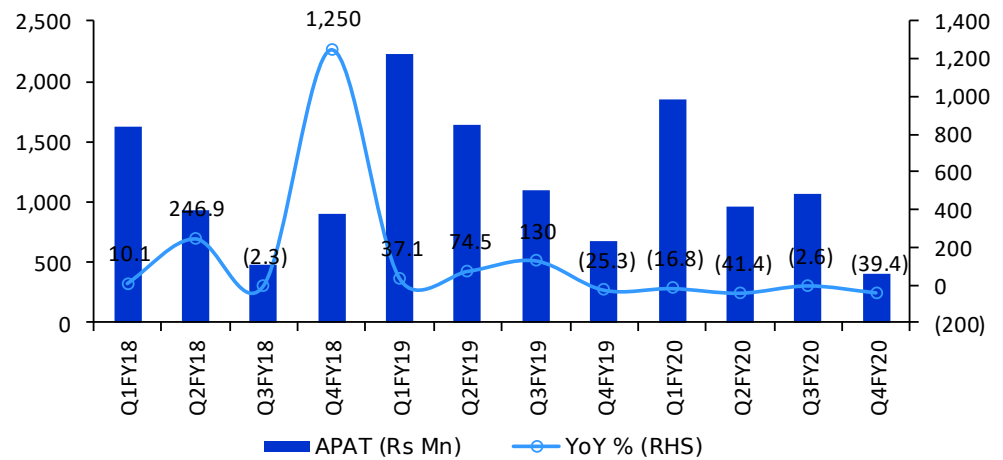
Source: Company, DART

**Exhibit 7: EBITDA Trend**


Source: Company, DART

**Exhibit 8: EBITDA Margins Trend**


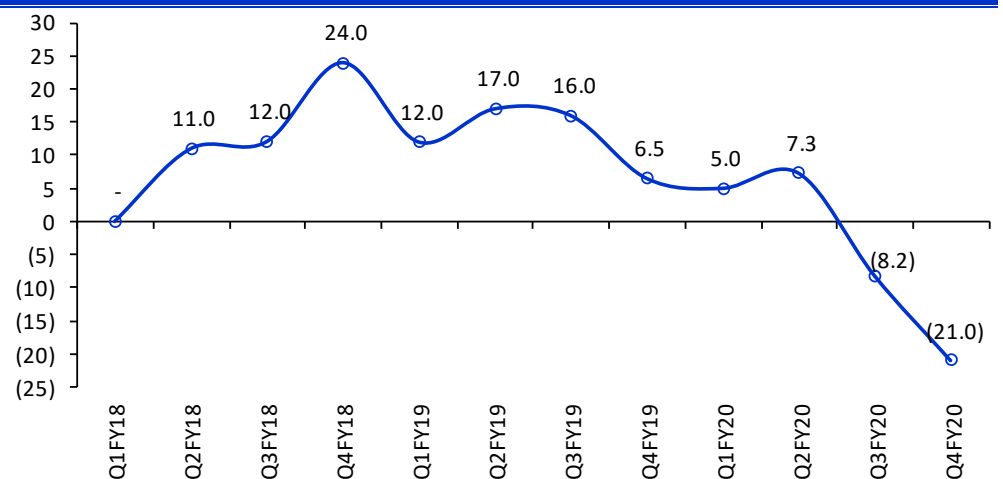
Source: DART, Company

**Exhibit 9: APAT Trend**


Source: Company, DART

**Exhibit 10: Volume Growth Trend (YoY %)**

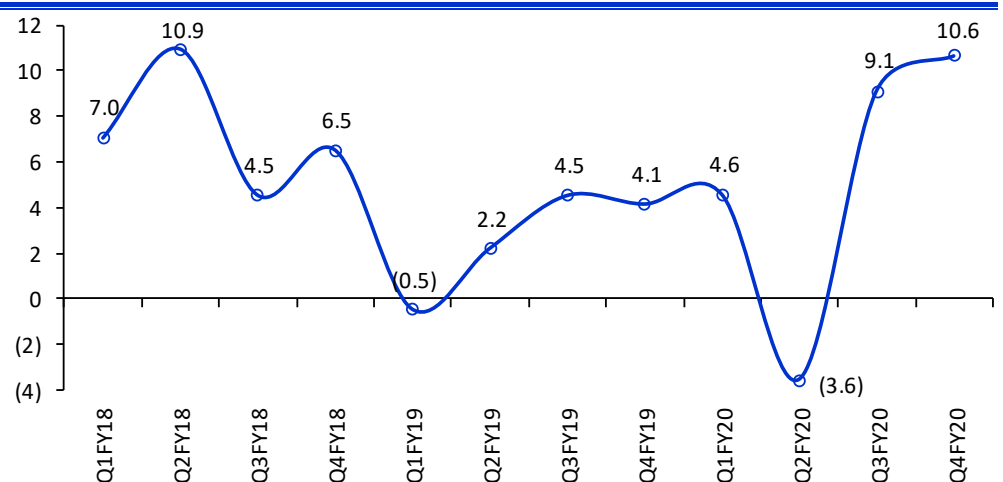
Decline in volumes led by Covid and RTM changes in AP



Source: Company, DART

**Exhibit 11: Realization Trends YoY %**

Sharp increase in realizations led by price increases in key states of Karnataka, Maharashtra, Rajasthan and Goa and decline in contribution from AP



Source: DART, Company

**Exhibit 12: Key Assumptions**

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Volumes (Mn Cases)	149.3	145.7	161.2	181.3	174.3	136.0	167.5
Revenue (Rs Mn)	48,345	47,359	56,170	64,724	65,046	54,893	69,812
Gross Profit (Rs Mn)	26,954	25,399	29,759	34,550	33,443	28,757	37,529
EBITDA (Rs Mn)	6,854	6,412	9,011	11,378	8,754	6,598	12,472
PAT (Rs Mn)	2,979	2,293	3,940	5,628	4,281	2,545	6,831
EPS (Rs)	11.3	8.7	14.9	21.3	16.2	9.6	25.8
<b>Margin Analysis (%)</b>							
Gross Profit	55.8	53.6	53.0	53.4	51.4	52.4	53.8
EBITDA	14.2	13.5	16.0	17.6	13.5	12.0	17.9
PAT	6.2	4.8	7.0	8.7	6.6	4.6	9.8
<b>YoY %</b>							
Volumes		(2.4)	10.6	12.5	(3.8)	(22.0)	23.1
Revenue		(2.0)	18.6	15.2	0.5	(15.6)	27.2
Gross Profit		(5.8)	17.2	16.1	(3.2)	(14.0)	30.5
EBITDA		(6.4)	40.5	26.3	(23.1)	(24.6)	89.0
PAT		(23.0)	71.8	42.8	(23.9)	(40.6)	168.4
<b>Per case (Rs)</b>							
Revenue	324	325	348	357	373	403	417
Gross Profit	181	174	185	191	192	211	224
EBITDA	46	44	56	63	50	48	74
PAT	20	16	24	31	25	19	41
<b>YoY %</b>							
Revenue		0.4	7.2	2.5	4.5	8.1	3.3
Gross Profit		(3.4)	5.9	3.2	0.7	10.2	6.0
EBITDA		(4.1)	27.0	12.3	(20.0)	(3.4)	53.5
PAT		(21.1)	55.3	27.0	(20.9)	(23.8)	118.0

Source: DART, Company

**Exhibit 13: Peer valuation comparison**

Company	Mcap (Rs bn)	CMP (Rs)	TP (Rs)	+ / (-) %	Rating	P/E (x)			EV/EBITDA (x)			P/B (x)			ROE (%)		
						FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
UNSP	277	1,050	1,033	(1.6)	Reduce	64.8	109.1	40.6	31.8	42.1	22.1	7.9	8.0	7.3	12.8	7.3	18.8
UBL	437	603	555	(8.0)	Reduce	52.1	66.3	39.9	29.9	35.1	23.9	11.5	9.8	7.9	24.2	16.0	21.9
Radico	51	380	368	(3.1)	Buy	19.5	33.0	17.4	12.5	17.3	10.7	2.8	2.6	2.3	16.1	8.8	14.7

Source: DART, Company

### Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>64,724</b>	<b>65,046</b>	<b>54,893</b>	<b>69,812</b>
<b>Total Expense</b>	<b>53,347</b>	<b>56,291</b>	<b>48,295</b>	<b>57,341</b>
COGS	30,174	31,603	26,136	32,283
Employees Cost	4,439	4,988	4,738	5,070
Other expenses	18,734	19,701	17,420	19,987
<b>EBIDTA</b>	<b>11,378</b>	<b>8,754</b>	<b>6,598</b>	<b>12,472</b>
Depreciation	2,598	2,850	2,989	3,094
<b>EBIT</b>	<b>8,780</b>	<b>5,904</b>	<b>3,609</b>	<b>9,378</b>
Interest	312	311	233	175
Other Income	317	90	87	91
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>8,785</b>	<b>5,683</b>	<b>3,462</b>	<b>9,294</b>
Tax	3,157	1,401	918	2,463
RPAT	5,628	4,281	2,545	6,831
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>5,628</b>	<b>4,281</b>	<b>2,545</b>	<b>6,831</b>

### Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Sources of Funds</b>				
Equity Capital	264	264	264	264
Minority Interest	0	0	0	0
Reserves & Surplus	31,554	34,915	34,270	37,911
<b>Net Worth</b>	<b>31,819</b>	<b>35,180</b>	<b>34,535</b>	<b>38,176</b>
Total Debt	814	1,690	1,606	1,526
Net Deferred Tax Liability	227	279	307	337
<b>Total Capital Employed</b>	<b>32,860</b>	<b>37,149</b>	<b>36,447</b>	<b>40,039</b>

### Applications of Funds

Net Block	17,522	19,008	18,947	18,891
CWIP	1,899	1,991	1,693	1,439
Investments	4,368	4,889	4,517	4,971
<b>Current Assets, Loans &amp; Advances</b>	<b>29,997</b>	<b>29,550</b>	<b>28,547</b>	<b>36,496</b>
Inventories	10,308	10,923	9,006	10,975
Receivables	15,100	13,498	14,996	18,362
Cash and Bank Balances	451	733	1,297	3,089
Loans and Advances	583	490	588	602
Other Current Assets	3,555	3,907	2,661	3,469
<b>Less: Current Liabilities &amp; Provisions</b>	<b>20,926</b>	<b>18,289</b>	<b>17,257</b>	<b>21,758</b>
Payables	5,899	5,446	4,936	6,205
Other Current Liabilities	15,027	12,842	12,321	15,553
sub total				
Net Current Assets	9,071	11,262	11,291	14,738
<b>Total Assets</b>	<b>32,860</b>	<b>37,149</b>	<b>36,447</b>	<b>40,039</b>

E – Estimates



### Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
<b>(A) Margins (%)</b>				
Gross Profit Margin	53.4	51.4	52.4	53.8
EBIDTA Margin	17.6	13.5	12.0	17.9
EBIT Margin	13.6	9.1	6.6	13.4
Tax rate	35.9	24.7	26.5	26.5
Net Profit Margin	8.7	6.6	4.6	9.8
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	46.6	48.6	47.6	46.2
Employee	6.9	7.7	8.6	7.3
Other	28.9	30.3	31.7	28.6
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	28.1	19.0	15.5	53.6
Inventory days	58	61	60	57
Debtors days	85	76	100	96
Average Cost of Debt	18.4	24.9	14.2	11.2
Payable days	33	31	33	32
Working Capital days	51	63	75	77
FA T/O	3.7	3.4	2.9	3.7
<b>(D) Measures of Investment</b>				
AEPS (Rs)	21.3	16.2	9.6	25.8
CEPS (Rs)	31.1	27.0	20.9	37.5
DPS (Rs)	2.0	2.5	2.5	2.5
Dividend Payout (%)	9.4	15.4	26.0	9.7
BVPS (Rs)	120.3	133.1	130.6	144.4
RoANW (%)	19.2	12.8	7.3	18.8
RoACE (%)	19.0	13.1	7.6	18.3
RoAIC (%)	28.3	17.2	10.1	26.0
<b>(E) Valuation Ratios</b>				
CMP (Rs)	1049	1049	1049	1049
P/E	49.3	64.8	109.0	40.6
Mcap (Rs Mn)	277,382	277,382	277,382	277,382
MCap/ Sales	4.3	4.3	5.1	4.0
EV	277,745	278,339	277,691	275,819
EV/Sales	4.3	4.3	5.1	4.0
EV/EBITDA	24.4	31.8	42.1	22.1
P/BV	8.7	7.9	8.0	7.3
Dividend Yield (%)	0.2	0.2	0.2	0.2
<b>(F) Growth Rate (%)</b>				
Revenue	15.2	0.5	(15.6)	27.2
EBITDA	26.3	(23.1)	(24.6)	89.0
EBIT	36.9	(32.8)	(38.9)	159.8
PBT	44.8	(35.3)	(39.1)	168.4
APAT	42.8	(23.9)	(40.6)	168.4
EPS	42.8	(23.9)	(40.6)	168.4

### Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	8,324	5,444	6,215	8,353
CFI	(5,296)	(4,807)	(2,143)	(3,116)
CFF	(2,778)	(356)	(3,508)	(3,445)
FCFF	4,078	1,017	3,585	5,570
Opening Cash	202	451	733	1,297
Closing Cash	451	733	1,297	3,089

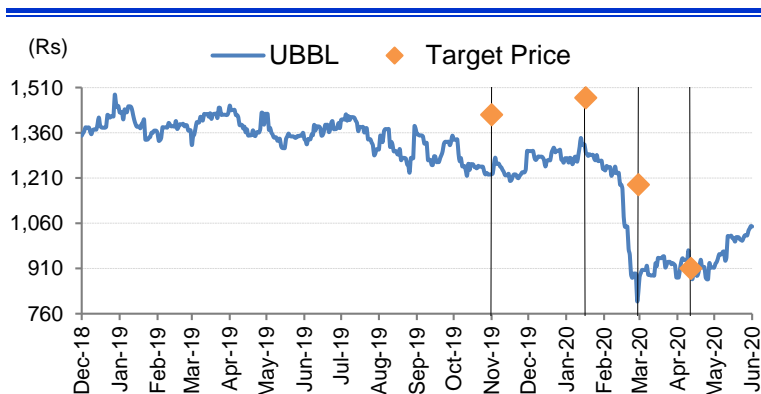
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-19	Accumulate	1,420	1,222
Feb-20	Accumulate	1,476	1,296
Mar-20	Buy	1,188	833
May-20	Reduce	910	897

\*Price as on recommendation date

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**I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**

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