

Cost saves the day, revenue growth key for sustained re-rating

- UNSP's Q4FY20 was in-line but weak at operating level with volume decline of 13% YoY (P&A 20%). Adjusted for one-off bulk sales, Revenue/ EBITDA/APAT were -14.8/-10.6/-28.2% YoY. Reported revenue/EBITDA/PAT were -11.4/-12.4/-14.6% YoY.
- Yet, UNSP's earnings print is impressive in backdrop of weak volume growth and decline in Gross margin of 433/220bps YoY/QoQ. Persistent cost controls in line-items below GP is enticing for second consecutive quarter. For perspective, below GP costs declined from Rs 7.6bn to Rs 5.7bn YoY, -25.3% YoY. This had led to sharp rally in stock price post Q3.
- UNSP's story is attractive as a long-term consumption play in industry with high barriers to entry. But, for several quarters now UNSP has failed to deliver its guided high single-digit (8-10%) volume and low double-digit (10-12%) revenue growth. Management work on costs is appreciable. However, revival in revenue growth is inevitable for momentum to sustain. This look tough in prevailing conditions given Covid and steep taxation increase led risk of down-trading, impact on high-margin on premise sales (20-25% of revenues) and risk of increase in working capital.
- We marginally increase estimates and TP of Rs 551 @ 35x FY22E EPS viz. Rs 529 plus Rs 22 for treasury shares/RCB (vs. Rs 531 earlier). We downgrade UNSP to SELL from REDUCE posts the sharp ~20% run-up in trailing month. Sharper than expected recovery in demand and/or higher than expected savings on costs is the key upside risk. We would keenly watch for the same for upgrade in our ratings.

Q4FY20 financial and operating highlights

UNSP's volume declined by -13.3% YoY viz. P&A/Popular by -20/-6.6%. Price/mix was -1% viz. P&A +5.5/-5.1%. P&A price/mix was positive as the reduction in price of McDNo1 in Q3FY19 was now part of base. Popular price/mix was negative owing to lower contribution from Maharashtra.

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	19,164	22,500	(14.8)	25,825	(25.8)
Total Expense	16,637	19,664	(15.4)	21,585	(22.9)
EBITDA	2,527	2,836	(10.9)	4,240	(40.4)
Depreciation	678	401	69.1	524	29.4
EBIT	1,849	2,435	(24.1)	3,716	(50.2)
Other Income	41	119	(65.5)	176	(76.7)
Interest	480	605	(20.7)	455	5.5
EBT	566	1,884	(70.0)	3,437	(83.5)
Tax	464	622	(25.4)	849	(45.3)
RPAT	102	1,262	(91.9)	2,588	(96.1)
APAT	946	1,327	(28.7)	2,588	(63.4)
			(bps)		(bps)
Gross Margin (%)	42.9	46.5	(360)	44.4	(147)
EBITDA Margin (%)	13.2	12.6	58	16.4	(323)
NPM (%)	0.5	5.6	(508)	10.0	(949)
Tax Rate (%)	82.0	33.0	4896	24.7	5728
EBIT Margin (%)	9.6	10.8	(117)	14.4	(474)

CMP	Rs 589
Target / Downside	Rs 551 / 7%
BSE Sensex	33,259
NSE Nifty	9,826

Scrip Details

Equity / FV	Rs 1,453mn / Rs 2
Market Cap	Rs 428bn
	USD 6bn
52-week High/Low	Rs 743/Rs 443
Avg. Volume (no)	4,192,180
NSE Symbol	MCDOWELL-N
Bloomberg Code	UNSP

Shareholding Pattern Mar'20(%)

Promoters	56.8
MF/Banks/FIs	6.9
FIIIs	20.5
Public / Others	15.8

Valuation (x)

	FY20A	FY21E	FY22E
P/E	52.1	61.0	37.3
EV/EBITDA	29.6	32.9	22.5
ROE (%)	19.8	16.9	22.6
RoACE (%)	16.2	15.2	21.1

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	90,135	75,011	92,134
EBITDA	14,894	13,161	18,899
PAT	8,225	7,014	11,481
EPS (Rs.)	11.3	9.7	15.8

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Other key takeaways

Negative commentary

- UNSP management highlighted that near-medium term outlook on volumes and margin remains extremely uncertain.
- Production is at 60-70% of the pre-covid level however revival in demand is key which is not yet upto the mark especially in states where there have been tax increases.
- Short term risk is down-trading, lack of on-premise sales (20-25% of revenues), aggressive taxation as well as impact due on account of tourism/hospitality.
- In FY20, UNSP saw ~220bps gains in EBITDA despite 440bps drop in GM. But the EBITDA margin outlook remains uncertain in short-term. ENA prices were broadly flat QoQ. Management refrained to provide outlook on ENA in the future. We believe it should be flattish to marginally down.

Positive commentary

- Long-term potential of the industry remains attractive. 17mn+ people getting added to legal drinking age.
- Due to Covid and absence of travel, some duty-free sales of BIO may move to duty-paid in which UNSP operates. Duty-free is ~2x of duty-paid at industry level. We estimate BIO sales at ~6.57% of revenues for UNSP (10-12% of P&A).
- **Price increases:** UNSP got modest price increases in few states couple of weeks back. Rajasthan state gave price increase after a period of six years. But company doesn't expect more price increases in short-term. UNSP will liaise with Government for roll-back of taxes as situations start to normalize. That said, state financials are in extremely bad shape.
- **Working Capital:** 70% sales are to corporation market where credit risk is very low. Collections in May have been better than expectations. Except for few states where traditionally there has been delay, payments are coming with lag.

Other highlights:

- **Reason for UNSP's underperformance vs. peers:** Competitors dropped price in certain states, increased credit and trade discount, re-launch of RC and No1 and thus run-down on stocks, AP was strong performing state and thus relative impact was higher. With some of the interventions, competitive performance should get better. UNSP confirmed it has not lost market share in Popular segment in key-state of Maharashtra and Karnataka. This looks difficult to us; alternatively, it should have lost heavily in other markets.
- In FY20, UNSP relaunched McD No1 and RC. Innovation of Hipster and McD No 1 Platinum.
- In FY20, State-brand mix should have been better which needs to be worked upon.
- Market access becoming difficult in AP which has been a better doing state. Not happy with pricing action in Karnataka.
- Succession plan for key positions in the company is underway.
- All factories are running on single-shift operations.

- **Competitive positioning:** Smaller players are meaningful in several states. UNSP should have competitive advantage in M&A, if any. Most of the regional players have borne out of North India. Initially starts with Delhi and then spread.
- **Home delivery:** It is an important development. Six states have allowed home delivery. Online browsing helps explore brands, SKUs and eventually end up buying more. This is what generally happens in online shopping. Women buying can increase. Choice-making will be there. State-government seeing opportunity of enhanced revenue. There is significant opportunity to enhance the consumer experience. It is difficult to by-pass retailers who have paid significant license fees to run-shops. Online delivery thus needs to be routed through retailers.

Exhibit 1: Actual vs. Estimates

(Rs Mn)	Actual*	Estimate	% Variance	Remarks
Revenue	25,825	25,995	(0.7)	
EBITDA	4,240	4,268	(0.7)	Numbers in line with estimate
Margin %	16.4	16.4	(0)	
PAT	2,588	2,540	1.9	

Source: DART, Company *Adjusted for line-by-line impact of one of scotch sales

Exhibit 2: Change in estimates

(Rs mn)	Old		New		Chg (%)		Comment
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	
Revenue	79,869	94,123	75,011	92,134	-6.1	-2.1	
Gross Profit	37,657	45,324	39,972	47,983	6.1	5.9	Marginal change in estimates to factor Q4FY20 performance
EBITDA	11,945	17,220	12,615	18,229	5.6	5.9	
Margin %	15	18.3	16.8	19.8	186	149	
PAT	6,463	10,588	6,608	10,971	2.2	3.6	

Source: Company, DART

Exhibit 3: Quarterly Operating Performance

Operating KPIs	Q4FY19	Q1FY20*	Q2FY20*	Q3FY20	Q4FY20*	% YoY	% QoQ
Volumes (Mn Cases)							
Prestige & Above	10.5	10.3	10.8	11.4	8.4	(20.0)	(26.3)
Popular	10.6	9.0	9.8	10.1	9.9	(6.6)	(2.0)
Total	20.6	21.5	20.6	21.5	18.3	(13.3)	(14.9)
Net Revenue (Rs Mn)							
Prestige & Above	14,430	14,230	15,020	17,880	12,180	(15.6)	(31.9)
Popular	7,650	6,430	7,010	7,370	6,780	(11.4)	(8.0)
Sub Total	22,080	20,660	22,030	25,250	18,960	67,940	3.2
Other Operating Income	420	554	193	575	206	(51.0)	(64.2)
Total	22,500	21,214	22,223	25,825	19,166	(14.8)	(25.8)
Realization/case (Rs)							
Prestige & Above	1,374	1,382	1,391	1,568	1,450	5.5	(7.6)
Popular	722	714	715	730	685	(5.1)	(6.1)
Total	1,046	1,070	1,069	1,174	1,036	(1.0)	(11.8)
Gross Profit/case (Rs)	496	513	490	533	449	(9.4)	(15.7)
EBITDA/case (Rs)	134	176	190	197	138	2.7	(30.0)

Source: Company, DART *Adjusted for line-by-line impact of one of scotch sales

Exhibit 4: Standalone Quarterly P&L Snapshot

(Rs mn)	Q4FY19	Q1FY20*	Q2FY20*	Q3FY20	Q4FY20*	% YoY	% QoQ
Net Revenue	22,500	21,214	22,223	25,825	19,164	(14.8)	(25.8)
Raw Material Costs	12,038	11,320	12,139	14,366	10,943	(9.1)	(23.8)
Gross Profit	10,462	9,894	10,084	11,459	8,221	(21.4)	(28.3)
Employee Expenses	1,704	1,341	1,461	1,266	1,106	(35.1)	(12.6)
A&P	1,799	1,708	1,734	2,511	1,200	(33.3)	(52.2)
Prov for doubtful debts	247	-	-	-	(164)	(166.4)	-
Other Expenses	3,876	3,457	2,974	3,442	3,552	(8.4)	3.2
Total Other opex	7,626	6,506	6,169	7,219	5,694	(25.3)	(21.1)
EBITDA	2,836	3,388	3,915	4,240	2,527	(10.9)	(40.4)
D&A	401	500	573	524	678	69.1	29.4
Interest Costs	605	520	452	455	480	(20.7)	5.5
Other Income	119	101	137	176	41	(65.5)	(76.7)
PBT	1,949	2,469	3,027	3,437	1,410	(27.7)	(59.0)
Tax	622	857	529	849	465	(25.2)	(45.2)
APAT	1,327	1,612	2,498	2,588	945	(28.8)	(63.5)
Eo gain/(Loss)	(65)	(20)	(492)	-	(844)	1,198.5	-
RPAT	1,262	1,592	2,006	2,588	101	(92.0)	(96.1)

Source: Company, DART *Adjusted for line-by-line impact of one of scotch sales

Exhibit 5: Margin Analysis

	Q4FY19	Q1FY20*	Q2FY20*	Q3FY20	Q4FY20*	YoY (Bps)	QoQ (Bps)
Net Revenue	100.0	100.0	100.0	100.0	100.0	-	-
Raw Material Costs	53.5	53.4	54.6	55.6	57.1	360	147
Gross Profit	46.5	46.6	45.4	44.4	42.9	(360)	(147)
Employee Expenses	7.6	6.3	6.6	4.9	5.8	(180)	87
A&P	8.0	8.1	7.8	9.7	6.3	(173)	(346)
Prov for doubtful debts	1.1	-	-	-	(0.9)	(195)	(86)
Other Expenses	17.2	16.3	13.4	13.3	18.5	131	521
Total Other opex	33.9	30.7	27.8	28.0	29.7	(418)	176
EBITDA	12.6	16.0	17.6	16.4	13.2	58	(323)
D&A	1.8	2.4	2.6	2.0	3.5	176	151
Interest Costs	2.7	2.5	2.0	1.8	2.5	(18)	74
Other Income	0.5	0.5	0.6	0.7	0.2	(31)	(47)
PBT	8.7	11.6	13.6	13.3	7.4	(130)	(595)
Tax	2.8	4.0	2.4	3.3	2.4	(34)	(86)
APAT	5.9	7.6	11.2	10.0	4.9	(97)	(509)
Eo gain/(Loss)	(0.3)	(0.1)	(2.2)	-	(4.4)	(412)	(440)
RPAT	5.6	7.5	9.0	10.0	0.5	(508)	(949)
Tax as % of PBT	31.9	34.7	17.5	24.7	33.0	106	828

Source: Company, DART *Adjusted for line-by-line impact of one of scotch sales

Exhibit 6: Valuation Snapshot: UNSP

Particulars	
FY22E Standalone EPS	15.1
Target Multiple (x)	35
Target Price (Rs) (A)	529
Non-core assets (Rs) (B)	11
RCB (Rs) ('C)	11
Target Price (Rs) (A+B+C)	551
CMP (Rs)	592
Upside/Downside (%)	(6.9)

Source: Company, DART

Exhibit 7: Valuation of RCB

RCB	Rs Mn
EBITDA	1,250
Net Debt*	-
Interest	-
PBT	1,250
PAT	813
Tgt Multiple (x)	20
RCB Value	16,250
(-) Hold Co discount	50%
RCB Value	8,125
UNSP O/s shares (Mn)	727
Value per share (Rs)	11

Source: Company, DART

Exhibit 8: Valuation of Treasury shares

Treasury shares	
UNSP treasury shares (17.3mn @ Rs 575)	9,945
Flats/factories etc (Rs Mn)	6,000
Non core assets value (Rs Mn)	15,945
(-) discount owing to legal disputes and timing uncertainty	50%
Non core assets value (Rs Mn)	7,972
UNSP O/s shares (Mn)	727
Value per share (Rs)	11

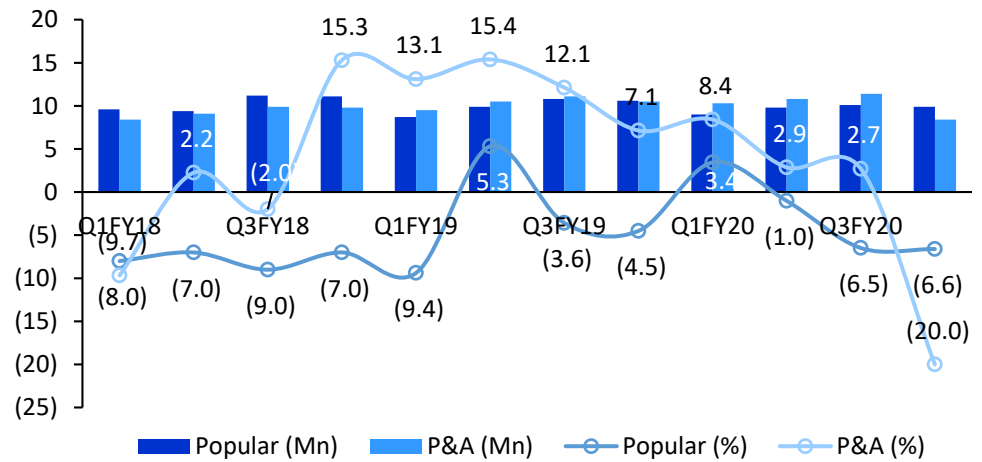
Source: Company, DART

Exhibit 9: Key model assumptions

Particulars (Rs mn)	FY18	FY19	FY20	FY21E	FY22E	CAGR FY20-22E
Volumes (Mn Cases)	78.5	81.6	79.7	66.0	78.3	(0.9)
- P&A	37.2	41.6	40.9	32.9	40.0	(1.1)
- Popular	41.3	40.0	38.8	33.0	38.2	(0.7)
Realization/case	1,021	1,077	1,090	1,113	1,156	3.0
- P&A	1,378	1,420	1,450	1,511	1,554	3.5
- Popular	698	720	711	716	739	2.0
Revenue	81,701	89,838	90,911	75,011	92,134	0.7
- P&A	51,280	59,090	59,310	49,772	62,179	2.4
- Popular	28,830	28,810	27,590	23,635	28,270	1.2
- Other operating income	1,591	1,938	4,011	1,604	1,685	(35.2)
Raw Material costs	41,980	45,946	50,220	39,972	47,983	(2.3)
Gross Profit	39,721	43,892	40,691	35,040	44,151	4.2
Gross Margin (%)	48.6	48.9	44.8	46.7	47.9	
Advtg & Prom	7,882	8,587	7,153	6,089	7,308	1.1
<i>% of revenue</i>	9.6%	9.6%	7.9%	8.1%	7.9%	
Employee costs	6,601	6,393	5,194	4,821	5,569	3.5
<i>% of revenue</i>	8.1%	7.1%	5.7%	6.4%	6.0%	
Other operating expenses	15,023	15,231	13,261	11,515	13,046	(0.8)
<i>% of revenue</i>	18.4%	17.0%	14.6%	15.4%	14.2%	
Total operating expenses	29,506	30,211	25,608	22,425	25,923	0.6
<i>% of revenue</i>	36.1%	33.6%	28.2%	29.9%	28.1%	
EBITDA	10,215	13,681	15,083	12,615	18,229	9.9
<i>% of revenue</i>	12.5%	15.2%	16.6%	16.8%	19.8%	

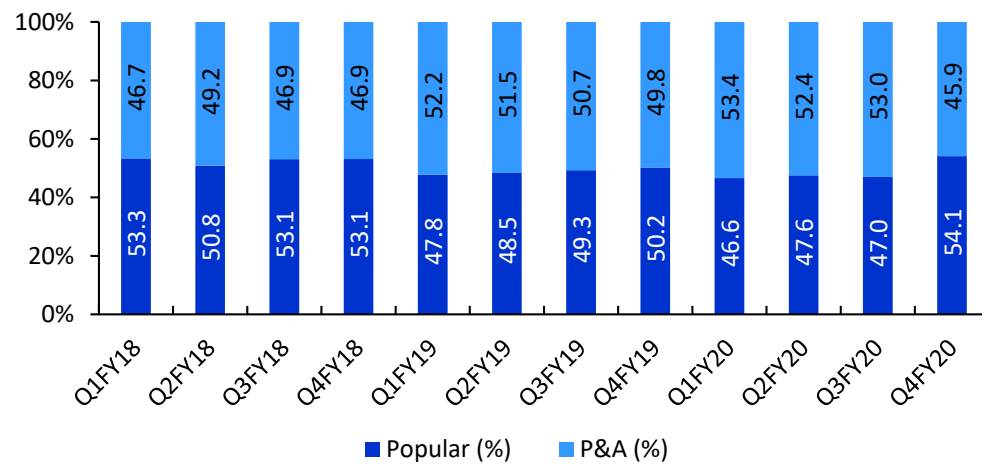
Source: Company, DART

Exhibit 10: Popular and P&A volume and growth trend



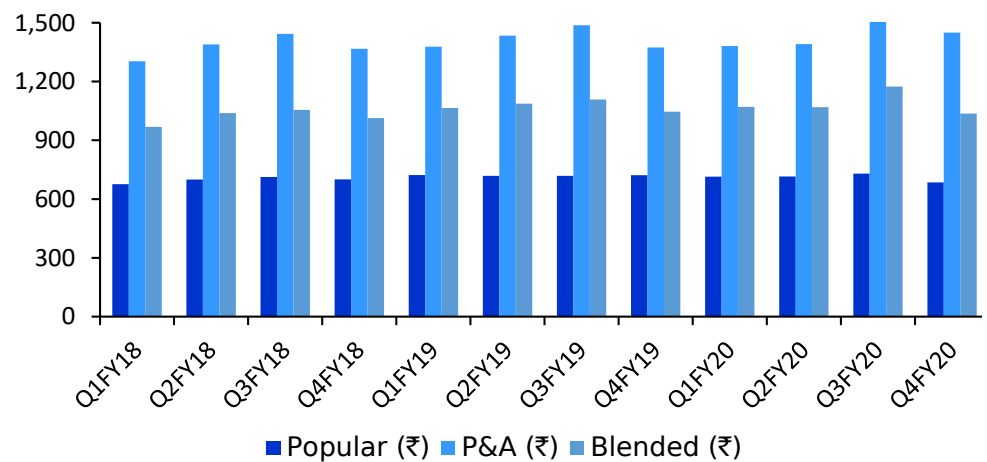
Source: DART, Company

Exhibit 11: Popular vs. P&A volume mix (%)



Source: DART, Company

Exhibit 12: Realization trend (Rs/case)



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	89,838	90,135	75,011	92,134
Total Expense	76,157	75,241	61,851	73,235
COGS	45,946	49,633	39,426	47,313
Employees Cost	6,393	5,194	4,821	5,569
Other expenses	23,818	20,414	17,604	20,354
EBIDTA	13,681	14,894	13,161	18,899
Depreciation	1,445	2,275	2,327	2,469
EBIT	12,236	12,619	10,834	16,429
Interest	2,177	1,907	1,753	1,297
Other Income	704	455	463	488
Exc. / E.O. items	(850)	(1,356)	0	0
EBT	9,913	9,811	9,543	15,620
Tax	3,328	2,942	2,529	4,139
RPAT	6,585	6,869	7,014	11,481
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	7,435	8,225	7,014	11,481

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	1,453	1,453	1,453	1,453
Minority Interest	0	0	0	0
Reserves & Surplus	29,862	36,644	43,658	55,140
Net Worth	31,315	38,097	45,111	56,593
Total Debt	25,889	13,230	7,938	4,763
Net Deferred Tax Liability	518	70	77	85
Total Capital Employed	57,722	51,397	53,126	61,440

Applications of Funds

Net Block	11,282	11,372	10,545	9,576
CWIP	1,171	1,187	890	668
Investments	25,098	23,192	25,017	27,049
Current Assets, Loans & Advances	49,072	47,819	45,932	58,780
Inventories	18,767	18,361	14,972	18,011
Receivables	25,181	22,835	22,086	26,371
Cash and Bank Balances	588	345	3,649	7,981
Loans and Advances	0	0	0	0
Other Current Assets	4,536	6,278	5,225	6,417
Less: Current Liabilities & Provisions	28,901	32,182	29,258	34,632
Payables	13,360	11,712	9,747	11,972
Other Current Liabilities	15,541	20,470	19,511	22,661
sub total				
Net Current Assets	20,171	15,637	16,674	24,148
Total Assets	57,722	51,388	53,126	61,440

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	48.9	44.9	47.4	48.6
EBIDTA Margin	15.2	16.5	17.5	20.5
EBIT Margin	13.6	14.0	14.4	17.8
Tax rate	33.6	30.0	26.5	26.5
Net Profit Margin	7.3	7.6	9.4	12.5
(B) As Percentage of Net Sales (%)				
COGS	51.1	55.1	52.6	51.4
Employee	7.1	5.8	6.4	6.0
Other	26.5	22.6	23.5	22.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.8	0.3	0.2	0.1
Interest Coverage	5.6	6.6	6.2	12.7
Inventory days	76	74	73	71
Debtors days	102	92	107	104
Average Cost of Debt	7.4	9.7	16.6	20.4
Payable days	54	47	47	47
Working Capital days	82	63	81	96
FA T/O	8.0	7.9	7.1	9.6
(D) Measures of Investment				
AEPS (Rs)	10.2	11.3	9.7	15.8
CEPS (Rs)	12.2	14.5	12.9	19.2
DPS (Rs)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0
BVPS (Rs)	43.1	52.4	62.1	77.9
RoANW (%)	23.4	19.8	16.9	22.6
RoACE (%)	14.0	16.2	15.2	21.1
RoAIC (%)	14.2	16.3	15.8	23.5
(E) Valuation Ratios				
CMP (Rs)	589	589	589	589
P/E	57.6	52.1	61.0	37.3
Mcap (Rs Mn)	428,126	428,126	428,126	428,126
MCap/ Sales	4.8	4.7	5.7	4.6
EV	453,427	441,011	432,415	424,908
EV/Sales	5.0	4.9	5.8	4.6
EV/EBITDA	33.1	29.6	32.9	22.5
P/BV	13.7	11.2	9.5	7.6
Dividend Yield (%)	0.0	0.0	0.0	0.0
(F) Growth Rate (%)				
Revenue	10.0	0.3	(16.8)	22.8
EBITDA	33.9	8.9	(11.6)	43.6
EBIT	38.0	3.1	(14.1)	51.6
PBT	19.8	(1.0)	(2.7)	63.7
APAT	34.5	10.6	(14.7)	63.7
EPS	34.5	10.6	(14.7)	63.7

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	13,994	16,243	12,899	11,618
CFI	(5,354)	(1,824)	(2,558)	(2,813)
CFF	(9,250)	(14,653)	(7,045)	(4,472)
FCFF	11,097	13,862	11,696	10,340
Opening Cash	1,198	588	354	3,649
Closing Cash	588	354	3,649	7,981

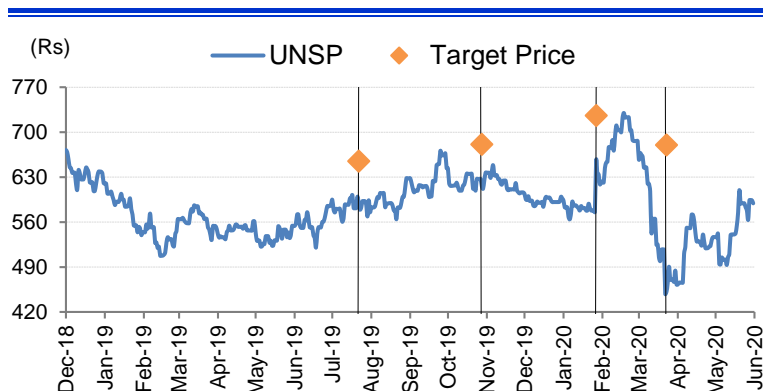
E – Estimates

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.)
Jul-19	Accumulate	655	590
Oct-19	Accumulate	681	616
Jan-20	Buy	726	656
Mar-20	Buy	680	452
May-20	Reduce	531	494

*Price as on recommendation date

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