

Focus on tapping evolving market opportunities

Q1FY21 volumes for United Spirit's de-grew 49% mainly due to broad based decline in both Prestige & Above (P&A), Popular segments due to lockdown in April, May. P&A category volume fell 52% YoY while the Popular category de-grew 47%. P&A volumes declined owing to continued closure of on-premise outlets and drying up of social occasions for liquor consumption. Gross margin declined 570 bps to 41.7% with gross profit down 59% YoY to ₹ 429 crore. At the EBITDA level, the company reported a loss of ₹ 78 crore (I-direct estimate: loss of ₹ 70 crore) compared to a profit of ₹ 395 crore in Q1FY20. The company reported a loss before tax and exceptional item of ₹ 182 crore vs. profit before tax and exceptional items of ₹ 303 crore in Q1FY20. During Q1FY21, the company has accounted for ₹ 75 crore as exceptional expense on account of 'Raising the Bar' campaign, which aims to provide non-cash support to qualifying pubs, bars and restaurants serving alcohol in major cities. Consequently, the company reported loss before tax of ₹ 257 crore. Tax write back to the tune of ₹ 42 crore curtailed net loss for the quarter to ₹ 215 crore (Q1FY20: profit of ₹ 197 crore).

Price hike, benign input cost to support margin in tough scenario

The company has been able to get price hikes from seven states. Also input cost (ENA) is expected to remain benign while glass can see marginal inflation. With normalisation of the scenario, the company expects P&A segment to recover. This would lend support to gross margin, which has declined in the last few quarters due to an unfavourable product mix.

Capitalising on emerging market trends to raise customer base

Covid-19 has led to a change in consumer behaviour and their consumption pattern. The company is focussing on adapting to newer opportunities and capturing near term growth by having an early mover advantage. The management indicated there was a visible shift from beer consumption to hard liquor as beer is more an on-trade outlet drink and not very suitable for home storage as it is bulky. Also, many states have allowed home/online delivery of liquor, which is expected to enhance the reach and increase the ability of the company to acquire a new set of customers thereby broadening the customer base.

Valuation & Outlook

The management remains cautiously optimistic on the resilience of the business and ability to adapt in the difficult situation. On the balance sheet front, the management has actively lowered debt even during a challenging FY20 and can reduce it further over next two years. Online ordering and home delivery channels can be structurally positive for the industry as it would enhance the reach and add new set of customers and expand the customer base over the longer term. We value the stock at ~43x FY22 EPS to arrive at a target price of ₹ 670 with a **BUY** rating.

Key Financial Summary

₹ crore	FY 18	FY 19	FY20	FY21E	FY22E	CAGR (%)
Net Sales	8590.6	9340.8	9325.4	8004.0	9934.4	3.2
EBITDA	1207.2	1393.6	1572.3	1120.6	1778.3	6.3
EBITDA margin (%)	14.1	14.9	16.9	14.0	17.9	
PAT	633.8	700.2	658.9	536.2	1128.9	30.9
P/E (x)	67.1	61.6	67.6	79.3	37.7	
Market cap to Sales (x)	4.9	4.6	4.6	5.3	4.3	
RoCE (%)	22.4	21.0	23.8	15.9	25.7	
RoE (%)	26.2	22.3	16.9	12.6	20.9	

Source: Company, ICICI Direct Research

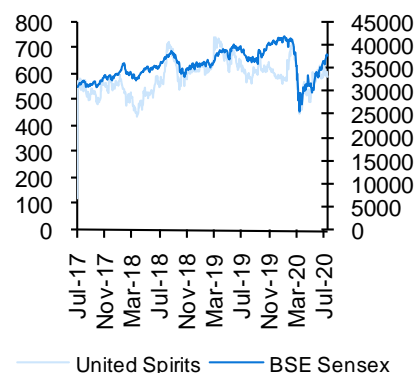
UNITED SPIRITS

A DIAGEO Group Company

Stock data

Particular	Amount
Market Capitalization (₹cr)	42,500.3
Total Debt (FY20P) (₹cr)	1,620.7
Cash (FY20P) (₹cr)	73.5
EV (₹cr)	44,047.5
52 week H/L	743/442
Equity Capital (₹cr)	145.3
Face Value (₹)	2.0

Price Performance



Shareholding Pattern

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

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Exhibit 1: Variance Analysis

Standalone	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Revenue	1,030.2	699.1	2,218.4	-53.6	1,993.8	-48.3	Revenues de-grew 54% YoY due to slowdown in consumption owing to lockdown amid spread of covid19 pandemic.
Consumption of RM	601.1	391.5	1,168.7	-48.6	1,153.0	-47.9	Gross margins came in at 41.7% in Q1FY21 vs. 47.3% in Q1FY20 mainly due to unfavourable product mix
Employee Expenses	120.3	139.8	138.1	-12.9	110.6	8.8	
A&P Expenses	51.8	55.9	170.8	-69.7	120.0	-56.8	Advertisement expenses lowered to 5% of sales compared to usual run rate of 9-10% levels
Other Expense	334.6	181.8	345.7	-3.2	338.8	-1.2	
Total Expense	1,107.8	769.0	1,823.3	-39.2	1,722.4	-35.7	
EBITDA	-77.6	-69.9	395.1	PL	271.4	PL	
EBITDA Margin (%)	-7.5	-10.0	17.8	-2534 bps	13.6	-2114 bps	Significant gross margin compression and higher other expense to sales ratio negatively impacted EBITDA
Depreciation	63.8	56.9	50.0	27.6	67.8	-5.9	
Interest	49.9	48.1	52.0	-4.0	48.0	4.0	
Other Income	9.5	11.9	10.1	-5.9	4.1	131.7	
Exceptional Gain/Loss	-75.0	0.0	0.0	NA	1.3	NA	
PBT	-256.8	-163.0	303.2	PL	161.0	PL	
Total Tax	-41.5	-16.3	105.8	-139.2	137.1	-130.3	
PAT	-215.3	-179.3	197.4	PL	23.9	PL	

Key Metrics	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	
P & above vol (Mn cases)	5.0	2.6	10.3	-51.5	8.4	-40.5	YoY de-growth due to a impact of national lockdown
Regular	4.8	3.2	9.0	-46.7	9.9	-51.5	
Total volume (mn cases)	9.8	5.7	19.3	-49.2	18.3	-46.4	

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	8,545.9	8,004.0	-6.3	10,887.0	9,934.4	-8.7	Muted volumes in FY21E impact revenues
EBITDA	1,393.6	1,572.3	1,469.9	1,120.6	-23.8	1,981.5	1,778.3	-10.3	
EBITDA Margin (%)	14.9	16.9	17.2	14.0	-320 bps	18.2	17.9	-30 bps	Impact mainly due to muted volumes in FY21 and unfavourable product mix
PAT	690.5	628.6	867.5	536.2	-38.2	1,294.5	1,128.9	-12.8	
EPS (₹)	9.5	8.7	11.9	7.4	-38.0	17.8	15.5	-12.7	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
Volume (Standalone) Cr Cases	8.2	8.0	7.0	8.5	7.3	9.1	Prestige and above volumes expected to decline more than the popular segment owing to extended closure on on-site outlets
Volume Growth (%)	3.9	1.5	-14.0	21.7	-10.9	24.8	
Net Realisation (standalone) ₹/case	1,070	1,090	1,086	1,115	1,115	1,147	
Realisation Growth (%)	2.9	4.9	1.5	2.7	4.3	2.9	

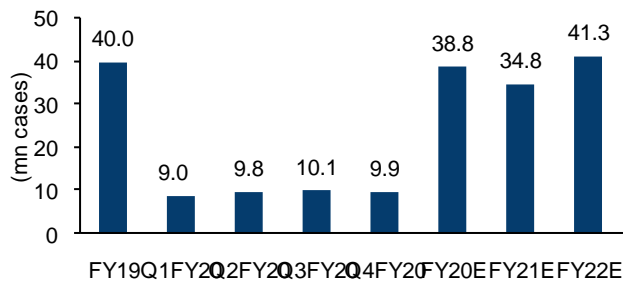
Source: ICICI Direct Research, Company

Key conference call takeaways

- The quarter was negatively impacted by lockdown as ~ 80-85% of liquor outlets were shut for April and May (partial). However, the on-trade outlets like pubs remained closed for the entire quarter thereby resulting in lower revenues
- On the production facilities operation front, most of its plants are operational (except for some temporary shut down due to second lockdown announced by certain states/cities). The company has the operational capacity to produce at pre-Covid levels if there is demand recovery
- The management indicated that there was a sequential month on month improvement in the sales volumes in June compared to April and May
- The company has been able to secure moderate price hikes (~4-5%) from seven states
- On the product front, the company has renovated and launched McDowell's No1 and Royal Challenge, which have been well accepted by consumers. The company has changed the product in all aspects including the liquid and the product packaging
- USL expects ENA (raw material) prices to remain benign while in case of glass (packaging material), it expects marginal inflation
- The company is always looking to add alternative packaging solutions for its products and in some states it has launched Popular segment brands in tetra packs
- USL is planning to curtail discretionary expenses and judiciously spend on advertising and brand development. The focus would be to promote its brands through digital media and increase digital advertising and publicity spend
- On consumer trends, the management believes there is no massive down-trading by consumers and there is no uniform trend across various states. Over the medium to long term, the company is strategically planning to focus on premiumisation of product portfolio
- The franchisee business of USL brands has witnessed a decline. The management is looking at developing a joint business plan with its franchisees. It plans to support the franchisees with USL management team expertise in handling the crisis and evaluate the business model of franchisee and suggest a corrective action to revive the business

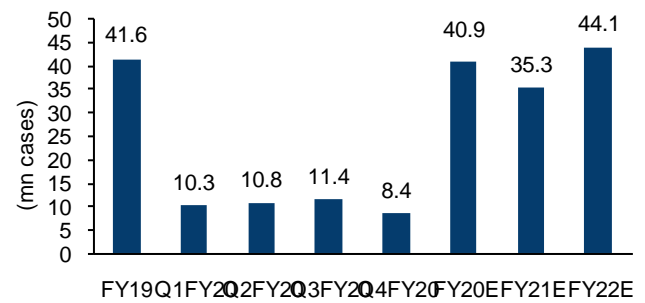
Key Metrics

Exhibit 4: P&A expected to grow at 3% CAGR (FY20-22)



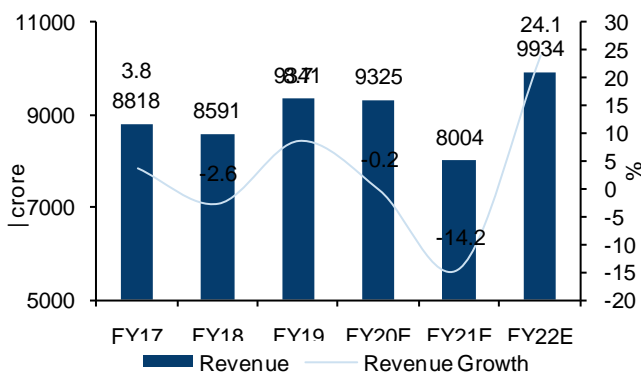
Source: ICICI Direct Research, Company

Exhibit 5: Popular expected to grow at 4% CAGR (FY20-22)



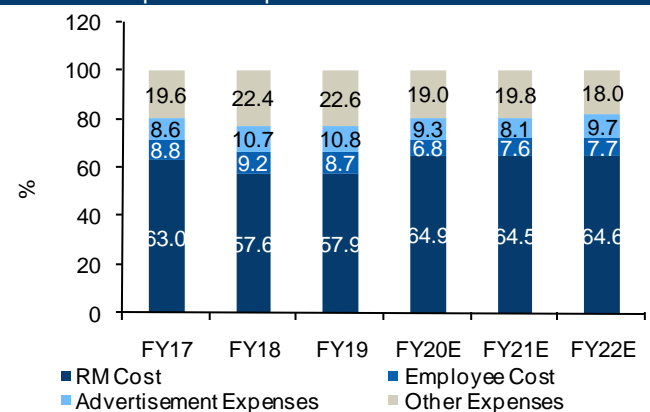
Source: ICICI Direct Research, Company

Exhibit 6: Revenues to grow at 3% CAGR over FY20-22E



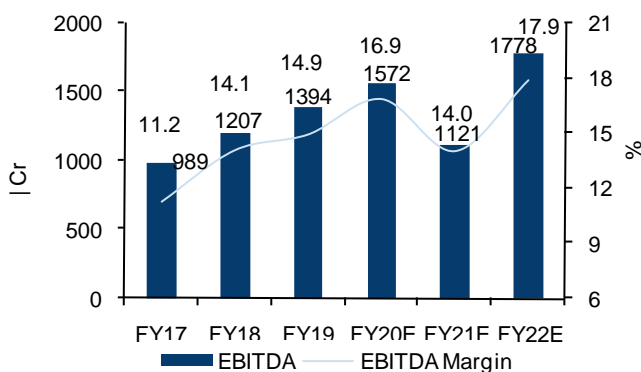
Source: ICICI Direct Research, Company

Exhibit 7: Expense composition



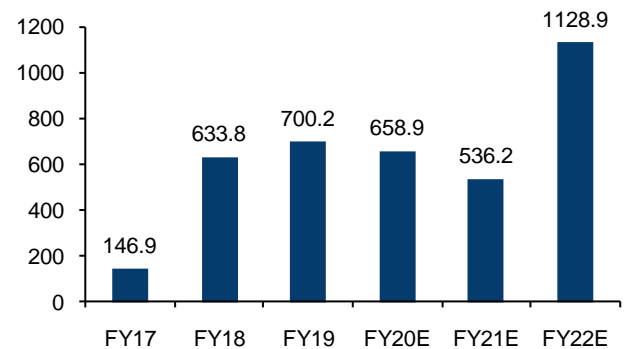
Source: ICICI Direct Research, Company

Exhibit 8: EBITDA expected to grow at 6% CAGR (FY20-22)



Source: Company, ICICI Direct Research

Exhibit 9: PAT expected to grow at 31% CAGR in FY20-22



Source: Company, ICICI Direct Research

Exhibit 10: Valuation ratios

	Sales	Sales	EPS	EPS	PE	EV/EBITD	RoNW	RoCE
	(₹cr)	Growth (%)	(₹)	Growth (%)	(x)	(x)	(%)	(%)
FY18	8590.6	-2.6	8.7	533.2	68.8	37.2	26.2	22.4
FY19	9340.8	8.7	9.5	9.0	61.6	32.1	22.7	21.0
FY20	9325.4	-0.2	8.7	-9.0	67.6	27.8	17.7	23.8
FY21E	8004.0	-14.2	7.4	-14.7	79.3	38.1	12.6	15.9
FY22E	9934.4	24.1	15.5	110.5	37.7	23.7	20.9	25.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit & Loss Statement

₹ crore

(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Income	9,340.8	9,325.4	8,004.0	9,934.4
Growth (%)	8.7	-0.2	-14.2	24.1
Cost of materials consum	4,603.4	5,028.9	4,442.2	5,265.2
Employee benefit expenses	689.8	530.0	520.3	625.9
Advertisement & Promo	859.1	717.3	560.3	794.8
Other Expenses	1,794.9	1,476.9	1,360.7	1,470.3
EBITDA	1,393.6	1,572.3	1,120.6	1,778.3
Growth (%)	15.4	12.8	-28.7	58.7
Depreciation	214.7	285.3	298.3	316.4
EBIT	1,178.9	1,287.0	822.3	1,461.8
Interest	237.2	212.0	93.0	34.9
Other Income	69.2	22.0	62.3	81.6
Exceptional Item	2.6	66.6	-75.0	0.0
PBT	1,013.5	1,163.6	716.6	1,508.6
Tax	328.1	539.7	180.4	379.7
Reported PAT	685.4	623.9	536.2	1,128.9
Adjustments	14.8	35.0	0.0	0.0
Adjusted PAT	700.2	658.9	536.2	1,128.9
EPS	9.5	8.7	7.4	15.5

Source: ICICI Direct Research

Exhibit 12: Cash flow Statement

₹ crore

(Year-end March)	FY19	FY20P	FY21E	FY22E
Profit after Tax	700.2	658.9	536.2	1,128.9
Add: Depreciation	214.7	285.3	298.3	316.4
Add: Interest paid	237.2	212.0	93.0	34.9
Cash Profit	914.9	944.2	834.5	1,445.3
Increase/(Decrease) in C	-308.5	240.8	-275.7	174.2
(Increase)/Decrease in C	499.3	184.1	453.8	-793.8
Others	-394.6	-797.9	0	0
CF from Operating Activities	948.3	783.2	1,105.6	860.6
Purchase of Fixed Assets	-76.8	-211.6	-156.1	-156.4
(Inc)/Dec in Investments	0.0	-149.8	-106.8	-159.6
Others	-129.5	85.0	217.8	58.9
CF from Investing Activities	-206.3	-276.4	-45.1	-257.1
Inc/(Dec) in Loan Funds	-477.9	-1,249.1	-500.0	-700.0
Inc/(Dec) in Sh. Cap. & R	0.0	0.0	0.0	0.0
Less: Interest paid	-237.2	-212.0	-93.0	-34.9
Others	0.0	744.9	0.0	0.0
CF from financing activities	-715.1	-716.2	-593.0	-734.9
Op. Cash and cash Eq.	256.0	282.9	73.5	541.0
Adjustments	0	0	0	0
Cl. Cash and cash Eq.	282.9	73.5	541.0	409.5

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	4,118.9	5,247.7
Shareholder's Fund	3,090.3	3,728.0	4,264.2	5,393.1
Minority Interest	-3.1	-41.3	-41.3	-41.3
Loan Funds	2,869.8	1,620.7	1,120.7	420.7
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	3,063.5	3,237.6
Source of Funds	9,108.9	8,851.3	8,632.2	9,257.8
Application of Funds				
Gross Block	2,094.1	2,315.0	2,465.0	2,615.0
Less: Acc. Depreciation	675.9	961.2	1,259.5	1,575.9
Net Block	1,418.2	1,353.8	1,205.5	1,039.1
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 Investment	47.9	40.3	90.3	190.3
Deferred Tax Assets (net)	290.0	159.0	0.0	0.0
Long term loans & advances	978.7	1,136.1	1,192.9	1,252.6
Other Non current asset	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	1,644.7	2,041.3
Debtor	2,542.5	2,283.5	2,083.2	2,449.6
Cash	282.9	73.5	541.0	409.5
Loan & Advance, Other	504.1	585.8	615.1	645.8
Total Current assets	5,263.8	4,870.3	4,883.9	5,546.3
Application of Funds	9,108.9	8,851.3	8,632.2	9,257.7

Source: ICICI Direct Research

Exhibit 14: Key Ratios

(Year-end March)	FY19	FY20P	FY21E	FY22E
Per share data (₹)				
Book Value	42.5	51.3	58.7	74.2
Cash per share	3.9	1.0	7.4	5.6
EPS	9.5	8.7	7.4	15.5
Cash EPS	12.6	13.0	11.5	19.9
DPS	0.0	0.0	0.0	0.0
Profitability & Operating Ratios				
EBITDA Margin (%)	14.9	16.9	14.0	17.9
PAT Margin (%)	7.5	7.1	6.7	11.4
Fixed Asset Turnover (x)	4.5	4.0	3.2	3.8
Inventory Turnover (Days)	75.6	75.4	75.0	75.0
Debtor (Days)	99.4	89.4	95.0	90.0
Creditors (Days)	55.0	46.9	47.0	48.0
Return Ratios (%)				
RoE	22.3	16.9	12.6	20.9
RoCE	21.0	23.8	15.9	25.7
RoIC	20.9	24.6	17.3	28.0
Valuation Ratios (x)				
P/E	61.6	67.6	79.3	37.7
Price to Book Value	13.6	11.3	9.9	7.8
EV/EBITDA	32.1	27.8	38.1	23.7
EV/Sales	4.8	4.7	5.3	4.2
Leverage & Solvency Ratios				
Debt to equity (x)	0.9	0.4	0.3	0.1
Interest Coverage (x)	5.0	6.1	8.8	41.9
Debt to EBITDA (x)	2.2	1.8	1.4	0.6
Current Ratio	1.7	1.5	1.6	1.7
Quick ratio	1.1	0.9	1.1	1.1

Source: ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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