

# United Breweries

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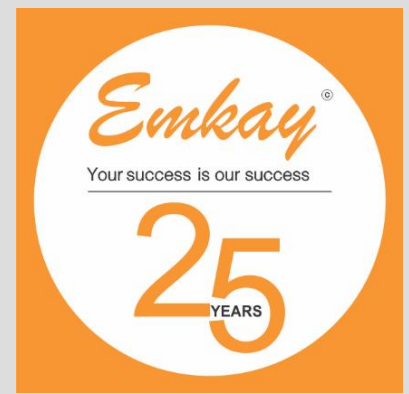
## West Bengal cuts taxes on beer; positive for UBBL

CMP: Rs 957  
as of (October 8, 2020)TP: Rs 1,225 (■)  
12 months

Rating: BUY (■)

Upside: 28.5 %

- **West Bengal reduces taxes on beer, driving consumer prices down by 24%-30%:** Following tax reversals by Delhi, Odisha and J&K, West Bengal has also reduced taxes by withdrawing the 30% additional VAT on beer, resulting in a steep 24-30% fall in consumer prices. A 650ml bottle of mild beer is now priced at Rs119 vs. Rs170 earlier, whereas strong beer is priced at Rs130 vs. Rs170 earlier. This is the sharpest cut in beer prices in WB and the lowest prices in the last 3-4 years.
- **Expect volume recovery in WB; may drive further cuts in other states:** The steep reduction in prices is likely to increase the pace of volume recovery and growth in coming months. Beer volumes in West Bengal had declined sharply and were still down ~50% in recent months due to the unfavorable pricing and shutdown of bars. West Bengal accounts for ~3% of industry volumes and is a meaningful profitable market for the beer industry. The price cut by WB may also encourage the same move by neighboring states of Assam, Jharkhand and Odisha, where beer prices are in the range of Rs140-160/650ml bottle.
- **Reopening of bars and tax reversals to be positive:** Recent announcements on the reopening of bars and restaurants and tax reversals in key states are likely to improve volume recovery in beer, which was very slow compared to IMFL. Most key states, including Maharashtra, Karnataka, Delhi and West Bengal have reopened bars and restaurants and steep taxes have also been reversed in most markets, excluding AP, Telangana and Assam.
- **UBBL is our conviction pick:** The stock has significantly underperformed over the last two years due to a steep increase in input prices in FY20 followed by the Covid-19-led disruption. We expect a weak Q2 with sales falling 30%, EBITDA at Rs594mn and PAT at -Rs27mn. However, with most states reversing steep taxes, regulatory environment is turning benign and further unlocking can drive a sharp recovery in industry volumes and profitability from Q3, in our view. Valuations at 42x/34x FY22/23E appear attractive. We reiterate Buy with a TP of Rs1,225.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Consumer Goods & Retail](#)

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### Financial Snapshot (Standalone)

| (Rs mn)           | FY19   | FY20   | FY21E  | FY22E  | FY23E  |
|-------------------|--------|--------|--------|--------|--------|
| Revenue           | 64,724 | 65,046 | 49,640 | 66,597 | 75,494 |
| EBITDA            | 11,378 | 8,744  | 7,342  | 11,155 | 12,908 |
| EBITDA Margin (%) | 17.6   | 13.4   | 14.8   | 16.7   | 17.1   |
| APAT              | 5,628  | 4,272  | 3,125  | 6,016  | 7,364  |
| EPS (Rs)          | 21.3   | 16.2   | 11.8   | 22.8   | 27.9   |
| EPS (% chg)       | 42.8   | (24.1) | (26.9) | 92.5   | 22.4   |
| ROE (%)           | 19.2   | 12.7   | 8.6    | 14.9   | 15.9   |
| P/E (x)           | 45.0   | 59.2   | 81.0   | 42.1   | 34.4   |
| EV/EBITDA (x)     | 22.4   | 29.0   | 33.7   | 21.9   | 18.6   |
| P/BV (x)          | 8.0    | 7.2    | 6.7    | 5.9    | 5.1    |

Source: Company, Emkay Research

## Emkay Rating Distribution

| Ratings | Expected Return within the next 12-18 months. |
|---------|---|
| BUY     | Over 15%                                      |
| HOLD    | Between -5% to 15%                            |
| SELL    | Below -5%                                     |

Completed Date: 08 Oct 2020 21:50:38 (SGT)

Dissemination Date: 08 Oct 2020 21:51:38 (SGT)

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