

## Momentum builds up for peak Q1 season in challenging environment

**About the stock:** United Breweries (UBL) is the biggest beer player in the domestic market (~54% market share), a sector largely dominated by MNCs (~85% of market).

- On-trade sales comprise ~25% of revenues (rest 75% off-trade)
- Heineken, one of the world's largest beer companies, holds 72.7% stake in United Breweries

**Q4FY22 Results:** UBL's performance was above I-direct estimates on profitability.

- Revenues grew 11% YoY to ₹ 1709 crore, led by volume growth of 7%
- Absolute EBITDA stayed flat at ₹ 262 crore (EBITDA margins contracted 168 bps to 15.3%)
- Subsequently, the company reported a PAT of ₹164 crore (vs PAT before exceptional items of ₹160 crore in Q4FY21) and came above I-direct estimate of ₹ 91 crore. PAT after exceptional item stood at ₹ 98 crore

**What should investors do?** The company saw highest ever volume in March, 2022 and expects the momentum to continue in Q1FY23 (peak season for breweries). Also, UBL is expected to see normalised peak quarter after a span of three years. Although near term challenges remain (barley prices – which make up for 15% input costs for UBL, is up 70% YoY, high single digit inflation in glass), the management expects to lower the impact by taking price hikes in key states in the near term.

- Due to long term growth story in the industry and a well-managed company with MNC parentage, we maintain our **BUY** rating on the stock

**Target Price & Valuation:** We value the stock at ₹ 1800 i.e. 62x P/E on FY24E EPS.

**Key triggers for future price performance:** A ₹ 910 crore liquid balance together with nil debt, strong supply chain (has weathered pandemic better than other players and, hence, ~200 bps market share growth to 54-55%), strong return ratios (RoIC above 28% in FY24E) and a long premiumisation leg to play on

- Newer excise regimes continue to stay stable. The management expects likely price hikes in UP, Rajasthan and Maharashtra in the near term
- Strong fundamentals (b/s, cash flow), to help UBL further consolidate its leadership position

**Alternate Stock Idea:** Apart from UBL, we remain positive on United Spirits.

- United Spirits (USL) manufactures, sells premium liquor brands such as Johnnie Walker, Black Dog, Black & White, Vat 69, Antiquity, Signature, Royal Challenge, McDowell's No 1, Smirnoff and Captain Morgan
- We have a BUY rating on the stock, with a target price of ₹ 1050

### Key Financial Summary

₹ crore	FY20	FY21	FY22P	5 Years CAGR (%)	FY23E	FY24E	2 Years CAGR (%)
Net Sales	6509.2	4243.1	5838.4	4.3	7377.4	8262.1	19.0
EBITDA	875.8	381.1	696.6	1.6	1062.3	1313.7	37.3
PAT	427.7	113.2	365.5	9.7	600.9	765.6	44.7
P/E (x)	94.0	355.0	110.0		66.9	52.5	
Market cap to Sales (x)	6.3	9.6	7.0		5.5	4.9	
RoCE (%)	15.9	4.0	12.1		18.2	21.2	
RoE (%)	12.2	3.2	9.3		14.3	16.6	

Source: Company, ICICI Direct Research



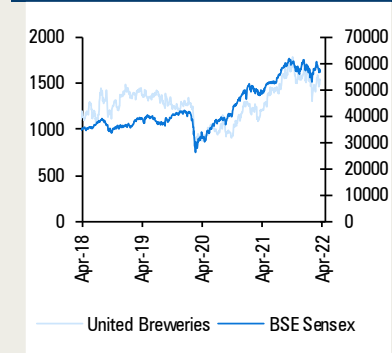
### Particulars

Particular	Amount
Market Capitalization (₹ cr)	40,718.4
Total Debt (FY22) (₹ cr)	-
Cash (FY22) (₹ cr)	909.7
EV (₹ cr)	39,808.7
52 week H/L	1785/1131
Equity Capital (₹ Crore)	26.4
Face Value (₹)	1.0

### Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promote	72.7	72.7	72.7	72.7
Others	27.3	27.3	27.3	27.3

### Price Chart



### Recent event & key risks

- Price hikes in key states
- Key Risk:** (i) Delay in opening of on-trade channels (ii) hike in raw material prices

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## Key takeaways

### Q4FY22 Results: North (up 26%) continues to see maximum recovery followed by South (8%), East (2%) and West (-11%)

- North's growth was mainly driven by higher volumes in UP, Rajasthan and Haryana markets
- Growth in South was led by higher volumes in Telangana, while East saw healthy growth in all states, except for West Bengal on account of Route To Market (RTM) changes
- UBL has closed its operations at the Patna facility (manufacturing non-alcoholic beer) and shifted it to a third party

### Q4FY22 Earnings Conference Call highlights

- Inflation in glass prices has increased compared to earlier while on barley prices, the company is seeing 70% price rise YoY on the new crop (to be a part of Q1FY23 inventory)
- The Gross Margin contraction is expected to be countered to a certain degree by taking price hikes in key states
- The company expects to reach pre-pandemic levels in the current year (FY23). Performance in Q1 remains the key trigger
- The company had undergone corporate restructuring last year and expects the current employee expense (reduced YoY) run-rate to be the new normal
- The company consolidated its leadership position in Q4FY22 (54-55% market share)
- UBL also saw contraction in its working capital days, mainly due to better management of the excise capital kept at the corporation states
- Mumbai has seen a revival in March (Maharashtra de-grew in Q4)
- The capex will continue in the range of ₹ 200-250 crore as the growth momentum picks up. Part of the capital would be utilised as maintenance capex and rest for expansion, etc

**Exhibit 1: Variance Analysis**

₹ Crore	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue	1,709.2	1,589.4	1,544.6	10.7	1,582.8	8.0	YoY volume growth at 7%, with favourable price mix
Consumption of Raw material	825.2	794.7	716.6	15.2	737.5	11.9	Lower gross margins (contracted 332 bps YoY to 48.9%) due to higher inflation in Barley and glass prices
Purchase of traded goods	48.5	0.0	21.7	123.7	51.6	-6.0	
Employee Cost	126.2	143.0	134.3	-6.0	147.7	-14.5	
Other Expenditure	447.8	476.8	409.7	9.3	471.9	-5.1	
Total Expense	1,447.7	1,414.6	1,282.3	12.9	1,408.6	2.8	
EBITDA	261.5	174.8	262.3	-0.3	174.2	50.1	
EBITDA Margin (%)	15.3	11.0	17.0	-168.3	11.0	429.4	EBITDA margin higher than estimates mainly due to lower employee and other expenses
Depreciation	53.2	54.3	62.3	-14.6	53.0	0.4	
Interest	2.5	4.1	4.2	-40.8	3.7	-32.2	
Other Income	13.1	5.5	11.7	11.9	6.1	112.9	
Exceptional item	0.0	0.0	-62.2	NA	0.0	NA	
PBT	218.8	122.0	145.2	50.7	123.6	77.0	
Total Tax	55.0	30.7	47.7	15.4	32.6	68.9	
Reported PAT	163.8	91.2	97.5	67.9	91.0	79.9	

Source: Company, ICICI Direct Research

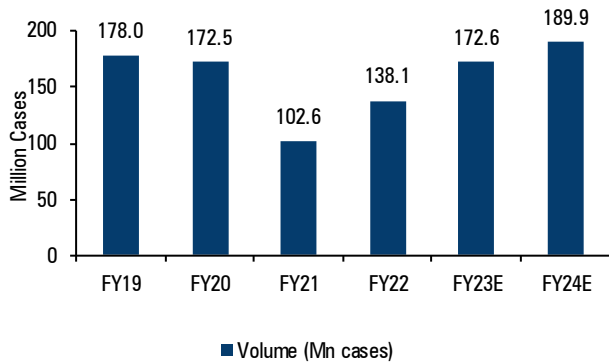
**Exhibit 2: Change in estimates**

(₹ Crore)	FY23E				FY24E			
	FY22	Old	New	% Change	Old	New	% Change	
Revenue	5,838.4	6,625.1	7,377.4	11.4	7,761.5	8,262.1	6.4	
EBITDA	696.6	1,053.4	1,062.3	0.8	1,272.9	1,313.7	3.2	
EBITDA Margin (%)	11.9	15.9	14.4	-150 bps	16.4	15.9	-50 bps	Margins revised downwards due to higher inflation in the raw material prices in near to medium term
PAT	365.5	613.9	600.9	-2.1	748.2	765.6	2.3	
EPS (₹)	13.8	23.2	22.7	-2.1	28.3	29.0	2.3	

Source: ICICI Direct Research

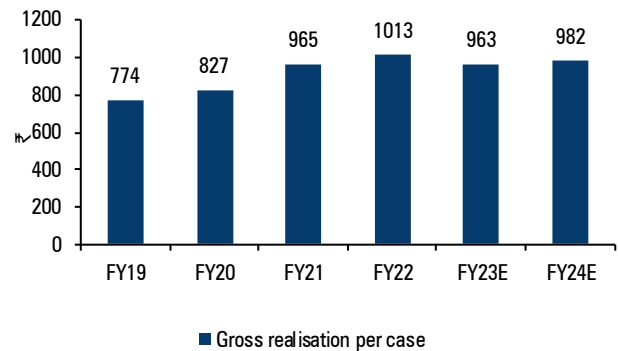
## Key Metrics

Exhibit 3: Volumes expected to grow at 17% CAGR (FY22-24)



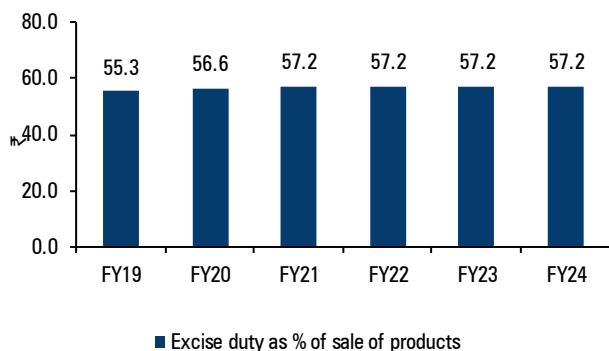
Source: ICICI Direct Research, Company

Exhibit 4: Gross realisation expected to remain strong



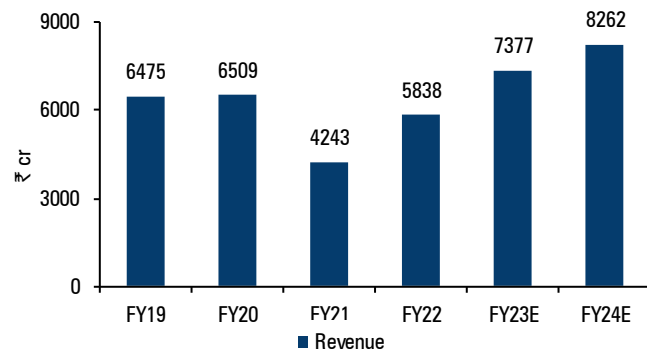
Source: ICICI Direct Research, Company

Exhibit 5: Excise duty expected to remain high across states



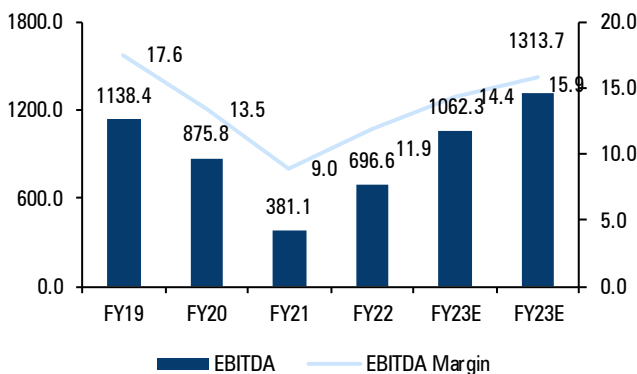
Source: ICICI Direct Research, Company

Exhibit 6: Net revenues to grow at 19% CAGR (FY22-24E)



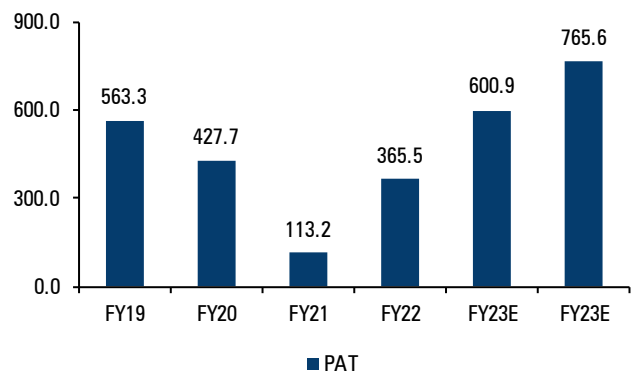
Source: ICICI Direct Research, Company

Exhibit 7: EBITDA expected to grow at 37% CAGR (FY22-24)



Source: Company, ICICI Direct Research

Exhibit 8: PAT expected to grow at 45% CAGR in FY22-24E



Source: Company, ICICI Direct Research

Exhibit 9: Valuation ratios

	Sales (₹ cr)	Sales Growth (%)	EPS (₹)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	6509.2	0.5	16.2	-24.1	94.0	46.0	12.2	15.9
FY21	4243.1	-34.8	4.3	-73.5	355.0	104.5	3.2	4.0
FY22P	5838.4	37.6	13.8	222.8	110.0	56.4	9.3	12.1
FY23E	7377.4	26.4	22.7	64.4	66.9	37.1	14.3	18.2
FY24E	8262.1	12.0	29.0	27.4	52.5	29.8	16.6	21.2

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Total operating Income	4,243.1	5,838.4	7,377.4	8,262.1
Growth (%)	-34.8	37.6	26.4	12.0
COGS	1,965.2	2,707.3	3,651.8	4,007.1
Change in Inv, WIP & stock in t	64.2	218.8	0.0	0.0
Employee benefit expense	485.5	523.1	560.7	627.9
Selling & promotional expenses	211.0	321.1	405.8	454.4
Other expense	1,136.2	1,371.5	1,696.8	1,859.0
EBITDA	381.1	696.6	1,062.3	1,313.7
Growth (%)	-56.5	82.8	52.5	23.7
Depreciation	232.0	217.2	295.1	330.5
EBIT	149.1	479.4	767.2	983.2
Interest	22.7	14.8	0.0	0.0
Other Income	50.3	29.8	36.9	41.3
Exceptional Item	-7.2	0.0	0.0	0.0
PBT	169.4	494.4	804.1	1,024.5
Tax	55.6	128.4	202.4	257.9
Reported PAT	113.8	366.1	601.7	766.6
Adjustments	0.6	0.6	0.8	1.0
Adjusted PAT	113.2	365.5	600.9	765.6
EPS	4.3	13.8	22.7	29.0

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	113.2	365.5	600.9	765.6
Add: Depreciation	232.0	217.2	295.1	330.5
Add: Interest Expense	22.7	14.8	0.0	0.0
Increase/(Decrease) in CL	292.5	-140.7	86.6	113.3
(Increase)/Decrease in CA	28.6	384.8	-622.1	-368.0
CF from Operating Activities	620.3	899.6	360.5	841.4
Purchase of Fixed Assets	-149.8	-172.8	-211.0	-312.1
(Inc)/Dec in Investments	-1.8	-97.0	107.4	85.1
Others	-45.1	283.9	0.0	0.0
CF from Investing Activities	-196.7	14.0	-103.6	-226.9
Inc/(Dec) in Loan Funds	6.1	-115.4	0.0	0.0
Inc/(Dec) in Sh. Cap. & Res.	0.0	0.0	0.0	0.0
Less: Dividend & Dividend Tax	-16.3	-343.0	-343.0	-343.0
Others	-22.7	-14.8	0.0	0.0
CF from financing activities	-32.9	-473.2	-343.0	-343.0
Op. Cash and cash Eq.	78.6	469.3	909.7	823.5
Cl. Cash and cash Eq.	469.3	909.7	823.5	1,094.9

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Source of Funds				
Equity Capital	26.4	26.4	26.4	26.4
Reserves & Surplus	3,555.8	3,908.7	4,166.6	4,589.2
Shareholder's Fund	3,582.3	3,935.1	4,193.0	4,615.6
Long term Loan Funds	115.2	0.0	0.0	0.0
Provisions	12.7	29.4	30.8	32.4
Total Current Liabilities	2,138.2	1,980.7	2,065.8	2,177.5
Short term borrowings	0.2	0.0	0.0	0.0
Trade payables	618.1	638.0	696.2	780.6
Other current liabilities	1,428.9	1,240.5	1,265.3	1,290.6
Provisions	91.1	102.2	104.3	106.3
Source of Funds	5,852.2	5,949.3	6,293.8	6,829.6
Application of Funds				
Gross Block	4,769.8	4,950.4	5,150.4	5,450.4
Less: Acc. Depreciation	2,826.7	3,043.9	3,339.0	3,669.5
Net Block	1,943.0	1,906.5	1,811.4	1,780.9
Capital WIP	128.8	109.9	120.9	133.0
Goodwill & Other Intangibles	27.4	22.8	22.8	22.8
Investments	6.1	8.4	8.8	9.9
Inventories	1,136.7	935.8	1,160.4	1,301.0
Debtor	1,395.0	1,254.9	1,624.5	1,821.3
Cash	469.3	909.7	823.5	1,094.9
Loan & Advance, Other CA	322.6	278.8	306.7	337.3
Total Current assets	3,323.6	3,379.1	3,915.1	4,554.5
Application of Funds	5,852.2	5,949.3	6,293.8	6,829.6

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
Book Value	135.5	148.8	158.6	174.6
Cash per share	17.7	34.4	31.1	41.4
EPS	4.3	13.8	22.7	29.0
Cash EPS	0.9	0.6	0.0	0.0
DPS	0.5	10.5	10.5	10.5
Profitability & Operating Ratios				
EBITDA Margin (%)	9.0	11.9	14.4	15.9
PAT Margin (%)	2.7	6.3	8.1	9.3
Fixed Asset Turnover (x)	2.1	2.7	3.3	3.5
Inventory Turnover (Days)	40.7	25.0	25.0	25.0
Debtor (Days)	50.0	35.0	35.0	35.0
Creditors (Days)	22.1	15.0	15.0	15.0
Return Ratios (%)				
RoE	3.2	9.3	14.3	16.6
RoCE	4.0	12.1	18.2	21.2
RoIC	4.6	15.9	22.8	28.0
Valuation Ratios (x)				
P/E	355.0	110.0	66.9	52.5
Price to Book Value	11.2	10.2	9.6	8.7
EV/EBITDA	104.5	56.4	37.1	29.8
EV/Sales	9.4	6.7	5.3	4.7
Leverage & Solvency Ratios				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	6.6	0.0	0.0	0.0
Debt to EBITDA (x)	0.3	0.0	0.0	0.0

Source: Company, ICICI Direct Research

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