

Recovery in Q2 volumes, normalisation still awaited

United Breweries reported an uptick in volume growth (76% QoQ growth, yet 48% YoY de-growth). Volumes of strong beer, recovered faster than mild beer. The recovery in volumes was further accompanied by a better state mix and certain cost control measures (lower other expenses), which led to better-than-expected EBITDA margins (4.5% vs. 4% estimated and a loss in Q1FY21) and led to absolute EBITDA in line with estimates (₹ 40 crore). However, the company reported a PAT of ₹ 4 crore (vs. a loss of ₹ 114 crore in Q1FY21), above I-direct estimate of a loss of ₹ 26 crore, as the operational performance was boosted by other income of ₹ 32 crore.

Q3 expected to provide further relief on volume front

Volumes were marred heavily by no supplies in Q1 and excise hikes (that led to loss of share to liquor players). Q2 saw the situation ease up, with the state wise lifting of lockdown (resumption of supplies) and lowered excise burden in AP and Odisha. West Bengal has also lowered its beer prices, which is expected to boost the fortunes of beer in the state (after a 90% decline in the east since excise hike in April). Also, certain key markets such as Karnataka, Tamil Nadu and Goa posted YoY growth in volumes in September. With an expectation of a strong festive season and opening up of on-trade channels (with social distancing restrictions), we expect beer volumes to move towards normalisation in several key states. We expect volumes to remain flat in FY20-22.

Robust b/s, distribution network to play out in favour of UBL

UBL continues to have a virtually debt free balance sheet (raised ₹ 250 crore in H1 to shore up its liquid position) and has built up a better WC position in H1. Although the pandemic saw beer sector getting impacted more than the liquor sector, within the beer sector, microbreweries segment and few private startups (mainly into fast growing premium beer) have seen greater financial challenges to stay afloat. UBL on the other hand, with its wide array of portfolio, comfortable b/s and distribution reach, can capture the potential void in the sector, as and when the consumption behaviour normalises. Also, increased technology in the delivery sphere of alcohol is expected to shift consumer behaviour (more acquisition of new customers and lowering the social stigma attached to alcohol), driving beer penetration.

Valuation & Outlook

The beer sector has seen multiple headwinds in FY20, FY21E, post registering 8% volume growth in previous five years. It stays an underpenetrated segment (12% market share in alcohol consumed), a preferred choice of ready to drink product for the youth and, thus, has long term growth potential (in a landscape historically dominated by liquor). Although concerns remain like changes in the behaviour of consumers due to the pandemic, the management has displayed discipline and prudence when dealing with evolving customer needs via broad portfolio and wide reach. We maintain **BUY** rating on the stock with a target price of ₹ 1120.

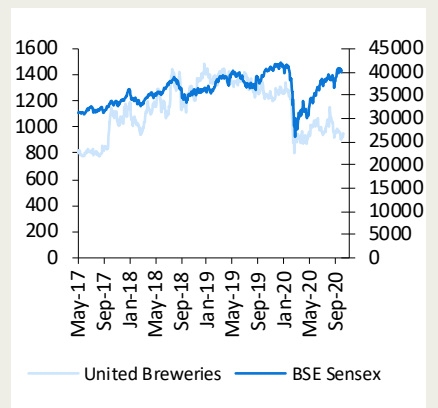


UNITED BREWERIES LIMITED

Particulars

Particular	Amount
Market Capitalization (₹cr)	24,854.1
Total Debt (FY 20) (₹cr)	169.1
Cash (FY 20) (₹cr)	78.6
EV (₹cr)	24,944.5
52 week H/L	1396/750
Equity Capital (₹Crore)	26.4
Face Value (₹)	1.0

Price Performance



Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	57.7	57.7	57.7	57.7
Others	42.3	42.3	42.3	42.3

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Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	CAGR (%)
Net Sales	5619.0	6475.4	6509.2	3971.1	6608.5	4.1
EBITDA	902.0	1138.4	875.8	393.1	1057.4	4.1
PAT	394.6	563.3	427.7	118.2	534.6	7.9
P/E (x)	63.0	44.1	58.1	210.3	46.5	
Market cap to Sales (x)	4.4	3.8	3.8	6.3	3.8	
RoCE (%)	21.7	26.8	15.9	4.4	16.9	
RoE (%)	14.7	17.7	12.2	3.3	13.3	

Source: Company, ICICI Direct research

Exhibit 1: Variance Analysis

₹ Crore	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Revenue	900.6	1,041.9	1,578.6	-42.9	506.9	77.7	QoQ recovery due to 76% volume growth (although YoY volumes yet to normalise)
Consumption of Raw material	402.4	479.3	717.1	-43.9	263.2	52.9	
Purchase of traded goods	27.6	0.0	39.0	NA	7.2	284.8	
Employee Cost	109.9	125.0	123.4	-11.0	115.1	-4.6	
Other Expenditure	320.4	395.9	506.7	-36.8	217.1	47.6	
Total Expense	860.2	1,000.2	1,386.1	-37.9	602.5	42.8	
EBITDA	40.4	41.7	192.5	-79.0	-95.7	NA	
EBITDA Margin (%)	4.5	4.0	12.2	770.3	-18.9	NA	Better than expected margins due to lower other expenses
Depreciation	61.2	65.8	68.9	-11.1	50.5	21.2	
Interest	6.0	5.7	8.8	-32.2	7.2	-16.6	
Other Income	32.6	1.3	1.9	NA	1.4	NA	
PBT	5.9	-28.6	116.7	NA	-151.9	NA	
Total Tax	1.8	-2.9	1.6	NA	-37.6	NA	
Reported PAT	4.0	-25.7	115.1	NA	-114.3	NA	

Source: ICICI Direct Research

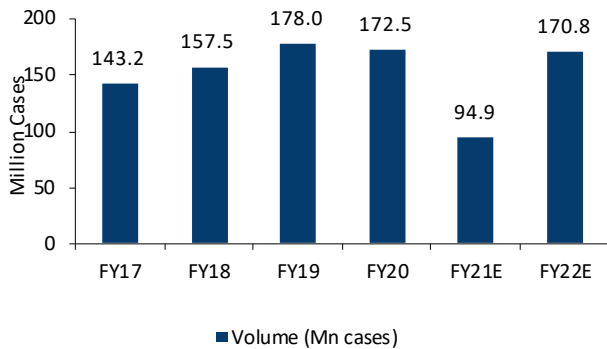
Exhibit 2: Change in estimates

(₹Crore)	FY21E					FY22E			
	FY 19	FY 20	Old	New	% Change	Old	New	% Change	
Revenue	6,475.4	6,509.2	5,472.6	3,971.1	-27.4	6,684.3	6,608.5	-1.1	FY 22E estimates largely unchanged
EBITDA	1,138.4	875.8	738.8	393.1	-46.8	1,102.9	1,057.4	-4.1	
EBITDA Margin (%)	18.8	13.5	13.5	9.9	-360 bps	16.5	16.0	-50 bps	
PAT	563.3	427.7	305.2	118.2	-61.3	602.6	534.6	-11.3	
EPS (₹)	21.3	16.2	11.5	4.5	-61.3	22.8	20.2	-11.3	

Source: Company, ICICI Direct Research

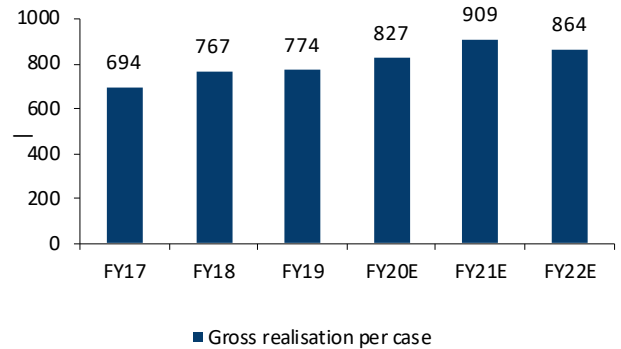
Key Metrics

Exhibit 3: Volumes expected to remain flat over FY20-22



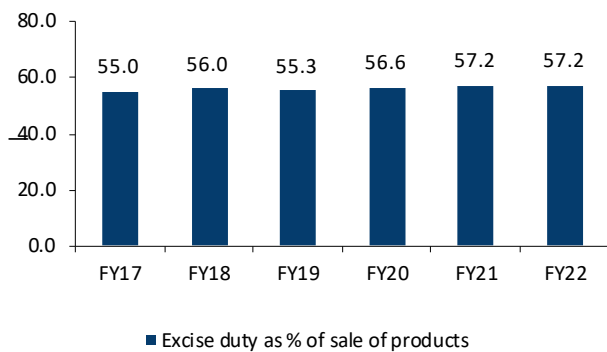
Source: ICICI Direct Research, Company

Exhibit 4: Gross realisation expected to remain strong



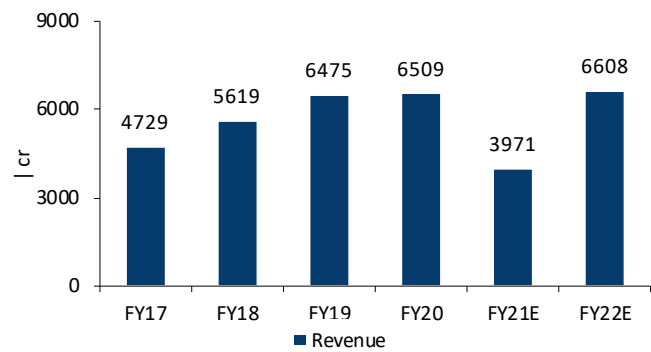
Source: ICICI Direct Research, Company

Exhibit 5: Excise duty expected to remain high across states



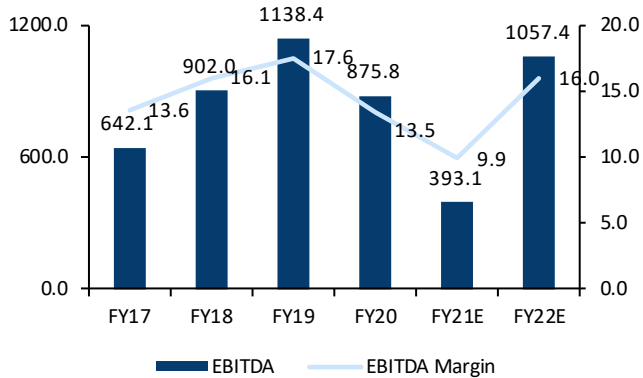
Source: ICICI Direct Research, Company

Exhibit 6: Net revenues to remain flat over FY20-22E



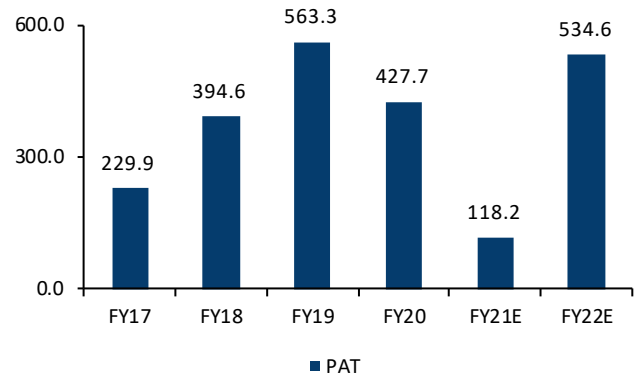
Source: ICICI Direct Research, Company

Exhibit 7: EBITDA expected to grow at 10% CAGR (FY20-22)



Source: Company, ICICI Direct Research

Exhibit 8: PAT expected to grow at 12% CAGR in FY20-22



Source: Company, ICICI Direct Research

Exhibit 9: Valuation ratios

	Sales (₹ cr)	Sales Growth (%)	EPS (₹)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY 17	4729.2	-2.3	8.7	-23.0	108.1	39.3	9.9	13.0
FY 18	5619.0	18.8	14.9	71.6	63.0	27.8	14.7	21.7
FY 19	6475.4	15.2	21.3	42.7	44.1	21.9	17.7	26.8
FY 20	6509.2	0.5	16.2	-24.1	58.1	28.5	12.2	15.9
FY 21E	3971.1	-39.0	4.5	-72.4	210.3	63.2	3.3	4.4
FY 22E	6608.5	66.4	20.2	352.3	46.5	23.8	13.3	16.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit & Loss Statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Income	6,475.4	6,509.2	3,971.1	6,608.5
Growth (%)	15.2	0.5	-39.0	66.4
COGS	2,917.3	2,966.1	1,906.1	3,039.9
Change in Inv, WIP & stock	90.4	185.1	0.0	0.0
Employee benefit expense	448.4	504.1	456.7	561.7
Selling & promotional expen	349.1	367.3	222.4	363.5
Other expense	1,531.9	1,610.9	992.8	1,586.0
EBITDA	1,138.4	875.8	393.1	1,057.4
Growth (%)	26.2	-23.1	-55.1	169.0
Depreciation	259.9	285.1	222.4	330.4
EBIT	878.5	590.7	170.8	726.9
Interest	31.2	31.1	52.0	46.6
Other Income	32.0	9.3	39.4	35.1
Exceptional Item	0.0	0.0	0.0	0.0
PBT	879.3	568.9	158.2	715.4
Tax	316.0	140.6	39.8	180.1
Reported PAT	563.3	428.3	118.4	535.3
Adjustments	0.0	0.6	0.2	0.7
Adjusted PAT	563.3	427.7	118.2	534.6
EPS	21.3	16.2	4.5	20.2

Source: ICICI Direct Research

Exhibit 11: Cash flow Statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	563.3	427.7	118.2	534.6
Add: Depreciation	259.9	285.1	222.4	330.4
Add: Interest Expense	31.2	31.1	52.0	46.6
Increase/(Decrease) in CL	302.6	-263.3	-200.1	327.9
(Increase)/Decrease in CA	-338.9	72.3	681.7	-813.0
CF from Operating Activities	642.8	507.8	874.1	426.6
Purchase of Fixed Assets	-436.6	-403.3	-330.1	-367.9
(Inc)/Dec in Investments	-140.8	-59.6	-307.2	-225.8
Others	181.0	11.0	0.0	0.0
CF from Investing Activities	-396.4	-451.9	-637.3	-593.7
Inc/(Dec) in Loan Funds	-129.6	87.6	120.0	-30.0
Inc/(Dec) in Sh. Cap. & Res	0.0	0.0	0.0	0.0
Less: Dividend & Dividend	-63.7	-80.0	-81.9	-81.9
Others	-31.2	-31.1	-52.0	-46.6
CF from financing activities	-224.5	-23.5	-14.0	-158.6
Op. Cash and cash Eq.	24.2	46.2	78.6	301.4
Cl. Cash and cash Eq.	46.2	78.6	301.4	-24.3

Source: ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Source of Funds				
Equity Capital	26.4	26.4	26.4	26.4
Reserves & Surplus	3,157.3	3,493.8	3,530.1	3,982.7
Shareholder's Fund	3,183.8	3,520.3	3,556.5	4,009.2
Long term Loan Funds	75.4	8.9	158.9	158.9
Provisions	11.2	27.9	27.9	27.9
Total Current Liabilities	2,099.6	1,990.4	1,760.3	2,058.2
Short term borrowings	6.0	160.2	130.2	100.2
Trade payables	590.2	545.0	319.2	620.9
Other current liabilities	1,422.4	1,195.4	1,219.3	1,243.7
Provisions	81.0	89.9	91.7	93.5
Source of Funds	5,384.4	5,550.8	5,507.0	6,257.5
Application of Funds				
Gross Block	4,080.3	4,507.7	4,857.7	5,207.7
Less: Acc. Depreciation	2,327.4	2,605.8	2,828.2	3,158.6
Net Block	1,752.9	1,901.9	2,029.5	2,049.1
Capital WIP	189.9	199.1	179.2	197.1
Goodwill & Other Intangible:	51.2	48.1	48.1	48.1
Investments	0.3	0.3	400.3	700.3
Inventories	1,032.5	1,093.9	736.6	1,034.8
Debtor	1,511.0	1,350.4	982.2	1,448.8
Cash	46.2	78.6	301.4	-24.3
Loan & Advance, Other CA	411.8	438.6	482.4	530.6
Total Current assets	3,001.4	2,961.5	2,502.6	2,990.0
Application of Funds	5,384.4	5,550.8	5,507.0	6,257.5

Source: ICICI Direct Research

Exhibit 13: Key Ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
Book Value	120.4	133.1	134.5	151.6
Cash per share	1.7	3.0	11.4	-0.9
EPS	21.3	16.2	4.5	20.2
Cash EPS	1.2	1.2	2.0	1.8
DPS	2.0	2.5	2.5	2.5
Profitability & Operating Ratios				
EBITDA Margin (%)	17.6	13.5	9.9	16.0
PAT Margin (%)	8.7	6.6	3.0	8.1
Fixed Asset Turnover (x)	3.5	3.3	1.8	2.9
Inventory Turnover (Days)	26.7	27.3	30.0	25.0
Debtor (Days)	39.0	33.6	40.0	35.0
Creditors (Days)	15.2	13.6	13.0	15.0
Return Ratios (%)				
RoE	17.7	12.2	3.3	13.3
RoCE	26.8	15.9	4.4	16.9
RoIC	27.3	16.4	5.4	20.2
Valuation Ratios (x)				
P/E	44.1	58.1	210.3	46.5
Price to Book Value	7.8	7.1	7.0	6.2
EV/EBITDA	21.9	28.5	63.2	23.8
EV/Sales	3.8	3.8	6.3	3.8
Leverage & Solvency Ratios				
Debt to equity (x)	0.0	0.0	0.1	0.1
Interest Coverage (x)	28.2	19.0	3.3	15.6
Debt to EBITDA (x)	0.1	0.2	0.7	0.2
Current Ratio	1.4	1.5	1.4	1.5

Source: ICICI Direct Research

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