

Early trend of premiumisation back on track...

USL reported results with a faster than expected recovery QoQ in volumes (leading to mere 3.4% YoY decline in volumes), in spite of the continued closure of on-trade channels in various states, higher taxation post-Covid scenario and also contraction in the business in Andhra Pradesh. The recovery also saw higher growth in the P&A segment (up 116% QoQ and flat YoY) compared to the popular segment (up 90% QoQ but down 7% YoY). The company also increased its A&P expenses during the quarter, to launch its two renovated core brands (McDowell's No 1 and Royal Challenge). Going ahead, the company remains cautiously optimistic on opening of on-trade channels and festive season (but social distancing norms could negatively affect volumes YoY).

Volume growth ahead of industry

Volumes doubled QoQ leading to mere 3.4% YoY decline vs. 9-10% de-growth in the liquor industry in Q2 and compared to double digit decline for its major competitor Pernod Ricard. Also, USL saw more than doubling of P&A volumes QoQ leading to flat YoY growth, mainly due to improved price positioning in the market, strong growth seen in the scotch portfolio and a weak base YoY (2.9% growth). While strong sales indicate a festive element to it (channel filling), the larger trends of premiumisation (even without support of on-trade channels) show the strength of USL premium brand equity. Popular segment, on the other hand, although showed strong recovery, still fell 7% YoY, as price conscious buyers were impacted by higher excise hikes. Overall, we expect volumes to grow at 6% CAGR, with P&A posting higher growth (for H1, premiumisation is at 69% of net sales).

Newer brand launches continue to drive topline growth

USL has 80 brands of Scotch, IMFL, brandy, rum, vodka and gin; of which, 11 brands sell more than a million cases annually. During H1, USL re-launched its two biggest prestige segment brands McDowell's No. 1 and Royal Challenge with an innovative packaging and new blends, both of which supported the popular segment topline recovery in Q2. USL also continues to invest in innovations in P&A segment such as the "Hipster" (launched last year), which brings pocket sized portable scotch whisky that appeals to the younger customer and price conscious customers.

Valuation & Outlook

On the balance sheet front, the management has improved its WC position, thereby lowering net debt in H1FY21 by ₹ 780 crore (short term debt) and also, improved its CFO generation (2.5% yield for H1 CF). Going ahead, pick-up in consumption due to festive season and opening of on-trade channels remain key triggers for the stock, along with long term trend of home delivery of alcohol. The management has displayed discipline and prudence in addressing the evolving consumer needs. We value the stock at ~40x FY22 EPS and maintain our target price of ₹ 650 with a **BUY** rating.

Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	CAGR (%)
Net Sales	8590.6	9340.8	9325.4	8502.6	10514.4	6.2
EBITDA	1207.2	1393.6	1572.3	1071.3	1892.6	9.7
EBITDA margin (%)	14.1	14.9	16.9	12.6	18.0	
PAT	633.8	700.2	658.9	440.9	1188.7	34.3
P/E (x)	61.3	56.3	61.8	88.2	32.7	
Market cap to Sales (x)	4.5	4.2	4.2	4.6	3.7	
RoCE (%)	22.4	21.0	23.8	15.2	27.5	

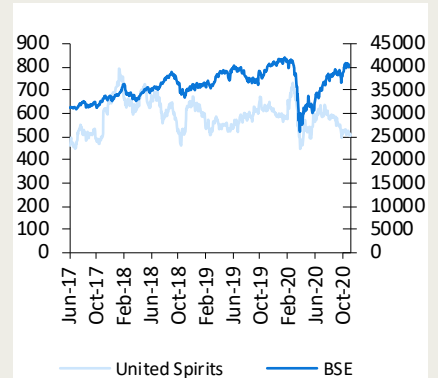
UNITED SPIRITS

A DIAGEO Group Company

Particulars

Particular	Amount
Market Capitalization (₹cr)	37,051.5
Total Debt (FY 20P) (₹cr)	1,620.7
Cash (FY 20P) (₹cr)	73.5
EV (₹cr)	38,598.7
52 week H/L	743/442
Equity Capital (₹cr)	145.3
Face Value (₹)	2.0

Price Performance



Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20	Sep-20
Promote	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	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Revenue	2,146.0	1,853.6	2,296.2	-6.5	1,030.2	108.3	QoQ revenues doubled mainly due to strong performance in both P&A and popular segment
Consumption of RM	1,241.8	1,056.5	1,263.7	-1.7	601.1	106.6	Gross margins came in at 42.1% but adjusting for one-time AP state inventory provision, GM came in at 43.2%
Employee Expenses	140.0	129.7	146.1	-4.2	120.3	16.4	
A&P Expenses	183.5	166.8	173.4	5.8	51.8	254.2	Advertisement expenses were higher on absolute basis due to launch of two core renovated whisky
Other Expense	310.9	315.1	297.4	4.5	334.6	-7.1	
Total Expense	1,876.2	1,668.2	1,880.6	-0.2	1,107.8	69.4	
EBITDA	269.8	185.4	415.6	-35.1	-77.6	PL	
EBITDA Margin (%)	12.6	10.0	18.1	-553 bps	-7.5	2010 bps	
Depreciation	57.1	65.8	57.3	-0.3	63.8	-10.5	
Interest	50.7	48.8	45.2	12.2	49.9	1.6	Interest cost was higher YoY due to one-off reversal in base quarter
Other Income	12.8	6.8	13.7	-6.6	9.5	34.7	
Exceptional Gain/Loss	0.0	0.0	0.0	NA	-75.0	NA	
PBT	174.8	77.6	326.8	-46.5	-256.8	PL	
Total Tax	46.3	19.5	102.2	-54.7	-41.5	-211.6	
PAT	128.5	58.0	224.6	-42.8	-215.3	PL	
Key Metrics	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	
P & above vol (Mn cases)	10.8	8.6	10.8	0.0	5.0	116.0	Strong QoQ growth in spite of closure of on-trade channels in several states, due to strong momentum in scotch segment and better relative pricing
Regular total volume (mn cases)	9.1	7.8	9.8	-7.1	4.8	89.6	QoQ core renovated brands supported growth
	19.9	16.5	20.6	-3.4	9.8	103.1	

Source: ICICI Direct Research

Exhibit 2: Change in estimates

FY19	FY21E			FY22E			Comments		
	FY19	FY20	Old	New	% Change	Old		New	% Change
Revenue	9,340.8	9,325.4	8,545.9	8,502.6	-0.5	9,934.4	10,514.4	5.8	FY22E estimates revised upwards due to strong P&A performance
EBITDA	1,393.6	1,572.3	1,025.5	1,071.3	4.5	1,778.3	1,892.6	6.4	
EBITDA Margin (%)	14.9	16.9	12.0	12.6	60 bps	17.9	18.0	10 bps	
PAT	690.5	628.6	414.0	440.9	6.5	1,116.9	1,188.7	6.4	
EPS (₹)	9.5	8.7	5.7	6.1	6.5	15.4	16.4	6.4	

Source: Company, ICICI Direct Research

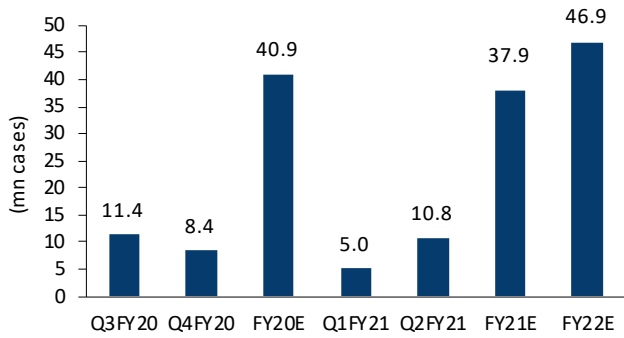
Exhibit 3: Assumptions

	Current		Earlier		Comments		
	FY19	FY20	FY21E	FY22E			
Volume (Standalone) Cr Cases	8.2	8.0	7.4	9.0	7.3	9.1	FY22E volumes kept largely unchanged
Volume Growth (%)	3.9	1.5	-9.0	21.1	-10.9	24.8	
Net Realisation (standalone) ₹/case	1,070	1,090	1,099	1,128	1,115	1,147	
Realisation Growth (%)	2.9	4.9	2.8	2.6	4.3	2.9	

Source: ICICI Direct Research, Company

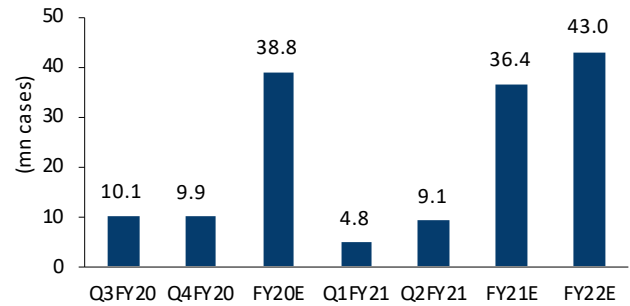
Key Metrics

Exhibit 4: P&A expected to grow at 7% CAGR (FY20-22)



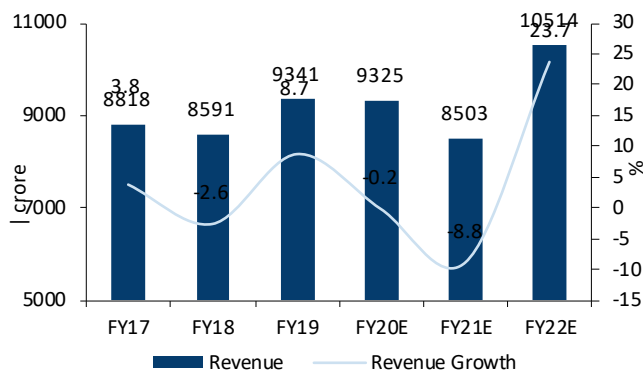
Source: ICICI Direct Research, Company

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



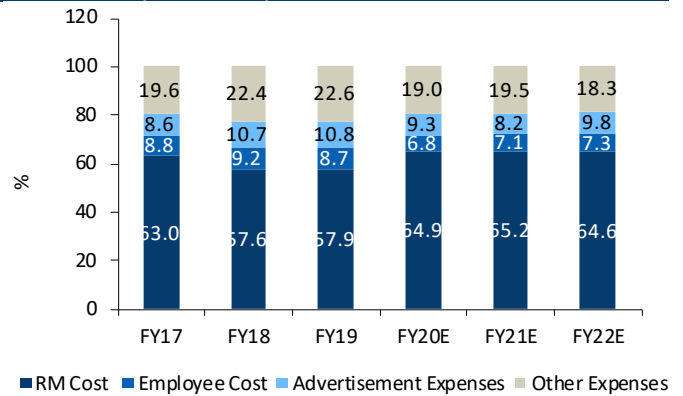
Source: ICICI Direct Research, Company

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



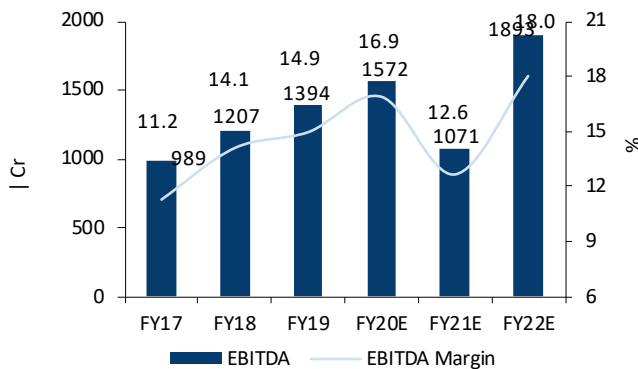
Source: ICICI Direct Research, Company

Exhibit 7: Expense composition



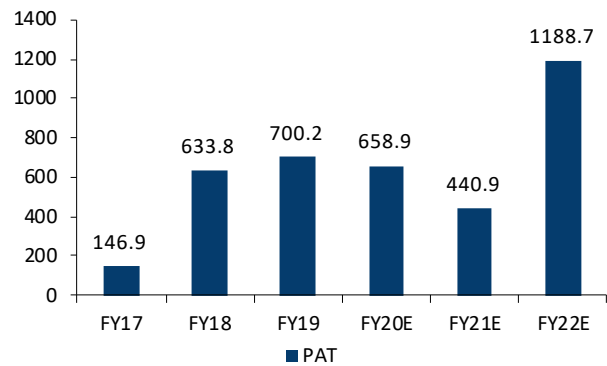
Source: ICICI Direct Research, Company

Exhibit 8: EBITDA expected to grow at 10% CAGR (FY20-22)



Source: Company, ICICI Direct Research

Exhibit 9: PAT expected to grow at 34% CAGR in FY20-22



Source: Company, ICICI Direct Research

Exhibit 10: Valuation ratios

	Sales (₹ cr)	Sales Growth (%)	EPS (₹)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
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	56.3	32.1	22.7	21.0
FY20	9325.4	-0.2	8.7	-9.0	61.8	27.8	17.7	23.8
FY21E	8502.6	-8.8	6.1	-29.9	88.2	40.1	10.6	15.2
FY22E	10514.4	23.7	16.4	169.6	32.7	22.4	22.2	27.5

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	8,502.6	10,514.4
Growth (%)	8.7	-0.2	-8.8	23.7
Cost of materials cons	4,603.4	5,028.9	4,846.5	5,572.6
Employee benefit exp	689.8	530.0	527.2	630.9
Advertisement&Promo	859.1	717.3	612.2	841.2
Other Expenses	1,794.9	1,476.9	1,445.4	1,577.2
EBITDA	1,393.6	1,572.3	1,071.3	1,892.6
Growth (%)	15.4	12.8	-31.9	76.7
Depreciation	214.7	285.3	283.5	300.7
EBIT	1,178.9	1,287.0	787.9	1,591.9
Interest	237.2	212.0	168.1	54.7
Other Income	69.2	22.0	44.5	51.4
Exceptional Item	2.6	66.6	-75.0	0.0
PBT	1,013.5	1,163.6	589.2	1,588.5
Tax	328.1	539.7	148.3	399.8
Reported PAT	685.4	623.9	440.9	1,188.7
Adjustments	14.8	35.0	0.0	0.0
Adjusted PAT	700.2	658.9	440.9	1,188.7
EPS	9.5	8.7	6.1	16.4

Source: ICICI Direct Research

Exhibit 12: Cash flow Statement ₹ crore

(Year-end March)	FY19	FY20P	FY21E	FY22E
Profit after Tax	700.2	658.9	440.9	1,188.7
Add: Depreciation	214.7	285.3	283.5	300.7
Add: Interest paid	237.2	212.0	168.1	54.7
Cash Profit	914.9	944.2	724.4	1,489.4
Increase/(Decrease) in	-308.5	240.8	-211.5	186.2
(Increase)/Decrease in	499.3	184.1	221.6	-823.7
Others	-394.6	-797.9	0	0
CF from Operating Act	948.3	783.2	902.6	906.6
Purchase of Fixed Ass	-76.8	-211.6	-156.1	-156.4
(Inc)/Dec in Investment	0.0	-149.8	-106.8	-159.6
Others	-129.5	85.0	217.8	58.9
CF from Investing Acti	-206.3	-276.4	-45.1	-257.1
Inc/(Dec) in Loan Fund	-477.9	-1,249.1	-500.0	-700.0
Inc/(Dec) in Sh. Cap. &	0.0	0.0	0.0	0.0
Less: Interest paid	-237.2	-212.0	-168.1	-54.7
Others	0.0	744.9	0.0	0.0
CF from financing activ	-715.1	-716.2	-668.1	-754.7
Op. Cash and cash Eq	256.0	282.9	73.5	262.9
Adjustments	0	0	0	0
Cl. Cash and cash Eq.	282.9	73.5	262.9	157.7

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	4,023.6	5,212.3
Shareholder's Fund	3,090.3	3,728.0	4,168.9	5,357.6
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	3,127.7	3,313.9
Source of Funds	9,108.9	8,851.3	8,601.2	9,298.6
Application of Funds				
Gross Block	2,094.1	2,315.0	2,465.0	2,615.0
Less: Acc. Depreciated	675.9	961.2	1,244.7	1,545.4
Net Block	1,418.2	1,353.8	1,220.3	1,069.6
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 Investments	47.9	40.3	90.3	190.3
Deferred Tax Assets	290.0	159.0	0.0	0.0
Long term loans & adv	978.7	1,136.1	1,192.9	1,252.6
Other Non current as	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	1,747.1	2,160.5
Debtor	2,542.5	2,283.5	2,213.0	2,592.6
Cash	282.9	73.5	262.9	157.7
Loan & Advance, Oth	504.1	585.8	615.1	645.8
Total Current assets	5,263.8	4,870.3	4,838.1	5,556.6
Application of Funds	9,108.9	8,851.3	8,601.2	9,298.6

Source: ICICI Direct Research

Exhibit 14: Key Ratios

(Year-end March)	FY19	FY20P	FY21E	FY22E
Per share data (₹)				
Book Value	42.5	51.3	57.4	73.7
Cash per share	3.9	1.0	3.6	2.2
EPS	9.5	8.7	6.1	16.4
Cash EPS	12.6	13.0	10.0	20.5
DPS	0.0	0.0	0.0	0.0
Profitability & Operating Ratios				
EBITDA Margin (%)	14.9	16.9	12.6	18.0
PAT Margin (%)	7.5	7.1	5.2	11.3
Fixed Asset Turnover (x)	4.5	4.0	3.4	4.0
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	10.6	22.2
RoCE	21.0	23.8	15.2	27.5
RoIC	20.9	24.6	16.0	29.3
Valuation Ratios (x)				
P/E	56.3	61.8	88.2	32.7
Price to Book Value	13.6	11.3	10.1	7.9
EV/EBITDA	32.1	27.8	40.1	22.4
EV/Sales	4.8	4.7	5.1	4.0
Leverage & Solvency Ratios				
Debt to equity (x)	0.9	0.4	0.3	0.1
Interest Coverage (x)	5.0	6.1	4.7	29.1
Debt to EBITDA (x)	2.2	1.8	1.5	0.6
Current Ratio	1.7	1.5	1.5	1.7

Source: ICICI Direct Research

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