

Sharp QoQ recovery in volumes

United Breweries (UBL) continued its upward performance trajectory in Q3FY21, leading to 85% normalisation in volumes (up 31% QoQ). The recovery in volumes was further assisted by a better state mix and benign input costs, leading to better-than-expected EBITDA margins (13.4% vs. 9% estimated and 4.5% in Q2FY21). Also, adjusting for the ₹ 23 crore non-recurring provision created for doubtful debtors/potential expiry of stock, EBITDA margins reached 15.6% levels. Subsequently, absolute EBITDA came in at ₹ 174 crore (up 3.3 x QoQ but down 21% YoY). The company also recorded an exceptional income of ₹ 55 crore due to transfer of its rights and interest in a leasehold land property.

Normalisation in on-trade channels to provide further boost

On-trade channels (pubs, restaurants) saw limited footfalls during the quarter (restriction placed to follow social distancing norms). The channel contributes ~20% to the volume base for UBL. Beer being bulky in nature and requiring refrigeration, suffered with respect to liquor in the Covid scenario of greater in-home consumption. With further state wise relaxation in distancing norms, we expect the beer sector to regain its lost market share from the liquor sector. Also, 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.

Sequential recovery seen in most priority states

Strong beer volumes, towards which the beer sector is already heavily skewed, saw further gain in market share vs mild. UBL saw its volumes doubling in West Bengal, amid its favourable excise policy towards beer sector (weak base). Sequential growth was seen in regions like Uttarakhand, Madhya Pradesh, Jharkhand, North East, Karnataka, Haryana and Himachal Pradesh. Tamil Nadu and rest of Maharashtra remained flat. However, other regions in northern India remained a laggard. We expect beer volumes to grow at 4% CAGR in FY20-23.

Valuation & Outlook

UBL continues to have a robust balance sheet with virtually debt free position (net cash of ₹ 97 crore) by building up a stronger WC position, cost control measures and lowered capex requirement. It also has dominant 52-53% market share in the beer sector. The management has also displayed discipline and prudence when dealing with evolving customer needs via broad portfolio and wide reach. Being an underpenetrated segment (per capita ~2 litre consumption) and a youth centric status of ready to drink social drink, enables the sector to have long term growth potential. We maintain **BUY** rating on the stock with a revised target price of ₹ 1490 (earlier ₹ 1120).

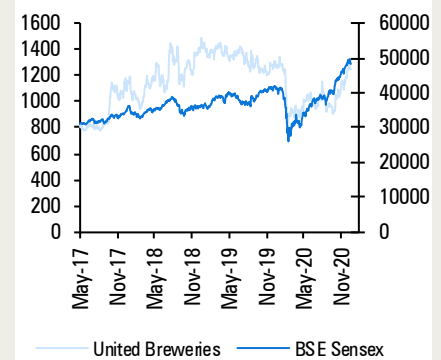


UNITED BREWERIES LIMITED

Particulars

Particular	Amount
Market Capitalization (₹ cr)	34,372.7
Total Debt (FY20) (₹ cr)	169.1
Cash (FY20) (₹ cr)	78.6
EV (₹ cr)	34,463.1
52 week H/L	1396/750
Equity Capital (₹ Crore)	26.4
Face Value (₹)	1.0

Price Performance



Key Risks to our call

- 1) Slower than expected footfall pick-up in on-trade channels
- 2) Hardening of raw material prices (barley and glass)

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Key Financial Summary

₹ crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR (%)
Net Sales	6475.4	6509.2	4105.4	7044.7	8107.9	5.8
EBITDA	1138.4	875.8	361.3	1091.9	1354.0	4.4
PAT	563.3	427.7	154.0	606.5	798.6	9.1
P/E (x)	61.0	80.4	223.2	56.7	43.0	
Market cap to Sales (x)	5.3	5.3	8.4	4.9	4.2	
RoCE (%)	26.8	15.9	3.5	18.4	20.7	
RoE (%)	17.7	12.2	4.3	14.7	16.5	

Source: Company, ICICI Direct research

Exhibit 1: Variance Analysis

₹ Crore	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Revenue	1,289.7	1,144.5	1,453.3	-11.3	900.6	43.2	QoQ recovery due to 31% volume growth (although YoY volumes yet to normalise)
Consumption of Raw material	577.7	537.9	635.1	-9.0	402.4	43.6	
Purchase of traded goods	17.3	0.0	52.6	NA	27.6	-37.4	
Employee Cost	124.1	125.9	125.4	-1.0	109.9	13.0	
Other Expenditure	397.2	377.7	419.4	-5.3	320.4	24.0	Contains non-recurring provision of ₹ 23 crore as a proactive measure against doubtful debtor/potential expiry of stocks
Total Expense	1,116.3	1,041.5	1,232.5	-9.4	860.2	29.8	
EBITDA	173.5	103.0	220.8	-21.4	40.4	329.0	
EBITDA Margin (%)	13.4	9.0	15.2	-174.1	4.5	895.9	Adjusted for the non-recurring provision, margins came at 15.6%
Depreciation	57.8	68.8	73.5	-21.3	61.2	-5.5	
Interest	5.3	4.8	9.9	-46.0	6.0	-10.4	
Other Income	4.6	29.3	3.5	33.9	32.6	-85.8	
Exceptional item	55.0	0.0	0.0	NA	0.0	NA	Exceptional gain due to UBL transfer of its rights and interest in a leasehold land property
PBT	169.9	58.7	140.8	20.7	5.9	NA	
Total Tax	43.5	5.9	34.4	26.5	1.8	NA	
Reported PAT	126.4	52.9	106.4	18.8	4.0	NA	

Source: ICICI Direct Research

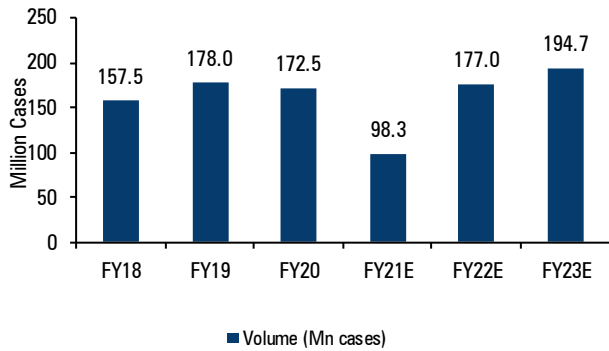
Exhibit 2: Change in estimates

₹ Crore)	FY19	FY20	FY21E			FY22E			FY23E	
			Old	New	% Change	Old	New	% Change	Introduced	
Revenue	6,475.4	6,509.2	3,971.1	4,105.4	3.4	6,608.5	7,044.7	6.6	8,107.9	Estimates improved topline due to better than expected volumes in Q3FY21
EBITDA	1,138.4	875.8	393.1	361.3	-8.1	1,057.4	1,091.9	3.3	1,354.0	
EBITDA Margin (%)	18.8	13.5	9.9	8.8	-110 bps	16.0	15.5	-50 bps	16.7	Margins expected to remain rangebound at 15-17% levels
PAT	563.3	427.7	118.2	154.0	30.3	534.6	606.5	13.4	798.6	
EPS (₹)	21.3	16.2	4.5	5.8	29.4	20.2	22.9	13.6	30.2	PAT benefitted from lower depreciation and higher other income

Source: Company, ICICI Direct Research

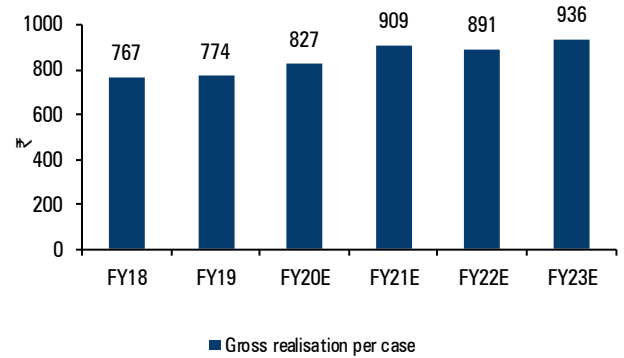
Key Metrics

Exhibit 3: Volumes expected to grow at 4% CAGR in FY20-23



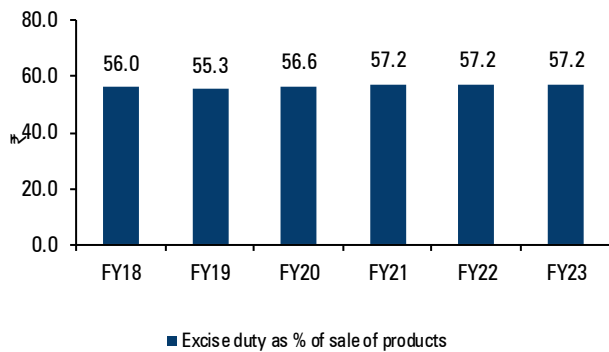
Source: ICICI Direct Research, Company

Exhibit 4: Gross realisation expected to remain strong



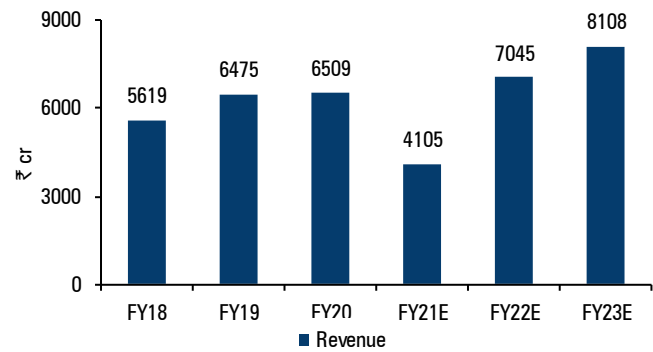
Source: ICICI Direct Research, Company

Exhibit 5: Excise duty expected to remain high across states



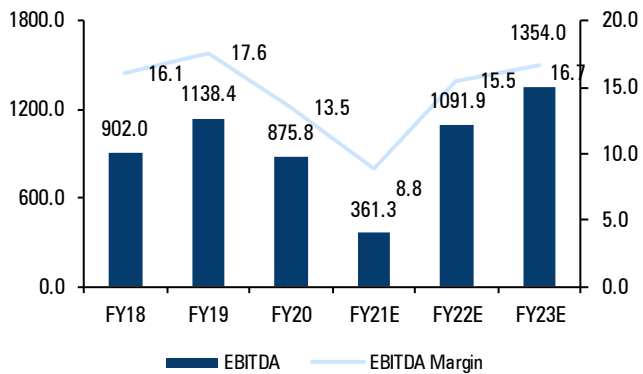
Source: ICICI Direct Research, Company

Exhibit 6: Net revenues to grow at 8% CAGR over FY20-22E



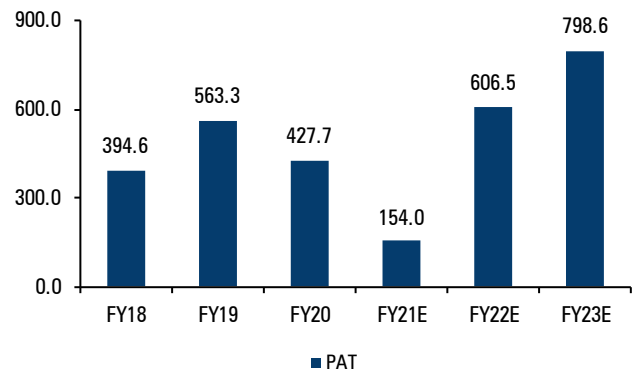
Source: ICICI Direct Research, Company

Exhibit 7: EBITDA expected to grow at 16% CAGR (FY20-23)



Source: Company, ICICI Direct Research

Exhibit 8: PAT expected to grow at 23% CAGR in FY20-23



Source: Company, ICICI Direct Research

Exhibit 9: Valuation ratios

	Sales (₹ cr)	Sales Growth (%)	EPS (₹)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	6475.4	15.2	21.3	42.7	61.0	30.2	17.7	26.8
FY20	6509.2	0.5	16.2	-24.1	80.4	39.3	12.2	15.9
FY21E	4105.4	-36.9	5.8	-64.0	223.2	95.4	4.3	3.5
FY22E	7044.7	71.6	22.9	293.8	56.7	31.6	14.7	18.4
FY23E	8107.9	15.1	30.2	31.7	43.0	25.4	16.5	20.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit & Loss Statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Income	6,509.2	4,105.4	7,044.7	8,107.9
Growth (%)	0.5	-36.9	71.6	15.1
COGS	2,966.1	1,970.6	3,240.5	3,729.7
Change in Inv, WIP & stock in t	185.1	0.0	0.0	0.0
Employee benefit expense	504.1	476.2	563.6	632.4
Selling & promotional expenses	367.3	229.9	387.5	445.9
Other expense	1,610.9	1,067.4	1,761.2	1,945.9
EBITDA	875.8	361.3	1,091.9	1,354.0
Growth (%)	-23.1	-58.8	202.2	24.0
Depreciation	285.1	229.9	306.4	324.3
EBIT	590.7	131.4	785.5	1,029.7
Interest	31.1	25.4	23.2	17.8
Other Income	9.3	45.2	49.3	56.8
Exceptional Item	0.0	55.0	0.0	0.0
PBT	568.9	206.1	811.6	1,068.6
Tax	140.6	51.9	204.3	269.0
Reported PAT	428.3	154.2	607.3	799.7
Adjustments	0.6	0.2	0.8	1.0
Adjusted PAT	427.7	154.0	606.5	798.6
EPS	16.2	5.8	22.9	30.2

Source: ICICI Direct Research

Exhibit 11: Cash flow Statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	427.7	154.0	606.5	798.6
Add: Depreciation	285.1	229.9	306.4	324.3
Add: Interest Expense	31.1	25.4	23.2	17.8
Increase/(Decrease) in CL	-263.3	-187.6	360.1	129.7
(Increase)/Decrease in CA	72.3	621.5	-920.4	-458.7
CF from Operating Activities	507.8	843.3	375.8	811.7
Purchase of Fixed Assets	-403.3	-330.1	-367.9	-369.7
(Inc)/Dec in Investments	-59.6	-407.2	74.2	-240.6
Others	11.0	0.0	0.0	0.0
CF from Investing Activities	-451.9	-737.3	-293.7	-610.3
Inc/(Dec) in Loan Funds	87.6	-10.0	-30.0	-30.0
Inc/(Dec) in Sh. Cap. & Res.	0.0	0.0	0.0	0.0
Less: Dividend & Dividend Tax	-80.0	-81.9	-81.9	-81.9
Others	-31.1	-25.4	-23.2	-17.8
CF from financing activities	-23.5	-117.4	-135.2	-129.8
Op. Cash and cash Eq.	46.2	78.6	67.2	14.2
Cl. Cash and cash Eq.	78.6	67.2	14.2	85.8

Source: ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Source of Funds				
Equity Capital	26.4	26.4	26.4	26.4
Reserves & Surplus	3,493.8	3,565.9	4,090.4	4,807.1
Shareholder's Fund	3,520.3	3,592.3	4,116.9	4,833.5
Long term Loan Funds	8.9	28.9	28.9	28.9
Provisions	27.9	29.3	30.7	32.3
Total Current Liabilities	1,990.4	1,771.5	2,100.1	2,198.3
Short term borrowings	160.2	130.2	100.2	70.2
Trade payables	545.0	330.4	662.8	764.2
Other current liabilities	1,195.4	1,219.3	1,243.7	1,268.6
Provisions	89.9	91.7	93.5	95.4
Source of Funds	5,550.8	5,425.3	6,280.0	7,096.3
Application of Funds				
Gross Block	4,507.7	4,857.7	5,207.7	5,557.7
Less: Acc. Depreciation	2,605.8	2,835.7	3,142.2	3,466.5
Net Block	1,901.9	2,022.0	2,065.5	2,091.2
Capital WIP	199.1	179.2	197.1	216.8
Goodwill & Other Intangibles	48.1	48.1	48.1	48.1
Investments	0.3	500.3	500.3	800.3
Inventories	1,093.9	762.4	1,104.6	1,273.7
Debtor	1,350.4	1,016.5	1,546.5	1,783.1
Cash	78.6	67.2	14.2	85.8
Loan & Advance, Other CA	438.6	482.4	530.6	583.7
Total Current assets	2,961.5	2,328.5	3,195.9	3,726.3
Application of Funds	5,550.8	5,425.3	6,280.0	7,096.3

Source: ICICI Direct Research

Exhibit 13: Key Ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Book Value	133.1	135.9	155.7	182.8
Cash per share	3.0	2.5	0.5	3.2
EPS	16.2	5.8	22.9	30.2
Cash EPS	1.2	1.0	0.9	0.7
DPS	2.5	2.5	2.5	2.5
Profitability & Operating Ratios				
EBITDA Margin (%)	13.5	8.8	15.5	16.7
PAT Margin (%)	6.6	3.8	8.6	9.8
Fixed Asset Turnover (x)	3.3	1.9	3.1	3.3
Inventory Turnover (Days)	27.3	30.0	25.0	25.0
Debtor (Days)	33.6	40.0	35.0	35.0
Creditors (Days)	13.6	13.0	15.0	15.0
Return Ratios (%)				
RoE	12.2	4.3	14.7	16.5
RoCE	15.9	3.5	18.4	20.7
RoIC	16.4	4.1	21.1	25.4
Valuation Ratios (x)				
P/E	80.4	223.2	56.7	43.0
Price to Book Value	9.8	9.6	8.3	7.1
EV/EBITDA	39.3	95.4	31.6	25.4
EV/Sales	5.3	8.4	4.9	4.2
Leverage & Solvency Ratios				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	19.0	5.2	33.8	57.8
Debt to EBITDA (x)	0.2	0.4	0.1	0.1
Current Ratio	1.5	1.3	1.5	1.7

Source: ICICI Direct Research

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