

P&A volumes continue to strengthen...

United Spirits continued its strong momentum in Q3, reporting 7% QoQ improvement in volumes, led by resilience in the off-trade channels and slow pick-up in on-trade channels. The recovery is also to be seen in the context of a strong YoY comparable quarter (reported flat volumes YoY). USL also improved its gross margins during the quarter (better than both estimates and comparable QoQ, YoY), led by benign commodity costs and higher productivity. A&P expenses remained at higher levels due to continued marketing for greater on-home premises consumption and renovating core brands. Despite the rebound in performance, the management remains cautiously optimistic due to continued uncertainty in the medium term.

Uptick in volumes in spite of continued operational challenges

Social events during Q3 (marriages, festive season) saw impact of social distancing norms and limits placed on guest's allowance. Also, on-trade channels saw slower uptick in footfalls. In spite of headwinds (also includes RTM changes in AP and higher Covid led taxation), USL reported flat volume growth YoY, mainly due to its brand resilience, which led to greater consumption in off-trade channels. P&A segment grew 6% QoQ and flat YoY, indicating the larger trends of premiumisation (even without support of on-trade channels). Popular segment also saw 9% QoQ rebound in volumes (-2% YoY). We expect USL volumes to grow at 7% CAGR, with P&A posting higher growth than the popular segment.

Higher A&P expense to support volume growth

USL continued to reinvest and renovate its biggest core brands i.e. McDowell's No. 1 and Royal Challenge with an innovative packaging and new blends, even during the pandemic. A&P expense continued at healthy 8-9% levels during Q2 and Q3, which supported the volume growth seen in the P&A and popular segment. The management also focused its resources on capitalising newer trends such as consumption in the home premises and with family members. USL has 80 brands of Scotch, IMFL, brandy, rum, vodka and gin; of which, 11 brands sell more than a million cases annually.

Valuation & Outlook

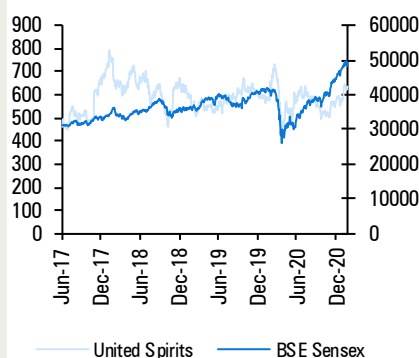
USL reported a continued reduction in its overall debt by selling its non-core assets and improved its WC position. While in the short to medium term, uncertainty continues to remain over the evolving situation in the on-trade channels and pickup in the home consumption, the longer term growth aspiration and continued premiumisation trends remain key positives for the liquor sector. USL continues to invest in increasing its brand strength and propel its Premium brands to higher share of its revenues (currently at 70%). We value the stock at ~39x FY23 EPS and revise our target price to ₹ 710 (earlier target price ₹ 650). We maintain our **BUY** rating.

UNITED SPIRITS
A DIAGEO Group Company

Particulars

Particular	Amount
Market Capitalization (₹ cr)	44,316.5
Total Debt (FY20) (₹ cr)	1,620.7
Cash (FY20) (₹ cr)	73.5
EV (₹ cr)	45,863.7
52 week H/L	743/442
Equity Capital (₹ cr)	145.3
Face Value (₹)	2.0

Price Performance



Key Risks to our call

- 1) Higher than expected inflation in the raw material prices
- 2) Continued social distancing norms in restaurants, pubs and social events

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Key Financial Summary

₹ crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR (%)
Net Sales	9340.8	9325.4	8232.9	10592.5	11895.1	6.2
EBITDA	1393.6	1572.3	971.5	1737.2	2034.1	9.9
EBITDA margin (%)	14.9	16.9	11.8	16.4	17.1	
PAT	700.2	658.9	408.9	1075.4	1334.6	17.5
P/E (x)	64.2	70.5	108.4	41.2	33.2	
Market cap to Sales (x)	4.7	4.8	5.4	4.2	3.7	
RoCE (%)	21.0	23.8	14.5	25.0	25.9	
RoE (%)	22.3	16.9	9.9	20.6	20.4	

Exhibit 1: Variance Analysis

Standalone	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Revenue	2,488.7	2,501.6	2,582.5	-3.6	2,146.0	16.0	QoQ strong pick-up due to improved consumer sentiments and focus on in-home consumption of brands
Consumption of RM	1,378.5	1,425.9	1,436.6	-4.0	1,241.8	11.0	Higher gross margins due to benign commodity prices along with continued productivity
Employee Expenses	156.0	145.1	126.6	23.2	140.0	11.4	
A&P Expenses	234.6	225.1	251.1	-6.6	183.5	27.8	Advertisement expenses higher on absolute basis due to continued focus on renovating core brands
Other Expense	335.8	350.2	344.2	-2.4	310.9	8.0	
Total Expense	2,104.9	2,146.4	2,158.5	-2.5	1,876.2	12.2	
EBITDA	383.8	355.2	424.0	-9.5	269.8	42.3	
EBITDA Margin (%)	15.4	14.2	16.4	-100 bps	12.6	285 bps	
Depreciation	61.4	60.5	52.4	17.2	57.1	7.5	
Interest	37.7	48.8	45.5	-17.1	50.7	-25.6	Interest cost lower than estimated due to reduction in debt and lower interest rates
Other Income	19.4	11.2	17.6	10.2	12.8	51.6	
Exceptional Gain/Loss	0.0	0.0	0.0	NA	0.0	NA	
PBT	304.1	257.1	343.7	-11.5	174.8	74.0	
Total Tax	74.2	64.7	84.9	-12.6	46.3	60.3	
PAT	229.9	192.4	258.8	-11.2	128.5	78.9	

Key Metrics	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	
P & above vol (Mn cases)	11.4	11.2	11.4	0.0	10.8	5.6	Strong QoQ growth due to continued off-trade resilience and gradual opening of on-trade channels
Regular	9.9	9.8	10.1	-2.0	9.1	8.8	QoQ Core renovated brands supported the growth
Total volume (mn cases)	21.3	21.0	21.5	-0.9	19.9	7.0	

Source: ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E				FY22E			FY23E	Comments
(₹ Crore)	FY19	FY20	Old	New	% Change	Old	New	% Change	Introduced
Revenue	9,340.8	9,325.4	8,265.5	8,232.9	-0.4	10,254.4	10,592.5	3.3	11,895.1
EBITDA	1,393.6	1,572.3	1,041.5	971.5	-6.7	1,845.8	1,737.2	-5.9	2,034.1
EBITDA Margin (%)	14.9	16.9	12.6	11.8	-80 bps	18.0	16.4	-160 bps	17.1
PAT	690.5	628.6	418.6	408.9	-2.3	1,154.8	1,075.4	-6.9	1,334.6
EPS (₹)	9.5	8.7	5.8	5.6	-2.3	15.9	14.8	-6.9	18.4

Source: Company, ICICI Direct Research

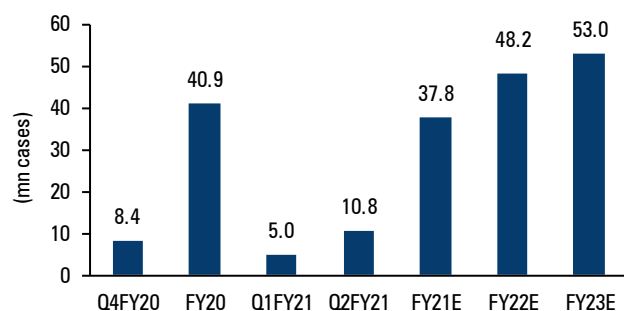
Exhibit 3: Assumptions

	Current				Earlier		Introduced	Comments
	FY19	FY20	FY21E	FY22E	FY21E	FY22E	FY23E	
Volume (Standalone) Cr Cases	8.2	8.0	7.1	8.9	7.3	8.8	9.7	Volumes estimates kept largely intact, introduced FY23 estimates
Volume Growth (%)	3.9	1.5	-12.4	24.5	-11.0	21.5	10.1	
Net Realisation (standalone) ₹/case	1,070	1,090	1,098	1,131	1,091	1,120	1,166	
Realisation Growth (%)	2.9	4.9	2.7	3.0	2.0	2.7	4.1	

Source: ICICI Direct Research, Company

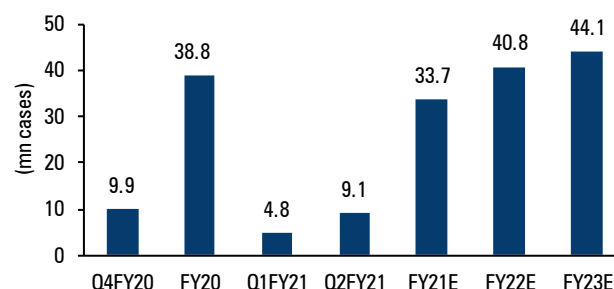
Key Metrics

Exhibit 4: P&A expected to grow at 9% CAGR (FY20-23)



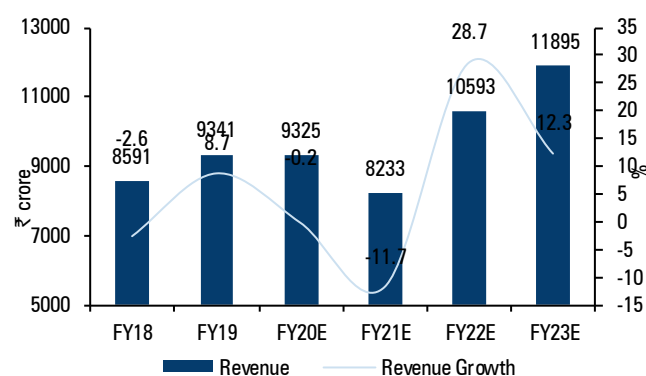
Source: ICICI Direct Research, Company

Exhibit 5: Popular expected to grow at 4% CAGR (FY20-23)



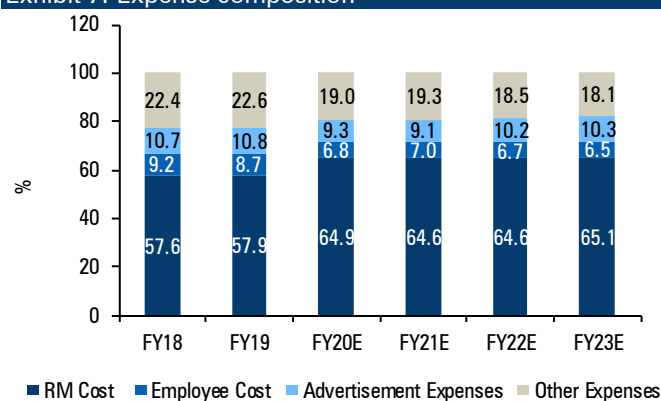
Source: ICICI Direct Research, Company

Exhibit 6: Revenues to grow at 9% CAGR over FY20-23E



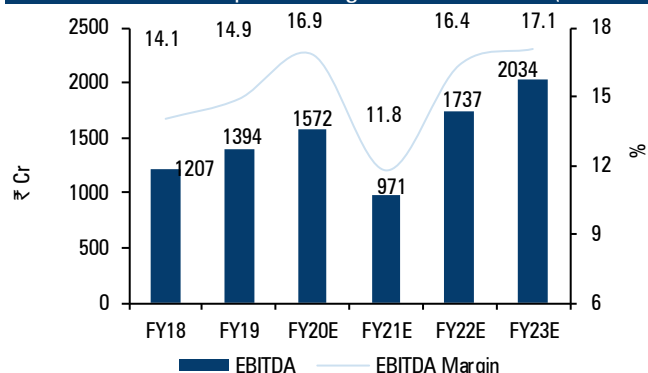
Source: ICICI Direct Research, Company

Exhibit 7: Expense composition



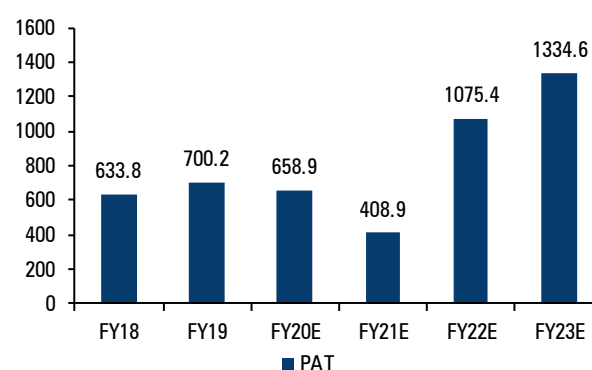
Source: ICICI Direct Research, Company

Exhibit 8: EBITDA expected to grow at 9% CAGR (FY20-23)



Source: Company, ICICI Direct Research

Exhibit 9: PAT expected to grow at 27% CAGR in FY20-23



Source: Company, ICICI Direct Research

Exhibit 10: Valuation ratios

	Sales	Sales	EPS	EPS	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	Growth (%)	(₹)	Growth (%)	(x)	(x)	(%)	(%)
FY19	9340.8	8.7	9.5	9.0	64.2	32.1	22.7	21.0
FY20	9325.4	-0.2	8.7	-9.0	70.5	27.8	17.7	23.8
FY21E	8232.9	-11.7	5.6	-34.9	108.4	44.2	9.9	14.5
FY22E	10592.5	28.7	14.8	163.0	41.2	24.6	20.6	25.0
FY23E	11895.1	12.3	18.4	24.1	33.2	20.7	20.4	25.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit & Loss Statement ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Income	9,325.4	8,232.9	10,592.5	11,895.1
Growth (%)	-0.2	-11.7	28.7	12.3
Cost of materials consum	5,028.9	4,692.8	5,720.0	6,423.3
Employee benefit expens	530.0	510.4	593.2	642.3
Advertisement&Promo	717.3	658.6	900.4	1,011.1
Other Expenses	1,476.9	1,399.6	1,641.8	1,784.3
EBITDA	1,572.3	971.5	1,737.2	2,034.1
Growth (%)	12.8	-38.2	78.8	17.1
Depreciation	285.3	242.4	258.2	273.9
EBIT	1,287.0	729.0	1,479.0	1,760.1
Interest	212.0	168.1	93.7	28.7
Other Income	22.0	60.5	51.8	52.1
Exceptional Item	66.6	-75.0	0.0	0.0
PBT	1,163.6	546.4	1,437.1	1,783.5
Tax	539.7	137.5	361.7	448.9
Reported PAT	623.9	408.9	1,075.4	1,334.6
Adjustments	35.0	0.0	0.0	0.0
Adjusted PAT	658.9	408.9	1,075.4	1,334.6
EPS	8.7	5.6	14.8	18.4

Source: ICICI Direct Research

Exhibit 12: Cash flow Statement ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	658.9	408.9	1,075.4	1,334.6
Add: Depreciation	285.3	242.4	258.2	273.9
Add: Interest paid	212.0	168.1	93.7	28.7
Cash Profit	944.2	651.3	1,333.6	1,608.6
Increase/(Decrease) in CL	240.8	-246.3	231.2	74.7
(Increase)/Decrease in CA	184.1	347.2	-984.6	-621.1
Others	-797.9	0	0	0
CF from Operating Activitie	783.2	920.4	673.8	1,090.9
Purchase of Fixed Assets	-211.6	-156.1	-156.4	-156.7
(Inc)/Dec in Investments	-149.8	-106.8	-159.6	-362.6
Others	85.0	217.8	58.9	59.3
CF from Investing Activitie	-276.4	-45.1	-257.1	-460.0
Inc/(Dec) in Loan Funds	-1,249.1	-500.0	-400.0	-500.0
Inc/(Dec) in Sh. Cap. & Re	0.0	0.0	0.0	0.0
Less: Interest paid	-212.0	-168.1	-93.7	-28.7
Others	744.9	0.0	0.0	0.0
CF from financing activitie	-716.2	-668.1	-493.7	-528.7
Op. Cash and cash Eq.	282.9	73.5	280.7	203.7
Adjustments	0	0	0	0
Cl. Cash and cash Eq.	73.5	280.7	203.7	306.0

Source: ICICI Direct Research

Exhibit 13: Balance Sheet ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Source of Funds				
Equity Capital	145.3	145.3	145.3	145.3
Reserves & Surplus	3,582.7	3,991.6	5,067.0	6,401.6
Shareholder's Fund	3,728.0	4,136.9	5,212.3	6,546.9
Minority Interest	-41.3	-41.3	-41.3	-41.3
Loan Funds	1,620.7	1,120.7	720.7	220.7
Provisions	8.2	9.0	9.9	10.9
Other Liabilities	196.5	216.2	237.8	261.5
Total Current Liabilities	3,339.2	3,092.9	3,324.2	3,398.9
Source of Funds	8,851.3	8,534.4	9,463.5	10,397.7

Application of Funds				
Gross Block	2,159.0	2,309.0	2,459.0	2,609.0
Less: Acc. Depreciation	805.2	1,047.6	1,305.8	1,579.8
Net Block	1,353.8	1,261.4	1,153.2	1,029.2
Intangible Assets	383.6	383.6	383.6	383.6
Capital WIP	121.1	127.2	133.5	140.2
Goodwill	21.0	21.0	21.0	21.0
Non-Current Investments	40.3	90.3	190.3	490.3
Deferred Tax Assets (net)	159.0	0.0	0.0	0.0
Long term loans & advan	1,136.1	1,192.9	1,252.6	1,315.2
Other Non current assets	766.1	727.8	691.4	656.8
Current Investments	0.0	0.0	0.0	0.0
Inventories	1,927.5	1,691.7	2,176.5	2,444.2
Debtor	2,283.5	2,142.8	2,611.9	2,933.0
Cash	73.5	280.7	203.7	306.0
Loan & Advance, Other C	585.8	615.1	645.8	678.1
Total Current assets	4,870.3	4,730.3	5,638.0	6,361.3
Application of Funds	8,851.3	8,534.4	9,463.5	10,397.6

Source: ICICI Direct Research

Exhibit 14: Key Ratios

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Book Value	51.3	56.9	71.7	90.1
Cash per share	1.0	3.9	2.8	4.2
EPS	8.7	5.6	14.8	18.4
Cash EPS	13.0	9.0	18.4	22.1
DPS	0.0	0.0	0.0	0.0
Profitability & Operating Ratios				
EBITDA Margin (%)	16.9	11.8	16.4	17.1
PAT Margin (%)	7.1	5.0	10.2	11.2
Fixed Asset Turnover (x)	4.3	3.6	4.3	4.6
Inventory Turnover (Days)	75.4	75.0	75.0	75.0
Debtor (Days)	89.4	95.0	90.0	90.0
Creditors (Days)	46.9	47.0	48.0	48.0
Return Ratios (%)				
RoE	16.9	9.9	20.6	20.4
RoCE	23.8	14.5	25.0	25.9
RoIC	24.6	14.9	26.7	29.5
Valuation Ratios (x)				
P/E	70.5	108.4	41.2	33.2
Price to Book Value	11.3	10.2	8.1	6.4
EV/EBITDA	27.8	44.2	24.6	20.7
EV/Sales	4.7	5.2	4.0	3.5
Leverage & Solvency Ratios				
Debt to equity (x)	0.4	0.3	0.1	0.0
Interest Coverage (x)	6.1	4.3	15.8	61.3
Debt to EBITDA (x)	1.8	1.7	0.6	0.4
Current Ratio	1.5	1.5	1.7	1.9

Source: ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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