

United Spirits

Estimate change



TP change



Rating change



Bloomberg	UNSP IN
Equity Shares (m)	727
M.Cap.(INRb)/(USDb)	431.6 / 6.4
52-Week Range (INR)	743 / 443
1, 6, 12 Rel. Per (%)	3/-20/-24
12M Avg Val (INR M)	1883

Financials & Valuations (INR b)

Y/E March	2021E	2022E	2023E
Sales	79.0	95.4	105.2
Sales Gr. (%)	-13.1	20.8	10.3
EBITDA	9.4	15.8	19.8
Margin (%)	12.0	16.6	18.8
PAT	4.1	9.4	12.4
EPS (INR)	5.7	12.9	17.1
EPS Gr. (%)	-47.6	126.8	32.5
BV/Sh.(INR)	57.0	70.0	87.1

Ratios

RoE (%)	10.0	18.5	19.7
RoCE (%)	16.2	25.5	26.8
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	104.2	45.9	34.7
P/BV (x)	10.4	8.5	6.8
EV/EBITDA (x)	46.0	27.1	21.6

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	56.8	56.8	56.8
DII	9.8	9.2	7.7
FII	19.0	18.8	22.4
Others	14.5	15.2	13.1

FII Includes depository receipts

CMP: INR594

TP: INR725 (+22%)

Buy

Recovery evident, albeit slower than expected

- In 3QFY21, United Spirits (UNSP) reported further sequential improvement in all parameters on the path to recovery to normalcy. While on-trade sales would take a few quarters to normalize, in-home consumption remains buoyant.
- Recovery in 3QFY21 was, nevertheless, slower than our expectation – leading to a ~15% cut in FY21 EPS. However, the reduction in FY22 and FY23 EPS forecasts is much lower at ~3% each.
- a) Gradual demand recovery, b) benign commodity costs, c) the resumption of premiumization, d) stagnant working capital (quashing earlier fears), and e) continued debt repayments augur well for continued healthy earnings growth beyond FY21. Earnings growth has been impressive in the past five years at an over 30% CAGR. Compared with other discretionary peers, valuations at 45.9x FY22 EPS and 34.7x FY23 EPS are relatively inexpensive. **Maintain Buy.**

Recovery trend continues

- Standalone net sales declined 3.6% YoY to INR24.9b (est. INR27.6b).
- Overall reported volumes declined 0.8% (est. +10%). Prestige & Above (P&A) volumes were flat YoY, whereas Popular volumes declined 2.3% YoY.
- Gross margin expanded 20bp YoY to 44.6%**, primarily driven by benign commodities and a continued focus on productivity in 3Q.
- The EBITDA margin contracted 100bp YoY to 15.4%** (est. 16.8%). As a % of sales, reported advertising costs were down 30bp YoY, while staff costs and other expenses were up 140bp YoY and 20bp YoY, respectively.
- Reported EBITDA declined 9.5% YoY to INR3.8b (est. INR4.6b).
- On an absolute basis, ad spends were down 6.6% YoY.
- Reported PBT declined 11.5% YoY to INR3b (est. INR3.7b).
- Adjusted PAT declined 11.2% YoY to INR2.3b (est. INR2.8b).
- 9MFY21 sales/EBITDA/PAT were down 20.2%/53.4%/68% YoY.

Highlights from management commentary

- Excluding the Andhra Pradesh route-to-market impact, sales were flat vis-à-vis 3.6% decline in reported sales. The impact of these changes, which began in 4QFY20, would be much lower going forward.
- Benefits of the McDowell's No. 1 relaunch would be seen in the key state of Maharashtra from 4QFY21.
- The material cost outlook remains benign for the next few months.

Valuation and view

- Recovery in 3QFY21 was slower than we earlier expected, leading to a ~15% cut in FY21 EPS. However, the reduction in FY22 and FY23 EPS forecasts is much lower at ~3% each.

- Improving growth prospects, premiumization, benign commodity costs, balance sheet improvements, an impressive EBITDA and PAT growth track record, and relatively inexpensive valuations (45.9x FY22 EPS and 34.7x FY23 EPS) v/s peers led us to [upgrade the stock to Buy](#) earlier this month. We value the company at 45x FY23 EPS, arriving at TP of INR725 – a 22% upside. Maintain **Buy**.

Quarterly Performance

(INR m)

Y/E March (Standalone)	FY20				FY21				FY20	FY21E	FY21 3QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Volume growth %	6.0	1.0	-1.8	-13.3	-49.2	-3.9	-0.8	14.0	-1.2	-10.0	10.0	
Total revenues	22,184	22,962	25,825	19,938	10,302	21,459	24,887	22,345	90,909	78,993	27,633	-9.9%
YoY change (%)	10.4	3.2	3.4	-11.4	-53.6	-6.5	-3.6	12.1	1.2	-13.1	7.0	
Gross Profit	10,497	10,325	11,459	8,408	4,291	9,041	11,102	9,967	40,689	34,401	12,020	
Margin (%)	47.3	45.0	44.4	42.2	41.7	42.1	44.6	44.6	44.8	43.6	43.5	
EBITDA	3,971	4,156	4,240	2,714	-776	2,697	3,838	3,688	15,081	9,447	4,645	-17.4%
Margins (%)	17.9	18.1	16.4	13.6	-7.5	12.6	15.4	16.5	16.6	12.0	16.8	
EBITDA growth (%)	66.4	-6.2	18.4	-4.3	-119.5	-35.1	-9.5	35.9	17.1	-37.4	9.6	
Depreciation	500	573	524	678	638	571	614	625	2,275	2,448	590	
Interest	520	452	455	480	499	507	377	352	1,907	1,735	480	
PBT From operations	2,951	3,131	3,261	1,556	-1,913	1,619	2,847	2,711	10,899	5,264	3,575	
Other income	101	137	176	41	95	128	194	111	455	528	150	
PBT	3,052	3,268	3,437	1,597	-1,818	1,747	3,041	2,822	11,354	5,792	3,725	-18.4%
Tax	1,065	1,022	849	510	-415	463	742	859	3,445	1,649	939	
Rate (%)	34.9	31.3	24.7	31.9	22.8	26.5	24.4	30.4	30.3	28.5	25.2	
Adj. PAT	1,987	2,246	2,588	1,087	-1,403	1,284	2,299	1,963	7,909	4,143	2,786	-17.5%
YoY change (%)	88.5	-13.2	21.7	-16.9	-170.6	-42.8	-11.2	80.6	16.9	-47.6	7.7	

E: MOFSL Estimate

Key Performance Indicators

Y/E March (Standalone)	FY20				FY21		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Key Metrics							
Sales Volume (m Cases)	19.3	20.6	21.5	18.3	9.8	19.9	21.3
Volume Growth %	6.0	1.0	-1.8	-13.3	-49.2	-3.9	-0.8
Realization/case (INR)	1,149	1,115	1,201	1,090	1,051	1,078	1,168
Realization growth %	4.1	2.2	5.4	2.2	-8.5	-3.3	-2.7
EBITDA/Case (INR)	205.8	201.7	197.2	148.3	-79.2	135.5	180.2
Segmental performance							
P&A Volumes (m Cases)	10.3	10.8	11.4	8.4	5.0	10.8	11.4
Popular Volumes (m Cases)	9.0	9.8	10.1	9.9	4.8	9.1	9.9
P&A Volumes Growth (%)	8.4	2.9	2.7	-20.0	-51.5	-0.6	0.6
Popular Volumes Growth (%)	3.4	-1.0	-6.5	-6.6	-46.7	-7.5	-2.3
P&A Sales Growth (%)	9.0	0.0	8.0	-15.6	-52.0	1.0	-1.0
Popular Sales Growth (%)	2.0	-1.0	-5.0	-11.4	-51.0	-12.5	-7.0
2Y average growth (%)							
Volume	3.6	5.6	1.0	-6.2	-21.6	-1.5	-1.3
Sales	11.6	8.6	6.9	-3.9	-21.6	-1.7	-0.1
EBITDA	52.6	27.7	24.5	-0.7	-26.6	-20.6	4.4
PAT	67.1	38.3	32.6	-23.1	-41.0	-28.0	5.3
% of Sales							
COGS	52.7	55.0	55.6	57.8	58.3	57.9	55.4
Operating expenses	29.4	26.9	28.0	28.6	49.2	29.6	29.2
Depreciation	2.3	2.5	2.0	3.4	6.2	2.7	2.5
YoY change (%)							
COGS	16.9	14.1	11.9	-4.2	-48.6	-1.7	-4.0
Operating expenses	-15.3	-8.6	-15.5	-25.3	-22.4	2.8	0.6
Other Income	-24.1	-18.0	-67.0	-65.5	-5.9	-6.6	10.2
EBIT	69.5	-12.2	15.2	-16.4	-140.7	-40.7	-13.2



Management commentary highlights

Demand and outlook

- Good sequential recovery was seen in consumer spending and premiumization. Social activity, however, is reviving gradually.
- 85% of on-trade is now operational, but with lower occupancy. Christmas and New Year's Eve were not as good as usual. Big weddings and banquets were not reported, unlike in the base quarter of 3QFY20.
- In-home consumption continues to be buoyant.
- Excluding the Andhra Pradesh route-to-market impact, sales were flat against the 3.6% reported sales decline. The impact would be much lower from 4QFY21 as this event began from 4QFY20.
- The company is encouraged by gross margin revival and premiumization. Commodity prices are also likely to remain in check over the next few months.
- The management is optimistic about the next few quarters.
- The management does not believe UNSP lost any market share in 3QFY21 or 9MFY21.

Brands and segments

- McDowell's No. 1 and Royal Challenge were relaunched in 3Q.
- The impact on Maharashtra, the largest state for McDowell's No. 1, would be reflected in 4QFY21. The initial response has been very positive.
- Scotch sales are doing very well.

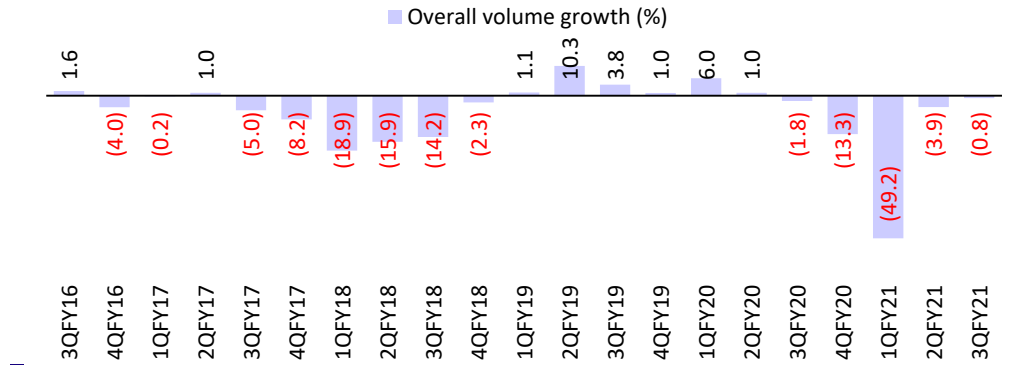
Balance sheet

- Debt is below INR10b levels.
- Receivable days have also reduced.
- Delhi is looking to reduce the legal drinking age and increase the number of private stores v/s government stores, which would be a big positive.

Key exhibits

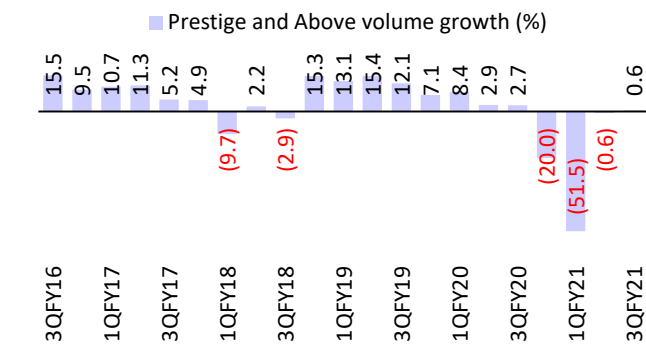
- P&A volumes were flat YoY, whereas Popular volumes declined 2.3% YoY.
- Net sales were down 1% YoY in P&A and 7% YoY in Popular.
- Net sales for the Popular segment in priority states declined 5.7% in 3QFY21.

Exhibit 1: Overall volumes fell 0.8% YoY to 21.3m cases in 3QFY21



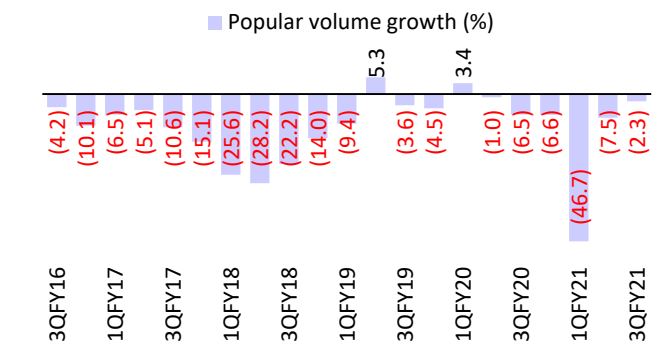
Source: Company, MOFSL

Exhibit 2: P&A volumes were flat YoY



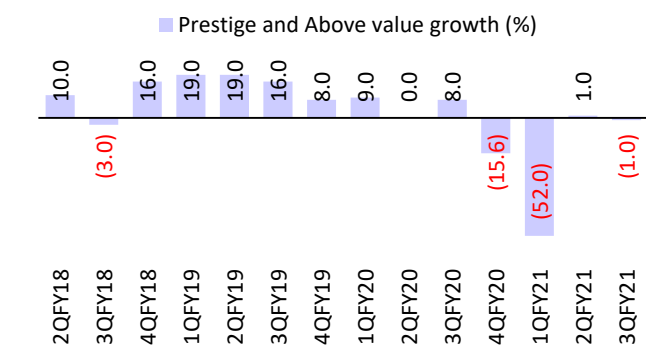
Source: Company, MOFSL

Exhibit 3: Popular volumes declined 2.3% YoY in 3QFY21



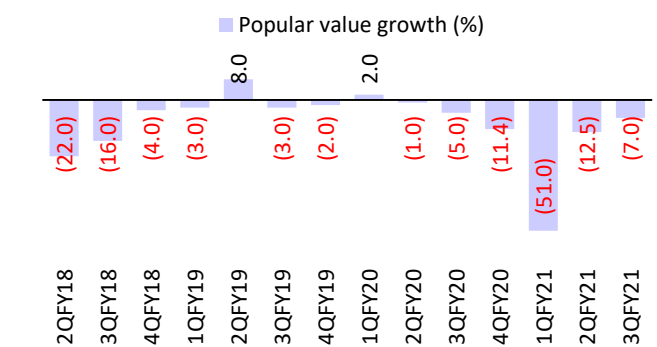
Source: Company, MOFSL

Exhibit 4: P&A value growth was flat YoY



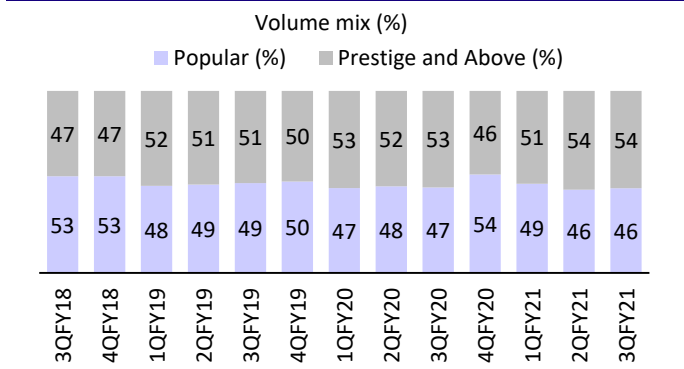
Source: Company, MOFSL

Exhibit 5: Popular fell 7% YoY (value) in 3QFY21



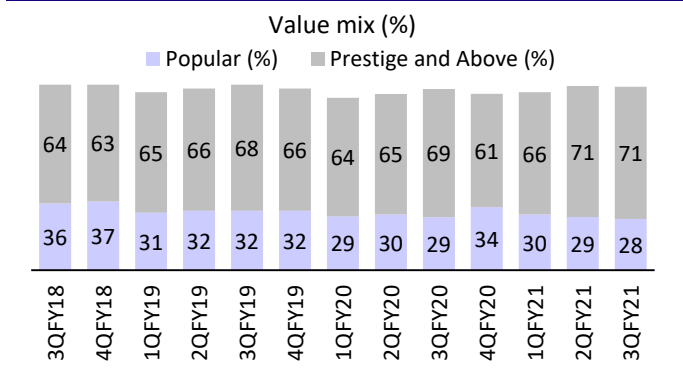
Source: Company, MOFSL

Exhibit 6: P&A volume contribution continued at 54%...



Source: Company, MOFSL

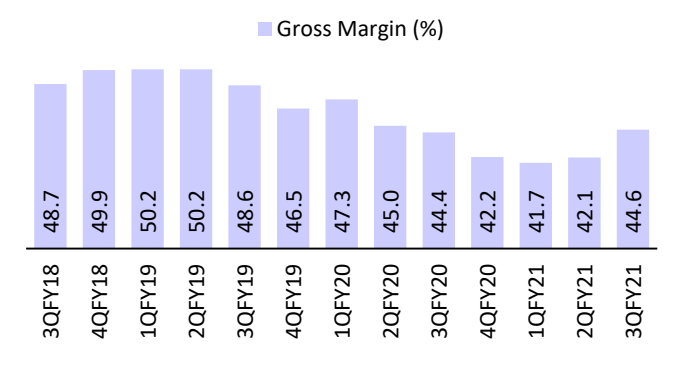
Exhibit 7: ...and NSV contribution remained at 71%



Source: Company, MOFSL

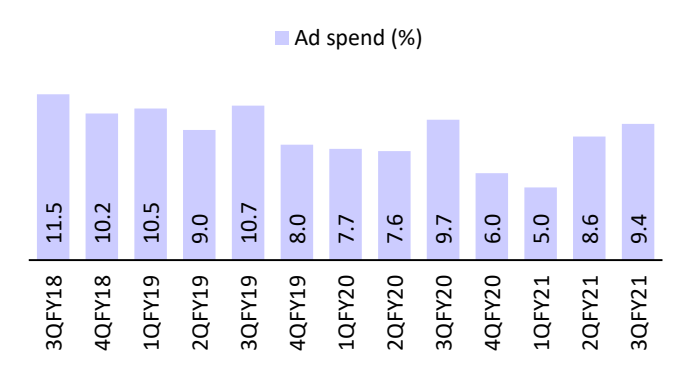
- **Reported gross margin expanded 20bp YoY to 44.6%**, primarily driven by benign commodities and a continued focus on productivity in 3Q.
- **Reported EBITDA margin contracted 100bp YoY to 15.4%** (est. 16.8%). As a percentage of sales, reported advertising costs were down 30bp YoY, while staff costs and other expenses were up 140bp YoY and 20bp YoY, respectively.
- Reported EBITDA declined 9.5% YoY to INR3.8b (est. INR4.6b).
- On an absolute basis, ad spends were down 6.6% YoY.

Exhibit 8: Gross margins expanded 20bp YoY to 44.6%



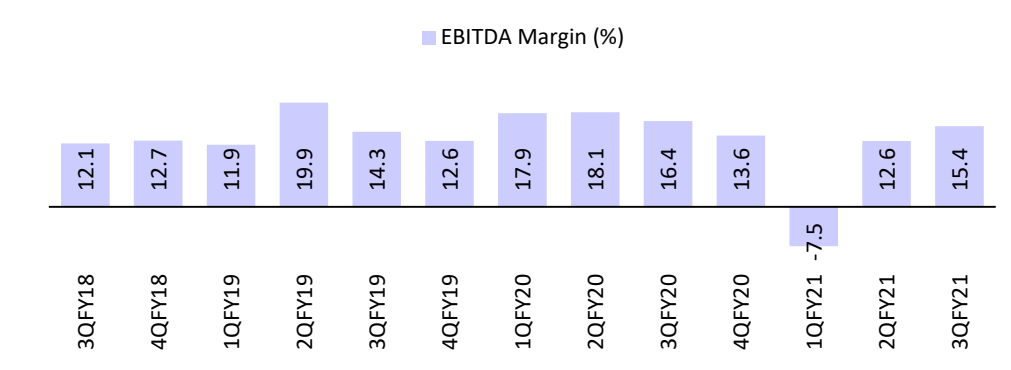
Source: Company, MOFSL

Exhibit 9: Ad spends were down 30bp YoY to 9.4% of sales



Source: Company, MOFSL

Exhibit 10: EBITDA margin contracted 100bp YoY to 15.4% in 3QFY21



Source: Company, MOFSL

Valuation and view

Diageo gaining control has led to a dramatic turnaround since FY15

- **Weak revenue growth, but strong profitability improvement:** Over FY15–20, the sales CAGR stood at 2.7%. However, the EBITDA CAGR was strong at 17.8%, with the PBT/PAT CAGR even more impressive at 38.8%/32.7%.
- **Portfolio realignment assigned priority:** Over FY15–18, UNSP realigned its portfolio with a higher focus on the more profitable P&A segment. P&A's contribution to revenues jumped to ~68% in FY20 from 40% in FY15. However, the overall pace of sales growth was lower than expected.
- **Mix improvement led to sharp margin expansion:** Reorganization of the portfolio toward the more profitable P&A segment has led to EBITDA margin expansion – to 16.6% in FY20 from 9.1% in FY14.
- **Continuous efforts on cost reduction and improving efficiencies:** a) Working capital reduction, b) the sale of non-core assets, c) limited capex, and d) improved profitability have led to decline in net debt and interest cost decrease by 57% over FY15–20. As a result, PBT growth has been the highest over the past five years.

Maintain our optimistic view on the stock

- Recovery in 3QFY21 was slower than we earlier expected, leading to a ~15% cut in FY21 EPS. However, the reduction in FY22 and FY23 EPS forecasts is much lower at ~3% each.
- Improving growth prospects, premiumization, benign commodity costs, balance sheet improvements, an impressive EBITDA and PAT growth track record, and relatively inexpensive valuations (45.9x FY22 EPS and 34.7x FY23 EPS) v/s peers led us to [upgrade the stock to Buy](#) earlier this month. We value the company at 45x FY23 EPS, arriving at TP of INR725 – a 22% upside. Maintain **Buy**.

Exhibit 11: We cut our PAT estimates for FY21/FY22/FY23E by 14.7%/3.1%/3.2%

INR m	New			Old			% Change		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Total Income	78,993	95,418	105,236	84,220	98,518	108,636	-6.2	-3.1	-3.1
EBITDA	9,447	15,839	19,784	10,578	16,354	20,423	-10.7	-3.1	-3.1
Adjusted PAT	4,143	9,399	12,450	4,857	9,695	12,866	-14.7	-3.1	-3.2

Source: Company, MOFSL

Financials and valuations

Income Statement						(INR m)		
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Net Sales	81,886	85,030	81,269	89,322	90,565	78,593	94,978	104,752
Other Operating Inc	596	446	432	484	344	400	440	484
Total Revenue	82,482	85,476	81,701	89,806	90,909	78,993	95,418	105,236
Change (%)	3.7	3.6	-4.4	9.9	1.2	-13.1	20.8	10.3
Gross Profit	34,076	36,632	39,725	43,857	40,689	34,401	43,892	51,566
Margin (%)	41.3	42.9	48.6	48.8	44.8	43.6	46.0	49.0
Other Expenditure	-25,212	-26,922	-29,446	-30,983	-25,608	-24,954	-28,053	-85,452
EBITDA	8,864	9,710	10,279	12,874	15,081	9,447	15,839	19,784
Change (%)	33.2	9.5	5.9	25.2	17.1	-37.4	67.7	24.9
Margin (%)	10.7	11.4	12.6	14.3	16.6	12.0	16.6	18.8
Depreciation	-1,017	-1,323	-1,351	-1,445	-2,275	-2,448	-2,693	-2,989
Int. and Fin. Charges	-4,469	-3,690	-2,675	-2,200	-1,907	-1,735	-1,215	-911
Other Income	1,057	1,111	1,080	952	455	528	633	760
Profit before Taxes	4,435	5,808	7,333	10,181	11,354	5,792	12,565	16,644
Change (%)	101.3	31.0	26.3	38.8	11.5	-49.0	116.9	32.5
Margin (%)	5.4	6.8	9.0	11.3	12.5	7.3	13.2	15.8
Tax	2,358	1,923	2,433	3,416	3,445	1,649	3,166	4,194
Tax Rate (%)	53.2	33.1	33.2	33.6	30.3	28.5	25.2	25.2
Adjusted PAT	2,076	3,884	4,900	6,765	7,909	4,143	9,399	12,450
Change (%)	8.1	87.1	26.1	38.1	16.9	-47.6	126.8	32.5
Margin (%)	2.5	4.5	6.0	7.5	8.7	5.2	9.9	11.8
Non-rec. (Exp)/Income	-858	-2,186	717	-179	-862	-750	0	0
Reported PAT	1,219	1,699	5,617	6,586	7,047	3,393	9,399	12,450

Balance Sheet						(INR m)		
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Share Capital	1,453	1,453	1,453	1,453	1,453	1,453	1,453	1,453
Reserves	15,687	17,925	23,585	29,862	36,644	39,979	49,378	61,828
Net Worth	17,140	19,378	25,038	31,315	38,097	41,432	50,831	63,281
Loans	37,082	40,407	32,505	25,825	15,195	6,695	4,695	3,695
Deferred Tax Liabilities	-1,539	-1,241	-856	-1,878	-1,590	-1,590	-1,590	-1,590
Capital Employed	52,683	58,544	56,687	55,262	51,702	46,537	53,936	65,386
Gross Block	17,389	14,091	13,561	16,406	19,315	19,815	21,315	23,815
Less: Accum. Depn.	-6,627	-2,219	-3,540	-5,124	-5,968	-8,416	-11,109	-14,097
Net Fixed Assets	10,762	11,872	10,021	11,282	13,347	11,399	10,206	9,718
Capital WIP	2,449	851	980	1,171	1,187	1,187	1,187	1,187
Investments	93	3,238	2,775	2,984	2,526	3,126	5,776	7,259
Curr. Assets, L&A	67,082	70,763	71,778	69,308	66,895	64,802	74,579	84,729
Inventory	18,999	18,538	18,694	18,767	18,361	16,588	20,038	22,100
Account Receivables	23,140	29,605	26,998	25,181	22,835	21,642	26,142	31,715
Cash and Bank	3,362	523	1,198	588	345	482	627	992
Others	21,581	22,097	24,888	24,772	25,354	26,090	27,773	29,922
Curr. Liab. and Prov.	27,703	28,180	28,867	29,483	32,253	33,976	37,813	37,506
Account Payables	10,018	11,798	13,935	13,360	11,712	12,776	14,263	14,993
Other Liabilities	14,643	13,345	11,490	12,346	16,196	16,682	18,851	17,908
Provisions	3,042	3,037	3,442	3,777	4,345	4,519	4,700	4,606
Net Current Assets	39,379	42,583	42,911	39,825	34,642	30,825	36,766	47,222
Application of Funds	52,683	58,544	56,687	55,262	51,702	46,537	53,936	65,386

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Basic (INR)								
EPS	2.9	5.3	6.7	9.3	10.9	5.7	12.9	17.1
Cash EPS	4.3	7.2	8.6	11.3	14.0	9.1	16.6	21.3
BV/Share	23.6	26.7	34.5	43.1	52.4	57.0	70.0	87.1
Valuation (x)								
P/E	207.8	111.1	88.1	63.8	54.6	104.2	45.9	34.7
Cash P/E	139.5	82.9	69.0	52.6	42.4	65.5	35.7	28.0
EV/Sales	1.5	1.4	1.4	1.2	1.1	1.1	0.9	0.8
EV/EBITDA	52.5	48.2	44.8	35.2	29.4	46.0	27.1	21.6
P/BV	25.2	22.3	17.2	13.8	11.3	10.4	8.5	6.8
Return Ratios (%)								
RoE	11.4	21.3	19.6	21.6	20.8	10.0	18.5	19.7
RoCE	6.7	11.4	11.6	14.7	17.3	16.2	25.5	26.8
RoIC	6.7	11.1	11.3	14.9	18.2	11.2	22.3	24.6
Working Capital Ratios								
Asset Turnover (x)	1.6	1.5	1.4	1.6	1.8	1.7	1.8	1.6
Leverage Ratio								
Debt/Equity (x)	2.2	2.1	1.3	0.8	0.4	0.2	0.1	0.1

Cash Flow Statement

Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
(INR m)								
OP/(loss) before Tax	3,155	2,546	8,403	9,914	11,347	5,792	12,565	16,644
Int./Div. Received	1,567	-413	205	1,245	-559	-528	-633	-760
Depreciation and Amort.	1,017	1,323	1,351	1,445	2,275	2,448	2,693	2,989
Interest Paid	3,990	3,488	1,708	1,775	1,626	1,735	1,215	911
Direct Taxes Paid	-1,637	-1,943	-3,898	-8,238	-5,658	-1,649	-3,166	-4,194
Incr/Decr in WC	-5,826	1,732	1,694	2,434	-2,361	3,953	-5,796	-10,091
CF from Operations	2,266	6,733	9,463	8,575	6,670	11,752	6,877	5,499
(Incr)/Decr in FA	-2,222	-1,509	41	-656	-1,978	-500	-1,500	-2,500
Free Cash Flow	1,232	5,476	9,621	8,332	6,331	11,780	6,011	3,759
(Pur)/Sale of Investments	8,686	111	213	319	0	-600	-2,650	-1,483
Other investing items	2,140	-2,973	1,174	-142	599	-808	-1	0
CF from Invest.	9,792	-4,119	1,545	-66	260	-1,380	-3,517	-3,223
Issue of Shares	0	0	0	0	0	0	0	0
Incr/Decr in Debt	-6,606	-3,325	-7,902	-7,004	-5,572	-8,500	-2,000	-1,000
Dividend Paid	0	0	0	0	0	0	0	0
Others	-4,487	-2,128	-2,431	-2,115	-1,601	-1,735	-1,215	-911
CF from Fin. Activity	-11,093	-5,453	-10,333	-9,119	-7,173	-10,235	-3,215	-1,911
Incr/Decr of Cash	965	-2,839	675	-610	-243	137	145	365
Add: Opening Balance	2,397	3,362	523	1,198	588	345	482	627
Closing Balance	3,362	523	1,198	588	345	482	627	992

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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