

Continues to gain lost volume ground...

About the stock: United Breweries (UBL) is the biggest beer player in the domestic market (~54% market share), a sector largely dominated by MNCs (~85% of market).

- On-trade sales comprise ~25% of revenues (rest 75% off-trade)
- Heineken, one of the world's largest beer companies, holds 72.7% stake in United Breweries

Q2FY23 Results: Strong performance on the profitability front.

- Revenues grew 18% YoY to ₹ 1680 crore, led by volume growth of 23%
- Absolute EBITDA grew 32% to ₹ 219 crore (EBITDA margins expanded 143 bps to 13%)
- Subsequently, the company reported a PAT of ₹ 134 crore (vs. PAT of ₹ 81 crore in Q2FY22) and above I-direct estimate of ₹ 103 crore

What should investors do? UBL in H1, grew 67% and crossed pre-pandemic levels (FY19), thereby demonstrating resilience of beer sector vis-a-vis liquor players. Going forward, the management expects to counter COGS inflation via price hikes and cost control measures. Although H1 constitutes bulk of beer sales, greater premiumisation play (from current lower quotient), continued dominance over competitors and higher FCF outflows, remain attractive bets towards UBL

- Due to long term growth story in the industry and a well-managed company with MNC parentage, we maintain our **BUY** rating on the stock

Target Price & Valuation: We value the stock at ₹ 1900 i.e. 63x P/E on FY24E EPS.

Key triggers for future price performance: Quick reversion to mean volumes, in spite of losing share to liquor companies for the past three years, point to the inherent strength in the beer segment, its appeal with young customers and an association with social occasions.

- Newer excise regimes continue to stay stable. The management expects further price hikes in several states to mitigate inflationary impact
- Strong fundamentals (b/s, cash flow), to help UBL further consolidate its leadership position

Alternate Stock Idea: Apart from UBL, we remain positive on United Spirits.

- United Spirits (USL) manufactures, sells premium liquor brands such as Johnnie Walker, Black Dog, Black & White, Vat 69, Antiquity, Signature, Royal Challenge, McDowell's No 1, Smirnoff and Captain Morgan
- We have a BUY rating on the stock, with a target price of ₹ 920

Key Financial Summary

₹ crore	FY20	FY21	FY22	5 Years CAGR (%)	FY23E	FY24E	2 Years CAGR (%)
Net Sales	6509.2	4243.1	5838.4	4.3	7593.7	8660.8	21.8
EBITDA	875.8	381.1	696.6	1.6	1040.3	1351.1	39.3
PAT	427.7	113.2	365.5	9.7	593.7	802.6	48.2
P/E (x)	94.0	355.0	110.0		67.7	50.1	
Market cap to Sales (x)	6.7	10.3	7.5		5.7	5.0	
RoCE (%)	15.9	4.0	12.1		17.8	21.8	
RoE (%)	12.2	3.2	9.3		14.2	17.3	

Source: Company, ICICI Direct Research



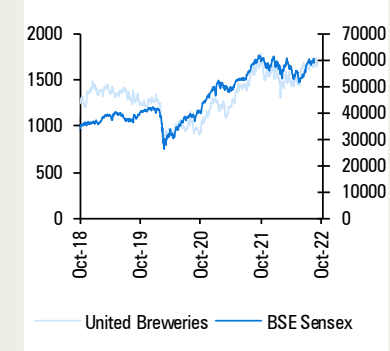
Particulars

Particular	Amount
Market Capitalization (₹ cr)	42,833.6
Total Debt (FY22) (₹ cr)	-
Cash (FY22) (₹ cr)	909.7
EV (₹ cr)	41,924.0
52 week H/L	1785/1275
Equity Capital (₹ Crore)	26.4
Face Value (₹)	1.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promote	72.7	72.7	72.7	72.7
Others	27.3	27.3	27.3	27.3

Price Chart



Recent event & key risks

- Price hikes in key states
- Key Risk:** (i) increased excise duties (ii) hike in raw material prices

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Key takeaways

Q2FY23 Results: Secular YoY region-wise growth seen, premium outshines

- States like Rajasthan, West Bengal and Telangana showed maximum growth
- Price increases have been implemented in Punjab and Delhi in Q2
- Overall 23% YoY pan-India growth has been achieved by 22% growth in the west region, followed by south (up 21%), east (up 52%. West Bengal saw more than 100% volume growth post policy change) and north (15%)

Q2FY23 Earnings Conference Call highlights

- The management saw signs of softening of commodity prices during the quarter and expects a combination of price hikes and control measures to mitigate the impact
- The management has guided for 6-8% volume growth in the medium to longer term
- UBL has maintained market share of 51%+ in H1
- The management targets to increase its premiumisation salience to 25% from 8% current in four to five years
- Capex for the calendar year is at ₹ 350 crore
- The company has ample supplies for barley for the calendar year (at a higher costs) and expects new procurement from Q4FY23 end
- Admin costs have been relooked and together with other cost control measures have been reduced to mitigate gross margin contraction to a limit
- A&P expenses have remained constant for the past four to five quarters
- Beer continues to remain highly taxed when compared to liquor. However, steps such as differential taxation in few states are helping to reduce the gap
- Took price hike in Punjab in Q2FY23

Exhibit 1: Variance Analysis

₹ Crore	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	1,679.6	1,818.4	1,426.2	17.8	2,436.7	-31.1	YoY volume growth at 23%, premium volumes grew 48%
Consumption of Raw material	880.1	1,018.3	634.9	38.6	1,323.0	-33.5	Gross margins higher than estimates (46.7% vs. estimate 44%), due to likely better product mix
Purchase of traded goods	15.8	0.0	53.3	-70.4	35.3	-55.3	
Employee Cost	138.8	127.3	134.1	3.6	148.7	-6.6	
Other Expenditure	425.8	491.0	438.3	-2.9	664.7	-35.9	
Total Expense	1,460.4	1,636.6	1,260.6	15.9	2,171.6	-32.7	
EBITDA	219.1	181.8	165.6	32.3	265.1	-17.3	
EBITDA Margin (%)	13.0	10.0	11.6	143.4	10.9	216.8	EBITDA margin higher than estimates mainly due to better gross margins
Depreciation	52.0	53.1	55.6	-6.6	57.5	-9.6	
Interest	1.0	1.0	4.7	-79.1	0.8	19.3	
Other Income	14.3	9.3	4.6	214.5	10.4	38.1	
Exceptional item	0.0	0.0	0.0	NA	0.0	NA	
PBT	180.5	137.0	109.8	64.4	217.1	-16.9	
Total Tax	46.3	34.5	29.1	58.8	55.4	-16.5	
Reported PAT	134.2	102.5	80.6	66.4	161.7	-17.0	

Source: Company, ICICI Direct Research

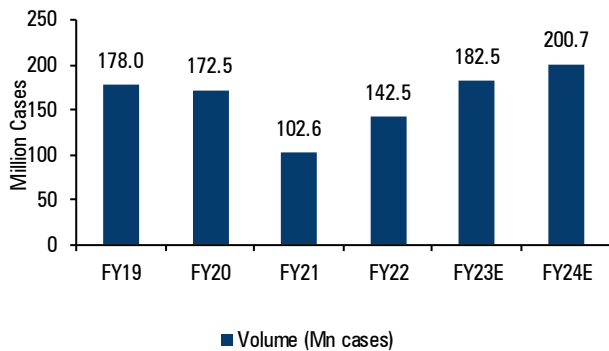
Exhibit 2: Change in estimates

(₹ Crore)	FY23E				FY24E			Comments
	FY22	Old	New	% Change	Old	New	% Change	
Revenue	5,838.4	7,524.0	7,593.7	0.9	8,422.9	8,660.8	2.8	
EBITDA	696.6	955.5	1,040.3	8.9	1,297.1	1,351.1	4.2	
EBITDA Margin (%)	11.9	12.7	13.7	100 bps	15.4	15.6	20 bps	Margins slightly revised upwards due to expected mitigation of COGS inflation via price hikes, cost control measures
PAT	365.5	517.3	593.7	14.8	749.1	802.6	7.1	PAT revised upwards due to lower depreciation expense and higher other income
EPS (₹)	13.8	19.6	22.5	14.6	28.3	30.4	7.3	

Source: ICICI Direct Research

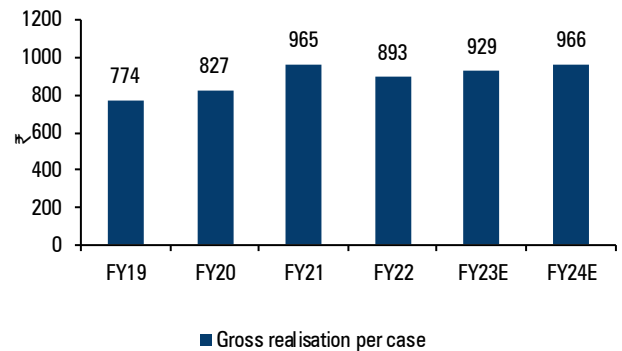
Key Metrics

Exhibit 3: Volumes expected to grow at 19% CAGR (FY22-24)



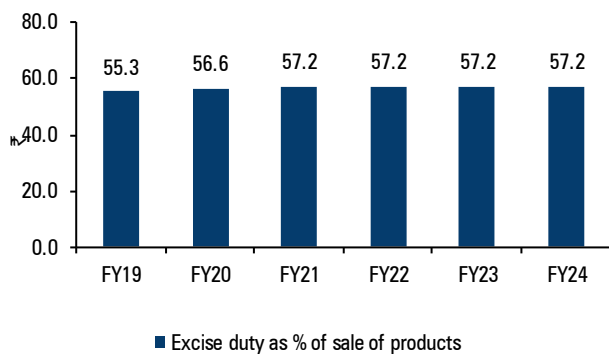
Source: ICICI Direct Research, Company

Exhibit 4: Gross realisation expected to remain strong



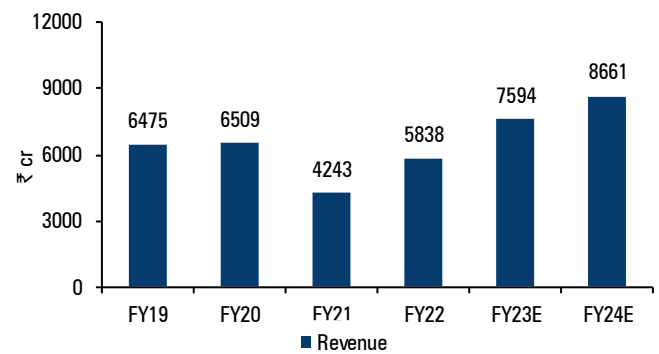
Source: ICICI Direct Research, Company

Exhibit 5: Excise duty expected to remain high across states



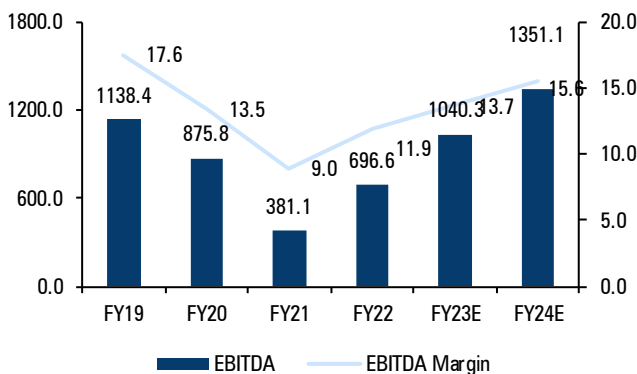
Source: ICICI Direct Research, Company

Exhibit 6: Net revenues to grow at 22% CAGR (FY22-24E)



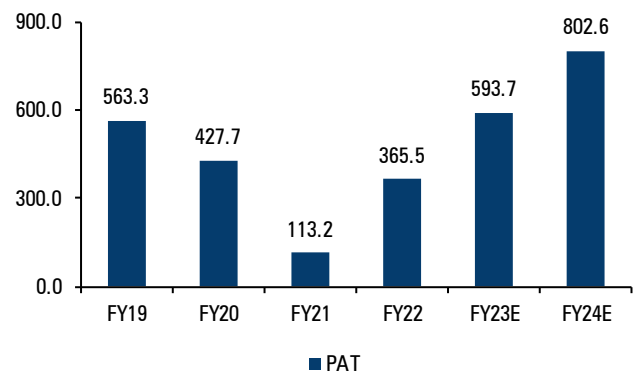
Source: ICICI Direct Research, Company

Exhibit 7: EBITDA expected to grow at 39% CAGR (FY22-24)



Source: Company, ICICI Direct Research

Exhibit 8: PAT expected to grow at 48% CAGR in FY22-24E



Source: Company, ICICI Direct Research

Exhibit 9: Valuation ratios

	Sales (₹ cr)	Sales Growth (%)	EPS (₹)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	6509.2	0.5	16.2	-24.1	94.0	46.0	12.2	15.9
FY21	4243.1	-34.8	4.3	-73.5	355.0	104.5	3.2	4.0
FY22	5838.4	37.6	13.8	222.8	110.0	56.4	9.3	12.1
FY23E	7593.7	30.1	22.5	62.4	67.7	38.0	14.2	17.8
FY24E	8660.8	14.1	30.4	35.2	50.1	29.1	17.3	21.8

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	4,243.1	5,838.4	7,593.7	8,660.8
Growth (%)	-34.8	37.6	30.1	14.1
COGS	1,965.2	2,707.3	3,872.8	4,243.8
Change in Inv, WIP & stock in t	64.2	218.8	0.0	0.0
Employee benefit expense	485.5	523.1	577.1	640.9
Selling & promotional expenses	211.0	276.1	356.9	476.3
Other expense	1,136.2	1,416.5	1,746.6	1,948.7
EBITDA	381.1	696.6	1,040.3	1,351.1
Growth (%)	-56.5	82.8	49.3	29.9
Depreciation	232.0	217.2	288.6	329.1
EBIT	149.1	479.4	751.8	1,022.0
Interest	22.7	14.8	3.0	0.0
Other Income	50.3	29.8	45.6	52.0
Exceptional Item	-7.2	0.0	0.0	0.0
PBT	169.4	494.4	794.4	1,073.9
Tax	55.6	128.4	199.9	270.3
Reported PAT	113.8	366.1	594.4	803.6
Adjustments	0.6	0.6	0.8	1.1
Adjusted PAT	113.2	365.5	593.7	802.6
EPS	4.3	13.8	22.5	30.4

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	113.2	365.5	593.7	802.6
Add: Depreciation	232.0	217.2	288.6	329.1
Add: Interest Expense	22.7	14.8	3.0	0.0
Increase/(Decrease) in CL	292.5	-140.7	104.2	130.6
(Increase)/Decrease in CA	28.6	384.8	-692.8	-437.5
CF from Operating Activities	620.3	899.6	296.6	824.9
Purchase of Fixed Assets	-149.8	-172.8	-311.0	-312.1
(Inc)/Dec in Investments	-1.8	-97.0	107.4	85.1
Others	-45.1	283.9	0.0	0.0
CF from Investing Activities	-196.7	14.0	-203.6	-226.9
Inc/(Dec) in Loan Funds	6.1	-115.4	0.0	0.0
Inc/(Dec) in Sh. Cap. & Res.	0.0	0.0	0.0	0.0
Less: Dividend & Dividend Tax	-16.3	-343.0	-343.0	-343.0
Others	-22.7	-14.8	-3.0	0.0
CF from financing activities	-32.9	-473.2	-346.0	-343.0
Op. Cash and cash Eq.	78.6	469.3	909.7	656.7
Cl. Cash and cash Eq.	469.3	909.7	656.7	911.5

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Source of Funds				
Equity Capital	26.4	26.4	26.4	26.4
Reserves & Surplus	3,555.8	3,908.7	4,159.3	4,618.8
Shareholder's Fund	3,582.3	3,935.1	4,185.7	4,645.3
Long term Loan Funds	115.2	0.0	0.0	0.0
Provisions	12.7	29.4	30.8	32.4
Total Current Liabilities	2,138.2	1,980.7	2,083.4	2,212.5
Short term borrowings	0.2	0.0	0.0	0.0
Trade payables	618.1	638.0	713.9	815.6
Other current liabilities	1,428.9	1,240.5	1,265.3	1,290.6
Provisions	91.1	102.2	104.3	106.3
Source of Funds	5,852.2	5,949.3	6,304.1	6,894.3
Application of Funds				
Gross Block	4,769.8	4,933.0	5,233.0	5,533.0
Less: Acc. Depreciation	2,826.7	3,026.5	3,315.1	3,644.2
Net Block	1,943.0	1,906.5	1,917.9	1,888.8
Capital WIP	128.8	109.9	120.9	133.0
Goodwill & Other Intangibles	27.4	22.8	22.8	22.8
Investments	6.1	8.4	8.8	9.9
Inventories	1,136.7	935.8	1,189.8	1,359.3
Debtor	1,395.0	1,254.9	1,665.8	1,903.1
Cash	469.3	909.7	656.7	911.5
Loan & Advance, Other CA	322.6	278.8	306.7	337.3
Total Current assets	3,323.6	3,379.1	3,818.9	4,511.3
Application of Funds	5,852.2	5,949.3	6,304.1	6,894.3

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Book Value	135.5	148.8	158.3	175.7
Cash per share	17.7	34.4	24.8	34.5
EPS	4.3	13.8	22.5	30.4
Cash EPS	0.9	0.6	0.1	0.0
DPS	0.5	10.5	10.5	10.5
Profitability & Operating Ratios				
EBITDA Margin (%)	9.0	11.9	13.7	15.6
PAT Margin (%)	2.7	6.3	7.8	9.3
Fixed Asset Turnover (x)	2.1	2.7	3.3	3.6
Inventory Turnover (Days)	40.7	25.0	25.0	25.0
Debtor (Days)	50.0	35.0	35.0	35.0
Creditors (Days)	22.1	15.0	15.0	15.0
Return Ratios (%)				
RoE	3.2	9.3	14.2	17.3
RoCE	4.0	12.1	17.8	21.8
RoIC	4.6	15.9	21.4	27.4
Valuation Ratios (x)				
P/E	355.0	110.0	67.7	50.1
Price to Book Value	11.2	10.2	9.6	8.7
EV/EBITDA	104.5	56.4	38.0	29.1
EV/Sales	9.4	6.7	5.2	4.5
Leverage & Solvency Ratios				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	6.6	0.0	0.0	0.0
Debt to EBITDA (x)	0.3	0.0	0.0	0.0
Current Ratio	1.6	1.7	1.8	2.0

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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