

United Spirits

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	UNSP IN
Equity Shares (m)	727
M.Cap.(INRb)/(USDb)	627.6 / 7.6
52-Week Range (INR)	1020 / 712
1, 6, 12 Rel. Per (%)	-3/-3/7
12M Avg Val (INR M)	1574

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Sales	93.8	97.9	100.6
Sales Gr. (%)	18.9	4.4	2.8
EBITDA	14.9	16.0	18.4
Margin (%)	15.8	16.3	18.3
PAT	9.1	11.2	12.2
EPS (INR)	12.5	15.4	16.8
EPS Gr. (%)	97.3	22.7	9.1
BV/Sh.(INR)	67.5	73.1	77.9
Ratios			
RoE (%)	18.6	21.0	21.5
RoCE (%)	25.4	26.6	29.7
Payout (%)	0.0	65.0	35.7
Valuations			
P/E (x)	68.9	56.2	51.5
P/BV (x)	12.8	11.8	11.1
EV/EBITDA (x)	42.1	39.0	33.9

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	56.7	56.7	56.8
DII	10.9	10.4	9.9
FII	16.8	17.7	19.0
Others	15.7	15.1	14.3

FII Includes depository receipts

CMP: INR864 TP: INR880 (+2%) Neutral

Sales momentum healthy, gross margin pressures persist

- UNSP's 2QFY23 earnings delivered a significant beat over our expectations, led by a healthy sales beat and an unusually low ad-spends as well as staff costs as a percentage of sales (both among the lowest in the past 20 quarters), which offset the more severe than expected gross margin pressure. We had highlighted the immense gross margin pressure likely for AlcoBev companies in [our note in Feb'22](#).
- As guided earlier, the management concluded the sale of part of the Popular business, amounting to 14% of sales in 1HFY23. The sale of this business will lead to a YoY decline in 2HFY23 sales, even as the margin outlook improves for the better, as the proportion of Prestige and above (P&A) increases to over 80%. We maintain our Neutral rating on the stock, which remains expensive at 52x FY24 EPS.

Beat on our estimates

- Standalone net sales grew 17.7% YoY to INR28.8b (est. INR23.5b).
- Overall reported volumes are estimated to have grown by 8.3% (est. -6%).
- Reported **gross margin contracted by 560bp YoY to 39.5%**, reflecting the adverse impact of double-digit inflation on COGS.
- As a percentage of sales, lower advertising costs (-180bp YoY), other expenses (-120bp), and staff costs (-160bp) led to a **90bp contraction in EBITDA margin to 15.5%** (est. 14%)
- EBITDA grew 11.1% YoY to INR4.5b (est. INR3.3b).
- On an absolute basis, ad spends fell 11% YoY and constituted 5.5% of net sales.
- PBT/adjusted PAT grew 21.4%/27.1% YoY to INR3.8b/INR2.9b (est. INR2.6b/INR1.9b).
- Exceptional items (INR3.7b) included profit on sale of 32 brands in the Popular segment to Inbrev Beverages. Reported PAT rose 105.9% YoY to INR5.6b.
- Net sales/EBITDA/adjusted PAT grew 24.3%/30.9%/79.9% in 1HFY23.

Highlights from the management commentary

- An early festive season aided in 2QFY23, as was the soft base in Delhi and West Bengal, balanced the absence of scotch sales in a few states.
- The challenge posed by double-digit raw material inflation will continue, unlike in other FMCG categories, where some relief is being witnessed. A sequential surge was witnessed in glass manufacturing costs and ENA.
- A&P was very low at 5.5% in 2QFY23. The management aims to raise it to ~8.5%.
- Delhi's reversal of excise policy is a big setback and stability will take 60-90 days. Delhi was contributing significantly to incremental revenue in the past three-to-four quarters. Delhi constituted 6-7% of national P&A volumes after the benefits of a new excise policy, which has now been rolled back.

Valuation and view

- Changes to the model have resulted in a 12%/9% increase in our FY23/FY24 EPS estimate as a result of a beat in 2QFY23 earnings and healthy sales outlook. We are now assuming EBITDA margin in FY24 near the top end of the management's mid-to-high teen target.
- We had [downgraded UNSP to Neutral in Nov'21](#) after the stock outperformed our Coverage Universe. Fair valuations after the outperformance, potential headwinds in the form of cost inflation (also highlighted in our [Feb'22 AlcoBev note](#)), and delays in price increases are likely to adversely affect earnings growth. Around 70% of UNSP's sales accrue from markets where state governments regulate pricing.
- Differential excise on beer and spirits (as being experimented by a few states) may be a potential dampener on Spirit stocks, if other states follow suit. This will especially be true if beer volume growth offsets the excise waived off.
- We maintain our **Neutral** rating with a TP of INR880, valuing the stock at 50x Sep'24E EPS.

Quarterly performance

	(INR m)											
Y/E March (Standalone)	FY22				FY23				FY22	FY23E	FY23E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		2QE		(%)
Volume growth (%)	60.5	3.5	3.7	5.0	17.9	8.3	-20.0	-22.0	11.9	-10.2	-6.0	
Total revenue	16,151	24,468	28,847	24,351	21,693	28,797	25,905	21,530	93,817	97,924	23,489	22.6%
Change (YoY %)	56.8	14.0	15.9	9.5	34.3	17.7	-10.2	-11.6	18.9	4.4	-4.0	
Gross profit	7,205	11,023	12,727	10,166	8,882	11,375	11,139	9,928	41,121	41,324	9,748	16.7%
Margin (%)	44.6	45.1	44.1	41.7	40.9	39.5	43.0	46.1	43.8	42.2	41.5	
EBITDA	1,677	4,014	4,907	4,267	2,992	4,459	4,589	3,922	14,865	15,962	3,298	35.2%
Margin (%)	10.4	16.4	17.0	17.5	13.8	15.5	17.7	18.2	15.8	16.3	14.0	
EBITDA growth (%)	L/P	48.8	27.9	3.6	78.4	11.1	-6.5	-8.1	50.5	7.4	-17.8	
Depreciation	554	655	662	671	653	559	660	670	2,542	2,542	700	
Interest	198	230	338	127	166	141	120	82	893	509	120	
Other income	106	35	16	258	251	81	150	120	415	602	100	
PBT	1,031	3,164	3,923	3,727	2,424	3,840	3,959	3,289	11,845	13,512	2,578	48.9%
Tax	168	921	1,012	633	-313	990	911	750	2,734	2,338	650	
Rate (%)	16.3	29.1	25.8	17.0	-12.9	25.8	23.0	22.8	23.1	17.3	25.2	
Adj. PAT	863	2,243	2,911	3,094	2,737	2,850	3,048	2,539	9,111	11,175	1,928	47.8%
Change (YoY %)	L/P	74.7	26.6	27.0	217.1	27.1	4.7	-17.9	97.3	22.7	-14.0	

E: MOFSL estimate

Key performance indicators

Y/E March (Standalone)	FY22				FY23	
	1Q	2Q	3Q	4Q	1Q	2Q
Key metrics						
Sales volume (m cases)	15.7	20.5	22.1	20.7	18.5	22.2
Volume growth (%)	60.5	3.5	3.7	5.0	17.9	8.3
Realization/case (INR)	1,027	1,191	1,303	1,175	1,170	1,295
Realization growth (%)	-2.3	10.2	11.7	4.3	13.9	8.7
EBIDTA/case (INR)	106.6	195.4	221.6	205.8	161.3	200.4
Segmental performance						
P&A volumes (m cases)	8.0	11.4	12.3	10.9	10.0	13.0
Popular volumes (m cases)	7.8	9.1	9.8	9.8	8.6	9.3
Growth in P&A volumes (%)	59.4	6.1	7.9	8.8	24.9	13.6
Growth in Popular volumes (%)	61.7	0.4	-1.1	1.0	10.7	1.6
Growth in P&A sales (%)	58.4	20.8	20.0	15.3	43.7	23.1
Growth in Popular sales (%)	60.2	0.0	-1.7	1.1	13.1	1.6
Average growth for the last two years (%)						
Volume	5.6	-0.2	1.5	6.6	39.2	5.9
Sales	1.6	3.7	6.1	10.5	45.5	15.9
EBITDA	-28.9	6.9	9.2	27.7	NM	30.0
PAT	-28.3	15.9	7.7	75.5	NM	50.9
As a percentage of sales						
COGS	55.4	54.9	55.9	58.3	59.1	60.5
Operating expenses	34.2	28.6	27.1	24.2	27.2	24.0
Depreciation	3.4	2.7	2.3	2.8	3.0	1.9
YoY change (%)						
COGS	48.8	8.3	16.9	13.8	43.2	29.6
Operating expenses	9.1	10.5	7.7	4.3	6.5	-1.3
Other income	11.6	-72.7	-91.8	323.0	136.8	131.4
EBIT	N/M	58.0	31.7	4.3	108.3	16.1

E: MOFSL estimates

**Highlights from the management commentary****Operational environment and outlook**

- Inflation is a concern in the near term, however premiumization is continuing.
- In the Prestige segment, while FMCG is seeing downtrading, consumption of spirits is moving towards smaller packs.
- There is some slowdown witnessed in the lower Prestige segment. However, the brands are performing competitively.
- Pricing of Royal Challenge has become more competitive in a couple of states.
- BIO scotch sales are yet to normalize in a couple of states, after the differences over pricing. However, UNSP was able to achieve the same in a few states.
- An early festive season aided in 2QFY23, as was the soft base in Delhi and West Bengal, both of which balanced the absence of scotch sales in a few states.
- Delhi's reversal of excise policy is a big setback and stability will take 60-90 days. Delhi was contributing significantly to incremental revenue in the past three-to-four quarters. Delhi constituted 6-7% of national P&A volumes after the benefits of a new excise policy, which has now been rolled back.

Update on launches

- Godawan single malt is now available in five states and in the UAE. It will soon be available in the US and the UK.
- It is seeing good traction on other launches and re-launches as well.

- The management is really excited about the long-term growth in gin and vodka. Gordon, Tanqueray, and Smirnoff are growing at double-digits.

Franchise and sale of Popular brands

- The sale of 32 Popular brands and franchise of 11 brands to Inbrew Breweries was duly completed in 2QFY23.
- Five manufacturing facilities have been transferred, out of which one was owned and other four were contract manufacturing facilities.

Cost and margin

- The challenge posed by double-digit raw material inflation will continue, unlike in other FMCG categories, where some relief is being witnessed.
- A sequential surge was witnessed in glass manufacturing costs and ENA.
- Natural gas prices, as announced by the government in phases, is also affecting margin, especially the 40% increase on 1st Oct'22.
- UNSP is awaiting the Centre's new ethanol blending policy in 3QFY23.
- The management has maintained its mid-to-high teen EBITDA margin guidance.
- A&P was very low at 5.5% in 2QFY23. The management aims to raise it to ~8.5%.
- Haryana, Punjab, Uttar Pradesh, West Bengal, Maharashtra, and Karnataka have allowed some price increases in 1HFY23.
- Irrespective of sales growth, the Scotch portfolio of Diageo will have a cap of 10% on EBITDA margin.

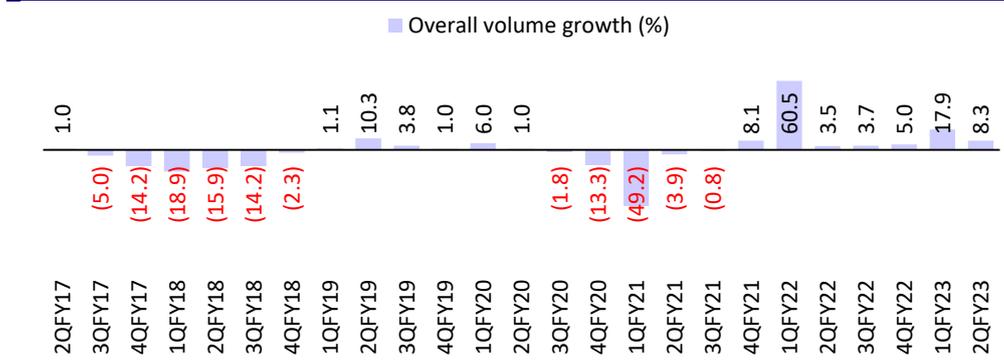
Other points

- The management is hopeful of announcing its dividend distribution policy in the next three-to-four months and is likely to announce a dividend for FY23.

Key exhibits

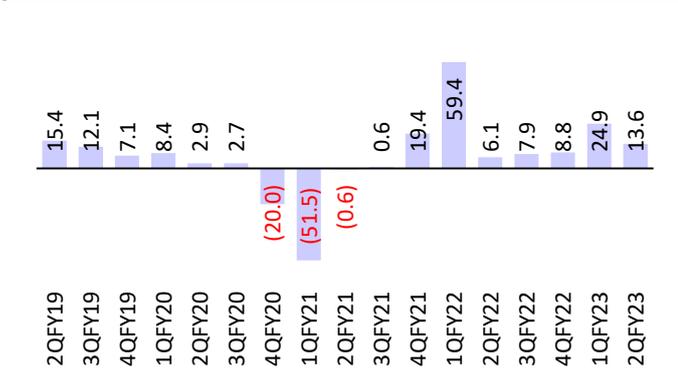
- P&A/Popular volumes rose 13.6%/2.1% YoY.
- Net sales for P&A rose 23.1% YoY in 2QFY23. P&A accounted for 78.4% of net sales in 2QFY23. In 1HFY23, the Premium and Luxury portfolio grew faster than the Prestige portfolio, led by the premiumization drive. Within the Scotch portfolio, Black Dog, Black & White, Signature, and Johnnie Walker delivered strong growth.
- Net sales for the Popular portfolio retained by UNSP remained flat YoY, while sales of the Popular portfolio sold to Inbrew Beverages grew 2.9% in 2QFY23.

Exhibit 1: Overall volumes grew 8.3% YoY to 22.2m cases in 2QFY23



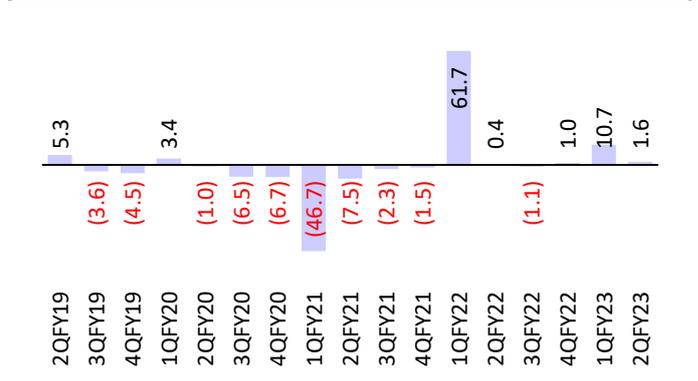
Source: Company, MOFSL

Exhibit 2: P&A volumes (%) grew 13.6% YoY in 2QFY23



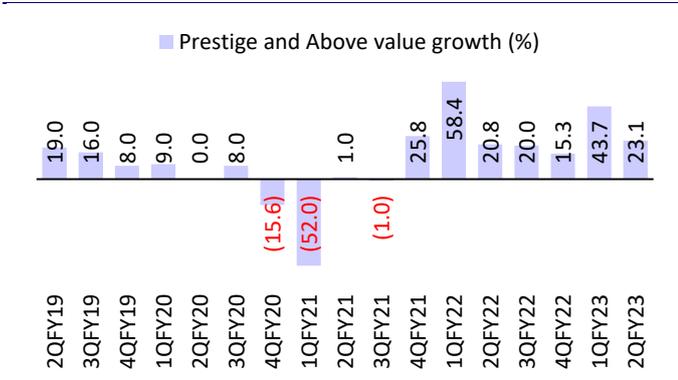
Source: Company, MOFSL

Exhibit 3: Popular volumes (%) grew 1.6% YoY in 2QFY23



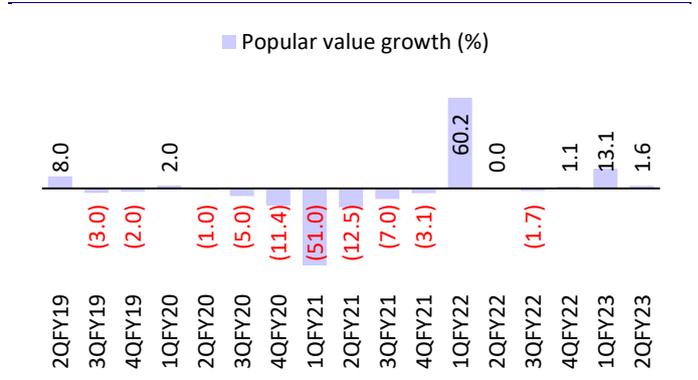
Source: Company, MOFSL

Exhibit 4: Value growth in P&A stands at 23.1% YoY in 2QFY23



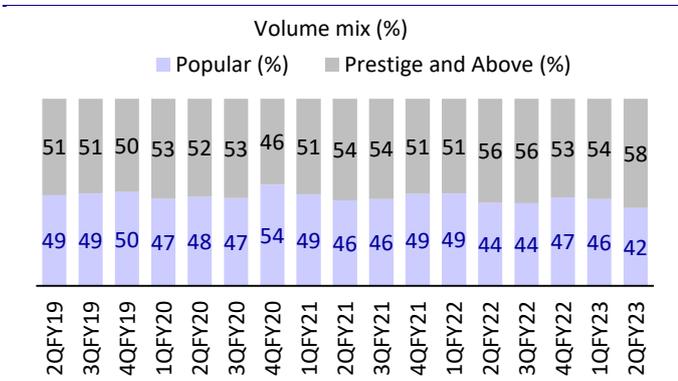
Source: Company, MOFSL

Exhibit 5: Popular sales grew 1.6% YoY in 2QFY23



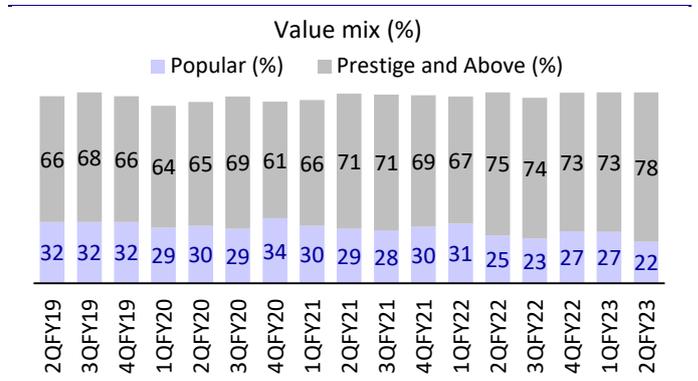
Source: Company, MOFSL

Exhibit 6: Contribution of P&A volumes stood at 58%...



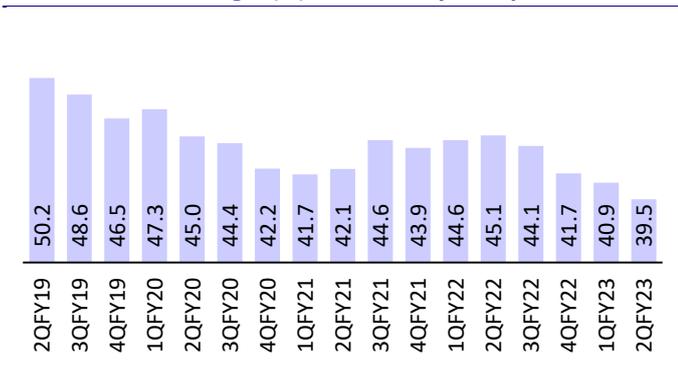
Source: Company, MOFSL

Exhibit 7: ...while that of Value stood at 78%



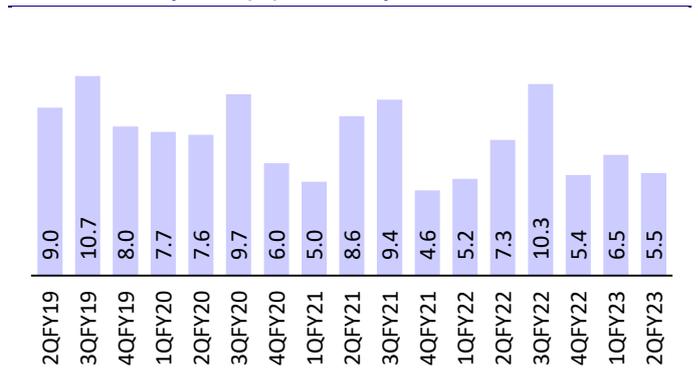
Source: Company, MOFSL

Exhibit 8: Gross margin (%) contracts by 560bp YoY to 39.5%

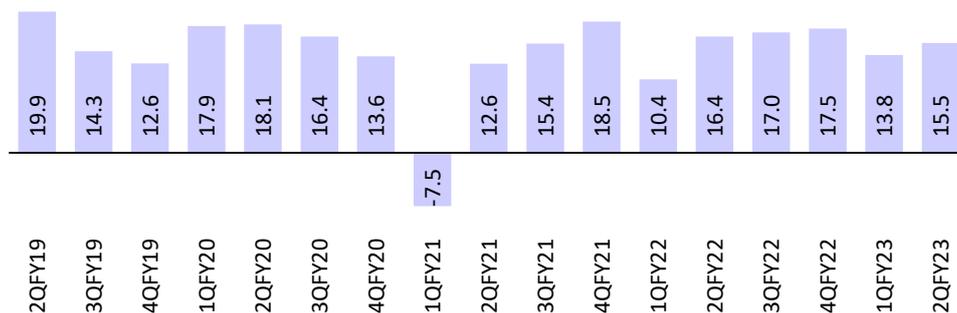


Source: Company, MOFSL

Exhibit 9: Ad spends (%) fell 180bp YoY to 5.5% of sales



Source: Company, MOFSL

Exhibit 10: EBITDA margin (%) contracts by 90bp YoY to 15.5% in 2QFY23

Source: Company, MOFSL

Valuation and view

- Changes to the model have resulted in a 12%/9% increase in our FY23/FY24 EPS estimate as a result of a beat in 2QFY23 earnings and healthy sales outlook.
- We had [downgraded UNSP to Neutral in Nov'21](#) after the stock outperformed our Coverage Universe. Fair valuations after the outperformance, potential headwinds in the form of cost inflation (also highlighted in our [Feb'22 AlcoBev note](#)), and delays in price increases are likely to adversely affect earnings growth. Around 70% of UNSP's sales accrue from markets where state governments regulate pricing.
- Differential excise on beer and spirits (as being experimented by a few states) may be a potential dampener on Spirit stocks, if other states follow suit. This will especially be true if beer volume growth offsets the excise waived off.
- We maintain our **Neutral** rating with a TP of INR880, valuing the stock at 50x Sep'24E EPS.

Exhibit 11: Change our FY23/FY24 PAT estimate by 12%/9%

(INR b)	New estimate		Old estimate		Change (%)	
	FY23	FY24	FY23	FY24	FY23	FY24
Total Income	97.9	100.6	93.9	95.7	4.3	5.1
EBITDA	16.0	18.4	14.7	17.2	8.3	6.9
Adjusted PAT	11.2	12.2	10.0	11.2	11.8	9.3

Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	
Net Sales	81,269	89,322	90,565	78,652	93,441	97,924	1,00,633	
Other Operating Inc.	432	484	344	240	376	0	0	
Total Revenue	81,701	89,806	90,909	78,892	93,817	97,924	1,00,633	
Change (%)	-4.4	9.9	1.2	-13.2	18.9	4.4	2.8	
Gross Profit	39,725	43,857	40,689	34,210	41,121	41,324	47,298	
Margin (%)	48.6	48.8	44.8	43.4	43.8	42.2	47.0	
Other Expenditure	-29,446	-30,983	-25,608	-24,333	-26,256	-25,362	-28,882	
EBITDA	10,279	12,874	15,081	9,877	14,865	15,962	18,416	
Change (%)	5.9	25.2	17.1	-34.5	50.5	7.4	15.4	
Margin (%)	12.6	14.3	16.6	12.5	15.8	16.3	18.3	
Depreciation	-1,351	-1,445	-2,275	-2,493	-2,542	-2,542	-2,669	
Int. and Fin. Charges	-2,675	-2,200	-1,907	-1,658	-893	-509	-255	
Other Income	1,080	952	455	478	415	602	812	
Profit before Taxes	7,333	10,181	11,354	6,204	11,845	13,512	16,305	
Change (%)	26.3	38.8	11.5	-45.4	90.9	14.1	20.7	
Margin (%)	9.0	11.3	12.5	7.9	12.6	13.8	16.2	
Tax	2,433	3,416	3,445	1,587	2,734	2,338	4,109	
Tax Rate (%)	33.2	33.6	30.3	25.6	23.1	17.3	25.2	
Adjusted PAT	4,900	6,765	7,909	4,617	9,111	11,175	12,196	
Change (%)	26.1	38.1	16.9	-41.6	97.3	22.7	9.1	
Margin (%)	6.0	7.5	8.7	5.9	9.7	11.4	12.1	
Non-rec. (Exp.)/Income	717	-179	-862	-1,514	-1,413	0	0	
Reported PAT	5,617	6,586	7,047	3,103	7,698	11,175	12,196	

Balance Sheet							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	
Share Capital	1,453	1,453	1,453	1,453	1,453	1,453	1,453	
Reserves	23,585	29,862	36,644	39,815	47,564	51,670	55,147	
Net Worth	25,038	31,315	38,097	41,268	49,017	53,123	56,600	
Loans	32,505	25,825	15,195	7,134	2,637	1,137	637	
Deferred Tax Liabilities	-856	-1,878	-1,590	-1,711	-1,478	-1,478	-1,478	
Capital Employed	56,687	55,262	51,702	46,691	50,176	52,782	55,759	
Gross Block	13,561	16,406	19,315	20,093	20,978	21,978	22,978	
Less: Accum. Depn.	-3,540	-5,124	-5,968	-7,085	-7,966	-10,508	-13,177	
Net Fixed Assets	10,021	11,282	13,347	13,008	13,012	11,470	9,801	
Capital WIP	980	1,171	1,187	865	897	897	897	
Investments	2,775	2,984	2,526	2,021	4,390	4,390	3,890	
Curr. Assets, L&A	71,778	69,308	66,895	63,807	64,376	71,098	76,931	
Inventory	18,694	18,767	18,361	19,810	20,771	20,564	21,133	
Account Receivables	26,998	25,181	22,835	21,601	23,021	26,829	27,571	
Cash and Bank	1,198	588	345	553	328	1,062	169	
Others	24,888	24,772	25,354	21,843	20,256	22,643	28,058	
Curr. Liab. and Prov.	28,867	29,483	32,253	33,010	32,499	35,073	35,759	
Account Payables	13,935	13,360	11,712	13,813	15,048	16,442	15,819	
Other Liabilities	11,490	12,346	16,196	13,743	12,743	14,017	15,419	
Provisions	3,442	3,777	4,345	5,454	4,708	4,614	4,522	
Net Current Assets	42,911	39,825	34,642	30,797	31,877	36,025	41,172	
Application of Funds	56,687	55,262	51,702	46,691	50,176	52,782	55,759	

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)							
EPS	6.7	9.3	10.9	6.4	12.5	15.4	16.8
Cash EPS	8.6	11.3	14.0	9.8	16.0	18.9	20.5
BV/Share	34.5	43.1	52.4	56.8	67.5	73.1	77.9
DPS	0.0	0.0	0.0	0.0	0.0	10.0	6.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	65.0	35.7
Valuation (x)							
P/E ratio	128.1	92.8	79.4	136.0	68.9	56.2	51.5
Cash P/E ratio	100.4	76.5	61.6	88.3	53.9	45.8	42.2
EV/Sales ratio	1.9	1.6	1.5	1.6	1.3	1.2	1.2
EV/EBITDA ratio	63.8	50.5	42.4	64.0	42.1	39.1	33.9
P/BV ratio	25.1	20.0	16.5	15.2	12.8	11.8	11.1
Return Ratios (%)							
RoE	19.6	21.6	20.8	11.2	18.6	21.0	21.5
RoCE	11.6	14.7	17.3	16.8	25.4	26.6	29.7
RoIC	11.3	14.9	18.2	12.1	21.6	24.4	24.2
Working Capital Ratios							
Asset Turnover (x)	1.4	1.6	1.8	1.7	1.9	1.9	1.8
Leverage Ratio							
Debt/Equity ratio (x)	1.3	0.8	0.4	0.2	0.1	0.0	0.0

Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
(INR m)							
OP/(loss) before Tax	8,403	9,914	11,347	4,690	10,240	13,512	16,305
Int./Div. Received	205	1,245	-559	1,887	2,248	-602	-812
Depreciation and Amort.	1,351	1,445	2,275	2,493	2,542	2,542	2,669
Interest Paid	1,708	1,775	1,626	1,428	377	509	255
Direct Taxes Paid	-3,898	-8,238	-5,658	-1,253	-4,463	-2,338	-4,109
Incr./Decr. in WC	1,694	2,434	-2,361	8,036	-2,059	-3,413	-6,041
CF from Operations	9,463	8,575	6,670	17,281	8,885	10,211	8,267
(Incr./Decr. in FA	41	-656	-1,978	-1,062	-778	-1,000	-1,000
Free Cash Flow	9,621	8,332	6,331	16,410	8,277	9,812	8,079
(Pur./Sale of Investments	213	319	0	0	-2,221	0	500
Other investing items	1,174	-142	599	993	554	196	-4,359
CF from Invest.	1,545	-66	260	122	-2,275	-202	-4,047
Issue of Shares	0	0	0	0	0	0	0
Incr./Decr. in Debt	-7,902	-7,004	-5,572	-15,981	-6,558	-1,500	-500
Dividend Paid	0	0	0	0	0	-7,265	-4,359
Others	-2,431	-2,115	-1,601	-1,214	-277	-509	-255
CF from Fin. Activity	-10,333	-9,119	-7,173	-17,195	-6,835	-9,274	-5,114
Incr./Decr. in Cash	675	-610	-243	208	-225	734	-894
Add: Opening Balance	523	1,198	588	345	553	328	1,062
Closing Balance	1,198	588	345	553	328	1,062	169

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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