

With slump sale, premiumisation further accelerates...

About the stock: United Spirits (USL) is India's leading alcoholic beverage company and subsidiary of global leader Diageo plc. It 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.

- Prestige and above segment comprises 80% of its volumes
- It aims to grow its revenues in double digits and expects its operating margin to remain in mid to high-teen levels in the medium term

Q2FY23 Results: Gross margin pressure negated via cost control measures.

- Net revenues were up 18% YoY to ₹ 2880 crore amid 14% rise in volumes
- EBITDA grew 5% to ₹ 446 crore with margins at 15.5% (17.4% in Q2FY22)
- However, PAT doubled to ₹ 563 crore as operational performance was further supported by exceptional profit of ₹ 372 crore, due to slump sale

What should investors do? USL is undergoing a complete revamp of its product mix (with premiumisation expected to accelerate over 90% of revenue mix in the near term). Thus, it will strengthen its already existing moat around the business (duopoly with Pernod Richard) and further improve return ratios in the longer term.

- We remain positive on the long term growth prospects of the stock and maintain our **BUY** recommendation

Target Price and Valuation: We value USL at ₹ 1050 i.e. 64x P/E on FY24E EPS.

Key triggers for future price performance:

- Newer launches and brand extensions in the upper prestige and introduction of international brands from the Diageo stable
- Favourable regulatory environment (lower customs duty, higher distribution, composite shops, etc) in several states
- Debt free status, double-digit return ratios & strong cash generation

Alternate Stock Idea: Apart from USL, we remain positive on Radico.

- It has been reporting volume growth, well ahead of the industry and is strategising on entering premium whisky category
- It has been continuously reducing its overall net-debt from peak of ~₹ 950 crore to ~₹ 198 crore in FY21 and generated ~₹ 380 crore of CFO in FY21

UNITED SPIRITS
A DIAGEO Group Company

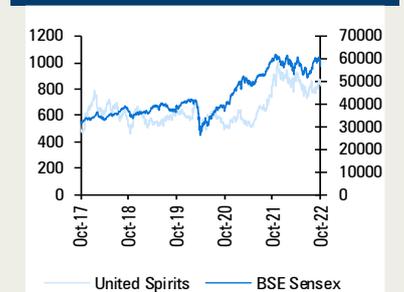
Stock data

Particular	Amount
Market Capitalization (₹ cr)	63,205.5
Total Debt (FY22) (₹ cr)	341.7
Cash (FY22) (₹ cr)	60.3
EV (₹ cr)	63,205.5
52 week H/L	1020/712
Equity Capital (₹ cr)	145.3
Face Value (₹)	2.0

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	56.7	56.7	56.7	56.7
FII	17.9	17.7	16.8	16.1
DII	7.5	7.7	8.0	9.0
Others	17.8	17.9	18.5	18.2

Price Chart



Recent event & key risks

- Strategic slump sale of 32 popular brands
- **Key Risk:** (i) Raw material inflation, (ii) Low price hike scenario

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Key Financial Summary

₹ crore	FY20	FY21	FY22	5 years CAGR (%)	FY23E	FY24E	2 years CAGR (%)
Net Sales	9325.4	8131.3	9712.4	2.0	10579.7	11290.4	7.8
EBITDA	1572.3	1052.7	1608.1	5.3	1481.2	1716.1	3.3
EBITDA margin (%)	16.9	12.9	16.6		14.0	15.2	
PAT	658.9	383.6	828.6	15.6	1261.0	1185.6	19.6
P/E (x)	100.6	173.9	78.0		50.1	53.3	
Market cap to Sales (x)	6.8	7.8	6.5		6.0	5.6	
RoCE (%)	23.8	15.6	24.4		19.5	20.6	
RoE (%)	16.9	8.8	16.4		20.3	16.0	

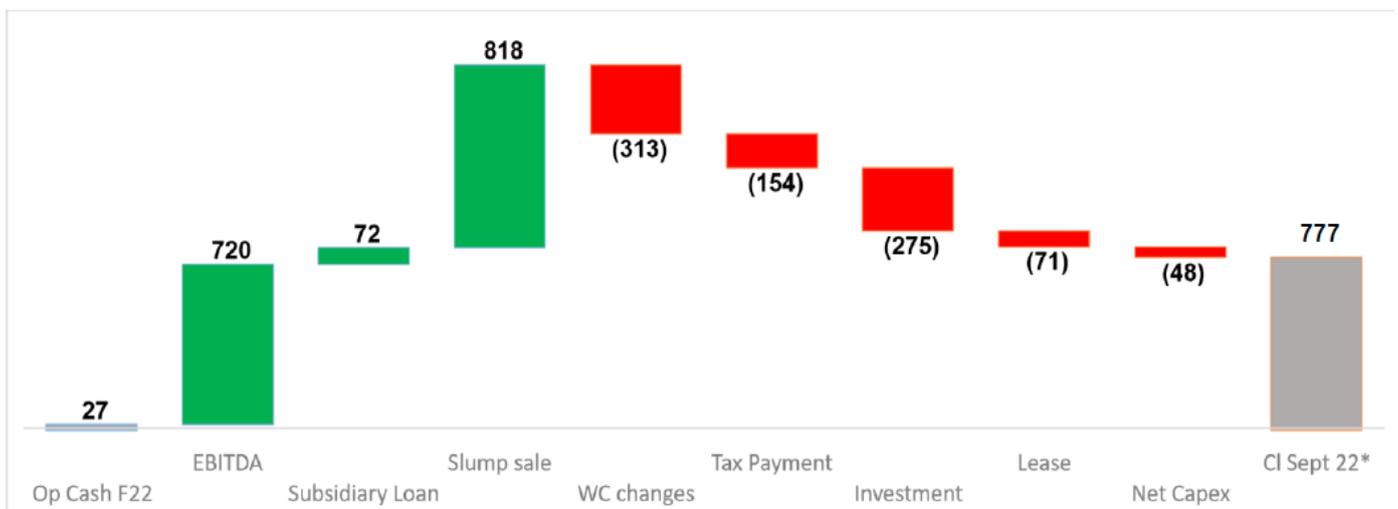
Key takeaways

Q2FY23 Results: Slump sale proceeds invested in working cap, secured funds

- During the quarter, P&A growth was largely broad based and is benefitting from brand renovations in recent quarters
- Gross margin pressure continues to remain high. The management continues to focus on cost control measures and reshaping the product portfolio
- The company also recorded an exceptional profit of ₹ 372 crore (standalone), due to slump sale of 32 popular brands

Exhibit 1: Movement of cash flows in H1

Movement in cash (Rs. Crores)



* The closing cash balance of 777 Cr includes short term fixed deposit of 740 Cr.

Source: USL presentation, ICICI Direct Research

Exhibit 2: Variance Analysis

Standalone	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	2,879.7	2,610.7	2,446.8	17.7	2,169.0	32.8	Higher than estimates due to stronger than expected P&A volume growth
Consumption of RM	1,742.2	1,566.4	1,365.3	27.6	1,281.1	36.0	Gross margins (39.5%) largely in line with estimates (40%), indicating continued high ENA, glass, PET inflation
Employee Expenses	148.4	169.7	166.3	-10.8	166.5	-10.9	
A&P Expenses	158.4	182.7	177.9	-11.0	140.3	12.9	Lower advertisement in Q2 (5.5%), supported EBITDA margins, to an extent
Other Expense	384.8	365.5	311.7	23.5	307.2	25.3	
Total Expense	2,433.8	2,284.4	2,021.2	20.4	1,895.1	28.4	
EBITDA	445.9	326.3	425.6	4.8	273.9	62.8	EBITDA higher than estimates mainly due to lower employee and other expenses
EBITDA Margin (%)	15.5	12.5	17.4	-191 bps	12.6	286 bps	
Depreciation	55.9	66.2	65.5	-14.7	65.3	-14.4	
Interest	14.1	16.2	-1.4	-1,107.1	16.6	-15.1	
Other Income	8.1	25.5	3.5	131.4	25.1	-67.7	
Exceptional Gain/Loss	371.6	0.0	0.5	NA	-38.4	NA	The company booked one-time exceptional profit of ₹ 372 crore, due to slump sale of 32 popular brands
PBT	755.6	269.4	365.5	106.7	178.7	322.8	
Total Tax	192.6	67.8	92.1	109.1	-31.3	-715.3	
PAT	563.0	201.6	273.4	105.9	210.0	168.1	
Key Metrics	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	
P & above vol (Mn cases)	13.0	11.2	11.4	13.6	10.0	30.4	Growth was broad based and benefited from brand renovations in prior quarters
Regular	9.3	8.4	9.1	1.6	8.6	7.9	Largely in-line performance and includes 6.1 million cases that have been sold to in-brew (will be deducted from next quarter onwards)
Total volume (mn cases)	22.2	19.6	20.5	8.3	18.5	19.9	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore	FY22	FY23E			FY24E			Comments
		Old	New	% Change	Old	New	% Change	
Revenue	9,712.4	10,170.9	10,579.7	4.0	10,833.5	11,290.4	4.2	Revenues improved due to likely higher than expected price hikes
EBITDA	1,608.1	1,373.1	1,481.2	7.9	1,668.4	1,716.1	2.9	
EBITDA Margin (%)	16.6	13.5	14.0	50 bps	15.4	15.2	-20 bps	Margins reduced due to higher inflationary impact on raw material prices
PAT	810.6	1,494.5	1,261.0	-15.6	1,093.3	1,185.6	8.4	Lower expected depreciation and higher other income led to revision in estimates
EPS (₹)	11.2	20.6	17.4	-15.7	15.0	16.3	8.8	

Source: ICICI Direct Research

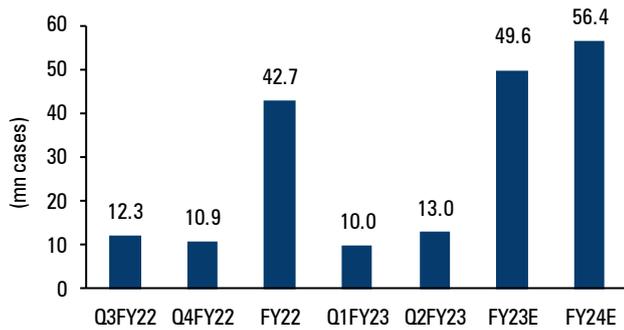
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Volume (Standalone) Cr Cases	6.9	7.9	7.6	7.2	7.6	7.2	Volumes kept intact
Volume Growth (%)	-15.2	14.4	-4.5	-4.9	-4.1	-4.9	
Net Realisation (standalone) ₹/case	1,088	1,169	1,344	1,518	1,282	1,448	Realisation improved due to likely higher than expected price hikes
Realisation Growth (%)	-1.4	7.5	15.0	12.9	9.7	12.9	

Source: ICICI Direct Research

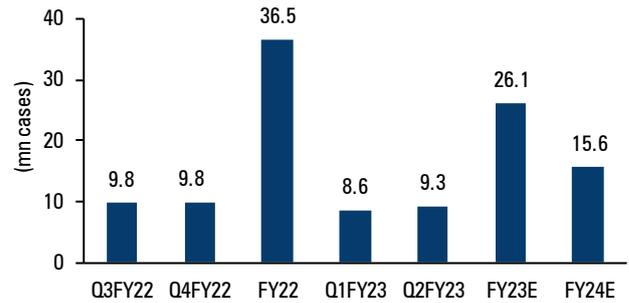
Key Metrics

Exhibit 5: P&A expected to grow at 15% CAGR (FY22-24)



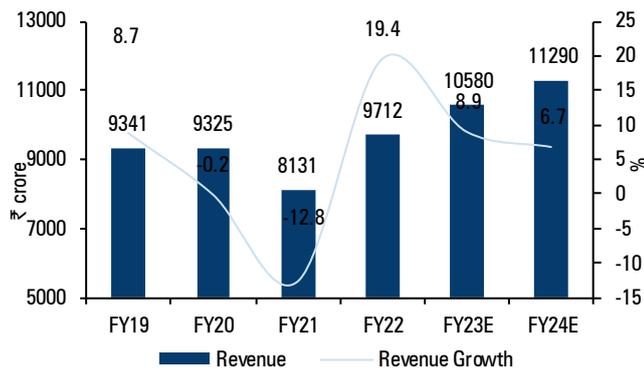
Source: ICICI Direct Research, Company

Exhibit 6: Popular to likely de-grow 35% CAGR (FY22-24)



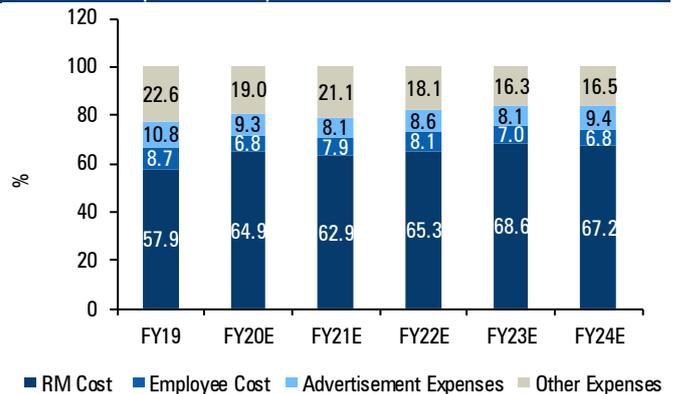
Source: ICICI Direct Research, Company

Exhibit 7: Revenues to grow at 8% CAGR over FY22-24E



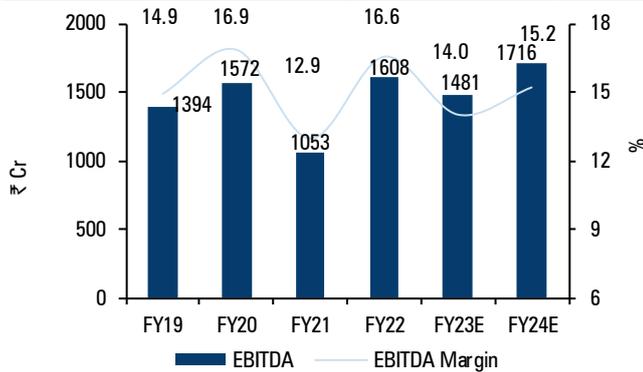
Source: ICICI Direct Research, Company

Exhibit 8: Expense composition



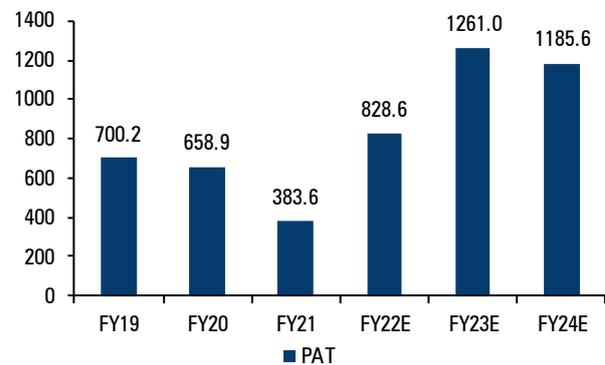
Source: ICICI Direct Research, Company

Exhibit 9: EBITDA expected to grow at 3% CAGR (FY22-24)



Source: Company, ICICI Direct Research

Exhibit 10: PAT expected to grow at 20% CAGR in FY22-24



Source: Company, ICICI Direct Research

Exhibit 11: Valuation ratios

	Sales (₹ cr)	Sales Growth (%)	EPS (₹)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	9325.4	-0.2	8.7	-9.0	100.6	27.8	17.7	23.8
FY21	8131.3	-12.8	5.0	-42.2	173.9	40.8	9.3	15.6
FY22	9712.4	19.4	11.2	123.1	78.0	26.4	16.7	24.4
FY23E	10579.7	8.9	17.4	55.6	50.1	28.5	20.3	19.5
FY24E	11290.4	6.7	16.3	-6.0	53.3	24.5	16.0	20.6

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	8,131.3	9,712.4	10,579.7	11,290.4
Growth (%)	-12.8	19.4	8.9	6.7
Cost of materials consum	4,455.6	5,291.5	6,242.0	6,435.5
Employee benefit expens	556.4	653.1	634.8	654.8
Advertisement&Promo	574.7	694.9	740.6	903.2
Other Expenses	1,491.9	1,464.8	1,481.2	1,580.7
EBITDA	1,052.7	1,608.1	1,481.2	1,716.1
Growth (%)	-33.0	52.8	-7.9	15.9
Depreciation	299.1	303.8	228.0	168.0
EBIT	753.6	1,304.3	1,253.1	1,548.1
Interest	187.6	88.0	31.4	18.4
Other Income	39.6	35.5	49.8	54.7
Exceptional Item	-64.3	-165.2	333.2	0.0
PBT	541.3	1,086.6	1,604.7	1,584.4
Tax	177.9	276.0	343.7	398.8
Reported PAT	363.4	810.6	1,261.0	1,185.6
Adjustments	20.2	18.0	0.0	0.0
Adjusted PAT	383.6	828.6	1,261.0	1,185.6
EPS	5.0	11.2	17.4	16.3

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	383.6	828.6	1,261.0	1,185.6
Add: Depreciation	299.1	303.8	228.0	168.0
Add: Interest paid	187.6	88.0	31.4	18.4
Cash Profit	682.7	1,132.4	1,489.1	1,353.6
Increase/(Decrease) in CL	94.8	-51.2	-280.8	7.9
(Increase)/Decrease in CA	77.7	-384.0	-269.8	-339.7
Others	774.9	103.3	0	0
CF from Operating Activitie	1,817.7	888.5	969.8	1,040.3
Purchase of Fixed Assets	-128.9	-77.8	345.2	-205.0
(Inc)/Dec in Investments	70.4	-155.4	-1,013.1	-766.2
Others	77.7	-55.9	211.4	65.1
CF from Investing Activitie	19.2	-289.1	-456.4	-906.1
Inc/(Dec) in Loan Funds	-744.0	-535.0	-100.0	-100.0
Inc/(Dec) in Sh. Cap. & Re	0.0	0.0	0.0	0.0
Less: Interest paid	-187.6	-88.0	-31.4	-18.4
Others	-894.9	0.0	-300.0	0.0
CF from financing activitie	-1,826.5	-623.0	-431.4	-118.4
Op. Cash and cash Eq.	73.5	83.9	60.3	142.3
Adjustments	0	0	0	0
Cl. Cash and cash Eq.	83.9	60.3	142.3	158.0

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Source of Funds				
Equity Capital	145.3	145.3	145.3	145.3
Reserves & Surplus	3,974.5	4,808.4	6,069.4	7,255.0
Shareholder's Fund	4,119.8	4,953.7	6,214.7	7,400.4
Minority Interest	-60.9	-78.9	-78.9	-78.9
Loan Funds	876.7	341.7	241.7	141.7
Provisions	9.6	48.3	53.1	58.4
Other Liabilities	157.8	263.7	290.1	319.1
Total Current Liabilities	3,434.0	3,382.8	3,102.0	3,109.9
Source of Funds	8,537.0	8,911.3	9,822.7	10,950.6
Application of Funds				
Gross Block	2,246.9	2,250.2	1,900.2	2,100.2
Less: Acc. Depreciation	922.2	1,035.0	963.0	1,131.0
Net Block	1,324.7	1,215.2	937.2	969.2
Intangible Assets	375.5	358.0	358.0	358.0
Capital WIP	96.7	95.7	100.5	105.5
Goodwill	21.0	21.0	21.0	21.0
Non-Current Investments	23.7	0.0	950.0	1,650.0
Deferred Tax Assets (net)	171.1	147.8	0.0	0.0
Long term loans & advan	1,082.3	1,261.4	1,324.5	1,390.7
Other Non current assets	639.0	648.8	616.4	585.5
Current Investments	0.0	222.1	222.1	222.1
Inventories	2,051.9	2,156.7	2,173.9	2,320.0
Debtor	2,187.2	2,373.6	2,608.7	2,783.9
Cash	83.9	60.3	142.3	158.0
Loan & Advance, Other C	480.0	350.7	368.2	386.6
Total Current assets	4,803.0	5,163.4	5,515.2	5,870.7
Application of Funds	8,537.0	8,911.3	9,822.7	10,950.6

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios

(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Book Value	56.7	68.2	85.5	101.9
Cash per share	1.2	0.8	2.0	2.2
EPS	5.0	11.2	17.4	16.3
Cash EPS	9.4	15.6	20.5	18.6
DPS	0.0	0.0	0.0	0.0
Profitability & Operating Ratios				
EBITDA Margin (%)	12.9	16.6	14.0	15.2
PAT Margin (%)	4.7	8.5	11.9	10.5
Fixed Asset Turnover (x)	3.6	4.3	5.6	5.4
Inventory Turnover (Days)	92.1	81.1	75.0	75.0
Debtor (Days)	98.2	89.2	90.0	90.0
Creditors (Days)	63.6	59.5	48.0	48.0
Return Ratios (%)				
RoE	8.8	16.4	20.3	16.0
RoCE	15.6	24.4	19.5	20.6
RoIC	15.4	24.9	23.4	27.0
Valuation Ratios (x)				
P/E	173.9	78.0	50.1	53.3
Price to Book Value	10.2	8.5	6.8	5.7
EV/EBITDA	40.8	26.4	28.5	24.5
EV/Sales	5.3	4.4	4.0	3.7
Leverage & Solvency Ratios				
Debt to equity (x)	0.2	0.1	0.0	0.0
Interest Coverage (x)	4.0	14.8	39.9	84.0
Debt to EBITDA (x)	1.5	0.5	0.2	0.1
Current Ratio	1.4	1.5	1.8	1.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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