

## Premiumisation visible on top; await impact on EBITDA

**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

**Q3FY23 Results:** Margin pain increased by BIO shortfall and Delhi RTM reversal.

- Net revenues were down 6% YoY to ₹ 2779 crore amid 25% slump in volumes (due to slump sale of popular brands in prior quarter)
- EBITDA de-grew 28% to ₹ 372 crore with margins at 13.4% (17.6% in base)
- PAT de-grew 28% to ₹ 214 crore as a further negative impact of exceptional loss of ₹ 149 crore on operational performance negated by negative tax rate

**What should investors do?** Although inflation continues to remain strong in the near to medium term, USL continues to revamp its existing premium portfolio, introduce newer brands, control costs and seek price hikes from states. Delhi RTM one-offs are expected to continue till next two quarters.

- 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 ₹ 900 i.e. 50x P/E on FY25E 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 and 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

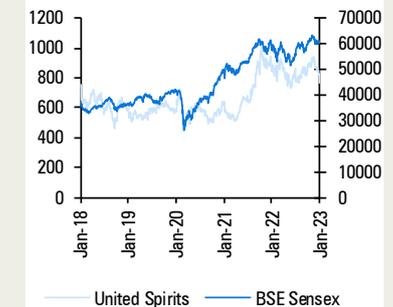
### Stock data

Particular	Amount
Market Capitalization (₹ cr)	55,577.3
Total Debt (FY22) (₹ cr)	341.7
Cash (FY22) (₹ cr)	60.3
EV (₹ cr)	55,577.3
52 week H/L	952/712
Equity Capital (₹ cr)	145.3
Face Value (₹)	2.0

### Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	56.7	56.7	56.7	56.7
FII	17.7	16.8	16.1	15.7
DII	7.7	8.0	9.0	9.5
Others	17.9	18.5	18.2	18.0

### Price Chart



### Recent event & key risks

- Supply agility programme launch for cost control measure
- **Key Risk:** (i) Raw material inflation, (ii) Low price hike scenario

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### Key Financial Summary

₹ crore	FY21	FY22	5 years CAGR (%)	FY23E	FY24E	FY25E	3 years CAGR (%)
Net Sales	8131.3	9712.4	2.0	10834.4	11542.1	13121.0	10.5
EBITDA	1052.7	1608.1	5.3	1571.0	1639.0	1994.4	7.4
EBITDA margin (%)	12.9	16.6		14.5	14.2	15.2	
PAT	383.6	828.6	15.6	1184.7	1034.8	1303.5	16.3
P/E (x)	153.0	68.6		46.9	53.7	42.6	
Market cap to Sales (x)	6.8	5.7		5.1	4.8	4.2	
RoCE (%)	15.6	24.4		21.0	18.8	19.9	
RoE (%)	8.8	16.4		19.3	14.4	15.4	

## Key takeaways

### Q3FY23 Results: Premiumisation accelerates to 86% of net sales

- 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 loss of ₹ 150 crore led by provision on certain land holdings having regulatory risks and severance cost relating to a closed unit

### Q3FY23 Earnings Conference Call Highlights

- Lower end of the portfolio felt inflation crunch
- Premiumisation continues its strong run, marriage season also helped
- USL has commenced a multi-year supply chain agility programme, which has a potential for cost control in the tune of ₹ 130-150 crore per annum. The programme would require investment of ₹ 500 crore (cash: non-cash = 60:40 ratio). Benefits would start flowing from CY24 end and will have a four to four-and-a-half-year payback period
- Johnnie Walker Blonde has been launched in India and has been priced near Black and White category. Royal Challengers renovated launch is also performing well across states
- Raw material inflation continues unabated (glass inflation up, ENA flat, paper and PET softened)
- USL received price hikes in West Bengal, Delhi, Odisha, Karnataka and a union territory (Daman and Diu)
- The management priority is to first reach 15% EBITDA margin mark and then strategise to take it further

**Exhibit 1: Variance Analysis**

Item	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	2,778.7	2,496.6	2,947.4	-5.7	2,911.0	-4.5	Partial BIO activation, RTM changes in Delhi impacted topline
Consumption of RM	1,643.6	1,485.4	1,616.2	1.7	1,762.9	-6.8	Gross margins (40.9%) largely in line with estimates (40.5%), indicating continued high ENA, glass, PET inflation
Employee Expenses	161.0	137.3	148.1	8.7	152.6	5.5	
A&P Expenses	279.0	224.7	300.0	-7.0	160.0	74.4	A&P expenses continued at an increased pace to support premium portfolio
Other Expense	323.3	349.5	364.4	-11.3	398.2	-18.8	
Total Expense	2,406.9	2,197.0	2,428.7	-0.9	2,473.7	-2.7	
EBITDA	371.8	299.6	518.7	-28.3	437.3	-15.0	EBITDA higher than estimates mainly due to higher realisation (both better product mix and price hikes)
EBITDA Margin (%)	13.4	12.0	17.6	-422 bps	15.0	-164 bps	
Depreciation	64.7	66.6	75.8	-14.6	65.9	-1.8	
Interest	24.4	12.2	39.2	-37.8	21.0	16.2	
Other Income	21.3	16.4	0.1	NA	7.6	180.3	
Share of profit/loss from as	-0.2	0.0	0.0	NA	-0.5	-60.0	
Exceptional Gain/Loss	-148.7	0.0	0.0	NA	381.5	NA	One-time exceptional loss due to provision on certain land holdings having regulatory risks and severance cost relating to a closed unit
PBT	155.1	237.2	403.8	-61.6	739.0	-79.0	
Total Tax	-59.1	59.7	108.5	-154.5	191.3	-130.9	
PAT	214.2	177.5	295.3	-27.5	547.7	-60.9	
<b>Key Metrics</b>	<b>Q3FY23</b>	<b>Q3FY23E</b>	<b>Q3FY22</b>	<b>YoY (%)</b>	<b>Q2FY23</b>	<b>QoQ (%)</b>	
P & above vol (Mn cases)	12.7	12.6	12.3	3.1	13.0	-1.8	Premiumisation continues on a strong base
Regular	3.9	3.9	9.8	-60.3	9.3	-58.1	Largely in line performance and excludes 6.1 million cases that have been sold to in-brew (included in base quarters)
Total volume (mn cases)	16.6	16.5	22.1	-24.9	22.2	-25.3	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

Item	FY23E				FY24E			FY25E	Comments
	FY22	Old	New	% Change	Old	New	% Change	Introduced	
(₹ Crore)									
Revenue	9,712.4	10,579.7	10,834.4	2.4	11,290.4	11,542.1	2.2	13,121.0	
EBITDA	1,608.1	1,481.2	1,571.0	6.1	1,716.1	1,639.0	-4.5	1,994.4	
EBITDA Margin (%)	16.6	14.0	14.5	50 bps	15.2	14.2	-100 bps	15.2	Margins reduced due to higher inflationary impact on raw material prices
PAT	810.6	1,261.0	1,184.7	-6.0	1,185.6	1,034.8	-12.7	1,303.5	
EPS (₹)	11.2	17.4	16.3	-6.3	16.3	14.2	-12.6	17.9	

Source: ICICI Direct Research

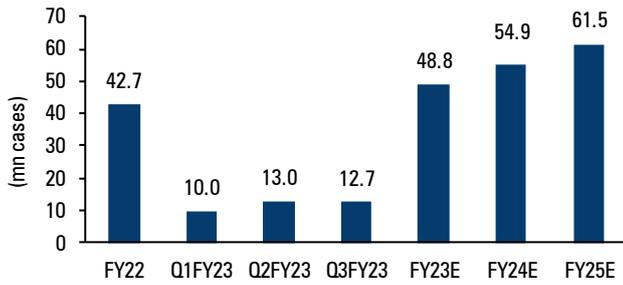
**Exhibit 3: Assumptions**

Item	Current			Earlier	Introduced		Comments
	FY22	FY23E	FY24E	FY23E	FY24E	FY25E	
Volume (Standalone) Cr Cases	7.9	7.5	7.1	7.6	7.2	7.8	
Volume Growth (%)	14.4	-5.8	-5.5	-4.1	-4.9	8.8	
Net Realisation (standalone) ₹/case	1,169	1,390	1,585	1,282	1,448	1,625	Realisation improved due to likely higher than expected price hikes
Realisation Growth (%)	7.5	18.9	14.0	9.7	12.9	12.3	

Source: ICICI Direct Research

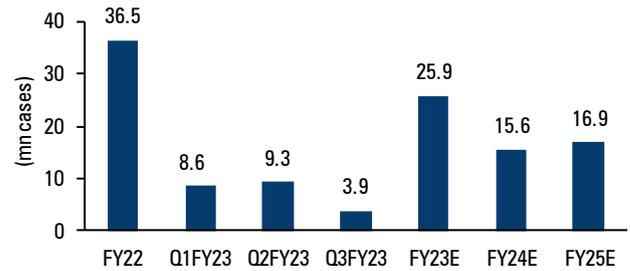
## Key Metrics

Exhibit 4: P&A expected to grow at 13% CAGR (FY22-25)



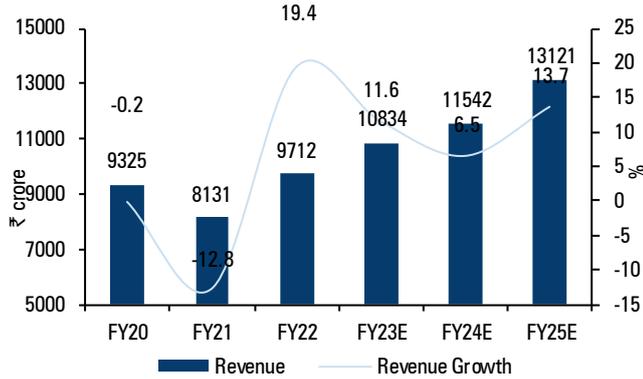
Source: ICICI Direct Research, Company

Exhibit 5: Popular to likely de-grow 23% CAGR (FY22-25)



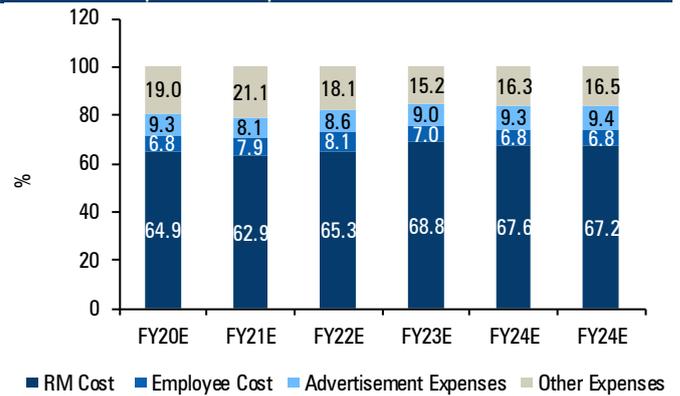
Source: ICICI Direct Research, Company

Exhibit 6: Revenues to grow at 11% CAGR over FY22-25E



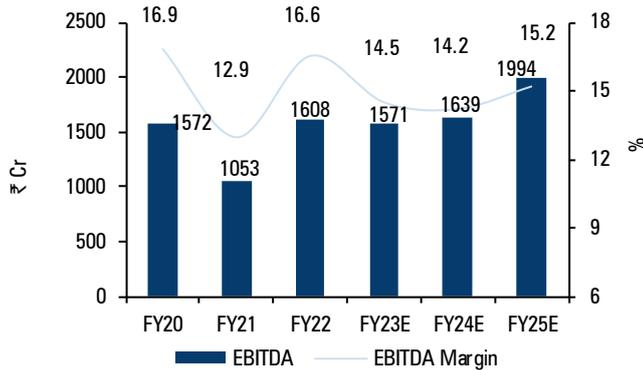
Source: ICICI Direct Research, Company

Exhibit 7: Expense composition



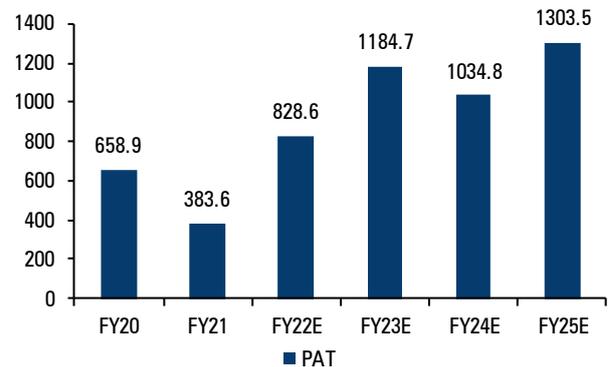
Source: ICICI Direct Research, Company

Exhibit 8: EBITDA expected to grow at 7% CAGR (FY22-25)



Source: Company, ICICI Direct Research

Exhibit 9: PAT expected to grow at 16% CAGR in FY22-25



Source: Company, ICICI Direct Research

Exhibit 10: Valuation ratios

	Sales (₹ cr)	Sales Growth (%)	EPS (₹)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY21	8131.3	-12.8	5.0	-42.2	153.0	40.8	9.3	15.6
FY22	9712.4	19.4	11.2	123.1	68.6	26.4	16.7	24.4
FY23E	10834.4	11.6	16.3	46.2	46.9	26.9	19.3	21.0
FY24E	11542.1	6.5	14.2	-12.7	53.7	25.7	14.4	18.8
FY25E	13121.0	13.7	17.9	26.0	42.6	21.0	15.4	19.9

Source: Company, ICICI Direct Research

## Financial Summary

**Exhibit 11: Profit and loss statement** ₹ crore

(Year-end March)	FY22	FY23E	FY24E	FY25E
Total operating Income	9,712.4	10,834.4	11,542.1	13,121.0
Growth (%)	19.4	11.6	6.5	13.7
Cost of materials consum	5,291.5	6,370.6	6,694.4	7,478.9
Employee benefit expens	653.1	650.1	669.4	761.0
Advertisement&Promo	694.9	834.2	923.4	1,049.7
Other Expenses	1,464.8	1,408.5	1,615.9	1,836.9
EBITDA	1,608.1	1,571.0	1,639.0	1,994.4
Growth (%)	52.8	-2.3	4.3	21.7
Depreciation	303.8	256.5	273.0	299.0
EBIT	1,304.3	1,314.5	1,365.9	1,695.4
Interest	88.0	72.5	35.4	10.4
Other Income	35.5	66.4	52.3	57.0
Exceptional Item	-165.2	194.4	0.0	0.0
PBT	1,086.6	1,502.8	1,382.8	1,741.9
Tax	276.0	318.1	348.1	438.4
Reported PAT	810.6	1,184.7	1,034.8	1,303.5
Adjustments	18.0	0.0	0.0	0.0
Adjusted PAT	828.6	1,184.7	1,034.8	1,303.5
EPS	11.2	16.3	14.2	17.9

Source: Company, ICICI Direct Research

**Exhibit 12: Cash flow statement** ₹ crore

(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	828.6	1,184.7	1,034.8	1,303.5
Add: Depreciation	303.8	256.5	273.0	299.0
Add: Interest paid	88.0	72.5	35.4	10.4
Cash Profit	1,132.4	1,441.3	1,307.8	1,602.5
Increase/(Decrease) in CL	-51.2	-247.3	7.5	126.4
(Increase)/Decrease in CA	-384.0	-385.0	-338.3	-733.1
Others	103.3	0	0	0
CF from Operating Activitie	888.5	881.5	1,012.4	1,006.2
Purchase of Fixed Assets	-77.8	345.2	-205.0	-205.3
(Inc)/Dec in Investments	-155.4	-963.1	-666.2	-669.5
Others	-55.9	211.4	65.1	67.0
CF from Investing Activitie	-289.1	-406.4	-806.1	-807.8
Inc/(Dec) in Loan Funds	-535.0	-100.0	-100.0	-100.0
Inc/(Dec) in Sh. Cap. & Re	0.0	0.0	0.0	0.0
Less: Interest paid	-88.0	-72.5	-35.4	-10.4
Others	0.0	-300.0	0.0	0.0
CF from financing activitie	-623.0	-472.5	-135.4	-110.4
Op. Cash and cash Eq.	83.9	60.3	62.8	133.7
Adjustments	0	0	0	0
Cl. Cash and cash Eq.	60.3	62.8	133.7	221.7

Source: Company, ICICI Direct Research

**Exhibit 13: Balance Sheet** ₹ crore

(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Source of Funds</b>				
Equity Capital	145.3	145.3	145.3	145.3
Reserves & Surplus	4,808.4	5,993.1	7,027.9	8,331.4
Shareholder's Fund	4,953.7	6,138.5	7,173.2	8,476.7
Minority Interest	-78.9	-78.9	-78.9	-78.9
Loan Funds	341.7	241.7	141.7	41.7
Provisions	48.3	53.1	58.4	64.3
Other Liabilities	263.7	290.1	319.1	351.0
Total Current Liabilities	3,382.8	3,135.5	3,143.0	3,269.4
Source of Funds	8,911.3	9,779.9	10,756.5	12,124.1
<b>Application of Funds</b>				
Gross Block	2,250.2	1,900.2	2,100.2	2,300.2
Less: Acc. Depreciation	1,035.0	991.5	1,264.6	1,563.6
Net Block	1,215.2	908.7	835.6	736.6
Intangible Assets	358.0	358.0	358.0	358.0
Capital WIP	95.7	100.5	105.5	110.8
Goodwill	21.0	21.0	21.0	21.0
Non-Current Investments	0.0	900.0	1,500.0	2,100.0
Deferred Tax Assets (net)	147.8	0.0	0.0	0.0
Long term loans & advan	1,261.4	1,324.5	1,390.7	1,460.2
Other Non current assets	648.8	616.4	585.5	556.3
Current Investments	222.1	222.1	222.1	222.1
Inventories	2,156.7	2,226.2	2,371.7	2,696.1
Debtor	2,373.6	2,671.5	2,846.0	3,235.3
Cash	60.3	62.8	133.7	221.7
Loan & Advance, Other C	350.7	368.2	386.6	406.0
Total Current assets	5,163.4	5,550.9	5,960.1	6,781.2
Application of Funds	8,911.3	9,779.9	10,756.5	12,124.1

Source: Company, ICICI Direct Research

**Exhibit 14: Key ratios**

(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
Book Value	68.2	84.5	98.7	116.7
Cash per share	0.8	0.9	1.8	3.1
EPS	11.2	16.3	14.2	17.9
Cash EPS	15.6	19.8	18.0	22.1
DPS	0.0	0.0	0.0	0.0
<b>Profitability &amp; Operating Ratios</b>				
EBITDA Margin (%)	16.6	14.5	14.2	15.2
PAT Margin (%)	8.5	10.9	9.0	9.9
Fixed Asset Turnover (x)	4.3	5.7	5.5	5.7
Inventory Turnover (Days)	81.1	75.0	75.0	75.0
Debtor (Days)	89.2	90.0	90.0	90.0
Creditors (Days)	59.5	48.0	48.0	48.0
<b>Return Ratios (%)</b>				
RoE	16.4	19.3	14.4	15.4
RoCE	24.4	21.0	18.8	19.9
RoIC	24.9	24.3	24.0	27.4
<b>Valuation Ratios (x)</b>				
P/E	68.6	46.9	53.7	42.6
Price to Book Value	8.5	6.9	5.9	5.0
EV/EBITDA	26.4	26.9	25.7	21.0
EV/Sales	4.4	3.9	3.7	3.2
<b>Leverage &amp; Solvency Ratios</b>				
Debt to equity (x)	0.1	0.0	0.0	0.0
Interest Coverage (x)	14.8	18.1	38.6	162.6
Debt to EBITDA (x)	0.5	0.2	0.1	0.1
Current Ratio	1.5	1.8	1.9	2.1

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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