

United Spirits Ltd.

Prospective performance priced in

United Spirits Ltd. (USL) reported a sales volume of ~14 Mn cases in Q1 FY25, with a volume mix of 84:16 and a value mix of 90:10 between the Prestige and Above (P&A) and Popular categories, respectively. The P&A segment experienced a volume growth of ~5% and a 5% increase in net realization per case on a YoY basis. Conversely, the Popular category saw a volume decline of ~5% but achieved a 3% increase in net realization per case on a YoY basis.

Visibility of recovering demand

Although management has projected a growth rate of less than double digits for H1FY25, they express confidence in attaining a blended double-digit growth across the entire product portfolio, subsequently coming out of the sluggishness observed in consumer discretionary spending in the last year, which resulted in an NSV growth of ~3%. The overall NSV growth for Q1FY25 was reported at 8.3%, with the P&A segment growing at ~10%, attributable to a ~5% increase in volume, a ~3.4% improvement in product mix, and a ~1.6% rise in pricing.

Margin delivery is underway

The EBITDA margin for the quarter stood at ~19.5%, including a 100-bps benefit from provision adjustments. This strong performance was achieved through structural cost reduction initiatives and dynamic resource allocation between A&P and trade spend. Additionally, the Company's supply agility program has shown positive initial results, with 40% of the expected benefits already reflected in the margins by FY24. The complete benefits of the program are expected to materialize by FY27-28, contributing to long-term cost efficiency and margin improvements.

View & Valuation

Given the factors mentioned, we have revised our estimates and changed our rating from NEUTRAL to REDUCE. With the SOTP method for valuation, we evaluated the beverage alcohol business based on the FY25E standalone operating profit with a ~44x EV/EBITDA multiple (upgrading EV/EBITDA by 10% from the 10-year median 40x). Additionally, we have assigned a valuation of Rs. 107 per share to the sports segment. Consequently, we suggest a target price of Rs. 1,285, indicating a 10% downside. We believe the downside results from market valuations and not deterioration in fundamental prospects. Currently, the valuation is running ahead of the fundamental prospects, pricing in its optimism for forthcoming years.

26th July 2024

REDUCE

CMP: 1,422

TARGET Rs. 1,285 (-10%)

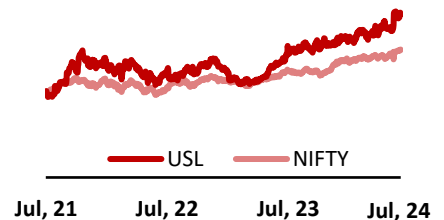
Company Data

Bloomberg Code	UNSP IN
MCAP (Rs. Mn)	10,33,794
O/S Shares (Mn)	727
52w High/Low	1,436/976
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	1,511

Shareholding Pattern %

	Jun-24	Mar-24	Dec-23
Promoters	56.67	56.67	56.67
FIIIs	15.09	16.68	16.23
DIIIs	14.01	12.28	12.5
Non-Institutional	14.22	14.37	14.59

USL vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Bn)	FY24	FY25E	FY26E
Revenue	106	119	133
EBITDA	17	19	22
Net Profit	13	14	16
Total Assets	107	124	142
ROCE (%)	22%	19%	18%
ROE (%)	20%	18%	17%

Source: Company, Keynote Capitals Ltd.

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Q1 FY25 Standalone Result Update

Result Highlights (Rs. Mn)

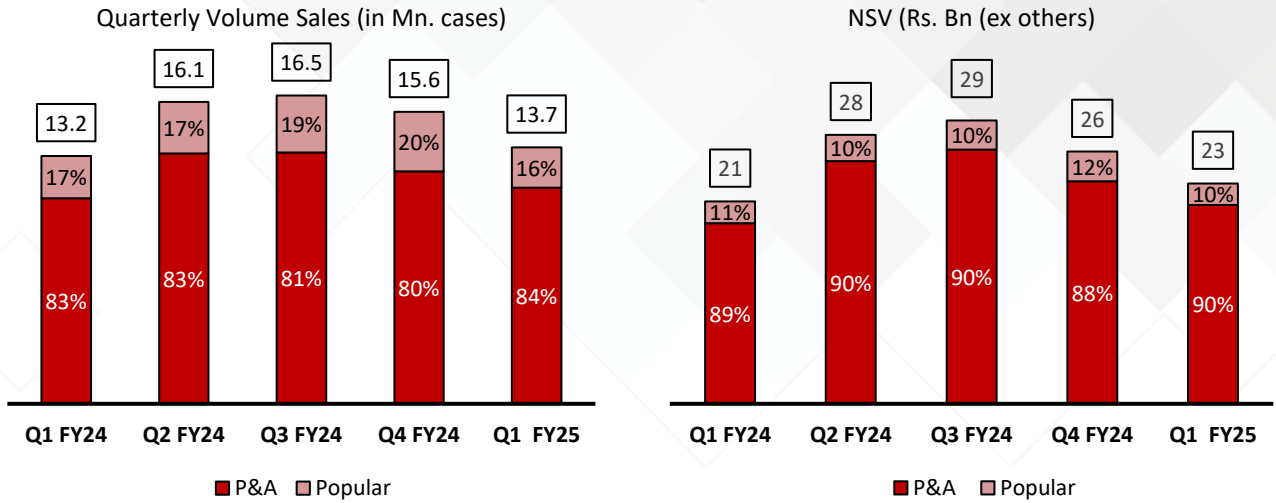
Particulars	Q1 FY25	Q1 FY24	Change % (Y-o-Y)	Q4 FY24	Change % (Q-o-Q)	FY24
Net Revenue	23,520	21,719	8%	26,660	-12%	1,06,920
COGS	13,060	12,245	7%	15,110	-14%	60,480
Gross Profit	10,460	9,474	10%	11,550	-9%	46,440
Gross Profit %	44%	44%	85 Bps	43%	115 Bps	43%
Employee Benefit Expense	1,330	1,249	6%	1,340	-1%	5,430
Advertisement and promotion expense	1,750	1,468	19%	3,260	-46%	10,410
Other Expenses	2,800	2,906	-4%	3,330	-16%	13,520
EBITDA	4,580	3,851	19%	3,620	27%	17,080
EBITDA %	19%	18%	174 Bps	14%	589 Bps	16%
Depreciation	650	650	0%	710	-8%	2,640
Finance Cost	220	43	412%	290	-24%	760
Other Income	320	209	53%	2,290	-86%	3,350
PBT	4,030	3,367	20%	4,910	-18%	17,030
Exceptional Item	0	-171	-100%	-310	-100%	-170
Tax	1,040	814	28%	760	37%	3,740
PAT	2,990	2,382	26%	3,840	-22%	13,120
EPS	4.1	3.3		5.3		18.0

Segmental Highlights (Rs. in Mn)

Particulars	Q1 FY25	Q1 FY24	Change % (Y-o-Y)	Q4 FY24	Change % (Q-o-Q)	FY24
Net Revenue						
Beverage Alcohol	23,520	21,720	8%	26,660	-12%	10,692
Sports	4,130	4,980	-17%	1,200	244%	6,350
EBITDA						
Beverage Alcohol	4,580	3,850	19%	3,580	28%	1,707
Sports	2,550	3,280	-22%	-240	-1163%	2,940
EBITDA Margin (%)						
Beverage Alcohol	19%	18%	175 Bps	13%	604 Bps	16%
Sports	62%	66%	-412 Bps	-20%	8174 Bps	46%

Source: Company, Keynote Capitals Ltd.

USL | Quarterly Update



Source: Company, Keynote Capitals Ltd.

Q1 FY25 Conference Call Takeaways

IMFL

- The Company is seeing progress in IMFL upper segment brands like Antiquity and Royal Challenge American Pride. The Company has launched innovative campaigns and new packaging formats to engage consumers.
- The Company ran strong campaigns for Royal Challenge and McDowell's No. 1, including television and cinema advertisements, as well as limited edition products.
- The Company is scaling up premium and luxury brands like Johnnie Walker and Don Julio with significant activations and partnerships, such as the Eurocup 2024 and culinary events.
- FY25 is expected to be a story of two halves, with stronger growth in the second half due to base effects and scaling of innovations. First-half growth is expected to be less than double digits, with the second half higher than double digits. The Company remains committed to achieving double-digit growth for the full year.

Profitability

- The current quarter's EBITDA margin includes a 100 bps benefit due to provision adjustments. Consequently, the reported EBITDA margin of 19.5% for the quarter should be normalized to 18.5% when excluding this benefit. Further, with A&P spending exceeding ~12% in H2, the margin for the Company is expected to be ~16.5%.
- The Company dynamically allocates resources between A&P and trade spend (discounts, rebates, etc). This allocation can vary based on the tactics employed for a specific quarter or month. For instance, in the current quarter, the Company increased A&P spending for the extended cricket season while reducing trade spend, which provided a temporary boost to gross margins.
- The exclusion of ENA from GST is a significant reassurance for the industry. Levying GST on ENA would have added costs for the alcoholic beverage industry without a corresponding input tax credit, adversely affecting sales and tax revenue for the states.
- ENA remains inflationary, while other commodities are stable.
- The Company has realized ~40% benefits from the supply agility program and anticipated the remaining benefit to impact the margins by FY27-28.

State policies

- New excise policies have been released in several states, with positive developments in Karnataka, though some delays require clarification. The new policy in Karnataka suggests reduced duties on higher-end products, which is expected to help revive demand and enable premiumization of the spirits category.
- Recent price increases in Uttar Pradesh, Central and Eastern states (CFD), and other unspecified states. The market remains steady with no significant changes post-policy adjustments. The Delhi government has extended its existing excise policy for the financial year 2024-25, maintaining liquor vends under government-run corporations. This stability is expected to help retain steady market conditions.

Investments

- Strategic minority stakes in V9 Beverages and Indie Brews and Spirits to strengthen the portfolio. These investments are aimed at future growth categories like non-alcoholic beverages and liqueurs. The Company recognizes the growing traction in non-alcoholic beverages and coffee liqueurs, categories that are expected to gain significant consumer interest in the future.

Financial Statement Analysis (Standalone)

Income Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	1,03,737	1,06,920	1,18,937	1,33,214	1,49,504
Growth %	10%	3%	11%	12%	12%
Raw Material Expenses	60,718	60,480	67,199	75,266	84,470
Employee Expenses	6,071	5,430	5,947	6,661	7,475
Other Expenses	22,881	23,930	26,618	29,640	32,891
EBITDA	14,067	17,080	19,173	21,647	24,668
Growth %	-6%	21%	12%	13%	14%
Margin%	14%	16%	16%	16%	17%
Depreciation	2,706	2,640	2,561	2,724	2,908
EBIT	11,361	14,440	16,612	18,923	21,760
Growth %	-6%	27%	15%	14%	15%
Margin%	11%	14%	14%	14%	15%
Interest Paid	1,039	760	288	288	288
Other Income & exceptional	2,571	3,180	2,500	2,500	2,500
PBT	12,893	16,860	18,824	21,135	23,972
Tax	2,376	3,740	4,706	5,284	5,993
PAT	10,517	13,120	14,118	15,851	17,979
Others (Minorities, Associates)	91	0	0	0	0
Net Profit	10,608	13,120	14,118	15,851	17,979
Growth %	25%	24%	8%	12%	13%
Shares (Mn)	727	727	727	727	727
EPS	14.60	18.06	19.43	21.81	24.74

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Cash, Cash equivalents & Bank	8,496	12,095	23,688	35,412	49,647
Current Investments	2,558	6,390	6,390	6,390	6,390
Debtors	23,828	27,630	27,950	31,305	35,134
Inventory	22,300	20,630	26,880	30,106	33,788
Short Term Loans & Advances	16,753	100	100	100	100
Other Current Assets	1,714	3,340	3,340	3,340	3,340
Total Current Assets	75,649	70,185	88,348	1,06,654	1,28,399
Net Block & CWIP	13,827	11,426	10,412	9,419	8,454
Long Term Investments	2,059	809	809	809	809
Other Non-current Assets	16,043	25,005	25,005	25,005	25,005
Total Assets	1,07,578	1,07,425	1,24,573	1,41,887	1,62,667
Creditors	17,383	18,270	21,300	22,763	25,564
Provision	19,981	3,670	3,670	3,670	3,670
Short Term Borrowings	0	0	0	0	0
Other Current Liabilities	11,416	14,330	14,330	14,330	14,330
Total Current Liabilities	48,780	36,270	39,300	40,763	43,564
Long Term Debt	3	0	0	0	0
Deferred Tax Liabilities (net)	-1,573	0	0	0	0
Other Long Term Liabilities	923	1,520	1,520	1,520	1,520
Total Non Current Liabilities	-647	1,520	1,520	1,520	1,520
Paid-up Capital	1,455	1,455	1,455	1,455	1,455
Reserves & Surplus	57,990	68,180	82,298	98,149	1,16,128
Shareholders' Equity	59,445	69,635	83,753	99,604	1,17,583
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	1,07,578	1,07,425	1,24,573	1,41,887	1,62,667

Cash Flow

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	12,893	16,860	18,824	21,135	23,972
Adjustments	1,593	50	349	512	696
Change in Working Capital	-5,755	-8,530	-3,540	-5,119	-4,709
Total Tax Paid	-2,965	-3,740	-4,706	-5,284	-5,993
Cash flow from operating Activities	5,766	4,640	10,927	11,244	13,966
Net Capital Expenditure	-1,132	-790	-1,546	-1,732	-1,944
Change in investments	93	2,980	0	0	0
Other investing activities	826	4,990	2,500	2,500	2,500
Cash flow from investing activities	-213	7,180	954	768	556
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	-5,570	0	0	0	0
Dividend (incl. tax)	0	-2,910	0	0	0
Other financing activities	-1,603	-1,480	-288	-288	-288
Cash flow from financing activities	-7,173	-4,390	-288	-288	-288
Net Change in cash	-1,620	7,430	11,593	11,725	14,235

Valuation Ratios

	FY23	FY24	FY25E	FY26E	FY27E
Per Share Data					
EPS	15	18	19	22	25
Growth %	25%	24%	8%	12%	13%
Book Value Per Share	82	96	115	137	162
Return Ratios					
Return on Assets (%)	10%	12%	12%	12%	12%
Return on Equity (%)	20%	20%	18%	17%	17%
Return on Capital Employed (%)	17%	22%	19%	18%	17%
Turnover Ratios					
Asset Turnover (x)	1.0	1.0	1.0	1.0	1.0
Sales / Gross Block (x)	4.5	4.4	4.6	4.9	5.1
Working Capital / Sales (x)	22%	28%	35%	43%	50%
Receivable Days	82	94	91	81	81
Inventory Days	129	130	129	138	138
Payable Days	95	111	98	102	100
Working Capital Days	117	113	122	117	119
Liquidity Ratios					
Current Ratio (x)	1.6	1.9	2.2	2.6	2.9
Interest Coverage Ratio (x)	11.8	23.4	66.4	74.4	84.2
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.1	-0.2	-0.3	-0.4	-0.4
Valuation					
PE (x)	51.8	64.2	74.3	66.2	58.4
Earnings Yield (%)	2%	2%	1%	2%	2%
Price to Sales (x)	5.3	7.9	8.8	7.9	7.0
Price to Book (x)	9.3	12.1	12.5	10.5	8.9
EV/EBITDA (x)	39.1	49.3	54.1	48.0	42.1
EV/Sales (x)	5.3	7.9	8.7	7.8	6.9

Source: Company, Keynote Capitals Ltd. estimates

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
24 th March 2023	BUY	764	+16%
22 nd May 2023	NEUTRAL	824	+8%
24 th July 2023	NEUTRAL	978	+2%
13 th November 2023	NEUTRAL	1,045	+2%
29 th January 2024	NEUTRAL	1,096	+3%
28 th May 2024	NEUTRAL	1,165	+2%
26 th July 2024	REDUCE	1,422	-10%

Source: Company, Keynote Capitals Ltd. estimates

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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