

15 February 2025

## In-line volume; miss on realization and margin

United Breweries' (UBBL IN) Q3 revenue was below estimated. In-line volume growth (8.0% YoY) was offset by subdued realization growth (1.5% YoY) due to negative state mix and scale in economy products. Premiumization shall aid long-term margin gain, but near-term investments (new bottles) and A&P spends may slower the path. Thus, we cut EPS estimates by 12.7%/9.2% in FY26E/27E to arrive at a pared TP of INR 2,200 (from INR 2,300), on 53x FY27E. We remain positive given the healthy runway for premiumization trend in beer – **Maintain Accumulate**.

**Favorable state policies, product mix key for growth:** Overall volume growth (6.5% YoY, ex-Andhra Pradesh) was led by economy and premium (up 33% YoY), which would have been better if growth in the South (major market) had not been capped at 8% YoY – gains in Telangana/Andhra Pradesh were partially offset by a dip in Tamil Nadu/Kerala. Per our assessment, premium share was 12.3% (233bps YoY). Traction in the North (16% YoY – nine-quarter high) was led by Uttar Pradesh/Rajasthan. Realization per case grew at a muted 1.5% YoY, led by scale in economy products and unfavorable state mix. Karnataka hiked beer duties, which hit volume in January. EBP-led price hike in Telangana may see a gestation period before consumers settle with new prices. Optimizing the state mix is key for volume growth in near term.

**Margin recovery hinged on premiumization:** EBITDA margin was 7.1% (8.0%, a year ago/10.7% in Q2) due to: a) strain on gross margin (down 86bps YoY led by scale in economy products) and b) elevated other expenses (27.7% of Q3 sales – seven-quarter high), led by A&P spend in festivals and investment in supply chain, ahead of the peak season. Improving gross margin via premium product mix augurs well in the long term. But near-term gain could be sticky amid infusion of new bottles for premium products.

So, overall EBITDA margin gain could be slow. We cut our margin estimates – Expect 12.7%/13.5% EBITDA margin in FY26/27E. Traction in premium products, a sharp moderation in key input prices and favorable state policies are upside risk to margin gains. The Board approved INR 7.5bn capex to set up a brewery in Uttar Pradesh (UP; operational by FY27). Proposed capacity is 1.0-2.0mhl. UP offers healthy potential, accounting for ~17% of India's population. Expect healthy traction from UP upon capacity addition.

**Maintain Accumulate; TP pared to INR 2,200:** UBBL posted robust volume growth, but state-led issues (price hike in Karnataka; EBP hike in Telangana and moderated share in Tamil Nadu) may slow down growth in near term even as the North is posting some traction. Given the low penetration of premiumization in beer (12.3% of mix) versus in spirit, we are positive on margin gains. So, optimized state mix, supply chain measure and premiumization-led margin improvement are encouraging but may demand a gestation period. Expect volume CAGR of 7.3% (8.5% earlier) in FY24-27E. We trim margins and lower EPS estimates by 12.7%/9.2% for FY26E/27E to arrive at a pared TP of INR 2,200 from INR 2,300, on 53x P/E FY27 EPS. **Maintain Accumulate**.

### Key Financials

YE March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR mn)	74,917	81,154	90,750	103,387	116,156
YoY (%)	(7.8)	8.3	11.8	13.9	12.4
EBITDA (INR mn)	6,143	6,949	9,075	13,130	15,681
EBITDA margin (%)	8.2	8.6	10.0	12.7	13.5
Adj PAT (INR mn)	3,366	4,094	5,309	8,798	11,168
YoY (%)	(7.8)	21.6	29.7	65.7	26.9
Fully DEPS (INR)	12.7	15.5	20.1	33.3	42.2
RoE (%)	8.5	10.1	12.3	18.4	19.9
RoCE (%)	10.1	11.8	15.5	22.2	23.3
P/E (x)	160.6	132.1	101.8	61.4	48.4
EV/EBITDA (x)	87.4	77.7	59.0	40.2	33.3

Note: Pricing as on 14 February 2025; Source: Company, Elara Securities Estimate

Rating: **Accumulate**

Target Price: **INR 2,200**

Upside: **8%**

CMP: **INR 2,041**

As on 14 February 2025

### Key data

Bloomberg	UBBL IN Equity
Reuters Code	UBBW.BO
Shares outstanding (mn)	264
Market cap (INR bn/USD mn)	540/6215
Enterprise Value (INR bn/USD mn)	539/6211
Avg daily volume 3M (INR mn/USD mn)	508/6
52 week high/low	2300/1646
Free float (%)	29

Note: as on 14 February 2025; Source: Bloomberg

### Price chart



Source: Bloomberg

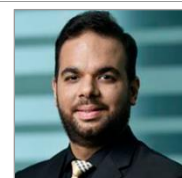
Shareholding (%)	Q4	Q1	Q2	Q3
	FY24	FY25	FY25	FY25
Promoter	70.8	70.8	70.8	70.8
% Pledged	12.4	12.4	12.4	12.4
FII	6.6	6.4	6.3	6.4
DII	17.4	17.7	17.9	17.8
Others	5.2	5.1	5.0	5.0

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(2.6)	(5.0)	5.0
United Breweries	8.3	7.9	17.9
NSE Mid-cap	(8.1)	(12.2)	2.7
NSE Small-cap	(12.5)	(14.8)	(3.1)

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## Financials (YE March)

Income Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	74,917	81,154	90,750	103,387	116,156
<b>EBITDA</b>	<b>6,143</b>	<b>6,949</b>	<b>9,075</b>	<b>13,130</b>	<b>15,681</b>
Add:- Non operating Income	493	729	448	1,076	1,809
OPBIDTA	6,635	7,679	9,523	14,207	17,490
Less :- Depreciation & Amortization	2,103	2,116	2,352	2,388	2,498
<b>EBIT</b>	<b>4,532</b>	<b>5,562</b>	<b>7,171</b>	<b>11,819</b>	<b>14,991</b>
Less:- Interest Expenses	46	69	87	88	100
<b>PBT</b>	<b>4,486</b>	<b>5,493</b>	<b>7,084</b>	<b>11,731</b>	<b>14,891</b>
Less :- Taxes	1,120	1,399	1,775	2,933	3,723
<b>Adjusted PAT</b>	<b>3,366</b>	<b>4,094</b>	<b>5,309</b>	<b>8,798</b>	<b>11,168</b>
Add/(Less): - Extra ordinary exp/(Inc)	331	0	258	0	0
<b>Reported PAT</b>	<b>3,035</b>	<b>4,094</b>	<b>5,051</b>	<b>8,798</b>	<b>11,168</b>
Balance Sheet (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	264	264	264	264	264
Reserves	39,348	41,476	44,141	51,088	60,406
Total borrowings	0	774	774	774	774
Trade Payables	7,164	9,482	11,178	12,395	13,615
Other liabilities	15,936	18,436	18,465	18,504	18,542
<b>Total Equity &amp; Liabilities</b>	<b>62,712</b>	<b>70,433</b>	<b>74,824</b>	<b>83,026</b>	<b>93,602</b>
Fixed Assets	18,431	17,677	17,325	16,937	16,238
Investments	157	156	156	156	156
Inventories	14,260	13,665	13,675	14,163	15,912
Trade Receivables	14,071	23,133	23,620	24,077	27,050
Cash & other bank balances	3,295	1,286	5,532	13,177	19,730
Other assets	12,499	14,516	14,516	14,516	14,516
<b>Total Assets</b>	<b>62,712</b>	<b>70,433</b>	<b>74,824</b>	<b>83,026</b>	<b>93,602</b>
Cash Flow Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Operating Cash Flow	(1,207)	768	8,529	10,508	8,495
Less:- Capex	(1,561)	(1,911)	(2,000)	(2,000)	(1,800)
Free Cash Flow	(2,768)	(1,143)	6,529	8,508	6,695
Investing Cash Flow	(1,205)	(1,477)	(1,552)	(924)	9
Financing Cash Flow	(2,918)	(1,300)	(2,731)	(1,939)	(1,951)
Net change in Cash	(5,329)	(2,009)	4,246	7,645	6,552
Opening Cash	8,624	3,295	1,286	5,532	13,177
Closing Cash	3,295	1,286	5,532	13,177	19,730
Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Income Statement Ratios (%)					
Revenue Growth	28.5	8.3	11.8	13.9	12.4
EBITDA Growth	(11.6)	13.1	30.6	44.7	19.4
PAT Growth	(7.8)	21.6	29.7	65.7	26.9
EBITDA Margin	8.2	8.6	10.0	12.7	13.5
PAT Margin	4.1	5.0	5.6	8.5	9.6
Return & Liquidity Ratios					
Net Debt/Equity (x)	(0.1)	(0.0)	(0.1)	(0.2)	(0.3)
ROE (%)	8.5	10.1	12.3	18.4	19.9
ROCE (%)	10.1	11.8	15.5	22.2	23.3
Per Share data & Valuation Ratios					
Diluted EPS (INR/Share)	12.7	15.5	20.1	33.3	42.2
EPS Growth (%)	(7.8)	21.6	29.7	65.7	26.9
DPS (INR/Share)	7.5	0.0	0.0	0.0	0.0
P/E Ratio (x)	160.6	132.1	101.8	61.4	48.4
EV/EBITDA (x)	87.4	77.7	59.0	40.2	33.3
EV/Sales (x)	7.2	6.7	5.9	5.1	4.5
BVPS (INR)	149.8	157.9	167.9	194.2	229.5
Price/Book (x)	13.6	13.0	12.2	10.5	8.9
Dividend Yield (%)	0.4	0.0	0.0	0.0	0.0

We expect revenue CAGR of 12.7% in FY24-27E

We expect EBITDA margin to be 13.5% by FY27E

Note: Pricing as on 14 February 2025; Source: Company, Elara Securities Estimate

**Quarterly financials**

Standalone (INR mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Q3FY25E	Variance (%)
Revenue	19,984	18,227	9.6	21,147	(5.5)	20,571	(2.9)
Gross margin (%)	43.1	44.0	(86) bps	43.8	(72) bps		
EBITDA	1,411	1,456	(3.0)	2,268	(37.8)	2,222	(36.5)
EBITDA margin (%)	7.1	8.0	(92) bps	10.7	(366) bps	10.8	-374 bps
Depreciation	613	518	18.4	571	7.4	568	7.8
Interest cost	32	21	56.1	22	46.1	19	67.3
Other income	101	241	(58.1)	105	(4.2)	100	0.8
Exceptional item	(258)	-		-			
PBT	610	1,158	(47.4)	1,781	(65.8)	1,734	(64.8)
Tax	227	310	(26.6)	458	(50.5)	434	(47.6)
Effective tax rate (%)	37.2	26.7		25.7		25.0	
PAT	383	849	(54.9)	1,323	(71.1)	1,301	(70.6)
Adj. PAT	640	849	(24.5)	1,323	(51.6)	1,301	(50.8)
Adj. EPS (INR)	2.4	3.2	(24.5)	5.0	(51.6)	4.9	(50.8)

Source: Company, Elara Securities estimate

**Q3FY25 results highlights**

- ▶ UBBL reported INR 19.9bn in net sales, a miss of 2.9% versus our and consensus estimate of INR 20.5bn, up 9.6% YoY but down 5.5% QoQ in Q3FY25.
- ▶ Gross margin was down 86bps YoY and 72bps QoQ to 43.1%.
- ▶ In Q3, EBITDA stood at INR 1.4bn, down 3% YoY and 37.8% QoQ. EBITDA margin came in at 7.1% (down 92bps YoY and 366bps QoQ). Employee expenses and other expenses grew 6.4% YoY and 10.9% YoY, respectively.
- ▶ Standalone reported net profit in Q3 was INR 383mn, down 54.9% YoY and 71% QoQ. UBBL had an exceptional charge of INR 258mn on severance pay to certain employees. APAT stood at INR 640mn.
- ▶ UBBL reported 43.5mn case volumes, up 8.0% YoY but down 9.9% QoQ due to high single-digit growth from the South market. Premium volume grew 33% YoY in Q3, bringing 9MFY25 growth to 35%.
- ▶ On 9MFY25 basis, overall beer volume grew 5.9% YoY.
- ▶ Net realization per case in Q3 was INR 459, up a mere 1.5% YoY on unfavorable state mix (up 4.9% QoQ).

**Q3 conference call highlights**

- ▶ UBBL is comfortable with overall 8.0% YoY volume growth. Overall, it gained market share. The premium segment grew 33% YoY, led by *Kingfisher* and *Heineken* products.
- ▶ Key focus areas are growth in the beer category, leveraging the supply chain network, and maintaining the quality of beer.
- ▶ In 2024, the impact of elections pared growth in certain states. UBBL expects higher growth rate in the summer and has invested in repair and maintenance of breweries.
- ▶ **New brewery in Uttar Pradesh:** UBBL invested in Uttar Pradesh after 12 years. Currently, it operates via contract manufacturers. UBBL is in advanced stage of discussion with the UP government. It is also in talks with other state governments to expand capacities.
- ▶ It will take 24 months to set up the brewery in UP. UBBL expects the beer category to grow. UP has the highest population in any other states, and with infrastructure development, UBBL shall see healthy growth from the state.

- ▶ The number of stores, positive operating environment and easy accessibility to raw material are attractive features of the state. Policy favors local manufacturing given lower duties.
- ▶ **UP excise policy:** The earlier policy required separate stores for IMFL and beer. Per the new policy, composite stores can serve both IMFL and Beer. Expect implementation from 1 April.
- ▶ **Delhi market** has been challenging. The market is still a corporation market and UBBL has positive hopes from the new policy.
- ▶ **New products:** UBBL launched *Kingfisher Lemon Masala* and *Mango Berry Twist* in some states as pilot projects. These are premium products with better prices. Product development takes into account choices of the youth. The response so far has been healthy.
- ▶ **Telangana market:** UBBL is keen to take the right steps in Telangana. On lower pricing and delayed dues, the company had halted the supplies.
- ▶ UBBL has some dues outstanding in state. UBBL also received assurance of receiving remaining dues in coming months.
- ▶ UBBL expects phase 2 of price hike in the foreseeable future. UBBL will go state-by-state to increase its profitability.
- ▶ **Karnataka market:** Regular segment forms 25% of volume mix in the state for company. UBBL has passed the recent duty hike to consumers. However, has absorbed hike on *Kingfisher* and *Kingfisher Ultra* brand as UBBL aims to maintain growth for flagship products. (so, the delta in regular and KF brand prices will be lower, and consumers can upscale).
- ▶ UBBL expects regular segment contraction in Karnataka. The duty increase in the regular segment is much higher than in the mid-premium/premium segments.
- ▶ **Bottle collection recovery:** UBBL's past initiatives resulted in a 5% improvement in bottle collection (Q3), and as premium volumes are growing, the company is infusing new bottles along with recycled ones.
- ▶ **Gross margins:** UBBL will focus on revenue mix (led by premiumization mix). UBBL has premium capabilities in many states and gross margins may improve in gradual course.
- ▶ **Volume growth:** UBBL is pleased with 8.0% YoY growth. Current efforts are long-term in nature. Beer category volume growth of the industry was lower than 8.0% YoY. Per company, UBBL lost share in West Bengal, Rajasthan and Tamil Nadu.
- ▶ **Andhra Pradesh market:** The state's contribution stood at 1.5-1.6% of total volumes. And volume growth would have been 6.5% YoY excluding Andhra Pradesh.
- ▶ **Challenges in January:** Growth in January may hit a wall duty on Karnataka duty hike (volume down 35% YoY), operations in Telangana were closed for 15 days.
- ▶ **Exceptional items:** The exceptional charge in Q3 (INR 258mn) was paid to certain employees on separation.

**Exhibit 1: Overall healthy volume growth**

Particulars	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Volume (mn cases)	37.3	44.6	54.5	46.0	40.3	49.4	57.2	48.3	43.5
Growth YoY (%)	4.0	3.0	(12.0)	7.0	8.0	10.9	5.0	5.0	8.0
Net realization/case (INR)	432	396	417	410	452	431	432	437	459
Growth YoY (%)	(2.0)	0.4	6.0	5.1	4.8	8.9	3.6	6.7	1.5
Premium beer volume growth (%)	13.0	18.6	(21.1)	10.0	14.0	21.0	44.0	27.0	33.0
<b>Region-wise volume growth (YoY)</b>									
North	13.0	14.0	(15.0)	1.0	1.0	3.0	7.0	12.0	16.0
East	3.0	29.0	(8.0)	11.0	11.0	10.0	2.0	(6.0)	3.0
West	2.0	10.0	2.0	2.0	2.0	-	6.0	12.0	4.0
South	-	(10.0)	(18.0)	11.0	11.0	21.0	6.0	1.0	8.0

Source: Company, Elara Securities Research

**Exhibit 2: Valuation summary**

(INR)	FY27E
EPS (INR)	42.1
Multiple (x)	53
<b>TP (INR)</b>	<b>2,200</b>
CMP (INR)	2,041
<b>Upside</b>	<b>8%</b>

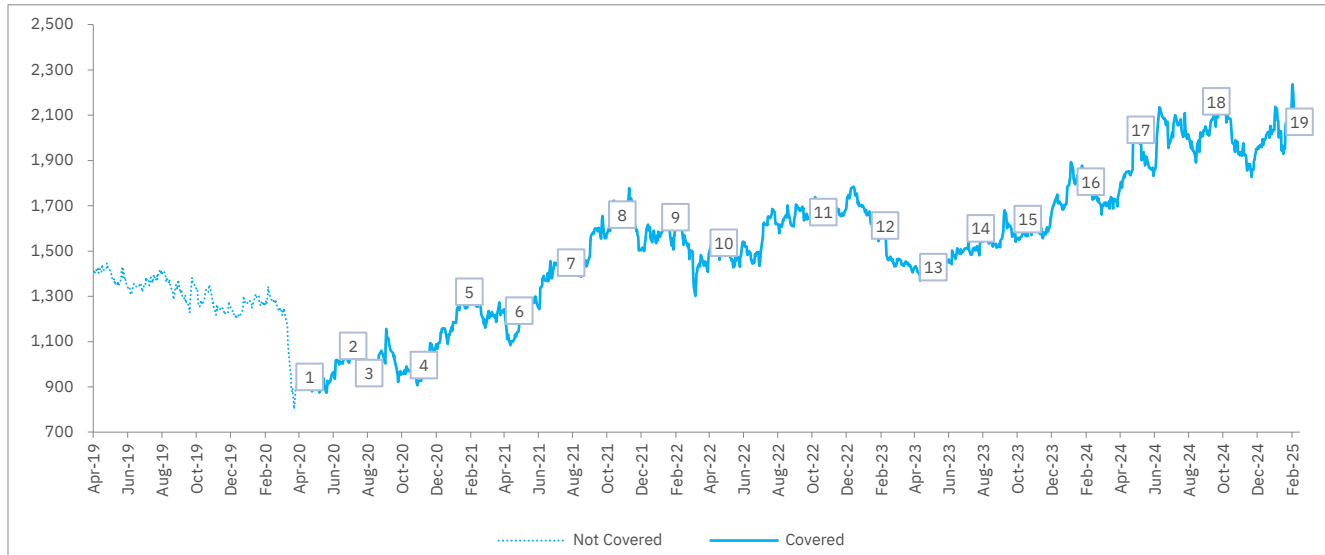
Note: Pricing as on 14 February 2025; Source: Elara Securities Estimate

**Exhibit 3: Change in estimates**

(INR mn)	Revised			Earlier			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	90,750	103,387	116,156	91,602	105,801	119,978	(0.9)	(2.3)	(3.2)
EBITDA	9,075	13,130	15,681	10,992	14,601	16,881	(17.4)	(10.1)	(7.1)
EBITDA margin (%)	10.0	12.7	13.5	12.0	13.8	14.1			
PAT	5,309	8,798	11,168	6,857	10,036	12,267	(22.6)	(12.3)	(9.0)
EPS (INR)	19.1	33.3	42.1	26.0	38.0	46.3	(26.3)	(12.3)	(9.0)
<b>TP (INR)</b>			<b>2,200</b>			<b>2,300</b>			<b>(4)</b>

Source: Elara Securities Estimate

## Coverage History



	Date	Rating	Target Price	Closing Price
12	10-Feb-2023	Reduce	INR 1,500	INR 1,481
13	5-May-2023	Reduce	INR 1,400	INR 1,399
14	31-Jul-2023	Reduce	INR 1,510	INR 1,540
15	20-Oct-2023	Reduce	INR 1,575	INR 1,611
16	9-Feb-2024	Reduce	INR 1,725	INR 1,777
17	8-May-2024	Accumulate	INR 2,120	INR 2,016
18	19-Sep-2024	Accumulate	INR 2,300	INR 2,131
19	14-Feb-2025	Accumulate	INR 2,200	INR 2,041

### Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

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