

United Spirits

Estimate change 

TP change 

Rating change 

Bloomberg	UNSP IN
Equity Shares (m)	727
M.Cap.(INRb)/(USDb)	809 / 9.7
52-Week Range (INR)	1149 / 731
1, 6, 12 Rel. Per (%)	3/5/18
12M Avg Val (INR M)	968

Financials & Valuations (INR b)

Y/E March	2024E	2025E	2026E
Sales	107.5	119.0	129.8
Sales Gr. (%)	3.6	10.7	9.1
EBITDA	17.8	20.0	22.5
Margin (%)	16.6	16.9	17.3
PAT	12.1	13.8	15.5
EPS (INR)	16.7	19.0	21.4
EPS Gr. (%)	31.7	13.9	12.2
BV/Sh.(INR)	98.9	118.0	139.3
Ratios			
RoE (%)	16.9	16.1	15.3
RoCE (%)	23.8	22.5	21.4
Payout (%)	41.9	47.3	56.2
Valuations			
P/E (x)	66.1	58.1	51.8
P/BV (x)	11.2	9.4	7.9
EV/EBITDA (x)	43.8	38.5	33.9

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	56.7	56.7	56.7
DII	12.5	12.3	12.1
FII	16.2	16.5	16.0
Others	14.6	14.8	15.2

FII Includes depository receipts

CMP: INR1,112

TP: INR1,150 (+3%)

Neutral

P&A outperformance sustains

- United Spirits (UNSP) registered a 7.5% YoY revenue growth (est. 5.5%), with the Prestige & Above (P&A) segment recording a 10% growth. While overall volume contracted 2% YoY, P&A volumes registered an increase of 5% YoY (4% four-year CAGR). The popular segment, both in terms of value/volume witnessed a decline of 12%/23% YoY, respectively.
- The premiumization trends in the liquor category (post COVID) continued to drive the P&A portfolio. Scotch continued to outpace within the P&A portfolio. Pricing strategies have also played a significant role in achieving better value growth.
- The gross margin continued to see gradual recovery, up 300bp YoY, and flat QoQ at 43.4%. However, it is still distant from the 48-49% levels achieved in FY18-FY19. After seeing high RM inflation in the last three to four years, prices are expected to stabilize (steady glass prices, etc.). In our projections, we model a GM of 44% in FY25/FY26.
- The EBITDA margin expanded +300bp YoY to +16% despite a significant increase in A&P spend (up 18% YoY). EBITDA was up 33% YoY. We model 17% EBITDA margin for FY25/FY26, factoring in expectations of stable raw material inflation, sustained favorable product mix, and effective cost control.
- We value UNSP's standalone EPS on 50x Dec'25E and include INR 100/share for its RCB+ non-core assets to arrive at a **TP of INR1,150**. With the limited upside, we maintain our Neutral rating on the stock.

P&A outperformance continues; healthy operating margin

- Standalone net sales increased 7.5% YoY to INR29.9b (est. of INR29.3b) in 3QFY24, with P&A growth of 10% (90% revenue mix).
- Overall reported volume declined 1.8% YoY (est. 0.7% growth), while P&A volume grew ~4.6% YoY.
- Gross margin was up 290bp YoY/flat QoQ at 43.4%. (est. 42.4%).
- Employee costs declined 12% YoY, whereas A&P and other expenses grew 18% and 5% YoY, respectively.
- As a percentage of sales, advertising costs rose 100bp YoY to 11%, whereas staff costs declined 110bp to 4.7% and other expenses fell 30bp YoY to 11.3%.
- EBITDA margin expanded 300bp YoY (flat QoQ) to 16%** (est. 15%).
- EBITDA increased 33.6% YoY to INR4.9b (est. INR4.3b).
- PBT grew 51.2% YoY to INR4.6b and adjusted PAT rose 61% to INR3.5b (est. INR3.5b/INR2.6b).
- In 9MFY24, net sales/EBITDA/Adj. PAT grew 2%/25%/29%.

Highlights from the management commentary

The demand environment is muted sequentially; however, premiumization trends continue. Despite the festive season, the Cricket World Cup, and the peak wedding season, demand has not increased, as consumers are reducing the number of occasions to manage their budgets.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

- With consistent improvement in gross and EBITDA margin, we increase our FY24/FY25 EPS estimates by 13%/7%. We model EBITDA margin of 17% for FY25/FY26E (9MFY24 EBITDA margin was at 16.8%).
- UNSP sold a large part of its popular portfolio to concentrate on its global strategy for the premium portfolio. The liquor industry is currently experiencing an upgrading trend, aligning well with UNSP's renewed emphasis on P&A, which fits into the long-term liquor upgrading narrative in India.
- We value UNSP's standalone EPS on 50x Dec'25E and include INR 100/share for its RCB+ non-core assets to arrive at a **TP of INR1,150**. With limited upside, we maintain our Neutral rating on the stock.

Quarterly Performance

Y/E March (Standalone)	FY23				FY24E				FY23	FY24E	FY24	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		3QE		
Volume growth %	17.9	8.3	-25.0	-27.3	-28.6	-27.1	-1.8	4.6	-8.4	-13.2	0.7	
Total revenues	21,946	29,042	27,811	24,938	21,719	28,647	29,893	27,248	1,03,737	1,07,511	29,340	1.9%
YoY change (%)	35.9	18.7	-3.4	-0.3	-1.0	-1.4	7.5	9.3	10.1	3.6	5.5	
Gross Profit	8,974	11,449	11,281	11,315	9,474	12,437	12,979	11,985	43,019	46,875	12,440	4.3%
Margin (%)	40.9	39.4	40.6	45.4	43.6	43.4	43.4	44.0	41.5	43.6	42.4	
Total Exp	19,241	24,618	24,133	21,558	17,868	23,946	24,979	22,868	89,550	89,665	25,086	
EBITDA	2,705	4,424	3,678	3,380	3,851	4,701	4,914	4,381	14,187	17,847	4,254	15.5%
Margins (%)	12.3	15.2	13.2	13.6	17.7	16.4	16.4	16.1	13.7	16.6	14.5	
EBITDA growth (%)	61.3	3.9	-24.9	-21.1	42.4	6.3	33.6	29.6	25.8	25.8	15.7	
Depreciation	741	645	636	684	650	653	628	669	2,706	2,600	693	
Interest	226	210	243	360	193	262	164	150	1,039	500	267	
Other income	256	85	232	169	209	388	461	392	742	1,450	244	
PBT	1,994	3,654	3,031	2,505	3,217	4,174	4,583	3,954	11,184	16,197	3,537	29.6%
Tax	-339	1,947	415	353	814	1,068	1,102	995	2,376	4,049	891	
Rate (%)	-17.0	53.3	13.7	14.1	25.3	25.6	24.0	25.2	21.2	25.0	25.2	
Adj. PAT	2,218	2,636	2,163	2,124	2,397	3,183	3,481	2,959	8,808	12,148	2,646	31.6%
YoY change (%)	130.1	-3.5	-30.4	-24.2	8.1	20.7	61.0	39.3	-12.5	37.9	18.4	

E: MOFSL Estimate

Key Performance Indicators

Y/E March (Standalone)	FY23				FY24		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Key Metrics							
Sales Volume (m Cases)	18.5	22.1	16.8	15.1	13.2	16.1	16.5
Volume Growth %	17.9	8.3	-25.0	-27.3	-28.6	-27.1	-1.8
Realisation/case (INR)	1,183	1,313	1,657	1,655	1,640	1,776	1,814
Realisation growth %	15.8	10.3	27.4	61.8	38.6	35.3	9.5
EBIDTA/Case (INR)	145.9	200.0	219.2	224.3	290.8	291.4	298.3
Segmental performance							
P&A Volumes (m Cases)	10.0	12.9	12.8	12.0	11.0	13.4	13.4
Popular Volumes (m Cases)	8.6	9.2	4.0	3.1	2.3	2.8	3.1
P&A Volumes Growth (%)	24.4	12.8	3.9	9.9	10.3	3.8	4.6
Popular Volumes Growth (%)	10.2	1.2	-59.6	-17.6	-11.9	-70.1	-22.8
P&A Sales Growth (%)	43.7	21.9	12.7	23.2	21.2	12.8	10.0
Popular Sales Growth (%)	13.1	1.6	-48.5	-6.3	0.9	-56.1	-12.4
Average growth for the last two years (%)							
Volume	39.2	5.9	-10.7	-11.2	-5.4	-9.4	-13.4
Sales	46.3	16.4	6.1	6.1	17.4	8.7	2.0
EBITDA	-28.9	30.9	1.4	-8.5	51.8	5.1	4.3
PAT	-28.3	54.6	2.4	-4.3	69.1	8.6	15.3
As a % of Sales							
COGS	59.1	60.6	59.4	54.6	56.4	56.6	56.6
Operating expenses	28.6	24.2	27.3	31.8	25.9	27.0	27.0
Depreciation	3.4	2.2	2.3	2.7	3.0	2.3	2.1
YoY change (%)							
COGS	45.0	28.9	2.3	-3.6	-5.6	-7.9	2.3
Operating expenses	13.4	7.1	-1.8	20.5	-10.3	10.1	6.1
Other Income	141.5	142.9	1,004.8	1.8	-18.4	356.5	98.7
EBIT	N/M	4.9	-26.8	-23.7	63.0	7.1	40.9

E: MOFSL Estimates

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

- The demand environment is muted sequentially; however, premiumization trends continue.
- Despite the festive season, the Cricket World Cup, and the peak wedding season, demand has not increased as the consumers are reducing the number of occasions to manage their budgets.
- The demand environment remained subdued in Jan'24. However, there is no down trading compared to 3QFY24.
- P&A growth stood at 10% YoY, with double-digit growth in its scotch portfolio.
- Price mix stood at 9.3% driven by premiumization focus, the flow-through impact of headline pricing, and other revenue growth initiatives.
- The hike in excise duty in Karnataka is adversely impacting the volume growth.
- The company will continue to drive its double-digit growth guidance.

Costs and margins

- The ad-spends was up 18.4% YoY in 3QFY24, driven by the festive quarter, the peak wedding season, and the Cricket World Cup.
- It is expected to remain elevated in 4QFY24 due to the IPL, promotion of the new launch 'Don Julio', and increased investment in popular brands that have not performed well.

- The ENA prices experienced inflation during the quarter, which was partially offset by the stability in the other commodity prices. However, it is expected to remain elevated.
- The glass cost remained stable during the quarter.
- The company is looking to offset inflation through internal management productivity and advocating with the government for price increases.
- The GP margin remained flat sequentially despite a rise in the ENA prices due to high salience of the P&A segment during the quarter.
- The management maintained the EBITDA guidance ahead of 15% for FY24.
- The guidance for the next two to three is to achieve mid-to-high-teens margins.

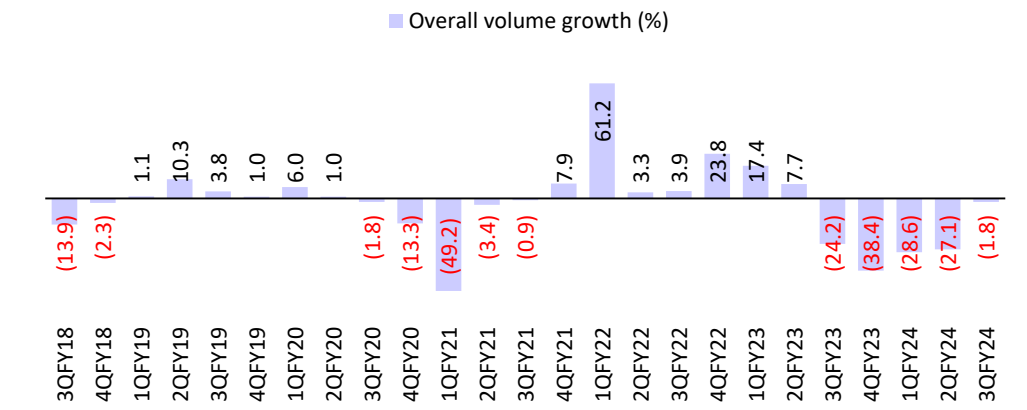
Brands/New launches/re-launches

- The Royal challenger American pride expanded to three new markets, i.e, Himachal Pradesh, Arunachal Pradesh, and Uttarakhand.
- The company launched a new bundle of Antiquity Blue, which is performing well in launched markets and adding to the steady performance of Signature and Royal Challenge American Pride.
- The company launched the MacDowell's No. 1 Premium Smooth variant in Assam, which is at a premium to the core MacDowell's No. 1 luxury in the state.
- The company's global brand portfolio continues to witness healthy premiumization trends, with premium and luxury offerings growing ahead of the prestige segment.
- The company is scaling up investment in Don Julio to play the role of a market maker for the segment.

Key exhibits

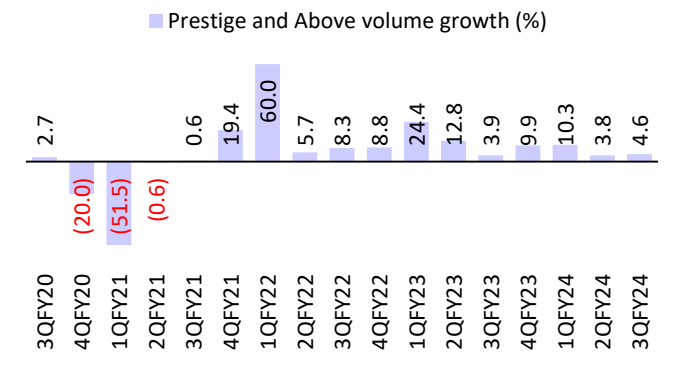
- The P&A segment’s net sales grew 10% and volume grew 4.6% to **13.4m cases**.
- In 9MFY24, the P&A segment revenue/volume grew 14%/6% YoY.
- **Reported** net sales for the popular segment declined 12.4% YoY and volume declined 22.8% YoY to 3.1m cases.
- In 9MFY24, the popular segment revenue/volume declined 5%/16% YoY.

Exhibit 1: Overall volumes declined 1.8% YoY to 16.5m cases in 3QFY24



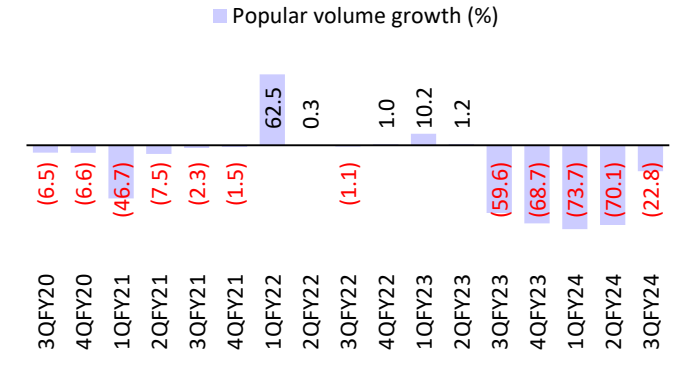
Source: Company, MOFSL

Exhibit 2: P&A volumes (%) grew 4.6% YoY in 3QFY24



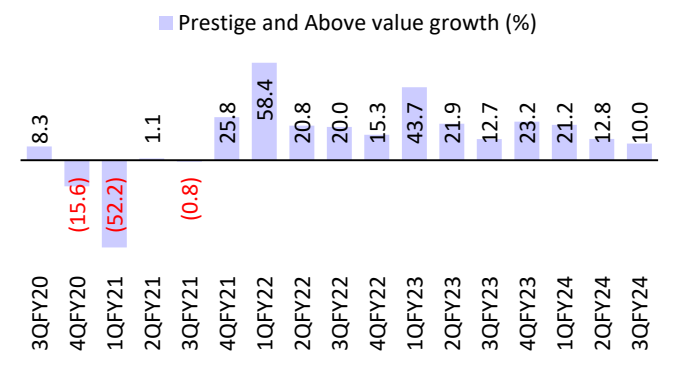
Source: Company, MOFSL

Exhibit 3: Popular volumes (%) fell 22.8% YoY in 3QFY24



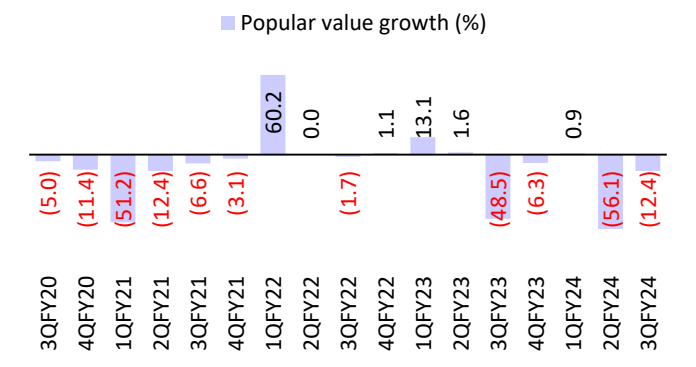
Source: Company, MOFSL

Exhibit 4: Value growth in P&A stood at 10% YoY



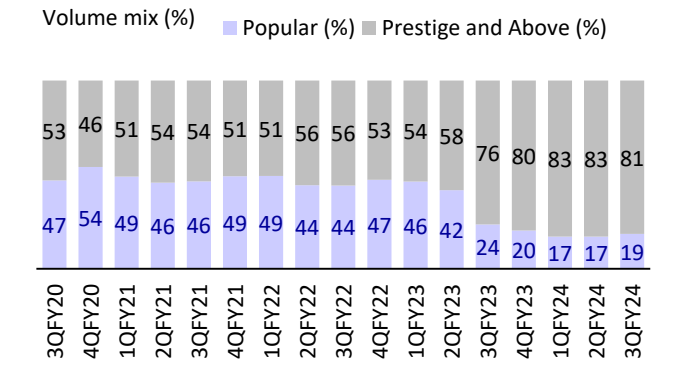
Source: Company, MOFSL

Exhibit 5: Popular sales declined 12.4% YoY in 3QFY24



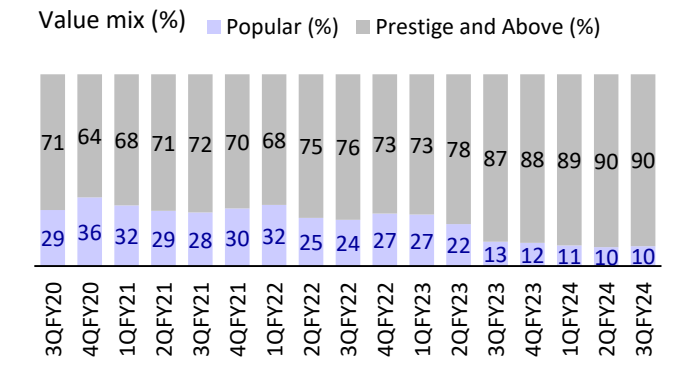
Source: Company, MOFSL

Exhibit 6: Contribution of P&A volumes stood at 81%...



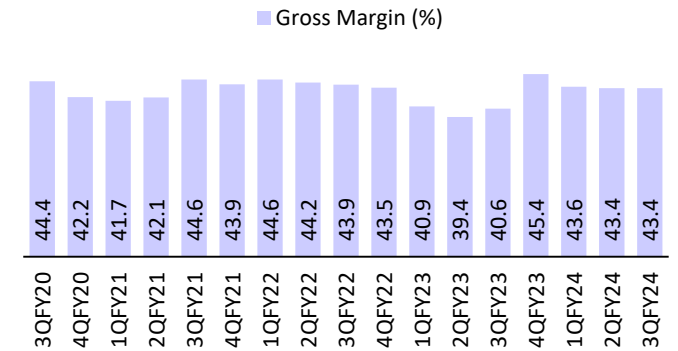
Source: Company, MOFSL

Exhibit 7: ...while that of value stood at 90%



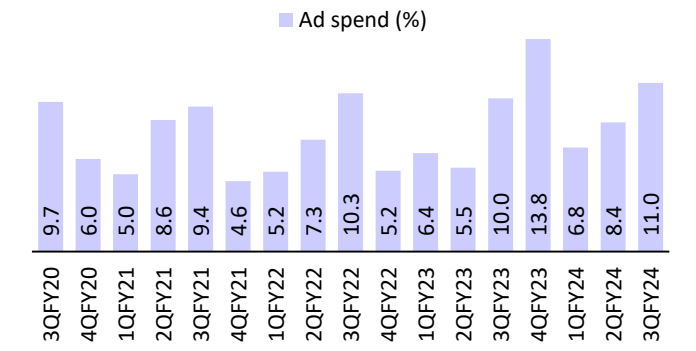
Source: Company, MOFSL

Exhibit 8: Gross margin expanded 290bp YoY to 43.4%



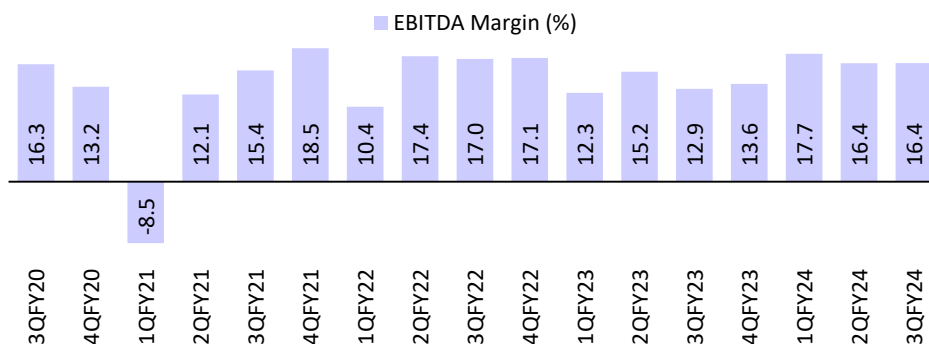
Source: Company, MOFSL

Exhibit 9: Ad spends up 100bp YoY to 11% of sales



Source: Company, MOFSL

Exhibit 10: EBITDA margin expanded 300bp YoY to 16.4% in 3QFY24



Source: Company, MOFSL

Valuation and view

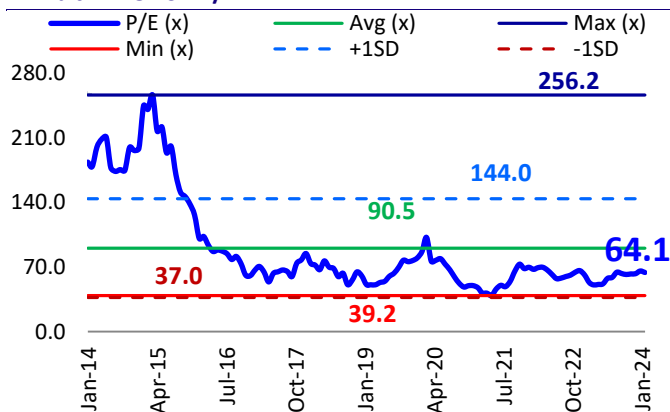
- With consistent improvement in gross and EBITDA margin, we increase our FY24/FY25 EPS estimates by 13%/7%. We model EBITDA margin of 17% for FY25/FY26E (9MFY24 EBITDA margin was at 16.8%).
- UNSP sold a large part of its popular portfolio to concentrated on its global strategy for the premium portfolio. The liquor industry is currently experiencing an upgrading trend, aligning well with UNSP’s renewed emphasis on P&A, which fits into the long-term liquor upgrading narrative in India.
- We value UNSP’s standalone EPS on 50x Dec’25E and include INR 100/share for its RCB+ non-core assets to arrive at a **TP of INR1,150**. With limited upside, we maintain our Neutral rating on the stock.

Exhibit 11: We increase our EPS estimates for FY24 and FY25 by 13.2% and 7.4%.

	New		Old		% Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Total Income	107.5	119.0	106.8	119.8	0.7	-0.7
EBITDA	17.8	20.0	16.7	19.5	6.8	2.7
Adjusted PAT	12.1	13.8	10.7	12.9	13.2	7.4

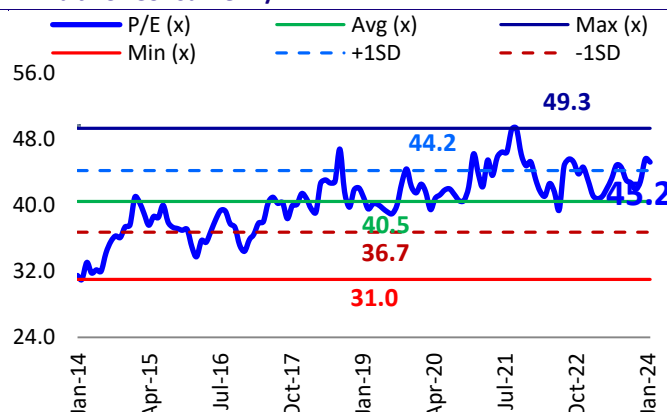
Source: Company, MOFSL

Exhibit 12: UNSP P/E



Source: Company, MOFSL

Exhibit 13: Consumer P/E



Source: Company, MOFSL

Financials and valuations

Income Statement - Standalone (INR m)

United Spirits	2019	2020	2021	2022	2023	2024E	2025E	2026E
Gross revenue	2,85,123	2,85,892	2,71,764	3,07,731	2,75,775	2,85,809	3,16,262	3,45,057
Excise duty	1,95,317	1,94,983	1,92,872	2,13,494	1,72,038	1,78,298	1,97,295	2,15,258
Net Revenue	89,806	90,909	78,892	94,237	1,03,737	1,07,511	1,18,967	1,29,798
Change (%)	9.9	1.2	-13.2	19.5	10.1	3.6	10.7	9.1
Gross Profit	43,857	40,689	34,210	41,398	43,019	46,875	52,107	57,111
Margin (%)	48.8	44.8	43.4	43.9	41.5	43.6	43.8	44.0
EBITDA	12,874	15,061	9,877	15,104	14,187	17,847	20,046	22,455
Change (%)	25.2	17.0	-34.4	52.9	-6.1	25.8	12.3	12.0
Margin (%)	14.3	16.6	12.5	16.0	13.7	16.6	16.9	17.3
Depreciation	-1,445	-2,275	-2,493	-2,886	-2,706	-2,600	-2,750	-2,856
Int. and Fin. Charges	-2,200	-1,907	-1,658	-880	-1,039	-500	-400	-519
Other Income	952	455	478	337	742	1,450	1,552	1,660
Profit before Taxes	10,181	11,334	6,204	11,675	11,184	16,197	18,447	20,740
Change (%)	22.5	11.3	-45.3	88.2	-4.2	44.8	13.9	12.4
Margin (%)	11.3	12.5	7.9	12.4	10.8	15.1	15.5	16.0
Tax	3,328	4,300	1,587	1,606	2,376	4,049	4,612	5,220
Tax Rate (%)	32.7	37.9	25.6	13.8	21.2	25.0	25.0	25.2
Adjusted PAT	6,853	7,904	4,418	9,679	9,235	12,148	13,836	15,520
Change (%)	24.0	15.3	-44.1	119.1	-4.6	31.5	13.9	12.2
Margin (%)	7.6	8.7	5.6	10.3	8.9	11.3	11.6	12.0
Reported PAT	6,586	7,047	3,103	8,509	10,517	12,434	13,836	15,520

Balance Sheet

United Spirits	2019	2020	2021	2022	2023	2024E	2025E	2026E
Share Capital	1,453	1,453	1,453	1,453	1,455	1,453	1,453	1,453
Reserves	29,862	36,644	39,815	47,470	57,990	70,424	84,259	99,779
Minority Interest	0	0	0	0	0	0	0	0
Net Worth	31,315	38,097	41,268	48,923	59,445	71,877	85,712	1,01,232
Loans	25,889	20,730	6,556	3,417	11	2	2	1
Deferred Tax Liabilities	-1,878	-1,590	-1,711	-1,428	-1,573	-1,730	-1,903	-2,094
Capital Employed	55,326	57,237	46,113	50,912	57,883	70,149	83,811	99,140
Net Fixed Assets	11,282	13,347	13,008	14,866	11,821	12,221	12,471	13,115
Capital WIP	1,171	1,187	865	957	828	621	466	349
Goodwill	0	0	0	0	0	0	0	0
Investments	2,984	2,526	2,021	4,390	4,870	4,767	4,669	4,576
Curr. Assets, L&A	69,308	66,895	63,807	65,586	76,622	87,432	1,04,786	1,23,236
Inventory	18,767	18,361	19,810	21,643	22,300	22,091	24,445	26,671
Account Receivables	25,181	22,835	21,601	23,021	23,828	24,695	27,326	29,814
Cash and Bank	588	345	713	328	8,496	16,987	27,164	38,565
Others	24,772	25,354	21,683	20,594	21,998	23,659	25,850	28,186
Curr. Liab. and Prov.	29,419	26,718	33,588	34,887	36,258	34,892	38,581	42,137
Account Payables	13,360	11,712	13,813	15,279	17,383	15,906	17,601	19,203
Other Liabilities	12,282	10,661	14,321	14,600	15,037	15,001	16,572	18,122
Provisions	3,777	4,345	5,454	5,008	3,838	3,985	4,409	4,812
Net Current Assets	39,889	40,177	30,219	30,699	40,364	52,540	66,205	81,099
Application of Funds	55,326	57,237	46,113	50,912	57,883	70,149	83,811	99,140

E: MOFSL Estimates

Financials and valuations

Ratios

United Spirits	2019	2020	2021	2022	2023	2024E	2025E	2026E
Basic (INR)								
EPS	9.4	10.9	6.1	13.3	12.7	16.7	19.0	21.4
Cash EPS	11.4	14.0	9.5	17.3	16.4	20.3	22.8	25.3
BV/Share	43.1	52.4	56.8	67.3	81.8	98.9	118.0	139.3
DPS	0.0	0.0	0.0	0.0	0.0	7.0	9.0	12.0
Payout %	0.0	0.0	0.0	0.0	0.0	41.9	47.3	56.2
Valuation (x)								
P/E	117.2	101.7	181.9	83.0	87.1	66.1	58.1	51.8
Cash P/E	96.8	78.9	116.3	63.9	67.4	54.5	48.4	43.7
EV/Sales	2.0	2.0	2.1	1.7	1.4	1.3	1.1	0.9
EV/EBITDA	64.1	54.5	81.7	53.1	55.8	43.8	38.5	33.9
P/BV	25.7	21.1	19.5	16.4	13.5	11.2	9.4	7.9
Return Ratios (%)								
RoE	21.9	20.7	10.7	19.8	15.5	16.9	16.1	15.3
RoCE	14.9	14.6	17.0	24.7	21.1	23.8	22.5	21.4
RoIC	15.0	15.3	11.5	24.0	20.3	25.0	26.1	27.4
Working Capital Ratios								
Asset Turnover (x)	1.6	1.6	1.7	1.9	1.8	1.5	1.4	1.3
Leverage Ratio								
Debt/Equity (x)	0.8	0.5	0.2	0.1	0.0	0.0	0.0	0.0

Cash Flow Statement

United Spirits	2019	2020	2021	2022	2023E	2024E	2025E	2026E
Profit before tax	10,181	11,334	6,204	11,675	11,184	16,197	18,447	20,740
Non-operating & EO Items	-952	-455	-478	-337	-742	-1,450	-1,552	-1,660
Depreciation and Amort.	1,445	2,275	2,493	2,886	2,706	2,600	2,750	2,856
Interest Paid	2,200	1,907	1,658	880	1,039	500	400	519
Direct Taxes Paid	-3,328	-4,300	-1,587	-1,606	-2,376	-4,049	-4,612	-5,220
Incr/Decr in WC	3,641	-2,446	7,178	-1,100	128	-1,419	-1,865	-1,698
CF from Operations	13,187	8,315	15,468	12,398	11,939	12,378	13,569	15,537
Interest income	685	1,312	1,793	1,507	-540	1,164	1,552	1,660
(Incr)/Decr in FA	-2,897	-4,356	-1,832	-4,836	468	-2,793	-2,845	-3,384
Free Cash Flow	10,290	3,959	13,636	7,562	12,407	9,585	10,724	12,153
(Pur)/Sale of Investments	-2,311	2,661	3,532	370	-1,913	-2,320	-1,698	-1,893
Other investing items	-210	-844	-2,829	-6,975	3,941	856	0	0
CF from Invest.	-4,733	-1,227	664	-9,934	1,956	-3,093	-2,991	-3,616
Issue of Shares	0	0	0	0	0	0	0	0
Incr/Decr in Debt	-6,765	-5,159	-14,174	-3,139	-3,406	-9	-1	0
Dividend Paid	0	0	0	0	0	0	0	0
Others	-2,509	-2,172	-1,590	290	-2,321	-786	-400	-519
CF from Fin. Activity	-9,274	-7,331	-15,764	-2,849	-5,727	-795	-401	-520
Incr/Decr of Cash	-820	-243	368	-385	8,168	8,491	10,177	11,401
Add: Opening Balance	1,408	588	345	713	328	8,496	16,987	27,164
Closing Balance	588	345	713	328	8,496	16,987	27,164	38,565

E: MOFSL Estimates

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UNDER REVIEW	Rating may undergo a change
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