

United Spirits Limited

Nifty: 19675

CMP: INR 1,046

Target Price: INR 1,100

WHERE ADVISORY MEETS EXCELLENCE

Breweries & Distilleries

United Spirits Limited (USL), a prominent Indian alcoholic beverage company, has recently reported a robust 12.2% rebased revenue growth on a YoY basis in its Q2 results, despite a dip in volume growth. This revenue surge is attributed to a strategic emphasis on premiumization, with the Prestige & Above segment contributing significantly-accounting for 88.0% of net sales and experiencing a noteworthy 12.8% YoY growth in the second quarter of fiscal 2024. During this period, the company also noted a gain of INR 307 million from the final tranche of income related to the slump sale. Despite grappling with challenges such as fluctuations in raw material prices and demand pressure, USL effectively upheld and expanded its margins by fully realizing the advantages of implemented price hikes. Furthermore, the recent decision within the UK-India Free Trade Agreement to reduce import duties is expected to lead to a reduction in the Maximum Retail Price (MRP) of BIO brands, potentially exerting a positive impact on selling prices. Apart from this, the company is maintaining its futuristic approach and launched global Tequila trademark Don Julio in India. Taking into account these factors, we recommend holding USL as an investment.

Revenue expanded despite a modest increase in volume:

In Q2FY24, United Spirits Limited (USL) reported a Net Sales Value (NSV) of INR 2,865 crore, with Prestige & Above products contributing significantly at 88%. The overall NSV witnessed a robust growth of 12.2%, while Prestige & Above NSV exhibited a higher growth rate of 12.8% on a rebased prior-year comparison. However, the Prestige & Above volume growth slowed to 4% YoY, and the popular segment experienced a volume decline of 11% YoY despite a 1% YoY revenue growth, attributed to consumer impact from inflation and duty increases. The EBITDA for the quarter was INR 470 crore, with a margin of 16.4%, and the company declared a dividend of Rs. 4 per share.

Expanding Margins:

The company's financial report highlights a robust performance with a gross margin increase to 43.4%, up by 278 basis points from the previous year, driven by a favorable product mix, premiumization efforts, and implemented price hikes. The advertising and promotional reinvestment rate at 8.4% of sales reflects strategic investments ahead of the festive quarter and cricket world cup. EBITDA saw a significant uptick of 20.9% to

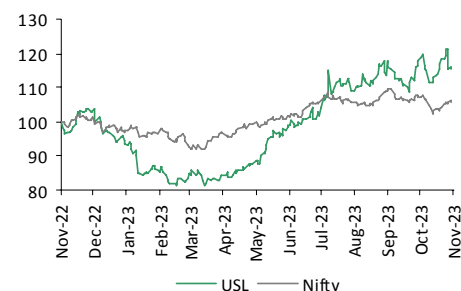
INR 470 Cr., with a corresponding increase in the EBITDA margin by 118 basis points to 16.4%. Despite a 24.8% rise in interest costs to INR 26 Cr., attributed to custom duty, the company reported an exceptional gain of INR 31 Cr. from the final tranche of income related to a slump sale, contributing to a Profit After Tax of INR 341 Cr. and a net profit margin of 11.9%.

Outlook:

Despite uncertainties surrounding government policies and interventions in the alcohol industry, as well as the prevailing inflationary and demand pressures in the near to medium term, our outlook on United Spirits Limited (USL) remains positive. The company's ongoing efforts to revamp its premium portfolio, introduce new brands, control costs, and negotiate price hikes from states are expected to yield favourable results. USL's debt-free status, double-digit return ratios, and strong cash generation further contribute to our positive stance. The strategic revamping and focus on premiumization are anticipated to drive higher margins in the upcoming quarters. Considering these factors, we recommend to Hold rating on USL and set a target price of Rs. 1,100/-.

Shareholding (%)	Sep-23
Promoters	56.67
Mutual Funds	9.96
Other Domestic Institutions	2.36
FII	16.51
Retail and Others	14.49

Relative Price Performance



Key Data	
NSE Symbol	MCDOWELL-N
Bloomberg Code	UNSP
Reuters Code	UNSP.NS
No. of equity shares (in Cr)	73
Face Value	2
Mcap (In cr)	76,371
52 week H/L	1,110 / 730.55
Beta	0.79

Board of Directors				
Name	Designation			
Ms. Hina Nagarajan	Managing Director and CEO			
Mr. Pradeep Jain	Executive Director & Chief Financial Officer			
Mr. Jitendra Mahajan	Chief Supply & Sustainability Officer			
Mr. Jagbir Singh Sidhu	Corporate Relations Director			
Mr. Prathmesh Mishra	Chief Commercial Officer			
Ms. Deepika Warriar	Chief Marketing Officer			
(In Cr)	FY22	FY23	FY24E	FY25E
Net Revenue	9,712.40	10,611.60	11,196.90	12,718.90
Growth (%)		9%	6%	14%
PAT	828.6	1143.8	1096.9	1345.9
PAT Margin (%)	9%	11%	10%	11%
EPS	11.2	15.5	15.1	18.5
P/E	67.5	48.77	50.07	40.86

Breweries & Distilleries

Particulars (Amount in Lakhs)	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
Sales	2,911	2,779	2,503	2,668	2,867
Expenses	2,474	2,407	2,268	1,955	2,401
Operating Profit	437	372	235	713	466
OPM %	15%	13%	9%	27%	16%
Other Income	389	-127	0	5	71
Interest	21	24	36	4	26
Depreciation	66	65	69	74	65
Profit before tax	739	155	130	639	446
Tax %	26%	-38%	21%	25%	24%
Net Profit	548	214	103	477	339
EPS in Rs	7.61	2.95	1.41	6.55	4.66

Breweries & Distilleries

Financials

Income Statement

Y/E (INR mn)	FY22	FY23	FY24E	FY25E
Total operating Income	9,712.40	10,611.60	11,196.90	12,718.90
<i>Growth (%)</i>	19.4	9%	6%	14%
Cost of materials consumed	5,291.50	6,064.10	6,214.30	6,931.80
Employee benefit expense	653.1	610.00	649.40	737.70
Advertisement&Promo	694.9	921.80	1007.70	1144.70
Other Expenses	1,464.80	1,598.80	1,623.50	1,844.20
EBITDA	1,608.10	1,416.90	1,701.90	2,060.50
<i>Growth (%)</i>	52.8	-11.9	20.10	21.1
Depreciation	303.8	282.5	312.00	337
EBIT	1,304.30	1,134.40	1,389.90	1,723.50
Interest	88	103.9	0.50	0.5
Other Income	35.5	73.1	76.4	75.6
Exceptional Item	-165.2	176.4	0	0
PBT	1,086.60	1,280.00	1,465.90	1,798.60
Tax	276	152.8	369	452.7
Reported PAT	810.6	1,127.20	1,096.90	1,345.90
Adjustments	18	16.6	0	0
Adjusted PAT	828.6	1,143.80	1,096.90	1,345.90
EPS	11.2	15.50	15.10	18.50

Cash Flow

Y/E	FY22	FY23	FY24E	FY25E
Profit after Tax	828.6	1,143.80	1,096.90	1,345.90
Add: Depreciation	303.8	282.5	312	337
Add: Interest paid	88	103.9	0.5	0.5
Cash Profit	1,132.40	1,426.30	1,408.90	1,682.90
Increase/(Decrease) in CL	-51.2	150.8	-397.6	117
(Increase)/Decrease in CA	-384	-248.2	-419.2	-710.7
Others	103.3	-751.1	0	0
CF from Operating Activities	888.5	681.7	592.60	1,089.60
Purchase of Fixed Assets	-77.8	-110.1	-204.1	-204.3
(Inc)/Dec in Investments	-155.4	-129.6	-666.8	-670.1
Others	-55.9	825.3	208	51.6
CF from Investing Activities	-289.1	585.6	-662.9	-822.9
Inc/(Dec) in Loan Funds	-535	-340.6	0	0
Inc/ (Dec) in Sh. Cap. & Res.	0	0.2	-0.2	0
Less: Interest paid	-88	-103.9	-0.5	-0.5
Others	0	0	-427.4	-512.9
CF from financing activities	-623	-444.3	-428.1	-513.4
Op. Cash and cash Eq.	83.9	60.3	883.3	384.9

Balance Sheet

Y/E (INR mn)	FY22	FY23	FY24E	FY25E
Source of Funds				
Equity Capital	145.3	145.5	145.3	145.3
Reserves & Surplus	4,808.40	5,854.00	6,523.50	7,356.50
Shareholder's Fund	4,953.70	5,999.50	6,668.80	7,501.80
Minority Interest	-78.9	0	0	0
Loan Funds	341.7	1.1	1.1	1.1
Provisions	48.3	45.1	49.6	54.6
Other Liabilities	263.7	182.2	200.4	220.5
Total Current Liabilities	3,382.80	3,533.60	3,136.00	3,253.00
Total	8,911.30	9,761.50	10,055.90	11,030.90

Application of Funds

Gross Block	2,250.20	2,295.80	2,495.80	2,695.80
Less: Acc. Depreciation	1,035.00	1,317.50	1,629.50	1,966.50
Net Block	1,215.20	978.3	866.3	729.4
Intangible Assets	358	356.7	356.7	356.7
Capital WIP	95.7	82.8	86.9	91.3
Goodwill	21	1.3	1.3	1.3
Non-Current Investments	0	55.4	655.40	1,255.40
Deferred Tax Assets (net)	147.8	157.3	0	0
Long term loans & advances	1,261.40	1,335.60	1,402.40	1,472.50
Other Non-current assets	648.8	559.5	531.5	504.9
Current Investments	222.1	255.8	255.8	255.8
Inventories	2,156.70	2,230.00	2,300.70	2,613.50
Debtor	2,373.60	2,434.00	2,760.90	3,136.20
Cash	60.3	883.3	384.9	138.3
Loan & Advance, Other CA	350.7	431.5	453.1	475.7
Total Current assets	5,163.40	6,234.60	6,155.40	6,619.40
Total	8,911.30	9,761.50	10,055.90	11,030.90

Breweries & Distilleries

Analyst Certification of Independence: The analyst(s) for this report certifies that all the views expressed in this report accurately reflect his or her personal views about the subject company(ies) or issuers and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Arete Securities Limited, and have no bearing whatsoever on any recommendation that they have given in the Research Report. Disclaimer and Disclosures as required under SEBI (Research Analyst) Regulations, 2014: Arete Securities Limited (hereinafter refer as Arete Securities) and its affiliates are engaged in investment banking, investment advisory, stock broking, institutional equities, Mutual Fund Distributor and insurance broking. Arete Securities is a SEBI registered securities broking Company having membership of NSE and BSE for Equity, Future & Option, Currency Derivatives segment and Wholesale Debt Market. The Company is focused primarily on providing securities broking services to institutional clients and is empanelled as an approved securities broker with all the major Nationalised, Private and Co-operative banks, Corporate houses, Insurance Companies, Financial Institutions, Asset Management Companies and Provident Fund Trusts. Details of affiliates are available on our website i.e. <http://www.aretesecurities.com>. Arete Securities Limited is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. Vide SEBI Reg. No. INH00002615.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in the last five years. We have not been debarred from doing business by any Stock Exchange/ SEBI or any other authorities, nor has our certificate of registration been cancelled by SEBI at any point of time.

General Disclosures: This Research Report (hereinafter called "report") has been prepared by Arete Securities and is meant for sole use by the recipient and not for circulation. This Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, (as defined under section 2(h) of securities Contracts (Regulation) Act.1956, through Arete Securities nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments.

This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by Arete Securities to be reliable, although its accuracy and completeness cannot be guaranteed. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. Any review, retransmission or any other use is prohibited.

The information, opinions, views expressed in this Research Report are those of the research analyst as at the date of this Research Report which are subject to change and do not represent to be an authority on the subject. While we would endeavour to update the information herein on a reasonable basis, we are under no obligation to update the information. Also, there may be regulatory, compliance or other reasons that prevent us from doing so. Hence all such information and opinions are subject to change without notice.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

This Research Report should be read and relied upon at the sole discretion and risk of the recipient. If you are dissatisfied with the contents of this complimentary Research Report or with the terms of this Disclaimer, your sole and exclusive remedy is to stop using this Research Report. Neither Arete Securities nor its affiliates or their respective directors, employees, agents or representatives shall be responsible or liable in any manner, directly or indirectly, for the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. Arete Securities may have issued other reports in the past that are inconsistent with and reach different conclusion from the information presented in this report.

Arete Securities, its affiliates and employees may, from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report.

The user should consult their own advisors to determine the merits and risks of investment and also read the Risk Disclosure Documents for Capital Markets and Derivative Segments as prescribed by Securities and Exchange Board of India before investing in the Indian Markets.

A graph of daily closing prices of securities is available at www.nseindia.com and <http://economicstimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" icon in the price chart).

Disclaimers in respect of jurisdiction: This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject Arete Securities or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of Arete Securities.

List of Associates as per SEBI (Research Analyst) Regulations, 2014

Statements on ownership and material conflicts of interest, compensation - Arete and Associates

Disclosure of interest statement	Yes/No
Arete Securities/its Affiliates/Analyst/his or her Relative financial interest in the company	No
Arete Securities/its Affiliates/Analyst/his or her Relative actual/beneficial ownership of more than 1% in subject company at the end of the month. Immediately preceding the date of the publication of the research report or date of public appearance	No
Investment banking relationship with the company covered	No
Any other material conflict of interest at the time of publishing the research report	No
Receipt of compensation by Arete Securities or its Affiliated Companies from the subject company covered for in the last twelve months:	
• Managing/co-managing public offering of securities	
• Investment banking/merchant banking/brokerage services	
• products or services other than those above	No
• in connection with research report	
Whether Research Analyst has served as an officer, director or employee of the subject company covered	No
Whether the Research Analyst or Research Entity has been engaged in market making activity of the Subject Company;	

For statements on ownership and material conflicts of interest, compensation, etc. for individual Research Analyst(s), please refer to each specific research report.

Arete Securities Ltd: Mittal Court, A-Wing, 10th Floor, Nariman Point, Mumbai - 400 021, Tel. No. : +91-022-4289 5600, Fax: +91 (22) 2657 3708/9

For More Information Visit Us At : www.aretesecurities.com

ARETE CAPITAL SERVICE PRIVATE LIMITED
Mutual Fund Advisor
AMFI Reg. No. 90796

ARETE SECURITIES LTD	SEBI Reg. Nos.
NSE Capital Market	INZ000241036
NSE Future & Option	INZ000241036
NSE Currency Derivatives	INZ000241036
NSE Future & Option	INZ000241036
BSE Cash	INZ000241036
BSE Wholesale Debt Market	INZ000241036
BSE Currency Derivatives	INZ000241036
NSDL DP	DP ID IN303680
Research Analyst	INH100002615
Merchant Banker	INM000012740
Investment Advisor	INA000014614