

January 24, 2025

**RESULT REPORT Q3FY25** | Sector: Breweries & Distilleries

# United Spirits Ltd.

## Expect healthy operating growth in 4Q as well

United Spirits (UNSP) 3QFY25 reported strong revenue growth, which was slightly better than our estimates, largely led by business scale-up in the state of Andhra Pradesh (AP), strong festive period and decent wedding season. AP contributed 6.1% growth points this quarter (includes benefit from pipeline filling as well) and 2.4% growth points on YTD basis. Prestige & Above (P&A) saw 16.1% value growth this quarter but was 9.2% excluding AP. Management has retained its double-digit P&A value growth (including AP) target for the full year, which means ask rate for 4QFY25 will be in mid-teens atleast. EBITDA margin (EM) was lower than our estimate at 17.1%, but operating growth was in-line and healthy (19.7% EBITDA growth). ENA continues to be inflationary, but glass prices remain benign and is expected to remain same for atleast one more quarter till deflation comes into the base. We thus expected healthy operating profit growth in 4QFY25 as well but receipt of dividend income from RCSPL in 3Q this year vs 4Q last year will lead to decline in PAT. The stock is up ~22% post our initiation dated 4th June 2024. While there is a change in guard, we remain fundamentally positive on the company. Targeting ~52x on March'27E Standalone EPS + RCSPL, we get a target price (TP) of Rs1,620. Maintain ADD.

### Result Highlights

- **Headline performance:** Standalone net sales grew by 14.8% YoY to Rs34.3bn (vs est. Rs33.4bn). EBITDA grew by 19.7% YoY to Rs5.9bn (vs est. Rs5.85bn). Adjusted PAT (APAT) grew by 54.6% to Rs5.4bn (vs est. Rs4bn).
- **Overall volumes** for the quarter grew by 10.2% YoY to 18.2mn cases. Prestige & above (P&A; ~89% of net sales) volumes grew by 11.2% YoY to 14.9mn cases leading to 16.1% YoY value growth. Popular (~10% of net sales) volumes up ~5.9% YoY to 3.2mn cases leading to 9.6% YoY value growth.
- **Gross revenue per case** was up by 1% YoY to Rs4,258 in 3QFY25. Excise duty was down 140bps YoY. Net revenue per case was up by 4.2% YoY to Rs1,890 in 3QFY25.
- **Standalone gross margin** was up 130bps to 44.7% (but down 50bps QoQ). Increase in overheads meant that EBITDA margin was up ~70bps to 17.1% (vs est. 17.5%).
- **EBITDA per case** stood at Rs324 in 3QFY25 vs Rs298 in 3QFY24.
- **9MFY25:** Standalone net sales, EBITDA, APAT were up 7.5%, 14.1% and 25.8% respectively. Gross margin was up 130bps YoY to 44.8% and EBITDA margin was up 100bps YoY to 18%.

**Key near-term comments:** (1) Consumer social occasions has risen. Alco-Bev has been more resilient than other CPG categories. No signs of downtrading. There is still relative moderation at the top-end of the market. (2) Management still expects double-digit growth in P&A on full year basis including AP. (3) ENA seeing high single digit to low double-digit inflation and is not moderating. Glass has already seen three quarters of deflation now.

### View & Valuation

There is no major change in our earnings. We now build EBITDA/Earnings CAGR of 14.6%/14.1% over FY24-27E for the standalone business. UNSP has recently resumed dividend, after almost a decade, as it wiped out all its accumulated losses in 1QFY24. Cash flow and return ratios are seeing improvement. The stock is up ~22% post our initiation dated 4th June 2024. While there is a change in guard, we remain fundamentally positive on the company. Targeting ~52x on March'27E Standalone EPS + RCSPL, we get a target price (TP) of Rs1,620. Maintain ADD.

### Exhibit 1: Actual vs estimate

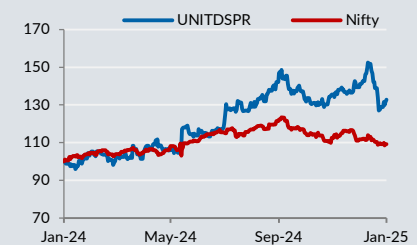
Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	34,320	33,412	33,604	2.7	2.1
EBITDA	5,880	5,847	5,838	0.6	0.7
EBITDA Margin (%)	17.1	17.5	17.4	(0.4)	(0.2)
Recurring PAT	5,380	4,037	4,002	33.3	34.4

RECO	:	<b>ADD</b>
CMP	:	Rs 1,470
Target Price	:	Rs 1,620
Potential Return	:	+10.2%

### Stock data (as on Jan 24, 2025)

Nifty	23,092
52 Week h/l (Rs)	1700 / 1055
Market cap (Rs/USD mn)	1091499 / 12659
Outstanding Shares (mn)	727
6m Avg t/o (Rs mn):	1,350
Div yield (%):	0.6
Bloomberg code:	UNITDSPR IN
NSE code:	UNITDSPR

### Stock performance



	1M	3M	1Y
Absolute return	-6.1%	0.7%	32.1%

### Shareholding pattern (As of Sept'24 end)

Promoter	56.7%
FII+DII	29.3%
Others	14.1%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	1,620	1,610

### Δ in earnings estimates

	FY25e	FY26e	FY27e
EPS (New)	20.1	23.9	27.2
EPS (Old)	20.5	23.8	26.9
% change	-1.6%	0.4%	0.8%

### Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Revenue	116,596	129,637	142,919
YoY Growth (%)	9.0	11.2	10.2
EBITDA	19,670	22,648	25,683
Margins (%)	16.9	17.5	18.0
APAT	14,653	17,402	19,754
EPS	20.1	23.9	27.2
YoY Growth (%)	10.3	18.8	13.5
Pre-tax RoCE (%)	27.6	30.0	31.0
ROE (%)	20.2	21.9	22.6
P/E (x)	73.0	61.4	54.1
EV/EBITDA (x)	53.0	45.8	40.2

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Lead Analyst

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MANAS RASTOGI, Associate

## Exhibit 2: Quarterly snapshot (Standalone)

Particulars (Rs mn)	3QFY24	2QFY25	3QFY25	YoY (%)	QoQ (%)	9MFY24	9MFY25	YoY (%)
Net Sales	29,893	28,430	34,320	14.8	20.7	80,259	86,270	7.5
Gross margin %	43.4	45.2	44.7	1.3	-0.5	43.5	44.8	1.3
Employee costs	1,410	1,620	1,730	22.7	6.8	4,088	4,680	14.5
% of sales	4.7	5.7	5.0	0.3	-0.7	5.1	5.4	0.3
A&P	3,277	2,570	3,790	15.7	47.5	7,148	8,110	13.5
% of sales	11.0	9.0	11.0	0.1	2.0	8.9	9.4	0.5
Other expenses	3,378	3,590	3,950	16.9	10.0	10,045	10,340	2.9
% of sales	11.3	12.6	11.5	0.2	-1.1	12.5	12.0	-0.5
EBITDA	4,914	5,070	5,880	19.7	16.0	13,609	15,530	14.1
EBITDA margin %	16.4	17.8	17.1	0.7	-0.7	17.0	18.0	1.0
Depreciation	628	690	720	14.6	4.3	1,931	2,060	6.7
EBIT	4,286	4,380	5,160	20.4	17.8	11,678	13,470	15.3
EBIT margin %	14.3	15.4	15.0	0.7	-0.4	14.6	15.6	1.1
Interest expense	164	250	200	22.0	-20.0	469	670	42.9
Other income	461	340	1,900	312.1	458.8	1,058	2,560	142.0
Exceptional items	0	0	-650	-	-	102	-650	-
PBT	4,583	4,470	6,860	49.7	53.5	12,267	15,360	25.2
Tax	1,102	1,120	1,480	34.3	32.1	2,950	3,640	23.4
Effective tax rate %	24.0	25.1	21.6	-2.5	-3.5	24.0	23.7	-0.4
PAT	3,481	3,350	4,730	35.9	41.2	9,419	11,070	17.5
Adj PAT	3,481	3,350	5,380	54.6	60.6	9,317	11,720	25.8
PAT margin %	11.6	11.8	15.7	4.0	3.9	11.6	13.6	2.0
EPS	4.8	4.6	7.4	54.6	60.6	12.8	16.1	25.8

Source: Company, YES Sec

### Segmental performance:

- o Prestige & above (P&A; ~89% of net sales) volumes grew by 11.2% YoY to 14.9mn cases leading to 16.1% YoY value growth.
- o Popular (~10% of net sales) volumes up ~5.9% YoY to 3.2mn cases leading to 9.6% YoY value growth.

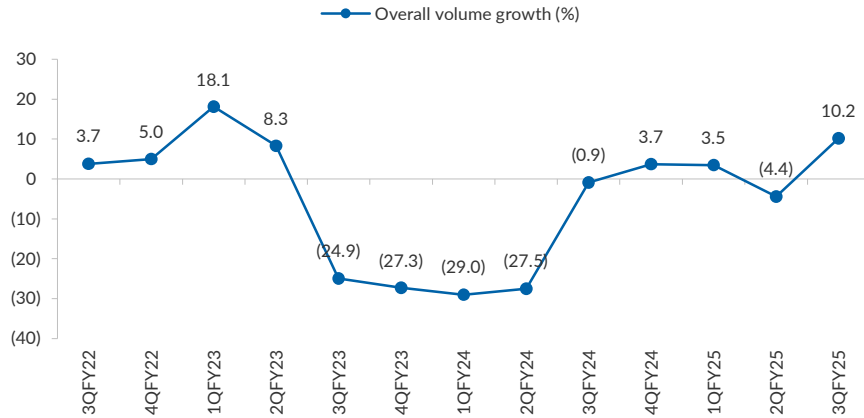
## UNITED SPIRITS 3QFY25 CONFERENCE CALL TAKEAWAYS

- **Outlook:** The company is well on track P&A double digit growth including AP benefit. Management maintained 2Q guidance on full year margins.
- **Demand environment:** The quarter saw a sequential improvement in overall sentiment of celebration in the festive 'October-December' quarter. There are no signs of down trading in the portfolio. Premiumization ladder is holding intact. Top end of the portfolio is moderating due to inflationary pressure and normalizing of post-COVID revenge consumption which is impacting the consumer sentiment. The strong growth was not only because of strong wedding season but also because of the pickup in festive demand. The company expects overall demand environment to be better over the next 12-18 months.
- **Commodity:** ENA prices grown in high single digit to double digit which is partially offset by moderation in glass prices. The company is still lagging inflation and would focus on

advocacy to get the right pricing. Govt is actually looking at another price increase in Ethanol. The company will also start lapping the low glass prices from Feb/March onwards and thus the benefit vs previous year where glass price was neutralizing the neutral alcohol spirit will go away.

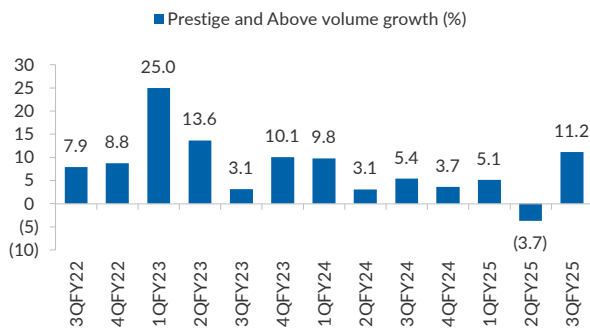
- **Andhra Pradesh:** Excluding Andhra Pradesh market benefit, the overall NSV growth for the quarter was 8.7% and 9.2% for the P&A segment. Price mix for the quarter was 4.6% and excluding AP it was 5.2%. The company has recouped its market share in the state. In the overall growth, Andhra Pradesh has contributed 6.1% of growth points in the third quarter and on YTD basis it is 2.4% growth points. Over the next 2-3 quarters, the demand is expected to be stable. AP prices are similar to Telangana, but the cost footprint of AP is superior to Telangana. It has also ramped up production in the state. The value saliency of state crossed ~6% in the first quarter itself. Retailers hold 30-35 days and corporation hold 20-25 days of inventory.
- **Regulatory environment during Ms. Hina Nagarajan:** The management believes it has seen positive movement in the regulatory environment. The company is seeing traction in terms of policy change in some states.
- **Staff costs** during the quarter were higher owing to setting up of new team in AP and also due to strengthening of the innovation commercialization team. Management believes it has reached a steady state of staff cost now and will need to invest in organization for sustained growth.
- **Popular segment:** The growth in the Popular segment was on a low base which shrunk by 20%. The segment is expected to remain flattish to low single digit decline.
- **Management change:** The new CEO Mr. Praveen Someshwar who was MD&CEO of HT Media has a very strong understanding of the Indian consumer.
- **Karnataka** is not a high salience market for the company now after the Popular portfolio divestiture. It is working with the government to rationalize the current tax structure to drive more premiumization.
- **Supply chain agility program:** The co-location part of the program is already done and dusted. Co-location as a percentage of the total manufacturing is in its journey from going from 30% to 70%. Management will provide any update on the same at the end of year.
- **Other income:** Rs1.2bn is dividend income received from RCSPL in October as their year-end cycle completes around that time.
- **The X series** has been rolled out in Maharashtra, Goa, Rajasthan, UP and MP.
- **Don Julio:** The Tequila trend is getting strong traction in the country. Don Julio core variants are now available in over 20 cities. Festive season was strong for Don Julio.
- **Smirnoff:** Initial response to newly launched Smirnoff Vodka flavor inspired by the Indian palate is very encouraging.
- **Pocket packs** are doing well across the portfolio especially for portfolio it has been introduced.

**Exhibit 3: Overall volumes were up 10.2% YoY, higher than our estimate of 7.7% growth**



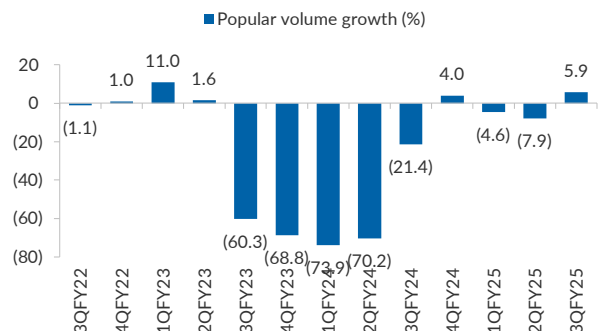
Source: Company, YES Sec

**Exhibit 4: P&A volumes were up by 11.2% YoY..**



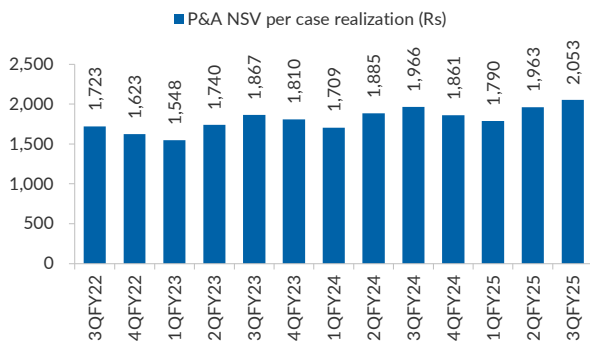
Source: Company, YES Sec

**Exhibit 5: ...and Popular volume growth was up 5.9% YoY**



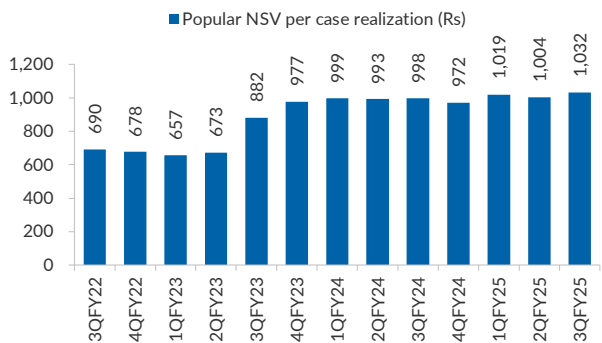
Source: Company, YES Sec

**Exhibit 6: P&A NSV per case stood at Rs 2,053 with 4.4% YoY growth**



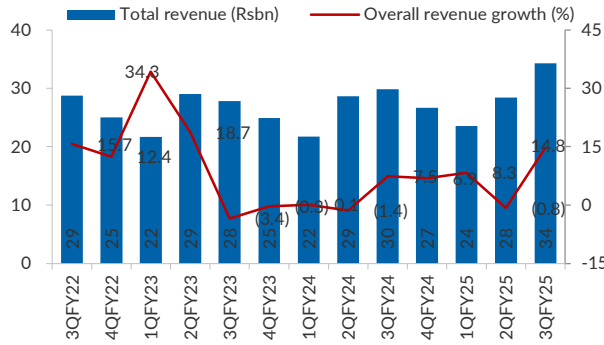
Source: Company, YES Sec

**Exhibit 7: Popular NSV per case stood at Rs1,032 with 3.5% YoY growth**



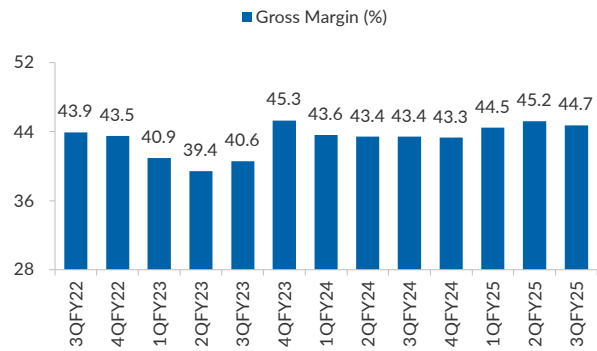
Source: Company, YES Sec

**Exhibit 8: Overall revenue growth was up 14.8% YoY in 3QFY25**



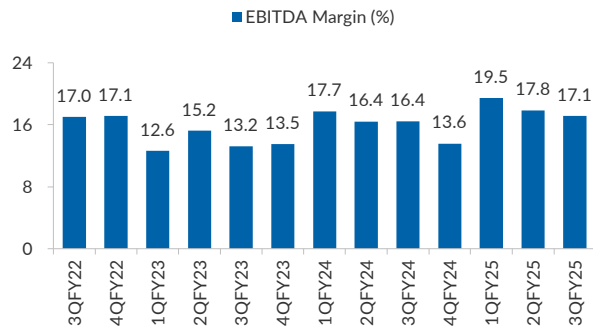
Source: Company, YES Sec

**Exhibit 9: Gross margin improved by 130bps to 44.7%**



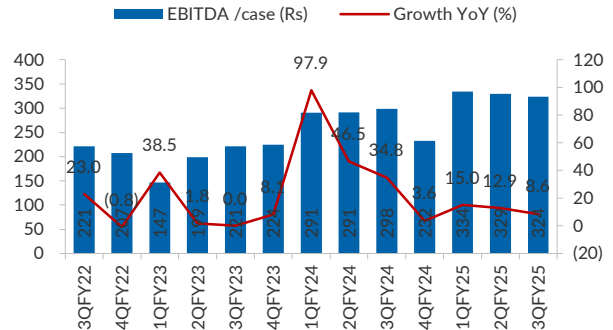
Source: Company, YES Sec

**Exhibit 10: EBITDA margin improved by 70bps to 17.1% in 3QFY25**



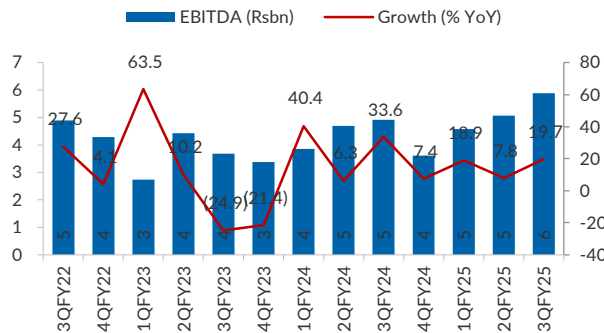
Source: Company, YES Sec

**Exhibit 11: EBITDA per case stood at Rs324 with 8.6% YoY growth**



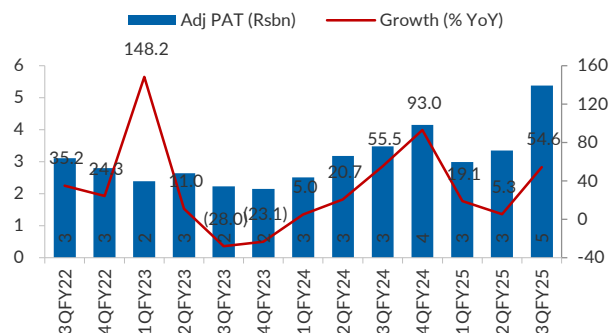
Source: Company, YES Sec

**Exhibit 12: EBITDA growth was 19.7% YoY in 3QFY25**



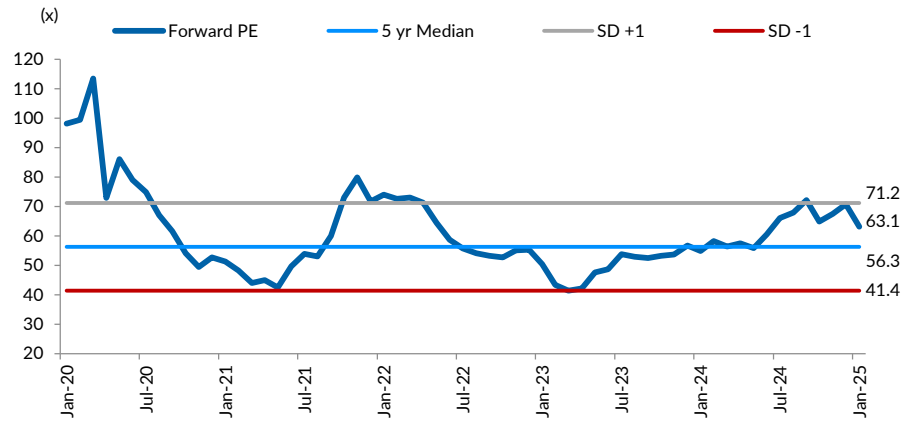
Source: Company, YES Sec

**Exhibit 13: Adj PAT up 54.6% YoY in 3QFY25**



Source: Company, YES Sec

**Exhibit 14: Currently trading at ~63x on 1yr fwd. earnings**



Source: Company, YES Sec

## ANNUAL FINANCIALS

### Exhibit 15: Balance Sheet

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	1,455	1,455	1,455	1,455	1,455
Reserves	57,990	68,180	71,149	78,110	86,012
Net worth	59,445	69,635	72,604	79,565	87,467
Total debt	11	0	0	0	0
Other long-term liabilities	249	630	630	630	630
<b>Total liabilities</b>	<b>59,705</b>	<b>70,265</b>	<b>73,234</b>	<b>80,195</b>	<b>88,097</b>
Gross block	22,717	25,573	26,573	27,573	28,573
Depreciation	10,483	13,123	15,913	18,783	21,758
Net block	12,234	12,450	10,660	8,790	6,815
Capital work-in-progress	668	370	370	370	370
Investments	4,617	8,230	10,744	12,744	12,744
Inventories	22,300	20,630	23,319	25,927	28,584
Debtors	23,828	31,280	25,555	27,703	30,542
Cash	8,496	12,090	16,223	19,127	24,384
Loans & advances	17,084	17,265	20,086	21,582	23,190
Other current assets	4,914	3,340	3,507	3,682	3,866
Total current assets	76,622	84,605	88,690	98,022	110,566
Creditors	17,383	18,270	19,939	22,267	24,759
Other current liabilities & provisions	17,053	17,120	17,291	17,464	17,639
Total current liabilities	34,436	35,390	37,230	39,731	42,398
Net current assets	42,186	49,215	51,460	58,291	68,168
<b>Total assets</b>	<b>59,705</b>	<b>70,265</b>	<b>73,234</b>	<b>80,195</b>	<b>88,097</b>

Source: Company, YES Sec

### Exhibit 16: Income statement

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
Net revenue	103,740	106,920	116,596	129,637	142,919
<b>% Growth</b>	<b>10.6</b>	<b>3.1</b>	<b>9.0</b>	<b>11.2</b>	<b>10.2</b>
COGS	60,720	60,480	64,419	71,041	77,748
Staff costs	6,071	5,430	6,121	6,612	7,146
A&P	9,200	10,410	11,368	13,093	14,578
Other expenses	13,560	13,520	15,018	16,244	17,765
Total expenses	89,551	89,840	96,926	106,990	117,237
EBITDA	14,189	17,080	19,670	22,648	25,683
<b>% growth</b>	<b>(4.5)</b>	<b>20.4</b>	<b>15.2</b>	<b>15.1</b>	<b>13.4</b>
<b>EBITDA margin (%)</b>	<b>13.7</b>	<b>16.0</b>	<b>16.9</b>	<b>17.5</b>	<b>18.0</b>
Other income	740	3,350	2,898	3,272	3,397
Interest costs	1,040	760	870	450	450
Depreciation	2,710	2,640	2,790	2,870	2,976
Exceptional items	1,710	(170)	0	0	0

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax (before exceptional items)	11,179	17,030	18,907	22,600	25,654
Tax	2,370	3,740	4,254	5,198	5,900
Rate of Tax (%)	21.2	22.0	22.5	23.0	23.0
PAT	10,519	13,120	14,653	17,402	19,754
Adj PAT	8,809	13,290	14,653	17,402	19,754
<b>Adj PAT margin (%)</b>	<b>8.5</b>	<b>12.4</b>	<b>12.6</b>	<b>13.4</b>	<b>13.8</b>
<b>% Growth</b>	<b>(2.5)</b>	<b>50.9</b>	<b>10.3</b>	<b>18.8</b>	<b>13.5</b>

Source: Company, YES Sec

## Exhibit 17: Cash flow statement

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
PAT	9,928	13,730	14,653	17,402	19,754
Depreciation	2,706	2,640	2,790	2,870	2,976
Interest	697	(500)	870	450	450
(Inc.)/dec. in working capital	(5,755)	(5,760)	1,887	(3,926)	(4,620)
Other items	(1,810)	(990)	(2,898)	(3,272)	(3,397)
<b>Cash flow from operations</b>	<b>5,766</b>	<b>9,120</b>	<b>17,303</b>	<b>16,795</b>	<b>18,559</b>
Capital expenditure (-)	(1,132)	(780)	(1,000)	(1,000)	(1,000)
<b>Net cash after capex</b>	<b>4,838</b>	<b>9,980</b>	<b>19,200</b>	<b>15,795</b>	<b>17,559</b>
Inc./(dec.) in investments and other assets	8,543	(356)	(3,241)	1,272	3,397
<b>Cash flow from investments</b>	<b>7,411</b>	<b>(1,136)</b>	<b>(4,241)</b>	<b>272</b>	<b>2,397</b>
Inc./(dec.) in total borrowings	(4,646)	(1,270)	0	0	0
Other items	(363)	(210)	(870)	(450)	(450)
<b>Cash from investing and financial activities</b>	<b>(5,009)</b>	<b>(4,390)</b>	<b>(8,929)</b>	<b>(10,891)</b>	<b>(12,302)</b>
Change in Cash Balance	8,168	3,594	4,133	2,904	5,257
Opening cash balance	328	8,496	12,090	16,223	19,127
Closing cash balance	8,496	12,090	16,223	19,127	24,384

Source: Company, YES Sec

## Exhibit 18: Ratios

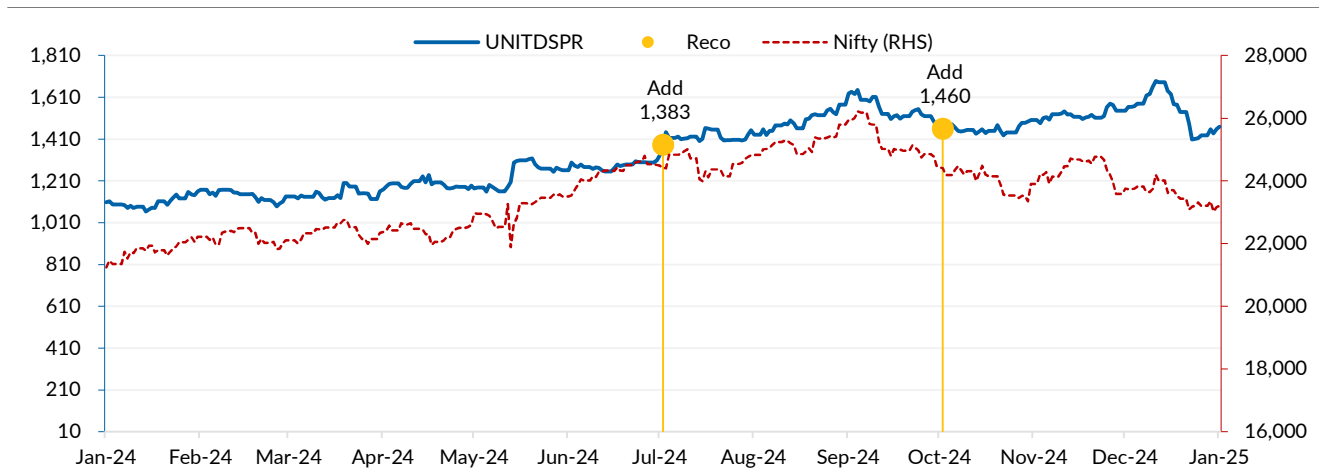
Y/E March	FY23	FY24	FY25E	FY26E	FY27E
<b>Per share (Rs)</b>					
EPS	12.1	18.3	20.1	23.9	27.2
Book value	81.7	95.7	99.8	109.4	120.2
<b>Valuation (x)</b>					
EV/sales	10.2	9.8	8.9	8.0	7.2
EV/EBITDA	74.4	61.4	53.0	45.8	40.2
P/E	121.4	80.4	73.0	61.4	54.1
P/BV	18.0	15.4	14.7	13.4	12.2
<b>Return ratios (%)</b>					
RoCE *	22.2	27.4	27.6	30.0	31.0
RoE	14.8	19.1	20.2	21.9	22.6
ROIC *	25.3	30.2	35.4	42.1	46.1
<b>Profitability ratios (%)</b>					



Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Gross margin	41.5	43.4	44.8	45.2	45.6
EBITDA margin	13.7	16.0	16.9	17.5	18.0
Adj PAT margin	8.5	12.4	12.6	13.4	13.8
<b>Liquidity ratios (%)</b>					
Current ratio	2.2	2.4	2.4	2.5	2.6
Quick ratio	1.6	1.8	1.8	1.8	1.9
<b>Solvency ratio (%)</b>					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	1.7	1.5	1.6	1.6	1.6
Fixed asset turnover ratio (x)	8.5	8.6	10.9	14.7	21.0
Debtor days	82	94	89	75	74
Inventory days	129	130	125	127	128
Creditor days	97	108	108	108	110

Source: Company, YES Sec

## Recommendation Tracker



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Analyst signature

Analyst signature

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