

July 24, 2024

RESULT REPORT Q1 FY25 | Sector: Breweries & Distilleries

United Spirits Ltd.

Our margin thesis continues to play out

United Spirits (UNSP) 1QFY25 operating performance surprised us positively with reported EBITDA margin coming at 19.5% (excluding one-off benefit, EM still stood robust at 18.5%). Prestige & Above (P&A) saw a strong 10.1% YoY value growth. Management sees some amount of 1H growth getting front loaded in 1QFY25 due to certain momentum in a western state, which will normalize in 2Q. On a full year basis company believes it will be on track to deliver its double-digit growth guidance. The stock is already up ~15% post our recent initiation (dated 4th June 2024). We now roll-forward our target price (TP) to Sep'26E EPS and derive a revised TP of Rs1,510, targeting ~52x on Sep'26E EPS of standalone business + RCSPL. We maintain our ADD rating and remain fundamentally positive on the medium-term opportunity.

Result Highlights

- **Headline performance:** Standalone net sales grew 8.3% YoY to Rs23.5bn. EBITDA grew by 18.9% YoY to Rs4.6bn. Adjusted PAT (APAT) grew by 19.1% to Rs3bn.
- **Overall volumes** for the quarter grew by ~3.5% YoY to 13.7mn cases.
- Prestige & above (P&A; ~88% of net sales) volumes grew by 5.1% YoY to 11.5mn cases driving value growth of 10.1% YoY. Popular (~9% of net sales) volumes down 4.6% YoY to 2.2mn cases leading to 2.7% YoY value decline.
- **Gross revenue per case** for the quarter was up by 6.1% YoY from Rs4,012 in 1QFY24 to Rs4,255 in 1QFY25 (it was Rs4,100 in 4QFY24).
- **Standalone margins:** Reported gross margin up 90bps to 44.5% (+110bps QoQ). Savings in staff cost of ~10bps and other expenses of 150bps on a YoY basis was offset by ~70bps increase in A&SP costs. Thus, EBITDA margin was up ~170bps to 19.5% largely driven by GM expansion and operating leverage partly offset by higher ad spends.
- **EBITDA per case** stood at Rs334 in 1QFY25 vs Rs291 in 1QFY24, up 15%.

Key near-term outlook: (1) First half of FY25 will see less than double digit growth and second half would see double digit growth owing to softer base, pickup of consumption and renovation of portfolio. Thus, on a full year basis it will be on track with its double-digit guidance. (2) Trend of ENA staying inflationary while rest of commodities being stable, stays. (3) Gross margin in FY25 would likely be a tad lower than 1QFY25.

View & Valuation

There is 2.9%/3.4% upward revision on our standalone earnings to bake in underlying EM improvement. We now build EBITDA/Earnings CAGR of 16.4%/14.8% over FY24-26E 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 already up ~15% post our recent initiation (dated 4th June 2024) and is currently trading at ~67x/57.5x FY25E/FY26E standalone EPS. We now roll-forward our TP to Sep'2026E EPS and derive a revised TP of Rs1,510, targeting ~52x on Sep'2026E EPS of standalone business + RCSPL. We continue to maintain our ADD rating on the stock.

Exhibit 1: Actual vs estimate

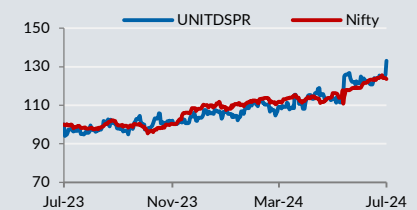
Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	23,520	22,914	23,243	2.6	1.2
EBITDA	4,580	4,010	4,083	14.2	12.2
EBITDA Margin (%)	19.5	17.5	17.6	2.0	1.9
Recurring PAT	2,990	2,576	2,830	16.1	5.6

RECO	: ADD
CMP	: Rs 1,383
Target Price	: Rs 1,510
Potential Return	: +9.2%

Stock data (as on July 24, 2024)

Nifty	24,414
52 Week h/l (Rs)	1417 / 973
Market cap (Rs/USD mn)	968831 / 11576
Outstanding Shares (mn)	727
6m Avg t/o (Rs mn):	1,164
Div yield (%):	0.4
Bloomberg code:	UNSP IN
NSE code:	UNITDSPR

Stock performance



	1M	3M	1Y
Absolute return	6.5%	16.9%	41.4%

Shareholding pattern (As of Mar'24 end)

Promoter	56.7%
FII+DII	29.0%
Others	14.4%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	1,510	1,320

Δ in earnings estimates

	FY25e	FY26e
EPS (New)	20.6	24.1
EPS (Old)	20.1	23.3
% change	+2.9%	+3.4%

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenue	106,920	119,014	131,796
YoY Growth (%)	3.1	11.3	10.7
EBIDTA	17,080	20,256	23,157
EBITDA M. (%)	16.0	17.0	17.6
APAT	13,290	15,014	17,504
EPS	18.3	20.6	24.1
YoY Growth (%)	50.9	13.0	16.6
Pre-tax RoCE (%)	27.4	27.9	30.1
ROE (%)	19.1	20.6	21.9
P/E (x)	75.7	67.0	57.5
EV/EBITDA (x)	57.7	48.4	42.1

VISHAL PUNMIYA

Lead Analyst

vishal.punmiya@ysil.in



MANAS RASTOGI, Associate

Exhibit 2: Quarterly snapshot (Standalone)

Particulars (Rs mn)	1QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)
Net Sales	21,719	26,660	23,520	8.3	-11.8
Gross margin %	43.6	43.3	44.5	0.9	1.1
Employee costs	1,249	1,340	1,330	6.5	-0.7
% of sales	5.8	5.0	5.7	-0.1	0.6
A&P	1,468	3,260	1,750	19.2	-46.3
% of sales	6.8	12.2	7.4	0.7	-4.8
Other expenses	2,906	3,330	2,800	-3.6	-15.9
% of sales	13.4	12.5	11.9	-1.5	-0.6
EBITDA	3,851	3,620	4,580	18.9	26.5
EBITDA margin %	17.7	13.6	19.5	1.7	5.9
Depreciation	650	710	650	0.0	-8.5
EBIT	3,201	2,910	3,930	22.8	35.1
EBIT margin %	14.7	10.9	16.7	2.0	5.8
Interest expense	43	290	220	411.6	-24.1
Other income	209	2,290	320	53.1	-86.0
Exceptional items	-128	-310	0	-	-
PBT	3,367	4,910	4,030	19.7	-17.9
Tax	857	760	1,040	21.4	36.8
Effective tax rate %	25.4	15.5	25.8	0.4	10.3
PAT	2,382	3,840	2,990	25.5	-22.1
Adj PAT	2,510	4,150	2,990	19.1	-28.0
PAT margin %	11.6	15.6	12.7	1.2	-2.9
EPS	3.5	5.7	4.1	19.1	-28.0

Source: Company, YES Sec

Segmental performance:

- Prestige & above (P&A; 88% of net sales) volumes grew by ~5.1% YoY to 11.5mn cases with value growth of ~10.1% YoY.
- Popular (9% of net sales) volumes down ~4.6% YoY to 2.2mn cases leading to ~2.7% YoY value decline.

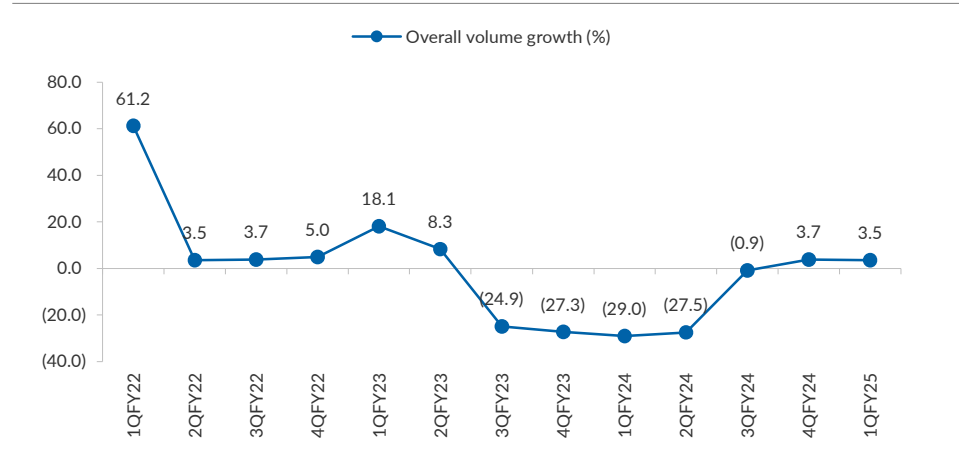
UNSP 1QFY25 CONFERENCE CALL TAKEAWAYS

- **Outlook:** First half of FY25 will see less than double digit growth and second half would see double digit growth owing to softer base, pickup of consumption and renovation of portfolio. Thus, on a full year basis it will be on track with company's double-digit guidance.
- **Front loading of sales in 1Q:** Certain momentum in western state led to some amount of growth getting front loaded in 1Q. Therefore, management sees some amount of the growth for the first half getting front loaded in 1QFY25.
- **Operating environment:** Alco-Bev sector continued to see relatively slower but more choiceful spend by consumers favoring their preferred brands, brands that are offering the right price value proposition. Premiumization ladder remains intact, but it is still below company's aspiration, it experienced in 2021-22 and 2022-23 period.
- **Commodity:** ENA stays inflationary while rest of commodities remained stable. Company expects this trend to remain over the next couple of quarters.
- **Pricing:** In the current quarter, out of ~5% realization growth (slightly lower due to low BIO sale quarter), 1.5% was led by pricing and balance was mix growth. The P&A price mix will

remain in the range of 6-8% on a full year basis. Going forward, headline pricing would moderate a bit, but company focused on driving premiumization.

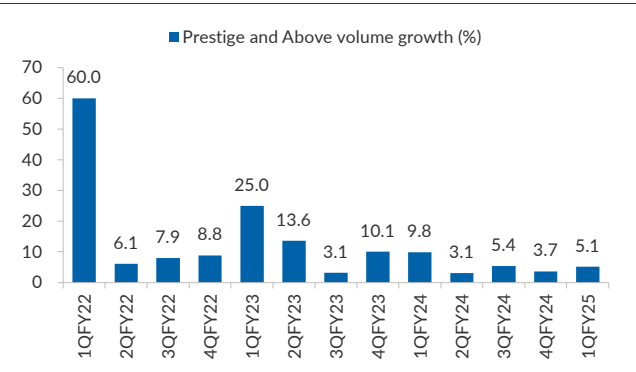
- **Gross Margin:** Mono carton benefit is completely in the P&L before 1QFY25. Productivity through supply agility programme will moderate in this fiscal as 40% of the programme stated is already in the P&L and balance 60% will come in a piecemeal manner by FY27-28. Lower trade spends benefited the gross margins in 1QFY25; however, this is not structural but tactical because of higher ad spends during the extended cricket season. Hence, gross margin would be a tad lower than what is seen in 1QFY25.
- **EBITDA margins** for the quarter should be read as 18.5% since there was 100bps one-off benefit. On a normalized basis, EM should be seen as 16.5% given the usual lower ad spends in 1Q.
- **New excise policies:** There are new excise policies released across north, central, and eastern states where the company has received headline pricing. Positive policy announcement in Karnataka. Premiumization benefit will be seen on the back of reduction in duties on the higher end of portfolio. There are couple of clauses which are regressive due to which there are discussions going on with the govt.
- **M&A:** United Spirits also announced two acquisitions, through which it first acquired 15% stake in V9 Beverages for Rs22.9mn. V9 Beverages is a distilled non-alcoholic beverage manufacturer under the "Sober" brand. It also acquired a 25% stake in Quaffine, a specialty cold brew coffee liqueur. UNSP would help the new founders with distribution which would scale the brand further. The management would not be interfering, thus leaving the founders to run the business.
- **UK FTA:** If duties come down from 150% to 100% or 50%, pricing would come down by 5-15%, with the corresponding increase in demand. There will be some benefit on account of some reduction in bulk scotch COGS as well.
- **State potentially opening-up for business:** UNSP remain cautiously optimistic about a state intending to open for business again. Company is gearing up its preparation to recommence business in the state as and when the new policy enables the same.
- **Global brands:** Global brands have been growing at very strong double-digit rates. But that growth we have called out over the last few quarters, while premiumization ladder is still in time, the growth has moderated quite a bit.
- **Others:** Momentum in one of the western states and see the first half to be frontloaded which would be offset by softer second half. One should not extrapolate the current quarter growth. Tequila is seeing good momentum and the brand Don Julio is seeing robust traction. Don Julio is growing faster than entry variant Blanco.

Exhibit 3: Overall volume growth was 3.5% YoY, came slightly higher than our estimate of 2.8%



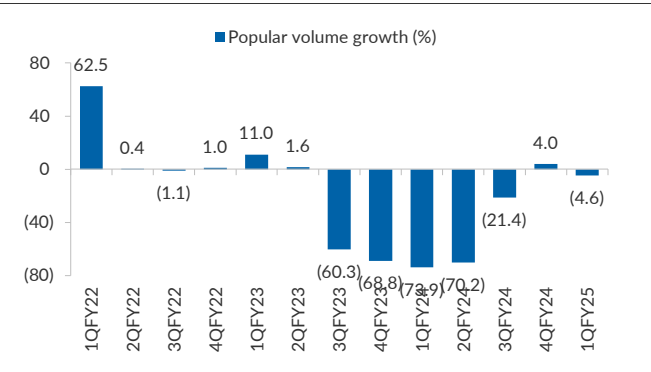
Source: Company, YES Sec

Exhibit 4: P&A volumes surprised positively with 5.1% YoY volume growth...



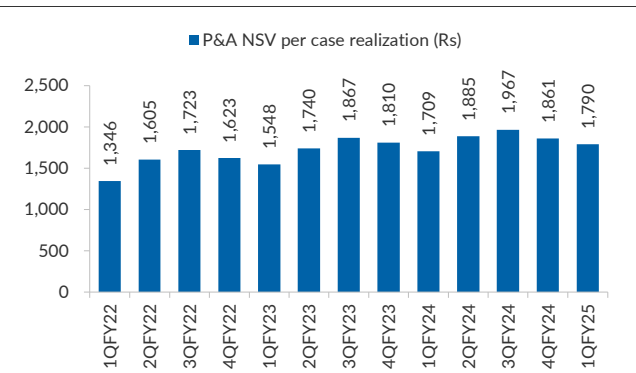
Source: Company, YES Sec

Exhibit 5: While Popular volumes were down 4.6% YoY



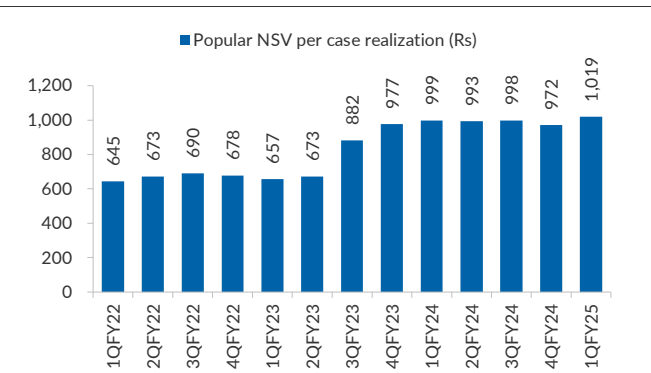
Source: Company, YES Sec

Exhibit 6: P&A NSV per case stood at Rs 1,790 with 4.8% YoY growth



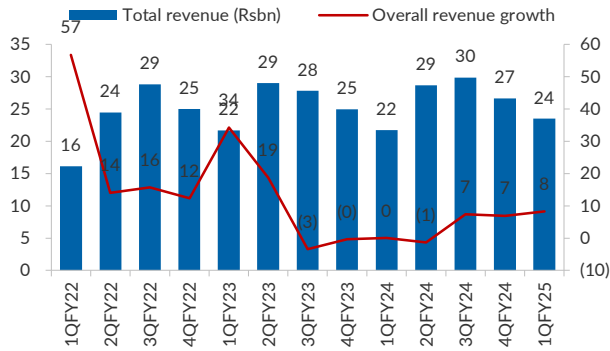
Source: Company, YES Sec

Exhibit 7: Popular NSV per case stood at Rs1,019 with 2% YoY growth



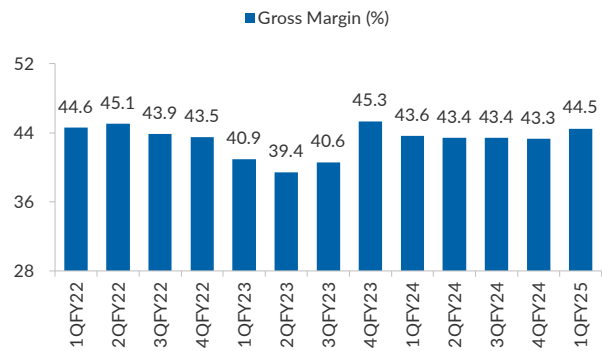
Source: Company, YES Sec

Exhibit 8: Overall revenue growth was 8.3% YoY in 1QFY25



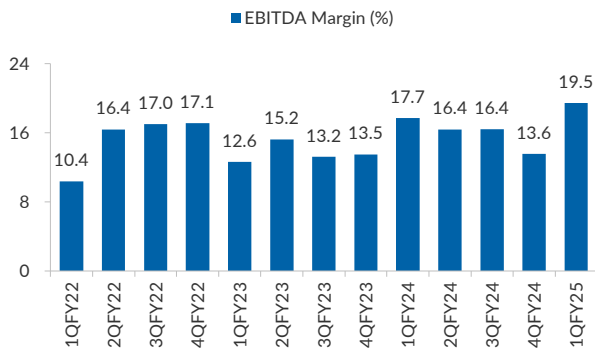
Source: Company, YES Sec

Exhibit 9: Gross margin improved by 90bps to 44.5%



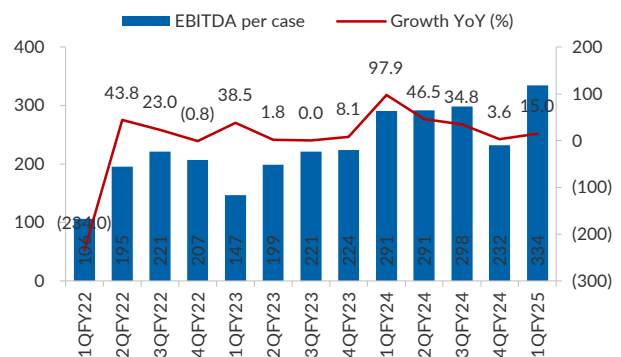
Source: Company, YES Sec

Exhibit 10: EBITDA margin improved by 170bps to 19.5%



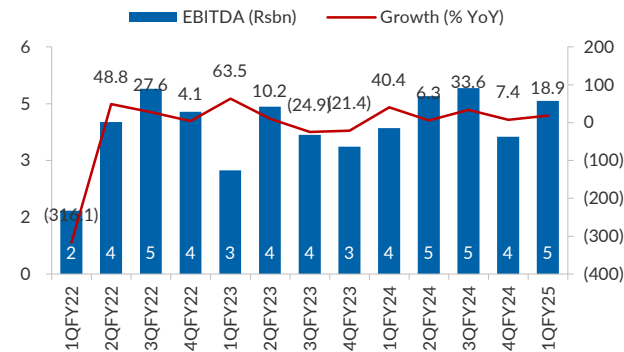
Source: Company, YES Sec

Exhibit 11: EBITDA per case stood at Rs334 with 15% YoY growth



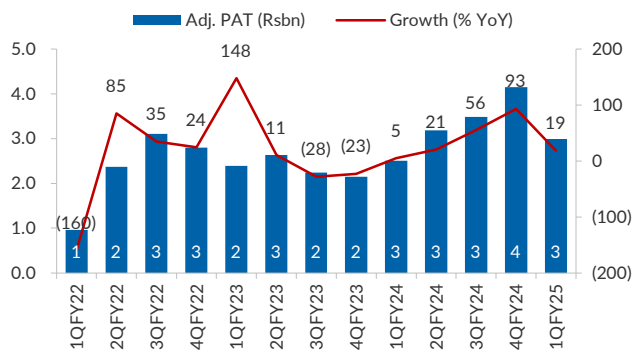
Source: Company, YES Sec

Exhibit 12: EBITDA growth was 18.9% YoY in 1QFY25



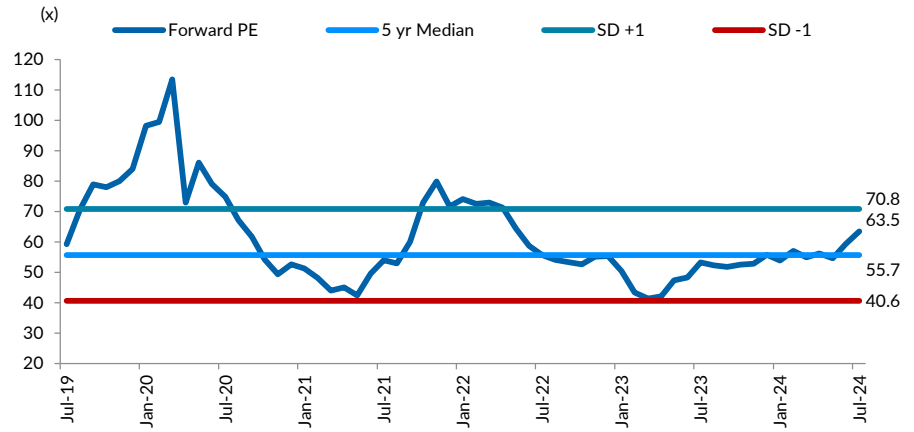
Source: Company, YES Sec

Exhibit 13: Adj PAT up 19.1% YoY in 1QFY25



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)	FY22	FY23	FY24	FY25E	FY26E
Share capital	1,453	1,455	1,455	1,455	1,455
Reserves	47,564	57,990	68,180	71,312	78,313
Net worth	49,017	59,445	69,635	72,767	79,768
Total debt	0	11	0	0	0
Other long-term liabilities	1,159	249	630	630	630
Total liabilities	50,176	59,705	70,265	73,397	80,398
Gross block	21,062	22,717	25,573	26,573	27,573
Depreciation	7,970	10,483	13,123	15,887	18,756
Net block	13,092	12,234	12,450	10,686	8,817
Capital work-in-progress	817	668	370	370	370
Investments	4,390	4,617	8,230	10,744	12,744
Inventories	20,771	22,300	20,630	23,803	26,359
Debtors	23,021	23,828	31,280	26,085	28,165
Cash	328	8,496	12,090	15,774	18,849
Loans & advances	14,858	17,084	17,265	20,086	21,582
Other current assets	5,398	4,914	3,340	3,507	3,682
Total current assets	64,376	76,622	84,605	89,255	98,637
Creditors	15,048	17,383	18,270	20,367	22,705
Other current liabilities & provisions	17,451	17,053	17,120	17,291	17,464
Total current liabilities	32,499	34,436	35,390	37,658	40,169
Net current assets	31,877	42,186	49,215	51,597	58,468
Total assets	50,176	59,705	70,265	73,397	80,398

Source: Company, YES Sec

Exhibit 16: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Net revenue	93,817	103,740	106,920	119,014	131,796
% Growth	18.9	10.6	3.1	11.3	10.7
COGS	52,696	60,720	60,480	66,291	72,883
Staff costs	6,335	6,071	5,430	5,951	6,458
A&P	6,892	9,200	10,410	11,663	13,180
Other expenses	13,029	13,560	13,520	14,853	16,119
Total expenses	78,952	89,551	89,840	98,758	108,639
EBITDA	14,865	14,189	17,080	20,256	23,157
% growth	50.5	(4.5)	20.4	18.6	14.3
EBITDA margin (%)	15.8	13.7	16.0	17.0	17.6
Other income	415	740	3,350	2,541	2,895
Interest costs	698	1,040	760	660	450
Depreciation	2,542	2,710	2,640	2,764	2,870
Exceptional items	(1,335)	1,710	(170)	0	0
Profit before tax (before exceptional items)	12,040	11,179	17,030	19,373	22,732
Tax	3,007	2,370	3,740	4,359	5,228
Rate of Tax (%)	25.0	21.2	22.0	22.5	23.0
PAT	7,698	10,519	13,120	15,014	17,504
Adj PAT	9,033	8,809	13,290	15,014	17,504
Adj PAT margin (%)	9.6	8.5	12.4	12.6	13.3
% Growth	114.3	(2.5)	50.9	13.0	16.6

Source: Company, YES Sec

Exhibit 17: Cash flow statement

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
PAT	5,777	9,928	13,730	15,014	17,504
Depreciation	2,542	2,706	2,640	2,764	2,870
Interest	377	697	(500)	660	450
(Inc.)/dec. in working capital	(2,059)	(5,755)	(5,760)	1,302	(3,796)
Other items	2,248	(1,810)	(990)	(2,541)	(2,895)
Cash flow from operations	8,885	5,766	9,120	17,199	17,027
Capital expenditure (-)	(1,152)	(1,132)	(780)	(1,000)	(1,000)
Net cash after capex	7,903	4,838	9,980	18,740	16,027
Inc./dec. in investments and other assets	(1,123)	8,543	(356)	(3,598)	895
Cash flow from investments	(2,275)	7,411	(1,136)	(4,598)	(105)
Inc./dec. in total borrowings	(5,556)	(4,646)	(1,270)	0	0
Other items	(1,279)	(363)	(210)	(660)	(450)
Cash from investing and financial activities	(6,835)	(5,009)	(4,390)	(8,918)	(10,952)
Change in Cash Balance	(225)	8,168	3,594	3,684	3,075
Opening cash balance	553	328	8,496	12,090	15,774
Closing cash balance	328	8,496	12,090	15,774	18,849

Source: Company, YES Sec

Exhibit 18: Ratio

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Per share (Rs)					
EPS	12.4	12.1	18.3	20.6	24.1
Book value	67.4	81.7	95.7	100.0	109.6
Valuation (x)					
EV/sales	10.7	9.6	9.2	8.2	7.4
EV/EBITDA	67.3	70.0	57.7	48.4	42.1
P/E	111.4	114.2	75.7	67.0	57.5
P/BV	20.5	16.9	14.4	13.8	12.6
Return ratios (%)					
RoCE *	26.3	22.2	27.4	27.9	30.1
RoE	18.4	14.8	19.1	20.6	21.9
ROIC *	28.0	25.3	30.2	36.4	42.7
Profitability ratios (%)					
Gross margin	43.8	41.5	43.4	44.3	44.7
EBITDA margin	15.8	13.7	16.0	17.0	17.6
Adj PAT margin	9.6	8.5	12.4	12.6	13.3
Liquidity ratios (%)					
Current ratio	2.0	2.2	2.4	2.4	2.5
Quick ratio	1.3	1.6	1.8	1.7	1.8
Solvency ratio (%)					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
Turnover ratios					
Total asset turnover ratio (x)	1.9	1.7	1.5	1.6	1.6
Fixed asset turnover ratio (x)	7.2	8.5	8.6	11.1	14.9
Debtor days	87	82	94	88	75
Inventory days	141	129	130	122	126
Creditor days	100	97	108	106	108

Source: Company, YES Sec; Note: *Pre-tax and on average basis

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