

Modest show, excluding Andhra Pradesh

Overall performance for United Spirits (UNITDSPR IN) was led by the Prestige and Above (P&A) segment (up 16.1% YoY in value). Excluding Andhra Pradesh, value growth stood at 9.2%, which is low, in our view. Pick-up was led by the festival season and the Regular segment grew 5.9% YoY. We continue to monitor the performance of P&A and strategy post the appointment of the new CEO. We cut our EPS estimates by 1.9%/3.6% for FY26E/27E due to muted show, excluding Andhra Pradesh. We roll over to FY27E and maintain Reduce with SoTP-TP unchanged at INR 1,454.

P&A growth led by AP state: Despite a large base, UNSP's 11.2% YoY volume growth in P&A was the highest in the past eight quarters, characterized by: 1) healthy festival season-led QoQ demand, 2) accelerated traction from Andhra Pradesh post the opening of the state in mid-Q3 (Nov '24), and 3) increasing salience of luxury within P&A. Excluding the boost from Andhra Pradesh, P&A value growth was 9.2% YoY despite festival season, which is low. Expect partial positive impact of Andhra Pradesh in FY26. P&A performance has made some revival post muted HI (up mere 0.7% YoY). Realization too grew 4.4% YoY to INR 2,053 led by a slight rise in salience of luxury brands in P&A, but has seen some moderation and may pick up again, per UNITDSPR. Expect 6.5%/4.5% volume growth in FY26E/27E.

Regular segment sees respite after long: Post volume drop in HI (down 6.2% YoY), the regular segment has scripted a comeback, up 5.9% YoY, led by right pricing action and excise duty reduction in key operating states. Revenue from the segment rose 9.5% YoY due to 3.5% YoY growth in realization. The share of the regular segment to overall volumes/revenue is broadly same, at 3.2%/17.8% to total, respectively. Current momentum may continue. Expect 2.0% growth each in FY26E/27E on estimated low base of FY25E.

Expect EBITDA margins in narrow band: Gross margins expanded by 131bps YoY, aided by pricing flow-through amid rising P&A share, and productivity measures by UNITDSPR. This has supported EBITDA margin (at 17.1%, up 69bp YoY). However, pared 70bps QoQ led by an uptick in A&P spend to support investment in key brand promotions. Key margin levers are: a) managing gross margin, b) increasing luxury salience and c) internal productivity measures. We expect EBITDA margin of 17.9% by FY27E from 16.0% in FY24.

Maintain Reduce; TP retained at INR 1,454: Post the appointment of the new CEO, we monitor UNITDSPR's strategy and expect some transitional period. Excluding Andhra Pradesh, P&A value growth was muted despite festival season. We expect some positive impact from Andhra Pradesh in FY26 (Channel feeding of inventory) and muted show post that. Investments in launches, sticky inflation and structurally elevated ENA price may cap EBITDA margin gain. So, we cut our EPS estimates by 1.9%/3.6% for FY26E/27E. UNITDSPR's core alcobev business is trading at an elevated 60.3x FY26E P/E, offering low reward in the near-to-medium term. We maintain Reduce with SoTP-TP at INR 1,454, as we roll over to FY27E and value Alcobev at 53x P/E and IPL/WPL at 15/4x P/S.

Key Financials

YE March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR mn)	103,737	106,920	115,888	129,876	143,178
YoY (%)	(15.8)	3.1	8.4	12.1	10.2
EBITDA (INR mn)	14,187	17,080	20,280	22,680	25,343
EBITDA margin (%)	13.7	16.0	17.5	17.5	17.7
Adj PAT (INR mn)	8,808	13,290	14,841	15,995	18,177
YoY (%)	(15.8)	50.9	11.7	7.8	13.6
Fully DEPS (INR)	14.5	18.0	19.5	22.0	25.0
RoE (%)	19.4	20.3	18.8	18.2	17.8
RoCE (%)	20.7	22.0	22.8	22.2	21.5
P/E (x)	93.0	74.5	68.9	61.1	53.8
EV/EBITDA (x)	68.1	56.2	47.0	41.8	37.1

Note: Pricing as on 24 January 2025; Source: Company, Elara Securities Estimate

Rating: **Reduce**

Target Price: **INR 1,454**

Downside: **1%**

CMP: **INR 1,470**

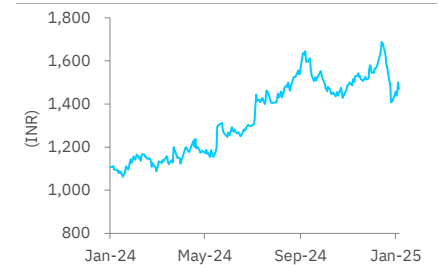
As on 24 January 2025

Key data

	UNITDSPR IN
Bloomberg	UNSP.NS
Reuters Code	UNSP.NS
Shares outstanding (mn)	727
Market cap (INR bn/USD mn)	1069/12398
Enterprise Value (INR bn/USD mn)	1053/12218
Avg daily volume 3M (INR mn/USD mn)	1258/15
52 week high/low	1700/1055
Free float (%)	43

Note: as on 24 January 2025; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q4	Q1	Q2	Q3
	FY24	FY25	FY25	FY25
Promoter	56.7	56.7	56.7	56.7
% Pledged	1.2	1.2	1.2	1.2
FII	16.7	15.1	16.1	15.9
DII	12.3	14.0	13.2	13.6
Others	14.4	14.2	14.1	13.9

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(5.4)	(5.4)	7.6
United Spirits	0.7	6.3	32.1
NSE Mid-cap	(5.5)	(6.3)	12.3
NSE Small-cap	(7.1)	(9.4)	10.6

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Financials (YE March)

Income Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	103,737	106,920	115,888	129,876	143,178
EBITDA	14,187	17,080	20,280	22,680	25,343
Add:- Non operating Income	742	3,350	2,880	2,243	2,639
OPBIDTA	14,929	20,430	23,160	24,923	27,982
Less :- Depreciation & Amortization	2,706	2,640	2,760	2,954	3,072
EBIT	12,223	17,790	20,400	21,969	24,910
Less:- Interest Expenses	1,039	760	880	923	993
PBT	11,184	17,030	19,520	21,046	23,917
Less :- Taxes	2,376	3,740	4,680	5,051	5,740
Adjusted PAT	8,808	13,290	14,841	15,995	18,177
Add/(Less): - Extra ordinary exp/(Inc)	(1,709)	170	650	-	-
Reported PAT	10,517	13,120	14,191	15,995	18,177
Balance Sheet (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	1,450	1,450	1,450	1,450	1,450
Reserves	57,990	68,180	80,111	93,196	108,463
Total borrowings	10	-	-	-	-
Trade Payables	17,380	18,270	19,314	20,549	21,457
Other liabilities	18,880	19,520	19,580	19,877	20,160
Total Equity & Liabilities	95,710	107,420	120,455	135,072	151,530
Fixed Assets	10,090	8,790	8,230	7,876	7,804
Investments	2,560	5,990	5,990	5,990	5,990
Inventories	22,300	20,630	21,273	23,129	23,536
Trade Receivables	23,830	27,630	28,575	31,312	32,951
Cash & other bank balances	8,490	12,090	18,256	23,337	32,539
Other assets	28,440	32,290	37,480	42,777	48,060
Total Assets	95,710	107,420	119,805	134,422	150,880
Cash Flow Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Operating Cash Flow	5,760	9,130	14,467	14,568	18,747
Less:- Capex	(1,400)	(980)	(1,200)	(1,100)	(1,000)
Free Cash Flow	4,360	8,150	13,267	13,468	17,747
Investing Cash Flow	(220)	4,660	(4,510)	(5,654)	(5,643)
Financing Cash Flow	(5,000)	(4,390)	(3,790)	(3,833)	(3,903)
Net change in Cash	540	9,400	6,166	5,081	9,202
Opening Cash	270	810	10,210	16,376	21,457
Closing Cash	810	10,210	16,376	21,457	30,659
Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Income Statement Ratios (%)					
Revenue Growth	10.6	3.1	8.4	12.1	10.2
EBITDA Growth	(4.4)	20.4	18.7	11.8	11.7
PAT Growth	(15.8)	50.9	11.7	7.8	13.6
EBITDA Margin	13.7	16.0	17.5	17.5	17.7
PAT Margin	10.1	12.3	12.2	12.3	12.7
Return & Liquidity Ratios					
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
ROE (%)	19.4	20.3	18.8	18.2	17.8
ROCE (%)	20.7	22.0	22.8	22.2	21.5
Per Share data & Valuation Ratios					
Diluted EPS (INR/Share)	14.5	18.0	19.5	22.0	25.0
EPS Growth (%)	25.6	24.8	8.2	12.7	13.6
DPS (INR/Share)	0.0	5.0	4.0	4.0	4.0
P/E Ratio (x)	93.0	74.5	68.9	61.1	53.8
EV/EBITDA (x)	68.1	56.2	47.0	41.8	37.1
EV/Sales (x)	9.3	9.0	8.2	7.3	6.6
BVPS (INR)	81.7	95.7	111.2	129.2	150.2
Price/Book (x)	18.0	15.4	13.2	11.4	9.8
Dividend Yield (%)	0.0	0.3	0.3	0.3	0.3

We expect revenue CAGR of 10.2% in FY24-FY27E

We expect EBITDA margin to move to 17.7% by FY27E

Note: Pricing as on 24 January 2025; Source: Company, Elara Securities Estimate

Quarterly financials

Standalone (INR mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Q3FY25E	Variance (%)
Revenue	34,320	29,893	14.8	28,430	20.7	33,727	1.8
EBITDA	5,880	4,914	19.7	5,070	16.0	5,632	4.4
EBITDA margin	17.1	16.4	69 bps	17.8	(70) bps	16.7	43 bps
Depreciation	720	628	14.6	690	4.3	680	5.9
Interest cost	200	164	22.0	250	(20.0)	240	(16.7)
Other income	1,900	461	312.1	340	458.8	400	375.0
PBT	6,210	4,583	35.5	4,470	38.9	5,112	21.5
Tax	1,480	1,102	34.3	1,120	32.1	1,278	15.8
Effective tax rate (%)	23.8	24.0		25.1		25.0	
PAT	4,730	3,481	35.9	3,350	41.2	3,834	23.4
Adj. PAT	5,380	3,481	54.6	3,350	60.6	3,834	40.3
Adj. EPS	7.4	4.8	54.6	4.6	60.6	5.3	40.3

Source: Company, Elara Securities Estimate

Q3 results highlights

- ▶ UNITDSPR reported a net standalone revenue of INR 34.3bn, largely in line with our estimates, up 14.8% YoY and 20.7% QoQ. The performance was largely led by volume growth coming back in the regular segment and with support from Prestige and Above, led by the festival season and traction from Andhra Pradesh.
- ▶ Q3FY25 standalone gross margin stood at 44.7%, up 131bps YoY but down 47bps QoQ. Advertisement and sales expenses increased to INR 3.8bn (11.0% of sales), up 15.7% YoY and 47.5% QoQ, led by investments in A&P for key brands and recent innovations in Q3.
- ▶ Standalone EBITDA in Q3 stood at INR 5.8bn. EBITDA margin for the quarter showed resilience, at 17.1%, up 69bps YoY but down 70bps QoQ. The sequential decline was largely owing to a seasonal increase in A&P spends.
- ▶ Standalone PAT in Q3 stood at INR 4.7bn, up 35.9% YoY and 41.2% QoQ, supported by lower effective tax rates and higher other income.
- ▶ In Q3, revenue from Prestige & Above segment (82.2% volume and 89.2% revenue contribution) grew to INR 30.6bn, up 16.1% YoY and 21.2% QoQ, as volumes rose to 14.9mn cases (up 11.2% YoY and 15.9% QoQ), led by festival season demand and new innovations. Realization per case was implied at INR 2,053 (up 4.4% YoY and 4.6% QoQ).
- ▶ Revenue from the Popular segment (17.8% volume and 9.7% revenue contribution) came in at INR 3.3bn (9.5% YoY and 31.0% QoQ). Volume for the popular segment stood at 3.2mn cases (up 5.9% YoY and 27.4% QoQ), while realization per case was INR 1,032 (up 3.5% YoY and 2.8% QoQ) in Q3.

Q3 conference call highlights

- ▶ Food inflation was sticky, but demand from festival-led celebrations was healthy in Q3, thus aiding overall Alcobev volumes.
- ▶ Festival and wedding seasons have remained healthy for the overall Alcobev industry.
- ▶ Overall net sales value (NSV) was backed by P&A segment. Demand has picked up QoQ though some moderation is being seen at top-level products.
- ▶ UNITDSPR has started its non-whiskey business in Maharashtra, Goa and Rajasthan and received healthy response there.
- ▶ UNITDSPR continues to scale A&P investment for *McDowell* and *Royal Challenge* brands.
- ▶ UNITDSPR launched a new promotional campaign for the *Johnnie Walker* brand, featuring actor Priyanka Chopra.
- ▶ UNITDSPR is cautiously optimistic as regards overall demand.

- ▶ Growth in value, excluding Andhra Pradesh, would have been 8.7% YoY on the overall portfolio and 9.2% for P&A. Realization would have been 5.2% YoY, excluding the state.
- ▶ Gross margin expanded YoY due to pricing flow-through and productivity initiatives.
- ▶ In Andhra Pradesh, UNITDSPR has seen strong momentum. Prices in the state are almost at par with Telangana. UNITDSPR has ramped up local procurement.
- ▶ The succession plan is well-calibrated. The new CEO understands the Indian consumer sector well.
- ▶ UNITDSPR has a talented executive team that works independently, and the new CEO will have a fully functional team.
- ▶ The festival season has contributed more than the wedding season in Q3. Popular volumes grew healthy on a base of last year (down ~23% in Q3FY24).
- ▶ UNITDSPR continues to have a dialogue with Karnataka as regards rationalization of excise duty.
- ▶ UNITDSPR aims for double-digit value growth in P&A, including Andhra Pradesh.
- ▶ Historically, Andhra Pradesh formed 6.0% of the overall topline for UNITDSPR (generally 30-35 days of inventory held by retailers and 20-25 days of inventory by distributors).
- ▶ There is some moderation at the top end of alcobev products, largely due to inflationary pressures.
- ▶ Overall macro for luxury Alcobev consumption is intact and current moderation is only a blip. Expect a pick-up, going ahead.
- ▶ UNITDSPR expanded margin in 9MFY25, but inflation was sticky, and structurally, ENA prices may remain inflationary and may hit gross margin. Glass prices are seeing some moderation.
- ▶ UNITDSPR took an INR 650mn exceptional charge on account of a supply chain program.
- ▶ In Delhi, UNITDSPR continues to operate as per regulations and post the changes in norms two years ago, its market share shrunk in the state.
- ▶ UNITDSPR has reached a steady-state on employee costs, which may remain stable, going ahead.
- ▶ Regulatory environment in most states has become conducive in the past four years.
- ▶ UNITDSPR will continue to focus on gaining the right-level pricing for its products to keep up with inflation.
- ▶ The Popular segment has lower salience on overall portfolio.
- ▶ UNITDSPR handles business from a portfolio level and with key interventions to balance growth.
- ▶ New crop may come to the market in the next 30-45 days and post that, clarity on ENA prices will emerge. ENA prices may remain structurally inflationary.
- ▶ Innovation by UNITDSPR is yielding results and it has rolled out business in top-20 cities. *Don Julio* is seeing traction and *Smirnoff Vodka* has also been received well by the customers.
- ▶ Higher other income (on standalone) was due to a dividend received from *Royal Challengers Bengaluru* team.

Exhibit 1: Segment-wise volume and value performance

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Volume (mn cases)									
Prestige & Above	12.8	12.0	11.0	13.4	13.4	12.4	11.5	12.9	14.9
Popular	4.0	3.1	2.3	2.8	3.1	3.2	2.2	2.5	3.2
Volume growth (YoY, %)									
P&A	3.9	9.7	10.3	3.8	4.6	3.7	5.1	(3.7)	11.2
Popular	5.1	(17.8)	(11.9)	(10.9)	(22.8)	4.0	(4.6)	(7.9)	5.9
Revenue (INR mn)									
P&A	24,000	21,680	18,760	25,200	26,390	23,100	20,660	25,270	30,630
Popular	3,480	3,000	2,260	2,740	3,050	3,090	2,200	2,550	3,340
Value growth (YoY, %)									
P&A	12.8	22.8	21.2	12.8	10.0	6.5	10.1	0.3	16.1
Popular	3.6	(6.3)	0.9	1.1	(12.4)	3.0	(2.7)	(6.9)	9.5
Realisation per case (INR)									
P&A	1,872	1,810	1,709	1,885	1,967	1,861	1,790	1,963	2,053
Popular	879	981	999	993	998	972	1,019	1,004	1,032
Realisation per case growth (YoY, %)									
P&A	8.6	12.0	9.8	8.7	5.1	2.8	4.8	4.1	4.4
Popular	(1.5)	14.1	14.5	13.4	13.5	(0.9)	2.0	1.1	3.5

Source: Company, Elara Securities Research

Exhibit 2: Valuation Summary

INR mn	FY27E
Alcobev segment	
Profit after tax	18,177
P/E (x)	53
Market cap	964,970
TP (INR)	1,326
IPL segment	
Revenue	6,014
Mcap/sales (x)	15
Market cap	90,210
TP (INR)	124
WPL segment	
Revenue	521
Mcap/sales (x)	5
Market cap	2,605
TP (INR)	4
Combined market cap	1,057,785
No. of shares (mn)	727.5
TP	1,454
CMP (INR)	1,470
Downside (%)	1.2

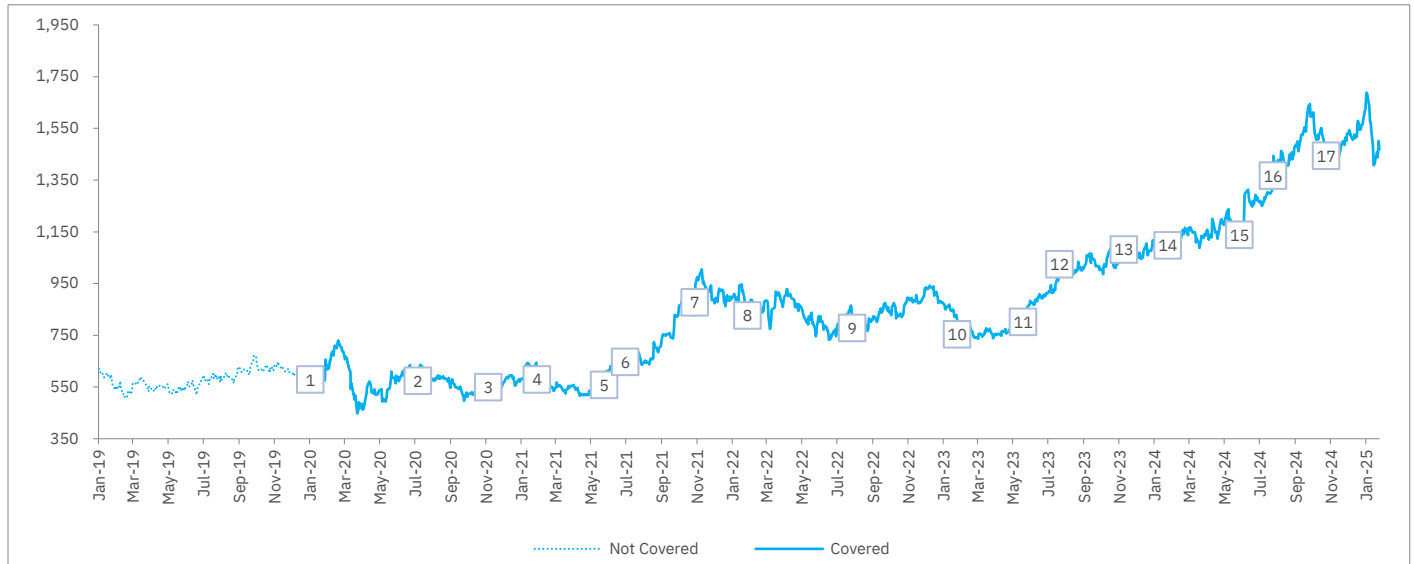
Note: Pricing as on 24 January 2025; Source: Elara Securities Estimate

Exhibit 3: Change in estimates

(INR mn)	Revised			Earlier			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	115,888	129,876	143,178	115,109	130,606	144,621	0.7	(0.6)	(1.0)
EBITDA	20,280	22,680	25,343	20,605	22,807	25,887	(1.6)	(0.6)	(2.1)
EBITDA margin	17.5	17.5	17.7	17.9	17.5	17.9			
PAT	14,841	15,995	18,177	13,952	16,312	18,851	6.4	(1.9)	(3.6)
EPS (INR)	19.5	22.0	25.0	19.2	22.4	26	1.7	(1.9)	(3.6)

Source: Elara Securities Estimate

Coverage History



	Date	Rating	Target Price	Closing Price
10	25-Jan-2023	Accumulate	INR 920	INR 769
11	19-May-2023	Accumulate	INR 900	INR 817
12	21-Jul-2023	Reduce	INR 1,060	INR 1,039
13	9-Nov-2023	Reduce	INR 1,100	INR 1,097
14	24-Jan-2024	Reduce	INR 1,170	INR 1,112
15	27-May-2024	Reduce	INR 1,220	INR 1,158
16	24-Jul-2024	Reduce	INR 1,400	INR 1,383
17	24-Oct-2024	Reduce	INR 1,454	INR 1,460

Guide to Research Rating

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

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