

# United Spirits Limited

Nifty: 24,834

CMP: INR 1,415

Target Price: INR 1,476

WHERE ADVISORY MEETS EXCELLENCE

## Breweries & Distilleries

United Spirits (UNSP) reported strong 1QFY25 performance, with sales and earnings growth of 8% and 17% respectively. This was driven by the Prestige & Above (P&A) brands' value and volume growth of 10% and 5%, along with a 5% increase in realization. Although some moderation is expected in 2Q, management anticipates double-digit growth for P&A brands in FY25, with acceleration in 2HFY25. Conversely, the Popular segment saw volume and value declines of 5% and 3%, with a 2% increase in realization. Profitability improved due to tactical reduction in trade margins, a favorable product mix, and better overhead control. Despite inflation in ENA and higher A&P spending, UNSP is expected to enhance margins through premiumization and cost-saving efficiencies. We remain positive on UNSP's long-term outlook, driven by premiumization and brand makeovers. Following the 1QFY25 performance, we recommend holding UNSP as an investment.

### P&A Segment Growth and Popular Segment Decline:

During the quarter, P&A brand revenue grew by 10%, driven by a 5% increase in volume (11.5 million cases) and a 4.8% rise in realization (INR 1,790 per case), bolstered by strong performance from innovative offerings and resilient consumer demand. Conversely, the Popular segment saw a revenue decline of 2.7%, with volume falling by 4.6% (2 million cases) and a 2% increase in realization (INR 1,019 per case), attributed to weak demand from price-sensitive consumers due to inflation. Long-term performance is expected to be strong, driven by the premiumization of the portfolio through brand makeovers and the introduction of Diageo's global brands. While growth may moderate in 2Q, the company maintains a double-digit growth forecast for the P&A segment in FY25, supported by 4%-5% volume growth and 6%-8% realization growth, with momentum expected to pick up in 2HFY25.

### Gross Margin Expansion:

Gross margin (reported) expanded by 115 bps QoQ to 44.5%, driven by a tactical reduction in trade margins and a favorable product mix. Excluding a one-off benefit of INR 130 million, the underlying gross margin expanded by 145 bps YoY. Reported EBITDA margin expanded by 174 bps YoY to 19.5%, aided by a one-off benefit of 100 bps. EBITDA grew by 19% due to gross margin expansion, partially offset by a 19% YoY increase in A&P spending, which rose to 7.4% of sales from 6.8% last year. Employee costs grew by 6.5% YoY, while other expenditures declined by 3.6% YoY. Management expects inflation in ENA to persist, while glass prices remain stable. The company anticipates moderate margin improvement in FY25 through premiumization and cost-saving efficiencies.

### EBITDA Beat and Growth Guidance for FY25:

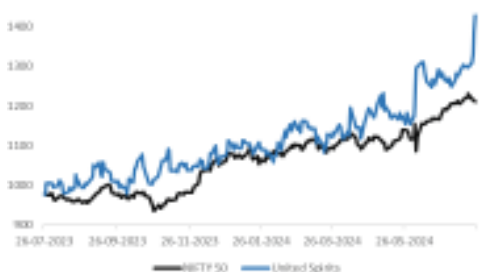
UNSP reported an 8% YoY revenue growth in 1QFY25, with the P&A segment showing a 10% revenue and 5% volume growth. The Popular segment declined by 3% in value and 5% in volume YoY. Premiumization trends and pricing strategies drove value growth in the P&A portfolio. The proposed excise policy reform in Karnataka is expected to enhance demand and premiumization. Gross margin expanded by 85 bps YoY to 44.5%, aided by a 70 bps reduction in overheads and lower seasonal A&P spending, resulting in a 174 bps YoY EBITDA margin expansion to 19.5%. The management anticipates normalization of margins in subsequent quarters, estimating a 17% EBITDA margin for FY25.

### Outlook:

Key brands like Don Julio, Johnny Walker, RC American Pride, Godawan, and McDowell X Series performed exceptionally well. Gross and EBITDA margins expanded thanks to internal revenue management, COGS productivity initiatives, and cost control measures. UNSP's recent acquisitions include a 15% stake in V9 Beverages, which operates the zero-alcohol brand Sober, and a 25% stake in Indie Brews and Spirits, which markets the premium craft cold-brew coffee liqueur Quaffine. Anticipated tax cuts by the new government in Andhra and the India-UK FTA, along with strategic M&As and accelerated innovation, are expected to further benefit UNSP. We maintain BUY with a TP of INR 1,476 based on 60x EPS of FY26.

Shareholding (%)	Jun 24
Promoters	56.68
DII	14.01
FII	15.09
Retail and Others	14.22

### Relative Price Performance



Key Data	
NSE Symbol	MCDOWELL-N
Bloomberg Code	UNSP
Reuters Code	UNSP.NS
No. of equity shares (in Cr)	72.7
Face Value	2
Mcap (In cr)	1,01,858
52 week H/L	1,417 / 976
Beta	0.59

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)	2023	2024	2025E	2026E
Net Revenue	10373.7	10692	11905.2	13275.2
Growth Rate (%)	19%	3%	11%	12%
Net Profit	1051.7	1312	1498.9	1787.3
PAT Margin (%)	10.1%	12.3%	12.6%	13.5%
EPS	12.1	17.3	20.6	24.6
P/E(x)	46.3	73.3	67.1	56.3

Breweries & Distilleries

Particulars (Rs Cr)	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ(%)
<b>Total Operating Income</b>	<b>2352</b>	<b>2171.9</b>	<b>8.3</b>	<b>2666</b>	<b>-11.8</b>
Cost of Raw Material	1306	1224.5	6.7	1511	-13.6
% of Sales	55.5	56.4	-85 bps	56.7	-1.15
<b>Gross Profit</b>	<b>1046</b>	<b>947.4</b>	<b>10.4</b>	<b>1155</b>	<b>-9.4</b>
Margin %	44.5	43.6	85 bps	43.3	115 bps
Employees Cost	133	124.9	6.5	134	-0.7
% of Net Sales	5.7	5.8	-10 bps	5	63 bps
A&P Spends	175	146.8	19.2	326	-46.3
% of Net Sales	7.4	6.8	68 bps	12.2	-479 bps
<b>Other Expenditure</b>	<b>280</b>	<b>290.6</b>	<b>-3.6</b>	<b>333</b>	<b>-15.9</b>
% of Net Sales	11.9	13.4	-148 bps	12.5	-59 bps
<b>EBITDA</b>	<b>458</b>	<b>385.1</b>	<b>18.9</b>	<b>362</b>	<b>26.5</b>
EBITDA Margin %	19.5	17.7	174 bps	13.6	589 bps
Depreciation	65	65	-	71	-8.5
Interest	22	4.3	411.6	29	-24.1
<b>Other Income</b>	<b>32</b>	<b>20.9</b>	<b>53.1</b>	<b>229</b>	<b>-86</b>
Non-recurring Items	-	-17.1	-100	-31	-100
<b>PBT</b>	<b>403</b>	<b>319.6</b>	<b>26.1</b>	<b>460</b>	<b>-12.4</b>
Tax	104	81.4	27.8	76	36.8
Tax Rate %	25.8	25.5	34 bps	16.5	928 bps
<b>Reported PAT</b>	<b>299</b>	<b>238.2</b>	<b>25.5</b>	<b>384</b>	<b>-22.1</b>
<b>EPS</b>	<b>4.1</b>	<b>3.5</b>	<b>17.1</b>	<b>5.7</b>	<b>-28</b>

## Financials

### Income Statement

Y/E (INR Cr)	2023	2024	2025E	2026E
<b>Net Revenue</b>	<b>10373.7</b>	<b>10692</b>	<b>11905.2</b>	<b>13275.2</b>
Gross Profit	4301.9	4644	5238.3	5867.6
Op. Expenses	-2883.2	-2936	-3191.6	-3467.7
<b>EBITDA</b>	<b>1418.7</b>	<b>1708</b>	<b>2046.7</b>	<b>2400</b>
Depreciation	-270.6	-264	-278.8	-283.2
<b>EBIT</b>	<b>1148.1</b>	<b>1444</b>	<b>1767.9</b>	<b>2116.8</b>
Other income	74.2	260	286	314.6
Interest Exp.	-103.9	-76	-50	-42
Extra Ordinary Items	170.9	58	-	-
Reported PBT	1289.3	1686	2003.9	2389.4
Tax	-237.6	-374	-505	-602.1
<b>Reported PAT</b>	<b>1051.7</b>	<b>1312</b>	<b>1498.9</b>	<b>1787.3</b>
<b>Net Profit</b>	<b>1051.7</b>	<b>1312</b>	<b>1498.9</b>	<b>1787.3</b>
Adjusted PAT	880.8	1254	1498.9	1787.3
Adjusted EPS (INR)	12.1	17.3	20.6	24.6

### Cash Flow

Y/E (INR Cr)	2023	2024	2025E	2026E
<b>PBT</b>	<b>1,289.3</b>	<b>1,686.0</b>	<b>2,003.9</b>	<b>2,389.4</b>
Depreciation & amortization	270.6	264.0	278.8	283.2
Interest expense	103.9	76.0	50.0	42.0
(Inc)/Dec in working capital	-305.1	-304.9	-448.4	-287.1
Tax paid	-237.6	-374.0	-505.0	-602.1
<b>CF from operating activities</b>	<b>1,121.1</b>	<b>1,347.1</b>	<b>1,379.3</b>	<b>1,825.4</b>
Capital expenditure	-144.6	-281.1	-150.0	-150.0
Inc/(Dec) in investments	-48.0	-336.0	-	-
<b>CF from investing activities</b>	<b>-192.6</b>	<b>-617.1</b>	<b>-150.0</b>	<b>-150.0</b>
Inc/(Dec) in share capital	-8.9	69.8	-	-
Inc/(Dec) in debt	1.1	-1.1	-	-
Dividend Paid	-	-363.3	-508.6	-653.9
Others	-103.9	-76.0	-50.0	-42.0
<b>CF from financing activities</b>	<b>-111.7</b>	<b>-370.6</b>	<b>-558.6</b>	<b>-695.9</b>
Net cash flow	816.8	359.4	670.7	979.5
<b>Opening balance</b>	<b>32.8</b>	<b>849.6</b>	<b>1,209.0</b>	<b>1,879.7</b>
<b>Closing balance</b>	<b>849.6</b>	<b>1,209.0</b>	<b>1,879.7</b>	<b>2,859.3</b>

### Balance Sheet

Y/E (INR Cr)	2023	2024	2025E	2026E
<b>Share Capital</b>	<b>145.5</b>	<b>145</b>	<b>145</b>	<b>145</b>
Reserves & Surplus	5799	6818	7808.4	8941.8
Networth	5944.5	6963	7953.4	9086.8
Debt	1.1	-	-	-
Net deferred Tax liabilities	-1468.7	-1525	-1525	-1525
Capital Employed	4476.9	5438	6428.4	7561.8
Gross Fixed Assets	2249.3	2427	2577	2727
Accumulated Depreciation	-1067.2	-1182	-1460.8	-1743.9
Capital work in progress	82.8	37	37	37
Net Fixed Assets	1264.9	1282	1153.2	1020.1
Investments	487	823	823	823
Non Current Investments	231.2	224	224	224
Current Investments	255.8	599	599	599
Current Assets, Loans & Adv.	6350.8	7112	8615.8	10359.1
Inventory	2230	2063	2297.1	2561.4
Debtors	2382.8	2763	3076.5	3430.5
Cash & Bank balance	849.6	1209	1879.7	2859.3
Loans & advances and others	888.4	1077	1362.5	1507.8
Current Liabilities & Provisions	3625.8	3779	4163.7	4640.3
<b>Liabilities</b>	<b>3242</b>	<b>3397</b>	<b>3738.6</b>	<b>4166.5</b>
Provisions	383.8	382	425.1	473.8
<b>Net Current Assets</b>	<b>2725</b>	<b>3333</b>	<b>4452.1</b>	<b>5718.7</b>
<b>Application of Funds</b>	<b>4476.9</b>	<b>5438</b>	<b>6428.4</b>	<b>7561.8</b>

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