

Volumes continue to remain subdued

About the stock: United Breweries (UBL) is the biggest beer player in the domestic market (~52% market share), a sector largely dominated by MNCs (~85% of market).

- On-trade sales comprise ~25% of revenues (rest 75% off-trade)
- Heineken, one of the world's largest beer companies, holds 72.7% stake in United Breweries

Q1FY22 Results: UBL reported volume growth weaker than expected.

- Revenues grew 121% YoY to ₹ 1118 crore, led by volume growth of 115%
- Absolute EBITDA came in at ₹ 95 crore vs. a loss of ₹ 96 crore in Q1FY21
- PAT came in at ₹ 31 crore vs. a loss of ₹ 114 crore in Q1FY21

What should investors do? The beer sector has been at the receiving end for the past three years (national polls, followed by two lockdowns) during its peak period (April-June); with revival in on-trade channels the sector is expected to gain traction

- With the recent sharp run-up in the stock (mainly due to acquisition of shares by the promoter), we change our recommendation to Hold

Target Price & Valuation: We value the stock at ₹ 1580 i.e. 57x P/E on FY23E EPS

Key triggers for future price performance: Beer stays an underpenetrated segment (12% market share in alcohol consumed), a preferred choice of ready to drink product for the youth and, thus, has long term growth potential (in a landscape historically dominated by liquor).

- Newer beer excise regimes (lower excise than liquor), to help in market share gains for the beer sector over the liquor sector
- Strong fundamentals (b/s, cash flow), to help UBL further consolidate its leadership position

Alternate Stock Idea: Apart from UBL, we remain positive on United Spirits

- United Spirits (USL) is India's leading alcoholic beverage company and subsidiary of global leader Diageo plc. It manufactures, sells premium liquor brands such as Johnnie Walker, Black Dog, Black & White, Vat 69, Antiquity, Signature, Royal Challenge, McDowell's No 1, Smirnoff and Captain Morgan
- We have a BUY rating on the stock, with a target price of ₹ 770



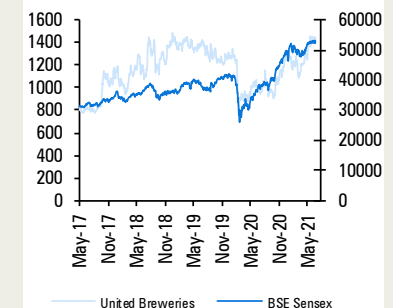
Particulars

Particular	Amount
Market Capitalization (₹ cr)	40,189.6
Total Debt (FY21) (₹ cr)	115.4
Cash (FY21) (₹ cr)	469.3
EV (₹ cr)	39,835.7
52 week H/L	1499/897
Equity Capital (₹ Crore)	26.4
Face Value (₹)	1.0

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promote	57.7	57.7	57.7	72.7
Others	42.3	42.3	42.3	27.3

Price Chart



Recent event & key risks

- New product launches in H2
- Key Risk:** (i) Delay in opening of on-trade channels (ii) hike in raw material prices

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Key Financial Summary

Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	6,475.4	6,509.2	4,243.1	-2.6%	5,481.5	7,223.8	30.5%
EBITDA	1,138.4	875.8	381.1	-11.3%	789.3	1,220.8	79.0%
Adjusted PAT	563.3	427.7	113.2	-17.6%	440.4	734.2	154.6%
P/E (x)	71.3	94.0	355.0		91.3	54.7	
EV/EBITDA (x)	35.3	46.0	104.5		50.3	32.6	
RoCE (%)	26.8	15.9	4.0		14.0	20.4	
RoE (%)	17.7	12.2	3.2		11.2	16.0	

Key takeaways

Q1FY22 Results: Re-opening of economy to augur well for volume growth

- Higher volume growth due to different nature of Covid induced lockdown
- Favourable mix variance driven by price increase, state and product mix
- UBL has witnessed a progressive recovery of underlying consumer demand post the Covid-19 wave

Q1FY22 Earnings Conference Call highlights

- Heineken increased its stake in the company from 57.7% to 72.7%
- Barley prices are up 15% YoY while glass remains flat. Expect mid-single digit inflation
- Emphasis remains on growing volumes rather than price hikes
- Expect to incur ₹ 250 crore in FY22 (no facility expansion planned)
- During the year, UBL has got price hikes in Rajasthan, Punjab, Kerala, Maharashtra, Chhattisgarh
- UBL pays 7% and 5% royalty for selling brands from Heineken and Amstel
- New launches to resume once markets stabilise

Exhibit 1: Variance Analysis

₹ Crore	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Revenue	1,118.0	1,330.6	506.9	120.6	1,543.5	-27.6	YoY recovery due to 115% volume growth
Consumption of Raw material	535.1	638.7	263.2	103.3	719.4	-25.6	Better gross margins (expanded 168 bps YoY to 48.3%) due to better pricing and benign costs
Purchase of traded goods	42.5	0.0	7.2	492.5	21.7	96.0	
Employee Cost	113.5	122.4	115.1	-1.4	133.2	-14.8	
Other Expenditure	331.5	372.6	217.1	52.7	407.9	-18.7	
Total Expense	1,022.6	1,133.6	602.5	69.7	1,282.2	-20.2	
EBITDA	95.4	196.9	-95.7	-199.7	261.3	-63.5	
EBITDA Margin (%)	8.5	14.8	-18.9	2,740.7	16.9	-839.3	EBITDA margin lower than estimates mainly due to lower GMs and lower operating leverage
Depreciation	55.2	60.4	50.5	9.2	62.3	-11.4	
Interest	3.9	5.1	7.2	-46.0	4.2	-8.5	
Other Income	6.1	10.4	1.4	331.9	11.6	-47.4	
Exceptional item	0.0	0.0	0.0	NA	-62.2	NA	
PBT	42.5	141.8	-151.9	-128.0	206.4	-79.4	
Total Tax	11.7	35.7	-37.6	-131.0	47.4	-75.4	
Reported PAT	30.8	106.1	-114.3	-127.0	159.0	-80.6	

Source: Company, ICICI Direct Research

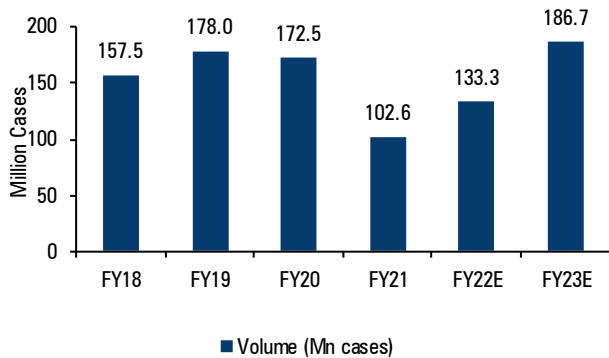
Exhibit 2: Change in estimates

(₹ Crore)	FY22E					FY23E			
	FY20	FY21	Old	New	% Change	Old	Introduced	% Change	
Revenue	6,509.2	4,243.1	5,917.6	5,481.5	-7.4	7,694.4	7,223.8	-6.1	Estimates revised downwards due to Covid related disruption in Q1FY22
EBITDA	875.8	381.1	869.9	789.3	-9.3	1,308.1	1,220.8	-6.7	
EBITDA Margin (%)	13.5	9.0	14.7	14.4	-30 bps	17.0	16.9	-10 bps	Margins expected to remain rangebound at 15-17% levels
PAT	427.7	113.2	490.6	440.4	-10.2	793.8	734.2	-7.5	
EPS (₹)	16.2	4.3	18.6	16.7	-10.5	30.0	27.8	-7.4	

Source: ICICI Direct Research

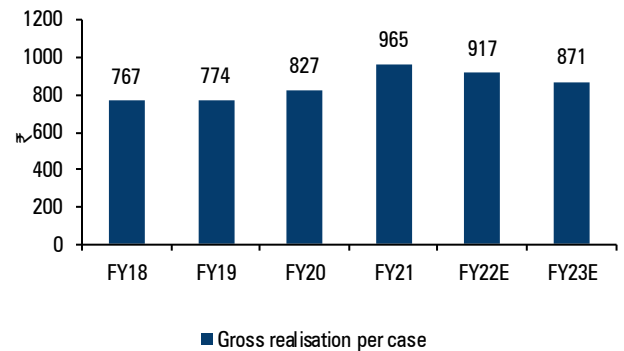
Key Metrics

Exhibit 3: Volumes expected to grow at 35% CAGR (FY21-23)



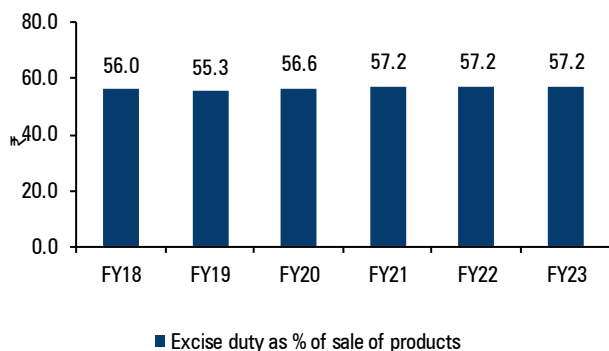
Source: ICICI Direct Research, Company

Exhibit 4: Gross realisation expected to remain strong



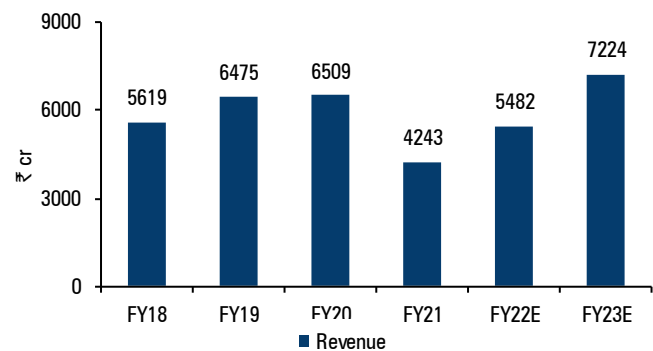
Source: ICICI Direct Research, Company

Exhibit 5: Excise duty expected to remain high across states



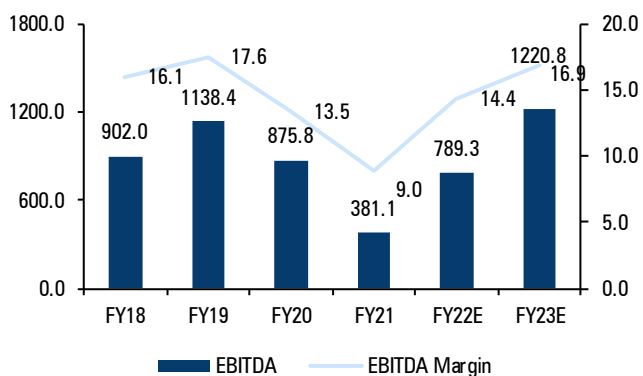
Source: ICICI Direct Research, Company

Exhibit 6: Net revenues to grow at 30% CAGR (FY21-22E)



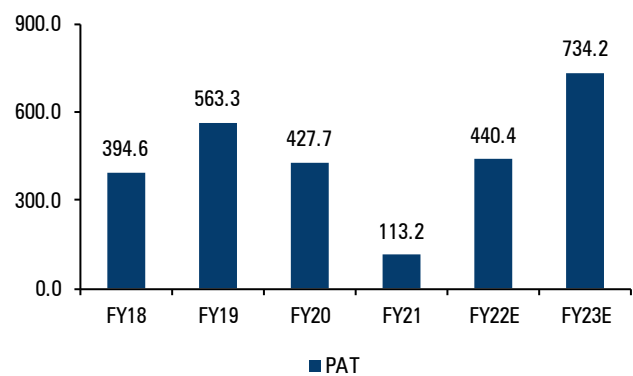
Source: ICICI Direct Research, Company

Exhibit 7: EBITDA expected to grow at 79% CAGR (FY21-23E)



Source: Company, ICICI Direct Research

Exhibit 8: PAT expected to grow at 1.5x CAGR in FY21-23E



Source: Company, ICICI Direct Research

Exhibit 9: Valuation ratios

	Sales (₹ cr)	Sales Growth (%)	EPS (₹)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	6475.4	15.2	21.3	42.7	71.3	35.3	17.7	26.8
FY20	6509.2	0.5	16.2	-24.1	94.0	46.0	12.2	15.9
FY21	4243.1	-34.8	4.3	-73.5	355.0	104.5	3.2	4.0
FY22E	5481.5	29.2	16.7	288.9	91.3	50.3	11.2	14.0
FY23E	7223.8	31.8	27.8	66.7	54.7	32.6	16.0	20.4

Source: Company, ICICI Direct Research

Exhibit 1: ICICI Direct coverage universe (Liquor)

Sector / Company	CMP			M Cap (₹ Cr)	EV/Sales (x)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
	(₹)	TP (₹)	Rating		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
United Spirits	655	770	Buy	44,317	4.7	4.7	4.7	4.7	75.7	131.0	51.5	39.6	27.8	40.8	27.0	22.1	23.8	15.6	23.0	25.1	16.9	8.8	18.3	19.3
United Breweries	1,520	1,580	Hold	40,159	6.2	9.4	7.2	5.5	94.0	355.0	91.3	54.7	46.0	104.5	50.3	32.6	15.9	4.0	14.0	20.4	12.2	3.2	11.2	16.0
Radico Khaitan	892	1,050	Buy	11,838	5.1	5.0	4.1	3.3	51.9	42.9	35.4	26.8	33.0	29.4	23.5	18.3	16.1	17.3	18.7	21.4	16.4	15.5	15.9	17.5

Financial Summary

Exhibit 2: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	6,509.2	4,243.1	5,481.5	7,223.8
Growth (%)	0.5	-34.8	29.2	31.8
COGS	2,966.1	1,965.2	2,631.1	3,467.4
Change in Inv, WIP & stock in t	185.1	64.2	0.0	0.0
Employee benefit expense	504.1	485.5	498.8	549.0
Selling & promotional expenses	367.3	211.0	301.5	397.3
Other expense	1,610.9	1,136.2	1,260.7	1,589.2
EBITDA	875.8	381.1	789.3	1,220.8
Growth (%)	-23.1	-56.5	107.1	54.7
Depreciation	285.1	232.0	238.4	289.0
EBIT	590.7	149.1	550.9	931.9
Interest	31.1	22.7	0.0	0.0
Other Income	9.3	50.3	38.4	50.6
Exceptional Item	0.0	-7.2	0.0	0.0
PBT	568.9	169.4	589.3	982.4
Tax	140.6	55.6	148.3	247.3
Reported PAT	428.3	113.8	440.9	735.2
Adjustments	0.6	0.6	0.6	1.0
Adjusted PAT	427.7	113.2	440.4	734.2
EPS	16.2	4.3	16.7	27.8

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Source of Funds				
Equity Capital	26.4	26.4	26.4	26.4
Reserves & Surplus	3,493.8	3,555.8	3,914.3	4,566.5
Shareholder's Fund	3,520.3	3,582.3	3,940.7	4,592.9
Long term Loan Funds	8.9	115.2	15.2	15.2
Provisions	27.9	12.7	13.3	14.0
Total Current Liabilities	1,990.4	2,138.2	2,035.3	2,203.0
Short term borrowings	160.2	0.2	-29.8	-59.8
Trade payables	545.0	618.1	514.8	681.5
Other current liabilities	1,195.4	1,428.9	1,457.4	1,486.6
Provisions	89.9	91.1	92.9	94.8
Source of Funds	5,550.8	5,852.2	6,008.3	6,828.9
Application of Funds				
Gross Block	4,507.7	4,769.8	5,019.8	5,319.8
Less: Acc. Depreciation	2,605.8	2,826.7	3,065.2	3,354.1
Net Block	1,901.9	1,943.0	1,954.6	1,965.6
Capital WIP	199.1	128.8	141.7	155.8
Goodwill & Other Intangibles	48.1	27.4	27.4	27.4
Investments	0.3	6.1	628.8	928.8
Inventories	1,093.9	1,136.7	858.0	1,135.8
Debtor	1,350.4	1,395.0	1,201.1	1,590.1
Cash	78.6	469.3	507.4	371.6
Loan & Advance, Other CA	438.6	322.6	354.9	390.4
Total Current assets	2,961.5	3,323.6	2,921.4	3,487.9
Application of Funds	5,550.8	5,852.2	6,008.3	6,828.9

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	427.7	113.2	440.4	734.2
Add: Depreciation	285.1	232.0	238.4	289.0
Add: Interest Expense	31.1	22.7	0.0	0.0
Increase/(Decrease) in CL	-263.3	292.5	-72.3	198.4
(Increase)/Decrease in CA	72.3	28.6	440.3	-702.3
CF from Operating Activities	507.8	620.3	1,046.9	519.2
Purchase of Fixed Assets	-403.3	-149.8	-262.9	-314.2
(Inc)/Dec in Investments	-59.6	-1.8	-533.9	-228.9
Others	11.0	4.9	0.0	0.0
CF from Investing Activities	-451.9	-146.7	-796.8	-543.1
Inc/(Dec) in Loan Funds	87.6	6.1	-130.0	-30.0
Inc/(Dec) in Sh. Cap. & Res.	0.0	0.0	0.0	0.0
Less: Dividend & Dividend Tax	-80.0	-66.3	-81.9	-81.9
Others	-31.1	-22.7	0.0	0.0
CF from financing activities	-23.5	-82.9	-211.9	-111.9
Op. Cash and cash Eq.	46.2	78.6	469.3	507.4
Cl. Cash and cash Eq.	78.6	469.3	507.4	371.6

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Book Value	133.1	135.5	149.0	173.7
Cash per share	3.0	17.7	19.2	14.1
EPS	16.2	4.3	16.7	27.8
Cash EPS	1.2	0.9	0.0	0.0
DPS	2.5	2.5	2.5	2.5
Profitability & Operating Ratios				
EBITDA Margin (%)	13.5	9.0	14.4	16.9
PAT Margin (%)	6.6	2.7	8.0	10.2
Fixed Asset Turnover (x)	3.3	2.1	2.5	3.1
Inventory Turnover (Days)	27.3	40.7	25.0	25.0
Debtor (Days)	33.6	50.0	35.0	35.0
Creditors (Days)	13.6	22.1	15.0	15.0
Return Ratios (%)				
RoE	12.2	3.2	11.2	16.0
RoCE	15.9	4.0	14.0	20.4
RoIC	16.4	4.6	19.7	28.7
Valuation Ratios (x)				
P/E	94.0	355.0	91.3	54.7
Price to Book Value	11.4	11.2	10.2	8.8
EV/EBITDA	46.0	104.5	50.3	32.6
EV/Sales	6.2	9.4	7.2	5.5
Leverage & Solvency Ratios				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	19.0	6.6	0.0	0.0
Debt to EBITDA (x)	0.2	0.3	0.0	0.0
Current Ratio	1.5	1.6	1.4	1.6
Quick ratio	0.9	1.0	1.0	1.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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