

United Spirits (UNSP)

Alco-Bev | 3QFY24 Result Update

CMP: Rs1,112 | Target Price (TP): Rs1,130 | Upside: 2%

January 24, 2024

ACCUMULATE

Better-than-expected performance; Valuation rich

Key Points

- UNSP's volume and gross profit in 3QFY24 were in line with our expectations, but lower-than-expected staff costs & other expenses and higher-than-expected other income led to a significant beat on EBITDA and PAT.
- The management has stated that EBITDA margin for FY24 will be better than the earlier guidance of ~15% despite continued inflation in ENA, its key raw material, and likely higher-than-usual ad spends in 4QFY24.
- While we expect robust ~28% EPS CAGR over FY23-FY25E on the back of a meagre 6% EPS CAGR in the preceding four years, valuation is rich at ~59x FY25E EPS, especially considering lower ROCE compared to consumer peers. We maintain ACCUMULATE with a target price (TP) of Rs1,130 (Rs1,040 earlier), valuing the stock at 50x Dec'25E EPS (50x Sept'25E earlier).

3QFY24 performance update: While UNSP's volume and revenue growth was in-line with our estimates there was a beat on margins. Net revenue grew by 7.5% YoY to Rs29.9bn (vs our est of Rs30bn). Overall volume declined by ~2% YoY to 16.5mn cases (vs our est of 16.3mn cases). Overall gross margin expanded by 290bps YoY to 43.4% (flat QoQ). Higher gross margin, lower employee cost (down ~110bps YoY) and lower other expenses (down ~30bps YoY), partially offset by increase in A&SP costs of ~100bps YoY led to EBITDA margin expansion of ~320bps YoY to 16.4% (flat QoQ; vs est. 13.9%). Beat on EBITDA margin was largely on the back of lower employee cost and other expenses compared to our estimates.

3QFY24 segmental performance: Prestige & Above (P&A) segment volume grew by ~4.6% YoY with value growth of ~10% YoY. Popular volume was down ~22.8% YoY, leading to ~12.4% YoY value decline. Excise duty was down 100bps YoY at 57% as a % of gross sales.

9MFY24 performance: Revenue grew by 1.9% YoY (up 11.7% on rebased comparator). Underlying gross margin and EBITDA margin stood at 43.3% (up ~310bps YoY) and 16.6% (up ~290bps YoY), respectively. Absolute ad spends grew by 24.2% YoY to Rs7.1bn, up 160bps YoY.

Earnings call highlights: (1) Seasonal uptick in demand was below the company's expectations (2) The company maintained its guidance of double-digit sales growth and EBITDA growth slightly higher than that (3) RM outlook remains challenging, especially in case of ENA, which to some extent is balanced by stability in other commodities (4) Earlier guidance was 15% EBITDA margin for FY24, but the company now believes it can surpass that, albeit not by a wide margin.

View and Valuation: Given the beat on EBITDA and PAT led by better-than-expected operating margin and other income, we have raised our EPS estimates for FY24E/FY25E/FY26E by 6.7%/4.1%/1.8%. While valuation is rich at ~59x FY25E EPS and ~47x FY26E EPS, we believe that medium to longer term earnings growth prospects remain healthy. We maintain 50x target multiple and roll forward our valuation to Dec'25E EPS, arriving at a TP of Rs1,130. We maintain ACCUMULATE on UNSP and await a better entry point.

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Est Change	Upward
TP Change	Upward
Rating Change	Maintain

Company Data and Valuation Summary

Reuters:	UNSP.BO
Bloomberg:	UNSP IN Equity
Mkt Cap (Rsbn/US\$bn):	809.0 / 9.7
52 Wk H / L (Rs):	1,146 / 731
ADTV-3M (mn) (Rs/US\$):	1,145.9 / 13.8
Stock performance (%) 1M/6M/1yr:	3.4 / 13.8 / 36.2
Nifty 50 performance (%) 1M/6M/1yr:	0.9 / 12.6 / 19.9

Shareholding	1QFY24	2QFY24	3QFY24
Promoters	56.7	56.7	56.7
DII's	12.6	12.3	12.5
FII's	15.9	16.5	16.2
Others	14.8	14.5	14.6
Pro pledge	84.6	84.6	84.6

Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24E	FY25E	FY26E
Net Revenue	1,03,737	1,07,556	1,22,138	1,38,712
% Growth	10.1	3.7	13.6	13.6
Gross margin (%)	40.8	43.4	46.0	47.4
EBITDA	13,496	17,048	20,238	24,926
EBITDA margin (%)	13.0	15.8	16.6	18.0
% growth	-10.6	26.3	18.7	23.2
Adjusted PAT	8,431	11,529	13,777	17,361
APAT margin (%)	8.1	10.7	11.3	12.5
% growth	-14.1	36.7	19.5	26.0
EPS	11.6	15.8	18.9	23.9
% growth	-14.3	36.7	19.5	26.0
RoE (%)	14.2	16.8	17.4	18.9
RoCE (%)	16.4	18.6	19.0	27.4
P/E (x)	96.0	70.2	58.7	46.6
EV/EBITDA (x)	59.0	45.9	38.2	30.7

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links:

[3QFY24 Result | 3QFY24 Press Release](#)
[FY23 Annual Report](#)

Please refer to the disclaimer towards the end of the document.

Exhibit 1: 3QFY24 standalone performance

Particulars (Rsmn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24E	FY23	FY24E	3Q24E	Var
Overall volume growth %	17.4	7.7	-24.2	-27.3	-28.6	-27.1	-1.8	2.7	-8.5	-15.5	-2.1	-
Total revenues	21,946	29,042	27,811	24,938	21,719	28,647	29,893	27,297	1,03,737	1,07,556	30,064	-0.6%
YoY change (%)	35.9	18.7	-3.6	-0.3	-1.0	-1.4	7.5	9.5	10.1	3.7	8.1	-
Gross Profit	8,974	11,449	11,281	10,624	9,344	12,437	12,979	11,866	42,328	46,626	12,777	-
Margin (%)	40.9	39.4	40.6	42.6	43.0	43.4	43.4	43.5	40.8	43.4	42.5	-
EBITDA	2,705	4,424	3,678	2,689	3,721	4,701	4,914	3,712	13,496	17,048	4,179	17.6%
Margins (%)	12.3	15.2	13.2	10.8	17.1	16.4	16.4	13.6	13.0	15.8	13.9	2.5
EBITDA growth (%)	61.3	10.2	-25.0	-37.3	37.6	6.3	33.6	38.0	-10.6	26.3	13.6	-
Depreciation	741	645	636	684	650	653	628	695	2,706	2,626	693	-
Interest	226	210	243	360	43	262	164	102	1,039	571	109	-
Other income	256	85	232	169	209	388	461	498	742	1,556	209	-
PBT	1,994	3,654	3,031	1,814	3,237	4,174	4,583	3,412	10,493	15,406	3,585	-
Tax	-243	1,018	793	381	857	991	1,102	928	2,062	3,878	903	-
Rate (%)	-12.2	27.9	26.2	21.0	26.5	23.7	24.0	27.2	19.6	25.2	25.2	-
Adj. PAT	2,237	2,636	2,238	1,433	2,380	3,183	3,481	2,485	8,431	11,529	2,682	29.8%
YoY change (%)	132.2	11.0	-26.4	-48.9	6.4	20.7	55.5	73.4	-14.1	36.7	19.8	-
Adj. EPS	3.1	3.6	3.1	2.0	3.3	4.4	4.8	3.4	11.6	15.8	4	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Common-size P&L over the quarters

Particulars (%)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Gross margin	44.1	41.7	40.9	39.4	40.6	42.6	43.0	43.4	43.4
Staff Cost	5.0	5.6	7.7	5.3	5.8	4.9	5.8	5.0	4.7
Advertising Cost	10.3	5.4	6.5	5.5	10.0	13.8	6.8	8.4	11.0
Other expenses	11.8	13.3	14.2	13.5	11.6	13.1	13.4	13.6	11.3
EBITDA	17.0	17.5	12.6	15.2	13.2	10.8	17.1	16.4	16.4
EBIT	14.7	14.8	9.6	13.0	10.9	8.0	14.1	14.1	14.3
PBT	14.2	15.3	10.0	12.6	10.9	7.3	14.9	14.6	15.3
Adjusted PAT	10.5	10.9	11.0	9.1	8.0	5.7	11.0	11.1	11.6

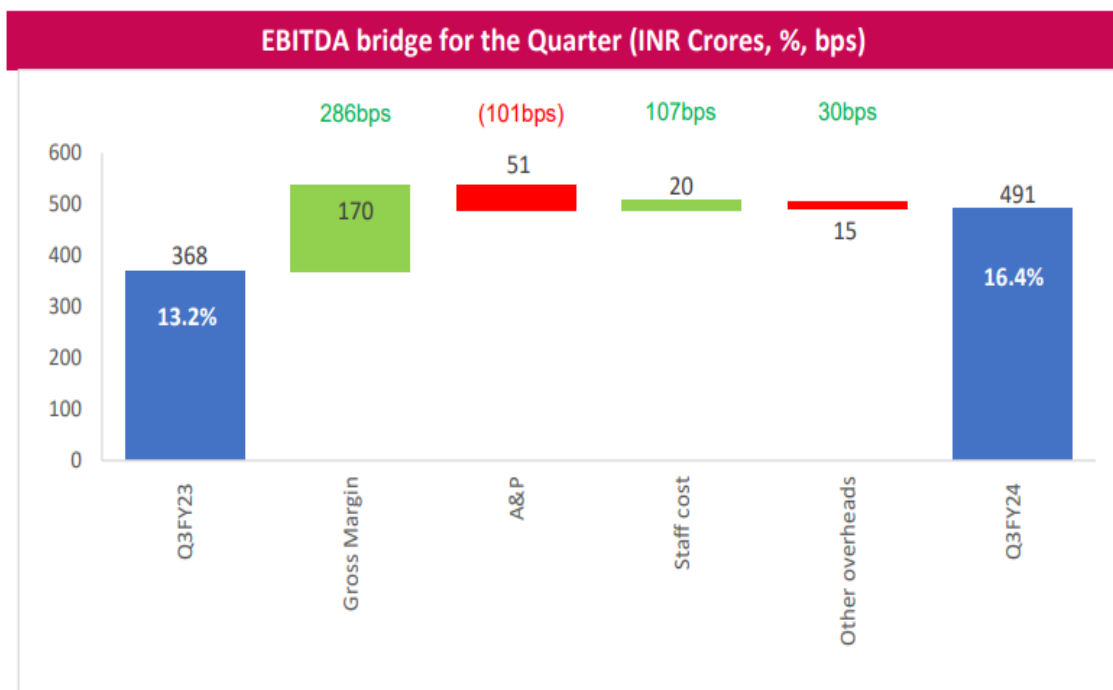
Source: Company, Nirmal Bang Institutional Equities Research;

Exhibit 3: Change in our estimates

Y/E March (Rsmn)	Earlier Estimates			New Estimates			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Sales	1,10,502	1,23,659	1,37,864	1,07,556	1,22,138	1,38,712	-2.7	-1.2	0.6
EBITDA	16,708	20,490	25,601	17,048	20,238	24,926	2.0	-1.2	-2.6
EBITDA margin (%)	15.1	16.6	18.6	15.8	16.6	18.0	0.7	0.0	-0.6
Adj PAT	10,807	13,230	17,049	11,529	13,777	17,361	6.7	4.1	1.8

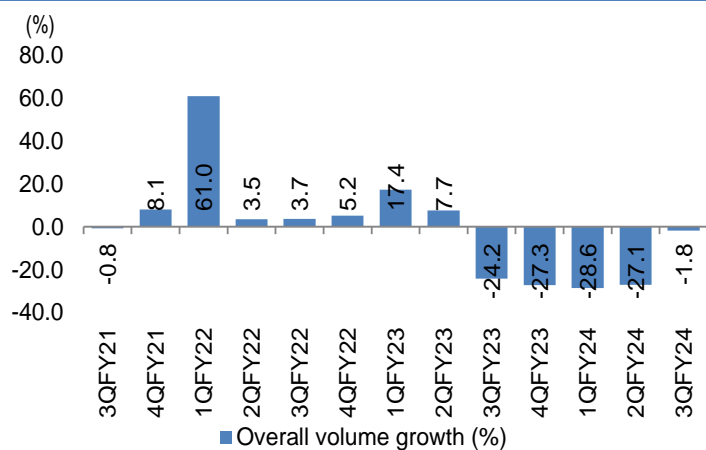
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Strong EBITDA margin led by gross margin improvement



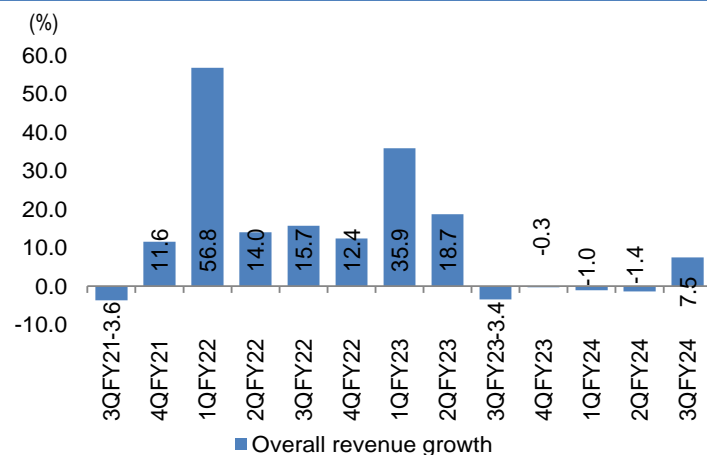
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Overall volume was down 1.8% YoY at 16.5mn cases



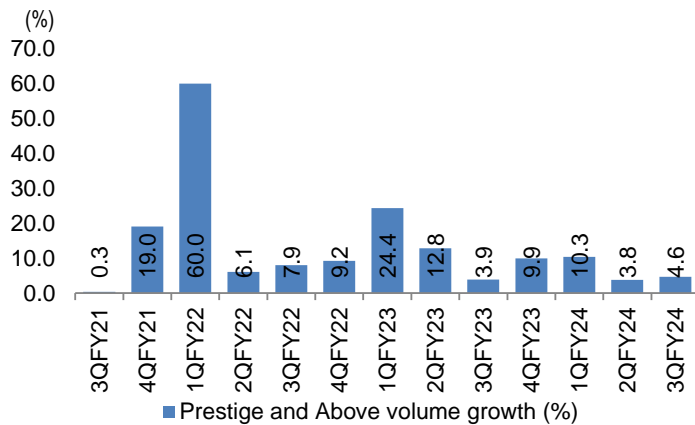
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Overall revenue was up 7.5% YoY led by P&A portfolio



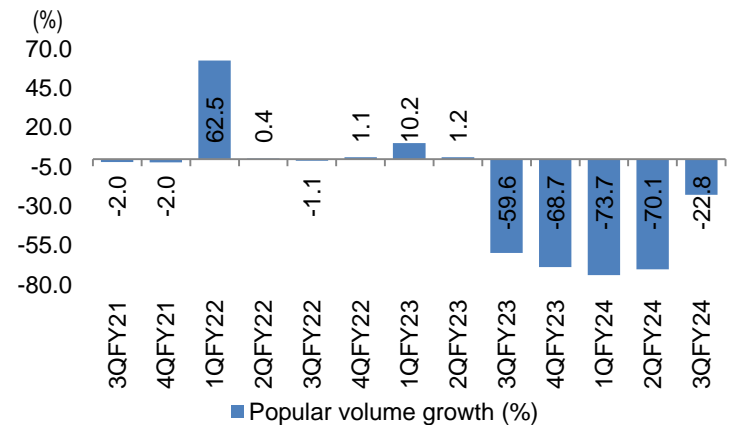
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Underlying Prestige & Above volume grew by 4.6% YoY...



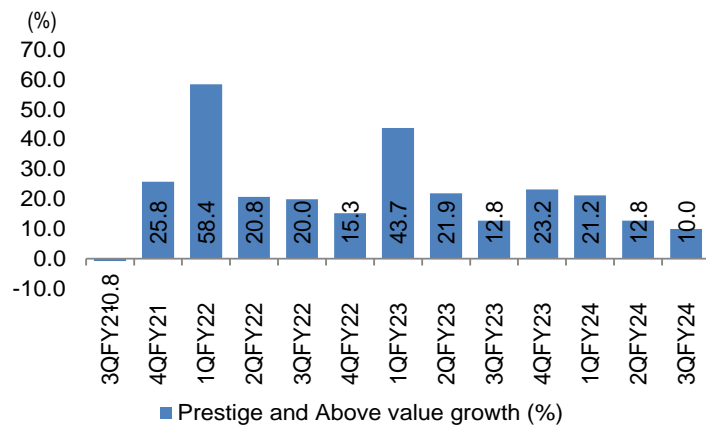
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: ...while underlying Popular volume declined by 22.8% YoY



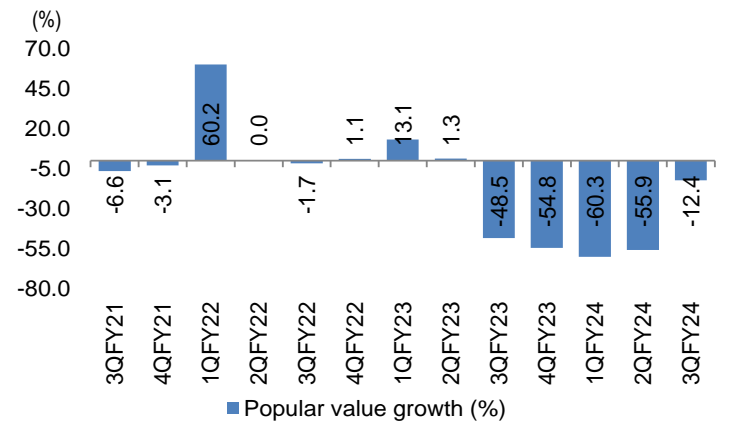
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Prestige & Above underlying value growth stood at 10% YoY...



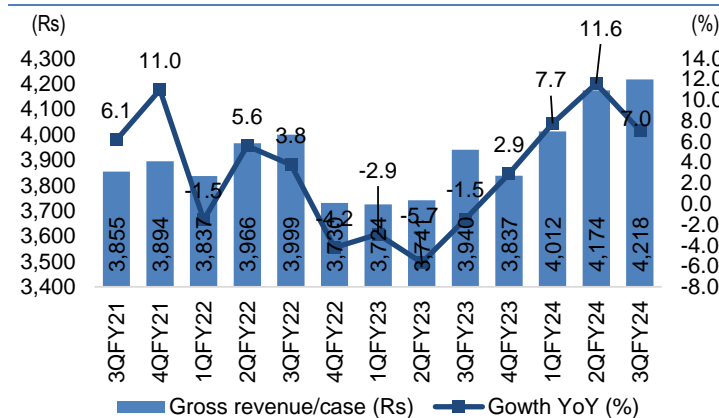
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: ...while Popular value growth declined by 12.4% YoY



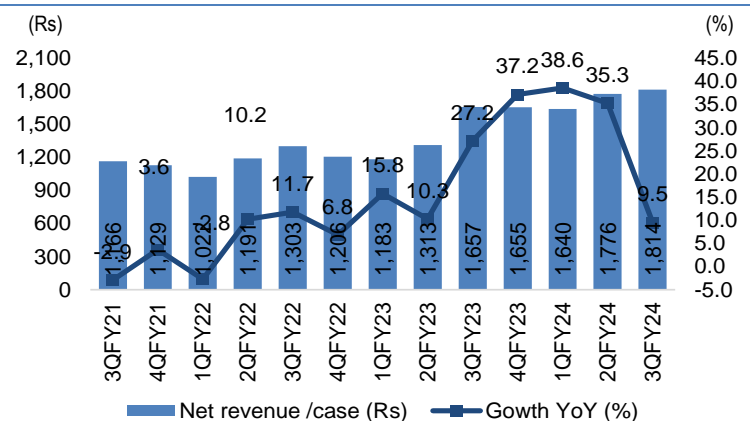
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Gross revenue/case increased by 7% YoY to Rs4,218 and...



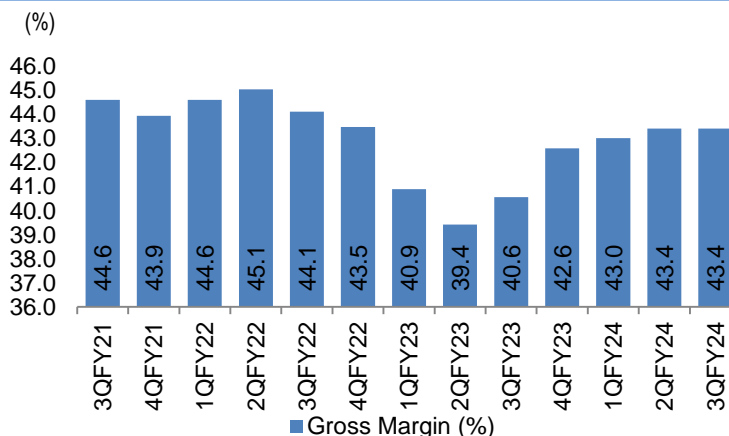
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: ...Net revenue/case increased by 9.5% YoY with a lower excise rate of 57% in 3QFY24 vs 57.9% in base quarter



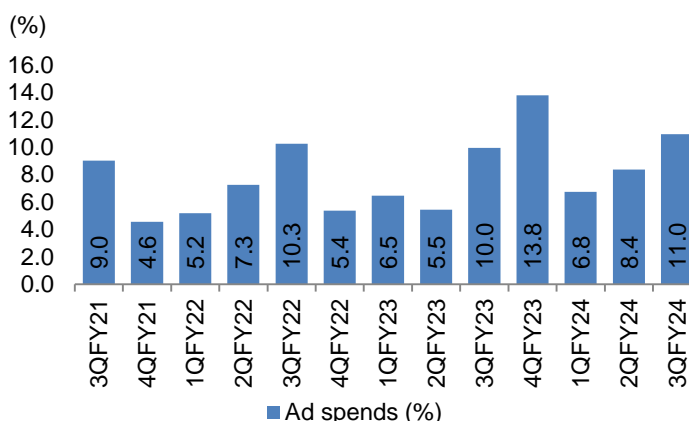
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Gross margin increased by ~290bps YoY to 43.4%...



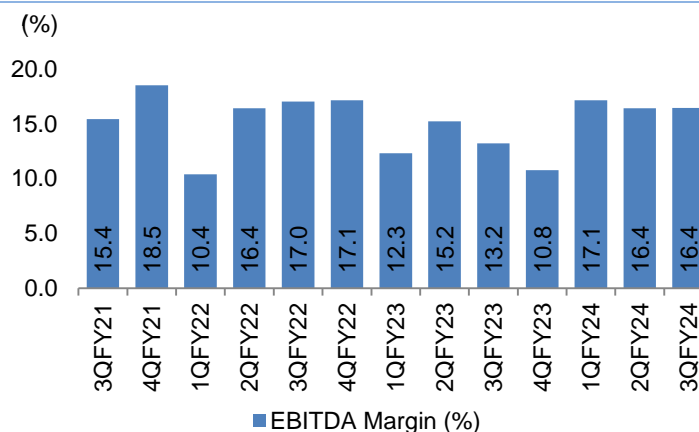
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: ...Ad spends as a % of revenue increased by ~100bps YoY to 11%



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: EBITDA margin increased by ~320bps YoY to 16.4%



Source: Company, Nirmal Bang Institutional Equities Research

United Spirits 3QFY24 earnings call highlights

Demand environment and performance highlights

- Demand trend remains subdued.
- Relatively muted demand season sequentially. Seasonal uptick was below expectations.
- This was despite a slew of festivals, the Cricket World Cup and peak wedding season.
- Premiumisation trend remains intact as the company is not seeing any sort of down-trading.
- People are drinking more out of home where prices are higher. Customers are not changing brands but reducing occasions of consumption rather than down-trading
- Casual socialization is a trend rather than special occasion consumption at home.
- Overall NSV growth stood at 7.5% with P&A and Scotch doing better.
- Karnataka excise increase of 18-20% started impacting the company from Sept'23 onwards with Popular portfolio getting affected more, leading to a better mix

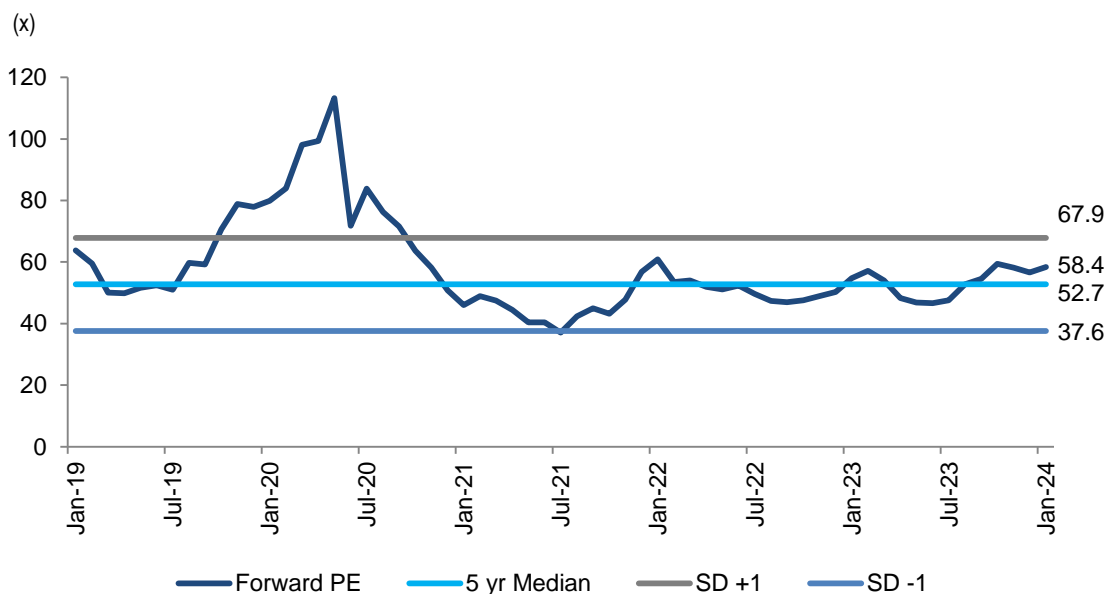
Products and segment highlights

- Premium and Luxury did better than base segment.
- Scotch portfolio continues to do well, led by Johnnie Walker.
- Royal Channel American Pride doing very well and continues to be the fastest growing innovation and was rolled out in three more states in 3QFY24.
- Global brands are seeing healthy premiumisation trends with premium and luxury brands growing ahead of mainstream brands.
- Don Julio tequila brand launched in a high profile event. Initial response has been good. The company is looking to be a market maker in the category.

Demand outlook, costs and margins

- Maintained guidance of double-digit sales growth and EBITDA growth slightly higher.
- Guided for 7-8% price and mix impact put together going forward.
- RM price outlook remains challenging, especially in case of ENA, which to some extent is balanced by stability in other commodities.
- ENA inflation is expected to remain high for the next two years. ENA consumption costs were up 7% sequentially but mix helped keep gross margin stable, with Popular segment volume falling by 20%. Seasonality is also better in the December quarter.
- The company kept ENA inventory at the minimum and highlighted that new crop has already been delayed.
- Productivity measures are working well in curbing the margin impact. Targeting to combat RM inflation through productivity measures (50%) and the remaining through pricing.
- A&P to sales was at healthy levels of ~11%.
- 4QFY24 will also be a high A&P quarter on the back of: (i) Investments in Don Julio (ii) WPL and IPL may be advanced given the LS elections (iii) Investments in the Popular portfolio. Spends may also advance to 4QFY24 from 1QFY25 because their ability to spend in the election period may be constrained by possible disruptions.
- Benefits of mono carton removal has largely come through in the last three quarters.
- Majority of state-led price increases started in Oct'22 and mainly happened until May 2023.
- Earlier guidance was 15% EBITDA margin for FY24., but now it believes it can surpass that, albeit not by a wide margin.
- Targeting mid to high teens margins in 2-3 years.

Exhibit 16: One-year forward P/E



Source: Company, Nirmal Bang Institutional Equities Research

Financials (Standalone)

Exhibit 17: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Net revenue	94,237	1,03,737	1,07,556	1,22,138	1,38,712
% Growth	19.5	10.1	3.7	13.6	13.6
COGS	52,839	61,409	60,931	65,954	72,962
Staff costs	6,496	6,071	5,453	7,206	8,323
A&P	6,892	9,199	9,895	11,481	13,316
Other expenses	12,906	13,562	14,230	17,258	19,184
Total expenses	79,133	90,241	90,509	1,01,900	1,13,786
EBITDA	15,104	13,496	17,048	20,238	24,926
% growth	52.9	-10.6	26.3	18.7	23.2
EBITDA margin (%)	16.0	13.0	15.8	16.6	18.0
Other income	337	742	1,556	1,302	1,407
Interest costs	880	1,039	571	400	300
Depreciation	2,886	2,706	2,626	2,729	2,832
Exceptional items	-1,312	2,086	0	0	0
Profit before tax (before exceptional items)	11,675	10,493	15,406	18,410	23,201
Tax	1,854	2,062	3,878	4,634	5,840
Rate of Tax (%)	15.9	19.6	25.2	25.2	25.2
PAT	8,509	10,517	11,529	13,777	17,361
Adj PAT	9,821	8,431	11,529	13,777	17,361
Adj PAT margin (%)	10.4	8.1	10.7	11.3	12.5
% growth	133.0	-14.1	36.7	19.5	26.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	1,453	1,455	1,455	1,455	1,455
Reserves	47,468	57,990	67,206	77,893	90,212
Net worth	48,921	59,445	68,661	79,348	91,667
Total debt	3,417	11	0	0	0
Other long term liabilities	1209	249	249	249	249
Total liabilities	53,547	59,705	68,910	79,597	91,916
Gross block	25,003	24,997	25,997	26,997	27,997
Depreciation	10,057	12,763	15,389	18,118	20,951
Net block	14,946	12,234	10,608	8,879	7,046
Capital work-in progress	877	668	668	668	668
Investments	4,390	4,617	23,821	29,617	34,617
Inventories	21,643	22,300	22,049	24,428	27,742
Debtors	23,021	23,828	20,333	22,754	25,842
Cash	328	8,496	3,620	5,906	9,366
Loans & advances	15,910	16,968	17,965	19,965	21,965
Other current assets	4,684	5,030	5,224	5,496	5,771
Total current assets	65,586	76,622	69,191	78,549	90,687
Creditors	15,279	17,383	17,503	19,378	21,459
Other current liabilities & provisions	16,973	17,053	17,875	18,737	19,643
Total current liabilities	32,252	34,436	35,378	38,116	41,102
Net current assets	33,334	42,186	33,813	40,434	49,584
Total assets	53,547	59,705	68,910	79,597	91,916

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Cash flow

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
PAT	5,539	9,928	11,529	13,777	17,361
Depreciation	2,886	2,706	2,626	2,729	2,832
Interest	686	697	571	400	300
(Inc.)/dec. in working capital	-1,712	-5,755	3,497	-4,335	-5,691
Other items	1,714	-1,810	-1,556	-1,302	-1,407
Cash flow from operations	9,113	5,766	16,667	11,270	14,802
Capital expenditure (-)	-963	-1,132	-1,000	-1,000	-1,000
Net cash after capex	8,320	4,838	17,223	11,571	13,802
Inc./(dec.) in investments and other assets	-1,497	8,543	-17,648	-4,494	-3,593
Cash flow from investments	-2,460	7,411	-18,648	-5,494	-4,593
Inc./(dec.) in total borrowings	-5,357	-3,392	-11	0	0
Other items	-1,521	-1,617	-571	-400	-300
Cash from investing and financial activities	-6,878	-5,009	-2,888	-3,844	-4,988
Change in Cash Balance	-225	8,168	-4,876	2,286	3,460
Opening cash balance	553	328	8,496	3,620	5,906
Closing cash balance	328	8,496	3,620	5,906	9,366

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: Key ratios

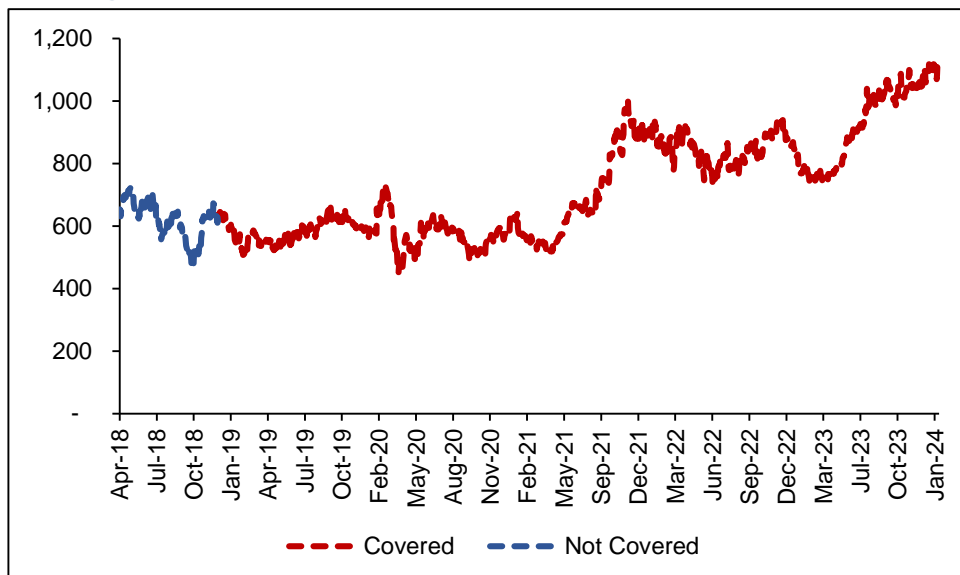
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Per share (Rs)					
EPS	13.5	11.6	15.8	18.9	23.9
Book value	67.3	81.8	94.5	109.2	126.2
Valuation (x)					
EV/sales	8.6	7.7	7.3	6.3	5.5
EV/EBITDA	53.4	59.0	45.9	38.2	30.7
P/E	82.3	96.0	70.2	58.7	46.6
P/BV	16.5	13.6	11.8	10.2	8.8
Return ratios (%)					
RoCE	21.1	16.4	18.6	19.0	27.4
RoE	20.1	14.2	16.8	17.4	18.9
ROIC (Pre-tax)	26.8	23.0	33.3	41.6	48.7
Profitability ratios (%)					
Gross margin	43.9	40.8	43.4	46.0	47.4
EBITDA margin	16.0	13.0	15.8	16.6	18.0
Adj PAT margin	10.4	8.1	10.7	11.3	12.5
Liquidity ratios (x)					
Current ratio	2.0	2.2	2.0	2.1	2.2
Quick ratio	1.4	1.6	1.3	1.4	1.5
Solvency ratio (x)					
Debt to Equity ratio	0.1	0.0	0.0	0.0	0.0
Net Debt to Equity ratio	0.1	-0.1	-0.1	-0.1	-0.1
Turnover ratios					
Total asset turnover ratio (x)	1.8	1.7	1.6	1.5	1.5
Fixed asset turnover ratio (x)	6.3	8.5	10.1	13.8	19.7
Debtor days	86	82	75	64	64
Inventory days	143	131	133	129	130
Creditor days	100	97	104	102	102

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
13 December 2018	Buy	641	760
25 January 2019	Buy	572	740
9 April 2019	Buy	535	710
31 May 2019	Buy	540	660
24 July 2019	Buy	579	675
29 October 2019	Buy	634	780
29 January 2020	Buy	656	785
30 March 2020	Buy	488	670
02 June 2020	Buy	591	695
29 July 2020	Buy	589	675
22 September 2020	Buy	515	675
6 November 2020	Buy	534	660
8 January 2021	Buy	616	715
28 January 2021	Buy	594	715
9 April 2021	Buy	546	715
24 May 2021	Buy	573	685
26 July 2021	Accumulate	658	680
23 September 2021	Accumulate	774	760
29 October 2021	Accumulate	893	890
27 January 2022	Accumulate	840	885
21 February 2022	Buy	836	965
31 May 2022	Accumulate	823	920
28 July 2022	Accumulate	793	855
14 September 2022	Accumulate	853	930
26 October 2022	Accumulate	864	870
26 December 2022	Accumulate	874	880
26 January 2023	Accumulate	769	815
22 March 2023	Buy	766	905
20 May 2023	Accumulate	817	830
22 July 2023	Accumulate	1,039	995
10 November 2023	Accumulate	1,097	1,040
24 January 2024	Accumulate	1,112	1,130

Rating chart



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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