

United Spirits

On a stronger wicket

UNSP 3QFY25 results were broadly in line with our estimates; however, volume growth surprised us positively. P&A/regular segment volume grew 11%/6%, respectively, owing to a favourable base (more relatable to the regular segment), re-entry into Andhra Pradesh due to positive policy interventions, and a healthy uptick seen during the festive season. However, EBITDA margin expansion was lower than our expectation due to higher brand investments (up 16% YoY), employee costs (up 23% YoY), and higher salience from the low-margin regular segment. We expect double-digit revenue growth (a rarity among consumer sector names these days) to continue over FY25-27, owing to a favourable base, the foray into Andhra Pradesh, and a focus on renovations across key brands. At the same time, in the medium term, management intends to inch towards a high-teen EBITDA margin (18.5% in FY27) from 16% in FY24.

- 3QFY25 result summary:** UNSP 3QFY25 results were broadly in line with our estimates. Volume grew 11% in the P&A segment, against our expectation of 8-9%. The growth was driven by resilient consumer demand during the peak festive season and a fast scale-up in Andhra Pradesh. The regular segment saw healthy volume/sales growth of 6%/10%, after several quarters of volume decline. Value-righting done a few quarters ago, along with the duty reduction in the most salient state (Karnataka), provided the necessary growth tailwinds. Additionally, gross margin expanded by around 130bps YoY to 44.7%, owing to benign glass prices and increased salience of premium products. EBITDA margin expansion was lower than gross margin expansion (around 70bps YoY to 17.1%), due to brand-building activities (advertising costs up 16% YoY) and higher-than-expected employee cost hikes (up around 23% YoY). UNSP reported an exceptional expense of INR 650mn related to the multi-year supply agility program. APAT was higher than expectations due to a lower-than-expected tax rate (21% in 3QFY25 vs 24% in 3QFY24). Management stated that it has already achieved 40% of cost benefits from the cost optimization program and expects the balance benefits (60% of targeted savings) to be fully achieved by FY27.
- Outlook and valuation:** We continue to remain positive on the liquor sector due to favourable policy interventions, increased consumer acceptance of premium products, and a relatively benign RM index. However, we maintain an ADD rating on UNSP with a target price of Rs 1650 (55x P/E on FY27 EPS [standalone] + INR 123/share for the RCB IPL team). In our view, Radico offers a much better risk-reward profile compared to UNSP at similar valuations, given its much better earnings CAGR (35% FY24-27) versus UNSP's (14% CAGR) and its ability to fully participate in the premiumization story. One should be mindful of the fact that UNSP's margins for premium products are capped at 10% if they are procured from Diageo's stable.

Quarterly/annual financial summary

(INR mn)	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)	FY24	FY25E	FY26E	FY27E
Net Sales	34,320	29,893	14.8	28,430	20.7	1,06,920	1,15,711	1,29,972	1,44,820
EBITDA	5,880	4,914	19.7	5,070	16.0	17,080	19,806	23,135	26,701
APAT	5,240	3,481	50.5	3,350	56.4	13,290	14,308	16,854	19,693
Diluted EPS (Rs)	7.2	4.8	50.5	4.6	56.4	18.7	20.2	23.8	27.8
P/E (x)						87.0	80.6	68.4	58.5
EV/EBITDA (x)						66.4	56.7	48.0	41.0
Core RoCE (%)						21.6	22.8	25.3	27.4

Source: Company, HSIE Research

ADD

CMP (as on 24 Jan 2025) INR 1,470

Target Price INR 1,650

NIFTY 23,092

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,500	INR 1,650
	FY25E	FY26E
EPS %	-2.6%	-0.8%

KEY STOCK DATA

Bloomberg code	UNITDSPR IN
No. of Shares (mn)	727
MCap (INR bn) / (\$ mn)	1,069/12,401
6m avg traded value (INR mn)	1,345
52 Week high / low	INR 1,700/1,055

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	0.7	6.3	32.1
Relative (%)	5.5	11.2	24.9

SHAREHOLDING PATTERN (%)

	Sep-24	Dec-24
Promoters	56.67	56.67
FIs & Local MFs	13.16	13.55
FPIs	16.11	15.93
Public & Others	14.05	13.84
Pledged Shares	0.67	0.67

Source : BSE

Pledged shares as % of total shares

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3QFY25 Concall Takeaways

Prestige & Above Segment: (87% of revenue, 82% of volume)

Aiming for double-digit value growth:

Management is targeting double-digit revenue growth in the P&A segment for FY26, as innovations/renovations gain scale, along with the scaling up of the Andhra Pradesh market. However, it highlighted softness in demand for the premium segment during 3QFY25, for which no specific reason was attributed.

Planning to expand Godawan to pan-India from selected geographies:

Consumer acceptance of Made-in-India liquor has increased post-COVID, even in the luxury segment. Moreover, customers across the globe are open to experimentation. UNSP is planning to expand Godawan from pan-India to internationally. However, the single malt segment is unlikely to contribute meaningfully to volumes, as it operates in the premium space.

Innovation/renovation

- The House of X (white spirits range housed under the McDowell brand) initiative, which has now been rolled out to five states, is receiving strong consumer response.
- Don Julio (imported tequila brand) is now being made available in 20 cities, compared to being available only in selected cities previously.
- Smirnoff vodka's new flavours ('Mirchi Mango', 'Minty Jamun', and 'Zesty Lime') have received strong consumer acceptance.
- Moreover, the newly introduced 180 ml pack of Royal Challenge (one of the flagship brands) has received an encouraging response from customers.

Regulatory environment: The regulatory environment has turned in favour of alcohol.

▪ **Karnataka:**

- 1) The reduction in tax slabs shall benefit the company, as the Karnataka market is highly skewed towards the regular segment (90% salience). Even after excise duty correction, prices in Karnataka are still higher than in neighbouring states.
- 2) Notably, the Karnataka market reported much better numbers during 3Q on account of a favourable base (as the base quarter was significantly impacted due to a huge spike in excise duty).

▪ **Andhra Pradesh:**

- 1) Before UNSP exited AP, it used to contribute 5% of P&A sales. Management intends to achieve a similar number in the next 18-24 months.
- 2) However, during 3QFY25 itself, AP contributed 6% to overall sales. Management expects this percentage contribution to taper down, as much of the demand was related to channel filling/up-stocking.
- 3) Although the AP policy is a mirror image of Telangana, the profitability of the AP market is better than that of Telangana.

- **Telangana:** This market makes mediocre profit, given its potential. Owing to its potential, the company has achieved three price hikes over a window of past 5 years

- **Delhi:** Management highlighted that when route-to-market changes were made in favour of local/regional brands two years ago, the contribution for UNSP had shrunk considerably.

Others

- ENA inflation is expected to be in the range of 11-12%, and management does not foresee inflation coming down due to the government mandate of blending ethanol. Moreover, while glass prices, although deflationary, will start coming into the base from 1QFY26.
- Other income includes a one-off dividend income of Rs 1.25 bn received from RCB (subsidiary).
- Employee costs were higher due to the addition of manpower in the innovation and commercials teams. Moreover, a lot of staff was hired for the Andhra Pradesh market due to the recent policy change, as the erstwhile sales staff was negligible.

Standalone P&L

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	1,03,737	1,06,920	1,15,711	1,29,972	1,44,820
Growth (%)	10.1	3.1	8.2	12.3	11.4
Material Expenses	60,718	60,480	64,109	71,161	78,455
Employee Expense	6,071	5,430	6,190	6,809	7,490
Other Expenses	22,761	23,930	25,607	28,867	32,174
EBITDA	14,187	17,080	19,806	23,135	26,701
EBITDA Growth (%)	(6.1)	20.4	16.0	16.8	15.4
EBITDA Margin (%)	13.7	16.0	17.1	17.8	18.4
Depreciation	2,706	2,640	2,803	2,933	3,092
EBIT	11,481	14,440	17,003	20,202	23,609
Other Income	742	3,350	3,015	3,317	3,648
Interest	1,039	760	889	987	930
PBT	11,184	17,030	19,129	22,532	26,327
Tax	2,376	3,740	4,820	5,678	6,634
Profit from minority/associates	-	-	-	-	-
RPAT	10,572	13,120	14,308	16,854	19,693
Adjustment	1,764	(170)	-	-	-
Adjusted PAT	8,808	13,290	14,308	16,854	19,693
APAT Growth (%)	(10.3)	50.9	7.7	17.8	16.8
Adjusted EPS	12.9	18.7	20.2	23.8	27.8
EPS Growth (%)	(7.0)	45.1	8.0	17.8	16.8

Source: Company, HSIE Research

Standalone Balance Sheet

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS					
Share Capital - Equity	1,455	1,450	1,450	1,450	1,450
Reserves	57,990	68,180	82,488	99,342	1,19,035
Total Shareholders Funds	59,445	69,630	83,938	1,00,792	1,20,485
Minority Interest	-	-	-	-	-
Long Term Debt	3	0	0	0	0
Short Term Debt	8	0	0	0	0
Total Debt	11	-	-	-	-
Net Deferred Taxes	-	-	-	-	-
Other Non-current Liabilities & Provns	1,945	2,550	2,845	3,142	3,440
TOTAL SOURCES OF FUNDS	61,401	72,180	86,783	1,03,933	1,23,924
APPLICATION OF FUNDS					
Net Block	10,923	9,160	10,681	11,872	12,704
CWIP	-	-	-	-	-
Other Non Current Assets	22,579	24,430	24,430	24,430	24,430
Total Non-current Assets	33,502	33,590	35,111	36,302	37,134
Inventories	22,300	20,630	25,361	28,487	31,741
Debtors	23,828	31,280	30,117	33,828	37,693
Other Current Assets	5,030	3,840	4,156	4,668	5,201
Cash & Equivalents	11,054	18,080	29,387	41,807	57,338
Total Current Assets	62,212	73,830	89,021	1,08,790	1,31,973
Creditors	17,383	18,270	19,021	21,365	23,806
Other Current Liabilities & Provns	16,930	16,970	18,328	19,794	21,377
Total Current Liabilities	34,313	35,240	37,349	41,159	45,183
Net Current Assets	27,899	38,590	51,673	67,631	86,790
TOTAL APPLICATION OF FUNDS	61,401	72,180	86,783	1,03,933	1,23,924

Source: Company, HSIE Research

Standalone Cash Flow

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	12,893	16,860	19,129	22,532	26,327
Non-operating & EO Items	4,106	5,088	4,044	4,144	4,274
Interest Expenses	1,039	760	889	987	930
Depreciation	2,706	2,640	2,803	2,933	3,092
Working Capital Change	(5,755)	(5,760)	(1,775)	(3,539)	(3,628)
Tax Paid	(2,965)	(3,130)	(4,820)	(5,678)	(6,634)
OPERATING CASH FLOW (a)	12,024	16,458	20,269	21,379	24,361
Capex	(1,397)	(980)	(3,000)	(3,000)	(3,000)
Free Cash Flow (FCF)	10,627	15,478	17,269	18,379	21,361
Investments	(466)	(1,851)	-	-	-
Non-operating Income	1,764	(170)	-	-	-
INVESTING CASH FLOW (b)	(99)	(3,001)	(3,000)	(3,000)	(3,000)
Debt Issuance/(Repaid)	(3,406)	(11)	-	-	-
Interest Expenses	(203)	-	(889)	(987)	(930)
FCFE	15,534	13,468	18,158	19,366	22,291
Share Capital Issuance	-	-	-	-	-
Dividend	-	-	-	-	-
Others	(1,400)	(1,470)	(1,100)	(1,100)	(1,100)
FINANCING CASH FLOW (c)	(5,009)	(1,481)	(1,989)	(2,087)	(2,030)
NET CASH FLOW (a+b+c)	8,505	7,026	11,307	12,420	15,531
EO Items, Others	-	-	-	-	-
Closing Cash & Equivalents	11,054	18,080	29,387	41,807	57,338

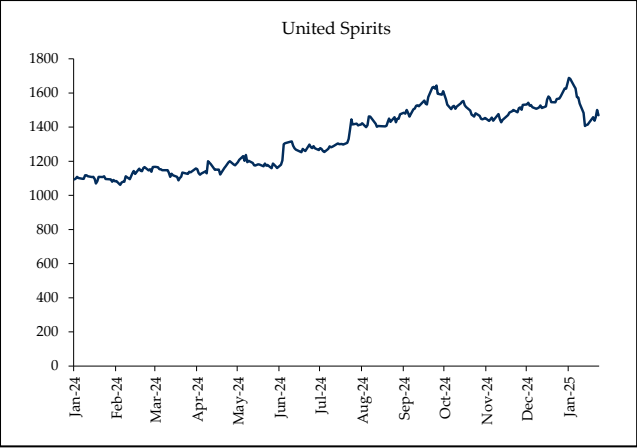
Source: Company, HSIE Research

Ratios

KEY RATIOS	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY (%)					
GPM	41.5	43.4	44.6	45.2	45.8
EBITDA Margin	13.7	16.0	17.1	17.8	18.4
EBIT Margin	11.1	13.5	14.7	15.5	16.3
APAT Margin	8.5	12.4	12.4	13.0	13.6
RoE	16.3	20.6	18.6	18.2	17.8
RoIC (or Core RoCE)	17.6	21.6	22.8	25.3	27.4
RoCE	15.7	19.2	17.3	16.9	16.5
EFFICIENCY					
Tax Rate (%)	21.2	22.0	25.2	25.2	25.2
Fixed Asset Turnover (x)	5.2	5.7	5.3	5.3	5.2
Inventory (days)	78.5	70.4	80.0	80.0	80.0
Debtors (days)	83.8	106.8	95.0	95.0	95.0
Other Current Assets (days)	17.7	13.1	13.1	13.1	13.1
Payables (days)	61.2	62.4	60.0	60.0	60.0
Other Current Liab & Provns (days)	59.6	57.9	57.8	55.6	53.9
Cash Conversion Cycle (days)	59.3	70.0	70.3	72.5	74.2
Net D/E (x)	(0.2)	(0.3)	(0.4)	(0.4)	(0.5)
Interest Coverage (x)	11.1	19.0	19.1	20.5	25.4
PER SHARE DATA (Rs)					
EPS	12.9	18.7	20.2	23.8	27.8
CEPS	16.7	22.4	24.1	27.9	32.1
Dividend	-	9.0	10.1	11.9	13.9
Book Value	83.8	98.2	118.3	142.1	169.9
VALUATION					
P/E (x)	126.3	87.0	80.6	68.4	58.5
P/BV (x)	19.4	16.6	13.7	11.4	9.6
EV/EBITDA (x)	80.5	66.4	56.7	48.0	41.0
EV/Revenues (x)	11.0	10.6	9.7	8.5	7.6
OCF/EV (%)	1.1	1.5	1.8	1.9	2.2
FCF/EV (%)	0.9	1.4	1.5	1.7	1.9
FCFE/Mkt Cap (%)	1.3	1.2	1.6	1.7	1.9
Dividend Yield (%)	-	0.6	0.6	0.7	0.9

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria
BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

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