

## Volumes revert to pre-pandemic levels

**About the stock:** United Breweries (UBL) is the biggest beer player in the domestic market (~54% 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

### Q1FY23 Results: In-line performance on profitability front

- Revenues grew 118% YoY to ₹ 2437 crore, led by volume growth of 121%
- Absolute EBITDA grew 178% to ₹ 265 crore (EBITDA margins expanded 234 bps to 10.9%)
- Subsequently, the company reported a PAT of ₹162 crore (vs PAT of ₹ 31 crore in Q1FY22) and came in-line with I-direct estimate of ₹ 158 crore.

**What should investors do?** After a span of 3 years, UBL reverted back to its pre-pandemic volumes in Q1. However, current capacity lags behind the peak seasonal volumes, for which the company would resort to shifting of excess volumes to contract manufacturers (for next seasonal peak) and in the longer term plans to build greenfield capacities. Higher commodity costs are expected to be mitigated via price hikes and cost control measures.

- Due to long term growth story in the industry and a well-managed company with MNC parentage, we maintain our **BUY** rating on the stock

**Target Price & Valuation:** We value the stock at ₹ 1900 i.e. 67x P/E on FY24E EPS.

**Key triggers for future price performance:** Quick reversion to mean volumes, inspite of losing share to liquor companies for past 3 years, point to the inherent strength in the beer segment, its appeal with young customers and an association with social occasions.

- Newer excise regimes continue to stay stable. The management expects further price hikes in several states to mitigate inflationary impact
- 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) 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 ₹ 920

### Key Financial Summary

₹ crore	FY20	FY21	FY22	5 Years CAGR (%)	FY23E	FY24E	2 Years CAGR (%)
Net Sales	6509.2	4243.1	5838.4	4.3	7524.0	8422.9	20.1
EBITDA	875.8	381.1	696.6	1.6	955.5	1297.1	36.5
PAT	427.7	113.2	365.5	9.7	517.3	749.1	43.2
P/E (x)	94.0	355.0	110.0		77.7	53.7	
Market cap to Sales (x)	6.6	10.1	7.3		5.7	5.1	
RoCE (%)	15.9	4.0	12.1		15.8	21.1	
RoE (%)	12.2	3.2	9.3		12.6	16.6	

Source: Company, ICICI Direct Research



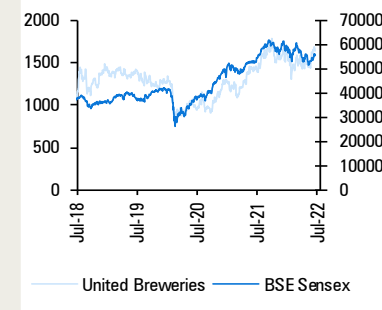
### Particulars

Particular	Amount
Market Capitalization (₹ cr)	42,833.6
Total Debt (FY22) (₹ cr)	-
Cash (FY22) (₹ cr)	909.7
EV (₹ cr)	41,924.0
52 week H/L	1785/1275
Equity Capital (₹ Crore)	26.4
Face Value (₹)	1.0

### Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promote	72.7	72.7	72.7	72.7
Others	27.3	27.3	27.3	27.3

### Price Chart



### Recent event & key risks

- Price hikes in key states
- Key Risk:** (i) Delay in opening of on-trade channels (ii) hike in raw material prices

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## Key takeaways

### Q1FY23 Results: All regions grow vis-à-vis FY21, FY19, except South (AP impact)

- Record volumes (full recovery) seen during the quarter in spite of supply chain restrictions in peak quarter
- Price increases have been realised in Haryana, Karnataka, Maharashtra, MP, Orissa, Rajasthan, Telangana and UP.
- Overall 121% YoY pan-India growth has been achieved by 167% growth in the West region, followed by South (162%, still below pre-pandemic levels), East (up 88%) and North (87%)

### Q1FY23 Earnings Conference Call highlights

- Capex during the quarter stood at ₹44 crore, amid an ongoing review of capacity plan to meet future demand
- The management saw signs of softening of commodity prices during the quarter and expects a combination of price hikes and control measures to mitigate the impact
- The management has guided for a 6-8% volume growth in the medium to longer term
- Due to supply constraints, UBL temporarily lost market share (in the tune of ~3%) to ~50%. However, the management expects to regain the lost share in near term, as supply challenges falter
- UBL is seeing its market share improve, within the super-premium category
- The sector has 80000 distribution touchpoints, which has not seen any improvement in past 3 years
- The off-trade : on-trade mix remained at 70:30 ratio, with on-trade channels seeing a phenomenal growth during the quarter

**Exhibit 1: Variance Analysis**

₹ Crore	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	2,436.7	1,643.5	1,118.0	117.9	1,709.2	42.6	YoY volume growth at 121%
Consumption of Raw material	1,323.0	805.3	535.1	147.2	825.2	60.3	Lower gross margins (contracted 408 bps YoY to 44.3%) due to higher inflation in Barley and glass prices
Purchase of traded goods	35.3	0.0	42.5	-17.0	48.5	-27.2	
Employee Cost	148.7	139.7	113.5	31.1	126.2	17.8	
Other Expenditure	664.7	443.7	331.5	100.5	447.8	48.4	
Total Expense	2,171.6	1,388.7	1,022.6	112.4	1,447.7	50.0	
EBITDA	265.1	254.7	95.4	177.8	261.5	1.4	
EBITDA Margin (%)	10.9	15.5	8.5	234.3	15.3	-442.0	EBITDA margin lower than estimates mainly due to lower gross margins
Depreciation	57.5	53.1	55.2	4.3	53.2	8.1	
Interest	0.8	2.8	3.9	-78.5	2.5	-66.8	
Other Income	10.4	11.7	6.1	70.1	13.1	-20.6	
Exceptional item	0.0	0.0	0.0	NA	0.0	NA	
PBT	217.1	210.6	42.5	410.7	218.8	-0.8	
Total Tax	55.4	53.1	11.7	374.9	55.0	0.7	
Reported PAT	161.7	157.5	30.8	424.3	163.8	-1.3	

Source: Company, ICICI Direct Research

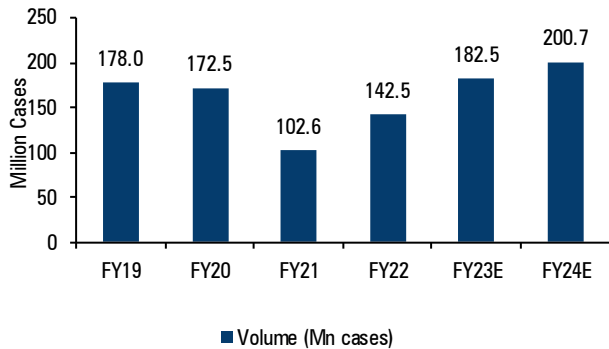
**Exhibit 2: Change in estimates**

(₹ Crore)	FY23E				FY24E			
	FY22	Old	New	% Change	Old	New	% Change	
Revenue	5,838.4	7,377.4	7,524.0	2.0	8,262.1	8,422.9	1.9	
EBITDA	696.6	1,062.3	955.5	-10.0	1,313.7	1,297.1	-1.3	
EBITDA Margin (%)	11.9	14.4	12.7	-170 bps	15.9	15.4	-50 bps	Margins revised downwards due to higher inflation in the raw material prices in near to medium term
PAT	365.5	600.9	517.3	-13.9	765.6	749.1	-2.2	
EPS (₹)	13.8	22.7	19.6	-13.8	29.0	28.3	-2.3	

Source: ICICI Direct Research

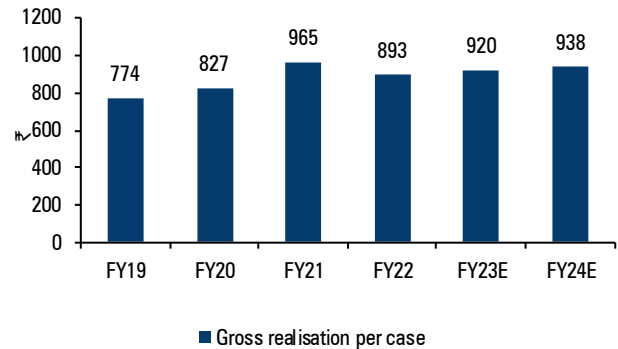
## Key Metrics

Exhibit 3: Volumes expected to grow at 19% CAGR (FY22-24)



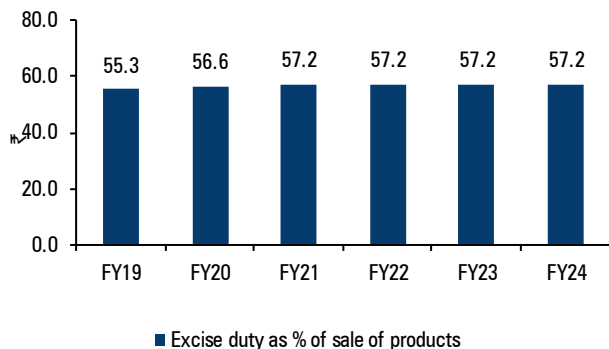
Source: ICICI Direct Research, Company

Exhibit 4: Gross realisation expected to remain strong



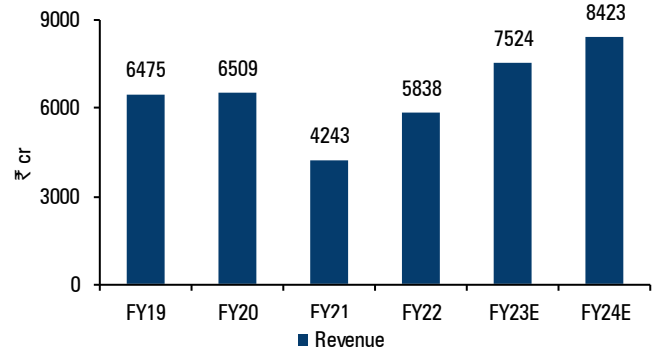
Source: ICICI Direct Research, Company

Exhibit 5: Excise duty expected to remain high across states



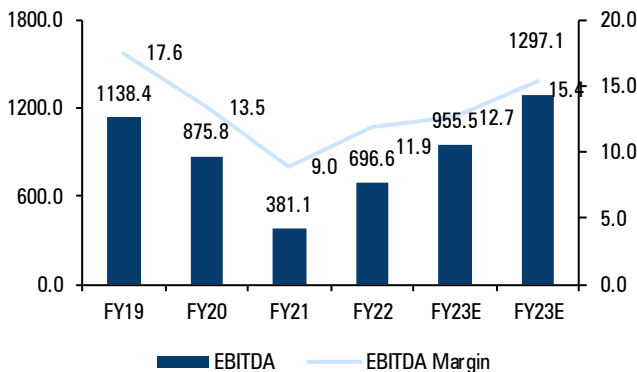
Source: ICICI Direct Research, Company

Exhibit 6: Net revenues to grow at 20% CAGR (FY22-24E)



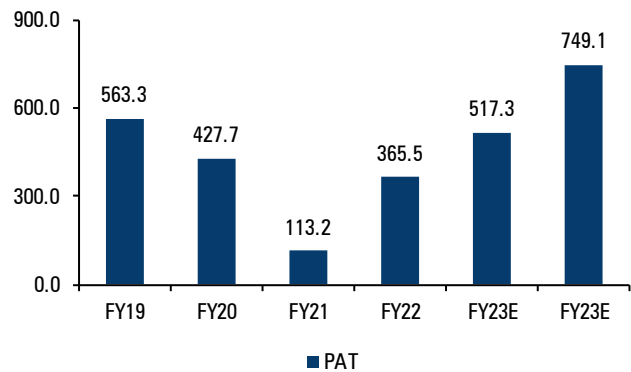
Source: ICICI Direct Research, Company

Exhibit 7: EBITDA expected to grow at 37% CAGR (FY22-24)



Source: Company, ICICI Direct Research

Exhibit 8: PAT expected to grow at 43% CAGR in FY22-24E



Source: Company, ICICI Direct Research

Exhibit 9: Valuation ratios

	Sales (₹ cr)	Sales Growth (%)	EPS (₹)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
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
FY22	5838.4	37.6	13.8	222.8	110.0	56.4	9.3	12.1
FY23E	7524.0	28.9	19.6	41.5	77.7	41.3	12.6	15.8
FY24E	8422.9	11.9	28.3	44.8	53.7	30.2	16.6	21.1

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	4,243.1	5,838.4	7,524.0	8,422.9
Growth (%)	-34.8	37.6	28.9	11.9
COGS	1,965.2	2,707.3	3,912.5	4,127.2
Change in Inv, WIP & stock in t	64.2	218.8	0.0	0.0
Employee benefit expense	485.5	523.1	571.8	640.1
Selling & promotional expenses	211.0	276.1	353.6	463.3
Other expense	1,136.2	1,416.5	1,730.5	1,895.2
EBITDA	381.1	696.6	955.5	1,297.1
Growth (%)	-56.5	82.8	37.2	35.7
Depreciation	232.0	217.2	301.0	336.9
EBIT	149.1	479.4	654.6	960.2
Interest	22.7	14.8	0.0	0.0
Other Income	50.3	29.8	37.6	42.1
Exceptional Item	-7.2	0.0	0.0	0.0
PBT	169.4	494.4	692.2	1,002.3
Tax	55.6	128.4	174.2	252.3
Reported PAT	113.8	366.1	518.0	750.0
Adjustments	0.6	0.6	0.7	1.0
Adjusted PAT	113.2	365.5	517.3	749.1
EPS	4.3	13.8	19.6	28.3

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	113.2	365.5	517.3	749.1
Add: Depreciation	232.0	217.2	301.0	336.9
Add: Interest Expense	22.7	14.8	0.0	0.0
Increase/(Decrease) in CL	292.5	-140.7	97.5	114.5
(Increase)/Decrease in CA	28.6	384.8	-666.0	-372.9
CF from Operating Activities	620.3	899.6	249.8	827.6
Purchase of Fixed Assets	-149.8	-172.8	-211.0	-312.1
(Inc)/Dec in Investments	-1.8	-97.0	107.4	85.1
Others	-45.1	283.9	0.0	0.0
CF from Investing Activities	-196.7	14.0	-103.6	-226.9
Inc/(Dec) in Loan Funds	6.1	-115.4	0.0	0.0
Inc/(Dec) in Sh. Cap. & Res.	0.0	0.0	0.0	0.0
Less: Dividend & Dividend Tax	-16.3	-343.0	-343.0	-343.0
Others	-22.7	-14.8	0.0	0.0
CF from financing activities	-32.9	-473.2	-343.0	-343.0
Op. Cash and cash Eq.	78.6	469.3	909.7	712.8
Cl. Cash and cash Eq.	469.3	909.7	712.8	970.4

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Source of Funds				
Equity Capital	26.4	26.4	26.4	26.4
Reserves & Surplus	3,555.8	3,908.7	4,082.9	4,488.9
Shareholder's Fund	3,582.3	3,935.1	4,109.4	4,515.4
Long term Loan Funds	115.2	0.0	0.0	0.0
Provisions	12.7	29.4	30.8	32.4
Total Current Liabilities	2,138.2	1,980.7	2,076.7	2,189.7
Short term borrowings	0.2	0.0	0.0	0.0
Trade payables	618.1	638.0	707.2	792.8
Other current liabilities	1,428.9	1,240.5	1,265.3	1,290.6
Provisions	91.1	102.2	104.3	106.3
Source of Funds	5,852.2	5,949.3	6,221.1	6,741.6
Application of Funds				
Gross Block	4,769.8	4,933.0	5,133.0	5,433.0
Less: Acc. Depreciation	2,826.7	3,026.5	3,327.5	3,664.4
Net Block	1,943.0	1,906.5	1,805.5	1,768.6
Capital WIP	128.8	109.9	120.9	133.0
Goodwill & Other Intangibles	27.4	22.8	22.8	22.8
Investments	6.1	8.4	8.8	9.9
Inventories	1,136.7	935.8	1,178.7	1,321.3
Debtor	1,395.0	1,254.9	1,650.1	1,849.8
Cash	469.3	909.7	712.8	970.4
Loan & Advance, Other CA	322.6	278.8	306.7	337.3
Total Current assets	3,323.6	3,379.1	3,848.3	4,478.7
Application of Funds	5,852.2	5,949.3	6,221.1	6,741.6

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Book Value	135.5	148.8	155.4	170.8
Cash per share	17.7	34.4	27.0	36.7
EPS	4.3	13.8	19.6	28.3
Cash EPS	0.9	0.6	0.0	0.0
DPS	0.5	10.5	10.5	10.5
Profitability & Operating Ratios				
EBITDA Margin (%)	9.0	11.9	12.7	15.4
PAT Margin (%)	2.7	6.3	6.9	8.9
Fixed Asset Turnover (x)	2.1	2.7	3.4	3.6
Inventory Turnover (Days)	40.7	25.0	25.0	25.0
Debtor (Days)	50.0	35.0	35.0	35.0
Creditors (Days)	22.1	15.0	15.0	15.0
Return Ratios (%)				
RoE	3.2	9.3	12.6	16.6
RoCE	4.0	12.1	15.8	21.1
RoIC	4.6	15.9	19.3	27.2
Valuation Ratios (x)				
P/E	355.0	110.0	77.7	53.7
Price to Book Value	11.2	10.2	9.8	8.9
EV/EBITDA	104.5	56.4	41.3	30.2
EV/Sales	9.4	6.7	5.2	4.7
Leverage & Solvency Ratios				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	6.6	0.0	0.0	0.0
Debt to EBITDA (x)	0.3	0.0	0.0	0.0
Current Ratio	1.6	1.7	1.9	2.0

Source: Company, ICICI Direct Research

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