

RTM changes in Tamil Nadu, Jharkhand, Chhattisgarh impact performance...

About the stock: United Breweries (UBL) is the biggest beer player in the domestic market (~50% market share), a sector largely dominated by MNCs (~85% of market).

- On-trade sales comprise ~10% of revenues (rest 90% is off-trade)
- Heineken, one of the world's largest beer companies, holds 72.7% stake in United Breweries

Q3FY23 Results: COGS inflation and negative operating leverage impacts profits.

- Revenues grew 2% YoY to ₹ 1613 crore, led by volume growth of 4%
- Absolute EBITDA de-grew 56% to ₹ 77 crore (EBITDA margins fell 623 bps to 4.8%)
- Subsequently, PAT came in at -₹ 2 crore, below I-direct estimate of ₹ 179 crore, further impacted by an exceptional loss of ₹ 33 crore

What should investors do? Q3 has lowered the strength seen in H1 in both topline and EBITDA. While the trend is expected to continue in the near term, Q1FY24 is expected to provide a respite to UBL on margins front (higher quality domestic barley). Reversal in TN volumes in the medium term would be a key monitorable.

- Due to the 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 ₹ 1720 i.e. 52x P/E on FY25E EPS.

Key triggers for future price performance: Quick reversion to mean volumes, in spite of losing share to liquor companies for the past three 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 ₹ 900

Key Financial Summary

₹ crore	FY21	FY22	5 Years CAGR (%)	FY23E	FY24E	FY25E	3 Years CAGR (%)
Net Sales	4243.1	5838.4	4.3	7707.1	8790.5	10028.6	19.8
EBITDA	381.1	696.6	1.6	824.7	1195.5	1464.2	28.1
PAT	113.2	365.5	9.7	458.6	699.3	872.9	33.7
P/E (x)	355.0	110.0		87.6	57.5	46.0	
Market cap to Sales (x)	9.2	6.7		5.1	4.5	3.9	
RoCE (%)	4.0	12.1		14.7	20.0	22.4	
RoE (%)	3.2	9.3		11.3	15.9	17.7	

Source: Company, ICICI Direct Research



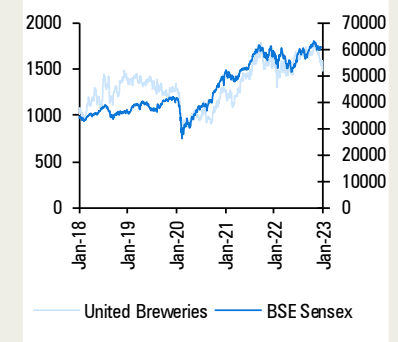
Particulars

Particular	Amount
Market Capitalization (₹ cr)	39,132.0
Total Debt (FY22) (₹ cr)	-
Cash (FY22) (₹ cr)	909.7
EV (₹ cr)	38,222.3
52 week H/L	1785/1480
Equity Capital (₹ Crore)	26.4
Face Value (₹)	1.0

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-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) Increased excise duties (ii) Hike in raw material prices

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Key takeaways

Q3FY23 Results: Southern states (0% growth) impacts blended growth

- Northern states like Rajasthan, Haryana and Uttar Pradesh led higher growth in the region (up 13%), while Delhi negatively impacted the region
- UBL is in the process of getting further price increases, in combination with cost control and ensuring security of supplies
- Other regions, which contributed to the overall 4% YoY pan-India growth, included 2% growth in the west region, followed by east (up 3% with West Bengal seeing higher volume growth post policy change)

Q3FY23 Earnings Conference Call highlights

- A 5-6% impact on growth has happened due to RTM changes in Tamil Nadu
- In Tamil Nadu, the company has gone direct vs. a third party team for selling its volumes to Tamil Nadu State Marketing Corporation (TASMAC)
- UBL has maintained market share of 50% in Q3
- Raw material inflation remained high due to high barley prices (Q3 COGS also included higher priced barley imports) and continuing inflation in glass prices. The management expects barley prices to reduce from April onwards (FY24 barley produce is expected to be of good quality and quantity vs. little inferior quality in FY23)
- The 9MFY23 capex was at ₹ 113 crore. The management expects to incur ₹ 300-400 crore capex in FY24 mainly targeted at better supplies (more owned and third party manufacturing facilities)
- Delhi volumes have gone down, post cancellation of new Delhi Liquor Policy. The demand has moved towards local players
- UBL has received price hike in West Bengal, Kerala and Goa in Q3
- Ultra has been performing very well (+20%), while the company expects to work on Max brand (growing at strong double digits) and Silver is performing well in Karnataka, Maharashtra and Goa

Exhibit 1: Variance Analysis

₹ Crore	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	1,613.0	2,018.1	1,582.8	1.9	1,682.3	-4.1	YoY volume growth at 4%, premium volumes grew 13%
Consumption of Raw material	903.5	1,089.8	737.5	22.5	877.9	2.9	Gross margins lower than estimates (42% vs. estimate 46%), due to negative state mix
Purchase of traded goods	31.5	0.0	51.6	-39.0	15.8	99.5	
Employee Cost	145.7	141.3	147.7	-1.4	139.8	4.2	
Other Expenditure	455.3	504.5	471.9	-3.5	429.4	6.0	
Total Expense	1,536.0	1,735.5	1,408.6	9.0	1,462.9	5.0	
EBITDA	77.0	282.5	174.2	-55.8	219.4	-64.9	
EBITDA Margin (%)	4.8	14.0	11.0	-622.8	13.0	-826.7	EBITDA margin lower than estimates mainly due to weak gross margins and weak operating leverage
Depreciation	50.2	54.3	53.0	-5.3	52.0	-3.5	
Interest	1.6	1.2	3.7	-56.6	1.0	61.6	
Other Income	13.1	12.7	6.1	112.9	14.2	-7.8	
Exceptional item	-33.1	0.0	0.0	NA	0.0	NA	
PBT	5.1	239.8	123.6	-95.8	180.6	-97.2	
Total Tax	7.0	60.4	32.6	-78.7	46.4	-85.0	
Reported PAT	-1.8	179.4	91.0	NA	134.1	NA	

Source: Company, ICICI Direct Research

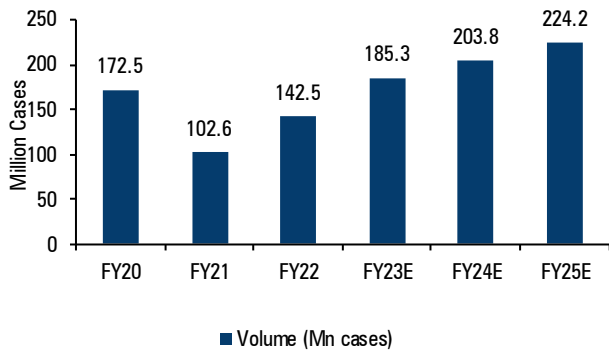
Exhibit 2: Change in estimates

(₹ Crore)	FY23E				FY24E			FY25E	Comments
	FY22	Old	New	% Change	Old	New	% Change	New	
Revenue	5,838.4	7,593.7	7,707.1	1.5	8,660.8	8,790.5	1.5	10,028.6	Revenues revised marginally
EBITDA	696.6	1,040.3	824.7	-20.7	1,351.1	1,195.5	-11.5	1,464.2	
EBITDA Margin (%)	11.9	13.7	10.7	-300 bps	15.6	13.6	-200 bps	14.6	Inflation remains higher than expected
PAT	365.5	593.7	458.6	-22.8	802.6	699.3	-12.9	872.9	
EPS (₹)	13.8	22.5	17.3	-22.9	30.4	26.4	-13.0	33.0	

Source: ICICI Direct Research

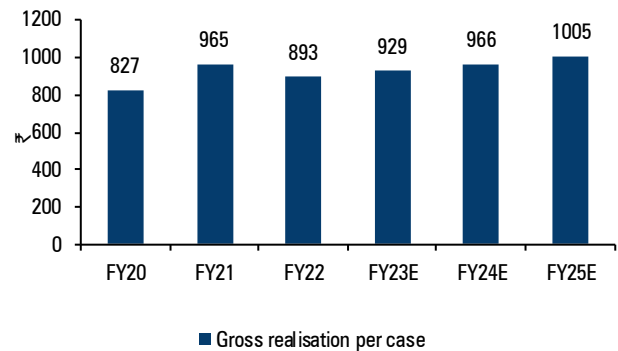
Key Metrics

Exhibit 3: Volumes expected to grow at 16% CAGR (FY22-25)



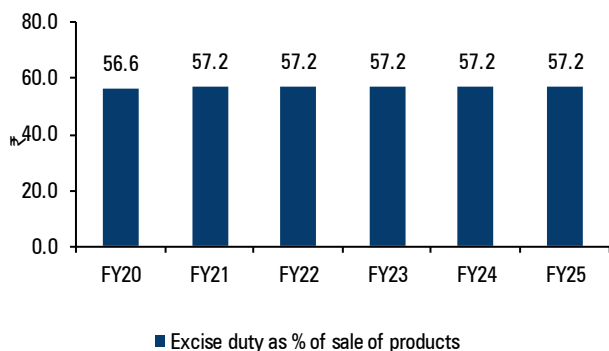
Source: ICICI Direct Research, Company

Exhibit 4: Gross realisation expected to remain strong



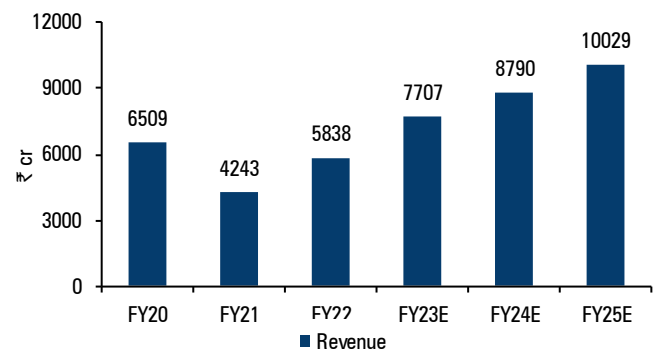
Source: ICICI Direct Research, Company

Exhibit 5: Excise duty expected to remain high across states



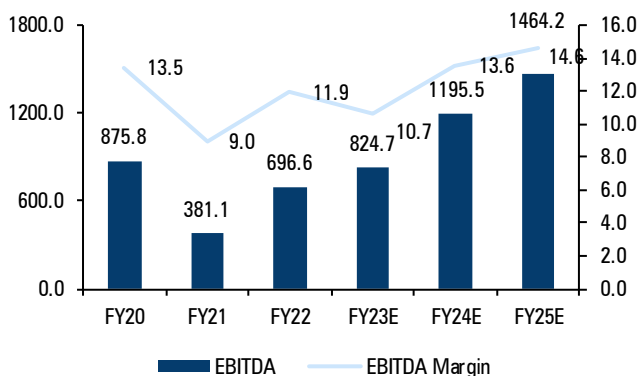
Source: ICICI Direct Research, Company

Exhibit 6: Net revenues to grow at 20% CAGR (FY22-25E)



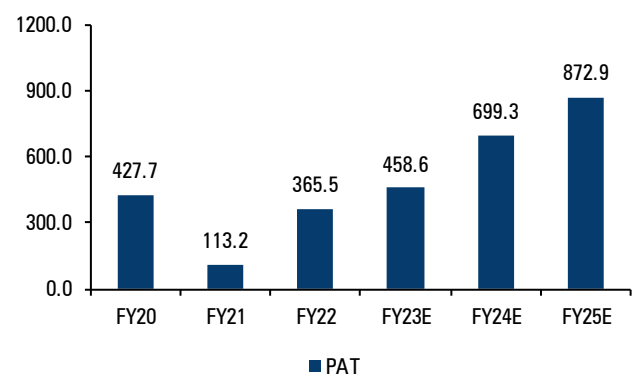
Source: ICICI Direct Research, Company

Exhibit 7: EBITDA expected to grow at 28% CAGR (FY22-25)



Source: Company, ICICI Direct Research

Exhibit 8: PAT expected to grow at 34% CAGR in FY22-25E



Source: Company, ICICI Direct Research

Exhibit 9: Valuation ratios

	Sales (₹ cr)	Sales Growth (%)	EPS (₹)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
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	7707.1	32.0	17.3	25.5	87.6	48.2	11.3	14.7
FY24E	8790.5	14.1	26.4	52.5	57.5	33.2	15.9	20.0
FY25E	10028.6	14.1	33.0	24.8	46.0	26.9	17.7	22.4

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Total operating Income	5,838.4	7,707.1	8,790.5	10,028.6	
Growth (%)	37.6	32.0	14.1	14.1	
COGS	2,707.3	4,161.8	4,483.1	5,014.3	
Change in Inv, WIP & stock in t	218.8	0.0	0.0	0.0	
Employee benefit expense	523.1	585.7	650.5	742.1	
Selling & promotional expenses	276.1	362.2	483.5	551.6	
Other expense	1,416.5	1,772.6	1,977.9	2,256.4	
EBITDA	696.6	824.7	1,195.5	1,464.2	
Growth (%)	82.8	18.4	45.0	22.5	
Depreciation	217.2	223.5	307.7	351.0	
EBIT	479.4	601.2	887.8	1,113.2	
Interest	14.8	4.4	4.9	5.4	
Other Income	29.8	50.1	52.7	60.2	
Exceptional Item	0.0	-33.1	0.0	0.0	
PBT	494.4	613.7	935.7	1,168.0	
Tax	128.4	154.5	235.5	294.0	
Reported PAT	366.1	459.2	700.2	874.0	
Adjustments	0.6	0.6	0.9	1.1	
Adjusted PAT	365.5	458.6	699.3	872.9	
EPS	13.8	17.3	26.4	33.0	

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Profit after Tax	365.5	458.6	699.3	872.9	
Add: Depreciation	217.2	223.5	307.7	351.0	
Add: Interest Expense	14.8	4.4	4.9	5.4	
Increase/(Decrease) in CL	-140.7	115.1	132.2	147.6	
(Increase)/Decrease in CA	384.8	-736.4	-443.7	-506.1	
CF from Operating Activities	899.6	65.3	700.3	870.8	
Purchase of Fixed Assets	-172.8	-261.0	-362.1	-363.3	
(Inc)/Dec in Investments	-97.0	107.4	85.1	67.9	
Others	283.9	0.0	0.0	0.0	
CF from Investing Activities	14.0	-153.6	-276.9	-295.4	
Inc/(Dec) in Loan Funds	-115.4	0.0	0.0	0.0	
Inc/(Dec) in Sh. Cap. & Res.	0.0	0.0	0.0	0.0	
Less: Dividend & Dividend Tax	-343.0	-343.0	-343.0	-343.0	
Others	-14.8	-4.4	-4.9	-5.4	
CF from financing activities	-473.2	-347.5	-347.9	-348.4	
Op. Cash and cash Eq.	469.3	909.7	473.9	549.3	
Cl. Cash and cash Eq.	909.7	473.9	549.3	776.3	

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Source of Funds					
Equity Capital	26.4	26.4	26.4	26.4	
Reserves & Surplus	3,908.7	4,024.3	4,380.5	4,910.3	
Shareholder's Fund	3,935.1	4,050.7	4,406.9	4,936.7	
Long term Loan Funds	0.0	0.0	0.0	0.0	
Provisions	29.4	30.8	32.4	34.0	
Total Current Liabilities	1,980.7	2,094.3	2,225.0	2,371.0	
Short term borrowings	0.0	0.0	0.0	0.0	
Trade payables	638.0	724.8	828.1	946.1	
Other current liabilities	1,240.5	1,265.3	1,290.6	1,316.4	
Provisions	102.2	104.3	106.3	108.5	
Source of Funds	5,949.3	6,180.0	6,668.4	7,345.9	
Application of Funds					
Gross Block	4,933.0	5,183.0	5,533.0	5,883.0	
Less: Acc. Depreciation	3,026.5	3,250.0	3,557.7	3,908.7	
Net Block	1,906.5	1,933.0	1,975.3	1,974.3	
Capital WIP	109.9	120.9	133.0	146.3	
Goodwill & Other Intangibles	22.8	22.8	22.8	22.8	
Investments	8.4	8.8	9.9	11.0	
Inventories	935.8	1,208.0	1,380.1	1,576.9	
Debtor	1,254.9	1,691.2	1,932.1	2,207.6	
Cash	909.7	473.9	549.3	776.3	
Loan & Advance, Other CA	278.8	306.7	337.3	371.1	
Total Current assets	3,379.1	3,679.7	4,198.9	4,931.9	
Application of Funds	5,949.3	6,180.0	6,668.4	7,345.9	

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
Book Value	148.8	153.2	166.7	186.7
Cash per share	34.4	17.9	20.8	29.4
EPS	13.8	17.3	26.4	33.0
Cash EPS	0.6	0.2	0.2	0.2
DPS	10.5	10.5	10.5	10.5
Profitability & Operating Ratios				
EBITDA Margin (%)	11.9	10.7	13.6	14.6
PAT Margin (%)	6.3	6.0	8.0	8.7
Fixed Asset Turnover (x)	2.7	3.4	3.6	3.9
Inventory Turnover (Days)	25.0	25.0	25.0	25.0
Debtor (Days)	35.0	35.0	35.0	35.0
Creditors (Days)	15.0	15.0	15.0	15.0
Return Ratios (%)				
RoE	9.3	11.3	15.9	17.7
RoCE	12.1	14.7	20.0	22.4
RoIC	15.9	16.8	23.1	26.8
Valuation Ratios (x)				
P/E	110.0	87.6	57.5	46.0
Price to Book Value	10.2	9.9	9.1	8.1
EV/EBITDA	56.4	48.2	33.2	26.9
EV/Sales	6.7	5.2	4.5	3.9
Leverage & Solvency Ratios				
Debt to equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	0.0	0.0	0.0	0.0
Debt to EBITDA (x)	0.0	0.0	0.0	0.0
Current Ratio	1.7	1.8	1.9	2.1

Source: Company, ICICI Direct Research

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Sell: <-15%



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