

RTM changes in certain states, inflation impacts EBITDA

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

Q4FY23 Results: COGS inflation and negative operating leverage impacted profits.

- Revenues remained flat YoY at ₹ 1766 crore, led by volume growth of 3%
- Absolute EBITDA de-grew 80% to ₹ 54 crore (EBITDA margins fell 1226 bps to 3%)
- Subsequently, PAT came in at ₹ 10 crore, below our estimate of ₹ 164 crore

What should investors do? Going ahead, margins are expected to remain impacted in key months in Q1 and with lower probability in Q2 (55-60%) of sales happening during these months. Then, supply-side uncertainty due to General Elections hangs in FY25 (Q1FY25 disruption with a medium probability due to historical trends). Reversal in Tamil Nadu volumes in the medium term would be a key monitorable.

- Due to higher volatility in operational performance in FY24 and FY25, we change our stance from BUY to **HOLD** rating on the stock

Target Price & Valuation: We value the stock at ₹ 1500 i.e. 50x 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	FY23	5 Years CAGR (%)	FY24E	FY25E	2 Years CAGR (%)
Net Sales	4243.1	5838.4	7499.9	5.9	8665.2	9913.0	15.0
EBITDA	381.1	696.6	616.2	-7.3	961.8	1298.6	45.2
PAT	113.2	365.5	304.1	-5.1	566.0	795.9	61.8
P/E (x)	355.0	110.0	132.2		71.0	50.5	
Market cap to Sales (x)	8.7	6.3	4.9		4.3	3.7	
RoCE (%)	4.0	12.1	10.2		16.7	21.5	
RoE (%)	3.2	9.3	7.7		13.5	17.2	

Source: Company, ICICI Direct Research



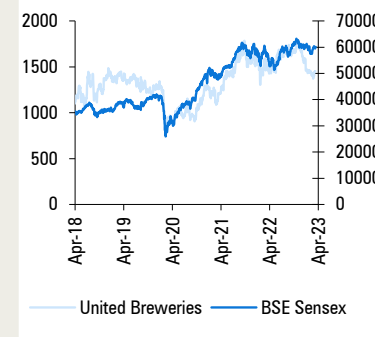
Particulars

Particular	Amount
Market Capitalization (₹ cr)	36,884.5
Total Debt (FY23) (₹ cr)	-
Cash (FY23) (₹ cr)	395.3
EV (₹ cr)	36,489.2
52 week H/L	1806/1353
Equity Capital (₹ Crore)	26.4
Face Value (₹)	1.0

Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
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) Hike in raw material prices. (ii) higher volume growth in key states

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Key takeaways

Q4FY23 Results: Higher growth in Rajasthan, Telangana negatively impacted state mix

- Northern states like Rajasthan, Haryana and Uttar Pradesh led higher growth in the region (up 14%) 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 3% YoY pan-India growth, included 10% growth in the west region, followed by east (up 29% with West Bengal seeing higher volume growth post policy change) while south saw 10% de-growth due to Tamil Nadu RTM changes

Q4FY23 Earnings Conference Call highlights

- Impact on UBL volumes due to RTM changes in Tamil Nadu has been higher than estimated (earlier estimate of 5-6% growth impact)
- UBL's market share slipped during the quarter in low single digits. The management is confident of regaining the share back
- Loss in market share in Karnataka mainly led by state elections led supply side issues
- Higher priced barley inventory (purchased in Q1 last year), still continues in production and is expected to get replaced by newer crop (lower priced) in Q2. However, if volume growth impacted in Q1 (unseasonal rains), then the higher priced barley may continue till Q2 end
- Glass inflation still continues to remain high. The management is actively pursuing strategies to counter it (higher recycling, supplier management)
- The company is in the process of appointing a new MD & CEO and expects to complete the process in one to three months
- Capex is expected at ₹ 300 crore for FY24
- Premium brands have been launched with specific states in focus

Exhibit 1: Variance Analysis

₹ Crore	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue	1,765.9	1,830.5	1,709.2	3.3	1,613.0	9.5	Led by YoY volume growth of 3%
Consumption of Raw material	1,071.3	1,006.8	825.2	29.8	903.5	18.6	Gross margins lower than estimates (38.8% vs. estimate 45%), due to higher inflation and negative state mix
Purchase of traded goods	9.9	0.0	48.5	-79.5	31.5	-68.4	
Employee Cost	160.3	146.4	126.2	27.0	145.7	10.0	
Other Expenditure	470.8	457.6	447.8	5.1	455.3	3.4	
Total Expense	1,712.3	1,610.9	1,447.7	18.3	1,536.0	11.5	
EBITDA	53.6	219.7	261.5	-79.5	77.0	-30.4	
EBITDA Margin (%)	3.0	12.0	15.3	-1,226.1	4.8	-173.9	EBITDA margin lower than estimates mainly due to weak gross margins and weak operating leverage
Depreciation	50.7	51.8	53.2	-4.7	50.2	1.0	
Interest	1.2	1.9	2.5	-51.2	1.6	-23.8	
Other Income	11.8	11.7	13.1	-9.7	13.1	-9.7	
Exceptional item	0.0	0.0	0.0	NA	-33.1	NA	
PBT	13.5	177.7	218.8	-93.8	38.3	-64.8	
Total Tax	3.6	44.8	55.0	-93.4	7.0	-48.1	
Reported PAT	9.9	132.9	163.8	-94.0	31.3	-68.5	

Source: Company, ICICI Direct Research

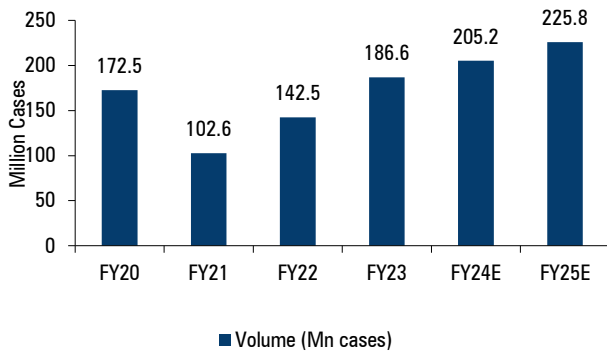
Exhibit 2: Change in estimates

(₹ Crore)	FY24E				FY25E			Comments
	FY23	Old	New	% Change	Old	New	% Change	
Revenue	7,499.9	8,790.5	8,665.2	-1.4	10,028.6	9,913.0	-1.2	Revenues revised marginally
EBITDA	616.2	1,195.5	961.8	-19.5	1,464.2	1,298.6	-11.3	
EBITDA Margin (%)	8.2	13.6	11.1	-250 bps	14.6	13.1	-150 bps	Inflation remains higher than expected
PAT	304.1	699.3	566.0	-19.1	872.9	795.9	-8.8	
EPS (₹)	11.5	26.4	21.4	-18.9	33.0	30.1	-8.8	

Source: ICICI Direct Research

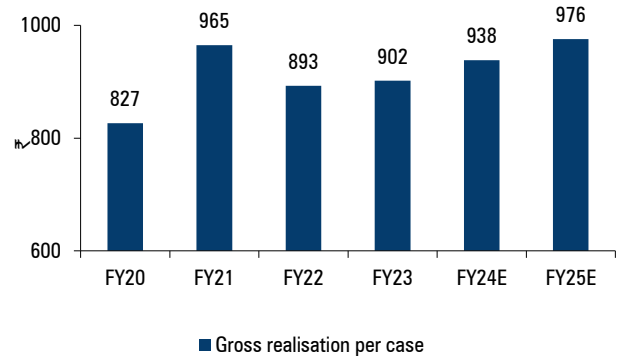
Key Metrics

Exhibit 3: Volumes expected to grow at 10% CAGR (FY23-25)



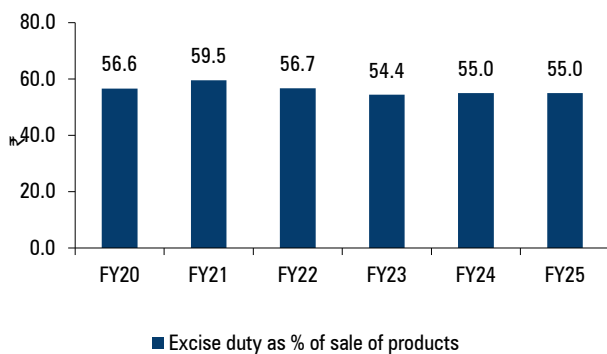
Source: ICICI Direct Research, Company

Exhibit 4: Gross realisation expected to remain strong



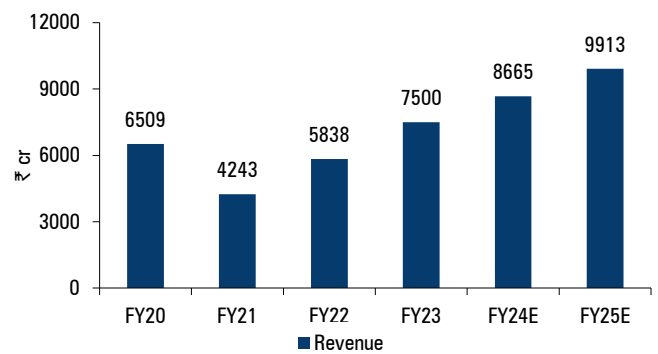
Source: ICICI Direct Research, Company

Exhibit 5: Excise duty expected to remain high across states



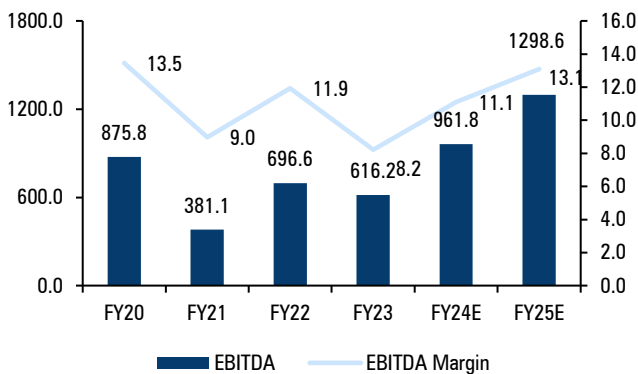
Source: ICICI Direct Research, Company

Exhibit 6: Net revenues to grow at 15% CAGR (FY23-25E)



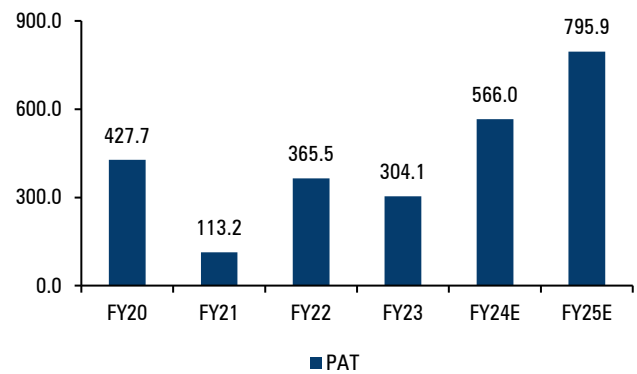
Source: ICICI Direct Research, Company

Exhibit 7: EBITDA expected to grow at 45% CAGR (FY23-25)



Source: Company, ICICI Direct Research

Exhibit 8: PAT expected to grow at 62% CAGR in FY23-25E



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
FY23	7707.1	32.0	17.3	25.5	132.2	64.6	7.7	10.2
FY24E	8665.2	12.4	21.4	23.4	71.0	41.2	13.5	16.7
FY25E	9913.0	14.4	30.1	40.6	50.5	30.3	17.2	21.5

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Total operating Income	5,838.4	7,499.9	8,665.2	9,913.0
Growth (%)	37.6	28.5	15.5	14.4
COGS	2,707.3	4,224.8	4,679.2	5,154.8
Change in Inv, WIP & stock in t	218.8	40.6	0.0	0.0
Employee benefit expense	523.1	595.5	641.2	733.6
Selling & promotional expenses	276.1	352.5	433.3	495.6
Other expense	1,416.5	1,670.3	1,949.7	2,230.4
EBITDA	696.6	616.2	961.8	1,298.6
Growth (%)	82.8	-11.5	56.1	35.0
Depreciation	217.2	210.6	260.0	297.4
EBIT	479.4	405.6	701.9	1,001.2
Interest	14.8	4.6	5.1	5.6
Other Income	29.8	49.4	60.7	69.4
Exceptional Item	0.0	-33.1	0.0	0.0
PBT	494.4	417.3	757.4	1,065.0
Tax	128.4	112.6	190.6	268.1
Reported PAT	366.1	304.7	566.8	796.9
Adjustments	0.6	0.6	0.7	1.0
Adjusted PAT	365.5	304.1	566.0	795.9
EPS	13.8	11.5	21.4	30.1

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit after Tax	365.5	304.1	566.0	795.9
Add: Depreciation	217.2	210.6	260.0	297.4
Add: Interest Expense	14.8	4.6	5.1	5.6
Increase/(Decrease) in CL	-140.7	300.8	106.9	147.2
(Increase)/Decrease in CA	384.8	-821.7	-239.0	-382.8
CF from Operating Activities	899.6	-119.6	699.0	863.2
Purchase of Fixed Assets	-172.8	-154.3	-307.7	-308.5
(Inc)/Dec in Investments	-97.0	-118.4	130.4	104.1
Others	283.9	127.5	0.0	0.0
CF from Investing Activities	14.0	-145.2	-177.3	-204.3
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	-245.0	-343.0	-343.0
Others	-14.8	-4.6	-5.1	-5.6
CF from financing activities	-473.2	-249.7	-348.2	-348.7
Op. Cash and cash Eq.	469.3	909.7	395.3	568.9
Cl. Cash and cash Eq.	909.7	395.3	568.9	879.1

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Source of Funds				
Equity Capital	26.4	26.4	26.4	26.4
Reserves & Surplus	3,908.7	3,938.5	4,161.4	4,614.3
Shareholder's Fund	3,935.1	3,964.9	4,187.9	4,640.7
Long term Loan Funds	0.0	0.0	0.0	0.0
Provisions	29.4	22.7	23.8	25.0
Total Current Liabilities	1,980.7	2,288.2	2,394.0	2,540.0
Short term borrowings	0.0	0.0	0.0	0.0
Trade payables	638.0	717.0	791.3	905.3
Other current liabilities	1,240.5	1,469.2	1,498.5	1,528.5
Provisions	102.2	102.1	104.1	106.2
Source of Funds	5,949.3	6,280.4	6,610.3	7,210.4
Application of Funds				
Gross Block	4,933.0	5,085.8	5,385.8	5,685.8
Less: Acc. Depreciation	3,026.5	3,241.2	3,501.2	3,798.6
Net Block	1,906.5	1,844.6	1,884.6	1,887.2
Capital WIP	109.9	77.1	84.8	93.3
Goodwill & Other Intangibles	22.8	18.7	18.7	18.7
Investments	8.4	8.1	9.2	10.3
Inventories	935.8	1,427.8	1,318.9	1,508.8
Debtor	1,254.9	1,407.3	1,846.5	2,112.4
Cash	909.7	395.3	568.9	879.1
Loan & Advance, Other CA	278.8	456.0	364.8	291.9
Total Current assets	3,379.1	3,686.5	4,099.1	4,792.1
Application of Funds	5,949.3	6,280.4	6,610.3	7,210.3

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
Book Value	148.8	150.0	158.4	175.5
Cash per share	34.4	15.0	21.5	33.2
EPS	13.8	11.5	21.4	30.1
Cash EPS	0.6	0.2	0.2	0.2
DPS	10.5	7.5	10.5	10.5
Profitability & Operating Ratios				
EBITDA Margin (%)	11.9	8.2	11.1	13.1
PAT Margin (%)	6.3	4.1	6.5	8.0
Fixed Asset Turnover (x)	2.7	3.3	3.6	3.9
Inventory Turnover (Days)	26.0	31.3	25.0	25.0
Debtor (Days)	34.9	30.8	35.0	35.0
Creditors (Days)	17.7	15.7	15.0	15.0
Return Ratios (%)				
RoE	9.3	7.7	13.5	17.2
RoCE	12.1	10.2	16.7	21.5
RoIC	15.9	11.4	19.4	26.7
Valuation Ratios (x)				
P/E	110.0	132.2	71.0	50.5
Price to Book Value	10.2	10.1	9.6	8.7
EV/EBITDA	56.4	64.6	41.2	30.3
EV/Sales	6.7	5.3	4.6	4.0
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	1.6	1.7	1.9

Source: Company, ICICI Direct Research

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