

P&A category undergoing rapid premiumisation...

About the stock: United Spirits (USL) is India's leading alcoholic beverage company and subsidiary of global leader Diageo plc. It 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.

- Prestige and above segment comprises 80% of its volumes
- It aims to grow its revenues in double digits and expects its operating margin to remain in mid to high-teen levels in the medium term

Q4FY23 Results: EBITDA margin suffered due to higher advertisement expenses.

- Net revenues grew 3% YoY to ₹ 2503 crore amid 27% de-growth in volumes (due to slump sale of popular brands in prior quarter)
- EBITDA de-grew 45% to ₹ 236 crore with margins at 9.4% (17.5% in base)
- PAT de-grew 25% to ₹ 103 crore as a further negative impact of exceptional loss of ₹ 18 crore was partly negated by lower tax rate

What should investors do? Within the P&A portfolio, luxury segment has contributed 52% in overall FY23 growth, followed by 34% contribution by mid and upper prestige segment. The management expects a repeat of performance in FY24, which would further create premiumisation within the P&A category.

- We believe the stock should trade at a premium to FMCG multiples and maintain our **BUY** recommendation

Target Price and Valuation: We value USL at ₹ 1000 i.e. 54x P/E on FY25E EPS.

Key triggers for future price performance:

- Newer launches and brand extensions in the upper prestige and introduction of international brands from the Diageo stable
- Favourable regulatory environment (lower customs duty, higher distribution, composite shops, etc) in several states
- Debt free status, double-digit return ratios and strong cash generation

Alternate Stock Idea: Apart from USL, we remain positive on Radico.

- It has been reporting volume growth, well ahead of the industry and is strategising on entering premium whisky category
- It has been continuously reducing its overall net-debt from peak of ~₹ 950 crore to ~₹ 198 crore in FY21 and generated ~₹ 380 crore of CFO in FY21

UNITED SPIRITS
A DIAGEO Group Company

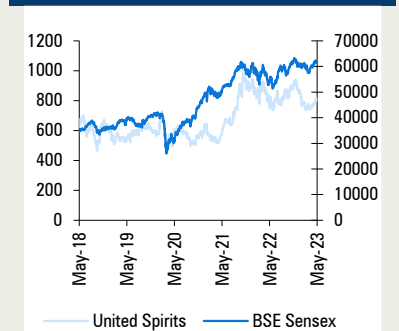
Stock data

Particular	Amount
Market Capitalization (₹ cr)	59,573.0
Total Debt (FY23) (₹ cr)	1.1
Cash (FY23) (₹ cr)	883.3
EV (₹ cr)	59,573.0
52 week H/L	952/712
Equity Capital (₹ cr)	145.3
Face Value (₹)	2.0

Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	56.7	56.7	56.7	56.7
FII	16.8	16.1	15.7	15.4
DII	8.0	9.0	9.5	9.9
Others	18.5	18.2	18.0	18.0

Price Chart



Recent event & key risks

- Supply agility programme launch for cost control measure
- **Key Risk:** (i) Raw material inflation, (ii) Low price hike scenario

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Key Financial Summary

₹ crore	FY21	FY22	FY23	5 years CAGR (%)	FY24E	FY25E	2 years CAGR (%)
Net Sales	8131.3	9712.4	10611.6	4.3	11196.9	12718.9	9.5
EBITDA	1052.7	1608.1	1416.9	3.3	1701.9	2060.5	20.6
EBITDA margin (%)	12.9	16.6	13.4		15.2	16.2	
PAT	383.6	828.6	1143.8	12.5	1096.9	1345.9	8.5
P/E (x)	163.9	73.5	52.9		54.3	44.3	
Market cap to Sales (x)	7.3	6.1	5.6		5.3	4.7	
RoCE (%)	15.6	24.4	18.8		20.9	23.2	
RoE (%)	8.8	16.4	18.8		16.4	17.9	

Key takeaways

Q4FY23 Results: Premiumisation continues to accelerate

- During the quarter, P&A growth was largely evident in mid, upper and luxury segment and is benefitting from brand renovations in recent quarters
- Gross margin pressure continues to remain high. The management continues to focus on cost control measures and reshaping the product portfolio
- The company also reported an exceptional loss of ₹ 18 crore led by supply chain restructuring and loss on sale of subsidiary (sovereign distillery sold for ₹ 32 crore)

Q4FY23 Earnings Conference Call Highlights

- Within Upper Prestige category, Royal Challengers American Pride is the fastest growing brand and has been launched in 75% salience market
- Within Upper Prestige category, Signature has the second highest brand equity (first is Antiquity) and the company has launched brand variants such as Signature red in the East India and Signature Rare in CSD
- Within Mid Prestige, renovated Royal Challenge would be completely rolled out across India by Dec, 23. It has already been launched in 85%+ salience states and the segment has been growing by 43%
- The Lower Prestige (McDowells) and Popular (DSP black) have been witnessing inflation pressure and the segments have also not been seeing uptrading trends due to inflation
- Within luxury and premium, newer variant Johnnie Walker Blonde has been launched in Maharashtra, Pune, Goa, HP, Assam etc. Focus is on entering newer geographies
- Other brands such as Black and White have seen its growth story continue (crossed 1 million cases in FY23), while Black Dog has seen significant improvement in performance due to renovated bottling
- The company is now net cash and would look at dividend option in FY24
- It would still take two quarters more to see volume normalisation on a reported basis
- The management has a buoyant outlook for performance of mid, upper prestige and luxury segment. They expect a repeat of the FY23 performance
- Advertisement would continue at 9-10% levels
- On the glass inflation front, the management is seeing greenshoots due to lower natural gas prices, while it expects the ENA prices to stay high due to multiple factors (El-Nino, election year MSP, etc)
- On the cost control front, the management expects the mono-carton removal and initiatives such as supply chain agility programme to reach its full potential in FY24

Exhibit 1: Variance Analysis

ite	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue	2,502.8	2,359.6	2,435.1	2.8	2,778.7	-9.9	Normalisation of BIO supplies and momentum in offtrade and ontrade led to higher revenues
Consumption of RM	1,362.3	1,368.6	1,418.5	-4.0	1,643.6	-17.1	Adjusted gross margins (42.6%) higher than estimates (42.6%) due to better product mix
Employee Expenses	124.1	134.5	135.7	-8.5	161.0	-22.9	
A&P Expenses	342.0	283.2	131.2	160.7	279.0	22.6	A&P expenses continued at an increased pace to support premium portfolio
Other Expense	438.9	283.2	323.0	35.9	323.3	35.8	
Total Expense	2,267.3	2,069.4	2,008.4	12.9	2,406.9	-5.8	
EBITDA	235.5	290.2	426.7	-44.8	371.8	-36.7	Higher A&P and Other expenses offset Gross margins gains
EBITDA Margin (%)	9.4	12.3	17.5	-811 bps	13.4	-397 bps	
Depreciation	68.8	65.3	67.1	2.5	64.7	6.3	
Interest	36.0	12.2	12.7	183.5	24.4	47.5	
Other Income	18.0	14.5	25.8	NA	21.3	-15.5	
Share of profit/loss from as	-0.4	0.0	0.0	NA	-0.2	100.0	
Exceptional Gain/Loss	-18.0	0.0	-173.2	NA	-148.7	NA	Exceptional loss led by supply chain restructuring and loss on sale of subsidiary (Sovereign distillery sold for ₹32 crore)
PBT	130.3	227.2	199.5	-34.7	155.1	-16.0	
Total Tax	27.5	57.2	63.3	-56.6	-59.1	-146.5	
PAT	102.8	170.0	136.2	-24.5	214.2	-52.0	
Key Metrics	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	
P & above vol (Mn cases)	12.0	11.8	10.9	9.9	12.7	-5.8	Premiumisation continues on a strong pace
Regular	3.1	3.9	9.8	-68.7	3.9	-21.1	Inflation impacts uptrading of brands towards popular and low prestige segment
Total volume (mn cases)	15.1	15.7	20.7	-27.3	16.6	-9.4	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY23		FY24E		FY25E			Comments
(₹ Crore)	FY23	Old	New	% Change	Old	New	% Change	
Revenue	10,611.6	11,542.1	11,196.9	-3.0	13,121.0	12,718.9	-3.1	
EBITDA	1,416.9	1,639.0	1,701.9	3.8	1,994.4	2,060.5	3.3	
EBITDA Margin (%)	13.4	14.2	15.2	100 bps	15.2	16.2	100 bps	Margins improved due to better product mix
PAT	1,127.2	1,034.8	1,096.9	6.0	1,303.5	1,345.9	3.3	
EPS (₹)	15.5	14.2	15.1	6.3	17.9	18.5	3.5	

Source: ICICI Direct Research

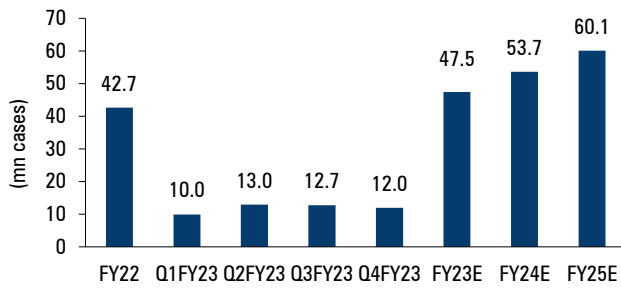
Exhibit 3: Assumptions

	Current			Earlier		Comments
	FY23	FY24E	FY25E	FY24E	FY25E	
Volume (Standalone) Cr Cases	7.3	6.8	7.6	7.1	7.8	Volumes largely kept rangebound
Volume Growth (%)	5.6	-6.7	11.2	-5.5	8.8	
Net Realisation (standalone) ₹/case	1,395	1,606	1,644	1,585	1,625	
Realisation Growth (%)	28.2	15.2	2.4	14.0	12.3	

Source: ICICI Direct Research

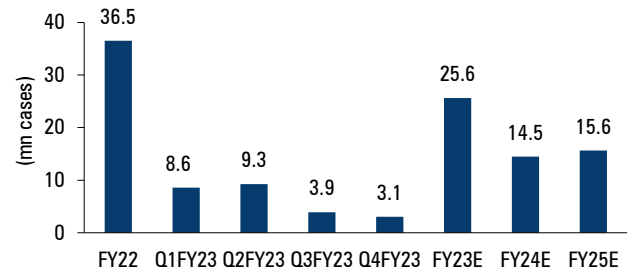
Key Metrics

Exhibit 4: P&A expected to grow at 13% CAGR (FY23-25)



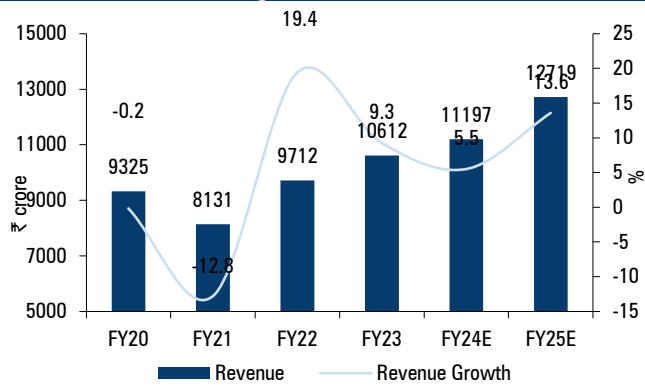
Source: ICICI Direct Research, Company

Exhibit 5: Popular to likely de-grow 22% CAGR (FY23-25)



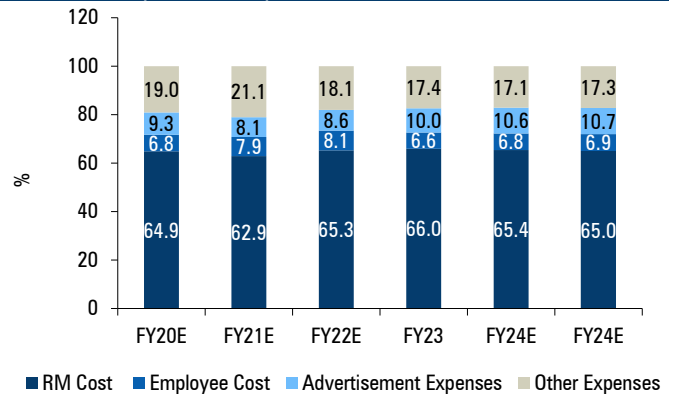
Source: ICICI Direct Research, Company

Exhibit 6: Revenues to grow at 10% CAGR over FY23-25E



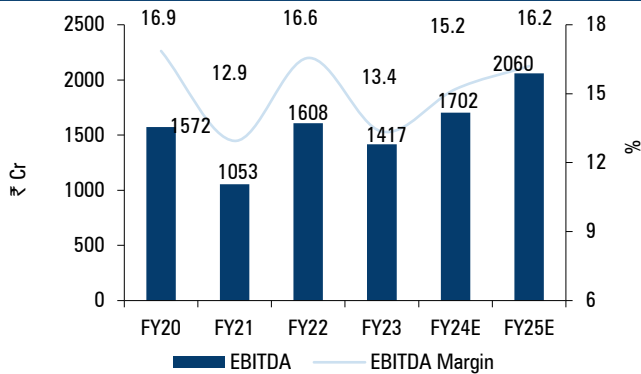
Source: ICICI Direct Research, Company

Exhibit 7: Expense composition



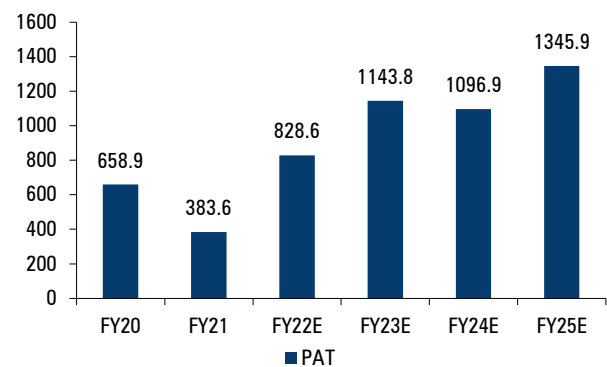
Source: ICICI Direct Research, Company

Exhibit 8: EBITDA expected to grow at 21% CAGR (FY23-25)



Source: Company, ICICI Direct Research

Exhibit 9: PAT expected to grow at 9% CAGR in FY23-25



Source: Company, ICICI Direct Research

Exhibit 10: Valuation ratios

	Sales (₹ cr)	Sales Growth (%)	EPS (₹)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY21	8131.3	-12.8	5.0	-42.2	163.9	40.8	9.3	15.6
FY22	9712.4	19.4	11.2	123.1	73.5	26.4	16.7	24.4
FY23	10611.6	9.3	15.5	38.9	52.9	29.2	19.1	18.8
FY24E	11196.9	5.5	15.1	-2.6	54.3	24.5	16.4	20.9
FY25E	12718.9	13.6	18.5	22.7	44.3	20.4	17.9	23.2

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 11: Profit and loss statement ₹ crore

(Year-end March)	FY22	FY23	FY24E	FY25E
Total operating Income	9,712.4	10,611.6	11,196.9	12,718.9
Growth (%)	19.4	9.3	5.5	13.6
Cost of materials consum	5,291.5	6,064.1	6,214.3	6,931.8
Employee benefit expens	653.1	610.0	649.4	737.7
Advertisement&Promo	694.9	921.8	1,007.7	1,144.7
Other Expenses	1,464.8	1,598.8	1,623.5	1,844.2
EBITDA	1,608.1	1,416.9	1,701.9	2,060.5
Growth (%)	52.8	-11.9	20.1	21.1
Depreciation	303.8	282.5	312.0	337.0
EBIT	1,304.3	1,134.4	1,389.9	1,723.5
Interest	88.0	103.9	0.5	0.5
Other Income	35.5	73.1	76.4	75.6
Exceptional Item	-165.2	176.4	0.0	0.0
PBT	1,086.6	1,280.0	1,465.9	1,798.6
Tax	276.0	152.8	369.0	452.7
Reported PAT	810.6	1,127.2	1,096.9	1,345.9
Adjustments	18.0	16.6	0.0	0.0
Adjusted PAT	828.6	1,143.8	1,096.9	1,345.9
EPS	11.2	15.5	15.1	18.5

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore

(Year-end March)	FY22	FY23	FY24E	FY25E
Profit after Tax	828.6	1,143.8	1,096.9	1,345.9
Add: Depreciation	303.8	282.5	312.0	337.0
Add: Interest paid	88.0	103.9	0.5	0.5
Cash Profit	1,132.4	1,426.3	1,408.9	1,682.9
Increase/(Decrease) in CL	-51.2	150.8	-397.6	117.0
(Increase)/Decrease in CA	-384.0	-248.2	-419.2	-710.7
Others	192.2	-751.1	0	0
CF from Operating Activitie	977.4	681.7	592.6	1,089.6
Purchase of Fixed Assets	-95.6	-110.1	-204.1	-204.3
(Inc)/Dec in Investments	-155.4	-129.6	-666.8	-670.1
Others	-127.0	825.3	208.0	51.6
CF from Investing Activitie	-378.0	585.6	-662.9	-822.9
Inc/(Dec) in Loan Funds	-535.0	-340.6	0.0	0.0
Inc/(Dec) in Sh. Cap. & Re	0.0	0.2	-0.2	0.0
Less: Interest paid	-88.0	-103.9	-0.5	-0.5
Others	0.0	0.0	-427.4	-512.9
CF from financing activitie	-623.0	-444.3	-428.1	-513.4
Op. Cash and cash Eq.	83.9	60.3	883.3	384.9

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet ₹ crore

(Year-end March)	FY22	FY23	FY24E	FY25E
Source of Funds				
Equity Capital	145.3	145.5	145.3	145.3
Reserves & Surplus	4,808.4	5,854.0	6,523.5	7,356.5
Shareholder's Fund	4,953.7	5,999.5	6,668.8	7,501.8
Minority Interest	-78.9	0.0	0.0	0.0
Loan Funds	341.7	1.1	1.1	1.1
Provisions	48.3	45.1	49.6	54.6
Other Liabilities	263.7	182.2	200.4	220.5
Total Current Liabilities	3,382.8	3,533.6	3,136.0	3,253.0
Source of Funds	8,911.3	9,761.5	10,055.9	11,030.9
Application of Funds				
Gross Block	2,250.2	2,295.8	2,495.8	2,695.8
Less: Acc. Depreciation	1,035.0	1,317.5	1,629.5	1,966.5
Net Block	1,215.2	978.3	866.3	729.4
Intangible Assets	358.0	356.7	356.7	356.7
Capital WIP	95.7	82.8	86.9	91.3
Goodwill	21.0	1.3	1.3	1.3
Non-Current Investments	0.0	55.4	655.4	1,255.4
Deferred Tax Assets (net)	147.8	157.3	0.0	0.0
Long term loans & advan	1,261.4	1,335.6	1,402.4	1,472.5
Other Non current assets	648.8	559.5	531.5	504.9
Current Investments	222.1	255.8	255.8	255.8
Inventories	2,156.7	2,230.0	2,300.7	2,613.5
Debtor	2,373.6	2,434.0	2,760.9	3,136.2
Cash	60.3	883.3	384.9	138.3
Loan & Advance, Other C	350.7	431.5	453.1	475.7
Total Current assets	5,163.4	6,234.6	6,155.4	6,619.4
Application of Funds	8,911.3	9,761.5	10,055.9	11,030.9

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios

(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
Book Value	68.2	82.5	91.8	103.2
Cash per share	0.8	12.1	5.3	1.9
EPS	11.2	15.5	15.1	18.5
Cash EPS	15.6	19.6	19.4	23.2
DPS	0.0	0.0	5.0	6.0
Profitability & Operating Ratios				
EBITDA Margin (%)	16.6	13.4	15.2	16.2
PAT Margin (%)	8.5	10.8	9.8	10.6
Fixed Asset Turnover (x)	4.3	4.6	4.5	4.7
Inventory Turnover (Days)	81.1	76.7	75.0	75.0
Debtor (Days)	89.2	83.7	90.0	90.0
Creditors (Days)	59.5	61.3	48.0	48.0
Return Ratios (%)				
RoE	16.4	18.8	16.4	17.9
RoCE	24.4	18.8	20.9	23.2
RoIC	24.9	22.4	24.7	28.2
Valuation Ratios (x)				
P/E	73.5	52.9	54.3	44.3
Price to Book Value	8.5	7.0	6.3	5.6
EV/EBITDA	26.4	29.2	24.5	20.4
EV/Sales	4.4	3.9	3.7	3.3
Leverage & Solvency Ratios				
Debt to equity (x)	0.1	0.0	0.0	0.0
Interest Coverage (x)	14.8	10.9	2,871.8	3,560.9
Debt to EBITDA (x)	0.5	0.2	0.0	0.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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Sell: <-15%



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