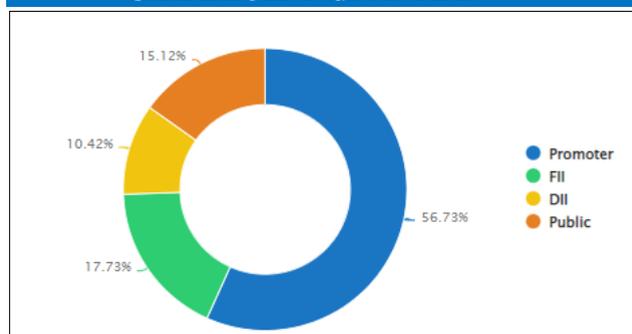


June 2022

**VALUE PARAMETERS**

Face Value (Rs.)	2.00
Mrk.Cap (Rs. in Cr)	54,178
52-Week High/Low	1020/629
EPS (TTM)	11.4
P/E Ratio (TTM)	58
Book Value per share (Rs)	68.2
Industry P/E	24.7
P/B Ratio (calc at CMP)	11
Dividend Yield (%)	0
Enterprise value (Rs in Cr)	54,723

**SHAREHOLDING PATTERN**



**FINANCIAL PERFORMANCE**

Consolidated	FY22	FY23E	FY24E
Sales (Rs. Cr)	9,381.7	9,697	10,000
Growth	18.9	3.36	3.12
EBITDA	1,486.5	1,600	1,800
EBITDA margin	15.8	16.5	18
PAT (Rs. Cr)	769.8	996	116.7
EPS (Rs)	11.40	13.6	16.1
RoE	18.6	19.2	21.2
RoCE	25.4	26.7	29.3
P/E (x)	65.6	60	50
EV/EBITDA	40.4	37.2	33

**Our Recommendation:** The company aims newer launches with brand extensions in the upper prestige. Company also aims to introduce international brands from the Diageo stable. Favorable regulatory environment in some states would provide tailwinds. Premiumization and on-going portfolio renovation would further accelerate momentum. We recommend BUY in price range Rs. 700-720 with target price Rs 870 (upside 22%) based on 54x FY24 EPS.

**Investment Rationale:**

**About Company:** United Spirits Ltd is an Indian alcoholic beverage company and is one of the largest spirits companies by volume. The company is a subsidiary of Diageo and is involved in business of manufacture, purchase and sale of alcoholic beverages and other allied spirits in India and Internationally. The company has a vast portfolio including brands such as Johnnie Walker, Black Dog, Black & White, Vat 69, Antiquity, Signature, Royal Challenge, McDowell’s No 1, Smirnoff and Captain Morgan.

**Q4FY22 Results:** Prestige and Above net sales increased 15.3% benefitting from premiumization though one-off impacted strong operational performance.

- Net Revenues increased by 9% YoY to Rs 2435 crore amid 5% increase in volumes.
- EBITDA increased by 4% to Rs 427 crore with margins at 18.5%, which was 15.4% in Q4FY21.
- PAT de-grew 19% to Rs 136 crore that included one-off exceptional loss of Rs 173 crore.
- EPS marginally reduced to Rs 2.50 from Rs 2.87 in same quarter previous year.

**Key Highlights**

- The company launched ‘Godawan’, an artisanal single malt from Rajasthan and also acquired minority stake in Nao Spirits.
- Total of Rs 556 crore of FCF was used during the year to pay debt during the year that resulted in interest savings of Rs 101 crore. Closing net debt was nil.
- Prestige and Above net sales increased 15.3% benefitting from premiumisation, on-going portfolio renovation and accelerated momentum in states with route to market unlock.
- Popular net sales increased 1.1% while Priority states were broadly flat.
- ENA is facing single-digit inflation YoY due to geopolitical tensions. Glass (bottles) inflation is even higher; rest of the COGS is packaging costs, which are also inflating.
- Assam, Rajasthan, and MP have allowed price increases and the company is awaiting increases from other states.
- No growth cannibalisation noted from the portfolio being disposed off.
- Capex will remain rangebound.
- Management is focused on paying dividends in medium term.
- Management is confident that they will be able to sort any restriction they have on some of their popular brands.

**Key Risks:**

- Increase in price of raw material can affect the profitability of the company.
- The industry is exposed to regulatory risks.
- Price control by state can affect the margins of the company.

## Financials and Valuations

### Q4FY22 Financial Summary, standalone (Rs. Cr)

Y/E March	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Net Revenues	2,435.10	2,224.40	9.47%	2,884.70	-15.6%
EBITDA	426.70	411.80	3.62%	490.70	-13.0%
EBITDA margin	17.50%	18.50	-100 bps	17.00	52 bps
Net Profit	136.20	167.30	-18.59%	291.10	-53.2%
Adjusted EPS (INR)	1.87	2.3	-18.70%	4.01	-53.4%

### Income Statement, standalone (Rs. Cr)

Y/E March	FY18	FY19	FY20	FY21	FY22
Net Revenue	8,170.1	8,980.6	9,090.9	7,889.2	9,381.7
Change (%)	-4.4	9.9	1.2	-13.2	18.9
Gross Profit	3,972.5	4,385.7	4,068.9	3,421.0	4,112.1
Margin (%)	48.6	48.8	44.8	43.4	43.8
Other Expenditure	-2,944.6	-3,098.3	-2,560.8	-2,433.3	-2,625.6
EBITDA	1,027.9	1,287.4	1,508.1	987.7	1,486.5
Change (%)	5.9	25.2	17.1	-34.5	50.5
Margin (%)	12.6	14.3	16.6	12.5	15.8
Depreciation	-135.1	-144.5	-227.5	-249.3	-254.2
Int. and Fin. Charges	-267.5	-220.0	-190.7	-165.8	-89.3
Other Income	108.0	95.2	45.5	47.8	41.5
PBT	733.3	1,018.1	1,135.4	620.4	1,184.5
Tax	243.3	341.6	344.5	158.7	273.4
Tax Rate (%)	33.2	33.6	30.3	25.6	23.1
Adjusted PAT	490.0	676.5	790.9	461.7	911.1
Change (%)	26.1	38.1	16.9	-41.6	97.3
Margin (%)	6.0	7.5	8.7	5.9	9.7
Non-rec. (Exp.)/Income	71.7	-17.9	-86.2	-151.4	-141.3
Reported PAT	561.7	658.6	704.7	310.3	769.8
EPS	8.72	9.64	9.07	5.28	11.40

### Cash Flow Statement, standalone (Rs. Cr)

Y/E March	FY18	FY19	FY20	FY21	FY22
Operating Profit/(loss) before Tax	840.3	991.4	1,134.7	469.0	1,024.0
Interest/Dividend Received	20.5	124.5	-55.9	188.7	224.8
Depreciation and Amortization	135.1	144.5	227.5	249.3	254.2
Interest Paid	170.8	177.5	162.6	142.8	37.7
Direct Taxes Paid	-389.8	-823.8	-565.8	-125.3	-446.3
Increase/Decrease in WC	169.4	243.4	-236.1	803.6	-205.9
CashFlow from Operations	946.3	857.5	667.0	1,728.1	888.5
(Incr.)/Decr. in FA	4.1	-65.6	-197.8	-106.2	-77.8
Free Cash Flow	962.1	833.2	633.1	1,641.0	827.7
(Pur.)/Sale of Investments	21.3	31.9	0.0	0.0	-222.1
Other investing items	117.4	-14.2	59.9	99.3	55.4
CashFlow from Investing activity	154.5	-6.6	26.0	12.2	-227.5
Issue of Shares	0.0	0.0	0.0	0.0	0.0
Increase/Decrease in Debt	-790.2	-700.4	-557.2	-1,598.1	-655.8
Dividend Paid	0.0	0.0	0.0	0.0	0.0
Others	-243.1	-211.5	-160.1	-121.4	-27.7
CashFlow from Financing. Activity	-1,033.3	-911.9	-717.3	-1,719.5	-683.5
Increase/Decrease in Cash	67.5	-61.0	-24.3	20.8	-22.5
Add: Opening Balance	52.3	119.8	58.8	34.5	55.3
Closing Balance	119.8	58.8	34.5	55.3	32.8

## Balance Sheet, standalone (Rs. Cr)

Y/E March	FY18	FY19	FY20	FY21	FY22
Share Capital	145.3	145.3	145.3	145.3	145.3
Reserves	2,358.5	2,986.2	3,664.4	3,981.5	4,756.4
<b>Net Worth</b>	<b>2,503.8</b>	<b>3,131.5</b>	<b>3,809.7</b>	<b>4,126.8</b>	<b>4,901.7</b>
Loans	3,250.5	2,582.5	1,519.5	713.4	263.7
Deferred Tax Liabilities	-85.6	-187.8	-159.0	-171.1	-147.8
<b>Capital Employed</b>	<b>5,668.7</b>	<b>5,526.2</b>	<b>5,170.2</b>	<b>4,669.1</b>	<b>5,017.6</b>
Gross Block	1,356.1	1,640.6	1,931.5	2,146.9	2,401.5
Less: Accum. Deprn.	-354.0	-512.4	-596.8	-846.1	-1,100.3
<b>Net Fixed Assets</b>	<b>1,002.1</b>	<b>1,128.2</b>	<b>1,334.7</b>	<b>1,300.8</b>	<b>1,301.2</b>
Capital WIP	98.0	117.1	118.7	86.5	89.7
Investments	277.5	298.4	252.6	202.1	439.0
<b>Curr. Assets, L&amp;A</b>	<b>7,177.8</b>	<b>6,930.8</b>	<b>6,689.5</b>	<b>6,380.7</b>	<b>6,437.6</b>
Inventory	1,869.4	1,876.7	1,836.1	1,981.0	2,077.1
Account Receivables	2,699.8	2,518.1	2,283.5	2,160.1	2,302.1
Cash and Bank	119.8	58.8	34.5	55.3	32.8
Others	2,488.8	2,477.2	2,535.4	2,184.3	2,025.6
<b>Curr. Liab. and Prov.</b>	<b>2,886.7</b>	<b>2,948.3</b>	<b>3,225.3</b>	<b>3,301.0</b>	<b>3,249.9</b>
Account Payables	1,393.5	1,336.0	1,171.2	1,381.3	1,504.8
Other Liabilities	1,149.0	1,234.6	1,619.6	1,374.3	1,274.3
Provisions	344.2	377.7	434.5	545.4	470.8
<b>Net Current Assets</b>	<b>4,291.1</b>	<b>3,982.5</b>	<b>3,464.2</b>	<b>3,079.7</b>	<b>3,187.7</b>
<b>Application of Funds</b>	<b>5,668.7</b>	<b>5,526.2</b>	<b>5,170.2</b>	<b>4,669.1</b>	<b>5,017.6</b>

## Key Ratios

Y/E March	FY2018	FY2019	FY2020	FY2021	FY2022
<b>Per Share Data (Rs)</b>					
EPS	6.70	9.30	10.90	6.40	12.50
BV/Share	34.5	43.1	52.4	56.8	67.5
DPS	0	0	0	0	0
Dividend Payout (%)	0	0	0	0	0
<b>Valuation Ratios</b>					
P/E	122	88.4	75.6	129.5	65.6
P/BV	23.9	19.1	15.7	14.5	12.2
EV/EBITDA	61	48.2	40.5	61	40.4
<b>Return Ratios (%)</b>					
ROE	19.6%	21.6%	20.8%	11.2%	18.6%
ROCE	11.6%	14.7%	17.3%	16.8%	25.4%
<b>Leverage Ratio (x)</b>					
Current Ratio	1.00	1.01	0.98	1.11	1.35
Debt/Equity	1.3	0.8	0.4	0.2	0.1
Quick ratio	0.67	0.7	0.59	0.63	0.78

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**Disclosure:**

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