

United Spirits

Moderating growth outlook

UNSP 4QFY24 print was broadly in line with our estimates; however, volume growth in the regular segment surprised us positively. Volume growth in the Prestige and above segment remained in the low single digits for the third consecutive quarter; management attributed the below-par performance to an unfavourable base and economic slowdown. UNSP is targeting low teen revenue growth in the P&A segment in FY25, with a mix of 40/60% skewed towards volume/price respectively. We believe the low teen revenue growth in the P&A segment might be difficult to come by in FY25, as the last three years have seen very good realization growth (the P&A segment saw a realization CAGR of 8% over FY21-24) on the back of price increases given by state government and increased salience of premium products. On the other hand, UNSP intends to maintain similar volumes as seen in the regular segment in FY24. Gross margin saw moderate expansion during the quarter; however, management expects it to remain steady during FY25 – a) as inflationary trends in ENA are expected to be offset via deflationary trends in glass/grain price and b) due to increased salience of premium products. We expect the EBITDA margin to remain almost flat in FY25 owing to moderating growth outlook and the fact that a one-time benefit relating to the removal of mono-cartons (Rs 1.6-1.7 bn) is largely behind us. We value UNSP at 50x P/E on FY26 EPS (standalone) to arrive at a TP of INR 1,300 (including INR 150/share + non-core assets). Maintain ADD.

- 4QFY24 result summary:** UNSP 4QFY24 print was broadly in line with our estimates; however, volume growth in the regular segment surprised us positively. Volume growth in the Prestige and above segment remained in the low single digits for the third consecutive quarter; management attributed the below-par performance to an unfavourable base and economic slowdown. Moreover, UNSP management attributed the recovery in regular segment volumes to structural interventions and a favourable base.

Quarterly/annual financial summary (standalone)

Year Ending	Q4	Q4	YoY	Q3	QoQ	FY22	FY23	FY24	FY25E	FY26E
March	FY24	FY23	(%)	FY24	(%)					
Net Sales	26,660	24,938	7	29,893	-11	94,237	1,03,737	1,06,920	1,17,634	1,30,614
EBITDA	3,620	3,380	7	4,914	-26	15,104	14,187	17,080	19,127	21,792
APAT	4,102	2,136	92	3,481	18	9,821	9,132	13,252	14,407	16,713
Diluted EPS (Rs)	4	4	-0	4	-10	14	13	18	20	23
P/E (x)						86	92	64	59	50
EV / EBITDA (x)						56	59	48	43	37
Core RoCE (%)						20	18	21	22	24

Source: Company, HSIE Research

ADD

CMP (as on 27 May 2024) INR 1,158

Target Price INR 1,300

NIFTY 22,932

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,125	INR 1,300
EPS %	FY25E	FY26E
	0%	0%

KEY STOCK DATA

Bloomberg code	UNSP IN
No. of Shares (mn)	727
MCap (INR bn) / (\$ mn)	842/10,128
6m avg traded value (INE mn)	1,082
52 Week high / low	INR 1,246/851

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	0.4	11.1	34.8
Relative (%)	(2.8)	(3.2)	14.2

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	56.67	56.67
FIs & Local MFs	12.51	12.28
FPIs	16.23	16.68
Public & Others	14.59	14.37
Pledged Shares	0.67	0.67

Source : BSE

Pledged shares as % of total shares

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Con call takeaway:

- Observed demand slowdown in terms of regulatory approvals on account of elections.
- Demand pressure is on the lower prestige end. However, upper prestige and luxury + premium prestige are driving growth through premiumization. Pressure will ease off from H2FY25 as a) the base starts becoming favourable and b) launches/relaunches made across segments over the past few years start gaining scale. Management will focus on driving double-digit value growth at an overall portfolio level.
- **Why Single malts made in India have gained a lot of prominence?** Consumer acceptance of Made in India liquor has increased post-covid even in the luxury segment. Moreover, customers across the globe are open to experimentation. However, the single malt segment is unlikely to contribute in a meaningful manner to volumes, as it operates on the premium side.
- P&A (87% contribution) volumes to remain in the range of 4-5% and price mix in the range of 6-8% whereas the Popular segment is to remain at the current levels in volume terms after a decline for 4 consecutive quarters. Incrementally, the Popular portfolio underwent a steep price hike in Karnataka, a year back (owing to an excise duty hike) and investments in marketing spending led to positive volume growth during the quarter.
- Other income includes INR1.25bn dividend received from RCSPL and INR0.70bn interest on income tax refund received during the quarter.
- The increase in trade receivables was due to the outstanding amount from the state government which will normalize over the next few months.
- Out of total cost savings achieved worth Rs 5 bn during the year, Rs 1.6-1.7 bn is related to the removal of mono-carton, which will come now into the base from FY25 onwards.
- White spirits constitute 5% of the overall market and the management is making all the efforts to increase the share of white spirits, given increased acceptance towards this segment.

P/E trading at 58x 1 yr forward



Valuation

	Multiple on FY26	Basis	PAT/EBITDA	Mcap	Per share value
EV of business	50.0	P/E	16,713	8,35,652	1,178
IPL EV	25.0	EBITDA	4,159	1,03,982	147
Less: Debt				10,550	
Sale of treasury shares				-	
Net equity value				9,50,184	1,300
NOSH					710

Standalone P&L (INR mn)

Year End	FY22	FY23	FY24	FY25E	FY26E
Net Revenues	94,237	1,03,737	1,06,920	1,17,634	1,30,614
Growth (%)	19.5	10.1	3.1	10.0	11.0
Material Expenses	52,839	60,718	60,480	66,528	73,181
Employee Expense	6,496	6,071	5,430	5,810	6,217
Advertisement & Sales promotion	6,892	9,199	10,410	11,451	13,169
Other Expenses	12,906	13,562	13,520	14,718	16,256
EBITDA	15,104	14,187	17,080	19,127	21,792
EBITDA Growth (%)	52.9	(6.1)	20.4	12.0	13.9
EBITDA Margin (%)	16.0	13.7	16.0	16.3	16.7
Depreciation	2,886	2,706	2,640	2,675	2,697
EBIT	12,218	11,481	14,440	16,451	19,095
Other Income (Including EO Items)	337	742	3,350	2,513	2,889
Interest	880	1,039	760	451	507
PBT	11,675	11,184	17,030	18,513	21,477
Tax	1,606	2,376	3,740	4,107	4,764
RPAT	8,509	10,572	13,120	14,407	16,713
Adjustments	(1,560)	1,764	(170)	-	-
Adjusted PAT	9,821	9,132	13,252	14,407	16,713
APAT Growth (%)	139.3	(7.0)	45.1	8.7	16.0
Adjusted EPS (Rs)	13.5	12.6	18.2	19.8	23.0
EPS Growth (%)	139.3	(7.1)	45.1	8.7	16.0

Source: Company, HSIE Research

Standalone Balance Sheet (INR mn)

Year End	FY22	FY23	FY24	FY25E	FY26E
SOURCES OF FUNDS					
SOURCES OF FUNDS	1,455	1,455	1,455	1,455	1,455
Share Capital - Equity	47,468	57,990	71,242	81,267	91,846
Reserves	48,923	59,445	72,697	82,722	93,301
Total Shareholders Funds	-	-	-	-	-
Minority Interest	9	3	3	3	3
Long Term Debt	3408	8	8	8	8
Short Term Debt	3,417	11	11	11	11
Total Debt	-	-	-	-	-
Net Deferred Taxes	2,786	1,945	2,237	2,531	2,826
Other Non-current Liabilities & Provns	55,126	61,401	74,945	85,264	96,138
TOTAL SOURCES OF FUNDS					
APPLICATION OF FUNDS					
Net Block	13,217	10,923	12,320	13,403	14,263
CWIP	-	-	-	-	-
Other Non Current Assets	22,113	22,579	22,579	22,579	22,579
Total Non-current Assets	35,330	33,502	34,899	35,982	36,842
Inventories	21,643	22,300	23,435	25,783	28,628
Debtors	23,021	23,828	27,828	30,617	33,995
Other Current Assets	4,684	5,030	5,184	5,704	6,333
Cash & Equivalent	2,549	11,054	19,460	26,263	33,136
Total Current Assets	51,897	62,212	75,907	88,367	1,02,093
Creditors	15,279	17,383	17,576	19,337	21,471
Other Current Liabilities & Provns	16,822	16,930	18,284	19,747	21,327
Total Current Liabilities	32,101	34,313	35,860	39,084	42,798
Net Current Assets	19,796	27,899	40,047	49,282	59,295
TOTAL APPLICATION OF FUNDS	55,126	61,401	74,945	85,264	96,138

Source: Company, HSIE Research

Standalone Cash Flow (INR mn)

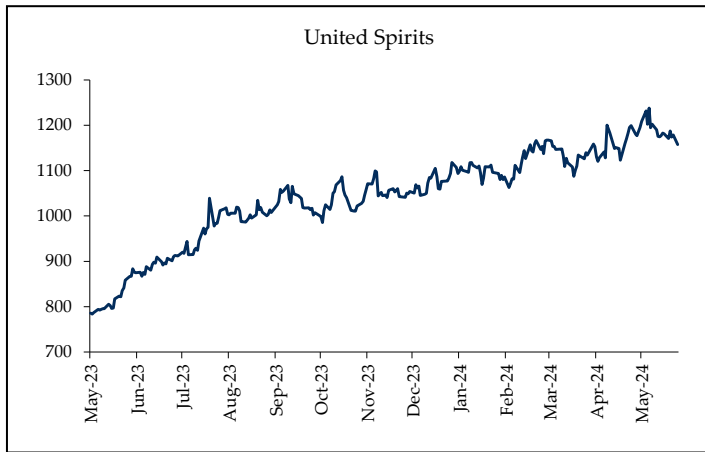
Year End	FY22	FY23	FY24	FY25E	FY26E
Reported PBT	10,240	12,893	17,030	18,513	21,477
Non-operating & EO Items	1,799	(2,622)	2,606	2,048	2,626
Interest Expenses	649	1,039	760	451	507
Depreciation	2,542	2,706	2,640	2,675	2,697
Working Capital Change	(2,059)	(5,755)	(3,742)	(2,433)	(3,139)
Tax Paid	(4,463)	(2,965)	(3,740)	(4,107)	(4,764)
OPERATING CASH FLOW (a)	8,708	5,296	15,554	17,148	19,404
Capex	(1,152)	(1,397)	(3,000)	(3,000)	(3,000)
Free Cash Flow (FCF)	7,556	3,899	12,554	14,148	16,404
Investments	(922)	(466)	-	-	-
Non-operating Income	(1,560)	1,764	(170)	-	-
INVESTING CASH FLOW (b)	(3,634)	(99)	(3,170)	(3,000)	(3,000)
Debt Issuance/(Repaid)	(2,139)	(3,406)	-	-	-
Interest Expenses	(277)	(203)	(760)	(451)	(507)
FCFE	7,490	8,806	13,144	14,598	16,910
Share Capital Issuance	-	-	-	-	-
Dividend	-	-	-	(4,382)	(6,134)
Others	(1,002)	(1,400)	(1,480)	(1,100)	(1,100)
FINANCING CASH FLOW (c)	(3,418)	(5,009)	(2,240)	(5,932)	(7,741)
NET CASH FLOW (a+b+c)	1,656	188	10,144	8,215	8,663
EO Items, Others	553	2,549	11,054	19,460	26,263
Closing Cash & Equivalents	2,549	11,054	19,460	26,263	33,136

Ratios

KEY RATIOS	FY22	FY23	FY24	FY25E	FY26E
PROFITABILITY (%)					
GPM	43.9	41.5	43.4	43.4	44.0
EBITDA Margin	16.0	13.7	16.0	16.3	16.7
EBIT Margin	13.0	11.1	13.5	14.0	14.6
APAT Margin	10.4	8.8	12.4	12.2	12.8
RoE	21.8	16.9	20.1	18.5	19.0
RoIC (or Core RoCE)	20.5	18.2	21.2	22.4	24.4
RoCE	19.2	16.3	18.5	17.3	17.8
EFFICIENCY					
Tax Rate (%)	15.9	18.4	22.2	22.2	22.2
Fixed Asset Turnover (x)	4.3	5.2	4.7	4.5	4.5
Inventory (days)	83.8	78.5	80.0	80.0	80.0
Debtors (days)	89.2	83.8	95.0	95.0	95.0
Other Current Assets (days)	18.1	17.7	17.7	17.7	17.7
Payables (days)	59.2	61.2	60.0	60.0	60.0
Other Current Liab & Provsns (days)	65.2	59.6	62.4	61.3	59.6
Cash Conversion Cycle (days)	66.8	59.3	70.3	71.4	73.1
Net D/E (x)	0.3	0.1	0.0	-0.2	-0.3
Interest Coverage (x)	6.7	4.5	13.9	11.1	19.0
PER SHARE DATA (Rs)					
EPS	13.5	12.6	18.2	19.8	23.0
CEPS	17.0	16.3	21.8	23.5	26.7
Dividend	-	-	5.0	7.0	10.0
Book Value	67.3	81.7	99.9	113.7	128.3
VALUATION					
P/E (x)	85.7	92.3	63.6	58.5	50.4
P/BV (x)	17.2	14.2	11.6	10.2	9.0
EV/EBITDA (x)	55.8	58.6	48.2	42.7	37.2
EV/Revenues (x)	8.9	8.0	7.7	6.9	6.2
OCF/EV (%)	1.0	0.6	1.9	2.1	2.4
FCF/EV (%)	0.9	0.5	1.5	1.7	2.0
FCFE/Mkt Cap (%)	0.9	1.0	1.6	1.7	2.0
Dividend Yield (%)	-	-	0.4	0.6	0.9

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

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