

# United Breweries

Estimate change



TP change



Rating change



Bloomberg	UBBL IN
Equity Shares (m)	264
M.Cap.(INRb)/(USD\$)	434.1 / 5.3
52-Week Range (INR)	1794 / 1275
1, 6, 12 Rel. Per (%)	-1/8/2
12M Avg Val (INR M)	511

## Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Net Sales	58.4	76.4	85.5
Sales Gr. (%)	37.6	30.8	12.0
EBITDA	7.4	9.8	14.1
Margin (%)	12.7	12.9	16.5
Adj. PAT	3.7	5.9	8.8
Adj. EPS (INR)	14.1	22.2	33.4
EPS Gr. (%)	229.9	57.2	50.2
BV/Sh. (INR)	148.8	171.0	188.9
<b>Ratios</b>			
RoE (%)	9.9	13.9	18.5
RoCE (%)	10.6	13.2	17.9
<b>Valuations</b>			
P/E (x)	116.5	74.1	49.3
P/BV (x)	11.1	9.6	8.7
EV/EBITDA (x)	57.5	44.5	29.9

## Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	72.7	72.7	72.7
DII	15.0	14.2	11.7
FII	6.9	7.7	9.8
Others	5.3	5.4	5.9

FII Includes depository receipts

**CMP: INR1,645**
**TP: INR1,400 (-15%)**
**Sell**

## EBITDA in line; material cost pressure to sustain in near term

- UBBL reported EBITDA in line with expectations. While sales were lower than expected, cost savings-led EBITDA margin beat estimates, even as gross margin pressures remained extremely high (500bp decline YoY).
- The management mentioned the likelihood of continuing pressures on margins in the near term.
- Industry volume performance has been flattish over a three-year period in 1HFY23 and UBBL's volumes are up by 3%, significantly lower than the performance of other discretionary categories over this period. We reiterate our **Sell rating on the stock**.

## Miss on sales; EBITDA in-line

- UBBL's standalone net sales grew 17.8% YoY to INR16.8b (est. INR18.3b). EBITDA/PBT/adjusted PAT grew 32.3%/64.4%/66.4% YoY to INR2.2b/INR1.8b/INR1.3b, respectively (est. in-line/INR1.6b/INR1.2b).
- 2QFY23 volumes grew 23% YoY while volumes were 67% higher YoY in 1HFY23. Volume growth in the premium segment was 48% YoY – ahead of the overall market, indicating a gain of market share in this segment.
- **Gross margin declined 510bp YoY to 46.7% (est. 46%)** due to inflationary pressures witnessed in the prices of barley and packaging materials.
- As a percentage of sales, lower other expenses (-540bp YoY) and employee expenses (-110bp YoY) led to standalone **EBITDA margin expanding by 140bp YoY to 13% (est. 12%)**.
- 1HFY23 net sales/EBITDA/adjusted PAT grew 61.8%/92.2%/165.4% YoY, respectively.
- The company remains debt free with a bank balance of INR7.2b.

## Highlights of the management commentary

- Rajasthan, West Bengal, and Haryana were the key contributors to volume growth in 2QFY23. Delhi posted a decline due to frequent changes in policy.
- Price increase was 4% YoY on top of a 23% volume growth but a weak state mix led to ~9% negative mix impact.
- Volumes are -4% v/s pre-Covid levels in 2QFY23 and up 3% in 1HFY23. The beer market has been flat in volume terms over the past three years.

## Valuation and view

- Results were in-line with our estimates and there has been no material change in the EBITDA forecasts for FY23. However, lower depreciation and higher 'other income' have boosted FY23 EPS by ~7% for the year. In FY24, we are expecting a gradual improvement in gross margin, owing to a new barley crop toward the end of FY23. And with lower-than-expected capex, our EPS estimate is up by 17% for FY24.
- Industry and UBBL volumes have been flattish in 1HFY23 over the corresponding pre-Covid period. Consequently, earnings are likely to be flat over FY19-FY23.
- The stock is expensive at 49.x FY24E EPS and ~30x FY24E EV/EBITDA.
- We reiterate our Sell rating on the stock with a TP of INR1,400 (25x Sep'24E EV/EBITDA).

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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## Standalone Quarterly Performance

(INR m)

Y/E March	FY22				FY23				FY22	FY23E	FY23	Variance
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	
<b>Net Sales</b>	<b>11,180</b>	<b>14,262</b>	<b>15,809</b>	<b>17,069</b>	<b>24,367</b>	<b>16,796</b>	<b>16,125</b>	<b>19,080</b>	<b>58,384</b>	<b>76,367</b>	<b>18,255</b>	-8.0%
YoY Change (%)	120.6	58.4	22.6	10.6	117.9	17.8	2.0	11.8	37.7	30.8	28.0	
<b>Gross Profit</b>	<b>5,404</b>	<b>7,380</b>	<b>7,899</b>	<b>8,310</b>	<b>10,784</b>	<b>7,837</b>	<b>7,579</b>	<b>9,081</b>	<b>29,123</b>	<b>35,460</b>	<b>8,397</b>	-6.7%
Margin (%)	48.3	51.7	50.0	48.7	44.3	46.7	47.0	47.6	49.9	46.4	46.0	
<b>EBITDA</b>	<b>954</b>	<b>1,656</b>	<b>2,096</b>	<b>2,603</b>	<b>2,825</b>	<b>2,191</b>	<b>2,079</b>	<b>2,560</b>	<b>7,402</b>	<b>9,834</b>	<b>2,197</b>	-0.3%
YoY Change (%)	L/P	309.6	6.7	-0.4	196.1	32.3	-0.8	-1.7	84	32.9	32.7	
Margins (%)	8.5	11.6	13.3	15.3	11.6	13.0	12.9	13.4	12.7	12.9	12.0	
Depreciation	552	556	529	532	575	520	580	636	2,172	2,311	630	
Interest	39	47	37	25	8	10	20	27	148	65	30	
Other Income	61	46	60	130	104	143	80	75	298	402	60	
<b>PBT</b>	<b>425</b>	<b>1,098</b>	<b>1,590</b>	<b>2,176</b>	<b>2,345</b>	<b>1,805</b>	<b>1,559</b>	<b>1,972</b>	<b>5,117</b>	<b>7,859</b>	<b>1,597</b>	13.0%
Tax	117	291	421	547	554	463	429	536	1,376	1,980	403	
Rate (%)	27.4	26.5	26.5	25.1	23.6	25.6	27.5	27.2	26.9	25.2	25.2	
<b>Adj PAT</b>	<b>308</b>	<b>806</b>	<b>906</b>	<b>1,630</b>	<b>1,617</b>	<b>1,342</b>	<b>1,130</b>	<b>1,437</b>	<b>3,741</b>	<b>5,879</b>	<b>1,195</b>	12.3%
YoY Change (%)	L/P	1,911.2	-11.6	2.5	424.3	66.4	24.8	-11.8	136.3	57.1	48.2	
Margins (%)	2.8	5.7	5.7	9.5	6.6	8.0	7.0	7.5	6.4	7.7	6.5	

E: MOFSL Estimates

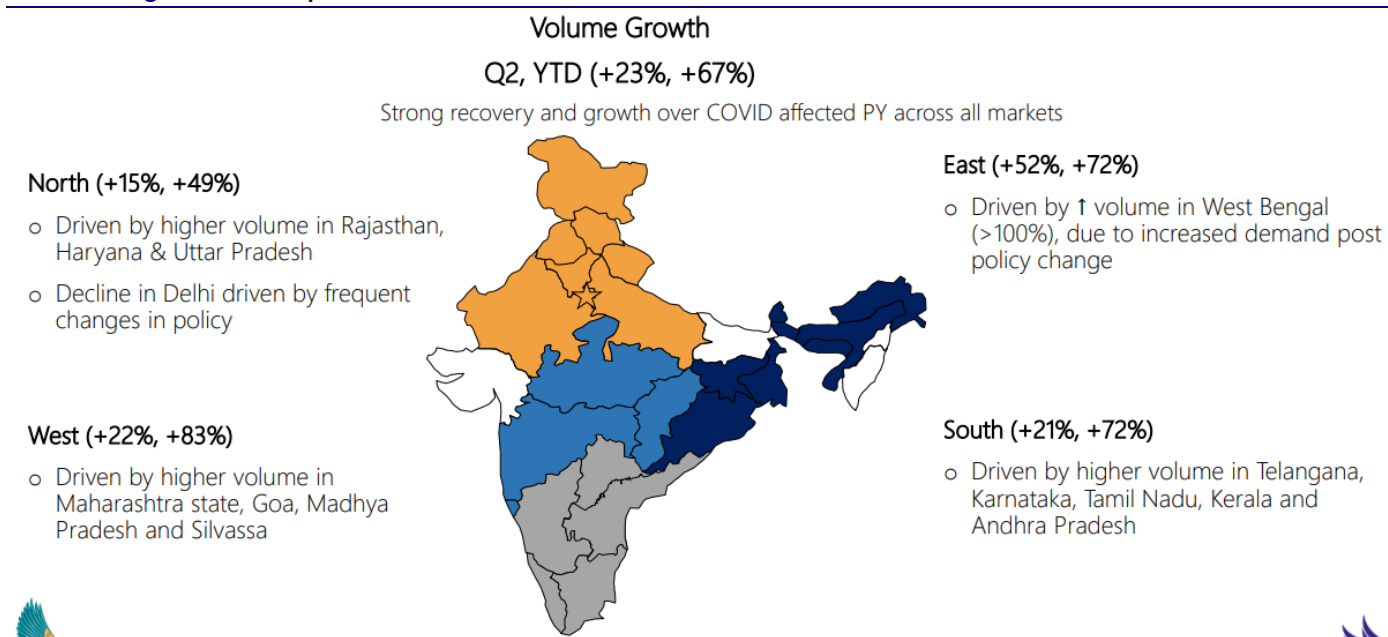
## Key Performance Indicators

Y/E March	FY22				FY23	
	1Q	2Q	3Q	4Q	1Q	2Q
<b>2Y average growth (%)</b>						
Sales	22.7	7.7	5.6	9.5	119.3	38.1
EBITDA	-	115.3	-2.3	48.6	196.1	171.0
PAT	-	907.4	-7.9	144.2	NM	NM
<b>% of Sales</b>						
COGS	51.7	48.3	50.0	51.3	55.7	53.3
Employee Expenses	10.1	9.4	9.3	7.3	5.4	8.3
Other Expenses	29.7	30.7	27.4	26.1	27.3	25.3
Depreciation	4.9	3.9	3.3	3.1	2.4	3.1
<b>YoY change (%)</b>						
COGS	113.6	60.1	32.9	18.2	135.1	30.2
Employee Expenses	-1.4	22.0	18.2	-6.1	15.7	3.6
Other Expenses	52.7	36.8	15.9	9.2	100.5	-2.9
Other Income	331.9	-86.0	30.7	12.2	70.1	214.5
EBIT	-127.5	-628.9	13.0	4.1	458.7	52.0

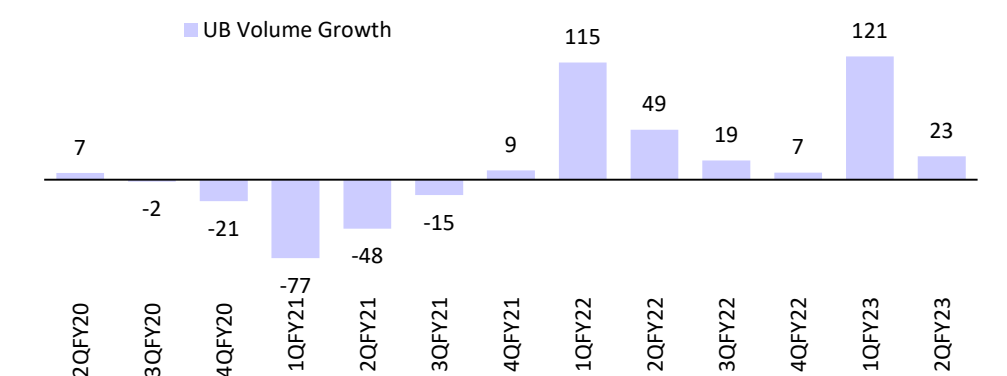
E: MOFSL Estimates

## Takeaways from the investor presentation and press release

- The premium segment recorded a strong volume growth (48% YoY), led by good performance from Heineken and Kingfisher Ultra.
- Price increases have been taken in multiple states.
- **Regional performance:** All regions recorded growth in the quarter compared to both 2021 and 2019, except for the South region, which recorded a growth versus 2021 but recorded a drop against 2019, adversely impacted by the change in policy in Andhra Pradesh.
- Capex in 2QFY23 was INR900m; however, capex investments are planned to meet increasing demand.
- The company expects inflationary pressures to continue in the foreseeable future and will require the pursuit of price increases from states.

**Exhibit 1: Regional volume performance**

Source: Company presentation

**Exhibit 2: Volumes up 23% YoY in 2QFY23**

Sources: MOFSL, Company reports

**Conference call highlights****Operational environment**

- Rajasthan, West Bengal, and Haryana were the key contributors to volume growth in 2QFY23. Delhi posted a decline due to frequent changes in policy.
- Price increase was 4% YoY on top of 23% volume growth but a weak state mix led to ~9% negative mix impact.
- Volumes are -4% v/s pre-Covid levels in 2QFY23 and up 3% in 1HFY23. The beer market has been flat in volume terms over the past three years.
- Premium salience has gone up to 8% from 6% in pre-Covid.

**Costs and margins**

- RM inflation impact will continue over the near term.
- UBBL has secured barley for CY22.
- New barley crop will be witnessed over Feb'23-Mar'23.
- 'Other expenses' decline YoY, led by cost-saving initiatives, including administrative costs. There are no one-offs during the quarter.

**Other points**

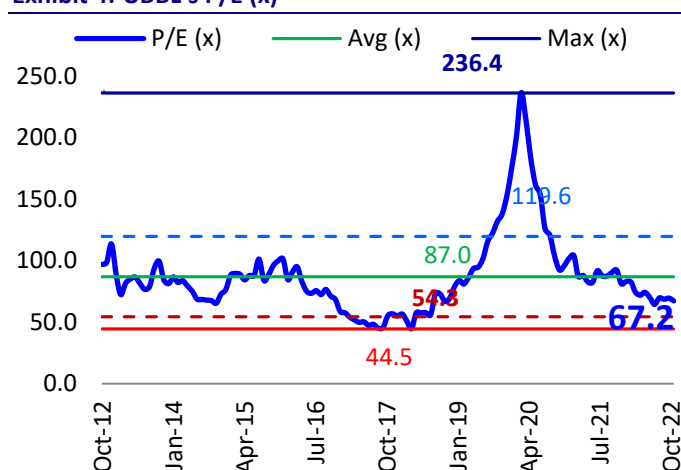
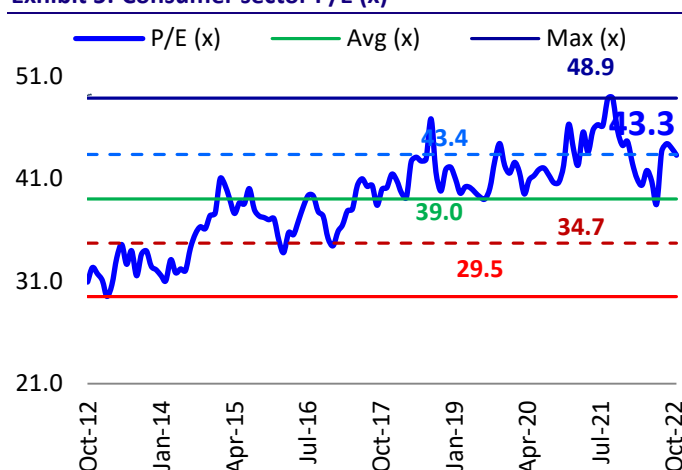
- Tamil Nadu and Andhra Pradesh had no impact of route to market change in 2QFY23 but management stated that subsequent impact cannot be ruled out yet.
- Capex will be around INR3.5b in CY23.
- In states where beer and spirits are now differentially taxed, the impact of seasonality of beer demand is less severe.

**Valuation and view**

- Results were in-line with our estimates and there has been no material change in the EBITDA forecasts for FY23. However, lower depreciation and higher 'other income' has boosted FY23 EPS by ~7% for the year. In FY24, we are expecting gradual improvement in gross margin, owing to a new barley crop toward the end of FY23. And with lower-than-expected capex, our EPS estimate is up 17% for FY24. Industry and UBBL volumes have been flattish in 1HFY23 over the corresponding pre-Covid period. Consequently, earnings are likely to be flat over FY19-FY23.
- The stock is expensive at 49.x FY24E EPS and ~30x FY24E EV/EBITDA.
- We reiterate our Sell rating on the stock, with a TP of INR1,400 (25x Sep'24E EV/EBITDA).

**Exhibit 3: We revised our FY23E/FY24E PAT by 7.1%/17.1%, respectively**

INR m	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Total Income	76,367	85,531	78,293	86,123	(2.5)	(0.7)
EBITDA	9,834	14,125	9,683	13,016	1.6	8.5
Adjusted PAT	5,873	8,821	5,485	7,531	7.1	17.1

**Exhibit 4: UBBL's P/E (x)****Exhibit 5: Consumer sector P/E (x)**

## Financials and valuations

Consolidated - Income Statement						(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Total Income from Operations</b>	<b>56,196</b>	<b>64,754</b>	<b>65,092</b>	<b>42,431</b>	<b>58,384</b>	<b>76,367</b>	<b>85,531</b>
Change (%)	18.1	15.2	0.5	-34.8	37.6	30.8	12.0
Raw Materials	26,315	30,077	31,511	20,294	29,261	40,907	42,134
% of Sales	46.8	46.4	48.4	47.8	50.1	53.6	49.3
<b>Gross Profit</b>	<b>29,881</b>	<b>34,678</b>	<b>33,581</b>	<b>22,137</b>	<b>29,123</b>	<b>35,460</b>	<b>43,396</b>
Margin (%)	53.2	53.6	51.6	52.2	49.9	46.4	50.7
<b>Total Expenditure</b>	<b>47,170</b>	<b>53,371</b>	<b>56,334</b>	<b>38,620</b>	<b>50,982</b>	<b>66,533</b>	<b>71,405</b>
% of Sales	83.9	82.4	86.5	91.0	87.3	87.1	83.5
<b>EBITDA</b>	<b>9,025</b>	<b>11,384</b>	<b>8,758</b>	<b>3,811</b>	<b>7,402</b>	<b>9,834</b>	<b>14,125</b>
Margin (%)	16.1	17.6	13.5	9.0	12.7	12.9	16.5
Depreciation	2,597	2,599	2,851	2,320	2,172	2,311	2,491
<b>EBIT</b>	<b>6,429</b>	<b>8,785</b>	<b>5,907</b>	<b>1,491</b>	<b>5,230</b>	<b>7,522</b>	<b>11,634</b>
Int. and Finance Charges	456	239	287	181	148	65	256
Other Income	105	247	69	456	298	402	422
<b>PBT bef. EO Exp.</b>	<b>6,078</b>	<b>8,793</b>	<b>5,689</b>	<b>1,766</b>	<b>5,380</b>	<b>7,859</b>	<b>11,801</b>
EO Items	0	0	0	-72	-263	0	0
<b>PBT after EO Exp.</b>	<b>6,078</b>	<b>8,793</b>	<b>5,689</b>	<b>1,694</b>	<b>5,117</b>	<b>7,859</b>	<b>11,801</b>
Total Tax	2,132	3,160	1,406	556	1,376	1,980	2,974
Tax Rate (%)	35.1	35.9	24.7	32.8	26.9	25.2	25.2
Less: Minority Interest	4	4	6	6	6	6	6
<b>Adjusted PAT</b>	<b>3,942</b>	<b>5,629</b>	<b>4,277</b>	<b>1,132</b>	<b>3,735</b>	<b>5,873</b>	<b>8,821</b>
Change (%)	71.7	42.8	-24.0	-73.5	229.9	57.2	50.2
Margin (%)	7.0	8.7	6.6	2.7	6.4	7.7	10.3

Consolidated - Balance Sheet						(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	264	265	264	264	264	264	264
Total Reserves	26,638	31,572	34,938	35,558	39,087	44,959	49,687
<b>Net Worth</b>	<b>26,903</b>	<b>31,838</b>	<b>35,203</b>	<b>35,823</b>	<b>39,351</b>	<b>45,224</b>	<b>49,952</b>
Minority Interest	29	30	33	38	41	41	41
Deferred Tax Liabilities	182	114	0	0	0	0	0
Total Loans	3,121	2,115	1,691	1,154	0	5,000	500
<b>Capital Employed</b>	<b>30,235</b>	<b>34,097</b>	<b>36,927</b>	<b>37,014</b>	<b>39,393</b>	<b>50,265</b>	<b>50,493</b>
Gross Block	37,208	39,954	45,077	47,808	49,615	53,115	57,615
Less: Accum. Deprn.	20,152	22,425	26,058	28,378	30,550	32,862	35,353
<b>Net Fixed Assets</b>	<b>17,056</b>	<b>17,529</b>	<b>19,019</b>	<b>19,430</b>	<b>19,065</b>	<b>20,253</b>	<b>22,262</b>
Goodwill on Consolidation	242	242	242	65	65	65	65
Capital WIP	723	1,899	1,991	1,288	1,099	1,270	1,604
<b>Total Investments</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>61</b>	<b>84</b>	<b>84</b>	<b>84</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>29,212</b>	<b>34,171</b>	<b>34,254</b>	<b>37,679</b>	<b>39,182</b>	<b>47,288</b>	<b>50,810</b>
Inventory	8,080	10,325	10,939	11,367	9,358	15,749	12,371
Account Receivables	14,986	15,110	13,504	13,950	12,549	20,927	16,566
Cash and Bank Balance	242	462	786	4,693	9,097	2,434	13,286
Loans and Advances	5,904	8,275	9,025	7,669	8,178	8,178	8,587
<b>Curr. Liability &amp; Prov.</b>	<b>16,999</b>	<b>19,747</b>	<b>18,582</b>	<b>21,507</b>	<b>20,101</b>	<b>18,694</b>	<b>24,330</b>
Account Payables	5,217	5,902	5,450	6,181	6,380	8,266	7,669
Provisions	11,782	13,845	13,131	15,326	13,721	10,428	16,662
<b>Net Current Assets</b>	<b>12,212</b>	<b>14,424</b>	<b>15,672</b>	<b>16,171</b>	<b>19,081</b>	<b>28,594</b>	<b>26,479</b>
<b>Appl. of Funds</b>	<b>30,235</b>	<b>34,097</b>	<b>36,927</b>	<b>37,014</b>	<b>39,393</b>	<b>50,265</b>	<b>50,493</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>EPS</b>	<b>14.9</b>	<b>21.3</b>	<b>16.2</b>	<b>4.3</b>	<b>14.1</b>	<b>22.2</b>	<b>33.4</b>
BV/Share	101.7	120.4	133.1	135.5	148.8	171.0	188.9
DPS	2.0	2.5	2.5	0.5	10.5	0.0	13.3
Payout (%)	13.4	11.7	15.5	11.7	74.3	0.0	40.0
<b>Valuation (x)</b>							
P/E	110.4	77.3	101.7	384.2	116.5	74.1	49.3
Cash P/E	66.5	52.9	61.0	126.0	73.6	53.2	38.5
P/BV	16.2	13.7	12.4	12.1	11.1	9.6	8.7
EV/Sales	7.8	6.7	6.7	10.2	7.3	5.7	4.9
EV/EBITDA	48.5	38.4	49.8	113.2	57.5	44.5	29.9
Dividend Yield (%)	0.1	0.2	0.2	0.0	0.6	0.0	0.8
<b>Return Ratios (%)</b>							
RoE	15.7	19.2	12.8	3.2	9.9	13.9	18.5
RoCE	14.3	18.1	12.7	3.5	10.6	13.2	17.9
RoIC	14.5	18.5	13.5	3.1	12.7	14.9	21.2
<b>Working Capital Ratios</b>							
Asset Turnover (x)	1.9	1.9	1.8	1.1	1.5	1.5	1.7
Inventory (Days)	51	52	60	96	65	60	60
Debtor (Days)	91	85	80	118	83	80	80
Creditor (Days)	32	31	32	50	39	35	34
<b>Leverage Ratio (x)</b>							
Debt/Equity	0.1	0.1	0.0	0.0	0.0	0.1	0.0

### Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	6,078	8,793	5,689	1,694	4,944	7,859	11,801
Depreciation	2,597	2,599	2,851	2,320	2,172	2,311	2,491
Interest & Finance Charges	471	306	305	224	146	65	256
Direct Taxes Paid	-2,534	-3,898	-1,903	-823	-1,301	-1,485	-2,230
(Inc)/Dec in WC	-1,265	-1,101	-2,196	2,976	2,994	-16,655	7,927
<b>CF from Operations</b>	<b>5,346</b>	<b>6,699</b>	<b>4,746</b>	<b>6,392</b>	<b>8,956</b>	<b>-7,905</b>	<b>20,245</b>
Others	287	-269	332	-189	40	0	0
<b>CF from Operating incl EO</b>	<b>5,633</b>	<b>6,430</b>	<b>5,078</b>	<b>6,203</b>	<b>8,996</b>	<b>-7,905</b>	<b>20,245</b>
(Inc)/Dec in FA	-2,014	-4,366	-4,033	-1,498	-1,728	-3,480	-4,480
<b>Free Cash Flow</b>	<b>3,619</b>	<b>2,064</b>	<b>1,045</b>	<b>4,705</b>	<b>7,268</b>	<b>-11,385</b>	<b>15,765</b>
Others	16	114	231	86	-10	-213	3,371
<b>CF from Investments</b>	<b>-1,998</b>	<b>-4,252</b>	<b>-3,802</b>	<b>-1,412</b>	<b>-1,726</b>	<b>-3,693</b>	<b>-1,109</b>
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-2,820	-1,006	115	61	-2,551	5,000	-4,500
Interest Paid	-507	-313	-268	-281	-181	-65	-256
Dividend Paid	-308	-640	-800	-663	-134	0	-3,528
Others	0	0	0	0	0	0	0
<b>CF from Fin. Activity</b>	<b>-3,635</b>	<b>-1,959</b>	<b>-952</b>	<b>-884</b>	<b>-2,867</b>	<b>4,935</b>	<b>-8,284</b>
<b>Inc/Dec of Cash</b>	<b>0</b>	<b>219</b>	<b>324</b>	<b>3,907</b>	<b>4,404</b>	<b>-6,663</b>	<b>10,852</b>
Opening Balance	243	242	462	786	4,693	9,097	2,434
<b>Closing Balance</b>	<b>242</b>	<b>462</b>	<b>786</b>	<b>4,693</b>	<b>9,097</b>	<b>2,434</b>	<b>13,286</b>

E: MOFSL Estimates



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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