6 May 2023

4QFY23 Results Update | Sector: Consumer

United Breweries

Estimate change	⟷
TP change	⟷
Rating change	⟷

Bloomberg	UBBL IN
Equity Shares (m)	264
M.Cap.(INRb)/(USDb)	369.8 / 4.5
52-Week Range (INR)	1805 / 1342
1, 6, 12 Rel. Per (%)	-5/-15/-14
12M Avg Val (INR M)	383

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Net Sales	75.0	85.1	97.5
Sales Gr. (%)	28.5	13.5	14.5
EBITDA	6.2	9.7	14.2
Margin (%)	8.2	11.4	14.5
Adj. PAT	3.3	5.9	9.0
Adj. EPS (INR)	12.5	22.3	34.1
EPS Gr. (%)	-3.0	79.3	52.4
BV/Sh. (INR)	150.0	161.9	180.2
Ratios			
RoE (%)	8.3	14.3	19.9
RoCE (%)	8.1	14.5	20.1
Valuations			
P/E (x)	112.3	62.6	41.1
P/BV (x)	9.3	8.6	7.8
EV/EBITDA (x)	59.4	37.4	25.6

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	72.7	72.7	72.7
DII	15.6	15.1	13.1
FII	6.4	6.9	8.7
Others	5.3	5.3	5.5

FII Includes depository receipts

CMP: INR1,399 TP: INR1,190 (-15%) Sell

Margin pressure to continue till 2HFY24

- The company's 4QFY23 results were disappointing across all metrics. Volume growth was only 3%; however, when adjusted for route-to-market changes, it was at 17%. The management indicated that the demand has been adversely impacted in the northern region due to unseasonal rainfall.
- Gross margin came at just 38.6%, and is at its lowest level. It was adversely impacted by high barley and packaging costs and adverse state mix. The company has started procuring new barley but it is expected to face pricing pressure until 1QFY24, due to the impact of the high-cost purchases made earlier. Bottling cost pressure is expected to continue till 2QFY24 on account of short supply.
- We have sharply reduced our FY23 estimates to account for gross margin pressure and FY24 earnings estimates is reduced by ~3%. We reiterate our **SELL rating on the stock**.

Huge miss in overall performance

- UBBL's standalone net sales remained flat YoY at INR17.6b (est. INR18.6b). EBITDA declined 79.5% YoY to INR535m (est. INR2.1b). PBT before exceptional items fell 93.9%YoY to INR132m (est. INR1.7b), while adjusted PAT declined 94% YoY to INR97m (est. INR1.3b).
- 4QFY23 volumes grew 3% YoY, while FY23 volumes rose 31% YoY.
- Gross margin declined 10.1% YoY/320bp QoQ to 38.6% (est. 43.5%), due to high costs of barley and packaging materials.
- As a percentage of sales, higher employee expenses (up 170bp YoY) and higher other expenses (up 50bp YoY) led to standalone EBITDA margin contraction of 12.3% YoY to 3.0% (est. 11.1%).
- FY23 net sales grew 28.5% to INR75b, while EBITDA/adjusted PAT declined 11.5%/10% YoY to INR6.2b/INR3.3b.

Highlights of the management commentary

- Volume growth was 3% in 4QFY23. It continued to face RTM headwinds. Volume growth was 17% ex-RTM headwinds (ex-Delhi, Chhattisgarh, AP, and Tamil Nadu).
- Gross margin is under pressure due to barley and packaging costs, and the adverse impact of state-mix.
- The company is experiencing pressure on bottling costs, which is expected to persist, primarily due to a shortage of supply in the market.
- New barley crop is of good quality; however, there is a bit of moisture.
- The company has lost market share in Karnataka due to the growth of economic segment. Additionally, due to the recent elections, there have been some administrative and supply issues in the region.

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Valuation and view

- We reduce our FY23/FY24 EPS forecasts by ~14%/3%% due to a big miss in 4QFY23 results and persistent material cost inflation is likely in the crucial summer season.
- In a Feb’22 note, we had pointed out the risk of a steep material cost increase for alcobev players with limited pricing power, and over the past year, margin pressure was intense, resulting in a 5-8% YoY decline in the stock price of UBBL and UNSP. Except for the Covid-hit period of FY21, UBBL’s FY23 EBITDA margin is expected to fall to its lowest level since FY’05.
- Although, unlike other discretionary categories, the demand trend for alcobev companies has not worsened much, the 3/4-year sales CAGR of 7.4%/2% at the end of 4QFY23 is still weak. We reiterate our SELL rating on the stock with a TP of INR1,190 (targeting 22xFY25 EV/EBITDA).

Standalone Quarterly Performance (INR m)

Y/E March	FY22				FY23				FY22	FY23	FY23	Variance
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Net Sales	**11,180**	**14,262**	**15,809**	**17,069**	**24,367**	**16,796**	**16,110**	**17,645**	**58,384**	**74,999**	**18,627**	-5.3%
YoY Change (%)	120.6	58.4	22.6	10.6	117.9	17.8	1.9	3.4	37.7	28.5	9.1	
Gross Profit	**5,404**	**7,380**	**7,899**	**8,310**	**10,784**	**7,837**	**6,741**	**6,812**	**29,123**	**32,346**	8,109	-16.0%
Margin (%)	48.3	51.7	50.0	48.7	44.3	46.7	41.8	38.6	49.9	43.1	43.5	
EBITDA	**954**	**1,656**	**2,096**	**2,603**	**2,825**	**2,191**	**766**	**535**	6,966	**6,162**	2,062	-74.1%
YoY Change (%)	L/P	309.6	6.7	-0.4	196.1	32.3	-63.4	-79.5	73	-11.5	-20.8	
Margins (%)	8.5	11.6	13.3	15.3	11.6	13.0	4.8	3.0	11.9	8.2	11.1	
Depreciation	552	556	529	532	575	520	502	507	2,172	2,106	540	
Interest	39	47	37	25	8	10	16	12	148	46	30	
Other Income	61	46	60	130	104	143	130	116	298	494	160	
PBT before EO expense	**425**	**1,098**	**1,590**	**2,176**	**2,345**	**1,805**	**379**	**132**	4,944	**4,504**	1,652	
Tax	117	291	421	547	554	463	152	35	1,284	1,210	389	
Rate (%)	27.4	26.5	26.5	25.1	23.6	25.6	40.2	26.3	27.4	29.6	23.5	
Adj PAT	**308**	**806**	**1,168**	**1,630**	**1,792**	**1,342**	**226**	**97**	**3,661**	**3,295**	1,263	-92.3%
YoY Change (%)	L/P	1,911.2	14.1	2.5	480.9	66.4	-80.6	-94.0	131.2	-10.0	-22.5	
Margins (%)	2.8	5.7	7.4	9.5	7.4	8.0	1.4	0.6	6.3	4.4	6.8	

Quarterly numbers are on standalone basis while yearly number are on consolidated basis

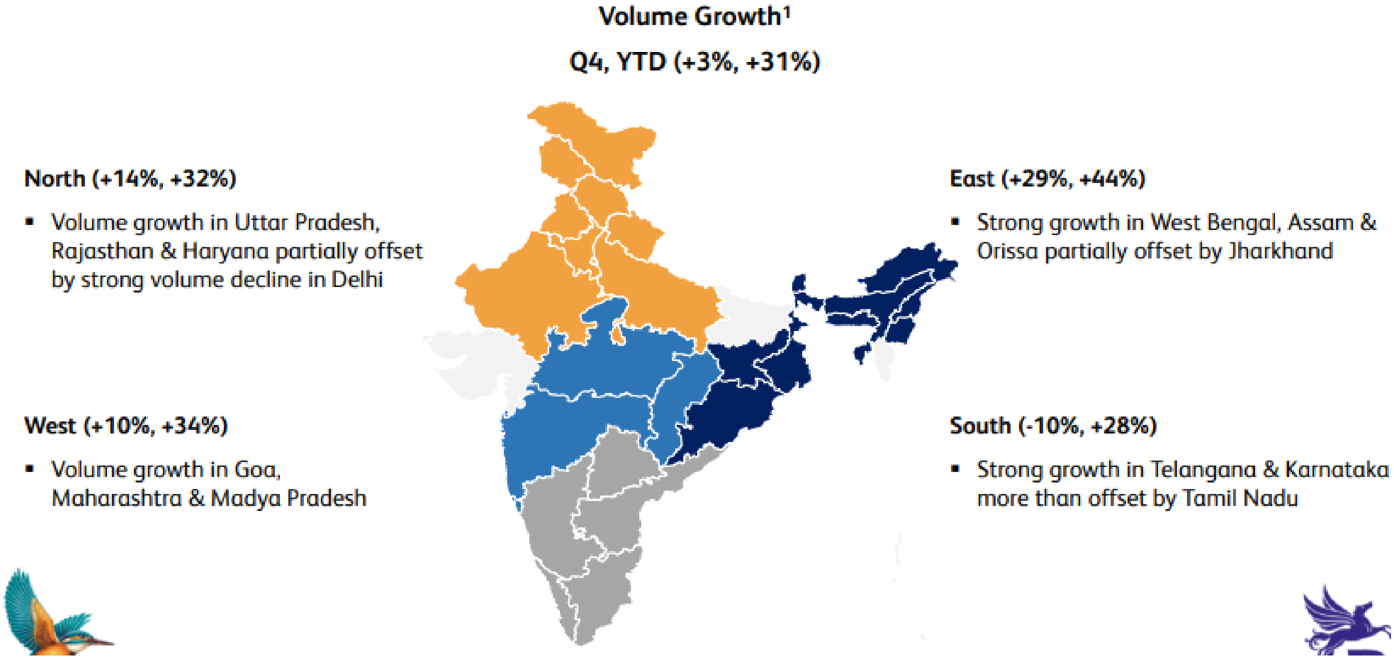
Key Performance Indicators

Y/E March	FY22				FY23			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
2Y average growth (%)								
Sales	22.7	7.7	5.6	9.5	119.3	38.1	12.2	7.0
EBITDA	-	115.3	-2.3	48.6	196.1	171.0	-28.4	-39.9
PAT	-	907.4	4.9	144.2	NM	NM	-33.3	-45.8
% of Sales								
COGS	51.7	48.3	50.0	51.3	55.7	53.3	58.2	61.4
Employee Expenses	10.1	9.4	9.3	7.3	5.4	8.3	9.0	9.0
Other Expenses	29.7	30.7	27.4	26.1	27.3	25.3	28.1	26.6
Depreciation	4.9	3.9	3.3	3.1	2.4	3.1	3.1	2.9
YoY change (%)								
COGS	113.6	60.1	32.9	18.2	135.1	30.2	18.5	23.7
Employee Expenses	-1.4	22.0	18.2	-6.1	15.7	3.6	-1.4	27.2
Other Expenses	52.7	36.8	15.9	9.2	100.5	-2.9	4.4	5.2
Other Income	331.9	-86.0	30.7	12.2	70.1	214.5	114.7	-10.4
EBIT	-127.5	-628.9	13.0	4.1	458.7	52.0	-83.1	-98.6

Takeaways from the investor presentation and press release

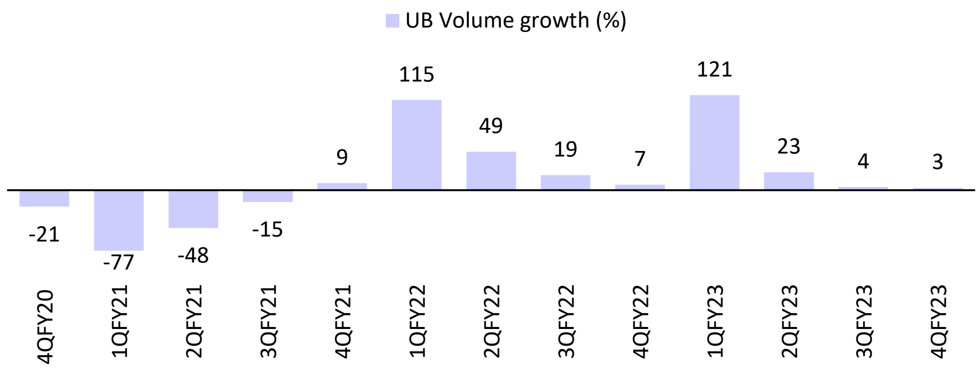
- FY23 volume growth was driven by Telangana, Rajasthan, West Bengal, and Maharashtra.
- The premium segment recorded 19% growth in 4QFY23 YoY and 58% in FY23.
- FY23 capex stood at INR1560m.
- The management expects inflationary pressure to continue in the near term.
- Price increases have been taken in multiple states.
- Mr.Rishi Pardal, MD & CEO, has been relieved from his duties w.e.f. 4th May'23.

Exhibit 1: Regional volume performance



Source: Company presentation

Exhibit 2: Volumes up 3% YoY in 4QFY23



Sources: MOFSL, Company reports

Conference call highlights

Environment and outlook

- Volume growth was 3% in 4QFY23. It continued to face RTM headwinds. Volume growth was 17% ex-RTM headwinds (ex-Delhi, Chhattisgarh, AP, and Tamil Nadu).
- Premium segment volume share would be ~21-22%.
- The management remains committed toward revenue management activities and are already reaping its benefits.
- Lower demand in the northern region is attributed to unseasonal rains.
- The company lost low-single digit market share ex-Tamil Nadu.
- The company has lost market share in Karnataka due to the growth of economic segment. Additionally, due to the recent elections, there have been some administrative and supply issues in the region.
- Premium portfolio market share was flat during the quarter.
- Price increases taken across multiple states. They got double-digit price increase in Rajasthan in March.
- The company is in the process of discussion with other states for price increases.

Costs and margins

- Gross margin is under pressure due to barley and packaging costs and the adverse impact of state-mix.
- 1QFY24 would continue to see headwind on margins.
- The company is experiencing pressure on bottling costs, which is expected to persist, primarily due to a shortage of supply in the market.
- New barley crop is of good quality; however, there is a bit of moisture.
- They have already started purchasing the new barley and procurement prices are near about management estimates.

Other points

- Regional volumes: North grew 14%, West grew 10%, East grew 29%, and South declined 10%.
- Capex for FY24 would be ~NR2.5-3b.

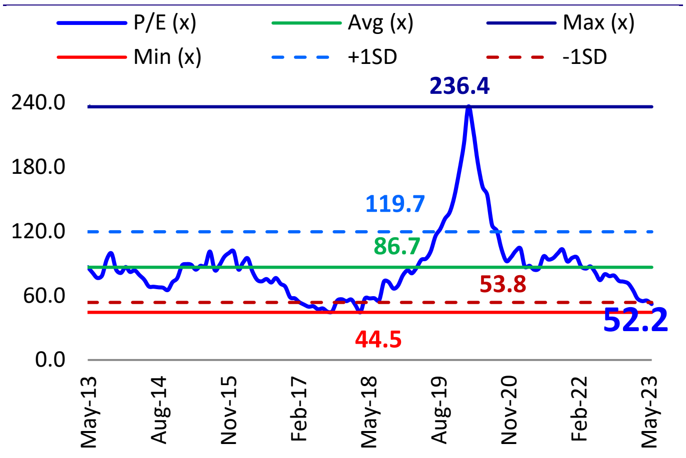
Valuation and view

- We reduce our FY23/FY24 EPS forecasts by ~14%/3%%, due to a big miss in 4QFY23 results and persistent material cost inflation is likely in the crucial summer season.
- In a Feb'22 note, we had pointed out the risk of a steep material cost increase for alcobev players with limited pricing power, and over the past year, margin pressure was intense, resulting in a 5-8% YoY decline in the stock price of UBBL and UNSP. Except for the Covid-hit period of FY21, UBBL's FY23 EBITDA margin is expected to fall to its lowest level since FY'05.
- Although, unlike other discretionary categories, the demand trend for alcobev companies has not worsened much, the 3/4-year sales CAGR of 7.4%/2% at the end of 4QFY23 is still weak. We reiterate our SELL rating on the stock with a TP of INR1,190 (targeting 22xFY25 EV/EBITDA).

Exhibit 3: We cut our FY24E/FY25E PAT by 13.8%/3.2%

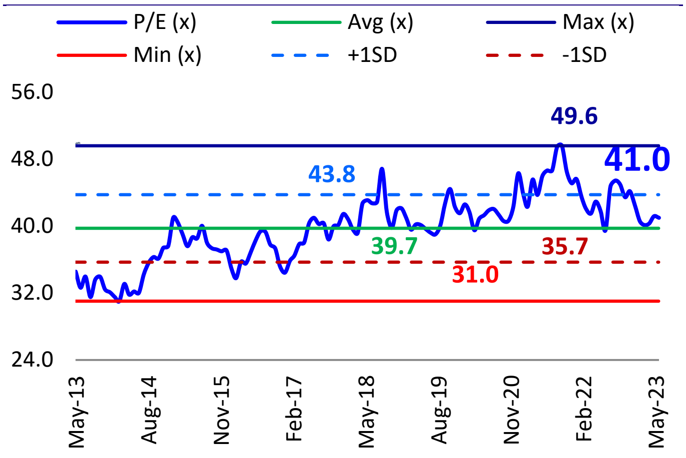
	New		Old		Change (%)	
INR m	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Total Income	85,124	97,467	85,008	95,209	0.1	2.4
EBITDA	9,745	14,170	11,153	14,750	(12.6)	(3.9)
Adjusted PAT	5,908	9,004	6,856	9,300	(13.8)	(3.2)

Exhibit 4: UBBL's P/E (x)



Source: MOFSL

Exhibit 5: Consumer sector P/E (x)



Source: MOFSL

Financials and valuations

Consolidated - Income Statement (INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	**56,196**	**64,754**	**65,092**	**42,431**	**58,384**	**74,999**	**85,124**	**97,467**
Change (%)	18.1	15.2	0.5	-34.8	37.6	28.5	13.5	14.5
Raw Materials	26,315	30,077	31,511	20,294	29,261	42,654	47,260	51,136
% of Sales	46.8	46.4	48.4	47.8	50.1	56.9	55.5	52.5
Gross Profit	**29,881**	**34,678**	**33,581**	**22,137**	**29,123**	**32,346**	**37,864**	**46,332**
Margin (%)	53.2	53.6	51.6	52.2	49.9	43.1	44.5	47.5
Employees Cost	3,992	4,484	5,041	4,855	5,231	5,955	6,789	7,739
% of Sales	7.1	6.9	7.7	11.4	9.0	7.9	8.0	7.9
Other Expenses	16,864	18,810	19,782	13,472	16,926	20,228	21,330	24,422
% of Sales	30.0	29.0	30.4	31.7	29.0	27.0	25.1	25.1
Total Expenditure	**47,170**	**53,371**	**56,334**	**38,620**	**51,418**	**68,837**	**75,379**	**83,297**
% of Sales	83.9	82.4	86.5	91.0	88.1	91.8	88.6	85.5
EBITDA	**9,025**	**11,384**	**8,758**	**3,811**	**6,966**	**6,162**	**9,745**	**14,170**
Margin (%)	16.1	17.6	13.5	9.0	11.9	8.2	11.4	14.5
Depreciation	2,597	2,599	2,851	2,320	2,172	2,106	2,294	2,541
EBIT	**6,429**	**8,785**	**5,907**	**1,491**	**4,794**	**4,056**	**7,451**	**11,629**
Int. and Finance Charges	456	239	287	181	148	46	73	128
Other Income	105	247	69	456	298	494	519	545
PBT bef. EO Exp.	**6,078**	**8,793**	**5,689**	**1,766**	**4,944**	**4,504**	**7,898**	**12,045**
PBT after EO Exp.	**6,078**	**8,793**	**5,689**	**1,694**	**4,682**	**4,082**	**7,898**	**12,045**
Total Tax	2,132	3,160	1,406	556	1,284	1,210	1,990	3,035
Tax Rate (%)	35.1	35.9	24.7	32.8	27.4	29.6	25.2	25.2
Adjusted PAT	**3,942**	**5,629**	**4,277**	**1,132**	**3,398**	**3,295**	**5,908**	**9,004**
Change (%)	71.7	42.8	-24.0	-73.5	200.1	-3.0	79.3	52.4
Margin (%)	7.0	8.7	6.6	2.7	5.8	4.4	6.9	9.2

Consolidated - Balance Sheet (INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	264	265	264	264	264	264	264	264
Total Reserves	26,638	31,572	34,938	35,558	39,087	39,385	42,551	47,377
Net Worth	**26,903**	**31,838**	**35,203**	**35,823**	**39,351**	**39,649**	**42,815**	**47,641**
Minority Interest	29	30	33	38	41	46	46	46
Deferred Tax Liabilities	182	114	0	0	0	0	0	0
Total Loans	3,121	2,115	1,691	1,154	0	0	0	0
Capital Employed	**30,235**	**34,097**	**36,927**	**37,014**	**39,393**	**39,695**	**42,861**	**47,687**
Gross Block	37,208	39,954	45,077	47,808	49,615	51,102	55,602	62,602
Less: Accum. Deprn.	20,152	22,425	26,058	28,378	30,550	32,656	34,950	37,492
Net Fixed Assets	**17,056**	**17,529**	**19,019**	**19,430**	**19,065**	**18,446**	**20,652**	**25,110**
Goodwill on Consolidation	242	242	242	65	65	65	65	65
Capital WIP	723	1,899	1,991	1,288	1,099	771	1,504	2,401
Total Investments	**2**	**3**	**3**	**61**	**84**	**81**	**81**	**81**
Curr. Assets, Loans&Adv.	**29,212**	**34,171**	**34,254**	**37,679**	**39,182**	**43,442**	**47,150**	**58,406**
Inventory	8,080	10,325	10,939	11,367	9,358	14,278	13,708	18,336
Account Receivables	14,986	15,110	13,504	13,950	12,549	14,073	16,245	21,140
Cash and Bank Balance	242	462	786	4,693	9,097	3,953	5,726	7,114
Loans and Advances	5,904	8,275	9,025	7,669	8,178	11,138	11,472	11,816
Curr. Liability & Prov.	**16,999**	**19,747**	**18,582**	**21,507**	**20,101**	**23,109**	**26,590**	**38,374**
Account Payables	5,217	5,902	5,450	6,181	6,380	7,170	8,689	8,401
Provisions	11,782	13,845	13,131	15,326	13,721	15,939	17,901	29,973
Net Current Assets	**12,212**	**14,424**	**15,672**	**16,171**	**19,081**	**20,333**	**20,561**	**20,031**
Appl. of Funds	**30,235**	**34,097**	**36,927**	**37,014**	**39,393**	**39,695**	**42,861**	**47,687**

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	**14.9**	**21.3**	**16.2**	**4.3**	**12.9**	**12.5**	**22.3**	**34.1**
BV/Share	101.7	120.4	133.1	135.5	148.8	150.0	161.9	180.2
DPS	2.0	2.5	2.5	0.5	10.5	0.0	8.9	13.6
Payout (%)	13.4	11.7	15.5	11.7	81.7	0.0	40.0	40.0
Valuation (x)								
P/E	93.8	65.7	86.5	326.7	108.8	112.3	62.6	41.1
Cash P/E	56.6	44.9	51.9	107.1	66.4	68.5	45.1	32.0
P/BV	13.7	11.6	10.5	10.3	9.4	9.3	8.6	7.8
EV/Sales	6.6	5.7	5.7	8.6	6.2	4.9	4.3	3.7
EV/EBITDA	41.3	32.6	42.3	96.1	51.8	59.4	37.4	25.6
Dividend Yield (%)	0.1	0.2	0.2	0.0	0.8	0.0	0.6	1.0
Return Ratios (%)								
RoE	15.7	19.2	12.8	3.2	9.0	8.3	14.3	19.9
RoCE	14.3	18.1	12.7	3.5	9.7	8.1	14.5	20.1
RoIC	14.5	18.5	13.5	3.1	11.6	8.9	15.8	23.6
Working Capital Ratios								
Asset Turnover (x)	1.9	1.9	1.8	1.1	1.5	1.9	2.0	2.0
Inventory (Days)	51	52	60	96	65	58	60	60
Debtor (Days)	91	85	80	118	83	65	65	70
Creditor (Days)	32	31	32	50	39	33	34	32
Leverage Ratio (x)								
Debt/Equity	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0

Consolidated - Cash Flow Statement (INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	6,078	8,793	5,689	1,694	4,944	4,173	7,898	12,045
Depreciation	2,597	2,599	2,851	2,320	2,172	2,106	2,294	2,541
Interest & Finance Charges	471	306	305	224	146	44	73	128
Direct Taxes Paid	-2,534	-3,898	-1,903	-823	-1,301	-1,397	-1,493	-2,277
(Inc)/Dec in WC	-1,265	-1,101	-2,196	2,976	2,994	-6,160	-3,455	-9,579
CF from Operations	**5,346**	**6,699**	**4,746**	**6,392**	**8,956**	**-1,234**	**5,317**	**2,859**
Others	287	-269	332	-189	40	39	0	0
CF from Operating incl EO	**5,633**	**6,430**	**5,078**	**6,203**	**8,996**	**-1,196**	**5,317**	**2,859**
(Inc)/Dec in FA	-2,014	-4,366	-4,033	-1,498	-1,728	-1,543	-4,480	-6,980
Free Cash Flow	**3,619**	**2,064**	**1,045**	**4,705**	**7,268**	**-2,739**	**837**	**-4,121**
Others	16	114	231	86	-10	515	3,371	9,239
CF from Investments	**-1,998**	**-4,252**	**-3,802**	**-1,412**	**-1,726**	**-1,025**	**-1,109**	**2,259**
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-2,820	-1,006	115	61	-2,551	-100	0	0
Interest Paid	-507	-313	-268	-281	-181	-45	-73	-128
Dividend Paid	-308	-640	-800	-663	-134	-2,779	-2,363	-3,601
Others	0	0	0	0	0	0	0	0
CF from Fin. Activity	**-3,635**	**-1,959**	**-952**	**-884**	**-2,867**	**-2,923**	**-2,436**	**-3,730**
Inc/Dec of Cash	**0**	**219**	**324**	**3,907**	**4,404**	**-5,144**	**1,773**	**1,388**
Opening Balance	243	242	462	786	4,693	9,097	3,953	5,726
Closing Balance	**242**	**462**	**786**	**4,693**	**9,097**	**3,953**	**5,726**	**7,114**

E: MOFSL Estimates

NOTES

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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