

United Breweries

Estimate change	↓
TP change	↑
Rating change	↔

Bloomberg	UBBL IN
Equity Shares (m)	264
M.Cap.(INRb)/(USD\$b)	469.8 / 5.7
52-Week Range (INR)	1914 / 1342
1, 6, 12 Rel. Per (%)	-3/4/-7
12M Avg Val (INR M)	437

Financials & Valuations (INR b)

Y/E March	FY24E	FY25E	FY26E
Net Sales	79.6	90.0	97.3
Sales Gr. (%)	6.1	13.1	8.1
EBITDA	7.5	11.0	12.4
Margin (%)	9.4	12.2	12.8
Adj. PAT	4.5	7.1	8.1
Adj. EPS (INR)	16.9	26.8	30.5
EPS Gr. (%)	35.9	58.3	13.7
BV/Sh. (INR)	159.0	173.4	189.7

Ratios

RoE (%)	11.0	16.1	16.8
RoCE (%)	11.1	16.3	17.0

Valuations

P/E (x)	103.8	65.6	57.6
P/BV (x)	11.0	10.1	9.3
EV/EBITDA (x)	60.9	41.7	36.6

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	70.8	71.0	72.7
DII	17.2	17.1	15.1
FII	6.7	6.7	6.9
Others	5.2	5.2	5.3

FII Includes depository receipts

CMP: INR1,777 TP: INR1,500 (-16%) Sell

Volume growth healthy; GM recovery below expectation

- United Breweries (UBBL) delivered sales in line with our estimate in 3QFY24 but continued to fall short on our margin estimate. Revenue grew 13.1% YoY (est. +12.6%), fueled by a healthy 8% YoY volume growth. The premium portfolio clocked 14% YoY volume growth.
- The North region posted a volume contraction (down 1% YoY) due to weak performance in Delhi and Haryana. Conversely, the other markets, viz., South, West, and East regions registered healthy volume growth of 10%, 9%, and 22%, respectively. Price hikes (5%) in Rajasthan, UP, Karnataka, etc. were well accepted and supported UBBL's revenue growth in 3QFY24.
- The company's GM at 44% (down 50bp QoQ) was below our expectation. We were expecting a sequential improvement in margin after the majority of the high-cost RM inventory was absorbed in 2QFY24. GM recovery was partially hit by slower returns on glass bottle. EBITDA margin at 8.0% was below our expectation (of 11.8%) too, mainly due to lower-than-expected GM recovery.
- UBBL posted a 1% volume dip during 9MFY24 after weak seasonal demand in 1QFY24. Though the company's premium portfolio has been growing strongly, the pace of growth was slower than that of the other premium brands. GM recovery remained the key monitorable, as it was down 600-800bp vs. FY21-FY22 levels. The soft barley prices and the recent price hikes should bridge the gap in FY25E, but glass prices remained elevated. The EBITDA margin of 8% was significantly low as compared to the mid-teens level margin witnessed prior to FY21. We model margin (both GM and EBITDA) revival in FY25/FY26, but the recovery uncertainty still hovers around earnings and the stock. **We value UBBL at 50x P/E on Dec'25E EPS to arrive at our TP of INR1,500. We maintain our Sell rating on the stock.**

Sales in line; margins below our estimates

- Volume-driven sales growth:** UBBL's standalone net sales grew 13.1% YoY to INR18.2b (est. INR18.1b), driven by 8% volume growth and a 5% price hike. The favorable brand mix (higher premium portfolio growth) has been offset by unfavorable state mix. Rajasthan, UP, and Karnataka witnessed price hikes, while volume growth was driven by states such as Tamil Nadu, Telangana, Orissa, Maharashtra, and Rajasthan. Conversely, volume declined in Delhi, Haryana and Kerala.
- Miss on margins continues:** GM expanded 220bp YoY but was down 50bp QoQ to 44% (est. 49%). We were modeling a GM recovery, as the high-cost RM inventory was largely liquidated as of 2QFY24. Employee costs and other expenses were up 8% and 10% YoY, respectively. EBITDA margin improved 320bp YoY to 8.0% (est. 11.8%) during the quarter.
- Healthy growth on a favorable base:** EBITDA/PBT/Adj. PAT stood at INR1.5b/INR1.2b/ 0.9b (est. INR2.1b/INR1.7b/INR1.2b). The reported growth in revenue and EBITDA was strong owing to the weak base of last year. Revenue growth was just 2% in 3QFY23, with an EBITDA margin of 4.8%.

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

- **Weak performance in 9MFY24:** Net sales/Adj. PAT increased 4.5% YoY/ 3.2% YoY, while EBITDA declined 1.4% YoY. In 9MFY24, UBBL has seen 1% volume contraction; excluding RTM, the volume growth was 2% YoY.

Highlights from the management commentary

- Within the premium portfolio, Ultra and Ultra Max reported strong double-digit growth. The company had supply issues in Karnataka; however, it still managed to grow well.
- Beer consumption in India remains low, with only 85-90m consumers consume beer vs. 200m people who consume any type of liquor.
- GM recovery was below expected, as the company has seen slow glass bottle returns. GM should improve steadily in the coming years though.
- Spending on A&P increased by nearly 300bp in 3QFY24 compared to the previous quarter due to the World Cup campaign.
- The company remained invested in supply chain efficiencies; nearly INR1.3b has already been invested.

Valuation and view

- We cut our FY24E EPS by 12% owing to the miss on EBITDA/PAT in 3QFY24 and a slower-than-expected GM recovery. We largely retain our FY25 estimates.
- UBBL posted a 1% volume dip during 9MFY24 after weak seasonal demand in 1QFY24. Though the company's premium portfolio has been growing strongly, the pace of growth was slower than that of the other premium brands. We model 11% revenue CAGR during FY24-FY26, largely led by volume growth.
- GM recovery remained the key monitorable, as it was down 600-800bp vs. FY21-FY22 levels. The soft barley prices and the recent price hikes should bridge the gap in FY25E, but glass prices remained elevated. The EBITDA margin of 8% was notably low as compared to the mid-teens level margin witnessed prior to FY21.
- We model margin (both GM and EBITDA) revival in FY25/FY26, but the recovery uncertainty still hovers around earnings and the stock. **We value UBBL at 50x P/E on Dec'25E EPS to arrive at our TP of INR1,500. We maintain our Sell rating on the stock.**

Standalone Quarterly Performance

Y/E March	(INR m)											Variance
	FY23				FY24E				FY23	FY24E	FY24	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	
Net Sales	24,367	16,796	16,110	17,645	22,732	18,880	18,227	19,721	74,999	79,559	18,140	0.5%
YoY Change (%)	117.9	17.8	1.9	3.4	-6.7	12.4	13.1	11.8	28.5	6.1	12.6	
Gross Profit	10,784	7,837	6,741	6,812	9,221	8,408	8,018	8,961	32,346	34,608	8,943	-10.3%
Margin (%)	44.3	46.7	41.8	38.6	40.6	44.5	44.0	45.4	43.1	43.5	49.3	
EBITDA	2,651	2,191	766	535	2,228	1,846	1,456	1,950	6,162	7,480	2,135	-31.8%
YoY Change (%)	177.8	32.3	-63.4	-79.5	-15.9	-15.8	89.9	264.9	-11.5	21.4	178.5	
Margins (%)	10.9	13.0	4.8	3.0	9.8	9.8	8.0	9.9	8.2	9.4	11.8	
Depreciation	575	520	502	507	513	508	518	529	2,106	2,068	554	
Interest	8	10	16	12	17	14	21	26	46	77	21	
Other Income	104	143	130	116	103	122	241	234	494	700	139	
PBT	2,170	1,805	131	132	1,801	1,446	1,158	1,630	4,257	6,034	1,698	-31.8%
Tax	554	463	152	35	440	369	310	438	1,210	1,557	455	
Rate (%)	25.5	25.6	40.2	26.3	24.5	25.5	26.7	26.9	28.4	25.8	26.8	
Adj PAT	1,617	1,342	226	97	1,361	1,076	848.5	1,192	3,295	4,478	1,243	-31.7%
YoY Change (%)	424.3	66.4	-80.6	-94.0	-15.8	-19.8	274.9	1,125.2	-10.0	35.9	449.2	
Margins (%)	6.6	8.0	1.4	0.6	6.0	5.7	4.7	6.0	4.4	5.6	6.9	

E: MOFSL Estimates

Key performance indicators

Y/E March	FY23				FY24		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
2Y average growth (%)							
Sales	119.3	38.1	12.2	7.0	55.6	15.1	7.5
EBITDA	177.8	-16.2	-68.5	-39.9	80.9	8.3	13.2
PAT	NM	NM	-81.9	-45.8	NM	NM	97.1
% of Sales							
COGS	55.7	53.3	58.2	61.4	59.4	55.5	56.0
Employee Expenses	6.1	8.3	9.0	9.0	6.5	8.7	8.6
Other Expenses	27.3	25.3	28.1	26.6	24.3	26.0	27.4
Depreciation	2.4	3.1	3.1	2.9	2.3	2.7	2.8
YoY change (%)							
COGS	135.1	30.2	18.5	23.7	-0.5	16.9	9.0
Employee Expenses	31.1	3.6	-1.4	27.2	-1.1	18.5	8.4
Other Expenses	100.5	-2.9	4.4	5.2	-16.9	15.5	10.3
Other Income	70.1	214.5	114.7	-10.4	-0.4	-14.5	85.5
EBIT	415.3	52.0	-83.1	-98.6	-17.4	-20.0	254.1

E: MOFSL Estimates

Takeaways from the investor presentation and press release

- The premium segment grew 14% YoY. Within the segment, Kingfisher Ultra Max posted double-digit growth and will continue to drive premium volume growth.
- In Nov'23, the company unveiled Heineken Silver draught beer in Maharashtra.
- Capex during the quarter stood at INR430m, while the cumulative capex for 9MFY24 reached INR1.34b.
- The management expects ongoing volatility in RM despite softening inflationary pressures from 2QFY24.
- Volume growth was driven by the southern and eastern regions; however, it has been partially offset by declines in the northern region.

Appointment of Mr. Anand Kripalu, Chairman

- The company has appointed Mr. Anand Kripalu as Chairman of the company with immediate effect.
- Mr. Anand Kripalu currently serves as the MD & Global CEO of Blackstone-backed EPL Limited (formerly Essel Propack Ltd), a leading global company in laminated tubes. Previously, he held the position of MD & CEO of United Spirits Ltd (Diageo India) and was a member of Diageo's Global Executive. Mr. Anand holds a Bachelor's Degree in Electronics from the Indian Institute of Technology, Madras, and an MBA from the Indian Institute of Management, Kolkata. He also serves as an Independent Director on the Board of United Breweries Limited.

Exhibit 1: Regional volume performance

Volume Growth
Q3 (+8%)

North (-1%)

- Volume decline in Delhi & Haryana partially offset by Rajasthan and Punjab

East (+22%)

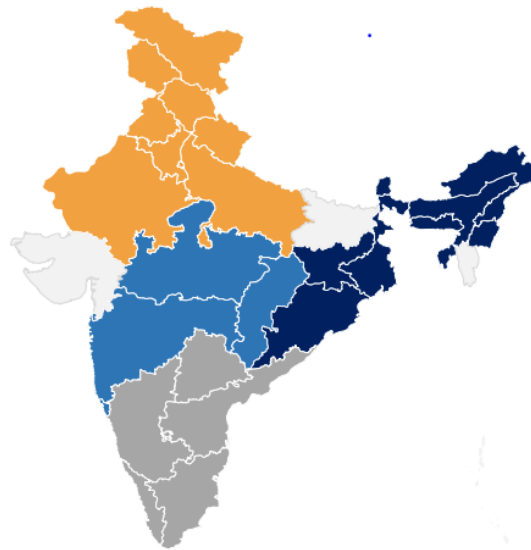
- Volume growth in Orissa & Jharkhand

West (+9%)

- Volume growth predominantly driven by Maharashtra & Goa

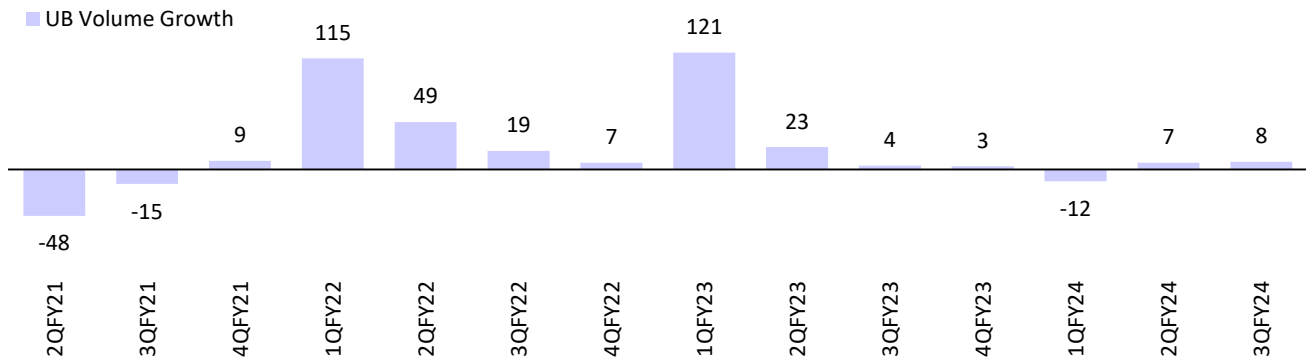
South (+10%)

- Volume growth in Tamil Nadu, Telangana & Andhra Pradesh partially offset by Kerala



Source: Company presentation

Exhibit 2: Volume rose 8% YoY in 3QFY24



Conference call highlights

Environment and outlook

- Net sales increased 13%, driven by an 8% rise in volume across diverse markets including Tamil Nadu, Telangana, Orissa, Maharashtra, and Rajasthan, with additional tailwinds observed in Delhi and Kerala.
- Premium volume remains robust, with a 14% surge, particularly driven by strong double-digit growth in key premium brands such as Ultra and Ultra Max.
- The price mix has increased from 3% to nearly 5%, attributed to premiumization efforts and appropriate pricing strategies.
- UBBL is building further category growth, while driving the share of Premium category in the company’s portfolio remains a key focus area.
- Beer consumption in India remains low, with only 85-90m people consuming beer, compared to 200m people who consume any type of liquor.
- Despite facing supply challenges in Karnataka, UBBL managed an increase in shares by ~200-300bp from the previous quarter.

- The rise in excise duty in Karnataka is not expected to have a significant impact on the MRP.
- For 4QFY24, a mid-to-high-single-digit volume growth is expected with mid-single-digit pricing growth.

Costs and margins

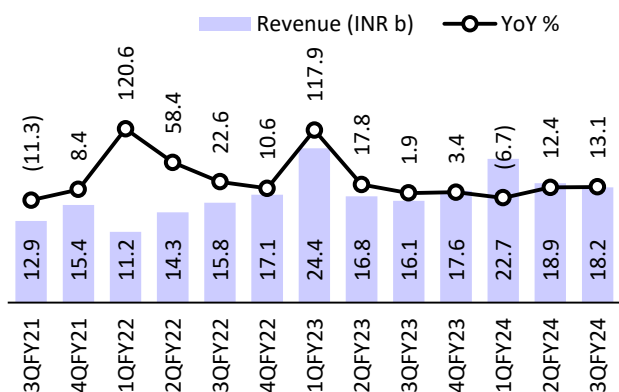
- The GP margin expanded on lower input cost and price hike taken by the company.
- Spending on A&P increased by nearly 300bp in 3QFY24 compared to the previous quarter due to the World Cup campaign.
- The level of bottle returns fell short of expectations, leading to the purchase of new bottles at increased costs.
- Over the medium term, there will be an improvement in margins.

Other points

- Nearly INR1.3b has already been invested in supply chain initiatives.
- Volume growth was strong across regions: 22% in the East, led by Orissa and Jharkhand; 10% in the South, driven by Tamil Nadu, Karnataka, Telangana, Andhra Pradesh, and Kerala; 9% in the West. However, the North experienced a decline mainly due to issues in Delhi that need to be addressed locally.
- UBBL is currently awaiting approvals in Karnataka to initiate a new manufacturing line for 'Heineken'. Management anticipates that it will receive the approvals within a few weeks.

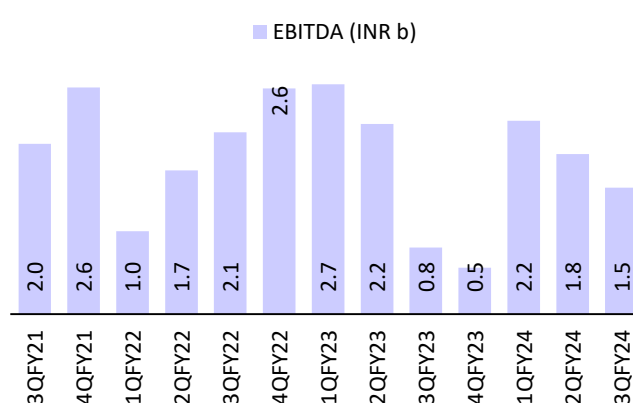
Key Exhibits

Exhibit 3: Net sales up 13.1% YoY to INR18.2b



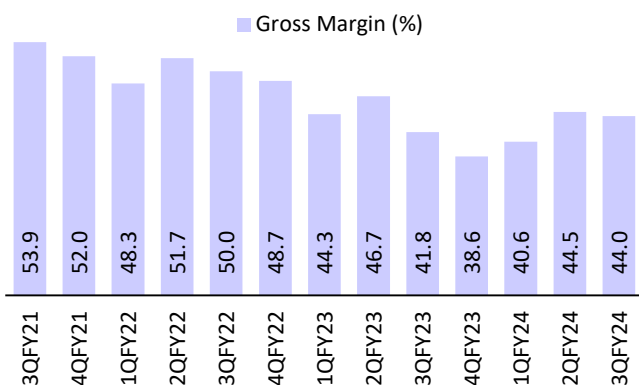
Sources: Company reports, MOFSL

Exhibit 4: EBITDA up 89.9% YoY to INR1.5b



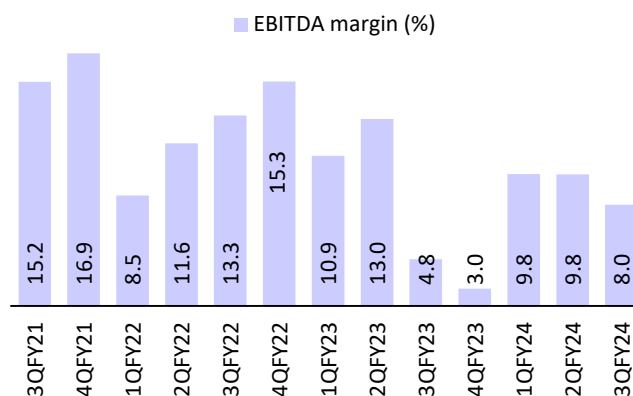
Source: Company reports, MOFSL

Exhibit 5: Gross margin up 220bp YoY to 44.0%



Sources: Company reports, MOFSL

Exhibit 6: EBITDA margin improved 320bp YoY to 8.0%



Source: Company reports, MOFSL

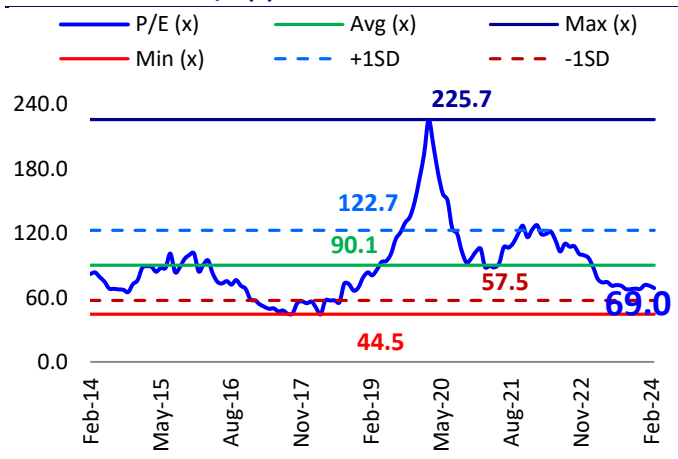
Valuation and view

- We cut our FY24E EPS by 12% owing to the miss on EBITDA/PAT in 3QFY24 and a slower-than-expected GM recovery. We largely retain our FY25 estimates.
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- We model margin (both GM and EBITDA) revival in FY25/FY26, but the recovery uncertainty still hovers around earnings and the stock. **We value UBBL at 50x P/E on Dec’25E EPS to arrive at our TP of INR1,500. We maintain our Sell rating on the stock.**

Exhibit 7: We cut our FY24E EPS by 12% owing to the miss on EBITDA/PAT

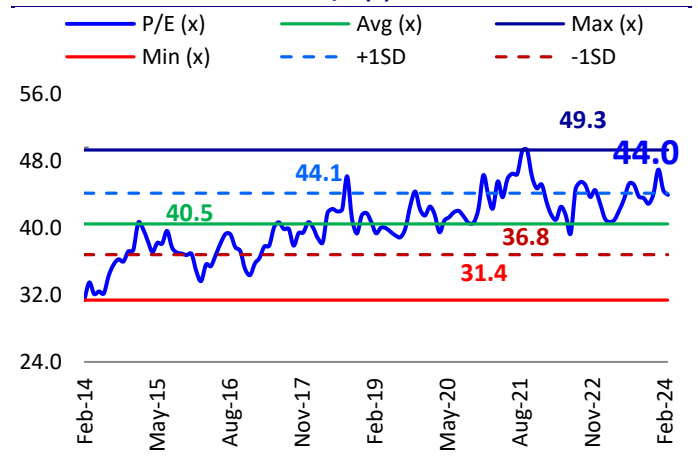
INR m	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Total Income	79,559	89,997	79,799	89,056	(0.3)	1.1
EBITDA	7,480	11,016	8,585	11,218	(12.9)	(1.8)
Adjusted PAT	4,478	7,085	5,073	7,051	(11.7)	0.5

Exhibit 8: UBBL's P/E (x)



Source: MOFSL

Exhibit 9: Consumer sector P/E (x)



Source: MOFSL

Financials and valuations

Consolidated - Income Statement								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Income from Operations	64,754	65,092	42,431	58,384	74,999	79,559	89,997	97,260
Change (%)	15.2	0.5	-34.8	37.6	28.5	6.1	13.1	8.1
Raw Materials	30,077	31,511	20,294	29,261	42,654	44,951	49,049	52,520
% of Sales	46.4	48.4	47.8	50.1	56.9	56.5	54.5	54.0
Gross Profit	34,678	33,581	22,137	29,123	32,346	34,608	40,949	44,740
Margin (%)	53.6	51.6	52.2	49.9	43.1	43.5	45.5	46.0
Employees Cost	4,484	5,041	4,855	5,231	5,955	6,402	6,914	7,467
% of Sales	6.9	7.7	11.4	9.0	7.9	8.0	7.7	7.7
Other Expenses	18,810	19,782	13,472	16,926	20,228	20,727	23,019	24,860
% of Sales	29.0	30.4	31.7	29.0	27.0	26.1	25.6	25.6
Total Expenditure	53,371	56,334	38,620	51,418	68,837	72,079	78,981	84,847
% of Sales	82.4	86.5	91.0	88.1	91.8	90.6	87.8	87.2
EBITDA	11,384	8,758	3,811	6,966	6,162	7,480	11,016	12,413
Margin (%)	17.6	13.5	9.0	11.9	8.2	9.4	12.2	12.8
Depreciation	2,599	2,851	2,320	2,172	2,106	2,068	2,159	2,208
EBIT	8,785	5,907	1,491	4,794	4,056	5,412	8,858	10,205
Int. and Finance Charges	312	311	227	148	46	79	92	117
Other Income	320	93	503	298	494	700	784	862
PBT after EO Exp.	8,793	5,689	1,694	4,682	4,257	6,032	9,550	10,950
Total Tax	3,160	1,406	556	1,284	1,210	1,556	2,464	2,891
Deferred Tax								
Tax Rate (%)	35.9	24.7	32.8	27.4	28.4	25.8	25.8	26.4
Less: Minority Interest	4	6	6	0	0	0	0	0
Reported PAT	5,629	4,277	1,132	3,398	3,047	4,476	7,086	8,059
Adjusted PAT	5,629	4,277	1,204	3,661	3,295	4,476	7,086	8,059
Change (%)	42.6	-24.0	-71.8	204.0	-10.0	35.9	58.3	13.7
Margin (%)	8.7	6.6	2.8	6.3	4.4	5.6	7.9	8.3

Consolidated - Balance Sheet								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	265	264	264	264	264	264	264	264
Total Reserves	31,572	34,938	35,558	39,087	39,385	41,784	45,582	49,902
Net Worth	31,838	35,203	35,823	39,351	39,649	42,048	45,846	50,166
Minority Interest	30	33	38	41	46	46	46	46
Total Loans	2,115	1,691	1,154	0	0	0	0	0
Capital Employed	34,097	36,927	37,014	39,393	39,695	42,094	45,892	50,212
Gross Block	39,954	45,077	47,808	49,615	51,102	54,102	56,602	59,602
Less: Accum. Deprn.	22,425	26,058	28,378	30,550	32,656	34,724	36,883	39,091
Net Fixed Assets	17,529	19,019	19,430	19,065	18,446	19,378	19,719	20,511
Goodwill on Consolidation	242	242	65	65	65	65	65	65
Capital WIP	1,899	1,991	1,288	1,099	771	1,054	961	1,092
Total Investments	3	3	61	84	81	81	81	81
Curr. Assets, Loans&Adv.	34,171	34,254	37,679	39,182	43,442	46,890	51,845	55,658
Inventory	10,325	10,939	11,367	9,358	14,278	11,878	16,230	14,680
Account Receivables	15,110	13,504	13,950	12,549	14,073	14,263	18,284	18,488
Cash and Bank Balance	462	786	4,693	9,097	3,953	9,277	5,515	10,084
Loans and Advances	8,275	9,025	7,669	8,178	11,138	11,472	11,816	12,407
Curr. Liability & Prov.	19,747	18,582	21,507	20,101	23,109	25,373	26,778	27,195
Account Payables	5,902	5,450	6,181	6,380	7,170	7,391	7,897	7,558
Provisions	13,845	13,131	15,326	13,721	15,939	17,982	18,881	19,636
Net Current Assets	14,424	15,672	16,171	19,081	20,333	21,518	25,067	28,463
Appl. of Funds	34,097	36,927	37,014	39,393	39,695	42,095	45,892	50,212

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	21.3	16.2	4.6	13.8	12.5	16.9	26.8	30.5
Cash EPS	31.1	27.0	13.3	22.1	20.4	24.8	35.0	38.8
BV/Share	120.4	133.1	135.5	148.8	150.0	159.0	173.4	189.7
DPS	2.5	2.5	0.5	10.5	7.5	6.8	10.7	12.2
Payout (%)	11.7	15.5	11.7	81.7	65.1	40.0	40.0	40.0
Valuation (x)								
P/E	82.5	108.6	385.7	126.9	141.0	103.8	65.6	57.6
Cash P/E	56.5	65.2	131.8	79.6	86.0	71.0	50.3	45.2
P/BV	14.6	13.2	13.0	11.8	11.7	11.0	10.1	9.3
EV/Sales	7.2	7.2	10.9	7.8	6.1	5.7	5.1	4.7
EV/EBITDA	41.0	53.1	121.0	65.4	74.7	60.9	41.7	36.6
Dividend Yield (%)	0.1	0.1	0.0	0.6	0.4	0.4	0.6	0.7
Return Ratios (%)								
RoE	19.2	12.8	3.4	9.7	8.3	11.0	16.1	16.8
RoCE	18.2	12.8	3.6	9.7	8.2	11.1	16.3	17.0
RoIC	18.5	13.5	3.1	11.6	9.1	12.1	18.5	19.2
Working Capital Ratios								
Asset Turnover (x)	1.9	1.8	1.1	1.5	1.9	1.9	2.0	1.9
Inventory (Days)	52	60	96	65	58	60	57	58
Debtor (Days)	85	80	118	83	65	65	66	69
Creditor (Days)	31	32	50	39	33	33	31	29
Working Cap. Turnover (Days)	79	83	99	62	80	56	79	69
Leverage Ratio (x)								
Current Ratio	1.7	1.8	1.8	1.9	1.9	1.8	1.9	2.0
Interest Cover Ratio	28.2	19.0	6.6	32.4	87.4	68.2	96.6	87.2
Debt/Equity	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	8,793	5,689	1,694	4,944	4,173	6,032	9,550	10,950
Depreciation	2,599	2,851	2,320	2,172	2,106	2,068	2,159	2,208
Interest & Finance Charges	306	305	224	146	44	79	92	117
Direct Taxes Paid	-3,898	-1,903	-823	-1,301	-1,397	-1,167	-1,848	-2,168
(Inc)/Dec in WC	-1,101	-2,196	2,976	2,994	-6,160	1,655	-9,224	1,094
CF from Operations	6,699	4,746	6,392	8,956	-1,234	8,668	729	12,201
Others	-269	332	-189	40	39	0	0	0
CF from Operating incl EO	6,430	5,078	6,203	8,996	-1,196	8,668	729	12,201
(Inc)/Dec in FA	-4,366	-4,033	-1,498	-1,728	-1,543	-2,980	-2,480	-2,980
Free Cash Flow	2,064	1,045	4,705	7,268	-2,739	5,688	-1,751	9,221
(Pur)/Sale of Investments	0	0	0	13	3	0	0	0
Others	114	231	86	-10	515	1,506	914	-1,311
CF from Investments	-4,252	-3,802	-1,412	-1,726	-1,025	-1,474	-1,566	-4,291
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-1,006	115	61	-2,551	-100	0	0	0
Interest Paid	-313	-268	-281	-181	-45	-79	-92	-117
Dividend Paid	-640	-800	-663	-134	-2,779	-1,790	-2,834	-3,224
CF from Fin. Activity	-1,959	-952	-884	-2,867	-2,923	-1,870	-2,926	-3,341
Inc/Dec of Cash	219	324	3,907	4,404	-5,144	5,325	-3,763	4,569
Opening Balance	242	462	786	4,693	9,097	3,953	9,277	5,515
Closing Balance	462	786	4,693	9,097	3,953	9,277	5,515	10,084

E: MOFSL Estimates

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NOTES

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BUY	>=15%
SELL	< - 10%
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UNDER REVIEW	Rating may undergo a change
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