

United Breweries

BSE Sensex 83,185
S&P CNX 25,416



Bloomberg	UBBL IN
Equity Shares (m)	264
M.Cap.(INRb)/(USDb)	563.3 / 6.7
52-Week Range (INR)	2182 / 1535
1, 6, 12 Rel. Per (%)	4/10/6
12M Avg Val (INR M)	546

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Net Sales	81.2	91.4	103.5
Sales Gr. (%)	8.3	12.5	13.3
EBITDA	7.0	10.2	13.2
Margin (%)	8.6	11.1	12.8
Adj. PAT	4.1	6.5	8.8
Adj. EPS (INR)	15.5	24.7	33.1
EPS Gr. (%)	24.7	59.2	33.8
BV/Sh. (INR)	158.0	171.3	189.0

Ratios

RoE (%)	10.1	15.0	18.4
RoCE (%)	10.2	15.1	18.5

Valuations

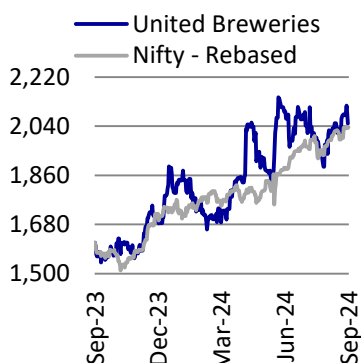
P/E (x)	137.1	86.1	64.3
P/BV (x)	13.5	12.4	11.3
EV/EBITDA (x)	80.6	54.6	42.4

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	70.8	70.8	72.7
DII	17.5	17.3	15.8
FII	6.4	6.6	6.3
Others	5.2	5.3	5.2

FII Includes depository receipts

Stock performance (one-year)



CMP: INR2,131 TP: INR1,800 (-16%) Sell

Improving supply chains to boost market penetration

We attended UBBL's analyst meet and the following are the key takeaways.

- MD and CEO Mr. Vivek Gupta, who joined UBBL a year ago, emphasized the need to refocus on consumers, who have been overlooked due to excessive government intervention. He highlighted the importance of expanding supply chains and distribution points to address the low penetration of beer in India. Mr. Gupta also stressed the need for strategic risk management to balance both the risks and opportunities in the business environment.
- UBBL focuses on growing its premium portfolio, which currently contributes in high single digits to overall portfolio. It aims to increase the share of premium beer in its sales to 25% within three years. Its premium brands, Ultra and Ultra Max, are positioned to drive growth in the local premium segment. The company plans to introduce new premium products and innovations over the next 12-18 months to cater to evolving consumer demands.
- UBBL is working on the supply chain to ensure consistent availability of all SKUs (650ml, 330ml and cans) in all markets. It is focusing on expanding its distribution network to improve market penetration, as beer distribution in India remains relatively low. The lack of cold storage facilities in smaller cities limits product availability.
- UBBL anticipates steady volume growth of 6-7% over the next 5-6 years, targeting double-digit revenue growth and EBIT margin expansion to 10-12% (from 6% in FY24) over the next 2-3 years. This improvement will be driven by an increase in bottle recovery rates along with a focus on premiumization. We estimate a CAGR of 12%/29%/35%, in sales/EBITDA/APAT over FY24-27E.
- The stock trades at 86x/64x for FY25/FY26E EPS. Due to expensive valuations and risk of margin recovery, **we maintain our Sell rating on the stock with a TP of INR1,800 (50x Jun'26E EPS).**

Valuation and view

- There are numerous challenges for the company, including stiff competition from both local and international brands in India, along with regulatory issues in the industry.
- The company's premium portfolio has been growing strongly, although the pace of growth was slower than that of the other premium brands for the majority of FY24. Over FY24-27E, we estimate a CAGR of 12%/29%/35% in sales/EBITDA/adj. PAT.
- Despite factoring in healthy growth and margin recovery, the stock trades at 86x/64x FY25E/FY26E EPS. We expect EBITDA margin to recover in FY25 and FY26, and any delay in margin recovery can potentially lead to earning cuts. Due to expensive valuations and risk of muted margin recovery, **we maintain our Sell rating on the stock with a TP of INR1,800 (50x Jun'26E EPS).**

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

Exhibit 1: UBBL per case performance

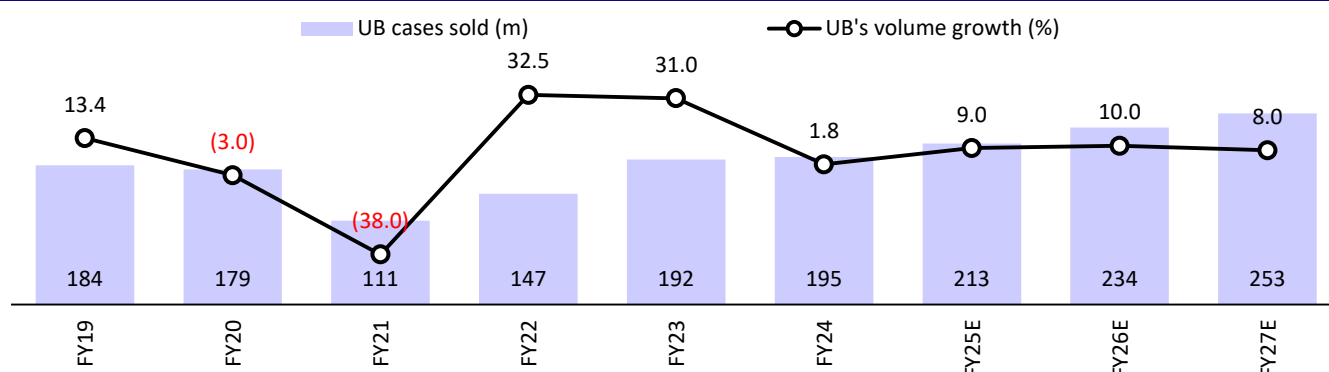
Per case data	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Volumes (mn cases)	162	184	179	111	147	192	195	213	234	253
Net realization/case (INR)	346	351	364	383	398	391	416	429	442	453
COGS/case (INR)	162	163	176	183	200	222	238	238	243	249
Gross Profit/case (INR)	184	188	188	200	199	169	178	191	199	204
Total Costs/case (INR)	290	290	315	348	351	359	380	382	386	394
EBITDA/case (INR)	56	62	49	34	48	32	36	48	56	60
Growth, YoY (%)	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Volumes (mn cases)	10.0	13.4	(3.0)	(38.0)	32.2	30.9	1.8	9.0	10.0	8.0
Net realization/case (INR)	7.3	1.6	3.6	5.1	4.1	(1.9)	6.4	3.2	3.0	2.5
COGS/case (INR)	9.8	0.8	8.0	3.8	9.1	11.4	7.1	(0.0)	2.1	2.5
Gross Profit/case (INR)	5.2	2.3	(0.2)	6.2	(0.5)	(15.2)	5.4	7.5	4.2	2.5
Total Costs/case (INR)	4.9	(0.2)	8.8	10.5	0.7	2.3	6.0	0.3	1.1	2.0
EBITDA/case (INR)	21.9	11.2	(20.7)	(29.9)	38.3	(32.4)	11.0	33.8	18.4	5.6

Source: Company, MOFSL

Exhibit 2: Regional volume performance

Regional volume	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
North	120.0	44.0	35.0	26.0	87.0	15.0	13.0	14.0	-15.0	1.0	-1.0	3.0	7.0
East	578.0	89.0	12.0	2.0	88.0	52.0	3.0	29.0	-8.0	11.0	22.0	10.0	2.0
West	86.0	33.0	11.0	-11.0	167.0	22.0	2.0	10.0	2.0	2.0	9.0	0.0	6.0
South	61.0	49.0	19.0	8.0	162.0	21.0	0.0	-10.0	-18.0	11.0	10.0	21.0	6.0

Source: Company, MOFSL

Exhibit 3: Volume to be grow in high single digit over FY24-FY27E

Source: Company, MOFSL

Analyst meet highlights

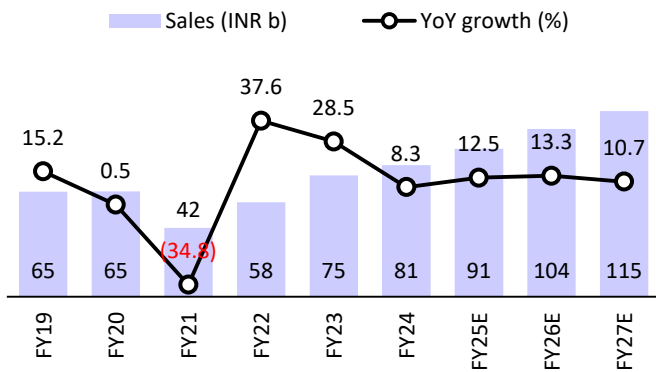
- **Mr. Vivek Gupta, MD and CEO of UBBL, has joined the company a year ago. In his opening remark, he highlighted three focus areas for the beer industry:**
 - **Consumer-Centric Approach:** He emphasized the need to refocus on consumers as government interventions have previously diverted attention from them.
 - **Supply Chain and Distribution:** He identified the need for expanding supply chain and distribution channels to address the low penetration of beer in India.
 - **Risk Management:** Mr. Gupta stressed the importance of planning around both risks and opportunities in the business environment.
- The strategy for driving growth in the beer category revolves around three pillars: **Affordability**, ensuring **availability at key locations**, and building **awareness** through offering superior products.
- **Regulatory Advocacy** - The Beer Association of India was launched for industry advocacy and to connect with state governments at various levels to (1) voice

the concerns about ever-increasing duties and higher taxation on beer compared to spirits (relative to alcohol content; recent instances of higher tax increases on beer relative to spirits) and (2) bring in necessary changes to expedite regulatory approvals for setting up new breweries.

- **Portfolio Management and Innovation** - UBBL's management views portfolio management as a critical factor for long-term success. Over the next 12-18 months, the company plans to focus on the following factors:
 - **SKU Availability:** It plans to ensure consistent availability of all SKUs (650 ml, 330 ml, and cans) across all markets and also addressing the issue of cold storage in smaller cities.
 - **Innovation:** UBBL plans to launch a couple of new products to fill portfolio gaps. The company aims to increase the share of premium beer in its sales to 25% over the next three years, up from the current high single-digit contribution.
 - **Consumer-Centric Strategy:** The focus will shift to offering a comprehensive portfolio that meets diverse consumer needs, positioning UBBL as a more consumer-centric organization.
- **Market Opportunity and Demand Environment** - India's beer industry offers significant growth potential, with current market penetration at just 20%, much lower than other markets such as Vietnam and Nigeria. UBBL is strategically positioned to capitalize on this opportunity through:
 - **Premiumization Efforts:** With a focus on premiumizing its portfolio and expanding capacity, UBBL aims to drive long-term growth.
 - **Category Expansion:** Beer currently occupies less than 20% of the alcohol market in India, presenting substantial room for growth. UBBL aims to increase beer's share in the alcohol category.
 - **Expanding Consumption Occasions:** UBBL expects beer consumption occasions to increase by 20-25%, considering beer's social appeal for gatherings and events.
- **Expansion Plans and Market Penetration** - UBBL is investing heavily in expanding its sales team and leveraging technology to enhance market penetration. Notably, beer occupies only 10% of retail shelf space compared to 90% for spirits, underscoring the need for a stronger retail presence.
- **Manufacturing Footprint and Local Sourcing** - UBBL owns 19 manufacturing plants and operates 13 contract breweries. The company is also working to localize production by partnering with farmers in North India to boost barley production. Additionally, it is making efforts to source machinery locally.
- **Brand and Product Focus** - The company is rejuvenating its flagship Kingfisher brand with product design and packaging enhancements. UBBL is also focusing on the local premium segment, particularly with its Ultra and Ultra Max brands, as part of its broader premiumisation strategy.
- **Financial Outlook and Growth Potential** - UBBL expects steady volume growth of 6-7% over the next 5-6 years, though this will vary by state due to elections and regulatory factors. There is room for margin expansion, with current margins below Heineken's global average of ~14%. However, the company's primary focus remains on value growth and expanding the overall beer category.

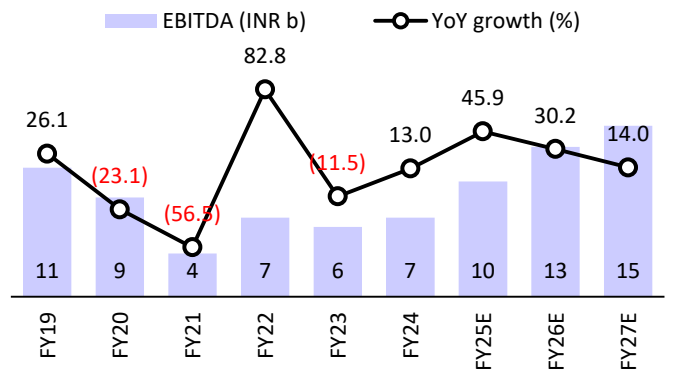
Key Exhibits

Exhibit 4: Revenue to post 12% CAGR over FY24-FY27E...



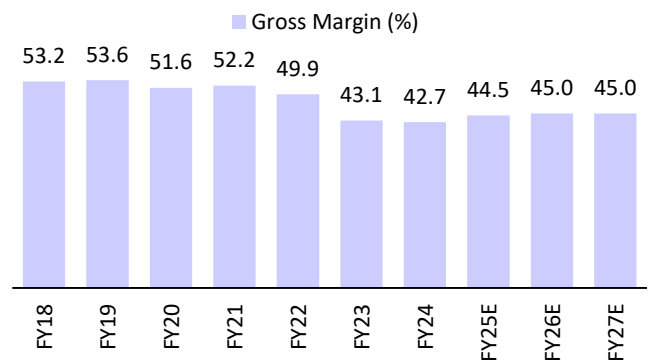
Sources: Company reports, MOFSL

Exhibit 5: ...along with healthy EBITDA growth



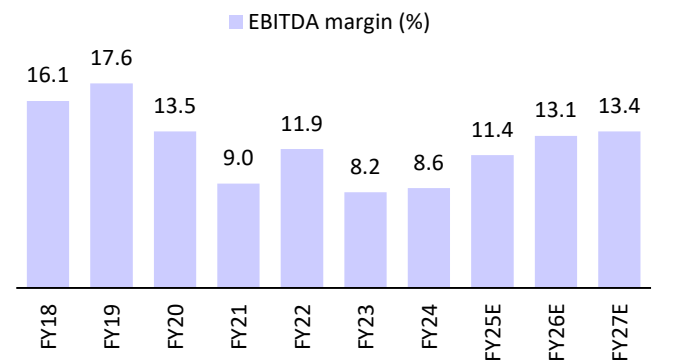
Source: Company reports, MOFSL

Exhibit 6: Gross margin expected to improve going forward



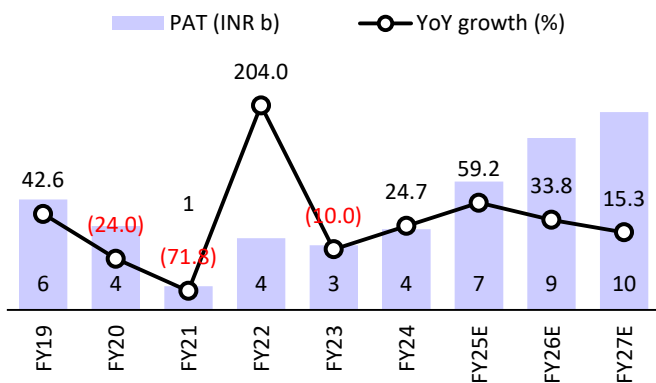
Sources: Company reports, MOFSL

Exhibit 7: ...along with improvement in EBITDA margin



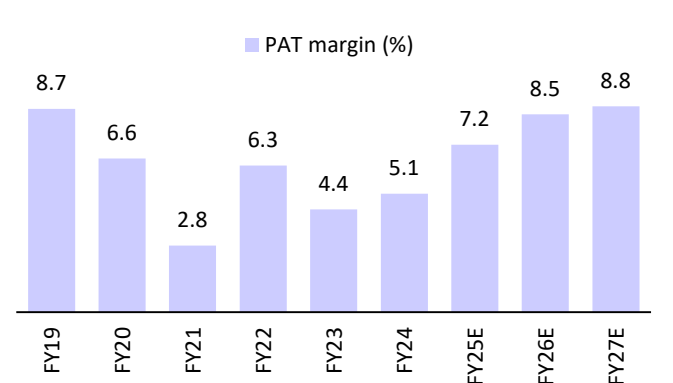
Source: Company reports, MOFSL

Exhibit 8: PAT to register 35% CAGR over FY24-FY27E



Sources: Company reports, MOFSL

Exhibit 9: ...with the improvement in PAT margins



Source: Company reports, MOFSL

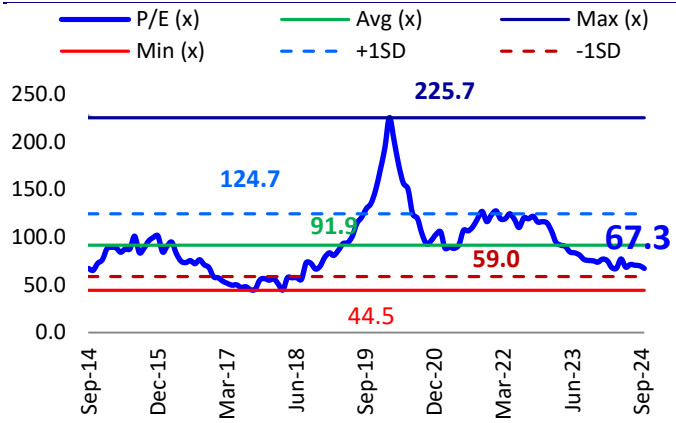
Valuation and view

- There are numerous challenges for the company, including stiff competition from both local and international brands in India, along with regulatory issues in the industry.
- The company's premium portfolio has been growing strongly, though the pace of growth was slower than that of the other premium brands for the majority of

FY24. We model revenue/EBITDA/ adj. PAT CAGR of 12%/29%/35% over FY24-27.

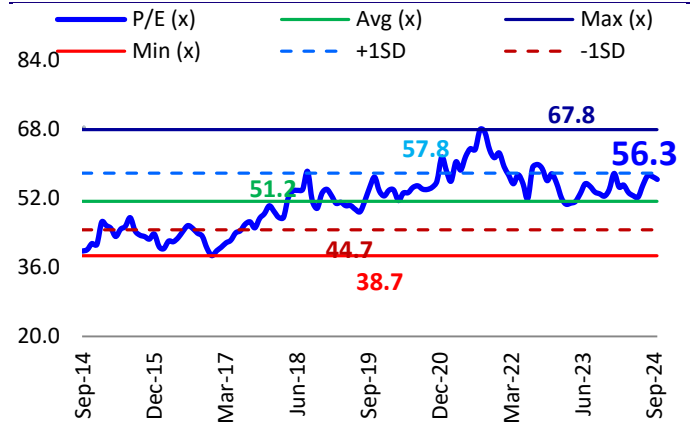
- Despite modeling healthy growth and margin recovery, the stock trades at 86x/64x FY25E/FY26E EPS. We model EBITDA margin recovery in FY25 and FY26, and any delay in margin recovery can potentially lead to earnings cuts. Due to expensive valuations and risk of margin recovery, **we maintain our Sell rating on the stock with a TP of INR1,800 (50x Jun'26E EPS).**

Exhibit 10: UBBL's P/E (x)



Source: MOFSL

Exhibit 11: Consumer sector P/E (x)



Source: MOFSL

Financials and valuations

Consolidated - Income Statement							(INR m)		
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Income from Operations	64,754	65,092	42,431	58,384	74,999	81,227	91,370	1,03,523	1,14,600
Change (%)	15.2	0.5	-34.8	37.6	28.5	8.3	12.5	13.3	10.7
Gross Profit	34,678	33,581	22,137	29,123	32,346	34,703	40,660	46,585	51,570
Margin (%)	53.6	51.6	52.2	49.9	43.1	42.7	44.5	45.0	45.0
EBITDA	11,384	8,758	3,811	6,966	6,162	6,962	10,155	13,221	15,076
Margin (%)	17.6	13.5	9.0	11.9	8.2	8.6	11.1	12.8	13.2
Depreciation	2,599	2,851	2,320	2,172	2,106	2,119	2,095	2,146	2,260
EBIT	8,785	5,907	1,491	4,794	4,056	4,843	8,060	11,075	12,816
Int. and Finance Charges	312	311	227	148	46	69	70	87	103
Other Income	320	93	503	298	494	737	826	908	999
PBT bef. EO Exp.	8,793	5,689	1,766	4,944	4,504	5,511	8,816	11,896	13,713
EO Items	0	0	-72	-263	-248	0	0	0	0
PBT after EO Exp.	8,793	5,689	1,694	4,682	4,257	5,511	8,816	11,896	13,713
Total Tax	3,160	1,406	556	1,284	1,210	1,403	2,275	3,141	3,620
Tax Rate (%)	35.9	24.7	32.8	27.4	28.4	25.5	25.8	26.4	26.4
Reported PAT	5,629	4,277	1,132	3,398	3,047	4,109	6,542	8,756	10,093
Adjusted PAT	5,629	4,277	1,204	3,661	3,295	4,109	6,542	8,756	10,093
Change (%)	42.6	-24.0	-71.8	204.0	-10.0	24.7	59.2	33.8	15.3
Margin (%)	8.7	6.6	2.8	6.3	4.4	5.1	7.2	8.5	8.8

Consolidated - Balance Sheet							(INR m)		
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	265	264	264	264	264	264	264	264	264
Total Reserves	31,572	34,938	35,558	39,087	39,385	41,519	45,025	49,718	55,128
Net Worth	31,838	35,203	35,823	39,351	39,649	41,783	45,290	49,983	55,393
Minority Interest	30	33	38	41	46	52	52	52	52
Total Loans	2,115	1,691	1,154	0	0	0	0	0	0
Capital Employed	34,097	36,927	37,014	39,393	39,695	41,836	45,342	50,035	55,445
Gross Block	39,954	45,077	47,808	49,615	51,102	52,466	54,966	57,966	60,966
Less: Accum. Deprn.	22,425	26,058	28,378	30,550	32,656	34,775	36,870	39,016	41,275
Net Fixed Assets	17,529	19,019	19,430	19,065	18,446	17,691	18,096	18,950	19,691
Goodwill on Consolidation	242	242	65	65	65	65	65	65	65
Capital WIP	1,899	1,991	1,288	1,099	771	1,727	1,095	1,119	1,124
Total Investments	3	3	61	84	81	80	80	80	80
Curr. Assets, Loans&Adv.	34,171	34,254	37,679	39,182	43,442	50,972	52,217	61,217	64,103
Inventory	10,325	10,939	11,367	9,358	14,278	13,687	16,352	17,115	19,933
Account Receivables	15,110	13,504	13,950	12,549	14,073	23,138	14,411	28,700	19,652
Cash and Bank Balance	462	786	4,693	9,097	3,953	2,142	9,089	2,543	11,145
Loans and Advances	8,275	9,025	7,669	8,178	11,138	12,004	12,364	12,859	13,373
Curr. Liability & Prov.	19,747	18,582	21,507	20,101	23,109	28,698	26,210	31,395	29,617
Account Payables	5,902	5,450	6,181	6,380	7,170	9,485	6,036	10,414	7,796
Provisions	13,845	13,131	15,326	13,721	15,939	19,214	20,174	20,981	21,821
Net Current Assets	14,424	15,672	16,171	19,081	20,333	22,274	26,006	29,821	34,486
Appl. of Funds	34,097	36,927	37,014	39,393	39,695	41,836	45,342	50,035	55,445

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)									
EPS	21.3	16.2	4.6	13.8	12.5	15.5	24.7	33.1	38.2
Cash EPS	31.1	27.0	13.3	22.1	20.4	23.6	32.7	41.2	46.7
BV/Share	120.4	133.1	135.5	148.8	150.0	158.0	171.3	189.0	209.5
DPS	2.5	2.5	0.5	10.5	7.5	10.0	9.9	13.2	15.3
Payout (%)	11.7	15.5	11.7	81.7	65.1	64.4	40.0	40.0	40.0
Valuation (x)									
P/E	100.0	131.7	467.6	153.8	170.9	137.1	86.1	64.3	55.8
Cash P/E	68.4	79.0	159.8	96.6	104.3	90.4	65.2	51.7	45.6
P/BV	17.7	16.0	15.7	14.3	14.2	13.5	12.4	11.3	10.2
EV/Sales	8.7	8.7	13.2	9.5	7.5	6.9	6.1	5.4	4.8
EV/EBITDA	49.6	64.4	146.9	79.5	90.7	80.6	54.6	42.4	36.6
Dividend Yield (%)	0.1	0.1	0.0	0.5	0.4	0.5	0.5	0.6	0.7
Return Ratios (%)									
RoE	19.2	12.8	3.4	9.7	8.3	10.1	15.0	18.4	19.2
RoCE	18.2	12.8	3.6	9.7	8.2	10.2	15.1	18.5	19.3
RoIC	18.5	13.5	3.1	11.6	9.1	9.9	16.4	20.0	21.1
Working Capital Ratios									
Asset Turnover (x)	1.9	1.8	1.1	1.5	1.9	1.9	2.0	2.1	2.1
Inventory (Days)	52	60	96	65	58	63	60	59	59
Debtor (Days)	85	80	118	83	65	84	75	76	77
Creditor (Days)	31	32	50	39	33	37	31	29	29
Working Cap. Turnover (Days)	79	83	99	62	80	90	68	96	74
Leverage Ratio (x)									
Current Ratio	1.7	1.8	1.8	1.9	1.9	1.8	2.0	1.9	2.2
Interest Cover Ratio	28.2	19.0	6.6	32.4	87.4	70.3	115.8	126.9	124.8
Debt/Equity	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Consolidated - Cash Flow

Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	8,793	5,689	1,694	4,944	4,173	5,511	8,816	11,896	13,713
Depreciation	2,599	2,851	2,320	2,172	2,106	2,119	2,095	2,146	2,260
Interest & Finance Charges	306	305	224	146	44	67	70	87	103
Direct Taxes Paid	-3,898	-1,903	-823	-1,301	-1,397	-1,388	-1,706	-2,355	-2,715
(Inc)/Dec in WC	-1,101	-2,196	2,976	2,994	-6,160	-5,166	9,151	-19,925	8,334
CF from Operations	6,699	4,746	6,392	8,956	-1,234	1,144	18,426	-8,151	21,694
Others	-269	332	-189	40	39	-370	0	0	0
CF from Operating incl EO	6,430	5,078	6,203	8,996	-1,196	773	18,426	-8,151	21,694
(Inc)/Dec in FA	-4,366	-4,033	-1,498	-1,728	-1,543	-1,907	-2,480	-2,980	-2,980
Free Cash Flow	2,064	1,045	4,705	7,268	-2,739	-1,134	15,946	-11,131	18,714
(Pur)/Sale of Investments	0	0	0	13	3	0	0	0	0
Others	114	231	86	-10	515	625	-6,065	7,862	-5,722
CF from Investments	-4,252	-3,802	-1,412	-1,726	-1,025	-1,282	-8,545	4,882	-8,702
Issue of Shares	0	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-1,006	115	61	-2,551	-100	0	0	0	0
Interest Paid	-313	-268	-281	-181	-45	-19	-70	-87	-103
Dividend Paid	-640	-800	-663	-134	-2,779	-1,985	-2,617	-3,502	-4,037
Others	0	0	0	0	0	701	-247	312	-251
CF from Fin. Activity	-1,959	-952	-884	-2,867	-2,923	-1,302	-2,933	-3,277	-4,391
Inc/Dec of Cash	219	324	3,907	4,404	-5,144	-1,811	6,947	-6,546	8,601
Opening Balance	242	462	786	4,693	9,097	3,953	2,142	9,089	2,543
Closing Balance	462	786	4,693	9,097	3,953	2,142	9,089	2,543	11,145

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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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