

06th September 2024

United Spirits Ltd. – BUY

CMP : Rs. 1,460
Target Price : Rs. 1,750
Upside : 19.8%
Stop Loss : Rs.1,241 (Closing basis)

Investment Thesis

- United Spirits Limited (USL) produces and distributes around 72 million cases. 'McDowell's No.1', 'Royal Challenge', 'Royal Challenge American Pride', 'Signature', 'Antiquity', 'Black Dog', 'Director's Special Black', 'McDowell's Rum' & 'McDowell's Brandy' are some of the marquee brands owned by USL.
- Within the segments, the Prestige & Above (P&A) segment now accounts for nearly 3/4th of the company's overall sales. Its net sales grew 6.7% YoY as of FY24, benefitting from premiumisation, ongoing portfolio renovation and accelerated momentum in states with strong distribution channels, while net sales of Popular segment, which accounted for 26.2% of net sales, rose by 1.1%.
- The company has reduced its debt by a significant 90% from Rs. 5,320 Cr. in FY15 to just Rs. 265 Cr. in Q1FY25, transforming itself towards focusing on Premium segment. USL's strategic renovation and rebranding of old brands like Royal Challenge, Signature and Black Dog evolves around recent trends and consumer preferences which will aid in expanding margins.
- USL expands into premium whiskey with Godawan Single Malt release in select regions. USL is aiming for a 30% innovation-driven revenue growth, emphasizing luxury categories, launching limited editions like Black Dog, Johnnie Walker Blonde, and Royal Challenge American Pride.
- Innovation and social acceptance fuel this trend, elevating the Prestige & Above segment to comprise a sizable 88% of net sales in Q1FY25. The Indian Alcobev market is witnessing a shift toward premium experiences driven by aspirational spending and social influence.
- In the Upper prestige segment, the new American Bourbon based IMFL whiskey 'Royal Challenge American Pride' is performing well in most of the markets where it is already launched and rolled out pan India progressively. As a shift towards premium spirits, there has been a strong surge in the demand for high end whiskies including scotches and single malts. Single Malt whiskies in India have grown by 45% and Blended Scotch by 11% in CY2022.

Financials

- As of FY24, the company has shown strong growth by 10.5% in core Net Sales Value (NSV). The P&A segment grew by 11.9% YoY maintaining a healthy GM of 43.4%.

Particulars	FY21	FY22	FY23	FY24	FY25E	FY26E
Revenue (Rs. in Crs)	8,131	9,712	10,611	11,321	11,902	13,425
EBITDA (Rs. in Crs)	1,092	1,643	1,490	2,226	1,996	2,517
Adj. PAT (Rs. in Crs)	362	810	1,125	1,408	1,243	1,639
Adj. EPS (Rs.)	4.98	11.15	15.49	19.37	17.17	22.54
PE Multiple	301x	134x	97x	77x	87x	67x
RoE	9%	17%	19%	20%	15%	17%

Stock Data

Market Cap (Rs. Crs)	1,06,208
Market Cap (\$ Mn)	1265.39
Shares O/S (in Mn)	727
Avg. Volume (3 month)	12,40,850
52-Week Range (Rs.)	1,530 / 981

Shareholding Pattern

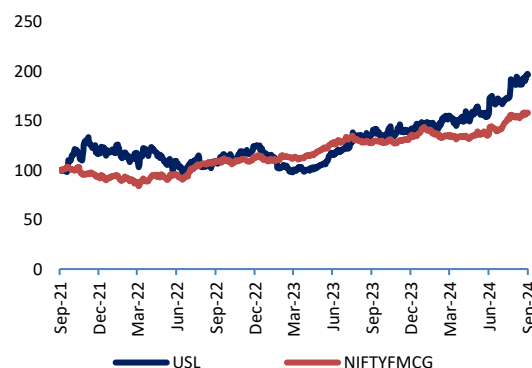
Promoters	56.68 %
FII's	15.09 %
Institutions	14.00 %
Others (incl. body corporate)	14.23 %

Key Ratios

Div Yield	0.62%
TTM PE	74.6x
ROE	17.5%
TTM EPS (Rs.)	19.45 -/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	4.1%	26.7%	44.3%
NIFTYMIDCAP	1.3%	10.2%	20.2%



- Consolidated EBITDA was at Rs. 2,001 Cr., growth of 53.5% YoY. FY24 PAT was at Rs. 1,408 Cr. Gross margin improved by 190bps YoY to 43.3% and EBITDA margin was up by 290bps YoY to 15.9%.
- Q1FY25 Consolidated net sales at Rs. 2,761 Cr., grew by 3.5%. Consolidated EBITDA was at Rs. 713 Cr driven by higher gross margins. Net profit surged 1.7% YoY at Rs. 485 Cr.

Key Business Highlights

- United Spirits Ltd. (USL) has sold 32 brands of its Popular segment for a remuneration of Rs. 820 Cr in a slump sale to Inbrev Beverages Pvt. Ltd. in Q2FY23, divesting the less value adding brands and creating a focused approach towards the P&A segment.
- However, USL has retained 2 of its iconic whiskey brands – McDowell's and Director's Special. USL has also got into a Five-Year franchise arrangement for 11 of its other brands which include Bagpiper, Old Cask and Blue Riband to an unrelated party.
- USL has launched Single Malt Whiskey - Godawan, a premium whiskey which is currently available in Rajasthan, Delhi and Dubai. The move is in line with the company's attempts to premiumize its portfolio in the country.
- Pioneer Distilleries Limited (PDL), a listed subsidiary of USL got merged with the Company through the Scheme of Amalgamation and was made effective from December 30, 2022.
- USL also made an investment of Rs. 32 Cr. in Nao Spirits & Beverages Private Limited and NAO was made an associate Company of the Company. Sovereign Distilleries Limited (SDL) ceased to be subsidiary of USL as the Company sold all equity shares held in SDL for consideration of Rs. 32 Cr.

Valuation

USL is currently trading at Rs. 1,460 implying a TTM PE / EBITDA of 75x / 47x as against the industry PE / EBITDA multiple of 43x / 24x respectively. The company trades at a premium to its industry multiple, indicating rich valuations. USL is poised for strong earnings growth in the medium-term driven by price-mix improvement, premiumization, new launches, improvised execution, RM softening and as USL benefits from supply-chain agility program, thus justifying the premium valuations and strong growth visibility.

We are ascribing a **BUY** rating for USL with a **Target Price of Rs. 1,750**, translating into an **upside of 19.8%**.

Risk & Concern

- Price Revisions: The alcoholic beverages sector is kept out of the ambit of the goods and services tax (GST) regime, and as such the state governments have the freedom to implement their independent price control mechanisms, based on their priorities. This creates variation in the pricing models and methodologies applied across states. In case of calculating the ex-distillery price (EDP) or final price of the products, for whisky, the process of fixing EDP differs across states. The recent tax increase in the state of Karnataka by 20% had an impact on the MRP of USL's brands and are expected to increase in the range of 14% to 17%.
- Route to Market Changes (RTM): In the case of Alcohol beverages distribution, the channels for sales is at sole discretion of the State which is decided through their excise policies. Any changes in the RTM which are not in favor of the industry may have an adverse effect on the operations of the business. Recently, states like Delhi, West Bengal, and several others have undergone RTM changes.

Graphs & Charts

Figure 1: Net Sales Trend (Rs. In Crs)

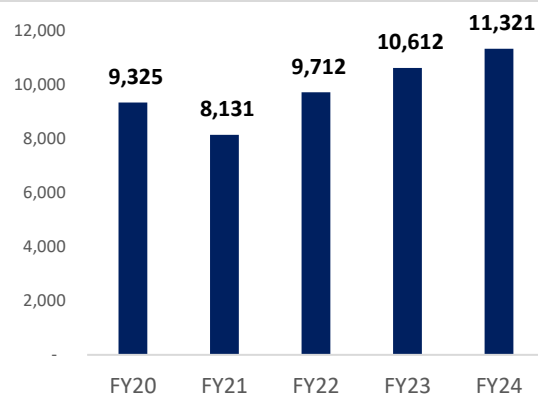


Figure 2: EBITDA & EBITDA Margin Trend

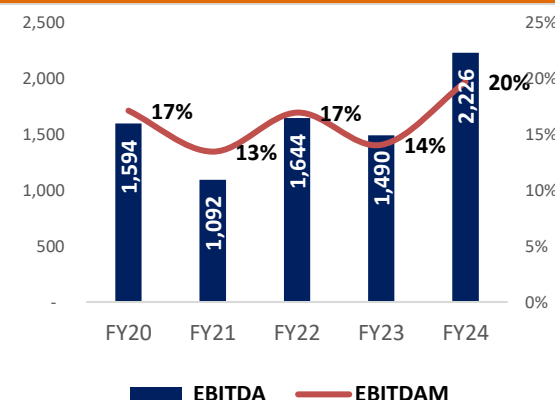


Figure 3: ROE & ROCE Trend

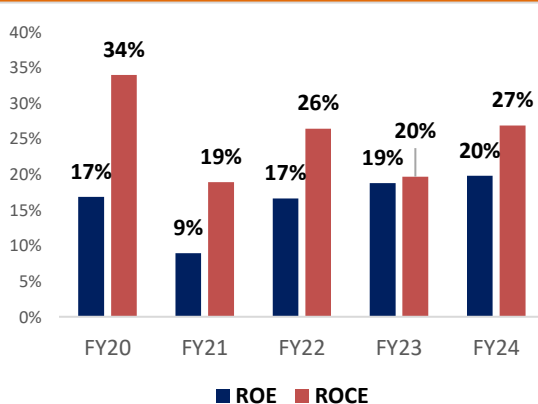
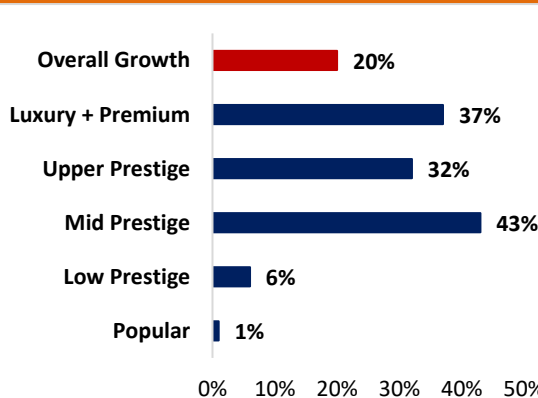


Figure 4: Category wise YoY-growth (FY24)



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