

United Spirits Limited

Q4FY07 - Higher other income boosts earnings - ALERT

- United Spirits reported net sales of Rs6.5bn and net earnings of Rs535mn for Q4FY07. Though sales came in 5% below our estimates, net profit was 20% ahead of our estimates on account of higher other income and lower interest costs.
- Operating margins were below our estimates at just 11.4%, down 500bps q/q. This was largely on account of higher advertising costs and acquisition related expenses. Advertising costs shot up to 16% of sales as compared to 10-12% in previous two quarters.
- Higher other income (Rs360mn) and lower interest cost (down 25% q/q) boosted net profits for the company during the quarter. This higher other income is likely on account of interest on proceeds generated from the sale of treasury stock during the last quarter.
- For the full year volumes for the company grew 12% to 66.4mn cases. Volume growth for the key profitable brands (about 93% of total volumes) was much higher at 19%.
- We believe industry fundamentals remain strong with industry growth in the range of 12-15%. However competition is rising with the likes of Pernod and Diageo expanding their operations aggressively. We await further details on Whyte & Mackay acquisition where any potential overpayment may dilute earnings for the company.
- We are maintaining our estimates and Neutral rating on the stock as we believe current valuations adequately reflect earnings growth profile of the company.

Neutral

Rs862.55

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Beverages

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Table 1: United Spirits Limited — Quarterly income statement

Rs in millions

	Q1FY07	Q2FY07	Q3FY07	Q4FY07
Sales / Income from Operations	7,799	14,420	10,760	13,415
Less: Excise duty	2,464	6,885	3,026	6,900
Net Sales / Income from Operations	5,335	7,535	7,734	6,515
Total Expenditure	4,584	5,921	6,460	5,771
Operating Profit	752	1,614	1,274	744
Operating Margin	14.1%	21.4%	16.5%	11.4%
Other income	23	5	143	360
EBITDA	775	1,619	1,417	1,103
EBITDA Margin	14.5%	21.5%	18.3%	16.9%
Depreciation	40	123	34	114
EBIT	734	1,497	1,383	989
EBIT Margin	13.8%	19.9%	17.9%	15.2%
Interest (Net of receipts)	199	325	289	217
PBT	535	1,171	1,094	772
Provision for Taxation - Current	191	339	365	251
- Deferred	-8	135	-45	-17
- Fringe Benefit Tax	5	30	5	2
Net Profit after tax	347	668	769	535
Net Margin	6.5%	8.9%	9.9%	8.2%
% of sales				
COGS	65.6%	41.7%	53.4%	49.4%
Staff Cost	4.6%	7.4%	6.7%	6.7%
Advertisement & Sales Promotion	4.1%	11.5%	10.9%	15.8%
Others	11.6%	18.0%	12.6%	16.7%

Source: Company reports.

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Important Disclosures

United Spirits Limited (UNSP.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
16-Jun-06	OW	387.40	-
20-Jun-06	OW	423.95	500.00
08-Feb-07	N	916.50	980.00

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
 Initiated coverage Jun 16, 2006. This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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