

United Spirits Ltd

Volume growth remains strong – Maintain BUY

United Spirits (UNSP) reported Q3FY11 Sales/EBITDA/Adj. PAT growth of 17.2%/23.7%/1.4% against our estimates of 20.1%/16.9%/13.5%. The company reported a strong volume growth of 14% with its premium brands also growing strongly in double digits. UNSP benefitted from the fall in molasses prices with its wet RM costs declining by ~6% YoY to Rs 143 per case. Whyte & Mackay (W&M) reported Sales and EBITDA of £97.8 mn and £22.5 mn for 9MFY11. UNSP currently has a net debt of Rs 56.6bn as on December 2010. We have reduced our earnings estimates for the company in FY11/FY12/FY13 by 2.3%/9.7%/5.0% to factor in lower margins and an increase in the interest costs as the company refinances its existing debt. However at current valuations of 21.6x and 16.6x its FY12 and FY13 earnings, we see limited downside to the stock and hence maintain our BUY rating with a revised Sep '11 price target of Rs 1,550 (previous target price of Rs 1,650).

Net sales growth of 17% with volumes going strong: UNSP reported net sales growth of 17% to Rs 15.8bn with volumes across its brands seeing strong growth (14% volume growth for the quarter to 30.3 mn cases). The current quarter sales also include the sales for Balaji Distilleries for 9 months which results in sales of Rs 19.6bn (Rs3.7bn on account of Balaji Distilleries sales for 9 months).

EBITDA margins at 17.3%: UNSP reported EBITDA growth of 23.7% YoY to Rs 2.7bn with EBITDA margins improving by 90bps YoY to 17.3%. The overall margins including Balaji Distilleries are down on account of lower profitability of Balaji (EBITDA of Rs 120 mn for 9MFY11). A&P expenses increased by 30% for the current quarter to Rs 1.5bn, which included Rs 200 mn on account of launch and promotional activity of its premium brands.

W&M to report £30 mn EBITDA for FY11: W&M reported sales of £97.8 mn and EBITDA of £22.5 mn for 9MFY11. For the full year, we expect W&M to make an EBITDA of £30 mn. The branded sales for W&M increased by 4% for the quarter with the company now having an inventory of 104 mn litres valued at £430 mn. The debt currently on W&M is Rs 22.5bn, which the management is likely to refinance to cushion the repayment of the same making it more back ended.

Maintain BUY with a price target of Rs 1,550: We have reduced the earnings estimates for UNSP by 2.3%/9.7%/5.0% for FY11/FY12/FY13 to factor in the lower margins and an increase in the interest costs for the company on account of increase in debt and interest costs. Consequent to the same we have revised our price target downwards to Rs 1,550, maintaining our BUY rating on the stock given the attractive valuations and limited downside potential from current levels.

What's New?	Target	Rating	Estimates
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CMP	TARGET	RATING	RISK
Rs 1,057	Rs 1,550	BUY	MEDIUM

BSE	NSE	BLOOMBERG
532432	MCDOWELL	UNSP IN

Company data

Market cap (Rs mn / US\$ mn)	127,909 / 2,812
Outstanding equity shares (mn)	121
Free float (%)	70.8
Dividend yield (%)	0.3
52-week high/low (Rs)	1688 / 992 /
2-month average daily volume	230,548

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
United Spirits	1,057	(16.8)	(28.3)	(26.9)
BSE FMCG	5,810	(12.9)	(14.0)	3.9
Sensex	17,593	(10.7)	(16.0)	(3.8)

P/ Valuation matrix

(x)	FY10	FY11E	FY12E	FY13E
P/E @ CMP	52.8	31.7	21.6	16.6
P/E @ Target	77.4	46.5	31.6	24.4
EV/EBITDA @ CMP	17.9	16.3	12.3	10.3

In the interest of timeliness this report has not been edited.

Financial highlights

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	63,623	75,349	88,211	101,307
Growth (%)	16.4	18.4	17.1	14.8
Adj net income	2,218	4,024	5,916	7,677
Growth (%)	(907.2)	81.4	47.0	29.8
FDEPS (Rs)	20.0	33.3	49.0	63.6
Growth (%)	(850.7)	66.5	47.0	29.8

Profitability and return ratios

(%)	FY10	FY11E	FY12E	FY13E
EBITDA margin	16.2	15.0	17.0	17.7
EBIT margin	14.7	13.7	15.6	16.2
Adj PAT margin	3.5	5.3	6.7	7.6
ROE	7.2	10.2	13.5	15.4
ROIC	(1.3)	7.1	8.5	9.5
ROCE	2.0	7.9	9.5	10.6





Result highlights

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance
Revenue	15,780	16,161	(2.4)
EBITDA	2,735	2,586	5.8
EBITDA margins (%)	17.3	16.0	130bps
Adj net income	1,010	1,131	(10.7)

Source: RCML Research

Fig 2 - Quarterly Performance (Normalized without Balaji merger)

(Rs mn)	Q3FY11A	Q3FY10A	% Chg YoY	Q2FY11A	% Chg QoQ
Net sales	15,780	13,468	17.2	13,542	16.5
Cost of revenues	9,075	7,625	19.0	7,215	25.8
Gross profit	6,705	5,843	14.8	6,327	6.0
A&P spends	1,560	1,199	30.1	1,558	0.2
Other op expenses	2,410	2,432	(0.9)	2,579	(6.5)
EBITDA	2,735	2,212	23.7	2,191	24.8
EBITDA margin (%)	17.3	16.4	90bps	16.2	115bps
Depreciation	115	93	23.3	104	10.2
Interest	960	747	28.6	983	(2.3)
Forex Gain / (Loss)	(110)	(28)	294.3	(84)	30.3
PBT	1,550	1,457	6.4	1,133	36.9
Extraordinary items	370	-	-	-	-
Income taxes	650	488	33.2	387	68.2
Reported PAT	1,270	969	31.1	746	70.2
Adjustments	(260)	(28)	-	(84)	-
Adj. PAT	1,010	996	1.4	830	21.6
EPS (Rs)	8.3	8.0	4.6	5.9	40.5

Source: Company

We build in the merger of Balaji Distillery into UNSP and hence revise our estimates for UNSP.

Fig 3 - Estimate Revision

Key parameters	FY11E			FY12E			FY13E		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Revenue (Rs mn)	69,145	75,349	9.0	81,518	88,211	8.2	94,128	101,307	7.6
EBITDA (Rs mn)	11,696	11,336	(3.1)	15,582	14,996	(3.8)	17,915	17,907	(0.0)
EBITDA margin (%)	16.9	15.0	(190bps)	19.1	17.0	(210bps)	19.0	17.7	(135bps)
Net profit (Rs mn)	4,118	4,024	(2.3)	6,551	5,916	(9.7)	8,081	7,677	(5.0)
EPS (Rs)	34.10	33.35	(2.3)	54.3	49.03	(9.7)	67.00	63.62	(5.0)

Source: RCML Research



Fig 4 - Q3FY11 volume growth-segment wise

Volume in Million Cases	Q3 (Oct - Dec)		% Growth	
	Act 09-10	Act 10-11	>Yr. 09	>Yr. 10
Prestige & Above	5.70	6.51	7%	14%
Regular	18.89	21.36	11%	13%
I Line	24.59	27.87	10%	13%
II Line/Franchise	1.92	2.43	23%	26%
USL	26.51	30.30	11%	14%

Source: Company

Fig 5 - 9MFY11 volume growth-segment wise

	Volume in Million Cases		% Growth	
	Act 09-10	Act 10-11	Yr 09-10	Yr 10-11
Prestige & Above	15.5	17.6	3%	14%
Regular	52.5	58.5	14%	12%
I Line	68.0	76.2	12%	12%
II Line	4.5	5.9	32%	31%
Franchise	2.1	1.4	11%	(32%)
USL	74.6	83.5	13%	12%

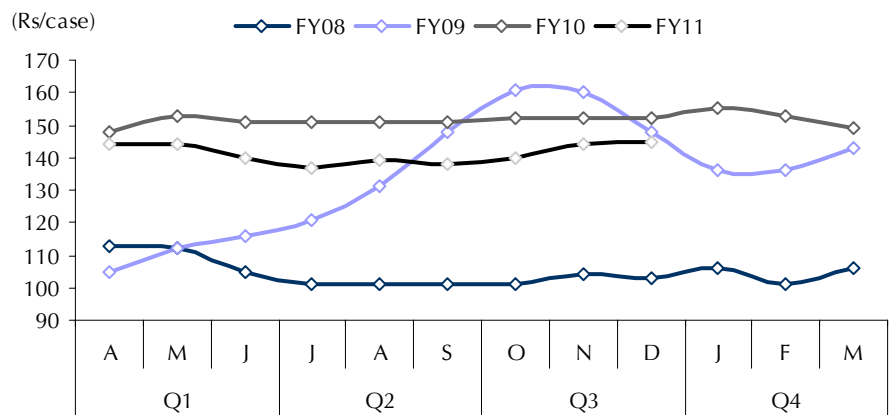
Source: Company

Fig 6 - Growth rates of key brands

% Growth	Q3FY11	YTD FY11
Black Dog Scotch	55	35
Antiquity Whisky	20	23
Signature Rare Whisky	22	19
McDowell's No. 1	14	16
DSP Black	40	45
McDowell's Green Label Whisky	22	26
Old Tavern Whisky	33	36

Source: Company

Fig 7 - RM cost movement



Source: RCML Research, Company



Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Revenues	63,623	75,349	88,211	101,307
<i>Growth (%)</i>	16.4	18.4	17.1	14.8
EBITDA	10,315	11,336	14,996	17,907
<i>Growth (%)</i>	33.9	9.9	32.3	19.4
Depreciation & amortisation	950	979	1,278	1,496
EBIT	9,365	10,357	13,718	16,411
<i>Growth (%)</i>	38.2	10.6	32.5	19.6
Interest	6,069	5,339	6,015	6,257
Other income	(1,597)	934	1,027	1,130
EBT	1,700	5,951	8,730	11,283
Income taxes	1,932	1,927	2,814	3,606
Effective tax rate (%)	113.6	32.4	32.2	32.0
Extraordinary items	-	-	-	-
Min into / inc from associates	(13)	-	-	-
Reported net income	(227)	4,024	5,916	7,677
Adjustments	(2,445)	-	-	-
Adjusted net income	2,218	4,024	5,916	7,677
<i>Growth (%)</i>	(907.2)	81.4	47.0	29.8
Shares outstanding (mn)	120.7	120.7	120.7	120.7
FDEPS (Rs) (adj)	20.0	33.3	49.0	63.6
<i>Growth (%)</i>	(850.7)	66.5	47.0	29.8
DPS (Rs)	2.8	3.3	4.9	6.4

Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	723	5,003	7,194	9,173
Non-cash adjustments	19,768	5,339	6,015	6,257
Changes in working capital	(4,577)	(8,661)	(4,608)	(6,256)
Cash flow from operations	15,914	1,681	8,602	9,174
Capital expenditure	(2,866)	(5,637)	(4,116)	(4,191)
Change in investments	-	-	-	-
Other investing cash flow	(853)	-	-	-
Cash flow from investing	(3,719)	(5,637)	(4,116)	(4,191)
Issue of equity	-	-	-	-
Issue/repay debt	-	5,156	1,999	1,999
Dividends paid	-	(471)	(692)	(898)
Other financing cash flow	(8,999)	(5,339)	(6,015)	(6,257)
Change in cash & cash eq	3,196	(4,610)	(223)	(173)
Closing cash & cash eq	7,686	3,077	2,854	2,681

Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	7,686	3,077	2,854	2,681
Accounts receivable	13,401	16,182	19,045	22,067
Inventories	17,462	21,383	24,835	28,357
Other current assets	11,029	14,686	16,243	19,200
Investments	1,265	1,265	1,265	1,265
Gross fixed assets	18,474	24,112	28,228	32,418
Net fixed assets	12,260	16,918	19,756	22,451
CWIP	943	943	943	943
Intangible assets	47,435	47,435	47,435	47,435
Deferred tax assets, net	715	715	715	715
Other assets	1,861	1,861	1,861	1,861
Total assets	114,058	124,465	134,951	146,975
Accounts payable	-	-	-	-
Other current liabilities	14,912	16,156	18,765	21,425
Provisions	2,819	3,273	3,928	4,513
Debt funds	55,062	60,219	62,218	64,217
Other liabilities	3,529	3,529	3,529	3,529
Equity capital	1,207	1,207	1,207	1,207
Reserves & surplus	36,529	40,082	45,306	52,084
Shareholder's funds	37,735	41,288	46,512	53,291
Total liabilities	114,058	124,465	134,951	146,975
BVPS (Rs)	312.7	342.2	385.5	441.6

Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
Profitability & Return ratios (%)				
EBITDA margin	16.2	15.0	17.0	17.7
EBIT margin	14.7	13.7	15.6	16.2
Net profit margin	3.5	5.3	6.7	7.6
ROE	7.2	10.2	13.5	15.4
ROCE	2.0	7.9	9.5	10.6
Working Capital & Liquidity ratios				
Receivables (days)	64	72	73	74
Inventory (days)	201	189	196	198
Payables (days)	165	151	148	150
Current ratio (x)	3.3	3.4	3.4	3.4
Quick ratio (x)	0.9	1.0	1.0	1.0
Turnover & Leverage ratios (x)				
Gross asset turnover	3.5	3.5	3.4	3.3
Total asset turnover	0.5	0.6	0.7	0.7
Interest coverage ratio	1.5	1.9	2.3	2.6
Adjusted debt/equity	1.5	1.5	1.3	1.2
Valuation ratios (x)				
EV/Sales	2.9	2.5	2.1	1.8
EV/EBITDA	17.9	16.3	12.3	10.3
P/E	52.8	31.7	21.6	16.6
P/BV	3.4	3.1	2.7	2.4



DuPont analysis

(%)	FY09	FY10	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	8.7	130.5	67.6	67.8	68.0
Interest burden (PBT/EBIT)	(46.8)	18.1	57.5	63.6	68.8
EBIT margin (EBIT/Revenues)	12.4	14.7	13.7	15.6	16.2
Asset turnover (Revenues/Avg TA)	49.6	54.7	63.2	68.0	71.9
Leverage (Avg TA/Avg equity)	493.8	377.4	301.8	295.5	282.5
Return on equity	(1.2)	7.2	10.2	13.5	15.4

Company profile

United Spirits's (UNSP) business comprises two segments: domestic IMFL and the Whyte & Mackay (W&M) scotch business (acquired in 2007). UNSP is the dominant market leader in IMFL with ~43% domestic market share. The company has been improving on its market share through higher-than-industry growth, thereby widening the gap to its nearest competitor.

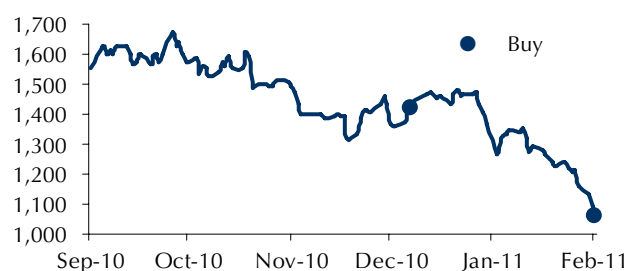
Shareholding pattern

(%)	June-10	Sept-10	Dec-10
Promoters	29.1	29.1	29.1
FIs	47.3	48.9	50.1
Banks & FIs	5.3	4.5	3.8
Public	18.3	17.5	17.0

Recommendation history

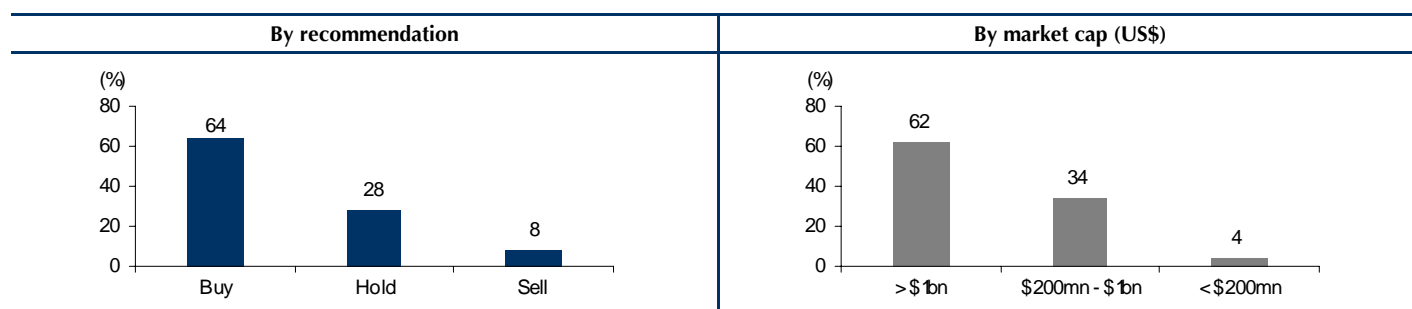
Date	Event	Reco price	Tgt price	Reco
16-Dec-10	Initiating Coverage	1,421	1,650	Buy
10-Feb-11	Results Review	1,057	1,550	Buy

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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