

July 21, 2010

Rating	BUY
Price	Rs1,392
Target Price	Rs1,543
Implied Upside	10.9%
Sensex	17,878

(Prices as on July 20, 2010)

Trading Data

Market Cap. (Rs bn)	174.8
Shares o/s (m)	1,255.9
Free Float	70.84%
3M Avg. Daily Vol ('000)	444.7
3M Avg. Daily Value (Rs m)	550.7

Major Shareholders

Promoters	29.16%
Foreign	47.28%
Domestic Inst.	5.32%
Public & Others	18.24%

Stock Performance

(%)	1M	6M	12M
Absolute	10.4	9.9	49.1
Relative	8.6	7.6	31.4

Price Performance (RIC: UNSP.BO, BB: UNSP IN)



Source: Bloomberg

United Spirits' (UNSP's) Q1FY11 top-line came in line with estimates, while PAT surprised us with 13% growth owing to higher-than-expected operating profit growth. Adjusted for Andhra Pradesh's (largest IMFL consuming state in India, accounts for ~20% of UNSP's volumes) fresh licensing requirement, volume growth came in at a robust 15%.

- **Ex-AP volume growth remains robust at 15%:** Reported volumes grew 6% as India's largest IMFL consuming state, Andhra Pradesh, witnessed trade de-stocking on account of fresh tendering process for awarding retail licenses. Excluding AP, volumes grew 15% (base quarter volumes were up 17%). Adjusting for the changes in revenue recognition method vis-à-vis contract manufacturers, recurring sales growth came in at 11% (reported sales grew 18%). Price hikes and mix improvement contributed nearly 5% of the top-line growth.

Whyte & Mackay (W&M) posted EBITDA of GBP5.9m for the quarter. However, post the conclusion of Diageo contracts, which contributed 50% of bulk scotch sales, W&M hasn't entered into new contracts. Management is yet to provide revised guidance for W&M EBITDA for FY11E. We expect to gain more clarity on W&M in the proposed analyst meet on July 2, 2010.

- **130bps operating margin expansion, more to come in H2FY11:** EBITDA margins improved 130bps YoY to 19.6% (highest in last 7 quarters), led by benign input costs. We expect further gross margin improvement in H2FY11 on account of expectations of bumper sugarcane production which should lead to continued pressure on molasses and ENA prices.

- **Interest costs up 63% YoY and declined 6% sequentially to Rs965m.** This is attributed to: a) working capital expansion to fund the higher growth and b) refinancing of Dollar denominated overseas debt with rupee debt in Q4FY10. Outstanding loans as on June 30, 2010 stood at Rs52.1bn. UNSP still has 8.3m of treasury stock, valued at Rs10.5bn.

- **Upgrade to BUY, with revised TP of Rs1,543:** We remain positive on UNSP's ability to drive double-digit volume growth in its domestic business. Volumes in AP are back on track in July after the completion of re-licensing process and Q2FY11 should compensate for volume loss of current quarter, as per management. Uncertainty around W&M EBITDA guidance is key hangover on the stock. We continue to model for GBP35m and GBP40m of W&M EBITDA for FY11e and FY12e, respectively. However, tailwinds from domestic gross margin expansion on account of expected benign input costs in H2FY11e should act as cushion. Upgrade from 'Accumulate' to 'BUY', with a revised target price of Rs1,543.

Key financials (Y/e March)	FY09	FY10	FY11E	FY12E
Revenues (Rs m)	54,681	60,858	65,370	77,629
Growth (%)	18.2	11.3	7.4	18.8
EBITDA (Rs m)	9,853	10,750	11,865	15,247
PAT (Rs m)	(4,088)	3,541	4,850	7,128
EPS (Rs)	18.7	28.2	38.6	56.8
Growth (%)	0.6	50.9	37.0	47.0
Net DPS (Rs)	2.1	2.8	3.9	5.7

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10	FY11E	FY12E
EBITDA margin (%)	19.5	19.2	20.0	21.6
RoE (%)	8.7	10.8	10.9	14.3
RoCE (%)	10.6	11.3	12.5	15.8
EV / sales (x)	4.0	3.6	3.3	2.8
EV / EBITDA (x)	22.1	20.3	18.4	14.3
PE (x)	74.5	49.4	36.0	24.5
P / BV (x)	6.0	4.1	3.7	3.3
Net dividend yield (%)	0.2	0.2	0.3	0.4

Source: Company Data; PL Research

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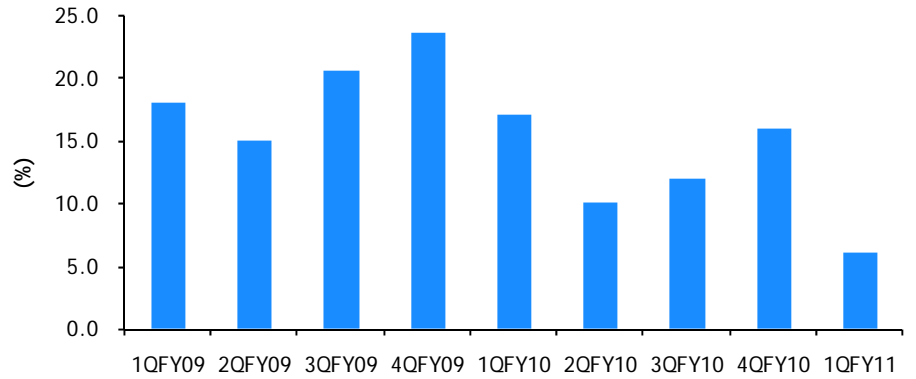
Q1FY11 Result Overview

(Rs m)

Y/e March	Q1FY11	Q1FY10	YoY gr. (%)	Q4FY10	FY10	FY09	YoY gr. (%)
Net Sales / Income from Operations	14,630	12,417		12,521	49,207	38,525	
Other Operating Income	77	63		142	392	425	
Net Sales / Income from Operations	14,706	12,481	17.8	12,663	49,599	38,950	27.3
Expenditure	11,818	10,198	15.9	10,708	41,142	32,268	
(Increase) / Decrease in Stock in Trade	(428)	(430)	(0.3)	(974)	(2,276)	(2,081)	
Consumption of Raw Materials	3,549	3,322	6.8	3,404	12,712	9,821	
Purchase of Traded Goods	2,001	1,655	20.9	2,139	6,986	4,864	
RM Cost	5,122	4,547		4,568	17,422	12,605	
Gross profit	9,585	7,933	20.8	8,095	32,177	26,345	22.1
<i>Gross profit margin (%)</i>	<i>65.2</i>	<i>63.6</i>		<i>63.9</i>	<i>64.9</i>	<i>67.6</i>	
Advertisement & Sales Promotion Expenses	1,390	883		1,498	4,415	3,401	
Consumption of Other Materials	2,861	2,630		2,305	10,147	8,770	
Employees Cost	766	681		752	2,962	2,361	
Others	1,680	1,457		1,585	6,196	5,131	
EBITDA	2,888	2,283	26.5	1,955	8,457	6,683	26.6
<i>EBITDA margin (%)</i>	<i>19.6</i>	<i>18.3</i>		<i>15.4</i>	<i>17.1</i>	<i>69.1</i>	
Depreciation	(91)	(80)		(114)	(370)	(354)	
Other Income	(8)	19		4	30	141	
EBIT	2,788	2,221		1,845	8,116	6,469	
Interest	(965)	(592)	63.0	(1,023)	(3,112)	(1,830)	70.0
PBT	1,823	2,329		822	5,704	4,639	
PBT (excl. exceptional items)	1,823	1,629		822	5,004	4,639	
Tax	(612)	(553)		(254)	(1,695)	(1,666)	
PAT (recurring)	1,212	1,076		569	3,309	2,972	11.3
PAT (reported)	1,212	1,776	(31.8)	569	4,009	2,972	34.9
<i>As % of sales</i>							
<i>RM cost</i>	<i>34.8</i>	<i>36.4</i>		<i>36.1</i>	<i>35.1</i>	<i>32.4</i>	
<i>Advertisement & Sales Promotion Expenses</i>	<i>9.5</i>	<i>7.1</i>		<i>11.8</i>	<i>8.9</i>	<i>8.7</i>	
<i>Consumption of Other Materials</i>	<i>19.5</i>	<i>21.1</i>		<i>18.2</i>	<i>20.5</i>	<i>22.5</i>	
<i>Employees Cost</i>	<i>5.2</i>	<i>5.5</i>		<i>5.9</i>	<i>6.0</i>	<i>6.1</i>	
<i>Others</i>	<i>11.4</i>	<i>11.7</i>		<i>12.5</i>	<i>12.5</i>	<i>13.2</i>	

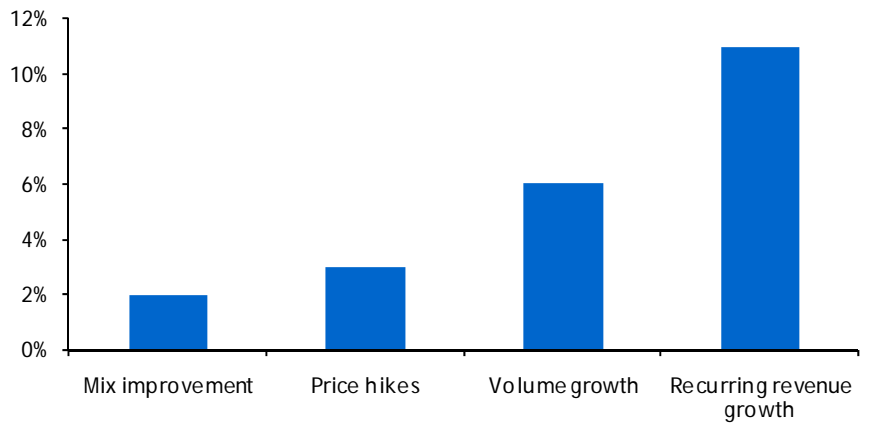


Fig 1: Volume growth ex-AP remains robust at 15%



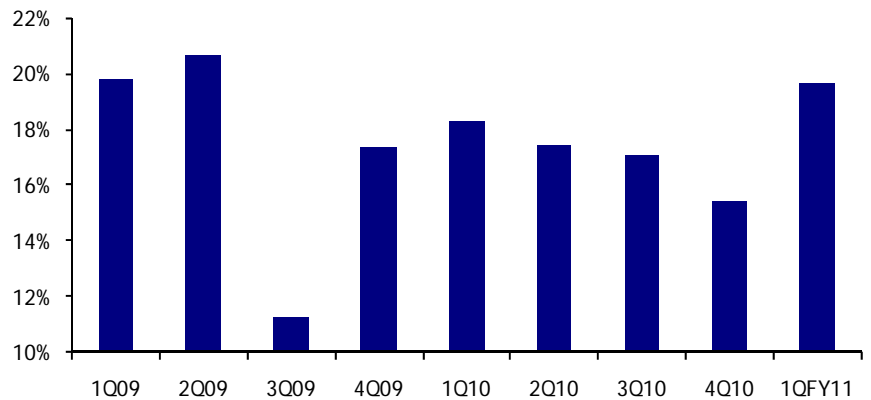
Source: Company Data, PL Research

Fig2: Recurring sales growth suppressed due to AP re-licensing issue



Source: Company, PL Research

Fig3: EBITDA margins highest in last 7 quarters



Source: Company, PL Research

**Fig4: Revised SOTP-based target price of Rs1,543**

	EV/EBITDA	EBITDA	EV
Domestic	15	12,210	189,133
W&M	9	3,037	28,824
Treasury			11,579
IPL			8,928
EV			238,464
Net Debt			44,651
Equity			193,812
Per share			1,543

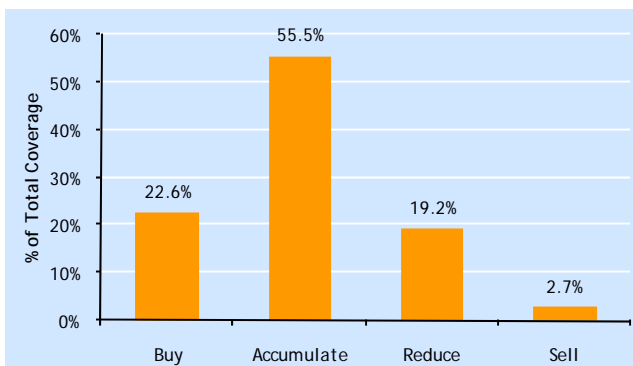
Source: PL Research

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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