

RESULT UPDATE

United Spirits

Downgrade to Underperformer

Price: Rs 736

BSE Index: 8,779

22 January 2009

Share Data

Reuters code	UNSP.BO
Bloomberg code	UNSP IN
Market cap. (US\$ mn)	1,502
6M avg. daily turnover (US\$ mn)	7.2
Issued shares (mn)	100
Target price (Rs)	625

Performance (%)	1M	3M	12M
Absolute	(24)	0	(57)
Relative	(13)	21	(13)

Valuation Ratios

Yr to 31 Mar	FY09E	FY10E
EPS (Rs)	28.7	39.0
+/- (%)	(2.5)	36.0
PER (x)	25.7	18.9
PBV (x)	2.6	2.3
Dividend/Yield (%)	0.5	0.5
EV/Sales (x)	2.5	2.2
EV/EBITDA (x)	12.6	10.9

Major shareholders (%)

Promoters	37
FII's	36
MF's	2
Public & Others	25

Financial highlights (Consolidated)

(Rs mn)	3QFY08	3QFY09	YoY (%)	9MFY08	9MFY09	YoY (%)	FY08	FY09E	YoY (%)	FY10E	YoY (%)
NetSales	8,890	10,293	15.8	24,073	29,447	22.3	46,275	54,115	16.9	60,616	12.0
EBITDA	1,793	1,063	(40.7)	4,885	4,806	(1.6)	10,618	10,789	1.6	12,488	15.7
EBITDAmargin(%)	20.2	10.3	-	20.3	16.3	-	22.9	19.9	-	20.6	-
OtherIncome*	96	140	46.0	336	537	59.6	1,063	957	(10.0)	1,053	10.0
Interest	(412)	(609)	47.7	(1,032)	(1,345)	30.3	(5,448)	(6,226)	14.3	(6,226)	-
Depreciation	(90)	(87)	(2.9)	(232)	(257)	10.7	(741)	(839)	13.2	(965)	15.0
PBT&extraordinary	1,386	507	(63.4)	3,958	3,741	(5.5)	5,492	4,681	(14.8)	6,349	35.6
Extraordinaryitems	-	-	-	-	-	-	181	-	-	-	-
PBT	1,386	507	(63.4)	3,958	3,741	(5.5)	5,673	4,681	-	6,349	-
Tax	(505)	(201)	(60.2)	(1,399)	(1,325)	(5.3)	(2,661)	(2,106)	(20.8)	(2,857)	35.6
PAT	881	306	(65.3)	2,559	2,416	(5.6)	3,012	2,574	(14.5)	3,492	35.6
AdjustedPAT	881	306	(65.3)	2,559	2,416	(5.6)	2,539	2,557	0.7	3,477	36.0
EPS (Rs)	10.4	3.5	(66.0)	30.3	28.0	(7.6)	29.4	28.8	(1.8)	39.1	35.6

*Quarterly and 9 month numbers are standalone.

3QFY09 Result – Margin pressure higher than expected

United Spirits (USL) reported a 65% decline in PAT at Rs 306 mn which was much below our expectations. Though a strong 20% volume growth led to a 16% growth in net sales to Rs 10.3 bn, higher input costs along with an increase in interest expense led to the steep decline in profits. EBITDA declined by 41% due to a 37% increase in input costs.

Though margins pressures from higher input costs persisted since 1QFY09, the steep impact during the quarter was much above expectations, particularly when USL managed these inflationary pressures well during 1HFY09E. The quarter experienced peak prices of ENA and glass, its key raw materials accounting for more than 50% of its sales. Though ENA prices have softened from their peaks, prices are still up by 25-30% (YoY) and are expected to remain firm due to a lower sugar output in FY10E. We expect the softening glass prices will help ease margins pressures in the coming quarters, however, downside risk remain to our estimates due to the volatility in ENA prices and lack of pricing power in 50% of the market.

We have cut our consolidated estimates by 23% for FY09E and 21% for FY10E to factor in higher input and interest costs and a lower 5% EBITDA growth for Whyte & Mackay. Despite a steep correction in the stock price, with continuing margins pressures, concerns over a highly leveraged balance sheet and the risks associated from the losses of the group's airline business, valuations at 26x FY09E and 19x FY10E revised estimates do not look attractive. We hence downgrade the stock to Underperformer with a target price of Rs 625 (revised from Rs 880) based on 16x FY10E estimate.

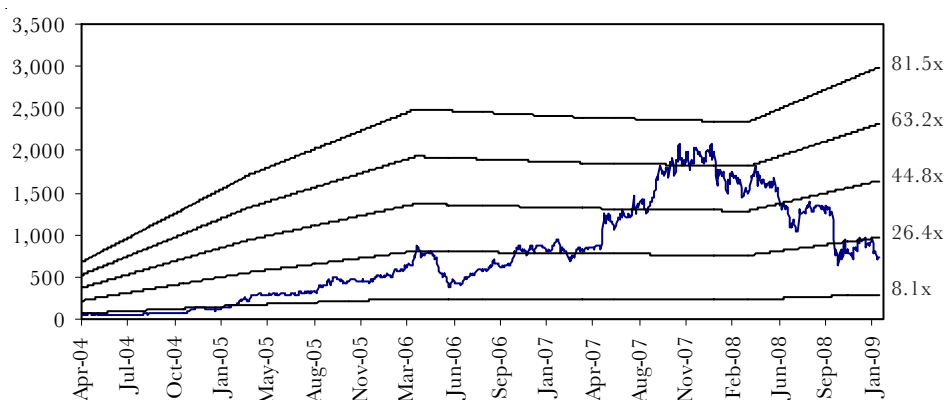
Highlights

- Overall volumes for the quarter increased by 20% to 24 mn cases.
- For the 9 months, Whyte & Mackay has recorded a subdued 5% growth in EBITDA at £ 53.9 mn.
- As at end FY08, United Breweries Holdings has pledged 10.2 mn shares (10% of total USL's equity) of United Spirits to secure loans for its subsidiary and associate companies including loans raised for the Whyte & Mackay acquisition.

Revised estimates

(Rs mn)	Old estimates		New estimates		Variance (%)	
	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E
Net Sales	55,337	61,666	54,115	60,616	(2.2)	(1.7)
EBITDA	12,251	13,794	10,789	12,488	(11.9)	(9.5)
PAT	3,313	4,406	2,557	3,477	(22.8)	(21.1)
EPS (Rs)	37.1	49.4	28.8	39.1	(22.3)	(20.8)

PER Band



Source: B&K Research

Income Statement

Yr end 31 Mar (Rs mn)	FY07	FY08	FY09E	FY10E
Net sales	29,618	46,275	54,115	60,616
<i>Growth (%)</i>	37.9	56.2	16.9	12.0
Operating expenses	(25,261)	(35,657)	(43,325)	(48,128)
Operating profit	4,358	10,618	10,789	12,488
EBITDA	4,358	10,618	10,789	12,488
<i>Growth (%)</i>	126.6	143.7	1.6	15.7
Depreciation	(338)	(741)	(839)	(965)
Other income	876	1,063	957	1,053
EBIT	4,895	10,940	10,907	12,575
Interest paid	(873)	(5,448)	(6,226)	(6,226)
Pre-tax profit (before non-recurring)	4,022	5,492	4,681	6,349
Non-recurring items	3,135	181	0	0
Pre-tax profit (after non-recurring)	7,157	5,673	4,681	6,349
Tax (current + deferred)	(1,049)	(2,661)	(2,106)	(2,857)
Net profit (before Minority Interest, Pref. Dividend etc..)	6,107	3,012	2,574	3,492
Minority interests	(438)	(291)	(17)	(15)
Reported PAT	5,670	2,721	2,557	3,477
Adjusted net profit	2,535	2,539	2,557	3,477
<i>Growth (%)</i>	99.7	0.2	0.7	36.0

Balance Sheet

Yr end 31 Mar (Rs mn)	FY07	FY08	FY09E	FY10E
Cash & Marketable securities	5,778	5,438	2,870	859
Other current assets	13,152	29,272	34,487	38,772
Investments	2,044	2,119	2,184	2,278
Net fixed assets	16,515	64,422	67,583	69,618
Total assets	37,489	101,251	107,124	111,527
Current liabilities	7,264	11,514	12,825	14,114
Total debt	14,802	67,689	69,176	69,176
Other non-current liabilities	19	18	18	18
Total liabilities	22,084	79,221	82,020	83,308
Share capital	829	886	1,030	1,030
Reserves & surplus	12,863	19,887	22,082	25,197
Less: Misc. expenditure	0	(735)	0	0
Shareholders' funds	13,692	20,038	23,112	26,227
Minorities interests	1,712	1,992	1,992	1,992
Total equity & liabilities	37,489	101,251	107,124	111,527
Capital employed	30,225	89,737	94,298	97,413

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY07	FY08	FY09E	FY10E
Pre-tax profit	7,157	5,673	4,681	6,349
Depreciation	338	741	839	965
Change in working capital	(2,448)	(11,798)	(4,135)	(2,997)
Total tax paid	(1,117)	(2,662)	(2,106)	(2,857)
Cash flow from oper. (a)	3,930	(8,045)	(721)	1,460
Capital expenditure	(1,361)	(52,500)	(4,000)	(3,000)
Change in investments	440	(75)	(65)	(94)
Others	208	3,117	735	0
Cash flow from inv. (b)	(712)	(49,459)	(3,331)	(3,094)
Free cash flow (a+b)	3,218	(57,504)	(4,051)	(1,633)
Equity raised/(repaid)	(48)	4,493	144	0
Debt raised/(repaid)	(630)	52,887	1,487	0
Dividend (incl. tax)	(251)	(231)	(131)	(362)
Cash flow from fin. (c)	(1,051)	57,164	1,483	(377)
Net change in cash (a+b+c)	2,167	(340)	(2,568)	(2,011)

Key Ratios

Yr end 31 Mar (%)	FY07	FY08	FY09E	FY10E
Adjusted EPS (Rs)	30.6	29.4	28.7	39.0
Growth	45.7	(3.9)	(2.5)	36.0
Book NAV/share (Rs)	185.8	254.9	281.3	316.2
Dividend/share (Rs)	2.3	1.5	3.5	3.5
Dividend payout ratio	9.3	6.2	14.2	10.4
Tax	14.7	46.9	45.0	45.0
EBITDA margin	14.7	22.9	19.9	20.6
EBIT margin	16.5	23.6	20.2	20.7
RoCE	17.7	18.2	11.9	13.1
Net debt/Equity	58.6	282.6	264.1	242.1

Valuations

Yr end 31 Mar (x)	FY07	FY08	FY09E	FY10E
PER	24.1	25.1	25.7	18.9
PCE	21.2	19.4	19.3	14.8
Price/Book	4.0	2.9	2.6	2.3
Yield (%)	0.3	0.2	0.5	0.5
EV/Net sales	4.6	2.9	2.5	2.2
EV/EBITDA	31.2	12.8	12.6	10.9

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY07	FY08	FY09E	FY10E
Net margin (%)	8.6	5.5	4.7	5.7
Asset turnover	0.8	0.7	0.5	0.6
Leverage factor	2.8	3.7	4.4	4.1
Return on equity (%)	20.2	13.6	10.9	13.0

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 2. **OUTPERFORMER:** 0 to +25%
 3. **UNDERPERFORMER:** 0 to -25%
 4. **SELL:** Potential downside of < -25% (absolute returns)
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