October 9, 2009 Strictly confidential

ANTIQUE

FMCG

The Alcohol Goliath

Investment Highlights

- The Indian liquor industry, traditionally dominated by low-end country liquor, has shifted to IMFL (Indian Made Foreign Liquor).
- The IMFL industry has grown at a higher rate, particularly during the last three years, led primarily by opening up of distribution in key markets in North India and banning of country liquor in the southern states.
- Strong entry barriers, such as ban on advertising and restrictions on interstate movement of the products, have restricted the entry of global spirit players.
- USL has continued to be the leading player in the IMFL industry with consistent volume share on a standalone basis of nearly 55% during the last four years.
- The Indian beer industry has been witnessing steady growth of 8% CAGR per year over the last five years led by strong beer segment, which contributes approximately 63% of the total beer volumes in India. This has aided UB's leading position in the industry.
- Indian alcoholic beverages poised for long term growth led by low per capita consumption, higher young and working population clubbed with increase in disposable incomes.
- We initiate, coverage on United Spirits with a BUY recommendation and a target price of INR1,092, while coverage on United Breweries Ltd. with a HOLD recommendation with a target price of INR142.

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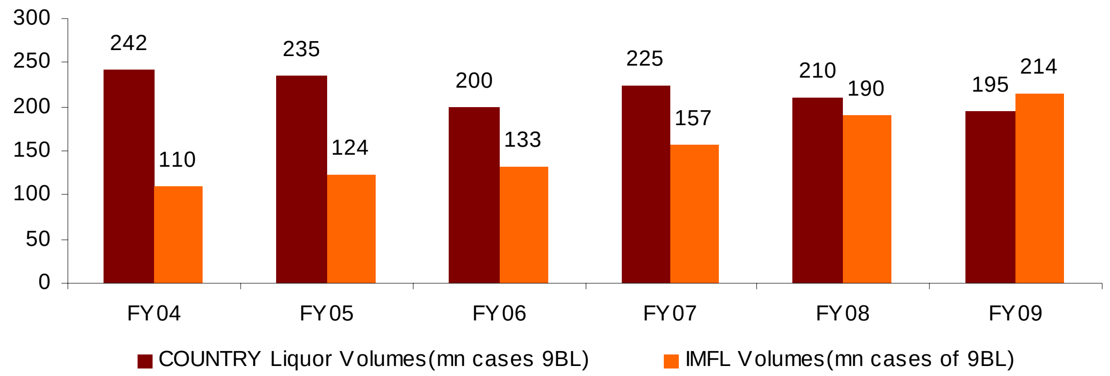
Indian liquor industry shifting towards IMFL

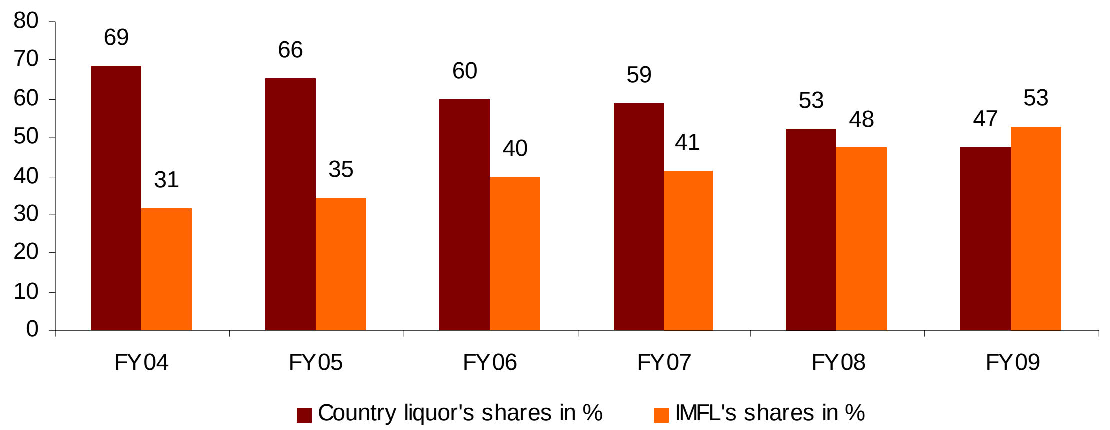
The Indian liquor industry has been evolving over the last few years with rising income levels, change in lifestyles, and change in regulations. From traditionally being an industry dominated by low-end country liquor, this industry has shifted to IMFL (Indian Made Foreign Liquor). During the period, FY04-09, when the aggregate volumes of IMFL and country liquor grew at a low pace of 3% CAGR to 414m cases, IMFL outperformed by growing at 15% CAGR to an estimated 214m cases. This led to a substantial increase in its contribution to the aggregate volumes from approximately 31% in FY04 to 53% in FY09. Therefore, country liquor's consumption has dropped substantially from 69% to 47% of the industry to about 195m cases during the period.

Volume trend (country liquor and IMFL)



Source: Company, Antique

Volume share (country liquor & IMFL)

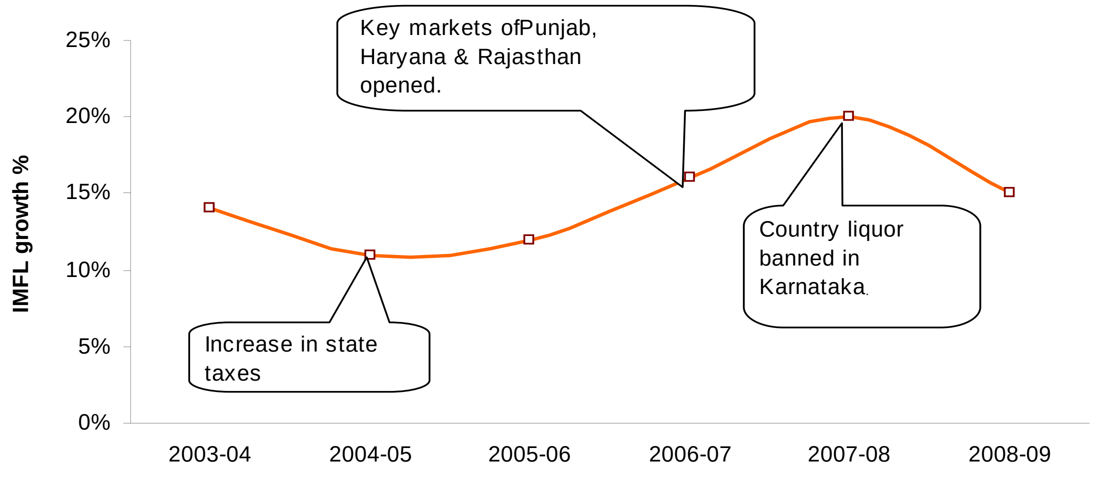


Source: Company, Antique

Liberalization of regulations aiding growth

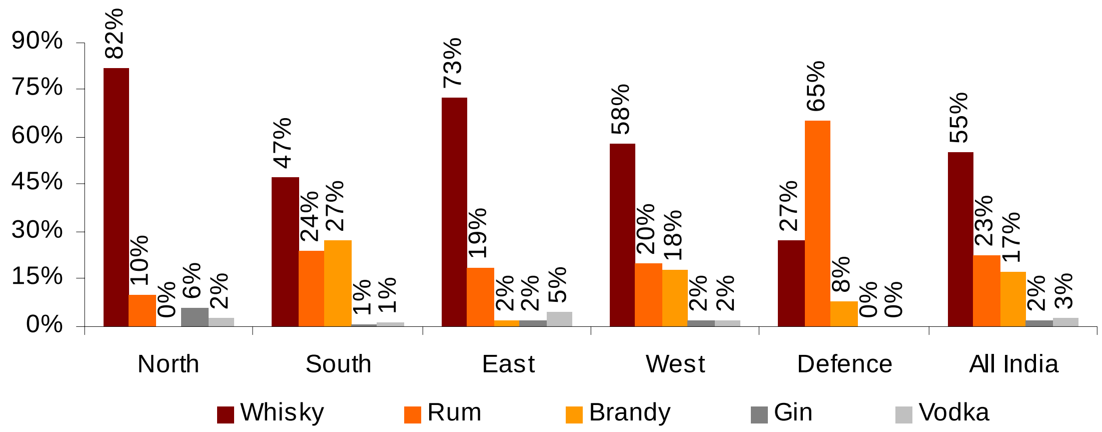
During the last five years, the IMFL industry has grown at a higher rate, particularly during the last three years. This could be primarily attributed to the opening up of distribution in key markets in North India during FY07 and banning of country liquor in southern states such as Karnataka during FY08. During FY07, IMFL grew due to higher distribution and added nearly 24m cases as against 25m cases by the country liquor industry. However, during FY08, IMFL grew by 33m cases with the country liquor industry dropping by 15m cases. Therefore, initiatives by the governments of the high liquor consuming southern states, to curb country liquor, led to higher consumption of IMFL aided by migration from country liquor.

Growth in IMFL



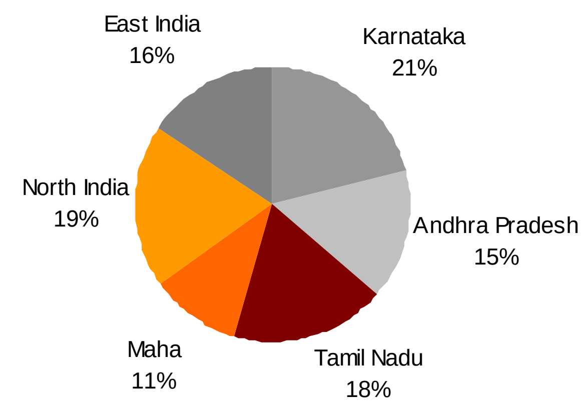
Source: Company, Antique

Regional spread of IMFL



Source: Industry

United Spirits Regional Sales



Source: Industry

IMFL growth led by brandy and vodka

The 15% CAGR growth in IMFL was led by brandy and vodka, which grew by 24% and 74% CAGR, respectively, during FY04-08. This led to an increase in the contribution of the two categories from about 14% and 1% of total IMFL volumes during FY04 to 19% and 5%, respectively, in FY08. We understand that the growth in brandy has been aided by the growth in key consuming markets of the South. Further rapid urbanization, increased consumerism, and adoption of trendier lifestyles are driving vodka sales across the smaller towns and cities. Long considered a cosmopolitan drink in the Indian context, vodka is finding increasing acceptance among a large and growing number of youngsters and women in the Tier II cities and towns. Sales of the clear drink have soared in places such as: Jaipur and Ajmer in Rajasthan, Puttur in Karnataka, Jabalpur in Madhya Pradesh, Kochi in Kerala, and Vizag in Andhra Pradesh triggered by the adoption of big-city trends and habits. In cities, the perception that vodka has lower alcohol content compared to whisky and the colorless and odorless nature of the liquid has helped increase traction.

However, Whisky by far remains the largest contributor to IMFL volumes at 51%, followed by rum which is at 23% of the total IMFL volumes.

Categorywise growth (IMFL)

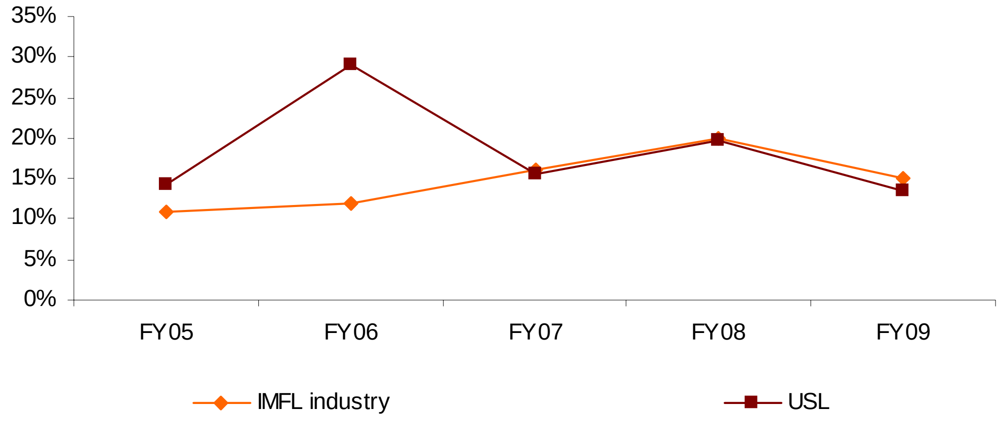
(% Growth)	FY04	FY05	FY06	FY07	FY08
Whisky	11.9	7.7	10.9	16.2	12.5
Brandy	28.1	25.2	9.3	32.1	28.9
Rum	11.0	5.9	1.6	16.6	14.2
Vodka	25.0	40.0	64.3	95.7	95.6
Gin	17.9	3.0	5.9	4.2	2.7

Source: Industry

USL remains the leading player in IMFL

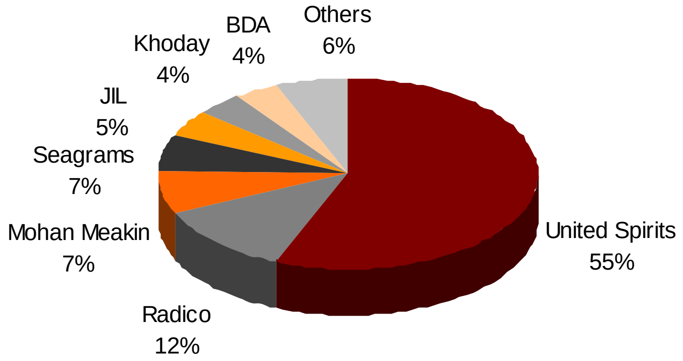
USL continues to be the leading player in the IMFL industry with consistent volume share on a standalone basis. During FY05-09, USL grew at 19% CAGR, as against the industry growth of 15% CAGR. USL's well established brands, strong distribution, and comprehensive portfolio have played a key role in maintaining its dominance in the industry.

Industry vs USL growth



Source: Company, Antique

Market share of IMFL



Source: Company

Strong entry barriers, such as ban on advertising and heavy and complicated tax structure, have restricted the entry of global players

Ban on advertising - restricts the creation of new brands

The IMFL market has strong entry barriers in place such as ban on advertising and restrictions on interstate movement of the product. The ban on advertising restricts the marketing, and hence, the creation of new brands in IMFL. Even the creation of new brands by existing players becomes difficult and takes far longer time compared to other consumer industries such as autos and home and personal products. Therefore, the creation of brands in the IMFL industry is similar to the cigarette industry which takes 8-10 years to create brands.

Complicated and heavy tax structure requires wide spread manufacturing

The tax structure in each state differs; it is complicated and changes from time to time. In certain states, taxes are levied on an ad valorem basis and again differ from state to state. Octroi rates also vary from town to town like in the case of Maharashtra. Additionally, various other levies apply and change depending on whether sourced locally or from other states. Resultantly, IMFL players are required to have their own or tied up manufacturing plants in about 35 states in India.

Indirect tax structure

	Excise Duty	Sales Tax on value + duty
Tamil Nadu	INR93.24 to 113.24 per Proof Liter	58% + 38%
Maharashtra	INR160/PL or 200% of manufacturing cost whichever is higher	20% VAT
Karnataka	INR45/BL + Additional Excise Duty ad valorem ranging from INR60 to INR450 per BL	NIL
Kerala	14.5% to 16% of the value per PL	90% + 1% Cess + 5% Turnover Tax on value + duty
Andhra Pradesh	INR45-80 per PL or 85% of the basic price, whichever is higher	70%
Punjab	INR25 + 4+ 6 per PL.	12.5% VAT
Haryana	INR25/PL	20%
U.P.	INR1,413-5,706 per case depending on distillery billing price	Merged with ED
West Bengal	INR153 to 405/PL	20% on MRP.
Goa	INR10-1,500 per BL depending on MRP	VAT 20% + 3% TOT
Madhya Pradesh	INR180-600/PL depending on billing price	NIL
Rajasthan	INR170-5,000/PL + additional ED @ 5% on billing price + ED	20%
Bihar	INR25-60/PL	50%
Orissa	INR140-300/PL	20% + SC 10%

Source: Industry

Pricing is controlled in majority of the states which requires strong internal efficiencies

IMFL pricing is controlled across majority of the states. Therefore, the passing on of any cost increase becomes difficult for IMFL manufacturers on a broad-based basis. Price hikes have to be essentially negotiated with various state governments, which could be a long drawn process. Further price hikes more than one time in a year also becomes difficult in most of the cases. Therefore, IMFL manufacturers are required to improve their internal efficiencies to face the vagaries of cost hikes. This again raises the complications for new entrants in the IMFL industry.

Pricing and distribution structure

State	Distribution	Pricing mechanism
Tamil Nadu	Both wholesale and retail controlled by government	Pricing is as per negotiation with government
Maharashtra	Private wholesale + retail	Any time
Karnataka	Wholesale government, private retail	Intimate government for formal approval
Kerala	Wholesale and retail government	Annual tender, price increase is government prerogative
Punjab and Haryana	Wholesale and retail private	Annual process of fixing 'landed price' to wholesaler; changes have to be negotiated hard
Uttar Pradesh	Wholesale and retail private	Annual process of fixing 'landed price' to wholesaler; changes have to be negotiated hard
West Bengal and Goa	Private wholesale and retail	Company prerogative
Madhya Pradesh and Orissa	Government wholesale; private retail	Annual process
Rajasthan and Bihar	Government wholesale; private retail	Annual process of price sub

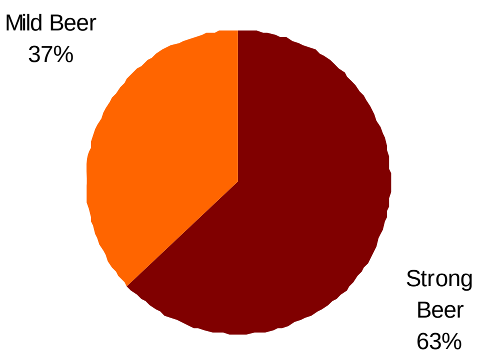
Source: Industry

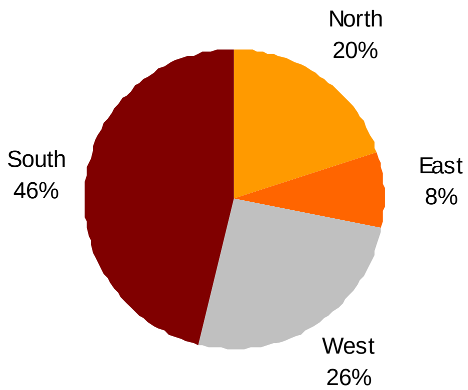
Beer industry grew by 8% led by strong beer

The Indian beer industry has been witnessing steady growth of 8% CAGR per year over the last five years. Volumes have passed 155m cases during 2008 from a mere 70m cases in 2002. The premium beer market is only 5% of the total sales; however, this segment is rapidly expanding, touching a growth rate of 35-40%. Major beer consuming states are: Maharashtra, Andhra Pradesh, Karnataka, and Tamil Nadu. Per capita consumption of Goa is highest in the country. The growth in Beer has been primarily led by the strong beer segment which contributes about 63% of total beer volumes in India. Strong beer has been the favourite among the Indian consumers owing to the "kick per buck" attitude, whereby for the price close to a mild beer, a stronger and higher alcohol content drink can be obtained by the consumer. As India is rapidly progressing with more and more people entering the legal drinking age, beer is the ideal first stepping choice. It is due to this changing trend that mild beer is gaining popularity among the first time users who wish to consume a lighter, less alcoholic and casual drink. Mild beer also has a vast variety of premium brands associated with it adding to the greater selectivity for the customers.

Indian beer industry is classified into two categories: Strong and Mild.

Beer industry breakup | **% of total sales**





Source: Company, Antique

UB leading the way followed by SAB Miller

The primary two companies competing for supremacy in this category are: UB Group and SABMiller. Historically, Hayward's 5000 (SABMiller) has been the clear market leader in strong beers from the 90's until mid 2006, whereby UB dethroned it with its Kingfisher Premium Lager to become the highest consumed strong beer in India.

Industry v/s UB volume trend

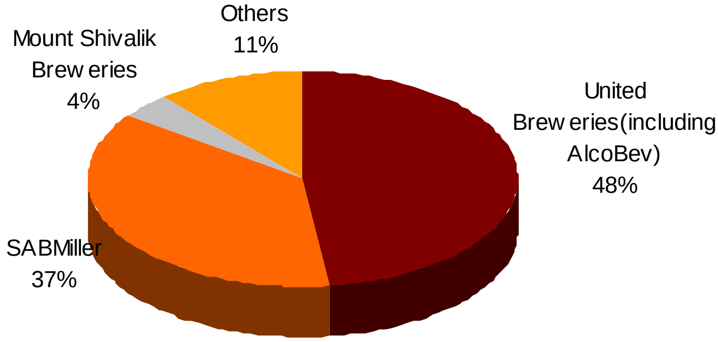
Mn cases	2003	2004	2005	2006	2007	2008	2009
Total Beer industry volumes	80	85.3	89.3	95.9	137	155	172
industry growth (%)	12.0	6.6	4.7	14.0	30.0	12.0	11.0
UB volumes	30.5	33.1	36.4	43.4	66.1	75.4	82.4
UB's growth (%)	17.5	9.0	10.0	18.0	24.8	16.2	13.1

Source: Company, Antique

SABMiller portfolio	UB portfolio
Strong beers	
Haywards 5000	Kingfisher Strong Lager
Knock Out	Kingfisher Super Strong Lager
Haywards 2000	Kalyani Black Label Strong Lager
Mild beers	
Foster	Kingfisher Lager
Indus Pride	Kingfisher Light Lager
Peroni	Kingfisher Blue
Royal Challenge Premium Lager	Premium Ice Beer
	Taj Mahal Premium Lager

Source: Industry

Beer industry market share



Source: Industry

Consolidation in the Beer industry

The beer industry has witnessed substantial consolidation activity in the past few years. Larger players, such as UB and Sab Miller, have been on an acquisition drive and have consolidated their leadership position in beer. United Breweries acquired several breweries from FY02 to FY06. Especially during FY04, It acquired Karnataka Breweries (KBDL), the largest brewery in India, with a capacity of over 12m cases for INR1.8bn. Subsequently, KBDL, MBDL (Mangalore Breweries and Distilleries Ltd.), Associated Breweries and Distilleries Ltd. (ABDL), were merged into the company during FY06. Further, during FY06, UB formed a joint venture with Scottish and New Castle by the name Millennium Alcobev (MAL). Empee Breweries and GMR Breweries are the subsidiaries of Millennium Alcobev (MAL)UB's 50:50 JV with S&N. On the other side, Sab Miller, the second largest beer manufacturer (37% market share) acquired few breweries and Fosters and Mohan Meakin during CY2006. The company acquired 100% interest in Foster's India for a consideration of USD120m. This acquisition provided Sab Miller, production and distribution rights of brands such as Foster's Lager, Amberro Mild, and Amberro Strong in the Indian market. India is the third largest market for the Foster's brand globally and it has achieved a CAGR of 13% since operations commenced in 1998. Additionally, the acquisition provided presence in 19 Indian states and has a substantial share of the mild beer segment in the strategic state of Maharashtra. Foster has one brewery based in Aurangabad (Maharashtra) with a licensed annual capacity of 350,000hectoliters.

Consolidation activity

Companies	Brand	Details
United Breweries (with AlcoBev)	Market leader in India With Kingfisher	Acquired several smaller breweries
SABMiller	Fosters, Haywards 5000 doing well	Acquired Foster's India for USD120m in Aug 06
Mount Shivalik Breweries	Cobra Brewing, Punjab Extra Strong Golden Peacock	
Others	Carlsberg, A-B, APB, Coors	Acquired several small Breweries across the country

Source: Industry

Increase in disposable incomes and changing lifestyles increasing beer consumption

The growth of the Industry is driven by a progressive economy with favorable demographics, higher disposable incomes, increasing exposure to Western lifestyles and higher consumer spends. The social habits among people in India are undergoing a transformation with a relaxed attitude towards consumption of alcohol, especially beer.

Liberalization of distribution aided growth in beer demand

As in the case of IMFL, industry was pleasantly surprised in 2007, with change in distribution and retail policy by the states in North India. This resulted in beer price declining by 25-30%, with sharp increase in demand.

Retailing: improving the access to beer and driving demand

Until a few years ago a common man would have to be brave enough to go to a beer shop and purchase beer, however, today due to retailing and the open availability of beer and wines in super marts and some larger multi-purpose stores, the exposure of people towards beer as a drink has increased significantly also attracting the first timers to purchase the drink from such locals rather than gathering one's courage to walk up to the counter of a liquor store.

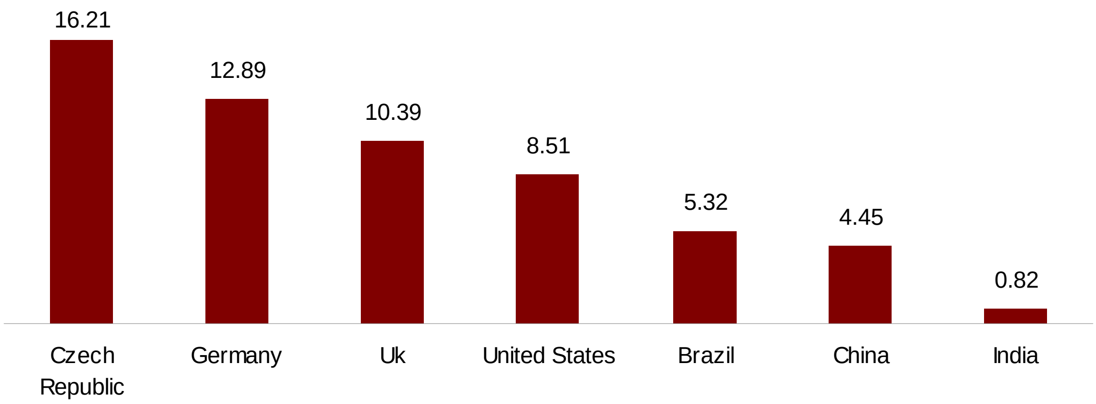
States following the retailing of beer and wines are Maharashtra, Goa, Delhi, Karnataka, etc.

Indian alcoholic beverages poised for a long-term growth

Low per capita consumption provides huge potential for growth

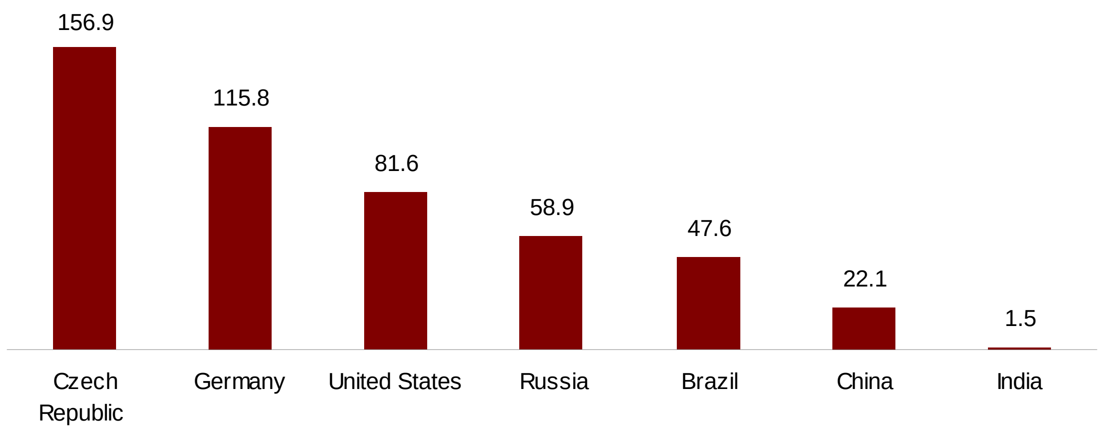
Like in the case of other products, the per capita consumption in India for alcoholic beverages remains low providing a huge opportunity for growth in the longer term. India is the second largest consumer of Whisky in the world, yet its per capita consumption of spirits is very low compared to all major consuming nations. The per capita consumption in India for IMFL is at 0.82liters as against 0.3liters in FY02. Further as seen above, the per capita consumption of beer is the lowest in India compared to a world average of about 25liters with a high of 156.9liters in Czech Republic. World over it has been identified that policy focus should not as much be on controlling consumption but more importantly on reducing harm. Therefore, beer and wine dominate the alcohol market in most countries. It is considered to be common man's drink and in many countries is priced in parity with soft drinks.

Per capita spirits consumption per annum (in litres)



Source: Industry

Per capita beer consumption per annum (in litres)

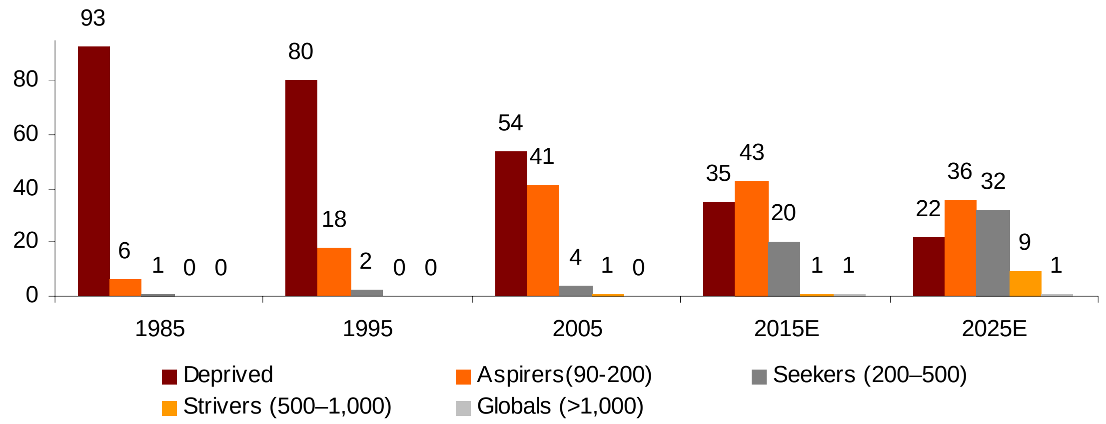


Source: Industry

Rising income levels and urbanization to change lifestyle and drive alcoholic beverages

Increase in income levels and expansion in the middle class population would lead to increase in the number of the consuming class. This coupled with the rising urbanization is expected to lead to change in lifestyles and higher growth for alcoholic beverages.

Income group break up (% of total population)

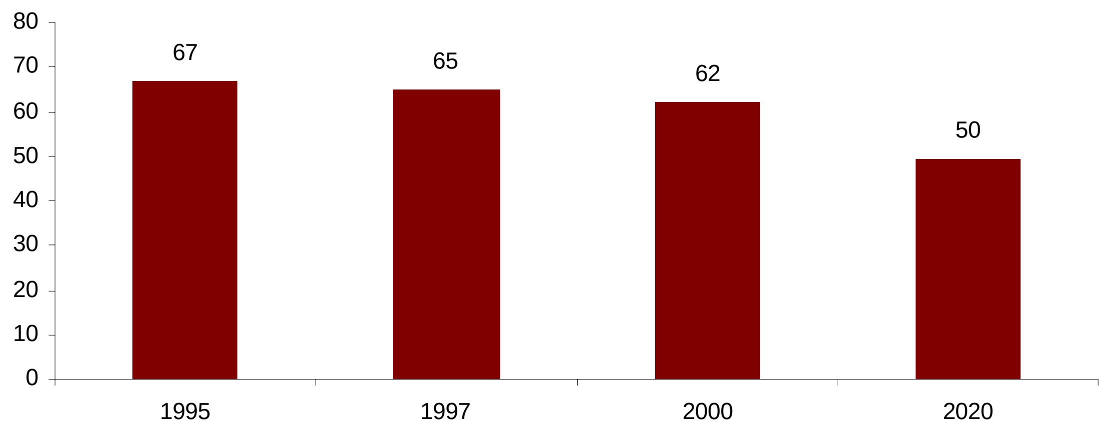


Source: McKinsey

Higher number of working population would improve affordability

Higher number of people in the working population and lower dependency would also aid growth in alcoholic beverages. The growth in working population will improve affordability, this in turn, is expected to drive growth for alcoholic beverages.

Dependency ratio (%)



Source: McKinsey

Increase in the target population to boost consumption

Estimates show that by 2015, 50% of the Indian population will be below the age of 30 years. Core target market is 18-30 year olds. As initiation to alcohol consumption is through low alcohol beverages like beer the same provides an excellent opportunity for growth in beer consumption over the next decade and half. All the above factors would contribute to the demand of alcoholic beverages in India. Further, the change in outlook of the youth towards alcohol, especially towards beer, which is milder compared to spirits would drive beer demand.

Higher disposable incomes - driving aspirations

The Indian economy is likely to maintain a robust economic growth rate of >7% per annum over the foreseeable future, as the country further entrenches its increasingly robust competitive position in the global economy. Higher GDP growth and rapid growth in exports have led to a considerable increase in per capita income, while falling real prices of essentials have provided Indian consumers with higher disposable incomes. Liquor consumption is intuitively one of the preferred avenues for expenditure due to the instant gratification it provides.

Hence, favorable demographics, coupled with increasing disposable incomes, will lead to a significant increase in per capita consumption of spirits across categories.

Social acceptability and western influence - a boon

Increasing overseas travel and influence of western media in India post liberalization, have led to a perceptible shift "westwards" in terms of aspirations and lifestyles. Consumption of alcohol by women in public is also being considered increasingly acceptable in metropolitan cities.

Thus, western influences and greater freedom of expression will play an important role in boosting liquor consumption in India over the next decade, especially considering that India has the world's youngest population profile.

United Spirits

King of all times

BUY **CMP: INR909** **Target Price: INR1,092**

ANTIQUE

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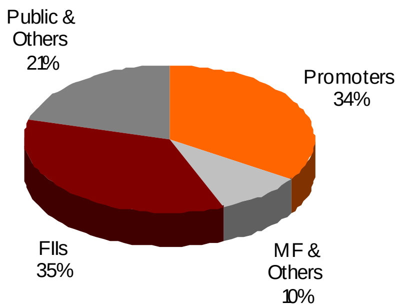
Market Data		
Sector	:	FMCG
Market Cap (INRbn)	:	98
Market Cap (USDbn)	:	2
O/S Shares (m)	:	108
Free Float (m)	:	62
52-wk HI/LO (INR)	:	1,090/426
Avg Daily Vol ('000)	:	527
Bloomberg	:	UNSP IN
Reuters	:	UNSP.BO

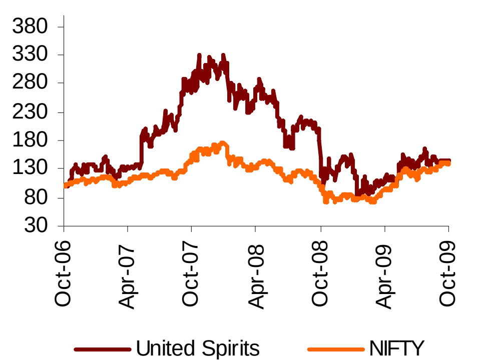
Price Performance

	1m	3m	6m	12m
Absolute	1	3	29	(4)
Relative	(1)	(15)	(16)	(35)

Shareholding Pattern



Price Performance Vs NIFTY



Investment highlights

- United Spirits is on a strong footing in the IMFL market, backed by strong brands, comprehensive portfolio, wide spread distribution and dominating market share.
- Volumes to grow at 13% CAGR during FY09-11, backed by the burgeoning young population and the expected economic revival.
- Despite the sharp rise in spirits, the input cost inflation would be under control with expected slowdown in the prices of glass. Further the sharp rise in spirit prices may not be true for the full year as the demand for industrial alcohol has slowed.
- Currency fluctuation - not a major concern for the foreign debt.
- Whyte and Mackay's EBITDA is expected to be at GBP59m during FY10e and at GBP62m during FY11e.
- USL would require diluting equity by 11% including treasury shares of 8.3m.Company has plans of a US$350m fund raising

Valuations

At the CMP of INR909, the stock is trading at 32.9x FY10e earnings and at 20.3x FY11e earnings. Our SOTP valuation provides a target price per share of INR1,092, implying a PE of 24x FY11e and providing an upside of 19% from the current levels. We, therefore, recommend a BUY at the current levels.

Risks

- Pledging of USL shares against Kingfisher airlines.
- Continued rise in input cost may dent margins.
- Sharp rise in duties remains a risk.

Key financials

	2008	2009	2010e	2011e	2012e
Net Revenue (INRm)	46,275	54,681	62,799	71,222	81,701
EBITDA (INRm)	9,724	9,853	11,268	13,579	15,702
EBITDA growth	123%	1%	14%	21%	16%
PAT (INRm)	3,013	-4,085	2,752	4,468	6,229
PAT growth	-35%	14%	47%	62%	39%
EPS(INR/share)	23.6	23.0	27.6	44.9	62.5
EPS growth	-35%	-2%	20%	62%	39%
PE (x)	38.6	39.5	32.9	20.3	14.5
PB (x)	3.2	3.2	2.6	2.3	2.0
EV/EBITDA (x)	18.2	18.0	15.7	13.0	11.3
RoE	8%	8%	8%	12%	14%

Source: Antique

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Investment argument

United spirits on a strong footing in IMFL

United spirits is on a strong footing in the IMFL market due to its strong brands, comprehensive portfolio, wide spread distribution and dominating market share. All these factors provide, the company, a significant edge in a market which has a huge potential to grow in the longer term. However, has restriction on advertising of alcoholic products and their distribution across states.

Products straddling across all major IMFL categories and price points

United spirits has a dominating market share of 55% in terms of volume. This has been on the back of comprehensive portfolio of products across all the IMFL categories and across all major price points.

United Spirits brand portfolio

Luxury Portfolio	Type	Cost(INR)
Jura	Whisky	3450
Dalmore	Whisky	4100
Whyte & Mackay	Blended Scotch Whiskies	2620
Pinky	Vodka	2750
Bouvet	Wine	800
Premium Portfolio		
Black Dog	Scotch Whisky	1800
Antiquity	Premium Whisky	670
McDowell's Single Malt	Premium Whisky	675
Royal Challenge	Whisky	600
Signature	Deluxe Whisky	600
Deluxe Portfolio		
McDowell's No1 Reserve	Whisky	375
McDowell's No1 Diet	Whisky	390
McDowell's No1 Celebration	Rum	240
Director's Special Black	Whisky	250
McDowell's Green label	Whisky	250
Director's Special	Whisky	260
Bagpiper Deluxe	Whisky	245
Bagpiper Tetra	Whisky	100
Gold Riband	Whisky	235
White Spirits		
White Mischief	Vodka	300
Romanov	Vodka	300
Blue Riband	Gin	255
Brandy		
McDowell's No1 Brandy	Brandy	415
Honey Bee Brandy	Brandy	235

Source: Industry

Strong brands in place to attract fresh consumers

As against the difficulties with creating of new brands, United Spirits has strong brands such as Mc Dowell and Bagpiper across various categories of whisky, rum, and brandy. Further, it has created strong brands in the high growth categories like Vodka and Gin. Mc Dowell and Bagpiper are millennium brands and these two brands would constitute about 22% of the IMFL industry.

Wide spread manufacturing and distribution in place

United spirits has the most widespread manufacturing and distribution network in India. The company has about 74 manufacturing facilities with 28 facilities owned by UBG and 46 third party facilities. About 55% of USL's volumes are manufactured in own facilities while 45% of volumes are manufactured by the third party facilities. This helps United Spirits to source about 94% of its sales volumes in the state of sale. Such a broad based network is very critical in a scenario where there are state wise duties in to effect.

Volumes to grow at 13% CAGR during FY09-11

We expect USL volumes to grow by 13% CAGR during FY09-11 to 128m cases. We believe that the volumes would be led by the huge base of young population, which forms the key consumers for alcoholic beverages. Additionally, the expected revival in the economy would lead the improvement in consumer sentiment, which in turn would aid volume growth in alcoholic beverages. Further, we have assumed 4% price and realization led growth for United Spirits Ltd. during FY09-11e.

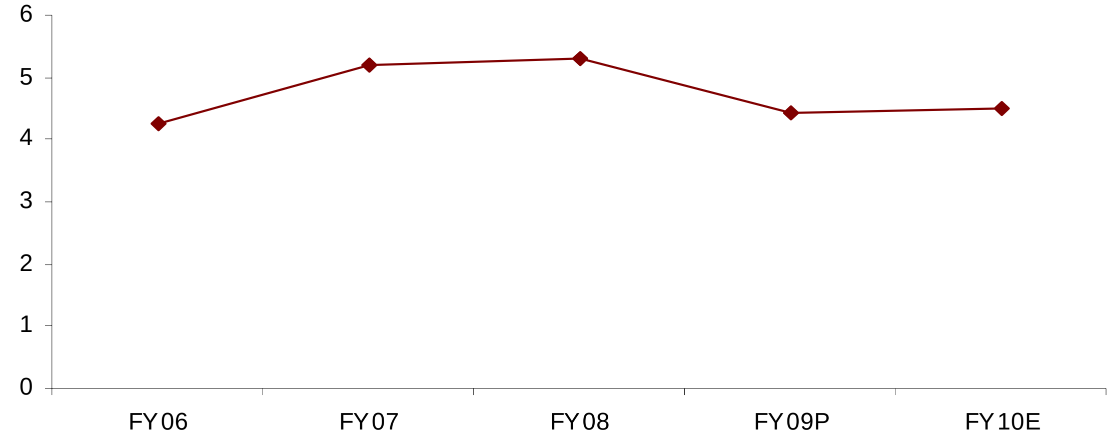
Input cost inflation would be under control despite sharp rise in spirits

Despite the sharp rise expected in case of spirits, due to increase in sugar and molasses, the input cost inflation would be under control with expected slowdown in the prices of glass. Lower prices of crude during FY10 at about USD70 as against the USD-is expected to keep the inflation in raw material and packaging cost under control during FY10.

Lower acreage and the lackluster monsoon has raised prices of molasses

Sugar cane acreage has been dropping over the years, as sugar cane farmers are shifting to other richer crops like wheat. During FY09, sugar cane acreage dropped by 17% leading to higher molasses and spirit prices. Further, during FY10, deficient monsoons have impacted the sugarcane output, while demand growth has remained stable. This has led to a continued increase in prices of molasses and spirits during FY10. Additionally, prices of spirits moved up during FY09, as there was an increased demand for one of molasses's derivatives ethanol. Ethanol had sharp demand increase from the bio fuel industry due to rise in crude oil prices. During FY10, the demand for industrial alcohol has dropped and this expected to keep the prices of spirits under control. We are expecting about 20% growth in prices of spirit for the company during FY10.

Sugarcane acreage

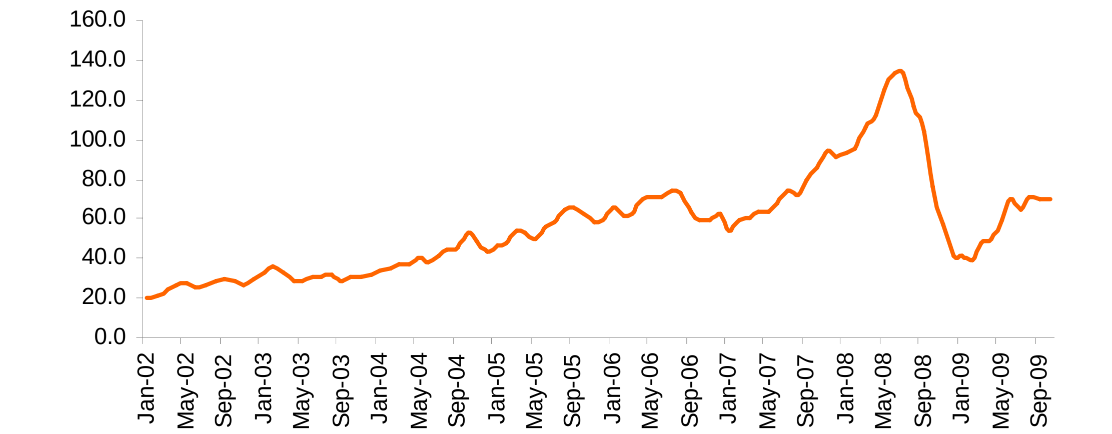


Source: Industry, Antique

Glass prices is expected to witness a slowdown with lower crude prices

Glass is the key raw material for United Spirits in packaging and packaging forms about 13% of the company's raw material cost. Therefore, with the increase in glass prices, United Spirits witnessed a sharp increase in its packaging cost during FY09. Glass prices increased during FY09 on the back of about 15% growth in crude oil prices. Further, during the Apr-Sep 2008 period, crude oil prices had increased by 43%. However, in the same period during FY10, Apr-Sep 2009, crude oil prices have dropped by 17%. Based on this trend, we believe that glass prices will drop during FY10.

Crude oil price trend (USD per barrel)



Source: Bloomberg, Antique

Input cost inflation is expected to be lower during FY10

Despite the increase in prices of spirits, the softening of the glass prices is expected to lead to a lower increase in input cost during FY10 over FY09. We expect raw material and packaging cost to increase by 215bps to 51.4% during FY10 as against the 403bps increase to 49.2% during FY09.

Currency fluctuation not a major concern for the foreign debt

The key concern, currently, we feel is the fluctuation in currency impacting the debt and the interest payment on the foreign loans in Whyte and Mackay and US GB. We understand that, out of the total outstanding foreign debt, GBP355m is in the books of Whyte and Mackay and will be paid through the income of Whyte and MacKay. Therefore, the risk of currency fluctuation will not be felt in this case and the impact of the currency fluctuation will be only notional. In the case of the USD loan of USD619m, the impact of the currency fluctuation would be accounted in actuals. However, the repayment of the principle amount of loan and the interest thereby has been considered at INR48.5. Therefore, with appreciation expected in the rupee against USD going forward, we feel that United spirits is well protected in terms of the currency fluctuation.

Interest outgo to reduce during FY10 with pre-payment of debt

USL has sold 10.3m treasury stocks held by Shaw Wallace for a net consideration of INR8.91bn. The proceeds of this transaction have been used by USL to prepay the debt taken for acquiring Whyte and Mackay to the tune of USD186m. Further the company has paid about USD79m thus leading to a total repayment of USD265m. The prepayment of the loan is estimated to lead to a savings in interest outgo to the tune of INR1bn during FY10.

Whyte and Mackay EBITDA at GBP59m in FY10e and GBP62m in FY11e

Whyte and Mackay's EBITDA is expected to be at GBP59m during FY10e and at GBP62m during FY11e. We believe that growth in EBITDA could be higher aided by higher realizations of bulk scotch. Scotch prices have grown by 30-40% in the last 12 months, which supported with higher brand sales, would aid margins of Whyte and MacKay. Bulk scotch forms about 70-75% of total sales volumes while branded sales form the remaining 20-25% of volumes. Further majority of the contracts with Diageo, forming nearly 50% of Whyte and MacKay's bulk supplies is expected to expire by the third and fourth quarter of FY10. Therefore, with new scotch supply contracts to be in place, scotch prices could be re-negotiated with Diageo and this could lead to higher realizations and better EBITDA margins for Whyte and Mackay.The scotch inventory stands at about 102m litres attracting a total value of about GBP500m.

USL to dilute 11% including treasury stocks to repay debt

The current debt of USL consolidated stands at INR67.94bn, of which, approximately INR46.51bn is the balance foreign debt for W&M acquisition. USL has to repay approximately INR27bn during FY11 to FY13 to be in a comfortable position for servicing debt thereon. During the same period, USL would generate about INR17bn of free cash flows. Therefore, the shortfall between the free cash flows and the debt repayment is to the tune of INR10bn. We believe that this will be met through the sale of balance treasury stocks (8.34m) and a fresh issue of shares. We believe that the dilution required at the current levels would be to the tune of 11%. At the current price of INR909, the treasury stocks would yield about INR7.6bn, and thereby, would require a further dilution of 2.65m shares at the same price to meet the shortfall.

USL has also taken the shareholders approval for raising about USD350m through the QIP or other options of equity issue.

Schedule of W&M loan repayment before the prepayments/repayments

	Principal Payments				
Particulars	**£'s**	**INR**	**$**	**INR**	**Total**
2009-10	0		93	4,503	4,503
2010-11	35	2,584	186	9,005	11,589
2011-12	35	2,584	186	9,005	11,589
2012-13	65	4,804	155	7,504	12,308
2013-14	35	2,584		-	2,584
2014-15	35	2,584		-	2,584
2015-16	75	5,550		-	5,550
2016-17	75	5,550		-	5,550
Total	355	26,238	619	30,017	56,256

Source: Company

Sales to grow 16% CAGR in FY09-11e, to attain PAT of INR4.47bn in FY11e

We expect USL's consolidated sales to grow by 14% CAGR to INR71.2bn led by 17% CAGR in USL's standalone sales to INR55.6bn. EBITDA margins are expected to expand by 104bps to 19.1% on the back of softening of raw material prices during FY09-11e. Profit after tax is expected to touch INR4.47bn from a PAT of INR1.87m in FY09 led by better EBITDA growth and decline in the interest outgo.

United Spirits's association with IPL

United Spirits through its fully owned subsidiary Royal Challengers Sports Private Limited has acquired the Bangalore cricket team for a price of INR4.46bn (USD111.6mn) over a period of ten years. Besides this it sponsors 5 other teams. In addition to the revenue to be generated from the cricket team, this initiatives provide a strong opportunity for the company to advertise its IMFL brands.

The carrying amount of franchise rights as at March 31, 2009 is INR4,.83bn to be amortized over the remaining period of 49 years. Term liability towards franchisee rights at the yearend aggregating to INR4.43bn is payable over a period of 9 years, of which Rs. 492.4m is payable within one year. During FY09, Royal Challengers had posted a dismal performance in the IPL organised twenty/20 tournament. The company during the period recorded a turnover of INR502m and a net loss of INR56m. During FY10, however the subsidiary is expected to post better profitability as it ended up as the Runnners-Up in the IPL tournament held in April 2009.

Valuation

Our EV/EBITDA-based valuations provides a target price of INR1,092

In view of the strong growth momentum in the domestic business and the potential for a long-term growth in view of the burgeoning middle class and young population, we have valued USL's domestic business at an EV/EBITDA of 12.5x, a premium of 20% over the global average of 10.2x. We have valued W&M at an EV/EBITDA of 8x in view of its positioning as the world's fourth largest scotch manufacturer with superior EBITDA margins. W&M's operating profitability is in comparison with the other leading players in scotch, such as Diageo PLC and Pernord Ricard, which have EBITDA margins of approximately 33% and 29%, respectively. Further, we have also considered the value of the balance treasury stocks at the current price of INR909 per share. We arrive at a target price per share of INR1,092, implying a PE of 24x FY11e and providing an upside of 19% from the current levels. We, therefore, recommend a BUY at the current levels.

Valuation of United Spirits Ltd

	FY11
EBITDA United spirits standalone (INRm)	9,461
EBITDA W&M (INRm)	4,510
EV/EBITDA United spirits standalone (x)	13
EV/EBITDA W&M (x)	8
EV United spirits standalone (INRm)	118,260
EV W&M (INRm)	36,079
	154,339
Less: Debt (INRm)	63,304
Add: Cash (INRm)	10,108
	101,143
Treasury stocks (8.34 m shares @ INR909) (INRm)	7,584
	108,727
Fair value per share (INR)	**1,092**

Source: Antique

Peer group valuation

	EV/EBITDA(x)		PE(x)	
	FY10e	FY11e	FY10e	FY11e
Boston Beer A	8.4	7.6	22.8	19.8
Remy Cointreau	12.3	11.3	17.3	15.3
Beijing Yan-A	12.4	11.1	26.6	22.1
Cervezas	9.0	8.4	12.3	13.8
Diageo Plc	10.7	10.1	13.4	12.2
Pernord- Ricard SA	12.4	11.8	13.5	12.5
Heineken NV	9.0	8.3	15.3	13.2
Anheuser-Busch I	10.2	9.7	18.9	15.6
Lvmh Moet Hennes	10.6	10.1	19.4	18.0
Fortune Brands	11.4	10.1	18.8	15.1
United Spirits Ltd	15.7	13.0	32.9	20.3

Source: Bloomberg, Antique

Risk

Pledging of USL shares against Kingfisher airlines

United Breweries Holdings (UBHL)-the investment vehicle of Vijay Mallya-has given about 81% of its stake in whisky maker, United Spirits (USL), as a corporate guarantee to help loss-making group firm, Kingfisher Airlines, raise money for expansion plans. Of around 34% that Mr. Mallya owns in USL through UBHL, around 27.8% has been provided as guarantee to lenders such as IDFC, IL&FS, Citigroup, and ICICI Bank.

USL has pledged about 17.2% of its shares to raise money for the acquisition of Shaw Wallace & Co. and the UK-based Whyte & Mackay. Of this, 12.7% comprises treasury stock, which resulted from the merger of McDowell & Co. and Herbertsons and is being held in a trust. Another 4.5% held in USL by its subsidiaries has also been pledged with lenders. The pledges and the corporate guarantee comprise about 44% of USL's fully-diluted equity base after the Shaw Wallace merger.

Continued rise in input cost may dent margins

Cost of Spirits during 1QFY10 has been higher by 36%, led by 40% decline in cane availability. Additionally, imports are unviable, as they lead to high cost of sourcing and complicate logistics. USL has attempted to reduce the impact of the higher cost by increasing prices in certain states. Nevertheless, prices are controlled in almost 70% of the states that USL sells its products, making it difficult for the company to raise prices, more than once in a year. Therefore, any further inflation in spirits remains a concern. Further, despite the decline in crude oil prices, the same was not evident in the prices of glass during the 1QFY10 and packaging cost continued to be on a higher side. A continuation of this trend could be a cause of concern and would be a key risk to our earnings estimates.

Sharp rise in duties remains a risk

Alcoholic beverages and cigarettes are considered as a sin business and attract high duties. Any further increase in duties is a risk to the demand growth.

Financials (INRM)

Profit and Loss Account (In INRM)

Year Ended 31st March	2008	2009	2010e	2011e	2012e
Revenues	46,275	54,681	62,799	71,222	81,701
Expenses	36,551	44,827	51,531	57,643	65,999
EBITDA	**9,724**	**9,853**	**11,268**	**13,579**	**15,702**
Depreciation & amortisation	741	926	1,099	1,157	1,203
EBIT	**8,983**	**8,927**	**10,170**	**12,422**	**14,499**
Interest expense	5,448	7,176	7,002	6,637	6,149
Other income	1,063	1,038	980	950	1,040
Extraordinary items	1,076	(5,959)	-	-	-
Profit before tax	**5,674**	**(3,169)**	**4,148**	**6,735**	**9,390**
Taxes incl deferred taxation	2,661	916	1,396	2,267	3,161
Profit after tax	**3,013**	**(4,085)**	**2,752**	**4,468**	**6,229**
Share in profit/loss of associates	(7)	(1)	-	-	-
Minority interest	284	(2)	-	-	-
Profit after tax post min & ass	**2,721**	**(4,084)**	**2,752**	**4,468**	**6,229**
Adjusted profit after tax	**1,646**	**1,875**	**2,752**	**4,468**	**6,229**
Recurring EPS (INR)	**23.6**	**23.0**	**27.6**	**44.9**	**62.5**

Balance Sheet (In INR M)

Year ended 31st March	2008	2009	2010e	2011e	2012e
Share Capital	886	1,030	1,107	1,107	1,107
Reserves & Surplus	18,920	22,093	33,493	37,700	43,564
Networth	**19,806**	**23,123**	**34,600**	**38,807**	**44,672**
Debt	66,041	73,605	69,440	63,304	59,668
Term liability towards franchisee rights	-	4,431	3,939	3,447	2,954
Minority interest	1,992	63	63	63	63
Capital Employed	**87,839**	**101,222**	**108,042**	**105,621**	**107,357**
Gross Fixed Assets	16,985	22,919	24,419	25,419	26,419
Accumulated Depreciation	(6,357)	(6,650)	(7,748)	(8,905)	(10,108)
Net Assets	**10,628**	**16,269**	**16,671**	**16,514**	**16,312**
Capital work in progress	534	288	288	288	288
Goodwill	53,260	44,738	53,260	53,260	53,260
Investments	2,119	9,501	9,501	9,501	9,501
Current Assets, Loans & Advances					
Inventory	14,850	17,458	19,894	21,646	24,843
Debtors	8,370	8,880	9,549	9,380	11,179
Cash & Bank balance	5,438	4,490	1,737	607	687
Loans & advances and others	5,820	9,544	9,544	9,544	9,544
Current Liabilities & Provisions					
Creditors	8,502	9,791	11,618	13,156	14,672
Other liabilities & provisions	4,659	6,672	7,300	8,480	10,100
Net Current Assets	**21,316**	**23,909**	**21,806**	**19,541**	**21,480**
Foreign currency translation	**-**	**5,598**	**5,598**	**5,598**	**5,598**
Deferred tax assets/(liabilities)	(18)	918	918	918	918
Application of Funds	**87,839**	**101,222**	**108,042**	**105,621**	**107,357**

Per share data

Year Ended 31st March	2008	2009	2010e	2011e	2012e
No. of shares (m)	69.9	81.5	99.6	99.6	99.6
BVPS (INR)	283.4	283.8	347.5	389.6	448.5
CEPS (INR)	34.2	34.4	38.7	56.5	74.6
DPS (INR)	1.9	2.6	1.4	2.2	3.1

Margins (%)

Year Ended 31st March	2008	2009	2010e	2011e	2012e
EBITDA	21%	18.0%	17.9%	19.1%	19.2%
EBIT	19%	16%	16%	17%	18%
PAT	4%	3%	4%	6%	8%

Cashflow statement

Year Ended 31st March	2008	2009	2010e	2011e	2012e
EBIT	**8,983**	**8,927**	**10,170**	**12,422**	**14,499**
Depreciation & amortisation	**741**	**926**	**1,099**	**1,157**	**1,203**
Interest expense	**(5,448)**	**(7,176)**	**(7,002)**	**(6,637)**	**(6,149)**
(Inc)/Dec in working capital	**(9,990)**	**(3,540)**	**(651)**	**1,135**	**(1,859)**
Tax paid	**(2,661)**	**(916)**	**(1,396)**	**(2,267)**	**(3,161)**
Cash flow from oper activities	(8,375)	(1,778)	2,219	5,810	4,533
Capital expenditure	**(52,512)**	**(6,385)**	**(10,021)**	**(1,000)**	**(1,000)**
Inc/(Dec) in investments	**1,138**	**8,421**	**980**	**950**	**1,040**
Cash flow from inv activities	(51,374)	2,035	(9,041)	(50)	40
Inc/(Dec) in share capital	**57**	**144**	**77**	**0**	**0**
Inc/(Dec) in share premium	**4,436**	**-**	**8,810**	**-**	**-**
Inc/(Dec) in debt	**51,240**	**6,397**	**(4,657)**	**(6,628)**	**(4,128)**
Dividends paid	**(159)**	**(252)**	**(161)**	**(262)**	**(365)**
Others	**3,834**	**(7,495)**	**-**	**-**	**-**
Cash flow from fin activities	59,408	(1,205)	4,069	(6,890)	(4,493)
Net cash flow	(340)	(948)	(2,753)	(1,130)	80
Opening balance	**5778**	**5438**	**4490**	**1737**	**607**
Closing balance	5,438	4,490	1,737	607	687

Growth Indicators

Year ended 31st March	2008a	2009a	2010e	2011e	2012e
Revenue	56%	18%	15%	13%	15%
EBITDA	123%	1%	14%	21%	16%
PAT	-35%	14%	47%	62%	39%
EPS	-35%	-2%	20%	62%	39%

Valuation (x)

Year ended 31st March	2008a	2009a	2010e	2011e	2012e
PE	38.6	39.5	32.9	20.3	14.5
P/BV	3.2	3.2	2.6	2.3	2.0
EV/EBITDA	18.2	18.0	15.7	13.0	11.3
EV/Sales	3.8	3.2	2.8	2.5	2.2
Dividend Yield (%)	0.2%	0.3%	0.2%	0.2%	0.3%

Financial Ratios

Year ended 31st March	2008a	2009a	2010e	2011e	2012e
RoE	8%	8%	8%	12%	14%
RoCE	10%	9%	9%	12%	14%
Debt/Equity (x)	3.3	3.2	2.0	1.6	1.3
EBIT/Interest (x)	-1.6	-1.2	-1.5	-1.9	-2.4

Source: Antique

United Breweries

Master Brewer

HOLD **CMP: INR145** **Target Price: INR142**

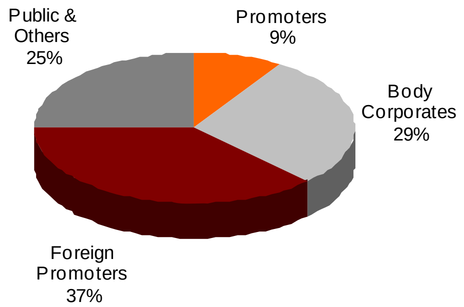
October 9, 2009 — Strictly confidential

Market Data		
Sector	:	FMCG
Market Cap (INRbn)	:	35
Market Cap (USDbn)	:	1
O/S Shares	:	240
Free Float (m)	:	63
52-wk HI/LO (INR)	:	174/63
Avg Daily Vol ('000)	:	1,217
Bloomberg	:	UBBL IN
Reuters	:	UBBW.BO

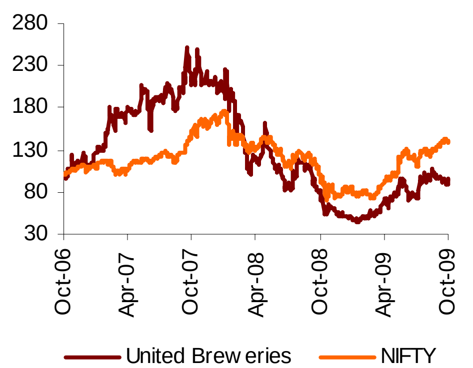
Price Performance

	1m	3m	6m	12m
Absolute	(4)	24	29	15
Relative	(7)	3	(16)	(22)

Shareholding Pattern



Price Performance Vs NIFTY



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Investment highlights

- Despite the entry of global beer brands such as Carlsberg, Heineken, and Budweiser, United Breweries has continued to be the leader in the Indian beer industry led by its strong positioning in the strong beer segment and acquisitions.
- UB has a strong 67% market share in the mild beer category giving it a great advantage over its competitors, who barely have more than a single sold competition product.
- UB's pan India presence plays a key edge over its closest competitor, SAB, which depends on Andhra Pradesh for more than 30% of its revenues.
- UB derives significant strengths from its relationship with the leader in alcoholic beverages UB group and Scottish and Newcastle.
- Sales to grow by 16% CAGR, while PAT to grow by 28% CAGR.

Valuations

At the CMP of INR145, the stock is trading at 46.9x FY10e earnings and at 33.8x FY11e earnings. We have value United Breweries at an EV/EBITDA of 12.5x FY10e to arrive at a target price of INR142. Therefore, at the current levels, we initiate coverage with a HOLD recommendation.

Risks

- Increase in taxes on beer remains a concern.
- Increase in input prices.
- Heineken's stake in UB could pose a threat.

Key financials

	2008	2009	2010e	2011e	2012e
Net Revenue (INRm)	15,608	19,295	22,140	25,999	30,129
EBITDA (INRm)	1,857	2,271	2,695	3,273	3,751
EBITDA growth	24%	22%	19%	21%	15%
PAT (INRm)	542	456	742	1,029	1,267
PAT growth	-5%	13%	18%	39%	23%
EPS(INR/share)	2.6	2.6	3.1	4.3	5.3
EPS growth	-5%	2%	18%	39%	23%
PE (x)	56.1	55.2	46.9	33.8	27.4
PB (x)	5.1	3.3	3.1	2.9	2.6
EV/EBITDA (x)	20.0	16.3	13.8	11.3	9.9
RoE	9%	6%	7%	9%	10%

Source: Antique

Investment argument

Consistent leader in beer

Despite the entry of global beer brands such as Carlsberg, Heineken, and Budweiser, United Breweries has continued to be the leader in the Indian beer industry led by its strong positioning in the strong beer segment and acquisitions. This has helped the company to increase market share to 48% during the last five years from 33%, FY09-02. UB's leadership positioning holds very high importance in a market like India which is poised for long-term market.

UB - the key beneficiary of the burgeoning young population

Mild beer is well positioned to gain strength and become the biggest growth driver in India, especially as more and more people get added to the youth population of the country whose liberal view towards alcohol combined with the change in trends; is pushing them towards the first step of alcohol consumption. The youth prefer mild beer over other forms of beer or spirits. UB has a strong 67% market share in the mild beer category giving it a great advantage over its competitors, who barely have more than a single sold competition product.

Pan India presence - an edge over competitors

The only real competition to United Breweries is from the rival company and the second leading player in the Indian market,SABMiller. However, UB's pan India presence plays a key edge over its closest competitor, SAB, which depends on Andhra Pradesh for more than 30% of its revenues. This edge was evident during CY09, when SAB Millers operations were impacted due to a dispute between the AP government and Breweries. SAB witnessed a higher impact on its sales compared to UB due to its heavy dependence on a single market.

Deriving strength from relationship with UB group and S&N

UB derives significant strengths from its relationship with the leader in alcoholic beverages UB group and Scottish and Newcastle. The UB group provides power to influence the trade channels backed by strong branding and distribution, while its comprehensive presence across alcoholic beverages provides benefit in sourcing of inputs, primarily packaging material. On the other side, UB's relationship with S&N, aids the company in improving its brewing processes and applying international best practices.

UB's operating performance has been strong despite high input prices

United Breweries has posted a strong operating performance in the last four years. During FY05-09, the company's net sales have grown at 35% CAGR to INR19.3bn, led by approximately 34% CAGR in net sales of United Breweries and subsidiaries. The joint venture has grown at 50% CAGR to INR2.3bn. Therefore, the momentum in sales growth has remained strong for UB as a whole. The EBITDA growth during FY05-09 has been at a strong pace of 63% CAGR to INR2.27bn. This has been despite the drop in gross margins from 23.7% in FY05 to 20.4% in FY09. Therefore, the improvement in EBITDA margins from 5.6% in FY05 to 11.8% in FY09 has been on the back of operating leverage backed by accelerated sales growth and synergies of operations with Scottish and Newcastle.

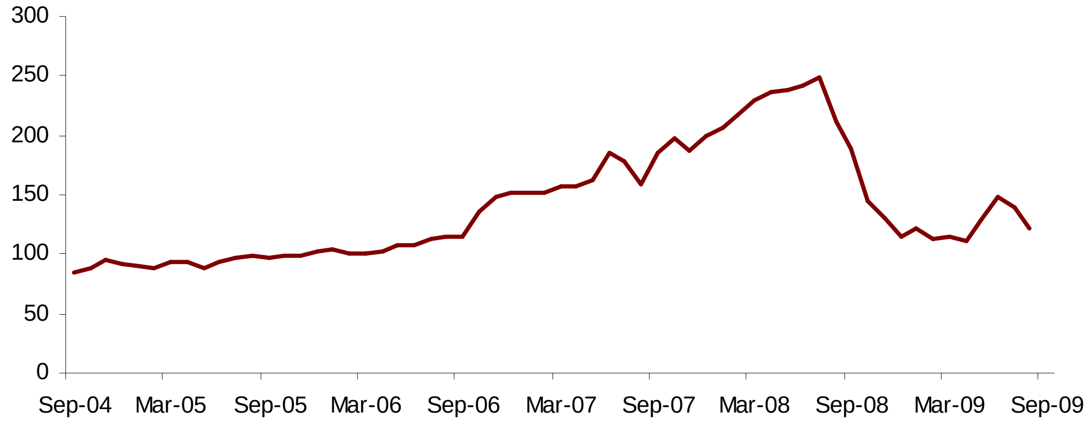
Higher interest cost has impacted performance during FY07-09

UB has witnessed an EBITDA growth of 23% CAGR during FY07-09 to INR2.27bn. Despite a healthy operating performance during the last two years, the growth in profit-after-tax (PAT) has been low at 3.7% CAGR to INR630m. This was primarily because of increase in interest outgo during the last two years from INR376m to INR880m, due to increase in debt from INR4,033m in FY06 to INR7,649m.

Sales to grow by 16% CAGR, while PAT to grow by 28% CAGR

We expect sales to grow by 16% CAGR to INR26bn led by growth in volumes of 10% CAGR. EBITDA growth during the period is expected to remain healthy at 20% CAGR to INR3.27bn. EBITDA margin is expected to improve by 82bps to 12.6% led by drop in prices of key raw material Barley. International Barley prices have dropped, PAT during the period is expected to grow by 28% to INR1,029m with expected drop in the interest cost.

Barley prices (CAD) per mt



Source: Industry

Valuations

At the CMP of INR145, the stock is trading at 46.9x FY10e earnings and at 33.8x FY11e earnings. The stock has traded at high PE valuations of 54x during the last FY05-09. The high valuations have been on the back of the huge potential of the beer industry in India given its relatively lower per capita consumption level and burgeoning youth population. Expectations are that beer consumption in India would move up substantially with the rising awareness and policy focus on not controlling consumption, but more importantly on reducing harm. We believe that United Breweries Ltd. would trade at an EV/EBITDA of 12.5x FY10e. We believe that such valuations would be justified given the huge potential for growth. We arrive at a target price of INR142 and therefore, at the current levels, we initiate coverage with a HOLD recommendation.

Valuation of United Breweries Ltd

	FY11e
EBITDA (INRm)	3,273
EV/EBITDA (x)	12.5
EV (INRm)	40,916
Less: Debt	7,635
Add: Cash	879
Fair value (INRm)	34,160
Equity shares outstanding	240
Fair value per share (INR)	**142**

Source: Antique

Risks

Increase in taxes on beer remains a concern

Though beer has very low alcohol content, approximately 5-8%, against IMFL at 48%, the product is taxed at par with IMFL. Therefore, any tax increases to control the ill effects of liquor consumption would also apply to beer and lead to higher duties.

Increase in input prices

Increase in input prices remains a concern in the future with glass prices being linked to crude oil. Therefore, any increase in crude oil prices may impact the prices of glass and consequently impact UB's input cost.

Heineken's stake in UB could pose a threat

Scottish and Newcastle jointly owned a stake of 37.5% in United Breweries. However in the year 2008 the India operations of S&N were taken over by Heineken. Heineken at that time was distributed in India by Asia Pacific Breweries (APB). Heineken paid a onetime fee of INR3bn for using UB's bottle and distribution network. Heineken is to merge APB along with UB's Balaji Breweries. This deal could provide a platform for UB to enter into the south-east Asia market via Asia Pacific Breweries manufacturing and distribution network. However the sale of Heineken in India using United Breweries manufacturing and distribution network could prove to be the biggest threat to the sales of its home grown brand Kingfisher Mild.

Financials (INRM)

Profit and Loss Account (In INRM)

Year Ended 31st March	2008	2009	2010e	2011e	2012e
Revenues	15,608	19,295	22,140	25,999	30,129
Expenses	13,751	17,024	19,444	22,726	26,378
EBITDA	**1,857**	**2,271**	**2,695**	**3,273**	**3,751**
Depreciation	732	896	1,044	1,136	1,268
EBIT	**1,125**	**1,374**	**1,651**	**2,137**	**2,483**
Interest expense	559	880	762	837	838
Other income	284	361	316	374	416
Profit before tax	**849**	**856**	**1,206**	**1,673**	**2,061**
Taxes incl deferred taxation	308	400	464	644	793
Profit after tax	**542**	**456**	**742**	**1,029**	**1,267**
Adjusted profit after tax	**558**	**630**	**742**	**1,029**	**1,267**
Recurring EPS (INR)	**2.6**	**2.6**	**3.1**	**4.3**	**5.3**

Balance Sheet (In INR M)

Year ended 31st March	2008	2009	2010e	2011e	2012e
Share Capital	2,685	3,176	3,176	3,176	3,176
Reserves & Surplus	3,400	7,448	8,019	8,877	9,973
Networth	**6,085**	**10,624**	**11,195**	**12,053**	**13,149**
Debt	6,807	7,649	7,591	7,635	7,608
Deferred tax liability	88	176	176	176	176
Minority interest	12	12	12	12	12
Capital Employed	**12,991**	**18,460**	**18,973**	**19,875**	**20,944**
Gross Fixed Assets	8,568	10,849	11,849	12,849	13,849
Accumulated Depreciation	(2,212)	(3,004)	(4,048)	(5,184)	(6,452)
Net Assets	**6,356**	**7,845**	**7,801**	**7,665**	**7,397**
Capital work in progress	1,689	972	972	972	972
Goodwill	1,867	1,867	1,867	1,867	1,867
Investments	0	900	900	900	900
Current Assets, Loans & Advances					
Inventory	1,307	1,788	2,024	2,366	2,746
Debtors	3,566	5,006	5,884	7,052	8,172
Cash & Bank balance	112	511	538	879	1,701
Loans & advances and others	1,189	2,881	2,881	2,881	2,881
Current Liabilities & Provisions					
Creditors	2,971	3,166	3,729	4,483	5,420
Other liabilities & provisions	125	185	206	264	313
Net Current Assets	3,079	6,835	7,392	8,431	9,768
Deferred tax assets/(liabilities)	-	-	-	-	-
Misc.Expenses	-	41	41	41	41
Application of Funds	12,991	18,460	18,973	19,875	20,944

Per share data

Year Ended 31st March	2008	2009	2010e	2011e	2012e
No. of shares (m)	22	23	24	24	24
BVPS (INR)	281.7	465.9	466.3	502.1	547.8
CEPS (INR)	(8.0)	(11.7)	(12.6)	(4.5)	(0.0)
DPS (INR)	4.0	7.5	7.1	7.1	7.1

Margins (%)

Year Ended 31st March	2008	2009	2010e	2011e	2012e
EBITDA	11.9%	12%	12%	13%	12%
EBIT	7%	7%	7%	8%	8%
PAT	4%	3%	3%	4%	4%

Cashflow statement

Year Ended 31st March	2008	2009	2010e	2011e	2012e
EBIT	**1,125**	**1,374**	**1,651**	**2,137**	**2,483**
Interest Expense	**(559)**	**(880)**	**(762)**	**(837)**	**(838)**
Depreciation & amortisation	**732**	**896**	**1,044**	**1,136**	**1,268**
(Inc)/Dec in working capital	**131**	**(3,357)**	**(530)**	**(697)**	**(515)**
Tax paid	**(277)**	**(312)**	**(362)**	**(502)**	**(618)**
Cash flow from oper activities	**1,152**	**(2,278)**	**1,042**	**1,236**	**1,780**
Capital expenditure	**(2,845)**	**(1,564)**	**(1,000)**	**(1,000)**	**(1,000)**
Inc/(Dec) in investments	**(0)**	**(900)**	**-**	**-**	**-**
Income from investments	**284**	**361**	**316**	**374**	**416**
Cash flow from inv activities	**(2,562)**	**(2,103)**	**(684)**	**(626)**	**(584)**
Inc/(Dec) in share capital	**-**	**491**	**-**	**-**	**-**
Inc/(Dec) in debt	**545**	**842**	**(58)**	**44**	**(27)**
Dividends paid	**(87)**	**(171)**	**(171)**	**(171)**	**(171)**
Others	**(407)**	**3,618**	**(103)**	**(142)**	**(1,877)**
Cash flow from fin activities	**51**	**4,780**	**(331)**	**(269)**	**(2,075)**
Net cash flow	**(1,358)**	**399**	**27**	**341**	**(879)**
Opening balance	**1471**	**112**	**511**	**538**	**879**
Closing balance	**112**	**511**	**538**	**879**	**0**

Growth Indicators

Year ended 31st March	2008a	2009a	2010e	2011e	2012e
Revenue	29%	24%	15%	17%	16%
EBITDA	24%	22%	19%	21%	15%
PAT	-5%	13%	18%	39%	23%
EPS	-5%	2%	18%	39%	23%

Valuation (x)

Year ended 31st March	2008a	2009a	2010e	2011e	2012e
PE	56.1	55.2	46.9	33.8	27.4
P/BV	5.1	3.3	3.1	2.9	2.6
EV/EBITDA	20.0	16.3	13.8	11.3	9.9
EV/Sales	2.4	1.9	1.7	1.4	1.2
Dividend Yield (%)	0.3%	0.5%	0.5%	0.5%	0.5%

Financial Ratios

Year ended 31st March	2008a	2009a	2010e	2011e	2012e
RoE	9%	6%	7%	9%	10%
RoCE	9%	7%	9%	11%	12%
Debt/Equity (x)	1.1	0.7	0.7	0.6	0.6
EBIT/Interest (x)	-2.0	-1.6	-2.2	-2.6	-3.0

Source: Antique

Equity Sales		
Anish Jhaveri	91-22-4031-3330	anish@antiquelimited.com
Dharmesh Dalal	91-22-4031-3331	dharmesh@antiquelimited.com
Manish Shah	91-22-4031-3332	manish@antiquelimited.com
Shiv Diwan	91-22-4031-3346	shiv.diwan@antiquelimited.com
Viraaj Teckchandani	91-22-4031-3327	viraaj@antiquelimited.com
Pradip Seth	91-22-4031-3393	pradip.seth@antiquelimited.com
Chaitanya Kotadia	91-22-4031-3336	chaitanya@antiquelimited.com
Anuj Sonpal	91-22-4031-3326	anuj@antiquelimited.com
Derivative Sales		
Ashish Maheshwari	91-22-4031-3350	ashish.maheshwari@antiquelimited.com
Jatin Dedhia	91-22-4031-3344	jatin@antiquelimited.com
Gaurav Kedia	91-22-4031-3349	gaurav.kedia@antiquelimited.com
Research		
Krish Shanbhag	91-22-4031-3440	krish@antiquelimited.com
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Important Disclaimer:

	Firm	Directors	Analyst
Ownership in Stock	No	No	No

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