

January 25, 2010

Rating	Accumulate
Price	Rs1,290
Target Price	Rs1,350
Implied Upside	4.7%
Sensex	17,051

(Prices as on January 21, 2010)

Trading Data

Market Cap. (Rs bn)	162.0
Shares o/s (m)	125.6
Free Float	70.8%
3M Avg. Daily Vol ('000)	783.4
3M Avg. Daily Value (Rs m)	945.9

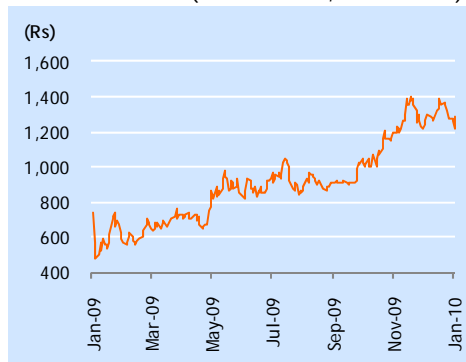
Major Shareholders

Promoters	29.2%
Foreign	47.0%
Domestic Inst.	6.7%
Public & Others	17.1%

Stock Performance

(%)	1M	6M	12M
Absolute	4.4	41.1	127.1
Relative	3.4	27.5	35.8

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



Source: Bloomberg

United Spirits

Volume story continues, upgrade to Accumulate

United Spirits' (UNSP) Q3FY10 results were ahead of expectations. Net sales grew by 31% YoY to Rs13.6bn (our expectations Rs12.5bn). EBITDA almost doubled to Rs2.34bn (our expectations Rs2.18bn), while the recurring PAT more than tripled to Rs969m (our expectations Rs874m).

- **Robust volume growth of 12%, AP grants price hike:** Volume growth came in at strong 12% despite some minor trade issues in Maharashtra and disruptions in AP owing to Telangana issue. Management, during the analyst meet, indicated growth to moderate in FY11E on account of higher base. Higher revenue growth is helped by price hikes granted by AP government in November, continued up-trading resulting in better product mix and booking of partial sales from contract manufacturers directly in UNSP's books.

Whyte & Mackay (W&M) posted EBITDA of Rs53m for 9MFY10 as against GBP49m in 9MFY09. Management maintained its guidance of GBP58m for FY10E.

EBITDA margins improved by 580bps YoY to 17.1% as base quarter witnessed huge deterioration in gross margins on account of input cost spike. Judicious long-term contracts and shifting between molasses and grains based feedstock also helped contain the impact of higher raw material prices.

Reported PAT grew 217% to Rs969m. Interest costs jumped 41% YoY and remained flat sequentially to Rs747m. This is attributed to a) working capital expansion b) Refinancing of dollar loan as rupee loan. Outstanding loans as on December 31, 2009 stood at Rs49bn. Repayment obligations for W&M (GBP loan) looks comfortable with GBP35m due for repayment annually for the next four years as against W&M EBITDA of GBP55-60m.

- **Upgrade to Accumulate with revised TP of Rs1,350:** UNSP continues to witness double-digit volume growth and has also managed to get some price hikes from various state governments. Stock has declined by ~10% since our initiation with 'Sell' rating. We revise our FY11E estimates by ~4% and roll forward the model to arrive at March-11 SOTP based target price of Rs1350, an upside of ~7%. We continue to value domestic business at 15x EV/EBITDA and W&M at 9x EV/EBITDA. Attractive domestic business opportunity, easing concerns on leverage and likely improvement in input costs will help UNSP deliver strong performance in the medium term. We upgrade the stock to 'Accumulate', with a target price of Rs1,350.

Key financials (Y/e March)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	54,681	62,684	72,232	81,849
Growth (%)	18.2	14.6	15.2	13.3
EBITDA (Rs m)	9,853	11,113	13,460	15,269
PAT (Rs m)	(4,088)	3,679	5,912	8,189
EPS (Rs)	18.7	29.3	47.1	65.2
Growth (%)	0.6	56.8	60.7	38.5
Net DPS (Rs)	2.1	2.9	4.7	6.5

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	19.5	19.3	20.3	20.4
RoE (%)	8.7	11.2	13.1	15.9
RoCE (%)	10.6	11.4	14.1	16.7
EV / sales (x)	3.7	3.2	2.8	2.5
EV / EBITDA (x)	20.5	18.2	15.0	13.2
PE (x)	65.9	42.1	26.2	18.9
P / BV (x)	5.3	3.6	3.2	2.8
Net dividend yield (%)	0.2	0.2	0.4	0.5

Source: Company Data; PL Research

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Q3FY10 Result Overview

(Rs m)

Y/e March	Q3FY10	Q3FY09	YoY gr. (%)	Q2FY10	9MFY10	9MFY09	YoY gr. (%)
Net Sales / Income from Operations	13,468	10,293		10,801	36,685	29,447	
Other Operating Income	112	110		75	250	274	
Net Sales / Income from Operations	13,580	10,402	30.5	10,876	36,936	29,721	24.3
Expenditure	11,256	9,229	22.0	8,980	30,434	24,641	
(Increase) / Decrease in Stock in Trade	(586)	(1,258)	(53.4)	(287)	(882)	(1,218)	
Consumption of Raw Materials	3,462	3,664	(5.5)	2,525	9,308	7,529	
Purchase of Traded Goods	1,870	1,366	36.9	1,323	4,427	3,475	
RM Cost	4,746	3,771		3,560	12,853	9,786	
Gross profit	8,834	6,631	33.2	7,316	24,083	19,935	20.8
<i>Gross profit margin (%)</i>	<i>65.1</i>	<i>63.7</i>		<i>67.3</i>	<i>65.2</i>	<i>67.1</i>	
Advertisement & Sales Promotion Expenses	1,199	1,026		835	2,917	2,605	
Consumption of Other Materials	2,879	2,520		2,334	7,843	6,683	
Employees Cost	737	619		792	2,210	1,742	
Others	1,695	1,293		1,459	4,612	3,825	
EBITDA	2,324	1,173	98.1	1,896	6,502	5,080	28.0
<i>EBITDA margin (%)</i>	<i>17.1</i>	<i>11.3</i>		<i>17.4</i>	<i>17.6</i>	<i>17.1</i>	
Depreciation	(93)	(87)		(83)	(256)	(257)	
Other Income	(27)	(50)		34	26	183	
EBIT	2,203	1,036		1,847	6,271	5,006	
Interest	(747)	(529)	41.1	(751)	(2,089)	(1,265)	65.1
PBT	1,457	507		1,097	4,182	3,741	
Tax	(488)	(201)		(401)	(1,442)	(1,325)	
PAT (reported)	969	306	216.6	696	3,440	2,416	42.4
As % of sales							
<i>RM cost</i>	<i>34.9</i>	<i>36.3</i>		<i>32.7</i>	<i>34.8</i>	<i>32.9</i>	
<i>Advertisement & Sales Promotion Expenses</i>	<i>8.8</i>	<i>9.9</i>		<i>7.7</i>	<i>7.9</i>	<i>8.8</i>	
<i>Consumption of Other Materials</i>	<i>21.2</i>	<i>24.2</i>		<i>21.5</i>	<i>21.2</i>	<i>22.5</i>	
<i>Employees Cost</i>	<i>5.4</i>	<i>6.0</i>		<i>7.3</i>	<i>6.0</i>	<i>5.9</i>	
<i>Others</i>	<i>12.5</i>	<i>12.4</i>		<i>13.4</i>	<i>12.5</i>	<i>12.9</i>	
<i>EBITDA margin</i>	<i>17.1</i>	<i>11.3</i>		<i>17.4</i>	<i>17.6</i>	<i>17.1</i>	

SOTP based target price of Rs1,350

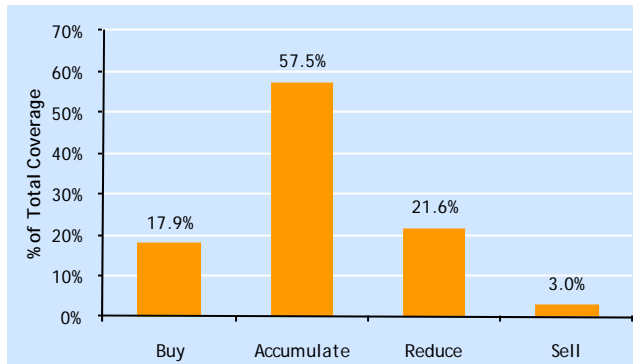
	EV/EBITDA	EBITDA	EV
Domestic	15	10,514	156,133
W&M	9	4,755	42,796
Treasury			10,690
IPL			4,464
EV			214,083
Net Debt			44,582
Equity			169,501
Per share			1,350

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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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