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Alcoholic Beverages

BSE Sensex: 12,580 S&P CNX: 3,627 7 March 2007

In our opinion, the alcoholic beverages industry in India is at an inflexion point. Given the favorable demographics, higher bargaining power following industry consolidation and favorable change in operating environment, we believe that the party has just begun. We expect robust volume growth across segments - IMFL (Indian made foreign liquor), beer and wine. Given the strong visibility for earnings growth, we expect the valuations to further move up.

Demographics favorable to consumption of alcoholic beverages: India is best placed demographically, with nearly 485m people in the drinking age. Another 150m are likely to be added to the target population in the next five years. India's per capita consumption of alcoholic beverages is one of the lowest in the world. With growing discretionary income of young consumers and increasing consumption of lifestyle products, demand for alcoholic beverages is set to rise.

Consolidation has helped enhance industry's bargaining power: The alcoholic beverages industry in India has seen significant consolidation during the last few years. While the top-2 players account for over 70% market share in IMFL and beer, the top player alone accounts for about 70% market share in the wine segment. Consolidation, especially in the IMFL segment, has enhanced the industry's bargaining power. Mindless trade spends and discounts have given way to rational pricing. Both the IMFL and beer segments have witnessed more than 10% margin expansion during the last two years.

Operating environment turning in favor of incumbents: The industry is still characterized by strong entry barriers like ban on advertising, duty on inter-state movement of products, licensing and very high taxes. This works to the advantage of existing players. In the recent years, several states have moved away from the practice of auctioning distribution rights to state-controlled distribution or to a free market. This has reduced prices by 20-25% and improved product availability significantly, thus boosting demand as also the profit margins of existing players.

Valuations to sustain, given the high growth visibility: We expect the India's organized alcoholic beverages industry to report double-digit volume growth for the next few years. Growing volumes, higher bargaining power and gradual consumer uptrading should boost EBITDA margins by 400bp over FY06-09. Though alcoholic beverages stocks quote at a premium to FMCG stocks and their global counterparts, we expect the valuation premium to sustain, given the estimated high double-digit profit growth. We initiate coverage on United Spirits (**Buy**) and Radico Khaitan (**Buy**) in the IMFL segment, United Breweries (**Neutral**) in the beer segment and Champagne Indage (**Neutral**) in the wine segment, with United Spirits as our top pick.

VALUATION MATRIX - COMPARISON OF INDIAN ALCOHOLIC BEVERAGES COMPANIES WITH FMCG COMPANIES

	MCAP.	SALES GR (%)		PAT GR. (%)		EPS (RS)		P/E (X)		EV/EBITDA (X)		EV/SALES (X)	
	(US$B)	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E
United Spirits	1.5	15.0	13.8	43.3	32.0	37.3	46.5	18.6	14.9	10.4	8.0	2.1	1.8
Radico Khaitan	0.3	15.5	10.4	38.7	29.0	6.5	7.9	21.5	17.8	15.0	11.1	2.7	2.1
United Breweries	1.2	21.9	24.3	63.3	35.1	6.3	8.5	37.9	28.0	19.8	15.2	4.4	3.5
Champagne Indage	0.2	74.3	67.5	82.2	68.5	22.5	37.9	27.7	16.4	19.1	12.1	4.9	3.2
Dabur India	2.0	13.3	12.4	23.4	22.8	4.0	4.9	25.8	21.0	20.2	16.6	3.1	2.7
HLL	10.0	10.6	9.6	17.0	15.7	8.2	9.4	21.4	18.5	18.0	15.5	2.6	2.4
ITC	14.9	20.3	20.5	18.4	18.5	8.7	10.3	18.6	15.7	11.7	9.5	3.8	3.0
Nestle India	2.2	11.2	12.0	23.5	20.7	44.0	53.1	22.5	18.7	14.3	11.8	2.7	2.4

Souce: Motilal Oswal Securities

VALUATION MATRIX - GLOBAL ALCOHOLIC BEVERAGES COMPANIES (US$)

	YEAR		SALES GR. (%)		PAT GR. (%)		P/E (X)		EV/EBITDA (X)	
	END	SALES	2007	2008	2007	2008	2007	2008	2007	2008
Diageo PLC	June	15,592.6	4.4	3.5	0.3	-5.4	19.6	17.7	13.1	12.3
Pernod - Ricard SA	June	7,726.5	9.3	5.9	33.6	14.2	23.5	19.4	14.0	12.8
Constellation Brands Inc	Feb	4,715.1	9.6	-15.2	8.5	-0.2	12.4	11.5	8.7	9.1
Remy Cointreau SA	Mar	1,106.2	-7.4	3.8	-2.9	21.9	27.3	25.2	17.9	16.5
SABMiller PLC	Mar	14,343.8	18.1	7.3	15.9	15.3	17.6	15.6	9.8	8.6
Anheuser-Busch Cos Inc	Dec	14,950.0		5.4		8.2	19.0	16.9	11.5	11.1

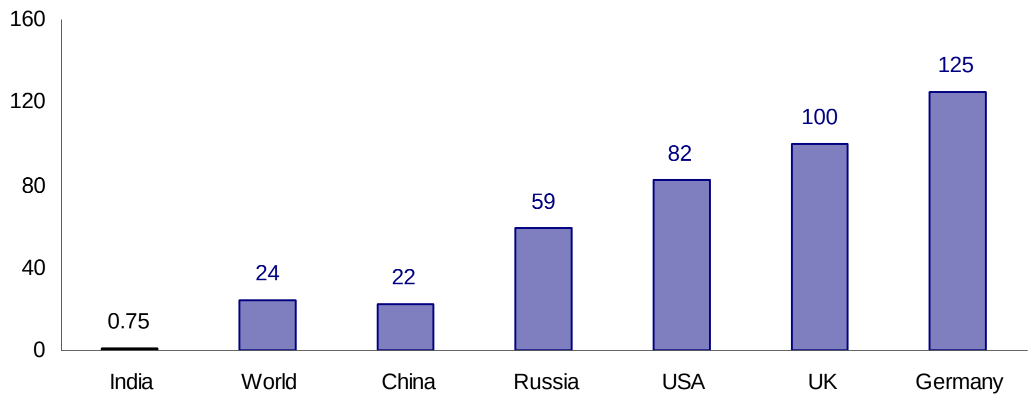
Souce: Bloomberg

Demographics favorable to consumption of alcoholic beverages

India's demographics are favorable to consumption of alcoholic beverages

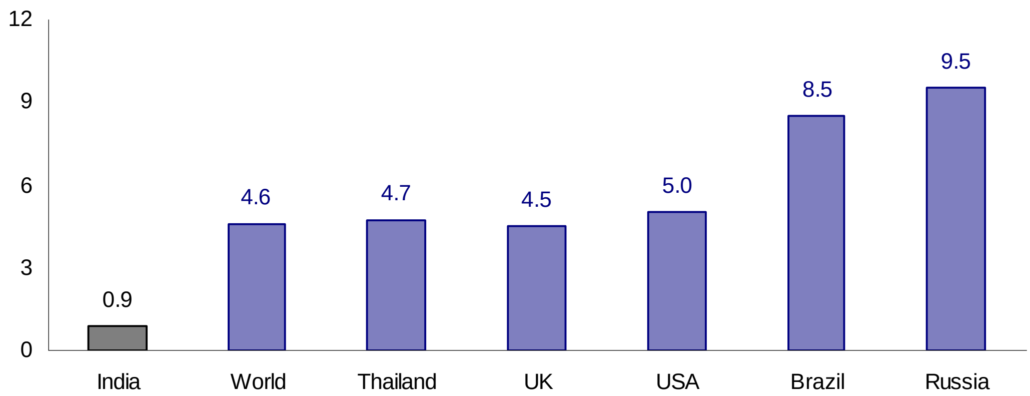
India's per capita consumption of alcoholic beverages is one of the lowest in the world. Even a small increase in per capita consumption could significantly alter industry growth, given the large population base. India is best placed demographically, with nearly 485m people in the drinking age. Another 150m are likely to be added to the target population in the next five years. With growing discretionary income of young consumers and increasing consumption of lifestyle products, demand for alcoholic beverages is set to rise substantially. We expect the industry to report steady double-digit volume growth in the coming years.

BEER - PER CAPITA CONSUMPTION (LITRES PER ANNUM)



Per capita consumption of alcoholic beverages in India is abysmally low

IMFL - PER CAPITA CONSUMPTION (LITRES PER ANNUM)



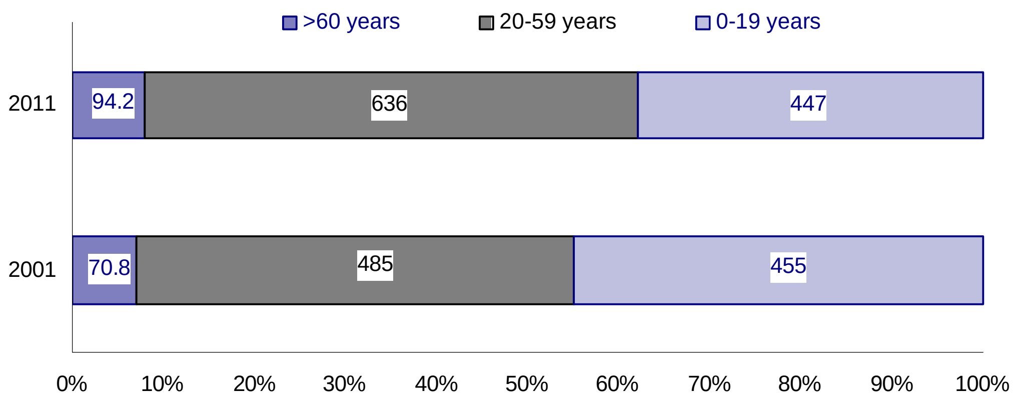
Source: Company/Motilal Oswal Securities

A huge target population

The age group of 20-59 years is the primary target audience for alcoholic beverages. India has 485m people in the age group of 20-59 years as on 2001, which is expected to increase to 636m by 2011. Out of the total population, 600m people would be less than 25 years of age and 320m would live in urban areas. The young and urban population has greater exposure to western media and has lower inhibitions about consuming alcoholic beverages.

The target population for alcoholic beverages – people aged 20-59 years – is large and growing

POPULATION - AGE COMPOSITION



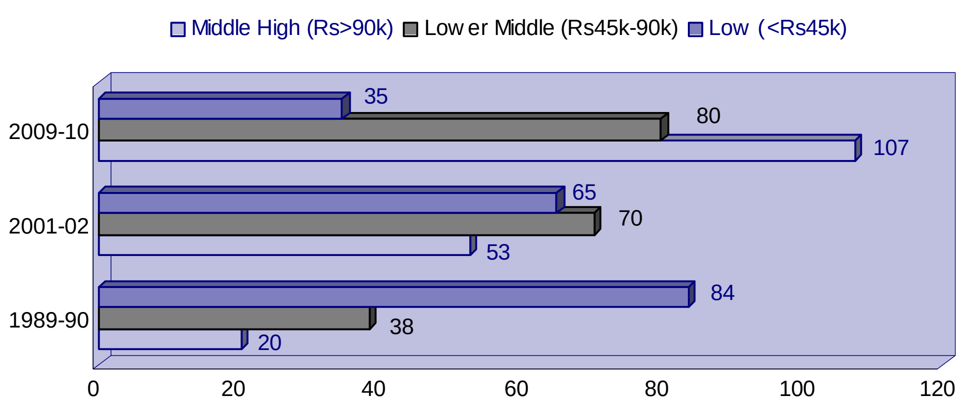
Source: United Spirits/Motilal Oswal Securities

Rising discretionary incomes

India is one of the fastest growing economies in the world. Its GDP has been growing at 9% over the last two years and the growth rate is expected to remain strong. Per capita income has increased from US$450 in FY01 to an estimated US$790 in FY07. Economic growth is leading to higher per capita income and the proportion of the 'consuming class' is increasing. The number of middle-high income households is likely to double during the period 2001-2010. We expect the growth in per capita income to increase the discretionary income at much higher pace than the GDP growth, boosting demand for lifestyle products including alcoholic beverages.

An increasing number of low-income households are moving up to higher income groups

NUMBER OF HOUSEHOLD (M) - DISTRIBUTION BY INCOME GROUP



Source: Company/Motilal Oswal Securities

Consolidation has helped enhance industry's bargaining power

India's alcoholic beverages industry has undergone considerable consolidation in the last few years. The consolidation wave, spanning both the IMFL and beer segments, has seen merger of companies, and acquisition of brands, manufacturing facilities and bottling units. This has resulted in the top-2 players in the IMFL and beer segment controlling over 70% market share. Consolidation has enhanced the industry's bargaining power. Mindless trade spends and discounts have given way to rational pricing.

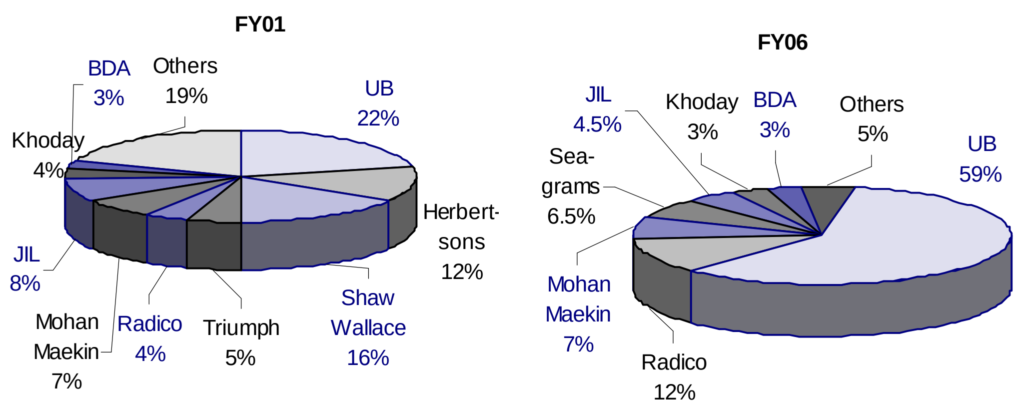
IMFL: top-2 players control 71% of market

Post the consolidation wave, top-2 players control 71% of the IMFL market…

The UB Group has led the phase of consolidation in the IMFL segment. It has undertaken a slew of mergers and acquisitions to emerge as the third largest liquor group in the world. UB Group's United Spirits has taken over Shaw Wallace, Herbertsons and Triumph Distilleries and controls nearly 59% of the IMFL market in India.

Radico Khaitan has emerged as the second largest and the fastest growing IMFL company in India, with a market share of 12%. Seagram's is the only big global player that has been able to gain some meaningful market share in India. We expect global companies to be aggressive players in the next round of consolidation, which could result in acquisition of players with less than 10% market share.

IMFL - TOP TWO PLAYERS CONTROL 71% OF MARKET



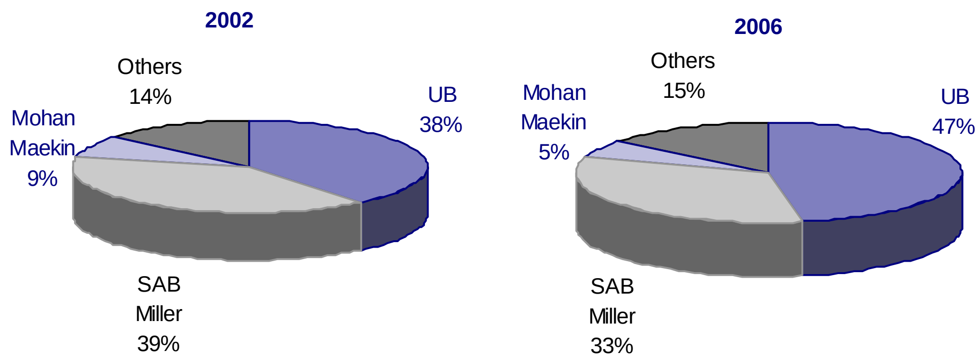
Source: United Spirits/Motilal Oswal Securities

Beer: top-2 players control 80% of market

…and 80% of the beer market in India

In the beer segment, the top-2 players - United Breweries and SAB Miller control 80% of the market. The industry is on a high growth path, with volume growth accelerating to more than 20% during the first nine months of FY07. SAB Miller has acquired Fosters (which had a market share of 2.3%) during the year. United Breweries is expected to consolidate the Millennium Alcobev business, but is unlikely to acquire external units, as it has embarked on Rs4.5b expansion program. SAB Miller and other global players are looking at acquiring Mohan Maekin and Mount Shivalik Breweries.

BEER- TOP TWO PLAYERS CONTROL 80% MARKET



Source: United Breweries/Motilal Oswal Securities

Operating environment turning in favor of incumbents

The industry is still characterized by strong entry barriers like ban on advertising, duty on inter-state movement of products, licensing and very high taxes. This works to the advantage of existing players. In the recent years, several states have moved away from the practice of auctioning distribution rights to state-controlled distribution or to a free market. This has reduced prices by 20-25% and improved product availability significantly, thus boosting demand as also the profit margins of existing players.

High entry barriers; steady growth for established players

While stiff entry barriers restrict the entry of new players…

There are stiff entry barriers that make it difficult for new players to enter the alcoholic beverages market in India. We enumerate some of these below.

Strong brands: The alcoholic beverages industry is characterized by presence of strong brands and strong consumer affinity with these. Strong consumer affinity results in very high degree of repeat purchase.

Ban on direct advertising: Media advertising of alcoholic beverages is banned in India. This has thwarted the attempts of many global majors to make a strong entry. Established players undertake surrogate advertising and sponsorships of various sports events to create brand awareness. Surrogate advertising is generally done for soda, bottled water and sports equipment.

Licensing: A license is required to set up a new manufacturing unit. While one can readily expand existing units, getting a fresh license is cumbersome. Also, for a meaningful presence, a new entrant would require multiple licenses - there are restrictions and duties on inter-state movement of alcoholic beverages.

High taxes: Liquor taxes are among the top revenue generators for various state governments. Taxes and duties constitute nearly 40-45% of the final consumer price. In addition to excise duties imposed by various states, there are also high taxes on inter-state movement of liquor. States impose several types of taxes on liquor in India.

High import duties: Liquor is subject to 100% import duty and 150% countervailing duty. The total incidence of taxes on imported liquor increases significantly due to presence of numerous state level taxes.

Logistics and distribution, a nightmare: There are high taxes on inter-state movement of alcoholic beverages. To gain a nation-wide presence, manufacturers have to establish or contract small bottling units in various states, thus creating inefficiencies in manufacturing. Operating in India is akin to operating in 29 different countries. Besides, in several states, distribution rights are auctioned and manufacturers have no choice but to deal with the successful bidders. This brings down their bargaining power considerably.

Due to the above entry barriers, only a few foreign liquor majors have had success in the Indian market. Radico has been the only company to achieve major success in India, with new brands in the past few years. Though we expect some moderation in import duties due to objections raised by EU, Indian liquor companies will continue to grow steadily in the foreseeable future.

Distribution system - gradually tilting in industry's favor

…incumbents are witnessing a favorable change in the distribution system…

The liquor industry is a state subject in India and is subjected to very strict distribution control by state governments. The industry has pricing flexibility only in 32% of the market, while 57% of the market is controlled by government monopolies and 11% by government sponsored cartels. Three types of distribution systems are prevalent in India - government controlled, auction market and free market. We examine the characteristics of each system below:

DISTRIBUTION SYSTEM

	GOVERNMENT CONTROLLED	AUCTION MARKET	FREE MARKET
Wholesaler	State through its entity	State auctions distribution rights to private parties for selected areas and time	Manufacturers sell to wholesalers/ retailers
Retailers	State operated or private	Private vendors	Private parties obtain license for nominal fee
Retailer Margin	12-15%	20%+	8-10%
Sellers bargaining power	Low to average	Very low	High
Methodology	Annual tender from manufacturers	Private parties negotiate with liquor companies	Private wholesalers directly procure from manufacturers
Key States Covered	Karnataka, Kerala, Tamilnadu, Andhra Pradesh, Orissa, Andaman, Pondicherry	Himachal Pradesh, Bihar, Jharkhand	UP, Goa, Maharashtra, Delhi, West Bengal, J&K, Punjab, Haryana, Chandigarh, Rajasthan, Madhya Pradesh

Source: Company/Motilal Oswal Securities

Government controlled: Under this system, the state government purchases liquor from various entities either on its own or through an agency. The state government then sells the products to consumers through its distribution network, after a mark-up. This system currently exists in southern India. It indirectly imposes limits on product availability.

Auction market: Under this system, the state government auctions the right to sell liquor for an annual fee. The successful bidders then negotiate prices with the liquor companies and sell to consumers through their own distribution network. This creates distribution monopolies in small regions, which results in high consumer prices and fat margins for the retailers.

Free market: The open market system is the most favorable to the industry. It improves product availability and ensures fairness to both the consumer and retailer. Under this system, interested parties can open liquor shops by taking licenses from the state for a certain fee. Manufacturers sell the liquor directly to the retailers at negotiated prices. This ensures fair play for the manufacturer, as no one retailer can force it to reduce prices.

Recent initiatives by various state governments indicate a shift away from the practice of auctioning distribution rights towards the free market system. UP and Delhi started the trend, which resulted in 20-25% decline in liquor prices and sharp increase in demand. Lifting of restrictions on distribution has increased the number of retail points in Delhi from 85 to nearly 500 in the last 2 years. North Indian states of Punjab, Haryana and Chandigarh have moved from private cartels to licensing, which has boosted demand manifold.

Even Gujarat, which has prohibited liquor consumption since the last 30 years, has announced a small relaxation in case of events like international conferences, which suggests that the operating environment for the liquor industry is improving. Maharashtra has allowed the sale of wine and beer at supermarkets and restaurants, which will expand distribution reach and expand the market. We expect all states to gradually relax distribution controls, which would reduce prices and boost demand.

Model excise policy could usher in new era of growth

…and industry taxation

The central government is in the process of framing a new taxation policy for alcoholic beverages. It assumes significance, as liquor is a state subject. The scheme is likely to work as under:

- Alcoholic beverages will be subjected to uniform duty across states, the maximum rate of which is likely to be 66% for IMFL, 33% for beer and 25% for wines. Currently, alcoholic beverages attract 42% excise, 26% sales tax, 8% license fee, 13% auction fee. In addition, there are other taxes like vend tax, registration fee, turnover tax, import duty, etc.
- The expected abatement rate for the levy of duty is 66% of MRP for IMFL, 33% for beer and 25% for wine
- In addition, the policy aims at encouraging the consumption of low alcohol beverages
- A three-year revenue loss compensation for states, as in case of VAT, is likely

Implications for the industry: The formulation of the model excise policy for alcoholic beverages will have far reaching implications such as:

- Fixation of maximum duty cap will result in decline in prices of alcoholic beverages, as the current duties in various forms more than double the price of the end product. This will provide a big boost to volume growth.
- Lower prices will boost the demand for beverages with low alcohol content and discourage consumption of country liquor and other cheaper variants.
- The model policy will reduce the duty on inter-state movement of liquor. It will also

make imported liquor cheaper, as countervailing duty would also decline. Imported liquor currently faces 100% import duty and 150% countervailing duty.

- Abolition of duty on the movement of liquor from one state to another will result in the industry going in for large economic size units. It will help MNCs to find feet in India, as high duty on inter-state movement of liquor acts as a big barrier for foreign companies to establish a pan India footprint at economic cost.
- Indian players will benefit in the medium-term due to sharp rise in volumes due to lower prices. We expect competition to increase significantly in the long term as global players will adopt a more aggressive approach in one of the fastest growing liquor markets globally. Overall, the barriers to entry in the liquor industry will come down, although the impact on the domestic players is not likely to be very significant in the medium term.
- Though we expect some resistance to the implementation of the model excise policy, the states would adopt the new system, once it is put in place by the central government. We have seen this happening in the implementation of the model APMC Act and VAT.

The tax incidence on imported liquor in India becomes prohibitively high due to presence of numerous state level taxes in additions to 100% import duty and 150% countervailing duty which is in line with WTO requirements. But high incidence of various state taxes take the cumulative impact of all the duties to 500%. The Indian government has been under tremendous pressure from the EU to rationalize these duties along the WTO guidelines. The change in the model liquor policy will try to address this issue, as well. We expect rise in competitive intensity in the medium term, while short term volume growth will boost earnings growth for the incumbents.

Valuations to sustain, given the high growth visibility

We expect alcoholic beverages to report double-digit volume growth during the next three years, with IMFL volumes growing at 10% and beer volumes growing at 20% per annum. We expect rising volumes, improved bargaining power and gradual consumer upgradation to boost EBITDA margins by 400bp. We estimate high double-digit profit growth for the leading players, driven by stronger balance sheets and margin expansion.

Valuations in line with domestic FMCG stocks...

Valuations are in line with domestic FMCG companies…

The valuations of alcoholic beverages companies are in line with domestic FMCG companies. We expect domestic alcoholic beverage companies to command valuation premium due to estimated profit CAGR of 33% over FY07-09, much higher than the expected 16-20% CAGR for the large FMCG companies.

...and global alcoholic beverages stocks, despite higher profit growth

…and global counterparts, despite higher growth visibility

Alcoholic beverages companies in India are trading in line with the valuations of their global counterparts. We believe that Indian companies should command a premium over the global majors due to the following reasons:

- Liquor markets in developed countries are stagnating. World leaders are showing low to mid single-digit topline growth. India, China, SE Asia and East Europe have emerged as the drivers of global liquor demand. India is amongst the fastest growing liquor markets in the world, with 10-11% volume growth for spirits and 20% volume growth for beer.

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Souce: Motilal Oswal Securities

VALUATION MATRIX - GLOBAL ALCOHOLIC BEVERAGES COMPANIES (US$)

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Souce: Bloomberg

- Global majors are under severe pressure from organized retailers to lower prices and expand product range. Private labels and discount brands are limiting their scope to expand margins. Consolidation of Indian liquor industry and favorable changes in distribution are providing higher growth and improved realizations for Indian companies. which would enable 400bp margins expansion over FY07-09.

Improving operating environment for alcoholic beverages…

The alcoholic beverages industry can be compared with the cigarette industry, which too is subjected to very high taxes. The operating environment for the cigarette industry has been deteriorating due to rising health concerns and possibility of pictorial warnings depicting that cigarette smoking is injurious to health. In addition, there is a possibility of cigarettes brought under VAT. The operating environment for alcoholic beverages, on the other hand, has been improving over the past few years.

…to help sustain re-rating of the stocks

Several states have shifted away from the practice of auctioning distribution rights to the free market system and Maharashtra has allowed sale of beer and wines in supermarkets. The central government is looking at introducing a model excise policy for alcoholic beverages. Its implementation would reduce liquor prices and boost volumes, substantially. Given the improving operating environment and higher profit growth, we expect the re-rating of liquor companies to sustain. Based on EV/Sales, both United Spirits and Radico Khaitan are quoting at 30-40% discount to ITC. The valuation gap could be much higher, considering that the sales from tied-up units and brand franchisee of alcoholic beverages are reflected as other operating income only and there are a large number of state taxes after excise on liquor.

We initiate coverage with a positive view …

We are positive on alcoholic beverages…

We have positive view on alcoholic beverages and we initiate coverage on the sector, with an Overweight rating. In this report, we initiate coverage on United Spirits and Radico Khaitan in the IMFL segment, United Breweries in the beer segment, and Champagne Indage in the wine segment.

…and United Spirits as our top pick

…and initiate coverage, with United Spirits as our top pick

Our top pick is United Spirits. The retail sales of United Spirits' top-4 brands are US$1.5b and these brands account for 46% of the company's volumes. We estimate its total retail sales at US$2.7-3b, while the enterprise value of the company is US$2b, valuing the company at less than 1x retail sales. Even if we exclude the net sales of tied-up units, EV/ Sales would be just 1.6x - much lower than the valuations of comparable FMCG companies having strong market share and brands.

IMFL

BSE Sensex: 12,580 S&P CNX: 3,627 7 March 2007

COMPANY NAME	PG.

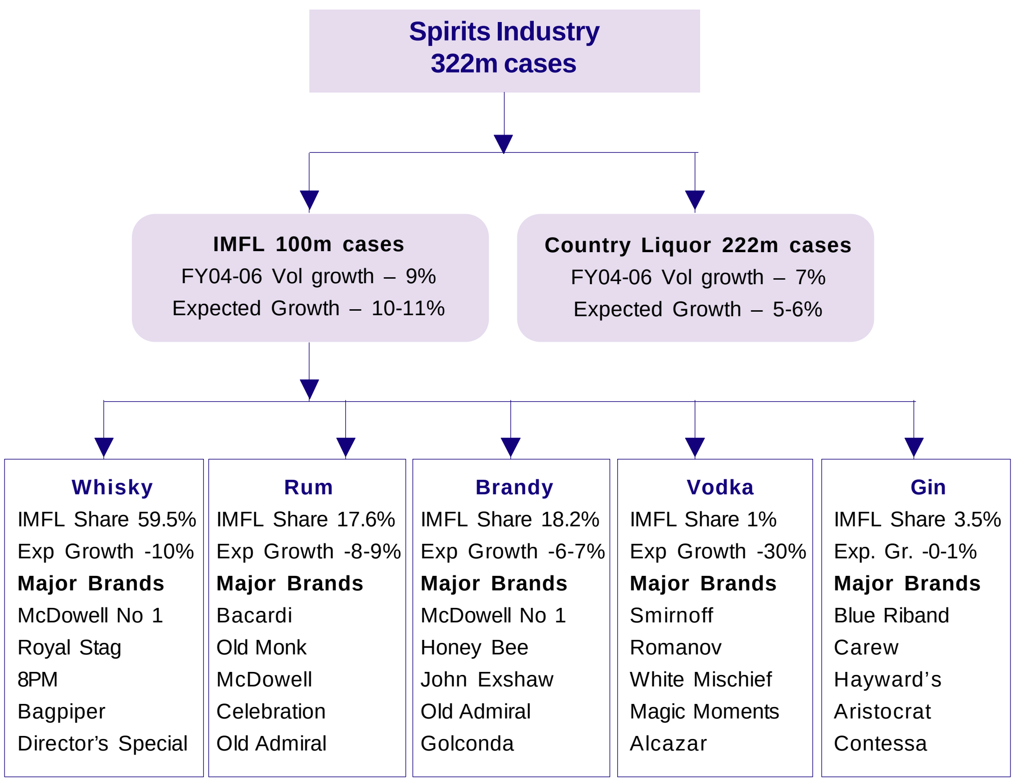
Expect steady growth

Given the favorable demographics, higher bargaining power following industry consolidation and favorable change in operating environment, we expect the IMFL segment to continue growing steadily. With growing disposable incomes and increasing availability of superior products, we expect an increasing number of consumers to shift from cheap country liquor to IMFL. Also, with relaxation of distribution controls and other favorable changes in the operating environment, we expect a 300bp increase in the profit margins of IMFL companies.

Shift away from country liquor to IMFL

The IMFL (Indian made foreign liquor) market in India is roughly 100m cases (12 bottles of 750ml each) and constitutes 31% of the total liquor market in India. The rest is accounted for by country liquor. However, there is a discernible shift in consumption from country liquor towards IMFL. The IMFL segment is growing at 9-10% (in volume terms) as against 6-7% growth in country liquor.

IMFL- STEADY LONG TERM GROWTH POTENTIAL



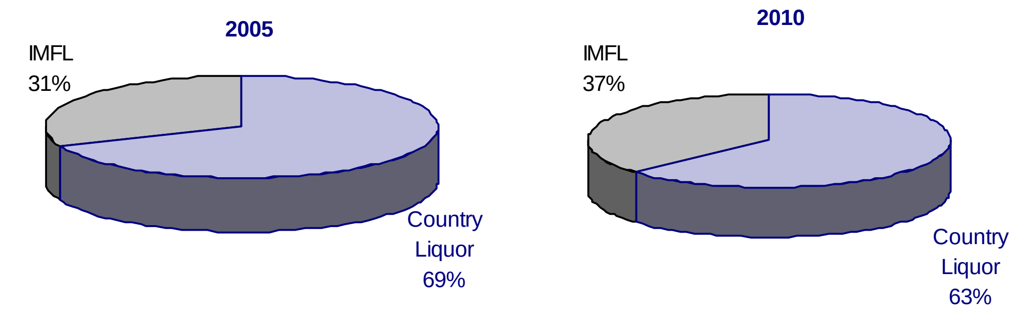
Source: Company/Motilal Oswal Securities

States like Andhra Pradesh, Tamil Nadu and Kerala have banned country liquor, given the use of poor quality materials, hazardous methods of production and tax evasion by the local players. Past trend suggests that the ban on country liquor leads to increased demand for IMFL, particularly at the lower end.

A younger population, favorable demographics and rising consumer aspirations have resulted in higher growth for IMFL. We expect this trend to gain further momentum, with IMFL volumes growing 10-11% in the coming few years. We expect share of IMFL in India's total liquor market to increase from 31% in FY06 to 37% by FY10.

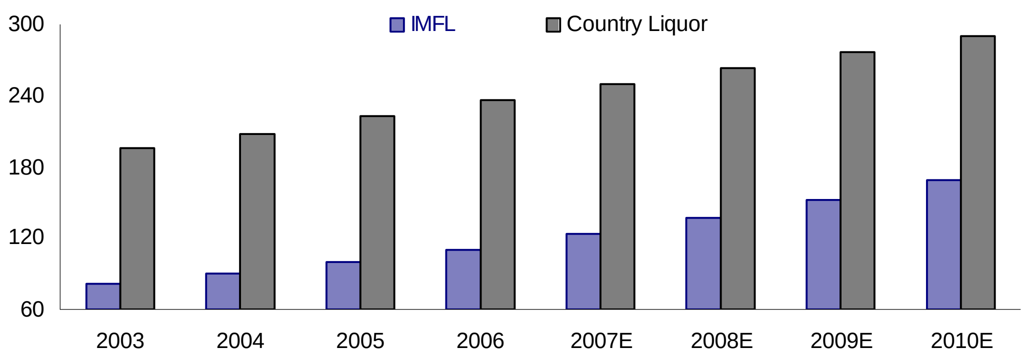
IMFL is taking away market share from country liquor

LIQUOR MARKET - IMFL TO CATCH UP



Source: Company/Motilal Oswal Securities

SALES VOLUME (M CASES) - IMFL SHOWING FASTER GROWTH



Source: Company/Motilal Oswal Securities

Stiff entry barriers to help maintain dominance of existing players

India continues to be one of the toughest liquor markets to operate in due to ban on advertising, licensing requirements, distribution controls and high taxes on inter-state movement of products. These act as stiff entry barriers and though we expect relaxation in controls, the existing players are likely to dominate the IMFL segment at least in the medium term.

United Spirits, the industry leader is well placed given its strong market share, dominance of trade, 15 'millionaire' brands and 65 owned and contracted facilities spread across the country. In addition, the UB Group's market leadership in beer, aggressive plans in wines and tie-up with Russian Standard Company for Vodka places the company in a unique position to consolidate its dominance of the IMFL market in the coming years.

Relaxation of distribution controls, consolidation enhance bargaining power

The industry is witnessing a gradual reduction in regulatory controls over pricing and distribution. Although IMFL continues to be highly taxed, changes in distribution have improved the industry's pricing power. Consolidation has resulted in the emergence of United Spirits as the leader in the segment, with over 59% market share. This together with 47% market share of the UB Group in beer has placed it in a strong bargaining position vis-à-vis the trade. Radico Khaitan, which has started marketing grain-based products, has emerged as the number two player in the IMFL segment.

Whisky - the largest segment…

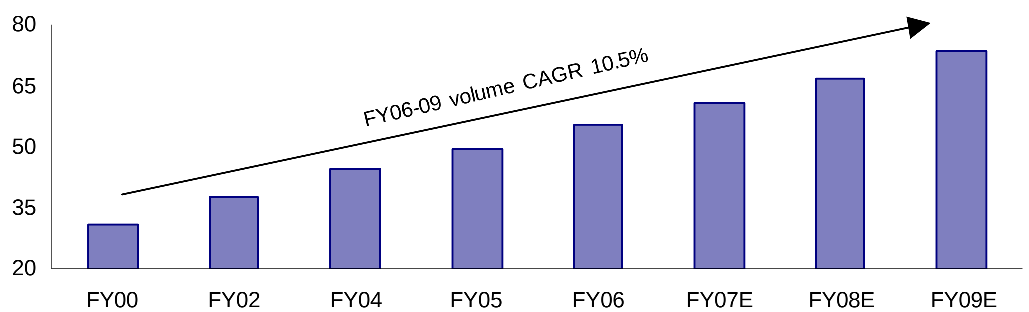
Whisky is the largest segment in the IMFL industry and contributes to 59.5% of total IMFL volumes. The segment has seen acceleration in growth rates from 6-6.5% to current levels of 8-8.5%. United Spirits leads in almost all the Whisky segments except Scotch, which is dominated by global players. We expect growth in whisky volumes to accelerate to double digits, in line with rising growth rates of IMFL. The premium brands have been growing at a faster pace, due to low base and rising consumer affluence even as regular and economy segments continue to account for bulk of the volumes.

WHISKY - COMPETITIVE MATRIX

	WHISKY MKT SHARE	PRICE RANGE (RS)	KEY BRANDS & SEGMENT SHARE (%)	KEY PLAYERS SHARE (%)
Scotch	0.3	4,500-8,000	Teachers-21, 100 Pipers-31, VAT 69- 13	Seagram's-31, Allied Domequ- 21, UDV- 13
Super Premium	0.5	2,300-2,800	Peter Scot -58, Single Malt- 23, Antiquity- 19	Khoday- 58, US- 42
Premium	3.0	1,800-2,300	Royal Challenge- 74, Blenders Pride- 12, Signature- 7	US- 81, Seagram's -12
Deluxe	15.7	660-1,100	McDowell No 1-49, Royal Stag- 25, Aristocrat- 8	US- 53, Seagram's- 25
Regular	43.3	370-540	8PM- 12, Bagpiper- 27, DSP- 16, Officer's Choice -16	US -52, BDA -16, Radico 13
Medium	15.6	290-340	Bonnie Scot -14, Hayward's- 29	US -29, JIL- 14
Low	21.5	210-280	Binnies- 6, Kerala Malt- 13, Vin- 19	US- 32, JIL- 6%

Source: Radico Khaitan/Motilal Oswal Securities

WHISKY - STEADILY RISING SALES VOLUME (M CASES)



Source: Company/Motilal Oswal Securities

…followed by brandy and rum

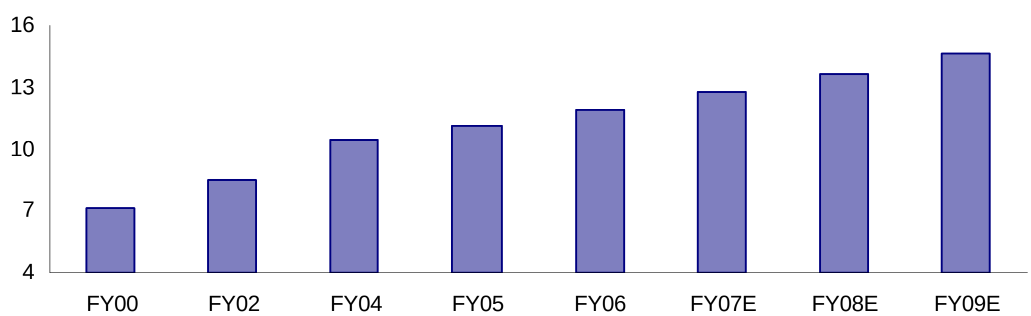
Brandy accounts for 18.2% of the IMFL and 5.6% of the alcoholic beverages market. It is perceived to be the aged people's drink due to health benefits associated with it. Andhra Pradesh and Tamil Nadu account for more than 80% of brandy sales, with United Spirits' McDowell No. 1 dominating the regular segment. Radico has emerged as the second largest player in the brandy market and has consolidated its position, with the acquisition of Brihans. Radico now controls 46% market share in the premium segment and 32% market share in the medium segment. We expect the brandy market to grow at 6-7% per annum in the coming few years.

BRANDY - COMPETITIVE MATRIX

	BRANDY MKT SHARE	PRICE RANGE (RS)	KEY BRANDS & SEGMENT SHARE (%)	KEY PLAYERS SHARE (%)
Premium	6.1	600-800	Brihans Napoleon-23, Mansion House - 46	Tilaknagar - 46, US 30, Radico 46
Semi Premium	2.1	500-575	Bejosis - 76, Joie De Franc - 9	Amrut - 76, US - 9
Regular	36.4	400-480	Honey Bee -22, McDowell No1 - 69	US-91
Medium	25.8	300-380	John Exshaw -31, Golconda - 23, Old Admiral - 28	US- 54, Radico - 32
Economy	29.6	200-280	Monitor Brandy (47%)	Shivas - 47

Source: Radico Khaitan/Motilal Oswal Securities

BRANDY - SALES VOLUME (M CASES)



Source: Company/Motilal Oswal Securities

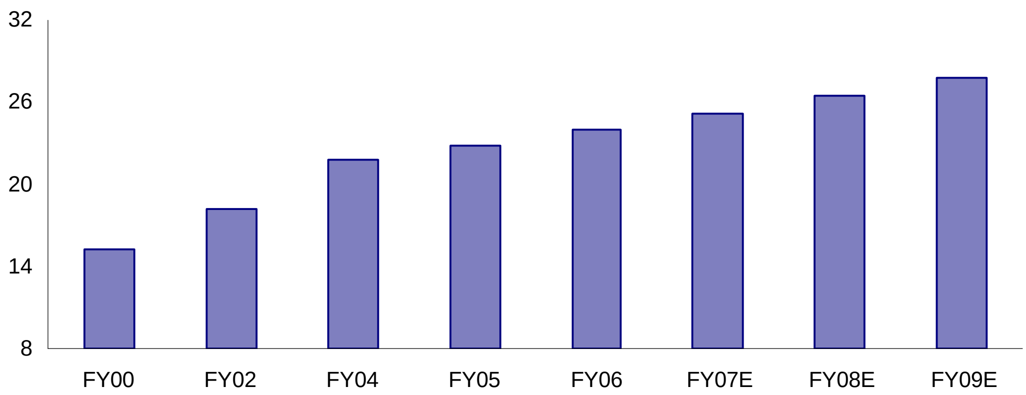
Rum is mostly consumed in South India and accounts for 17.6% of the domestic IMFL market. The market for rum has been growing in mid-single digits. The regular segment comprises 72% of the rum market in India. Mohan Maekin is the leader in the segment, with its Old Monk brand. Growth rates for this product segment have been accelerating, as the younger population in other parts of the country has also started preferring rum, on the perception that it is less harsh. Aggressive marketing by foreign brands like Bacardi is also attracting upmarket IMFL consumers. We expect the market for rum to grow at 8-9% per annum for the coming few years. Although the regular segment will continue to account for bulk of rum volumes, we expect the premium segment to grow in high double-digits.

RUM - COMPETITIVE MATRIX

	RUM MKT SHARE	PRICE RANGE (RS)	KEY BRANDS & SEGMENT SHARE (%)	KEY PLAYERS SHARE (%)
Premium	0.7	Above 420	Bacardi -73, Old Smuggler -16	Bacardi - 73, Allied Dom 16
Regular	72	300-420	Contessa-14, Old Monk -43, McDowell celebration -21	Mohan Meakin-43, US -42, Radico- 15
Economy	25.7	200-250	Majestic - 21	UB-28
White	1.6		Gold Medal -23, Contessa - 16	US -23, Radico - 16

Source: Radico Khaitan/Motilal Oswal Securities

RUM - SALES VOLUME (M CASES)



Source: Company/Motilal Oswal Securities

Vodka - the fastest growing segment

Vodka is the smallest but fastest growing segment of IMFL. Vodka accounts for 1.2% of the IMFL market and has been growing at more than 40% during the past few years. United Spirits is the largest player in the vodka market. It has 70% share in the regular segment, with brands like Romanov and White Mischief. Smirnoff continues to be the undisputed leader in the premium segment, which is 15% of the total vodka market. Vodka has seen high growth rates due to consumer preference for white alcoholic drinks and rising affluence. Vodka is also emerging as a preferred drink for urban women.

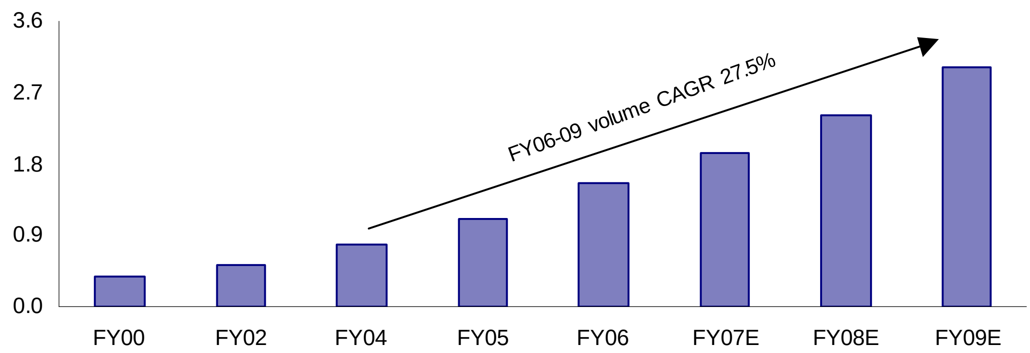
Radico has also entered the vodka market with its Magic Moments brand positioned as first triple-distilled grain-based vodka in India, at a premium to Romanov. The company has sold more than 1,50,000 cases in the first nine months after launch. United Spirits has plans to re-launch White Mischief in new packaging. In addition, the company is launching mango and chocolate flavors in vodka. We expect the vodka market to grow at over 30% per annum for the coming few years. High growth in the product category would attract new players, new variants would be launched and vodka producers would undertake various quality improvement and consumer friendly initiatives to gain market share and mind share in small but high potential product category.

VODKA - COMPETITIVE MATRIX

	VODKA MKT SHARE	PRICE RANGE (RS)	KEY BRANDS & SEGMENT SHARE (%)	KEY PLAYERS SHARE (%)
Premium	15	1400-1800	Smirnoff-99	TDV -99
Regular	85	420-500	Romanov -39, White Mischief -31, Magic Moments	US -70

Source: Radico Khaitan/Motilal Oswal Securities

VODKA - SALES VOLUME (M CASES)



Source: Company/Motilal Oswal Securities

Gin - stagnating volumes

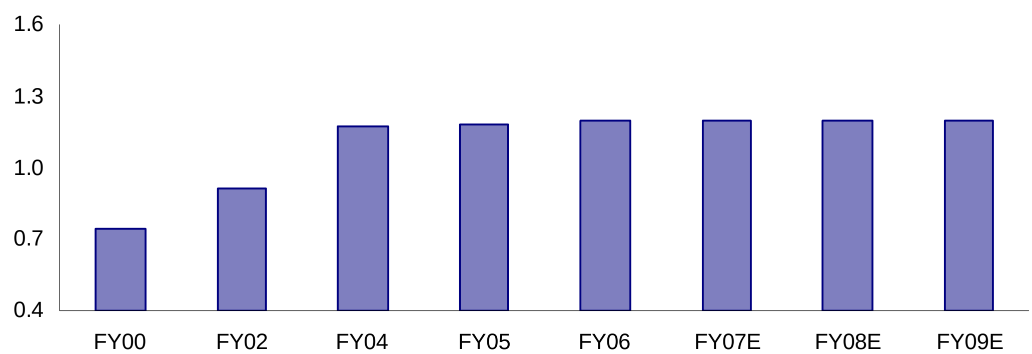
Gin accounts for 3.5% of the IMFL market and the product category has been more or less stagnating with expected growth of 0-1% per annum. United Spirits has consolidated its position in the gin market, with 66% share in regular and 44% share in the medium segment with Blue Riband and Carew brands. The market has not seen any new players or launches for quite some time and the product category lacks excitement. We expect the ensuing trend to continue in the coming years, with very little volume growth.

GIN - COMPETITIVE MATRIX

	GIN MKT SHARE	PRICE RANGE (RS)	KEY BRANDS & SEGMENT SHARE (%)	KEY PLAYERS SHARE (%)
Regular	56	360-475	Blue Riband- 66, Aristocrat - 11	US 66, JIL 11
Medium	44	250-350	Carew - 34, Marco polo - 19	US -44, Empee 19

Source: Radico Khaitan/Motilal Oswal Securities

GIN - SALES VOLUME (M CASES)



Source: Company/Motilal Oswal Securities

United Spirits

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,580	UNSP IN
	REUTERS CODE
S&P CNX: 3,627	UNSP.BO

7 March 2007 **Buy**

Initiating Coverage Rs692

Y/E MARCH	2006	2007E	2008E	2009E
Sales (Rs m)	20,479	27,547	31,678	36,050
EBITDA (Rs m)	2,098	5,118	6,453	8,001
NP (Rs m)	420	2,457	3,520	4,646
Adj. EPS (Rs)	4.1	26.0	37.3	46.5
EPS Growth (%)	-42.4	532.7	43.3	24.7
BV/Share (Rs)	87.7	133.4	173.9	246.2
P/E (x)	168.4	26.6	18.6	14.9
P/BV (x)	7.9	5.2	4.0	2.8
EV/EBITDA (x)	36.6	14.4	10.4	8.0
EV/Sales (x)	3.8	2.7	2.1	1.8
RoE (%)	4.7	18.0	21.4	18.9
RoCE (%)	8.9	17.0	22.9	27.3

Dominant position across segments: United Spirits is the new entity born after the consolidation of UB Goup's IMFL operations under the erstwhile McDowell & Co. The company acquired its archrival, Shaw Wallace and now controls over 59% of India's IMFL market. Strong brands, high bargaining power vis-à-vis the trade and vendors, and improving operational environment should enable the company to sustain double-digit volume growth in mainline brands.

Improved sales mix to drive margin expansion: United Spirits' sales mix is tilting in favor of high margin products like scotch, premium whisky and vodka. The contribution of these high margin products has risen from 16.4% in FY05 to 21.4% in 9MFY07. We expect this to rise to 24% by FY09, driving a 360bp margin expansion over FY07-09.

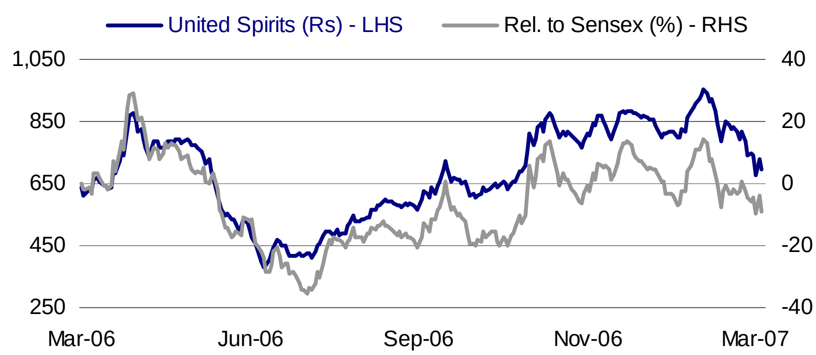
Capital issue, USL Trust stock strengthens balance sheet: United Spirits completed a GDR issue of US$130m and an FCCB issue of US$100m, which has improved its financial position, substantially. The company holds 2.3m shares under USL Benefit Trust and proposes to transfer 10.3m shares held by Shaw Wallace (75% subsidiary), upon its merger. These shares valued at nearly Rs10b have increased the capacity of the company to reduce debt or undertake acquisitions.

Double-digit growth, margin expansion to sustain valuations: We expect United Spirits to report an EPS of Rs37.3 in FY08 and Rs46.5 in FY09. The stock trades at 18.6x FY08E and 14.9x FY09E adjusted earnings. We believe that the stock is attractive, given its high growth prospects and possible margin expansion. We initiate coverage on the stock with a **Buy** rating and target price of Rs930, an upside of 34%.

KEY FINANCIALS	
Shares Outstanding (m)	94.5
Market Cap. (Rs b)	65.4
Market Cap. (US$ b)	1.5
Past 3 yrs. Sales Growth (%)	36.6
Past 3 yrs. NP Growth (%)	124.0
Dividend Payout (%)	16.1
Dividend Yield (%)	0.9

STOCK DATA	
52-Week Range	968/362
Major Shareholders (as of December 2006)	%
Promoters	38.8
Domestic Institutions	2.2
FIIs/FDIs	32.6
Others	26.4
Average Daily Turnover	
Volume ('000 shares)	770.2
Value (Rs million)	556.6
1/6/12 Month Rel. Performance (%)	-10/8/-9
1/6/12 Month Abs. Performance (%)	-24/14/9

STOCK PERFORMANCE (ONE YEAR)



Key beneficiary of growing liquor demand in India

United Spirits controls almost 59% of the IMFL market in India. The company has more than 15 'millionaire' brands, four of which rank amongst the top-100 brands globally. While its product portfolio spans all segments of the IMFL market, United Spirits' focus has been upgrading to premium brands and the high growth segments. We expect the company to maintain its leadership position, aided by the following:

Strong entry barriers: Licensing requirements, controlled distribution and ban on direct advertising make it extremely difficult for new players to enter India's liquor market.

High bargaining power vis-à-vis distributors and suppliers: While United Spirits enjoys leadership in the IMFL segment, group company United Breweries is the leader in the beer segment. Its dominating position in the alcoholic beverages market and the wide range of popular products that the UB Group offers gives it tremendous bargaining power vis-à-vis both its distributors and suppliers.

Acquisition plans / possible entry into wines: United Spirits intends to acquire a scotch company in Europe and plans to enter the wines segment. This will further strengthen its position in the alcoholic beverages market.

DOMINATING THE IMFL MARKET

PRODUCT SEGMENT	KEY BRANDS	MARKET SHARE (%)
Scotch / Super Premium Whisky	Antiquity Blue & Rare	42
Premium	Royal Challenge, Signature	74
Regular/Low	Directors Special, Bagpiper, Green Label, McDowell No1	42
Rum	McDowell No 1 Celebration	30
Brandy	McDowell No 1, John Exshaw, Golconda, Honey Bee	50
Gin	Blue Riband, Carew	56
Vodka	White Mischief, Alcazar, Romanov	59

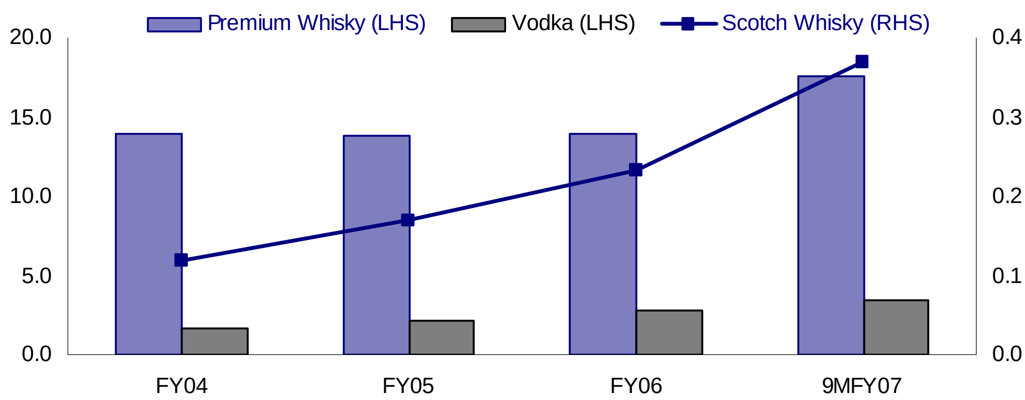
Source: Company/Motilal Oswal Securities

We expect the demand for IMFL to grow at a CAGR of 10% in India for the next few years. As a leading player, United Spirits would be the key beneficiary.

Consumer uptrading, improved sales mix to boost margins

GDP growth of 9% for FY06-08, rising discretionary income of young consumers are resulting in rising consumption of higher value products like scotch, vodka and premium whisky. Increasingly, women too are taking to consumption of alcoholic beverages and women in general prefer white spirits like vodka. United Spirits has market leadership in two of the fastest growing segments - premium whisky and vodka. Its sales mix has tilted in favor of the higher margin segments - scotch, vodka and premium whisky. The volume contribution of these segments has risen from 16.2% in FY05 to 21.4% in 9MFY07.

RISING SALES VOLUME CONTRIBUTION OF HIGH MARGIN PRODUCTS

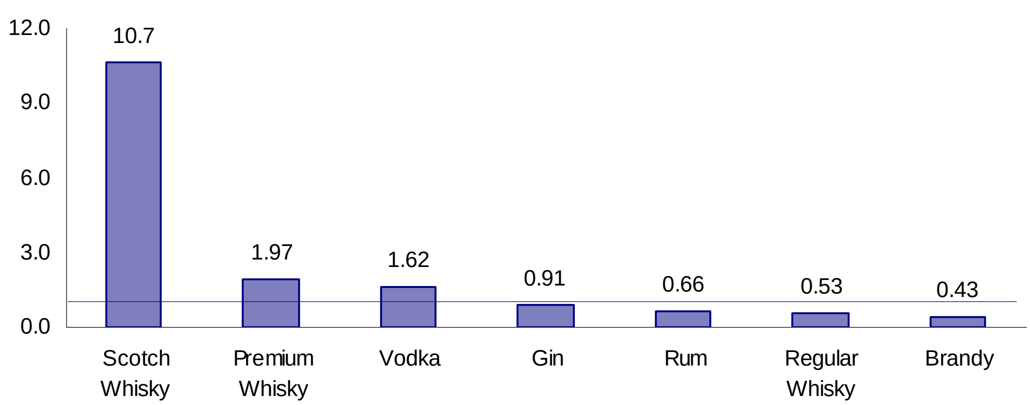


Source: Company/Motilal Oswal Securities

Scotch is United Spirits' most profitable segment, while brandy is its least profitable segment based on gross margin contribution. Assuming an average gross margin contribution of 1 for the entire company, scotch yields a margin of 10.7x the company average. Similarly, the gross margin contributions of vodka and premium whisky are 1.9x and 1.6x the company average.

The company's strategy of focusing on its more profitable brands has resulted in first-line products recording volume growth of 17.6% for 9MFY07 as against the company's overall volume growth of 9.3%. Some of its more profitable brands - Directors' Special Black (38%), Black Dog (84%), Antiquity (54%), Signature Rare (38%) and Romanov (56%) have witnessed high double-digit growth in 9MFY07. We expect the volume share of high-margin segments to increase from 16.9% in FY06 to 24% by FY09 (21.4% in 9MFY07), which will boost United Spirits' overall profit margins. We expect the favorable change in sales mix to boost gross margins by 540bp during FY07-09.

CONTRIBUTION MARGIN PER UNIT VOLUME (9MFY07)

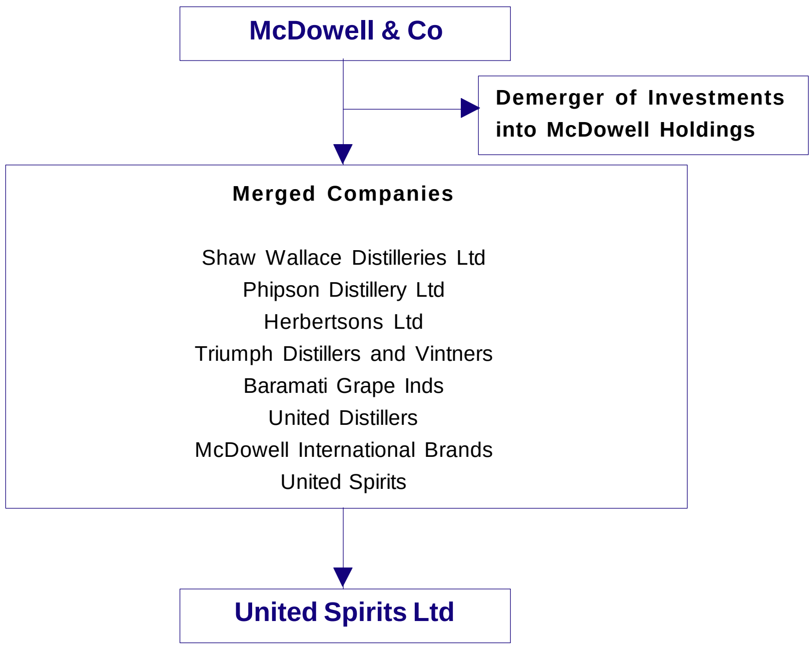


Source: Company/Motilal Oswal Securities

Benefits of consolidation, SWD integration have begun accruing…

United Spirits is the new entity carved out from UB Group's McDowell & Company. In a restructuring exercise undertaken by the group, the erstwhile McDowell's investments were demerged into McDowell Holdings while Herbertsons and other group liquor entities were consolidated under its umbrella. The company also acquired its biggest competitor, Shaw Wallace.

CONSOLIDATION OF SPIRITS BUSINESS OF UB GROUP



Source: Company/Motilal Oswal Securities

The result - United Spirits has under its fold 65 manufacturing facilities (owned and contracted), with 15 'millionaire' brands. Four of these brands rank amongst the top-100 brands globally, and account for 46% of the company's sales and US$1.5b in retail value.

UNITED SPIRITS: KEY BRAND VOLUME AND RETAIL SALES VALUE

	SALES VOLUME (M CASES)	RETAIL VALUE (US$M)
Bagpiper Whisky	10.5	540
McDowell No 1 Whisky	6.1	455
McDowell No 1 Brandy	5.3	270
McDowell No 1 Celebration Rum	5.4	245
Total	**27.3**	**1,510**

Source: Company/Motilal Oswal Securities

The benefits of consolidating the group's liquor businesses under a single entity and the integration of Shaw Wallace Distilleries (SWD) have begun accruing. United Spirits has indicated annual benefits of Rs1b from the integration.

- Acquisition of Shaw Wallace has increased the market share of United Spirits to 59%, giving it tremendous bargaining power vis-à-vis its distributors and vendors. In addition, the operating environment has become more conducive due to changes in the distribution mechanism in several states. The company is now able to negotiate much higher price realizations both from state governments and the trade.
- United Spirits and Shaw Wallace were constantly engaged in price war, which resulted in excessive trade spends. Acquisition of Shaw Wallace has enabled rationalization of trade spends, resulting in savings of Rs400m for the nine months ended December 2006.
- The company has saved Rs400m during 9mFY07 on account of better raw material sourcing. The savings have been mainly in procurement of ENA, glass bottles and cartons, due to economies of scale. United Spirits is now the single largest consumer of glass bottles in India.
- United Spirits has undertaken rationalization of personnel and overheads. In addition, reconfiguration of supply chain and optimization of production at various locations have enabled higher efficiency and savings in logistics costs.
- United Spirits has indicated savings in packaging costs of Rs170m. This has materialized due to re-engineering of outer and mono cartons, introduction of IMFL in tetra packs, reduction in weight of glass bottles and re-engineering of labels.

We believe that substantial one-time gains have accrued to United Spirits from the consolidation process in the past couple of years. This has resulted in EBITDA margins increasing from 5.5% in FY05 to 10.2% in FY06 and to 18% during 9MFY07.

…though the merger of Shaw Wallace is delayed

United Spirits has a 75% stake in Shaw Wallace and its IMFL business - Shaw Wallace Distilleries (SWD) has been integrated into United Spirits. However, the merger of Shaw Wallace itself is still pending. Shaw Wallace continues to hold various brands, on which United Spirits is likely to pay a royalty of Rs250m in FY07. The management has cited pending tax and other litigation against Shaw Wallace as the primary reason for the delay. The merger process is likely to consummate once the litigation issues are resolved.

Shaw Wallace has been allotted 10.3m shares of United Spirits in lieu of the transfer of SWD. Management has indicated that the company would transfer these shares into USL Trust as treasury stocks. Sale of these shares as treasury stock, would enable the company raise about Rs8.2b which will be used to fund future expansion and acquisition opportunities.

Product and marketing innovations…

United Spirits has to its credit several innovations in products, packaging and marketing. These innovations are aimed at enriching overall consumer experience so as to increase long-term association with the brand. We believe that continuous innovation would help United Spirits to maintain its competitive edge.

Product innovations: United Spirits has introduced several innovative product offerings, not only in India but also internationally. We list below a few examples:

- McDowell No 1 Diet Mate Whisky - first whiskey of its kind in the world aimed at the fitness conscious consumer
- Romanov Diet Mate Vodka - targeted at young fitness buffs
- Low-priced 8-year old variant of Black Dog Scotch - the brand has garnered 7% market share in a short period
- Royal Mist, a 100% premium grain-based whiskey has been launched in 8 markets, positioned between the prestige and premium segments
- New variants of Romanov Vodka in mango and chocolate flavors, targeted at young consumers
- Zinzi sparkling wines from Bouvet Ladubay likely to be launched shortly

Packaging and marketing innovations: United Spirits has introduced several packaging and marketing innovations in the recent past, many of which have been acclaimed internationally.

- Launch of McDowell No 1 Reserve Whisky in smart pouches
- Launch of McDowell Celebration Rum, Bagpiper Whisky and Directors Special in 180ml tetra packs
- Launch of 90ml small bottles, for select brands in select states
- New packaging for White Mischief Vodka

...new initiatives to accelerate growth

After consolidating its position in the domestic market, United Spirits has embarked on new initiatives to enter new geographies and product segments. The company plans to enter Russia and China and acquire a scotch company in Europe. The long-term value creation potential from these initiatives appears promising.

Wines - planning strong entry in domestic market

- United Spirits plans to enter the nascent wines market in India. The market is just 4m liters and is growing at over 35% per annum. With low alcohol content and changing taste of consumers, wines represent an interesting growth proposition. Maharashtra has relaxed the distribution for wines, which can now also be sold at super markets and restaurants.
- United Spirits has acquired Bouvet Ladubay, a subsidiary of Tattinger, which sells 3m bottles of wine in USA, France, Germany and UK. The company has 14 sparkling and 7 still wine brands. It has a topline of €12.1m and bottomline of €0.5m. The acquisition will give United Spirits access to the US and European markets and enable it to import wines for marketing in India.
- United Spirits proposes to set up a winery in Baramati through a 100% subsidiary. The winery will be spread over 135 acres initially, and will be extended to 300 acres in addition to third-party agreements for more than 1,000 acres. The project (capacity of 5m bottles per year) is likely to cost Rs750m over the next five years.

- The company is planning to launch Bouvet Ladubay sparkling wines and Zinzi wines in India even before its winery starts production. Zinzi wines will be priced at Rs200-600 per bottle while Bouvet Ladubay sparkling wines will start at Rs600 per bottle.

Russian Standard Company - two-way marketing agreement

United Spirits has entered into a two-way marketing agreement with Russian Standard Company. Under the arrangement, United Spirits will import vodka from Russian Standard for marketing in India. In turn, Russian Standard will market United Spirits' products in Russia. Russian Standard is the leading premium vodka company in Russia, with a market share of 67% in the premium segment. The company has brands like Original, Platinum and Imperia, which it claims are prepared according to Prof Mendeleev's original vodka formula. Vodka is the fastest growing (30% per annum) IMFL segment, although it is just 1.2% of the total IMFL market in India. The future of premium vodka looks bright, as the product segment is attracting the attention of young and affluent consumers.

Russian Standard will market some of United Spirits' products in Russia. The company hopes to launch its Black Dog Scotch Whisky, McDowell No 1 and Director's Special in the Russian market. The management has not given any guidance regarding the expectations of sales in either Russia or the domestic market, but the arrangement has potential to accelerate the growth rates for both the companies and take United Spirits a step forward in its dominance of the premium IMFL segment.

China foray likely in 3-4 months

United Spirits is in the process of setting up a trading subsidiary in China, to enter the medium priced segment, which is between imported scotch and local baijou. The company considers China as an important market in the long term given its size and growth prospects.

Acquisition of a European scotch company likely

United Spirits has been on the hunt for a European scotch company. Scotch is one of the fastest growing product segments in India, with growth rates exceeding 40%. The company is reported to be in the race for White & Mackay, one of the oldest scotch companies in Europe. White & Mackay has 140 brands and huge stock of scotch. It sells nearly 10m cases through its own brands as well as private labels. As per a report by Rabo Bank on global liquor industry White & Mackay has EBITDA margin of 20% with RoE and RoCE of 23% and 8.5% respectively. The company operates with an inventory sales ratio of 65-70% and large proportion of its inventories are that of ageing scotch whisky.

United Spirits to enter European markets with Grain based liquor

The company plans to set up 3-4 grain based distillery units at the cost of Rs750m each. United Spirits has been facing a lot of resistance from European manufacturers and trade bodies for the sale of its liquor as the company only manufactures molasses based liquor. Grain based liquor will enable the company to enter the European markets. Acquisition of any European companies in general and White & Mackay in particular would come in handy as it will provide distribution network for the launch of some of its leading brands.

FCCB issue, USL Trust stock strengthens balance sheet

United Spirits acquired Shaw Wallace for Rs13b, which was primarily funded by debt. The company has completed a GDR issue of US$130m and an FCCB issue of US$100m, which has substantially improved its financial position. Although it has not utilized a major part of the proceeds for debt repayment, net debt has declined to Rs10.8b as at 31 December 2006. While most of the GDRs have been converted into equity shares, the FCCBs, which have a conversion price of Rs858 per share, are yet to get converted. We have factored in FCCB conversion in FY09, which will dilute equity by 5.7% (Rs55m).

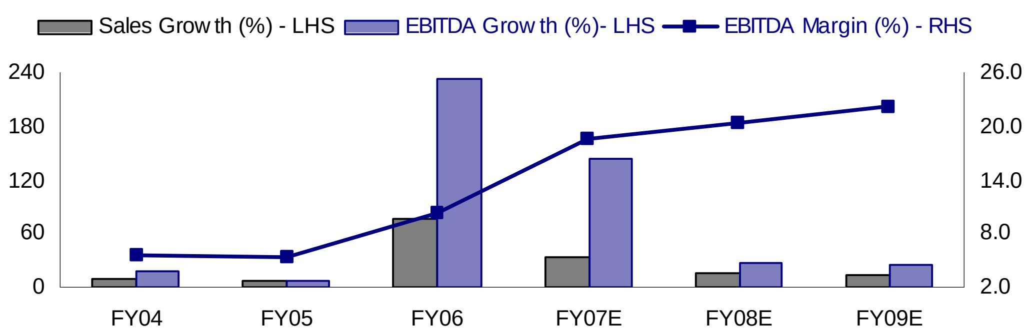
United Spirits had cross-holdings in various subsidiaries and group companies. The company created a trust (USL Benefit Trust) which was transferred 5.8m shares of United Spirits allotted due to cross holding in various subsidiaries and group companies. The company has disposed off 3.5m shares at a profit of Rs2.47b, which has been utilized to reduce debt on the company. The company still has 2.3m shares worth Rs1.8b which can be utilized for debt reduction or other corporate plans. We have not assumed any sale of such shares in our estimates. We expect strong cash flows to result in gradual debt reduction in the coming few years. We estimate that the net debt on the company will decline from Rs13.7b in FY06 to Rs7.3b in FY09.

Expect double-digit revenue growth, margin expansion during FY07-09

We expect United Spirits to post 21% topline growth over FY07-09, led by 9.2% volume growth. The company should report topline growth of 34.5% in FY07, 15% in FY08 and 14% in FY09. Apart from volume growth, higher price realizations and a better product mix would buoy revenues.

The company reported sharp increase in EBITDA margin from 5.5% in FY05 to 18.5% in 9MFY07. This was mainly due to benefits from the Shaw Wallace acquisition and consolidation of UB Group's liquor businesses under one umbrella. While the phase of sharp margin expansion might be behind, we believe that higher bargaining power, and favorable regulatory changes would continue impact margins favorably.

EBITDA MARGIN TO MOVE UP



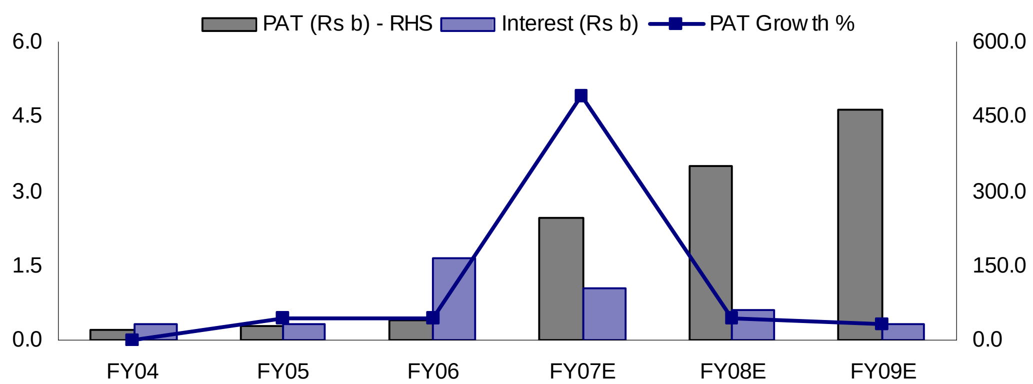
Source: Company/Motilal Oswal Securities

United Spirits' sales mix is gradually shifting in favor of higher margin scotch, premium whisky and Vodka. The contribution of these segments to the company's overall sales has increased from 16.4% in FY05 to 21.4% in 9MFY07. We expect the contribution of these high margin segments to increase to 24% by FY09. Richer sales mix and economies of scale should enable margin expansion of 360bp in FY08 and FY09. We expect EBITDA to increase by 26% in FY08 and by 24% in FY09.

Initiating coverage with Buy

Following the acquisition of Shaw Wallace, United Spirits' interest burden had risen sharply from Rs321m in FY05 to Rs1.66b in FY06. The company has since raised US$130m through GDRs and US$100m through FCCBs (2% coupon rate), which has been used to repay the borrowings. United Spirits has also disposed off 3.5m shares from USL Trust and used the amount of Rs2.4b to repay debt. Consequently, we expect the interest burden to decline from Rs1.66b in FY06 to Rs1.05b in FY07, which will decline further to Rs602m in FY08 and Rs316m in FY09. Decline in interest burden will act as a major profit driver. We estimate PAT growth at 44% for FY08 and 32% for FY09.

INTEREST BURDEN TO DECLINE

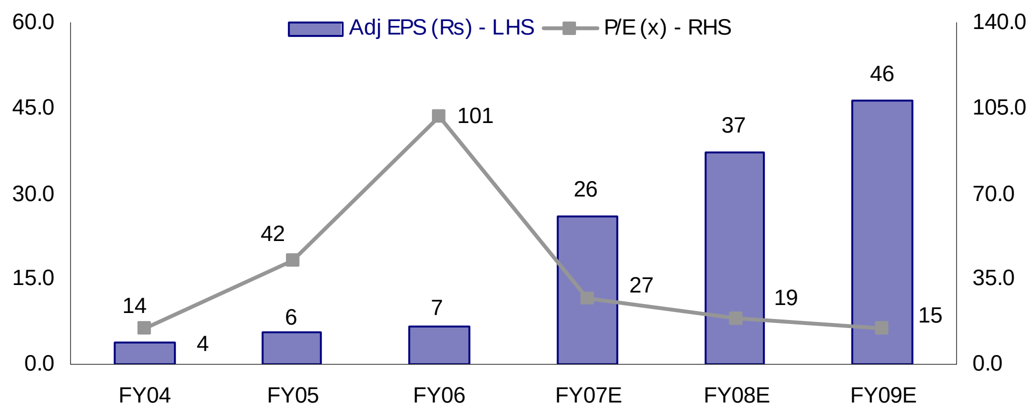


Source: Company/Motilal Oswal Securities

Our estimates do not factor in any potential benefits from new business initiatives. The company has 2.3m shares under the USL Trust and Shaw Wallace (75% subsidiary) holds 10.3m shares.

We expect United Spirits to report an EPS of Rs26 in FY07, which would increase to Rs37.3 in FY08 and Rs46.5 in FY09. The stock trades at 18.6x FY08E and 14.9x FY09E adjusted earnings.

STEADY GROWTH IN EPS



Source: Company/Motilal Oswal Securities

VALUATION MATRIX - COMPARISON OF INDIAN ALCOHOLIC BEVERAGES COMPANIES WITH FMCG COMPANIES

	MCAP.	SALES GR (%)		PAT GR. (%)		EPS (RS)		P/E (X)		EV/EBITDA (X)		EV/SALES (X)	
	(US$B)	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E
United Spirits	1.5	15.0	13.8	43.3	32.0	37.3	46.5	18.6	14.9	10.4	8.0	2.1	1.8
Radico Khaitan	0.3	15.5	10.4	38.7	29.0	6.5	7.9	21.5	17.8	15.0	11.1	2.7	2.1
United Breweries	1.2	21.9	24.3	63.3	35.1	6.3	8.5	37.9	28.0	19.8	15.2	4.4	3.5
Champagne Indage	0.2	74.3	67.5	82.2	68.5	22.5	37.9	27.7	16.4	19.1	12.1	4.9	3.2
Dabur India	2.0	13.3	12.4	23.4	22.8	4.0	4.9	25.8	21.0	20.2	16.6	3.1	2.7
HLL	10.0	10.6	9.6	17.0	15.7	8.2	9.4	21.4	18.5	18.0	15.5	2.6	2.4
ITC	14.9	20.3	20.5	18.4	18.5	8.7	10.3	18.6	15.7	11.7	9.5	3.8	3.0
Nestle India	2.2	11.2	12.0	23.5	20.7	44.0	53.1	22.5	18.7	14.3	11.8	2.7	2.4

Souce: Motilal Oswal Securities

A comparison of United Spirits with large FMCG companies indicates that the stock appears cheap on all major valuation parameters.

- The company's PAT is likely to grow 41% in FY08 and 33% in FY09, the highest among major FMCG companies. Yet, its P/E ratio is the lowest among the FMCG majors. PEG at 0.4 is less than half the nearest comparable company.
- We compare EV/Sales of United Spirits with ITC, another FMCG company with high excise duty incidence. EV/Sales of United Spirits is 2.1x (based on FY08 estimates) as compared to 3.8x for ITC.
- There is lot of potential upside from new ventures, which is not factored in our estimates.

We value the stock at 20x FY09E EPS due to strong visibility in earnings and dominant market position in one of the fastest growing liquor market globally. We initiate coverage with a **Buy** rating and target price of Rs930, an upside of 34%.

INCOME STATEMENT (RS MILLION)

Y/E MARCH	2005	2006	2007E	2008E	2009E
Net Sales	10,919	17,966	24,765	28,640	32,713
Other Operating Inc	636	2,513	2,783	3,037	3,337
Total Revenue	11,555	20,479	27,547	31,678	36,050
Change (%)	*7.8*	*77.2*	*34.5*	*15.0*	*13.8*
Total Expenditure	-10,924	-18,381	-22,429	-25,225	-28,049
EBITDA	**631**	**2,098**	**5,118**	**6,453**	**8,001**
Change (%)	*5.9*	*232.6*	*144.0*	*26.1*	*24.0*
Margin (%)	*5.5*	*10.2*	*18.6*	*20.4*	*22.2*
Depreciation	-156	-409	-427	-555	-635
Int. and Fin. Charges	-321	-1,666	-1,050	-602	-316
Other Income - Recurring	275	490	284	303	322
Profit before Taxes	**428**	**512**	**3,925**	**5,599**	**7,372**
Change (%)	*45.0*	*19.6*	*666.3*	*42.6*	*31.7*
Margin (%)	*3.7*	*2.5*	*14.2*	*17.7*	*20.5*
Tax	146	156	1,350	1,911	2,505
Deferred Tax	-87	-64	118	168	221
Tax Rate (%)	*13.9*	*18.0*	*37.4*	*37.1*	*37.0*
Adjusted PAT	**369**	**420**	**2,457**	**3,520**	**4,646**
Change (%)	*212.0*	*13.9*	*484.7*	*43.3*	*32.0*
Margin (%)	*3.2*	*2.1*	*8.9*	*11.1*	*12.9*
Non-rec. (Exp)/Income	-101	0	2,657	0	0
Reported PAT	**268**	**420**	**5,114**	**3,520**	**4,646**

BALANCE SHEET (RS MILLION)

Y/E MARCH	2005	2006	2007E	2008E	2009E
Share Capital	517	1,022	1,022	945	1,000
Reserves	2,358	7,939	12,613	15,481	23,618
Net Worth	**2,875**	**8,961**	**13,635**	**16,426**	**24,617**
Loans	5,739	15,322	15,425	10,275	2,964
Deffered Tax Liabilities	14	71	188	356	577
Capital Employed	**8,628**	**24,354**	**29,248**	**27,057**	**28,158**
Gross Block	2,830	5,637	5,937	6,937	7,937
Less: Accum. Depn.	-678	-1,038	-1,466	-2,021	-2,656
Net Fixed Assets	**2,152**	**4,599**	**4,471**	**4,916**	**5,281**
Capital WIP	43	26	33	41	51
Investments	3,803	7,023	6,612	6,612	6,612
Curr. Assets, L&A	**5,410**	**19,914**	**25,903**	**23,753**	**25,037**
Inventory	1,406	2,819	3,989	4,431	5,018
Account Receivables	1,793	2,972	3,742	4,381	4,993
Cash and Bank Balance	425	2,234	5,719	1,898	1,363
Others	1,786	11,890	12,452	13,043	13,663
Curr. Liab. and Prov.	**2,780**	**7,208**	**7,771**	**8,265**	**8,822**
Account Payables	1,612	5,152	6,034	6,489	6,941
Other Liabilities	930	1,646	968	723	488
Provisions	238	410	768	1,052	1,394
Net Current Assets	**2,630**	**12,706**	**18,132**	**15,488**	**16,214**
Application of Funds	**8,628**	**24,354**	**29,248**	**27,057**	**28,158**

E: MOSt Estimates

RATIOS

Y/E MARCH	2005	2006	2007E	2008E	2009E
Basic (Rs)					
EPS	**7.1**	**4.1**	**26.0**	**37.3**	**46.5**
Cash EPS	8.6	8.7	30.5	43.1	52.8
BV/Share	55.6	87.7	133.4	173.9	246.2
DPS	2.0	2.0	4.0	6.0	8.0
Payout %	28.1	48.7	15.4	16.1	17.2
Valuation (x)					
P/E		168.4	26.6	18.6	14.9
Cash P/E		79.5	22.7	16.1	13.1
EV/Sales		3.8	2.7	2.1	1.8
EV/EBITDA		36.6	14.4	10.4	8.0
P/BV		7.9	5.2	4.0	2.8
Dividend Yield (%)		0.3	0.6	0.9	1.2
Return Ratios (%)					
RoE	12.8	4.7	18.0	21.4	18.9
RoCE	8.7	8.9	17.0	22.9	27.3
Working Capital Ratios					
Debtor (Days)	57	53	50	50	51
Asset Turnover (x)	1.3	0.8	0.9	1.2	1.3
Leverage Ratio					
Debt/Equity (x)	2.0	1.7	1.1	0.6	0.1

CASH FLOW STATEMENT (RS MILLION)

Y/E MARCH	2005	2006	2007E	2008E	2009E
OP/(loss) before Tax	474	1,689	4,691	5,898	7,366
Int./Div. Received	275	490	284	303	322
Depreciation and Amort.	156	409	427	555	635
Interest Paid	-321	-1,666	-1,050	-602	-316
Direct Taxes Paid	146	156	1,350	1,911	2,505
Incr/Decr in WC	417	8,591	2,098	1,323	1,399
CF from Operations	**22**	**-7,825**	**904**	**2,919**	**4,103**
Extraordinary Items	-101	0	2,657	0	0
(Incr)/Decr in FA	-120	-2,790	-307	-1,008	-1,010
(Pur)/Sale of Investments	-2,774	-3,219	411	0	0
CF from Invest.	**-2,995**	**-6,010**	**2,761**	**-1,008**	**-1,010**
Issue of Shares	0	6,011	0	-78	4,461
(Incr)/Decr in Debt	-2,520	-9,583	-103	5,150	7,311
Dividend Paid	118	216	433	649	916
Others	847	267	150	144	138
CF from Fin. Activity	**3,249**	**15,644**	**-180**	**-5,733**	**-3,628**
Incr/Decr of Cash	**275**	**1,809**	**3,485**	**-3,821**	**-535**
Add: Opening Balance	150	425	2,234	5,719	1,898
Closing Balance	**425**	**2,234**	**5,719**	**1,898**	**1,363**

Radico Khaitan

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,580	RDCK IN
	REUTERS CODE
S&P CNX: 3,627	RADC.BO

7 March 2007 — **Buy**

Initiating Coverage — Rs130

Y/E MARCH	2006	2007E	2008E	2009E
Sales (Rs m)	4,993	6,123	7,073	7,809
EBITDA (Rs m)	885	1,046	1,253	1,452
NP (Rs m)	402	479	664	857
EPS (Rs)	4.7	5.0	6.5	7.9
EPS Growth (%)	26.0	6.0	30.9	21.1
BV/Share (Rs)	14.8	27.8	33.1	63.8
P/E (x)	27.8	26.2	20.0	16.5
P/BV (x)	8.8	4.7	3.9	2.0
EV/EBITDA (x)	18.0	17.0	14.2	10.5
EV/Sales (x)	3.2	2.9	2.5	1.9
RoE (%)	28.1	17.9	20.8	13.9
RoCE (%)	14.0	10.5	12.3	13.8

Fastest growing IMFL company, focusing on VFM segment: Radico is India's fastest growing IMFL company. It has carved a niche for itself in the economy segment, with three 'millionaire' brands. Its market share has increased from 6.5% in FY03 to 12% in FY06. Radico will be the biggest beneficiary of the shift from country liquor to economically priced IMFL.

Strong entry into high growth vodka market to boost growth: Radico has entered high growth vodka market with the Magic Moments brand. The product has evoked excellent consumer response, selling 25,000 cases per month despite being priced at 20% premium to competing brands like Romanov and White Mischief.

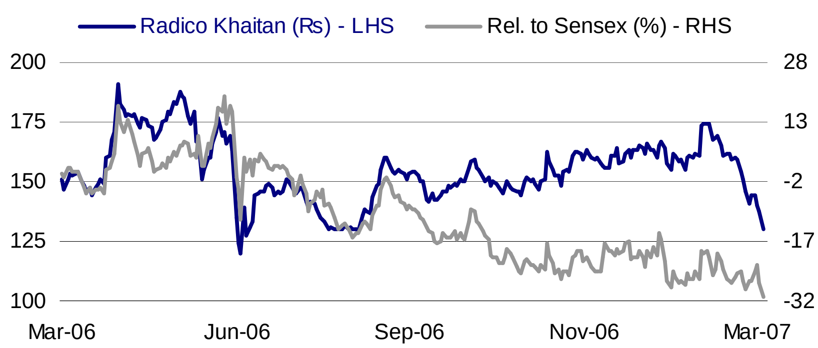
Capital issue strengthens balance sheet, looking for acquisitions: Radico has raised US$70m through FCCB and CCPS to fund acquisitions and reduce high cost borrowings. It now has a ready cash chest of over Rs2.5b to undertake acquisitions of brands and facilities. We have assumed FCCB conversion in FY09 and expect debt equity ratio to improve from 2.4x in FY06 to 1.4x in FY08 and 0.3x in FY09.

Steady profit growth ahead; valuations attractive: We expect the company to report steady growth in the coming years, with sales and EBITDA expected to grow at 17% and 24%, respectively over FY06-09. Prepayment of high cost borrowings and interest on the funds from FCCB issue will enable 38% PAT growth over FY06-09. We expect EPS to increase from Rs4.7 in FY06 to Rs7.9 by FY09. The stock trades at 16.5x FY09E earnings. **Buy** with a target price of Rs158.

KEY FINANCIALS	
Shares Outstanding (m)	96.4
Market Cap. (Rs b)	12.5
Market Cap. (US$ b)	0.3
Past 3 yrs. Sales Growth (%)	25.2
Past 3 yrs. NP Growth (%)	39.3
Dividend Payout (%)	15.9
Dividend Yield (%)	0.2

STOCK DATA	
52-Week Range	199/108
Major Shareholders (as of December 2006)	%
Promoters	55.7
Domestic Institutions	7.8
FIIs/FDIs	17.1
Others	19.4
Average Daily Turnover	
Volume ('000 shares)	272.0
Value (Rs million)	43.0
1/6/12 Month Rel. Performance (%)	-11/-19/-31
1/6/12 Month Abs. Performance (%)	-26/-13/-14

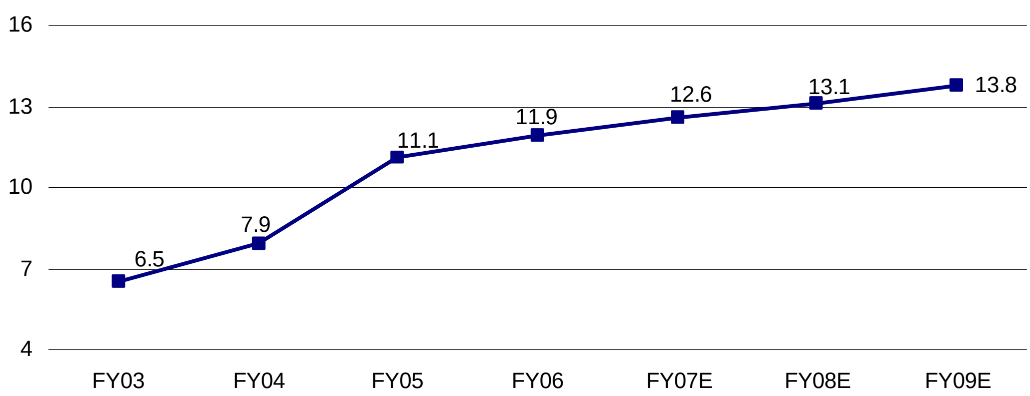
STOCK PERFORMANCE (ONE YEAR)



Fastest growing IMFL company in India

Radico Khaitan is the fastest growing IMFL company in India. It has carved a niche in the economy segment and has three 'millionaire' brands to its credit – *8PM Whisky*, *Contessa Rum* and *Old Admiral Brandy*.

STEADY INCREASE IN MARKET SHARE (%)

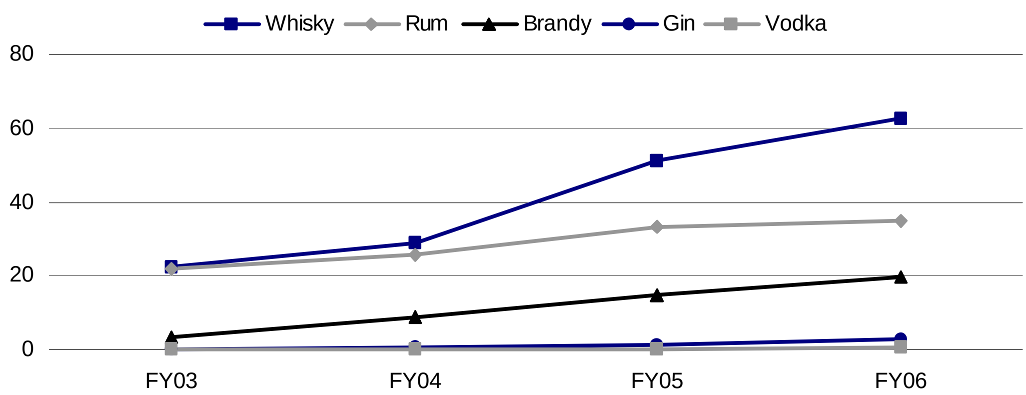


Source: Company/Motilal Oswal Securities

Radico has been steadily gaining market share. From just about 6.5% in FY03, it has seen its market share growing by 550bp to about 12% in FY06. Its volumes have grown at a CAGR of 20% since FY03, much ahead of the industry average of 10%.

While Radico has grown in all the industry segments it operates in, whisky and brandy have been the major growth drivers. Volumes for its *8PM Whisky* have more than doubled from 1.9m cases in FY03 to over 4.1m cases in FY06. *Old Admiral Brandy* volumes have zoomed from about 220,000 cases in FY03 to over 1.3m cases in FY06.

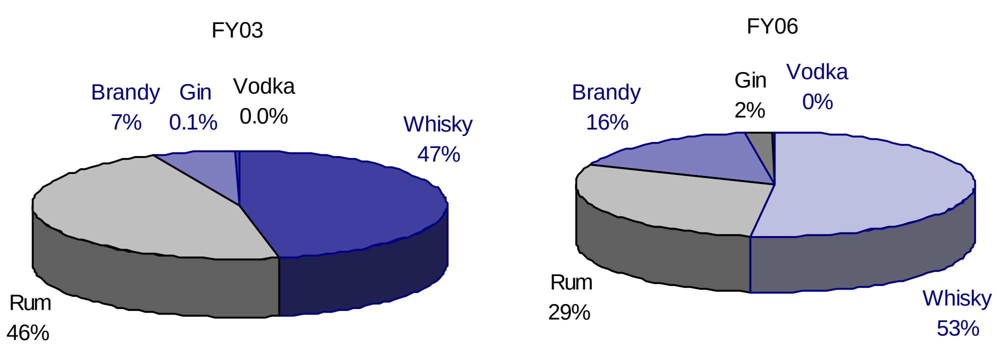
WHISKY AND BRANDY THE KEY GROWTH DRIVERS (LAKH CASES)



Source: Company/Motilal Oswal Securities

Consequently whisky and brandy contributes 53% and 16% respectively to the sales volume of the company.

SALES MIX (FY03 V/S FY06)



Source: Company/Motilal Oswal Securities

Focus on VFM segment spurring volumes

Radico has created a strong niche in the economy or the value for money (VFM) segment of the IMFL market. All its flagship brands – *8PM Whisky*, *Contessa Rum* and *Old Admiral Brandy* are positioned either in the economy or the regular segment of the IMFL market. The VFM segment accounts for the largest part of the IMFL market.

BRAND POSITIONING ACROSS SEGMENTS

CATEGORY	IMFL MKT. SHARE	PRICE RANGE(RS)	RADICO'S KEY BRAND & SEGMENT SHARE	COMPETITOR BRAND AND MARKET SHARE
Whisky	**59.6**			
Premium	2.0	300 onwards		
Deluxe	8.9	220-270	8 PM Royale (0.2%)	McDowell No 1(49.4%), Royal Stag (24.9%)
Regular	27.6	150-220	8PM (12%), Whitefield (1%)	Bagpiper & DSP (43%), Officer's Choice (16%)
Medium	8.9	120-150	Radico Gold Supereme (1%)	Hayward's (29%)
Economy	12.2	90-120	Contessa Deluxe, Rampur No.1, Gold Finger (2%)	Kerala Malt, Vin (32%)
Rum	**17.6**			
Premium	0.2	350-400		
Regular	17.4	140-200	8PM Bermuda, Contessa, Old admiral, Black Cat (15.5%)	Old Monk (42.9%), Mcdowell celebration (21.4%)
Brandy	**18.2**			
Premium	0.8	275		
Regular	13.5	180-250	Old admiral, Whitefield, 8PM Excellency (32%)	John Exshaw, Golconda (54%)
Economy	3.9	100-150	Gold Finger, Brihans Grape (2%)	Monitor Brandy (47%)
Vodka	**1.0**			
Premium	0.10	450-550		
Semi Premium	0.15	300-325	Magic Moments Vodka	Romanov (39%), White mischief (31%)
Regular	0.85	225-260		
Gin	**3.5**			
Regular	1.82	200	Magic Moments	
Economy	1.66	150	Contessa (5%)	Carew Dry Gin (34%)

Source: Company/Motilal Oswal Securities

We expect demand for IMFL to grow in double digits in the coming years, driven by favorable demographics and changing socio-cultural values. We believe that consumer uptrading would result in higher demand for premium products. Radico is adopting a multi-pronged strategy to gain from the expected consumer uptrading.

1. Country liquor accounts for 69% of liquor sales (in volume terms) in India. However, given the rising incomes and increasing health awareness, we expect consumers to gradually move towards IMFL. This would boost demand for IMFL in the VFM segment – prices in the premium segment are 60-100% higher. Given its strong positioning in this segment, Radico would be the key beneficiary.
2. The company is gradually entering the semi-premium segment, with products like *8PM Royale Whisky* and *Magic Moments Vodka*.
3. Radico has entered into a JV with Diageo, which would enable it to create new brands in the premium segment.
4. Besides, Radico has adopted an aggressive exports strategy. It is targeting developing countries in the Middle East, Africa and Asian subcontinent. Radico's exports have quadrupled from Rs100m in FY05 to Rs420m in FY06. The company expects exports to increase to over Rs1.5b in FY07. Rising exports would enable Radico to report above industry average growth in the coming years.

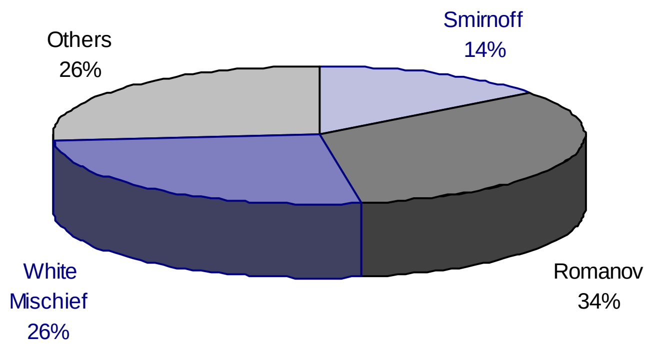
Strong entry into vodka market to boost growth

Radico has entered the high growth vodka market, with its *Magic Moments* brand. The company is already selling about 25,000 cases per month. The vodka market (1.5m cases per year) in India is currently 0.5% of the total alcoholic beverages market and 1.2% of the total IMFL market in India. Vodka sales (in volume terms) have been growing at over 40% per annum during the last few years. Radico's management expects the vodka market in India to grow at 25-30% for the coming few years as:

- There is a visible shift in preference of the younger consumers towards white spirits from brown spirits, which are conceived as drinks for the older generation. Given that 65% of India's population is below 35 years, we expect white spirits such as vodka to grow at a faster pace.
- Vodka can be mixed with water, juice, soda and soft drinks, giving a wide range of taste options to the drinker.
- Vodka is believed to be smoother, less intoxicating, and does not give bad breath.

Smirnoff dominates the premium segment, which is just 15% of the total vodka market in India. *Romanov* and *White Mischief* from the UB stable, which control 34% and 26% of the vodka market in India, dominate the regular segment.

BREAK-UP OF INDIA'S VODKA MARKET

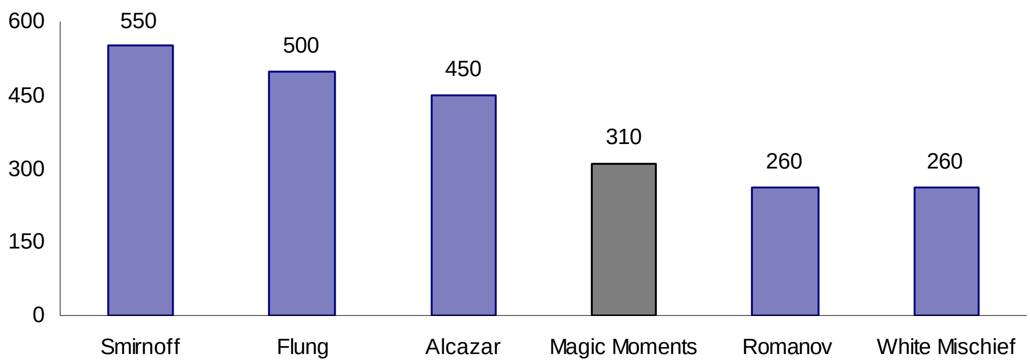


Source: Company/Motilal Oswal Securities

Note: Others include *Vladivar*, *Fuel*, *Flung*, *Alcazar*, *A2O* and *Magic Moments*.

In the premium segment, prices rule at Rs400-550 per 750ml bottle. In the regular segment, most brands are priced at Rs250-350 per bottle. Radico has positioned its *Magic Moments Vodka* at the higher end of the regular segment, with a price tag of Rs310 per bottle – 20% premium to *Romanov* and *White Mischief*.

MAGIC MOMENTS VODKA: POSITIONED IN THE SEMI-PREMIUM SEGMENT



Source: Company/Motilal Oswal Securities

Magic Moments has evoked good consumer response, with sales crossing 150,000 cases since its launch in early 2006. Radico attributes the success of *Magic Moments Vodka* to the following:

- It is the first triple-distilled grain-based vodka in the market. Also, as ENA (extra neutral alcohol, a key input) comes from Radico's modern, grain-based distillery in Rampur, product quality is believed to be superior.
- The product enjoys strong branding and is packed in a frosted bottle with a transparent front. While the look and feel is similar to premium products, the price is closer to regular products.

Radico expects *Magic Moments* to be its next 'millionaire' brand, in another two years. The company is also looking at another vodka brand in the coming year. We expect vodka to be one of the biggest growth drivers for Radico.

JV with Diageo to help scale new horizons

Radico Khaitan has entered into a 50:50 JV with Diageo (largest premium liquor player globally) to set up a brand marketing company. Radico and Diageo India will retain all their brands in their existing companies. The JV will aim at creating new brands in the market space left between Radico's economy segment and Diageo's premium segment. The JV will harness the quality and brand strengths of Diageo and marketing expertise of Radico in the domestic market. The JV has launched "Masterstroke deluxe whisky" priced at Rs300-400 in the prestige IMFL segment. The product has blend of Blair Atholl Single Malt Scotch and is available in 750/375/180 ML pack. The company plans to launch more such products in the near future. Radico would derive significant benefits from the JV:

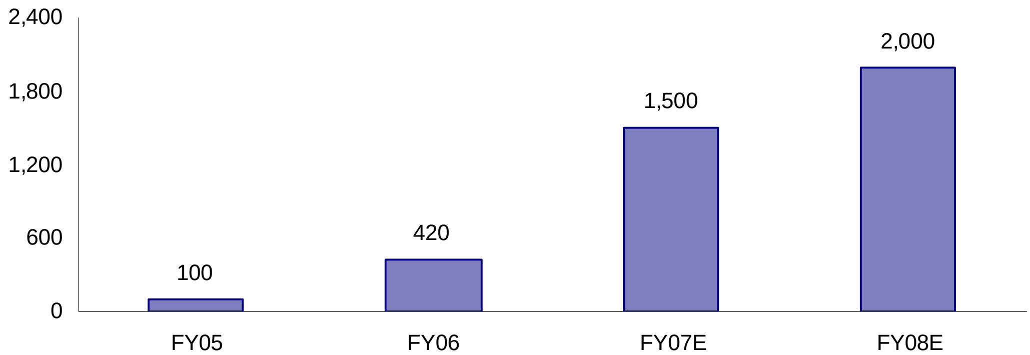
- Radico will enter the premium IMFL segment, together with Diageo, the largest player globally in premium liquor. Its success rate is, therefore, likely to be higher.
- Radico will gain from the best marketing practices and expertise of Diageo.
- Radico will get fixed production and distribution fee from the JV.
- Diageo will launch the new brands in the international market through its network, thus boosting the growth prospects of the JV.
- Radico will gain higher acceptability in the international market due to its tie up with Diageo.

Aggressive exports foray to power growth

Radico has aggressively forayed into the Middle East and African markets. The company has floated a 100% subsidiary, Radico Global for this purpose. The brands being exported include flagships like *Magic Moments*, *Contessa* and *Old Admiral*. The company is looking at manufacturing and bottling units abroad to cater to rising demand for its brands in the Middle East and African markets.

Radico has consciously targeted markets with consumption patterns similar to India and where there is high demand for VFM products. Its brands have been a success and exports have recorded a sharp jump from Rs100m in FY05 to Rs420m in FY06. The company is targeting exports of Rs1.4-1.5b in FY07. Exports during 1HFY07 increased by 280% to Rs500m. We expect exports to touch Rs1.5b in FY07 and Rs2b in FY08.

ROBUST GROWTH IN EXPORTS (RS M)



Source: Company/Motilal Oswal Securities

Capital issue strengthens balance sheet; looking for acquisitions

Radico is highly leveraged, with debt-equity of 2.4x as at March 2006. This is partly due to capex on its new grain-based distillery and a few brand acquisitions last year. Radico has raised US$70m in two tranches to fund acquisitions and reduce high cost borrowings.

- Radico has completed a US$50m FCCB issue at a conversion price of Rs172. It is keeping money in deposits currently and will look at suitable growth opportunities.
- It has also issued 6.75% CCPS of US$20m, with compulsory conversion at Rs159 within 18 months of issue. Of the Rs920m raised under CCPS, Rs700m have been utilized to repay high cost debt. Of the balance Rs220b, the company has infused Rs70m as working capital while Rs150m are being kept in liquid funds.

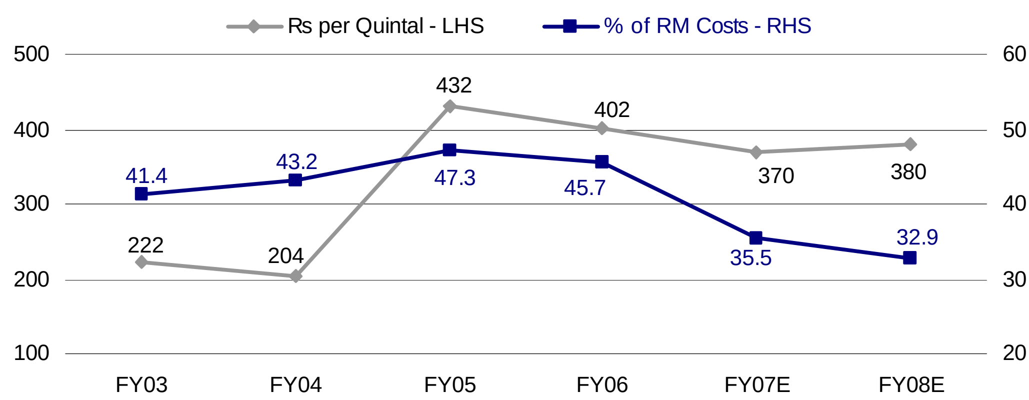
The company has a ready cash chest of over Rs2.5b to undertake acquisitions of brands and facilities. The management is continuously exploring possibilities of brand acquisitions in the domestic market. Radico had acquired 8 brands of Brihans Maharashtra Sugar Syndicate in FY06. It was also eying possible hive-offs of some of UB's non-core brands. However, the UB group has decided against selling non-core brands to the advantage of its competitors.

We have assumed FCCB conversion in FY09. We expect Radico's debt-equity ratio to improve to 1.4x in FY08 and to 0.3x in FY09.

Decline in molasses prices neutrialized by rise in other commodity prices

Molasses is a major input for spirits and accounts for more than 45% of Radico's raw material cost. Molasses prices had risen sharply in FY05 due to lower sugar production.

MOLASSES PRICES EASING



Source: Company/Motilal Oswal Securities

Sugar production in the current season is expected to be 23m ton as against 19m ton in the previous year, which should enhance the availability of molasses. The prices of molasses have declined from over Rs450 per quintal during last season to Rs350 per quintal. The management expects FY07 average price to be Rs370 per quintal, an 8% decline.

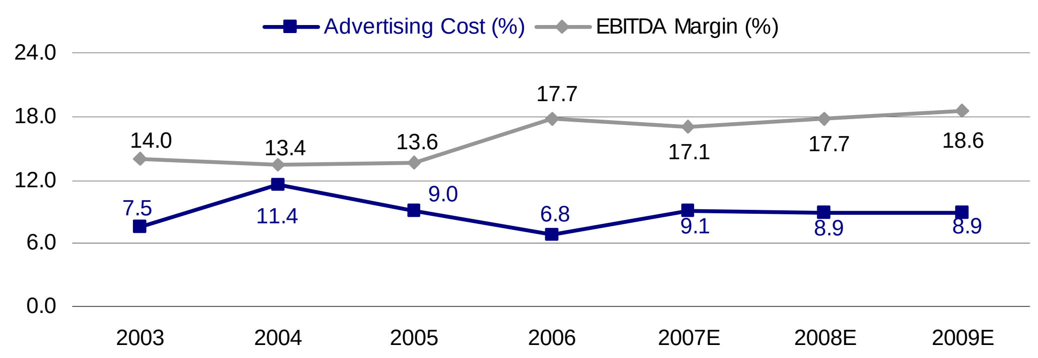
We have assumed 3% increase in average molasses prices in FY08, despite higher sugar production expected (24.5m ton) in the next season. We expect molasses cost as a percentage of material costs to decline for Radico due to the commissioning of its new 27m liter, grain-based distillery. We estimate that molasses cost would decline from 45.7% of material costs in FY06 to 34% in FY08. Radico had commissioned 30m liters grain based distilleries in FY06. The company uses barley, damaged wheat, broken rice and sorghum as key raw materials which have seen sharp increase in prices in the past few months. This has neutrailized expected gains from the decline in molasses prices.

Cost control to aid margin expansion

Radico has one of the highest profit margins in the IMFL industry. For FY06, it reported gross margin of 38% and EBITDA margin of 17.7%, an increase of 200bp and 410bp, respectively. The sharp EBITDA margin expansion was aided by a 220bp decline in advertising spend. We expect higher advertising expenses associated with the launch of *Magic Moments Vodka* to result in 60bp decline in EBITDA margin to 17.1% in FY07. However, we expect EBITDA margins to expand to 20.8% in FY09 due to following reasons:

- Radico is setting up a co-generation power plant at its grain-based distillery. The plant of 5KWH capacity is being set up at a cost of Rs200m and is likely to commence operations in December 2006. We expect savings of Rs50m per annum, as a result.
- Currently, the company's dealer funding extends to 55 days, which it plans to reduce to 45 days over the next three years.
- Radico is gradually moving towards premium products. It has launched *8PM Royale Whisky* and *Magic Moments Vodka* has been priced at 20% premium to regular products. We expect the company's growing vodka sales to be margin accretive.
- The company has initiated value-engineering to reduce losses and improve efficiency. This is likely to expand margins in the coming two years.
- Radico's grain-based distillery at Rampur will receive subsidy of about Rs50m per year from the Uttar Pradesh (UP) government for the first five years.

MARGINS EXPANDING

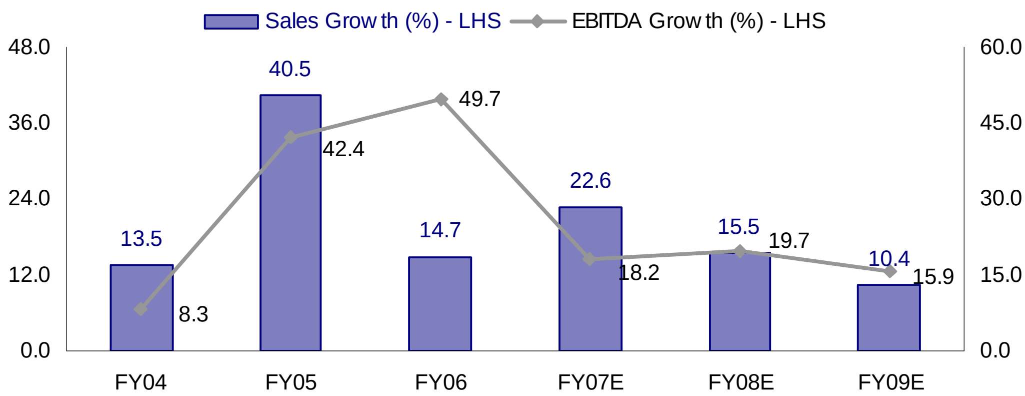


Source: Company/Motilal Oswal Securities

Steady profit growth, valuations attractive; Buy

Radico's revenues have grown at a CAGR of 22.5% and adjusted PAT at a CAGR of 29% over FY04-06. Gross margins have expanded by 200bp and EBITDA margins by 370bp during the period.

STEADY GROWTH IN SALES

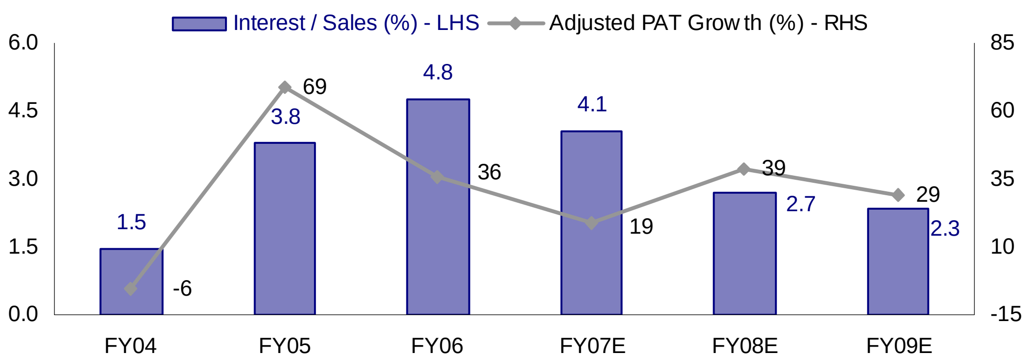


Source: Company/Motilal Oswal Securities

The company has reported EBITDA growth of more than 42% during the last two years and EBITDA margins have expanded by over 500bp. We expect the company to report steady growth in the coming years with revenues and EBITDA expected to grow at 16% and 18% respectively.

PAT growth has been lower than the EBITDA growth, as the interest burden has increased from 1.5% of sales to 4.8% of sales. Prepayment of high cost borrowings and interest on the funds from FCCB issue would enable the company to reduce interest cost considerably. Radico has more than Rs2.3b from issue of FCCBs, primarily for acquisitions. We have assumed conversion in FY09 and have not factored in any acquisition. Consequently, profit growth is likely to be 29% over FY06-09. Any acquisition will result in interest burden being higher than our estimates, but the returns from acquisitions will boost earnings.

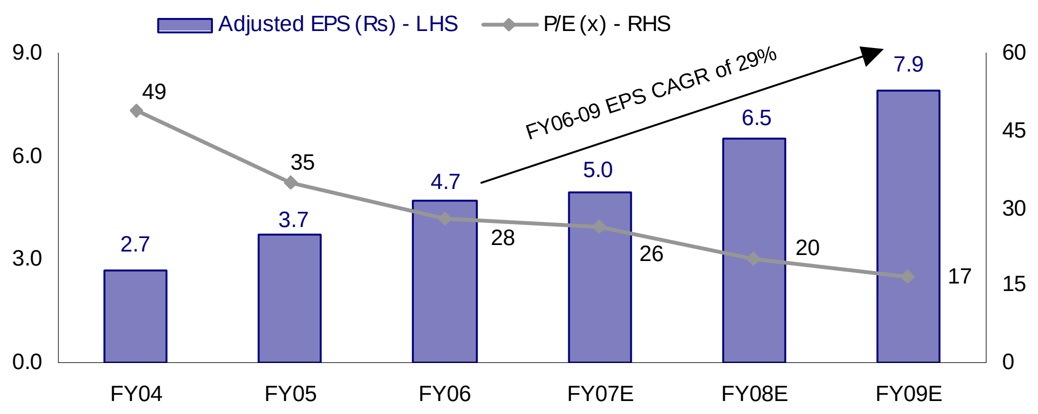
DECLINE IN INTEREST COST TO BOOST PAT GROWTH



Source: Company/Motilal Oswal Securities

We expect Radico's EPS to increase from Rs4.7 in FY06 to Rs7.9 in FY09. The stock trades at 16.5x FY09E earnings. We value the stock at 20x FY09E EPS due to above industry average growth and entry into high growth and premium segment of IMFL. **Buy** with a target price of Rs158, a 22% upside.

STEADY EPS GROWTH



Source: Company/Motilal Oswal Securities

INCOME STATEMENT					(RS MILLION)
Y/E MARCH	2005	2006	2007E	2008E	2009E
Net Sales	4,353	4,993	6,123	7,073	7,809
Change (%)	*40.5*	*14.7*	*22.6*	*15.5*	*10.4*
Total Expenditure	-3,762	-4,108	-5,077	-5,820	-6,357
EBITDA	**591**	**885**	**1,046**	**1,253**	**1,452**
Change (%)	*42.4*	*49.7*	*18.2*	*19.7*	*15.9*
Margin (%)	*13.6*	*17.7*	*17.1*	*17.7*	*18.6*
Depreciation	-85	-113	-151	-164	-176
Int. and Fin. Charges	-165	-237	-249	-191	-181
Financial Other Income	43.8	-11.7	3.3	3.3	3.3
Deferred Revenue Exp.	-63	-49	-28	0	0
Profit before Taxes	**322**	**474**	**622**	**901**	**1,098**
Change (%)	*35.4*	*47.1*	*31.3*	*44.8*	*21.9*
Margin (%)	*7.4*	*9.5*	*10.2*	*12.7*	*14.1*
Tax	-26	-58	-138	-228	-278
Deferred Tax	-1	-14	18.0	30	36
Tax Rate (%)	*-8.2*	*-15.1*	*-19.3*	*-22.0*	*-22.0*
Pref Dividend	0.0	0.0	-23.1	-38.5	0.0
Profit after Taxes	**296**	**402**	**479**	**664**	**857**
Change (%)	*68.6*	*36.1*	*19.0*	*38.7*	*29.0*
Margin (%)	*6.8*	*8.1*	*7.8*	*9.4*	*11.0*
Extraordinary Items	0	0	-38	0	0
Reported PAT	**296**	**402**	**441**	**664**	**857**

BALANCE SHEET					(RS MILLION)
Y/E MARCH	2005	2006	2007E	2008E	2009E
Share Capital	193	193	193	204	218
Preference Share Capital	0	0	577	0	0
Reserves	890	1,236	1,907	2,988	5,938
Net Worth	**1,083**	**1,429**	**2,677**	**3,193**	**6,156**
Loans	2,147	3,420	5,359	5,431	2,847
Deferred Tax	205	219	223	253	289
Capital Employed	**3,435**	**5,068**	**8,258**	**8,877**	**9,292**
Gross Block	2,042	3,182	3,526	3,784	4,045
Less: Accum. Depn.	-535	-608	-686	-851	-1,027
Net Fixed Assets	**1,506**	**2,574**	**2,839**	**2,933**	**3,018**
Capital WIP	174	38	30	30	30
Investments	0	72	2,372	2,372	2,372
Curr. Assets, L&A	**2,304**	**2,985**	**3,804**	**4,445**	**4,882**
Inventory	607	638	805	955	1,056
Account Receivables	615	903	1,177	1,328	1,457
Cash and Bank Balance	68	43	106	179	174
Others	1,014	1,401	1,716	1,982	2,196
Curr. Liab. and Prov.	**627**	**630**	**787**	**903**	**1,011**
Account Payables	489	477	560	615	692
Other Liabilities	74	77	82	89	96
Provisions	64	76	144	199	223
Net Current Assets	**1,677**	**2,355**	**3,017**	**3,541**	**3,872**
Miscelleneous Expenditure	78	28	0	0	0
Application of Funds	**3,435**	**5,068**	**8,258**	**8,877**	**9,292**

E: MOSt Estimates

RATIOS					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Basic (Rs)					
EPS	**3.7**	**4.7**	**5.0**	**6.5**	**7.9**
Cash EPS	4.6	5.9	6.8	8.6	10.7
BV/Share	11.2	14.8	27.8	33.1	63.8
DPS	0.5	0.6	0.7	0.9	1.1
Payout %	14.4	12.0	13.5	13.5	14.0
Valuation (x)					
P/E		27.8	26.2	20.0	16.5
Cash P/E		22.2	19.1	15.1	12.1
EV/Sales		3.2	2.9	2.5	1.9
EV/EBITDA		18.0	17.0	14.2	10.5
P/BV		8.8	4.7	3.9	2.0
Dividend Yield (%)		0.4	0.5	0.7	0.8
Return Ratios (%)					
RoE	27.3	28.1	17.9	20.8	13.9
RoCE	14.2	14.0	10.5	12.3	13.8
Working Capital Ratios					
Debtor (Days)	52	66	70	69	68
Asset Turnover (x)	1.3	1.0	0.7	0.8	0.8
Leverage Ratio					
Debt/Equity (x)	2.0	2.4	2.0	1.7	0.5

CASH FLOW STATEMENT					(RS MILLION)
Y/E MARCH	2005	2006	2007E	2008E	2009E
OP/(loss) before Tax	506	772	895	1,088	1,276
Int./Div. Received	44	-12	3	3	3
Depreciation and Amort.	85	113	151	164	176
Interest Paid	-165	-237	-249	-191	-181
Direct Taxes Paid	26	58	138	228	278
(Incr)/Decr in WC	516	679	611	461	344
CF from Operations	**-72**	**-100**	**52**	**377**	**653**
Extraordinary Items	0	0	-38	0	0
(Incr)/Decr in FA	-746	-1,004	-336	-259	-261
(Pur)/Sale of Investments	86	-72	-2,300	0	0
CF from Invest.	**-660**	**-1,077**	**-2,673**	**-259**	**-261**
Issue of Shares	0	0	920	0	2,288
Incr/(Decr) in Debt	791	1,273	1,939	73	-2,584
Dividend Paid	-51	-54	-65	-85	-106
Others	94	-12	-65	-9	8
CF from Fin. Activity	**776**	**1,152**	**2,685**	**-46**	**-397**
Incr/Decr of Cash	**44**	**-25**	**63**	**72**	**-5**
Add: Opening Balance	24	68	43	106	179
Closing Balance	**68**	**43**	**106**	**179**	**174**

Beer

BSE Sensex: 12,580 S&P CNX: 3,627 7 March 2007

Future perfect

While the past track record of the beer industry appears unexciting, the future holds tremendous growth potential. Low per capita consumption, rising disposable incomes and above all a 500m strong population below 25 years of age suggests huge demand growth potential for beer. Chilled beer has the potential to emerge as the preferred drink during the summer months. It is also observed that the consumption of liquor increases with rising level of affluence. We expect the growth in demand for beer to accelerate, as the economy enjoys the benefits of more than 9% GDP growth in FY06-08.

Track record so far has been unimpressive

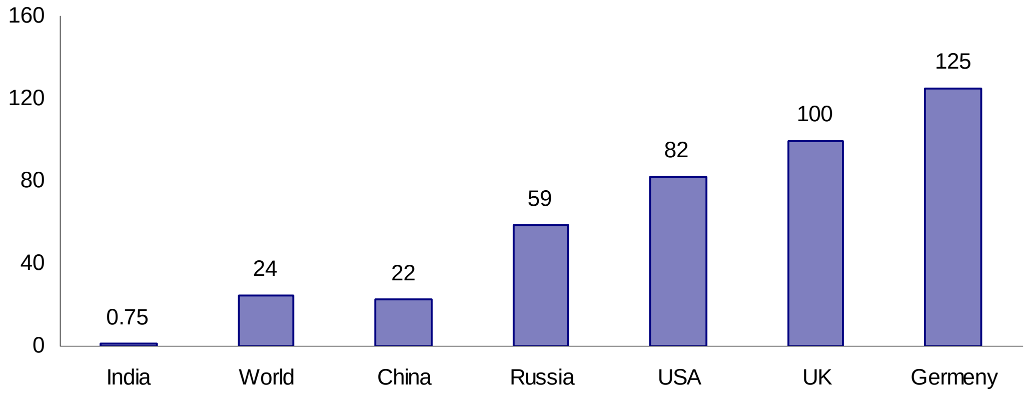
The Indian beer industry is primitive by international standards, with consumption being 7m hectoliters, which is just 0.5% of the global consumption of beer. Per capita consumption of beer in India is 0.75 liters as against the global average of 24 liters. Indian beer is considered at par with hard liquors like spirits as regards the levy of duties, distribution and interstate taxes. This is in contrast to the global practice, where beer is sold at departmental stores.

Liquor is a state subject in India and state governments have the right to impose levies and taxes, and control distribution. Taxes on liquor are the second largest source of revenue for the state governments. Consequently, duties and taxes comprise 42% of the MRP for IMFL and nearly 28-30% for beer. In addition to state taxes, liquor is subject to import and export taxes on inter-state movement. So operating in India is akin to operating in 29 different countries.

INDIAN BEER INDUSTRY - CURRENT STATISTICS

- Per Capita consumption at 0.75 litres as against global average of 24 litres
- Average duties and levies at 42% of market price
- 1 sales outlet per 20,000 people as against 350 in UK
- Distribution clubbed with hard liquors as against free distribution in other countries
- Restrictions and levies on interstate movement of Beer
- Ban on media advertising of alcoholic beverages
- Small size of Breweries
- High Alcohol (6-8%) Beer constitute 65% of industry volumes

BEER - PER CAPITA CONSUMPTION (LITRES PER ANNUM)

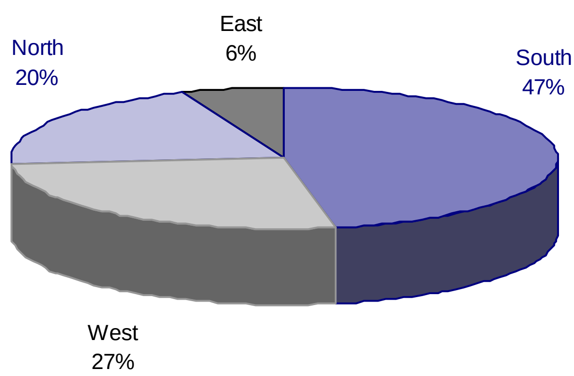


Source: Company/Motilal Oswal Securities

Strong local bias

The beer industry in India has a strong local bias, with strong regional disparities in demand and seasons. South India is the largest market, with nearly 47% of the domestic consumption. The West, North and East account for 27%, 20% and 6% of the domestic demand, respectively. In addition to strong national brands like Kingfisher and Hayward's, each state has regional niche brands. Beer sales are also seasonal, with summer months accounting for nearly 30% of sales. Consumption is very low during the rainy season, but picks up after December.

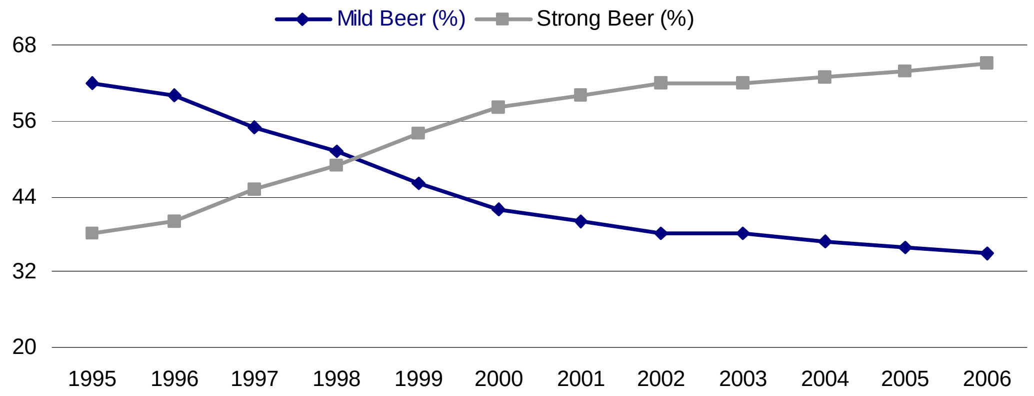
STRONG REGIONAL BIAS



Source: Company/Motilal Oswal Securities

Globally, beer is consumed as a drink with alcohol content being less than 5%. However, in India the product is used as a cheaper alternative to costly spirits. This has resulted in strong beers (alcohol content more than 6-8%) growing far ahead of the market. We expect the trend to continue in the coming years.

STRONG BEER GAINING MARKET SHARE



Source: Company/Motilal Oswal Securities

Industry deregulation boosting growth

The beer industry in India is highly regulated, resulting in poor availability and high pricing of the product. However, recent initiatives by various states indicate a shift away from the practice of auctioning distribution rights to the free market system of distribution.

RECENT CHANGES IN DISTRIBUTION CONTROLS

STATE	POLICY CHANGE	IMPACT
Uttar Pradesh	Decartelization	More than 100% growth in volumes
Rajasthan	State Govt Controls Wholesale trade	100% increase in net realization
Kerala	Changes in annual tender policy	Price increases possible
Punjab/ Haryana/ Chandigarh	Private cartel to licensing	2.5-6 times jump in volumes, lower prices
Delhi	Private retail shops allowed	Lower prices, improved availability
Maharashtra	Supermarkets and restaurant allowed to sell beer	Likely to improve availability and boost demand

Source: Company/Motilal Oswal Securities

The free market system improves availability, and lowers distribution margins and taxes. The consequent price reduction boosts demand. Free pricing allows more flexibility to the manufacturers to pass on cost increases to the consumers. Recent trends have been very encouraging for the industry.

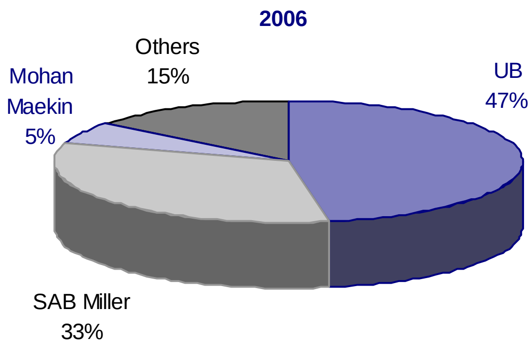
- Delhi shifted to the free market system from government-controlled distribution. It has increased the number of liquor vends from 85 to nearly 500 in last two years.
- The northern states of Punjab, Haryana, Chandigarh and Rajasthan have shifted from the auction system to the free market system. This has resulted in 20-25% decline in the prices of beer and 500% jump in demand.

The industry is hopeful that more and more states will adopt a more flexible policy towards the industry in the coming years. The industry is lobbying hard with the government to separate wines and beer from IMFL for the purpose of distribution. Himachal Pradesh and Bihar are expected to move out of the auction system in the coming months. We expect industry growth rates to accelerate, as lower prices improve the affordability of the product.

Industry consolidated; steady growth and margin expansion ahead

The beer industry has seen a lot of consolidation in the past few years. UB Group together with SAB Miller (including Mohan Maekin and Fosters) controls more than 85% of the beer market. In addition, these groups have been on an acquisition spree for brewing capacity, thus consolidating the industry. While UB and SAB Miller have emerged as two strong national players, many global players like Anheuser Busch and Hein ken are planning to enter India. New players are looking at Mohan Maekin, Mount Shivalik and small regional players to gain access to ready capacity and distribution.

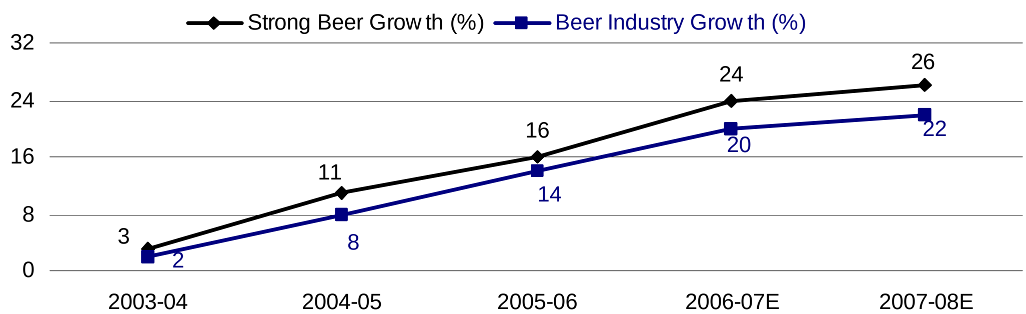
BEER- TOP TWO PLAYERS - 80% MARKET SHARE



Source: Company/Motilal Oswal Securities

From a phase of slow growth, the industry growth has been accelerating in the past few years. The industry growth rates have jumped from 2% in FY04 to 14% in FY06. Change in distribution system has resulted in sharp increase in demand for beer in North India, thus boost demand growth to over 20% in the current year. We expect the industry to record volume growth of 20-25% for the coming few years. The consolidation of the industry and acceleration of growth rates has reduced the extent of price undercutting, particularly in states where distribution controls have been relaxed. The decline in prices in such states has resulted in industry realization also improving by 10-15%, on a net basis. We expect industry consolidation and rising growth rates to improve the profit margins of the leading players in the coming years.

BEER INDUSTRY - RISING GROWTH MOMENTUM



Source: Company/Motilal Oswal Securities

United Breweries

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,580	UBBL IN
	REUTERS CODE
S&P CNX: 3,627	UBBW.BO

7 March 2007

Neutral

Initiating Coverage

Rs264

Y/E MARCH	2006	2007E	2008E	2009E
Sales (Rs m)	8,194	10,245	12,490	15,529
EBITDA (Rs m)	1,377	1,941	2,804	3,612
NP (Rs m)	232	832	1,359	1,836
EPS (Rs)	1.1	3.9	6.3	8.5
EPS Growth (%)	1,446.2	258.3	63.3	35.1
BV/Share (Rs)	9.2	11.5	16.5	23.2
P/E (x)	245.9	68.6	42.0	31.1
P/BV (x)	28.6	23.0	16.1	11.4
EV/EBITDA (x)	43.4	31.1	21.8	16.8
EV/Sales (x)	7.3	5.9	4.9	3.9
RoE (%)	4.7	15.4	20.9	23.1
RoCE (%)	11.5	17.2	20.2	23.3

KEY FINANCIALS	
Shares Outstanding (m)	216.0
Market Cap. (Rs b)	57.1
Market Cap. (US$ b)	1.3
Past 3 yrs. Sales Growth (%)	26.0
Past 2 yrs. NP Growth (%)	339.5
Dividend Payout (%)	20.9
Dividend Yield (%)	0.1

STOCK DATA	
52-Week Range	289/80
Major Shareholders (as of December 2006)	%
Promoters	75.0
Domestic Institutions	2.1
FIIs/FDIs	15.3
Others	7.6
Average Daily Turnover	
Volume ('000 shares)	106.0
Value (Rs million)	21.3
1/6/12 Month Rel. Performance (%)	29/124/113
1/6/12 Month Abs. Performance (%)	15/130/130

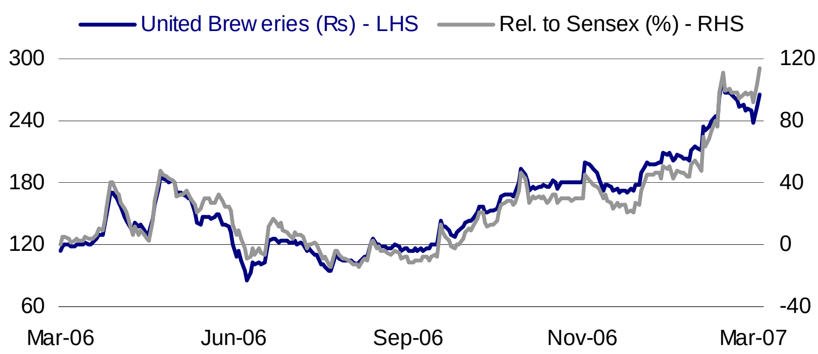
Best placed to gain from expected upsurge in demand for beer: We expect India's beer industry to grow volumes at 20-25% for the coming few years. As the market leader (47% share), wide geographical spread of breweries, strong brands like Kingfisher, and strong distribution network, United Breweries (UB) would be the biggest beneficiary.

Capacity expansion to boost growth: UB is currently in the midst of a Rs4b expansion to double its capacity to 110m cases per year. Capacity expansion will be accompanied by process and technological improvement at old plants, which would improve product quality and productivity. Commissioning of new capacities would be margin accretive, as UB has temporarily increased outsourcing to meet higher demand.

Synergy benefits from S&N tie up to boost margins: UB entered into tie-up with S&N in 2004, following which S&N holds a 37.5% stake in UB. The infusion of Rs9.5b by S&N enabled UB to acquire 8 contract manufacturing brewing units and repay debt of Rs2.1b. The tie-up with S&N has also helped UB to improve brewing practices, reduce cycle time, develop new products and improve corporate governance.

Steady growth ahead; valuation premium to sustain: We expect UB's consolidated sales and PAT to grow at 23% and 22% per annum during FY07-09, led by volume growth and margin expansion of 500bp. The stock trades at 42x FY08E and 31.1x FY09E earnings. Although, we expect the premium valuations to sustain, current price factors in all the positives. We initiate coverage with a **Neutral** rating.

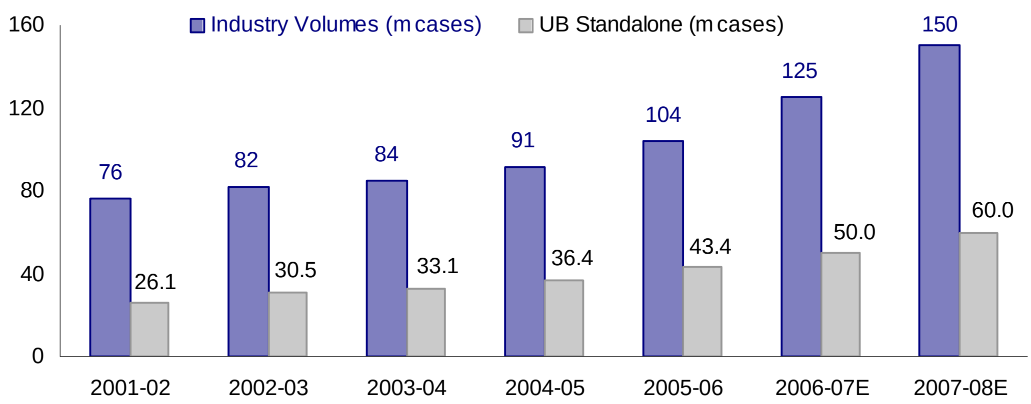
STOCK PERFORMANCE (ONE YEAR)



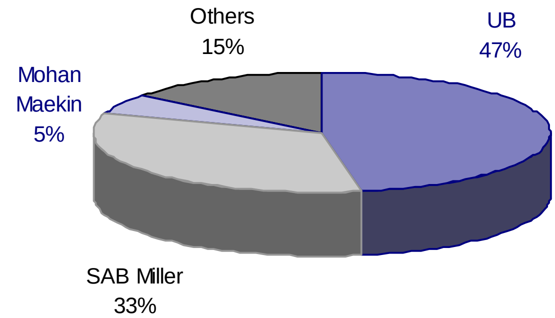
Best placed to benefit from upsurge in demand for beer

Consolidated, United Breweries (UB) controls more than 47% of the domestic beer market. UB is far ahead of the number-2 player, SAB Miller even after considering the acquisition of Mohan Maekin and Fosters by the latter. Though several new players including Anheuser Bausch and Carlsberg are likely to enter, UB seems best placed to exploit the growth potential of the beer industry. UB enjoys tremendous clout with liquor distributors. Apart from the 47% share of the beer market, the UB Group controls 59% of the IMFL market. Its products get ready retail acceptance and superior distribution reach.

DOMINATING THE DOMESTIC BEER INDUSTRY



MARKET SHARE (2006)

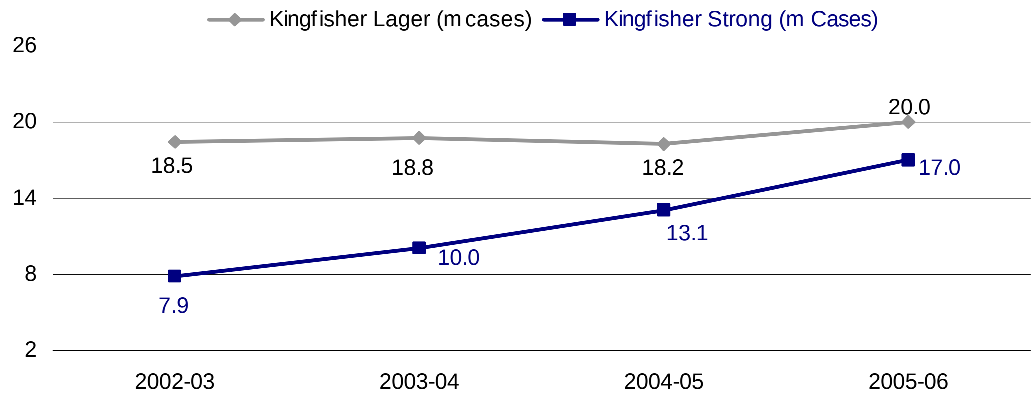


Source: Company/Motilal Oswal Securities

Strong brand and marketing innovations

UB has been leading the beer industry in undertaking marketing and brand innovations. Its principal brand, *Kingfisher* has been the single largest beer brand in India. Traditionally a lager beer brand, its extension, *Kingfisher Strong* has been an astounding success in the strong beer category. *Kingfisher Strong* has emerged as the largest selling beer brand in India. In addition, the company has brands like *Kalyani Black Label*, *London Pilsner*, and *UB Export*. Its 50:50 JV with Scottish & Newcastle (S&N), Millennium Alcobev has brands like *Sand Piper* and *Zingaro*.

KINGFISHER: A SUCCESS STORY

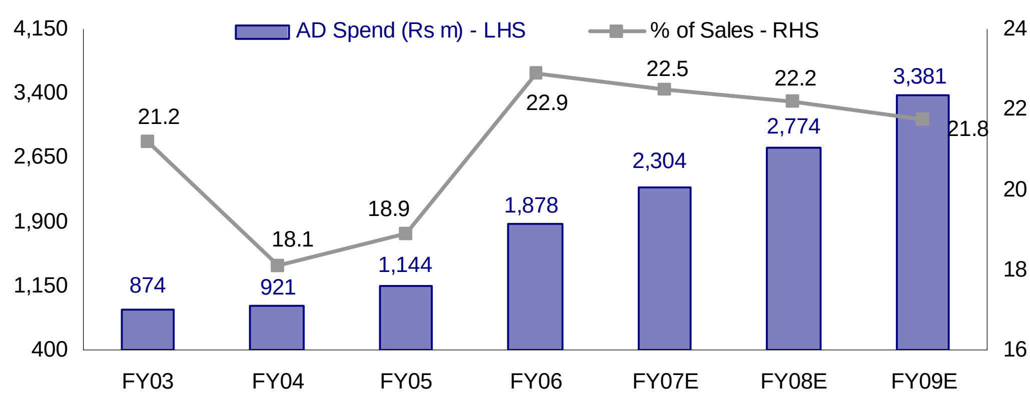


Source: Company/Motilal Oswal Securities

UB is at the forefront in marketing innovations in the beer industry. Its *Kingfisher* brand has been associated with various sports like cricket. The company has been very active in arranging events like Kingfisher Voice of Goa, Fashion Shows, Model Hunt, Oktoberfest, Goa Carnival, Mumbai Marathon, Bangalore Habba and Virtual Derby. These have enabled UB to keep the brand kicking even in the times of advertising ban. The biggest marketing asset that the company has is the UB Group's Kingfisher Airlines. The airline has the same bird logo as the *Kingfisher* brand. Though this has provided huge advertising push to the brand, the company pays no royalty to the group.

UB has regional focused brands like *UB Export* in Karnataka and *London Pilsner* in Maharashtra. The company has also been undertaking packaging innovations, some of which include 250ml packs, 4-pint pack of 330ml, 5-liter keg pack and vending machines for its *Kingfisher* brand. UB has extended its 250ml bottle and 330ml pint pack for most of its brands. These innovations have enabled improved brand visibility, thus attracting more and more consumers to the company's fold.

AD SPEND LIKELY TO SUSTAIN



Source: Company/Motilal Oswal Securities

Spearheading consolidation in the beer industry

The beer industry in India has been witnessing a lot of consolidation in brands and capacities. UB has been on a consolidation drive, which is primarily aimed at sprucing up production capacity. SAB Miller too has acquired a few breweries and brands of Fosters and Mohan Maekin.

UNITED BREWERIES - CONSOLIDATED

	2004	2006
Contract Breweries	16	9
Contract Capacity (% of total)	52	30 Approximate

Breweries Acquired during the past few years
Mangalore Breweries and Distilleries (MBDL)
Associated Breweries and Distilleries (ABDL)
Inertia Industries (Haryana and Maharashtra)
GMR Breweries (United Millennium Breweries)
Empee Breweries (TN and Kerala)
Karnataka Breweries (KBDL)

UB has been acquiring a number of its contract manufacturers. It recently acquired Karnataka Breweries (KBDL), the largest brewery in India with a capacity of over 12m cases for Rs1.8b. These acquisitions have reduced outsourced beer to less than 30% of UB's total sales. MBDL and ABDL have been merged into the company while KBDL is likely to be merged by the end of the year. Empee Breweries and GMR Breweries are the subsidiaries of Millennium Alcobev (MAL), UB's 50:50 JV with S&N.

We expect the UB Group to consolidate the entire beer operations under the listed entity, United Breweries Limited (UB). The management intends to merge MAL into UB, so as to gain maximum tax benefits from the accumulated losses of MAL. We expect MAL to report a full turnaround in FY08 and it should wipe out accumulated losses in another 2-3 years. Management expects MAL's margins to be lower than UB's standalone margins, due to higher costs and lower realizations in some of the territories it operates in.

MAL has only preference capital. It is jointly owned by UB and S&N. So, the UB Group does not have direct holding in the company. In the event of MAL getting merged into UB, the stake of S&N in UB will be higher than the UB Group's. We believe that the merger process, when undertaken, could be complicated. It could involve some cash outflow from UB to purchase the stake owned by S&N.

Tie-up with S&N to boost profitability

UB entered into a tie-up with S&N in 2004 by virtue of which S&N acquired 37.5% stake in the company. S&N paid Rs4.6b to acquire the stake. In addition, it infused Rs2.9b in the form of preference shares and Rs1.8b in the JV, Millennium Alcobev. The capital infusion of Rs9.5b has transformed UB's financial health. It has enabled the company to make fresh investments, buy brewing capacities and clean up the balance sheet. According to the management, the tie-up has significantly benefited the company on the operational front, as:

- There have been improvement in brewing practices at UB
- Cycle time for brewing has declined, thus increasing the productive capacity
- Benefits of bulk buying of plant & machinery and raw material by the S&N group
- Benefits of marketing, product development and innovation
- UB is likely to export *Kingfisher* brand using the global footprint of S&N
- Improvement in corporate governance at UB

While the benefits of capital infusion and corporate governance are clearly visible, we expect the technical factors to play out over a period of time. We expect UB to improve product quality and reduce production cost further. The company would emerge more efficient after capacity expansion, which would lower per unit cost of production and boost margins.

Expansion to boost growth; dilution likely after a lag

The beer industry is capital-intensive and it is not possible to transport the product over long distances due to high freight and import duties in various states. However, the industry was pleasantly surprised this year, 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. The management expects the industry to grow at 20-25% for the next few years, as many more states are likely to reform their liquor policy, which would reduce prices and boost demand for beer.

UB had to resort to increase outsourcing and product diversion from other territories to fulfill increased demand from North India. The company has embarked on a Rs4b expansion plan, which will double its existing capacity (excluding acquisition of KBDL). It includes setting up two greenfield units in Rajasthan and Orissa and expansion of existing facilities. The initial planned capacity likely to be commissioned in March 2007 in Rajasthan and Orissa is 6m and 1.25m cases, respectively.

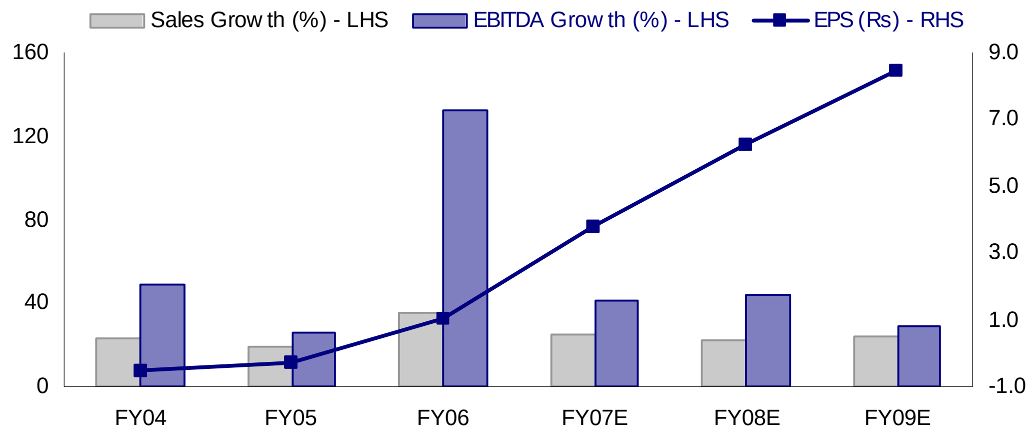
The company plans to increase capacity of its Rajasthan and Orissa units to 12m and 3m cases, respectively in 2-3 years. UB pans to double its existing capacity by March 2008, which would also include technology upgradation. We expect the incremental capacity to have lower cost of production due to better technology and higher economies of scale, thus boosting profit margins.

The company does not have any plans to dilute equity in the immediate term. UB has redeemable preference capital of Rs2.46b, issued to S&N. In addition, we expect the integration of MAL into UB to result in cash outflow. This, we believe, could necessitate some capital infusion into the company in CY08 or CY09.

Expect robust growth in sales and profit

We expect UB's consolidated sales to grow at 24% CAGR during FY07-09, led by volume growth across regions and price increase of 3% per annum.

EPS TO RISE STEADILY OVER FY06-09



Source: Company/Motilal Oswal Securities

We expect EBITDA margins to expand by 650bp over FY07-09 from 16.8% to 23%. Adjusted PAT is likely to increase from Rs232m in FY06 to Rs1.4b in FY08 and Rs1.8b in FY09. Key drivers during the period would be:

- Commissioning of new units in Rajasthan and Orissa by March 2007 and brownfield capacity expansion by March 2008
- Turnaround in Millennium Alcobev, with expected share of profit at Rs44m in FY08 and Rs150m in FY09
- We have not assumed any write-offs in our estimates; any such amount will reduce the reported profits
- Beer industry volume growth of 20%, relaxation in distribution controls in some more states

Positives factored in; Neutral

The stock trades at 42x FY08E and 31.1x FY09E earnings. We expect adjusted PAT to grow 258% in FY07 and 63% in FY08. The company is currently in the capex mode and is likely to turn free cash flow positive only by FY09. Though we expect premium valuations to sustain due to 47% share in the high growth beer market, we believe that all positives are factored in at current valuations. We initiate coverage with a **Neutral** rating.

INCOME STATEMENT (RS MILLION)

Y/E MARCH	2005	2006	2007E	2008E	2009E
Net Sales	**6,058**	**8,194**	**10,245**	**12,490**	**15,529**
Change (%)	*19.1*	*35.3*	*25.0*	*21.9*	*24.3*
Total Expenditure	-5,466	-6,817	-8,304	-9,686	-11,917
EBITDA	**592**	**1,377**	**1,941**	**2,804**	**3,612**
Change (%)	*25.9*	*132.5*	*41.0*	*44.4*	*28.8*
Margin (%)	*9.8*	*16.8*	*19.0*	*22.4*	*23.3*
Depreciation	-182	-349	-391	-572	-709
Int. and Fin. Charges	-484	-384	-410	-376	-392
Other Income - Recurring	237	43	43	43	13
Deferred Revenue Exp.	-28	-28	0	0	0
Profit before Taxes	**134**	**659**	**1,183**	**1,898**	**2,525**
Change (%)	*-281.1*	*390.2*	*79.5*	*60.5*	*33.0*
Margin (%)	*2.2*	*8.0*	*11.5*	*15.2*	*16.3*
Tax	-119	-427	-350	-539	-688
Tax Rate (%)	*-88.8*	*-64.7*	*-29.6*	*-28.4*	*-27.3*
Profit after Taxes	**15**	**232**	**832**	**1,359**	**1,836**
Change (%)	*-116.9*	*1,446.2*	*258.3*	*63.3*	*35.1*
Margin (%)	*0.2*	*2.8*	*8.1*	*10.9*	*11.8*
Extraordinary Items	-60	-340	0	0	0
Reported PAT	**-45**	**-108**	**832**	**1,359**	**1,836**

BALANCE SHEET (RS MILLION)

Y/E MARCH	2005	2006	2007E	2008E	2009E
Share Capital	178	216	216	216	216
Preference Share Capital	2,451	2,936	2,936	2,936	2,936
Reserves	-430	1,782	2,270	3,338	4,801
Net Worth	**2,199**	**4,934**	**5,422**	**6,490**	**7,953**
Loans	3,732	4,033	3,667	4,503	4,211
Deffered Credit	43	27	27	27	27
Deferred Tax	88	80	139	219	323
Capital Employed	**6,062**	**9,074**	**9,254**	**11,239**	**12,513**
Gross Block	2,380	3,730	6,717	9,417	10,617
Less: Accum. Depn.	-591	-1,058	-1,447	-2,019	-2,728
Net Fixed Assets	**1,789**	**2,672**	**5,269**	**7,398**	**7,888**
Capital WIP	81	102	530	180	180
Goodwill	1,175	1,182	1,182	1,182	1,182
Investments	20	8	8	8	408
Curr. Assets, L&A	**4,748**	**7,122**	**4,916**	**5,631**	**6,797**
Inventory	638	838	1,010	1,180	1,489
Account Receivables	1,101	1,625	2,047	2,431	2,952
Cash and Bank Balance	205	1,341	482	504	684
Others	2,804	3,318	1,377	1,517	1,673
Curr. Liab. and Prov.	**1,762**	**2,013**	**2,652**	**3,160**	**3,943**
Account Payables	1,605	1,794	2,321	2,712	3,400
Other Liabilities	83	84	86	86	86
Provisions	74	135	244	362	457
Net Current Assets	**2,986**	**5,109**	**2,265**	**2,471**	**2,854**
Miscelleneous Expenditure	12	0	0	0	0
Application of Funds	**6,062**	**9,074**	**9,255**	**11,239**	**12,513**

E: MOSt Estimates

RATIOS

Y/E MARCH	2005	2006	2007E	2008E	2009E
Basic (Rs)					
EPS	**0.1**	**1.1**	**3.9**	**6.3**	**8.5**
Cash EPS	1.1	2.7	5.7	8.9	11.8
BV/Share	-1.2	9.2	11.5	16.5	23.2
DPS	0.0	0.2	0.3	0.6	0.9
Payout %	0.0	20.9	7.6	9.6	10.0
Valuation (x)					
P/E		245.9	68.6	42.0	31.1
Cash P/E		98.3	46.7	29.6	22.4
EV/Sales		7.3	5.9	4.9	3.9
EV/EBITDA		43.4	31.1	21.8	16.8
P/BV		28.6	23.0	16.1	11.4
Dividend Yield (%)		0.1	0.1	0.2	0.3
Return Ratios (%)					
RoE	0.7	4.7	15.4	20.9	23.1
RoCE	10.2	11.5	17.2	20.2	23.3
Working Capital Ratios					
Debtor (Days)	66	72	73	71	69
Asset Turnover (x)	1.0	0.9	1.1	1.1	1.2
Leverage Ratio					
Debt/Equity (x)	1.7	0.8	0.7	0.7	0.5

CASH FLOW STATEMENT (RS MILLION)

Y/E MARCH	2005	2006	2007E	2008E	2009E
OP/(loss) before Tax	410	1,029	1,550	2,232	2,903
Int./Div. Received	237	43	43	43	13
Depreciation and Amort.	182	349	391	572	709
Interest Paid	-484	-384	-410	-376	-392
Direct Taxes Paid	-119	-427	-350	-539	-688
(Incr)/Decr in WC	558	1,063	-1,892	273	323
CF from Operations	**-333**	**-454**	**3,116**	**1,658**	**2,223**
Extraordinary Items	-60	-340	0	0	0
(Incr)/Decr in FA	-537	-1,379	-3,414	-2,350	-1,200
(Pur)/Sale of Investments	-3	12	0	0	-400
CF from Invest.	**-600**	**-1,708**	**-3,414**	**-2,350**	**-1,600**
Issue of Shares	2,078	2,729	0	0	0
Incr/(Decr) in Debt	-1,205	302	-366	835	-292
Dividend Paid	0	-49	-64	-130	-184
Others	61	315	-132	9	32
CF from Fin. Activity	**933**	**3,297**	**-562**	**714**	**-443**
Incr/Decr of Cash	**1**	**1,136**	**-859**	**22**	**180**
Add: Opening Balance	204	205	1,341	482	504
Closing Balance	**205**	**1,341**	**482**	**504**	**684**

Wine

BSE Sensex: 12,580 S&P CNX: 3,627 7 March 2007

Slowly coming of age

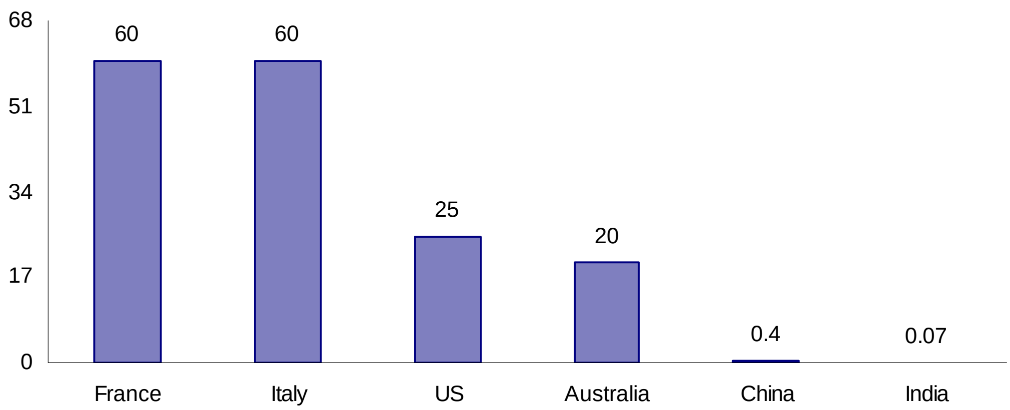
The wine industry is at a nascent stage in India, with annual production of just 4m litres as compared to the world's total production of 32,000m litres per year. India also imports about 0.6m liters of wine per year. The domestic wine industry has been growing at 30-35% per annum and we expect growth to pick up further, given that regulators are beginning to favor alcoholic beverages with lower alcohol content. While we expect a number of new players to enter the segment, they would help expand the market.

Wine consumption has been slow to pick up…

Wine consumption has been slow to pick up in India as compared to IMFL and beer due to the following constraints:

- Wines have been clubbed with IMFL and beer for distribution, which limits availability and hence consumption.
- Wines have 12.5% alcohol content in comparison to more than 30% for IMFL. Yet, their prices are high. This has kept consumers away from wines.
- Quality wines are priced relatively high in India. Since volumes are low, production costs are high. Besides, just like IMFL and beer, wines attract high taxes and duties, pushing up prices.
- The wine industry is mostly associated with European countries, traditionally due to climatic conditions. This had resulted in lack of initiatives in cultivating quality grapes as also policy initiatives aimed at developing this industry.

WINE - PER CAPITA CONSUMPTION IN LITRES

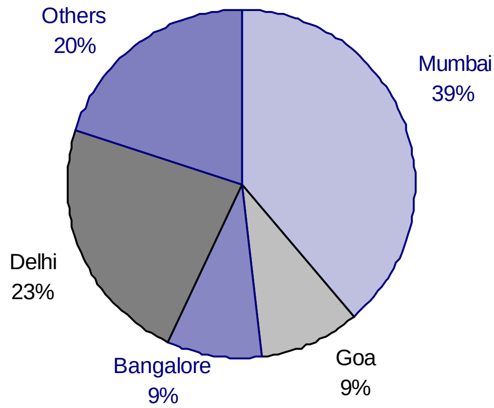


Source: Motilal Oswal Securities

...and has remained a metro phenomenon

Wine consumption in India has been mainly confined to the metros, as the product is perceived as a high quality drink for the elite. Mumbai, Delhi, Bangalore and Goa account for 80% of wine consumption in India. Table wine accounts for 85% of the wine consumption in India and expensive varieties of vintage wine account for the remaining 15%.

WINE CONSUMPTION IN INDIA IS CONCENTRATED IN METROS



Source: Motilal Oswal Securities

However, industry / regulatory initiatives have put growth on fast track

The wine industry has been taking initiatives to educate consumers through events such as wine tasting and harvesting festivals, and through wine parlors and clubs. Attempts have been made to develop awareness on health benefits of wine and supply of good quality of wines at reasonable prices.

Also, the wave of agricultural reforms like the APMC Act and contract farming has started reflecting on the wine industry. The government has realized the ripple effect that the wine industry can have on grape cultivators, and hence, the rural and agricultural community. Consequently, several states have initiated steps aimed at accelerating the growth rates for the industry. These initiatives include:

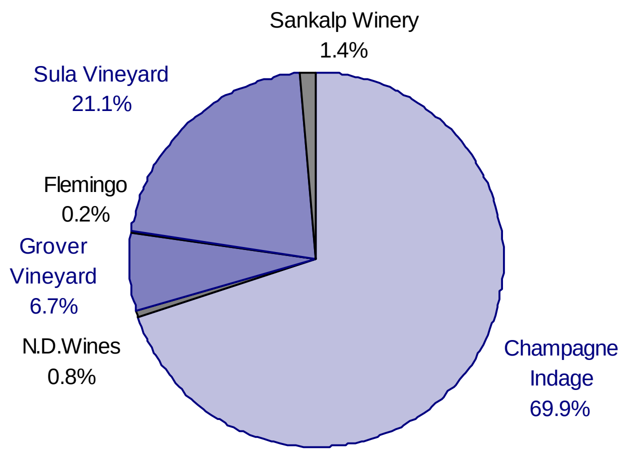
- **Easing of traffic barriers for wines:** The Maharashtra government has waived excise on wines for a period of 10 years beginning September 2004 and has lowered sales tax from 20% to 4%.
- **Distribution made favorable to the industry:** Maharashtra has allowed the sale of wines in supermarkets and restaurants, which will expand distribution significantly. Also, several states like Punjab, Haryana, Chandigarh, Delhi, and UP have changed the distribution system in favor of the industry, which has provided a fillip to the growth rates.

Rising disposable incomes are improving the affordability and growing number of young consumers are being attracted to the wine culture. This has accelerated the growth momentum and the industry.

Entry of new players will accelerate growth rates

Champagne Indage dominates the Indian wine industry, with a market share of 70% and sales volume of 2.7m litres per year. The company, along with other players like Sula and Grover Vineyards, has aggressive plans to increase capacity, as demand has been rising. One of the biggest drawbacks of the Indian wine industry is that none of the alcoholic beverage majors has been promoting the product segment.

MARKET SHARE OF KEY PLAYERS



Source: CIL Presentation

This situation is all set to change, as the UB Group has announced its intention of entering the segment through a subsidiary of its flagship, United Spirits. It intends to set up a winery, with an investment of Rs750m and capacity of 5m bottles. In addition, United Spirits plans to market products of its French subsidiary, Bouvet Ladubay at the premium end of the wines market. Entry of players with deep pockets and hold over distribution will improve product availability, particularly beyond the metros. This should accelerate the growth rates in the coming few years. We expect Indian wine industry to grow at a CAGR of 60%+ between FY06-09.

Champagne Indage

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,580	INDG IN
	REUTERS CODE
S&P CNX: 3,627	CHIN.BO

Y/E MARCH	2006	2007E	2008E	2009E
Sales (Rs m)	686	1,141	1,989	3,331
EBITDA (Rs m)	185	299	514	883
NP (Rs m)	108	183	333	560
EPS (Rs)	10.4	15.7	22.5	37.9
EPS Growth (%)	26.7	50.3	43.7	68.5
BV/Share (Rs)	86.7	118.5	184.7	220.5
P/E (x)	62.6	41.6	29.0	17.2
P/BV (x)	7.5	5.5	3.5	3.0
EV/EBITDA (x)	38.5	28.1	19.9	12.6
EV/Sales (x)	10.4	7.4	5.2	3.3
RoE (%)	12.0	13.2	12.2	17.2
RoCE (%)	15.2	13.1	14.9	17.9

KEY FINANCIALS	
Shares Outstanding (m)	11.6
Market Cap. (Rs b)	7.6
Market Cap. (US$ b)	0.2
Past 3 yrs. Sales Growth (%)	69.3
Past 3 yrs. NP Growth (%)	75.5
Dividend Payout (%)	17.3
Dividend Yield (%)	0.3

STOCK DATA	
52-Week Range	712/158
Major Shareholders (as of September 2006)	%
Promoters	36.3
Domestic Institutions	6.4
FIIs/FDIs	22.1
Others	35.2
Average Daily Turnover	
Volume ('000 shares)	23.8
Value (Rs million)	9.8
1/6/12 Month Rel. Performance (%)	17/74/68
1/6/12 Month Abs. Performance (%)	3/80/85

7 March 2007 | **Neutral**

Initiating Coverage | Rs653

Best play on the sparkling wine industry in India: Champagne Indage (CIL) is the market leader, with 70% share in the wine segment. It has been promoting wine as a food supplement and a health drink. Domain knowledge, established brands and integrated operations makes it the best play on the expected growth in India's wine market.

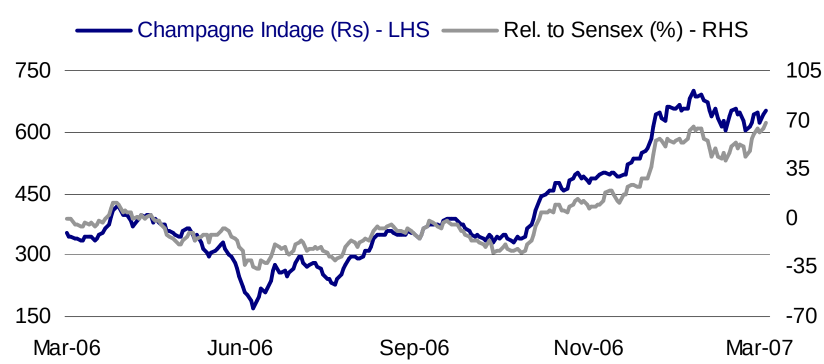
Expanding capacity to cater to rising demand: To capitalize on the rapidly growing wine market, CIL is expanding its overall capacity from 6.5m litres in FY07 to 14m litres by FY09. We expect volumes to grow at 76% CAGR during FY06-09. However, realizations would drop by 2% every year, resulting in 70% CAGR in gross revenues.

Contract farming to make available larger variety of grapes: CIL grows grapes on 600 acres of owned land and plans to bring 5,400 acres land under contract farming. Increase in acreage will enable it to produce a larger variety of grapes and ensure continuous supply of raw material.

Brands at various price points to increase market penetration: The company produces 35 varieties of wine, positioned at price ranging from Rs99-1,200 for every economic strata. CIL has introduced the Vino brand, priced at Rs99 to convert young beer drinkers to wine.

Strong earnings growth but valuations offer limited upside: We estimate 54% CAGR in EPS during FY06-09 to Rs37.9. The stock trades at 29x FY08E EPS of Rs22.5 and 17.2x FY09E EPS of Rs37.9. While CIL is the best play on the high growth wine market in India, the valuations offer limited upside. We initiate coverage with a **Neutral** rating.

STOCK PERFORMANCE (ONE YEAR)



Best play on the sparkling wine industry in India

Champagne Indage (CIL) is the leader in India's wine market, with a 70% share. Totally integrated from cultivating, processing, ageing to marketing, CIL is best placed to capitalize on the growth potential of the Indian wine market. The company has 6,000 acres under grape cultivation, capacity to produce 3m litres of wine per year and over 35 brands catering to the domestic and the export markets.

Over the last few years, the company has been attempting to grow the market by promoting wine as a food supplement and health drink through various initiatives like wine parlors, wine festivals, grapes harvesting sessions, events, and sponsorships. CIL products are placed at price points ranging from Rs99 to Rs1,200 per bottle. This has helped it to increase penetration and cater to different segments. The company's wines have received accolades all over the world. Last year, the company won four bronze medals at the International Wine and Spirit Festival, two awards at the Wine Style Asia Award and two commended awards at the Decanter Awards.

To retain leadership…

CIL makes 35 varieties of wine with the help of 100 varieties of grapes. The brands span across price points catering to every economic strata. The company has a virtual monopoly in sparkling wine, with brands such as Marquise De Pompadour, Joie, Ivy Brut, Millenium for the elite wine lovers. Among still wine range Riviera is the largest selling brand. With India's younger generation getting attracted to wine consumption, CIL has introduced an affordable range to convert beer drinkers such as Vino priced at Rs99 per bottle and Sin - a wine cooler economically priced at Rs30 per 330ml bottle. Other brands under JV include Cranswick Indage (Australia), Wente Indage (California), Zulu (South Africa) and Rhine Pride (Germany).

PRODUCT PROFILE

MRP IN MAHARASHTRA FOR 750 ML BOTTLE	(RS)	% TO SALES IN FY06
Vino	99	10
Figueria	116	14
Vin Ballet	170	13
Riviera	280	27
Chantilli	365	21
Ivy	425	4
Marquise De Pompadour	600	5
Millennium	1200	-
Joie	-	1
Others	-	5

Source: Company

…despite intensifying competition

United Spirits plans to enter the wine segment. It intends to launch two brands from the Bouvet Ladubay stable - Zinzi and Bouvet Ladubay Sparkling Wine in March 2007, ranging from Rs200-600 per bottle. Given the vast distribution of the UB Group and its deep pockets, competition is likely to intensify in the premium segment. However, we believe that India's wine market is at a nascent stage, and new players will help to grow the market.

Contract farming to help get larger variety of grapes

In 1970, CIL started with 55 acres of land under grape production in vineyards situated in Narayangoan in Maharashtra. Today it has 600 acres of land, under acreage. In addition the company has entered into contract farming for 5400 acres of land. Increasing area of land under cultivation will enable the company to produce greater variety of grapes. To ensure quality in grapes produced, CIL through its associate company -Champagne Vineyard Ltd. monitors the grape growing process as well as supplies of material required for the plantations. Further, the contract is quite remunerative for a farmer since the company has also helped the farmers is getting cheap credit and ensured buy-back of their entire output.

Recent acquisitions to broaden portfolio, enhance technological capabilities

CIL has recently bought 100% of a wine business for an undisclosed sum in South Australia. The acquired entity belonged to Tandou Ltd, a listed entity in South Australia. The acquisition would help make a greater variety of wines available in India and enhance CIL's technological capabilities. The acquired entity sells 3m cases under the brand Broken Earth. CIL has also acquired 52.63% stake in Seabuckthorn Indage (SIL), with effect from 17 January 2007. Seabuckthorn is a plant grown in cold climates. The plant has golden-orange fruits which have a lot of medicinal properties. Presently, SIL sells Leh Berry-the Seabuckthorn Nectar, a premium beverage rated as No.3 in the fruit juice category in India. Going forward, SIL plans to venture into Seabuckthorn products in the fields of foods, beverages, cosmetics and pharmaceuticals.

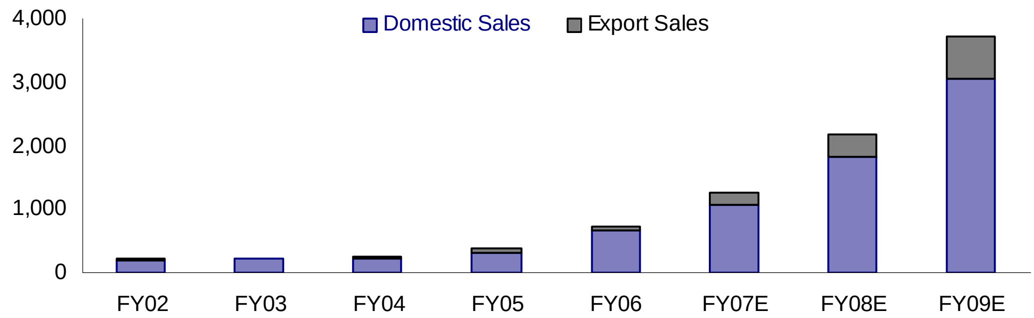
To more than double existing capacity by FY09

To capitalize on the rapid growth, CIL has been putting additional capacities in place. It has expanded its overall capacity from 3m litres to 6.5m liters in FY07 and intends to expand further to 14m litres by FY09. We expect volumes to grow at 76% CAGR over FY06-09 from 2.37m liters in FY06 to 13m litres in FY09. However, realizations would drop by an average of 2% every year. Wine drinkers generally start at the top end and move down the value chain. We expect 70% CAGR in gross revenues over FY06-09.

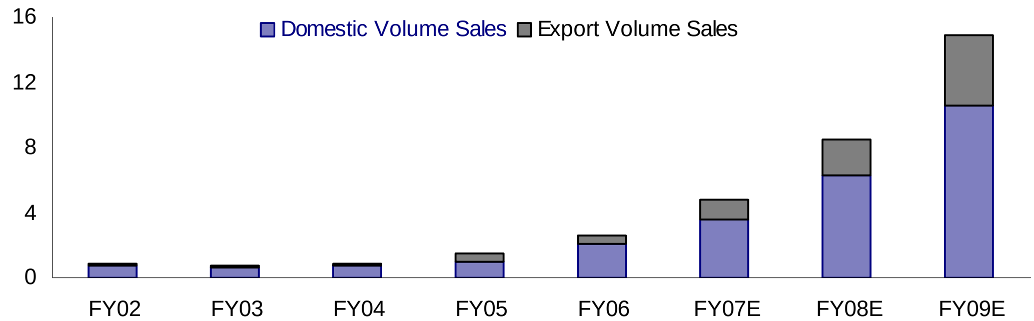
Increasing focus on exports

Wines available in tropical regions like India have a different taste compared to the wines in colder regions. Champagne Indage is attempting to develop a market for tropical wines in Europe, Middle East and Far East. The company has developed Omar Khayyam and Soma brands for exports. Currently, exports account for 11% of its total sales. While we do not expect the company to command any premium for its wines in the target export market, export volumes would grow with increasing availability of wine, post expansion. We expect export volumes to grow at 97% CAGR over FY06-09 from 0.5m litres in FY06 to 3.76m litres in FY09 and realizations to decline 2% per year.

SALES MIX BETWEEN DOMESTIC AND EXPORTS (RS M)



VOLUME GROWTH IN DOMESTIC AND EXPORTS (MILLION LITRES)



Source: Company and Motilal Oswal Securities

Higher volume growth, lower costs to help stabilize margins

We expect EBITDA margins to be in the region of +26% between FY07-09. Even as realizations dip, CIL would benefit from economies of scale with increasing volume growth post capacity expansion. CIL would have better control on the raw material front, given its vast experience in grape cultivation and large acreage under cultivation will give it a better bargaining power with raw material suppliers. Since direct advertising of alcoholic beverages is banned, we expect advertising expenses to stabilize at ~21% of sales.

Setting up retail outlets in domestic market

In order to increase its presence and enhance the visibility of its brands in the growing mall culture, CIL intends to enter wine retailing via the franchisee route. The company plans to set up 1,000 such outlets in the next 3-4 years. We have assumed a capex of Rs500m for retail foray in FY07-09. The company expects 15% higher margin because of elimination of middlemen. CIL expects 20% of overall volumes to come from these retail outlets in another two years. We have not factored in the benefits of retail foray in our estimates.

Expect equity dilution to fund expansion

On an average, aging of wine is a 5-7 year process. This makes wine industry capital-intensive with inventory at 1x sales and working capital requirements at 120% of sales. A large part of CIL's debt is deployed in working capital. It has no long-term debt; expansions have been funded through equity dilution. The company's debt-equity ratio is less than 0.5x. We expect further equity dilution to fund future capacity expansion.

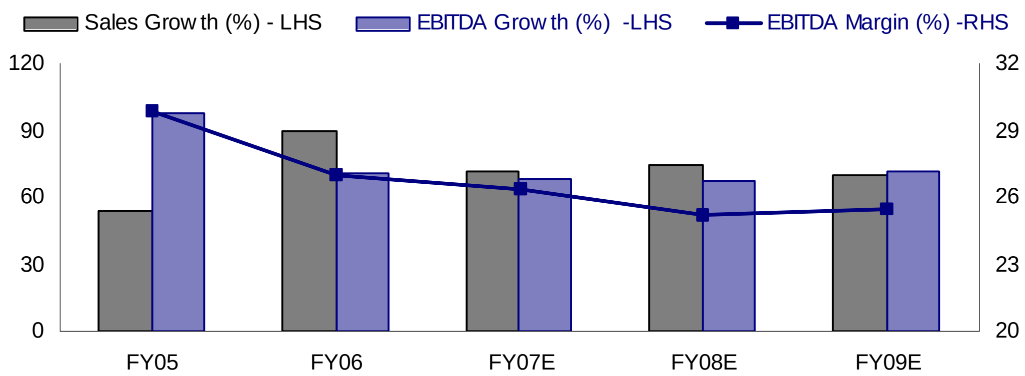
DETAILS OF EQUITY DILUTION

DATE OF ISSUE	NO. OF EQUITY SHARES	PREMIUM
Equity as on 31.3.2006	1,03,17,621	
April 2006	4,25,000	At a premium of Rs73 per share
August 2006	9,00,000	At a premium of Rs313 per share
Equity as on 31.3.2007	1,16,42,621	
January 2007	31,25,000	Equity share warrants to be convertible on or after 1 January 2007 but before expiry of 18 months, at a premium of Rs325 per share
Equity as on 31.3.2008	**1,47,67,621**	

Strong earnings momentum despite equity dilution; Neutral

We expect revenues to grow at 69% CAGR over FY06-09 to Rs3.3b and EPS to grow at 54% CAGR to Rs38 despite equity dilution of 43%. The stock trades at 29x FY08E EPS of Rs22.5 and 17.2x FY09E EPS of Rs37.9.

TREND IN SALES GROWTH AND EBITDA MARGIN



Source: Company and Motilal Oswal Securities

Given 70% market share, CIL is the best play on the high growth wine market in India. But frequent equity dilution due to high working capital requirements pose a risk to this high growth phase in the product life cycle. Moreover, the viability and strength of the retail foray is yet to be proved. We initiate coverage with a **Neutral** rating.

INCOME STATEMENT (RS MILLION)

Y/E MARCH	2005	2006	2007E	2008E	2009E
Net Sales	**362**	**686**	**1,141**	**1,989**	**3,331**
Change (%)	*54.0*	*89.4*	*66.5*	*74.3*	*67.5*
Total Expenditure	-254	-501	-842	-1,475	-2,448
EBITDA	**108**	**185**	**299**	**514**	**883**
Change (%)	*97.5*	*70.9*	*61.9*	*72.0*	*71.7*
Margin (%)	*29.9*	*26.9*	*26.2*	*25.9*	*26.5*
Depreciation	-7	-10	-17	-22	-25
Int. and Fin. Charges	-45	-52	-72	-87	-121
Other Income - Recurring	5	32	16	18	20
PBT	**60**	**154**	**226**	**424**	**757**
Change (%)	*66.0*	*156.3*	*46.4*	*87.5*	*78.7*
Margin (%)	*16.6*	*22.5*	*19.8*	*21.3*	*22.7*
Tax	-5	-37	-43	-91	-197
Deferred Tax	-1	-7	0	0	0
Tax Rate (%)	*-8.8*	*-28.6*	*-19.2*	*-21.5*	*-26.0*
PAT	**55**	**108**	**183**	**333**	**560**
Change (%)	*62.6*	*96.0*	*69.6*	*82.2*	*68.5*
Margin (%)	*15.2*	*15.7*	*16.0*	*16.7*	*16.8*
Reported PAT	**55**	**108**	**183**	**333**	**560**

BALANCE SHEET (RS MILLION)

Y/E MARCH	2005	2006	2007E	2008E	2009E
Share Capital	67	103	116	148	148
Reserves	247	791	1,263	2,580	3,109
Net Worth	**314**	**894**	**1,379**	**2,728**	**3,257**
Loans	511	460	891	707	1,652
Capital Employed	**825**	**1,354**	**2,270**	**3,434**	**4,909**
Gross Block	382	480	830	1,080	1,230
Less: Accum. Depn.	-44	-54	-70	-92	-117
Net Fixed Assets	**338**	**426**	**759**	**988**	**1,113**
Capital WIP	0	0	0	0	0
Investments	69	70	70	70	70
Curr. Assets, L&A	**559**	**1,074**	**1,694**	**2,822**	**4,514**
Inventory	398	551	1,093	1,904	3,118
Account Receivables	101	391	409	713	1,165
Cash and Bank Balance	14	14	23	35	72
Others	47	118	169	169	159
Curr. Liab. and Prov.	**122**	**190**	**228**	**420**	**763**
Current Libilities	106	148	161	298	535
Provisions	16	42	67	122	228
Net Current Assets	**437**	**884**	**1,466**	**2,402**	**3,751**
Deferred Tax Liability	-19	-26	-26	-26	-27
Application of Funds	**825**	**1,354**	**2,270**	**3,434**	**4,909**

E: MOSt Estimates

RATIOS

Y/E MARCH	2005	2006	2007E	2008E	2009E
Basic (Rs)					
EPS	**8.2**	**10.4**	**15.7**	**22.5**	**37.9**
Cash EPS	9.3	11.4	17.1	24.0	39.6
BV/Share	47.0	86.7	118.5	184.7	220.5
DPS	1.5	1.8	1.8	1.8	1.8
Payout %	18.2	17.3	11.5	8.0	4.7
Valuation (x)					
P/E		62.6	41.6	29.0	17.2
Cash P/E		57.1	38.2	27.2	16.5
EV/Sales		10.4	7.4	5.2	3.3
EV/EBITDA		38.5	28.1	19.9	12.6
P/BV		7.5	5.5	3.5	3.0
Dividend Yield (%)		0.3	0.3	0.3	0.3
Return Ratios (%)					
RoE	17.5	12.0	13.2	12.2	17.2
RoCE	12.8	15.2	13.1	14.9	17.9
Working Capital Ratios					
Debtor (Days)	102	208	131	131	128
Asset Turnover (x)	0.4	0.5	0.5	0.6	0.7
Leverage Ratio					
Debt/Equity (x)	1.6	0.5	0.6	0.3	0.5

CASH FLOW STATEMENT (RS MILLION)

Y/E MARCH	2005	2006	2007E	2008E	2009E
OP/(loss) before Tax	101	174	282	493	858
Int./Div. Received	5	32	16	18	20
Depreciation and Amort.	7	10	17	22	25
Interest Paid	-45	-52	-72	-87	-121
Direct Taxes Paid	-5	-37	-43	-91	-197
(Incr)/Decr in WC	-96	-447	-573	-924	-1,313
CF from Operations	**-34**	**-319**	**-373**	**-569**	**-728**
Extraordinary Items	0	0	0	0	0
(Incr)/Decr in FA	-159	-98	-350	-250	-150
(Pur)/Sale of Investments	-59	-1	0	0	0
CF from Invest.	**-218**	**-99**	**-350**	**-250**	**-150**
Issue of Shares	0	482	326	1,047	0
(Incr)/Decr in Debt	262	-51	431	-184	945
Dividend Paid	-10	-19	-21	-27	-27
Others	3	6	-3	-5	-4
CF from Fin. Activity	**255**	**418**	**733**	**831**	**914**
Incr/Decr of Cash	**3**	**0**	**10**	**12**	**37**
Add: Opening Balance	11	14	14	23	35
Closing Balance	**14**	**14**	**23**	**35**	**72**

N O T E S

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Disclosure of Interest Statement	Radico Khaitan	United Spirits	United Breweries	Champagne Indage
1. Analyst ownership of the stock	No	Yes	No	No
2. Group/Directors ownership of the stock	No	No	No	No
3. Broking relationship with company covered	No	No	No	No
4. Investment Banking relationship with company covered	No	No	No	No