

United Spirits Ltd – BUY

CMP Rs1,223 Target Rs1,384

Sector: Breweries

Sensex:	17,051
CMP (Rs):	1,223
Target price (Rs):	1,384
Upside (%):	13.2
52 Week h/l (Rs):	1415 / 426
Market cap (Rscr) :	15,356
6m Avg vol ('000Nos):	794
No of o/s shares (mn):	126

FV (Rs):	10
Bloomberg code:	UNSP IB
Reuters code:	UNSP.BO
BSE code:	532432
NSE code:	MCDOWELL-N

Prices as on 21 Jan, 2010

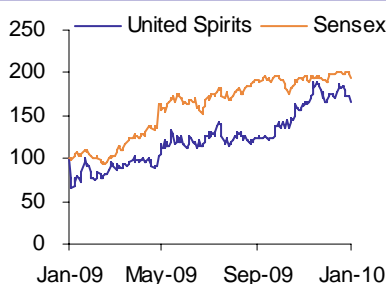
Shareholding pattern

December '09	(%)
Promoters	29.2
Institutions	53.7
Non promoter corp hold	3.5
Public & others	13.6

Performance rel. to sensx

(%)	1m	3m	1yr
United Spirits	(2.8)	19.6	(30.3)
Radico	2.8	(2.7)	(39.8)

Share price trend



- ⊕ Q3 revenues up a robust 30.5% yoy driven by 12.3% volume growth to 26.5mn cases along with with price increases
- ⊕ OPM recovers from trough levels a year ago as spirit prices lower than peak of Oct-Nov' 08
- ⊕ Reported PAT jumps 3x on improved operational performance
- ⊕ Sustained volume growth of at least 12-14% combined with OPM expansion prompt an upgrade to BUY with TP of Rs1,384

Result table

(Rs m)	Q3 FY10	Q3 FY09	% yoy	9M FY10	% yoy
Net sales	13,580	10,402	30.5	36,936	24.5
Material costs	(2,876)	(2,406)	19.6	(8,426)	33.5
Traded goods	(1,870)	(1,366)	36.9	(4,427)	27.4
Other materials	(2,879)	(2,520)	14.3	(7,843)	17.4
Personnel costs	(737)	(619)	19.0	(2,210)	26.9
Other expenditure	(2,894)	(2,319)	24.8	(7,528)	17.9
Operating profit	2,324	1,173	98.1	6,502	28.0
OPM (%)	17.1	11.3	583 bps	17.6	48 bps
Depreciation	(93)	(87)	6.8	(256)	(0.3)
Interest	(747)	(529)	41.1	(2,089)	65.1
Other income	1	30		1	
PBT	1,484	587	153.1	4,157	15.4
Tax	(488)	(201)	142.8	(1,442)	8.8
Effective tax rate (%)	32.9	34.3		34.7	
Adjusted PAT	996	386	158.4	2,715	19.2
Adj. PAT margin (%)	7.3	3.7	363 bps	7.4	(32) bps
Extra ordinary items	(28)	(80)		725	422.3
Reported PAT	969	306	216.6	3,440	42.4
Ann. EPS (Rs)	31.7	15.4		33.6	

Source: Company, India Infoline Research

Domestic volume growth at 12% yoy

United Spirits reported domestic volume growth of 12% yoy to 26.5mn cases. Coupled with price increases taken in key market like Andhra Pradesh in Nov' 09, it led to topline growth of 30.5% yoy

USL (Domestic)	Q3 FY10	Q3 FY09	% yoy
Volumes, mn cases	26.5	23.6	12.3
Revenues, Rs mn	13,580	10,402	30.6
Operating profit, Rs mn	2,324	1,173	98.1
OPM (%)	17.1	11.3	

Source: Company, India Infoline Research

OPM expands on lower spirits prices yoy

Spirits prices were notably lower in Q3 as compared to the peak seen in Oct-Nov' 08, as demand from the chemical industry was greatly reduced. Moreover, use of alternate feedstock such as grains and improved product prices (wherever possible) aided in margin expansion. The continuing stimulus measures wherein excise duty on key inputs has been reduced also helped contain costs and improve margin.

Cost analysis

As a % of net sales	Q3 FY10	Q3 FY09	bps yoy	9M FY10	9M FY09	bps yoy
Material costs	21.2	23.1	(195)	22.8	21.3	155
Purchase of traded goods	13.8	13.1	64	12.0	11.7	27
Other materials	21.2	24.2	(302)	21.2	22.5	(129)
Personnel costs	5.4	6.0	(52)	6.0	5.9	11
Other expenditure	21.3	22.3	(98)	20.4	21.5	(113)
Total costs	82.9	88.7	(583)	82.4	82.9	(48)

Source: Company, India Infoline Research

Sustainable volume growth, OPM expansion key positives; upgrade to BUY

United Spirits has clocked a 13.2% volume growth in domestic market to ~75mn cases. We expect volume growth of at least 12-14% pa which would drive revenue CAGR of 15.3% over FY09-12. Operating margin is also likely to expand as sugar supply improves in 2010-11 season resulting in better molasses availability. We marginally tweak our FY11 EPS estimates and upgrade to BUY for a TP of Rs1,384 (earlier Rs1,092).

Financial summary

Y/e 31 March (Rs m)	FY09	FY10E	FY11E	FY12E
Revenues	54,681	65,794	74,247	83,720
yoy growth (%)	18.2	20.3	12.8	12.8
Operating profit	7,704	10,269	12,485	14,599
OPM (%)	14.1	15.6	16.8	17.4
Pre-exceptional PAT	(275)	2,975	4,637	6,331
Reported PAT	(4,084)	2,975	4,637	6,331
yoy growth (%)	-	-	55.9	36.5
EPS (Rs)	(39.7)	24.7	38.4	52.5
P/E (x)	-	49.6	31.8	23.3
P/BV (x)	5.3	5.5	4.7	4.0
EV/EBITDA (x)	25.3	20.3	16.5	14.0
Debt/Equity (x)	3.1	2.4	2.0	1.6
ROE (%)	(1.2)	11.8	16.0	18.6
ROCE (%)	8.2	10.6	13.3	15.1

Source: Company, India Infoline Research

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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