

April 21, 2010

Rating	Accumulate
Price	Rs1,265
Target Price	Rs1,290
Implied Upside	6.7 %
Sensex	17,473

(Prices as on April 21, 2010)

Trading Data

Market Cap. (Rs bn)	158.9
Shares o/s (m)	125.6
Free Float	70.84%
3M Avg. Daily Vol ('000)	570.7
3M Avg. Daily Value (Rs m)	755.1

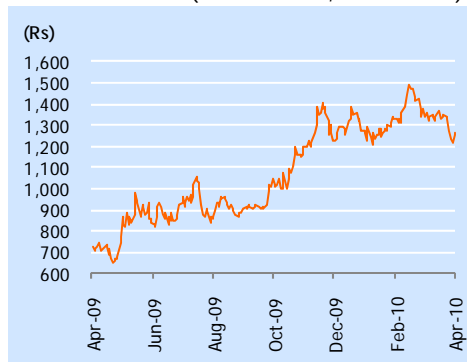
Major Shareholders

Promoters	29.16%
Foreign	46.29%
Domestic Inst.	6.76%
Public & Others	17.79%

Stock Performance

(%)	1M	6M	12M
Absolute	(7.9)	24.1	74.7
Relative	(7.2)	21.4	14.4

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



Source: Bloomberg

United Spirits' (UNSP's) Q4FY10 results, adjusted for one-offs, were slightly below expectations at PAT level. Adjusted Net sales grew 23% YoY, in line with expectations, driven by robust 16% volume growth and 4% price hikes. Adjusting for the upfront interest fee of Rs130m, recurring profit came in at Rs655m (our expectation: Rs682m).

- **Robust volume led growth:** Reported revenue growth was 38%. However, adjusting for the changes in revenue recognition method vis-à-vis contract manufacturers, recurring sales growth came in at 23%. This strong performance was driven by 16% volume growth, which was driven by ~40% volume growth in states like MP, Punjab, West Bengal and Kerala. While price hikes contributed to 4% of the value growth (UP, AP, Maharashtra, Delhi, Punjab are some of the states which granted price hikes during the year), mix improvement resulted in 3% value growth.
- Whyte & Mackay (W&M) posted EBITDA of GBP4.7m for the quarter. However, post the conclusion of Diageo contracts, which contributed 50% of bulk scotch sales, W&M hasn't entered into new contracts. We adjust our W&M revenue and EBITDA estimates downwards by ~35% and 29% for FY11E and FY12E, respectively, to reflect the same. Management is yet to provide revised guidance for W&M EBITDA for FY11E (earlier guidance GBP56-58m).
- EBITDA margins declined 200bps YoY to 15.4%, led by firm input costs and higher ASP spends owing to IPL. Input costs per case moved up 9% YoY to Rs151.7/case.
- Adjusted for Rs130m of upfront fee payment, interest costs jumped 58% YoY and 19% sequentially to Rs893m. This is attributed to: a) working capital expansion b) refinancing of Dollar denominated overseas debt with rupee debt. Outstanding loans as on March 31, 2010 stood at Rs47.5bn. UNSP still has 8.3m of treasury stock, valued at Rs10.5bn.
- **Maintain ACCUMULATE, with revised TP of Rs1,290:** UNSP continues to witness double-digit volume growth in its domestic business. However, we tweak our W&M estimates to reflect new developments, revise our input cost assumptions downwards and arrive at our new EPS estimates for FY11E and FY12E which are 10-15% below earlier estimates. Our revised SOTP based target price for UNSP is Rs1,290. We now value W&M at 8x EV/EBITDA as against 9x earlier to reflect the uncertainty around new bulk scotch contracts. Maintain 'Accumulate', with a revised target price of Rs1,290.

Key financials (Y/e March)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	54,681	60,858	65,677	76,346
Growth (%)	18.2	11.3	7.9	16.2
EBITDA (Rs m)	9,853	10,750	12,056	14,625
PAT (Rs m)	(4,088)	3,541	4,981	7,166
EPS (Rs)	18.7	28.2	39.7	57.1
Growth (%)	0.6	50.9	40.7	43.9
Net DPS (Rs)	2.1	2.8	4.0	5.7

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	19.5	19.2	20.1	21.0
RoE (%)	8.7	10.8	11.1	14.3
RoCE (%)	10.6	11.3	12.7	15.6
EV / sales (x)	3.7	3.3	3.1	2.6
EV / EBITDA (x)	20.5	18.8	16.7	13.8
PE (x)	67.7	44.9	31.9	22.2
P / BV (x)	5.5	3.7	3.4	3.0
Net dividend yield (%)	0.2	0.2	0.3	0.5

Source: Company Data; PL Research

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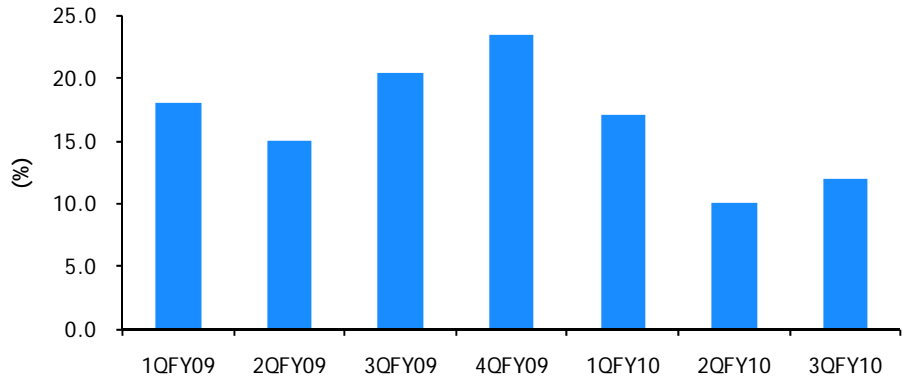


Q4FY10 Result Overview

(Rs m)

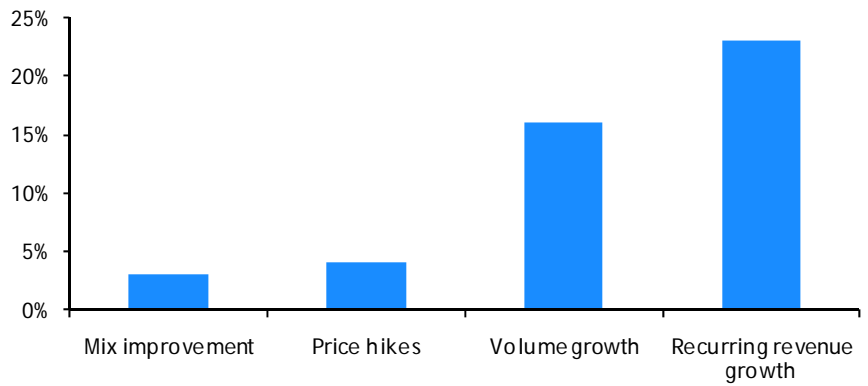
Y/e March	Q4FY10	Q4FY09	YoY gr. (%)	Q3FY10	FY10	FY09	YoY gr. (%)
Net Sales / Income from Operations	12,521	9,078		13,468	49,207	38,525	
Other Operating Income	142	151		112	392	425	
Net Sales / Income from Operations	12,663	9,229	37.2	13,580	49,599	38,950	27.3
Expenditure	10,708	7,626	40.4	11,256	41,142	32,268	
(Increase) / Decrease in Stock in Trade	-974	-863	12.8	-586	-1,856	-2,081	
Consumption of Raw Materials	3,404	2,292	48.5	3,462	12,712	9,821	
Purchase of Traded Goods	2,139	1,389	53.9	1,870	6,565	4,864	
RM Cost	4,568	2,819		4,746	17,422	12,605	
Gross profit	8,095	6,411	26.3	8,834	32,177	26,345	22.1
Advertisement & Sales Promotion Expenses	1,498	796		1,199	4,415	3,401	
Consumption of Other Materials	2,305	2,088		2,879	10,147	8,770	
Employees Cost	752	619		737	2,962	2,361	
Others	1,585	1,306		1,695	6,196	5,131	
EBITDA	1,955	1,603	22.0	2,324	8,457	6,683	26.6
Depreciation	(114)	(98)		(93)	(370)	(354)	
Other Income	4	(42)		(27)	30	141	
EBIT	1,845	1,463		2,203	8,116	6,469	
Interest	(1,023)	(565)	81.0	-747	-3,112	-1,830	70.0
PBT	822	898		1,457	5,004	4,639	
Tax	(254)	(342)		(488)	(1,695)	(1,666)	
PAT	568	556		969	3,309	2,972	11.3
<i>As % of sales</i>							
<i>RM cost</i>	36.1	30.5		34.9	35.1	32.4	
<i>Advertisement & Sales Promotion Expenses</i>	11.8	8.6		8.8	8.9	8.7	
<i>Consumption of Other Materials</i>	18.2	22.6		21.2	20.5	22.5	
<i>Employees Cost</i>	5.9	6.7		5.4	6.0	6.1	
<i>Others</i>	12.5	14.1		12.5	12.5	13.2	
<i>EBITDA margin</i>	15.4	17.4		17.1	17.1	17.2	

Fig 1: Strong 16% volume growth drives revenue growth of 23%



Source: Company Data, PL Research

Fig2: Decomposition of revenue growth



Source: Company, PL Research

Fig3: Growth in key brands

Key Brands	Growth in 4QFY10	Growth in FY10
Black Dog Whisky	45%	31%
Antiquity	18%	38%
Director Special	25%	19%
Romanov Vodka	25%	15%
Celebration Rum	36%	21%
No.1 Brandy	30%	21%
McDowell Green Label	32%	16%

Source: Company Data, PL Research

Fig4: QoQ debt reduction of Rs1.5bn

Debt particulars as on 31-3-2010	(Rs m)
Term loan	1,735
WC loan	610
Public Deposit	220
W&M loan without recourse	2,185
Total	4,750

Source: Company Data, PL Research

Fig5: W&M performance details

GBP (m)	FY09	FY10
Net sales	177	176
EBITDA	57.7	56.5
<i>EBITDA margin (%)</i>	<i>32.6%</i>	<i>32.1%</i>
PBT	29	31.7

Source: Company Data, PL Research

Fig 6: Change in estimates

	Old		New		Change	
	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
W&M revenues	14,218	14,152	9,416	10,829	-34%	-23%
W&M EBITDA	4,777	4,755	3,164	3,638	-34%	-23%
Consolidated EPS	47.1	62.1	39.7	57.1	-16%	-8%

Source: PL Research

Fig 7: Revised SOTP based target price of Rs1,290

	EV/EBITDA	EBITDA	EV
Domestic	15	10,986	162,597
W&M	8	3,638	29,108
Treasury			10,483
IPL			4,464
EV			206,652
Net Debt			44,333
Equity			162,319
Per share			1,292

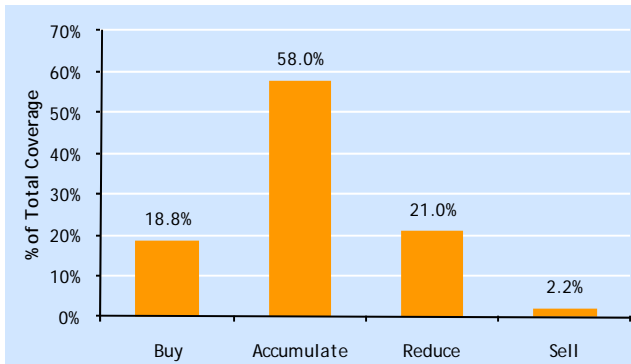
Source: PL Research

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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