Emkay Research

United Spirits

Event Update

Global ambitions

22nd May 2007

Not Rated

Price	Target Price
Rs 1,174	**N.A.**
Sensex	**14,419**

Price Performance

(%)	1M	3M	6M	12M
Absolute	38	41	33	92
Rel. to Sensex	34	40	25	55

Source: Capitaline

Stock Details

Sector	Distilleries
Reuters	UNSP.BO
Bloomberg	UNSP@IN
Equity Capital (Rs mn)	945
Face Value (Rs)	10
52 Week H/L (Rs)	1190/1070
Market Cap (Rs bn)	111
Daily Avg Volume (No of shares)	406029
Daily Avg Turnover (US$ mn)	10.6

Shareholding Pattern (%)

(31st Mar.'07)	
Promoters	38.8
FII/NRI	33.6
Institutions	2.0
Private Corp.	15.6
Public	32.7

Source: Capitaline

Rohan Gupta
rohan.gupta@emkayshare.com
+91 22 6612 1248

We recently attended the analyst meet of United Spirits (USL) to have better understanding of its recent acquisition of Glasgow based Whyte & Mackay (W&M). USL finally closed this deal with paying up a sum of £ 595 mn (~ Rs 48 bn) while the deal was originally started with £ 400 mn. W&M is the 4th largest scotch whisky player in the world and has recorded sales of 9 mn case in last twelve months. Management guidance suggests estimated turnover ~ £ 160 mn (Rs 12.8 bn) and operating income of ~ £ 40 mn (Rs 3.2 bn). W&M is also blessed with valuable inventory of scotch of 115 mn ltrs, which management expects to be valued at £ 380 mn. W&M's brand portfolio comprises some of the strong international brands like Whyte and Mackay, Isle of Jura, Dalmore, Vladivar etc. The deal is initially funded through debt and seems to be earnings accretive on USL's consolidated books.

Acquisition is more of a strategic fit -

We view this acquisition as a more of the strategic fit and USL was in need of such kind of acquisition to complete its product portfolio. The key rationale behind the deal is that consumer upgrading in India is driving the growth for premium Scotch whisky, albeit on small base, and not many of Scotch whisky companies are available for sale due to sharp demand growth for Scotch in global market primarily in emerging nations like India and China. W&M is also equipped with a distillery facility of 40 mn ltrs of grain based and 12 mn ltrs of Malt and will also give USL to access in the global market through W&M's distribution channel and production facilities.

Valuations not inexpensive but justified

At the final price of £ 595 mn, which is approx 50% higher than what USL first offered to W&M, deal values W&M at 11.5x of EV/EBITDA. The ran up in the deal prices was primarily due to sharp increase in Scotch whisky prices, which has gone up approx by 50% in one year. Management expects W&M to grow at 30% pa and expect to report revenues of approx £ 200 mn and EBITDA to £ 50 mn. However due to financial restructuring and heavy interest burden W&M reported negative PAT and should start delivering profit from current year.

Financing

The deal is financed entirely through debt of which £ 325 mn from ICICI bank (non-recourse to USL balance sheet) and £ 310 mn from Citi bank including ~ £ 40 mn of working capital requirement) with an average cost of LIBOR + 220 bps.

Favourable impact on USL consolidated

On consolidated basis the deal seems to be EPS accretive for the consolidated entity. Management expect group's turnover to go up to approx 53 bn and EBITDA to Rs approx 8.8 bn post consolidation. However given the huge debt on consolidated balance sheet (due to debt financing of W&M deal) close to 65 bn from FY06 net debt of Rs 12 bn, Debt equity ratio is likely to go up to 4.8x from 1.5x in FY06. USL has no plans for further equity dilution and hence the deal is expected to have favourable impact on earnings.

Our concern

We believe that management may take some time before it could reap the synergy benefit fro this cross border deal. Also the recent ran up in the stock price approx 25%, post the deal closure, captures the near term favourable impact from this acquisition. However given the robust growth expected in liquor industry, aggressive management, favourable industry dynamics the stock looks attractive.

Emkay Share and Stock Brokers Ltd.,
Paragon Center, Ground Floor, C-6
Pandurang Budhkar Marg, Worli, Mumbai – 400 013. , Tel no. 66121212. Fax: 66121299