

Downgrade due to Kingfisher Airlines hangover [EXTRACT]

■ Downgrade from Buy to Neutral

We downgrade United Spirits (USL) to Neutral due to uncertainty surrounding Kingfisher Airlines (KFA). USL's share price is down 51% since 1 January 2011, and we expect it to remain under pressure until the KFA issue is resolved. We also cut our FY12-14 EPS estimates by 18-19% to take into account its higher debt as of December 2011.

■ A raw material cost reduction is possible

USL has been investing in primary distillation capacity, which should help lower its raw material costs. However, we will only incorporate these into our forecasts once the benefits kick in fully. USL is facing high raw material costs, with high energy prices boosting its system costs.

■ Business is intact; underlying debt and governance are concerns

Our underlying view on USL remains resilient growth in branded spirits. We think: 1) USL should remain a beneficiary of India's growing, young population and rising discretionary spending; and 2) USL has one of the widest and most dominant distribution networks in India, which aids its 34 'millionaire brands' (brands that sells more than 1m cases annually) in the segment; and 3) USL will benefit from investments made in primary distillation capacity.

■ Valuation: lower our price target from Rs850.00 to Rs780.00

We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool. We assume a WACC of 11.4%. We lower our FY12/13/14 EPS estimates from Rs34.47/43.90/54.85 to Rs28.25/35.22/44.31.

Highlights (Rsm)	03/10	03/11	03/12E	03/13E	03/14E
Revenues	58,530	68,586	80,555	92,762	106,920
EBIT (UBS)	8,452	10,043	11,132	13,426	15,970
Net Income (UBS)	2,209	4,288	3,836	4,782	6,017
EPS (UBS, Rs)	17.58	34.14	28.25	35.22	44.31
Net DPS (UBS, Rs)	2.60	2.58	4.75	6.00	7.50

Profitability & Valuation	5-yr hist av.	03/11	03/12E	03/13E	03/14E
EBIT margin %	16.0	14.6	13.8	14.5	14.9
ROIC (EBIT) %	11.7	10.8	9.2	9.2	10.3
EV/EBITDA (core) x	17.9	19.8	12.0	10.4	9.1
PE (UBS) x	-34.5	39.1	25.3	20.3	16.1
Net dividend yield %	0.2	0.2	0.7	0.8	1.0

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs715.15 on 11 Apr 2012 23:38 SGT

Sunita Sachdev

Analyst
sunita.sachdev@ubs.com
+91-22-6155 6062

Global Equity Research

India

Distillers & Brewers

12-month rating **Neutral**
Prior: Buy

12m price target Rs780.00/US\$15.16
Prior: Rs850.00/US\$16.52

Price Rs715.15/US\$13.90

RIC: UNSP.BO BBG: UNSP IB

12 April 2012

Trading data (local/US\$)

52-wk range	Rs1,104.65-491.15/US\$24.86-9.26
Market cap.	Rs89.8bn/US\$1.75bn
Shares o/s	126m (ORD)
Free float	75%
Avg. daily volume ('000)	2,322
Avg. daily value (m)	Rs1,433.4

Balance sheet data 03/12E

Shareholders' equity	Rs74.8bn
P/BV (UBS)	1.3x
Net Cash (debt)	(Rs67.7bn)

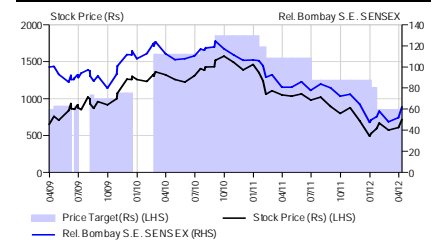
Forecast returns

Forecast price appreciation	+9.1%
Forecast dividend yield	0.7%
Forecast stock return	+9.8%
Market return assumption	13.3%
Forecast excess return	-3.5%

EPS (UBS, Rs)

	03/12E		03/11	
	From	To	Cons.	Actual
Q1E	10.14	10.14	-	9.64
Q2E	0.00	0.00	6.50	5.94
Q3E	0.00	0.00	8.13	7.42
Q4E	0.00	0.00	6.75	6.17
03/12E	34.47	28.25	34.47	
03/13E	43.90	35.22	43.90	

Performance (Rs)



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This report has been prepared by UBS Securities India Private Ltd
ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5.

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This is an extract from our India Consumer Sector report, published on 12 April 2012. For more detail, please refer to the longer report.

Estimate changes

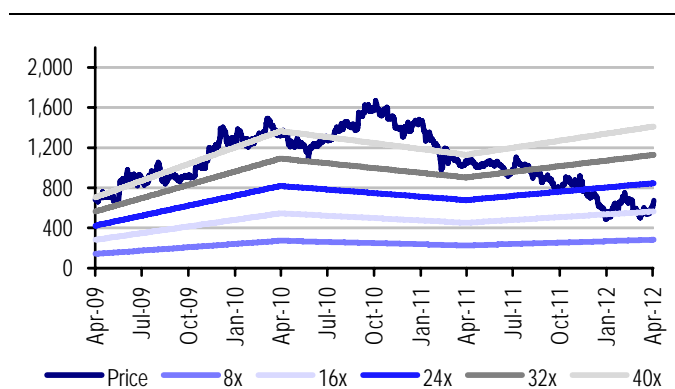
Table 1: United Spirits—UBS versus consensus and UBS estimate changes

Rs m	New estimates			Old estimates			Old versus new estimates		
	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
Revenues	80,555	92,762	106,920	79,870	90,227	103,262	0.9%	2.8%	3.5%
EBITDA	12,503	15,360	18,271	12,459	15,264	18,136	0.4%	0.6%	0.7%
PAT	3,836	4,828	6,091	4,681	5,961	7,449	-18.1%	-19.0%	-18.2%

Rs m	UBS est			Consensus			UBS versus consensus estimates		
	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
Revenues	80,555	92,762	106,920	83,501	99,269	113,672	-3.53%	-6.6%	-5.9%
EBITDA	12,503	15,360	18,271	12,522	15,024	17,233	-0.1%	2.2%	6.0%
PAT	3,836	4,828	6,091	4,126	5,016	6,031	-7.0%	-3.7%	1.0%

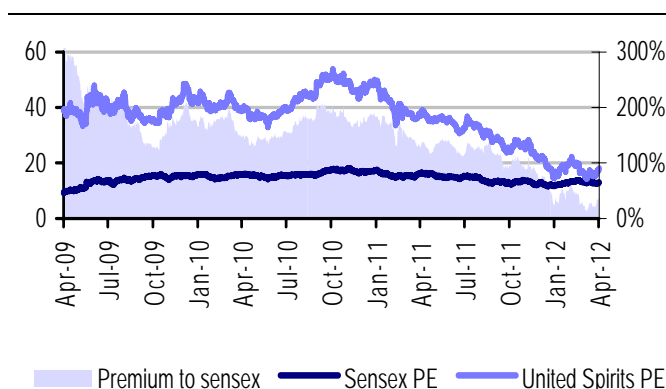
Source: Reuters, UBS estimates

Chart 1: United Spirits one-year forward PE band



Source: Reuters, UBS estimates

Chart 2: United Spirits premium/(discount) to Sensex



Source: Bloomberg, Reuters, UBS estimates

United Spirits Ltd

Income statement (Rsm)	03/07	03/08	03/09	03/10	03/11	03/12E	% ch	03/13E	% ch	03/14E	% ch
Revenues	26,779	42,717	50,541	58,530	68,586	80,555	17.5	92,762	15.2	106,920	15.3
Operating expenses (ex depn)	(24,891)	(35,657)	(46,977)	(53,308)	(62,237)	(73,069)	17.4	(82,620)	13.1	(93,867)	13.6
EBITDA (UBS)	4,358	10,618	7,269	9,402	11,066	12,503	13.0	15,360	22.8	18,271	19.0
Depreciation	(338)	(741)	(926)	(950)	(1,023)	(1,371)	34.0	(1,934)	41.0	(2,301)	19.0
Operating income (EBIT, UBS)	4,020	9,876	6,343	8,452	10,043	11,132	10.8	13,426	20.6	15,970	19.0
Other income & associates	876	1,056	1,474	1,766	1,908	2,368	24.1	1,832	-22.7	1,500	-18.1
Net interest	(873)	(5,448)	(7,176)	(6,069)	(4,985)	(7,859)	57.7	(8,224)	4.6	(8,622)	4.8
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	4,022	5,485	642	4,149	6,966	5,641	-19.0	7,033	24.7	8,848	25.8
Tax	(1,049)	(2,661)	(916)	(1,932)	(2,652)	(1,805)	-31.9	(2,250)	24.7	(2,831)	25.8
Profit after tax	2,973	2,823	(274)	2,217	4,314	3,836	-11.1	4,782	24.7	6,017	25.8
Abnormal items (post-tax)	3,134	181	(3,809)	(2,445)	1,383	0	-	0	-	0	-
Minorities / pref dividends	(437)	(284)	2	(9)	(26)	0	-	0	-	0	-
Net income (local GAAP)	5,670	2,721	(4,082)	(237)	5,671	3,836	-32.4	4,782	24.7	6,017	25.8
Net Income (UBS)	2,535	2,539	(272)	2,209	4,288	3,836	-10.5	4,782	24.7	6,017	25.8
Tax rate (%)	26	49	143	47	38	32	-16.0	32	0.0	32	0.0
Pre-abnormal tax rate (%)	33	48	143	47	38	32	-16.1	32	0.0	32	0.0
Per share (Rs)	03/07	03/08	03/09	03/10	03/11	03/12E	% ch	03/13E	% ch	03/14E	% ch
EPS (local GAAP)	68.39	31.39	(47.09)	(1.89)	45.16	28.25	-37.4	35.22	24.7	44.31	25.8
EPS (UBS)	30.58	29.30	(3.14)	17.58	34.14	28.25	-17.3	35.22	24.7	44.31	25.8
Net DPS	3.00	1.54	2.34	2.60	2.58	4.75	84.2	6.00	26.3	7.50	25.0
Cash EPS	34.66	37.85	7.54	25.15	42.29	38.35	-9.3	49.46	29.0	61.25	23.8
BVPS	165.17	231.20	242.75	307.37	352.80	550.52	56.0	572.96	4.1	602.93	5.2
Balance sheet (Rsm)	03/07	03/08	03/09	03/10	03/11	03/12E	% ch	03/13E	% ch	03/14E	% ch
Net tangible fixed assets	5,190	11,163	16,558	18,194	20,690	23,698	14.5	26,866	13.4	29,113	8.4
Net intangible fixed assets	11,324	53,260	44,738	42,444	44,320	48,752	10.0	49,727	2.0	49,727	0.0
Net working capital (incl. other assets)	5,888	17,758	19,418	24,161	35,371	67,914	92.0	74,531	9.7	80,593	8.1
Other liabilities	(19)	(18)	0	0	0	0	-	0	-	0	-
Operating invested capital	22,384	82,162	80,715	84,799	100,381	140,365	39.8	151,125	7.7	159,434	5.5
Investments	2,044	2,119	9,501	1,265	1,544	2,078	34.6	2,557	23.1	1,905	-25.5
Total capital employed	24,428	84,281	90,216	86,064	101,925	142,443	39.8	153,681	7.9	161,339	5.0
Shareholders' equity	13,692	20,038	21,039	38,604	44,309	74,757	68.7	77,804	4.1	81,875	5.2
Minority interests	1,712	1,992	63	85	175	0	-	0	-	0	-
Total equity	15,405	22,030	21,102	38,688	44,484	74,757	68.1	77,804	4.1	81,875	5.2
Net debt / (cash)	9,024	62,251	69,115	47,376	57,441	67,685	17.8	75,877	12.1	79,464	4.7
Other debt-deemed items	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	24,428	84,281	90,216	86,064	101,925	142,443	39.8	153,681	7.9	161,339	5.0
Cash flow (Rsm)	03/07	03/08	03/09	03/10	03/11	03/12E	% ch	03/13E	% ch	03/14E	% ch
Operating income (EBIT, UBS)	4,020	9,876	6,343	8,452	10,043	11,132	10.8	13,426	20.6	15,970	19.0
Depreciation	338	741	926	950	1,023	1,371	34.0	1,934	41.0	2,301	19.0
Net change in working capital	(2,464)	(13,680)	(1,660)	(4,743)	(11,210)	(32,544)	190.3	(6,617)	-79.7	(6,062)	-8.4
Other (operating)	3,505	463	(12,306)	2,100	6,048	(1,833)	-	279	-	2,070	642.7
Operating cash flow (pre tax/interest)	5,399	(2,599)	(6,697)	6,759	5,904	(21,873)	-	9,021	-	14,279	58.3
Net interest received / (paid)	(873)	(1,285)	(7,176)	(6,069)	(4,985)	(7,859)	57.7	(8,224)	4.6	(8,622)	4.8
Dividends paid	(237)	(178)	(252)	(366)	(379)	(755)	99.17	(953)	26.32	(1,191)	25.00
Tax paid	(1,049)	(1,737)	(916)	(1,932)	(2,652)	(1,805)	-31.9	(2,250)	24.7	(2,831)	25.8
Capital expenditure	(1,153)	(425)	(6,322)	(2,586)	(3,519)	(4,379)	24.4	(5,102)	16.5	(4,548)	-10.8
Net (acquisitions) / disposals	0	0	(3,452)	(1,895)	956	(4,771)	-	(1,553)	-67.5	570	-
Other	440	0	0	0	0	0	-	0	-	0	-
Share issues	269	1,755	7,423	14,472	(1,266)	30,093	-	(783)	-	(755)	-3.5
Cash flow (inc)/dec in net debt	2,796	(4,469)	(17,391)	8,385	(5,941)	(11,350)	91.1	(9,844)	-13.3	(3,099)	-68.5
FX / non cash items	0	(48,759)	10,528	13,354	(4,124)	1,106	-	1,652	49.4	(488)	-
Balance sheet (inc)/dec in net debt	2,796	(53,228)	(6,864)	21,739	(10,065)	(10,245)	1.8	(8,192)	-20.0	(3,587)	-56.2
Core EBITDA	4,358	10,618	7,269	9,402	11,066	12,503	13.0	15,360	22.8	18,271	19.0
Maintenance capital expenditure	0	0	0	0	0	(4,379)	-	(5,102)	16.5	(4,548)	-10.8
Maintenance net working capital	0	0	0	0	0	0	-	0	-	0	-
Operating free cash flow, pre-tax	4,358	10,618	7,269	9,402	11,066	8,124	-26.6	10,258	26.3	13,723	33.8

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

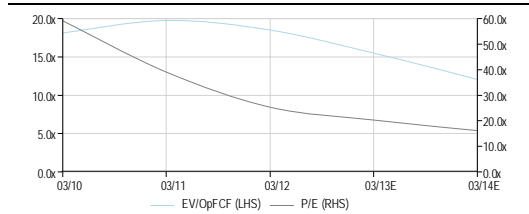
12-month rating **Neutral**

12m price target **Rs780.00**

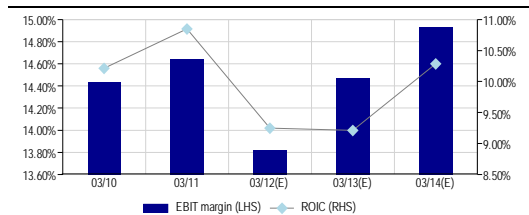
Company profile

United Spirits is 38.7% owned by Vijay Mallaya and the amalgamated company of the former McDowells, Shaw Wallace and other companies. It holds about 48% of the IMFL (liquor) market by volume and is the market leader. It is a driver of sector consolidation. The company has 19 'millionaire' brands (each sells more than one million cases per year) and has 64 manufacturing facilities across India.

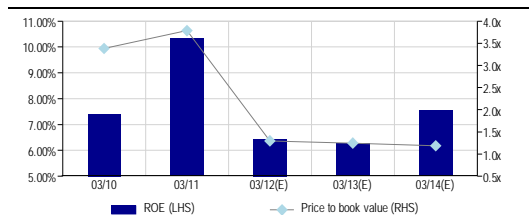
Value (EV/OpFCF & P/E)



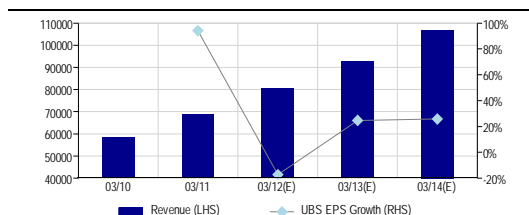
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
P/E (local GAAP)	NM	NM	29.6	25.3	20.3	16.1
P/E (UBS)	-34.5	59.1	39.1	25.3	20.3	16.1
P/CEPS	55.3	41.3	31.6	18.7	14.5	11.7
Net dividend yield (%)	0.2	0.3	0.2	0.7	0.8	1.0
P/BV	4.5	3.4	3.8	1.3	1.2	1.2
EV/revenue (core)	3.1	2.9	3.2	1.9	1.7	1.5
EV/EBITDA (core)	17.9	18.1	19.8	12.0	10.4	9.1
EV/EBIT (core)	19.7	20.1	21.8	13.5	11.8	10.4
EV/OpFCF (core)	17.9	18.1	19.8	18.5	15.5	12.1
EV/op. invested capital	2.3	2.1	2.4	1.2	1.1	1.1

Enterprise value (Rsm)	03/10	03/11	03/12E	03/13E	03/14E
Average market cap	113,146	167,685	89,818	89,818	89,818
+ minority interests	85	175	0	0	0
+ average net debt (cash)	58,245	52,408	62,563	71,781	77,670
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(1,265)	(1,544)	(2,078)	(2,557)	(1,905)
Core enterprise value	170,211	218,724	150,303	159,042	165,584

Growth (%)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
Revenue	26.5	15.8	17.2	17.5	15.2	15.3
EBITDA (UBS)	26.2	29.3	17.7	13.0	22.8	19.0
EBIT (UBS)	25.7	33.2	18.8	10.8	20.6	19.0
EPS (UBS)	2.8	-	94.2	-17.3	24.7	25.8
Cash EPS	5.1	NM	68.2	-9.3	29.0	23.8
Net DPS	-3.7	11.1	-0.8	84.2	26.3	25.0
BVPS	20.9	26.6	14.8	56.0	4.1	5.2

Margins (%)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
EBITDA / revenue	17.5	16.1	16.1	15.5	16.6	17.1
EBIT / revenue	16.0	14.4	14.6	13.8	14.5	14.9
Net profit (UBS) / revenue	5.0	3.8	6.3	4.8	5.2	5.6

Return on capital (%)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
EBIT ROIC (UBS)	11.7	10.2	10.8	9.2	9.2	10.3
ROIC post tax	-	5.5	6.7	6.3	6.3	7.0
Net ROE	10.9	7.4	10.3	6.4	6.3	7.5

Coverage ratios (x)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
EBIT / net interest	2.6	1.7	2.4	1.7	1.9	2.0
Dividend cover (UBS EPS)	-	6.8	13.2	5.9	5.9	5.9
Div. payout ratio (% , UBS EPS)	-	14.8	7.6	16.8	17.0	16.9
Net debt / EBITDA	5.7	5.0	5.2	5.4	4.9	4.3

Efficiency ratios (x)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
Revenue / op. invested capital	0.7	0.7	0.7	0.7	0.6	0.7
Revenue / fixed assets	1.0	1.0	1.1	1.2	1.2	1.4
Revenue / net working capital	2.9	2.7	2.3	1.6	1.3	1.4

Investment ratios (x)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
OpFCF / EBIT	1.1	1.1	1.1	0.7	0.8	0.9
Capex / revenue (%)	5.7	4.4	5.1	5.4	5.5	4.3
Capex / depreciation	3.5	2.7	3.4	3.2	2.6	2.0

Capital structure (%)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
Net debt / total equity	NM	NM	NM	90.5	97.5	97.1
Net debt / (net debt + equity)	64.0	55.1	56.5	47.5	49.4	49.3
Net debt (core) / EV	29.2	34.2	24.0	41.6	45.1	46.9

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs715.15 on 11 Apr 2012 23:38 SGT Market cap(E) may include forecast share issues/buybacks.

Sunita Sachdev

Analyst

sunita.sachdev@ubs.com

+91-22-6155 6062

■ **United Spirits Ltd**

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■ **Statement of Risk**

We think the key risks that could affect the sector include: 1) a continued upward movement of downstream petrochemical products and higher agricultural-commodity-based raw material costs; and 2) the branded consumer companies' inability to pass on price increases in an increasingly competitive market.

■ **Analyst Certification**

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	51%	34%
Neutral	Hold/Neutral	40%	35%
Sell	Sell	9%	15%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	25%
Sell	Sell	less than 1%	17%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2012.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

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UBS Securities India Private Ltd: Sunita Sachdev.

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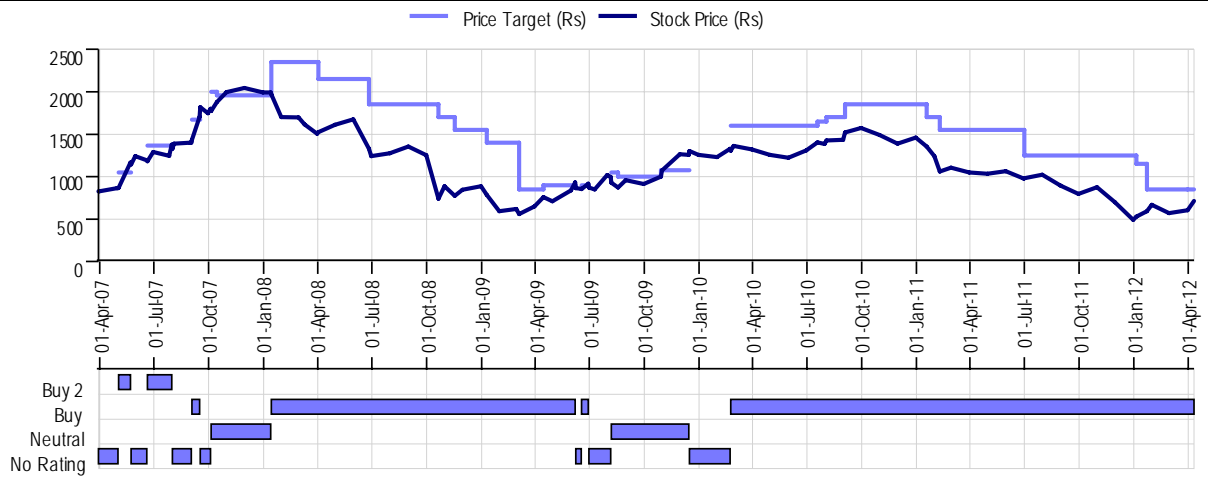
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
United Spirits Ltd	UNSP.BO	Buy	N/A	Rs715.15	11 Apr 2012

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

United Spirits Ltd (Rs)



Source: UBS; as of 11 Apr 2012

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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