

United Breweries

Refer to important disclosures at the end of this report

Recovery delayed but to bounce back strongly on full unlocking

- Sales continued to recover and grew 8% yoy to Rs15.5bn, largely in line, led by 9% volume growth on low comparables (21% decline in Q4FY20). Operating margins were up 760bps, resulting in EBITDA/Adj PAT growth of 97%/260% - above estimates by 25%/41%.
 - Sales were 5% lower than peak Q4FY19 sales while volumes were lower by 14%. In our view, excluding AP/Telangana, volume have recovered in rest of India to peak FY19 levels. Recent lockdowns will impact Q1/FY22 but should see strong recovery on full unlocking given improved affordability from price corrections and benign taxation across markets.
 - Margin improvement from cost savings has been impressive. While we expect some of the gains to reverse, margin trends indicate possible upsides on full recovery in sales. We forecast FY23/24 operating margins at 17.5%/17.8% vs. 17.6% in FY19.
 - Stock trades at 23x FY23E EV/EBIDA and offers good entry opportunity post the recent correction. Lockdown impact is likely to be temporary and benign taxation/pricing correction are expected to be major positives, driving strong growth on full unlocking. Retain Buy with a TP of Rs1,450, rolling forward to 27x Jun-23E EV/EBITDA..
- **Sales/volumes grow 8-9% with 95%/86% recovery to peak Q4FY19 levels:** Sales recovery continued across markets, resulting in a sequential improvement and a 9% volume growth for the quarter albeit on lower comparables. Volumes grew in Q4 across markets, excluding Telangana, Odisha and Delhi. North/West/East grew in double-digits, whereas growth in South was largely impacted by the steep decline in Telangana on higher Covid taxes. Category recovery has been encouraging in H2 and improves visibility of volumes recovering strongly on full unlocking. While Q1 remains uncertain due to lockdowns and will impact FY22 growth, volume outlook for FY23 based on full unlocking remains intact which can see upside risk from recent price reductions in Rajasthan and Uttar Pradesh and benign taxation across most markets.
 - **Margins surprise positively:** Gross margins improved 110bps to 52% on pricing and state mix. EBITDA margins surprised positively with 760bps yoy gain to 16.9% - the highest-ever Q4 margins. The margin gain was driven by a 12% decline in overhead costs (24.9% of sales vs. 32.6% of sales). UBBL has displayed solid cost savings in previous quarters but the sharp reduction in overhead costs may also be partly due to the temporary cut in ad spends as well as one-off savings. Despite a difficult year, UBBL has generated higher cash flows, driven by working capital reduction, and has turned net cash positive.

Reduce assumptions for FY22 but maintain for FY23; retain Buy: The stock trades at 23x FY23E EV/EBIDA and offers good entry opportunity post the recent correction. We have reduced FY22E EPS by 35% but maintained FY23 EPS. The lockdown impact is likely to be temporary and benign taxation/pricing correction are expected to be major positives, driving strong growth on full unlocking. Retain Buy with a TP of Rs1,450 (from Rs1420) based on 27x Jun-23 EV/EBITDA.

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	65,046	42,407	57,422	74,921	83,413
EBITDA	8,744	3,795	8,251	13,074	14,862
EBITDA Margin (%)	13.4	8.9	14.4	17.5	17.8
APAT	4,272	1,201	4,163	7,792	9,035
EPS (Rs)	16.2	4.5	15.7	29.5	34.2
EPS (% chg)	(24.1)	(71.9)	246.7	87.2	15.9
ROE (%)	12.8	3.3	10.8	17.8	17.7
P/E (x)	72.1	256.4	73.9	39.5	34.1
EV/EBITDA (x)	35.4	79.8	36.5	22.7	19.5
P/BV (x)	8.8	8.4	7.7	6.5	5.6

Source: Company, Emkay Research

CMP	Target Price
Rs 1,164 as of (April 27, 2021)	Rs 1,450 (▲) 12 months
Rating	Upside
BUY (■)	24.5 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	(35)/(1)
Target Price change (%)	2.1
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	15.7	29.5
Consensus	22.4	27.9
Mean Consensus TP (12M)	Rs 1,384	

Stock Details

Bloomberg Code	UBBL IN
Face Value (Rs)	1
Shares outstanding (mn)	264
52 Week H/L	1,330 / 859
M Cap (Rs bn/USD bn)	308 / 4.12
Daily Avg Volume (nos.)	5,71,095
Daily Avg Turnover (US\$ mn)	9.3

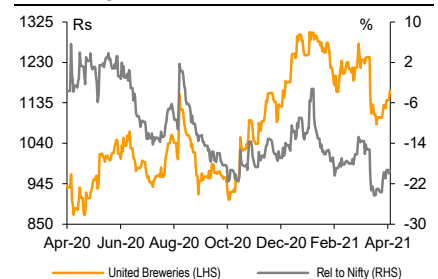
Shareholding Pattern Mar '21

Promoters	57.7%
FIIIs	9.8%
DIIIs	10.2%
Public and Others	22.4%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(6)	(11)	27	28
Rel. to Nifty	(7)	(15)	3	(19)

Relative price chart



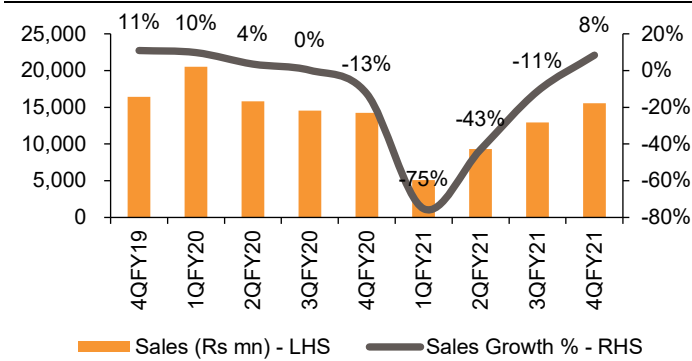
Source: Bloomberg

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Ashit Desai

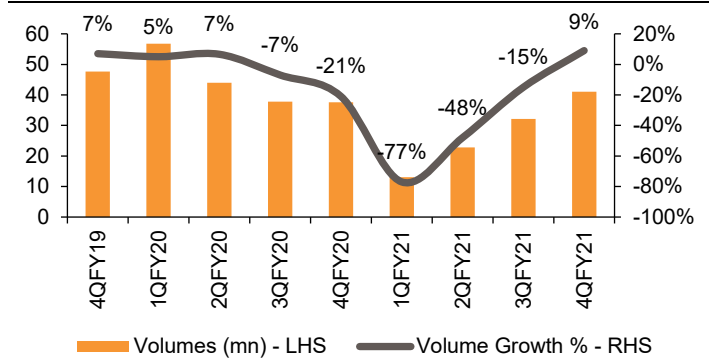
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Exhibit 1: Sales recovery has been encouraging in H2



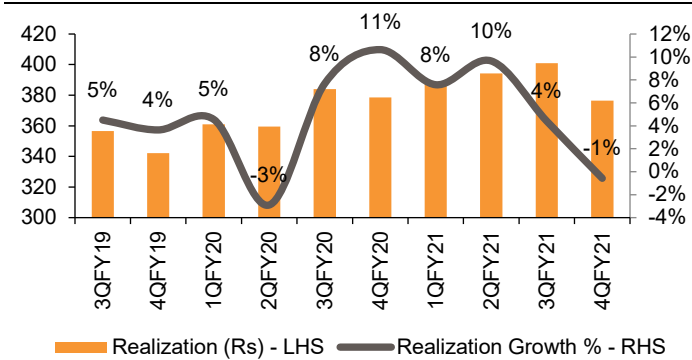
Source: Company, Emkay Research

Exhibit 2: Volume grow 9% yoy; ~86% recovery vs. peak Q4FY19 levels



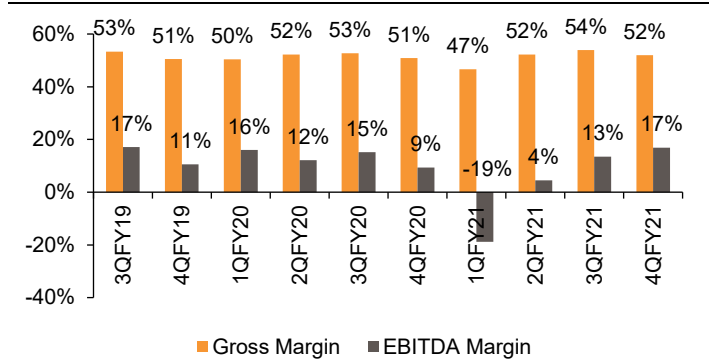
Source: Company, Emkay Research

Exhibit 3: Realizations flattish on high base and state mix



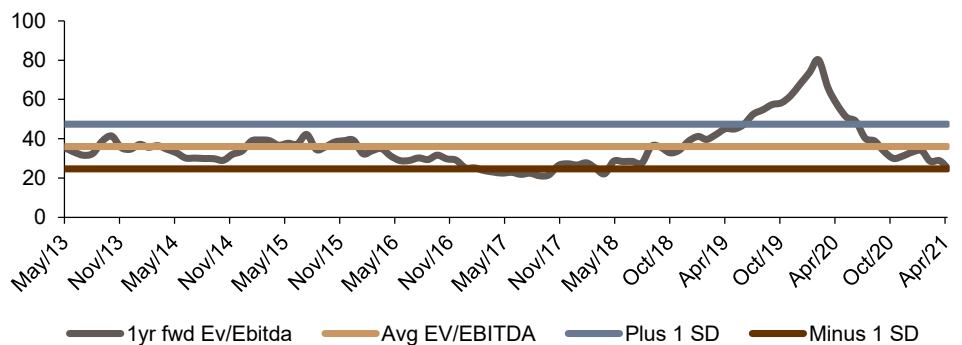
Source: Company, Emkay Research

Exhibit 4: Operating margins see strong gains on lower overhead expenses



Source: Company, Emkay Research

Exhibit 5: 1 year forward EV/EBITDA band



Source: Company, Emkay Research

Exhibit 6: Actual vs. estimates (Q4FY21)

	Actual	Emkay estimate	Consensus estimate	% variation		Comment
				Emkay	Consensus	
Revenues	15,435	15,979	16,239	-3.4%	-5.0%	Sales growth led by 9% volume growth, realizations marginally lower
EBITDA	2,613	2,092	2,630	24.9%	-0.6%	
EBITDA Margin (%)	16.9%	13.1%	16.2%	383	74	Margin gains led by lower overhead costs and 100bps GM expansion
APAT	1,478	1,011	1,539	46.1%	-4.0%	

Source: Company, Emkay Research

Exhibit 7: Standalone quarterly financials

Y/E, Mar (Rs mn)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	YoY (%)	QoQ (%)	FY20	FY21	YoY (%)
Revenue	14,242	5,069	9,006	12,897	15,435	8.4	19.7	65,046	42,407	-34.8
Expenditure	12,919	6,025	8,602	11,163	12,822	-0.8	14.9	56,302	38,612	-31.4
Consumption of RM	6,994	2,704	4,300	5,949	7,411	6.0	24.6	45,962	20,363	-55.7
as % of sales	49.1%	53.3%	47.7%	46.1%	48.0%			70.7%	48.0%	
Employee Cost	1,279	1,151	1,099	1,241	1,332	4.2	7.3	4,998	4,648	-7.0
as % of sales	9.0%	22.7%	12.2%	9.6%	8.6%			7.7%	11.0%	
Other expenditure	4,647	2,171	3,204	3,972	4,079	-12.2	2.7	5,342	13,601	154.6
as % of sales	32.6%	42.8%	35.6%	30.8%	26.4%			8.2%	32.1%	
EBITDA	1,323	-957	404	1,735	2,613	97.6	50.6	8,744	3,795	-56.6
Depreciation	734	505	612	578	623	-15.1	7.7	2,850	2,319	-18.6
EBIT	589	-1,462	-208	1,156	1,990	238.0	72.1	5,894	1,477	-75.0
Other Income	6	14	326	46	116	1796.7	150.4	91	502	451.0
Interest	48	72	60	53	42	-11.3	-21.0	311	227	-27.2
Exceptional items				550	-622				-72	
PBT (Post Exceptional items)	547	-1,519	59	1,699	1,441	163.4	-15.2	5,674	1,680	-70.4
Total Tax	135	-376	18	435	474	249.9	8.9	1,402	551	-60.7
Reported PAT	412	-1,143	40	1,264	968	134.9	-23.4	4,272	1,129	-73.6
Adjusted PAT	412	-1,143	40	840	1,478	258.8	75.9	4,272	1,215	-71.6
Adjusted EPS	1.6	-4.3	0.2	3.2	5.6	259.3	75.9	16.2	4.6	-71.6
Margins (%)	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	(bps)	(bps)	FY20	FY21	(bps)
EBIDTA	9.3	-18.9	4.5	13.4	16.9	760	350	13.4	8.9	-450
EBIT	4.1	-28.8	-2.3	9.0	12.9	880	390	9.1	3.5	-560
EBT	3.8	-30.0	0.6	13.2	9.3	550	-380	8.7	4.0	-480
PAT	2.9	-22.5	0.4	6.5	9.6	670	310	6.6	2.9	-370
Effective Tax rate	24.7	24.8	31.5	25.6	32.9	810	730	24.7	32.8	810

Source: Company, Emkay Research

Exhibit 8: Revision in Earnings Estimates

Y/E, Mar (Rs mn)	FY22E			FY23E			FY24E
	Earlier	Revised	% Change	Earlier	Revised	% Change	Introduced
Revenues	67,467	57,422	-14.9	76,474	74,921	-2.0	83,413
EBITDA	11,456	8,251	-28.0	13,402	13,074	-2.4	14,862
EBITDA Margin (%)	1698.0%	14.4	-260 bps	17.5	17.5	-10 bps	17.8
APAT	6,359	4,163	-34.5	7,897	7,792	-1.3	9,035
EPS (Rs)	24.1	15.7	-34.5	29.9	29.5	-1.3	34.2

Source: Company, Emkay Research

Exhibit 9: Revenue Growth Assumptions

	FY20	FY21	FY22E	FY23E	FY24E
Volume growth	-3%	-39%	37%	27%	8%
Realization growth	4%	1%	3%	3%	3%
Revenue (Rs mn)	65,046	42,407	57,422	74,921	83,413
Revenue growth	0%	-35%	35%	30%	11%

Source: Company, Emkay Research

Exhibit 10: Relative Valuation

	Price (Rs)	Mcap (Rs bn)	Reco	Target Price (Rs)	EPS (Rs)			P/E (x)			EV / EBITDA (x)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Asian Paints	2,574	2,469	Hold	2,460	34.2	43.0	49.1	75.3	59.9	52.5	49.1	39.9	35.1
Berger Paints	713	692	Sell	560	7.5	10.4	12.1	95.3	68.2	58.7	56.6	42.5	36.8
Britannia	3,541	853	Buy	4,500	77.1	76.3	87.2	45.9	46.4	40.6	34.2	34.3	30.5
Colgate	1,495	407	Buy	1,800	35.6	39.3	44.1	42.0	38.0	33.9	27.4	24.9	22.2
Dabur	538	951	Hold	560	10.2	11.9	13.7	52.6	45.1	39.3	42.9	35.9	31.1
Emami	509	226	Buy	580	14.5	15.5	17.4	35.2	32.8	29.2	24.9	22.5	19.7
GCPL	702	718	Hold	750	17.0	18.8	21.2	41.3	37.4	33.1	29.2	26.7	23.8
HUL	2,380	5,592	Hold	2,300	34.4	41.6	48.2	69.2	57.2	49.4	47.9	39.7	34.5
ITC	205	2,528	Buy	265	10.5	12.9	14.3	19.6	15.9	14.4	14.6	11.8	10.5
Marico	407	526	Hold	420	9.1	10.3	11.5	44.6	39.5	35.4	32.0	28.3	25.4
Nestle	16,779	1,618	Hold	16,800	217.5	266.9	307.4	77.2	62.9	54.6	51.8	43.8	38.3
Pidilite	1,833	932	Sell	1,320	24.1	27.7	32.1	76.2	66.1	57.2	52.6	45.9	39.7
Radico Khaitan	546	73	Buy	640	18.9	23.0	26.7	28.8	23.8	20.5	18.0	15.1	12.9
United Breweries	1,164	308	Buy	1,450	4.5	15.7	29.5	256.4	73.9	39.5	79.9	36.6	22.8
United Spirits	521	378	Buy	660	6.1	13.4	16.5	85.8	38.9	31.6	41.2	23.9	20.2

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	65,046	42,407	57,422	74,921	83,413
Expenditure	56,302	38,612	49,171	61,847	68,551
EBITDA	8,744	3,795	8,251	13,074	14,862
Depreciation	2,850	2,319	2,735	2,956	3,144
EBIT	5,894	1,477	5,516	10,118	11,718
Other Income	91	502	200	300	360
Interest expenses	311	227	150	0	0
PBT	5,674	1,752	5,566	10,418	12,078
Tax	1,402	551	1,403	2,625	3,044
Extraordinary Items	0	(72)	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	4,272	1,129	4,163	7,792	9,035
Adjusted PAT	4,272	1,201	4,163	7,792	9,035

Balance Sheet

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	264	264	264	264	264
Reserves & surplus	34,915	36,294	39,928	46,928	54,905
Net worth	35,180	36,559	40,193	47,192	55,169
Minority Interest	0	0	0	0	0
Loan Funds	2,522	2,100	1,000	0	0
Net deferred tax liability	0	0	0	0	0
Total Liabilities	37,701	38,659	41,193	47,192	55,169
Net block	19,007	17,806	16,770	16,714	16,970
Investment	257	257	257	257	257
Current Assets	34,182	33,196	40,168	50,250	61,664
Cash & bank balance	733	7,152	8,031	10,794	18,232
Other Current Assets	108	110	112	115	117
Current liabilities & Provision	17,736	14,592	17,993	22,021	25,714
Net current assets	16,446	18,605	22,174	28,230	35,951
Misc. exp	0	0	0	0	0
Total Assets	37,701	38,659	41,193	47,192	55,169

Cash Flow

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT (Ex-Other income) (NI+Dep)	5,583	1,250	5,366	10,118	11,718
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(1,908)	4,260	(2,691)	(3,293)	(282)
Operating Cashflow	5,525	7,363	4,358	7,456	11,896
Capital expenditure	(4,427)	(1,117)	(1,700)	(2,900)	(3,400)
Free Cash Flow	1,098	6,246	2,658	4,556	8,496
Investments	0	0	0	0	0
Other Investing Cash Flow	(91)	(502)	(200)	(300)	(360)
Investing Cashflow	(4,427)	(1,117)	(1,700)	(2,900)	(3,400)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	407	(422)	(1,100)	(1,000)	0
Dividend paid (incl tax)	(529)	(132)	(529)	(793)	(1,058)
Other Financing Cash Flow	(383)	954	0	0	0
Financing Cashflow	(816)	173	(1,779)	(1,793)	(1,058)
Net chg in cash	282	6,419	879	2,763	7,439
Opening cash position	451	733	7,152	8,031	10,794
Closing cash position	733	7,152	8,031	10,794	18,232

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin	13.4	8.9	14.4	17.5	17.8
EBIT Margin	9.1	3.5	9.6	13.5	14.0
Effective Tax Rate	24.7	31.5	25.2	25.2	25.2
Net Margin	6.6	2.8	7.3	10.4	10.8
ROCE	16.7	5.2	14.3	23.6	23.6
ROE	12.8	3.3	10.8	17.8	17.7
RoIC	17.8	4.6	18.3	31.1	34.0

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	16.2	4.5	15.7	29.5	34.2
CEPS	26.9	13.3	26.1	40.7	46.1
BVPS	133.1	138.3	152.0	178.5	208.7
DPS	2.0	0.5	2.0	3.0	4.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	72.1	256.4	73.9	39.5	34.1
P/CEPS	43.2	87.5	44.6	28.6	25.3
P/BV	8.8	8.4	7.7	6.5	5.6
EV / Sales	4.8	7.1	5.2	4.0	3.5
EV / EBITDA	35.4	79.8	36.5	22.7	19.5
Dividend Yield (%)	0.2	0.0	0.2	0.3	0.3

Gearing Ratio (x)	FY20	FY21	FY22E	FY23E	FY24E
Net Debt/ Equity	0.1	(0.1)	(0.2)	(0.2)	(0.3)
Net Debt/EBIDTA	0.2	(1.3)	(0.9)	(0.8)	(1.2)
Working Cap Cycle (days)	88.2	98.6	89.9	84.9	77.5

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	0.5	(34.8)	35.4	30.5	11.3
EBITDA	(23.1)	(56.6)	117.4	58.5	13.7
EBIT	(32.9)	(75.0)	273.6	83.4	15.8
PAT	(24.1)	(73.6)	268.9	87.2	15.9

Quarterly (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Revenue	14,242	5,069	9,006	12,897	15,979
EBITDA	1,323	(957)	404	1,735	2,092
EBITDA Margin (%)	9.3	(18.9)	4.5	13.4	13.1
PAT	412	(1,143)	40	714	1,011
EPS (Rs)	1.6	(4.3)	0.2	2.7	3.8

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	57.7	57.7	57.7	57.7	57.7
FIIIs	10.4	10.7	10.7	10.0	9.8
DIIIs	9.4	8.9	8.9	9.7	10.2
Public and Others	22.4	22.7	22.7	22.5	22.4

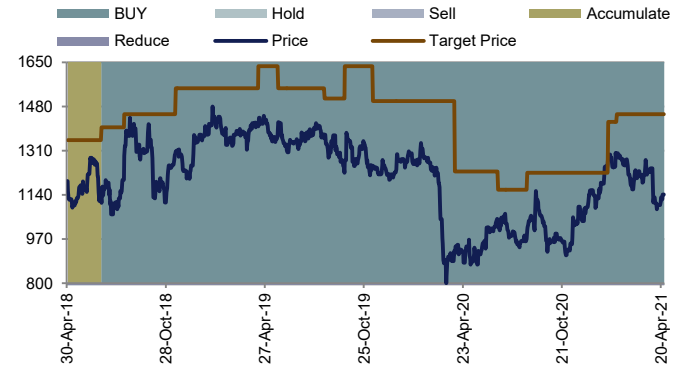
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
29-Jan-21	1,300	1,450	12m	Buy	Ashit Desai
13-Jan-21	1,291	1,420	12m	Buy	Ashit Desai
22-Dec-20	1,095	1,225	12m	Buy	Ashit Desai
14-Dec-20	1,158	1,225	12m	Buy	Ashit Desai
09-Nov-20	976	1,225	12m	Buy	Ashit Desai
08-Oct-20	961	1,225	12m	Buy	Ashit Desai
18-Aug-20	1,004	1,225	12m	Buy	Ashit Desai
26-Jun-20	1,015	1,160	12m	Buy	Ashit Desai
14-Apr-20	947	1,230	12m	Buy	Ashit Desai
08-Apr-20	915	1,230	12m	Buy	Ashit Desai
16-Mar-20	973	1,500	12m	Buy	Ashit Desai
09-Feb-20	1,317	1,500	12m	Buy	Ashit Desai
25-Dec-19	1,296	1,500	12m	Buy	Ashit Desai
25-Nov-19	1,219	1,500	12m	Buy	Ashit Desai
10-Nov-19	1,252	1,500	12m	Buy	Ashit Desai
20-Sep-19	1,273	1,635	12m	Buy	Ashit Desai
14-Aug-19	1,371	1,510	12m	Buy	Ashit Desai
11-Jul-19	1,359	1,550	12m	Buy	Ashit Desai
12-Jun-19	1,352	1,550	12m	Buy	Ashit Desai
21-May-19	1,420	1,550	12m	Buy	Ashit Desai
15-Apr-19	1,403	1,635	12m	Buy	Ashit Desai
09-Apr-19	1,419	1,550	12m	Buy	Ashit Desai
27-Mar-19	1,349	1,550	12m	Buy	Ashit Desai
14-Feb-19	1,398	1,550	12m	Buy	Ashit Desai
15-Nov-18	1,307	1,550	12m	Buy	Ashit Desai
13-Aug-18	1,290	1,450	12m	Buy	Ashit Desai
02-Jul-18	1,110	1,400	12m	Buy	Ashit Desai
28-May-18	1,144	1,350	12m	Accumulate	Ashit Desai
02-May-18	1,155	1,350	12m	Accumulate	Ashit Desai

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 28 Apr 2021 10:20:01 (SGT)

Dissemination Date: 28 Apr 2021 10:21:01 (SGT)

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