

United Spirits

Gradual revenue recovery; resilient margins

UNSP continued its recovery in 3QFY21, with revenue/EBITDA decline of 4/10% YoY (HSEI -5/-17%). Recovery in P&A was strong with value/volume decline of 1/0% YoY, despite the heavy base (strong new year demand in base quarter). Underlying growth in P&A (ex-AP impact) was strong at 4.5%. The reopening of pubs and bars and targeted marketing campaigns for in-home occasions supported the recovery. Popular continued to remain under pressure as excise-led price hikes (West Bengal) kept demand muted. IMFL industry volume was down by ~1%. Gross margin remained healthy on the back of improved product mix and benign RM inflation, which is expected to sustain. Cost control initiatives by UNSP also led to a healthy EBITDA margin of 15.4%. We expect the recovery trend to continue, led by improvement in sentiment and occupancy of bars. We maintain our EPS estimates for FY21/FY22/23. We value UNSP at 42x P/E on Mar-23E EPS to derive a target price of Rs 640. Maintain ADD.

- Gradual revenue recovery:** Net revenue declined by 4% YoY (+3% in 3QFY20 and -7% in 2QFY21), better than our estimated decline of 5% YoY. P&A/Popular revenue declined by 1/7% YoY as higher in-home consumption and opening of pubs and bars aided partial recovery. Popular segment was impacted by an adverse state mix. P&A volumes remained flat YoY (+3% in 3QFY20 and flat in 2QFY21) while Popular volumes declined by 2% YoY (-7% in 3QFY20 and -7% in 2QFY21). Revenue recovery was supported by focused marketing campaigns for in-home occasions and renovation of core brands.
- Resilient margins:** Gross margin expanded by 24bps YoY to 44.6% (-421bps in 3QFY20 and -283bps in 2QFY21), ahead of our expectation of 100bps YoY contraction. The expansion was driven by benign RM inflation. Employee costs grew by 23% YoY while A&P/Other expenses declined by 7/2% YoY. A&P improved 28% QoQ as the company resumed investing in its brands. A&P investment remained healthy at 9.4% of sales. EBITDA margin contracted by 100bps YoY (+207bps in 3QFY20 and -553bps in 2QFY21) to 15.4% (HSEI 14.3%). EBITDA declined by 10% YoY (HSEI 17% decline). PBT was down 12% YoY while PAT declined by 11% YoY. We expect both revenue and EBITDA margin recovery in FY22.
- Call takeaways:** (1) 85% of bars are now operational, but occupancy remains low; (2) home consumption growth has remained resilient; (3) excise hike in West Bengal has adversely impacted the hard liquor industry; (4) the company expects no RM inflation over the next few months; (5) if regulatory changes in Delhi go through, it will be a huge positive for the industry.

Quarterly/annual financial summary

YE Mar (Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	24,887	25,825	(3.6)	21,459	16.0	90,909	80,158	99,179	106,566
EBITDA	3,838	4,240	(9.5)	2,697	42.3	15,061	9,082	15,156	16,957
APAT	2,299	2,588	(11.2)	1,284	79.0	7,904	4,059	9,025	10,668
Diluted EPS (Rs)	3.2	3.6	(11.2)	1.8	79.0	10.9	5.6	12.4	14.7
P/E (x)						54.6	106.3	47.8	40.5
EV / EBITDA (x)						30.0	48.7	29.0	25.4
RoCE (%)						14.8	9.5	18.1	19.0

Source: Company, HSIE Research

ADD

CMP (as on 28 Jan 2021)	Rs 594
Target Price	Rs 640
NIFTY	13,818

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 640	Rs 640
EPS %	FY22E	FY23E
	0%	0%

KEY STOCK DATA

Bloomberg code	UNSP IN
No. of Shares (mn)	727
MCap (Rs bn) / (\$ mn)	432/5,913
6m avg traded value (Rs mn)	1,328
52 Week high / low	Rs 743/443

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	16.0	1.6	(9.4)
Relative (%)	(1.4)	(20.2)	(23.8)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	56.76	56.76
FIs & Local MFs	7.48	8.06
FPIs	18.83	18.98
Public & Others	16.93	16.20
Pledged Shares	0.67	0.67

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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