

United Spirits Ltd

3Q investor call takeaways – marginal disappointment on growth, demand normalization still some time away

- ✓ **View** – After a good recovery in 2Q, 3Q growth was slightly disappointing as the on-trade channel also opened up. While it can be explained to some extent by high base and recovery in beer, this increases the uncertainty with regards to timing of normalization of demand which might be an overhang for valuations. While multiples at 33x FY23 are undemanding, given the uncertainties as alluded to by the management, we do not see near-term positive triggers for the stock.
- ✓ **Management commentary** - Good progressive recovery but large events substituted by smaller gatherings, reopening of 85% on-trade channel albeit with low occupancy, muted celebrations, home consumption remains buoyant, continued rollout of renovated No.1 and RC whisky, strong OCF led to debt coming down further, happy with premiumization working well, no short-term guidance given ongoing uncertainties.
- ✓ **Quarter highlight s-** Revenue down 3.6%, adj for RTM change in AP, net sales grew 0.2%; P&A grew 4.5% ex-AP, popular declined 6.7%, increased consumer prices impacted demand, 24bps GM improvement due to productivity interventions and benign RM prices, A&P investments remain in 9-10% range, EBITDA margins back to mid-teens at 15.4%, commodities prices remain in check in near term.
- ✓ **Surrogate advertising restrictions** – Some states have imposed restrictions, working with ASCI to come up with an agreement on acceptable level of advertising, don't expect a complete ban, would still focus more on BTL promotions.
- ✓ **Growth trajectory** – Base quarter had high growth in P&A and large celebrations were subdued this year, but still happy with sequential recovery given the consumption environment and significant price hikes in a few states which impacted demand for popular.
- ✓ **Home delivery scenario** – Expect this emerging accessibility channel to fuel higher category growth, inflexion point is still some time away, some states like West Bengal, Maharashtra showing traction, should pick up once a couple states are successful.
- ✓ **McDowells No.1 and RC relaunch** – Full impact of No.1 relaunch will be seen in Maharashtra in current quarter, RC doing well in all states so far; local players have taken price correction to counter this.
- ✓ **Regulation highlights** – West Bengal demand under severe stress due to irrational rise in excise rates for spirits, still trying to get that corrected; Delhi can be a big positive if legal drinking age is reduced.
- ✓ **Market share** – No official date yet but seem to have gained market share overall since the lockdown has ended in P&A as per on-ground checks.
- ✓ **Premiumization** – Bottom end of BIO doing really well as consumer upgrades happening from BII, scotch brands doing really well with duty-free business shut; even once travel opens up, expect to retains a significant share of duty-free sales.

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- ✓ **ENA outlook** – Watchful on pricing which can move up in near-term given ethanol blending norms, but prices stable as of now.
- ✓ **A&P Spends** – Will continue to invest aggressively now onwards with the market conditions now stable and amenable to new launches, relaunches etc; want to remain ahead of competition.
- ✓ **Guidance** – No guidance as it is difficult to forecast the impact of lesser socialization in the country, but will continue to provide all inputs to drive growth.

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