

Estimate change 

 TP change 

 Rating change 

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	UBBL IN
Bloomberg Equity Shares (m)	264
M.Cap.(INRb)/(USDb)	428.3 / 5.4
52-Week Range (INR)	1794 / 1275
1, 6, 12 Rel. Per (%)	4/5/4
12M Avg Val (INR M)	677

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Net Sales	58.4	77.1	84.8
Sales Gr. (%)	37.6	32.0	10.0
EBITDA	7.4	8.9	12.0
Margin (%)	12.7	11.5	14.2
Adj. PAT	3.7	4.9	6.7
Adj. EPS (INR)	14.1	18.4	25.2
EPS Gr. (%)	229.9	30.5	36.4
BV/Sh. (INR)	148.8	167.3	180.8

Ratios

RoE (%)	9.9	11.7	14.5
RoCE (%)	10.6	11.2	14.3

Valuations

P/E (x)	114.7	87.8	64.4
P/BV (x)	10.9	9.7	9.0
EV/EBITDA (x)	56.6	48.6	34.5

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	72.7	72.7	72.7
DII	14.2	13.1	11.3
FII	7.7	8.7	9.8
Others	5.4	5.5	6.2

FII Includes depository receipts

CMP: INR1,620
TP: INR1,175 (-27%)
Sell

Profitability to remain muted despite healthy volumes

- While UBBL's 1QFY23 sales came in better than our expectation, the 410bp YoY and 440bp QoQ contraction in gross margin led to a miss of 9%/16% on forecasted EBITDA/adjusted PAT.
- When compared to pre-COVID levels, volumes are up by only 8% from 1QFY19 levels (14% when adjusted for the change in the Andhra Pradesh state government's excise policy).
- As indicated in our [Feb'22 note](#), rising commodity cost pressures for AlcoBev companies, given the lack of free pricing in a majority of states, is likely to negatively affect the pace of earnings growth, even in a strong demand environment.
- We retain our **Sell** rating on the stock, given its expensive valuation (~64.4x FY24E P/E).

Sales beat; input cost pressures adversely impact profitability

- Standalone net sales grew 117.9% YoY to INR24.4b** (est. INR21b). EBITDA grew 196.1% YoY to INR2.8b. PBT/adjusted PAT grew 452%/424% YoY to INR2.3b/INR1.6b (est. INR2.6b/INR1.9b).
- Volumes grew 121% YoY in 1QFY23.** The same was 8% higher than 1QFY20 levels. Record volumes were achieved, despite a number of supply-chain restrictions in the peak season.
- Gross margin fell 410bp YoY to 44.3%** (est. 48.5%) due to inflationary pressures seen in the prices of barley, packaging materials, and crude oil.
- As a percentage of sales, lower other expenses (down 240bp YoY) and employee expenses (down 480bp YoY), adjusted for one-off severance payments, **led to standalone EBITDA margin expanding by 310bp YoY to 11.6%** (est. 14.8%).

Highlights from the management commentary

- The management is targeting 6-8% volume growth on a steady-state basis in coming years.
- In addition to input costs, margin in 1QFY23 was impacted by a weak state mix.
- Raw material (including packaging) inflation remains very high. Barley prices are up ~70%, while the cost of new glass bottles remains elevated.
- Consumer price increases have been in the 3-7% range, with Maharashtra and Karnataka seeing increases at the lower end of the range. Markets, where price hikes have been granted, account for two-thirds of UBBL's countrywide volumes. States typically grant price increases in the first quarter of every fiscal.
- Higher input costs will impact 2Q, even more than 1Q, but the full extent of price hikes granted in 1QFY23 will offset some of that impact.

Earnings unlikely to see a strong growth; valuation stretched; retain Sell

- Changes to our model have led to 6.6% and 2.4% cut in our FY23/FY24 EPS estimate owing to higher-than-expected material cost pressures, even as volumes are likely to remain healthy.
- Consequently, UBBL is likely to post an EPS decline at the end of FY23 v/s four years ago (FY19), even as sales are likely to exceed FY19 levels.
- The stock is expensive at 64.4x FY24E EPS and 34.5x FY24E EV/EBITDA.
- UBBL's pre-COVID PBT CAGR for the five years ended FY20 stood at just 8.5%. Even as normalcy resumes, earnings are unlikely to witness strong growth. UBBL's return ratios were in the 18-19% range even during its best year (FY19), much lower than its Consumer peer average of over 30%. Even in FY24E, they are unlikely to exceed 15%.
- We maintain our **Sell** rating on the stock, with a TP of INR1,175 (targeting 25x Jun'24E EV/EBITDA).

Standalone quarterly performance

Y/E March	(INR m)											
	FY22				FY23				FY22	FY23E	FY23E	Variance
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		1QE	1QE	
Net Sales	11,180	14,262	15,809	17,069	24,367	17,114	17,073	18,513	58,384	77,067	21,000	16.0%
Change (YoY %)	120.6	58.4	22.6	10.6	117.9	20.0	8.0	8.5	37.7	32.0	87.8	
Gross Profit	5,404	7,380	7,899	8,310	10,784	7,873	8,024	9,071	29,123	36,014	10,185	5.9%
Margin (%)	48.3	51.7	50.0	48.7	44.3	46.0	47.0	49.0	49.9	46.7	48.5	
EBITDA	954	1,656	2,096	2,603	2,825	1,673	1,794	2,326	7,402	8,879	3,115	-9.3%
Change (YoY %)	L/P	309.6	6.7	-0.4	196.1	1.0	-14.4	-10.7	84	20.0	226.5	
Margin (%)	8.5	11.6	13.3	15.3	11.6	9.8	10.5	12.6	12.7	11.5	14.8	
Depreciation	552	556	529	532	575	630	650	700	2,172	2,556	600	
Interest	39	47	37	25	8	30	40	32	148	110	60	
Other Income	61	46	60	130	104	60	60	89	298	313	110	
PBT	425	1,098	1,590	2,176	2,345	1,073	1,164	1,682	5,117	6,526	2,565	-8.6%
Tax	117	291	421	547	554	270	293	527	1,376	1,645	646	
Rate (%)	27.4	26.5	26.5	25.1	23.6	25.2	25.2	31.3	26.9	25.2	25.2	
Adj. PAT	308	806	906	1,630	1,617	802	871	1,155	3,741	4,881	1,919	-15.7%
Change (YoY %)	L/P	1,911.2	-11.6	2.5	424.3	-0.5	-3.8	-29.1	136.3	30.5	522.1	
Margin (%)	2.8	5.7	5.7	9.5	6.6	4.7	5.1	6.2	6.4	6.3	9.1	

E: MOFSL estimates

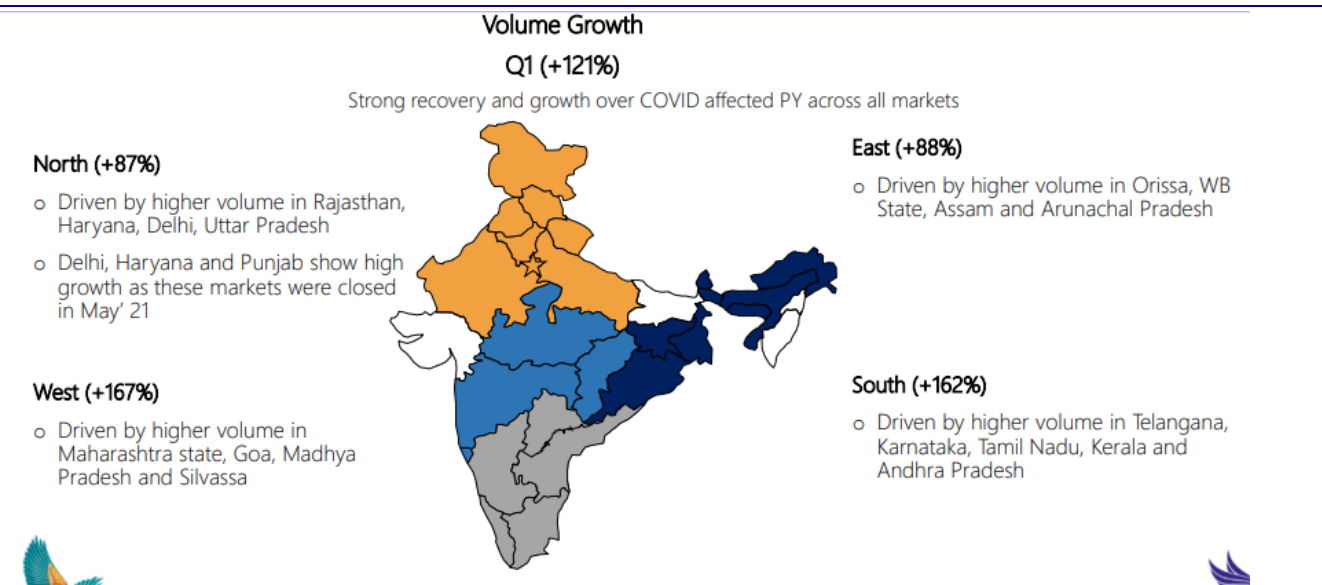
Key performance indicators

Y/E March	FY22				FY23
	1Q	2Q	3Q	4Q	1Q
Average growth in the last two years (%)					
Sales	22.7	7.7	5.6	9.5	119.3
EBITDA	-	115.3	-2.3	48.6	196.1
PAT	-	907.4	-7.9	144.2	424.3
As a percentage of Sales					
COGS	51.7	48.3	50.0	51.3	55.7
Employee Expenses	10.1	9.4	9.3	7.3	5.4
Other Expenses	29.7	30.7	27.4	26.1	27.3
Depreciation	4.9	3.9	3.3	3.1	2.4
Change (YoY %)					
COGS	113.6	60.1	32.9	18.2	135.1
Employee Expenses	-1.4	22.0	18.2	-6.1	15.7
Other Expenses	52.7	36.8	15.9	9.2	100.5
Other Income	331.9	-86.0	30.7	12.2	70.1
EBIT	-127.5	-628.9	13.0	4.1	458.7

Takeaways from the investor presentation and press release

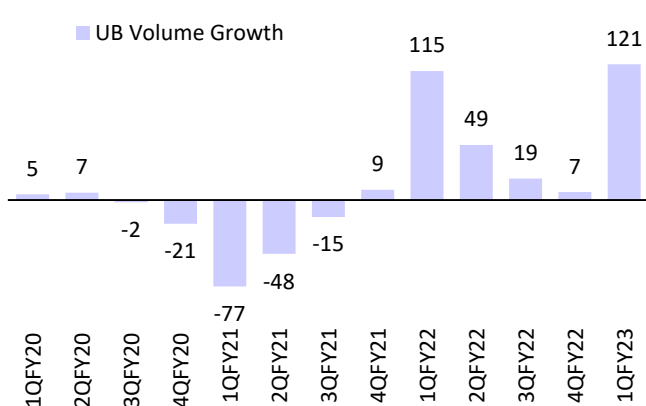
- The premium segment recorded growth ahead of its total portfolio.
- **Regional performance:** All regions recorded growth in 1QFY23 as compared to CY21 and CY19, except for South India, which recorded a growth from CY21 levels, but recorded a marginal drop against CY19 levels, impacted by a policy change by the Andhra Pradesh government.
- The management is focused on securing supplies, given the peak season and volatile commodity markets.
- Price increases have been realized in Haryana, Karnataka, Maharashtra, Madhya Pradesh, Odisha, Rajasthan, Telangana, and Uttar Pradesh.
- Capex in 1QFY23 stood at INR440m. The management is reviewing its capacity plans to meet future demand, given the volume growth in 1QFY23.

Exhibit 1: Regional volume performance



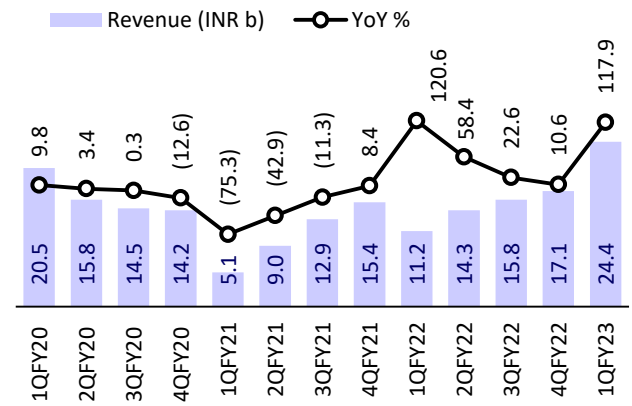
Source: Company presentation

Exhibit 2: Volumes grew 121% YoY in 1QFY23



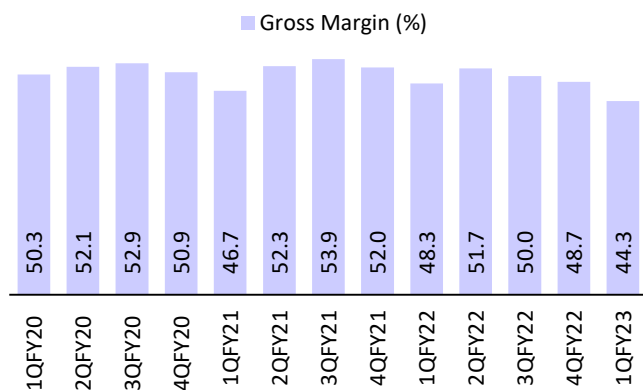
Source: MOFSL, Company

Exhibit 3: Revenue grew 117.9% YoY in 1QFY23



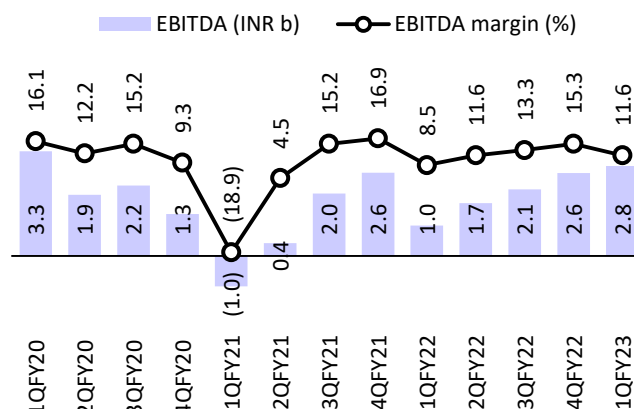
Source: MOFSL, Company

Exhibit 4: Gross margin contracts by 410bp YoY...



Source: MOFSL, Company

Exhibit 5: ...while EBITDA margin expands by 310bp in 1QFY23



Source: MOFSL, Company



Highlights from the management interaction

Performance and outlook

- There were some supply chain issues during the peak season which affected performance. Some states imposed export restrictions when demand was high.
- The hot summer in a few states also aided sales growth.
- Uttar Pradesh, Haryana, West Bengal, and Odisha have done well v/s three years ago while Maharashtra has not.
- 8% absolute volume growth v/s 1QFY19 (14% excluding Andhra Pradesh from the base which saw a change in excise policy) not very encouraging.
- The salience of premium beer to UBBL's total sales remains at high-single-digits.
- The management targets 6-8% volume growth on a steady state basis in coming years.

Costs and margin

- In addition to input costs, margins for the quarter were impacted by a weak state mix.
- Raw material (including packaging) inflation remains very high. Barley prices are up by ~70%, while the cost of new glass bottles is also elevated.
- Consumer price increases have been in the range of 3-7% with Maharashtra and Karnataka seeing increases at the lower end of the range. Markets where price hikes have been granted account for two-thirds of UBBL's countrywide volumes. States typically grant price increases in the first quarter of every fiscal year.
- Higher input costs will impact 2QFY23 even more than 1QFY23 but the full extent of price hikes granted in 1QFY23 will offset some of that impact.

Review of operations

- There may be some disruption following Heineken's review of commercial operations in Tamil Nadu and Andhra Pradesh (~10% of sales put together).

Other points

- Capex guidance of INR2.5b in FY23 which is likely to be at higher levels beyond.

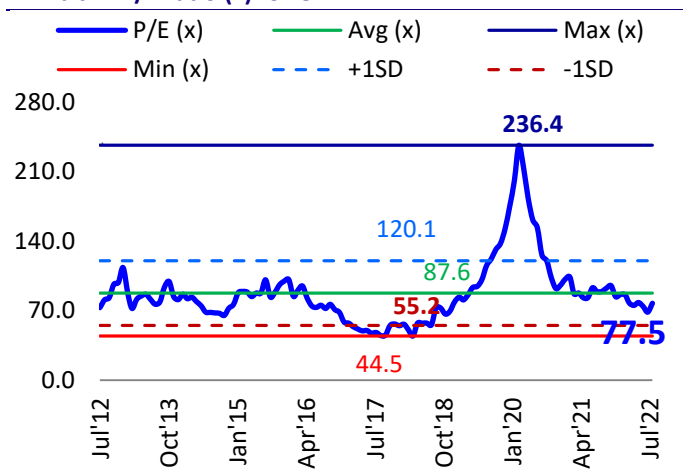
Earnings unlikely to post strong growth; valuation stretched; Sell

- Changes to our model have led to 6.6% and 2.4% cut in FY23E/FY24E EPS owing to higher-than-expected material cost pressures even as volumes are likely to remain healthy.
- Consequently, UBBL is likely to have four years of flat EPS growth at the end of FY23E even as sales are likely to exceed FY19 levels.
- The stock is expensive at 64.4x FY24E EPS and 34.5x FY24E EV/EBITDA.
- UBBL’s pre-COVID PBT CAGR for the five years ended FY20 stood at just 8.5%. Even as normalcy resumes, earnings are unlikely to witness strong growth. UBBL's return ratios were in the 18-19% range even during its best year (FY19), much lower than its consumer peer average of over 30%. Even in FY24E, they are unlikely to exceed 15%.
- We maintain our **SELL** rating on the stock with a TP of INR1,175 (targeting 25x Jun’24E EV/EBITDA).

Exhibit 6: Revise our FY23/FY24 PAT by -6.6%/-2.4%

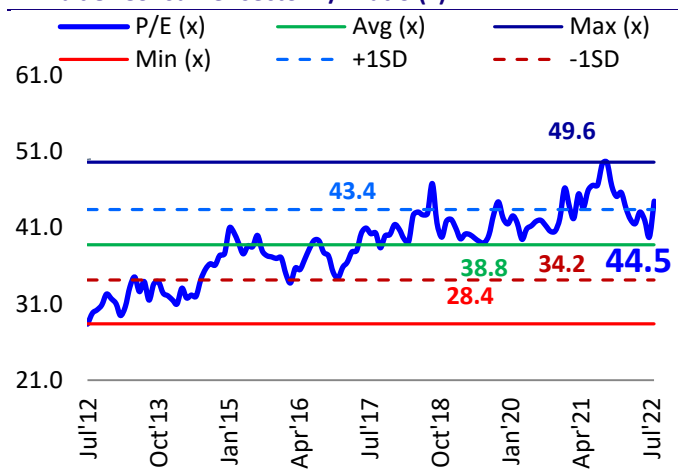
INR m	New estimates		Old estimates		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Total Income	77,067	84,774	74,732	82,953	3.1	2.2
EBITDA	8,879	12,043	9,558	12,185	(7.1)	(1.2)
Adjusted PAT	4,875	6,651	5,222	6,816	(6.6)	(2.4)

Exhibit 7: P/E ratio (x) for UBBL



Source: MOFSL

Exhibit 8: Consumer sector P/E ratio (x)



Source: MOFSL

Financials and valuations

Consolidated Income Statement							(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	56,196	64,754	65,092	42,431	58,384	77,067	84,774
Change (%)	18.1	15.2	0.5	-34.8	37.6	32.0	10.0
Raw Materials	26,315	30,077	31,511	20,294	29,261	41,053	42,285
As a percentage of Sales	46.8	46.4	48.4	47.8	50.1	53.3	49.9
Gross Profit	29,881	34,678	33,581	22,137	29,123	36,014	42,489
Margin (%)	53.2	53.6	51.6	52.2	49.9	46.7	50.1
Total Expenditure	47,170	53,371	56,334	38,620	50,982	68,188	72,731
As a percentage of Sales	83.9	82.4	86.5	91.0	87.3	88.5	85.8
EBITDA	9,025	11,384	8,758	3,811	7,402	8,879	12,043
Margin (%)	16.1	17.6	13.5	9.0	12.7	11.5	14.2
Depreciation	2,597	2,599	2,851	2,320	2,172	2,556	3,031
EBIT	6,429	8,785	5,907	1,491	5,230	6,324	9,012
Int. and Finance Charges	456	239	287	181	148	110	441
Other Income	105	247	69	456	298	313	328
PBT bef. EO Exp.	6,078	8,793	5,689	1,766	5,380	6,526	8,899
EO Items	0	0	0	-72	-263	0	0
PBT after EO Exp.	6,078	8,793	5,689	1,694	5,117	6,526	8,899
Total Tax	2,132	3,160	1,406	556	1,376	1,645	2,243
Tax Rate (%)	35.1	35.9	24.7	32.8	26.9	25.2	25.2
Less: Minority Interest	4	4	6	6	6	6	6
Adjusted PAT	3,942	5,629	4,277	1,132	3,735	4,875	6,651
Change (%)	71.7	42.8	-24.0	-73.5	229.9	30.5	36.4
Margin (%)	7.0	8.7	6.6	2.7	6.4	6.3	7.8

Consolidated Balance Sheet							(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	264	265	264	264	264	264	264
Total Reserves	26,638	31,572	34,938	35,558	39,087	43,962	47,527
Net Worth	26,903	31,838	35,203	35,823	39,351	44,227	47,791
Minority Interest	29	30	33	38	41	41	41
Deferred Tax Liabilities	182	114	0	0	0	0	0
Total Loans	3,121	2,115	1,691	1,154	0	5,000	500
Capital Employed	30,235	34,097	36,927	37,014	39,393	49,268	48,333
Gross Block	37,208	39,954	45,077	47,808	49,615	52,615	57,615
Less: Accum. Deprn.	20,152	22,425	26,058	28,378	30,550	33,106	36,137
Net Fixed Assets	17,056	17,529	19,019	19,430	19,065	19,509	21,478
Goodwill on Consolidation	242	242	242	65	65	65	65
Capital WIP	723	1,899	1,991	1,288	1,099	1,120	1,724
Total Investments	2	3	3	61	84	84	84
Curr. Assets, Loans, and Adv.	29,212	34,171	34,254	37,679	39,182	46,817	49,303
Inventory	8,080	10,325	10,939	11,367	9,358	15,979	11,892
Account Receivables	14,986	15,110	13,504	13,950	12,549	21,234	15,927
Cash and Bank Balance	242	462	786	4,693	9,097	1,425	12,898
Loans and Advances	5,904	8,275	9,025	7,669	8,178	8,178	8,587
Curr. Liability and Prov.	16,999	19,747	18,582	21,507	20,101	18,326	24,320
Account Payables	5,217	5,902	5,450	6,181	6,380	8,400	7,393
Provisions	11,782	13,845	13,131	15,326	13,721	9,926	16,927
Net Current Assets	12,212	14,424	15,672	16,171	19,081	28,491	24,983
Appl. of Funds	30,235	34,097	36,927	37,014	39,393	49,268	48,333

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)							
EPS	14.9	21.3	16.2	4.3	14.1	18.4	25.2
BV/Share	101.7	120.4	133.1	135.5	148.8	167.3	180.8
DPS	2.0	2.5	2.5	0.5	10.5	0.0	10.1
Payout (%)	13.4	11.7	15.5	11.7	74.3	0.0	40.0
Valuation (x)							
P/E ratio	108.7	76.1	100.1	378.3	114.7	87.8	64.4
Cash P/E ratio	65.5	52.1	60.1	124.1	72.5	57.6	44.2
P/BV ratio	15.9	13.5	12.2	12.0	10.9	9.7	9.0
EV/Sales ratio	7.7	6.6	6.6	10.0	7.2	5.6	4.9
EV/EBITDA ratio	47.8	37.8	49.0	111.5	56.6	48.6	34.5
Dividend Yield (%)	0.1	0.2	0.2	0.0	0.6	0.0	0.6
Return Ratios (%)							
RoE	15.7	19.2	12.8	3.2	9.9	11.7	14.5
RoCE	14.3	18.1	12.7	3.5	10.6	11.2	14.3
RoIC	14.5	18.5	13.5	3.1	12.7	12.5	16.8
Working Capital Ratios							
Asset Turnover (x)	1.9	1.9	1.8	1.1	1.5	1.6	1.8
Inventory (Days)	51	52	60	96	65	60	60
Debtor (Days)	91	85	80	118	83	80	80
Creditor (Days)	32	31	32	50	39	35	34
Leverage Ratio (x)							
Debt/Equity ratio	0.1	0.1	0.0	0.0	0.0	0.1	0.0

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	6,078	8,793	5,689	1,694	4,944	6,526	8,899
Depreciation	2,597	2,599	2,851	2,320	2,172	2,556	3,031
Interest and Finance Charges	471	306	305	224	146	110	441
Direct Taxes Paid	-2,534	-3,898	-1,903	-823	-1,301	-1,233	-1,682
(Inc.)/Dec. in WC	-1,265	-1,101	-2,196	2,976	2,994	-17,327	9,992
CF from Operations	5,346	6,699	4,746	6,392	8,956	-9,368	20,682
Others	287	-269	332	-189	40	0	0
CF from Operations incl. EO	5,633	6,430	5,078	6,203	8,996	-9,368	20,682
(Inc.)/Dec. in FA	-2,014	-4,366	-4,033	-1,498	-1,728	-2,980	-4,980
Free Cash Flow	3,619	2,064	1,045	4,705	7,268	-12,348	15,702
Others	16	114	231	86	-10	-213	3,371
CF from Investments	-1,998	-4,252	-3,802	-1,412	-1,726	-3,193	-1,609
Issue of Shares	0	0	0	0	0	0	0
Inc./Dec. in Debt	-2,820	-1,006	115	61	-2,551	5,000	-4,500
Interest Paid	-507	-313	-268	-281	-181	-110	-441
Dividend Paid	-308	-640	-800	-663	-134	0	-2,660
Others	0	0	0	0	0	0	0
CF from Fin. Activity	-3,635	-1,959	-952	-884	-2,867	4,890	-7,601
Inc./Dec. in Cash	0	219	324	3,907	4,404	-7,671	11,472
Opening Balance	243	242	462	786	4,693	9,097	1,426
Closing Balance	242	462	786	4,693	9,097	1,426	12,898

E: MOFSL estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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