

## UNITED SPIRITS LIMITED

**HOLD**

**United Spirits Limited [USL]** is the market leader with ~ 58% market share in the Alcoholic Beverage Industry in India. The company has 19 millionaire brands and drives 95% of sales from its mainline brands.

- The company's management is aggressively working towards reducing the debt level of the company. It has recently sold 10.3 mn shares for Rs. 9 bn & completed a successful QIB of Rs. 16 bn. The current debt to equity ratio stands at 1.1 as compared to 3.3 times in the last financial year.
- USL is best placed to gain from the double digit volume growth in IMFL (Indian Made Foreign Liquor) mainly due to the strong demographics push, high entry barriers, wide product range and a strong distribution network.
- Prices of ENA (extra neutral alcohol), which is the largest input for USL, have been stable over the past 9 months despite the continued inflation in sugar. Another large input glass has also seen stability in prices.
- Recently after a gap of 6 years USL was able to get 10% price hike in Andhra Pradesh (AP contributes 20% of USL volumes & is its largest contributing geography)
- The company has planned a capex of Rs. 6.5 bn over a period of 2 -3 years in multi-substrate plants, which could use either grain or molasses to produce rectified spirits.

Based on a P/E multiple of 31, the fair value per share for the company works out to Rs. 1500.

### Financial Snapshot

Projections (Rs mn)	FY09	FY10E	FY11E	FY12E
Net Revenue	54,439	64,782	75,147	87,922
Y-o-Y Growth %	19%	19%	16%	17%
Operating Profit	4,933	10,076	13,270	15,109
Y-o-Y Growth %	-58%	104%	32%	14%
PAT	-4,088	2,690	4,791	6,083
Y-o-Y Growth %	-250%	-166%	78%	27%
EPSRs	(39.69)	21.4	38.1	48.4
BVPSRs	231.6	213.2	251.3	299.8
OPM %	9.1%	15.6%	17.7%	17.2%
NPM %	-7.5%	4.2%	6.4%	6.9%
RoE %	-17.1%	10.0%	15.2%	16.2%
PERx	-	62	35	28
P/B Ratio	5.8	6.3	5.3	4.4

Recommendations	<= 1 year	1 - 2 yrs	2 - 5 yrs
Strong Buy			
Buy			
Hold			
Reduce			
Sell			

**Strong Buy** – Expected Returns > 20% p.a.  
**Buy** – Expected Returns from 10 to 20% p.a.  
**Hold** – Expected Returns from 0 % to 10% p.a.  
**Reduce** – Expected Returns from 0 % to 10% p.a. with possible downside risk  
**Sell** – Returns < 0 %



### STOCK DATA

BSE / NSE Code	532432/MCDOWELL-N
Bloomberg Code	UNSPIN Equity
No. of Shares (Mn)	102.9
Sensex / Nifty	16,191 / 4,845

### PRICE DATA

CMP (As on 19th Feb '10)	1,332.90
Beta	0.81
Market Cap ( Rs mn)	137,155
52 Week High-low	1417 / 532
Average Daily Volume	380,349

### STOCK RETURN (%)

	30D	3M	6M	1Y
United Spirits Ltd	5%	14%	53%	125%
Sensex	-7%	-4%	9%	81%
Nifty	-7%	-3%	10%	76%

### SHARE HOLDING PATTERN (%)

Promoter	29.2
Institution	53.7
Non Institution	17.2
<b>Total</b>	<b>100.0</b>

### 1 Year Price Performance (Rel. to Sensex)



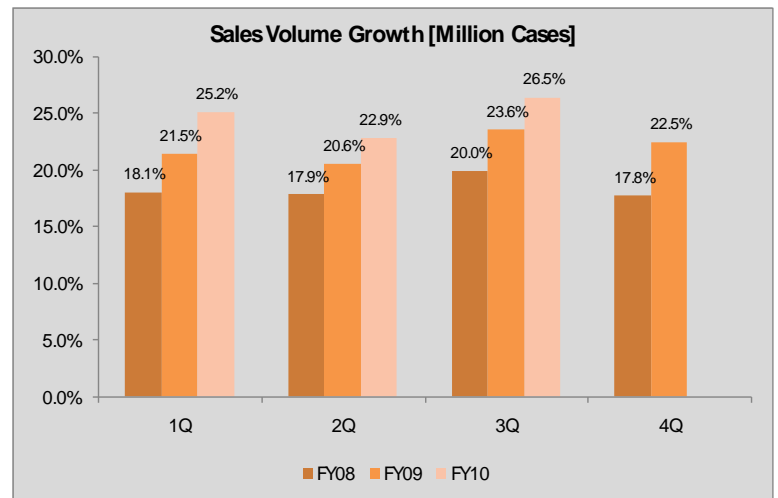
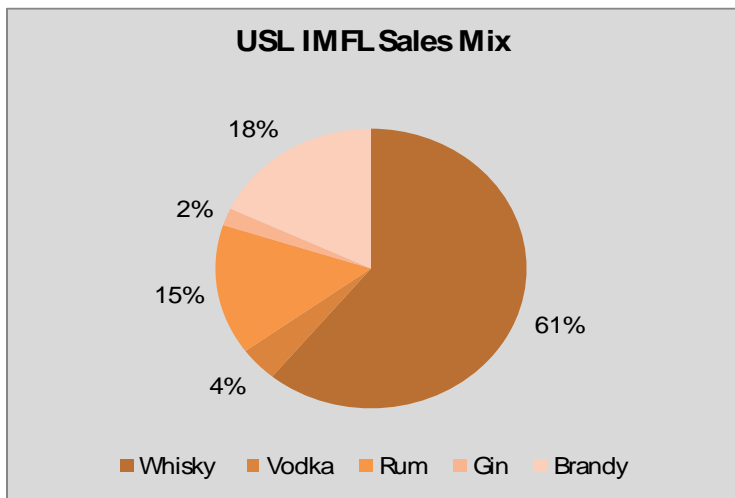
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## BUSINESS PROFILE

USL is the largest spirits company in the branded spirits market of India, and is the second largest spirits group in the world. It has leading brands across all categories and price segments. It has 19 millionaire brands, out of nearly 140 brands that the company owns. It enjoys a market share of ~58% with over 98 mn cases of liquor sold in India. USL has its manufacturing and bottling presence in every state in India, supported by a vast distribution and marketing network across the country. It has 27 owned manufacturing units and 40 contract manufacturing facilities while reaching nearly 54,000 retail outlets in the country. USL exports its products to 18 countries. The company has an aggressive acquisition strategy. It has acquired the second largest Indian liquor manufacturer - Shaw Wallace, a French winemaker Bouvet Ladubay and, the fourth largest Scotch whisky player in the world, Whyte & Mackay (W&M).

**USL enjoys 58% market share and has sold approximately 98 mn cases this year, and has become the second largest spirits group in the world.**



### Recent acquisitions to fuel growth and help in repayment of debt

W&M continues to perform decently with ~6% growth Y-o-Y and has an EBITDA of ~GBP 53 mn in 9M FY10. In FY09, it had an EBITDA of GBP 56 mn and is likely to end the year at GBP 58 mn. The value of inventory is higher than that of the acquisition cost as scotch prices have hardened by 50% since then. 'Tern Distilleries' – an Indian based distillery was acquired by USL in the quarter for Rs. 134.2 mn to address the supply-demand imbalances in Tamil Nadu. Tern has an active secondary distillation facility and a currently inactive primary distillation facility, which USL plans to reactivate shortly. Recent price hikes and distribution benefits coming from the Tern acquisition should lead to margin expansion for USL from Tamil Nadu, which is a big market.

**Recent acquisitions will help in margin expansion**

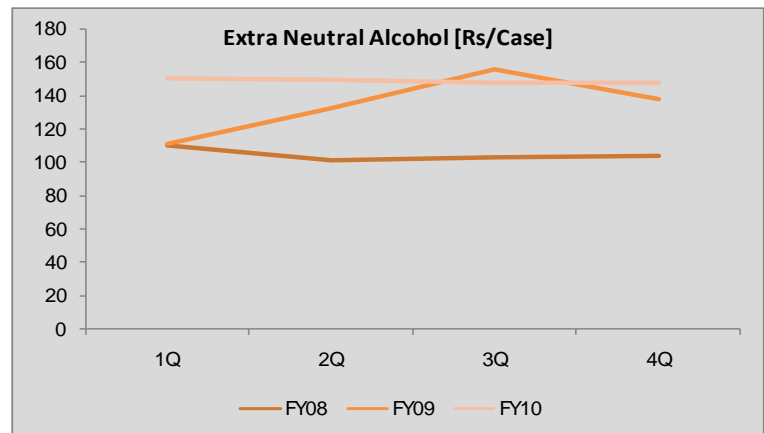
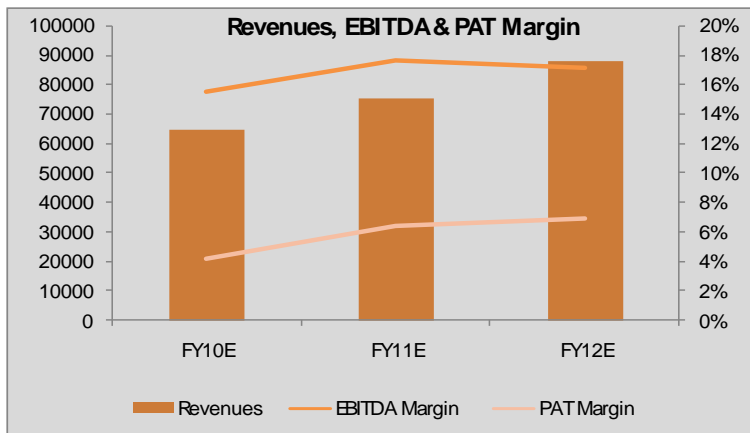
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## BUSINESS PERFORMANCE

### Raw material cost Inflation and clear capex requirements

The worst of raw material price inflation is over for USL, as raw material prices have now stabilized after rising sharply in the past 15-18 months. Prices of ENA (extra neutral alcohol), which is the largest input for USL, have been stable over the past 9 months despite the continued inflation in sugar. We are at the peak of the molasses price up-cycle, and hence USL's margins have little downside from the current levels. Normal rainfall next year could bring down molasses prices, which would be a big boost to the USL's margins. USL plans to invest Rs. 2.5bn over each for the next 3 years, to build multi-substrate ENA capacity, which will be able to take both grain and molasses as inputs to produce ENA.

**ENA prices have not been able to rise beyond their current levels as there is a fundamental shift in ENA production.**



### Peer Comparison

USL is the market leader with ~58% market share & has a wide product range with strong distribution network, which is way ahead as compared to competitors. The company has recently done debt restructuring and its debt to equity currently stands at 1.1 times. USL is confident of maintaining its track record of prepaying its long term debt. With the recent price hike in Andhra Pradesh, The company expects to hike the prices in other states as well.

**Currently the debt level is at a comfortable level of Rs. 49 bn. It still holds 7.6 mn treasury shares, which can be further used for repayment if required.**

### Peer Group Comparison

Companies	Revenues (Rs mn)	Operating Margins %	PAT Margins %	ROE	P/E(x)	P/B(x)	CMP	FV
United Spirits Ltd	54,439	9.1%	-7.5%	-17%	-	5.8	1332.9	10
Radico Khaitan	6,960	13.1%	0.9%	3%	35.6	5.3	112.1	2
Tilaknagar Industries	2,332	18.8%	9%	39%	13.1	4.6	101	10

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## VALUATIONS

We believe that USL has a strong management team, which has already shown excellent execution skills in terms of debt restructuring. Also the management holds 7.6 mn treasury shares, which can be used for further debt repayment if required. The Whyte and Mackay acquisition will start contributing positively due to repayment of debt in the holding company. The operating performance has improved, and the trend is likely to continue on the back of strong volume growth and benign cost environment. At the CMP of 1332.9 the stock trades at 35 x of FY11E and 28x FY12E.

**Based on a P/E multiple of 31, the fair value for the company comes to Rs. 1500.**

**Based on a P/E multiple of 31, the fair value per share for the company works out to Rs. 1500.**

We recommend a '**HOLD**' rating on the stock.

### Financial Analysis and Projections

Particulars(Rsmn)	FY2009	FY2010E	FY2011E	FY2012E
Net Revenue	54,439	64,782	75,147	87,922
Other Income	1,038.4	1,250.0	1,500.0	1,800.0
Stock Adjustments	1,863.2	1,200.0	1,400.0	1,000.0
Total Income	57,340	67,232	78,047	90,722
Operating Expenditure	52,408	57,156	64,777	75,613
Depreciation	926	937	1,100	1,350
Operating Profit	4,933	10,076	13,270	15,109
Operating Margin (%)	9.1%	15.6%	17.7%	17.2%
Interest	7,176	5,000	4,800	4,400
Profit Before Tax	-3,169	4,139	7,370	9,359
Less: Tax	1,815	1,449	2,580	3,276
Profit After Tax	-4,085	2,690	4,791	6,083
PAT Margin (%)	-7.5%	4%	6%	7%
ROE (%)	-17.1%	10.0%	15.2%	16.2%
EPS (Rs)	(39.69)	21.4	38.1	48.4
BVPS (Rs)	231.6	213.2	251.3	299.8
<b>Valuation Ratios(x)</b>			<b>FY2011E</b>	<b>FY2012E</b>
P/E			35	28
P/B			5.3	4.4

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## Board Of Directors

Director Name	Current Position	Description
V K Rekhi	Managing Director	Mr. V. K. Rekhi is Managing Director, Executive Director of United Spirits Ltd. His Qualifications includes: MA(HONS), PGDBA. He was Regional Director, UB International Limited., U.K.
Subash Raghunath Gupte	Non Executive Vice Chairman	Mr. Subhash Raghunath Gupte serves as Non-Executive Vice Chairman of the Board of United Spirits Ltd. He is a Chartered Accountant. Mr. Gupte has worked with Caltex India Limited for five years in various capacities. Mr. Gupte has also worked with Air India for 24 years and took over as Acting Chairman and Managing Director from July 17, 1990. He was also Chairman of Hotel Corporation of India till November, 1991. Mr. Gupte has been with the UB Group for the last 15 years.
Vijay Mallya	Non Executive Chairman	Dr. Vijay Mallya serves as Non-Executive Chairman of the Board of United Spirits Ltd. He holds a Ph.D. in Business Administration, is a well-known Industrialist and a Member of the Parliament (Council of States). He took over the reins of the United Breweries Group in 1983 at the young age of 28, which today is a multi-national conglomerate. Dr. Mallya is the Chairman of several public companies both in India as well as overseas. His Other Directorships includes: Aventis Pharma Limited, Bayer CropScience Limited, Kingfisher Airlines Limited, Mangalore Chemicals and Fertilizers Limited, McDowell Holdings Limited, Shaw Wallace & Company Limited, United Breweries Limited, United Breweries (Holdings) Limited, Deccan Charters Limited, Four Seasons Wines Limited, Shaw Wallace Breweries Limited, United Racing and Bloodstock Breeders Limited, Royal Challengers Sports Private Limited, Kamsco Industries Private Limited, Mallya Private Limited, Millennium Alcobev Private Limited, Pharma Trading Company Private Limited, The Gem Investment & Trading Co Private Limited, United East Bengal Football Team Private Limited, United Mohun Bagan Football Team Private Limited, VJM Investments Private Limited, DCL Holdings Private Limited, Motorsports Association of India, SWEW Benefit Company.
BM Labroo	Non Executive Director	Mr. B.M. Labroo serves as Non-Executive Independent Director of United Spirits Ltd. He is an Industrialist and has wide experience in Marketing, Finance and Corporate Governance. Mr. Labroo is an M.A. in Political Science from Punjab University and is the promoter and Chairman of Asahi India Glass Ltd. He serves as Director of Asahi India Glass Ltd., Allied Fincap Services Pvt. Ltd., Flavours & Food (India) Pvt. Ltd., Maltex Malsters Ltd., Nishi Electronics Pvt. Ltd., North-West Distilleries Pvt. Ltd., Samir Paging Systems Ltd., Shield Autoglass Ltd. Mr. B.M. Labroo is the Chairman of the Compensation Committee and a Member of the Audit Committee and Shareholders/Investors Grievance Committee of the Company. Mr. B.M.Labroo is the Chairman of the Investor Grievance Committee of Asahi India Glass Ltd.
Sudhir Krishnan Khanna	Non Executive Independent Director	Mr. Sudhinder Krishan Khanna serves as Non-Executive Independent Director of United Spirits Ltd. He is a qualified Chartered Accountant. He ranked 3rd in the UK in the Intermediate Examination of the Institute of Chartered Accountants in England & Wales and in the Finals with the prize of the best paper in Law. Mr. Khanna joined Accenture, London as a Senior Consultant in the year 1977 and promoted to Partner in 1986. Mr. Khanna was appointed as additional Director of the United Spirits Limited on June 01, 2007.
M.R Doraiswamy Iyengar	Non Executive Independent Director	Mr. M.R Doraiswamy Iyengar serves as Non-Executive Independent Director of United Spirits Ltd. He is a Fellow of The Institute of Chartered Accountants of India and a Graduate in Law. Mr. Doraiswamy Iyengar was a Senior Partner in M/s.K.V.Narasimhan & Co., Chartered Accountants, in Bangalore. He has been in practice since 1965 having wide experience in Audits and Taxation. He serves as Director of McDowell Holdings Limited, Dirak (India) Panel Fittings Private Limited, K.L.Koh Enterprises (India) Private Limited, Sand Profiles India Pvt. Ltd., Vittal Investments Private Limited. Mr. M.R Doraiswamy Iyengar is the Chairman of the Audit Committee and Shareholders/Investors Grievance Committee of the Company and a Member of the Compensation Committee of the Company. Mr. M.R Doraiswamy Iyengar is the Chairman of the Audit Committee of McDowell Holdings Limited.
Sreedhara Menon	Non Executive Independent Director	Mr. Sreedhara Menon serves as Non-Executive Independent Director of United Spirits Ltd. He is the Chairman of the Board and Strategic Advisor of VITEOS Capital Market Services Limited, a business Process Outsourcing Company in India with a Sister Company located at Piscataway, New Jersey, U.S.A. Mr. Menon has previously held senior positions as Deputy President and Member of the Board of Directors of American Express Bank Limited, Chairman of the Board of Directors of American Express Bank International, Managing Director, Emerging Markets Group at Lehman Brothers Inc., New York and General Partner and Vice Chairman of RRE Ventures, LLC. Mr. Menon has served; as a Member of the Board of Directors of U.S.-India Business Council, Asean-U.S. Business Council, President of the India- America Chamber of Commerce in New York, etc. Mr. Menon holds Masters Degree in Economics from Maharaja's College of the University of Kerala, India. He resides in Short Hills, New Jersey, U.S.A.

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