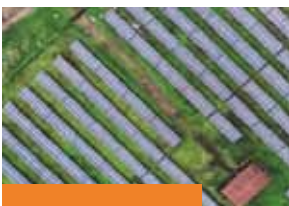
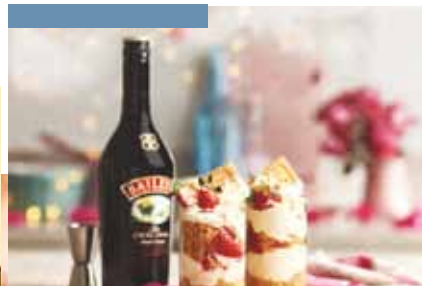


UNITED SPIRITS

A DIAGEO Group Company

Spirit of Progress



Accumulate

Key Data

DATE	04-10-2023
BSE Code	532432
NSE Code	MCDOWELL-N
Reco Price	990-995
Target	1198
Sector	Alcoholic Beverages
Face Value (Rs.)	2
Market Cap (Mn)	7,23,365
52-week High/Low (Rs)	1073/731

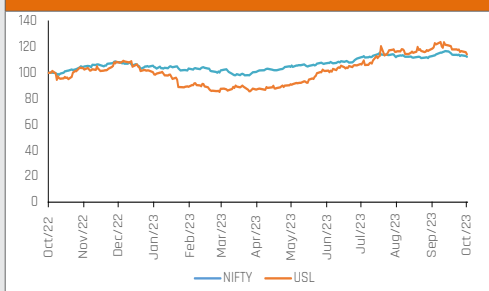
Source : NSE, BSE

Shareholding pattern (June-2023)

	%
Promoters	56.68
DIIs	12.64
FIIIs	15.98
Public	14.77
Total	100.00

Source : NSE, BSE

Price Performance



Rebase to 100

Retail Research

E: retailresearch@acm.co.in

D: +91 22 2858 3208

United Spirits Ltd.

Company Background

United Spirits Ltd. (USL) is one of the country's leading beverage alcohol companies and a subsidiary of the global leader, Diageo PLC, holding a 55.88% stake. The company is, engaged in the manufacturing, procurement, and sale of beverage alcohol through tied-up manufacturing units and strategic brand franchises. It boasts a comprehensive brand portfolio, featuring over 63 brands of Scotch whisky, IMFL whisky, brandy, rum, vodka, and gin. Eight of these brands sell more than a million cases annually. The company's brands span across various price points, operating in all segments, including Popular, Prestige, Premium, and Luxury. Additionally, the company holds the perpetual right to the Bangalore Franchise of the Board of Control for Cricket in India-Indian Premier League. United Spirits Ltd is the first spirits company in India and the second-largest spirits company in the world. Its mission is to become the top-performing Consumer Packaged Goods (CPG) Company in India, delivering sustained double-digit, profitable top-line growth, and long-term value creation to all stakeholders.

Outlook and Valuation

United Spirits leads the Alcobev industry in India with a robust portfolio and benefits from the guidance of its parent company, Diageo plc. Diageo continues to bolster the company through changes in distribution and management, a revamped brand promotion strategy, improved supply chain efficiency, a focus on a lean portfolio, engagement with the government, efforts to enhance the work culture, and initiatives to drive gender diversity. The company appears to be on course to achieve its medium-term objective of double-digit topline growth and mid-high teens EBITDA%, driven by cost optimization, better revenue mix and improved pricing strategies. Looking ahead, **we anticipate the company's revenue to grow at a CAGR of approximately 12.5% over FY23-FY26E (rebased number), supported by high consumption and demand. Therefore, we recommend a Accumulate rating for United Spirits Limited, with a target price of Rs 1198 based on FY26E EPS of Rs 21.8 and a forward PE valuation multiple of 55.**

Financial Snapshot (Standalone Rebased)

Particulars (in Mn.)	FY23	FY24E	FY25E	FY26E	CAGR % (FY23 - FY26E)
Sales	96,770.0	1,08,382.4	1,21,930.2	1,37,781.1	12%
EBITDA	13,050.0	15,715.4	18,289.5	21,356.1	18%
Adjusted PAT*	7,942.0	11,117.1	13,344.8	15,886.8	25%
EPS	10.9	15.3	18.3	21.8	25%

Source: Company, ACMIIL Retail Research

Company at a Glance

- Leadership position in the spirits industry in India.
- It boasts a robust and diversified product portfolio with well-established brands.
- A focus on premiumization.
- A strong promoter group along with an experienced management team.
- An improving financial profile with significant deleveraging.

Company & Business Overview

United Spirits Limited is India's largest alcoholic beverage company and ranks among the country's leading consumer goods enterprises. United Spirits Limited (USL) commands a significant presence in the Indian spirits industry, holding more than a 25% market share. This achievement can be attributed to the company's robust brand value, diverse product portfolio spanning various categories and price ranges, and extensive nationwide presence.

The company is engaged in the manufacturing, sale, and distribution of alcoholic beverages, producing and selling approximately 72 million cases annually. Notable brands owned by the company include McDowell's No.1, Royal Challenge, Royal Challenge American Pride, Signature, Antiquity, Black Dog, Director's Special Black, McDowell's Rum, and McDowell's Brandy. Additionally, the company imports, manufactures, distributes, and sells renowned Diageo brands such as Haig Gold Label, Captain Morgan, Johnnie Walker, J&B, Baileys, Lagavulin, Talisker, VAT 69, Black & White, Smirnoff, and Ciroc in India through various licensing agreements.

United Spirits Limited boasts a robust distribution network (more than 70,000 outlets), with more than 80%+ of its sales coming from the Prestige and Above (P&A) portfolio out of the total branded spirits sales. The operationally-owned manufacturing units are located in Alwar (Rajasthan), Asansol (West Bengal), Aurangabad (Maharashtra), Baramati (Maharashtra), Nashik (Maharashtra), Gopalpur-On-Sea (Orissa), Nimapara (Orissa), Hyderabad I (Nacharam, Telangana), Hyderabad II (Malkajgiri, Telangana), Kumbalgotu (Karnataka), Ponda (Goa), and Nanded (Maharashtra) (formerly known as Pioneer Distilleries Limited Unit). Diageo PLC acquired a majority stake in the company in 2013, leading to significant restructuring efforts such as divesting non-core assets, including the sale of its entire stake in United Breweries (UB) to Heineken. Under Diageo's ownership, the company has focused on the premium spirit segment by introducing new products, reducing debt, and improving working capital management. Currently, Diageo PLC holds approximately 56% shareholding in United Spirits Limited.

In April 2022, United Spirits Limited completed the acquisition of Nao Spirits & Beverages Private Limited by investing Rs. 315 million, resulting in a 22.5% ownership interest in Nao Spirits. The proposed merger of Pioneer Distilleries Limited and United Spirits Limited gained approval from equity shareholders and unsecured creditors, paving the way for further strategic advancements. The Pioneer Distillery will fulfill 30% of the ENA requirement.

Business Segments

United Spirits Limited (USL) classifies its brands into two categories:



Prestige & Above: Some of the premium brands



Source: Company, ACMIIL Retail Research

Popular: Slump Sale of 32 popular brands & Franchise of 11 brands

32 Brands - slump sale agreement			Brands - Franchise agreement
Sales: Rs 760 Cr, EBITDA: Rs 118 Cr			Sales: Rs 622, EBITDA: Rs 77 Cr
Amber	Green Label	Men's club	Bagpiper
Black Stallion	Haywards	Old tavern	Black Riband
Bombay Deluxe	Honey bee	Old Adventurer	Blue Riband
Derby	John Exshaw/ Exshaw	Regal Crest	Carew's
Diplomat	Joi De Franc	Romanov	Duet
Doctor's brandy	Kerala Malted	VIN	Gold Riband
Doctor's special	Kissan	White Mischief	old Cask
Doctor's day and night	Louis Vernant	French VSOP	Red Riband
Golconda	Louis XI	Bonaparte VSOP	Silk Riband
Gold Medal	Majestic	Tiger	Silver Riband
Golder Grape	Men's choice		White Riband

Source: Company, ACMIIL Retail Research

BIO (Bottled in Origin): The company will import and distribute various products of Diageo in India, including but not limited to the following brands: (a) Johnnie Walker and related variants, (b) J&B, (c) Ciroc, (d) Baileys, (e) Lagavulin, (f) Tanqueray, (g) Talisker, and more.

BII (Bottled in India): The company will manufacture and distribute specific products of Diageo brand, namely: (a) VAT 69, (b) Black & White, and more.

Revenue & Volume

Particulars (in mn)	FY22 Rebased	FY 23 Rebased
IMFL Revenue	80970	96760
Prestige & Above	68050	83580
Popular	11300	11400
Others	1620	1780
Cases		
Prestige & Above	43	48
Popular	13.3	12.7
Total IMFL volumes	56	60.3

Source: Company, ACMIIL Retail Research

Launch of New Products

- **Black Dog Whiskey:** Now available in 90% of top-line salience markets in its new form, showcasing a strong market presence.
- **Signature and Royal Challenge American Pride:** Strengthening their position in the upper prestige segment, enhancing the portfolio's premium appeal. Royal Challenge American Pride has achieved a presence in over 80% of nationally significant markets and is poised to become the quickest brand to reach one million cases.
- **Epitome Reserve Limited Editions:** United Spirits launched two limited editions of Epitome Reserve, a 100% rice whiskey, in Goa. These editions received positive responses and were successfully sold in the UAE, New Zealand, and Australia.
- **Antiquity and Royal Challenge Whiskey:** Antiquity's revamped packaging has reached nearly 50% of significant markets. Royal Challenge Whiskey's redesigned version continues to expand its market reach.
- **Johnnie Walker Blonde:** A global innovation launch, now available in nine states across the country, expanding its market footprint.
- **Godawan 100:** United Spirits introduced Godawan 100, a luxury single malt, to drive premiumization. Its presence has expanded to New York City and New Jersey.
- **Investment in Nao Spirits:** United Spirits invested in Nao Spirits, complementing their existing gin brands, Hapusa and Greater Than.



Source: Company, ACMIIL Retail Research

Investment Rationale

Pinnacle of Leadership in India's Spirits Industry

Diageo India stands as the country's leading beverage alcohol company, boasting an impressive collection of premium brands. USL has more than a 25% share in the Indian spirits industry. The company has a strong brand value, a wide product portfolio across various product categories, along with different price points and PAN India presence.

Established Brand with a Robust and Diverse Product Portfolio

The company benefits from strong brand awareness and a diverse product range spanning different price points, operating in premium, prestige, luxury, and popular segments. The company boasts approximately nine brands that achieved millionaire club status in FY23.

Elevated Emphasis on Premium Offerings & Expansion into New Geographies

The company has been focusing on premium drinks, which yield higher margins, ever since Diageo took control of the company a few years ago. Due to the trend of premiumization, the company exited a major chunk of the declining Popular segment market through a slump sale and franchise agreement. The company's primary objective is to expand into new regions and enhance distribution, and visibility in the markets where it has been introduced. The main strategies for building the brand involve creating unique experiences, partnering with events, and activating on-trade initiatives to engage consumers. The focus remains on encouraging more people to try the product through innovative services, events, and collaborations.

Macro Positives & Preference for IMFL

Alcohol consumption is on the rise in India, fueled by the growing aspirations of consumers exposed to global drinking trends during their travels. The Indian alcoholic beverages market is poised for significant expansion, with an anticipated 11% annual increase in value from 2021 to 2025. Increasing income levels and rapid urbanization are reshaping consumer preferences, emphasizing quality over price sensitivity. Due to the accessibility and affordability of premium brands, individuals are increasingly opting for Indian Made Foreign Liquor (IMFL) over locally produced spirits. IMFL revenue is expected to grow at CAGR of around 7% over the forecast period (FY20-FY25E).

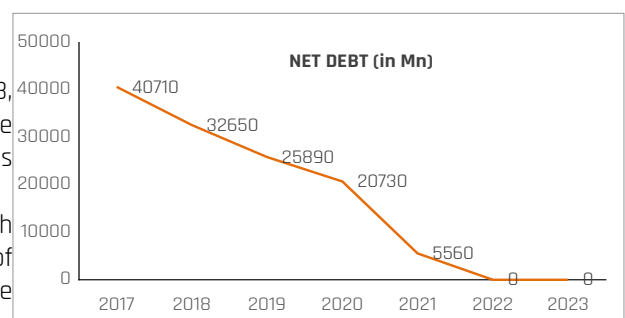
Surprise Tender offer to minority stakeholders will be beneficial in medium to long term

Recently, in May 2023, Diageo announced its decision to delist from Euronext Paris and Euronext Dublin (Irish Stock Exchange). In 2019, Diageo PLC conducted a tender offer and increased its stake in Sichuan Shuijingfang Ltd, a China-based liquor maker, from 60% to 70%. Additionally, there were rumours in May 2020 about USL's delisting through the acquisition of minority shareholders in India. In this context, if Diageo PLC surprises minority shareholders of USL with a tender offer, it could prove to be beneficial in the medium to long term to stake holders.

Healthy Financial Position through substantial reduction in Debt

The company has shown improvement in its balance sheet since 2018, becoming debt-free from the Rs 32,650 million debt it had in FY18. The company sold 32 popular entry-level brands to Inbrev Beverages for Rs 8,285 million.

This transaction was completed by September 30, 2022, generated cash for the company. The generated cash can be utilized for any kind of future capital expenditures or unexpected share buybacks, benefiting the shareholders.



Experienced Management Team Supported by a Strong Promoter Group

Diageo is headquartered in London, England, and operates across 132 sites worldwide. It stands as a global leader in the beverage alcohol industry, boasting an exceptional collection of brands in spirits and beer. The company is a major distributor of Scotch whisky and other spirits. Diageo-owned distilleries produce 40% of all Scotch whisky, featuring over 24 renowned brands including Johnnie Walker, J&B, and Vat 69.

Hina Nagarajan (CEO & MD of USL India) has accumulated over 30 years of experience in consumer packaged goods (CPG) businesses and has held various senior marketing and general management positions at Reckitt Benckiser (RB), Nestlé India, and Mary Kay India. Since joining Diageo in the summer of 2018, Hina has led Diageo's Africa Regional Markets (ARM), overseeing operations in Ghana, Cameroon, Ethiopia, the Indian Ocean, Angola, and several other countries. Under Hina's leadership, ARM has emerged as a significant growth driver for Diageo Africa.

ESG Focus approach

USL is dedicated to addressing alcohol-related harm and promoting responsible drinking through various programs that target under-age consumption, the impacts of drink driving, and alcohol moderation. The primary focus is on fostering a change in attitude towards alcohol.

Recent initiatives have been designed with sustainability in mind, including Godawan, which aims to preserve ecology with a special emphasis on water and biodiversity conservation. The company has begun the phased removal of mono-cartons from premium scotch brands such as VAT69, Black Dog, and Black & White. Glass constitutes the largest packaging material used at USL. The company has implemented an end-of-life glass bottle return system where it purchases empty bottles, sanitizes and refurbishes them, and reuses them to the extent that they can be consumed again. USL is actively working to enhance water circularity by promoting reuse and recycling. It has also improved water efficiency by 40% through enhanced recycling efforts and the exploration of alternative technologies for water use and reuse. The company supports farmers in adopting sustainable agricultural practices and developing alternative sourcing strategies and ingredients.

Spirit of Digital Transformation/Innovation as a Key Growth Driver

The pandemic stoked demand for premium liquor. In this context, the company has launched the portal inthebar.com, a digital platform for higher consumer engagement, offering ideas for celebrations and cocktail ideas for in-house consumption. The 'Raising the Bar' program is a comprehensive and sustained effort by Diageo India to provide essential support, resources, and training for bars, pubs, and restaurants as they navigate the challenges posed by the pandemic and work towards reopening and recovery. This program has been preliminary started in cities like New Delhi, Mumbai & Bengaluru.

Industry Overview

India is positioned as one of the world's fastest-growing liquor markets. Alcoholic beverages are viewed as a thriving industry due to their substantial growth prospects and the increasing level of social acceptance. The market for alcoholic beverages is projected to grow at CAGR of 8.86% (FY22-FY25E). The Indian alcoholic beverage industry is divided into several segments, such as IMFL (Indian Made Foreign Liquor), IMIL (Indian Made Indian Liquor), Wine, Beer, and imported alcohol. Whiskey notably dominates the Indian spirits sector, maintaining a significant lead in market share.

India continues to be an attractive market with stable macroeconomics, strong demographics (young population, urbanization, a growing middle class), and an attractive total beverage alcohol marketplace. It benefits from being one of the largest whisky markets by volume and is among the countries with the lowest per capita total beverage alcohol consumption in the world, presenting significant room for growth. Moreover, the growing and rapidly premiumising total beverage alcohol industry, along with new post-Covid consumer trends and emerging consumer cohorts, are expected to further drive premiumization in the category. These factors present an opportunity to accelerate top-line growth and gain market share in attractive profit pools while continuing to improve their margin.

The states of Karnataka, Maharashtra, West Bengal, Odisha, Telangana, Delhi, Haryana, Punjab, etc., are among the largest consuming states for Alcobev in India. The most popular channel for Alcobev sales in India is liquor stores, as its consumption is primarily an outdoor activity. It is also available at supermarkets and malls in tier-I and tier-II cities in India.

Growing Prevalence of Premium Alcobev:

Rapid urbanization is expected to increase disposable income, which is beneficial for the industry's expansion. Indian consumers are upgrading to premium sectors due to increased international travel, higher aspirations, a favorable climate for imported alcohol, and greater disposable income. The major players' increased focus on semi-premium and premium categories, along with more product launches and enhanced marketing of these categories, indicates a rise in premiumization. Another trend in the Alcobev market is the growing preference for alcoholic beverages made with grains over those made with molasses.

Rising Income and Purchasing Power:

India's consumption and growth story remains robust with rising incomes and purchasing power. It is also the youngest large economy in the world, with approximately 100 million 'new consumers' expected to reach the Legal Drinking Age in the next 5 years.

Additional key growth drivers

The Indian alcoholic beverage industry presents significant opportunities for spirits companies due to several factors:

Low per capita alcohol consumption in the country, indicates a vast untapped market with change in perception.

Furthermore, the aspirations of the growing younger population have resulted in a shift in preferences toward high-quality alcoholic beverages, including those with lower alcohol content. This changing preference aligns with the global trend toward healthier drinking choices.

The social landscape in India is evolving, with a rising acceptance of alcohol consumption.

The increasing number of pubs and bars across the country signifies a growing market for alcoholic beverages. Importantly, there is a noticeable increase in the number of women embracing alcohol consumption, reflecting a shift in societal norms.

Economic factors also play a vital role.

The revival of the Gross Domestic Product (GDP) is expected to further boost sales in the alcoholic beverage industry. Historically, Indian Made Foreign Liquor (IMFL) volumes have shown growth rates higher than the GDP when the overall economy experiences a surge. This indicates a positive correlation between economic growth and alcohol consumption, highlighting the industry's potential for expansion during periods of economic upswing.

The Recent GST tax cut on molasses is positive for alcohol manufacturing companies.

The GST Council recently decided to reduce GST on molasses to 5%, from 28%, and exempt alcohol for human consumption from the levy. This is positive for alcohol manufacturing & distributor companies like USL. Reduction in GST Tax may provide scope for profit margin improvement in the future.

A significant shift from country liquor to IMFL

It is primarily driven by growing health concerns associated with the consumption of country-made spirits. Organized players in the industry are well-positioned to benefit from this shift, capitalizing on the demand for safer and higher-quality alcoholic beverages.

Overall, these factors create a favourable environment for the growth of the Indian alcoholic beverage industry, offering substantial opportunities for both existing and new players in the market.

Story in Charts (Values in Mn.)

Exhibit 1: Sales Growth

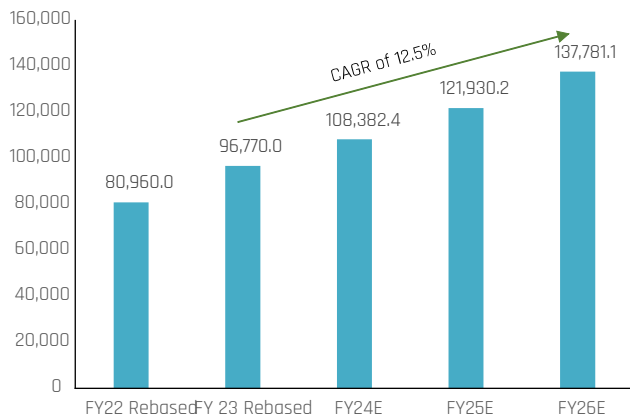


Exhibit 2: EBITDA

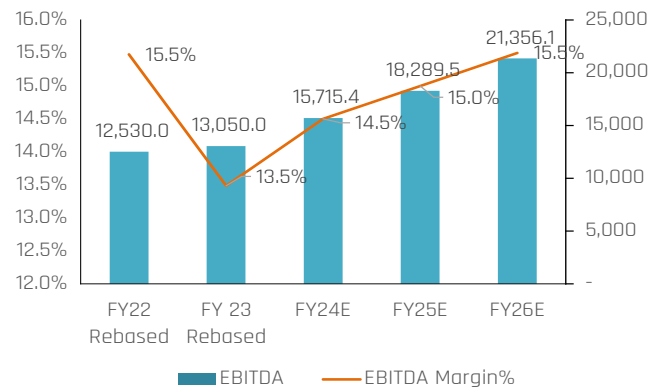


Exhibit 3: Adjusted PAT*

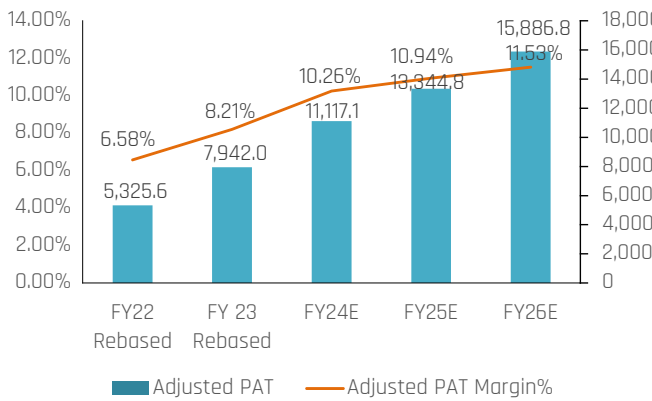


Exhibit 4: ROE

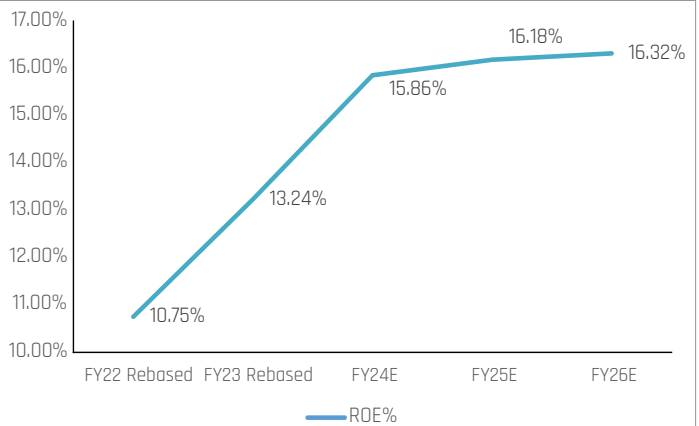


Exhibit 5: ROCE (%)

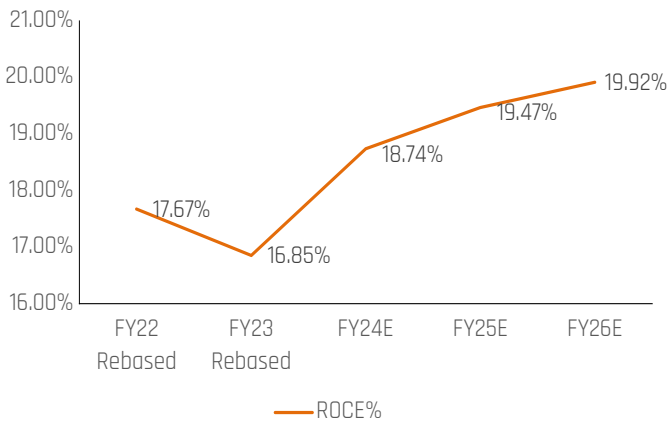
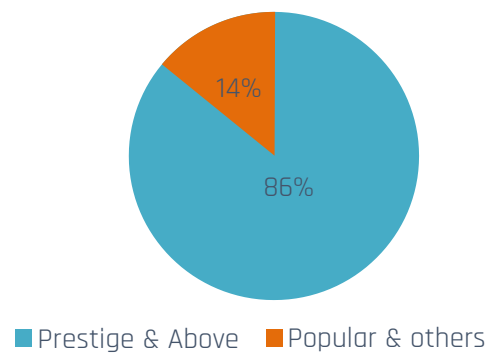


Exhibit 6: Revenue Mix (FY23)



Source: Company, ACMIIL Retail Research

Financial Statements

Rebased Standalone Profit & Loss Statement:

Particulars (in mn)	FY22 Rebased	FY 23 Rebased	FY24E	FY25E	FY26E
Sales	80,960.0	96,770.0	1,08,382.4	1,21,930.2	1,37,781.1
Expenses	68,430.0	83,720.0	92,667.0	1,03,640.7	1,16,425.1
EBITDA	12,530.0	13,050.0	15,715.4	18,289.5	21,356.1
EBITDA Margin%	15.5%	13.5%	14.5%	15.0%	15.5%
Other income	90.0	3,800.0	1,461.6	1,500.0	1,550.0
Depreciation	2,580.0	2,610.0	2,210.3	1,856.1	1,579.7
Interest	880.0	1,040.0	144.0	140.4	144.0
PBT	9,060.0	13,200.0	14,822.7	17,793.1	21,182.3
Tax	2,174.4	3,168.0	3,705.7	4,448.3	5,295.6
PAT	6,885.6	10,032.0	11,117.1	13,344.8	15,886.8
Adjusted PAT*	5,325.6	7,942.0	11,117.1	13,344.8	15,886.8
Adjusted PAT%*	6.58%	8.21%	10.26%	10.94%	11.53%
Adjusted EPS	7.3	10.9	15.3	18.3	21.8

Note: Adjusted PAT* has considered after extraordinary item
Source: Company, ACMIIL Retail Research

Risks and concerns

- Frequent and unplanned alterations by regulators in the market approach pose challenges for conducting business in the Beverage Alcohol Industry. Additionally, regulated pricing, tax structure adds a significant obstacle.
- Government regulations dictate pricing, with price hikes relying on government notifications. In states where retail is overseen by the state government, each player is assigned a specific quota, limiting the potential for their products to expand market share.
- The Karnataka tax might impact the short-term demand for certain products.

ACMIIL Retail Research Products

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Market Watch	Positional Calls
Investor First Magazine	Smart Delivery Calls
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Market Pulse	Master Trades High Risk
RBI Monetary Policy	Master Trades Medium Risk
Union Budget Report	Techno-Funda
Weekly Derivative Synopsis	Top Mutual Fund Schemes
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Asit C. Mehta

INVESTMENT INTERMEDIATES LTD.

Retail Research Desk

Email: retailresearch@acm.co.in

Research Analyst Registration Number:

INH000002483

CIN: U65990MH1993PLC075388

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