

United Breweries

BSE SENSEX	S&P CNX
38,970	11,709
Bloomberg	UBBL IN
Equity Shares (m)	264
M.Cap.(INRb)/(USDb)	377.5 / 5.4
52-Week Range (INR)	1494 / 1030
1, 6, 12 Rel. Per (%)	1/-/2/12
12M Avg Val (INR M)	954
Free float (%)	42.3

Financials & Valuations (INR b)

Y/E Mar	FY19	FY20E	FY21E
Net Sales	64.8	72.5	83.4
EBITDA	11.4	12.6	15.2
PAT	5.6	6.3	7.7
EPS (INR)	21.3	23.9	29.3
Gr. (%)	42.8	12.1	22.6
BV/Sh (INR)	119.8	140.5	166.0
RoE (%)	19.2	18.3	19.1
RoCE (%)	18.5	17.7	18.3
P/E (x)	67.1	59.8	48.8
EV/EBITDA (x)	33.2	30.0	25.0

Estimate change

TP change

Rating change



CMP: INR1,428

TP: INR1,430(0%)

Neutral

Earnings growth hits a bump, long-term outlook intact

- 4QFY19 standalone net sales grew 10.7% YoY (off a strong base) to INR16.3b (our est. INR16.5b). EBITDA declined 17.8% YoY to INR1.7b (our est. INR2.5b), while Adj. PAT declined 25.3% YoY to INR679m (our est. INR1.1b). Volumes are estimated to have grown at 9% with likely market share gains as well.
- Standalone Gross margins declined 220bp YoY (our est. -60bp) to 50.5% likely due to higher barley costs. Employee costs were up 10bp YoY to 7.6% while other expenses were up 130bp to 32.4%. Consequently, standalone EBITDA margins were down 360bp YoY to 10.5% (our est. 15.0%).
- FY19 consolidated performance:** Net Sales/EBITDA/PAT saw YoY increase of 15.2%/26.2%/42.8%. Gross margins improved 40bp YoY to 53.6% and EBITDA Margin by 150bp YoY to 17.6%. Strong FY19 PAT growth was on top of the 71.6% PAT growth seen in full-year FY18.
- Balance sheet details:** Working Capital was well managed with Net Working Capital increasing 9.4% v/s 15.2% increase in sales for the full year. Net debt declined sharply by 85% YoY. Negative factor in the balance sheet was the ~40% sharp increase in total other assets (incl. short term and long term).
- Valuation and view:** Significant expectations miss in 4QFY19 resulted in 10.9%/8.5% decrease in FY20/FY21 EPS. We had downgraded the stock to Neutral in Mar'19 citing likely sharp reduction in near-term earnings growth; this, after two stellar years of EPS growth (72% in FY18 and 43% in FY19). But, the EPS cuts have exceeded our earlier expectations. Near-term election related disruptions, rising barley costs and ongoing high capex intensity should limit EPS growth to ~12% in FY20. Nevertheless, long-term volume and earnings growth opportunity (FY19 PAT at only USD80m) is immense for India's largest beer player, especially in a sector with strong entry barriers in the form of distribution, brewery reach, scale and brands.
- Valuing the company at 25x FY21 EV/EBITDA (in line with peers), we get a target price of INR1,430. Maintain **Neutral**.

Standalone - Quarterly Earning Model

Y/E March	FY18				FY19				Consol.	Consol.	FY19	INR m
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY18	FY19	4QE	Variance
Net Sales	16,780	12,796	11,994	14,718	18,659	15,260	14,512	16,294	56,190	64,754	16,476	-1.1%
YoY Change (%)	7.3	23.4	17.3	32.3	11.2	19.3	21.0	10.7	18.7	15.2	12.1	
Gross Profit	8,817	6,907	6,272	7,762	10,095	8,485	7,739	8,230	29,876	34,678	8,588	
Margin (%)	52.5	54.0	52.3	52.7	54.1	55.6	53.3	50.5	53.2	53.6	52.1	
EBITDA	3,184	2,219	1,526	2,082	4,004	3,182	2,479	1,712	9,020	11,384	2,471	-30.7%
YoY Change (%)	9.4	83.1	19.3	105.9	25.8	43.4	62.4	-17.8	41	26.2	19	
Margins (%)	19.0	17.3	12.7	14.1	21.5	20.9	17.1	10.5	16.1	17.6	15.0	
Depreciation	649	650	650	648	637	656	665	639	2,597	2,599	761	
Interest	142	127	93	114	92	40	62	118	477	312	69	
Other Income	63	12	8	48	153	37	21	106	131	320	40	
PBT	2,456	1,454	791	1,368	3,428	2,523	1,772	1,062	6,078	8,793	1,681	-36.8%
Tax	837	515	317	459	1,208	885	681	383	2,132	3,160	555	
Rate (%)	34.1	35.4	40.1	33.6	35.3	35.1	38.4	36.0	35	35.9	33	
MI & P/L of Asso. Cos.	0	0	0	0	0	0	0	0	-4	-4	4.0	
Adj PAT	1,619	938	474	909	2,219	1,638	1,092	679	3,942	5,629	1,122	-39.5%
YoY Change (%)	10.1	246.9	-2.3	1,250.4	37.1	74.5	130.4	-25.3	71.7	42.8	23.5	
Margins (%)	9.6	7.3	4.0	6.2	11.9	10.7	7.5	4.2	7.0	8.7	6.8	

E: MOFSL Estimates

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Other highlights from press release

- Non-alcoholic beer (launched towards the latter part of the year) sales stood at INR81m for FY19.
- Full-year FY19 volume growth at 13% exceeded market growth.
- Most markets witnessed strong growth barring West Bengal and Uttar Pradesh.
- For FY19
 - a) North: UB saw significant volume growth in Rajasthan and Haryana; volumes in Delhi were flat. Volumes in UP declined due to capacity constraints.
 - b) South: Barring Karnataka, company saw double-digit volume growth in all states (Karnataka seems to be an issue only in 4QFY19).
 - c) East: Growth in the East was driven by Odisha and Jharkhand.
 - d) West: Key markets grew in single-digits, while Maharashtra witnessed double-digit growth due to lower base in 3QFY18.

Valuation and view

- Significant expectation miss in 4QFY19 resulted in 10.9%/8.5% decrease in FY20/FY21 EPS. We downgraded the stock to **Neutral** in Mar'19 citing likely sharp reduction in near-term earnings growth; this, after two stellar years of EPS growth (72% in FY18 and 43% in FY19). However, the EPS cuts have exceeded our earlier expectations.
- Near-term election related disruptions, rising barley costs and ongoing high capex intensity should limit EPS growth to ~12% in FY20. Nevertheless, long-term volume and earnings growth opportunity (FY19 PAT at only USD80m) is immense for India's largest beer player, especially in a sector with strong entry barriers in the form of distribution, brewery reach, scale and brands.
- Valuing the company at 25x FY21 EV/EBITDA (in line with peers), we get a target price of INR1,430. **Maintain Neutral.**

Significant expectations miss in 4QFY19, results in 10.9%/8.5% cut in FY20/FY21 EPS

INR M	New		Old		% Change	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Total Income	72,525	83,404	73,344	84,345	-1.1%	-1.1%
EBITDA	12,619	15,169	13,862	16,279	-9.0%	-6.8%
Adjusted PAT	6,312	7,739	7,080	8,458	-10.9%	-8.5%

Source: Company, MOSL

Financials and Valuations

Consolidated - Income Statement							(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Total Income from Operations	46,990	48,408	47,603	56,196	64,754	72,525	83,404
Change (%)	11.1	3.0	-1.7	18.1	15.2	12.0	15.0
Raw Materials	18,937	21,209	21,779	26,315	30,078	33,687	38,403
% of Sales	40.3	43.8	45.8	46.8	46.4	46.4	46.0
Gross Profit	28,053	27,198	25,823	29,881	34,677	38,838	45,000
Margin (%)	59.7	56.2	54.2	53.2	53.6	53.6	54.0
Total Expenditure	40,664	41,402	40,871	47,170	53,371	59,905	68,235
% of Sales	86.5	85.5	85.9	83.9	82.4	82.6	81.8
EBITDA	6,326	7,006	6,732	9,025	11,384	12,619	15,169
Margin (%)	13.5	14.5	14.1	16.1	17.6	17.4	18.2
Depreciation	2,075	2,436	2,871	2,597	2,599	3,075	3,447
EBIT	4,251	4,569	3,861	6,429	8,785	9,544	11,722
Int. and Finance Charges	651	787	560	456	312	126	146
Other Income	190	764	180	105	320	224	235
PBT after EO Exp.	3,790	4,547	3,481	6,078	8,794	9,642	11,811
Total Tax	1,188	1,560	1,182	2,132	3,160	3,327	4,079
Tax Rate (%)	31.3	34.3	34.0	35.1	35.9	34.5	34.5
Less: Mionrity Interest	4	4	4	4	4	4	4
Adjusted PAT	2,598	2,983	2,296	3,942	5,629	6,312	7,739
Change (%)	15.0	14.8	-23.0	71.7	42.8	12.1	22.6
Margin (%)	5.5	6.2	4.8	7.0	8.7	8.7	9.3

Consolidated - Balance Sheet							(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	264	264	264.4	264	264	264	264
Total Reserves	18,587	21,207	23,078	26,638	31,413	36,891	43,632
Net Worth	18,851	21,471	23,342	26,903	31,677	37,156	43,896
Minority Interest	23	25	28	29	29	29	29
Deferred Tax Liabilities	676	634	470	182	182	182	182
Total Loans	9,490	8,062	5,940	3,121	1,321	2,021	2,521
Capital Employed	29,040	30,193	29,780	30,235	33,209	39,388	46,628
Gross Block	30,936	33,084	35,089	37,208	40,280	45,145	50,610
Less: Accum. Deprn.	12,820	15,104	17,827	20,152	22,751	25,826	29,273
Net Fixed Assets	18,116	17,980	17,262	17,056	17,529	19,319	21,337
Goodwill on Consolidation	242	242	242	242	242	242	242
Capital WIP	902	608	1,372	723	1,899	1,839	2,007
Total Investments	1	1	1	2	3	3	3
Curr. Assets, Loans&Adv.	21,569	24,827	25,911	29,212	34,070	38,396	43,657
Inventory	6,101	6,881	7,508	8,080	10,325	9,942	13,365
Account Receivables	9,318	11,189	12,954	14,986	15,110	19,066	20,236
Cash and Bank Balance	132	140	243	242	359	699	932
Loans and Advances	6,018	6,618	5,205	5,904	8,275	8,689	9,123
Curr. Liability & Prov.	11,789	13,466	15,007	16,999	20,533	20,411	20,618
Account Payables	3,799	4,176	4,596	5,217	5,903	6,814	7,810
Provisions	7,991	9,291	10,412	11,782	14,630	13,597	12,807
Net Current Assets	9,779	11,361	10,903	12,212	13,536	17,985	23,040
Appl. of Funds	29,040	30,193	29,780	30,235	33,209	39,388	46,628

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Basic (INR)							
EPS	9.8	11.3	8.7	14.9	21.3	23.9	29.3
BV/Share	71.3	81.2	88.3	101.7	119.8	140.5	166.0
DPS	1.0	1.2	1.2	2.0	2.5	2.4	2.9
Payout (%)	10.2	10.2	13.2	13.4	11.6	10.0	10.0
Valuation (x)							
P/E	145.3	126.5	164.4	95.8	67.1	59.8	48.8
Cash P/E	80.8	69.7	73.1	57.7	45.9	40.2	33.7
P/BV	20.0	17.6	16.2	14.0	11.9	10.2	8.6
EV/Sales	8.2	8.0	8.0	6.8	5.8	5.2	4.5
EV/EBITDA	61.2	55.0	56.9	42.1	33.2	30.0	25.0
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Return Ratios (%)							
RoE	14.5	14.8	10.2	15.7	19.2	18.3	19.1
RoCE	10.6	12.1	9.1	14.3	18.5	17.7	18.3
RoIC	10.6	10.5	8.9	14.5	18.7	18.4	19.1
Working Capital Ratios							
Asset Turnover (x)	1.6	1.6	1.6	1.9	1.9	1.8	1.8
Inventory (Days)	45	49	55	51	52	51	51
Debtor (Days)	73	77	93	91	85	86	86
Creditor (Days)	23	30	34	32	31	32	32
Leverage Ratio (x)							
Debt/Equity	0.5	0.4	0.3	0.1	0.0	0.1	0.1

Consolidated - Cash Flow Statement

(INR m)

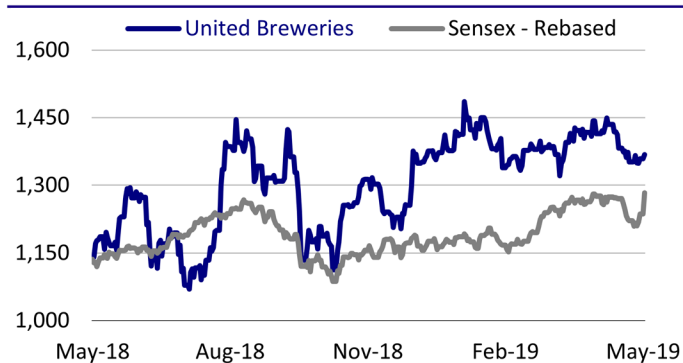
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
OP/(Loss) before Tax	3,790	4,547	3,481	6,078	8,794	9,642	11,822
Depreciation	2,075	2,436	2,871	2,597	2,599	3,075	3,447
Interest & Finance Charges	718	755	581	471	312	126	146
Direct Taxes Paid	-1,423	-1,595	-1,435	-2,534	-2,370	-2,495	-3,059
(Inc)/Dec in WC	3,381	-777	22	-1,265	-5,427	-4,898	-6,024
CF from Operations	8,541	5,365	5,519	5,346	3,907	5,450	6,331
Others	-132	441	-78	287	0	0	0
CF from Operating incl EO	8,408	5,806	5,441	5,633	3,907	5,450	6,331
(Inc)/Dec in FA	-4,069	-2,430	-2,355	-2,014	-3,052	-4,845	-5,445
Free Cash Flow	4,339	3,376	3,086	3,619	855	605	886
Others	774	-24	15	-45	0	0	0
CF from Investments	-3,295	-2,455	-2,340	-2,060	-3,052	-4,845	-5,445
Inc/(Dec) in Debt	-4,699	-1,857	-2,122	-2,820	0	700	500
Interest Paid	-715	-794	-583	-507	-312	-126	-146
Dividend Paid	-303	-317	-307	-308	-863	-840	-1,007
Others	0	0	0	1	411	410	409
CF from Fin. Activity	-5,717	-2,968	-3,012	-3,634	-763	144	-244
Inc/Dec of Cash	-604	383	89	-61	92	750	643
Opening Balance	665	62	34	126	154	-166	174
Cash eqv	70	-305	120	177	114	115	116
Closing Balance	132	140	243	242	359	699	932

Corporate profile

Company description

United Breweries Ltd (UBL) is engaged in the production and sale of beer in India. It is also involved in brand licensing. The company has a wide variety of brands in its portfolio, including brands such as *Kingfisher Strong*, *Kingfisher Ultra*, *Kingfisher Ultra Max*, *Kingfisher Blue*, *Bullet*, *Cannon 10000*, *Kalyani Black Label*, *UB Export*, *Zingaro* and *London Pilsner*. The company has further expanded its portfolio by launching *Kingfisher storm* and the premium brand *Amstel* in India. **United Breweries is the market leader in the Indian beer segment with a volume market share of 54%.** UB recently ventured into the non-alcohol beer space with the launch of *Radler*.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-19	Dec-18	Mar-18
Promoter	57.7	57.7	73.3
DII	20.0	19.6	4.4
FII	16.4	17.0	16.8
Others	5.9	5.7	5.5

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
DEPUTY DIRECTOR DIRECTORATE OF ENFORCEMENTMUMBAI	16.2
ARISAIG INDIA FUND LIMITED	2.3
FRANKLIN TEMPLETON MUTUAL FUND A/C FRANKLIN INDIA EQUITY FUND	1.4
DERIVE TRADING AND RESORTS PRIVATE LIMITED	1.2

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Shekhar Ramamurthy	Managing Director
Govind Iyengar	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
A K Ravi Nedungadi	Kiran Mazumdar Shaw*
Christiaan J Van Steenberg	Madhav Bhatkuly*
Chhaganlal Jain*	Stephan Gerlich*
Chugh Yoginder Pal*	Sunil Alagh*
	Rudolf Gijsbert Servaas Van den Brink

*Independent

Exhibit 6: Auditors

Name	Type
S R Batliboi & Associates LLP	Statutory
Sudhir Hulyalkar	Secretarial Audit

Source: Capitaline

Exhibit 7: MOFSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY20	23.9	25.7	-6.9
FY21	29.3	30.2	-3.1

Source: Bloomberg

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

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