

INDUSTRY FMCG

CMP (as on 31 May 17) Rs 2,267

Target Price Rs 2,335

Nifty 9,621

Sensex 31,146

KEY STOCK DATA

Bloomberg UNSP IN

No. of Shares (mn) 145

MCap (Rs bn) / (\$ mn) 329/5,102

6m avg traded value (Rs mn) 1,036

STOCK PERFORMANCE (%)

52 Week high / low Rs 2,703/1,773

3M 6M 12M

Absolute (%) (3.4) 18.1 (8.3)

Relative (%) (11.8) 1.2 (25.1)

SHAREHOLDING PATTERN (%)

Promoters 58.5

FIs & Local MFs 5.5

FPIs 22.1

Public & Others 13.9

Source : BSE

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Near-term headwinds, positives priced in

In 4QFY17, United Spirits (UNSP) demonstrated strong operating performance. Net sales were almost flat YoY at Rs 20.3 bn (lower than estimates), owing to a run up to the highway ban, liquor prohibition in Bihar and franchising of regular brands. Excluding these one-offs, net sales grew by 7% YoY. EBITDA improved by 129% YoY to Rs 2.6 bn (13.1% margin vs. 5.7% YoY). Margin improved mainly owing to a better product mix, productivity initiatives and franchising of regular brands. Adj. PAT grew ~5x to Rs 1.86 bn (Rs 331 mn YoY). Owing to an exceptional item of Rs 2.9 bn in 4QFY17, UNSP registered a loss of Rs (1.04 bn) vs. profit of Rs 14 mn YoY. This one-off was mainly for a customer claim, rising out of legacy commercial terms.

Trend in premiumisation is playing out on expected lines. In FY17, net sales in Prestige and above segments grew by 13% YoY, and contributed 58/41% to value and volumes resp. (37/51% in FY16). Net sales in UNSP's popular segment declined by 9% YoY.

Financial Summary

(Rsmn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY16	FY17P	FY18E	FY19E
Net Sales	20,140	20,370	(1.1)	24,455	(17.6)	84,949	88,175	95,338	105,990
EBIDTA	2,651	1,158	128.9	2,935	(9.7)	9,803	10,038	12,583	15,406
APAT	1,866	331	463.6	1,476	26.4	1,708	4,611	5,304	7,542
Diluted adj. EPS (Rs/sh)	12.8	2.3	463.6	10.2	26.4	11.8	31.7	36.5	51.9
P/E (x)						216.1	71.4	62.1	43.7
RoE (%)						14.9	27.0	25.9	28.0

Source: Company, HDFC sec Inst Research

While we remain constructive on UNSP's premiumisation drive and market leadership, near-term headwinds such as impact of GST (on the input costs side), as well as the highway liquor ban could decelerate revenue growth and profitability over the near term.

In light of the recent run-up in stock price (~20% in the past month), we revise our rating downward to NEUTRAL. Our TP stands at Rs 2,335 (45x Mar-19E EPS).

- **Mgt. guidance:** Company's medium term goal is to grow the topline by double digit and improve operating margins to mid-teens. Mgmt. has also indicated that it could monetise Rs 20 bn worth of non-core assets over the next 3-4 years, which could aid further deleveraging (*currently not factored in our estimates*).
- **Near-term outlook:** While we believe the company's focus on premiumization would remain strong. However, near term headwinds such as impact of GST and highway liquor ban could be challenging.

Net sales were almost flat YoY owing to run up to highway ban, liquor prohibition in Bihar and franchising of regular brands. Excluding these one-offs, net sales grew by 7% YoY.

Margin improved mainly owing to better product mix, productivity initiatives and franchising of regular brands.

In FY17, net sales in Prestige and above segments grew by 13% YoY, and contributed 58/41% to value and volumes (37/51% in FY16)

Overall net sales in UNSP's popular segment declined by 9% YoY

Quarterly Financials Snapshot

Particulars	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Net Sales	20,140	20,370	-1%	24,455	-18%
Other Operating Income	110	64	72%	98	12%
Net sales (incl OOI)	20,250	20,434	-1%	24,553	-18%
Material Expenses	11,306	12,107	-7%	14,229	-21%
Employee Expenses	1,210	1,418	-15%	1,615	-25%
Advertisement & sales promotion	1,645	1,801	-9%	2,042	-19%
Other Operating Expenses	3,438	3,950	-13%	3,732	-8%
EBITDA	2,651	1,158	129%	2,935	-10%
Depreciation	418	271	54%	313	34%
EBIT	2,233	887	152%	2,622	-15%
Other Income (including EO)	(2,765)	577		356	-877%
Interest Cost	853	1,009	-15%	922	-8%
PBT	(1,385)	455	-	2,056	-
Tax	(343)	441	-	580	-
RPAT	(1,042)	14	-	1,476	-
EO Items (Adj For Tax)	(2,908)	(317)		-	
APAT	1,866	331	464%	1,476	26%
Adj EPS	12.8	2.3	464%	10.2	26%

Source: Company, HDFC sec Inst Research

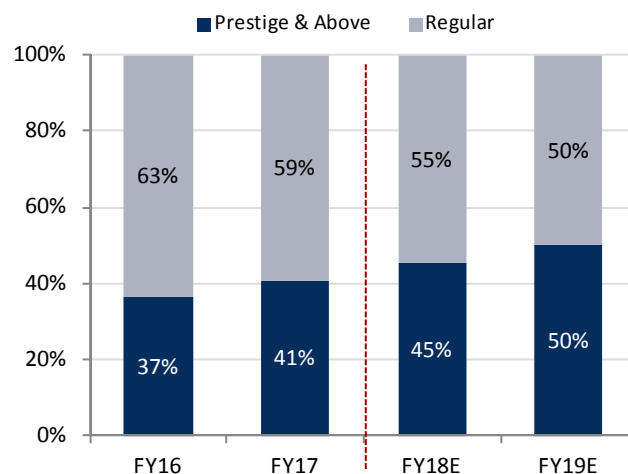
Margin Analysis

	4QFY17	4QFY16	YoY (bps)	3QFY17	QoQ (bps)
Material Expenses % Net Sales	56.1	59.4	(329.8)	58.2	(204.8)
Employee Expenses % Net Sales	6.0	7.0	(95.3)	6.6	(59.6)
Advertisement & sales promotion % Net Sales	8.2	8.8	(67.4)	8.4	(18.2)
Other Operating Expenses % Net Sales	17.1	19.4	(232.1)	15.3	181.0
EBITDA Margin (%)	13.2	5.7	747.8	12.0	116.1
Tax Rate (%)	24.8	96.9	-	28.2	(343.7)
APAT Margin (%)	9.3	1.6	764.0	6.0	323.0

Source: Company, HDFC sec Inst Research

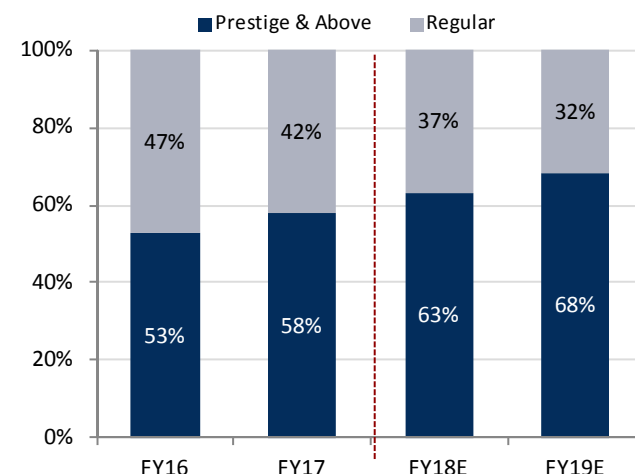
Financials

Volume Break-up: Prestige Vs. Regular (%)



Source: Company, HDFC sec Inst Research

Value Break-up: Prestige Vs. Regular (%)



Source: Company, HDFC sec Inst Research

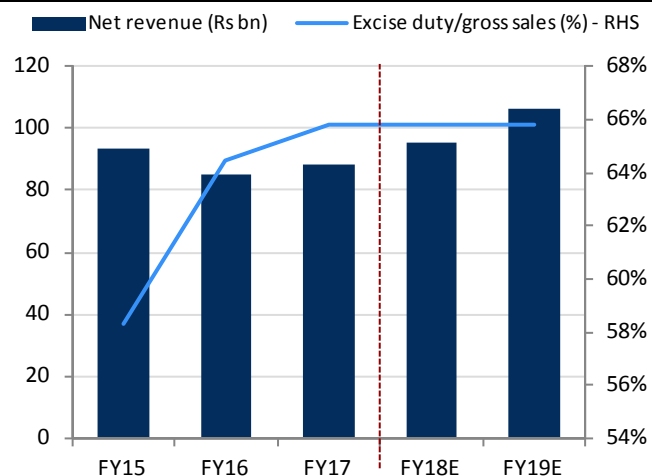
Premiumisation strategy to play out - contribution of the Prestige and above segment to UNSP's volumes and revenue to increase

Prestige and above to contribute to 68% to UNSP's revenue and 50% to volumes by FY19E

Net revenues to grow at ~10% CAGR over the period FY17-19E ; downsizing of regular segment assumed

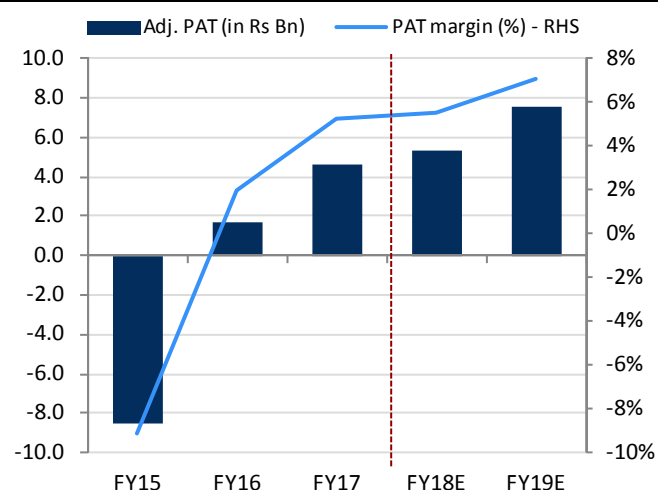
Improvement in operating margins, coupled with deleveraging is expected to improve PAT margin

Trend In Net Revenue & Excise As % To Gross Sales



Source: Company, HDFC sec Inst Research

Trend In Adj. PAT And Margins



Source: Company, HDFC sec Inst Research

Key Assumptions

(in units)	FY15	FY16	FY17	FY18E	FY19E
Gross revenues	224,060	239,209	257,568	278,491	309,607
% YoY		6.8%	7.7%	8.1%	11.2%
Net revenues	93,350	84,949	88,175	95,338	105,990
% YoY		-9.0%	3.8%	8.1%	11.2%
Gross margins (%)	44.1%	44.0%	44.1%	44.6%	45.1%
EBITDA margins (%)	0.4%	11.5%	11.4%	13.2%	14.5%
Net margins (%)	-9.1%	2.0%	5.2%	5.6%	7.1%
(in mn cases)	FY15	FY16	FY17	FY18E	FY19E
Prestige & above	31	34	37	40	44
% YoY		9.7%	8.2%	8.0%	10.0%
Regular	63	59	53	48	44
% YoY		-6.3%	-9.7%	-10.0%	-9.0%
Total Sales	94	93	90	88	87
% YoY		-1.1%	-3.1%	-2.6%	-0.4%

Source: Company, HDFC sec Inst Research

Peer Valuations

FMCG companies	Mcap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	P/E (x)		P/BV (x)	
					FY18E	FY19E	FY18E	FY19E
RDCK IN*	16	120	NR	-	15.7	12.7	1.5	1.3
UBBL IN*	212	800	NR	-	69.1	50.5	8.3	7.2
UNSP IN	329	2,267	NEU	2,335	62.1	43.7	14.2	10.7

Source: HDFC sec Inst Research; * Bloomberg Consensus

Change In Estimates

Rs mn	Previous		New		% Chg	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Net Sales	100973	108999	95338	105990	-6%	-3%
EBIT	12558	14974	12583	15406	0%	3%
APAT	5610	7532	5304	7542	-5%	0%

Source: HDFC sec Inst Research

Income Statement (Consolidated)

Year ending March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Net Revenues	93,350	84,949	88,175	95,338	105,990
Growth (%)	(12.1)	(9.0)	3.8	8.1	11.2
Material Expenses	52,190	47,572	49,297	52,775	58,142
Power & Fuel expenses	368	360	374	404	449
Employee Expenses	7,779	6,800	6,882	6,964	7,742
Other Operating Expenses	32,683	20,414	21,584	22,612	24,251
EBITDA	330	9,803	10,038	12,583	15,406
EBITDA Margin (%)	0.4	11.5	11.4	13.2	14.5
EBITDA Growth (%)	(124.0)	2,872.8	2.4	25.3	22.4
Depreciation	2,229	1,572	1,886	2,129	2,312
EBIT	(1,899)	8,231	8,152	10,454	13,094
Other Income (Including EO Items)	(7,581)	5	(2,774)	875	1,055
Interest	6,873	4,574	3,751	3,398	2,877
PBT	(16,353)	3,662	1,627	7,931	11,272
Tax (Incl Deferred)	521	2,228	697	2,617	3,720
Minority Interest & Profit/loss from associates	4	-	-	10	10
RPAT	(16,878)	1,434	930	5,304	7,542
EO (Loss) / Profit (Net Of Tax)	(8,392)	(274)	(3,681)	-	-
APAT	(8,486)	1,708	4,611	5,304	7,542
APAT Growth (%)	n.a	n.a	169.9	15.0	42.2
Adjusted EPS (Rs)	(58.4)	11.8	31.7	36.5	51.9
EPS Growth (%)	n.a	n.a	169.9	15.0	42.2

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

Year ending March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital - Equity	1,453	1,453	1,453	1,453	1,453
Reserves	5,142	14,894	16,403	21,707	29,249
Total Shareholders Funds	6,595	16,347	17,856	23,160	30,702
Minority Interest	8	56	(25)	10	10
Long term debt	26,737	7,305	8,697	7,697	7,097
Short term loans	23,132	29,969	29,069	26,069	23,069
Total Debt	49,869	37,274	37,766	33,766	30,166
Net Deferred Taxes	(878)	1,579	1,536	1,536	1,536
Long Term Provisions & Others	1,881	1,075	442	500	600
TOTAL SOURCES OF FUNDS	57,475	56,331	57,575	58,972	63,015
APPLICATION OF FUNDS					
Net Block (excluding goodwill)	18,590	18,415	18,486	19,357	20,045
CWIP	1,141	2,821	1,993	2,155	2,396
Goodwill	620	1,125	680	680	680
Investments	2,164	9	1	5	5
Other non-current assets	8,110	6,156	8,528	8,500	8,000
Total Non-current Assets	30,625	28,526	29,688	30,697	31,126
Inventories	17,581	19,519	19,276	19,836	21,886
Debtors	17,515	23,032	29,534	30,603	34,023
Loans and advances	8,659	8,948	7,808	8,104	9,009
Cash & Equivalents	3,629	1,368	872	1,009	1,301
Total Current Assets	47,384	52,867	57,490	59,553	66,219
Creditors	7,838	10,189	12,247	12,369	13,647
Other Current Liabilities & Provns	12,695	14,873	17,356	18,909	20,684
Total Current Liabilities	20,533	25,062	29,603	31,278	34,331
Net Current Assets	26,850	27,805	27,887	28,275	31,888
TOTAL APPLICATION OF FUNDS	57,475	56,331	57,575	58,972	63,015

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

Year ending March (Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Reported PBT	(16,353)	3,662	1,627	7,931	11,272
Interest expenses	6,243	4,506	3,751	3,398	2,877
Depreciation	2,229	1,577	1,886	2,129	2,312
Working Capital Change	(7,665)	(6,455)	(2,993)	(223)	(2,822)
Tax Paid	(1,413)	(1,900)	(697)	(2,617)	(3,720)
Others	14,996	997	(907)	(885)	(1,065)
OPERATING CASH FLOW (a)	(1,964)	2,387	2,667	9,733	8,855
Capex	(626)	(2,329)	(1,129)	(3,162)	(3,241)
Free cash flow (FCF)	(2,590)	58	1,538	6,571	5,614
Investments	(0)	8,686	8	(4)	-
Non-operating Income	39,181	1,705	4,588	875	1,055
INVESTING CASH FLOW (b)	38,554	8,063	3,467	(2,291)	(2,186)
Debt Issuance/(Repaid)	(27,847)	(1,417)	492	(4,000)	(3,600)
Interest Expenses	(7,204)	(4,612)	(3,751)	(3,398)	(2,877)
FCFE	(37,640)	(5,971)	(1,721)	(827)	(863)
Share Capital Issuance	-	-	-	-	-
Dividend	(9)	(3)	-	-	-
Others	(4,950)	(6,678)	(3,372)	93	100
FINANCING CASH FLOW (c)	(40,009)	(12,710)	(6,631)	(7,305)	(6,377)
NET CASH FLOW (a+b+c)	(3,419)	(2,260)	(496)	137	292
Opening bal of Cash & Cash Equ	7,047	3,628	1,368	872	1,009
Closing Cash & Equivalents	3,628	1,368	872	1,009	1,301

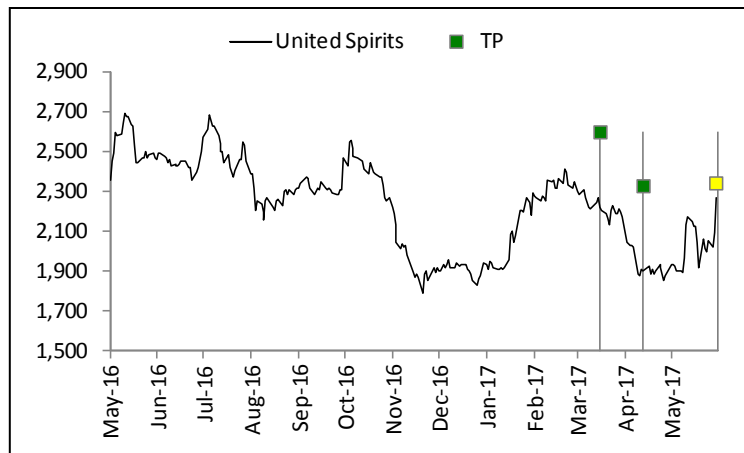
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY15	FY16	FY17	FY18E	FY19E
PROFITABILITY (%)					
GPM	44.1	44.0	44.1	44.6	45.1
EBITDA Margin	0.4	11.5	11.4	13.2	14.5
APAT Margin	(9.1)	2.0	5.2	5.6	7.1
RoE	(46.0)	14.9	27.0	25.9	28.0
RoIC (or Core RoCE)	7.0	5.8	11.1	11.2	13.5
RoCE	(1.6)	6.2	11.9	13.0	15.5
EFFICIENCY					
Tax Rate (%)	(3.2)	60.8	42.8	33.0	33.0
Fixed Asset Turnover (x)	4.0	4.6	4.8	5.0	5.4
Inventory (days)	68.7	83.9	79.8	75.9	75.4
Debtors (days)	68.5	99.0	122.3	117.2	117.2
Other Current Assets (days)	33.9	38.4	32.3	31.0	31.0
Payables (days)	30.6	43.8	50.7	47.4	47.0
Other Current Liab & Provns (days)	49.6	63.9	71.8	72.4	71.2
Cash Conversion Cycle (days)	90.8	113.6	111.8	104.4	105.3
Debt/EBITDA (x)	151.2	3.8	3.8	2.7	2.0
Net D/E (x)	7.0	2.2	2.1	1.4	0.9
Interest Coverage (x)	(0.3)	1.8	2.2	3.1	4.6
PER SHARE DATA (Rs)					
EPS	(58.4)	11.8	31.7	36.5	51.9
CEPS	(100.8)	20.7	19.4	51.2	67.8
Dividend	-	-	-	-	-
Book Value	45.4	112.5	122.9	159.4	211.3
VALUATION					
P/E (x)	(62.8)	216.1	71.4	62.1	43.7
P/BV (x)	80.8	22.6	18.4	14.2	10.7
EV/EBITDA (x)	1,755.4	41.3	36.5	28.8	23.3
EV/Revenues (x)	6.2	4.8	4.2	3.8	3.4
OCF/EV (%)	(0.3)	0.6	0.7	2.7	2.5
FCF/EV (%)	(0.4)	0.0	0.4	1.8	1.6
FCFE/Mkt Cap (%)	(7.1)	(1.6)	(0.5)	(0.3)	(0.3)

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
17-Mar-17	2,217	BUY	2,600
14-Apr-17	1,906	BUY	2,330
31-May-17	2,267	NEU	2,335

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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