

United Breweries

BSE SENSEX
60,013

S&P CNX
17,840



UNITED BREWERIES LIMITED

Stock Info

Bloomberg	UBBL IN
Equity Shares (m)	264
M.Cap.(INRb)/(USDb)	423.8 / 5.8
52-Week Range (INR)	1685 / 899
1, 6, 12 Rel. Per (%)	3/7/10
12M Avg Val (INR M)	1117
Free float (%)	27.3

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Sales	42.4	58.6	67.3
Sales Gr. (%)	-34.8	38.0	15.0
EBITDA	3.8	8.5	11.3
EBITDA mrg. (%)	9.0	14.5	16.8
Adj. PAT	1.2	4.3	5.7
Adj. EPS (INR)	4.6	16.3	21.6
EPS Gr. (%)	-71.8	257.5	32.4
BV/Sh.(INR)	135.5	145.7	158.2

Ratios

RoE (%)	3.4	11.6	14.2
RoCE (%)	3.6	11.8	13.5

Valuations

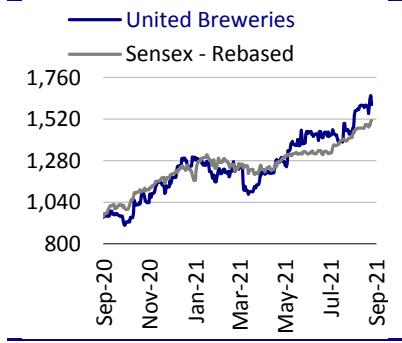
P/E (x)	351.9	98.4	74.4
P/BV (x)	11.9	11.0	10.2
EV/EBITDA (x)	110.5	48.4	37.5
EV/Sales (x)	9.9	7.0	6.3

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	72.7	57.7	57.7
DII	11.3	26.3	25.1
FII	9.8	9.8	10.7
Others	6.2	6.2	6.5

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR1,603

TP: INR1,170 (-27%)

Sell

CCI penalty a significant sentiment dampener

- The Competition Commission of India (CCI) has imposed penalties of INR7.52b on United Breweries (UBBL) and INR1.22b on Carlsberg India (CIPL, unlisted). No penalty has been imposed on Anheuser-Busch InBev (AB InBev)/SABMiller as it is the whistleblower.
- The penalty comes on the back of a detailed probe ordered four years ago with regard to alleged cartelization and price fixing by all the three major Beer players that came to light when AB InBev (after its global acquisition of SABMiller) came to acquire the business of SABMiller India.
- The period of cartelization is considered to be from CY07 to at least 10th Oct'18, with CIPL joining in from CY12, and the All India Brewers Association (AIBA) serving as a platform facilitating such cartelization since CY13.
- The companies were found to have exchanged commercially sensitive information and colluded to fix beer prices in Andhra Pradesh, Karnataka, Maharashtra, Odisha, Rajasthan, West Bengal, National Capital Region of Delhi, and the Union Territory of Puducherry.
- UBBL had cash and cash equivalents of INR4.7b (net cash of INR3.54b) at the end of FY21. As per our current forecasts, it may have the net cash to pay the penalty of INR7.52b by end of FY22 (assuming that is the timeline) or else it may have to raise debt.
- UBBL has stated in its [press release](#) that it is reviewing the order in consultation with its legal advisors and will evaluate further legal options. Given the lack of clarity on the timeline for payment of the said penalty and the company's statement, we have not made changes to our numbers yet.
- We maintain our **SELL** rating on the stock.

The penalty

- The CCI has imposed penalties of INR7.52b/INR1.22b on UBBL/CIPL. There is no penalty on AB InBev-SAB Miller as it is the whistle blower ([Source](#)).

Background and details

- The penalty comes on the back of a detailed probe ordered four years ago with regard to alleged cartelization and price fixing by all the three major Beer players that came to light when AB InBev (after its global acquisition of SABMiller) came to acquire the business of SABMiller India.
- AB InBev used CCI's leniency program to disclose that it had detected a cartel while integrating SABMiller's operations in India.
- The period of cartelization is considered to be from CY07 to at least 10th Oct'18, with CIPL joining in from CY12, and AIBA serving as a platform facilitating such cartelization since CY13.
- The companies were found to have exchanged commercially sensitive information and colluded to fix beer prices in Andhra Pradesh, Karnataka, Maharashtra, Odisha, Rajasthan, West Bengal, National Capital Region of Delhi, and the Union Territory of Puducherry.

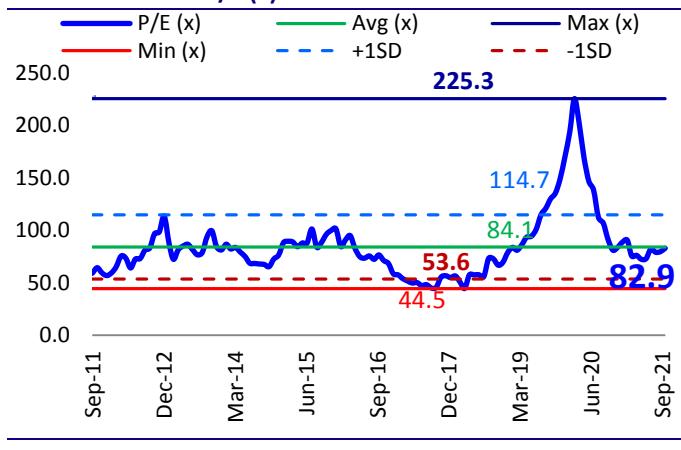
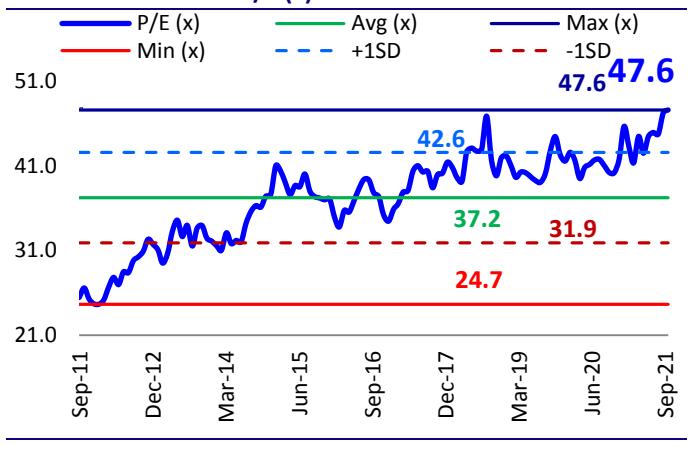
- Besides, they were found collectively restricting the supply of beer to Maharashtra, Odisha, and West Bengal, 'sharing' the market in Maharashtra, as well as coordinating the supply of beer to premium institutions in Bengaluru.
- The fair trade regulator also found co-ordination among UBBL and AB InBev in the purchase of second-hand bottles.
- Subsequently, AB InBev became a whistleblower alleging collusion between SAB Miller, UBBL, and CIPL in the past.
- These three players have a share of 88% of the Beer market, with UBBL being the market leader with over 50% market share.
- The 24th Sep'21 order has directed the companies, association, and individuals to 'cease and desist' from anti-competitive practices in the future.
- An official release said the companies and other entities have been found to be "indulging in cartelization in the sale and supply of beer to various states and Union Territories in India, including through the platform of AIBA".
- The order grants benefit of a reduction in penalty: 100% to AB InBev and its individuals, 40% to UBBL and its individuals and 20% to CIPL and its individuals.
- Articles from a few years ago ([source](#)) had indicated a total penalty of USD250m (~INR18.52b) as against INR8.73b of penalty declared on 24th Sep'21.

Why we think this case is different from CCI penalties imposed on Cement players in CY16, which the companies have not yet paid

- In this case, AB InBev has acted as a whistleblower, providing insider details of the happenings, as opposed to the Cement case in which a complaint was lodged by a third party (Builders Association of India).
- As per reports ([source](#)), UBBL and CIPL also filed leniency applications in CY18, which would explain the lower than expected penalty imposed.
- It is possible that the penalty will have to be paid even if UBBL and CIPL appeal to higher authorities.

Valuation and view

- There are no changes to our forecasts as we await clarity on the timeline for penalty payment as well as the management's eventual decision on whether to appeal against the penalty.
- UBBL had a cash of INR4.7b (net cash INR3.54b) at the end of FY21. As per our current forecasts, it may have a net cash to pay the penalty of INR7.52b by the end of FY22 (assuming that is the timeline) or else it may have to raise debt.
- As we have highlighted in recent years, an adverse CCI decision is a key investment risk.
- EPS over FY19-23E (no change to our earlier estimates as we have not factored the impact of the penalty) is likely to remain flat, making the stock extremely expensive at 74.4x FY23E EPS and 37.5x FY23E EV/EBITDA.
- The recent increase in Heineken's stake to 62% from ~47% does not alter its medium-to-long term growth prospects.
- The historical pre-COVID PBT CAGR in the five years ended FY20 was ~8.5%. Even post normalcy, earnings are unlikely to witness strong growth. Return ratios even in UBBL's best year (FY19) were at 18-19% levels, much lower than the average of its Consumer peers of over 30%. We maintain our **SELL** rating with a TP of INR1,170/share, implying a 27% downside (targeting 25x Dec'23E EV/EBITDA).

Exhibit 1: UBBL's P/E (x)**Exhibit 2: Consumer P/E (x)**

Financials and valuations

Consolidated Income Statement							(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Total Income from Operations	47,603	56,196	64,754	65,092	42,431	58,555	67,338
Change (%)	-1.7	18.1	15.2	0.5	-34.8	38.0	15.0
Raw Materials	21,779	26,315	30,077	31,511	20,293	27,903	31,531
As a percentage of Sales	45.8	46.8	46.4	48.4	47.8	47.7	46.8
Gross Profit	25,823	29,881	34,678	33,581	22,138	30,652	35,808
Margin (%)	54.2	53.2	53.6	51.6	52.2	52.3	53.2
Total Expenditure	40,871	47,170	53,371	56,334	38,619	50,065	56,025
As a percentage of Sales	85.9	83.9	82.4	86.5	91.0	85.5	83.2
EBITDA	6,732	9,025	11,384	8,758	3,812	8,490	11,313
Margin (%)	14.1	16.1	17.6	13.5	9.0	14.5	16.8
Depreciation	2,871	2,597	2,599	2,851	2,320	2,698	3,538
EBIT	3,861	6,429	8,785	5,907	1,492	5,792	7,775
Int. and Finance Charges	560	456	239	287	227	267	394
Other Income	180	105	247	69	503	251	264
PBT bef. EO Exp.	3,481	6,078	8,793	5,689	1,768	5,776	7,645
EO Items	0	0	0	0	-72	0	0
PBT after EO Exp.	3,481	6,078	8,793	5,689	1,696	5,776	7,645
Total Tax	1,182	2,132	3,160	1,406	555	1,456	1,926
Tax Rate (%)	34.0	35.1	35.9	24.7	32.7	25.2	25.2
Less: Minority Interest	4	4	4	6	6	6	6
Adjusted PAT	2,296	3,942	5,629	4,277	1,207	4,315	5,712
Change (%)	-23.0	71.7	42.8	-24.0	-71.8	257.5	32.4
Margin (%)	4.8	7.0	8.7	6.6	2.8	7.4	8.5

Consolidated Balance Sheet							(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	264.4	264	265	264	264	264	264
Total Reserves	23,078	26,638	31,572	34,938	35,558	38,271	41,563
Net Worth	23,342	26,903	31,838	35,203	35,823	38,535	41,827
Minority Interest	28	29	30	33	38	38	38
Deferred Tax Liabilities	470	182	114	0	0	0	0
Total Loans	5,940	3,121	2,115	1,691	1,154	1,154	7,454
Capital Employed	29,780	30,235	34,097	36,927	37,014	39,727	49,319
Gross Block	35,089	37,208	39,954	45,077	47,808	50,308	55,308
Less: Accum. Deprn.	17,827	20,152	22,425	26,058	28,378	31,077	34,615
Net Fixed Assets	17,262	17,056	17,529	19,019	19,430	19,232	20,694
Goodwill on Consolidation	242	242	242	242	65	65	65
Capital WIP	1,372	723	1,899	1,991	1,288	1,288	1,758
Total Investments	1	2	3	3	61	61	61
Curr. Assets, Loans, and Adv.	25,911	29,212	34,171	34,254	37,679	43,060	48,042
Inventory	7,508	8,080	10,325	10,939	11,367	7,884	14,254
Account Receivables	12,954	14,986	15,110	13,504	13,950	11,718	17,800
Cash and Bank Balance	243	242	462	786	4,693	15,405	7,533
Loans and Advances	5,205	5,904	8,275	9,025	7,669	8,052	8,455
Curr. Liability and Prov.	15,007	16,999	19,747	18,582	21,507	23,978	21,300
Account Payables	4,596	5,217	5,902	5,450	6,181	4,086	7,721
Provisions	10,412	11,782	13,845	13,131	15,326	19,891	13,579
Net Current Assets	10,903	12,212	14,424	15,672	16,171	19,082	26,743
Appl. of Funds	29,780	30,235	34,097	36,927	37,014	39,727	49,319

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)							
EPS	8.7	14.9	21.3	16.2	4.6	16.3	21.6
BV/Share	88.3	101.7	120.4	133.1	135.5	145.7	158.2
DPS	1.2	2.0	2.5	2.5	0.0	4.9	7.6
Payout (%)	13.2	13.4	11.7	15.5	0.0	30.0	35.0
Valuation (x)							
P/E	185.0	107.8	75.5	99.3	351.9	98.4	74.4
Cash P/E	82.2	65.0	51.6	59.6	120.4	60.6	45.9
P/BV	18.2	15.8	13.3	12.1	11.9	11.0	10.2
EV/Sales	9.0	7.6	6.6	6.5	9.9	7.0	6.3
EV/EBITDA	63.9	47.4	37.5	48.6	110.5	48.4	37.5
Dividend Yield (%)	0.1	0.1	0.2	0.2	0.0	0.3	0.5
Return Ratios (%)							
RoE	10.2	15.7	19.2	12.8	3.4	11.6	14.2
RoCE	9.1	14.3	18.1	12.7	3.6	11.8	13.5
RoIC	8.9	14.5	18.5	13.5	3.1	16.1	18.5
Working Capital Ratios							
Asset Turnover (x)	1.6	1.9	1.9	1.8	1.1	1.5	1.4
Inventory (Days)	55	51	52	60	96	60	60
Debtor (Days)	93	91	85	80	118	80	80
Creditor (Days)	34	32	31	32	50	32	32
Leverage Ratio (x)							
Debt/Equity	0.3	0.1	0.1	0.0	0.0	0.0	0.2

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
OP/(Loss) before Tax	3,481	6,078	8,793	5,689	1,694	5,777	7,645
Depreciation	2,871	2,597	2,599	2,851	2,320	2,698	3,538
Interest and Finance Charges	581	471	306	305	224	267	394
Direct Taxes Paid	-1,435	-2,534	-3,898	-1,903	-823	-1,092	-1,445
(Inc.)/Dec. in WC	22	-1,265	-1,101	-2,196	2,976	7,426	-16,489
CF from Operations	5,519	5,346	6,699	4,746	6,392	15,076	-6,357
Others	-78	287	-269	332	-189	0	0
CF from Operations incl. EO	5,441	5,633	6,430	5,078	6,203	15,076	-6,357
(Inc.)/Dec. in FA	-2,355	-2,014	-4,366	-4,033	-1,498	-2,480	-4,980
Free Cash Flow	3,086	3,619	2,064	1,045	4,705	12,596	-11,337
Others	29	16	114	231	86	0	0
CF from Investments	-2,326	-1,998	-4,252	-3,802	-1,412	-2,480	-4,980
Issue of Shares	0	0	0	0	0	0	0
Inc.-(Dec.) in Debt	-2,122	-2,820	-1,006	115	61	0	6,300
Interest Paid	-583	-507	-313	-268	-281	-267	-394
Dividend Paid	-307	-308	-640	-800	-663	-1,616	-2,441
Others	0	0	0	0	0	0	0
CF from Fin. Activity	-3,012	-3,635	-1,959	-952	-884	-1,883	3,465
Inc./Dec. in Cash	103	0	219	324	3,907	10,712	-7,872
Opening Balance	140	243	242	462	786	4,693	15,405
Closing Balance	243	242	462	786	4,693	15,405	7,533

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

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