

# United Breweries

BSE SENSEX	S&P CNX
35,876	10,746
Bloomberg	UBBL IN
Equity Shares (m)	264
M.Cap.(INRb)/(USDb)	371.2 / 5.2
52-Week Range (INR)	1494 / 908
1, 6, 12 Rel. Per (%)	2/7/28
12M Avg Val (INR M)	804
Free float (%)	42.3

## Financials & Valuations (INR b)

Y/E Mar	FY19E	FY20E	FY21E
Net Sales	64.9	73.3	84.3
EBITDA	12.1	13.9	16.3
PAT	6.1	7.1	8.5
EPS (INR)	23.0	26.8	32.0
Gr. (%)	54.0	16.6	19.5
BV/Sh (INR)	121.7	145.0	172.9
RoE (%)	20.6	20.1	20.1
RoCE (%)	18.9	18.4	18.5
P/E (x)	61.1	52.4	43.9
EV/EBITDA (x)	30.8	26.8	22.9

Estimate change	↔
TP change	↔
Rating change	↔

**CMP: INR1,404 TP: INR1,660(+18%)**
**Buy**

## Growth traction robust; optimistic outlook sans some near-term overhangs

- **Net sales grew 21% YoY** off a high base to INR14.5b (our estimate: INR14.1b) in 3QFY19. Volumes grew by a healthy 16% YoY with market share gains (management cited achievement of market-leading volume growth). EBITDA increased 62.4% YoY to INR2.5b (our estimate: INR2.1b). Adj. PAT grew 130.4% YoY to INR1.1b (our estimate: INR908m). Sales and EBITDA growth for the base quarter (3QFY18) was 17.1% and 19.3%, respectively.
- **Gross margin expanded by 100bp YoY to 53.3%.** Employee costs declined 30bp YoY to 7.6% of sales, while other expenses were down 300bp YoY to 28.6%. Consequently, EBITDA margin expanded 440bp YoY to 17.1% (our estimate: 15.0%) – the highest third-quarter margin in the company's history.
- **Strong operating performance led to PAT growth of 130.4% YoY,** significantly higher than our estimate of +91.6% YoY. Interest costs reduced sharply by ~50% owing to debt reduction. If not for the tax rate at 38.4% for the quarter, the PAT beat would have been even higher.
- **9MFY19 performance:** Net sales increased by 16.5% YoY, EBITDA by 39.5% YoY and PAT by 63.3% YoY. Gross margin improved by 140bp YoY to 54.3% and EBITDA margin by 330bp YoY to 20.0%. Notably, strong PAT growth in 9MFY19 comes after impressive 71.6% growth for full-year FY18.
- **Valuation and view:** We raise our FY19/20 EPS estimate by 4.2%/2.9% to factor in the better-than-expected 3QFY19 performance. Long-term volume and earnings growth opportunity (FY18 PAT at USD 55m) is immense for India's largest beer player with strong barriers to entry in the form of distribution, brewery reach, scale and brands. Operating environment appears to be improving at a healthy pace, market share gains continue and profitability is increasing, indicating healthy pace of earnings growth ahead. Election-related disruptions in the summer of 2018 could be a near-term dampener. The anti-trust issue remains an overhang, leading us to now value UBBL in line with peer multiples, instead of 10% premium earlier. Valuing the company at 28x Dec'20E EV/EBITDA, we derive a target price of INR1,660. Maintain **Buy**.

## Standalone - Quarterly Earning Model

Y/E March	FY18				FY19						FY19	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	FY18	FY19E	3QE	Variance
Net Sales	16,780	12,796	11,994	14,693	18,659	15,260	14,512	16,476	56,263	64,906	14,126	2.7%
YoY Change (%)	7.3	23.4	17.3	32.0	11.2	19.3	21.0	12.1	18.8	15.4	18.0	
Gross Profit	8,817	6,907	6,272	7,762	10,095	8,485	7,739	8,588	29,759	34,907	7,557	
Margin (%)	52.5	54.0	52.3	52.8	54.1	55.6	53.3	52.1	52.9	53.8	53.5	
Total Expenditure	13,597	10,577	10,468	12,611	14,655	12,077	12,033	14,004	47,252	52,769	12,007	
EBITDA	3,184	2,219	1,526	2,082	4,004	3,182	2,479	2,471	9,011	12,137	2,119	17.0%
YoY Change (%)	9.4	83.1	19.3	105.9	25.8	43.4	62.4	18.7	41	34.7	39	
Margins (%)	19.0	17.3	12.7	14.2	21.5	20.9	17.1	15.0	16.0	18.7	15.0	
Depreciation	649	650	650	648	637	656	665	761	2,596	2,720	734	
Interest	142	127	93	114	92	40	62	69	477	263	60	
Other Income	63	12	8	48	153	37	21	40	130	251	40	
PBT	2,456	1,454	791	1,368	3,428	2,523	1,772	1,681	6,068	9,404	1,365	29.9%
Tax	837	515	317	459	1,208	885	681	555	2,128	3,329	457	
Rate (%)	34.1	35.4	40.1	33.6	35.3	35.1	38.4	33.0	35	35.4	34	
MI & P/L of Asso. Cos.	0	0	0	0	0	0	0	4	4.3	4	0.0	
Adj PAT	1,619	938	474	909	2,219	1,638	1,092	1,122	3,936	6,071	908	20.3%
YoY Change (%)	10.1	246.9	-2.3	1,250.4	37.1	74.5	130.4	23.5	71.6	54.3	91.6	
Margins (%)	9.6	7.3	4.0	6.2	11.9	10.7	7.5	6.8	7.0	9.4	6.4	

E: MOSL Estimates

**Krishnan Sambamoorthy – Research Analyst** (Krishnan.Sambamoorthy@MotilalOswal.com); +91 22 6129 1545

**Vishal Punmiya – Research Analyst** (Vishal.Punmiya@MotilalOswal.com); +91 22 6129 1547

**Investors are advised to refer through important disclosures made at the last page of the Research Report.**
**Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.**

### Other highlights from press release

- YTD volume growth was 15% for UBBL, ahead of the market.
- Management attributed the good results to market-leading volume growth, higher realizations and cost efficiencies in both input costs and fixed costs.
- Most markets witnessed strong growth, barring West Bengal and Uttar Pradesh.
- For 9MFY19:
  - a) In the north, UB saw significant volume growth in Rajasthan and Haryana, while volumes in Delhi were flat. Uttar Pradesh saw a decline due to capacity constraints.
  - b) In the south, the company saw double-digit volume growth in all states.
  - c) Growth in east was driven by Orissa and Jharkhand, while volumes continued declining in West Bengal.
  - d) In the west, all key markets saw single-digit growth with the rest of Maharashtra growing in double-digits. This was, however, due to the lower base in 3QFY18.
- Capex has been higher than usual at INR3b YTD due to expansion in the key markets to meet projected demand.

### Valuation and view

- We raise our FY19/20 EPS estimate by 4.2%/2.9% to factor in the better-than-expected 3QFY19 performance. Long-term volume and earnings growth opportunity (FY18 PAT at USD 55m) is immense for India's largest beer player with strong barriers to entry in the form of distribution, brewery reach, scale and brands. Operating environment appears to be improving at a healthy pace, market share gains continue and profitability is increasing, indicating healthy pace of earnings growth ahead.
- Election-related disruptions in the summer of 2018 could be a near-term dampener. The anti-trust issue remains an overhang, leading us to now value UBBL in line with peer multiples, instead of 10% premium earlier. Valuing the company at 28x Dec'20E EV/EBITDA, we derive a target price of INR1,660. Maintain **Buy**.

**Exhibit 1: Changes to our model lead us to raise our EPS estimate by 4.2%/2.9% for FY19/20**

INR M	New			Old			% Change		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Total Income	64,906	73,344	84,345	64,625	74,319	85,467	0.4%	-1.3%	-1.3%
EBITDA	12,137	13,862	16,279	11,697	13,749	16,153	3.8%	0.8%	0.8%
Adjusted PAT	6,072	7,080	8,458	5,826	6,879	8,241	4.2%	2.9%	2.6%

Source: Company, MOSL

## Financials and Valuations

### Consolidated - Income Statement

(INR Million)

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Total Income from Operations</b>	<b>46,990</b>	<b>48,408</b>	<b>47,603</b>	<b>56,196</b>	<b>64,906</b>	<b>73,344</b>	<b>84,345</b>
Change (%)	11.1	3.0	-1.7	18.1	15.5	13.0	15.0
Raw Materials	18,937	21,209	21,779	26,315	29,999	33,598	38,403
% of Sales	40.3	43.8	45.8	46.8	46.2	45.8	45.5
<b>Gross Profit</b>	<b>28,053</b>	<b>27,198</b>	<b>25,823</b>	<b>29,881</b>	<b>34,907</b>	<b>39,745</b>	<b>45,942</b>
Margin (%)	59.7	56.2	54.2	53.2	53.8	54.2	54.5
Employees Cost	3,010	3,386	3,563	3,992	4,403	4,976	5,672
% of Sales	6.4	7.0	7.5	7.1	6.8	6.8	6.7
Other Expenses	18,717	16,807	15,529	16,864	18,367	20,907	23,991
% of Sales	39.8	34.7	32.6	30.0	28.3	28.5	28.4
<b>Total Expenditure</b>	<b>40,664</b>	<b>41,402</b>	<b>40,871</b>	<b>47,170</b>	<b>52,769</b>	<b>59,482</b>	<b>68,066</b>
% of Sales	86.5	85.5	85.9	83.9	81.3	81.1	80.7
<b>EBITDA</b>	<b>6,326</b>	<b>7,006</b>	<b>6,732</b>	<b>9,025</b>	<b>12,137</b>	<b>13,862</b>	<b>16,279</b>
Margin (%)	13.5	14.5	14.1	16.1	18.7	18.9	19.3
Depreciation	2,075	2,436	2,871	2,597	2,720	3,089	3,457
<b>EBIT</b>	<b>4,251</b>	<b>4,569</b>	<b>3,861</b>	<b>6,429</b>	<b>9,416</b>	<b>10,773</b>	<b>12,822</b>
Int. and Finance Charges	651	787	560	456	263	158	113
Other Income	190	764	180	105	251	201	211
<b>PBT bef. EO Exp.</b>	<b>3,790</b>	<b>4,547</b>	<b>3,481</b>	<b>6,078</b>	<b>9,404</b>	<b>10,815</b>	<b>12,920</b>
EO Items	0	0	0	0	0	0	0
<b>PBT after EO Exp.</b>	<b>3,790</b>	<b>4,547</b>	<b>3,481</b>	<b>6,078</b>	<b>9,404</b>	<b>10,815</b>	<b>12,920</b>
Total Tax	1,188	1,560	1,182	2,132	3,329	3,731	4,457
Tax Rate (%)	31.3	34.3	34.0	35.1	35.4	34.5	34.5
Less: Minority Interest	4	4	4	4	4	4	4
<b>Adjusted PAT</b>	<b>2,598</b>	<b>2,983</b>	<b>2,296</b>	<b>3,942</b>	<b>6,072</b>	<b>7,080</b>	<b>8,458</b>
Change (%)	15.0	14.8	-23.0	71.7	54.0	16.6	19.5
Margin (%)	5.5	6.2	4.8	7.0	9.4	9.7	10.0

### Consolidated - Balance Sheet

(INR Million)

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	264	264	264.4	264	264	264	264
Total Reserves	18,587	21,207	23,078	26,638	31,905	38,062	45,439
<b>Net Worth</b>	<b>18,851</b>	<b>21,471</b>	<b>23,342</b>	<b>26,903</b>	<b>32,169</b>	<b>38,327</b>	<b>45,703</b>
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	3,721	3,721	4,521
<b>Capital Employed</b>	<b>29,040</b>	<b>30,193</b>	<b>29,780</b>	<b>30,235</b>	<b>36,101</b>	<b>42,259</b>	<b>50,435</b>
Gross Block	30,936	33,084	35,089	37,208	40,508	45,308	50,708
Less: Accum. Depn.	12,820	15,104	17,827	20,152	22,872	25,962	29,418
<b>Net Fixed Assets</b>	<b>18,116</b>	<b>17,980</b>	<b>17,262</b>	<b>17,056</b>	<b>17,636</b>	<b>19,347</b>	<b>21,290</b>
Goodwill on Consolidation	242	242	242	242	242	242	242
Capital WIP	902	608	1,372	723	1,135	1,667	1,953
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>21,569</b>	<b>24,827</b>	<b>25,911</b>	<b>29,212</b>	<b>34,397</b>	<b>39,259</b>	<b>45,225</b>
Inventory	6,101	6,881	7,508	8,080	9,702	10,392	12,717
Account Receivables	9,318	11,189	12,954	14,986	17,378	19,193	22,864
Cash and Bank Balance	132	140	243	242	1,118	3,166	2,810
Loans and Advances	6,018	6,618	5,205	5,904	6,199	6,509	6,834
<b>Curr. Liability &amp; Prov.</b>	<b>11,789</b>	<b>13,466</b>	<b>15,007</b>	<b>16,999</b>	<b>17,310</b>	<b>18,257</b>	<b>18,277</b>
Account Payables	3,799	4,176	4,596	5,217	6,164	6,697	8,093
Provisions	7,991	9,291	10,412	11,782	11,147	11,561	10,184
<b>Net Current Assets</b>	<b>9,779</b>	<b>11,361</b>	<b>10,903</b>	<b>12,212</b>	<b>17,087</b>	<b>21,002</b>	<b>26,948</b>
<b>Appl. of Funds</b>	<b>29,040</b>	<b>30,193</b>	<b>29,780</b>	<b>30,235</b>	<b>36,101</b>	<b>42,259</b>	<b>50,435</b>

E: MOSL Estimates

## Financials and Valuations

### Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>9.8</b>	<b>11.3</b>	<b>8.7</b>	<b>14.9</b>	<b>23.0</b>	<b>26.8</b>	<b>32.0</b>
Cash EPS	17.7	20.5	19.5	24.7	33.3	38.5	45.1
BV/Share	71.3	81.2	88.3	101.7	121.7	145.0	172.9
DPS	1.0	1.2	1.2	2.0	2.3	2.7	3.2
Payout (%)	10.2	10.2	13.2	13.4	10.0	10.0	10.0
<b>Valuation (x)</b>							
P/E	142.9	124.4	161.7	94.2	61.1	52.4	43.9
Cash P/E	79.4	68.5	71.9	56.8	42.2	36.5	31.2
P/BV	19.7	17.3	15.9	13.8	11.5	9.7	8.1
EV/Sales	8.1	7.8	7.9	6.7	5.8	5.1	4.4
EV/EBITDA	60.2	54.1	56.0	41.4	30.8	26.8	22.9
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.2	0.2	0.2
FCF per share	16.4	12.8	11.7	13.7	5.1	11.9	0.2
<b>Return Ratios (%)</b>							
RoE	14.5	14.8	10.2	15.7	20.6	20.1	20.1
RoCE	10.6	12.1	9.1	14.3	18.9	18.4	18.5
RoIC	10.6	10.5	8.9	14.5	19.3	19.8	20.2
<b>Working Capital Ratios</b>							
Asset Turnover (x)	1.6	1.6	1.6	1.9	1.8	1.7	1.7
Inventory (Days)	45	49	55	51	50	50	50
Debtor (Days)	73	77	93	91	91	91	91
Creditor (Days)	23	30	34	32	32	32	32
<b>Leverage Ratio (x)</b>							
Debt/Equity	0.5	0.4	0.3	0.1	0.1	0.1	0.1

### Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
OP/(Loss) before Tax	3,790	4,547	3,481	6,078	9,405	10,815	12,919
Depreciation	2,075	2,436	2,871	2,597	2,720	3,089	3,457
Interest & Finance Charges	718	755	581	471	263	158	113
Direct Taxes Paid	-1,423	-1,595	-1,435	-2,534	-2,497	-2,798	-3,343
(Inc)/Dec in WC	3,381	-777	22	-1,265	-5,257	-3,347	-7,717
<b>CF from Operations</b>	<b>8,541</b>	<b>5,365</b>	<b>5,519</b>	<b>5,346</b>	<b>4,634</b>	<b>7,917</b>	<b>5,429</b>
Others	-132	441	-78	287	0	0	0
<b>CF from Operating incl EO</b>	<b>8,408</b>	<b>5,806</b>	<b>5,441</b>	<b>5,633</b>	<b>4,634</b>	<b>7,917</b>	<b>5,429</b>
(Inc)/Dec in FA	-4,069	-2,430	-2,355	-2,014	-3,280	-4,780	-5,380
<b>Free Cash Flow</b>	<b>4,339</b>	<b>3,376</b>	<b>3,086</b>	<b>3,619</b>	<b>1,354</b>	<b>3,137</b>	<b>49</b>
(Pur)/Sale of Investments	0	0	0	0	0	0	0
Others	774	-24	15	-45	0	0	0
<b>CF from Investments</b>	<b>-3,295</b>	<b>-2,455</b>	<b>-2,340</b>	<b>-2,060</b>	<b>-3,280</b>	<b>-4,780</b>	<b>-5,380</b>
Issue of Shares	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-4,699	-1,857	-2,122	-2,820	600	0	800
Interest Paid	-715	-794	-583	-507	-263	-158	-113
Dividend Paid	-303	-317	-307	-308	-812	-930	-1,091
Others	0	0	0	1	-29	-31	-32
<b>CF from Fin. Activity</b>	<b>-5,717</b>	<b>-2,968</b>	<b>-3,012</b>	<b>-3,634</b>	<b>-504</b>	<b>-1,119</b>	<b>-437</b>
<b>Inc/Dec of Cash</b>	<b>-604</b>	<b>383</b>	<b>89</b>	<b>-61</b>	<b>850</b>	<b>2,018</b>	<b>-388</b>
Opening Balance	665	62	34	126	154	1,033	3,082
Cash eqv	70	-305	120	177	114	115	116
<b>Closing Balance</b>	<b>132</b>	<b>140</b>	<b>243</b>	<b>242</b>	<b>1,118</b>	<b>3,166</b>	<b>2,810</b>

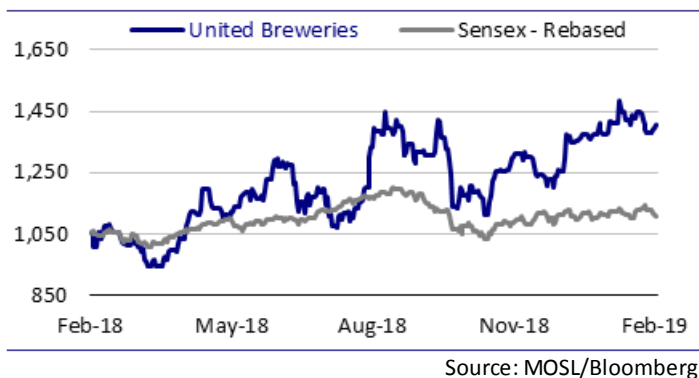
E: MOSL Estimates

## 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



### Exhibit 2: Shareholding pattern (%)

	Dec-18	Sep-18	Dec-17
Promoter	57.7	57.7	73.3
DII	19.6	19.7	4.3
FII	17.0	17.1	16.9
Others	5.7	5.5	5.4

Note: FII Includes depository receipts

Source: Capitaline

### Exhibit 4: Top management

Name	Designation
Shekhar Ramamurthy	Managing Director
Steven Bosch	Director & CFO
Govind Iyengar	Company Secretary

Source: Capitaline

### Exhibit 6: Auditors

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

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	1.5
FIRST STATE INVESTMENTS ICVC- STEWART INVESTORS GLOBAL EMERGING MARKET	1.4

Source: Capitaline

### Exhibit 5: Directors

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

\*Independent

### Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	23.0	22.1	3.9
FY20	26.8	26.6	0.8
FY21	32.0	32.1	-0.3

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

\*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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