



Stock Note

United Breweries Ltd.



April 29, 2024



Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Alcobev	Rs. 2048	Buy in Rs 2030–2050 band and add on dips in Rs 1820-1840 band	Rs 2245	Rs 2401	2-3 quarters

HDFC Scrip Code	UNIBREEQNR
BSE Code	532478
NSE Code	UBL
Bloomberg	UBBL IN
CMP Apr 26, 2024	2,048
Equity Capital (Rs Cr)	26.4
Face Value (Rs)	1.0
Equity Share O/S (Cr)	26.4
Market Cap (Rs Cr)	48,491
Book Value (Rs)	152.0
Avg. 52 Wk Volumes	2,68,724
52 Week High	2106
52 Week Low	1372

Share holding Pattern % (Mar, 2024)	
Promoters	70.8
Institutions	22.7
Non Institutions	6.5
Total	100.0



* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst

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Our Take:

United Breweries Limited (UBL) has been at the forefront of the Indian beer industry over the last century, starting out with 5 breweries in South India in 1915. The company's iconic 'Kingfisher' brand has made its impact across the country. UBL has been a market leader in the beer industry, consistently boasting more than 50% market share over the past decade. UBL is now part of the global leader Heineken Group, which owns a majority stake in the company. UBL's pan-India distribution with presence even in the most remote retail outlets and a strong network of breweries in the country have given it a distinct edge over its closest competitors.

With a daily manufacturing capacity of 360,000 litres, the company has focused its investments in further strengthening its supply chain in multiple states within the country. Beer penetration in India continues to remain miniscule at around 2 litres per capita per annum as compared to the global average of 30. The beer market in India is expected to grow at a CAGR of ~9-10% over the next few years, driven by a positive demographic dividend, shift towards premiumization with rising income levels, preference towards lower alcohol content liquor and increasing traction of new varieties of beer. UBL is at the forefront to capture this growth with its quality product portfolio across different price points and different varieties.

The company is backed by the Heineken group, a global giant in the beer industry and is also growing its international presence and is now available in more than 60 countries with licenses in Europe, Australia, New Zealand, Singapore and Nepal. However, exports form a small portion of the company's revenue and the Indian market continues to be a key growth driver for the company.

Valuation & Recommendation:

After facing multiple headwinds from the COVID-19 pandemic, regulatory changes and unprecedented increase in raw material prices, UBL is now back on track, registering high single digit volume growth over the last two quarters. This coupled with higher growth in the Premium portfolio and better state mix has resulted in low double digit revenue growth in recent quarters. With the expectation of a hotter than usual summer in CY24 and increasing beer consumption as compared to other alcoholic beverages in India, we expect the company to return to 7-8% volume growth over the next few years. With a focus on strengthening the premium portfolio, realizations are expected to further improve from hereon.

On the margin front, the prices of its key raw materials barley, soda ash (production of glass bottles) and aluminum (production of beer cans) have been on a declining trajectory in the past few quarters and are expected to stabilize going forward. Softening of raw material prices, improving share of price/state mix and intervention through cost initiatives is expected to result in improved gross margins.

The company recently reported Heineken India's revenue to have grown by 20% YoY in India in Jan-Mar 2024, driven by volume growth and positive price mix. Heineken India's beer volumes grew in low-teens, ahead of the market, owing to route-to-market changes from last year, which bodes well for UBL, going forward.

We think the base case fair value of the stock is Rs 2245 (65.0x FY26E EPS) and the bull case fair value is Rs 2401 (69.5x FY26E EPS). Investors can buy the stock in Rs 2030-2050 band (59.0x FY26E EPS) and add more on dips in Rs 1820-1840 (53.0x FY26E EPS) band.

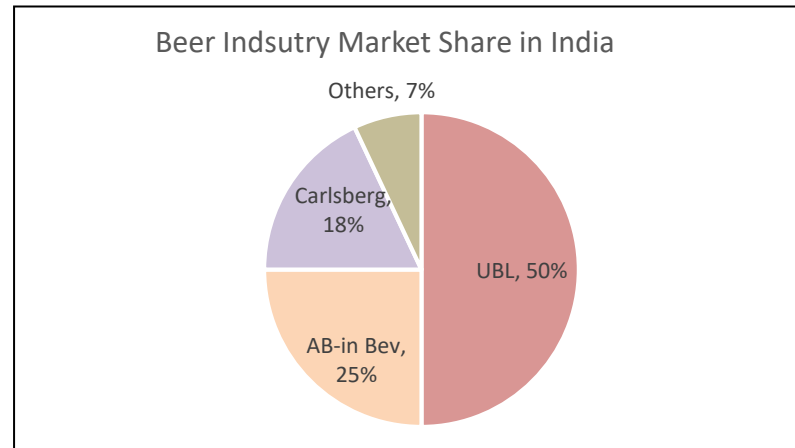
Financial Summary

Particulars (Rs cr)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Operating Income	1824	1613	13%	1890	-3%	7500	8092	9033	10225
EBITDA	146	77	90%	184	-21%	616	797	1021	1360
APAT	85	-2	4432%	107	-20%	304	486	657	913
Diluted EPS (Rs)	3.2	-0.1	4714%	4.1	-20%	11.5	18.4	24.8	34.5
RoE (%)						7.7	11.9	15.1	19.3
P/E (x)						178	111	82	59
EV/EBITDA (x)						87	67	52	39

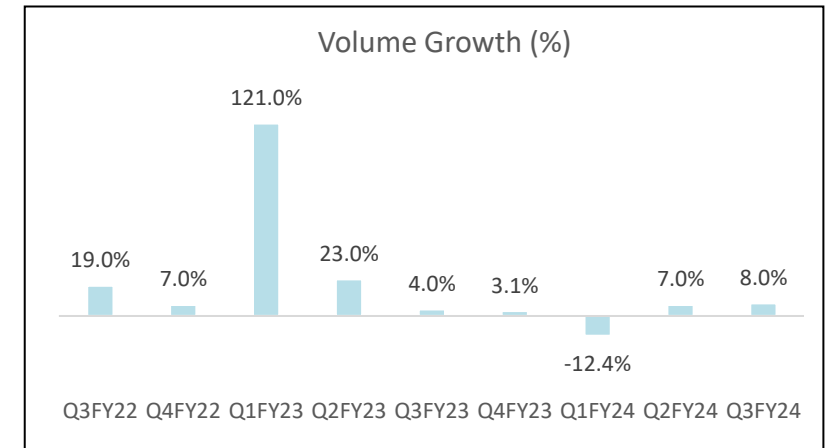
(Source: Company, HDFC sec)

Charts in Focus

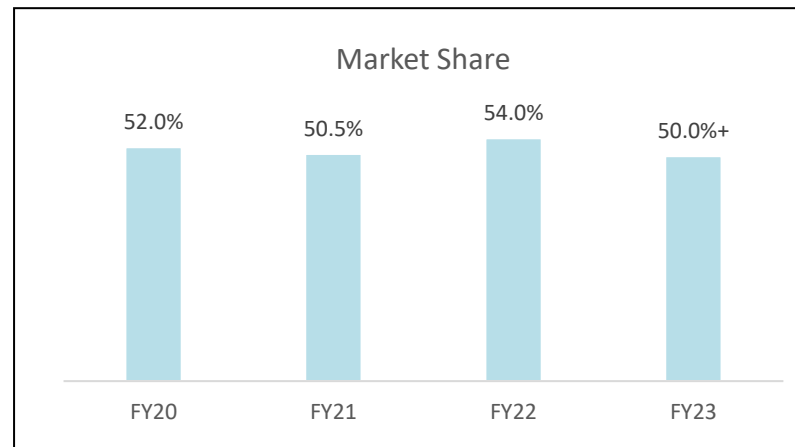
Dominant player in Indian beer industry



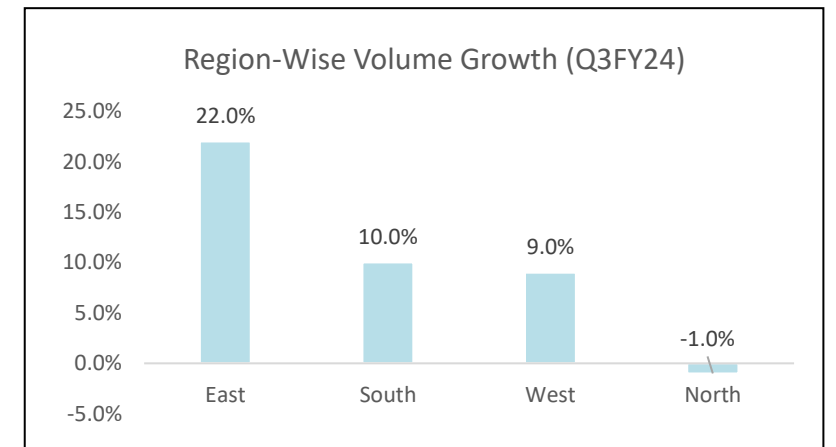
Volume growth to remain in high single digits



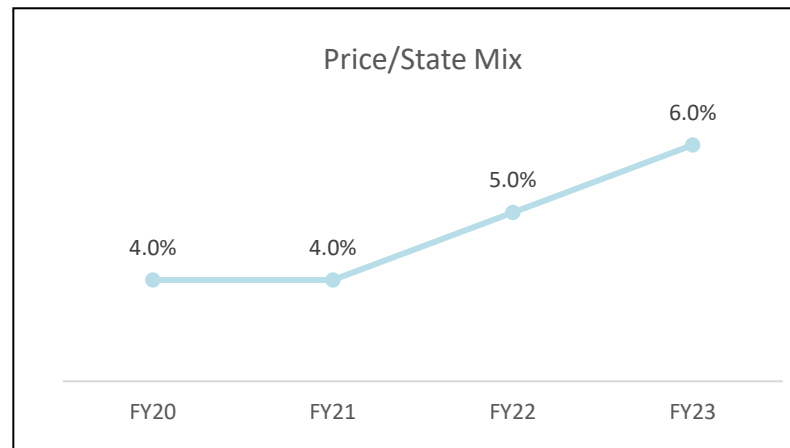
Maintaining 50%+ market share through multiple headwinds



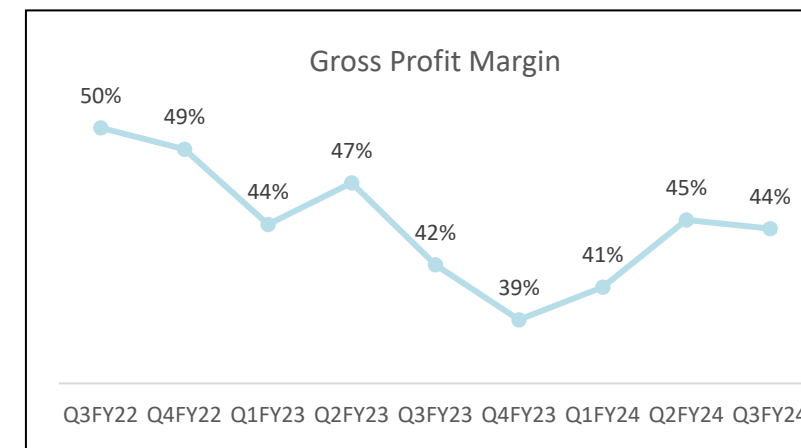
Strong growth in Eastern and Southern states



Premiumization/Positive State-mix driving incremental growth



Gross Profit Margins seem to have bottomed out



(Source: Company, HDFC sec)

Q3FY24 Result Update

UBL reported a strong quarter in Q3FY24 with a 13.1% YoY growth in net sales during the quarter to Rs 1,824 cr as compared to Rs 1,613 cr in Q3FY23. The growth in revenue was underpinned by a broad-based overall volume growth of 8% YoY. The price mix was +5% during the quarter, with price increases in key markets like Rajasthan, Uttar Pradesh and Karnataka.

Premium segment witnessed volume growth of 14% YoY with a strong double-digit volume growth in some of its key premium brands like Ultra Max, during the quarter. Overall, the company is back on track with volume growth of 7% and 8% YoY in Q2FY24 and Q3FY24, respectively, after a negative 12.4% volume growth in Q1 of the current financial year, which was impacted by some route-to-market (RTM) and supply chain challenges.

The state mix was mildly positive with positive traction in states like Tamil Nadu, Telangana, Orissa, Maharashtra and Rajasthan, partially offset by demand headwinds in some of its other markets like Delhi and Kerala, during the quarter.

East - The company witnessed a robust 22% YoY volume growth during the quarter in the Eastern states of Orissa and Jharkhand.

North - This was partially offset by a 1% YoY decline in the Northern states. Within north, volume decline in Delhi and Haryana was partially offset by growth in Punjab and Rajasthan.

West - Western states have returned a positive year-on-year volume growth for last 7 quarters in a row, registering 9% YoY growth during the quarter, predominantly driven by volume growth in Maharashtra and Goa.

South - After facing some RTM challenges in the states of Tamil Nadu and Andhra Pradesh earlier this financial year, southern states continued its double-digit volume growth trajectory, growing 10% YoY during the quarter. While the company witnessed positive volume growth in Tamil Nadu, Telangana and Andhra Pradesh, this was partially offset by headwinds in Kerala during the quarter.

With continued softening in raw material prices since Q2FY24, UBL witnessed 213 bps YoY increment in Gross Profit margins in Q3FY24. However, on a YTD basis the Gross margins of the company stood at 43.0% in 9MFY24 as compared to 44.5% in 9MFY23 as it continued to face some challenges in the prices of glass bottles and supply chain issues in bottle returns. The company has taken corrective actions to mitigate some of these supply chain issues during the quarter. We believe that the continued improvement in raw material prices coupled with continued investment by UBL in revenue management and cost initiatives, could result in further margin improvement in the upcoming quarters.

During the first 9 months of FY24, the company has invested around Rs 134 cr in capex, primarily y in supply chain initiatives to cater for future growth. During the quarter, UBL also launched its Heineken Silver draught beer in Maharashtra, aiming to provide consumers with a premium, smooth-tasting beverage tailored for social occasions.

Investment Rationale

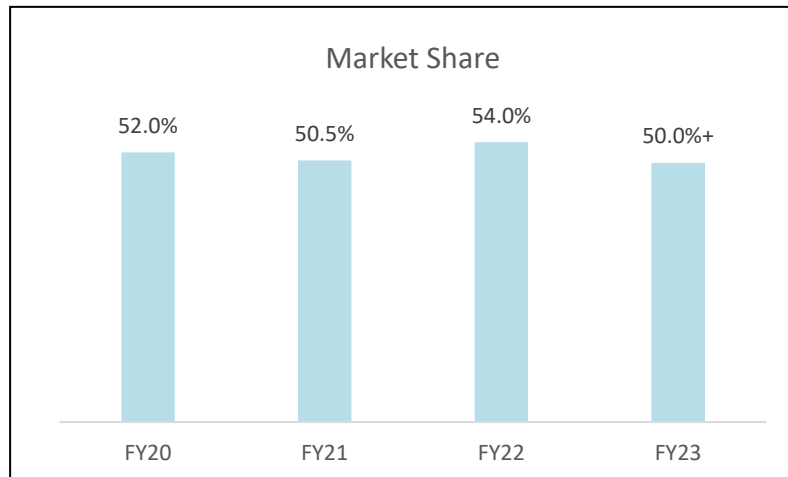
The reigning ‘King of Good Times’

A behemoth in the rapidly growing Indian beer market, UBL continues to enjoy an undisputed leadership in the country and has maintained its market share of more than 50% in the industry despite facing multiple challenges like impact from the COVID pandemic, stringent government laws and regulations, unprecedented increase in raw material prices, advent of multiple new brands and increasing competition from foreign players. AB InBev which houses popular brands like Budweiser, Hoegaarden and Corona occupies the number 2 position in the market but comes nowhere close to UBL, only capturing half of its market share in the industry and is followed by Carlsberg with ~18% market share.

UBL has built its strong leadership position with a strong network of breweries across the country and a well-diversified portfolio across different variants and price points. The company’s iconic ‘Kingfisher’ brand is almost synonymous with the product itself and enjoys a strong brand recall across the country. This is well complemented with the global leader Heineken also being a key part of the company’s domestic and international portfolio.

UBL has continued to focus on robust innovations in its product portfolio to solidify its market leadership position. Its most recent launches such as ‘Queenfisher: The Queen of Good Times’ lager beer, the London Pilsner Strong beer and Heineken Silver draught beer are testament to its product innovation capabilities. Strong backing from the Heineken Group, continued focus on marketing and promotional campaigns leading to improved brand recognition and increased investment in distribution capabilities makes the company - truly the undisputed ‘King’ in the Indian beer market.

Behemoth in the Indian Beer Industry



Premiumization and innovation to pave the way for future growth



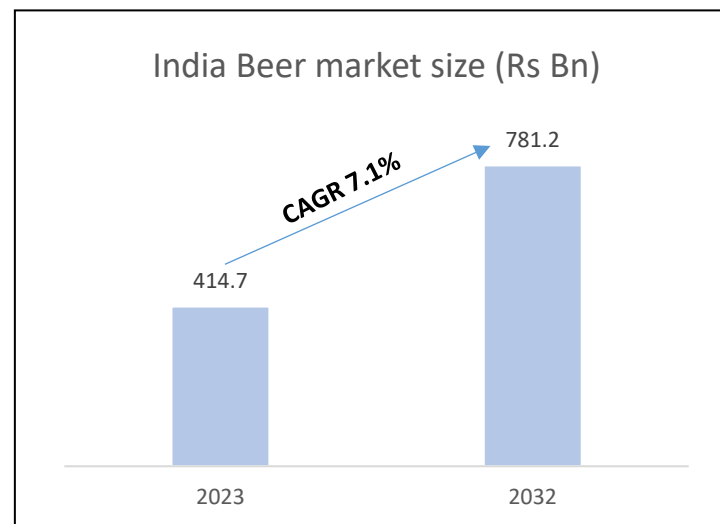
(Source: Company, HDFC sec)

Poised to benefit from increased consumption as Indians ‘Beer up’ their alcohol preferences

The beer market in India is expected to grow in the high single digits over the next few years, buoyed by positive demographics, increasing premiumization, improving trade channels, increasing preference towards lower alcohol content liquor (such as beer) and increasing popularity of new varieties such as craft beer and pilsner.

Indian Made Foreign Liquor (IMFL) continues to dominate the Indian alcoholic beverages (AlcobeV) industry with beer still constituting a relatively smaller portion of the total AlcobeV market in India. Of around 200 million liquor consumers of any kind in India, only about 85-90 million drink beer. This presents a huge opportunity of capturing an increasing share of an already growing pie for the company. Rising levels of income coupled with aspirational consumer base in the country has also resulted in increasing premiumization, resulting in a positive price mix for the company. Unsurprisingly, UBL’s premium segment volume has been growing in the lower double-digits as opposed to higher single digit in overall volume growth for the company. As the company further builds towards high quality premium portfolio we expect per case realization and in-turn margins to improve going forward.

Huge headroom for growth in the Indian beer industry



(Source: Company, HDFC sec)

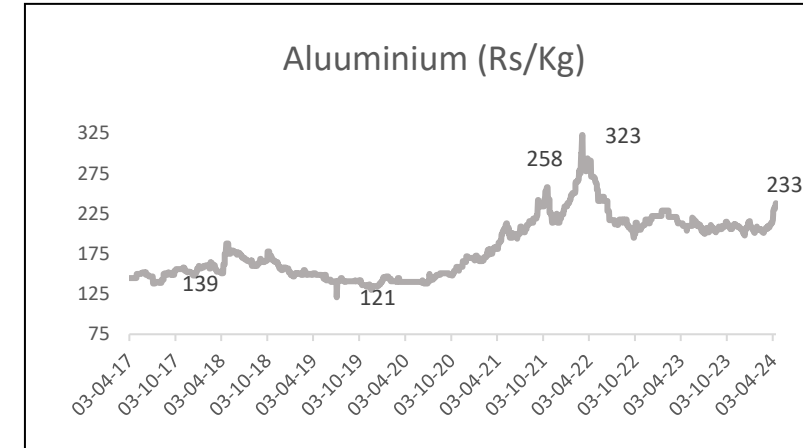
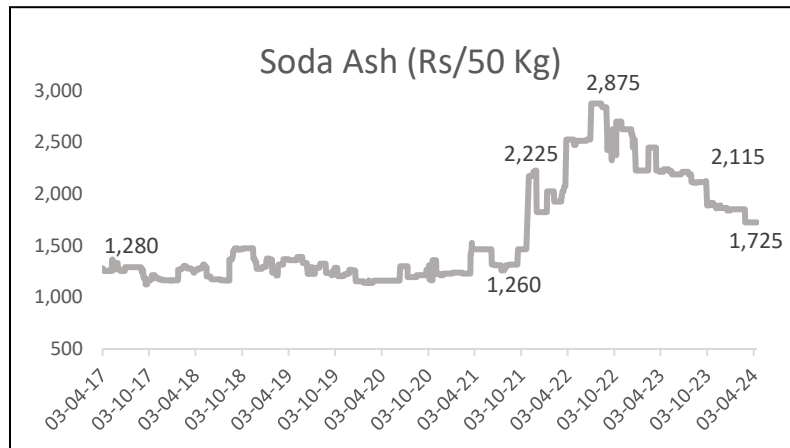
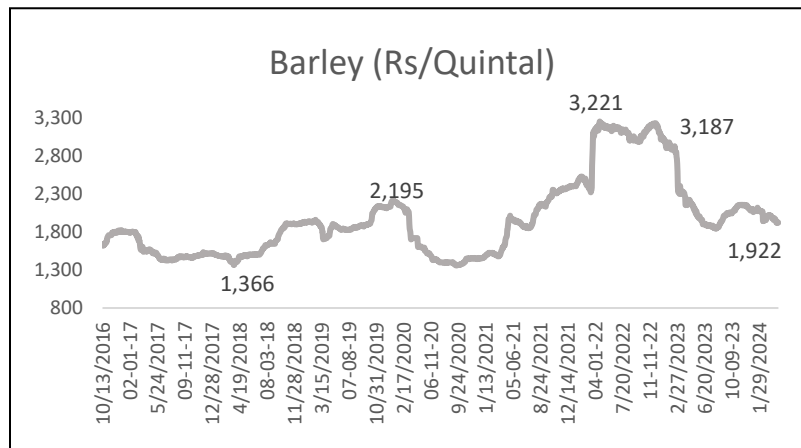
Softening of raw material prices and cost corrective measures to aid margin expansion

With an unprecedented increase in raw material prices post the COVID-19 pandemic, the company has witnessed a significant drop in its gross margins from more than 50% pre-pandemic to around 44%-45% levels. With increase in MSP and higher procurement prices, grain prices had rallied over the last few quarters. However, led by a good Rabi harvesting season, Barley (key component in beer production) prices are expected to fall in the upcoming quarters. Barley and rice together constitute around 20-25% of the production cost for beer companies.

The other significant chunk i.e. packaging cost, which constitutes around 60-65% of the manufacturing cost has continued to pose challenges for beer companies in the recent past. Soda Ash (for production of glass bottles) and Aluminum (for production of beer cans) both saw significant price increases due to supply chain disruptions first from the pandemic and subsequently due to the ongoing geopolitical tensions across the globe. UBL has also seen an increase in cost of glass bottles as it has not been able to increase the mix of return bottles in the market and also recent new launches have seen higher share of new bottles introduced in the market, resulting in higher input costs.

With prices of key raw materials – Barley, Soda Ash and Aluminum softening over the last few quarters, coupled with corrective actions taken by the company, we believe that the gross margins should further improve in the upcoming quarters.

Normalization in raw material prices post sharp surge after COVID



(Source: Company, HDFC sec)

Ingenious brand building keeps it ahead of competition

UBL is quite perceptive when it comes to creative and promotional brand building. Kingfisher has a high recall value, given its prevalence at major sporting events (IPL, ICC Cricket World Cup 2023 etc.) event tie-ups (Zomaland, Beered Up and The Grub Fest) and campaigns. During lockdown, the company launched that ‘Kingfisher Lockdown Anthem’ encouraging people to stay connected and the classic ‘Oo La La Le O’ jingle which made debut in 1990s was remixed. During IPL, the campaigns showcasing major cricket superstars to boost visibility, strengthen the brand association and reinforce the ‘Spread the Cheer’ essence of the company. UBL on-boarded popular superstars Varun Dhawan and Rashmika Mandanna in its latest ad campaign which garnered significant impact both on TV and retail outlets. Kingfisher is also the sponsor of Asia’s largest music festival ‘Sunburn’.

In FY23 Kingfisher Ultra forayed further into the world of music by launching its own music IP – ULTRA SOULFLYP in 4 cities. The company also partnered with India’s largest gaming and e-sports platform appealing to the GenZ population and generated 88 mn+ social media impressions, reaching more than 30 mn people. We believe company’s unique brand placement strategies will continue attracting more and more young population thus creating a strong customer base.

Continuous investment in brand marketing through tie-ups with popular celebs and sporting events



(Source: Company, HDFC sec)



A hotter than usual summer to provide near term impetus to volume growth

Beer companies witnessed a subdued summer season last year due to unseasonal rains. However, the expectation of a hotter than usual summer this year aligning with the ongoing IPL season followed by the T20 Cricket World Cup should ring in healthy volumes for the company in the next couple of quarters, off-setting dry day spells during the general election days. Summer sales account for roughly 40-45% of the annual beer volumes of the company. For FY25, the Indian alcohol industry is expected to grow at ~4-5% in terms of volumes whereas beer volumes are expected to grow marginally higher. We expect UBL to continue to grow its volume in high single digits due to its superior brand positioning, innovative product launches and market leadership.

Risks & Concerns:

Changes in regulatory environment

India lacks a uniform alcohol policy across the country and the regulations and taxes on alcohol are levied by each state individually. This regulatory disparity poses a significant challenge and delay in market penetration as the companies cope up with the ever changing regulatory environment in different states.

Restriction in interstate exports

Due to restrictions in inter-state exports of alcohol, companies are required to set up local supply chains in each state to gain penetration in the particular state. This poses additional challenge

for the company as it tries to increase its footprint in more and more states within the country.

Pricing challenges

Pricing continues to remain a challenge for the category since with continuous increase in excise duties, end consumer prices continue to experience upsurge with no benefit to the company.

Political Risk

There is an increased tendency towards prohibition in an election year. Another concern emerges from the dependence on state governments to get price increases. Margins may get severely impacted in case of inflation in raw material costs or any increase in cost due to change in regulations.

Distribution Concerns

Significant changes in route to market strategies by various state governments pose a concern on establishing distribution network with new intermediaries. This also poses credit risk in case the existing distributors default due to the closure of their respective businesses.

Volatility in raw material prices

While the raw material prices have softened over the last couple of quarters, prices of bottles continue to remain volatile which may impact the company's margin improvement trajectory, going forward.

Peer comparison

While UBL's closest peers, which are primarily into beers are unlisted, United Spirits and Radico Khaitan are considered as its peers in the broader alcobev segment.

Company	Mcap (Rs cr)	Revenue				EBITDA Margin				PAT				RoE				P/E			
		FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
United Breweries	54085	7500	8092	9033	10225	8.2	9.9	11.3	13.3	305	486	657	913	7.7	11.9	15.1	19.3	177.9	111.4	82.3	59.2
United Spirits	87260	10374	10652	11984	13186	13.7	16.1	17.0	17.5	924	1138	1398	1600	16.6	17.3	17.8	17.1	94.4	76.6	62.4	54.5
Radico Khaitan	23102	3143	4242	4898	5347	11.4	12.7	14.3	15.5	204	283	395	479	8.5	10.4	12.7	14.8	113.8	81.6	58.6	48.3

(Source: HDFC sec, Bloomberg)

Company Background

United Breweries (UBL) is engaged in the manufacturing, marketing and distribution of beer. UBL has an association with brewing dating back over nine decades, starting with 5 breweries in South India in 1915. UBL has become the undisputed 'king' in the Indian beer market- with more than 50% market share. It also has widespread production footprint spread across 13 states in India and 21 manufacturing plants. It also has a global presence with manufacturing and supply license agreement in the UK (with supplies to the European market), Australia, New Zealand, Singapore and Nepal. Its flagship brand 'Kingfisher', has achieved international recognition consistently, and has won many awards in International Beer Festivals. Kingfisher Premium Lager beer is currently available in 60+ countries and leads the way amongst Indian beers in the International market. The company's other brands include Bullet, Cannon 10000, Kalyani, UB Export, Zingaroo, and London Pilsner. In 2005, UBL entered into strategic alliance with Scottish & Newcastle. Scottish & Newcastle acquired equity shares of UBL and became an equal promoter. Later in 2009, Heineken N.V. acquired control over Scottish & Newcastle, and became promoter of UBL. Heineken increased its stake in the company over FY14-FY22 and now owns 61.5%.

UBL Marquee Product Portfolio



Heineken



Heineken Silver



Kingfisher Premium



Kingfisher Strong



Bullet



Bullet Super Strong



Cannon 10000



Kingfisher Ultra



Kingfisher Ultra Max



Kingfisher Ultra Witbier



Amstel Bier



Kingfisher Storm



Kingfisher Blue



Kalyani Black Label

Financials

Income Statement

(Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	5838	7500	8092	9033	10026
Growth (%)	37.6	28.5	7.9	11.6	13.2
Operating Expenses	5142	6884	7294	8012	8865
EBITDA	697	616	797	1021	1360
Growth (%)	82.8	-11.5	29.4	28.0	33.2
EBITDA Margin (%)	11.9	8.2	9.9	11.3	13.3
Depreciation	217	211	206	211	217
Other Income	30	49	66	77	87
EBIT	509	455	658	887	1230
Interest expenses	15	5	7	6	6
PBT	494	417	651	880	1224
Tax	128	113	165	224	311
Adj. PAT	366	305	486	657	913
Growth (%)	222.7	-16.8	59.8	35.2	39.1
EPS	13.8	11.5	18.4	24.8	34.5

Balance Sheet

As at March (Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
SOURCE OF FUNDS					
Share Capital	26	26	26	26	26
Reserves & Surplus	3909	3938	4160	4473	4923
Shareholders' Funds	3935	3965	4186	4499	4950
Minority Interest	4	5	5	5	5
Total Debt	10	16	16	16	16
Net Deferred Taxes	0	0	0	0	0
Other Non-curr. Liab.	29	23	22	32	32
Total Sources of Funds	3978	4008	4228	4552	5002
APPLICATION OF FUNDS					
Net Block & Goodwill	1913	1851	1675	1484	1277
CWIP	110	77	47	27	17
Investments	8	8	8	8	8
Other Non-Curr. Assets	539	658	710	792	897
Total Non-Current Assets	2570	2594	2440	2311	2199
Inventories	936	1428	1596	1683	1821
Debtors	1255	1407	1507	1683	1905
Cash & Equivalents	863	330	436	694	992
Other Current Assets	326	521	563	628	711
Total Current Assets	3379	3686	4102	4688	5429
Creditors	638	717	665	693	728
Other Current Liab & Provisions	1333	1556	1648	1755	1898
Total Current Liabilities	1971	2273	2313	2448	2626
Net Current Assets	1408	1414	1789	2241	2803
Total Application of Funds	3978	4008	4228	4552	5002

Cash Flow Statement

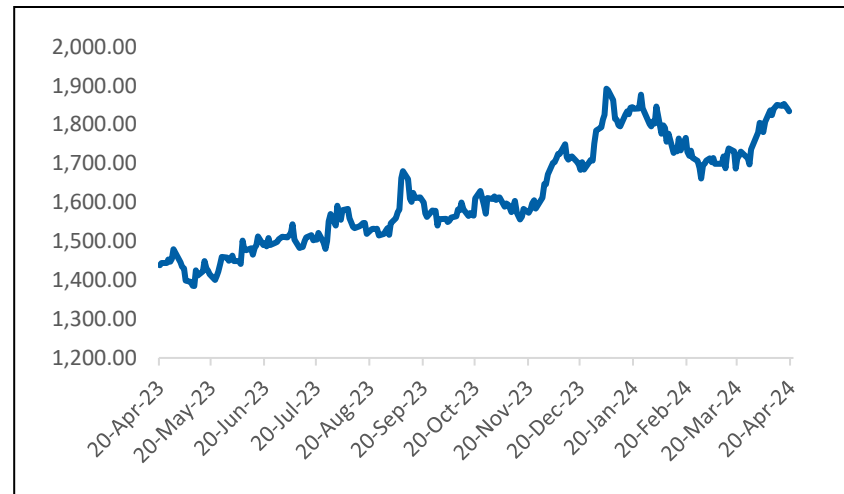
(Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	494	417	651	880	1224
Non-operating & EO items	4	4	-54	-72	-106
Interest Expenses	15	4	7	6	6
Depreciation	217	211	206	211	217
Working Capital Change	299	-616	-268	-193	-264
Tax Paid	-130	-140	-165	-224	-311
OPERATING CASH FLOW (a)	900	-120	377	609	766
Capex	-173	-154	0	0	0
Free Cash Flow	727	-274	377	609	766
Investments	-3	-6	0	0	0
Non-operating income	16	39	0	0	0
INVESTING CASH FLOW (b)	-160	-121	0	0	0
Debt Issuance / (Repaid)	-250	0	0	0	0
Interest Expenses	-18	-5	-7	-6	-6
FCFE	471	-245	370	603	760
Share Capital Issuance	0	0	0	0	0
Dividend	-13	-278	-264	-344	-463
Others	-5	-10	0	0	0
FINANCING CASH FLOW (c)	-287	-292	-271	-350	-469
NET CASH FLOW (a+b+c)	453	-533	106	259	297

Key Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Profitability Ratios (%)					
EBITDA Margin	11.9	8.2	9.9	11.3	13.3
EBIT Margin	8.7	6.1	8.1	9.8	12.0
APAT Margin	6.3	4.1	6.0	7.3	8.9
RoE	9.7	7.7	11.9	15.1	19.3
RoCE	13.1	11.5	16.1	20.3	26.0
Solvency Ratio (x)					
Net Debt/EBITDA	-1.2	-0.5	-0.5	-0.7	-0.7
Net D/E	-0.2	-0.1	-0.1	-0.2	-0.2
PER SHARE DATA (Rs)					
EPS	13.8	11.5	18.4	24.5	34.5
CEPS	22.0	19.5	26.2	32.8	42.7
BV	148.8	150.0	158.3	170.2	187.2
Dividend	10.5	7.5	10.0	13.0	17.5
Turnover Ratios (days)					
Debtor days	83	65	66	64	64
Inventory days	65	58	68	66	63
Creditors days	40	33	31	27	25
VALUATION					
P/E	148	178	111	82	59
P/BV	14	14	13	12	11
EV/EBITDA	76	87	67	52	39
EV / Revenues	9	7	7	6	5
Dividend Yield (%)	0.5	0.4	0.5	0.6	0.9
Dividend Payout (%)	76.0	65.2	54.4	52.3	50.7

(Source: Company, HDFC sec)

Price chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

I, **Darshil Shah (CA, MBA)**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Any holding in stock - **No**

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