

United Breweries (UBBL)

AlcoBev | 4QFY24 Result Update

BUY

CMP: Rs2,016 | Target Price (TP): Rs2,350 | Upside: 17%

May 8, 2024

Topline momentum strong; margin recovery to take more time

Key Points

- For three consecutive quarters UBBL has done well on volume growth, premiumization and market share growth. We expect this momentum to continue. This momentum alleviates a key investor concern that had emerged in the summer season last year when UBBL had witnessed an unprecedented market share loss, a large chunk of which has been recovered (including a 130bps gain in 4QFY24). With a likely strong summer season this year, demand outlook in the crucial 1Q period (which contributes ~35-40% to full-year EBITDA) seems very good.
- Margin recovery is taking more time than expected due to higher new bottle mix, weaker state mix and a spate of new launches.
- With initiatives underlined by the new CEO, Mr. Vivek Gupta, to grow the business and relatively benign excise environment compared to the past, we believe that the momentum in topline could potentially be much stronger than historical levels even if some investments being made result in a delayed recovery in EBITDA margin. With the momentum in sales & volume picking up and commodity costs benign, we expect healthy earnings growth over the next two years (~60% EBITDA CAGR over FY24-FY26E). Maintain BUY.

4QFY24 standalone performance: While UBBL's 4QFY24 performance beat our estimates on topline, modest expansion in margins led to miss vs our expectations. Net sales at Rs21.3bn (vs est Rs20.2bn) grew by ~21% YoY with volume growth of 10.9% YoY. The company registered strong growth in the Premium segment, with volume growing by 21% YoY. Expectations of healthy gross margin expansion were not met in 4QFY24 and hence gross margin was up by only ~310bps YoY at 41.7% (down 230bps QoQ) (our expectation was for 740bps YoY expansion). Lower operating expenses as a % of revenue: Employee expenses down 80bps YoY, but other costs up marginally by 30bps YoY meant that EBITDA margin saw an expansion of ~360bps at 6.7% (vs our est. of 11.5%).

FY24 standalone performance: Overall volume was up 1.8% with Premium segment's volume increasing by 3%. Revenue grew by 8.3%. EBITDA and APAT increased by 12.4% and 23.6%, respectively. Gross margin was down slightly ~40bps at 42.6% while EBITDA margin was up marginally ~30bps at 8.6%.

Appointment of CFO: UBBL appointed Mr. Jorn Kersten as new CFO (w.e.f. 1st Aug'24) to replace Mr. Radovan Sikorsky, who has resigned as Director & CFO of the company due to change in his role as 'Regional Chief Financial Officer' for Asia. [Brief profile of Mr. Jorn Kersten](#) - He joined Heineken in 2007 and has an experience of ~17 years. Currently, he is the Finance Director of Ethiopia. Previously, he was Regional Business Control Manager for the American Region. Before joining the American Region, he has held various positions in Heineken, the Netherlands. He has completed his MSC in Economics and Management Control from the University of Amsterdam and Executive Master of Finance & Control from the Nyenrode Business University.

Est Change	Downward
TP Change	No change
Rating Change	Maintain

Company Data and Valuation Summary

Reuters:	UBBW.BO
Bloomberg:	UBBL IN Equity
Mkt Cap (Rsbn/US\$bn):	533.0 / 6.4
52 Wk H / L (Rs):	2,106 / 1,373
ADTV-3M (mn) (Rs/US\$):	601.4 / 7.2
Stock performance (%) 1M/6M/1yr:	9.7 / 26.5 / 44.4
Nifty 50 performance (%) 1M/6M/1yr:	(0.7) / 1.7 / 22.1

Shareholding	2QFY24	3QFY24	4QFY24
Promoters	71.0	70.8	70.8
DII's	17.1	17.2	17.3
FII's	6.7	6.7	6.6
Others	5.2	5.2	5.3
Pro pledge	94.3	94.3	94.3

Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24	FY25E	FY26E
Net Sales	74,999	81,227	95,035	1,09,291
% Growth	28.5	8.3	17.0	15.0
Gross margin (%)	43.1	42.7	46.2	50.4
EBITDA	6,162	6,962	11,768	17,652
EBITDA margin (%)	8.2	8.6	12.4	16.2
% growth	-11.5	13.0	69.0	50.0
Adjusted PAT	3,282	4,100	7,638	11,982
APAT margin (%)	4.4	5.0	8.0	11.0
% growth	-10.2	24.9	86.3	56.9
EPS	12.4	15.5	28.9	45.3
% growth	-10.2	24.9	86.3	56.9
RoE (%)	8.3	10.1	17.6	25.4
RoCE (%)	7.6	9.3	17.0	24.8
P/E (x)	162.4	130.0	69.8	44.5
EV/EBITDA (x)	85.9	76.3	45.0	30.0

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links:

[4QFY24 IP](#)

[FY23 Annual Report](#)

Please refer to the disclaimer towards the end of the document.

Earnings call highlights: (1) Volume growth of ~11% in 4QFY24 with Premium segment growing by 21% YoY, led by Kingfisher Ultra, Kingfisher Ultra Max and Heineken brands (2) Price increases were taken in multiple markets, incl. Rajasthan, Karnataka and Andhra Pradesh (3) UBBL gained market share of ~130bps in 4QFY24. The company improved market share from 48-49% in the last two quarters to ~50% in 4QFY24 (4) There will be sequential as well as structural improvement in margins going forward. However, margin improvement to earlier high levels is likely to be gradual (5) Capex investments in FY24 was Rs1.9bn, primarily in supply chain initiatives to drive future growth (6) Proposal of a dividend of Rs10 per share (FV Re1 each) by the BOD for FY24.

View and Valuation: Changes to the model following EBITDA miss in 4QFY24 and higher investments being made for growth have led to ~13% cut in our FY25E EBITDA estimate, but cuts to FY26E EBITDA forecast is marginal. After a few years of weak earnings caused by Covid-19, market share loss and steep increase in barley costs, UBBL is in a sweet spot, underpinned by a healthy demand environment, growth initiatives being taken by the new CEO, recouping market share and a sharp decline in barley costs. If the demand environment remains favorable and RM costs benign, we believe that the company can potentially more than double EBITDA over FY24-FY26E. We had [upgraded UBBL to BUY](#) after the 2QFY24 results, [highlighted key investment arguments in a detailed report in November 2024](#), [chronicled the evolution of competition among the three large MNCs](#) that dominate the Indian beer market in a detailed report in Dec'24 and highlighted the [confluence of positives](#) being witnessed by the company in another report in April'24. The stock has been a significant outperformer in our Consumer Discretionary coverage universe over this period and we expect the same to continue. We arrive a target price (TP) of Rs2,350 (Rs2,380 earlier), maintaining our multiple of 35x FY26E EBITDA.

Exhibit 1: 4QFY24 standalone performance

Particulars (Rsmn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	FY23	FY24	4Q24E	Var
Net Sales	24,367	16,796	16,110	17,645	22,732	18,880	18,227	21,315	74,999	81,227	20,158	5.7%
YoY Change (%)	117.9	17.8	1.9	3.4	-6.7	12.4	13.1	20.8	28.5	8.3	14.2	-
Gross Profit	10,784	7,837	6,741	6,812	9,221	8,408	8,018	8,894	32,346	34,703	9,273	-
Margin (%)	44.3	46.7	41.8	38.6	40.6	44.5	44.0	41.7	43.1	42.7	46.0	-
EBITDA	2,651	2,191	807	535	2,228	1,846	1,456	1,420	6,162	6,962	2,322	-38.8%
YoY Change (%)	177.8	32.3	-61.5	-79.5	-15.9	-15.8	80.3	165.6	-11.5	13.0	334.3	-
Margins (%)	10.9	13.0	5.0	3.0	9.8	9.8	8.0	6.7	8.2	8.6	11.5	(4.9)
Depreciation	575	520	502	507	513	508	518	577	2,106	2,119	501	-
Interest	8	10	16	12	17	14	21	18	-288	-385	15	-
Other Income	104	143	130	116	103	122	241	263	160	284	110	-
PBT before EO expense	2,171	1,805	419	132	1,801	1,446	1,158	1,088	4,504	5,511	1,916	-
Tax	554	463	164	35	440	369	310	280	1,216	1,403	479	-
Rate (%)	25.5	25.6	39.1	26.3	24.5	25.5	26.7	25.7	28.5	25.5	25.0	-
Adj PAT	1,617	1,342	255	97	1,361	1,076	849	808	3,282	4,100	1,437	-43.7%
YoY Change (%)	424.3	66.4	-78.2	-94.0	-15.8	-19.8	232.2	730.8	-10.2	24.9	1,376.5	-
Margins (%)	6.6	8.0	1.6	0.6	6.0	5.7	4.7	3.8	4.4	5.0	7.1	-
Adj. EPS	6.1	5.1	1.0	0.4	5.1	4.1	3.2	3.1	12.4	15.5	5.4	-

Source: Company, Nirmal Bang Institutional Equities Research

Note: Quarterly numbers are on standalone basis while yearly number are on consolidated basis

Exhibit 2: Common-size P&L trend (Standalone)

Particulars (%)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Gross margin	48.7	44.3	46.7	41.8	38.6	40.6	44.5	44.0	41.7
Staff Cost	7.3	6.1	8.3	8.7	9.0	6.5	8.7	8.6	8.2
Other expenses	26.1	27.3	25.3	28.1	26.6	24.3	26.0	27.4	26.9
EBITDA	15.3	10.9	13.0	5.0	3.0	9.8	9.8	8.0	6.7
EBIT	12.1	8.5	10.0	1.9	0.2	7.5	7.1	5.1	4.0
PBT	12.8	8.9	10.7	2.6	0.7	7.9	7.7	6.4	5.1
Adjusted PAT	9.5	6.6	8.0	1.6	0.6	6.0	5.7	4.7	3.8

Source: Company, Nirmal Bang Institutional Equities Research;

Exhibit 3: Change in our estimates

Y/E March	Earlier Estimates		New Estimates		Change (%)	
(Rsmn)x	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Sales	92,071	1,04,961	95,035	1,09,291	3.2	4.1
EBITDA	13,643	17,861	11,768	17,652	-13.7	-1.2
EBITDA margin (%)	14.8	17.0	12.4	16.2	-2.4	-0.9
Adj PAT	8,700	11,760	7,638	11,982	-12.2	1.9

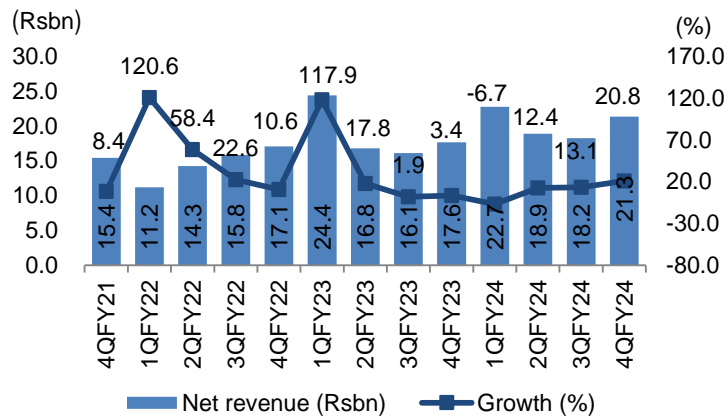
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: State-wise volume growth (YoY) highlights

Volume growth (%)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Commentary
Overall volume growth	23	4	3.1	-12	7	8	10.9	Volume growth in Tamil Nadu, Telangana, Andhra Pradesh, Orissa, Rajasthan, Uttar Pradesh and Jharkhand partially offset by a decline predominantly in Haryana
North	15	13	14	-15	1	-1	3	Volume growth witnessed in Rajasthan & Uttar Pradesh partially offset by Haryana
South	21	0	-10	-18	11	10	21	Volume growth supported by Tamil Nadu, Telangana & Andhra Pradesh partially offset by Kerala
East	52	3	29	-8	11	22	10	Volume growth seen in Orissa & Jharkhand partially offset by Assam
West	22	2	10	2	2	9	0	Volume growth led by Maharashtra offset by decline in Goa

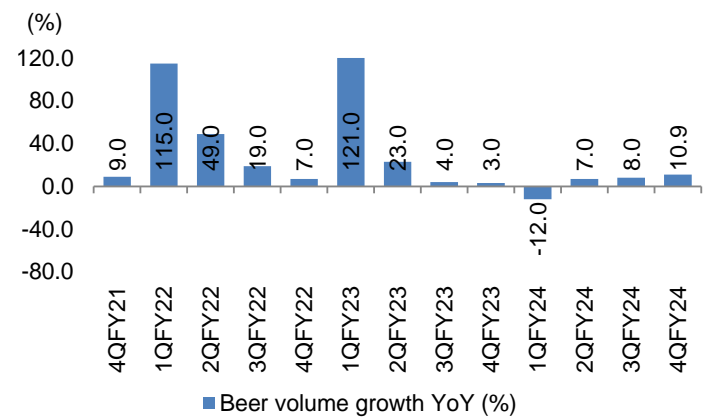
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Revenue increased by ~21% YoY to Rs21.3bn with...



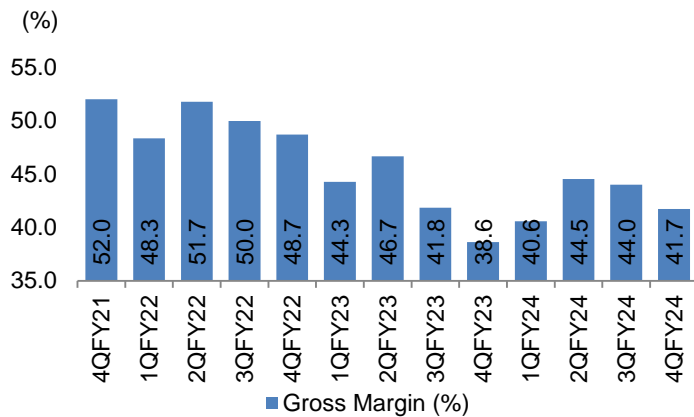
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: ...10.9% YoY improvement in beer volume



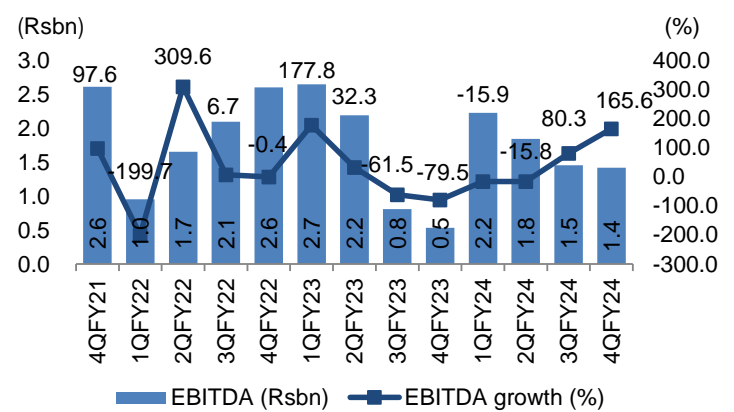
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Gross margin was up ~310bps YoY at 41.7% (down 230bps QoQ)



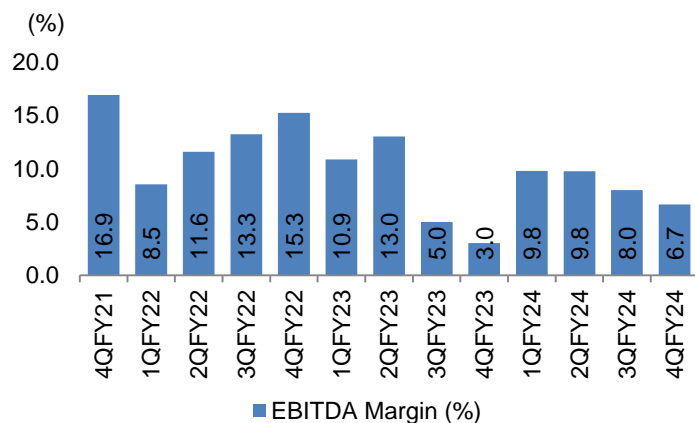
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: EBITDA grew ~166% YoY to Rs1.4bn



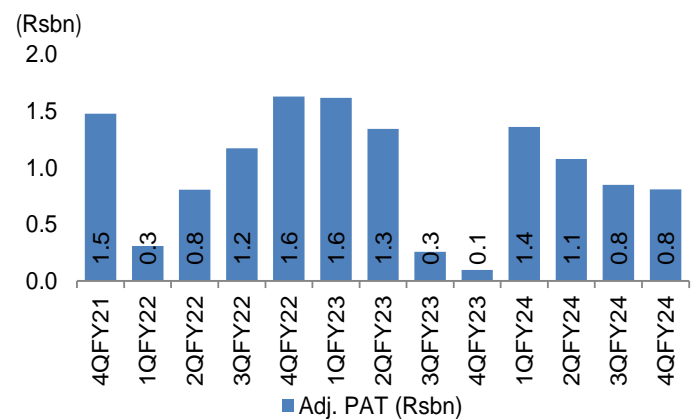
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: EBITDA margin saw an expansion of 360bps YoY to 6.7%



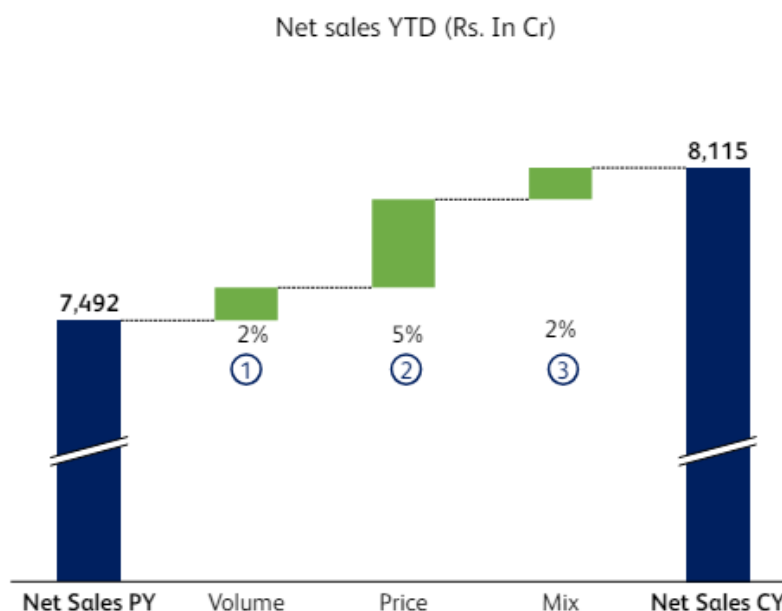
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: APAT was up by ~731% YoY at Rs0.8bn on a low base



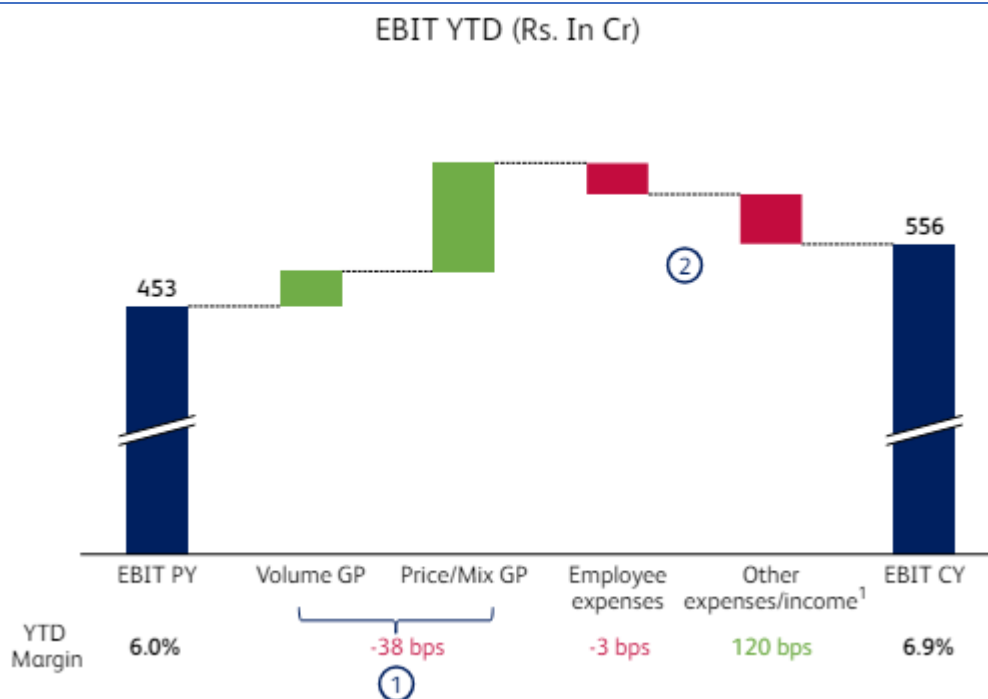
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Movement of revenue for FY24 – Topline growth led by volume recovery and further aided by price mix



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Movement of EBIT for FY24; EBIT margin at 6.9% improved by 90bps YoY largely because of lower other expenses



Source: Company, Nirmal Bang Institutional Equities Research

United Breweries 4QFY24 earnings call and presentation highlights

Performance and outlook

- Volume growth of ~11% YoY in 4QFY24 was driven by Tamil Nadu, Telangana, Andhra Pradesh, Odisha, Rajasthan, Uttar Pradesh and Jharkhand, and was partially offset by a decline mainly in Haryana.
- Premium segment grew by 21% YoY, led by Kingfisher Ultra, Kingfisher Ultra Max and Heineken brands. Premium portfolio witnessed robust growth due to a sharp consumer response and build-up of the premium category accordingly, such as the launch of Queenfisher, Heineken Silver Draught and adoption of Portfolio Approach vs Brand Approach earlier.
- Price increases were taken in multiple markets, incl. Rajasthan, Karnataka and Andhra Pradesh.
- In 4QFY24, positive mix was driven by brand-mix & state-mix and lower inter-state sales.
- Since 2019, the proportion of returned bottles has reduced.
- UBBL gained market share of 130bps in 4QFY24. The company improved market share from 48-49% in 3QFY24 to over 50% in 4QFY24.
- The company is facing greater impact of elections in states which have phase-wise elections.
- With revamp of breweries, ingredient change, supply chain investments, category growth, working with suppliers to get better negotiations, UBBL is looking at maintaining and solidifying market leadership position over the next 4-5 years.

Brands and Geographies

- Volume growth by geography
 - a) North: 3% YoY growth in 4QFY24 and 4% decline in FY24. Volume growth in Rajasthan & UP partially offset by Haryana.
 - b) West: Flat volume in 4QFY24, 3% growth in FY24. Volume growth in Maharashtra offset by decline in Goa. One of the weak markets during the quarter, Goa is likely to bounce back.
 - c) East: Volume was up 10% YoY in 4QFY24 and 6% for FY24. Volume growth in Odisha & Jharkhand was partially offset by Assam.
 - d) South: Strong volume growth of 21% YoY was seen in 4QFY24. In FY24, volume growth was at 3% YoY. Volume growth in Tamil Nadu, Telangana & Andhra Pradesh was partially offset by Kerala.
- Queenfisher and Heineken Silver Draught launched during the quarter have received good initial response.
- On account of high taxation in several markets, beer is not affordable. Hence, it is not available beyond ~95k outlets.

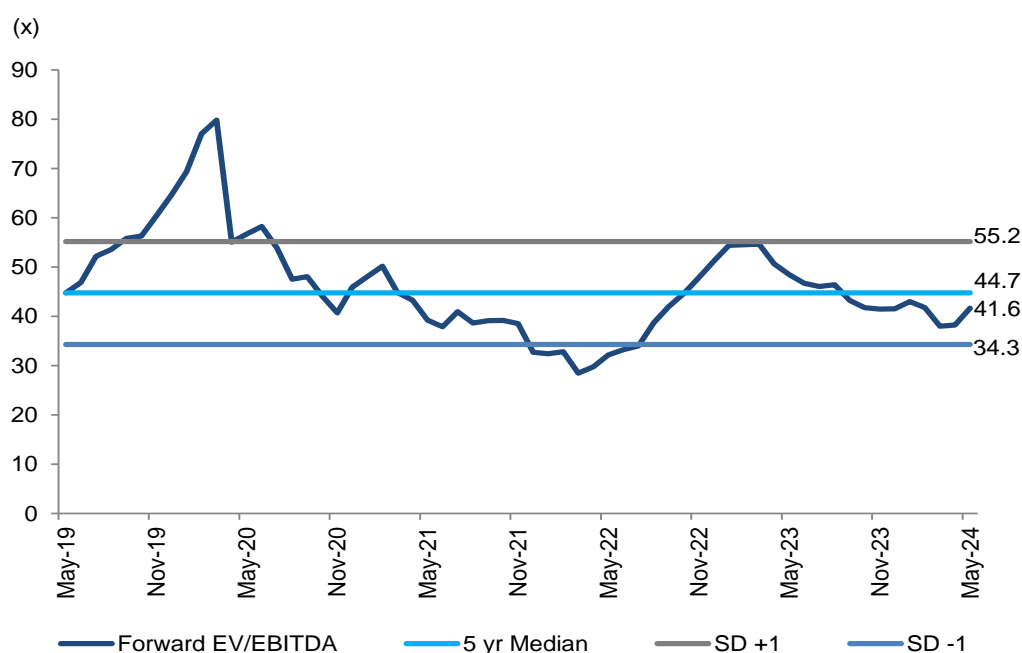
Costs and margins

- Higher proportion of new bottles impacted gross margin improvement YoY. UBBL has undertaken efforts to get returnable bottles back over the last year and expects benefits to kick in going forward.
- Barley crop is faring well and price trend is softening, which augurs well for gross margin. The company is aiming for faster improvement in gross margin.
- Ad-spends in 4QFY24 was higher owing to a spate of launches.
- There will be sequential as well as structural improvement in margins going forward.
- Margin improvement to earlier high levels is likely to be gradual.

Other points

- Appointment of Mr. Jorn Kersten as CFO to replace Mr. Radovan Sikorsky, who resigned as Director & CFO due to change in role as 'Regional Chief Financial Officer' for Asia w.e.f. 1st Aug'24.
- Proposal of a dividend of Rs10 per share (FV Re1 each) by the BOD for FY24.
- UBBL will expand premium manufacturing in more states to reduce inter-state duty.
- In Telangana, payment of Rs7-8bn has been delayed by a few months. However, the same is likely to come through and no write-offs are required.
- UBBL is likely to get approval to start manufacturing of Heineken in Karnataka post elections.
- Inventory level in 4QFY24 was high on account of anticipation of healthy demand.

Exhibit 13: One-year forward EV/EBITDA



Source: Company, Nirmal Bang Institutional Equities Research

Financials (Consolidated)

Exhibit 14: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	58,384	74,999	81,227	95,035	1,09,291
% Growth	37.6	28.5	8.3	17.0	15.0
COGS	29,261	42,654	46,524	51,176	54,246
Staff costs	5,231	5,955	6,474	7,445	8,487
Other expenses	16,926	20,228	21,268	24,647	28,905
Total expenses	51,418	68,837	74,265	83,268	91,638
EBITDA	6,966	6,162	6,962	11,768	17,652
% growth	72.4	-11.5	13.0	69.0	50.0
EBITDA margin (%)	11.9	8.2	8.6	12.4	16.2
Interest costs*	-5	-288	-385	-345	-295
Depreciation	2,172	2,106	2,119	2,208	2,274
Other income	145	160	284	312	344
Profit before tax (before exceptional items)	4,944	4,504	5,511	10,217	16,017
Tax	1,284	1,216	1,403	2,575	4,032
Rate of Tax (%)	26.0	27.0	25.5	25.2	25.2
Adj PAT	3,655	3,282	4,100	7,638	11,982
Adj PAT margin (%)	6.3	4.4	5.0	8.0	11.0
% Growth	168.3	-10.2	24.9	86.3	56.9

Source: Company, Nirmal Bang Institutional Equities Research

*Interest income was more than interest expense in FY22 and FY23

Exhibit 15: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	264	264	264	264	264
Reserves	39,087	39,385	41,519	44,574	49,367
Net worth	39,351	39,649	41,783	44,839	49,631
Minority interest	41	46	52	52	52
Total debt	97	156	246	246	246
Total liabilities	39,490	39,851	42,082	45,137	49,930
Gross block	49,330	50,987	52,352	55,352	58,352
Depreciation	30,265	32,541	34,660	36,868	39,142
Net block	19,129	18,510	17,756	18,548	19,274
Capital work-in-progress	1,099	771	1,727	1,245	1,149
Investments	84	81	80	80	80
Inventories	9,358	14,278	13,687	17,557	18,374
Debtors	12,549	14,073	23,138	15,917	28,997
Cash	9,097	3,953	2,142	3,565	3,573
Loans & advances	8,178	11,138	12,004	18,965	12,524
Total current assets	39,182	43,442	50,971	56,004	63,468
Creditors	6,380	7,170	9,485	10,824	13,130
Other current liabilities & provisions	13,623	15,783	18,967	19,916	20,912
Total current liabilities	20,003	22,953	28,452	30,740	34,041
Net current assets	19,179	20,489	22,520	25,264	29,427
Total assets	39,490	39,851	42,082	45,137	49,929

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Cash flow

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
PAT	3,644	2,776	4,124	7,642	11,986
Depreciation	2,172	2,106	2,119	2,208	2,274
Other income	187	83	-303	-657	-639
(Inc.)/dec. in working capital	2,994	-6,160	-5,166	-2,270	-5,150
Cash flow from operations	8,996	-1,196	773	6,923	8,470
Capital expenditure (-)	-1,728	-1,543	-1,907	-2,519	-2,904
Net cash after capex	7,268	-2,739	-1,134	4,405	5,566
Inc./(dec.) in investments and other assets	115	332	428	-6,649	6,784
Cash from investing activities	-1,601	-1,208	-1,478	-9,168	3,881
Dividends paid (-)	-134	-2,779	-1,985	-4,583	-7,189
Inc./(dec.) in total borrowings	-2,551	-100	701	948	996
Others	-306	139	178	7,302	-6,150
Cash from financial activities	-2,992	-2,739	-1,106	3,667	-12,343
Opening cash balance	4,693	9,097	3,953	2,142	3,565
Closing cash balance	9,097	3,953	2,142	3,565	3,573
Change in cash balance	4,404	-5,144	-1,811	1,423	8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Key ratios

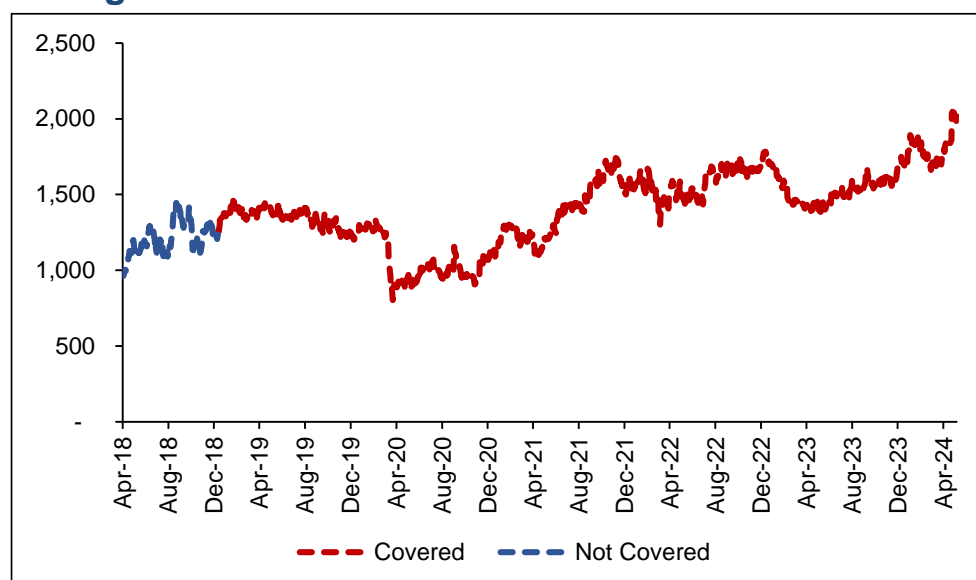
Y/E March	FY22	FY23	FY24	FY25E	FY26E
Per share (Rs)					
EPS	13.8	12.4	15.5	28.9	45.3
Book value	148.8	150.0	158.0	169.6	187.7
Valuation (x)					
EV/sales	9.0	7.1	6.5	5.6	4.8
EV/EBITDA	75.2	85.9	76.3	45.0	30.0
P/E	145.8	162.4	130.0	69.8	44.5
P/BV	13.5	13.4	12.8	11.9	10.7
Return ratios (%)					
RoCE	9.4	7.6	9.3	17.0	24.8
RoE	9.7	8.3	10.1	17.6	25.4
RoIC (Pre-tax)	15.6	12.6	13.2	24.4	36.0
Profitability ratios (%)					
Gross margin	49.9	43.1	42.7	46.2	50.4
EBITDA margin	11.9	8.2	8.6	12.4	16.2
Adj PAT margin	6.3	4.4	5.0	8.0	11.0
Liquidity ratios (x)					
Current ratio	2.0	1.9	1.8	1.8	1.9
Quick ratio	1.5	1.3	1.3	1.3	1.3
Solvency ratio (x)					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity ratio	-0.2	-0.1	0.0	-0.1	-0.1
Turnover ratios					
Total asset turnover ratio (x)	1.5	1.9	1.9	2.1	2.2
Fixed asset turnover ratio (x)	3.1	4.1	4.6	5.1	5.7
Debtor days	83	65	84	75	75
Inventory days	65	58	63	60	60
Creditor days	40	33	37	39	40

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
13 December 2018	Buy	1,237	1,525
18 February 2019	Buy	1,338	1,590
9 April 2019	Buy	1,409	1,620
22 May 2019	Buy	1,426	1,640
16 August 2019	Buy	1,359	1,610
23 September 2019	Buy	1,276	1,480
11 November 2019	Buy	1,255	1,465
10 February 2020	Buy	1,320	1,530
30 March 2020	Buy	895	1,215
26 June 2020	Buy	1,050	1,215
18 August 2020	Buy	974	1,150
23 September 2020	Buy	964	1,150
10 November 2020	Buy	976	1,150
8 January 2021	Buy	1,252	1,460
30 January 2021	Buy	1,300	1,500
9 April 2021	Buy	1,130	1,400
28 April 2021	Buy	1,207	1,385
30 July 2021	Accumulate	1,418	1,440
23 September 2021	Accumulate	1,639	1,630
29 October 2021	Accumulate	1,630	1,625
31 January 2022	Accumulate	1,619	1,580
21 February 2022	Accumulate	1,545	1,725
28 April 2022	Accumulate	1,506	1,665
10 June 2022	Accumulate	1,500	1,665
29 July 2022	Accumulate	1,618	1,650
14 September 2022	Accumulate	1,681	1,735
24 October 2022	Accumulate	1,642	1,685
11 February 2023	Accumulate	1,481	1,420
22 March 2023	Accumulate	1,448	1,645
6 May 2023	Accumulate	1,399	1,450
1 August 2023	Accumulate	1,540	1,695
21 October 2023	Buy	1,611	1,930
16 November 2023	Buy	1,556	1,930
21 December 2023	Buy	1,684	2,020
9 February 2024	Buy	1,777	2,050
25 April 2024	Buy	2,031	2,380
8 May 2024	Buy	2,016	2,350

Rating chart



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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