

February 10<sup>th</sup>, 2015

BSE Code: 532478

NSE Code: UBL

Reuters Code: UBBW.NS

Bloomberg Code: UBL:IN

United Breweries Ltd, India's largest beer maker, which was incorporated in 1915 produces and sells beer mainly in the Indian market. It offers beer under a variety of brand names especially the Kingfisher, London Pilsner Premium Strong, Kalyani Black Label Strong, Bullet, and Heineken brand names. UBL has an association with brewing dating back over nine decades, starting with 5 breweries in South India in 1915. From bullock cart-loaded barrels or 'hogheads' of frothing ale, the beer business has gone ahead to become the undisputed 'king' in the Indian beer market. UBL today boasts an impressive spread of own and contract manufacturing facilities throughout the country. Here, innovative, creative and aggressive marketing is complemented by a strong distribution network. A management focused on building brand equity on one hand and exploiting it to the hilt on the other.

## Investment Rationale

**Strong growth despite stagnant market**– UBL reported a rise of 28.42% YoY in net sales in Q2FY15 in line with industry, posting double digit growth in Andhra Pradesh, Telangana, Karnataka and Rajasthan. In other markets, the company's volumes grew by and large at industry level thereby ensuring that the market share was maintained at 51% during the quarter and half year ended September 2014. Moreover, during the quarter under review, UBL took a price hike of some of its products in Tamil Nadu and some price increases in West Bengal and in Rajasthan. Historically, the company's growth in the average realisations has followed a secular trend with realisations improving from ~₹280.5/case to ₹305.0/case from FY12 to FY14.

**Aggressive expansion in upcoming period** - Aggressive expansion plans in FY15 will add to the company's present production capacity. The company acquired Pacific Spirits Pvt. Ltd. in the month of September 2014. With this acquisition, the company will be able to expand its production capacity in the State of Rajasthan to cater to the expected further growth in the market. Moreover, UBL is set to commence a 10-mn-cases-a-year plant in Bihar with an investment outlay of ₹2,000 mn by the end of FY15. This will further strengthen its position in the Indian beer market. This move follows the commissioning of similar breweries in Andhra Pradesh and Karnataka.

**Creative Brand Building helps gain more popularity** –Creative brand placements via sports, music, food and fashion make UBL a popular name amongst the ever-growing beer consuming population.

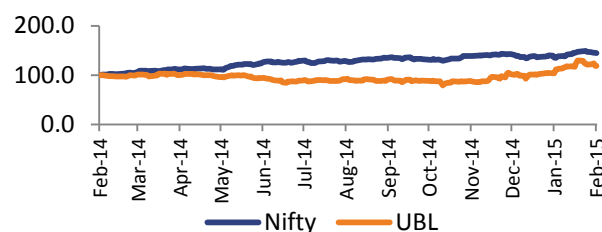
## Market Data

<b>Rating</b>	<b>BUY</b>
<b>CMP (₹)</b>	930.0
<b>Target (₹)</b>	<b>1,105.0</b>
<b>Potential Upside</b>	~19%
<b>Duration</b>	Long Term
Face Value (₹)	1.0
52 week H/L (₹)	1,055.4/615.7
Adj. all time High (₹)	1,055.4
Decline from 52WH (%)	11.9
Rise from 52WL (%)	51.0
Beta	0.6
Mkt. Cap (₹bn)	245.9
Enterprise Value (₹bn)	254.6

## Fiscal Year Ended

Y/E	FY13A	FY14A	FY15E	FY16E
Total Income (₹bn)	39.0	42.3	48.3	53.1
EBITDA (₹bn)	4.8	5.9	7.1	8.2
Net Profit (₹bn)	1.7	2.3	3.1	3.9
EPS (₹)	6.5	8.5	11.8	14.8
P/E (x)	142.9	108.8	78.8	62.8
P/BV (x)	16.3	14.4	13.6	12.3
EV/EBITDA (x)	53.8	43.3	35.5	30.9
ROCE (%)	14.8	17.9	21.4	23.7
ROE (%)	11.4	13.2	17.2	19.6

## One year Price Chart



## Shareholding Pattern

	Dec'14	Sept'14	Diff.
Promoters	74.82	74.82	0.00
FII	18.15	18.99	(0.84)
DII	1.6	0.62	0.98
Others	5.43	5.57	(0.14)

### United Breweries Ltd.

*United Breweries Limited (UBL) produces and sells beer primarily in India.*

*It offers beer under a variety of brand names especially the Kingfisher, London Pilsner Premium Strong, Kalyani Black Label Strong, Bullet, and Heineken brand names and is also an internationally recognized name.*

*The company also licenses brands; and provides contract manufacturing services.*

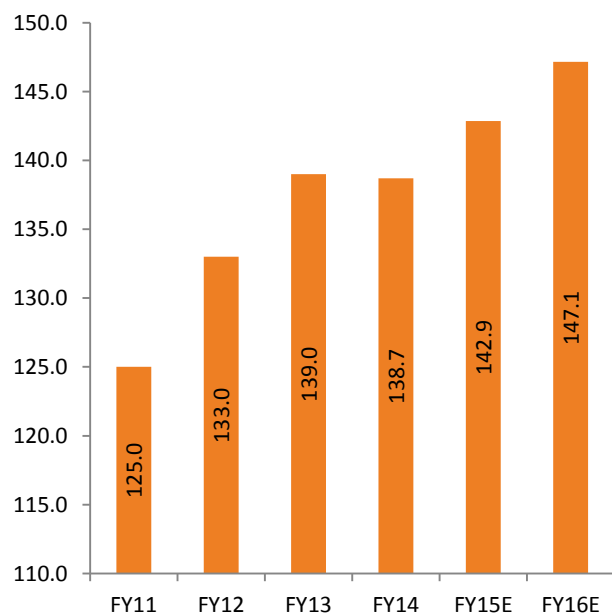
United Breweries Limited (UBL) incorporated in 1915 produces and sells beer primarily in India. It offers beer under a variety of brand names, especially the Kingfisher, London Pilsner Premium Strong, Kalyani Black Label Strong, Bullet, and Heineken brand names. The company also licenses brands; and provides contract manufacturing services. UBL has an impressive spread of own and contract manufacturing facilities throughout the country. Here, innovative, creative and aggressive marketing is complemented by a strong distribution network. A management focused on building brand equity on one hand and exploiting it to the hilt on the other.

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 52 countries and leads the way amongst Indian beers in the International market. It has been ranked amongst the top 10 fastest growing brands in the UK.

The company believes that the developing markets remain the engine of volume growth. Per capita beer consumption continues to rise as disposable incomes increase and consumers trade up from informal alcohol (often spirits) to professionally brewed beer. India is not a typical beer guzzling nation but the winds of change might just be around the corner. It has been seen that attitude towards consumption of alcoholic beverages has undergone a considerable shift in recent decades.

During the past two decades, the pace of globalization in beer industry has greatly accelerated with increased activity of multinational brewers acquiring existing breweries and constructing new facilities in emerging markets, as well as licensing their brands outside their home countries. As incomes rise and living styles change in developing countries, demand for beer is growing. Moreover, the per capita beer consumption in the country is less than 2 litres at present. If India were to catch up with the Asian average excluding China, per capita consumption could go up to 15 litres.

#### Steady Sales Volumes (in mn cases)



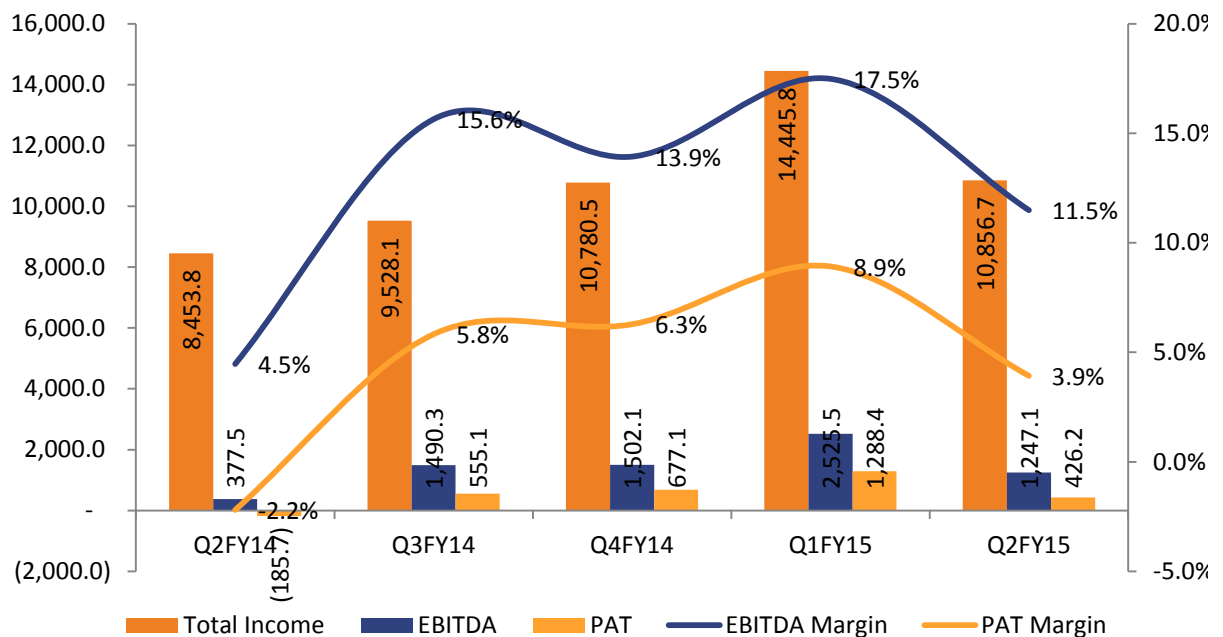
The company reported a 10% growth in primary volumes during the quarter ended September 2014. Double digit industry growth was widespread across regions, growth spurred primarily on account of strong beer demand. Mild beer too witnessed promising growth. The quarter under review saw the company achieving better gross profit margins led by selective price increase in some markets and lower input costs primarily due to the usage of a higher percentage of recycled bottles. During the first half of the last fiscal, the company had to use 100% new bottles for its production in the state of Maharashtra due to an excise duty notification revised in October 2013. Also, to enhance the company's production capacity, it is setting up a greenfield brewery in Bihar, which is likely to commence operations in the last quarter of this financial year.

### Showcased strong numbers in Q2FY15

UBL's sales grew sharply by 28.4% YoY to ₹10,856.7 mn in Q2FY15 as against ₹8,453.8 mn in Q2FY14 on the back of strong growth in sales volumes coupled with higher price and other operating income. UBL's sales volume grew by ~10% during H1FY15, which is slightly above the industry growth. Moreover, the company managed to take several price increases in different markets. The other operating income grew sharply by 35.0% YoY to ₹1,258.1 mn in Q2FY15 as against ₹937.8 mn in Q2FY14. During the quarter under review, company's EBITDA grew more than two fold to ₹1,247.1 as against ₹377.5 in a year ago period on the back of price increase, higher sales volume and lower cost of production. This healthy growth in EBITDA was also attributable to use of recycled bottles in Maharashtra as this was not the case in the year ago period as during the first half of the last fiscal, the company had to use 100% new bottles for its production in the state of Maharashtra due to an excise duty notification revised in October 2013. In line with growth in EBITDA, UBL managed to report a net profit of ₹426.2 mn in Q2FY15 as against a loss of ₹185.7 mn in a year ago period.

*Impressive numbers reported in Q2FY15 on back of strong growth in sales volume.*

### Quarterly performance trend (₹mn)



### H1FY15 performance portrays strong growth story

The half yearly performance remained impressive with the company's total income reported a strong growth of 14.7% YoY to ₹25,302.5 mn in H1FY15 as against ₹22,046.4 mn in H1FY14. This growth in the total income was majorly contributed by 19.4% YoY growth in other operating income to ₹2,915.4 mn in H1FY15. During H1FY15, the company's sales volume grew by 10% YoY, in-line with industry posting double digit growth in Andhra Pradesh, Telangana, Karnataka and other markets. The company's volumes grew by and large at industry level, thereby ensuring that the market share for the quarter and half year ended September 2014 was maintained in the region of 55-51%. During the H1FY15, the company witnessed a remarkable growth in its EBIT, up by 43.7% YoY at ₹2,780.2 mn against ₹1,934.1 mn for the same period of last year. As a result, net profit grew impressively by ~64.3% YoY to ₹1,714.6 mn in H1FY15 as against ₹1,987.5 mn in a year ago period.

*The company reported a strong ~15% YoY growth in the total income from operations for the six months ending Sep'14 at ₹25,302.5 mn on the back of selective price increase in some markets.*

*Acquisition of Pacific Spirits Ltd. and commissioning of a 12 mn cases-a-year in Bihar will augment the company's market presence.*

*UBL is targeting a capacity of 1,000,000 cases a month from Greenfield Breweries project in Bihar.*

### Increased market share improves visibility of realisations

Albeit UBL has reported a decline in sales volume by 0.2% YoY from 139 mn cases in FY13 to 138.7 mn cases in FY14; the average realisations increased from ₹280.5/case to ₹305.0/case for the same period marking an increase of 8.7%. The positive trend in the average realisations can be attributed to the company's bargaining power that it enjoys in the premium segments, which gave it sustainable sales volumes despite price hikes. On the back of steady volumes, the company has managed to increase its market share from 40% to 51% from FY12 to FY14, firming its grip in major markets in North and South India during the period under review.

**With the company's improving share in the markets of Karnataka and Andhra Pradesh along with its Bihar Plant in the offing, we believe that the company will be able to achieve better volumes and also realization given hike in prices of its products.**

### Aggressive expansion plans to augment market share

UBL enjoys the status of the largest Indian brewery (constituting 51%) by market share. This is the most important factor in the company's growth so far as it gives the company a competitive edge. In order to add to its current market presence, the company is undertaking an aggressive expansion. It has acquired the brewery assets of Pacific Spirits Pvt. Ltd for ₹1,050 mn (USD 17.8 mn). The deal involved acquisitions of assets viz land, building, plant / equipment of Pacific Spirits having its brewery located at Shahjahanpur at Alwar, Rajasthan. Incorporated in 2006, New-Delhi-based Pacific Spirits manufactures alcoholic and non-alcoholic beverages. The firm has its manufacturing plant in Rajasthan which was commissioned with a total capacity to produce about 1 mn hectoliters (HL) per annum, with present capacity of 0.25 mn HL per annum.

UBL is also set to commission a 12-mn cases-a-year plant in Bihar with an investment of ₹2,000 mn by the end of FY15. This is to tighten its stranglehold over the Indian beer market. The move follows the commissioning of similar breweries in Andhra Pradesh and Karnataka in FY11. UBL has a capacity to brew 180 mn cases a year, of which it owns 80%; the rest are sourced from contract brewers. **These plans when translated into volumes will not only aid in gaining better market traction but will also be a major factor in indigenization of the company's products.**

### Consistent working capital levels to relieve the debt burden

UBL has guided a capex of ₹2,000 mn during FY15 in Greenfield Breweries situated at Bihar. Apart from this, the company has only guided that it will invest as much as it needs in order to be able to manage day to day activity effectively. In the Greenfield Breweries project in Bihar, the company targets a capacity of 1,000,000 cases a month, however, aims to commence this plant with a capacity of around 500,000 to 700,000 cases a month by end of FY15. Further the management highlighted that it is highly likely that the working capital to go up in line with higher sales volume. Since in the last two years the growth in markets with government corporations taking up a largest share of its sale and debtors, it is likely that the working capital level to increase from this year-end compared to the last year-end.

**In case the company decides to invest on capacity expansion in order to meet growing supply, the internal accruals will suffice the funding requirements without exerting a pressure on the gross debt numbers. Currently, the company is sitting on a cash surplus of ~₹1,510 mn as on H1FY15, which is enough to manage the short term liquidity needs.**

### Shift in demographic mix: a major growth propeller

Given the current scenario, where the consumer lifestyle is inclined towards the consumption of alcohol (Premium and mass segment), increasing concentration of youth consuming beer, rising income levels and low market penetration as compared to the international markets have proven to be the key growth driver for the company's sales and thereby profitability. Currently, the Indian beer market stood at 270 mn cases per year market (with UBL contributing more than half of the volumes) reported fast growth with the exception of last year, which was basically due to the slowdown in economic growth. We believe that company's sales volume to pick up in FY15 and FY16, given the uptick in the economic activity and improvement in the job market as well. Moreover, the per capita beer consumption in India is less than 2 litres at present. There is a huge potential exist in the Indian beer market as the per capita beer consumption of Asian peers is more than 15 litres, which is far above the Indian average. Given UBL's strong position in the Indian market, we believe that UBL is going to be the major beneficiary of any significant changes in lifestyle.

### Creative Brand Building to increase customer base

UBL is ubiquitous when it comes to creative and promotional brand building. Sales promotion constitutes ~19% of the total operating expenses of the company. It supports traditional marketing platforms such as sports, food, music and fashion. Cricket in the form of IPL, Football through the Kingfisher East Bengal Team, Equestrian Racing through the Kingfisher Derby, Motorsports through Sahara Force India Formula 1 Team, Athletics through the Mumbai Marathon, Delhi Half Marathon and the Bangalore 10K, are all high visibility and high impact associations. Kingfisher is also synonymous with the Great Indian October Fest.

**We believe that the company's unique brand placement strategies will continue attracting more and more young population thus creating a strong customer base.**

### Diversification across states to keep revenues steady

Over the period of June 2013 to Sept. 2014, UBL added half a per cent market share to its 50-51% share in India's 270-mn-cases-a-year market. The Indian beer market last year contracted 1% as Maharashtra; Bihar and Punjab markets were impacted due to a steep rise in the excise duty and thus resulted in a higher price for ultimate customers. The sector in Tamil Nadu was hit by the perverse ordering pattern of the state monopoly, which favored certain suppliers during the year. Karnataka, Uttar Pradesh and Orissa were key markets in which the company performed better than the sector.

However, the management highlighted that during Q2FY15, the company's sales volume grew in line with growth in Industry sales volume, which grew by ~18%YoY secondary growth and ~24%YoY primary growth. Primary growth represents UBL's sale directly into the market, while Secondary growth is the sale from the distributor or from the government corporations to the retail, which is the growth we use to track market share. Additionally, UBL has a diversified geographic presence which helps in steady revenues as the sales volumes and ordering pattern differ state by state. Aforementioned benefits coupled with increasing per capita beer consumption augur well for the future prospects of the company.

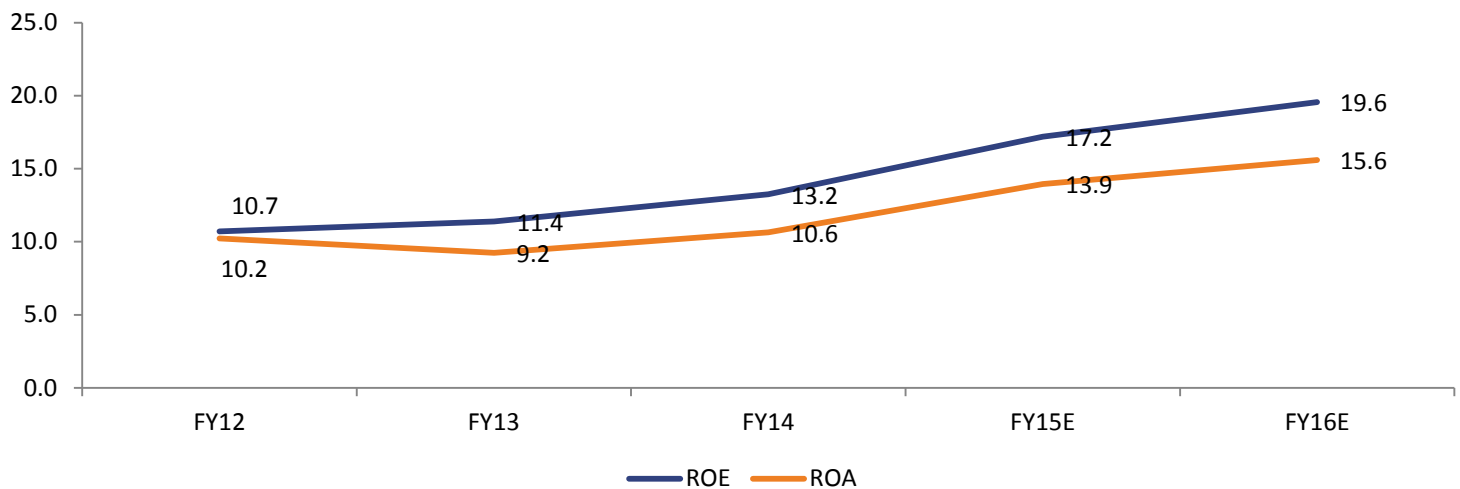
*Creative brand placement and promotional activities create UBL's popularity thus creating a strong customer base.*

*UBL has a diversified geographic presence which helps in steady revenues as the sales volumes and ordering pattern differ state by state.*

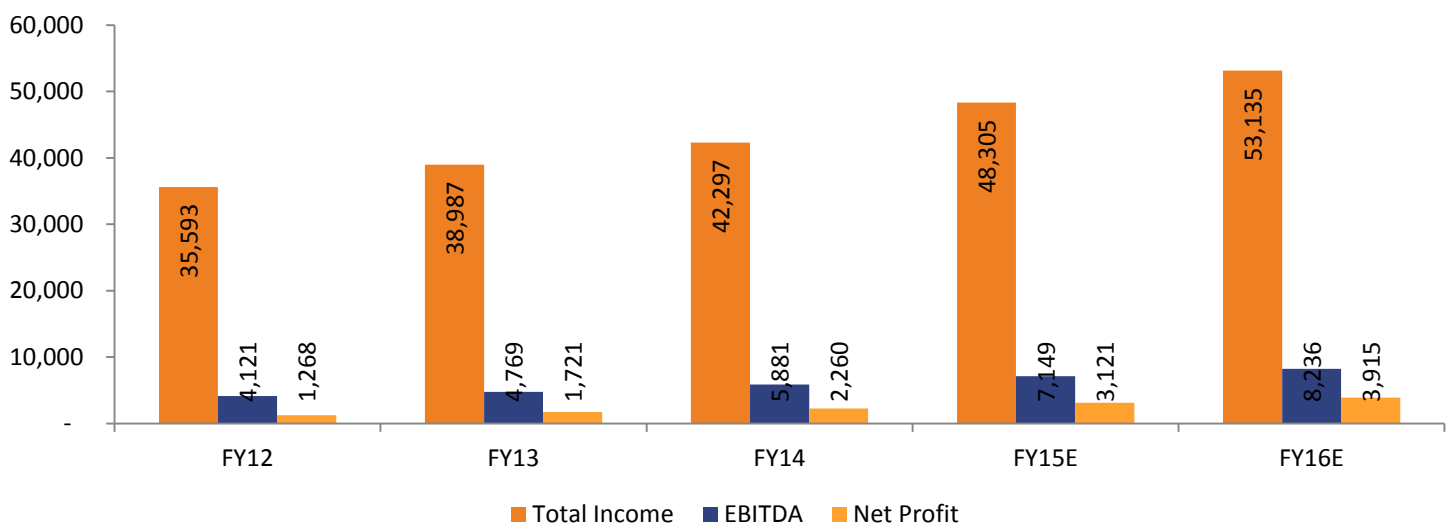
### Key Concerns

- The regulation and taxation of beer is clubbed with that of spirits, not considering the fact that it has lower alcohol content.
- High tax rates continue to hamper the growth of the beer industry in particular. Beer is currently targeted at the higher and middle income demographics in India. Of the top 30 global beer markets, India has the lowest affordability of beer relative to average GDP (gross domestic product). The cost of beer is much higher in India than in other emerging markets when compared with the average income of consumers.
- The industry is plagued by high working capital requirement and government intervention at each level in the distribution chain, raising numerous questions.

### Return ratios to stay elevated



### Projected Revenue and Net Profit (₹mn)



**Balance Sheet (Consolidated)**

Y/E (₹mn)	FY13A	FY14A	FY15E	FY16E
Share Capital	1,005.1	1,005.1	1,005.1	1,005.1
Reserve and surplus	14,106.4	16,061.1	17,140.6	19,013.4
Net Worth	15,111.5	17,066.2	18,145.7	20,018.5
Minority Interest	16.4	18.8	23.5	29.3
Loans	13,001.3	10,164.9	8,371.5	9,119.3
Deferred tax liability	745.1	794.8	659.8	659.8
Provisions	819.9	977.7	796.8	884.9
Current Liabilities	7,706.8	9,952.9	11,175.2	11,886.6
<b>Total Liabilities</b>	<b>37,401.0</b>	<b>38,975.3</b>	<b>39,172.5</b>	<b>42,598.4</b>
Fixed Assets	17,089.6	16,901.6	18,591.8	20,450.9
Long term loans and advances	1,391.9	1,746.3	1,518.5	1,446.2
Goodwill on consolidation	242.1	242.1	242.7	242.7
Other non-current assets	63.6	57.0	296.3	311.9
Current Assets	18,613.8	20,028.3	18,523.2	20,146.6
<b>Total Assets</b>	<b>37,401.0</b>	<b>38,975.3</b>	<b>39,172.5</b>	<b>42,598.4</b>

**Key Ratios (Consolidated)**

Y/E	FY13A	FY14A	FY15E	FY16E
EBITDA Margin (%)	12.2	13.9	14.8	14.8
EBIT Margin (%)	8.9	9.8	11.3	12.5
NPM (%)	4.4	5.3	6.5	7.4
ROCE (%)	14.8	17.9	21.4	23.7
ROE (%)	11.4	13.2	17.2	19.6
EPS (₹)	6.5	8.5	11.8	14.8
P/E (x)	142.9	108.8	78.8	62.8
BVPS(₹)	57.2	64.5	68.6	75.7
P/BVPS (x)	16.3	14.4	13.6	12.3
EV/Operating Income (x)	49.7	41.6	651.8	29.5
EV/EBITDA (x)	53.8	43.3	35.5	30.9

**Profit & Loss Account (Consolidated)**

Y/E (₹mn)	FY13A	FY14A	FY15E	FY16E
Total Income	38,987.4	42,296.6	48,304.8	53,135.3
Expenses	34,218.4	36,416.0	41,155.7	44,899.3
<b>EBITDA</b>	<b>4,769.0</b>	<b>5,880.6</b>	<b>7,149.1</b>	<b>8,236.0</b>
Other Income	391.8	244.3	389.0	389.0
Depreciation	1,704.1	1,978.2	2,077.1	1,978.2
<b>EBIT</b>	<b>3,456.7</b>	<b>4,146.7</b>	<b>5,461.0</b>	<b>6,646.8</b>
Interest cost	796.4	795.3	795.3	795.3
<b>Profit Before Tax</b>	<b>2,660.3</b>	<b>3,351.4</b>	<b>4,665.7</b>	<b>5,851.5</b>
Tax	934.3	1,087.3	1,539.7	1,931.0
Minority Interest	4.9	3.9	4.7	5.9
<b>Net Profit</b>	<b>1,721.1</b>	<b>2,260.2</b>	<b>3,121.4</b>	<b>3,914.6</b>

**Valuation and view**

We remain positive on the long term outlook for the UBL, given its dominant positions (Holds ~51% market share), and strong market presence coupled with growing sales volumes and realisations. Additionally, the brand placement strategies along with shift in the demography pave way for the company's popularity thus creating a loyal and ever-increasing customer base. Diversified geographical presence ensures that no competitor holds a candle against UBL in terms of steady revenues and volumes.

At a current CMP of ₹930.0, the stock trades at an EV/EBITDA of 35.5x FY15E and of 30.9x FY16E. With attractive valuations, we recommend 'BUY' on the stock with a target price of ₹1,105.0 arrived at FY16E EV/EBITDA of 35.5x, which implies potential upside of ~19% to the CMP from a long term (1 year) perspective.



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