Twitter Thread by Vishnu Kapadia

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Notes from recent meet with the management of United Spirits: (Source MOFSL) ■

Market cap: 61,300 crores
Revenues: 8821 crores
P/E: 88.4
P/S: 6.82
P/B: 14.2
ROE: 9.49%
ROCE: 13.3%

@dmuthuk

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■Demand recovery on track:

■Around 70% of outlets were operational till mid- Aug’21.

■While the recovery in on-trade channels has been good, night/weekend curfews and restricted timings are affecting sales, with last orders being accepted at 8-9pm in select geographies.

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■Muted global travel has acted as a tailwind rather than a headwind as it led to duty-free demand converting to duty paid. The management is focusing on the modern off-trade channel to cater to this demand. It activated 2,000 outlets for Scotch over the last one year.

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■Focus on the margin accretive Scotch portfolio:

■Black Dog is now available in 3-5 markets.

■The relaunched Signature, which was present only in West Bengal, Haryana, and Telangana, will be present in 70% of the country over the next 2-3 months.

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■The Scotch portfolio is hugely gross profit accretive. The cash conversion cycle is also better at 75-90 days v/s 120-130 days for the overall portfolio.

■RoCE is highly accretive for bottled in origin (BIO) Scotch.

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■At present, Scotch contributes 5-6% of overall sales by volume.

■Granted price hikes to partially offset commodity inflation:

■Price hikes were granted to a few players towards the end of 1QFY22 as prices for glass bottles experienced inflation.

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■Cost savings/productivity and price increases would be the key levers used to combat RM and overhead cost inflation. The two other levers – operating leverage and premiumization – will be used to expand margin.

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■The management is on track to meet its 1.5% cost savings target.

■A&P spends will remain in the 8-10% range of net sales.

■Working capital was 35-38% of net sales 5 years ago. With focus on improving productivity, it is now stands at 23-24% of sales.

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■Likely to start paying dividends:

■The management said it has no major Capex planned.

■It has plans to reward shareholders through dividends starting FY22 or FY23 as the company is now almost net debt free.

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■There are no exciting M&A opportunities, but the management is open to the same if something were to come up.

■Other Key takeaways:

■Details of the strategic refresh will be unveiled by the new CEO in its 2QFY22 conference call.

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■While topline growth has always been a key focus area for the management, a multiplicity of priorities may have led to lower topline growth in the past, which is not expected to be the case going forward.

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■The management would like to bolster its third-party colocation manufacturing and bottling network, which is currently at 50% v/s 25% three years ago. The aim is to move this closer to 70% over the next 2-3 years.

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This arrangement helps save on freight, ensure a steady flow of ENA to manufacturing plants, and also saves on certain levies such as VAT to some extent.

End of thread■

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