Twitter Thread by SM | Million Dollar Minds



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#UnitedSpirit

Please find below key highlights of United Spirit - UNSP Q1FY22 results:

Source : Haitong and Emkay
Time for thread ■■■■■■

@dmuthuk

(1/n)

UNSP delivered a strong beat on consensus estimates. Topline was 1.7% below estimates while EBITDA/NP were 6.3%/75.6% above consensus.

2/n

Standalone revenues/NP grew by 56.8%/247.9% YoY with Gross/EBITDA margin expansion of 296/1186bps YoY to 44.6%/10.7% respectively driven by stable input costs for the quarter, continued management focus on productivity and cost efficiencies.

3/n

Prestige & Above (71% of FY21 Sales): Revenues grew by 55.1% YoY driven by volume growth of 60.0% YoY (on a base of -51.5% YoY) on the back of adverse price mix due to COVID related impact seen in North on scotch portfolio.

4/n

Popular (29% of FY21 Sales): Revenues grew by 60.2% YoY driven by volume growth of 62.5% YoY (on a base of -46.7% YoY) of which priority states grew 50%.

5/n

Raw Material: Gross margin expanded (3rd consecutive quarter) by 296bps YoY to 44.6% aided by benign raw material commodities, superior mix and continued efficiencies.

6/n

Margins: EBITDA margins expanded by 1186bps YoY to 10.7% aided by higher operating leverage (employee expenses -7bps YoY and other expenses -899bps YoY).

7/n

Interest Costs: Debt reduction exercise has boded favourably for the company as the company has seen interest costs reduce by 60% YoY.

8/n

Outlook: Outlook remains optimistic due to favourable demographics, long term premiumisation opportunities and home delivery channel opportunities .

9/n

Valuation: Consensus is currently building EPS CAGR of 61.5% over FY21-23. Accordingly, UNSP is trading at P/E of 43.0x/36.8x to consensus FY23/24 EPS estimates.

10/n

Q1FY22 Concall Key Takeaways

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Strategy refresh: Management aims to maintain a balance between sales growth & margins. Macro factors like demography, low per capita consumption, premiumisation etc are favourable levers for the company to exploit. The strategic review of popular brands is on track

11/n

Business environment: The company’s units were back to full operations by June-end. Off trade continues to show promise whereas on-trade remains subdued due to restricted operational hours, capacity constraints. Management expects on-trade to recover but at a slower pace.

12/n

Raw material inflation: The company has seen some inflation in packaging material YoY as well as some inflationary trend in glass bottle prices. The company has mitigated the pressure through price hikes towards the end of Q1 which will reflect in Q2.

13/n

ENA: Ethanol policy will get declared towards Oct/Nov'21 and the company expects to remain stable until then. The company expects higher prices in the short term but should correct once capacities get added.

14/n

West Bengal: The company is working with the West Bengal govt to reduce levies and increase prices.

15/n

Adverse Price/ Mix: The company witnessed -4.2% realization on prices due to adverse state and portfolio mix. North India (higher share of Scotch) witnessed higher impact of 2nd wave of COVID as compared to other regions which resulted in an inferior mix.

16A/n

Management highlighted this as an one off as company has successfully delivered higher realisations over the last 12-16 quarters. 16B/n

Innovation &renovation: company has renovated Black Dog whiskey with new & improved liquid and packaging. The product has been launched in - PUNJ, HAR & TELE and will be extended nationally by year-end. Initial feedback remains been positive & repeat rates have been good.

17/n

Non whiskey spirits: Company has seen a lot of traction in white spirits category. Vodka is a large category in white spirits and the company will revitalize its power brand 'Smirnoff' over the next 9-12 months as well as make a meaningful play in gin category.

18/n

Non-alcohol Beverages: The segment will be used primarily for brand extension purposes and not as standalone business. The segment is gaining traction in developed countries in the west therefore company will be looking at trends in the segment.

19/n

Distribution: The company gets 80-90% of its business from 35k outlets (vs 50-60k retail outlets it has access to). Store level constraints would need to be removed in order to make further headways. 20 /n

Hip Bar disinvestmentThe company sold its 26% stake for a consideration of Rs5.2mn. The company had procured home delivery licences for Karnataka but the platform did not provide any differentiation vs delivery aggregators. The company will work with delivery aggregators.

21/n

Capex: The capex will remain in the same range as previous years.

22/n

One year forward EV / EBITDA Chart

23/n