

Risk/reward now favors UNSP compared to UBBL

Upgrading UNSP to Buy, Downgrading UBBL to Neutral

UNSP - Financial & Valuation (INR b)

Y/E March	2019E	2020E	2021E
Sales	92.2	106.5	121.5
EBITDA	13.5	17.0	21.0
Adj. PAT	7.5	10.3	13.5
Adj. EPS INR	10.3	14.2	18.5
EPS Gr. (%)	53.3	37.4	30.3
RoE (%)	24.2	26.3	25.5
RoCE (%)	16.5	22.2	37.2
P/E (x)	54.2	39.4	30.3
EV/EBITDA (x)	31.5	24.4	19.3

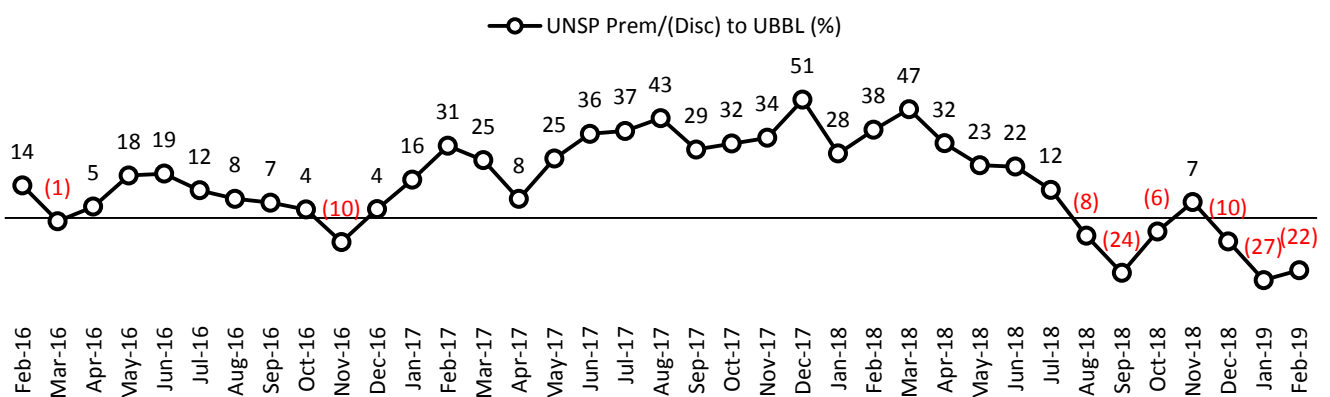
UBBL - Financial & Valuation (INR b)

Y/E March	2019E	2020E	2021E
Sales	64.9	73.3	84.3
EBITDA	12.1	13.9	16.3
Adj. PAT	6.1	7.1	8.5
Adj. EPS INR	23.0	26.8	32.0
EPS Gr. (%)	54.0	16.6	19.5
RoE (%)	20.6	20.1	20.1
RoCE (%)	18.9	18.4	18.5
P/E (x)	60.3	51.8	43.3
EV/EBITDA (x)	30.4	26.5	22.6

- The Alcoholic Beverages (Alcobev) segment in India remains an attractive investment candidate driven by healthy earnings growth and improving ROCEs.
- Yet, despite these improving metrics, FY19E PAT of USD108m/USD87m for UNSP/UBBL is still low and indicates strong multi-year growth opportunities ahead.
- While we have historically had a preference for UBBL over UNSP, we believe, a combination of potentially slower earnings growth for UBBL from FY20 onwards compared to the preceding years, potential headwinds to earnings emerging now, and fair valuation after a best-of-breed stock price run-up means that upside is limited from a one-year perspective.
- On the other hand, UNSP offers stronger earnings growth opportunity compared to UBBL (34% CAGR v/s 20% CAGR over FY19-21), and would consequently have better ROCE expansion compared to UBBL. UNSP trades at a ~10% discount to sector P/E multiples and is at ~25% discount to UBBL's P/E multiple. Our DCF-based target price of INR700 gives an upside of 25% for UNSP compared to an upside of only 7% for UBBL.
- We are therefore changing our recommendation for UNSP from Neutral to BUY and on UBBL from BUY to Neutral.
- **Investability potential in the alcobev segment is increasing:** In terms of investability, the Alcobev segment has gained significance. Market Capitalization of UNSP is around USD5.8b, with free float MCap of USD2.5b. Market Capitalization of UBBL is around USD5.3b, with free float MCap of USD1.4b. Market Cap CAGR growth over a 15-year period has been spectacular for both UNSP and UBBL, with the former reporting 39.4% CAGR growth and the latter reporting an even better 43% CAGR growth. This was led by UBBL moving from loss to profit over the last 15 years and witnessing an extremely strong PAT CAGR between 22-30% over a 3/5/10-year period. ROCEs for UBBL have improved from mid- single-digits 10 years ago to around 19% now. In case of UNSP, PAT CAGR was 27% over the past 15 years and ROCE has increased to ~16% in FY19E from ~4% (15 years ago). Yet, despite these improved metrics, FY19E PAT of USD108m/USD87m for UNSP/UBBL, India's largest spirits/beer company, respectively, is still a very low number. This indicates a strong multi-year earnings growth opportunity, going ahead.
- **Outperformance of UBBL is likely to be in the past:** Since we [upgraded](#) United Breweries (UBBL) in Sept'17, it has been the best performing stock in our Consumer universe, and the second best among Consumer and Retail stocks under our coverage. UBBL's stock price has yielded ~73% returns since our upgrade, second only to Jubilant Foodworks, which has seen its stock price appreciate ~90% over the same period. UBBL's stock price appreciation is favorable v/s ~19% average return from Consumer stocks under our coverage/ ~14% from the BSE FMCG index/ ~9% from the Nifty/ ~14% from the Sensex and just ~9% from its alcohol peer — United Spirits (UNSP).

- Large part of earnings momentum at UBBL has been already witnessed:** There are several factors which have led to UBBL’s outperformance like strong volume led topline growth, premiumization, market share gains and improving return ratios. We, however, believe that a large part of its earnings momentum led by the category tailwinds have already come through. The company’s own efforts will contribute to earnings growth, but will potentially have a much lower incremental impact than the past two years, in our view. Some headwinds that are likely over the short- to medium-term are election related disruptions right in the middle of the peak season for beer in India, capex revival leading to higher depreciation going forward, the Anti-Trust Case overhang and raw material inflation (barley and glass).
- What will work for UNSP?** After its underperformance over the last 1.5 years, UNSP is now trading at a ~25% discount to UBBL and at 10% discount to its Consumer sector peers (38.5x FY20 EPS), despite no deterioration in its structural earnings growth trajectory. UNSP’s premiumization trend remains strong; its costs saving initiatives are in progress and raw material costs despite spiking a bit recently, remain at low levels compared to historical average. Its debt reduction trend still has plenty of steam left, unlike UBBL, where the capex cycle is expected to pick up now.
- Valuation & view:** After nearly a year and half of preferring UBBL over UNSP, we are **Downgrading UBBL to Neutral** (Buy earlier) and **Upgrading UNSP to Buy** (Neutral earlier). While we remain positive on the longer-term earnings growth opportunity in UBBL, we believe there is moderate room for an upside over the next one year with rich valuations at 50x FY20 EPS. Earnings growth is likely to be slower in FY20 and FY21 at ~18% compared to 63% CAGR between FY17-FY19E. We value UBBL at 25x Dec 2020 EV/EBITDA and get a target price of INR1,480 (~10% discount to peers), implying just 7% upside. UNSP not only offers better earnings growth opportunity over the next two years (34% CAGR over FY19E-FY21E) with strong ROE expansion as well, but at 40x FY20, it is also over 20% cheaper in terms of valuations to UBBL and at 10% discount to its consumer sector peers. Our DCF-based target price of INR700 gives an upside of 25%.

Exhibit 1: UNSP now trades at a discount to UBBL



Source: Company, MOFSL



United Breweries – Downgrade to Neutral

Reasons for upgrading UBBL

In our [note dated 21st Sept'17](#), we upgraded the UBBL stock to Buy due to the following reasons:

- The impact of the highway alcohol sale ban, GST, and alcohol prohibition in a few states was not as bad as feared.
- The company performed well in 1QFY18 despite the highway ban coming into effect, with sales, EBITDA and PAT increasing in the range of 7-10%.
- The GST impact on margins was expected at ~200bp in FY18. Subsequently, it was revealed that due to various factors (including rate on barley at 0%), the impact was likely to be less than half of the initial fears.
- Demand appeared to be on the cusp of a revival.
- The company launched a spate of brands in 1QFY19, which was expected to support growth of the premium and super-premium segments, boosting gross margin potential.
- The stock was the worst performer within our coverage universe since the month post demonetization. While there was a sharp rally in its peer UNSP's share price, UBBL was languishing at the same price level since we downgraded it to Hold after the 4QFY17 results.

What has happened since then?

- **Strong topline growth** — UBBL's stock outperformance has been led by strong results and continued market share gains. Sales growth in FY18/FY19E was 18.1%/15.5% (the best since FY12) aided by double-digit volume growth of 10%/13.5%. Thus, demand revival was ahead of expectations.

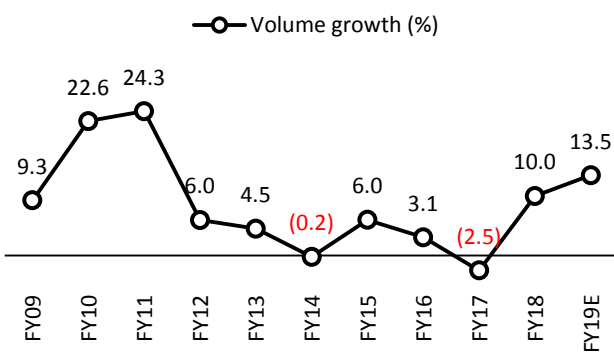
Stock Info

Bloomberg	UBBL IN
Equity Shares (m)	264
M.Cap.(INRb)/(USDb)	366.4 / 5.2
52-Week Range (INR)	1494 / 908
1, 6, 12 Rel. Per (%)	-4/8/25
12M Avg Val (INR M)	822
Free float (%)	42.3

UBBL - Financial & Valuation (INR b)

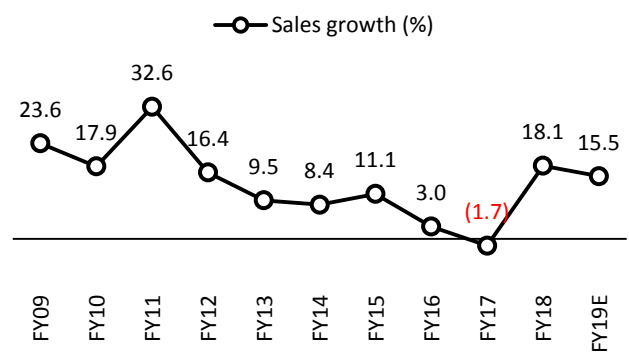
Y/E March	2019E	2020E	2021E
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Exhibit 2: Double-digit volume growth in the last two years...



Source: Company, MOFSL

Exhibit 3: ..driving strong sales growth of 18.1%/15.5% in FY18/FY19E



Source: Company, MOFSL

- **Premiumization** — New premium products launched since 1QFY18, including the 'Kingfisher Storm' and other brands from the Heineken stable have done very well, aiding margin growth.

Exhibit 4: Premium products doing well, including Kingfisher Storm...



Source: Company, MOFSL

Exhibit 5: ...and other brands from the Heineken portfolio



Source: Company, MOFSL

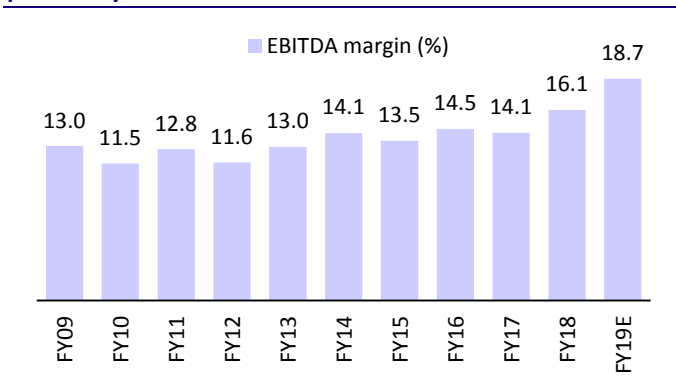
Exhibit 6: UBBL launched a premium soft drink (non-alcoholic) brand "Radler"



Source: Company, MOFSL

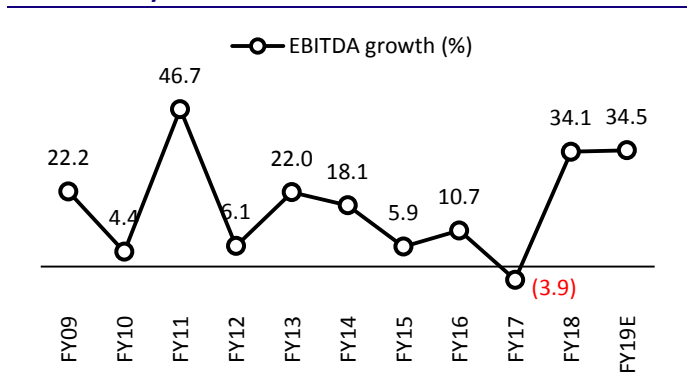
- **Remarkable EBITDA growth**— EBITDA margins expected at 18.7% for FY19E (20.0% reported for 9MFY19) are likely to expand by 460bp over FY17 levels. Further, EBITDA growth has been extremely strong at 34.1% in FY18; topping this, for FY19E EBITDA is expected at 34.5%.
- **Record EBITDA margins** — Operating margin expansion was sharp over this period; despite the impact on gross margins in the absence of input tax credit. In fact, EBITDA margins in all the three quarters YTD FY19 are at record high levels.

Exhibit 7: EBITDA margin grew sharply by 460bp over the past two years



Source: Company, MOFSL

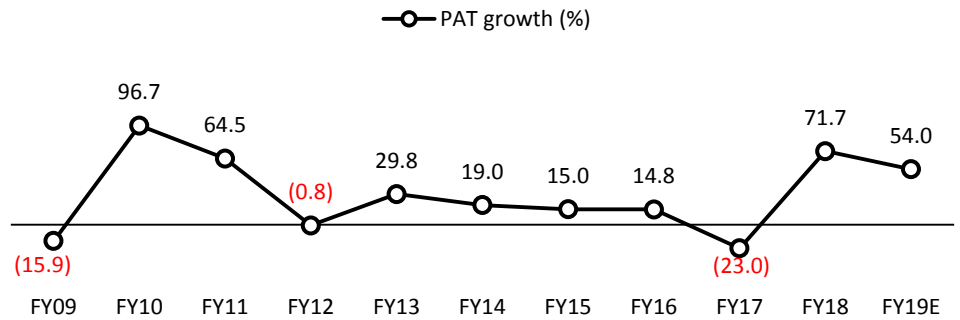
Exhibit 8: EBITDA growth expected to be strong for second consecutive year



Source: Company, MOFSL

- **Best of breed PAT growth** — Given the recovery in sales from relative levels of underutilization, PAT performance was spectacular at 71.7% in FY18. Despite the high base of the preceding year, it is likely to grow at 54% in FY19E.

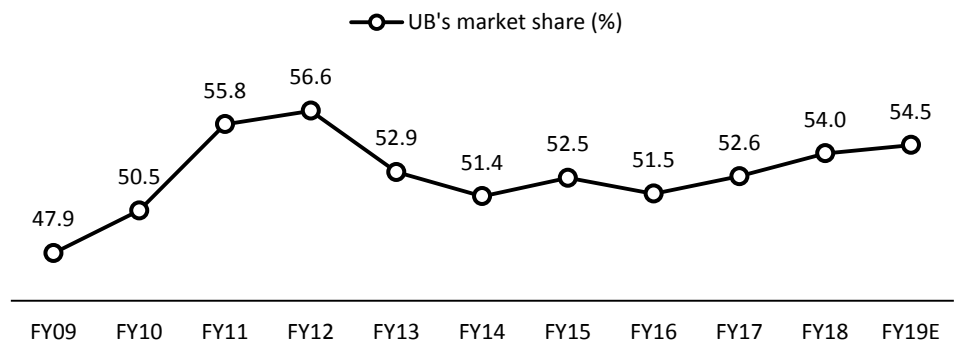
Exhibit 9: Below EBITDA level improvements leading to stronger growth in PAT compared to EBITDA



Source: Company, MOFSL

- **Further market share increase** — Market share is likely to end up ~200bp higher in FY19E compared to FY17 levels.

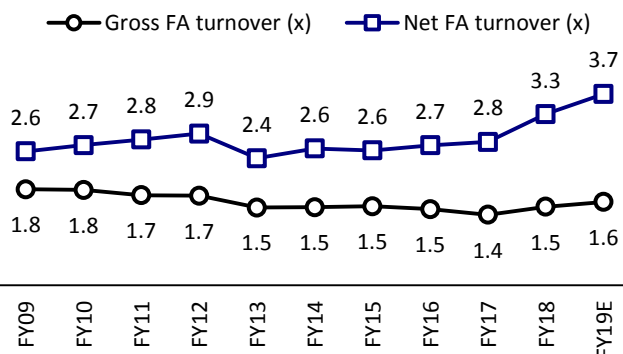
Exhibit 10: UBBL remains a dominant player with improving market share



Source: Company, MOFSL

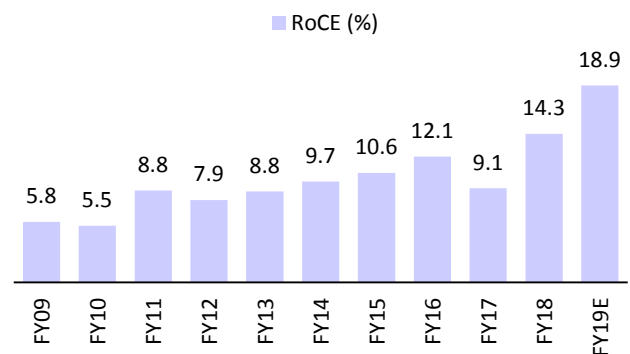
- **Rapidly improving return ratios** — ROCE is expected to improve very sharply from 9.1% in FY17 to a likely 18.9% in FY19E.

Exhibit 11: Healthy growth in sales led to improvement in FATR and...



Source: Company, MOFSL

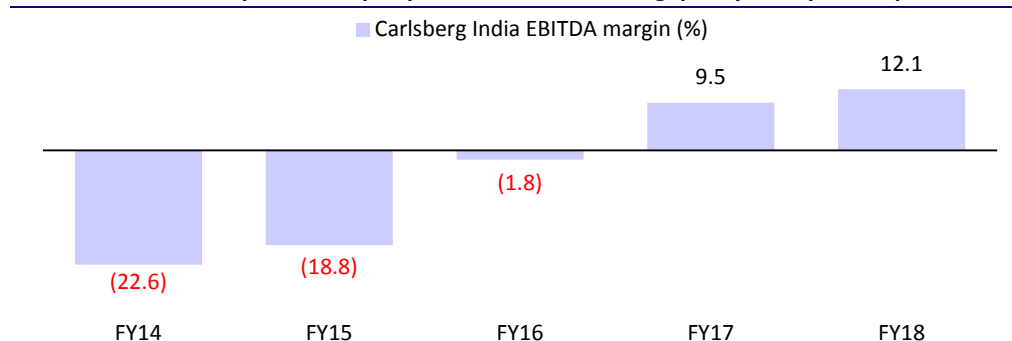
Exhibit 12: ...with better operating margins and PAT led to steep ROCE improvement



Source: Company, MOFSL

- **Segmental tailwinds** — Tailwinds to profitability have come in due to: (a) competition being focused on profitability instead of focusing on growth, (b) industry premiumization, (c) recovery post the highway alcohol ban, (d) price increases granted by several states, and (e) moderate material cost environment.

Exhibit 13: Dramatic profitability improvement in Carlsberg, partly led by lower promotion



Source: Company, MOFSL

Exhibit 14: ... has resulted in profitability improvement for UBBL as well

Y/E	FY16	FY17	FY18
Net revenue growth			
UBBL	3.0%	-1.7%	18.1%
Carlsberg India	50.2%	16.6%	13.5%
EBITDA growth			
UBBL	10.7%	-3.9%	34.1%
Carlsberg India	-85.4%	-704.1%	45.3%
EBITDA margin			
UBBL	14.5%	14.1%	16.1%
Carlsberg India	-1.8%	9.5%	12.1%
PAT growth			
UBBL	14.8%	-23.0%	71.7%
Carlsberg India	-43.7%	-356.4%	-43.1%

Source: MCA, Company, MOFSL

Exhibit 15: Pricing action over the years

Y/E	Pricing action
FY19 YTD	Price increase in Maharashtra, Karnataka and Telangana (~10%)
FY18	Price increase in Karnataka, Maharashtra, Goa, Daman, Tamil Nadu, West Bengal & Kerala
FY17	Price increase taken in Maharashtra
FY16	Price increase taken in Andhra Pradesh, Telangana & Karnataka
FY15	Price increase in Tamil Nadu, West Bengal and Rajasthan
FY14	Price increase in 13 states

Source: Media, Company, MOFSL

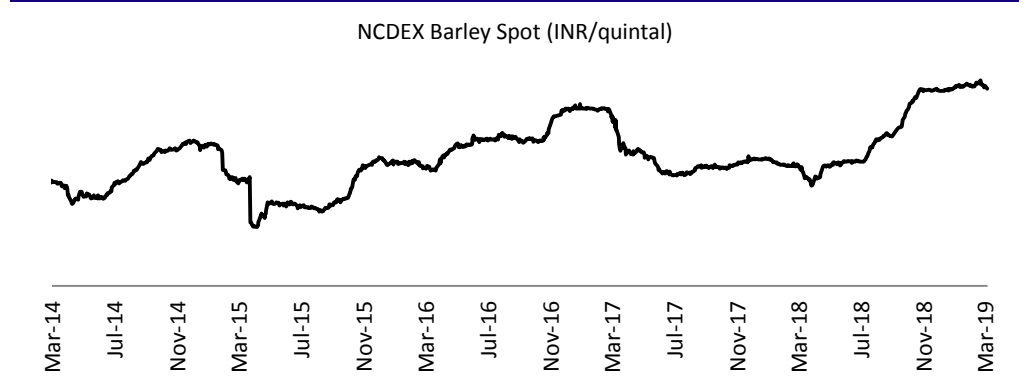
Headwinds are now emerging...

Headwinds are now likely because of:

- **Capex revival** — Revival of capex momentum, while essential from a longer-term perspective, will keep margin expansion and ROCE improvements under check. Interest costs had declined by ~40% each in both FY18 and FY19E and depreciation was up by 4.8% in FY18 and 13.6% in FY19E. Interest cost reduction is not expected to be as sharp going forward, while depreciation is likely to increase by close to 15% CAGR in the next three years.
- **Potential near-term disruptions** — Election related disruptions can affect the crucial summer season sales in 1QFY20. While UNSP is also likely to be affected due to elections, the impact should be significantly lower as beer consumption is more skewed towards summers, unlike spirits.

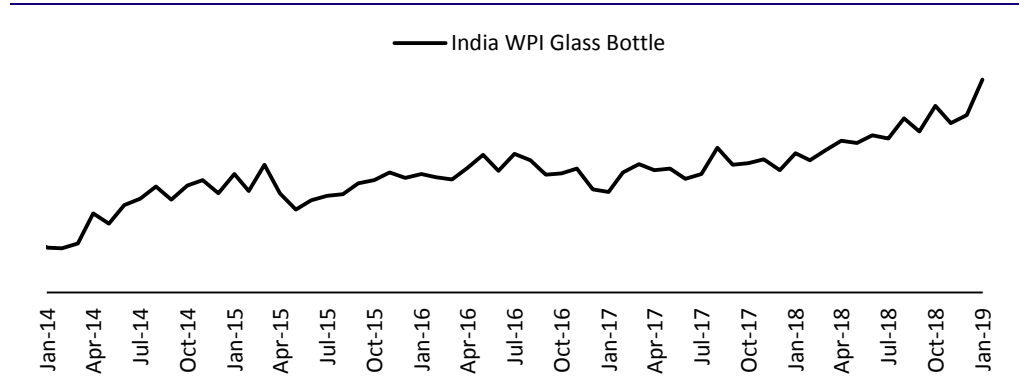
- **Anti-Trust Case overhang** — An adverse outcome of the anti-trust (price fixing) case will have a bearing on not just the net worth, but also on the company’s target P/E multiple.
- **Material costs** (especially barley and glass) have been showing an uptrend.

Exhibit 16: Barley prices are still up YoY coming at a time when UBBL books raw material for the entire coming year ahead of the summer season



Source: Bloomberg, MOFSL

Exhibit 17: India WPI Glass Bottle costs are also moving up



Source: Bloomberg, MOFSL

Heineken stake buy and potential price increase in Andhra Pradesh could be undiscounted positives

- Heineken owns 44% stake in UBBL with 30% held by the Mallya group entities. Of the Mallya group’s shareholding, a little over half (16% of total shareholding) is pledged. The Enforcement Directorate is reportedly keen on selling the pledged stake, which could be purchased by Heineken (as it has done in the past) at a premium. Any such news will act as a positive trigger to the stock. (Link to media article: <https://economictimes.indiatimes.com/industry/cons-products/liquor/ed-may-allow-banks-to-sell-mallyas-attached-shares-in-united-breweries-post-court-nod/articleshow/67985206.cms>).
- Another factor that could be a positive trigger that we are not accounting for is a price increase in Andhra Pradesh, which hasn’t come through for some time. The erstwhile combined Andhra Pradesh was UBBL’s largest but least profitable territory among the large states. Telangana granted a price increase of 10% in May’18, but Andhra Pradesh (residual) has not granted one yet.



Stock Info

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Equity Shares (m)	727
M.Cap.(INRb)/(USDb)	407.3 / 5.8
52-Week Range (INR)	731 / 439
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12M Avg Val (INR M)	1088
Free float (%)	43.3

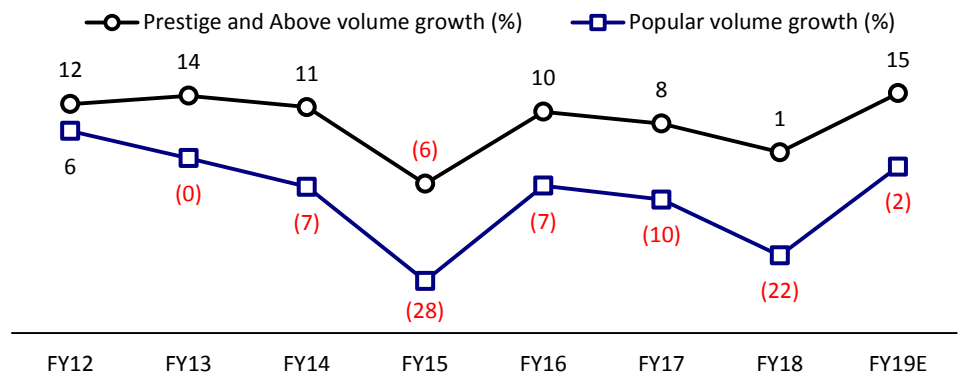
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United Spirits – Upgrade to Buy

- Quarterly volatility for UNSP, particularly on margins is high, but its structural growth potential remains intact with the company moving in the right direction. Prestige & Above (P&A) segment’s volume growth is now back on track after a lull caused by the highway ban. Popular segment volumes were badly affected by demonetization and the highway alcohol ban, but are now no longer a drag on overall volumes as they were in FY17 and FY18.

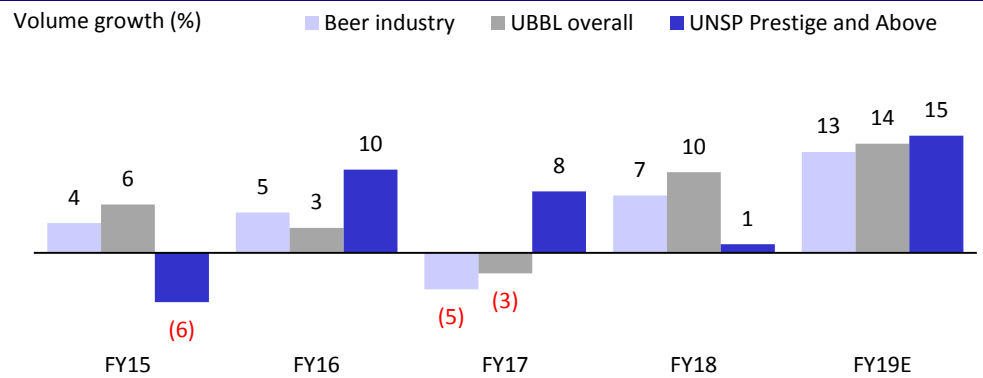
Exhibit 18: After a lull, P&A volume growth back on track



Source: Company, MOFSL

- P&A segment in spirits recovered later than beer, but sales growth momentum is strong.

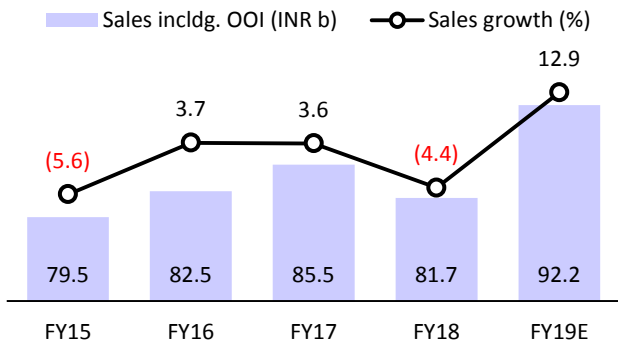
Exhibit 19: Spirits’ volumes were affected the most by the highway alcohol ban



Source: Company, MOFSL

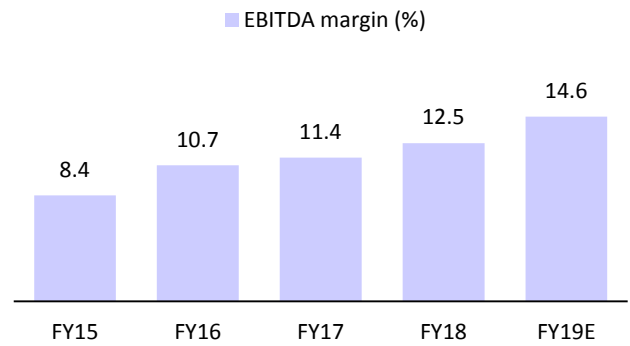
- Since factors like demonetization and the highway ban are no longer at play, revenue growth has finally returned to double-digits. This means that operating leverage also gets added as an additional factor driving margins. Portfolio rationalization, franchising of popular brands and IND-AS had affected sales growth, but are now in the past.

Exhibit 20: Sales growth in double-digits with management guiding for the same going forward....



Source: Company, MOFSL

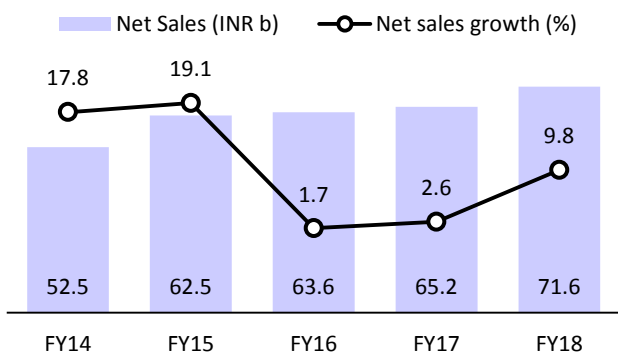
Exhibit 21: thus, EBITDA margin growth which was witnessed earlier, despite weak sales, will improve further,



Source: Company, MOFSL

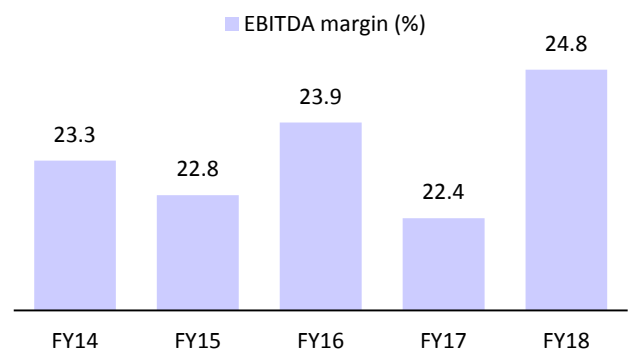
- The second largest spirits player in India after UNSP, Pernod Ricard, continues to have a much higher EBITDA margin at 24.8% (as on FY18), largely because of being focused mainly on P&A segment, which means that as share of Prestige & Above (P&A) increase further for UNSP, EBITDA margin should move significantly higher from current levels of 14.6% (FY19E).

Exhibit 22: Pernod Ricard India's net sales up 9.8% in FY18..



Source: Capitaline, Company, MOFSL

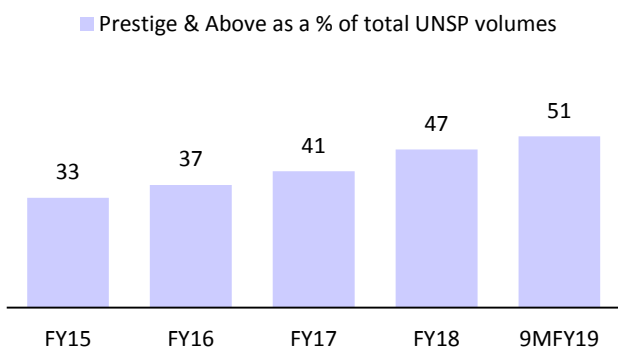
Exhibit 23: ..with EBITDA margin at 24.8%, way higher than that of UNSP



Source: Capitaline, Company, MOFSL

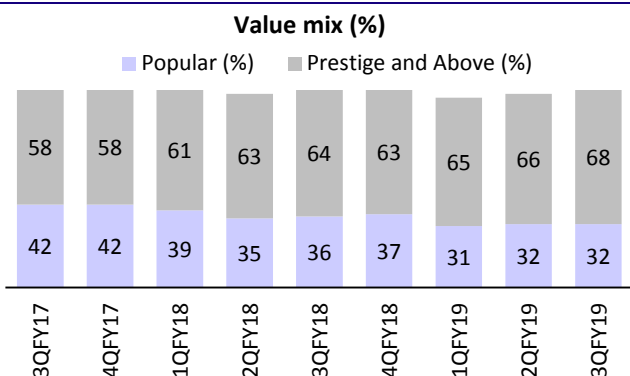
- Before operating leverage emerging as a margin driver from FY19 onwards, four factors have been driving margin improvement, these include (a) premiumization, (b) cost savings, (c) low material costs, and (d) price increases granted by various state governments; only the 'price increases by state governments' is not at play currently and perhaps, will not be for the next two years.

Exhibit 24: Increasing share of P&A in total volumes...



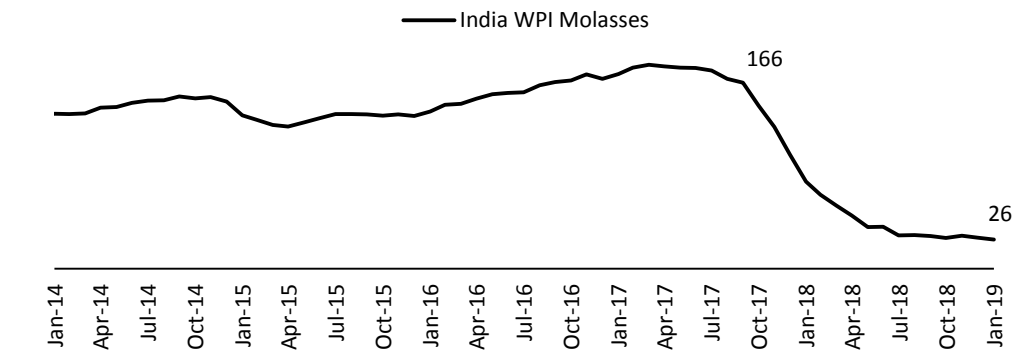
Source: Company, MOFSL

Exhibit 25: ...and in sales



Source: Company, MOFSL

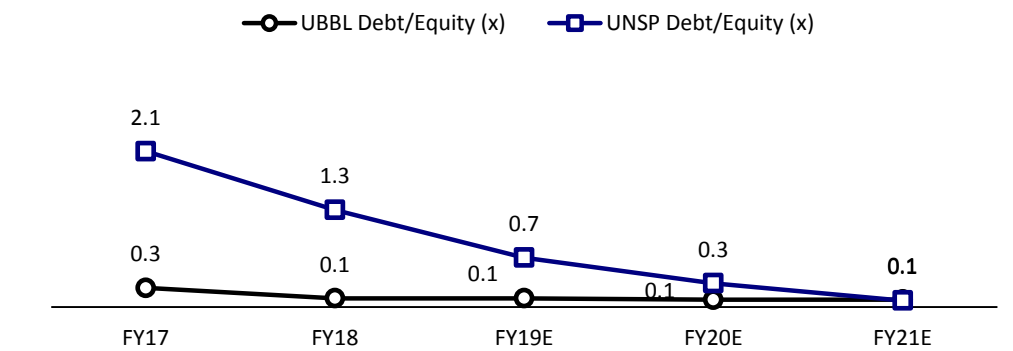
Exhibit 26: Molasses cost (while relatively smaller portion of ENA cost) continues to be benign for UNSP compared to earlier levels



Source: Bloomberg, MOFSL

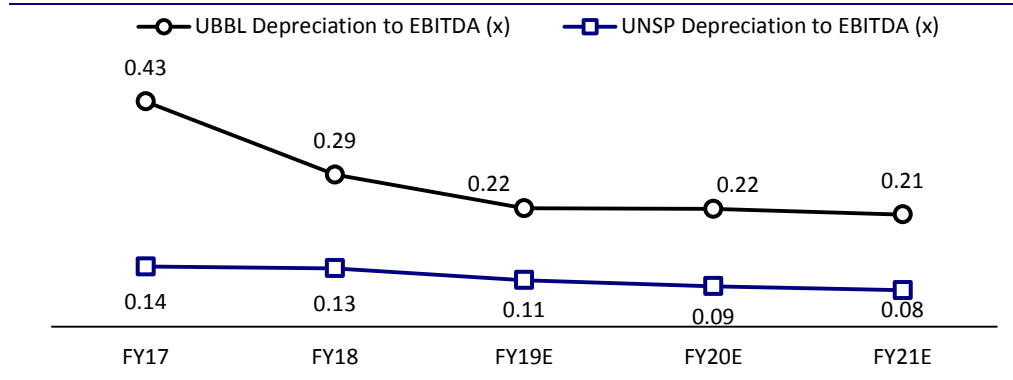
- Unlike UBBL, where the interest cost reduction and moderate depreciation increase theme played out to a large extent, UNSP has significant room to bring down its debt.

Exhibit 27: Significant room to bring down Debt/Equity in case of UNSP



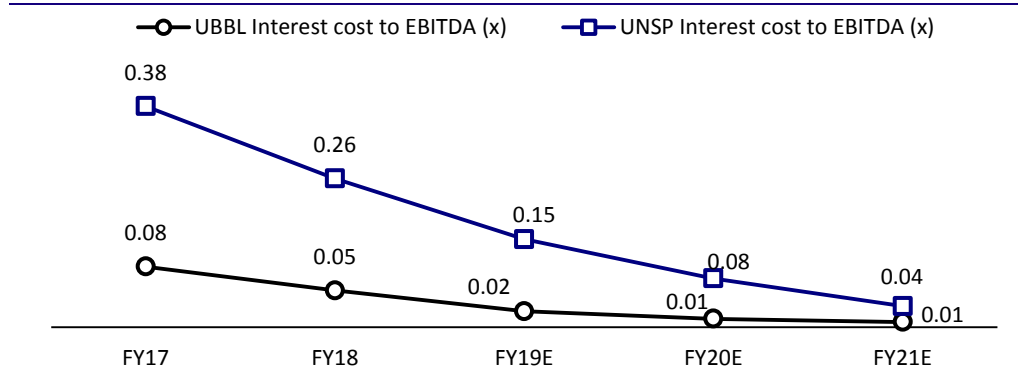
Source: Company, MOFSL

Exhibit 28: UNSP is poised to witness a similar trend to what UBBL has seen in recent years, with PAT growth well ahead of EBITDA growth due to moderate capex...



Source: Company, MOFSL

Exhibit 29: ...and due to continued sharp reduction in debt levels leading to lower interest expense



Source: Company, MOFSL

- This is particularly true as targeted monetization of asset sales of around INR2b, which the company is planning over the next 2-3years, is now picking up steam.

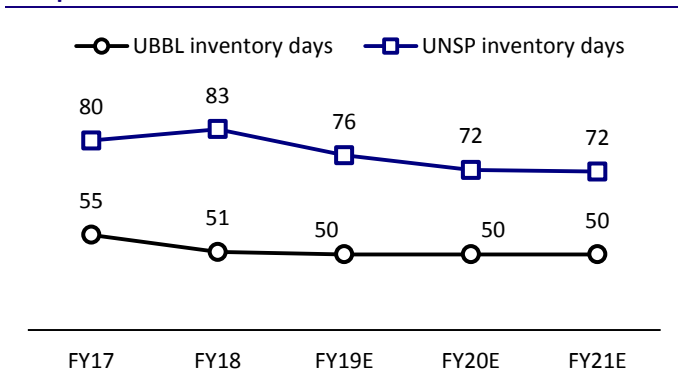
Exhibit 30: Monetization of non-core assets expected to pick up in coming years

Quarter	Realization from monetization of non-core asset (INR)
4QFY19	Disinvested stake in Four Seasons Wines Limited (100% subsidiary). The shares were sold for a total sale consideration of INR319m.
3QFY19	UB Tower in Bengaluru sold and leased back
FY18	For the full year the cash realization is about INR1.37b and the impact is roughly about INR1.05b.
9MFY18	For the 9MFY18, UNSP already saw a non-core monetization of about ~INR600m, which has given them a cash of INR600m and is reflected in terms of profit in other income about INR460m.

Source: Company, MOFSL

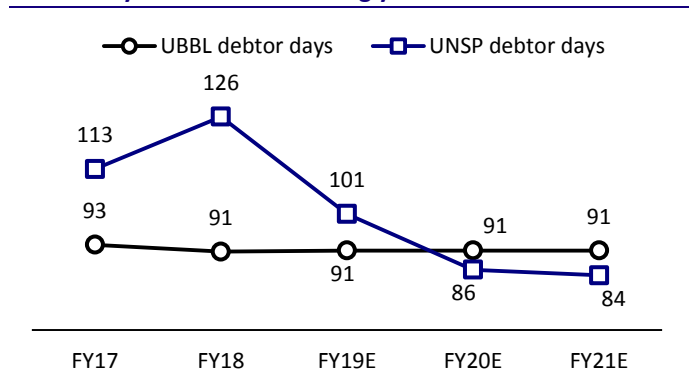
- Working capital reduction is likely at UNSP over the next two years, unlike UBBL.

Exhibit 31: UNSP’s inventory days are substantially higher compared to UBBL



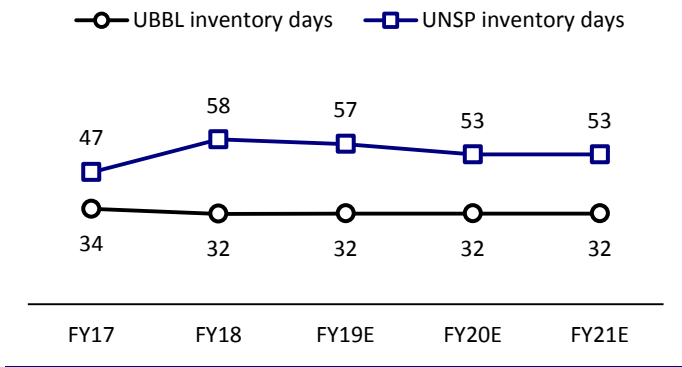
Source: Company, MOFSL

Exhibit 32: Management has stated intention to continue its debtor days reduction in coming years



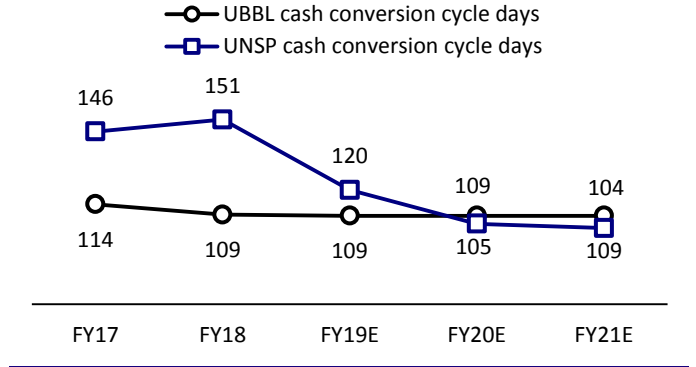
Source: Company, MOFSL

Exhibit 33: On the other hand, creditor days for UNSP are higher



Source: Company, MOFSL

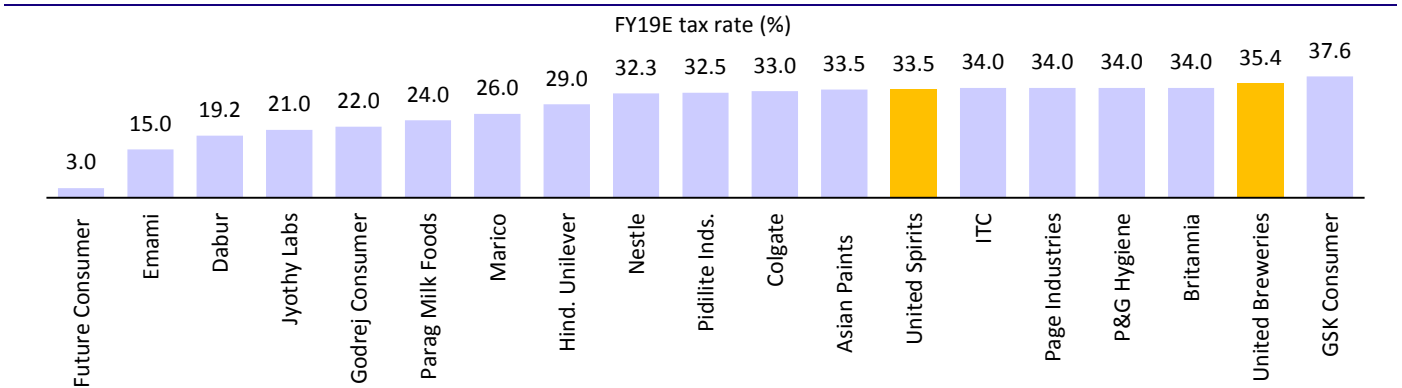
Exhibit 34: If UNSP's NWC days come down to UBBL's levels, cash flow generation could be massive



Source: Company, MOFSL

- Both UBBL and UNSP are full-tax paying companies, and hence, increase in tax rates over the longer term will not detract from the likely strong growth at the PBT level.

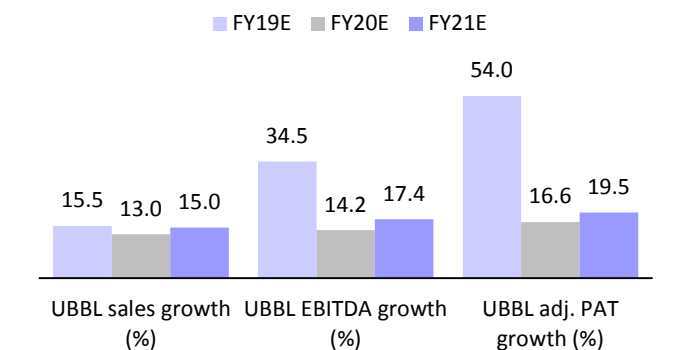
Exhibit 35: Consumer coverage tax rate for FY19E



Source: Company, MOFSL

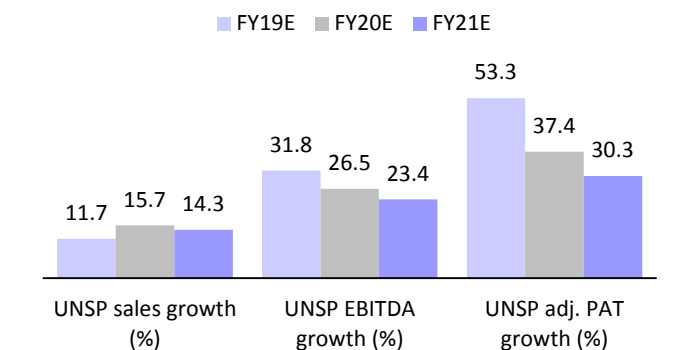
- PAT growth has been healthy for UNSP since FY17, despite moderate EBITDA growth and is likely to be healthy going forward as well.

Exhibit 36: EBITDA and Adj. PAT growth expected to be...



Source: Company, MOFSL

Exhibit 37: ...better for UNSP over the next two years



Source: Company, MOFSL

Exhibit 38: PAT growth comparison table among FMCG stocks under coverage

Adj. PAT growth (%)	FY19E	FY20E	FY21E
Consumer	14.7	16.9	16.2
Asian Paints	13.3	18.5	19.9
Britannia	15.6	22.2	18.1
Colgate	10.8	15.1	15.2
Dabur	8.5	13.7	14.4
Emami	4.2	12.9	14.4
Future Consumer	Loss	LP	139.5
Godrej Consumer	5.6	18.9	14.6
GSK Consumer	23.8	8.6	13.0
Hind. Unilever	17.5	19.1	19.3
ITC	11.9	13.1	10.7
Jyothy Labs	8.7	22.2	19.6
Marico	16.9	18.7	20.6
Nestle	27.5	11.9	17.2
P&G Hygiene	16.6	24.3	25.7
Page Industries	21.6	24.7	21.5
Parag Milk Foods	33.5	16.3	19.5
Pidilite Inds.	(4.0)	23.2	19.0
United Breweries	54.0	16.6	19.5
United Spirits	53.3	37.4	30.3

Source: Company, MOFSL

Risks to our view

- The management of UBBL and UNSP, have cited possible near-term impact in 1QFY20 sales due to election related disruptions. The summer season is key for UBBL but not so much for UNSP; we believe that the impact, if material, will likely impact UBBL more.
- Significant delay in asset sales relative to expectations could affect debt reduction plans, and thus, earnings growth as well.
- Sharp increase in material costs could also affect earnings forecasts.
- Clarity on the possible pilferage issue – In 3QFY19 results UNSP mentioned that, “the Company has come across potential differences in process losses and potential resultant differences in the inventory of a few categories of work in progress in certain plants. The Company is in the process of undertaking a review in affected plants, with the help of an independent expert as required, in order to ascertain the actual quantum of differences, if any. Should the findings establish any differences, the Company will take appropriate steps to understand the causes and address the same”.

Returns & Valuations

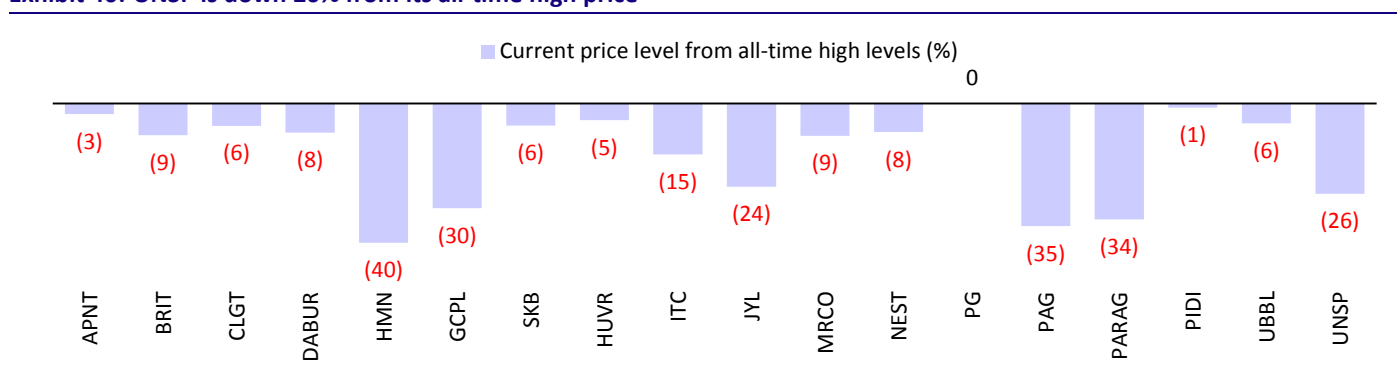
- UBBL has been the top performer among consumer stocks under our coverage. Not only the past 12 months, but also during the past six months UBBL has been among the better performing stocks. UNSP, on the other hand, has been an underperformer across these periods.

Exhibit 39: UBBL's stock price has yielded ~72% returns since our upgrade, best in consumer and second in overall coverage

	21-Sep-17	7-Mar-18	7-Sep-18	7-Mar-19	Return since we upgraded UBBL on 21/09/17 (%)	Return in last 1 year (%)	Return in last 6 months (%)
Nifty 50	10,122	10,154	11,589	11,058	9.3	8.9	(4.6)
Sensex 30	32,370	33,033	38,390	36,725	13.5	11.2	(4.3)
BSE FMCG	10,132	10,286	12,186	11,579	14.3	12.6	(5.0)
UBBL	802	1,020	1,343	1,386	72.8	35.8	3.2
NEST	7,144	7,706	10,447	10,197	42.7	32.3	(2.4)
BRIT	2,166	2,432	3,116	3,042	40.4	25.1	(2.4)
GSK Cons	5,047	6,589	7,234	7,066	40.0	7.2	(2.3)
DABUR	310	323	468	433	39.5	33.9	(7.6)
HUL	1,255	1,292	1,639	1,703	35.7	31.8	3.9
PIDI	839	873	1,159	1,136	35.3	30.1	(2.0)
P&GHH	8,364	9,235	10,115	10,400	24.3	12.6	2.8
PAG	19,164	20,736	33,322	23,131	20.7	11.6	(30.6)
APNT	1,230	1,108	1,317	1,397	13.6	26.1	6.1
CLGT	1,118	1,045	1,141	1,265	13.2	21.1	10.9
GCPL	624	727	893	706	13.1	(2.9)	(20.9)
UNSP	513	616	605	561	9.3	(9.0)	(7.3)
ITC	269	259	310	290	7.6	11.9	(6.6)
MRCO	323	306	358	337	4.2	10.3	(5.7)
PARAG	243	270	293	241	(0.9)	(10.8)	(17.8)
JYL	200	172	210	187	(6.4)	8.7	(11.1)
FCL	64	54	53	50	(21.5)	(6.8)	(5.6)
HMN	563	552	558	391	(30.5)	(29.1)	(29.9)

Source: Bloomberg, MOFSL

- UNSP share price is also significantly down from its all-time high price.

Exhibit 40: UNSP is down 26% from its all-time high price

Source: Company, MOFSL

- Consequent to its outperformance v/s peers, particularly UNSP, UBBL is now among the most expensive on P/E basis among consumer stocks under our coverage, while UNSP is among the cheapest. Both UBBL and UNSP are cheaper than the average peer multiples on EV/ EBITDA.

Exhibit 41:UBBL is trading at a huge premium to UNSP

Company	P/E (x)		EV/EBITDA (x)	
	FY19E	FY20E	FY19E	FY20E
Asian Paints	58.4	49.2	36.1	30.3
Britannia Inds.	62.9	51.5	41.2	33.6
Colgate-Palm.	45.4	39.4	27.1	23.9
Dabur India	51.3	45.2	40.8	35.8
Emami	30.9	27.4	23.9	20.7
Future Consumer	NM	66.8	100.1	42.6
Godrej Consumer	47.5	40.0	32.9	28.4
GlaxoSmith C H L	34.3	31.6	24.0	21.0
Hind. Unilever	59.2	49.7	41.7	34.9
ITC	29.3	26.0	19.2	16.9
Jyothy Lab.	35.0	28.6	23.4	19.9
Marico	45.0	37.9	32.4	27.2
Nestle India	57.1	51.0	35.3	31.3
P & G Hygiene	77.4	62.3	50.7	40.6
Page Industries	61.1	49.0	39.6	32.8
Parag Milk Foods	17.4	15.0	9.4	8.3
Pidilite Inds.	62.5	50.7	41.0	33.6
United Breweries	60.3	51.8	30.5	26.6
United Spirits	54.2	39.4	31.6	24.5
Average	49.4	42.8	35.8	28.0

Source: Company, MOFSL

- The most impressive improvement in ROEs among Consumer peers over the past two years has been by UBBL — albeit off a low base, affected by demonetization and initial impact of the highway ban on FY17 ROE. Nevertheless, we see no substantial ROE improvement in case of UBBL going forward. UNSP, on the other hand, is likely to continue its process of ROE improvement led by strong earnings growth, lower working capital days, limited capex and debt reduction.

Exhibit 42: RoE of consumer coverage

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Consumer	35.5	31.7	28.6	28.3	29.9	32.9	35.6
Asian Paints	32.4	32.9	28.2	25.3	26.2	29.1	33.2
Britannia	56.4	49.5	36.9	32.9	32.1	35.8	40.3
Colgate	81.6	68.0	50.1	49.0	48.4	54.1	64.2
Dabur	35.5	33.3	28.4	25.9	24.2	24.4	25.6
Emami	44.9	40.5	35.8	29.2	27.4	29.2	32.7
Future Consumer	-13.1	-16.3	-8.5	-3.3	-1.9	11.9	23.7
Godrej Consumer	21.4	23.7	24.6	24.9	23.2	25.3	26.2
GSK Consumer	29.7	26.5	22.2	21.2	24.5	24.7	25.0
Hind. Unilever	104.3	83.3	66.5	78.1	86.1	101.2	125.6
ITC	33.7	25.8	23.5	22.3	23.8	26.2	27.2
Jyothy Labs	16.8	8.8	20.5	16.0	16.5	18.9	21.0
Marico	36.0	37.7	37.3	34.0	35.4	37.5	42.7
Nestle	47.9	40.9	39.1	40.3	48.5	51.9	61.6
P&G Hygiene	29.5	28.2	39.7	56.3	50.0	53.0	56.1
Page Industries	58.0	50.5	44.5	45.9	50.6	58.6	60.5
Parag Milk Foods	18.9	19.5	6.1	13.0	15.2	15.5	16.3
Pidilite Inds.	24.3	32.8	28.1	27.3	24.4	27.3	29.5
United Breweries	14.5	14.8	10.2	15.7	20.6	20.1	20.1
United Spirits	6.7	11.4	21.3	22.1	26.8	29.4	29.2

* On Pre-Tax and average basis

Source: Company, MOFSL

- ROCE improvement is also likely to continue at a steady pace for UNSP, potentially surpassing UBBL's ROCE levels over the next two years.

Exhibit 43: RoCE of consumer coverage

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Consumer	37.8	35.8	32.9	32.8	35.7	40.0	44.1
Asian Paints	34.6	37.9	32.3	30.6	32.1	35.7	41.1
Britannia	61.4	60.9	45.9	42.2	41.4	47.2	54.0
Colgate	111.3	91.2	69.2	66.8	68.5	76.1	90.4
Dabur	29.7	29.7	25.2	23.2	22.8	23.5	25.1
Emami	44.0	35.8	31.1	28.2	29.4	34.6	39.5
Future Consumer	-9.3	-3.4	-1.8	0.6	2.7	9.5	18.3
Godrej Consumer	18.9	20.1	20.0	19.7	20.3	22.5	24.2
GSK Consumer	36.4	31.9	26.1	24.8	29.5	30.7	31.0
Hind. Unilever	140.6	108.5	88.5	100.2	112.6	133.4	166.4
ITC	41.8	33.5	29.9	28.7	30.5	33.9	35.5
Jyothy Labs	8.9	13.1	15.7	15.7	17.4	21.0	23.9
Marico	35.6	40.9	43.3	38.5	40.0	42.7	48.7
Nestle	55.0	45.7	54.5	55.5	66.9	72.1	85.7
P&G Hygiene	37.0	37.1	56.5	89.8	72.9	76.9	82.5
Page Industries	60.5	60.1	56.4	61.4	70.0	81.2	85.2
Parag Milk Foods	13.0	17.4	4.9	15.7	17.9	18.6	20.4
Pidilite Inds.	30.9	41.1	34.6	31.5	30.2	33.8	37.0
United Breweries	14.4	15.4	12.9	21.4	28.4	27.5	27.7
United Spirits	7.0	12.6	15.1	15.4	22.4	30.4	35.9

* On Pre-Tax and average basis

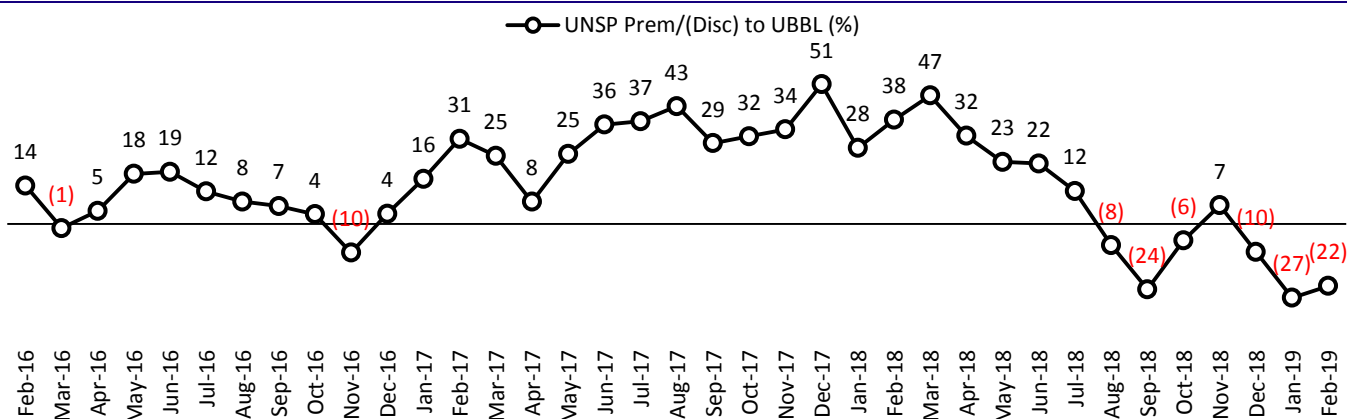
Source: Company, MOFSL

Exhibit 44: UNSP is likely to be an outperformer on the earnings growth front

Y/E March	FY18	FY19E	FY20E	FY21E
Consumer	10.7	14.7	16.9	16.2
Asian Paints	1.9	13.3	18.5	19.9
Britannia	13.6	15.6	22.2	18.1
Colgate	18.6	10.8	15.1	15.2
Dabur	7.2	8.5	13.7	14.4
Emami	-8.5	4.2	12.9	14.4
Future Consumer	Loss	Loss	LP	139.5
Godrej Consumer	11.4	5.6	18.9	14.6
GSK Consumer	6.6	23.8	8.6	13.0
Hind. Unilever	24.7	17.5	19.1	19.3
ITC	5.5	11.6	13.1	10.7
Jyothy Labs	-12.4	8.7	22.2	19.6
Marico	2.0	16.9	18.7	20.6
Nestle	13.2	27.5	11.9	17.2
P&G Hygiene	-14.5	18.0	24.3	25.7
Page Industries	30.3	21.6	24.7	21.5
Parag Milk Foods	383.7	33.5	16.3	19.5
Pidilite Inds.	13.2	-4.0	23.2	19.0
United Breweries	71.7	54.0	16.6	19.5
United Spirits	26.1	53.3	37.4	30.3

Source: Company, MOFSL

- Valuation & view:** After nearly a year and half of preferring UBBL over UNSP, we are **Downgrading UBBL to Neutral** (Buy earlier) and **Upgrading UNSP to Buy** (Neutral earlier). While we remain positive on the longer-term earnings growth opportunity in UBBL, we believe there is moderate room for an upside over the next one year with rich valuations at 50x FY20 EPS. Earnings growth is likely to be slower in FY20 and FY21 at ~18% compared to 63% CAGR between FY17-FY19E. We value UBBL at 25x Dec 2020 EV/EBITDA and get a target price of INR1,480 (~10% discount to peers), implying just 7% upside. UNSP not only offers better earnings growth opportunity over the next two years (34% CAGR over FY19E-FY21E) with strong ROE expansion as well, but at 40x FY20, it is also over 20% cheaper in terms of valuations to UBBL and at 10% discount to its consumer sector peers. Our DCF-based target price of INR700 gives an upside of 25%.

Exhibit 45: UNSP now trades at a discount to UBBL

Source: Company, MOFSL

Annexure- The case for alcobev

- Tremendous growth opportunity in the Indian Alcobev segment:** The Indian alcoholic beverages (Alcobev) segment is pegged to grow tremendously led by a combination of rising income levels and ongoing lifestyle changes of the populace. Further, low per capita consumption/penetration (across beer and spirits) and increasing scope for premiumization foretell huge prospects for the segment, which should see strong growth in margins and volumes, going forward. Thus, the Alcobev segment is an attractive structural opportunity for investors to play the discretionary consumption segment in India.
- The advent of MNCs:** Noticing the tremendous structural growth opportunity for Alcobev segment, multinational companies (MNCs) have entered into the Indian spirits and beer market in the current millennium. Already most top brewers and distillers have a presence in India; in fact, MNCs dominate both the spirits and the beer market in India. The two dominant spirits companies in India — United Spirits and Pernod Ricard India (unlisted) – are owned by the two global spirits majors Diageo and Pernod Ricard, respectively. Similarly, the top three beer players worldwide are also the top three players in India. The Heineken controlled United Breweries (UBBL), AB Inbev- SAB Miller and Carlsberg collectively have a dominating 88% market share in the Indian beer market. The largest spirits company (United Spirits) and the two largest beer companies in India (UBBL and SAB Miller) were formed as a result of an acquisition of a local entity by a global major.

Exhibit 46: Timeline of entry of global beer peers in India

Date	Event
1999	United Breweries floated a subsidiary called Millennium AlcoBev. It was a joint venture between United Breweries, UK-based Scottish & Newcastle and Ravi Jain
2000	SABMiller India entered Indian market by acquiring Narang Breweries
2001	SABMiller acquired the Mysore Breweries, Pal Distilleries and Rochees Breweries
2003	SABMiller Plc took management control of the Manu Chhabria family-controlled Shaw Wallace Breweries
2005	SABMiller India acquired Shaw Wallace's beer assets for INR6b
2006	Carlsberg entered India with its local venture, South Asian Breweries. The name changed to Carlsberg India Private Limited in 2009
2006	SABMiller India acquired Foster's Indian assets
2006	AB InBev entered a partnership with Hyderabad-based Crown Beers
2008	Heineken/Carlsberg purchased Scottish Newcastle back in 2008. This resulted in share of United Breweries going to Heineken
2016	AB InBev acquires SAB Miller

Source: Media, Company, MOFSL

Exhibit 47: Timeline of entry of global spirits peers in India

Date	Event
1995	Radico entered into a joint venture with Whyte & Mackay Group plc
1996	Pernod Ricard entered India in 1996 picking up 74% stake in United Agencies Ltd (UAL) with bottling facility in Kolhapur
2000-01	Diageo and Pernod buy and divide up Seagram Beverage Assets (Global), post which Groupe Pernod Ricard domestic arm, UAL, merged with Seagram's Indian business
2005	Shaw Wallace & Company Limited (SWC) spirits business was acquired by the United Breweries Group (UB Group) which was then merged with United Spirits Ltd., a then subsidiary of UB Group
2006	Diageo India signed a 50:50 joint venture agreement with Radico Khaitan. The move marked Diageo's return to the IMFL market, which it had previously exited in 2001
2011	Radico Khaitan entered into an agreement with Japanese firm Suntory Liquors
2012	Diageo takes majority control of India's United Spirits

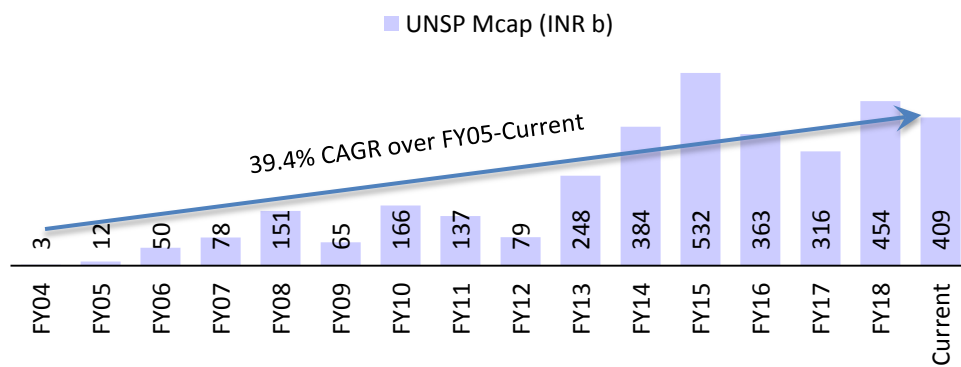
Source: Media, Company, MOFSL

- **The advantage for the incumbents:** Incumbents have an enormous advantage due to the following factors:

 - **Distribution** - Because of the limited distribution reach (only around 80,000 outlets selling beer and spirits), the largest players — UNSP and UBBL – are at a significant advantage.
 - **Manufacturing set-up** - With prohibitively high inter-state import duties, having a brewery or distillery in every state is a huge advantage. UBBL has 21 owned breweries and eight contract breweries, while UNSP has over 50 distilleries across the country. In fact after GST, and once the compensation from the centre ends (currently five years after GST introduction i.e. June 2022) dependence of state revenues on alcohol will increase even further leading to further sharp increase in import duties.
 - **Brand building** - With the Alcobev segment being 'media dark', brand building, particularly in the mass segment is a huge challenge.
 - **Capital intensity** - Capital intensity is high, both for fixed assets and working capital. Fixed asset intensity for both spirits and beer is lower than the Consumer sector average, particularly for beer. Working capital is also high (NWC of over 100 days each), as these companies deal with state governments in majority of their markets.

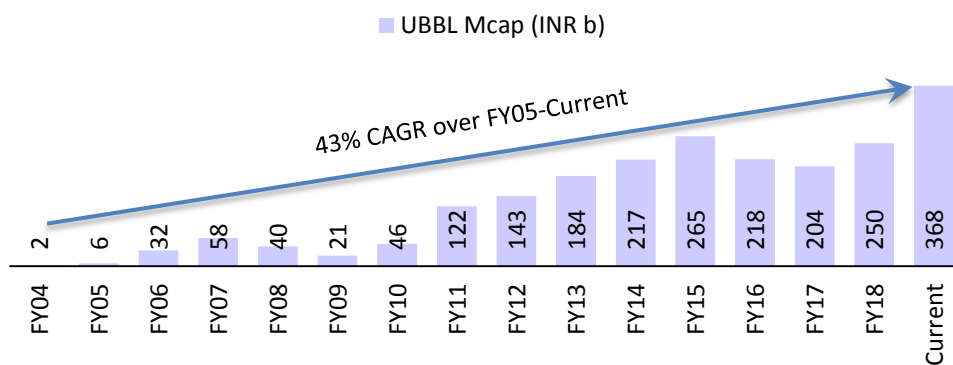
- **Investibility potential increasing (size, earnings, ROCE, etc.):** In terms of investability, the Alcobev segment has gained much significance. Market Capitalization of UNSP is around USD5.8b, with free float MCap of USD2.5b. Market Capitalization of UBBL is around USD5.3b, with free float MCap of USD1.4b. Market Cap CAGR growth over a 15-year period has been spectacular for both UNSP and UBBL, with the former reporting 39.4% CAGR growth and the latter reporting an even better 43% CAGR growth. This was led by UBBL moving from loss to profit over the last 15 years and witnessing an extremely strong PAT CAGR between 22-30% over a 3/5/10-year period. ROCEs for UBBL have improved from mid- single-digits 10 years ago to around 20% now. In case of UNSP, PAT CAGR was 27% over the past 15 years and ROCE has increased to ~16% in FY19E from ~4% (15 years ago). Yet, despite these improved metrics, FY19E PAT of USD108m/USD87m for UNSP/UBBL, India's largest spirits/beer company, respectively, is still a very low number. This indicates a strong multi-year earnings growth opportunity, going ahead.

Exhibit 48: UNSP’s market cap has grown at a CAGR of 39.4% over last 15 years



Source: Company, MOFSL

Exhibit 49: UBL’s market cap has grown at a CAGR of 43% over last 15 years



Source: Company, MOFSL

United Breweries - Financials and valuations

Consolidated - Income Statement							(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Total Income from Operations	46,990	48,408	47,603	56,196	64,906	73,344	84,345
Change (%)	11.1	3.0	-1.7	18.1	15.5	13.0	15.0
Raw Materials	18,937	21,209	21,779	26,315	29,999	33,598	38,403
% of Sales	40.3	43.8	45.8	46.8	46.2	45.8	45.5
Gross Profit	28,053	27,198	25,823	29,881	34,907	39,745	45,942
Margin (%)	59.7	56.2	54.2	53.2	53.8	54.2	54.5
Total Expenditure	40,664	41,402	40,871	47,170	52,769	59,482	68,066
% of Sales	86.5	85.5	85.9	83.9	81.3	81.1	80.7
EBITDA	6,326	7,006	6,732	9,025	12,137	13,862	16,279
Margin (%)	13.5	14.5	14.1	16.1	18.7	18.9	19.3
Depreciation	2,075	2,436	2,871	2,597	2,720	3,089	3,457
EBIT	4,251	4,569	3,861	6,429	9,416	10,773	12,822
Int. and Finance Charges	651	787	560	456	263	158	113
Other Income	190	764	180	105	251	201	211
PBT after EO Exp.	3,790	4,547	3,481	6,078	9,404	10,815	12,920
Total Tax	1,188	1,560	1,182	2,132	3,329	3,731	4,457
Tax Rate (%)	31.3	34.3	34.0	35.1	35.4	34.5	34.5
Less: Mionrity Interest	4	4	4	4	4	4	4
Adjusted PAT	2,598	2,983	2,296	3,942	6,072	7,080	8,458
Change (%)	15.0	14.8	-23.0	71.7	54.0	16.6	19.5
Margin (%)	5.5	6.2	4.8	7.0	9.4	9.7	10.0

Consolidated - Balance Sheet							(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	264	264	264.4	264	264	264	264
Total Reserves	18,587	21,207	23,078	26,638	31,905	38,062	45,439
Net Worth	18,851	21,471	23,342	26,903	32,169	38,327	45,703
Minority Interest	23	25	28	29	29	29	29
Deferred Tax Liabilities	676	634	470	182	182	182	182
Total Loans	9,490	8,062	5,940	3,121	3,721	3,721	4,521
Capital Employed	29,040	30,193	29,780	30,235	36,101	42,259	50,435
Gross Block	30,936	33,084	35,089	37,208	40,508	45,308	50,708
Less: Accum. Deprn.	12,820	15,104	17,827	20,152	22,872	25,962	29,418
Net Fixed Assets	18,116	17,980	17,262	17,056	17,636	19,347	21,290
Goodwill on Consolidation	242	242	242	242	242	242	242
Capital WIP	902	608	1,372	723	1,135	1,667	1,953
Total Investments	1	1	1	2	2	2	2
Curr. Assets, Loans&Adv.	21,569	24,827	25,911	29,212	34,397	39,259	45,225
Inventory	6,101	6,881	7,508	8,080	9,702	10,392	12,717
Account Receivables	9,318	11,189	12,954	14,986	17,378	19,193	22,864
Cash and Bank Balance	132	140	243	242	1,118	3,166	2,810
Loans and Advances	6,018	6,618	5,205	5,904	6,199	6,509	6,834
Curr. Liability & Prov.	11,789	13,466	15,007	16,999	17,310	18,257	18,277
Account Payables	3,799	4,176	4,596	5,217	6,164	6,697	8,093
Provisions	7,991	9,291	10,412	11,782	11,147	11,561	10,184
Net Current Assets	9,779	11,361	10,903	12,212	17,087	21,002	26,948
Appl. of Funds	29,040	30,193	29,780	30,235	36,101	42,259	50,435

E: MOFSL Estimates

United Breweries - Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Basic (INR)							
EPS	9.8	11.3	8.7	14.9	23.0	26.8	32.0
BV/Share	71.3	81.2	88.3	101.7	121.7	145.0	172.9
DPS	1.0	1.2	1.2	2.0	2.3	2.7	3.2
Payout (%)	10.2	10.2	13.2	13.4	10.0	10.0	10.0
Valuation (x)							
P/E	141.0	122.8	159.6	92.9	60.3	51.8	43.3
Cash P/E	78.4	67.6	70.9	56.0	41.7	36.0	30.8
P/BV	19.4	17.1	15.7	13.6	11.4	9.6	8.0
EV/Sales	8.0	7.7	7.8	6.6	5.7	5.0	4.4
EV/EBITDA	59.4	53.4	55.3	40.9	30.4	26.5	22.6
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Return Ratios (%)							
RoE	14.5	14.8	10.2	15.7	20.6	20.1	20.1
RoCE	10.6	12.1	9.1	14.3	18.9	18.4	18.5
RoIC	10.6	10.5	8.9	14.5	19.3	19.8	20.2
Working Capital Ratios							
Asset Turnover (x)	1.6	1.6	1.6	1.9	1.8	1.7	1.7
Inventory (Days)	45	49	55	51	50	50	50
Debtor (Days)	73	77	93	91	91	91	91
Creditor (Days)	23	30	34	32	32	32	32
Leverage Ratio (x)							
Debt/Equity	0.5	0.4	0.3	0.1	0.1	0.1	0.1

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
OP/(Loss) before Tax	3,790	4,547	3,481	6,078	9,405	10,815	12,919
Depreciation	2,075	2,436	2,871	2,597	2,720	3,089	3,457
Interest & Finance Charges	718	755	581	471	263	158	113
Direct Taxes Paid	-1,423	-1,595	-1,435	-2,534	-2,497	-2,798	-3,343
(Inc)/Dec in WC	3,381	-777	22	-1,265	-5,257	-3,347	-7,717
CF from Operations	8,541	5,365	5,519	5,346	4,634	7,917	5,429
Others	-132	441	-78	287	0	0	0
CF from Operating incl EO	8,408	5,806	5,441	5,633	4,634	7,917	5,429
(Inc)/Dec in FA	-4,069	-2,430	-2,355	-2,014	-3,280	-4,780	-5,380
Free Cash Flow	4,339	3,376	3,086	3,619	1,354	3,137	49
Others	774	-24	15	-45	0	0	0
CF from Investments	-3,295	-2,455	-2,340	-2,060	-3,280	-4,780	-5,380
Inc/(Dec) in Debt	-4,699	-1,857	-2,122	-2,820	600	0	800
Interest Paid	-715	-794	-583	-507	-263	-158	-113
Dividend Paid	-303	-317	-307	-308	-812	-930	-1,091
Others	0	0	0	1	-29	-31	-32
CF from Fin. Activity	-5,717	-2,968	-3,012	-3,634	-504	-1,119	-437
Inc/Dec of Cash	-604	383	89	-61	850	2,018	-388
Opening Balance	665	62	34	126	154	1,033	3,082
Cash eqv	70	-305	120	177	114	115	116
Closing Balance	132	140	243	242	1,118	3,166	2,810

United Spirits - Financials and valuations

Income Statement							(INR m)
Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
Total Revenue	79,516	82,482	85,476	81,701	92,244	106,467	121,476
Change (%)	-5.6	3.7	3.6	-4.4	12.9	15.4	14.1
Gross Profit	31,829	34,076	36,632	38,810	44,646	52,701	60,738
Margin (%)	40.0	41.3	42.9	47.5	48.4	49.5	50.0
Other Expenditure	-25,175	-25,212	-26,922	-28,595	-31,179	-35,667	-39,723
EBITDA	6,654	8,864	9,710	10,215	13,467	17,035	21,015
Change (%)	-13.1	33.2	9.5	5.2	31.8	26.5	23.4
Margin (%)	8.4	10.7	11.4	12.5	14.6	16.0	17.3
Depreciation	-1,097	-1,017	-1,323	-1,351	-1,419	-1,560	-1,732
Int. and Fin. Charges	-4,471	-4,469	-3,690	-2,611	-2,037	-1,426	-756
Other Income	1,118	1,057	1,111	1,080	1,285	1,478	1,700
Profit before Taxes	2,203	4,435	5,808	7,333	11,297	15,527	20,227
Change (%)	-23.8	101.3	31.0	26.3	54.1	37.4	30.3
Margin (%)	2.8	5.4	6.8	9.0	12.2	14.6	16.7
Tax	283	2,358	1,923	2,433	3,785	5,201	6,776
Tax Rate (%)	-0.1	53.2	33.1	33.2	33.5	33.5	33.5
Adjusted PAT	1,920	2,076	3,884	4,900	7,513	10,325	13,451
Change (%)	-10.4	8.1	87.1	26.1	53.3	37.4	30.3
Margin (%)	2.4	2.5	4.5	6.0	8.1	9.7	11.1
Non-rec. (Exp)/Income	-21,485	-858	-2,186	717	0	0	0
Reported PAT	-19,565	1,219	1,699	5,617	7,513	10,325	13,451
Balance Sheet							(INR m)
Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
Share Capital	1,453	1,453	1,453	1,453	1,453	1,453	1,453
Reserves	17,967	15,687	17,925	23,585	29,595	37,855	51,307
Net Worth	19,421	17,140	19,378	25,038	31,048	39,308	52,760
Loans	53,204	37,082	40,407	32,505	20,505	12,505	4,505
Deffered Tax Liabilities	-873	-1,539	-1,241	-856	-856	-856	-856
Capital Employed	71,752	52,683	58,544	56,687	50,697	50,957	56,409
Gross Block	16,289	17,389	14,091	13,561	14,961	16,961	18,961
Less: Accum. Depn.	-5,610	-6,627	-2,219	-3,540	-4,959	-6,519	-8,251
Net Fixed Assets	10,679	10,762	11,872	10,021	10,002	10,442	10,710
Capital WIP	660	2,449	851	980	980	980	980
Investments	5,511	93	3,238	2,775	3,053	3,053	3,053
Curr. Assets, L&A	72,456	67,082	70,763	72,083	69,439	77,190	88,769
Inventory	15,542	18,999	18,538	18,694	19,833	22,358	25,510
Account Receivables	17,455	23,140	29,605	26,998	23,882	26,252	29,953
Cash and Bank	2,397	3,362	523	1,198	1,080	865	2,796
Others	37,062	21,581	22,097	25,193	24,644	27,715	30,510
Curr. Liab. and Prov.	17,555	27,703	28,180	29,172	32,777	40,707	47,103
Account Payables	7,180	10,018	11,798	14,240	14,323	16,488	18,671
Other Liabilities	7,230	14,643	13,345	11,490	14,668	20,054	23,851
Provisions	3,145	3,042	3,037	3,442	3,786	4,165	4,581
Net Current Assets	54,901	39,379	42,583	42,911	36,662	36,483	41,666
Application of Funds	71,752	52,683	58,544	56,687	50,697	50,957	56,409

E: MOFSL Estimates

United Spirits - Financials and valuations

Ratios							
Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
Basic (INR)							
EPS	2.6	2.9	5.3	6.7	10.3	14.2	18.5
Cash EPS	4.2	4.3	7.2	8.6	12.3	16.4	20.9
BV/Share	26.7	23.6	26.7	34.5	42.7	54.1	72.6
Valuation (x)							
P/E	212.1	196.1	104.8	83.1	54.2	39.4	30.3
Cash P/E	135.0	131.6	78.2	65.1	45.6	34.3	26.8
EV/Sales	1.5	1.3	1.3	1.2	1.0	0.8	0.6
EV/EBITDA	68.0	49.7	45.7	42.7	31.5	24.4	19.3
P/BV	21.0	23.8	21.0	16.3	13.1	10.4	7.7
Return Ratios (%)							
RoE	6.7	11.4	21.3	19.6	24.2	26.3	25.5
RoCE	8.4	6.7	11.4	11.5	16.5	22.2	37.2
RoIC	8.2	6.7	11.1	11.2	16.5	22.5	26.8
Working Capital Ratios							
Asset Turnover (x)	1.1	1.6	1.5	1.4	1.8	2.1	2.2
Leverage Ratio							
Debt/Equity (x)	2.7	2.2	2.1	1.3	0.7	0.3	0.1

Cash Flow Statement							(INR m)
Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
OP/(loss) before Tax	-19,281	3,155	2,546	8,403	11,297	15,527	20,227
Int./Div. Received	20,272	1,567	-413	205	-1,285	-1,478	-1,700
Depreciation and Amort.	1,097	1,017	1,323	1,351	1,419	1,560	1,732
Interest Paid	4,324	3,990	3,488	1,708	2,037	1,426	756
Direct Taxes Paid	-1,203	-1,637	-1,943	-3,898	-3,785	-5,201	-6,776
Incr/Decr in WC	-4,245	-5,826	1,732	1,694	6,131	-36	-3,252
CF from Operations	965	2,266	6,733	9,463	15,814	11,797	10,987
(Incr)/Decr in FA	-306	-2,222	-1,509	41	-1,400	-2,000	-2,000
Free Cash Flow	1,138	1,232	5,476	9,621	15,699	11,275	10,687
(Pur)/Sale of Investments	0	8,686	111	213	-278	0	0
Other investing items	-1,715	2,140	-2,973	1,174	-1,503	-2,065	0
CF from Invest.	-1,543	9,792	-4,119	1,545	-1,895	-2,587	-300
Issue of Shares	0	0	0	0	0	0	0
Incr/Decr in Debt	8,855	-6,606	-3,325	-7,902	-12,000	-8,000	-8,000
Dividend Paid	-4	0	0	0	0	0	0
Others	-10,850	-4,487	-2,128	-2,431	-2,037	-1,426	-756
CF from Fin. Activity	-1,998	-11,093	-5,453	-10,333	-14,037	-9,426	-8,756
Incr/Decr of Cash	-2,576	965	-2,839	675	-118	-215	1,931
Add: Opening Balance	4,973	2,397	3,362	523	1,198	1,080	865
Closing Balance	2,397	3,362	523	1,198	1,080	865	2,796

E: MOFSL Estimates

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