



UNITED SPIRITS

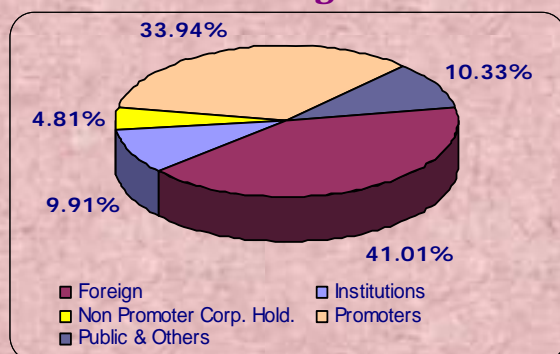
BUY

CMP (20/11/09)	1196.60
52 WEEK H/L	1124/426
MKT CAP (Cr)	15028
CURRENT P/E	53.73
CURRENT EPS (Rs)	22.27
EQUITY	125.59
BV(Rs)	373.78
Div.Yield (%)	0.14

Company Background

A renowned name in the brewages market by manufacturing of brands as Romanov, Signature, Bagpiper, Red Riband Vodka, Blue Riband etc, operating under the able and dynamic leadership of Vijay Mallya. It had acquired some leading companies across the world over the last decade thereby giving it a place of prominence in both the domestic and international market.

Share Holding Pattern



Results at a glance:-

- The results for the last quarter were below market expectations.
- A rise in interest cost and a subsequent fall in margins affected the bottom-line thereby bringing the Net Profit down.
- A rise in interest rate cost was due a rise in overall working capital loans. Moreover the dollar volatility also did not help things.
- To control the overall input costs the company went for long term contracts as well as switched between raw materials as molasses and grains to capitalize on the increased availability of molasses. The result was a minor increase in the operating income by 1%.
- However, the results for the half year ended Sep 09 showed, a better picture. While growth in sales volume was reported at 21% at Rs 2336 Cr, an extraordinary income of Rs 70 Cr led to an increase in net profits by 18% to Rs 247 Cr.
- A lesser tax outgo for both the quarter ended as well as half year ended helped improve things a bit.





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2nd Quarter 09-10 results

Rs In Cr

Particulars	Q2 09-10	Q2 08-09	Y-o-Y Growth(%)
Sales Turnover	2012	1645	22
Operating Income	193	191	1
PBDT	118	152	-22
PAT	69	94	-26

Brand Position of the company:-

Ability of the company to compete with international brands

India has seen the entry of major brewers who have brought in their international brands. But, Kingfisher which is the major brand in India has positioned itself so well that all the major international brands are compelled to sell it a price in line with Kingfisher and not at a premium.

Favorable market share

The market share of the company among the Indian masses is more than 50%. McDowell brand is fast becoming India's largest consumer brand.

State of the art manufacturing facilities across diverse locations

The company has 74 manufacturing setups spread across 24 states with over 80 brands in 19 type of packs.

Rise in disposable income and change in consumer preference

With the rise in the disposable income of the Indian consumer, the demand of quality and sophisticated brands have increased. In this context, the company had acquired Whyte and Mackay Ltd, the fourth largest Scotch distiller to meet the demand in emerging markets in Asia. It had also acquired the French winery Bouvet-Ladubay.

Setting up of a new modernized plant

With the setting up of the largest winery in the Baramati district of Maharashtra, it has already positioned itself as a cherished brand among the Indian consumers.

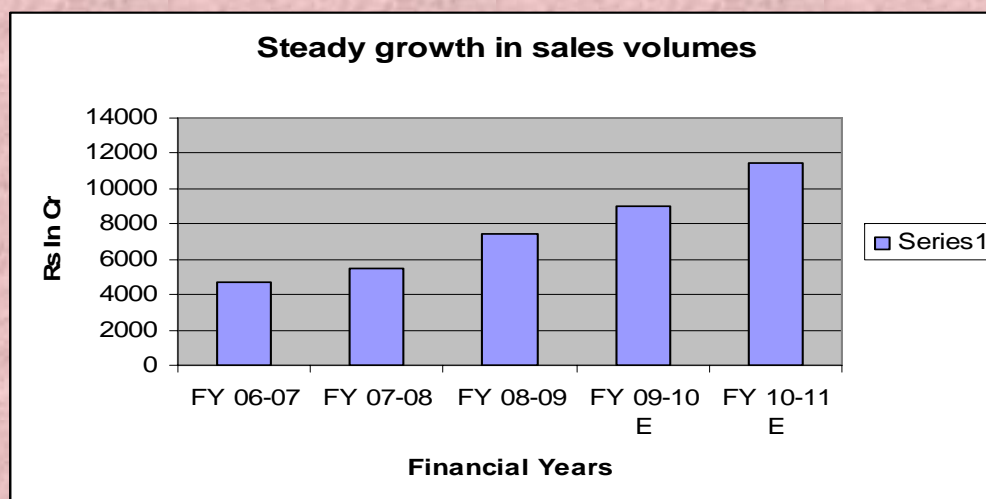
Change in equity structure of the company

Post issue of the Qualified Institutional Placement in Oct 09, the company's paid up equity capital stands at Rs 1,255,943,290 comprising of 125,594,329 Equity Shares of Rs. 10 each. The Promoters have pledged 3.32 Cr shares and their holdings stand at 33.94% as on date.

Future Developments:-

- ✓ A rise in the prices of raw materials and essential commodities, specially sugar shall impact the operating margins of the company in the coming quarters.
- ✓ The fund raised through issue of 1,76,81,952 equity shares at a price of Rs 913.70 to an amount of about Rs 1600 Cr plans to be utilized to clear the debts taken to fund its overseas acquisitions. Through this the company expects to bring the interest costs substantially.
- ✓ The acquired international brands have shown and are expected to show good sales growth in the times to come. They have already found good favour among the consumers led by a rise in the disposal income. Volume Growth momentum, given by a hike in prices shall give good realizations in the times to come.
- ✓ The company expects a volume growth of 12%-15% in the current fiscal with an optimism of being able to maintain its operating margins.

A steady increase in sales volume:-



Rs In Cr

Earnings Estimates:-

Particulars	FY 08-09	FY 09-10 E	FY 10-11 E
Sales Turnover	7455	9000	11500
EBIDTA	695	750	840
PAT	297	350	430
EPS	29	28	35

Source: capitaline, GSL Estimate.

Valuations and Target:-

As discussed earlier, though the rise in prices of essential commodities may hamper operating margins, yet with the introduction of new brands along with a hike in prices shall bring about good sales realizations. For the current fiscal an increase in sales turnover by 20% over FY 08-09 is a strong possibility. Moreover after the Qualified Institutional Placement, the stock had risen sharply as the liquidity problems facing the Company seems to have been eased out a bit. At the market price of Rs 1154 , the stock trades at 41X its FY 09-10E and 33 X its FY 10-11E earnings. **We expect the stock to touch a price of Rs 1400 over the next 12-13months.**

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