

UNITED SPIRITS



Alcohol beverage industry India

INDIAN ALCHOLBEV INDUSTRY

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graph TD; A[INDIAN ALCHOLBEV INDUSTRY] --> B[Indian Made Foreign Liquor (IMFL)]; A --> C[Indian Made Indian Liquor (IMIL)]; A --> D[Beer]; A --> E[Wine];
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Indian Made
Foreign Liquor
(IMFL)

Indian Made
Indian Liquor
(IMIL)

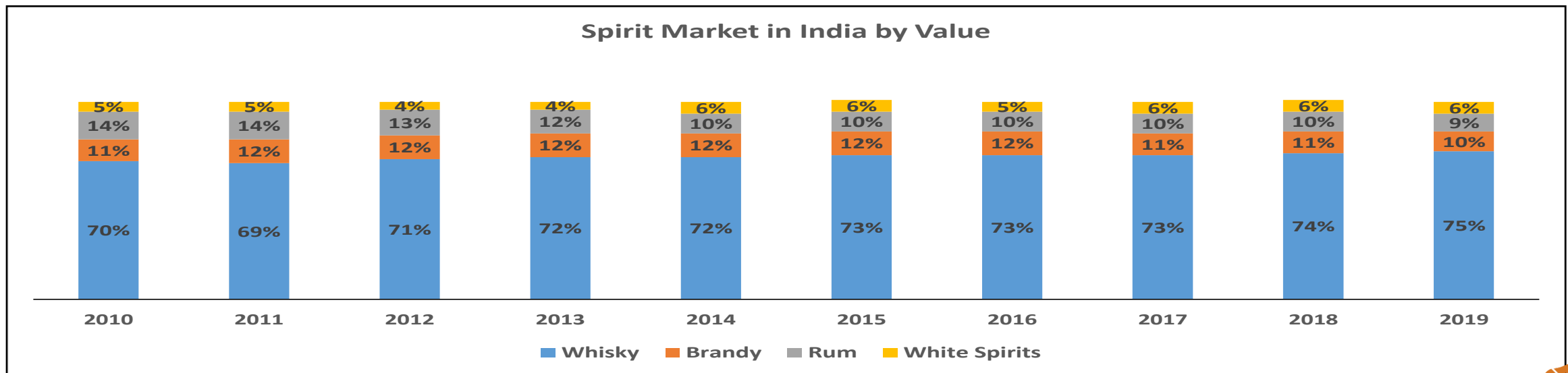
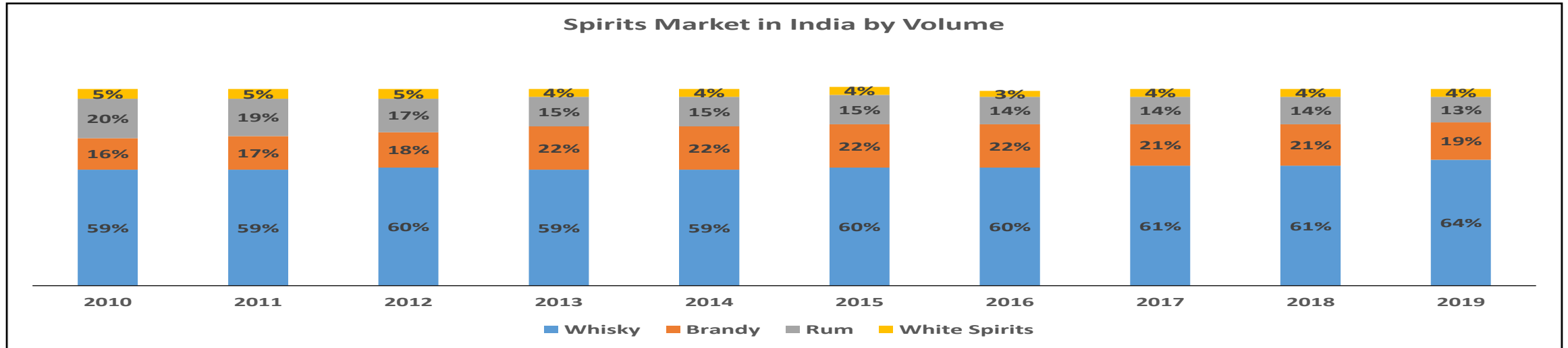
Beer

Wine

IMFL category accounts for almost 72% of the market.



Alcohol industry growth rate



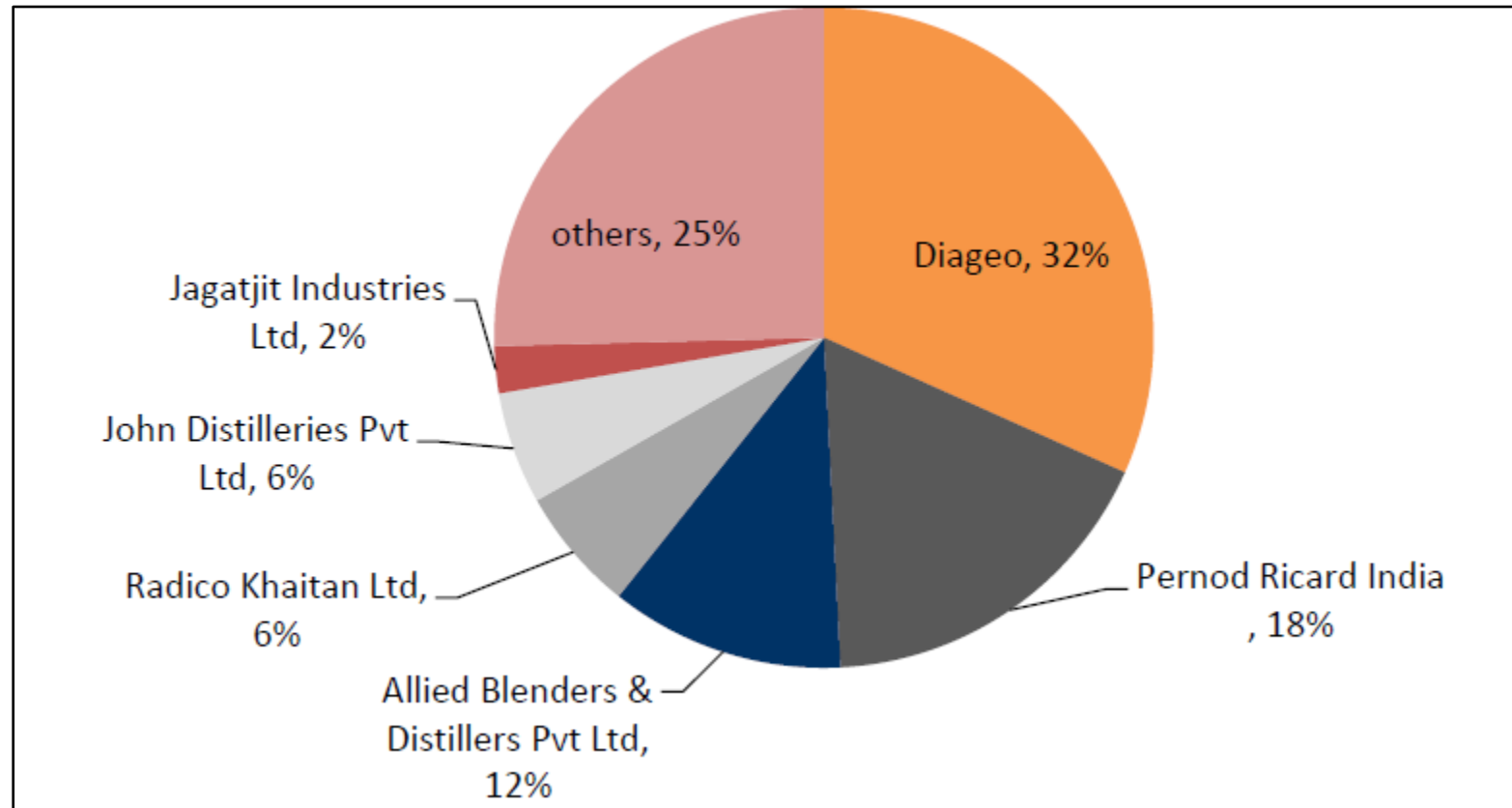
Major players in the industry

DIAGEO


Pernod Ricard



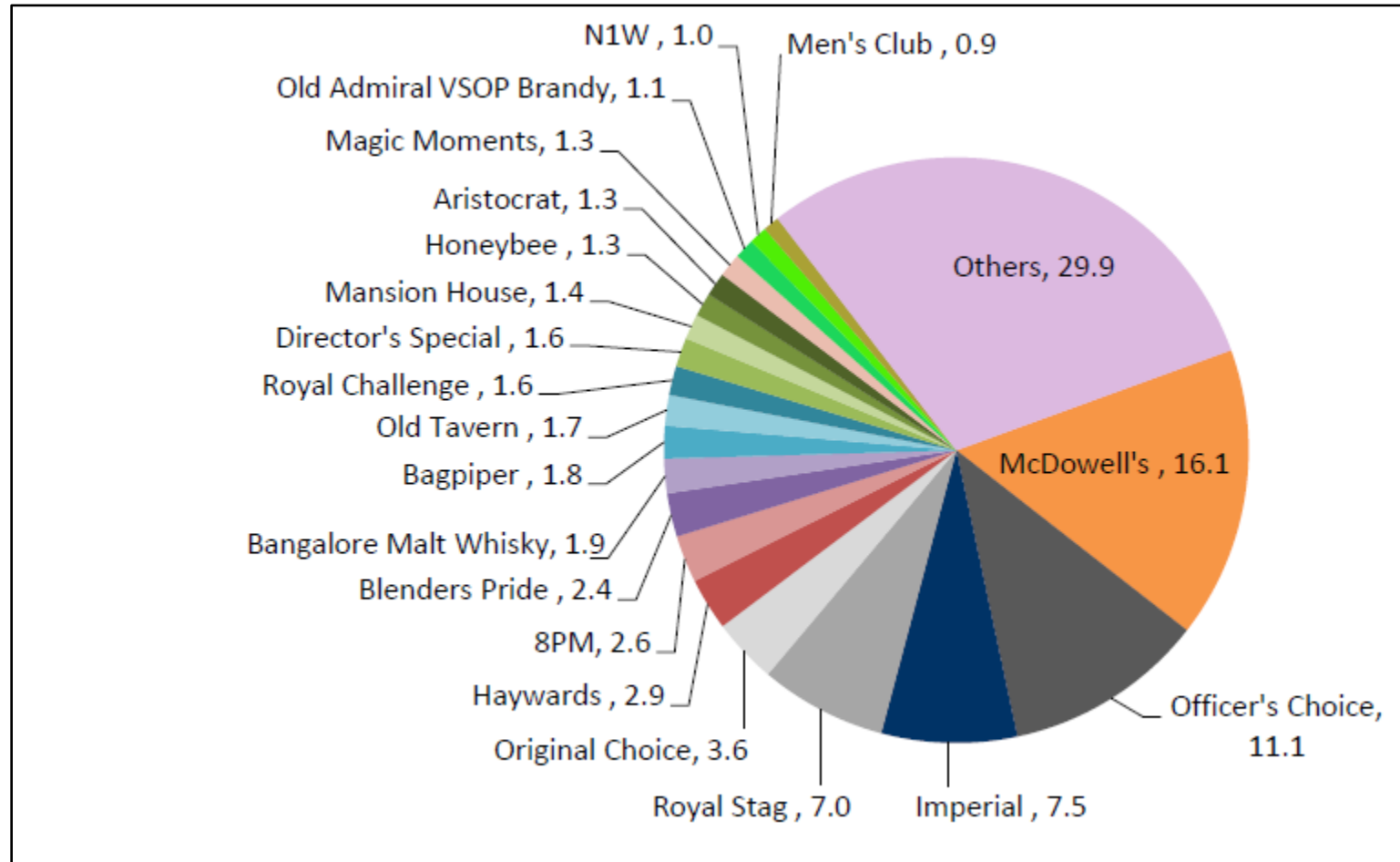
Major Companies in the Indian Liquor Market



Source: *Equirus Report*



Top liquor brands in India



Source: Equrius Report



United Spirits – Diageo India

- ❖ World's second largest liquor company by Volume.
- ❖ Subsidiary of Diageo PLC.
- ❖ One of the leading players of IMFL in India with a strong bouquet of brands like Mcdowell's, Signature, Royal Challenge etc.
- ❖ In 2013, Diageo PLC acquired 10% stake in the company and gradually ramped up its share to 55% by the end of 2014.
- ❖ The main inflexion point came in 2015, after the whole company came under the control of Diageo PLC.

No.1
SPIRITS COMPANY
IN INDIA

2nd
LARGEST SPIRITS COMPANY
IN THE WORLD



Brands

Consumer Prices

> Rs. 200

LUXURY

Johnnie Walker, Cîroc, Gordon, Baileys, J&B

Rs. 900-2000

PREMIUM

VAT 69, Black & White, Black Dog, SmirnOff

Rs. 350-900

PRESTIGE

Mcdowells, Signature, Antiquity, Royal Challenge, Captain Morgan

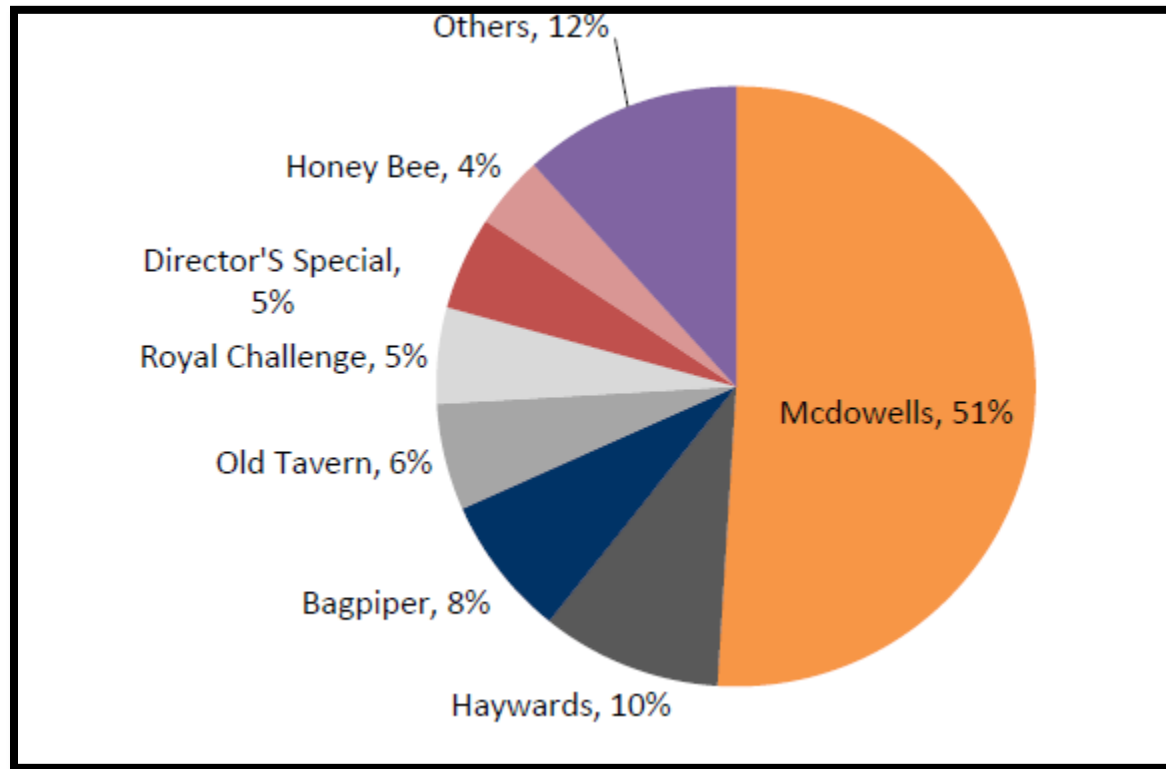
< Rs. 350

POPULAR

Director's Special, Bagpiper, White Mischief, Haywards



Top brands for United Spirits



Source: *Equarius Report*

- ❖ Company has a portfolio of 15 brands in its portfolio, which sell more than a million cases every year.
- ❖ Out of the brands 2 brands sell more than 10 million cases each annually.
- ❖ McDowell's No.1, Royal Challenge, Signature, Antiquity, Director's Special Black, McDowell's VSOP, Romanov, Bagpiper, Old Tavern, Haywards are some of the marquee brands owned by your Company.
- ❖ In addition, your Company also imports, manufactures, distributes and sells various iconic Diageo brands such as Haig Gold Label, Captain Morgan, Johnnie Walker, J&B, Baileys, Lagavulin, Talisker, VAT 69, Black & White, Smirnoff and Ciroc in India under different licensing agreements.



IMFL players volumes

Brands (mn cases)	Company	2015	2016	2017	2018	2019
Officers Choice Whiskey	ABD	32.9	32.9	32	34	30.6
Mc Dowell's No 1 Whiskey	United Spirits	25.7	26.6	26.4	29	30.7
Imperial Blue	Pernord Ricard	17.5	18	19	22.7	26.3
Royal Stag	Pernord Ricard	17.3	18	19	22.7	26.3
Old Tavern	United Spirits	11	9.9	7.1	6.2	5.3
Original Choice	John Distilleries	10.7	10.1	10.3	11.5	12.7
Hayward's Fine	United Spirits	7.1	7.9	8.5	9.4	9.6
Blender's Pride	Pernord Ricard	5.6	6.2	6.4	7.3	7.7
Director's Special Whisky	United Spirits	5	5	4.1	4.2	4.2
8PM	Radico Khaitan	4.1	5.7	7	8.2	8.5
Royal Challenge	United Spirits	3.6	4.7	4.5	5.6	5.5
Signature	United Spirits	1.5	1.8	2	2.3	2.3
White and Blue	Alcobrew	1.2	1.4	1.6	2.1	2.4
Bangalore Malt Whisky	John Distilleries	1.1	2.1	3.6	5.2	4.2
Sterling Premium Whisky's	ABD	0	0	0	1.2	2.8



IMFL players market share

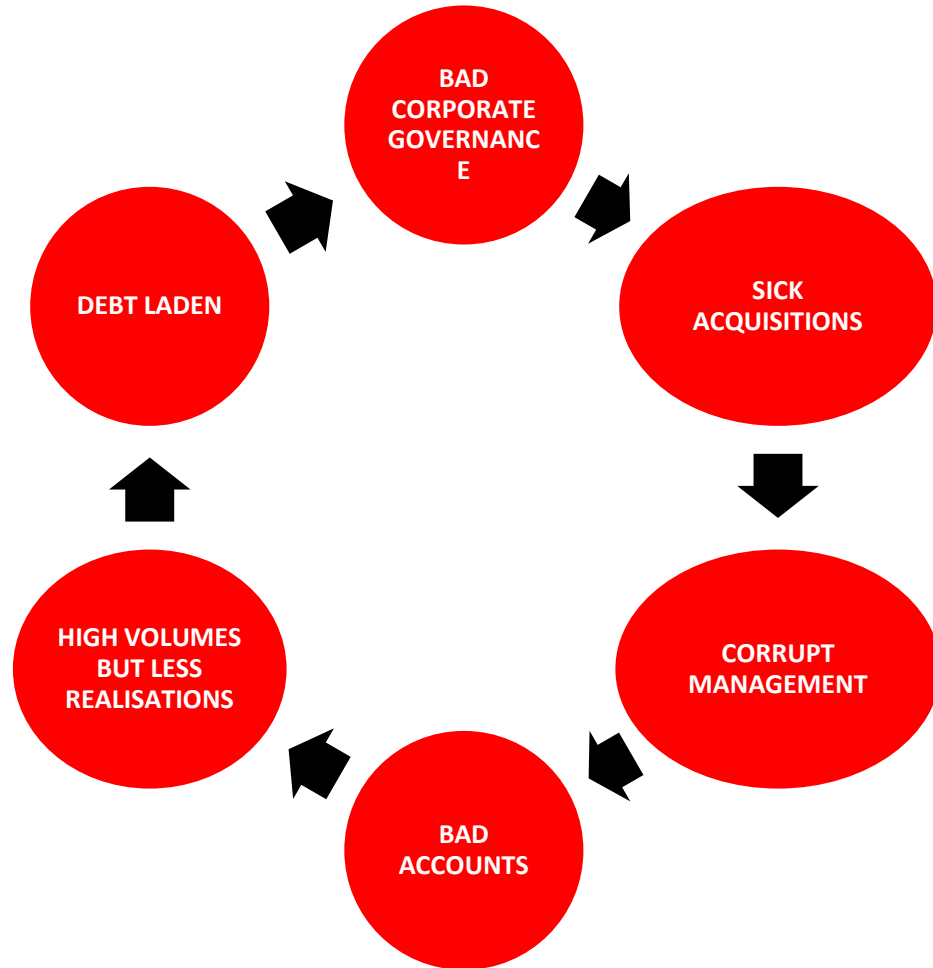
Brands Market Share	Company	2015	2016	2017	2018	2019
Officers Choice Whiskey	ABD	23%	22%	21%	20%	17%
Mc Dowells No 1 Whiskey	United Spirits	18%	18%	17%	17%	17%
Imperial Blue	Pernord Ricard	12%	12%	13%	13%	15%
Royal Stag	Pernord Ricard	12%	12%	13%	13%	15%
Old Tavern	United Spirits	8%	7%	5%	4%	3%
Original Choice	John Distilleries	7%	7%	7%	7%	7%
Hayward's Fine	United Spirits	5%	5%	6%	5%	5%
Blender's Pride	Pernord Ricard	4%	4%	4%	4%	4%
Director's Special Whisky	United Spirits	3%	3%	3%	2%	2%
8PM	Radico Khaitan	3%	4%	5%	5%	5%
Royal Challenge	United Spirits	2%	3%	3%	3%	3%
Signature	United Spirits	1%	1%	1%	1%	1%
White and Blue	Alcobrew	1%	1%	1%	1%	1%
Bangalore Malt Whisky	John Distilleries	1%	1%	2%	3%	2%
Sterling Premium Whisky's	ABD	0%	0%	0%	1%	2%

Source: Equrius Report

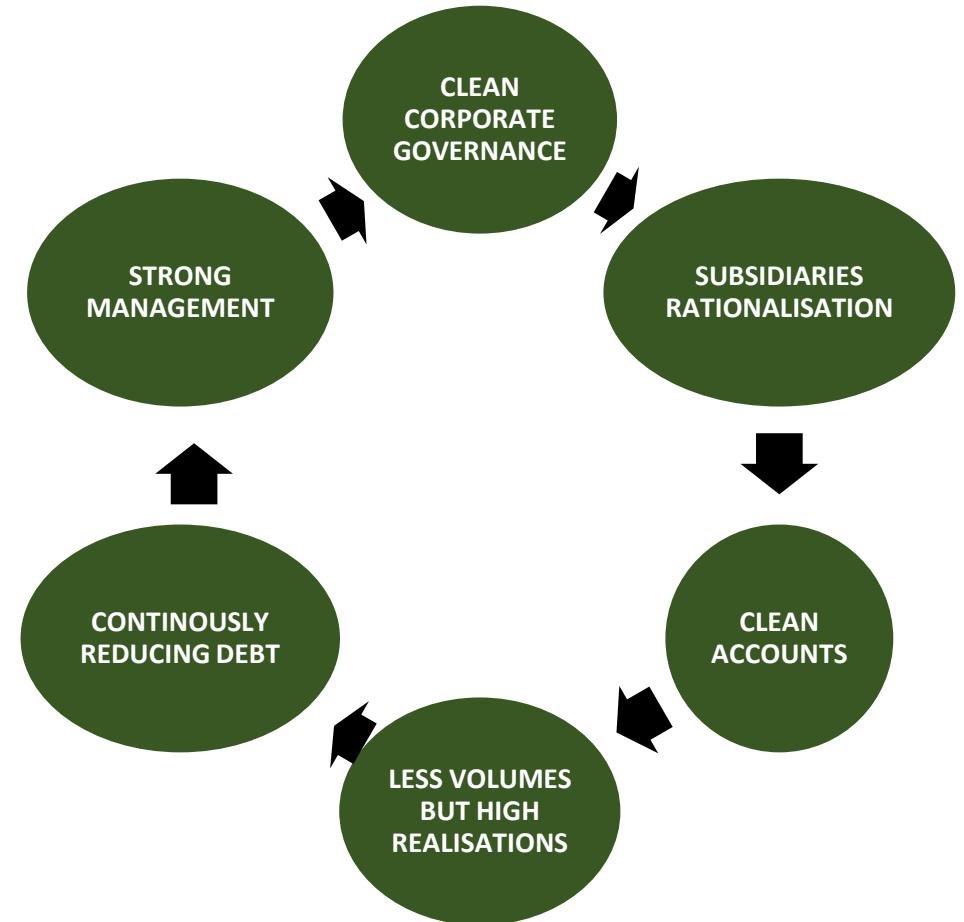


Meet the new United Spirits

UNITED SPIRITS PRE-2015

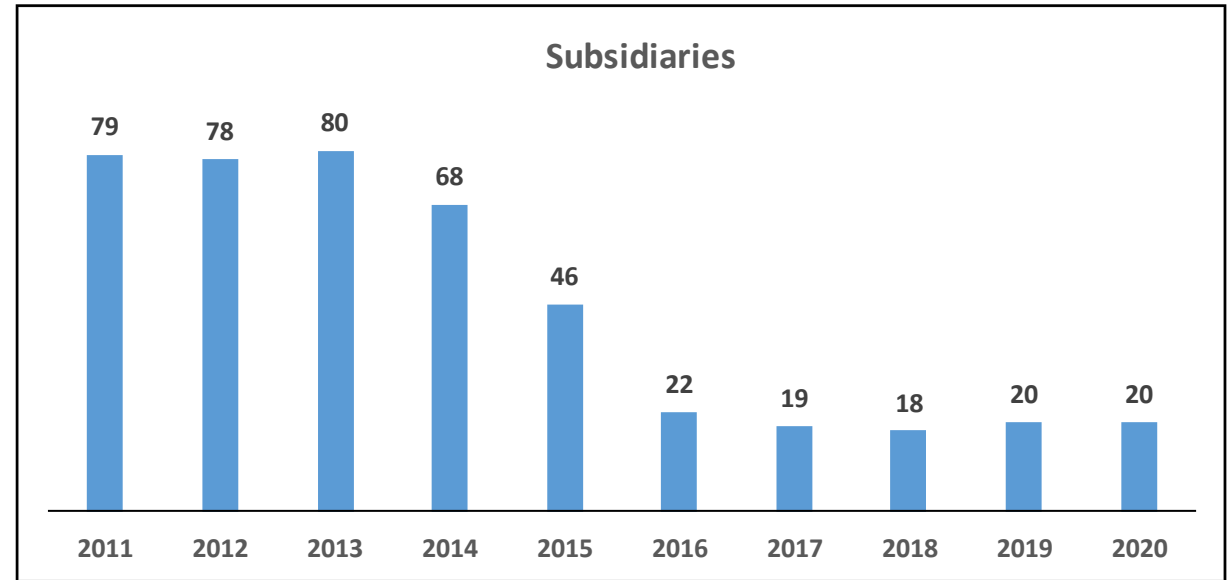
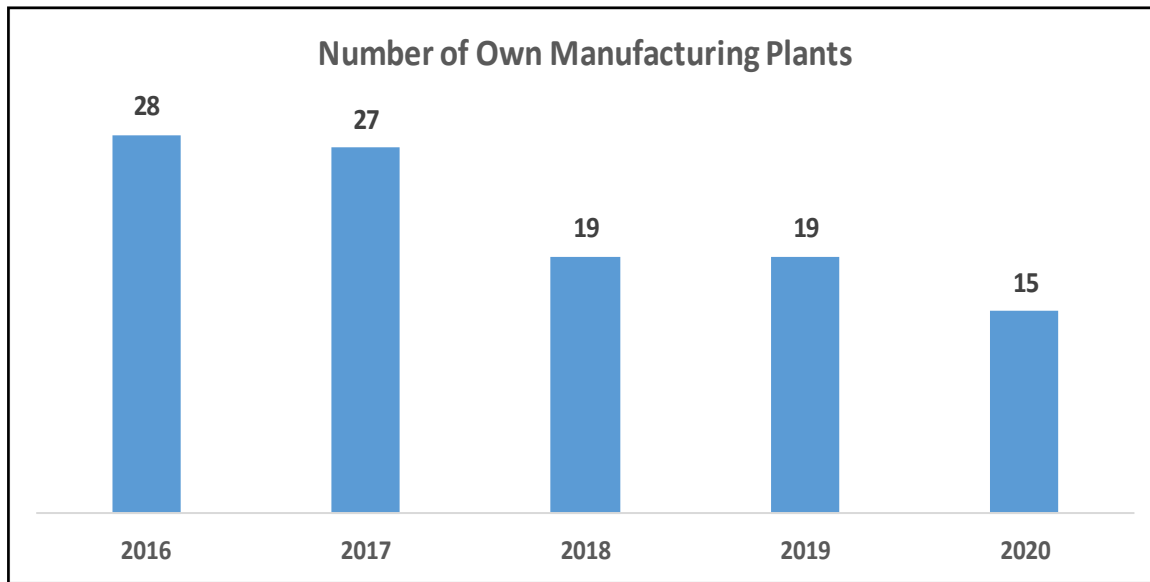


UNITED SPIRITS POST-2015



WHAT CHANGED AFTER 2015?

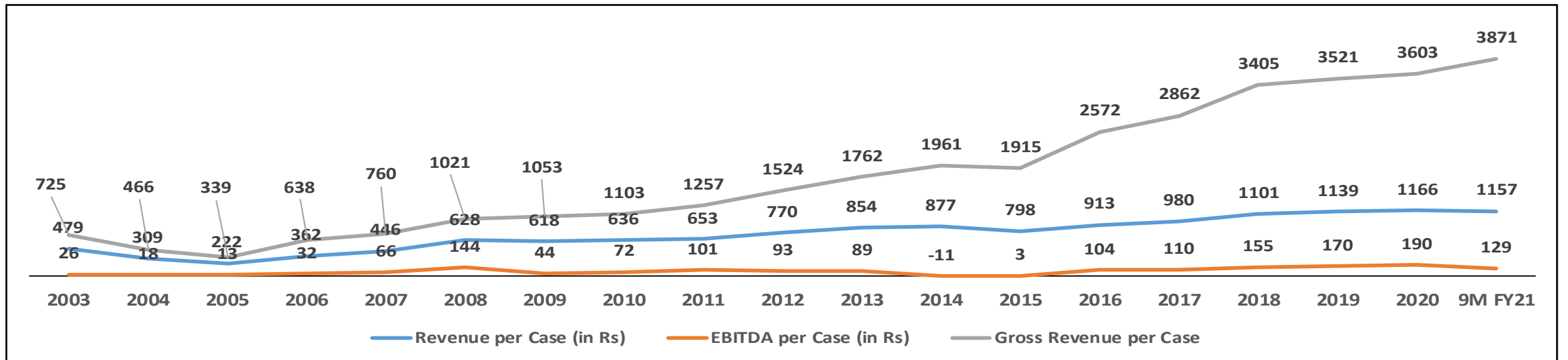
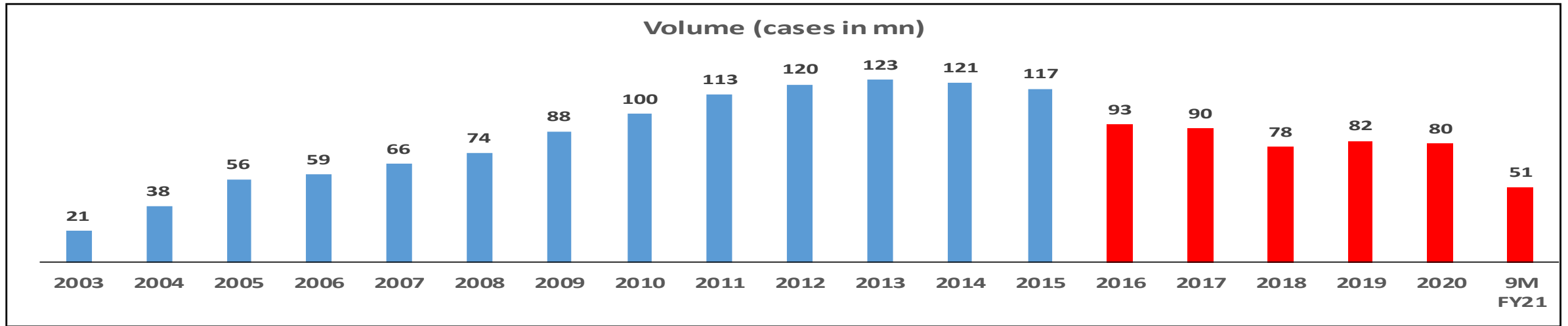
1. Manufacturing and subsidiaries rationalizations



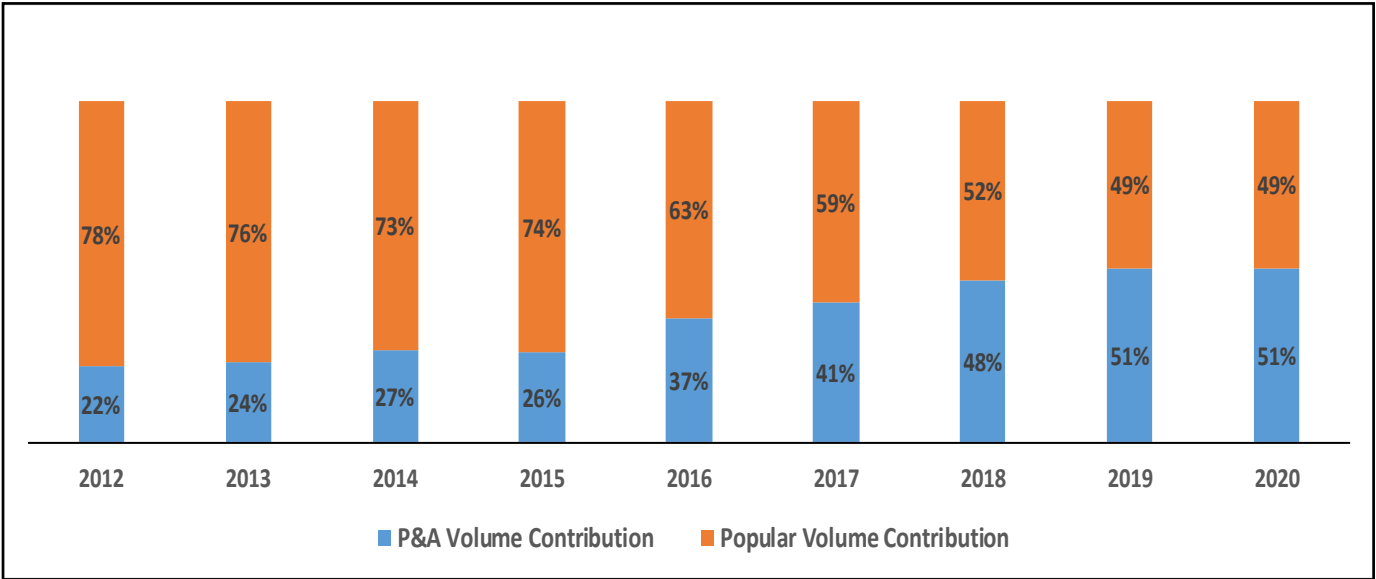
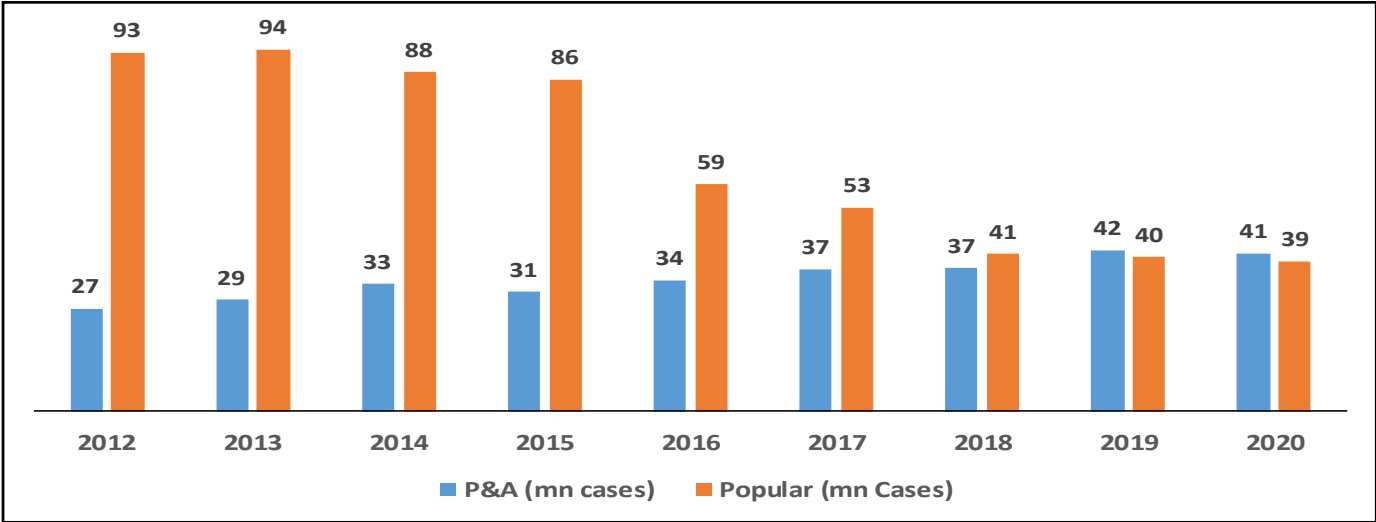
- i. As disclosed in each of the annual financial statements, commencing from year ended March 31, 2019, the Company had sought approval of regulatory authorities for divesting its stake in Liquidity, Inc., and liquidating its wholly owned subsidiaries, USL Holdings Limited (including its three wholly owned step-down overseas subsidiaries USL Holdings (UK) Limited, United Spirits (UK) Limited and United Spirits (Great Britain) Limited), United Spirits (Shanghai) Trading Company Limited and Montrose International S.A. The Board has also approved liquidation of Asian Opportunities and Investments Limited, McDowell & Co. (Scotland) Limited, Shaw Wallace Overseas Limited and United Spirits Singapore Pte Ltd, for which the Company is in the process of seeking regulatory approvals for liquidating the said subsidiaries.



2. Focusing more on realizations than volumes

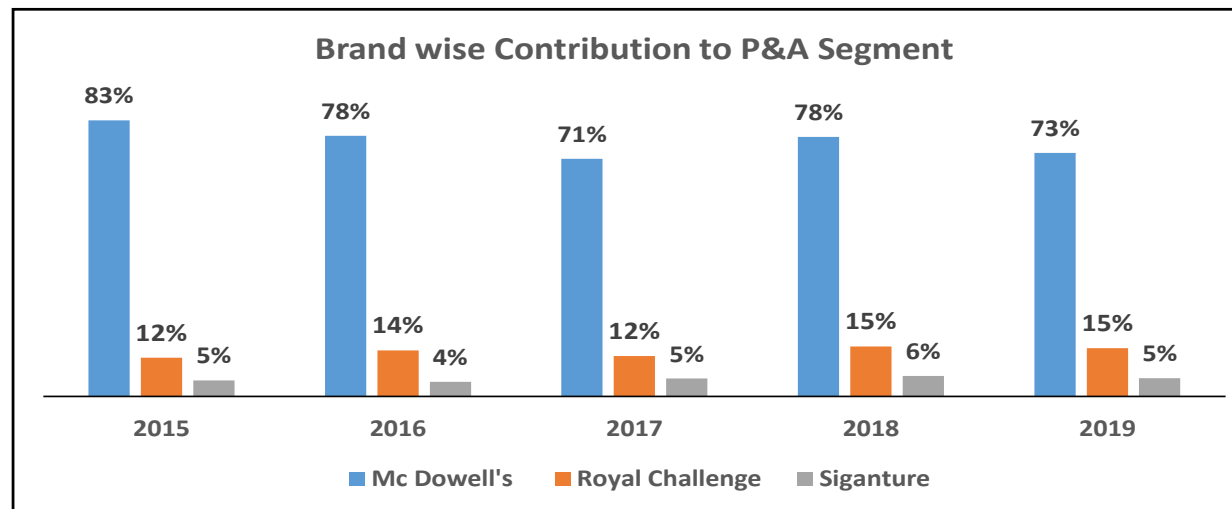
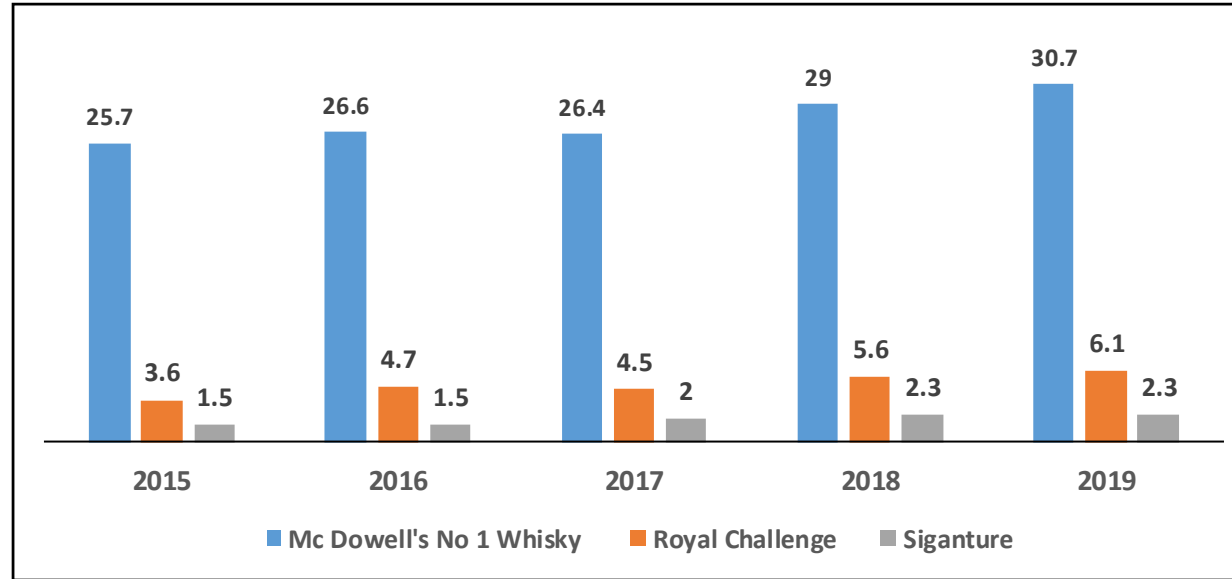


3. Increasing focus more on Prestige and Above category

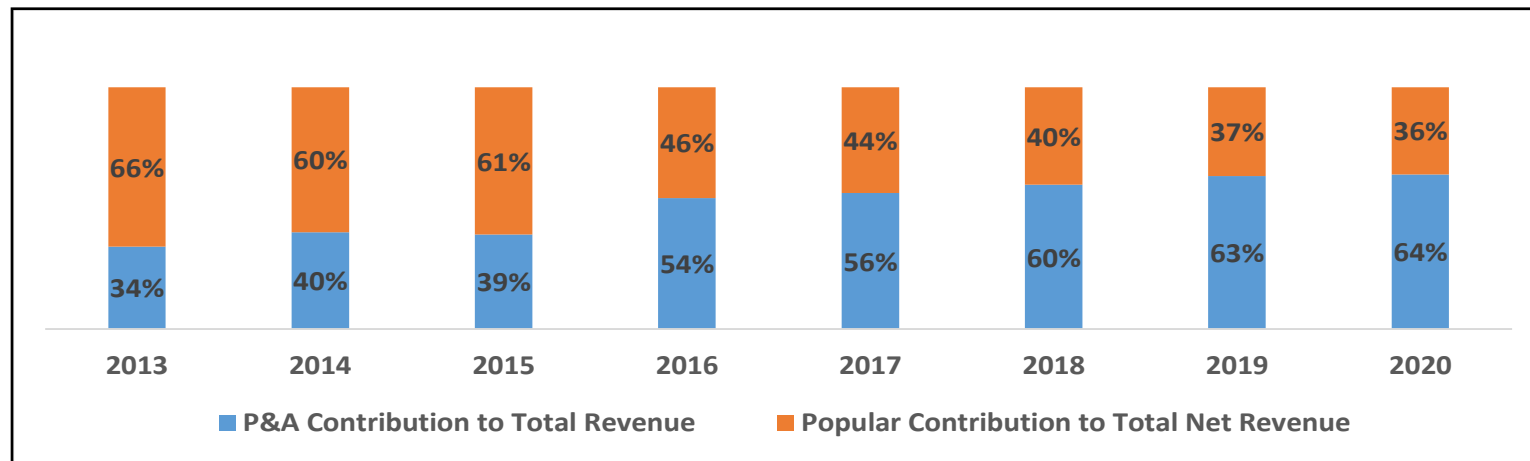
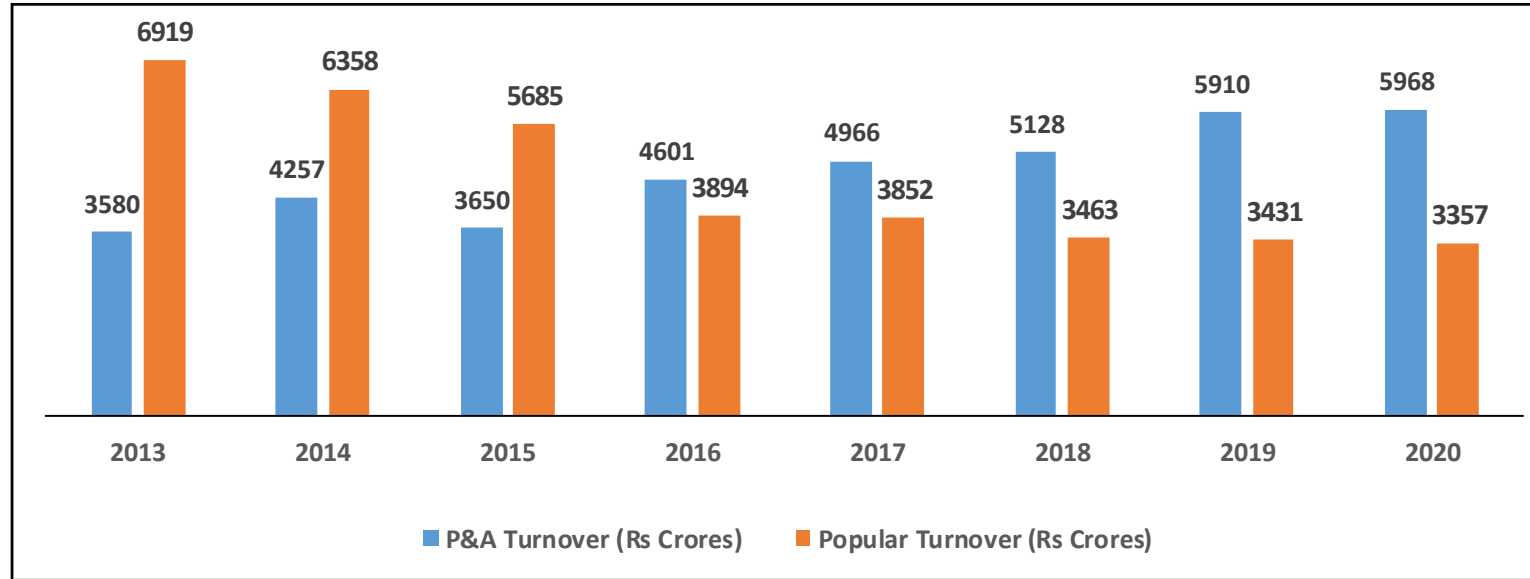


3(a). Prestige and above category brands

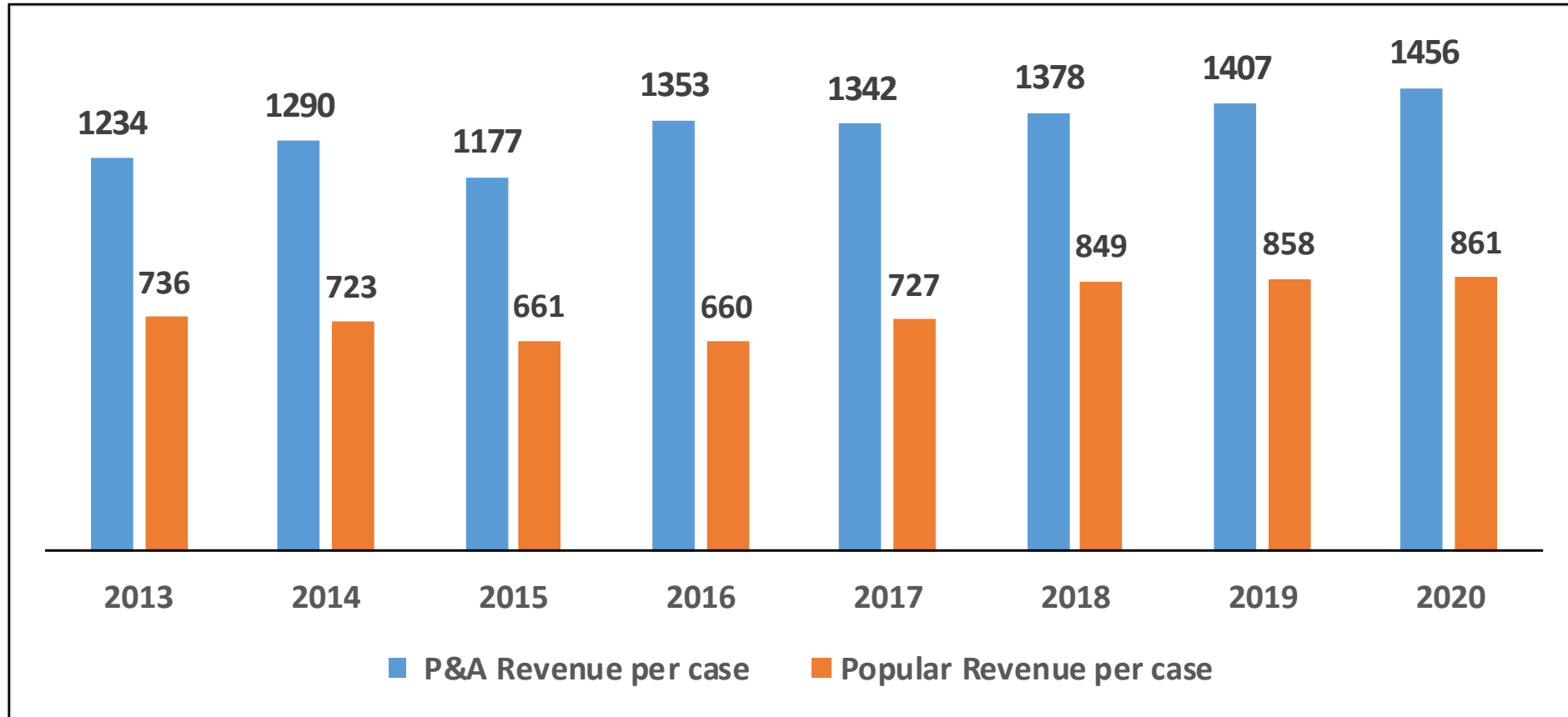
Volume (in mn cases)



3 (b). Category wise turnover



3 (c). Prudent focus shift



4. Change in Management

Anand Kripalu- MD&CEO (2014-20)

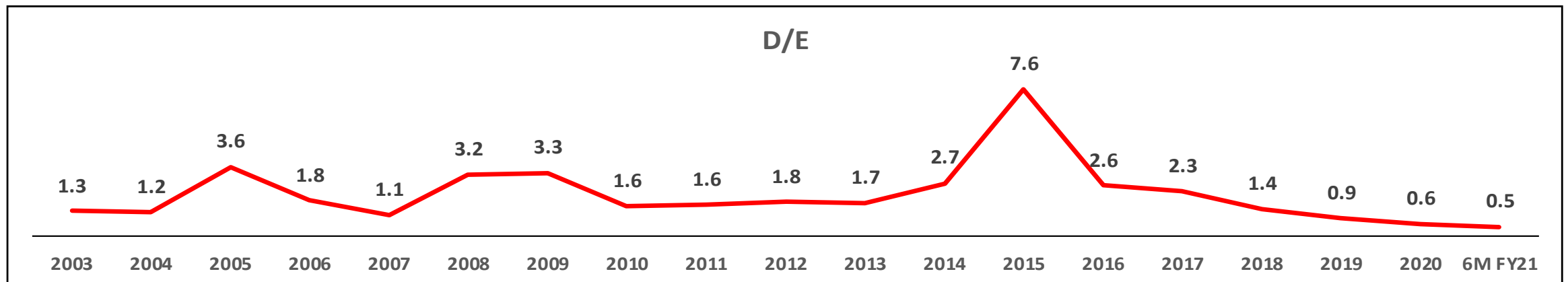
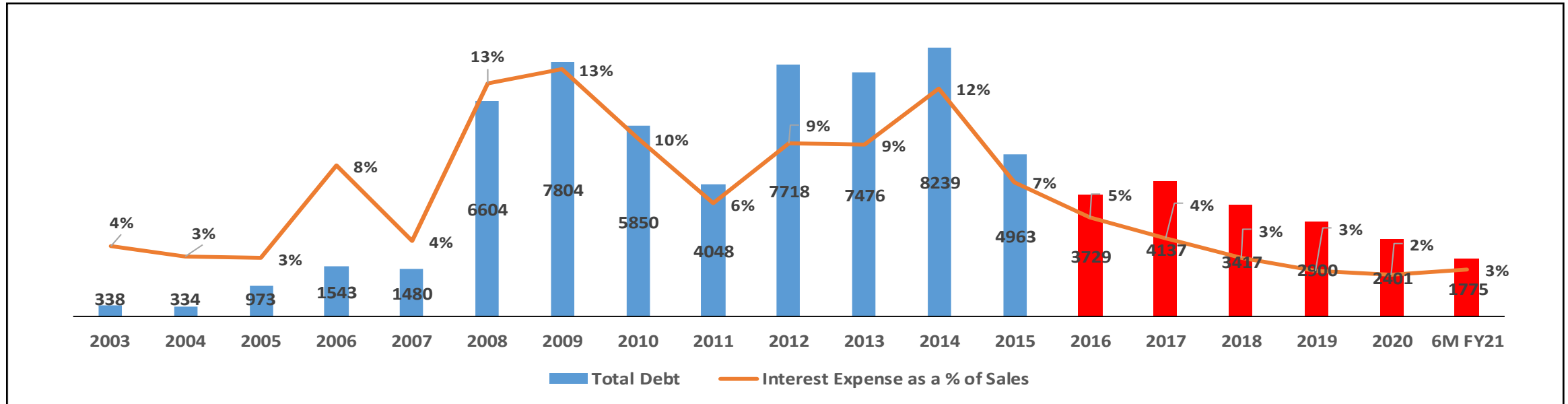
Mr. Anand Kripalu joined Diageo India in May 2014 as Chief Executive Officer. In his current position his task is to transform the company, making it one of the most trusted and respected consumer goods company. His focus has been around transformation of corporate citizenship as well as ethical standards in the industry. Anand has over 30 years of experience in the Indian consumer goods market

**Ms. Hina Nagrajan- MD&CEO
(w.e.f July 2021)**

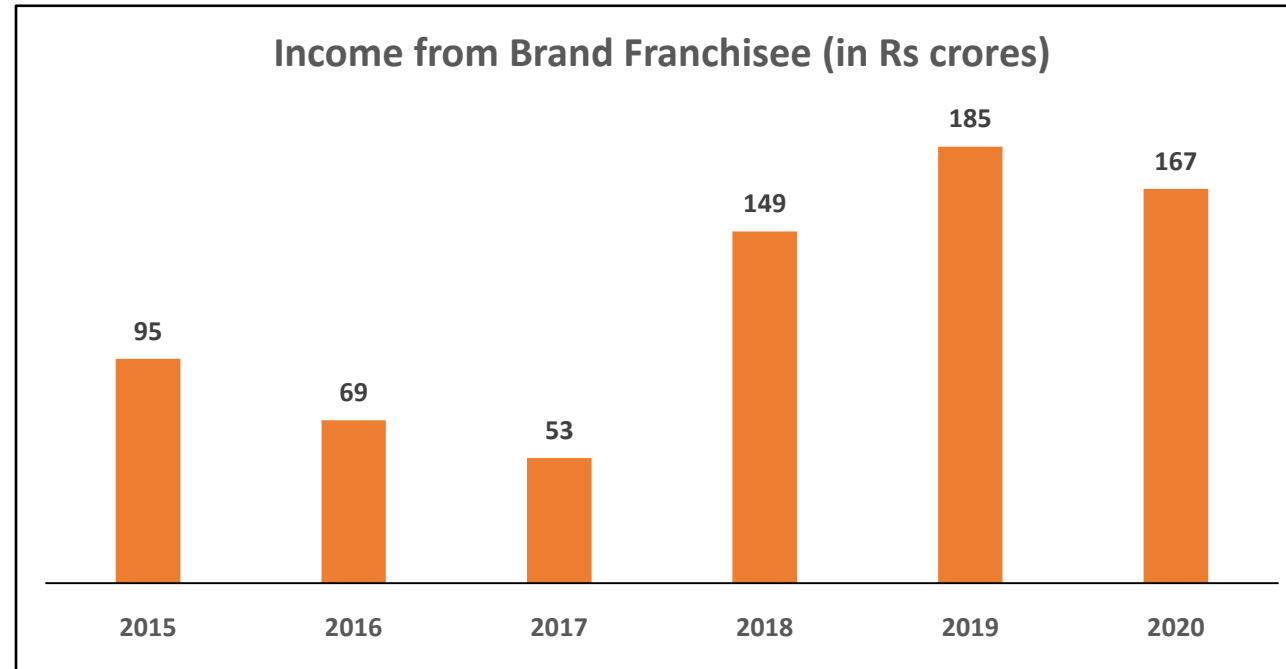
Ms. Hina is currently MD, Africa Regional Markets (ARM) at Diageo. She will take over as Managing Director and CEO of UNSP and will also join the Diageo Executive Committee, reporting to John Kennedy, President Diageo Europe & India. She has spent over 30 years in CPG businesses and held several senior marketing and general management positions at Reckitt Benckiser, Nestle India and Mary Kay India.



5. Debt reduction



6. Adopting franchise model



- ❖ To enhance focus on the premium range, UNSP curtailed production of some low-margin products in select markets and also started franchising popular brands in some markets to local distilleries since FY15.
- ❖ This helps the company to have its popular range of products in markets lower the working capital requirements and use resources to focus on the core portfolio of brands.
- ❖ Currently, company has brand franchise agreements (typically for 3-5 years) across 13 states.

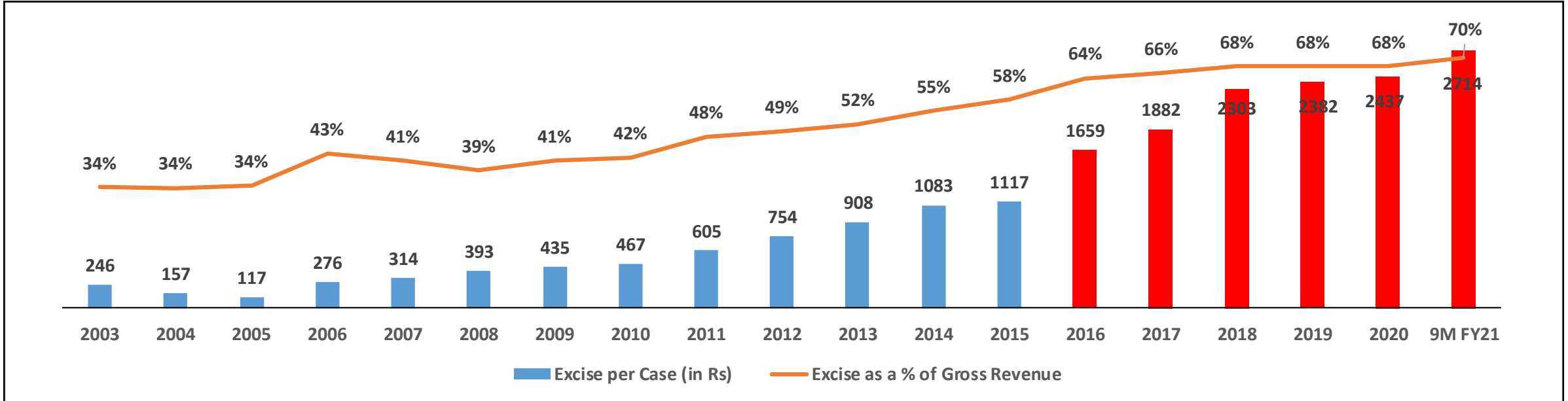


Uncertain regulations

- ❖ **The Alcoholic Beverages Industry continues to suffer the twin impact of excessive taxation and over-regulation.**
- ❖ **A favorite of Governments, when they need to bridge their budgetary deficits, they increase the duties.**
- ❖ **In 2017, supreme court banned liquor vendors within 500 m of state or national highway.**
- ❖ **The highway ban lead to closure of 30000 shops but it has been normalized for now**
- ❖ **Black swan events like Liquor ban in Bihar.**
- ❖ **Nearly two-third of the street price of a bottle of alcohol goes to the State and local Governments towards taxes and duties.**
- ❖ **In states with government control on pricing, price increase is based on government notifications.**
- ❖ **In states where retailing is controlled by the state government, there is a specified quota that each player can sell, capping potential to increase market share for our products. These regulations make operations restrictive for the industry players.**
- ❖ **Recently, Government in the state of Maharashtra has increased the excise duties abnormally which had a cascading impact on the sale of liquor in the state. Further, declaration of General Election in April has also resulted in multiple challenges in terms of effective supply chain since timing of election coincide with annual excise licence renewal cycle in majority of states etc. (2019 AR)**



Regulations

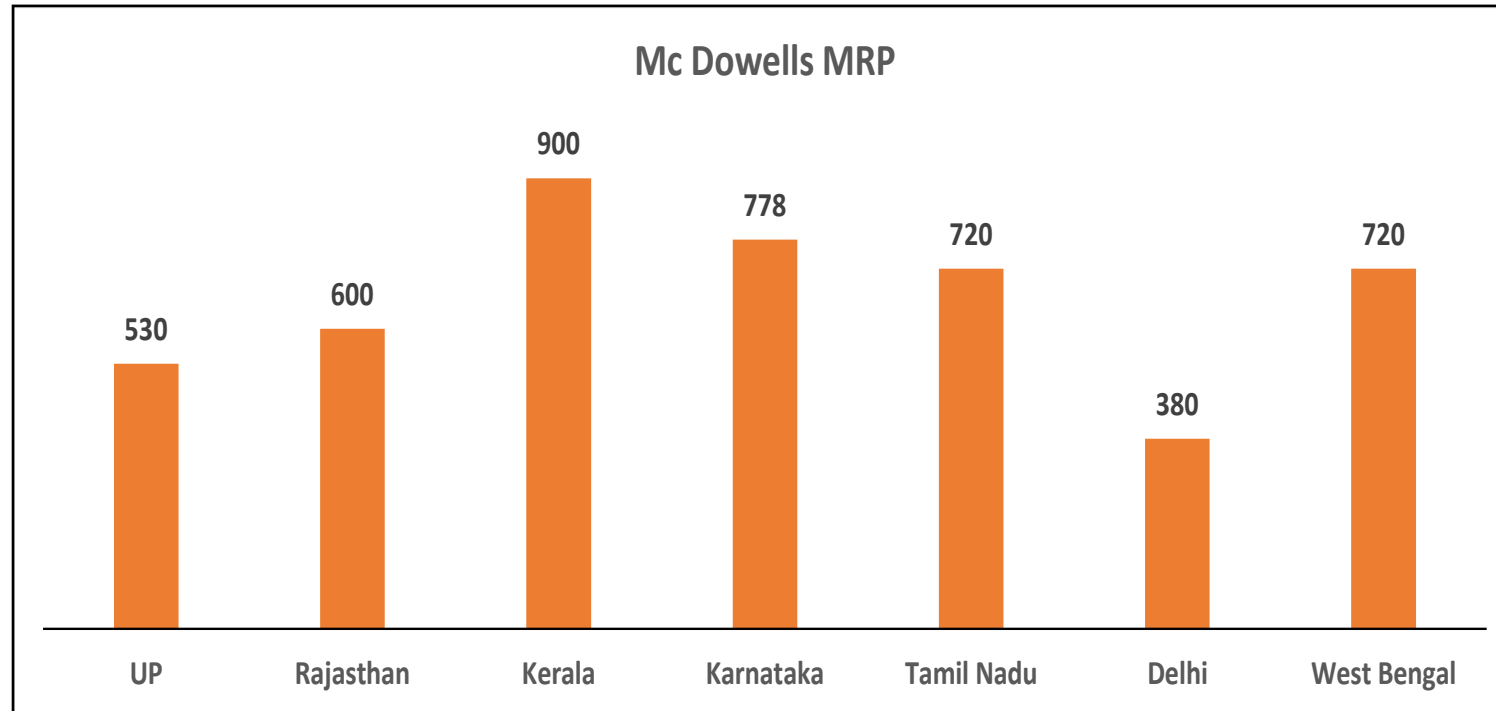


The government is continuously burdening the liquor industry, by increasing the excise duty. Currently it is the highest.

A favorite of Governments, when they need to bridge their budgetary deficits, they increase the excise.



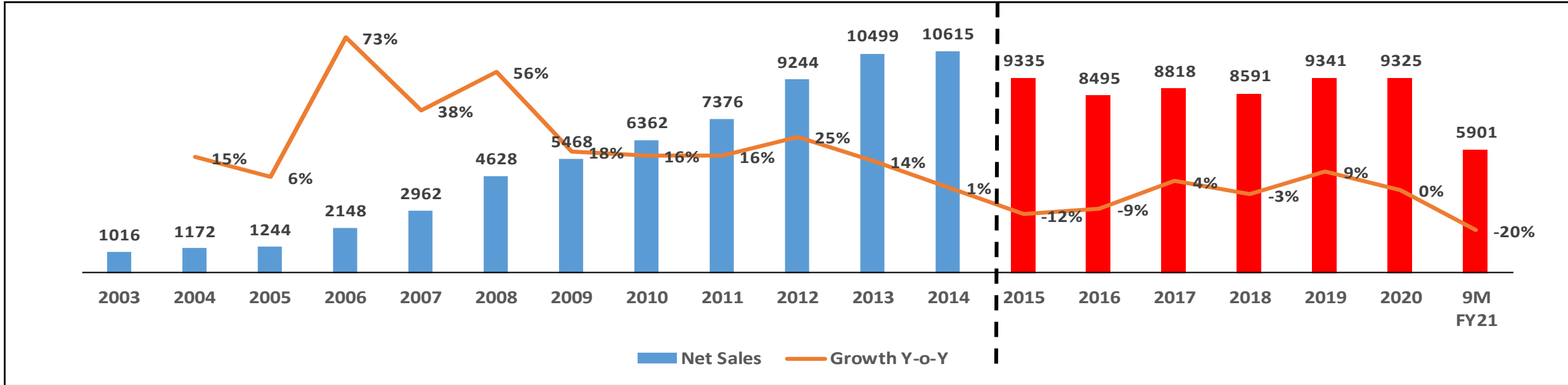
Example of how fragmented the market is?



MRP of McDowell's No 1 premium whisky ranges from Rs 380-Rs 900 for a 750ml bottle



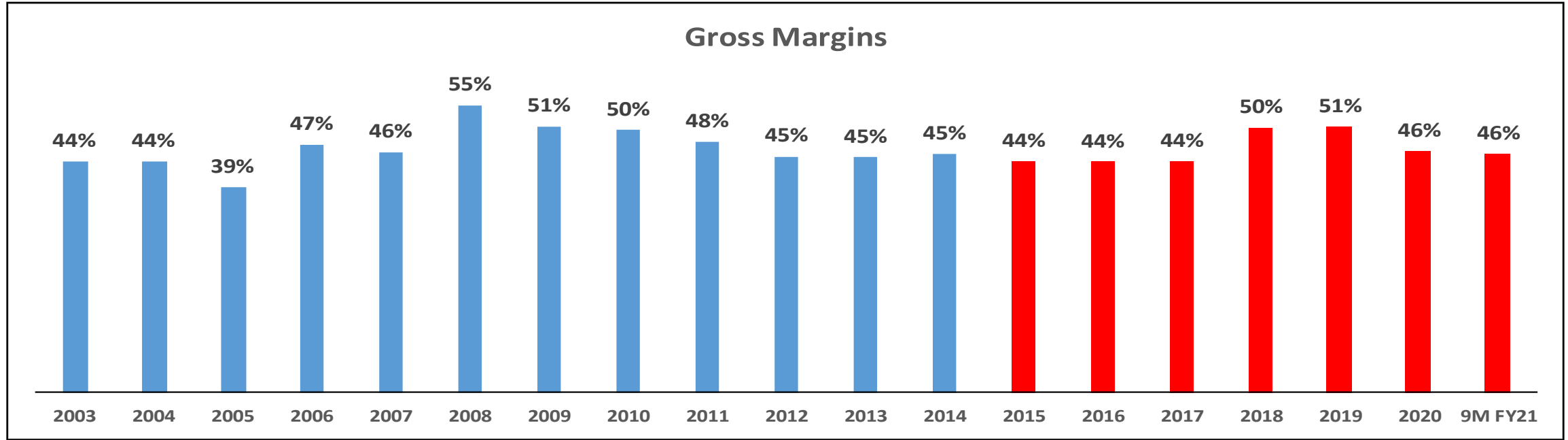
Revenue from operations



- ❖ Although the Revenue is flat over the last 5 years but realizations per case sold has increased.
- ❖ There has been many regulatory roadblocks over the previous years which has hampered revenue growth.
- ❖ The company's main focus is on premiumisation of offerings.



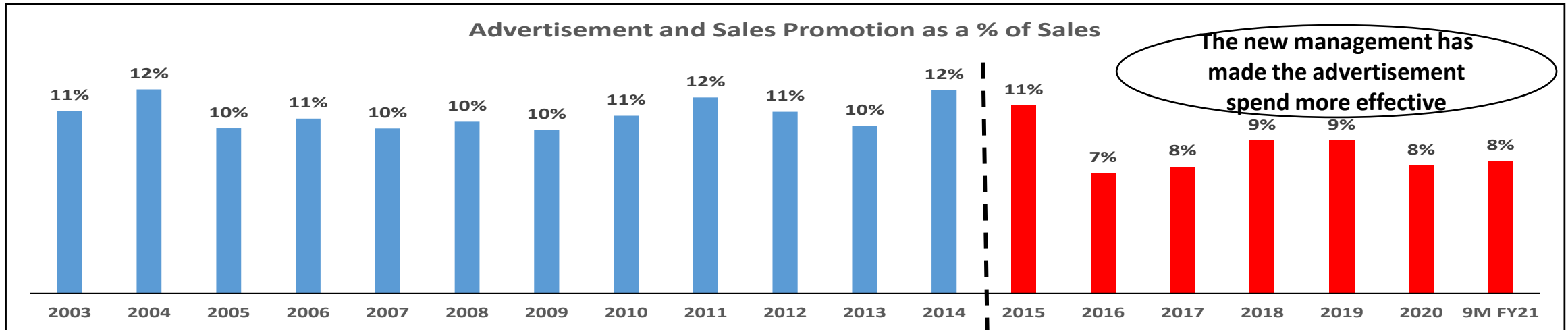
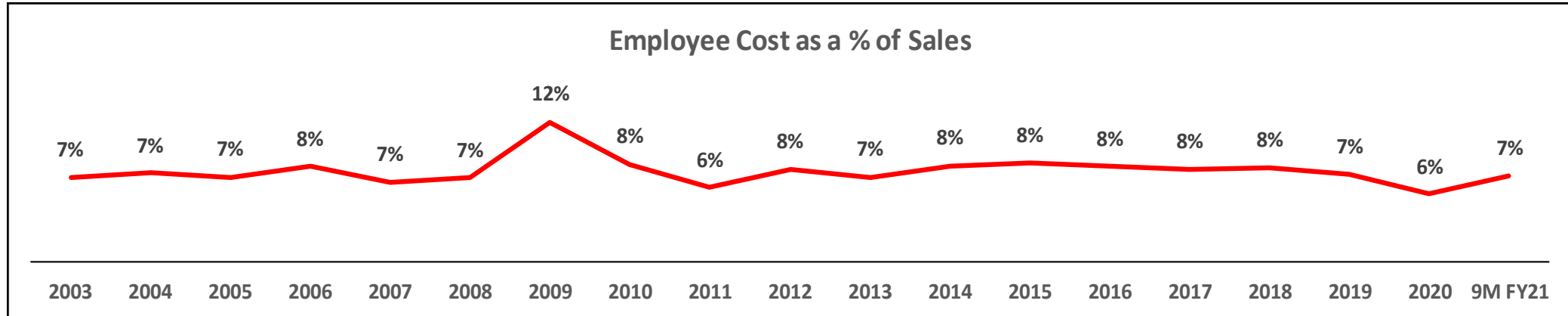
Gross Profitability



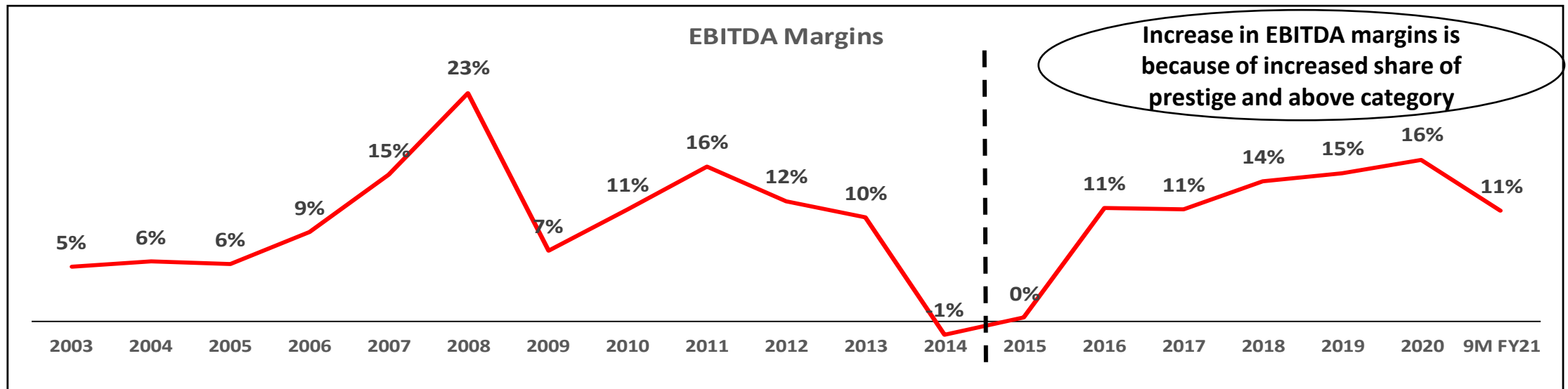
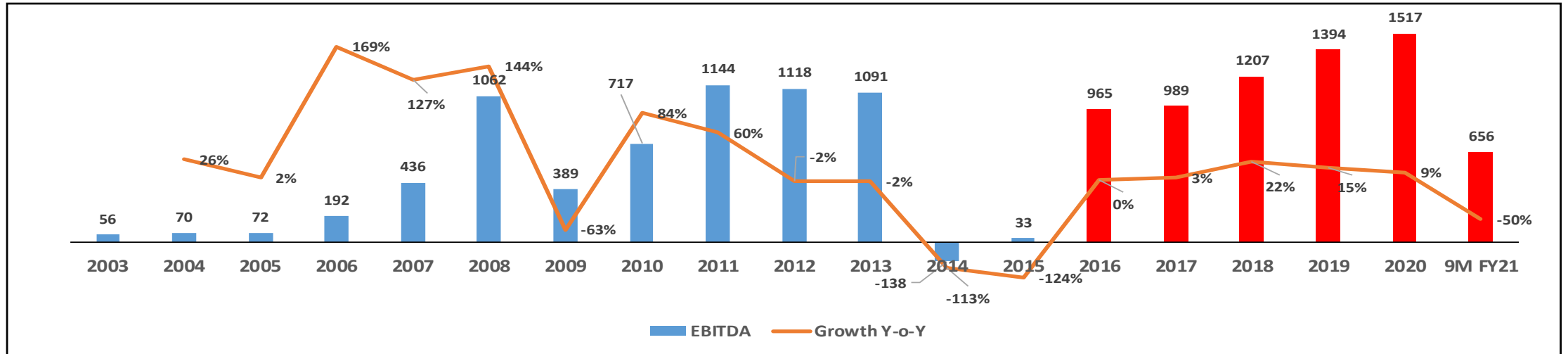
- ❖ The raw material prices are very fluctuating which leads to unstable gross margins.
- ❖ The company cannot pass on the price increases to end customers because of different policy of sale in different states.
- ❖ For e.g. Andhra Pradesh government during one instance denied the industry even reasonable inflation-linked increases.



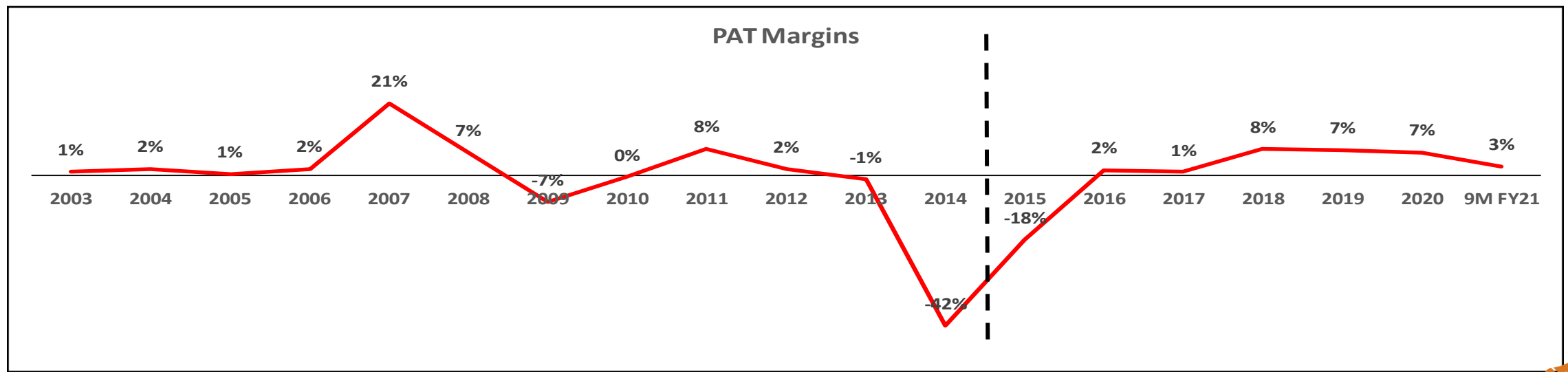
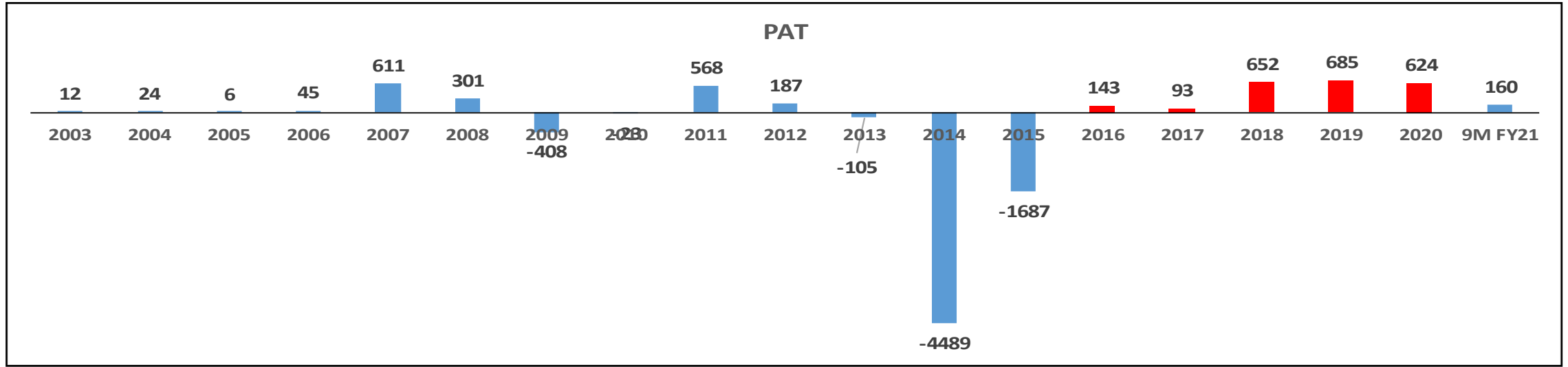
Major costs



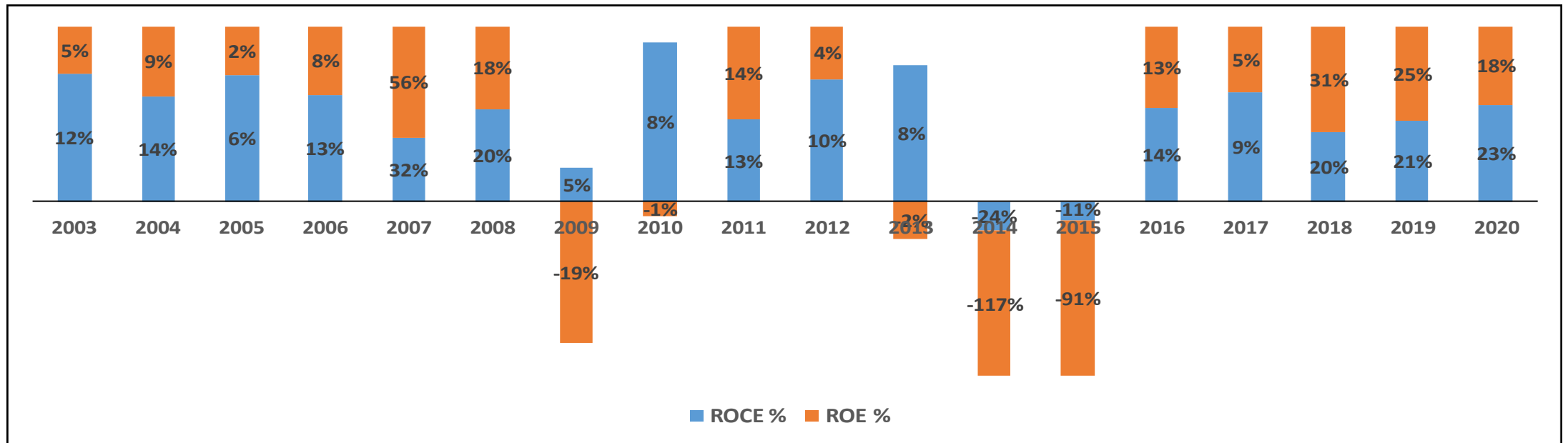
Operating Profitability



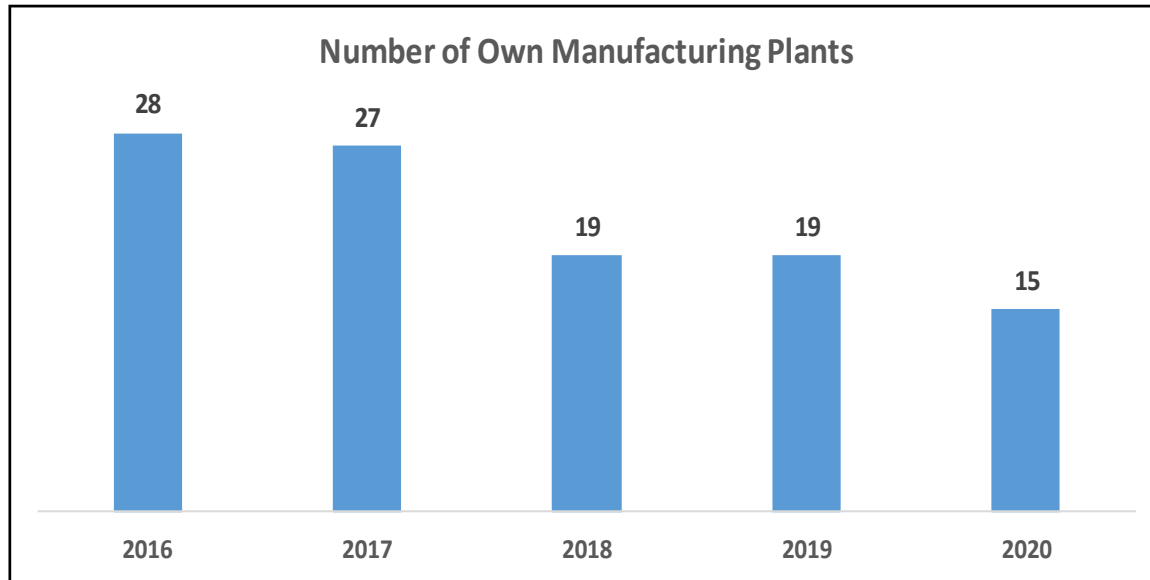
Net profitability



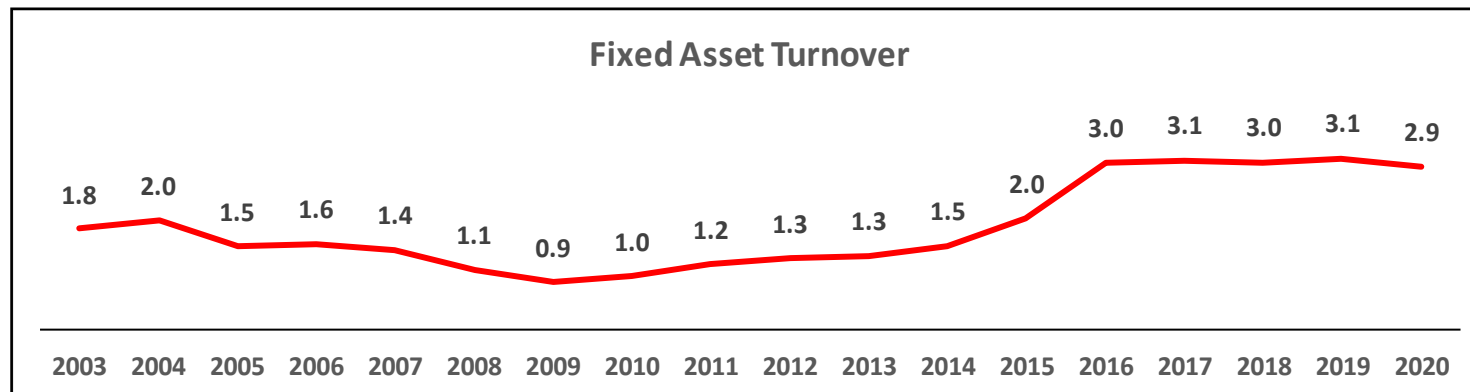
Return ratios



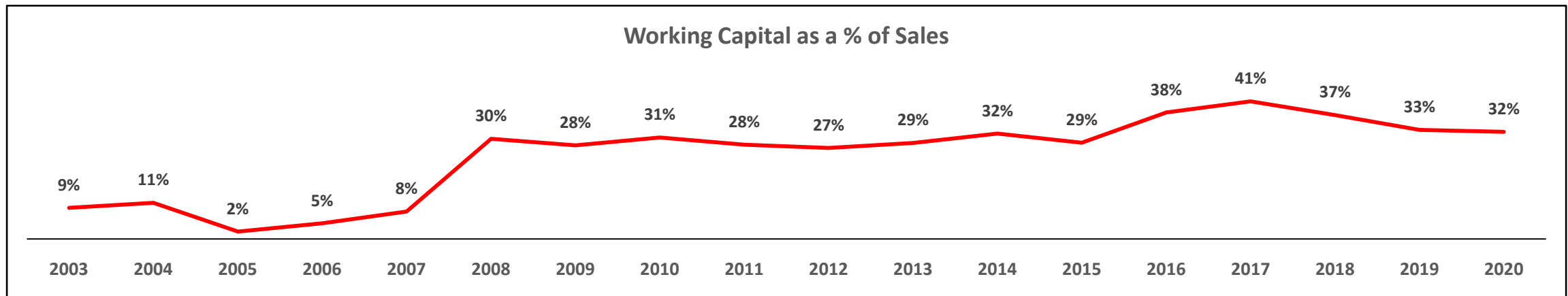
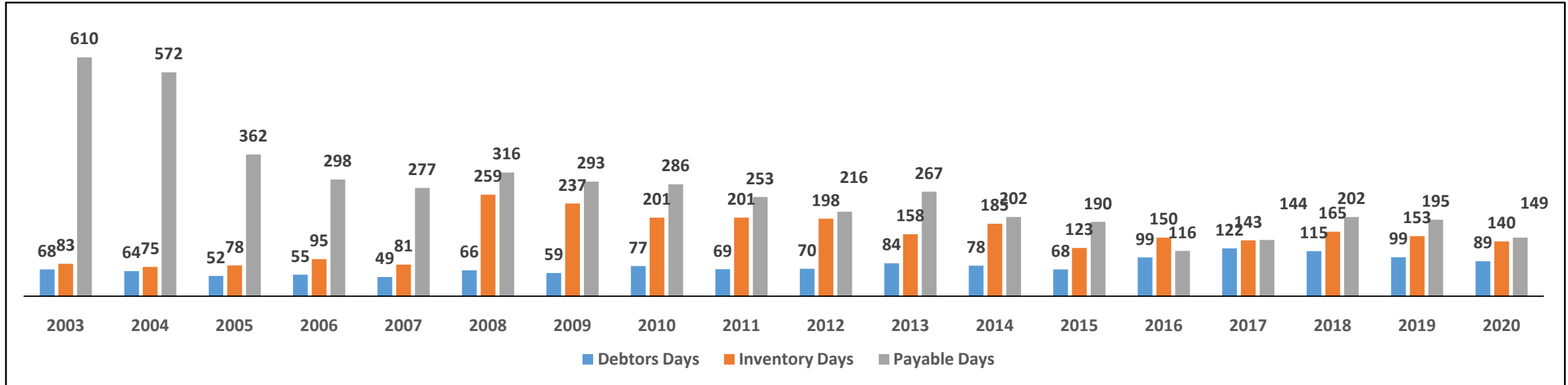
Efficient manufacturing



The reduction in the number of owned manufacturing plants and moving towards outsourcing/franchisee has led to significant jump in the asset turnover.

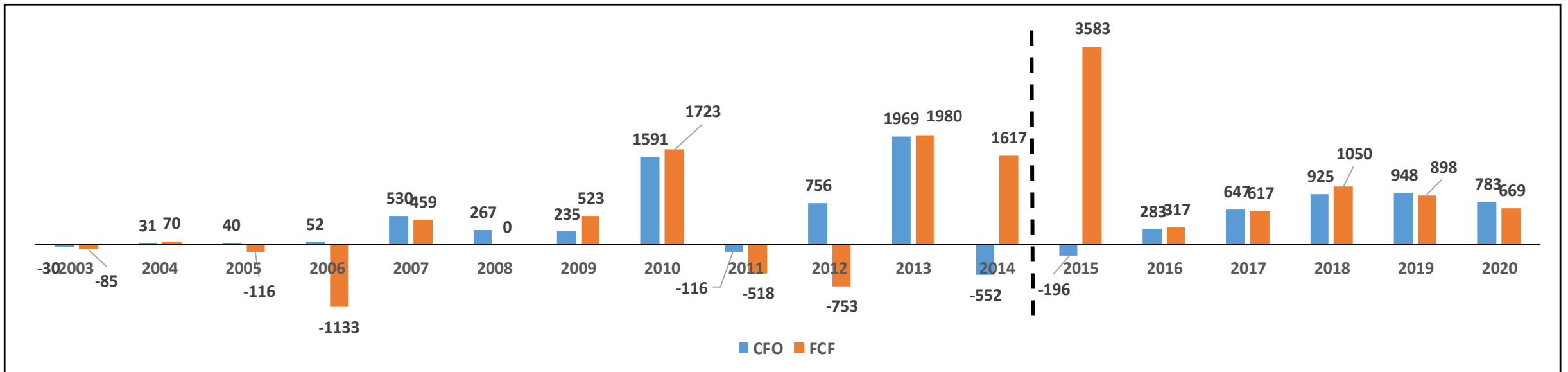


Working capital cycle

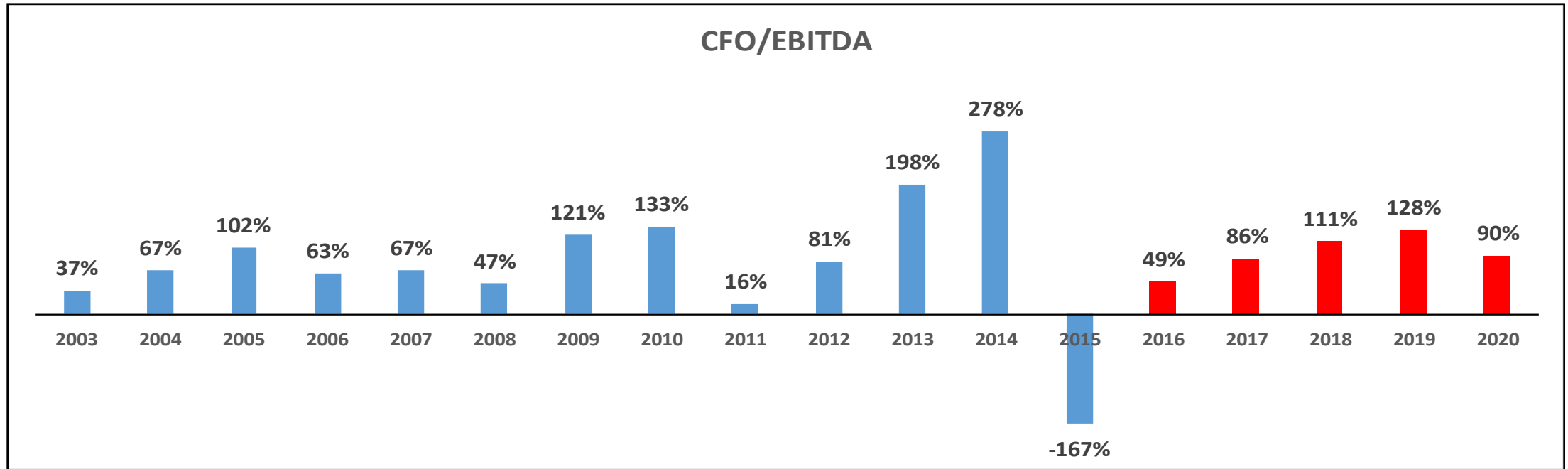


Turning cash and FCF positive

Operations back on track with consistent CFO and FCF generation



Steadily converting operating profits into cash

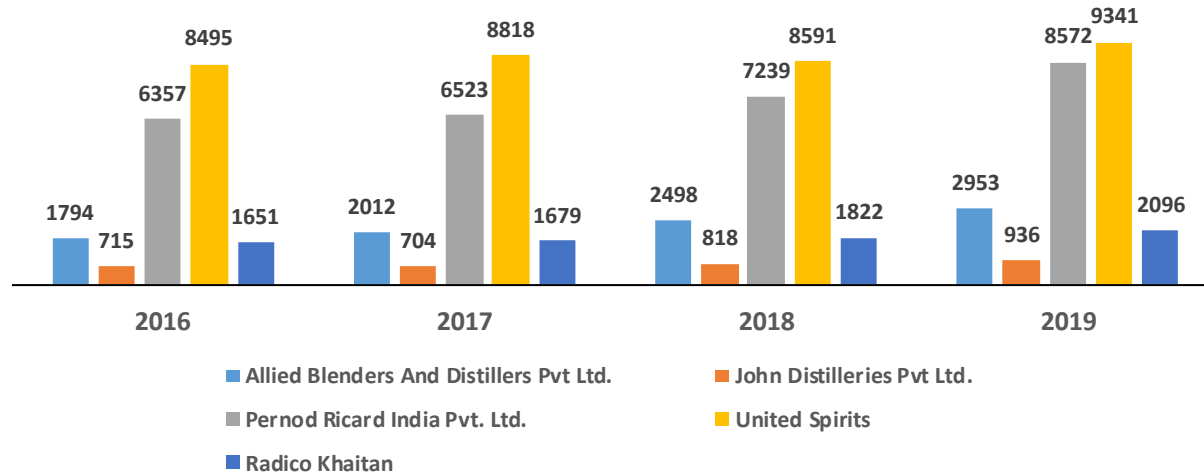


Prudent cash conversion post 2015, indicates that the operating profit is actually being converted into cash and is not getting stuck in working capital.

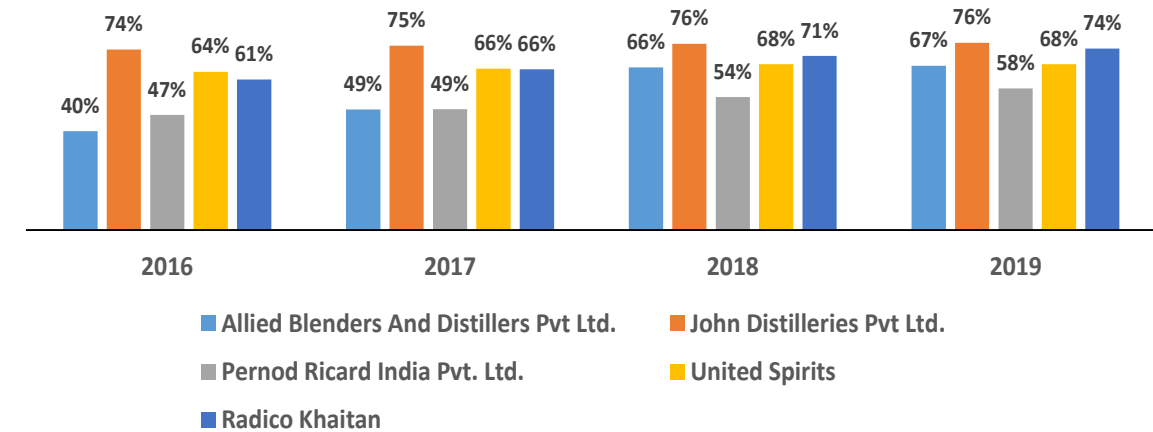


PEERS- Revenue from operations

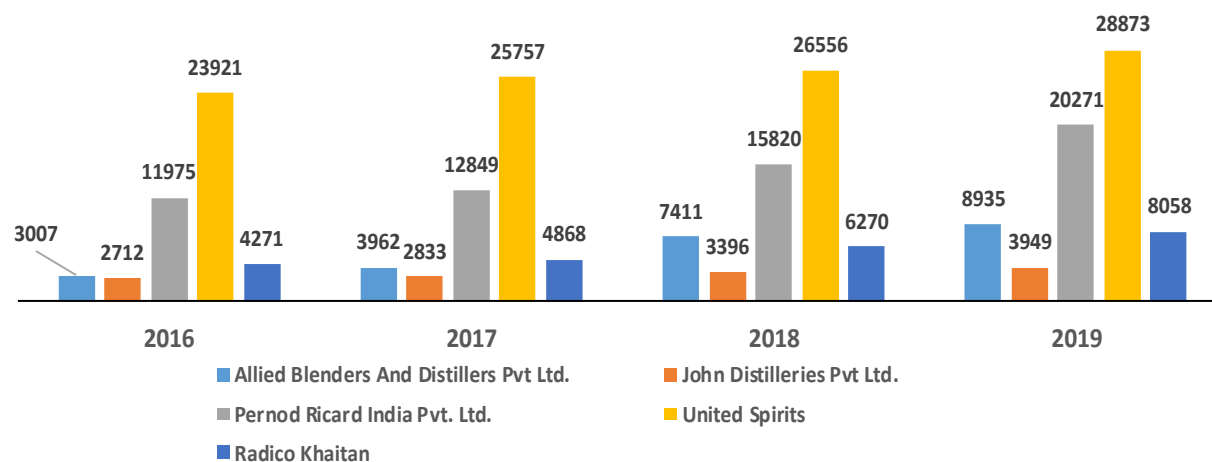
Net Sales (in Rs Crores)



Excise duty as a % of Sales

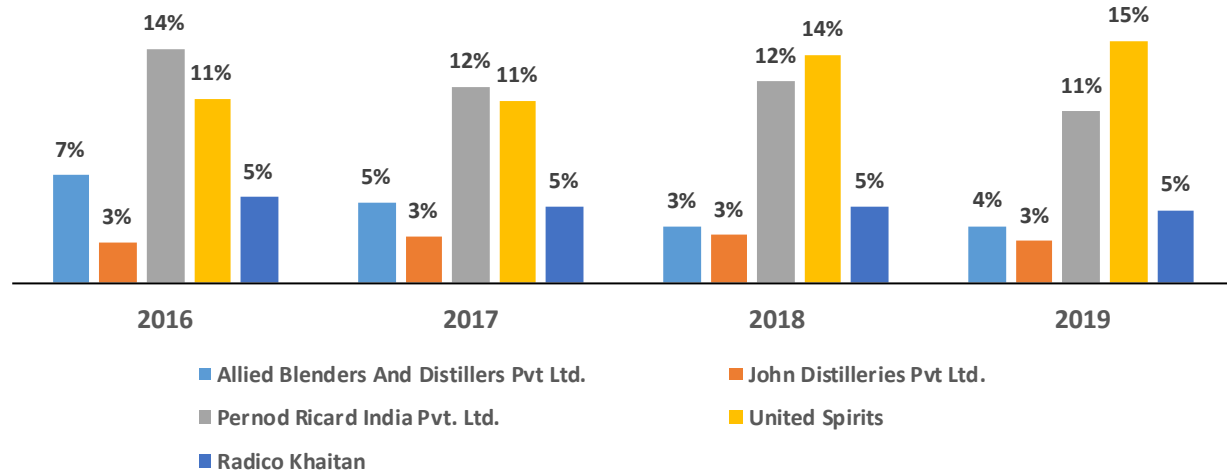


Gross Sales (in Rs Crores)

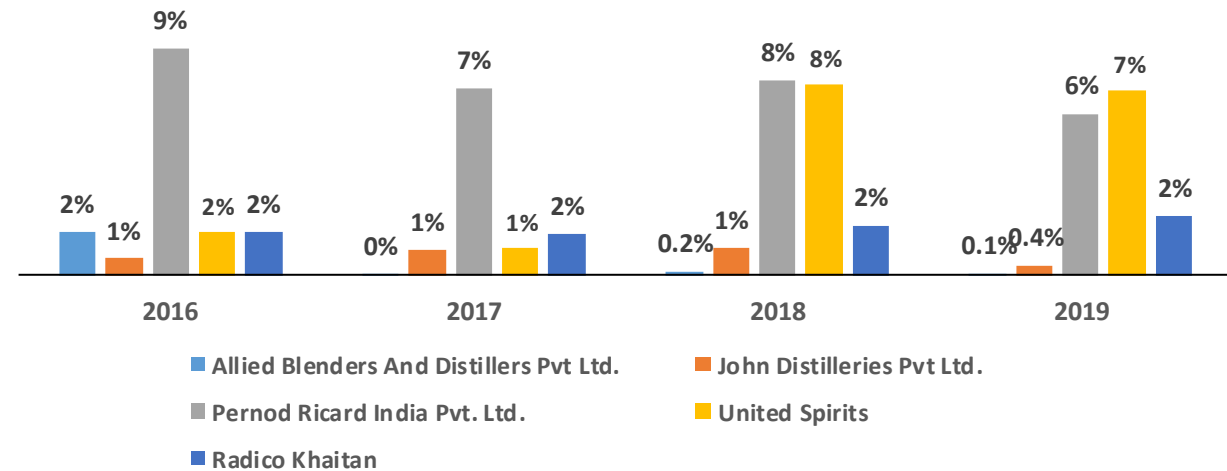


PEERS - Margins

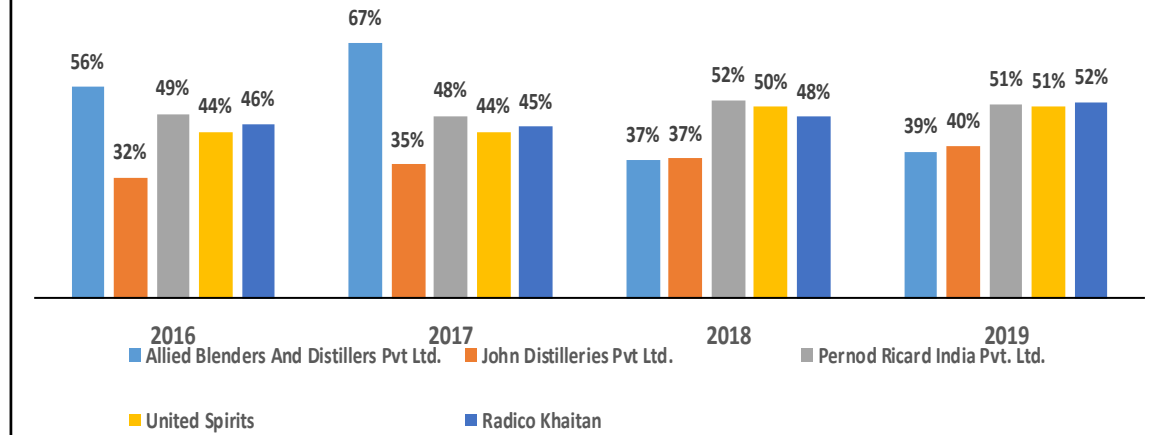
EBITDA Margin



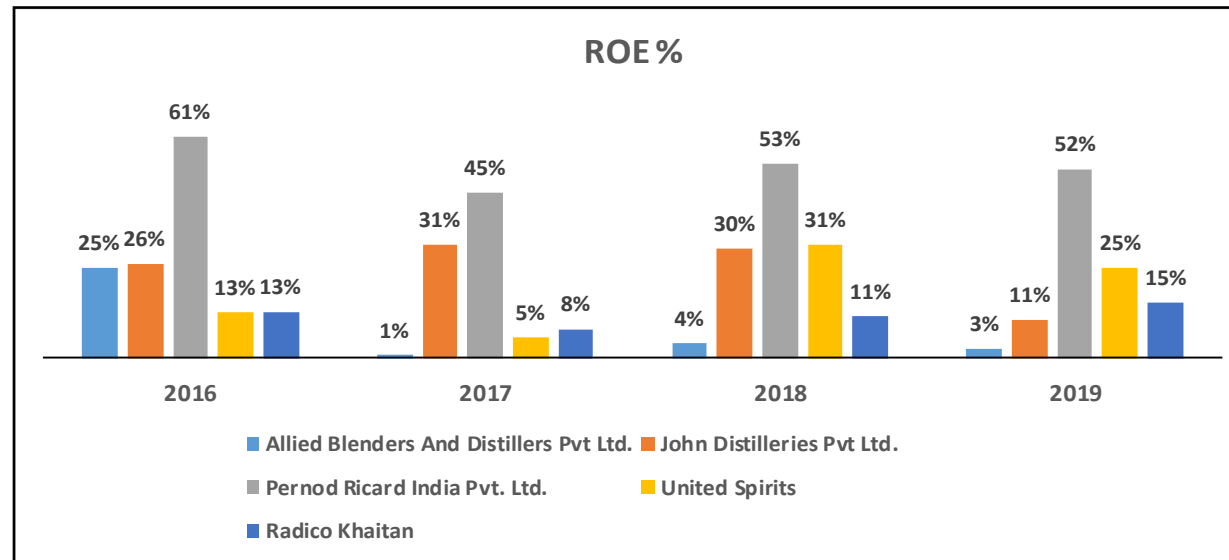
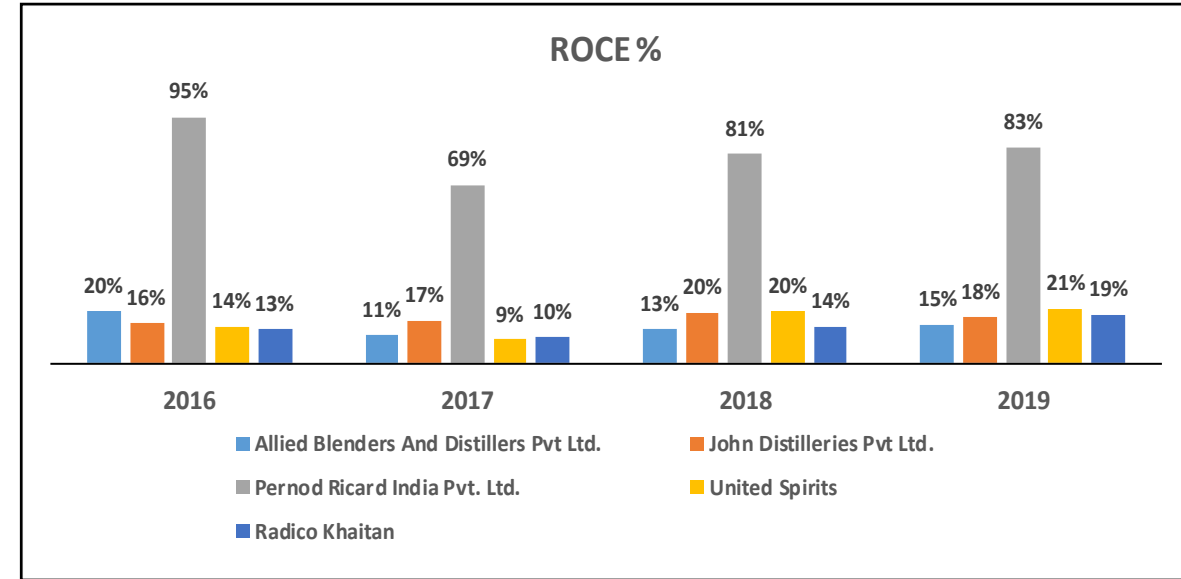
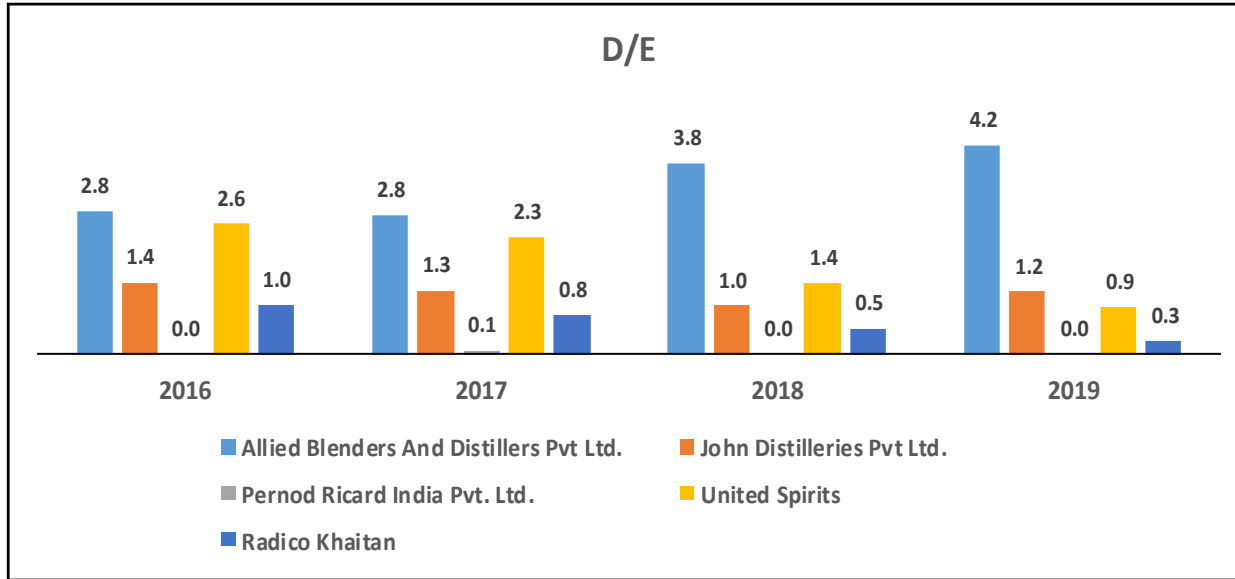
PAT Margin



Gross Margins



PEERS- Return ratios



SWOT Analysis

STRENGTHS

- ❖ Strong Brand Portfolio.
- ❖ Largest Alco Bev company in India.
- ❖ Diageo Expertise helping United Spirits.
- ❖ More than 10 millionaire brands.
- ❖ Best Margins in the Industry.
- ❖ P&A Category, the largest contributor to Revenue.

WEAKNESS

- ❖ The company is susceptible to raw material price volatility, which leads to fluctuating Gross Margins.
- ❖ No pricing power even if the raw material price increases.
- ❖ Direct advertisement of alcobev products are not permitted in India.



SWOT Analysis

OPPORTUNITIES

- ❖ Transition from country liquor to IMFL presents a huge opportunity.
- ❖ Per capita consumption of Liquor is among the lowest in India.

THREATS

- ❖ Excessive regulation risk from both Central and State Governments.
- ❖ Rise in Competitive Intensity from Pernord Ricard.
- ❖ Liquor Ban in any State (E.g. Ban in Bihar in 2017).
- ❖ Lower than expected growth in P&A segment could delay margin expansion.





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