

United Breweries



Cheers to growth

Krishnan Sambamoorthy (Krishnan.Sambamoorthy@MotilalOswal.com); +91 22 3982 5428

Vishal Punmiya (Vishal.Punmiya@MotilalOswal.com); +91 22 3980 4261

Investors are advised to refer through important disclosures made at the last page of the Research Report. Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

UNITED BREWERIES: Cheers to growth

Summary	3
Unique industry dynamics	4
Competitive advantages for UBBL	7
Strengths over key competitors	14
Financials- P&L statement assumptions	19
Balance sheet assumptions	25
Upside and downside risks	30
Heineken actions	33
Nascent stage absolute valuation appears high	36
Bull and Bear Case	40
Annexure: Huge potential for top-line growth	42
Annexure- The Heineken Factor	44
Financials and Valuations	44

United Breweries

BSE Sensex
28,243

S&P CNX
8,738

CMP: INR907

TP: INR1,120 (+23%)

Buy



Stock Info

	UBBL IN
Bloomberg	UBBL IN
Equity Shares (m)	264.4
52-Week Range (INR)	1,014 / 690
1, 6, 12 Rel. Per (%)	11/-1/-4
M.Cap. (INR b)	239.9
M.Cap. (USD b)	3.6
12M Avg Val (INR M)	243
Free float (%)	26.1

Financial Snapshot (INR b)

Y/E Mar	2016	2017E	2018E
Net Sales	50.8	56.9	66.0
EBITDA	7.3	8.6	10.5
NP	3.0	3.8	4.8
EPS (INR)	11.2	14.5	18.3
EPS Growth (%)	13.6	30.1	26.3
BV/Sh. (INR)	79.8	92.2	108.0
RoE (%)	14.9	16.9	18.3
RoCE (%)	13.2	15.2	16.1
P/E (x)	81.3	62.5	49.5
P/BV (x)	11.4	9.8	8.4
EV/EBITDA (x)	33.3	28.4	23.4
EV/Sales (x)	4.8	4.3	3.7

Shareholding pattern (%)

As On	Jun-16	Mar-16	Jun-15
Promoter	73.9	73.9	74.8
DII	6.9	3.8	1.9
FII	13.5	17.0	17.9
Others	5.7	5.4	5.4

FII Includes depository receipts

United Breweries

Cheers to growth



+91 22 3982 5428

Krishnan.Sambamoorthy@motilaloswal.com

[Please click here for Video Link](#)

Cheers to growth

Structural story attractive, high entry barriers

- A confluence of demographic, economic and socio-cultural factors (such as large proportion of young population with rising income, increasing acceptability of alcohol consumption and an extremely low base of consumption) has made India one of the most attractive markets in the world for global beer companies.
- With its well-spread breweries across key states, presence across all 90,000 outlets selling beer in India, iconic Kingfisher/Heineken brands and superior efficiencies versus peers, United Breweries (UBBL) – India's largest beer player – is well positioned to exploit growth opportunities in the industry, in our view.
- We believe the profit base of UBBL (at USD44m in FY16) is extremely low and growth opportunities are immense, justifying its prevailing high nascent-stage multiples. We expect healthy EPS CAGR of 26% for next three years and 22% for next 10 years, led by 10% volume CAGR and margin improvements given ongoing premiumization and operating leverage. We thus initiate coverage on UBBL with a Buy rating and a TP of INR1,120 based on 35x cash EPS. As its business is in investment phase, depreciation is almost as large as PAT. While this proportion will reduce over time, price/cash EPS appears more relevant, in our view.

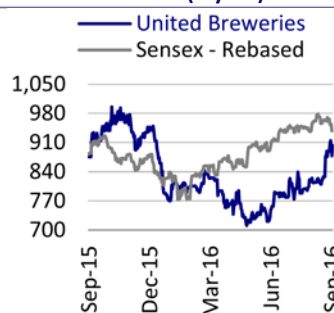
Immense growth opportunities; expect double-digit volume growth over next 10 years:

Over the next decade, India will form the largest chunk of the world's population below 30 years of age. Despite this demographic benefit, per capital consumption of beer – a youth-centric product – is only 2 liters, significantly lower than Asia-Pacific and global average of 29-30 liters. With increasing acceptability of alcohol consumption, tropical climate favoring beer consumption and rising disposable income, the country is well positioned to record strong beer volume growth. Despite encumbrances in the form of high duties, government-mandated distribution and pricing, the category has recorded 11% volume CAGR over past 10 years, and we expect continuation of this momentum.

Strong moats helping maintain market leadership: (a) Brand strength:

At 51%, UBBL's market share is over 2x that of the next largest brewer, and its leading brand Kingfisher is nearly 4x bigger than the next largest beer brand. (b) **Distribution:** UBBL has presence across all 90,000 outlets selling beer in India, a reach that is 1.5-2x higher than its immediate peers. (c) **Brewery reach:** UBBL has breweries across all key states of India, which gives it an advantage over peers as inter-state excise duties are prohibitively high. UBBL is also better placed than peers because of its scale, cost-saving efforts, cold chain infrastructure, sourcing advantages and valuable brand associations.

Stock Performance (1-year)



Heineken backing offers growth and premiumization benefits: Heineken – the largest beer brand in the world and by far the largest in the premium segment – owns ~43% in UBBL. Notably, Heineken has identified India and Africa as high-growth and potentially higher-margin markets. In India, Heineken has consistently been the fastest growing brand in the UB portfolio. However, it accounts for less than 2% of overall market share, while UBBL’s other brands command nearly 49%. We believe growth of the Heineken brand (priced at 2x Kingfisher) will continue aiding sales and premiumization. Heineken’s other large global brands – Amstel and Tecate – are also likely to be launched in India, which could support its future growth.

GST and other concerns could fade eventually: Beer companies pay around 15% duty on input material. However, it could increase to 18% given the possibility of a similar standard GST rate. As alcohol is being kept out of the GST ambit, the company may not get setoffs on inputs. However, we believe that if the company gets setoffs from state governments, the earnings impact might not be very significant. Also, if alcohol companies are allowed to increase prices, their volume growth could be affected for a year, but it will not be a problem from a longer-term perspective, in our view. We also note that, barring Gujarat, prohibition of alcohol has not lasted much longer in any large state as duties from alcohol form a significant proportion of state earnings.

Initiating with Buy and TP of INR1,120: Despite slowdown in discretionary consumption, UBBL has reported ~15% EPS CAGR over past five years and 20% CAGR over past four years, with return ratios improving considerably from mid-single-digits to ~15%. Operating cash and free cash generation has also improved multifold over past few years. UBBL remains an attractive play on potential recovery in urban consumption. We expect healthy EPS CAGR of 26% over next three years, led by ~10% volume CAGR and margin improvements given premiumization and operating leverage benefits. Compared to worldwide-listed brewery peers, UBBL has recorded over 3x higher sales growth and over 4x higher PAT growth during FY14-FY19E. Although valuations are near six-year lows on P/E basis and below historical average on EV/EBITDA basis, absolute P/E at 44x September 2018 and 21x EV/EBITDA is expensive. However, since the profit base of UBBL (USD44m in FY16, other peers do not even make money at net level) is extremely low, growth opportunities are immense. We thus initiate coverage on UBBL with a **Buy** rating and a TP of INR 1,120 based on 35x cash EPS. As its business is in investment phase, depreciation is almost as large as PAT. While this proportion will reduce over time, price/cash EPS appears more relevant, in our view.

Compelling long-term opportunity: We believe once volumes recover to double-digit levels, earnings growth could sustain at 20%+ levels for nearly a decade and return ratios could potentially jump to 25%. Importantly, our base-case forecast for next 10 years does not assume a change in regulatory regime, which is currently not very favorable of the beer industry. However, if the regime changes for the better, earnings growth prospects and return ratios could be much higher.

Unique industry dynamics

Factors restricting growth of beer In India

Indian beer industry is encumbered by the following issues:

High taxation: Alcohol comes under the purview of state governments in India, and over 25% of state revenues (even up to 40% in a few states) come from duties on alcohol. It is the second largest revenue generator for most states after sales tax/VAT. For many cash-strapped states, alcohol is a key source of incremental revenue generation.

All this is true of many emerging economies of the world, but what is markedly different in India is that beer (4-7% alcohol) gets taxed at the same rate as other spirits that have over 40% alcohol. This means lesser value for money for beer drinkers. Beer in India is thus much more expensive compared to other comparable countries inhibiting growth of the category. Excise increases by some states are extremely steep, and thus even if the rise is passed on to consumers, there is an adverse impact on volumes which can even last for a couple of years. On the other hand, if companies do not pass on the excise increase, it leaves them with a hit on the EBITDA margin front.

Government control over supply, distribution and pricing: There are a meager 90,000 outlets serving beer for a country with population of 1.3b. On a per capita basis, this is far lower than other emerging markets. India has 1 beer outlet per 20,000 people while China has 1 outlet per 200 people. In 70% of the country, it is the government which decides the pricing of the product, and price increases are not granted on an annual basis to account for commodity cost inflation, but once in a few years. Until then, the cost increase has to be absorbed by the manufacturer. Government agencies are often the largest and in most cases the only suppliers of alcoholic beverages in many states and are thus the deciding authorities of what to procure and how much to procure (in some cases even going against what the consumer wants).

There are signs of small changes over the last 10 years. The only additional retail licenses that the Maharashtra state government has allotted over this period has been to shops selling only beer and wine. The Kerala government imposed prohibition on spirits outside of five star hotels last year but spared beer and wine from such restrictions. The Karnataka government has started campaigns against binge drinking which affects spirits more.

Ban on advertising: Unlike other consumer products, advertising of alcohol is not permitted in the media. This restricts awareness of products and new launches. Alcoholic beverage companies have to take the resort of surrogate advertising, hoardings at alcohol vending outlets and sponsorship of sports/ music events, but the impact of ban on direct advertising does affect growth.

Disproportionately high duties means that beer is close to 2x expensive in India compared to a comparable country like China, but that still does not explain the fact that India's per capita consumption is ~2 liters, far lower than the global average.

Even after considering all the negative factors encumbering growth, India's per capita consumption of beer is still abysmally low compared to global peers and thus there is a huge opportunity to grow on account of the demographic, economic growth factors, as well as rapidly increasing social acceptability.

Exhibit 1: In store advertising



Source: Company, MOSL

Competitive advantages for UBBL

Reach, efficiency, brands, scale, associations

Nationwide brewery presence: UBBL is the only company with national presence, and majority of its new breweries are being set up in the under-penetrated states. Nationwide presence with multiple breweries in many states enables it to:

- a) Supply beer profitably as it is uneconomical to export from one state to another given high state import duties.
- b) Ensure that it takes advantage of growth opportunities across all states. Whenever a state, particularly in lower-penetrated northern and eastern regions, witnesses sharp growth, UB is well placed to take advantage because of its presence in those states.
- c) Having multiple breweries across a state also ensures consistent supply during crucial periods. For example, during the summer season (which is the peak period for beer consumption in India) this year, water cuts were announced in Aurangabad, Maharashtra. UBBL, SABMiller and Carlsberg all have breweries in Aurangabad, but UBBL was the only company to have an additional facility at Taloja in the same state. Thus, even if operations in one region of a state are affected, UB can ensure supply economically from its other breweries, unlike peers which have to import from other states and thus incur higher freight cost and import duties. UB is the only brewer with presence in both Andhra Pradesh and the newly demerged state of Telangana.

Exhibit 2: United Breweries has a much wider presence across the country

Companies	Own Breweries	Contract Breweries
United Breweries	Andhra Pradesh- Srikakulam	Uttar Pradesh- Aligarh
	Telangana- Mallepally and Kothlapur	Rajasthan- Alwar
	Tamil Nadu- Kuthambakkam and Aranvoyal	Daman and Diu- Daman
	Goa- Ponda	Assam- Gauhati
	Punjab- Ludhiana	Madhya Pradesh- Indore
	West Bengal Kalyani	Sikkim- Rangpo
	Kerala- Cherthala and Palakkad	J&K- Samba
	Rajasthan- Chopanki and Shahjahanpur	Meghalaya – Shillong
	Karnataka- Mangalore, Nelmangala and Mysore	
	Maharashtra- Taloja and Aurangabad (2 units)	
	Odisha- Khurda	
	Bihar- Naubatpur	
	Haryana-Dharuhera	
SAB Miller	Karnataka- Bangalore	Chattisgarh
	Telangana- Medak	Daman
	Haryana- Sonapat	Orissa
	Maharashtra- Aurangabad (2 units)	Punjab
	Uttar Pradesh- Meerut	
	Rajasthan- Neemrana	
	Kerala- Chalakudy	
	Orissa- Cuttack	
Puducherry union territory		
Carlsberg	Bihar- Patna	
	Haryana- Dharuhera	
	Rajasthan- Alwar	
	Maharashtra- Aurangabad	
	West Bengal- Kolkata	
	Telangana- Hyderabad	
	Himachal Pradesh- Paonta Sabib	
Karnataka (under construction)		

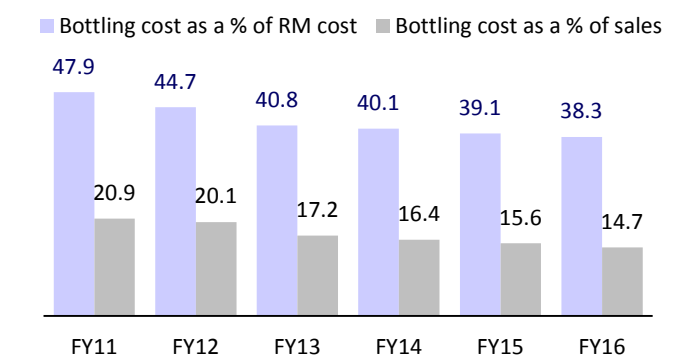
Source: Company, MOSL

Cold chain and infrastructure: Unlike spirits, beer is a perishable commodity and needs to be chilled. UBBL's investments in integrated cold chain infrastructure have been ahead of peers. Its GPS-enabled trucks also ensure that it gets back its own bottles. When added to the fact that UBBL has owned or contract breweries in all key states, it means that its beer is fresher than peers and supply is on time.

Collection of used bottles: Glass accounts for the largest material cost for beer companies in India as beer is still largely consumed in bottles. Bottling costs were as high as 47.9% of materials consumed and 20.9% of sales in FY11. Since then, UBBL pioneered the system of collecting used bottles. Ability to reuse/recycle used bottles is particularly critical as cost of new bottles can be as high as 3x that of used bottles. The company competes for used bottles with other beer players. Especially during the key summer season, glass traders could demand a significantly higher rate, which the company had to fork out as missing out on demand was even more costly. UB thus struggled to get back its own bottles. Because the company was by far the largest player and only UBBL and SABMiller to an extent were inducting new bottles into the system, they ended up subsidizing others since it was still cheaper for other players to buy a UB bottle from a trader at a premium than buying a new bottle.

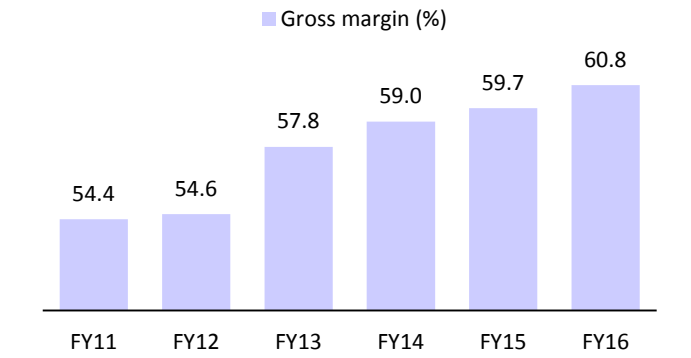
Thus, the company worked on two things. It patented the bottle itself with an additional embossment so that each UB beer bottle could be distinguished and would come back to the company. The company also successfully worked on making the glass thinner and yet ensuring both content quality and safety. We reckon that new bottle induction has reduced from over 25% earlier to around 15% now. Subsequently, over the last five years, the company has been able to save significantly on the bottling cost component, which has come down from 47.9% of material costs/20.9% of sales in FY11 to 38.3% of material costs/14.7% of sales in FY16, leading to considerable improvement in gross margins.

Exhibit 3: Cost of bottles has reduced substantially...



Source: Company, MOSL

Exhibit 4: ...big factor in strong gross margin improvement

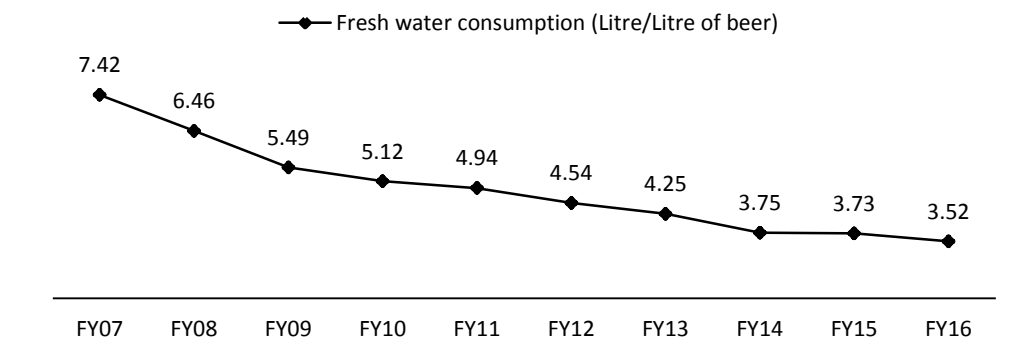


Source: Company, MOSL

We also reckon that there have been some savings in the last few years on new bottles as well. Fuel forms large part of glass manufacturing cost, and crude price decline would have helped reduce manufacturing costs and bottle prices.

Reduction in water utilization: Beer is made up of four ingredients: water, malted barley, hops and yeast. Water is thus a key ingredient in the process of making beer. Summer season is the key demand period for beer, and water shortage during that season can have an adverse impact on supply and market share. All corporates pay for usage of water as it is for commercial purposes. Water utilization has been an area of substantial improvement for UBBL, which offers advantage in terms of both costs and sustainability over peers. Its current water consumption is 4.52 liters per liter of beer, with 3.52 liters of fresh water consumption (reduced considerably from 7.42 liters in FY07). At this level now, UBBL is among the best across Asia and the world in terms of fresh water usage for recycled beer bottles. Some of its breweries are even at 2.4 liters far better than the global average of 4 liters. In addition, the proportion of recharged water is also increasing as 11 out of its 21 breweries already use rainwater harvesting. Proportion of recharged water to fresh water has increased to 17% in FY16 from 12% in FY15, is targeted at 38% by end of FY17, and UB actually aims to be a water positive organization by 2025.

Exhibit 5: Water consumption has declined considerably



Source: Company, MOSL

Dominant brand, potential launches from the Heineken portfolio: UBBL commands 51% market share in beer, of which the iconic Kingfisher brand with its variants account for around 80% of its market share. Despite the advent of global beer brands, Kingfisher retains its dominant market leadership. Kingfisher is nearly 3x the next largest brand in terms of brand-wise market share. It is the dominant leader in both the strong beer and mild beer segments in India. In 2014, Kingfisher was featured in the list of 100 most valuable brands for its credibility and consumer following by the World Consulting and Research Corporation. In 2015, Kingfisher was one of the Top 50 most valuable Indian brands in the WPP and Milward Brown Survey. In addition, the company has other strong regional brands like London Pilsner, Sandpiper, Bullet, UB Export and Kalyani. From the Heineken portfolio so far, it has only launched the eponymous Heineken brand. Heineken is the largest beer brand in the world. There are a host of other large brands, including Amstel and Tecate, which can be launched from the huge parent portfolio.

Exhibit 6: UB brand portfolio



Source: Company, MOSL

Exhibit 7: Heineken brand portfolio



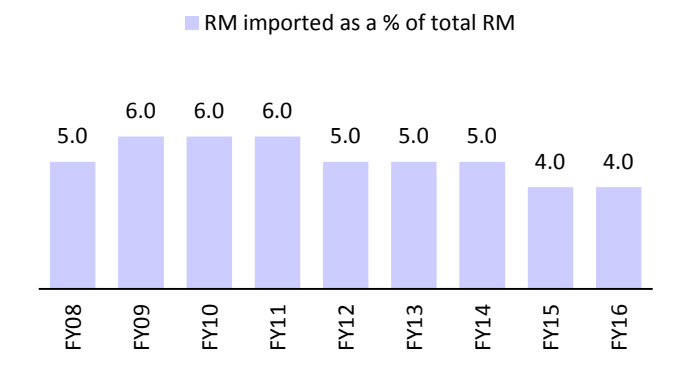
Source: Company, MOSL

Distribution: UBBL is the only beer company whose brands are available at all the 90,000 outlets that serve beer in the country. While we do not have data on SABMiller’s distribution reach, we know from news clips that Carlsberg, the third largest brewer in the country, reaches only 40,000 outlets, less than half of UBBL’s nationwide footprint.

Scale benefits: In India, breweries cannot achieve global economies of scale due to an element of seasonality in consumption and the need to have breweries in each state. However, opportunity in many states is massive, and in the other states, utilization could pick up as demand improves rapidly. Moreover, breweries with 1m hectoliters of capacity tend to be far more efficient from economies of scale perspective than smaller breweries. UBBL has the highest number of breweries attaining such scale, which substantially boosts profitability and return ratios compared to peers in India.

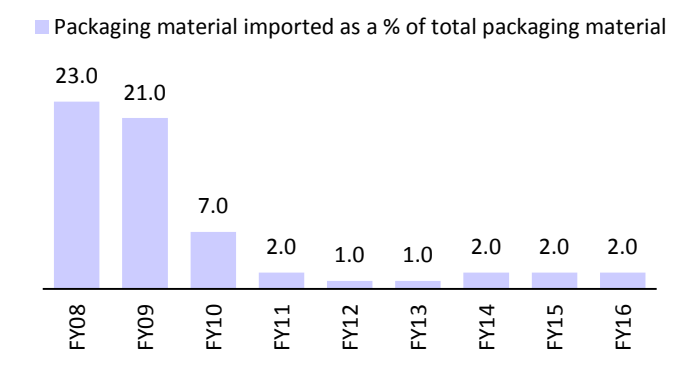
Sourcing: International commodity volatility was a bugbear for the company in the past, as a result of which gross margin fluctuated. Over the past decade, however, UBBL has considerably reduced its dependence on imports for barley and other packing materials. In FY16, for example, the company worked on about 30,000 acres and built relationships with about 7000 farmers for barley cultivation.

Exhibit 8: Localization of raw materials...



Source: Company, MOSL

Exhibit 9: ...as well as packaging materials enhance barriers



Source: Company, MOSL

Advertising ban: While the ban on alcoholic beverage advertising in the media restricts industry growth, it does favor incumbent brands like Kingfisher as many consumers are not fully aware of newer brands.

Ability to maintain customer connect- With its customers being from the youth segment, for whom tastes change as a result of various factors, it is important for companies dealing with this demographic to keep their ears on the ground and adapt to changing tastes. With its long presence in India, Kingfisher has been able to do the same. In addition, the management goes in for refreshing new packaging once in a few years so as to maintain the attraction.

Association with key events: Attracting and retaining the youth demographic is imperative for beer companies. Kingfisher's association with sports and music events in addition to food and fashion is a great way of addressing this demographic. UBBL has historically had strong links with major sporting events in India. It is associated with the Indian Premier League T-20 Cricket, is the title sponsor for the East Bengal Football Team, is associated with Formula 1 racing and is the title Sponsor for Derby racing in India. On the internet, UB has been associated with the web series 'TVF Pitchers'. The company has extended this relationship in the current year with the launch of 'Pitchers Aggregator App' which provides updated information on the nightlife options in Bangalore and could be extended to other cities later. The app saw 60,000 downloads within a week of launch.

In addition, Heineken's association with UEFA Champions League Football tournament is also important as European Football has become extremely popular with the Indian youth segment over the last decade. Heineken is also associated globally with the James Bond movie franchise as well as music events worldwide. In India, Kingfisher is also associated with Sunburn, the largest EDM music festival the country. The 'Kingfisher Calendar' is also an important feature in the annual fashion circuit in India, and Kingfisher is also associated with annual supermodel hunt. Kingfisher also has long-standing association with restaurants, bars, pubs, nightclubs and star hotels.

Exhibit 10: Associations with youth centric interests- IPL Cricket...



Kingfisher is proudly associated with six of the eight IPL Teams - Royal Challengers Bangalore, Rising Pune Supergiants, Mumbai Indians, Sunrisers Hyderabad, Delhi Daredevils and Kings XI Punjab. 22 players from these 6 teams came together for the TV commercial that captured the spirit of Good Times.



Source: Company, MOSL

Exhibit 11: ... Sunburn Music Festival...



Source: Company, MOSL

Exhibit 12:Formula 1 Racing.....



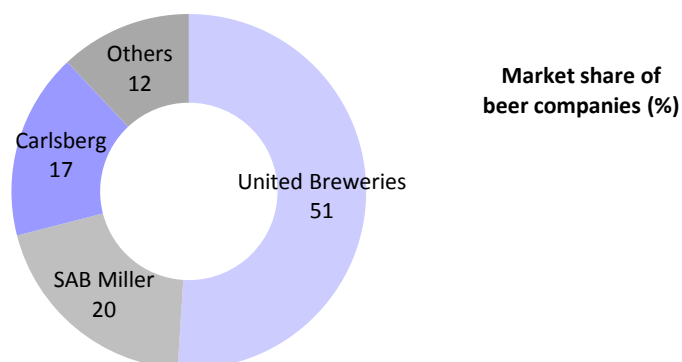
Source: Company, MOSL

Strengths over key competitors

Closer look at SAB Miller' and Carlsberg's India operations

UBBL (~51%), SABMiller (~20%) and Carlsberg (~17%) together command ~88% market share in India's beer industry. The world's largest brewer, AB Inbev has less than 2% share, while Mohan Meakins and Mount Shivalik are the other marginal players with 2-3% market share each.

Exhibit 13: UBBL leads the beer market with 51% market share



Source: Company Presentation, MOSL

SAB Miller- Consistent market share loss, weak financials

SAB Miller is the second largest brewing company in India. Over the past 10 years, SABMiller (mainly Haywards and Fosters brands) has lost market share from early-30% to around 20%. Its Castle Lager and Peroni brands have not made much headway. UBBL has consistently outpaced SABMiller in terms of sales growth. Thus, SABMiller's sales have declined from nearly 56% of UBBL's sales in FY10 to less than 39% in FY16.

Exhibit 14: Consistently better sales growth for UBBL compared to SAB Miller India...

	FY10	FY11	FY12	FY13	FY14	FY15	FY16
UB Net Sales (INR m)	23,074	30,598	35,614	39,004	42,297	46,990	50,834
UB Net Sales (INR b)	23.1	30.6	35.6	39.0	42.3	47.0	50.8
Growth (%)		32.6	16.4	9.5	8.4	11.1	8.2
SAB Miller Net Sales (INR m)	12,860	14,859	16,663	19,965	19,202	19,397	19,786
SAB Miller Net Sales (INR b)	12.9	14.9	16.7	20.0	19.2	19.4	19.8
Growth (%)		15.5	12.1	19.8	-3.8	1.0	2.0
Differential value (SAB Miller/UB)	55.7	48.6	46.8	51.2	45.4	41.3	38.9

Source: Company, MOSL

Moreover, SABMiller has consistently made losses at the net level in India as its FY09-FY16 EBITDA margin range of 4-8% is far lower than UBBL's 12-15%.

Exhibit 15: ...and its EBITDA margins have also been far superior

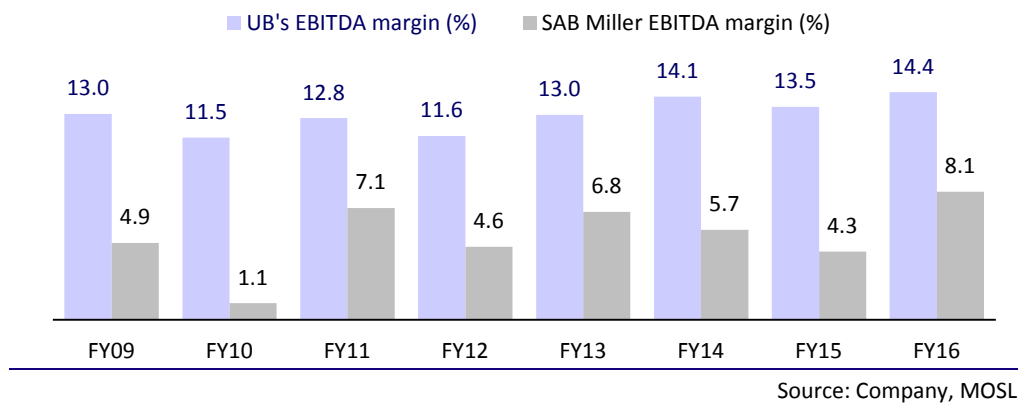


Exhibit 16: Fixed asset turns are far superior to SAB...

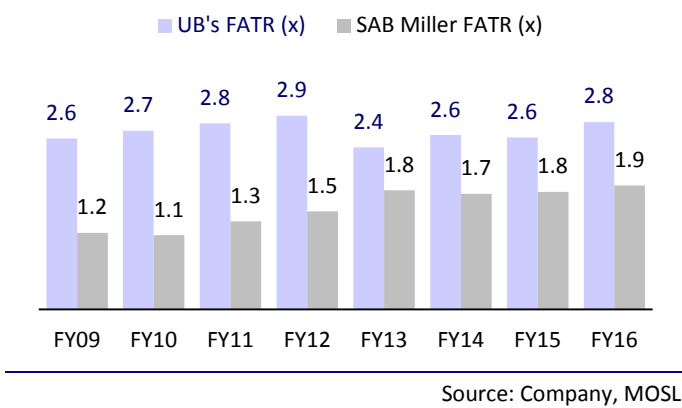


Exhibit 17: ...as are working capital days

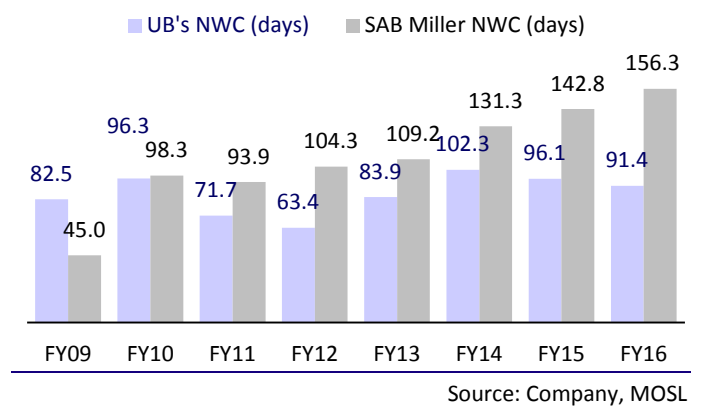


Exhibit 18: SABMiller brand portfolio



Source: Company, MOSL

Carlsberg-Huge success but not much impact on UB's market share

Carlsberg has been the big success story of the last decade in the Indian beer industry. The company started commercial operations in India only in June 2007 and has gone on to achieve ~17% market share over this period and become the third largest player. Its big success in terms of its portfolio has been Tuborg (now the second largest brand in the country after United Breweries' Kingfisher, according to a Carlsberg parent presentation), with smaller presence of other brands from the global portfolio, including the eponymous Carlsberg and Okacim Palone. What is also noteworthy is that all of Carlsberg's brands are from its global portfolio and not

Indian brands that it acquired (unlike SABMiller for which Hayward's – the brand that it acquired from Shaw Wallace – is by far the largest brand). Even for UBBL, Heineken is only a very small part of overall market share as yet. Carlsberg has demonstrated that even with its global brands, and in a market that prohibits advertising of alcohol, a brewer can emerge as a major success story. Carlsberg has also demonstrated flexibility in adapting its brands to the Indian consumer taste preference for strong beer. Some other factors behind Carlsberg's success in India are as follows:

a) Strategic focus on underpenetrated states. If one looks at the brewing capacity set up by Carlsberg, five out of its eight breweries have been set up in non-traditional states. In fact, the company only began constructing its eighth brewery in Karnataka in 2016. Karnataka is one of the top 3 markets for beer in India. The other two Carlsberg breweries are in the traditionally strong markets of Maharashtra and Telangana. 5 of its 8 breweries are in the states of Bihar, Haryana, Rajasthan, West Bengal and Himachal Pradesh. In West Bengal, Haryana and Bihar (before prohibition was introduced in that state in April 2016), they have in excess of 30% market share.

Brewery timeline for Carlsberg

- 1) June 2007 – Acquired a brewery in Paonta Sahib, Himachal Pradesh
- 2) March 2008 – Set up brewery in Alwar Rajasthan
- 3) August 2008 – Set up brewery in Aurangabad, Maharashtra
- 4) June 2009 – Set up brewery in Hooghly, West Bengal
- 5) December 2010 – Set up brewery in Sangareddy, Andhra Pradesh
- 6) 2013 – Set up brewery in Dharuhera, Haryana
- 7) 2014 – Set up brewery in Patna, Bihar
- 8) 2016 – Setting up brewery in Karnataka

b) Innovation: Carlsberg has been an innovator in both packaging as well as advertising. It created a stir in the industry with an easy-to-open top for its largest brand Tuborg, and its smart use of surrogate advertising for the eponymous brand Carlsberg.

c) Global quality standards and brand associations: Carlsberg has also brought in best practices from its European experiences into India. In an indirect way, Carlsberg has also gained in terms of appeal to Indians entering/recently entered legal drinking age as a result of the parent's association with the English Premier League, which is hugely popular among members of that demographic.

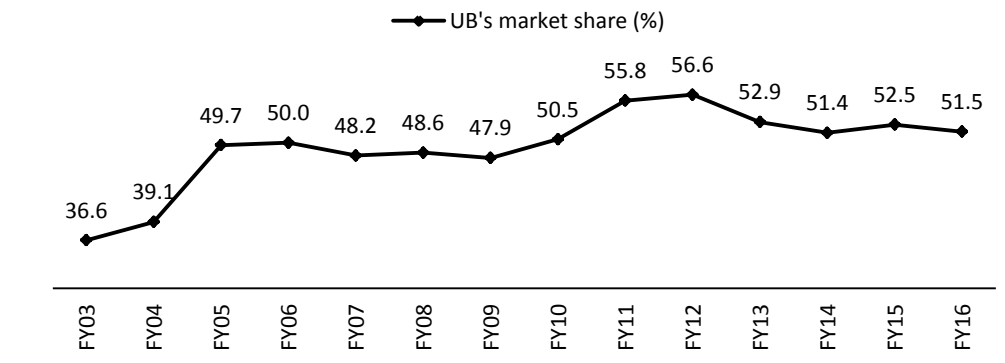
Exhibit 19: Carlsberg India brand portfolio

Source: Company, MOSL

Implications of Carlsberg's growth for UBBL and the industry: It is interesting that UBBL has withstood the Carlsberg onslaught fairly well. Its market share has increased in the last 10 years, and even the recent dip from around 56% to 51% can be almost entirely attributed to losses as a result of changes in procurement policy by the state government in Tamil Nadu and Andhra Pradesh (discussed in detail in the next page). UBBL's established presence and new breweries in non-traditional markets have meant that the company has also gained from demand spurt in these markets. Carlsberg has thus gained its incremental market share at the cost of SABMiller and other smaller players in the industry. Like Carlsberg, UBBL has also brought in best global practices and quality from Scottish and Newcastle (S&N), the JV partner before S&N was acquired globally by Heineken and latter from Heineken since 2009. Heineken's brand sponsorship of the UEFA Champion's League Football also appeals highly to the demographic entering/recently entered legal drinking age.

What Carlsberg's emergence has done is that it has marginalized the small players in the market. Moreover, as pointed out earlier, the bottling scenario prevalent earlier was subsidizing the smaller players, which is no longer the case after UBBL's patented bottling strategy was also adopted by SABMiller. The small players do not have the financial muscle and the economies of scale that the leading industry players have and are likely to be even more marginalized over the long term. UBBL, SABMiller and Carlsberg put together have around 88% market share in the Indian beer industry.

While we do not have financials of Carlsberg India, the parent mentioned last year in a conference call that the Indian entity is close to breaking even on profitability for the first time, still a long way away from reaching the profitability levels of UBBL.

Exhibit 20: UBBL's 50% market share has been maintained despite increasing competition

Source: Company, MOSL

Adjusting for the fact that there was a drastic change in sourcing pattern in two key states, UBBL has done well to hold on to the 50% market share that it had 10 years ago.

- 1) In Tamil Nadu (three years ago), in order to encourage breweries located in the state, the state government through its agency, TASMAL, decided to procure on the basis of brewing capacity in that state. Neither SABMiller nor Carlsberg had any capacity in that state and thus their market shares were not affected. But UBBL had 70% market share in the state, which dropped down to 30%. This loss of share to regional players in a state that was among the top 4 markets in terms of cases sold affected UBBL's national volume growth and market share as well.
- 2) In Andhra Pradesh, the state government has flip-flopped between procuring on the basis of nation-wide market share and the state market share. As a result, over the past few years, UBBL's market share in the state has dropped from 65-70% at peak to ~50%, in line with the national average. Before bifurcation of the state into Andhra Pradesh and Telangana last year, the state was the largest in India in terms of volumes and hence the impact of the change in procurement lowered national market share from decadal peak levels few years ago.

Financials- P&L statement assumptions

We expect healthy growth in sales and EBITDA

A. Volume growth pace of the past decade likely to sustain

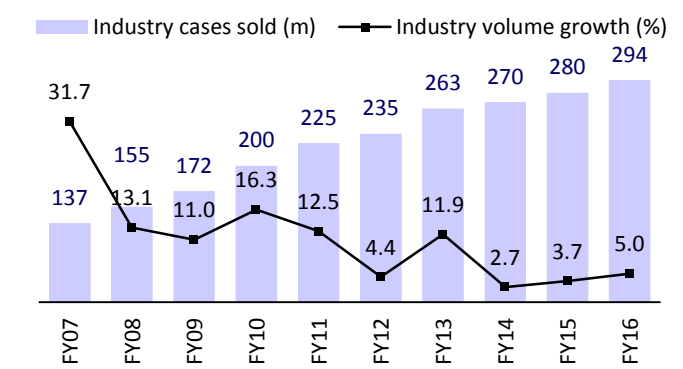
Given the extremely low consumption base, demographics and social/economic factors aiding growth, we believe that there is no reason why the industry cannot achieve ~10% volume CAGR over the next 10 years. We also note that it posted 11% volume CAGR over the past 10 years, despite many encumbrances. Interestingly, before the slowdown in discretionary demand in India over the past few years, management was guiding for volume CAGR of 15%. Thus, our assumptions are far more conservative, especially given the sharp potential for growth over the low base of the past few years.

Even if the industry were to compound at ~10% CAGR, per capita consumption of beer in India in FY26 will still be only ~4 liters, which is still far lower than the current global average.

Beer may never reach consumption levels achieved by spirits if the excise regime remains similar – despite lower units of alcohol in beer, it gets taxed at the same rate and hence higher per unit of alcohol. Nevertheless, it can continue its growth momentum of the past 10 years. If any of the key states relaxes the regime in favor of beer owing to its lower alcohol content (as is the case with the rest of the world), it would be a huge bonus. However, that is not our base case.

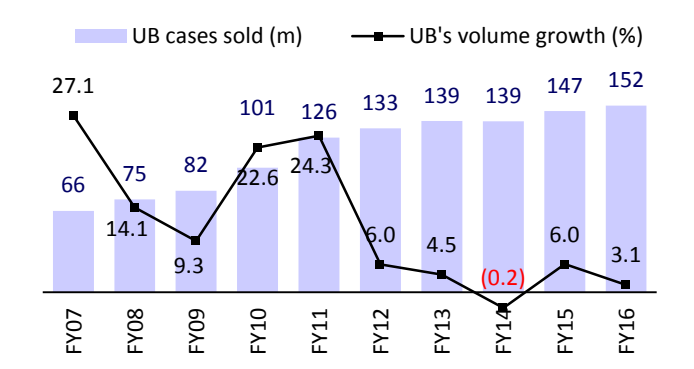
Despite UBBL outpacing industry growth for the last 10 years, we are assuming the company and the industry will record the same ~10% volume growth rate, indicating assumption of no market share gain. More breweries in underpenetrated states, more brands from the Heineken portfolio like Amstel and Tecate, and innovative products like Kingfisher Buzz should boost volumes.

Exhibit 21: Industry has grown at 10% CAGR



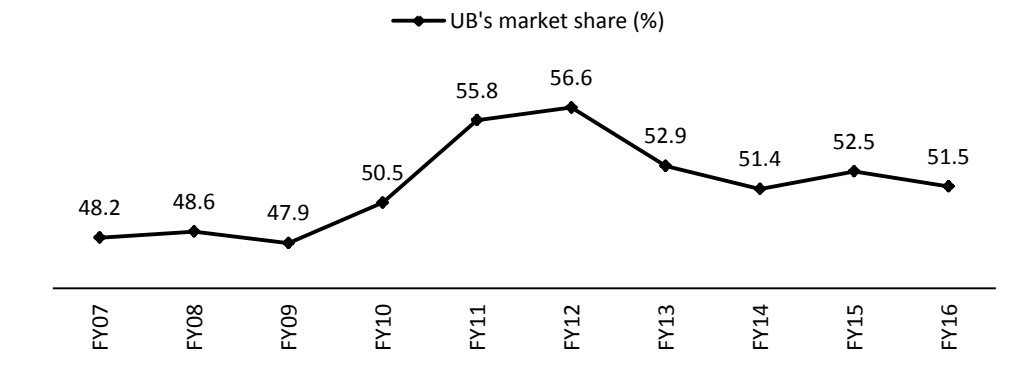
Source: Company, MOSL

Exhibit 22: UBBL also grew at a similar pace



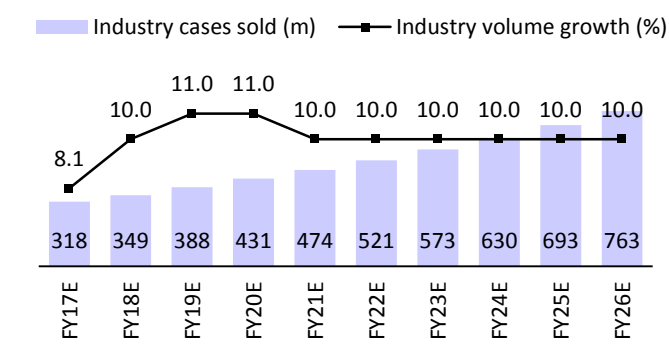
Source: Company, MOSL

Exhibit 23: ...with its market share inching up over a 10-year period



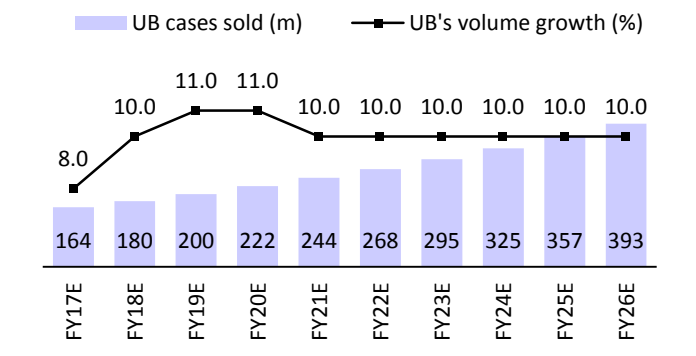
Source: Company, MOSL

Exhibit 24: Industry should be able to match earlier pace



Source: Company, MOSL

Exhibit 25: ...and we are assuming UBBL will grow in line



Source: Company, MOSL

It is to be noted that a few years before the downturn, UBBL management was guiding for 15% volume CAGR over the medium term. Considering this and the low base of the past few years, our expectations of 10% volume CAGR for the next 10 years are not ambitious.

B. Excise duties to continue increasing, capacity utilizations to improve gradually

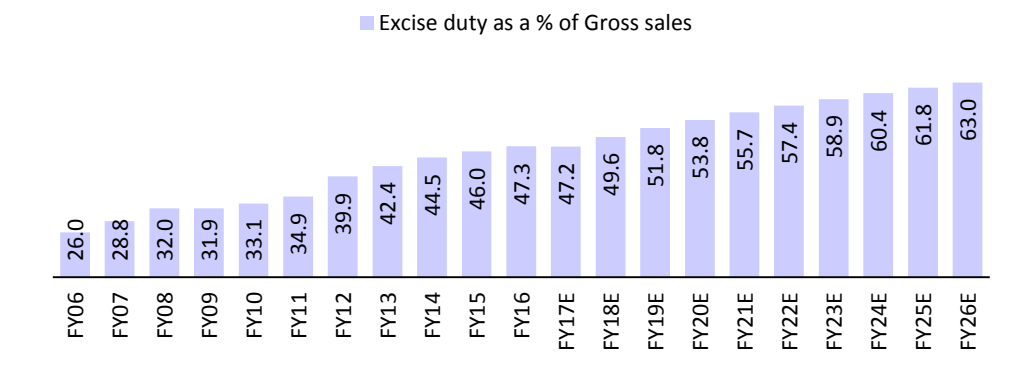
On excise, we assume a consistent increase as has been the case over the last 10 years. Yet, we expect healthy 14% net sales CAGR for the next 10 years. As discretionary consumption recovers, benefits will be two fold for United Breweries

Demand for beer picks up sharply

Need of the state governments to tax alcoholic beverages at much higher rates reduces as they are able to generate revenues from other sources

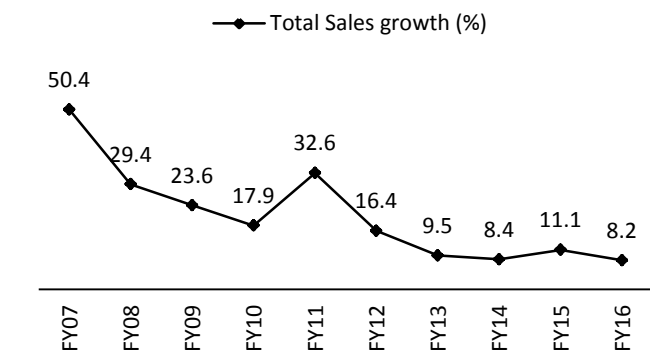
We are still assuming consistent increase in excise rates going forward as the state governments may not adopt a more liberal approach.

Exhibit 26: Excise duties rose sharply and we expect further increase



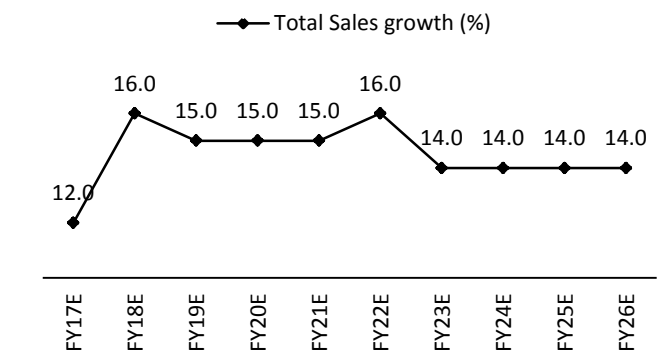
Source: Company, MOSL

Exhibit 27: As is case of volumes, we believe UBBL is likely to show healthy sales growth of the past...



Source: Company, MOSL

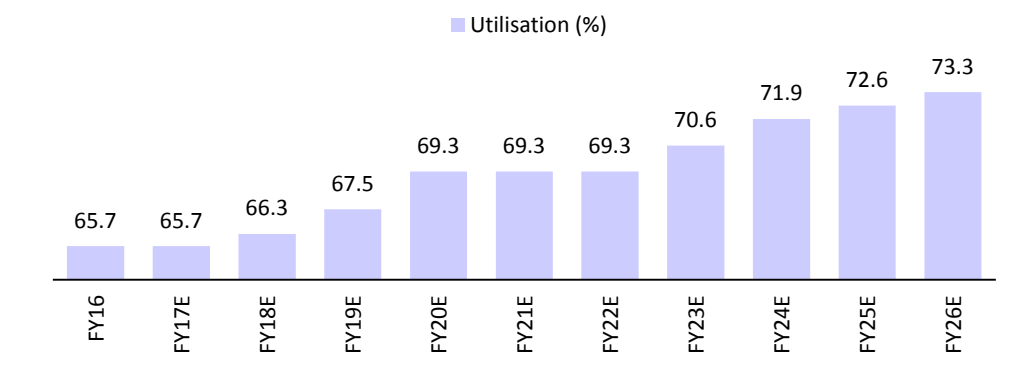
Exhibit 28: ...in the future as well



Source: Company, MOSL

We believe capacity utilization will improve but only gradually over the next 10 years. Seasonality in beer consumption (i.e. summer season) is likely to remain and reduce only gradually. Gradual improvement will be aided by demand growth, activities like Oktoberfest to boost demand in non-peak seasons and an improvement in capacity utilization in lower-beer consuming states. Even in FY26, capacity utilization is expected to be around 73% from 66% currently, below other consumer peers.

Exhibit 29: Capacity utilization will pick up, but only gradually



Source: Company, MOSL

C. Assumptions on pricing and mix

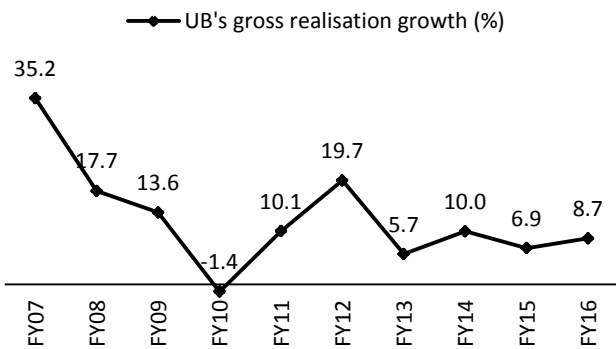
Pricing is driven by state governments for nearly 80% of the market, and so outlook does not change there.

Last 10 years have witnessed blended price/mix CAGR of ~7%; we expect ~4% CAGR realization increase due to price increase/mix improvement over the next 10 years in our forecasts.

Realization and mix effect could be more than our assumption of 4% CAGR for the next 10 years, but we prefer to be conservative.

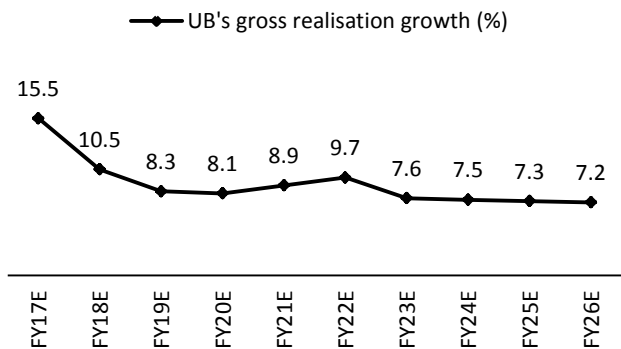
Mix will improve as a result of greater sales of Heineken (priced at over 2x Kingfisher base variant) and Kingfisher Ultra (over 1.5x base variant). In FY16, these put together were ~only 2% of sales.

Exhibit 30: Gross realizations have grown at 11% CAGR



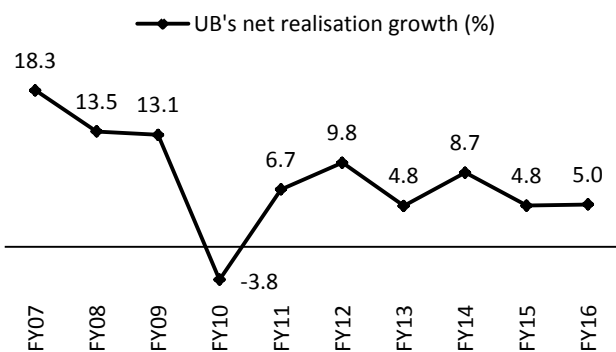
Source: Company, MOSL

Exhibit 31: We expect 9% CAGR going forward



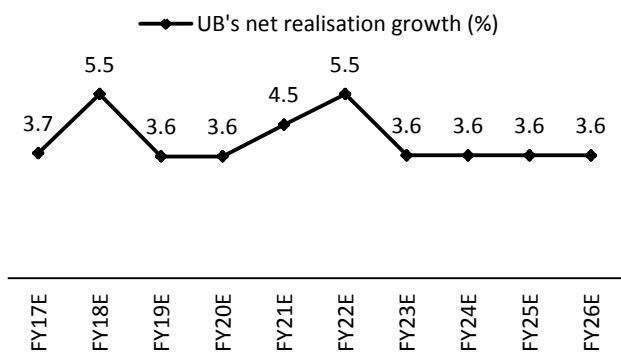
Source: Company, MOSL

Exhibit 32: Net realizations have grown at 7% CAGR



Source: Company, MOSL

Exhibit 33: We expect 4% CAGR going forward



Source: Company, MOSL

D. Assumptions on margins

Over the next 10 years, we are assuming:

- **160bp rise in gross margins** over FY16-FY26 to 62.4% of sales. Increase between FY07 and FY16 on the gross margin front was 580bp, but we reckon large part of growth in gross margins was on account of bottling initiatives. Factors pushing up gross margins are likely to be premiumization (greater sales of Heineken brands and premium variants of Kingfisher), cost-saving program under Project

UDAAN, further localization of raw materials and price increases from state governments.

- **140bp savings on staff costs** to 5.3% of sales by FY26. Even as recently as FY10 and FY11 (when volume growth was higher than current levels and therefore operating leverage was high), staff costs were as low as 4.6-4.7% of sales. Thus, we are not being ambitious in assuming 5.3% staff costs to sales by FY26.
- **180bp savings on selling, promotion and distribution expenses** in the next 10 years. Under this broad expense head, the company classifies:
 - a) Sales promotion expenses is the largest component (around 61% of these costs in FY16, and 17% of net sales) and consists of brand building expenses and discounts offered to trade (since they are secondary discounts and not primary, they are not netted off from sales).
 - b) Selling and distribution expenses, which basically contain any kind of cost incurred by the company in getting the product moved from the brewery right up to the point of sale. Outward freight, halting and breakage expenses were 21% of these costs and 6% of sales in FY16, and other selling and distribution expenses at 18% of such costs and 5% of sales in FY16. Particularly on these costs, we believe there could be some savings due to better efficiencies and reduced bottlenecks.
- **110bp savings on other expenses** to sales as a result of better absorption of fixed costs to sales. At 12.2% of sales, other expenses in FY16 (after five years of moderate volume growth) were at the highest levels since FY06.

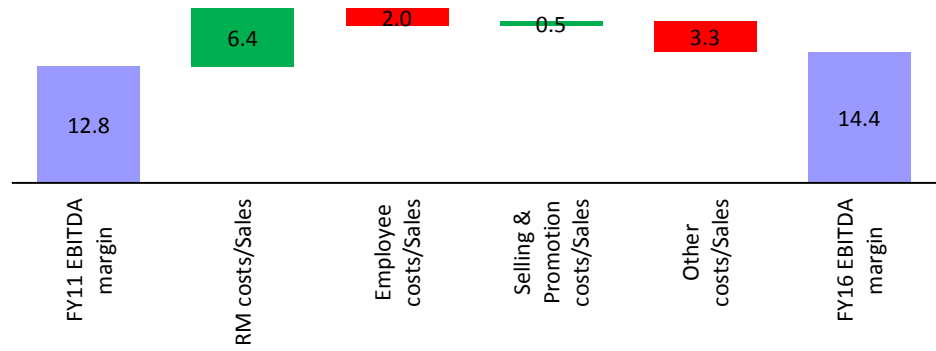
Exhibit 34: There is potential for savings in other expenses as demand picks up

	FY13	FY14	FY15	FY16
Other costs (%)	11.9	11.2	10.7	12.2
Power and Fuel	4.1	3.6	3.1	2.9
Rent	0.5	0.5	0.5	0.5
Repairs	0.8	0.9	0.9	1.2
Travel and Conveyance	0.0	0.0	0.0	0.0
Rates and Taxes	1.2	1.2	1.3	1.7
Legal and Prof Charges	0.0	0.0	0.0	0.0
Miscellaneous expenses	2.8	3.1	2.6	2.9
Technical management Fee	0.0	0.0	0.0	0.0
Bad debts/ bad advances w/o/ Bad debts provision	0.5	0.1	0.1	0.7
Facility Fees	0.0	0.0	0.0	0.0
Stores and spares	1.8	1.6	1.8	1.9
Others	0.2	0.2	0.3	0.4

Source: Company, MOSL

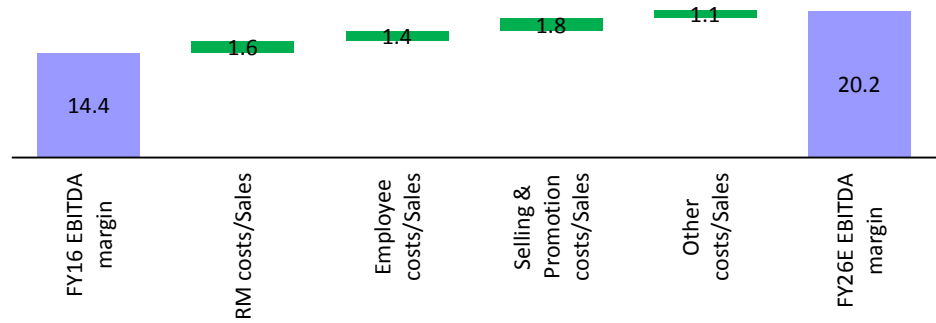
We expect EBITDA margins to improve from 14.4% in FY16 to 20.2% by FY26 as a result of the points discussed above.

Exhibit 35: Gross margins have been big driver of EBITDA margins in past five years, but lower volume growth has affected operating leverage



Source: Company, MOSL

Exhibit 36: Over next 10 years, margins will rise due to premiumization and savings on other expenses as demand picks up from recent levels



Source: Company, MOSL

EBITDA margins have increased from 11.5% in FY11 to 14.4% in FY16, despite lukewarm demand growth and therefore low operating leverage.

EBITDA CAGR is expected to be 18% over the next 10 years, ahead of sales CAGR of 14% over this period.

Balance sheet assumptions

Business will remain capital intensive, earnings growth prospects high

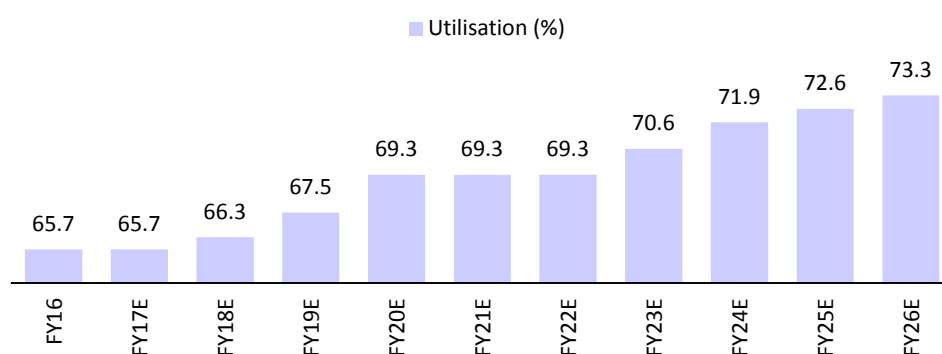
Fixed asset turns will improve gradually

Capacity utilization is currently at only around 66% due to:

- New capacities being set up in traditionally weaker markets.
- Moderate volume growth in recent years due to weak consumer sentiment.

Over the next 10 years, we expect utilization levels to increase gradually from 66% to 73% as a result of an improvement in discretionary demand and better utilization of capacity in smaller markets.

Exhibit 37: Utilization levels to improve only gradually



Source: Company, MOSL

We are not assuming a higher utilization number than 73% because:

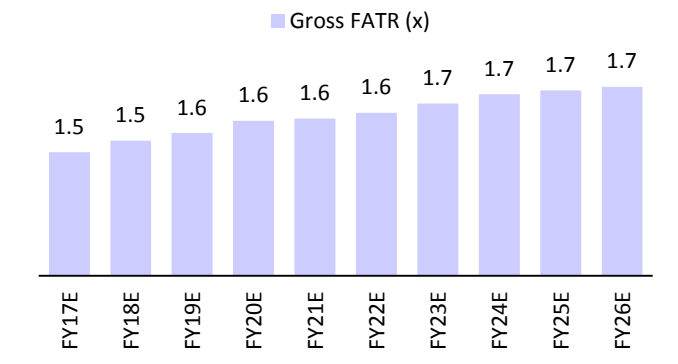
At least as of now, beer remains a summer drink in India, which means optimum utilization in the June and March quarters but less than 50% utilization in the two other quarters. This will change but not over the near term.

The need to have an owned or contract brewery in every state as very high inter-state duties mean that capacity is fragmented and therefore utilization is sub-optimal.

If any of these change for the better, utilization rates will be much higher. Over the past few years, the company is also hosting events like Oktoberfest with an aim to stimulate demand in non-peak months.

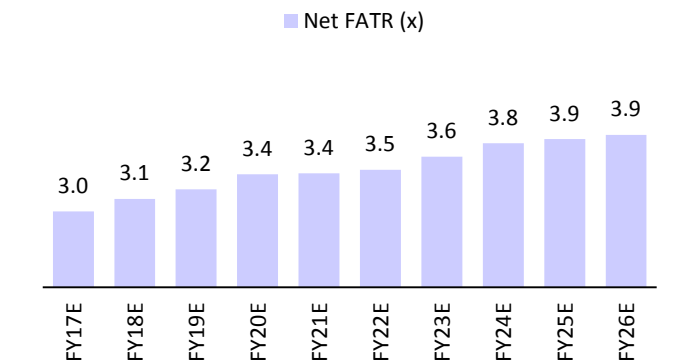
We expect FATR on gross block to improve only from 1.44x in FY16 to 1.75x in FY26. FATR on net block will, however, improve from 2.83x in FY16 to nearly 4x in FY26, driving up return ratios gradually.

Exhibit 38: We expect only minor upswing in gross fixed asset turns over next 10 years



Source: Company, MOSL

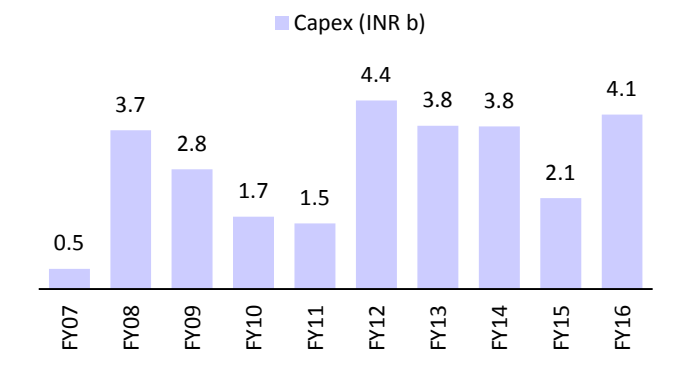
Exhibit 39: Net fixed asset turns will also increase gradually but steadily, aided by pick-up in utilization



Source: Company, MOSL

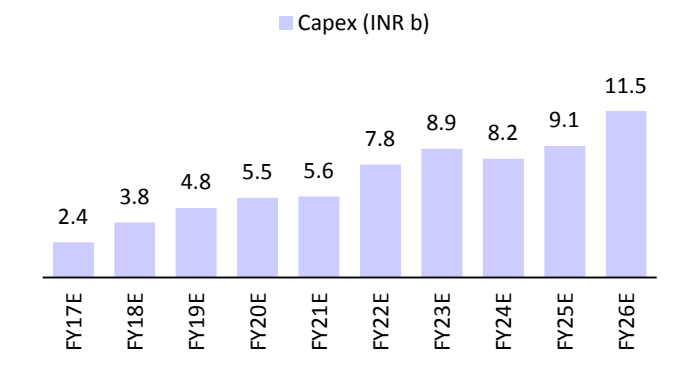
We reckon that capex investment will continue to be high on absolute terms. Over the past 10 years, the company has spent an average of INR 2.8 bn on capex and we estimate that the capex spend will be much higher at INR 7.8bn on an average over the next 10 years. For our capex forecasts we have used the recent Bihar greenfield brewery costs as benchmark and added inflation impact over a 10 year period.

Exhibit 40: Average capex has been INR2.8b in last 10 years



Source: Company, MOSL

Exhibit 41: We expect average capex at INR7.8b/year for next 10 years



Source: Company, MOSL

Working capital to remain at current levels

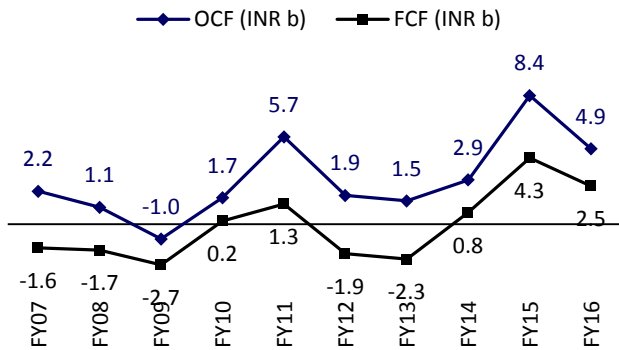
As of now, we are not making any assumptions on improvement in working capital. NWC days have been fluctuating between 70 and 100 over the past 10 years. There has been an improvement from 100 days to 91 days over the past two years, but as this has been an improvement from the upper end of the range, we would not want to read too much into it. The key component of NWC days is debtor days, which was around 76 days in FY16. Selling, as UBBL does, to government agencies in majority of the states, we prefer not to assume an improvement in debtor days in our assumptions.

Cash flow generation will continue to improve

Operating cash flows (OCF) have improved significantly over the last few years, both in absolute proportion as well as proportion of capital employed. We expect it to improve further. The company has also been generating substantial amount of free cash flows (FCF) over the past three years. We reckon that, despite assuming nearly

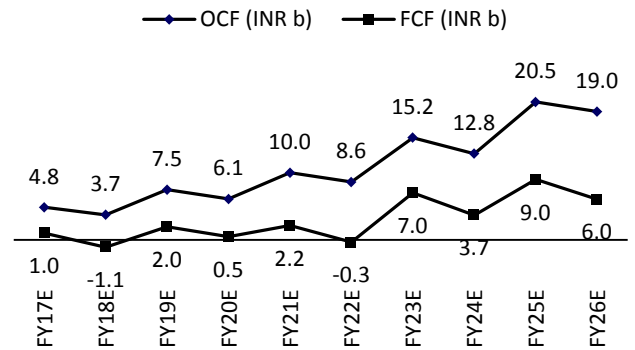
triple the average annual capex in the next 10 years compared to the preceding 10 years, FCF generation will continue to improve.

Exhibit 42: Considerable OCF improvement is driving FCF improvement as well



Source: Company, MOSL

Exhibit 43: We expect improvements in both measures, despite substantial capex

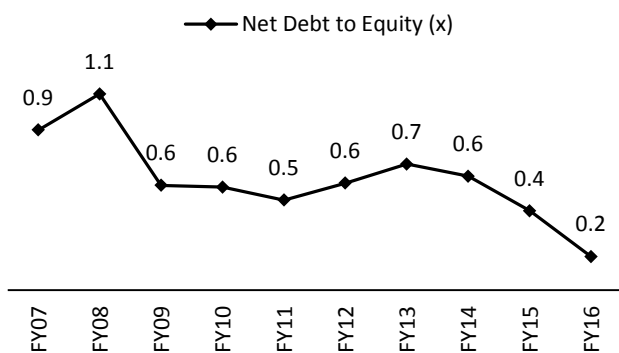


Source: Company, MOSL

As the company may increase capex over the next couple of years in anticipation of a recovery, cash flows may not be as impressive as have been over the past three years, but longer-term uptrend is clear.

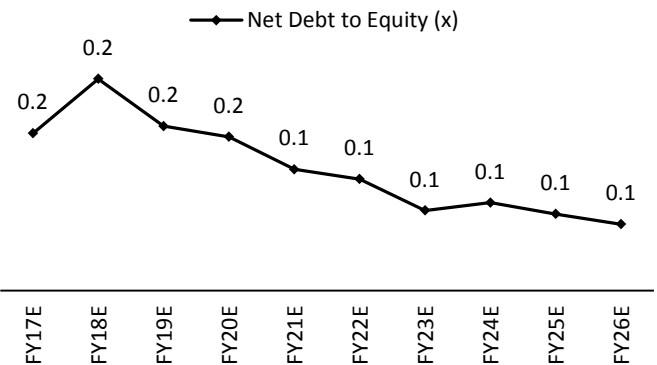
Net debt to equity has already come down to 19% in FY16, compared to around 100% in FY07/FY08 and around 60-64% during FY09–FY14. We expect further reduction in the next 10 years to the point where dividend payout could be hiked from 10% levels to 40% levels.

Exhibit 44: Huge reduction in net debt to equity already is driving earnings growth



Source: Company, MOSL

Exhibit 45: Despite massive investment in capex to boost growth, net debt to equity is likely to remain low

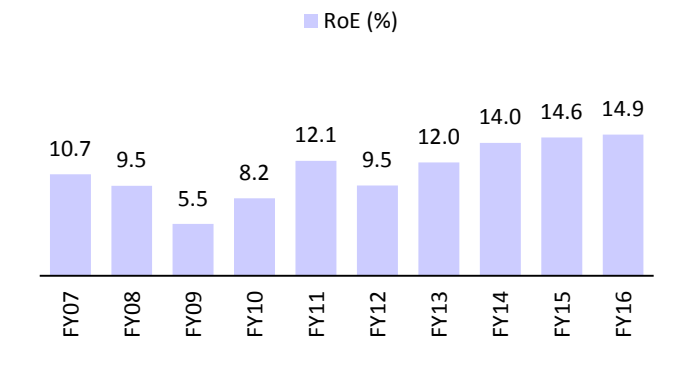


Source: Company, MOSL

Return ratios to improve to mid-20s level in the next decade

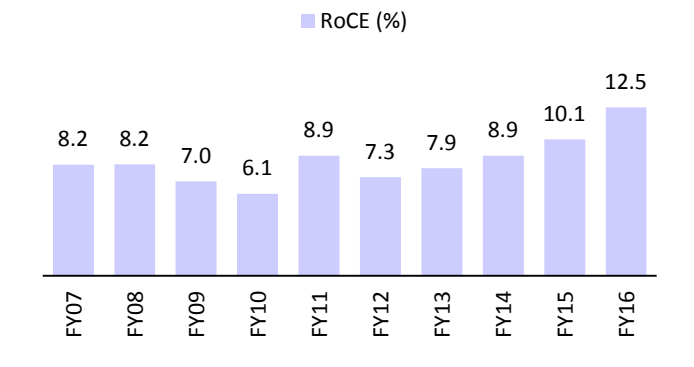
ROCEs have steadily improved from 6-8% range in FY07-FY10 to around 12.5% in FY16, despite moderate demand growth in the past few years. This has been brought about due to EBITDA margin improvement as highlighted earlier, despite muted pace of growth due to discretionary demand slowdown. What the sharp improvement in ROE/ROCE in the last few years has achieved is to boost cash generation.

Exhibit 46: ROE has shown uptrend in the past few years



Source: Company, MOSL

Exhibit 47: ...as has ROCE, which was in single-digits earlier

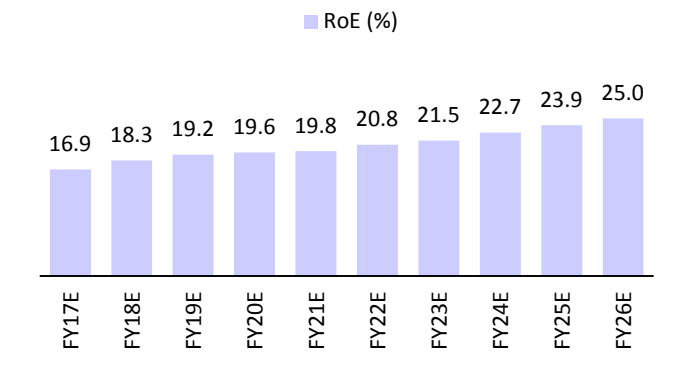


Source: Company, MOSL

Earlier the company was not even able to make ROE/ ROCE higher than cost of capital, but all that has changed even during a period of moderate demand. What this means is that unlike the past, the company can fund growth largely through its internal accruals and a bit of debt (not significant incrementally). This substantially reduces the risk of dilution or increasing debt burden.

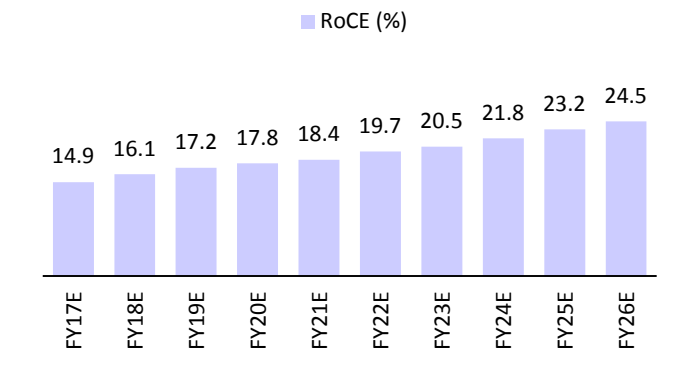
We reckon that with anticipated operating margin improvement and higher net FATR over the next 10 years for reasons stated above, ROE/ ROCE can improve further to ~24-25% by FY26.

Exhibit 48: We expect continued improvement in ROE...



Source: Company, MOSL

Exhibit 49: ...and ROCE levels

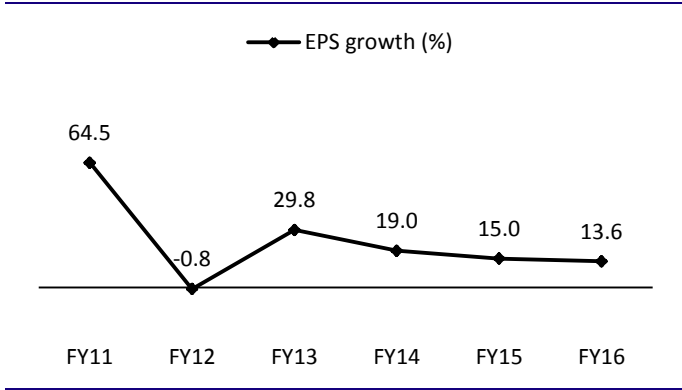


Source: Company, MOSL

As ROE and ROCE improve, interest costs are likely to be moderate across these years, remaining largely flattish. While depreciation will still increase at 10% CAGR (in line with capacity addition) due to continued fixed asset investment, PAT CAGR of 22% over the next 10 years will be even higher than 18% EBITDA CAGR over this period mainly due to moderate interest costs.

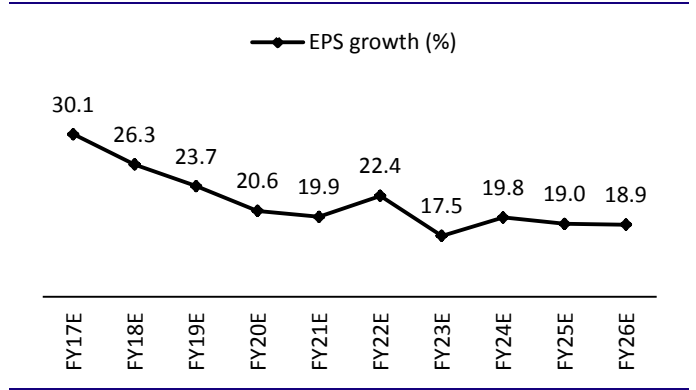
EPS has grown at a 20% CAGR in the last six years and ROCEs by over 600bp, despite moderate volume growth. Thus, we reckon that 22% EPS CAGR over the next 10 years is achievable.

Exhibit 50: EPS CAGR of 20% in past six years despite slowdown...



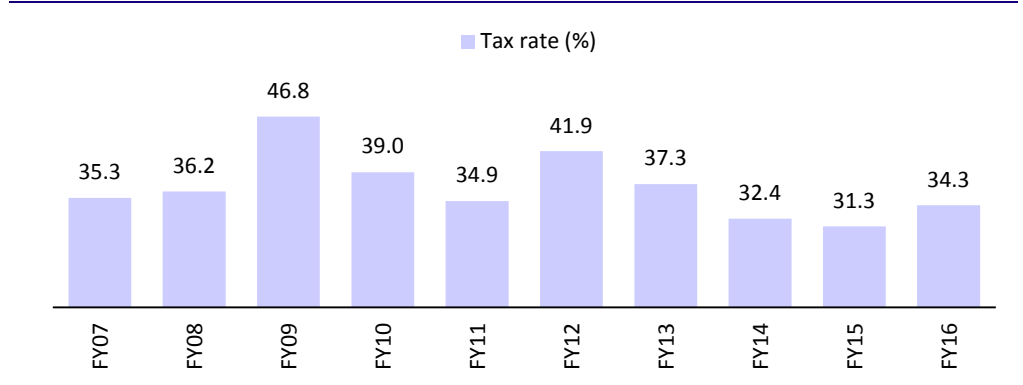
Source: Company, MOSL

Exhibit 51: ...and we estimate 22% EPS CAGR going forward



Source: Company, MOSL

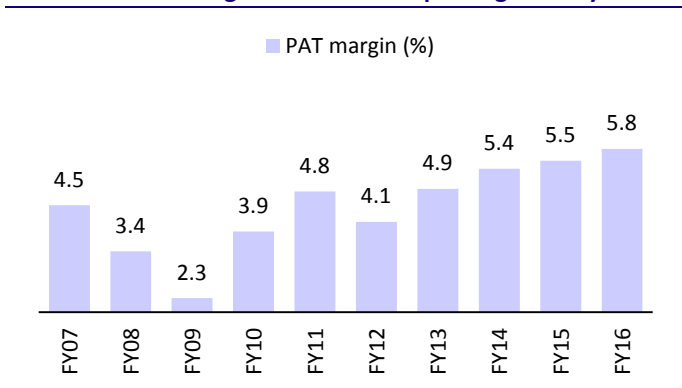
Exhibit 52: Tax rate is already at peak levels and thus unlikely to dilute earnings trajectory



Source: Company, MOSL

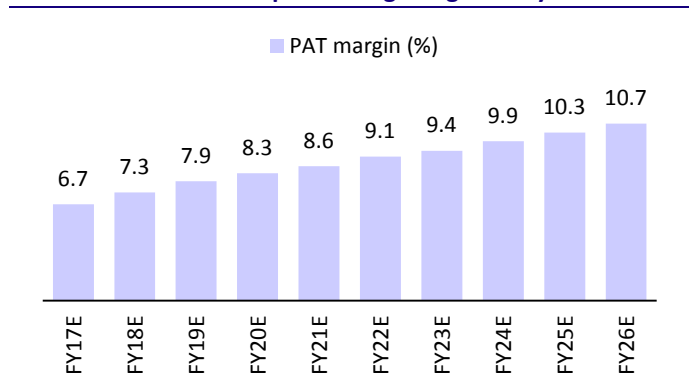
PAT and EPS is likely to grow at 26% CAGR for the next three years and 22% CAGR for the next ten years.

Exhibit 53: Net margins have been improving steadily



Source: Company, MOSL

Exhibit 54: ...and are expected to grow gradually



Source: Company, MOSL

Upside and downside risks

Mainly regulatory risks on both sides

Upside risks to our base case are mainly regulatory

More favorable policies for beer and wine compared to spirits: States can potentially experiment with this as beer and wine form a very small part of the overall mix, and higher volumes could more than offset any small loss due to lower duties for the states. Lower duties for beer compared to spirits is the norm worldwide and, if implemented in India, could lead to a huge spurt as currently beer forms less than 11% of alcohol sales. Social desirability is also higher as beer has 4-7% alcohol compared to over 40% for spirits.

GST: Bringing in alcohol under the GST purview over the long term puts an end to the punitive inter-state movement and would lead to less fragmented capacities and thus greater utilization levels and higher economies of scale.

Free pricing of beer: As of now, the government controls distribution and/or pricing in most states in the country. There is a lag between commodity cost increase and eventual permission from the states to increase prices. These lag periods can stretch to many years. Free pricing makes the business much more flexible to a change in the commodity price environment as well as from a strategic perspective in response to competition.

Government and its agencies moving away from alcohol distribution: For other consumer companies, sales to traditional retail is on cash and there is some credit for modern trade and canteen stores, which means that debtor days are usually in single digits. However, for beer and other alcoholic beverages, it is either the government or a third-party monopoly that are in sole charge of distributorship. This leads to high debtor days between 2-3 months. If there were to be liberalization of distribution, it would reduce working capital days substantially as it takes away the monopoly. Currently, net working capital days are at 90 days, much higher than consumer peers.

Licenses for outlets: The number of outlets in the country serving beer in the country is only 90,000, and retail licenses are difficult to obtain. Modern retail outlets in most parts of the country are not allowed to sell alcoholic products. Actual home consumption of beer in India is thus less than 10% as beer is largely consumed in pubs and restaurants. Liberalization of retail licenses will be a big boost as will be the availability in super market shelves.

Downside risks

Prohibition: In April 2016, Bihar imposed complete prohibition on all forms of alcohol. Bihar is a small market in terms of national beer sales, but was among the fastest growing and had proximity to the barley-growing regions. The state government actually invited breweries like UBBL and Carlsberg to set up facilities and then imposed prohibition some time later, reflecting the capricious nature of dealing with the state government in India. In the meantime, these companies had spent

anywhere between INR1.75-INR2b to set up breweries in the state. While the state government subsequently granted permission to export beer, companies were left in the lurch. Subsequently, in May 2016, the newly elected state government in the state of Tamil Nadu announced prohibition in a phased manner. Impact has been only been marginal as of now because only around 5% of the outlets serving beer have been shut so far. Prohibition, whenever it has been imposed in any state in India barring Gujarat, has not lasted more than two years, mainly because alcohol generates anywhere between 25-40% of revenues for various states and they struggle to find alternative sources to plug the gap. However, unlikely it may be, if other states follow suit, especially key beer-consuming states like Karnataka, Andhra Pradesh, Telangana and Maharashtra, the impact on earnings (even if prohibition is only imposed for a short while) will be substantial.

GST impact: The worst case scenario in case of adverse GST impact would be

- a) Breweries currently pay 12-15% tax on inputs which could go up to 18% of that is the GST rate.
- b) The company will not get credit for GST paid on inputs as alcohol is kept out of GST ambit.
- c) 75% of its glass bottle requirement is from used bottles. New bottles cost INR 10 per bottle while used bottles cost INR 3per bottle. Under the prevalent VAT system since a used bottle since is not a manufactured product beer companies do not pay excise and only pay service tax ranging from 0-6%. Under GST, even used bottles may attract full GST rates.
- d) In case of freight, the company pays service tax of 15% and gets 70% abatement currently and thus effectively pays 4.5% indirect tax on freight currently. If abatement is not granted, then the company could end up paying 18% GST rate on freight as well.

The management expects more clarity in 2-3 months on GST. They have lobbied for abatement to continue on freight costs. They have also pointed out that used bottles globally have much lower tax rate. United Breweries and the industry in association with E&Y are in talks with the state governments already for setoffs on input taxes paid or price increases to be granted.

Water woes: While UBBL has performed admirably well in substantially reducing usage of water even compared to global brewery and aims to be water positive by 2025, any significant shortage of water due to drought could have an adverse impact on peak summer season beer sales.

Steep increases in excise, affecting demand: In the last few years, volume growth in Maharashtra, (among the largest beer consuming states and where UB is the dominant market leader) was affected by a steep hike in excise duties on alcoholic beverages in two out of three years in succession. When revenues go down or steady growth prospects in duties get affected despite rising duty rates, state governments do realize their folly, but the impact of such decisions can have substantial impact on volume growth outlook. Uttar Pradesh, after a few rounds of sharp increases, subsequently reduced duties in April 2016.

SABMiller-AB Inbev JV taking off in a big way in India: AB Inbev is the largest beer company in the world, while Heineken is the largest brand globally. AB Inbev's global sales are higher, but it has less than 2% market share in India despite operating in the country since 2007. SABMiller, on the other hand, has seen a substantial decline in market share. Its mid-single digit EBITDA margins are far below that of UBBL, and it has not made profits at the net level for many years. However, Global SAB-Miller-AB Inbev JV would mean that AB-Inbev could eventually get access to SABMiller's brewing facilities in India for its global marquee brands like Budweiser, Stella Artois, Corona, Beck's and Hoegaarden, possibly resulting in the combined entity providing stiffer competition to UBBL and Carlsberg in India. UB could potentially respond with newer variants of existing products as well as a host of brands from the Heineken stable.

Brew pubs and Microbreweries- The presence of these are negligible in India but are increasingly gaining significance in the rest of the world. Brewpubs are restaurants serving their own beer. Microbreweries are small brewing units where the emphasis is more on specialty beers brewed at location. UB is not interested in the former but the management has expressed interest that they would be interested in the opportunity in opening up their own microbreweries brewing specialty beers in cities in cities where demand becomes significant.

Heineken actions

An unknown factor which will be watched is what Heineken does going forward. Heineken has been increasing its stake steadily in the business to 43% now from 37% a little over two years ago.

We believe Heineken would keep on increasing its stake gradually through creeping acquisition route. The table below indicates that 14.6% of UBBL's outstanding share capital is still pledged with bankers. Proportion of pledged shares is 47% of the current Mallya group shareholding of 30.8% as of June 2016. These bankers have been selling shares to Heineken and will continue doing so.

Heineken would want to gradually increase its stake to block a third party (either a competitor or a private equity player) from acquiring stake and affecting day-to-day decision making.

Exhibit 55: Details of pledged shares

	No of Shares	%	Pledged no	Pledge %
Vijay Mallya HUF	21,353,620	8.1%	20,950,954	98.1%
McDowell's Holdings Ltd	8,122,344	3.1%	6,451,000	79.4%
The Gem Trading and Invst Co	4,315,132	1.6%		0.0%
Pharma Trading Co PVt Ltd	1,514,366	0.6%	620	0.0%
Mallya Pvt Ltd	9,786,666	3.7%		0.0%
Kamsco Industries Pvt Ltd	5,523,636	2.1%	2,279,000	41.3%
Vittal Investments Pvt Ltd	375,955	0.1%		0.0%
United Breweries Holdings Ltd	28,337,911	10.7%	8,794,000	31.0%
Devi Investments Pvt Ltd	1,859,300	0.7%		0.0%
UB Overseas	427,740	0.2%		0.0%
Mallya Group	81,616,670	30.9%	38,475,574	47.1%
Scottish & Newcastle India Ltd	89,994,960	34.0%		0.0%
Heineken UK Ltd	8,489,270	3.2%		0.0%
Heineken International BV	15,265,858	5.8%		0.0%
Heineken Group	113,750,088	43.0%	-	0.0%
Total Promoters	195,366,758	73.9%	38,475,574	19.7%
Total Shares	264,400,000	100.0%	38,475,574	14.6%

Source: Company, MOSL

Globally, Heineken did make an open offer in case of Asia-Pacific Breweries (of Tiger beer fame) a few years ago to prevent Fraser and Neave, a private equity player, from increasing its stake.

While we do not believe Heineken is likely to make an open offer in case of UBBL (despite having access to negligible cost of capital), we do believe that it will continue increasing stake gradually over the next 2-3 years and they can reach close to 58% ownership just from the pledged stake. These purchases will keep on supporting the stock price.

An interesting slide in the CY15 parent presentation indicates the aggression Heineken demonstrated in the recent past.

Exhibit 56: Heineken has been very active on acquisitions in recent years

Material Acquisitions by Heineken in 2015	Current shareholding percentage	Completion date
Desnoes & Geddes, Jamaica	95.8%* (73.3% in October 2015)	7-Oct-15
Guinness Anchor Berhad, Malaysia	51% (indirectly)	7-Oct-15
Pivovarna Lasko d.d, Slovenia	97.5%* (53.4% in October 2015)	15-Oct-15
Lagunitas Brewing Company, US	50%	15-Oct-15
DHN Drinks (Pty) Limited/Sedibeng Brewery (Pty)Limited, South Africa	75%	1-Dec-15
Namibian Breweries Limited, Namibia	29.9% (indirectly)	1-Dec-15

Source: Heineken presentation, MOSL

SWOT Analysis

- Nationwide brewery presence enables them to supply beer economically
- Wide distribution reach
- Cold chain infrastructure and Initiatives on used bottles give them a headstart over peers
- Water utilization improvement ahead of global standards give them an edge on sustainability
- Kingfisher and Heineken brand portfolio
- Associations with events like IPL Cricket, Formula 1, UEFA Champions League, Sunburn sustains youth connect.



- High and increasing taxation and government control over pricing in most states puts pressure on profitability.
- Government control over distribution in most states restricts growth
- While brewing presence in every state is a barrier to entry, it also results in sub-optimal capacity utilization levels



- A combination of factors like large and young population, increasing acceptability of alcohol consumption, urbanization and rising income along with low consumption base presents a huge opportunity for long term growth
- A few states have differentiated policies favouring lower alcohol products like beer. If this spreads to other states it creates a massive opportunity for growth.



- Prohibition has been introduced in a few state of late but effect is limited and prohibition in Indian states has a history of being repealed in a short while
- Proposed GST regime excludes alcohol from ambit. If beer players do not receive either set offs of GST paid on inputs or not allowed price increase earnings will be affected
- SAB Miller-AB Inbev merger. In response UB could launch more brands from Heineken

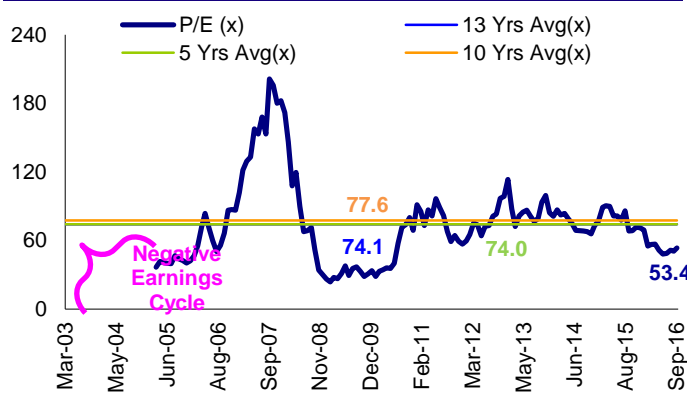


Nascent stage absolute valuation appears high

We value the company at 35x Cash EPS

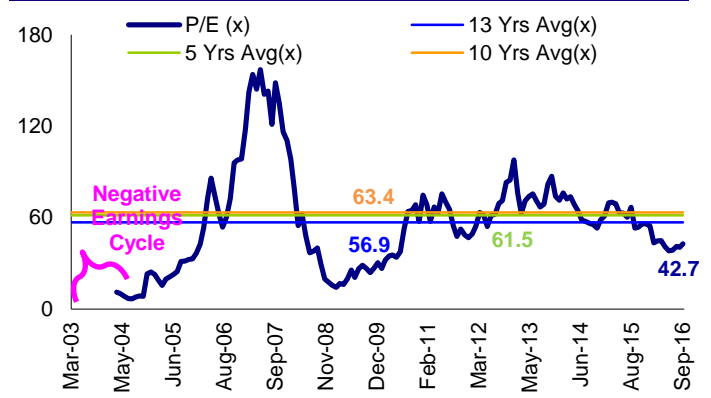
In terms of valuations, the stock is now trading at its cheapest levels in the last six years on 1-year forward EPS basis (between 74-78x average for 5,10,13 years) as well as 2-year forward basis (between 57x-63x average for 5,10,13 years). On EV/EBITDA basis the stock has traded at 25-26x over this period. However absolute multiples are still expensive.

Exhibit 57: P/E 1-yr forward



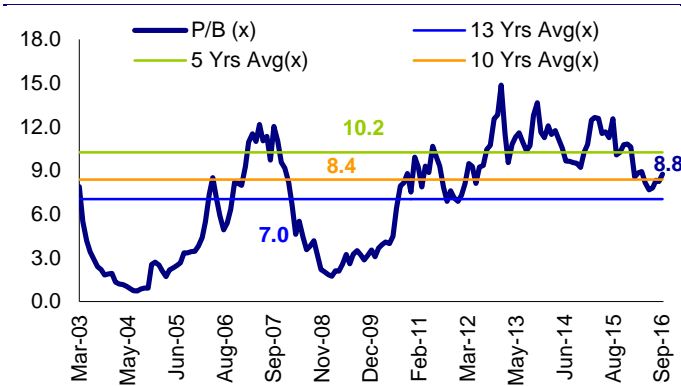
Source: Company, MOSL

Exhibit 58: P/E 2-yr forward



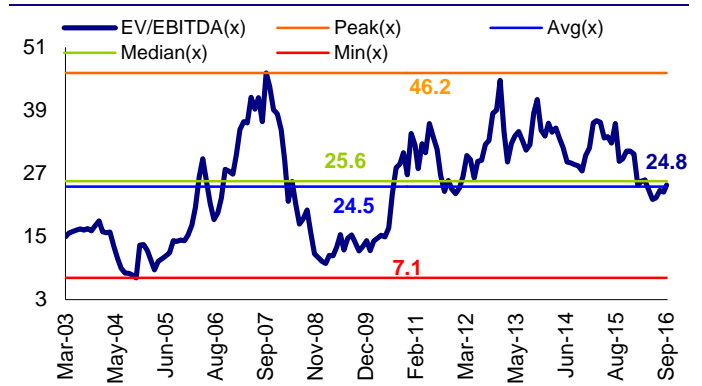
Source: Company, MOSL

Exhibit 59: P/B 1-yr forward



Source: Company, MOSL

Exhibit 60: EV/EBITDA



Source: Company, MOSL

At CMP of INR 907, while the stock is at a premium to FMCG peers, on P/E strong potential earnings growth of 26%/22% over the next 3/10 years is unlikely to be surpassed by most of its consumer peers. Additionally after barely managing to recover cost of capital for many years in the previous decade, UBBL has done very well to grow its ROCE/ROE by 770bp/670bp over the last six years to 13.2%/14.9% respectively in FY16.

With potential 26%/22% EPS CAGR ahead of peers over 3 year/10 year period even on base case and healthy cash flow generation of the last few years sustaining going forward, ROCE/ROE are likely to improve even further to 17.2%/19.2% by FY19 and 23.7%/25% by FY26, in our view. Earnings could grow even faster if some of the regulatory factors restricting the sector are relaxed.

Potential EPS CAGR of 26% over FY16-FY19E is ahead of peers and in line with its 10 year track record. Over the next three years, United Breweries remains a great play on potential recovery in urban consumption. Yet valuations are close to the cheapest level in the past 6 years.

We initiate coverage on UBBL with a Buy rating and a TP of INR 1,120 based on 35x Cash EPS. As the business is in investment phase, depreciation is nearly as large as PAT. While this proportion will reduce over time, as of now Price/Cash EPS appears to be more relevant in our view. Potential upside is 13%.

We believe that once volumes recover, earnings growth momentum could sustain at above 20% levels for over a decade, while return ratios could potentially jump up to 25% levels. Importantly, our base case forecast for the next 10 years, does not assume change in the regulatory regime which is presently not in favour of beer. If the regime changes for the better earnings growth prospects and return ratios could be radically higher.



Exhibit 61: Valuation matrix of coverage universe

Company	Reco.	Price (INR)	Mkt. Cap (INR cr)	EPS growth YoY (%)			P/E (x)			EV/EBITDA (x)			ROE (%)	Div. (%)
				FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY16
Consumer														
Asian Paints	Neutral	1,192	114,298	25.0	20.1	16.3	64.3	53.5	46.0	43.0	35.7	30.6	34.4	0.8
Britannia	Buy	3,483	41,777	46.3	12.5	25.0	49.7	44.2	35.4	35.6	31.4	24.6	55.9	0.6
Colgate	Buy	983	26,744	8.7	2.2	31.1	44.0	43.0	32.8	27.9	25.9	20.0	67.9	1.1
Dabur*	Neutral	276	48,586	17.5	12.3	15.5	38.7	34.5	29.9	31.1	27.7	23.9	33.2	0.7
Emami*	Buy	1,182	26,828	17.7	10.0	23.9	46.9	42.6	34.4	40.0	33.2	27.5	43.4	0.7
Godrej Consumer	Neutral	1,639	55,820	24.4	22.9	25.8	49.4	40.2	32.0	36.5	30.7	25.3	23.4	0.6
GSK Consumer	Neutral	6,193	26,045	20.7	4.6	9.9	37.0	35.4	32.2	27.1	25.8	22.9	30.7	1.1
Hind. Unilever	Neutral	869	187,965	12.9	7.1	12.8	45.6	42.6	37.8	31.8	29.5	26.2	82.4	1.8
ITC	Buy	242	292,234	-3.5	17.9	15.6	31.4	26.6	23.0	19.9	17.6	15.0	29.3	2.8
Jyothy Labs	Buy	359	6,497	-41.6	85.0	19.9	87.5	47.3	39.5	31.3	26.6	23.0	9.1	1.1
Marico*	Neutral	282	36,386	26.1	14.6	22.8	50.3	43.9	35.8	34.6	30.6	25.1	36.9	1.2
Nestle	Neutral	6,597	63,603	-7.3	-5.5	25.5	55.0	58.3	46.4	38.8	33.8	26.9	40.9	0.7
Page Industries	Buy	15,453	17,236	18.7	28.2	37.0	74.1	57.8	42.2	45.9	37.0	27.4	46.0	0.6
Parag Milk Foods	Neutral	302	2,536	-66.7	38.2	37.9	44.9	32.5	23.5	16.9	15.5	12.3	19.5	0.0
Pidilite Inds.	Buy	723	37,065	46.6	23.0	18.2	48.7	39.6	33.5	30.8	25.6	21.5	30.4	0.6
P&G Hygiene	Buy	6,842	22,209	22.3	9.5	21.6	52.5	47.9	39.4	34.9	30.8	24.7	30.9	0.6
Radico Khaitan	Buy	122	1,617	-1.8	-1.6	29.1	18.7	19.0	14.7	14.2	11.7	9.9	9.6	0.7
United Breweries	Buy	907	23,993	13.6	30.1	26.3	81.3	62.5	49.5	33.3	28.4	23.4	14.9	0.1
United Spirits	Buy	2,424	35,222	LP	21.1	50.8	78.3	64.7	42.9	36.0	34.0	25.5	36.7	0.0
Retail														
Jubilant Foodworks	Neutral	974	6,407	-11.7	-6.2	74.7	65.1	69.4	39.7	23.8	22.6	15.6	13.4	0.3
Shopper's Stop	Neutral	372	3,055	19.3	48.9	30.9	63.8	42.8	32.7	15.2	12.6	10.4	6.3	0.0
Titan Company	Neutral	408	36,182	-13.4	11.4	21.0	50.7	45.5	37.6	42.0	34.5	28.3	21.3	0.6

Note: For Nestle FY16 means CY15

Source: Company, MOSL

Exhibit 62: Comparative valuation of Cash EPS

	Cash EPS (INR)			Price/Cash EPS		
	FY16	FY17E	FY18E	FY16	FY17E	FY18E
Consumer						
Asian Paints	21.6	26.1	29.9	53.8	44.6	38.8
Britannia	79.5	90.0	110.8	42.3	37.4	30.4
Colgate	26.4	27.7	35.3	36.7	35.1	27.5
Dabur	7.9	7.1	8.3	34.5	38.0	32.8
Emami	27.2	29.9	36.6	43.4	39.4	32.2
Godrej Consumer	36.2	43.9	54.7	43.8	36.1	29.0
GSK Consumer	177.0	193.6	209.8	34.0	31.0	28.6
Hind. Unilever	20.5	22.0	24.7	42.3	39.5	35.2
ITC	8.6	10.1	11.6	28.2	23.9	20.8
Jyothy Labs	5.8	9.3	11.0	59.0	36.8	31.4
Marico	6.4	6.3	7.7	42.9	43.6	35.9
Nestle	155.9	151.2	185.3	41.2	42.5	34.7
Page Industries	230.4	288.7	393.9	65.6	52.3	38.4
Parag Milk Foods	11.5	13.8	18.2	25.7	21.3	16.2
Pidilite Inds.	17.4	20.4	23.9	39.3	33.4	28.5
P&G Hygiene	146.5	161.5	196.2	46.6	42.3	34.8
Radico Khaitan	9.9	9.8	11.9	12.1	12.3	10.1
United Breweries	20.4	24.1	29.1	44.3	37.4	31.0
United Spirits	23.7	45.8	65.7	104.0	53.8	37.5
Retail						
Jubilant Foodworks	34.4	37.1	51.1	27.9	25.9	18.8
Shopper's Stop	17.5	21.2	26.0	20.9	17.2	14.0
Titan Company	9.6	10.8	12.4	41.3	36.6	31.8

Source: Company, MOSL

Comparison of growth with listed global breweries

We have compared United Breweries to listed brewery majors like AB Inbev, Heineken, Carlsberg and SAB Miller as well as listed emerging market breweries like Tsingtao, East African Breweries and Nigerian Breweries for the period FY14-FY19 (3 year historical and 3 year forward numbers from Bloomberg).

The key observations are

- Revenue CAGR- The average for these global brewery companies is 4% while United Breweries is expected to grow at 13% over this period.
- EBITDA CAGR- United Breweries EBITDA performance is even more impressive at 17% CAGR compared to an anemic 3% CAGR for global peers.
- PAT CAGR- Here again United Breweries performance is far superior with a CAGR of 22% over this period compared to global beer players growing at an average of 5% over this period.
- Barring the African Brewery companies which have Superior ROEs, UBs ROE is not only higher than the other peers but is also growing at a rapid pace.
- On valuations, global average P/E ratios for other breweries are ~20x FY19 with AB Inbev and Tsingtao at 20% premium to the average. On EV/ EBITDA global average is around 11x with SAB Miller at around 15x. Given its far superior growth metrics, long term opportunity and improving ROEs, United Breweries valuation premium looks justified.

Exhibit 63: United Breweries' topline and earnings growth metrics are way ahead of listed global breweries

Company Name	Sales CAGR (2013-18E)	EBITDA CAGR (2013-18E)	PAT CAGR (2013-18E)	2018 P/E (x)	EV/EBIDTA (x)	2018 RoE (%)
Anheuser-Busch InBev SA/NV	5%	-1%	-7%	23.1	11.6	19.0
Heineken NV	4%	6%	13%	18.3	10.8	15.6
Carlsberg A/S	1%	2%	1%	16.6	9.2	11.1
Tsingtao Brewery Co Ltd	2%	-1%	-3%	24.2	11.0	8.8
Nigerian Breweries PLC	6%	4%	5%	21.3	10.1	29.8
East African Breweries Ltd	8%	7%	19%	14.8	8.3	39.3
SABMiller PLC	6%	5%	6%	21.2	14.9	15.8
United Breweries Ltd	12%	16%	22%	40.0	19.4	19.2

Source: Company, MOSL

Bull and Bear Case

Few points regarding our assumptions for bull and bear case

- Given the uncertainty around actual GST impact and tendency to skew numbers, we have not assumed GST implementation in our numbers in either scenario.
- We have primarily played around with volumes in our bull and bear case.
- We have not altered capex assumptions materially irrespective of volumes.
- We are also not assuming a change in target multiple in either scenario.

Bull case

In our bull case, we are assuming 300bp, 300bp and 400bp higher volumes compared to our base case in FY17, FY18 and FY19, respectively.

We have largely kept price increases and premiumization impact similar in our bull case, compared to our base case. Premium segment is very small at less than 3% and, even if it increases sharply, it will not move the needle much from a 2-3 year perspective, especially if we assume overall volumes to be very strong.

Compared to our base case, EPS in our bull case is higher by 1.9% in FY17, 6.8% in FY18 and 13.2% in FY19.

Valuing the company at 35x September 2018 Cash EPS (as we are in our base case), we get a target price of INR1,193 (32% upside to CMP) under our bull case, compared to INR1,120 (23% upside to CMP) under our base case.

Exhibit 64: Bull Case

	FY16	FY17E	FY18E	FY19E
Volumes (m cases)	151.5	166.7	188.3	216.6
Volume growth (%)	3.1%	11.0%	13.0%	15.0%
Sales (INR m)	50,834	57,951	68,962	82,065
Sales growth (%)	8.2%	14.0%	19.0%	19.0%
EBITDA (INR m)	7,317	8,751	11,103	14,033
EBITDA Margin (%)	14.4%	15.1%	16.1%	17.1%
EBITDA growth (%)		19.6%	26.9%	26.4%
PAT (INR m)	2,951	3,912	5,179	6,786
PAT Margin (%)	5.8%	6.8%	7.5%	8.3%
PAT Growth (%)		32.6%	32.4%	31.0%
EPS	11.2	14.8	19.6	25.7
Cash EPS	20.4	24.4	30.4	37.8
Target Multiple (x)				35
Target Price				1,193
Upside/ (Downside) (%)				32

Source: Company, MOSL

Bear Case

In our bear case, we are assuming volume growth to remain tepid at 6-7%. Volume growth forecasts are thus 200bp, 400bp, and 400bp lower than our base case numbers in FY17, FY18 and FY19, respectively, and in line with the trend of the past few years.

Unlike our base case, margin increase is likely to be very small over a three-year period, mainly driven by mix improvement but with no operating leverage other costs will not subside.

Compared to our base case, EPS in our bear case is lower by 6.9% in FY17, 17.4% in FY18 and 26.3% in FY19.

Valuing the company at 35x September 2018 Cash EPS (as we are in our base case), we get a target price of INR958 (6% upside to CMP) under our bear case, compared to INR1,120 (23% upside to CMP) under our base case.

Exhibit 65: Bear Case

	FY16	FY17E	FY18E	FY19E
Volumes (m cases)	151.5	160.6	170.2	182.1
Volume growth (%)	3.10%	6.00%	6.00%	7.00%
Sales (INR m)	50,834	55,918	62,069	68,896
Sales growth (%)	8.20%	10.00%	11.00%	11.00%
EBITDA (INR m)	7,317	8,164	9,124	10,197
EBITDA Margin (%)	14.40%	14.60%	14.70%	14.80%
EBITDA growth (%)		11.60%	11.80%	11.80%
PAT (INR m)	2,951	3,573	4,003	4,416
PAT Margin (%)	5.80%	6.40%	6.50%	6.40%
PAT Growth (%)		21.10%	12.00%	10.30%
EPS	11.2	13.5	15.2	16.7
EPS		23.1	25.9	28.8
Target Multiple (x)				35
Target Price				958
Upside/ (Downside) (%)				6

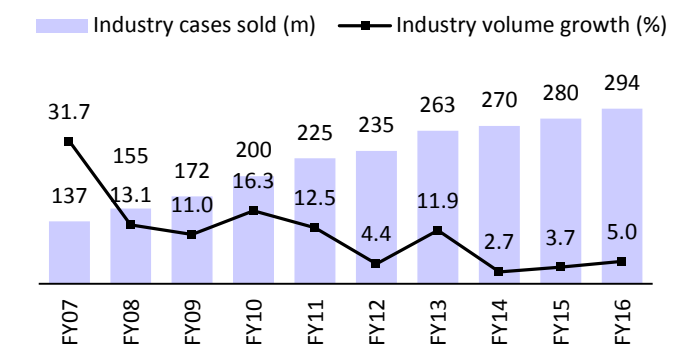
Source: Company, MOSL

Annexure: Huge potential for top-line growth

Per capita consumption lowest, even among emerging markets

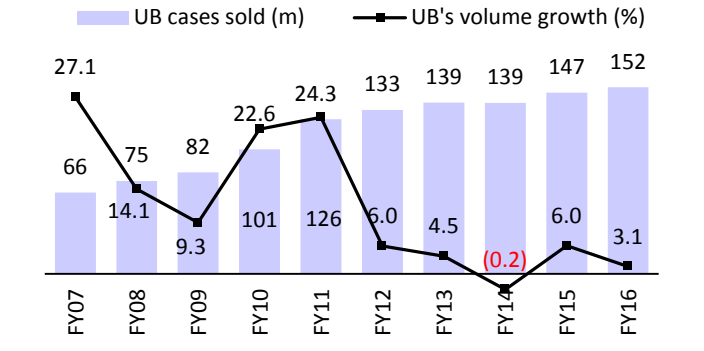
Beer volumes in India have grown at a healthy 11% CAGR over the past 10 years. UBBL, the largest beer player in India with ~51% market share, has also grown its volumes at a similar pace over this period. In terms of number of cases (each case has 12 bottles of 650ml each, amounting to 7.8 liters). Indian beer industry has grown from 104m cases (811m liters, 8.11m hectoliters) in FY06 to nearly triple the size to 294m cases (2,293m liters, 22.9m hectoliters) in FY16. During the same period, UBBL increased its volumes from 52m cases (406m liters, 4.06m hectoliters) to 151.5m cases (1,182m liters, 11.8m hectoliters).

Exhibit 66: Beer industry volume has grown at 11% CAGR



Source: Company, MOSL

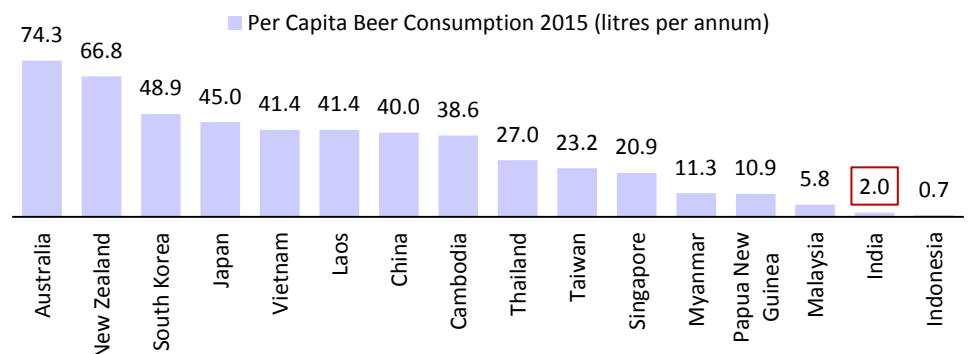
Exhibit 67: ..and UB, the largest player, grew at a similar pace



Source: Company, MOSL

Despite healthy growth, per capita consumption of beer at ~2 liters in India is among the lowest in the world and even when compared to most emerging markets barring a few Islamic countries which have nationwide prohibition. APAC average is 29.4 liters, global average is 30 liters and EU average is 70 liters.

Exhibit 68: India's per capita consumption of beer far lower than other emerging markets



Source: Heineken presentation, MOSL

Factors which are and will continue to be growth drivers in India are:

Large and young population: As is true for most consumer categories, India's demographic dividend as a result of its large young population is the key factor driving current and potential growth in the beer segment. Half of India's population

is below 30 years of age. More importantly, the number of young population is likely to remain high for a few decades, which mean that a significant proportion of the world's population entering drinking age is likely to be an Indian. Beer is the third most popular beverage in the world after water and tea. Also, surveys indicate that it is the preferred drink for most people entering drinking age in the country. It is perceived to be cooler to consume lower alcohol products in the alcoholic beverages segment.

Higher social acceptability of alcohol consumption: Social acceptance of consuming alcohol has increased radically over the past decade, thereby driving volume growth for the beer industry over this period. While acceptability was initially higher in metro and Tier 1 cities, it is now gradually spreading to other parts of the country as well. Association with major sporting and music events (which have strong appeal among the young population, like IPL cricket, UEFA Champions League and English Premier League Football, Sunburn, etc.), proliferation of the pub culture (which began in Bangalore in the early 90s and spread to the rest of the country later) and marketing of beer as a lifestyle product have increased the acceptability further. This means that beer is not only attracting newer set of customers, there is also growth coming in from existing customers.

Higher disposable income: A transformational pace of GDP growth over the past 15 years has led to immense job opportunities and rising incomes, particularly led by the service sector, which employs a large proportion of the target demographic for beer companies. This, combined with the factors mentioned previously, favors growth of segments like beer.

Favorable climatic conditions for beer consumption: India's tropical weather with high levels of heat and humidity for large part of the year also aids beer consumption growth. Beer is perceived as a thirst quencher, and close to 60% of yearly sales happen in the June and March quarters, which are the hottest periods in many parts of the country.

Further inroads into underpenetrated markets: Demand has been traditionally strong in coastal states in south and west India, but beer players have also made successful inroads into the rest of the country. Incremental expansion of most breweries reflects the efforts to tap markets of north and east India where per capita consumption of beer is far below even the low national average.

Availability of global brands: Iconic brands of many large global brewers are now widely available across the country. Many of these are manufactured locally and hence offer international quality at Indian prices. Earlier these brands were unaffordable due to high import duty rates. Distribution reach was also limited for MNC brands. 100% FDI in beer has been allowed since 2007, which has been a key factor behind the scaling up of brewers like Carlsberg.

Annexure- The Heineken Factor

Driving both growth and margin prospects substantially

Heineken is the largest selling beer in the world, and with increasing distribution in India (now available in 15 states) has been the fastest growing brand in the company's portfolio for many years. The brand is also likely to be launched in Andhra Pradesh and Telangana shortly. Before the bifurcation, the state was the largest market for beer and hence these states represent a large growth opportunity. The Dutch brewer's other large global brands are Amstel and Tecate, which are not yet available in India.

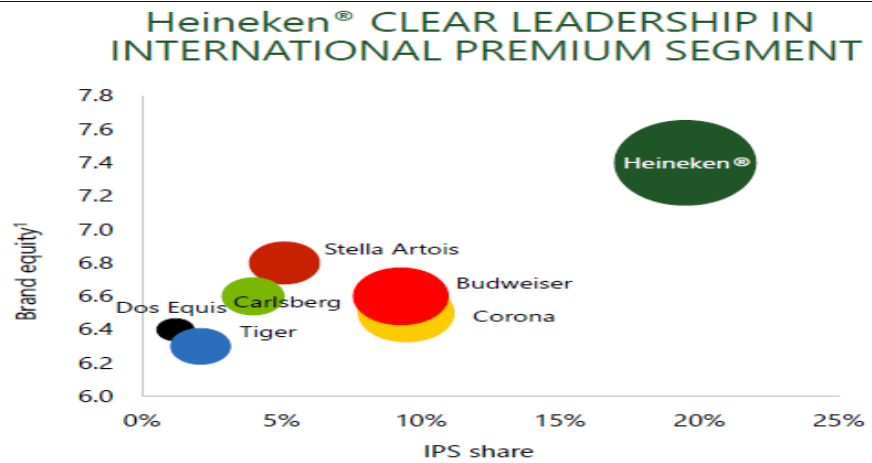
The eponymous Heineken brand and the other two big global brands (Heineken has a lot of other smaller brands in its global portfolio) are even more important from a mix and margin perspective, unless the company uses one of the other two brands as an economy play (similar to what Carlsberg has done with Tuborg in India). In such a case, that brand could also be a potential volume driver.

India is increasingly becoming more important to Heineken worldwide.

- a) Comment by Laurence Debroux, CFO and member of executive board at a recent conference: *"You were asking me about countries, one country where we bet long term is India for instance. And we have actually taken a clear choice between investment in China and investment in India, and we do believe that long term we're better positioned with our Indian investment"*.
- b) *'Asia Pacific will contribute 70% of global beer growth in the next 5 years'* from a recent Heineken presentation.
- c) *'I think India and Africa are for beer the last frontiers, for meaningful growth in terms of volume and thereafter growth also of the premium segment'*. Comment by Jean-Francois Van Boxmeer, CEO.

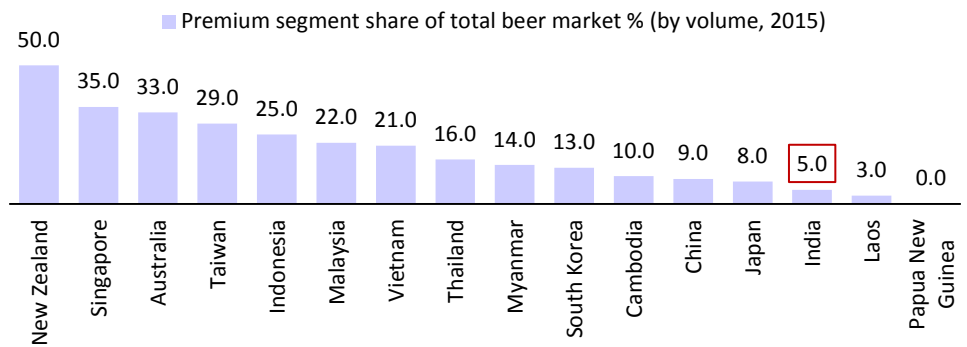
We reckon that Heineken brand beer sales could potentially increase 4-5x over the next 10 years, which means that overall gross and EBITDA margins could move up significantly. We are conservatively assuming only 160bp expansion in gross margins in the next 10 years, compared to 580bp improvement between FY07-FY16.

Exhibit 69: Heineken is dominant player in premium segment worldwide



Source: Canadean, Heineken presentation, MOSL

Exhibit 70: Proportion of premium beer in India is also very low



Source: Company, MOSL

Financials and Valuations

Consolidated - Income Statement								(INR Million)
Y/E March	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Total Income from Operations	35,614	39,004	42,297	46,990	50,834	56,934	66,044	75,951
Change (%)	16.4	9.5	8.4	11.1	8.2	12.0	16.0	15.0
Raw Materials	16,163	16,441	17,321	18,937	19,928	22,319	25,779	29,516
% of Sales	45.4	42.2	41.0	40.3	39.2	39.2	39.0	38.9
Employees Cost	1,886	2,172	2,628	3,010	3,404	3,710	4,229	4,694
% of Sales	5.3	5.6	6.2	6.4	6.7	6.5	6.4	6.2
Other Expenses	13,424	15,335	16,375	18,717	20,186	22,309	25,535	29,056
% of Sales	37.7	39.3	38.7	39.8	39.7	39.2	38.7	38.3
Total Expenditure	31,472	33,948	36,324	40,664	43,517	48,338	55,543	63,267
% of Sales	88.4	87.0	85.9	86.5	85.6	84.9	84.1	83.3
EBITDA	4,143	5,056	5,973	6,326	7,317	8,597	10,501	12,684
Margin (%)	11.6	13.0	14.1	13.5	14.4	15.1	15.9	16.7
Depreciation	1,489	1,704	1,978	2,075	2,436	2,547	2,848	3,208
EBIT	2,654	3,352	3,995	4,251	4,881	6,050	7,653	9,476
Int. and Finance Charges	653	676	778	651	735	475	560	658
Other Income	376	255	135	190	351	246	258	271
PBT bef. EO Exp.	2,377	2,930	3,351	3,790	4,497	5,820	7,351	9,089
EO Items	-196	-178	0	0	0	0	0	0
PBT after EO Exp.	2,181	2,752	3,351	3,790	4,497	5,820	7,351	9,089
Total Tax	914	1,026	1,087	1,188	1,542	1,979	2,499	3,090
Tax Rate (%)	41.9	37.3	32.4	31.3	34.3	34.0	34.0	34.0
Less: Mionrity Interest	0	5	4	4	4	4	4	4
Reported PAT	1,268	1,721	2,260	2,598	2,951	3,837	4,848	5,995
Adjusted PAT	1,464	1,899	2,260	2,598	2,951	3,838	4,848	5,995
Change (%)	-0.8	29.8	19.0	15.0	13.6	30.1	26.3	23.7
Margin (%)	4.1	4.9	5.3	5.5	5.8	6.7	7.3	7.9

Consolidated - Balance Sheet								(INR Million)
Y/E March	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Equity Share Capital	264	264	264	264	264	264	264	264
Preference Capital	741	741	741	0	0	0	0	0
Total Reserves	12,652	14,106	16,061	18,242	20,825	24,116	28,301	33,499
Net Worth	13,658	15,112	17,066	18,506	21,089	24,381	28,565	33,764
Minority Interest	12	16	19	22	24	24	24	24
Deferred Tax Liabilities	514	745	795	663	626	626	626	626
Total Loans	9,916	13,010	12,322	8,364	4,111	5,211	6,511	6,511
Capital Employed	24,099	28,883	30,201	27,554	25,851	30,242	35,727	40,925
Gross Block	20,683	26,062	28,153	32,254	34,482	38,282	43,082	48,582
Less: Accum. Deprn.	8,485	10,112	12,074	14,138	16,502	19,048	21,896	25,104
Net Fixed Assets	12,198	15,950	16,079	18,116	17,980	19,233	21,186	23,477
Goodwill on Consolidation	242	242	242	242	242	242	242	242
Capital WIP	2,074	1,140	823	902	608	1,262	1,692	1,988
Total Investments	1	1	1	1	1	1	1	1
Curr. Assets, Loans&Adv.	18,366	20,069	21,831	19,585	22,510	25,708	29,040	32,169
Inventory	4,007	5,136	5,441	5,591	6,058	7,045	8,155	9,324
Account Receivables	6,995	8,134	9,586	9,643	11,431	12,279	15,224	16,404
Cash and Bank Balance	1,728	2,331	1,425	131	139	1,259	278	788
Loans and Advances	5,638	4,468	5,378	4,220	4,882	5,126	5,383	5,652
Curr. Liability & Prov.	8,782	8,518	8,774	11,291	15,491	16,204	16,434	16,952
Account Payables	3,833	2,500	2,097	3,427	3,829	4,283	5,126	5,694
Provisions	4,949	6,018	6,677	7,864	11,662	11,921	11,308	11,258
Net Current Assets	9,584	11,550	13,057	8,294	7,020	9,505	12,606	15,217
Appl. of Funds	24,099	28,883	30,201	27,554	25,851	30,242	35,727	40,925

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Basic (INR)								
EPS	5.5	7.2	8.5	9.8	11.2	14.5	18.3	22.7
Cash EPS	11.2	13.6	16.0	17.7	20.4	24.1	29.1	34.8
BV/Share	51.7	57.2	64.5	70.0	79.8	92.2	108.0	127.7
DPS	0.7	0.7	0.9	1.0	1.2	1.5	1.8	2.3
Payout (%)	14.6	10.8	10.5	10.2	10.3	10.0	10.0	10.0
Valuation (x)								
P/E				92.3	81.3	62.5	49.5	40.0
Cash P/E				51.3	44.5	37.6	31.2	26.1
P/BV				13.0	11.4	9.8	8.4	7.1
EV/Sales				5.3	4.8	4.3	3.7	3.2
EV/EBITDA				39.2	33.3	28.4	23.4	19.4
Dividend Yield (%)				0.1	0.1	0.2	0.2	0.2
FCF per share				16.4	9.5	4.0	-4.0	7.5
Return Ratios (%)								
RoE	11.0	13.2	14.0	14.6	14.9	16.9	18.3	19.2
RoCE	7.9	8.8	9.7	10.8	13.2	15.2	16.1	17.1
RoIC	8.5	9.5	10.4	10.9	12.4	15.1	16.4	17.4
Working Capital Ratios								
Asset Turnover (x)	1.5	1.4	1.4	1.7	2.0	1.9	1.8	1.9
Inventory (Days)	41	48	47	43	43	45	45	45
Debtor (Days)	72	76	83	75	82	79	84	79
Creditor (Days)	39	23	18	27	27	27	28	27
Leverage Ratio (x)								
Debt/Equity	0.7	0.9	0.7	0.5	0.2	0.2	0.2	0.2

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
OP/(Loss) before Tax	2,182	2,660	3,351	3,790	4,497	5,821	7,351	9,089
Depreciation	1,489	1,704	1,978	2,075	2,436	2,547	2,848	3,208
Interest & Finance Charges	937	770	779	718	755	475	560	658
Direct Taxes Paid	-659	-744	-1,006	-1,423	-1,606	-1,484	-1,875	-2,318
(Inc)/Dec in WC	-1,845	-2,692	-2,159	3,381	-1,209	-2,533	-5,156	-3,187
CF from Operations	2,104	1,698	2,944	8,541	4,873	4,826	3,729	7,450
Others	-219	-176	-48	-132	66	0	0	0
CF from Operating incl EO	1,885	1,522	2,895	8,408	4,939	4,826	3,729	7,450
(Inc)/Dec in FA	-3,806	-3,782	-2,120	-4,069	-2,430	-3,780	-4,780	-5,480
Free Cash Flow	-1,921	-2,260	776	4,339	2,509	1,046	-1,051	1,970
(Pur)/Sale of Investments	0	0	0	0	0	0	0	0
Others	463	-535	544	774	-22	0	0	0
CF from Investments	-3,343	-4,317	-1,576	-3,295	-2,452	-3,780	-4,780	-5,480
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	2,136	3,093	-688	-4,699	-1,400	1,100	1,300	0
Interest Paid	-923	-737	-795	-715	-772	-475	-560	-658
Dividend Paid	-268	-244	-239	-303	-344	-551	-669	-803
Others	1,106	0	0	0	0	0	0	0
CF from Fin. Activity	2,050	2,113	-1,722	-5,717	-2,516	74	71	-1,461
Inc/Dec of Cash	592	-682	-402	-604	-29	1,120	-980	510
Opening Balance	1,117	1,750	1,068	665	62	32	1,153	175
Cash eqv	19	1,263	760	70	107	107	106	104

Disclosures

This document has been prepared by Motilal Oswal Securities Limited (hereinafter referred to as Most) to provide information about the company (ies) and/or sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies). This report is for personal information of the selected recipient/s and does not constitute to be an investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and Motilal Oswal Securities Limited (hereinafter referred as MOSL) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur.

MOST and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We and our affiliates have investment banking and other business relationships with a some companies covered by our Research Department. Our research professionals may provide input into our investment banking and other business selection processes. Investors should assume that MOST and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may educate investors on investments in such business. The research professionals responsible for the preparation of this document may interact with trading desk personnel, sales personnel and other parties for the purpose of gathering, applying and interpreting information. Our research professionals are paid on twin parameters of performance & profitability of MOST.

MOST generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, MOST generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing among other things, may give rise to real or potential conflicts of interest. MOST and its affiliated company(ies), their directors and employees and their relatives may: (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the affiliates of MOST even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report

Reports based on technical and derivative analysis center on studying charts company's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamental analysis. In addition MOST has different business segments / Divisions with independent research separated by Chinese walls catering to different set of customers having various objectives, risk profiles, investment horizon, etc, and therefore may at times have different contrary views on stocks sectors and markets.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt MOST or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOST or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOST or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays. The information contained herein is based on publicly available data or other sources believed to be reliable. Any statements contained in this report attributed to a third party represent MOST's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party. This Report is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. While we would endeavor to update the information herein on reasonable basis, MOST and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent MOST and/or its affiliates from doing so. MOST or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This report is intended for distribution to institutional investors. Recipients who are not institutional investors should seek advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

Most and its associates may have managed or co-managed public offering of securities, may have received compensation for investment banking or merchant banking or brokerage services, may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Most and its associates have not received any compensation or other benefits from the subject company or third party in connection with the research report.

Subject Company may have been a client of Most or its associates during twelve months preceding the date of distribution of the research report

MOST and/or its affiliates and/or employees may have interests/positions, financial or otherwise of over 1% at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Motilal Oswal Securities Limited is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. SEBI Reg. No. INH00000412

Pending Regulatory inspections against Motilal Oswal Securities Limited:

SEBI pursuant to a complaint from client Shri C.R. Mohanraj alleging unauthorized trading, issued a letter dated 29th April 2014 to MOSL notifying appointment of an Adjudicating Officer as per SEBI regulations to hold inquiry and adjudge violation of SEBI Regulations; MOSL replied to the Show Cause Notice whereby SEBI granted us an opportunity of Inspection of Documents. Since all the documents requested by us were not covered we have requested to SEBI vide our letter dated June 23, 2015 to provide pending list of documents for inspection.

List of associate companies of Motilal Oswal Securities Limited - [Click here to access detailed report](#)

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of MOST research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement

- Analyst ownership of the stock
- Served as an officer, director or employee -

UNITED BREWERIES

No
No

A graph of daily closing prices of securities is available at www.nseindia.com and <http://economicstimes.indiatimes.com/markets/stocks/stock-quotes>

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOST & its group companies to registration or licensing requirements within such jurisdictions.

For Hong Kong: This report is distributed in Hong Kong by Motilal Oswal Capital Markets (Hong Kong) Private Limited, a licensed corporation (CE AYY-301) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) "SFO". As per SEBI (Research Analyst Regulations) 2014 Motilal Oswal Securities (SEBI Reg No. INH00000412) has an agreement with Motilal Oswal Capital Markets (Hong Kong) Private Limited for distribution of research report in Hong Kong. This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors." Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The Indian Analyst(s) who compile this report is/are not located in Hong Kong & are not conducting Research Analysis in Hong Kong.

For U.S.

Motilal Oswal Securities Limited (MOSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the "1934 act") and under applicable state laws in the United States. In addition MOSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts"), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOSL, including the products and services described herein are not available to or intended for U.S. persons.

This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

For Singapore

Motilal Oswal Capital Markets Singapore Pte Limited is acting as an exempt financial advisor under section 23(1)(f) of the Financial Advisers Act (FAA) read with regulation 17(1)(d) of the Financial Advisers Regulations and is a subsidiary of Motilal Oswal Securities Limited in India. This research is distributed in Singapore by Motilal Oswal Capital Markets Singapore Pte Limited and it is only directed in Singapore to accredited investors, as defined in the Financial Advisers Regulations and the Securities and Futures Act (Chapter 289), as amended from time to time.

In respect of any matter arising from or in connection with the research you could contact the following representatives of Motilal Oswal Capital Markets Singapore Pte Limited:

Varun Kumar
Varun.kumar@motilaloswal.com
Contact : (+65) 68189232
Office Address: 21 (Suite 31), 16 Collyer Quay, Singapore 04931

Kadambari Balachandran
kadambari.balachandran@motilaloswal.com
(+65) 68189233 / 65249115



Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com