

Good times ahead for UB as heatwave, IPL set the tone

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A cocktail of heatwave and upcoming cricketing events is expected to usher in the peak season for the country's largest beer maker, United Breweries.

The beer maker, which has gained share in some key markets, will be a major beneficiary as April to July is an important period contributing 40-45 per cent to its annual beer volumes.

Going ahead, the T20 Cricket World Cup in June and the ongoing IPL will have a positive impact on volumes and should be able to offset the negative impact of elections on sales, experts believe.

While peak-season sales are expected to be strong, the immediate trigger for the market leader is the performance in the March quarter.

The company is expected to increase its volumes in the March quarter by 9 per cent year-on-year (Y-o-Y) on the back of market share gains in North India.

Karan Taurani and Rounak Ray of Elara Capital expect gross margins to be stable sequentially due to steady barley and glass prices, whereas operating profit margins could improve 100 basis points quarter-on-quarter (Q-o-Q) to 9 per cent. This, however, is much lower than the pre-Covid levels of 13.4 per cent achieved in FY20 as the company continues to invest in supply chain initiatives



and higher end portfolio to drive better volume growth in the premium portfolio. The brokerage has a 'reduce' rating on the stock with a target price of ₹1,725.

Nuvama Research too expects the company to post volume growth which is among the highest in consumer names for the quarter.

On the back of a volume growth of 10 per cent the company expects net revenues to grow by 12 per cent Y-o-Y. In addition to traction from new launches, the company has been regaining share in the Karnataka market taking it to 44 per cent from 39 per cent earlier.

The brokerage expects it to outpace global beer market growth over three to five years as focus is on winning back market share. There is significant

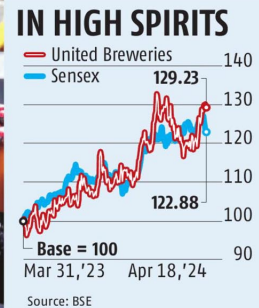
headroom to grow, given beer penetration in urban India is less than 20 per cent.

Easing raw material prices could have a positive impact on the companies in the sector including United Breweries.

"The operating profit margin for ICRA's sample set companies is expected to increase by 50-100 basis points in FY2025, owing to moderation in packaging material costs, coupled with price hikes approved

by the state governments, partly offset by the increase in grain prices," according to Kinjal Shah, Vice President and Co-Group Head - Corporate Ratings, ICRA.

The rating agency also expects working capital requirements (for its set of companies) to moderate in FY2024 and



FY2025. The working capital requirements as on year end are largely towards maintaining finished goods inventory for the upcoming peak season. In the backdrop of lower input prices led by correction in packaging costs, funding requirements may be lower, it added.

Commenting on the raw material outlook, analysts at Nuvama Research led by Abneesh Roy say that barley could continue to trade at lower levels and glass costs too could cool off a bit.

Both operating and net profit for United Breweries could see a sharp jump in the low base, correction in key raw material and utilisation of higher priced inventory.

While operating profit is expected to jump by 214 per cent, net profit could spur 857 per cent over the year ago quarter. United Breweries is a top buy for the brokerage in the consumer sector.

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