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United Spirits: Some cheer

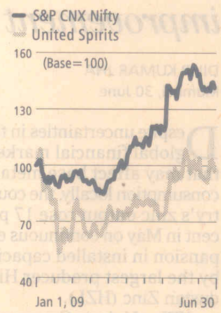
Publication: Business Standard, Edition: Hyderabad, Reporter: Bureau, Published Dt.: 01 Jul 2009, Page No.: 1

THE COMPASS

It's good news that the company has kicked off the much-needed deleveraging process

United Spirits: Some cheer

It's obviously a good thing that United Spirits is deleveraging its balance sheet. The liquor firm has monetised treasury stock selling 1.24 crore shares at Rs 890 a share. That will fetch it nearly Rs 1,100 crore and if the company manages to mop up an equivalent amount of around Rs 1,200 crore through a placement to institutional investors, then the debt on the books, currently at Rs 7500 crore, will come down to Rs 5,000 crore. It's certainly a good start to the deleveraging process and if the market wasn't too enthused with the effort — the stock came off by nearly 5 per cent to Rs 873 — it's because investors have been looking forward to a strategic sale of stock, namely a placement of shares with Diageo. The sale has been talked about for almost a year now but doesn't seem to be reaching a conclusion.



Meanwhile, it's business as usual with revenues at the Bangalore-headquartered firm expected to be driven by about a 10 per cent growth in volumes in the next couple of years. It's unlikely, say industry watchers, that prices can be upped by more than 2-3 per cent with some amount of resistance in key markets. The concern in the near term is the high price of molasses — prices have crossed Rs 6000 a tonne which is higher than the average in 2008-09. That will pressure profitability and unless the company saves on other expenses such as trade discounts or packaging, operating margins for the domestic business, analysts say, could come in at around 17 per cent this year. The good news is that prices of scotch are up sharply and Whyte and Mackay, which United Spirits acquired in May 2007, will be renewing its contract with Diageo next year. IDFC SSKI estimates revenues of close to Rs 6,500 crore in the current year for the firm over the Rs 5,439 crore posted last year, an increase of around 20 per cent. With some amount of deleveraging and savings, the growth in profits could be higher. While the company is a good long-term play on rising disposable incomes and aspirations, in the short term the huge borrowings at the group level are worrying.