

United Spirits may look at QIP, stake sale in W&M

Delay in stake sale to Diageo forcing Mallya to look at other options for deleveraging balance sheet

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Time is ticking away for the United Spirits Ltd (USL) chairman Vijay Mallya.

He has given himself two more weeks to de-leverage the balance sheet of the spirits firm, but the industry players aren't too sure. They think he won't be able to make any headway in his talks with UK's Diageo for a stake sale.

Mallya has been trying to sell 18.6 million treasury shares, valued at Rs 1,700 crore currently, to Diageo since late last year. However, the deal seems to be stuck over a pricing issue.

"Mallya and Diageo have differences over pricing. Then, there is also the issue of management control. This is one of Mallya's businesses that have been doing well. He would not want to lose control of it," said an industry source, who did not want to be named.

Ravi Nedungadi, chief financial officer (CFO) of UB Group, refused to comment.

"It wouldn't be right on my part to say anything on the deal right now," he said.

Thus, with a bleak possibility of USL closing a stake sale deal with Diageo soon, the spirits company has started looking at other options to reduce debts on its books.

IDFC SSKI analysts Nikhil Vora and Bhushan Gajaria in their report on Thursday said the other fund-raising options for USL were a stake sale in Whyte & Mackay (W&M), incremental issuance in the company through the QIP route or a stake sale in its IPL franchisee —Royal Challengers.

"Diageo may also increase its



Where his monies go...

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Mounting pressure

(\$ million)	Cash profit	Debt repayment	Ratio (debt/Ebitda)
FY09	88	8	8.8
FY10	108	121	112.4
FY11	142	295	207.0

Source: IDFC SSKI Research



stake in USL (currently at 37%; equivalent to the promoter's holding) and/or buy a stake in W&M. Stake sale, we believe, is critical for USL," the report said.

UB group's Nedungadi, however, claimed there were no talks in this direction with Diageo. "We have had no discussion on these lines (with Diageo)," he said.

Meanwhile Mallya, in an in an interview to a television channel on Wednesday, claimed talks with Diageo were on track and his company had received offers from two of the world's five leading private equity firms to invest \$200-300 million each in USL.

With the debt repayment pressure mounting — debts are likely to soon overtake the company's cash profits — Mallya will have to speed up his fund-raising activities.

USL's debt in FY09 was Rs 7,500 crore, including Rs 1,500 crore towards working capital and Rs 5,500 crore for the W&M acquisition. The

repayment of debt for W&M began this year. It has repaid \$45 million — the first tranche — in May 2009. It has to repay the second tranche, of \$45 million, in FY10, with \$20 million also due for repayment.

Vora and Gajaria in their report also expressed doubts over USL's ability to meet their debt repayment commitment in FY11.

"While USL is comfortably placed to meet the debt repayment in FY10, our concerns pertains to debt repayment ability in FY11," they wrote.

The analysts' worry stems from the fact that Mallya's company is liable to repay \$300 million, including \$240 million on W&M buyout, in FY11, while its cash profit in the same year is estimated at \$140 million.

"High debt on books, debt repayments that are higher than cash profits and financial stress on the group (Kingfisher Airlines funding) remain key risks," the analysts said.