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United Spirits driven by volumes in Q4

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VIEW OF
PRABHUDAS LILLADHER

United Spirits Ltd's March quarter results, adjusted for one-offs, were slightly below expectations at the profit after tax level. Adjusted net sales grew 23% year-on-year (y-o-y), in line with expectations, driven by robust 16% volume growth and 4% price hike. Adjusting for the upfront interest fee of Rs13 crore, recurring profit came in at Rs65.5 crore.

Reported revenue growth was 38%. However, adjusting for the changes in revenue recognition method vis-a-vis contract manufacturers, recurring sales growth came in at 23%. This strong performance was driven by 16% volume growth, which was led by around 40% volume growth in states such as Madhya Pradesh, Punjab, West Bengal and Kerala.

While price hikes contributed to 4% of the value growth (Uttar Pradesh, Andhra Pradesh, Maharashtra, Delhi, Punjab are some of the states which granted price hikes during the year), mix improvement resulted in 3% value growth.

Whyte and Mackay Ltd (W&M) posted earnings before interest, tax, depreciation and amortization (Ebitda) of £4.7 million for the quarter. However, after the conclusion of **Diageo Plc** contracts, which contributed 50% of bulk Scotch sales, W&M hasn't entered new contracts. We adjust our W&M revenue and Ebitda estimates downwards by around 35% and 29% for FY11 and FY12, respectively, to reflect the same. The management is yet to provide revised guidance for W&M Ebitda for FY11.

Ebitda margins declined 200 basis points y-o-y to 15.4%, led by firm input costs and higher advertising and sales promotion spends owing to the Indian Premier League. Input costs per case moved up 9% y-o-y to Rs151.70 per case.

Interest costs jumped 58% y-o-y and 19% sequentially to Rs89.3 crore.

We maintain accumulate with a revised target price of Rs1,290.

feedback@livemint.com