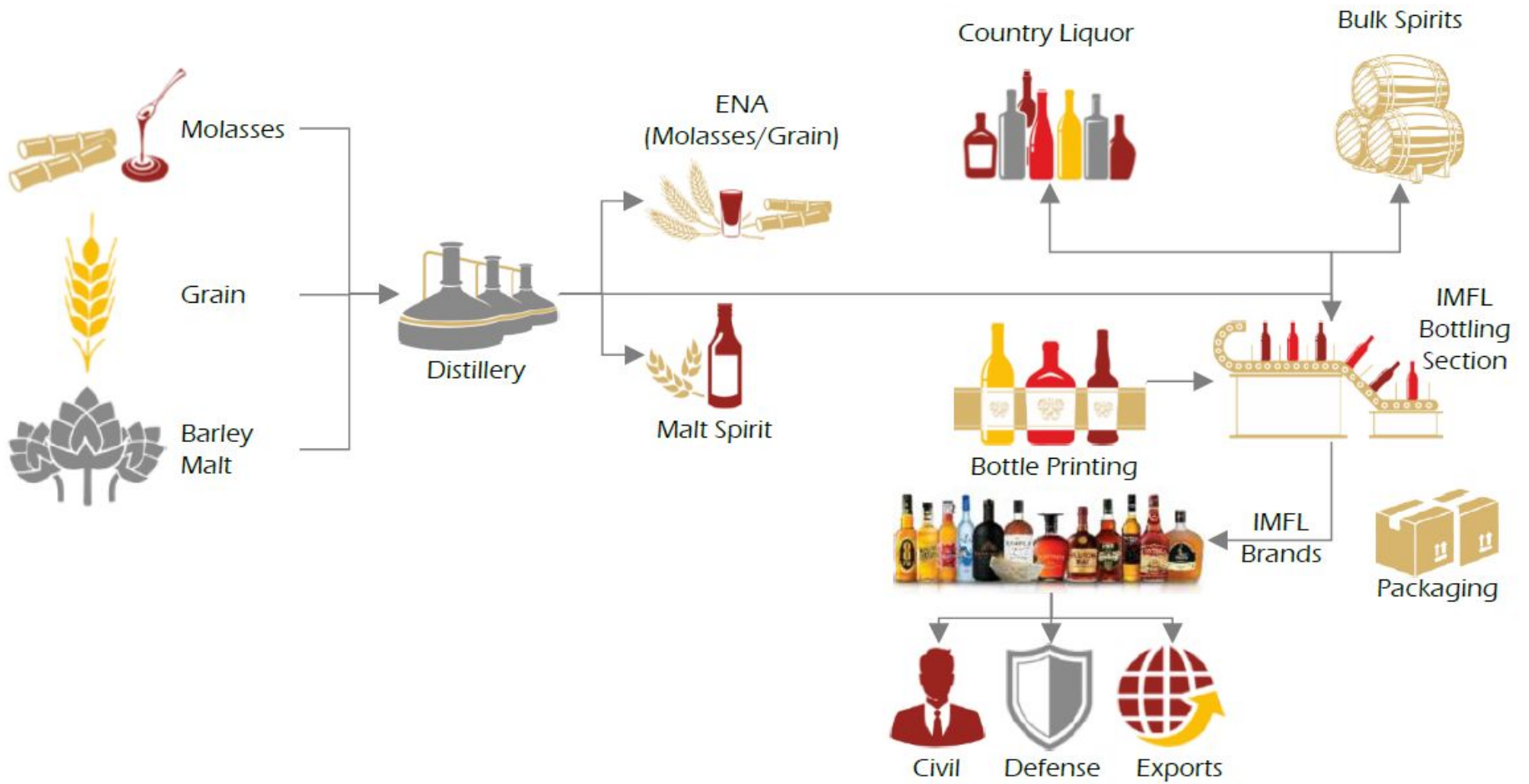


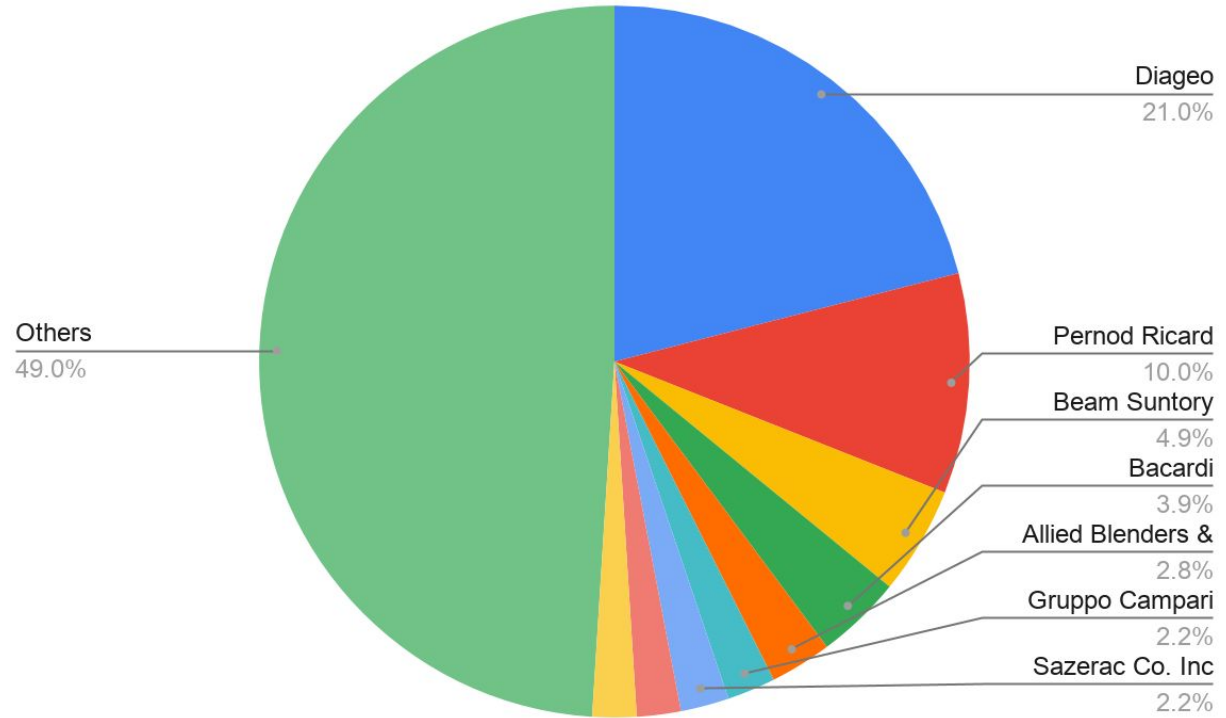
Alcoholic Beverages Industry





Global Alcobev industry

The global alcoholic beverages market was valued at \$1.43 Trillion in 2017, and is expected to reach \$1.68 Trillion by 2025, registering a CAGR of 2.0% from 2018 to 2025.



Source: Allied Market Research

Indian Alcobev Industry

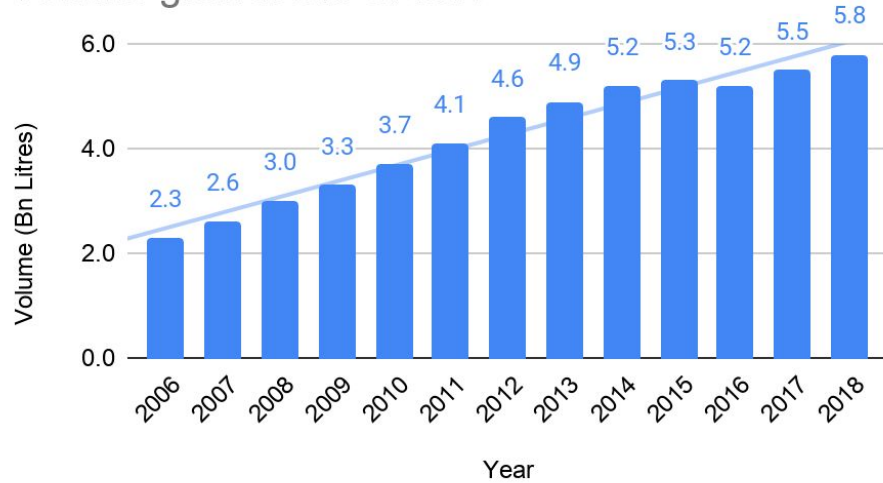
- At USD 35 Billion, India's alcohol market is the 3rd largest in the world, only behind China and Russia
- India already accounts for nearly half of the world's whisky consumption. Over 3x any other country.
- As per the World Health Organization, close to 30% Indians consume alcobev products out of which 4%-13% are daily consumers.
- Per capita consumption of alcohol per adult has grown at 38% CAGR from 2010-2017 however the absolute amount is still pretty low at 6 litres per adult annually

Long term growth drivers for Indian Alcobev Industry

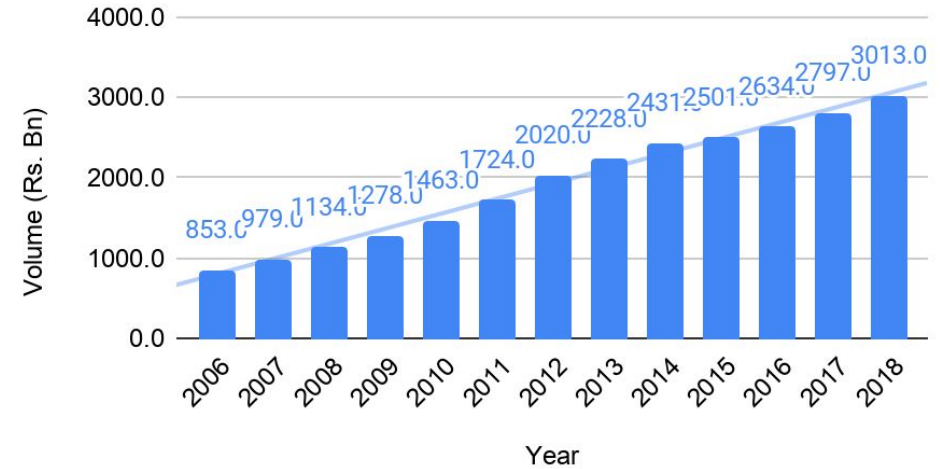
- Young population (between the ages of 18 and 40)
- Increasing % of population in legal drinking age and per capita consumption increasing
- Rising disposable incomes - shift from country liquor to IMFL
- Rapid urbanization of Tier-II cities.
- The increasing acceptability for consuming alcohol in social settings

Indian alcohol industry (minus country liquor)

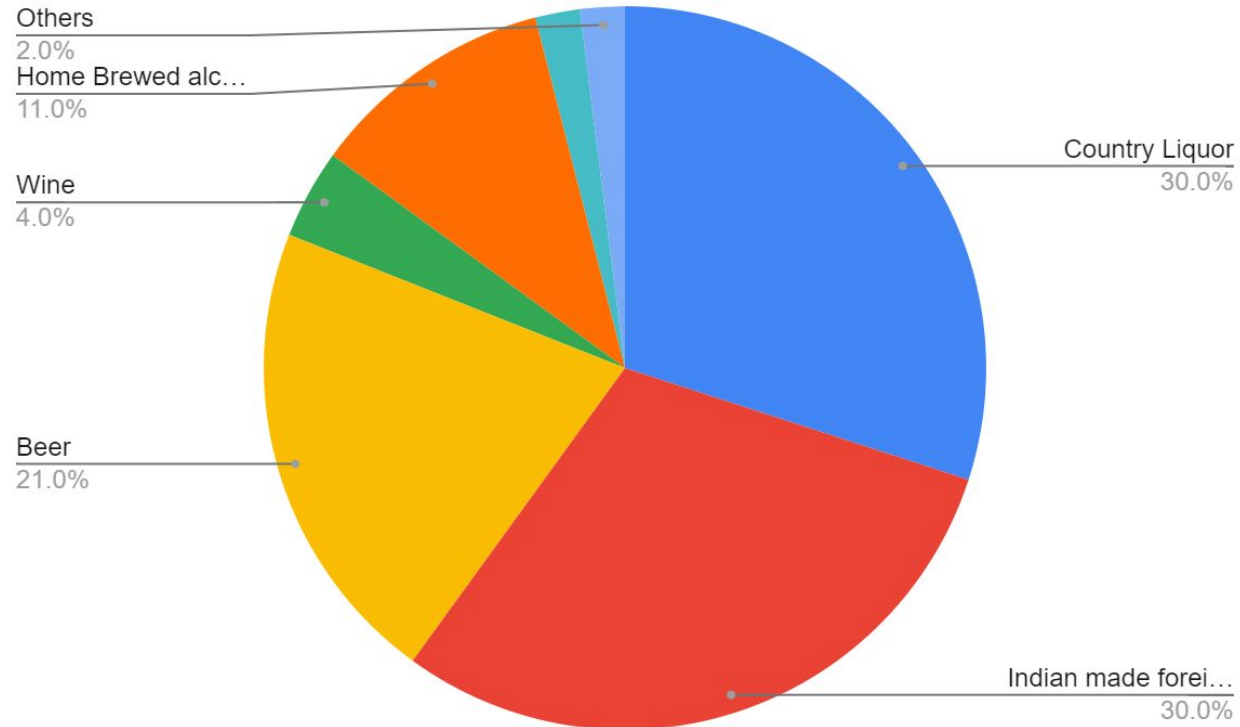
Volume growth 8% CAGR

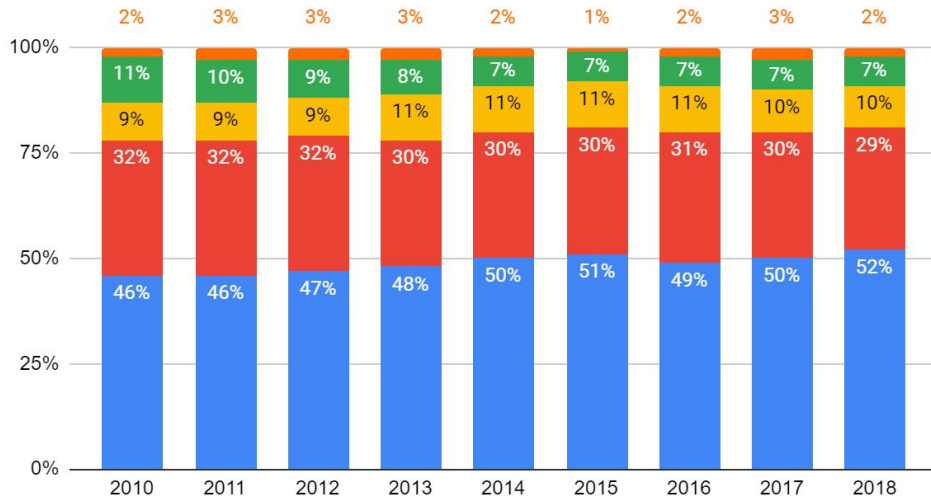


Value growth 11% CAGR



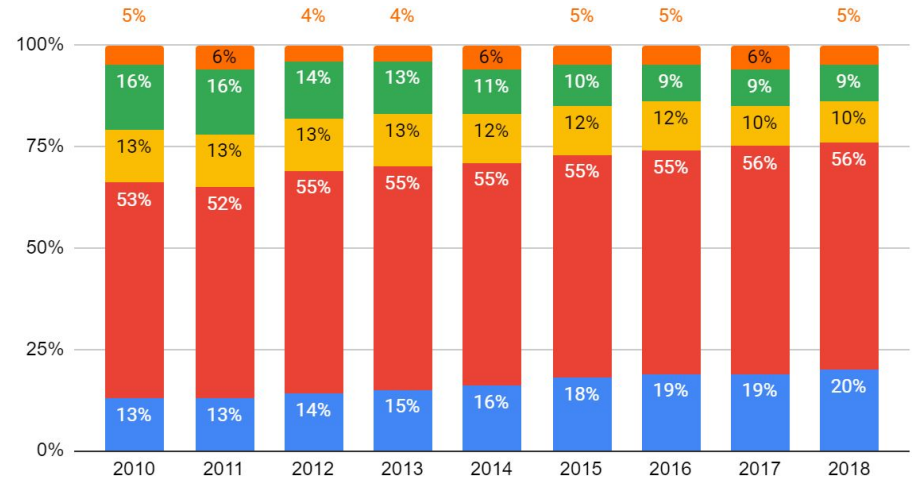
Country liquor & IMFL form 60% of the industry volumes





Volume Market Share

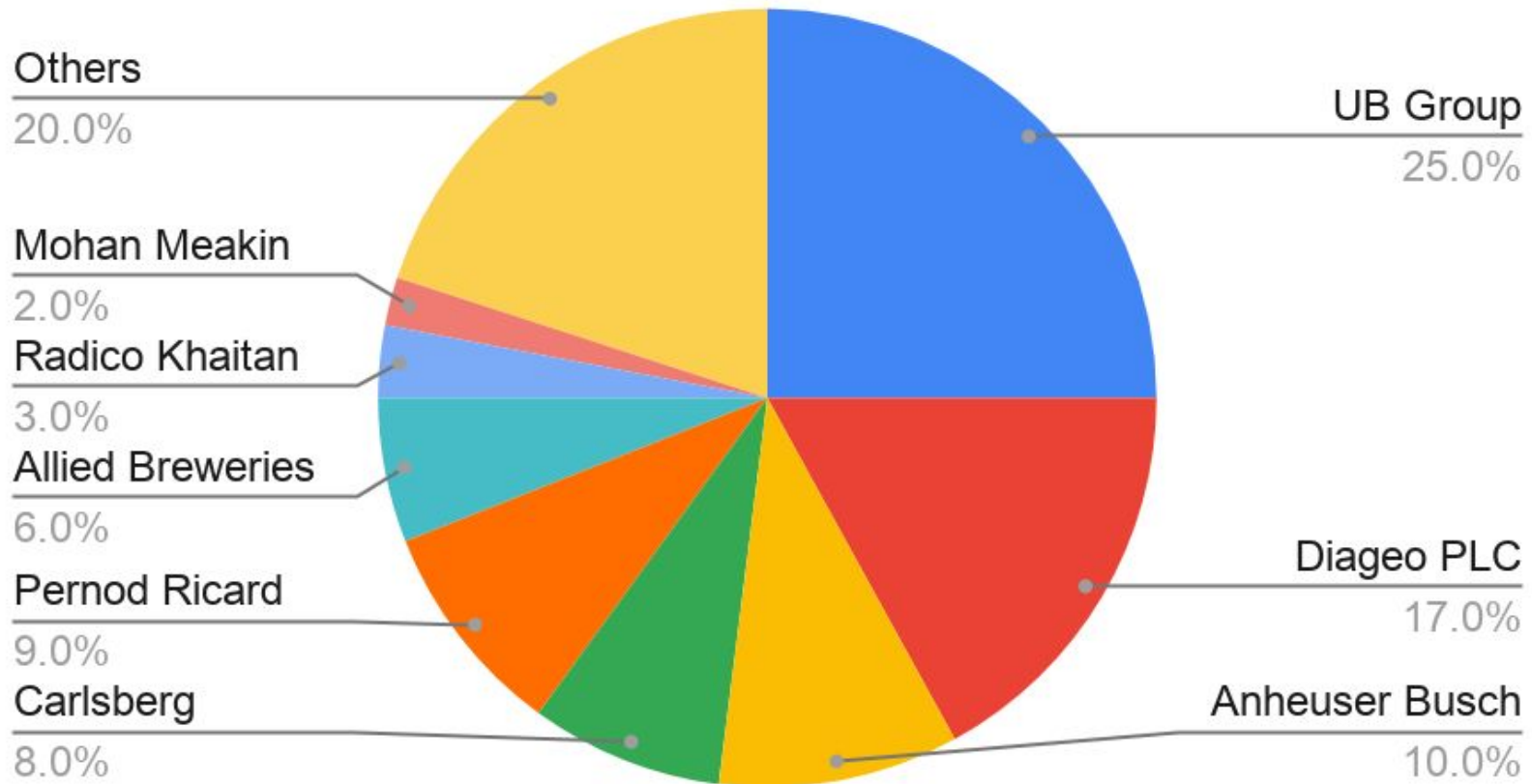
White Spirits Rum Brandy Whiskey Beer



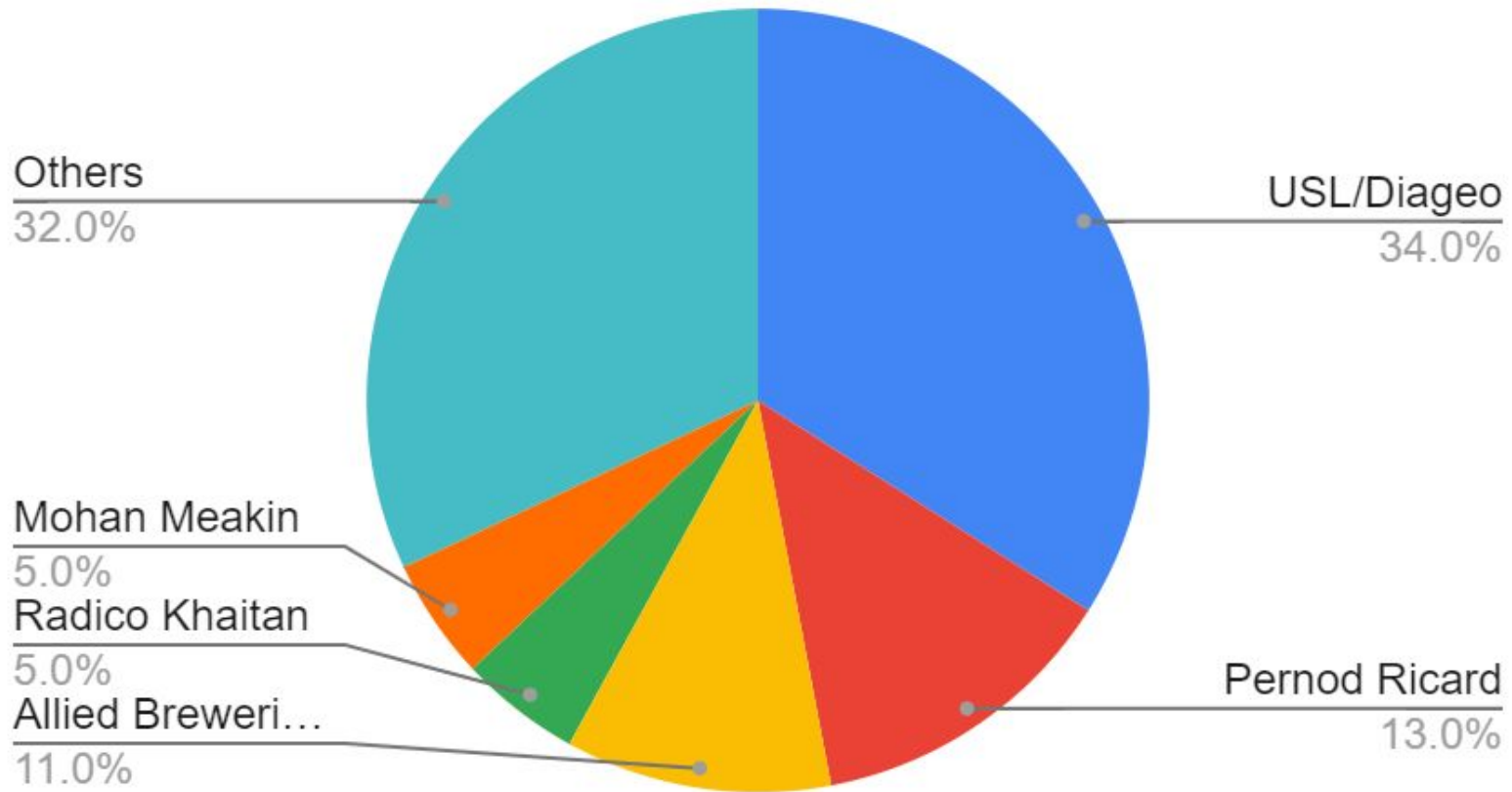
Value Market Share

White Spirits Rum Brandy Whiskey Beer

Overall Alcobeve Industry Market share

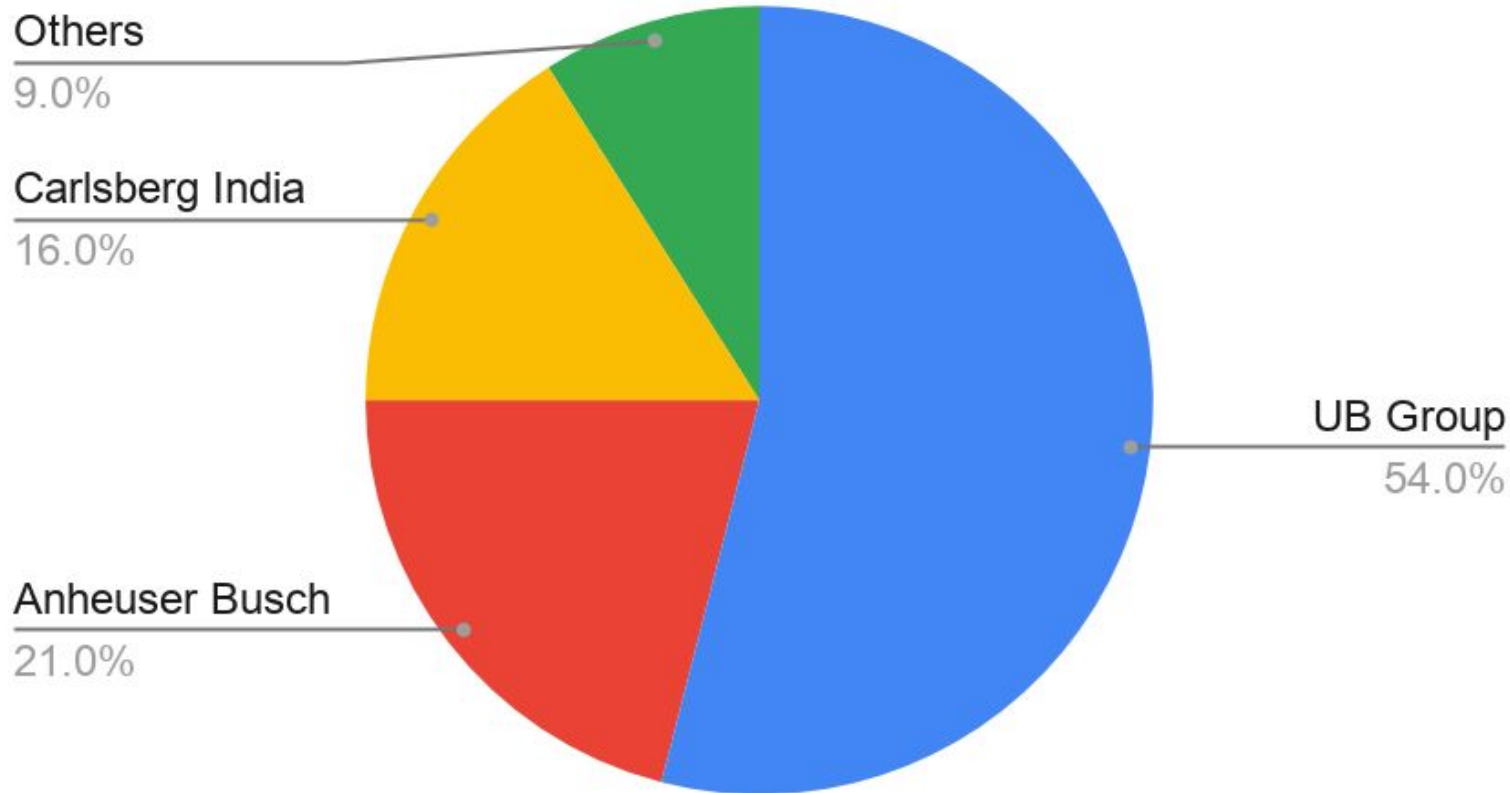


Whisky Market share - USL dominates



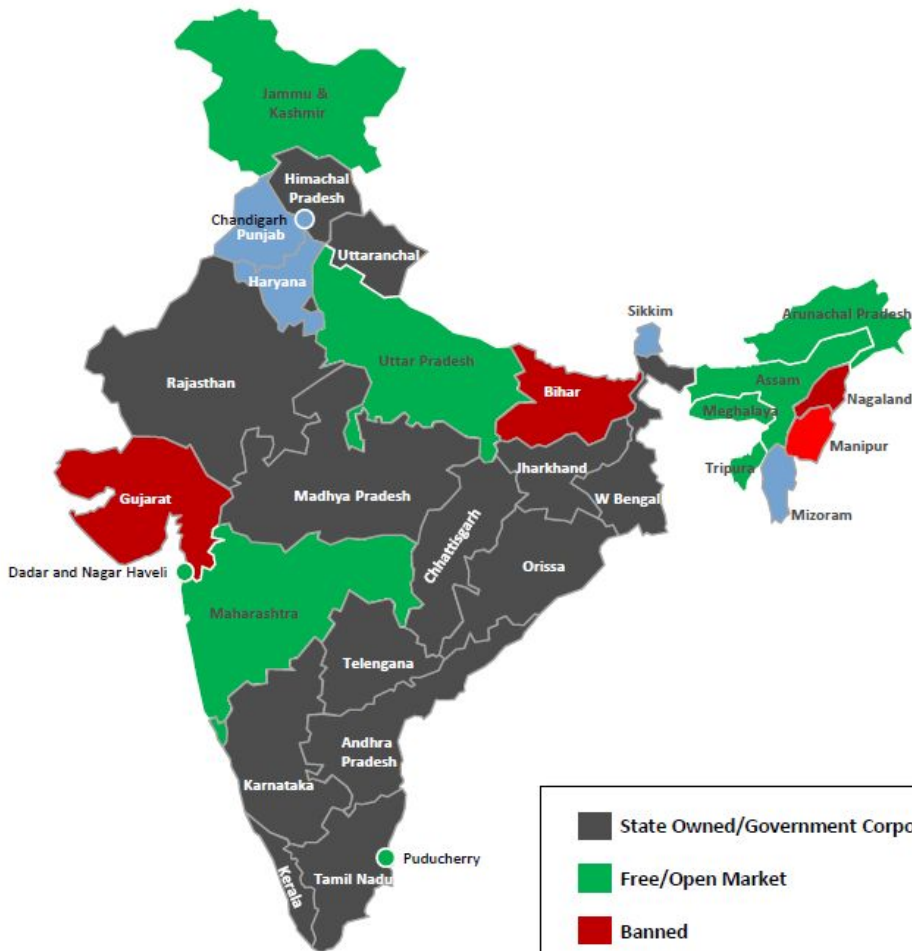
United Spirits	Pernod Ricard	Radico Khaitan	Allied Breweries & Distilleries	Mohan Meakin	John Distilleries
Johnnie Walker	100 Pipers	8 PM Whisky	Officer's Choice	Summer Hall	Paul John Brilliance
Mcdowell's No 1	Blenders Pride	After Dark	Officer's Choice Blue	Colonel's Special	Paul John Edited
Royal Challenge	Chivas Regal	Regal Talon	Officer's Choice Black	Golden Eagle	Paul John Bold
The Singleton	Seagram's Imperial Blue	Rampur Indian Single Malt	Sterling reserve premium whiskies	Top Brass	Paul John Nirvana
Talisker	Jameson	Whytehall	Officer's Choice Star	Diplomat Deluxe	Paul John Classic Select Cask
Signature	Passport			Black Knight	Paul John Peated Select Cask
Black Dog	Ricard			Solan No 1	Paul John Kanya
VAT 69	Royal Stag			Cellar 117	Paul John Oloroso Single Cask
Antiquity Blue				MMB	Paul John Mars Orbiter
Baileys Irish Cream				Blue Bull	Original Choice Deluxe Whisky
Lagavulin	Dalwhinnie				Black Pelican Whisky
Bagpiper	Glenkinchle				
Director's Special	Oban				
Cardhu	Gordons				
Clynelish	Black & White				
Cragganmore	Caol Ila				

Beer Volume Market share - UB Group dominates



United Breweries		AB Inbev + SAB	Carlsberg
Kingfisher Premium	Canon 10000	Castle Lager	Carlsberg Green
Kingfisher Strong	Zingaro	Foster Lager	Carlsberg Elephant
Kingfisher Ultra	Kalyani Black Label	Haywards	Tuborg Green
Kingfisher Ultra Max	UB Export	SABMiller	Tuborg Strong
Kingfisher Ultra Witbier	UB Export Strong	Budweiser	Tuborg Classic
Kingfisher Storm	London Pilsner	Corona	
Kingfisher Blue	London Pilsner Strong	Machaa	
Heineken	Bullet Lager	Veere	
Amstel Bier	Charger Lager	Armstrong Beer	
Sol	Marco Polo Lager	Haywards Strong	
Affligem	Hi Five	Knock Out Beer	
Edelweiss		Royal Challenge Beer	
Desperados		Blazer Beer	
Bullet		Hoegarden	

Risks / Regulatory complexities

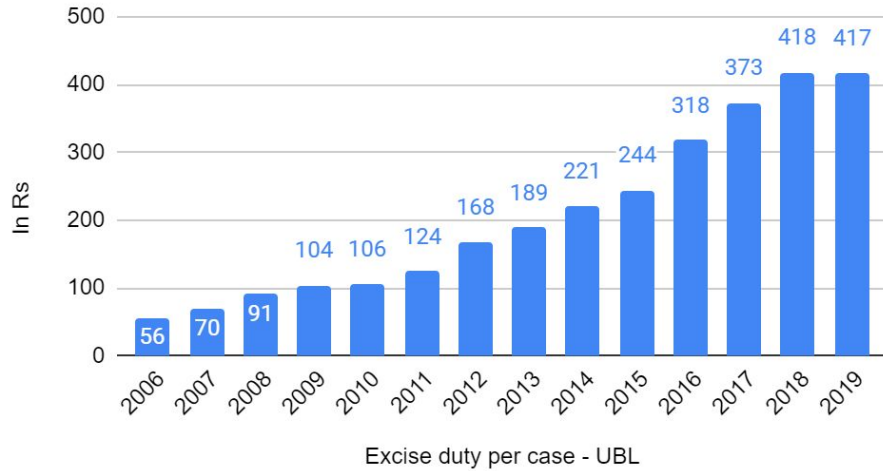


Market Structure	Overview	Pricing Control
Free / Open market	A business may apply for a license for a fee defined by the state government subject to license availability	Company has reasonable independence over price increases
Auction market	The license for sale of liquor is auctioned by the Government to the highest bidder on an annual basis based on an auction process	Company has to negotiate price increases with state appointed distributors
State owned / Government corporations	The government is the wholesaler and/or distributor who purchases directly from a company. Some states also have retail shops run by the government	Strict control on pricing by the state government
Prohibition	States where sales of liquor is prohibited	Not applicable



Source: State Excise departments & Spark Capital Research

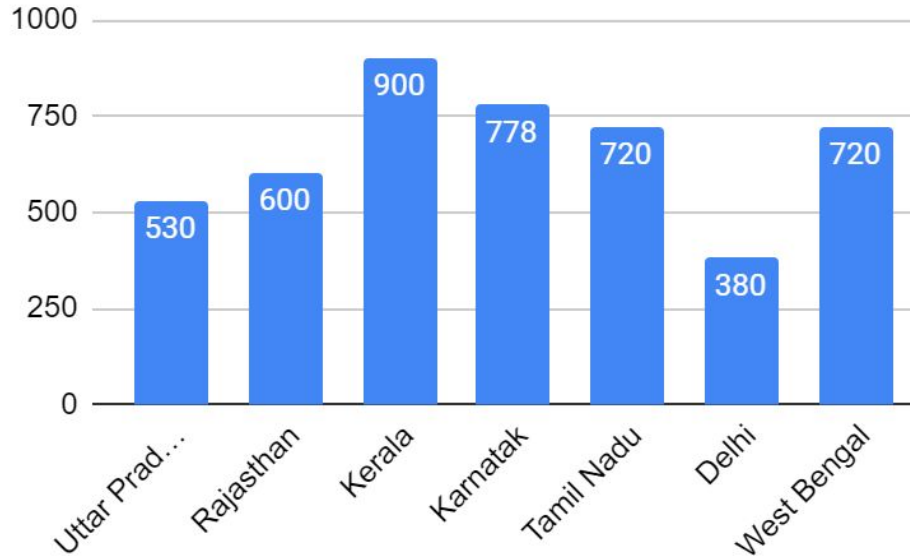
Excise duty per case (UBL) grown at 17% CAGR



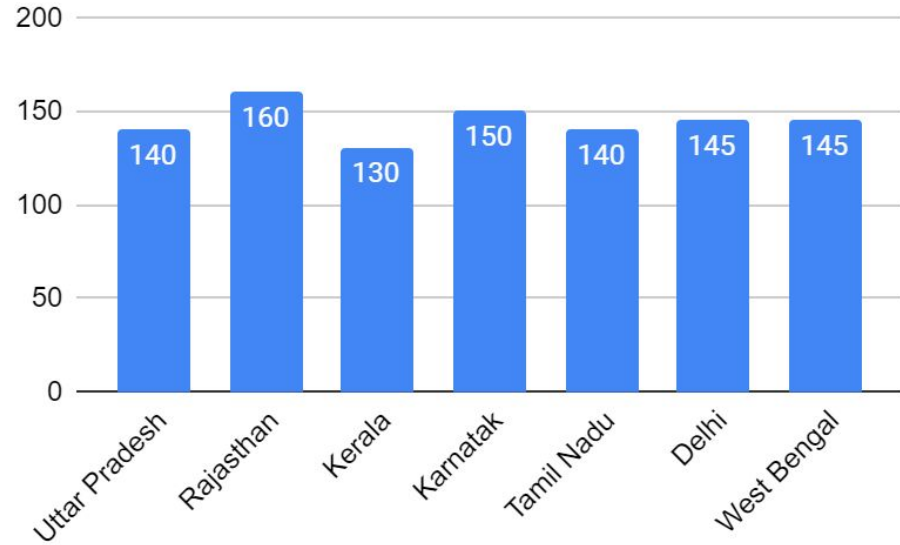
Excise duty per case (USL) grown at 13% CAGR



MRP of McDowell's No 1 premium whisky (750 ml)

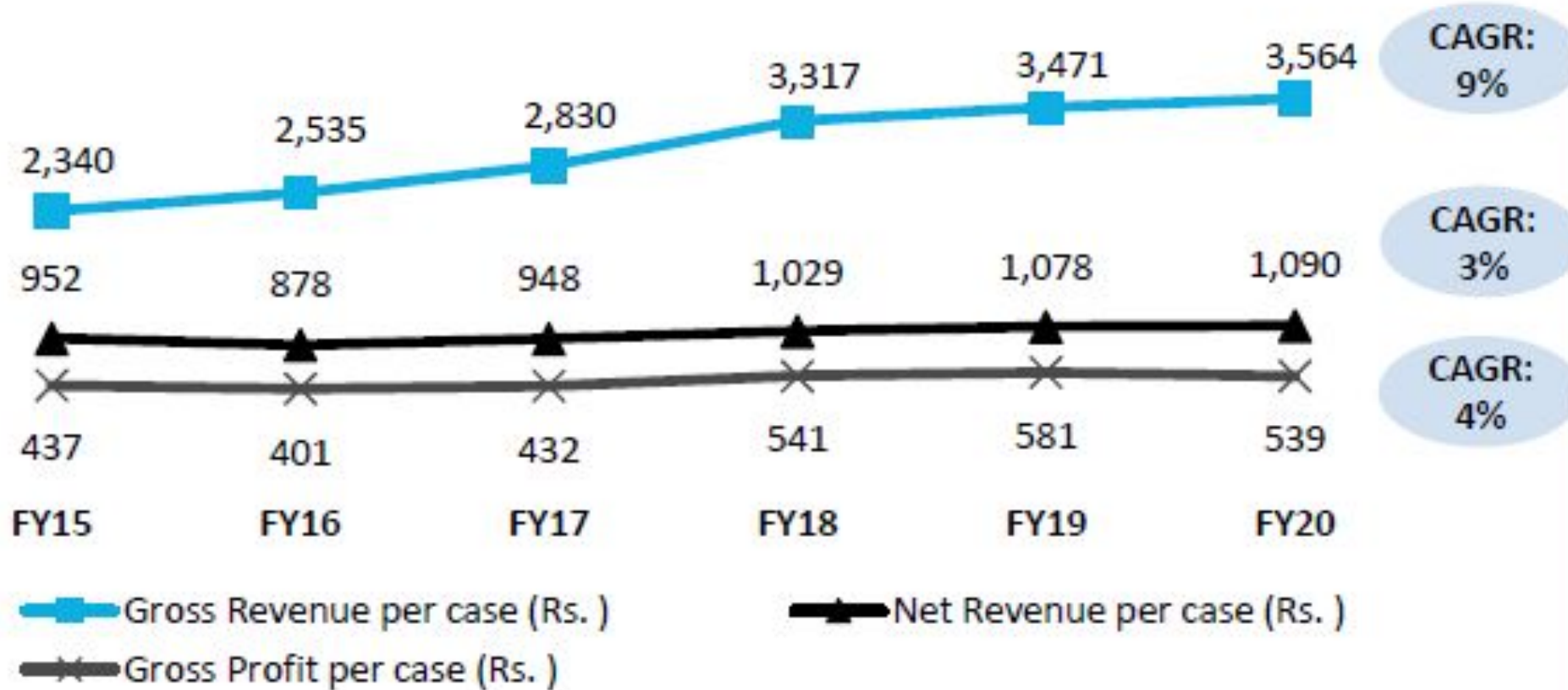


MRP of Kingfisher Strong Bee (650 ml)



Lack of pricing power

- Regulated selling price
- Increase in excise duties
- Increase in raw material prices
- Alcohol was kept out of the purview of GST but most of its inputs are part of GST



About USL

- United Spirits (Diageo India, a subsidiary of Diageo PLC) is the largest spirit company in India and second largest in the world by volume
- It has a brand portfolio of over 100 brands of Scotch whisky, IMFL whisky, brandy, rum, vodka, gin and wine.
- The company doesn't make beer
- The company produces and sells around 80 million cases per year. It has 15 brands in its portfolio which sell more than one million cases every year, of which 2 brands sell more than 10 million cases every year.
- It has pan India presence with 49 manufacturing facilities and a distribution network covering ~80,000 outlets nationally.

USL timeline

1826 - Company starts as a trading company called McDowell and Company founded in India by Angus McDowell, a Scottish national

1951 - Vittal Mallya run United Breweries group acquires McDowell & company

1973 - Acquires Herbertsons

1983 - Vijay Mallya takes over as Chairman of the group

2005 - Acquires Shaw Wallace & Co

2006 - United Spirits is created by merger of McDowell, Herbertsons, Triumph Distillers, Baramati Grape industries, Shaw Wallace and 4 other companies

2007 - Acquires Whyte and Mackay, UK's leading scotch whiskey retailer

2013 - Diageo acquires 54.8% of United Spirits

Transformation post Diageo acquisition

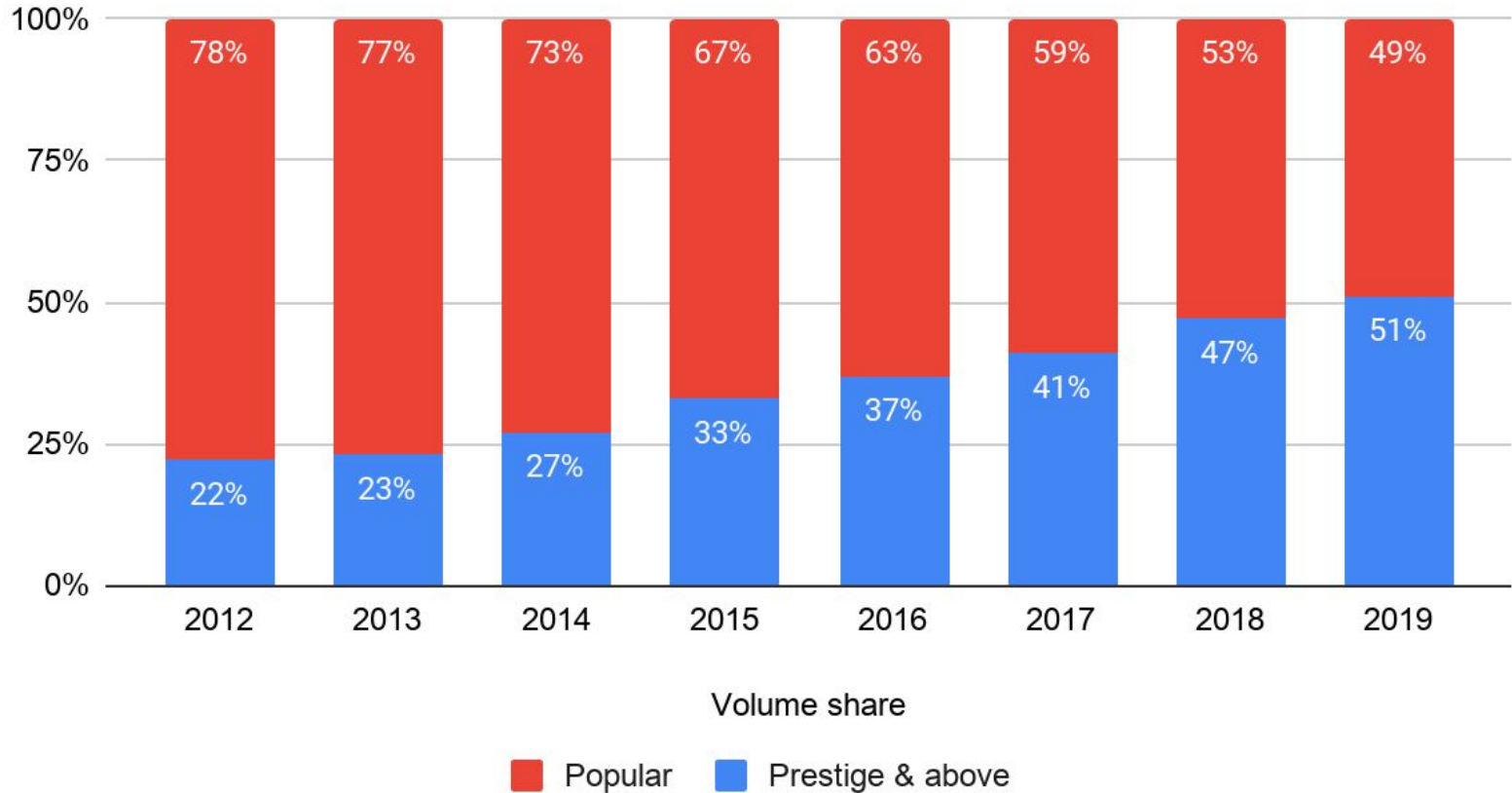
- Operating Margins moved from 10.7% to 17%. EBITDA Margins have increased from low single digit to 16.27%.
- PAT Margins increased from 1.16% to 7.1%.
- Return ratios improved from Negative to decent levels (ROE is currently at 18.3%, ROCE at 22.7%).
- Reduced debt from 5300 Cr to 2073 Cr as of date. Debt to Equity has improved from 2.79 to 0.5.
- Cash conversion cycle has become negative
- De-leveraged the balance sheet. Improved the interest coverage ratio significantly from 2 times to 6 times.
- RCB has compounded its revenue at 14.18% from 93.2 Cr in FY14 to 206.57 Cr FY20 and generated a PAT of 84.8 Cr in FY19 and 3.8 Cr in FY20.

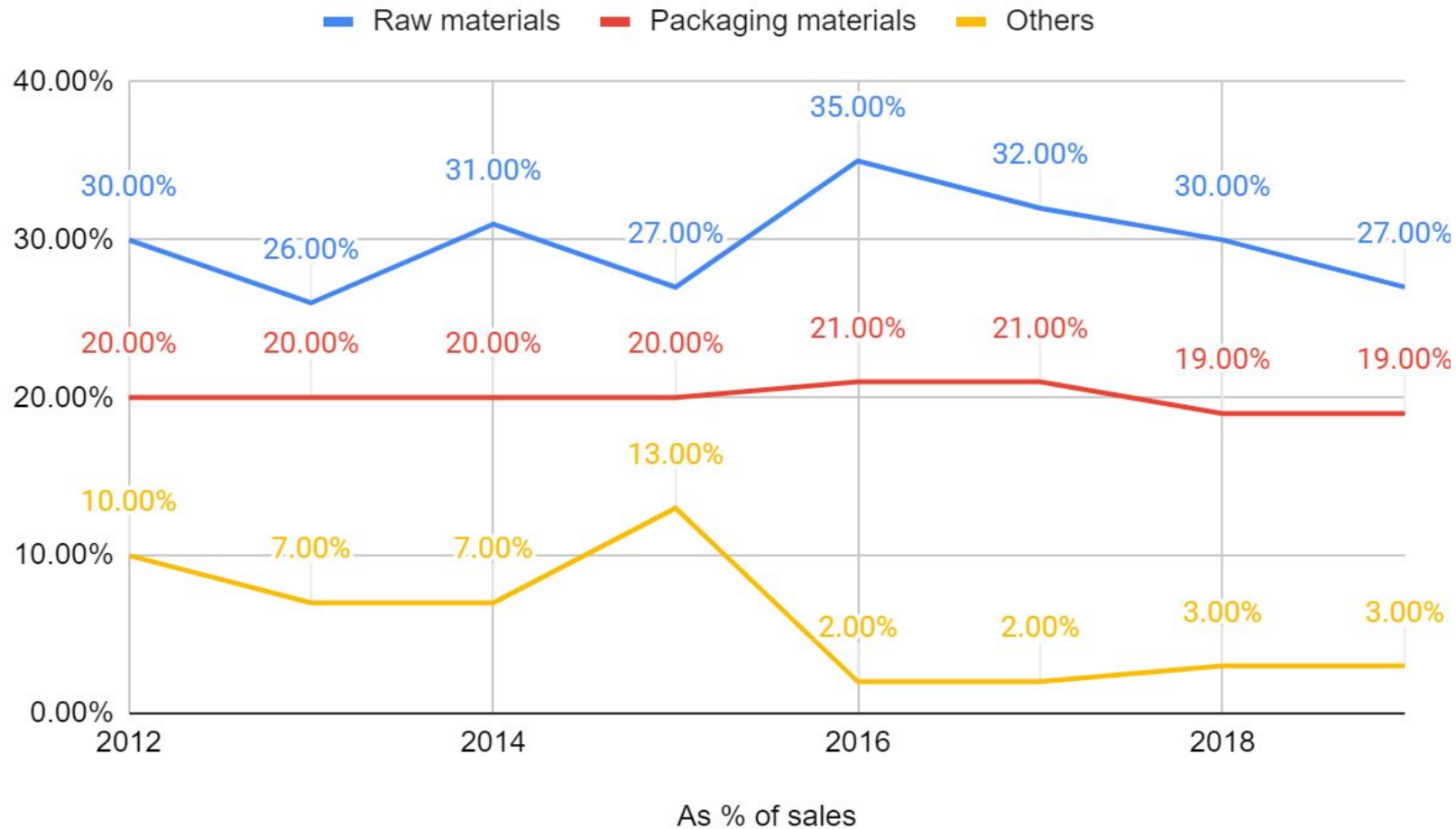
Consumer prices*		Focus brands	
>Rs.2000	Luxury		
Rs.900-2000	Premium		
Rs.350-900	Prestige		
<Rs.350	Popular		

*Average consumer prices in India, 750ml bottle

Category	Category contribution	EBITDA Margins
Popular	24%	2-5%
Prestige	31%	9-10%
Premium	15%	15-18%
Deluxe	5%	20%
Scotch	3%	40%+
Local brands	23%	7-8%

Premiumisation - USL



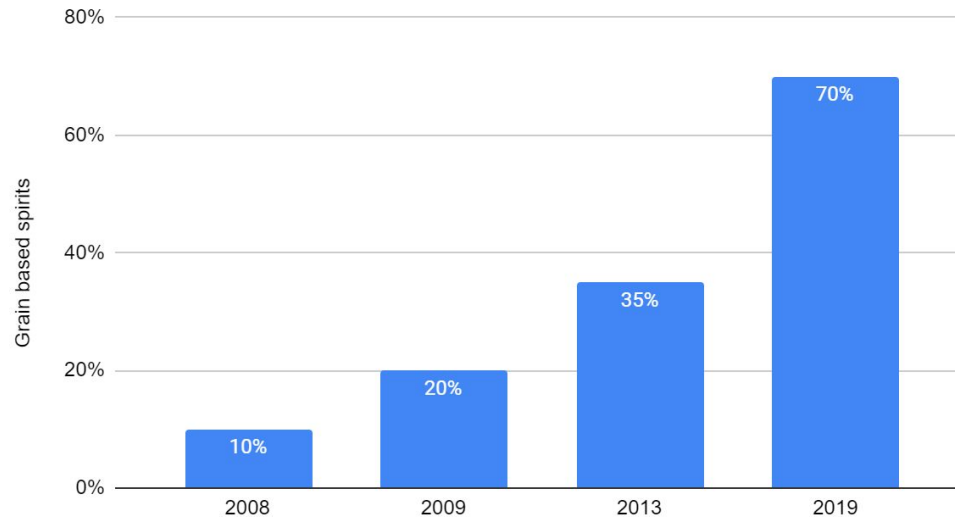


Raw materials

70%+ of ENA is derived from molasses in India as against 4% globally

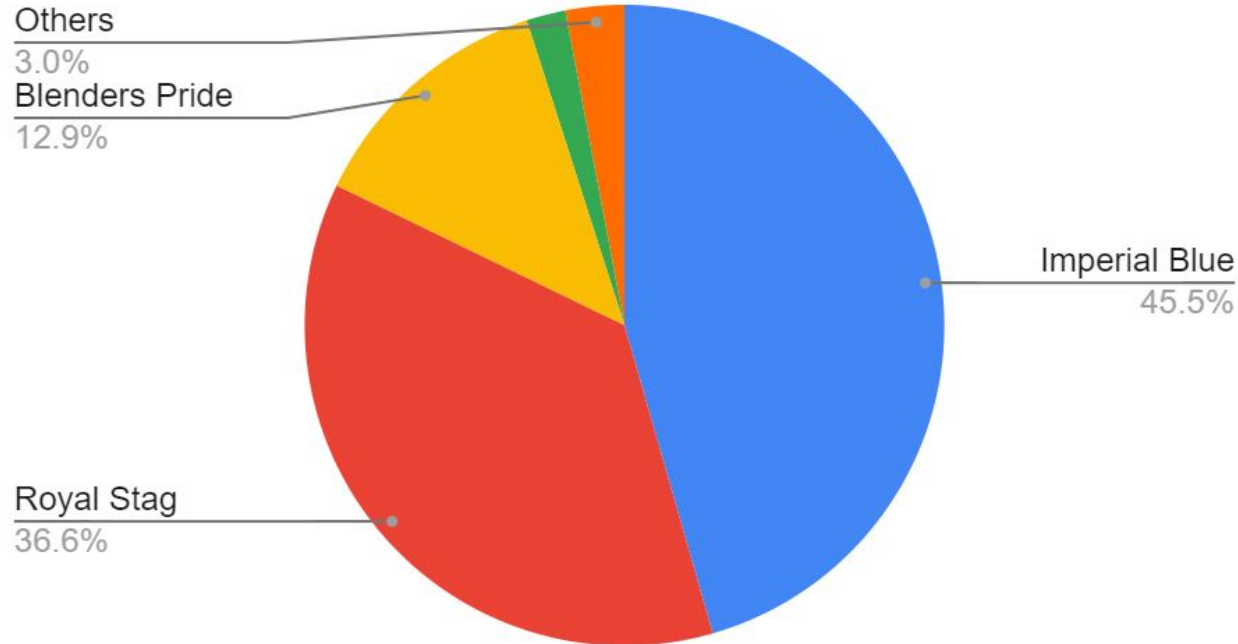
USL has been trying to increase consumption of non-molasses based offerings

Grain based spirits as % of USL's RM basket

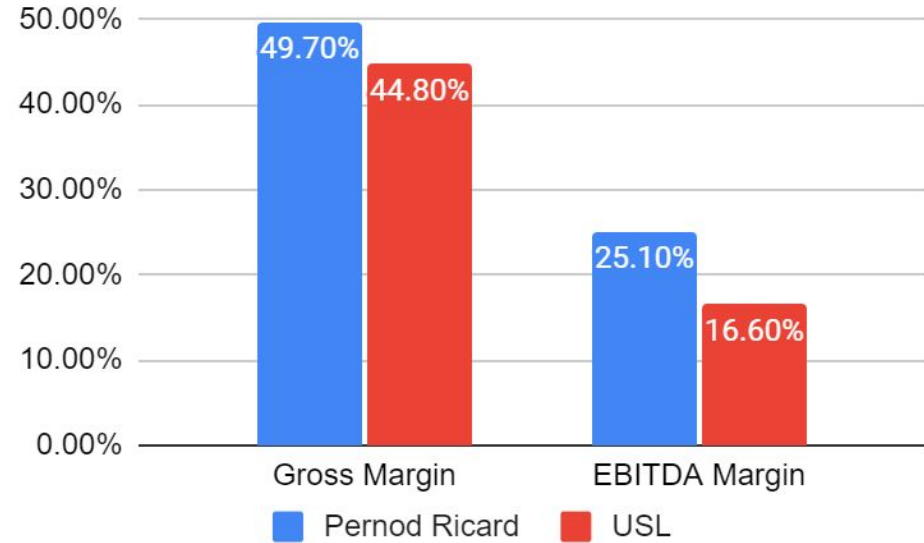
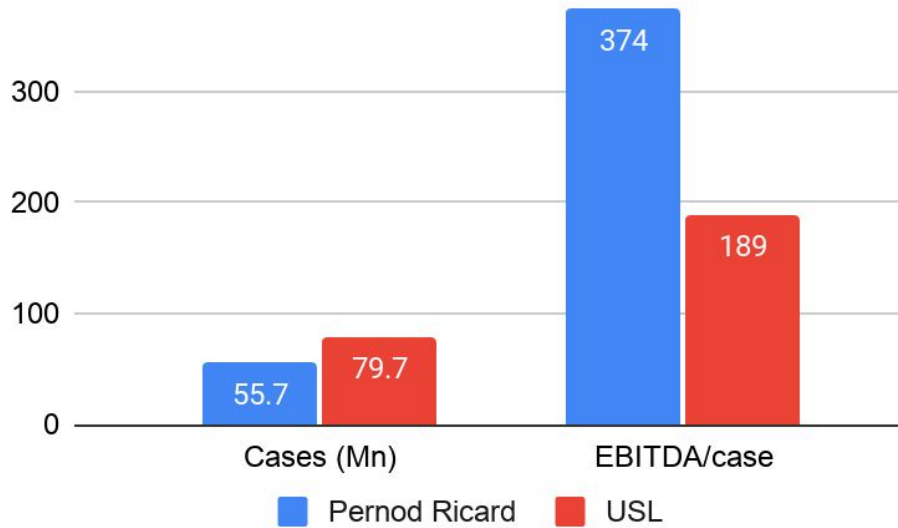


Pernod Ricard India

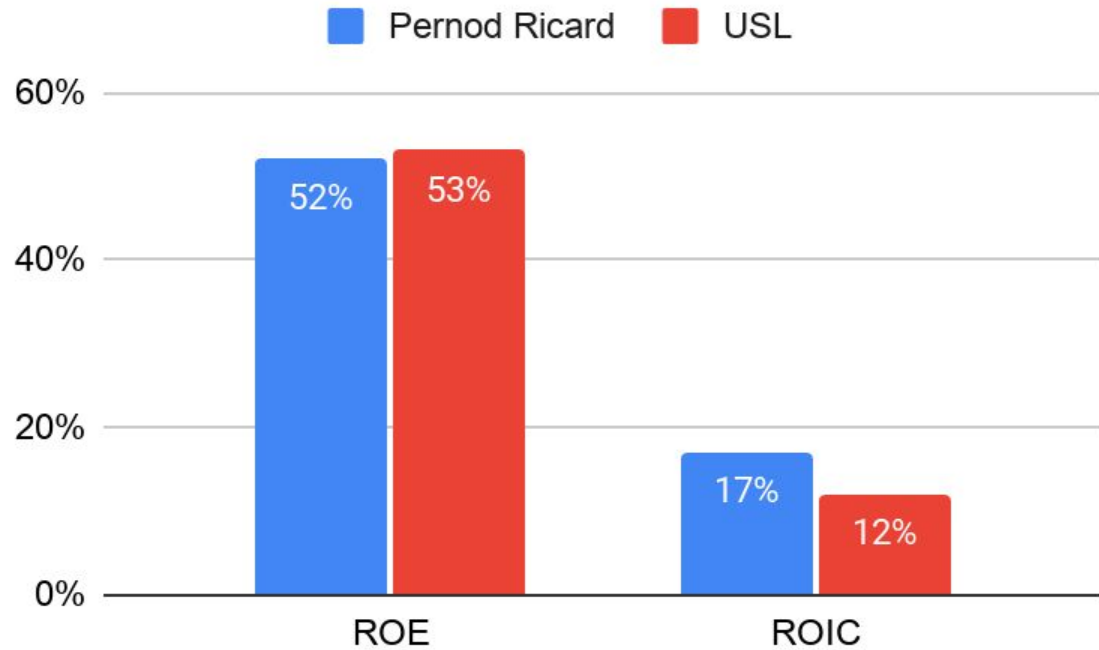
Volume mix of Pernod Ricard India



Pernod Ricard India vs USL



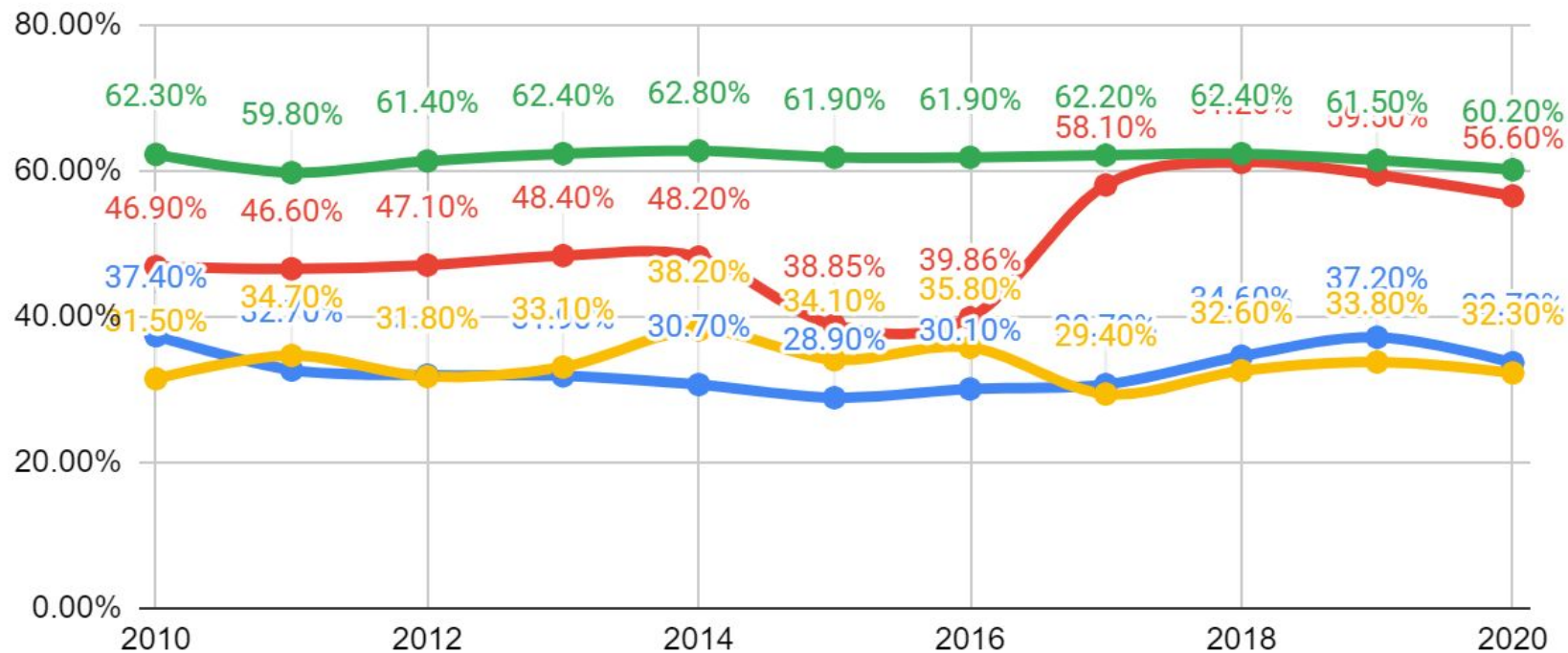
Pernod Ricard India vs USL



SEGMENT	VOLUME SHARE (%)	VALUE SHARE (%)	UNSP Volume Market Share (%)	PRI Volume Market Share (%)	UNSP KEY BRANDS	PRI KEY BRANDS	Comments
<i>BOTTLED IN ORIGIN</i>	~0.6%	~3%	~50%	~37%	JOHNNIE WALKER SERIES, TALISKER, SINGLETON, JB	CHIVAS REGAL, JAMESON, BALLENTINE	
<i>BOTTLED IN INDIA</i>	~2%	~5%	~45%	~39%	BLACK & WHITE, BLACK DOG, VAT 69	100 PIPERS, BLENDER'S PRIDE RESERVE COLLECTION	
<i>UPPER PRESTIGE</i>	~6%	~11%	~20%	~66%	SIGNATURE, ANTIQUITY	BLENDER'S PRIDE	❖ Blender's pride continues to gain market share despite its dominant leadership position within the segment led by double-digit growth
<i>MID PRESTIGE</i>	~18%	~19%	~15%	~60%	ROYAL CHALLENGE (RC)	ROYAL STAG	❖ Royal Stag is four times as big as RC at 22mn cases with improving market share ❖ UNSP trying to restage win share by re-staging the brand
<i>LOWER PRESTIGE</i>	~36%	~33%	~43%	~36%	McDowell NO.1 WHISKY	IMPERIAL BLUE (IB)	❖ No.1 Whisky has regained its top position as the most sold whisky in India after several years ❖ IB has been the fastest growing brand (2x the total whisky segment) for Pernod
<i>POPULAR/REGULAR</i>	~38%	~30%	~40%	0%	HAYWARDS, DIRECTOR'S SPECIAL, OLD TAVERN, BAGPIPER	NA	❖ Haywards Whisky crossed volume mark of 10mn cases in FY20 ❖ UNSP's 4 brands feature in the Top 16 whisky brands in India

Source: Spark Capital Report

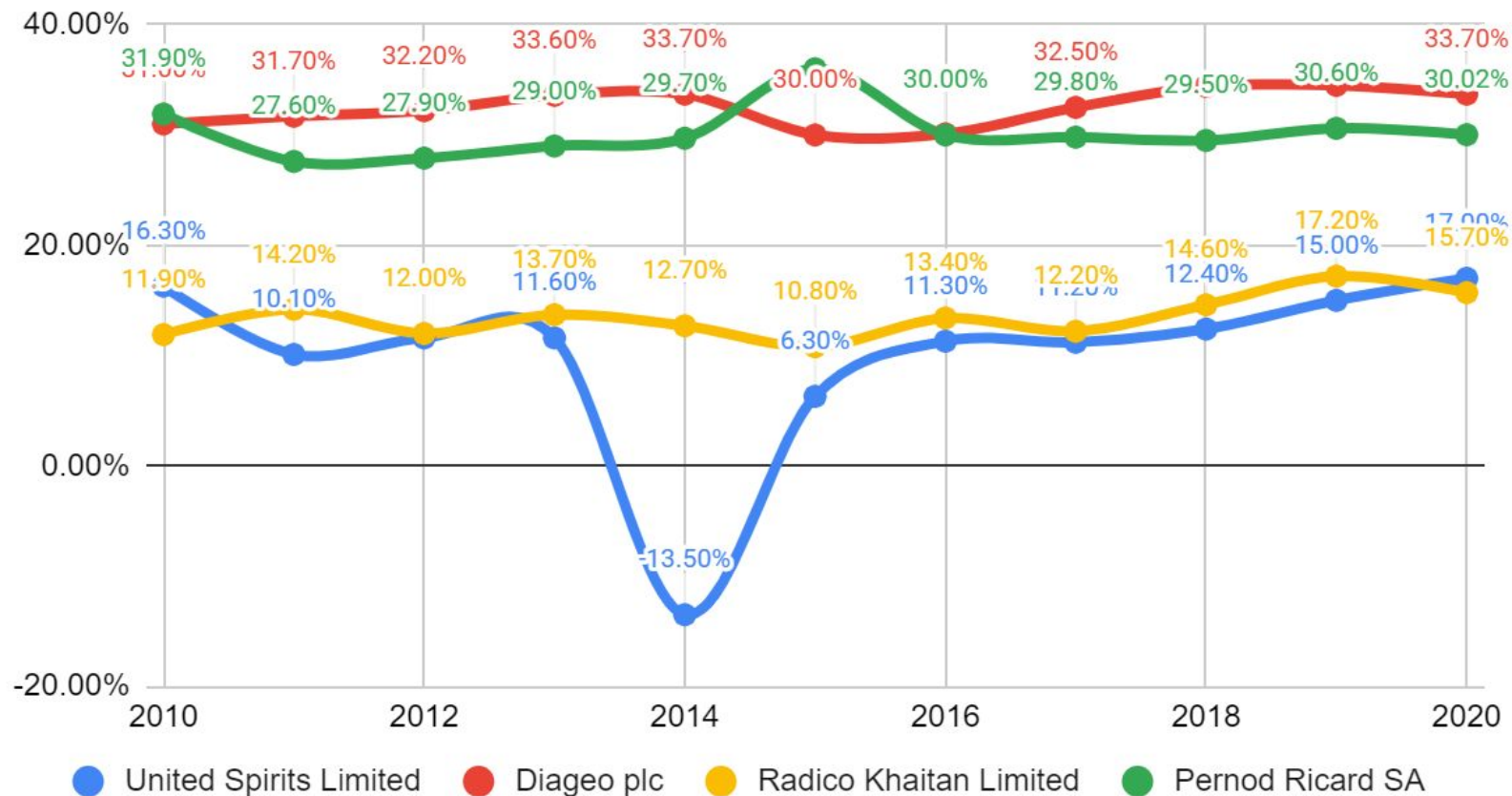
Gross Margins



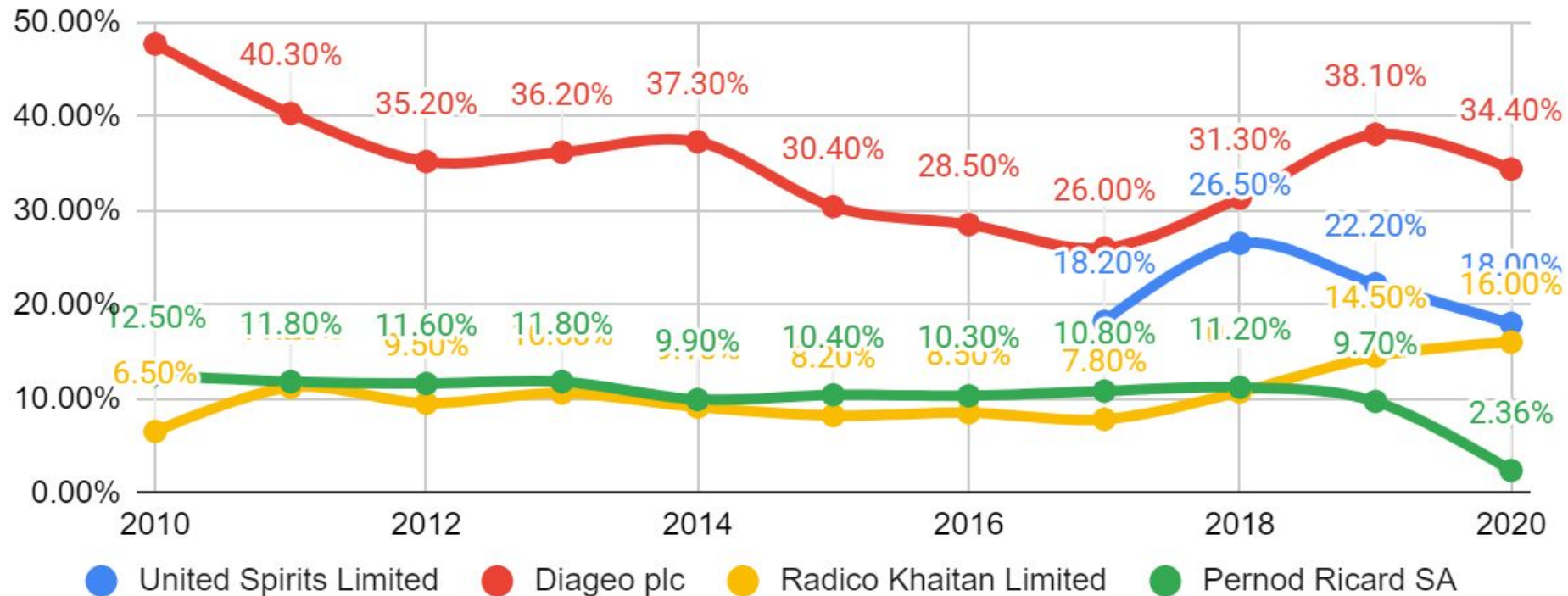
Gross Margin

- United Spirits Limited
- Diageo plc
- Radico Khaitan Limited
- Pernod Ricard SA

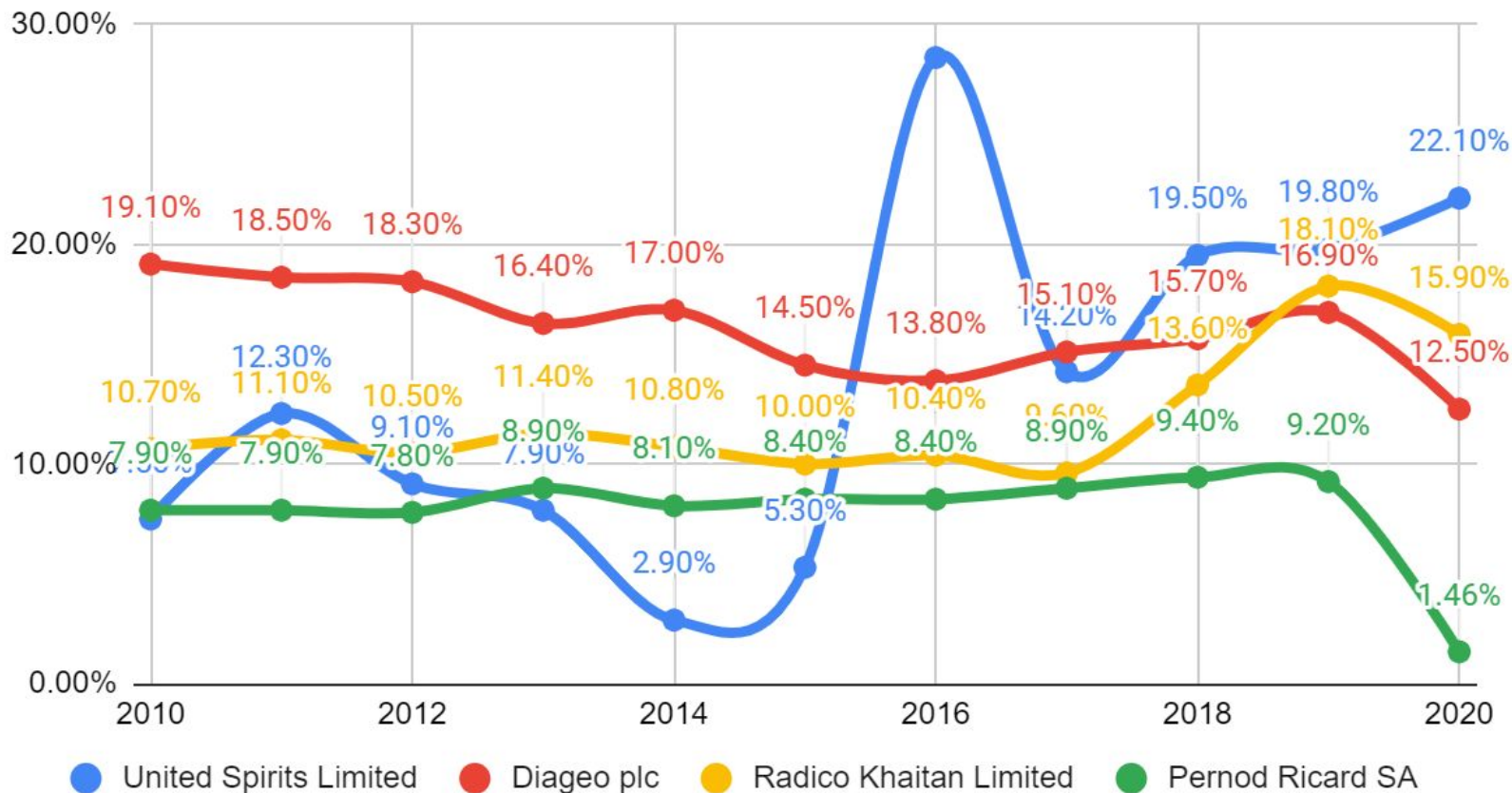
EBITDA Margins



Return on Equity (ROE %)



Return on Capital Employed (ROCE%)

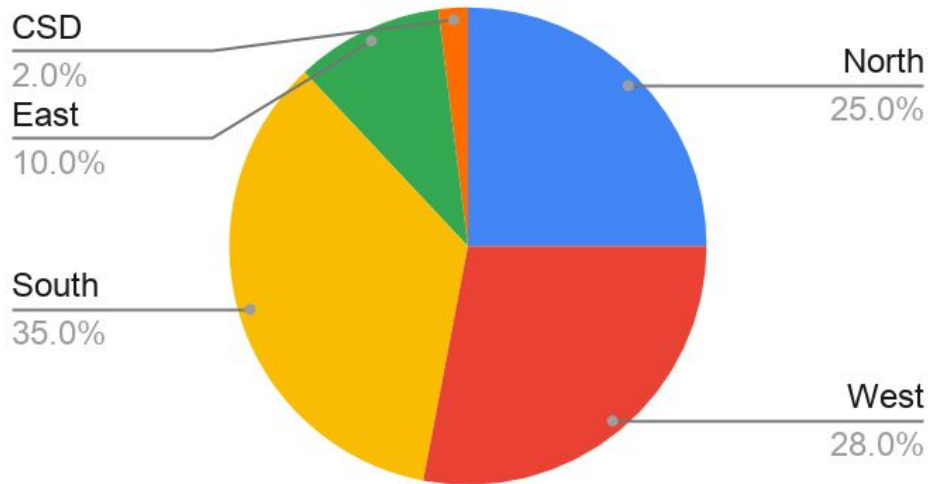




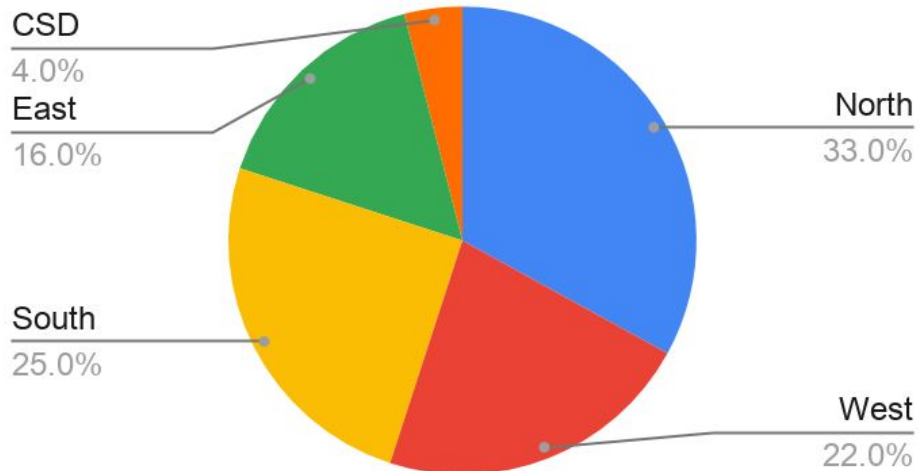
Why Beer?

- Cost
- Convenience
- Lighter option
- Weather driven consumption
- Emergence of microbreweries
- Preferred by women
- Urban oriented

Geographical Contribution - Beer



Geographical Contribution - IMFL Prestige & Above



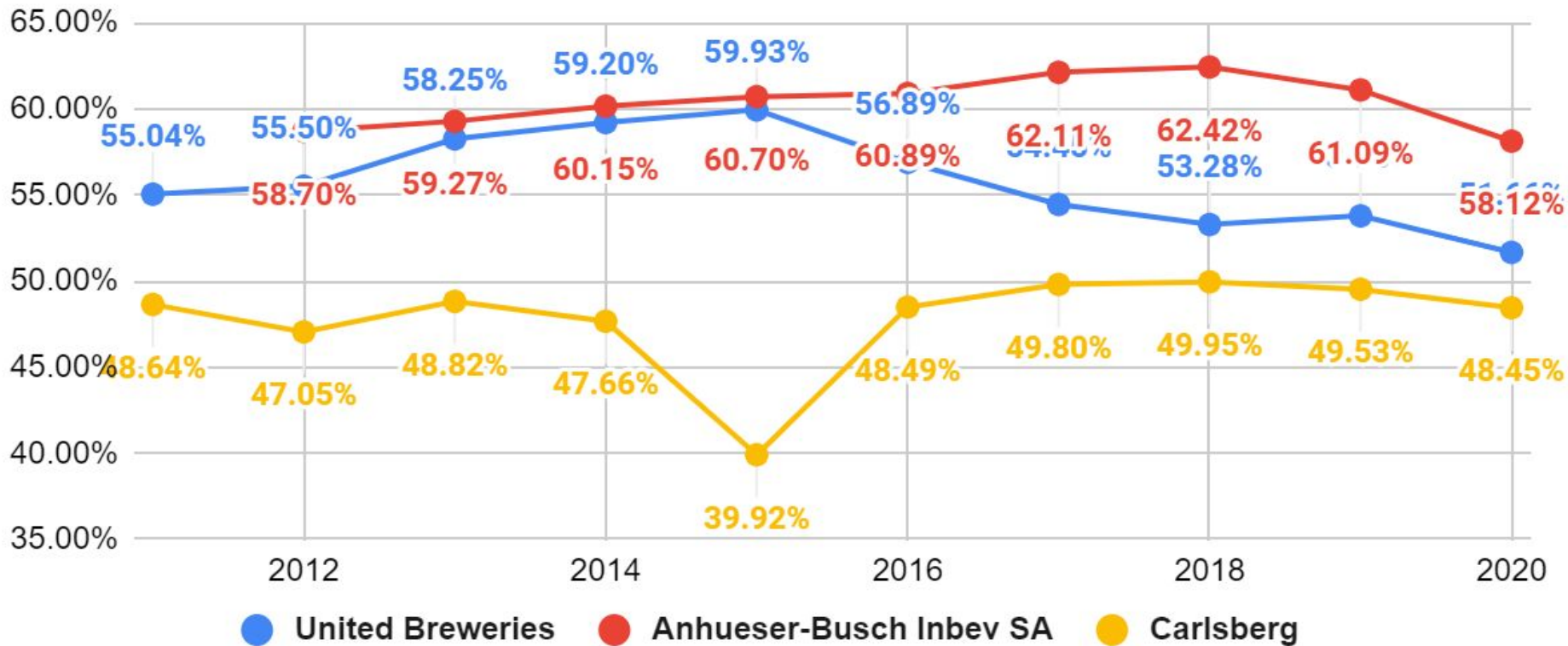
Raw materials

Packaging material - 60% (25-30% of revenues)

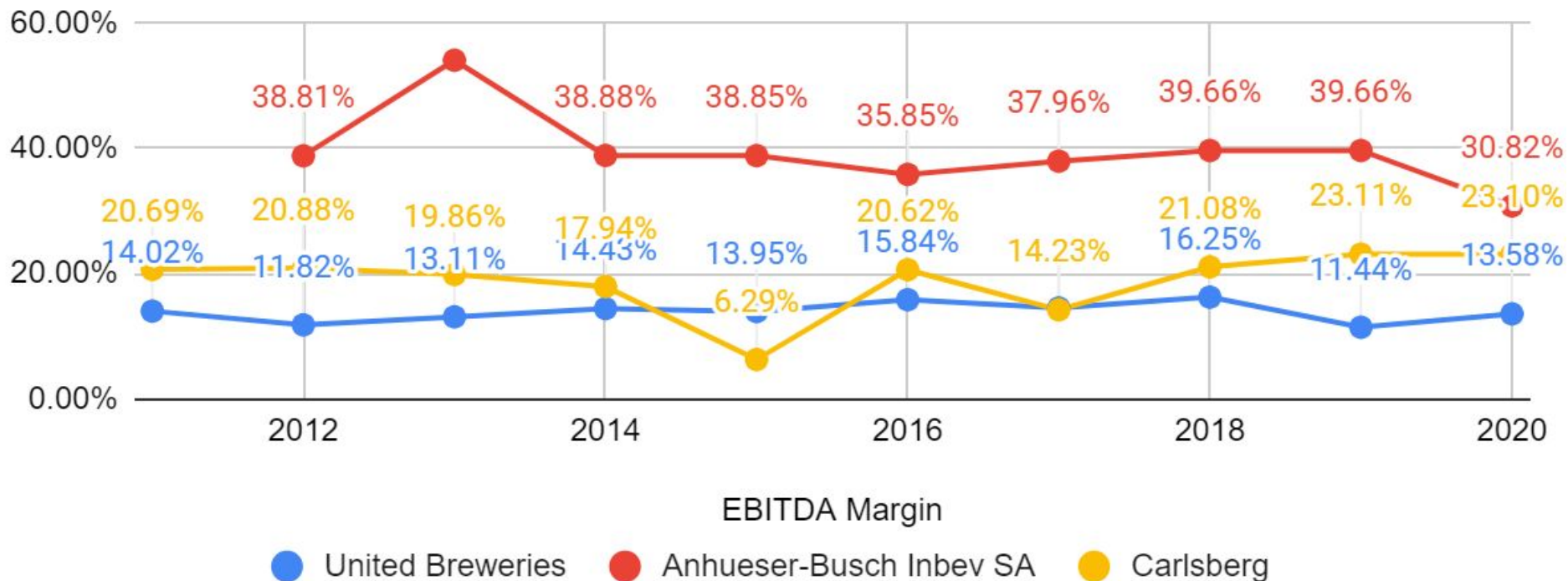
Raw materials - 37% (50% of which is Barley)

Purchase of traded goods - balance 3%

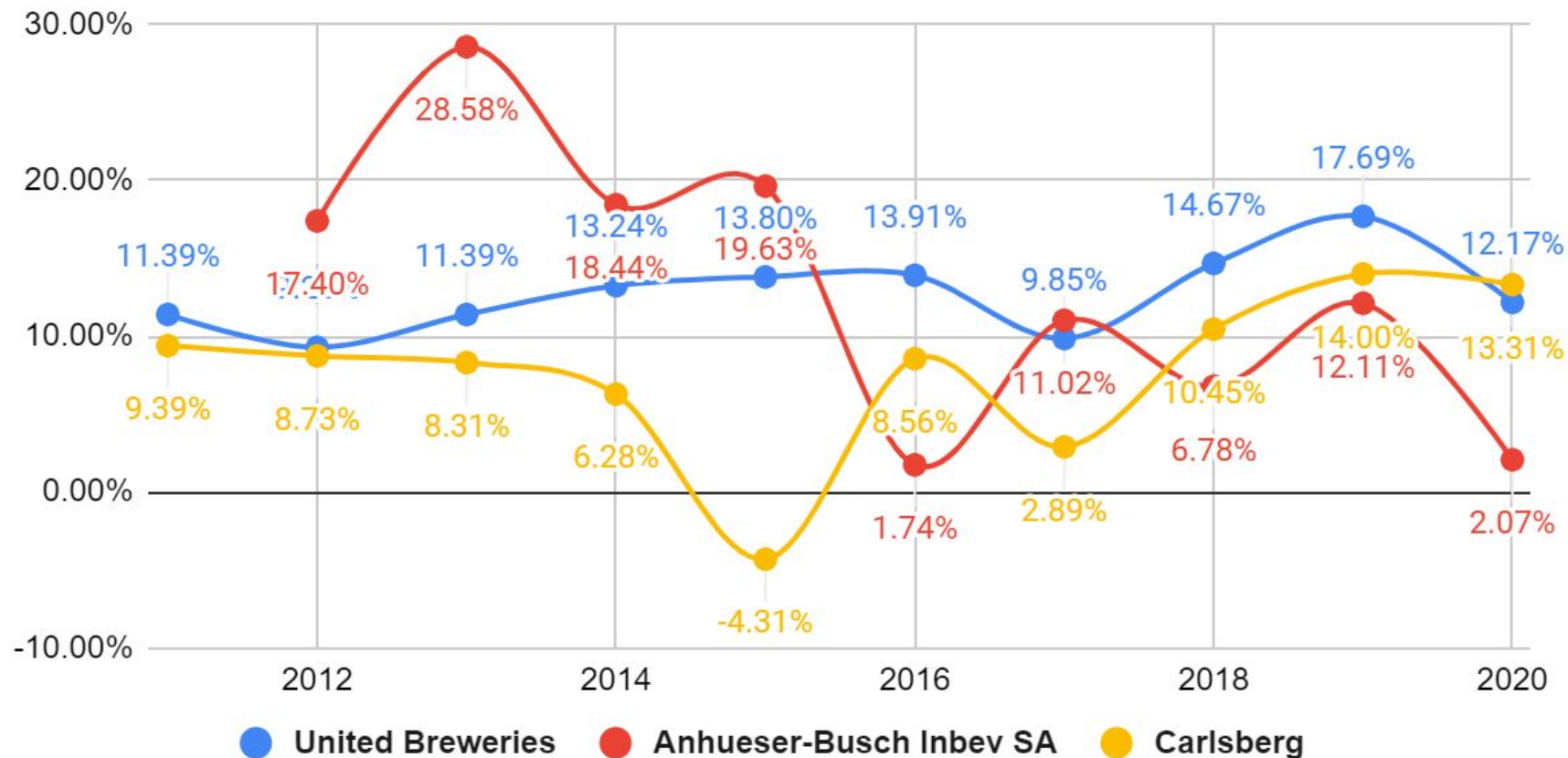
Gross Margins



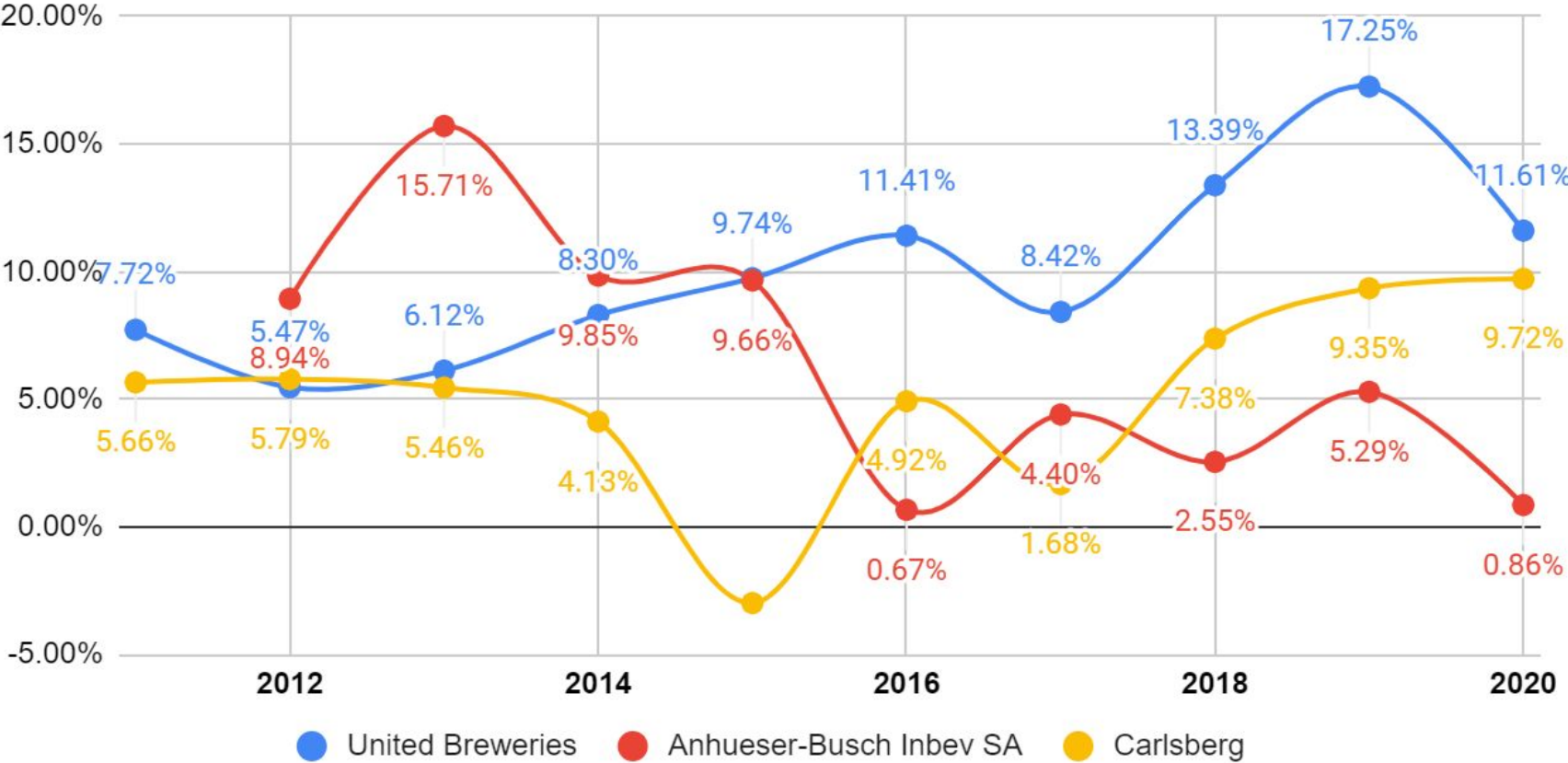
EBITDA Margins



Return on Equity (ROE%)



Return on Capital Employed (ROCE%)



Key variables in Alco bev Industry

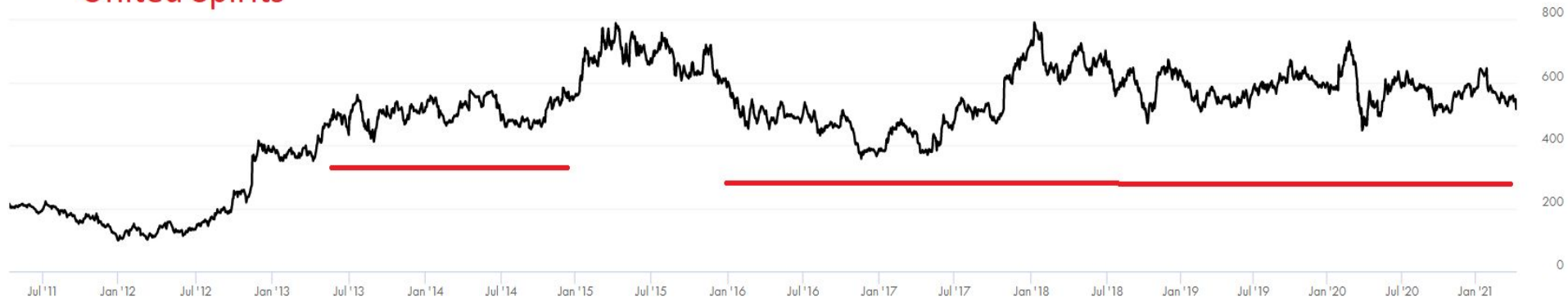
- Need a license to produce
- Pricing power is absent
- Regulated distribution
- No promotion allowed
- Craft beer/ microbreweries

Market price performance muted

- In May 2013, Diageo acquired 10% stake for Rs 2,092 crore in liquor company United Spirits through a preferential allotment.
- In July 2014, Diageo bought 26% of United Spirits from public for INR 11,420 Cr valuing the company at 43,900 Cr and raising its stake in India's largest liquor company to 54.78%.
- Currently the market is valuing United Spirits at ~ 38,000 Cr

Not a recommendation. Just to discuss what has been happening with the stock price.

United Spirits



United Breweries



Get “tipsy” but not “high”

