



ECON355: Business Analysis and Valuation

ALCHOLIC BEVERAGE INDUSTRY

PRESENTED BY:

VASU MITTAL : 2022B1A41021P

UJJWAL KUMAR LAL : 2022B1A11616P

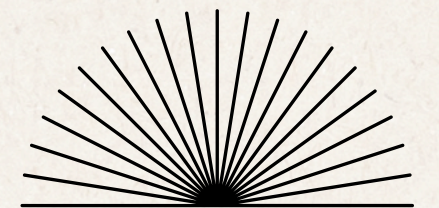
KHUSH KHEMKA: 2022B1AA0672P

ARINDAM CHATTERJEE: 2022AAPS0028P

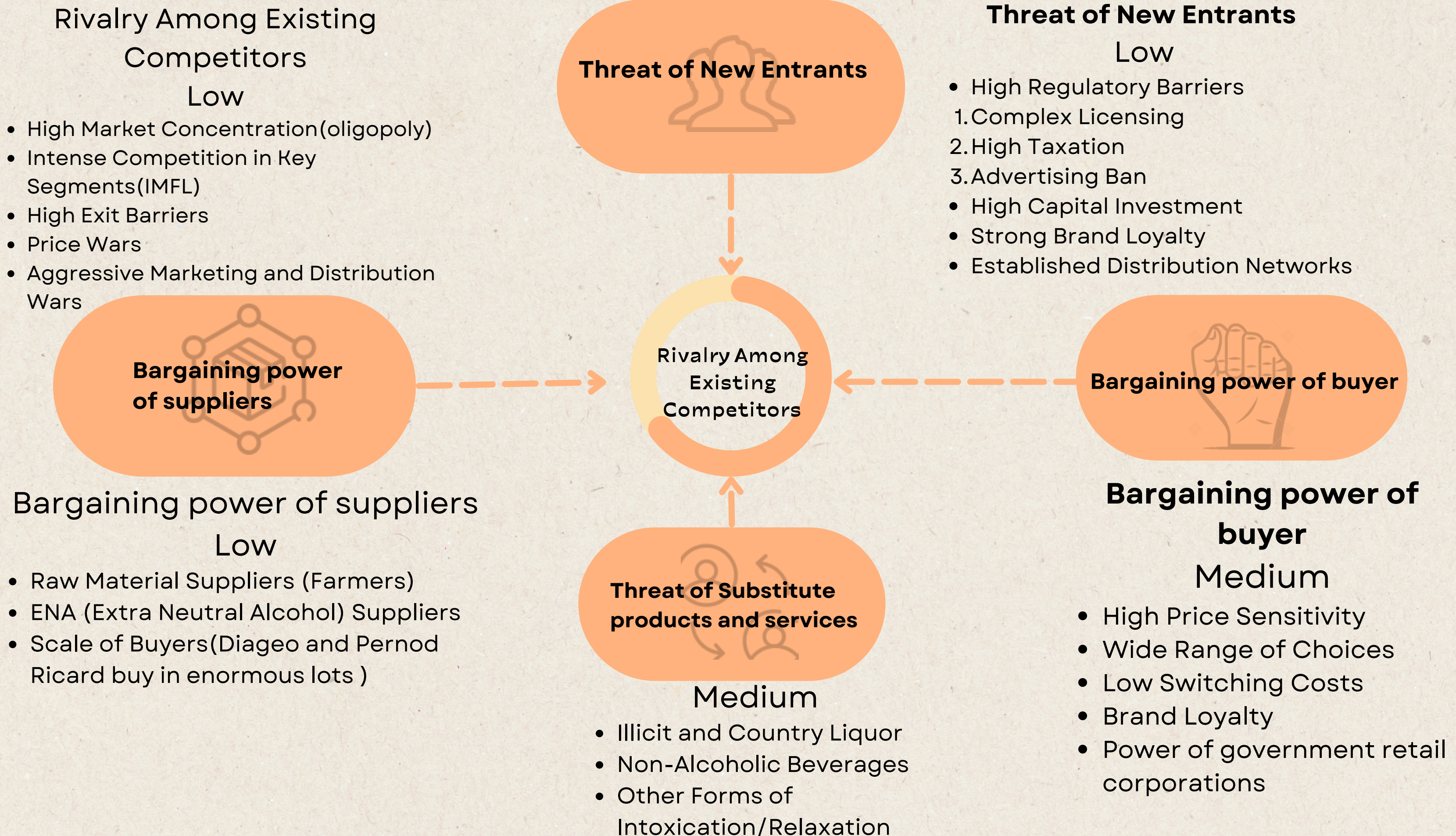
AARSH PANDEY: 2022B2A11099P

AAYUSH RAJ KAPOOR: 2022B1A31600P

Radico Khaitan Ltd
United Spirits Ltd
United Breweries Ltd



Porter's Five Forces



PESTEL ANALYSIS

Political



- Conflicting laws across Indian states create complex compliance demands
- Threats of bans (e.g., Bihar) & tight restrictions on direct marketing (surrogate branding under scrutiny).

Economic



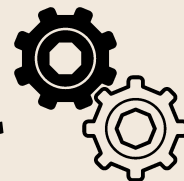
- Urbanization + middle-class growth fuels super-premium spirits segment.
- Raw material inflation + state excise (alcohol outside GST) compress profit margins.

Social



- Shift toward authentic/craft labels; reflected in USL's brand strategy.
- Growing acceptance of alcohol among urban youth and women widens the market.

Technological



- Efficiency, quality, and predictive analytics improvements
- Smart product design and engagement via digital, despite direct sale limitations.

Environmental



- Regulatory demands driving sustainable wastewater management.
- Stakeholder pressure for responsible operations & low-carbon footprint.

Legal

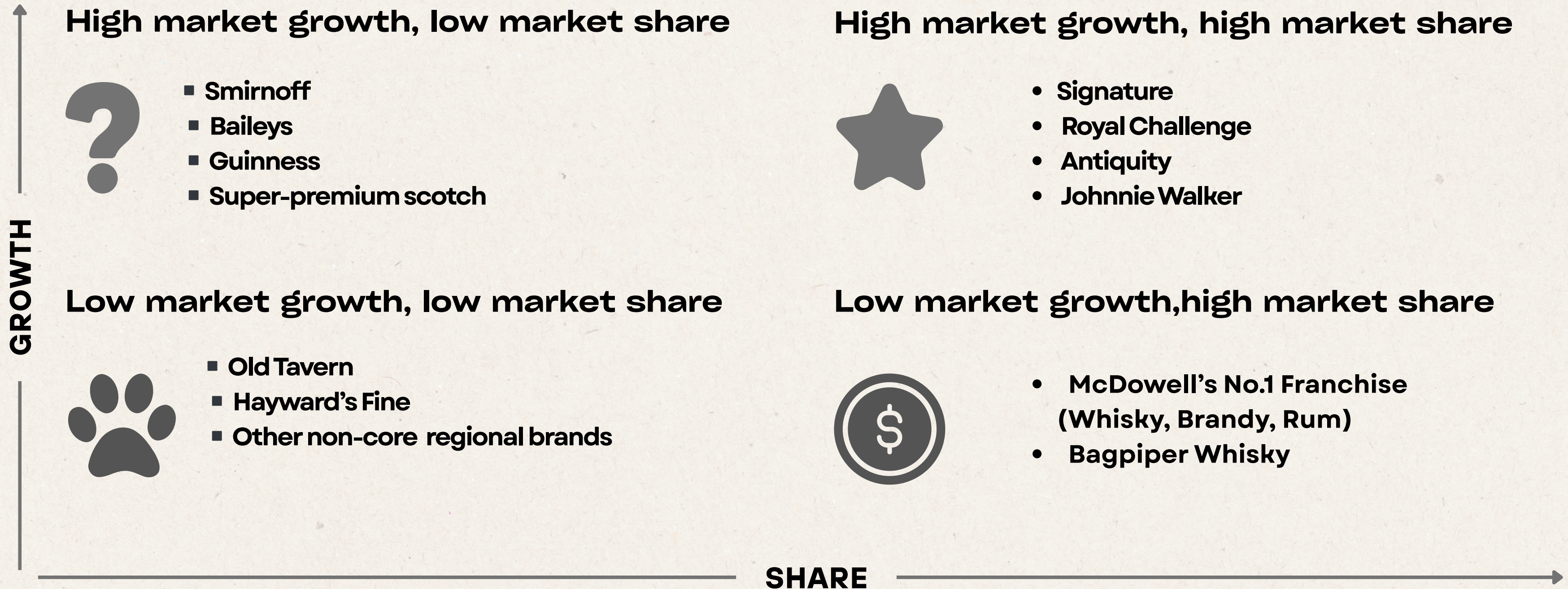


- Multi-State Licensing & Legal Drinking Age Conflicts
- Surrogate marketing legality keeps shifting

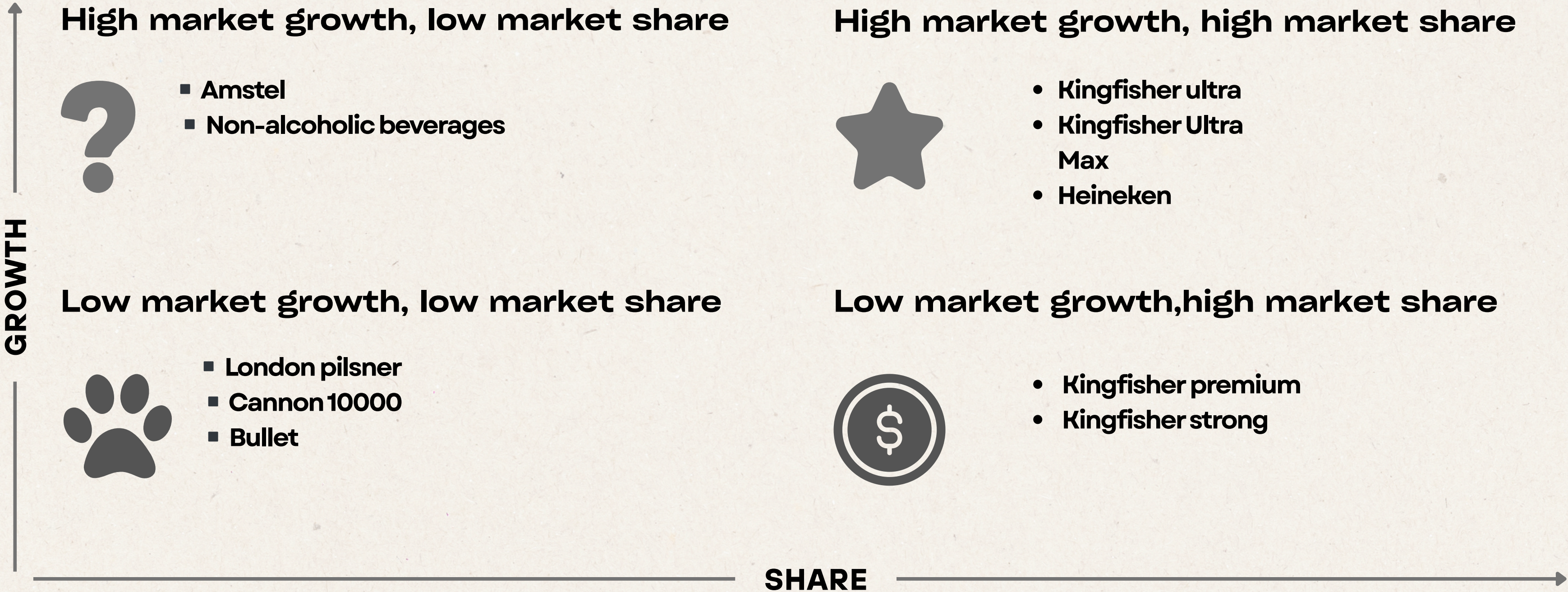
BCG Matrix



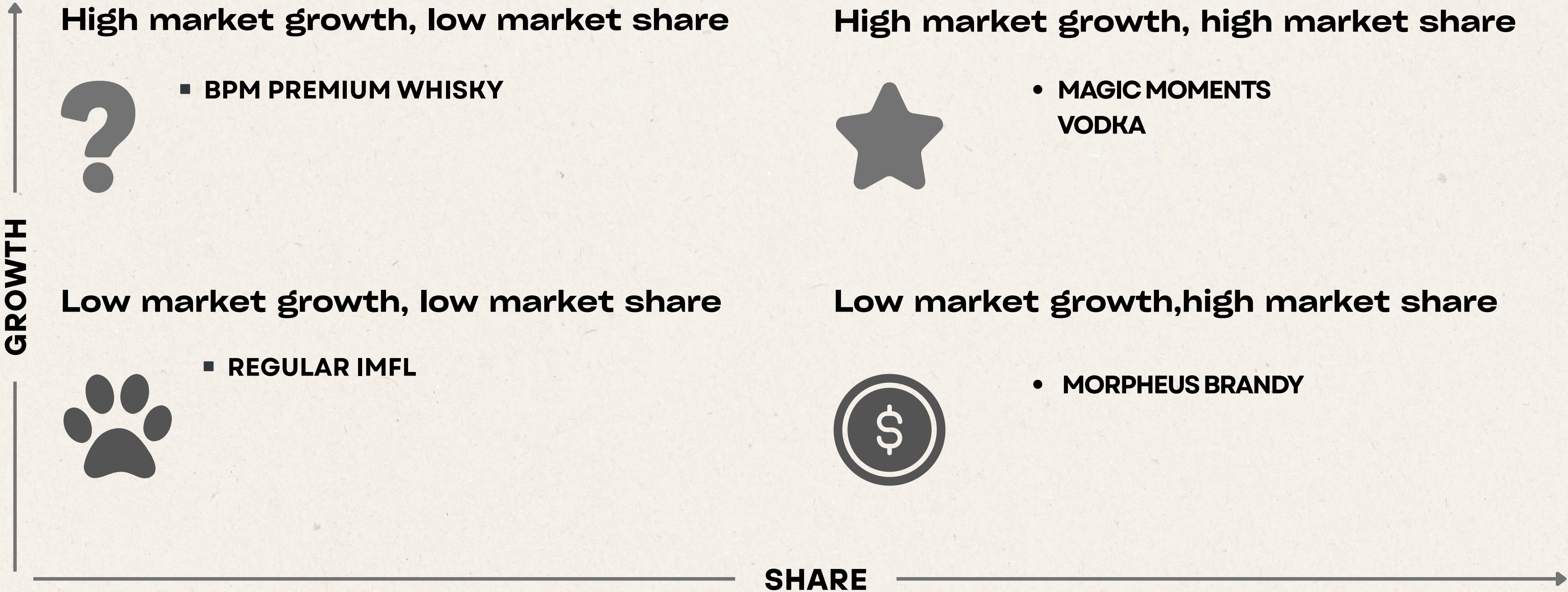
04/10



BCG Matrix



BCG Matrix



Comparative SWOT Analysis

05/10



Category	United Spirits (USL)	United Breweries (UBL)	Radico Khaitan (RK)
FY24 Revenue	₹10,905 Cr	₹8,800 Cr (est.)	₹15,484 Cr (↑21.5% YoY)
Net Profit Margin	~6.5%	~5%	7.1%
Market Share (India)	~35% of spirits market	~52–54% of beer market	~6–7% of spirits market
Global Presence	Exports to 30+ countries	Expanding into Africa & South Asia	Early export stage (1.7% volume share)
Strengths	Backed by Diageo; strong premium brands (Johnnie Walker, McDowell’s)	Backed by Heineken; 11 breweries; dominant beer player	Backward integrated; high ROCE (15.9%); debt-light (D/E 0.27x)
Weaknesses	India-dependent (~90% revenue); high compliance costs	Low exposure to craft beer (<5%); low margins; regulatory burden	Smaller scale; inventory-heavy (Quick ratio: 0.94x); low whisky share
Opportunities	Premiumization trend; non-alc growth; sports brand (RCB) synergy	Premium beer (↑26% YoY); non-alc beer (CAGR 18%); digital/eco-packaging	Single malts, global alliances, capacity expansion
Threats	Tax/regulatory shocks; inflation; shift toward low-/no-alc beverages	Excise raids (₹980 Cr); barley/glass inflation; state-level disputes	ENA/grain price volatility; strong competition; policy risk

Strategic Positioning – Who’s Ahead?

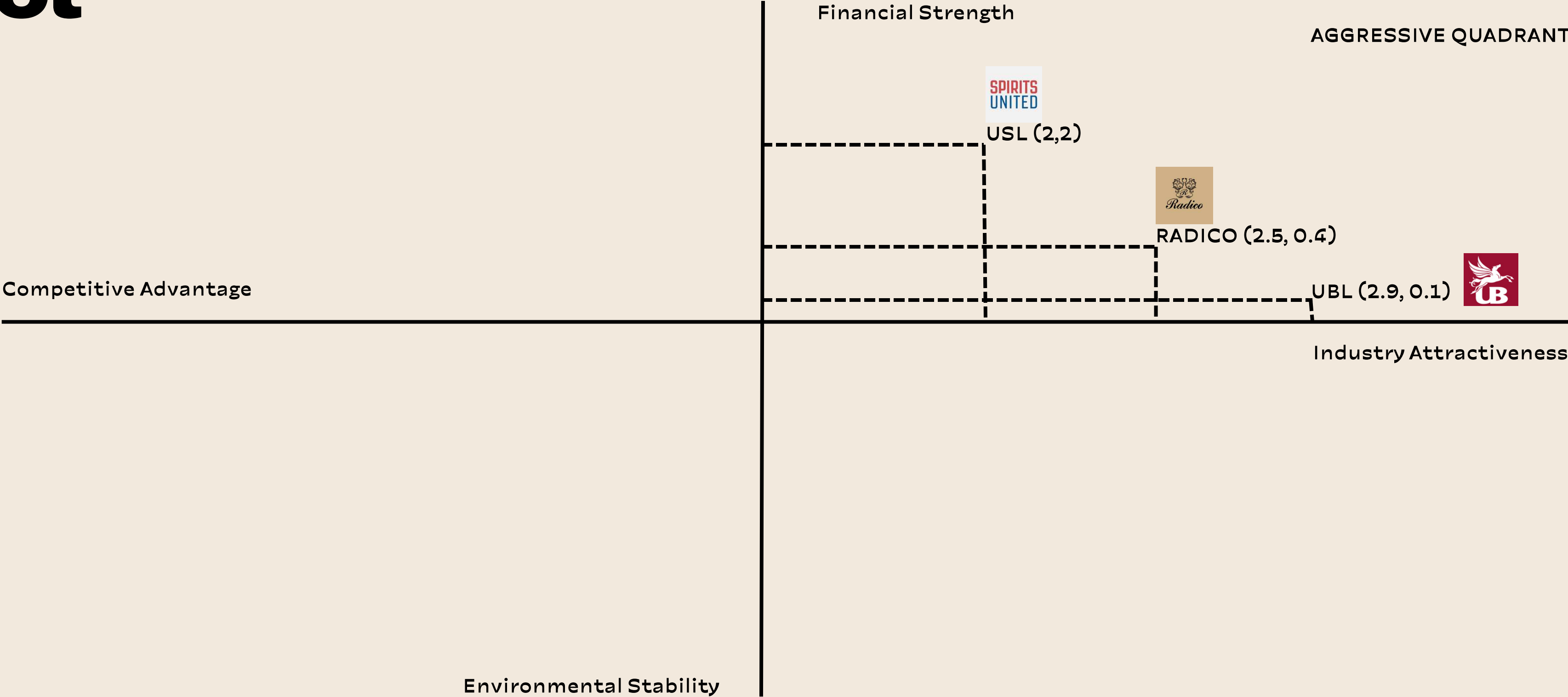
Clearly, Radico Khaitan emerges as a high-potential challenger, while USL holds strong as a brand-driven leader, and UBL remains stable but exposed to margin and policy risks.

Company	Strategic Edge	Limiting Factor	Positioning Verdict
USL	Premium portfolio, global reach, Diageo backing	High valuation, India dependency	<div></div> Well-positioned, brand-driven leader
UBL	Beer leader, Heineken support, rural/global push	Low margins, regulatory volatility	<div></div> Stable but exposed to policy & margin risks
RK	Fast-growing, debt-light, expanding portfolio	Scale constraint, weaker mass presence	<div></div> Agile challenger with high upside

Space Analysis - USL vs UBL vs Radico

Parameter	United Spirits (USL)	United Breweries (UBL)	Radico Khaitan (RK)
Matrix Position	Aggressive Quadrant(X = +2, Y = +2)	Aggressive Quadrant(X = +2.9, Y = +0.1)	Slightly Aggressive Quadrant(X = +2.4, Y = -0.4)
Financial Strength	+4 Strong revenue, Diageo backing, global scale, innovation, profitability	+4.4 Low debt, strong ROE/ROA, Heineken support, high efficiency metrics	+4.8 High liquidity, low D/E, strong profitability, good margins, operational throughput
Industry Attractiveness	+5 High growth, premiumization, urbanization, favorable demographics	+4.3 Growing demand, urban millennials, entry barriers, export opportunities	+4.2 High CAGR, consumer shift to premium, strong export potential
Competitive Advantage	-3 Market leader but faces state-wise pricing, fragmented competition	-1.4 Strong brand equity, but faces craft beer pressure and excise duties	-1.7 Leader in vodka but limited scale, weaker whisky share
Environmental Stability	-2 ESG challenges, regulatory risk, but some mitigation through initiatives	-4.3 Excise shifts, state bans, input inflation, partial ESG mitigation	-4.4 High cost volatility, fragmented regulation, trade shocks
Strategic Implications	- Accelerate premium segment- Expand Tier 2/3 reach- Invest in digital & M&A	- Strengthen premium/non-alc beer- Digital, ESG, export push- Expand distribution	- Deepen premium focus- Invest in capacity & ESG- Hedge cost/regulatory shocks
Parameter	United Spirits (USL)	United Breweries (UBL)	Radico Khaitan (RK)

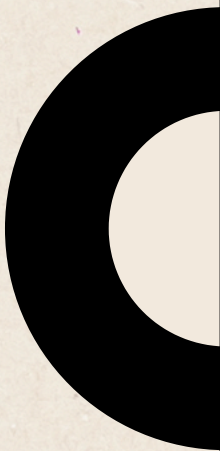
Space Matrix - Plot



RATIO ANALYSIS

RATIO ANALYSIS IS A FINANCIAL TOOL USED TO EVALUATE A COMPANY’S PERFORMANCE BY COMPARING KEY FIGURES FROM ITS FINANCIAL STATEMENTS.

IT HELPS ASSESS LIQUIDITY, PROFITABILITY, EFFICIENCY, AND VALUATION , ENABLING STAKEHOLDERS TO MAKE INFORMED DECISIONS.



	Name	United Spirits	United Breweries	Radico Khaitan
	CMP Rs.	1370.9	1969	2675.9
	Face Value Rs.	2	1	2
	Sales (Rs.Cr.)	12069	8915.09	4851.15
	Market Cap (Rs.Cr.)	99745.42	52074.52	35851.33
Liquidity	Current Ratio	1.95	1.44	1.63
	Quick Ratio	1.46	1.01	0.94
Profitability	ROCE %	28.67	13.88	16.22
	ROE %	21.41	10.77	13.62
	OPM %	18.53	9.43	13.89
	ROA 12M %	13.35	6.03	8.01
Efficiency	Asset Turnover	0.99	1.17	1.13
	Debtor Days	103.13	117.12	88.95
	Debt/Equity	0.06	0.14	0.28
	Interest Coverage	25.72	50.06	7.3
Valuation	BV Rs.	111.42	165.05	201.11
	P/E	61.19	113.24	103.86
	CMP/BV	12.3	11.93	13.31
	CMP/Sales	8.26	5.84	7.39
	Div Yield %	0.66	0.51	0.15

R-O-E DECOMPOSITION

ROE DECOMPOSITION, OR THE DUPONT ANALYSIS, BREAKS RETURN ON EQUITY INTO THREE COMPONENTS: NET PROFIT MARGIN, ASSET TURNOVER, AND FINANCIAL LEVERAGE.

THIS HELPS ANALYSTS UNDERSTAND WHETHER A COMPANY'S ROE IS DRIVEN BY OPERATIONAL EFFICIENCY, ASSET USE, OR DEBT LEVELS, ENABLING BETTER FINANCIAL AND STRATEGIC DECISION-MAKING.

RETURN ON EQUITY

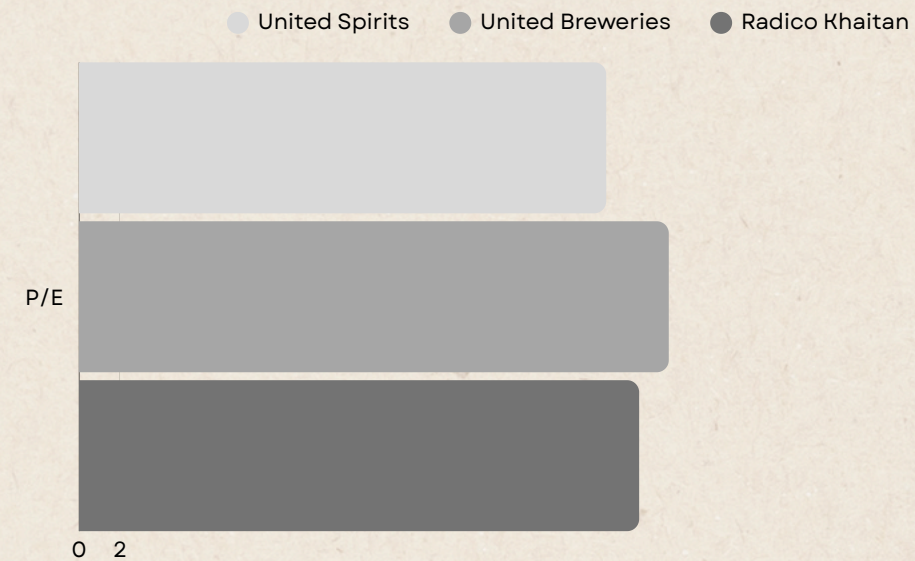
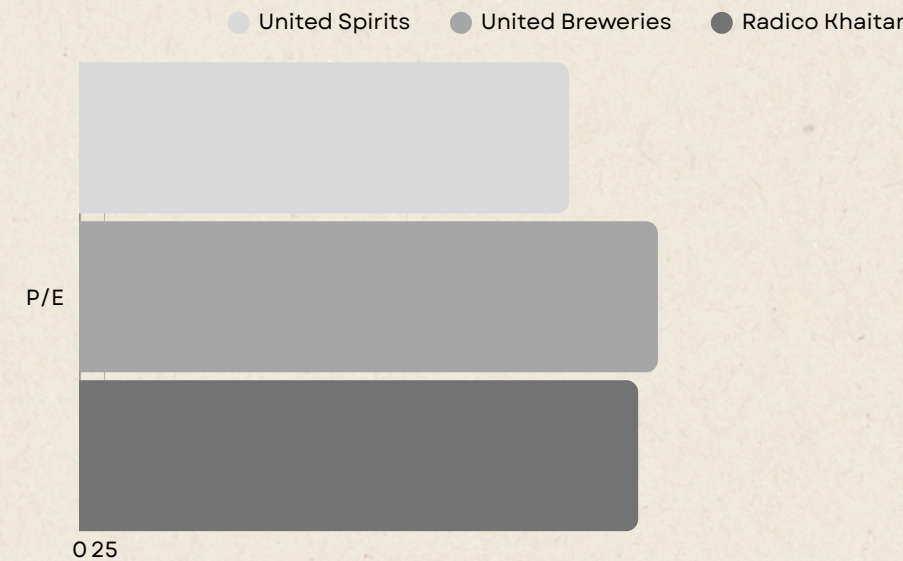
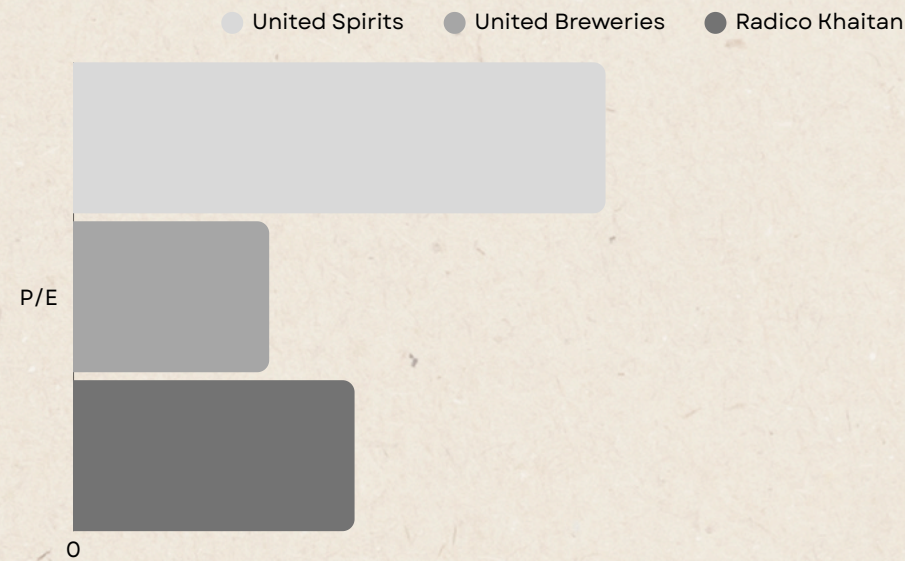
NET PROFIT MARGIN

X

ASSET TURNOVER

X

EQUITY MULTIPLIER



United Spirits

High ROE driven by strong profit margins and moderate leverage; asset turnover slightly below peers.

United Beverages

Low ROE due to weak margins despite strong asset turnover; low leverage limits return amplification.

Radico Khaitan

Balanced ROE from moderate margins, decent asset efficiency, and controlled financial leverage.

Liquidity Analysis

United Spirits

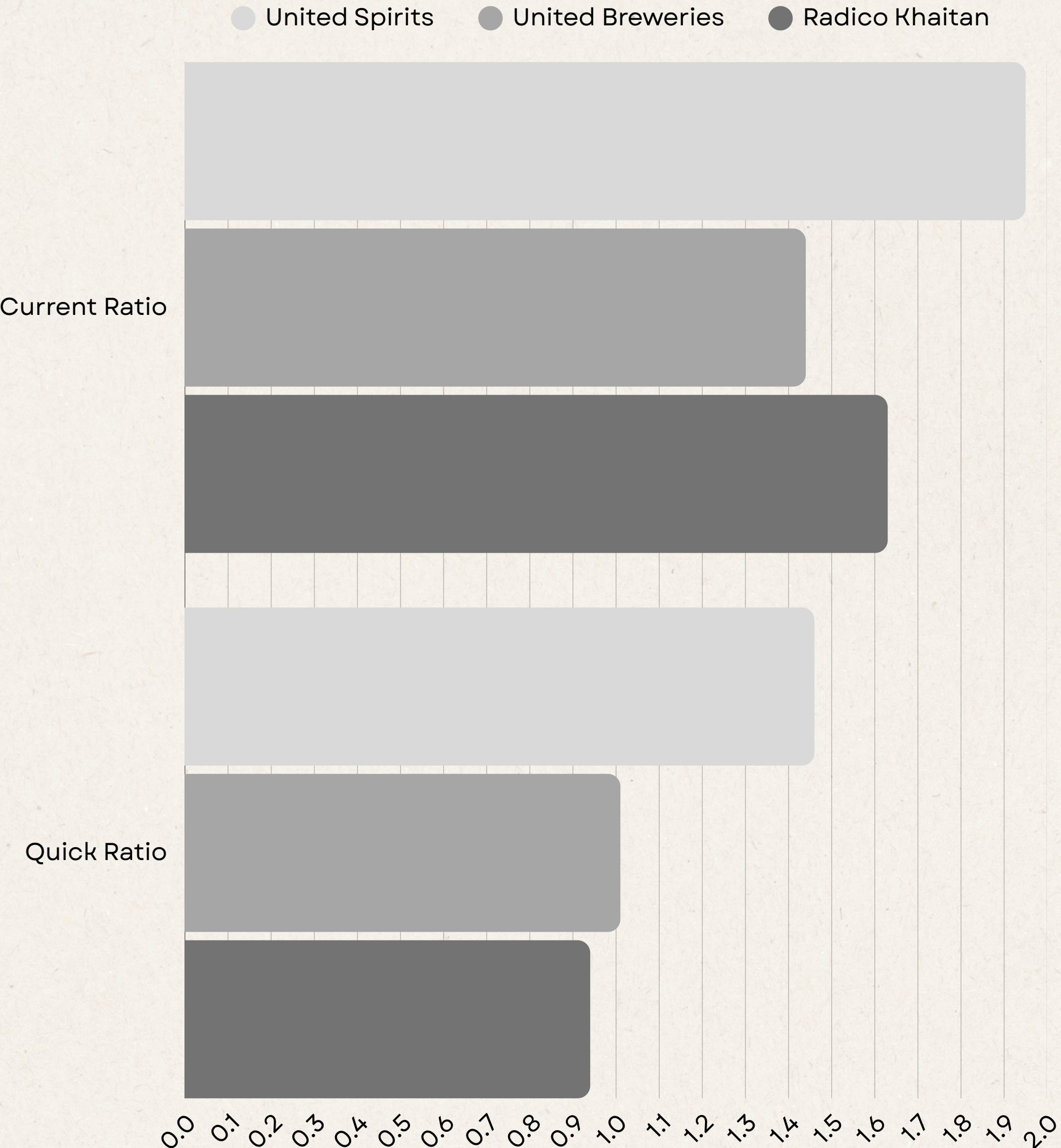
High current (1.95) and quick (1.46) ratios reflect excellent short-term solvency and liquidity. It shows USL is financially disciplined and can handle working capital shocks easily.

United Breweries

Marginally safe (1.44/1.01), showing UBL keeps a lean balance sheet. Little room for delays in payments or inventory buildup.

Radico Khaitan

Quick ratio < 1 (0.94) indicates cash is tied up in inventory. Liquidity is vulnerable to slower inventory movement.



Profitability Analysis

United Spirits

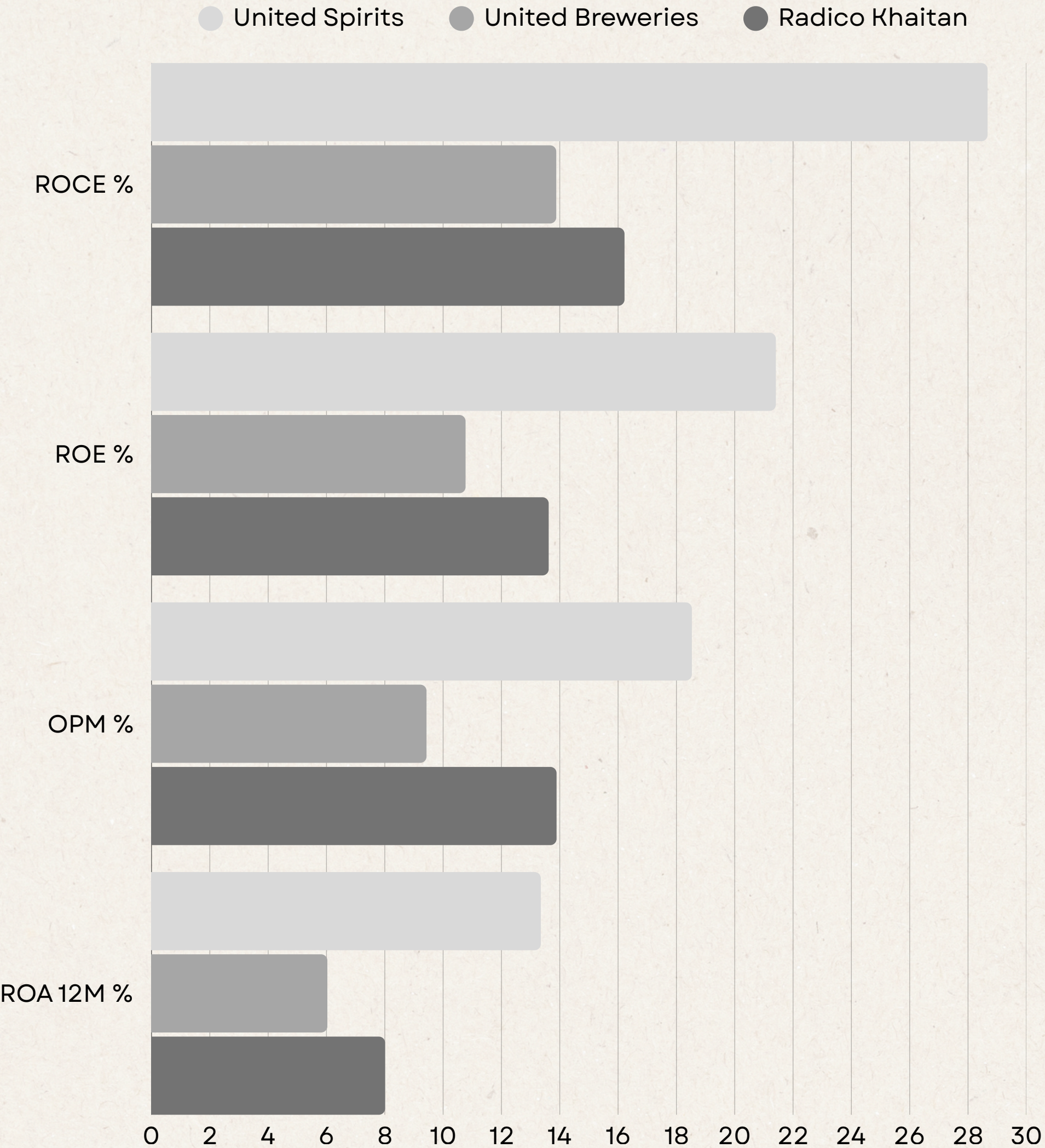
Top-tier ROCE (28.7%) and OPM (18.5%) reflect superior pricing power and capital efficiency. These returns justify its premium valuation and indicate a strong moat.

United Breweries

Lowest margins and ROE in the set. High excise on beer and weak pricing power limit profit conversion. Even strong brand equity doesn't translate into high shareholder return.

Radico Khaitan

Margins (OPM 13.9%) are catching up to USL. ROCE and ROE suggest decent, improving returns. Growth in premium portfolio is helping.



Efficiency and Debt Management

United Spirits

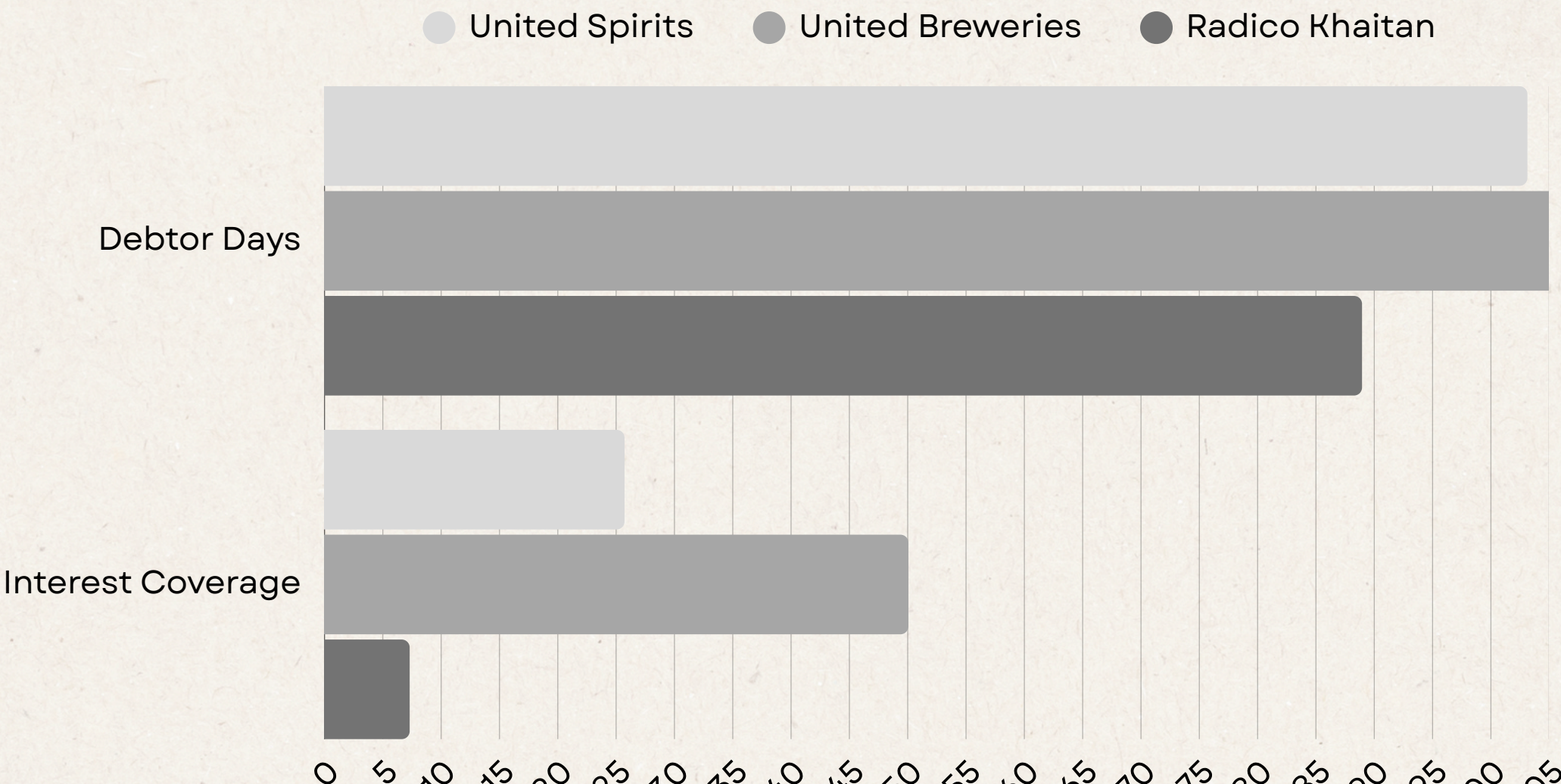
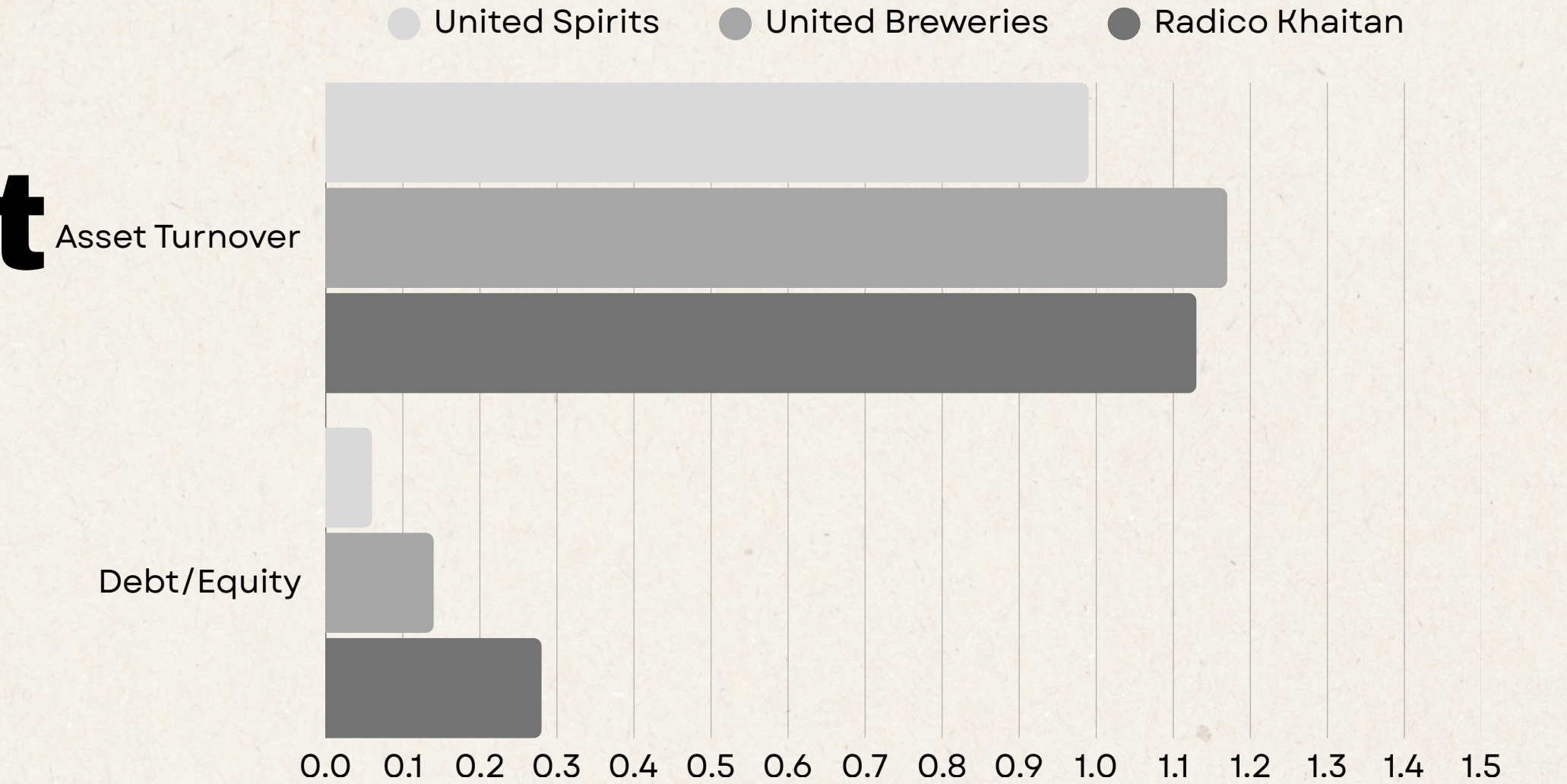
Low D/E (0.06) and healthy interest coverage (25.7×) show conservative financial leverage and safe borrowing. Slightly lower asset turnover, but risk is minimal.

United Breweries

Highest asset turnover (1.17×) and interest cover (50×) show very efficient operations and almost no reliance on debt—UBL can operate under pressure without credit risk.

Radico Khaitan

Shortest debtor cycle (88.9 days) helps cash flow, but highest D/E (0.28) and low IC (7.3×) raise concern if interest rates rise or profitability slips.



Multiple-Based Valuation

United Spirits

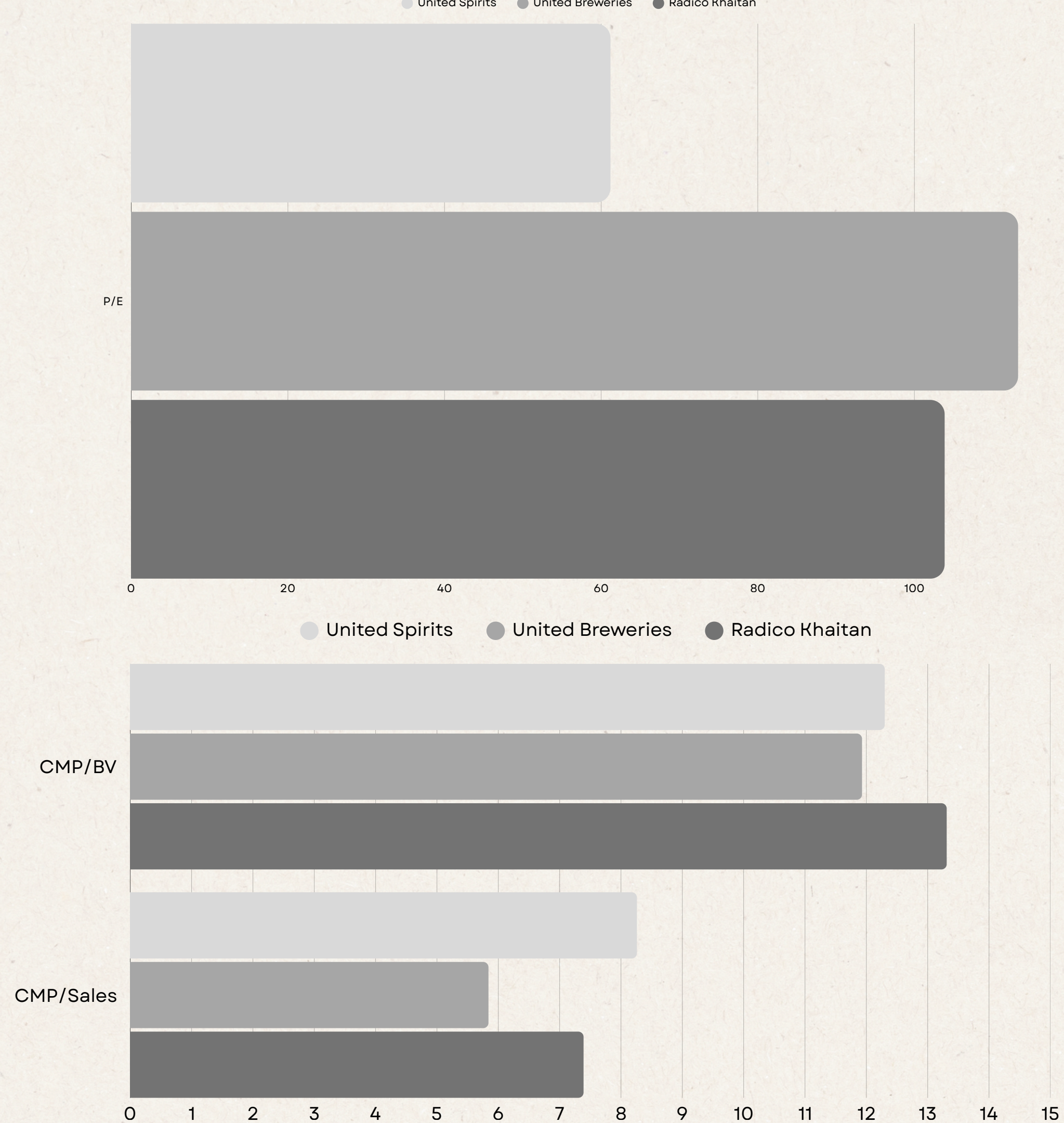
USL is the most justified. High returns (ROE 21.4%) support it. UBL's P/E is least justified due to weak ROE (10.8%). RAD's high P/E implies aggressive growth expectations with moderate ROE (13.6%).

United Breweries

RAD has the highest price over book value, which suggests the market expects rapid future value creation. However, USL's superior return on equity (ROE 21.4%) better supports its P/BV than RAD or UBL.

Radico Khaitan

USL commands the highest P/S – aligned with its industry-leading OPM (18.5%) and premium brand perception. RAD's P/S is also high, showing confidence in future margin expansion. UBL's lower P/S reflects weaker profitability.



Regression Beta

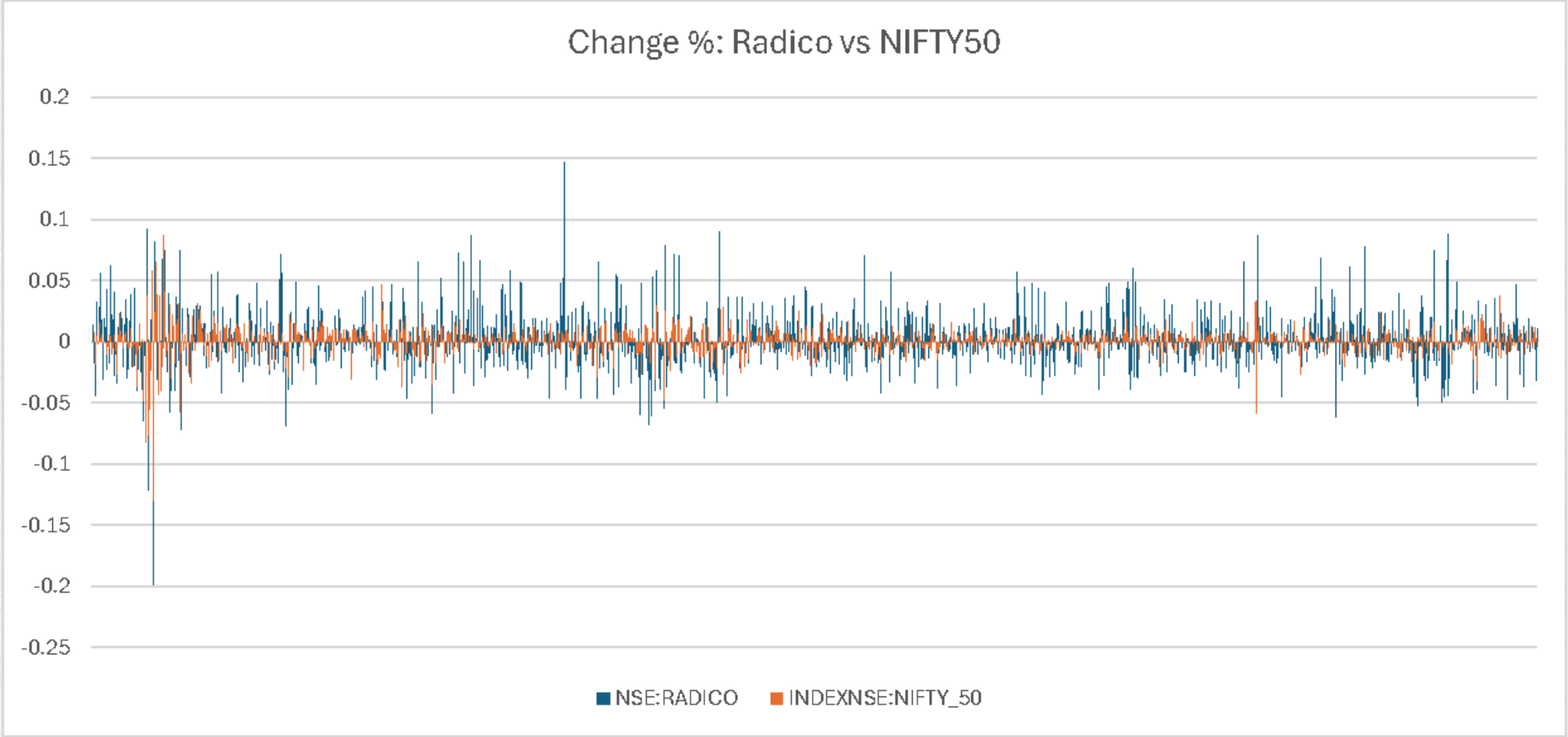
$$R_i = \alpha + \beta * R_m + \epsilon$$

Y axis

Slope

X axis

Company	Levered Beta
UNITDSPR	0.763
UBL	0.628
RADICO	0.707



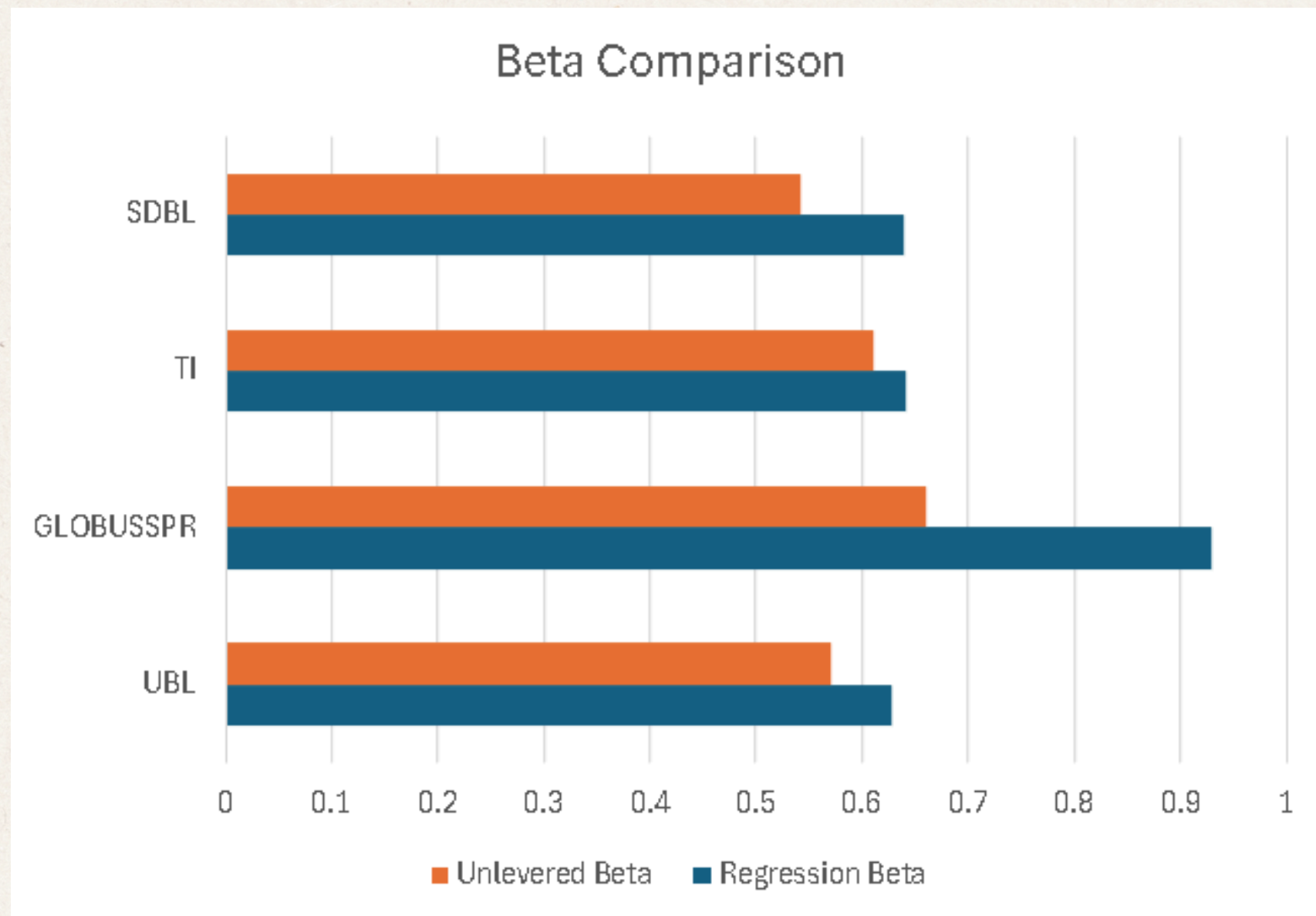
Unlevered Beta

Company	Unlevered Beta
UNITDSPR	0.731
UBL	0.570
RADICO	0.582

- Regression or Levered Beta can be used to calculate the Unlevered Beta of a company.
- Requires the **D/E ratio** and **Tax Rate** of the company
- Levered beta reflects both business and financial (debt) risk, while unlevered beta reflects only business risk by removing the impact of debt.

Bottom Up Beta - Radico Khaitan

- **Selected peer companies:** **Tilaknagar Industries (TI)**, **United Breweries (UBL)**, **Globus Spirits (GLOBUSSPR)**, and **Som Distilleries (SDBL)**.
- **Unlevered the betas of these firms to eliminate the effect of different capital structures.**
- **Calculated the weighted average unlevered beta to represent industry business risk.**
- **Re-levered the average using Radico Khaitan's debt-equity ratio to estimate its equity beta.**



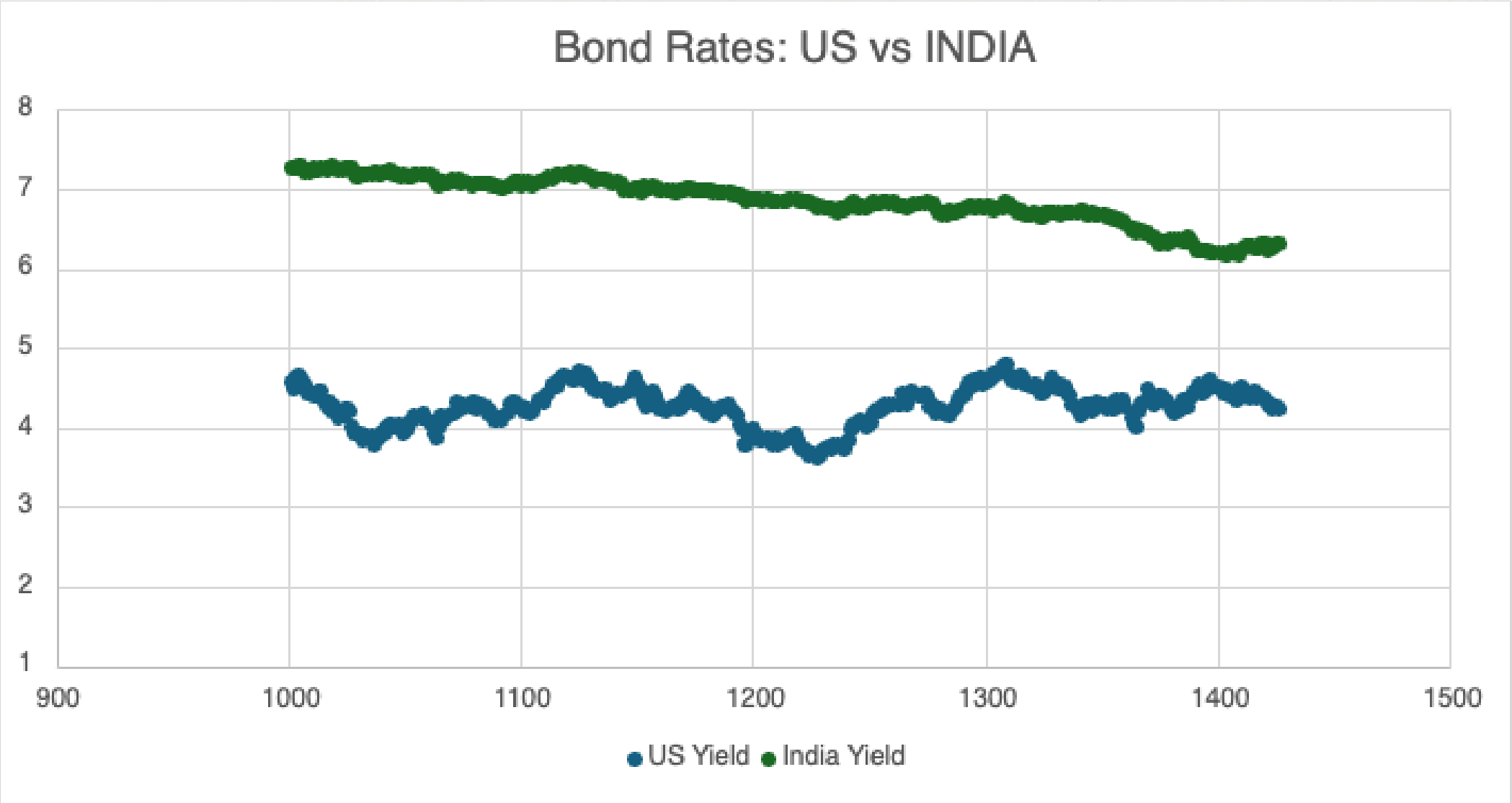
Bottom Up Beta

	UBL	GLOBUSSPR	TI	SDBL
Regression Beta	0.62846983	0.930442974	0.6419217	0.6393199
D/E	0.14	0.53	0.05	0.23
Tax Rate	27.20%	22.90%	-1%	22.10%
Unlevered Beta	0.57031655	0.6604683	0.6109338	0.5421896
Market Cap (in Cr)	₹ 52,075.0	₹ 2,756.0	₹ 6,657.0	₹ 3,067.0
Proportion	80.70%	4.30%	10.30%	4.80%
Weighted Average UB	0.57701753			
Tax Rate (for RADICO)	24%			
D/E (for RADICO)	0.28			
Levered Beta for RADICO	0.70034541			

Equity Risk Premium

METHOD 1: COUNTRY BOND DEFAULT SPREAD

Average Default Spread	Base Country Premium	Equity Risk Premium
3.57%	4.33%	7.90%



Equity Risk Premium

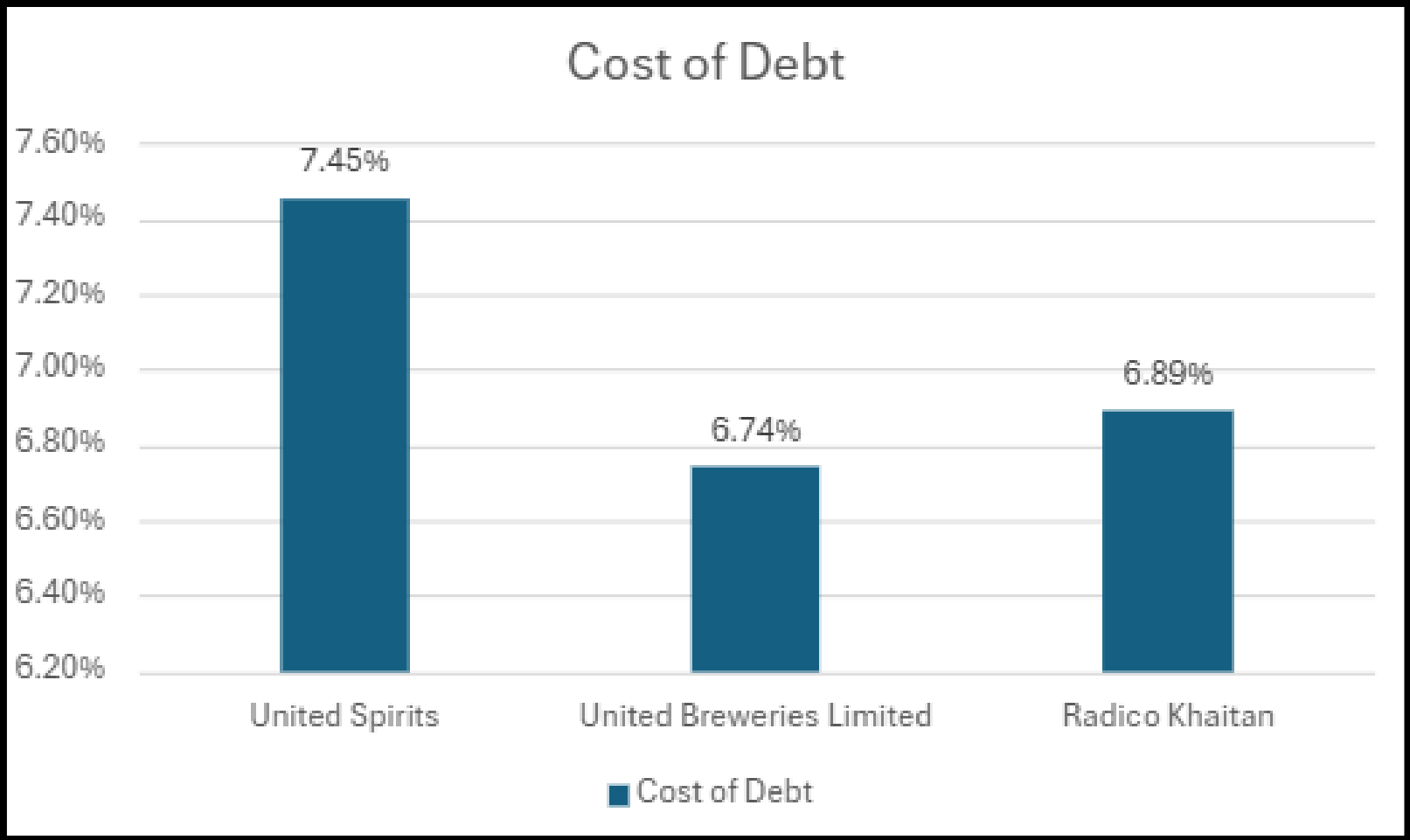
METHOD 2: RELATIVE STANDARD DEVIATION

STDEV USA	STDEV India
0.99%	1.41%

Relative Standard	1.416208213
Base Country Risk Premium	4.33%
India's Equity Risk Premium	6.13%

Cost of Debt

India RFR	6.29%	Ref: Base Country Premium			
		Company	Interest Coverage Ratio	Default Spread	Cost of Debt
		United Spirits			7.45%
		United Breweries Limited	50.1	0.45%	6.74%
		Radico Khaitan	7.3	0.60%	6.89%



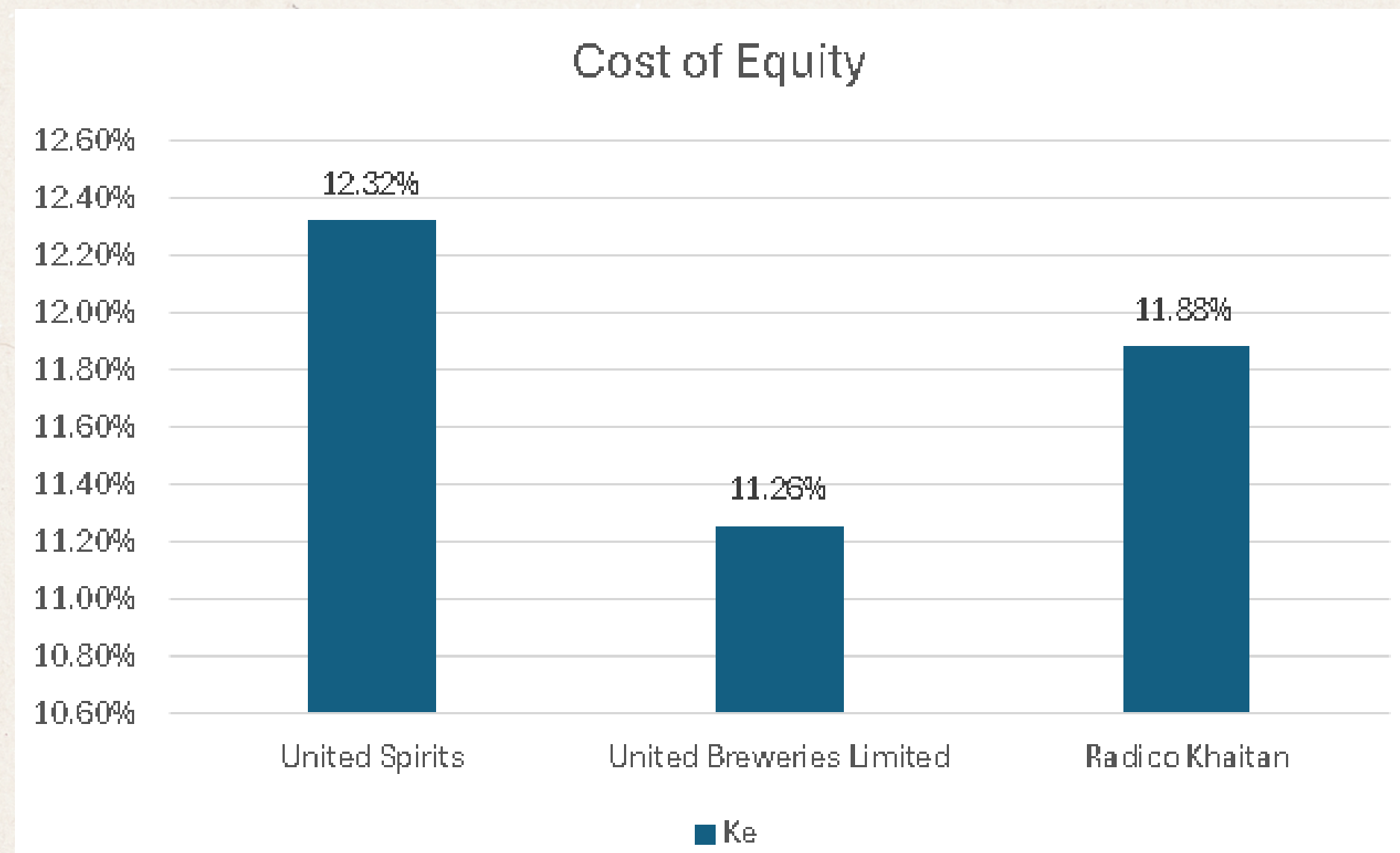
Date of Analysis: Data used is as of January 2025

For large non-financial service firms

If interest coverage ratio is		Rating is	Spread is
>	≤ to		
-100000	0.199999	D2/D	19.00%
0.2	0.649999	C2/C	15.50%
0.65	0.799999	Ca2/CC	10.10%
0.8	1.249999	Caa/CCC	7.28%
1.25	1.499999	B3/B-	4.42%
1.5	1.749999	B2/B	3.00%
1.75	1.999999	B1/B+	2.61%
2	2.249999	Ba2/BB	1.83%
2.25	2.499999	Ba1/BB+	1.55%
2.5	2.999999	Baa2/BBB	1.20%
3	4.249999	A3/A-	0.95%
4.25	5.499999	A2/A	0.85%
5.5	6.499999	A1/A+	0.77%
6.5	8.499999	Aa2/AA	0.60%
8.50	100000	Aaa/AAA	0.45%

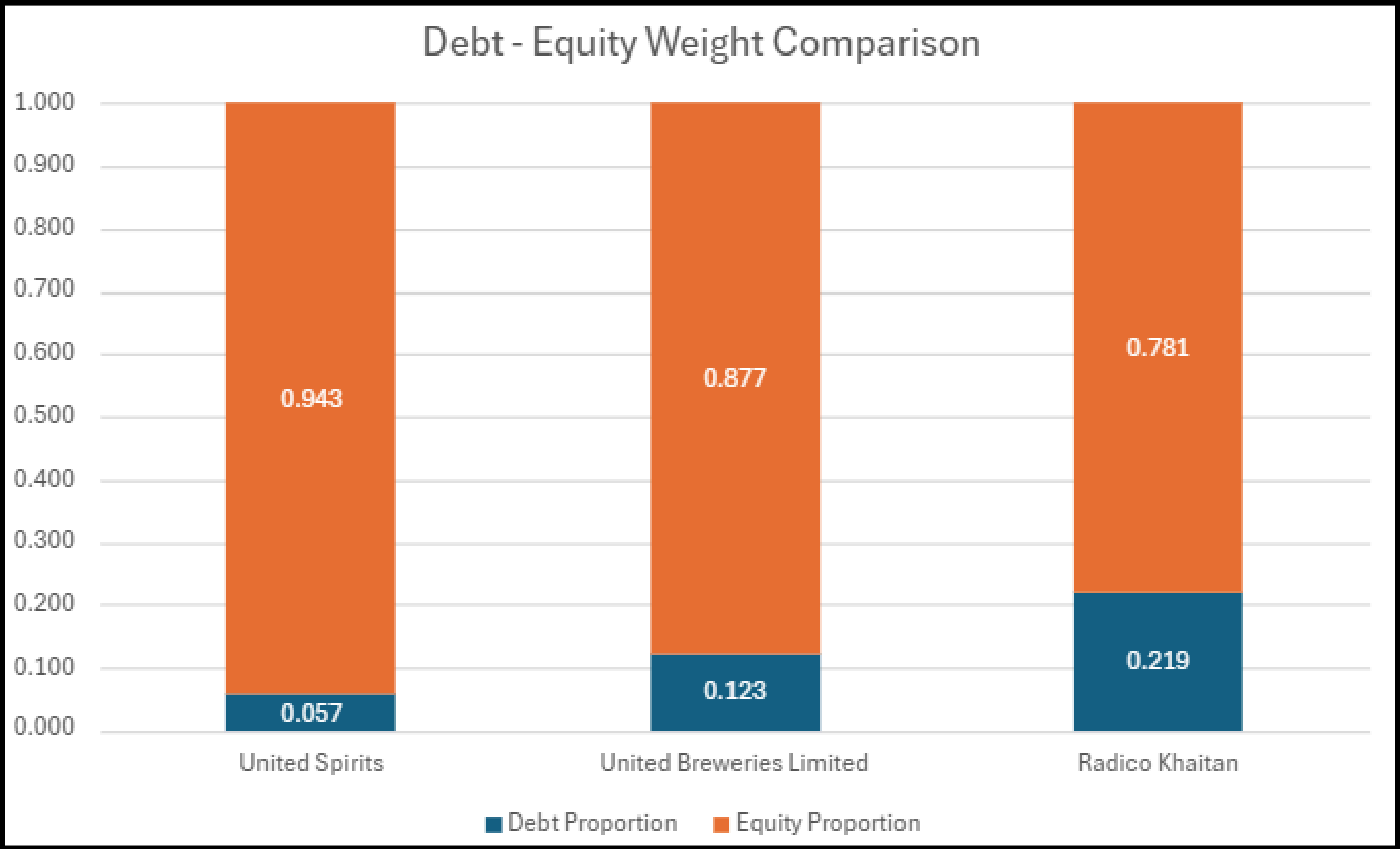
Cost of Equity

Company	Rf	ERP	Levered Beta	Ke
United Spirits	6.29%	7.90%	0.76	12.32%
United Breweries Limited	6.29%	7.90%	0.63	11.26%
Radico Khaitan	6.29%	7.90%	0.71	11.88%



Weighted Average Cost of Capital

Company	Ke	Kd	D/E	Debt	Equity	WACC
United Spirits	12.32%	7.45%	0.06	0.057	0.943	12.05%
United Breweries	11.26%	6.74%	0.14	0.123	0.877	10.70%
Radico Khaitan	11.88%	6.89%	0.28	0.219	0.781	10.79%



GROWTH RATE CALCULATION USING REINVESTMENT RATIO											
		ROCE (5Y Avg)	Reinvestment Rate	EBIT	Tax Rate	NOPAT	Net Reinvestme nt	CAPEX	Change in Working Capital	Depreciatio n	(in Cr)
UNITDSPR		23.10%									
	2022		4.00%	1175	25%	881.25	35	134	205	304	
	2023		34.40%	1383	12%	1217.04	419	137	565	283	
	2024		31.90%	1933	24%	1469.08	468	98	645	275	
	2025		5.30%	2224	26%	1645.76	88	162	209	283	
		Average	18.90%								
		Growth	4.37%								
		(SAmE as above, in excel sheet)									
UBL		11.40%									
		Average	77.70%								
		Growth	8.86%								
RADICO		15.30%									
		Average	143.70%								
		Growth	21.98%								

FCFF

Company:	Discounting												
UNITDSPR	Gordon												
		Year	2022	2023	2024	2025	2026	2027	2028	2029	2030		
		(in cr)				1785	1862.9	1944.3	2029.2	2117.8	2210.2		
					By	24,256.88							
UBL	Gordon												
		Year	2022	2023	2024	2025	2026	2027	2028	2029	2030		
		(in cr)	726	790	860	937	1,020	1,110	1,208	1,315	1,432		
					By	55,320.00							
												now onwards	
Radico	2-Stage Model											8.50%	
		Year	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	
		(in cr)				181.9	221.88	270.66	330.15	402.73	491.25	533.01	
												TV	
												23277.76	
						Present	200.28	220.51	242.78	267.31	294.31	13945.78	
						Intrinsic	15170.96						

Thank you