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HOLD
TP: Rs 2,074 | ∀ 3%

UNITED BREWERIES | Consumer Staples | 06 May 2025

The Beer Primer; UB Premium targets are stretched: Hold

- **Using our Beer Affordability Index and 4-5% per capita income CAGR, we est ~6% industry volume CAGR, reaching ~5L beer/capita by FY40**
- **For UB, premium will drive topline, but 50+% of the higher NSR/case driven margin gains will be offset by higher ingredients and royalty**
- **UB to maintain leadership in Beer while improving margins. Initiate with a target price of INR2,074 and Hold rating**

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How low is the affordability of beer in India vs other economies?: Number of working minutes required to buy a 650ml beer bottle is 105 in India vs 48 in Asia and 9 in developed markets. Assuming status quo on taxes/regulations, using our Beer Affordability Index, and a 4%-5% annual increase in average income, we forecast beer industry volumes to rise at a 5.5%-6.0% CAGR over the medium to long term. Over the next three years, industry growth will be towards the upper end of this range as premium accelerates and new capacity comes onstream.

For UB, double digit sales growth over FY25-FY27 is reasonable: We estimate 7% volume CAGR – non-premium is the main contributor with premium share of volumes also increasing from estimated 9% in FY25 to 11% in FY27. Rise in visicooler penetration will aid average 1ppt to group volume growth. We expect pricing to be driven by inflation, positive mix from rising share of premium, and continued focus on states with higher price realisation.

Premium sales targets are aggressive: UB is targeting premium to contribute 20-25% of sales over the medium term. Assuming the company holds share in non-premium, we estimate premium volumes need to grow 4.8x vs industry non-premium to contribute 20% of sales by FY30. On our estimates, FY35 is a more reasonable timeframe where UB volumes grow 2.8x non-premium and 0.9x vs premium.

Margins driven by mix and operating leverage: Every 5% YoY increase in premium volumes adds 0.9% to group EBITDA and 3bps to EBITDA margins, assuming all else equal. Higher than average industry volume and sales growth will also enable operating leverage driven margin gains. Meanwhile, the pricing reset in Telangana accounts for about 15% incremental EBITDA on FY24 base. Overall, we forecast 340bps margin improvement to 12.4% between FY25-FY27.

Valuation: We expect UB to drive above industry sales and volume growth with margins also expanding. We value the company in line with its 5Y historical average P/E of 64x on 12m to March 2027 EPS. Our target price is Rs 2,074 with an implied negative return of -3%. Hold.

Ticker/Price	UBBL IN/Rs 2,131
Market cap	US$ 6.7bn
Free float	29%
3M ADV	US$ 6.2mn
52wk high/low	Rs 2,300/Rs 1,810
Promoter/FPI/DII	71%/6%/18%

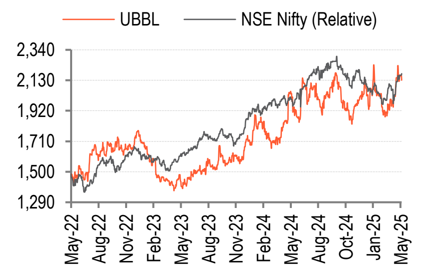
Source: NSE | Price as of 5 May 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	81,227	88,376	99,158
EBITDA (Rs mn)	6,962	7,965	11,390
Adj. net profit (Rs mn)	4,100	4,521	7,316
Adj. EPS (Rs)	15.5	17.1	27.7
Consensus EPS (Rs)	15.5	19.7	28.1
Adj. ROAE (%)	10.1	10.6	15.9
Adj. P/E (x)	137.4	124.6	77.0
EV/EBITDA (x)	80.1	70.5	49.2
Adj. EPS growth (%)	21.6	10.3	61.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Contents

Positive outlook, but premium targets are stretched: Hold

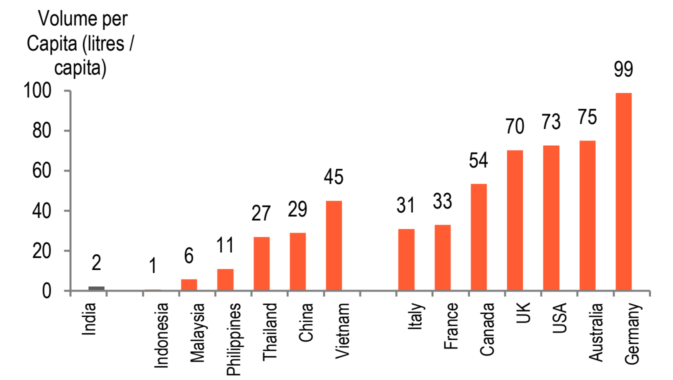
We expect the Indian beer industry to grow in mid-single digits over the medium to long term. Premium segment will be the growth driver increasing its share from 10% in FY25 to 23% in FY40.

United Breweries will grow above industry average for two reasons. Firstly, the company will partially cover its under-indexed market share in the premium segment by increasing the reach of Amstel and Heineken. And secondly, the visicooler initiatives will provide a boost to sales growth across the premium and the non-premium portfolio.

On profitability, UB margins will return to double digits driven by operating leverage from rising sales and mix improvement from premium increasing its share of sales.

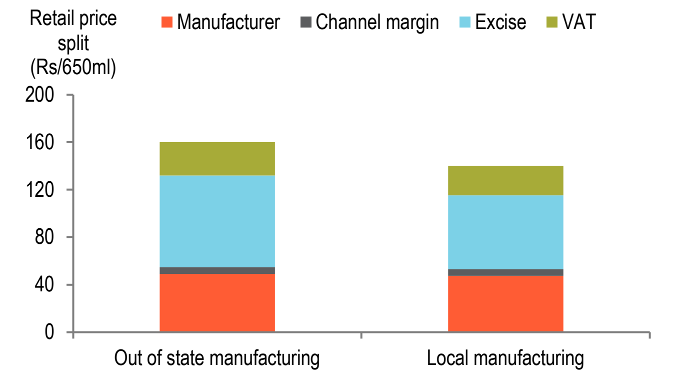
However, sales targets on premium; the key sales and profit driver, are stretched. The company is targeting premium to contribute 20%-25% of group beer sales. On our estimates, that ambition is hard to achieve in the next five years. If this is to be done by FY30, UB premium needs to consistently grow at 4x vs the non-premium category.

Fig 1 – India beer consumption per capita vs peer nations



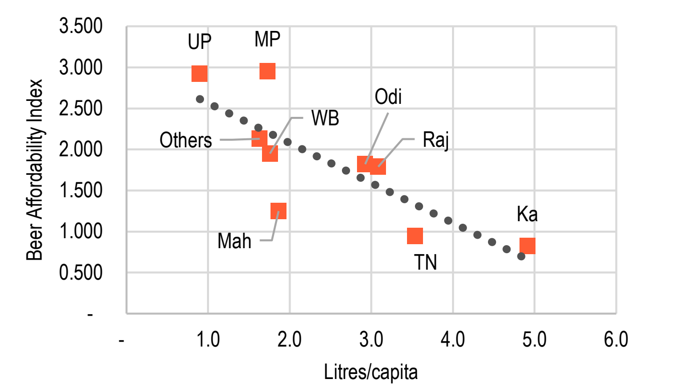
Sources: Company, Bloomberg, Press, Press, BOBCAPS Research

Fig 2 – Retail price split of beer by manufacturer, channel margins and taxes



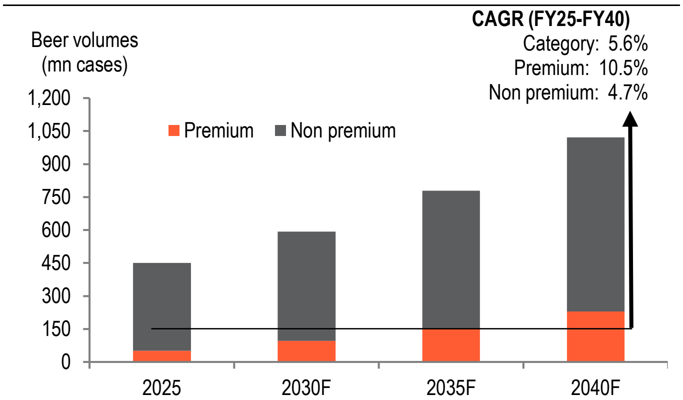
Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 3 – Number of hours of work required/650ml beer retail price vs beer consumption per capita (litres/capita)



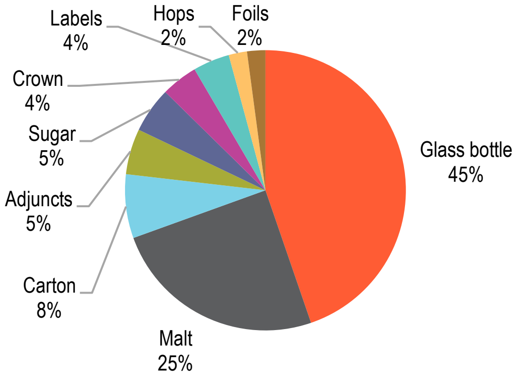
Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 4 – Beer industry volume forecasts



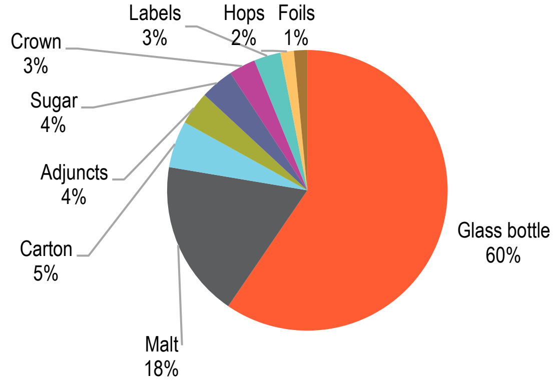
Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 5 – Typical beer COGS value split on used glass bottles



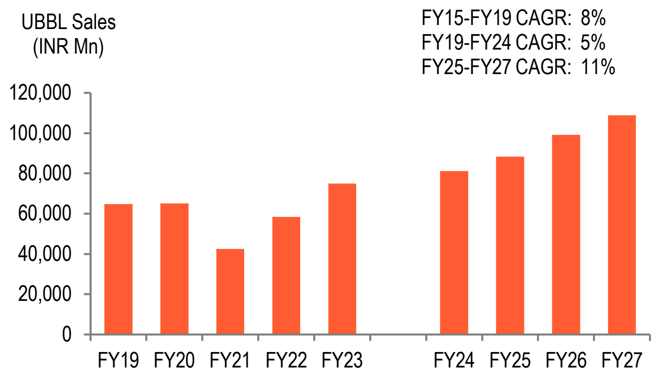
Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 6 – Typical beer COGS value split on new glass bottles



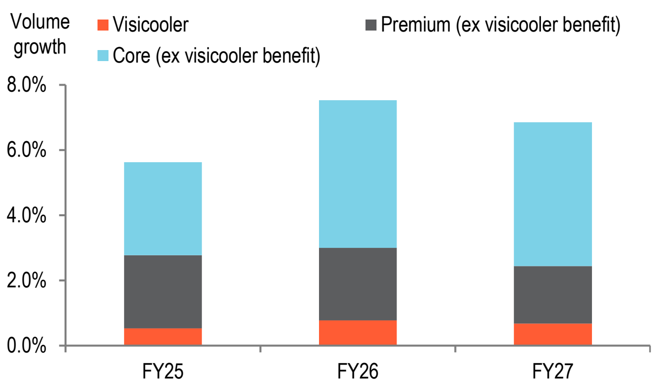
Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 7 – UB sales forecasts



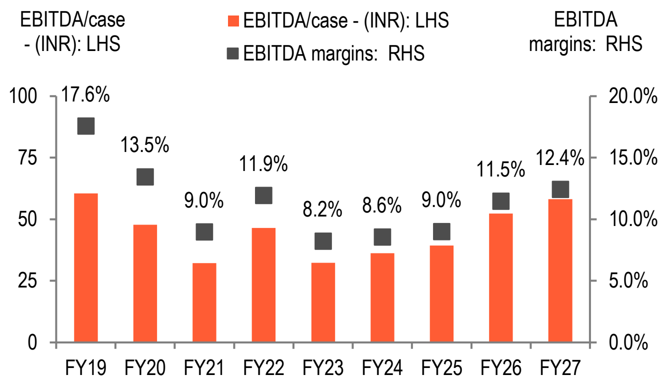
Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 8 – UB volume growth split by non-premium, premium and visicooler impact



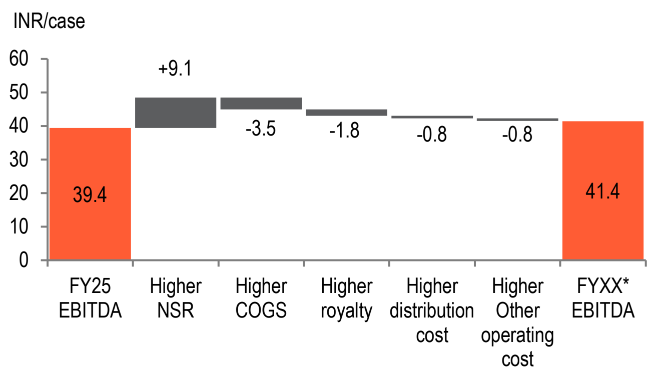
Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 9 – EBITDA per case and EBITDA margin forecasts



Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 10 – Incremental EBITDA breakup scenario when UB will achieve its target of premium at 20% of beer sales



* Financial Year in which United Breweries achieves its target of getting Premium to 20% of beer sales; Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 11 – Premium volume growth run rate required to increase its contribution to 20% of UB beer sales: Sensitivity vs industry

		UB's premium sales as a % of group				
		10.0%	12.5%	15.0%	17.5%	20.0%
Implied required premium volume CAGR for UB (FY25 to FYXX*)	FY28	4.0%	13.1%	21.3%	29.0%	36.2%
	FY30	4.1%	9.4%	14.1%	18.4%	22.4%
	FY35	4.2%	6.8%	9.1%	11.1%	13.0%
	FY40	4.6%	6.4%	7.9%	9.2%	10.4%
Implied required premium volume CAGR for UB vs industry core (FY25 to FYXX*)	FY28	0.9x	2.8x	4.6x	6.3x	7.9x
	FY30	0.9x	2.0x	3.1x	4.0x	4.8x
	FY35	0.9x	1.5x	2.0x	2.4x	2.8x
	FY40	1.0x	1.4x	1.7x	2.0x	2.3x
Implied required premium volume CAGR for UB vs industry premium (FY25 to FYXX*)	FY28	0.3x	1.0x	1.6x	2.1x	2.6x
	FY30	0.3x	0.7x	1.0x	1.3x	1.6x
	FY35	0.3x	0.5x	0.7x	0.8x	0.9x
	FY40	0.3x	0.5x	0.6x	0.7x	0.8x

Industry volume CAGR assumptions (FY25 to FYXX*)

Volume forecasts	FY28	FY30	FY35	FY40
Premium	13.7%	13.3%	11.6%	10.5%
Non premium	4.6%	4.5%	4.6%	4.7%
Total	5.7%	5.7%	5.6%	5.6%

* Financial Year in which United Breweries achieves its target of getting Premium to 20% of beer sales; Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 12 – Group EBITDA impact from Telangana pricing reset in February 2025 and any further revisions

	Proposed	Actual
Proposed price increase by Beer Association of India	37.5%	-
Implemented pricing	-	15.0%
Group	0.0%	-
Impact on pricing	2.7%	1.1%
Impact on gross margins	265bps	110bps
Incremental gross profit generated on FY24	11%	5%
Incremental gross profit / FY24 EBITDA		
0% volume elasticity	57%	23%
20% volume elasticity	45%	18%
40% volume elasticity	34%	14%
60% volume elasticity	23%	9%
80% volume elasticity	11%	5%
100% volume elasticity	0%	0%

Sources: Company, Bloomberg, Press, BOBCAPS Research

The Indian beer industry overview

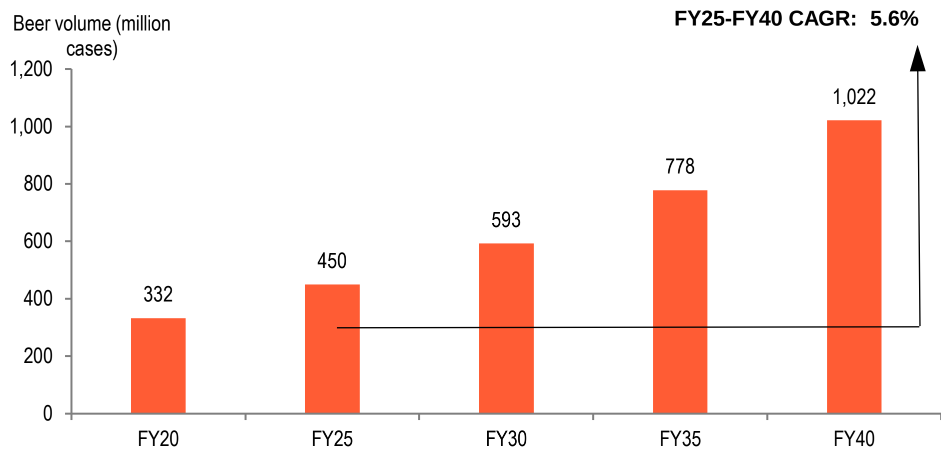
The Indian beer category operates within the broader Alcoholic Beverages space. Spirits is the most popular category with a volume share of 69% share followed by beer at 36%.

The Beer Association of India estimates FY25 industry volumes at 450 million cases. While the market size is large, per capita beer consumption in India is relatively low at 2.2 litres per capita vs 20 litres per capita in Asia and 62 litres per capita in developed markets.

Major Indian players include United Breweries (UB), AB Inbev, Carlsberg and Som Distilleries & Breweries. UB is a key industry participant as well as driver given its high 45+% volume market share.

In this section, we discuss the beer industry dynamics covering both demand and supply. In the demand dynamics, we also introduce our Beer Affordability Index and forecast the beer market volumes. On our estimates, we expect the beer market to grow at a 5.6% CAGR to 1+billion cases between FY25-FY40. Premium will be the key growth driver with a CAGR of 10.5%. We show our beer market forecasts in Figure 13 below.

Fig 13 – Indian Beer industry volume forecasts (FY25-FY40)



Sources: Allied Blenders, Technopak, Bloomberg, Press, BOBCAPS Research

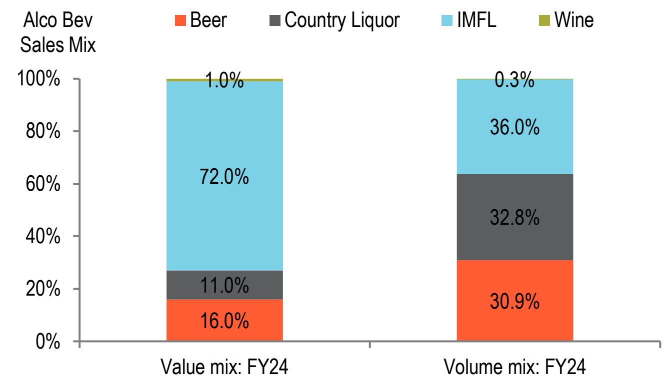
1. Market dynamics

1.1. How large is the beer segment within the broader Alcoholic Beverages industry

The beer category is a part of the broader alcoholic beverages (Alcobevs) industry. Indian Made Foreign Liquor (IMFL) is the most popular alcoholic drink in India with 36% volume and 72% value share. Beer has 31% volume share followed by country liquor at 33%. Wine consumption is still quite low. We show the alcoholic beverages consumption split by volume and value in Figure 14 below.

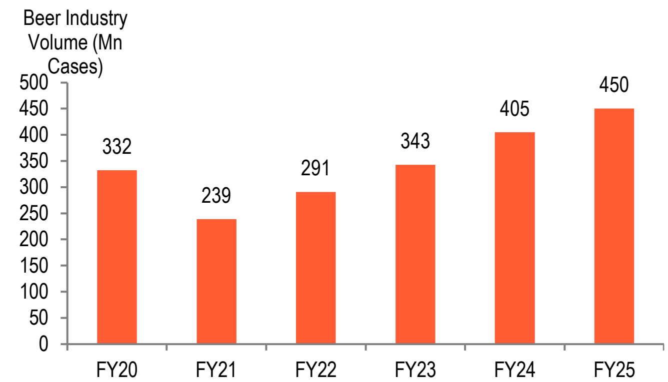
As shown in figure 15, beer volumes currently stand at 450 million cases and have grown at a CAGR of 7% between FY19 to FY25. Within Alcobevs, beer volumes were most impacted due to COVID-19 as both the lockdowns in FY21 and the peak casualty "wave" in FY22 occurred in the peak beer consuming summer season. Volumes recovered to above pre-COVID levels in FY23 and grew 6% in FY24 and 10% in FY25.

Fig 14 – Alcoholic Beverages industry volume mix (FY24)



Sources: Allied Blenders, Technopak, Bloomberg, Press, BOBCAPS Research

Fig 15 – Indian Beer Industry volume trend (FY19-FY25)



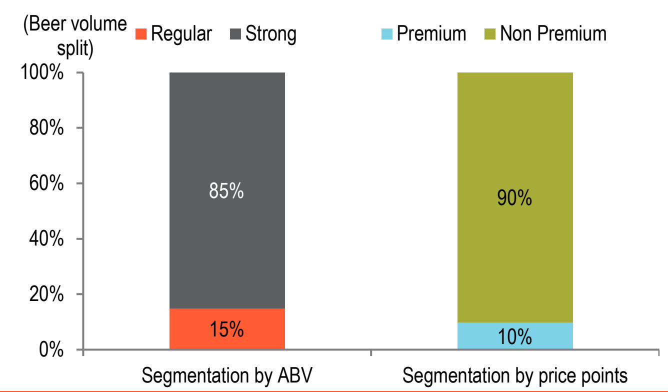
Sources: Beer Association of India, Allied Blenders, Technopak, Bloomberg, Press, BOBCAPS Research

1.2. What are the major subsegments within the beer category? Who are the major players?

In India, typical ABV in beer is approximately 8% in strong beer and ~4% in mild beer. With a strong preference towards high ABV beers, the Strong sub-category accounts for close to 85% of the total beer volumes. Kingfisher Strong, a UB brand, is the most popular strong beer in India with an estimated market share of ~36% in FY24.

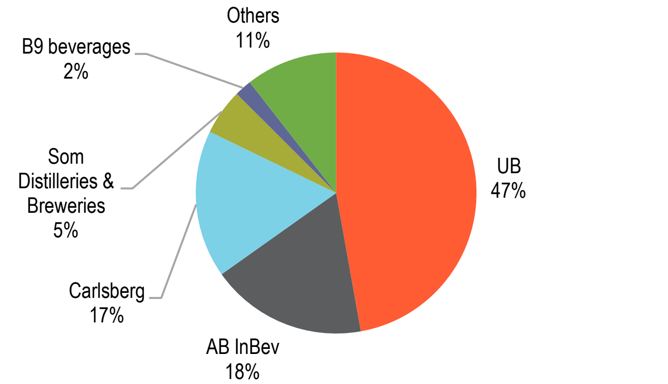
Based on price points, beer is segregated into premium and non-premium sub segments with all beers priced above INR160/650ml bottle categorised as premium. We show beer segments in figure 16 and volume market share split in figure 17. UB is the market leader followed by AB Inbev, Carlsberg and Som Distilleries & Breweries.

Fig 16 – Beer market segment split by ABV content and price point



Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 17 – India Beer market share (FY24 estimates)



Sources: Company, Bloomberg, Press, BOBCAPS Research

The top three players account for ~85% of the total beer market. In terms of portfolio, UB is more dominant in the mid-segment but is now focusing on premium. AB Inbev is active in premium and bottom end of the category while Carlsberg is more balanced between mid-premium and premium. We show company wise brand portfolio of major Indian beer manufacturers in figure 18.

Fig 18 – Portfolio of major Indian beer players

Company	Premium brands (>INR160/650ml)	Non-premium brands (<INR160/650ml)
UBBL	Heineken, Amstel, Kingfisher Ultra, Kingfisher Ultra Max	Kingfisher Premium, London Pilsner, Bullet, Zingaro
Anheuser-Busch InBev NV	Budweiser Premium, Budweiser Magnum, Corona, Hoegaarden	Haywards 5000, Knockout, Beck's Ice
Carlsberg A/S	Carlsberg, Palone, 1664 Balance	Tuborg
Som Distilleries & Breweries Ltd	Woodpecker	Hunter, Power Cool, Legend, Black Fort

Sources: Company, Bloomberg, Press, BOBCAPS Research

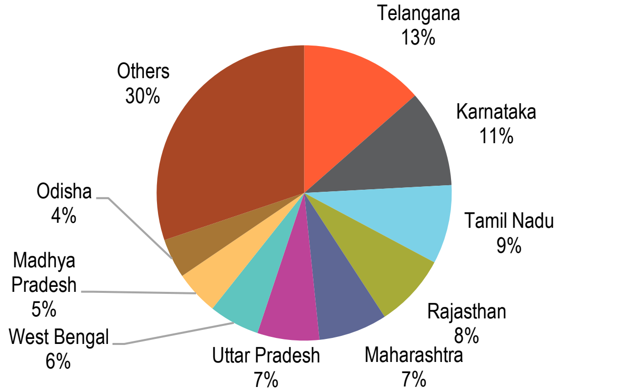
1.3. What is the state-wise industry sales exposure?

South India accounts for an estimated 40%-50% of total alcoholic beverages consumption in India. All the top three beer consuming states of Telangana, Karnataka and Tamil Nadu are in south. We show the statewise beer volume split in figure 19 below. Of the top 9 states, beer volume per capita is the highest for the top 3 states.

In figure 20, we compare the GDP per capita and volume per capita of beer consumption in major consuming states. There is a clear positive relationship between the two indicating the relevance of beer affordability in India.

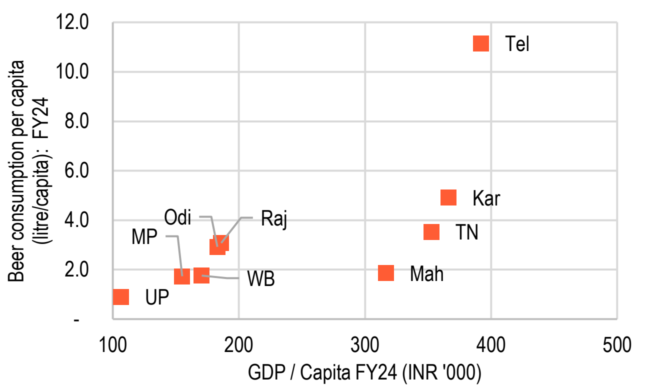
While Telangana shows a similar relationship, the spike in its per capita consumption relative to the rise in GDP/capita is much higher vs the trend observed for other states. This is because beer pricing in Telangana is below average and not at a sustainable rate. Manufacturers are still pushing for a further price rise by the state government despite a round of 15% increase in February 2025.

Fig 19 – State-wise beer industry volume split (FY24)



Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 20 – State-wise beer consumption per capita vs respective GDP per capita (FY24); Top 9 states (70% of national beer volumes)



Sources: Company, Bloomberg, Press, BOBCAPS Research

2. Demand dynamics: (a) medium/long-term outlook for beer demand; and (b) volume sensitivity to changes in excise?

We forecast the beer industry volumes to grow at a CAGR of 5.6% to reach 1+billion cases by FY40. We expect India per capita consumption to increase at a 4.7% CAGR to 4.8 litres per capita by FY40. Improving affordability is the key driver along with a low base, favourable demographics and increasing acceptance of Alcobevs in India.

In this section, we discuss beer demand dynamics. We include a comparison on the Indian beer consumption with other peer and developed markets. We introduce the Beer Affordability Index and use it to forecast beer volumes. Finally, we add a snapshot of beer volume sensitivity to changes in excise rates.

2.1. International comparison: Why is the Indian beer consumption low vs Asian peers and developed markets? What needs to change?

The Indian beer consumption per capita of 2.2 litres compares with Asian peers at 20 litres and developed market peers at 62 litres. In figure 21, we show India's relative position vs Asian and developed market peers.

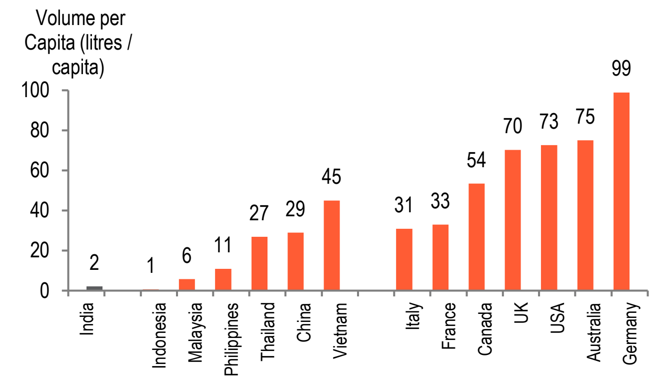
In figure 22, we map consumption/capita and GDP/capita, using the latter as a proxy for average income. Consumption per capita is clearly higher at higher income levels.

Affordability is the key issue

There are multiple factors for a relatively low per capita beer consumption in India. Some of the drivers are disproportionate alcohol tax on beer vs other AlcoBevs, pricing restrictions limiting feasibility for expansion, low penetration in non-urban centres, and lack of sufficient cold chain infrastructure making distribution more expensive vs spirits. However, it ultimately comes down to affordability. Other factors, directly or indirectly, impact beer pricing, thus, impacting affordability.

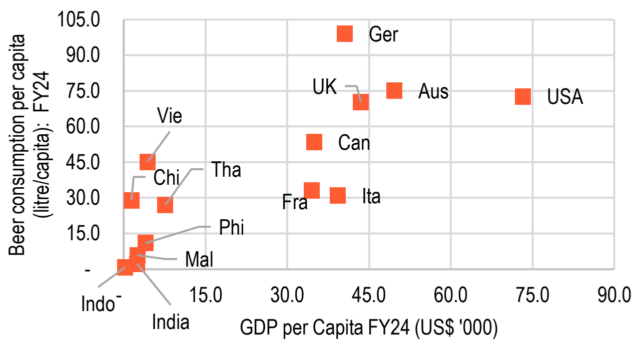
While the improvement in affordability will drive consumption, it is unrealistic to assume that Indian affordability of beer will get at par with the UK or Germany as these are much more developed, mature consumption markets with high per capita income and relatively streamlined alcohol regulations and infrastructure. These group of nations are an incorrect benchmark to estimate India's per capita beer consumption potential.

Fig 21 – Beer consumption per capita – India vs Asian and developed market peers (Litres per capita)



Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 22 – Beer consumption per capita vs GDP per capita – India vs Asian and developed market peers



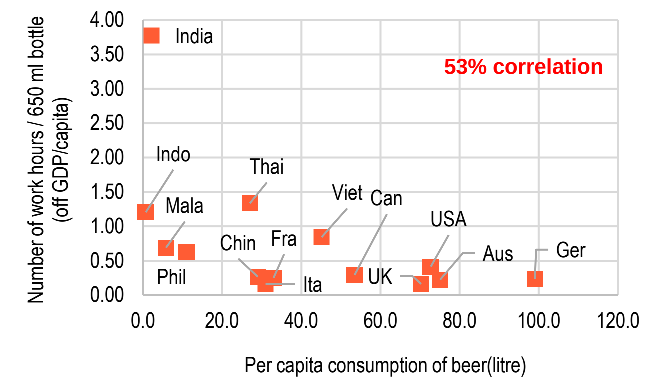
Sources: Company, Bloomberg, Press, BOBCAPS Research

Beer Affordability Index (BAI)

We use income and beer pricing as the key drivers to create our BAI. We do a comparison of the BAI vs consumption per capita using developed markets, India, and its Asian peers.

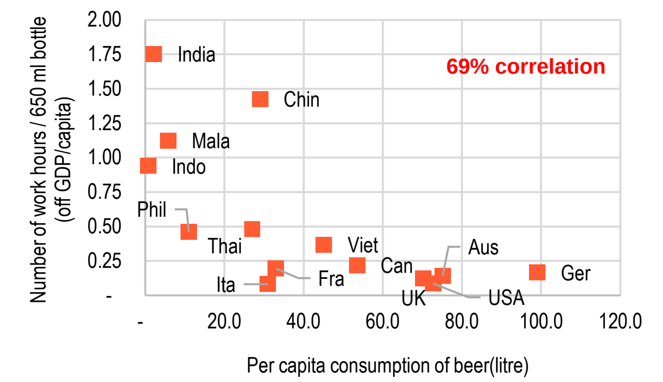
On beer pricing, we use price of the popular beer brand in the respective region. On income, we assess the BAI on two metrics – minimum wages and GDP per capita. As shown in figure 23 and figure 24, GDP per capita based affordability index is better aligned with per capita beer consumption. This is reasonable as minimum wages in developed markets are well aligned with the common standards of living and inflation. In contrast, in emerging markets minimum wages typically lag market movements and industry salary hikes.

Fig 23 – BAI on minimum wages: Beer consumption per capita vs number of work hours for a 650ml beer bottle – India vs Asian and developed market peers



Sources: Company, Bloomberg, Press, BOBCAPS Research

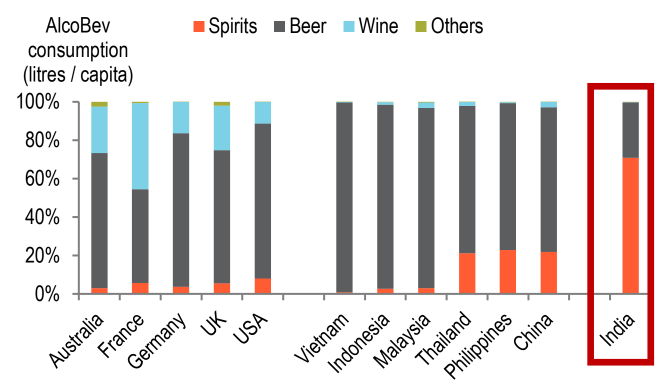
Fig 24 – BAI on GDP / capita: Beer consumption per capita vs number of work hours for a 650ml beer bottle – India vs Asian and developed market peers



Sources: Company, Bloomberg, Press, BOBCAPS Research

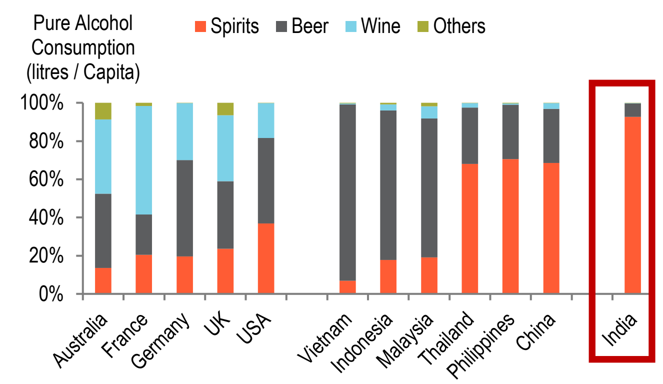
In figure 13 to figure 16, we show some of the other factors that have a bearing on per capita consumption of beer in India. As shown in figure 25 and figure 26, share of spirits in AlcoBevs on both admixed volume and pure alcohol is the highest in India vs both Asian peers and developed markets. As mentioned earlier. the key reason is affordability, which is restricted with high taxes on beer vs spirits. Figure 27 shows that India's relative tax rate on beers vs spirits is the second highest vs the Asian peers and developed markets. As shown in figure 28, INR/ml retail price of pure alcohol for beer is 3.0x vs country liquor and 1.9x vs whiskey.

Fig 25 – Alcoholic beverages consumption per capita split between spirits, beer, wine and others – India vs Asian and developed market peers



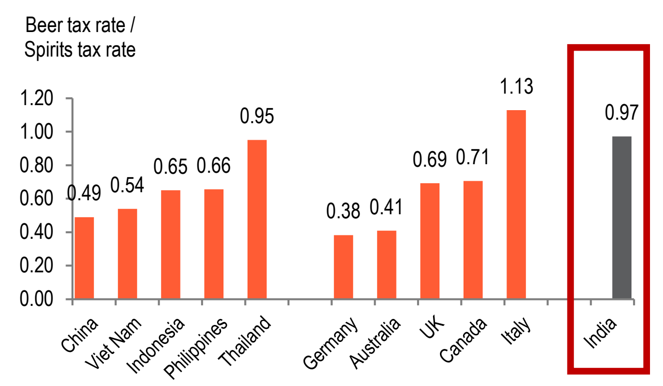
Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 26 – Pure alcohol consumption per capita split between spirits, beer, wine and others – India vs Asian and developed market peers



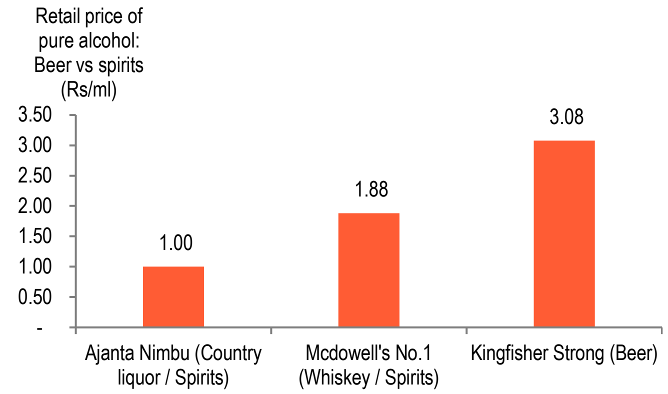
Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 27 – Relative tax rate percentage of beer vs spirits – India vs Asian and developed market peers



Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 28 – Indian beer retail price relative to spirits and country liquor (INR per ml of pure alcohol)



Sources: Company, Bloomberg, Press, BOBCAPS Research

2.3. Growth outlook for beer: How much can affordability improve? Where can beer per capita consumption settle?

Affordability of beer needs to improve for per capita consumption to rise. Key question is how much can affordability and consumption improve? We explain more in detail, but in summary, we estimate beer consumption per capita to rise at a CAGR of 4.7% between FY25 to FY40. We use BAI and per capita consumption in top Indian beer consuming states to develop beer volume forecasts. We use rise in income as the only driver of improving affordability. We show our beer volume forecasts in figure 29.

Fig 29 – Indian beer industry volume forecasts (FY24-FY40F)

Million cases	2024	2030F	2035F	2040F
Beer volumes (million cases)	**405**	**593**	**778**	**1,022**
Premium	40	96	153	230
5 Yr CAGRs (%)		15.6*	9.9	8.5
Non premium	365	498	625	792
5 Yr CAGRs (%)		5.3*	4.7	4.8

Sources: BOBCAPS Research | * 6 Yr CAGR

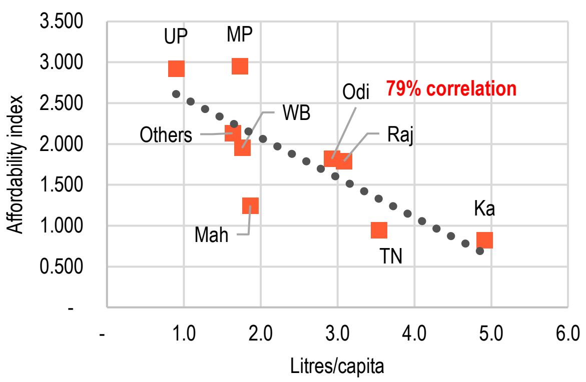
Forecasting beer industry volumes: Karnataka is the benchmark

Most directly, restructuring of taxes can be the key and fact acting driver of improving beer affordability. However, the regulatory environment is highly unpredictable and it wouldn't be fair to assess market growth based on this parameter. We assume status quo on regulatory and excise issues, and use income as the key metric for beer affordability which in turn is used to forecast beer volumes. In figure 30, we show the relationship between consumption per capita and affordability index by state.

We use Karnataka as the benchmark for Indian beer consumption per capita. Assuming a 5.0%-6.0% real GDP CAGR to FY40, we expect India beer consumption per capita to rise from the current 2.2 litres to 4.8 litres in FY40. If we assume IMF's India GDP forecasts of 6.5% for FY26 and FY27, our implied FY27-FY40 GDP CAGR equates to 4.6%-5.9%. At this GDP CAGR, we expect the overall Indian beer market to bridge the consumption per capita gap with Karnataka by 80%-90% by FY40.

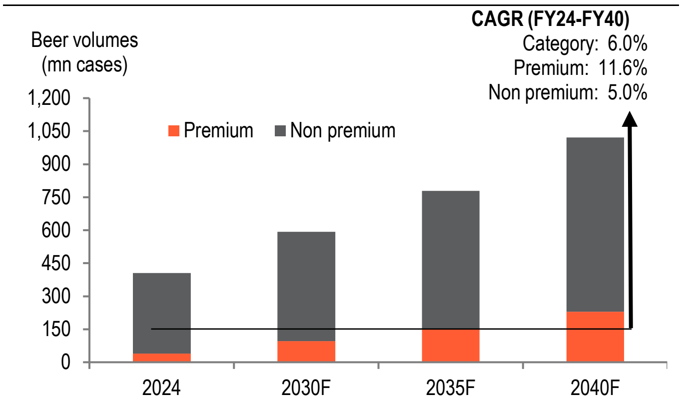
In terms of sub-segments, we expect premium beer to grow 2x-3x vs non-premium resulting in its volume contribution increasing from 11% in FY25 to 23% in FY40. We show our beer volume forecasts segregated into premium and non-premium in figure 31.

Fig 30 – Beer Affordability Index on GDP / capita (lower the better): Beer consumption per capita vs number of work hours for a 650ml beer bottle – Top 8 beer consuming states of India*



* We exclude Telangana given current beer pricing does not reflect the required rate that brewers are expecting to generate a reasonable return on business. Current affordability index in Telangana is high, but non-sustainable. We club Telangana in Others; Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 31 – Beer industry volume forecasts (FY24-FY40)



Sources: Company, Bloomberg, Press, BOBCAPS Research

Rationale for Karnataka: Why not Telangana or developed peers?

Karnataka is used as the benchmark for beer consumption per capita potential in India as it is second ranked on both consumption per capita and BAI, with Telangana being the leading state on both parameters. Despite its leading position, we do not use Telangana as the benchmark. Current beer pricing in the state does not reflect the required rate that brewers are expecting to generate a reasonable return on business. Current affordability index in Telangana is high, but non-sustainable.

As earlier mentioned, Developed and Peer Asian market sets are also not a good proxy for assessing the potential growth in per capita consumption in beer. We have used a reasonable India GDP CAGR of 5%-6% to derive our estimates on per capita and total beer consumption for India.

What is the beer volume sensitivity to changes in excise tax rates?

Besides low income, low affordability of beer is also linked to the high beer excise rates in India. On our estimates, all else being equal, every 1.0% decrease in the excise rate, results in a 0.5% increase in beer demand if excise is calculated on ex brewery price. However, states where excise is charged as a percentage of retail price, the incremental volume demand will be higher at 1.9% due to the greater reduction in price resulting in improved affordability. We show our calculation in figure 32 below.

Fig 32 – Volume sensitivity on 1ppt reduction in excise; as a % of ex-brewery price and as a % of retail price

Impact of 1ppt reduction in excise	Excise as a % of ex-brewery price	Excise as a % of retail price
Ex brewery price / retail price pre change in tax	30	30
Retail price change due to lower excise	(0.4)	(1.4)
Volume impact due to lower price and resulting improved affordability	0.5	1.9

Sources: Company, Bloomberg, Press, BOBCAPS Research

3. Supply dynamics: Typicalities and beer COGS structure

Besides the disproportionately high taxes on beer vs spirits and overall AlcoBevs, there are some other typical regulatory restrictions that impact business operations from a financial as well as well as complexity standpoint. In this section, we discuss the typical regulatory issues in the broader AlcoBevs industry. These issues also extend to the beer category.

3.1. Typical Indian Alcoholic Beverages features: Regulatory issues

In figure 33, we list some of the typical regulations that govern the Indian AlcoBevs industry. These broadly cover pricing, distribution, trading restrictions and A&P.

Fig 33 – Some "typical issues" in the Alcoholic Beverages business

Topic	Explanation	Related key issues in business / operations
Prohibition / restrictions on trading	Certain states impose prohibition or restrictions on sales and consumption of alcoholic beverages Prohibition ▪ Gujarat ▪ Bihar ▪ Nagaland ▪ Mizoram Restrictions ▪ All five southern states have imposed a ban on country liquor Dry days ▪ Some designated days are "dry" implying no alcohol shops remain open on those days. At a national level, these are Independence Day (15th August), Republic Day (26th January) and Gandhi Jayanti (2nd October) ▪ Individual states have discretion to implement additional "dry days"	▪ While prohibition is generally a limitation in terms of market growth, measures such as ban on country liquor helps the organized sector to gain share of throat
Pricing	▪ For most states, any pricing changes need to be cleared by the state government. ▪ There are restrictions on the number of approvals per annum	▪ Volatility in margins due to inflation / deflation. Promotes lobbying and unfair trade practices
Distribution	▪ Distribution can be either via the state government or directly to private distributors / retailers	Role of the government is key in both cases. ▪ If distribution is done via the government, the reliability of clearance of dues is higher. ▪ Key risk in private distribution is credit-worthiness of the retailer. Brewers indicate cases of default by small retailers. Generally, the credit period is also higher in case distribution is via private players.
Source of production	▪ Beer manufactured outside the state is subject to a different cost and price structure by the state governments in both manufacturing and selling states	Additional complications in business operations. ▪ The manufacturing state imposes an "export levy" on the beer being transported out of the state. ▪ The selling state also imposes an "import levy" on the beer imported from other states. ▪ These taxes are in addition to the other standard taxes that are levied to beer manufactured and sold within the state. This makes the "imported beer" relatively more expensive.
Advertising and promotions	▪ A&P is restricted in Alcoholic Beverages	▪ Promotions are limited to the point of sale

Sources: Company, Bloomberg, Press, BOBCAPS Research

3.2. Are regulations evolving? Favourably? Examples?

The regulatory environment for AlcoBevs in India is generally moving favourably for the industry. Beer taxation is becoming rational with lower tax on beer vs spirits due to the formers' relatively lower alcohol content. The Beer Association of India, formed in May 2024 with membership of UB, AB InBev and Carlsberg, is actively advocating the case for lower taxes in beer along with pushing for price rises in states where operations are financial retrains are below par. While the Association had a role to play in Telangana price revision, it doesn't seem the discussion was amicable given the price rise came only after UB did a complete shutdown of its operations in the state.

There is also a flipside regarding rising excise rates as states look to increase their tax revenue. For most major beer consuming states, AlcoBevs are a major source of total excise revenue. If the state governments fall short of funds or revenue targets, alcohol is usually the easiest to levy additional duties.

Even though broad direction should be favourable, it remains very regulatory and unpredictable. In figure 34, we show some recent changes by various states and their impact on the overall beer industry.

Fig 34 – Major statewise changes in AlcoBev regulations with a focus on beer (2021 to 2025)

State	Year	Regulatory Change	Impact
Telangana	2025	▪ Permitted beer price increases for the first time since 2019 although it required a supply halt by United Breweries due to pricing disputes	▪ Price revisions at least partially reflected cost inflation
Uttar Pradesh	2025	▪ Introduced composite shops merging beer and foreign liquor outlets ▪ Permitted beer and wine sales in cafes without full bar licenses ▪ Implemented e-lottery for shop allocations	▪ Streamlined retail operations ▪ Increased accessibility of beer ▪ Modernized licensing process.
	2024	▪ Permitted beer shops to have designated 100 sqft drinking areas near their premises with a nominal annual license fee of ₹5,000	▪ Encouraged on-premise consumption ▪ Aimed to reduce public drinking in unsanctioned areas
	2023	▪ Increased license fees for beer and liquor shops by 10%	▪ Rise in beer prices ▪ Increased operational costs for retailers
	2021	▪ Reduced excise duty on beer (280% to 200% of the wholesale price) ▪ Initiated multi-year license renewals	▪ Lowered beer prices, increased incentive for retailers ▪ Improved ease of doing business.
Himachal Pradesh	2024	▪ Shifted from Max Retail Price (MRP) to Min Selling Price (MSP) ▪ Compulsory display of rate lists ▪ Provision for consumer complaints against overpricing	▪ Fair market competition ▪ Consumer welfare ▪ Check on illegal liquor sales
	2024	▪ Increased license fee for beer for both in-state consumption and exports	▪ Increased cost structure for beer producers; Unfavourable impact on pricing
	2024	▪ Levied 'milk cess' on liquor ▪ Removed COVID cess ▪ Retained cow cess	▪ Net increase in liquor prices; additional revenue was aimed at supporting dairy farmers.
	2023	▪ Beer excise set at 13% on beer vs 18% on spirits ▪ Introduced keg draught beer in retail vends ▪ Allowed bottling of imported wine in state wineries; ▪ Permitted mini bars in 3-star hotels and above; ▪ Implemented online excise administration system	▪ Improved relative affordability of beers vs spirits ▪ Boost to beer variety ▪ Improved availability of premium products; ▪ Increased transparency in excise
Andhra Pradesh	2024	▪ Transitioned from state-run liquor retail to privatized outlets via lottery ▪ Issued 3700+ retail liquor licenses to the private sector ▪ Emphasis on removing sub-standard brands	▪ Encouraged legal alcohol consumption ▪ Improved beer distribution potential ▪ Likely exit of sub-standard brands due to stringent quality implementation
Kerala	2023	▪ Approved new liquor policy promoting in-state production/export ▪ Raised in bar license fees from INR3.0m to INR3.5m	▪ Rise in local beer production ▪ Increased cost of business for bars
Haryana	2023	▪ Reduced excise duty on super mild and draught beers ▪ Lowered fees for beer-and-wine-only pub licenses by 20% ▪ Permitted beer consumption in large offices	▪ Improved affordability for beer ▪ Encouraged establishments of beer-only pubs ▪ Increased consumption venues
Punjab	2022	▪ Removal of quota limits on beer and IMFL sales	▪ 20% increase in beer and IMFL consumption; boosted state revenue.
Delhi	2021	▪ Lowered legal drinking age from 25 to 21 ▪ Discontinued government-run liquor shops to privatise distribution	▪ Aligned legal drinking age with other states ▪ Increased opportunities for private retailers
West Bengal	2021	▪ Introduced progressive duty structure changes.	▪ Resulted in over 50% growth in beer sales ▪ Expanded market and opened up for imports

Sources: Company, Bloomberg, Press, BOBCAPS Research

3.2. Statewise route to market and pricing dynamics

In India, each state operates as an independent liquor market with its tailored set of rules and regulations around key business aspects such as distribution, taxes and pricing.

Differential route to market

We show the route to market format of Indian states in figure 35 below. It is a mix of public and private wholesale and retail distribution. All the top 3 beer consuming states have a government managed distribution system.

Fig 35 – Route to market in Alcohol: State-wise distribution models

State	Wholesale	Retail
Andhra Pradesh	Public	Public
Assam	Private	Private
Chhattisgarh	Public	Public
Goa	Private	Private
Haryana	Private	Private
Himachal Pradesh	Public	Private
Jharkhand	Public	Public
Karnataka	Public	Public & Private
Kerala	Public	Public
Madhya Pradesh	Public	Private
Maharashtra	Private	Private
Odisha	Public	Private
Punjab	Private	Private
Rajasthan	Public	Private
Tamil Nadu	Public	Public
Telangana	Public	Private
Uttar Pradesh	Private	Private
West Bengal	Public	Private
Tripura	Private	Private

Sources: Company, Bloomberg, Press, BOBCAPS Research

Differential pricing => High and differential tax rates and structures + local vs out of state manufacturing dynamics

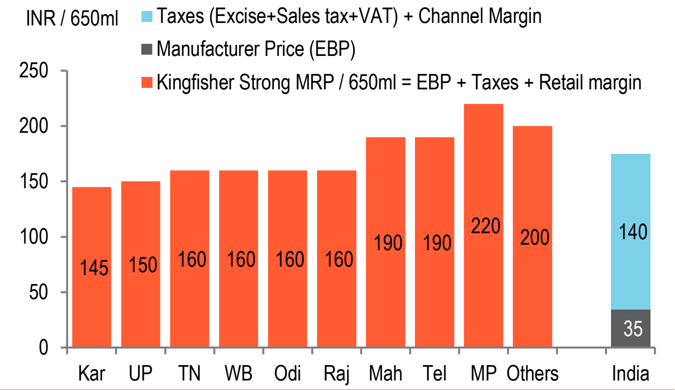
While the brewing cost of beer is relatively similar, retail price of the same beer brand is different in different states mainly due to the differential tax structure and rates. This makes operations slightly complex for instance in terms of pricing and demand elasticity.

As shown in figure 36, within the top 9 markets in India, Kingfisher Strong has a 52% retail price difference between the highest and lowest priced states of Madhya Pradesh and Karnataka, respectively. Using UB as the proxy for Indian market, we estimate taxes and channel margins account for 80% of retail price and 4.0x ex brewery price.

Local and out of state manufacturing also impacts taxes and retail prices. As mentioned earlier, the “export” and “import” taxes on beer charged by the supplying and receiving states, respectively, results in a higher retail price of beer.

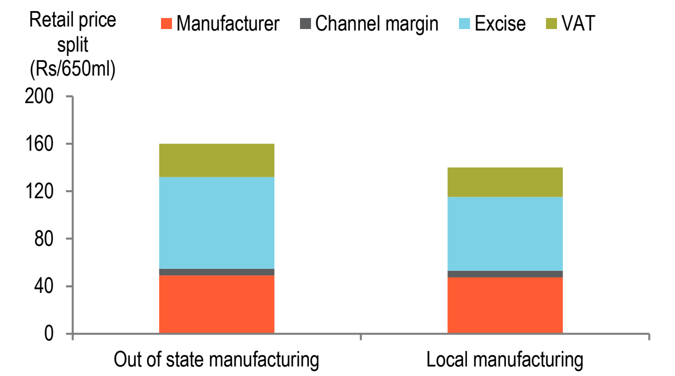
The retail markup is lower if manufacturing is local. For instance, Delhi does not allow brewing within the state and so does not apply an "import" tax. However, if brewing was allowed then locally manufactured beer retail price would have been lower by approximately 15%, adjusting for additional export taxes. The implied retail markup also comes down from 3.35x to 2.95x. We show retail price breakup in figure 37.

Fig 36 – Kingfisher Strong retail price by state AND national average retail price split between manufacturer realisation and taxes / margins



Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 37 – Kingfisher Strong retail price split between manufacturer, government taxes and channel margin



Sources: Company, Bloomberg, Press, BOBCAPS Research

In figure 38, we show pricing regulations by state. Only two states allow free pricing enabling a relatively easier mechanism to manage cost inflation.

Fig 38 – Indian alcohol pricing dynamics by state

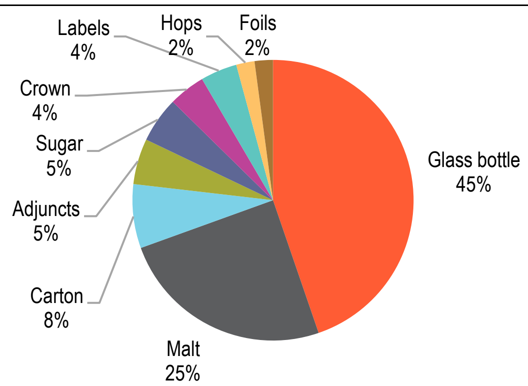
State	Ex-Distillery Price (EDP)	Final Price of the Beverages	Excise / State Tax
Andhra Pradesh	Controlled	Controlled via MRP	Excise + Sales Tax
Assam	No Control	Controlled via MRP	Excise + Sales Tax
Chhattisgarh	No Control	Controlled via MRP	Excise + Sales Tax
Goa	No Control	Controlled via MRP	Excise + Sales Tax
Haryana	Controlled	No Control	Excise + Sales Tax
Himachal Pradesh	No Control	Controlled via MRP	Excise Only
Jharkhand	Controlled	Controlled via MRP	Excise + Sales Tax
Karnataka	No Control	Controlled via MRP	Excise Only
Kerala	Controlled	Controlled via MRP	Excise + Sales Tax
Madhya Pradesh	Controlled	Controlled via MRP	Excise + Sales Tax
Maharashtra	No Control	Controlled via MRP	Excise + Sales Tax
Odisha	Controlled	Controlled via MRP	Excise + Sales Tax
Punjab	Controlled	No Control	Excise + Sales Tax
Rajasthan	Controlled	Controlled via MRP	Excise + Sales Tax
Tamil Nadu	Controlled	Controlled via MRP	Excise + Sales Tax
Telangana	Controlled	Controlled via MRP	Excise + Sales Tax
Uttar Pradesh	Controlled	Controlled via MRP	Excise + Sales Tax
West Bengal	No Control	Controlled via MRP	Excise + Sales Tax
Tripura	No Control	Controlled via MRP	Excise + Sales Tax

Sources: Company, Bloomberg, Press, BOBCAPS Research

3.3. Beer industry COGS: Quantifying the "Glass" factor

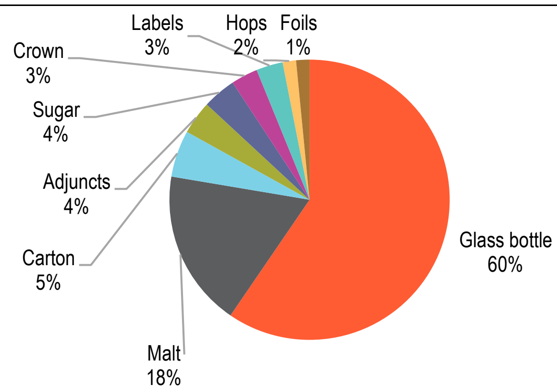
In a typical beer brewing process, malt and packaging together account for 70%-80% of the total COGS value. Glass is the single largest cost item with COGS contribution of 45% from old bottles and 64% from new ones. The old bottles are recycled and generally go through 3-4 cycles before being out of use. We show the typical beer COGS structure in figure 39 for old glass bottles and in figure 40 for new glass bottles.

Fig 39 – Typical beer COGS value split using old glass bottles



Sources: Company reports, Bloomberg, Press, BOBCAPS Research

Fig 40 – Typical beer COGS value split using new glass bottles



Sources: Company reports, Bloomberg, Press, BOBCAPS Research

Increasing relevance of Glass in beer COGS

Structurally, the relevance of Glass in overall COGS is more relevant to the Indian beer manufacturers vs global peers given India's higher than average volume growth run rates on a low base and rising per capita consumption. Recent trends in channel mix have further increased the demand for new glass bottles. We explain both factors below

- **New consumer additions** – Beer volume growth is driven by increased penetration and consumers up-trading to premium. Both imply new bottles in circulation as consumption more consumers get added into the category.

- **Rise in at home consumption** – Collection rates have dropped post COVID as consumers are drinking more at home. With out of home channel being more efficient in the collection process, its declining share adversely impacts collection rates.

  This trend of rising share of at-home-consumption is also accompanied with consumers uptrading to premium beers. Drinkers are drinking out less, spending less and so buying more of the premium beers at home. The faster rate of growth in premium beer also ties with the need for an increase in the proportion of new bottles in the total COGS base.

3.4. New beer capacity plans

With favourable changes in regulations and increased access to market, the beer industry is adding capacity. We show the capex plans of major beer manufacturers in figure 41. In aggregate, we estimate 200+ million cases of capacity coming onstream over the next 3 to 5 years. This equates to 40+% of FY25 industry volumes. While this will clearly support market growth, we suspect some discounting may accelerate in the industry in 2 years or so when new beer supply starts to arrive.

Fig 41 – Capex plans of Indian beer manufacturers

Company	Year of Announcement	Investment (INR million)	Capacity (Million Cases)	Project Type	Region	Comments
Carlsberg India	2025	3,500	n/a	Expansion	Mysuru, Karnataka	Expansion of existing Mysuru facility to include new packaging lines (can, glass, keg)
United Breweries (UB)	2025	7,500	23.4 (initial) to 58.5	New	Uttar Pradesh	Greenfield brewery with initial capacity of 2M HL, expandable to 5M HL
AB InBev India	2025	10,000	n/a	New	Unnao, Uttar Pradesh	Increasing capacity in premium
SOM Distilleries	2025	6,000	n/a	New	Khimsepur, Uttar Pradesh	Integrated brewery and distillery
B9 Beverages (Bira 91)	2024	5,800	50	New	Uttar Pradesh	Supported by Kirin

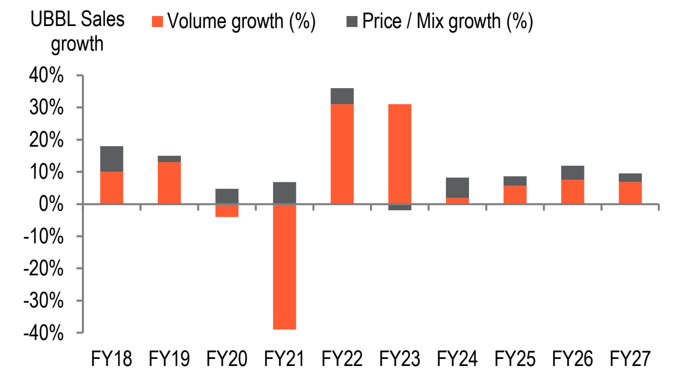
Sources: Company, Bloomberg, Press, BOBCAPS Research

United Breweries: Premiumisation is a key positive but sales targets are stretched

We expect double digit sales growth for United Breweries over FY24-FY27. Increased penetration in premium and new visicoolor installations are the key volume drivers. Price and mix will be largely driven by rising contribution of the premium portfolio and continued growth in states with higher-than-average NSR/case.

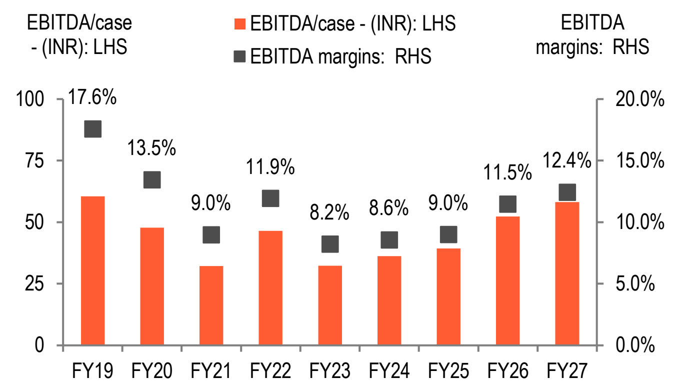
EBITDA margin will mainly benefit from operating leverage and growth in higher EBITDA per case premium portfolio. However, the incremental impact from higher NSR/case in premium will be partly offset by royalty payments, higher COGS/case due to higher proportion of new glass bottles, and slightly higher than average operating costs. We show our forecasts for sales, volume and pricing trends in figure 42. We include our group EBITDA forecasts in figure 43.

Fig 42 – United Breweries sales growth by value and volume (FY18-FY27E)



Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 43 – United Breweries EBITDA margin forecasts (FY19-FY27e)



Sources: Company, Bloomberg, Press, BOBCAPS Research

The company is also targeting its premium portfolio contribution to be 20%-25% of sales. While possible, we do not expect this to materialise at least in the next 5 years. On our estimates, to achieve its target by FY30, UB's premium portfolio needs to grow 4.0x vs the non-premium category.

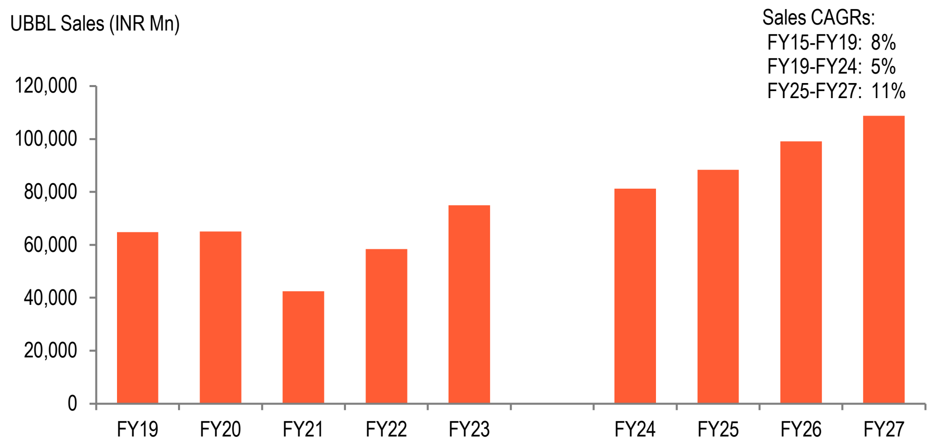
1. What are the sales drivers for United Breweries?

The beer industry volumes are growing in mid-single digits driven by population growth, and a rise in per capita consumption on increasing penetration and premiumisation.

Being the market leader with 45+% share, United Breweries should mirror the average industry growth trends. However, we expect the company to show above average growth trends with a double-digit sales CAGR over FY24-FY27 vs a mid to high single digit sales run rate for the industry. This is driven by UB's focus on increasing its visicooler penetration and expanding its premium portfolio.

In this section, we elaborate on both sales drivers. Over FY24-FY28, we forecast volumes to grow at a CAGR of 8%, with premium +19% and non-premium +6%. We show our sales forecasts for UB in figure 44.

Fig 44 – United Breweries sales forecasts (FY19-FY27e)



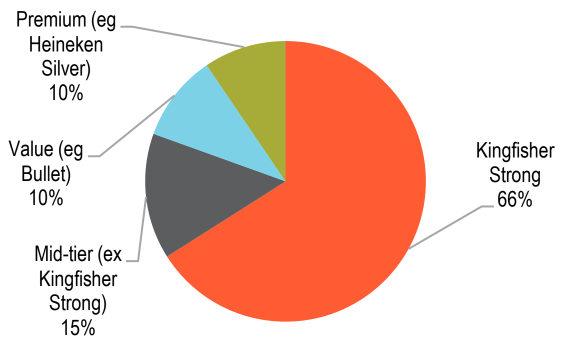
Sources: Company, Bloomberg, Press, BOBCAPS Research

1.1. Premium key volume driver; but sales targets are stretched

We estimate United Breweries is under-indexed on market share in the premium beer segment vs the non-premium by approximately 16 percentage points. If this gap was to be bridged, we estimate it to be accretive to FY24 volumes by 3% on volumes. Even then, the opportunity is still large given premium is growing at a fast pace; 2-3x volume growth vs non-premium.

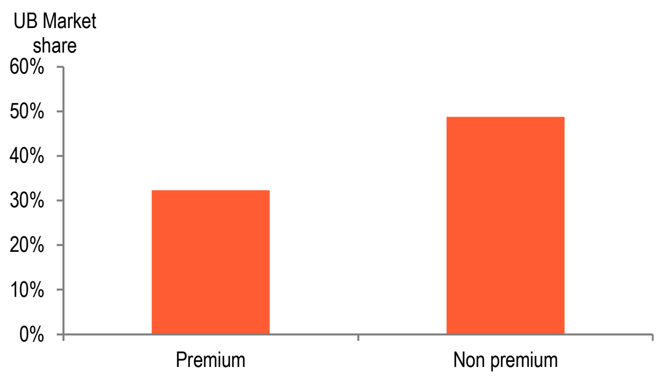
We show United Breweries sales split estimates by price points in figure 45 along with estimated market shares in premium and non-premium in figure 46. Kingfisher Strong is the single largest brand for UB. The company derives 80+% of volumes from the mid segment and only about 10% from the value segment.

Fig 45 – United Breweries volume sales split by price points (Premium vs mid-tier vs value): FY24



Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 46 – United Breweries volume market share in beer by price points (Premium vs non-premium): FY24 estimates



Sources: Company, Bloomberg, Press, BOBCAPS Research

Premium volume forecasts: Above industry average growth rates

The premium beer segment is currently growing at 2x-3x vs non-premium. We expect United Breweries to outperform the industry given its under-indexation and focus. The following factors help

- access to distribution points making route to market simple

- local manufacturing advantage, which enables affordable pricing at par with competitors
- visicooler installations, which should help achieve faster penetration as well as restore the quality of premium beers through cold storage
- access to premium brands from its global parent – Heineken

Medium and long-term premium sales targets are stretched

While UB will outperform the premium beer growth, on our estimates, its target of doubling sales exposure from the current 8-10% of sales in the next two to three years is a stretch. We forecast premium to have an 13% share of group sales in FY27.

The company is also targeting for its premium portfolio contribution to be 20%-25% of sales. While possible, we do not expect this will materialise at least in the next 5 years.

On our estimates, to achieve its target by FY30, UB's premium portfolio needs to grow 4x vs the non-premium category and 2.0x vs the premium category. We assume UB holds share in the non-premium category. While higher than industry growth rates are possible, they are harder to sustain as either other players eventually come in to defend share or new players enter the market. In figure 47, we show the yearwise sensitivities for UB's target share of premium as a % of group sales and the required growth rate vs non-premium and premium categories.

Fig 47 – Sensitivity analysis on UB's required premium volume growth for its group sales contribution of 20%

		UB's premium sales as a % of group				
		10.0%	12.5%	15.0%	17.5%	20.0%
Implied required premium volume CAGR for UB (FY25 to FYXX*)	FY28	4.0%	13.1%	21.3%	29.0%	36.2%
	FY30	4.1%	9.4%	14.1%	18.4%	22.4%
	FY35	4.2%	6.8%	9.1%	11.1%	13.0%
	FY40	4.6%	6.4%	7.9%	9.2%	10.4%
Implied required volume CAGR: UB premium vs industry non-premium (FY25 to FYXX*)	FY28	0.9x	2.8x	4.6x	6.3x	7.9x
	FY30	0.9x	2.0x	3.1x	4.0x	4.8x
	FY35	0.9x	1.5x	2.0x	2.4x	2.8x
	FY40	1.0x	1.4x	1.7x	2.0x	2.3x
Implied required volume CAGR (UB premium vs industry premium) (FY25 to FYXX*)	FY28	0.3x	1.0x	1.6x	2.1x	2.6x
	FY30	0.3x	0.7x	1.0x	1.3x	1.6x
	FY35	0.3x	0.5x	0.7x	0.8x	0.9x
	FY40	0.3x	0.5x	0.6x	0.7x	0.8x

Industry volume CAGR assumptions (FY25 to FYXX*)

Volume forecasts	FY28	FY30	FY35	FY40
Premium	13.7%	13.3%	11.6%	10.5%
Non premium	4.6%	4.5%	4.6%	4.7%
Total	5.7%	5.7%	5.6%	5.6%

* Financial Year in which United Breweries achieves its target of getting Premium to 20% of beer sales; Sources: Company, Bloomberg, Press, BOBCAPS Research

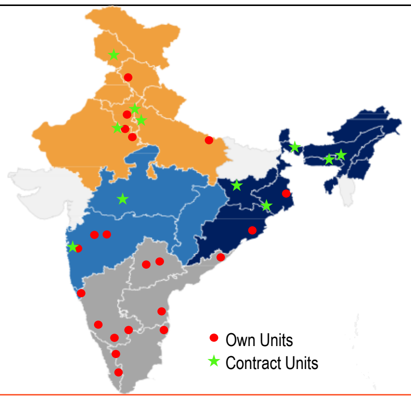
1.2. Rising visicooler penetration to drive above average industry growth

While premium is a focus for UB, non-premium portfolio is crucial given its 90+% volume share in the company. While the EBITDA per case is lower compared to premium portfolio, the non-premium portfolio helps distribute the bulk of operating cost and so remains an important part of the business on its sales contribution and leverage benefits.

With an already high market share and national presence, UB is focusing on increasing its visicooler penetration to drive growth in sales and share. According to company estimates, stores with visicoolers register 2 percentage points higher sales growth compared to others.

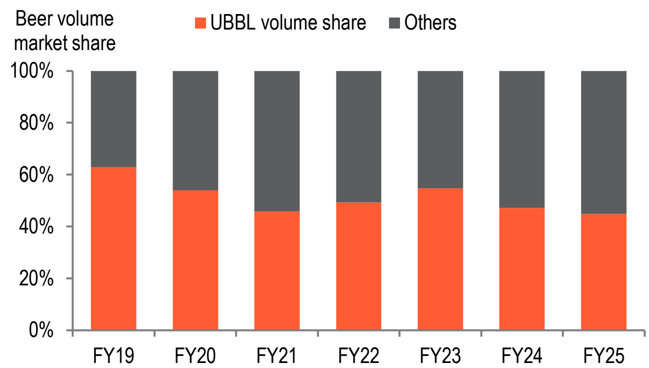
As of FY24, UB's visicooler penetration was at 16%. The company expects to increase its penetration to 59% by 1Q27. This is a reasonable target, in our view. UB has a Pan-India supply base and a high market share. The retailer should generally be receptive to installing a visicooler from a leading brand given the advantage of being able to offer a chilled beer, which is more conducive to instant consumption as opposed to the one at room temperature. We show UB's national manufacturing footprint and market share in figure 48 and figure 49.

Fig 48 – United Breweries manufacturing footprint: own and contract units



Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 49 – United Breweries Beer volume market share: FY19-FY27e



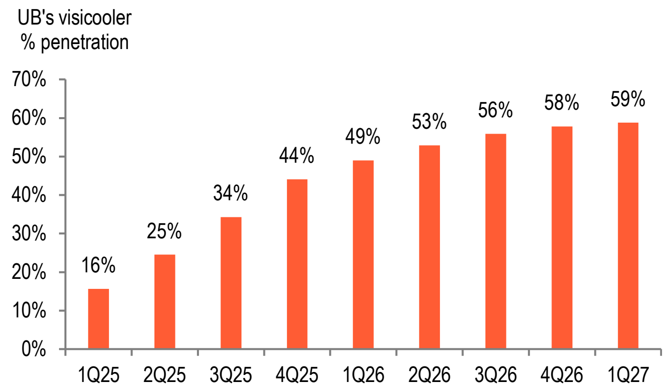
Sources: Company, Bloomberg, Press, BOBCAPS Research

Timeline of visicooler installations and impact on volumes

We expect the bulk of new visicooler installations to complete by the end of 1Q25. While a Pan-India presence should enable quick installations, key challenge is to ensure that visicoolers continue to stock UB brands only. This is easier to monitor and implement in organised retail i.e. modern trade, but harder in other channels. For this reason, we expect the incremental volume benefit will tend to diminish with the rise in penetration.

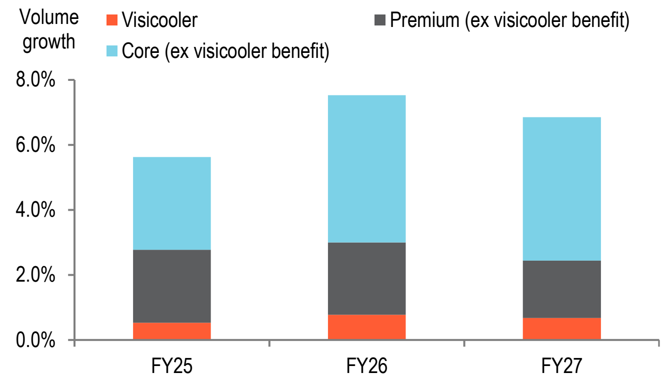
We forecast rising visicooler penetration to contribute 0.5%-1.0% incremental volume growth over FY25-FY28. We show the pace of visicooler penetration in figure 50 and UB volume growth between visicooler benefit, non-premium and premium, in figure 51.

Fig 50 – United Breweries' period-end visicooler penetration (1QFY25 to 1QFY27)



Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 51 – United Breweries volume growth split between international, premium and visicooler



Sources: Company, Bloomberg, Press, BOBCAPS Research

We show our sales forecasts for United Breweries by volume and value in figure 52.

Fig 52 – United Breweries sales forecasts: FY23 to FY27; value, volume and price

INR million	FY23	FY24	FY25	FY26	FY27
Sales	74,999	81,227	88,376	99,158	108,821
...YoY (%)	28	8	9	12	10
Volume YoY (%)	31	2	6	8	7
Price YoY (%)	(2)	6	3	4	3

Sources: Company, Bloomberg, Press, BOBCAPS Research

2. Quantifying the moving parts for margin outlook – (1) impact from premiumisation and rising share of Heineken owned brands; and (2) inflation vs pricing

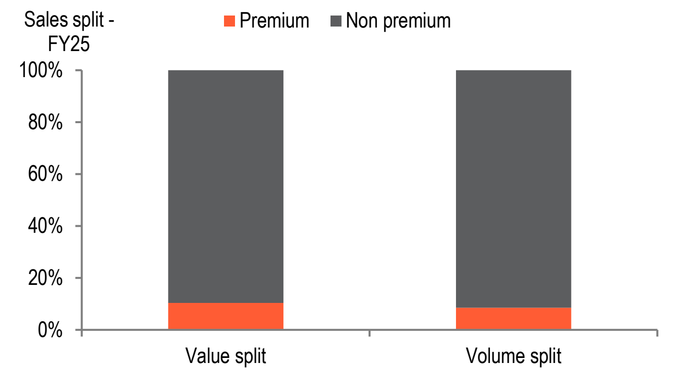
Over the next 3 years, we estimate premium to contribute 30+% of the incremental volume growth. Given its large share in overall sales growth, cost trends in premium need to be considered while looking at overall gross margin direction for United Breweries. We forecast premium share of UB sales to increase from 8% in FY24 to 13% in FY25.

2.1. What is the current situation on premium sales and margin structure vs non-premium?

Top line dynamics

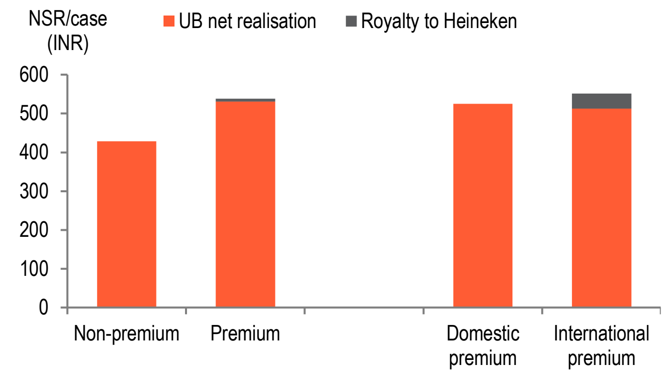
We estimate premium portfolio volume and value contribution to UB beer sales in mid to high single digits. In terms of NSR/case, premium portfolio pricing is roughly 25% ahead of non-premium. Within premium, umbrella International brands of Amstel and Heineken NSR/case are roughly 6%-7% ahead of the domestic brand Kingfisher Ultra. However, UB also needs to pay royalty to Heineken for use of its trademark brands Amstel and Heineken.

Fig 53 – Sales split between premium vs non-premium and domestic premium vs international premium; FY24 estimate



Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 54 – NSR/case split between non-premium vs premium and domestic premium vs international premium; FY24 estimate



Sources: Company, Bloomberg, Press, BOBCAPS Research

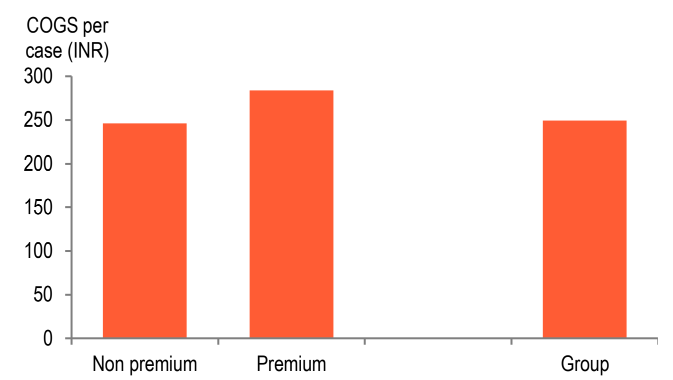
Cost line dynamics

COGS base in premium is higher vs non-premium. We explain the drivers below

- **Higher proportion of new glass bottles** – We estimate new glass bottles cost 1.5~2.0x vs recycled bottles
  - **Fast growth in premium:** Given premium is growing faster than the rest of the portfolio, its proportionate demand for new glass bottles is also higher
  - **Channel shift towards at home drinking:** Consumers are drinking more at home while up-trading to premium. At home return rates are lower vs out of home. This further increases the proportion of new glass bottles in premium
- **Higher quality/priced ingredients** – malt / hops / packaging etc

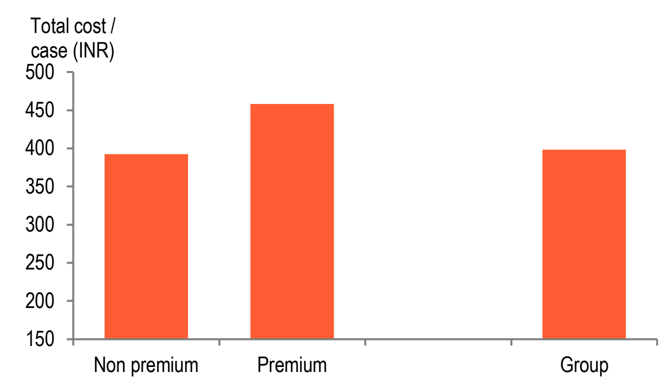
In terms of overall cost, we estimate premium about 15% ahead of non-premium. The three largest components of higher cost are (1) glass, (2) need for cold chain to preserve the quality, and (2) royalty outgo to Heineken for use of Amstel and Heineken trademarks. We show the COGS per case and total cost per case differential between premium and non-premium in figure 55 and figure 56, respectively.

Fig 55 – Old and new blended glass COGS/case differential between non-premium and premium; FY25 estimate



Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 56 – Total cost per case: Premium vs non-premium vs group; FY25 estimate



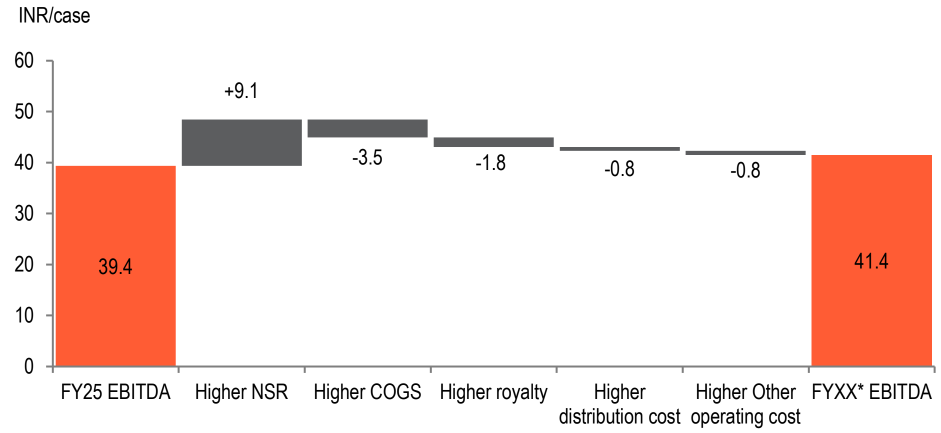
Sources: Company, Bloomberg, Press, BOBCAPS Research

2.2. What will be the mix impact on margins as UB increases premium sales contribution to 20%?

Considering the differences in cost structure, once United Breweries achieves its target of premium at 20% of group beer sales, we estimate the EBITDA per case to increase 5% from INR39/case in FY24 to INR41/case.

In terms of drivers, higher mix benefit from higher price realisation in premium adds about INR9/case. However, higher COGS and royalty outflow offset more than half of this benefit. We show the EBITDA growth breakup between price, COGS and other cost items in figure 57.

Fig 57 – Breaking up the incremental EBITDA/case potential when Premium achieves its target of contributing 20% to company beer sales



* Financial Year in which United Breweries achieves its target of getting Premium to 20% of beer sales; Sources: Company, Bloomberg, Press, BOBCAPS Research

2.3. Would high gross margins return for United Breweries? How will pricing trend?

Despite its leading share of the beer market, UB has struggled to offset COGS inflation with pricing since FY19. On our estimates, between FY19 and FY24, UB's cumulative pricing was insufficient to offset cumulation inflation in its COGS base. The company had a decline in its gross profit per case. While there is cost recovery over the past year, we estimate the FY25 gross profit per case to be only 2% higher vs FY19.

We list the drivers of UB's limited pricing power below:

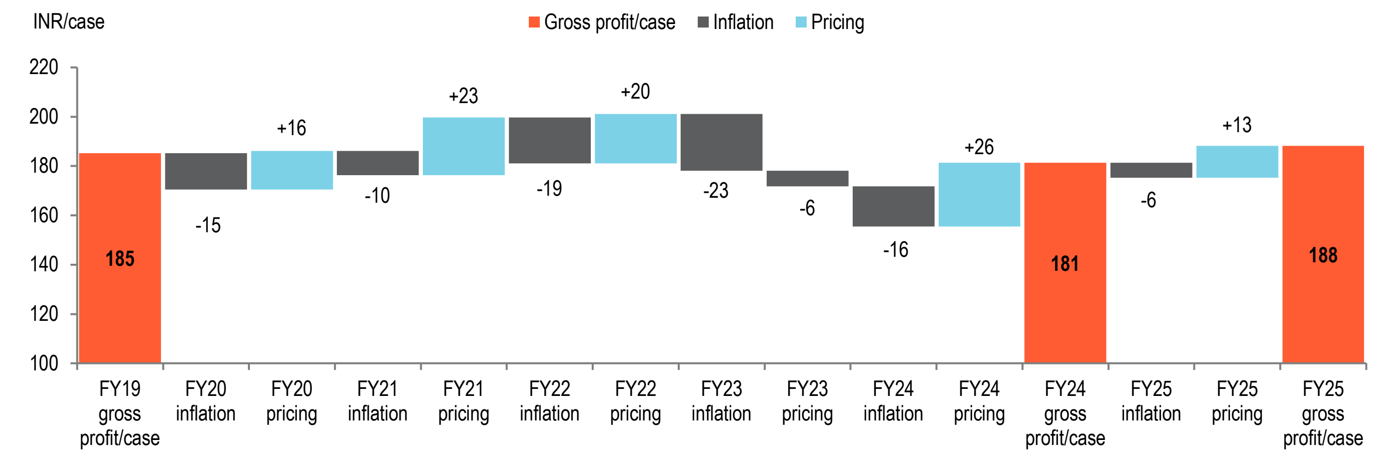
- **Limitations around state regulations** – Pricing negotiation is always tough with the state governments given the excise revenue is reliant on beer sales. Any price rise results in inverse volume elasticity, which creates a risk for the state government to end up with a lower excise revenue.
- **Rising competition amidst high exposure to mid-premium brands** – This assumes that state government has allowed the pricing to get through. The beer industry is attracting new entrants in both value and premium segments. Over the past decade, new players have entered across premium and value segments. AB InBev has effectively expanded its premium portfolio based on Budweiser. Carlsberg remains a competitor in the mid-premium and premium categories. Som

distilleries' Powercool and Hunter brands compete against UB's flagship Kingfisher Strong brand. In Karnataka, UB's share has deteriorated by close to 20 percentage points over the past six years. Most of the share loss is to Som Distilleries, which operates in the lower end of the market.

While inflation is valid across the industry and all players need to implement pricing, the higher priced beer within the consumption segment becomes even more expensive, which results in its reduced affordability. The elasticity is higher in value, mid-premium segments given its highly price conscious consumer set. This is understandable as the impact on affordability is lesser for the premium vs value / mid-premium consumer. UB derives 80+% of its volumes from the mid-premium brands.

We show our estimates on UB's COGS inflation vs pricing in figure 58. The company's gross profit per case declined between FY19 and FY24 with pricing always lagging inflation.

Fig 58 – United Breweries pricing has just about matched COGS inflation over the past six years



Sources: Company, Bloomberg, Press, BOBCAPS Research

Market to remain competitive with additional capacity

We expect the tough pricing scenario to persist for UB along with other major players. New capacity, which is coming to market over the next three years, supports competitive intensity.

We expect UB pricing to be mainly driven by mix shift and inflation. Catchup pricing negotiations with the state governments provides an upside to our estimates.

Telangana reset: How will further negotiations impact group EBITDA?

UB was incurring a loss on every beer bottle sold in Telangana due to insufficient pricing. The state had not approved any price rises since 2019. The Beer Association of India had advocated for a 35%-40% pricing to offset cumulative inflation in COGS and other expenses along with restoration of "normal margins".

The state government approved a 15% price rise. We estimate this adds 110bps to UB gross margins and 23% incremental EBITDA on an annualized basis, assuming all else equal. If the gap to 35%-40% pricing demand was to be made good, the incremental EBITDA for UB would be 57% on FY24 base.

Having said that, elasticity is inevitable. If we assume unitary elasticity, with volumes down 15%, we expect the annualized benefit to reduce to 0%. We show the sensitivities on group EBITDA upside from further pricing in Telangana in figure 59.

Fig 59 – Impact of Telangana pricing reset on UB group EBITDA

(%)	Proposed	Actual
UB Telangana		
Proposed price increase by Bear Association of India	37.5	-
Implemented pricing	-	15.0
UB Group		
Impact on pricing	2.7	1.1
Impact on gross margins	265bps	110bps
Incremental gross profit generated on FY24	11	5
Incremental gross profit / FY24 EBITDA		
0% volume elasticity	57	23
20% volume elasticity	45	18
40% volume elasticity	34	14
60% volume elasticity	23	9
80% volume elasticity	11	5
100% volume elasticity	0	0

Sources: Company, Bloomberg, Press, BOBCAPS Research

3. Financial Forecasts and Valuation

3.1. Financial forecasts

- **Sales** – We expect sales to grow in double digits in the FY25-FY27 period. Bulk of this growth will come from growth in premium while visicooler installations drive momentum in both premium and non-premium.
- **EBITDA** – We forecast margins in the double-digit range. Operating leverage, pricing in Telangana and positive mix from premium are the key drivers.

Fig 60 – United Breweries earnings summary: FY23 to FY27

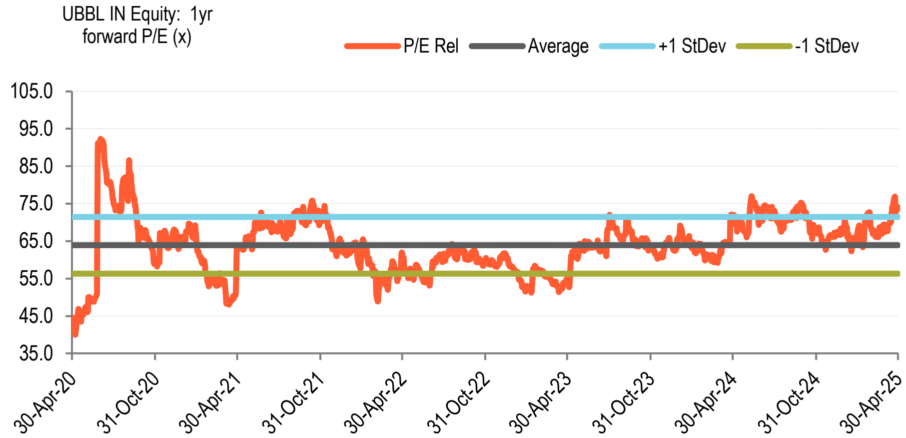
(INR million)	FY23	FY24	FY25	FY26	FY27
Sales	74,999	81,227	88,376	99,158	108,821
…YoY (%)	28	8	9	12	10
Gross margin (%)	43.1	42.7	43.0	44.0	44.1
…bps change YoY	(675bps)	(40bps)	30bps	101bps	11bps
EBITDA	6,162	6,962	7,965	11,390	13,525
…YoY (%)	(12)	13	14	43	19
EBITDA margin (%)	8.2	8.6	9.0	11.5	12.4
…bps change YoY	(372bps)	35bps	44bps	247bps	94bps

Sources: Company, Bloomberg, Press, BOBCAPS Research

3.2. Valuation

We expect UB to drive above industry sales and volume growth with margins also expanding. We value the company in line with its 5Y historical average P/E of 64x on 12m to March 2027 EPS. Our target price is Rs 2,074 with an implied negative return of -3%. Hold.

Fig 61 – United Breweries 1Yr forward P/E (April 2021 to April 2025)



Sources: Company, Bloomberg, Press, BOBCAPS Research

3.3. Risks

- Regulatory changes – change in pricing, taxes
- Raw material inflation
- Changes in royalty payment terms with Heineken
- New capacity leading to industry wide discounting

4. Company snapshot: History and forecasts

4.1. Company description

United Breweries is India's leading beer manufacturer, holding a 45+% volume share of the domestic market. For FY24, the company reported INR81 billion in sales and INR7 billion in EBITDA on 8.6% margins. UB derives ~90% of its sales from the mid-premium and premium segments.

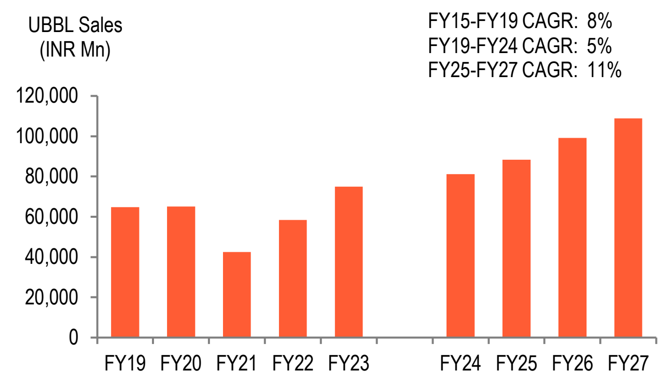
Key brands – The company's flagship brand, Kingfisher Strong is the No 1 strong beer brand in the country. Besides Kingfisher Strong, UB's mid premium alcoholic beverage portfolio mainly comprises of Kingfisher Premium. In premium, the company's umbrella brands are Kingfisher Ultra, Heineken and Amstel. Across the portfolio, UB brands are sold in glass bottles and aluminium cans — 650ml glass bottles, 330ml glass bottle pints, and 500ml cans across urban and semi-urban regions.

The company has Pan India presence with manufacturing spread across the country on both owned and contracted basis. More than 80% of UB's supply base is owned.

4.2. Financial snapshot

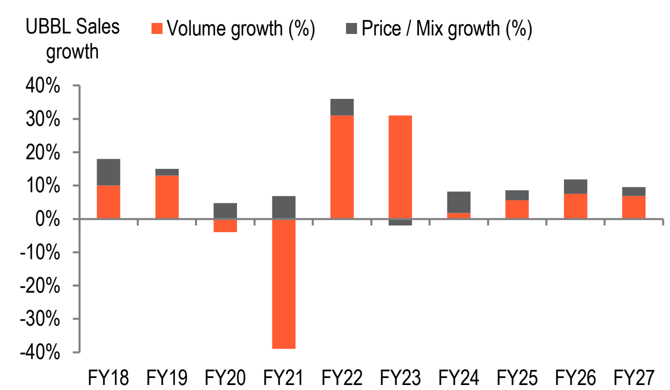
We show a snapshot of UB financials from figure 62 to figure 69 below.

Fig 62 – UB sales trend (FY19-FY27)



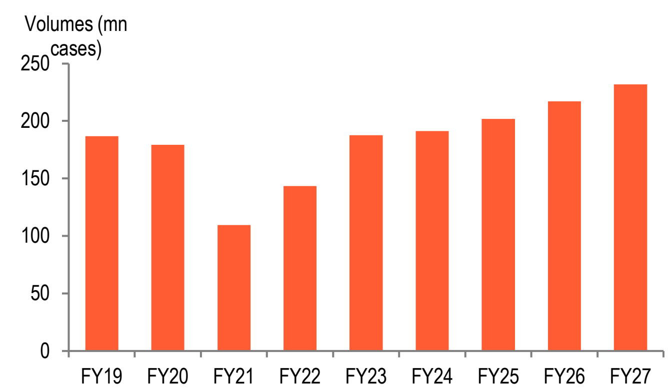
Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 63 – UB sales growth trend on volume and price (FY18-FY27)



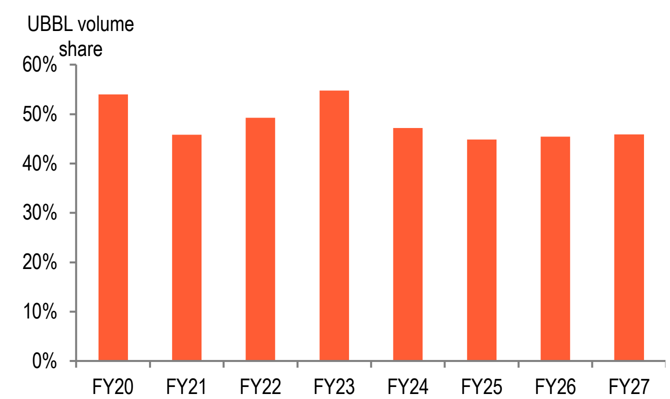
Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 64 – UB annual volume trend (FY19-FY27)



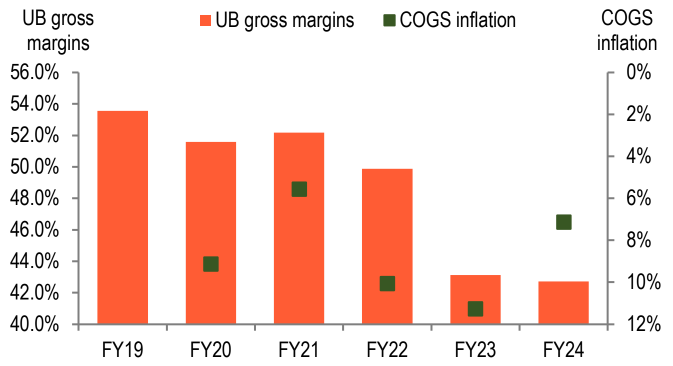
Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 65 – UB volume market share trend (FY20-FY27)



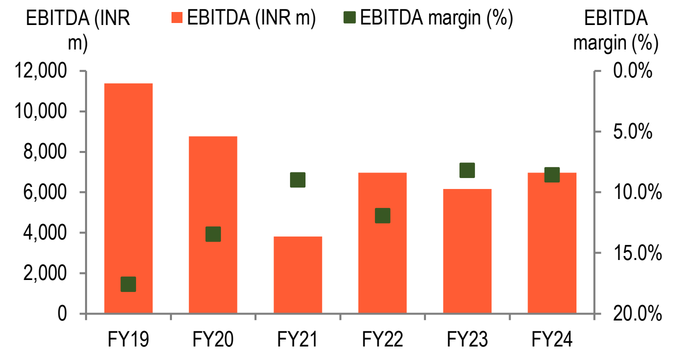
Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 66 – UB's Gross margin vs COGS inflation trend (FY19-FY24)



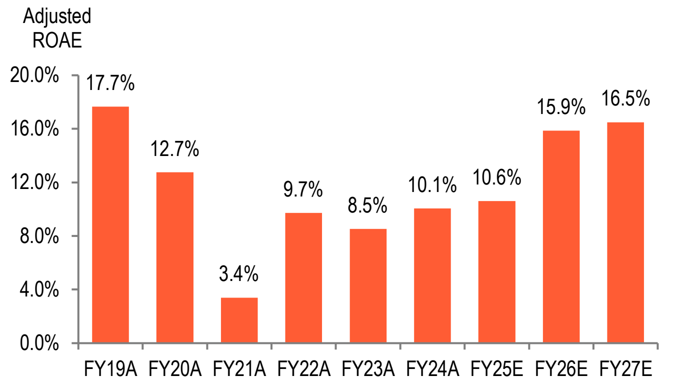
Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 67 – EBITDA and EBITDA margin trend (FY19-FY24)



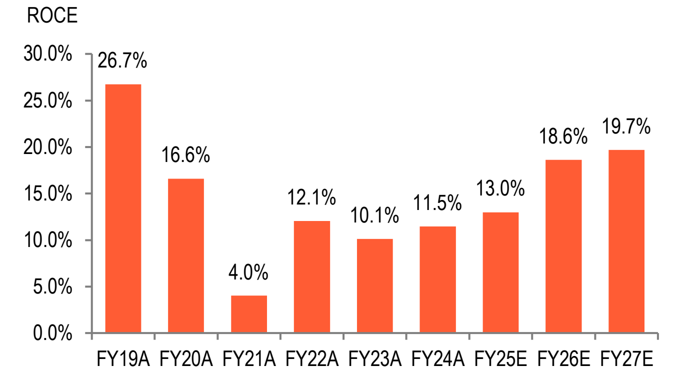
Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 68 – UB's ROAE trend (FY19-FY27)



Sources: Company, Bloomberg, Press, BOBCAPS Research

Fig 69 – UB's ROCE trend (FY19-FY27)



Sources: Company, Bloomberg, Press, BOBCAPS Research

4.4. Management summary

Fig 70 – Profiles of top management

Name	Role	Expertise Areas	Experience & Previous Roles
Mr Vivek Gupta	Managing Director & CEO	General Management, Strategy, E-commerce	Over 20 years at Procter & Gamble in various leadership roles; last served as MD for Australia and New Zealand. Also served as Chief Business Officer at Udaan.com, a leading B2B e-commerce platform in India.
Mr Jorn Kersten	Chief Financial Officer & Director	Finance, Business Control, Strategy	Joined Heineken in 2007; over 17 years of experience in finance roles across Heineken's global operations, including Director Finance for Heineken Ethiopia and Regional Business Control Manager for the Americas.
Mr Wiggert Deelen	Chief Supply Chain Officer	Supply Chain Management, Operations	Over 30 years at Heineken; extensive experience in supply chain management across emerging and developed markets.
Ms Kavita Singh	Chief Human Resource Officer	Human Resources, Talent Management	19 years in HR roles across services and manufacturing sectors; previously worked with Hindustan Zinc Limited, Maersk Group, ICICI Prudential, and TATA AIG.
Ms Shelly Kohli	Chief Legal Officer	Legal Affairs, Compliance, Corporate Law	Over 19 years of legal experience; dual-qualified lawyer in India and New York, USA. Previously worked with Hindustan Unilever, GE Energy, and Levi Strauss & Co.
Mr Vikram Bahl	Chief Marketing Officer	Marketing, Brand Management, Strategy	Over 30 years in marketing; held leadership roles at P&G, Gillette, Kellogg, GSK Consumer, and Unilever.
Mr Rakesh Kumar	Chief Sales Officer	Sales, Marketing, Business Development	22 years in sales and marketing; previously worked with Diageo, SC Johnson, and PepsiCo.
Mr Suresh Mandalika	Chief Digital & Technology Officer	Digital Transformation, Technology	15 years in BFSI and consumer goods sectors; previously worked with Capgemini and Unilever.
Mr Nikhil Malpani	Company Secretary & Compliance Officer	Corporate Governance, Compliance	17 years in corporate laws and governance; previously associated with Reliance Industries, Cipla, Wockhardt, Biocon Biologics, and Novartis India.

Sources: Company, Bloomberg, Press, BOBCAPS Research

4.5. Board of director summary

Fig 71 – Profiles of board of directors

Name	Role	Expertise Areas	Experience & Previous Roles
Mr Anand Kripalu	Chairman & Independent Director	FMCG, Corporate Governance, Strategy	Over 30 years in FMCG. Former MD & CEO of Diageo India; member of Diageo's Global Executive Committee. Also served as Executive Director at Hindustan Unilever.
Mr Manu Anand	Independent Director	Consumer Goods, Sales & Marketing, Strategy	40+ years of experience in consumer goods. Former President of PepsiCo India and South Asia; also held leadership roles at Mondelez and Kellogg.
Ms Geetu Gidwani Verma	Independent Director	Marketing, Innovation, Brand Management	Over 30 years in marketing and innovation. Former Executive Director at Hindustan Unilever; also worked with Nestlé and Kellogg.
Mr Subramaniam Somasundaram	Independent Director	Finance, Strategy, Corporate Governance	Rich experience in finance and strategy. Former CFO of Hindustan Unilever; also held positions at Unilever globally.
Mr Ranjan Ramdas Pai	Independent Director	Healthcare, Education, Corporate Strategy	Investor, Chairman of Manipal Education and Medical Group; extensive experience in healthcare and education sectors.
Mr Jan Cornelis van der Linden	Non-Executive Director	International Business, Beverages	25+ years at Heineken; brings international experience in the beverage industry.
Ms Yolanda Talamo	Non-Executive Director	Human Resources, Organizational Development	Chief Human Resources Officer at Heineken; over 30 years experience in HR leadership roles across various geographies
Mr Radovan Sikorsky	Non-Executive Director	Finance, Regional Business Strategy	Finance Director at Heineken Asia Pacific; brings over 30 years of financial expertise and regional experience.

Sources: Company, Bloomberg, Press, BOBCAPS Research

4.7. Company timeline and new product launches

We show company milestones in figure 72 with new product launches highlighted.

Fig 72 – United Breweries' milestones

Fiscal Year	Events
1915	United Breweries (UB) forays into brewing with five breweries in South India
1944	**First bottled beer created under the label "Exports Beer"**
1948	Mr Vittal Mallya becomes first chairman
1950	Bangalore is made headquarters
1960	Kalyani Breweries set up in Kalyani, West Bengal.
1965	Kesarwal Beverages set up in Goa
1972	High Range Breweries set up in Cherthala in Kerala
1974	UB brand exported to Aden and the Middle East
1978	Punjab Breweries set up in Ludhiana, Punjab
1978	**Kingfisher Premium launched**
1981	**Kingfisher canned beer launched**
1982	**Kingfisher Lager launched in the UK & USA**
1983	Dr. Vijay Mallya becomes Chairman
1993	Punjab Breweries, High Range Breweries, Kalyani Breweries & Kesarval Beverages amalgamate with UB
1994	Premier Breweries amalgamates with UB
1996	Acquires Bombay Breweries
1999	**Kingfisher Strong launched.**
2000	Acquires Associated Breweries and Mangalore Breweries
2001	Acquires Inertia Industries (name changed to Millennium Beer)
	Scheme of arrangement for separating brewery business into a new entity introduced
2002	Forms a JV with Scottish & Newcastle UK and McDowell Alcobev Ltd. (MAPL)
	MAPL acquires GMR Beverages, Empee Breweries; GMR, Empee and Millennium Beer become subsidiaries of MAPL
2005	UB enters into strategic alliance with Scottish & Newcastle; Scottish & Newcastle acquires equity shares of UB and becomes an equal promoter
	Brewery business of Associated Breweries gets demerged into UB, and Mangalore Breweries is amalgamated into UB; Associated
	Breweries continues to hold investments and remains a subsidiary of UB

Fiscal Year	Events
2006	Acquires Karnataka Breweries
	Karnataka Breweries, London Pilsner Breweries and London Draft Pubs amalgamated into UB
2007	Greenfield breweries in Chopanki (Rajasthan) and Khurda (Odisha) commence operations
2008	**Kingfisher Blue launched**
2009	Heineken NV acquires control over Scottish & Newcastle, and Heineken becomes promoter of UB
2009	**Kingfisher Ultra launched**
2010	Greenfield brewery in Sangareddy District (Andhra Pradesh) commences operations
	Heineken breweries in India comes under management of UB
	MAPL and four breweries of MAPL subsidiaries amalgamate into UB
	Associated Breweries and UB Nizam Breweries amalgamate into UB
2011	UB Ajanta Breweries and Chennai Breweries amalgamate into UB
2012	Greenfield Brewery in Nanjungud (Karnataka) commences operations Heineken brewed by UB in India
	Scottish & Newcastle India amalgamated into UB
2014	UB acquires brewery assets, i.e. land, building, plant and equipment in Shahjahanpur (Rajasthan)
2015	Greenfield Brewery in Naubatpur, Patna (Bihar) commences operations
2015	**Kingfisher Ultra Max launched**
2016	**Kingfisher Buzz launched**
2017	**Kingfisher Storm launched**
2019	**Kingfisher Ultra Witbier beer is launched**
2021	Heineken becomes a majority promoter shareholder of UBL
	UBL becomes a subsidiary of Heineken
2022	**Heineken Silver is launched**
2023	**Heineken Silver Draught Beer is launched**
2024	**Queenfisher Premium Lager Beer is launched**
	Amstel Grande' is launched
2025	**Flavoured beer launch with Kingfisher Mango Berry Twist and Kingfisher Lemon Masala**

Sources: Company, Bloomberg, Press, BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	**74,999**	**81,227**	**88,376**	**99,158**	**108,821**
EBITDA	6,162	6,962	7,965	11,390	13,525
Depreciation	2,106	2,119	2,266	2,246	2,591
EBIT	4,056	4,843	5,699	9,145	10,934
Net interest inc./(exp.)	(46)	(69)	(89)	(76)	(121)
Other inc./(exp.)	494	737	478	697	625
Exceptional items	331	0	258	0	0
EBT	4,504	5,511	6,089	9,766	11,438
Income taxes	1,126	1,403	1,559	2,441	2,859
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	7	8	9	9	9
Reported net profit	**3,040**	**4,100**	**4,263**	**7,316**	**8,570**
Adjustments	331	0	258	0	0
Adjusted net profit	**3,371**	**4,100**	**4,521**	**7,316**	**8,570**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	7,170	9,485	7,924	8,512	9,150
Other current liabilities	15,605	18,033	19,082	19,082	19,082
Provisions	42	92	59	59	59
Debt funds	0	774	1,050	1,050	2,550
Other liabilities	292	315	316	316	316
Equity capital	264	264	264	264	264
Reserves & surplus	39,431	41,571	43,251	48,511	54,921
Shareholders' fund	39,695	41,836	43,515	48,776	55,186
Total liab. and equities	**62,804**	**70,534**	**71,946**	**77,795**	**86,343**
Cash and cash eq.	3,299	1,292	5,732	5,680	8,943
Accounts receivables	14,073	23,138	21,229	23,289	25,190
Inventories	14,278	13,687	14,659	15,788	17,047
Other current assets	5,215	6,037	4,081	4,081	4,081
Investments	0	0	0	0	0
Net fixed assets	19,095	19,328	19,297	22,009	24,134
CWIP	0	0	0	0	0
Intangible assets	187	155	140	140	140
Deferred tax assets, net	0	0	0	0	0
Other assets	6,658	6,896	6,808	6,808	6,808
Total assets	**62,804**	**70,534**	**71,946**	**77,795**	**86,343**

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	**(1,196)**	**773**	**8,933**	**6,619**	**8,385**
Capital expenditures	(1,563)	(1,915)	(2,271)	(4,958)	(4,716)
Change in investments	(1)	(10)	5	0	0
Other investing cash flows	355	447	245	418	375
Cash flow from investing	**(1,208)**	**(1,478)**	**(2,022)**	**(4,540)**	**(4,341)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	774	276	0	1,500
Interest expenses	0	0	0	0	0
Dividends paid	(2,779)	(1,985)	(2,646)	(2,055)	(2,159)
Other financing cash flows	(145)	(91)	(100)	(76)	(121)
Cash flow from financing	**(2,923)**	**(1,302)**	**(2,471)**	**(2,131)**	**(780)**
Chg in cash & cash eq.	**(5,327)**	**(2,007)**	**4,441**	**(52)**	**3,264**
Closing cash & cash eq.	**3,299**	**1,292**	**5,732**	**5,680**	**8,943**

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	11.5	15.5	16.1	27.7	32.4
Adjusted EPS	12.7	15.5	17.1	27.7	32.4
Dividend per share	7.5	10.0	7.8	8.2	7.7
Book value per share	150.1	158.2	164.6	184.5	208.7

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	7.4	6.9	6.4	5.7	5.1
EV/EBITDA	90.5	80.1	70.5	49.2	41.3
Adjusted P/E	167.2	137.4	124.6	77.0	65.8
P/BV	14.2	13.5	12.9	11.6	10.2

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.8	74.4	74.2	74.9	74.9
Interest burden (PBT/EBIT)	111.0	113.8	106.8	106.8	104.6
EBIT margin (EBIT/Revenue)	5.4	6.0	6.4	9.2	10.0
Asset turnover (Rev./Avg TA)	122.7	121.8	124.1	132.4	132.6
Leverage (Avg TA/Avg Equity)	1.5	1.6	1.7	1.6	1.6
Adjusted ROAE	8.5	10.1	10.6	15.9	16.5

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	28.5	8.3	8.8	12.2	9.7
EBITDA	(11.5)	13.0	14.4	43.0	18.7
Adjusted EPS	(7.8)	21.6	10.3	61.8	17.1
Profitability & Return ratios (%)					
EBITDA margin	8.2	8.6	9.0	11.5	12.4
EBIT margin	5.4	6.0	6.4	9.2	10.0
Adjusted profit margin	4.5	5.0	5.1	7.4	7.9
Adjusted ROAE	8.5	10.1	10.6	15.9	16.5
ROCE	10.1	11.5	13.0	18.6	19.7
Working capital days (days)					
Receivables	65	84	92	82	81
Inventory	101	110	103	100	99
Payables	58	65	63	54	53
Ratios (x)					
Gross asset turnover	3.9	4.2	4.1	3.7	3.5
Current ratio	1.6	1.6	1.6	1.7	1.8
Net interest coverage ratio	87.4	70.3	64.2	120.5	90.4
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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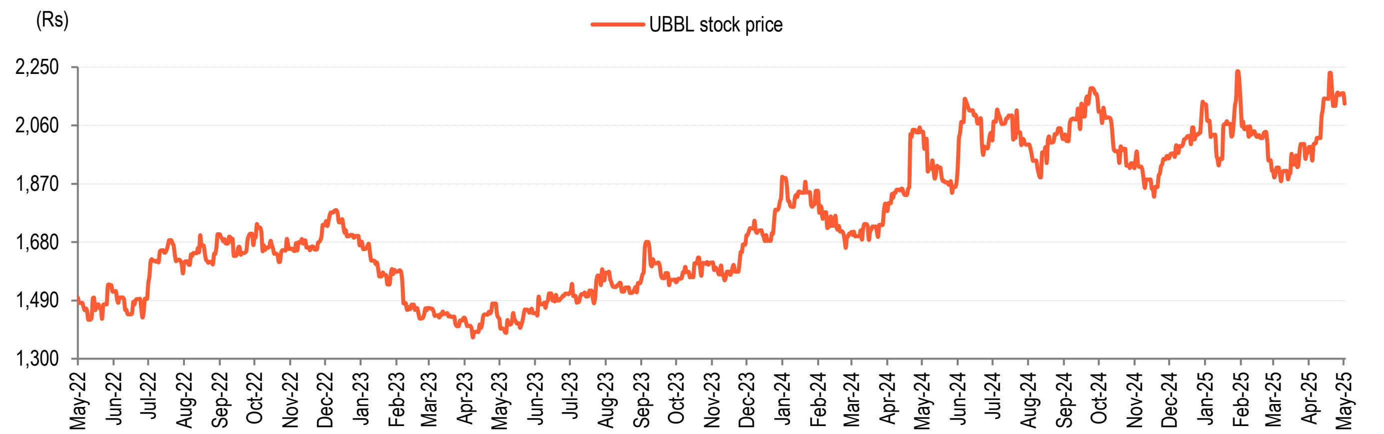

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