

UNITED SPIRITS LIMITED

PRESS RELEASE

Unaudited financial results for the quarter and nine months ended 31 December 2018

(Standalone only)



Net sales grew 12% in the nine months enabled by Prestige & Above portfolio

Third quarter performance highlights:

- Net sales grew 11%; enabled by the performance of Prestige and Above segment as well as benefitting from lapping of a weaker comparative in the prior year, when the business was impacted by expected route to market changes in certain states.
- Prestige & Above segment net sales grew 16%, albeit on a weaker base, as a result of continued focus on premiumisation.
- Popular segment reported net sales declined 3%. Underlying net sales, after adjusting for the impact of operating model changes declined 2%. Net sales of Popular segment in priority states declined 5%.
- Gross margin was 47.3%, almost flat versus last year, as the positive impact from improved mix and productivity savings was offset by adverse impact of COGS inflation.
- Reported EBITDA was Rs. 348 Crores, up 28%. EBITDA margin was 13.9%, up 188bps, primarily driven by savings in operating costs, which more than offset a 3% increase in marketing investment. Underlying* EBITDA margin improvement was 91bps.
- Interest costs were Rs. 55 Crores, 16% lower than prior year, despite a rising interest-rate environment, driven by lower debt and improved debt-mix.
- Profit after tax was Rs. 192 Crores, up 43%; PAT margin was 7.7%, up 174bps.

Nine months performance highlights:

- Reported net sales grew 12%, as a result of double-digit growth in the Prestige & Above segment as well as benefitting from lapping a lower base which was impacted by the highway ban last year. Net sales excluding the one-off impact of operating model changes grew 13%.
- Prestige & Above segment performance was robust with net sales growth of 18% and 5ppts positive price/mix.
- Popular segment reported net sales grew 1%. Underlying net sales adjusted for the impact of operating model changes grew 2%. Net sales of Popular segment in priority states grew by 4%.
- Gross margin was 48.5%, up 141bps, mainly due to productivity gains, improved mix and flow through effect of pricing that more than offset the adverse impact of inflation. Underlying gross margin improvement, net of the impact of operating model changes, was 113bps.
- Reported EBITDA was Rs. 973 Crores, up 30%; reported EBITDA margin was 14.4%, up 196bps, primarily driven by increased gross margin and savings in operating costs, which more than offset a 20% increase in marketing investment. Underlying* EBITDA increased by 28%; underlying* EBITDA margin was 15%, up 173bps.
- Interest costs were Rs. 153 Crores, 24% lower than prior year, driven by lower debt and more favourable debt-mix and despite a rising interest rate environment.
- Profit after tax was Rs. 532 Crores, up 52%; PAT margin was 7.9%, up 205bps.

**Underlying movement excludes the one-off impact of operating model changes and one-off costs.*

Anand Kripalu, CEO, commenting on the quarter and nine months ended 31 December 2018 said:

"I am pleased with our performance as we delivered double-digit sales growth for a third consecutive quarter this year. During the quarter, overall net sales growth was 11%, benefitting from lapping the impact of expected route to market changes last year, while also driven by momentum in Prestige & Above segment.

During the quarter, net sales of Prestige & Above segment grew 16%, bringing net sales growth of the segment to 18% during the first nine months of the year. Although this growth was on a low comparative, we are encouraged to see the underlying momentum in the category return this year.

Despite no increase in gross margin versus last year, we delivered an EBITDA margin improvement of 188bps through savings in our operating costs. We achieved this even as we continued to increase marketing investment, with a reinvestment rate of 10.7% during the quarter.

We made further progress in monetizing some of our non-core assets; and that, together with an improved operating performance, have helped us deliver an overall PAT increase of 43% during the quarter.

While we have been in a relatively stable operating environment this year, looking ahead, we do expect the general elections to have an impact on our sales during the next quarter. We will however continue to make progress towards our strategic priorities in order to capture the long-term opportunity in spirits market in India. We also reiterate our medium-term ambition to grow topline by double digits consistently and to improve EBITDA margin to mid-high teens."

KEY FINANCIAL INFORMATION
For the nine months ended 31 December 2018

Summary financial information

		F19 P9 YTD	F18 P9 YTD	Movement %
Volume	<i>EUm</i>	60.5	57.6	5
Net sales	<i>Rs. Crores</i>	6,741	5,996	12
COGS	<i>Rs. Crores</i>	(3,475)	(3,176)	9
Gross profit	<i>Rs. Crores</i>	3,266	2,821	16
Staff cost	<i>Rs. Crores</i>	(505)	(475)	6
Marketing spend	<i>Rs. Crores</i>	(679)	(568)	20
Other Overheads	<i>Rs. Crores</i>	(1,110)	(1,031)	8
EBITDA	<i>Rs. Crores</i>	973	747	30
Other Income	<i>Rs. Crores</i>	108	85	27
Depreciation	<i>Rs. Crores</i>	(104)	(98)	6
EBIT	<i>Rs. Crores</i>	976	734	33
Interest	<i>Rs. Crores</i>	(153)	(202)	(24)
PBT before exceptional items	<i>Rs. Crores</i>	823	532	55
Exceptional items	<i>Rs. Crores</i>	(20)	(28)	(27)
PBT	<i>Rs. Crores</i>	803	504	59
Tax	<i>Rs. Crores</i>	(271)	(154)	76
PAT	<i>Rs. Crores</i>	532	351	52

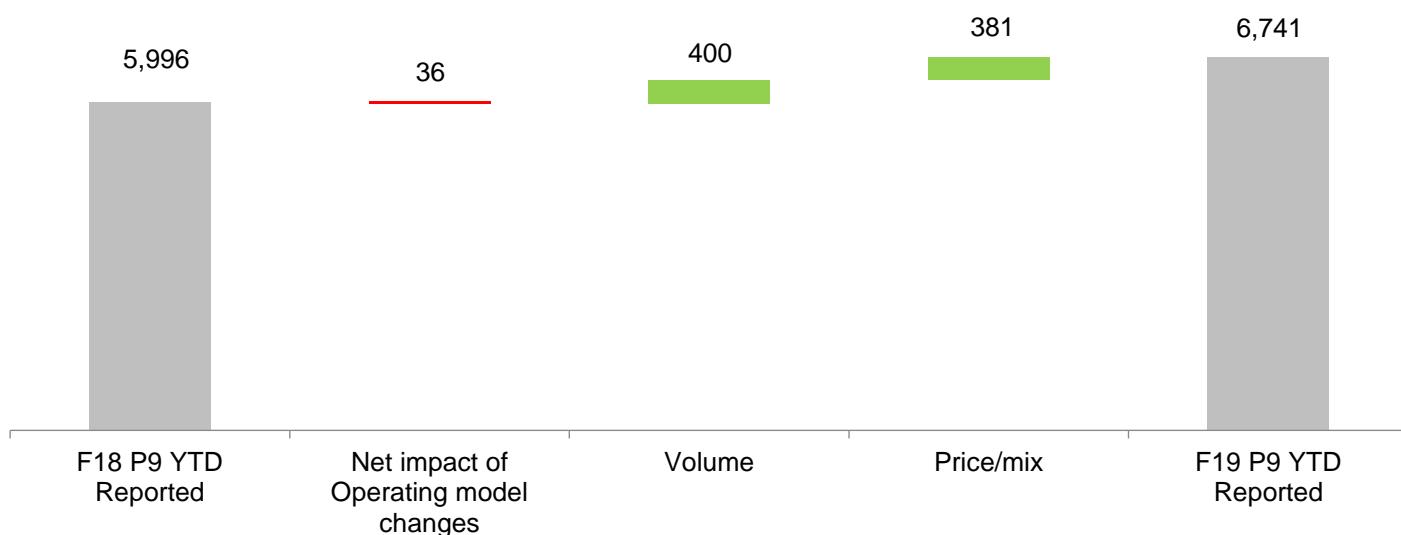
Key performance indicators as a % of net sales:

		F19 P9 YTD	F18 P9 YTD	Movement bps
Gross profit	%	48.5	47.0	141
Staff cost	%	7.5	7.9	43
Marketing spend	%	10.1	9.5	(61)
Other Overheads	%	16.5	17.2	73
EBITDA	%	14.4	12.5	196
PAT	%	7.9	5.8	205
Basic earnings per share	<i>rupees</i>	7.3	4.8	2.5rupees
Earnings per share before exceptional items	<i>rupees</i>	7.5	5.1	2.4rupees

The company in compliance with Schedule III of the Companies Act, 2013 has reported revenue from operations inclusive of excise duty.

EPS for F18P9 has been adjusted to reflect the new number of shares post the 1:5 share-split that became effective in F19.

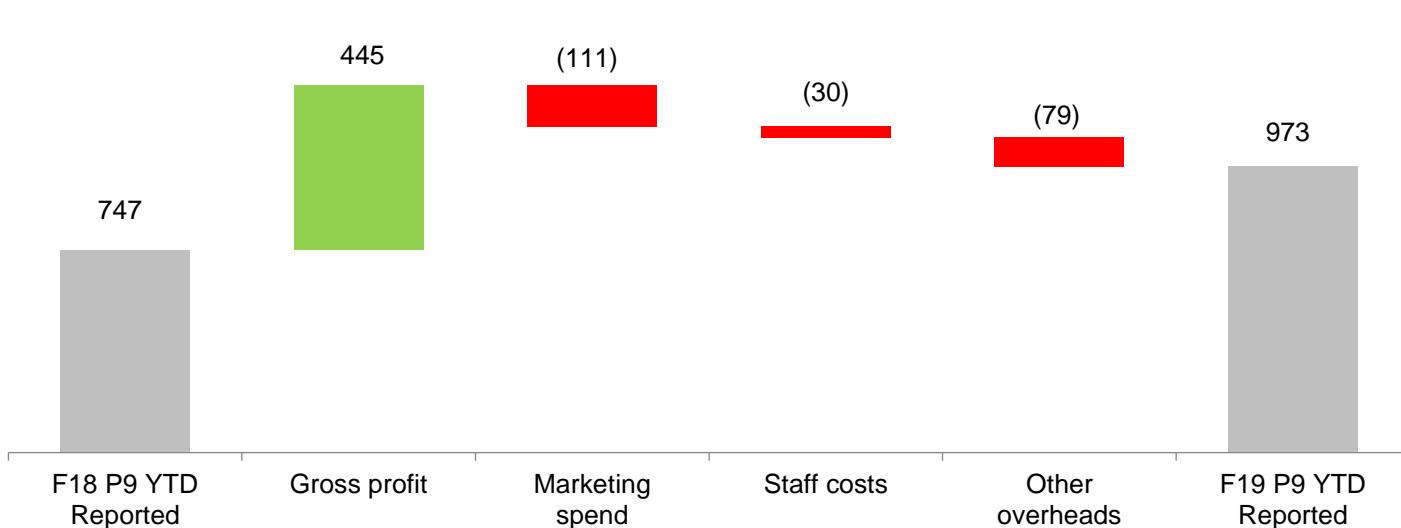
Net sales (Rs. Crores)



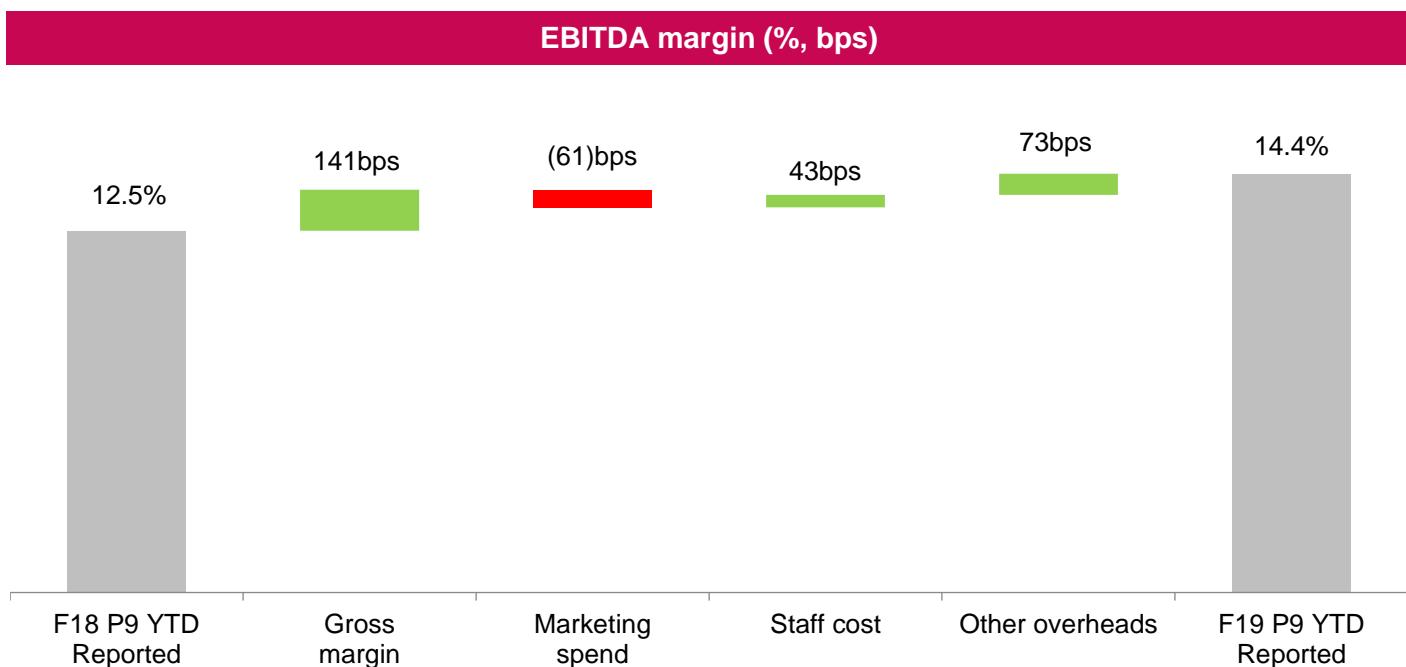
Reported net sales in the first nine months of the financial year grew 12%, largely driven by growth in the Prestige & Above segment while also benefitting from a low comparative impacted by the highway ban and expected route to market changes in certain states last year. After adjusting for the operating model changes, net sales increased 13%. Net Sales of Prestige & Above segment grew 18% while net sales of Popular segment grew 2% after adjusting for the operating model changes.

After adjusting for the operating model changes, underlying volume increased 7% as the Prestige & Above volume growth of 13% outpaced Popular segment volume growth which was almost flat. Underlying price/mix for the first nine months was 6%, largely driven by faster growth in the more premium parts of the portfolio.

EBITDA (Rs. Crores)



EBITDA at Rs. 973 Crores, increased 30% versus last year. Gross profit increased by Rs. 445 Crores, mainly driven by higher sales, improved mix and savings from our productivity programme which more than offset the negative impact of inflation. Investing behind our brands continued to be an area of focus and marketing investment increased by 20% with an overall reinvestment rate of 10.1%, up 61 bps versus last year. Reported staff cost increased 6%, but after adjusting for the one-off restructuring costs of Rs. 36 Crores this year and Rs. 20 Crores in the previous year, underlying staff costs increased by 3%. Other overheads increased 8% mainly due to investment in capability building projects and factory improvements undertaken in the first quarter this year. After adjusting for the one-off costs of Rs. 21 Crores in other overheads last year, underlying other overheads increased 10%. Underlying EBITDA, after adjusting for the operating model changes as well as one-off costs increased by 28% versus last year.



EBITDA margin of 14.4% improved by 196bps. Gross margin improved by 141bps while underlying gross margin, net of operating model changes, improved by 113bps. This improvement was primarily driven by productivity initiatives, improved mix and flow through effect of pricing that more than offset the adverse impact of inflation. The improved gross margin was partially reinvested in marketing investments. Savings in staff costs contributed 43bps to EBITDA margin improvement. Other overheads increased by 8% versus last year but contributed 73bps to EBITDA margin improvement due to higher net sales growth. Underlying EBITDA margin, net of operating model changes and any one-off costs was 15.0%, higher by 173bps compared to same period last year.

SEGMENT AND BRAND REVIEW
For the quarter and nine months ended 31 December 2018

Key segments:

For the nine months ended 31 December 2018

	Volume				Net Sales			
	F19 9M Reported EUm	F18 9M Reported EUm	Reported movement %	Underlying* movement %	F19 9M Reported Rs. Cr.	F18 9M Reported Rs. Cr.	Reported movement %	Underlying* movement %
P&A	31.1	27.4	13	13	4,466	3,788	18	18
Popular	29.4	30.2	(3)	0	2,116	2,105	1	2

For the quarter ended 31 December 2018

	Volume				Net Sales			
	F19 Q3 Reported EUm	F18 Q3 Reported EUm	Reported movement %	Underlying* movement %	F19 Q3 Reported Rs. Cr.	F18 Q3 Reported Rs. Cr.	Reported movement %	Underlying* movement %
P&A	11.1	9.9	12	12	1,651	1,429	16	16
Popular	10.8	11.2	(4)	(2)	776	798	(3)	(2)

- The **Prestige & Above segment** accounted for 66% of net sales during the first nine months of the year, up 3pppts compared to the same period last year.

During the first nine months of the year, the Luxury portfolio grew faster than the Premium portfolio, which in turn grew faster than the Prestige portfolio, led by our premiumisation efforts.

Within the Scotch portfolio, Johnnie Walker and Black & White both showed robust growth, aided by launch of new variants as well as activations that helped to better connect with consumers. New launches included White Walker, a limited-edition batch of Johnnie Walker whisky inspired by the hit show, Game of Thrones as well as a 12-Year-Old variant of Black & White.

In the Prestige segment, key brands like Signature and Royal Challenge grew faster than the category.

- The **Popular segment** accounted for 31% of net sales during the first nine months, down 4pppts compared to same period last year. The Popular segment net sales grew 2% during the first nine months, after adjusting for the one-off impact of operating model changes. Priority states continued to perform better, with net sales of Popular segment growing by 4% during the period.

* Underlying movement excludes the one-off impact of operating model changes.

Cautionary statement concerning forward-looking statements

This document contains 'forward-looking' statements. These statements can be identified by the fact that they do not relate only to historical or current facts. In particular, forward-looking statements include all statements that express forecasts, expectations, plans, outlook and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of changes in interest or exchange rates, the availability or cost of financing to United Spirits Limited ("USL"), anticipated cost savings or synergies, expected investments, the completion of USL's strategic transactions and restructuring programmes, anticipated tax rates, expected cash payments, outcomes of litigation, anticipated deficit reductions in relation to pension schemes and general economic conditions. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including factors that are outside USL's control. USL neither intends, nor assumes any obligation, to update or revise these forward-looking statements in the light of any developments which may differ from those anticipated.

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Q&A CONFERENCE CALL

Anand Kripalu, Managing Director and Chief Executive Officer and Sanjeev Churiwala, Executive Director and Chief Financial Officer will be hosting a Q&A conference call on Thursday, **24 January 2019 at 12:00 pm** (IST time). If you would like to listen to the call or ask a question, please use the dial in details below.

A transcript of the conference call will be available for download on 28 January 2019 at www.diageoindia.com

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