

UNITED SPIRITS LIMITED

PRESS RELEASE

Unaudited financial results for the quarter and nine months ended 31 December 2020
(Standalone only)



Sustained recovery momentum and improved margins sequentially backed by positivity in consumer sentiment and operational resilience.

Third quarter performance highlights:

- Reported net sales declined 3.6%, a sequential improvement from Q2 driven by continued off-trade resilience, gradual on-trade recovery offset by the contraction of owned and franchise business in Andhra Pradesh (AP).
- Prestige & Above segment net sales declined 0.8% partially as a result of lapping a high festive season comparative.
- Popular segment net sales declined 6.7%, led by a decline of 5.7% in priority states. Increased consumer prices impacted demand in this price conscious segment and unfavourable State mix further contributed to the decline.
- Gross margin was 44.6%, up 24bps versus last year, driven by benign commodities and continued focus on productivity during the quarter.
- Reported EBITDA was Rs. 384 Crores, down 9.5%. Reported EBITDA margin was 15.4%, down 100bps, primarily driven by lower fixed cost absorption and increase in administrative expenses.
- Interest costs were Rs. 38 Crores, down 17% driven by reduced debts and lower interest rates.
- Profit after tax was Rs. 230 Crores and PAT margin was 9.2%.

Nine months performance highlights:

- Reported net sales declined 20%; with improvement seen sequentially in third quarter vs prior two quarters.
- Prestige & Above segment net sales declined 15.7%.
- Popular segment net sales declined 22.4% and priority states were down by 19.7%.
- Gross margin was 43.1%, down 235bps versus last year, primarily due to contraction of owned and franchise business in AP and resulted impact on South franchise business, lower fixed cost absorption and obsolete inventory provisions.
- Reported EBITDA was Rs. 576 Crores, down 53.4%; reported EBITDA margin was 10.2%, down 723bps due to negative impact of fixed cost de-leverage. After adjusting for the one-off impact of bulk Scotch sale and restructuring costs, underlying EBITDA declined 50%.
- Interest costs were Rs. 138 Crores, 3.1% lower than last year, mainly due to lower debt and lower interest rates.
- Profit after tax was Rs. 143 Crores and PAT margin was 2.5%.

Anand Kripalu, CEO, commenting on the quarter and nine months ended 31 December 2020 said:

"The reported revenue decline of 3.6% in the third quarter reflects improving consumer sentiment over previous quarters, notwithstanding on-premise footfalls still being low, the route to market change in Andhra Pradesh and taxation led price hikes post Covid-19. Operational resilience, contextual marketing with focus on in-home occasions and renovation of our core brands supported the top-line recovery.

Prestige & Above segment net sales moderately declined 0.8% in Q3, albeit lapping strong normal festive base comparatives. Scotch performance continues to be encouraging.

The third quarter witnessed benign commodities which, along with continued productivity, facilitated marginal expansion of gross margin to 44.6%.

The company maintained its marketing reinvestment rate for the quarter @ a healthy 9.4%. Reported EBITDA margin for the quarter was 15.4% and we delivered a PAT of Rs. 230 Crores.

Overall, performance for the nine months remains impacted by first quarter disruption in sales and supply chain on account of the pandemic and lower fixed cost absorption as a consequence. Contraction of owned and franchise business in AP due to the route to market change further impacted performance adversely. Notwithstanding the resilient second and third quarter performance, our underlying net sales in the first nine months declined 18.2%, EBITDA margin contracted to 10.2% with a PAT of Rs. 143 Crores.

Operating cash flow remained strong and external debt reduced consistently through the nine months. CRISIL has reaffirmed its 'CRISIL AA+/Positive' ratings on the bank facilities and debt programmes.

Despite a quicker rebound than originally expected, in the near term there are still reasons to remain cautious and consequently, the company is not providing quantitative guidance for fiscal 2021. Our business continues to exhibit strong fundamentals and our focus to "Emerge stronger" will hold us in good stead.

KEY FINANCIAL INFORMATION

Key quarterly performance indicators

		F21	F21	F21
		Q1	Q2	Q3
Net sales	<i>Rs. Crores</i>	1,030	2,146	2,489
Reported Turnover growth	<i>%</i>	-53.6	-6.6	-3.6
Gross profit margin	<i>%</i>	41.7	42.1	44.6
EBITDA	<i>Rs. Crores</i>	-78	270	384
EBITDA margin	<i>%</i>	-7.5	12.6	15.4
PAT	<i>Rs. Crores</i>	-215	128	230
PAT	<i>%</i>	-20.9	6.0	9.2

For the nine months ended 31 December 2020

Summary financial information

		F21	F20	Movement
		P9 YTD	P9 YTD	%
Volume	<i>EUm</i>	51	61	-17
Net sales	<i>Rs. Crores</i>	5,665	7,097 ¹	-20
COGS	<i>Rs. Crores</i>	-3,221	-3,869	-17
Gross profit	<i>Rs. Crores</i>	2,443	3,228 ²	-24
Staff cost	<i>Rs. Crores</i>	-416	-404 ³	3
Marketing spends	<i>Rs. Crores</i>	-470	-595	-21
Other Overheads	<i>Rs. Crores</i>	-981	-994	-1
EBITDA	<i>Rs. Crores</i>	576	1,235	-53
Other Income	<i>Rs. Crores</i>	42	41	1
Depreciation	<i>Rs. Crores</i>	-182	-160 ⁴	14
EBIT	<i>Rs. Crores</i>	435	1,116	-61
Interest	<i>Rs. Crores</i>	-138	-143	-3
PBT before exceptional items	<i>Rs. Crores</i>	297	974	-70
Exceptional items	<i>Rs. Crores</i>	-75	-	N.A.
PBT	<i>Rs. Crores</i>	222	974	-77
Tax	<i>Rs. Crores</i>	-79	-293	-73
PAT	<i>Rs. Crores</i>	143	681	-79

Key performance indicators as a % of net sales (reported):

		F21	F20	Movement
		P9 YTD	P9 YTD	bps
Gross profit	<i>%</i>	43.1	45.5	-235
Staff cost	<i>%</i>	-7.3	-5.7	-166
Marketing spends	<i>%</i>	-8.3	-8.4	9
Other Overheads	<i>%</i>	-17.3	-14.0	-331
EBITDA	<i>%</i>	10.2	17.4 ⁵	-723
PAT	<i>%</i>	2.5	9.6	-707
Basic earnings per share	<i>rupees</i>	2.0	9.4	-7.4rupees
Earnings per share before exceptional items	<i>rupees</i>	4.1	13.4	-9.3rupees

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

¹ Includes a one-off impact of Rs. 97 cr. In F20Q1 and Rs. 74 cr. in F20Q2 from sale of bulk Scotch.

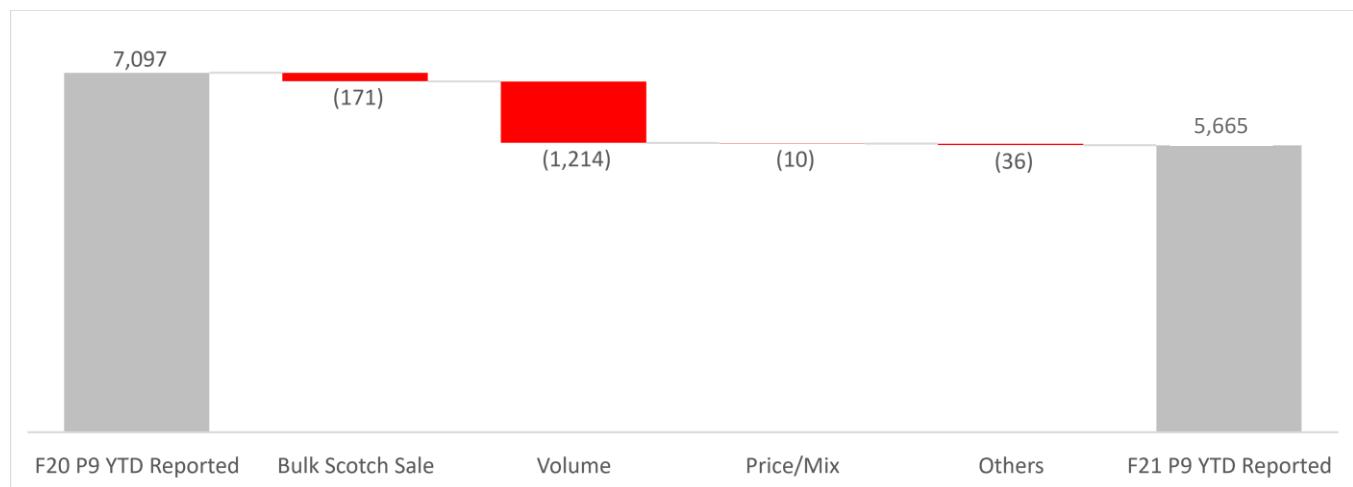
² Includes a one-off impact of Rs. 58 cr. In F20Q1 and Rs. 26 cr. in F20Q2 from sale of bulk Scotch.

³ Staff cost include a one-off cost of Rs 2 cr. in F20Q1

⁴ Includes a one time depreciation charge of Rs. 2 Crores

⁵ Underlying EBITDA margin, net of one-off bulk Scotch sale was 16.6%

Net sales (Rs. Crores)

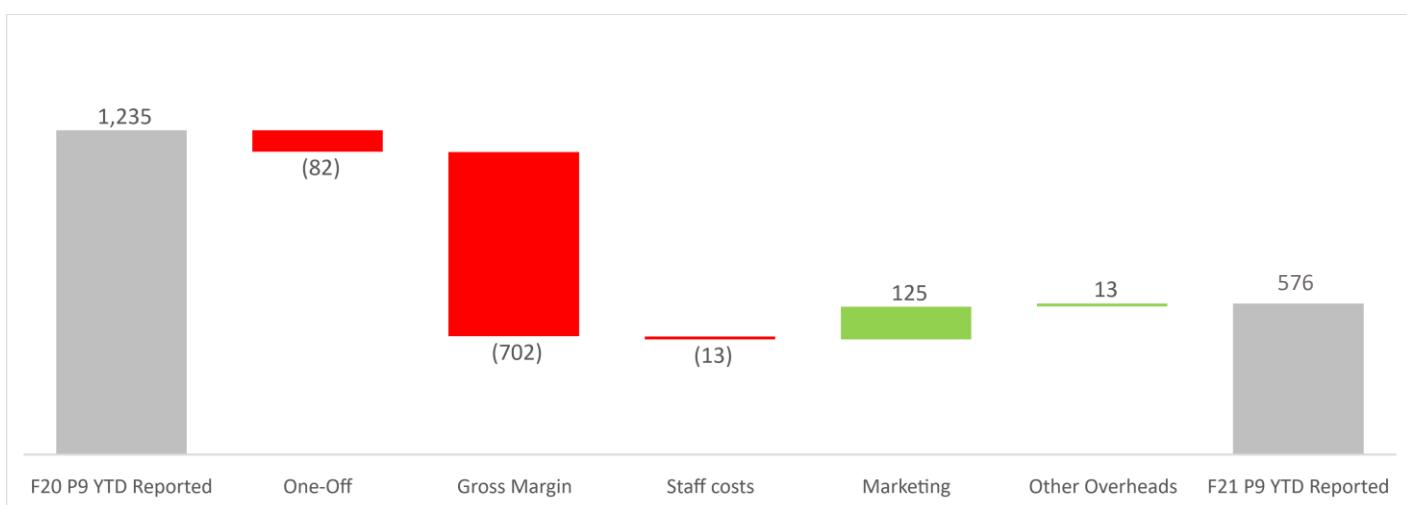


* Others include primarily non IMFL sale

Reported net sales in the first nine months of the financial year declined 20.2%. There was an inordinate impact with initial lockdown order, continued restrictions on on-premise establishments and behavioural shifts impacting the balance between the on- and off- premise occasion in most markets. Excluding the one-off benefit from sale of bulk Scotch inventory in the prior year, underlying net sales declined 18.2%. Net Sales of Prestige & Above segment declined 15.2% while net sales of Popular segment declined 22.4%.

Overall volume declined 17.1% with shrinkage of 16.3% in Prestige & Above marginally outpacing Popular segment volume shrinkage of 17.9%. Underlying price/mix for the first nine months was (1.1)%, mainly due to reduced franchise royalty and adverse State mix.

EBITDA (Rs. Crores)



Reported EBITDA was Rs. 576 Crores for the first nine months of the year, down 53.4%. Excluding the one-off bulk Scotch sale and one-off restructuring costs in F20, underlying EBITDA declined 50%. Gross profit decline of Rs. 702 Crores, was primarily driven by contraction of Andhra Pradesh business due to route to market change, related inventory provision and decline in the South franchise business.

Reported staff cost increased 3.1% and overheads reduced by 1.3%. Advertising & Sales Promotion spend for first nine months is back to pre-COVID levels at 8.3% of sales, as the Company remained invested behind renovation roll-out of its two core brands, McDowell's No.1 Whisky and Royal Challenge Whisky.

EBITDA margin (%, bps)



EBITDA margin for first nine months was 10.2%, driven by the lockdown restrictions, lower fixed cost absorption and gradual demand revival. While reported EBITDA margin during the same period last year was 17.4%, underlying EBITDA margin last year net of one time bulk Scotch sale and adjusted for one-off restructuring costs was 16.6%.

Compression in Gross margin of 235bps was primarily driven by contraction in Andhra Pradesh business, which resulted in a one-off inventory provision and a decline in the South franchise business. The reinvestment rate for the first nine months on advertising and promotion was 8.3% in line with our earlier guidance. Lower fixed cost absorption of administrative cost and overheads also impacted margin.

SEGMENT AND BRAND REVIEW
For the quarter and nine months ended 31 December 2020

Key segments:

For the nine months ended 31 December 2020

	Volume				Net Sales			
	F21 9M Reported	F20 9M Reported	Reported movement	Underlying movement	F21 9M Reported	F20 9M Reported	Reported movement	Underlying movement
	EUm	EUm	%	%	Rs. Cr.	Rs. Cr.	%	%
P&A	27.2	32.5	(16)	(16.3)	3,972	4,713	(16)	(15.7)
Popular	23.8	29.0	(18)	(17.9)	1,615	2,082	(22)	(22.4)
Other	-	-	-		77	302	(74)	(40.8)
TOTAL	51.0	61.5	(17)	(17.1)	5,665	7,097	(20)	(18.2)

¹ Includes bulk Scotch sale of Rs. 171 cr.

For the quarter ended 31 December 2020

	Volume				Net Sales			
	F21 Q3 Reported	F20 Q3 Reported	Reported movement	Underlying movement	F21 Q3 Reported	F20 Q3 Reported	Reported movement	Underlying movement
	EUm	EUm	%	%	Rs. Cr.	Rs. Cr.	%	%
P&A	11.4	11.4	0.6	0.6	1,774	1,788	(1)	(0.8)
Popular	9.9	10.1	(2.3)	(2.3)	688	737	(7)	(6.7)
Other					26	57	(54)	(54.1)
TOTAL	21.3	21.5	(0.8)	(0.8)	2,489	2,583	(4)	(3.6)

- The **Prestige & Above segment** accounted for 70% of net sales during the first nine months of the year, up 3.7ppt compared to same period last year. The underlying movement net of previous period bulk scotch sale was 2.1ppts.

Prestige & Above segment net sales declined 16.3% during the first nine months of the year, led by a laggard first quarter, which was impacted by nationwide lockdown, continued closure of on-premise outlets throughout the majority of period in 2QFY21 and gradual recovery of on-premise consumption in 3QFY21 as easing of restrictions lifted sentiments.

- The **Popular segment** accounted for 28.5% of net sales during the first nine months of the year, down 0.8ppt compared to same period last year. Adjusting the one-time sale of bulk Scotch affecting the relative salience of the segments; Popular segment was down 1.5ppts.

The Popular segment net sales declined 22.4% primarily due to lower franchise income and State mix. Net sales of Popular segment in Priority states declined 19.7% during the first nine months.

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 Pradeep Jain, Chief Financial Officer will be hosting a Q&A conference call on **Thursday, 28 January 2021 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 30th January 2021 at www.diageoindia.com.

Conference Joining Information

Option 1

Express Join with DiamondPass™ No Wait Time

<https://services.choruscall.in/DiamondPassRegistration/register?confirmationNumber=0375337&linkSecurityString=1284ae11c>

Option 2

When using dial-in numbers mentioned below please do so 10 minutes prior to the conference schedule to ensure that you are connected to your call in time.

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