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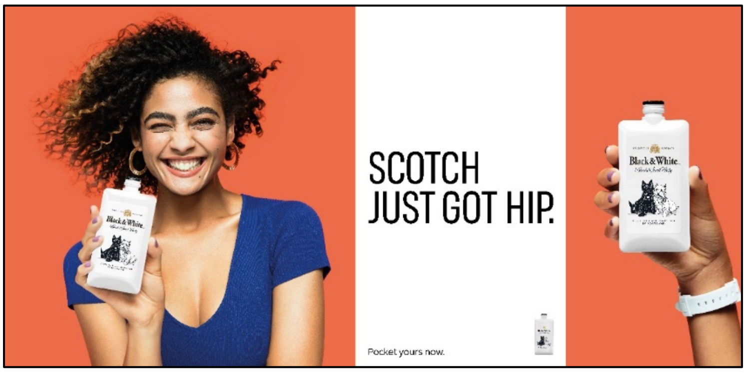
UNITED SPIRITS LIMITED

PRESS RELEASE

Unaudited financial results for the quarter ended 30 June 2019

(Standalone only)



Underlying* EBITDA margin of 16% in the first quarter despite significant COGS inflation

First quarter performance highlights:

- Reported net sales increased 10%, partially benefiting from a one-time sale of bulk Scotch. Net sales excluding this one-time benefit grew 6%, impacted by general elections.
- Prestige & Above segment net sales grew 9%.
- Popular segment reported net sales grew 2%. Net sales, after adjusting for the impact of operating model changes, grew 3%, benefitting from a softer preceding quarter in one of the key states. Net sales of Popular segment in priority states grew 4%.
- Gross margin was 47.3%, down 291bps versus last year, primarily due to the adverse impact of COGS inflation as well as due to part-absorption of excise duty hike in Maharashtra. Underlying* gross margin decline was 359bps.
- Reported EBITDA was Rs. 395 Crores, up 95%. Despite gross margin erosion versus last year, EBITDA margin was 17.8%, up 772bps, primarily driven by savings in operating costs and phasing effect of marketing investment. Underlying* EBITDA increased 42% and underlying* EBITDA margin was 16%; 407bps higher than last year.
- Interest costs were Rs. 52 Crores, 11% lower, driven by our continued focus on debt reduction.
- Profit after tax was Rs. 197 Crores, up 143%.

Anand Kripalu, CEO, commenting on the quarter ended 30 June 2019 said:

"During the quarter, our core business was affected by general elections in line with our earlier guidance. However, benefitted by a one-time sale of bulk Scotch, net sales grew 10%; excluding which, net sales grew 6%.

The Prestige and Above segment net sales grew 9%, on a base of 19% growth in the same quarter last year. Within that, our Scotch portfolio continued to do well, particularly Black Dog and Black & White, with both showing strong momentum.

On profitability, COGS inflation as well as adverse price/mix significantly impacted gross margin for the quarter. However, I am pleased that despite considerable gross margin erosion, we delivered 407bps of underlying* EBITDA margin improvement, primarily through savings in our operating costs, notwithstanding the phasing benefit of marketing investment.

We trimmed down the reinvestment rate for the quarter in light of the ongoing general elections; however, it should normalize over the course of the year as investing behind our brands continues to be an area of strategic priority for us.

Improved operating performance combined with lower interest costs have helped us deliver an overall PAT increase of 143% versus last year.

Looking ahead, while we remain watchful of the broader economic slowdown and its impact on the overall consumption in the near term, we remain committed to our medium-term ambition to grow top line by double digits and to improve EBITDA margin to mid-high teens."

*Note: *Underlying movement in Gross marging excludes the one-time benefit from bulk Scotch sale in Q1F20. Underlying EBITDA and EBITDA margin excludes the one-time benefit from bulk Scotch sale in Q1F20 as well as restructuring costs in Q1F19.*

KEY FINANCIAL INFORMATION

For the quarter ended 30 June 2019

Summary financial information

		F20 Q1	F19 Q1	Reported Movement %
Volume	*EUm*	**19.3**	**18.2**	**6**
Net sales	*Rs. Crores*	**2,218**	**2,009**[1]	**10**
COGS	*Rs. Crores*	(1,169)	(1,000)[1]	17
Gross profit	*Rs. Crores*	**1,050**	**1,009**[1]	**4**
Staff cost	*Rs. Crores*	(138)[2]	(205)[2]	(33)
Marketing spend	*Rs. Crores*	(171)	(211)	(19)
Other Overheads	*Rs. Crores*	(346)	(390)[1]	(11)
EBITDA	*Rs. Crores*	**395**	**203**[1]	**95**
Other Income	*Rs. Crores*	10	13[1]	(24)
Depreciation	*Rs. Crores*	(50)	(34)	47
EBIT	*Rs. Crores*	**355**	**182**	**95**
Interest	*Rs. Crores*	(52)	(58)[1]	(11)
PBT before exceptional items	*Rs. Crores*	**303**	**124**	**145**
Exceptional items	*Rs. Crores*	-	-	-
PBT	*Rs. Crores*	**303**	**124**	**145**
Tax	*Rs. Crores*	(106)	(43)	148
PAT	*Rs. Crores*	**197**	**81**	**143**

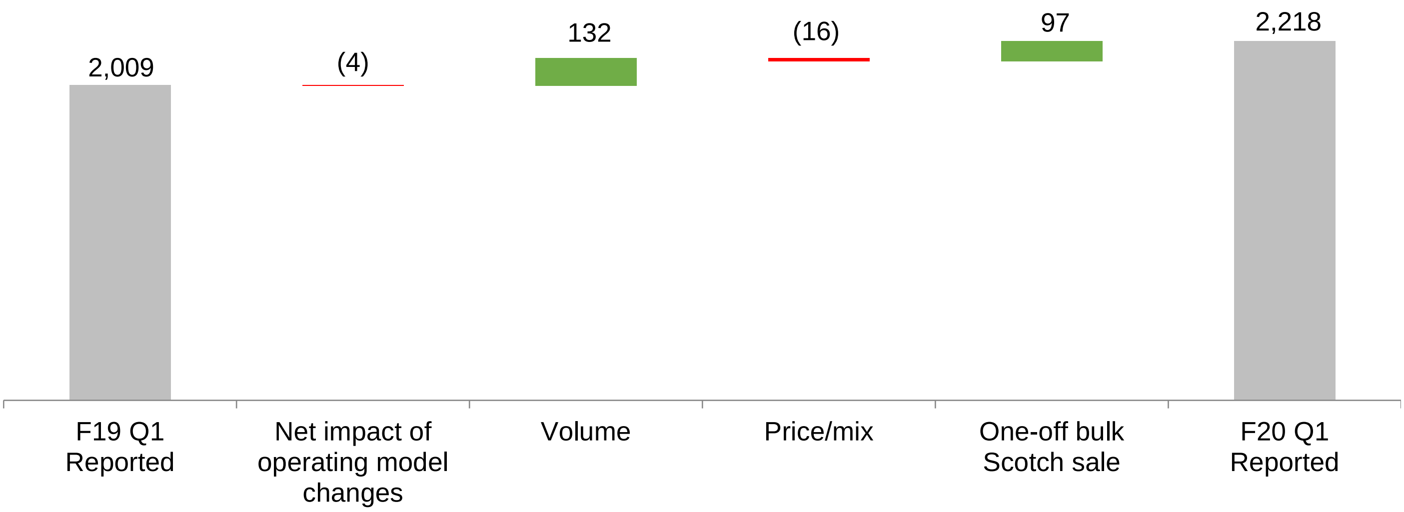
Key performance indicators as a % of net sales:

		F20 Q1	F19 Q1	Movement bps
Gross profit	%	47.3	50.2[1]	(291)
Staff cost	%	6.2[2]	10.2[2]	397
Marketing spend	%	7.7	10.5	281
Other Overheads	%	15.6	19.4	385
EBITDA	%	17.8	10.1[1]	772
PAT	%	8.9	4.0	485
Basic earnings per share*	*rupees*	2.72	1.12	1.60
Earnings per share before exceptional items*	*rupees*	2.72	1.12	1.60

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

[1] These numbers have undergone a regrouping adjustment – please refer to the Annexure 1 in F19FY Press Release for further details.
[2] Staff cost include a one-off restructuring cost of Rs 36 Crores in F19Q1 and Rs 2 Crores in F20Q1.

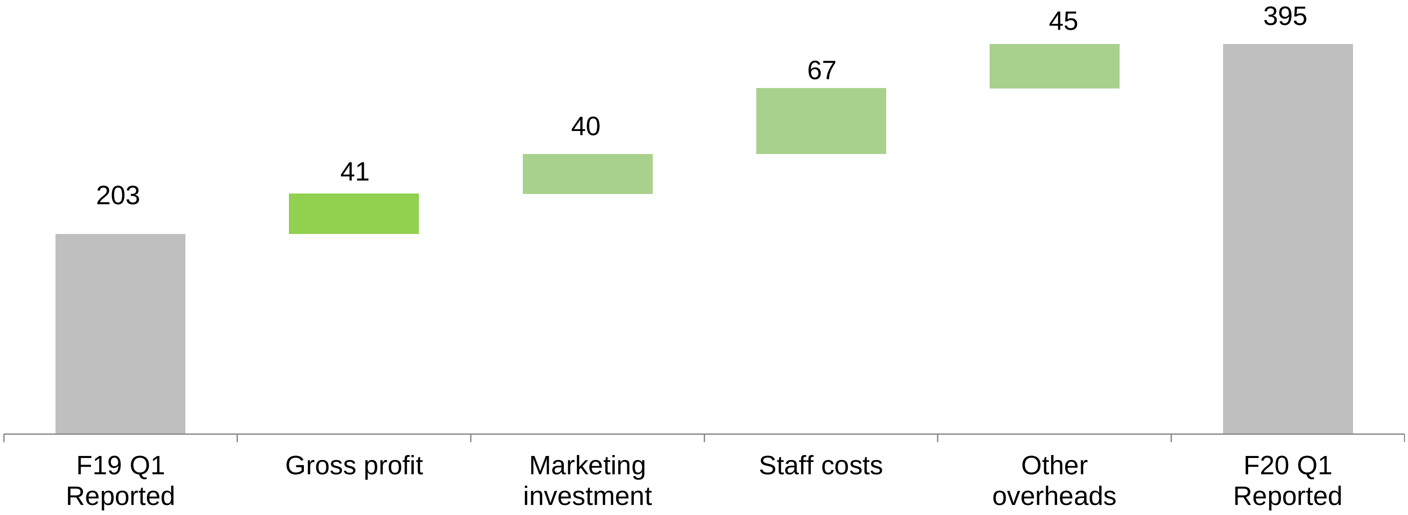
Net sales (Rs. Crores)



Reported net sales increased 10% in the first quarter partly due to a one-time benefit from sale of bulk Scotch. After adjusting for this one-time benefit, underlying net sales increased 6%, in-part impacted by general elections. Net Sales of Prestige & Above segment grew 9%; reported net sales of Popular segment grew 2% and after adjusting for the operating model changes, popular segment net sales grew 3%.

Volume growth was 7%, with the Prestige & Above volume growing at 8% and Popular segment volume growing at 5% after adjusting for the operating model changes. Underlying price/mix for the quarter was (1)%, driven by part-absorption of a steep Excise Duty hike in Maharashtra in the preceding quarter as well as adverse state-mix in Popular segment.

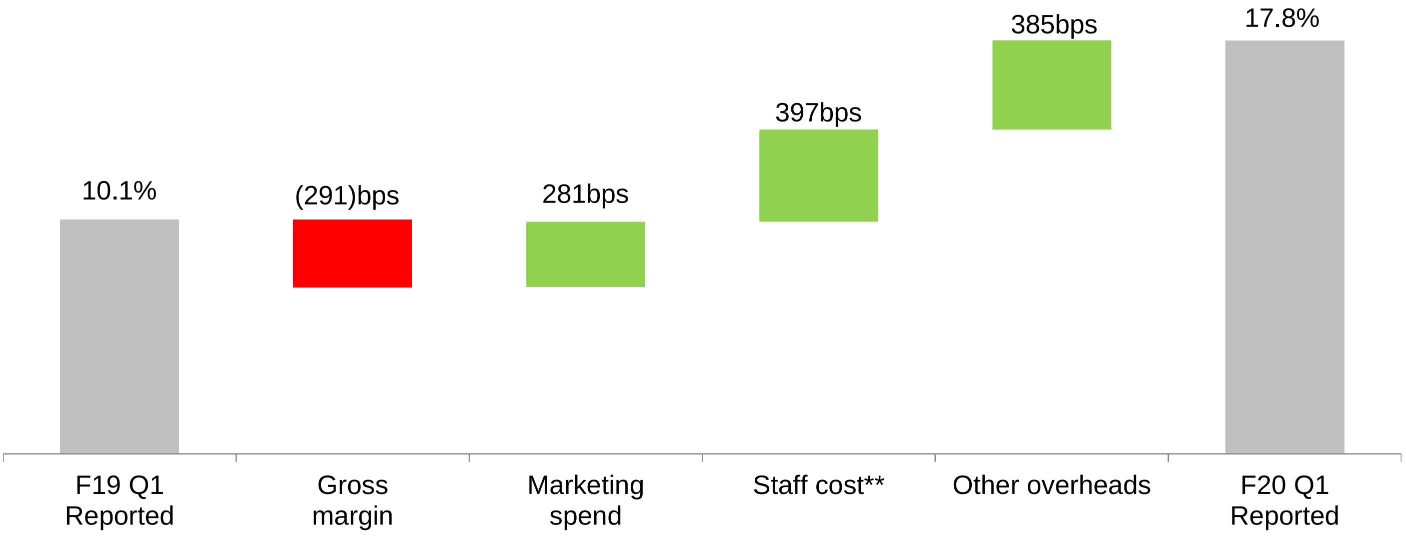
EBITDA (Rs. Crores)



EBITDA at Rs. 395 Crores, increased 95% versus same period last year, with underlying* EBITDA increasing by 42%. Reported staff cost decreased 33%, but after removing one-off restructuring costs of Rs. 36 Crores in Q1F19 and Rs. 2 Crores in Q1F20, underlying staff costs decreased by 19%. Other overheads decreased by 11%, contributing an additional Rs. 45 crores to EBITDA. Additionally, marketing investment for the quarter was timmed in light of the onging general elections, with a reinvesment rate of 7.7% (underlying reinvestment rate of 8.1%, net of bulk Scotch sale).

*Note: * Underlying EBITDA excludes the one-time benefit from bulk Scotch sale in Q1F20 as well as restructuring costs in Q1F19.*

EBITDA margin (%, bps)



Reported EBITDA margin of 17.8% improved by 772bps. Underlying* EBITDA margin was 16.0%, up 407bps, despite significant erosion in gross margin.

Reported gross margin decreased by 291bps, primarily impacted by significant COGS inflation. Savings in staff costs contributed 397bps to the EBITDA margin improvement, followed by savings in other overheads which contributed an additional 385bps. Finally, lower A&P reinvestment contributed another 281bps, which was more of a phasing effect and should normalise over the course of the year.

*Note: *Underlying EBITDA margin excludes the one-time benefit from bulk Scotch sale in Q1F20 as well as restructuring costs in Q1F19.*

***Staff cost in F20Q1 include a one-off restructuring cost of Rs 2 Crores and staff cost in F19Q1 include a one-off restructuring cost of Rs 36 Crores. Adjusted for the one-offs, staff cost savings added 198bps to the underlying EBITDA margin improvement year on year.*

SEGMENT AND BRAND REVIEW

For the quarter ended 30 June 2019

Key segments:

For the quarter ended 30 June 2019

	Volume				Net Sales			
	F20 Q1 Reported *EUm*	F19 Q1 Reported *EUm*	Reported movement %	**Underlying* movement %**	**F20 Q1 Reported *Rs. Cr.***	F19 Q1 Reported *Rs. Cr.*	Reported movement %	**Underlying* movement %**
P&A	**10.3**	9.5	8	**8**	**1,423**	1,309	9	**9**
Popular	**9.0**	8.7	4	**5**	**643**	629	2	**3**
TOTAL	**19.3**	18.2	6	**7**	**2,218**	2,009	10	**6**

- The **Prestige & Above segment** accounted for 64% of net sales during the first quarter, down 1ppts compared to same period last year, primarily due to the one-time sale of bulk Scotch affecting the relative salience of the segments; net of that, the segment accounted for 67% of net sales, up 2ppts versus last year.

  Prestige & Above segment net sales grew 9% in first quarter. In line with last year's trend, the Luxury portfolio continued to grow faster than the Premium portfolio, which in turn grew faster than the Prestige portfolio, further reinforcing the ongoing premiumisation.

  Furthermore, the Scotch portfolio, including both Bottled in Origin (BIO) as well as Bottled in India (BII) brands, grew much faster than the overall Prestige & Above portfolio.

- The **Popular segment** accounted for 29% of net sales during the first quarter, down 2ppts compared to same quarter last year, in part due to the one-time sale of bulk Scotch affecting the relative salience of the segments, net of that, the segment accounted for 30% of net sales, down 1 ppt versus last year.

  The Popular segment net sales grew 3% after adjusting for the one-off impact of operating model changes. Net sales of Popular segment in Priority states grew 4% during the quarter.

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 **Tuesday, 23 July 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 26 July 2019 at www.diageoindia.com..

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