

UNITED SPIRITS LIMITED

PRESS RELEASE

Audited financial results for the quarter and financial year ended 31 March 2018
(Standalone only)



PAT increased 231% in the full year

Fourth quarter performance highlights:

- Reported net sales increased 7% as strong growth in the Prestige and Above segment as well as the benefit from lapping the impact of demonetization and the highway ban were partially offset by the one-off impact of the operating model changes. Underlying* net sales increased 9%.
- Prestige & Above segment reported net sales grew 16%. Underlying* net sales were up 14%.
- Popular segment reported net sales declined 4%. Underlying* net sales grew 2%. Net sales of Popular segment in priority states grew by 10%.
- Gross margin was 48.8%, up 461bps, due to the one-off impact of operating model changes as well as price increases and productivity gains more than offsetting the adverse impact of GST. Underlying* gross margin improved by 257bps.
- Reported EBITDA was Rs. 274 Crores, up 5%, driven by increased gross profit, partially offset by timing of staff costs and increased marketing investment. Reported EBITDA margin was 12.6%, down 27bps. Underlying* EBITDA declined 11% and underlying EBITDA margin declined 283bps.
- Interest costs were Rs. 59 Crores, 31% lower driven by favourable rates and mix of debt.
- Profit after tax was Rs. 211 Crores, up 302%.

Full year performance highlights:

- Reported net sales declined 4% mainly due to the one-off impact of operating model changes as well as the adverse effect of the highway ban. Underlying* net sales were up 1%.
- Prestige & Above segment reported net sales grew 3% with 2ppts positive price/mix. Underlying* net sales were up 4% with 1ppts positive price/mix.
- Popular segment reported net sales declined 16% mainly due to the one-off impact of operating model changes. Underlying* net sales declined 4%. Net sales of Popular segment in priority states grew by 2%.
- Gross margin was 47.5%, up 465bps, due to the one-off impact of operating model changes as well as price increases and productivity gains offsetting the adverse impact of GST. Underlying* gross margin improved by 294bps.
- Reported EBITDA was Rs. 1,022 Crores, up 5%; reported EBITDA margin was 12.5%, up 114bps primarily driven by increased gross profit, partially offset by marketing investment that increased by 18%. Underlying * EBITDA declined by 1% and underlying* EBITDA margin remained broadly flat.
- Interest costs were Rs.261 Crores, 29% lower, driven by favourable rates and mix of debt.
- Profit after tax was Rs.562 Crores, up 231%.

Anand Kripalu, CEO, commenting on the quarter and full year ended 31 March 2018 said:

"Our performance has substantially improved in the fourth quarter as several regulatory challenges are now behind us. Underlying* net sales growth during the quarter was 9% largely driven by a strong performance of our prestige and above segment whose underlying* net sales were up 14%.

The improved performance in the fourth quarter contributed to deliver an overall underlying* net sales growth of 1% in the full year. The Prestige and Above segment underlying* net sales grew 4% supported by the continued success of our brand renovations including McDowell's No.1 whiskey, Royal Challenge and Signature.

In the year underlying* gross margin improved 294bps, despite the negative impact of GST, which we managed to more than offset by positive mix, pricing and a relentless focus on our productivity program. We have also continued to invest behind our brands with marketing investment up 18% during the year.

Underlying* EBITDA margin for the year was broadly flat as gross margin improvement was offset by increased marketing spend; since we chose to invest in future growth.

Our continued focus on reducing interest costs and monetizing non-core assets, coupled with lower exceptional items, have resulted in an overall PAT increase of 231% for the year.

Overall, in this fiscal, we have overcome some of the biggest challenges the spirits industry has ever faced including the highway ban and the introduction of GST. We have continued to execute against our strategic priorities and I am pleased that despite this challenging environment we have managed to deliver top line growth as well as margin expansion while also increasing investment behind our brands. This gives me confidence that the work we are doing to execute our strategy will enable us to capture the long-term opportunity in the spirits market and to achieve double digit top line growth and improve margins to mid-high teens in the medium term."

*Underlying movement excludes the one off impact of operating model changes, customer claim arising out of legacy commercial terms last year and restructuring costs.

KEY FINANCIAL INFORMATION

For the year ended 31 March 2018

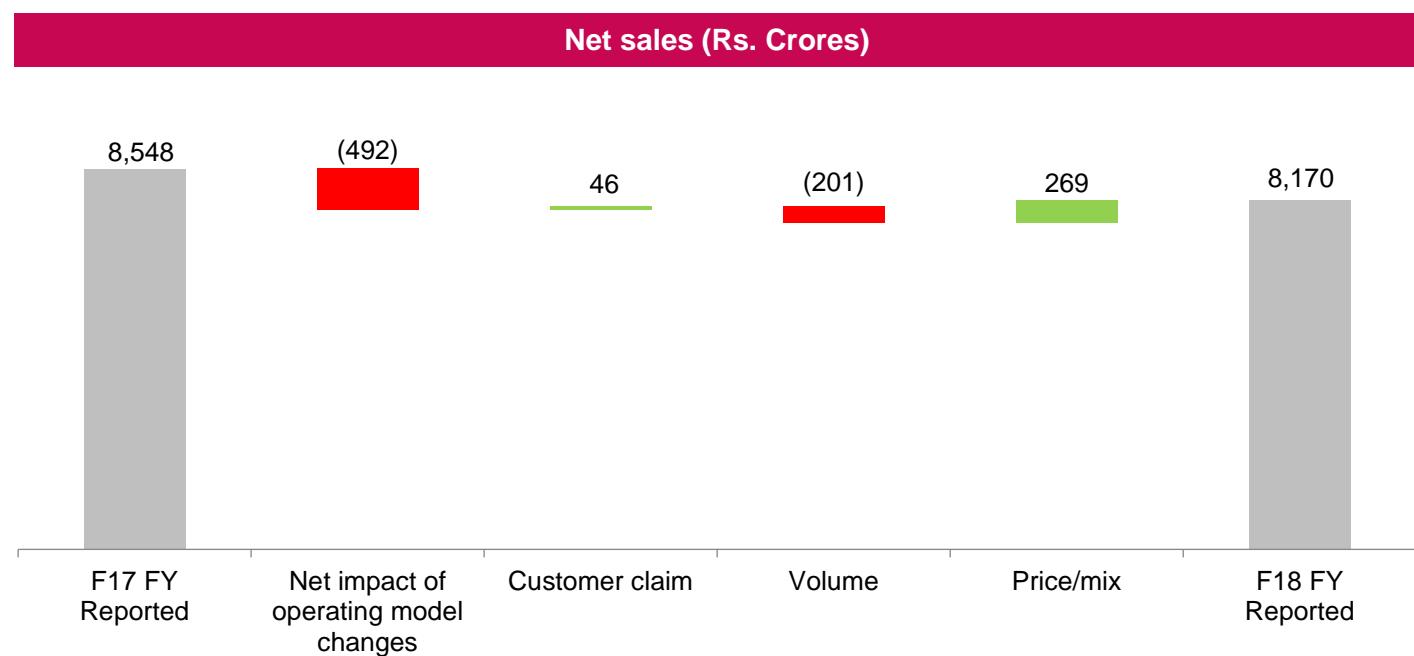
Summary financial information

		F18 FY	F17 FY	Movement %
Volume	<i>EUm</i>	78.5	90.0	(13)
Net sales	<i>Rs. Crores</i>	8,170	8,548	(4)
COGS	<i>Rs. Crores</i>	(4,289)	(4,884)	(12)
Gross profit	<i>Rs. Crores</i>	3,881	3,663	6
Staff cost	<i>Rs. Crores</i>	(660)	(667)	(1)
Marketing spend	<i>Rs. Crores</i>	(788)	(667)	18
Other Overheads	<i>Rs. Crores</i>	(1,411)	(1,358)	4
EBITDA	<i>Rs. Crores</i>	1,022	971	5
Other Income	<i>Rs. Crores</i>	206	111	85
Depreciation	<i>Rs. Crores</i>	(135)	(132)	2
EBIT	<i>Rs. Crores</i>	1,092	950	15
Interest	<i>Rs. Crores</i>	(261)	(369)	(29)
PBT before exceptional items	<i>Rs. Crores</i>	831	581	43
Exceptional items	<i>Rs. Crores</i>	9	(326)	(103)
PBT	<i>Rs. Crores</i>	840	254	230
Tax	<i>Rs. Crores</i>	(279)	(85)	229
PAT	<i>Rs. Crores</i>	562	170	231

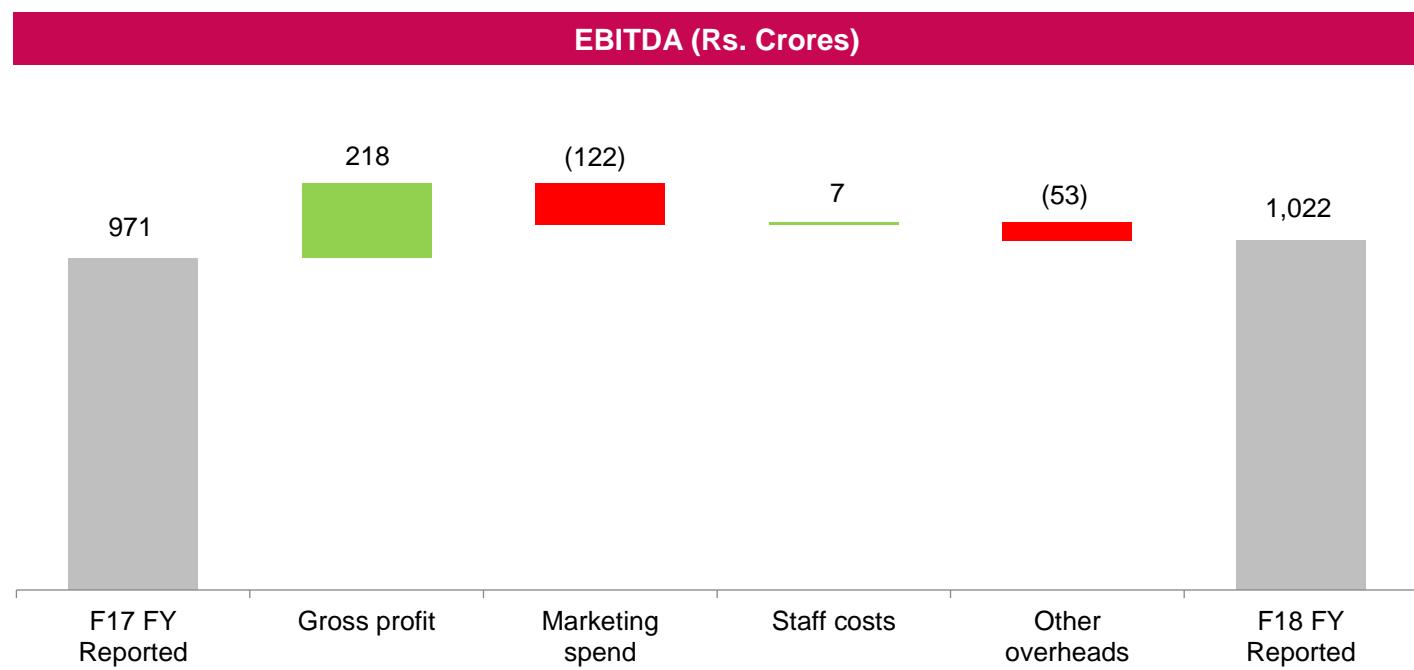
Key performance indicators as a % of net sales:

		F18 FY	F17 FY	Movement bps
Gross profit	%	47.5	42.9	465
Staff cost	%	8.1	7.8	(27)
Marketing spend	%	9.6	7.8	(185)
Other Overheads	%	17.3	15.9	(138)
EBITDA	%	12.5	11.4	114
PAT	%	6.9	2.0	489
Basic earnings per share	<i>rupees</i>	38.7	11.7	27 rupees
Earnings per share before exceptional items	<i>rupees</i>	38.2	32.5	5.7 rupees

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



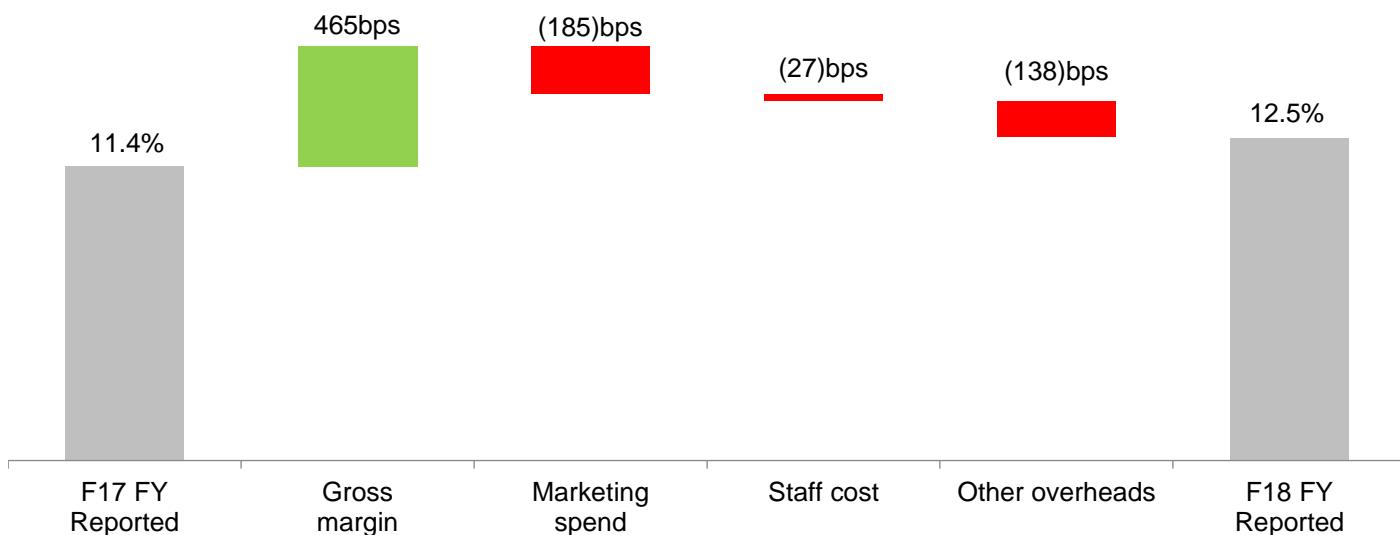
Reported net sales declined 4% in the full year mainly due to the one off impact of operating model changes as well as the adverse effect of the highway ban, and to a lesser extent, previously anticipated route to market changes in certain states being partially offset by positive price/mix. Underlying* net sales grew 1%. Underlying* volume declined 2% as the Prestige & Above segment volume growth of 3% was more than offset by the Popular segment volume decline of 7%. Positive price/mix was driven by our continued focus on premiumisation in the Prestige & Above segment as well as price increases.



EBITDA at Rs. 1,022 Crores, increased by 5% despite the adverse impact of GST. Gross profit increased by Rs. 218 Crores, mainly driven by more broad based price increases, productivity initiatives and positive mix which more than offset the negative impact of GST. We continued to invest behind our brands and as a result, marketing spend increased by 18% with an overall reinvestment rate of 9.6%, up 185 bps versus last year. Staff cost decreased by 1% benefitting from savings delivered by the organisational changes. These staff costs included one off restructuring cost of Rs. 23 Crores in the current year and Rs. 34 Crores in the previous year. Other overheads increased by 4%, including one off costs relating to organizational changes amounting to Rs. 21 Crores in the current year and Rs. 19 Crores in the previous year. Underlying* EBITDA declined by 1% in the full year.

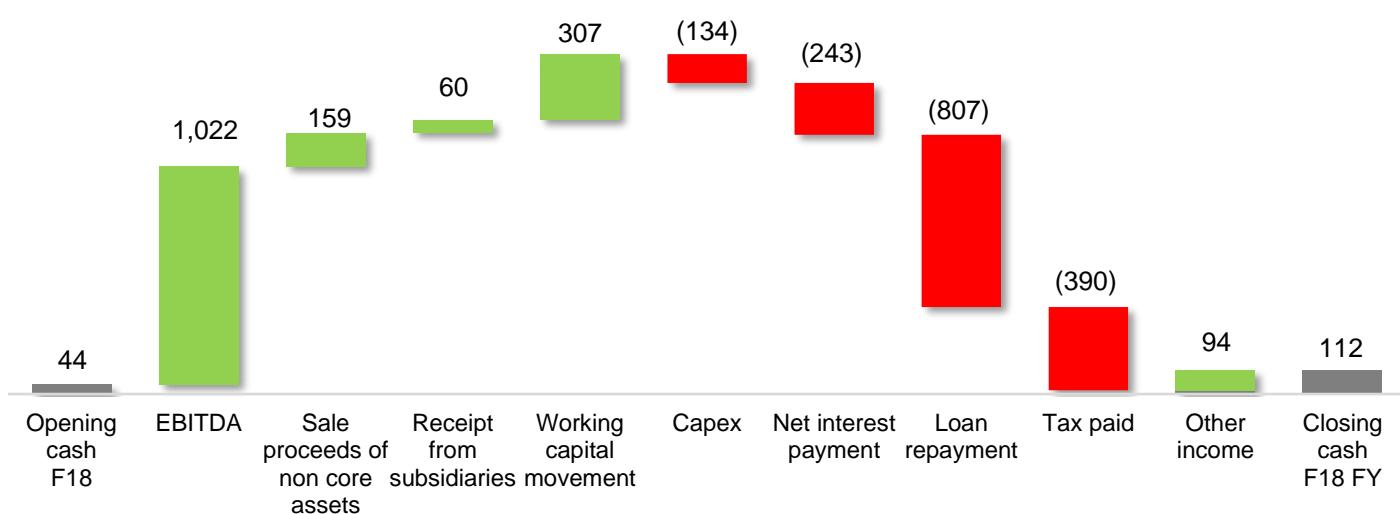
*Underlying movement excludes the one off impact of operating model changes, customer claim arising out of legacy commercial terms last year and restructuring costs.

EBITDA margin (%, bps)



EBITDA margin of 12.5% improved by 114bps. Gross margin improved by 465bps primarily driven by price increases, continued focus on premiumisation and productivity initiatives more than offsetting the impact of GST. The improved gross margin was partially reinvested in marketing investments. Staff costs decreased by 1%, but due to 4% decrease in reported net sales, they detracted from the EBITDA margin. Other overheads increased by 4% but disproportionately impacted EBITDA margin due to lower net sales. Underlying* EBITDA margin of 13% remained broadly flat.

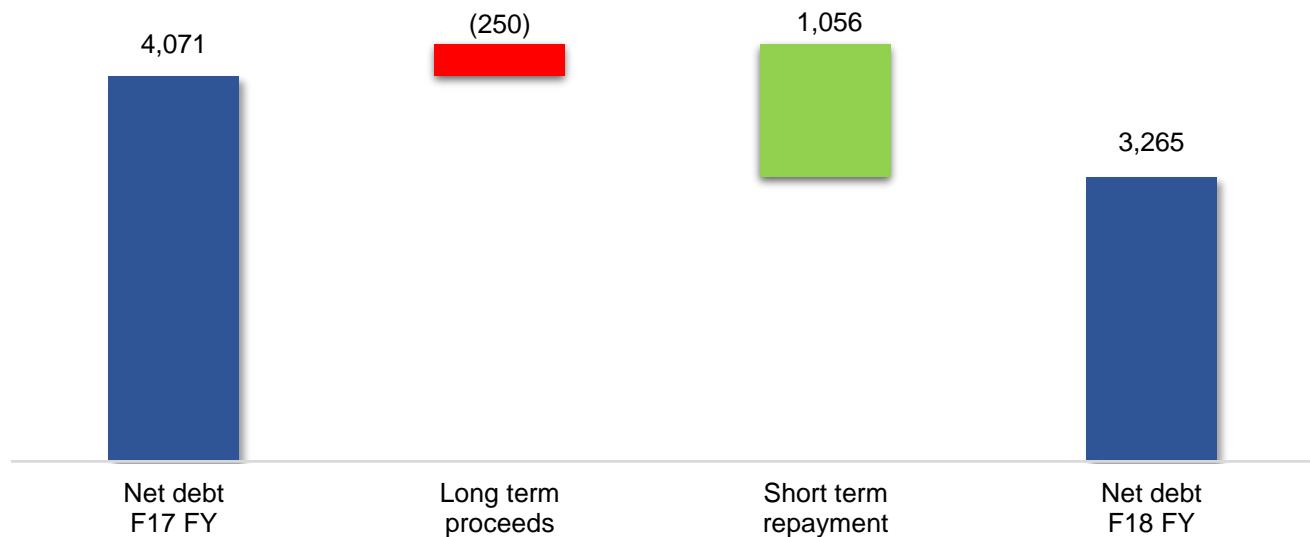
Movement in cash (Rs. Crores)



Cash closed at Rs. 112 Crores. Non core asset divestment proceeds amounted to Rs 159 Crores and income from subsidiaries amounted to Rs 60 Crores. Decrease in working capital was mainly driven by reduction in receivables and lower advances. Capex was focused on upgrading strategically important manufacturing units. Cash generated from the underlying business was used towards debt repayment of Rs 807 Crores, resulting in a reduction in interest costs.

*Underlying movement excludes the one off impact of operating model changes, customer claim arising out of legacy commercial terms last year and restructuring costs.

Movement in debt (Rs. Crores)



Closing net debt was Rs. 3,265 Crores. During the year USL made its maiden issue of Non-Convertible Debentures of Rs. 750 Crores to refinance existing higher cost debt of Rs. 500 Crores resulting in an increase in long term debt. The company utilized profit from operations, proceeds from sale of non-core assets and reduction in working capital to repay its loans amounting to Rs. 1,056 Crores. This reduction in debt together with renegotiation of borrowing rates and favourable mix of debt reduced the total interest cost by Rs. 108 Crores in the full year.

SEGMENT AND BRAND REVIEW
For the quarter and financial year ended 31 March 2018

Key segments:

For the Quarter ended 31 March 2018

	Volume				Net Sales			
	F18 Q4 Reported EUm	F17 Q4 Reported EUm	Reported movement %	Underlying* movement %	F18 Q4 Reported Rs. Cr.	F17 Q4 Reported Rs. Cr.	Reported movement %	Underlying* movement %
P&A	9.8	8.5	15	16	1,340	1,160	16	14
Popular	11.1	12.8	(13)	(2)	778	809	(4)	2

For the Year ended 31 March 2018

	Volume				Net Sales			
	F18 FY Reported EUm	F17 FY Reported EUm	Reported movement %	Underlying* movement %	F18 FY Reported Rs. Cr.	F17 FY Reported Rs. Cr.	Reported movement %	Underlying* movement %
P&A	37.2	36.8	1	3	5,128	4,996	3	4
Popular	41.3	53.2	(22)	(7)	2,883	3,417	(16)	(4)

- The **Prestige & Above segment** accounted for 63% of net sales during FY18. Underlying* net sales grew 14% in fourth quarter and 4% in the full year.

During the year, power brands like McDowell's No. 1, Whiskey, Royal Challenge and Signature all delivered net sales growth largely driven by purpose led campaigns and bespoke consumer winning activations. These campaigns included McDowell's Yaari jam, a musical campaign, which was rolled out in 5 regional languages across 7 cities. Signature Start-up Masterclass platform was further scaled up after the success of its first edition. The platform which features passion-to-paycheck stories of successful individuals brought the brand purpose to life. Furthermore, Royal Challenge game nights were launched during the IPL season to drive consumer engagement in the on-premise channel.

Additionally, the launch of Captain Morgan "Original Rum" has created a new offering in the rum segment and has had a strong momentum post its national roll out. The launch of Captain Morgan was an exemplary execution of a concerted campaign involving on-premise trials at mass, brand building through Captain-hijack at events and bars and in-shop displays.

- The **Popular segment** underlying* net sales grew 2% in the fourth quarter and declined 4% in the full year. Priority states' Popular segment net sales grew 10% in the fourth quarter and grew 2% in the full year.

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 Friday **25 May 2018 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 29 May 2018 at www.diageoindia.com.

Conference Access Information

Option 1

Connect to your call without having to wait for an operator. It's easy, It's convenient, It's effective.



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