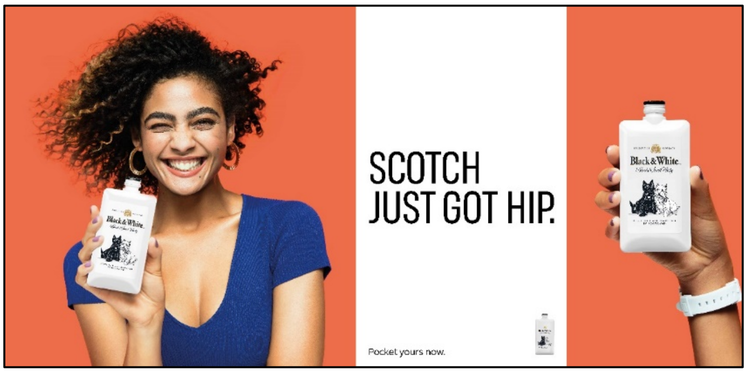
DIAGEO INDIA

UNITED SPIRITS LIMITED

PRESS RELEASE

Audited financial results for the quarter and financial year ended 31 March 2019

(Standalone only)



Final version: NV

EBITDA grew 25% in the full year

Fourth quarter performance highlights:

- Net sales grew 4%; primarily impacted by excise policy changes in a couple of our key states.
- Prestige & Above segment net sales grew 8%, on a higher than normal comparative last year.
- Popular segment reported net sales declined 2%. Underlying* net sales declined 1%. Net sales of Popular segment in priority states declined 7%.
- Gross margin was 46.5%, down 344bps 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 356bps.
- Reported EBITDA was Rs. 284 Crores, up 3%. EBITDA margin was 12.6%, down 8bps, mainly driven by gross margin erosion versus last year, partly offset by phasing effect of marketing investment and operating leverage. Underlying* EBITDA increased 8% and underlying* EBITDA margin improved by 52bps.
- Interest costs were Rs. 61 Crores, almost flat versus last year.
- Profit after tax was Rs. 126 Crores, down 40%, despite improved EBITDA, primarily driven by significantly lower other income and negative movement in exceptional items versus last year.

Full year performance highlights:

- Net sales grew 10%, as a result of double-digit growth in the Prestige & Above segment as well as benefitting from a lower base, which was impacted by the highway ban last year.
- Prestige & Above segment net sales grew 15% with 3ppts positive price/mix.
- Popular segment reported net sales remained flat. Underlying* net sales grew 1%. Net sales of Popular segment in priority states grew by 1%.
- Gross margin was 48.8%, up 21bps, as productivity related savings offset the significant adverse impact of inflation. Underlying* gross margin was almost flat.
- Reported EBITDA was Rs. 1,287 Crores, up 25%; reported EBITDA margin was 14.3%, up 175bps, primarily driven by operating leverage, which more than offset a 9% increase in marketing investment. Underlying* EBITDA was up 25% and underlying* EBITDA margin was 14.9%, up 174bps.
- Interest costs were Rs.220 Crores, 18% lower than prior year, driven by lower debt and active debt management.
- Profit after tax was Rs.659 Crores, up 17%; PAT margin was 7.3%, up 46bps.

**Underlying sales adjusts for the one-off impact of operating model changes. Underlying margin excludes the one-off impact of operating model changes and/or one-off restructuring costs.*

Anand Kripalu, CEO, commenting on the quarter and full year ended 31 March 2019 said:

"It was a good year with sales growing 10%, notwithstanding a low comparative. However, our business was impacted in the current quarter by excise policy changes in a couple of our key states. During the year, our Prestige & Above portfolio performed well, growing 15%, albeit on a low base. Popular segment on the other hand remains challenged, growing 1% for the full year, after a decline of 4% last year, adjusted for the operating model changes.

We made further progress in our journey to drive premiumization with the Prestige & Above segment now accounting for 66% of sales. Furthermore, within the overall P&A segment, we saw each sub-segment growing faster than the one beneath it. Notably, our Scotch portfolio grew almost twice as fast as the overall Prestige & Above portfolio, with Johnnie Walker and Black & White both showing strong momentum.

On profitability, despite facing significant raw material inflation in the last two quarters, we marginally improved the gross margin versus last year, primarily through productivity related savings.

We have also continued to invest behind our brands with marketing investment up 9% during the year.

Despite only a marginal gross margin expansion and increased marketing investment, we delivered 175bps EBITDA margin expansion for the year through operating leverage.

Improved operating performance, combined with our sustained focus on reducing interest costs have enabled us to deliver a PAT growth of 17% for the year.

Overall, in this fiscal, we have delivered strong top line growth while continuing to premiumize our mix. We have also delivered EBITDA margin expansion despite significant inflationary pressure on our raw materials; while simultaneously enhancing investment behind our brands. All the lines of our P&L are moving in the right direction and we have made tangible progress towards our medium-term ambition of double-digit top line growth and mid-high teens EBITDA margin."

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KEY FINANCIAL INFORMATION

For the year ended 31 March 2019

Summary financial information

		F19 FY	F18 FY	Movement %
Volume	*EUm*	**81.6**	**78.5**	4
Net sales	*Rs. Crores*	**8,981**	**8,170**	10
COGS	*Rs. Crores*	(4,595) [1]	(4,198) [1]	9
Gross profit	*Rs. Crores*	**4,386**	**3,973**	10
Staff cost	*Rs. Crores*	(675)	(660)	2
Marketing spend	*Rs. Crores*	(859)	(788)	9
Other Overheads	*Rs. Crores*	(1,564) [1]	(1,496) [1]	5
EBITDA	*Rs. Crores*	**1,287** [4]	**1,028** [4]	25
Other Income	*Rs. Crores*	95 [3]	206	(54)
Depreciation	*Rs. Crores*	(145)	(135)	7
EBIT	*Rs. Crores*	**1,238**	**1,099**	13
Interest	*Rs. Crores*	(220) [2]	(268) [2]	(18)
PBT before exceptional items	*Rs. Crores*	**1,018**	**831**	22
Exceptional items	*Rs. Crores*	(27)	9	(397)
PBT	*Rs. Crores*	**991**	**840**	18
Tax	*Rs. Crores*	(333)	(279)	19
PAT	*Rs. Crores*	**659**	**562**	17

Key performance indicators as a % of net sales:

		F19 FY	F18 FY	Movement bps
Gross profit	*%*	48.8 [1]	48.6 [1]	21
Staff cost	*%*	7.5	8.1	56
Marketing spend	*%*	9.6	9.6	9
Other Overheads	*%*	17.4 [1]	18.3 [1]	90
EBITDA	*%*	14.3 [4]	12.6 [4]	175
PAT	*%*	7.3	6.9	46
Basic earnings per share	*rupees*	9.1	7.7 [5]	1.33 rupees
Earnings per share before exceptional items	*rupees*	9.2	7.7 [5]	1.57 rupees

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

[1,2,3] These numbers have undergone a regrouping adjustment – please refer to Annexure 1.1,1.2,1.3 for further details.
[4] As a result of regrouping in 1,2,3 these numbers have changed
[5] EPS for F18 has been adjusted to reflect the new number of shares post the 1:5 share-split that became effective in F19.

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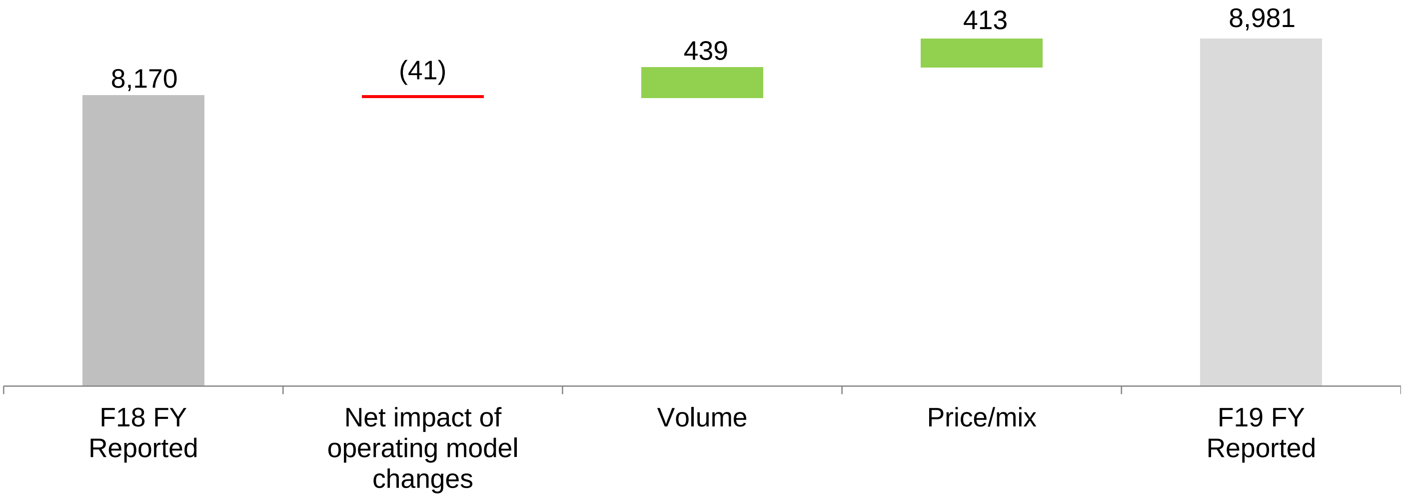
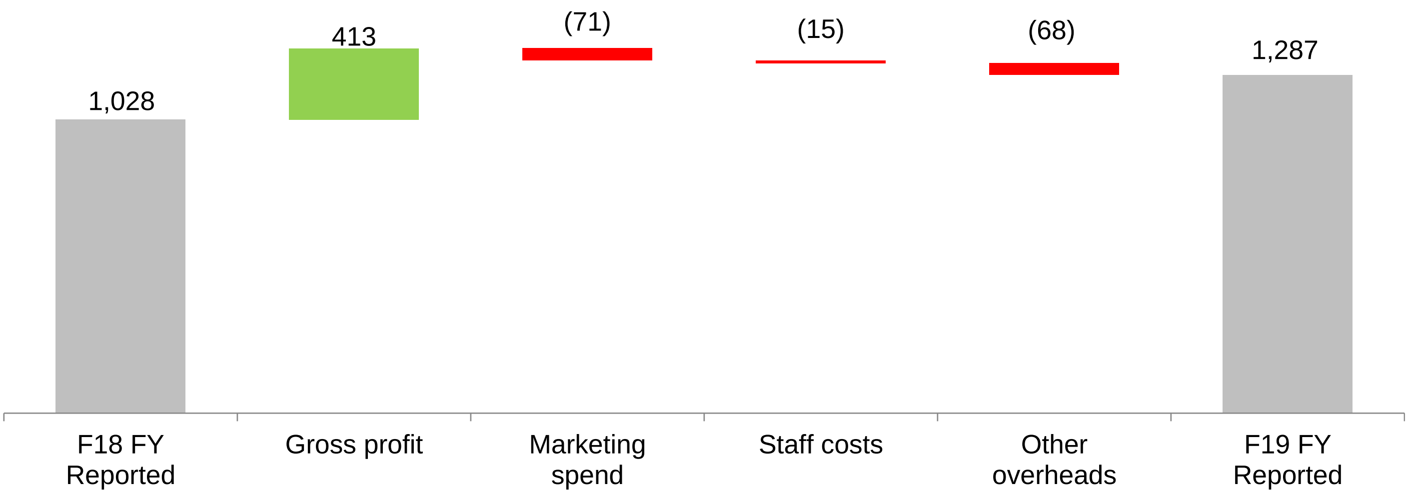
Net sales (Rs. Crores)



Net sales grew 10% in the full year largely driven by strong growth in the Prestige & Above segment while also benefitting from a low comparative impacted by the highway ban last year. Net Sales of Prestige & Above segment grew 15% while net sales of Popular segment grew 1% after adjusting for the operating model changes

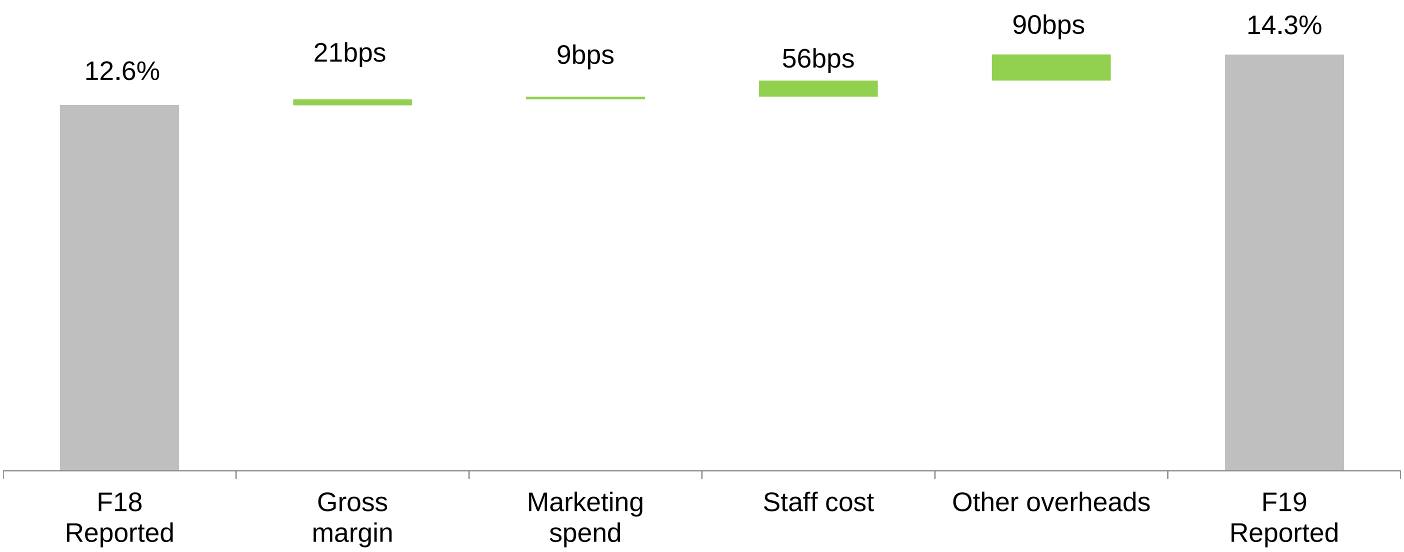
Underlying volume growth was 5%, after adjusting for the operating model changes, as the Prestige & Above volume growth of 12% more than offset Popular segment volume decline of 1%. Underlying price/mix for the year was 5%, largely driven by faster growth in the more premium parts of the portfolio.

EBITDA (Rs. Crores)



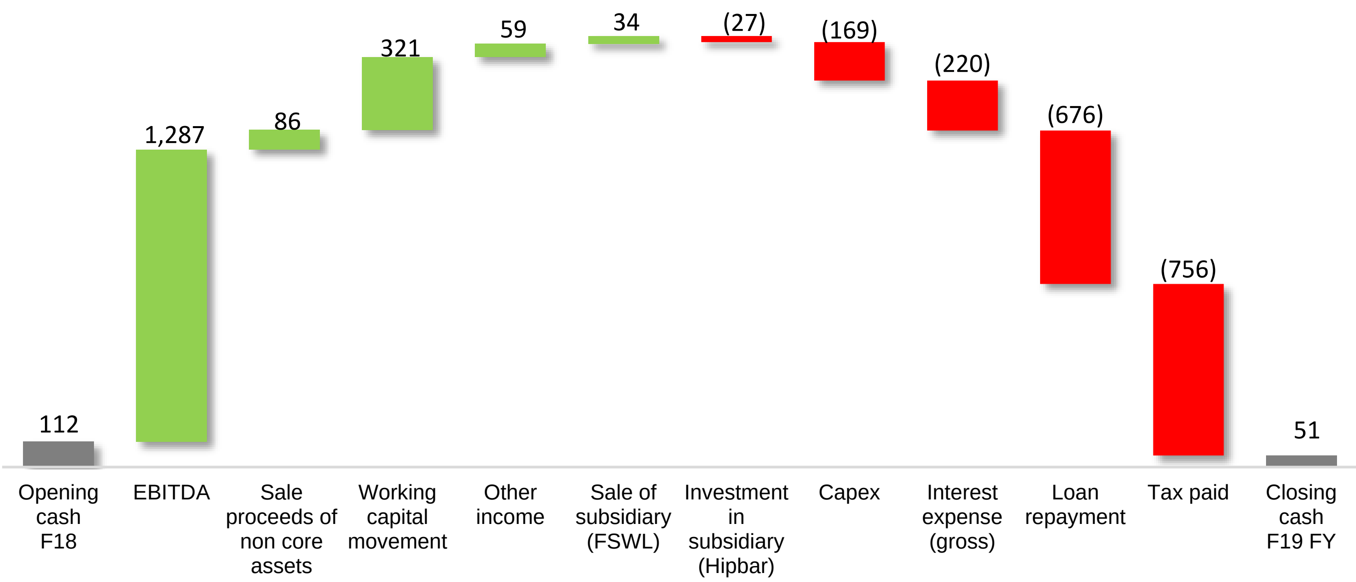
EBITDA at Rs. 1,287 Crores, increased 25% versus last year. Gross profit increased by Rs. 413 Crores, mainly driven by higher sales, improved mix and productivity related savings which more than offset the negative impact of inflation. We continued to invest behind our bands and as a result marketing investment increased by 9% with an overall reinvestment rate of 9.6%, within our guided range for the year. Reported staff cost increased 2%, but after removing the one-off restructuring costs of Rs. 53 Crores in F19 and Rs. 23 Crores in F18, underlying staff costs decreased by 2%. Other overheads increased 5%, but after removing the one-off costs of Rs. 21 Crores in F18 from the base, underlying other overheads increased 6%. Underlying EBITDA, after adjusting for the operating model changes as well as one-off costs increased by 25% versus last year.

EBITDA margin (%, bps)



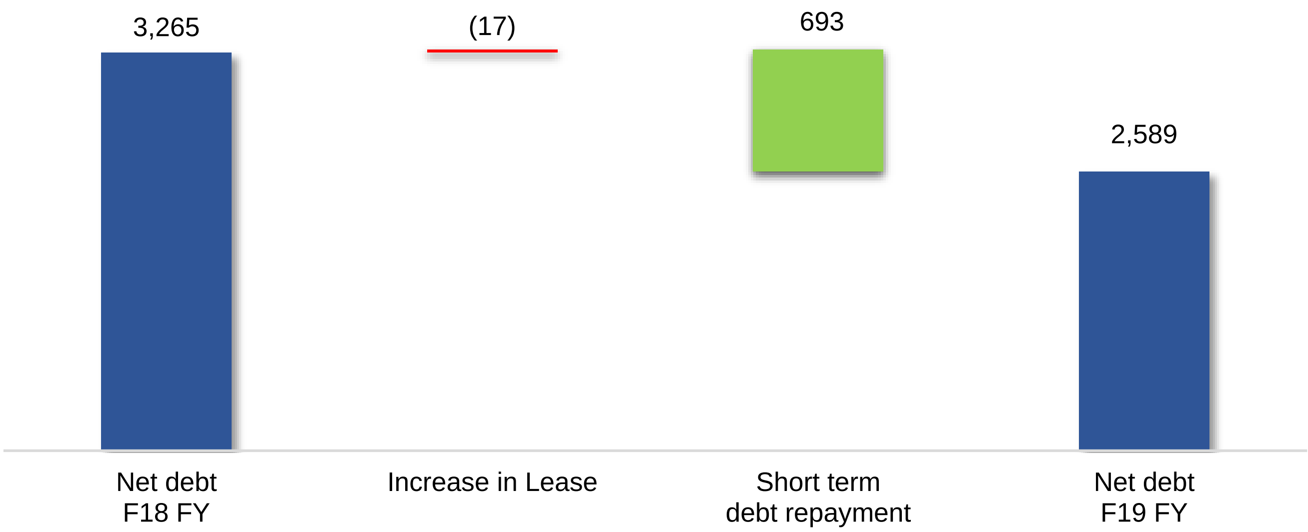
EBITDA margin for the year was 14.3%, up 175bps. Gross margin for the year was marginally up by 21bps, as productivity related savings offset the significant adverse impact of COGS inflation. As a result of operating leverage, lower staff costs and lower other overheads (as a percentage of net sales) contributed 56bps and 90bps respectively, to EBITDA margin improvement. Underlying EBITDA margin, net of operating model changes and one-off costs was 14.9%, 174bps higher than last year.

Movement in cash (Rs. Crores)



Cash closed at Rs. 51 Crores. The largest contributor to cashflows this year was profit from operations. Decrease in working capital contributed Rs. 321 Crores, unlocked through accelerated working capital management. Non core asset divestment proceeds amounted to Rs 86 Crores and cash flow from other income was Rs. 59 Crores, mainly comprising interest income from subsidiaries. Capex was Rs. 169 Crores, and it was focused on enhancing IT infrastructure as well as health & safety initiatives besides supporting core growth. Cash was also utilised towards debt repayment of Rs 676 Crores.

Movement in debt (Rs. Crores)



Closing net debt was Rs. 2,589 Crores, a reduction of 21% versus last year. The company repaid short term debt amounting to Rs. 693 crores, which primarily comprised Commercial Papers of Rs. 450 Crores and short term bank loans of Rs 243 Crores.

This reduction in debt together with favourable mix of debt reduced the total interest cost by Rs. 48 Crores in the full year.

SEGMENT AND BRAND REVIEW

For the quarter and financial year ended 31 March 2019

Key segments:

For the Year ended 31 March 2019

	Volume				Net Sales			
	F19 FY Reported ***EUm***	F18 FY Reported *EUm*	Reported movement %	**Underlying* movement %**	**F19 FY Reported** ***Rs. Cr.***	F18 FY Reported *Rs. Cr.*	Reported movement %	**Underlying* movement %**
P&A	**41.6**	37.2	12	**12**	**5,910**	5,128	15	**15**
Popular	**40.0**	41.3	(3)	**(1)**	**2,881**	2,883	(0)	**1**
TOTAL	**81.6**	78.5	4	**5**	**8,981**	8,170	10	**10**

For the Quarter ended 31 March 2019

	Volume				Net Sales			
	F19 Q4 Reported ***EUm***	F18 Q4 Reported *EUm*	Reported movement %	**Underlying* movement %**	**F19 Q4 Reported** ***Rs. Cr.***	F18 Q4 Reported *Rs. Cr.*	Reported movement %	**Underlying* movement %**
P&A	**10.5**	9.8	7	**7**	**1,443**	1,340	8	**8**
Popular	**10.6**	11.1	(4)	**(3)**	**765**	778	(2)	**(1)**
TOTAL	**21.1**	20.9	1	**2**	**2,250**	2,174	4	**4**

- The **Prestige & Above segment** accounted for 66% of net sales during FY19, up 3ppts compared to last year.

  During the year, the Luxury portfolio grew faster than the Premium portfolio, which in turn grew faster than the Prestige portfolio, displaying a strong premiumisation trend.

  Notably the Scotch portfolio, including both Bottled in Origin (BIO) as well as Bottled in India (BII) brands, grew almost twice as fast as the overall Prestige & Above portfolio. Within the Scotch portfolio, Johnnie Walker and Black & White both delivered outstanding growth during the year.

  In the Prestige segment, renovated brands like Antiquity, Signature and Royal Challenge grew faster than the overall segment.

- The **Popular segment** accounted for 32% of net sales during the year, down 3ppts compared to last year. The Popular segment net sales grew 1% during the year, after adjusting for the one-off impact of operating model changes. Net sales of Popular segment in priority states grew by 1% during the year.

ANNEXURE 1

Re-grouping impact on quarterly numbers

1.1 There was a regrouping of bottling charges from COGS to Other Overheads of Rs. 91.50 Crores and Rs. 112.70 Crores in F18 and F19 respectively.

1.2 Interest cost on indirect taxes which was earlier shown under Rates & Taxes in Other Overheads has now been recognised under Interest Cost. The total amount is Rs. 6.4 Crores in F18 and Rs 9.2 Crores in F19, evenly spread out across each quarter), reflected in revised numbers below.

1.3 Finally, pursuant to note 6 in Statement of Financial Results for the quarter and year ended March 31, 2019, Rs. 32.6 Crores has now been reversed to Other Overheads, where it was orginally provided for, rather than being recognised in Other Income for the year. For further details, please refer to the said note.

The table below shows the combined effect of points 1.1 – 1.3 and the numbers below supersede the numbers from earlier Press Releases.

Rs Cr.	**F19**	**F18**	**F19 Q4**	**F18 Q4**	**F19 Q3**	**F18 Q3**	**F19 Q2**	**F18 Q2**	**F19 Q1**	**F18 Q1**
Net Sales	8,981	8,170	2,250	2,174	2,497	2,263	2,225	1,951	2,009	1,782
COGS	(4,595)	(4,198)	(1,204)	(1,088)	(1,284)	(1,162)	(1,107)	(1,004)	(1,000)	(944)
Gross Profit	***4,386***	***3,973***	***1,046***	***1,086***	***1,213***	***1,102***	***1,118***	***948***	***1,009***	***838***
Other Overheads	(1,564)	(1,496)	(412)	(404)	(429)	(418)	(333)	(324)	(390)	(350)
EBITDA	1,287	1,028	284	276	358	274	443	319	203	159
Other Income	95	206	12	121	53	24	17	31	13	31
Interest Cost	(220)	(268)	(61)	(61)	(58)	(67)	(44)	(68)	(58)	(72)
Gross Margin	***48.8%***	***48.6%***	***46.5%***	***49.9%***	***48.6%***	***48.7%***	***50.2%***	***48.6%***	***50.2%***	***47.0%***
EBITDA Margin	***14.3%***	***12.6%***	***12.6%***	***12.7%***	***14.3%***	***12.1%***	***19.9%***	***16.4%***	***10.1%***	***8.9%***

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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, **30 May 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 by 5 June 2019 at www.diageoindia.com.

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