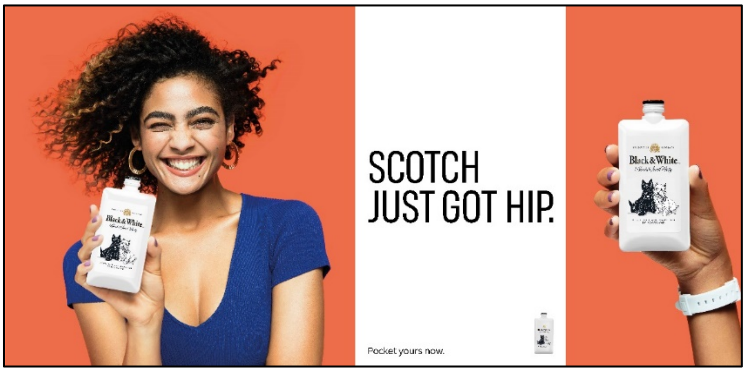
UNITED SPIRITS LIMITED

PRESS RELEASE

Unaudited financial results for the quarter and six months ended 30 September 2019

(Standalone only)



EBITDA margin expanded by 271bps during the first half of the year

Second quarter performance highlights:

- Reported net sales increased 3% benefiting from the second tranche of sale of bulk Scotch inventory. Net sales growth, excluding this one-off benefit was almost flat, primarily impacted by slowdown in consumer demand, liquidity challenges in certain markets as well as temporary supply chain disruption in our Scotch portfolio, notwithstanding a high base.
- Prestige & Above segment net sales growth was almost flat, lapping a high comparative last year.
- Popular segment net sales declined 1% overall versus last year, while stayed flat in priority states.
- Gross margin was 45.0%, down 526bps versus last year, largely due to the adverse impact of COGS inflation. After adjusting for bulk Scotch sale, underlying gross margin was 45.3%, down 494bps.
- Reported EBITDA was Rs. 416 Crores, down 6%. Despite significant gross margin compression, reported EBITDA margin was 18.1%, down 181bps, primarily delivered through savings in operating costs and phasing effect of marketing investment. After adjusting for bulk Scotch sale, underlying EBITDA decreased 12% and underlying EBITDA margin was 17.5%; 238bps lower than last year.
- Interest costs were Rs. 45 Crores, 3% higher than last year, despite a reduction in debt and cost of borrowing, mainly because of a one-time reversal in the base quarter.
- Profit after tax was Rs. 225 Crores, down 13% as the benefit from corporate tax cut was offset by one-time write down of deferred tax assets.

First half performance highlights:

- Reported net sales grew 7%; underlying net sales excluding the one-off benefit from bulk Scotch sale grew 3%, impacted by general elections in the first quarter and by consumption slowdown coupled with liquidity challenges in certain markets and temporary supply chain disruption in our Scotch portfolio in the second quarter.
- Prestige & Above segment net sales grew 4%, lapping a high comparative last year.
- Popular segment reported net sales were almost flat versus last year. Underlying net sales excluding the impact of operating model changes grew 1%, on a high base. Net sales of Popular segment in priority states grew by 2%.
- Gross margin was 46.1%, down 411bps versus last year, primarily due to significant COGS inflation and marginally due to part-absorption of excise duty hike in Maharashtra. After adjusting for the bulk Scotch sale, underlying gross margin was 46%, down 428bps.
- Reported EBITDA was Rs. 811 Crores, up 26%; reported EBITDA margin was 18.0%, up 271bps despite significantly lower gross margin; delivered through savings in operating costs and phasing effect of marketing investment. After adjusting for the one-off impact of bulk Scotch sale and restructuring costs, underlying EBITDA increased by 7% and underlying EBITDA margin was 16.8%, higher by 65bps.
- Interest costs were Rs.97 Crores, 5% lower than last year.
- Profit after tax was Rs.422 Crores, up 24%.

Anand Kripalu, CEO, commenting on the quarter and six months ended 30 September 2019 said:

"Our revenue growth in this quarter was impacted by broad based consumption slowdown as well as liquidity challenges in the trade channel in certain markets. We also faced some one-off operational issues. Consequently, net sales for the second quarter grew 3%, including the sale of bulk Scotch inventory; net of that, underlying net sales growth for the quarter was flat.

Within the Prestige & Above segment, our Scotch portfolio growth was particularly impacted by a temporary supply chain disruption which has now been resolved; as well as by liquidity challenges in certain key markets for Scotch.

For the first half of this year, we have experienced significant inflation in our key raw material costs. While this led to significant compression in gross margin, we have still delivered an underlying* EBITDA margin of 16.8% during the first half of the year. This is particularly encouraging as judicious management of our operating costs contributed more to this improvement than the phasing effect of marketing investment.

Our reinvestment rate** for the first half of the year was 7.9%, reflecting our conscious decision to defer a part of our marketing spend to the upcoming festive season.

Overall, we delivered a PAT of Rs. 422 crores during the first six months of the year, up 24%, even as the benefit from corporate tax cut didn't come through yet due to one-time adjustments.

Looking ahead, we are seeing some signs of revival in consumption with the onset of the festive season and we are investing behind all growth levers. And while it is too early to say that the consumption slowdown is behind us, we remain committed to capturing the opportunity in the spirits market in India and to to grow top line by double digits and to improve EBITDA margin to mid-high teens over the medium-term."

** Underlying EBITDA margin excludes the one-off benefit from bulk Scotch sale in H1F20 and removes restructuring costs from the base in Q1F19*
*** Reinvestment rate has been calculated after removing the bulk Scotch sale as no A&P investment was made towards it.*

KEY FINANCIAL INFORMATION

For the six months ended 30 September 2019

Summary financial information

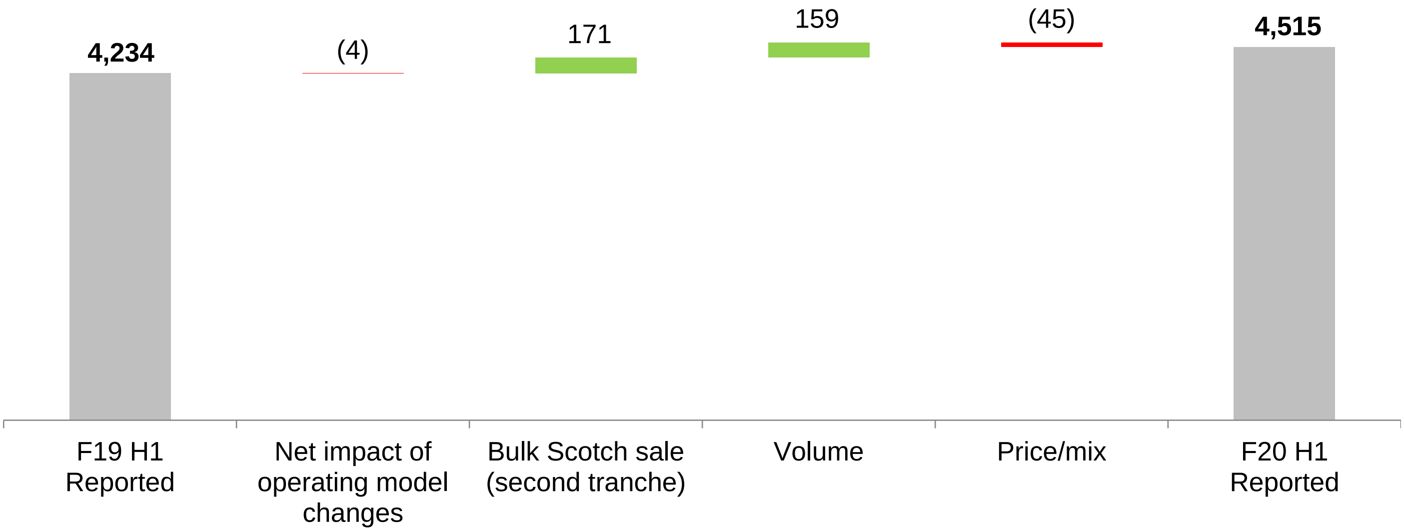
		F20 H1	F19 H1	Movement %
Volume	*EUm*	**40.0**	**38.6**	**4**
Net sales	*Rs. Crores*	**4,515**	**4,234**	**7**
COGS	*Rs. Crores*	(2,432)	(2,107)	15
Gross profit	*Rs. Crores*	**2,082**	**2,127**	**(2)**
Staff cost	*Rs. Crores*	(284)	(346)	(18)
Marketing spend	*Rs. Crores*	(344)	(412)	(16)
Other Overheads	*Rs. Crores*	(643)	(723)	(11)
EBITDA	*Rs. Crores*	**811**	**646**	**26**
Other Income	*Rs. Crores*	24	30	(21)
Depreciation	*Rs. Crores*	(107)	(69)	56
EBIT	*Rs. Crores*	**727**	**607**	**20**
Interest	*Rs. Crores*	(97)	(102)	(5)
PBT before exceptional items	*Rs. Crores*	**630**	**505**	**25**
Exceptional items	*Rs. Crores*	-	-	-
PBT	*Rs. Crores*	**630**	**505**	**25**
Tax	*Rs. Crores*	(208)	(165)	26
PAT	*Rs. Crores*	**422**	**340**	**24**

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

		F20 H1	F19 H1	Movement bps
Gross profit	%	46.1	50.2	(411)
Staff cost	%	6.3	8.2	188
Marketing spend	%	7.6	9.7	210
Other Overheads	%	14.2	17.1	283
EBITDA	%	18.0	15.2	271
PAT	%	9.3	8.0	132
Basic earnings per share*	*rupees*	5.8	4.7	1.1 rupees
Earnings per share before exceptional items*	*rupees*	5.8	4.7	1.1 rupees

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

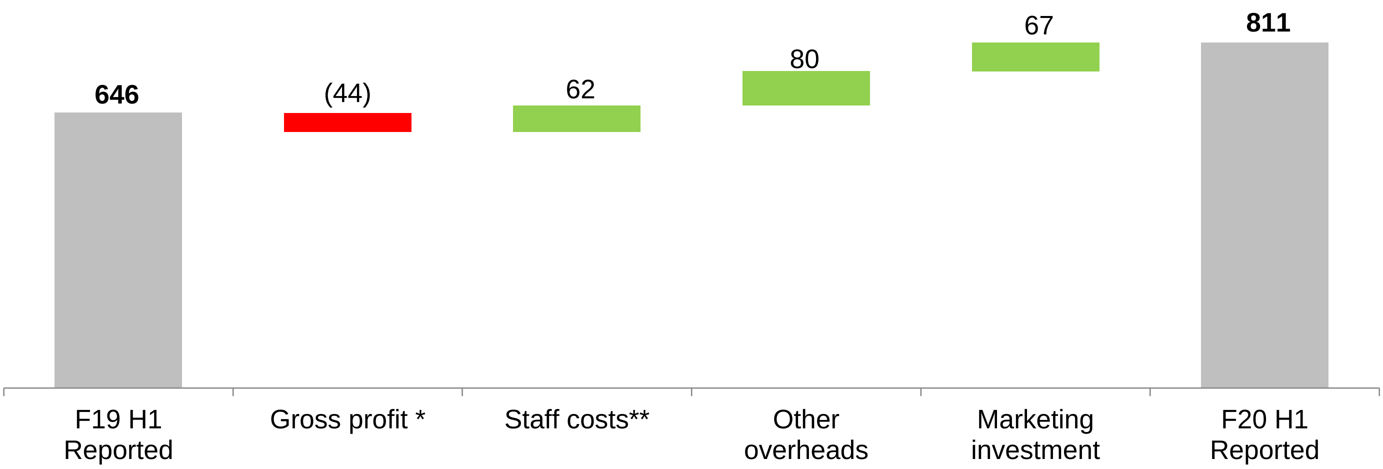
Net sales (Rs. Crores)



Reported net sales in the first six months of the financial year grew 7%, impacted by general elections in the first quarter and by consumption slowdown coupled with liquidity challenges in certain markets and temporary supply chain disruption in our Scotch portfolio in the second quarter. Excluding the one-off benefit from sale of Bulk Scotch inventory, underlying net sales grew 3%. Net Sales of Prestige & Above segment grew 4% while net sales of Popular segment grew 1% after adjusting for the operating model changes.

Overall volume grew 4% with the Prestige & Above volume growth of 6% outpacing Popular segment volume growth of 2%. Underlying price/mix for the first half was (1)%, mainly due to part-absorption of Excise Duty hike in Maharashtra and adverse mix caused by temporary supply chain issues and channel-liqudity challenges that affected Scotch growth.

EBITDA (Rs. Crores)



Reported EBITDA was Rs. 811 Crores for the first half of the year, up 26%. Excluding the one-time benefit of bulk Scotch sale and adjusted for one-off restructuring costs, underlying EBITDA increased 7%. This was despite a Gross profit decline of Rs. 44 Crores, which was primarily driven by COGS inflation, and partially offset by one-time benefit from the sale of bulk Scotch.

Enhanced operating efficiencies led to savings in staff costs and other overheads that contributed to EBITDA growth. Additionally, marketing investment was trimmed first in light of general elections and then the broader consumption slowdown; reinvesment rate for the first half of the year was 7.6% (underlying reinvestment rate of 7.9%, net of bulk Scotch sale).

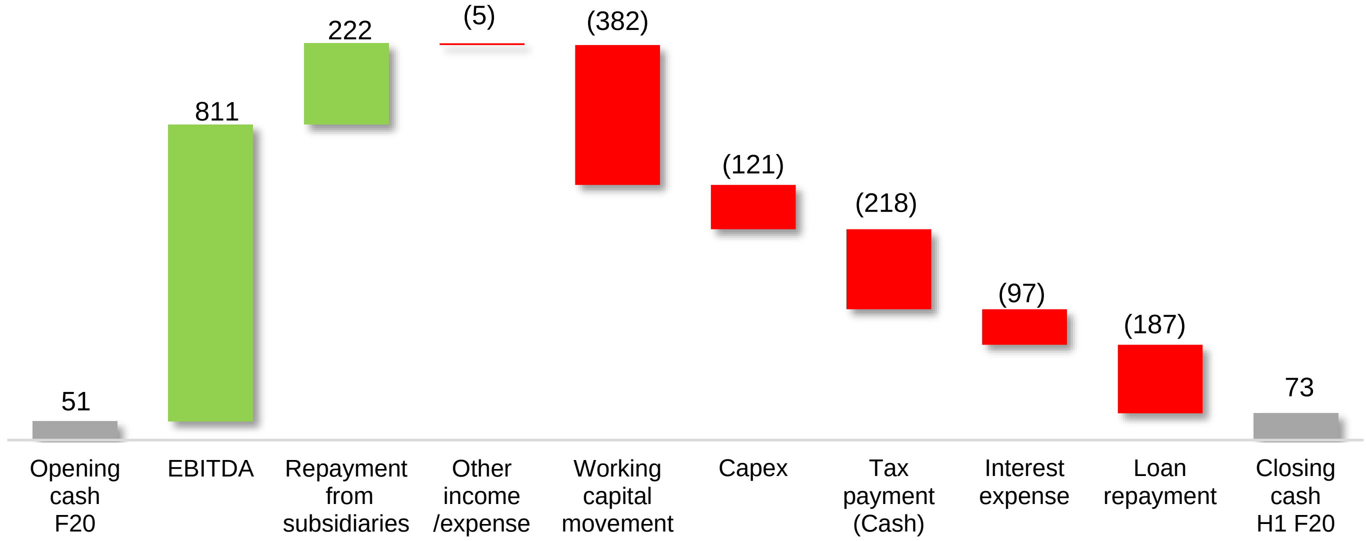
** For H1F20 Gross profit includes Rs. 84 crores resulting from bulk Scotch sale. Excluding that, gross profit would have decreased by Rs. 129 crores during the first half of the year primarily due to COGS inflation.*
*** Staff costs include a restructuring cost of Rs. 36 crores in F19Q1 and Rs. 2 crores in F20Q1. Adjusted for these, underlying saving in staff cost was Rs. 28 crores.*

EBITDA margin (%, bps)

Reported EBITDA margin of 18.0% improved by 271bps. Underlying EBITDA margin, excluding the one-off benefit from bulk Scotch sale and adjusted for one-off restructuring costs was 16.8%, up 65bps, despite significant compression in gross margin.

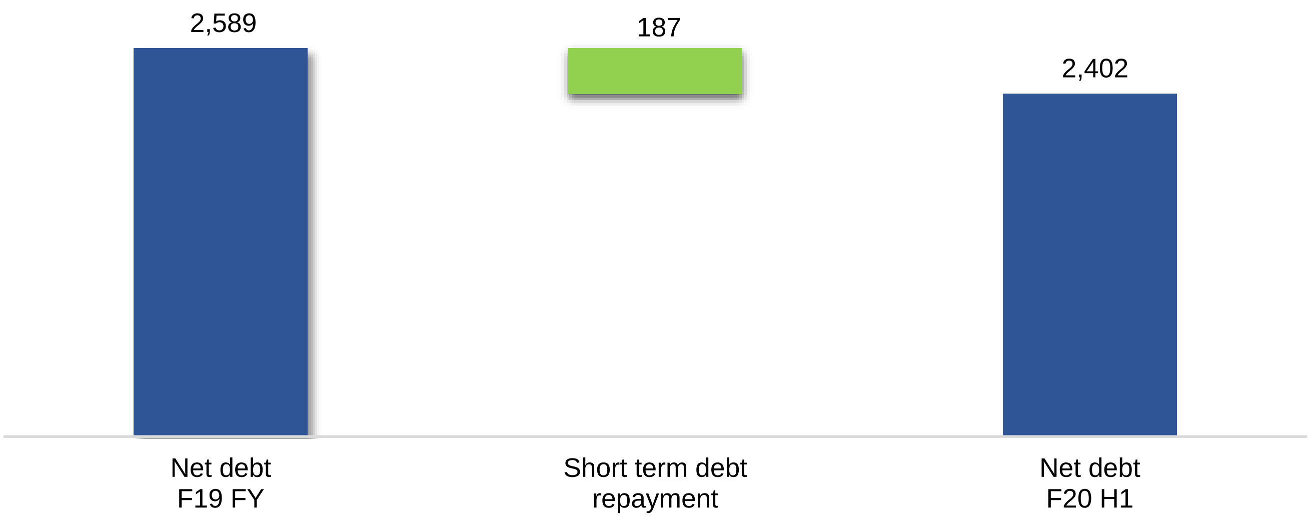
Reported gross margin contracted by 411bps, primarily impacted by significant COGS inflation. Productivity led savings in staff costs contributed 188bps to EBITDA margin improvement while further efficiencies in other overheads contributed an additional 283bps. Finally, lower A&P reinvestment rate contributed another 210bps, which was more of a phasing effect and should normalise over the course of the year.

Movement in cash (Rs. Crores)



Cash closed at Rs. 73 Crores for the first half of the year. The largest contributor to cashflows was profit form operations. Repayment from subsidiaries amounted to Rs 222 Crores comprising interest income as well as loan repayment. There was an increase in working capital largely driven by short-term liquidity issues with some corporation markets. Capex was focused on projects for productivity and health and safety. Cash generated from the underlying business was used towards debt repayment of Rs 187 Crores.

Movement in debt (Rs. Crores)



Closing net debt was Rs. 2,402 Crores. The company repaid its short term borrowings amounting to Rs. 187 Crores during the first half of the year. This reduction in debt together with a favourable mix helped reduce total interest costs by 5% in the first half of the year despite the adverse impact of Ind AS 116.

SEGMENT AND BRAND REVIEW

For the quarter and six months ended 30 September 2019

Key segments:

For the six months ended 30 September 2019

	Volume				Net Sales			
	F20 H1 Reported *EUm*	F19 H1 Reported *EUm*	Reported movement %	**Underlying* movement %**	**F20 H1 Reported *Rs. Cr.***	F19 H1 Reported *Rs. Cr.*	Reported movement *%*	**Underlying* movement *%***
P&A	**21.1**	20.0	6	**6**	**2,925**	2,815	4	**4**
Popular	**18.8**	18.6	1	**2**	**1,345**	1,340	0	**1**

For the quarter ended 30 September 2019

	Volume				Net Sales			
	F20 Q2 Reported *EUm*	F19 Q2 Reported *EUm*	Reported movement %	**Underlying* movement %**	**F20 Q2 Reported *Rs. Cr.***	F19 Q2 Reported *Rs. Cr.*	Reported movement *%*	**Underlying* movement *%***
P&A	**10.8**	10.5	3	**3**	**1,502**	1,506	(0)	**(0)**
Popular	**9.8**	9.9	(1)	**(1)**	**701**	711	(1)	**(1)**

- The **Prestige & Above segment** accounted for 65% of net sales during the first half of the year, down 2ppts compared to same period last year, primarily due to 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 1ppts versus last year.

  Prestige & Above segment net sales growth was 4% during the first half of the year, led by a weak second quarter, which was impacted by overall consumption slowdown and liquidity challenges in certain key markets for Scotch as well as a temporary supply chain disruption in our Bottled In Origin (BIO) Scotch portfolio. This impacted the ongoing premiumisation trend within the segment that we had been seeing until last quarter.

  Since some of these factors were temporary and have since been addressed, and as we enter the festive season, we are hopeful that we would see growth return in the category, especially as the macro economic environment starts to improve.

- The **Popular segment** accounted for 30% of net sales during the first half of the year, down 2ppts compared to same period last year, in part due to one-time sale of bulk Scotch affecting the relative salience of the segments; net of that, the segment accounted for 31% of net sales, down 1 ppts versus last year.

  The Popular segment net sales grew 1% after adjusting for the impact of operating model changes. Net sales of Popular segment in Priority states grew 2% during the half year.

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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 **Friday, 25 October 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 4th November 2019 at www.diageoindia.com.

Conference Access Information

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