

# UNITED SPIRITS LIMITED

## PRESS RELEASE

Unaudited financial results for the quarter ended 30 June 2020  
(Standalone only)



**A quarter marred by COVID-19**  
*Topline impacted by lockdowns, in addition, bottomline also impacted by one-offs*

**First quarter performance highlights:**

- Reported net sales declined 54%, impacted by COVID-19 led lockdown that resulted in complete shutdown of business for more than a month, and only gradual resumption thereafter, notwithstanding other disruption caused by the corona outbreak. After adjusting for the one-time sale of bulk Scotch last year, underlying net sales declined 51%.
- Prestige & Above segment net sales declined 52%.
- Popular segment net sales declined 51% overall but declined 46% in priority states.
- Gross margin was 41.7%, down 567bps on reported basis, primarily driven by lower franchise income, COGS inflation, one-off obsolete inventory write-off during the quarter. After removing the one-time benefit of bulk Scotch sale last year, underlying gross margin decline was 508bps.
- EBITDA was negative at Rs. (78) Crores and EBITDA margin was (7.5)%, driven by contraction in gross margin, negative impact of operating leverage, and COVID induced ageing related provisions.
- Interest costs were Rs. 50 Crores, 4% lower than last year.
- Profit after tax was Rs. (215) Crores (net loss), versus Rs. 197 Crores in the same period last year.

**Anand Kripalu, CEO, commenting on the quarter ended 30 June 2020 said:**

"During the quarter, our business was severely impacted by COVID-19 led lockdown and the ensuing disruption. The business remained shut for more than a month during the quarter and it resumed only gradually thereafter, in line with varying state level restrictions. The on-premise channel continued to remain shut for the entire quarter. This resulted in a YoY sales decline of 51% on underlying\* basis.

The Prestige and Above segment was disproportionately impacted by the closure of the on-premise channel and the drying up of social occasions for consumption. While it is too early to arrive at any conclusions, what we have seen is a sequential improvement month on month, notwithstanding the second wave of localized lockdowns which are having an impact on both our supply chain as well as retail outlets in July.

What I am particularly pleased about is the agility and nimbleness that our teams have shown in restarting and scaling up our operations in the face of several challenges across the entire supply chain. Additionally, we have also continued the roll out of the renovated bundles of McDowell's No. 1 Whisky and Royal Challenge Whisky.

While we have been ruthless about discretionary costs, we have not shied away from investing and supporting our customers, consumers and communities as needed. In service of that, we have recently launched "Raising the Bar" programme, to support the revival and recovery of bars and restaurants that serve alcohol. The programme is aimed at providing the necessary non-cash support to help them reopen and welcome back consumers in a safe environment.

From a profitability perspective, zero sales for more than a month coupled with the negative impact of operating leverage, and certain one-off expenses like COVID led obsolete inventory and ageing based provisions severely impacted our profitability, resulting in a net loss for the quarter.

Looking ahead, we will have to navigate several unknowns over the course of this year, including state level lockdowns that are being re-imposed as well as the real impact of recent tax related price increases on demand. Hence, we will continue to evolve and dynamically manage the situation in the near term, while staying committed to investing for the success of our business and staying true to our longer-term strategy.

*Note: \*Underlying means after removing the one-off benefit of bulk Scotch sale in Q1F20.*

**KEY FINANCIAL INFORMATION**

For the quarter ended 30 June 2020

**Summary financial information**

		<b>F21</b>	F20	Reported
		<b>Q1</b>	Q1	Movement
				%
<b>Volume</b>	<i>EUm</i>	<b>9.8</b>	<b>19.3</b>	<b>(49)</b>
<b>Net sales</b>	<i>Rs. Crores</i>	<b>1,030</b>	<b>2,218</b> <sup>1</sup>	<b>(54)</b>
COGS	<i>Rs. Crores</i>	(601)	(1,169)	(49)
<b>Gross profit</b>	<i>Rs. Crores</i>	<b>429</b>	<b>1,050</b> <sup>2</sup>	<b>(59)</b>
Staff cost	<i>Rs. Crores</i>	(120)	(138) <sup>3</sup>	(13)
Marketing spend	<i>Rs. Crores</i>	(52)	(171)	(70)
Other Overheads	<i>Rs. Crores</i>	(335)	(346)	(3)
<b>EBITDA</b>	<i>Rs. Crores</i>	<b>(78)</b>	<b>395</b>	<b>(120)</b>
Other Income	<i>Rs. Crores</i>	10	10	(6)
Depreciation	<i>Rs. Crores</i>	(64)	(50) <sup>4</sup>	28
<b>EBIT</b>	<i>Rs. Crores</i>	<b>(132)</b>	<b>355</b>	<b>(137)</b>
Interest	<i>Rs. Crores</i>	(50)	(52)	(4)
<b>PBT before exceptional items</b>	<i>Rs. Crores</i>	<b>(182)</b>	<b>303</b>	<b>(160)</b>
Exceptional items	<i>Rs. Crores</i>	(75)	-	-
<b>PBT</b>	<i>Rs. Crores</i>	<b>(257)</b>	<b>303</b>	<b>(185)</b>
Tax	<i>Rs. Crores</i>	42	(106)	(139)
<b>PAT</b>	<i>Rs. Crores</i>	<b>(215)</b>	<b>197</b>	<b>(209)</b>

**Key performance indicators as a % of net sales:**

		<b>F21</b>	F20	Movement
		<b>Q1</b>	Q1	bps
Gross profit	%	41.7	47.3	(567)
Staff cost	%	11.7	6.2	(545)
Marketing spend	%	5.0	7.7	267
Other Overheads	%	32.5	15.6	(1690)
EBITDA	%	(7.5)	17.8 <sup>5</sup>	(2534)
PAT	%	(20.9)	8.9	(2980)
Basic earnings per share*	<i>rupees</i>	(2.96)	2.72	(5.68)
Earnings per share before exceptional items*	<i>rupees</i>	(2.50)	2.72	(5.22)

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

<sup>1</sup> Includes a one-time bulk Scotch sale of Rs. 97 Crores.

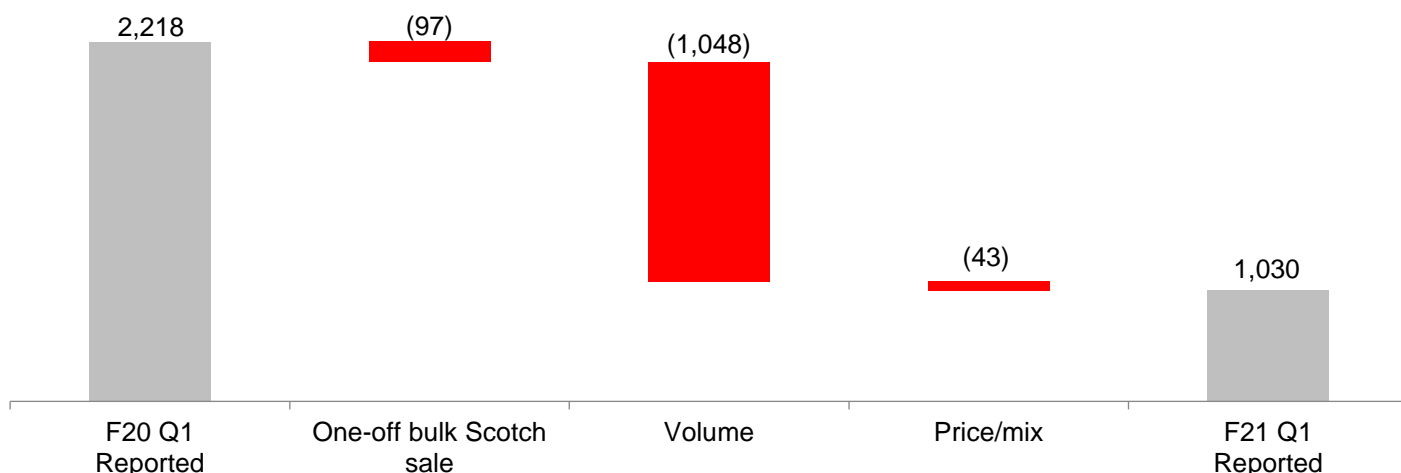
<sup>2</sup> Includes a one-time Gross Profit from bulk Scotch sale of Rs. 58 Crores;

<sup>3</sup> Includes restructuring costs of Rs. 2 Crores

<sup>4</sup> Includes a one-time depreciation charge of Rs. 2 Crores

<sup>5</sup> Underlying EBITDA margin, net of one-off bulk Scotch sale in Q1F20 was 16.0%

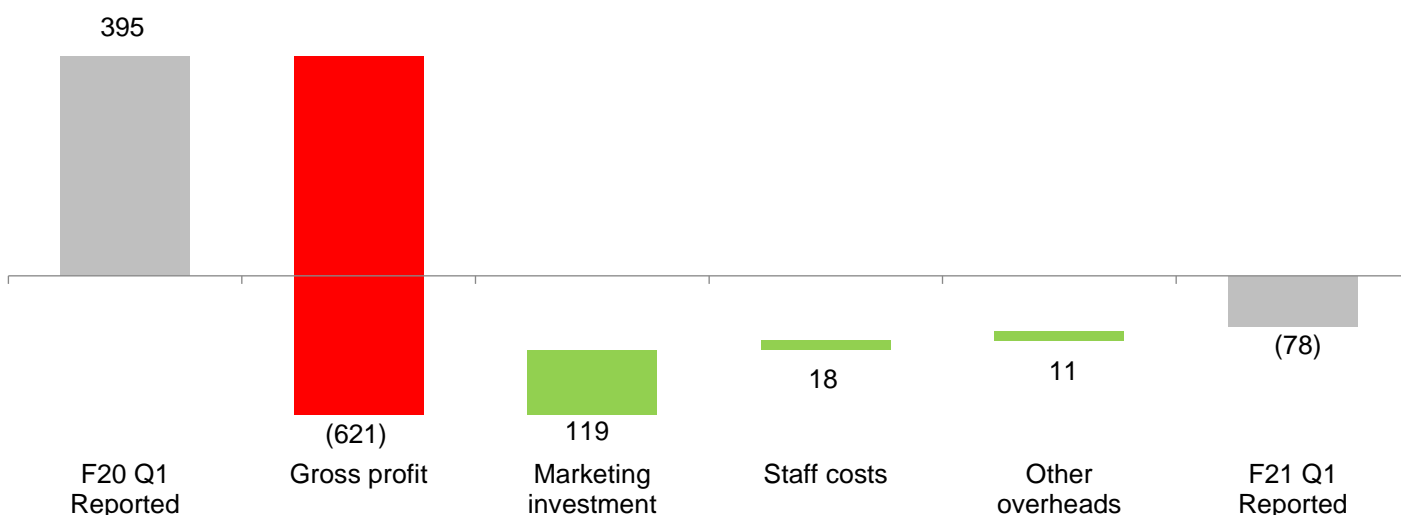
**Net sales (Rs. Crores)**



Reported net sales declined 54% in the first quarter impacted by the nationwide lockdown enforced to contain the outbreak of corona virus in India. The lockdown resulted in a complete closure of business for than a month during the quarter and only gradual resumption thereafter. After adjusting for the one-time sale of bulk Scotch in the same period last year, underlying net sales declined 51%. Net Sales of Prestige & Above segment declined 52%; net sales of Popular segment also declined 52%.

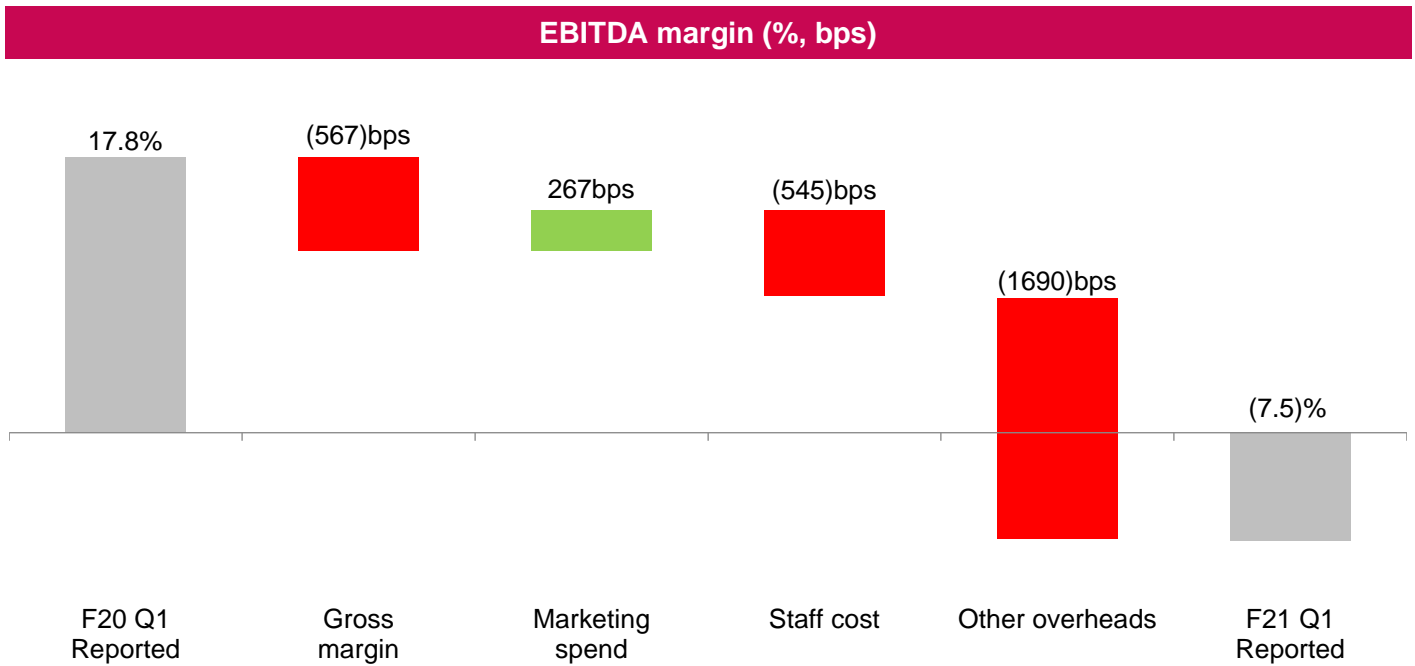
Volume decline was 49%, with the Prestige & Above volume decline of 52% outpacing Popular segment volume decline of 47%. Price/mix for the quarter was (2)%, driven by a decline in royalty income as well as adverse mix.

**EBITDA (Rs. Crores)**



EBITDA for the quarter was negative at Rs. (78) Crores, versus a reported EBITDA of Rs. 395 Crores in the same period last year (Underlying EBITDA net of one time bulk Scotch sale of Rs. 339 Crores).

Reported staff cost decreased 13% and other overheads decreased by 3%, despite a spike in provisions induced by COVID. Additionally, marketing investment for the quarter was trimmed down given the lockdown and the current environment.



EBITDA margin for the quarter was negative at (7.5)%, given highly curtailed sales in the base and negative impact of operating leverage. While reported EBITDA margin during the same period last year was 17.8%, underlying EBITDA margin, net of one time bulk Scotch sale was 16%.

Reported Gross margin decreased by 567bps, primarily driven by lower franchise income, COGS inflation, one-off obsolete inventory write off and one-off benefit of bulk Scotch sale last year. Lower marketing spend helped mitigate part of margin erosion but staff costs and other overheads disproportionately detracted from the margin due to negative effect of operating leverage.

## SEGMENT AND BRAND REVIEW

For the quarter ended 30 June 2020

### Key segments:

For the quarter ended 30 June 2020

	Volume				Net Sales			
	F21 Q1 Reported EUm	F20 Q1 Reported EUm	Reported movement %	Underlying* movement %	F21 Q1 Reported Rs. Cr.	F20 Q1 Reported Rs. Cr.	Reported movement %	Underlying* movement %
P&A	5.0	10.3	(52)	(52)	680	1,423	(52)	(52)
Popular	4.8	9.0	(47)	(47)	314	643	(51)	(51)
Other	-	-	-	-	37	152*	(76)	(33)*
TOTAL	9.8	19.3	(49)	(49)	1,030	2,218	(54)	(51)

\* Includes one-time bulk Scotch sale of Rs. 97 cr, underlying movement removes the impact of bulk Scotch sale in Q1F20.

- The **Prestige & Above segment** accounted for 66% of net sales during the first quarter, up 2ppts compared to same period last year, primarily due to the one-time sale of bulk Scotch affecting the relative salience of the segments last year; net of that, the segment salience was down 1ppts versus last year.

Prestige & Above segment net sales declined 52% versus same period last year, disproportionately impacted by the continued closure of on-premise outlets throughout the quarter and drying up of social occasions for consumption.

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

The Popular segment net sales declined 51%, against a volume decline of 47%, primarily due to lower franchise income. Net sales of Popular segment in Priority states declined 46% during the quarter.

Overall, we believe it is too premature to draw any conclusions based on initial trends of this 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, 28 July 2020 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 31st July 2020 at [www.diageoindia.com](http://www.diageoindia.com).

### Conference Access Information

#### Option 1

#### **Express Join with DiamondPass™ No Wait Time**

<https://services.choruscall.in/DiamondPassRegistration/register?confirmationNumber=122403&linkSecurityString=5044ac2e>

#### 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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