

SRBC & CO LLP
Chartered Accountants

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Dated: 02 December 2019

To
**The Board of Directors,
United Spirits Limited**
UB Tower,
No. 24, Vittal Mallya Road,
Bengaluru - 560 001
Karnataka, India

**The Board of Directors
Pioneer Distilleries Limited**
Level 10, UB Tower,
No. 24, Vittal Mallya Road,
Bengaluru - 560 001
Karnataka, India

Sub: Recommendation of fair exchange ratio for the proposed merger of Pioneer Distilleries Limited into United Spirits Limited

Dear Sir / Madam,

We refer to our engagement letter whereby S R B C & CO LLP (hereinafter referred to as "SRBC" or "we" or "us" or "Valuer") is appointed by United Spirits Limited ("USL") and Pioneer Distilleries Limited ("PDL") (hereinafter collectively referred to as "Clients" or "You" or "Companies") for recommendation of fair exchange ratio of equity shares for the proposed merger of PDL into USL ("Proposed Merger").

The fair exchange ratio for this report refers to number of equity shares of face value of INR 2/- each of USL, which would be issued to the equity shareholders of PDL in lieu of number of equity shares of face value of INR 10/- each of PDL held by them, pursuant to the Proposed Merger.

Our deliverable for this engagement would be a fair exchange ratio report ("Fair Exchange Ratio Report" or "Report").

SCOPE AND PURPOSE OF THIS REPORT

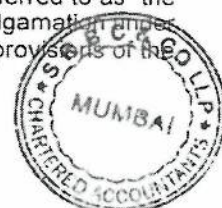
PDL, incorporated in 1992 is based in Bengaluru, India. The equity shares of PDL are listed on NSE and BSE. It manufactures and sells potable alcohol, spirits and related products in India. The company's primary products include extra neutral alcohol (molasses based and grain based), Malt etc. apart from providing contract-based bottling services to its parent, USL. PDL has undertaken capacity expansion during FY17 and FY18 in its plant in Dharmabad, Nanded. However, due to multiple stoppages in the utilities/plants and designing of plant and complexities involved including augmenting of effluent handling system, the plant is being operated at a lower capacity utilization of about 60%. PDL is undertaking corrective measures. For the financial year ended 31 March 2019, PDL reported net revenues from operations of INR 1,383.8 million and loss after tax of INR 670.8 million.

USL, incorporated in 1999, is based in Bengaluru, India. The equity shares of USL are listed on NSE and BSE. It manufactures, purchases and sells alcoholic beverages primarily in India. USL's own brands include McDowell's, Royal Challenge, Signature, Black Dog, etc. It also sells Diageo's brands such as, Captain Morgan, Johnnie Walker, Black & White, Smirnoff etc. For the financial year ended 31 March 2019, USL reported consolidated net revenues from operations of INR 93.4 billion and consolidated profit after tax of INR 6.8 billion.

We understand that the managements of the USL and PDL (hereinafter collectively referred to as "the Management") are contemplating the merger of PDL into USL under a Scheme of Amalgamation and the provisions of Sections 230-232 of the Companies Act, 2013 and other applicable provisions of the



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Registered Office: 27, Laxmi Street, South 11, South West Mumbai - 400 008



SRBC & CO LLP

Chartered Accountants

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Companies Act, 2013. As a consideration for this Proposed Merger, equity shareholders of PDL would be issued equity shares of USL in lieu of their shareholding in PDL.

For the aforesaid purpose, the Board of Directors of USL and PDL have appointed SRBC to recommend a fair exchange ratio, for the issue of USL's equity shares to the equity shareholders of PDL, to be placed before the Audit Committee/Board of Directors of USL and PDL.

We understand that the appointed date for the merger as per the draft scheme is 1 April 2019.

The scope of our services is to conduct a relative (and not absolute) valuation of equity shares of the Companies and report a fair exchange ratio for the Proposed Merger in accordance with internationally accepted valuation standards / ICAI Valuation Standards 2018 issued by Institute of Chartered Accountants of India.

We have been provided with unaudited financial statements for six months ended 30 September 2019, and audited financial statements and other financial information of the Companies for the year ended 31 March 2019 and earlier periods. We have taken into consideration the current market parameters in our analysis and have made adjustments for additional information made known to us. Further, we have been informed that all material information impacting the Companies have been disclosed to us.

We have assumed following while arriving at the fair exchange ratio for the Proposed Merger:

- (a) There would not be any capital variation in the Companies till the Proposed Merger becomes effective, except issuance of Employee Stock Options in normal course of the business of the Companies, if any;
- (b) Till the Proposed Merger becomes effective, neither Companies would declare any substantial dividends having materially different yields as compared to past few years, if any.
- (c) There are no unusual/abnormal events in the Companies since the last audited accounts till the Report date materially impacting their operating/financial performance.

This Report is our deliverable for the above engagement.

This Report is subject to the scope, assumptions, qualifications, exclusions, limitations and disclaimers detailed above and hereinafter. As such, the Report is to be read in totality and not in parts.



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SOURCES OF INFORMATION

In connection with this exercise, we have received/obtained the following information about the Companies:

1. For Pioneer Distilleries Limited
 - Unaudited financial statements for six months ended 30 September 2018 and 30 September 2019;
 - Annual report for years ended 31 March 2015 to 31 March 2019;
 - PDL's Board approved Revenue and EBITDA considering normative level of business operation, capex required to be incurred to achieve normative level of business operation and year in which normative profits are expected to be achieved;
 - Shareholding pattern as at 30 September 2019;
 - Details of contingent liabilities as at 30 September 2019 and confirmation that there is no material change in contingent liabilities from 30 September 2019 till report date;
 - Other relevant information.
2. For United Spirits Limited
 - Unaudited financial statements of USL (Standalone and consolidated) for six months ended 30 September 2018 and 30 September 2019;
 - Annual report of USL (standalone and consolidated) and its subsidiaries for the years ended 31 March 2015 to 31 March 2019;
 - Unaudited financial statements of Royal Challengers Sports Private Limited, a wholly-owned subsidiary of USL for six months periods ended 30 September 2018 and 30 September 2019;
 - Provisional financial statements of other subsidiaries for six months ended 30 September 2019;
 - Provision financial statements of Hip Bar Private Limited, a 26% associate company of USL for six months period ended 30 September 2019;
 - Shareholding pattern as at 30 September 2019;
 - Details of contingent liabilities as at 30 September 2019 and confirmation that there is no material change in contingent liabilities from 30 September 2019 till report date;
 - Other relevant information.
3. Draft scheme of merger of PDL into USL.

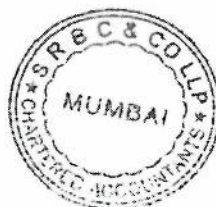
Besides the above listing, there may be other information provided by the Companies which may not have been perused by us in any detail, if not considered relevant for our defined scope.

During the discussions with the management of Companies, we have also obtained explanations and information considered reasonably necessary for our exercise. The Clients have been provided with the opportunity to review the draft report (excluding the recommended fair exchange ratio) as part of our standard practice to make sure that factual inaccuracy/omissions are avoided in our Report.

PROCEDURES ADOPTED AND VALUATION METHODS FOLLOWED

In connection with this exercise, we have adopted the following procedures to carry out the valuation:

- Requested and received financial, operating and qualitative information
- Obtained data available in public domain
- Discussions (in person/over call) with the Management to:
 - Understand the business and fundamental factors that affect its earning-generating capability including strengths, weaknesses, opportunity and threats analysis and historical financial performance
- Undertook Industry Analysis:



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- Research publicly available market data including economic factors and industry trends that may impact the valuation
- Analysis of key trends and valuation multiples of comparable companies/comparable transactions using:
 - Proprietary databases subscribed by us or our network firms
- Selection of internationally accepted valuation methodology/(ies) / ICAI Valuation Standards 2018 issued by Institute of Chartered Accountants of India as considered appropriate by us.



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SCOPE LIMITATIONS, ASSUMPTIONS, QUALIFICATIONS, EXCLUSIONS AND DISCLAIMERS

Provision of valuation opinions and consideration of the issues described herein are areas of our regular practice. The services do not represent accounting, assurance, accounting / tax due diligence, consulting or tax related services that may otherwise be provided by us or our affiliates.

The recommendation contained herein is not intended to represent value at any time other than report date. We have no obligation to update this report.

This Report, its contents and the results herein are specific to (i) the purpose of valuation agreed as per the terms of our engagement; (ii) the Report Date and (iii) are based on the unaudited financial statements of the Companies as at 30 September 2019. We have been informed that the business activities of the Companies have been carried out in the normal and ordinary course between 30 September 2019 and the Report date and that no material changes have occurred in their respective operations and financial position between 30 September 2019 and the Report date.

A valuation of this nature is necessarily based on the prevailing stock market, financial, economic and other conditions in general and industry trends in particular as in effect on and the information made available to us as of, the date hereof. Events occurring after the date hereof may affect this report and the assumptions used in preparing it, and we do not assume any obligation to update, revise or reaffirm this report.

The recommendation rendered in this Report only represent our recommendation based upon information furnished by the Companies and gathered from public domain (and analysis thereon) and the said recommendation shall be considered to be in the nature of non-binding advice. Our recommendation should not be used for advising anybody to take buy or sell decision, for which specific opinion needs to be taken from expert advisors.

The determination of exchange ratio is not a precise science and the conclusions arrived at in many cases will, of necessity, be subjective and dependent on the exercise of individual judgement. In the ultimate analysis, valuation will have to be tempered by the exercise of judicious discretion by the Valuer and judgment taking into accounts all the relevant factors. There is, therefore, no indisputable single exchange ratio. While we have provided our recommendation of the fair exchange ratio based on the information available to us and within the scope and constraints of our engagement, others may have a different opinion as to the fair exchange ratio of the equity shares of PDL and USL. The final responsibility for the determination of the fair exchange ratio at which the Proposed Merger shall take place will be with the Board of Directors of the Companies who should take into account other factors such as their own assessment of the Proposed Merger and input of other advisors.

In the course of the valuation, we were provided with both written and verbal information, including market, financial and operating data as detailed in the section - Sources of Information.

We have not independently audited or otherwise verified the financial information provided to us. Accordingly, we do not express an opinion or offer any form of assurance regarding the truth and fairness of the financial position as indicated in the financial statements. Also, with respect to explanations and information sought from the Clients, we have been given to understand by the Management that they have not omitted any relevant and material factors about the Companies and that they have checked the relevance or materiality of any specific information to the present exercise with us in case of any doubt. Our conclusion is based on the information given by/on behalf of the Companies. The Management has indicated to us that they have understood that any omissions, inaccuracies or misstatements may materially affect our valuation analysis/results.

The Report assumes that the Companies comply fully with relevant laws and regulations applicable in all its areas of operations, and that the Companies will be managed in a competent and responsible manner. Further, this Report has given no consideration to matters of a legal nature, including issues of legal title and compliance with local laws, and litigation and other contingent liabilities that are not



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disclosed in the audited/unaudited balance sheet of the Companies. Our conclusion of value assumes that the assets and liabilities of the Companies, reflected in their respective latest balance sheets remain intact as of the Report date.

PDL's Board approved Revenue and EBITDA considering normative level of business operation, capex required to be incurred to achieve normative level of business operation and year in which normative profits are expected to be achieved have been used in the preparation of the Report reflects judgment of Board of Directors of PDL, based on present circumstances, as to the most likely set of conditions and the course of action it is most likely to take. It is usually the case that some events and circumstances do not occur as expected or are not anticipated. Therefore, actual results during the forecast period will almost always may differ from the forecasts and as such differences may be material.

The report does not address the relative merits of the Proposed Merger as compared with any other alternative business transaction, or other alternatives, or whether or not such alternatives could be achieved or are available.

The fee for the engagement is not contingent upon the results reported.

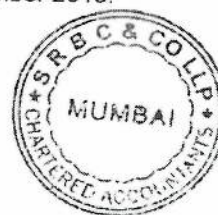
We will not be liable for any losses, claims, damages or liabilities arising out of the actions taken, omissions of or advice given by any other to the Companies. In no event shall we be liable for any loss, damages, cost or expenses arising in any way from fraudulent acts, misrepresentations or willful default on part of the Companies, their directors, employees or agents.

It is understood that this analysis does not represent a fairness opinion. This report is not a substitute for the third party's own due diligence/ appraisal/ enquiries/ independent advice that the third party should undertake for his purpose.

This Report is subject to the laws of India.

Neither the Report nor its contents may be referred to or quoted in any registration statement, prospectus, offering memorandum, annual report, loan agreement or other agreement or document given to third parties, other than in connection with the proposed Scheme of Amalgamation, without our prior written consent. In addition, this report does not in any manner address the prices at which equity shares of the Companies will trade following announcement of the Proposed Merger and we express no opinion or recommendation as to how the shareholders of either company should vote at any shareholders' meeting(s) to be held in connection with the Proposed Merger.

SRBC's appointment was formalized via engagement letter dated 30 November 2019.



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SHAREHOLDING PATTERN**Pioneer Distilleries Limited**

The issued and subscribed equity share capital of PDL as at 30 September 2019 is INR 133.9 million consisting of 13,388,200 equity shares of face value of INR 10 each. The shareholding pattern is as follows:

Shareholding Pattern as on 30 September 2019	No of equity shares	% Shareholding
Promoter & Group	10,041,150	75.0%
Public – Institutions	0	0.0%
Public – Non-Institutions	3,347,050	25.0%
Grand Total	13,388,200	100.0%

Source: BSE

United Spirits Limited

The issued and subscribed equity share capital of USL as at 30 September 2019 is INR 1,453.3 million consisting of 726,638,715 equity shares of face value of INR 2 each. The shareholding pattern is as follows:

Shareholding Pattern as on 30 September 2019	No of equity shares	% Shareholding
Promoter & Group	412,410,600	56.8%
Public – Institutions	207,829,654	28.6%
Public – Non-Institutions and Government	106,398,461	14.6%
Grand Total	726,638,715	100.0%

Source: BSE



Recommendation of fair exchange ratio for the proposed merger of Pioneer Distilleries Limited into United Spirits Limited**APPROACH - BASIS OF MERGER**

The Proposed Scheme of Amalgamation contemplates the merger by absorption of PDL into USL. Arriving at the fair exchange ratio for the Proposed Merger of PDL into USL would require determining the relative value of the equity shares of PDL and USL. These values are to be determined independently, but on a relative basis for the Companies, without considering the effect of the Proposed Merger.

There are several commonly used and accepted methods under the market, income and asset approaches for determining the fair exchange ratio for the Proposed Merger of PDL into USL, which have been considered in the present case, to the extent relevant and applicable, and subject to availability of information, including:

1. Net Asset Value method
2. Discounted Cash Flow method
3. Comparable Companies' Multiples method
4. Market Price method

It should be understood that the valuation of any company or its assets is inherently subjective and is subject to certain uncertainties and contingencies, all of which are difficult to predict and are beyond our control. In performing our analysis, we made numerous assumptions with respect to industry performance and general business and economic conditions, many of which are beyond the control of the Companies. In addition, this valuation will fluctuate with changes in prevailing market conditions, the conditions and prospects, financial and otherwise, of the Companies, and other factors which generally influence the valuation of the Companies.

The application of any particular method of valuation depends on the purpose for which the valuation is done. Although different values may exist for different purposes, it cannot be too strongly emphasized that a valuer can only arrive at one value for one purpose. Our choice of methodology of valuation has been arrived at using usual and conventional methodologies adopted for mergers of a similar nature and our reasonable judgment, in an independent and bona fide manner based on our previous experience of assignments of a similar nature.

Net Asset Value ("NAV") Method

The asset based valuation technique is based on the value of the underlying net assets of the business, either on a book value basis or realizable value basis or replacement cost basis. The Net Asset Value ignores the future return the assets can produce and is calculated using historical accounting data that does not reflect how much the business is worth to someone who may buy or invest in the business as a going concern. This valuation approach is mainly used in case where the firm is to be liquidated i.e. it does not meet the "going concern" criteria or in case where the assets base dominates earnings capability. A scheme of amalgamation would normally be proceeded with, on the assumption that the companies amalgamate as going concerns and an actual realization of the operating assets is not contemplated. The operating assets have therefore been considered at their book values. In a going concern scenario, the relative earning power, as reflected under the Income and Market approaches, is of greater importance to the basis of amalgamation, with the values arrived at on the net asset basis being of limited relevance. Therefore, we have not used the NAV Method for valuation.

Discounted Cash Flows ("DCF") Method

Under the DCF method the projected free cash flows to the equity shareholders are discounted at the cost of equity. The sum of the discounted value of such free cash flows is the value of the firm for equity shareholders.



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Using the DCF analysis involves determining the following:

Estimating future free cash flows:

Free cash flows are the cash flows expected to be generated by the company that are available to the providers of the company's equity capital.

Appropriate discount rate to be applied to cash flows i.e. the cost of equity:

This discount rate, which is applied to the free cash flows, should reflect the opportunity cost to the equity capital providers (namely equity shareholders). The opportunity cost to the equity capital provider equals the rate of return the equity capital provider expects to earn on other investments of equivalent risk.

We were not provided with the projections for both companies by the Management hence we have not used this method for the valuation exercise.

Comparable Companies' Multiples ("CCM") method

Under this method, value of equity shares of a company is arrived at by using multiples derived from valuations of comparable companies, as manifest through stock market valuations of listed companies, and comparable transaction multiples. This valuation is based on the principle that market valuations, taking place between informed buyers and informed sellers, incorporate all factors relevant to valuation. Relevant multiples need to be chosen carefully and adjusted for differences between the circumstances.

We have considered Enterprise value to Earnings before interest, tax, depreciation and amortization (EV/EBITDA) multiple of the comparable listed companies and comparable transactions for the purpose of our valuation. The enterprise value is adjusted for net debt to arrive at the Equity value.

The total equity value is then divided by the total number equity shares for arriving at the value per equity share of the Companies under CCM method.

Market Price Method

The market price of an equity share as quoted on a stock exchange is normally considered as the value of the equity shares of that company where such quotations are arising from the shares being regularly and freely traded in, subject to the element of speculative support that may be inbuilt in the value of the shares. But there could be situations where the value of the share as quoted on the stock market would not be regarded as a proper index of the fair value of the share especially where the market values are fluctuating in a volatile capital market. Further, in the case of a merger, where there is a question of evaluating the shares of one company against those of another, the volume of transactions and the number of shares available for trading on the stock exchange over a reasonable period would have to be of a comparable standard.

In the present case, the equity shares of the Companies are listed on BSE and NSE. In these circumstances, the share price observed on NSE for the respective Companies over a reasonable period have been considered for arriving at the value per equity share of the Companies under the market price method.

MAJOR FACTORS THAT WERE TAKEN INTO ACCOUNT DURING THE VALUATION

- The equity shares of the Companies are frequently traded as per the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018 and Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeover) Regulations 2011 guidelines, as applicable, on a recognized stock exchange (NSE) during the twelve calendar months preceding the Report date.
- Key operating / financial parameters of the Companies vis-à-vis its comparable companies.



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BASIS OF FAIR EXCHANGE RATIO

The basis of the merger of PDL into USL would have to be determined after taking into consideration all the factors and methods mentioned hereinabove. Though different values have been arrived at under each of the above methods, for the purposes of recommending the fair exchange ratio of equity shares it is necessary to arrive at a final value for each of the Companies' shares. It is however important to note that in doing so, we are not attempting to arrive at the absolute equity values of the Companies, but at their relative values to facilitate the determination of the fair exchange ratio. For this purpose, it is necessary to give appropriate weights to the values arrived at under each approaches / methods.

The fair exchange ratio has been arrived at on the basis of a relative equity valuation of the Companies based on the various approaches / methods explained herein earlier and various qualitative factors relevant to each company and the business dynamics and growth potentials of the businesses of the Companies, having regard to information base, key underlying assumptions and limitations.

We have independently applied methods discussed above, as considered appropriate and arrived at value per share of the Companies.

The computation of fair exchange ratio for merger of PDL into USL is tabulated below:

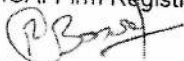
Valuation Approach	USL		PDL	
	Value per equity share (INR)	Weight	Value per equity share (INR)	Weight
Market Approach				
- Market Price Method	624.1	50%	130.9	50%
- Comparable Companies' Multiples Method	613.8	50%	131.6	50%
Income Approach - Discounted Cashflows Method	NA	NA	NA	NA
Asset Approach - Net Asset Value method	47.2	NA	0.0*	NA
Relative Value per Equity Share	618.9		131.2	
Fair Exchange Ratio (Rounded)			4.7	

* Since the value per equity share is negative, it is considered at zero and not shown in the table above

In light of the above, and on a consideration of all the relevant factors and circumstances as discussed and outlined hereinabove, we recommend the following fair exchange ratio for the Proposed Merger of PDL into USL:

10 (Ten) equity shares of USL of INR 2/- each fully paid up for every 47 (Forty-Seven) equity shares of PDL of INR 10/- each fully paid up.

Respectfully submitted,
S R B C & CO LLP
Chartered Accountants
ICAI Firm Registration Number: 324982E/ E300003



Ravi Bansal
Partner

Membership No: 049365

UDIN: 19049365AAAA

Date: 2 December 2019

Place: Mumbai

