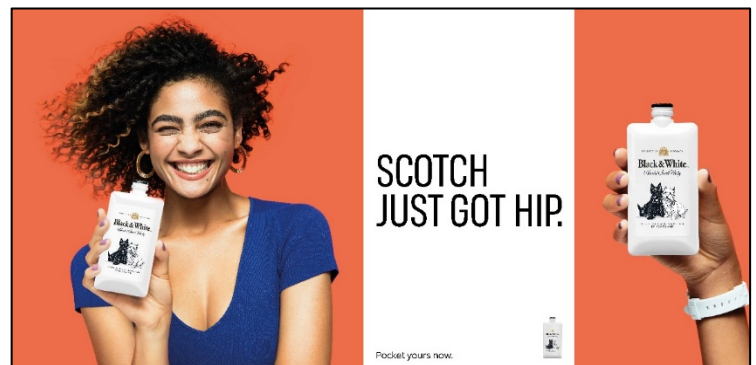


# UNITED SPIRITS LIMITED

## PRESS RELEASE

Unaudited financial results for the quarter and nine months ended 31 December 2019  
(Standalone only)



**PAT grew 35% during the quarter**
**Third quarter performance highlights:**

- Net sales grew 3%; exhibiting an improving trend over the previous quarter, but still impacted by the broader consumption slowdown.
- Prestige & Above segment net sales grew 8%, albeit on a high comparative.
- Popular segment net sales declined 5% overall, led by a decline of 4% in priority states.
- Gross margin was 44.4%, down 421bps versus last year, primarily due to the adverse impact of COGS inflation.
- Reported EBITDA was Rs. 424 Crores, up 18%. Despite significant gross margin compression, EBITDA margin was 16.4%, up 207bps, primarily delivered through savings in operating costs and to a lesser extent by a lower marketing reinvestment rate.
- Interest costs were Rs. 46 Crores, 21% lower than last year.
- Profit after tax was Rs. 259 Crores, up 35%; PAT margin was 10.0%, up 232bps.

**Nine months performance highlights:**

- Reported net sales grew 5%; underlying net sales excluding the one-off benefit from bulk Scotch sale grew 3%, primarily impacted by general elections in the first quarter and thereafter by consumption slowdown combined with liquidity tightness in the trade channel, notwithstanding a high comparative last year.
- Prestige & Above segment net sales grew 6%, lapping a high comparative of last year.
- Popular segment reported net sales declined 2%. Underlying net sales excluding the impact of operating model changes declined 1%. Net sales of Popular segment in priority states were flat.
- Gross margin was 45.5%, down 413bps versus last year, primarily due to significant COGS inflation. After adjusting for the bulk Scotch sale, underlying gross margin was 45.4%, down 426bps.
- Reported EBITDA was Rs. 1235 Crores, up 23%; reported EBITDA margin was 17.4%, up 248bps despite significantly lower gross margin; delivered mainly through savings in operating costs and to a lesser extent by lower reinvestment rate. After adjusting for the one-off impact of bulk Scotch sale and restructuring costs, underlying EBITDA increased by 11% and underlying EBITDA margin was 16.6%, higher by 118bps.
- Interest costs were Rs. 143 Crores, 11% lower than last year, mainly due to lower debt.
- Profit after tax was Rs. 681 Crores, up 28%; PAT margin was 9.6%, up 168bps.

**Anand Kripalu, CEO, commenting on the quarter and nine months ended 31 December 2019 said:**

"We saw a sequential improvement in the current quarter with overall sales growing 3%, led by our Prestige and Above portfolio growth of 8%, even as the broader consumption slowdown continued to weigh on the overall business.

We are particularly encouraged to see some momentum in our Prestige and Above portfolio, a sharp improvement from the previous quarter, when the segment hadn't grown, in part due to our internal operational challenges. Additionally, during the quarter, we saw a return of premiumisation trend, with each sub-segment growing faster than the one beneath it, and especially with our Scotch brands showing strong growth.

During the third quarter, we continued to experience substantial inflation in our key raw material costs. While this resulted in significant compression in gross margin, we still delivered an EBITDA margin of 16.4%, up 207bps. More importantly, we also delivered an EBITDA margin expansion during the first nine months of this fiscal year, underlining our ability to manage all lines of the P&L to deliver margin.

The marketing reinvestment rate for the quarter was 9.7%, bringing the reinvestment rate for this fiscal to 8.4%, within our guided range for the year.

Overall, we delivered a PAT of Rs. 259 crores during the quarter, up 35%. The PAT for the first nine months of the year came in at Rs. 681 crores, up 28%.

We are optimistic that the economy will gradually recover, and with that the business should bounce back more strongly. We remain committed to our medium-term ambition of growing the top line by double digits and to improve EBITDA margin to mid-high teens"

## KEY FINANCIAL INFORMATION

For the nine months ended 31 December 2019

### Summary financial information

		F20 P9 YTD	F19 P9 YTD	Movement %
<b>Volume</b>	<i>EUm</i>	<b>61.5</b>	60.5	2
<b>Net sales</b>	<i>Rs. Crores</i>	<b>7,097</b>	6,731	5
COGS	<i>Rs. Crores</i>	<b>(3,869)</b>	(3,391)	14
<b>Gross profit</b>	<i>Rs. Crores</i>	<b>3,228<sup>1</sup></b>	3,340	(3)
Staff cost	<i>Rs. Crores</i>	<b>(411)<sup>2</sup></b>	(505) <sup>2</sup>	(19)
Marketing spend	<i>Rs. Crores</i>	<b>(595)</b>	(679)	(12)
Other Overheads	<i>Rs. Crores</i>	<b>(987)</b>	(1,152)	(14)
<b>EBITDA</b>	<i>Rs. Crores</i>	<b>1,235</b>	1,004	23
Other Income	<i>Rs. Crores</i>	<b>41</b>	83	(50)
Depreciation	<i>Rs. Crores</i>	<b>(160)</b>	(104)	53
<b>EBIT</b>	<i>Rs. Crores</i>	<b>1,116</b>	983	14
Interest	<i>Rs. Crores</i>	<b>(143)</b>	(160)	(11)
<b>PBT before exceptional items</b>	<i>Rs. Crores</i>	<b>974</b>	823	18
Exceptional items	<i>Rs. Crores</i>	<b>-</b>	(20)	N.A.
<b>PBT</b>	<i>Rs. Crores</i>	<b>974</b>	803	21
Tax	<i>Rs. Crores</i>	<b>(293)</b>	(271)	8
<b>PAT</b>	<i>Rs. Crores</i>	<b>681</b>	532	28

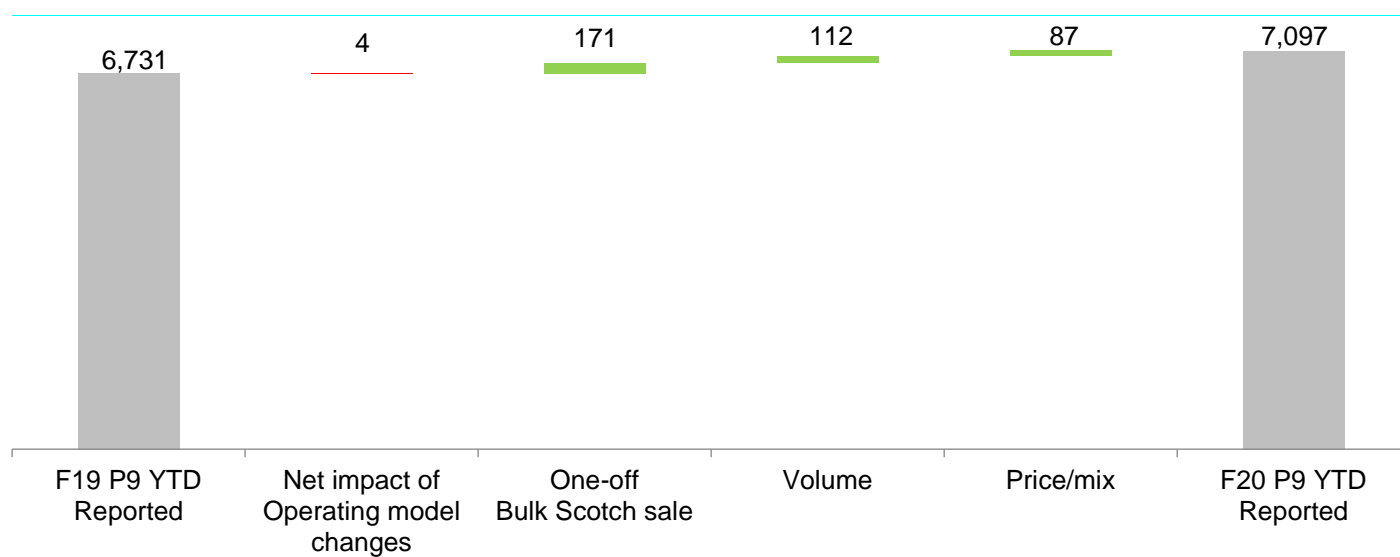
#### Key performance indicators as a % of net sales (reported):

		F20 P9 YTD	F19 P9 YTD	Movement bps
Gross profit	%	<b>45.5</b>	49.6	(413)
Staff cost	%	<b>5.8</b>	7.5	171
Marketing spend	%	<b>8.4</b>	10.1	170
Other Overheads	%	<b>13.9</b>	17.1	320
EBITDA	%	<b>17.4</b>	14.9	248
PAT	%	<b>9.6</b>	7.9	168
Basic earnings per share	<i>rupees</i>	<b>9.4</b>	7.3	2.0rupees
Earnings per share before exceptional items	<i>rupees</i>	<b>9.4</b>	7.5	1.9rupees

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

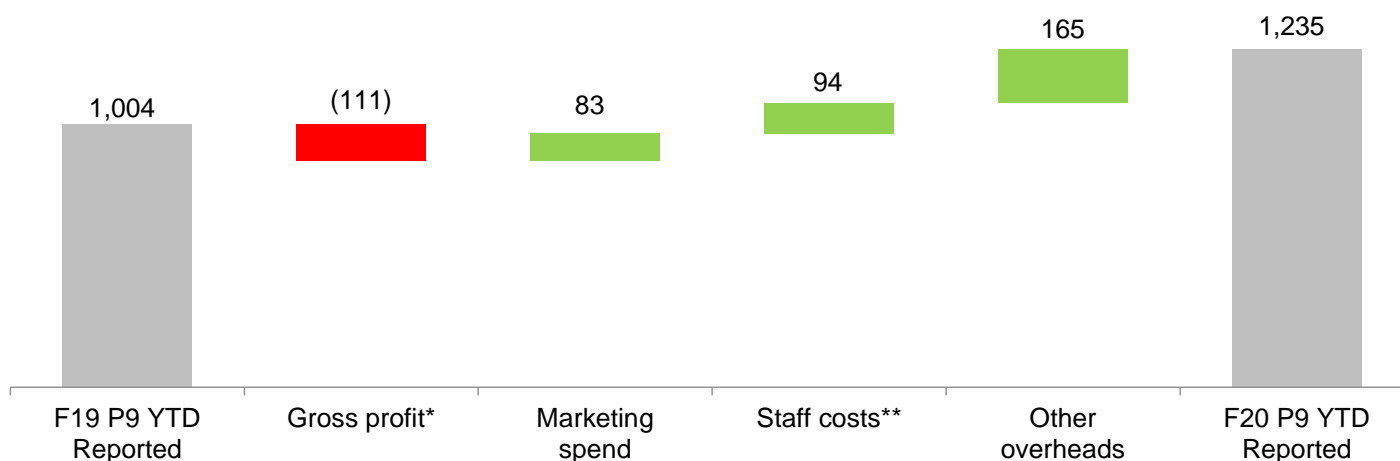
<sup>1</sup> Includes a one-off impact of Rs. 84 cr. from sale of bulk Scotch.

<sup>2</sup> Staff cost include a one-off restructuring cost of Rs 36 cr. in F19Q1 and Rs 2 cr. in F20Q1.

**Net sales (Rs. Crores)**


Reported net sales in the first nine months of the financial year grew 5%, primarily impacted by general elections in the first quarter and thereafter by consumption slowdown that was further aggravated by liquidity tightness in the trade channel in certain markets. Excluding the one-off benefit from sale of bulk Scotch inventory, underlying net sales grew 3%. Net Sales of Prestige & Above segment grew 6% while net sales of Popular segment declined 1% after adjusting for the operating model changes.

During this period, overall volume grew 2% with the Prestige & Above volume growth of 5% offsetting Popular segment volume decline of 1%. Underlying price/mix for the first nine months was 1%, mainly due to part-absorption of Excise Duty hike in Maharashtra and adverse mix caused by temporary supply chain issues in the second quarter and ongoing trade-liquidity challenges.

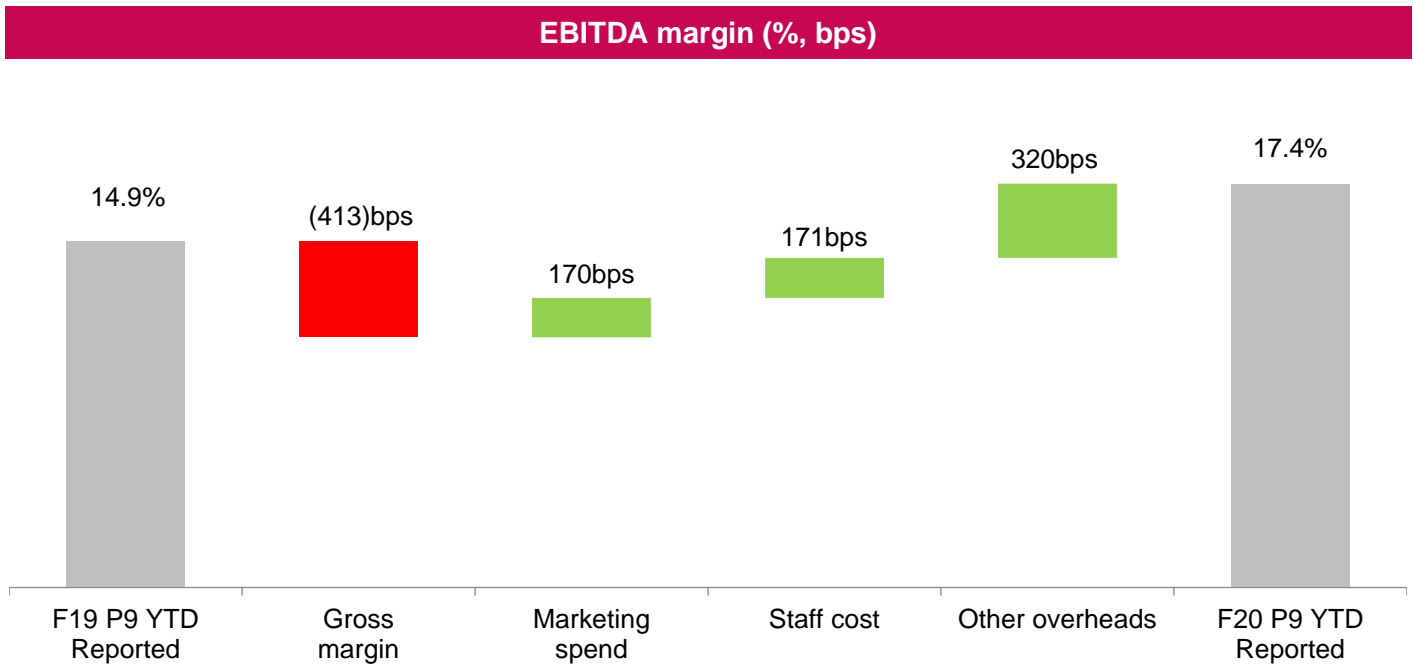
**EBITDA (Rs. Crores)**


Reported EBITDA was Rs. 1235 Crores for the first nine months of the year, up 23%. Excluding the one-off bulk Scotch sale in F20 and one-off restructuring costs in F19, underlying EBITDA increased 11%. This was despite a Gross profit decline of Rs. 111 Crores during this period, primarily driven by significant COGS inflation.

Enhanced operating efficiencies resulted in savings in staff costs and other overheads that contributed to EBITDA growth. Additionally, lower marketing investment also contributed towards higher EBITDA; even as the reinvestment rate for the first nine months was within the guided range for the full year.

\* For 9MF20 Gross profit includes Rs. 84 crores resulting from bulk Scotch sale. Excluding that, gross profit would have decreased by Rs. 196 crores during the first nine months of the year primarily driven by 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. 60 crores.



Reported EBITDA margin of 17.4% improved by 248bps. Underlying EBITDA margin, excluding the one-off benefit from bulk Scotch sale and adjusted for one-off restructuring costs was 16.6%, up 118bps, despite significant compression in gross margin.

Reported gross margin contracted by 413bps, primarily impacted by significant COGS inflation. Persistent efforts towards cost management and driving operating efficiencies resulted in savings in staff costs, which contributed 171bps to EBITDA margin improvement and other overheads, which contributed an additional 320bps. Finally, lower A&P reinvestment rate contributed another 170bps, even though the reinvestment rate for the first nine months was 8.4%, in line with our earlier guidance.

## SEGMENT AND BRAND REVIEW

For the quarter and nine months ended 31 December 2019

### Key segments:

#### For the nine months ended 31 December 2019

	Volume				Net Sales			
	F20 9M Reported EUM	F19 9M Reported EUM	Reported movement %	Underlying movement %	F20 9M Reported Rs. Cr.	F19 9M Reported Rs. Cr.	Reported movement %	Underlying movement %
P&A	32.5	31.1	5	5	4,713	4,466	6	6
Popular	29.0	29.4	(1)	(1)	2,082	2,116	(2)	(1) <sup>1</sup>
Other	-	-	-	-	302 <sup>2</sup>	148	104	(12)
<b>TOTAL</b>	<b>61.5</b>	<b>60.5</b>	<b>2</b>	<b>2</b>	<b>7,097</b>	<b>6,731</b>	<b>5</b>	<b>3</b>

<sup>1</sup> Underlying movement adjusts for the impact of operating model changes in the Popular segment

<sup>2</sup> Includes bulk Scotch sale of Rs. 171 cr.

#### For the quarter ended 31 December 2019

	Volume			Net Sales		
	F20 Q3 Reported EUM	F19 Q3 Reported EUM	Movement %	F20 Q3 Reported Rs. Cr.	F19 Q3 Reported Rs. Cr.	Movement %
P&A	11.4	11.1	3	1,788	1,651	8
Popular	10.1	10.8	(6)	737	776	(5)
Other	-	-	-	57	70	(18)
<b>TOTAL</b>	<b>21.5</b>	<b>21.9</b>	<b>(2)</b>	<b>2,583</b>	<b>2,497</b>	<b>3</b>

- The **Prestige & Above segment** accounted for 66% of net sales during the first nine months of the year, flat 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.

During the third quarter, Prestige & Above segment net sales grew 8%, on a high comparative of last year, a sharp improvement from the previous quarter when the segment didn't register any growth. This quarter saw a return of premiumisation trend within the segment that we had been seeing before it got disrupted in the previous quarter.

Withing the segment, our Scotch portfolio, including both Bottled in Origin (BIO) as well as Bottled in India (BII) brands, grew much faster than the overall Prestige & Above portfolio.

- The **Popular segment** accounted for 29% of net sales during the first nine months 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 30% of net sales, down 2 ppts versus last year.

During the quarter, Popular segment net sales declined 5% overall, led by a decline of 4% in Priority states.

**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.

**Investor enquiries to:** Nidhi Verma +91 97 6940 1515

[Nidhi.Verma@diageo.com](mailto:Nidhi.Verma@diageo.com)

**Media enquiries to:** Charlotte Rodrigues +91 99 8726 5110

[Charlotte.rodrigues@diageo.com](mailto:Charlotte.rodrigues@diageo.com)

## 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 January 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 January 2020 at [www.diageoindia.com](http://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.



Or Copy this URL in your browser:

<https://services.choruscall.in/DiamondPassRegistration/register?confirmationNumber=105483&linkSecurityString=342a6083>

#### 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.

<b>Universal Dial In</b>	+91 22 6280 1250
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<b>Local DialIn</b>	
Available all over India	+91-7045671221

#### International Toll Free

Hong Kong	800964448
Singapore	8001012045
UK	08081011573
USA	18667462133

#### International Toll

Hong Kong	85230186877
Singapore	6531575746
UK	442034785524
USA	13233868721