UNITED SPIRITS
A DIAGEO Group Company

Press Release

Unaudited financial results for the quarter and nine months ended 31 December 2016

(Standalone only)

Net sales up 6%, PAT up 129% in the nine months

- **Net sales growth of 3% in the third quarter slowed down due to de-monetization; Net sales growth of 6% in the nine months**
- **Prestige & Above segment net sales up 12% with 6ppts positive price/mix in the third quarter. Net sales growth of 16% with 7ppts positive price/mix in the nine months**
- **Popular segment net sales declined 6% in the third quarter and declined 5% in the nine months impacted by the Bihar prohibition. Priority states grew volumes and net sales in the segment**
- **Gross margin of 42.9%, up 262bps in the third quarter driven by positive price/mix and productivity initiatives; Gross margin of 42.9% in the nine months, up 152bps**
- **Marketing investment up 6% in the third quarter and 16% in the nine months**
- **EBITDA Rs. 294 Crore, up 10% in the third quarter driven by top line growth and lower staff costs. EBITDA Rs. 700 Crore, down 9% in the nine months driven by increased marketing investment, additional tax levies and one off impact. Underlying EBIDTA was flat excluding the one off impact**
- **EBITDA margin of 11.8% in third quarter, up 74bps driven by gross margin improvement and lower staff costs. EBITDA margin of 10.6% in the nine months, down 180bps, driven by increased marketing investment, additional tax levies and one off impact. Underlying EBITDA margin of 12.3% in the third quarter and 11.6% in the nine months excluding one off impact**
- **Interest cost Rs. 92 Crore in the third quarter lower by 14% and Rs. 284 Crore in the nine months lower by 18% driven by both debt reduction and favourable rates**
- **Profit after tax Rs. 148 Crore, up 296% in the third quarter and Rs. 274 Crore, up 129% in the nine months**

Anand Kripalu, CEO, commenting on the nine months ended 31 December 2016 said:

"We have delivered a strong net sales growth of 6% despite the subdued economic environment in the third quarter due to de-monetization. Althought our third quarter net sales growth of 3% has been directly impacted by de-monetization, I am pleased that we have been able to manage through this period better than our initial expectations. This growth was underpinned by our continued focus on premiumisation, increased investments behind our power brands and our selective participation in popular.

The Prestige & Above segment performance remained robust and grew net sales by 16% fuelled by our renovation and premiumisation strategy and has remained at double digits through this challenging quarter. Momentum continued on **Signature** post renovation with net sales up 31%. **McDowell's No.1** whisky brands (excluding Platinum) grew net sales by 11% and **Royal Challenge** grew net sales 23% post renovation.

In line with our strategy to selectively participate in the popular segment we have entered into agreements to franchise selected Popular brands in Andhra Pradesh, Puducherry, Goa, Andaman and Nicobar and Kerala effective from January. These changes were made to further improve our operating model and focus our business on the biggest growth opportunities.

Continued focus on premiumisation, price increases in select states and productivity initiatives helped us to offset inflation and led to 152bps improvement in gross margin. We have delivered underlying EBITDA margin of 11.6% excluding one off impact which is in line with our expectation.

Our focus on interest cost reduction, coupled with lower tax cost and exceptional items resulted in a robust PAT growth of 129%. Improvements in our overall financial position has led to a further upgrade in our long term credit rating from A+ to AA with positive outlook, which will enable us to further decrease interest costs in the future periods.

However, we continue to face challenges in the regulatory environment in certain states. Tax and excise changes in Maharashtra, West Bengal and Telangana have led to sharp consumer price increases and the route to market changes in Punjab continues to impact performance. Although we expect the impact of de-monetization to abate as we move into the next quarter, the recent Supreme Court judgement on liquor outlets near highways remains a risk and adds some uncertainty for the future periods.

The overall results are very pleasing, especially in the current enviornment and gives me confidence that we are making the right choices and decisions to drive sustained growth and performance in the coming years."

KEY FINANCIAL INFORMATION

For the quarter and nine months ended 31 December 2016

Financial information summary (Rs. Crores)

	F17 P9 YTD	F16 P9 YTD	Growth %
Net sales	**6,583**	6,205	6
COGS	**(3,760)**	(3,638)	(3)
Gross profit	**2,823**	2,567	10
Staff cost	**(546)**	(501)	(9)
Marketing spend	**(502)**	(434)	(16)
Other Overheads	**(1,075)**	(861)	(25)
EBITDA	**700**	771	(9)
Exchange / Other Income	**85**	16	422
Depreciation	**(91)**	(75)	(21)
EBIT	**694**	713	(3)
Interest	**(284)**	(346)	18
PBT before exceptional items	**411**	366	12
Exceptional items	**(18)**	(97)	82
PBT	**393**	269	46
Tax	**(119)**	(149)	(20)
PAT	**274**	120	129
Other comprehensive income	**(9)**	16	(152)
Total comprehensive income/(loss)	**265**	136	95

Key performance indicators as a % of net sales:

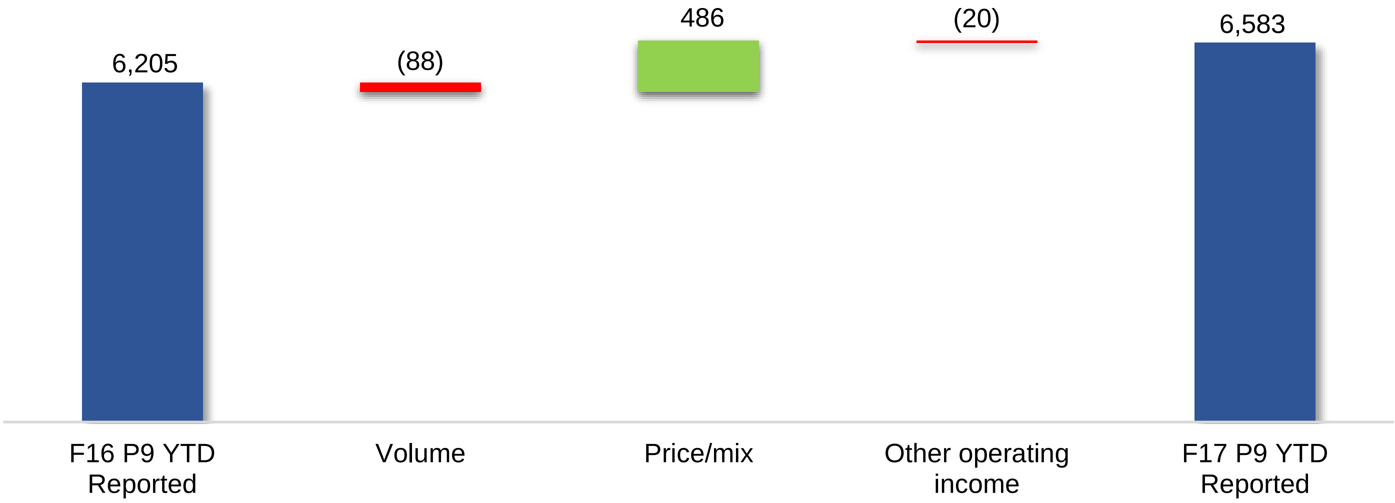
	F17 P9 YTD %	F16 P9 YTD %	Movement bps
Gross profit	**42.9**	41.4	152
Staff cost	**8.3**	8.1	(23)
Marketing spend	**7.6**	7.0	(64)
Other Overheads	**16.3**	13.9	(245)
EBITDA	**10.6**	12.4	(180)

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

Pursuant to the Companies (Indian Accounting Standards) Rules 2015 (Ind AS) issued by the Ministry of Corporate Affairs (MCA), United Spirits Limited ("the Company" or "USL") has restated the financial results for the quarter ended June 30,2015, six months ended September 30, 2015, nine months ended December 31, 2015, year ended March 31, 2016 in accordance with the requirements of Indian Accounting Standards (Ind AS) ("Results") and released the restated financial results to the stock exchanges on October 12, 2016.

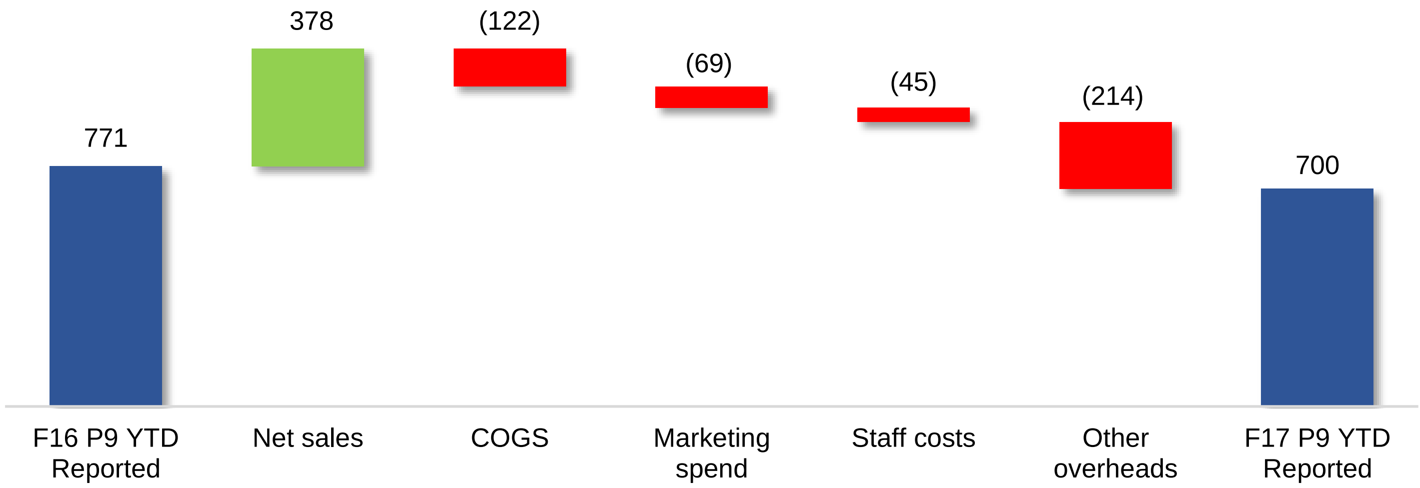
Cash flow and net debt analysis will be disclosed only in the half year and full year results.

Net sales growth in the nine months (Rs. Crores)



Net sales were up 6% despite subdued economic environment due to the de-monetization of high value notes in the third quarter. Volume decline was driven by mainly the popular segment. Priority states grew both volumes and net sales in the popular segment. Bihar prohibition also negatively impacted both volume and overall net sales by 2 ppts. Positive price/mix was driven by continued focus on premiumisation and brand renovation in the Prestige & Above segment. Net price increase in Karnataka and the price increase in Maharashtra to offset the Local Body Tax (LBT) also positively impacted net sales (the cost of LBT has been accounted as part of other overheads). Decline in other operating income was driven mainly by the provision write back of Rs. 11 Crore last year.

EBITDA growth in the nine months (Rs. Crores)



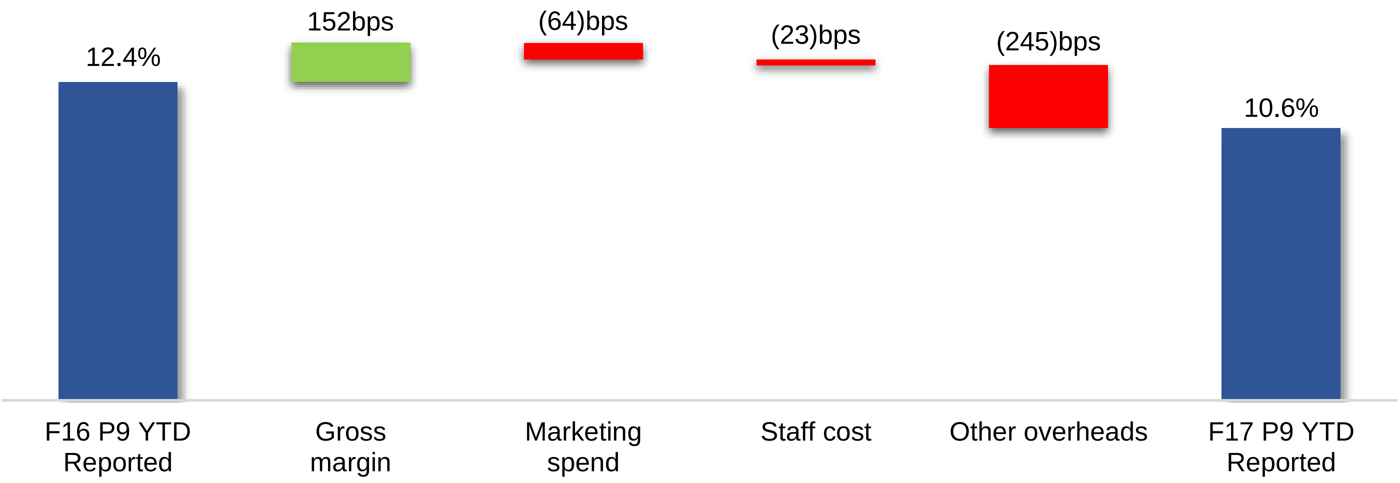
EBITDA was down 9%. Strong performance of the Prestige & Above segment has led to Rs. 256 Crores incremental gross profit. Marketing spend increased by 16% ahead of top line growth following lower investments last year.

Staff cost increased by 9% negatively impacted by one off restructuring costs and inflation. The benefit of organisational changes in the first half have started to positively impact staff cost in the third quarter.

Other overheads were negatively impacted by both one off costs, investments and incremental costs. One off impact includes the Bihar inventory provision of Rs. 17 Crores in the first quarter, net impact of provision adjustments of Rs. 8 Crores (in the previous year) and other costs relating to organisational changes (Rs. 18 Crores). Additional levies and taxes (LBT in Maharashtra and other indirect taxes) had a negative impact of circa Rs. 100 Crores. Strategic investments behind systems and capabilities and inflation also negatively impacted other overheads.

Excluding the one off impact underlying EBITDA was flat compared to last year.

Change in EBITDA margin in the nine months (%, bps)



EBITDA margin was 10.6%, down 180bps compared to last year. Gross margin improvement was driven by positive price/mix fuelled by price increases in select states, strong performance of the Prestige & Above segment and productivity initiatives.

Investments behind our brands increased compared to last year and negatively impacted margin.

One off restructuring and inflation in staff costs negatively impacted margin by 23bps. One off impact in other overheads negatively impacted margin by circa 50bps. Additional levies and taxes in other overheads lowered margin by circa 150bps and inflation also had a negative impact.

Excluding the one off impact underlying EBITDA margin of 11.6% declined 74bps driven by higher marketing investments and additional taxes and levies.

Segment and brand review

The **Prestige & Above segment** represents 41% of total volumes and 58% of total net sales, up 4ppts and 5ppts respectively compared to last year. Strong net sales growth of 12% in the third quarter with 6ppts positive price/mix despite lower consumer spending due to de-monetization. Net sales growth of 16% with 7ppts positive price/mix in the nine months.

- Strong performance of **Signature** led by successful renovation continued in the third quarter and grew volume 44% and net sales 51% which resulted an overall volume growth of 24% and net sales growth of 31% in the nine months.
- **McDowell's No 1. whisky** variants (excluding Platinum) volume grew 8% and net sales 11% in the nine months driven by successful renovation strategy.
- **Royal Challenge** net sales grew 12% in the third quarter despite lapping a strong growth following the re-launch in 2014. Volume grew 20% and net sales 23% in the nine months.
- **Antiquity Blue** grew volume 7% and net sales 12% in the nine months.
- Our innovation pipeline has created new offering(s) in the segment with the launch of **McDowell's No.1 "Silk"**, **Royal Challenge "Bolt"** and a new variant of **Captain Morgan "Original Rum",** which will help attract new consumers and drive future growth.

The **Popular segment** represents 59% of total volumes and 42% of total net sales, down 4ppts and 5ppts respectively compared to last year. The total popular segment declined volume 7% and net sales 5%. Bihar prohibition negatively impacted net sales by 3 ppts. The Popular segment in the priority states grew volume 3% and net sales 6% driven by McDowell's No 1. Rum, Bagpiper, Director's Special and Haywards.

Appendix

Volume by segments (EU million)

	F17 P9 YTD	F16 P9 YTD	*% chg.*	F17 H1	F16 H1	*% chg.*	F17 Q1	F16 Q1	*% chg.*
Prestige and Above	28.3	26.1	*9*	18.2	16.4	*11*	9.3	8.4	*11*
Popular	40.4	43.7	*(7)*	26.0	27.6	*(6)*	12.9	13.8	*(7)*
Total*	**68.8**	**69.8**	***(1)***	**44.2**	**44.1**	**-**	**22.2**	**22.2**	**-**

**The volume analysis above excludes royalty and franchise volumes. (prior year restated for like for like comparison)*

United Spirits Limited announces operation model changes

United Spirits Limited has entered into agreements to franchise selected, mainly Popular segment brands in Andhra Pradesh, Union Territory of Puducherry, Goa, Union Territory of Andaman and Nicobar and has moved to a complete franchise agreement for all USL brands in Kerala. The individual agreements are for between 3 to 5 years and are effective from January 2017.

The franchisees will be responsible for manufacturing and distribution of the franchised brands in their respective states on payment of an agreed royalty fee which will be accounted as part of net sales.

Volume and net sales for these franchised brands accounted for 7.4 million cases and circa Rs. 480 Crores net sales in the year ended 31 March 2016 and 4.0 million cases and circa Rs. 280 Crores in the nine months ended 31 December 2016. The annualized income from royalty fees from these brands is forecasted to be circa. Rs. 100 Crores.

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, anticipated cost savings or synergies, expected investments, the completion of United Spirits Limited'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 United Spirits Limited's control. United Spirits Limited 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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Conference call and live Q&A session

United Spirits Limited will release its F17 Q3 unaudited financial results for the quarter and nine months ended 31 December 2016 on **Saturday 21 January 2017**. Press release will be available to download from http://unitedspirits.in/.

Live Q&A Session

Anand Kripalu, Managing Director and Chief Executive Officer, and Sanjeev Churiwala, Chief Financial Officer will be hosting a Q&A session on **Monday 23 January 2017 at 10:30 am** (IST time).

If you would like to join to the Q&A session please use the below dial in details.

Conference Dial in Information

Click here for your DiamondPass™

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http://services.choruscall.in/diamondpass/registration?confirmationNumber=0714370
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