DIAGEO
INDIA

UNITED SPIRITS LIMITED

PRESS RELEASE

Unaudited financial results for the quarter and six months ended 30 September 2020

(Standalone only)

While 'progressive improvement' seen in external environment over the course of second quarter, first half performance is impacted by Covid-19 pandemic

Second quarter performance highlights:

- Reported net sales declined 6.6%, a sequential improvement from Q1 driven by strong off-trade resilience, offset by the on-trade remaining largely shut and the contraction of owned and franchise business in Andhra Pradesh (AP). Underlying net sales declined 3.4% after adjusting for the one-off benefit of bulk Scotch sales last year.
- Prestige & Above segment net sales grew 1%.
- Popular segment net sales declined 12.5% versus last year with priority states declining at 10%. Increased consumer prices impacted demand in this price conscious segment and unfavourable State mix further contributed to the decline.
- Gross margin was 42.1% down 284bps on reported basis, primarily driven by contraction of business in Andhra Pradesh which resulted in a one-off inventory provision and a decline in the South franchise business. Removing the one-off inventory provision, effective gross margin for the quarter was 43.2%.
- Reported EBITDA was Rs. 270 Crores, down 35.1%. Reported EBITDA margin was 12.6%, down 553bps primarily driven by a higher A&P investment rate to support national renovation roll-out of two core brands, McDowell's No.1 Whisky and Royal Challenge Whisky, and lower fixed cost absorption. Underlying EBITDA decline was down 497bps. Removing the impact of the one-off inventory provision, EBITDA margin for the quarter was 14.5%.
- Interest costs were Rs. 51 Crores, 12% higher than last year due to one-off reversals in the prior year and increase in non-debt related interest expenditure.
- Profit after tax was Rs. 128 Crores, down 43%.

First half performance highlights:

- Reported net sales declined 29.7%; with marked improvement seen sequentially in second quarter vs Q1FY21.
- Prestige & Above segment net sales declined 25%.
- Popular segment net sales declined 31% and priority states were down by 27%.
- Gross margin was 42.0%, down 415bps versus last year, primarily due to contraction of owned and franchise business in AP and resulted impact on South franchise business, lower fixed cost absorption and obsolete inventory provisions.
- Underlying A&P re-investment rate of 7.4% was lower 52bps over prior year. The absolute 32% decline reflects restricted activities in Q1 during the peak of the lock-down.
- Reported EBITDA was Rs. 192 Crores, down 76%. Reported EBITDA margin was 6.0%, down 1191bps due to negative impact of fixed cost de-leverage. After adjusting for the one-off impact of bulk Scotch sale and restructuring costs, underlying EBITDA declined 74%.
- Interest costs was Rs.101 Crores.
- Profit after tax was Rs. (87) Crores (net loss).

Anand Kripalu, CEO, commenting on the quarter and six months ended 30 September 2020 said:

"The underlying revenue decline of 3.4% in the second quarter is ahead of expectations and reflects the resilience of our category, notwithstanding prolonged on-trade closures, the route to market change in Andhra Pradesh and high taxation led price increases post Covid-19. The agility of our supply chain team provided a fast start post lockdown and the renovation of our two core brands supported the top-line recovery.

Prestige & Above segment net sales grew 1% in Q2, backed by strong momentum in our Scotch portfolio, driven by improved relative price positioning in key markets as well as lapping softer comparatives.

The A&P reinvestment rate of 8.6% in Q2, up from 5.0% in Q1, reflected our conscious choice to re-energize demand. Underlying EBITDA margin for the quarter excluding the one-off inventory provision was 14.5% and we delivered a PAT of Rs. 128 Crores.

Our "Raising the Bar" initiative is testimony to Diageo's commitment to the bar and restaurant community. This will provide unequivocal support to our on-trade partners, helping them to safely welcome back consumers during these challenging times.

First half performance has been primarily impacted by initial Covid-19 led lockdown driven challenges in Q1 and lower fixed cost absorption. Contraction of owned and franchise business in AP due to the RTM change further impacted performance adversely. Notwithstanding the satisfactory second quarter performance, our net sales in the first half declined 27%, EBITDA margin contracted to 6% with a net loss of Rs. 87 Crores. Operating cash flow remained strong which facilitated Rs 780 Crores of debt repayment during the first half of FY 2020-21.

Looking ahead, we remain cautiously optimistic with the gradual re-opening of on-premise and the ensuing festive season, recognising that safety and social distancing norms could impact demand versus prior years. Due to unprecedented variability in the macro environment brought on by Covid-19, the company is unable to provide quantitative guidance for fiscal 2021. Our business fundamentals and our financial position is strong allowing us to navigate this pandemic as circumstances evolve."

KEY FINANCIAL INFORMATION

For the six months ended 30 September 2020

Summary financial information

		F21 H1	F20 H1	Movement %
Volume	*EUm*	**30**	**40**	**(26)**
Net sales	*Rs. Crores*	**3,176**	**4,515**[1]	**(30)**
COGS	*Rs. Crores*	(1,843)	(2,432)	(24)
Gross profit	*Rs. Crores*	**1,333**	**2,082**[2]	**(36)**
Staff cost	*Rs. Crores*	(260)	(277)[3]	(6)
Marketing spend	*Rs. Crores*	(235)	(344)	(32)
Other Overheads	*Rs. Crores*	(646)	(650)	(1)
EBITDA	*Rs. Crores*	**192**	**811**	**(76)**
Other Income	*Rs. Crores*	22	24	(6)
Depreciation	*Rs. Crores*	(121)	(107)[4]	13
EBIT	*Rs. Crores*	**93**	**727**	**(87)**
Interest	*Rs. Crores*	(101)	(97)	3
PBT before exceptional items	*Rs. Crores*	**(7)**	**630**	**(101)**
Exceptional items	*Rs. Crores*	(75)	-	
PBT	*Rs. Crores*	**(82)**	**630**	**(113)**
Tax	*Rs. Crores*	(5)	(208)	(96)
PAT	*Rs. Crores*	**(87)**	**422**	**(121)**

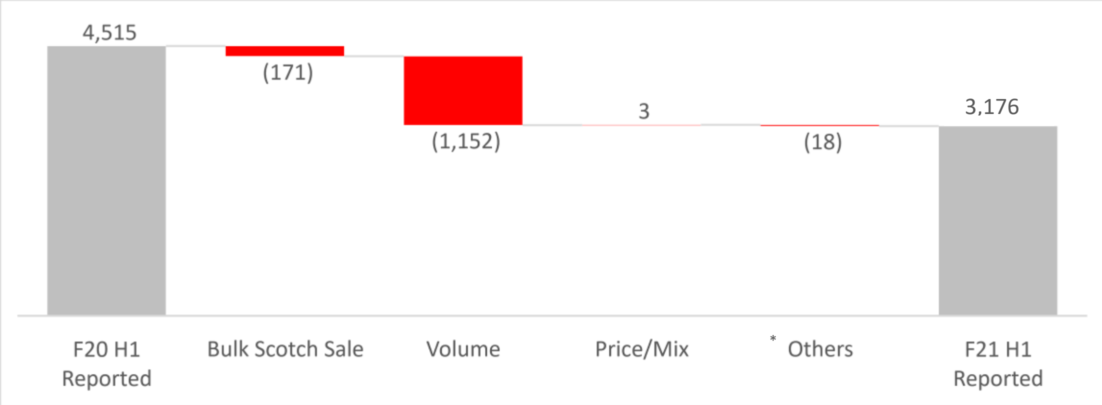
Key performance indicators as a % of net sales (reported):

		F20 H1	F19 H1	Movement Bps
Gross profit	*%*	42.0	46.1	(415)
Staff cost	*%*	8.2	6.1	206
Marketing spend	*%*	7.4	7.6	(22)
Other Overheads	*%*	20.3	14.4	592
EBITDA	*%*	6.0	18.0[5]	(1,191)
PAT	*%*	(2.7)	9.3	(1,209)
Basic earnings per share	*rupees*	(1.2)	5.8	(7.0)
Earnings per share before exceptional items	*rupees*	(0.1)	8.7	(8.8)

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

[1] Includes a one-time bulk Scotch sale of Rs. 171 Crores
[2] Includes a one-time Gross Profit from bulk Scotch sale of Rs. 84 Crores
[3] Includes a one time restructing cost of Rs. 2 Crores
[4] Includes a one time depreciation charge of Rs. 2 Crores
[5] Underlyign EBITDA margin, net of one-off bulk Scotch sale was 16.8%

Net sales (Rs. Crores)

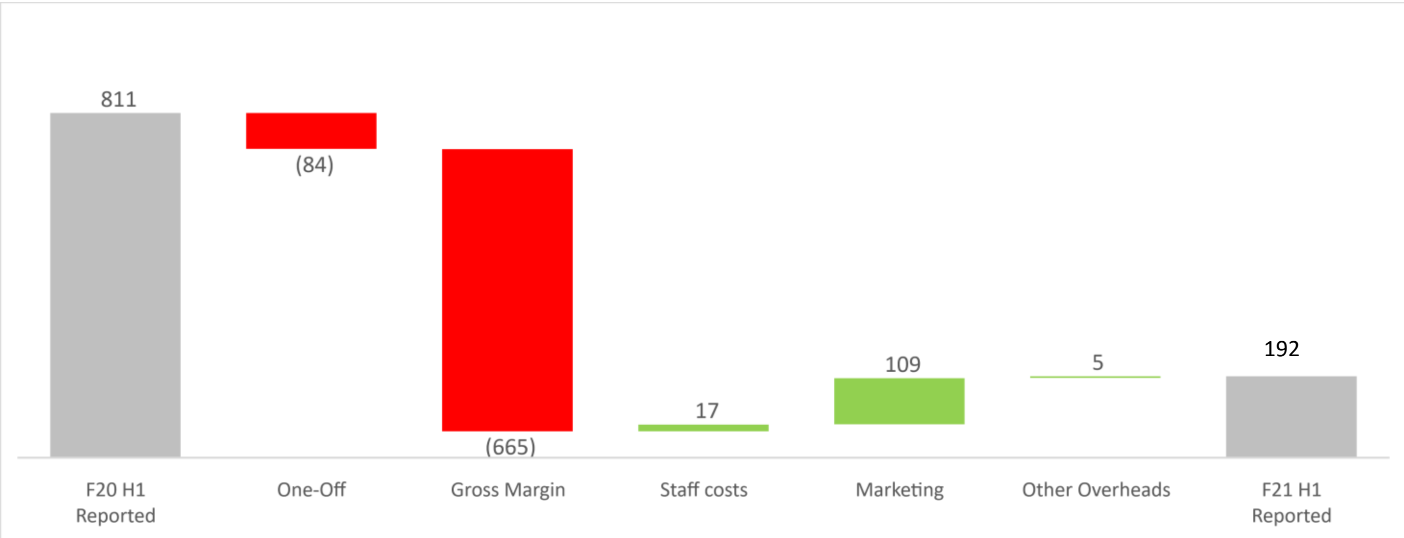


* Others include primarily non IMFL sale

Reported net sales in the first six months of the financial year declined 29.7%, impacted by initial nation-wide lockdown and slowing sales growth thereafter due to confinement and physical distancing measures adopted in most States and on-premise establishments remaining shut in most markets. Excluding the one-off benefit from sale of bulk Scotch inventory in the prior year, underlying net sales declined 26.9%. Net Sales of Prestige & Above segment declined 24.9% while net sales of Popular segment declined 31.0%.

Overall volume declined 25.9% with shrinkage of 25.4% in Prestige & Above marginally outpacing Popular segment volume shrinkage of 26.4%. Underlying price/mix for the first half was (1)%, mainly due to reduced franchise royalty and adverse State mix.

EBITDA (Rs. Crores)

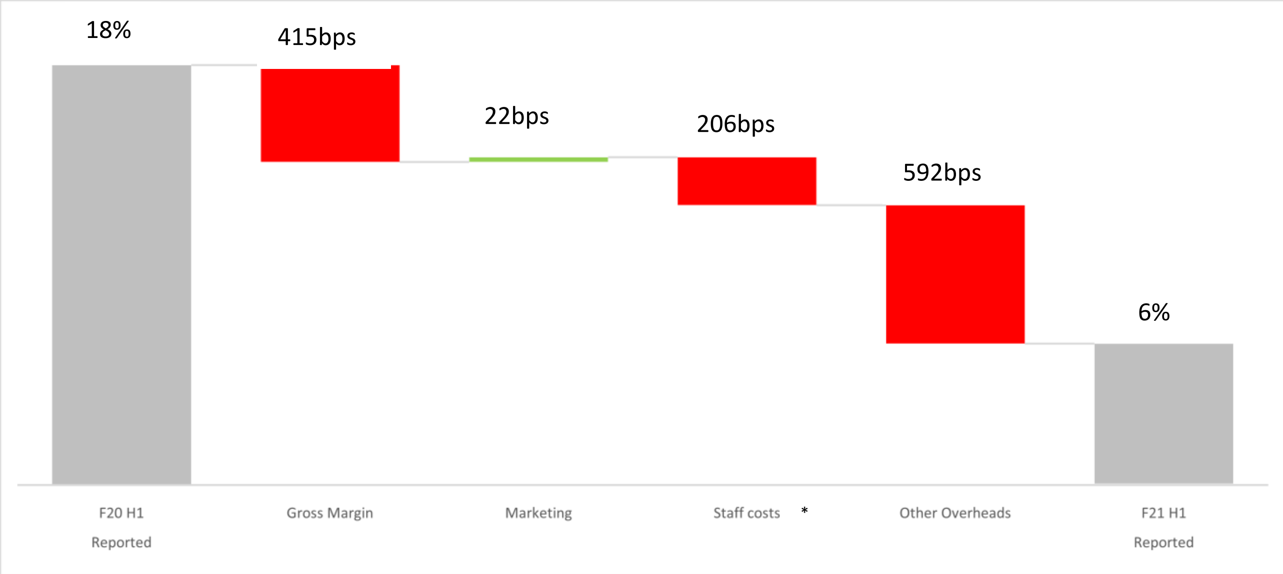


* Includes 84 Crores of Bulk Scotch sale and 2 Crores of staff restructuring cost

Reported EBITDA was Rs. 192 Crores for the first half of the year, down 76%. Excluding the one-time benefit of bulk Scotch sale in the prior year and adjusted for one-off restructuring costs, underlying EBITDA declined 74%. Gross profit decline of Rs. 665 Crores, was primarily driven by contraction of Andhra Pradesh business due to route to market change, related inventory provision and decline in the South franchise business.

Reported staff cost declined 6% and overheads reduced by 1%. A&P reinvestment was 7.4% in the half. Inital reduction in A&P spend due to complete initial lockdown and prolonged closure of on-premise was offset by strong reinvestment rate in the second quarter as we launched our renovation bundles.

EBITDA margin (%, bps)

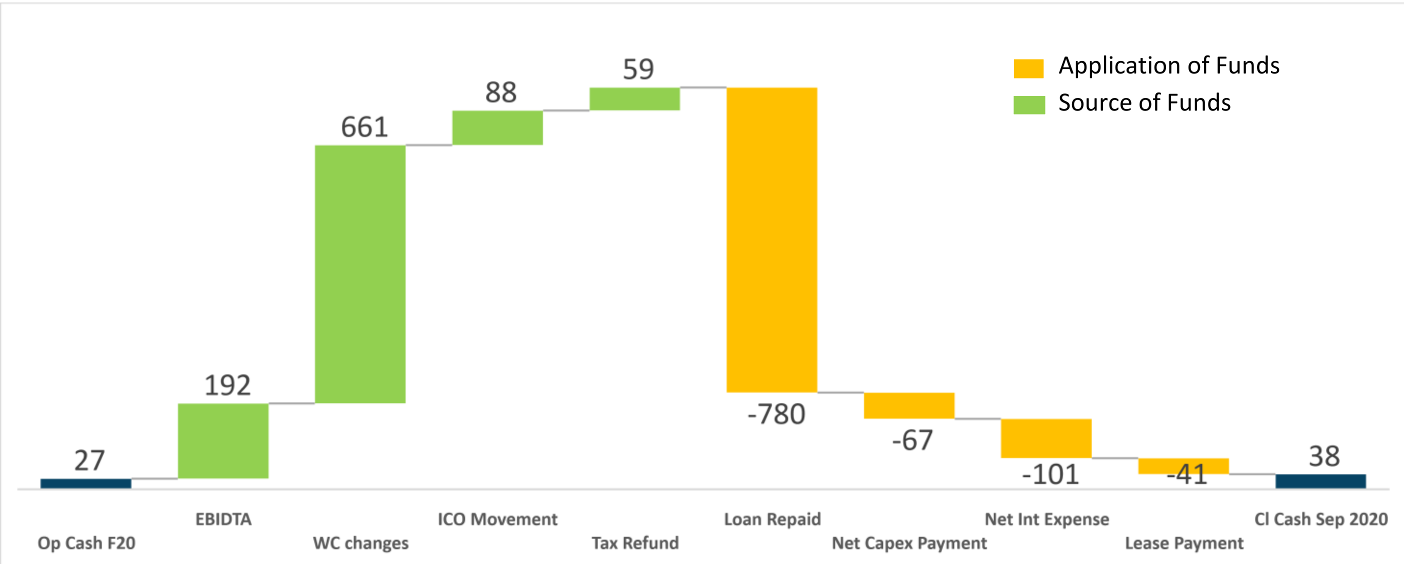


* Staff cost in F20Q1 include a one-off restructuring cost of Rs. 2 Crores. Adjusted for the one offs, staff cost savings would be 186 bps.

EBITDA margin for first six months was 6%, driven by the impact of lockdown in Q1 and lower fixed cost absorbtion. While reported EBITDA margin during the same period last year was 18%, underlying EBITDA margin last year net of one time bulk Scotch sale and adjusted for one-off restructuring costs was 16.8%.

Compression in Gross margin of 415bps was primarily driven by contraction in Andhra Pradesh business, which resulted in a one-off inventory provision and a decline in the South franchise business. The marketing cost reduction reflects resource adjustment in Q1 given the restrictions placed by the COVID-19 crisis and accelerated investment in Q2 to support renovation and roll out of of two core brands. Lower fixed cost absorption of staff cost and overheads also impacted margin.

Movement in cash (Rs. Crores)



Cash closed at Rs. 38 Crores for the first half of the year. Strong cash performance was driven by higher underlying operating profit and improvement in working capital. Cash generated from the underlying business was used towards debt repayment of 780 Crores. Capex expenditure of 67 Crores was mainly focused on projects for asset maintenance, health and safety.

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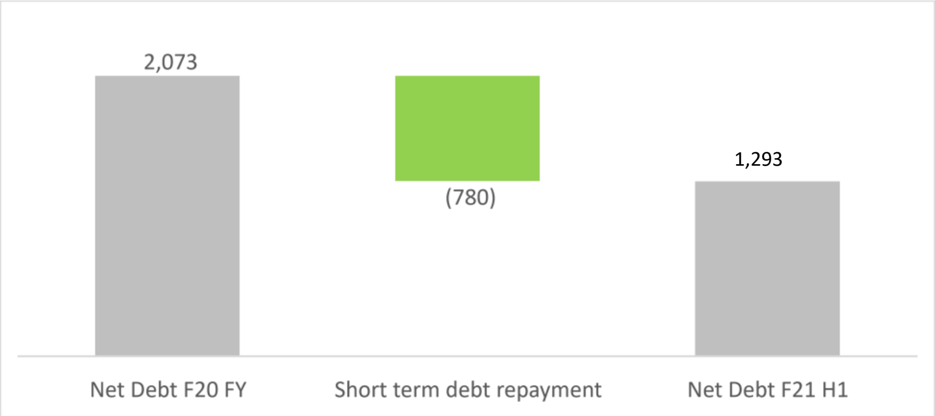
Movement in debt (Rs. Crores)



Closing net debt was Rs. 1,293 Crores. The company repaid its short term borrowings amounting to Rs. 780 Crores.

SEGMENT AND BRAND REVIEW

For the quarter and six months ended 30 September 2020

Key segments:

For the six months ended 30 September 2020

	Volume				Net Sales			
	F20 H1 Reported	F19 H1 Reported	Reported movement	**Underlying movement**	**F20 H1 Reported**	F19 H1 Reported	Reported movement	**Underlying movement**
	EUm	*EUm*	%	%	***Rs. Cr.***	*Rs. Cr.*	%	**%**
P&A	**15.8**	21.1	(25.4)	**(25.4)**	**2,197**	2,925	(24.9)	**(24.9)**
Popular	**13.9**	18.8	(26.4)	**(26.4)**	**927**	1,345	(31.0)	**(31.0)**
NBR	**-**	-	-		**51**	244	(79.1)	**(30.3)**
TOTAL	**29.6**	40.0	(25.9)	**(25.9)**	**3,176**	4,515*	(29.7)	**(26.9)**

* Includes 171 Crores of Bulk Scotch sale

For the quarter ended 30 September 2020

	Volume				Net Sales			
	F20 Q2 Reported	F19 Q2 Reported	Reported movement	**Underlying movement**	**F20 Q2 Reported**	F19 Q2 Reported	Reported movement	**Underlying movement**
	EUm	*EUm*	%	%	***Rs. Cr.***	*Rs. Cr.*	%	**%**
P&A	**10.8**	10.8	(0.6)	**(0.6)**	**1,518**	1,502	1.0	**1.0**
Popular	**9.1**	9.8	(7.5)	**(7.5)**	**614**	701	(12.5)	**(12.5)**
NBR					**14**	93	(84.4)	**(22.2)**
TOTAL	**19.9**	20.7	(3.9)	**(3.9)**	**2,146**	2,296**	(6.6)	**(3.4)**

** Includes one time scotch sale of 74 Crores

- The **Prestige & Above segment** accounted for 69% of net sales during the first half of the year, up 4ppts compared to same period last year, primarily due to one-time sale of bulk Scotch; net of that, the P&A accounted for 67% of net sales, up 2ppts versus last year.

  Prestige & Above segment net sales declined 24.9% during the first half of the year, led by a weak first quarter, which was impacted by nationwide lockdown. The continued closure of on-premise outlets throughout the majority of period and reduction in social occasions for consumption also impacted sales growth.

- The **Popular segment** accounted for 29% of net sales during the first half of the year, down 1ppt compared to same period last year. Adjusting the one-time sale of bulk Scotch affecting the relative salience of the segments; Popular segment accounted for 31% of net sales, down 2 ppts versus last year.

  The Popular segment net sales declined 31% primarily due to lower franchise income and State mix. Net sales of Popular segment in Priority states declined 10% during the half year.

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 Pradeep Jain, Chief Financial Officer will be hosting a Q&A conference call on **Thursday, 5 November 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 8th November 2020 at www.diageoindia.com.

Conference Joining Information

Option 1

Express Join with Diamond*Pass*™ No Wait Time
https://services.choruscall.in/DiamondPassRegistration/register?confirmationNumber=7730350&linkSecurityString=15ff019676

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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