

UNITED SPIRITS LIMITED

PRESS RELEASE

Unaudited financial results for the quarter ended 30 September 2021
(Standalone only)



Strong growth in net sales underpins improved business momentum

Second quarter performance highlights:

- Reported net sales increased 14%, reflecting a strong quarter. Off-trade gained momentum after the second wave of the Covid-19 pandemic; On-trade continues to gradually recover with the easing of restrictions.
- Prestige & Above segment net sales grew 20.8%. Delivered high double digit Scotch whisky growth during the quarter.
- Popular segment net sales remain flat compared to the same quarter of the previous year.
- Gross margin was 44.2%, up 207bps on reported basis and 190bps on under-lying basis. Rising inflationary pressure on COGS and a one-off tax provision was offset by improved mix management, continued focus on productivity and lapping the benefit of a one-off inventory provision in the prior year.
- Reported EBITDA (Rs. 426 Crores) increased 57.9% and margins increased by 483 bps due to gross margin enhancement, lapping a one-off expense in the prior year and a net one-off tax reversal in the current quarter. Excluding the one-offs, underlying EBITDA was up 194 bps from 14.5% to 16.4%. Advertising & Sales Promotion was 7.3% of sales and the investment behind brand building was back to normal levels after a Covid impacted muted Q1.
- Interest includes one-off reversal benefit of non-debt interest related charge. Underlying interest expense was Rs 21 Crores, down 59% vs prior year, driven primarily by debt and interest rate reduction.
- Profit after tax was Rs. 273 Crores, up 113% and PAT margin was 11.2%.

First half performance highlights

- Reported net sales increased 27.9% lapping weak prior year comparators.
- Prestige & Above segment net sales increased 32.4%. The growth was driven by resilient consumer demand and positive mix.
- Popular segment net sales increased 20.4% within which the priority states increased 17%.
- Gross margin was 44.4%, up 239bps primarily due to improved sales mix, productivity benefits from everyday cost efficiencies and a benefit from lapping a one-off inventory provision.
- A&P re-investment rate was 6.4% of sales. There has been gradual upweight in brand spending in second quarter to support growth opportunities with easing of trade restrictions and arrival of the peak season.
- Reported EBITDA was Rs. 593 Crores, up 209%. Reported EBITDA margin was 14.6%, up 856 bps primarily due to gross margin enhancement, operating leverage and lapping one-offs in prior year. Excluding the one-off, underlying EBITDA was up 668 bps.
- Reported interest cost was Rs.18 Crores, down 82% driven by debt and interest rate reduction and one-off reversal.
- Exceptional item includes a one-off provision towards an additional demand in relation to a historical customer dispute.
- Tax includes a one-off reversal of 19.2 Crores.
- Profit after tax was Rs. 342 Crores and PAT margin was 8.4%.

Ms Hina Nagarajan, CEO, commenting on the quarter ended 30 September 2021 said:

“We have delivered a strong quarter and the performance underpins improved momentum across the business. The business has emerged stronger from the pandemic and our people have responded with pace, agility, and creativity to seize the opportunities in the marketplace.

The quarter witnessed the roll out of the renovated consumer bundles of Black Dog and Signature Whisky in select states to an encouraging response. We also launched Royal Challenge American Pride, a unique offering in the country with Bourbon, Scotch and select Indian malts & grain spirits.

We are focused on sustaining the growth momentum while working on Revenue Management and productivity initiatives across the value chain to counter the rising inflation trend being experienced while exiting the quarter.

Our portfolio, with recent innovations and renovations, is well-positioned to capitalize on the rapidly growing premiumization in the category and we remain committed to profitable growth and long-term value to all our stakeholders.”

Key performance indicators

		F22 Q2	F22 Q1	F22 H1
Net sales	<i>Rs. Crores</i>	2447	1,615	4,062
Reported Turnover growth	%	14.0	56.8	27.9
Gross profit	<i>Rs. Crores</i>	1082	720	1,802
Gross profit margin	%	44.2	44.6	44.4
EBITDA	<i>Rs. Crores</i>	426	168	593
EBITDA margin	%	17.4	10.4	14.6
PAT	<i>Rs. Crores</i>	273	69	343
PAT	%	11.2	4.3	8.4

For the six months ended 30 September 2021
Summary financial information

		F22 H1	F21 H1	Movement %
Volume	<i>000 cases</i>	36,277	29,629	22
Net sales	<i>Rs. Crores</i>	4,062	3,176	28
COGS	<i>Rs. Crores</i>	(2260)	(1843)	23
Gross profit	<i>Rs. Crores</i>	1802	1333	35
Staff cost	<i>Rs. Crores</i>	(354)	(260)	36
Marketing spends	<i>Rs. Crores</i>	(262)	(222)	18
Other Overheads	<i>Rs. Crores</i>	(593)	(659)	(10)
EBITDA	<i>Rs. Crores</i>	593	192	209
Other Income	<i>Rs. Crores</i>	14	22	(37)
Depreciation	<i>Rs. Crores</i>	(121)	(121)	0
EBIT	<i>Rs. Crores</i>	487	93	421
Interest	<i>Rs. Crores</i>	(18)	(101)	(82)
PBT before exceptional items	<i>Rs. Crores</i>	468	(7)	6608
Exceptional items	<i>Rs. Crores</i>	(36)	(75)	(52)
PBT	<i>Rs. Crores</i>	432	(82)	626
Tax	<i>Rs. Crores</i>	(90)	(5)	1769
PAT	<i>Rs. Crores</i>	343	(87)	494

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

		F22 H1	F21 H1	Movement bps
Gross profit	%	44.4	42.0	239
Staff cost	%	(8.7)	(8.2)	(51)
Marketing spends	%	(6.4)	(7.0)	55
Other Overheads	%	(14.6)	(20.7)	613
EBITDA	%	14.6	6.0	856
PAT	%	8.4	(2.7)	1117
Basic earnings per share	<i>rupees</i>	4.7	(1.2)	5.9
Earnings per share before exceptional items	<i>rupees</i>	6.4	(0.1)	6.5

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

¹ Marketing spends amounting of INR 85 million for the quarter ended September 30, 2020, INR 132 million for the six months ended September 30, 2020 have been reclassified to Other expenses to conform with the current period's presentation and to enhance the comparability of the results.

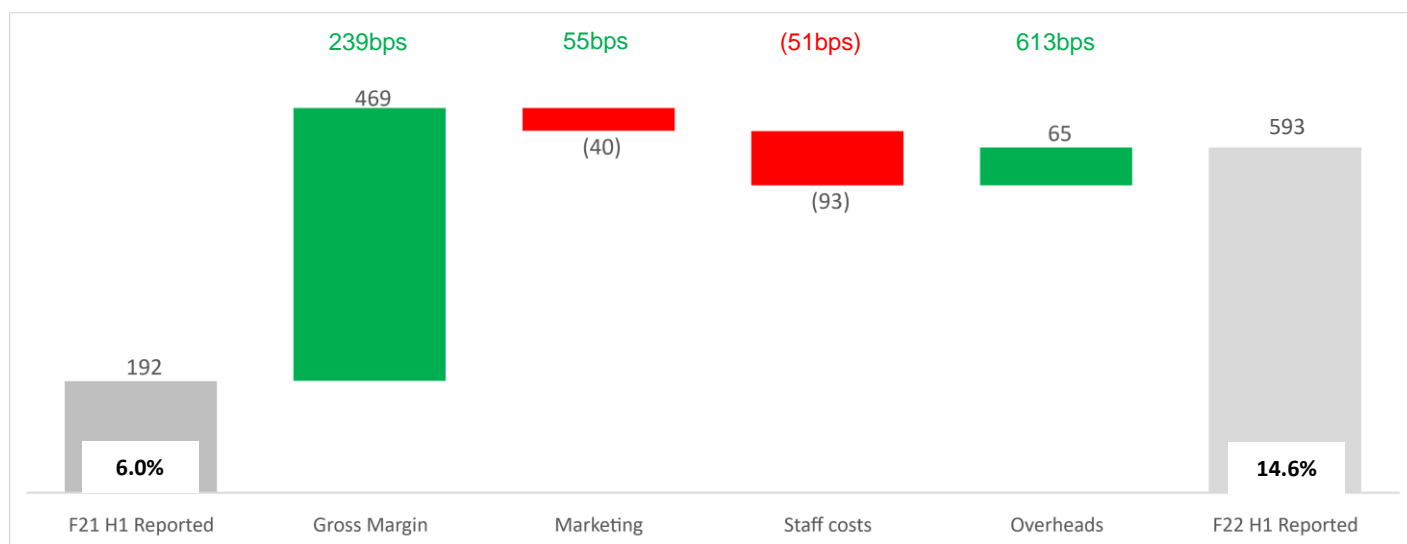
Net sales (Rs. Crores)



Reported net sales increased 27.9% in the first half. This double digit topline growth reflects improvement in trade conditions, improved mix, excellent execution in off-trade channel and gradual on-trade recovery. The initial restrictions on on-premise establishments and consumer behavioural shifts impacted the balance between the on- and off-premise occasion in first half of this fiscal. Net Sales of Prestige & Above segment increased 32.4% while net sales of Popular segment increased 20.4%.

Overall volume increased 22.4% with expansion of 23.1% in Prestige & Above segment, marginally outpacing Popular segment volume expansion of 21.7%. Underlying price/mix for the half year was favourable 5.46%, mainly due to good momentum in Scotch performance and favourable brand mix.

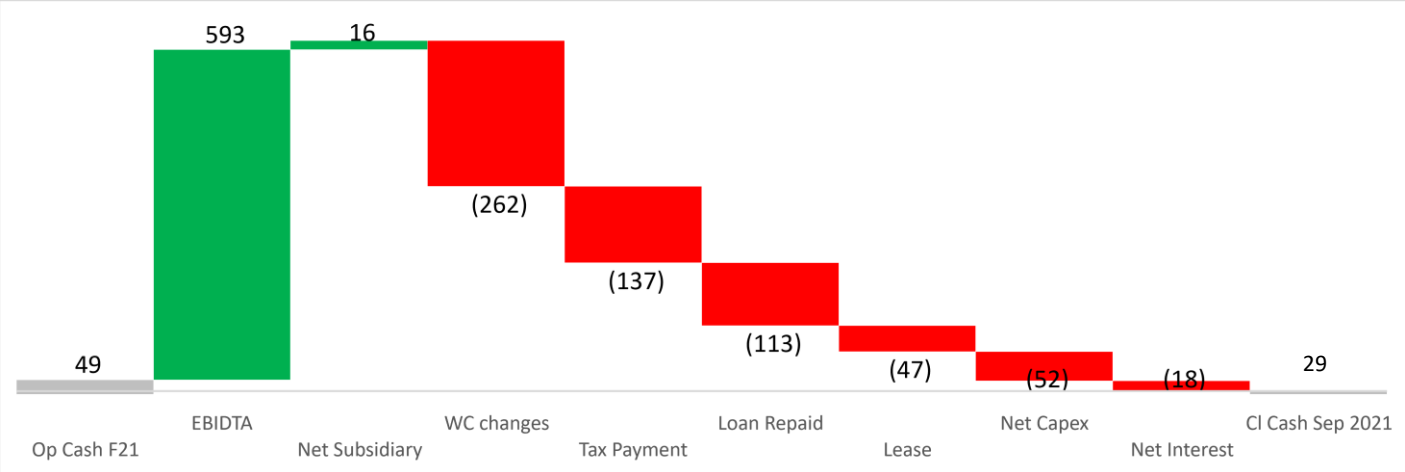
EBITDA (Rs. Crores, %, bps)



Reported EBITDA (Rs. 593 Crores) increased 209% for the first half of year and margin increased by 856 bps.

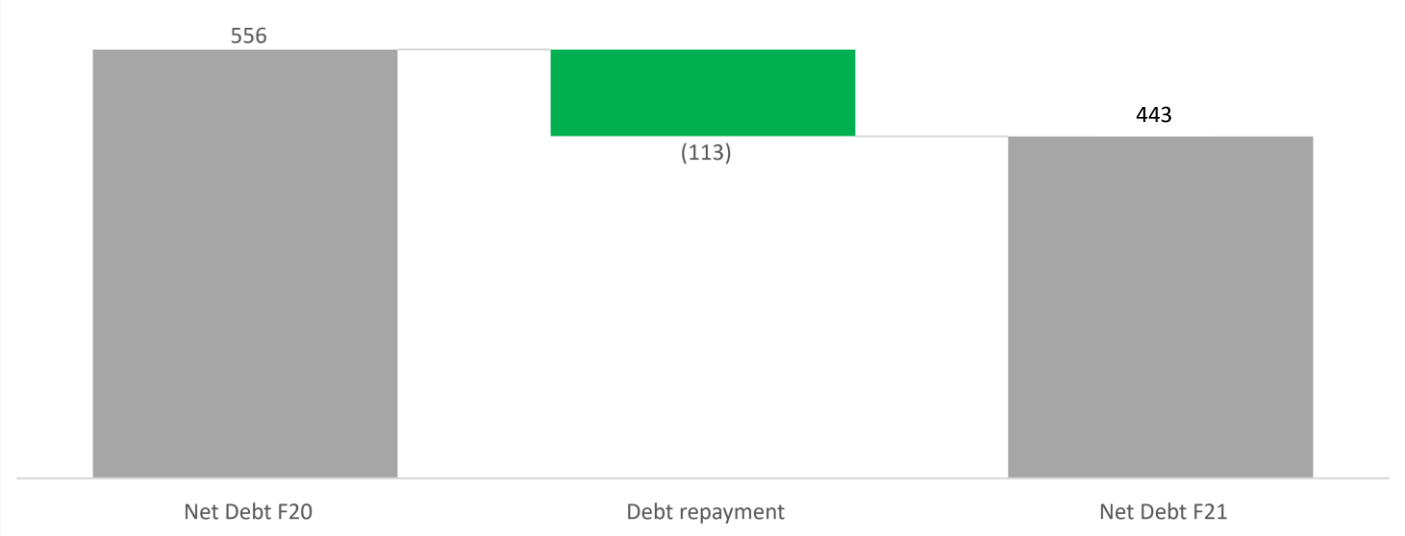
Gross profit increase of Rs. 469 Crores was predominantly volume & mix led, aided by productivity initiatives and a deflated base of Q1FY21 due to the Covid-19 slump. Reported staff cost was at 8.7% of sales, up 51bps while other overheads were at 14.6% down 613bps due to cost consciousness drive and relatively better operating leverage. Controlled and effective marketing investments were limited to activities which could give tangible results amidst restricted operating environment. On-premise channel activation was impacted due to initial state wide lockdowns and regulated on-trade environment.

Movement in cash (Rs. Crores)



Cash closed at Rs. 29 Crores for the first half of the year. The half year witnessed excellent cash flow generation driven by growth in EBITDA. 44% of profit was invested in working capital to support strong business delivery and 22% was converted into free cashflow for the repayment of debt and interest. Capex was primarily focused on asset care, productivity, support core growth and health and safety.

Movement in debt (Rs. Crores)



Closing net debt was Rs. 443 Crores. The company repaid its short term borrowings amounting to Rs. 113 Crores during the first half of the year. This reduction in debt together with a favourable mix helped reduce total interest costs by 41%.

SEGMENT AND BRAND REVIEW

For the quarter and six months ended 30 September 2021

Key segments:

For the six months ended 30 September 2021

	Volume				Net Sales			
	F22 H1 Reported '000 cs	F21 H1 Reported '000 cs	Reported movement %	Underlying movement %	F22 H1 Reported Rs. Cr.	F21 H1 Reported Rs. Cr.	Reported movement %	Underlying movement %
P&A	19,387	15,754	23.1	23.1	2910	2197	32.4	32.4
Popular	16,890	13,875	21.7	21.7	1117	927	20.4	20.4
Other					35	51	(32.1)	(32.1)
TOTAL	36,277	29,629	22.4	22.4	4062	3176	27.9	27.9

For the quarter ended 30 September 2021

	Volume				Net Sales			
	F22 Q2 Reported '000 cs	F21 Q2 Reported '000 cs	Reported movement %	Underlying movement %	F22 Q2 Reported Rs. Cr.	F21 Q2 Reported Rs. Cr.	Reported movement %	Underlying movement %
P&A	11,418	10,763	6.1	6.1	1833	1518	20.8	20.8
Popular	9,129	9,094	0.4	0.4	614	614	0.0	0.0
Other					(0)	14	(100.9)	(100.9)
TOTAL	20,548	19,857	3.5	3.5	2447	2146	14.0	14.0

- The **Prestige & Above segment** accounted for 72% of net sales during the first half of the year, up 245pts compared to same period last year. Prestige & Above segment net sales increased 32.4% during the first half of the year due to weak prior period comparators. During the first half of the year, our Premium & Luxury portfolio grew faster than the Prestige portfolio led by our premiumisation efforts. Within the Scotch portfolio, Johnnie Walker, Black & White and J&B showed robust growth.
- The **Popular segment** accounted for 28% of net sales during the first half of the year, down 170ppt compared to same period last year. The Popular segment net sales grew 20.4% during the first half. Net sales of Popular segment in Priority states grew 17% during the first half of this 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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STRATEGY REFRESH & SEPTEMBER QUARTER RESULTS WEBCAST

The Company will host its Strategy refresh presentation and September quarter results conference call by way of a webcast on **Thursday, 28 October 2021** at **11:30 am** IST. The event will begin at 11:30 am IST with a presentation by Ms. Hina Nagarajan, Managing Director and Chief Executive Officer, Pradeep Jain, Chief Financial Officer and Abanti Sankaranarayanan, Chief Strategy & Corporate Affairs Officer. The presentation will be followed by a live Q&A session and the event will finish no later than 1:30 pm IST.

You could use the participant link below to view the presentation and listen to the webcast. You can submit your questions via chat option on the webcast or ask directly.

A transcript of the presentation and the conference call will be available for download latest by 1st November 2021 at www.diageoindia.com.

Participant Link

<https://links.ccwebcast.com/?EventId=USL20211028>