Press Release

Audited financial results for the quarter and year ended

31 March 2017

UNITED SPIRITS LIMITED

(Standalone only)

Net sales up 4%, PAT increased 39% in the full year

Full year performance highlights:

- Net sales growth of 4%. Underlying net sales up 8% excluding one off impact of primarily Bihar prohibition and operating model changes.
- Prestige & Above segment net sales up 13% with 5ppts positive price/mix. Popular segment net sales declined 9% with priority states growing net sales by 1%.
- Gross margin of 42.9%, up 156bps primarily driven by positive price/mix, productivity initiatives and operating model changes. Underlying improvement of 100bps.
- EBITDA Rs. 983 Crores, up 11% and EBITDA margin of 11.5%, up 75bps, both primarily driven by increased gross profit/margin partially offset by marketing investment increasing 9%, one off impact and inflation. Underlying EBITDA up 16% and EBITDA margin of 12.4%, up 89bps.
- Interest cost Rs. 369 Crores, lower by 17% driven by favourable rates and mix of debt.
- Exceptional charge Rs. 326 Crores, up 155% driven mainly by a customer claim arising out of legacy commercial terms.
- Profit after tax Rs. 170 Crores, up 39%.

Fourth quarter performance highlights:

- Net sales decline of 1%. Underlying net sales were up 7% excluding one off impact.
- Prestige & Above segment net sales up 10% with 6ppts positive price/mix. Underlying net sales up 13% in the segment.
- Popular segment net sales declined 16% impacted by one off items.
- Gross margin of 44.1%, up 338bps. Underlying gross margin improvement of 274bps.
- EBITDA Rs. 265 Crores, up 128% and EBITDA margin of 13.1%, up 739bps both driven by increased gross profit/margin, lower operating expenses and provisions made in the same period last year. Underlying EBITDA up 104% and EBITDA margin of 15.2%, up 724bps.
- Exceptional charge Rs. 291 Crores, up 809% driven mainly by a customer claim arising out of legacy commercial terms.
- PBT before exceptional items of Rs. 153 Crores, up 99%.
- Loss after tax Rs. 104 Crores impacted by exceptional items.

Anand Kripalu, CEO, commenting on the full year ended 31 March 2017 said:

"We have delivered a strong set of results with 4% net sales growth, despite a subdued economic environment due to de-monetization as well as the run up to the highway ban. These strong results demonstrate the continued effective execution of our strategy.

The Prestige & Above segment performance remained robust and grew net sales in the full year by 13% fuelled by our renovation and premiumisation strategy. In line with our approach to selectively participate in the popular segment, we have entered into additional agreements to franchise Popular brands in several more states. These changes will allow us to further improve our operating model and focus our business on the biggest profitable growth opportunities.

The continued focus on premiumisation, price increases in select states and productivity initiatives helped us to offset inflation and delivered 156bps higher gross margin, as well as 75bps EBITDA margin improvement. We have achieved a gross margin of 42.9% and EBITDA margin of 11.5% which is in line with our expectation.

The increase in exceptional items was partially offset by reduced interest cost and tax and resulted in a PAT growth of 39%.

We have faced challenges in the regulatory environment in certain states. Tax and excise levies in Maharashtra and West Bengal have led to sharp consumer price increases, and the route to market in Punjab continues to impact performance. While the longer term consumer opportunity remains strong for spirits, we expect that the highway ban will continue to impact performance in the short term. Additionally, our initial assesment on GST suggests that, while alcohol for human consumption has been excluded from GST, the additional tax on input materials and services will result in stranded taxes, and impact margins. We shall, of course, continue to work with the central government to minimise this impact, and approach the state governments for appropriate price increases. We also recognize that the GST rates may undergo further changes, and we await formal notification of the rates and rules.

Our efforts are driving improved performance which reinforces our belief that we have the right strategy in place. We will continue to focus on these priorities to capture the long term opportunity in this attractive market and achieve our medium term ambition to grow top line by double digit and improve margins to mid-high teens."

KEY FINANCIAL INFORMATION

For the year ended 31 March 2017

Financial information summary (Rs. Crores)

	F17 FY	F16 FY*	Growth %
Net sales	**8,548**	8,248	4
COGS	**(4,884)**	(4,841)	(1)
Gross profit	**3,664**	3,407	8
Staff cost	**(667)**	(643)	(4)
Marketing spend	**(667)**	(614)	(9)
Other Overheads**	**(1,347)**	(1,264)	(6)
EBITDA	**983**	886	11
Exchange / Other Income	**99**	106	(6)
Depreciation	**(132)**	(101)	(30)
EBIT	**950**	891	7
Interest	**(369)**	(447)	17
PBT before exceptional items	**581**	444	31
Exceptional items	**(326)**	(128)	(155)
PBT	**255**	316	(19)
Tax	**(85)**	(194)	56
PAT	**170**	122	39
Other comprehensive income	**50**	9	478
Total comprehensive income/(loss)	**220**	131	68

Key performance indicators as a percentage of net sales:

	F17 FY %	F16 FY %	Movement bps
Gross profit	**42.9**	41.3	156
Staff cost	**7.8**	7.8	(2)
Marketing spend	**7.8**	7.4	(36)
Other Overheads	**15.8**	15.3	(42)
EBITDA	**11.5**	10.7	75
PAT	**2.0**	1.5	51
eps (rupees)	**11.7**	8.4	3.3rupees
eps pre exceptional (rupees)	**27.5**	17.5	10rupees

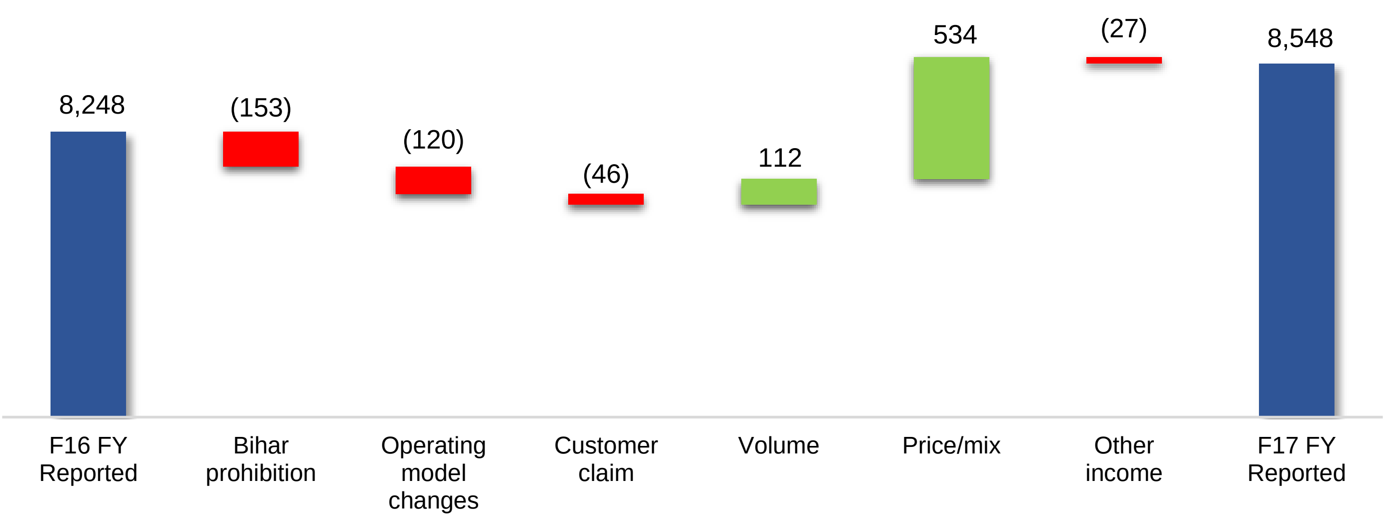
*F16 FY financials have been regrouped/reclassified as per the current period's presentation for the purpose of comparability.

**Local Body Tax reported as part of other overheads in previous quarters has been reclassified and reported as part of net sales for the quarter and the full year ended 31 March 2017.

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

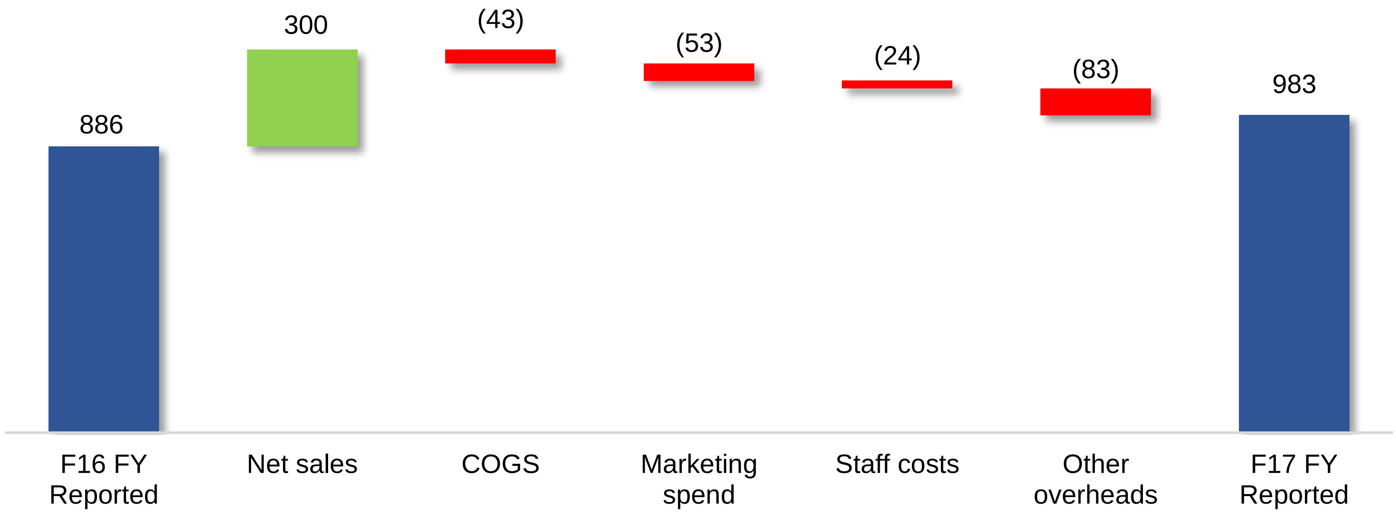
Pursuant to the Companies (Indian Accounting Standards) Rules 2015 (Ind AS) issued by the Ministry of Corporate Affairs (MCA), United Spirits Limited (“the Company” or “USL”) has restated the financial results for the quarter ended June 30,2015, six months ended September 30, 2015, nine months ended 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.

Net sales growth (Rs. Crores)



Reported net sales were up 4% despite a subdued economic environment mainly impacted by de-monetization, the run up to the highway ban and one off impact of Bihar prohibition and operating model changes. Underlying volume grew 1% in the full year excluding one off impact and positively impacted net sales. Positive price/mix was driven by selective price increases in certain states and continued focus on premiumisation and brand renovation in the Prestige & Above segment. Excluding one off impact net sales grew 8%.

EBITDA growth (Rs. Crores)

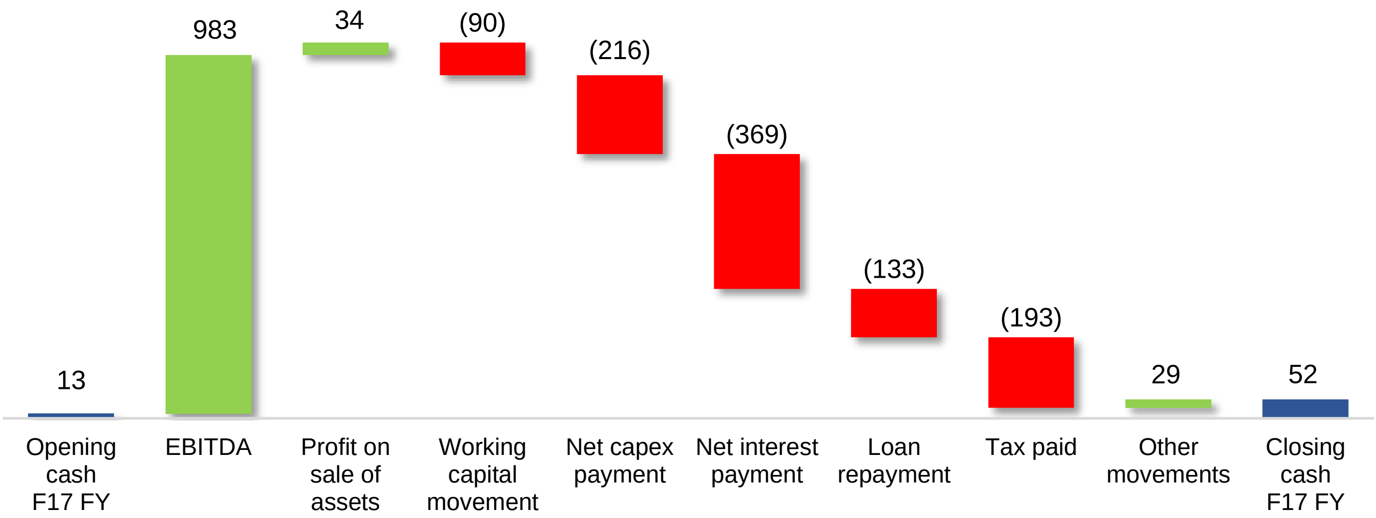


EBITDA was Rs. 983 Crores, up 11%. Strong performance of the Prestige & Above segment coupled with productivity efficiencies were the primary drivers of Rs. 257 Crores incremental gross profit. Marketing spend was focused mainly behind the Prestige and Above segment and increased by 9% ahead of top line growth. Staff cost increased by 4% benefitting from the savings delivered by the organisational changes which partly mitigated inflation and one off restructuring costs of Rs. 34 Crores in the full year. Other overheads increased by 6% impacted by one off costs, investments and inflation. One off impact includes costs of Rs. 18 Crores relating to the organisational changes and the net impact of provisions of Rs. 77 Crores in the previous year. Investments behind systems and capabilities also negatively impacted other overheads. Excluding the one off impact EBITDA was up 16% compared to last year.

EBITDA margin (%, bps)

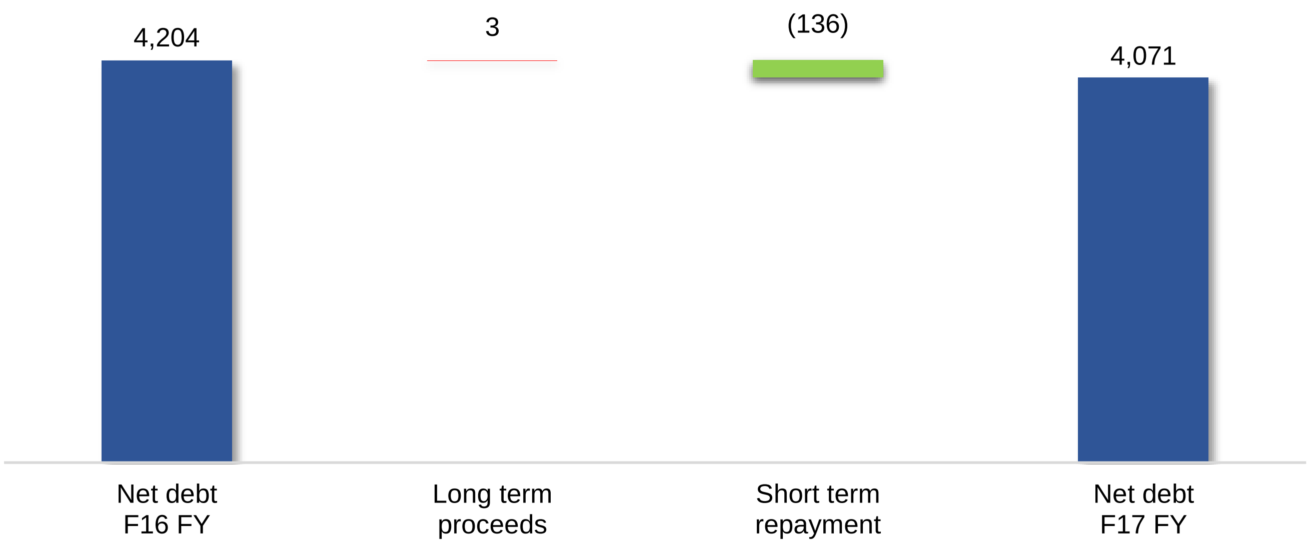
EBITDA margin of 11.5% in the full year increased by 75bps, compared to last year. Gross margin improvement of 156bps was mainly driven by positive price/mix fuelled by the strong performance of the Prestige & Above segment, productivity initiatives and operating model changes. Marketing investments behind our brands increased compared to last year and negatively impacted margin. Savings from the organisational changes partially mitigated the restructuring cost and inflation in staff costs. Increase in other overheads negatively impacted margin by 42bps. Excluding the one off impact underlying EBITDA margin of 12.4% increased by 89bps compared to last year.

Movement in cash (Rs. Crores)



Cash closed at Rs. 52 Crores. Non core asset divestment has generated Rs. 34 Crores profit. Increase in working capital was mainly due to delays in payments by some customers. Increase in net capex was focused on upgrading strategically important manufacturing units. Cash generated from the underlying business was used for debt repayment. Other movement is mainly driven by cash remittance from subsidiary.

Movement in debt (Rs. Crores)



Closing net debt was Rs. 4,071 Crores in the full year and the company utilized cash from operations to repay its loans amounting to Rs. 136 Crores. This reduction in debt value together with renegotiation of borrowings and favourable mix of debt instruments reduced the total interest cost by Rs. 78 Crores in the full year.
Significant improvement in USL's overall financial flexibility, corporate governance and compliance framework has led to further improvement in our credit rating. During the year, ICRA Limited upgraded the Long Term Rating from "A+" to "AA" with positive outlook, while the Short Term Rating was reaffirmed at "A1+" which is the highest rating. These improved ratings will enable us to access more economical sources of debt leading to lower interest cost and increased shareholder value.

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. Net sales grew 10 % in the fourth quarter and 13% in the full year, with 6ppts and 5ppts positive price/mix respectively. Underlying net sales growth of 13% in the fourth quarter and net sales growth of 14% in the full year excluding one off impact. Robust performance of the Prestige and Above segment was fuelled by our continued focus on premiumisation and brand renovation.

- **Signature** volume grew by 26% and grew net sales by 29% supported by successful renovation.
- **McDowell's No 1. whisky** variants (excluding Platinum) volume grew by 7% and net sales grew by 8%.
- **Royal Challenge** volume grew by 15% and net sales grew by 16%.
- Our **scotch portfolio** in the premium and luxury segment grew volume by 29% and net sales by 32% driven mainly by Johnnie Walker, Black Dog, Black & White and VAT 69.
- 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**, 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 both volume and net sales by 16% in the fourth quarter and declined volume 10% and net sales 9% in the full year impacted by Bihar prohibition and operating model changes. Excluding the Bihar prohibition and the operating model changes the popular segment declined volume 6% and net sales 4% in the fourth quarter and declined volume 3% and net sales 2% in the full year. Priority states volume was flat and net sales grew 1% in the full year driven by Hayward's, Bagpiper and Director's Special.

Appendix

Volume by segments (EU million)

	F17 FY	F16 FY	*% chg.*	F17 P9 YTD	F16 P9 YTD	*% chg.*	F17 H1	F16 H1	*% chg.*	F17 Q1	F16 Q1	*% chg.*
Prestige and Above	36.8	34.2	***8***	28.3	26.1	*9*	18.1	16.4	*10*	9.3	8.4	*11*
Popular	53.3	58.9	***(10)***	40.4	43.7	*(7)*	26.1	27.6	*(6)*	12.9	13.8	*(7)*
Total*	**90.0**	**93.0**	***(3)***	**68.8**	**69.8**	***(1)***	**44.2**	**44.1**	**-**	**22.2**	**22.2**	**-**

**The volume analysis above excludes royalty and franchise volumes.*

United Spirits Limited updates on operating model changes

United Spirits Limited has entered into agreements to franchise selected, mainly Popular segment brands in Andhra Pradesh, Goa and has moved to a complete franchise agreement for all USL brands in Kerala effective 1 January 2017.

In line with our approach to selectively participate in the popular segment, we have entered into additional agreements to franchise Popular segment brands in Union Territory of Puducherry, Union Territory of Andaman and Nicobar, Chandigarh and Rajasthan effective 1 April 2017, in Madhya Pradesh, Himachal Pradesh, Jammu and Kashmir and Delhi effective 1 May 2017 and in Sikkim and Uttar Pradesh effective from 1 June 2017.

The individual agreements are for between 3 to 5 years. 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 in Andhra Pradesh, Goa and Kerala accounted for 3.3 million cases and circa Rs. 180 Crores net sales in the nine months ended 31 December 2016.

Volume and net sales for these franchised brands in Union Territory of Puducherry, Union Territory of Andaman and Nicobar, Chandigarh, Rajasthan, Madhya Pradesh, Himachal Pradesh, Jammu and Kashmir, Delhi, Sikkim and Uttar Pradesh accounted for 7.0 million cases and circa Rs. 460 Crores net sales in the full year ended 31 March 2017.

Cautionary statement concerning forward-looking statements

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Conference call and live Q&A session

Anand Kripalu, Managing Director and Chief Executive Officer and Sanjeev Churiwala, Executive Director and Chief Financial Officer will be hosting a Q&A session on Wednesday 31 May 2017 at 12:00 pm (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™

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