

UNITED SPIRITS LIMITED

PRESS RELEASE

Unaudited financial results for the quarter and six months ended 30 September 2017
(Standalone only)



Second quarter performance improved substantially and PAT increased 84%
Second quarter performance highlights:

- Reported net sales declined 4% impacted by the highway ban and the one off impact of operating model changes. Underlying net sales up 4% excluding the one off impact.
- Prestige & Above segment reported net sales up 10% with 8ppts positive price/mix. Underlying net sales up 12% excluding the one off impact.
- Popular segment reported net sales declined 22% impacted by the one off impact of operating model changes. Underlying net sales declined 9% excluding the one off impact.
- Gross margin of 47.6%, up 559bps driven mainly by price increases, productivity initiatives and operating model changes. Underlying gross margin improvement of 395bps.
- EBITDA Rs. 318 Crores, up 57%, EBITDA margin of 16.3%, up 631bps both primarily driven by increased gross margin and lower staff costs, partially offset by marketing investment increasing 11%. Underlying EBITDA up 37% and EBITDA margin of 16.3%, up 396bps excluding the one off impact
- Interest cost Rs. 66 Crores, lower by 26% driven by favourable rates and mix of debt.
- Profit after tax Rs. 153 Crores, up 84%.

First half performance highlights:

- Reported net sales declined 8% impacted by the highway ban and the one off impact of operating model changes. Underlying net sales declined 2% excluding the one off impact.
- Prestige & Above segment reported net sales up 1% with 4ppts positive price/mix. Underlying net sales up 2% excluding one off impact.
- Popular segment reported net sales declined 21% impacted by the one off impact of operating model changes. Underlying net sales declined 9% excluding the one off impact.
- Gross margin of 46.8%, up 415bps driven mainly by price increases, productivity initiatives and operating model changes. Underlying gross margin improvement of 258bps.
- EBITDA Rs. 475 Crores, up 14%, EBITDA margin of 12.7%, up 251bps both primarily driven by increased gross margin and lower staff costs. Underlying EBITDA up 9% and EBITDA margin of 13.3%, up 135bps excluding the one off impact.
- Interest cost Rs. 136 Crores, lower by 29% driven by favourable rates and mix of debt.
- Profit after tax Rs. 216 Crores, up 71%.

Anand Kripalu, CEO, commenting on the quarter and six months ended 30 September 2017 said:

"In the second quarter we have delivered strong underlying net sales growth of 4% driven by 12% growth in the Prestige & Above segment, despite the impact of the highway ban. Additionally, we have delivered expanded margins despite the impact of GST.

Strong growth of the Prestige & Above segment was fuelled by our renovation and premiumisation strategy. Our brand renovations including McDowell's No.1 whisky, Royal Challenge and Signature delivered double digit net sales growth in the second quarter; we expect Antiquity, our latest renovation, to deliver momentum in the subsequent quarters post the national roll out. The Prestige & Above segment now represents 63% of net sales.

Despite the implementation of GST which has resulted in stranded taxes, I am pleased that we have been able to deliver a robust underlying gross margin improvement in both the second quarter and first half, enabled by our accelerated productivity initiatives, price increases in select states, and our continued focus on premiumisation.

Our marketing investments were focused behind the Prestige and Above segment and increased by 11% in the second quarter and by 3% in the first half.

Increased gross margin coupled with organisational efficiencies has led to an underlying EBITDA margin improvement of 135bps and stood at 13.3% in the first half.

Lower interest costs and exceptional items have resulted in an overall PAT increase of 71%.

With the recent Supreme Court clarification on the highway ban, we have seen outlets start to re-open in September and we expect the impact of the highway ban to continue to decrease and the business to normalize by end of the third quarter. Based on our current expectations, through our continued focus on productivity initiatives coupled with price increases in select states, we expect the net adverse impact of GST on our margins to be moderate in this financial year.

We continue to focus on our strategic priorities to capture the long term opportunity in the spirits 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 six months ended 30 September 2017

Summary financial information

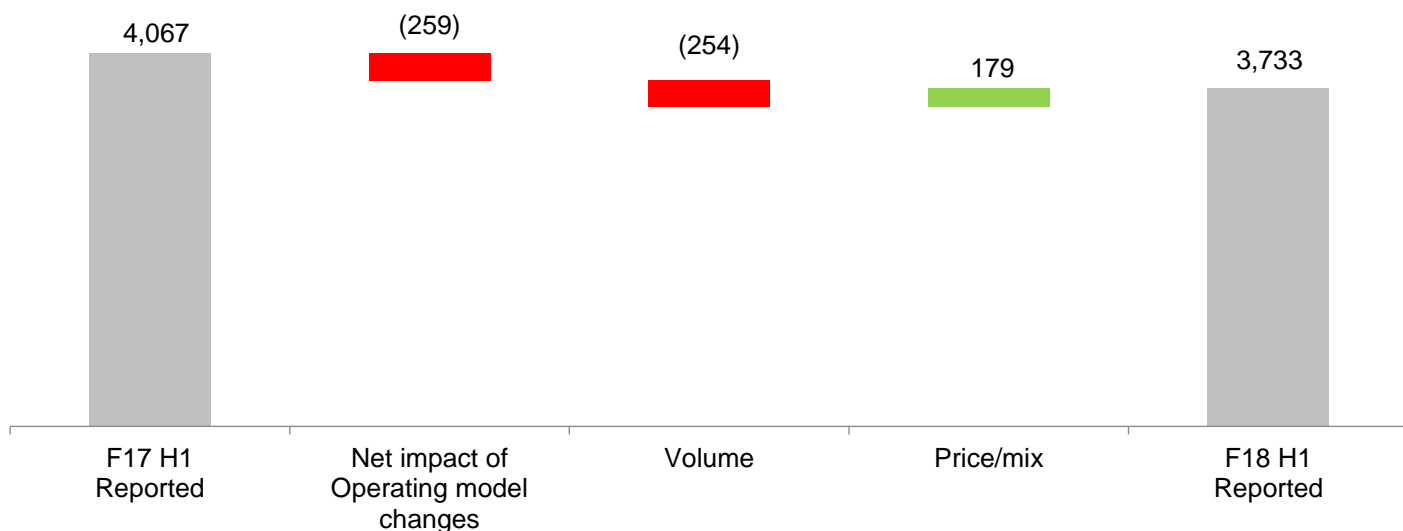
		F18 H1	F17 H1	Movement %
Volume	<i>EUm</i>	36.6	44.2	(17)
Net sales	<i>Rs. Crores</i>	3,733	4,067	(8)
COGS	<i>Rs. Crores</i>	(1,984)	(2,331)	15
Gross profit	<i>Rs. Crores</i>	1,749	1,736	1
Staff cost	<i>Rs. Crores</i>	(325)	(385)	16
Marketing spend	<i>Rs. Crores</i>	(308)	(298)	(3)
Other Overheads	<i>Rs. Crores</i>	(641)	(638)	-
EBITDA	<i>Rs. Crores</i>	475	416	14
Other Income	<i>Rs. Crores</i>	61	58	6
Depreciation	<i>Rs. Crores</i>	(65)	(59)	(9)
EBIT	<i>Rs. Crores</i>	472	414	14
Interest	<i>Rs. Crores</i>	(136)	(192)	29
PBT before exceptional items	<i>Rs. Crores</i>	336	223	51
Exceptional items	<i>Rs. Crores</i>	(15)	(35)	57
PBT	<i>Rs. Crores</i>	320	187	71
Tax	<i>Rs. Crores</i>	(104)	(61)	(71)
PAT	<i>Rs. Crores</i>	216	126	71

Key performance indicators as a % of net sales:

		F18 H1	F17 H1	Movement bps
Gross profit	%	46.8	42.7	415
Staff cost	%	8.7	9.5	75
Marketing spend	%	8.2	7.3	(91)
Other Overheads	%	17.2	15.7	(148)
EBITDA	%	12.7	10.2	251
PAT	%	5.8	3.1	268
Basic earnings per share	<i>rupees</i>	14.9	8.7	6.2rupees
Earnings per share before exceptional items	<i>rupees</i>	15.6	10.3	5.3rupees

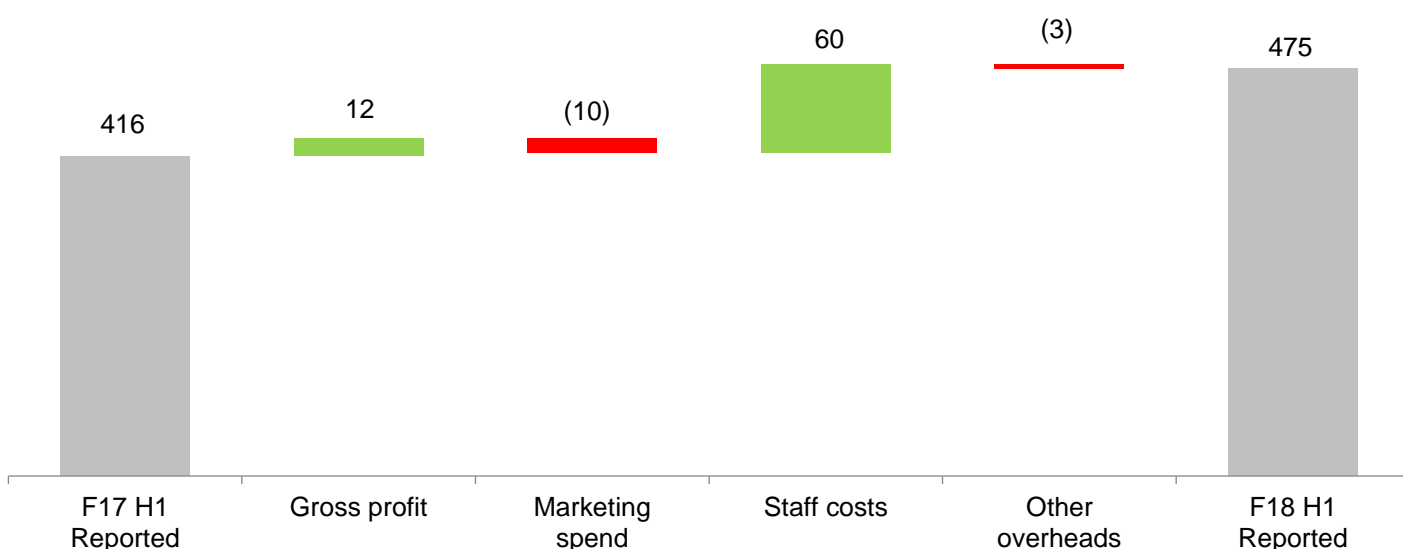
The company in compliance with Schedule III of the Companies Act, 2013 has reported revenue from operations inclusive of excise duty.

Net sales (Rs. Crores)

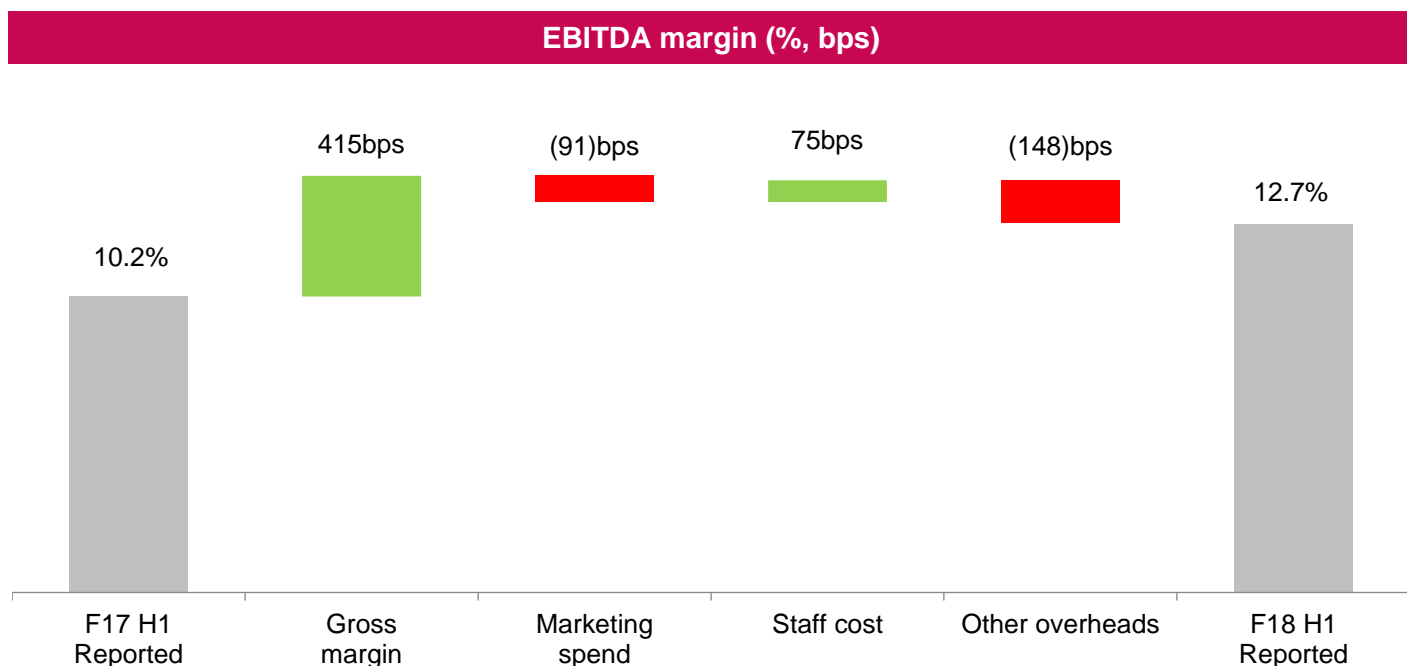


Reported net sales declined 8% in the first half negatively impacted by the highway ban and the one off impact of operating model changes. Excluding the one off impact underlying net sales declined 2%. Underlying volume declined 7% excluding the one off impact. Positive price/mix was driven mainly by price increases in select states and our continued focus on premiumisation and brand renovation in the Prestige & Above segment. Structural changes in certain commercial trade terms in the second quarter, the benefit of which are not expected to repeat, (the one time benefit), included in price/mix, positively impacted first half net sales by 1%.

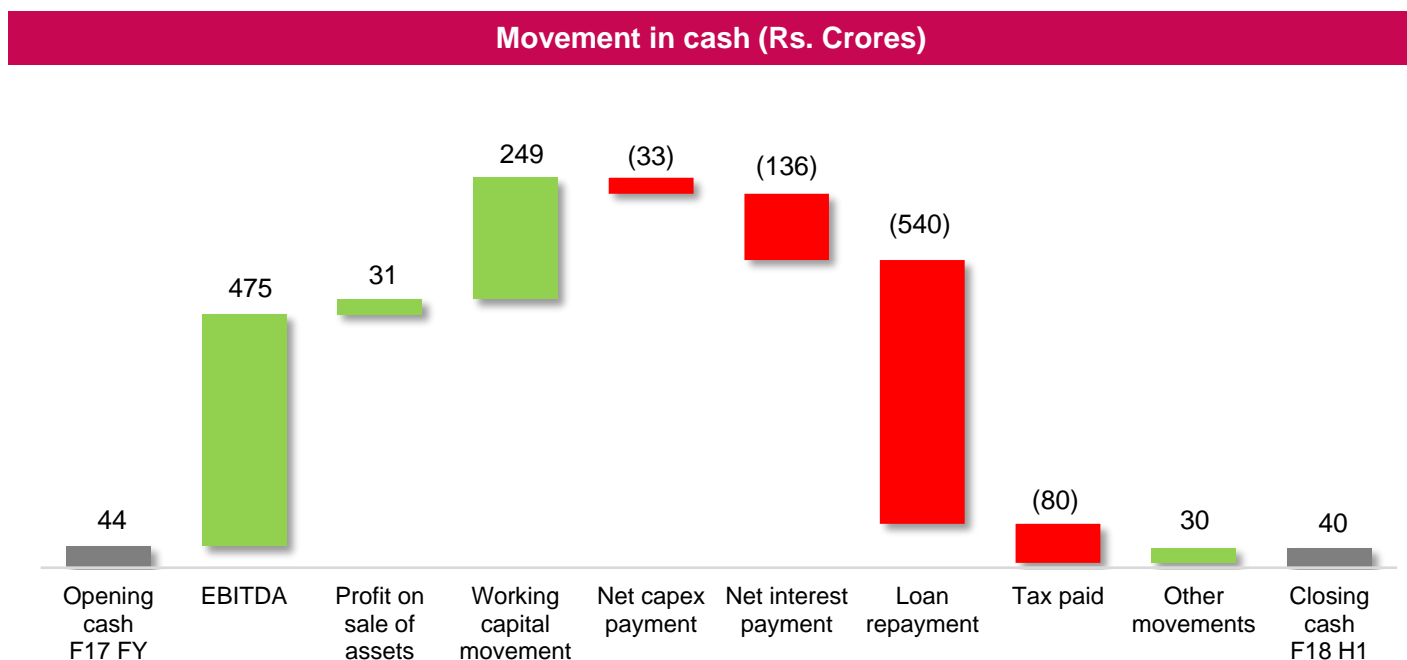
EBITDA (Rs. Crores)



EBITDA at Rs. 475 Crores, increased by 14%. Rs. 12 Crores increase in gross profit was driven mainly by strong growth of the Prestige & Above segment in the second quarter, price increases in select states, continued focus on productivity initiatives and the one time benefit. Marketing investments were focused behind the Prestige & Above segment and increased by 3% in first half. Staff cost decreased by 16%, including one off restructuring cost of Rs. 13 Crores in the current year and Rs. 28 Crores in the previous year, benefitting from the savings delivered by the organisational changes. Other overheads remained flat in the first half. Underlying EBITDA increased by 9%.

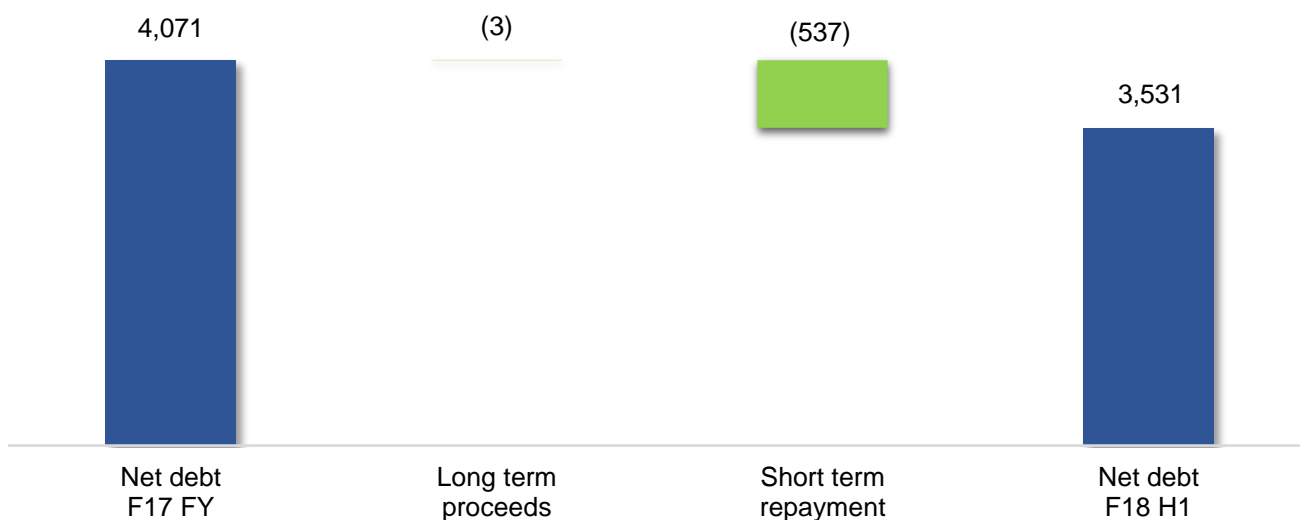


EBITDA margin of 12.7% increased by 251bps compared to last year. Gross margin improvement of 415bps, including 74bps positive impact of the one time benefit, was primarily driven by price increases, continued focus on premiumisation and productivity initiatives. Productivity led savings have been partially reinvested and led to an increase in marketing investment. Reduction in staff costs positively impacted margin. Other overheads remained flat, the negative impact on margin was driven by a reduction in reported net sales. The one time benefit positively impacted margin by 121bps. Underlying EBITDA margin of 13.3% increased by 135bps.



Cash closed at Rs. 40 Crores. Non core asset divestment has generated Rs. 31 Crores profit. Decrease in working capital was mainly driven by reduction in receivables and lower advances. Increase in net capex was focused on upgrading strategically important manufacturing units. Cash generated from the underlying business was used for short term debt repayment resulting in a reduction in interest costs.

Movement in debt (Rs. Crores)



Closing net debt was Rs. 3,531 Crore in the first half and the company utilized cash from operations to repay its loans amounting to Rs. 537 Crores. These reduction in debt value together with renegotiation of borrowings and favourable mix of debt instruments reduced the total interest cost by Rs. 55 Crores in the first half.

SEGMENT AND BRAND REVIEW

For the quarter and six months ended 30 September 2017

Key segments*:

	Volume F18 H1 <i>EUM</i>	Volume F17 H1 <i>EUM</i>	Volume movement %	Net sales F18 H1 <i>Rs. Crores</i>	Net sales F17 H1 <i>Rs. Crores</i>	Net sales movement %
Prestige and above	17,5	18,1	(3)	2,359	2,337	1
Popular	19	26,1	(27)	1,308	1,659	(21)

	Volume F18 Q2 <i>EUM</i>	Volume F17 Q2 <i>EUM</i>	Volume movement %	Net sales F18 Q2 <i>Rs. Crores</i>	Net sales F17 Q2 <i>Rs. Crores</i>	Net sales movement %
Prestige and above	9,1	8,9	2	1,264	1,145	10
Popular	9,4	13,1	(28)	658	844	(22)

**Reported figures*

- The **Prestige & Above segment** represents 48% of total volumes and 63% of total net sales, up 7ppts and 6ppts respectively compared to last year. Performance in the second quarter has substantially improved post the Supreme Court clarification allowing outlets to open within city limits and net sales grew 10% with 8ppts positive price/mix. Net sales grew 1% with 4ppts positive price/mix in the first half. Excluding the one off impact of operating model changes net sales grew 12% in the second quarter with 7ppts positive price/mix and grew 2% in the first half with 3ppts positive price/mix.
- **McDowell's No. 1 Whisky** (excluding Platinum) grew volume 5% and net sales 14% in the second quarter and volume was flat and net sales grew 6% in the first half.
- **Royal Challenge** grew volume 6% and net sales 12% in the second quarter and volume declined 5% and net sales declined 1% in the first half.
- **Signature** continued to show positive momentum supported by the successful renovation and grew volume 10% and net sales 13% in the second quarter and volume grew 9% and net sales grew 14% in the first half.
- The re-launch of **Antiquity** has started towards the end of the first quarter in select states and we expect to deliver momentum in the subsequent quarters post the national roll out.
- Our **Scotch** portfolio in the premium and luxury segment grew volume 5% and net sales 8% in the second quarter driven mainly by Johnnie Walker and Black Dog. Volume declined 8% and net sales declined 7% in the first half.
- The **Popular segment** represents 52% of total volumes and 35% of total net sales, down 7ppts and 6ppts respectively compared to last year. The total popular segment declined volume 28% and net sales 22% in the second quarter and declined volume 27% and net sales 21% in the first half impacted by one off impact of operating model changes. Excluding one off impact volume declined 11% and net sales declined 9% in both the second quarter and the first half. Priority states declined volume 8% and net sales 4% in the second quarter and declined volume 9% and net sales 5% in the first half as we lap strong performance last year driven by increased stock levels ahead of tax increases in Maharashtra.

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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LIVE 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 Friday **27 October 2017** 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 Q&A session will be available for download on 30 October 2017 at www.diageoindia.com.

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