

DIAGEO

INDIA

United Spirits Limited

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30th December 2020

BSE Limited
Listing Department
Dalal Street,
Mumbai 400 001
Scrip Code: 532432

National Stock Exchange of India Ltd
Exchange Plaza, C-1 Block G,
Bandra Kurla Complex,
Bandra East, Mumbai- 400051
Scrip Code: MCDOWELL-N

Dear Sirs,

Sub: Intimation of revision of credit rating

Pursuant to Regulation 30 read with Schedule III of SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015, we attach herewith the rating rationale issued by CRISIL (formerly Credit Rating Information Services of India Limited) and uploaded on their website toady i.e. December 30, 2020.

This is for your information & records.

Thank you,

For United Spirits Limited

Mital Sanghvi
Company Secretary

Encl: as above



Ratings

Rating Rationale

December 30, 2020 | Mumbai

United Spirits Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.3925 Crore
Long Term Rating	CRISIL AA+/Positive (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

Rs.750 Crore Non Convertible Debentures	CRISIL AA+/Positive (Reaffirmed)
Rs.500 Crore Commercial Paper (Reduced from Rs.1500 Crore)	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its 'CRISIL AA+/Positive/CRISIL A1+' ratings on the bank facilities and debt programmes of United Spirits Ltd (USL). CRISIL has **withdrawn** its rating on the commercial paper of Rs 1000 crore at the company's request as there was no outstanding against the facility. The withdrawal is in line with CRISIL's policy. (see Annexure 'Details of Rating Withdrawn' for details).

The ratings continue to reflect the company's leadership position in the spirits industry in India, strong and diversified product portfolio, and the operational and technical support it receives from parent Diageo Plc (rated 'A-/Stable/A2' by S&P Global Ratings [S&P]). These strengths are partially offset by vulnerability to regulatory changes.

In the quarter ended June 30, 2020, operating performance was significantly impacted by the Covid-19 pandemic with operating income declining 58% and operating loss of Rs 92 crore. The quarter ended September 30, 2020, saw significant recovery with operating income rising more than 100% over the previous quarter and operating margin improving to around 13%.

The first half of fiscal 2021 saw a 32% decline in operating income to Rs 3,228 crore and a fall in operating margin to 8.6% from 19.1% in the first half of fiscal 2020 due to the operating loss incurred in the first quarter.

However, the financial risk profile remained healthy with total debt reducing to around Rs 1,580 crore as on September 30, 2020, from Rs 2,374 crore as on March 31, 2020, driven by better working capital management and healthy accruals in the second quarter of fiscal 2021.

Analytical Approach

For arriving at the ratings, CRISIL has combined the business and financial risk profiles of USL and its subsidiaries as they are in the same business and have a common management.

The ratings also factor in the support USL receives from its ultimate parent Diageo Plc, which holds 55.94% stake in the company.

Please refer Annexure - Details of Consolidation, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths

* **Leadership position in the spirits industry in India:** USL has around 32% share in the Indian spirits industry driven by its strong brand and presence across various price points and geographies. The company has a strong distribution network and point of sale coverage with more than 65,000 outlets across India. It owns 15 manufacturing facilities across 10 states and 1 union territory in India, besides many third-party facilities producing alcoholic beverages exclusively for it.

* **Strong and diversified product portfolio with established brands:** USL benefits from strong brand awareness with a diverse range of products across various price points. USL has 13 brands that sell more than a million cases each year, of which 4 brands sell more than 10 million cases each per annum. Its portfolio also includes local brands such as Mc Dowells No. 1 (brandy), Celebration (rum), blue Riband (gin), Romanov (vodka), as well as a solid portfolio of global brands.

* **Operational and technical support from parent:** USL shares strong linkages with the Diageo group (holding 55.94% stake) which has complete management control over the company. There are strong business synergies with the implementation of global best practices across functions while USL also has access to some of the premium brands of Diageo (such as Johnnie Walker, Smirnoff and Baileys). The company also receives strong management and operational

support from the parent.

Weakness

* **Vulnerability to regulatory changes:** Fiscals 2020 and 2021 saw significant increase in excise duty across various states which impacted the operating performance of USL. Fiscal 2018 was a disruptive year for the industry on account of implementation of the goods and services tax (GST) and the Supreme Court ruling to ban liquor vendors within 500 metres of national and state highways, which impacted 30,000 stores (30-40% of liquor vendors).

Liquidity Superior

USL should maintain healthy liquidity driven by expected cash accrual of more than Rs 600 crore each in fiscals 2021 and 2022 and cash and equivalent of Rs 151 crore as on March 31, 2020. USL has access to fund-based limits of Rs 3,425 crore, utilised 32% on average over the 12 months through September 2020. The company has long-term debt obligation of around Rs 750 crore in fiscal 2021 and plans capex of around Rs 250 crore per annum, likely to be financed through internal accrual. Its bank lines are expected to meet incremental working capital requirement.

Outlook: Positive

CRISIL believes USL may sustain the improvement in its financial risk profile driven by healthy operating efficiency, despite the short-term impact of the pandemic.

Rating Sensitivity Factors

Upward Factors

- * Upgrade in the ratings on the parent by S&P
- * Sustained improvement in operating performance driven by operating margin of over 15% on a sustainable basis and steady increase in operating income.
- * More-than-expected reduction in debt backed by improving profitability, leading to a better capital structure

Downward Factors

- * Downgrade in the ratings on the parent by S&P
- * Operating performance adversely affected with operating margin below 10% on a sustained basis
- * Debt-funded capital expenditure (capex) leading to debt to Ebitda ratio of more than 2 times on a sustainable basis
- * Change in stance of support by Diageo Plc.

About the Company

USL is the largest Indian spirits company involved in the manufacture, sale and distribution of alcohol, producing and selling around 110 million cases of Scotch whisky and Indian-made foreign liquor such as whisky, brandy, rum, vodka, gin and wine. Its portfolio of over 120 brands includes the well-known McDowell's No 1, Royal Challenge, Signature, and Antiquity as well as Diageo Plc's iconic brands such as Johnnie Walker, VAT 69, Black & White, Smirnoff and Ciroc.

USL has 13 brands that sell more than a million cases each year, of which 4 brands sell more than 10 million cases each annually. Its products have regularly won local and international accolades and awards.

The company has a strong distribution network and point of sale coverage spanning across more than 65,000 outlets across India. Company's products are manufactured across more than 50 locations in India of which 15 manufacturing facilities across 10 states and 1 union territory are owned by the company.

For the six months ended September 2020, the company reported consolidated profit after tax (PAT) of negative Rs 121 crore and operating income of Rs 3,228 crore against PAT of Rs 339 crore and operating income of Rs 4,747 crore for the corresponding period of the previous fiscal.

Key Financial Indicators*

As on/for the period ended March 31		2020	2019
Net Sales	Rs crore	9079	9298
Profit after tax	Rs crore	621	684
PAT margin	%	6.8	7.4
Adjusted debt/Adjusted networkth	Times	0.73	1.09
Interest coverage	Times	6.76	6.10

*Consolidated

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Commercial paper	NA	NA	7-365 days	500.00	Simple	CRISIL A1+
INE854D08011	Non-convertible debentures	28-Dec-2017	7.45	28-Dec-2020	750.00	Simple	CRISIL AA+/Positive

NA	Fund-based facilities**	NA	NA	NA	2925.00	NA	CRISIL AA+/Positive
NA	Non-fund-based limit^	NA	NA	NA	500.00	NA	CRISIL A1+
NA	Proposed fund-based bank limit	NA	NA	NA	500.00	NA	CRISIL AA+/Positive

**Interchangeable with non-fund-based limit

^Interchangeable with fund-based limit

Annexure - Details of Rating Withdrawn

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level
NA	Commercial paper	NA	NA	7-365 days	1000.00	Simple

Annexure - List of Entities Consolidated

Name of entities	Type of consolidation	Rationale
Asian Opportunities & Investments Ltd, Palmer Investment Group Ltd, Tern Distilleries Pvt Ltd, Shaw Wallace Overseas Ltd, UB Sports Management Overseas Ltd (formerly known as JIHL Nominees Ltd), Montrose International SA, USL Holdings Ltd, USL Holdings (UK) Ltd, United Spirits (UK) Ltd, United Spirits (Great Britain) Ltd, McDowell & Co. (Scotland) Ltd, Royal Challengers Sports Pvt Ltd, Liquidity Inc, United Spirits (Shanghai) Trading Company Ltd, Sovereign Distilleries Ltd, Pioneer Distilleries Ltd, United Spirits Singapore Trading Pte Ltd (formerly known as Whyte and Mackay Singapore Pte Ltd)	Fully consolidated	Same business and close business linkages

Annexure - Rating History for last 3 Years

		Current		2020 (History)		2019		2018		2017		Start of 2017
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	500.00	CRISIL A1+			30-12-19	CRISIL A1+	13-12-18	CRISIL A1+	14-11-17	CRISIL A1+	--
								30-11-18	CRISIL A1+	25-10-17	CRISIL A1+	
Non Convertible Debentures	LT	750.00 30-12-20	CRISIL AA+/Positive			30-12-19	CRISIL AA+/Positive	13-12-18	CRISIL AA+/Stable	14-11-17	CRISIL AA+/Stable	--
								30-11-18	CRISIL AA+/Stable			
Fund-based Bank Facilities	LT/ST	3425.00	CRISIL AA+/Positive			30-12-19	CRISIL AA+/Positive	13-12-18	CRISIL AA+/Stable	14-11-17	CRISIL AA+/Stable	--
								30-11-18	CRISIL AA+/Stable			
Non Fund-based Bank Facilities	LT/ST	500.00	CRISIL A1+			30-12-19	CRISIL A1+	13-12-18	CRISIL A1+	14-11-17	CRISIL A1+	--
								30-11-18	CRISIL A1+			

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Fund-Based Facilities**	2925	CRISIL AA+/Positive	Fund-Based Facilities**	3125	CRISIL AA+/Positive
Non-Fund Based Limit^	500	CRISIL A1+	Non-Fund Based Limit^	500	CRISIL A1+
Proposed Fund-Based Bank Limits	500	CRISIL AA+/Positive	Proposed Fund-Based Bank Limits	300	CRISIL AA+/Positive
Total	3925	--	Total	3925	--

**Interchangeable with non-fund-based limit

^Interchangeable with fund-based limit

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Criteria for Consolidation
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

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