

15th February 2023

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

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

Dear Sirs,

Sub: Intimation of credit rating from CRISIL

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 today.

This is for your information and records.

Thank you,

For United Spirits Limited

MITAL
ARVIND
SANGHVI

Digitally signed by MITAL
ARVIND SANGHVI
Date: 2023.02.15 15:42:25
+05'30'

Mital Sanghvi
Company Secretary



Rating Rationale

February 15, 2023 | Mumbai

United Spirits Limited

Long-term rating reaffirmed; Short-term rating Withdrawn

Rating Action

Total Bank Loan Facilities Rated	Rs.1350 Crore (Reduced from Rs.2800 Crore)
Long Term Rating	CRISIL AAA/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Withdrawn)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AAA/Stable' rating on the long term bank facilities of United Spirits Limited (USL). CRISIL Ratings has also **withdrawn** its rating on the bank facilities worth Rs 1450 crore at the request of the company and the same is in line with withdrawal policy of CRISIL Ratings.

The rating reflects improving financial risk profile supported by significant deleveraging, strong cash accrual of around Rs 1,000 crore and modest capital expenditure (capex) plans of around Rs 100-200 crore while sustaining the leadership position in domestic Indian-made foreign liquor (IMFL) segment along with strong operating efficiency.

The company has repaid its entire long-term loan and reduced working capital debt, thereby improving the capital structure; gearing reduced to 0.06 time as on September 30, 2022 from 0.17 times in the previous year. Operating performance has also improved significantly in the first nine months of fiscal 2023 with revenues increasing by 13% year-on-year, however the operating margin moderated by 180 basis points to 14.57% from 16.39% due to higher raw material cost. The operating margin is expected to sustain over 15% during the medium term, driven by various measures undertaken over the past several years including premiumisation of products and leveraging of fixed overheads.

With its continuing focus towards premiumization of its portfolio, company has completed sale of 32 brands in its popular portfolio (accounting for 66% of the volume of popular segment) to Inbrew Beverages Private Ltd under slump sale for a total consideration of Rs 818 crores in September 2022. CRISIL Rating expects the overall volumes for fiscal 2023 to decline by 9-10 % year-on-year due to slump sale of popular brands, however revenue growth is expected to remain robust at over 9% driven by higher focus on Prestige & Above segment.

The ratings continue to reflect a leadership position in the spirits industry in India, strong and diversified product portfolio, and operational and technical support it receives from its parent, Diageo plc (rated 'A-/Stable/A2' by S&P Global Ratings [S&P]). These strengths are partially offset by exposure to regulated nature of the industry.

Analytical Approach

For arriving at the ratings, CRISIL Ratings has combined the business and financial risk profiles of USL and its subsidiaries as they are in the same line of 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 - list of entities consolidated, 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 25% share in the Indian spirits industry, driven by its strong brand equity, wide product portfolio across product categories as well as price points and PAN India presence. The company has a strong distribution network and point-of-sale coverage; it operates via over 70000 outlets across India. It has 14 own operational manufacturing facilities across eight states in India. These are in addition to many third-party facilities producing alcoholic beverages for USL.

Strong and diversified product portfolio with established brands

USL benefits from strong brand awareness with a diverse range of products across various price points operating in all segments of popular, prestige, premium and luxury. The company has nine brands that sell more than a million cases each year, of which one brand sells more than 25 million cases annually. Its portfolio also includes several global brands such as McDowell's No 1 (brandy), Celebration (Rum), etc. as well as a solid portfolio of local brands and premium products. The company has also entered the Indian craft segment under brands such as Epitome Reserve, Godawan and Signature.

Operational and technical support it receives from parent, Diageo Plc

USL shares strong linkages with the Diageo group (holding 55.94% stake), which has complete management control over the entity. 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:**Exposure to regulated nature of industry**

USL remains exposed to regulated nature of the industry due to restrictions by the state governments on production, movement and sale of spirits. The distribution remains highly controlled by the government in most of the states while in some of the states, pricing is also controlled. The company remains exposed to changing regulatory environment. In the past, fiscal 2018 was a disruptive year for the industry owing to implementation of the Goods and Services Tax and the Supreme Court ruling to ban liquor vendors within 500 metre of national and state highways impacted 30,000 stores (30-40% of the total liquor vendors). Similarly, the industry has also seen complete ban on liquor sale by some of the states in the past. However, this is partly offset by Pan-India presence of USL and the regulations largely driven by the respective states.

Liquidity: Superior

Liquidity is likely to remain healthy. In the absence of any repayment obligation, cash accrual – projected at around Rs 1,000 crore per annum for fiscals 2023 and 2024 – should aid financial flexibility. Cash and cash equivalents were Rs 810 crore as on September 30, 2022. The fund-based limit of Rs 2,185 crore was minimally utilised, less than 5% on an average over the 12 months through November 2022. The surplus cash available in cash accrual, bank lines and cash and cash equivalents should be sufficient to meet the yearly capex of around Rs 100- 200 crores and incremental working capital requirement.

ESG Profile:

CRISIL Ratings believes that USL's Environment, Social, and Governance (ESG) profile supports its already strong credit risk profile.

The alcohol sector has a moderate environmental impact, primarily driven by its raw material sourcing strategies and waste intensive processes. It also has a moderate social impact due to aspect related to alcohol abuse, underage consumption as well as risk of government intervention including restriction on sales, regulation of marketing practices and higher tax.

USL's strong focus on addressing these ESG risks supports its already strong credit risk profile.

Key ESG Highlights:

USL aims to have its operations powered by 100% renewable electricity by 2030 by doubling onsite solar potential across its manufacturing facilities. Till date, USL has already achieved 98% renewable electricity through in-house steam turbines, bio-gas engines and solar plants.

USL aims to use 40% less water than today for every drink it makes by 2030 and replenish more water than it uses in all its water-stressed areas by 2026. In fiscal 2022, USL reported 58 percent improvement in water efficiency in operations through technology upgradation, water conservation, wastewater treatment, water recycling and rain water harvesting.

As part of its Society 2030 targets, USL is working to increase representation of women to 33% within the organisation and 50% in USL's Leadership Team

To address the issues of alcohol abuse and underage drinking, USL has consistently undertaken corporate actions--including offering educational programs and upholding a marketing code of conduct--to address these social concerns.

USL's governance structure is characterized by majority of board comprising of independent directors, presence of non-executive chairman, split in chairman and CEO position, and extensive disclosures.

There is growing importance of ESG among investors and lenders. CRISIL Ratings believes the company's continuous commitment to embed sustainability principles across the organization and its value chain will play a key role in enhancing stakeholder confidence.

Outlook: Stable

USL will continue to benefit from its leading market position and healthy operating efficiencies along with ongoing support from the parent.

Rating Sensitivity Factors

Downward Factors

- Downgrade in rating of parent by S&P or change in stance of support from the parent
- Operating performance adversely affected, with operating margin below 10% on a sustained basis and/or debt-funded capex/acquisition, leading to net debt to Ebitda ratio over 1.5 times on a sustained basis

About the Company

USL is the largest Indian spirits company that manufactures, sells and distributes beverage alcohol, producing and selling around 80 million cases of Scotch whisky, IMFL whisky, brandy, rum, vodka, gin and wine. Its portfolio of over 80 brands includes McDowell's No.1, Royal Challenge, Signature, and Antiquity as well as Diageo's iconic brands such as Johnnie Walker, VAT 69, Black & White, Smirnoff and Ciroc.

For the nine months through December 2022, the company reported consolidated profit after tax (PAT) of Rs 1023 crore on operating income of Rs 8108 crore against profit of Rs 632 crore on operating income of Rs 7177 crore for the corresponding period of the previous fiscal.

Key Financial Indicators (Consolidated)*

As on/for the period ended March 31		2022	2021
Operating income	Rs crore	9423	7810
PAT	Rs crore	811	362
PAT margin	%	8.6	4.6
Adjusted debt/adjusted networkth	Times	0.08	0.24
Adjusted interest coverage	Times	17.0	5.6

*As per analytical adjustments made by CRISIL Ratings

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' 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.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

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	Fund-Based Facilities*	NA	NA	NA	350	NA	CRISIL AAA/Stable
NA	Fund-Based Facilities*	NA	NA	NA	350	NA	CRISIL AAA/Stable
NA	Fund-Based Facilities*	NA	NA	NA	150	NA	CRISIL AAA/Stable
NA	Fund-Based Facilities*	NA	NA	NA	50	NA	CRISIL AAA/Stable
NA	Fund-Based Facilities*	NA	NA	NA	50	NA	CRISIL AAA/Stable
NA	Fund-Based Facilities*	NA	NA	NA	150	NA	CRISIL AAA/Stable
NA	Fund-Based Facilities*	NA	NA	NA	250	NA	CRISIL AAA/Stable
NA	Fund-Based Facilities*	NA	NA	NA	250	NA	Withdrawn

NA	Fund-Based Facilities*	NA	NA	NA	200	NA	Withdrawn
NA	Fund-Based Facilities*	NA	NA	NA	150	NA	Withdrawn
NA	Fund-Based Facilities*	NA	NA	NA	200	NA	Withdrawn
NA	Fund-Based Facilities*	NA	NA	NA	200	NA	Withdrawn
NA	Non- Fund-Based Facilities^	NA	NA	NA	50	NA	Withdrawn
NA	Non- Fund-Based Facilities^	NA	NA	NA	350	NA	Withdrawn
NA	Non- Fund-Based Facilities^	NA	NA	NA	50	NA	Withdrawn

*Interchangeable with non fund based limit

^Interchangeable with fund based limit.

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Asian Opportunities & Investments Ltd	Fully consolidated	Same business and close business linkages
Palmer Investment Group Ltd (merged with UB Sports Management Overseas Ltd w.e.f. July 15, 2020)	Fully consolidated	Same business and close business linkages
Shaw Wallace Overseas Ltd	Fully consolidated	Same business and close business linkages
USL Holdings Ltd	Fully consolidated	Same business and close business linkages
USL Holdings (UK) Ltd	Fully consolidated	Same business and close business linkages
United Spirits (UK) Ltd	Fully consolidated	Same business and close business linkages
United Spirits (Great Britain) Ltd	Fully consolidated	Same business and close business linkages
McDowell & Co. (Scotland) Ltd	Fully consolidated	Same business and close business linkages
Royal Challengers Sports Pvt Ltd	Fully consolidated	Same business and close business linkages
United Spirits (Shanghai) Trading Company Ltd @	Fully consolidated	Same business and close business linkages
Sovereign Distilleries Ltd@@	Fully consolidated	Same business and close business linkages
Pioneer Distilleries Ltd^	Fully consolidated	Same business and close business linkages
United Spirits Singapore Trading Pte Ltd (Formerly known as Whyte and Mackay Singapore Pte Ltd)\$	Fully consolidated	Same business and close business linkages
^Hip Bar Pvt Ltd**	Equity method	Same business and close business linkages

**USL sold its entire stake (equity shares) and compulsory convertible preference shares through a share purchase agreement on August 03, 2021

^Amalgamated with United Spirits in Q3 of Fiscal 2023

@Ceased to be a subsidiary wef January 12, 2023.

@@ Divested on January 24, 2023

\$Ceased to be a subsidiary wef November 04, 2022

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	2350.0	CRISIL AAA/Stable		--		--	31-12-21	CRISIL AAA/Stable	30-12-20	CRISIL AA+/Positive	CRISIL AA+/Positive
Non-Fund Based Facilities	ST	450.0	Withdrawn		--		--	31-12-21	CRISIL A1+	30-12-20	CRISIL A1+	CRISIL A1+
Commercial Paper	ST		--		--		--	31-12-21	Withdrawn	30-12-20	CRISIL A1+	CRISIL A1+
Non Convertible Debentures	LT		--		--		--	31-12-21	Withdrawn	30-12-20	CRISIL AA+/Positive	CRISIL AA+/Positive

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Fund-Based Facilities*	250	CRISIL AAA/Stable
Fund-Based Facilities*	50	CRISIL AAA/Stable

Fund-Based Facilities*	250	Withdrawn
Fund-Based Facilities*	150	Withdrawn
Fund-Based Facilities*	200	Withdrawn
Fund-Based Facilities*	350	CRISIL AAA/Stable
Fund-Based Facilities*	150	CRISIL AAA/Stable
Fund-Based Facilities*	200	Withdrawn
Fund-Based Facilities*	350	CRISIL AAA/Stable
Fund-Based Facilities*	200	Withdrawn
Fund-Based Facilities*	150	CRISIL AAA/Stable
Fund-Based Facilities*	50	CRISIL AAA/Stable
Non-Fund Based Limit^	50	Withdrawn
Non-Fund Based Limit^	350	Withdrawn
Non-Fund Based Limit^	50	Withdrawn

*Interchangeable with non fund based limit

^Interchangeable with fund based limit.

Criteria Details

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

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Aveek Datta Media Relations CRISIL Limited M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com</p> <p>Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com</p> <p>Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com</p>	<p>Mohit Makhija Senior Director CRISIL Ratings Limited B: +91 124 672 2000 mohit.makhija@crisil.com</p> <p>Anand Kulkarni Director CRISIL Ratings Limited B: +91 22 3342 3000 anand.kulkarni@crisil.com</p> <p>Anagha Prabhakar Sawant Rating Analyst CRISIL Ratings Limited B: +91 22 3342 3000 Anagha.Sawant@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

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