DIAGEO
INDIA

United Spirits Limited

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1st August, 2022

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: Statement in relation to the divesture and franchise of select popular brands

Please find enclosed statement in relation to the divesture and franchise of select popular brands being uploaded by the Company on its website.

This is for your information and records.

Thank you,

For United Spirits Limited

MITAL ARVIND SANGHVI
Digitally signed by MITAL ARVIND SANGHVI
Date: 2022.08.01 18:26:48 +05'30'

Mital Sanghvi
Company Secretary

Encl: as above

Statement in relation to the divesture and franchise of select popular brands

The Company has sought shareholders' approval at the ensuing AGM scheduled on 9th August 2022 inter-alia for a transaction with Inbrew Beverages Private Limited ("Inbrew") involving (i) slump sale of the entire business undertaking associated with 32 brands in the 'popular' segment; and (ii) grant of franchise in relation to 11 other brands in the 'popular' segment to Inbrew for a period of five years and other related arrangements as further set out in the AGM notice dated 22nd June 2022.

The proposed resolution as well as explanatory statement circulated to the shareholders on the aforesaid transaction is in conformity with the regulatory requirements. Over the last few days, the Company has received a few queries from a section of the investors in relation to the transaction. By means of this statement, the Company is providing further context to enable the shareholders to better appreciate and understand the proposal:

1) Robust 18-month process

The Company has followed a thorough process over nearly 18 months which culminated in the signing of the documents in relation to the transaction with Inbrew, an unrelated third party. The process involved the Company, through its financial advisors, Morgan Stanley, inviting interested parties to submit their respective proposals for the portfolio of 'popular' brands. Following multiple discussions with several prospects, six parties initially submitted their non-binding offers. Subsequently, the shortlisted parties submitted their final proposals before Inbrew was finally selected by the Company. In recommending the transaction to its stakeholders, the board of directors of the Company took into consideration all alternatives for the portfolio, and after careful consideration, the offer proposed by Inbrew was strategically identified by the board to be in the best interest of the Company and all its stakeholders. The transaction is in line with the Company's strategy to premiumise its portfolio to deliver long term profitable growth. Whilst there is no regulatory requirement to obtain a fairness opinion for the aforesaid transaction, as a good governance practice, a private fairness opinion from a leading global investment bank was obtained and presented to the audit committee (comprising 75% of independent directors) and the board of directors (comprising a majority of independent directors) as part of the approval process for the transaction.

2) Franchised Brands: Royalty under the fixed term franchise agreement

As mentioned in the AGM notice, the Company will receive a commercially agreed royalty over a period of five years under the fixed term franchise agreement. As part of its ongoing business activity, the Company routinely executes such franchise arrangements from time to time. The proposed royalty construct agreed with Inbrew under the fixed term franchise agreement is in line with industry practices and similar other arrangements previously executed by USL with other parties that are currently in force as well. The royalty paid by the franchisees, whether fixed or variable, as a percentage of the Ex-Distillery Price (EDP), generally, is in the range of 5% to 10% of the EDP, depending on the bottling economics of each geography. The royalty under the fixed term franchise agreement with Inbrew is also in the same range and is of "Revenue" nature. Accordingly, as also noted in the Company's announcement to the stock exchanges on 27th May 2022, the fixed term franchise agreement is in the normal course of the Company's business and is therefore not considered material.

3) Franchised Brands: Value of perpetual right to use

Over and above the fixed term arrangement mentioned above but not linked in any manner as far as the consideration is concerned, at any time during the term of the fixed term franchise agreement, the franchisee, Inbrew, shall be entitled to convert the fixed term franchise arrangement into one with perpetual right to use by executing a long-term franchise agreement. The consideration payable towards the acquisition of such perpetual right varies depending on the timing of the exercise of the option by Inbrew. As noted in the Company's announcement to the stock exchanges on 27th May 2022 as well as the AGM notice, assuming that the long-term franchise agreement is executed at the end of the five-year term of the fixed term franchise agreement, an amount aggregating to approximately INR 12,930 million (Indian Rupees Twelve Thousand Nine Hundred and Thirty Million) will be payable by Inbrew towards the perpetual right to use.

Unlike the royalty payable under the fixed term franchise agreement, the consideration payable by Inbrew to acquire perpetual right to use the franchised brands under the long-term franchise agreement is of “Capital” nature. Since this arrangement is material and not in the normal course of the Company’s business, the Company had duly disclosed this arrangement in the above-mentioned stock exchange announcement.

It is worth re-emphasizing again that the fixed term franchise agreement and the long-term franchise agreement are distinct and unique, and only one of them will be in force at any point of time. These two arrangements cannot co-exist at the same time.