DIAGEO
INDIA

United Spirits Limited

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December 30, 2019

BSE Limited,
(Regular Office & Corporate Relations Dept.)
Phiroze Jeejeeboy Towers
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)
Bandra East, Mumbai- 400051
Scrip Code: MCDOWELL-N

Dear Sir/Madam,

Sub: Revision in 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, 2019. Kindly take note of this disclosure.

Thanking you,

Yours faithfully,

for **United Spirits Limited**

RAMACHANDRAN VENKATESAN IYER
Digitally signed by RAMACHANDRAN VENKATESAN IYER
Date: 2019.12.30 19:24:12 +05'30'

V. Ramachandran
Company Secretary

CRISIL
An S&P Global Company

Rating Rationale

December 30, 2019 | Mumbai

United Spirits Limited

Rating outlook revised to 'Positive'; ratings reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.3925 Crore**
Long Term Rating	**CRISIL AA+/Positive (Outlook revised from 'Stable' and rating reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

Rs.750 Crore Non Convertible Debentures	**CRISIL AA+/Positive (Outlook revised from 'Stable' and rating reaffirmed)**
Rs.1500 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has revised its outlook on the long term bank facilities and non convertible debentures of United Spirits Limited (USL) to **'Positive'** from 'Stable' while reaffirmed the rating at **'CRISIL AA+'.** The short term rating and commercial paper has been reaffirmed at 'CRISIL A1+'.

The outlook revision reflects the expectation of improvement in USL's credit profile, commensurate with better cash accrual and leverage over the medium term. USL's standalone earnings before interest, taxes, depreciation, and amortisation (EBITDA) margin improved to 18.0% in the first half of fiscal 2020 (14.3% in fiscal 2019) from 12.6% in fiscal 2018. The improvement in operating margin is driven by the increasing share of the premium segment, optimisation of operating overheads, and employee costs. USL has been particularly successful in gradually shifting its product portfolio towards the luxury, premium, and prestige segments. These segments inherently have better margin and are more price inelastic, enabling USL to increase the prices and, thus, realisations. The share of prestige & above segments in net sales increased to 67% in the first half of fiscal 2020 (63% in fiscal 2019) from 58% in fiscal 2018.

With healthy accrual and moderate capital expenditure (capex), USL's debt/EBITDA is likely to remain below 1.5 times over the medium term. Capex is estimated at a moderate Rs 250-300 crore per fiscal, likely to be funded through internal cash accrual. USL reduced its debt significantly to Rs 2,630 crore as on September 30, 2019, from Rs 3,418 crore as on March 31, 2018.

The ratings reflect USL's 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). These strengths are partially offset by highly controlled regulatory regime in the industry and exposure to intense competition.

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 line of business and have close business linkages between them. The rating also factors the support USL receives from its ultimate parent, Diageo plc, who holds a 55.24% stake in the company. USL is strategically important to Diageo's growth plans, as both are in same line of business, and the former contributes to 7.75% of the latter's net sales and is central to its growth strategy.

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's strong brand equity, leading position in the Indian spirits markets, solid revenue base, healthy profitability owing to its broad spread of products across categories and price points, and well-balanced geographic presence underpin our assessment of the group's business risk profile as strong.

* **Strong and diversified product portfolio with well-established brands:** USL benefits from strong brand awareness based on a rich portfolio of well-recognised brands across price categories, along with a growing volume share in the premium segment. The company has an outstanding portfolio of premium brands, such as Johnnie Walker, Black Dog, Black & White, VAT 69, Smirnoff, Antiquity, Signature, Royal Challenge, and McDowell's No.1, among others.

* **Operational and technical support it receives from its parent, Diageo plc**: Being a part of Diageo, USL receives adequate support along with strong business synergies. USL has gradually implemented Diageo's global best practices across its functions. The company also receives strong management and operational support from the parent, in addition to the comfortable financial flexibility.

Weakness:

* **Operating in a highly controlled regulatory environment:** In the past, the liquor industry has witnessed disruptive years such as fiscal 2018 on account of implementation of the Goods and Services Tax and a Supreme Court ruling banning liquor vendors within 500 meters of national and state highways, which impacted c.30,000 stores (30-40% of the total liquor vendors). As a result, volume of popular brands remained flat in fiscal 2018. Moreover, increase in taxes in Andhra Pradesh, Telangana, Karnataka and Maharashtra in recent years and entry/exit taxes on cross-border sale of alcohol impact margin.

Liquidity Superior

USL enjoys healthy liquidity driven by expected cash accruals of more than Rs 1,000 crore per annum in fiscal 2020 and fiscal 2021 and cash and cash equivalents of Rs 359 crore as on March 31, 2019. USL also has access to fund based limits of Rs 3,625 crore, utilized to the tune of 26% on an average over the 12 months ended September 2019. The company has long term repayment obligations of around Rs 750 crore in fiscal 2021 along with estimated capex of Rs 250-300 crore per annum. These are expected to be financed through internal accruals. Outstanding CP to the tune of Rs 1,000 crore as on September 30, 2019 is backed by unutilized bank lines and is expected to be rolled over on maturity. Its bank lines are expected to meet its incremental working capital requirements.

Outlook: Positive

CRISIL believes USL may sustain its improved operating performance, supported by favourable change in the product mix and cost efficiency over the medium term.

Rating Sensitivity factors

Upward Factors:

* Upgrade in rating of the parent by S&P by at least one notch
* Sustained improvement in cash accrual, led by operating margin over 15% and revenue growth
* Higher-than-expected reduction in debt leading to improved capital structure, backed by better profitability

Downward Factors:

* Downgrade in rating of the parent by S&P by one notch or more
* Debt/EBITDA exceeding beyond 2 times on a sustained basis

About the Company
USL is the largest Indian spirits company involved in the manufacture, sale, and distribution of beverage alcohol, producing and selling around 82 million cases of Scotch whisky, IMFL whisky, brandy, rum, vodka, gin, and wine annually. The company has an outstanding portfolio of premium brands, such as Johnnie Walker, Black Dog, Black & White, VAT 69, Smirnoff, Antiquity, Signature, Royal Challenge, and McDowell's No.1, among others.

The company has 11 brands that sell more than a million cases each year, of which 2 brands each sell more than 10 million cases annually. The company has a strong distribution network and point of sale coverage and is represented in 65,000+ outlets across India. It has 16 own manufacturing facilities across 10 states and 1 union territory in India.

For the six months ended September 2019, the company reported consolidated profit after tax (PAT) of Rs 339 crore on operating income of Rs 4,747 crore against PAT of Rs 365 crore on operating income of Rs 4,509 crore for the corresponding period of the previous fiscal.

Key Financial Indicators*

As on/for the period ended March 31	Unit	2019	2018
Net Sales	Rs crore	9,341	8,591
Profit after tax	Rs crore	684	652
PAT margin	%	7.3	7.6
Adjusted debt/Adjusted networth	Times	0.93	1.41
Interest coverage	Times	5.88	5.24

**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. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. 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)	Rating assigned with outlook
NA	Commercial paper	NA	NA	7-365 days	1,500.00	CRISIL A1+
INE854D08011	Non-Convertible Debentures	28-Dec-17	7.45	28-Dec-20	750.00	CRISIL AA+/Positive
NA	Fund-Based Facilities**	NA	NA	NA	3,125.00	CRISIL AA+/Positive
NA	Non-Fund-Based Limit ^	NA	NA	NA	500.00	CRISIL A1+
NA	Proposed Fund-Based Bank Limit	NA	NA	NA	300.00	CRISIL AA+/Positive

***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 Limited, Palmer Investment Group Limited, Tern Distilleries Private Limited, Shaw Wallace Overseas Limited, UB Sports Management Overseas Limited (Formerly known as JIHL Nominees Limited), Montrose International S.A, USL Holdings Limited, USL Holdings (UK) Limited, United Spirits (UK) Limited, United Spirits (Great Britain) Limited, Four Seasons Wines Limited, McDowell & Co. (Scotland) Limited, Royal Challengers Sports Private Limited, Liquidity Inc, United Spirits (Shanghai) Trading Company Limited, Sovereign Distilleries Limited, Pioneer Distilleries Limited, United Spirits Singapore Trading Pte Ltd (Formerly known as Whyte and Mackay Singapore Pte Ltd).	Fully consolidated	Same line of business and close business linkages between them and USL

Annexure - Rating History for last 3 Years

	Current			2019 (History)		2018		2017		2016		Start of 2016
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Commercial Paper	ST	1500.00	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 27-12-19	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			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+			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**	3125	CRISIL AA+/Positive	Fund-Based Facilities**	2925	CRISIL AA+/Stable
Non-Fund Based Limit^	500	CRISIL A1+	Non-Fund Based Limit^	500	CRISIL A1+
Proposed Fund-Based Bank Limits	300	CRISIL AA+/Positive	Proposed Fund-Based Bank Limits	500	CRISIL AA+/Stable
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 manufaturing 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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