



DIAGEO

INDIA



—
**STRONG
STEADY
SPIRITED**
—



UNITED SPIRITS LIMITED
ANNUAL REPORT

2019-20

Diageo India is one of the country's leading beverage alcohol company and a subsidiary of the global leader, Diageo plc.

We manufacture, sell and distribute an outstanding collection of premium brands such as Johnnie Walker, Black Dog, Black & White, Vat 69, Antiquity, Signature, Royal Challenge, McDowell's No. 1, Smirnoff and Captain Morgan. As a purpose-led business, we are sensitive to consumer, community and societal needs, and champion the responsible consumption of alcohol.

No.1

**SPIRITS COMPANY
IN INDIA**

2nd

**LARGEST SPIRITS COMPANY
IN THE WORLD**

AA+

**CREDIT RATING
(CRISIL AND ICRA)**

₹22,694Cr

**CONTRIBUTION
TO EXCHEQUER**

Contents

Corporate Overview

- 01 Chairman's Message
- 02 Managing Director & CEO's Message
- 04 Brands and Marketing
- 06 Corporate Citizenship
- 08 Board of Directors

Statutory Reports

- 09 Notice
- 14 Directors' Report
- 22 Corporate Governance Report
- 38 Management Discussion and Analysis
- 76 Business Responsibility Report

Financial Statements

- 88 Standalone
- 160 Consolidated

Corporate Information

(Inside Back Cover)

Performance snapshot FY20

₹28,589Cr

**REVENUE FROM
OPERATIONS**

₹705Cr

**PROFIT
AFTER TAX**

16.6%

**EBITDA
MARGIN**

₹9.70

**EARNINGS PER
SHARE**

80Mn

**CASES
PRODUCED**

54%

**IMPROVEMENT IN
WATER EFFICIENCY
IN OUR OPERATIONS
(BASE YEAR FY07)**

79%

**REDUCTION IN
GHG EMISSIONS**

19%

**GENDER
DIVERSITY**

3,300

**DIRECT
EMPLOYMENT**

25.6Mn*

**COMMUNITY
OUTREACH**

*Our CSR programmes reach includes 22.5 Mn through Network18 digital platforms but not television viewership.

Chairman's message

"Now more than ever before, the success of our business is deeply intertwined with the progress of our customers and our partners, our ability to innovate and delight consumers and the well-being of the communities where we operate."



Dear Shareholders,

As I write this letter, we are several months into a global pandemic and this unprecedented crisis has reiterated the importance of resilience, as a country, as a business and as individuals.

Now more than ever before, the success of our business is deeply intertwined with the progress of our customers and our partners, our ability to innovate and delight consumers and the well-being of the communities where we operate.

India was fraught with multiple headwinds throughout FY20 – lingering distress in the financial services space, muted consumption and cyclical slowdown across industries.

The virus outbreak exacerbated these challenges and India's GDP contracted to 4.2% in FY20, the lowest growth in a decade. The Government of India has announced several measures to inject liquidity into the economy, limit the impact on vulnerable sectors and enhance the pace of recovery.

At Diageo India, as growth in the alcoholic beverages sector slowed sharply and commodities inflation reached new levels in the first half of the financial year, we continued to focus on making our brands stronger through renovations and driving operational and financial efficiency. I am happy that we were able to maintain our operating margins in FY20 even in a tough environment.

We stood up to be counted in the fight against the pandemic, through donation of bulk hand sanitisers and showing solidarity to our on-trade partners through the 'Raising the Bar' programme and by providing medical insurance for the bartenders.

I am encouraged by the regulators' acknowledgment of our category's salience in the revenue generation capability of State Governments and by extension, our contribution to the

economy. This is a positive step towards normalisation of the category and the industry.

During the year, we made significant investment in our talent pipeline and progressed towards a culture of inclusivity and shared values. I am particularly pleased that our commitment to making our workplace more diverse is bearing fruit – women constitute nearly 26% in leadership positions in the organisation today.

Moreover, we continue to make substantial progress in our sustainability journey. I am delighted to inform you that Diageo has met its 2020 water replenishment target, two years ahead of time.

Looking at the future, India's structural growth drivers remain intact. A young demographic base, growing income levels, expanding middle-class, greater preference for premium food and drink experiences and steadily rising social acceptance of spirits will continue to underpin demand in the years to come. We have the benefit of a world leader in spirits as our parent company; and their global experience combined with a strong team in India will be instrumental in helping us remain strong, steady and spirited in our pursuit of value-accretive growth.

I am confident that we are well placed both in ensuring the resilience of the Company and in helping the wider stakeholder fraternity to meet the challenges of the changing times.

I thank everyone for their support and confidence during these trying times.

Stay safe. Stay well.

Yours sincerely,

Mahendra Kumar Sharma
Chairman

Managing Director & CEO's message

"Over the course of this year, we will have to navigate several unknowns, including disruptive waves of state level lockdowns, impact of recent tax hikes on consumer demand and the effects of economic turmoil. We will continue to dynamically manage the situation in the near term, while staying true to our longer-term strategy."



Dear Shareholders,

FY20 was a challenging one for the Indian economy with the macroeconomic slowdown causing the GDP growth plummet to 4.2%. Subdued economic activity and bearish consumer sentiment led to broad-based consumption slowdown which, along with commodity inflation, particularly ENA, impacted growth and margin for beverage alcohol - resulting in industry growth falling to levels lower than that recorded during the demonetisation and highway ban quarters. The onset of COVID-19 and the resultant national lockdown towards the end of the fiscal year further exacerbated the situation.

Enhancing profitability despite significant headwinds

Despite the muted economic environment, Diageo India grew its Prestige & Above (P&A) segment by 6% in the first nine months of the year, within a reported total net sales growth of 5.4%. Net sales, however, declined by 11% in the last quarter, impacted by closure of the on-premise channel and off-trade retail vends. For the full year, we clocked 1.2% revenue growth.

Recognising the revenue challenge early in the year, we put management focus on productivity across all cost lines, including extracting A&P efficiencies, savings in non-staff overheads and interest costs, optimising our imports value chain through logistics efficiencies, coupled with overall fiscal discipline.

I am pleased, therefore, that despite the multitude of headwinds during the year, your Company's EBITDA grew by 17% with EBITDA margin expanding by over 220 bps. Overall, despite an

unfavourable environment which impacted demand and cost, PAT for the year was up 7%.

Renovating our big brands

During the year, our two biggest Prestige segment brands – Royal Challenge and McDowell's No. 1 – were relaunched with new blend and packaging. Although the roll-out of the renovated brands has been impacted by the lockdown, the early signs are promising.

The year also witnessed a disruptive innovation in Scotch through the launch of 'Hipster', a portable Scotch whisky in a pocket-size format – sleek, stylish and perfect for spontaneous casual moments.

We continued to strengthen our route-to-consumer through deployment of technology that enables better management of trade channels. Our IT-enabled tool 'TRAX', uses real-time image recognition (such as recording images of product display on retail shelves, providing analysis of stock availability and share on shelf) that helps track in-market execution and enhance service quality.

Continuing to play our role in society

Good corporate citizenship is core to our business, and we continue to invest significantly behind creating societal impact.

Through our flagship 'Diageo Road to Safety' campaign, now in its 5th year, we are building on our partnerships with State Governments to help create a national movement on road safety in the country. This year, in a first-of-its-kind one-year sustained

intervention together with the Government of Puducherry, we helped reduce road accidents by 13%, serious injuries by 20% and road fatalities by 21%. This programme was recognised by the United Nations Global Road Safety Forum as a 'Safety Laboratory' for South East Asia.

At a time when preservation and replenishment of water has emerged as a serious issue for the country against an impending 'water crisis', we have improved water efficiency in our manufacturing units by 54% (in lakh/litre when compared to our FY07 baseline). Our water replenishment initiatives have benefited ~70,000 people this year through community-focused projects across severely water-stressed areas in Rajasthan, Uttar Pradesh and Maharashtra.

I am proud that India met its water replenishment target two years early, which has helped Diageo achieve its 2020 Global Water Commitment Target.

Building our talent & culture

People are at the heart of a winning organisation. We are committed to their professional and personal growth by ensuring that Diageo is a great place to work. Our efforts to build a future-ready organisation includes succession planning for all critical leadership positions, accelerating internal readiness for senior positions, strengthening people-manager capabilities, building early careers through campus hiring, while engaging and retaining talent.

Because of our concerted efforts to enhance the diversity of our organisation, I am pleased to share that the participation of women in the workplace has increased significantly to 19.4% in FY20 from 7.5% in FY15. We are leaving no stone unturned in our ambition to build a non-hierarchical, meritocratic, collaborative, inclusive and performance-oriented organisation.

Standing up, being counted

Towards the end of the financial year, as the pandemic hit our business, we quickly re-directed our priorities towards protecting the business and creating enablers that would help us to emerge stronger through a prolonged crisis.

Our Crisis Management Team swung into action to monitor, assess and minimise the impact on our employees and

operations, taking early steps such as working from home, sanitisation of all our facilities and business continuity planning. The coordinated efforts of the team ensured seamless remote working and quick resumption of operations following the gradual lifting of the lockdown.

Within less than a week of the lockdown being announced, we repurposed 15 of our manufacturing units to produce ~300,000 litres of hand sanitiser and donate to State Governments and Public health departments. We donated 150,000 masks to support frontline public healthcare workers. We supported the hospitality industry by providing healthcare insurance for Bartenders associated with Diageo World Class.

At this time of national crisis, our employees too came forward, to voluntarily contribute ₹ 40 lakh to the PM Cares Fund.

While the COVID-19 crisis is a public health emergency of epic proportions, the economic effect is now clear, not least the significant impact on the F&B industry. To help the hospitality sector revive and recover from the current crisis, Diageo has committed ₹ 75 crore towards the 'Raising the Bar' programme, a global Diageo initiative to provide practical support to bars, pubs and alcohol-serving restaurants in select cities in India over a two-year period.

Looking ahead

Over the course of this year, we will have to navigate several unknowns, including disruptive waves of state-level lockdowns, impact of recent tax hikes on consumer demand and the effects of economic turmoil. We will continue to dynamically manage the situation in the near term, while staying true to our longer-term strategy.

In a year as difficult as this, I am particularly grateful for the guidance of the Board and the unwavering energy and commitment of our people and business partners. I look forward to their continued support as we step into the times ahead.

Yours sincerely,

Anand Kripalu
Managing Director & CEO

At the heart of every shared moment of celebration

Made with pride, our brands are much loved by consumers. We are relentless in our pursuit of excellence through innovation, and curate experiences in keeping with evolving consumer preferences.



Johnnie Walker: #TheTravellingBillboard

Captures the journey undertaken by the brand across uncharted and exotic locations in India



The bolder Royal Challenge

Epitomises a fearless spirit with a great new blend and a bold new look



The iconic McDowell's No. 1 makeover

Superior taste, contemporary appeal and sustainable packaging



The Hipster

A contemporary and stylish portable format for scotch to suit millennials

Bringing our brands to life

Our 'fit-for-purpose' philosophy is the key to our success in engaging with every consumer group – from the aspiring to the affluent.



A strong partnership with communities and society

We want to create a positive role for alcohol in society and be an inclusive business that plays its part in building thriving communities and reducing environmental impact. Some of our strongest advocacy work involves tackling alcohol misuse and promoting responsible drinking. We are also passionate advocates for women's empowerment, water stewardship and reducing environmental impact.



Road to Safety 'Safe System Approach'

Through our flagship 'Diageo Road to Safety' campaign, now in its 5th year, we are building on our partnerships with State Governments to help create a national movement on road safety in the country. In a first-of-its-kind one-year sustained intervention, we partnered with the Government of Puducherry to launch a unique project called 'Safe System Approach' in the coastal state. The programme worked with the state traffic police on all aspects of road safety: education, enforcement, engineering and emergency services. The programme resulted in:

13%
ROAD
ACCIDENTS

21%
FATALITIES

20%
SERIOUS
INJURIES

RECOGNITION

SAFETY LABORATORY' FOR SOUTH EAST ASIA BY
UNITED NATIONS GLOBAL ROAD SAFETY FORUM



Thriving Communities

Our distilleries are at the very heart of the communities in which we work and we have a responsibility towards them. We are proud of our work to empower women and the communities through our WASH (Water, Sanitation and Health) interventions.

60
WATER TANKS
CONSTRUCTED IN
JODHPUR, RAJASTHAN

20
COMMUNITY WATER
PURIFICATION PLANTS
INSTALLED IN 19 VILLAGES
IN NAGPUR, MAHARASHTRA

22 PONDS & 20 SOAK PITS

RENOVATED AND REPAIRED IN
ALWAR, RAJASTHAN & ROSA, UTTAR PRADESH

Grain-to-Glass sustainability

Diageo has pioneered "Grain-to-Glass" sustainability that aims to use natural resources responsibly, by reducing carbon, water and waste and using sustainable packaging in our operations.

Our ambitious targets for 2020 include commitments to improving our performance in terms of water use, an issue most material to us. They also include targets on reduction of plastic usage and reduction of waste, and approved science-based targets for greenhouse gas reduction.

We have achieved our water target in India two years ahead of time through continuous improvement in water-use efficiency in our operations, conserving and reusing water wherever possible.

Till date we have:

79%[⬇]

**GREENHOUSE GAS
EMISSIONS ACHIEVED
THROUGH GREEN ENERGY
INITIATIVES**

54%[⬆]

**WATER EFFICIENCY
IN OPERATIONS**

100%

**WATER EQUIVALENT
USED IN OUR PRODUCTS
REPLENISHED THROUGH
COMMUNITY PROJECTS**

45%[⬆]

**CONTENT IN
PACKAGING
RECYCLED**

Board of Directors



Mahendra Kumar Sharma
Chairman & Independent Director



Anand Kripalu
Managing Director and CEO



V. K. Viswanathan
Independent Director



Vinod Rao
Non-Executive Director



D. Sivanandhan
Independent Director



Rajeev Gupta
Independent Director



Dr. (Mrs.) Indu Shahani
Independent Director



John Thomas Kennedy
Non-Executive Director



Sanjeev Churiwala
Executive Director & CFO



Randall Ingber
Non-Executive Director



Committee Membership



Audit and Risk



Nomination & Remuneration



Stakeholders' Relationship & General



Corporate Social Responsibility