

United Spirits Limited

ANNUAL REPORT 2020-21

DIAGEO

INDIA



EMERGING
STRONGER





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CHAIRMAN'S MESSAGE



We committed ₹ 75 crore to 'Raising the Bar', an initiative that will run over two years to support bars, pubs, and restaurants serving alcohol.

Dear Shareholders,

The year under review commenced with the unprecedented COVID-19 pandemic that gripped the world, leading to disruption and changing the way we live and work. In India, just when we thought the worst was over, the deadly second wave of the pandemic struck, claiming innumerable lives, causing unimaginable agony and grief. On behalf of the USL Board, we offer our deepest condolences to those who have lost their loved ones. While the vaccine rollout has provided optimism in controlling the surge of infections, accelerating the pace of vaccination will be crucial, especially as lockdowns are lifted across the country. The COVID-19 outbreak impacted economies across the world. Like many other countries, India too endured an erosion of growth in FY21. The Gross Domestic Product (GDP) contracted by 7.3% during the year as consumer spending, private investments and exports plummeted sharply. Notwithstanding the Government's economic stimulus measures to support

demand recovery, the lockdown-like curbs in wake of the second wave of the pandemic have cast a dark shadow over India's ongoing economic revival.

Our Company's performance has been remarkably resilient, thanks to the solidarity and commitment of our people. While revenues and operating margins were significantly impacted in the first quarter of FY21 during which the alcoholic beverages sector faced a complete shutdown for six weeks, we made a steady sequential recovery to deliver commendable full-year results. Our focus on strengthening brands, fostering close connections with business partners, and maintaining an agile response to the fluid situation enabled us to bounce back faster.

During this health crisis, our Company has stood up as a responsible corporate citizen. Early in 2020, when the country was staring at a huge shortage of sanitisers, we were amongst the first companies to publicly commit a donation of 300,000 litres of bulk hand sanitisers and 150,000 masks to frontline workers across public health departments, police, and the army. The restaurant industry, the third-largest in the services sector in India has been severely impacted by the pandemic. In 2020, we committed ₹ 75 crore to 'Raising the Bar', an initiative that will run over two years to support bars, pubs, and restaurants serving alcohol. This programme provides strong on-ground support to qualifying outlets, with physical equipment and 'hygiene kits', and helps to establish partnerships with online reservations and cashless systems.

And very recently, Diageo pledged ₹ 45 crore to augment public healthcare infrastructure in One District in each State and Union Territory of India by setting up Pressure Swing Adsorption (PSA) Oxygen Plants, fully-equipped prefabricated 16-bed mini-hospital units, and donating medical equipment.

With mixed feelings, we bid adieu to our Managing Director & CEO, Anand Kripalu, who has stepped down effective June 30, 2021, after leading this organisation for seven years. Anand was responsible for spearheading USL's integration with Diageo India and transforming USL into a future-ready enterprise. He played an outstanding role in aligning the culture and values of the organisation with that of Diageo by being a role model for probity and ethical conduct and cascading it through the entire Company as a non-negotiable

aspect of conducting business. His focus on strengthening and accelerating core brands and driving productivity across every aspect of the business has created a solid runway for the future. Anand tirelessly championed responsible drinking and shaped USL's trusted relationships through community endeavours and partnerships. I extend the Board's sincere appreciation for his invaluable contribution and wish him luck in his future endeavours.

We welcomed our next phase of leadership with Hina Nagarajan joining the Company on April 1, 2021 as CEO-Designate. Post Anand's departure, she took over as Managing Director and CEO of USL. Hina has delivered outstanding outcomes as the Managing Director of Diageo's Africa Regional Markets (ARM). She is an accomplished senior leader with a proven track record in business transformation and development in complex emerging markets across several consumer sectors (food & beverage, health & hygiene, nutrition, beauty, home décor), with more than 30 years of experience. The Board is confident that USL will continue to go from strength to strength under her able leadership.

Hina's joining is also a strong commitment to our inclusion and diversity agenda and I am delighted to share that women now constitute 50% of the USL executive team.

Despite the unprecedented economic disruption, USL has emerged stronger and is well-positioned to harness the long-term growth opportunity in India. Rapid urbanisation, favourable demographics, rising disposable income, growing acceptance of drinking, changing social norms, and increasing inclination towards premium products will drive market growth. Backed by the global experience of our parent company and our local strengths, we are confident of unlocking these unfolding opportunities.

I would like to thank you, our shareholders, for your trust and support in these challenging times. USL will continue to work together with all stakeholders in pursuit of our goal to be one of the best performing and trusted consumer products companies in India.

Stay safe. Stay well.

Yours sincerely,

Mahendra Kumar Sharma
Chairman

BOARD OF DIRECTORS



Mahendra Kumar Sharma
Chairman & Independent Director



Anand Kripalu
Managing Director and CEO



Ms. Hina Nagarajan
CEO-Designate



V. K. Viswanathan
Independent Director



Vinod Rao
Non-Executive Director



D. Sivanandhan
Independent Director



Rajeev Gupta
Independent Director



Dr. Indu Shahani
Independent Director



John Thomas Kennedy
Non-Executive Director



Randall Ingber
Non-Executive Director

Committee Membership

■ Audit Committee
■ Risk Management Committee

■ Stakeholders Relationship and General Committee
■ Nomination and Remuneration Committee

■ Corporate Social Responsibility Committee

Anand Kripalu is a member of Stakeholders Relationship and General Committee, Corporate Social Responsibility Committee and Risk Management Committee & he ceased to be a member of all the aforesaid Committees effective end of day June 30, 2021.

Anand Kripalu ceases to be a Managing Director and Chief Executive Officer effective end of day June 30, 2021.

Hina Nagarajan is appointed as Managing Director and Chief Executive Officer with effect from July 01, 2021.

Pradeep Jain, CFO is a member of Risk Management Committee.

MANAGING DIRECTOR & CEO'S MESSAGE



Our people make us who we are; caring for our employees by supporting and connecting with them as they worked through a difficult year has been integral to our approach to navigate the crisis.

Dear Shareholders,

I write to you during unprecedented times. The second wave of the COVID-19 pandemic in India has been even more devastating. Our frontline medical staff as well as countless essential and emergency workers stood strong and ensured that so many of us could stay safe and secure.

They say that every storm leaves you stronger. Our business too has emerged stronger by weathering this rough storm, while providing valuable lessons on sailing through rough seas. During this difficult phase, it was only the single-minded commitment of everyone at United Spirits that enabled us to deliver a solid performance. I am incredibly proud of our team's efforts.

The pandemic has probably inflicted the largest economic shock the world has experienced in decades. In India, private final consumption expenditure, a key metric to assess household spending in the country, fell by 54.3% in the first quarter of FY21, compared to a 56.4% growth in the same period in the

previous fiscal. While the third and fourth quarter data gave rise to optimism about an economic revival in FY22, the second wave of COVID-19 is likely to affect this rebound.

Sequential recovery during the year

For the alcoholic beverages sector, the first quarter was very challenging, as operations were shut for several weeks. In the first half of the financial year, the on-premise channel remained closed and subsequently re-opened at a much lower capacity due to social distancing measures. Some territories in India saw a decline in demand due to high COVID-led taxes. All of these had a cascading effect by causing a 13.2% drop in our reported net sales in FY21 and a 7.2% decline in Prestige & Above (P&A) net sales.

Nonetheless, I am pleased to report that we delivered sequential improvement in performance quarter-on-quarter, demonstrating the resilience and agility of our business. Our strategy of premiumisation has served us well, as reflected in the increase of our Scotch sales.

Underpinning our performance is our strong financial framework. We continue to deliver consistently solid cash flows with net cash from operating activities at ₹ 1,728 crore. The internal accruals have been utilised towards debt reduction. At the end of FY21, our debt stood at ₹ 556 crore, a reduction of ₹ 1,517 crore over the previous fiscal year, thus further strengthening our balance sheet. We enter the new financial year with renewed optimism.

Strengthening our brands

With the uncertain economic environment exacerbated by the pandemic and the on-going restrictions, we decided to focus only on two areas that fell within our 'circle of control' – protecting our business and doing what was right for our people, customers, suppliers and communities.

Innovation is at the heart of our culture, which enhances consumer appeal and experience. Our two flagship brands - Royal Challenge and McDowell's No. 1 - were renovated and rolled out nationally during the year. These renovations were strongly supported by our Jalwa lighthouse stores on-ground, resulting in strong sales owing to their high impact and visibility.

Even in this unprecedented year, our impact and scale of execution has been par excellence and we have seen this consistently across the country. Driving our market-winning performance was the agility and flexibility demonstrated by our employees. Our supply chain readiness also played a big role in our performance. Implementation of industry-leading safety protocols, complemented by production ramp-up helped deliver market share growth.

As the pandemic restricted mobility, in-home consumption and premiumisation increased – consumers discovered that drinking at home was safer and lighter on the wallet, leaving them with more to spend on better quality alcohol. Restricted overseas travel also resulted in a shift from duty-free to duty-paid purchases. In response to these new trends, focussed interventions were undertaken to strengthen our Scotch portfolio.

Standing with the bar community

We tried being true business partners by staying closely connected with our partners and supporting them as their businesses went through turmoil. Demonstrating our steadfast support to customers and other key stakeholders, we committed ₹ 75 crore to 'Raising the Bar', a two-year initiative for the revival and recovery of bars across New Delhi, Mumbai, Bengaluru and other cities. This programme provides strong on-ground support to qualifying outlets, with physical equipment and 'hygiene kits', and helps to establish partnerships with online reservations and cashless systems. In the first phase, 'Raising the Bar' has witnessed over 1,500+ registrations across the country. We also introduced a ₹ 3 crore healthcare insurance cover for bartenders, as part of our Diageo Bar Academy programme.

Caring for our employees

Our people make us who we are; caring for our employees by supporting and connecting with them as they worked through a difficult year has been integral to our approach to navigate the crisis.

We continued to invest in talent, leadership, and inclusive workplaces to drive individual and organisational growth. An important initiative during the year was the launch of our new wellness policy, which now applies to all employees regardless of sexual orientation, gender identity or expression including LGBTQ+. Considerable progress was made on our goal to become a model for inclusion and diversity (I & D) with our gender diversity ratio reaching 22%, nearly doubling in the past four years.

Several initiatives were rolled out to ensure the physical, mental and emotional wellbeing of our employees, including leave to care for family members and enhanced medical reimbursement. We also pledged additional life insurance benefits to named beneficiaries, in case of untimely demise of any of our employees.

Playing our part

As a responsible corporate citizen, we have been committed to help our community and trade partners in the fight against the pandemic. During the first wave of the pandemic in India, we contributed 300,000 litres of hand sanitiser, which were manufactured in-house by repurposing our production facilities. We also donated 150,000 masks.

Given the scale of devastation in the second wave of the pandemic in India, Diageo has pledged ₹ 45 crore to augment the public health infrastructure. We have adopted the

'One District One State' approach, with the aim to ensure that support reaches at least one district in each state and union territory of the country. As part of this initiative, Pressure Swing Adsorption (PSA) oxygen plants will be set up in government hospitals. State governments will also be provided fully equipped, prefabricated 16-bed mini-hospital units with PSA oxygen plants. In addition, the Company will donate medical equipment to public hospitals. With this recent pledge, Diageo has so far contributed nearly ₹ 130 crore towards COVID-19 relief in India.

Committed to a sustainable future

Sustainability in business operations and community work is a fundamental principle for us. In 2020, our parent company Diageo launched a new 10-year sustainability action plan, aligned with the United Nations Sustainable Development Goals.

At Diageo India, we are committed to reaching net-zero emissions in our operations by 2025, achieving net water positive status by 2026 as well as ensuring 100% use of recycled content in plastic packaging by 2030.

During the year, through our initiative 'Cool Teens', we educated over 14,000 students on the harmful effects of underage consumption. Through our programme DRINKiQ, we reached out to the armed forces and educational institutes to promote moderation in drinking. We also transitioned to a UNITAR (United Nations) designed 'Anti Drink Drive' online training programme.

Looking ahead

We remain focussed on building the long-term health of our brands, supported by data-led insights and a culture of everyday efficiency. Despite the near-term challenges, the medium and long-term growth drivers and opportunities for our business remain intact and our approach of 'Emerging Stronger' despite all odds will hold us in good stead.

To lead your Company through the next phase of growth, let me welcome Hina Nagarajan as my successor. Given her track record in leading Africa Emerging Markets at Diageo, the parent company of USL, the reins of our Company are being passed on to the most capable hands. I wish Hina the very best.

As Managing Director and CEO, it has been a true privilege and honour for me to have led this Company for seven years. I would like to thank the Board for its constant support and guidance, and to every member of the USL family for their unwavering commitment. I would also like to thank all our consumers and business partners for their loyalty over the years. Finally, thank you to you, our shareholders for your continued confidence in this Company.

Wishing you all good health and safety,

Yours sincerely,

Anand Kripalu

Managing Director & CEO

MESSAGE FROM CEO-DESIGNATE



The COVID-19 pandemic has caused severe human suffering. At this time, I am proud that we have put tremendous focus on caring for our people.

Dear Shareholders,

At the outset, I would like to thank the Chairman and Board of Directors for the trust reposed in me. I feel privileged to be at the helm of India's leading alcohol-beverage company. I would also like to thank Anand Kripalu for his outstanding contribution during his tenure as the Managing Director & CEO of USL and for facilitating a smooth transition of leadership.

I am honoured and delighted to lead one of the most exciting markets in the world for our industry. I have joined at a difficult time but am really energised and proud of USL's results in a tough year, riding on the strength of great brands and people, and on the foundation of what Anand and the team have built.

Since joining USL in April 2021, it has been a tremendously busy yet wonderful period getting to know the Company first-hand. My interactions with the senior management team have provided me with a richer understanding of the culture that permeates the organisation, our depth of talent, and our robust capabilities.

The COVID-19 pandemic has caused severe human suffering. At this time, I am proud that we have put tremendous focus on caring for our people. We have taken every possible step to ensure that our employees, as well as their families, receive comprehensive wellness support through our "We Care" programme. The care that our teams have shown for each other, and the spirit of community and togetherness is heartening to see.

We took significant steps in caring for our community as well. We pledged ₹ 45 crore to augment Public Healthcare Infrastructure in One District in Each State & Union Territory of India thereby providing help where it is needed the most and to be instrumental in playing a part in India's recovery. We also donated 300,000 litres of hand sanitiser and 150,000 masks for public healthcare use and committed ₹ 75 crore to the bar & restaurants' community through our two-year revival and recovery programme, 'Raising the Bar'.

I feel extremely proud to be a part of both Diageo India and Diageo.

I wish everyone well for the year ahead, and look forward to taking USL to greater heights.

Hina Nagarajan
CEO-Designate

INDIA SNAPSHOT

United Spirits Limited is one of the country's leading beverage alcohol companies and a subsidiary of 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 No1, 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.



#1

**SPIRITS COMPANY
IN INDIA**



2nd

**LARGEST SPIRITS
COMPANY IN
THE WORLD**



AA+

**CREDIT RATING
(CRISIL AND ICRA)**



₹22,401 cr

**CONTRIBUTION TO
EXCHEQUER**

Performance Snapshot FY21

₹27,176 cr

Revenue from
operations

₹310 cr

Profit after tax

12.5%

EBITDA margin

₹4.27

Earnings per share

68.20 Mn

Cases produced

55%

Improvement in
water efficiency in
our operations
(Base Year FY07)

96%

Reduction in GHG
emissions
(Base Year FY07)

22%

Gender diversity

3,261

Direct employment

50%

Women beneficiaries
in our community
programmes

56,809

People educated
through our Positive
Drinking programmes

BUILDING A STRONGER TEAM

More inclusive, committed and caring. These are the attributes we continued to nurture in our workplace to support our people in a year marked by difficult personal challenges. Through our actions, we have demonstrated care for each other and together we are emerging stronger to navigate the new normal.



Fostering inclusive and diverse workplaces

Celebrated INC (Inclusion) Week for the first time in India with focussed sessions on accelerating inclusion and equality. Diageo's INC Week is celebrated across countries.

Established employee resource group - EKA, a voluntary and cross-functional group with diverse mix of volunteers, to further our agenda of inclusion and diversity.



46%

of new hires are women



29%

Women within the top 42 members of Diageo India Leadership Team



22%

Overall gender diversity



88%

Employee engagement score (Your Voice Survey – internal)