

June 07, 2022

United Spirits Limited: Update on Material Event

Summary of rating(s) outstanding

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Long-term/ Short-term Fund-based/ Non-fund Based	2,675.0	2,675.0	[ICRA]AA+ (Positive) /[ICRA]A1+
Unallocated Limits	125.0	125.0	
Total	2,800.0	2,800.0	

*Instrument details are provided in Annexure-1

Rationale

On May 27, 2022, United Spirits Limited (USL/ the company) executed definitive agreements with Inbrev Beverages Private Limited (Inbrev) for the slump sale of the business undertaking associated with 32 brands and grant of a five-year exclusive franchise agreement of 11 brands, both in the 'popular' segment. The transaction is in line with the company's stated intent of focusing on its 'prestige and above' (P&A) segment to support long-term profitable growth by premiumising its portfolio.

The slump sale consideration amounts to Rs. 828.5 crore, subject to certain customary conditions. Further, during the term of the franchise agreement, USL has also granted Inbrev a right to convert the fixed-term franchise arrangement into one with perpetual rights to use the 11 brands, subject to certain conditions at a pre-agreed consideration of ~Rs. 1,293.0 crore (consideration amount assuming the perpetual agreement is entered after five years), of which an agreed portion of the amount shall be payable upfront and the rest shall be payable as royalty in 20 quarterly instalments. In addition, if Inbrev exercises a call option to acquire the 11 brands, an additional consideration of ~Rs. 37.8 crore will be payable to USL. The transaction is expected to be completed by the end of the quarter ending September 30, 2022, subject to shareholders' approval and other closing conditions.

The net revenue generated by the brands being sold/ franchised is ~Rs. 1,350 crore with an OPBDITA of ~Rs. 195 crore (~14%) in FY2022. The royalty income related to the franchised brands is expected to be low in the initial years of the agreement. While USL's sale volumes are expected to reduce to 56 million cases from 79 million cases in FY2022, the P&A segment would generate ~85% of its net revenues, from the current level of ~74%.

ICRA notes the said developments and the ratings remain unchanged at [ICRA]AA+ (Positive)/[ICRA]A1+. While the transaction is expected to support improvement in the operating profit margins in the near to medium term with increased premiumisation of its product portfolio, the same would be a key monitorable considering the current inflationary environment and global supply constraints. Nonetheless, ICRA understands that the company will be in receipt of the gross slump sale consideration to the extent of ~Rs. 830 crore (excluding transaction and other related costs) supporting its liquidity position. ICRA will continue to monitor USL's performance and will take appropriate rating action as and when required.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position and rating sensitivities: [Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach – Implicit support from Parent or Group
Parent/Group Support	Diageo Plc (rated A3 / Stable by Moody's)
Consolidation/Standalone	ICRA has considered the consolidated financials of the company for arriving at the ratings.

About the company

USL, a 55.94% subsidiary of global spirits leader, Diageo, manufactures, sells and distributes a portfolio of premium brands such as Johnnie Walker, Black & White, VAT 69, Antiquity, Signature, Royal Challenge, McDowell's No.1, Smirnoff and Captain Morgan. With sales volumes of 79 million cases during FY2022, the company is the one of the largest players in the domestic India-made Foreign Liquor (IMFL) industry. Headquartered in Bengaluru, the company's wide footprint is supported by more than 50 manufacturing facilities across states and union territories in India and a strong distribution network. The company is listed on both the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) in India.

Key financial indicators (audited)

USL Consolidated	FY2020	FY2021	FY2022
Operating Income (Rs. crore)	9,325.4	8,131.3	9,712.4
PAT (Rs. crore)	623.9	363.4	810.6
OPBDITA/OI (%)	16.9%	12.9%	16.6%
PAT/OI (%)	6.7%	4.5%	8.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.1	0.8
Total Debt/OPBDITA (times)	1.6	1.0	0.4
Interest Coverage (times)	7.4	5.6	18.3

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; All ratios are as per ICRA calculations

Source: Company and ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)			Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of May 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jun 7, 2022	Feb 17, 2022	Feb 26, 2021	Jan 31, 2020
1	Long term/Short term - Fund Based/Non-fund Based	Long Term/Short Term	2,675.00	--	[ICRA]AA+ (Positive)/ [ICRA]A1+	[ICRA]AA+ (Positive)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+
2	Unallocated limits	Long Term/Short Term	125.00	--			--	--
3	Commercial Paper	Short Term	500.0	--	--	[ICRA]A1+; withdrawn	[ICRA]A1+	[ICRA]A1+
4	Non-convertible Debentures	Long Tern	--	--	--	--	[ICRA]AA+ (Stable); withdrawn	[ICRA]AA+ (Stable); withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/Short term - Fund Based/Non-fund Based	Simple/Very Simple
Unallocated limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term/Short term - Fund Based/Non-fund Based	-	-	-	2,675.00	[ICRA]AA+(Positive)/[ICRA]A1+
	Unallocated limits	-	-	-	125.00	

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Asian Opportunities & Investments Limited	100.00%	Full Consolidation
Palmer Investment Group Limited	100.00%	Full Consolidation
Shaw Wallace Overseas Limited	100.00%	Full Consolidation
Montrose International S.A.*	100.00%	Full Consolidation
USL Holdings Limited	100.00%	Full Consolidation
USL Holdings (UK) Limited	100.00%	Full Consolidation
United Spirits (UK) Limited	100.00%	Full Consolidation
United Spirits (Great Britain) Limited	100.00%	Full Consolidation
Pioneer Distilleries Limited	75.00%	Full Consolidation
McDowell & Co (Scotland) Limited	100.00%	Full Consolidation
Sovereign Distilleries Limited	100.00%	Full Consolidation
United Spirits (Shanghai) Trading Company Limited	100.00%	Full Consolidation
Royal Challengers Sports Private Limited	100.00%	Full Consolidation
United Spirits Singapore Trading Pte Ltd	100.00%	Full Consolidation
Hip Bar Private Limited^	26.00%	Equity Method

Source: Company; FY2021 annual report; *ceased to be a subsidiary with effect from April 16, 2021; ^ceased to be an associate with effect from August 3, 2021

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