

# DIAGEO

INDIA

United Spirits Limited

Registered Office:  
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#24 Vittal Mallya Road  
Bengaluru 560 001  
Tel: +91 80 2221 0705  
Fax: +91 80 3985 6862  
www.diageoindia.com

May 30, 2019

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

Dear Sir/Madam,

**Sub: Disclosure pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Corporate Governance Rating**

We attach herewith the letter issued by ICRA Limited along with the Rationale for assigning Corporate Governance Rating “CGR 2” to United Spirits Limited.

Kindly take this Letter dated May 30, 2019 on record.

Thanking you,

Yours faithfully,  
For **UNITED SPIRITS LIMITED**



**V. Ramachandran**  
Company Secretary

Enclosed: As Above





ICRA

ICRA Limited

[Duplicate copy]

Ref: ICRA:BLR:2019-20/CGR/099

Date – May 30, 2019

Mr. V. Ramachandran  
Executive Vice President & Company Secretary  
United Spirits Limited  
UB Tower  
24, Vittal Mallya Road  
Bangalore – 560 001

Dear Sir,

**Re: ICRA Rating of Corporate Governance Practices of United Spirits Limited**

Please refer to your rating agreement dated Dec 28, 2018 requesting ICRA to assign Corporate Governance Rating to United Spirits Limited.

Please note that the Rating Committee of ICRA, after due consideration, has assigned a “CGR2” (pronounced C G R two) rating to the Corporate Governance practices of United Spirits Limited.

CGR2 implies that in ICRA's current opinion, the rated company has adopted and follows such practices, conventions and codes as would provide its financial stakeholders a high level of assurance on the quality of corporate governance. ICRA's opinion, however, is not a certificate of statutory compliance or a comment on the company's future financial performance, credit rating or stock price. In any of your publicity material or other documents wherever you are using the aforesaid rating, it should be stated as “CGR2”.

We request you to sign the acknowledgement and send it to us within 1 day from the date of this letter as an additional confirmation on your acceptance/use of the assigned rating.

You are also required to keep us informed of any major developments which may have a direct or indirect impact on the performance and corporate governance of the company.

ICRA reserves the right to review and/or, revise the above rating at any time on the basis of new information or unavailability of information or such other circumstances, which ICRA believes, may have an impact on the rating assigned to you. The rating, as aforesaid should not be treated as a recommendation to buy, sell or hold any securities to be issued by you.

*Matt*

*Faizan Ahmed*

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**R A T I N G • R E S E A R C H • I N F O R M A T I O N**



ICRA

We thank you for your kind co-operation extended during the course of the rating exercise. Please feel free to get in touch with us, should you have any queries. We look forward to further strengthening our existing relationship and assure you of our best services.

Yours sincerely,

for ICRA Limited

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## United Spirits Limited

May 30, 2019

### United Spirits Limited: CGR2 rating assigned for corporate governance practices

#### Summary of rated instruments

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Corporate Governance Practices	NA	NA	CGR2; assigned

#### Rationale

The rating reflects United Spirits Limited's (USL) sound governance and compliance practices supported by its commitment from the board of directors and the top management, active involvement of the board in strategic issues, strong emphasis on regulatory compliance, adequate disclosure standards, and various voluntary initiatives undertaken by the company (including third-party vetting of related party transactions on a quarterly basis). USL's holding Company, Diageo Plc, has brought in best corporate governance practices adopted globally, as evident from the clean-up of most of the legacy issues in the company.

USL's board of directors comprises 10 members, of which five are independent directors, three are non-executive, non-independent directors and the balance two are executive directors. The directors bring with them diverse knowledge and experience spanning various areas, which includes among others, law, international markets, governance, finance and human resources. This helps in enriching discussions during the board meetings. Furthermore, in accordance with good governance practices, the seat of the Chairman and the Managing Director of USL has been split, with the Chairman being an independent director.

While the proportion of independent directors is higher than the mandatory requirements, there is scope for further improvement. Though the company had a woman independent director well before it became mandatory, it currently meets only the mandatory criterion on gender diversity. ICRA notes that the company does not have a policy of retirement for its non-executive directors, although, all such directors are within the seventy-five year age limit specified by the SEBI Listing Obligations and Disclosure Requirements (LODR). The board has a plan to facilitate seamless transition and induction of independent directors in line with the best practices, as and when their retirements fall due.

The discussions at the board meetings appear to be in-depth with emphasis on strategic issues. Detailed presentations on strategy are made by the management every quarter and one annual board meeting is held exclusively for strategy, during which the board discusses the roadmap and other macro issues with the senior management. The presentations shared with the board go well beyond the statutory requirements. The board members also interact on a regular basis, over and above the board-level discussions. Furthermore, the board's four sub-committees (all mandatory), led by independent directors, are active in providing the necessary guidance. USL has a rigorous board evaluation process for facilitating improvements across all areas of board and sub-committee functioning, and there is adequate receptiveness and follow up action by the executive management on the feedback/ observations received from the board on various issues. ICRA also understands that the management has been proactive in succession planning for the board and various key management positions. Although the average attendance of directors in board meetings is adequate (at 90% for FY2018), ICRA believes that higher levels of attendance would improve the quality of the discussions further.

Diageo Plc, through its indirect wholly owned subsidiary Relay B V, holds a 54.78% stake in USL (as on March 31, 2019). Structurally, high promoter shareholding is not ideal from a good governance perspective, as it provides room for compromising minority shareholders' interest. However, the management's commitment to corporate governance practices and its professional management team provide comfort. ICRA, however, notes that some of the legacy issues are still pending closure due to the legalities involved. Although USL has adequate processes and controls in place, recent discovery of certain potential differences in process losses and in inventory is a concern. Nevertheless, ICRA draws comfort from the company's proactive disclosure of the same, remedial action initiated by the management and the fact that such issues have been few in the recent past.

USL's engagement with the investors, though adequate, has scope for improvement. The quality of disclosures and management discussion in its annual reports and quarterly presentations though adequate, have scope for further improvement. USL, however, has maintained a high degree of transparency on regulatory and compliance issues, addressing the same through prompt disclosures and internal corrective actions. Furthermore, while USL's stock has generated positive return over the July 2014 (since Diageo Plc's takeover) to March 2019 period. However, the company has not paid dividends due to accumulated losses because of certain one-off provisions arising from legacy issues. Also, the stock return in the last financial year (FY2019) has been negative and lower than the benchmark index.

Overall, while ICRA notes that some of the legacy issues are still pending closure due to the legalities involved, USL's board, its top management and its parent – Diageo Plc – are committed to bring in the best global corporate governance practices into the company.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<u>Corporate Governance Rating Methodology</u>

## About the company

USL is a subsidiary of Diageo Plc (the global leader in liquor) and manufactures, sells and distributes a portfolio 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. With sales volumes of 78 million cases in FY2018, the company is the largest player in the domestic spirits industry. It is headquartered in Bengaluru and has a wide footprint supported by its 49 manufacturing facilities and strong distribution network across India. The company is listed on both the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) in India.

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years

Instrument	Type	Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating May 2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
Corporate Governance Practices	NA	NA	NA	CGR2	-	-	-

### ANALYST CONTACTS

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited

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