United Spirits Ltd — FY 2023 Annual Report Analysis

Annual Report Analysis (Consolidated)

Source: CRORES. All figures   Crores. Pipeline: v5-Gemini — W1a → W3 → W1b+W2+W2F (parallel, notes-injected) → Merge.

Investor Snapshot

#	Analytical Point	Sentiment
1	**United Spirits has successfully transitioned into a premium-led CPG house, with the Prestige & Above (P&A) segment now contributing 80.6% of net sales following the strategic divestment of popular brands.**	□Positive
2	**Net Sales grew 9.26% to □10,612 Cr, underpinned by a robust 22.8% surge in the P&A segment, validating the "Portfolio Reshape" strategy and premiumization tailwinds.**	□Positive
3	***Operating Profit Margin (OPM) contracted by 300 bps to 13% as a 500 bps increase in material costs (ENA and glass) outpaced pricing actions and premiumization gains.***	□Negative
4	***Reported PAT of 1,126 Cr is of low quality, heavily inflated by a 379.6 Cr exceptional gain from brand divestments and non-cash provision reversals.***	□Negative
5	**The company achieved a debt-free status on a standalone basis after reducing total debt by □422 Cr, significantly strengthening the balance sheet and reducing financial risk.**	□Positive
6	***Cash Flow from Operations (CFO) at 615 Cr significantly lagged PAT, driven by a 565 Cr working capital build-up and slow receivables from government corporations.***	□Negative
7	**The business maintains a strong self-funding model with a healthy Free Cash Flow (FCF) of □505 Cr, where CFO covers the □137 Cr Capex by 4.49x.**	□Positive
8	***Earnings quality is a primary concern as CFO/PAT remains weak, and 1,343.7 Cr (12.6% of net worth) remains locked in tax disputes paid under protest.***	□Negative
9	***Governance reflects a decoupling of executive incentives, with MD compensation rising 73% despite an 11% decline in operating profit, alongside high RPT purchases (9.4% of sales).***	□Negative
10	***Regulatory sensitivity remains the structural risk, with excise duties consuming 62% of gross revenue and ad-hoc state policy changes threatening margin stability.***	□Negative
11	The outlook depends on OPM recovery toward mid-to-high teens as inflation cools and the maintenance of P&A segment growth above the 15% threshold.	□Neutral
12	**Investment View: ACCUMULATE; the structural deleveraging and high-margin portfolio pivot outweigh temporary working capital drags and margin compression.**	□Positive

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1. BUSINESS OVERVIEW (In Bullet Points)

- **Strategic Pivot:** FY23 marks a structural inflection point as USL completed the slump sale of 32 brands and franchising of 11 "Popular" segment brands to Inbrew Beverages, transitioning from a mass-market volume player to a premium-led brand house.
- **Revenue Drivers:** Growth is decoupled from total volume (which dropped 8.4% due to divestments). Primary drivers are "Premiumisation" and favorable product mix, with the **Prestige & Above (P&A)** segment now contributing 80.6% of net sales.

- **Cost Drivers:** Significant inflationary headwinds in raw materials, specifically Extra Neutral Alcohol (ENA) and glass, with **Material Cost %** escalating from 35% to 40%.
- **Industry Position:** USL maintains dominant leadership in the Indian Organized Spirits market, operating ~40 manufacturing facilities which provide a moat against inter-state tax barriers.
- **Expansion & Acquisitions:** Acquired a 22.5% stake in Nao Spirits (craft gin) for ₹31.5 Crores and established "The Good Craft Co." in Goa (₹45 Crore investment) to focus on high-growth craft sub-segments.
- **Segment Performance: Prestige & Above** net sales grew +22.8% YoY, while the **Popular** segment declined -25.0% following the portfolio reshape.
- **Geographical Presence:** Strong pan-India footprint; however, the "Delhi Route-to-Market (RTM) change" was noted as a significant regional setback.
- **Capacity & Integration:** Completed the merger of Pioneer Distilleries Ltd to simplify the legal footprint and enhance operational synergy.

2. MANAGEMENT COMMENTARY & OUTLOOK

- Management has adopted a "Future-Back" approach, shifting the mission to becoming a "Top Performing CPG Company" focused on Portfolio Reshape, Organization of the Future, and Society 2030.
- Guidance remains ambitious for sustained double-digit top-line growth, with a long-term aspiration for "mid-to-high teen" operating margins despite near-term inflationary pressures.
- The demand environment is described as "diamond-shaped," where affluent and middle-class consumers drive growth while the "aspiring" base remains inflation-sensitive.
- Innovation strategy is pivoting toward "Craft" and "Luxury," evidenced by the launch of *Godawan* (Artisanal Single Malt) and *Johnnie Walker Blonde* to target next-gen consumers.
- Digital acceleration is a priority, utilizing *in.thebar.com* for first-party data, AI for market visibility, and blockchain for "track and trace" anti-counterfeiting measures.
- Capital allocation is focused on value-accretive moves; however, the ₹9,010 Crore bid for the Women's Premier League (WPL) Bangalore team is a massive long-term bet on brand-building and diversity.
- Management highlighted the persistent risk of ad-hoc state-level policy shifts, citing the Delhi RTM change as a primary example of regulatory volatility.
- The "Society 2030" ESG goals are being integrated into core operations, such as removing mono-cartons to save 10,000 tonnes of paper, serving as both a cost and sustainability driver.
- Management Tone: The tone is notably confident, disciplined, and transformational, moving away from a "commodity-distiller" mindset to a "CPG-like" execution model. The strategic conviction to exit the Popular business despite volume hits signals a high-stakes commitment to the premiumization playbook, though the non-core WPL investment requires long-term monitoring for brand equity conversion.

3. FINANCIAL ANALYSIS

3.1 Financial Statements

Source: Screener.in — all monetary values in Crores. Use these numbers directly.

P&L Statement (□Crores)

Line Item	Mar 2023	Mar 2022
Sales -	10,612.00	9,712.00
Sales Growth %	9.26	19.44
Expenses -	9,195.00	8,117.00
Material Cost % -	40.00	35.00
Raw material cost	4,361.00	3,520.00
Change in inventory	-137.00	-83.00
Manufacturing Cost %	21.00	23.00
Employee Cost %	6.00	7.00
Other Cost %	20.00	18.00
Operating Profit	1,417.00	1,595.00
OPM %	13.00	16.00
Other Income -	249.00	-117.00
Exceptional items	213.00	-152.00
Other income normal	36.00	36.00
Interest	104.00	88.00
Depreciation	283.00	304.00
Profit before tax	1,279.00	1,087.00
Tax %	12.00	25.00
Net Profit -	1,126.00	811.00
Minority share	11.00	18.00
Exceptional items AT	166.00	-110.00
Profit excl Excep	960.00	921.00
Profit for PE	971.00	939.00
Profit for EPS	1,137.00	829.00
Profit Growth %	3.00	126.00
EPS in Rs	15.63	11.40
Dividend Payout %	0.00	0.00

Balance Sheet (Crores)

Line Item	Mar 2023	Mar 2022
Equity Capital	145.00	145.00
Reserves	5,854.00	4,808.00
Borrowings -	183.00	605.00
Long term Borrowings	0.00	1.00
Short term Borrowings	1.00	341.00
Lease Liabilities	182.00	264.00
Other Borrowings	0.00	0.00
Other Liabilities -	3,534.00	3,304.00
Non controlling int	0.00	-79.00
Trade Payables	1,783.00	1,582.00
Advance from Customers	0.00	0.00
Other liability items	1,751.00	1,801.00
Total Liabilities	9,716.00	8,863.00
Fixed Assets -	1,534.00	1,855.00
Land	257.00	281.00
Building	465.00	514.00
Plant Machinery	1,336.00	1,586.00
Equipments	79.00	84.00
Furniture n fittings	46.00	44.00
Vehicles	1.00	2.00
Intangible Assets	131.00	154.00
Other fixed assets	526.00	450.00
Gross Block	2,841.00	3,114.00
Accumulated Depreciation	1,307.00	1,259.00
CWIP	83.00	96.00
Investments	286.00	222.00
Other Assets -	7,813.00	6,690.00
Inventories	2,230.00	2,157.00
Trade receivables -	2,434.00	2,374.00
Receivables over 6m	0.00	0.00
Receivables under 6m	2,555.00	2,492.00
Prov for Doubtful	-121.00	-119.00
Cash Equivalents	883.00	60.00
Loans n Advances	148.00	151.00
Other asset items	2,118.00	1,949.00
Total Assets	9,716.00	8,863.00

Cash Flow Statement (□Crores)

Line Item	Mar 2023	Mar 2022
Cash from Operating Activity -	615.00	977.00
Profit from operations	1,448.00	1,640.00
Receivables	-276.00	-205.00
Inventory	-262.00	-105.00
Payables	203.00	123.00
Loans Advances	-96.00	0.00
Other WC items	-134.00	-18.00
Working capital changes	-565.00	-205.00
Direct taxes	-268.00	-457.00
Other operating items	0.00	0.00
Cash from Investing Activity -	-55.00	-313.00
Fixed assets purchased	-137.00	-134.00
Fixed assets sold	27.00	38.00
Investments purchased	-8,517.00	-1,436.00
Investments sold	8,502.00	1,222.00
Interest received	20.00	6.00
Dividends received	0.00	0.00
Invest in subsidiaries	0.00	0.00
Investment in group cos	-32.00	0.00
Redemp n Canc of Shares	32.00	0.00
Acquisition of companies	0.00	0.00
Other investing items	50.00	-10.00
Cash from Financing Activity -	-500.00	-688.00
Proceeds from borrowings	0.00	0.00
Repayment of borrowings	-340.00	-538.00
Interest paid fin	-36.00	-50.00
Dividends paid	0.00	0.00
Financial liabilities	-124.00	-100.00
Other financing items	0.00	0.00
Net Cash Flow	60.00	-23.00
Free Cash Flow	505.00	882.00
CFO/OP	62.00	90.00

Key Ratios (□Crores)

Line Item	Mar 2023	Mar 2022
Debtor Days	84.00	89.00
Inventory Days	193.00	229.00
Days Payable	154.00	168.00
Cash Conversion Cycle	122.00	150.00
Working Capital Days	51.00	39.00
ROCE %	20.00	25.00

3.2 Financial Analysis Summary

- **Revenue** from operations reported at **□10,612.00 Cr** reflects a **9.26%** YoY growth, though **Total Revenue from Operations** on a gross basis fell **10.4%** to **□27,577.5 Cr** due to the strategic slump sale of the "Popular" business.
- **Excise Duty Collected** remains a massive drag at **□17,203.8 Cr** (62.38% of product sales), making net **Revenue** highly sensitive to state-level regulatory shifts.
- **Operating Profit (EBITDA)** contracted to **□1,417.00 Cr** from **□1,595.00 Cr**, with **OPM %** dropping to **13.00%** from **16.00%** as **Material Cost %** rose to **40.00%** due to ENA and glass inflation.
- **Net Profit** reached **□1,126.00 Cr**, but earnings quality is heavily supported by **Exceptional items** of **□213.00 Cr**, including a **□379.6 Cr** profit from the sale of the Popular business; core profitability is lower as **ROCE %** declined to **20.00%** from **25.00%**.
- **Total Debt** was aggressively reduced to **□183.00 Cr** from **□605.00 Cr**, primarily leaving only **Lease Liabilities** of **□182.00 Cr**, effectively making the company debt-free on a standalone basis and reducing **Finance Cost** to **□104.00 Cr**.
- **Cash from Operating Activity (CFO)** fell to **□615.00 Cr** from **□977.00 Cr**, primarily because **Working Capital** changes consumed **□565.00 Cr**, driven by a **□262.00 Cr** increase in **Inventory** and a **□276.00 Cr** increase in **Trade Receivables**.
- **Trade Receivables** grew **3.5%** to **□2,434.00 Cr** despite the gross revenue decline, with **49%** (□1,229.7 Cr) tied up in Government corporations which typically have longer payment cycles.
- **Other Assets** are dominated by **□1,343.7 Cr** in **Income Tax Paid Under Protest**, representing a significant "locked" cash balance that restricts liquidity.
- **Other Expenses** include **□132.8 Cr** for **Legal and Professional** fees, reflecting high compliance and litigation costs which represent **12.6%** of **PAT**.
- **Free Cash Flow (FCF)** of **□505.00 Cr** remains healthy despite **□137.00 Cr** in **Capex**, supporting a self-funding model where the company repaid **□340.00 Cr** of borrowings.
- **Intangible Assets** of **□131.00 Cr** consist of brands with indefinite useful lives that are not subject to **Depreciation**, preventing a **PAT** drag but necessitating rigorous annual impairment testing.
- The dominant financial theme of the year is a structural balance sheet strengthening through deleveraging and portfolio pruning, offset by significant margin pressure from commodity inflation and working capital absorption in a high-tax regulatory environment.

3.3 Contingent Liabilities & Commitments

- **Income Tax Paid Under Protest:** □1,343.7 Cr (Note 8) - Significant locked cash balance pending dispute resolution.

- **Indirect Tax Paid Under Protest:** ₹132.0 Cr (Note 8).
- **Provision for Indirect Tax/Legal:** ₹310.2 Cr (Note 17).
- **Minimum Offtake Commitment (Scotch):** ₹410.4 Cr (Note 36c) - A "take-or-pay" commitment to Diageo Scotland for bulk scotch, limiting procurement flexibility.
- **Water Charge Dispute:** Pending dispute regarding WRD demands from 2018 inherited from Pioneer Distilleries; management considers further outflow remote but remains a regulatory risk.

3.9 Earnings Quality & Forensic Checks

#	Check	Impact	Status	Evidence	Notes Detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash	□	PAT □1,126 Cr, CFO □615 Cr (FY23).	CFO/OP ratio dropped from 90% to 62% YoY (Cash Flow Statement).
2	Receivables & channel-stuffing signal	Revenue ↑↓ — divergence risk	□	Receivables □2,434 Cr, Inventory □2,230 Cr.	Receivables + inventory grew ~3% while gross revenue declined 10.4%.
3	Revenue timing	Neutral — stable timing	□	Contract Liabilities □51.2 Cr vs □43.4 Cr.	Revenue recognized at point in time upon control transfer (Note 1.10).
4	Revenue from related parties %	Neutral — low direct sales	□	Purchase of stock □618 Cr from Diageo Brands.	RPT focus is on premium segment imports from parent (Note 36b).
5	Inventory vs revenue growth	Profit ↓ — margin pressure	□	Inventory □2,230 Cr vs □2,157 Cr (BS).	Inventory rose 3.4% despite a 10.4% drop in gross revenue.
6	Inventory valuation method change	Neutral — consistent policy	□	No change reported in accounting policies.	Valuation includes excise duty on finished goods (Note 1.14).
7	Exceptional items in operating profit	Profit ↑ — non-core boost	□	Exceptional items □213 Cr (P&L).	Includes □379.6 Cr profit from Popular business slump sale (Note 4.1).
8	Depreciation rate vs useful life policy	Profit ↑ — non-cash saving	□	Depreciation □283 Cr; Intangibles □131 Cr.	Brands regarded as having indefinite useful lives; no amortization (Note 1.3).
9	Provision reversals boosting PAT	Profit ↑ — non-cash gain	□	Material cost includes □56.4 Cr reversal.	Reversal due to establishing process losses as natural (Note 22).
10	Tax rate consistency	Profit ↑ — tax rate drop	□	Tax % at 12.00 (P&L); Direct taxes □268 Cr.	Tax rate impacted by capital gains on business divestment (Note 1.12).
11	CWIP age and stalling projects	Neutral — low intensity	□	CWIP □83 Cr vs □96 Cr (BS).	Capital commitments are not significant for the current period (Note 17).
12	Deferred tax asset recognition	Neutral — conservative stance	□	DTA not recognized on □527 Cr capital losses.	Management deems future capital gains not "probable" for recovery (Note 1.12).
13	RPT quantum and trend	Profit ↓ — cost escalation	□	Purchases □618.1 Cr vs □379.9 Cr.	Purchases from Diageo Brands BV increased 62.7% for premiumization.
14	Dividend paid vs FCF adequacy	Neutral — cash conservation	□	Dividend Payout 0%; FCF □505 Cr.	Cash utilized for debt repayment and transitioning to debt-free (Note 27).
15	Auditor KAM: Litigation Risk	Profit ↓ — potential equity hit	□	□1,343.7 Cr paid under protest.	Unfavorable settlements pose a material risk to equity (p.200).
16	Auditor KAM: Revenue Cut-off	Revenue ↑↓ — aggressive booking	□	TMU structure focus.	Risk of year-end booking to meet targets via Tie-up units (p.185).
17	Legacy Governance: Mallya Loans	Neutral — ring-fenced risk	□	□1,337.4 Cr loans to UBHL.	Fully provided for but legally active; ongoing legal costs (Note 40c).

4. MANAGEMENT & GOVERNANCE

A. Auditor Report & Key Audit Matters

- **Audit opinion type:** Unqualified.
- **Key Audit Matters (KAMs):**
  - ***Litigation and Contingent Liabilities***: Auditor highlighted significant judgment in estimating outcomes for tax and legal disputes totaling □1,343.7 Cr paid under protest. Unfavorable settlements pose a material risk to equity.
  - ***Revenue Recognition (Cut-off)***: Focus on the timing of revenue given the Tie-up Manufacturing Unit (TMU) structure. Risk involves aggressive year-end booking.
  - ***Impairment of Brands***: Annual testing of indefinite-life brands. Risk involves overvaluation of legacy brands amidst shifting consumer preferences.
- **Auditor Fees:** Total Legal and Professional expenses stood at □132.8 Cr. Scale of professional fees is high relative to PAT (12.6%), reflecting high compliance and litigation costs.

B. Related Party Transactions

Party	Relationship	Nature	Amount (□ Cr)	Concern
Diageo Brands BV	Fellow Subsidiary	Purchase of Stock-in-Trade	618.1 Cr	***High dependency on parent for premium portfolio***
Diageo Brands BV	Fellow Subsidiary	Purchase of Raw Materials	371.2 Cr	***Increasing reliance on imported concentrates***
RCSPL	Subsidiary	Loans Repaid (Net)	35.0 Cr	**Subsidiary becoming more self-sufficient**
Diageo Scotland	Fellow Subsidiary	Minimum Offtake Commitment	410.4 Cr	***Take-or-pay risk limits procurement flexibility***
Diageo North America	Fellow Subsidiary	Royalty Expense	10.2 Cr	Standard licensing fee

- **Concern:** The 62.7% YoY increase in purchases from Diageo Brands BV signals an aggressive shift toward the "Prestige & Above" segment, increasing vulnerability to transfer pricing.
- **% of CFO:** 162.52% (calc.) [999.5 Cr RPT Purchases / 615 Cr CFO] → ***Flag: RPT volume exceeds cash generated from operations, indicating high cash leakage to the parent group.***

C. Shareholding

Line Item	Mar 2023	Mar 2022
Promoter	55.88	55.94
FII	16.14	15.94
DII	11.75	10.47
Public	16.23	17.65

* **Pledged shares:** 0.00% of promoter holding.

D. Board Composition + KMP Compensation

- **Total Directors:** 10 | **Independent %:** 50.00% | **Women Directors:** 3.
- **EBITDA (Operating Profit) used:** □1,417.00 Cr (Consolidated).

KMP	Role	FY Current Rem (□Cr)	FY Prior Rem (□Cr)	YoY Growth %	% of EBITDA	Flag
Hina Nagarajan	MD & CEO	11.90 Cr	6.88 Cr	72.96%	0.84%	□
Pradeep Jain	ED & CFO	3.52 Cr	3.42 Cr	2.92%	0.25%	□
Mital Sanghvi	CS & VP	1.39 Cr	1.42 Cr	-2.11%	0.10%	□

- ***Disproportionate Growth***: MD & CEO compensation grew by 72.96% while consolidated Operating Profit (EBITDA) declined by 11.16%.
- **Family Relations**: No KMPs share the same family name; no family relations disclosed.

F. Capital Allocation & Capex

Action	FY Current (□Cr)	FY Prior (□Cr)	% of CFO	Signal
Dividends	0.00	0.00	0.00%	□
Capex	137.00	134.00	22.28%	□
Acquisitions	31.50	0.00	5.12%	□
Net Debt Change	-422.00	-538.00	-68.62%	**
Working Capital Investment	565.00	205.00	91.87%	***
Asset Sales / Divestments	347.00	38.00	56.42%	**

- **CAPEX Analytical Notes:**
  - **CFO Coverage of Capex**: CFO (615 Cr) is 4.49x Capex (137 Cr), indicating strong self-funding.
  - **Nature of Capex**: Primarily growth-oriented innovation (e.g., □45 Cr for "The Good Craft Co.").
  - **Deployment Efficiency**: **Capex is effectively supporting the premiumization strategy**, with the P&A segment growing 22.8%.

H. Risks

- 1. ***Tax Litigation***: □1,343.7 Cr paid under protest. ***Potential 12.6% hit to Net Worth*** if settled unfavorably. (□ High)
- 1. ***Excise Leakage***: Excise duty is 62.38% of gross revenue. Net margins are highly sensitive to state tax hikes. (□High)
- 1. ***Govt Concentration***: 49% of receivables (□1,229.7 Cr) from Govt corporations; longer payment cycles. (□ Medium)
- 1. ***Commodity Inflation***: ***Material cost % rose from 35% to 40%***; OPM fell from 16% to 13%. (□High)
- 1. ***Take-or-Pay Scotch***: □410.4 Cr minimum offtake commitment; limits procurement agility. (□Medium)
- 1. ***Legacy Governance***: □1,337.4 Cr in Mallya-linked loans; ongoing legal costs and reputational overhang. (□Medium)

5. SCORECARD & VERDICT

Part A: Scorecard

Dimension	Rating (1–5)	Delta	Key Evidence	One-line Rationale
Business Quality	4	→	P&A segment 80.6% of sales; 22.8% growth.	Strong moat in premium spirits but high regulatory sensitivity.
Financial Health	4	↑	D/E < 0.1x; CFO (615 Cr) > Capex (137 Cr).	Effectively debt-free with strong self-funding capacity.
Earnings Quality	2	↓	CFO < PAT; 213 Cr exceptional gain.	PAT heavily inflated by one-time divestment gains and non-cash provision reversals.
Management & Governance	3	→	MD pay +73% vs EBITDA -11%; high RPTs.	Strategic execution is strong, but executive pay decoupling and RPT leakage are concerns.
Capital Allocation & Earnings Visibility	4	↑	ROCE 20%; P&A growth 22.8%.	Disciplined pivot to high-margin segments with visible premiumization tailwinds.

BUSINESS POSITIVES (for this company this year) * □**Successful Portfolio Reshape:** Completed sale/franchise of Popular brands, increasing **Prestige & Above contribution to 80.6% of net sales**. * □**Deleveraging:** Reduced **Total Debt by □422 Cr**, effectively becoming debt-free on a standalone basis. * □**Premium Segment Growth:** The **Prestige & Above segment grew 22.8%**, driven by renovation of core brands and luxury imports. * □**Self-Funding Model: CFO (□615 Cr) covers Capex (□137 Cr) by 4.49x**, allowing for growth without external borrowing. * □**Strategic Diversification:** Entry into craft gin via **□31.5 Cr investment in Nao Spirits**.

BUSINESS NEGATIVES / CONCERNS (for this company this year) * □**Earnings Quality Gap: CFO (□615 Cr) is significantly lower than PAT (□1,126 Cr)**, indicating poor cash conversion this year. * □**Margin Compression: OPM fell from 16% to 13%** due to a 500 bps increase in material costs. * □**Regulatory Cash Lock: □1,343.7 Cr remains tied up in tax disputes** paid under protest, representing 12.6% of net worth. * □**Working Capital Stress: Working capital consumed □565 Cr**, with 49% of receivables tied to slow-paying government corporations. * □**Executive Pay Decoupling: MD compensation rose 73%** despite an 11% decline in operating profit.

OVERALL SCORECARD SUMMARY United Spirits is undergoing a successful structural transformation, having cleaned its balance sheet to a debt-free status and pivoted toward a high-margin premium portfolio. While financial health is robust and the business quality is improving through premiumization, earnings quality in FY23 was weak due to heavy reliance on exceptional gains and poor cash conversion. Governance remains a "watch" area given the disproportionate executive pay hikes and high related-party purchase volumes, but the overall trajectory is stable-to-improving as the company sheds legacy baggage.

Part B: Governance Check Matrix

#	Check	Status	Evidence
1	Audit opinion clean?	□	Unqualified opinion (p.40)
2	Promoter pledge = 0?	□	0.00% pledged
3	KMP pay < 5% of PAT?	□	Total KMP pay ~□16.8 Cr < 5% of □1,126 Cr PAT
4	RPT quantum < 5% of revenue?	□	RPT Purchases (999.5 Cr) is 9.42% of Net Sales
5	Board > 50% independent?	□	50% (5 out of 10)
6	At least 1 woman director?	□	3 women directors (p.6)
7	No statutory dues outstanding?	□	No material defaults reported
8	No fraud reported?	□	None reported (p.43)
9	Audit trail enabled?	□	Confirmed by auditors
10	Frequent Auditor change	□	PWC re-appointed for 5 years
Total: 9/10 □— Governance Rating: 4			

Part C: Investor Verdict

THESIS: USL is a "Premiumisation Play" transitioning from a volume-led commodity distiller to a high-margin CPG brand house under Diageo’s global playbook. **OVERALL STANCE:** ACCUMULATE **RATIONALE:** Strong deleveraging and a successful pivot to the Prestige & Above segment (80% of sales) outweigh temporary margin pressures and working capital drags. **RE-EVALUATE WHEN:** OPM fails to recover toward the "mid-to-high teens" target despite cooling inflation or if tax litigation results in a >□1,000 Cr cash outflow. **BULL CASE:** Rapid premiumization leads to OPM expansion to 18% and FCF doubling as working capital normalizes. **BEAR CASE:** Ad-hoc state regulatory changes (like Delhi RTM) or excise hikes wipe out the gains from the premiumization strategy. **KEY MONITORABLE:** Prestige & Above Segment Growth: 22.8% → Watch for maintenance above 15%.

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