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 pivoted to a luxury-led model, with the Prestige & Above segment now commanding a dominant 89.6% of Net Sales Value.**	□
2	**Top-line momentum is driven by premiumization, evidenced by the Signature brand crossing □1,000 Cr and Don Julio exceeding □100 Cr in NSV.**	□
3	***Operating Profit Margins compressed to 18% as a 16.17% surge in raw material (ENA) costs significantly outpaced revenue growth.***	□
4	**Reported PAT of □1,838 Cr remains high, supported by a robust 27% ROCE, indicating strong underlying capital efficiency in the core spirits business.**	□
5	**The balance sheet is exceptionally strong and effectively debt-free, further bolstered by the landmark □16,663 Cr divestment of the RCB franchise.**	□
6	***Cash flow generation is under pressure with a CFO/PAT ratio of 0.79, reflecting a disconnect between accounting profits and actual cash realization.***	□
7	***Working capital cycle has deteriorated to 101 days, primarily due to 2,705 Cr in receivables locked with slow-paying government entities.***	□
8	***Earnings quality is diluted by non-operational boosters, including a 214 Cr deferred tax asset gain and 112 Cr in interest on tax refunds.***	□
9	Governance remains stable under Diageo’s stewardship with a 50% independent board, though Related Party Transactions are high at 14.97% of sales.	□
10	***Significant capital remains unproductive with 1,119 Cr locked in disputed tax matters paid under protest, representing 12.5% of Net Worth.***	□
11	**The outlook is anchored by a "Luxury-First" strategy and potential margin expansion of 300bps should the India-UK FTA be ratified.**	□
12	**Investment View: ACCUMULATE; key monitorables include the normalization of government receivables and the ROIC of future capital deployment.**	□

1. BUSINESS OVERVIEW (In Bullet Points)

- **Business Segments:** United Spirits Ltd (USL) operates primarily in two segments: **Prestige & Above (P&A)** and **Popular**. The P&A segment is the dominant driver, contributing **89.6% of Net Sales Value (NSV)**.
- **Revenue Drivers:** Growth is driven by aggressive premiumization and the "Three Indias" framework targeting Affluent (Global BIO), Confident Aspirants (Premium IMFL), and Vertical Invaders (Mass Premium).
- **Cost Drivers:** Key costs include **Raw Materials** (Extra Neutral Alcohol - ENA), **Advertising & Sales Promotion** (8.06% of net sales), and **Supply Restructuring** costs.

- **Industry Position:** USL is a market leader in India, which contributes **39% of global Total Beverage Alcohol (TBA) growth**. **Black & White** is now the #1 Scotch brand in India by volume.
- **Expansion Plans & Capacity:** Focus on "Supply Agility," optimizing manufacturing footprints into automated, high-efficiency hubs. Significant investment in **S/4HANA** and AI for demand forecasting.
- **Acquisitions & Divestments:** Completed the acquisition of **NAO Spirits** (Greater Than, Hapusa) and invested in **V9 Beverages**. Most notably, divested **Royal Challengers Sports Private Limited (RCSPL)** for **₹16,663 Cr** to focus on core spirits.
- **Segment Performance:** P&A segment grew **8.6% YoY**, while the Popular segment declined **0.3%**, validating the "Luxury-First" strategy.
- **Geographical Presence:** Strong pan-India presence with strategic focus on high-growth states, despite regulatory volatility in markets like Maharashtra.

2. MANAGEMENT COMMENTARY & OUTLOOK

- Management has transitioned from a "portfolio cleaning" phase to an "aggressive luxury category creation" phase, aiming to be a pure-play premium spirits powerhouse.
- The divestment of RCSPL (RCB) for **₹16,663 Cr** is signaled as a strategic pivot to reinvest capital into high-ROIC luxury spirits and Indian Single Malts.
- India is viewed as the "Consumer Market of the Decade," with USL positioning itself to capture the "India Moment" through experiential marketing and "third-space" environments.
- The **India-UK Free Trade Agreement (FTA)** is highlighted as a transformative tailwind that could structurally lower bulk Scotch import costs and provide a 200-300bps margin tailwind.
- Innovation is focused on "Format Innovation" (90ml/180ml pocket packs) to recruit younger consumers and "Halo Brands" like **Godawan** to establish global luxury credentials.
- Management maintains a disciplined approach to pricing, choosing to protect margins over chasing low-margin volumes during excise-led price spikes in states like Maharashtra.
- Operational agility has improved, with the organization now capable of resuming operations within 30 days of major regulatory shifts.
- The long-term vision is centered on a "Digital Core," utilizing predictive modeling and automation to drive future operating leverage.
- **Management Tone:** The tone is highly confident, disciplined, and offensive. Leadership has successfully navigated the "Turnaround Phase" and is now entering a "Dominance Phase." While the RCB sale proceeds create a "problem of plenty," the management appears tightly aligned with Diageo’s global standards and India’s macro-economic trajectory. The verdict is one of high credibility and strategic clarity.

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 2026	Mar 2025
Sales -	12,467.00	12,069.00
Sales Growth %	3.30	6.61
Expenses -	10,188.00	9,833.00
Material Cost % -	54.00	35.00
Raw material cost	6,815.00	4,179.00
Change in inventory	-141.00	90.00
Manufacturing Cost %	0.00	21.00
Employee Cost %	5.00	5.00
Other Cost %	23.00	20.00
Operating Profit	2,279.00	2,236.00
OPM %	18.00	19.00
Other Income -	516.00	271.00
Exceptional items	38.00	108.00
Other income normal	478.00	163.00
Interest	158.00	89.00
Depreciation	289.00	283.00
Profit before tax	2,348.00	2,135.00
Tax %	22.00	26.00
Net Profit -	1,838.00	1,582.00
Minority share	0.00	0.00
Exceptional items AT	12.00	79.00
Profit excl Excep	1,826.00	1,503.00
Profit for PE	1,826.00	1,503.00
Profit for EPS	1,838.00	1,582.00
Profit Growth %	22.00	9.00
EPS in Rs	25.27	21.75
Dividend Payout %	43.00	55.00

Balance Sheet (₹Crores)

Line Item	Mar 2026	Mar 2025
Equity Capital	145.00	145.00
Reserves	8,808.00	7,959.00
Borrowings -	413.00	480.00
Long term Borrowings	0.00	0.00
Short term Borrowings	6.00	0.00
Lease Liabilities	407.00	480.00
Other Borrowings	0.00	0.00
Other Liabilities -	5,103.00	4,592.00
Non controlling int	4.00	0.00
Trade Payables	2,383.00	2,239.00
Advance from Customers	0.00	0.00
Other liability items	2,716.00	2,353.00
Total Liabilities	14,469.00	13,176.00
Fixed Assets -	1,404.00	1,712.00
Land	0.00	124.00
Building	0.00	423.00
Plant Machinery	0.00	1,757.00
Equipments	0.00	56.00
Furniture n fittings	0.00	35.00
Vehicles	0.00	1.00
Intangible Assets	131.00	131.00
Other fixed assets	0.00	688.00
Gross Block	0.00	3,215.00
Accumulated Depreciation	0.00	1,503.00
CWIP	77.00	72.00
Investments	1,171.00	923.00
Other Assets -	11,817.00	10,469.00
Inventories	2,668.00	2,305.00
Trade receivables -	3,609.00	3,410.00
Receivables over 6m	0.00	940.00
Receivables under 6m	0.00	2,652.00
Prov for Doubtful	0.00	-182.00
Cash Equivalents	1,977.00	2,030.00
Loans n Advances	663.00	207.00
Other asset items	2,900.00	2,517.00
Total Assets	14,469.00	13,176.00

Cash Flow Statement (□Crores)

Line Item	Mar 2026	Mar 2025
Cash from Operating Activity -	1,459.00	1,947.00
Profit from operations	2,368.00	2,319.00
Receivables	-356.00	-321.00
Inventory	-359.00	-242.00
Payables	223.00	250.00
Loans Advances	0.00	-42.00
Other WC items	-87.00	146.00
Working capital changes	-579.00	-209.00
Direct taxes	-334.00	-163.00
Other operating items	4.00	0.00
Cash from Investing Activity -	-428.00	-1,114.00
Fixed assets purchased	-181.00	-162.00
Fixed assets sold	253.00	1.00
Investments purchased	-1,879.00	-1,391.00
Investments sold	1,701.00	1,163.00
Interest received	67.00	36.00
Dividends received	0.00	0.00
Invest in subsidiaries	-40.00	0.00
Investment in group cos	0.00	-13.00
Redemp n Canc of Shares	0.00	0.00
Acquisition of companies	0.00	0.00
Other investing items	-349.00	-748.00
Cash from Financing Activity -	-1,450.00	-557.00
Proceeds from borrowings	6.00	28.00
Repayment of borrowings	-12.00	-53.00
Interest paid fin	0.00	-40.00
Dividends paid	0.00	-355.00
Financial liabilities	-181.00	-137.00
Other financing items	-1,263.00	0.00
Net Cash Flow	-419.00	276.00
Free Cash Flow	1,531.00	1,786.00
CFO/OP	79.00	94.00

Key Ratios (₹Crores)

Line Item	Mar 2026	Mar 2025
Debtor Days	106.00	103.00
Inventory Days	146.00	197.00
Days Payable	130.00	191.00
Cash Conversion Cycle	121.00	109.00
Working Capital Days	101.00	48.00
ROCE %	27.00	26.00

3.2 Financial Analysis Summary

- **Revenue** from operations reached **₹12,467.00 Cr**, primarily driven by an **8.59%** growth in the **Prestige and Above** segment to **₹11,152.00 Cr**, while the **Popular** segment remained stagnant at **₹1,118.00 Cr**, signaling a successful premiumization strategy that translated into a **Net Profit** of **₹1,838.00 Cr** despite a contraction in **OPM %** to **18.00%** from **19.00%**.
- **Raw material cost** surged to **₹6,815.00 Cr**, representing a **16.17% YoY** increase that significantly outpaced **Revenue** growth due to **ENA (Extra Neutral Alcohol)** price inflation, while **Other Expenses** were pressured by **Legal and Professional** charges of **₹145.00 Cr** related to ongoing litigations, resulting in an **Operating Profit** of **₹2,279.00 Cr**.
- **Working Capital** days spiked to **101.00 days** from **48.00 days**, as **Inventory** rose to **₹2,668.00 Cr** and **Trade Receivables** reached **₹3,609.00 Cr**, with **65%** of receivables (**₹2,705.00 Cr**) tied to Government entities with longer payment cycles, leading to a significant **Working capital changes** drag of **₹-579.00 Cr** on the **Cash from Operating Activity**.
- **Cash from Operating Activity** of **₹1,459.00 Cr** was lower than the **Net Profit** of **₹1,838.00 Cr**, resulting in a **CFO/PAT** ratio of **0.79**, while **Free Cash Flow** remained healthy at **₹1,531.00 Cr** as **Capex** was contained at **₹181.00 Cr**, supporting a robust **ROCE %** of **27.00%**.
- The company remains effectively debt-free with zero long-term **Borrowings**, though it carries **Lease Liabilities** of **₹859.00 Cr**, with **Finance Cost** of **₹158.00 Cr** including **₹37.00 Cr** interest on leases, maintaining a strong liquidity buffer with **₹1,118.00 Cr** in undrawn credit lines.
- **Other Income** of **₹516.00 Cr** was significantly inflated by **₹112.00 Cr** in interest on tax refunds, while **Net Profit** was further boosted by the recognition of **₹214.00 Cr** in **Deferred Tax** assets based on the "virtual certainty" of future capital gains from the expected **₹16,663.00 Cr** sale of the RCB franchise.
- **Total Assets** are impacted by a massive **₹1,119.00 Cr** in **Income Tax Matters** paid under protest, representing a non-productive cash drag, while **Related Party Transactions** show a recurring value leakage via **Royalty Expense** of **₹82.00 Cr** paid to the parent ecosystem and a **₹1,080.00 Cr** commitment for bulk scotch procurement.
- **Depreciation** remained stable at **₹289.00 Cr** despite a reduction in **Fixed Assets** to **₹1,404.00 Cr** from **₹1,712.00 Cr**, while the company completed a "clean-up" of the **Balance Sheet** by writing off a **₹1,238.00 Cr** loan to UBHL which was already fully provided for.
- **Other Assets** are heavily weighted by **Balances with Govt Authorities** of **₹200.00 Cr**, which includes **₹76.00 Cr** in water charge protests, indicating that a portion of the balance sheet is "frozen" in legal battles rather than productive assets.
- **Other Expenses** saw a **12.7%** increase in **Travel and Conveyance** (**₹62.00 Cr**) and high **Legal and Professional** fees (**₹145.00 Cr**) driven by ongoing litigation and the RCB divestment process.

- The dominant financial theme of the year is a **high-quality structural transition toward a premium-led, debt-free model, temporarily masked by inflationary raw material pressures and non-operational tax/other income gains.**

3.3 Contingent Liabilities & Commitments

- **Income Tax Matters: ₹1,119.00 Cr** paid under protest for various disputed matters; represents a significant cash drag.
- **Indirect Tax (Excise/Sales): ₹842.00 Cr** in disputed claims.
- **Institutional Dispute:** A **₹365.00 Cr** claim from an institutional customer regarding historical trade terms; remains a material tail risk.
- **Water Charges: ₹76.00 Cr** under protest in Maharashtra.
- **Bulk Scotch Commitment: ₹1,080.00 Cr** purchase obligation to Diageo Scotland, ensuring supply but limiting sourcing flexibility.
- **Capital Commitments: ₹142.00 Cr** for planned capex in supply agility and automation.
- **Customs Duty: ₹113.00 Cr** liability due to historical RPT pricing inaccuracies (reimbursable by parent).

3.9 Earnings Quality & Forensic Checks

#	Check	Impact	Status	Evidence	Notes Detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash; □579 Cr working capital drag reduces CFO/PAT conversion.	□	PAT □1,838 Cr vs CFO □1,459 Cr; CFO/OP fell from 94% to 79%.	Note 32(A): 65% of receivables are from Govt entities with long cycles.
2	Receivables & channel-stuffing signal (receivables + inventory build vs revenue)	Revenue ↑↓ — moderate risk; combined build of □562 Cr exceeds 3.3% sales growth.	□	Receivables +5.8%, Inventory +15.7% vs Sales growth of 3.3%.	Note 11: Receivables growth (6.15%) is largely aligned with gross revenue trends.
3	Revenue timing (unbilled / contract assets + deferred revenue / advances)	Revenue ↑ — short-cycle recognition; □132 Cr contract liabilities expected as revenue next year.	□	Contract liabilities at □132 Cr; Advance from customers at □0 Cr.	Note 20: Short-cycle order-to-cash flow indicated by recognition of all advances.
4	Revenue from related parties %	Revenue ↑↓ — high ecosystem dependency; significant stock-in-trade and royalty flows within Diageo.	□	Purchase of stock-in-trade □412 Cr; Royalty expense □82 Cr.	Note 37(b): Transactions heavily concentrated in Diageo Brands B.V. and North America.
5	Inventory vs revenue growth	Profit ↓ — margin pressure; inventory growth of 15.7% significantly outpaces 3.3% sales growth.	□	Inventory □2,668 Cr (up from □2,305 Cr) vs Sales growth 3.3%.	Note 23: Raw material costs rose 16.17%, outpacing net revenue growth significantly.
6	Inventory valuation method change	Neutral — consistent policy; provision for obsolescence decreased, suggesting improved stock management.	□	Inventory provision decreased to □89 Cr from □113 Cr.	Note 10(a): Provision for obsolescence decreased due to better management or write-offs.
7	Exceptional items in operating profit	Profit ↓ — recurring restructuring; □91 Cr costs for supply chain and labor codes.	□	Exceptional items □38 Cr in P&L; Note details □91 Cr gross.	Note 29: Includes □36 Cr supply restructuring and □49 Cr labor code impact.
8	Depreciation rate vs useful life policy	Profit ↑ — non-cash charge avoidance; brands treated as indefinite life assets avoiding amortization.	□	Depreciation □289 Cr; Intangible assets (Brands) □131 Cr not amortized.	Note 3.4: Brands have indefinite useful lives; requires annual impairment testing instead.
9	Provision reversals boosting PAT	Profit ↑ — non-cash gain; □24 Cr reduction in inventory obsolescence provision boosts PAT.	□	Inventory provision fell from □113 Cr to □89 Cr.	Note 10(a): Reversal or write-off of old stock provisions improves reported margins.
10	Tax rate consistency + cash tax vs P&L tax	Profit ↑ — non-cash tax benefit; ETR fell to 22% from 26% YoY.	□	Tax % at 22% vs 26% LY; Direct taxes paid □334 Cr.	Note 7: DTA of □214 Cr recognized on capital losses, boosting current PAT.
11	CWIP age and stalling projects	Neutral — stable investment; CWIP remains low and consistent with prior year levels.	□	CWIP at □77 Cr (Mar 2026) vs □72 Cr (Mar 2025).	Note 4.3: Inorganic growth focus (Nao Spirits) rather than heavy internal greenfield capex.
12	Deferred tax asset recognition adequacy	Profit ↑ — future gain anticipation; □214 Cr DTA recognized based on "virtual certainty."	□	DTA of □214 Cr recognized on capital losses for future gains.	Note 7/42: Recognition likely tied to expected □16,663 Cr gain from RCB sale.
13	RPT quantum and trend		□		

#	Check	Impact	Status	Evidence	Notes Detail
		Profit ↓ — value leakage; recurring royalty and professional charges paid to Diageo entities.		Royalty □82 Cr; Professional charges □48 Cr; Dividend paid □244 Cr.	Note 37(b): Standard but recurring value leakage to parent via global brand royalties.
14	Dividend paid vs FCF adequacy	Neutral — sustainable payout; □1,531 Cr FCF easily covers dividend and lease obligations.	□	FCF □1,531 Cr; Dividend payout 43%; Lease liabilities □407 Cr.	Note 32(B): Minimal liquidity risk as cash/liquid funds exceed immediate debt obligations.
15	Auditor KAM: Tax Estimation Risk	Profit ↑↓ — potential under-provisioning; significant judgment in □1,119 Cr disputed tax matters.	□	□1,119 Cr paid under protest.	Note 2: Auditor flags risk of unfavorable appellate outcomes.
16	Auditor KAM: ECL Model for Govt Receivables	Revenue ↓ — recovery timing risk; 65% concentration with Govt entities.	□	□2,705 Cr due from Govt entities.	Note 2: Auditor focuses on uncertainty of recovery timing despite low default risk.
17	Principal vs Agent Accounting (TMU)	Revenue ↑ — scale inflation; gross reporting of excise and RM for third-party units.	□	Gross revenue includes excise duty of □15,349 Cr.	Note 21(b): Top line would be significantly lower under net-accounting.
18	Non-Operational Other Income	Profit ↑ — core performance masking; interest on tax refunds boosts PAT.	□	□112 Cr interest on tax refunds.	Note 22: Volatile and non-recurring income stream.

4. MANAGEMENT & GOVERNANCE

A. Auditor Report & Key Audit Matters * **Audit Opinion Type:** Unqualified. * **KAM - Tax Matters:** Auditor flags significant management judgment in estimating provisions for □1,119.00 Cr in disputed income tax matters. Risk involves potential under-provisioning if appellate outcomes turn unfavorable. * **KAM - Impairment of Receivables:** Focus on the Expected Credit Loss (ECL) model for the □4,174.00 Cr gross receivables, specifically the 65% concentration with Government entities where recovery timing is historically uncertain. * **Emphasis of Matter - UBHL Loan:** Auditor notes the final write-off of the □1,238.00 Cr loan to United Breweries (Holdings) Limited. While fully provided for previously, this marks the formal cessation of recovery efforts from the former promoter. * **Auditor Change:** The Board has proposed the appointment of M/s. Walker Chandiok & Co. LLP as Statutory Auditors, replacing Price Waterhouse & Co Chartered Accountants LLP. This is a standard rotation.

B. Related Party Transactions

Party	Relationship	Nature	Amount (Cr)	Concern
Diageo Scotland	Fellow Subsidiary	***Bulk Scotch Commitment***	1,080.00 Cr	***Rigid "take-or-pay" structure; limits sourcing flexibility if global prices drop***
Diageo Brands B.V.	Fellow Subsidiary	Purchase of Stock-in-Trade	412.00 Cr	***High dependency on parent for premium BIO portfolio***
Diageo Relay B.V.	Immediate Holding Co	***Dividend Paid***	244.00 Cr	***Direct cash repatriation; represents 16.72% of CFO***
Diageo North America	Fellow Subsidiary	Royalty Expense	82.00 Cr	Standard IP leakage; increased from 76.00 Cr YoY
Diageo Business Services	Fellow Subsidiary	Professional Charges	48.00 Cr	Outsourced service costs paid to parent ecosystem

RPT Analysis: * **% of Revenue:** 14.97% (Total Major RPTs □1,866 Cr / Net Sales □12,467 Cr). * **% of CFO:** 127.89% (Total Major RPTs □1,866 Cr / CFO □1,459 Cr) → □**High cash commitment risk.** * **Customs Duty Issue:** A shortfall in costing for bulk spirits resulted in a **□113.00 Cr** customs duty liability, highlighting historical pricing inaccuracies in RPTs.

C. Shareholding * **Promoters:** 55.88% * **FIIs:** 16.14% * **DIIs:** 11.75% * **Public:** 16.23% * **Promoter Pledge:** 0.00%

D. Board Composition + KMP Compensation * **Total Directors:** 10 | **Independent %:** 50.00% | **Women Directors:** 3 (30.00%). * **KMP Compensation:** MD & CEO (Praveen Someshwar) and CFO (Pradeep Jain) remuneration for FY26 not explicitly disclosed in summary, but prior year was □13.89 Cr and □4.15 Cr respectively. * **Trend:** Aggregate Employee Benefit Expense grew **8.43%**, outstripping Operating Profit growth of **1.92%**. Share-based payments decreased to **□2.00 Cr**.

F. Capital Allocation & Capex

Action	FY Current (Cr)	FY Prior (Cr)	% of CFO	Signal
Dividends Paid	1,231.00 (calc.)	355.00	84.37%	**
Capex (Fixed Assets)	181.00	162.00	12.40%	**
Acquisitions (Nao Spirits)	105.00	0.00	7.19%	□
Asset Sales (Fixed Assets)	253.00	1.00	17.34%	**
Tax Paid Under Protest	1,119.00	1,191.00	76.69%	***
Lease Liabilities	859.00	848.00	58.87%	□

CAPEX Analytical Notes: * **CFO Coverage:** CFO (□1,459 Cr) is **8.06x Capex (□181 Cr)**. The company is highly self-funding. * **Nature of Capex:** The **11.7% increase** is directed toward distillery automation, "Supply Agility," and **S/4HANA digital transformation**. * **Deployment Efficiency:** Asset sales of **□253.00 Cr** indicate active monetization of non-core/older units. * **Key Takeaway:** The **□16,663 Cr RCB sale** will fundamentally reset the balance sheet, though current cash is heavily tied up in tax disputes.

H. Risks * **Tax Litigation (High): □1,119.00 Cr** paid under protest. Direct cash drag; represents **12.5% of Net Worth** locked in non-productive assets. * **Govt Concentration (High): 65% of receivables (□2,705.00 Cr)** due from Govt corporations. Liquidity is hostage to state-run payment cycles (**106-day debtor cycle**). * **Bulk Scotch Commitment (Medium): □1,080.00 Cr** purchase obligation. Structural margin risk if premium demand slows. * **Institutional Dispute (High): □365.00 Cr** claim regarding historical trade terms. Unprovided tail risk; could impact PAT by **20%**. * **Excise Volatility (Medium):** Sharp duty increases (e.g., Maharashtra) cause margin compression in the Popular segment.

5. SCORECARD & VERDICT

Part A: Scorecard

Dimension	Rating (1–5)	Delta	Key Evidence	One-line Rationale
Business Quality	5	→	P&A 89.6% of NSV; Don Julio □100Cr in 9m	Dominant premium moat with successful luxury category creation.
Financial Health	4	→	D/E 0x; ROCE 27%; CFO □1,459 Cr	Debt-free balance sheet with strong returns, slightly offset by WC drag.
Earnings Quality	3	↓	CFO/PAT 0.79; □214Cr DTA gain	PAT boosted by non-cash tax credits and non-operational other income.
Management & Governance	4	→	Zero pledge; 50% Ind. Board; RCB sale	Disciplined strategic execution and parent-aligned governance.
Capital Allocation & Earnings Visibility	5	↑	□16,663 Cr RCB sale; P&A growth 8.6%	Massive cash infusion and clear visibility in premium spirits growth.

BUSINESS POSITIVES (for this company this year) * □**Premiumization Success:** Prestige & Above segment now contributes **89.6% of Net Sales**, with **8.6% YoY growth**. * □**Strategic Divestment:** Unlocked □**16,663 Cr** through the sale of RCSPL (RCB), transforming into a pure-play spirits leader. * □**Brand Scaling: Don Julio** crossed □**100 Cr NSV** in record time; **Signature** crossed □**1,000 Cr NSV**. * □**Debt-Free Status:** Effectively zero bank debt with a robust **ROCE of 27%**. * □**Market Leadership: Black & White** became the #1 Scotch brand in India by volume.

BUSINESS NEGATIVES / CONCERNS (for this company this year) * □**Working Capital Stress:** WC days spiked to **101 days**; **65% of receivables (□2,705 Cr)** tied to slow-paying Govt entities. * □**Cash Drag:** □**1,119 Cr** (12.5% of Net Worth) locked in disputed tax matters paid under protest. * □**Margin Pressure:** Raw material costs rose **16.17%**, outpacing revenue growth and compressing OPM to **18%**. * □**Earnings Quality Flags:** PAT was significantly aided by a □**214 Cr** deferred tax asset and □**112 Cr** interest on tax refunds. * □**RPT Dependency:** Total RPT commitments (□**1,866 Cr**) exceed annual **CFO (□1,459 Cr)**.

OVERALL SCORECARD SUMMARY United Spirits has successfully completed its structural transformation into a high-margin, premium-focused spirits player, punctuated by the massive □16,663 Cr RCB divestment. While the balance sheet is exceptionally strong and debt-free, the current year's earnings quality is slightly diluted by non-operational gains and a significant working capital drag from government receivables. Governance remains robust under Diageo's stewardship, though the high volume of related-party commitments and tax litigation remains a monitorable. Overall, the business is on an improving trajectory as it pivots toward a "Luxury-First" model with a massive capital war chest.

Part B: Governance Check Matrix

#	Check	Status	Evidence
1	Audit opinion clean?	□	Unqualified opinion (p.7).
2	Promoter pledge = 0?	□	0.00% pledge.
3	KMP pay < 5% of PAT?	□	Aggregate employee cost 5.4% of net sales; KMP pay well within limits.
4	RPT quantum < 5% of revenue?	□	Total RPTs at 14.97% of Net Sales.
5	Board > 50% independent?	□	50.00% (5 of 10 directors).
6	At least 1 woman director?	□	3 women directors (30%).
7	No statutory dues outstanding?	□	□1,119 Cr Income Tax & □842 Cr Indirect Tax disputed.
8	No fraud reported?	□	No fraud reported in auditor's report.
9	Audit trail enabled?	□	Confirmed in auditor's report.
10	Frequent Auditor change	□	Standard rotation to Walker Chandiok.
Final line: "Total: 8/10 □— Governance Rating: 4"			

Part C: Investor Verdict

THESIS: USL is a premiumization powerhouse transitioning into a pure-play luxury spirits leader with a massive cash war chest following the RCB divestment. **OVERALL STANCE:** ACCUMULATE **RATIONALE:** Strong structural growth in Prestige & Above segment and a debt-free balance sheet outweigh temporary working capital and margin pressures. **RE-EVALUATE WHEN:** Prestige & Above growth falls below 5% OR RCB sale proceeds are deployed in low-ROIC acquisitions. **BULL CASE:** India-UK FTA signing provides a 300bps margin expansion and accelerates Global BIO segment growth. **BEAR CASE:** Sustained ENA inflation and further excise hikes in key states like Maharashtra compress OPM below 15%. **KEY MONITORABLE:** CFO/PAT ratio: 0.79 → Watch for improvement toward >0.90 as Govt receivables normalize.

7. YEAR-OVER-YEAR ANALYSIS

7.1 Changes

Metric / Theme	Summary A Status	Summary B Status	Forensic Takeaway
Capital Allocation	Focused on internal automation (Capex ₹162 Cr) and steady dividend growth.	Strategic pivot via the ₹16,663 Cr RCB divestment to focus exclusively on luxury spirits.	The company has moved from organic reinvestment to a massive balance sheet reset that creates a significant capital deployment challenge.
Margin Trajectory	OPM expanded to 19.0% aided by a 100bps reduction in material costs.	OPM contracted to 18.0% as raw material costs surged 16.17% due to ENA inflation.	Despite the premiumization tailwind, the operating margin remains highly vulnerable to volatile agricultural input costs.
Working Capital	Working capital days at 48 with 59% government receivable concentration.	Working capital days spiked to 101 as government receivables rose to 65% of the total.	Liquidity is increasingly becoming a hostage to state-run payment cycles, leading to a noticeable deterioration in the cash conversion cycle.
Earnings Quality	High-quality earnings with CFO (₹1,947 Cr) exceeding PAT (₹1,582 Cr).	Earnings quality weakened as PAT was propped up by a ₹214 Cr non-cash deferred tax gain and ₹112 Cr in non-operational interest.	Reported profits are currently being inflated by accounting adjustments and one-off tax items rather than pure operational outperformance.
Management Tone	Focused on "Luxury-First" category creation and "Supply Agility."	Transitioned to a "Dominance Phase" aiming to be a pure-play premium spirits powerhouse.	Leadership has successfully shed the last major non-core legacy asset to align fully with Diageo's global luxury strategy.

7.2 Persistent Patterns

- **Significant capital (exceeding ₹1,100 Cr) remains permanently "locked" in tax payments made under protest, acting as a non-productive drag on ROCE.**
- **High concentration of trade receivables with Government corporations continues to make the company's cash flow timing dependent on state-level bureaucracy.**
- **Structural cash leakage to the parent entity (Diageo) persists through mandatory royalties and high-value sourcing commitments for bulk Scotch.**
- **The Prestige & Above (P&A) segment remains the sole engine of growth, consistently contributing approximately 89% of Net Sales Value.**
- **The company maintains an elite, debt-free balance sheet with zero external bank borrowings across both periods.**
- **A major commercial dispute involving a ₹365 Cr claim from an institutional customer remains a persistent, unresolved contingent liability risk.**
- **Free Cash Flow generation remains structurally positive and sufficient to fund all internal requirements without external financing.**
- **The business model remains highly sensitive to state-level excise policies, which consistently consume the majority of gross contract value.**