

## BN) Diageo to Pay \$2.04 Billion for Control of United Spirits (1)

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(Updates with investor comment in sixth paragraph.)

By George Smith Alexander and Malavika Sharma

Nov. 9 (Bloomberg) -- Diageo Plc, the maker of Johnnie Walker Scotch, will buy a 53.4 percent stake in India's United Spirits Ltd. for 111.7 billion rupees (\$2.04 billion) to boost its reach in the world's largest whiskey-consuming nation.

The U.K. distiller is acquiring control from billionaire Vijay Mallya in a transaction that will help Diageo bolster its position in India's \$21 billion whiskey market. Mallya and others are selling a 19.3 percent stake as his Kingfisher Airlines Ltd. struggles with a cash shortage. He will remain chairman of United Spirits and hold 14.9 percent after the transaction.

The U.K. company will acquire a 27.4 percent stake at 1,440 rupees per share and will make a tender offer for 26 percent of United Spirits, the companies said in a statement today. They first disclosed that they were in discussions in September.

"It will be a win-win for both," said Deven Choksey, managing director at K.R. Choksey Shares & Securities Pvt. in Mumbai ahead of the announcement. "Diageo will get a foothold into the company and the Indian market, and the Mallya group will get the money to pay the debt of Kingfisher."

Diageo, which already sells its Johnnie Walker whiskey and Smirnoff vodka brands in India, will benefit from United Spirits' distribution network and the company's experience with negotiating complex rules that govern India's liquor business, according to P. Phani Sekhar, a fund manager with Angel Broking.

#### Shares Gain

"The liquor business is a very high entry-barrier business because of the state-level regulations," he said. "This business has been cracked by Mr. Mallya over a period of time."

Diageo is paying about 20 times United Spirits earnings before interest, taxes, depreciation and amortization in the period ending March 31, 2012, it said.

"If you look at emerging market transactions in the consumer space, this multiple is not out of line," Diageo Chief Financial Officer Deirdre Mahlan said on a conference call today. "There is no doubt that India is one of the most exciting, if not the most exciting market in Asia. So the multiple reflects the value we can deliver." The company has no plans to take its ownership to 100 percent, she said.

Retail sales in India's whiskey market are expected to grow to \$31.1 billion in 2016, from \$21.1 billion in 2011, according to Euromonitor International estimates.

United Spirits' shares rose 1.3 percent to 1,360.5 rupees at the close of trading in Mumbai today, after gaining as much as 6.1 percent. Diageo advanced 0.6 percent to 1,799 pence as of 11:14 a.m. in London.

#### Emerging-Market Growth

Diageo is seeking growth in markets outside Europe, as part of its plan to get half of its net sales from developing markets by 2015. The distiller is keen to make acquisitions in the Asia-Pacific region, Gilbert Ghostine, president for the region, said in an Oct. 1 interview. The company gets about 14

percent of revenue from Asia-Pacific and is “on-track” to raise revenue from emerging markets to 50 percent from 40 percent, he said then.

United Spirits had a 43 percent share of India’s whiskey market in 2011, followed by Pernod Ricard SA with 15 percent, according to Euromonitor data. Diageo had only 0.1 percent of the market, it showed.

United Spirits today reported second-quarter net income declined 73 percent to 392.7 million rupees, as the cost of raw materials increased. Revenue increased 24 percent to 22.2 billion rupees in the three months ended Sept. 30 from a year earlier, the company said in a statement.

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