

21 November 2014

United Spirits Limited



Extra-ordinary General Meeting (EGM)

Company Profile

BSE: 532432 | NSE: MCDOWELL-N
Industry: Breweries & Distilleries
Index: S&P BSE 100 / CNX 100
Face Value: Rs. 10
Fiscal Year End: March

Meeting Date :	28 November 2014 3:30 pm
Proxy Deadline:	26 November 2014 3:30 pm
E-voting:	https://www.evoting.nsdl.com
E-Voting Dates:	22 November 2014 (9:00 am) to 24 November 2014 (6:00 pm)
Meeting Venue:	'The Senate', The Capitol, No. 3 Raj Bhavan Road, Bangalore-560 001
Notice Date:	7 November 2014

Agenda Items

#	Type ¹	Description of resolution	IiAS Recommendation See Legend
1	O	<p>Considering erosion of net worth of the Company as per Section 23 of the Sick Industrial Companies (Special Provisions) Act, 1985</p> <p>United Spirits Limited's (USL) accumulated losses aggregated Rs.30.8 bn on 31 March 2014, which is 52% of its peak net worth (Rs.58.4 bn) during the past four financial years. In accordance with the provisions of the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA), the company is required to report this to the Board for Industrial and Financial Reconstruction (BIFR), and hold a general meeting of shareholders to discuss the causes of its network erosion.</p> <p>USL's accumulated losses emanate from the write-offs on account of the sale of Whyte and Mackay brand, and the write-offs related to loans and advances to UB group companies (USL AGM Report 2014).</p>	FOR
2	S	<p>Approval of sales promotion services agreement dated 1 October 2013, between USL and Diageo India Private Limited (DIPL)</p> <p>Under this agreement, USL will provide sales promotion services to DIPL for some products, in consideration for a sales commission. The agreement is valid till 30 September 2015 and was executed in 2013, after Diageo became a 25% shareholder in USL. IiAS had recommended voting FOR the resolution on operating transactions with Diageo and its subsidiaries presented to shareholders in its November 2014 postal ballot.</p> <p>The maximum value of the transaction has not been mentioned: in FY14, USL received a commission of Rs.164.0 mn from DIPL. IiAS flags this resolution to carry transparency risk since the quantum of the transaction has not been defined.</p>	FOR 
3	S	<p>Approval of loan (aggregating Rs. 13.8bn) agreement dated 3 July 2013, between USL and United Breweries (Holdings) Limited (UBHL)</p> <p>The loan agreement dated 3 July 2013 relates to the restructuring of previous loans: various pre-existing loans/ advances/ deposits (together with interest), which were due from UBHL to USL and its subsidiaries, were consolidated into one unsecured loan aggregating to Rs.13.4 bn. Under the revised terms, UBHL is required to repay the entire loan in three instalments beginning 2019. This agreement (regarding loan restructuring) was executed on 3 July 2013, just one day prior to Diageo increasing its stake by 14.98% to 25%.</p> <p>IiAS believes that the amount extended to UBHL is irrecoverable for now – UBHL had reported a negative tangible¹ networth of Rs. 7.08bn (consolidated) on 31 March 2014 and a consolidated FY14 net loss of Rs.13.94 bn. UBHL's consolidated financial statements are qualified: the company has neither written off its investments aggregating Rs.8.4bn in Kingfisher Airlines (KFA), which has stopped operations, nor has it provided for the guarantees invoked by KFA's lenders aggregating Rs.87.07 bn,</p>	FOR 

¹ Not including revaluation reserve

#	Type ¹	Description of resolution	IiAS Recommendation See Legend
		among other concerns cited. Given the current state UBHL's finances, IiAS believes USL's directors should have considered immediate recovery, instead of restructuring the outstanding dues.	
		USL's notice for the resolution mentions that opposing this resolution carries the risk of legal disputes given the regulatory ambiguity. Based on this statement by the board, IiAS recommends voting FOR this resolution.	
4	S	Approval of trademark licence agreement dated 29 June 2013, between USL and UBHL for the use of the Pegasus logo Under this agreement, USL has already paid UBHL Rs.2.5bn upfront towards the use of the Pegasus logo. Annual payments over ten years are expected to aggregate another Rs.2.63 bn, of which Rs.420 million has been paid in FY14 ² .	AGAINST G M R S T V
		This agreement has been signed less than 5 days before Diageo became a 25% owner of USL (Diageo acquired the incremental 14.98% in USL on 4 July 2013). UBHL had not received any payment from USL regarding the use of the Pegasus logo in FY13 and FY12 ³ . There is neither clarity on the need for this license (at this juncture) nor the benefits of using the logo.	
5	S	Approval of agreements dated 30 September 2011 and 22 December 2011 respectively, between USL and UBHL requiring USL to buy from UBHL certain immovable properties USL has paid an aggregate of Rs. 331.4 mn towards acquiring the 9 th floor Canberra Towers in UB City, Bangalore. Despite the payments having been made in 2011, the ownership/ title of the property has not been transferred to USL.	FOR G M R S T V
		It is unlikely that there will be any recovery of amounts advanced to UBHL, given its current finances. Therefore, from a practical perspective, IiAS recommends that shareholders vote FOR this resolution. The ratification of these agreements will enable USL to have the legal right to demand transfer of ownership and title of the property from UBHL.	
6	S	Approval of services agreement (for property maintenance) dated 3 July 2013, between USL and Kingfisher Finvest India Limited Kingfisher Finvest India Ltd. (KFIL) engages in promotion and sale of media and other form of audio visual presentations. But, the agreement between KFIL and USL related to property maintenance services.	AGAINST G M R S T V
		The services agreement was approved by the board in October 2012 and signed into force on 3 July 2013 – once again, one day prior to Diageo acquiring its incremental stake to reach 25% in USL. It may be noted that USL has neither paid KFIL for such services in FY13, nor in FY12.	
		There is no specified term to this agreement, and it will remain in force till Dr. Vijay Mallya remains non-executive director and Chairman of USL. IiAS believes that contracts should not be hinged on the existence of an individual/ erstwhile promoter.	
7	S	Approval of advertising agreement dated 1 October 2013 between USL and Watson Limited The agreement was first signed on 3 July 2013 but has been reviewed and amended in October 2013, when Diageo had 25% stake in USL. Watson Ltd is one of the promoters of UBHL and holds 21.2% of the shareholding.	FOR
		Watson has granted certain advertising rights to USL in relation to the Formula One motor racing team. The expenditure of ~Rs.5.0 bn (Rs. 1 bn per year) accounts for	

² Source: UBHL Annual Report 2013-14

³ Source: UBHL Annual Report 2012-13

#	Type ¹	Description of resolution	IiAS Recommendation See Legend
		approximately 8% of United Spirits' annual advertising spending. This is an operational transaction.	
		Liquor manufacturing companies have limited advertising options in India on account of the stringent regulations. Using Formula One avenue for advertising will help create brand awareness/ strengthen the brand, not only in India, but in other countries too.	
8	S	Approval of sponsorship agreement dated 11 June 2013 between USL and United Racing & Bloodstock Breeders Limited (URBBL) URBBL has granted certain sponsorship rights to USL in relation to horses owned or raced by URBBL for a consideration of Rs.750.0 mn over a 10-year period: the agreement is valid till June 2023. In India, liquor manufacturing companies have limited advertising options on account of the stringent regulations. Therefore, sports as an avenue for advertising will help create brand awareness.	FOR
9	S	Approval of sponsorship agreement dated 11 June 2013 between USL and United Mohun Bagan Football Team Private Limited (UMBFTPL) UMBFTPL has granted certain sponsorship rights to USL in relation to the Mohun Bagan Athletic Club for a consideration of Rs. 800.0 mn over a 10-year period. In India, liquor manufacturing companies have limited advertising options on account of the stringent regulations. Therefore, sports as an avenue for advertising will help create brand awareness.	FOR
10	S	Approval of aircraft services agreement dated 11 June 2013 between USL and UB Air Private Limited (UBAPL) UBAPL has agreed to provide to USL certain flight services as requisitioned by USL for a consideration of Rs.250.0 mn per year plus the non-interest bearing refundable security deposit of Rs. 50 mn paid upfront. The term of the agreement states that it will continue to be in force till the time Dr. Vijay Mallya is non-executive director and Chairman of the Company. IiAS believes that the terms of an agreement has to be based on the company's requirements and cannot be vulnerable to an individual.	AGAINST G M R S T V
11	S	Approval of properties call agreement dated 11 June 2013 between USL and PE Data Centre Resources Private Limited (PEDCRPL) USL has granted to PEDCRPL a call right for a three-year period to purchase certain properties of USL in India which are non-core to USL's business: the option fee already received by USL aggregates Rs. 281.4 mn. There is no disclosure about which assets/ properties are being sold, where these are located (city and area), their size and the consolidated valuation of such properties. In the absence of such information, IiAS recommends that shareholders vote AGAINST this transaction.	AGAINST G M R S T V
12	S	Approval of contribution agreement dated 11 June 2013 between USL and Vittal Mallya Scientific Research Foundation (VMSRF) USL's contribution to VMSRF over a 10-year period will aggregate Rs.250mn (annually Rs.25mn). IiAS believes that given the poor financial performance in FY14, USL should avoid incurring expenses on non-core activities; USL may approach shareholders once its financials have stabilized.	AGAINST G M R S T V

¹ O/S: Ordinary/Special

Company Overview

United Spirits Ltd ('USL' or 'the company') is one of the largest spirits company in the world with a portfolio of about 140 brands including popular brands such as McDowell's No 1, Bagpiper, Royal Challenge, Antiquity and Old Tavern. It has established manufacturing and bottling plants in every state of India. It exports to 37 countries.

Promoters:

Diageo PLC through Relay BV, Vijay Mallya, United Breweries Holdings Ltd

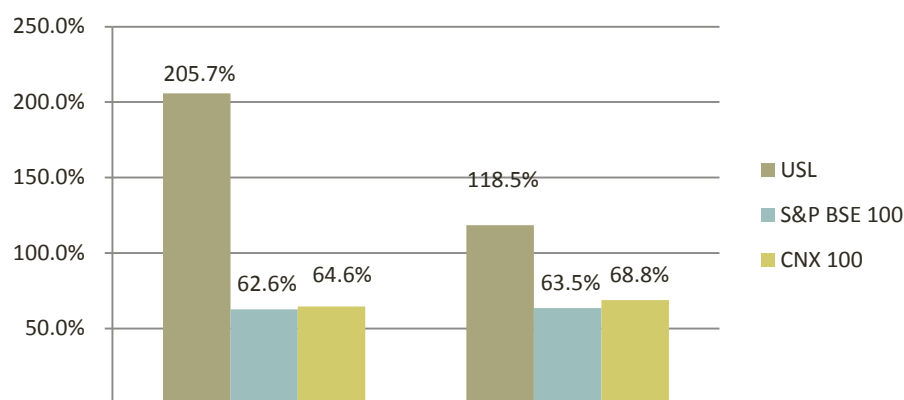
Market snapshot

Mkt Price (Rs): 2637.7
Mkt Cap (Rs bn): 383.3
Networth (Rs bn) [s]: 38.1
52 week H-L (Rs): 2940.6-2226.0
Current P/E(x) [s]: (7.4)
Current P/B (x) [s]: 10.2
[s] - standalone

Previous Advisory

USL PB - 26 Nov'14
USL AGM - 30 Sep'14

Price Performance (period ended 11 November 2014)



Financial performance (Standalone)

(Rs bn)

Year ended 31-Mar	2012	2013	2014
Total Income	77.2	85.1	86.7
EBITDA	11.3	12.3	(0.1)
EBITDA Margin (%)	14.6	14.5	Negative
PBT	5.0	4.8	(50.2)
PBT Margin (%)	6.5	5.7	Negative
PAT	3.4	3.2	(51.0)
PAT Margin (%)	4.4	3.8	Negative
EPS (Rs.)	26.2	24.5	(356.6)
ROANW (%)	6.2	5.2	Negative
ROACE (%)	10.3	9.3	Negative
Debt/EBIDTA (x)	3.7	3.6	Negative

Source: Company

Trend in Shareholding Pattern (%)

As on	Promoter ¹	FII	DII	Others
30-Sep-14	58.9	23.7	3.9	13.5
30-Jun-14	33.0	10.9	0.1	56.0
31-Mar-14	38.6	40.1	4.0	17.3
31-Dec-13	37.3	40.9	4.9	16.9
31-Mar-13	22.9	41.8	6.0	30.1
31-Mar-12	27.8	47.5	7.3	17.4
31-Mar-11	28.0	50.3	3.0	18.6
31-Mar-10	29.2	46.3	6.8	17.8

¹ Pledged Shares: 3.76% on 30 September 2014

Public Shareholders

No.	Name of the Shareholder	Shares held (million)	Holding as % of total
1	Morgan Stanley Asia (Singapore) PTE	3.74	2.57
2	USL Benefit Trust	3.46	2.38
3	CLSA (Mauritius) Ltd	2.32	1.60
4	Carmignac Gestion A/C Carmignac Patrimoine	2.21	1.52
5	New Perspective Fund	1.95	1.34
6	Kotak Mahindra (International) Ltd	1.74	1.20
Total		15.41	10.60

Source: BSE

Category: BIFR

#	Type	Description of resolution	IiAS Recommendation	Indicators See Legend
1	0	Considering erosion of net worth of the Company as per Section 23 of the Sick Industrial Companies (Special Provisions) Act, 1985	FOR	

Discussion

Pursuant to Section 23(1) (b) of the Sick Industrial Companies (Special Provisions) Act, 1985, if the accumulated loss of the company erodes 50% or more of its peak networth during the immediately preceding four financial years, the company is required to:

- report the fact of such erosion to the Board for Industrial and Financial Reconstruction (BIFR), and
- hold a general meeting of the shareholders for considering such erosion and the causes for the same.

The accumulated losses of the Company (Rs.30.8 bn) as at 31 March 2014 is 52% of its peak net worth (Rs. 58.4 bn) during the four financial years preceding the financial year ended 31 March 2014.

The reason for deterioration in company's networth in the past four years is discussed below-

Though USL registered an operating profit of Rs.3.1 bn for the financial year ended 31 March 2014, more than fifty percent of the peak net worth of USL during the preceding four financial years was eroded as at the end of the financial year 2013-14, due to certain provisions made by the Company

- doubtful receivable, advances and deposits;
- impairment of the Company's investment in its wholly owned overseas subsidiary, USL Holdings Limited in British Virgin Islands;
- write-off of a part of a certain intra-group loan on account of sale of the entire issued share capital of Whyte and Mackay Group Limited, an erstwhile indirect wholly owned subsidiary of the Company, to a third party;
- diminution in the value of the Company's investments in Palmer Investment Group Limited and Montrose International S.A.

USL believes that the provisioning mentioned above is mainly due to exceptional factors and does not reflect upon the long term prospects of the Company.

Details of the above mentioned provisions:

Provision for Doubtful debts, advances and deposits	Rs. 10.1 bn
Provision for loans given	Rs. 36.1 bn
Provision for Investments	Rs. 7.1 bn
Total	Rs. 53.3 bn

IiAS recommends voting **FOR** the resolution.

Category: Transactions with Related Parties

#	Type	Description of resolution	IiAS Recommendation	Indicators See Legend
2	S	Approval of sales promotion services agreement dated 1 October 2013, between USL and Diageo India Private Limited	FOR	G M R S T V
3	S	Approval of loan agreement dated 3 July 2013, between USL and United Breweries (Holdings) Limited (UBHL)	FOR	G M R S T V
4	S	Approval of trademark licence agreement dated 29 June 2013, between USL and UBHL	AGAINST	G M R S T V
5	S	Approval of agreements dated 30 September 2011 and 22 December 2011 respectively, between USL and UBHL requiring USL to buy from UBHL certain immovable properties	FOR	G M R S T V
6	S	Approval of services agreement dated 3 July 2013 between USL and Kingfisher Finvest India Limited	AGAINST	G M R S T V
7	S	Approval of advertising agreement dated 1 October 2013 between USL and Watson Limited	FOR	
8	S	Approval of sponsorship agreement dated 11 June 2013 between USL and United Racing & Bloodstock Breeders Limited	FOR	
9	S	Approval of sponsorship agreement dated 11 June 2013 between USL and United Mohun Bagan Football Team Private Limited	FOR	
10	S	Approval of aircraft services agreement dated 11 June 2013 between USL and UB Air Private Limited	AGAINST	G M R S T V
11	S	Approval of properties call agreement dated 11 June 2013 between USL and PE Data Centre Resources Private Limited	AGAINST	G M R S T V
12	S	Approval of contribution agreement dated 11 June 2013 between USL and Vittal Mallya Scientific Research Foundation	AGAINST	G M R S T V

Discussion

In terms of the Section 188 of the Companies Act, 2013 and Listing Agreement, any material related party transaction requires the approval of the shareholders of the Company by way of a Special Resolution.

Table 1: Proposed related party transactions

(Rs mn)

#	Name of related party	Material terms	Nature of transaction	Term	FY14 Amount	Transaction value
2	Diageo India Pvt Ltd	Company is required to promote certain products of DIPL, undertaking merchandising activities etc.	Sales promotion services agreement	30 September 2015	164.0	-
3	United Breweries (Holdings) Ltd	The interest rate under the loan agreement is 9.5% to be paid at 6 months intervals.	Loan Agreement	4 July 2021	-	13,750 + interest
4	United Breweries (Holdings) Ltd	UBHL had granted to USL a license to use the Pegasus logo.	Trademark License Agreement	29 June 2023	-	5,130.0
5	United Breweries (Holdings) Ltd	UBHL had agreed to sell the proportionate land and office space in 9th Floor of Canberra Tower in UB City	Property Sale Agreements	Already paid	-	331.4
6	Kingfisher Finvest India Ltd	KFIL has agreed to provide property maintenance services.	Services Agreement	Till Dr. Mallya is on the Board	143.3	170.0 (per annum)
7	Watson Ltd	Watson has granted a worldwide, non-transferable, royalty-free license to use the logo of the Formula One motor racing team owned and managed by FORCE INDIA.	Watson Advertising Agreement	2017	879.2	~5,000.0

8	United Racing & Bloodstock Breeders Ltd	URBBL has granted sponsorship in relation to horses owned or raced by URBBL.	URBBL Sponsorship Agreement	11 June 2023	63.2 (3 July 13-31 Mar 14)	75.0(per annum)
9	United Mohun Bagan Football Team Pvt Ltd	UMBFTPL has granted sponsorship rights in relation to Mohun Bagan Athletic Club.	UMBFTPL Sponsorship Agreement	11 June 2023	67.4 (3 July 13-31 Mar 14)	80.0(per annum)
10	UB Air Pvt Ltd	UBAPL has agreed to provide to USL certain flight services	Aircraft Services Agreement	Till Dr. Mallya is on the Board	210.3 (3 July 13-31 Mar 14)	<250.0(per annum)
11	PE Data Centre Resources Pvt Ltd	USL has granted to PEDCRPL a call right for a specific period to purchase certain properties of the Company in India which are non-core to the Company's business, in consideration for PEDCRPL paying the specified call option fee to the Company.	Properties Call Agreement	1 March 2017	-	281.4
12	Vittal Mallya Scientific Research Foundation	USL has agreed to make certain minimum contributions per annum to VMSRF which will be used for the purposes of scientific research.	Contribution Agreement	11 June 2023	18.75 (3 July 13-31 Mar 14)	25.0(per annum)

All of the agreements in resolution nos. 2 to 4 and in resolution nos. 6 to 12 have been reviewed independently and confirmed to be on arm's length basis. The agreement with UBHL requiring USL to buy certain immovable properties from UBHL (# 5) has also been entered into on an arm's length basis.

Resolution 2: Sales promotion services agreement

Under this agreement, USL will provide sales promotion services to DIPL for some products, in consideration for a sales commission. The maximum value of the transaction has not been mentioned: in FY14, USL received a commission of Rs.164.0 mn from DIPL. IiAS flags this resolution to carry transparency risk since the quantum of the transaction has not been defined. IiAS recommends voting **FOR** the resolution.

Resolution 3: Loan Agreement

Various pre-existing loans/ advances/ deposits (together with interest) which USL and its subsidiaries had due from UBHL, were consolidated into one unsecured loan aggregating to Rs.13.4 bn. This restructured agreement was executed on 4 July 2013, just one day prior to Diageo increasing its stake by 14.98% to 25%. The restructured loan agreement requires UBHL to repay the loan in three instalments, beginning 2019.

IiAS believes that the amount extended to UBHL is irrecoverable – UBHL had reported a negative tangible⁴ networth of Rs. 7.08bn (consolidated) on 31 March 2014 and a consolidated FY14 net loss of Rs.13.9 bn. UBHL's consolidated financial statements are qualified: the company has not written off its investments aggregating Rs.8.4bn in Kingfisher Airlines (KFA), which has stopped operations, nor has it provided for the guarantees invoked by KFA's lenders aggregating Rs.87.07 bn, among other concerns cited. Additionally, the Indian courts have admitted lenders' petition for winding up UBHL.

Table 2: UBHL; Consolidated Financials (Rs.bn)

For the year ended 31March	2013	2014
Tangible ⁴ Networth	20.0	(7.08)
Total debt	47.1	33.3
Total income	7.8	8.1
Reported PAT	(2.9)	(13.9)

Given the current state of UBHL's finances, the directors should have considered immediate recovery.

⁴ Not including revaluation reserve

USL's notice for the resolution mentions that opposing this resolution will carry several legal risks and the regulatory ambiguity may result in several disputes. Based on these statements, IiAS recommends voting **FOR** this resolution.

Resolution 4: Trademark License Agreement

Under this agreement, USL has already paid UBHL Rs.2.5bn upfront towards the use of the Pegasus logo. Annual payments over ten years are expected to aggregate another Rs.2.63 bn, of which Rs.420 million has been paid in FY14.

This agreement has been signed on 4 July 2013, less than 5 days before Diageo became a 25% owner of USL. UBHL had not received any payment from USL regarding the use of the Pegasus logo in FY12 or FY13. There is neither clarity on the need for this license (at this juncture) nor the benefits of using the logo.

In its 2014 AGM, UBHL's shareholders approved a fresh contract of upto Rs.0.9 bn (annual fees; period of contract not available) with Mangalore Chemicals and Fertilizers Limited (MCF) and with USL. USL and MCF are the only two companies that UBHL proposes to sign a licence fee contract with (for the Pegasus logo), in 2013-14; both at a time when they are exiting the UB group. USL has been taken over by Diageo, and the Zuari group has made an open offer to acquire outstanding shares in MCF.

MCF and UB Engineering have paid UBHL license fees for the use of the Pegasus logo in the past three years. Kingfisher Airlines too has been paying UBHL for the use of the Pegasus logo in the past, but stopped after 2012-13.

UBHL has secured the future receivables from the Pegasus logo to its loan from Laxmi Vilas Bank: the outstanding loan on 31 March 2014 was Rs.159.29mn⁵.

Resolution 5: Property Sale Agreements

USL has paid an aggregate of Rs. 331.4 mn towards acquiring the 9th floor Canberra Towers in UB City, Bangalore. Despite the payments having been made in 2011, the ownership/ title of the property has not been transferred to USL. Due to the lack of this clarity, the resolution is flagged with 'transparency risk'.

It is unlikely that there will be any recovery of amounts advanced to UBHL. Therefore, from a practical perspective, the ratification of these agreements will enable USL to have the legal right to demand transfer of ownership and title of the property from UBHL. IiAS recommends that shareholders vote **FOR** this resolution.

Resolution 6: Services Agreement

Kingfisher Finvest India Ltd. (KFIL) engages in promotion and sale of media and other form of audio visual presentations. But, the agreement between KFIL and USL is related to property maintenance services.

The services agreement was approved by the board in October 2012 and signed into force on 3 July 2013 – once again, one day prior to Diageo acquiring its incremental stake to reach 25% in USL. It may be noted that USL has neither paid KFIL for such services in FY 13, nor in FY12.

There is no specified term to this agreement, and it will remain in force till Dr. Vijay Mallya remains non-executive director and Chairman of USL. IiAS believes that contracts should not be hinged on the existence of an individual/ erstwhile promoter. IiAS recommends voting **AGAINST** this resolution.

Resolution 7: Watson Advertising Agreement

The agreement was first signed on 3 July 2013 but has been amended in October 2013, when Diageo had already acquired its incremental stake to reach 25% in USL. Watson Ltd is one of the promoters of UBHL and holds 21.2% of the shareholding.

⁵ Source: UBHL Annual Report 2013-14

Watson has granted certain advertising rights to USL in relation to the Formula One motor racing team. The expenditure of ~Rs.5.0 bn (Rs.1 bn per year) accounts for approximately 8% of United Spirits' annual advertising spending.

Liquor manufacturing companies have limited advertising options in India on account of the stringent regulations. Therefore, using Formula One avenue for advertising will help create brand awareness in India and in other countries. IiAS recommends voting **FOR** this resolution.

Resolution 8: URBBL Sponsorship Agreement and

Resolution 9: UMBFTPL Sponsorship Agreement

The company has stated that both these transactions are on an arms-length basis. Liquor manufacturing companies have limited advertising options in India on account of the stringent regulations. Therefore, sports as an avenue for advertising is favorable for brand awareness. IiAS recommends voting **FOR** these resolutions.

Resolution 10: Aircraft Services Agreement

UBAPL has agreed to provide to USL certain flight services as requisitioned by USL for a consideration of Rs.250.0 mn per year plus the non-interest bearing refundable security deposit of Rs. 50 mn paid upfront.

The term of the agreement states that it will continue to be in force till the time Dr. Vijay Mallya is non-executive director and Chairman of the Company. IiAS believes that the terms of an agreement have to be based on the companies' requirements and not on the basis of what an individual wants. IiAS recommends voting **AGAINST** the resolution.

Resolution 11: Properties Call Agreement

USL has granted to PEDCRPL a call right for a specific period to purchase certain properties of USL in India which are non-core to USL's business: the option fee already received by USL aggregates Rs. 281.4 mn.

There is no disclosure about which assets/ properties are being sold, which city and area these are located, their size and the consolidated valuation of such properties. In the absence of such information, IiAS recommends that shareholders vote **AGAINST** this transaction.

Resolution 12: Contribution Agreement

The contributions to be made by USL to VMSRF under the Contribution Agreement are minimum Rs.25 mn per year for 10 years. It is unclear, at this point, whether USL has been making contributions to VMSRF in the past. However, USL has been bearing the cost of VMSRF's CEO's annual remuneration in the past – in 2014, remuneration for only part of the year has been paid, which could be on account of the change in USL's ownership structure.

IiAS believes that given the poor financial performance in FY14, USL should avoid incurring expenses on non-core activities. IiAS recommends voting **AGAINST** the resolution. USL may bring back this proposal to shareholders once its financials stabilize.

Legend

IiAS publishes voting recommendations on shareholder resolutions. These recommendations are non-binding in nature. Investors may have their own voting parameters which may, on aspects, differ from those of IiAS. On such occasions, investors should use these recommendations as a guiding tool.

The data and regulations reviewed while arriving at a recommendation are disclosed to the investors. This gives the investor clarity regarding the basis for our recommendations.

Please note that voting recommendations do not constitute advice to buy, sell or hold securities.

Indicator	Meaning	Description	Common Examples
G	Governance Issue	This symbol is used for resolutions which indicate poor corporate governance practices or non-compliance with the regulatory provisions. Consequently, they are usually accompanied with an AGAINST recommendation. IiAS may also include measures/best practices which the company can adopt to improve its governance record.	Managerial remuneration, Auditor appointments
M	Minority shareholder impact	This symbol is used for resolutions which negatively affect the minority shareholders of the company. IiAS usually recommends voting AGAINST such resolutions as they benefit the controlling or a class of shareholders at the expense of others.	Preferential warrants, Differential rights
R	Moderate - High Risk	This symbol is used for operating decisions taken by the company management and IiAS will usually recommend voting FOR such resolutions. However, they carry an element of risk which may subsequently have a negative impact on the financials. Investors are therefore advised to review the risk factors highlighted by IiAS in its analysis before voting.	Any resolution
S	Strategic	Indicates a strategic decision of the company, the long term impact of which cannot be accurately ascertained at the time of proposal. These may be accompanied with a FOR or AGAINST recommendation based on a preliminary review of data provided to investors. IiAS recommendations on such strategic decisions are dependent primarily on short-term indicators like market reaction, analyst opinions, valuation impact, etc. Investors may choose to support a resolution in expectation of higher returns.	Mergers, Amalgamations, Hive-offs, Entering new lines of business
T	Transparency Issue	Indicates lack of adequate information. Even though IiAS provides both FOR and AGAINST recommendations on such resolutions (based on available data), investors are advised to seek further clarifications from the company. Investors should take into account any additional information received from the company before voting.	Any resolution
V	Valuation	Refers to a valuation impact on the company's financials. These resolutions are likely to impact the company's margins and long term profitability. IiAS typically will recommend voting AGAINST such a resolution. Investors are advised to critically review the company's proposal in such cases. However, they may choose to support a resolution in expectation of higher returns.	Increase in borrowings. Related party transactions, Excessive dilution

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