“United Spirits Limited

Q4 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the United Spirits Limited Quarter 4 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Shweta Arora, Head of Investor Relations from United Spirits Limited. Thank you, and over to you, ma'am.

Shweta Arora: Thanks, Aman. Good afternoon, everyone, and welcome to United Spirits' Quarter 4 and Full Year Ended FY '23 Earnings Call. Today on the call, we have with us our Managing Director and CEO, Ms. Hina Nagarajan, who is joined by our CFO and Executive Director, Mr. Pradeep Jain. Hina will provide you with an update on business performance, while Pradeep will run you through financial performance during the period, post which we will open the floor for Q&A.

With this, I hand over the call to Hina for her opening remarks. Over to you, Hina.

Hina Nagarajan: Thank you, Shweta. Good afternoon all and welcome to our call. It's a real privilege to speak with you again and provide a comprehensive update on our operations, financial performance and growth prospects. This is the second full year, since we launched our new strategy. Our team has been working tirelessly to deliver on our strategic objectives. We are really excited to share updates of our recent performance and ongoing initiatives with you.

And as Shweta mentioned, I will cover progress on the 3 pillars of our strategy, and Pradeep will provide a deeper analysis on our growth and financial performance and we have also given additional disclosure this time so that you can understand our Prestige performance better, and you will find this reflected in the presentation. After the presentation, we will open up for Q&A to go deeper into areas you want to understand further.

So jumping straight into itself, so our mission is to become the top-performing CPG company in India-- Can you hear me clearly now?

Moderator: Yes. Please proceed, ma'am.

Hina Nagarajan: Okay. So everybody, our mission is to be top-performing CPG company in India, delivering sustained double-digit profitable top line growth, staying true to our margin guidance of mid to high teens and delivering long-term value to all our stakeholders. Next chart, please. As mentioned earlier during the call, I will walk you through the business update for the year, post which Pradeep will run you through the financial highlights of the year ended March 31 2023. And finally, I will talk about how we see the future.

Business update. Next chart, please. We continue to deliver a mission that we now know is built on 3 pillars: a reshape of our portfolio; creating an organization of the future that will win in the future that is getting radically redefined by big societal and cultural shift; and last but not the least, defining and executing an even more ambitious role for Diageo in society.

Jumping to the first pillar, let's talk about portfolio reshape. Our portfolio reshape, had called out a number of transformative consumer trends that decided what we should do for our business and portfolio. And the mandate we had set were to deliver breakout growth on Prestige & Above, create new growth engines and last but not the least, value chain efficiency extraction to fund growth and mitigate inflation.

Our portfolio activations and new product offerings during the year were fully aligned with this strategy, and let me walk you through some details. Firstly, strengthening our play in upper prestige with our 3 brands: Signature, Antiquity and Royal Challenge American Pride.

Royal Challenge American Pride is available now in 75% plus salient Upper Prestige market. It's the fastest-growing brand and adding absolute incremental market share gains for Diageo India quarter-on-quarter. It is recruiting consumers beyond Upper Prestige segment and delivering exceptionally well across all key consumer metrics. We've received excellent feedback on the liquid. The top box liking is 79%. That's quite high compared to any benchmark, and we are getting very strong repeats from consumers who have tried it.

Secondly, Signature. Signature is to become the greenest whiskey for aspiring young India. Last year, Signature had the highest growth delivered in the past 5 years and momentum well ahead of the category. It has the second highest equity amongst Prestige brands. Signature has associated itself with some of the most eco-friendly sustainable festivals in the country like the Ziro Festival of Music, Hills Festival, Spoken Festival, our own Signature-owned festival of music called the Signature Green Vibes with 4 city additions across India, and we've seen a lot of consumer love for that.

And in an effort to sort of serve diverse consumer needs, we are expanding our various footprints. So Signature Rare has been launched in the East. And actually, Signature Premier has now available in CSD, which is a big milestone. So, we are closing the year on a high note on Signature and excited to kick off the next year with bold and ambitious acts.

On Antiquity, we are really proud to present to you the reimagined contemporary Antiquity Blue. You can see on the picture on the chart a blue bottle and what the new bottle looks like with that beautiful bird. It is currently launched across West Bengal, Assam and UP, and we are looking at the national rollout completion by July '24.

If I can now stop and let's see a video on Signature.

[Video Presentation]

Coming now to the next category, our Mid Prestige and Royal Challenge brands. What you see on the screen is the new Royal Challenge bundle, which has been, which is now available in 85%-plus salient markets nationally. This brand has experienced a national volume growth in very, very high double digits. Pradeep will talk a bit more about this. Actually, this brand has grown by 40% plus.

And the new brand positioning was brought alive through the strong Naya Sher, which is sung by DIVINE, Jonita Gandhi, it features Virat Kohli. It has over 45 million views on YouTube and is available across all leading audio streaming platforms. Can we have the tape, please?

[Video Presentation]

Coming next to lower prestige & popular and our flagship brand, McDowell's. As I had mentioned last quarter, there is inflation pressure in this category. We have definitely seen that the level of uptrade from Popular is slower than previous years, a direct impact of inflation on the consumer.

But number one, McDowell's continues to grow ahead of the category for 3 years in a row. It has owned key calendar moments to embed the brand and culture. This year, we started operating with 6 IPL teams as the official celebration partner to create a new language to express Yaari under the No. 1 Yaari cheers 2022. During Friendship Day, McDowell's created the anthem of the Yaari song, Yaaron, as a tribute to KK. The 360-degree campaign reached 65 million people across key states.

No. 1 Yaari Jam has given a further powerful musical voice to our brand purpose. Yaari Jam came back out post-COVID. It's basically a congregation, a celebration of music where consumers are looking for a real reason to connect. There were 9 big festivals across 5 states with a reach of 150 million plus across multiple media channels.

Can we please have the Yaari video?

[Video Presentation]

So after the exciting performance update on Prestige & Above, let me now talk about our Luxury and Premium portfolio. Johnnie Walker - this year we brought a brand-new offering from the house of Johnnie Walker called Johnnie Walker Blonde. It is our biggest ever innovation launch in the premium portfolio. It's now available in Maharashtra, Goa, Haryana, HP, Uttarakhand, Punjab, Chandigarh and Telangana.

Blonde is actually price positioned between Johnnie Walker Red and Johnnie Walker Black and plays the strategic role of recruiting the next-generation, non-scotch consumer because of a really accessible liquid. The focus in coming quarters will be to enter other geographies and continue to scale up the distribution and visibility in our launched markets.

Please play the video on Johnnie Walker.

[Video Presentation]

What you saw just now was our keep walking anthem which none other than John Legend has sung with Raja Kumari, a very, very popular rapper. I will talk a little bit more about this in the next chart.

But coming now to Black & White. In the financial year '22-'23, Black & White growth story has continued. India is now the largest NSV market globally for Black & White, and this brand is set to cross 1 million cases this year. It is gaining share in all the BII scotch category and international whiskeys. We launched Table for Everyone, which is our big play in culture, integrated activation and communications platform.

We brought diversity and inclusion at this table with our very first diversity, equity and inclusion campaign called Cards for Sharing with Black & White. The hipster format for Black & White is also driving distribution, share and profitability for the brand.

Let's look at the video on Black & White.

[Video Presentation]

Coming now to the powerful USL brand, Black Dog. Black Dog is continuing its growth journey post its renovation. We've seen significant improvements in our business and brand metrics on the brand. The brand now leads the scotch category with the highest brand equity, driven by strong meaningfulness and distinctivity.

Our collaboration with global icon, Keira Knightley, saw an impactful activation throughout the year across digital and out-of-home along with the launch of Keira Knightley limited-edition offer which further strengthens Black Dog’s credentials and provenance.

Let's see the video on Black Dog.

[Video Presentation]

Coming now to what I talked about, which is, next chart right, please, the Walkers & Co. platform. To celebrate and enable a community of bold boundary pushers, we keep walking at the heart of all we do. Our vision is to inspire collaborators to take bold strides towards collective progress.

We brought together 2 iconic creators who championed this narrative, John Legend, the second youngest and the first black man to win all the 4 big awards, Emmy, Grammy, Oscar and Tony; and renowned South Asian female songwriter and rapper, Raja Kumari. They co-created this inspiring anthem titled Keep Walking.

On the 4th and 5th of March, we hosted the first ever Walker India Tour at Mumbai and Gurgaon, an experiential concert attended by 4,000-plus core consumers across the spectrum of culture, art and entertainment to witness this collaboration come alive on stage while experiencing our brand Johnnie Walker in a very immersive format.

Coming now next to Godawan, our exciting new launch in the Indian single-malt category. Godawan continues to be rolled out. It has, in fact, last week been launched in New York in the U.S. I'm very proud to say that Godawan has won several awards during the year. It has won the Grand Gold and Gold awards at the Monde Selection world quality awards at Brussels; the Silver at World-Spirits Award Austria; Superior Taste Award at the International Taste Institute Brussels; Brand Innovator of the Year , Craft Producer for the Year for Alwar distillery at Icons of Whisky, London.

Also very pleased to say that our Alwar distillery where Godawan is made is the first spirits distillery in Asia to receive the prestigious Alliance for Water Stewardship certification. And we have tied up with SOURCE Global, a technology that helps us extract water from air. We are building a 200-panel water farm expected to generate 9,000 liters of water from air in the first 6 months. And Godawan will be the first beverage alcohol brand to use SOURCE water.

I can't leave without talking little bit about our new growth engines. Nao Spirits has grown very strong double digit in the financial year gone by. Their innovation called Broken Bat, which was launched in South Goa is quite exciting. It's an invite-only launch, was hosted along with the screening of the World Cup finals because this limited addition is dedicated to the 1992 Cricket World Cup. So super exciting. And Nao Spirits continues to power ahead with both their brands Greater Than and Hapusa.

I can't skip the Women's Premier League acquisition as part of RCB. The 4 pillars behind this investment are women as a cohort becoming increasingly influential in India; our narrative on diversity and inclusion, Sports Franchise viewership in India cricket; and also creating another profitable business growth stream for the future. RCB is one of the most followed and loved T20 teams and is recognized as one of the most engaged sports teams on social media platforms. RCB has adopted the philosophy of play bold, which resonates both on and off the field.

India’s tennis icon Sania Mirza has been appointed as the mentor of Royal Challengers Bangalore women’s team in the Women’s Premier League. The pioneer in Indian sports for women, a youth icon, someone who has played bold and broken barriers throughout her career and a real champion on and off the field, we are proud to welcome Sania Mirza as the mentor of the RCB women’s cricket team.

In addition to the Godawan award that I talked about, we had several other awards during the year for our brands. If you look at the left, multiple awards for our marketing initiatives for Johnnie Walker drone show, Signature augmented reality campaign, Johnnie Walker revitalizing consumers back to the on-trade after a long shutdown and also a design excellence award for Black Dog renovation. And to the right, more awards for our whiskey and scotch brands. So you see Black Dog featured very, very prominently there along with Johnnie Walker Blonde. So very pleased with all the awards and recognition for our innovations and renovation.

Coming now to our second key pillar. But before I go there, I just want to say our profitable growth is based on the virtuous cycle of driving top line growth through sustained A&P investments and driving improved price and mix and driving productivity to fund those A&P investments, which in turn drives top line growth and give us further ability to invest in our brands. So we think this is a very virtuous cycle. It's working for us, and we want to continue to sustain momentum behind this model.

Our multi-year supply agility programme is going to unlock numerous benefits across the value chain. A few of the many benefits include conversion cost optimisation, enhanced capacity utilization, optimized footprint by state, enhanced return on capital employed, ESG benefits, and co-location with ENA distillation. This program is on track as per our plan. And the benefits will plough down with it. As you know, it's a multiyear program. So over the next three years, we will make sure that we achieve and implement all the measures that we have taken under this program.

All right, coming now to the second pillar of our vision, organization of the future. I'm going to give a very brief narrative on this. We've done a lot during the year. But I will like to focus on a few things. We are continuing to focus on our people and talent development, many coaching programs, career programs. One particular one that I'm super excited about is launching the Diageo Digital Now, which is partnered with Circus Street, to create a customized learning plan for each employee in the company to transform our digital capabilities in this very fast-changing environment of digital. Coming on engagement side, we continue to do many wellness sessions and also munch & learn sessions which help new people who join our organization to learn more-and-more about our business.

On the culture side, we launched market-leading policies. We launched pregnancy loss guidelines. For those who may unfortunately experienced pregnancy loss, we now provide expecting mothers up to 26 weeks and their partners 10 days of paid leave support in case of the unfortunate event of a pregnancy loss. Gender identity, sexual orientation and gender expression guidelines that which strengthen our commitment to LGBTQ+. Disability inclusion guidelines and Spirited women's network and the rainbow network to reenergize our employee resource groups.

On the simplification side, radical liberation, where we cut 150,000 hours of wasteful work last year, is in Phase 2. And we're being used to continue to liberate our teams to focus on growth. And of course, the other big area for us is footprint and legal entity optimization.

On the digital side, next chart, please, we continue to build thebar.com, which is our platform for all things social celebration, and continue to use technology across the length and breadth of our organization: Salesforce automation; blockchain-based track and trace, artificial intelligence for image recognition to help strengthen our market presence and reach, predictive analysis for sourcing, and also the Diageo Bar Academy, which is our portal for our customers and bartenders who learn a lot and get education through the year on various aspects of bartending.

Coming now to the last pillar, Diageo in society. Since the acquisition, we've had a strong track record in sustainability, and we wanted to go much, much further. The three goals that we have built in our Society 2030: Spirit of Progress goals is driving ESG from grain to glass; moving India towards drink better, not more; and leading inclusion and diversity. I will give you a few highlights of these during the year.

On Learning for Life, which is our program for giving people business and hospitality skills, we have enrolled 1,400 students against a target of 1,100, 59% women have completed the program and 868 placed with an average salary of INR12,000 per month.

On the water stewardship side, we continue to replenish -- our target is to replenish more water than we consume by 2024. We have launched collective actions in Maharashtra and Rajasthan. And we are targeting to replenish 225,000 cubic meters of water this year. Our water use efficiency metrics are well on track as per the targets of this year.

Our carbon footprint, we continue to drive down greenhouse gas emission, and it has reduced from 27,000 tons to 2,800 tons, an 80% reduction over the F '20 emissions. And we are sustaining zero fossil fuel use across our distilleries.

On the positive drinking side, next chart, please. All right, just stay with this. On the responsible drinking side, we have educated 104,000 young people to curb underage consumption as against a target of 70,000. We created awareness amongst 172,000 consumers on the risks of drink driving against a target of 110,000. We've developed partnership with 25 regional transport offices across India to make drink drive a module before licenses are issued. And we continue to spread the message of moderation.

Next chart, please. On the inclusion and diversity side -- can we go to the next slide, please? Yes. On the inclusion and diversity side, 50% of our Indian Executive Committee remain women. 35% of our leadership is women. Our company has 26% female employee representation now, which is a 2% increase from the last year. 50% of our new hires during this period have been women. We've also hired 60 workers and full-time employees who are differently-abled working across the functions.

I'm very proud to share that Diageo India was recognized as a Silver Employer by Pride Circle on their India Workplace Equality Index. This index really measures the level of inclusion and diversity in Indian workplaces. And we are very proud to see the recognition for our ongoing initiatives on being a progressive company.

One very proud moment for us is our Your Voice results, next chart, please. Overall employee engagement survey results we do every year, our overall engagement score is 88% score, which is 2% above last year, and this is 4 points higher than Diageo overall and 14 points higher than any external benchmark. So it's a very strong result. We've improved all our engagement scores with 95% of our people saying they are proud to work for Diageo.

Now best thing about the score, if you see to the right on top, 85%, which is our psychological safety score where 85% of our employees say they are able to raise ideas, concerns and opinions without fear. This is 4 points higher than 2022 and 9 points higher than Diageo overall and really shows us that our initiatives to make people comfortable to express themselves is working.

Our biggest opportunity area, lies in adaptability and agility, is the 79% score that you see to the right. And radical liberation is one of the initiatives, amongst others, for us to continue to make our company more agile, more adaptable and keep up with the fast-paced environment we are facing.

Next chart, please. Just to share with you a couple of recognitions on ESG. So Sustainalytics has rated us as a top-rated ESG company in the list of 2023. And Alwar unit I spoke about, is now AWS certified. We have progressed significantly on our ESG journey from now a BB rating to an A rated organization, which I'm very pleased about, but good milestones to have achieved.

Keep going, please. Next chart. With this, I will now handover to Pradeep to take us through the financial performance.

Pradeep Jain: So thanks, Hina, and a very good afternoon to all of you. As always, it's a joy and a privilege to interact with this audience.

Okay, go to the next chart. Yes, so what I wanted to share was, if you clearly look at our annual growth metrics, you see a ramped-up growth momentum. And I will cover this in a little more detail in the subsequent slides. Our margins have remained resilient in an extremely inflationary environment. We have improved our performance on the key levers of pricing, productivity and mix management.

And to round off, there are three or four things that we are extremely proud of during 2022-'23: progressing the portfolio reshape in line with our strategy and vision; closing out the slump sale and the franchising transaction; launching the multi-year supply chain agility program; and at the end of March 31, 2023, we are almost on the verge of wiping out our accumulated losses, and therefore, looking forward to get back to dividend distribution for our esteemed shareholders in the coming financial year.

Next chart, please. Okay, so what you see on the slide on the left hand is our reported NSV growth, less the strategically reviewed portfolio, we have removed it from the base, and the decision that we took of exiting Andhra Pradesh about four years ago, right? So those are the numbers that would be our reported NSV growth.

And what we have done on the right-hand side is we've also eliminated the COVID impact in the numbers. And therefore, what's present on the right-hand side is the right organic growth of the business like-to-like. And this gives a true picture of the accelerated momentum. We can focus on the two right-hand side charts that clearly reflect the momentum in our business.

The Prestige & Above for 5 years, from '16 to '21, was at 8%. In '21-'22, it moved up toward 13%. And in '22-'23, it has given us 17% growth. And similarly, if you look at the overall portfolio, from '16 to '21, we are at 5%. In '22, we went to 9%. And in the just concluded financial year, we are at 15%.

Next chart, please. Okay, so this one is critical. This one is on an annual basis, and this plays to the feedback that we have received from this audience on multiple occasions that you do not have visibility to our growth construct in the Prestige and Above segment. And this lays out 2022, '23 financial year, the annual growth construct achieved during the years, right, on our rebased portfolio. It reflects the premiumization of the category and how we are feeding into it. And it also kind of substantiates the point that Hina and I have consistently made over the last 4 to 6 calls of sequential momentum in our Mid Prestige and Upper Prestige performance, and that will reflect, right.

So let me just get you focused on the chart. On the left-hand side, you will see each of our subsegments of the Prestige & the Above segment broken up individually and the growth that we have recorded in each of these subsegments during the financial year. As we have always said, the Popular and the Lower Prestige segments are under pressure, driven by the huge consumer inflation impacting the lower SEC consumer. And from there onwards, if you look at our performance, Mid Prestige have grown 43% during the year, Upper Prestige has grown 32%

during the year and Luxury and Premium has grown at 37% during the year, giving us a combined portfolio growth of 20% for the financial year '22-'23.

If you focus on the right-hand side, right, I would request the audience to focus on the column in the middle of those 3 columns, that gives us that out of the INR1,600 crores of growth that we have recorded in our rebased portfolio how much have each of these segments contributed. And therefore, we do want to share that almost 1/3 of our growth, actually a little higher than 1/3 of our growth, almost 35%, has come from the Upper Prestige and the Mid Prestige segments, where our innovation and renovations have been put in the market over the last 4 to 6 quarters and where we have been traditionally weak over the years.

Next chart, please. So building further on what I shared on the first slide, right, I have already shared the growth construct and how Mid Prestige, Upper Prestige are improving their contribution into the growth construct. I think this chart now is focused on the value chain efficiency. Pricing and revenue growth management on the top right, enterprise productivity on the left and overall working capital efficiencies to extract free cash flow from the business in the bottom right. Hina spoke about the virtuous cycle and our proven productivity muscle is a big enabler of the virtuous growth cycle.

Next chart, please. Now Hina has already talked about A&P being such a critical component of the virtuous growth cycle. I mean I prefer to loosely refer to it as the only good cost in the P&L. So the point we wanted to make was that we will continue to make A&P investment to drive sustained profitable growth and build brands that are iconic. And looking at the chart, you will see that, that as we kind of step up A&P investments, it reflects in the NSV realization per case on the right.

Next chart, please. So this is a directionally visual depiction of our portfolio on the two key financial metrics of EBITDA margins and return on invested capital. I think what we want to convey through this is not only is our portfolio complementary in terms of offerings and price ladder, but hugely complementary on these two financial metrics, which makes it almost an all-weather portfolio.

Next chart, please. And to round it up, right, just wanted to finish with the return on capital employed. Now the number is showing a dip. As all of you are aware that we are sitting on surplus cash on our balance sheet right now. And hopefully, we shall address that as well in the current financial year. Just wanted to take the opportunity to reassure that we remain committed to create value for our esteemed stakeholders as we reset the portfolio for a sustainable and successful future.

With this, I hand over back to Hina to conclude the management presentation for today, post which we will open up the floor for Q&A. Hina, back to you.

Hina Nagarajan: Thank you, Pradeep. Just looking ahead, we'd like to conclude by saying, look, the environment remains challenging. We are seeing continued inflation headwinds and it is impacting consumer in the popular and lower end of Prestige. Both of us have reiterated that Popular and Lower

Prestige is seeing the impact of inflation for our consumers. We see inflation on our key commodities is not abating yet, right? So we expect volatility to continue.

Also seen during the year that the quantum of route to market changes has been reasonably high. And every time that happens, business does get adapted to the route-to-market changes, and we have to look elsewhere for growth, but that is business as usual for us. And in our industry, headline pricing trails inflation.

But we feel extremely confident that our strategy is working. We feel very buoyant about the future. Our future-backed strategy, that is focused on a buoyant macroeconomic outlook for India, lifestyle changes, premiumization, a million new consumers coming into alcohol and India becoming one of the most affluent countries in the next few years.

We have a very resilient and complementary portfolio right across the price and as Pradeep said, also on the financial metrics. Our proven productivity muscle, we have a strong sustainability agenda, something that's only going to be even more important as we go along and a license to operate actually. And we feel confident to deliver on this. And last but not the least, our competitive advantage of our people and culture.

So we feel very optimistic about the future. And also about our strategy. And that strategy is working, and we will continue to perform.

So with that, we would like to now move on to questions and answers.

Moderator: The first question is from the line of Abneesh Roy from Nuvama Institutional Equities. Please go ahead.

Abneesh Roy: Congrats on very strong P&A growth. My first question is on P&A only, if you could give us some clarity on how Upper Prestige has done within this. And in FY '24, would you expect a good double-digit growth trend to continue here? Given that BIO is also back and big fat weddings and a lot of the office MICE events, travel, etcetera, is back, but on the other hand, when I see other discretionary segments like QSR, apparels, they are seeing challenging times in terms of demand. So I wanted to do a clarity on FY '24, how do you see in terms of growth trend?

Hina Nagarajan: Sure. Abneesh, good to see you on the call again. So I would say that, Abneesh, overall, the trend we are seeing is that the upper middle and the high-income consumers remain resilient. Consumption and demand remains resilient in those segments. And the category growths are pretty robust in Upper Prestige and Mid Prestige. So we do expect consumption demand to remain so going into FY '24 for the reasons that, (a) socializing is back with a bang. All the bars, hotels, everything is full, right? We are seeing more and more new consumers come straight into the upper end of Prestige also. And also travel is revitalized. You're seeing a lot of tourist traffic.

So our outlook for F '24 remains buoyant for the Prestige categories. And as Pradeep had shown, Upper Prestige has done a very robust 32% growth (corrected), and that is coming on the back of the renovation of Signature, the launch of Royal Challenge American Pride and now we are rolling out the renovated Antiquity. So we feel confident that our innovations, renovations will continue to fire in the market, and we will continue to see very good growth on this category.

Abneesh Roy: My second question is on the cost side. So in terms of advertising spend, I understand this quarter was high because BIO came to normalcy. But you also mentioned that ad spend is the only good cost in P&L. So I wanted to understand for FY '24, do you think it will be in the overall 8% to 9% as a percentage of sales? And specifically in first half, because BIO is still coming back to normalcy, are there higher ad spends done? So in first half, would there be higher ad spend? Because last year, in fact, it was very low in the first half. So I wanted more sense on that.

Hina Nagarajan: I would say, Abneesh, and Pradeep feel free to add after I've spoken. I would say, Abneesh, I think, as we said, it's a good spend and we do want to create brands for the long term and continue to actually scale up both the Prestige renovations, innovations. And BIO, which is largely now normalized in the market, right? So we will look at a normalized spend of the range of about 9% to 10% on an annualized basis.

And clearly, yes, you are right. I mean, normally, the first half tends to be a bit stronger because of season, right? Because we have the festive season, especially in Q2. So we do expect to do a business as usual in a normal year. What we would -- we do upweight A&P in the second quarter, particularly -- I mean, in the third quarter, which is the festive quarter. So I would say that I think you expect an annualized spend now of about 9% to 10%.

Pradeep, please add if you want to add any other comments.

Pradeep Jain: No. So nothing really major to add, Abneesh. Hina covered everything, 9% to 10%. And if you see this, that's by-and-large the earlier reinvestment rates grossed up for the divested portfolio, right? And I just clarified, which Hina has clarified in the latter part of the response. On the Indian fiscal year, our peak A&P typically happens from July to December, right? So as we build into the season, et cetera, right, this time was a bit of a blip, right? So therefore, hopefully, that will get corrected as we progress.

Abneesh Roy: Sure. One follow-up on the cost was, what is the outlook on, say, glass and ENA? And we are seeing deflation in -- generally in most commodities. So you will also benefit because of the packaging cost and the distribution costs becoming lower. So apart from these and the Telangana price hike, is there anything more which can help us in terms of EBITDA margin improvement in FY '24?

Pradeep Jain: So let me take that, Hina, if you're okay. So Abneesh, again, it's a running set of initiatives, right? As you're aware, our mono carton removal program started sometime in Jan-Feb, so that will reach its full realization as we get into the financial year '23-'24, right? Similarly, our supply agility program will also start ramping up on improvements.

Having said that, to your core question that have the commodities really scaled back, on neutral alcohol spirits, I'm afraid, probably no, right? And if you look at it, it's an election year approaching, the minimum support prices will see higher price increases. We are hearing El Nino, et cetera, the buffer commodities remain, the agri commodities, et cetera. So therefore, ENA, our sense is will probably remain inflationary. Glass, there has been some green shoots, right? The natural gas pricing intervention made by the government has provided some support. We are in discussion with suppliers if we can get some rollback on account of that.

Abneesh Roy: So one last quick question on the talks with the regulators. We have seen Haryana, for example, allow -- corporate officers are allowing beer and wine at workplace. So I wanted to understand for spirits, how is the advocacy talks going on with government. I know these things take a lot of time. But is it that now beer and wine are getting a bit more flexibility from regulators? And could this be replicated in more states, you see that because then it will become a challenge for the Spirits business.

Hina Nagarajan: I mean our advocacy, Abneesh, continues. It's a regular ongoing initiative for us. It's not that we stop or start every now and then, right? I think there are many big areas of advocacy related to pricing, can we get sort of inflation-indexed pricing, route-to-market discussions, et cetera? I mean, Haryana has been relatively a more progressive state. So they've started with beer and wine. I mean we are in discussions with them to see whether we can get spirits included. I mean, as of now, we don't see that this will become something across states. Every state has its own policy. But we are watching and working through this space.

Moderator: The next question is from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: I just wanted first to understand the Telangana price change. If you could help us understand what is the expected benefit? And how should we look at that?

Pradeep Jain: Yes. Let me take that, Avi. So Avi the price increase is effective, right? And it's about a 6% to 7% price increase, right? So it should give us, hopefully, about INR40 crores to INR50 crores annualized number, but the only thing I would want to caution is like, I don't think we should look at it as one state, right. There is always a portfolio, right. And we are always trying to balance our margins as well as our growth, right. So my only guidance will be don't look at it as one state and layer that on incrementally in your modeling. Multiple things happen, right, in the entire pricing cycle.

Avi Mehta: So Pradeep, even positive -- I'm sorry, this INR40 crores to INR50 crores is given, right? I mean, so it's logically...

Pradeep Jain: Absolutely. Absolutely.

Avi Mehta: Okay. Okay. Okay. So in this context that you've got like a benefit that has come in, and hopefully, it continues in the other states. But you're kind of focusing on investments. There's also the input cost headwinds that you highlighted. How should we look at the full year margins for FY '24 when we take the ranges base of 13.5%? I mean how should we kind of -- how are you looking at it internally? And if you could help us understand within the quarters, just from a priority perspective, if you could give us some sense on how do you internally see this?

Pradeep Jain: Yes. So Avi, I don't think I would want to get into quarter-wise, right? As we have shared multiple times earlier, we do manage our business on a full year basis. I think we did spend some time on this in the last quarter. If you look at the two broad one-off impacts, right? And we called it out very, very transparently in our financials. There is a one-off credit that we have in that

13.5%. And then there is this inflated A&P for the quarter, right. Neutralized for these two, I think right now, the business is sitting at about a 14% EBITDA margin. And as mentioned in the last quarter, our first milestone is to get to about 15%, right? So that is what we will target to achieve on financial year '23-'24 basis. Once we achieve that, we would want to move on from there, right, back to probably the 16.5%, 17% that we were operating at during the '19-'20 period. Does that help?

Avi Mehta: Sorry, it's 15% in FY '24 and not by end FY '24, just wanted to clarify that.

Pradeep Jain: Yes, that will be our aspiration, right? Obviously, subject to many things happening. But yes, that will be our aspiration.

Avi Mehta: Okay. Perfect. And just lastly, this gross margin impact is because of a timing impact that is -- it was during the year only? Or was it I mean how much was the quantum that was just earlier -- prior year period that has come in, is that what you were signaling by the last clarification that you mentioned?

Pradeep Jain: I didn't get the question, Avi.

Avi Mehta: So you said Pradeep that there is a onetime gross margin benefit in the year, which means that this -- I thought the 4Q impact was just from during the year provisions. It's not. It's something that's from earlier year.

Pradeep Jain: It's for the prior years also, right? So it's in the quarter. The quarter impact is -- we called it out in our press release as well as enough financials, that will give you a good sense.

Avi Mehta: No, no, perfect. And I just wanted to thank you for the additional disclosure on the portfolio. It's really, really helpful. Thanks a lot of this.

Pradeep Jain: Thanks, Avi.

Hina Nagarajan: Thank you.

Moderator: Thank you. The next question is from the line of Alok Shah from Ambit Capital. Please go ahead.

Alok Shah: Yes. Hi, thanks for the opportunity and Thanks for sharing this portfolio construct. It helps a lot. My first question was, if I look at this year's volume growth of 12% and Hina is commenting on the policy in terms of the growth rate, especially in the Mid and Upper Prestige and onwards, and then when we try to reconcile that with our old transcripts where you guided for about 4% to 5% volume growth, I don't know, but there seems to be a disconnect. So is it more a function of Skewness in terms of volume towards the lower Prestige, et cetera? Or do you want to revise that guidance of 4% to 5% volume growth?

Hina Nagarajan: Pradeep, do you want to take that?

Pradeep Jain: Yes. So Alok, I mean we are sitting in different places today, right? So do pardon us for the lag, right? So if I get your question, your question is that we had deconstructed the broad 10% to

12% growth earlier and the volume growth has come much higher there -- much higher than that. And therefore, would we want to revise our guidance? Is that the question, Alok?

Alok Shah: Yes, yes, absolutely. Because there's a lot happening, mid-Prestige is strong double-digit growth in terms of value terms. So I thought I'll just get a sense on that.

Pradeep Jain: Right. So look, I said are we completely out of the volatile period? I would probably say no, right? The commodities remain on a boil. It's still a fairly inflationary environment, right? So therefore, I would not want to say. Probably, on the demand side, we are back to steady state. But on the cost side, we are still not, right? So therefore, we would want to wait a little more. But our aspiration will be to continue to deliver on the momentum that we have generated in the last 2 years, right? There is no reason why we would not want to deliver the growth that we have delivered in 2022, '23 and maybe a couple of quarters down the line, we should be able to talk about guidance as well.

I don't know, Hina, whether you want to add to that.

Hina Nagarajan: Well, I would just say that, I mean, as we started rolling out our renovations, innovations, I mean, we do get that volume uplift, which is a little bit higher than our business-as-usual situation, right? So I can't say that's the norm. And absolutely, I think we are in a very volatile period. Route-to-market changes, we don't know what will happen during the year. So there are so many factors. So I don't think we can give you a guidance on volume. I mean we will stick to our guidance of double-digit top line growth in terms of value. And at the appropriate moment, we will review this guidance.

Alok Shah: Sure, sure. My second question was for this quarter if we see within COGS, the purchase of finished goods has jumped, so this probably means that the sales of BIO beer, because it also resumed, has been quite good. So anything to call out over here or going ahead, we should expect this kind of bumped up run rate in that and would that have also lifted gross margin to some extent?

Pradeep Jain: Yes. So let me take that. So look, our normalization started sometime in mid-November to late November, right? So when we say that this is full normalization, this is the first quarter of 90 days, which were fully normalized, right? And therefore, obviously, a little bit of pent-up demand for our brands, et cetera, leading to higher rotation also during the quarter, very difficult to quantify. We don't believe there is any pipeline-filling impact during this quarter, right? So I would say now it's pretty much normal and it will pretty much continue like that.

Alok Shah: Okay. Got it. The last was a bit on the theoretical front, but I just wanted to get a sense if it's possible. Usually, when a renovation or innovation happens that typically leads to what percent of the volume in the first 18 months? Any sense that you can give in terms of percentage of overall volumes or something of that sort just to understand this piece of new launches and innovations a little better going ahead?

Hina Nagarajan: Sorry, I don't quite understand the question. What do you mean by percentage of volume?

Alok Shah: Basically, what I'm saying – trying to get is, for example, RC American Pride is something that we relaunched or launched this year and going ahead also, there will be new renovations, innovations. So that will initially help because gradually, you go pan-India. Of course, every brand will have a different saliency, but anything just to get a theoretical understanding what is the bump up that we can expect going ahead with the slew of launches that you are planning?

Hina Nagarajan: See, I think typically, for – I mean, you can – like let me give you an example. McDowell No.1 was we launched 3 years ago, and we're continuing to see market share, competitive performance, right, even after 3 years. So it's difficult for us to say that it will grow up to 1.5 years and not grow after that. It really depends on how the proposition is addressing consumer needs, right? And it can be a permanent growth phenomenon. I mean, as you see, even the regular brands in the market, some of them just grow consistently year after year, even though they don't have renovation.

So I would say that it depends on the strength of the proposition and the connect with the consumer needs, and we are very – actually, our products are performing really well against that, right? So the Signature renovation, the Royal Challenge American Pride they are really addressing untapped needs in the market. So I don't expect that the result will peter off in 18 months or whatever. We'll just see. But we expect this to remain powerful over the next couple of years.

Alok Shah: Okay. Perfect. I'll get back in the queue. Thank you.

Hina Nagarajan: Thank you.

Pradeep Jain: Thank you, Alok.

Moderator: Thank you. The next question is from Harit Kapoor from Investec. Please go ahead.

Pradeep Jain: Yes, hi, Harit.

Hina Nagarajan: Hi, Harit.

Harit Kapoor: Yes, hi, good evening. I just had some quick ones. One was on pricing growth. I mean, last year, you mentioned FY '23 that you'll be happy to get about 1.5%, 2% at an overall portfolio level, given that you're already 0.5% in the Telangana, I just wanted to make your sense about how you look at the pricing growth and what's your aspiration for that as to F '24?

Pradeep Jain: Yes. So again, I will provide a slightly theoretical construct, right? I mean I've already shared the numbers in the document this time, right? So we are clocking about – between a combination of headline pricing and our revenue growth management interventions, we're clocking close to INR200 crores, right, in the financial year, which on a rebased NSV base of about, let's say, INR8,100 crores, that comes to almost 2.5%, right? So clearly, it's one of the best years, one of the best years we have had.

Now to your question, Harit, see, on a steady state, broadly, if you take an inflation of 4%, we have always tasked ourselves that we should try and neutralize 50% of that 4% inflation through management productivity, right? And the balance 2%, right, should ideally be neutralized through a combination of headline pricing, revenue growth management and your mix management interventions, right?

So that's the broad construct that we try and aim for. Now in reality, it varies, right? I mean, on pricing, if you look at our 5-year trend that we've shared in the document, you will see that probably for the last 3 years, we hardly realized any pricing, right? And therefore, you have to press some of these levers a little extra, right? And despite all that, at times, you end up diluting margins that we have done over the last couple of years, right, in this extreme inflationary environment. Does that help?

Harit Kapoor: Got it. Yes, yes. This is helpful. The second question was on the innovation and renovation plan. I mean you've done quite a few things over the last 12 months and specifically over the last, I would say, 3 to 4 months as well. I just wanted to get your sense about over the next, say, 6 to 12 months, is it going to be about making sure you execute some of these plans, which you've already put out in terms of the Royal Challenge blend or American Pride, the base Royal challenge as well as Antiquity Blue or we should expect more from United Spirits' table even in the next 12 months on renovation and innovation.

Hina Nagarajan: Harit, I always say we have an and-strategy, not an or-strategy. So I mean, clearly, the first priority is to scale up and build what we have launched as renovations and innovations because in our category, I mean, like Royal Challenge is a big renovation. So we are going to build the full muscle behind it, right? But that – our innovation pipeline continues, and you will see more, right?

So whether in the existing categories or we are watching momentum in newer categories and we will see, right? When the momentum is right, when the categories are mature, we will bring in more. So it will be an ongoing sort of innovation launch plan. So the pipeline is developed and my team is working on that. And we will see more excitement as we go along.

Harit Kapoor: Great. And the last question is on market share. So you have 3 categories, Mid-Prestige, Upper Prestige, Luxury and Premium, all three have been extremely well for you in fiscal year '23. Would it be safe to assume that broadly across these three categories, we would have seen holding or gaining share?

Hina Nagarajan: Yes, you can assume that. Yes, we have performed extremely competitively across these categories.

Harit Kapoor: Great, wish you all the best and Great presentation again with the data points.

Hina Nagarajan: Thank you so much Harit.

Moderator: Thank you. The next question is from Prakash Kapadia from Anived Portfolio Managers. Please go ahead.

Prakash Kapadia: Thanks for the opportunity. I have two questions. If I look at historical data, since 2014, last decade, our excise duty was 60% to, I think, 69.5%. And now post the divestment of the portfolio, it is around 57%, 58% last sizing 2 quarters. So will this stabilize from year on? Will it improve? And if you could give us some sense how much of state impact does it have on overall excise duty?

Pradeep Jain: Yes, sure. So Prakash, we don't even make an attempt to try and get into this kind of a reconciliation, right? Because unfortunately, there are 29 states and 7 union territories with very, very different excise structure, which run into thousands and thousands of slabs, right? But directionally, I think the data that you have shared seems to be passing the sanity check, right? Because as you go up the pricing ladder, excise duty as a percentage continues to come down. So as a divesture of the portfolio, right, and as we are -- our mix is gravitating towards the higher end of the consumer ladder, et cetera, excise duty as a percentage will come down, right? That's all that I would want to say.

Prakash Kapadia: Understood. Understood. And pre-COVID to now, will it be fair to say Maharashtra, Karnataka and Tamil Nadu would be top 3 states in terms of value sale?

Pradeep Jain: No, we've never given those kind of breakups. What I can say is Tamil Nadu, we have a very small business. It's a franchise business. So Tamil Nadu is certainly not. Yes. And on others, we've never given the salients. Maharashtra is a big state for us if that provides you any comfort.

Prakash Kapadia: Okay. And lastly, Pradeep, if I look at employee cost, is the current quarterly run rate a good base to start with for building FY '24 and beyond because that has seen a decline both the divestment portfolio even on a sequential basis, or there could be some further decline as we move forward from this base?

Pradeep Jain: Prakash, again, I think we did guide in the last quarter also. The good run rate is take a four-quarter rolling run rate, and that's pretty much, right, the indicator of the right run rate. So if I look at -- if you look at our rebased number, I think we're in that INR595 crores to INR600 crores kind of a range, right? So that INR145 crores to INR150 crores per quarter is a good range. Depending on accounting, there are some pluses and minuses, right? When the actuarial valuations happen, etcetera, and all that. So don't get too bothered by that.

Prakash Kapadia: Sure. Fine. That was it. And congrats, Pradeep on the elevation to the Executive Director role.

Pradeep Jain: Thank you.

Hina Nagarajan: Thank you.

Moderator: Thank you. Next question is from Himanshu Shah from Dolat Capital. Please go ahead.

Himanshu Shah: Thanks for a these disclosures. Just one clarification. The Luxury and Premium portfolio, does the entire portfolio, the revenue mix that is fitting in that portfolio has a distribution arrangement, the 31%, 32% revenue contribution which is there from the Luxury and Premium portfolio?

Pradeep Jain: No, Himanshu, no. That also contains Black Dog. It contains the new kid in the block, Godawan, which we expect to become quite big in the next 8 to 10 years. It also includes Smirnoff, which is a royalty model and not the transfer pricing model. So there is quite a bit sitting in that also.

Himanshu Shah: Sir, can you provide some color, like what would be on contribution arrangement out of this portfolio?

Pradeep Jain: No, we don't do that, Himanshu. I think we've made progress towards addressing your core concern, about investor's concerns about the Prestige breakup. This is something that we don't want to disclose in that level of granularity.

Himanshu Shah: Second thing, sir, in one of the slides, Slide 36, you have outlined RTM changes as one of the key constraints basically, pace and quantum of our route to market changes. So is there any RTM changes which have also happened or it is something that we are envisaging because of the election year, some talks or discussions undergoing now?

Pradeep Jain: So let me...

Hina Nagarajan: No, I think -- Pradeep, you can answer that. Yes okay.

Pradeep Jain: No, no. So I was just starting Hina, and I would have anyway kind of leaned on you to kind of compete the answer. So I think we were reflecting that years gone by, yeah, Himanshu and kind of crystal ball gazing a little into the next financial year. I think '22-'23 has been quite volatile. The Delhi RTM, which will -- we have put in so much of heart, mind, body and soul into that transition, etcetera. And that’s being unwinded. And then between the Jharkhand, Chhattisgarh, etcetera, a lot of RTM and back-to-back changes, etcetera. So I think that's what was probably reflecting in our minds when we put that comment. But maybe if Hina wants to add anything to it.

Hina Nagarajan: No, that's it. I think basically, the year gone by was volatile, and we are saying that, look, route-to-market changes will happen. But we have the muscle to sort of when one state goes down to look at other revenues of growth and, in general, expand our shares across states. So as you rightly said, PJ, it's a reflection of the year gone by, saying that this is also an element of volatility that we face, and it could continue. We don't know. But we have seen route-to-market changes every year. So it's one dimension of volatility along with inflation and everything. That's it.

Himanshu Shah: Sure. Can I squeeze in one more question, last?

Pradeep Jain: Yes, yes, go ahead.

Hina Nagarajan: Yes, please go ahead.

Himanshu Shah: Lastly, sir, on A&P spend, 9% to 10% guidance. So earlier, it was 8% to 9% when Popular was part of base, now that 15% across revenue contribution has gone away. And the luxury portfolio is growing at a much faster pace. In that backdrop, is there any kind of risk element to the 9% to 10% A&P spend guidance, which we are guiding for FY '24? Will it overshoot that?

Pradeep Jain: So Himanshu, a lot depends on as our P&L roll up, etcetera. We do continue to make some calibrated calls of investments as well as at times, a little bit of holding back, etcetera. So I think the range is reasonably safe. To your point, only, I think our guidance was 8% to 9% earlier, gross it up for the 15% divestiture and the franchising, etcetera, it automatically comes into the

9% to 10% range. So therefore, we are pretty much staying with the same guidance. But yes, I think you make a right point that the top end of the segment is growing at a much faster and we will continue to calibrate that. I don't see a fundamental risk to the '23-'24 guidance.

Himanshu Shah: Thank you, sir. Highly appreciate. Thank you.

Hina Nagarajan: Thanks, Himanshu.

Pradeep Jain: Thank you.

Moderator: Thank you. The next question is from the line of Akshay Bhor from Citadel. Please go ahead.

Pradeep Jain: Hi, Akshay.

Akshay Bhor: Hi, Pradeep and Hina. Thank you for the opportunity. Pradeep, my first question is for you, the margin target for F '25, the 16.5% to 17%. I just want to understand, Pradeep, if you can either qualitatively or quantitatively comment around what are the internal initiatives that you are taking to get there. And if you can also talk about how much of this would come from supply chain initiatives that you have talked about last quarter? And then mono cartons and if there are other things that we should watch out for?

Pradeep Jain: Yes. So look, what I have called out is our first milestone is about 15%. What we've also called out is that normalizing for the one or two outlier shifts in the current quarter that has just gone for which we are discussing, our steady-state margin of the business is roughly around 14%. So clearly, our first milestone is to get back to 15%. And that's something that we will really kind of go after.

Once we reach that, we will have to figure out the next set of alternate, next set of initiatives to reach that back to the 16.5%, 17% margin. Now in that, some are long-term initiatives that have already started being rolled out. For example, the supply agility program. Clearly, we have shared the number that we intend achieving out of it, etcetera. That should, on a very broad basis, give us about 1 to 1.5 percentage points of margin.

Once it's completely executed, and it's kind of safe in the P&L. And then we will figure out, it's pretty much the same construct of if we can manage to negate inflation through a combination of productivity and headline pricing/revenue growth management on a sustained basis, then your mix management, and as we premiumize the category, will provide us the margin kicker.

In some years, hopefully, the commodities, etcetera, will unwind to some extent, etcetera, that will provide us some additional kicker to grow the margin faster. That's broadly the construct. I think we have also demonstrated a fairly reliable track record of being extremely disciplined on our organizational overhead cost as well as our -- yes, on our organization as well as our overheads cost.

Hina Nagarajan: Pradeep, I just want to clarify to Akshay. I heard you say that you set a target of 16.5% to 17% for F '25. I just want to clarify that you didn't say that. You didn't say that the target for F '25 is 16.5%, 17%. Akshay, we said our aspiration is to get to 15-plus and after that, get to 16.5%, 17%, and we are not giving a time of F '25 for that, but we are saying we look at the initiatives to get there.

Pradeep Jain: Absolutely. Sorry, I didn't pick up the F '25. Thanks.

Hina Nagarajan: Yes, yes. That's why I clarified.

Akshay Bhor: Thank you. That's a helpful clarification. My second question was just on pricing. I want to understand, what are the efforts as an organization you're doing to get better pricing from the states. And this time around, it's quite straightforward in a way that your margins show the cost pressure some of the cost items are quite clearly a headwind. Just want to understand as an organization or I guess as an industry, what are the efforts that you are taking.

Hina Nagarajan: Yes so I mean, I think this is an ongoing advocacy that we do. And it's done both at the state level and also at the central level. And both individually as companies -- all the companies in the industry as well as through the industry association. So we will continue the advocacy. I mean, at the state level, we talk to them and we always showcase the inflation level and request for price increases and have ongoing dialogue on that.

And on the central level, like I had mentioned earlier, we are trying to do -- see if we can work with the government on policy intervention. For example, can we have an indexed model to inflation for pricing? So our teams are working on how do we get something like that through. These are long timely -- long lead-time exercises. So conversations are on, and we will continue to do that. But in the meanwhile, we will press the levers of productivity, mix, premiumization, revenue growth management and whatever pricing we can get, to manage year-to-year.

Moderator: Thank you. The next question is from the line of Akshen Thakkar from Fidelity. Please go ahead.

Akshen Thakkar: Hi Team, Thank you for the added disclosures this quarter. Really appreciate this and will help us drive the business a lot better. Pradeep, just on the margin commentary that you had for next year. So if I just look through the margin waterfall that you've shared for Q4 and full year, there is some operating deleverage because obviously, the business was sold. Does this continue in H1 as well? Or the '23 number that we are now seeing, that's a clean one and we shouldn't see an incremental one? I'm just trying to understand, in the 14% guidance for next year, is there still a small drag from the transaction or '24 is like a clean number now?

Pradeep Jain: Yes. So Akshen, here is my perspective on it. Look, we have to be transparent about the impact of the traditionally reviewed portfolio. Therefore, we share those EBITDA bridges. See, in our mind, what we now have is the business we have. And therefore, multiple things will get mixed up in it. I mean the 23% -- sorry, the 20% -- whatever, the 19% to 20% growth that we have announced this quarter, etcetera, that starts giving us operating leverage. So yes, strictly speaking, the operating deleverage will continue for four quarters, So therefore, very, very theoretically speaking, until September 30, the operating deleverage will continue.

But what we are simultaneously also getting is the leverage driven by the growth of the retained portfolio. And it's very -- if you look at it in one way, if you knock off what we have lost in top line, I think the additional NSV that we have added in the last two quarters is significantly higher than what we have lost. So in a manner of speaking, that operating deleverage, while theoretically correct, has already been subdued, has already been removed. So that's the way I would want you to look at it now. We have what we have, which is the retained portfolio, and we have to build the margin from here onwards.

Akshen Thakkar: Sure. Because I was just looking at the full year bridge, six months to F '23, I think you've called out some INR61 crores as deleverage impact. If I assume that, that sort of goes away next year, then that's about 70 bps, 80 bps on margins, and you're already at 14. So from 14 to 15, then effectively, it looks like a large part of it is coming from the deleverage going away. While gross margins, one would assume from here, move up a little bit. And even if A&P on a full year basis goes up, I was just trying to triangulate if the margin guidance for next year is conservative or way things stand, do you think it's a fair ask from the company?

Pradeep Jain: No, I think it's fair. 100 bps of improvement is it's a fairly stretch, but again, achievable task. And you're absolutely right. Our growth gives us operating leverage and operating leverage is a clear component of our margin progression. So we do factor that in. So I think you're thinking of it the right way. My only recommendation would be don't get too bogged down by the operating deleverage now. That transaction is done, it's out. We have our retained portfolio, and that's what we need to run with.

Akshen Thakkar: Okay Fantastic. One more follow-up question, please. There was a very nice slide that you had on ROIC versus EBITDA margins on how you think about that. I think you've looked -- classified the business as Premium, Mid-Prestige, Upper Prestige, Popular and Luxury over there. How would sort of Diageo brand sit over there? I would sort of -- based on the last few calls, you had on earnings, you sort of spoke about transfer pricing margins over there, so I'm guessing 10%, 12% versus company average of 14%, but I don't know what the -- from an ROIC metrics, is it sort of asset turns are better, comparable, how does that fit?

Pradeep Jain: Yes. So I think I'll again call out what I've been probably saying now for at least my eight investor calls, the global brands sit in two segments. There is a Luxury segment, which is almost 100% Diageo Global Brand. And then they also fit in the Premium category. So Black & White and VAT 69, these are global brands.

So all the global brands are margin capped at roughly about 10% right now. But obviously, they rotate because we don't spend any fixed capital on it. They rotate at a much faster pace. So broadly, my sense is that they rotate at about 3 times to 3.5 times, close to 4 times a year. And therefore, the pre-tax ROIC is close to 35%, 40% and the post-tax ROIC will be in the range of about 30%. So that's broadly the construct. And visually, that's what we have tried to depict on the slide.

Akshen Thakkar: Yes. No, I just wanted to double-confirm. Great. Thanks And a very last one, if I may, just on the difference between the stand-alone and the consolidated financials on the EBITDA that seemed to be a sharp drop-off on the subsidiary numbers. Would it be largely due to the Women IPL sort of...

Pradeep Jain: Yes, absolutely. The Women's Premier League since it happened in March, that loss is incorporated, whereas the kicker of the Men's Premier League will come in the subsequent quarters.

Akshen Thakkar: Perfect. Okay. Thank you so much.

Pradeep Jain: Thank you.

Hina Nagarajan: Thank you.

Moderator: Thank you. The next question is from the line of Jay Doshi from Kotak. Please go ahead.

Pradeep Jain: Hi, Jay.

Jaykumar Doshi: Hi, Pradeep. Hi, team. Thanks for the disclosure and presentation. My first question is, very impressive that 52% of your incremental revenues in FY '23 has come from Luxury and Premium, now when I think about the base, the base was COVID-impacted FY '22, but at the same time, FY '23, you had curtailed supply of BIO in many states. So going forward, will we see a similar mix where almost 40%, 50% of your incremental revenues will come from Luxury and Premium in a normal environment?

Pradeep Jain: Yes. So Jay, let me take a shot and maybe Hina can build on it. So first of all, this is a value mix. So clearly, the NSV per case realizations are very different. And therefore, they add a very, very different kicker to the growth salience. Now having said that, you're absolutely right. The momentum that we had generated on the three sub-segments of Luxury Premium, Upper Prestige, and Mid Prestige, we would want to continue. Whether we are able to or not that time will tell, but we would absolutely want to continue.

What we would also want to see at some point of time is, the one which is Popular and Lower Prestige that also starts contributing slightly higher, in fact, much higher in the force of growth mix. And once that punches it weight, I think the salience of the other 3 segments will marginally come down. That will make it well-distributed across our retained portfolio ladder. That's the only thing. But I don't think it will materially change. But maybe I'll turn to Hina to add her viewpoint on this.

Hina Nagarajan: Yes, I think it will change somewhat. So my only thought is that it's not in steady state yet. So it's difficult for us to say where it's going to end out. I think there will be pushes and pulls. And we are going to try and see that all parts of our portfolio grow. So I think it will take us a year or two to kind of reach steady state and feel that it is now at a ratio where we are pretty certain that growth will continue to be this way year after year. It really depends also on renovations and innovations coming in different categories in different years. So I'm not sure that we'll see a steady pattern year after year either.

Jaykumar Doshi: Understood. So my question -- associated follow-up question there was then as analysts, should we also start focusing more on EBITDA per case? And how do you track internally, do you target EBITDA margin or do you target a certain EBITDA per case? Given that BIO portfolio grows much faster and there is a distribution arrangement, so EBITDA per case will be very high. But percentage terms, it optically looks lower.

Pradeep Jain: It's a combination of both, Jay. We can't kind of track only one metric side, all of you actually keep us honest on the percentage. So therefore, we...

Jaykumar Doshi: You have a number in mind, that's the way you have 16%, 17% margin aspiration. Do you have an aspiration of INR300 per case or INR350 per case EBITDA on your drawing board as well?

Pradeep Jain: Jay, it's a little dynamic, because the NSV per case also continues to go up. So I think what keeps us honest is the NSV growth is one number. And then as we have mentioned many times, we are value obsessed -- more value obsessed than volume obsessed. So therefore, NSV value growth is something that we are clearly obsessed. We are obsessed with market share, etcetera. And then I think right now, we gravitate a little towards percentage margin, and managing the multiple metrics, that kind of allow us to land to balance the number, etcetera. But EBITDA per case is also something, that we keep a close watch on.

I don't know, Hina, whether you want to add something to it.

Hina Nagarajan: No, no. Nothing to add.

Jaykumar Doshi: One more on your pricing strategy. So when I look at this quarter's numbers, there's a significant increase in realization in the Popular segment, but when I sort of look at Maharashtra as a state, you have reduced prices for DSP Black, McD 1 and even Royal Challenge by INR10, INR20 in an inflationary environment. So could you please explain how you're thinking about essentially, is this specific to Maharashtra as a state? And what has prompted you to drop prices?

Hina Nagarajan: Yes. So let me take that. I mean, basically, look, we don't -- as a company, we would ideally never let go of any headline pricing opportunity, and that's the philosophy we follow. But I must say that we also have state-wise strategies for remaining competitive and managing the dynamics of every state. Our competition has been taking some sort of measures on value erosion in some states. And in order to protect growth and to protect segment growth, I would say, we have taken these calls. So yes, you're right. To that extent, it's state-specific in response to competitor's created dynamics, but not a philosophy that we want to follow proactively.

Moderator: Jay, we may request to join the key for any follow-up as we have several participants waiting for their turn.

Pradeep Jain: So I think we are done, we'll just have to probably -- we are past the time and Hina has to go for an external appointment. We may have to close the call now.

Moderator: Sure. Then, ladies and gentlemen, that would be our last question for today. I would now hand the conference over to Ms. Hina Nagarajan for closing comments. Thank you, and over to you, ma'am.

Hina Nagarajan: Yes. Thank you. And I would really like to thank all our investors for joining this call, for your questions, and I'm glad that we've been able to come back and respond to your feedback. Thank you for your trust in our company, and we look forward to our next call. Have a nice day.

Pradeep Jain: Thank you. Thank you all.

Moderator: Ladies and gentlemen, on behalf of United Spirits, that concludes today's call. Thank you all for joining us, and you may now disconnect your lines. Thank you.