"United Spirits Limited
Q2 FY2021 Results Conference Call"

November 05, 2020

MANAGEMENT: **MR. ANAND KRIPALU – CHIEF EXECUTIVE OFFICER - UNITED SPIRITS LIMITED**
MR. PRADEEP JAIN – CHIEF FINANCIAL OFFICER - UNITED SPIRITS LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the United Spirits Limited Q2 FY2021 Results 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Kripalu, Chief Executive Officer and Mr. Pradeep Jain, Chief Financial Officer from United Spirits Limited. Thank you and over to you!

Anand Kripalu: Thank you very much and hello everyone and a warm welcome to the Q2 FY2021 and half year results call. As we normally do, before we open the line for Q&A, I just wanted to share a perspective of the results that we announced last evening. As everyone is well aware, we entered this fiscal in an unprecedented and challenging external environment driven because of the pandemic. It is reassuring to see progressive improvement in the environment as the economy progressively opens. While the on trade continued to remain closed for a good part of Q2, the off-trade channel is pretty much back to pre-COVID level. I am particularly pleased that the agility demonstrated by our supply team to provide a fast start post the lockdown, with a completely new set of protocols for the new normal , we were able to ensure the safety of our employees while keeping the factories working. This enabled us to continue the roll out our renovated brands Mc Dowell No. 1 Whisky and Royal Challenge Whisky. Our commercial teams too went the extra mile and ensured that these were executed on the ground in the market in a manner similar to what we do during normal times. As you may have seen in the published results our reported revenue declined 6.6%. The underlying revenue, however declined 3.4%. Route to market change in Andhra Pradesh completely contracted our own and franchise business in that state, excluding impact of Bulk scotch inventory, which we sold last year during the quarter and adjusting for the Andhra Pradesh business base effect, our net sales grew 1%. Prestige & above segment grew 1% driven by our renovated bundle and somewhat softer comparative of the previous year. Price mix was positive due to the improved relative price positioning of BIO portfolio in key markets particularly in North India. Excluding Andhra Pradesh from the base, our prestige & above segment grew 7.6%. The popular segments declined 12.5% in the second quarter; increased consumer prices impacted demand in this particularly price-conscious segment of this category. Further the contraction of the Andhra Pradesh business driven by the route to market change impacted the overall franchise business in Andhra Pradesh and more broadly in South. Commodities have been relatively benign in the second quarter. However, as mentioned earlier, contraction of our own and franchise business in AP and some related one-off inventory provisions compressed our gross margin to 42.1% for the quarter. Our A&P expense was down in Quarter 1. In fact, we tried to cut as much as we could in Quarter 1 because things were pretty much under lockdown. However, starting in Q2, we have reverted to our normative spends level. Quarter 2 spending was also to support the national rollout of the renovated McDowell's No.1 Whisky and Royal Challenge Whisky and also to leverage IPL. Reported EBITDA margin was 12.6% however, eliminating the impact of one-off inventory provision, the underlined EBITDA margin for the quarter was 14.5%. The PAT margin for the quarter stood at 6%.

Apart from the P&L, I am particularly pleased with our working capital and cash performance, which has really been the best in the recent past. There has been improvement across lines of working capital as well as the quality of our accounts receivable and I feel particularly pleased that we have been able to do this at a time when the marketplace has been heavily constrained. In the first half of the year, we repaid 780 Crores of debt. We aim to continue our journey with the monetizing of non-core assets so that we can further deleverage our business and lower our interest cost. A positive monsoon and kharif outlook should limit commodities volatility in the larger part of this current quarter, which is Q3. However, we do see some possibility of mild inflation in the second half based on the just announced Ethanol blending policy and we need to see how that plays out. We look forward to welcoming our consumers to the on-premises channel as restrictions gradually ease out and we will leverage our Raise the bar Programme to ensure that happens as best as possible. We of course will remain diligent and disciplined on our investment as the environment continues to evolve. Our balance sheet remains strong and our capacity to generate free operating cash flow is also sound and that positions as well to stay competitive in this marketplace. So, with that I will open it up for questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Congrats on debt reduction and good recovery in the P&A. My first question is on the gross margins, even if I remove the one-off, there is a pressure so wanted to understand in spite of the comment which you made that raw material may firm up a bit because of the new policy and the fact that now airport footfall also reviving which means duty free sales will also picked up, putting all this together where do you see gross margins and how was the mix in P&A this quarter, so your P&A saw good recovery, but within P&A how has been the mix?

Anand Kripalu: Okay, thanks Abneesh. I will answer it and then Pradeep will supplement my answer. I mean, we had never given an outlook for gross margin Abneesh, we have given an outlook in the past for EBITDA margin and we have said that we will play the lines with the P&A as appropriate and I am sure you will appreciate that that is what we have been doing. Within P&A it is mixed bag now, overall price mix is positive which means that generally the right things are happening in the right time and some pricing is also there in terms of headline pricing, but I still say that it is very hard to read any trend right now in terms of: Is there a complete premiumization. Now our BIO portfolio has done particularly well, it is possible that there will be some tempering of those explosive volumes if duty free sales significantly comes back, but our understanding is that right now, duty free is at best 10% or 15% of what it used to be. So, I do not think it is coming back overnight. There could be some gradual come back and obviously we have got some benefit of that happening, but part of the benefit of our BIO performance is also because the relative price positioning of the BIO versus BII and upper prestige has become a bit more favorable particularly in some states of North India and we are seeing that momentum each month and it is continuing on BIO. So, I think this is sometime before it tempers fully and whether it will temper fully or still stay fairly strong is to be seen. Our belief is that the intrinsic relative price position will stay as a benefit to this business, some shifts of duty paid to duty-free could happen as flight becomes normal, though I think it is some distance away, so that is the answer that I want to have. Is there anything to Pradeep on gross margin specifically?

Pradeep Jain: Yes, Anand thanks. Maybe just two points I want to add on gross margin. The first is driven by the Andhra Pradesh RTM change and obviously that has impacted our franchise business as well so that is one and second thing is that our volumes if you see in the current quarter are still shrinking by about 3% to 4%, but if typically we would want to grow our volume with usual 4% or 5% which provides a bit of an operating leverage but we are still not getting that. So those two reasons are the add-on things that have impacted our gross margins.

Abneesh Roy: Right, that is very useful. Thanks Anand and my second question is on very good recovery in the &A quarter-on-quarter so what has driven this, is this market share gain or is it that on-premises consumption is shifting to home consumption or is it the beer consumption shifting towards liquor and finally any update on your support the bar program which you are running, how much has been rolled out, how much has been already consumed versus the budget?

Anand Kripalu: So, I am not sure if I have hard answers to everything that you are asking Abneesh, but I tell you what our best understanding is right now. So, first of all I am very pleased with P&A recovery. It has been significantly enabled by our renovation which I am pleased about as well as our BIO performance which we spoke about. You can decide what are our competitive performances, you have all the numbers in the data, and you can decide but I am pleased about how the whole thing has happened. As far as on-trade is concerned, on-trade which includes wedding banquet and so on is just say about quarter of our business. It is beginning to open, but footfalls are still low I would say at best, if you walk into a restaurant at best it will be may be 50-odd percent of what it used to be so it is still some time to go for it to recover fully. Now our Raise the bar program I think we had 900 registrations in our first week itself. We handed over starter case. We started training programs for many people already so it is getting now very, very good response and the response will only increase as people start opening because they want to also demonstrate that they are safe for people so I think it is coming in very handy to support our customers and our customers I must say have been very, very pleased with the initiatives that we have taken. Finally is there an increase in in-home consumption, absolutely yes, I do not want to hazard a guess on what percentage that shift is, but I can tell you that we have been running so many virtual programs on DIY, which is do-it-yourself cocktail right and stuff like that and our brand ambassador and bartenders have been running online program. There has been a lot of interest and in-home penetration absolutely has gone up and I think people what have also realized in drinking at home you can afford to drink even better stuff because it is much cheaper to buy the bottle and take it home versus drinking at a bar and I think also that with the bit of price discovery that is happening and then if you buy the right ingredients and make your own cocktail you can create a better brand mix in your home. So maybe some of these will stay including I believe, the break-down of tradition barriers of drinking at home amongst many conservative Indian family. I think that barrier has also come down where people are saying rather than drink on the street or drinking a place that is not safe, you may as well drink at home. All right, so I think there are some collateral benefits that could stay on and benefit our industry over the medium term.

Abneesh Roy: Anand Sir that is quite useful just one last follow-up so in terms of consumer behavior because you said that in home consumption has picked up so is he buying much higher ticket price versus earlier anything you are picking up from the store so that is something which will ease off because now people are definitely going out?

Anand Kripalu: So if you look at our numbers, right clearly the off-trade is delivering almost an above performance because the on-trade contribution is small and if on-trade was a quarter of our business and we delivered more than 7% P&A growth without AP , it tells you that the off-trade has delivered an above performance. The mathematics tells you that; right; that means there must be more ticket size, that is the only way things really happen unless we have a whole generation of new consumers who have come-in post the pandemic, I think that is less likely. So yes, I think there is definitely an increase in ticket price by deduction, I have not looked at the data close enough at a store level.

Abneesh Roy: Okay, so that is quite helpful. Thanks.

Moderator: Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: Thanks for taking my call so Anand the P&A growth of 7% is quite remarkable given the headwinds and they would have been progressive improvement through the quarter. So would you have exited the quarter at double-digit kind of growth in P&A excluding AP and your commentary in the note seems still a little cautious, in the press note that you put out, any reason for that question given the kind of growth that you have seen in this quarter?

Anand Kripalu: Sure, so first of all I am not going to hazard a response to whether we exited at a double digit and whether the successive improvement, because I think it would be unwise of me to share that level of granularity. I think what you have to just see is that it is a strong performance that we have seen. I think our renovation impact is not fully there across India because they have been successful rollout mostly opening up and in some states like big states like Maharashtra it has only gone up the last four weeks so the impact of renovation have not been fully felt and I feel that impact is going to continue and extend across the nation, so I feel good on that. I feel good about the fact that on-trade has started opening, I am still uncertain and hence the cautious optimism, uncertain by the way of how the festive season will pan out, will people start coming to the bars again, or people are going to be cautious because yesterday again and this is a big problem right now is two steps forward, one step back after going down to 30,000 cases a day we are again above 50,000 cases a day. What will the government do, what will people do, are they still going to exercise more caution and say I am not going to step out of my home now again for some time, and certainly not going to go to bars. So, I think you see this October-December season is a significant step up normally from July and September and that is basically winter and festive. Now I do not know if that kind of step-up is going to happen because of the environment we are in and I think in this situation, you know we are not a home hygiene product, our product is consumed at the center of socializing and I just do not know if socializing is going to come back the way it was last year in Q3. So, I think that is where it is. So, I would say I feel good. I feel good about our renovations. I feel good about the continued rollout of renovations and the impact they will have, the environment remains uncertain, okay, and it will be unwise for me to try and predict what that environment is going to be like over the next few months and that is the reason for this.

Arnab Mitra: Okay thanks so much and my last question was on the balance sheet improvement so this very high cash flow generation seems to have come from an increase in other liabilities current liabilities. If you could just explain what has driven this, is this sustainable because normally this is excise duties to be paid in my sense so any color on that piece?

Pradeep Jain: My guidance will be let us not look at current liabilities in isolation, I think the point that Anand made in his opening part is that overall at net working capital we have done well, which has enabled us to relieve debt to the extent of 780 Crores starting 1st April to 30th

September. However I do want to say that roughly about one-third of this was on account of inflated position that we were sitting as on March 31, 2020 because of sudden lockdown that was announced and the balance two thirds is on account of hard core operating cash flow that we have generated during this six months.

Arnab Mitra: Okay thank you.

Moderator: Thank you. The next question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: My first question is on BIO so we are seeing and obviously you indicated that there has been a significant acceleration in the BIO sales, now on the other hand if you look at gross margin those have not expanded as one would expect with the acceleration in BIO. Is this because I mean the gross margins or other margins for you for BIO would be similar to that of the other prestige brands, particularly because margins are balanced out depending on your agreement with Diageo?

Anand Kripalu: So Pradeep you want to take that; It is basically to do with gross margins, despite the performance, why we are not seeing improvement and is it because we do not get accretive gross margin from BIO?

Pradeep Jain: Absolutely so let me take that, Aditya so like I responded to Abneesh right the gross margin impact is largely driven by the Andhra Pradesh RTM change impact and its impact on our own, own if we lose the revenue also; it does not impact margins but the franchise business right. So that is the large franchise business that our franchisee was running and obviously our South franchises are portfolio franchisee so that has its own associated impact on its overall portfolio so that is the reason that we are not seeing and other reason which I mentioned was on account of, our volumes are still kind of shrinking versus prior years so therefore there is some element of fixed cost deleverage that we are seeing. On your larger point of the mix impact on gross margins, Aditya the way I will say this that there is top end which is not hugely accretive in terms of percentage margin, but it is highly accretive on rupees per case so that is one and our performance in this quarter has also been driven by a huge growth in the lower prestige segment, which is our anchor trademark of McDowell No. 1, so two of them are by and large squaring each other I would say. I hope that kind of provide some color to that gross margin performance.

Aditya Soman: Thank you very much that was very clear so it is basically the point being that lower prestige has grown faster and the BIO gross margins and necessary hugely accretive and the second question that I had was on new launches McDowell No.1 have we seen any pricing changes due to the launches?

Anand Kripalu: Have we seen any pricing changes? I mean how pricing is done in this industry so there has been really no pricing changes as a result of this, there has been price increases in terms of headline price that we have received from states which have happened and that is not related to the renovation directly. Now let me say this, our strategic intent with the improved mixes is to charge a premium to competitive brands in that states. Now in some states we have that premium already, in some states we do not have premium already and our intent with both McDowell's and Royal Challenge is to take a premium to other brands in that segment and we will keep moving towards trying to do that dependent on regulatory approvals. We believe that these mixes has the potential to take that premium, so just in case of Maharashtra, No. 1 is at a premium to other product in that segment and it is growing faster than the brands in that segment you can take it and even before the renovation happened, post-renovation I think there is higher propensity to do this across states and we will do everything we can to get to our strategic price positioning for these brands.

Aditya Soman: Thank you Anand that is very clear. So, you could you share any numbers and how many states or what proportion of sales you will be at the already at a premium to your competitor brands?

Anand Kripalu: No, I do not have that data handy, what percentage of business is that premium, but let me put it this way, it is some part of our business I would say not a dominant part of our business for sure. We are going to move in that direction, and you will see this playing up, right, based on regulatory constraints like I said.

Aditya Soman: Thank you.

Moderator: Thank you. The next question is from the line of Mayur Gathani from OHM Portfolio. Please go ahead.

Mayur Gathani: Sir I would like to harp a little bit more on the working capital, can you throw some more light on that and I mean is it sustainable, how did we manage this?

Anand Kripalu: Sure I am going to request Pradeep to answer that question, but I just wanted to say this that working capital has been a key management performance metrics for several years now and therefore there has been a huge focus on working capital as a management team, to the extent that I chair a monthly cash committee meeting where every month we look at every constituent of cash and try and ease out efficiency and what you are seeing now is a culmination I would say of years of focus, right and each year we are improving working capital consistently and very significantly working capital but I have always said this that there is further opportunity to squeeze the lemon. What I felt good about this time it is not just that the improvement was just a continuation of the past but even better than the past and it was done in a significantly more challenging environment as we would imagine where cash flows were not that easy for many of our customers and vendors, that is what I pleased about but to add more light I am going to hand it over to Pradeep.

Pradeep Jain: So Mayur again as I responded to that earlier roughly about a third of the improvements is simply driven by the fact that we were sitting on a higher base on March 31, 2020 because of the sudden lockdown announcement and the balance two-third we believe is the purely on account of the working capital efficiency that we have generated. We are particularly pleased with our accounts receivable performance driven by the momentum that we are beginning to generate on our P&A side and especially the scotch side etc., which is a lot more prevalent in North, we are doing well there and North obviously is very credit intensive right so the cash rotation is happening at a faster pitch in that part of the country, which is providing us a fillip and also I want to add that by and large in this year the corporation have been behaving right and they have been paying us on time so that also adds to it. Whether it will sustain or not as Anand mentioned this category has its own set of volatility associated with it, so we will take that as it comes.

Mayur Gathani: Okay but Sir when you talk about one-third, is it the inventory that you were talking about was high in the month of March because I do not see much change, in fact I see increased if you look at March to September this year more or less similar to March to September comparison so what you’re saying I completely take that but in the numbers I am unable to figure it out?

Pradeep Jain: I am talking about net working capital right that is the provision that we run with in our mind but you could always reach out to Richa subsequently after the call and she will be able to provide some commentary on that.

Mayur Gathani: Great Sir and one more question from my end, what is your outlook on AP issue because it is impacting gross margin and franchisee income?

Anand Kripalu: AP is the route to market or ready feed deadlock as far as our business is concerned at this point of time. When it will unlock, I think your guess is as good as mine right now because there is no simple input and output in terms of effort and outcome that is going to happen. Our effort remains continuous and our advocacy program is comprehensive, but I want to say this, in this industry and this is something that I want to share with the larger group based on my experience with the industry is, every couple of years some door will shut and some other door will open that is how this industry plays out. Three to four years ago for those has been on our call since then, we had a situation in Uttarakhand about four years ago where our business went to zero from having leading market shares went to zero, nine months it was almost zero, today we are growing market share and the business is booming, Chhattisgarh we were doing well our business went close to not zero but very low almost, a fraction of what it used to be, today Chhattisgarh is back and our business is doing really well and we are growing market share there. Bihar from whatever I am hearing, and you read the same papers that I do, prohibition does not seem to be as central to the current election manifesto as it has been in the past. I am not saying that is going to be lifted or something, so do not poke me because I am nobody to say that, but whatever I am reading makes it clear that it is not as central to the manifesto and to the election as it has been in the past. Who wins I do not know, what is going to happen post that on our category in Bihar and I just remain and use the same word cautiously optimistic, that something could happen and a door may open. This is the nature the beast we are dealing with. We have been through the Supreme Court highway ban, we had to shut down a lot of stores, everything found its way back and it reopened, so this is what I call funny in our industry. These funnies happen. I think we have to remain optimistic and yes none of these decisions are permanent by the way, but what I cannot predict is the timing. So, I am just saying just step back and look at it from a broad point of view because it is nature of the environment, we are in.

Mayur Gathani: Right Sir. Thanks a ton, and all the very best.

Moderator: Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: My first question is on your margins going ahead, you mentioned that there could be some pressure on ENA prices going ahead which can affect margins, already gross margins are under pressure and ENA prices go up that could put even more pressure on the margin so just wanted to understand what tools do you have in your arsenal to offset this margin pressure and as a sub-question to that in terms of price increases in any of the states are you hopeful in the next three quarters, many of the states are sort of due because there have been several years in terms of price increases and are you optimistic that any of these will actually go through?

Anand Kripalu: First of all, yes you could say margins are under pressure. What we have always said is and I would like to believe that we have broadly delivered across this pandemic period is consistent improvement in EBITDA margin year-on-year towards what was that time our guidance on medium term growth and we have played different lines with the P&L, not only gross margins, the different lines in the P&L to deliver that margin guidance whether it was A&SP increasing it or tempering it, whether it is overhead or controlling it apart from everything else. So first I think when we think margin, our management focus is to make sure that we deliver continuous improvement in operating margins, which is EBITDA margins for this business not withstanding with incident period of pandemic and once we come out of this we will get back. Now on your point what levers do we have apart from levers of P&L, we have received about half percent of realized headlines pricing in this quarter, realized means net of any trade spends etc. in our P&L in this quarter, give or take a bit and that is the result of pricing across six to seven states. Now our efforts on price increases will continue and I am hoping that as we get to the next excise cycle, the broader economy and industry seems to be reviving. GST collection seems to be reviving and I am hoping that the acute pressure that the states have faced on GST collections from the center, that will wave a bit and states will get bit more control of their financing, because we still have few months before actual decisions are going to be taken for next excise cycle, so I just want to say that pricing remains an important lever and we are going to put a lot of effort behind trying to get more realized headline pricing. As far as commodities are concerned, we delivered P&L when our commodity prices were even higher than what they are today, particularly ENA. So, I just want to say this, we have flagged a caution because the government announced an ethanol blending program and a procurement price. Currently the rates of ENA are well below that, that is how it is currently playing out, and I think like I said in the opening statement this quarter, which is October to December barring some funny; I think it will be okay and under control, commodity prices, because already we are in early November and we have obviously covered most of this quarter, it is not going to be a huge negative. So we have to wait and see what happens with commodity and we will have to see what happens, the global oil prices have gone down again to $39 barrel, so it is just cyclical and infrequent environment we are in. I think what you should take up from what I am saying is that the management team is absolutely committed to delivering the right level of operating margins and in peace times, this is war time, but in peace time to deliver continuous improvement in operating margin and despite high commodity, despite poor pricing, despite everything if you look at our last few years, we have delivered that and I think you will need to take confidence from that rather than hold us to account for every line of the P&L.

Percy Panthaki: Sir on my other question in terms of states do you think are the most likely where you can get prices increases in the next 12 months?

Anand Kripalu: That is the million-dollar question in our industry, right if I knew that I will be a rich man so that is toughest one to answer because like I said…

Percy Panthaki: If I am just change the question Anand which are states in which it has been like fairly long period since you have not got price increase?

Anand Kripalu: One is Karnataka, absolutely Karnataka and we have to find the way to unlock Karnataka right, it is a big popular retail business for us and reasonably size P&A market for us and Karnataka has not given us now for several years, that was the condition of Telangana before, Telangana now has given price increases every two or three years and we had the biggest unlock of working capital in Telangana which was most difficult state on getting collection earlier, so that is what I am saying in this industry we see the movies again and again playing out in different states, the worse states, and best states, it all depends on who is sitting on the chair taking the decision and at what point in time. The biggest issues in this industry, there are no simple logical argument to be made for sometimes a decision that may not be based on that logic, the decision is based on some other logic of that person and that is why it is very hard to put in this input and output together, but I can tell you Karnataka is the biggest one over there and there are few more states that we will keep pushing for, we got Rajasthan after a long time, Telangana recently so it is not as if we have not received price hike, I said seven to eight states we have improved pricing, Haryana we have improved and we will retain it, but currently we will put a bit of it back into building business back, we are doing really well in Haryana right now and I am pleased about that. So, it is a mixed bag, but I can answer this better when may be next quarters call in January or early February just ahead of the excise cycle.

Percy Panthaki: Right Sir. My second question is on the cost improvement that you have done, as you said you continuously delivered margin expansion and that is your goal going ahead and in the past you have crunched a lot on overhead cost, staff cost etc., so I just wanted to understand if there is indeed more sort of levy there given the past performance where significant cost saving has happened, you think there is even more to squeeze out of the lemon going ahead?

Anand Kripalu: After reducing 1000 bps of average working capital in the business, we have delivered this cash improvement in the last six months. Every year we have delivered improvement in overhead, every year we have delivered productivity in COGS and in other line items so what does that mean, see when cost becomes zero there is nothing more to say, but till it is zero, we have also look at business differently so I do not know say this that we are already looking at what we need to do to drive cost savings through our overhead program and we have clear ideas about what we can do, so I just want to make it clear that as long as the law of diminishing return works when you look at the same thing again and again in the same way, then you will get diminishing return, if you look at the same problem but from different lenses every time you will get different answers and different solutions and we have been trying to do that but to get more specific rather than be philosophical; I will get Pradeep to just give a bit more like with specific.

Pradeep Jain: Thanks Anand. My response will also be a little elevated only look like any forward looking organization, we firmly believe in creating proactive productively pipeline and as Anand has mentioned, whether it is on the COGS line which impacts the gross margin or it is on the line below the gross margin up to the operating margin line or it is below the operating margin line, which is that interest, tax etc., we have a flow of initiative, which will hopefully continue to deliver performance for us and provide us the necessary fuel to put back into the market for a sustained growth, right that is what I will say Percy to this point and, it is continuous improvement and therefore we very proactively manage it through a well-defined program inside the organization.

Percy Panthaki: Got it that is very helpful. Thanks, and all the best. Thank you.

Moderator: Thank you. We will move onto the next question from the line of Jaimin Shah from RWC Partners. Please go ahead.

Jaimin Shah: One basic question just wanted to understand is there any channel selling benefit that we have seen on the off-trade business, when I say channel selling just wanted to get a sense of sell through also kind of, at the same level as what you have reported?

Anand Kripalu: Your single question is did we sell-in more in this quarter than we sold-out is that right?

Jaimin Shah: Yes.

Anand Kripalu: Okay so let me say this so this quarter yes there has been a buildup, so sell-in was more than sell out. Every year in this quarter sell-in is more than sell-out because we start with lower inventory in the first of July because we are coming on the back of monsoon and summer and we end with higher pipeline from September 30 as we get into Durga Puja and Diwali and winter. Stock build up in this quarter in this fiscal has been exactly the same as the stock build up last year, so when you are comparing the base it is not as if we have built up more stock this years, in this quarter compared to the same quarter of last year. So, it is a like-for-like comparison. Having said that last year there was a bit of softness in our quarter because of certain one off operational challenges that we had which I have spoken about when we did the results call for that quarter now, this year was relatively smooth so that is why I have put in my opening also that somewhat softer comparison, right to acknowledge softer comparative and I just want everyone to be well aware of that. This year actually our intent was to stuff the pipeline a lot more because of the uncertainty of you know when what will happen, when lockdown will happen, when some states will get shut, some factory will get shut because of COVID cases. We wanted to actually push more stock in even more than we have done, and we ended up doing what we normally do in this quarter. So I think what you should decode is, it is absolutely normal right and no different from what happens every year and happened last year also in the denominator so that comparative in terms of stock build up is like to like comparison.

Jaimin Shah: Okay, by all means, Q3 I am not kind of asking for guidance, but Q3 if it is all normal, we would not see kind of a softer sell-in just because we are holding a higher inventory right now in the channel?

Anand Kripalu: To answer some level of pipeline variations happens in the normal course of business and that is more intent related and intent meaning not to just show more sales in one quarter or something but based on activity and season. So basically October to December pipelines are much higher, retail pipelines are higher between October to December not just company pipeline even retail pipeline because consumption is higher because the festive season and winter, right, as you get into the summer months there will be some tempering of that pipeline and then you come up again during the festive season of the following year, but I am just saying if there is an aberration on comparisons then we will flag that to you, there is nothing out of the normal you need to think about. What happens, happens in the normal process.

Jaimin Shah: Would you be able to quantify what usually happens in Q2 what is the difference in sell-in and sell out and what was the difference this time now?

Anand Kripalu: I do not want to get to that because, if there was one-off I will call that out to you so that you can read your numbers right, but what happens every year is a normal cycle of business, right? I do not think we will call out separately but if there is an exceptional I will call it out, but to start any quarter telling you the difference between sell in and sell out, I do not know if it is going to be helpful, but I think that is too much of micro detail honestly.

Jaimin Shah: Just trying to understand the positive price mix here in terms of premiumization has played well but when I look at ASP per case; it has increased, but it is not increased in a bigger portion, if indeed premiumization is happening so just wanted to get a sense on P&A, how scotch did compared to your McDowell or mid-level?

Anand Kripalu: BIO Scotch did the best, BII scotch not so well because there is a lot of upgrade BII scotch into BIO scotch, because of differences in prices; certain part of North India had become attractive for consumers to drink BIO, so for example Johnny Walker Red Label is exploding right, in parts of North India and certain states. So that is really what is happening. As far as A&SP is concerned, 8.5% of our totally business really double digit A&SP on our P&A portfolio, so I just want to say this that all our strategic choices that we have made are fully funded. We have been very present on IPL, you would have seen McDowell's No. 1, you would have seen Royal challenge in conjunction with RCB and if you go into stores, you will see the activation that is happening on Scotch and just wanted to say that A&SP is competitive and our innovation, so it is not about wallpaper advertising, we advertise when you advertise behind new news like we have on some of our brands that is all fully funded. So you know

8.6% is almost normalcy level for A&SP, even though applied would be below what our ideal ambition would be in these times, our A&SP we had pulled back, We were at 5%-odd in the previous quarter we have pulled it back and we will fully fund the next quarter also, because it is peak selling season, it is festive season. We have innovations to support, we are just back and everything else over there that we are going in for the festive season, so it will be fully funded.

Jaimin Shah: Okay and maybe just one last question before I go off. I just wanted to understand your third quarter, which is heavy usually on on-trade, wedding party etc., could you qualitatively kind of ascribe usual Q3 what is the mix on trade, off trade, which is probably not going to happen this time now?

Anand Kripalu: I think that is getting into too much detail again I mean all I say is that I said it with my comments earlier right that there is a normal 10% to 15% uplift that happens to the total business and a lot of it is led by weddings and banquets and stuff like that. Now I do not think big fat India wedding is going to happen with thousand people, but you know something all weddings are happening. Some getting married and they are consuming right, but multiple occasions is in smaller group so I said cautiously optimistic it is tough to predict exactly whether we will have the full buoyancy of a normal quarter in October, November and December but there is some improvement for sure and I think a little bit at least even now in terms of a bit of that happening, but it is not big step yet so on-trade and wedding banquets are unlikely to fully come back as they normally contribute, as is our current reading but a good part of it is getting compensated through the off trade as it has happened even in this quarter.

Jaimin Shah: Okay thank you so much very helpful.

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

Avi Mehta: I wanted to understand this post COVID world, do you see a change in the consumer wallet in between spirits and beer?

Anand Kripalu: In the consumer wallet between share...

Avi Mehta: Are you seeing consumer move away from one segment to another, any thoughts?

Anand Kripalu: As a permanent change that is really hard for me to be able to say, now what happened obviously was, I think there were two reasons why there was a shift one is the on-trade which has much higher beer saliency on the closure of on-trade and then when you are taking stuff home, they are very bulky to take home so there is a convenience factor to taking spirits home.

The second is this perception that if you drink cold then you will get Covid and you cannot drink beer warm and the last thing is in a lot of middle class homes the fridges are not so large to go and chill many bottles of beer so earlier people used to buy it at 8 o'clock and consume it, now some places stores are also closing early. So, they were certain I would say structural reasons why that shift happened. Now, is it a deep-rooted habit change then on-trade fully opened. Will beer remain permanently negatively impacted versus spirit; I am not going to hazard that guess.

Avi Mehta: Near term you see that trend it is playing out; would that be a fair expectation?

Anand Kripalu: Yes, we will, till on-trade is fully opened, certainly it is going to play out, we are seeing that happening obviously. Something about this perception because COVID is not gone yet and some of this perception that way I have come across people who say do not drink cold, so there is this perception out there that you are better off not drinking cold stuff that will stay till COVID stays and till a vaccine comes and I am assuming right now, I do not have hard data but I think from the positive that are likely to stay, I think the positive of once drinking gets allowed at home, that taboo is broken. Dinking in home with their parents, that taboo is broken off, once when you do it, that taboo is broken so I think those taboos some of them may be broken and that can lead to permanent change in behavior. That taboo will not come again, once it goes it is gone. Then the realization that if we drink at home it is cheaper and I can drink better stuff, that realizations I think is definitely there. Beer and whisky short-term absolutely we are seeing that. Sustainability on income, if I could answer it with clarity I would, it is hard one to answer with any creditability on it.

Avi Mehta: Where I was coming is, I understand consumer caution given the uncertain situation but with steadily unlock playing out, would it be fair to say that incrementally things are only turning positive at least from Q2?

Anand Kripalu: Directionally it is two steps forward, one step back but I think directionally positive. So on trade was largely shut in the previous quarter, now most of them are open across more states, but footfalls are still low, suddenly that barrier we have to break, that hurdle we have to break now and raise the bar and everything else. So directionally, I think yes, but the fact that you will take small steps backwards, different places till this pandemic is still out there. I think is an issue, I mean West Bengal they have taken up prices vary significantly, that is a negative, they have actually lowered the price of beer and increased the price of spirits recently in West Bengal because beer had collapsed completely. Now you do not know how these googlies will happen where regulators will take decisions. They saw a massive decline, I know what it was 60%, 70% decline in beer revenues and beer sales. So they have lowered the price there and have increased the price of Spirits but now that will hurt us for a short term, but spirits tends to be resilient and come back three months, six months later even if there is a sharp price increase, so I just, I do not have enough solidarity to be fully optimistic versus partially optimistic. I do not want also say things and you can see the funnies out there as well like me. They are not gone, but I am positive about what is in within the management control so let me put it this way that and I am very positive within the management control what we have done on renovation and what we done on Scotch particularly, I am positive about that. I have data point to be positive about that, I can say that.

Avi Mehta: Perfect just a bookkeeping on input cost finally I was unclear Is the ENA cost flattish or is it going up and if you could kind of just give us a sense about glass?

Anand Kripalu: Flattish and glass is flattish for now.

Avi Mehta: Okay perfect. Thanks a lot that is all from my side.

Anand Kripalu: I think we will have to close the call; it is one minute really to go for our deadline so if I may then we could close the call. I just on behalf of Pradeep Jain and myself from management of the United Spirits thank you all for your time and your continued confidence in our company.

Moderator: Thank you. Ladies and gentlemen on behalf of United Spirits Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.