"United Spirits Limited

Q1 FY24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the United Spirits Limited First Quarter FY '24 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 touchtone phone. Please note that this conference is being recorded.

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

Shweta Arora: Good evening, everyone, and welcome to United Spirits Limited First Quarter FY '24 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 start by providing an update on business performance during the quarter, while Pradeep will run you through the financial performance during the period, post which, we will open the floor for questions.

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

Hina Nagarajan: Thank you, Shweta. Good evening, ladies and gentlemen. Thank you for joining us on the Q1 FY '24 earnings call of United Spirits Limited. Before we begin today's call, I would request all of you to join the Diageo India Team in observing a one-minute silence to Honor sir Ivan Menezes, who led Diageo Plc., and played an instrumental role in its transformation since he took over.

He was more than just a CEO. He was an inspiration & a mentor. He was a true believer of our purpose & led by example by ‘celebrating life every day everywhere’. And we thank you all for your thoughts & messages during this period to the Diageo India family. We truly appreciate it.

Moderator: We now request all participants on the call to observe one-minute silence please. Thank you, and over to you, ma'am.

Hina Nagarajan: Thanks to all of you. The last 45 days indeed have been very tough for all of us at Diageo around the globe as we mourned the loss of Ivan. Having said that, we have picked ourselves up exactly as Ivan would have expected us to.

Before we talk business, I would like to draw your attention to our press release, where you would have observed that we have introduced our consolidated performance for the first time. This has been on our mind for a couple of reasons, and we have opted to make a clean start with this in the new fiscal year.

Firstly, we have now optimized our legal entity footprint and Royal Challengers Sports Private Limited, RCSPL, as we call it, effectively, is the only operating subsidiary. Second, RCSPL is now also growing in salience, especially on earnings, driven by the new media rights cycle that has kicked-in from the just concluded season, Therefore, it makes eminent sense to start talking about the consolidated and standalone performance, going forward.

Let me start by giving some context on the macro environment as we are seeing it. Things largely remained steady vis-a-vis the last quarter. Consumption was resilient in the April to June quarter, and India remains the bright spot in an otherwise volatile global macroeconomic environment. We don't see any major risks to discretionary spend over the short to medium-term, especially since the penetration for our category still remains very low.

Q1 was the lowest quarter for our business, but on a relative basis, we have performed strongly in the P&A business, while the popular segment remained under pressure. That said, our trademarks are performing competitively within the popular segment as well. However, recent news on duty increase in our home state is not very welcome, given the fact that duties are already on the higher side in Karnataka and demand was already under pressure.

Coming to the performance for the first quarter, we have delivered strong double-digit growth, both in the P&A segment as well as overall net sales. This provides us the confidence that our strategy and the virtuous cycle we have of productivity fueling brand investment and that fueling top line growth is working. And it reinforces our commitment to future-backed consumer-led approach to business. I'm also happy to inform you that with this quarter close, we have successfully wiped out our accumulated losses.

Briefly now on the key portfolio update. On the first anniversary of Godawan, in May 2023, we introduced Godawan 100, which is a bespoke 100-bottle collectors' edition, handcrafted luxury single malt that pays homage to the greater Indian bustard popularly known as Godawan.

With only 100 bottles produced, each bottle is different, is made with utmost care. Every bottle has a unique etching of the Godawan on it, one of the attributes that makes it a collectible. We have received great response on Godawan, 100, all bottles were sold immediately, and we fetched upwards of INR90,000 per bottle. This is really encouraging for us from a brand's equity viewpoint.

Separately, we have expanded Godawan's reach, and it was launched in New York City and New Jersey in May 2023 through an immersive experience at an acclaimed Indian restaurant in New York. Godawan is currently available across 40-plus outlets, including trend-leading outlets like Baar Baar, Junoon, GupShup, in New York and New Jersey.

Royal Challenge American Pride is now present with 80%-plus national salient markets across the country. In the current quarter, we have expanded our reach to Orissa and Chandigarh. We are engaging a lot in focused activations on the brand. Our association with the Backstreet Boys concert in May 2023 helped us to bring the World of America closer to our consumers, delivering 30 million-plus impressions on social media and helped to connect with 22,000-plus consumers at the concert itself.

Our other consumer-centric activations such as participating in major food festivals and bringing the American lifestyle to Life with Camper Vans has also been very well received. As mentioned earlier, we are positive that this will be our quickest 1 million case brand. Our completely renovated bundle of Antiquity has reached now close to 50% of the salient markets. We are receiving very positive reviews from retailers and consumers alike.

Our renovated Royal Challenge Whiskey continues to expand its footprint, and we are happy with the way it has responded and enabled overall momentum on the trademark. Johnnie Walker Blonde was our biggest ever global innovation launch in the premium portfolio. India was one of the first markets alongside Thailand and Brazil for the launch. It is now available in nine states across the country.

Our immediate focus will be to enter new geographies and continue to scale-up distribution and visibility in the launched market. Driving liquid on lips through a differentiated serves along with event partnerships and on-trade activation will continue to be the key levers of building this brand.

Also delighted to share that the earnings from men's IPL season has stepped-up significantly as we have entered the new five-year media rights cycle for the period 2023 to 2027. This reinforces our confidence to reap the benefits of our investment in the Women's Premier League over the longer term. As articulated in the media release, our sports business is truly aligned to our core process of celebration and gaining salience in our consolidated earnings portfolio.

The multiyear supply chain agility programme announced earlier in the calendar year, which aim to strengthen our end-to-end manufacturing footprint, is also on track.

We are also progressing well on our ESG journey and are on track to achieve Society 2030 goals that we have set for ourselves. Towards this, I'm really, really proud to share that we have not only overachieved our water replenishment target by 25% in volume terms, but we are also three years ahead from the originally set timeline. So we have achieved our target in 2023 versus the target deadline of 2026.

Separately, we have committed to replenish the mangrove plantations in Orissa to restore the delicate natural balance of the coastal region for climate resiliency. In addition, we have collaborated with Alwar District Forest Department to expand the forest cover by committing to plant 2 lakh trees in the next three months. All of this, in turn, is helping us to expand our green footprint and reduce Scope 3 emission in line with our commitment to reduce the overall carbon footprint under Society 2030 goal.

Touching briefly on awards and recognitions for our brand, Black Dog redesign won a coveted gold at the DBA Design Effectiveness Awards 2023. Godawan Artisanal Single Malt received a silver for packaging design at the 25th FAB Awards. These are only a few. Actually, Godawan has received almost seven awards in this quarter.

Looking ahead, our focus is on continuing the accelerated growth momentum that we have now established, taking our renovation and innovation offerings to their fullest potential and continuing to work on the longer-term consumer foresight driven pipeline.

We have significantly ramped our capabilities in areas of distillation, maturation, innovation and consumer insights. This, along with enhanced use of digital tools and renewed focus on effectiveness of sales and marketing, is making us future ready.

With this, I hand over the call to Pradeep for an update on the quarter's financial performance. Pradeep, over to you.

Pradeep Jain: Thank you, Hina, and a very warm welcome to all. As always, it's an absolute delight to interact with all of you. Before calling out the quarterly financial performance highlights, will request you all to refer to the results press release posted on our website last evening.

As already mentioned by Hina, we have, for the first time, introduced consolidated financials in the press release. We haven't yet added all the details as we are already publishing rebased and reported numbers, and we did not want to add to the clutter. We will start adding the necessary consolidated financial details once we have a clear base from Q3 of the current financial year.

By now, all of you would be quite familiar with the terminology used in the document. The first one is reinstated, wherein all numbers are adjusted for the Pioneer Distilleries merger as it is effective April 2021. Therefore, for the previous period, the numbers reflect the merged entity. Current period reported numbers are already inclusive of PDL that makes it comparable.

The second term that we have been using for the last two quarters is rebase. This is eliminating the impact of the strategically reviewed popular portfolio from the base year to make comparisons meaningful and absolutely like-for-like. This hopefully provides all of you with a better understanding of the organic business performance.

We have started the new fiscal year with a robust quarterly performance, both in terms of P&A and overall NSV growth. Price-mix remained strong, driven by continued premiumization focus, headline pricing and revenue growth management initiatives. Lower Prestige and Popular segment remained under pressure, driven by consumer inflation impacting the lower SEC consumer and the high headline pricing in the Popular segment.

Like-for-like, we have delivered an overall portfolio NSV growth of 17.4% during the quarter. P&A growth stands at 21.2%, with strong double-digit growth in our Scotch portfolio. Reported gross profit was INR947 crores, with a reported gross profit margin of 43.6%. Excluding the one-off benefit, core gross margin was at 43%, reflecting the continued sequential improvement.

Our marketing reinvestment rate during the quarter was 6.8% of net sales. A&P is an extremely critical component of our virtuous growth cycle. And we will continue to invest in A&P to drive sustainable & profitable growth, ramp-up equity of our brands and overall build brands that are aspirational and iconic.

EBITDA for the quarter stands at INR385 crores, and reported EBITDA margin is at 17.7%. Excluding the one-off benefit of INR13 crores, core EBITDA margin was at 17.1%. There is an exceptional charge of INR17 crores on account of the ongoing supply agility program. Overall, our reported PAT for the quarter is at INR238 crores, with a PAT margin of 11%.

We can now open the floor for Q&A.

Moderator: Thank you. We will now begin the question-and-answer-session. Our first question is from the line of Jay Doshi from Kotak. Please go ahead.

Jay Doshi: Hi, good afternoon. Thanks for the opportunity and congratulations on a good set of numbers. I've got a couple of questions. The first one is, now this is the second consecutive quarter of double-digit volume growth in P&A, much higher than your guidance of 4% to 6%. So I'd like to know what is driving this and whether this is sustainable for a few more quarters?

Hina Nagarajan: Jay, thanks for the question. So I would say, yes, there -- it is robust in the quarter, and there are a couple of factors. I think the 100% normalization of BIO, as you know, we were out of the market -- some key markets for a while and we were normalizing since the previous quarter, the 100% normalization has happened in this quarter.

And I would say, the biggest reason is really the ramp-up of our innovation and renovation, right? We've done quite a few. And as I mentioned, now, you know, Royal Challenge, Signature, these are all now in 80%, 90% salient market. So that ramp-up has also given us some volume benefit over the previous quarter. We expect this to now normalize in line with our guidance, going forward. So you know, a few one-offs in this quarter driving that.

Jay Doshi: Thank you. Likewise, on profitability, you know, we had a look at the numbers, so some of your cost line items, for instance, employee cost, was lower than the normalized level. And in A&P, there is seasonality. But does this quarter give you confidence of surpassing 15% this year? Or do you think they should still go 15% for now?

Hina Nagarajan: Yes. Jay, I would say, I think, basically, look, if you look at it, you know, A&P, as you rightly pointed out, is lower, right? And I think if you sort of normalize, you know, the underlying is about 17.1%. And if you normalize the A&P spending to what our guidance is, 9% to 10%, you're talking another 2.5 off -- so I mean a real -- the way to look at it is we are probably at about 14.5% -- 14%, 14.5% EBITDA. So like we said, our first target is to sustainably reach 15%. And we take it from there, right?

Jay Doshi: That's helpful. Just one final book-keeping question or -- for the benefit of everyone, what is the impact of recent tax increase in Karnataka, if you could explain us because media articles, at times, quite confusing when it comes to taxation?

Hina Nagarajan: So like I mentioned, Jay, I think this was not a welcome tax increase, right? I mean the tax rate in Karnataka are already much higher. And what's, you know, what we've had is a 20% tax increase, which, in effect, means that MRPs of our brands will likely go up in the range of 14% to 17%. So become even more expensive in the states than they were already.

It's too early, I would say, to call out impact on demand, but I mean, our experience suggests that there is generally a negative impact when prices go up so much. I mean, post divestment of our Popular business, the saliency of the state on our Popular portfolio has reduced substantively. But Popular was already under pressure because of the consumers' wallet under pressure with inflation. So difficult for me to call out quantum of impact, but it's definitely an area for us to watch.

Jay Doshi: Effectively 14% to 17% increase in MRP without any increase in net realization? And is it across all price points?

Hina Nagarajan: Yes, Pradeep.

Pradeep Jain: Yes, by and large. By and large, Jay, that's what, right? So no realization improvement for the manufacturer and the brand owners. It is effectively the government just taking the revenue.

Jay Doshi: Understood. Thank you so much and wish you the very best for the coming quarter.

Hina Nagarajan: Thanks Jay.

Pradeep Jain: Thank you.

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

Percy Panthaki: Hi team, congrats on a good set of numbers. My first question is on the employee cost. I think earlier, the expectation was that it would be in the range of about INR140 crores to INR150 crores per quarter. But now this is a second quarter in which it is in the INR120 crores, INR125 crores kind of band. So is it that you've really done some work in terms of reducing the employee cost post the Popular portfolio sale, and now INR125 crores seems to be a more sort of reliable figure on a quarterly run rate basis?

Pradeep Jain: Yes. So Percy, absolutely fair question. Look, we will maintain our original stance of -- look at the four quarter averages, right? I think that will give you a reasonable sense of the number, right? And there will always be quarterly variances, right, on account of actuarial valuations, retirals, etcetera, etcetera, right? So we maintain the number, the two numbers to be -- just look at the four quarter trailing average. I think that will be the right number.

Percy Panthaki: Okay. So the four quarter trailing average is about INR140 crores approximately. Okay. Thanks. The second question...

Pradeep Jain: Our cycles are -- the annual increment cycle comes around September, October, etcetera. So that's what we'll start kicking in, broadly.

Percy Panthaki: Understood. Understood. Sir, second question I want to ask you is that is there now compared to pre-COVID period, is there now a permanent change in the phasing of the primary sales across the four quarters? The reason I'm asking this is that pre-COVID Q1 used to be about 23% of the annual sales. And now it has come down materially, it's around 20% to 21% of the annual sales last year. And Q2 has sort of increased its salience now versus what it used to be pre-COVID.

So is this sort of a permanent kind of a change in the phasing of the primaries or is this just some sort of vague reason? See, the reason why I'm asking is that if basically, I take a normal Y-o-Y growth in Q2 this year, then the sequential growth will be significantly ahead of what it used to be pre-COVID. So the question is in light of that data.

Pradeep Jain: So let me take a shot on that.

Hina Nagarajan: Pradeep you say that, and I'll add if necessary.

Pradeep Jain: Hina, you can add, right? And again, pardon all of us, both of us are in different locations, so just pardon for that.

So Percy, look, I think you've hit a very, very important point, right? And our perspective on this is there is a little bit of a shift. As the salience of the top-end brands increases in the overall portfolio, there is a little more nuanced seasonality to that part of the business. right? So what do I mean by that, right?

Honestly, we have not looked at it so much from a quarter-on-quarter basis, but I think for us, the July to December and then the Jan to June, those are two very, very relevant distinct halves, right? Because in one, you know, in July to December, you were selling into the season and into the festive period, right? So therefore, that's a very, very distinct half, right? And then Jan to June, you were kind of drawing down, etcetera, your inventory levels.

So you are right. I think pre-COVID, the seasonality between these two halves used to be, if I remember, 51-49, right? I have some broad numbers in my head. And post-COVID, right, as the salience of the top-end portfolio has increased, this number has moved more towards 54-46, right? So 54 in July-December and 46 in Jan-June, right? I hope that answers, right?

Because -- and the simple reason is the top end of the portfolio is more driven by festive season, etcetera, etcetera. So it's a lot more skewed towards the October, November, December quarter and a little bit in January also.

Percy Panthaki: Very, very helpful, Pradeep. My last question, if I may, is on the other expenses. Again, I asked this because post hiving of the Popular portfolio, we are still grappling in terms of what is the sustainable number here. So in 3Q, 4Q, you had a number of about INR325 crores to INR330 crores. In Q1, again, it has dropped materially to INR290 crores.

So is there sort of any one-off saving in Q1? Or is it that your plan of cost saving in terms of reducing manufacturing locations, etcetera, etcetera, is playing out well? And if that is the case, then probably this lower number is something which would be sustainable in future as well?

Pradeep Jain: I mean this is the entire other expenses. Look, Percy, it's a combination of variable and fixed, right? Very, very top line, 60% of that base is variable expenditure. So that should swing pretty much in line with volume, right? Obviously, netted-off with whatever productivity, I mean, inflation and productivity that we drive. And there is a fair amount that sits in that chain. So therefore, there is inflation also, and we drive productivity also, right?

And the balance, 40%, is largely fixed corporate overheads, etcetera, on which we do derive operating leverage. right? So therefore, I think that's the broad sentiment that I can provide and -- yes. And then hopefully, the number will kind of fall into a reasonable logic, based on this.

Percy Panthaki: Right, right. That's all for me. Thanks, and all the best.

Pradeep Jain: Thanks.

Hina Nagarajan: Thank you.

Moderator: Thank you. Our next question is from the line of Jeetu Panjabi from EM Capital Advisors. Please go ahead.

Jeetu Panjabi: Thanks, thanks. Hina and Pradeep, I thought the numbers were really good. Congratulations. So two questions, right? Just from the sense you're getting from what you achieved this quarter as well as what you're sensing in the market in general, do you kind of feel that this year-end and this season would be a very, very good season for you guys, just based on the plan that you're working towards?

Hina Nagarajan: Hi, Jeetu. I think a great question. Jeetu, we have seen robust sort of the premiumization consumption, continues in the mid, upper and the higher ends of the market. And you know, I think if you look at on-trade socializing, if you look at the revival of global travel, all indicators are that the season will be good.

The pressure, if any, is only at the lower end, right? Popular and the bottom end of Prestige, where I think consumers are feeling the pressure on the wallet, and that has been slow for a few successive quarters. So our McDowell's and our brands are performing competitively.

So no reason to believe we won't have a good season. I think we will have a good season as we go into the festive season.

Jeetu Panjabi: Okay. Wonderful. The other question is, you know, it's fantastic again to see you giving consolidated numbers and putting in the cricket franchise into the overall accounts. My question is, I also heard that you've now wiped out all your accumulated losses, is that going to translate into the company start paying out dividends and cash flow is going to be going to shareholder pockets? One thing. And two, is there anything else you think you'd be doing as you access the cash flows from the cricket franchise?

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

Pradeep Jain: Yes, Hina, I'll take that. Yes. So Jeetu, we have stated this earlier, pretty consistently in our calls, right, that once the mother ship, which is USL, wipes out its accumulated losses, we would want to come out with a formal dividend distribution policy. We are working on that, a few scenarios, etcetera. And hopefully, over the next three, four months, we will issue out a formal dividend distribution policy, right? And then all of you will have access to this.

So therefore, yes, I mean, the simple answer is we would want to get back into dividend distribution right? Now having said that, I mean, we continue to explore any opportunities, etcetera, for growing our business for the longer term, etcetera. In case that comes, obviously, we have the cash and the leverage ability on our balance sheet to be able to do both, right? And that's what we would want to do.

Jeetu Panjabi: Okay. Super. Thank you. Good wishes as always.

Pradeep Jain: Thanks.

Hina Nagarajan: Thank you, Jeetu.

Moderator: Thank you. Our next question is from the line of Abneesh Roy from Nuvama Institutional Equities. Please go ahead.

Abneesh Roy: Yes, thanks and congrats on a good set of numbers, including with -- from IPL. So wanted to understand in IPL, now all the key teams are doing well, in fact, in Q4, you won the rights for the women's IPL team also. So if you could share over a longer time frame, how would you see revenue and the EBITDA scale-up from both the teams together?

I'm not asking for any specific guidance, but just the way men's team is now doing so well, would you expect that the women's team, overall, over a longer time frame will also be quite profitable?

Hina Nagarajan: Let me ask our cricket enthusiast, Pradeep, to answer that question.

Pradeep Jain: Okay. Superb. No, Abneesh, I mean, you know, like Hina mentioned, my response will be more as a cricket consumer, right, and not as the CFO of USL. Look, I think our bet is on cricket and the women cohort, right? I mean that's what we have to fundamentally believe in.

Even if you look at the trajectory of the men's IPL, the first 10 years were an EBITDA loss-making proposition, right? But it is -- but at that point of time, no one thought that the media rights will reach the scale at which they will reach, right? What the men's IPL trajectory reinforces our confidence is that at some point of time, the women's cricket will also hit that inflection point, right.

And that's what we are backing on. And so far, there is nothing that is kind of pointing to the reverse of that, right? So therefore, we remain equally confident that in 8-10 years' time, etcetera, women's cricket will also hit that inflection point, and it will be as profitable, if not more.

Hina Nagarajan: Actually, you're paying off the figures even today, Pradeep. So I mean if you look at women's cricket popularity, etcetera, the metrics are all in the right direction, right?

Pradeep Jain: Yes, absolutely. And broadly, I just want to also kind of manage expectations. Look, the RCB P&L gets capped for five years, right? The media right auction happens once in five years. So, broadly, it's a capped P&L. Obviously, we'll continue to drive some accretive revenue growth management, etcetera, etcetera, local sponsorships. But fundamentally, it's a INR300 crores profit from men's IPL and INR90 crores loss for Women's Premier League, very broadly, right? And that's the way it will stay for the next five years now.

Abneesh Roy: Sir, one follow-up on the cricket-related question. We are having the World Cup in the coming months. In the past and given you would be tracking this very closely, would you expect some kind of an uplift because of the cricket-related demand, people would see more in terms of the bonding? So do you expect some kind of uplift because of the cricket World Cup also this time? It's happening in India, the timing, etcetera, will be quite suitable also.

Hina Nagarajan: We do see, Abneesh. We do see an uplift during cricket. I mean, IPL, etcetera, I mean it is a very big social occasion, right? So I mean, we activated Royal Challenge this time around IPL, and it is very much about people getting in, especially because in-home consumption has become far more normalized after COVID. I would imagine that there will be some uplift. I don't know a quantum uplift measure. But definitely, it is a very big celebration and social occasion.

Abneesh Roy: Sir, last question, your BIO portfolio now has come back. It's doing well, so you could update, is it meeting your initial expectation?

Second is in terms of market share, when I see clearly, it seems that now you are doing far better than what it was at three, four years' back versus your key competitor. Also, your key competitor is embroiled in some of its own legal issues. I'm not going into that. I'm just asking, what would be your sense in terms of market share and in terms of BIO? Would you be happy with the way things have gone versus initial expectations?

Hina Nagarajan: Yes, I would say, yes, BIO has come back as per our expectations. And if you remember, I mean, last quarter onwards, we had started putting A&P back into that portfolio to continue building the brand. And I definitely, you know, I talked about Johnnie Walker Blonde, which is actually really doing well. So yes, the answer is yes.

And the second part of your question, Abneesh, was market share? Yes. I would say, yes, we continue to perform very competitively across segments on market share.

Abneesh Roy: So thanks, that's all from me, thank you.

Hina Nagarajan: Thank you, Abneesh.

Moderator: Thank you. Our next question is from the line of Prakash Kapadia from Anived Portfolio Managers Private Limited. Please go ahead.

Pradeep Jain: Hi, Prakash.

Prakash Kapadia: Hi, Pradeep. Congrats to the team for wiping-off the accumulated losses. That's a big, big milestone. You know, could you give us some sense on, you know on Delhi market, have things stabilized? However growth rates been in the last few quarters, are they better from where they were?

And I had one more question. Media reports suggest bottled in India brands, growth has slowed down post the excise policy reduction, where premium and higher brands are growing much faster after the price cut by almost 25%, 30%. So what are you seeing in some of the bottled in India brands, such as Black & White and Black Dog? If you could give some sense, that will be helpful.

Hina Nagarajan: Sure. So look, on Delhi, no comments on competition or anything. But in general, because of the route-to-market change, the market has shrunk for us. And we have stabilized at a certain volume. We are supplying all our brands, but it is a fraction of what it used to be, and it is stable.

Our focus has been on whatever we lost in Delhi to grow and pick that up in the rest of the country, there's 36 other states or 35 other states would have to do it, so we are focused on that. Actually, our experience is not showing that just because BIO is growing, BII has stopped.

BII also continues to have very robust growth as of upper Prestige, mid-Prestige. So because, like I mentioned initially, the penetration of our category is still quite low and because this category is now seeing, across various segments, a lot of innovation, renovation, and consumers are experimenting much more, so they don't stick to only one brand, but they're trying many different things; growth across the segment still looks very healthy. And BIO is not like slowing down the others, right? But we see a lot of upgrades directly or entry directly into the upper category.

Prakash Kapadia: Okay. Okay. Understood. Thank you.

Hina Nagarajan: Thank you.

Moderator: Thank you. Our next question is from the line of Tejash Shah from Spark Capital. Please go ahead.

Tejash Shah: Hi, Hina. Hi, Pradeep. Thanks and congrats on a good set of numbers. A couple of questions from my side. First, if you can give some sense on RM scenario, and how should we think about gross margin trajectory in the near term from here on?

Pradeep Jain: Yes. So Tejash thanks, let me take that, right? So again, let me cover the two core ingredients. Neutral Alcohol spirits, it's playing out pretty much the way we had thought, right? And we had called out three factors, which are unfortunately all headwinds, exactly playing out their role. The ethanol fuel blending policy, the union elections and therefore, the increase in minimum support prices on the feedstocks and El-Nino factor, right? And whatever you are reading is pretty much what is the reality? So therefore, neutral alcohol spirit does remain inflationary. Now we are doing tactical things, right?

Right now, we are doing tactical things in terms of increasing our physical coverage, going slightly long on physical storage contracts. And obviously, the longer-term intervention of increasing our co-location footprint, that as part of the supply agility program is anyway on, and we are trying to improve our grain indexation coverage, right? So that's on neutral alcohol spirit. It does remain inflationary.

Okay. Now coming to glass, again, it is a completely sellers' market right now. The glass industry capacity utilization is close to 100%. On top of that, there is consolidation in the industry happening. So therefore, it does remain inflationary. April, May, June has been quite inflationary.

If you also remember, the real inflation in glass right, last year started somewhere around the August-September mark, right? So therefore, we are still lapping low basis of glass in the prior year because we had, you know, our suppliers had longer-term contracts coverage in places, right? So therefore, the inflation still remains high, right?

So we'll have to just watch out. I mean there is some unwinding. The natural gas was released, right, so some unwinding happened on account of that. Soda ash is beginning to unwind, right? So again, we'll have to see how much coverage we have, etcetera, and then.

And the last thing is furnace oil. We do expect, crude has come down, but so far, furnace oil hasn't yet come down to the levels that we had thought. But hopefully, it does track crude and over the next three, four months, etcetera, as it comes down, hopefully, we'll get some releases, right? So that's, broadly, the inflation scenario.

Tejash Shah: Sure. So one follow-up, all the headwinds that you just spoke about were already there in this quarter or they are actually incrementally picking up pace as they go along?

Pradeep Jain: Actually, all of them, to some extent, are there, right? Now El Nino completely has not paid out, but we do hear that the kharif sowing of rice has got delayed to some extent, right? So that will probably play out in the next two, three months, but other two are very much playing out.

Tejash Shah: Sure. And second and last question. So Hina, we have seen a lot of state elections recently, where freebies have been rolled-out. And unfortunately, our sector has been the punching bag to foot the bill. Now we have a good number of state election lined up for the next 12 to 24 months. So -- and I don't see that trend changing much.

So how do you kind of accommodate that kind of growing headwind in your projections and numbers and the business plan? And you had also raised this point that you are raising it with government in terms of changing or approaching this problem statement from much more structural lens. So if you can give your thoughts both on near term and much on the longer term on this point.

Hina Nagarajan: See, I would say in the near term, I mean, our experience is that you know, some play out positive, some play out negative in the balance, I think we know how to deal with it. And I would also say that a number of states, especially if you look at COVID, I think there was one instance where a number of states put out COVID tax on the category, and the category shrunk massively in these states, and then all states very quickly retracted the tax, right?

So I think state governments also have the experience and understand that there is a sweet spot between revenue maximization and through tax versus revenue maximization and the balance with volume, right?

So our continued advocacy helps balance the narrative, and we have modeling that shows the state government that there is a balance, and that balance is quite critical. So you know, we don't have -- we are factoring this in, but I think the experience that the team has and what we've seen over the last few years, I think balances itself on the net, right?

The longer-term advocacy that you were talking about, we continue to do, and we are you know, continuing to try and find models that will make it a win-win for the government and a win-win for the industry. It's something that we do through our industry association, and we are also doing individually as a company.

So that is a mid-to-long-term strategy. You know, I can't really say that it's going to play out over the next few weeks or months. But definitely, it's something that we will continue to press on because the harmonized fact maybe an inflation-linked sort of price regime, these are all good for the industry and its growth.

Tejash Shah: Great. That's all from my side and all the best.

Hina Nagarajan: Thank you so much.

Moderator: Thank you. Our next question is from the line of Harit Kapoor from Investec. Please go ahead.

Pradeep Jain: Hi, Harit.

Harit Kapoor: Yes, hi. Good evening. I just had one question on the near-term you know, kind of growth in P&A. The normalisation of the BIO business, this wasn't -- which was not there in a few states, probably happens only from Q4. And also, your -- the fact that you've rolled out some of the renovations over the last couple of quarters, it means that -- wouldn't this mean that some of the incremental growth that you saw this quarter could also -- at least a portion of it could be there in the near term also, the coming quarters as well, at least the next couple?

Hina Nagarajan: I mean they will be. But I mean, renovations innovations have now largely obtained the footprint that they need to obtain in terms of you know, distribution. But definitely, there is a lot of juice in these, right? So just because we distributed, it doesn't mean that it's penetrated all the consumers. So definitely, our focus will be on juicing out the benefit of all these renovation, innovation work that we have done. And there is a premiumization that is inherently happening in the market, so we foresee a reasonable demand. There will be some normalization.

Having said that, so I think, you know, our commitment to double-digit growth remains. Now a little bit, like I said, of filling the gap with BIO normalization, ramping-up the innovation, renovation that has happened over the last few quarters, we expect that to normalize a little bit. But I think the guidance of double-digit top line growth, we remain confident in.

Harit Kapoor: Got it. Got it. And the second one was just a little bit more book-keeping. So this quarter, there's been a significant increase in the consolidated EBITDA, versus standalone because of the RCB business. Do we expect, over the next three quarters, consolidated profit to be slightly lower, given that some of the costs in the cricket business continue, but the revenues are upfronted in Q1? Is that the way to look at it?

Pradeep Jain: That's right. That's absolutely the right way to look at it. Now our RCB cost base is not so high, right? A lot of it is variable expenditure. But you're absolutely right, right? Some amount of overheads will continue to be spent throughout the year, whereas the revenues come only in one quarter.

Harit Kapoor: Got it. Those are my two questions. Thanks, and all the best.

Pradeep Jain: Thanks.

Hina Nagarajan: Thank you.

Moderator: Thank you. Our next question is from the line of Latika Chopra from JPMorgan. Please go ahead.

Pradeep Jain: Hi, Latika.

Latika Chopra: Hi, Pradeep. Hi, Hina. So, you know, some small follow-up questions to your comments. The first one was on Karnataka state. Is it correct to assume that the salience of this state in the overall revenues would have reduced post the divestment of Popular portfolio?

Hina Nagarajan: Absolutely right. Latika.

Latika Chopra: Is it okay for you to see some little flavors, is it like mid-to-high single-digit salience or any rough sense there because we are talking about some very steep price increases?

Pradeep Jain: I mean, I don't have, Yes, we don't have the numbers in our head, right? But the number is low, but we could figure that out. I think Shweta could help you out.

Latika Chopra: Sure. The second bit is just to get us some color on or some picture on, you know, how are your key states are behaving in terms of consumer demand? And if we can talk about any large states for you where you are seeing consumption coming through much stronger than the others? Any qualitative flavors?

Hina Nagarajan: I mean, I would say that Latika, if you look at, you know, even historically, right, I mean the southern states have always been less premium portfolio oriented than the north, west, etcetera. So I mean, in that sense, I think the pressure on Popular, in the lower end, you see more in the southern states than you do at the other regional levels, right?

On the other regions, I would say, premiumization is playing out quite strong across. I mean, there is no one or two states where I can call out and say, "Oh my God, these are like really growing out." I think, we are seeing that pretty much across. I don't know, PJ, if you want to add any other comments?

Pradeep Jain: No, no, pretty much, Hina. Latika, it's exactly the same thought. It's fairly, the premiumization is fairly broad-based. Now having said that, to Hina's point, right, we made this point earlier, north is 60% of the national scotch market, right? So on that high base, it continues to grow so well, etcetera. So share of growth of North is obviously, you know, the highest in the overall algorithm, right? So that's -- I think that should give you some sense of where the growth is coming from.

Latika Chopra: Thank you so much, this is helpful.

Hina Nagarajan: Thank you.

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

Pradeep Jain: Hi, Alok.

Alok Shah: Yes, hi. Hi, Hina, Pradeep and Shweta. And congrats on a good set of numbers. First is now that after COVID, we are in a much more normalized environment, so just wanted to check from an overall category perspective, are you still seeing whiskey category going faster than beer? Or that was more like a COVID era -- because of logistical issues, beer could not grow? So what's your reading on that?

Hina Nagarajan: I think beer has come back, right, is quite strong, particularly after COVID, I mean they were impacted quite badly. So they are growing. But you know, Spirits' continued momentum and growth that we saw post-COVID, so irrespective of beer growth, Spirits is on its own trajectory. And what we are seeing is that consumers have really gone into experimentation and repertoire drinking.

So and this is a lot more after COVID. So you know, a lot of experimentation with cocktails, a lot of experimentation with white spirits as the base, a lot of experimentation with new brands. I mean, overall, I would say, the Spirits market remains very robust despite the beer market coming back.

Alok Shah: Got it. Got it.

Pradeep Jain: And may be just to build-up, Alok, right, just building-up on what Hina has mentioned, I mean India, that's a unique market. I don't think one of the alcobev sectors will grow at the expense of the other, even though there is interaction. I think there is enough headroom, right, for both to grow and both to thrive, right, and that's what we'll hopefully see in the longer term.

Alok Shah: Perfect. So you know, from a normalized environment perspective, would Spirits category, in terms of, say, volumes, have gone back to a more mid-single-digit kind of level? Or what would that be broadly from an industry point of view?

Hina Nagarajan: So that market, I mean, is at mid-single-digit level growth, right? And I mean, if you look at our -- if you look at the numbers, there is a little bit of shrinkage coming from Delhi, frankly. You know, that would be a couple of percentage points of growth. But yes, I think short to medium term, I think mid-single-digit growth is on and it probably continues to it, we expect it.

Alok Shah: Got it. Perfect. Perfect. On the second question, so now this is with respect to stock options. And considering, you know, it's part of the global conglomerate, that's why I ask this question. So from a stock options perspective, is the management sort of given United Spirits stock option or Diageo stock options, as is generally seen in other MNCs? So that's why I just wanted to check on that. Thank you.

Hina Nagarajan: PJ?

Pradeep Jain: Okay. No, it's a combination, Alok, right? I mean for the exec committee, it's a combination, right? They have stock appreciation rights of USL, and they have you know, Diageo rights as well. Whereas for the next layer for the rest of the senior leadership team, we by and large have the USL stock appreciation, right. So it’s a combination.

Alok Shah: Got it, thank you very much for this. And best of luck for the quarter.

Hina Nagarajan: Thank you.

Moderator: Thank you. Our next question is from the line of Karan Taurani from Elara Capital. Please go ahead.

Karan Taurani: Hi, thanks for taking my question, Pradeep and hi, Hina as well. The first question was pertaining to IPL. So you know, this delta of what you've got in terms of the EBITDA or PBT of INR300 crores, can this reduce over a period of time because I think player cost will also go up and other costs will also go up? So what is the number that we are broadly looking at in terms of the overall PBT for IPL say, two years from now?

Pradeep Jain: So Karan, I think I mentioned that, right? I mean, basically, the IPL's P&L gets set once in five years. The biggest driver of the central media rights, right, and the local sponsorships, right? So a little bit of inflation happens in our costs, etcetera. But so far, we have managed to do well by increasing our local sponsorship revenue from dynamic revenue growth management intervention, etcetera, etcetera, right?

So if you look at the 20-year trajectory or the 15-year trajectory of the men's IPL, I don't think our P&L has worsened in any year, right? It has remained stationary or it has improved in those steps of every five years, right? So that's the way we are looking at it, right? And obviously, we are trying to kind of do additional initiatives, etcetera, that hopefully give us some amount of growth and margin as well.

Karan Taurani: Got it. So in a worst case, it will remain flattish, The INR300 crores of delta [inaudible]

Pradeep Jain: Yes, that's right. A lot can depend also on the team performance. If you slip from six to eight, right, we will reduce further. If we move from six to fourth to second, first, etcetera, then obviously, that kicker of performance-related kicker comes.

Karan Taurani: Got it. Got it. That’s fine. The second question was pertaining to market share in brands. So I understand that internally, you know, your upper-mid Prestige segment, renovation is there, you launched in 80% of your target market, so the volume growth has been good. But in terms of external factors, can you highlight that what is our P&A volume growth number? Is it in line with market averages? Are we gaining market share? How competitive it can be there? Just any color, that would be really helpful.

Hina Nagarajan: Yes. We are performing very competitively on market share. So I think, we shared this a couple of quarters ago with you. And certainly, those growths are very, very robust from a competitive point of view. And we continue our trajectory. So like I said, I'm pleased with the, you know, competitive performance, and that continues.

Karan Taurani: So is it fair to say that we are kind of growing ahead of industry average in the mid and upper Prestige segment?

Pradeep Jain: Karan, we never shared those numbers, right? Yes. So -- and we don't want to get into that, right? But what we can guide is, look, you get the earning release of both the companies, right? Pernod releases through its global earnings release. So therefore, you know, you can do your own simulation. Pricing is fairly consistent for all players, right, barring for the mix factor. So I think you guys can do your own modeling, right? And you'll get a reasonable sense. You will reach a 90% accuracy-level answer, which should be good enough.

Karan Taurani: Got it. Got it. Thank you, Pradeep. Thank you, Hina.

Pradeep Jain: Thanks.

Hina Nagarajan: Thank you.

Moderator: Thank you. Our next question is from the line of Tarbir Shahpuri from Nidara Capital. Please go ahead.

Tarbir Shahpuri: Hi, thank you so much. Congratulations for a good set of numbers. I have two questions, and the first one is a little bit abstract. If you could just maybe talk to us if the UK-FTA would come through in some form or shape, what would that mean for us over the next few years?

And the second one is a bit specific, is there any talk internally in the company to change the name from United Spirits to Diageo India? Thanks.

Hina Nagarajan: Let me answer the UK-FTA first. Look, I mean, we are very pleased that this is on the agenda, right, in the UK-India talks. And we are optimistic that you know, something will come through. It's very difficult to talk of impact because that really depends on quantum and timing and phasing, right? I mean there have been many discussions on phasing, quantum. We have absolutely no idea, finally, where it will net out.

But broadly speaking, I mean, if the 150% duty was to go to 100%, there will be a 5%, 7% change in pricing because this customs duty is relatively a smaller portion of the value chain compared to the state excise, right? And if the, you know, basic custom duty goes from 150 to 50, you can see about 12% to 15% impact. And generally, if the price changes by that much, that reflects in sort of volume uplifts of that kind of nature, right?

So that's the kind of range we would imagine, but it really depends on, you know, how is it implemented, how much is implemented and hopefully, whatever gains here are not made up for by the state by charging something else. So there's a lot of ifs and buts, very difficult to sort of calculate impact at this point in time. But hopefully, if it comes through, when it comes through, it should have a positive impact on the industry.

Tarbir Shahpuri: Fair enough. And I was curious if there are any talks internally of changing the name of the company?

Hina Nagarajan: Listen, we've explored it, right? It is a very long-drawn process. And it means, you know, a lot of regulatory change, a lot of sort of admin work, let's put it this way, licenses, this, that and other. So it's something that is under review, but we don't have a firm sort of time plan for it.

Tarbir Shahpuri: All right. Fair enough. Thank you so much.

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

Pradeep Jain: Make this the last question as well.

Akshen Thakkar: Hi. Just a couple of housekeeping questions. Just going to the annual report, the trademark fees last year was zero versus a high number in the past. And then you had, I think, the distribution costs, which went up significantly last year. I don't know if this is to do more with the change in, you know, business post the sale of Popular portfolio? Or was there something one-off in both these line items? I'm looking at the stand-alone P&L item -- disclosure in your annual report.

Pradeep Jain: Sorry. Akshen, Yes. So I didn't get the question. You're referring to the annual report, the annual report will be a bit of a hotch-Potch this time because of the of the divesture, that's something in franchising that happened in the middle of the year, right? So it will be very difficult to correlate numbers on a comparable basis, right? So maybe we should take that offline, right? I mean we'll be happy to answer that, right? But if you could pick that offline, right? The numbers right now, we will not be able to reach them in my head.

Akshen Thakkar: I'll take that offline with you. Thank you.

Pradeep Jain: Yes, thank you.

Hina Nagarajan: Thank you. So I think we come to the end of, you know, the session. And as always, thank you very much for joining our call, and thank you again for your ongoing support to our company. It's always a pleasure to talk to all of you, and I look forward to doing that again end of next quarter. Have a lovely day. Bye-bye.

Moderator: Shweta ma'am, any closing comments from your side?

Shweta Arora: Thank you. With this, we close today's call. For any follow-up questions or clarifications, please feel free to reach out to us.

Pradeep Jain: Thank you. Thank you to all.

Moderator: Thank you. On behalf of United Spirits, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.