“United Spirits Limited

Q2 FY'24 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the United Spirits Limited Second Quarter FY '24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. 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' First Half and Second Quarter ended 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 today's call by providing an update on business performance during the period, while Pradeep will take you through the financial performance, 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: Thanks, Shweta. And good evening, ladies and gentlemen. Thank you for joining us on the second quarter FY '24 earnings call of United Spirits Limited. I hope all of you are doing well and enjoying the festive season and the Cricket World Cup with family and friends. I am going to keep today's results update short to allow more time for Q&A. And as always, we'll start the call by giving a brief context of the business environment as we have stated.

Environment remains volatile, challenging the geopolitical tension, rising fuel prices and stubborn inflation, which continues to impact the value-sensitive consumer in the lower SEC. We continue to experience this in our retained popular and low prestige end of the portfolio. Amidst this environment, we had a strong quarter, reflected in our prestige and above segment, which clocked double-digit growth of 12.8% year-on-year, lapping a high base.

That said, we are seeing the early signs of caution in the discretionary spend. It is difficult to ascertain at this stage if it is something structural. We continue to monitor the situation and will take necessary actions depending on how the scenario evolves in the coming few months.

Coming to overall performance for the quarter. We've delivered strong double-digit growth at 12.2% in the overall NSV. This is despite the headwinds related to double Shravan in July, August, September quarter and the shift in the festive season to October, November, December. Cost inflation remains stubborn, and Pradeep will provide additional soundbites on that front.

The ramped up headline pricing in the back half of FY '23 continues the healthy flow-through into the P&L this quarter. This is a confidence building measure on our ongoing efforts around pricing advocacy. I'm also delighted to inform that the Board of Directors have approved an interim dividend of INR4.0 per share. This is after a long hiatus enabled by the successful turnaround of the company to sustained profitability. As called out in the press release, we would like to thank all our long-term investors for remaining committed to USL over the years.

Briefly, on our key portfolio update, starting from the upper Prestige portfolio, the segment is performing competitively, especially the renovated and innovative bundles are delivering desired results. The renovated bundle of Antiquity is now rolled out to most of the salient markets and is launched with focused growth drivers, impact visibility, scaling up of the Hipster pocket pack and Gift-on pack in select markets. In the launched market, the brand has gained significant traction with overall uplift in consumer metrics and volumes.

On Royal Challenge American Pride, it continues to witness healthy growth rate. And our Sip to Your Way to America consumer campaign has received great traction & is resonating well with the consumer. We are also scaling up sampling opportunities with special focus on the Boom Town.

Our Signature trademark is continuing to build on the pillars of Taste Good, Live Good and Do Good across different touch points for consumers. We were the title partner of Ziro Festival of Music, India’s largest and most eco-friendly festivals. Also, very proud to share that Signature has come out with its latest, One With Nature campaign and in line with the ethos of the brand and its commitment to leave a positive mark on nature, it is continuing to be the most sustainable whiskey in the market. And this sustainability campaign is one of the first in the industry.

Within mid-prestige, our renovated Royal Challenge is also performing competitively, grew ahead of the category in the quarter gone by. We are investing in the brand across TV, print, cinema and digital with special focus on OTTs during the Cricket World Cup.

Our flagship brand, McDowell's #1 is back on TV after 3 years as a strategic choice for the Mass Prestige, what we call the masstige audience, with the reimagined Yaari song during Friendship Day by Armaan Malik, Amaal Malik and Nikhita Gandhi.

Coming now to BII, BIO and luxury. We've seen healthy growth on Black Dog during the quarter, and the premiumization journey stays intact with Black Dog Triple Gold Reserve now going ahead of Black Dog Black Reserve. We continue to amplify the communication featuring global celebrity, Keira Knightley. We're also delighted to bring back Black Dog Easy Evenings to savour the pause with a one of its kind associations with global icon, Trevor Noah, in key markets of Delhi and Bombay. This association has driven significant engagement on the brand.

Our overall scotch portfolio continued to see healthy growth in the quarter, led by Johnnie Walker benefiting from a favorable base and continued consumer recruitment, driven at pace by the scale-up of Johnnie Walker Blonde along with Black & White. Johnnie Walker Blonde, which was launched in December last year has now been scaled up across all key markets in the country and have been really well received by consumers.

Black & White growth momentum also remains intact as it continues to be the preferred scotch in casual occasions. In the current quarter, the brand was associated with the India-West Indies cricket series and continue to activate the much loved platform of Table for Everyone across regions.

Our gin brand, Tanqueray, started its flavor journey in India with the signature Malacca and Rangpur variants. We expect this current quarter to be an exciting period for consumer outreach and engagement, adding to their responsible celebration.

Last but not the least, I am delighted to inform you that we have launched our global Tequila trademark Don Julio in India. I know many of our consumers and many of you, indeed, on the call, were probably waiting for this. We are continuing the path of our future-back consumer focused approach, and this is in line with our strategy and commitments to bring the best from around the world for our aspiring Indian consumer.

The variants of Don Julio will be launched progressively starting from the core range, Blanco and Reposado, to the iconic Don Julio 1942, which, as some of you know, we've been seeding for a while. We are optimistic on the India potential of this opportunity in line with global trends. I am confident that we'll be able to scale this up and touch base milestones similar to our scotch journey in India, wherein we now have 3 trademarks, which are clocking upwards of 1 million case each, that is Johnnie Walker, Black & White and Black Dog.

From our overall marketing investment strategy, we are focusing on digital initiatives to drive a connected omnichannel consumer journey, which has continued into quarter 2, and we are leveraging the external digital ecosystem platform partner to drive consumer resonance.

I am also very happy to share our progress on Diageo in society. We have published our second annual ESG reporting index. As some of you may already know that the reporting index is developed in accordance with the comprehensive level of the globally acclaimed GRI Standard 2021. In addition to the GRI Standard, the index also maps Diageo India's performance with the UN Sustainable Development Goals, the United Nations Global Compact Principles and the Sustainability Accounting Standards Board, standards for the alcoholic beverage industry, which recommends disclosure on material issue.

These include energy management, water management, responsible drinking and marketing, packaging, lifestyle management and environmental and social impact of the supply chain among others. This takes us further ahead on our journey of progressive reporting practices and improved disclosures.

Another key update on our sustainability initiative is the removal of mono carbon from 90% of our portfolio. In addition, we have introduced biodegradable packs as well as recyclable PETs in some of our brands and continue to expand it to others. This is aligned to our global mission to ensure 100% of our packaging is widely recyclable or reusable/compostable by 2030.

Touching briefly on awards and recognition for our brand, Godawan artisanal single malt received a silver for packaging design at Graphis and best home-grown whiskey at Travel & Leisure India Delicious Dining Awards 2022.

As my concluding remarks, I would like to reiterate that we are witnessing lower-than-anticipated demand momentum. However, we look forward to the remaining part of the OND quarter with festivities and Cricket World Cup further. We have ramped up our brand investments, and our key brands are participating well in the Cricket World Cup. Specifically, we are associated with the Cricket World Cup as an associate sponsor and we are building impacts from this association in Q3 in a very cost-efficient way. Our focus is on delivering growth through our differentiated offering and by maximizing potential of our renovated and innovated bundles.

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

Pradeep Jain: Thank you, Hina, and a very warm welcome to all. Thank you all for joining us. And as always, it's great to interact with all of you. Before I call out the quarterly financial performance highlights, we will request you all to refer to the results press release posted on our website last evening.

You will remember that with the simplification of our legal entity footprint, we have started sharing a consolidated financial snapshot with effect from the last quarter, driven by the seasonal nature of IPL revenues of the entity housing the RCB Cricket Team, the delta between consolidated and standalone will be minimal for this and the next quarter.

By now, all of you are also quite familiar with the terminology of reinstated and rebased used in the document. And therefore, I'm not repeating the explanations. Post this quarter, we would have completed one full year with the retained portfolio. Hence, going forward, the reported numbers will be absolutely comparable with the prior year reported numbers for the respective quarter. The year-to-date number will even out with effect from April to June 2024 only.

Quick update on the quarter. Hina has already covered the overall business context and the external environment in her comments. We have continued the momentum of our performance into the second quarter of the fiscal 2024, both in terms of P&A and overall NSV growth.

Price mix remained strong, driven by continued premiumization focus, headline pricing flow-through and other revenue growth management initiatives. Like-for-like, we have delivered an overall portfolio NSV growth of 12.2% during the quarter. P&A growth stands at 12.8%, with strong double-digit growth in our scotch portfolio.

On the cost side, ENA remains inflationary. However, the impact is muted in our P&L this time owing to our systematic forward coverage positions that have now lapsed, and the inflation will reflect in the coming quarters. On the bright side, we do expect some stability in glass that should partially offset the ENA inflation. The mono-carton removal project is now almost complete across the portfolio and the full benefit of the same is reflecting in our quarterly financials.

Gross profit was INR1,244 crores with a gross profit margin of 43.4%, reflecting the continued sequential improvement. Our marketing reinvestment rate during the quarter was 8.4% of net sales, stepped-up in line with seasonality as we enter the peak quarter, and this will further ramp up in the October-December quarter owing to the festive season and the ongoing cricket world cup.

As we have emphasized earlier, A&P is an extremely critical component of our virtue of growth cycles, and we will continue to invest behind our brands to drive consumer engagement and long-term equity.

EBITDA for the quarter stands at INR470 crores and EBITDA margin is at 16.4%. Below the EBITDA line, there is a gain of INR31 crores during the quarter on account of the final tranche of consideration from the slump sale, which is now recognized as an exceptional income post completion of customary obligations. Overall, PAT for the quarter is INR341 crores with a PAT margin of 11.9%.

Repeating what Hina has already shared, we are absolutely delighted that the Board has approved an interim dividend of INR4 per equity share, which is 200% basis the face value of INR2 per share and amounts to an outflow of circa INR290 crores. This is after a long hiatus, and we truly value the commitment and patience of our long-term investors. Our new dividend policy duly approved by the Board is now available on our website.

As we look ahead, input inflation is expected to remain high. That said, our sustained efforts on 360-degree revenue growth management, the 3 pillars of headline pricing, mix management and trade spend effectiveness, along with our proven muscle on enterprise productivity are yielding results, and we remain focused on what lies within our circle of influence.

With that, we can now open the floor for Q&A.

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

Abneesh Roy: Thanks and congrats on margins and dividend payout. My first question is on the new launch, Tequila, Don Julio. So Diageo has got several brands in the portfolio. What was the thought process for bringing this? Any examples of other emerging markets? How does this do post 5-6 years of launch?

And third is what will be the positioning? And how big can this industry and the brand be over a longer time frame. Not asking for a specific guidance, but is this something which you are very excited over a 5- to 7-year time frame?

Hina Nagarajan: Hi Abneesh. Good to have you on the call. So look, Don Julio was being seeded for quite some time. It is the leading brand of tequila globally. And just to give you a sense of how large this Tequila category has become, particularly if you look at our Diageo global perspective, it overtook vodka to become the number two category in the Diageo portfolio over the last 4 to 5 years, right. So we expect the potential to be strong. And you know as I mentioned, our ambition would be to see over a few years, it takes the same trajectory as scotch has taken over the last few years.

The thought process was we were seeding Don Julio for quite some time. And we did see over the last few months, if you just go out to bars and if you look at what's being served, there was a growing trend of tequila availability in the country. And because of the global exposure that a lot of our consumers have I think the tequila category, if we see, was getting very strong double-digit growth, though on a very, very small base right now in every single state. So it is not restricted to 1 or 2 markets, but it is beginning to see traction in a number of states.

So we felt this is the right time to bring it here. And it is premium priced. And it is a premium category, fits in well in the BIO portfolio, and we expect it to be a significant contributor over the next 5 to 7 years.

Abneesh Roy: One follow-up there. So just like globally, this -- the tequila has become larger than vodka. In India, vodka category is small, but there's another registered player, which is quite large there. So longer term, do you expect that consumers, which can replicate what has happened for Diageo globally that in India also, this segment over a longer time frame would mirror or be bigger than vodka?

Hina Nagarajan: Abneesh, what we are seeing is that actually both tequila and vodka are growing in the -- if you look at globally, right. So it is difficult for me to say whether it will exceed vodka or it will continue to grow.

The white space will continue to grow with both vodka and tequila. I think this is a space we will watch, I mean, tequila is now getting rolled, Don Julio is getting rolled out to the rest of the world, and I'm sure we'll get learning as we sort of go along over the next couple of years. So I guess we can keep discussing this over a period of time.

Abneesh Roy: Sure. My second and last question is on the volume and demand side. So in Q2, we also had the Karnataka price hike impacting for the first quarter. And you rightfully alluded to discretionary slowdown initial signals. And if I see Q1 volume and sales growth was higher than Q2 volume and sales growth.

Now if I put the very high marriage season in Q3 and the full festival impact, etcetera. So would you be, say, expecting that Q2 was a slight one-off because in earlier quarters when we are asked on discretionary slowdown, you had pointed towards the resilience of this category? But this time, first time, you sounded a bit cautious.

Hina Nagarajan: Yes. I think for us, Abneesh, the signal of the robustness and momentum of the season actually comes from September and October. October -- sort of September and October are lead indicators for how the momentum and festive season will be. We've seen some slowdown in discretionary spend in this period and the festival pickup has not been as buoyant as we have seen in previous years, right.

I had alluded to sort of pressure on the lower end for quite a few quarters, actually, we were seeing volume pressure. I think we are seeing some pressure even in the Middle India segment, right.

So like I mentioned, we are continuing to activate our brands. We don't know whether this is structural or not. We continue to invest behind our brands and activate them, to continue to sort of drive the momentum of our brands. But it is a wait and watch area for us. Early indicators of -- the 45 days into this quarter are also not showing as buoyant a momentum as we would have expected. So that's why the caution.

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

Jay Doshi: Hi. Thanks for the opportunity. Just following up on your earlier response on demand slowdown. So is this also across the -- across all price points, even in the BIO, BII portfolio, you're seeing slowdown -upper prestige and whether it's across the country or some states, some more color will help.

Hina Nagarajan: Hi Jay. Basically, I would say that lower prestige and popular, we were already seeing pressure. It has gone a little bit upwards. I would say if you look at the Middle India, as I was alluding to, we do see some slowdown from the previous quarter.

BIO BII, the demand on the luxury side and the premium brand still remains robust. So really, I think that tells us that there is some inflationary sort of pressure, which is being held by the consumers at the lower to mid-end. Is it across states? Yes, pretty much. I don't think there are 1 or 2 belts. We are seeing this pretty much across India. I don't know if you want to add anything PJ?

Pradeep Jain: No, pretty much that, Jay. I mean, I think it's more governed by the festive pickup, like Hina mentioned in our earlier response to Abneesh, right, that's a lead indicator for us, right.? And clearly, we haven't seen that lead indicator as robust as we have seen in the prior years, right. So it's pretty much across the country at a national level. And pretty much across the portfolio, barring for the real top end probably.

Jay Doshi: Understood. That's helpful. Second question, is it possible for you to share some more color on progress of American Pride? Possibly some quantitative numbers that helps us appreciate it better.

Hina Nagarajan: PJ do you want to go with that?

Pradeep Jain: Yeah. So Jay, we've not shared quantitative numbers, right. We will set a precedent that we may not be able to kind of sustain, right. So we don't want to share. But I mean, we can suffice by saying that it's been our most successful innovation since Diageo acquired USL, if that helps.

Jay Doshi: And in terms of repeat offtakes and sales strength in demand or momentum continues, right to assume that?

Hina Nagarajan: Yeah, yeah. And I will give you 1 statistic, Jay, 90% of the people who have tried the brand are repeating it. So that tells you the power of the proposition, right. So repeat is quite robust.

Jay Doshi: Right. And in terms of distribution, it's available across the country now?

Hina Nagarajan: Yes, pretty much.

Jay Doshi: Understood. Thanks. I'll get back in the queue.

Hina Nagarajan: Thank you. Jay.

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

Percy Panthaki: Hi Pradeep, Percy here. So I just wanted to check one thing. In the last call, you had mentioned that with the new portfolio and all that, the Jan to June seasonality, Jan to June would be 46% of the full year. So would you still sort of go with the same number?

Pradeep Jain: No. So Percy, yes, absolutely right. I had mentioned that right that you remind me. Look, I guess the only caveat I'll put at this stage is, what Hina has cautioned all of you on, right.

So we don't know what we don't know. Had it been a business as usual probably that seasonality would have sustained, right. But in case there is something structural to what we are seeing in the lead up to the festive season, I guess those numbers could potentially change, right. But over the longer arc, I would want to believe 3-5 years averages will not dramatically change.

Percy Panthaki: Sorry, I didn't understand your comments on the festive season and stuff. Can you just elaborate on that?

Pradeep Jain: No, no, it's just a point that in case we do not get the requisite pickup that we historically -- that we historically get in the festive season, right. Then the seasonality would shift a little -- the seasonality number would shift. We've had a reasonably robust July, September, right. And if the demand kind of tweaks a little, right, going forward, the seasonality numbers could change between the 2 halves, as I mentioned above.

Percy Panthaki: Okay. The reason why I'm asking this is, see, now we have 9 months numbers with us. If we go with the 46% number that implies a 6% Y-o-Y decline in the December quarter, which I'm sure it will not be so bad in spite of whatever headwinds, etcetera, are there on the demand front. Would I be correct in assuming that?

Hina Nagarajan: Okay. Okay. So then, Percy, I have to convey when I gave you the numbers, our performance here is July to June, right. And therefore, I would have given you the numbers of July to December is 55% and the following Jan to June is 45%, right. And that's the one to which I'm responding, right, that in case the slowdown is a little going forward, those seasonalities could change.

Percy Panthaki: Understood. Understood. My second question is on gross margin. So I understand you have covers this time, which saved you from the contraction in the gross margin. But what is the reason for the expansion in the gross margin on a sequential basis?

Pradeep Jain: Okay. So I think we've called out. There are 2, 3 things that have really kind of colluded, right, for the sequential increase. If you look at the headline price increases that we have got probably starting November of '22 onwards, they're pretty much carried on until about June of '23, right?

So the full flow-through of the headline pricing has been realized for the first time in the July-September quarter, right. So that is one.

The second thing is the big one is the mono-carton productivity, right. So the full impact of that mono-carton productivity initiative has been realized for the first time in the full quarter of July to September, right. And then the third thing about the forward covers, etcetera, right. So those are the 3 primary reasons, Percy, that's given the sequential.

Percy Panthaki: And what is the pure pricing growth on a Y-o-Y basis for this quarter?

Pradeep Jain: It's pretty high, right.If you look at the volume value delta, I think 1 and 12, right. So 11 of the total price mix. Of the 11, I think 4.5 points is pricing.

Percy Panthaki: So 4.5% Y-o-Y pricing that we have this quarter. Okay. And that will continue at this pace for how many more quarters?

Pradeep Jain: It will start falling off because the first set of price increases came in November -- October end-early November. So it will start falling off in this quarter.

Percy Panthaki: Right. And last question if I might be permitted. If the FTA does happen, what kind of margin accretion do you expect from it?

Pradeep Jain: Percy, look as a management, we are very, very kind of emphatic on that. We don't want to dwell into all that I mean, our role as management is to make the business efficient on an ongoing basis as it stands right now.

Tax benefits, etcetera, that will come, we will worry about at that point of time. Once in a while, these windfalls have happened, right, and the management takes a very, very kind of objective view of that at that point of time. Some part of it is kind of reinvested for growth, for sustained growth, and some parts will fall into the bottom line. We don't want to discuss any numbers on the FTA right now. I mean it's been in discussion for the last 3 years. Whenever it happens, we will be the first one to come and share the impact with you.

Percy Panthaki: Okay, that's all from me. Thanks and all the best.

Pradeep Jain: Thanks. Percy

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

Latika Chopra: Hi Hina. Hi, Pradeep. Thank you for the opportunity. I'll just expand on the question on the margin front. So we clearly understand what happened with gross margins in this quarter and thanks for that. But going forward, what is the kind of sequential inflation that you anticipated ENA prices as the covers are no longer going to be there? And you definitely talked about glass prices being stable. So are we sensing a downside risk to overall gross margins as we lap second half?

Pradeep Jain: Yes. So Latika, look, ENA we have a clear view, right, that it will remain inflationary as we run up till the union election, right. I mean, largely driven. All of you are aware of the MSP price increases that have happened across the grain portfolio, right. So that immediately kind of starts impacting our inflation. In fact, October onwards, it's already impacting us, right.

And last, we see sequential stability, right. We don't see further inflation on that, right. So broadly, that's what the impact would be, right. I mean I don't want to take a shot in terms of what the absolute gross margin percentage, etcetera, will be. It's a dynamic spot that leads to the gross margin, can we extract a little more pricing? Can we do a little more revenue growth management here and there? Can the top end outperform the lower end, etcetera, etcetera? So I don't want to take a shot on that, right. But broadly, yes, inflation would be much higher than the July-September quarter.

Latika Chopra: Can I just then connect this question you know with the fact that in the prior quarter, you're kind of alluding to a 15% kind of EBITDA margin target for the full year. Here in first half, we've done 17%. And I understand as we get the peak season for you advertising spend, etcetera, will also step up. So you are still sticking to that?

Pradeep Jain: No. So absolutely. Latika, let me take that. Look, now I can say that when we did -- and yes I'm not running away from the fact, Hina and I did say that 15% will be our target, right.

Very clearly, we did see the first half being significantly better than the second half on margins, right. And we are actually happy that we have pretty much performed the first half exactly in line with our expectations, right, both the quarters, actually.

If you look at our underlying margins, it's probably 17.1% in Q1 and 16.4% in Q2. So we are somewhere around 16.7%, 16.8%, right. You're absolutely right, A&P spends will go up.

So my sense is if you normalize now, right, going forward, we will probably be -- yes, we would definitely be ahead of 15%, right, which we are confident. Will we be materially ahead of 15%, right? The answer is probably No.

Latika Chopra: That's clear. And then the last bit, you just wanted to understand this Q3 dynamics, and I completely appreciate the comments you talked -- made about the demand in the first 45 days. But how the quarter generally like this time you have festive and then you have this New Year, Christmas period. Which side is -- are the volumes more tilted towards and then we also have a wedding season, which will be playing out in the second half of the quarter?

And versus last year, I'm sure there'll be some of the base effects. Do you think this time probably the peak demand probably hits us later in the quarter. Is there any seasonality because first part of October was also like non-auspicious and then we had Navaratri. So I don't know, how should we think? We should seriously think this more a base affecting or you think it's more than that...

Pradeep Jain: No. So, maybe I'll start...

Hina Nagarajan: Yes, go ahead PJ.

Pradeep Jain: Yes, maybe I'll start, Hina and then you can build on it. No. So Latika, look, my view on this was that when we had a fairly soft September, right, and we as a leadership team actually, at that point of time, were not so cautious in our outlook because at that point of time, we concluded exactly what you have just called out Latika, which is that it's a delayed festive season, right. And there is no reason to be so cautious. We have to be absolutely remain committed, right.

It's more the October performance, right. And Durga Puja on the eastern side of the country, actually pretty much becomes the lead indicator, right. Because that's where the festivities begin even before the Diwali celebrations happen and not, etcetera, right.

So that's where we are saying, right. Having seen October now, we just haven't experienced the kind of national pickup that we get typically in every year, right. I don't know, Hina, whether you want to build anything in addition to this.

Hina Nagarajan: No, nothing. I mean I think we remain cautiously optimistic that demand will pick up, though we don't see the signs right now, but we've still got a big festival season to go through the Diwali and Christmas, etcetera.

So we are cautiously optimistic, and we are definitely investing and activating for growth, right. We'll just continue to focus on what's in our control and you know have the right investment going on for our brands. And we'll see what happens in the quarter.

Pradeep Jain: Absolutely. I think Latika the last bit will be we are not holding back on the A&P spending, right, very, very clearly.

Latika Chopra: No, that's good to know, actually. And well appreciated. Thank you so much and wish you the best.

Hina Nagarajan: Thank you Latika.

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

Harit Kapoor: Hi, good evening. I just had one more question on the cost side. So you mentioned glass stabilizing, but I had a...

Moderator: Sorry, may I request you to use your handset, Sir. Your audio is not clear.

Harit Kapoor: I just had a slightly more medium to long-term question on glass. You said consolidation of glass kind of stabilizing. But I just wanted to get your sense on as we stand today, do you think that the stabilization could be slightly a more medium to long-term phenomenon, given the fact that the last few years have been consistently inflationary? Is that what you're starting to see now?

Pradeep Jain: Yes. So Harit, again, maybe I'll not respond to the specific question, but having kind of followed glass, right, over the last 20 years, we are fairly firm in our belief that the glass cycles come in groups of about 3 to 4 years, right.

So yes, so therefore, from that perspective, one would want to believe, right, that this is probably the beginning of the cycle reversing, right, for a slightly more sustained period of time. But the only thing that is probably we need to wait and watch out is, there is -- as all of you are aware, there is consolidation happening in the glass industry, right, and our ports are involved in that, etcetera, etcetera.

So how does that play out, when does that capacity kind of become available, etcetera. Those are some of the factors, etcetera, that will play out. But yes, if you look at the last 20-year pattern, last 3 to 4 years has been a seller's market, we would want to believe, right, that it is probably the beginning of a slightly longer-term correction, right? But again, no call-outs on that right now. We'll have to wait and watch for another 2, 3 quarters.

Harit Kapoor: I just had one more question. That was on the competitive intensity side of things. So you're in a position where the material costs have moved up at least on ENA, and you probably have had longer covers, maybe some competitors.

I just wanted to understand if you saw media intensity cool off a little bit on account of demand slowing as well as on the RM inflation. Obviously, I don't see it during World Cup. Everybody seems to be spending there. But just generally, on ground, whether it's BTL and those kind of things, just to call out on what's happening on that side, given the RM environment and a little bit of slowdown.

Pradeep Jain: I don't think so. I don't think we have seen any let down competitive intensity, but I'll let Hina answer that. And you're pretty much right. I'm also watching the World Cup Cricket. I mean Alcobev seemed to be the most salient category, right. Hina, over to you...

Hina Nagarajan: Yes, yes. I mean, I don't think there is any let up on competitive intensity. In fact, it will continue because of if demand momentum is slower, everyone want their share -- the share of the pie. But I think we focus very much on the effectiveness of our spend, and we are continuing to drive that, right.

So I said I mentioned in my opening that we are associated sponsors on World Cup Cricket. And we have probably worked to get an extremely cost-efficient deal compared to several others, right. So we are being very sort of cautious or conscious of the way we spend our money.

We are continuing to drive productivity in our BTL and get the maximum out of our spend, right. And I think we'll continue to do that, right. So I think competitive environment will probably continue to be intent, but we will continue to focus on our circle of control.

Moderator: Thank you. Our next question is from the line of Prolin Nandu from Goldfish Capital. Please go ahead.

Prolin Nandu: Yes, thanks a lot. Hina, my question to you is slightly more medium to longer term. Now we have an aspiration to be a double-digit top line profitable growth kind of a company, right, CPG company. So if you break down the spirit segment into prestige, premium and luxury, do you think that every segment within our portfolio will grow to double digit?

And where I'm coming from, Hina, is that if we look at a 15 to 20 years kind of an history, right, we were leaders in some of the prestige and upper prestige kind of a category, which over the period of time, we have lost leadership to some of our competitors.

So I mean going forward, do you think that -- I mean, all the 3 segments, I mean prestige, premium and luxury will contribute towards this double digit? And even in times like these, right, where you are saying that there are some macro challenges, right, in terms of inflation? Do you see -- I mean, any cool off in terms of gains in market share that we have been doing because of renovation and innovation to our portfolio?

Hina Nagarajan: So I think -- I'd like to answer your question a couple of ways. I mean we've always said our strategy is one of AND, right, where we are going to look at growth in both prestige and premium and luxury, right.

Given the weight of prestige in the market in terms of category and even in our portfolio, it would be very difficult for us to grow double digit if we didn't grow both the portfolio pretty strong, right.

So do I see the categories growing in the future? Absolutely. I think these inflationary pressures are cyclical over the medium and longer term since you asked in that perspective, I would think that consumer needs will evolve, and there will always be a role for innovation and renovation to address these needs as they evolve. And there will always be scope for us to grow in both prestige and the premium luxury segment.

And I think the role of innovation and renovation will continue to be quite strong because the consumer is evolving, and the consumer is evolving quite fast. And we will -- we have a very strong future-back approach on consumer insights.

So I feel quite confident and pretty sure that we have lots in our portfolio, both in the IMFL portfolio and in the global portfolio to bring into India and to grow in India and to address these consumer needs on a very competitive basis, right.

Your question on market share. Look, we are performing very, very competitively. You would have seen the performance of some of the competitors, a key competitor as well. And we continue to drive a very strong competitive performance. So our endeavor will be to continue to satisfy consumer needs in the best way and continue to derive competitive performance and market share.

Prolin Nandu: Sure Hina, thanks a lot. That was very clear. Second question, again on this whole A&P spend, right. And this is also coming from more like a medium to longer term. Now since we have 2 IPL teams where one of our brands is used, right, I mean, in terms of the name of the IPL team.

Is it fair to assume that A&P spend over the period of time as a percentage of sales might come down? And I'm talking from a -- more from a medium to longer-term point of view, right, to make some sense. Do you think that one -- I mean one category of our business will have a rub-off effect on other category? And is that a fair way to look at things? Or do you want to look at them as an individual assets and not mix the 2 segments?

Hina Nagarajan: Yes. I think we'll have to look at them not as -- I mean, I don't think one brand will give halo to everything else that we launch or renovate and innovate. So we do want to keep our A&P at a robust level. We would ideally want to keep it at least at 10%, right.

And especially when we bring in new launches, like I mentioned, Don Julio, etcetera, I don't think it can get the halo of one of the other brands. It really needs to be built on its own. And as we expand the portfolio with newer offerings, we will need to invest A&P. So will the A&P come down on individual brands perhaps, right, as we build more and more equity on each individual brand.

Yes, there could be a more optimization of A&P on that brand. But overall, I don't see the reduction because we -- I see in the midterm at least big innovation, renovation play and investment behind though.

Pradeep Jain: And also maybe just to add to what Hina has said, Nandu, is that the salience of the top end of the portfolio, right. I mean, the ladder will continue to kind of move towards premiumization. And therefore, the sheer mix, mathematical impact of higher reinvestment ratio of the more premium brands will also impact the numbers, right. So it will only go north, yes And fundamentally, we are a brand organization, right. So we are an A&P hungry organization, right. So we will want to keep doing more A&P.

Prolin Nandu: Great, Hina. And thanks a lot for your answers and wish you a happy festive season. Thank you.

Hina Nagarajan: Thank you. Same to you.

Moderator: Thank you. Our next question is from the line of Vishal Punmiya from Yes Securities. Please go ahead.

Vishal Punmiya: Yeah, thank you for the opportunity. Just a question on the overall market growth rates, one of the agencies recently had called out about a 4.5% CAGR over the next 5 years for the overall industry, which also includes country liquor. Just wanted your thoughts in terms of excluding country liquor and specifically for whiskey, what kind of growth rates do we envisage over the next 4 to 5 years? That would be really helpful in terms of understanding the potential.

Hina Nagarajan: Pradeep, do you want to sort of...

Pradeep Jain: I mean, Vishal, look, it's kind of inherently built into our guidance, right. I don't know where the numbers of 4%, 4.5% are coming. I mean they might be right, including country liquor, all that, right. But we are very clear that looking at the longer-term macro and the profit pools, etcetera, we believe a sustained double-digit growth is absolutely possible with the portfolio we have, right. And we would just try to kind of deliver on that and hopefully try and beat that, right. So I mean that's broadly what our perspective on this is. Hina, unless you want to add something.

Hina Nagarajan: Yes. No, I think the question was on category growth. Look, our assumption over the midterm was anywhere between sort of 7%, 8% 9%, right? So -- and at the moment, we have no reason to change that assumption, right. So our double digits, obviously, would then create competitive performance for us, right.

So at the moment, I think no reason for us to change the midterm sort of, and I'm talking more prestige and above, right. So at the moment, I think, Pradeep, we are okay, we are saying with that -- I mean, that assumption. There's no real structural reason for us to change that.

Pradeep Jain: Yeah.

Vishal Punmiya: Sure. And just secondly, the other category, which has been growing rapidly is the gin category apart from whiskey and other 2 categories. What's your view on in terms of being aggressive in this category, especially with smaller SKUs? You're seeing other listed peers are doing very well at the 60 ml or 180 ml price point or -- sorry, the SKU. What's your view on this category growth? And could it be actually bigger than the tequila category for you over the next few years?

Hina Nagarajan: Look, we are quite buoyant on gin. The gin category has grown quite well, and we are also growing very well in gin. We have activated both our brands, Tanqueray and Gordons in it And we will do whatever it takes to play competitively in this category. I mentioned for Tanqueray, I mean, flavor is a very big part of the White category and in gin, right. And I just talked about Tanqueray Malacca and Rangpur to you and similarly, expanding the Gordon's portfolio.

On the smaller SKUs, yes, it's under evaluation, we will do whatever it takes to play competitively in this market. I can't answer your question on whether gin will be bigger than tequila or tequila will be bigger than gin. I mean, globally in the markets where tequila started growing, it became bigger than gin. But that is largely North America, Mexico. So -- and tequila is rolling out to the rest of the world now.

It's anybody's guess which one will turn out to be bigger. But all I can say is that I do believe that tequila will also be a very good potential category in addition to gin. So we will activate both.

Vishal Punmiya: Understood. Thank you festive greetings to the team and best of luck for the next quarter.

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, hi. Thanks so much. Pradeep, A couple of questions. One, there's been a step change in cash flow this quarter. Has some of it been because of the working capital that got freed from the sale of the lower brands. And could you just talk about that a bit?

Pradeep Jain: In this quarter, it could also, Tarbir, depend on what's the position at which we closed in June, right, if we did end up with a slightly higher net working capital engagement in June, the engagement that we typically see in July to September would have been lower. That's what would have resulted on the quarterly movement, right? But no, nothing material that will explain anything, right.

Tarbir Shahpuri: As you move to...

Pradeep Jain: The sale of the brand is nothing. It's just a INR31 crores. It's actually a INR62 crores, the amount that was lying in the escrow, basically, that has finally come back once you complete the formalities.

Tarbir Shahpuri: But as you move more towards P&A and maybe especially to BIO, should that not actually materially impact the cash flow?

Pradeep Jain: Not really, not really, right. I mean the working capital engagement in the category is fairly consistent across the ladder, right. So there is no big difference in the working capital engagement. The markets are very, very different. For example, North, the working capital engagement have a very different order compared to some other corporation markets, etcetera. But across the portfolio, there is no major difference, right.

Tarbir Shahpuri: Fair enough. And the other question was that are you guys open to stating a dividend policy as of now, it's still?

Pradeep Jain: It's on the website already, right.

Hina Nagarajan: It's on our website. Yes.

Pradeep Jain: It's on our website, it's already been loaded on the website.

Tarbir Shahpuri: What is the policy if I can just ask?

Pradeep Jain: No. So why don't you go through it, and then we'll be happy to take answers. You can get in touch with Shweta. And whatever your questions are, Shweta, will be happy to take.

Tarbir Shahpuri: Okay. Sorry. I just have one for, Hina. Typically, I mean tequila at least compared to the browns held globally is very, very scalable because of mostly the raw material and challenges that are less. And do you see that being very good for potential growth in India as well?

Hina Nagarajan: Sorry, I couldn't hear your question properly. Can you just repeat your question?

Tarbir Shahpuri: Yes, I said typically tequila inherently is a lot more scalable than some of the browns, given the gestation of the raw material. So could you see a step change of growth for tequila in India as well if that were to come?

Hina Nagarajan: Well, I think, I mean, look, the potential for growth will be determined by consumer acceptance, and we are seeing pretty good traction. So I do believe it will be over a few years, 5 to 7 years, a big growth driver.

There are some fundamental consumer acceptance parameters for tequila, right? It's seen as a lighter, healthier drink, more mixable, right, for cocktails, etcetera, which is the reason why it scaled up tremendously around the world. So yes, I think we are quite bouyant and confident about the potential in India as well.

Moderator: Thank you. Our last question for the question-and-answer session is from the line of Ruchi from Asit C Mehta Investment Intermediaries. Please go ahead.

Ruchi: Yes, hi. Good evening. I have a question that on a cash side, we have a good amount of cash in hand. And also on our reserves also, we have a very good amount of reserves on our balance sheet. So my question is that do you want to either have any kind of as far as a strategic plan to have an opportunity to look as far as your core business growth is concerned, or else if you have any kind of plan to increase the stake in a company or the way that Diageo is using some kind of existing deal -- making an open offer to the existing shareholder. So I need to say just can you throw some light on these 2 aspects of strategic growth point of view using that results or you want to increase the stakes in a company?

Pradeep Jain: Hina, should I take that?

Hina Nagarajan: Yes.

Pradeep Jain: Yes. So look, first of all, I mean we are always on the lookout, right, for any inorganic growth opportunities. Whatever scans we have done, etcetera, there is nothing which kind of fits the bill, right, which fits the filter of our decision-making, right?

And honestly, I don't think we were waiting for a healthy cash position to evolve, right, before we kind of make any such move, right? It's more driven by the opportunity rather than our cash position. I understand when we had debt of INR5,000 crores, INR6,000 crores, it was a very different thing. But if you look at it for the last 6, 7 years, we pretty much have a very, very healthy free cash flow generation, right?

So I guess the answer to your question is, yes. We continue to explore. We have a business development team, which continues to explore inorganic opportunities, right? And the second thing is we did kind of have made last year, we took a strategic equity stake in Nao spirits and beverages. Again, to the point the gentleman asked on gin, our own buoyancy on gin going forward, etcetera. We have always kind of explored those opportunities. We made that intervention, and we will continue to explore such opportunities in the future.

Ruchi: And any plan to increase the stake in the company?

Pradeep Jain: That's not Hina's and my call. In fact, we are conflicted on that. That's a call that the Diageo PLC will take, right? So we are absolutely not stakeholders in that decision.

Ruchi: And last, one more question that you have -- you are just saying that digitalization, we feel that it is going to be a very good and you are also invested in your portal or in the bar.com, and also some kind of power brand restaurant kind of tie-ups, that's what you are doing -- you did.

So I want to just -- can you throw some more light that it is helping as far as business growth is concerned. And moving forward, you want to make a further scale up such kind of digitalization or tie-ups kind of move?

Hina Nagarajan: Yes. I can take that. So I mean, the bar.com.in, which is our portal is a very big platform for our positioning of all things celebration, right? We are about celebrating life every day, everywhere.

And as in the case of other consumer companies, right, the companies that will sort of win in the future are the ones that will engage best with the consumer and be able to deliver personalized content to consumers. Obviously, in our case, a responsible way, right?

So for us, that's quite an important platform to build as an engagement sort of tool with the community of our consumers to give them content and to engage them over a longer period of time. That is not the end of our digitization. I mean we are looking at digitization across our operations.

So there is tremendous efforts in our supply chain to automate, to digitize, to derive more productivity, efficiency and similarly in sales, we have fantastic tools, which sort of help our field force to do very efficient route planning to be able to look at gaps in availability and to derive the right share of shelf for our brand.

So each of these, I think, helped our business come together and engage with the consumer, and it's part of the whole omnichannel journey that we were looking at. So the answer is, yes, we will continue to invest in these initiatives in a bigger way and continue to sort of do more precision marketing and to derive more efficiency and effectiveness of our spend.

Ruchi: Okay. Thank you, Hina and Pradeep. I am wishing you both, wishing you a happy Diwali and a prosperous new year. I am wishing you all the best.

Hina Nagarajan: Thank you so much. And we wish all the people on the call a very happy Diwali.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Shweta Arora for closing comments.

Shweta Arora: Thank you. Before we close today's call, I request you all to please go through the second annual addition of our ESG reporting index, which is available on our website. We look forward to your valuable feedback on the report. And please feel free to reach out to me if you have any questions on the report or on the results. On behalf of Diageo India, I wish you and your family a very happy, safe and prosperous Diwali. Thank you all for joining.

Hina Nagarajan: Thank you, all. Bye-bye.

Pradeep Jain: Thank you. Thank you, all. Bye.

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