



“United Spirits Limited Q3 FY-20 Results Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to United Spirits Limited Q3 FY20 Results Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the opening remarks conclude. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anand Kripalu – Managing Director and Chief Executive Officer and Mr. Sanjeev Churiwala – Executive Director and Chief Financial Officer, United Spirits Limited. Thank you and over to you.

Anand Kripalu: Thank you very much and hi everyone and a very warm welcome to the F’20 third quarter and nine-month results call. As we normally do before we open the lines for Q&A, I just wanted to share a brief summary and an overview of the results that we announced last evening.

As you might have seen from our published results despite the impact of the ongoing slowdown on the industry and the growth of the industry we saw a sequential improvement in our top line. Net sales for the quarter grew just over 3%, up from a flat performance in the second quarter. More importantly we are encouraged to witness some momentum in our Prestige & Above portfolio which grew a little over 8% on a high comparative of 16% growth in the same quarter last year. This is in sharp contrast to the previous quarter when the segment didn’t grow, partly also because of some internal operational challenges that we faced. We also saw return of premiumisation in each sub-segment in our portfolio growing faster than the one we beneath it. Having said this we as a management team remained resolute about driving higher levels of growth, so you will see enhanced intervention to enable this in the period to come and the first amongst this is the rollout of the significantly enhanced mix for our biggest brand McDowell’s No. 1 and this will start hitting select states very soon. In fact our Scotch brand had a strong quarter, thanks to the resolution of the temporary supply chain disruption in our luxury Scotch portfolio that we spoke about in the last quarter and also in terms of some improvement that we have seen in the liquidity situation in some of the key markets for Premium Scotch. This is certainly encouraging in the current context of the economy and this has also resulted in a positive price mix of 5.6% for the Prestige & Above segment.

Our Popular segment as you have seen declined 5% in the third quarter, led by a decline in our priority space. Part of this is due to the conscious de-prioritization of some of our low margin brands so as to avoid further runaway inflation in ENA cost. On a year-to-date basis Popular is around -1% which is over the last three quarters and that’s not hugely divergent from the guidance that we have given typically which is low single-digit growth for our Popular portfolio.

In terms of profitability, continued inflation in our raw material cost especially ENA, more than off-set the positive impact of the price mix and hence this impacted the gross margin for the quarter which came in at 44.4%. Despite considerable gross margin compression we have delivered an EBITDA margin of 16.4% in the quarter, an improvement of 207 basis points versus last year. This brings the nine months underlying or like-for-like EBITDA margin improvement to 118 basis points net of the bulk for sale and any one-off restructuring cost in the base. More

importantly this EBITDA margin expansion has been delivered in what we believe is an unprecedented cost inflation environment and as a result of our continued discipline on cost management and not just by pruning our A&P.

Like we have shared with you earlier, we have been prudently prioritizing credit risk over sale in credit intensive market. In some periods in the past we took a hit on that. You can see that in this quarter in the other expenses line in the P&L we have not had to make any provision so far and that in some ways underscores the prudence that we showed. The A&P investment rate for the quarter was 9.7% of net sales which brings the year and date rate to 8.6%, roughly in line with our full-year guidance. During this quarter we rolled out McDowell's No.1 Platinum in three new states and Hipster, the pocket scotch offering in one new market. Both these innovations continue to perform well. Profit after tax for the quarter was 259 crores, up 35% and PAT margin for the quarter came in at 10%, a multi-quarter high, PAT grow during the first nine months of the year was 28%.

I'm also pleased to share the during the quarter CRISIL has reaffirmed the existing credit rating of AA+ and A1+ on our long term and short term debt respectively and revised the outlook to positive from stable. This reflects CRISIL's acknowledgment that we will sustain the journey of improvement in margins, cash accruals and deleveraging over the medium term.

We have seen some green shoot in consumption in the current quarter. We are hopeful that the recent government intervention and the upcoming budget would recreate positive momentum for our category.

In summary, this year as you know has presented a fair share of challenges for our category and whilst that has had an impact on our growth trajectory we would like to believe we have demonstrated agility in managing the profitability of our business taking us even closer to our medium-term EBITDA margin guidance. Hence as the economy improves I'm confident we will continue making progress towards our medium term ambition of growing our top line by double digit and improving EBITDA margin to mid to high-teens.

With that I'm going to open up the lines for questions.

Moderator: Thank you very much. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Arnab Mitra from Credit Suisse.

Arnab Mitra: My first question was on the growth itself, you have seen a pretty good growth in P&A but how much of this would you ascribe to pipeline refilling the after the disruptions you had due to the licensing issue and in a normalize rate if you could think of if that was not the case what would have been the P&A growth or if you would want to call out the ex-stock growth as more of a normalized trend on the P&A side. So would be helpful to get some sense on that.

Anand Kripalu: I don't think that is material. We monitor secondary sales very closely in our business and there has been no significant pipeline filling or stock increase that explains our performance. So I

would like to believe broadly that a large part of the performance is underlying and it has benefit, it's a good winter this year and I would say a reasonably good festival wedding season, more of the wedding season towards the end of the year. So I would say it's underlying. Now the point is that we all know that one swallow doesn't make summer. It's hard to see how P&A will continue to perform, previous quarter was flat, this quarter was good, what the next quarter will be we can't tell you for certainty. But we do believe that all of this is because of fundamental underlying interventions that we have made, including activation on our brands and lot of focus from our sales side to deliver a good quarter. So I would ask you to read it that way.

Arnab Mitra:

Second question was on the two key costs which is staff cost and other expenses; on the nine-month basis I think staff cost is down 13% adjusted for the VRS and other expenses are down about 12%, so other expenses you did allude to the bad debt situation. But the staff cost decrease is just too sharp from a normalized your earlier guidance which was more like a flattish territory. So what kind of explains this kind of a big dip in both these expenses and more importantly is it like the new normal of cost or could these costs come up sharply at some stage because these are unduly depressed right now?

Sanjeev Churiwala:

I think first time that you are looking at the nine months and just not looking at the quarter. So as you said if you look at the nine months number, our staff cost as percentage of our net sales is close to about 6% and of course when I just look at the trend as compared to '18 or '19 I think it was about 7.8%. '19 we close at about 7% and now we are looking at about 6% for the first nine months. So absolutely there is a good trend in terms of optimizing the overall staff cost. As we have mentioned in all of our previous calls we are looking at our entire organization efficiencies and productivity and that is the piece of work that is embedded in our overall productivity program and that benefit you see us doing every year, year-on-year including the nine months. So a large chunk of that benefit is sustainable and will continue going forward. But of course there will be some variance between quarter-on-quarter and nine months to nine months. My sense is we would continue to ensure that the large chunk of our inflationary impact that you see on the staff cost which is about 8% we should be able to fully mitigate on our cost and try and ensure that we keep obtaining efficiencies which adds back to our EBITDA margin going forward.

Arnab Mitra:

And anything on the other expenses other than bad debt which is even looking at your full year bad debt numbers there seems to be other lines also which are lower. So anything other than the bad debt which is driving the other expenses lower?

Sanjeev Churiwala:

I think when the going is tough the tough gets going. I think with the last 3-4 quarters we have been saying that we see an overall category slowdown happening. We have said that we see the cost inflationary environment, is not benign anymore and as such we have ensured that across all the line items in across various sub-heads that you see we drive productivity and that's something we have been doing very diligently over the last 3-4 quarters and we just need to continue that. (For example)Complete control on any sort of discretionary spend we expect a complete measure around that and we would just want to continue particularly this effort.

- Moderator: The next question is from the line of Abneesh Roy from Edelweiss.
- Abneesh Roy: My first question is on the regulatory side, so one is in UP, Noida, Ghaziabad bar timings are getting extended and on the other hand duty free shops proposal is to reduce the number of bottles one can buy. So one is why there is no coherent thinking still and are you and the other players speaking with the regulator and any big impact of either of this?
- Anand Kripalu: First of all Abneesh this is a state based regulated model, so we cannot always say that decisions taken are 100% consistent with decisions what other states take. As far as UP is concerned let me decode the policy honestly in terms of the pluses and minuses of policy, so I'm not going to comment on that. Equally on the duty free allowance of two bottles going at one bottle I mean it's speculative. I know that enough people are doing their best to convince the concerned ministries to not make any change. But the news item honestly are speculative and there is very little that I can comment on this at this time based on speculation. Let's see what happens when the budget comes which is what literally 3-4 days away and then we would I think rally together and decide next step.
- Abneesh Roy: Second question is on the ad spend, so it's at a 4 quarter high as a percentage of sales. So is this because of the festive or is this because of the new launch of the McDowell Platinum or is it because competition has also started spending more?
- Anand Kripalu: Two points, typically the October-December quarter is our peak spending quarter, it's a peak consumption quarter for our brands and therefore at the time of peak consumption your brands need to be more present than the other times of the year and therefore typically you will see that there is a cyclical movement of the A&P in that quarter, pretty much every year and therefore you have seen it this year as well. As far as competition is concerned I can tell you that we monitor our media spend versus other competitors and the total markets in our category. And our objective is to be competitive at a category level and for the priority brands in the category to be competitive versus other brands in the category that compete on a head to head basis and I can tell you that our spend remains competitive in fact I might go on to say more than competitive. So that's how you should decode it.
- Abneesh Roy: Last question on the demand side, so in Q2 you had mentioned some signs of revival in consumption because of the festive season. You also mentioned that now there are some green shoots which are visible, so could you elaborate, is it more of FY21 back ended where good recovery will happen or you expect prior to that itself some demand recovery?
- Anand Kripalu: FY21 if I can tell you as a rich man you would also become a rich man with that information Abneesh. But the reality is this, honestly the environment is difficult to read, so I am completely honest with you, the environment is tricky. Initially I thought the festive season which was Diwali, Dussehra went well but Diwali did not go so well this year. But again it seemed to accelerate in November December with the Christmas-New Year celebrations and the wedding season setting in. So listen it's a bit of plus and minus, it's difficult to read. I can't really say how much this market will open up and as you know it's also contingent on the larger economic

situation in the country. I think the question is what can we do as a management team. We can't change the GDP growth numbers. What we can do to focus on what we believe will drive growth in a difficult environment. How can we make sure our brands are noticed more and across consumers better, how can we bring newness to our brands. And I spoke about Platinum, about Hipster; I had spoken about the No.1 relaunch which is in all new mix going into the market as we speak. So we have to focus as a management team on what we can do to drive growth and as I said in my opening comments, we are resolute about getting more growth in this business and you can't change the environment but we can change what we do. And I think that's what we plan to do as a management team. Now how that will translate into numbers I think you have to wait and see and I will also wait and see.

Moderator: The next question is from the line of Avi Mehta from IIFL.

Avi Mehta: Just wanted to kind of understand more on the other expenses, the cost control. You have shown a very good ability to work these line items income, very commendable performance over there. Would you be able to share adjusted for the Ind-AS and the reduction in provisions, what are the other expense growth or decline over nine months and if you could help us with that?

Sanjeev Churiwala: The only big adjustment that you would see is around our focus on credit management over the last three quarters precisely. If you recall in F '19 we had to provide for certain receivables in north market. Primarily it has come from (Inaudible) 18.58 market or some difficulty that we were facing then we had ensured that over the last nine months through the year we are focused on tightening our credit in those markets and that has been prioritized over our sales and as a result if you see in the last nine months we do not have to provide any for any receivables going bad. So if I look at the nine months number, last year for the nine months we had to provide about 137 crores odd and as compared to that we don't have any particular provisions reflecting there. So that's something that we can take out from there to do a like for like comparison. But what is most important is just not the like for like comparison but the fact is like how we have behaved and managed our overhead this particular quarter as well as the last two quarters, nine months and that's something that we have to see as more normal than just looking at the base disruptions that we had last year.

On the Ind-AS 116 there is an adjustment of about 46 crores odd that you can take out from the base. In spite of taking it all out of the base we will see our overall overhead kind of still in the negative zone in spite of that being hit by almost normal inflation of 5% to 6% every year so that kind of really points out that we are still running our efficiency across all other items including other overheads.

Anand Kripalu: And therefore to summarize what Sanjeev said the progress we are making in overheads is actually a translation of our strategy on how we manage the credit risk and how we are managing discretionary expenses and it's therefore not just a surprise, it's positive I would say a plan and a program that got us to this point.

Sanjeev Churiwala: And maybe if I can just add because this question I am very sure will come up, at the end of F '19 calls when Anand and we were talking to all of you we've had very clearly said that look the market overall seems that the category is going down. We were very clearly seeing the cost inflationary environment were turning bad for us including glass prices as well as ENA prices which has become a reality now. We had very clearly said that over the last three years we had given 700 to 800 bps improvement in the gross profit margin, we don't see that coming in through. So, we will have to definitely work through the reshaping of the P&L and ensure that we work through the most cases across all the line items and that's exactly what you see in the state of in the P&L now.

Avi Mehta: No, I agree with that and especially it is more commendable because I can recollect in the analyst meet that you had highlighted that most of the low hanging fruits are done and despite that I think your other expense is more or less flattish even if I adjust for these given the fact that you kind of cut these. But where I was coming from as we go forward I mean what I wanted to understand you see more levers to kind of able to maintain or at least drive this movement is what I wanted to get some sense from you if you could.

Sanjeev Churiwala: I think is as a guiding factor we don't want to deep dive into each of the lines of the P&L. I think what's most important is we keep on driving the EBITDA growth and EBITDA margin growth. We have to work backwards across all other line items to ensure that we deliver that. So of course the year-on-year those levers will change, this year around time we are putting much more impetus and we are looking at all the overhead line items because we know for sure in the COS inflation is there. So I think in a deeper dive going forward absolutely we will still keep a very-very close watch on the overhead spend and see how the market moves on because there is not an option at the moment that we are sitting on. The good part is as you already see and Anand said November-December, if we are seeing some revival in growth coming in. we hope we can continue with the momentum so that we can take up a bit of a pressure on everything else. But I think it's good to remain slim and trim as we move forward.

Avi Mehta: And the second bit was on the input cost, how exactly is that kind of behaving? Has there been some let-off on that inflation or is it continuing to remain a cost pressure and how should I see that?

Sanjeev Churiwala: I think we have seen an inflation when we talk about largely ENA for us and when I look at the last two quarters and specially the last concluded quarter, we have seen some inflation softening coming in. I think the peak is right behind us, the peak of inflation which was Quarter 2 and September-October which was peak we have seen some softening happening in the last one or two months and our sense is the worst is behind us and we should start seeing some stabilization coming in as we move forward.

Avi Mehta: Just on the employee cost, is this declined because of some change in the way you are now approaching the employee remuneration or have you kind of done that or is it more to do with reduction in manpower itself which you have kind of done?

Sanjeev Churiwala: Its part of a larger productivity agenda and is trying to drive efficiency across everything else that we do in the business including also efficiencies across how we manage various functions and that's something that we have been doing over the last two years and a large part of that is typically in the numbers now.

Anand Kripalu: At the end of the day you can't reduce people's salaries though we haven't reduced anyone's salary I think other than that we have different problems on our hand. So it's really about the efficiencies of the organization structure delivering these results more productively and that's how you have to look at it.

Moderator: The next question is from the line of Latika Chopra from JP Morgan.

Latika Chopra: The first question is around the recent tax hike in Telangana and there was a news around license fee hike in Uttar Pradesh, does any of these worry you at the margin from a demand perspective going into Q4?

Anand Kripalu: So UP, we have still not decoded the new policy by the way and there are some positives there, there may be some negatives there. I don't want to comment on it. But we are happy to once we have decoded the policy fully. As far as Telangana is concerned there was a sharp price increase that happened in the middle of December and it's basically Rs. 20 a nip which was quite material at the lower segments of the market and it becomes less material as you go to the higher segments in the market. Now the typical reading by the way Latika has been that in Hyderabad this is not the first time when there has been a material price increase in terms of excise duty. It happened in Maharashtra last year, it happened in Karnataka in the past and how does this behave? How it behaves is, for 2-3 months there is a slowdown that slowdown is partly because consumer may postpone their decisions but more because trade tends to down stock immediately when the price increase that comes in happens and they try and get as much old stock as they can etc. and consumers go around looking for old price stocks. We have typically found that the category is quite resilient and elastic and three months later the category bounces back. There are multiple examples across states with this happening. Do I believe that the Rs. 20 will have a long-term negative impact, I don't because the actual consumer prices in Telangana actually is not very high compared to many of the surrounding states like Maharashtra and so on and so forth. So the absolute put down price is still not something that is completely out of whack where it will go out of hands completely in terms of affordability. The other thing to think about is because the price increase is flat irrespective of the segment, you should believe that the Rs. 20 per nip at the bottom end of the market is hugely impactful for the consumer whereas Rs. 20 as you become more premium is a small increase in price. And therefore if anything this may lend itself for bit more premiumisation and a bit more of people buying more premium brand which is then in line with our strategy as well. So short-term, yes, impact, medium-term it is unlikely that in our industry where people stop drinking. We haven't seen that, there is no data to believe that that will be the case from whatever we have seen so far.

Latika Chopra: The second bit again on gross margins and I heard Sanjeev mentioning that you have seen softening in ENA prices over the last one or two months, now for this quarter you had a very

good mix and we did see a sequential dip in gross margins. So how should one read it, is it adverse state mix which also played its role and is it right to say that this is probably the bottoming out of gross margins in Q3 and one should start expecting improvement even on a sequential basis going forward?

Sanjeev Churiwala: So I think you have decoded it correct Latika. We are also seeing that the gross margins seems to have bottomed out. The last three quarters largely it was impacted, initially because of the glass and we have not given any glass price increases over the last three quarters. What we see recently is basically the ENA inflation which has really hit us very hard, we think that has bottomed out now and my sense is that the gross margins profile as we see go forward should not see further deterioration again. And of course, there is this impact, the price mix and the blends mix that you see but it's also offset with other things. So I think we are in a good position now ENA prices seems to have stabilized, I think the worst is behind us and if we are able to hold on the margin profile (GM profile) going forward and because our operating leverages that we have seen that should help us growing our EBITDA and margins beyond what we have had.

Moderator: The next question is from the line of Harit Kapoor from Investec.

Harit Kapoor: Just had one question regarding the liquidity thing which you had called out in Q2 and you said now that things have eased a little bit, would this mean in some of the northern states that you were restricting sales of the P&A portfolio things are now back to normal?

Anand Kripalu: So, yes they are back to normal in the sense that they are not restricting. That doesn't mean there are no market challenges that exist in some of those states. But clearly we aren't restricting but I will tell you one thing we're also not letting go. So with many of the customers that we have once bitten twice shy, so we know how much credit to play with, to very tightly control from the center here on credit by big customers customer wise, it's controlled from here and for many customers we can stock as much as they pay back, so we are not increasing the exposure at all. But I would say it is not a hindrance today to delivering what the demand is. Earlier we were holding back and I said even if I lose market share I don't mind let somebody else take the credit risk, we were not willing to do that.

Harit Kapoor: Second thing was on the balance sheet side, you have organically continued to reduce the debt. So I was just wondering in the near to medium term and the resumption of the asset monetization that are likely possibly going forward or that's for the near or medium-term doesn't look likely.

Sanjeev Churiwala: There are two parts of two questions, absolutely we are working towards ensuring to the cash flow that we generate from the company year-on-year kind of stays intact and to that extent we have been very tightly monitoring our CAPEX programs and if you see the last 3-4 years range, its very-very tightly managed in a band. we will continue to drive the same efficiency. When you look at our working capital I think we have been doing an excellent job in terms of reducing our working capital and average working capital year-on-year in spite of the liquidity crunch and the issue that we have, we have still very tightly been able to manage the working capital. So absolutely right for this quarter we have not reported the balance sheet but I'm very sure

when we look at the full year results that will come you will see a similar outcome in terms of debt reduction as well as working capital efficiency we are still driving in the business. Sorry the other first part of your question?

Harit Kapoor:

The other one was on the asset monetization.

Sanjeev Churiwala:

Asset monetization program we have been working for the last four years we will still continue and as I mentioned in the previous calls whatever assets that we are monetizing now will not give operating profit or margins coming out but it will definitely give cash. And just to kind of give you the numbers overall, we still roughly have 1500 crores of portfolio the assets to be monetized which will have a combination of the treasury share which is about 1000 crores odd at the current market value plus the combination of residential and commercial properties that we have scattered across throughout India and large part of that is kind of in litigation with the IDBI right now which we are still fighting it out. But that's the portfolio that we have, my sense is we will continue to drive this monetization but don't expect any benefit coming above the top line or between the operating profits but yes the cash will absolutely flow in.

Moderator:

The next question is from the line of Amit Sinha from Macquarie.

Amit Sinha:

My first question is I wanted some commentary on the competitive intensity which you are seeing at this point of time, one of the local players has launched their IMFL brand recently. So on a longer-term basis I mean let's say the kind of intensity which used to exist and I know it has always been a high competitive intensity market but if I have to just compare between 4-5 years back and now, how do you rate it? Some commentary there would help us.

Anand Kripalu:

It is an intensive category comparatively; no debate about that and more players will keep coming as the attractiveness of this category becomes more visible to everyone. We all look at the same data and the same opportunity in terms of consumers. I just want to reiterate that India is a growth market and the short-term slowdown should not be decoded in anything other than the fact that over a broad basis it's a growth market. Category growth is everything in this market and honestly as more competitors come in and invest more I feel that's good for the category. I can tell you from my experience from the past that when the intensity of the category and the competition of the category increases, categories grow faster. Now the only question then is to say like how do you stay competitive whether it's in terms of your brand, the offer that you have and your pricing and that becomes then part of strategy. So honestly I welcome competition because finally the consumer gets a better deal really and honestly we will all grow faster. The question is to hold a growth share in that increased competitive environment and that's precisely why we are doing a lot of the stuff that we are doing in this business.

Now some of the shorter term challenges in terms of competition has been some amount of price-based competition that some of the competitors have employed as a strategy that is not our strategy. I just want to be clear that in this category as in our industry it's so easy to forgo margin and get volume but you can never get your margin back easily. So just like we've prioritized credit risk over net sales sometimes we have prioritized margin over the short-term volume and

share because keeping the P&L protected is important because that's what gives you the right to invest and right to grow later. So that's the philosophy we pursue. Now we are not stupid about it. If somebody is running over the markets then we will respond but we don't respond immediately the moment something happens. So I think there are two kinds of competition really, short-term tactical price based competition and longer-term strategic competition where people are launching new brands and investing into the category and I think we have to deal with each in terms of what is the process.

Amit Sinha: In the starting remarks you had mentioned that there is a renovation planned for McDowell No. 1 brand. Just wanted few highlights there if you can tell us in detail what is the timeline and is it a new liquid or there is a new packaging – what is involved here?

Anand Kripalu: So I said it's all new and it's rolling out as we speak and that's why I'm sharing with you because it's currently being produced, the labels are being registered and it will be hitting the market any moment now. So it's all new, it's a new more environment friendly carton, it's a new bottle where it is slimmer and taller. There is a whole new representation of its brand asset which is the embrace on the pack and of course, there's a new liquid, a new improved liquid. And we have done extensive testing on this liquid both in terms of research as well as actually in some test markets to prove that it is going to make a big difference to this brand. As you know it's the heart of this business in many ways and we are very hopeful and confident, in fact, about the impact that this can have as we roll it out.

Moderator: The next question is from the line of Nilay Shah from Morgan Stanley.

Nilay Shah: Can we just talk a little bit about the market share trends that you witnessed over the first nine months of the financial year, especially in Maharashtra?

Anand Kripalu: Maharashtra specifically we should get a strong market share, but I really don't want to get into a share discussion at a micro level.

Nilay Shah: Maybe just overall pan-India, just how....

Anand Kripalu: I'll just give you a sense for it. So we don't really discuss it because I don't have any data that we can share publicly but I'll just give you our sense of this. So first of all, India is not a winner-take-all market. It's a growth market and as I said in the earlier question, category growth is everything in this market. So it's not taking a share of the pie that you see. It's about growing the pie and that's the heart of the strategy that certainly we are pursuing in this market. Now typically we operate five segments in the Prestige & Above category, so they are Bottled in Origin - Scotch is largely a Bottled in Origin product; bottled in India, Upper Prestige, mid-prestige and lower prestige. Now I'm not going to get too specific but what I will tell you in all transparency is we are winning in several of these and we are losing a bit in a couple of these. And you will see intervention in the foreseeable future that will be addressing many of the places where we have felt a bit challenged, so that's how broadly it kind of pans out. I'm not going to give you

numbers and so on and so forth because we honestly don't have what we can share, but that's the broad situation.

Nilay Shah: And any price increases that have come by in the last 3 to 4 months?

Anand Kripalu: So last 3-4 months, I don't think there's any price increase. As you know that in the previous 6 or 8 months we got 17 states and we've shared that before. Typically price increases don't come in the run-up to the excise cycle and as you know, March-April is the excise cycle across most states in the country. So this is the time, Jan and Feb, when our efforts need to be seriously intensive both in terms of our own CR efforts with the states as well as the industry association. And given the COGS environment I can tell you that we're leaving no stone unturned to make the case of price increases this excise cycle. How much we will get, time will tell.

Nilay Shah: And Sanjeev, just one question for you, the tax rate for fiscal '20 in both the stand-alone and the consol business if you have it.

Sanjeev Churiwala: Yes. I suppose we have this quarter benefited from the tax rate typically the effective tax rate is 25% as compared to the erstwhile tax rate of 35%. So we very clearly adapted for the lower tax rate which is we're getting benefit. Yes in the first quarter we had to reverse some deferred tax because of that about 60 crores odd but that was non-cash. So on an overall basis on the ETR we're getting a 9% cash benefit.

Nilay Shah: And the consol?

Sanjeev Churiwala: Consol will be the same.

Nilay Shah: I'm asking you that because there is some one-off that's happened on account of PDL in the first or the second quarter and the tax rates generally in the consol have been much higher than the standalone. So just to get a sense of for this year what's going to be the tax rate in the consol business.

Sanjeev Churiwala: I think if you take the full year basis, the tax is little bit closer to around 25%-26%. The first quarter reductions are around taking off, writing off some of the deferred tax assets that we have because of the reduction in tax which is about 60 crores odd of the subsidiaries. But that was only for the first quarter. So if you really see the nine months versus the three months, the current quarter, you will see a reflection of about 25% odd.

Nilay Shah: So, the last three quarters of the financial year, 25% and the first quarter, whatever was the impact because of the PDL, right?

Sanjeev Churiwala: Yes. So if you look at the 9 months which kind of gives you an understanding and even better, if you look at the current quarter, the effective tax rate goes to 25%.

Moderator: The next question is from the line of Vishal Biraia from AVIVA Life Insurance.

Vishal Biraia: Could you specify something on the change in mix among the states, is there some state where we've sold more where we made higher profits, anything on the sort?

Anand Kripalu: We don't really share statewide performance. Honestly, I think that's getting into granular detail too much to an extent. So I would say that if we talk about price mix being very positive in the Prestige & Above portfolio you've got to believe that the state mix is certainly not adverse. The price mix is less pricing and more mix, honestly, in the quarter and that's because our portfolio has done well with the more premium part growing faster and that hasn't been kind of neutralized because of the bad state mix. So I would say, nothing to worry about at least from a state mix standpoint.

Vishal Biraia: And so within the P&A segment was there a mix improvement within that segment?

Anand Kripalu: Yes because that's why it was a 5.6% price mix. And as I said in my opening comment, each segment in P&A grew faster than the segment below it. So Bottled in Origin scotches grew faster than Bottled in India scotches that grew faster than Prestige. So every segment has grown faster than the segment below it and that has obviously given rise to premiumisation and price mix.

Vishal Biraia: The last question is how has Andhra Pradesh done for us, have the sales bounced back?

Anand Kripalu: So as far as Andhra Pradesh is concerned, the previous quarter was strong. So what happened in the previous quarter was the government took control of retail. So retail, on 1st of October, changed to government retail. And through October-November-December, I would say that we are very pleased with our performance in Andhra Pradesh. Now with the start of this new year or new decade, actually, there has been some shorter-term challenges in terms of the orders that we have been getting and the collections that we are getting. But our teams, the CR team, our teams on the ground, are working intensively with the Andhra Pradesh government to just co-create a better solution for the future. So, no alarm bell yet in terms of performance and we are trying to make sure that it stays that way but you will have to watch this space because there is an emerging situation because of the short-term ordering issues that we have been facing and short-term collections because you know that the Andhra Pradesh government has a huge deficit and a huge gap and is not paying, not just Alco-Bev companies but they are not paying a lot of others. So we are trying to work with them to make sure that we get to the best situation that we can.

Moderator: The next question is from the line of Jaimin Shah from RWC Partners.

Jaimin Shah: Two questions, the first one is; could you talk a bit on how should we think about gross margin and EBITDA margin because the last time we saw this EBITDA margin; the gross margin was fairly high and if what Sanjeev was mentioning on ENA cost, if gross margin come back up even if let's say 100-200 bps; how much of that will be reinvested in business? That's question one and question two was could you please talk a bit on the Bottled in Origin segment's broad numbers on how big is this one in terms of overall salience in terms of sales now?

- Anand Kripalu: So let me start with your second question first. The Bottled in Origin segment how big is this etc. It's still relatively small but I think there is huge potential for growth and what can unlock growth is obviously the aspirations and the wallets of Indian consumers who aspire to drink global brands and nothing less. Some moderation of customs duty in the fullness of time and indeed some moderation of the excise levies by some of the states. Now in recent period what has happened is some states have actually reduced the price of BIO which is been a bit of that in Maharashtra, we have seen that in Karnataka before that we have seen that in Delhi most recently and every time I can tell you there is a reduction in price there is an explosion of growth. We have an explosive growth in Karnataka after a big reduction that was the time when Johnnie Walker, Blue Label in Karnataka was the most expensive in the world. It was Rs.42, 000, it came down to Rs.17,000 in one swoop. Now obviously everyone is not drinking Johnnie Walker Blue but the price corrections translated to Johnnie Walker Black and Red as well and we saw an explosion of growth there. We have seen an explosion of growth in Delhi today. So I think the elasticity for BIO the aspiration is intact, the affordability is the gap, the affordability can be bridged by higher incomes of people, lowering of customs duty or lowering of excise duty by the state and anything that improves the value for money or the affordability of BIO it really can lead to absolutely explosive growth. So we are excited, Diageo probably has the most formidable portfolio in the world in BIO and particularly in the Scotch whisky so as the segment explodes, I would like to believe that we are the biggest beneficiaries if that happened. So it's all music to our ears as it happens. On your first question about GM and EBITDA we don't give GM guidance. We are consistently giving EBITDA guidance, two things that we have said; mid to high teens in the medium term and that we will consistently improve EBITDA margins year-on-year. That is what we have been aiming to do. We have already thrown a bit of light on what's happened to GM and the impact on COGS and so on but I think what we have to decode from our results is the fact that we are not only managing GM, we are managing all the lines of the P&L to deliver the guidance that we have given you on EBITDA and that really the only guidance that you should take away.
- Jaimin Shah: So should I think about if gross margin does come back to the levels, we have seen two years back the EBITDA margin should improve from here on and we will require some investments back in the business but largely that will be kind of pass-through.
- Anand Kripalu: So that's speculative and I can't ask you to see in that way because it may be incorrect. I think what Sanjeev said earlier is that COGS at least ENA seems to have bottomed out for now. Who is to know how this will evolve in the medium term? At some points in the future there will be another glass price increase, something can happen but for the moment I think we have said that it's bottomed out and we have delivered the guidance broadly despite having peak COGS, we are beginning to see some early signs of softening of ENA. If that really happens and becomes a reality, we will see how to use that extra margins that we get in service of this business.
- Moderator: The next question is from the line of Aditya Soman from Goldman Sachs.
- Aditya Soman: In terms of you had clearly indicated that your growth in the upper end of the P&A has been much stronger but is there a risk that you are actually losing a lot of market share at the bottom

because if I look at some of the absolute cases added year-on-year; that's about 300,000 cases added. Some of your smaller competitors which are one-fifth in scale have also added a similar number of absolute cases; if I look at Y-o-Y and the growth has been much stronger. So is it that you are losing as you indicated some market share at the lower end and gaining at the upper end?

Anand Kripalu: So I am not going to get into a segment by segment analysis of shares. I think we have been transparent enough to say that there are some segments we are winning and I would like to believe there are more segments that we have winning than we are losing. So it's not as if there are some big losses happening. In segments where we are challenged you will see interventions happening. At the end of the day we have got to deliver a certain overall set of results for this business and that is driven by category both and market share and not just one or the other and therefore we have to look at this holistically and that is what we are trying to do.

Moderator: The next question is from the line of Nitin Gosar from Invesco Mutual Fund.

Nitin Gosar: As a management how do we see over a period of five years from now P&A regular mix turning out to be?

Anand Kripalu: I mean in the five years in the future?

Nitin Gosar: Yes, we have already hit 70% on P&A.

Anand Kripalu: We are two-third, 65% is P&A today value. I can't give you a number, but you can do an arithmetical progression of what the guidance that we have given. As the P&A continues to grow double-digit in the fullness of time because we are committed to making it grow at that level and Popular in low single digit then you can mathematically I think evolve how those ratios will move. So I'm not going to give a guidance on that, but you can easily do that.

Nitin Gosar: To support that kind of P&A growth the existing investment that we are doing on A&P; would that be good enough or we need to elevate it once the gross margins starts giving us much more headroom?

Anand Kripalu: I have always talked about A&P and I said that, there is no precise science by the way at least based on my three decades of management experience of on what's the right level of A&P. It's something that you will start and see and evolve how to play with it. So as you all know, two years to go in good faith, we increased the A&P very significantly and we have trimmed it a bit in the last year. The important thing is this are we funding all the new-new, so are we putting our money behind good creative work, are we putting our money behind the great innovations and are we competitive in the amount of media spends that we are encouraged. I would say it's fixed to all of the three points and that's how we think about it. So we will not under fund any of our brands competitively or under fund innovations, new-new because that's the most important thing that's going to drive the category growth at the end of the day. At an overall media level, I would say our spends are competitive in the category and that's really how you should read it. Now whether it's (+0.5%) or (-0.5%), honestly there is no precise science. This

is based on management judgment and prudent management of the P&L is what we need to do when other lines within the P&L are moving in opposite directions sometimes.

Nitin Gosar: One last question, you mentioned about enhanced intervention and McDowell will seek that kind of intervention. This is more to do with change in product proposition or the imagery, the product is carrying, has it lost something and need to reposition it to some different level. What are we trying to do over here?

Anand Kripalu: So first of all, we will have to wait and watch the space to see the full mix of McDowell's No. 1 as it rolls out into the marketplace. I would say this, so first of brands are not relaunched only when they are in trouble; brands are relaunched because consumers change, consumers evolve and technology changes, packaging changes, product knowledge changes and you improve things to make it stronger. So I would like you to just recognize that it's not that there is a problem we are trying to fix it and it's an enormous brand with an enormous franchise. At the end of the day and we are trying to make it stronger and I said earlier in the call it is all new so you have to believe there will be a new proposition, there will be a new pack, there will be a new bottle, there will be new liquid, it is all new. But more than that you will have to wait to see it and hopefully taste it as well.

Moderator: The next question is from the line of Mayur Gathani from OHM Portfolio Management Service.

Mayur Gathani: I just wanted to know what is the update on the shares with IDBI? There was a hearing that was due?

Sanjeev Churiwala: Yes of course the discussions are ongoing and it will take a bit of a time. Our submissions have been accepted and we are waiting for the hearing to come through. So as such there is no major update for this quarter and as and when we get some updates we would let you know.

Anand Kripalu: The writ has been admitted.

Mayur Gathani: On the other expenses; so you mentioned there was some one-off in nine-month FY19 but there is nothing much in this quarter so what was that amount? I missed it you did mention it in the call somewhere.

Sanjeev Churiwala: Yes I did mention, I do remember the amount was 137 crores.

Mayur Gathani: 137 crores that was one-off in the other expenses?

Sanjeev Churiwala: You are talking about staff cost or you are talking about other overheads?

Mayur Gathani: Other expenses.

Sanjeev Churiwala: Other overheads, so other overheads as I mentioned, in the last year or let's say precisely the nine-month corresponding period, we had 130 crores odd of provisions for receivables for some of the route to market changes that we had specifically at the North market that was one which

you don't see repeating this in the first nine-month so which is kind of a good credit management and secondly is because of the impact for the lease accounting so the Ind-AS 116 that's about 46 crores. So I suppose for your like-to-like comparison and looking at your take on analysis; take out this 137 crores from the base year and adjust 46 crores from the current the nine-month and after all this adjustment that you will do you kind of still see now our efficiency coming in the other overheads.

Mayur Gathani: How much of debt did you repay back this quarter?

Sanjeev Churiwala: We definitely have repaid debt but unfortunately this is not something reported to the stock exchange because we are not supposed to report the balance sheet for this quarter but the credit in terms of reduction is still continuing and when you see that the full year numbers possibly you can get almost extrapolate the reduction that we have seen in the previous years.

Mayur Gathani: Would you be able to give any timeline saying the debt was 2400 crores in September quarter I mean in the matter of two years-time we should be close to a zero-debt level?

Sanjeev Churiwala: For any finance professional I would never say look at the zero cost debt level rather look at your optimal capital structure program where you want to lead for the company considering the growth requirement and the capital requirement. But of course we do have a healthy cash flow and over time we'll determine as to how do you want to make best use of it.

Anand Kripalu: On behalf of the management team here I just wanted to say thank you to all of you who have logged in today for the call and thank you for your continued interest and faith in our company.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of United Spirits Limited that concludes today's conference. Thank you all for joining us and you may now disconnect your lines.