"United Spirits Limited, Diageo India's Fourth Quarter and Financial Year 2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good morning and welcome to United Spirits Limited, Diageo India's March Quarter and Financial Year 2022 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded.

Hosting the call today from United Spirits Limited are Ms. Hina Nagarajan -- Managing Director and Chief Executive Officer and Mr. Pradeep Jain -- Chief Financial Officer. I now hand over the call to Ms. Hina Nagarajan. Thank you.

Hina Nagarajan: Thank you so much. Good morning, ladies, and gentlemen. Welcome to the Conference Call of United Spirits Limited. Last year, you will remember that I had joined the USL call as an observer. Today, I'm delighted to be presenting the financial results of my first year as M.D. and CEO of USL.

We can now get started with the presentation, please. During the call, we will be walking you through our progress on the new strategy launched last year. We will then cover the financial highlights of the year ended March 31, 2022, which Pradeep Jain, our CFO, will walk you through; and then close with a narrative of our perspective moving ahead.

So, moving on to the first area, progress on strategy. As most of you know, our mission is to be top-performing CPG company in India delivering sustained double-digit profitable top line growth while staying true to our margin guidance of mid- to high teens. Our mission has also taken a broader and more complete long-term value to all our stakeholders, consumers, employees, trade partners, suppliers, the communities in which we operate and, of course, our shareholders. Our strategy to deliver our mission is built on 3 pillars. Just a reminder that these 3 pillars are Reshape of our portfolio, creating an organization of the future that will win in the future that is getting radically redefined by big societal and cultural shifts, and defining and executing an ambitious role for the Diageo in Society.

Speaking about the first pillar, Portfolio reshape. While crafting our strategy, we saw several transformational consumer energies that define the choices we made for our business and portfolio. As I had announced then, our portfolio reshape would be delivered through strategic review of the popular portfolio, breakout growth on Prestige & Above, new growth engines, and last but not the least, value chain efficiency extraction to fund growth and mitigate inflation. Our portfolio activation and new product offering during the year was fully aligned with this strategy and let me now walk you through some details.

Let me first cover the popular strategic review, which has just got concluded. As you all must have heard and read by now, we are selling our portfolio of 32 popular brands to Inbrew Breweries Private Limited for INR 820 crores. The 32 brands sold include Hayward, Old Tavern, White Mischief, Honeybee, Green Label and Romanov. We have also entered into a 5-year franchise arrangement for 11 other brands. USL has granted Inbrew the rights to convert the fixed-term franchise arrangement into one with perpetual rights or acquire them outright subject to fulfilling certain conditions, and there is obviously a transaction consideration for that, and Pradeep will walk you through the details in a bit. McDowell's and Director's Special Whiskey brands were not part of this review and USL continues to retain them. This transaction reflects the continued evolution of the management of the popular portfolio since 2016 when the company moved to a franchise model in many states to enable a sharpened focus on Prestige & Above. This is a significant move to reshape our portfolio in service of our publicly stated mission to deliver sustained double-digit profitable top line growth.

Just to give you a sense of what changes for Diageo after this, I have visualized this on the slide for your easy reference. On the volume, the total volume for USL in FY '22 is 79 million cases. If I consider the spin-off, the revised volume will be 56 million cases. The total NS will move from INR 9,300 crores, which is reported for FY '22, 8k after the spinoff. Our P&A NSV salience in FY '22 is 74%, and after the spin-off, this will become 85% of the portfolio. And the popular brands, we had 47, which will now drop to 15 brands after the spin-off. Like I said, Pradeep will cover more details on the transaction in his financial section.

Coming to our next mission pillar, which was our strategic pillar which was to break-out growth on Prestige & Above. The first part of this pillar was to accelerate our luxury and premium portfolio, which comprises primarily of Bottled in Origin and Bottled-in-India scotches. Our year's performance of very strong double-digit growth on scotch was enabled by scaled-up activation of very choiceful and the most powerful growth drivers.

On Johnnie Walker, there was a bold and vibrant play in culture during the year. The global Keep Walking Anthem was launched in India. It took over YouTube, Hotstar and several other digital platforms reaching more than 100 million consumers. Scotch from cultural trail brazers were seen across high-impact out-of-home sites in 8 cities, including the airports. We hosted the first ever drone show in the category across the night sky in Goa on New Year's Eve, a reminder of positivity and resilience as we ushered in the new year. This was witnessed by more than 8,000 people celebrating on the beaches of Goa and reached out to more than 10 million people on digital.

Our on-ground presence on the India South Africa series was unmissable and placed Johnnie Walker top of mind with every cricket fan in India. We've unleashed our new visual identity across more than 400 off-trade stores to completely reframe the shopping experience for consumers at these walk-in stores. Revive The Night was a commitment to regenerate the lifeblood of social culture and the nighttime economy. With Revive the Night, Johnnie Walker inspired people to keep moving forward and Revibe there after us as a community bringing together the biggest collaboration between bar communities, trending musicians and culture curators to invite people to revive socializing spaces that have been so integral to our after-hours experience. This had a 100 million social media reach. It was activated in 650 outlets with more than 70,000 serve in hand. Can you please show the video?

(Audio-Visual Presentation)

Coming now to Black & White. Black & White is an absolute racehorse in our portfolio. It's been growing at a consistent pace, disproportionately recruiting young adults into scotch. We have a winning mix that plays to the fast-growing casual occasions and excellent physical availability has brought alive the amazing brand world of Black & White. We collaborated with world-renowned master Chef Heston Blumenthal to bring alive the magic of sharing Black & White. This partnership was activated through an omnichannel campaign that included a special edition Heston pack and a digital journal of sharing with secret drink and food recipes from Heston non-consumers.

We are aspiring to create the world's largest digital photo journal with this campaign. The scale-up of Hipster, Cool Pocket Scotch format, has held black and white recruit faster in boomtowns, and the pack has added to the cool and casual image of Black & White as well. Please play the Heston video now.

(Audio-Visual Presentation)

On Black Dog, it's been a landmark year with the renovation being rolled out into the market. We did a complete renovation of the brand, including the brand world and its packaging. The renovation has taken the market by storm, and we've set the brand on a growth trajectory that will continue to fuel growth for many more quarters. The second half of the year witnessed the coming together of 2 icons as Keira Knightly embraced the art of savoring the pause with Black Dog in a brand-new campaign. We also launched the 14-year-old addition to further build the brand credentials. This variant strengthens the provenance of our liquids with the Link wood distillery. Black Dog is growing ahead of category and our brand health metrics too have seen substantial improvement. Can we please show the video now?

(Audio-Visual Presentation)

During the year, we also made big moves in our Prestige portfolio. We relaunched Signature, which has a future forward proposition. Signature is crafted 100% from nature and it is more sustainable now. The glass has circa 40% recycled content and the bottle carton made from forest to a certified responsibly sourced paper. This has shown resonance with consumers across Tier 1 and 2 towns. In the markets where launched, we are seeing significant growth momentum and the brand is performing ahead of category growth. We will continue to leverage this momentum in the new year.

We also launched Royal Challenge American Pride during the year in a few markets. Consumers have really liked this smooth and accessible whiskey with international credentials, especially the younger legal drinking age consumers. We have seen strong trial levels, even stronger repeat levels on the brand, and we will continue to roll out the brands to achieve national presence.

On Royal Challenge whiskey, our renovated bundle was launched in Delhi with hyper local communication reaching 10 million consumers and refreshed retail visibility and a new variant launched in Telangana and Maharashtra at a very competitive price point. Royal Challenge Whiskey is witnessing very positive momentum in all these 3 states on the back of these initiatives, showing strong and sustainable volume gains, and we will continue to roll out the restage of Royal Challenge Whiskey in the new year.

McDowell's No.1 Whiskey has continued its robust momentum post the renovation. We continue to invest in the brand across key markets. We are very proud of the fact that McDowell's No.1 partnered with 6 IPL teams as the official celebrations partner to create a new language to express Yari, the No. 1 Yari Cheers. Apart from content created by the team players that is getting aired on YouTube and Hotstar, the brand engaged with a host of celebrity and micro influencers to drive engagement on the social media Key No.1 Yari points across key states were also activated with a high decibel engagement activity during purchase. This engagement is reaching over 50 million consumers. Please go back to the last chart and play the video.

(Audio-Visual Presentation)

The third aspect of our portfolio reshape is new growth engines. In line with our strategy to deliver transformation and innovation and take a more future-back approach by tapping into the next sources of growth presented by emerging opportunity, spaces and trends that are largely global and witnessing early traction in India. We took strong steps in the world of kraft and gin. Epitome Reserve is a limited edition, rare and scarce offering in our Indian craft spirits. We launched 2 limited editions in FY '22. The first one was the Epitome Reserve single-grain whiskey made from 100% rice grain. 2,000 bottles only. The second was the Epitome Reserve pitted Indian single malt, 3,600 bottles only. A limited number of bottles of these were shipped internationally to UAE, Australia, and New Zealand. The response to both these LTOs has been very positive. Consumers want more of these highly bespoke limited editions that truly celebrate exceptional Indian craftsmanship and the artisanal nature of these liquids, and we will continue to develop this area.

I am very proud to announce that we've also expanded our focus on premiumization with the launch of Godawan, our first single malt innovation to create liquid experiences that reflect the ethos of global native mindful luxury seekers. Godawan is a beautifully crafted artisanal range of single malts, which will complement Diageo India's vibrant luxury and reserve portfolio. The brand combines strategic focus on premiumization, innovation with our commitment to sustainability. Crafted in Rajasthan, Godawan will work to conserve the great Indian buster and water in the part state as well as combined community efforts on regenerative agriculture. We are very pleased to inform you that not only has Godawan received highly positive response, it was also the official pouring partner at the Cannes Film Festival a couple of weeks ago in partnership with the NFTC.

Adding to our craft story, in line with our strategy to add premium craft brands to the portfolio, we have made an investment in Nao Spirits, the makers of Hapusa and Greater Than Craft Gin. These brands complement our already strong global gin brands, Gordon, and Tanqueray. Both gin brands Hapusa and Greater Than have strong ventures within India provenance. Hapusa is the only London dry gin from South Asia recognized by the Gin Guild, and it won gold medal at IWSC Spirits Awards 2021. With significant expansion plans both domestically and in international markets, these brands have the potential to be India's answer to globally competitive craft gin appealing to the millions of Indian origin consumers living abroad.

Our entry in craft has been perceived very positively by industry. To show you one reaction, go to the next chart, please. I just want to read out what Vikram Achanta has to say. "What's happening for me personally, apart from one more excellent whiskey joining the pantheon, is that a company like Diageo has embraced Indian craft spirits, thereby giving the entire craft spirits ecosystem in India, a welcome vote of confidence. It also marks that innovation is not solely confined to small and midsized companies, but that the big boys can dance too."

Coming now to the last part of our portfolio reshape, we have significantly enhanced our productivity and efficiency extraction initiatives through the value chain. Strong premiumization delivery is enhancing our mix benefit. Launch of margin-enhancing products like Epitome Reserve, Godawan, Royal Challenge, American Pride are adding to the mix benefit. We have exceeded our annual targets for COGS marketing and overhead productivity. We have rebalanced our marketing investments for a larger and meaningful impact when COVID-19 restrictions were prevailing in the country. Basis behavioral shifts, our spends were up-weighted in off-trade through tertiary driving initiatives and also hyperlocal initiatives. Third spaces were activated to drive footfalls and liquid on lift resumed as COVID restrictions ease.

On Capex, our capital allocation strategy is now indexed towards productivity, supporting core growth, innovation, and maintenance. This aligns well with our long-term strategy of having an asset-light model. Coming to the second pillar of our strategy and the progress there - The Organization of the Future. This pillar comprises of three dimensions. Digital acceleration, speed and simplicity, and talent and culture as growth drivers. On digital, we launched bar.com during the year. This is aligned with our global digital acceleration initiatives. Several activations to bring traffic to the website provide lifestyle and celebration dips build a community, integrate with world-class campaign to bring together the bartender community, et cetera, are underway with lots more to come. We explored the power of reality via QR code scan and unlocking a digital distillery tool for Signature, showing our grain-to-glass journey.

We hosted the first ever Holi party and music concert with Daler Mehndi in the Metaverse with McDowell's No.1. We have made several other technology interventions, to name a couple, insourcing of our sales and operational planning supported by technology, bringing automation and technology enablement to the function as well as productivity. Also, launching our trade promotion management platform to ensure stronger, more robust, technology-based management of our trade spends to enhance pay-for-performance.

On speed and simplicity, our multiple tech adoptions that I talked about have led to simplifying life for our employees and our ecosystem, which in turn is enabling us to be agile and faster. Radical Liberation Sprint made significant progress in F '22. 1.5 lakh man hours have been saved by several initiatives like reducing the number of vendors, increasing spending limits, standardizing various processes, meeting protocols for efficient meetings to name a few. We are now directing this time saved to growth initiatives.

Speaking now of talent and culture as growth drivers. On the talent front, we have significantly strengthened our capability in marketing luxury selling, consumer insights, commercial and innovation in F '22. We have launched the Diageo India Distillation and Maturation University to strengthen our capability in this area. The Diageo India Marketing Academy has also been launched with focus on consumer insight, digital, creative agility and omnichannel experiences, keeping brands and consumers at the core.

On our culture, our internal anonymous employee engagement survey called Your Voice Results have come in now, and they continue to be leading across Diageo global markets. We've had very healthy participation at 94%. India has scored above global averages on most parameters. Our engagement at 86% and inclusion diversity indices at 89% are leading. And on inclusion and diversity, we've actually improved our score by 3 percentage points versus the previous year. 93% of our employees say they are proud to work for Diageo, 85% would recommend Diageo as a great place to work. Our Net Promoter Scores on company and brands of 37% and 85%, respectively, are really strong when benchmarked both internally and externally. 92% of our employees see a clear link between their work and Diageo's immediate business priorities and performance ambition. This is 8 points above global scores. 84% of our people understand our Society 2030 goals and how they can help deliver them. Our score is 17% points higher than global. 94% of our people say they are able to play a role in promoting positive drinking. These scores reflect our people's passion for our purpose and brands. And this continues to be our source of competitive advantage.

Coming now to the last but not the least pillar of our strategy, “Diageo in Society.” Since the acquisition, we have had a strong track record in sustainability and citizenship. We want to challenge ourselves to go much further. Last year, we launched Society 2030 Spirit of Progress, a new 10-year action plan on the role we will play in society. It is fundamental to our mission and to our impact of creating long-term value for all our stakeholders, which is why it sits at the heart of our strategy. We have 3 goals that are built around the most material issues for our business context in India, driving ESG from grain to glass, moving India towards Drink better, not more, and leading inclusion and diversity. We have the same rigorous data-driven approach to the delivery of our ESG goals as we take to the rest of our business.

Talking of driving ESG from grain to glass. The highlights of our F '22 initiatives on this one is firstly, Learning for life. To provide sustainable livelihood opportunity to youth, we admitted 925 students versus a target of 800 with 54% women to undergo training in business and hospitality skills, 610 have already completed the course and 156 students have been placed in jobs with an average CTC of 12,000. On water stewardship, preserving water for life, we initiated work across 3 of our factory locations, Nasik, Nanda in Maharashtra and (inaudible) in Karnataka to replenish about 4.6 lakh cubic meters of water.

On our extended producer's responsibility on plastic waste, we have collected 41,000 metric tons of consumer plastic by March '22 and recycled through our EPR system. By end June this year, we will be plastic waste positive, which means that we will be collecting and recycling more plastic than we are putting out. On our ambition for net zero carbon in our direct operations, our greenhouse gas emission across our own operations has been reduced from 26,000 metric tons to less than 6,000 metric tons, a reduction of over 80% over F '20. We are sustaining 0 fossil fuels used across our distilleries. We have launched an afforestation station drive to plant 80,000 trees to offset our residual greenhouse gas emission, and we have also signed a contract to double our solar capacity from 1.3 to 2.6 megawatts.

Our brands are taking forward our ESG narrative. I've already spoken about Signature and Godawan taking bold leaps on sustainability. We are also taking significant packaging sustainability initiatives, which have started in F '22. On our Hipster packs, which are the stylish portability cool packs introduced on our premium brands like Black Dog, Black & White, VAT 69 and Smirnoff Vodka. These have been in the market for 2.5 years, and we have now started moving them to biodegradable packs. Black & White has already moved to the biodegradable format, and all others will go live in the next few months. These are 100% biodegradable and recyclable packs and a very big step forward on our sustainability initiatives.

In line with the Diageo Global Communication on 27th April '22, announcing that Diageo is starting a program to remove cardboard gift boxes from premium scotch portfolio. Diageo India will lead with our cardboard gift box removal on our premium and upper prestige brands. This phased removal of cardboard gift boxes will test consumer response, reduce waste, contribute to Diageo's 10-year ESG action plan, and will enable us to test and learn and expand to other brands based on the response. We hope the rest of the industry will follow as we take this very significant step towards sustainability.

I have already spoken about our Plastics Initiative through the Extended Producer's Responsibility. I will come to the last one, which is “Digital Track & Trace”. We have been working on a blockchain-enabled track and trace for our brands. And this will go live over the next few months enabling transparency of our sustainability initiatives. For our key brands, we will be able to trace back the product journey from blends to finished goods, providing auditable, sustainability data, again another significant step towards our commitments to become more sustainable.

Moving India towards "Drink Better, Not More." We have several initiatives which have progressed during the year. To curb underage consumption, through our program "Act Smart India," we have educated 60,000 students with 37.5% taking a survey to capture attitudinal shift against the target of 20%. This is quite significant because we are actually able to map not only through the survey and intent, but also a shift in attitudes and behavior through our education program.

On the "Moderation" side, 55,000 consumers were educated through the "DRINKiQ" platform. We have also educated people on anti-drinks driving through the wrong side of the road. 84,000 consumers reached through this program. We have also partnered with five regional transport offices in three states in Rajasthan, Maharashtra, and Uttar Pradesh, and have launched driver-sensitization tab lab where it is now mandatory for all the candidates to go through our program to become eligible for license application.

Coming now to the last area of the initiative and this pillar, "Leading Inclusion & Diversity" Diageo India is driving focused initiatives to lead in the CPG industry on progressive and inclusionary work and brand building. For this, we've invested on deep understanding of the relevant cohorts and consumers, including those on the gender and sexual orientation spectrum, not just how to create for them the brand, but also how to project them respectfully, which is not something that has been done consistently in this industry. This has reflected in our work across brands. More than 42% of our brand communication and content have women, not just represented but leading the narrative, both front and back of camera. Black & White, Johnnie Walker, McDowell's No.1, Tanqueray Gordon's, Royal Challenge all have women leads while brands like Black Dog are amongst the first scotch brands in India with women as the lead storyteller. 8% of our creators are in fact with influencers and partners who are on the gender orientation spectrum, including brands like Signature, Gordon's, and Smirnoff, all featuring gender fluid protagonists. Going forward, we are committed to drive these numbers further up and keep setting benchmarks in the industry.

In the Creative Comeback India Program, we joined New York and London in celebrating female and binary creative talents who are coming back into the workforce post a career break and find it very difficult to find jobs and roles that value their experience and balance without compromise. This is especially true of women. And this platform is an amazing springboard to launch our first batch of creative equal graduates. It is an India-first and an India-CPG first.

We are also along with Hindustan Lever Mondelez and WPP, the founding members of the unstereotype alliance program in India, which aims at working with advertisers across industries to be progressive and inclusive in their advertising and communication world.

Moving next to "Talent Representation and Inclusive Leadership" within our organization. We continue to drive our ambition of being one of the most inclusive and diverse companies in India. Female representation in our exec overall leadership continues to be strong. 48% of our hire than the last 11 months are women, this has increased by 4% versus previous year. We have now hired 62 people with disabilities which has increased over the previous year. Overall inclusion and diversity score is at 89%. I told you this has gone up by three percentage points over previous year which we are very proud of. We have 54% women participation in our program "Learning for Life." Again, this is up by 4%. We are continuing to launch market-leading policies and give infrastructure support to our employees. Like the 26-weeks parental leave policy apply to all parents irrespective of gender, sexual orientation, medical insurance coverage included for the same sex partner, creche facility or partnerships with companies which offer creche facilities for all locations, prevention of sexual harassment policy, clear flexibility guidelines, and the recently launched thriving through menopause policy for Diageo India, which is the first of its kind in India.

We will now move to the financial highlights, and I will hand over to Pradeep Jain to walk you through.

Pradeep Jain: Thanks, Hina. A very good morning to all the audience. So, what I did want to share is, if you look at the box portion on the left-hand portion of the slide, you will realize that we've had an accelerated top line momentum right through the year, so that's one. Reported net sales increased 18.9% during the year. Growth was underpinned by strong consumer demand in the off-trade, premiumization, recovery in on-trade and lapping soft competitors, underlying net sales increased 18.4%, excluding the one-off bulk scotch.

Prestige & above net sales increased 23.6% during the year, benefiting from favorable product mix. We saw double-digit P&A growth across all our regions. The broad-base category growth was driven particularly by scotch, gin, ongoing portfolio renovation and accelerated momentum in states with route to market unlock. Scotch growth was at a very strong double-digit, benefiting from end-consumer price correction in a few states and impacted global travel. So, that's the overall headline I want to share that overall, fairly strong momentum on the top line right through the year.

Coming to the EBITDA margin, what I wanted to share upfront was EBITDA margin is back to the pre-COVID levels, which is roughly the Rs.1,500 crores that we had seen prior to the pandemic. Second thing is gross profit increase of Rs.662 crores was predominantly volume and mix-led, supported by productivity saving and lapping the COVID wave-I led decline in the comparative period. On a reported basis, staff cost was 6.8% of sales, down 10 basis points.

What you will also see is that the A&P investment has increased by almost 25% over the same period prior year. And on the right-hand side, you will also see that our EBITDA margin has pretty much reached the peak that USL had achieved prior to the pandemic.

And mirroring the EBITDA performance is the PAT margin, very much a mirror image of the top line recovery aided and further significantly aided by the lower interest cost. So, if you look at the EBITDA margin, which is almost 360 basis points up above prior year, and then add to that, the interest which is almost 141 bps additional delivery versus the prior year. That's what is aiding the PAT delivery of Rs.770 crores.

We can move to the next slide. Just a couple of headline thoughts here, strong cash flow. The business continues to be very-very strong on free cash flow and that is what has enabled us to move to actual debt free status by the end of Q3, and as of the end of the financial year, in fact, we have a cash surplus of almost Rs.222 crores, which is lying in liquid investments in our balance sheet.

We can move to the next slide please. I can on a lighter note say that this chart will pretty much become irrelevant, you know from here onwards. Debt is zero. Therefore, the debt-equity ratio is irrelevant. Interest cost almost down to wilt barring for some non-debt related interest cost on an ongoing basis, and interest coverage ratio effectively becomes irrelevant. I think what the important point to call out is that during the year, CRISIL upgraded its USL rating on its bank facilities to AAA, stable CrisilA1+.

We can move to the next slide. So, on the left-hand side, again, the same point, that our earnings per share is now back to the pre-pandemic levels. In fact, in the financial year 2021-22, we have reported an all-time highest earnings per share of Rs.10.6 per share.

On the right-hand side, our return on capital employed remains very strong. And it kind of reflects ongoing working capital efficiencies, as well as a little bit of reduction in the CAPEX intensity as we go progress towards our end state manufacturing footprint of an asset light model.

Next slide please. I'm sure all of you have been waiting for this one, right. So, let me spend a little time to just explain the deal construct that we have announced on Friday evening. So, deal of selling our 32 brands to Inbrew Beverages and franchising another 11.

So, let me go very, very slowly and logically on this so that all of you can absorb it. There are two legs to the transaction. One is the immediate slump sale, right. So, that's the 32 brands. The consideration for that is ~Rs.828 crores. In addition to that, we are franchising 11 brands, on which royalty is payable to us over five years. The legal title very much remains with USL for the five years. At the end of the five years, Inbrew has an option to convert the fixed-term franchise arrangement into a perpetual right-to-use arrangement or acquire the brands. And consideration for that transaction has already been agreed. So, therefore, it's a pre-agreed consideration. And that option to acquire these 11 brands, the consideration agreed is Rs.1,331 crores, split into Rs.1,293 crores at the time of exercise of the call option and the final Rs.37 crores when the assignment of the brands will happen too. So, that's the broad construct of the deal. Right now, as part of the slump sale, what is going to Inbrew, one manufacturing facility and four contract manufacturing arrangement in the state of Karnataka will be transitioned to Inbrew. And we intend completing the transaction by 30th, September 2022. So, that's the overall construct, and we will be happy to take more questions in the Q&A session.

So, let me just now hand it back to Hina to wrap up the presentation before we move into the Q&A session.

Hina Nagarajan: Thank you, PJ. So, looking ahead, we do anticipate volatility to remain in the short term. We anticipate some temporary import supply constraints in the short term and inflationary headwinds to put pressure on our growth and margins.

In the face of unprecedented inflation, we are further driving up our proven productivity muscle. Our organization is mobilized and is targeting twice the usual productivity at a total enterprise level, whether it's buying efficiency, sharper choice on investment or sweating our assets more for operating leverage.

We are also fast-tracking progression to our end state manufacturing footprint over the next couple of years and we will be in a position to share more details on the same in the coming quarter. We have increased the intensity of our price advocacy engagements with the state, especially with price elasticity being low at the higher end of the portfolio. Overall, we remain confident of the medium to long term prospects of our industry and on our strategy. Favorable demographics and rapid premiumization bodes well for our industry and Diageo India. We have a really strong portfolio addressing all the growing segments of the market.

Our strategy has been validated over the last year and the consumer insights-led innovations and renovations have hit home and built momentum, which we will leverage moving forward. Our talent intervention and strength of purpose and culture continue to hold us in good stead. We are making significant positive strides in our "Diageo in Society Spirit of Progress 2030 Goal," with our people fully engaged and committed to these. Our productivity muscle is proven, and the organization is mobilized to dial up productivity to two times the historical rate. We have also witnessed regulatory tailwind over this last year.

Last but not the least, I would say our active portfolio management, adding more margin-accretive brands, products, dialing up growth on P&A, and the conclusion of the popular brands strategic review will allow us to sustainably meet the double-digit profitable growth guidance in this volatile and uncertain environment. And we will be able to recoup the impact of the transaction on popular over a very reasonable time-period just as we have seen in such cases within Diageo plc.

For example, in North America, we divested 17 tail brands to Sazerac. And the reshaped business really had a kicker and took off on growth after the deal. So right now, I would say that we are focused on closing the transaction over the next 3 to 4 months, and we will come back to discuss guidance once the transaction is satisfactorily closed and there is some stability in the external environment. We hope the above context has helped, and we will be happy to now take specific questions. Thank you very much.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Avi Mehta from Macquarie. He is connected via audio. Please go ahead.

Avi Mehta: My question was essentially on the strategic sale. I just wanted to understand, while you've given the volume and revenue impact from the slump sale, could you also share the EBITDA and working capital impact, if any? And the second link question is for the 11-brands that have been franchised what was the revenue EBITDA and the payment schedule because we are not really clear on what is the fixed portion that comes in and the rest that comes quarterly, so color on that please?

Pradeep Jain: You asked a question about both the legs of the transaction, right, I will kind of provide a consolidated view of the combined leg, and then maybe we can give color further also. So, the EBITDA of the perimeter business, which is the 32-brands which are being sold and the 11-brands being franchised, right, is roughly about Rs.195 crores on '21-22. So, therefore, the EBITDA margin of the perimeter business is roughly according to net sales; net sales was about Rs.1,350 crores. So, that's the broad breakup. Now, it's important to point out to the audience that both the legs of the transactions are a hybrid of our direct and serve model, as well as franchise model. So, very headline, direct and serve model, the EBITDA margin is roughly about 11% to 12% and then obviously, there is a kicker that comes on the EBITDA margin because of the franchise, because the entire net sales literally kind of flowed down to the EBITDA line. So, that provides the kicker and takes it up to about 14% to 15%. So, that's the response to the first question, Avi. Hope that answers. The working capital is an integral component of the enterprise value. So, on the slump sale part, the working capital is an integral component of the Rs.828 crores, and similarly, the working capital is also an integral component of the Rs.1,330 crores that is on the franchise leg. Your next question was what's the payment schedule. So, the franchise leg, there is only a call option that Inbrew has. If Inbrew were to exercise that call option at the end of the fifth year, the payment of the Rs.1,330 crores will happen from year six to year ten, which is a five year. Hope that answers completely.

Avi Mehta: Just a clarification, that is an equal instalment over quarterly instalments, that Rs.1,330 crores. Is that the understanding, correct?

Hina Nagarajan: That's right, 20-quarters.

Avi Mehta: Avi, just clarifying the direct and serve which is slump sale margins, those are at 11%, 12%, the rest is essentially going to be franchised whatever EBITDA is there will now flow directly as a part of the franchisee cost, at least in the initial five years?

Pradeep Jain: Avi, let me clarify again, right. Slump sale leg as well as the franchise brand leg is a hybrid of direct and serve and franchise currently. So, therefore, both the legs have an EBITDA margin right now of about 14% to 15%, but the direct and serve makes about 11% to 12% and then the kicker to that 15% is an account of the franchise royalty that both the legs command currently also.

Avi Mehta: Pradeep, is it possible to give this slump sale part EBITDA margin so that we can just understand the potential kind of work in the numbers, or should we wait for clarity later, if you could kind of just help us on that?

Pradeep Jain: I can share; it's about 14% to 15%. NSV is roughly about Rs.760 crores and EBITDA is around Rs.118 crores, very broadly. That Rs.118 crores are a combination of direct and serve model, as well as franchise royalty.

Avi Mehta: The second question I have is essentially on the input cost inflation. If you could give us an update on where ENA and glass prices are, how do you see the near-term environment? And what are the price hikes that you've received, which can help offset it, I understand these are near term pressures, but just to help us navigate or appreciate how the near term is likely to play out?

Pradeep Jain: Hina has already called that out in the press release, Avi. Inflation is mounting. So, therefore there will be pressures. Glass, we've had to give another price increase sometime in February and early March, the impact of which will obviously be felt in the April to June quarter. And ENA driven by the geopolitical tensions in the conflict in Europe, grain is under pressure. So, therefore, ENA is also going up. One is, yes, commodity costs are going up. And therefore, there will be short term margin pressure. In terms of pricing, like Hina mentioned, we have rapidly increased the intensity of advocacy. I think over the last three to four months, we've received price increases from Assam, from Rajasthan, from Madhya Pradesh, these are the three that are absolutely top of mind and the cycle is currently on. So, we hope to make progress on that front over the next two to three months.

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

Jay Doshi: Just a follow up on the responses. So, for the slump sales revenue is about Rs.768 crores net sales and EBITDA impact will be about Rs.118 crores, and for the franchisee part, revenue will be balanced of Rs.540, 550 crores. Will your royalty fee of franchise income equivalent to the EBITDA that you're making on that business of 14%, 15% today or will that be lower?

Hina Nagarajan: Good question. It won't. Reality is that the business does require a reboot, right. So, therefore, our royalty payments are a little staggered and they accelerate over a period of five years, right. So, these are in the ordinary course of business, and I would not want to divulge the details on the royalty, but it will not be in line with the EBITDA. But I would go on to say that I think with the renewed management focus and sort of reinvestment and resource allocation going more to P&A, I would say that we would recoup it from the other part of the business, right. So, that should give you reassurance.

Pradeep Jain: Yes, absolutely, I mean, you have to have the comfort, right, that whatever this unleashes in terms of management bandwidth and attention, we will be able to divert it on the P&A side and an extract more out of it.

Jay Doshi: Now, if I've come to understand that the franchise arrangement was partly because of some pending litigation around brand rights and brand logo. So, do you expect some of these issues to be resolved and hence the call option which allows Inbrew to acquire it once those issues are addressed or this arrangement will continue for 5 years?

Hina Nagarajan: So, look, ideally, yes, we would have wanted to do an outright slump sale. And as we have disclosed the franchise brands are under encumbrance, which we have disputed the validity of, because we have fully repaid, the underlying loans and the accrued interest. So, pending the resolution of this ongoing matter, we have structured in a manner that makes it work mutually for both parties, and that they are able to achieve their strategic objective with this arrangement.

Himanshu Shah: A couple of other questions on the business front. First is one A&P. It was 5.6% of sales in this quarter. So, is this a tactical move given there is inflationary pressure on the RM front, or do you think that your A&P is a lot more efficient or you're more effective today than what you were maybe a couple of years ago and hence, we should expect this to settle at a lower level than the original band of 8%, 9%?

Hina Nagarajan: What I would say is that it's not tactical at all, I mean, there are two, three factors, I mean, we approach A&P as a completely strategic reinvestment for growth in business. So, two, three things. One is that if you look at historically, our Q4 tends to be lower, because we come from the October-December quarter, which is a very, very high spend quarter every time and therefore as the consumption trends slowdown in the following quarter, we do bring down the A&P percentage. I think a little bit of aggravation also happened with Omicron, which kind of hit us sort of last week of December to almost all of January. And this is a very peak consumption period. And we had to calibrate A&P basis, the lockdowns, and the disruptions we saw in the market. And I think going forward, our stated ambition is to do between 7%, 8% A&P. Our media has become very efficient, I mean, a lot of our media through programs like catalysts where we look at very scientific approach to media investment. And the fact that, we have diverted a lot of our media spend to digital, which we find very effective, right, that effectiveness and efficiency work that has been done and accelerated over the last few months and years is also helping us spend very smartly.

Himanshu Shah: Understood. This 7%, 8% that is after divestment of the portfolio, right, so, whatever residual revenue of 8,000 crores of 7%, to 8% on that is what roughly would be your ballpark?

Pradeep Jain: Let me kind of clarify that. This is on a business as individual basis. Look, we will come back to you when we close the transaction, we will get into the final level of details. After the carve out, the A&P will actually go up, right, because we never used to spend any A&P on the Popular, right. So, therefore, the A&P is likely to go up post the divestment.

Himanshu Shah: A final bookkeeping question, can you give a breakup of your RM basket in terms of contribution between ENA, glass, bottle, and other key raw materials? And what is the level of inflation that you see in the last six months or on a YoY basis on two or three key RM inputs?

Pradeep Jain: I'll give you a headline, right. ENA and glass are roughly two-thirds of our RM cost. So, that's a good headline to keep, right? It's about two thirds of our costs. And both the commodities are right now under inflationary pressures. Glass is much more. ENA, we would want to believe it's more short term driven by the geopolitical tensions.

Himanshu Shah: Possible to give us some number in terms of whether 20%,30% or 40% or even more?

Pradeep Jain: I would say that it would be in the range of about close to double digit.

Moderator: Our next question is an audio question from Harit Kapoor from Investec. Please go ahead.

Harit Kapoor: I just had two questions. Firstly, just wanted to get a sense from you what is the residual kind of franchise income that remains in the business? Was there anything in terms of that Directors special or McDowell No.1 in any of our non-core or non-core states that still remains?

Pradeep Jain: Harit, I don't have the number right now of the hand, right, but obviously, we will get into all this once we close the transaction in three, four months later. But McDowells Celebration Rum and DSP are also franchised brands, right. So, there will be a franchise royalty income stream that stays in our P&L, absolutely. I think that's the headline response to your question.

Harit Kapoor: I just wanted to kind of get a sense of what the residual number is. That's alright. The second question is on the working capital unlock. So, you did mention in your annexure in the release, that network business undertaking is about Rs.357 crores and I think that's the one that's going out on a slump sale. I just wanted to get your sense of whether you really can give a complete working capital or total capital employed unlock that you could see, or should we wait for that once the transaction is complete?

Pradeep Jain: Roughly, that's the number. I mean, you picked it up absolutely, perfectly, right on the slump sale part, right. And then, what the franchising of the 11 brands will also do is, it unlocks another stream of working capital immediately. So, that's what it is.

Harit Kapoor: Would that be as significant as the slump sale number or not to that extent?

Pradeep Jain: It will be lesser. There won't be any fixed assets. It's only working capital.

Harit Kapoor: I assume that you give closer to exact number on this once you're close to the transaction end?

Pradeep Jain: Yes, once we close the transaction on September 30th, we will completely kind of actualize all numbers. But by and large, the numbers that you picked up are absolutely in the range. From the realization of Rs.828 crores, as all of you know, there will be transaction cost, right. So, that will certainly not be a net realization. So, that will come down and then by and large what you've picked up is right.

Harit Kapoor: One question on a slightly longer term. Just wanted to get your sense on, will this transaction create probably, a player who was non-existent in spirits and now is probably going to be #4, #5 player by volume in India, and how difficult it is to get shelf space in this industry with very high entry barriers, do you foresee that, while it would be a different segment altogether, but could this be in two, three, four years' time, you're creating a credible player in the spirits space, were there considerations made on that thought process? I'm sure they were when you were kind of thinking about this, just wanted to get maybe Hina's thought process on this.

Hina Nagarajan: I think it's a great question. Look, couple of perspectives on this, right. So, the first thing is that, if you look at penetration in India, it's very low, right. So, we are amongst the lowest per capita and penetration countries in the world. So, there is enough and more headroom for this industry and category to grow. And frankly, we think more players will bring more category growth. That's one, right. The second perspective is that we have very clearly stated in our mission and strategy that we are looking at breakout growth, in Prestige & Above. One of the things that feeds well into our Prestige category is the uptrade from Popular, right. So, we think that both things will give opportunity for further growth in the industry and penetration and per cap. And we are quite excited. The categories honestly behave quite differently. Our core brand position in Prestige & Above, have their own equity and consumption sets and consumers. And we don't see this in any way, cannibalizing that prospect of growth for our brands.

Moderator: Our next audio question is from Krishnan Sambamoorthy from Motilal Oswal Institutional Equities. Please go ahead.

K Sambamoorthy: I understand you mentioned that Rs.830 crores are subject to transaction cost. A) what is the eventual plan here once you receive this sometime towards the end of the second quarter? And will this be used as the pay-out?

Hina Nagarajan: Krishnan, clearly, that dividend payout is subject to wiping out of the accumulated losses. So, we will first have to achieve that state before we get into dividend distribution. But clearly, I think this does accelerate our journey towards dividend distribution.

K Sambamoorthy: My second question is something that you mentioned that the encumbrances are something that you are confident on clearing because you have paid out those loans. Are there also any approvals to be sought from the Competition Commission, and is that on a national level or is it on a statewide level?

Hina Nagarajan: There are no CCI approvals required in this transaction.

K Sambamoorthy: Okay, very useful. It is only the encumbrance effect that has a value that is to be clear, right?

Pradeep Jain: That’s right.

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

Percy Panthaki: This is Percy Panthaki. My first question is again on the transaction. The current 79 million cases that you're showing, are any of those 79 million cases already under a franchising agreement or are they all sort of being done on your own?

Pradeep Jain: Percy, we do not recognize franchise volume into our volume. 79 million cases are all our direct and serve network. And that's what will reduce from 79 million cases to 56 million cases.

Percy Panthaki: So, basically the difference of 23 million cases is what is going in the slump sales, is that understanding correct, and then the 11 brands being franchises over and above these 23 million cases?

Pradeep Jain: No, no, not really, right. Some part of let's say, the 11 brands right now was in our direct and serve model, and will now move into a franchise model, with Inbrew being becoming the franchisee, right. So, it's a combination. I think headline, the combination is 75:25.

Percy Panthaki: Would you be able to give an idea actually how many million cases are going to Inbrew either through slump sale or through franchising arrangement?

Pradeep Jain: I don't have that readily available. What I'll do probably is request Richa to share it in terms of what are the franchising arrangements that are transitioning from USL to Inbrew through a franchisee route. Richa will probably share those details after the call.

Percy Panthaki: Next question is on the cost inflation. You basically said that two thirds of your cost is glass plus ENA. I'm assuming a large percentage of the remaining 1/3 would be PET. And since crude prices have gone up, is there sort of an inflation in that basket also which is material enough to call out?

Pradeep Jain: Yes, Percy, you're absolutely right, the balance 1/3 also comprises smaller packaging materials, so PET right, then the outer, the carton, and therefore paper cost, etc., That is also inflated, right. So, yes, almost the entire portfolio is probably inflating around the double-digit mark.

Percy Panthaki: So, at an overall basket level, how much would be the inflation for your overall cost basket on a YoY basis currently as we sit today -- would it be in double-digits?

Pradeep Jain: Yes, right now, for this quarter, it's around the double-digit mark.

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

Prakash Kapadia: Congrats on being net debt this year. Given that divestment of Popular brands is over, directionally what kind of EBITDA margins can we expect higher contribution from our premium portfolio? Directionally is it right to say we could be at 20% EBITDA over the next few years?

Pradeep Jain: So, Prakash, I've already shared the details of the divested portfolio margin. They are almost in line with the portfolio margins, right. So, I don't think this will have any significant impact on our portfolio margin, right. That's one. But, very clearly, as we have called out is that the relief of the management time and bandwidth will just allow us to focus a lot better on our retained P&A and retained Popular portfolio and therefore, we should be able to translate that into higher growth in the subsequent years.

Prakash Kapadia: What kind of CAPEX are we looking for the current financial year?

Pradeep Jain: Nothing materially different from the historical run rate, Prakash.

Prakash Kapadia: Once we have the accumulated losses wiped out, which is a very small number, maybe, if we can communicate capital allocation policy in terms of dividend or buyback or what would we do, that would be helpful going forward, so, I think over the next few months, we can finalize that and communicate, that would really give a sense of direction what shareholders can expect? So, just a small suggestion.

Pradeep Jain: Absolutely, Prakash. That's the topmost priority, I mean, we are we are ready with our policy. So, we just need time when we are close to kind of wiping out.

Moderator: We'll take the next question from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

Shirish Pardeshi: Hina, in your opening remarks, you made a very interesting comment, you are going to follow hyper localization policy. Is that going to be through a M&A route, or we will expand our own franchise?

Hina Nagarajan: The hyper localization comment that I made was in context of our marketing activation. And, especially during COVID, we've seen that obviously, markets were opening, shutting at different times, right. So, there were different disruptions across different periods of time. And hyperlocal activation actually refers to our marketing program, not the part of business that you're talking about.

Shirish Pardeshi: So, I was just under the impression, because now we're going to get a lot of money. Is that the M&A route where we are seeing and we have seen Nao Spirit’s acquisition, so is that a significant allocation which will go towards such niche deals.

Hina Nagarajan: So, as we did state even when we launched the new strategy under the guidance of our board, we are going to continue to allocate capital in a way that enhances long-term value to our stakeholders. I mean, absolutely, dividend distribution is a top priority for us. And definitely, we will be looking for opportunities for growth, or productivity alliances, and if some interesting opportunities come, then we will definitely be open to them. So, we will continue to look for those opportunities.

Pradeep Jain: Shirish, I'll just add to what Hina has mentioned, I mean, we were not waiting to become debt-free to exploit these opportunities, right. We had enough leverage on our balance sheet, it's a strong free cash flow generating business, right. So, as, and when we get the opportunity, we will anyway go ahead and do that.

Shirish Pardeshi: But, as you said that P&A opportunity is very large, and there are a lot of niches, so people have created. So, I just was quite looking at if that is the growth driver also?

Hina Nagarajan: We just stated that as a new growth engine driver in our strategy very clearly, right, but we're taking a very consumer backed view, right. So, if there is a trend that is showing consumer traction, and if there are, the right opportunities for us to invest in that, like you referenced to, if there are interesting opportunities like that, we will certainly be open to them.

Shirish Pardeshi: Hina, after this slump sale and franchise operation, will it have any impact on our distribution positive or negative?

Hina Nagarajan: Actually, the P&A and Popular businesses were operating pretty independently, right. So, there is no synergy in this transaction. And our operation on P&A continues business as usual. It was independent, even in the state where we have franchise arrangements for Popular, we've had an independent Prestige & Above frontline force, etc., So, the answer is no, this does not have any impact on our ongoing business.

Shirish Pardeshi: The reason why I'm saying, now we have a single concentration, and as well you mention that we will rationalize the management time. So, P&A, if you can share the number, what's the universe and where we are standing up in terms of on-trade and off-trade?

Pradeep Jain: Shirish, I completely missed the question. So, where are you headed with this?

Shirish Pardeshi: I am saying on P&A, if there is a single-minded focus, which is going to be there, so there is a significant ramp up, which I'm expecting in terms of our distribution in on-trade and off-trade. Obviously, Popular will have a larger franchise. So, in terms of current where we are?

Pradeep Jain: Let me address that right and then maybe Hina can add to this. For distribution, honestly, Shirish, is not really a differentiator in this category, where access is completely controlled by government, right. So, if you look at the evolution of the category, I mean, the access is capped to those 60,000 to 65,000 outlets, right, and we are very, very sure that our major distribution anyways in the upwards of 95% to 98% with our P&A portfolio, right. So, I don't think that's big. So, therefore, it's all about penetration and frequency that we have to drive.

Shirish Pardeshi: Given this slump sale, will it have an impact on employee count?

Pradeep Jain: So, there is a set of employees which are in the perimeter, right, because we are selling it as an undertaking, right. So that goes along with the undertaking, absolutely.

Shirish Pardeshi: Would you like to quantify?

Pradeep Jain: That honestly, we've not shared, so I would not want to kind of make that number public, right. So, once we kind of close the transaction, Shirish, towards in September, we'll be happy to share.

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

Tejash Shah: My first question is on a broader strategy here. I believe broadly most of us were under the impression that the Popular segment will have materially lower margins than P&A segment, which you actually clarified, which were not materially lower. Then the question is purely from a consumer company perspective, usually in under-penetrated category, we recruit new consumers at the mass end, and then we premiumize within the portfolio as we go along. Now, we have been saying for a while that this has been a very highly underpenetrated category. And to give away the entry level of part of the portfolio, which now today it appears that it is not margin dilutive as much. So, I'm just trying to understand, what is the upside out of this transaction for us in addition to what we spoke about managerial bandwidth and other issues?

Hina Nagarajan: So, I think the decision is a composite result of looking at two criteria, where is the market headed, and where lie our core strengths and portfolio, so it's a question of fit and value. The brand being divested are not core to our business. We do not have a longer-term right to win in these categories. It would require substantial investment of management time. The market on the other hand is moving very rapidly to premium, right. And this is where Diageo as a company that builds brands, and is packed on innovation and brands, right. And the fit with the more Premium Prestige & Above categories is a perfect fit for Diageo. So, we stated in our strategy that we will reshape our portfolio towards these new consumer trends and energy, which are transformational in the industry and where we have the rights to win with our brands. And this is exactly what we're doing, we're using a future back approach to shape our portfolio to the right area. So, breakout growth in Prestige & Above, which is where the market is headed. Focus on innovation and renovation on the new trends that we are seeing, which is a new growth engine, right. And we are committed to delivering this sustained double-digit profitable top line growth through this V-shaped portfolio. So, the strategic context was set out in our strategy, and we are just following that. It is about the fit and core competency for the portfolio we have. Honestly, we believe that the brands that we are giving to Inbrew will be sitting center of plate for them, right, it is core to them, and they will do justice to these brands to invest behind them and grow the market for these brands. So, I think it's a win-win for both sides by doing this.

Tejash Shah: In your presentation, you made one interesting point on regulatory environment tailwind incremental. So, if you can elaborate that point a bit?

Hina Nagarajan: I think if you look at the year gone by, I think we've had several tailwinds on the route-to-market and opening up of that, right. So, I will talk about Delhi, which was a massive opening of the route-to-market. I will talk about the BIO duty drops by several states. So, it was Delhi, then Maharashtra, West Bengal, which has really unlocked the base and momentum for the scotch category, right. Madhya Pradesh has recently had a route-to-market change where they are talking of composite outlets for country liquor and IMFL, etc., which really opens up the access to the markets. There has been duty drop also in Madhya Pradesh. Rajasthan has had some positive developments on duty reduction and also giving us price increases. So, if I look at the year gone by, I will say, there have been more tailwinds than headwinds on the regulatory side. We've got the UK FTA on the table so far, right, which is on customs duty reduction on scotches. So, net-net, I would say, it's tilting more to the positive than the negative over the last year or so.

Tejash Shah: Would you add any pricing part to this regulatory tailwind, are they more lenient on pricing, because the states that you spoke about, Assam, Rajasthan are not the key states, so any comment on that part?

Hina Nagarajan: Yes, Pradeep had mentioned this, that we've really dialed up our advocacy with the states given the inflation, etc., especially at the higher end, where there's lower price elasticity. Those conversations are ongoing. I mean, three states have already given price increases. We are hopeful that with our continued advocacy, we will get more, and that work is underway.

Moderator: Next question is from the line of Chinmay Gandre from Reliance Nippon Life Insurance. Please go ahead.

Chinmay Gandre: Just one clarification. So, in terms of press release, Popular sales is roughly Rs.2,460 crores and basically, we are selling and also through franchisees, say, roughly Rs.1,350 crores. So, broadly from hereon, Rs.1,100 crores kind of a Popular business should be retained with us, right?

Pradeep Jain: Yes, broadly, you're in the right range.

Chinmay Gandre: The way you report, broadly, 10 million cases will be retained with us in Popular?

Hina Nagarajan: We've given a salience. I think you can calculate that right; I think our residual business is 56 million cases.

Chinmay Gandre: We will be getting royalties with respect to 11 brands which we are going to franchise, right. Like you mentioned, maybe it's not like flat throughout the year, but might be increasing, but what could be a broad range of royalty that we would be getting?

Pradeep Jain: That number I would not want to disclose. It's an indicative number right now. This is an ongoing running business. It will require discussions with the business partner on an ongoing basis. But yes, the royalty in the initial years is a little low so that it gives the headroom to the franchisee to invest back in the business and resurrect the momentum and then it kind of accelerates towards the rear end of the agreement.

Chinmay Gandre: Just coming to the overall business per se, so what kind of price hikes we have been able to take on a portfolio basis so far?

Pradeep Jain: So, on an annualized basis, I mean, the exercise, the pricing cycles and advocacy work, as Hina mentioned, right, is still on, but in terms of our aspiration, we would want to get about at least 1.25% to 1.5% of our net sales as pricing flow through for '22-23.

Chinmay Gandre: So, 2% kind of a price increase, then we will not be really able to offset a double-digit kind of inflation, right?

Hina Nagarajan: We've always said that how we offset inflation is a combination of three things, right; its pricing, its productivity, and its mix, right. So, there is a substantive mix kicker that we have been with our new strategy, and we continue to keep dialing that up. Our productivity usually offsets half the inflation. So, in a typical year, right, we would do 1.5%, 2% pricing, we will do another couple of percentage points of productivity, and we are dialing that up this year given the inflation levels are higher. So, I mentioned in my opening that we are looking to deliver double the historical rates of productivity within the organization. So, we will continue to dial up all three to achieve our mitigation of inflation and EBITDA guidance.

Moderator: Our next question is a follow up from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: Just 2 bits on the Prestige segment. One, if you could give us a sense, how's the scotch growth in fourth quarter, because we did see realization growth coming off, so any color on that, please?

Hina Nagarajan: Scotch has continued to grow high double digits in the quarter. Like I mentioned, there was some temporary bumps with the Omicron in a peak consumption period. And clearly, the scotch markets were a bit impacted during that month. So, other than that, Scotch continues its robust momentum.

Avi Mehta: The second bit was more of an understanding. See, you launched Godawan. Is that IP with USL or is it with Diageo?

Hina Nagarajan: That's USL.

Avi Mehta: How does it work in terms of the portfolio? We have very good brands from Diageo, which we are also selling which are in a very attractive price range. As the consumer premiumises, you have in the Prestige, which you have -- so would you -- is there no -- like you can go in any pricing that Johnnie Walker, for example, is also present in or we would prefer to kind of operate in different price, any understanding of how do we look at the space now that the focus will be on the Prestige only and there are some very, very good brands over there from Diageo as well?

Hina Nagarajan: So, I think I would say, Avi, that we are led by consumers, right. I highlighted this when I was announcing strategy that one of the things, we've seen is that while there is a very big equity for brands like Johnnie Walker and our global brands, Gordon's, Tanqueray, Johnnie Walker, etc., There has been sort of trend of local pride which has been developing in India and it's actually got accelerated during this period of COVID. And so, there is a group of consumers who likes the Indian craft, and they like artisanal, limited, rare and scare editions of whiskey, etc., And understanding that trends, we have launched brands like Epitome Reserve and Godawan. These coexist because the consumer drinks repertoire. The consumer does not drink only one drink, the consumer drinks different brands of whiskey and the consumer drinks whiskey and gin and other white spirit, right. And so, we need to provide the repertoire. We have absolutely no restrictions from Diageo to launch any brands, it is purely from consumer insight, price points or steps to be competitive in the market against the relevant offerings or if we are creating a new offering, we have our own benchmarks of how to price the brand. So, it is very much a consumer-led exercise, and nothing to do with USL/or Diageo in the sense of brand portfolio. So, we will continue to grow both our international brand and continue to look at the craft and Indian whiskey.

Avi Mehta: So, you're essentially filling the white spaces and let the global strength of brand ceilings kind of exploit that by our distribution's strength, that USL kind of possesses, that is the way I should kind of read through?

Hina Nagarajan: No, I think the way to say that is that there is a relevance of both brands in the life of the consumer with their respective positioning. And we are addressing all the opportunities spaces that consumer trends are providing us.

So, I would just like to thank all our audience participants, thank you very much for being here today. And it's been a pleasure sort of taking you through our business progress and context and also being able to clarify all your questions. Bye-bye.

Pradeep Jain: Thank you so much to all.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of United Spirits Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.