



“United Spirits Limited FY20 Annual Investor  
Presentation and Earnings Call”

**June 01, 2020**



**MANAGEMENT: MR. ANAND KRIPALU – MANAGING DIRECTOR AND  
CHIEF EXECUTIVE OFFICER, UNITED SPIRITS LIMITED  
MR. SANJEEV CHURIWALA – EXECUTIVE DIRECTOR  
AND CHIEF FINANCIAL OFFICER, UNITED SPIRITS  
LIMITED**

**Moderator:** Ladies and gentlemen, good day. And welcome to the FY20 Annual Investor Presentation and Earnings Call of United Spirits Limited.

We have with us today Anand Kripalu – Managing Director and Chief Executive Officer, Sanjeev Churiwala – Executive Director and Chief Financial Officer, United Spirits Limited.

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. Please note, for participants joining via audio webcast, if you wish to ask questions, you are requested to dial the audio conference number while the presentation concludes. The dial-in details will again be shared with you at the end of the presentation. Should you need any 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 would now like to hand the conference over to Mr. Anand Kripalu. Thank you and over to you, sir.

**Anand Kripalu:** Thank you very much. And very good morning, everyone. And a very warm welcome to this virtual session. I am Anand Kripalu, Managing Director and CEO of United Spirits Limited. And I am joined by my colleague, Sanjeev Churiwala, the CFO and Executive Director of United Spirits Limited.

What we are going to cover today is, first, a quick recap of the F20 performance. Sanjeev will walk you through the financial performance first. Thereafter, I will give you a brief update on the progress that we have made against our medium-term strategy in FY20. And then finally, I will talk about what I know is of most interest to many of you at this point. So with that, over to Sanjeev.

**Sanjeev Churiwala:** Thank you, Anand. And good morning to all of you. I am Sanjeev Churiwala, Executive Director and CFO of United Spirits Limited. Let me, in the next 15 minutes or so, cover the full year performance for you.

F20 witnessed a macroeconomic slowdown with the GDP growth falling to a multi-year low. We witnessed a broad based consumption slowdown. And as you can see from the quarterly trend, the quarterly GDP growth kept deteriorating sequentially with every progressive quarter. The outbreak of COVID-19 and the consequent lockdown have put severe stress on an already fragile economy. And the social and economic impact of the pandemic is going to be truly unprecedented. Anand will cover this topic in his session in more detail.

In the context of that macroeconomic backdrop, let's look at our financial performance in FY '20. Reported sales growth 1.2% year-on-year, while net of bulk Scotch sale, we saw our net sales decline 1.5%. If we look at the first nine months of the financial year, underlying net sales grew 3%, impacted by the consumption slowdown, but COVID led disruption in the fourth quarter brought it into a negative territory for the year.

P&A segment was almost flat for the year. Not only was the demand environment subdued, we also saw significant inflation in our key raw material cost, especially ENA. That resulted in a gross margin compression of 408 bps year-on-year. What we are really pleased about is the cost rationalization effort in our operational cost, which helped us deliver an EBITDA margin improvement of 92 bps on an underlying basis. Our journey towards debt reduction continues with an interest cost saving of Rs. 29 crores during the year. Overall, we delivered a PAT growth of 7% in full year 2020. In subsequent slides, we will get into more details on the P&L lines and balance sheet.

Now looking at the net sales a bit more in detail. Dry days resulting from general election schedule impacted sales growth during the first quarter, while broad based consumption slowdown weighed on our business in rest of the year. Additionally, during second quarter we had a temporary supply chain disruption in our Bottled in Origin Scotch portfolio. The year ended with lockdown initially imposed in some states, and eventually all over the country to contain the outbreak of Coronavirus in India. Underlying net sales declined 1.5% during the year, owing to a volume decline of 2%. The price mix during the year was 64 bps, led by lower pricing as a result of part absorption of fee hike in Maharashtra last year in January 2019.

The Prestige & Above segment net sales remained almost flat for the year. They have seen a 6% growth in the first nine months, but falling by 16% on the back of COVID led disruption in the fourth quarter. P&A segment was disproportionately impacted by drying up of social occasions and closure of on-premises channel in several states, much before the nationwide lockdown got the business to a complete halt. Popular segment net sales has declined 4.1% overall, but priority states held up relatively better, with a decline of 1.5% during the year.

A little deeper dive on the EBITDA margins. During the year, driven by significant cost inflation and our decision to part absorb the ED hike in Maharashtra, gross margin came in at 44.8%, down 408 bps year-on-year. To mitigate the impact of gross margin erosion, we accelerated our cost management effort. And as a result of that, our staff cost were down by 18% on like-for-like basis, after adjusting for the restructuring cost of last year. We were also able to bring down other overheads by 15%, a big part of which was linked to delta in provision versus last year. And that can be attributed to a consistent and conscious decision to priorities credit risk over sales.

Additionally, we brought down A&P by 17%. Although the reinvestment rate, net of bulk scotch sales, was maintained at 8.1%. Which was very much within our guidance for the year. Despite significant gross margin erosion, we delivered an underlying EBITDA margin expansion of 92 bps. I would like to add here that although we have delivered an EBITDA margin expansion consistently over the last few years, the near-term outlook for margin progression remains uncertain, and will depend on the post COVID recovery landscape.

For the year, we delivered a PAT of Rs. 705 crores, up 7% versus last year. And a PAT margin of 7.8%, up 42 bps compared to last year. We delivered higher PAT mainly as a result of higher EBITDA of Rs. 219 crores, and interest cost savings of Rs. 29 crores. This is in spite of a lower

other income by Rs. 50 crores on account of lower property sale income and a lower interest received from subsidiaries. And a higher depreciation primarily due to IndAS 115 regrouping impact of roughly Rs. 64 crores. Tax was higher due to evaluations of some legacy tax matters, which resulted in a few reversals, as well as some provisions. While the benefit of reversals came in exception items, the provision hit the tax line.

We continue to focus on cash management. Overall, cash generation during the year was Rs. 1,742 crores, mainly from our core operations. And we were able to use this amount to reduce our debt by Rs. 492 crores. Unlike the last couple of years, during this year, we saw an increase in working capital. The increase was mainly driven by a decrease in current liability, liabilities resulting from softer business, which was partially offset by an improvement in inventory and trade receivables, in spite of halting of business due to lockdown in March.

On the balance sheet side, as I said, we repaid our debt by Rs. 492 crores, which is a reduction of 20%, following a similar reduction over the last two years. The debt at the end of the year stood at Rs. 2,073 crores. We repaid commercial papers of Rs. 900 crores and availed bank loans amounting to Rs. 408 crores for the year. This reduction in debt, together with more favorable interest rate helped reduce total interest cost by Rs. 29 crores during the year. We have been consistently reducing our debt over the last few years. And as a result, have a much stronger balance sheet and a solvency position now. This place us in a good spot to capitalize on our financial strength and face ongoing crisis and emerge stronger.

This slide is pretty self-explanatory and captures the consistent progress we have been making in key matrixes of financial performance and financial strength, be it return on capital, debt equity ratio or the interest coverage ratio.

And finally, a number that sums up the value we are creating for our shareholders. We have been on a consistent upward trajectory, as you can see in the chart, from Rs. 1.7 per share EPS in financial year 2016, we have delivered an EPS of Rs. 9.7 per share in financial year 2020, an increase of 478% over this period. What is more important is that we have delivered an increase in EPS even in current year, which was fraught with multiple of headwinds on the demand side that coincided with significant raw material inflation and, of course, followed by a COVID impact in March.

Now, I would like to hand over to Anand for the next part of the presentation. Anand, back to you.

**Anand Kripalu:**

Thank you, Sanjeev. So, let me just now share some highlights of our F20 performance. Our performance ambition is to be one of the best performing, most trusted and respected consumer products companies in India. And we aim to do that through our five strategic priorities; to accelerate and strengthen our core brands; to evolve our route to consumer, which is really our distribution system; to continuously drive productivity to invest in growth; become a top-class corporate citizen; and do all that by building an organization that can deliver all these priorities.

So let me start with the first priority of accelerating and strengthening our core brand. As I explained last year, we are aiming to link each of our brands with a key passion point to the Indian consumer. So, for Black & White, we aim to pair the brand with food, which we believe is like a match made in heaven. Especially crafted menus that is made for sharing. And that magnifies the flavors of Black & White whiskey when you share it with friends and share it in occasions. Cricket with RC, critically riding on Virat Kohli as the brand ambassador. And finally Travel with Johnnie Walker, which I want to explain to you in a bit more detail now.

Now, Johnnie Walker, as we know, is amongst the brand with the highest equity, not just in its own segment, but actually across the category. Our vision for the brand is to make Johnnie Walker an icon in culture. And the new brand passion point of Travel and Exploration just seems appropriate to enable us to make that happen. Some journeys begin where the road ends, and The Travelling Billboard, which was our campaign last year is one such where we have travelled miles across the country, visiting five different locations across the four corners of India, across mountain peaks, as well as the depth of the ocean.

The mid-prestige segment where Royal Challenge whiskey operates, presents a big opportunity, as it's one of the fastest growing segments. And this, in fact, has attracted many local players as well as regional players into the fold. Royal Challenge's brand vision is to be the most iconic Millennial and post-Millennial brand in India. And the all new Royal Challenge, for which you can see the pack on the left has a new blend, which is crafted by the master blender, Craig Wallace, customized to be the most accessible and preferred blend by Millennials. It's a smoother and richer experience. And all this, packed in a new bold look, with the rampant lion in all its glory on the pack. We also have a new bolder logo for RCB which hopefully you will see more of as and when the IPL season starts. We have had an encouraging start to the relaunch of RCW, which was launched in Calcutta just three weeks prior to the market shutting down. We are now beginning to push it harder with the markets opening up. But I must add that we are extremely encouraged by the start that we have had.

No. 1 is clearly one of the most iconic brands in this country. And the No. 1 renovation is probably one of the biggest renovations, I would say, of the last many years. The renovation includes a new carton, a new bottle, and a new liquid. In fact, our test results show that this is the best ever No. 1 that consumers have ever had. We launched this in March in Rajasthan and Orissa. And again, here the initial consumer response has been extremely, extremely positive.

Apart from the two renovations that I spoke about, there have also been two key innovations that have hit the market in the year. First Hipster, which disproportionately recruits consumers by generating trials at scale, but also disrupts the potential for Scotch whisky, because they are seen as cool and trendy, and that's something that really appeals to a younger audience. And McDowell's No. 1 Platinum which has seen strong success, it's now available in 82% of the country. And most recently, it's been extended to Maharashtra and Orissa.

Moving on to our second priority, which is evolving our route to consumer. And the commercial strategy is built on serving the three Indians that I spoke to last year as well about. And really

the principle here is to have Horses for Courses, that is the right kind of sales people with the right kind of skills for the right segment of India. And to marry that and support those sales guys with technology that enables better performance management and execution across channels. And we have two technologies that we have deployed here, one is a real-time visual scanning technology that records images of the product display on shelves, giving you simple analysis of availability and share of shelf. And Power BI, a simple integrated platform that houses the most granular level of sales performance data across all parameters, only one source of truth for the entire company.

Moving on to the third pillar, which is all about productivity. We continue to focus our efforts on productivity across all lines of the P&L, and this become even more acute in a tough commodity year like the one that we just had. We are focused on COGS productivity through modernization initiatives including, putting a high speed automated line in one of our factories, but also simplifying our manufacturing and supply footprint across the country as we speak. We have also given a lot of non-COGS productivity in terms of our marketing spend by leveraging scale, by doing things more centrally, and also leveraging digital more aggressively, and looking at new agencies who can do this more efficiently. And we have continued our focus on improving the efficiency of our non-staff spend, such as IT and professional services, rent and so on and so forth. And all this has delivered some contribution to compensate for the huge COGS increases that we have had.

Our fourth priority is to make sure that we are a corporate citizen that people take notice of. We have continued to work on shaping the regulatory environment. In fact, last year, we got price increases across 18 states, and that partly helped to offset the impact of ED absorption in Maharashtra. We achieved a price increase in Rajasthan after six years. And we started unlocking the power of ease of doing business in certain select states. In terms of corporate citizenship, we have continued now for our sixth years in a row on our Road to Safety program, where our continued partnership with key state governments has helped us to enhance road safety in the country. Most recently, in Pondicherry we have actually started seeing a reduction in road accidents and fatalities as a result of road accidents.

And finally, a look at what we are doing to continue to build our organization. First and foremost, our top priority is to proactively plan and build a strong succession plan for all critical positions in our company. The second is to work comprehensively to strengthen our people manager capability, where the effort is to strengthen coaching skills, and make our frontline leaders better at driving clear accountability. The third is on inclusion and diversity, and I must say I am really proud that we have more than doubled our women representation from less than 9% to over 19% in the last four years. Women representation in our senior teams, which is like our top 50 managers, has increased from 23% to 32% in the last one year alone. And finally, we continue to build on the culture of our organization, because we really do believe that more than anything else, culture drives performance. And we are continuing our journey to build a non-hierarchical meritocratic collaborative, performance oriented kind of company, where celebration is really a way of life.

So just to pull FY '20 together. I am happy about the continued focus on margin improvement and the delivery of margin improvement in a very, very tough environment like we have seen. I am encouraged by the initial signs of feedback that we have received on the relaunch of No. 1 and RC. We are happy about the innovation impact that McDowell's No. 1 and Hipster have had in the marketplace. We have continued focus on our operational and financial efficiency to make sure that irrespective of when costs become unpredictable, our controllable costs are kept really, really tight. And finally, we made another step in building our people and culture to transform our company from really a company to an institution.

However, as always, there are things that we need to do better. We have been challenged in a few select state brand combinations, which we believe the interventions we have put in place will fix. We have had pricing challenges in some critical states like Karnataka, for instance. And we have been challenged on market access in another important state of Andhra Pradesh. We are not happy with the amount of volatility and unpredictability we have seen on our commodities costs. And while these are behind us, the year was impacted to some extent by some supply chain disruptions.

So with that, moving from the rearview mirror, I am now going to look into the windscreen really, and talk about what everyone wants to talk about. COVID and beyond.

Now, as Sanjeev also said, we were already having a soft economy and COVID-19 has dealt another body blow to the economy with the result that current outlook for FY '21, here the median outlook is somewhere around -5% odd. Now, if you look at what happened with the onset of the pandemic, is that obviously our sales were severely impacted. While the lockdown was announced from March 24th, the impact on the Alco-Bev sector had actually begun even before. Many states such as Karnataka and Delhi had announced the closure of on-trade operations like bars, pubs and restaurants in the second week of March itself. And also, many of our factory operations in many of these states were also asked to stop to ensure that there was enough social distancing.

For the period between March 24th to May 3rd, which is really lockdown 1.0 and 2.0, Alco-Bev manufacturing and sales were completely banned in all states in India, which means India pretty much had prohibition across the country. With the onset of lockdown 3.0, many states began allowing the sale of alcohol. The pent-up demand and consumer thirst for our category was clearly visible and highlighted by the massive queuing outside outlets. Similarly, manufacturing operations for Diageo India also followed a sequential process, with factories being allowed to operate based on the zoning criteria for the easing of the lockdown norm. As of today, pretty much all our factories are running on a single shift operation. Finally, many states started demonstrating interest in exploring home delivery and online ordering, something that we have been trying to unlock for a long time. And as many people say, it takes a crisis some times to unlock things that are really hard to do during peace times. And as of today, six states have allowed home delivery, and we will talk more about that.

So what has been our response to COVID as a company? Simply two things, first and foremost, manage the crisis; and then use the time of the crisis to emerge stronger. So let's take a look at what the company has been doing during this period. So, in the first week of March, we set up a dedicated working group led by me, called the Crisis Management Team, to start monitoring the rapidly evolving COVID-19 situation. The team met almost every day focused on monitoring the external situation, as well as what should our response be as an organization towards this changing dynamic. And what we did is, we focused on what we have called the 6C's of COVID management; care, communication, consumer, customer, cost, and finally cash. And let me give you a flavor of what we have done on each of these.

First and foremost care, care for our community. And you will be pleased to know that to help overcome any shortage of hand sanitizers across the country, 300 workers and 15 of our manufacturing units were repurposed to produce hand sanitizers very quickly off the block. In fact, we took this decision in the first five days itself, because that was when the need was the most acute. I was getting calls from people saying, 'I cannot get hand sanitizers, can you help me?' So it was really, really hard to get at the time. So I think we just came to the rescue at the right time. Moreover, with the bar and restaurant communities facing unprecedented challenges from the impact of COVID, the company pledged to support the trade with a Rs. 3 crores health insurance cover for bar tenders associated with the Diageo World Class program in India. And lastly, we contributed about 150,000 masks to public health departments across the country to be used by health care professionals and caregivers. All this has helped us to certainly raise the stature of our company, to raise the pride that people have in our company. And in some ways, to enhance the narrative of our industry.

Moving on from just care for our communities, we also have to make sure that we care for our employees, and also communicate; at a time like this you can only under communicate, you cannot over communicate. Effective 16th of March, we announced work-from-home for all our office employees. And we made sure employees had the necessary tools and systems to support that work-from-home. In order to aid the well-being of our employees, we launched several initiatives including free online 24/7 confidential counselling sessions, live sessions on mindfulness to help employees stay well and stay balanced, and partnership with healthcare startup Curefit to provide complimentary mental, physical and emotional well-being services. In the first week of March, we also started extensive communication with our employees on do's and don'ts, preventive care, work-from-home etiquette, policy updates, etc., etc., to ensure that people were kept up to date. And we used multiple channels of communication, including Zoom and emails, and so on and so forth.

Moving on to the next two Cs, which is about consumer and customer. We have tried to leverage our consumer planning and insights departments to help the business make sense of this change, and show that we have our finger on the pulse, and that we are always geared up for these changes in the short-term, as well as the medium-term, and thereafter. We also ensured that our customers were well supported during this period. And we ensured that our sales people were communicating constantly through phone and video, ensuring that every call begins with the



human touch, which is about inquiring about customer's well-being and their families and seeing how we could help partner.

And finally, cost and cash. We have really been ruthless on eliminating cost that could be eliminated. But I must tell you, we have also invested cost where we believe it was the right thing to do. And we have been really focused on cash, rigorously managing our receivables and credit, managing inventory and reducing CAPEX. Because as all of you know, at a time like this, there is no other King other than cash.

So looking ahead, we are reminded of a saying from Winston Churchill, "Never let a good crisis go to waste". And that is how we're trying to approach it as a company in terms of a mindset, that we have to take advantage of the crisis and not be burdened by the crisis.

So what are some of the opportunities and challenges that we see in our sector over the short to medium-term? Clearly, there are some green shoots of opportunity in our sector to do with the opening up of home delivery, and online ordering in a category which is most challenged because of accessibility, this could be the ultimate unlock if it happens in more states, and happens with scale. We do believe there is an advantage to spirits, compared to, let's say, other Alco-Bev categories, particularly if consumption tends to be more at home, people have to carry stock from the store to the home, it's much tougher to carry categories that are more voluminous. And therefore, we do believe that spirits will have an advantage. Also, as long as the on-trade remains largely shut, spirits is more likely to be consumed because in other categories there tends to be more weighted towards the on-trade.

With international travel slowing, obviously duty free sales have taken a big hit. And we do believe that there will be some boost for duty paid sales, particularly for more premium categories within India. And just to give you an example, many neighbors where I live right now in Mumbai, normally travel out every month, and now they are all buying here in Mumbai. And when you go to their home, they are serving duty paid stock, because they now need to buy their products here. And finally, something that we have been tried to convince the public for a long time, that Alco-Bev plays a big responsible part of helping state governments to invest in other areas of development through the economic contribution that we make. I think during this crisis it became amply clear, with many people across many states talking quite vocally about the fact that they want alcohol to be reopened, because otherwise they are under huge pressure, given that they are also facing pressures on GST and GST collection.

Now, having said all of this, there is no doubt about the fact that in the short-term, certainly, the challenges will outweigh the opportunities. The aggressive taxation that we have seen pretty much across the board, ranging from 7% to 8%, increase in MRP all the way to 75% is enormous. We do believe that with these kinds of prices, there will be some down trading in the sector, like you would expect in any sector. On-trade closure will mean that some of the more premium parts of our portfolio will be impacted. And with the adjacent sectors like tourism and hospitality taking the hit, that will also have an impact on some of the segments of our portfolio. And there are also some ambivalent trends that, obviously, we are seeing. The changed ways of socializing,

many people are now socializing on Zoom and not socializing physically. And this could get redefined certainly for the short to medium-term. And the changing store structures, many stores don't want to allow people in. So if you had a relatively tight browsing kind of store, many store owners are just putting a counter at the front and not allowing people into their stores, and that could impact the way our brands show up in the stores.

So what is your response to all of this? Well, our response is across, what I would say, four verticals. First, in terms of strategic choices, we believe that we have the widest portfolio. So if for instance downtrading does happen, we have a big popular business as well. So from the most premium to actually the most popular, we have it covered. And I think that could be a point of advantage. We are also being very ruthless about what we will invest behind, using the ROI metric to make sure that any money spent is spent right, and that will give you the best return. Doing a few focused, high impact things rather than doing many small things.

We have actually supported many of our business partners through this period. Our customers where we have extended contracts, our third-party manufacturers where we have chipped in to help them at this tough time to pay their workers. And vendors where we have actually made all payments on time, because we said keeping our vendors healthy at this time is most critical. So we have taken on, I would say, a win-win mindset of the business, so that our ecosystem is strong, rather than trying to extract our pound of flesh at a time like this.

Supply chain readiness is everything in the short-term. And really, everything will be driven by supply. In fact, physical availability is the most important priority. And making sure that our supply chain restarts, and we used innovation in manufacturing to ensure that there is no impact of social distancing etc on our plants, and our priority to make sure we are able to produce. And I am happy to tell you that we are now producing pretty close to the pre-COVID single shift production rate. So, as we hope to get some more approvals for second shift with opening up or unlock 1.0 now, starting from today, we hope that we will be able to meet the demand fully.

And finally, regulatory intervention. Regulatory intervention, working with state governments to enable home delivery and online ordering and self-sustain to stabilize this new business model which everyone is learning through, getting states to recognize the downside of high taxation by demonstrating that nothing is completely inelastic. And while you might mop-up some extra taxes in the short-term, you will not have a sustainable model which is win-win, which is growth for industry and growth in revenues for the state in a sustainable way, if pricing goes over the top. And we are looking at collating data once we have it on what is happening specifically in the short-term, so that we can go back and have a conversation with the states who have taken up taxes very, very sharply. And we are also trying to make sure states understand the potential rise in counterfeit, which is a real menace in our industry, if prices just go up inordinately.

So, while the short to medium-term does look uncertain, and I have to be honest, it is uncertain, it is hard sometimes for us to predict what is going to happen in the next month in the next quarter. What I would like to leave you with is our own sense of the longer term outlook of this industry. And I believe, when you look at that, there is reason to be optimistic. We have, I would

say, excellent consumer demographic, 17 million people entering legal drinking age every year, low penetration of the category, low per capita consumption and the attitudinal barriers breaking down where people are now more open to drinking alcohol, not just for men, but importantly, also for women. The long-term premiumization, because the economy will come back. Indeed, even the minus 5% outlook for FY '21 will have a first quarter which is going to be seriously negative, but after that it has to be positive, otherwise you are not going to get minus 5% weighted average in the full year, which means there will be more money in people's pockets. Also, at a time like this, people tend to postpone the spends on big expenses, like a new car, new two wheeler, new washing machine, new television, and hopefully spend a bit more on the small joys of life, right, and hopefully, having a drink is really one of those. And therefore, I think that will continue to drive premiumization. And finally, this category has been resilient across many hits, many challenges, and many slowdowns. Of course, this time it is unprecedented. But even if you looked at the U.S., apart from the time when the U.S. had prohibition in the 1920s, the category has never really declined. So it's the nature of the category that has very high consumer stickiness. And therefore, we do believe that the long term potential of this category is intact.

And with that, I just want to thank you and hand back to the operator for questions. Thank you very much.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question-and answer-session. We take the first question from the lines of Avi Mehta from IIFL. Please go ahead.

**Avi Mehta:** Just wanted to understand, here that there have been payment delays from corporations. In such a situation that we are kind of hearing about this, A, if you could kind of confirm or deny this? And B, if that is the case, how would you look to balance growth and the potential credit risk from such markets?

**Anand Kripalu:** So I will add a few lines, and then maybe Sanjeev can chip in as well. So I would say that, actually in May our collections have come in quite well. We are actually pleased with the collections that have come in in the month of May. So, many corporations have actually paid on time. Now there are one or two corporation that have delayed and we are still working to collect those. But my sense right now is that on an overall basis it's a challenge that we can manage and manage quite well. Sanjeev, do you want to add to that?

**Sanjeev Churiwala:** Yes, Thanks Anand. I would like to just pull back and give you an overall perspective, just not on working capital and debt, because these questions will keep on popping up. So I think, as I have already explained in my initial part of the presentation, that while our working capital have gone up, not a big quantum given the size of operations we have, our receivables is well within the control. It's actually gone down in spite of a lockdown impact that happened towards the end of March, which is a critical period for collections. And Anand as said, while we did face some initial challenges in the end of March and possibly because of the lockdown in May, subsequently in May we have seen some good flows coming from the corporation. The good part is, 70% of our sales almost is to corporations. And those moneys are absolutely safe and secure. So I suppose it's a blessing in disguise for us. But I think what is important is, as we

stand as of 31st March and beyond, when I look at how we are doing on our debt repayment, as of 31st of March, we have repaid Rs. 492 crores of debt, which is almost a 20% reduction. And that is happening for almost the last two, three years. I think now we are sitting on a very, very strong balance sheet with a debt equity ratio of 0.5, with interest coverage of almost 7x, I think we are financially very, very strong that will allow us to play into the market recovery during this specific time and emerge stronger. So we are very happy with where we are standing now on the balance sheet strength.

**Avi Mehta:** Perfect, thanks. The second question was on the environment. Now, in your presentation; actually a very good presentation, I must compliment you on that; there has been a lot of focus on also advocacy. And I just wanted to kind of pick your brains on this, with home delivery now kind of starting, do you believe that the current environment enhances the ability to gain price increases? While there is a tax increase element, does the environment for getting a price increase improve or if you could share your thoughts on that?

**Anand Kripalu:** It's also very tough to say that this will make it better for price increases. Having said that, we have got pricing increase in a couple of states in the last few weeks, so it's not as if it won't happen at all. But the reality right now, I think is that states are desperate to mop up whatever they can mop up, because of the challenges on GST payments and so on and so forth. States are bankrupt, many of them are not able to pay salaries to government people. So we believe that we just got to wait out the next month or so, look at data about the huge tax increases that have happened, go back, try and get that rationalized and then start the advocacy again for doing what is right for the health of the industry and the category. Right now it's just not the time, even though we have had success in a couple of states, it is just not the time because I think it will be a complete mismatch of priorities. And states will say, here people are dying and they have all kinds of challenges in here and you are looking for a price increase. I think it's too premature for me to comment whether this will enable price increases or disable it. But I am just sharing with you how we are thinking about it. I don't think doors are all shut, right, but I think they are relatively shut for the immediate few weeks and maybe a couple of months.

**Moderator:** Thank you. The question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:** Sir, my first question is on the cost, you have done a commendable job in FY '20. So coming specific to Q4 on ad spend, it was 6% of the sale, so was Jan and Feb also lower in terms of ad cost? And you mentioned that now you will do more of few impactful events rather than small, small activities. So overall ad spend for the competition also will come down in FY '21?

**Anand Kripalu:** So, Abneesh, first of all, on a full year basis, our A&P is 8.1% and on P&A it's double-digit, so it's very much competitive and not a million miles away from what we have been talking about. Now, absolutely at a time when your business is shut, it is futile to advertise. And right now in this quarter, let me tell you, that the entire emphasis on getting the supply chain to restart, for us to advertise when we are not able to supply just doesn't make commercial sense at all. Now, as we look out into FY '21, the reality is this, I am not in a position to tell you how much we spend on advertising. And I am not sure competitors also would be clear about what they will spend

on advertising. We are going to manage our FY '21 on a quarter-to-quarter basis, seeing how demand picks up and then deciding how to support that with advertising. I think our priorities will remain to say, we must properly support our key priorities, let's say, the big relaunches we have had, we need to support them. And support doesn't always mean having an ad on television, right, there are other ways of supporting it and driving it hard. And I would say the other thing that is, that we will try and make sure we are not uncompetitive in terms of spend. Because we can afford to spend, but I think the thing is about doing what is right for the business at this time. And that is how we are approaching it quarter-to-quarter, month-to-month, Abneesh, we are going to play this game. And as the plot unfolds, our strategy will also unfold.

**Abneesh Roy:**

And Anand, that was helpful. One related question is, in Q4 when I see the growth of portfolio, whatever numbers are available and Radico Khaitan, their growth seems to be better than what you reported in terms of the P&A 19% sales. Is there any threat here? Or is there any share loss here? I think quarter is a short period, but any comments there?

**Anand Kripalu:**

Well, if you look at this quarter, so first of all, I don't want to compare with others, that's for you to do. But if you look at this quarter, first of all, this is a very unstable quarter, Abneesh, as you would recognize that. Now, there are a couple of state brand combinations where we have been a little challenged on share, and I put that as part of my summary. To address that, we have interventions that have gone in. Having said that, there are certain things that we did, and I will share what we did. So first and foremost, some of our competitors dropped price in key states, we have not followed, there is a short-term impact of not following the price drop, I think there's a long-term advantage of doing that. And this is not the first time it has happened. Some of our competitors have actually increased credit and trade discount. We actually started tightening credit and saying credit risk over revenue risk much earlier in the quarter, because we could see things becoming unstable. And at that time it's easy to sell, but then you have to pay the price sometimes, because it's also hard to collect. So that's happened.

Now, two more point. One is that as our relaunches of RC and No. 1 have gone in, we have had to run down stocks of the old pack almost close to zero in those key corporation and build the stocks back. And finally, Andhra Pradesh was one of our strong performing states, it's gone up for some of us, not gone up for all the players in India, by the way, but it's grown seriously for some of us. And therefore, the relative impact for us has been higher there. But I just want to leave you with the fact that you have seen previous quarters, I mean there was some difference here and there, not dramatic. And I do believe with some of our interventions that have gone in, I think we will be able to deliver competitive performance. So that's the way I would like to see it and like you to see it as well, Abneesh, if you could.

**Abneesh Roy:**

Right. That's helpful. One bookkeeping question. FMCG companies are saying around 70% of their output pre-COVID is back. When you take all shifts into consideration, not just one shift, then how are things currently?

**Anand Kripalu:**

I would say, so quite simply right now, about two-thirds of our outlets are open. Because remember, all the on-trade will start anywhere. And many outlets are just opening in some

places, Bombay actually home delivery is allowed, but the retail stores are shut. So about two-thirds of outlets are really open right now. And I would say, right now we are also, I would say, about 60%, 70% of our pre-COVID production rate. And we are very hopeful actually of getting second shift approval in some of our key states. In fact, I have just got a message from my manufacturing head saying they have given us some approvals in some places. So I think it will ramp up. But the key question for us is, how will demand play out? Because supply will be a priority only till the supply demand gap is bridged, after that demand has to come in. And we are still not able to read the status of demand, particularly in states which have had significant tax increases. So I think this will almost be like a jugal-bandhi, initially it was about supply, then it will be about demand and both have to then play in tandem together.

**Abneesh Roy:** Sir, last question, a small one. There has been a speculation on the delisting, I know the parent takes a call on this, but any comment you can make which kind of addresses and helps us in better understanding of this?

**Sanjeev Churiwala:** No comments at all, Abneesh, as you would imagine. This has to be directed to Diageo. We have no comments on this locally.

**Moderator:** Thank you. Next question is from the line of Arnab Mitra from Credit Swiss. Please go ahead.

**Arnab Mitra:** My first question was on your comment on down-trading. So, if depending on the first three weeks or whatever you have seen, are you seeing a bigger risk of down-trading from something like a McDowell's No. 1, which is just the start of P&A into Popular? Or are you seeing it across the board, including from something which is premium P&A to the lower end P&A? Because both the things impact you quite differently given how big McDowell's No. 1 is for you.

**Anand Kripalu:** So, it's really hard to read this without having more points of data, right? I mean, right now, it's so unstable, things are just opening up, and to read a trade with the data points which are erratic, because there was an initial surge of buying, the pantry loading, so it's really hard. But I will tell you a few things that we have seen in the short-term. Certainly there is a shift towards a larger SKU, so there is more purchase of the quarter packs, because the nip and pints are more consumed in the on-trade. People when they buy it for taking home are buying the larger packs also, they don't go so often to the shops so they are buying larger packs or maybe even more bottles and taking it home. But in terms of real down-trading, it is very hard to judge. I am just saying, it is intuitive to say when you have such sharp tax increases, that somebody will balance their money and their budget. There are many people also who have challenged income during this period, and what would you do? But on the counter side, this is a category where people don't down-trade easily as well. If you are a popular whiskey consumer, you don't start drinking country liquor again, and all the way down from the top. So there could be short-term hits and misses, but I would wait for a few more data points. And once we can read this, we would be happy to share with you the trend that we have.

**Arnab Mitra:** Sure. And my second and last question was in terms of your Prestige & Above segment. If you could help us with a very ballpark sense of what percentage or what proportion of sales comes

from the restaurants, bars and occasions like weddings and things like that, where the impact could be quite big and may continue for six, seven more months? And based on your reading of other markets and consumers, do you expect this to be lost sales till that period, because this is a different occasion? Or have you seen some bit of sales in other marketing made up from in-home consumption from this?

**Anand Kripalu:**

Listen, about 20% to 25% of our revenue is from on-trade, wedding, banquets and so on and so forth, so just take it about 20% odd is from there. Now, again, it's very hard to read, whether some of this will be picked up or not, intuitively some of it will be picked up for sure. And that's why I said, I think more spirits will get picked up, less beer may get picked up, because the occasion of socializing, sitting in a pub or a bar tend to be often beer occasions. But when it shifts home, it may not be a beer occasion at all, it may be a spirits occasion. So, I would say, that is what happened. I tell you what has happened in the West, it's interesting. So in the U.S., for instance, where 20% is on-trade, similar to India, 80% off-trade, off trade has grown very strongly, because there has been significant pantry loading and a lot of articles in the public domain or WhatsApp as well. In fact, in U.S. it is more than compensated for the loss of off-trade.\* In Europe, it hasn't fully compensated where the contribution of the on-trade is much higher, it's 40% or sometimes even 50%. So we have to see and play out. But on the positive side, I am saying, in India for many people who drink it's taboo to drink at home. And I believe, just like I spoke about a crisis as a point of inflection for decision making of regulator, it's also possible that some of the attitudinal barriers of this kind to say, 'if you want to drink, then drink at home', 'carry your bottle back home'. And people may say, 'listen, it's okay to drink at home'. And, 'it was never okay to drink at home earlier, that's why you drank outside.' Some of those shifts may happen. So I think there are multiple dynamics at play. And we will just have to wait and watch this. Honestly, we have so few data points now, just three weeks since the market has opened up and we have all been scurrying around just to stand on our feet again. But we will share with you some of these trends the moment we can read more. But I am just giving you some lead indicators of other countries, just so that you can see the relationship with this.

**Moderator:**

Thank you. We take the next question from the line of Amit Sinha from Macquarie. Please go ahead

**Amit Sinha:**

My first question was on the overall industry dynamics and given that you guys have much better balance sheet and better cash positions overall. And basically, just wanted to understand, while you have highlighted that between the spirits and beer you guys will gain, but wanted to understand the dynamics within the spirits industry, is there a possibility to gain market share from the smaller players? Or the smaller players are too few and little?

**Anand Kripalu:**

No, the smaller players are not so few and they are meaningful in several states. And I do believe a company like ours should have a competitive advantage because of our cash position, particularly in an environment where cash is going to be tight. And we know that cash is going

*\* Not compensated in value terms due to superior mix in on-trade channel and due to Nielsen data not representing 100% of the off-trade universe.*

to be tight, not everywhere, but certainly in some places. This increase in excise duty in some states has also caused an increase in working capital, so we have to deal with that. And we are finding ways to also compensate somewhere else, but that's going to impact everyone. So we do believe that the focus that we have put on cash over the last few years and importantly, even in the previous quarter, we have really put a lot of focus on cash to make sure our cash position is solid. I do believe we have a source of competitive advantage. We have to see how this will play out. Again, that will only be known in the fullness of time.

**Amit Sinha:** Okay, sure. Secondly, on the unit pricing trends. Last quarter, you had highlighted in the earnings call that there are initial signs of ENA price peaking out? How is the trend now? And when is the softer pricing going to impact the P&L?

**Anand Kripalu:** Sanjeev, over to you.

**Sanjeev Churiwala:** Yes, maybe I will take this question. I think you are right, in the last quarter we did say that we have seen the peak of ENA prices, and we were so true. When we look at the fourth quarter, the ENA inflation is almost stable as compared to the specific quarter, it's almost on a flat trajectory. However, compared to quarter-on-quarter or year-on-year, the ENA inflation is still sitting on a very, very high rate. Now, how does the things pan out is very difficult to say, you have to absolutely see the demand and supply, how it moves on. But I think it is suffice to say that we don't expect a hyperinflation coming in now, this is where we are and the current state is just three weeks of the market opening up, we are kind of just checking in all the dynamics, we don't have enough sufficient data point at the moment, there are a lot of variables that we are kind of watching out.

**Amit Sinha:** Okay. Just a follow-up here, I mean, from the peak, as of now in terms of sourcing, how much have ENA prices corrected? I mean, if you can provide that.

**Sanjeev Churiwala:** Fourth quarter ENA prices on the average is kind of almost at similar levels that what we saw somewhere around November, December.

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

**Harit Kapoor:** My question was on, if you could just take us through how you have been working with your franchises in the current context, especially, because there could be a pickup at the lower end segment? And just your view on allocation of spend, in the regular portfolio now versus the P&A portfolio. Do you possibly see that there could be incremental investment in the Popular portfolio, at least for the near-term for you?

**Anand Kripalu:** So we haven't thought of incremental investment in the Popular portfolio. But just to your point on franchisees, now listen, at the end of the day, everybody is stressed, right? We are stressed, when we have had one and a half month of almost no sale, and sitting with our fixed costs, the same is true for our franchisees. And our philosophy is that we have to have win-win relationship



with all our business partners, franchisees, third party manufacturers, customers, vendors, etc., etc. So that's our approach that we are going to be realistic. And these partnerships are like marriages, they are meant for the long-term. So we are in close touch with our franchisees on how they are doing, what is needed. And if they are under significant stress, then there are cases where we are now sharing a bit of that pain. Okay? Now, as we move ahead, we have to still make sense see exactly what happens to the Popular portfolio. We believe that the predominant drivers of performance in the Popular portfolio is not A&P and stuff like that, but it's just having good consistent product quality and good packaging that shows up in store. Those are the fundamental drivers of the Popular segment. Absolutely, we are looking at our own Popular portfolio in the retail space and talking about franchisees to be absolutely ready and push as hard as we can, because we are anticipating that there could be some gains in Popular, particularly in states which have had dramatic increases in tax. So we are absolutely waiting to capture anything that drops from above. So that is how we are approaching it. And our objective is to make sure that our franchisees remain profitable and sustainable and keeping that model up and running, and that's not approach.

**Harit Kapoor:**

Thank you, sir. The second question was on a follow-up from the earlier one, was that, if you look at the smaller player share, is there any state where the fringe players or the smaller guys, ex the top three, four players, have a larger share compared to others? Just trying to understand in the next one or two years are there any states where there is an opportunity for you to gain a higher proportion of market share?

**Anand Kripalu:**

Listen, this is an industry where you do have regional players, and the definition of regional players is that they have more strength in their region. So, you will find players and many of them really are born out of North India. And as one of my colleagues says, they use Delhi and places like that as the Trojan Horse to seed their brand, and then that kind of spreads to the surrounding states of North India. And most of them have been born out of North India. So obviously they are stronger there, which means they have relatively higher shares there. Now, I think our approach is really to make sure, and with the relaunch in the No. 1 and RC is to make sure that the offers that we have created are competitive and superior. And as we roll those out, I would like to believe that we have a good propensity for share gains in those segments. And that is what we are going to continue to do.

**Moderator:**

Thank you. We get the next question from the line of Manoj Menon from ICICI Securities. Please go ahead

**Manoj Menon:**

Just only one question on the home delivery piece, particularly on the branding marketing side of it. I don't know, just your thoughts, I understand that it's still early days, just two, three things actually. One, does it in any way helps in terms of, let's say, better branding, better showcasing of anything, given the fact that the consumer touch and feel was anyway not happening at the store? So that's one.

Second is, logically what I have seen in the market in many places that the retailers overcharge, obviously, that's one probably an advantage of home delivery. And third is, just cetera paribus,

does it really also mean that the volume consumption can increase, or let's say, premium or trading-up? Basic assumption here is that, which I am actually going with is that, look, consumption really did not get hampered because of access earlier. So, just trying to understand the home delivery benefits on the marketing side, that's one aspect.

The second aspect, at this point in time in these six states where it has really happened, is it direct supply from the back end? Let's say, Maharashtra is directly from your distributor, or is it really happening from nearest store? The context I am trying to understand is, both can have very different medium-term implications.

**Anand Kripalu:**

Okay, so this is a big question, Manoj, on home delivery and how it's going to play out. So first and foremost, in most states, in fact in all states, the home delivery model includes the retailer, it doesn't try and bypass the retailer. So that is first and foremost. And you have to understand the dynamics in our industry where retailers have paid high license fees and so on to get their retail business, you have to make them part of the solution. You can't have an Amazon kind of model in this industry, because the outlets are so few and they have paid high license fees to exist. And I don't think any Excise Department will easily create a model that will destabilize the retailer themselves. Okay? So this is about a enabling the retailer rather than bypassing the retailer.

The second thing is that, listen, look at your own personal example. When you start browsing in a retail store, you end up buying more than you did in an over the counter store. The day you start browsing on Amazon or Flipkart, you start buying a lot more things than you did and you are able to double click and get a lot more details about the product and the brand experience to convince yourself that that's what you want. So the whole ability to build brands digitally, to explain the details about brands digitally, is far superior than you can do at a retail store. So you got to believe that the opportunities for choice and the opportunity for brand building are superior.

And finally, you know, I don't think it's fair to say that accessibility, I think, accessibility is limited, and it is one of the biggest barriers for consumption. In many states, by the way, women do not want to go into a retail store to buy alcohol, it's just unpleasant. In fact, I would go to the extent of saying, they feel unsafe. If you are ordering online, you will browse, and you will buy what you want. Now, the fulfilment will be done by the retailer, but the payment can be made online, the choice making can be done online, age gating and verifications and whatever regulatory requirements are there can be done online.

Now, having said all of this, the few states where we have got permission, you have got to realize that we are still at a stage where ecommerce was in the first month when it started. So it is timing, whatever it is, still. But I can tell you this, we are working very closely with the state governments, directly as well as through our industry associations, to help them work this through and create a model that is perfect and that's win-win for all constituents, which actually includes the retailer, includes the consumer, and includes the manufacturer. And I think the state governments are also seeing the opportunity for enhanced revenue, because they believe that

there will be more upgrading, and there will be more increase in business because of better accessibility. So it's a big piece of work, and there are people all over it, by the way, within our business and in the industry association. So let me just get a bit more scale and I think then things will become clearer.

**Manoj Menon:**

Understood, that is quite comprehensive. Thank you. Just only one follow-up, if I may. What about the regulatory angle, let's say, what I mean is the advertisement and the marketing piece. In this business surrogate advertising I think is permitted, so I am just saying, I am just trying to understand what are the do's and don'ts if there is clarity at this point in time? I will tell you where I am coming from. While when I think about home delivery, it appears it's significantly positive, quantum of estimation could be different for different people, different analysts could estimate differently. But when I think about it's either neutral or positive, I really can't think of anything in a negative from a home delivery point of view, which, let's say, affect a large company like you. Except for the fact that does it really create a slightly better level playing field for, let's say, those folks who would actually now kind of, let's say, use a little bit of higher pricing or trade margins or kind of use those platforms to really push their brand? So just trying to understand kind of what are those regulatory barriers which applies for the online piece versus the offline piece currently? Just this clarity.

**Anand Kripalu:**

This is all just evolving in this space. I think you are asking me questions which I may not have all the answers for yet, this is all just evolving, okay. But the simple things are this, which is, first of all, we don't do surrogate advertising, we do brand extension advertising, so just a small correction there. The second thing is that on digital, you definitely have far more flexibility than you have on the other mass media. So on digital, there are more things that you can do to engage consumers once you have done age gating and so on, which you cannot easily do on mass channel. So I think you have to watch the space, but we believe there is significant potential to enhance the experience for our consumers.

**Moderator:**

Thank you. We take the next question from the line of Ashit Desai from Emkay Global. Please go ahead.

**Ashit Desai:**

I have two questions. One, you talked about reducing ad spends. Does the industry have a very high percentage of trade schemes also? And what is your view, I mean, in this kind of environment do you see a possibility of reduction over there?

**Anand Kripalu:**

So, trade schemes I would say are reasonably high in the industry. And there are two parts of spends in trade, okay. One is just the simple trade scheme, which is rupees per case kind of a discount, and the second is what you spend in store which also goes to on trade and to be honest off the trade. So, I think the way I would say it is this, that we are not being opportunistic. These are our customers, and you have to work with them not just for these four weeks when you might be in a seller's market, but you have to work with them over time, when they will be in the buyers market. So we are not being opportunistic to say cut a little bit here, cut a little bit there. Because it just seems very tactical, and not really in line with the kind of philosophy you want to build

with your ecosystem. So I would say, at this point in time, it is nominal, if anything, in terms of the savings opportunities on trade.

- Ashit Desai:** Got it. Could you quantify how large are trade schemes in the industry?
- Anand Kripalu:** I am not sure. Do we share that information, Sanjeev in our P&L?
- Sanjeev Churiwala:** Yes, it differs from state to state and brand to brand, it's very difficult to give one particular number to this.
- Ashit Desai:** Okay. My second question was, you talked about duty free to duty paid, if you could give a sense of how large is the duty free or travel retail channel? And in your view, would a consumer shift from a duty free BIO to duty paid BIO? Or will he down trade to BII or some other senior segments?
- Anand Kripalu:** So I don't know, I don't think 100% of the volume will get compensated through duty paid sales for sure, because there is a price factor. And many people just buy duty free because you are passing through duty free. Now people will buy based on absolute need for consumption. Our duty free business, for our premium brands, I will say about twice of what duty paid is, so it's much bigger, duty free is much bigger than duty paid. We have got to believe that some part of that will come, because many people who drink BIO and serve BIO are now going to start serving BII. A few might, but I would say, a large part may not, those people who are travelling abroad regularly particularly, I am not sure they are going to suddenly downtrade what they drink and downtrade what they serve. Because the category is also such where people don't do that easily. Now, there may be a certain reduction of volume itself because every time you travel you bring your two bottles or whatever, but now people are not going to buy that many bottles. But I think, again, we have to wait and see. I will say that there is likely to be some benefit of this, it will not be a full transfer of volume. How much that is really, really hard to say. And whether it will be all BIO or some little down-trade is honestly very hard to say right now. I mean, we are all learning this together, honestly. And we will share more insights with you as we are getting it. We have put a lot of trackers and so on through our Insights Team to be able to keep a finger on the pulse of consumer development. And we will try and share whatever we can as and when we get it.
- Ashit Desai:** Okay. Could you at least quantify how large are these segments, when we look at them in the P&A category as a whole?
- Anand Kripalu:** Sorry, which segment, the duty free?
- Ashit Desai:** I mean, if you look at duty free and BIO, BIS?
- Anand Kripalu:** No, duty free is largely entirely BIO only. So there is no BII, you might have the same brand in duty free like Vat69 or Black Dog, but the bulk of the sale really are BIO brands in duty free. And I said it's about twice of domestic. I am not sure what better quantification I can do for you. If there is something we will pick it up offline, if there is something more.

- Ashit Desai:** No, I was looking more from a sense that you currently don't get any share from the travel retail revenues, it's largely in Diageo's books. So is there a large benefit that you guys can get if consumer starts converting from BIO to duty paid BIO or BII spirits.
- Anand Kripalu:** Well, absolutely, there is some benefit, that's what I am trying to say, some shift is going to happen. It's really hard to assess how much. And then there is many moving pieces for BIOs, the big weddings are less, the big five star hotels and bars are less, there will be some shift of this. So there are just many moving pieces right now to give, honestly, any more precision than I can give right now. I don't have it, honestly, it's as simple as that.
- Moderator:** Thank you. We take the next one from the line of Ashwini Timani from RC Capital. Please go ahead.
- Ashwini Timani:** Sir, could you please guide me what are the margins on BIO that you sell from India? What kind of margins would you get on that?
- Anand Kripalu:** So, we have not given margin by segment, and not shared margin by segment really. And I don't think we are sharing that information, right Sanjeev?
- Sanjeev Churiwala:** Yes, absolutely. When it comes to BIO, that is part of the distribution agreement that we have with Diageo, and Diageo facility that is in India, not fitting into the margin split for various sub-categories.
- Ashwini Timani:** Sure. So could you also guide that, are you actually present in all states? Because not in the right ways that I am asking, so we have a lot of factories, and Pernod has a lot less factories than we have. So I am sure you will not comment on the individual competitive strategy. But that stark difference in the number of factories that we have versus Pernod, whereas we have the same number of bottling plant. So could you explain that to me and what are you trying to do with that?
- Anand Kripalu:** So, I am not sure I fully understood your question. So we do have factories in pretty much every state, may not be in every one of the smaller northeastern states, but may have at least one factory in most key states, and multiple factories in the biggest states. Now as you know, as a company we have moved from 94 factories in 2014 to 48 factories today. And we believe there is further opportunity for consolidation. I don't know how many factories other people have. But we have our own view of what is the optimal footprint of factories we need with the right business for our kind of business. And we have a clear footprint optimization plan to get there over the next couple of years. And as you have seen over the last four or five years, we have been doing that every year since 2014, and we will continue to do that next year also. So that's simply our manufacturing strategy.
- Moderator:** Thank you. We take the last question from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

- Shirish Pardeshi:** I have two questions, what is the inventory level with the corporation market before COVID and now?
- Anand Kripalu:** What is the inventory level in the corporation markets before COVID and now?
- Shirish Pardeshi:** Yes.
- Anand Kripalu:** It will be lower. I don't have the exact number but it will be lower, and I would say materially lower.
- Shirish Pardeshi:** My understanding is, the corporation market are in the range 15 to 20 days inventories, is that assumption right, in a normal scenario?
- Anand Kripalu:** It varies state to state. But all I am saying is that whatever it was when the shutdown happened, and today, it's lower because we have not been able to manufacture in line with the secondary demand, because manufacturing took time to pick up and stabilize, and is still not fully stable. So, in the short run in the month of May, our sales from the corporation have been more than the sales into the corporation.
- Shirish Pardeshi:** So this outstanding, which is higher with corporation market is because of the supply which will happen in May or the earlier also is higher?
- Anand Kripalu:** I am not sure if it's higher in May in the corporation market, Sanjeev can add to it. We have one or two states where there have been some old collections that have still not coming in, especially, let's say, Andhra Pradesh. So there are a couple of places where we have some old outstanding which have got stuck, which we are working to unlock. But the routine business corporation, there has not been a significant delay, as far as I know, barring these bank holidays or closing of the month and stuff like that kinds of issues. Sanjeev, do you want to say something more on that?
- Sanjeev Churiwala:** Yes. So I think I said in my initial presentation that as of 31st of March, the receivables are absolutely within control, and it's actually lower than the last year. So I am not really sure where you are picking up this outstanding numbers.
- Anand Kripalu:** Don't worry, it's not a matter of worry right now.
- Shirish Pardeshi:** No, I am not worried. I am only saying that there is an opportunity, significant opportunity for push. My second and last question is on Maharashtra, Karnataka and UP market. If you could share, what is the contribution in terms of volume in these three states in FY '19 and FY '20?
- Anand Kripalu:** I mean, I don't think we are giving state wise volume contribution, and that's really getting probably too granular. But suffice to say that Karnataka and Maharashtra are two biggest states. Karnataka is the biggest state by volume by far, because we have a massive Popular business also in Karnataka. Maharashtra is big because we have retained popular business. In UP, our

popular business is franchise. So by definition, Karnataka and Maharashtra are much bigger, UP is only a P&A market for us.

**Shirish Pardeshi:** Anand I got that, the reason why I am asking is that the local competition in these two states is higher, whether you take John Paul or you take the other player, they have really become aggressive and they are pushing the volume on discounting. So I just wanted, I mean, even if you don't want to share, can you state your growth between 2019 and 2020 in these three markets?

**Anand Kripalu:** No, we are not going to share state wide growth.

**Moderator:** Thank you. Well, ladies and gentlemen, with that we come to the end of the annual call. I would now like to hand the conference over to Mr. Anand Kripalu for his closing comments. Over to you, sir.

**Anand Kripalu:** Thank you. And I would like to just thank everybody for taking the time and joining us on this call. And most importantly, staying supported and invested in our company as we have gone through this very, very challenging phase. All I would like to say is, we are all beginning to see the sunshine and the light at the end of this long tunnel. And therefore I would look to the future with some positivity. Thank you very much.

**Moderator:** Thank you. Well, ladies and gentlemen, on behalf of United Spirits Limited, that concludes today's conference. Thank you all for joining. You may now disconnect your lines.