



**“United Spirits Limited  
Conference Call”**

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**Moderator:** Ladies and gentlemen, good day and welcome to the United Spirits Limited 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 “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Hina Nagarajan, MD and CEO and Mr Pradeep Jain, CFO from United Spirits Limited. Thank you and over to you!

**Hina Nagarajan:** Thank you very much. Hello everyone. A very good afternoon from the USL team and welcome all of you to our FY2021-22 Q1 results call. I am Hina Nagarajan, Managing Director and Chief Executive Officer of USL and I am really looking forward to this first interaction. I am joined by my colleague Pradeep Jain, CFO of USL. I hope you and your families are staying well during this time. As we normally do before we open the line for Q&A, let me share a perspective on the results that we announced Friday evening.

As we all know, the Country experienced an unprecedented humanitarian crisis in the quarter gone by with the severe second wave of Covid-19 sweeping the country. Most of us have lost near and dear ones in this wave while fighting gallantly on the personal front. In this context, our most critical priority was to look after the health and well-being of our employees and their families. And continue to play our role as a good Corporate citizen towards our communities and the extended eco-system. It fills me with immense pride that in addition to the ongoing 2 year “Raise the Bar” support program of Rs 75 Cr for the Restaurant and Bar community that commenced in April-Jun quarter of prior year, USL and its parent company, Diageo plc, committed an additional Rs. 10 crores and Rs. 35 crores respectively (cumulatively Rs. 45 crores) in this quarter to support India’s long term public healthcare infrastructure. This additional mobilization commitment and our approach of “One State One District” for the program has already started contributing towards expanding hospital bed capacity, oxygen sufficiency and medical equipment like oxygen concentrators and other critical patient care devices; this will continue over the next few quarters.

Let me now come to the Operating performance during the quarter; in summary, it’s been a resilient performance amidst a very challenging external environment; albeit, aided by the weak comparator of the prior year. We’ve continued to build on our learning from the first wave by instilling more agility in our operations in this stop / start environment. As all of you are aware, localised lockdowns started in April in a few markets, and most of the States had restrictions and night curfews in May / June that led to access being severely compromised. That said, it is reassuring that we were back to full operations as we exited

the quarter. And, based on our experience of the first wave and the continued expansion in the vaccine coverage, we are confident that the recovery momentum will gain further momentum.

Our commitments to innovation and renovation in the portfolio continues. Some of you may have seen the new and renovated bundle of Black Dog Whisky that is now present in three markets as we speak and will get extended nationally as the year progresses. McDowell No. 1 continues to retain its momentum after a strong performance over the last few quarters. Hipster, our pocket scotch innovation now in its second gear also continues to gain momentum and its presence in key markets in India. Additionally, we have made a foray into craft whisky with the launch of Epitome Reserve, a 100% rice grain whisky, an in-house innovation exclusively crafted by our master blender.

While all of you would have seen the press release and the results let me again call out the key salient points.

Our reported revenue increased 57% with Prestige and above at 58% growth and Popular at 60% lapping the national lockdown of last year. Consumer demand in off trade remains resilient within the constraints of the lockdown. On trade continues to be adversely impacted; both store opening and support. Price mix was unfavorable during the quarter on account of high Scotch salience markets, especially North India, impacted adversely by the Covid second wave.

On the policy front, we had spoken of West Bengal in the prior quarters. We continue working very closely with the government in our advocacy efforts for reducing levies and having a favorable consideration on pricing. We are looking forward to the new excise policy in Delhi coming into play with affect from 1 October 2021 and our role in transforming the retail landscape of the national capital city that really befits this stature. Stable commodity prices and continued management focus on productivity lead to 296 basis points improvement in our growth margins to 44.6%. Our A&P reinvestment rate at 5.2% is in line with last year, reflecting the not so conducive external environment for execution and some conscious calibration in view of the impact on the top-line during the quarter. Staff cost increase in the quarter is due lapping the prior year one time decision of the management across the Diageo world to forego the variable performance linked salary component driven by the global uncertainty of the pandemic. Additionally, Rs 17 Cr provision in the current quarter has been absorbed on account of a VRS package at one of our facilities in line with the progression to the end state manufacturing footprint.

Our EBITDA margin stands at 10.4% for the quarter, significantly higher vs the negative of prior year same quarter. However, subdued on account of the operating leverage driven by the impact of Wave 2 on the top-line. The full impact of the accelerated debt retirement in the last 4 quarters and the lower interest rates now stands reflected in our financials; our interest cost in the quarter is 60% lower than prior year

Exceptional item includes a one-off provision towards an additional demand in relation to a historical customer dispute having its roots much before Diageo's acquisition of USL. We are in dialogue with the customer to close this long outstanding issue in its entirety. In view of the confidentiality, we will not be able to share more details on this. All appropriate disclosures are already reflecting in our financial results.

Let me conclude by stating that Alcobev, as a category, is and will remain resilient during difficult times. We remain focused on what is within our circle of influence and that is to stimulate demand through our renovation, innovation, and other category growth initiatives. I also strongly believe that the embedded discipline and learning of the first two waves of the pandemic has enabled us to prepare for short-term disruptions and this will hold us in good stead in the coming quarters.

Last but not the least and am sure a lot of you have this question in your mind, let me add the following: The strategic review of Popular brands that we announced a couple of quarters ago is on track and will be concluded as per the stated timelines. I am working with my team on a business strategy refresh and over the next few months we will share the elevated themes once we are ready with full stakeholder alignment. With that we can now open the line for Q&A.

**Moderator:**

Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:**

Good morning this is Abneesh Roy from Edelweiss. Hina my first question is a strategic question, so you have been in Diageo India for the last four months, three months as CEO designate and one month as MD and CEO, you have also been in Diageo Africa for two and a half years so my first question is essentially next two years what will be your number one priority? Will it be market share expansion against the other large players, to essentially price volume growth ahead of the industry by pricing and being aggressive on the marketplace or will it be investing behind the brand, work with regulator or it will be the third option, which is the current one wherein status quo in terms of marketing, margins, innovation, players, etc., will continue?

**Hina Nagarajan:** Basically, I said that we are working on a strategy refresh so we will come with all these innovative themes when we are ready with full stake holder alignment. Having said that Abneesh, macroeconomic opportunities are hovering well for our industry. The market has many growth drivers right young demographics, increasing number of people entering the legal drinking age, low per capita in consumption and demand for iconic brands. The premiumisation trend is very strong. We have been scaling up in our cost journey. Of course, we want to participate much more in mid and upper prestige while we strengthen our core with McDowell's No.1. So, as we move towards being a low debt company, we would want to unlock new engines of growth may be through more alliances and partnership. In a sense market share and growth are linked and margin will be given. So, all these themes are in our mind and I would say that I have got a lot of confidence in our people, our strategy, the resilience of our business and in our ability to deliver long term shareholder value. We maintain our aspiration of delivering sustainable and profitable growth over the medium and long term as all these growth opportunities unfold in front of us.

**Abneesh Roy:** Thanks. One small follow-up on this so you have worked for two and a half years in Diageo Africa how is Indian liquor market different from there and you have worked in India FMCG companies prior to 2013 so in the last eight to nine years how much has the Indian consumer changed in the first four months? Is there a big realization that consumer has changed dramatically?

**Hina Nagarajan:** First addressing the question linked to Africa, there are lots of similarities and some differences in the African market and Indian market. The similarities are vibrant, demographic, volatility in the regulatory environment and sustainability challenges. I would say the difference is while Africa tends to be a larger beer market and India is a very vibrant spirit market, India has better affordability and the premiumisation trend in India is much faster. So, there are things that I can bring from African market into the India market in terms of: I was handling 37 markets in Africa so while some markets have disruption, the other market provides great opportunities and I want to apply the same principle in the 36 states/ countries of India. How much has India changed? Abneesh in the 7 to 8 years, I would say that India has become far more vibrant, and I think the premiumisation trend has really taken off and that is quite exciting. The exciting development for us is online/home delivery opening for our market. Overall ecommerce has absolutely exploded in India, it wasn't there when I left the country, but now it is absolutely exploding. Retail environment has improved massively, and our off trade is very vibrant now. Online adoption is very good, and we are super excited about home delivery opening for our industry as well. So, I would say the growth opportunities and potential I see today is very exciting.

- Abneesh Roy:** So that is very helpful. That is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Avi Mehta from Macquarie. Please go ahead.
- Avi Mehta:** Thanks for the opportunity. You highlighted about the business strategy refresh, which will be shared. What you also said is unlocking new engines of growth? Would it be fair to say that as we look to dial our growth rates, you would kind of put preference to sales over margin expansion? Is that the way I should read at least from a broad concept point of view?
- Hina Nagarajan:** I think both are going to be important for us. I do not think we will put one above the other. Both are important. It is an “and” game for me and not an “or”, I would say.
- Avi Mehta:** Where I was coming from is that: The history of USL has been awesome, in terms of the expansion that they have done, the net debt reduction, we have seen very strong headway in that kind of trend, so I was just to trying to compare from there on would the focus be more on investing in the market because it seems to be, as you logically look to drive new engines of growth it would need investments? That is what I would and please correct if that is not the correct way to look at this?
- Hina Nagarajan:** We are always on the lookout for more growth opportunities and so investment in growth engines will be there, but we believe that we have opportunity on margin as well. Like I said it is an “and” for me and both will remain on our agenda.
- Avi Mehta:** Just a related bit. Do these new investments when you kind of look at new opportunities you highlighted towards alliances? Is it fair to argue that the capital intensity is also going to be remaining under control if that alliance would be the preferred route? Is that the right way?
- Hina Nagarajan:** I think that would be fair to say. We are looking to get back. This is something that I carry in from Africa and my learning has been that partnerships can be very valuable in driving growth and yes it will be fair to say that. Pradeep would you like to add something.
- Pradeep Jain:** So Avi again whether you look at our manufacturing footprint progression or whatever as Hina is talking about new growth engines, absolutely. That is something which we will be very, very conscious of on the capital intensity.
- Moderator:** Thank you. The next question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

**Aditya Soman:** Good afternoon team. Two questions, firstly you indicated that you wanted to do more of in middle and upper prestige? If you look back since Diageo took over, we have not seen a very significant head way as far as market share goes, in particular Pernod where do you think the opportunities lie: whether it is in the existing brands or new brands or where do you think the weakness lies in gaining more share in the middle and upper prestige and then moving on to my second question, just in terms of non-whisky spirit, is this an area which you feel could be a significant contributor or at this point we will focus on sort of whisky? Thanks.

**Hina Nagarajan:** So, addressing your question on headway on middle and upper, I think both renovation and innovation have a role to play. We are aware that Royal Challenge whisky for instance has had a mixed bag performance, so we have renovated. Also, we were price challenged in some markets, we have corrected that, and we are beginning to see some headway with that. We are also in the process of parallelly looking to contemporize the brand to address the new entrants that are driving the growth in this segment and we have potential also in our brand that exist in upper prestige. So, we will be looking to press those buttons and innovation will always play a role. So as consumer needs evolve and as we look at what those leads are, we will definitely have more innovation on the agenda.

Coming to your second question on non whisky spirits, so we look at white as a category together. So, of late we are seeing a lot of traction in Gin and you might have caught that we have started putting a lot more might behind both Gordon's and Tanqueray which are our brands in gin category. We have started activating them much more in the market with a lot of traction. We are also conscious that vodka on its own is a large category and we have a power brand Smirnoff in this category. So, we are looking at an action plan on Smirnoff where we are looking to revitalize this brand and get a fair share of the category and you will see initiatives rolling out in 9 to 12 months in this category as well. So, we are going to be looking at the whites.

**Aditya Soman:** Thank you. Just a followup on the first question? You mentioned upper prestige, but we see the blenders pride is significantly larger than anything that Diageo has and for the consumer to make a switch what do you think will be the key drivers of that given how large a share that brand already has?

**Hina Nagarajan:** I think it is fine because consumer needs are evolving, we are looking at changes. When aspiration levels and desire for experience is from the consumer and you are seeing a lot of experimentation on flavor profile, etc., So we have opportunity and as the market evolves, we will be tapping into those new opportunities.

- Aditya Soman:** Alright thank you very much and all the best.
- Moderator:** Thank you very much. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.
- Arnab Mitra:** Thanks for taking my question. The first question was on your margins this quarter, so you have highlighted a little bit of benign commodity cost helping the gross margin, if you could just talk through going ahead incrementally as we speak in June and July and going ahead do, we anticipate inflation coming in glass prices, as well as ethanol or do we anticipate that commodity cost is largely range bound and therefore gross margins profile would not be under pressure?
- Pradeep Jain:** Arnab I will take that. There are two items which are a big portion of our COGS portfolio: Glass and the Neutral spirit cost. You are absolutely right, there are some inflationary trends in the glass line. In fact, as we speak, we have given some price increases, so that will bleed into the P&L for the coming quarters. On neutral spirit, as all of you are aware a lot of it is pegged to the ethanol blending policy and the prices that the government declares. Typically, those prices get declared in October and November, so we should be stable right now, but it is wait and watch till those policy prices are announced. As an ongoing, what do we keep doing? We have shared earlier also and as management we try and target at least 1.5% to 2% of net sales as ongoing productivity, which is value chain extraction and efficiency extraction, and we will again continue to do. As Hina mentioned, we will continue to do what is in our circle of influence and then we will see what happens.
- Arnab Mitra:** Sure thanks. My second question was this negative price realization growth that you have, price mix being negative I think 4% this quarter, is it purely a one off COVID impact of prestige and other mix or is it something which is going to continue going ahead into the year?
- Pradeep Jain:** As Hina mentioned, India is a portfolio of 36 States and union territories. North is severely impacted where the Scotch mix is very, very high and in the quarter that just went past, North was severely impacted because of the COVID impact. If you look at our historical trends over the last 12 to 16 quarters, by and large we have delivered a profitable price mix right. So, I would want you to believe it is a one off, but it is an outcome of the state and brand mix right. One would want to see it reversing in the coming quarters.
- Arnab Mitra:** Just one followup because last time when we saw the lockdown, we did not see a big negative price mix, so this is more driven by mix actually or more it is state composition just to get a sense which has contributed more to this negative number?



- Pradeep Jain:** The headline thought of that is, the impact on North has been far more significant in wave two compared to what happened nationally. Nationally was rather consistent across the country, whereas Scotch, which is a big, big salient for the North business has severely got impacted in the current quarter. That is why you see the swing in price mix versus the wave one.
- Arnab Mitra:** That makes sense. Thanks so much. All the best.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Thanks for the opportunity. Hina my first question pertains to the observation or the comments that you made, that the tailwinds that Indian alcohol has in terms of per capita income, young demography and you stressed a lot on premiumization also, but these factors have been there for the last many years and despite that the overall sector growth has been mid single digit at best and that is like as good or as bad as hair oil sector growth, which is highly penetrated and you bring a very fresh pair of eyes to the problem statement here so in your early assessment what is dragging down the sector growth from realizing the potential that you spoke about?
- Hina Nagarajan:** I think we are seeing positive development on the regulatory front, so that is one. The second is I think the demographics are there and they are accelerating right so we are seeing increased premiumization, we are seeing increased experimentation. Just to give you an example, you would have read about our foray into craft whisky right, so this is something that is helping us premiumize the whisky portfolio and we have full intents to do that. So, there is a lot more role for innovation to play. There is vibrant movement. The millennials are driving experimentation, as the millennials mature, they are bringing much more purchasing power so I would say that the potential is there and it is something that we need to take full advantage off and maximize the growth opportunities, so it is there, and I think it is accelerating.
- Tejas Shah:** Sure, this is helpful. Second on RM inflation not to dwell much on the near-term inflation but how do you see government's ethanol policy impacting ENA prices structurally from here on?
- Pradeep Jain:** On this one, our own assessment is that over a period of time right, fundamental economics will prevail, as this becomes very, very attractive for the ethanol manufactures, we also expect a lot of capacity to come up. So, while in the shorter term we could see some inflations headwinds, but over a slightly extended period, we believe that as additional capacity comes up, etc., the market will find its right balance. So, over the longer term, we

do not see any big worry on this front. In the shorter term you are right, we could see some inflation headwinds, which we always like any forward-looking company manage through a combination of ongoing productivity and pricing.

**Tejas Shah:** By shorter term you mean one or two years to come up capacities or if it takes longer?

**Pradeep Jain:** I mean typically in the India environment, India entrepreneurial spirit etc., typically these things come very, very quickly. So, let us see how that pans out right and we continue to do whatever we are doing to ensure that we are not adversely impacted by that.

**Tejas Shah:** Thanks that is all from my side.

**Moderator:** Thank you. The next question is from the line of Krishnan Sambamoorthy from Motilal Oswal. Please go ahead.

**Krishnan S:** This is regarding the ongoing strategic review of popular segment, your own thoughts on how critical this is from a medium to long-term perspective, what are the key gains that are expected and also since that you have given timeline until December, are you looking at ramping up the scope compared to what was envisaged earlier and will there be more such review in the future?

**Hina Nagarajan:** I would say that we proactively started this strategic review of our popular portfolio and that is on track and we are looking to conclude it as per the stated timeline. So, we are working with our advisors and looking to drive to a tangible decision whichever way it goes, so as and when we reach that precision, we will transparently share with you. We are not increasing the scope of the review at this point of time.

**Krishnan S:** Okay and your thoughts on medium to long-term benefits from this?

**Hina Nagarajan:** Well, depending on decision right, so I mean once we come with the decision, we will also transparently share with you what that means for our business.

**Krishnan S:** Understood and the possibility of more such deals I mean this will be an ongoing thing every few years?

**Hina Nagarajan:** Yes, as the market evolves, every business, we conduct regular portfolio reviews and that is business as usual, so we will continue to do that as we evolve.

**Krishnan S:** Understood. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Ashit Desai from Emkay Global Financial Service. Please go ahead.

**Ashit Desai:** Thanks for the opportunity. I had a followup question on the popular portfolio that you have retained, this includes Celebration rum and the Director's Special brand, we have not been investing behind this portfolio for a long time. So, going forward, will there be any growth plans for this portfolio, or this is something you would also relook into the future?

**Hina Nagarajan:** I mean this is something that we are looking at and it is part of the strategic refresh that we are doing. So again, we are looking at the role and the portfolio, which market etc., and we will come back with the theme on that as and when we close the strategic refresh out. All I can say is that we see a role in our portfolio for the brand and it will play a role in our strategy, by State.

**Ashit Desai:** Okay and my second question is on State presence. We may have exited few states or few markets or may have limited presence in certain markets due to various reasons, be it compliance or the other things whereas your larger competitors would still have decent presence in these markets. You see any possibilities where you can re-enter these markets may be through a different route or have some sort of presence.

**Hina Nagarajan:** First thing I want to say is that we will stick to the right way of doing business and in fact it means that we are out of the market so be it. I mean do we see the possibility. Of course, we are continuing to advocate with the government to come to solutions that are acceptable and help us do business in the right way and we have seen that markets comeback. So, no situation remains permanent, I think we have seen market close and come back with good solutions and when one door closes, there are opportunities in other states, and this is ongoing part of the environment in India. So, we are very sure that those markets which are closed today will be back one day.

**Pradeep Jain:** Just to add to what Hina has mentioned, these things have played out over the last four to five years. If you look at Uttarakhand three years ago, right that is back with a bang last year, Chhattisgarh was closed for about two to three years etc., that is back with a bang last year and I mean this is very, very clearly, playing out and we are confident that no market will remain closed permanently for us. It requires a little bit of effort on advocacy and the work with the government, but hopefully they will all come back.

**Ashit Desai:** Got it. Thanks, and all the best.

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

**Alok Shah:** You had mentioned that volume growth and margins both would be equally important for you in your strategy going ahead. Just wanted to check in the past we have already seen very healthy EBITDA margin expansion, but the sense that I get is you remain confident that with the current cost line items at which the business is operating, there has not been any revenue impact so to say because of past cost savings?

**Pradeep Jain:** Let me just try and interpret your question first, your question if I understand it right is that in view of the aggressive cost savings program that we have ran over the last four or five years, we have not forgone any growth opportunity, is that the question?

One would tend to agree, that I do not think we have cut anything vis-à-vis consumer or the customer over the last five to seven years. I mean ongoing efficiency extraction, absolutely, that any organization should continue to do, and we have done the same, but I don't think we have compromised anything for growth of the organization. Does that answer?

**Alok Shah:** Yes, thank you and my second question was on the distribution, so of course it is a complex environment to run liquor business in India, but do you think there is hope for you to do differently on the distribution side, at least in the states where this is privately held your thoughts around it?

**Pradeep Jain:** In Alcobeve category, the distribution is capped by the government on the outlet access right. I mean the entire category is like 60,000 outlets, out of which 80% to 90% of business is probably done by the 35,000 outlets, so distribution is not big differentiator. It is the battle in the store right of what we typically focus upon.

**Hina Nagarajan:** What I would say is, I think opportunities are coming with Route to market and Policy changes, that we are seeing in Delhi for instance. The retail environment is expected to change dramatically and become much more positive, and we see opportunity there and then we see a lot of opportunity in new evolving channel like home delivery where though it is at very nascent today and we know that it would take time to build, we expect that it will reach a tipping point one day and then really explode. So, in that sense there are definitely positive distribution opportunities that we see.

**Alok Shah:** So, my question was more on, is there scope to work even more closer with the retailers and distributors that you are currently working with or you think that you are operating in the best possible...

**Hina Nagarajan:** That is an ongoing part, we work very closely with them all the time and as and when we see opportunities, we take those opportunities to expand presence and visibility.

**Pradeep Jain:** And varies from state to state, I would say like Maharashtra is as close to a classic CPG FMCG model and we have very, very strong distributor relationship and we continued to work with them in terms of what we can do in terms of joint up business planning and how to expand the business.

**Alok Shah:** Got it. Thank you very much.

**Moderator:** Thank you. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

**Latika Chopra:** Hi Hina and Pardeep, my first question was around the demand landscape, if you could share exit June rates both for off trade and on trade recovery versus pre-COVID levels just trying to gauge a sense where we ended the quarter with and any early thoughts on how July is shaping up for you?

**Hina Nagarajan:** As we exited June, we were back to full operations as far as the off trade is concerned. Now on trade of course remains restricted, there are restrictions on capacity, on timing and the size of the social gatherings around the country, so on-trade remains subdued and as you know also global trade remains muted. So, I would say off trade is looking promising and on-trade we are hopeful that it will start opening as the COVID rate comes down and recovery and vaccination coverage goes up. We are hopeful that on trade will also start opening slowly but surely.

**Latika Chopra:** Sure, the second bit was just checking on your thoughts on potential foray into non-Alcobeve space, you saw this clarification being given in your memorandum of association?

**Hina Nagarajan:** So that Latika is just an enabling provision for us to do brand extension work and as far as standalone business in this respect is concerned, we have no intent right now. The low Alcobeve space is developing in the western world right, so we will watch for it and whether there is a future possibility or not, we do not know, we will continue to watch that space.

**Latika Chopra:** Sure, all right. Thank you.

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

**Harit:** I had one question on these gross margin side, so in spite of the product mix and state mix we had worked for the quarter, we had seen a sequential kind of improvement in gross margin, I just wanted to get your sense on kind of how you are thinking about this from an annual perspective because at one hand your product will continue to improve as state mix normalize and on trade improves and on the other hand you have some level of inflation

coming in especially as you mentioned from glass. So, should be share improving trend in this line going forward or should it be something bad, just want your thoughts?

**Pradeep Jain:**

So Harit it is a conglomeration of multiple drivers, you are right, there will be a little bit of inflation as we have already spoken of, but we continue to press all lever of mix management, ongoing revenue management efficiencies and our pipeline of the COGS productivity initiatives. These are the three things that we continue to pro-actively work upon. In some years the inflation is kind of slightly higher side, so that is where we have taken a little bit of a back seat, but in case the inflation is kind of stable, the prices etc., we do see a little bit of higher margin expansion. So that is broadly how we think about it right. The intent always is to continue to extract ongoing efficiencies across the entire value chain of the business.

**Harit:**

Got it thank you for this. One more question on the renovation side of the portfolio, so you mentioned there is Black Dog renovation you put out in three market, I just wanted to get sense on in terms of the overhaul of Black Dog is this a packaging innovation, blend plus packaging innovation, what happens on that, can you give a little bit more color as well as what is the kind of market expansion will be in the next three to six months?

**Hina Nagarajan:**

Black Dog started rolling out and the renovation is now available in three markets: Punjab, Haryana, and Telangana and by December we will be rolling it out nationally. It is a full change, so on Triple Gold Reserve there is a liquid change, there is a packaging change across, and we have also launched a new 14-year whiskey within the portfolio. So Black Dog was a bit slow in the past and this is our renovation to contemporize the brand and get consumers to rephrase it as a premium contemporary Scotch. We have a lot of Black Dog lovers in the country and really the positioning platform of Savor the Pause. Our initial feedback from these three markets is very positive. People are appreciating the liquid change on Super Gold Reserve and the 14-year-old and we are seeing very good repeat rates of the shelves from market like Hyderabad. So, I would say I am very confident that the change is going to sort of revitalize the brand.

**Harit:**

Thanks, and all the best.

**Moderator:**

Thank you. The next question is from the line of Sunita Sachdev from UBS Securities. Please go ahead.

**Sunita Sachdev:**

I just had two very short questions and all the best for your stint here Hina. Just wanted to you talk around your strategy around the BIO business since that it is strategic importance for Diageo as well. How do we run with it going forward, how is that business do and if you can provide anymore color on that business, it would be appreciated and Secondly given

your comments that you were excited about the online business, I am little surprised that you have exited the HipBar investment, so these are my two questions? Thank you so much?

**Hina Nagarajan:**

So, BIO I think we have seen a continual journey of scaling up as premiumization is growing and we will continue to drive that as a key part of our portfolio, and we will be looking at levers such as newer additions in the portfolio as we go along to continue to build this part of our business. So, it is a critical element of our portfolio and will remain so in the coming years.

Your question on HipBar, I would say that we are excited about home delivery and look I will say, HipBar, when we entered it was a differentiated model, it was the only one that had home delivery licence in Karnataka, since then there have been newer entrants and the models are revolving. So, my experience, when I tell you my three years spent in China, I learnt a lot on e-commerce front. Basically, this takes a long time to evolve, so there is a maturing period, where it will be a few years before we see it getting scaled and, in this period, there will be a lot of test and learn with different model to cater to the environment that exists in the country. So, at this point of time, we feel that HipBar model may be is not as differentiated as Swiggy and Zomato of the world, it is not differentiated enough, it is not appropriate for us to invest in an exclusive Alcobev-only home delivery platform. It makes sense to release the promoter to do other parts of his business, but we will continue to work with the retailer, the regulators, and the delivery platform to determine what is the best model that evolves in this space and we will continue to look at this space and be very active to participate in the opportunity that we think can be a game changer in the future.

**Sunita Sachdev:**

Thanks for that, apologies for pressing on the Diageo question a bit, we all know it is strategically important for the Diageo and yourself, you wanted to do more insight into how that plans out for USL, are we getting a marketing fee or do take part in any other way in the profit pool, I wanted to know more about you coming from Diageo think about the India as a delivery business, I guess retail?

**Pradeep Jain:**

Let me take that Sunita since that has come up repeatedly, look we are a national distributor, USL is the national distributor for the Diageo global brands, extremely high pricing, therefore extremely gross margin accretive so therefore clearly as Hina has called remain a very, very high focus and it allows us to tap into the premiumization space, the brands have fundamentally global equity associated with them so therefore very, very strategically important right. Now on the margin perspective, what I want to share is that ultimately, we need a portfolio of brands to play our margin game also. What this allows us to do is this is extremely high on the return on invested capital, we do not invest anything in

our manufacturing capacity, all we are doing is getting the product from abroad, distributing it and the margins are in line with any independent third-party distributor margin, so therefore very, very high return on invested capital and it has very, very solid base in our portfolio that we would want to build and grow.

**Sunita Sachdev:** Alright thanks for that Pradeep, one request if possible, to add disclosure in your press release every quarter on BIO business that will be very helpful.

**Pradeep Jain:** We will have to explore that. We do not want to make any commitment right now but yes; we will be happy to consider that and come back.

**Moderator:** Thank you. The next question is from the line of Chanchal Khandelwal from Aditya Birla Capital Ltd. Please go ahead.

**Chanchal Khandelwal:** Just a few questions on the balance sheet today, today we have best balance sheet in the last five years from United Spirits perspective, what are the kind of capex plan for the next two to three years and given that you want to reduce the volatility of ENA, what kind of alliance or investment you will do reduce the volatility?

**Pradeep Jain:** Let me take that so in terms of the capex intensity, if you look at run rate over the last three to four years right post acquisition, we have by and large been in a particular range right and we pretty much expect that range to continue, there is nothing right now that we are seeing which will dramatically change it. So that is one and second thing is Yes, in Indian environment we believe that alliances is the way to go that is exactly what we have done on our manufacturing footprint also, which includes a lot of co-located ENA distillation facilities and we will continue to progress on that premise as we reach our end state manufacturing footprint.

**Chanchal Khandelwal:** Pradeep can you elaborate co-location of distillation facility and anything more you are doing to make sure the supply is secured and the volatility in ENA is reduced?

**Pradeep Jain:** It basically provides a supply security right with a third-party manufacturing partner; they have a co-located distillation facility and therefore the neutral spirits supplies are secured, and they come with a set of cost advantages also.

**Chanchal Khandelwal:** Sure thanks. One more question if I may, if I look at competitive spirit, if I can name, Pernod at one end whose sales per case is far superior, and Radico at other end who has gained market share, I mean if I look at the state mix or brand mix if you want to play, if you can and if you want to answer Hina, on how will you play it out, Which are the states which you would focus now to improve your premiumization as you had started saying that



premiumization in India is a big opportunity or anything you want to call out which are the states, which are critical you want to attack so that you become far superior than competition in India market.

**Hina Nagarajan:** It is difficult to outline which states are important. I think all states are important for different parts of our portfolio that would be my answer. I think we are very clear about clearly defining which parts of our portfolio are important, I mean market which is a popular or a lower prestige dominated market, a McDowell's No. 1 will have a big role to play, both affecting people from the lower segment and catering to the aspiration of the consumer and we have the best of portfolio to be able to play that in every state to an advantage. So, I would say that I think as an ongoing part of our strategy, we clarify which portfolio plays in which State and we are going to continue to make that sharper and sharper and then bring our renovations and innovations to take advantage in that.

**Chanchal Khandelwal:** Sure thanks.

**Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Centrum Capital Ltd. Please go ahead.

**Shirish Pardeshi:** Two questions, the first question is that in quarter one what is the weighted inflation we have experienced and how much price increase we have tried to mitigate in this cost mitigation and my second question is in relation to the previous participants question, I think our channel check suggest that mid premium segment is picking up very quickly and there are regional players also trying to throw in their hat while it may be true but the important factor which I wanted to have your candid view is that when off trade is becoming a little more important during this lockdown period, do you see any abrupt or different behavior from the competition and if that so what is our thought and how we are trying to explain our position to the retailer?

**Pradeep Jain:** Maybe I take the inflation and the pricing question first and then I have to request you to summarize and repeat your second part of your question so that Hina can take that right so Q1 versus Q1 of prior year, I think on inflation, there was hardly any inflation at least in the core raw and packaging material. But like we said in the earlier part of the call, we have given glass price increases as we kind of exited the quarter and therefore you will see the impact of that in the subsequent quarters. Pricing again, we have got pricing from few states, as the excise pricing cycle finished and again you will start seeing a little bit on account of that in the coming quarter, pricing would be in the range of about 0.5% to about 0.6% that is roughly the national weighed average that we get pretty much which we have got over the last 9-12 months right so that is the bit on your first question.

If you can repeat your second question, which was largely around mid prestige, you made the point about new competitors coming into the category, but we did not exactly catch it, what was your question?

**Shirish Pardeshi:** Just to rephrase the question, during this lockdown period, off trade is becoming a little more important in terms of consumer interaction and the exposure so I would suspect that the competition would have been little aggressive on that front of course, once the on-trade opens, we will have your merit to say that, but my view is how would you manage to get this, or lockdown get this little extended and how you have managed the competition?

**Hina Nagarajan:** We have penetrated very much to the off-trade as well, so as off-trade became more important, as in-home consumption picked up, we have also pivoted very quickly and I would say I am very proud of the team, in the ability they have shown, in visiting to off-trade and to using digital for in home consumption and moving contents to that. I would say that part of doing business and managing competition and I think we have done it well. I would say I am quite pleased with how fast we have moved there; we have also deployed resources additionally into off-trade and invested as the market has evolved and we continue to watch this mix of channel. I am very confident that with the learning that we had over the last two waves and what we have seen as changes and if we see changes further, we will be able to adapt very quickly to that.

**Shirish Pardeshi:** All right thank you and all the best to you.

**Moderator:** Thank you. The next question is from the line of Siddharth Gupta from Voyager Capital Management LLC. Please go ahead.

**Siddharth Gupta:** Good afternoon to the entire team and welcome Hina back to India and let me just say I am very excited for the future of this company both as a stakeholder and the fact that I have recently turned 26 and so I am legally allowed to drink also as a consumer. But my question is, from a very basic overlook, if I could see there is roughly about 50% of your sales has come through what you are planning to off load in your strategic review, so what effect do you think would it come on your OPM which is roughly hovered between 12% to 16% over the past few years and secondly when it comes to what I have noticed is that, I know that advertisement is banned in India for alcohol but I have seen competitor brands using quasi marketing on social media a lot more than our brand that is something that is on the table because I just think millennial are ready to tap in and spent more money on premium product but I have not seen a lot of activity from United Spirits on this front, so could you answer both questions?

- Pradeep Jain:** Just to again to reframe your question Siddharth your question is that what could be the implication on our business depending on the outcome of the strategic review, Is that right understanding of your question?
- Siddharth Gupta:** Right Sir because from my understanding the total volumes of the mass brand which you are seeking to off load is roughly 49% of your full volume and because our OPM has been hovering anywhere between 11% to 16% over the past four to five years, how would this fall in revenue be compensated in the OPM how much percentage wise OPM are we expecting?
- Pradeep Jain:** I do not think that the numbers you have are right, but let me give an elevated level exactly what Hina mentioned earlier in the call, we are mid way through our strategic review, we have not reached any concrete outcome, right, and a lot of options are possible and depending on whatever option emerges as the final recommendation, we are live to the implications of what it will have on the business model and our overall margin etc., and we are working provocatively to figure out the way of ensuring that we are absolutely covered on that front. That is what we would want to say at this point of time.
- Siddharth Gupta:** What is the OPM that we are targeting over the next few years if I can reframe my question in that sense excluding the years, we have made losses, we have actually been stuck in the OPM margin range for a very long time now, so is there a strategic target of moving past the certain level of profitability or are we not having that number on table and just targeting pure numbers as profits?
- Pradeep Jain:** We have maintained what we have said earlier which is mid to high teens and we remain absolutely committed. If you look at our progression over the last five years, let us say post acquisition we have gradually inched up our operating margins from let's say from high single digit, we are broadly there in mid teens and therefore we would want to remain committed to the mid to high teens that we have always maintained.
- Siddharth Gupta:** Okay and if you could answer my other question with regard to marketing endeavors which is that also another which I have noticed over the few years that are sales has not grown at an exponential rate, growth incrementally which has been great, we have done amazing work on the debt reduction front which I commend the management for, but what is it in terms of innovative advertising or the outreach methods that the company plans on adapting?
- Hina Nagarajan:** I think we do what is possible within the regulatory framework, so whether it is brand extension or whether it is being able to do visibility at core level and digital, I would say that I am very pleased with what we have done with digital advertising and our work is

breakthrough and it is addressing the target audience quite sharply and we have bigger commitment to become even more targeted and focused. We have some really good tool internally to make our marketing programs much more focused to the target audience that we are seeking through digital, and we will continue to drive that, and we are seeing very good ROI from that, so our return on investments is really good and we will keep dialing that up.

**Moderator:** Thank you very much. I now hand the conference over to Ms. Hina Nagarajan for closing comments.

**Hina Nagarajan:** I would just like to say thank you very much for your time and the engagement on this call and I wish you a good day.

**Moderator:** Thank you very much. On behalf of United Spirits Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.