

"Q3 FY '22 Earnings Conference Call of United Spirits Limited"

January 27, 2022





MANAGEMENT: Ms. HINA NAGARAJAN – MANAGING DIRECTOR AND

CHIEF EXECUTIVE OFFICER, UNITED SPIRITS LIMITED

Mr. Pradeep Jain – Chief Financial Officer,

UNITED SPIRITS LIMITED

Ms. RICHA PERIWAL – HEAD OF INVESTOR

RELATIONS, UNITED SPIRITS LIMITED



Moderator:

Ladies and Gentlemen, Good Day and Welcome to the Q3 FY '22 Earnings Conference Call of United Spirits Limited. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Hina Nagarajan – Managing Director and Chief Executive Officer; and Mr. Pradeep Jain – Chief Financial Officer from United Spirits Limited. Thank you and over to you.

Hina Nagarajan:

Thank you Jacob. Hi, Good Afternoon everyone and thank you for joining us on the Q3 Call today. Hope all of you are safe and wishing you and your loved ones a healthy and Happy 2022. I am joined by Richa Periwal, our Investor Relations Head and Pradeep Jain, our CFO.

As is customary, let me share some headlines on our overall business context and performance in the quarter just gone by before opening it up for Q&A.

Business operations remain normal through last part of the quarter. Our country's vaccination program has picked up pace, infection rates were largely under control, consumer confidence was inching up, and the economy was on a brief sense of normalcy during the quarter, also evident by the increasing footfalls in public places. Improved mobility combined with festive holiday season further led to demand buoyancy. Supply side remains resilient even though input cost continued to exert pressure. Global supply chain remains disrupted with shortage of container, highest shipping rates ever witnessed and port congestion. Heavy restrictions were, however, back towards the last week of December as the COVID case counts in the country mounted, driven by the latest variant.

In this context, we delivered a robust performance in the quarter. The quarter witnessed a ramp up of the innovation, renovation, interventions made earlier in the year. The second limited edition pack of Epitome Reserve – a new Peated Indian Single Malt (3600 bottles only) was also launched in Goa. Black Dog Whiskey, in its new avatar is now available in 90% top-line salience markets. Our innovation of Royal Challenge American Pride was launched in Goa. With this, it has now been launched in 3 States following Assam and Madhya Pradesh. Renovated consumer bundle on Signature Whiskey has now reached >70% of the national market. The use of recycled glass and paper / cartons for the packaging has landed very well with consumers and drives differentiation. Our pocket scotch format innovation, Hipster was extended to J&B Whiskey in July'21 and Smirnoff Vodka in Sept'21. The same is currently ramping up on distribution as per plan. As we communicated earlier, both Signature and Royal Challenge American Pride intervention are in service of strengthening our presence in the upper prestige segment and premiumizing the portfolio. Couple of other call outs for the quarter:

We launched our digital platform; In.theBar.com. This is a place where our consumers can engage with our beautiful brand homes, explore the latest lifestyle trends, find out food pairings



with our liquids, the best gifting possibilities and even make their own cocktails based on the occasion they are looking to celebrate.

Johnnie Walker Revibe campaign; reached 100 Mn+ consumers with "Revibe the Night" messaging where the focus is to reenergize socializing at our favourite Food & Beverage outlets.

On the policy front, both Delhi and West Bengal operationalised their new policies during the quarter. Additionally, we also saw the positive trend of State tax rationalization on BIO segment continue during the quarter. Both Maharashtra and West Bengal made changes on this front.

We have made progress in helping create a more sustainable world under **Society 2030**: **Spirit of Progress Strategy**. We continue to reduce GHG emissions from our own operations and enhance water use efficiency. Our plastic waste collection drive and water replenishment initiative is making good progress. We continue to run anti-drink drive program and impart training to curb underage drinking.

Let me now call out the highlights of our financial results announced on 25th evening:

Our reported revenue increased 15.9%, our highest under-lying growth; 14.3%. P&A segment grew 20% while there was a marginal 1.7% decline in Popular. I am very happy to share that this is the highest ever NSV performance in a quarter.

- Off-trade continued its resilient performance
- Continued recovery in on-premise footfalls. (Caveating here that the likely 3rd wave and positivity rate going up will impact this in the coming quarter)
- Healthy Price mix continues to be a tailwind driven by the top-end of the P&A segment growing high double digit.

Inflation has been on an increasing trend during the quarter. Continued management focus on favourable product mix and a culture of everyday efficiency partially offset the commodity inflation. Underlying gross margin was 44.3%, down 31 bps vs prior year same quarter.

Our reported marketing investment rate was 10.3%, up 125 bps. We stepped up investment to strengthen brand equity, premiumise our portfolio and expand our digital capabilities.

Underlying EBITDA margin stands at 17.0% for the quarter, up 159 bps primarily driven by operating leverage.

With the full impact of the accelerated debt retirement since April 2020 and the lower interest rates, the under-lying interest cost in the quarter is 56.8% lower than prior year. USL legal entity reached a debt free status as on Dec. 31st, 2021. CRISIL upgraded its rating on USL's long-term bank facilities to 'AAA / Stable' while reaffirming its 'A1+' rating on the short-term bank facilities.



PAT was at Rs 291 Crores in the quarter, a 26.7% increase vs prior year.

In conclusion, I would like to re-emphasize the following:

- We are happy with the current momentum on the demand front and are focusing on sustaining the same. As I had mentioned also in my press release; external operating environment will continue to remain challenging in the near term. We are conscious of the continuing inflation headwinds and are therefore, working continuously to expand the pipeline of value chain productivity and revenue management initiatives.
- Our portfolio, with the focus on innovation and renovation, is well-positioned to capitalize on the rapidly growing premiumization in the category and we remain committed to sustainable profitable growth and long-term value to all our stakeholders
- Last but not the least, we are currently in the final phase of the strategic review of our Popular brands that was announced in the Jan-Mar'21 quarter and as you would have seen, we have extended it by a quarter to land a meaningful outcome.

With that, we can now open the lines 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 Rov:

Thanks for the opportunity, my first question is one of your key competitors, Pernod is launching branded retail outlets, so if you could tell us is there a good potential on this and what would be your thought process, and in the markets where you have handled leadership earlier in Africa or say in any other market, does it make lot of sense to have your own branded retail outlets?

Hina Nagarajan:

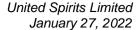
Thanks for your question, yes, we have read that Pernod is looking at launching the branded outlets. I think the situation differs from market to market. There was some countries in Africa where it made sense to do that, both for reach and visibility reasons. In some markets, it just did not make any commercial sense, so this is an area which we will review and wait and watch. For the moment, we are focused on the strategy that I have outlined a few months ago focusing on premiumization, our broad-based participation in the Prestige segment and really accelerating our luxury and premium portfolio.

Abneesh Roy:

One follow up on this, In.thebar.com, could there be a home delivery opportunity longer term because you have exited HipBar, and you are currently focusing more on customer engagement and the branding aspect, but longer term could this also be a home delivery platform of your own?

Hina Nagarajan:

Absolutely Abneesh, we are very excited about the opportunity of home delivery which has unlocked during the COVID and eventually yes, depending on the regulatory environment, how the model goes, there could definitely be an integration in this for home delivery.



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Abneesh Rov:

Last question, so adspends as a percentage of sales in the earlier quarters was more like 6% to 9% and you did say the reason behind 10.3%, so is this is a one-off because now the cost inflation is a key concern for every consumer company, so would you like to make it lower in the near term because of the cost inflation?

Hina Nagarajan:

Abneesh, we have increased our A&P spends in the quarter gone by to support the renovations and innovations that I have talked about and also because on-trade was opening up and we had calibrated spends in the previous quarter and we brought it back as on-trade came back to normalcy, as well as last quarter was our peak season. On a yearly basis I would say that we look at a full year and we have talked about 8% to 9% investment for the full year, this I consider to be a very good investment and not a bad cost. So, we would like to continue to invest in our brands and support our growth and should we reach a stage where there is extraordinary change in environment then of course we will review every line of the P&L, but at the moment our plans are focusing on investment on our brands.

Moderator:

Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra:

Hi Hina and team, my first question was if I look at the Prestige and above growth of 20%, 12% of that is realization growth because the volumes have grown at 8%, so this is the second consecutive quarter you have seen very high realization growth, if it is largely mix driven, is it something that can sustain this kind of a YOY increase in realization? Do you worry that once the duty free channel opens up maybe somewhere six to eight months down the line, there could be a significant change because people go back to buying the scotch in the duty free channel?

Hina Nagarajan:

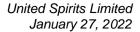
Thanks very much for your question. Premiumization, our renewed strategic focus on the P&A category, of course a favorable regulatory environment which has folded over the last few quarters and the muted global travel have all supported this strong price mix and growth. Historically, we have seen about 4-5% price mix and now we are seeing about 10-12%. Our expectation is that this will settle over the next few quarters that maybe somewhere in the middle, may be 7%-8%, but with our premiumization strategy, we believe that is a sustainable price mix to deliver.

Arnab Mitra:

My second question was on your comment on input cost inflation, if you could just help us understand incrementally as you move into March quarter versus December quarter, what is the level of additional inflation across ENA and glass? Would you require significant effort to mitigate it or it is more in a gradual curve and therefore with productivity and things like that, you could be able to offset it like you have done in the last couple of quarters?

Pradeep Jain:

As Hina mentioned in her opening comments, inflation is on a rise and pretty much the two commodities that you have mentioned. We are clearly seeing an upward trend in that and like we have always said, we are trying to do what is in our control which is accelerate our productivity pipeline. We are trying to draw plans to increase that realization over the coming





quarters, but inflation definitely on glass and ENA is inching up, so we are making our best efforts to mitigate to the extent possible.

Hina Nagarajan:

Arnab I would also add that we are making a very strong representation to State Governments through the Industry Associations highlighting that this is a very inflationary environment and a unique year, and therefore, encouraging them to give us pricing flexibility just like other industries have and even the price controlled drug industry has, so our representation is ongoing and we will be able to continue that through this new excise period that is coming over the next few months.

Pradeep Jain:

That is right, the excise cycle is on, pretty much on from now till about April-May, so we are working with the Association for the price increase.

Arnab Mitra:

Pradeep, any quantification on our overall RM index level, what would be the inflation that you are incrementally seeing sequentially?

Pradeep Jain:

Arnab, our sense is that the total inflation in the coming quarters could range at a very broad ballpark numbers of about 4% to 5% on the total portfolio.

Moderator:

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

Manoj Menon:

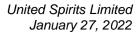
Hi team, one of my questions was actually just taken off from what Arnab's clarification and your responses so it was in fact one of the thing I wanted to discuss, so when I look at the policy changes implemented by many State Governments over the last 12-24 months, it is extremely encouraging something which has never happened, in a cluster it seems to be happening, so there is something definitely changing top down, just wanted to check push the envelope a little more on that, can we assume that the willingness to change the historical templates and grand price increases and treat the alcohol industry different versus what it has been, so what sort of sense on the pricing component in the policy front on those States which has been adamant in the past?

Hina Nagarajan:

I think there are two different areas and while we are seeing the overall policy changes being positive on the route to market side and duties on BIO particularly and that is basically to bring down prices on parity with neighboring States etc., I think pricing remains a discussion with every individual State and our hope is actually that the Governments will understand that it is a very extraordinary year in terms of inflation and we continue to advocate and represent on pricing at the association. Our intent is to work with them on a win-win where we are able to balance the pricing and the volumes and their revenue for them right, there has been some positive price development. In Assam for instance, we got an out of turn price increase, so this is an ongoing conversation with States, and I am afraid I cannot generalize one way or the other.

Manoj Menon:

Just quickly Hina two things actually one top down and one bottom up if I may, now after about nine months back in India since April last year, just your perspective that you would have had a certain expectations on the India which you left and then when you are back, so from a United





Spirits length if I take it let us say from a functional lens, one is policy, sales, marketing, HR, finance, supply chain, which are the areas which surprise you positively and which are the areas which let us say there is more work to do, that is one? The second bottom up is I know it is too early, it is just under a month after implementation of the Maharashtra import duty reduction etc. here, what are the price elasticity benefits early signs telling you, basically what is the consumer is telling you through his let us say his behavior?

Hina Nagarajan:

I would say that overall, I think my surprises have been pretty positive in the sense that we worked on this strategy and announced it only very recently, and I think the premiumization speed has surprised me quite positively, just the consumer demand momentum and the market's potential that is there for our AlcoBev has surprised me very positively, I mean the speed of it. I could already see the premiumization trends as I came in but the price reduction in the BIO for instance, the positive policy development in three-four States almost coming one after the other has also been a very pleasant surprise. I think there is more to do clearly on inflation as I have mentioned, I mean it is an extraordinary year, there is inflation on international logistics, there is inflation within the country and while productivity is embedded in our organization, it is in our DNA, we definitely need to do more because of the headwind and certainly I would say that continue to represent through the Government on pricing flexibility would be more to do from my side and a journey on manufacturing footprint optimization that is well underway for us, but no-where we are finished, so I would say these are the more-to-do areas.

Manoj Menon:

Just one clarification if I may, I understand it is in the interest of time comes in, hundred factories now close to 50, so you are definitely saying that it is still opportunity on cost opportunities there?

Hina Nagarajan:

Definitely, I think there is still more to do. We have not reached an end state, the manufacturing footprint is not yet at its end stage, and we think there is more to do. You had a question on Maharashtra the price elasticity on BIO so the early signs are very positive. We have definitely seen consumer traction build behind the BIO brands with the price reduction and our brands are actually growing healthy double digit there.

Moderator:

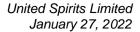
Thank you. The next question is from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta:

Hi team, just had one clarification on the near term challenges that you called out, with cases kind of moderating, have you seen demand environment also kind of improving, is there any sense on that, if you could kind of highlight from that perspective, and B, from a regulatory aspect, we have seen MP come out with a new policy, but any other new policy discussions where Delhi could be used as a template?

Hina Nagarajan:

I think situation on cases is varied by States, so some are moderating, some are still going to the peak and we have I mean in some States the weekend closure, night curfews etc. have impacted footfalls and slowed down, but like we saw in the previous wave, we expect that the recovery is quite fast as things open up and as you are aware that this wave is not being seen as bad as the





previous wave, so people are not panicking etc., so we expect normalization to come in very fast as these restrictions go away. So, I would say that there is some disruption in some markets where are there are closures, but it is not worrying us as was the case in COVID Wave 2 where it was really very strong and even internally with our people, we see a lot of absenteeism, but mild cases and therefore we are able to manage those disruptions. So overall I think as cases moderate, we do see positive momentum come back.

Pradeep Jain:

If your question was referring to the last quarter gone by that have the cases moderated, did we see a demand pickup, absolutely, Hina mentioned that in her opening comments that we did see on-premise almost come back to the pre-COVID level of footfalls etc. and that is kind of reflected in the quarterly performance.

Avi Mehta:

Pradeep what I was trying to say is that is the sense that more from a demand side seen problem not as bad as we should kind of, is that what we would kind of argue, is that a comment as of now, I know there are lot things that might change, but as of now it does feel like that, is that a fair read through of the comments?

Pradeep Jain:

That would be fair, a little bit of moderation in view of the restrictions that are coming in, so the first four to six weeks as we kind of go into these restrictions, there will be a little bit of moderation.

Avi Mehta:

On the regulatory front?

Hina Nagarajan:

In MP, it has just about come in, it has just been announced. We are looking at the full impact of that and I think that would make four or five States with big regulatory changes. At the moment, no other big one being discussed, but the ones that have happened basically will need to fully rollout. As you may be aware that even Delhi seems while the route to market has changed, all the outlets have not yet opened, so that is still playing out and West Bengal only started in November, so there is a lot that will happen in these unfolding but I think the developments are very positive even MP I think it drives more affordability, prices will come down and accessibility will improve because now you will have composite liquor outlets, so I think these are very good templates that are being rolled out State by State.

Pradeep Jain:

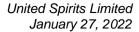
To add to that Avi which is what Manoj also mentioned, if you look at the last 12 to 18 months, there are a lot more positives in policy front. Earlier if you see more balanced between the pluses and minuses, Hina jokingly called it a beginners luck, but we are very, very happy with what we are seeing.

Avi Mehta:

With that if I can ask, is there any update on the UK treaty as well or nothing as of now, have we heard anything over there?

Hina Nagarajan:

No, I mean the talks are underway as you know, but we know this is on the agenda but the timing, quantum, pricing is unclear to us since, so there is no update yet.





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

Alok: Hi team, great set of numbers, my first question is would you like to quantify if at all there was

any impact coming from any market disturbances be it Delhi, change in route to market, or

lockdown in the last week or 10 days of the quarter, was there any impact that you want to

quantify?

Hina Nagarajan: Difficult to quantify, but I can give you the Delhi example, so Delhi had closed down the market

for us basically I think the stores are only operating couple of days in a week and the weekend

curfews are definitely impacting footfall and sales, so for sure there is an impact.

Alok: Where I was coming from is that this is the quarter where you know on-trade has largely been

back to pre-COVID, off-trade has only been improving and after that while it is encouraging to see 8.5% volume growth, but I think I would have expected a bit more, so that I was checking

plus we have the positive impact of restocking of Black Dog and Signature also, so that benefit

also we would have got, so that I wanted to sort of clarify on any market?

Pradeep Jain: Alok it is a bit of setback, as Hina kind of laid out, we cannot control the pandemic and we just

have to get used to kind of working around it. We are happy with how we have responded to the first two waves and we believe we will absorb this also and like Hina said, we do not expect the

restrictions to continue for a very long time, so hopefully it will be shorter duration.

Alok: My next question is on EBITDA margin guidance, right now we have been holding on to this

guidance of mid to high teens, if we look at this quarter and the previous quarter, we are closer to 17-17.5%, next quarter also there is no reason to believe that we would be anywhere below

17%, so is that like are we just trying to defer the guidance change because you are waiting for

outcome of strategic review of popular brands or anything else that you want to highlight on

that?

Pradeep Jain: Actually, it is nothing to do with the two things that you have mentioned. We believe that our

current quarter because of the peak season, it is the highest NSV that we clock during the year.

So therefore, the quantum of operating leverage that we get in our P&L in this quarter is the

highest. Now, if you take it for an extended period of time, we by and large been in that range

of about 16.5, which is what we have maintained that mid-teens we have already achieved. On

a sustained basis, we still have some work to do till we reach the high teens, and therefore, we are just kind of keeping our milestone first towards that level. Once we achieve that on a

sustained basis, then we will come back to all of you and provide the next level of guidance.

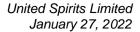
Alok: One clarification on point on one of previous participants asked a question on India-UK treaty,

now of course it came in the papers, I just wanted to double click on that, is there something to

do with State tax also and the Central tax also or whatever reduction happens directly flows into

your calculation completely and there is no States involvement in that?

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Hina Nagarajan:

The component is central tax, this has nothing to do with State tax, it is the basic customs duty. However, we do not know how this will play out, so once the custom duty decreases, we do not know how much the quantum will be, what will the phasing be, and we do not know whether the States will take any actions. So, it will have to be a balance between what gets reduced at the central level and what the States do, right, and that is very difficult to predict quite honestly. So overall the customs duty reduced, and the States do not put any additional taxation, it would be a favorable outcome for Scotch. The quantum and the timing will decide how much, so it is quite difficult to quantify that at this stage.

Alok:

Okay perfect, but if the Central were to reduce from 150 to let's say 50, then assuming no State involvement, direct benefit goes to USL?

Pradeep Jain:

I will just caveat that, consumer prices will reduce. There will be no benefit, benefit will come in terms of a hopefully higher demand.

Moderator:

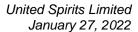
Thank you. The next question is from the line of Jaikumar Doshi from Kotak. Please go ahead.

Jaikumar Doshi:

Thanks for the opportunity, a couple of questions from my end, first one is on there are some favorable policy developments on the BIO front at the State level and if there is more favorable sort of reduction in tariff through UK trade, then where do you see your BIO salience, if you could give some color what is BIO salience today as a percentage of your overall sales in value terms? Where do you think it can sort of go in the next three to five years along with your initiatives of premiumization and some external tailwinds? My understanding is that you would be making a distribution margin of somewhere around 10 percent on BIO portfolio, is that understanding correct and if so, then does it mean that if BIO salience goes up, is it EBITDA margin dilutive, if it ends up cannibalizing some of your BII products, that was first question?

Pradeep Jain:

I think we have responded to this in the earlier sessions also, but let me repeat it. Overall, our scotch salience between the Bottled in India and BIO is in the range of about 22% to 24% depending on the quarter, so that is broadly the salience of the business, and it is split broadly 50:50 right now. Now, clearly as Hina has articulated in her strategy, we want to just breakout on the growth front on this, so a simple logic of math, the salience will continue to grow, so that is response to one part of your question. The range of EBITDA margin that you have mentioned is absolute right Jai, broadly in the same, it varies but broadly in the same range on a weighted average, so that is absolutely fair. I think what we want to share again is that it is highly EBITDA Rupee per case accretive. I understand the percentage part, so yes you are right the percentage is lower than our portfolio percentage, but the sheer upweighting that we get on Rupees per case that just provides a significant operating leverage on your entire business, so just bear that in mind and we will be happy to share more detailed number in one-on-one session etc. but that is broadly the concept. Again, as we have mentioned earlier that we do not invest anything in fixed assets and long-term capital asset right for this part of the portfolio, so it is again usually accretive on our return on invested capital.





Jaikumar Doshi: So is there any room or any sort of potential for United Spirits to negotiate or renegotiate that

with the parent, is this is a global norm in terms of 10% distribution?

Pradeep Jain: I should have clarified it, it is all governed by international transfer pricing norms and therefore,

I do not think there is any room for negotiation right that just exposes the global corporation to

huge tax exposure, so it is all driven by the global transfer pricing norms.

Jaikumar Doshi: That is helpful, second on home delivery, which States are leading today, do you have any data

in terms of any color in what is the salience of delivery sales in the States that are leading and

some color if you can provide?

Hina Nagarajan: Look home delivery was a great unlock that came during COVID as you know, it is in six States

and basically, I would say that these models always take time, so my experience even from China tells me that e-commerce model / home delivery model undergo a lot of change, take a lot of time till they reach tipping point and then one day they do, and they become very attractive. I would say of all the States, West Bengal is showing some traction and basically West Bengal I think 3% to 4% of our sales are coming through home delivery, so that is very promising, and

the others are evolving, so we remain very excited about this channel.

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

Percy Panthaki: Hi team, congrats on a good set of numbers, my first question is on the premiumization trend,

the increase in the realization per case that you have seen at 11% and you have mentioned that it would stabilize at somewhere around 7% to 8% versus a historic trend of 4% to 5%, so what I wanted to understand is two things, one is this 4 to 5 going up to 7 to 8, is this overall industry phenomenon driven by the consumers maturing or is this something specific to United Spirits, and secondly, if it is specific to United Spirits at least partially maybe, can you give us an idea as to what exactly are the measures you have taken to boost this from 4%-5% going up to 7%-

8%, what are you doing differently now versus a year or two ago?

Hina Nagarajan: I think it is a combination of both, I think there is definite premiumization trend acceleration for

the market and everybody, every player will be taking advantage of that. I think the couple of areas where it is unique to USL is that our Prestige and above portfolio is growing ahead of

Popular and that is a shift from the previous periods right and this is a shift and the strategic

focus we have driven now in our new strategy and even within P&A, as I mentioned in my

strategy that we are now looking at broader based participation across the various categories within Prestige, so lower, mid, and upper, and we are strengthening our presence in all these

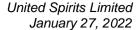
three. So, with the renovations, innovations that we have driven like the Signature renovation in Upper Prestige which is very differentiated and will grow Signature faster and similarly the

launch of Royal Challenge American Pride which will again make us grow faster in Upper

Prestige, so that we will also give us the up-weight on price mix, so there are couple of factors

unique to us and overall industry trend as well.

Percy Panthaki: Is BII, BIO portfolio within the P&A growing faster than the other sub-segments of P&A?





Hina Nagarajan: Definitely, I think that we have seen for the last two-three years, that phenomenon we have been

seeing and actually for us, the renovation of Black Dog for instance has really accelerated the growth of that brand and Black & White Whiskey is also doing really well, so definitely they

are growing faster, yes.

Percy Panthaki: This 10% distribution margin, does it apply to BII also or that is relevant only for BIO portfolio?

Pradeep Jain: Percy for the global brands, yes it applies similarly because the liquid comes from there and it

is a related party transaction, so therefore it applies, but for the USL brand everything is housed

in the USL brand. For example, Black Dog is a USL brand, so we retain everything.

Percy Panthaki: Secondly on cost inflation, I think Arnab had asked this question and you had said that there is

a 4% to 5% kind of cost inflation, just a clarification here, is it 4% to 5% incremental March quarter versus December quarter that you expect or is it 4% to 5% versus 12 months ago that

what you are witnessing?

Pradeep Jain: It is versus prior year same quarter.

Percy Panthaki: Is there any additional sequential inflation versus whatever inflation you have seen in December

quarter, do you see any further inflation in March quarter on a sequential basis?

Pradeep Jain: Yes Percy, so two things, I will provide the headlines. One is ENA was reasonably flattish for

the last three quarters versus prior year, but now as we have always said that the inflection point is the ethanol blending price announced by the Government. So, we know that the oil marketing companies have given some increase to the ethanol producers, so that will lead to some amount of inflation in our ENA portfolio and similarly the inputs on glass be it soda ash, be it furnace

oil, be it LPG, they are just rapidly growing. In fact they have gone up by almost 40% to 50%

in the last six to nine months, so there is some amount of sequential inflation also.

Percy Panthaki: So does this hit the bottom line or is there any way that you can sort of mitigate it through some

measure?

Pradeep Jain: Percy that is one which we said, we run productivity on a quarter-on-quarter basis, literally on a

muted, we carry some part of that productivity into our margin benefits, or it gives us a little more benefit to plough back for growth etc., in a year in which the inflation is higher than the productivity yes, we take a temporary short time kind of a blip right. And like Hina mentioned,

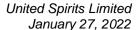
day-to-day basis what we call everyday efficiency and in a year in which inflation was a little

we continue to work with the State Governments for pricing advocacy, so we are at it. Whatever

we can control, we are at it, let us see where we land up, but yes inflation is on the upsurge.

Moderator: Thank you. The next question is from the line of Latika Chopra from J.P. Morgan. Please go

ahead.





Latika Chopra:

Hi Hina and team, two questions, the first is if you could share the brand spends breakup between BIO, BII, and the other P&A brands? Also if you could share how is the share of different channels or mediums looking in the overall brand spend mix for you now?

Pradeep Jain:

We do not divulge that, all we can share is they follow pretty much the realization, so our investment rates are obviously higher at the higher end and lower at the lower end, that is all that we will be able to share at this point of time. On channels, honestly, we just do not have that level of data granularity in the country to be able to track it. Broadly, we know that our off-trade is roughly about 70% to 75% and on-trade is about 25%-30% and like Hina mentioned that's what it was coming back to in October-November etc., but now with the revised set of restrictions in the third wave, we could again see a little bit of a dent in that.

Latika Chopra:

Sorry, I think I did not ask the question rightly, I was talking more about brand spend breakup for the channels, whether digital, offline, those mediums?

Pradeep Jain:

Again, I do not think we have historically shared that, right now we will have to kind of reflect on this whether we want to share this Latika but overall 8%-9%, our sense is that we will not be dramatically different from the rest of the industry in terms of the channel spending.

Latika Chopra:

The second thing was any specific or any meaningful changes that you are currently working on from a GTM approach considering you will look towards a more stabilizing environment post pandemic that you may want to highlight which is also helping with this whole P&A growth being pretty good?

Hina Nagarajan:

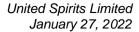
One thing is Latika that with the positive development from the regulatory side, I think the opportunity to create a much better shopper environment and retail environment is a really big opportunity and obviously as the accessibility and affordability of our brands is growing in the different States which we talked about on the regulatory development, we are definitely looking to transform the retail landscape for shoppers and invest in that, so that is a big trust in addition to our premiumization strategy and we will continue to. We have done a lot of investments, even for No. 1, we did *Yari* points. We have invested for Johnnie Walker, for Black Dog, for Black & White, and we will continue to increase this investment, expand this investment as we see the opportunity.

Latika Chopra:

Lastly, any flavor on the CAPEX and how should one think about dividend payouts eventually now that you are debt free?

Pradeep Jain:

So CAPEX no change, pretty much will be the same. Our philosophy remains of keeping an asset light model, so that we will continue Latika, and you would have seen that over the last three-four years, CAPEX has been pretty much in a narrow range and that is what will probably continue. For Dividends, actually debt free is not really the trigger, the trigger is unfortunately the wipe out of the accumulated losses that is the company's requirement, but again you guys are as close to the numbers that we are. Hopefully, over the next three to four quarters, we should be able to wipe that out also and therefore we should be into the dividend distribution.





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

go ahead.

Shirish Pardeshi: Good Evening Hina and Pradeep, thanks for the opportunity, just stretching on the earlier

question which was asked on Maharashtra policy change, I was more curious, you did mention it is growing double digit, is it volume double digit growth we are seeing and maybe if you can help me what was the contribution from Maharashtra a year ago and now in terms of overall

portfolio?

Pradeep Jain: We have never shared State wise saliences etc. that just makes it too complicated on an ongoing

basis, so we do not want to divulge on that. But I think suffice to say that now that we have seen this rationalization of State taxes in BIO portfolio in five-six State over the last 18-24 months or 36 months etc., we get a significant multiplier on volume, and therefore, the growth becomes

very, very healthy.

Shirish Pardeshi: Pradeep I got that what you are saying, I do not want the specific answer but can you give the

range, what is the lowest and what is the highest, is it fair to say that the growth is between 10%

to 50%?

Pradeep Jain: It is more towards the higher end.

Shirish Pardeshi: Parallelly, when we see the mix change between BIO and BII, was it towards the BIO side or it

is more of the rub-off effect which we have seen in BIO portfolio for us?

Hina Nagarajan: I think it varies by State to State, so in some places where the BIO prices are more favorable,

are being addressed by our different brands. So Black & White for instance is really addressing the young casual drinker, food pairing etc., whereas Johnnie Walker Red Label has its own set of customers, so I think it is not possible to generalize this phenomenon does it switch massively, I think there is in some States a movement into BIO where the BIO prices become more

sometimes the mix switches to BIO, but I also think that there is a core group of customers who

attractive, but equally there are a core set of consumers for each brand who remain loyal to the

brand.

Shirish Pardeshi: Let me harp on a little more deeper, this growth what you have mentioned is seen on on-trade or

off-trade channel or both are seeing the similar growth?

Hina Nagarajan: Both, I would say the consumer demand momentum is there in both the channels, I mean when

COVID closures happened on on-trade, we saw the off-trade more than pick up the volume and in-home consumption became very big. As the footfalls have come back to on-trade, they are

also picking up demand momentum, so both of them are growing.

Shirish Pardeshi: Just last question Pradeep, with change in mix and portfolio, how one should look at the tax

angle for next four to five quarters or maybe next two years?





Pradeep Jain: When you say tax is it what indirect tax or direct tax, sorry I did not get the question.

Shirish Pardeshi: Tax rate for the company?

Pradeep Jain: This is the effective direct tax rate, right?

Shirish Pardeshi: Yes.

Pradeep Jain: By and large it stays in the 25% range only, we do not have any big variances. Obviously, at

times things like when we have done Raise the bar etc., etc., we obviously do not consciously claim a tax deduction on that kind of spends etc. and that is when the effective tax rates kind of

goes up, but otherwise the effective tax rate stays in a narrow band of about 25%.

Moderator: Thank you. The next question is from the line of Prakash Kapadia from Anived Portfolio

Managers. Please go ahead.

Prakash Kapadia: Thanks for the opportunity, I had two questions. Post the duty reduction what we have seen in

Maharashtra, how are the prices comparable with key metro cities on some of the scotch brands and how are consumers looking at BIO brands from hereon because now with the reduction in the scotch duties, red label is almost 25% cheaper than maybe a Black & White or a Black Dog, so what happens to some of these BIO scotch brands and is there a room for price reduction in the BIO segment to push from our end to the Government, are we thinking on those lines,

working on those lines, so some thoughts would be helpful?

Hina Nagarajan: Maharashtra basically the end consumer prices came down by about 35% to 40%, so I would

still say that if Delhi is the benchmark on pricing, Maharashtra is just marginally above the Delhi pricing, and therefore, now very affordable and so you do not see much need for interstate movement of products and I know that people in Maharashtra are really appreciating this price change, so obviously that is impacting positively on consumer demand. Like I mentioned, I think

again the interplay on categories is bright and it is on loyalty to certain brands and the reason for adopting these brands, so I am not sure what your question was working on the price, was it

related to BIO.

Prakash Kapadia: Yes, BIO, because after the reduction of the imported scotch, imported scotch, now Red Label

is 25% cheaper as compared to Black & White or Black Dog, I am talking more of Maharashtra

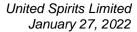
prices, what happens from a consumer standpoint, how do they look at this segment now?

Hina Nagarajan: I said that we have been sort of seeing some shifts in some markets, but hardcore consumer

group that stays with the brand and actually our renovations also are driving continued engagement with say Black Dog. I think you had a follow up question on working with the

Government for some duty drop off, I did not understand whether this is because of drop in BIO.

Prakash Kapadia: Is there a room for reduction in BIO prices from hereon say a Black & White or a Black Dog?



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Hina Nagarajan: You mean the BII, I think that is something that we will continue to work with the Government

on, but as far as the pricing ladder that exists in the market, at this point in time that is not a focus

area for us.

Moderator: Thank you. The next question is from the line of Chanchal Khandelwal from Aditya Birla

Capital. Please go ahead.

Chanchal Khandelwal: Thank you, congrats Hina and Pradeep on a good set of numbers, business luck is really growing

out, my question is since you have answered the 10% margin is what you would look at in BIO and if I look at EBITDA per case for this quarter, it is 217 probably the highest EBITDA per case you would have made in last 18-19 quarters, my question is two-fold, one is do you as an organization look at EBITDA per case for Prestige and Popular, and what is the fixed cost per case, the reason why I am adding is assume that you decide on Popular, how much part of the cost will retain in the company where Prestige will have to serve that cost or what is the decision framework you will take when you are deciding on Popular, whatever you can share at this stage

will be helpful?

Pradeep Jain: Obviously, we will not be able to divulge any details, but again long story short, we do take most

of our decision based on EBITDA per case, which is a fully loaded, we do not take dramatically only on marginal costing basis etc., we do take EBITDA per case decision because we genuinely believe that all costs are kind of variable in the longer run. So, therefore, that is one sense of philosophy and the other one which you just mentioned yourself which is that our EBITDA per case is the highest in the country, is the highest historically in whatever last 18-20 quarter, exactly driven by the operating leverage and the premiumization element. Even though in percentage etc., it does not give a huge kicker because it is 10%, but the sheer impact it has on our rest of our overhead's absorption etc., it gives us a huge kicker and we will want to continue

this trajectory.

Chanchal Khandelwal: Will you be able to share the EBITDA per case between Prestige and Popular at some point?

Pradeep Jain: We do not share that, I have given some examples from the BIO earlier etc., and you should be

able to draw out your broad estimate.

Chanchal Khandelwal: Just one more question from my side, if I look at the advertisement spend again this was highest

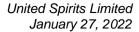
in many quarters and I am sure you have invested a lot in renovation and innovation, the 8% to 9% ad spend which you are guiding for assume that it is 8%, there will be margin guidance of mid-teens, is it not lower, the organization has a right to 20 plus percent kind of margin in one

to two years, any thoughts?

Hina Nagarajan: Look our strategy is looking at accelerating top line growth and you know the principal is that

we will get operating leverage as we go along with that, and in this run, we will focus on our key brands and invest behind them. The thing is that A&P does not necessarily need to be expanded to do that, we get a lot of A&P efficiencies and effectiveness through the operating

leverage as well. So, at this point in time we have sufficiency and over a period of time of course





we are guiding to mids to high teens. We have just started the strategy, it is going to take a few years to get there and when we are in a position to give the next guidance after a few years, we will definitely come back to you and give the next guidance but for the next few years, I think we are focusing on delivering this strategy and our guidance.

Moderator: Thank you. I now hand the conference back to the Management for closing comments.

Hina Nagarajan: Thank you very much. I just wanted to say we will now draw the call to a close. Thank you very

much for your participation and have a great evening. And please stay safe, stay well. Thank you

so much.

Moderator: Thank you. On behalf of United Spirits Limited, that concludes this conference. Thank you for

joining us and you may now disconnect your lines.