"United Spirits Limited

Q3 FY'24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the United Spirits Limited Q3 FY '24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Shweta Arora, Head of Investor Relations, United Spirits Limited. Thank you, and over to you, ma'am.

Shweta Arora: Good afternoon, everyone, and welcome to United Spirits Third Quarter and 9 months ended 31st December 2023 Earnings Conference Call. I wish you all a very happy New Year. Today on the call, we have with us our Managing Director and CEO; Ms. Hina Nagarajan, who is joined by our CFO and Executive Director, Mr. Pradeep Jain.

We will kick off today's call with Hina sharing her thoughts on overall business performance. This will be followed by Pradeep taking us through the financial highlights of the quarter, post which, we will open the forum for Q&A. We'll be referring to the financial releases available on the stock exchange and on company's website.

With that, I now request Hina to commence today's call. Thank you, and over to you, Hina.

Hina Nagarajan: Thanks, Shweta, and good afternoon, everyone. Thank you for joining us on the third quarter FY '24 earnings call of United Spirits Limited. Hope all of you are doing well, and I wish you and your loved ones an incredibly happy and healthy 2024.

My brief thoughts on the overall macro context and our performance. As I had indicated in the last quarter call, a relatively muted sequential demand momentum versus prior trailing quarters. Although festivities, the cricket world cup and the peak wedding season enabled our brands to be salient and present with the consumer, the seasonal uptick, while being resilient with the premiumization ladder remaining impact, was below our aspiration.

Amidst this environment, our strategy to be value-focused has helped us deliver a resilient quarter. Prestige & Above segment clocked a double-digit growth of 10% year-on-year and overall net sales value growth of 7.5% year-on-year. The external environment on COGS remains challenging on our key ingredients neutral alcohol spirit, partly offset by stability in the rest of the commodity portfolio.

A little bit on our key portfolio updates. Starting with our IMFL portfolio and upper Prestige segment. We continue to make steady progress with our brands in this segment. The renovated bundle of Antiquity Blue is performing well in the launched markets and adding to the steady strong performance of Signature and Royal Challenge American Pride. The new bundle has garnered positive appeal across all age cohorts on the back of impactful visibility and penetration driven by the Hipster pack.

The brand has also shown considerable improvement in awareness and consumer trials since the relaunch. Coming to Royal Challenge American Pride, it continues to be our fastest-growing innovation. We have expanded the brand to 3 new markets: Himachal, Arunachal and

Uttaranchal. Our Signature trademark is continuing to build on the pillars of 'taste good, live good and do good' across different touch points for consumers.

In the Mid Prestige segment, our Royal Challenge Naya Sher roared during the cricket world cup with a strong presence on Disney+ Hotstar during the India matches. We celebrated our Naya Sher, Virat Kohli, and his record-breaking world cup performance with a special tribute on his birthday through the largest free-standing 3D anamorphic hoardings and 20-foot hand-painted murals across 7 cities.

We also had a partnership with ESPNcricinfo for co-branded content. Last, but not the least, our flagship IMFL brand McDowell's No. 1. We launched the Yaaron Wali Baat campaign for McDowell's Soda with our new brand ambassador, Kartik Aaryan, who embodies the can-do spirit of millennial youth as one of the most successful INR100-crores-plus film actor to emerge from boom town India in recent times.

This communication has received positive consumer reviews with its impactful launch through a strong multimedia plan as well as clutter-breaking local amplifications, which included anamorphic display and the world's largest selfie booth in Mumbai. In Assam, we have launched the McDowell's No. 1 premium smooth variant, which is at a premium to the core McDowell's No. 1 Luxury in the state.

Coming now to our global brand portfolio. We continue to witness healthy premiumization trends with the premium and luxury offerings growing ahead of the mainstream Prestige segment and repertoire behavior continuing at the top end.

On Black Dog, the consumer engagement with 'easy evening' to savour the pause continued during the quarter. Black & White trademark continues to scale up their experience platform, Table For Everyone, partnering with some of the biggest third-space properties such as Zomaland and activations across key Tier 1 and boomtowns across the country.

Overall, our Scotch portfolio continued healthy growth in Q3 led by Johnnie Walker. Earlier in 2023, we launched Walkers & Co. And in the October to December quarter, we brought this alive with a never before scale activation with the Aravani Art Project an artist Pearl D'Souza.

Walkers & Co celebrated Aravani and Pearl pushing bold boundaries and conversation around gender. And we brought this alive by our social media outdoor activation and limited-edition merchandise enabling conversations around diversity, equity and inclusion. This has been recognized across forums for its empowering narrative, including at the ASCI Diversity and Inclusion Edge Summit, which hosted the best of marketing and advertising professionals.

All our key Scotch trademarks were salient during the season with innovative visibility deployed on screen at trend-leading accounts, cut-through displays and off-trade and crafted serves positions. Our trademarks were also visible through the cricket world cup, creating celebratory moments for Indian consumers wherever they were.

Finally, I'm delighted to share that we hosted the most talked about launch event of Don Julio, our tequila brand, in Mumbai and Gurgaon. We saw 800-plus A-lister influencers, celebrities, designers and media revelling in the Don Julio experience.

We remain optimistic on the India potential of this opportunity and the initial response that we have received is encouraging. We will scale up investments on Don Julio to play the role of a market maker for this segment and keep a close eye on the evolution of consumption patterns and consumer trends on tequila to tailor our offering, initiatives and channel availability accordingly.

Talking briefly on awards and recognitions for our brand. Black Dog renovation continues to be recognized globally. We won the prestigious gold at the DBA Design Effectiveness Awards and silver at the Pentawards. Our artisanal single malts continue to win many more awards for design and overall brand proposition, which includes its unique conservation story, which is at the heart of the brand's DNA.

Coming to Diageo in Society. I'm proud to share that we've entered a unique industry-first partnership with Skill Council for People with Disability to train people with disability through an NSDC Certified hospitality business skill program. Several hotels and hospitality businesses have shown their commitments to absorb these candidates in their workforce. Our first batch is now ready for employment.

In addition, we've made significant commitment on our water sanitation and hygiene programs by supporting schools, village institutions and individual families with toilets and drinking water facilities in Rajasthan, UP, Odisha and Maharashtra. And last, but not the least, we remain committed to promoting responsible consumption and championing road safety in India. As part of our Wrong Side of the Road program, the company extended its support to UP and Punjab Police in curbing drink driving by providing advanced alcohol breath analyzers to both the states.

I'm happy to share that we've been recognized for our efforts by the Spirits Magazine with the CSR of the Year Award.

Coming to our last strategy pillar, building an organization of the future. What sets Diageo apart is its people, purpose and culture. Our employees and our culture are our biggest competitive advantage. We recently launched our employee value proposition campaign, which is about celebrating our people and aptly titled Celebrating You.

Our EVP stands on 3 important pillars. This is the best place to grow, you can shape your future with us, and we will support and reward you. The recent win as a gold employer for LGBT+ inclusion by IWEI is testimony to our efforts in building an inclusive and diverse organization.

With this, I hand over the call to Pradeep for an update on the quarter's financial performance. Pradeep, over to you.

Pradeep Jain: Thank you, Hina, and a very warm welcome to all. As always, it is an absolute delight to interact with all of you. Before calling out the quarterly financial performance highlights, we'll request you all to refer to the results that we posted last evening.

This is the first clean quarter with a like-for-like base. As you'll remember, the slump sale and franchising transaction was completed in September 2022. Hence, third quarter numbers for last year are only reinstated to include the impact of the Pioneer Distilleries merger. However, the 9-month financial year '23 numbers are still rebased, wherever mentioned, to make comparison to absolute like-for-like.

As Hina mentioned, we have delivered a resilient growth performance despite the demand momentum being subdued compared to the usual festive pickup -- uptick in the October, November, December quarter. Price/mix has remained strong at 9.3%, driven by continued premiumization focus, headline pricing flow-through and other revenue growth management initiatives. We have delivered an overall portfolio NSV growth of 7.5% during the quarter.

P&A growth stands at 10% with double-digit growth in our Scotch portfolio. ENA remains inflationary, and the impact of the same has started to flow into the P&L. For most of the quarter, we have kept ENA inventory to a minimum and are on a wait-and-watch approach for the prices to settle as the new crop enters the market, which is, by the way, already delayed. On the bright side, we do have other input commodities, especially glass remaining stable with some downward revisions, which is partially offsetting the ENA inflation.

That said, our ongoing productivity measures, especially in the last 2 quarters have been robust and are aiding the margin delivery and giving us the fuel to invest in our brands. Gross profit for the quarter was INR1,298 crores with a gross margin of 43.4%. Our marketing reinvestment rate during the quarter was 11% of net sales, stepped up in line with seasonality in the OND quarter with festivals, peak wedding season and the cricket world cup.

As we have emphasized on several occasions, A&P is an extremely critical component of our virtuous growth cycle, and we will continue to invest behind the brand to drive consumer engagement and long-term equity. EBITDA for the quarter stands at INR491 crores, a growth of 33.6% over the prior year same quarter and EBITDA margin is at 16.4%. Overall, our PAT for the quarter is INR348 crores with a PAT margin of 11.6%.

As we look ahead, ENA inflation is expected to remain high. However, we are confident in the resilience of our business, our strategic choices and our ability to navigate headwinds, which our teams have demonstrated over the last few years. We remain committed to sustained double-digit profitable growth while driving commercial excellence, everyday efficiencies and improving the effectiveness of our spending, all of which in turn helps us to progress on our mission of creating a long-term value for all our stakeholders.

With this, we can now open the floor for Q&A. Thank you.

Moderator Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: This is Avi here. I just had a small question on -- first of all, congratulations on this performance. It's been really nice to see such a healthy margin trajectory and you being able to maintain this with input cost inflation.

If we look at the 9-month performance, you've done almost 16%-plus margin. And in the last quarter, you indicated that you would look at full year of slightly more than 15%. Would you help -- would you please suggest if there is a revision in that expectation? And in -- just a follow-up question on that. How do you see this evolve and expand for next year, should we see this changing, or do you see scope for more margin expansion, given that you're still arguing for ENA inflation? So those are 2 questions.

Pradeep Jain: Hina, should I take that? Hello?

Hina Nagarajan: Go ahead, Pradeep.

Pradeep Jain: Yes. Thank you. Okay, Avi, so a couple of thoughts on that. Nine months, we are happy with what we have performed, right? And as we had mentioned, 15% of our first milestone. Jan-March in our assessment will also remain a high A&P quarter design, right? There are 2 or 3 reasons for it, right? One is that Don Julio has just been launched, right? So, we would want to sustain our A&P investments on that, right?

All of you may not be aware, right, there is some discussion in view of the union elections, right? The IPL is probably to be advanced, right? So WPL and IPL will happen in February and a good part of it might well happen in March also, right? So therefore, we would want to remain absolutely salient during the cricket season when the entire country kind of gets together, right? So that's the second thing.

And look, the third thing is that now that we have generated the fuel, right, in financial year '23, '24, if you look at our Popular performance, that doesn't leave us, right? Absolutely, right? So, we will be actually injecting some amount of A&P into our Popular brands also to resurrect the momentum.

So, I mean, net-net, to answer your question, Avi, yes, we will definitely be peaking 15%. Will it be dramatically different from 15%? Yes, there will be a little bit of an upside, and we are happy with that, right. That's the way it goes, right? But it's not that we will kind of dramatically beat that performance. So that's the first one. Avi, can you repeat your second question, I kind of missed that due to the...

Avi Mehta: So let me kind of -- sorry, so on the -- as we move into the next year, I'm just trying to build the ladders for further, you have clearly shown the ability to manage input inflation, and congratulations on that. Given this performance, would it be fair to expect that there is room to move the margin trajectory further upwards as you've done almost 16% this year, is it rational?

Or is it -- how would you kind of look at the equation? What are the levers? Or is input inflation a cause of concern? I would love to understand how should we look at the next year in terms of your -- when you kind of think about margins? That was the last question, yes.

Pradeep Jain: So, Avi, I will want to respond to that question on a slightly elevated level. Look, as a forward-looking organization, we do believe firmly in a leveraged algorithm growth, right? So yes, we would want to continue with a sustained double-digit growth. And we would want to kind of also grow our EBITDA at slightly above the net sales revenue growth, right, which means that any forward-looking organization, we would want to expand our margins on an ongoing basis.

I don't want to take any calls or commit any numbers at this point of time. It will be fair to say that after having achieved our first milestone of 15% and actually coming out slightly better than that, we would want to progress towards our stated guidance of mid- to high-teen margins over the next 2 to 3 years.

Avi Mehta: Okay. Okay. Perfect, sir. And sir, last bit on the demand side. So, any update? Are trends improving? Anything on that side?

Pradeep Jain: Hina, do you want to take that?

Hina Nagarajan: Sorry, Avi, your voice is a bit garbled. Are you asking is the demand trend improving?

Avi Mehta: Yes, yes. Sorry. I'm sorry, Hina. This essentially is on the demand side. You did highlight that it was weak in the quarter, but has that started kind of moving up? Any update on that?

Hina Nagarajan: Well, I would say the demand environment has remained subdued, Avi. We are not seeing any dramatic change between December and January, right? But the good news is we are not witnessing down trading. So, the luxury premium segments are -- the premiumization trend is quite intact.

People are still experimenting. But what's happening is they are drinking more out of home and out-of-home prices are higher than sort of buying from off-trade and drinking at home. So, there is a little bit of impact on volume there. I think the real pressure on the wallet is on the lower side, where we do see, as I have been calling out the last few quarters, upgrades are not happening from country liquor to Popular or Popular to the lower end of Prestige, right?

The good news there also is that people are not changing their brands, but they are reducing the number of occasions of drinking, right? So, we expect this environment to continue over the next couple of quarters at least. But on the other side, we -- with our renovation, innovation pipeline, and the performance that we've been having with these renovations, innovations and the activation plans and investments in our brands, we will continue to sort of drive to the double-digit growth guidance we have given.

Avi Mehta: Perfect, Hina. Thanks a lot for this and wish you luck. Thank you.

Hina Nagarajan: Thank you.

Moderator: The next question is from Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: Hi, thanks. My first question is on the difference in terms of P&A sales growth versus P&A volume growth? So, a few quarters back, it has been more in the 8% to 11% range in terms of difference. This quarter, it's around 5.4%. So is this because pricing is now catching up because in a lot of FMCG, we have seen that. So, in your case, the difference is because of the catch-up in terms of pricing or it's because of the reasons that you mentioned in terms of the demand trends being a bit subdued, which is the main reason here?

Pradeep Jain: It's a combination of both the things, Abneesh, I would say. See, first and foremost, if you remember, Hina and I have always maintained, right, that our more kind of sustainable price/mix is in the range of about 7% to 8%, right? And we still come in at about 9%. I don't think we've ever kind of commented on our price/mix only for the P&A segment.

At a portfolio level, we've always said that our sustainable price/mix is about 7% to 8%. We've come in at 9%, right? So, I don't see. But yes, I agree that in some of the quarters, we've posted as high as about 11%, 12%, right? So that's obviously driven by when Scotch was growing at a very, very high level, etcetera. So that's kind of moderated to a more realistic level now. And therefore, the price/mix is closer to what we always thought was the sustained level of about 7% to 8%.

Abneesh Roy: Sure. My second follow-up question on demand is in terms of consumer behavior. So Hina did mention that in the upper end, out-of-home consumption is more common now versus at-home. During COVID, that at-home trend had really picked up. So, what is the reason for this? Is it because occasions here are also being cut because out-of-home consumption clearly is more expensive. So why is the customer going for a more expensive experience rather than at-home? What is the reason?

Hina Nagarajan: Abneesh, there has been -- post-COVID, right, we have seen the occasions shift to more of casual or socialization, right? And people really want to socialize with their friends in a casual way, right, rather than special moments savoured at home, etcetera.

And I think the out-of-home consumption is really reflecting that. People want to sort of socialize in a lively environment with their friends. They are going out to bars, etcetera. And they are saying that, look, we -- and as I said, especially the new consumer, they don't want to drink more, they want to drink better, right? So, they want to be out in the environment, celebrate with their friends and have the drinks of their choice, and they're willing to, at the upper end, spend the money for that experiential, for the repertoire and experimentation. I think that's it. So, there is a distinct shift in the occasions of drinking, distinct preference for casual or lively socialization and the drinking patterns are reflecting that.

Abneesh Roy: Sure. Last question is on the competitive dynamics. So, in terms of market share, if you could comment a bit how the trends are versus the rest of your peers in the P&A?

And second, of course, is you did mention demand trends being subdued. So, in terms of -- the impact in terms of competitive intensity, either in terms of below-the-line spend or, say, in terms of slightly more affordable pricing to end customer or, say, even the pubs and bars discount -- the promotion programs. Any change you're seeing in the last 2 quarters versus earlier quarters when the demand trends were better? Anything to call out there?

Hina Nagarajan: So, I think 2 parts to your question. The first is on our competitive performance. I would say we continue to perform very competitively. And we are continuing to see strong growth in the Prestige categories, our renovations, innovations are continuing to perform very well. And as is the performance on our Scotch portfolio. Like are we seeing more competitive intensity? For sure.

I mean one is that in the festive season, there's always more investment, right? Media as well as below-the-line activation. We are definitely seeing more intensity, but we are making sure that we are fully invested in our brands, and we continue to be focused on our consumer-backed strategy, which we think is working and giving the best offering for the consumer needs. So, we are quite confident that we have the right portfolio, the right innovation, renovation pipeline and the right activation to continue to perform very competitively.

Abneesh Roy: So, thanks. That's all from my side. Thank you.

Hina Nagarajan: Thank you. Abneesh.

Pradeep Jain: Thanks, Abneesh.

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

Percy Panthaki: Hi, Pradeep, I just wanted to understand regarding the ENA costs. I think last quarter, you had the benefit of some low-cost inventory and the ENA prices had already gone up. So, this quarter, we had expected some amount of pressure on the gross margin. But sequentially, that is versus 2Q, your gross margin is absolutely flat. So how come we are not seeing that pressure?

Pradeep Jain: Yes. Yes. So, Percy, look, in fact, I think as all of you kind of ran up with Shweta this question did come up. Look, here is, the ENA inflation is very much coming in, right? And in fact, I can share a broad metric. Our October, November, December, right, consumption rate for ENA is about 7% higher than our July, August, September consumption rate, right?

So, ENA inflation has definitely flown into the P&L, right? What has probably kept the gross margin at the same level is -- I can just give some anecdotal examples. Like Popular shrinking at 22%, right? I mean I don't think we wanted that, right? But the moment Popular shrinks by that level in the salience, it gives a gross margin improvement, right? So that is, I would say, an artificial gross margin improvement.

Similarly, if you know -- if you move sequentially, the July, August, September versus the October, November, December salience of our high-end luxury portfolio, it picks up about 2 to 3 percentage points in the overall business salience, etcetera, and that is about 12 to 14 points of gross margin higher, right? So, it's more that, which is kind of offsetting, if you compare it sequentially on a quarter-on-quarter basis, which is probably offsetting the ENA inflation to my mind, right? But the ENA inflation is actually kind of crept into the P&L, yes. So, does that help answer, Percy?

Percy Panthaki: Yes, yes, very clear. But this raises one more question in my mind. So basically, if the ENA is up, you're not seeing much improvement in glass prices, what I understand. Then in the coming year FY '25 on a full year basis versus FY '24, should we be expecting any gross margin improvement at all because of efficiencies or whatever other levers that you have? Or you believe that where the prices are today, in terms of ENA, they will sort of offset any of the internal efficiencies that you will generate and at a net level, the gross margin will only sort of be flat?

Pradeep Jain: Yes. So again, Percy, like -- it will be a slightly conceptual answer, not very different from what I have said earlier, right? There will be some amount of inflation, right? ENA, there is absolutely no reason to expect any relief in the next couple of years, right? And therefore, our desire, again, as a forward-looking organization will be, right, that if we can neutralize the overall portfolio inflation roughly, right, 50% through internal management productivity, right, and we always have a pipeline of initiatives, right? 50% through that.

And the balance, right, I mean, it is back to advocating with the government, right, and trying to get some headline price increases, right. So, it will be a combination of those 2. Apart from that, whatever driven by growth, we can get operating leverage, right, or extract some revenue growth management initiatives, etcetera, that will also kind of add into the offsetting. So that's broadly the construct of how we kind of target our algorithms, etcetera, and hopefully, we should be able to do a good job of it.

Percy Panthaki: Very clear. One last quick question on Q4. Your ad spend last year in Q4 was very high, close to like 14% of sales. So, although you did mention today in the con call that Q4 will be a heavy ad spend quarter, I would still be sort of reasonable in assuming that on a Y-o-Y basis, you will see sort of a material saving in ad spend to sales ratio?

Pradeep Jain: Yes. So I don't want to comment on that Percy, right, that's kind of giving but I did -- see, consciously, we are trying to kind of also be aware, right, driven by the awareness that April-June would be Union elections, there would be disruptions, our ability to execute kind of in the marketplace would be limited. So, we are kind of also consciously front-loading our commercial calendar into Jan-March, right? And pretty much the 3 or 4 reasons that I mentioned, our A&P spending will probably -- we will want to remain as resilient as possible -- as salient as possible, right, with the consumers during Jan-March.

Percy Panthaki: Understood, Pradeep. Thanks. That's all from me. All the best.

Pradeep Jain: Thanks Percy.

Hina Nagarajan: Thanks Percy.

Moderator: Thank you. The next question is from Tejash Shah from Avendus Spark. Please go ahead.

Tejash Shah: Hi, Pradeep. Hi Hina, thanks for the opportunity. A couple of questions. First, your read on the consumer sentiment? Because if I rewind to the last quarter, this quarter was loaded up with many demand triggers, bunched up festive season, weddings, a high number of occasions to consume, and obviously, world cup was also there. So should we say that despite all these triggers, the demand has not bounced back, so the condition is actually much more depressing than what the number suggests?

Hina Nagarajan: I would say that, look, it is subdued, right? But we are -- our category behaves a bit different from the rest of CPG. I mean, there is clearly pressure on the wallet, and you can see that in all CPG performance, right? But in our category, I think the difference is that in CPG, people are moving to value packs and down trading.

In our category, they are not down trading. They are just sort of cutting back on occasions. So, they've been drinking on fewer occasions, but sticking to their favourite brands. And we -- I think the premiumization trend is still intact, right? So, this category bounces back pretty fast when the consumer is back. So, I would say in the short term, we see where it goes. But in the medium term, right, I mean if you just look at the penetration headroom, if you look at the premiumization trend and the potential for premiumization, I would say, the medium-term fundamentals are still intact for our industry.

And in the short term, I think addressing consumer needs with the right sort of brand, with the right activation will help us continue to deliver our guidance. So, I wouldn't call it any worse, I wouldn't read too much into, is this much worse than it is. I just think the consumer is adjusting consumption to the pressure on the wallet and has exhibited the behaviour that we are seeing for the category, which will then continue over the next few quarters.

Tejash Shah: Sure. But how do you reconcile this read of ours with, let's say, hotel occupancy or airline traffic, which is essentially our customer for P&A. And that segment is showing very divergent trend. On, in fact, one hand they are spending splurging rather, and on other end, they are actually kind of -- as you said, they are consuming less.

Hina Nagarajan: And we are seeing the same divergence in our category. As I called out earlier, the premium and luxury end is continuing to spend, continuing to experiment, continuing to do repertoire drinking, especially experimenting with the white spirits, right, drinking out-of-home. Whereas the middle India or the value-oriented consumer is actually cutting down on number of occasions to manage their wallet. So, it's pretty much the same in that sense.

Tejash Shah: Very clear. And last question. In our conversation 3 quarters back, you had mentioned that 15% margin will be our initial target. Following that you plan to focus on long-term initiatives like supply agility program. So, should we see that this quarter or last quarter a resilience that we have shown in margin despite inflationary headwinds, those benefits are started surfacing or will it -- this is without that?

Pradeep Jain: Okay. Tejash, so -- well, a little bit of supply agility initiatives are beginning to kind of trickle into our P&L, absolutely. So that is one reason. But again, I do want to call out something that Hina and I had mentioned in the last quarter call also, right, which kind of also explains the healthy performance on the margin's front in the last 2 quarters, right, the quarter that we are discussing and the previous quarter as well, which is one is the entire mono carton removal initiative, right?

The majority of that almost in its totality, right, has pretty much come in the last 2 to 3 quarters, right? I would say 2 to 2.5 quarters, right? So therefore, that's the big cliff. That falls off, right, that falls off now, right? And therefore, we're not getting that kind of bumper initiatives into the P&L.

As fresh initiative, obviously, what we have done stays in the P&L. The second thing also that I did remind the audience in the last quarter call was, our headline pricing flow-through, the attractive headline pricing that we got from the various state governments, majority of them happened between end October of '22 to about May of '23, right, that 6-month period, right?

The West Bengal, the Telangana, the Odishas, etcetera, all the big price increases, that starts falling off now, right? So, like West Bengal, we've already started lapping now, right? So therefore, that falls off. So, our headline pricing is going to come down a little, right? And therefore, it is back to kind of coming up with a new set of initiatives now and how much of that we can term this inflation. The good thing is inflation also is largely restricted to one commodity now, which is ENA and that's what we have to manage well. The rest is by and large stable. So, let's see how it goes, right? Let's see how it goes. That's all that I can say at this point.

Tejash Shah: Very clear. Thanks, and all the best.

Hina Nagarajan: Thank you.

Moderator: Thank you. The next question is from Harit Kapoor from Investec. Please go ahead.

Harit Kapoor: Yes, hi, good evening. Just 2 questions from my end. Firstly, if you could just help deconstruct this Popular performance, 20-odd percent decline in volume, however, 13% kind of increase in realization, especially that now we are on a like-to-like quarter. And maybe just give some more color on how do we look at this.

Pradeep Jain: Yes. Hina, should I take this?

Hina Nagarajan: Yes, yes, please.

Pradeep Jain: Yes. Okay. Harit, so look, I do want to start with saying that broadly, the 10% to 12% volume decline has been -- we've been experiencing that for the last 3 quarters, right? So, we ourselves haven't liked this 20%, 22% shrinkage, right? I do want to put that fairly and squarely, right, in front of everyone and that 10% to 12% volume decline was leading to roughly a flattish NSV, right, which we were absolutely comfortable with because we had not got pricing for the last 6, 7 years, right? So, we have -- now having said that, right, our sense is that a couple of things have happened, right?

One is, obviously, the industry had jumped slabs, etcetera, and taken hefty pricing because they had not got pricing. So that was that. And then on top of that, Karnataka increased excise duties by almost 18%, 20%, etcetera, which effectively started impacting us from September, right, because there was always a little bit of pipeline, etcetera, etcetera, right?

So that impact has further accelerated the decline, right? And not to say, right, there is a little bit in Maharashtra also, right? So, these were the 2 salient states of our Popular business. And like Hina and I have already said, we are absolutely kind of working on this, and we would want to reverse this trend over the next couple of quarters and very, very, very quickly, right? So that's broadly it. There's nothing else that I can say at this stage.

Harit Kapoor: And just a follow-up on that. This higher realization kind of growth is that more mix led that -- but the reason I was asking is because in P&A, we have a very, very divergent price point starting from INR500 going all the way up into the high thousands. Here, we don't. So, I just wanted to understand this kind of a broad 13% kind of realization increase?

Pradeep Jain: Okay. So, when you said 13%, that's the headline pricing that we have taken. I think we have taken some time, we have jumped this slab sometime in January, if I'm not wrong, if my memory serves me correct, January and February in Karnataka, right so we'll just start lapping that from Jan-March onwards, right? So that realization will disappear now.

Harit Kapoor: Got it. Got it. Got it. And the second part was on price increases again. So you know given that only 50% of your portfolio is inflationary, would it be -- and given that you've got fairly decent, if I can call it that price increases over the last 2 years from states, would it be harder over the next, say, 12 to 18 months to kind of go back and have those conversations? Just wanted to understand how you think about it.

Pradeep Jain: So, Harit, the cycle is annual, right? So, we will obviously put our best foot forward, right? And there is a full machinery, right, that we have in our organization along with the industry associations, right, to get -- to advocate with the government. Let's see what we get, right? I mean there have been...

Hina Nagarajan: Yes. So, we will not hold back any pricing conversations. We do that every year, right? And I would say every year, the pricing conversations are hard, but I mean we continue to push and progress both individually and through industry to try and realize price increases at least to cover for inflation. So, we'll continue to do that in this, what we call, the excise cycle, which starts now and goes on until about May. And we'll see where we net out. Yes.

Harit Kapoor: And the last bookkeeping one was on the IPL. So, the WPL annual fee comes in, in Q4, right?

Pradeep Jain: Yes, that will come in Q4, right? February is when the tournament is scheduled to happen. That's right, that will come in Q4.

Harit Kapoor: Got it. Wish you all the best. Thank you.

Pradeep Jain: Thank you.

Hina Nagarajan: Thank you.

Moderator: Thank you. The next question is from the line of Vismaya Agarwal from Citi. Please go ahead.

Vismaya Agarwal: Hi, team. Thank you so much for taking my question. Just one question here on the other expenses. And I do remember a couple of quarters ago, we had this discussion where you explained that there's a variable component and hence, it moves in line with the top line. But now when I look at it sequentially, Q2 and Q3, they're very similar from a net sales value perspective, very similar from a volume perspective. And still, we have a big savings in other expenses. So, can you just elaborate on what are the drivers that led to this benefit? And is it more sustainable if those benefits do they continue? Or how to look at that going ahead as well, please?

Pradeep Jain: So, Vismaya, when you say other expenses, these are the overhead expenses, right?

Vismaya Agarwal: Yes. Yes.

Pradeep Jain: Okay. Okay. No, so look, I think again, October November, December quarter is the highest volume and the highest revenue months, right? So, there is always a little bit of -- if you look at it sequentially, right, there is always an operating leverage that comes during October, November, December quarter, right?

So, my guidance will be, Vismaya, please look at these numbers -- because there are a lot of fixed cost components incorporated in these numbers, right? Please look at them on a 4-quarter trailing annualized basis, right? That will be the best trend that you can pick up on these numbers.

Quarter-on-quarter, there will be noise, right? There is always. We're running about INR10,000 crores business, right? So, there is always accounting noise, there is always a little bit of one-off here and there, etcetera, both debits, credits, etcetera, right? So, I don't think we will want to get into that level of granularity. But I think the 4 quarter trends will be reasonably kind of secular.

Vismaya Agarwal: Got it Pradeep. That's it for me.

Moderator: Thank you. The next question is from the line of Amit Thawani from Clear Blue Capital Advisors. Please go ahead.

Amit Thawani: Hi. Thank you for taking my call. My first question is Don Julio is actually already available in stores, so I was just -- I'm wondering where is that coming in today? Where is that coming from?

Hina Nagarajan: So, there was some Don Julio, which was flowing in through informal channels into the country. And then we had brought in some small quantities to seed Don Julio in the past, right? And we were sort of seeding and testing. So, our own team had brought in some, but there were some which was flowing through, which happens sometimes.

And what we have done is now formally launched it, and we are creating a formal channel of distribution for Don Julio. And therefore, curbing any sort of informal channel and also then inconsistency in pricing and then also building the demand, right? Because I mean, any new brand like this needs to be -- the demand needs to be built for the brand. And so therefore, we are going to consistently invest to build the demand in a sustainable, consistent manner and build it and scale it over a period of years. That is our experience globally that it takes a few years to build this up and really seed it into the drinking sort of regime of our consumers. So that's what we are working on now.

Amit Thawani: Right, right. Thank you for that answer, I'm pretty sure that it will be very successful considering, as you mentioned, that the country is moving towards repertoire and experimenting. Can you tell me what kind of -- so as a subset -- as a subsegment of these -- of our company, how much percentage of our sales would be that fast-growing repertoire drinking thing, which includes maybe -- this would -- Don Julio would be there, Scotch would be there, maybe some other white spirits, which are growing faster, Indian single malt, what would that be as a percentage of our portfolio, the fast-growing?

Hina Nagarajan: Pradeep, do you want to answer?

Pradeep Jain: So can I recommend that you look at our investor presentation of May of '23. We had actually provided a fairly granular breakup of the subsegment, right? You will get all your answers there.

Amit Thawani: Got it. Got it. And my final question is on canteen stores. Is there some market share number we have in canteen stores? Is it -- is our market share in canteen stores lesser than our domestic market share?

Pradeep Jain: No. So, we've never shared channel-wise share numbers. In fact, we've never shared national share numbers also, right? But I just want to kind of provide comfort to the audience that despite that dispute and the claim, etcetera, business continues as is, business absolutely continues as is, and we are not seeing any impact on the business, right? And that's absolutely -- we would want to maintain at this stage.

Amit Thawani: Got it**.** Thank you. Thank you so much.

Pradeep Jain: Thank you.

Hina Nagarajan: Thank you.

Moderator: The next question is from Pankaj Murarka from Renaissance. Please go ahead.

Pankaj Murarka: Hina, this question is for you. India is a price-constrained market where you have to take state-level approvals for pricing. I mean as you said, it's a every year phenomenon. What I want to understand is, given now the construct of the business, it is largely dominated by P&A. In an unconstrained market, what's kind of profitability at which you think this business can operate after making sufficient investments for future growth of the business?

Hina Nagarajan: Sorry, your voice broke in between. I'm not very clear what's the question you've asked. Pradeep, did you get that?

Pradeep Jain: Yes. Maybe let me just take a shot, Hina. The question is that -- it's a counterfactual question that today, the category operates in a price-constrained environment, right, we have to seek approvals. For a minute, if you want to run -- let our imaginations run wild and the pricing constraints are removed, right, what is the profitability of the business, right?

So maybe I'll take a shot, Hina, and then you can give your builds. So, look, Pankaj, broadly, I would say, right, that over a longer period of time, right, one would want to believe that both the government and the brand owners have absolutely aligned interest, right? And therefore, I would say that the profitability potential of this category should not be any different from any other CPG that operates in the country, right?

And broadly, the sense that one has is, right, or even if we bench with our core competitor, etcetera, the EBITDA margins are broadly in the range of 20% or 20% to 22% kind of a range, etcetera, right? So that's broadly the sense we have. Now our category has a unique nuance of the global brands where there is a distributor margin and therefore, a margin capping, etcetera, we will have to kind of rightsize for that. That's the only nuance compared to the rest of the CPG category, right? That will be my view. Hina, in case you have any additional builds on it.

Hina Nagarajan: No, no, I think you covered it very well. I would absolutely agree with that, yes.

Pankaj Murarka: But I have a counter question now as an analyst. Pradeep, see, India is a country where companies in the consumer business which are in staples, someone like a Unilever, they make like 23%, 24% margins. I thought discretionary categories with pricing power should logically make higher profitability. At least that's what I've learned as an analyst over the years. So...

Pradeep Jain: Which is true, right? And therefore, if you look at it, if you compare, let's say, the Diageo plc global margins with that of a Unilever, etcetera, the margins are much higher, right? And then you kind of layer on, right, layer on the fact that there is -- there are these constraints, etcetera, in the market, etcetera, right? And therefore, we should at least aspire to get to the CPG averages, right? That's all that we are saying. Now your question is...

Hina Nagarajan: This is a function, Pradeep, of the portfolio, right, and which India are you addressing? And the choice most companies make is addressing the full portfolio. We address the 3 Indias, right? We address the affluent, we address middle, and we address aspiring India, right? And if I look at even the longer-term picture in that, I would agree that I think what CPG has done over the last few years, it's probably the benchmark that one would achieve, right?

Pradeep Jain: Yes. But it will be interesting to know where are you headed with this question, right? I mean, for our own understanding right, where are you headed with this question?

Pankaj Murarka: No idea is to understand in terms of where this business can potentially go if it was -- to understand the underlying profits -- true profitability of the business where it is headed, let's say if it was not a constrained market because we understand that profitability in India is much lower than not only, let's say, the developed markets, but even some of the Lat Am markets as well from a Diageo perspective. So that was...

Hina Nagarajan: I honestly feel it is quite hypothetical because I mean, given the constraints in the market, hard to imagine that it will become free pricing suddenly. But having said that, taking the consumer backed angle, I would think that they would continue for at least many more years, a mix of addressing the 3 Indias and therefore, probably letting out with what Pradeep said is my sense.

Pankaj Murarka: Okay. I got that. Just one more question. I remember we lost -- let's say, we had to exit some markets like Telangana, and I think one more market where we had for -- so, yes, and we lost volumes on account of that. So, do we have discussions with the government or the possibilities of getting back into those markets and gaining those volumes back what we lost, or not until the political cycle changes?

Hina Nagarajan: Yes. I mean, Andhra was the market we had exited a few years ago. And we have continued dialogue with the states where we have exited for various reasons, right? And whenever we can find a way to operate and get back in the right manner following our code of conduct, we will certainly get back and our experience has been that sometimes markets go away, but we always come back after conversations with the government. So, we continue our dialogue with the government, and I hope that in the future, we will be back.

Pankaj Murarka: Okay, thank you. Thanks a lot.

Moderator: Thank you. The next question is from Sneha from SKS Capital. Please go ahead.

Sneha: Thank you for the opportunity. I just wanted to know what is -- have we lost market shares in some of the areas? I was reading a bit about it. And are there any particular regions where we've gained market share?

Hina Nagarajan: See, we don't discuss region wise statewide market shares ever. On an overall basis, like I mentioned earlier, we have performed extremely competitively, registered strong growth for most parts of -- actually all parts of our portfolio, and we continue to do that for the last several quarters. So, on an overall basis, we are performing extremely competitively.

Sneha: Okay. And second would be, are we seeing any improvement in the raw materials of glass prices?

Pradeep Jain: Well, I said that, Sneha. I did cover that, right? So, glass has been stable. In fact, there have been minor reductions that we have got in the October, November, December quarter, right? So yes, glass is, as of now, stable. And we are hoping that it will remain stable for the next few quarters.

Sneha: All right. Thank you so much.

Moderator: Thank you very much. That was the last question. I would now like to hand the conference back to Ms. Shweta Arora for closing comments.

Shweta Arora: Thank you. With this, we close today's call. For any follow-up questions or clarifications, please feel free to reach out to me directly. Thank you. Have a good evening.

Pradeep Jain: Thank you. Thank you to all.

Hina Nagarajan: All right. Thank you, everyone. Thank you.

Moderator: Thank you. On behalf of United Spirits, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.