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## “United Spirits Limited Q1 FY25 Earnings Conference Call”

**July 24, 2024**

**DIAGEO**

*India*



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**Moderator:** Ladies and gentlemen, good day, and welcome to the United Spirits Limited Q1 FY '25 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 “\*” then “0” on your touch-tone 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:** Thank you, Michelle. Good evening, everyone, and welcome to United Spirits first quarter ended FY '25 Earnings Call.

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 Operating Environment and Business Performance, which 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 will 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, ladies and gentlemen.

Thank you for joining us on the Q1 FY '25 Earnings Call of United Spirits Limited.

To start with, I would like to give you a brief Update on the Macro Environment:

We have been monitoring the external environment closely and have witnessed soft consumption growth for the latter half of Fiscal 2024 with an overhang of sustained food inflation. However, as all of you are aware, some green shoots are emerging in the economy driven by rural consumption recovery and the expectation of a normal monsoon. With this, we hope for some consumption revival going forward.

On AlcoBev, we continue to see a relatively slower but more choiceful spend by consumers favoring their preferred brands, brands that are offering the right price value proposition. Amidst this softer demand environment, our strategy has been to remain value focused. I would like to reiterate that while the premiumization ladder is intact, it is still below our aspiration and what we have experienced in '21-'22 and '22-'23. In this environment, we have delivered a steady performance with overall net sales value growth of 8.3% over prior year same quarter.

Considering the rapid sequential changes in the demand environment on prior year same period that we are lapping now, it will be our request to look at the first half of the current fiscal year

as one consolidated block. Pradeep will provide a little more color on this in his comments that will follow. It is also our firm belief that fiscal '23, '24 was a story of 2 halves, as most of you will remember, and we also think that fiscal '24-'25 will also be the same with only the sequence of the half being reversed vis-a-vis growth. We do, however, remain firmly committed to deliver our growth guidance on a full fiscal year basis.

On the cost side, our key ingredient extra neutral alcohol remains inflationary, while the rest of the commodity portfolio is stable. We have delivered on our margin aspirations by successfully countering inflation, through efficiencies across the value chain and revenue growth management initiatives.

A quick update on the Policy Front:

During the period, new excise policies were released across North, Central and Eastern states. We have received some headline pricing in a few states. New policy in our home state Karnataka has suggested slab changes with reduction of duty, which is a positive development. However, at this stage, rollout of the new policy is put on hold as the industry awaits some clarification.

Industry body is also in discussion with the state and making necessary representation for seamless execution. We hope this change will help revive demand within the state and enable some premiumization of the spirits category, which is currently highly skewed towards the lower end. As all of you will recall, about a year back in July 2023, we saw some duty hikes in Karnataka, which had put tremendous pressure on demand in an already inflationary environment. In that context also, we are happy with the recent announcement.

I am also sure that you have been hearing about a state intending to open for business again. At this stage, we remain cautiously optimistic and are waiting for the new policy announcement. We are also gearing up our preparation to recommence business in the state, as and when the new policy enables the same.

Briefly now on Key Portfolio Updates:

Starting with our IMFL and upper Prestige segment:

We continue to make steady progress with our brands in this segment. Our Antiquity trademark continues to make stronger equity with the consumer. Post renovation, we have conducted a very nice activation on a Photography Challenge powered by Antiquity Natural Mineral Water. The Coastal Bird, Heron, on the label represents great elegance. It embodies the spirit of fearless exploration and limitless possibility. We initiated featured 8 talented artists and had the honor of Jury Members Satyam Bhuyan and Navin Vatsa. The campaign engaged around 140,000 people and culminated in a stunning digital magazine cherished by the community.

Within the upper Prestige segment, Royal Challenge American Pride continue to outpace the segment. We launched the first of its kind 375ml pack in hipster format for Royal Challenge American Pride across key markets of Uttar Pradesh, Telangana and Assam. From a consumer

lens, we continued the 'rise with pride' activation, which was done across all key markets over the last quarter.

Coming out to mid-Prestige:

Royal Challenge has been winning share of mind by challenging status quo with RC's distinct persona. We have reignited our television presence with a scale 360 campaign, our first in 4 years achieving a remarkable (+65%) reach. This campaign extended across 70-plus television channels, 1,200-plus cinema screens and included 30-plus frontpage newspaper ads. We had scaled to Choosebold 2.0 through the above-mentioned media and launched a Limited-Edition product RC Play for the cricket season. As a limited offering, beer flavored whiskey, RC Play was launched in the key markets of Maharashtra, Assam, Madhya Pradesh, Goa and Uttar Pradesh.

Coming now to McDowell's No.1.:

In the current quarter, we focused on scaling the Yaaron Waali Baat campaign featuring our brand ambassador, Kartik Aaryan. The campaign continued with a strong presence on digital print in key markets like Assam. And in UP, we launched a renovated McDowell's No.1 whiskey with the new brand world and retail tool kit being things deployed.

Coming now to the new launches under the McDowell trademark X Series:

This range includes a wide range of whites including vodka, gin, Citron Rum as well as dark rum that will operate in the upper Prestige price segment. This is a huge step in our premiumization journey of the overall portfolio as well as our anchor trademark. Our initial consumer and trade response is very encouraging. The X Series will scale up to more markets with the target for national distribution.

Coming to premium and luxury, one of the highlights from Johnnie Walker was our partnership with the Euro Cup 2024 as we dialed up our presence and impact properties to reach our target audience. We also scaled up our experientials and Blue Label that are exclusive winners across key markets of Delhi, Mumbai, Bangalore and Hyderabad. We are also scaling up Godawan in the Northern States and have anchored premium visibility for the brands at top outlets. We aim to further accelerate momentum with continued omnichannel engagement.

The tequila category is continuing to see good momentum. Don Julio initial response is good with robust consumer traction and scale-up across space. Premiumization within the trademark is also visible, with Don Julio Reposado growing faster than the entry variant Blanco. Consumers also prefer Reposado as the neat serve versus Blanco, which is mostly consumed as a cocktail in the on trade. Don Julio has done some significant activations in the quarter. Partnered with Culinary Culture, Marriott Bonvoy and American Express to get the world #1 restaurant's entry from Lima, Peru to India. This is the first time a reigning world #1 restaurant

has come to India and Don Julio was the proud exclusive spirits partner, reaching out to 100-plus exclusive guests who got this experience at a super-premium ticket price.

As you know also, in our portfolio, Royal Challengers Bangalore, Men's Team, they've significantly moved up the rank in the current season of the year, Indian Premier League and it's a delight to see both our women and men's team performing strongly and the fan following scaling new heights.

Last but not the least, in line with our strategy to add premium Indian provenance craft brand, which complements our existing portfolio, the Board of Directors has approved the investments in V9 Beverages Private Limited, the makers of sober, nonalcoholic beverages and Indie Brews & Spirits makers of Quaffine, coffee liqueur. Our strategic minority stake in both the companies is a step forward in our mission to strengthen our portfolio by partnering with breakthrough start-up entrepreneurs and offering our consumers a wider choice of brand. Both are early-stage investments for us. You can find more details in the announcement made to stock exchange last evening.

Looking ahead, we remain focused on harnessing the macro trend of premiumization by targeting the right consumer opportunity. Our renovation and innovation portfolio will play a critical role in this next phase of growth. We are confident to deliver our growth ambitions by remaining agile in a soft demand environment and harness every profitable opportunity to create long-term value for all our stakeholders.

Before I hand over to Pradeep, since the Union Budget was announced yesterday, here are my quick thoughts on the same. The honorable Finance Minister of India, Shrimati Nirmala Sitharaman in the first budget speech of the current government introduced prolific changes in taxation and fiscal policies, emphasizing policy continuity to drive economic growth. The budget prioritizes a Viksit Bharat focusing on tax certainty through simplified and streamlined litigation processes. Key areas include enhancing FDI, generating employment, bolstering agriculture and solar power sector, empowering women, which is very much on our agenda and advancing infrastructure development.

A notable announcement was the FM's decision to undertake a comprehensive review of the Income Tax Act 1961 and complete it within 6 months. This initiative aims to simplify taxation, reduce litigation and provide certainty to taxpayers. The introduction of a dispute resolution scheme is a welcome initiative that will further streamline tax litigation. Closer to our category on the indirect taxation front, excluding extra-neutral alcohol (ENA) used in the manufacture of alcoholic liquor for human consumption from GST is a much-needed reassurance for our industry in view of the uncertainty associated with this issue since 2017. This amendment will help in significantly reducing unwarranted tax litigation. Levying GST on ENA would have added cost for AlcoBev industry without a corresponding inputs tax credit, adversely affecting sales and tax revenue for the same.

The government has also empowered to now regularize non-levy or short levy of tax due to prevalent trade practices, which is again a very welcome move for us. Overall, the budget lays the groundwork for a resilient Inclusive economy offering a forward-thinking and balanced approach to Indian economic policy.

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

**Pradeep Jain:**

Thank you, Hina, and a very warm welcome to all. As always, it's a delight to interact. Before calling out the quarterly financial performance highlights, will request all of you to refer to the results press release posted last evening. With the start of the new financial year, the results are absolutely clean in terms of basis. Hence, the terminology of rebased and reinstated has been eliminated.

As Hina mentioned, we have delivered a steady quarter despite the demand environment being soft. Price mix at 4.8% was in line with the low BIO salience quarter. We have delivered an overall portfolio NSV growth of 8.3% during the quarter, within which the P&A growth stands at 10.1%.

It is important to call out that a combination of 2 events, one, a regulatory challenge in a North Indian state and another business as usual development in West has led to a favorable growth in the current quarter that will normalize in the next quarter. It is in this context that we are requesting you to look at the first half of financial year '24-'25 as one consolidated block. Our core growth drivers remain a combination of innovation, renovation and driving premiumization at multiple levels to enrich price mix. As it stands today, we remain committed to deliver our growth guidance for the full fiscal year 2024, '25.

Gross profit for the quarter was Rs. 1,046 crores with a gross margin of 44.5%. Our marketing reinvestment rate during the quarter was 7.4% of net sales. This will step up from here as we approach the peak season of October-December to keep our virtuous growth cycle intact to drive consumer engagement in the short to medium term and to establish strong equity for our brands over the longer run.

EBITDA for the quarter stands at Rs. 458 crores, a growth of 18.9% over the prior year same quarter and EBITDA margin is at 19.5%. It is important to caveat that the margin for the quarter incorporates a 100-bps benefit on account of ongoing true-up of provisions in the overhead line against 2 specific items. And as all of you are aware, the A&P reinvestment rate in this quarter is the lowest across the 4 quarters, in-line with the business seasonality.

On the cost side, Hina has already called out. ENA remains inflationary, while the remaining input commodities are largely stable. We expect this trend to continue over the next couple of quarters. This, along with other structural cost reduction initiatives across the value chain and revenue growth management interventions has helped us progress the margin trajectory in line

with our expectations. Overall, our PAT for the quarter is Rs. 299 crores with a PAT margin of 12.7%.

In conclusion, I would like to say that sticking to our core strategic pillars and executing them with passion and ownership in a continuing soft demand environment currently as well as highly inflationary periods in 2022, '23, has been a key enabler to deliver our growth in margin aspiration. It also provides us the confidence in our overall business strategy and the capability of our people that remains our biggest asset and a competitive advantage.

And as we look around and hear the news-flow on policy front as well, we remain optimistic on the prospects of a conducive business environment and the improvement in the consumption momentum and thereby, our ability to further enhance stakeholder value.

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

**Moderator:** Thank you very much, sir. We will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Nuvama. Please go ahead.

**Abneesh Roy:** Congrats on a good set of numbers in a very tough quarter. My first question is on the two M&A, which you have just announced. I wanted to understand the thought process because when I see the sales in FY '23 also for both companies, it's broadly quite small at Rs. 0.6 crores. But in FY '24, also, there is no growth. In fact, both companies seem to have seen a Y-o-Y dip on that small number. So, what has made us buy this? Is it the technology? Is it the manufacturing capabilities? Plus from a longer-term perspective, can both of these brands go much deeper into most of the states? I wanted to understand how you see distribution from longer-term perspective.

**Hina Nagarajan:** Hi, Abneesh. Thanks for the question. So, as you know, we have been following an agenda of future-back consumer insights-led sort of innovation engine creation, right? And both these categories, which is nonalcoholic and/or Zero Alcohol as we call it, plus liqueur are categories that we do look at growing in the future. They have some traction, and they are categories that we expect will gain much more traction. And therefore, our investments is very early-stage investments to create future engines of growth.

These are small entrepreneurs. And clearly, as one of the objectives and goals that we have identified is not only to operate in local craft, premium craft but also help this craft ecosystem to grow. So, clearly, with Diageo's scale and support in terms of technology enhancements, in terms of the distribution might, these are categories that we definitely see will have the potential to scale up, to grow and become national in the future. And what we look for is the culture and culture fit of the founder and the quality of the product, which both ranges are very high quality. So, this is in anticipation of creating a new growth engine based on future-back assessment of where the consumer is headed.

**Abneesh Roy:** My second question will be on the excellent margin delivery you have done this quarter. So, when I see the other cost, there is a very good control both quarter-on-quarter and Y-o-Y. So, is

there any one-off here? Because such a sharp control here, is this sustainable? I understand Q1 elections were there. And generally, it is a weak quarter. So, how easy will it be to have this kind of a cost control in rest of the 3 quarters?

**Hina Nagarajan:** Pradeep, can you take that question, please?

**Pradeep Jain:** Yes, Hina. No, thanks, Abneesh, and I did kind of refer to it in my opening comments, right? So, on a quarter basis, as I mentioned in my opening comments, there are certain true-ups of provisions, right, which for the quarter are giving up a 100 basis points benefit in our EBITDA margin, right? So, if you normalize for that, the 19.5% should be read as 18.5%. And then you are well aware of the A&P, which is the lowest in this quarter. Once you normalize that, we are back in that 16.5% kind of a range, right? Now I will look at it positively because that gives us the confidence that we are pretty much in a position to continue to expand the margin trajectory a little bit from where we ended last year. So, we are in good shape. I think that's the way I look at it.

Why I've called this out, Abneesh, is so that you guys don't end up extrapolating this quarter, right? The number is material for the quarter. If you look at it on a full year basis, these were absolutely business as usual items, but it's just because of the quarterly timing, they tend to kind of come up in different quarters. Therefore, we just thought it in terms of transparency, I need to call it out. Hope that helps.

**Abneesh Roy:** My last quick question. So, Hina, in your initial remarks, you said FY '25 also will be a story of 2 halves, and you rightfully had called out slowdown around 1 year back. What is giving the confidence of further acceleration. You're already doing a good growth in terms of volume and sales, both in P&A. In second half, the optimism, is it largely because of base effect because overall, still there is no big change in other discretionary categories when we see pizza or apparel or footwear, most of the other discretionary categories still things are quite challenging. So, it will be mostly marriage season coming back? It will be the base effect catching up?

**Hina Nagarajan:** So, Abneesh, I think it is base effect, right? I mean last year, we were very high growth quarters in the first 2, and then there was a slowdown in the next 2, right? And this year, we are kind of seeing the reverse, right? So, we are expecting the first half to be steady, a little muted, lower than our aspiration, but overall for the year, we are sticking to our guidance.

There is hope that consumption will pick up this season, right? And there is also the scale-up of some of our innovations and renovations, which will really dial up as we go along the year. McDowell's X Series, for instance, with our range of vodka, rum and gin, we intend to do national distribution. And we have got Johnnie Walker Blonde. We have got Royal Challenge American Pride still scaling up. So, it is a question of base effect, plus the fact that we will have national roll-out of our innovation and renovation portfolio.

**Moderator:** The next question is from the line of Avi Mehta from Macquarie. Please go ahead.



**Avi Mehta:** Pradeep, I actually wanted to just pick up on one comment that you made in the initial comments about some benefits on Northeast and West India. Could you clarify what exactly was it? And I will kind of get to the question then. I didn't quite understand them. So, it would be useful if you could clarify that, please.

**Pradeep Jain:** Yes, Avi. So, no. So, what we want to share was that, look, based on what we have experienced in April-June, right, we have experienced a certain momentum in one of the western states, right? We have probably a handle on it as to why, right? And therefore, we see some amount of the growth for the first half getting front-loaded in the first quarter, right, which is likely to normalize in the second quarter. And therefore, I think Hina also mentioned in her comments and I also mentioned that it is, again, our recommendation that you guys don't extrapolate these numbers, right, and look at the first half, which is April-September as a consolidated block, right? So, that's what I would want to share at this point of time.

**Avi Mehta:** ok. Is it possible to give us a sense on what, I mean I am not sure if you can give us, some quantum or some way to understand how much would this benefit be in the Prestige segment?

**Pradeep Jain:** Avi, like I said, it's business as usual. Therefore, it's difficult to quantify that in this vast kind of deep and wide business, but we know that there is a certain amount of benefit that we have got in the current quarter.

**Avi Mehta:** Let me rephrase this Pradeep and where I am coming from is the fourth quarter you had cited concerns on demand. And I mean this 10% growth is pretty good in that context. Now I understand there is some one-off aspect. But if I look at the first half and the second half and given our target of (+10%) double-digit growth in FY '25, the way I should see this and at least clarify, first half should be closer to that 10%, it will be ahead. So, is that how you're seeing this? Could you give us some sense on how we should look at growth rate from a sales perspective would be helpful.

**Pradeep Jain:** Absolutely. So, let me help on that. And that, I think, is pretty much called out, Avi, as Hina has mentioned, it will be exactly a story of 2 halves, only the growth will change in the half, right? So, therefore, I can go on record and say that first half will be less than double digits, right? And the second half will be higher than double digit. As of now, we stand absolutely committed, right, that on a full year basis, we should be on our double-digit guidance.

**Avi Mehta:** Got it. Perfect. Very helpful, Pradeep. And thanks a lot for being transparent in these disclosures. The other bit I just wanted to understand is on, I got your 100-basis impact on provision. Is this something that changes in the next quarter? Or no, this is something that has happened and now from here on whatever number I can true-up based on would continue going forward? Or actually more important is the gross margin. Is there any one-off in the gross margin? Because that's moved up quite sharply on a sequential basis. And I wasn't sure if we can take that number as steady state because ENA costs seem to have flatlined, but we'd love to hear on that part, please?

**Pradeep Jain:** No, fair. So, I think on the first question of yours, Avi, my response would be same as what I have provided to Abneesh, right? So, there is no one-off, right? These are pretty much in the normal course, right? But on a full year basis, right? And when these trigger events happen, et cetera, and your provisions get trued-up, in the quarter because the period is so small, right, the numbers become material. So, therefore, I do want to call that out, right, the 100 bps, right? Because I know how you guys run your models, the 19.5% becomes base and then from there onwards, right? So, I got to worry on that front. So, therefore, I am calling it out. But on a full year basis, we were absolutely par for the course and normal, absolutely normalized items. So, yes, the sharp answer to your question is, do not extrapolate our current quarter margins on the overheads line, absolutely. That's one.

Your second question on gross margin. You're right. Look, I will only say, Avi, that we are fairly refined and dynamically allocating our growth driver resources, right? And look, there are 2 big growth drivers, right? There is A&P, and there is obviously the trade spend, right? Both are equal. But one is above the gross margin line, one is below the gross margin line, right? And depending on the tactics you have for a quarter or for a particular month also at times, right, there could be dynamic allocation between the 2, right?

So, I think that's broadly what has happened. That's why you see the A&P a little higher. We have done that. And because we kind of reduced our trade spending, that provides a kicker to our gross margin. But yes, you're right, there is absolutely nothing sustained in the gross margin that has happened in the quarter.

**Avi Mehta:** And just the last bit, if I may. This Karnataka bit, by when do we expect clarity? I was under the understanding that it's beneficial from a premiumization perspective. But given Karnataka is a popular heavy market, I would like to know how should we read this change?

**Pradeep Jain:** No, absolutely. Absolutely. Hina, you want to take that?

**Hina Nagarajan:** Yes. So, Avi, we are in touch with obviously the relevant government officials as an industry. We do expect that sometime in August, we will get more clarity and the business should resume as usual. As I mentioned in my opening, we do expect to see some premiumization in this space. It is a positive policy announcement. But I just want to say that even with the duty adjustment, the product will still remain relatively more expensive than many other markets. So, there will be some benefit of premiumization, all in the right direction, but we don't expect that it will be an exclusive, right? Because the product remains still reasonably expensive.

**Avi Mehta:** Perfect. No, I will come back in the queue for the other questions. Thanks a lot. And thanks for being so constructive and transparent on how should we read this performance.

**Moderator:** The next question is from the line of Latika Chopra from JPMorgan. Please go ahead.

**Latika Chopra:** I think some of the questions got answered. But I wanted to first check on any color that you can share with us on any kind of impact from changes in West Bengal taxation policies?

- Pradeep Jain:** It's still in the works.
- Hina Nagarajan:** I didn't really catch the question. Pradeep, did you?
- Pradeep Jain:** Yes, yes. So, I think, Latika's question Hina is on the West Bengal excise policy. The expression of interest has come, Latika. We are still working on it, right? So, a lot more clarity will emerge in the next 2 to 3 weeks, right? So, right now, it's too early to call anything. Yes.
- Latika Chopra:** My second question was on the quarter for P&A realization were close to about 5% on a Y-o-Y basis. What would be pure pricing in your assessment in this number versus the mix benefit?
- Pradeep Jain:** In the current quarter?
- Latika Chopra:** Yes, in the current quarter.
- Pradeep Jain:** In the current quarter, I am just kind of thinking off-the-shelf, Latika. I think our P&A volume is at 5.1%, if I am not wrong. And total NSV is 10.1%, so the breakup of the balance 5% would broadly be about, I would say, it's about 1.6% of pricing and the balance is mix.
- Latika Chopra:** And Pradeep, would you expect the pricing part to keep improving depending on what are you sensing, this realization of price mix is trending up in remaining part of the year considering whatever you have allegiance different policies that are playing around plus, of course, your own continued initiatives that you see on driving premiumization.
- Pradeep Jain:** So, look, Latika, I mean, Hina and I have maintained a consistent stand on this, right? I mean, we don't want to get into a breakup of the 2, but price mix as a whole, the volume-value delta, right, we have always maintained. And actually, we took this position 2 years ago when BIO was very, very buoyant. But yes, I will probably go ahead and still kind of put ourselves on the neck, which is that it will stay in the range of about 6% to 8% on a full year basis. Again, there might be quarterly vagaries, right? But I guess on the lower end, 6%; on a higher end, 8%, et cetera, that will probably stay, right? So, that's what we will probably hold ourselves. And this I am kind of talking P&A, right? So, P&A price/mix will remain in the 6% to 8% range, and that's what we will probably sign up for.
- The breakup between headline pricing and mix could vary, right? We have had pretty good 24 months, I would say, on headline pricing, even though nowhere near the inflation levels, but can't complain compared to our historical run rates. So, probably the headline pricing will moderate a little bit, but we continue to remain very, very focused on our premiumization and driving the realization through that.
- Latika Chopra:** This is useful. And absolutely, the last question Hina. Your opening remarks, you started off with green shoots in rural, right? Just want to understand a bit better is the portfolio skewed or what salience of the portfolio is skewed towards smaller cities, is that what you're calling for some bit of an uptick possibly in popular and lower Prestige? That was one part that I wanted to

understand. And the second bit was just checking, are you sensing any kind of moderation risk on growth in any of your urban centers or urban consumption at the same time? That's all.

**Hina Nagarajan:**

Right. So, on the green shoot, this is more a general comment, Latika, for economy, right? And as rural economy, improved monsoon, I think the overall sentiment improves. And we don't see a direct consumption impact though at the lower level, there will be some, right? But it is more about the sentiment of the economy and therefore, the consumer sentiment hopefully leading to more demand, right?

On the moderation risk, I have been calling out for 2, 3 years now that consumers we do see, and this is not state specific or town specific. We do see consumers saying that they don't want to drink more, they want to drink better, right? And that is only getting, I think for us accentuated with the newer consumer coming into a legal drinking age. And therefore, our story of robust sort of premiumization and expectation of robust premiumization trends as we look forward is based on. Overall, Latika, still, I would say that look, I mean, penetration still remains quite low in the country. Per capita still remains quite low in the country. So, if I just look at enhanced penetration, if I look at consumption and if I look at premiumization and the desire to continue to start adopting better products, that's really well for us as an industry.

**Moderator:**

The next question is from the line of Jay Doshi from Kotak. Please go ahead.

**Jaykumar Doshi:**

Thanks for the opportunity. So, you have delivered consistent gross margin improvement over the last 4 to 6 quarters, notwithstanding inflationary environment, especially in ENA. So, I just want to understand what benefits of the cost-saving initiatives you undertook about 1.5 years back, which is mono carton elimination and then supply agility program. Where are you in that journey? And how much more headroom do you have? I am assuming that those benefits are essentially helping gross margins or to helping you mitigate inflationary pressure.

**Pradeep Jain:**

Maybe Hina, I can take that, right?

**Hina Nagarajan:**

Yes, please. Yes.

**Pradeep Jain:**

So, Jay, I think as we mentioned in the last call also, the mono carton is fully in the P&L now, absolutely, right, completely in the P&L. And you're right. I mean, last year, if you look at the financial year 2023-24, the big bump up on productivity that we shared in the May annual investor call as well, right, was largely driven by the mono carton initiative, right? That was roughly worth around, I think, Rs. 160 crores to Rs. 170 crores on an annualized basis, right?

So, that's all fully into the P&L. And therefore, the productivity numbers will moderate compared to 2023-24, right? But hopefully, the good thing is that inflation has also kind of moderated a little, right? So, that should keep us in good stead, right? And sorry, I have kind of missed your second question, Jay.

**Jaykumar Doshi:**

Supply agility program.

**Pradeep Jain:** Supply agility, right? We had shared the status of that again in the May call, and you could refer to that. We had said, I think, 40% of our stated benefits, right, of the full program were already in the P&L by March 31<sup>st</sup>, right? And the balance 60% will kind of come in a piecemeal manner. I think we had mentioned when we announced the program that the full program benefits will be into the P&L only by financial year 2027-28, right? So, I mean, in a way, we are pretty good actually, 40% already in, right? But obviously, the tougher ones are now kind of being queued up, and they will take a little while to come into the P&L.

**Jaykumar Doshi:** Sir, at this point of time, it looks like you directionally are comfortable on gross margins, right? There is no incremental headwind per se, if at all, gradually, it could get a little better, right?

**Pradeep Jain:** Yes. See, right now, it's a balancing, right? ENA remains awfully inflationary. Pardon my use of word on that, right? But it's been balanced completely by the entire rest of the commodity portfolio, right? So, therefore, it's pretty much one input kind of inflating at a very rapid pace and everything else kind of neutralizing it, right? So, that's a good place to be in, I would say, and probably this trend will stay for the next couple of quarters at least, right? And then once the new crop comes sometime in December, et cetera, then we'll have to probably see how the next 2, 3 quarters looks like.

**Jaykumar Doshi:** Sure, perfect. And last one, which I think I've asked earlier as well. If Andhra Pradesh opens up, basically that poses upside risk to your full year growth guidance, right?

**Pradeep Jain:** That's a tough one to call, right?

**Hina Nagarajan:** I would say there that, Jay, I think I have said this before. Pradeep, has probably said these many times before, right? During the course of the year, many markets open, many markets close, right? I mean, over the years, we have seen that, one market closes, one opens. So, can we factor everything as an upside? It's very difficult to say, right? Because we don't know what happens in any market next. So, I mean we had the case of Delhi, which went away from the base completely, then we sort of had to recover the growth from somewhere else, right? So, I don't think that we can say that everything will remain hunky-dory and Andhra will come and sit with a full layer on top. Of course, it will give us positive upside. But at this point in time, I don't think that we can say that this will change our guidance, right?

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

**Percy Panthaki:** My question is, again, on the gross margin front. So, you mentioned in response to an earlier question that there is some lower sort of trade spend this quarter, which has benefited the gross margin. So, what I wanted to understand is, is this lower trade spend something structural which can continue? And just wanted to understand, basically, see, you've done 44.5% gross margin this quarter. Is that a good number to take for the remaining 3 quarters as well? Or is this trade spend, which is lower will sort of come back and we need to take a lower number than this for the remaining 3 quarters?

**Pradeep Jain:** No, Percy, like I said, it's a very tactical shift for the quarter, right? It's a very tactical shift for the quarter. Nothing structural on trade spend. There is a set of structural interventions we anyway target, right? And that is kind of chugging off beautifully. But this kind of a shift in one quarter, this was completely tactical, right? Basically, we wanted a little more A&P for the extended cricket season, and therefore, we thought our brands were in kind of reasonably good shape, right? And we could squeeze a little from trade spend. So, those are ongoing tactics that we apply, right, as we run our book.

**Percy Panthaki:** So, basically, if the inputs remain where they are today for the rest of the year, then the gross margin would be a tad lower than what we have seen in Q1?

**Pradeep Jain:** That's right.

**Percy Panthaki:** Secondly, just wanted to understand your traction on the global brands, which are benchmark at that 10% EBITDA margin. That entire portfolio over the last, let's say, 1 to 2 years, what has been the growth in that portfolio? I mean, I understand the absolute EBITDA per case is higher, but we are already getting the benefit of that in the top line, so we also need to model in some amount of impact of that into the margin. So, how do we basically go around modeling that in your view? Any kind of pointers would help?

**Hina Nagarajan:** I mean I can talk on the growth. PJ, you can talk on the modeling if you want.

**Pradeep Jain:** Absolute. Hina, why don't you go ahead. Yes.

**Hina Nagarajan:** Yes. The first thing, I think as we heard out over the last couple of years, I mean our global brands were growing at very strong double-digit rate, right? But that growth we have called out over the last few quarters, while premiumization ladder is still intact, the growth had moderated quite a bit, right? So, there is premiumization. The growth has moderated. And we continue to get mix benefits, right, from it. We continue to get the uplift on absolute EBITDA and Pradeep can then follow on with how do we model that and what should you take, right?

**Percy Panthaki:** And lastly, if I can just squeeze in one question. Supposing the UK FTA does take place, what kind of benefits do you expect from that? So, I understand theoretically, there will be 2 benefits, like one is on the price of the bulk scotch, which will basically be a reduction in to your COGS. And the second is basically making the global brands a little more affordable and pushing up their volume. But any kind of way to think about the quantum of these 2 points would sort of help.

**Hina Nagarajan:** I think we have addressed this earlier also Percy. Let me remind you, and let me remind the group, right? So, I mean, first of all, it's very difficult to say how much reductions would happen. But I just want to say conceptually, right? It is a very small part of the value chain of brands, right? So, the national customs duty is a small part. The main sort of duties are from the states, where a lot of the adjustment on duties from several states has already happened over the last 2, 3 years.

So, depending on where that 150 went, right, is the 150 went to 100 or 50 depending on that range, we expect that the impact on, say, pricing, pricing will probably come down between 5% to 15% with the corresponding increase in demand, right? So, that's the range, right? And we really want you to understand this that I mean it is not as if scotch will double. Percy, there's not enough scotch in the world to double, but because of the component of the value chain being fairly low, I would say the range could be 5% to 15%. Assuming that there are not corresponding state taxes that are brought in to counter this, right? So, there's a lot IFs and BUTs. And depending on what actually emerges, we would be in a slightly better position to comment on this.

**Percy Panthaki:** And on the bulk scotch part, sort of reducing your COGS, any sort of way to think about the quantum of that?

**Pradeep Jain:** Yes. Let me take that, Percy, right? So, I mean, yes, there will be a benefit, right? Now I don't want to get into assumptions of what will that 150 become. Will it become 100, will it become 75, et cetera, right? It will be. There will be a benefit. And my, again, remit would be, we don't even think about that, right? Because look, that's the one thing that we have been taught. Fiscal benefits when they come only then they come, right? So, our role is to continue to make the business more productive by the day, based on the current landscape and the current regime, right? But yes, I do want to assure you the number, let's say, the 150 comes down to about 100 or 75, the number it will be upwards of 50-70 Cr.

**Moderator:** The next question is from the line of Krishnan Sambamoorthy from Nirmal Bang Institutional Equities. Please go ahead.

**Krishnan Sambamoorthy:** Two questions. One is what exactly is the clarity that you're seeking from the Karnataka Government on the tax slab revision. You mentioned the timelines, but what exactly is the clarification that the industry is seeking?

**Pradeep Jain:** Yes. No, so the associations were in discussion. There are a couple of clauses, which the industry thought were a little regressive, right? And therefore, the discussion is all around that. As we have already mentioned, Hina mentioned in our opening comments, overall, the direction is very, very positive in terms of reducing the duties on the higher end of the portfolio, which kind of enables the state to premiumize the category and hopefully drive more ex-chequer revenues while giving the consumer an option to drink better, right? But there are a couple of other minor clauses, which are a little regressive. I think that's what the industry is kind of discussing right now with the government.

**Krishnan Sambamoorthy:** And second thing is on the price increases by various states. What are the incremental price increases that you have obtained in the last 3 or 4 months? And which are the states if you can highlight that?

**Pradeep Jain:** In the quarter or in the year?

**Krishnan Sambamoorthy:** In the quarter or over the last 3 or 4 months.

**Pradeep Jain:** I mean, we have received price increases from a lot of states over a full year basis. Like I said earlier, right, last 2 years have been pretty good on headline pricing, right? Again, I want to caveat nowhere compared to inflation, right? But again, with our historical run rate, we have actually inched up our headline pricing realization. In fact, you can look at our last 2 years' annual investor call presentations, the numbers are very transparently shared in that, Krishnan, right? So, you will get the numbers. And this quarter also, we have got price increases in UP. In CSD, we have managed to get some price increases and one more state I think. And 3 states are the bulk of our price increases in the quarter.

**Krishnan Sambamoorthy:** And one last question, if I may. Just a quick update on how Godawan is progressing.

**Hina Nagarajan:** Yes, I mentioned that in my opening. Yes, Godawan is progressing very well. I mean, I think I mentioned that the liquid is now fabulously appreciated more than 40-plus awards. And our focus is really to scale Godawan up. It is a artisanal malt, so we don't expect that Godawan will be as large as some of our IMFL brands, et cetera, but still, I think there is scope for further expansion. And so, we want to look at national level distribution. Godawan is only in a few states. So, we are now focusing in the North and really looking at scale distribution in the North. And wherever we have launched in the West and South as well. So, progressing quite well. And I think the team is focused on now commercially scaling this up with fantastic visibility in our retail outlook to achieve national level distribution.

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

**Harit Kapoor:** So, most of the questions have been answered. I just had a couple of product related questions. One was on X Series. So, I think you mentioned in your earlier opening remarks that the response has been very encouraging. Could you give us a sense of the first 1 or 2 markets, I think Goa was the first one, I think you were targeting Maharashtra post. If you can quantify what are the positive factors that you've seen given that this launch kind of translates across categories. So, just a sense on that.

**Hina Nagarajan:** Yes, actually it's quite early to say, right? I cannot quantify. As you rightly said, we were in Goa and now we are just about rolling out in Maharashtra, it's just too early. But what we can say is our response on positive response is based on the qualitative feedback and the excitement we have seen with our retailers and trade, right? And clearly, I think even with the influencers who have helped us with the launch and the partners who have helped us with launch, I mean some of them have said it's about time that McDowell's expanded into categories like this, et cetera. So, there's a huge traction, excitement about the expansion into these. We will have to wait a few quarters actually to quantify where we can reach with this, but we have had a very good sense of the initial sort of scale. So, please do wait for a few quarters for us to be able to respond to that.



**Harit Kapoor:** And from a rollout perspective, is the rollout in 18 months national. Is that the thought process or still early to say?

**Hina Nagarajan:** Yes. The rollout will be national because, I mean, as you know, the whites category has seen significant traction over the last few quarters, right? And we have been following that out, whether you look at gin, vodka or even the tequila, which is a small category today but still pretty good growth rates across states. So, the whites category has momentum. And therefore, we fundamentally believe we have a very good offering in the whites category at the right price points in the market. So, certainly, we will be aspiring for national distribution.

**Harit Kapoor:** And the last one was on 4 minority investments that we have made over the last 2, 3 years.

**Hina Nagarajan:** Sorry, I am losing you. I am hearing it very muffled. I can't really understand your question.

**Harit Kapoor:** Yes. Can you hear me now? Is this better?

**Hina Nagarajan:** Slightly better, yes.

**Harit Kapoor:** So, the second question was on the 4 minority investments that we have made over the last 2 years or so of which 2 have come in this release. I just had one question on them. Are we supporting these brands with our own out-of-home distribution as well as high-end retail distribution as well. Is that something where we do across the brands when we kind of invest in them? Just a book-keeping kind of the question on this?

**Hina Nagarajan:** Yes. So, look, what we do is when we make these investments, we support the founders of these brands with all the technical expertise, the management experience and expertise in scaling up and also where synergistic with our activation, whether it's distribution or whether it's activations on-trade, et cetera, right? So, they get the full benefit of our experience, our network, our expertise to scale it.

But what we try and do is leave the founder to do their job because the founders actually do it best. They really know their brand, they're very passionate and they know how to scale them. So, wherever we find areas of synergy, whether it's the cost side or the activation side, we give them access to our network and they are able to do it, but we don't physically do the work for them, right? And that model we have tested globally and in India, and that model works really well for us.

**Moderator:** The next question is from the line of Prakash Kapadia from Spark PMS. Please go ahead.

**Prakash Kapadia:** I think just one question. What is happening in Delhi? Have we crossed the sales value before the new policy measures have come in? Has that settled?

**Hina Nagarajan:** So, actually, Delhi is steady state, right? There is no change. And whatever was the reduced base of sales that happened after the policy change will just remain at steady state in Delhi. We haven't seen any change so to speak.

**Moderator:** We'll take the next question from the line of Nirav Seksaria from Living Root Analytics. Please go ahead.

**Nirav Seksaria:** My question was pertaining to the 4 previous acquisitions we have done, investment as per se. Are we planning to increase our investments in any of these brands or in the near future? If yes, then what is the criteria under which we would increase our investment?

**Hina Nagarajan:** So, when we make our first investments, I mean, there is an agreed sort of trajectory for the brand. There is an agreed business plan for the brand. And there is sort of not only due diligence before the investment, but also governance for each of these with some of our Company members sitting on the Board of these companies. And so based on evaluation through periodically, right? And looking at the traction of the brands and whether they are in line with the business plan or not and the response that we expect. If there is a natural evolution, where there is a need for investments to scale up and grow because the brands are performing as per the KPIs and the business plan, then we would certainly look at more investments in these brands to ensure that the founders have enough money to scale up and they're not something to really grow the brand in line with aspiration.

**Nirav Seksaria:** And out of 3 of the 4 investments that we have made, we already have a few products in our existing portfolio, which may be launched or not launched in the Indian market. So, what is exactly the ideology to invest in these companies.

**Hina Nagarajan:** Look, I think it is about the consumer behavior, right? So, there is especially post COVID an acceleration of the price in locally made craft provenance brand. And equally, there is a huge consumer demand for global aspirational brands, right? Repertoire drinking has expanded significantly. So, they're drinking different things in different occasions, right. And we see a role in the portfolio of both.

So, for us, it's an and strategy, right? I mean, wherever there is a demand for global aspirational brand, we keep bringing them in like Don Julio, which came in a few quarters ago. And equally, there is a demand for craft brands. And if this fits with our future trend insight. And if you feel that those craft brands are going to grow further, then our logic would be to bring both types of brands into the portfolio and global.

**Nirav Seksaria:** Okay. And is there any plan to launch Mr Black in India?

**Hina Nagarajan:** Launch, what? Sorry.

**Nirav Seksaria:** Mr Black, the liqueur that you had acquired few years back.

**Hina Nagarajan:** Mr Black. At the moment, I would say, no, I can't say for the future. At the moment, I think Mr Black is being consolidated in the markets where it is. And I think the capacity is being utilized in those markets, it has to scale up and build. I mean, in the future, depending on global strategy to roll out a lot, we can look at it, and it will depend on whether there is enough demand for Mr Black as well as some of these investments that we are making.

- Nirav Seksaria:** And if I may squeeze in a last question. Is Diageo planning to help put on to the distribution of these newer investments from the aspect of increasing sales and helping out the founders?
- Hina Nagarajan:** Sorry, PJ did you hear that? Because again I heard very muffled question.
- Pradeep Jain:** Yes. Nirav, I am just trying to get the question here. So, I think this question was answered earlier. So, to answer your question is that is Diageo planning to support the distribution of these brands, right, in which we have invested?
- Nirav Seksaria:** Yes.
- Pradeep Jain:** Okay. Hina has already answered that and Hina allow me to kind of repeat your answer, which is that look, we support them in terms of the intellectual capital, in terms of mentoring, in terms of providing the guidance, in terms of R&D, technical expertise, supply chain expertise, et cetera. But physically, we do not want to intrude. We let the entrepreneurs run the business absolutely independently themselves, right? Because we believe that they have the capability to do that, right?
- Hina Nagarajan:** Pradeep, just to add. We are able to introduce them to the right distributors from our network and help them with the synergies of this.
- Pradeep Jain:** That's right. physically, we will not do anything, right.
- Nirav Seksaria:** Pradeep, if my understanding is right, you will provide them with a base and the guidance towards the right direction as simple as that.
- Pradeep Jain:** That's right.
- Hina Nagarajan:** Yes.
- Moderator:** Ladies and gentlemen, as that was the last question for today, I would now like to hand the conference back to Ms. Shweta Arora for closing comments. Over to you, ma'am.
- Shweta Arora:** Thank you. Before we close today's call, I would request all of you to please go through our annual report, which is available on our website now. And please feel to reach out to me if you have any more questions on the report or on the results. Thank you all for joining, and have a good evening.
- Pradeep Jain:** Thank you, all.
- Hina Nagarajan:** Thank you, all. Bye-bye.
- Moderator:** Thank you, members of the management. Ladies and gentlemen, on behalf of United Spirits Limited, that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.