"United Spirits Ltd.
Q3FY21 Results Conference Call"

January 28, 2021

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Moderator: Ladies and gentlemen, good day and welcome to the United Spirits Limited Q3 FY'21 Results 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 touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Kripalu -- Chief Executive Officer, and Mr. Pradeep Jain -- Chief Financial Officer from United Spirits Limited. Thank you. And over to you.

Anand Kripalu: Thank you very much and hello everyone, and a warm welcome to the F'21 Q3 Results Call.

As we normally do, before we open up the lines for your questions, I wanted to share a "Perspective of the Results" that we announced last evening. Now, as we all know, India is experiencing a good sequential recovery and it is reassuring to see progressive improvement in consumer spending, and particularly in premiumization. However, socializing, which is central to our category remains somewhat subdued, with hardly any large events, which have been substituted in part by some smaller gatherings. Encouragingly, the quarter witnessed fully operational off-trade channel, and the sales reopening of the on trade. The bars, the pubs and the restaurant were around 85% of them now are operational, albeit with low occupancy. Christmas and New Year celebrations were muted relative to what you normally see during that festive time in previous years. The resilience and buoyancy of home consumption however, continues to be the positive of 2020.

In the quarter, we have continued the rollout of our renovated bundles of No. 1 Whisky and Royal Challenge Whisky. And I must say we are pleased with the response to both these bundles.

Our teams continue to remain agile, working on multiple fronts to navigate the new normal. Raising the bar program has gained traction during the quarter as consumers started coming back slowly and steadily encouraged by the safety protocols that have been created through this partnership. Operating cash flow remains strong and our external debt stood below the Rs.1,000 crores mark at the quarter-end, which you will understand given the journey where we came from is a huge, huge transformation as far as debt is concerned. And therefore we are pleased that CRISIL has reaffirmed its AA+/positive rating.

Before I move on to the company's standalone performance, I also wanted to share that our IPL Cricket Franchise, RCB or Royal Challengers Bangalore came fourth in the recently concluded league and that including the profits on that, reflect in the consolidated results of the quarter.

Now moving on to "Specific Numbers for the Standalone Performance," as you know our reported revenue declined 3.6%. Adjusting the effect of the route to market change in the State of Andhra Pradesh, our net sales were broadly flat, growing at 0.2%. The Prestige & Above segment declined 0.8% driven by higher festive comparatives in the prior year. However, excluding Andhra Pradesh, P&A grew 4.5%. The Popular segment declined 6.7% in the third quarter, increased consumer prices particularly in some states, which are important for our retained popular business continued to be impacted because of this segment being particularly price conscious.

Management-led productivity intervention coupled with benign commodities led to a 24 basis points improvement in our gross margin to 44.6, a reversal of the trend that we've seen in the previous many quarters, where you saw some level of challenge on gross margin.

Our A&P reinvestment levels continue to be healthy, somewhere between 9% and 10%. And these help to support the investment in the renovation of our two core brands.

Reported EBITDA were sequentially higher and back to the mid teens level at 15.4%, and PAT stood at Rs.230 crores.

We've continued the journey of monetizing our non-core assets and reduction in debt levels as well as interest costs.

As we look ahead, commodities remain broadly in check, at least for the next few months. However, the directional movement of the ethanol blending program could influence the prices in the coming quarters.

So net-net in summary, I must say we are happy with where we are at the end of calendar 2020 versus whatever expectations we had a couple of quarters ago when the pandemic and the challenges of that pandemic were really looming large.

In this quarter, we believe we have delivered quality performance with growth in Prestige & Above and therefore continued premiumization despite the reduced socializing that is happening. While improving margin backed by overall fiscal prudence, where we have brought down debt, and also brought down debtors.

As we stand here today, we now have a better understanding of this new environment, and are hopefully progressing towards full normalcy. We look forward to the next few quarters with optimism. However, given the dynamic nature of this environment, we believe it is not prudent to provide any short-term guidance on numbers, and hence, we have refrained from doing that.

So with that, I'm going to open it up for your questions.

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

Abneesh Roy: I have two questions. First is on advertising. Recently, (ASCI) Advertising Standards Council of India, they have banned surrogate advertising for around 12 liquor companies. So does this impact you directly? Second, how does this impact the sector in terms of the ad spend, could it come down? But on the other hand, how do you drive demand in the discretionary category if you can't do too much of surrogate advertising?

Anand Kripalu: Thanks, Abneesh for your questions. So there has been some challenges with an ASCI notification, particularly in one or two states. Now, obviously, we are being cautious in trying to work through with ASCI, what is appropriate and setting the right codes for the advertising. Okay. So, I don't believe that we are reaching a situation where there'll be a complete ban on our advertising. But what I do want to say is this that even for us today, a lot of our ad spend is not above the line like it's classically true for FMCG companies. A lot of our so-called thematic ad spend is also in-store because an on-ground activation because we believe that our brands are also created in the bars, right in the stores and through events. And that opportunity is not very often there, like in FMCG sector. So we have always treated that as a strategic brand building and equity building opportunity. Push comes to shove if we have to tweak the ratio of that spend, we will do it, but I think we need to be cautious, as an industry we should not overstep, what are the right rules and regulations. And I think in this competitive spirit, people tend to go a little bit over and do more. As a company we normally have exercised a lot of self-restraint, because we are cognizant of this, and we believe we need to play a leadership role to make sure that freedom is not lost the freedom that we enjoy. So that's really my answer to your question.

Abneesh Roy: And one follow-up on the advertisement. So in an IPL quarter, I was surprised the ad spend was down 6%. What was the reason for that?

Anand Kripalu: We spent I think 9.4% A&P in the quarter. Now, it's a matter of judgment, whether the previous year base was higher, or this year's spend is lower. I think the most important thing is that we spent quite aggressively through IPL. 9.4% spend right on our total business is a significantly higher spend when you look at it as a part of our P&A portfolio. And that reflects a very, very healthy spend in absolute. So, I think when we built our plans, we aim to fully fund and fully support all the news that we had behind our brands, particularly the new news, right, and we have done that.

Abneesh Roy: My second and last question is on Uttar Pradesh, that's a key state. Now, regulator has said that you need a license if liquor is beyond a certain limit. So does this impact because this could be just for absolute top and very miniscule because of the quantum they have certified. But if that is the case, why is regulator doing this kind of action because this again brings the sector back one step forward, two steps backward, in terms of more regulations, more issues?

Anand Kripalu: So I have not sensed that this is going to impact the business in any material way. Regulation sometimes does tend to take two step forward, one step back. UP has taken in fact five steps forward in the last three, four years by the way. So it has been one of the most progressive states on regulation. And we are on the anvil of hopefully a big breakthrough coming in Delhi. And there's a public notice to that effect, where Delhi is bringing down the legal drinking age, they are reducing the number of government stores and increasing number of private stores and simplifying the rates and the process for label registrations and so on. Now, if that happens, that's a big bonanza. So this is part and parcel of this regulatory environment, Abneesh.

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

Arnab Mitra: Hi, Anand. My first question was on the fact that in the third quarter your net sales declined, and even the P&A growth / flat trajectory looks similar to what we did in 2Q. So I do take your point that the share of festivities is higher, but we've also seen a significant reopening of on-trade, though YoY lower, but it's definitely better in 3Q than 2Q. So is it slightly disappointing that your overall trajectory is almost similar between the two quarters or is there something else in the 2Q numbers maybe restocking or something like that, which kind of improve the numbers and there is actually a sequential improvement on the ground in terms of offtake that you would consider?

Anand Kripalu: So first of all, the comparative for last year, it was one of the higher growth quarters, particularly for P&A. So the fact that it's a somewhat higher comparative. The second is the fact that in this quarter, a significant part of our business is based on big weddings, big banquet, big celebrations, big party. Right? And that's in the base. Right? So that was obviously far more subdued this year. Okay. I'm saying, given the context, right, and yes, on-trade is opening, but if you do go to the bars and restaurants, they're not packed the way they were because they have also had to enforce a lot of norms as far as social distancing, etc., are concerned. So, if we look at all these things put together, I'm not disappointed by the way where we've ended up. And what's happened interestingly is that scotch has done well and lower prestige has done well. So, I think there's some slipping in mid and upper prestige to lower prestige. But as far as consumers of scotch are concerned, they're obviously more resilient. And we have seen the price sensitive sectors of Popular getting impacted, particularly in states like West Bengal where there's been a significant increase of consumer price, and that's affected our total number. So I would say, you read it in context. And even if you were to compare it with the previous quarter, I certainly don't think it's a step back in performance. At minimum, it's in line with what we did in the previous quarter. But the overall shape of our P&L, right, and the progress that we made on other aspects of our P&L, I think reflects the quarter-to-quarter recovery.

Arnab Mitra: When this lockdown happened, and this initial phase was there last six months, we saw spirits significantly outperforming beer as an industry, obviously lot more in home consumption. So, as the on-trade comes back, is it something possible you're seeing even there's a bit of a shift back in terms of the consumer choices here, and therefore, the recovery may not be that strong? And is that also making you slightly cautious in your commentary, because your commentary does look a little cautious given that you're now kind of entering into a period where there's even more reopening likely to happen?

Anand Kripalu: The natural thing is that there will be some people who will go back to beer, right, but not all of them will go back, some will stay with a higher share of spirits in their consumption basket is to be seen. And there have been one or two states where beer was tanking sharply, they've had some regulatory benefits, and that helps the beer sector recover in those specific states. So I would say that you may or might not retain all the gains of the shift from beer to spirit, normally in life, you retain some part of it. What exactly that is? I don't know. Absolutely, I don't think socializing will happen in a congested way, till people are comfortable about the vaccine, and the fact that they don't have any risk. So, they will go very selectively to places that they go to. And we will see continued recovery slowly and steadily, but not a full recovery as far as socializing and bars and restaurants and big weddings and those things are concerned. So I feel very positive about the fact that one or two quarters ago, we were thinking about a doomsday scenario for our industry, but socializing is the art of whatever we do. I think we're a far cry better than what that was. I think there will be steady progress in terms of recovery.

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

Percy Panthaki: My first question is on your gross margin. On a sequential basis, your gross margins have seen an expansion of about 150 basis points even adjusted for the inventory write-off in Q2. So just wanted to understand what is the reason behind this?

Pradeep Jain: So, sequential basis, I think there are a couple of reasons. October-November-December quarter is also high on the premium end of the mix of the business. So that is one reason why you see a sequential improvement, and the overall higher volume, right, which does provide a little bit of operating leverage in the quarter. And the last point being what Anand mentioned in his opening script, which is that commodities have continued to remain benign. So that also provides. I think those are the three broad reasons that I can say which are contributing.

Percy Panthaki: Has there been a sequential decline in the commodity prices?

Pradeep Jain: By and large stable, I would say, right, there is no reduction by and large same.

Percy Panthaki: And your first point on saying that October to December quarter has a higher component of premium and that's the reason why gross margins are better. But I looked at your last four, five years, that has actually not played through, I mean, your Q3 gross margins are generally in line or sometimes even below Q2 gross margins, that is a historical trend. And on your second point on operating leverage here I am looking at only the RPM cost, only the COGS and not any overheads, which would get any operating leverage?

Pradeep Jain: On the first point, there would be other drivers that change. Overall, from a mix perspective, the mix is always skewed favorably and in the OND quarter versus the prior quarters. And, your second point, yeah, I agree, I think that's the fair point you make. In the IND AS financial operating leverage should not have an impact, right. So it's largely the mix component that is driving the upside in the gross margin.

Percy Panthaki: Secondly, that it's been a few months, get some feedback from you on this government drive of allowing home delivery. At the time when this happened, we were all sort of quite positive in terms of this being very sort of significant structural change. And now the distribution sort of bottlenecks will not matter as much, although, of course, the delivery guys also have to source it from the retail point. But they can obviously sort of travel two, three kilometres and get it versus consumer doing that. So, I mean, now that it's been a few months, and you've seen some data on the ground of how delivery is progressing via your trade partners and channel feedback, what is your sort of view now on this entire move, and do you do see this still as a very material sort of development, or it's not been as great as it was earlier expected?

Anand Kripalu: So I have no doubt in my mind that home delivery will be an advantage and will fuel category growth, right. If you go back to the evolution of eCommerce in India, and home delivery in India, or the Swiggys and the Zomatos of the world, it took a long time for them to get to the point of inflection, right. And the market was faded for many years. And people are still going to the kirana shop or going to the restaurant to pick up whatever they wanted. And suddenly something happens and there's a tipping point, right, and things take off. So I think you have to recognize that in any behavioral change, there is a gestation period. Now, having said that, what's happening on home delivery in the alcohol sector, so I would say it's a mixed bag. Some states are very, very modest, if at all, right, West Bengal continues to show traction. And what we are trying to do is, I tell you as an industry, we need to make one state succeed, and be material and have the data to then go and share with other states on what it can do to reducing congestion at stores, controlling who buys and the age of people who buy, yeah, building in convenience, right, for the shopper and therefore exercise revenue enhancement, and therefore we need to be able to demonstrate this. So that's really what we're doing. So, while you are seeing some states announcing and then not showing much traction, it is exciting, for instance, Maharashtra today it is now legal. Earlier in Bombay, people delivered but now it is legal to do it. Right. And I think that also reflects regulatory freedom in some ways. So we have to believe that increasing accessibility is going to be a driver of category growth from 75,000-odd stores in the country where you can buy a drink or have a drink, right, versus 9 million for FMCG, you got to believe that accessibility is a big barrier to growth. Right. And you got to stay committed and focused to go through this gestation period, and help it get to the tipping point. And I think that's what we are trying to do. So we aren't giving up? Yes, there was the initial euphoria. And the euphoria was because in peacetime, this would never have happened, the regulatory unlock of this kind. So the euphoria was because of the regulatory unlock, now is the hard work and perspiration to make the model succeed and deliver. That's what we're trying to do.

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

Avi Mehta: I have two questions. One was essentially on the initial comments when you highlight about the McDowell's No. 1 and RC relaunch. Would you be able to give any sense on whether there has been a competitive response to it or how it has been in terms of market shares, any detail commentary on how it is trending across the markets would be useful? And the second question I wanted to understand was we do know about Delhi, but is there any other regulatory or pricing action that has happened during the quarter which you could kind of help us with?

Anand Kripalu: So on your second question, the excise cycle is coming up now, there has been no other major one, the big change has happened in West Bengal, actually, where there's been significant taxation and pricing. The industry is under stress, both P&A and Popular, the overall industry actually have been negatively impacted and sharply negatively impacted. We are still talking to the excise commissioner and putting data together to make sure we can get that corrected. But I think that's the significant negative, if you like, that has happened in the last few months. Delhi is hopefully going to be a bit positive, because Delhi has been one of the most challenged states for companies like us to do business, it can turn around the fortunes of our business in Delhi. Now, coming to this first point, I would say that, No. 1 is now largely national, okay, and RC is there about half the country. Now, No. 1 is doing well consistently. And there were some places where we were not doing so well in the past. And those have bottomed out and hopefully on the way to recovery. But No. 1 has actually had a discontinuous impact in many, many states in the country, right, the No. 1 renovation. And if you do any store checks and so on, you will see what I'm talking about. The full impact in one of our biggest states, which is Maharashtra is only going to be seen now, because it's a state with a massive number one volume base. And we've renovated just a few months ago and put it into the market. And these things take a few months for it to respond. But obviously the initial signs are all very, very positive. So number one is very strong. RC, I would say is doing well wherever the renovated mix have gone. And we have had challenges in some of the other states where the renovation has not yet gone in. Competitive response has been very aggressive both on pricing, and there have been some pricing action, which have happened earlier. But on top of that, a lot of spend coming to fight against these two renovations that have gone in, and including some of the smaller local players who have done significant price corrections in states like West Bengal, which is also therefore impacting the full potential of these mixes. But net-net, I just want to say that, as these roll out fully, I remain confident that both these are going to add to our overall competitive position. I'd like to believe that our overall competitive performance in the quarter has been decent, we don't have hard numbers, but has been decent, but time will tell.

Moderator: Thank you. The next question is from the line of Vishal Biraia from Aviva Insurance. Please go ahead.

Vishal Biraia: Sir if we exclude AP, would we have lost market share still in the P&A segment across India for this quarter?

Anand Kripalu: I don't believe so at all. That's why I just said in the previous response that I believe we've had a competitive performance. Ever since the lockdown has opened up, and the markets have come back, I'd like to believe that we have performed competitively. Yeah, I mean, time will tell when actual data comes out. But I'd like to believe that we have performed competitively and our sales from the ground actually gives me that sense, that in overall terms, we have performed competitively. AP is a funny one, because some people do business there and some people don't do business there. And that could always steal a little bit away. But despite that, I think we performed competitively.

Vishal Biraia: Just one more on BIO front. The sales momentum that we saw in the second quarter, those are continuing in the third quarter as well.

Anand Kripalu: Yes, BIO momentum continues to be strong, it was strong in the previous quarter as well in July September, continues to be strong in October, December. Part of it could be because of people are now getting more comfortable, buying duty paid because they're not traveling overseas and buying duty free, That could help. I also believe that people since are consuming more at home, you can also afford to drink better, because it's cheaper than drinking in a bar or a restaurant. And therefore people might be upgrading the quality of what they're consuming. And when you invite people home, then you tend to serve better stuff. So I think that's also helping. So BIO was doing well, Johnnie Walker is doing very well as a brand, but the bottom part of BIO is actually doing remarkably well, Johnnie Walker Red Label, for instance. And that gives you a sense that there's a lot of upgrades happening, it's not only duty-free sale, but it's also upgrade from upward Prestige or BII Scotch going into the lower level of BIO. So actually, that's been one of the highlights it is doing really, really well, and continues to do well.

Moderator: Thank you. The next question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: With scotch growing so well, and prestige, as you indicated, is there a function of just duty-free substitution here, and what happens when some of this reverses?

Anand Kripalu: That's a million-dollar question, right, then how long would it take for people to travel as much as they were traveling earlier. Obviously, it will have some impact, right? If you are getting the substitution of people buying locally, then I think when they start traveling, and they will start buying stuff outside. However, I'd like to say this. See, I can tell you, even for myself, by the way, right, I used to travel abroad quite frequently, and I used to buy whatever I wanted to buy from duty-free, because there were enough trips to cover whatever my consumption was. It's happened to many other people like me, you now got into the habit of buying locally. And now when my travel starts again, I'll buy more of my regular BIO, like Johnnie Walker Black Label and so on here. And when I'm going on those rare trips abroad, I'll buy something that more selects more premium, right? Because it's a rare opportunity going abroad, and there's more arbitrage in the more premium, scotches or malts or whatever, right? So I might still continue to fulfill bulk of my basic needs, right, from the local store. So I think what's going to happen is, it may not go back fully. First of all, it's going to take a long time for full commercial travel to come back to where it used to be. And we've all seen what's happened to Boeing. So it's going to take time for it to come back. But I believe there will be some residual impact, and it could be a material residual impact that will stay with the business.

Aditya Soman: I have just one follow up there. Is there any sense you get on how much the substitution effect has been given, from, say, Johnnie Walker versus some of the other scotch or locally, bottle scotch as well?

Anand Kripalu: Yeah, it's very hard to estimate. So like I said, there's an explosion let's say in Johnnie Walker Red Label, right. And you can explain part of it, of substitution of duty free sales, but not all of it. Yeah. But it's very hard to do real math on this and give you a sharp view, therefore, it's management judgment, and that more than a number, but I think it has to be reasonably material in a segment like BIO.

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

Latika Chopra: Two questions from my side. First is on the margin bit. I heard you talking about watching out for ENA on account of ethanol blending. Did you see any inflationary impact as you exited the quarter which made you a little cautious to comment on this? And the second bit is on A&P spends. How should one think about it -- are we now more focused on driving top line? And does it mean that, EBITDA margins should kind of be in this mid-teens range for some time? And the second question is strategically, we have kind of struggled with the more of mid and upper end of Prestige, but we have done very well on the Scotch side. Now, is it also a function of the fact that are your investments disproportionately more skewed towards the scotch brands. And how does that influence the P&L margin for United Spirits because I think there will be a dynamic of royalty payout, so if you could clarify on that.

Anand Kripalu: So, first and foremost, there has been no hardening of ENA as we exited the quarter, the simple response to your question. For the moment, right, it's still benign. We have been caught by surprise sometimes about government announcement of a sudden ethanol blending price. And then what happens is the price of ENA then, kind of in sympathy goes in, catches up with that ethanol blending price. Okay, that's what ends up happening. So I would say this is not meant to ring a cautious tune at all. Right? But just a watchful tune, to say that, you could have funny as of this time, but as of today, I wouldn't be overly concerned about the immediate future outlook, right, on ENA, certainly over the next few months. I mean, the movements will be nominal. As far as the A&P is concerned, we absolutely want to invest in top line and invest to grow competitively. And now, typically, what happens is A&P spends tend to be the highest in just concluded quarter, right, because of festival, everything else. And this was exacerbated to an extent because of IPL, right. And they're always a little lower as you start approaching the summer months. So you will see sequential changes in A&P, but the annual number will be in line with strategy, or at least the rolling months will be in line with strategy. And as you can see, from 5%, or something like that in Q1, we have successively built it up. Right? And I think we are encouraged by the fact that it's working. Now, as far as focus on strategy is concerned, yes, there is a limit on the margin that the USL books make, right, based on the trading agreement. Having said that, I want to say this, first of all, that it is not as if we are focusing less on mid prestige or upper prestige. Our philosophy is to say that investment must follow opportunity and news. So we have news on Royal challenge, on McDowell, so we invested behind those. Money must follow news. Right. The strategic priority includes mid prestige and upper prestige and mid prestige, in fact, is where Royal Challenge operates, okay, and you also watch the space. So we are going to continue to invest there. So I think you should have no doubt in your mind that we are clearly upgrading from Popular to Low Prestige to Mid and Upper and once life becomes a bit more normal, that is how it will go and the crown on top is obviously Scotch. Right? And by definition, scotch comes from Scotland. So we can't make it here. So that's where it is. I don't need we should have any doubts about the strategy and the focus. Yes. Richa can give you more details later on how the trading margin works versus the manufacturers margin for Scotch whisky? And that is particularly for BIO, and we can have that conversation.

Pradeep Jain: And maybe Anand, I'll just add on to that, right, which is the point that both of us made in the last quarter was that it does provide a huge rupee per case incrementality, right, 10% of 1000 bucks and 10% of 5000 bucks, it provides a huge multiplier on the absolute margin that you make, even though percentage might remain the same. So Latika, just need to bear that also in mind of what it does to our P&L.

Harit: This is Harit from Investec. On the renovation and advertising pipeline, over the last one year, the focus has been, as you said, on the news, which is on McDowell No.1 and on Royal Challenge. If you could give some sense on whether the next three, four quarters or the next two, three quarters will also be centered around these as we keep kind of adding new markets to the launches, or given that now everything is open, and we can kind of come back to say more renovations or new product introductions, if you could just give a little bit of flavor how things can move going forward?

Anand Kripalu: So, like I said, our investments follow news. So, for instance, within scotch, our hipster pack continues to do remarkably well, and we've invested, it's the fact - digitally and in store, right, and then we've invested between No.1 and RC, like I said. Now, over the next few quarters, you have to really watch this space, but there will be activity that will touch other parts of our portfolio as well. And we will aim to resource those properly when we do that. So yes, absolutely, we are now not holding back on anything given the environment. As you said, I think the environment is open enough for it to receive innovation, renovation, new news, whatever. And that's how we are approaching it as well.

Harit: Second question was on the competitive environment. So, obviously, initial phases of opening up, it seemed like, we were in a much better position, and probably have continued to gain share, or be competitive over the last few quarters. I just wanted to get your sense on the on-ground situation currently, not with the large organized companies, but with some of the more tactical regional guys, are they back in terms of full throttle, etc.?

Anand Kripalu: Everybody's back to full throttle, I mean, it's a competitive environment, and I think everyone's walked through how to operate in this new world. Okay. So there is aggression from the smaller players and some of the larger Indian players as well as you would expect. So it's back to normal. And any one-time advantages that we might have had, are obviously not going to sustain. What will sustain is that our brands remain competitive. And the activities we run are competitive in the marketplace. Right. And as of now, I'd like to believe that we continue to be competitive.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Firstly, what portion of our sales come from the job work part, that means the third-party bottling we are giving to other smaller players?

Anand Kripalu: I don't have an approximate number, but I don't know, I don't think we ever shared that information. But why is this an important question for you if I may ask?

Saket Kapoor: Because other players who are giving themselves as a key supplier, we would like to evaluate what kind of market is being captured by them. And also how are you approaching the market sales through this bottling, their production are being delivered under your product. So that was our understanding, small players are setting up bottling for you, that was…

Anand Kripalu: We have a dedicated third-party factory, okay. And increasingly, by the way, we are moving towards more and more dedicated third parties in terms of shifting our volume strategically, and not having old legacy sites that are really costly to run, right. And believing that there is no competitive advantage and making it yourself, and you might as well move towards the lighter asset model over time by getting more and more third parties to make your product with all your quality standards in a way checks and balances. So that's how we are moving.

Saket Kapoor: So going forward, what is going to be that mix? Any trajectory you have set around that this will be the percentage today x-number and we are targeting x-plus something two to five years?

Anand Kripalu: I'm sorry, we don't have a sharp and clear number, but you have seen that we are …

Saket Kapoor: You are progressing toward that direction and that is a very cost effective and asset light model, that is you are pursuing, that is what the message?

Anand Kripalu: Correct, that is the thinking.

Saket Kapoor: So, you articulate this West Bengal issue time and again. What is structurally wrong with the West Bengal market, and what is your understanding, what can happen going forward?

Anand Kripalu: No-no, West Bengal, otherwise, market doing very well. But what's happened recently is that the excise changes, the new policy have raised prices by almost 70% for No.1 Rum, which is the biggest seller there, as well as Prestige Whisky. Right. So the price increases have been, well, if I can use the word almost irrational, right, and consumers are not that inelastic, right. So, premium can't afford. And I'm sure many people who are consuming popular whiskey or rum are buying country liquor again now, because it will become prohibitively high. Now, we believe this cannot be a model to increase revenue for the state, because the volumes will drop so sharply… that revenue in the first six months, it may be okay, but after that you need volume growth to drive revenue growth, right, and this is not a sustainable model. So like I said earlier, we're watching this space, right. But there has been a significant short-term impact on volumes of all the players by the way, for the industry of spirits. Right. And at this time what they've done is they've also lowered the price of beer, because beer had tanked completely. So beer is showing recovery in West Bengal. And spirits is sharply down right now. Till such time that we're able to work with the regulators to get this corrected.

Saket Kapoor: On the raw material front, you said that the ENA prices and all are benign, and even the ethanol pricing do affect the pricing for the shorter-term. Last year I thought so ENA prices do shot up by 20%, 25% from previous year level. So are these ENA prices maintained at those levels or what kind of availability is there? And even for the duty structures, is it a viable option for imports going forward if there is a shortage?

Anand Kripalu: We've explained this already actually to say that, yes, there was a sharp increase in the previous year. Last few quarters have been relatively flattish. Combine that with our own management, productivity initiatives, right, so COGS has been a positive for us overall, right. And therefore, you can see the positive impact on gross margin. So I mean, I really can't comment beyond that.

Saket Kapoor: Quarter-on-quarter, then you give the graph trajectory whether ENA prices are flattish or downward?

Anand Kripalu: The last two quarters are flattish. I mean, you can return to Richa if you like later, or anything more, but we'll give you a sense of where the commodity is, I mean, it's a commodity market, so we'll give you a sense and then you have to add to that management productivity, which is what results in the overall COGS number then finally.

Saket Kapoor: Other raw material bracket is more or less in similar trend?

Anand Kripalu: Now it's okay. The only other big one is glass, and for now it's okay. In commodity, you never know, that's why a bit of caution.

Moderator: Thank you. The next question is from the line of Palak Shah from MLP. Please go ahead.

Palak Shah: While the initial opening comments and your press release have mentioned of refrain from giving any guidance or indication towards the ensuing quarters, but on the statement that you made during the call was that market is open enough for all the innovation and renovation launches in the ensuing quarters. Just wanted to understand this disconnect?

Anand Kripalu: No, there's no disconnect. I'm saying one is, we will continue to give inputs to the market as is appropriate. Okay. But given that, we are'nt still sailing in calm water. Right? And for us, because socializing is so critical, right, unlike for other sectors, socializing, going out, weddings, banquets, parties are so critical. I think it's difficult for us to forecast what the impacts of that will be. Till we are sailing in calm waters. I think we believe it would be unwise to issue a guidance because you're just not sure. That's all. But we will continue to do whatever input we need to provide to keep driving growth and guiding the business. We're not holding back from that.

Moderator: Thank you. The next question is from the line of Chinmay Gandre from Bharti AXA Life Insurance. Please go ahead.

Chinmay Gandre: Sir, how was the franchising income rode on YoY sequential basis because I believe that also had some impact on the gross margin in previous Q1 and Q2?

Pradeep Jain: Chinmay, again, the situation remains exactly what we shared in the last quarter. Andhra business has impacted that segment of our business. There is no material change from Q2 to Q3. As we start lapping the Andhra changeover from the next quarter onwards, we will start getting a better number.

Chinmay Gandre: Just to clarify, AP impact will be completely out in Q4, right?

Anand Kripalu: To a large extent.

Moderator: Thank you. Next question is from the line of Chirag Patel, individual investor. Please go ahead.

Chirag Patel: I have a question in direction to these initiatives which you've taken like post Diageo took over this management from old corporate, other than this cost restructuring, what other things you feel if you have a time then you would like to do in that direction to improve further performance of our company, like unnecessary non-core assets in hold, and you try to do the financial performance of company, but let's say the other activities you would like to do?

Anand Kripalu: I think that's a broad question, honestly, we'll take this offline, because that's a more strategic question about how to drive longer-term growth and what more we need to do beyond what we've done. So if you don't mind, I'm going to request to reach out to Richa, and we will share whatever we can share, but it's much more of a forward-looking question. Yeah, and therefore, there's only so much I can really share on that.

Moderator: Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal AMC. Please go ahead.

Susmit Patodia: My first question is, is this whole route to market changes journey complete with AP or you think there could be any other states on the anvil?

Anand Kripalu: I mean, fingers crossed, no. And what has been in this industry is one door shuts, another door will open, and this door will again open later as well, as I've spoken earlier, Uttarakhand same thing happens, Chhattisgarh same thing happen, now they're fully open, and we're doing good business over there. I believe Delhi, could be a big unlock. We are on the anvil of Delhi opening up, right, and that could be a significant positive. And AP is shut for now, but it will not be shut forever and we're going to keep doing everything we can as a business and industry of compliant player to try and fight back, but it is what it is, unfortunately.

Susmit Patodia: And secondly, other industry body, CIABC, they put out very interesting news articles on how tax increases leading to much lower consumption and excise collection. Is this work of finding resonance with other states apart from Delhi?

Anand Kripalu: It's like this that people see the revenues. The one target the excise commissioner have is their excise revenue, and the moment they increase taxes, they know that you have a short-term increase in tax revenues. And after that it's up plateauing and the only way is getting healthy volume growth, which gives you year-on-year, excise increases. But the reality is many of them have a two or a three year view, which is the view over tenure, rather than a long-term view. And everyone's trying to maximize what they can in the short-term. Now we keep going back and talking to them. And as you've seen already, we had a reversal in Delhi, we had a reverse in Orissa, but we didn't have a reversal in West Bengal. Now West Bengal went up further. So we'll have to just wait until we have enough data to go back. Because finally we are on the same side, that they also want excise revenue increase, right. Otherwise, they're not going to be able to fund everything else they need.

Susmit Patodia: Lastly, on the RCB profitability that you had mentioned. So if we see the difference is about Rs.50 crores of profit. This would not be the optimal profitability of RCB, right, because you didn't have ticket sales. Is it fair to assume that normally your profitability is much higher?

Anand Kripalu: That's fair to assume. Ballpark, you have to say that every season you will make about 100 crores profit roughly. And it will be more if you do well on the league table, it will be more if you get ticket sales and stuff like that.

That is 1 o'clock now. So operator, I just hand it back to you. And just want to thank everyone for their time and engaging with us on this call.

Pradeep Jain: Thank you, all.

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