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“United Spirits Limited
Q2 FY'25 Earnings Conference Call”

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India



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LIMITED
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Moderator: Ladies and gentlemen, good day, and welcome to the United Spirits Limited Q2 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Shweta Arora: Thank you. Good evening, everyone. Welcome to United Spirits Limited second quarter and first half ended September 2024 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.

As always, we will kick off today's call with Hina sharing her thoughts on operating environment and business performance. This will be followed by Pradeep taking us through the financial highlights of the quarter, post which we will open the forum for Q&A.

We are cognizant that today is slightly busy for all of you with multiple results and calls. Against that background, we'll try to keep the call crisp and sharp. I request all of you to please refer 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 all for joining us on the Q2 FY '25 earnings call of Diageo India-United Spirits Limited. As always, I would like to start by giving a bit of macro context. Over the past few quarters, the consumer environment has remained challenging, starting with the slowdown in the mass segment where the consumer was reeling under inflation pressure. And lately, the premium and luxury end, which has relatively moderated sequentially. This is like many other premium and lifestyle categories like cars, retail, electronics, etcetera.

On middle India, we had indicated inflationary pressure almost a year ago, but now with normal monsoons and stable inflation, we are seeing stable demand in the middle segments of our category. However, to confirm any recovery with confidence, it will be prudent to wait with cautious optimism for the next couple of quarters to play out.

On the performance of the quarter itself, our overall net sales value declined marginally year-on-year and P&A segment was flat, reflecting an overall muted demand environment. The price mix of 4% in the quarter for P&A substantiates the relative moderation at the top end of the market, which I referred to earlier.

While we had already called out expectations of a relatively slower quarter in the last quarter investor call, the growth numbers are indeed below our own expectations. One major route-to-

market disruption in a key northern state, which is still ongoing and a few other temporary disruptions that are all resolved now have further impacted the performance in the quarter.

In summary, at the halfway mark, I would say we are a couple of percentage points behind where we would have wanted to be on the top line growth.

As also conveyed last quarter, we do expect fiscal 2025 to be a story of 2 halves as was fiscal 2024, only with the sequence reversed. H1 of fiscal 2025 has been weak, but we remain optimistic on the upcoming festive season and H2 on the back of the strength of our commercial calendar and the innovation, renovation that has been put in the market over the last couple of quarters. Therefore, at this stage, we remain committed to our double-digit growth aspirations for the P&A segment on a full fiscal year basis.

On the margin side, I'm pleased that we are delivering ahead of expectations this quarter. This is driven by a combination of internal and external factors. Overall commodity basket inflation has remained benign. There is double-digit structural inflation in ENA being offset by deflation in glass, PET, our ongoing COGS productivity interventions and all 3 levers of revenue growth management that is pricing, mix management and trade spend productivity are also helping on the margin.

Some updates on the policy front. I'm delighted to share that we have commenced business in the State of Andhra Pradesh towards the second half of September. This is after a gap of nearly 5 years and I'm immensely proud of our teams that have worked tirelessly on ground to open the market for us in record time.

We truly value and welcome this new development, and the team is thrilled to have a high-quality portfolio of products back in the state. We have also firmed up our consumer engagement and activation plans to resurrect the equity of our brands in the state. It also reminds us once again of what we firmly believe in, no door is permanently closed. And we have seen markets come back after being inaccessible for a period.

A brief update on the portfolio, touching upon first the recent innovation, renovation, starting with the new X Series, our non-whiskey offering from the House of McDowell. The X Series has now been rolled out to 3 markets, Maharashtra, Goa and UP. While it is too early to comment on the consumer response, we are encouraged by the fact that the consumer is appreciating the product and packaging as premium, yet feeling it is at an accessible price point.

On Tequila, Don Julio's core variants are now available across all major markets in India, and Don Julio 1942 is currently available across 3 key states: Haryana, Maharashtra and Goa. We are in the process of rolling this out further to other high saliency states. So far, the progress on Don Julio core variants is good. Volume is being led by Reposado across the country on the back of consistent and scale activation, which in turn is helping generate trials amongst most consumer cohorts.

On Godawan, we have launched an exciting partnership with the Taj Group of Hotels based on our aligned goals of promoting luxury with a conscience approach. Limited addition of Godawan crafted exclusively for the Taj Palaces was launched at Taj Palace Mumbai. This initiative will significantly enhance our visibility across key markets. In addition, Godawan has successfully scaled to 16 markets with recent launches in West Bengal and New Delhi. This expansion reflects our commitment to tapping into new consumer bases and increasing brand presence.

I'm also thrilled to announce that we are launching 3 new flavours of Smirnoff vodka-Mirchi Mango, Minty Jamun and Zesty Lime. These are being rolled out to key markets as we speak. All 3 flavours are inspired by the Indian palate and have tested positively with consumers. This launch aims to expand our portfolio in more consumer occasions in a fun, accessible and experimentative way, as we ride the inflection point of growth for overall premium white categories.

Another key milestone during the quarter was the launch of The Good Craft Co Flavour lab at Bangalore. This is designed to be a hub for start-ups and craft community to foster collaboration and education about the world of craft spirits. This initiative embodies our commitment in highlighting the best of India, while fostering innovation, excellence and community within the craft spirits sector.

Coming to the Prestige portfolio, House of McDowell's brought back its intellectual property, the Yaari Jam. The Yaari Jam was held in Mumbai at the NSCI Dome and had a star-studded lineup. For Friendship Day, we launched the 'Yaari Hai Imaan Mera' Song remake in collaboration with Saregama.

On Royal Challenge, we are doing several media and on-ground activations, resulting in positive consumer sentiment and acceptance. We've also scaled up on-ground trials through the Dubai Mega sweep stake promotion campaign. This was a huge success and witnessed the highest ever redemption. The high-intensity drive on the brand will continue into the October-December festive quarter. We've also launched the brand-new Royal Challenge pocket pack, the hipster in Assam ahead of the festive season.

On Royal Challenge American Pride, we conducted 8 national events with over 26,000 footfall. These were widely promoted on digital garnering over 50 million-plus reach. The brand also had a scale approach to driving trials, activating over 7,500 off-trade and on-trade outlets with the Tickets to Vegas campaign.

Signature has extended its partnership with ZIRO Festival and will take the tour festival to more cities. During the quarter, we did the ZIRO Festival of music at Arunachal Pradesh. We also activated 700-plus outlets across the East, as part of the pre-amplification drive at the consumer promotion, inviting consumers to win a chance to attend the ZIRO Festival. We also continue presence on TV through our impactful campaign with Ayushmann Khurrana.

Coming to BII and BIO; within Scotches, Black & White and Johnnie Walker Blonde continue to receive positive response and traction in the market from consumers. We have continued to

actively invest behind our brands with focused activations, which have helped recruit consumers across cohorts.

Some of the notable interventions include Black & White and Johnnie Walker showing up in the marquee events, such as English Premier League, Union of European Football Association- the UEFA Cup, U.S. Open, et cetera.

On Tanqueray, we have collaborated with the global Netflix show 'Emily in Paris' for the release of Season 3 and Season 4. This is the first time that an Indian Alcobev brand has collaborated with the Global Netflix show.

Touching briefly on key awards and recognitions. Godawan continues its winning streak with 67-plus awards now. It recently won 2 liquid medals, 1 gold and 1 silver at the Spirit Selection CMB '24, which is an international event that awards spirits from across the world. Baileys and Don Julio won silver category award of the 30 Best Bars Award for 2024 for being the most popular brands at premium bars and restaurants in India in their respective categories.

So looking ahead, in summary, I would say we do recognize the growth challenge but are cautiously optimistic about the demand environment and confident about our activation plans for the upcoming festive season. Our focus will remain on execution excellence to bring back growth to our aspiration levels and maintain the long-term competitiveness of our portfolio.

With that, I will hand over to Pradeep.

Pradeep Jain:

Thank you, Hina. A very warm welcome to all. As always, it's a delight to interact with this cohort. Before calling out the quarterly financial performance highlights, we'll request all of you to please refer to the results press release posted yesterday evening. As Hina has already mentioned, it is indeed a muted quarter in a softer-than-expected demand environment. Overall portfolio NSV for the quarter witnessed a marginal decline of 0.8% year-on-year, within which the P&A segment remained broadly flat with a 0.3% growth.

Price/mix for the quarter at 3.7% was on account of low BIO salience. We have realized headline pricing in Maharashtra and West Bengal in the IMFL prestige segments. As we had called out in the last quarter call in July, that the first quarter received favorable growth due to a couple of extraneous factors, and that was to duly normalize in the second quarter. In addition, certain RTM related disruptions that we now refer to further impacted growth. However, considering all the above factors, we would still say that at the halfway mark in this fiscal, we are a couple of percentage points behind our own expectations.

I would also like to call out that the NSV in this quarter does include Andhra Pradesh sales revenue of approximately INR25 crores, which commenced towards the fag end of the quarter. Gross profit for the quarter was at INR1,285 crores with a gross margin of 45.2%. Ongoing productivity initiatives across the value chain and revenue growth management interventions have enabled the margin expansion. While inflation on ENA remains stubborn and high, glass deflation continues to keep the overall commodity basket inflation at reasonable levels.

Our marketing reinvestment rate during the quarter was 9% of net sales. This was a step up in line with investments ahead of the peak season of October, December to keep our virtuous growth cycle impact and drive consumer engagement. The reinvestment rate for the second half of the fiscal will be much higher, in line with the established spends and business seasonality. EBITDA for the quarter stands at INR507 crores, a growth of 7.9% over the prior year same quarter and an EBITDA margin of 17.8%.

The strong discipline on overheads, aided by a high base in prior year, coupled with gross margin expansion has enabled a good flow-through in the margin delivery. But as we move into the festive season and in line with business seasonality, A&P reinvestment rate would scale up to support the brands, as I mentioned earlier. Overall, our PAT for the quarter was INR335 crores with a PAT margin of 11.8%.

To conclude, I would like to say that we are confident on our core growth drivers of renovation, innovation and overall premiumization, and we will continue to execute on our key strategic pillars and thereby confident to capture growth.

It is also encouraging to see new markets opening-up and overall improvement in policy environment in the existing markets. All taken together bode well for business prospects and overall growth in the medium to long term. With this, we can now open the floor for Q&A. Thank you.

Moderator:

Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on the touch-tone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handset while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

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

Jay Doshi:

Hi team, thanks for the opportunity. My first question is, we understand your base effect for first half and second half and hence and hence optically, you have anyway always guided higher growth in the second half this year.

But sequentially during the course of this year, especially in second quarter, have you seen any change in the demand environment for your category if you -- and excluding the new opportunities like Andhra Pradesh or tailwinds that you have, underlying basis, have you seen any change at all in the demand environment or it's broadly in line with your expectations, last 3, 4 months?

Hina Nagarajan:

I would say -- hi Jay. I think, look, we were saying that the growth has moderated, right, in the category for the last 3 to 4 quarters, as is evidenced from the results of all the major players. However, the 1 thing I did say for the last few quarters was that the premiumization ladder remains intact, right?

So the upper end was growing faster than the lower end. This is the first quarter where the top end is lagging the middle bulk end in terms of performance. And this is also evidenced in our muted price mix during the quarter, right?

But considering the overall macros around luxury consumption in India across multiple categories. As of now, we believe this is a temporary blip and not structural, and we also believe that on rolling the 4-quarter basis, the top end will continue to outperform the overall category growth. Apart from that, I would say that's not a significant change anywhere else.

Jay Doshi:

Thank you so much. And the second question is somewhat related. So you did mention in the opening remarks that first half growth was a couple of percent points lower than what you would have liked to be. But you still maintain your guidance of double-digit growth for P&A at a full year level, which means that you're targeting or you're confident of delivering 15% growth in second half.

So the difference is you miss in the first half, but you're still confident of full year level. Does it mean that you're probably -- the tailwinds that you have from Andhra Pradesh more than offset the shortfall of first half as well as perhaps some demand -- softness in demand. So is this the right way to do it? And what is the level of confidence you have at this point of time based on the visibility you have on delivering that 15% growth in the second half?

Hina Nagarajan:

I would say, Jay, that we are -- we should be able to get to the double-digit growth on the P&A portfolio if the October-November-December season shapes out well. There are a couple of reasons. You mentioned Andhra. Definitely Andhra will help. And the second thing is we really have firepower in our commercial plans to recoup the deficit. We are firmly focused on the season and beyond -- and the execution of the commercial plans. We have put out quite a few innovations and renovations I just spoke of them in my opening.

And these -- we are focusing on scaling up these over the subsequent quarters. So at this point, we believe that if the festive season goes well, October, November, December, we should be able to continue to deliver the double-digit growth on the P&A portfolio.

Jay Doshi:

One final one, if you can offer some colour on the progress in Karnataka post reduction in prices for Prestige and above?

Hina Nagarajan:

Thanks, Jay. It's early days in Karnataka. We definitely welcome the policy change, and we definitely welcome the drop, which actually helps us overcome the losses that happened in July '23 when we had a negative impact on the policy. I mean it's early days. The prices in Karnataka in general and firstly P&A, right?

So P&A is a very small component of the market in Karnataka, very, very small. And despite the decrease in prices for the portfolio, the prices are still higher than many key markets around India. So we do expect some uplift, but given the scale of P&A in Karnataka, I don't think it will be a significant impact on our overall portfolio, right?

- Jay Doshi:** Thank you.
- Hina Nagarajan:** Thanks, Jay.
- Pradeep Jain:** Thanks Jay.
- Moderator:** Thank you. The next question is from the line of Abneesh Roy from Nuvama. Please go ahead.
- Abneesh Roy:** Yes, thanks. My first question is on Andhra market. So in India, dry states are there. But for example, in Bihar, last week, 1 petrol tanker was caught full of liquor bottles, so my question is on Andhra market, how much is the real opportunity from a 1 to 2 years perspective? I'm not asking next quarter, even the Q4 or Q1 because things in liquor, when they come back, it takes some time?
- Second is, do you have all the clarifications in terms of policy, which are needed already, is it there? And when you compare Andhra liquor policy to an adjoining very, very similar state like Telangana, what are the gaps, what are the positives, if you could elaborate on all this?
- Hina Nagarajan:** PJ, do you want to take that?
- Pradeep Jain:** Yes. So Hina, let me start. So Abneesh, so look, as we have mentioned earlier, Andhra when we exited in 2019/20, right, it was roughly about 4% to 4.5% of our national P&A salience. And I will reemphasize what I said -- what Hina and I said last quarter as well. Over a period of time, I would say probably 18 to 24 months. If all stays well, Andhra should reach about 4% to 4.5% of our national P&A salience, right?
- So that's broadly the number at least in my mind, right? Now having said that, right, the sales team is executing with its full vigour, and we'll have to see quarter-on-quarter where we reach, right? So that's one.
- On your second question on the policy, yes, I think the new policy is fully in. And all our labels and brands are registered. And as of now, we don't see any concerns. In fact, you called out the right state. It is very, very -- the policy is pretty much a mirror image of the Telangana policy. And therefore, we look forward to kind of executing as we speak.
- Abneesh Roy:** Sure. But Telangana is a low-margin business also, right, in terms of the state mix. Is it a low-margin business?
- Pradeep Jain:** So Abneesh, in Telangana, you have to appreciate in the last 5 years, we've got 3 price increases, right? So I think that tends to change a little bit as we get 1 or 2 price increases you get, right, that itself will tend to change. I won't say Telangana is in the highest bracket, but neither is it in the lowest bracket now. It's somewhere in the middle. It's somewhere in the line of the portfolio margin and that's where Andhra comes in now.
- Abneesh Roy:** Sure, my second question is on the broader engagement with the regulators. So now what we are seeing is competitive politics. So for example, Maharashtra currently has this Ladli Behna

Yojana, almost INR1 lakh crore kind of a budget outlay. Similarly Karnataka, INR52,000 crores Congress promised in terms of 5 Promise. So how worried are you on this freebie culture because the next 4 years, the coalition government at centre clearly will continue. And all parties are now competing with each other in terms of how many freebies each can gain.

Now in Karnataka, I do think that in the top end, there is a reduction in the taxes which is a good news. So when you engage with the government and regulators and when you see all these promises being made and new state governments every few months, how worried or how positive are you on tax implications?

Hina Nagarajan: Abneesh, I would say we do not comment on politics, and we do not even bring these topics in our advocacy. Our advocacy is absolutely focused on pricing, which is an ongoing discussion, right, ease of doing business and tax harmonization.

And we know that given our contribution to the state revenue, we are going to remain important to the state and that we also want to build win-win with the government. So I would say at this stage, we are not looking at this, we are just unequivocally focused on growth for our portfolio. And, unequivocally focused on our advocacy agenda of ease of doing business and pricing.

Abneesh Roy: Sure. Last quick question on the slowdown Every company is highlighting that. You have also seen a slowdown and you have been very proactive in terms of saying that in Q1. My question is in Q2, is the on store -- so on-premise consumption, slower than your overall numbers because the travel and rains all these would have impacted. Second is when you see the top 10 metro cities or top 8 metro cities versus rest of India, would rest of India would have grown faster than our top 8 metro cities?

Hina Nagarajan: I mean, overall, yes, the environment has been muted. And certainly, the rains and flooding have played a role. I mean they all will do on trade, right? So certainly, that has an impact on the quarter. I mean, in general, we have seen that the towns outside the metros have for the last few quarters, right, been faster growing and the aspiration levels are higher there.

So I think that overall trend continues, Abneesh. The metros are slower. The boom towns have -- we call them the boom towns as do most of FMCG. They have been growing faster than I think on a relative basis, I would say that trend would continue.

Abneesh Roy: Sure. Thanks, that's all from my side.

Hina Nagarajan: Thanks.

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

Pradeep Jain: Hi Percy.

Percy Panthaki: Hi. Pradeep, just wanted to understand on margins, how should we look at it, because despite such a relatively weak top line and operating deleverage on account of the top line declining, we

have posted a very good margin close to about 18%. So if basically, we are going to do a double-digit top line in the second half, is it possible that the margins will go closer to 20%? That is part 1 of the question.

And part 2 of the question is that if we look ahead from FY '25 -- let's say, if we look at FY '26, '27, et cetera, on whatever base we have made for FY '25, should we still be taking further margin expansion? Or you feel that the margin expansion has been front-ended and after FY '25, we should see very minimal kind of expansion?

Pradeep Jain:

Okay. So Hina, let me take that, and then we can probably build on that. So first part of your question, Percy, look, if you look at the last 3 years, I would say, right, post COVID, right? It's a kind of new normal. I would say the A&P reinvestment rates between the first 6 months and the second 6 months of the fiscal are dramatically different, right? Because -- and that's in line with the business sales seasonality, right?

I mean if I'm not wrong, the delta A&P reinvestment rate between the 2 halves is somewhere between 3 and 4 percentage points, right? So you normalize for that, I think we are back, Percy, to our full year margin expansion in that broad range of, I would say, anything between 70, 80 to 100 basis points, right? And that we have always maintained that as a forward-looking organization. Over the next 2 to 3 years, we do want to reach a sustained high teens, right, which is what our guidance has been for the last 5 to 7 years, right?

So that remains very much our objective. And that's a perfect segway for me to respond to your second question as well. You're right that once we reach, let's say, that sustained high-teen kind of a margin, probably the margin expansion will moderate significantly. Though we may still want to target a little bit of expansion year-on-year, but it's going to significantly moderate, right? So that's where I'll probably leave it.

Hina Nagarajan:

And I would just add, PJ, to that, that as we go along, I mean, I have mentioned this quite often that we want to invest more in our brand and we will continue to invest in growth, in innovation, renovation as these sort of multiply. So Percy, we would want to invest more behind our brands and, therefore, balance between the margin and investments, right? So hopefully, that answers your question.

Percy Panthaki:

Got it. Very helpful. Just 1 more question on the other expenses part. So in the first half, we have seen a Y-o-Y decline in the other expenses of maybe around 5% or so, that also ties in with some of the cost efficiency initiatives that you have been talking about. So if you can explain this line item? And what is the story behind it as to how you are seeing savings on this? And where you are in that journey of savings? Do we see most of it sort of fructify this year or do you have a sort of horizon of the next 2 to 3 years where some more initiatives would also come through?

Pradeep Jain:

So Percy, 2 parts again, right? But let me take the broader point first, right? I think in the May annual investor communication, we had shared a status of our multiyear supply agility program. If I remember, we had said that 40% of our benefits had already been incorporated into the P&L up till March of '24, right? And the full benefit of the program will come only by March 27, if

I'm not wrong, right? So you're absolutely right that journey continues. And obviously, some add-on initiatives would have come, right, as part of that program, right?

Now to the first part of your question, we are lapping a slightly higher base of other expenses in the prior year same quarter, right? Now that has not impacted us in the current year. Let me say, right, that was a bit of an inefficiency in the last year first quarter, we made the necessary process interventions. And we have kind of eliminated that cost, right? So that has also given us a benefit in this quarter, and that will probably stay that way.

Percy Panthaki: Right. And lastly, just 1 data point, if you can give me at the overall industry level, what is Andhra Pradesh sales as a percentage of India?

Pradeep Jain: I said that, it's about 4.5%, when we exited. And our share in that market was exactly in line with our national share. So it kind of would also mirror the industry.

Percy Panthaki: And do you think you can ramp that up like very quickly in a couple of quarters? Or do you think that's more of a...

Pradeep Jain: Percy, our sense is that, look, our brands have not been there for the last 5 years. So it'll take a little bit of time, right? So we believe that we should be able to be reach -- Andhra should be able to reach that 4.5% salience, hopefully over the next 18 to 24 months. I don't know Hina what you feel about that, but that's broadly my sense.

Hina Nagarajan: I mean our aspiration would be to do it as fast as possible, but the reality is that, yes, we have to bring back the equity of the brand. They've been out for a while. So I would agree PJ that -- I would imagine 18 to 24 months is the right frame, if it comes faster, damn good.

Percy Panthaki: Thanks Hina and Pradeep. Very helpful. Thanks for your answers.

Hina Nagarajan: Thank you.

Pradeep Jain: Thank you.

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

Krishnan Sambamoorthy: Hi, Pradeep. Pradeep, you mentioned that you were a couple of percentage basis points off in terms of your targeted growth. How much of this impact came through the route-to-market change in the northern state that you have highlighted? Could you quantify that? And also how significant is it as a proportion of the national volumes? And would this also impact the third quarter numbers?

Pradeep Jain: Okay. Hina, you want me to take that? Or you...

Hina Nagarajan: Yes, so go ahead. I'll add to it, yes.

Pradeep Jain: Yes. Okay. So I think it's important for me to again reemphasize what Hina and I had communicated last quarter, which is that '24/'25 fiscal will actually be a story of 2 halves, and our second half growth will be much higher than first half, right? With that said, and that having been understood by our stakeholders, I would say that almost a lion's portion of what we are saying as a couple of percentage points behind is on account of the disruption, right? I hope kind of that answers your question.

Krishnan Sambamoorthy: That does and also will this -- sorry.

Hina Nagarajan: If it will continue into the quarter, so I would say all the disruptions barring 1 are now resolved. So there is a disruption in 1 of the northern states, which is continuing, and that could impact the quarter, but the others have now been resolved. So we expect that this will not impact Q3.

Krishnan Sambamoorthy: Okay. My second question is on realization per case, which has been healthy. It's usually this kind of realization per case is usually seen in the third quarter. And you also indicated that there has been lower BIO sales. So is this state mix, which is leading to better realization per case as well as overall profitability?

Pradeep Jain: I mean I would say probably the fact that we mentioned that the BIO salience is lower in this quarter. I would expect logically BIO has to come back in October-December, if we have to deliver on our promise, right? And right now, we are banking on the fact that it will come back in October, November, December. And if that happens, actually, the realization per case will get an uplift, right? As we also mentioned, our price mix is actually a little lower than our historical run rate for the quarter.

So Krishnan, my point would be that if BIO does come back, which we are expecting it to come back, et cetera, the NSV per case will get an uplift actually.

Krishnan Sambamoorthy: That's great. And lastly, on last quarter, you called out a couple of one-offs from a cost perspective, material costs and other expenses, if I'm not -- if I'm not wrong. Any one-off that you want to call out from a cost perspective for this particular quarter, which led to elevated margins.

Pradeep Jain: No, nothing in this quarter. It's just that -- as I mentioned to, I think, Abneesh's question or Percy's question, I think, which is that last year, the second quarter had some one-offs in the overheads, right, which were not one-offs really. They were inefficiencies, which we have addressed and therefore, those have been eliminated. And therefore, the margin pickup is looking very promising.

Krishnan Sambamoorthy: Got it. Thanks Pradeep. Thanks Hina.

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

Pradeep Jain: Hi, Harit.

Harit Kapoor:

Hi, good evening. So just 2 questions. You spoke about Middle India and how the demand is stable. Is that view also coming from the fact that last year or November, you said that some of the inflationary pressures were impacting demand. And as you lap that base up, you expect that growth kind of revised a little bit largely on a counter base effect. Is that the way you're thinking about it?

Hina Nagarajan:

There would be a little base effect. But I think in general, I would say that for the last couple of years, we were seeing a lot of upgrades at every level, right? And then we started seeing some inflationary pressures in Middle India. I think the sense of inflation stabilizing and then the expectation of good monsoon giving expectation of good consumption, et cetera, we could see stable demand and consumption seems to have sort of, how should I say, so got itself concentrated in that middle segment of the market, right, so where the top end is a little bit slower, the lower end continues to sort of reel under inflationary pressure.

But like I said, I mean, even during this phenomenon, people don't go away from our category, right? So they will just adjust the frequency of drinking or whatever. So at the moment, I would say it's just concentrated in those sort of mid-prestige, upper-prestige categories, and we are continuing to see stable demand. So it's not just base effect. I just think that because of the pressures there, it's just concentrated there.

Harit Kapoor:

Got it. Got it. And the second question is on the cost side, especially on the RM cost. So as I understand, quarter 4 onwards, the inflation in ENA has not been very dramatic. And you're probably just a couple of quarters away from lapping up kind of a high base.

Is the way to think about it that as you lap that base up, if prices stay stable, you could be entering into a phase where this kind of significant double-digit inflation in ENA is kind of behind you? Or is that too much of a hypothesis and you have to wait for some of the external policies, et cetera, to play out?

Pradeep Jain:

No, no, Harit. So let me correct you there. First of all, ENA inflation still remains in the 11% to 12% range. Even in the July- September quarter, we have rate to rate -- rate per BL to rate per BL, it's an 11% to 12% inflation, right? So it remains very high. Like I said in my opening comments, what is providing an overall cushion in the commodity basket is the deflation in glass and things like closure -- the PET related items also being limited right? So that's helping, right?

But you're right, the ENA inflation has been high. So therefore, what is critical to wait and watch now is the new crop, right? Good monsoon, I've also picked up some comments about the paddy acreage being high, right, [indiscernible] being high, et cetera, right? So let's wait for the new crop to come in December, January, right? And hopefully, if all stays good on that front, you are right. If the new crop is good, we could see some relief on that front in the, I would say, February until June kind of period right? So let's wait.

Hina Nagarajan:

Yes. The only addition I would make PJ, though, is that I do think that structurally, right? I think the policy and the aspiration to really accelerate the blending rates, et cetera, right. It's still on the agenda. Yes, so structurally, I don't expect that ENA will slow down on inflation at least in

the short term, short to midterm. So we'll watch and if there are any policy upsides that will be great for us. But -- I mean, my personal expectation is that it will not show up in the next at least 18 to 24 months.

Harit Kapoor: Those are my two questions. Thank you.

Hina Nagarajan: Thank you.

Moderator: Thank you. The next question is from the line of Tejash Shah from Avendus Spark Institutional Equities. Please go ahead.

Tejash Shah: Hi, good evening. Thanks for the opportunity. My first question is our growth target for second half is robust mid-teens. So just wanted to know is it largely driven by our low base effect, which will play out or is it more to do with Andhra tailwind that we will be seeing now? Or are you actually seeing some early signs of consumption buoyancy for the second half?

Hina Nagarajan: I think we sort of said it in a couple of answers earlier. Basically, I think it's a combination of base effect, it's a combination of Andhra, and it's also our confidence in our commercial plans and the scale-up of our innovations, renovations and the competitiveness of our portfolio. Demand significant trend of change is yet to be seen. And like I said, we need to wait a couple of quarters to sort of comprehensively say whether there is a change or not. But definitely, I think our own plans, the fact that Andhra has opened up and the base effect.

Tejash Shah: Sure. And Hina, a hallmark of your tenure, so just staying with that innovation and renovation part has been a strong focus on innovation and renovation. So just wanted to -- in your observation, is this helping to attract new customers? Or is it more about premiumizing the existing customer base?

Hina Nagarajan: I would say the answer is both, right? So I mean -- let me give you some examples, right? So Johnnie Walker Blonde for instance, is attracting new customers into scotch just because it is a very accessible liquid. It is a scotch, but a very accessible liquid, very mixable, right? And the new generation consumers like those kinds of liquids. So it is definitely attracting new consumers, but it is also helping to premiumize, say, from primary scotches or even upper prestige, right? So it is actually doing both.

Tejash Shah: And if I may squeeze last one. You mentioned some disruption in Northern state. Could you elaborate the nature of the disruption and the significance of the state to our business?

Hina Nagarajan: PJ, would you like to take that?

Pradeep Jain: Yes. Okay. So look, it's, first of all, a very key state, right? And we don't want to call out the name, right? But I think your channel checks will any way kind of allow you to get to the name, right? Very, very rich in mix, right? Top end is very, very salient, et cetera, right? And effectively, I would kind of call it down to that some constraints on ease of doing business in the shorter term, right?

So the efficiency with which the permits would used to get issued or the labels used to get registered, et cetera. So that continues to be a bit of a barrier. And we do expect this to kind of debottleneck itself over the next 2, 3 months, et cetera. But it has been on for the last 5 to 6 months, which has impacted us in the April-June quarter as well as the July-September quarter, right?

Tejash Shah: Got it. Very clear. and all the best. And happy Diwali to the team in advance.

Hina Nagarajan: Thank you, you too.

Moderator: Thank you. The next question is from the line of Himanshu Shah from Dolat Capital. Please go ahead.

Pradeep Jain: Hi, Himanshu.

Himanshu Shah: Hi, thanks a lot for the opportunity. So one of our competitor is looking to sell its core lower Prestige brand. Can management tell you what their thought is on this particular portfolio? Would we be keen to acquire considering our balance sheet strength and one of our largest portfolio's alliances in that particular category. And even if we don't acquire, should it help us as the competition, presumably defocus on it or something?

Hina Nagarajan: Himanshu, I would say that our own brand, right, has a flagship for us in our portfolio, and has, as you know, a leading position in that category. And for us, I mean I don't really want to comment on the competition. I think what we are focused on is really building our flagship brands. And we're focused on the strategy that we have, which is that we see legs of premiumization for the brand.

And as you can see that we have launched the X series, which is sort of in the higher price points, non-whiskey portfolio, right? So I wouldn't -- we're not banking on getting any benefits from any action that anybody else might take. We are just very focused on growing our own brand through the premiumization and through the investments that we are making on the core offering. And McDowell's will continue to remain a very flagship core sort of portfolio in our sort of overall portfolio with significant scale for us.

Himanshu Shah: Okay. And it can't complement us if we had another brand in the same category?

Hina Nagarajan: No, I don't think we need another brand because we have the brand possibility to expand with its own offering. So we would -- we've been trying to simplify our brand portfolio, as you know, since the time I've come in. And even since the time of acquisition, right, I mentioned, I think we have been mentioning that we used to sort of support 30-odd brands, and we brought it down to 18. And since the time I've come in, we sort of said that we will focus on our mega brands, and we invest in 8 or 9 brands. So we would be interested in growing our existing brands.

Himanshu Shah: That's it from my side and the best for second half and Happy Diwali to management team.

Hina Nagarajan: Thank you. Happy Diwali to all of you, yes.

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

Pradeep Jain: Hi Latika.

Latika Chopra: Hi, Hina and Pradeep. Thank you for the opportunity. Just 1 question I had was on your views on Indian single malt. Do you want to expand and have a bigger presence in this category? How you're thinking about the growth trajectory for this sub segment? And you did talk about white spirits to the extent of new flavour launches with Smirnoff. Any more colour on the gin brands that you've acquired in the recent past?

Hina Nagarajan: Yes. So 2 questions. First, let me address the Indian single malts. Look, we see a very good growth trajectory for Indian single malts overall. And I think they are certainly adding to the luxury repertoire in India, right? And as a luxury subsegment, we feel there is enough headroom, both for our global single malts and the Indian malts to sort of grow and improve penetration.

I mean we've got Godawan and we are super confident that Godawan is basically superior in terms of product. And I talked about 67-plus awards and more coming all the time. So we are very focused, Latika, on expanding the distribution and growing our Godawan brand. And as I mentioned, bringing more variance within the Godawan portfolio like a special 1 that we have brought with Taj Hotels. So yes, the answer is categorically, yes, that we would like to grow our presence in this category and that we do have a winner of a brand in Godawan to do that. So we will definitely keep focusing on enhancing our presence in the category.

Your second question on gin. Gin is a fast-growing category, and we've got the brand from Nao Spirits, which, of course, they manage but they are -- Greater Than is the largest volume brand within that portfolio, and they are continuing to focus on that brand. We are building Tanqueray. Tanqueray has a significant place in the gin portfolio. We expanded the portfolio of Tanqueray variance with Mallaca and Rangpur quite recently. And we are -- as I mentioned, we are activating to scale. We have tied up on Emily in Paris, so we are looking to grow that end with Tanqueray.

And of course, Nao Spirits is continuing to grow Greater Than. So we have a portfolio ladder, which plays very well in the gins category.

Latika Chopra: Sure. I'm just trying to understand how big probably over a period of time, these single malts -- Indian single malts could become as a part of your business. I'm not sure if you want to launch more brands or you just think Godawan is good enough to build your shares in this particular segment?

Hina Nagarajan: Look, Indian -- I mean single malt by virtue of the preciousness of the liquids, right, tend to remain much smaller than the mass brands, right? I mean, they are rare liquids, they are more aged liquids and special liquid. So that is why while they're growing quite fast, I mean on the absolute basis, it will just be a few hundred thousand cases, right? And I don't expect that nature to change as it hasn't for global single malts, right?

So it will be about bringing precious liquids, it will be about bringing the rare liquids, the really fine liquids that we have in our portfolio. I would want to grow the Godawan brand for the reasons I just outlined on the previous question, which is that we would like to have a limited number of brands that grow within those brands strategically because it is quite difficult to build new brands in India. So we have a very powerful brand in Godawan and huge scope for bringing many more variants under it.

- Latika Chopra:** Understood, thanks.
- Hina Nagarajan:** Thank you Latika.
- Pradeep Jain:** Thank you.
- Moderator:** As that was the last question. I now hand the conference back to Ms. Shweta Arora for closing comments.
- Shweta Arora:** Thank you. On behalf of United Spirits Limited, I wish you and your loved ones a very happy and safe Diwali. Please feel free to reach out to me should you have any further questions. Thank you all for joining. Have a good evening.
- Hina Nagarajan:** Thank you, everyone. Happy Diwali.
- Pradeep Jain:** Thank you to all. Happy Diwali. Bye.
- Hina Nagarajan:** Bye.
- Moderator:** On behalf of United Spirits, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.