



“United Spirits Limited Q3 FY25 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the United Spirits Limited Q3 FY25 Earnings Conference Call.

As a reminder, all participant lines will remain 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 the operator by pressing “*” then “0” on your touch-tone telephone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Shweta Arora – Head of Investor Relations for United Spirits. Thank you, and over to you.

Shweta Arora: Thank you. Good afternoon, everyone, and welcome to United Spirits' third quarter and nine months ended December '24 Earnings Call.

I wish you and your loved ones a very Happy, Healthy, and Successful 2025. 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 you through the “Financial Highlights” of the quarter post which, we will open the forum for Q&A.

I request all of you to please refer to the Financial Releases available on the Stock Exchange and on the 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. Good afternoon, ladies and gentlemen. A very Happy New Year to all of you. Thank you for joining us on the Q3 FY25 Earnings Call of United Spirits Limited.

To start with, I would like to give a brief update on the demand environment with specific focus on our industry and categories.

While food inflation remains sticky, consumer social occasions have risen and there is a sequential improvement in overall sentiment of celebration in the festive October-December quarter. This has helped improve demand for AlcoBev, which is emerging to be a little more resilient than other CPG categories.

It's also encouraging to see continuity of the long-term premiumization trend, even though the top end might take a few more quarters to regain its historical momentum. There are no major signs of downtrading observed in the portfolio and with this, we hope for some more consumption revival going forward, albeit slowly and steadily.

On performance of the quarter, our overall net sales value grew 14.8% over prior year same quarter, with Prestige & Above net sales value growth of 16.1% year-on-year. The price mix for P&A was at 4.9%. While the demand has picked up sequentially, as mentioned above, there is still relative moderation at the top end of the market. We did witness some buoyancy in the seasonal demand owing to festive, wedding and winter season with our brand remaining salient with the consumer.

In the overall growth, the state of Andhra Pradesh has contributed 6.1% of growth points in the third quarter and on YTD basis it will translate to 2.4% growth points. With this quarter coming in line with our expectations, we are on track on our year-to-date aspirations and our focus remains on the full year objective of double-digit growth on P&A.

On EBITDA growth, I am pleased that we are delivering ahead of NSV growth. This is driven by a combination of both internal and external factor. Overall commodity inflation is relatively muted and our ongoing COGS productivity intervention as well as key levers of revenue growth management i.e. is headline pricing, mix management, and trade spend productivity continue to deliver well.

A brief update on our portfolio, touching upon first the recent innovations and renovations:

Starting with the new X-Series, the non-whisky portfolio offering from the House of McDowell. The X-Series has now been rolled out to five markets, Maharashtra, Goa, UP, Rajasthan, and MP. While it is still early days, we are particularly delighted with the enthusiastic response it has received and hope to replicate that level of quick success in more geographies as we move forward.

On tequila, Don Julio core variants are now available in over 20 cities. Festive season was strong for Don Julio. The activation of Day of the Dead followed by Don Julio leading year end and new year celebrations generated high visibility and talkability across the country with elevated social engagement and generating an earned media reach of approximately 15 million. The initial response to our newly launched Smirnoff vodka flavor inspired by the Indian palate is very encouraging. There were quick tertiaries on Mirchi Mango and Minty Jamun in the first launched market. Over the next few months, we aim to quickly expand to other salient markets and focus will be on generating trials and repeats effectively.

Coming now to our Prestige portfolio:

On McDowell's No. 1, we focused on scaling the Yaroon Waali Baat campaign on mass media with a strong presence on television and cinema. We also activated the New Year season with a digital activation on Moj, which crossed the landmark one billion views mark.

On Royal Challenge, we are doing several activations across media, TV, digital, print, cinema, on ground, along with the innovative platform association with SportsYaari. The brand also

tapped into influencer marketing during the India, South Africa bilateral cricket series in November. We are scaling our new Choose Bold campaign and going deeper into boom-towns with cinema, boosting the presence in single screens in tier two and three towns in key markets.

The newly introduced 180 ml pocket pack on Royal Challenge is launched in Assam, Rajasthan and Maharashtra. This pack innovation is what we call a triple benefit intervention, driving consumer penetration through convenience, significantly improving carbon footprint relative to glass and driving COGS value chain productivity.

On Royal Challenge American Pride, it was an event filled season where Royal Challenge American Pride sponsored 20 plus large events including Karan Aujla, Indian leg of Peter Dinklage's recording company's global tour, Indian Ocean, Thaikkudam Bridge along with topical events for Halloween and New Year. In addition to this, there were off-trade activations for the festive season as well.

Antiquity Blue hosted Beyond the Barracks; a unique initiative designed for the armed forces. This platform celebrates self-discovery and showcases the wide range of talents within the armed forces community.

Coming now to our Bottled in Origin and Bottled in India portfolio:

We launched the new Johnnie Walker trademark campaign featuring global icon Priyanka Chopra Jonas with omni-channel activation. The response to the campaign has been extremely positive. Johnnie Walker trademark has also been very active in the music space this quarter, partnering with some of the biggest events, including Dua Lipa, Dil-Luminati with Diljit Dosanjh, Prateek Kuhad and more. During this period, Singleton Trademark also launched a campaign featuring Sobhita Dhulipala on media, which was a first for the brand.

On Black and White, we continued to be active on media and partner with some of the marquee events such as Maroon-5 and others. We also activated an amplified stable for everyone in select geographies, helping us drive talkability and excitement around the brand.

On Baileys, very pleased to say we've launched a brand extension with SMOOR to amplify Baileys' position in the category. SMOOR, as many of you will know, is a large chain, almost 80 stores around the country. It's a dessert and chocolate offering chain. So, it fits perfectly with Baileys' positioning. We've introduced a delectable range of SKUs that showcase the indulgence and versatility of Baileys and craftsmanship of SMOOR chocolates. Now these desserts are already available in Mumbai, Pune and Bangalore.

Overall, the festive season has driven strong growth for the AlcoBev category, reestablishing its integral role as part of social celebrations. Weddings, as always, also had a key role to play during the peak season. Touching briefly on our awards and recognitions in the quarter, Godawan continues to win accolades for Diageo India at global platforms. We have won three

prestigious Pentawards for Godawan 100 purpose and design. It is a testament of Godawan's craftsmanship that reflects in its winning proposition and story. With this, Godawan awards tally now stands at 75 plus. In addition, Royal Challenge was recognized at Maddies 2024 awards and has won one gold and two silvers.

Looking ahead, we maintain cautious optimism on the demand environment in the short term. Our activation plan for the festive season and beyond our delivering desired results as we maintain our steadfast focus on productivity across the value chain. We also are endeavoring to continue to scale up our business in the newly opened state of Andhra Pradesh. Overall, we remain optimistic on the mid to long term potential of the India consumer story and will continue to invest in our brands to sustain the long-term competitiveness of our portfolio.

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

Pradeep Jain:

Thank you, Hina, and a very warm welcome and happy new year to everyone. As always, it is a delight to interact with all of you and Wishing all of you a Happy New Year again.

Before calling out the quarterly financial performance highlights, we'll request everyone to please refer to the results press release posted last evening. As Hina mentioned, it was a resilient quarter amidst a still moderate but sequentially improving demand environment. Buoyed by a vertical scale up in the state of Andhra Pradesh, our portfolio NSV for the quarter grew 14.8% year-on-year, within which the Prestige & Above segment grew 16.1%. The quarterly growth numbers excluding Andhra Pradesh stood at 8.7% for the total portfolio and 9.2% for the Prestige & Above segment. These numbers validate our sentiment of a sequentially improving demand environment.

Price mix for the quarter was 4.6% and if we exclude Andhra, it is at 5.2%. This is an improvement sequentially, but still below our aspirations for a festive quarter. This is stemming from the relative moderation that demand at the top end of the portfolio that Hina has already referred to. This aside, the premiumization ladder is holding absolutely intact.

I have already called out in the top line growth break-up; this quarter includes the ramp up of the business in the state of Andhra. That includes retail pipeline filling as it transitioned from government to private during the quarter. On a lighter note, please do remember this when we lap this quarter next year. The true quarterly run rate, as we have mentioned earlier, for Andhra will get determined in another couple of quarters. All taken together, we are now back on track on our year-to-date aspirations for the overall business, inclusive of Andhra.

Gross profit for the quarter was Rs.1,535 crores with a gross margin of 44.7%. This is 131 basis points improvement over the prior year, same quarter. Our marketing reinvestment rate during the quarter was 11% of net sales. The step up is in line with investments behind a brand during the peak festive season. This was also to drive consumer engagement on innovations and renovations and to keep our overall virtuous growth cycle intact.

EBITDA for the quarter stands at Rs. 588 crores, a growth of 19.7% over the prior year, same quarter, and EBITDA margin is at 17.1%. Overall, our PAT for the quarter is Rs. 473 crores, with a PAT margin of 13.8%.

In conclusion, I would say that we are happy to have put the runs on the board in the critical October-December quarter, and look forward to closing out Fiscal Year 24-25 with exactly the same intensity.

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

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone wishes to ask a question, may press “*” and “1” on their touchtone telephone. If you wish to remove yourself from the question queue, you may press “*” and “2”. Participants are requested to use their handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question comes from the line of Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy:

Congrats on the good set of numbers. My first question is on Andhra market. So, in terms of the supply side, in terms of the market share, also if you could talk about is it reflecting your pan India market share, is it now similar, say, in Andhra? And in terms of the profitability in Andhra, again, how good is it? And any teething troubles if you could highlight because this was the first quarter? Any teething troubles for you or for industry and any discussion with the government if that's needed?

Hina Nagarajan:

Abneesh, I'll start. Good to hear you. And then Pradeep can add to that. So, I would say, yes, in Andhra, we have got our fair share. And it does reflect what we are doing nationally. And basically, there were teething issues. I mean, we had to stand up a full team in a very short period of time and ramp up our supplies. And obviously, with retail pipelining and the market starting up, it was quite difficult to forecast, but I think the teams have worked really hard together to sort of put it together. And we are very satisfied with where we have reached. I think the scale-up we are quite pleased with. And there are no further teething issues to really discuss. I think over the next 2-3 quarters we should see business as usual, stable sort of demand situation emerging. And our team is equipped to handle the same and in terms of profit.

Pradeep Jain:

So, maybe Abneesh, you had mentioned about profitability. So, look, Andhra, the prices are very similar to Telangana, right? But we are obviously, our COGS should print much superior to Telangana. So, you know, it's slightly better than Telangana, right? That's all that I can say at this stage.

Abneesh Roy:

And in terms of supply side, again, everything is local or are you importing from other market?

Hina Nagarajan:

No, it is local.

Pradeep Jain:

Very much.

Hina Nagarajan: We have ramped up local production.

Abneesh Roy: My second question is on leadership change. So, Hina, four-year tenure, brilliant job in terms of innovation, in terms of margin improvement. I wanted to understand more from the background of the new person who will be joining in March. So, essentially non-alcohol industry background, media background and HT background. I wanted to understand the thought process behind this. And in terms of strategic initiatives, anything big change you would expect from the new management because you would be new leadership, because you will be definitely ensuring one month of the handover also. But in terms of why HT Media kind of a background was there and does it help in terms of a relationship with the political decision makers or say the bureaucrats, was that something which can help?

Hina Nagarajan: Thank you very much for your wishes first of all and your kind words. Look, I think this was a well-planned succession plan thoughtfully executed. Praveen, we are delighted to have him join Diageo. He brings very strong understanding of the consumer and India. He's got an excellent track record and managed many international markets as well as many roles in India. So, he brings a lot of understanding. What I'd like to say is that, look, there are two things. One is that I have nearly six weeks of overlap with Praveen, and I will obviously be spending all that time inducting Praveen into the business. But I think what you should get the biggest reassurance from is the fact that we have a very talented executive team and the team below the executive team which handles each functional vertical independently has a deep knowledge of our industry, right. Also, our strategy is working. So, you know the incoming CEO will have a fully functional machinery supporting him and setting him up for success. I don't think the decision was based on, can this bring particularly some strong relationship with the political sort of or bureaucratic system, I think it is on the basis of consumer. We are a consumer first company and Praveen brings excellent credentials in that sense.

Abneesh Roy: Last question on the demand side. So, one of the few companies highlighting sequential improvement in demand. Now, when I see before the December quarter, your prior four quarters was weak, and you had highlighted that well in advance. Now, the only change in December quarter is essentially marriage season was very strong, and next two quarters also, marriage dates are again very strong. Would you say that this is a very significant reason for the sentiment improvement, your number improvement? And on Karnataka, again, there was the tax reduction at the mid and top end. So, if you could talk about that, how big is the benefit from there?

Hina Nagarajan: So, I would say, Abhneesh, I wouldn't say the whole improvement in sentiment has come because of weddings. I think the whole improvement has come because of a much better festive demand overall, right. And weddings is always a key part of this season. Every year we have, thousands of marriages in India. So, this was also strong, but not the only reason. I think festive demand did pick up. We saw very good secondaries on gifting and, on consumption and we are hoping that this will, as the overall consumer environment sort of becomes better over the next 12-18 months, we are hoping that this will translate to even better consumption and demand for our AlcoBev. I'll hand over to Pradeep to talk about Karnataka.

Pradeep Jain: So Karnataka, Abneesh, is not a very large salience, right? I mean, once we divested the popular brands. But as you would have seen already in a number, the popular business has grown well during the quarter, and that is more an outcome of the prior year comparative. You know if all of you will remember, in this quarter last year, popular volume shrunk almost like 20% to 22%, if I'm not wrong, right? And the total value shrinkage was close to about 12% and post that, we had done some value righting interventions. So, a part of that is playing out, also a part of the duty reduction that the state had done about 4 to 5 months ago, that is playing out. So, that's what, otherwise there is no dramatic difference in the Karnataka numbers.

Abneesh Roy: One clarification on Karnataka essentially, and that's my last question. So, Karnataka, if I see demographic wise, per capita income wise, very attractive market, and we are seeing the Heineken put up their premium beer factory also there. So, in terms of P&A for Karnataka, what are the medium to long-term plans? It's a very attractive market from a consumption perspective, any yardstick you see, in one of the most attractive markets. I do understand in states, the taxation is extremely relevant, but ex of taxation, is there something you can do for the P&A there?

Hina Nagarajan: I mean, Abneesh, we are doing what we can, right, with the current taxation structure, and we continue to have ongoing dialogue with the government to optimize and rationalize the tax structure to drive more premiumization. And you know as and when that happens, I think we will see the types of benefits we have seen in the other states, right? So, within that, I mean, we are not leaving anything unturned in terms of the amount of activation or brand building that we do in the state, but the taxation does have a role to play.

Pradeep Jain: That's right.

Abneesh Roy: Understood. That's all from my side. Thank you.

Hina Nagarajan: Thank you Abneesh.

Pradeep Jain: Thank you Abneesh.

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

Pradeep Jain: Hi Percy.

Percy: Hi everyone. So, my question is on the overall growth ex-Andhra for P&A, it was about 9% in value terms. And this is basically a year in which the phasing of the sales was tilted towards the second half. So, if our overall full year growth aspirations are double digit, and in this quarter we are a little short of that despite the phasing benefit, would we sort of, I mean would you like to revise that guidance for FY26 in light of the weak macro consumption sentiment?

Hina Nagarajan: Percy, okay, okay.

- Pradeep Jain:** So, Percy okay let me just kind of remind everyone, right? I think we were very, very emphatic in the last quarterly call that our aspirations for the full year are double digit P&A growth, including Andhra, right? And I think we are well on track for that. And we would want to reemphasize, right, that we are not losing sight of that objective. In fact, after delivering the quarter that we have delivered, we only feel more confident that we should be able to get to P&A double digit for the full fiscal year right. And on a full portfolio basis, I think we stand at about 7.5 on a YTD nine months, while we'll obviously aspire to try and reach double digit, but we may fall a little short on that front right. I think that's the only point that we would want to make, to re-emphasize.
- Percy:** Understood, understood. Also, Andhra, I mean, if I recall correctly, you had mentioned 1 or 2 calls ago that basically before the problem started and you exited, it was around 4% of your overall top line and in the very first quarter you have sort of achieved 6%. Now obviously there is a channel fill in here in addition to the off takes. So, just wanted to understand in this industry, normally the total channel whatever distributor plus retailer, the total channel is typically how many months of sales. Nothing to do specifically with this quarter or Andhra fill in, but generally I'm asking that in this industry, what is the total channel as number of days?
- Pradeep Jain:** So, Percy, I think you've answered the question yourself. The 6% reflects a lot of retail pipeline filling as well as the stocks at the corporation depot warehouses, I think there are 21 of them in Andhra, right? So, that's the one which takes the 4-4.5 range that I had given to the 6.1 for the quarter. And broadly, if you look, look, I don't think we have visibility into what kind of inventories the retailers hold, but very, very broadly I can take a guess they'll probably hold about 30 days to 35 days of inventory the retailers will hold and another 20 days to 25 days at the corporation depot. So, that's about 60 days of inventory holding yeah.
- Percy:** And again, I'm sure you don't have the exact data, but you have a lot of intelligence, feet on street, etc. So, in your best estimation, what is actually the off-take level sales in Andhra this quarter as a percentage of your total sales?
- Pradeep Jain:** No, too difficult to call out now. Maybe in the next couple of years, whatever the primary sales are that couple of quarters. The primary sales itself will reflect the trend of the replenishment, right. So, that will be a reasonably good indicator.
- Hina Nagarajan:** Yeah, Yeah.
- Percy:** Understood, understood. And would it be fair to assume that this 6% contribution that you've seen this quarter, it will not be this high in the coming quarter, in the March quarter, because you will not have the channel fill in and more or less.....
- Hina Nagarajan:** It might. That's right.
- Pradeep Jain:** Absolutely, it should moderate.

Percy: Okay, okay. Understood yeah, that's all from me. Thank you.

Pradeep Jain: Thank you. Thank you.

Hina Nagarajan: Thank you.

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

Pradeep Jain: Hi Avi.

Avi Mehta: Hi. Hi Pradeep and Hina I wanted to just pick up on your comments on the weakness in the top end. Could you please share your thoughts on what in your view is driving it and by when do you see this changing? It would be great to kind of get some thoughts on that.

Hina Nagarajan: I think you know we called this out a couple of quarters ago. 8 to 10 quarters ago, we had said that there is some moderation in the momentum of the market, but we were still seeing the premiumization ladder intact within our category. And then a couple of quarters ago, we called out that, yes, the top end is moderating. And Avi I mean it's clear. I think it's the overall inflationary pressure, and overall sentiment of, I think that the flow of everything that is happening, there is new budget, there is some uncertainty in front of you, so the consumer sentiment though better than the rest of the world also came down in India and that has reflected at the top end where have we have actually seen very good growth in the middle bulk of our industry and that also evidence in our price mix during the last couple of quarters, but I would say that 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 are confident that the top end will gain momentum over the next few quarters. So, you know I hope that over the next 3-4-5 quarters, we will see again that, momentum that we saw a couple of years ago.

Pradeep Jain: Yeah Avi, it could also be, I'm just adding to what Hina has said, it could also be a little bit of normalization of the post COVID.....

Hina Nagarajan: Covid revenge consumption.

Pradeep Jain: Covid-revenge consumption and a little bit of the, of the tailwinds we had from the duty free to the duty paid, so part of that would be normalizing right. So, I think those are the added factors in addition to the overall macros. For longer term but we don't, we don't expect any concern on this front, it should rebound.

Hina Nagarajan: And I must say that in the quarter gone by we did, we did see some rebound.

Pradeep Jain: That's right

Hina Nagarajan: We are optimistic about this

Avi Mehta: Okay perfect, this is very clear. And second is on the EBITDA margin. Now, you know I just wanted to understand you pointed towards benign input costs. Clearly, you're confident on the double-digit expectations for Prestige growth. In that context, how should we see EBITDA margin expansion with whatever you've done in the nine months? Is that the right trajectory in terms of expansion to take? If you could give us and share your thoughts on that as well, please?

Pradeep Jain: Yeah Avi, I mean, I don't want to give a guidance. I think the good thing at the end of nine months is we've expanded margin very, very handsomely, right? And you know our philosophy, you know the intent is always to expand a little bit of our margin, plough some part of that back into A&P to keep our growth flywheel absolutely intact and retain something in the P&L, right? So, that's the overall philosophy. Inflation, I do want to call out upfront. So, neutral alcohol spirit remains high single digit to low double digit right that is not moderating at all. In fact 4-5 days ago I did hear that the government is considering another price increase on ethanol, so therefore that could have a further headwind. Glass is what was neutralizing it, this is probably now the three quarters have past where glass is deflating. So, we will start lapping the low prices from probably February March onwards. So, therefore, sequentially it may not change, right? But in terms of the benefit versus prior year, where glass was neutralizing neutral alcohol spirit, will go away right. So, those are the two big things that I wanted to share. But like I said, you know our productivity muscle is functioning well. Our revenue growth management is overall functioning well. So, we will continue to chug along.

Avi Mehta: Okay Pradeep, I get it. So, if I were to paraphrase it, would it be fair to say you are more confident on margins versus last quarter? Would that be a better takeaway to take instead of numbers?

Pradeep Jain: When you say margins versus last quarter, you mean last...?

Avi Mehta: 2Q what you shared on how you expect EBITDA margin expansion versus what you would see now?

Pradeep Jain: That's fair, that's fair. Absolutely. I mean, yeah I would agree completely right. Because nine months, whatever we've already landed, unlikely that will go away in one quarter yeah. So, be rest assured of that.

Avi Mehta: Perfect. Lastly, thanks a lot Hina for sharing your thoughts and driving such a strong performance in the Company. It has been a pleasure interacting with you and I wish you a lot of luck for your future endeavors.

Hina Nagarajan: Thanks so much, Avi, and thank you for your continued support to us.

Avi Mehta: Thank you.

Moderator: Thank you. The next question comes from the line of Jay Doshi from Kotak. Please go ahead.

Pradeep Jain: Hi Jay.

Jay Doshi:

Sorry, I'm just repeating what Avi also. I have got two questions. So, it's been a pleasure tracking USL's progress under your direction, Hina and congratulations and best wishes for the global role. I have got two questions. One is there are some news articles that Delhi Government is considering changing the ordering system which may help the larger players and Pernod is not operating in Delhi. So, how should we think about this, if at all. And could you tell us a little bit about what your market share is in Delhi today, and on an absolute basis, where it stands versus the peak volumes that you are doing in Delhi? That is one. Second is, there's an exceptional charge of Rs. 65 crores pertaining to Supply Agility program, how should we think about your employee cost structure, you know quarterly employee cost run rate, starting next quarter? This quarter is fine. I'm assuming it could be related to incentives pertaining to the last year. But how do we sort of model the benefit of this Agility Program.

Hina Nagarajan:

Okay, Jay, first of all, thank you so much for your kind words and thank you for your continued support to Diageo India. Then I'll hand over to Pradeep to explain the employee cost, etc. So, on Delhi, Jay, I would say that we would not like to comment or speculate on the situation, right? We will operate as per the guidelines in the state. I mean, if you remember 2 years ago, when the route to market changed, and we said since then that our business became very small, a very small component of what it used to be, largely on account of the way the route-to-market is. So, it is a fraction of Pradeep where we used to be a couple of years ago. So, I mean, in your mind, if you believe that, are we getting some extraordinary benefit out of Delhi? Actually, we are not, it's quite small. So, let's wait to see how the situation evolves, and we will, should there ever be an opportunity, like we have demonstrated many times, whenever any route-to-market opportunity opens up, we are always very speedy and agile into getting into that opportunity and leveraging that opportunity. So, we will keep ourselves ready as and when we see the need to be. And Pradeep, over to you for the supply agility and...

Pradeep Jain:

Yeah, so, Jay, I mean, there were 2 questions in the second part I thought, right? One is on the supply agility and the other is on the staff cost right. So, let me take the staff cost first. Look, you know where I want to start is that, I hope all of you will agree, we've been very, very disciplined over the years right. I think after 5 to 7 years of holding and optimization, now we believe that we've reached a steady state and if we try and do anything further, we'll start cutting into the muscle. So, therefore, we will need to invest in our organization for sustained growth. And during the quarter, a couple of things. One is, Andhra, we had exited completely. So, we have had to set up the supply organization and more important than that, the demand organization right. So, the demand organization is a large team right. Because it's a very, very salient state right. So, that impact has fully come in right. And also, you would have heard Hina and me talk historically that we do, as we go ahead, we do want to increase the contribution of innovation to our overall growth algorithm, right? So, therefore we are kind of strengthening the innovation commercialization team over the last three to four months as more and more innovation offerings come into the marketplace. So, I think those are the two reasons where you will see a steady state of employee cost investments, which will be in line with normal growing organizations requirements right. So, that's the bit on the investment part and also October-December our annual cycle is 1st October and 30th September. So, the full impact of the merit

increases, which is absolutely in line with industry norms that has come into play. So, that's on the staff cost. Your point on supply agility, I mean the two are not linked. I mean a very, very marginal part of that might be linked because in the IndAS, the plant staff cost also goes into staff cost. But no, that's as part of our normal manufacturing footprint optimization. We have shut one of the units operationally, which was part of our supply agility program. And we have kind of already activated our third-party manufacturing unit in that stage. Does that help Jay?

Jay Doshi: Understood. Thank you so much and good luck.

Pradeep Jain: Thank you Jay.

Hina Nagarajan: Thank you.

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

Pradeep Jain: Hi Harit.

Harit Kapoor: Yeah. Hi, good evening. So just, you know, once again just want to wish Hina all the best for her future role. And just one question on, just one point that Hina, you came in 4 years back and versus 4 years back versus now that you're exiting out of the country, do you feel like, you know, the regulatory environment, you know, versus what it was when you started off 4 years back has been increasingly conducive for the industry? I mean, just the near-term events of say, Karnataka, Andhra Pradesh, most likely of Delhi, you know, possibly hopefully something in Telangana from a receivable standpoint. Do you feel like as states are competing with each other for growth, it's actually, you know, you're exiting a much healthier, you know, better industry? And you know also, has advocacy been a very large component of getting there?

Hina Nagarajan: Yeah, firstly, thank you for your wishes. And I would say, yes, I feel so. I definitely feel that we have seen positive movement on the regulatory environment. The industry has rallied together. We've also, you know, taken a leadership role in advocacy. And, you know, as states have sort of, I mean, you would realize that Maharashtra rolled back, you know, taxes on the premium end, right, a couple of years ago. So, as states have started taking these positive steps, we've been able to go back to other states and demonstrate that this becomes a win-win situation for the state, and we have seen positive traction. So, I would say, Harit, I do leave feeling that yes, we are in a better place than we were when I came in.

Harit Kapoor: Great, great. Second question was slightly more hypothetical. We are in now, you know, in a quarter where you start to see certain excise policies starting to come through as well. From an advocacy perspective and given that you did, you guys did mention that the ENA prices are still inflationary. Is the advocacy also to drive states to consider more price increases from here? Is that something that will kind of go into your discussions? The context is overall inflation may

not be as hard as it was probably 2-3 years back, but I just wanted to get your thoughts on that from an industry perspective.

Hina Nagarajan: Harit, absolutely. I mean I must say that, you know, two years ago when we saw a double-digit, a very high double-digit levels of inflation, even though we managed to secure pricing in that environment, it was hardly enough to cover not even 50% of that inflation, right. It was like 25%-30% of the inflation. So, we are still lagging inflation and therefore every year our advocacy will continue to focus on getting the right levels of pricing for this industry. So, absolutely. my team is on it, and every time we have the excise cycle in any state, we are definitely going in, with both as industry and as a company, we are definitely going in to ask for more pricing.

Harit Kapoor: Got it, got it. And one last question was on the supply chain agility program. I remember a couple of years back in a discussion, I think there was a mention that, co-location as a percentage of the total manufacturing would be, the target at some point would be about 70%. So, I just wanted to kind of get back on that and check, where are we in that journey from going to 30% to 70% on the colocation side? That's my last question.

Pradeep Jain: So, Harit, we'll anyway share an update on the Supply Agility program in the May Annual Call. So, hold your question till then. But I think I shared it last year also in the May call. The co-location part is already done and dusted right. There is still a little more of sponsored capacity that needs to come in in a couple of states. But I think broadly, we are somewhere in the middle of the two ranges that you mentioned. So, I think that should give you the answer to your question.

Harit Kapoor: Great. Those were my questions. Thank you, wish you all the best.

Hina Nagarajan: Thank you so much.

Pradeep Jain: Thank you.

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

Krishnan Sambamoorthy: Yeah, hi team, good evening. One of the northern states was a significant detractor to growth in the second quarter. And from what we are gathering, things are relatively better there. Would you be in a position to say that the worst is over in that from that particular state perspective?

Hina Nagarajan: Yes, I would say yes, the problem in that state is by and large resolved and we are happy with where we are now.

Pradeep Jain: This quarter absolutely comfortable but in this category you can never say anything with that caveat will always stay.

Krishnan Sambamoorthy: In case of the popular segment growth, you have called out, and I'm assuming that is Karnataka, where there's been an excise reduction. Would it be possible for you to quantify how much was the benefit from Karnataka on a Y-o-Y basis for the popular segment for the quarter?

Pradeep Jain: No, so I mean, we don't do that Krishnan, right state-wise, but I think the overall look popular is such a small percentage of our overall business salience and we've called out, that from what last couple of quarters, we were shrinking at flattish to low single digit. And that 9% growth is largely the impact of a prior year comparative factor. In terms of absolutes, my sense is that the trajectory won't dramatically change. It will remain in that, flattish to probably a low single digit decline.

Krishnan Sambamoorthy: Okay thanks Pradeep, thanks Hina.

Moderator: Thank you. Ladies and gentlemen, if you wish to ask a question, please press "*" and "1". The next question comes from the line of Arnab Mitra from Goldman Sachs. Please go ahead.

Pradeep Jain: Hi Arnab.

Arnab Mitra: Yeah hi. I had actually one main question on the top-end moderation and because this is quite contrary to what we've seen in every other consumer category where actually the top end is doing the best and everything else is struggling. So, I was wondering whether there is any geographical specific issue here and are you growing competitively? Has the entire category slowed down, or there is some kind of a competitive issue here also? So, just wanted to check on geography and competition for top-end?

Hina Nagarajan: I would say that there is a geographical issue here, we have seen overall moderation. And I think it is linked more to the consumer sentiment and macro environment rather than anything else. And we perform very competitively in this segment. And we continue to do that.

Arnab Mitra: Right. And any interventions that you think are needed from your side to get the growth rates back up here? I'm just wondering whether affordability or more marketing or do you think it's just a macro and you probably don't need to change much here and wait for the consumer demand to come back?

Hina Nagarajan: No, I mean, we continue to invest in our brand building and build the equity of our brands, right? And some of our brands do have what we call the pocket pack, which is a smaller unit pack. So, I mean, for those who are sensitive to price points, even in that category, right, and want to put in a smaller absolute amount, pocket pack is actually doing quite well across the brands we have it. But other than that, I think we will have to just wait for the consumer sentiments to come back.

Arnab Mitra: Sure that's it from my side. All the best.

Hina Nagarajan: Thank you Arnab.

- Moderator:** Thank you. The next question comes from the line of Abneesh Roy from Nuvama. Please go ahead.
- Abneesh Roy:** Just one follow-up. Essentially on Madhya Pradesh, the news of prohibition in the religious towns was there. I understand it's a small market. Would you be concerned if you could talk about any impact you see once the full list of cities comes? How big are those cities versus Madhya Pradesh and how big is Madhya Pradesh for you from a pan India basis?
- Hina Nagarajan:** So, Abneesh, I would say that, you know, this kind of volatility is business as usual in our category. I mean, you followed it for a long time, and you know that we handle our business as a portfolio of states, right? So, there are pluses and minuses that happen in states every year.
- Pradeep Jain.** Every quarter.
- Hina Nagarajan:** Every quarter actually. And you know what we do is where there is a minus we go and expand our reach and efforts in other states, and we get the pluses from there to deliver our overall sales. So, I would say the team is not worried. I think these things continue to happen in our industry. And you know even when it comes, we will deal with it and we will find other avenues for growth.
- Abneesh Roy:** And one last question, the last two years, particularly the innovation funnel has been very strong and most of them have done well. And now the leadership change will happen in around three months. So, now, the next 6 to 12 months, will the focus be more on ramp up of the brands or the innovations which have already been done because always there is a cycle where initially a lot of innovation happened and then consolidation happened. So, would you go more into the consolidation phase next 6 to 12 months, in terms of brand?
- Hina Nagarajan:** I would say it's an AND game, Abhneesh. See, our innovation pipeline is defined 2 to 3 years previously. So, whatever is in the pipeline will get launched. Equally, yes, we have very powerful innovations that have been launched. I mean, just to name Don Julio and X-Series, I talked about them. Definitely, the commercial team will be focusing on scaling these, including Smirnoff flavors, right. So, whatever is in the pipeline for launch will get launched. But equally the commercial team will be sort of focusing on scaling these in the salient markets, which are only still starting to roll out nationally.
- Abneesh Roy:** Thanks, that's all from my side. Thank you.
- Moderator:** Thank you. The next question comes from the line of Sanjay Manyal from DAM Capital. Please go ahead.
- Sanjay Manyal:** Hi, hello team. Just want to understand a few days back FCI supply of rice have sort of been allowed and price have sort of come down from 28 to 22.5. Shouldn't this sort of result into softening of ENA prices?

- Pradeep Jain:** So, right now the new crop is anyway on its way right and typically, you know, we get a handle of the new crop in about 30 to 45 days right, once it settles down in the market etc. So, we'll have a good sense of our neutral alcohol COGS going forward in the next 1.5 months, I would say, right? But we haven't picked up what you have just said about the FCI bit, but I'm sure we'll get a handle of that over the next...
- Hina Nagarajan:** And not only that, I think, I mean structurally, I think it's linked to the government's program of blending, right. So, on that, I think the government is actually enhancing the targets and pushing the agenda forward on that. And that is a key reason for driving the pricing of ethanol and therefore ENA. So, I think in the balance, we still see structurally inflationary sort of environment for ENA.
- Sanjay Manyal:** And if you also can give some color on the Godawan basically and other innovations which you have done, what kind of a success it has seen over the last year or so?
- Hina Nagarajan:** So, I talked a little, you know, bit about them. I think the key innovation is Don Julio, I would say, is doing extraordinarily well. It is growing from strength-to-strength. We are now in the top 20 cities odd, and we will be rolling out further. But I think tequila has huge traction in the country and Don Julio has global equity flowing through to India. So, we are super excited about Don Julio. X series, again, we are quite super excited. We launched in one market, and we saw very good tertiary for the offering. the products are getting very well appreciated, very good response. And therefore, you know, that's another, what I would say a big bang innovation for us. Smirnoff flavors, again, very exciting consumer response. We've got the India palette flavors, Mirchi Mango, Minty Jamun and we've seen some really good response to these flavors. And then I wouldn't want to miss out, Royal Challenge the Pocket Packs, right? we were just talking about the environment being sort of moderate demand. These pocket packs are playing a huge role in penetration and overcoming the inflationary environment, and we have a very differentiated proposition in our pocket packs. So, that's also doing really well for all the brands that we are having in pocket packs. So, I would say our innovations are doing extraordinarily well. Godawan has made big strides. I mentioned it's probably now the most awarded Indian single malt. We launched in the UK in December. I was personally there to launch it and huge sort of appreciation for the purpose of the brand, for the quality of the product. And we are focusing our energies on really rolling out the brand market-by-market in India. So, we have sort of increased the distribution in the quarter gone by. We actually put it in Andhra as well last quarter. We've also launched a duty-free version of it which has just gone into Dubai duty-free and now rolling out in India duty free. So, that's also very exciting. And then we've done actually limited editions for some of the hotel chains like Taj. So, it's getting very good equity and acceptance in the country and outside.
- Sanjay Manyal:** Perfect, perfect. Thank you very much.
- Hina Nagarajan:** Thank you.

Pradeep Jain: Thank you.

Moderator: Thank you. The next question comes from the line of Vishal from Yes Securities. Please go ahead.

Vishal: Thank you. Just wanted a small clarity on the income on the standalone basis. What's the reason for that? And is it because of deferment of dividend income? Or if yes, then could it be lower in the fourth quarter?

Pradeep Jain: Okay, your voice was not very clear, but I think I get the question. You're seeking in the standalone, what is the driver of the other income, right? So, the big driver is the dividend from Royal Challengers Bangalore right, our 100% subsidiary that houses the RCB Cricket Team and typically, I mean, their entire cycle gets completed around September-October. And therefore October-December is the right time for them to push out the surplus profits that they have through dividend to USL. So, that's what it is, and that's why if you will see the consolidated numbers, that gets eliminated.

Vishal: Understood. So that would be around 1.25 billion or so?

Pradeep Jain: It's about 120 crores. 120 crores.

Vishal: So, next quarter obviously we won't be seeing that number, which was there last year.

Pradeep Jain: Yeah, that's right.

Vishal: Thank you and thank you Hina for all the responses over the quarters. Thank you.

Hina Nagarajan: Thank you so much.

Moderator: Ladies and gentlemen, we take the last question from the line of Senthil Manikandan from iThought PMS. Please go ahead.

Senthil Manikandan: Hi, good evening and thanks for the opportunity. Just one question. So, globally, we are seeing that the emergence of these weight loss drugs, GLP-I, things like that, its impact on the AlcoBev volume. So, it's a very nascent stage, I think, I understand. But I would like to hear your comments on this and how we are structured strategically. So, that's it.

Hina Nagarajan: Look, I would say at the moment, it is very small. I mean, globally, we are tracking the development of this category. And we don't see, today a structural impact on our category. And I would say even lesser so in India. So, but we do keep our eye on consumer trends, right? And we do keep an eye on trends that can impact our industry. So, at the moment, I would there is nothing for us to do structurally on account of this, but you know it's a wait and watch.

Senthil Manikandan: Okay. Thanks.

Hina Nagarajan: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Pradeep Jain for his closing comments.

Pradeep Jain: Thanks. Okay, before we close today's call, on behalf of the Diageo India family and the USL Board of Directors, and I suppose on behalf of all of you, I would like to thank Hina for her amazing 4 years in India. The performance and the numbers speak for themselves during the period. Hina became USL CEO and MD in July 2021, having joined Diageo in August 2018 as Managing Director of Africa Emerging Markets. Under her leadership, USL has combined strong top line growth and margin expansion with impactful strategic initiatives, reshaping and premiumizing our portfolio and positioning USL as an innovative leader in the AlcoBev industry. Under her leadership and the talented India team, we have achieved strong double digit CAGR growth in NSV year-after-year, while also improving profitability and performing competitively in the key segments in which we participate. The India business has rapidly transformed its portfolio in this period, disposing off the non-core brands and focusing on growth categories, while also accelerating premiumization and innovation. Launching Godawan, our award-winning new artisanal Indian Single Malt, Royal Challenge American Pride, McDowell's X series and renovating all other core brands in the portfolio. During her tenure, India has become the third largest Diageo market for Johnnie Walker trademark and the largest Diageo market for Black and White scotch. We have improved our sustainability leadership in India, achieving our water replenishment goals 3 years ahead of plan and exceeding our targets for positive drinking programs so that we are well positioned to meet a broader 2030 spirit of progress goals. Hina leaves in place a stronger gender diverse leadership team on the India Executive Committee. She has also strengthened engagement in the wider organization. We want to congratulate Hina on all these achievements. She leaves a solid record of success and a motivated, dynamic, and talented management team. The good thing is that she will be very much in Diageo, and we wish her good luck and the best for both her personal and professional journey ahead.

With that, we close today's earnings call and look forward to the annual call in May of 2025. I will also have the privilege of introducing Praveen to all of you in that call. Thank you and be well till then.

Hina Nagarajan: Thank you everyone. I really want to thank you for your continued support and belief in us these last 4 years. I know many of you had questions when I came in and there was even skepticism I would say on whether our strategy would work, but you've stood by us and you have encouraged us, supported us. And I would say even kept attention on us, which I really appreciated. I hope that you will continue to provide continued support to our business and that you will support the new CEO as much as you've supported me. Thank you once again. And of course, I'll be in touch whenever I'm in India, but..

Pradeep Jain: Thank you, Hina, and thank you. Back to the Chorus team.

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