"United Spirits Limited Q1 FY-17 Earnings Conference Call"

June 27, 2016

MANAGEMENT:	**MR. ANAND KRIPALU – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, UNITED SPIRITS LIMITED** **MR. SANJEEV CHURIWALA – CHIEF FINANCIAL OFFICER, UNITED SPIRITS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the United Spirits Limited Q1 FY17 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Kripalu, MD and CEO, United Spirits Limited. Thank you and over to you, sir.

Anand Kripalu: Hello everyone and welcome to this quarterly call. I have with me Sanjeev Churiwala our CFO and I am Anand Kripalu.

Before we open up the lines for Q&A we typically do I thought it will be worthwhile for me to just set out a few overall points about our performance and provide some perspective probably a little more than what been issued in to the release.

Now as you would have seen in the results we have delivered I would say strong topline growth of 9% and an EBITDA growth of 5% versus the same quarter of the previous year. I just want to point out that the underlying EBITDA growth before one off is 14%. Importantly something that we have been talking about now consistently over the last several quarters the Prestige and above segment grew net sales by 21% and continued to be fueled through the renovations that we have talked about and our overall strategy of premiumization. The portfolio of Diageo brand which is now organic and it is there in the base contributed a Rs. 163 crores of net sales in this quarter contributed to 12 points of growth and its margin was in line with the commitment that we had made to shareholders when we got their approval to integrate the Diageo brand with USL.

With the continued renovation of our Prestige brand and the embedding of the Diageo brand in to our total portfolio these segments now which is Prestige and above represents 57% to the overall business. And we believe the portfolio now strengthened through the strategy of renovation is well placed to actually outpace category growth as we look into the future.

On our popular business specifically our core brands in the priority states where we have chosen to invest and grow grew volume by 6% and net sales by 7% in the quarter. As you know and I have just talked about it several times in the past we have five strategic priorities and I am just going to give you a little update on each of these.

The first one is really to get the full value from our core brands. Here if you look at our core brands we have seen strong net sales performance of 20% on McDowell's No. 1 on the core whiskey variant of No. 1 which has been renovated and the overall trademark has grown by 5% in the quarter. I think what is important is that Royal Challenge continue to demonstrate strong growth and if that happened in this quarter 2 with net sales up at 46%.

I had talked to many of you earlier about the relaunch of Signature which has been rolled out across the country. I am happy to report that the recently renovated brand Signature has now returned to growth in this quarter.

On a priority 2 which is to do with our sales and geographies several of the challenges we faced last year in many of the states are largely behind us. We have also resolved the issue that we had on Haywards in Karnataka and the brand has actually grown this quarter. So I believe we are in a better position in terms of our engagement with the states fans of course Bihar which as everybody knows has gone into prohibition.

Our strategic priority three is about cost and we have continued to drive our costs and that helped improve our margins by 160 basis points. We have continued to look at every line item of the P&L with the belief that there is money to be saved everywhere. And that is obviously help the margin improvement but what is also help the margin improvement is the premiumization of the portfolio and the fact that Prestige and above has grown very strongly in the quarter.

The Diageo brand impacted our gross margin by 40 basis points out of the 160 basis points. Our strategic priority four is about corporate citizenship and governance we believe that the nature of our engagement with states has started improving and we are beginning to see green shoots in how we worked with the states but I think most specifically on pricing and as of 1 July pricing has started coming through in Karnataka and one or two other states with some other states still waiting in the wings.

But I think in service of our overall objective of corporate governance you would have seen disclosures that we have made recently after a board meeting that happened on the 8th and 9th of July and those disclosures I think demonstrate that we are standing up for the highest levels of transparency and corporate governance.

And finally on strategic priority five we continue to make investments in new capabilities, processes and systems and continue to evolve our organization in terms of its structure to make sure that we are future ready and fits for purpose while being agile which is absolutely required in today’s dynamic environment.

Now as I outlined at the last call that we did when we reviewed Fiscal 2016 I would like to reiterate that we do not manage this business for quarterly results alone but to build a more sustainable year-on-year performance.

Having said that the performance of the quarter remains robust and given the investments and the changes we are making in this business we believe that strategy is correct and that we are well set for the future.

With that I am going to open this up for questions. May I request that in the interest of your fellow colleagues who were on the call and waiting in line to ask questions then you keep your questions brief and if possible restrict it to one question per head. If we have time left thereafter we will absolutely circle back to those of you who are ahead in the line if we have time left at the end.

With that back to you Margaret.

Moderator: Thank you very much. We will now begin with the question-and-answer session.

The first question is from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: My question was on the volume trends for Prestige and above, now that the Diageo brands will come fully into the base from Q2 onwards, how would you expect the volume growth to pan out ex-Diageo the volume growth was 7% in Q1, what is the path to reach the double digit volume growth on a sustainable basis here?

Anand Kripalu: So first of all the Diageo portfolio is already organic in this quarter itself, so it is not just from Q2, it is organic from Q1 itself. The second point I would like to make is that I do not think we have ever said that we will grow overall volumes at double digit, we have said we will grow overall revenue at double digit. And absolutely we believe that that is the ambition for the total business and I think we are getting closer and closer, it is not already there, to delivering sustainable double digit performance. So that is really what I would say. I think we are now as we go ahead not going to look at our business and Diageo it is now one business, all the brands so to speak are our children, there are no stepchildren here. And therefore we will look at the overall portfolio, overall volume growth and importantly the overall premiumization that we are able to deliver by making the more premium brands to grow faster.

Latika Chopra: And would that also imply that the popular segment volumes will stabilize during the course of the year apart from the Bihar impact?

Anand Kripalu: So as you have seen in our results Bihar has had a material impact in the quarter impacting our business 3% to total growth. So that 9% that we have declared is after the loss of 3% due to Bihar. Will overall popular stabilize I think absolutely it will stabilize. I do not think you should see radical drops in volumes on Popular. But having said that we have made significant choices on where we are going to invest for growth in Popular and as you can see our strategy of really putting our minds behind Prestige and above is what is actually driving the overall results of the company. What we need to make sure is that Popular does not decline or hemorrhage the business, right and we grow in the select states where it is profitable and then really put the might behind Prestige and above. And I think it is that combination which is part of our strategy that is actually playing out Latika as we speak.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My question is on the re-launched brands. Sir, McDowell's you have really done well this quarter, the volume growth rate has accelerated. My question is there is a big difference between the volumes and price. Last quarter there seemed to be the net sales growth was 5% ahead of the volume growth. This time the volume growth is 6% ahead of the sales growth which means there is a negative pricing of 6% versus plus 5% pricing in the last quarter. Similarly Royal Challenge it is the other way around the pricing growth seems to be much better this quarter versus Q1. So if you could explain what is happening there, has the competitive intensity gone up in McDowell's, we hear that there are price cuts by competition, we heard that you have been forced to reply to that in some markets. So if you could elaborate on that part also?

Anand Kripalu: So you are right, that competition has cut prices for the head to head competitive brands in certain specific geographies. I have said this last time, we will not respond by lowering our price and we still hold to that. I am actually pleased to see that despite that we have continued to grow shares versus the competitor and grow faster versus the competitor's brand. Now in our industry you have a brand mix and you have a state mix. So when you see number 1 growth the core variant of number 1 has grown very, very strongly. But we have also said that some of the other variants which are slightly higher priced, which I would call tail variants of McDowell's Number 1 have declined and pulled down some of the value growth that is there.

Also in terms of the state mix, right we have probably grown a little faster in states where the revenue per case is a little lower than in the other states. So I would not read too much into it, if I were you Abneesh, because I think what is central to this whole piece is there might be a difference here and there every quarter. But I feel that we have been talking about our innovations, we have talked a lot about Royal Challenge and the momentum there. I am personally delighted with the 20% growth of the core variant of McDowell's Number 1 which is really central to the future of this brand. It really is the biggest brand in pretty much the industry and if a brand like that can grow by this, as the sale kind of disappears and withers away you will have a very powerful and strong head left, and that is what is going to drive our growth.

Abneesh Roy: But to summarize you have not launched a brand extension McDowell's Number 1 in some markets at a lower price?

Anand Kripalu: No, so we have McDowell's Number 1 luxury, in some specific states right, it is not there everywhere yet. And that variant we are using in some places where we believe that we need to combat price competition, okay. But the core variant which is what we have called out in the Press Release the core variant is not being discounted anywhere just to be absolutely clear.

Abneesh Roy: But sir will it not cannibalize in such markets where you have launched luxury at a lower price?

Anand Kripalu: Well, it could right and the jury is out on that, Abneesh. But having said that what I want to say is if you look at luxury and look at the core variant the reason why we have created luxury is not to fight price. The reason we have created it is that there are two different flavors preferences emerging in that segment of the whiskey market. The core variant caters to one part of the flavor map luxury is meant to cater to the other part of the flavor map.

So when you put these two together, what we have done is we have widened the appeal of this brand to appeal to a much larger set of consumers. Now tactically we may be using price in very isolated places right only because it helps to achieve a tactical objective, right. But the strategic part is the flavor choice that we are offering consumers which has widened the appeal for a much larger number of consumers than the brand used to appeal to before.

Moderator: Thank you. The next question is from the line of Nillai Shah from Morgan Stanley. Please go ahead.

Nillai Shah: Sir, my first question is on the price increase which you have got in Karnataka and you did mention in your opening comments that there were some other states too. So can you quantify which state sir and how much, and what is the impact on overall margins?

Anand Kripalu: So I do not want to get into graphic details for obvious reasons but I will try and give you as much clarity as I can. So we have got price increase in Karnataka, we have got some price increase in Punjab and we believe that there are a couple of other states that could come in the immediate future. But the jury has been out on those states for some time so I would not bank on it. So on pricing, basically we believe that the benefit of Karnataka and Punjab will help our business over the next three quarters because Karnataka started from the first of July. Now so therefore you should see the benefit of that coming through.

Having said that, there is one uncertainty we are dealing with right now which is the LBT in Maharashtra, the Local Body Tax, right. So there has been newspaper stories and you know as much as I know from that saying that LBT is going to be reintroduced for alcohol in Maharashtra. Now we are still working with the authorities to see how best this can be mitigated and if it comes, then when exactly it is going to get started from, right. So that is if you like a new headwind that has emerged on the back of the tail wind of the price increases that we have been getting and we are still hopeful of getting a few more.

Nillai Shah: Okay and the second question is on the overall cost cuts which you alluded to. So can you quantify anything on the cost cuts going forward near term or long term and in that context also you had mentioned about a Rs. 1,000 crores of asset sales which are non-core to you, along with working capital reduction. So overall cost reduction what I am speaking about along with the debt reduction?

Anand Kripalu: So I will certainly hand over to Sanjeev to talk a bit more about the whole monetization plan and how we are going to reduce debt. But first to address your point about the overall cost. So one of the things we are not doing is we just quantify and say how much we have said specifically, alright. And what I have also said is that cost cuts for us is really fuel for growth. So the cost saving is being used to invest in brands, invest in sales, invest in people and hopefully to add a little bit back to our operating margins, right. So that is the role of the cost cuts that we are doing.

I just will tell you the point more philosophically. I believe that a business like ours should save a percent or more every year right on a sustained business in terms of cost saving initiatives. Now given that we are in the early part of the strategy and growth phase, we will be investing a fair share of that back into growth like I talked about and a smaller part of that back into margins. And because my philosophy and our philosophy here is that we need to make sure that this double digit growth engine of this company becomes a reality with some modest improvement of operating margin year-on-year and that combination will deliver the most value to our shareholders. So Sanjeev, over to you on the point on monetization.

Sanjeev Churiwala: Thank you, Anand. On the monetization I would refer back to the earlier investors call that we had if you could recall we had mentioned that we have in the pipeline a monetization plan of non-core assets to the tune of about Rs. 2,000 odd crores. The couple of data points that we shared last time is (a) we are looking at about 13 properties sale to Dr. Mallya as per the agreement that we have entered with him. This again we have mentioned that most of the monetization of the 13 properties should happen in the H2. We spoke about the treasury shares that we have in USL shares which is presently litigated which has a value of roughly about Rs. 900 odd crores which we think would get monetized. Besides that, we have certain more non-core assets including some smaller companies that we can monetize.

This all put together we think we are expecting an overall monetization of Rs. 2,000 odd crores. In the past we have been able to continuously reduce our debt as you are aware we had a debt portfolio of close to Rs. 8,000 crores which as of 31 March 2016 we are standing close to Rs. 4,200 odd crores. We have been looking at all the programs to continue to reduce this debt and we will continue to do so. Hope this answers your queries.

Nillai Shah: Sure just the H2 bids so about Rs. 1,000 crores is what you expect in the second half of this fiscal?

Sanjeev Churiwala: And also it is a combination of two years that we are looking at 2017 and 2018 of Rs. 2,000 odd crores. Of course we are not splitting it equally into two halves but there would be a significant reduction we expect in H2 as well.

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

Arnav Mitra: Just wanted to know the price hike in Karnataka when we last discussed you said that we will have to wait and see what the industry does, how much of it gets passed back in terms of trade promotions. So now that the hike has happened, has the industry retained the entire benefit of the increase or substantial part has been passed back?

Anand Kripalu: No, I think so first the price increase has been implemented from 1 July. We are realizing the benefit as we speak in this month of July and I would say that the lion share right not 100% EBITDA but the lion's share of the price increase has been retained.

Arnav Mitra: And the other question is that on McDowell's if you could share the so as you said the value growth for the overall number 1 whisky franchise has been 5%, so what would be the volume growth for the overall franchise the core I think is 26% but the overall franchise would be how much?

Anand Kripalu: So the overall McDowell's whisky franchise growth is 5% on volume and a similar number on value and I answered this question before on why it is the way it is. So it is 5'% on McDowell's whisky total with the core variant growing at 26%.

Arnav Mitra: And just one last question which is that there has been a slight increase in the interest cost, anything to read into that versus what it was in the fourth quarter?

Sanjeev Churiwala: So I think Quarter 1 overall the interest cost is Rs. 103 crores versus corresponding quarter of Rs. 128 crores. So of course we have been continuously looking at debt reduction as well as interest cost reduction. There is some one component of about roughly about Rs. 7 odd crores of interest which we had to pay to one of the parties into settlement of the principal amount. This is a one off Rs. 7 crores sitting in the interest cost but in spite of that the overall interest cost has come down.

Anand Kripalu: And I would say that there is nothing much read into this honestly. Quite simply we are reducing debt and we have consistently reduced our interest rates right our rates of interest have been consistently brought down in the last two years, right. Today we are a 9.5% interest which was actually at over a 11% right, a year or so ago. So both in terms of capital or in terms of debt and in terms of the rate of interest right both are moving down. So that is really what I would read. You know you might have small moving pieces here and there but that is the core message.

Moderator: Thank you. The next question is from the line of Jamshed Dadabhoy from Citigroup. Please go ahead.

Jamshed Dadabhoy: A couple of questions. What is your market share today in Prestige Plus as a percentage of the overall industry and where do you see this panning out over the next three to four years?

Anand Kripalu: So well if I look at Nielsen's data, our market share is about I just do not have the number off hand here it is about 44% odd okay in the Prestige segment 44% or 45%. Now one of the things I had said earlier is the fact that if you look at the four segments of the market, we have consistently grown share in luxury, we have consistently grown share in premium, we have consistently grown share in popular in the states where we have chosen to invest and compete, but we have slipped on share historically in the Prestige segment. Now I believe that this number that we have now which is 44%, 45% I think is now poised for growth.

I believe we have grown shares in this quarter based on our own volumes and our own performance. And I believe that we will now consistently grow share on the back of all the investments we have made on renovations and support for our brands in the foreseeable quarter.

Jamshed Dadabhoy: Okay and if you had to take a three-five year roadmap where would you think a sustainable market share would be in the Prestige plus?

Anand Kripalu: Well if I knew I would be a fortune teller honestly. I think so I do not know would our ambition B2B more than 50% you know more than a half the market absolutely that would be our ambition. But I think the thing about market share is that as long as each year you are not going backwards you are moving forwards and even if I am gaining 20 bps, 30 bps, 50 bps of market share each year I think then we are moving in the right direction. And I think that is how I would request you to see the performance versus you know what is an ambition which I would really have to pull a number out of my hat honestly.

Jamshed Dadabhoy: And just related question to this sir, what do you think is your share of the profit pool in the Prestige plus segment today versus the next year because if we see ever since USL became competitive we have been seeing creeping price cuts happening little bit here, little bit there. So the profit pool for the Prestige plus segment as a whole is eroding. So I just like your thoughts on how you see this competitor dynamic playing out over the next two, three years because that in some sense is directly linked to your premiumization strategy and the margins on the Prestige Plus space?

Anand Kripalu: Yes absolutely. So I do not know exactly what the share of the profit pool is, but let me just tell you that our strategy is not about discounting our brands, to gain share or gain volume and reducing the profit pool of the industry. As I have already explained on this call earlier, we are actually a holding firm on pricing, we are investing to create brand value and if anything are objectionable me to drive pricing over the future but not to lead the market on discounting okay. So I just want to make that very clear that our strategy is about premiumization and creating value through that. I think the profit pool of the industry could be impacted if we do not get pricing ahead of inflation over time okay and that is not just for us, it is for the entire industry.

As you all know the pricing in the last couple of years has been a challenge. As I have said I think we are coming out of the drought period and we are beginning to see green shoots on pricing but states becoming more amenable to giving pricing and that is something that we are going to pursue. Now it is unsustainable if you get no pricing for a long period of time with an inflation of 5% odd. So that I think will sort itself out we will start getting pricing greater than or equal to inflation I think very, very soon. I think it is around the corner and that is how we will start building the profit pool.

The second thing that is going to happen is as each of our premium brands grows faster than the brand below it in the Prestige and above segment, right you are going to make better margins and that is going to push up the profit pool because the segments will become more and more premium right because of bigger brands or the more premium brands are growing faster. So that is what I would say really in response to your question.

Moderator: We will move to the next question which is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: My question is on your gross margin. So if I look at your gross margins on Indian GAAP versus Indian GAAPs in the gross margins have actually declined by about 40 bps in the quarter on a year-on-year basis. And the improvement on indices is coming primarily because of this TMU gross especially in the excise line. Why would the gross margin decline on Indian GAAP when you have seen obviously the Prestige and above growth being very robust?

Anand Kripalu: Yes, over to Sanjeev.

Sanjeev Churiwala: Let me try and attempt this. I think (a) the comparison that we are trying to do is on an IndAS basis. So if you look at the Quarter 1 of 2017 versus Quarter 1 of 2016 purely on a comparable IndAS basis, the gross margins have gone up by 161 basis points. That is because of driven by the positive plan and state mix. So on a like-for-like basis the margins are also same but there are no one offs in the gross margins. So the gross margins have actually gone up by 161 basis points. Now when you look at the comparison between IndAS and as well as IGAAP the difference is basically the way you are accounting for the TMU sales and the TMU excise.

That is very comprehensively explained if you go to the page 5 of the appendix which is part of the press release and there they are explained in statements which are given in Page number 7 which gives you all the five big comparative changes which happened in the year. So I think that is self-explanatory.

Aditya Soman: I just was not following up I mean I was comparing actually Indian GAAP versus Indian GAAP and then in the IndAS if I were to make the comparison the reason the gross margin is expanding is because the excise component within this TMU gross option actually increasing. So your net sales optically comes down and your gross profit remains at similar levels. So the gross margin is optically improving?

Anand Kripalu: Yes, absolutely.

Moderator: Thank you. The next question is from the line of Bhavesh Pravin Shah from CLSA. Please go ahead.

Vivek: Hi sir, this is Vivek. First question because of this TMU gross up is this also changing the overall volumes and if yes can you give the exact volumes in the quarter?

Sanjeev Churiwala: So it does not changes the volume picture. It is just that the financials are consolidated. I would again like to draw the attention of the investors and the analysts to the press release and specifically looking at page number 5, 6, 7 and 8 which is in the appendix which gives you a very, very comprehensive reconciliation between the IGAAP and the IndAS wherein very comprehensively we have spoken about the TMU brought ups and other changes which happens between IndAS as well as IGAAP reconciliation. So I suppose that is very, very comprehensive and if you go through the entire four pages that will give you a complete good idea about it.

Vivek: Okay but nonetheless can you give me exact volumes for this quarter?

Anand Kripalu: Yes, the overall volumes by and large in 2017 Quarter 1 we reached about 22 million cases, it is almost the same what we delivered in the 2016 Quarter 1.

Vivek: And second is on the overheads bits you have called out there is an impact of Bihar prohibition. What is this additional tax levies in certain states and why would it be setting another expenses on overheads? And third is investments in building an internal system processes and capabilities. Can you quantify all these three and I mean is not it that these one-offs are almost recurring every quarter so strictly speaking I do not know whether these are one-offs and for how long this will continue, because it is almost looking like in the normal course of business for United Spirits right now?

Sanjeev Churiwala: Going back to the previous conversation we have I think when we were talking about the one off as of now, for a size of Rs. 10,000 crores top line and an Rs. 8,000 crores spent if we are talking about a Rs. 17 crores, Rs. 18 crores one-off, this is something not unusual from this side of the company. So coming back to the original question is what is this one-off and where it is sitting if you again look at the press release, you are very right, we quantified three things. Impact due to Bihar prohibitions, additional tax levies in certain states and investments in building internal systems and processes.

On the Bihar as you are aware that there are certain prohibition in Bihar and you are aware that we have a plant in Bihar. So because of this prohibition and the likely impact of it we have taken this one-off provisioning for certain plant materials, for certain raw materials and inventory processing cost which is again a one-off thing purely coming because of this Bihar prohibition.

Vivek: What is the amount, Sanjeev?

Sanjeev Churiwala: That is about Rs. 17 odd crores. Let us talk about the Bihar one. Additional taxes as you are aware we have 30 states operations and in some states the laws and the rules keep on changing. So in some states there is some additional taxation we are presently contesting and the discussions with the State governments. Because we are under discussions we are not specifically calling out states, nor we are calling out the specific nature of the levies. But there is an additional tax levy of roughly about Rs. 13 crores to Rs. 14 crores which we are setting in the Quarter 1.

Vivek: Okay and the third one?

Sanjeev Churiwala: Third one was basically building in terms of systems processes and capabilities but of course we are working on our SAP enhancements. If you remember when we talked about the complete SNOP program that we are putting up that entails certain cost, though these costs are in the nature of the assets sitting in overheads but we gain subsequently in the subsequent quarters other than that. Certain a set of certain cost sitting on that.

Vivek: Okay but this is done now right?

Sanjeev Churiwala: Yes, substantially we have been incurring this cost this year, that is correct.

Moderator: Thank you. The next question is from the line of Sunita Sachdev from UBS. Please go ahead.

Sunita Sachdev: Just a question on, there is a lot of newspaper clipping articles on employees being asked to leave, how true this is and how do we think of it going forward?

Anand Kripalu: Well you know I had said earlier the intent is always to create a future ready organization that is agile and nimble and fit for purpose for doing the business that we do. So I think we constantly look at our organization and constantly look at evolving our organization to keep it fit for purpose. Now so are we doing some amount of restructuring in the organization, you know as we speak yes we are doing it. But it is an ongoing activity organizational evolution is not a onetime thing and then you do not do anything in the future it is constantly evolves. And we are doing that.

Sunita Sachdev: And how soon should we see any impact of that if at all, I mean would it lead to a reduction in employee cost?

Anand Kripalu: Well, I think you can read it the way you wish Sunita honestly. But I think the reason we are doing this is like I said to continue to win. So I would like to say that as part of this work that we are doing right now we are actually increasing employee strength and investment in areas that we believe are sources of competitive advantage in the future. So this is not a cost cutting exercise. This is about having the right operating model to win.

Sunita Sachdev: And if I may, any views on GST since it could just come in, how ready are we and any pointers that you could give on that?

Anand Kripalu: I mean on GST where we are today, your guess is as good as mine will it go through your guess is good as mine. If it goes through, will it get implemented in 1 April 2017 your guess is as good as mine. Having said all of this, we know that GST is going to happen at some point in time and sadly for us I think the alcohol will not be included in the Constitutional Amendment Bill and under GST.

Therefore there is a range of things that we are doing both with the industry and secondly in parallel with that internally as an organization to ensure that we mitigate as much of this impact as possible as we go ahead. And that is what we are continuing to do. So we are ready with a lot of work that we have done both at the industry and internal level. But as you would appreciate Sunita, without the specifics, without knowing what the rate is, without knowing exactly what the structure is, without understanding how this input credits will be shared, it is really impossible to finalize that. So suffice to say that we have done a lot of work but you know we have left it on the flame to finally cook as things become clearer.

Moderator: Thank you. The next question is from the line of Ashit Desai from SBICAP Securities. Please go ahead.

Ashit Desai: You have mentioned UP has grown very strongly, I wanted to know what would be the volume growth in UP and is this a very profitable market for you?

Anand Kripalu: So obviously we do not start putting state wise performances. I called out UP only because of one thing, which is the fact that I think UP could be a lead indicator of states who have seen the pain of picking up excise duties to levels that are exorbitant raising consumer prices to levels that are exorbitant and seeing the category growth completely disappear in fact coming to a decline okay. So that is the reason why I called it out.

So the good news is that the growth in UP has been very strong in this quarter. How much is sustainable growth I think time will tell this is the first quarter the excise rates changes on the 1 April so it is really one quarter that we have seen. But it has I think we are pleased with the kind of growth that we are seeing. Now on profitability, well UP is not the most profitable state in the country, it is also not the least profitable state in the country to be honest with you. So I would say it is a kind of median state in terms of profitability even in the upper half in terms of profitability.

Ashit Desai: Okay and secondly if I remember for Bihar as per the Court order they were supposed to reimburse you guys for the inventory and other receivables. So what is exactly is this provision for?

Sanjeev Churiwala: So I think as I called out there are two things we are talking about. Absolutely we have called out in the notes it is about Rs. 85 odd crores of receivables from the Bihar Corporation for which we have a very favorable interim order from the court. The matter is currently under litigations and we are waiting the outcome of the case.

So that thing aside, since we know that there is a ban in Bihar and we are not able to sell our products in Bihar, we had to really provide for certain raw materials, packing materials and inventory reprocessing which is we think is agnostic to Court case as we discussing those. So they are two separate matters.

Ashit Desai: And have the exports from Bihar started now?

Sanjeev Churiwala: We are awaiting the High Court order and then we will take a call in totality. But we have not started exports as yet.

Anand Kripalu: No and maybe we would not even plan to export from Bihar, that is one thing that we will just look at. But I think the perils of exporting alcohol through a dry state right having your trucks moving in a dry state, having your raw materials like x units of alcohol coming in in a dry state I am personally not comfortable with that kind of arrangement. By and large other states are self-sufficient and there is no capacity related issue which requires us to use the capacity in Bihar. So our long term intent longer term actually medium term intent is actually exit the state of Bihar from all manufacturing and related activities. Only the existing stock that is there right if we have to reprocess we will do whatever we need to do, we will do and export it out but that will be kind of a onetime activity only but not on a sustained basis.

Ashit Desai: Okay and could you give the comparable Diageo brand sales for last quarter and last year as per IndAS?

Anand Kripalu: So I will just say this that so we are not getting into brand wise growth numbers. The growth numbers of the Diageo brands are obviously very strong in the quarter. However the base in the previous year same quarter is a very, very soft base. Because that is when so we started the migration of the Diageo brands on starting 1 April 2015. So as we started the migration, therefore April-June quarter 2015 is a soft base. So the numbers look very good but I would not just go by those numbers because those numbers are not sustainable.

Ashit Desai: Sir, I am actually asking only the difference in sales as per IndAS for Diageo? So you did Rs. 42 crores of sales in first quarter last year and for the full year I think it was Rs. 676 crores. So these were as per IGAAP?

Anand Kripalu: Yes I think what I said in the opening is that I told you how much we have done right and honestly we are just sticking to IndAS now because that is the way of accounting. And I shared with you the fact that we have done Rs. 163 crores of net sales, which I have already shared.

The other thing is that our shareholder's agreement is based on doing Rs. 700 crores annualized on the Diageo brand and we believe we are on track for that.

Moderator: Thank you. The next question is from the line of Rounak from Catamaran Capital. Please go ahead.

Rounak Agarwal: I have a question on the Popular brand's portfolio. It would be of great help if you can explain what does it mean operationally and tangibly to selectively pull out of the portfolio? Does it mean lesser AMP support what does it mean in terms of physical infra of factories, sales incentives, retailer's sales and corresponding margins?

Anand Kripalu: I will answer this question in a bit more philosophically. So we are not pulling out our Popular business from anywhere, okay. We might however create different business models to service our Popular business depending on the nature of the state okay. And we have already done that in some states.

Right and that is something that we will continue to evaluate on whether there are more efficient business models to run our Popular business. So as far as the factory is concerned or anyone else is concerned, there is actually no change. If you find the different business model then that factory will go with that business model right, as it is done in other states. So now what we are doing is coming back to your point about AMP and so on and what it means is so we are investing AMP behind our Popular business very selectively.

Select brands in select states so we are not spending money on our total Popular business nationally and any percentage of that total business right. In fact in most of the states were not putting money behind AMP, right we are only putting it behind the choices that we have made. And therefore I think conversely when you look at our total AMP percentage on the total P&L, I think you have to recognize that the lion share of the total AMP is going behind Prestige and above, and therefore Prestige and above is getting very, very healthy support levels right because Popular is just very choice full.

Rounak Agarwal: Right, sir on the same point in the interim is there a way to compensate retailers for loss to volumes or is that business as usual?

Anand Kripalu: Retailers do not lose volume right. Finally, consumers are not running away. So retail volumes will stick. How you deliver those volumes to the retailers which means what is your route to market, what is your business model, is the only thing that changes. So if today one person is selling the whole portfolio, tomorrow it is going to be two people selling the whole portfolio, and just so that you know in Karnataka for instance we actually have two sales forces.

We have one sales force that sells our Popular business and Popular volumes alone another sales force that sells Prestige and above. But both the guys sell to the same retailers finally who services all kinds of consumers. So I do not think it really impacts retail, retail profitability and so on. It might actually enhance the service because they will have more number of people servicing their store.

Moderator: Thank you. The next question is from the line of Chirag Lodaya from Valuequest. Please go ahead.

Chirag Lodaya: Can you just quantify what were the volumes and value sales for Bihar in FY16?

Anand Kripalu: I mean you know I do not have the exact volumes, but all I can say is that so last year it was about a Rs. 100 crores or so of revenue right from the state of Bihar. So it is about a percent plus of our total revenue. Last quarter however because we had a full quarter in the previous year it impacted the quarter alone by 3%. This quarter as we have already indicated but on an annual basis it is about just over 1% of our total business in terms of revenue and probably something similar in terms of profit right, that is what it is. So we believe while it is an important state in terms of its contribution it is not that material to our total business.

Chirag Lodaya: Okay and lastly on volume for Diageo numbers, Diageo?

Anand Kripalu: I have given you the revenue.

Chirag Lodaya: Volume?

Anand Kripalu: I am not sure like I said I am not sure why your interest is because we are now saying that is one business one portfolio one company it is organic now, it is in the base, so I do not want to actually even encourage beyond this looking at Diageo and the rest because it is one company now. So I have already given a flavor of luxury premium Popular and Prestige and many of them have brands from both USL India join them. But it does not matter. Now I think you know it is the total company and we are fighting a battle as one team with one portfolio. So yes.

Chirag Lodaya: Sir, just wanted to understand from the fact that realization per case in Prestige and above for USL and Diageo brands there is a huge difference. So that is where I am coming from?

Anand Kripalu: And that is true and it will stay that way for the foreseeable future because it is recognized that in Prestige and above the lower end of Prestige and above which are brands like McDowell's Number 1, Royal Challenge and so on are all USL brands and the upper end starting from scotches, Smirnoff scotches, Johnnie Walker are all Diageo brands. So it is going to be that way. But that is how it is, and it is not going to happen that USL brand will have to say marginal of Johnnie Walker. So I am saying that is fine, that is the way the portfolio is. Now as long as each brand grows faster than the brand that is positioned slightly lower, we are going to premiumize our portfolio and that is what we are trying to do.

Chirag Lodaya: Okay and lastly just to clarify you said overall shareholder agreement for Diageo sales is for Rs. 700 crores, that means FY17 you will be doing Rs. 700 crores sales for Diageo brands?

Anand Kripalu: No, that is the basis of shareholder approval and that is a public document where we said Rs. 700 crores with Rs. 70 crores EBITDA is really what we ask for shareholders to approve, they have approved that. And I am saying they are in the zone of delivering what we committed to shareholders both on top and bottom line.

Chirag Lodaya: Okay and is there any seasonality in Diageo portfolio if I see Q4, Q3 your run rate was around Rs. 230 crores, Rs. 240 odd crores and in Q1 it was just Rs. 163 crores. So is there any seasonality to it?

Anand Kripalu: Of course there is seasonality. So the winter quarters right are much bigger than the summer quarters. Winter quarters because of the climate and the winter quarters because of gifting right and the festive season. So absolutely yes of course.

Moderator: Thank you. The next question is from the line of Rajasa K from Franklin Templeton. Please go ahead.

Rajasa K: My question is more a bookkeeping sort of a question. For FY16 if I look at the indices revenues it is now about Rs. 834 crores. I just want to understand what is the split between Popular and Prestige would be under this kind of an accounting treatment?

Sanjeev Churiwala: So I think if I understand you are trying to really understand what is the changes happening between IndAS and IGAAP, right?

Rajasa K: Yes, now that the TMU classification has changed how would that impact the Popular and Prestige revenue numbers?

Sanjeev Churiwala: So poorly from the perspective of financials it is not really impact. It is just about the changes in line items how will it impact. So again there is complete detail comprehensive line item wise conciliation which is there as part of the appendix to the returns that we have announced. I will draw your attention to Page #6 which will give you how that TMU brought up impact and how other changes in terms of accounting policies required as per the IndAS will impact. But that is what it is.

Rajasa K: Yes sir, I understand that. Just that last year in the annual report you have mentioned Prestige and above revenues of about Rs. 4,600 crores, does that change under IndAS?

Sanjeev Churiwala: It should not likely but what I will request you to drop us a mail separately we can have a look at your specific question and we will try and attempt an answer to that. You can reach out to Richard.

Anand Kripalu: I just want to say that it is now three minutes to 1:00 so probably we will take one more question before we close.

Moderator: Thank you. We will move to our last question which is from the line of Harit Kapoor from IDFC Securities. Please go ahead.

Harit Kapoor: My first question is on your notes to accounts you have mentioned that you have reached certain settlements with four parties in the June quarter regarding the initial enquiry that you had. So just wanted to understand within these settlements are there any recoveries in terms of sums that we have got or these are just clearing the fact that you are okay with what has happened in terms of the financial part. So just wanted to understand that?

Sanjeev Churiwala: So you are absolutely right. If you remember as part of our initial enquiry report we had provided at last sum of amount in the year F15 and F16. We had that time said with some of the parties we would like to close down by a written settlement agreement with them and try and see whatever recoveries we can do we should do. In the process we have been able to do settlement with certain parties which has resulted in to absolutely settlement and write back in our books. So we have been able to settle positively with certain parties. But as you see since the amount was already provided for the idea was to basically close down through a proper agreement and this is just a follow up of the previous settlement that with the parties.

Harit Kapoor: So for the June quarter there is no write back in terms of no sums have been received from these parties, right? These are just formal settlements?

Sanjeev Churiwala: These are formal settlement there is no cash flowing in material amount which needs to be reflected separately.

Harit Kapoor: And my last question is really on the TMU adjustment. So is it safe to assume that the tie up income that we were generating every year now will not be there and it largely flows through from sales and gross profits into EBITDA. So EBITDA changes will not be obviously at the EBITDA level it will not change but the income from tie up agreements which was about Rs. 420 crores in FY16 will now flow through from topline and gross profit etcetera?

Anand Kripalu: Absolutely that is exactly what is happening. There will be no impact of the profit you are right.

Harit Kapoor: And also this tie up agreement income which is basically your EBITDA would be zero but it will flow in from your topline, right?

Anand Kripalu: Yes, absolutely.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question. I would now like to hand the floor over to Mr. Anand Kripalu for closing comments.

Anand Kripalu: Well, I want to just thank each one of you for taking the time to join us on this investor call. I hope we were able to answer most of the queries that you had to your satisfaction. So this is part of our rhythm of continuing to engage with you. We did a series of investor meets where we committed two days of time very recently and this is the rhythm that we have put for quarterly calls. Of course if you have further queries which we could not answer today because of the time constraint please do write to Richard Coogler and we will try and get back to you as best as we can. Thank you everybody.

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.