# "United Spirits Limited Q4 and Full Year 2016 Earnings Conference Call"

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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the United Spirits Limited Q4 and Full Year 2016 Earnings Conference Call. As a reminder, all participant line will be in the listen-only mode. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anand Kripalu – CEO-United Spirits. Thank you and over to you, sir.

**Anand Kripalu:** Thank you and a very warm welcome everyone, and thank you for joining this call. At the outset, I must apologize the for the slightly delayed start. We were all here waiting to kick off but we had a technology problem with the phone line, and that's why this delay, so my apologies for that.

Now, before we open the line for Q&A, I just wanted to give a perspective about our overall performance. But before I do that, I just wanted to remind you very quickly about the five-point strategy that we are perusing in the business and how our full year result in many ways reflects the progress that we are making against that strategy. So the five points of our strategy are: 1) To invest in our power brands and innovation; 2) to transfer our route to consumer which is our sales operation, to build perfect stores and create demand and drive offtake; 3) to pull out costs, which pretty much challenge every single cost in the P&L and reduce cost so that we can reinvest both in our brands and in our sales operations; 4) to take a leadership position on corporate citizenship and do business the right way so that we transform the reputation of USL and the industry over time, and; 5) to create an organization which has the capabilities that we need, but also to keep the organization as effective and as efficient as we can.

So these are really the five bullet points of our strategy. And now if I look at our full year performance, and I do want to say that we manage this business on a full year basis to drive long-term value creation and we do not necessarily manage the business on a quarter-on-quarter basis. So if you look at our full year performance, as you would have seen in the results already, we have delivered what we believe is a reasonably robust top-line growth of 13% and improved EBITDA margin by 360 basis points to 9.7% versus the previous year. As part of our premiumization strategy, and as you know, our significant efforts in investments is in the prestige in above segments, we have reported a growth of 26% for the year.

During the course of the year, the full integration of the Diageo brand portfolio has happened and we have delivered net sales of Rs.676 crores on the Diageo portfolio at an EBITDA margin that is in line with what we committed when we went for shareholder approval. Now with the Diageo brand portfolio now fully embedded in our business, we believe that we have really created a one team with one vision kind of concept, a very strong portfolio that is comprehensive both from the absolute top of the market to the bottom of the market across IMFL as well as imported spirits.

If you exclude the impact of the Diageo brand, the USL portfolio alone grew by 5% for the year with Prestige and Above growing at 8% for the full year. Now as far as the Popular segment is concerned, we have, which we have shared before in the past, a selective participation strategy, our strategy was about going for states where we believe there is an opportunity to create value. And relatively let go volume that do not enhance margins and do not deliver profits. So our net sales of Popular overall have grown by 2% for the year, despite the volume being down, which in many ways is reflective of our strategy. But I think what is really important is that the priority states, states where we believe we wish to invest and grow, we have actually grown double-digit and grown share.

Now we achieved these results despite specific headwinds that we faced during the course of the year. For pretty much nine months of last fiscal we did almost no sales in the state of Uttarakhand and we had very subdued sales in the state of Chhattisgarh. And as you would recall, we also had a temporary pricing setback in the state of Karnataka, particularly on our Hayward's brand. What I am really pleased about though, is the fact that all these three factors are now well behind us and we are doing good business in state of Uttarakhand, Chhattisgarh and the Hayward's brand is on a full road to recovery.

At an overall gross margin level, we have delivered a 90 basis points improvement in gross margin versus the prior year. The Diageo brand positively impacted our gross margin by about 1% which means that the overall USL portfolio was pretty much flat. Now on the USL portfolio, our focus on productivity which is driving cost savings, reengineering our brands and so on and looking at every aspect of input cost has helped us to mitigate the cost inflation that we experienced, despite the fact that we got pretty much no pricing last year, so we have delivered a kind of flat gross margin in a market where there was inflation which we effectively mitigated through internal cost saving initiatives. Also, we enhanced our investments behind strategic drivers of growth. One key renovation agenda that we pursued was that of Royal Challenge where we significantly invested both in the packaging and the product and sales are up during the course of the year by about 50%.

Now what is important is, while we did not receive pricing last year, we believe that that problem also is not, I would not say fully behind us, but as we look ahead into the next fiscal, we have already received pricing in the state of Karnataka which will be effective 1st of July and Karnataka is about a quarter of our total volumes. We have a couple of other states where we expect to get pricing over the next month or so, so we believe that the drought on pricing is behind us, we still have not got fully what we want but we believe we are making progress in that area as well.

Also importantly as part of our strategy to strengthen our brands, we have continued to invest behind our brands and our investment behind the USL portfolio is up 10% versus the prior year. So overall marketing investment is up 39% versus the prior year which includes the Diageo portfolio investment. Our focus in the root to consumer strategy continues to step change the frontline so that we deliver demand creation and build the image of our brands in store. Almost of 20% of all alco bev outlets today are what we call perfect stores for our business.

Despite our investments behind new capabilities, we have also managed the staff costs where staff costs have increased only mid-single-digit for the year. And just to recap, we have enhanced capabilities by creating innovation, customer marketing, compliance and also invested capability in many of the other functions. We have also upped the caliber of talent that we are hiring, and obviously as you know, good talent also costs more. But within all this we have continued to create a fit for purpose organization with the right kinds of capabilities and processes where we have reduced layers and improved spans to make the organization more efficient. Now as we continue to change the overall business model, we do continue to have a level of one-offs that have come through the business. And therefore as a result of the above of all these things, we have delivered an EBITDA enhancement of 360 basis points versus the last year.

So that is really the full year picture, and I just want to underscore again at the cost of reputation, I will touch now on the quarter, but quarter is a quarter, it is not a year and our business is being driven for a year and for beyond so that we deliver the right kind of long-term value creation. So what has really happened in the quarter? Well, the headlines result again show a strong +12% overall net sales growth for the quarter which is pretty much in line with really the full year numbers, with the key Prestige and Above segments growing by 29% and Popular growing by 1% in the quarter. The Diageo brands added Rs.188 crores in the quarter and on an annualized basis this meets the commitment to shareholders of about Rs.700 crores that we committed.

The growth outside of Diageo was at 3% for the quarter with the PNA part of the business growing by 7%. The growth rates in the quarter are marginally below the previous nine months run rate, because we paired back some stocks after the end of December quarter as we close the year and while focusing more on depletion rather than on selling in. I think it is also important to understand that traditionally the fourth quarter for our business is a stronger popular quarter because you have an enhanced salience of rum during the winter months, and we have seen this year as well as in the past. And in fact the salience of Popular increases by about 3% points versus the previous nine months' period and that also has an impact on gross margins because of the profile of the business changing in that quarter.

Now while the overall commodity environment has remained fairly benign, we have seen some hardening of ENA costs over the last two quarters and we have also made a few investments to drive quality improving the percentage of grain spirit that we use, particularly in brands that are Prestige and Above, which now pretty much are 100% grain spirits. So all our Prestige and Above brands are 100% grain spirit. And importantly, with the relaunch of No. 1, we have also reduced the amount of bottle recycling, so more virgin bottles go out in the market and we have improved the quality of our labels where you use presser sensitive labels rather than gum labels. So we continue to invest in quality to make sure that our brands remain aspirational and command the right price from consumers. So because of the slightly higher ENA cost in the last two quarters and some of these investments that we have made, that has also impacted gross margins by about 1% versus the previous nine months' average.

Importantly in the quarter, we also stepped up our investments, particularly marketing investments behind our brands and particularly the brands which have been renovated. And that there is about 2% points step up in investment levels versus the prior period average. We will finish the year at what we believe is a strong combined reinvestment rate of 10.6% to net sales of marketing spend of 10.6% to net sales which compares with 8.6% in the previous year, if you remove the related party charges.

So as mentioned before, given the change agenda we are driving in the business, we will continue to see a level of one-off charges in the business, although I must hasten to act that these are now becoming increasingly small and sharply lower than anything that we had incurred in the past. The impact of the one-off items in the quarter have also impacted EBITDA by about 2%. Now related to the previous quarters, we have also had some classification changes, which have of course not impacted PBT at all but they are related to the previous quarter, so these changes have also impacted the reported EBITDA in this quarter by about 2% points.

So that is really the story, and as you can see we believe that the underlying performance in the quarter remains strong, the underlying performance in the year remains strong and when I look at the progress we have made across each of our five strategic priorities, I did not speak much about strategic priority before which is to do with our reputation, but one of the things we have really held the line on is about doing the business right way in this industry. So when I look at all of that and the progress we have made, the kind of investments that we are making, the turnaround of brands that have gone through renovation, I feel that this business is making progress and I think that we are well setup as we are now into the next fiscal.

So with that I am going to open the lines for Q&A. I have with me Sanjeev Churiwala, our CFO and he will share the stage with me to respond to the queries that you may have.

**Moderator:** Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Avneesh Roy of Edelweiss. Please go ahead.

**Avneesh Roy:** Sir, my first question is on the gross margins, I agree base quarter we should not compare because of one-offs, but sir if I see the last fourth quarters, every quarter there is a sequential dip, so you started first quarter with 4.9% and now we are ending to 30 bps lower and every quarter is lower than the previous quarter. And then when I see the premiumization, it is pretty strong and then when I see the Popular, this quarter it is a 10% volume decline versus 7% for the full year. So could you tell us what is happening here, where are the gross margins really going?

**Anand Kripalu:** So the first thing is, and Sanjev will share some of the responses, so the first thing that you might see is that the gross margin is actually higher than the second quarter of the previous year in each of the fourth quarters, alright. And I think it is important that you do not look at this business only sequentially but you also look at it versus the prior period because there is seasonality and that seasonality effects the mix and that obviously has an impact on gross margins. So when I look at the overall progress, we have gained 90 basis points on gross margin, and like I said earlier, the gain is despite the fact that we have had pretty much no pricing coming through in FY16. And each quarter is better than the gross margin of the previous year second quarter.

**Sanjeev Churiwala:** So even if you look at the current quarter quarter-on-quarter on which, though is not an area of our emphasis because we look on a year-to-year basis that the gross margins are still higher by 24 basis points. And while we had an inflation trend but largely the inflation has been set up through lot of productivity gains that we have been doing, a lot of areas where Anand has already reviewed it. And in spite of that we have been investing for better quality which will be including changing better caps, in some of the markets we have moved to glass from tetra, in many markets we have moved to new bottles in place of the market bottles, we have moved to changing to the graininess. All this putting together and despite of the fact that there has been no pricing increase we, have been able to deliver a better margin quarter-on-quarter as well as on year-on-year.

**Avneesh Roy:** Sir, one or two follow-ups here, so Karnataka is one-fourth of your volumes and there is price hike has happened, so are you expecting a much better gross margin now for the full year and will it start getting reflected from first quarter? And seasonality, Q3 is it the best quarter?

**Anand Kripalu:** So I am not going to get into giving you an outlook for next year Abneesh, but what I will tell you is that, yes, Karnataka we have got the price increase, the price increase is effective 1st of July.

**Avneesh Roy:** How much is it, sir?

**Anand Kripalu:** I am going to take this question away Abneesh, I just need to check what is in the public domain on pricing, because pricing is a sensitive matter, we do not discuss pricing with competition, this pricing has not yet gone into market so I am not sure whether we are liberty to be able to talk about at this point in time. But suffice to say that we have got pricing approval on a quarter of our volumes and I am not going to tell you whether gross margin will approve or not, but obviously that is what our quest is going to be.

**Avneesh Roy:** So you expect much better gross margins in FY17?

**Anand Kripalu:** You are asking the same question again Abneesh.

**Avneesh Roy:** Sir, my second and last question is, on the premiumization strategy, one thing is clear that Royal Challenger has picked up further, so this quarter is more like a 65% - 70% growth and McDowell's, can it incur further because this is just the first quarter? That was one part. And second is, one observation, in the premium portfolio Diageo seems to be doing much better in terms of growth versus your United Spirits own brands, and so if you could give us a breakup of the ad spend, you spoke on that a bit but if you could elaborate that further, that ad spend how much is gone into the core business of USL and Diageo, what is the breakup and growth wise also are you happy with this growth which has come for the United Spirits own brands?

**Anand Kripalu:** So first and foremost, it is not only Royal Challenge that is flying, Royal Challengers is also flying right now and hope all of you are going to wish us well for the game on Sunday. Now McDowell's No. 1 is a much larger brand than Royal Challenge, McDowell's No. 1, the nature of change, it is the brand that is already doing well and the nature of change in terms of the re-launch is not as radical as what we did in Royal Challenge. So Royal Challenge, we have obviously seen growth of 50% and so on, I am happy to report that that kind of growth is sustaining and I am very pleased about that. I do not think we expect McDowell's No. 1 to grow at 50%, but what is good is that McDowell's No. 1 is gaining momentum in volume and growing share. So I feel good about the fact that the renovation has been well accepted by the consumers. Now the second question was on…

**Avneesh Roy:** The Diageo premium brands and USL's own premium brands, in terms of A&P spends and growth, if you could give us more clarity. And it seems sir that USL's own premium brands are growing much slower, so are you happy with that kind of growth?

**Anand Kripalu:** No, so that is incorrect. If you look at all those brands, Black Dog which is really the largest whiskey, scotch whiskey brand in our portfolio, is actually growing the fastest, I think it is growing +20%. So that is not true, it is not just that Diageo is growing and USL's premium portfolio is not growing. The brand we had in our premium portfolio was Black Dog and that is clearly growing both revenue and share very strongly, and I think that is the important piece of information.

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

**Latika Chopra:** My first question was on your volume growth expectation panning out over the next year or so considering the demand conditions, the brand relaunches that you have done and the positive impact likely and the Bihar state prohibition. Also, we noticed that in FY16 we just exclude the Diageo brand, the Prestige and Above volume growth would have been close to about 6% odd, so how meaningfully that can step up given the recent branded launches?

**Anand Kripalu:** So first and foremost, the Prestige and Above, without Diageo we have already shared in the documents and it is 8% full year and 7% for the quarter if I remember right, it is already there I think in the press release. So that is what those numbers are. Now how do I see the opportunity to step up Prestige and Above which includes both the USL part as well as the Diageo part. So I feel that in the large of FY16 we only had one brand relaunch which was Royal Challenge. As we get into the new fiscal, McDowell's No.1 has been fully relaunched and we have started the rollout of Signature. So three out of our four core Prestige brands would have been relaunched and with a track record and the market response we have for our relaunches, I am quite hopeful that this momentum of 7% - 8% will grow faster and definitely get into the double-digit kind of terrain. The other important factor is that we lost business this year, like I have already spoken about in certain states which have now turned around, and those are going to add to our growth rate. As far as Bihar specifically is concerned Latika, Bihar is sub-2% of our business, and Bihar because of taxation that happened about a year ago, the Prestige and Above segment in Bihar completely collapsed and in fiscal 2016 Bihar became predominantly a Popular market. So Bihar going away is not going to really hurt our Prestige and Above growth plans that we really have.

**Latika Chopra:** And secondly on the balance sheet if you could share what was the reason for other current liabilities moving up and also what is your CAPEX plan for FY17?

**Sanjeev Churiwala**: So if you see in the balance sheet, one of the reasons for the current liability to move up is basically for the March quarter normally the Indian industry would pay up lot of advance taxes, a sizable amount of money has been blocked in the current liability as of 31st of March which have got reversed in the subsequent period. In terms of the CAPEX plan, normally as what we have declared earlier, we intend to have CAPEXs of roughly about Rs.400 crores to Rs.500 crores per annum.

**Latika Chopra:** But you have spent less in FY16, so is there a chance that there could be a downside to this particular target or this is very much planned right now?

**Anand Kripalu:** So we are going as per plan that we have, it is just the cash flow interim movement from one quarter to the other quarter, but on an annualized basis we will still stick to our plan of about Rs.400 crores to Rs.500 crores of CAPEX for FY17.

**Moderator:** Thank you. Our next question is from the line of Jhanvi Shah of Reliance Mutual Fund. Please go ahead.

**Jhanvi Shah:** Sir I have a question, when we have these relaunches, do we relaunch them at different price points, as in higher than the previous ones or a little bit lower than what used to be there before?

**Anand Kripalu:** Well, it is a question about strategic pricing, not so much linked to relaunch alone, it is about what is the right strategic pricing to create the maximum value for that brand, and given the nature of India's market, that strategic pricing strategy and approach maybe a little different in different states. Also, based on the excise slabs that happen in different states, that in some ways also influences your decision, because if you want to take a certain price but you are jumping a slab, then the consumer price may jump tenfold for your pricing to go up just by a couple of percent, consumer prices would go up by 10% even if your net pricing goes up by just a couple of percent. So I think it is a state by state decision. Now in a state where we believe we have a strong position and so on and so forth, we might hold on to a very strong price position, in a state where we are relatively smaller and we believe that there is a huge opportunity to gain share, we might take a more penetrative pricing strategy. So I think it is about horses for courses really.

**Jhanvi Shah:** Why I am asking is because of the favorable mix impact, if your pricing is not going to materially change from what we had before or probably is going to be a little lower than what we had before, even despite the relaunches?

**Anand Kripalu:** Well, so the first is that for us our certainly PNA portfolio is growing much faster than the popular and the higher parts of PNA are growing strongly. So we are getting mix improvement and that is how we get an overall value kicker. Now at a brand level, when we are relaunching a brand, we do not always go back and apply for, because to get a price increase on existing brand it means you have almost got to list it as a new brand in the state versus just continuing it as an old brand. Now that is a far more complicated process and I think the pitfalls of that are far more. So the way you have to do this is you have to put the new brand in and then work on a fact based approach with the excise authorities for a price increase in the next cycle. So that is the way practically this works on the ground.

**Jhanvi Shah:** Sir another question, you have mentioned in the press release that Royal Challenge has seen a volume growth of 61% but this net sales growth is lower at 50%, similar thing with Antiquity where the volume growth is up 18% but your net sales is up by 10%. So is your pricing lower in these two brands?

**Anand Kripalu:** Again, this comes back to the state brand mix right at the end of the day. Now what is happening is, if a state where net revenue per state is a little lower growth much faster and that has actually happened in the case of Royal Challenge, then you are going to have the MSP growth lagging the volume growth by an extent because of that mix impact. So some of our brands you will see value is ahead of volume, some of the brands value is behind the volumes and it is really about the state brand mix. But as far as Royal Challenge is concerned, volume growth of 60%, MSP growth of 50%, I am not particularly worried or disappointed.

**Jhanvi Shah:** And how are we presently positioned in terms of state mix, I mean are we relatively better than what we were before considering the way, it is because some of the other states which were not net profitable for us and certainly are not there in our portfolio now, and the states where you have probably a better hang on pricing are a lot more in terms of volumes.

**Anand Kripalu:** We have taken a conscious call with Popular segment, but as far as the Prestige and Above segment is concerned, I mean we are driving it consistently everywhere based on the opportunity that the state presents and what our share of that segment is. So I think all states are important as far as Prestige and Above is concerned, relative emphasis are on basically the opportunity for growth so, if you believe that our relative step position is lower we might invest more right we call it headroom, so we might invest more so that we can grow faster in that state pulling a lot more volume well we already have a strong share then we might be quite happy to grow over the market and grow share nominally versus grow share discontinuously in a state where our share is lower.

**Moderator:** Our next question is from the line of Vivek Maheshwari of CLSA. Please go ahead.

**Vivek Maheshwari:** My first question is this morning you have come out with a clarification on fourth quarter results can you explain the first two parts what exactly those accounting re-classification and one-off provisions are?

**Sanjeev Churiwala:** Yes, Vivek, hi Sanjeev here. So I think the first two items; the first item is basically related to an accounting reclassification and this pertains to a certain accounting treatment that we have taken in the first nine months wherein there was a write-back which was reflected in the other expenses which in the fourth quarter has been currently re-classified as an exceptional item. So as a result of which the income which was sitting above the EBITDA has move down to below EBITDA impacting the EBITDA for the fourth quarter by 1.6% points so that was item number one.

**Vivek Maheshwari:** Can you tell me what exactly this item was?

**Sanjeev Churiwala:** This is pertaining to certain write-backs with respect to certain parties which we have negotiated. So normally when you negotiate and settle some amount you need to write-back the provisions or you can pack cash that reflects in your books as an income. In the previous quarter this was reflected as a credit in the other expenses. So to that extent the other expenses were slowing lower which is now being corrected in the fourth quarter and has come down from the top-line to exceptional item. And as a result of fourth quarter there have a **true 34.00** up for that amount as the result of which though there is no impact on the PBT but EBITDA per say is looking lower.

**Vivek Maheshwari:** So this is impacting basically other expenses line item, right?

**Sanjeev Churiwala:** Absolutely.

**Vivek Maheshwari:** In fourth quarter?

**Sanjeev Churiwala:** Absolutely.

**Vivek Maheshwari:** Okay.

**Sanjeev Churiwala:** And the second item is that there is one off provisions which is impacting the fourth quarter EBITDA again by 2.2% points. So we have been galling with various parties coming out of the previous transaction, legacy issues, where we have been able to recover some money and we have to finally settle off some money as a result of which there is final impact of 2.2 basis points which is reflected in the one-off items.

**Vivek Maheshwari:** Can I know what exactly is this and which line item again this is impacting?

**Sanjeev Churiwala:** So, if you see the details of that largely it is affected in the other overheads items.

**Vivek Maheshwari:** Okay, so other expenses, so basically both one and two impact other expenses.

**Sanjeev Churiwala:** Largely, yes.

**Vivek Maheshwari:** Understood. And as much as you know may be crystal gaze do you think all these write-offs are now behind in FY'16 and FY'17 should be on a cleaner slate?

**Sanjeev Churiwala:** So, this is a journey that we are going through Vivek. If you see FY'16 and if you really see quarter four the exceptional item is just very-very immaterial amount to Rs. 21 crores versus a very high amount of Rs. 1,755 crores that we had for the corresponding previous quarter. So definitely we have moved a lot in the journey, is the journey still over we do not know but I think a part of cleanup has happened.

**Vivek Maheshwari:** I have one more question for Mr. Kripalu, sir you have done a commendable job in premiumization, growing premium portfolio everything is fine, but the bottom-line of this is still 100 basis points or 90 basis points gross margin expansion that to only Diageo the rest of the USL portfolio you alluded to the fact that it is almost flat on gross margins. So are you trying to say that if these steps were not taken the gross margins for this company would have contracted in the context that ENA, glass bottle prices were just flat or whatever actually hardly moved I mean philosophically I just do not understand your strategies when you articulate versus the number there is a big gap and I do not know why those numbers are not translating why are we not seeing benefit of premiumization on gross margins and operating margins in a big manner?

**Anand Kripalu:** I mean there is a benefit of premiumization. But the reality is that we are also in inflationary environment and all cost go up every year so we have done a lot to mitigate cost so that despite no pricing, well if you ask me personally and one must understand this a little deeply and I am going to pause for a minute on this and spend a minute of time. So historically, pricing has always come in this industry but we have driven very hard the way the working about doing business the right way in this industry. And one of the impacts of that, has been a loss of volumes in certain market which I spoken about the other impact the fact that pricing is disappear and for almost two years the industry has not gone pricing. And as I said as we look into fiscal 2017, the pricing has started and we will see it happening. So the reality is we went through these two years with pretty much no pricing and I actually feel that given the investments we have made on quality, improving our offer to consumers seen the kind of growth we are getting because of significantly enhanced presentation in terms of packaging and liquid to consumers, I actually feel good about the fact that we have made progress. And as pricing starts coming in and we continue the focus on cost and optimization, right we have got to believe that margins are going to improve but we have gone through the two most tricky years of the transliteration of not just yourself but of the industry and how business is being done and I think it is just important that you reflect on that, you know when you look at your numbers.

**Moderator:** Our next question is from the line of Nillai Shah of Morgan Stanley. Please go ahead.

**Nillai Shah:** Sir, three questions from me – the first one is on the Karnataka pricing. I thought Karnataka was a state where you could take pricing after taking permissions from the state government on the 1st of every month, was I thinking wrong? Because two quarters back you alluded to the fact that you have taken pricing up in Karnataka but competition did not follow and you were forced to take down pricing again?

**Anand Kripalu:** Yes, why did not tell me your questions quickly and I will joint all of them together.

**Nillai Shah:** The second one is on the margins, after this current quarter and what you have seen of gross margins and EBITDA margins where do you stand on your long-term or medium-term guidance for mid-teens EBITDA margins. And the third one is for Sanjeev, the fixed assets for consol and standalone are still very different despite the divestment of the subsidiaries so, what is the gap out there?

**Anand Kripalu:** Okay, first, Karnataka pricing. Karnataka technically has free pricing, right so as per policy it is free pricing but noting is really free right, you still need to get an approval done if you want to take it. Now the Haywards issue where we took a decision to take up price. With an expectation that others would follow so that did not happen and we had to there retract and go back and we lost business for three months - four months and material amount of business of three months - four months which we have talked about earlier. Now what has happened this time is and we think about pricing is you can always take pricing it is free pricing but you have to jump slab. And when you jump slab a net revenue improvement of 1% or 2% could reflect in the consumer price increase of (+10%). So that is what happens so there is a huge penalty to taking the price up because you jumped the slab and therefore, you much high excise rate, okay. Now has happened this time in terms of pricing is that the slab is moved by a certain percentage, right.

**Nillai Shah:** By the government?

**Anand Kripalu:** Right, by the government, so which means therefore you have the flex to move pricing and that is something that has been formally announced it has been reported about and we will be take that price effective 1st of July so that is the first point.

**Nillai Shah:** And hence competition this time will likely follow suite.

**Anand Kripalu:** Well I mean time will tell I cannot comment on that.

**Nillai Shah:** But you will do irrespective of what happens to competition this time around?

**Anand Kripalu:** Well you will have to wait and see whether we take the pricing or not but you know we have we have got the pricing, I will have to think very hard about why not to take it, right. So but you will have to honestly wait and see whether we are going to take it not because again I think that is competitive information or sensitive information. The second part is about margins I think on the margins outlook I think we absolutely remain committed to mid-teens margin and the medium-term, we have made margin improvement of 90 basis points of gross margin and we have moved significantly in terms of EBITDA margin and we absolutely are committed to mid-teens margin in the medium-term and you know that is a lot of guidance and we cannot really honestly get more granular than that. And on the third point, Sanjeev, if I can hand over to you?

**Sanjeev Churiwala:** Yes, you are right I think, though we have divested a lot of other companies in the past but we still have a couple operating companies in the balance sheet. One of them is a listed company Pioneer Distilleries Limited, we have Turn, we Sovereign Distilleries as well as few other companies where we do sit to the chunk of fixed assets on the balance sheet. But of course if you are looking at an absolute number between all these companies then I have to get back to you separately.

**Nillai Shah:** Sure. And you have spoken about the divestment of some of your businesses over the long-term including the properties so, can you give some sort of guidance and the fixed assets be test to how much can be the reduction on this front over the next two years or so, and where are we in terms of the divestment of the properties?

**Anand Kripalu:** Absolutely, if you really see in terms of our overall net debt reduction, we have been very consistent over the last two years in terms of reducing our debt which has basically comes to divestment to divestment of these properties that we have been taking. Also as part of our agreement with Mr. Mallya and that we have reported in our February board in the subsequent investors call. We are looking at divesting the 13 properties we called out earlier. We would respect to fetch significant amount to the divestment of these properties anything between Rs. 500 odd crores to Rs. 700 odd crores so that is one area of debt reduction that would come though besides that we also a couple of other properties and shares which might come through provided we get thought some litigations and they are going through IDBI presently. We would stick to overall guidance that we would look forward Rs. 2,000 crores of debt reduction through divestments over the period of next two years.

**Nillai Shah:** Sir, Rs. 1,000 crores or Rs. 2,000 crores?

**Anand Kripalu:** Rs. 1,000 crores to Rs. 2,000 crores in the next two years. So, on annualized basis Yes, it could be about Rs. 1,000 odd crores.

**Moderator:** Our next question is from the line of Arnav Mitra of Credit Suisse. Please go ahead.

**Arnav Mitra:** Firstly, on the fourth quarter volume growth in Prestige Plus, I am just slightly not being able to reconcile it I mean given your two large brands McDowell's has grown 18%, Royal Challenge still grows at more than 60. How is it possible that your overall Prestige and Above has grown only at may be 6% or 7% excluding Diageo brands. Is there a decline in some of the other Prestige above brands and also if you quantify the impact of destocking what kind of impact it may have had on the quarter?

**Anand Kripalu:** What I can tell you is that McDowell's No.1 core is growing, Royal Challenge is growing, Antiquity is growing, Signature has been just a little challenged in terms of growth but then also we were going through the transition of the renovation and the renovation is just rolling out as we speak so, I think the outlook on Signature in our judgment remain strong. So that is what the numbers aggregate to in total. So you know and there are obviously some smaller brands or some variants and stuff like that as part of the transition to move from complex portfolio to a very focus portfolio some of those tail brands are obviously losing a bit of volume but overall you know I mean these are the numbers but most important thing is as you know as part of our strategy we are in the core brand strategy that is what we are perusing that is what we are investing and I see that the head in terms of the core brands is growing much faster than the tail is disappearing and that is why u are seeing overall growth in terms of the segment growth.

**Arnav Mitra:** Okay. And anything on the de-stocking what kind of impact it may have had and just on what you said right now so there are some brands even within Prestige and Above which you are kind gradually easing out from your portfolio?

**Anand Kripalu:** Yes, there were brands like variant like McDowell's Diet Mate you know there is some smaller variance like that so those are tails and in terms of making the brand stronger you want the core number to grow much more strongly and that is growing very-very strongly and some of these smaller variance by virtue of the fact that we are either removing them or letting them be accretive and decline are eroding a little bit of the overall growth number.

**Arnav Mitra:** And any impact on the de-stocking you could quantify that you said, you have done some pipeline correction?

**Anand Kripalu:** So we have done pipeline correction, we have reduced stock in the market. It is about couple of days of stock.

**Arnav Mitra:** Okay, sure. And just last question on the FCF part so, your free cash flows generation is still significantly negative even not adjusting for the CAPEX I think the cash flows is negative and there has been a big increase in receivables this year I think beginning of the year to now almost up 40% so firstly, what has driven this receivable increase and do you see a situation where before CAPEX at least you start generating cash going ahead from here?

**Anand Kripalu:** May I can attempt it, if you are looking at the receivables for the first year for FY'16 this also includes the integration the Diageo brands, which comes as part of the overall portfolio getting in there and when you look at the working capital for the entire year is gone up by Rs. 272 odd crores, this is basically a combination of the change in the market mix in terms of our sales mix to corporations to open market but none of this are overdue receivables and in line with overall portfolio which also includes the working capital coming out with Diageo portfolio as well.

**Arnav Mitra:** Sure, but given that Diageo would be may be 7%-8% of the sales this is like a 40% increase in receivable so I am assuming there would have been an increase in the non-Diageo part also which is quite substantial so anything specifically which has happened which has led to spike there?

**Anand Kripalu:** So, you are right but if you look at the overall Diageo portfolio which come into the portfolio of USL is about Rs. 200 crores in terms of the current assets which includes the capitals and receivables.

**Arnav Mitra:** Okay. And just going ahead would you expect to generate operating cash or you know the working capital cycle will there is not much of scope of changing it in the near-term.

**Anand Kripalu:** So definitely we are focusing very clearly on our working capital management going forward as well. Even as I explained in the previous question as part of increase in the current assets were attributable to advance taxes we had paid on 31st of March which is going forward is improving but we do have a very strong emphasis on managing our cash conversion so very clearly we would ensure that our working capital management including cash operations continuous to be very healthy.

**Moderator:** Our next question is from the line of Chandra Shekar of Fidelity. Please go ahead.

**Chandra Shekar:** Just to follow-up for the previous question, I still cannot understand so, as far as I know McDowell's No.1 is almost 70% of your Prestige Number 1 portfolio and if that effectively grows close to 18% for the quarter, how can you just end. This is about 23 million - 24 million cases over there and you have got 3 million cases over the and you have got 3 million cases from RC. I am just trying to understand, what has declined so much in the other portion of portfolio that you still have only 6% Prestige No. 1 volume growth, could you just sort of give us the numbers because even Antiquity seems to have grown so I am just trying to understand what has declined so much means 70% of your portfolio has grown at 18% at least for this quarter?

**Anand Kripalu:** Basically what happens is only core McDowell's No.1 has been result-launched and has been extend to a significant part of the country and that is where we are seeing significant progress but the overall McDowell's franchisee in Prestige and Above so I am not including Rum and Brandy and other stuff have grown 1.1% the overall McDowell's franchise and Prestige Whisky.

**Chandra Shekar:** Okay. And how large id the Whisky and the non-Whisky if you could just break that up?

**Anand Kripalu:** The Whisky Yes, it is about you are about 70% of our PNA portfolio. So, the overall brand has grown 1.1%. Royal Challenge has grown as we have discussed already by about 60%. I have told you already Antiquity has grown has grown strongly, Signature has marginally declined but the rest is arithmetic really.

**Chandra Shekar:** All right, I will take it offline, just another question just your own expectations and how much you would expect to spend on A&P sales in next couple of years?

**Anand Kripalu:** So you know we have spent 10.6% in A&P in fiscal 2016, I mean my belief is that it is a good level of A&P spend in our industry recognizing you know there is media dark and therefore how do you spend that kind of money. I would say that looking ahead we will certainly spend as much as we average spent in fiscal 2016 and we will try and push that up if we can you know depending on how much the P&L allows us to do.

**Moderator:** Our next question is from the line of Gautam Duggad of Motilal Oswal. Please go ahead.

**Gautam Duggad:** I have two questions; one on working capital, you just mentioned about Diageo increasing the receivable days looking at next year is there possibility of working capital coming down, are there any programs on that front because earlier you had mentioned that some working efficiencies are being worked out. And secondly on the pricing front, apart from Karnataka are there any major states where you have expectation of receiving price hikes?

**Anand Kripalu:** So Sanjeev will take the working capital question then I will do pricing.

**Sanjeev Churiwala:** Yes, I will take the working capital. As I explained, two reasons for the working capital seems to be higher one is working capital because of integration of the Diageo portfolio which actually adds about Rs. 200 odd crores in the current year and also as on 31st of March we have to pay some advance taxes across various states which again gets adjusted in subsequent period. Now going forward yes, we do have a strong intention to really manage our working capital very efficiently, we already have a cash committee and with a very clear target of cash conversions very intend to ensure that our working capital outflows are minimum. We are also looking at our inventory management very closely in terms of our slow moving inventories. For the first time, during the current year which is FY'16, we will also implement the S&AP program across India which will give us a complete visibility across our entire demand planning and supply planning with a complete visibility of stocks at the market, at the corporations and at the plans. So we strongly believe that our working capital management will definitely improve going forward.

**Gautam Duggad:** Would you like to put any number to that in terms of any target number of days or reduction in working capital?

**Sanjeev Churiwala:** We would not like to put a definite number at the moment but we believe that our working capital in terms of the number of days' cycle is quite efficient at the moment and comparable to the industry. We would like to balance it out in terms of the working capital we want to manage considering the kind of growth scenario that we want to have for the next year. Definitely we would like to optimize that.

**Gautam Duggad:** On pricing

**Anand Kripalu:** On pricing there are couple of key sales pending still. We still are hopeful of getting something from Rajasthan and possibly something from Orissa and Andhra and Telangana both our key states where discussions are on and we are hopeful of getting pricing Gautam.

**Moderator:** Thank you. Next question is from line of Avneesh Roy of Edelweiss. Please go ahead.

**Avneesh Roy:** Sir the Uttarakhand and Chhattisgarh these you said has recovered as a percentage of sales how much can we look forward to contribution from these two states?

**Anand Kripalu:** So I think both put together 1.5-2% of sales that's the kind of impact we had this year. In quarters when it was there so we should get that benefit but as I said earlier you will lose about a percent or so because of Bihar. I think net we will be gainers no question about that but the gain is going to be I think split between Bihar and what you will gain out of other two states.

**Avneesh Roy:** Second one priority states you said double digit growth you are getting so which are these priority states?

**Anand Kripalu:** Essentially the two big states for us are Karnataka and Maharashtra. Both are profitable states.

States where growth is strong and really we focus on two brands in each of those states which is Bagpiper and Director Special apart from Haywards in Karnataka in addition. And Haywards we had a problem but we are seeing the recovery and the other two brands are actually doing well.

**Avneesh Roy:** One small one, McDowell's No. 1 obviously it is just one part of the McDowell's portfolio so McDowell's No. 1 will be how large the portion of the entire portfolio?

**Anand Kripalu:** I have already answered that question, it is almost 75% in terms of volume and that's important not value of Prestige and above Whiskey of the USL part of the portfolio. So that's how large it is.

**Avneesh Roy:** Almost 20% of your total USL?

**Anand Kripalu:** May be 25% McDowell's No. 1.

**Avneesh Roy:** How do you see the raw material scenario going ahead? I am seeing crude definitely go up so does that imply glass prices and may be ENA also indirectly, you see those increasing and how much?

**Anand Kripalu:** We certainly see an increase in commodities right. I think it is going to happen everywhere. I think it will happen to us. but I think it should be may be couple of odd percent is what we see on cogs. May be somewhere between 2-4% increase in cogs.

**Moderator:** Thank you. our next question is from the line of Manish Poddar from Religare Market. Please go ahead.

**Manish Poddar:** Couple of questions, could you actually call out what is the growth in the on-premise and on-premise for FY16 and how much would be they are contributing and what is your outlook for both the segments?

**Anand Kripalu:** On-premise is a very small contributor in terms of the total business it is predominately off-premise. On-premise becomes material as you really go up the price ladder in terms of the more premium brands. In terms of specific growth on, on and off I don't have it handy right but I am not sure also that we want to share that level of granularity while we want to be very transparent and as granular as we can be that is probably is just pushing the boundary a little bit honestly.

**Manish Poddar:** So on-premise should be about mid-teens or would be lower than that?

**Anand Kripalu:** In terms of contribution?

**Manish Poddar:** Yes.

**Anand Kripalu:** We will have to get back to you. I am happy to give you a sense of the contributions. If you send an email Richard we will give you a sense of what the contribution is.

**Manish Poddar:** Just a final bit, if you look at the other income in the standalone numbers in nine month and in the annual numbers there is a stark difference, in the annual numbers it is showing about 85 crores and in the nine months it was showing about 11 odd crores so what is this difference?

**Anand Kripalu:** If you can just right into Richard, we will get back to you with the granular details on that. That we are willing to share. Well on behalf of all of us in USL I just want to thank each of you for taking the time and attending this call and also the engaging level of question that you people have really asked. I hope we have been able to give you answer at least in part was able to bring more clarity and this in line with our philosophy both the call that we are doing now and the kind of press release we had to really provide much more transparency and granularity in our results and I hope you feel that we have made a step forward in that direction. Thank you everybody. Thank you for joining us.

**Moderator:** Thank you members of the management. Ladies and Gentlemen, on behalf of United Spirits Limited that concludes this conference. Thank you for joining and you may now disconnect the lines.