



“United Spirits Limited Q4 FY-18 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the United Spirits Limited Q4 FY 18 Results Conference Call. Today we have on the call Mr. Anand Kripalu – MD & Chief Executive Officer and Mr. Sanjeev Churiwala – CFO from United Spirits Limited. As a remainder 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. Thank you and over to you sir.

Anand Kripalu: Thank you very much and hi everyone and a very warm welcome to the FY 18 Q4 and full year results call. As we have typically done in previous calls, before we open up the line for your questions, I just wanted to provide a perspective of our results that the announced late last evening. As you may have seen in the published results, the underlying net sales grew by 9% in the Q4 helped by strong growth in the Prestige and above segment where the underlying growth was 14%. This quarter was a prime illustration of the underlying strength of our business as several regulatory challenges that we faced during the year are now behind us. And as you would remember, from the last call that we did I actually expressed is that we were disappointed with the top line growth because of regulatory changes, but we were going to continue to invest behind the business because we believe that growth was around the corner and I am particularly pleased that we have delivered this kind of growth this quarter.

For the full financial year, the underlying net sales growth was subdued at 1%. This sales growth should be seen in the light of the external operating environment for the industry during the year and indeed this past fiscal I think was the mother of all years as far as our industry is concerned, we had huge external headwinds with the highway ban in Q1, the implementation of GST in Q2 and uncertainty caused by expected route to market changes in certain states in Q3. In addition to that, we also navigated route to market changes in 3 states during the course of the year and I dare say that this previous quarter Q4 was really the only relatively stable quarter where there were no big regulatory changes that begun. But it does go to show what is possible when we had relatively benign regulatory environment. Our premiumization strategy is yielding results with the Prestige and above segments growing much faster and now accounting for 2/3rd of our net sale with an underlying net sales growth of 4% for the full year.

Our fit for purpose model for the Popular segment is also progressing to plan as we have now completed franchise agreement in the majority of the states where we had planned to do so. And what I can say is that, as with the implementation of any new model we did have a hiccup in some states during the transition but by and large all that is now behind that. As a result of that, net sales of the Popular segment in priority states grew by 2% even as underlying net sales of Popular segment declined by 4% during the course of the year.

During the year we have delivered underlying gross margin improvement of 294 bps as positive mix, extensive price increases and our continued focus on productivity saving more than offset

any adverse impact of GST. The gross profit improvement has allowed us to significantly increase investment behind our brands and our marketing investment was up 18% during the course of the year. So if you look at that in the context of subdued full year top line, we have put up best foot forward and said we are going to invest in the growth of this business and of the growth of the category.

Underlying EBITDA margin of 13% remains broadly flat as the increased gross profit was partially invested back into the business. I am also pleased to report there is 29% reduction in our interest cost and that resulted in interest cost savings of Rs. 108 crores for the year. Other income for the year is Rs. 206 crores up 85% over the last year as we managed to sell some of our non-core assets. Our approved operating performance, continued focus on reducing interest costs and monetizing non-core assets, together with lower exceptional items has resulted in a PAT of Rs. 562 crores for the year an increase of 231% over the previous year. As a result, our EPS has increased to Rs. 38.7 per-share.

On the balance sheet side, we have continued to deleverage and reduce our total debts by 20% during this year, partially as a result of better working capital management. I would also like to highlight that during the year USL achieved upgrade in its long-term credit rating to AA+ by CRISIL and ICRA and made an issue of NCDs of Rs. 750 crores. This will help to further lower interest costs in the coming future. Another point worth noting is our recent decision to split the shares in the ratio of 1:5, which has been approved by the Board and is now awaiting shareholders' approval. This move will increase liquidity in the stock and improve retail investor participation due to the lower share price post this split. This stock split has historically been shown to marginally increase shareholder wealth.

Overall, despite such a challenging environment we have continued to execute against our strategic priorities and what I am particularly pleased about is the progress we have made in ensuring that pretty much all lines of our P&L and with the Q4, even our top line, are moving in the right direction. This reinforces our confidence that the work we are doing will enable us to capture the long-term opportunity in the spirit market in India on which we have absolutely no doubt. I would like to reassert our medium-term ambition to grow our top line by double-digit and improve the EBITDA margin to mid-teens to high teens.

With that, I'm going to open up the call for questions and my colleague here Sanjeev Churiwala will join me in responding to the queries that you have. Over to you, operator.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Abhinesh Roy from Edelweiss. Please go ahead.

Abhinesh Roy: Sir, thanks and congrats on good numbers. My first question is in the second half the ad spends have increased significantly. The question here is, would your share of voice, would it have increased significantly and what is the split between ATL and BTL? And in one or two states

the advertising is proposed to be banned in terms of the point of sale, what is going to be the impact from there?

Anand Kripalu:

So yes, we have consciously increased our A&P spends in the second half of the year and I want to say that we have now reached the levels of spends, that we believe are appropriate. We may prune it back a bit in the future depending on what is optimal, we are unlikely to increase it further, as a percentage of NSV and I just want to make sure that everyone understands that this is not something that is going to continue to explode at this level. This A&P number that you see does not include BTL, it is A&P which is really above the line advertising of our brands and spends that we put for brand building in store. Now we believe in following the law of the land. If ads and display and spends at the market level is not allowed, then we do it where it is allowed. So typically where it is allowed is inside the store or certainly in the bars and there are different ways of engaging the consumers without necessarily doing overt advertising at the ground level. So one thing about this category is that one has to be very dynamic and nimble footed how you spend your marketing money, digital is a great opportunity, doing in-store and in bar communication with consumers and engaging with consumers who walk in is a great opportunity. So there is no one size fits all model Abhinesh that we can do everywhere in the country as the same. It is actually tailored and crafted on a state to state basis.

But suffice to say that we are feeling good, we don't have the exact numbers handy, but I believe our share of voice has gone up with these spends because I don't think our competitors have increased the spends the same way, and they are beginning to see the fruits of the investment we have made. You all know that, advertising investment doesn't deliver in the same week or the same month or even the same quarter, but they contribute towards the long-term equity building and that will hopefully pay out with dividend in the coming quarter.

Abhinesh Roy:

Sir one or two follow-ups here, in the previous quarter concall you had said 10% will be the advertising to sales ratio while for the full year it is lower. We should take this 10% number. Going ahead right?

Anand Kripalu:

I mean the full year number is 9.6% right, Abhinesh. I mean what is a few decimal points between really here, I mean who knows right, it is not that precise a sign. I'm just telling you roughly ball park. We are now in this zone of where we would like to spend - we are not likely to increase it significantly beyond this we are not likely to reduce it significantly. Now it might hover 50 bps, 100 bps here and there on a quarter basis, as we just see what is optimum and that is something that is dynamic, and we have got to manage that, accordingly.

Abhinesh Roy:

Sir, my second and last question is on the route to market, in the previous concall you had said no change in retail sales and market share will be there and in H2 you have taken the conscious call. So now from April 1 are you seeing now business back to normal, any of the States is there some issue and will you be gaining eventually from a market share perspective longer term because of this route to market change?

Anand Kripalu: So I would say that both from a route to market perspective, for the moment we are in a stable zone and there are no major issues and it is business as usual. Having said that in this industry what I have learned is that this can change overnight, and you will never know what is the next funny that is going to come. I think another piece of very important good news is that largely speaking April is the month of the Excise cycle for most of the states in the country and I would say the Excise policies have been relatively stable. So we have not seen significant increase in excise duty translating into significant increase in consumer prices and that has continued to contribute towards a stable environment. Some states have evolved, I would say, for the better, Punjab, Haryana didn't change. I think U.P is positive generally speaking, in terms of what happened. So all in all I am feeling actually quite good about the fact that we are having a stable environment ahead of us absolutely. Again to market share gains as we look into the future we are absolutely working on making sure that we can achieve that and deliver that.

Abhinesh Roy: Sir, one follow-up, in U.P, what is the positive, could you add some color there?

Anand Kripalu: No I think it has just more of an open market situation in U. P, right? I mean no major change in the prices will come, though there has been some reduction of consumer prices post the new excise policy getting implemented. But there are many more people now involved in wholesale in U. P and therefore it is more of an open market or a free-market situation and we have got to believe that generally is good for Consumer Goods Company.

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

Avi Mehta: Hi sir, essentially, it has been almost more than a year now that we have done franchisees, you had relationship with partners. Could you share your thought on what is the next step from here on? Because you had indicated that you want to increase this share and move it into more states. Any timeline that you have in mind, by do you kind of seek to achieve that over or are you satisfied with the current state over there? And second on the margin side if you could give any sense how the molasses and the ENA prices are moving, any color on that? Those are the questions from my side.

Anand Kripalu: Yeah sure, I will answer the first part then handover to Sanjeev to answer the question on margins and commodity prices. Once franchise, we have pretty much reached where we wanted to be okay, there still a couple of small states, but I would say, a large part of our key volumes have been converted into franchise operations, where we wanted to. And I would say that with some hiccup in the past, we are today in a reasonably stable operating environment with our franchisee and we are supporting our franchisees where needed to help them grow the business and help them to grow share. So this is a strategy to remain competitive in those states with the popular business and we are going to provide those more of a support in terms of brands and quality, and so on that we need to. So I would say you should read this as we are very close to the end game of the franchise and therefore you have this thing about the difference between underlying and reported on and so on, I think these differences will start easing as we look into the future.

Sanjeev open to you for the margins question and molasses.

Avi Mehta:

Before Sanjeev, is it possible for just one clarification Anand, in that one so would you see that the regular performance, essentially, our Popular segment performance that we are seeing, that should start moving in the positive territory say in the first half, or how that is what I wanted to understand if there is no more franchising there, would that be fair?

Anand Kripalu:

Yeah, there will be no more franchise and I'm not really going to give you an outlook on specifically how Popular is going to fare, what I'm going to say is that whatever we are largely now which is with us, which is retained, we are focused on it is strategic we are going to invest both above the line and below the line and the idea is to grow that business, right? And also grow share in the business and the retaining space that is our intent and as you can see in the past, we have generally grown our business in our retained space, right? It is because of the business model change that the optics for Popular number don't necessarily look so good. So I think you should believe that we are going to invest for the future. The purpose of retaining is to grow it; the purpose of retaining is not to decline it. To grow it and that is what we are going to do so you should believe that it is going to be positive, certainly in the key priorities state.

Avi Mehta:

Okay perfect.

Anand Kripalu:

Sanjeev go for it.

Sanjeev Churiwala:

you talk about the inflation on the commodity just to add to what Anand said, because this is the question we normally get offline that saying how many states have we franchised what kind of NSV and what kind of million cases we have done there. Just for thought, now that we have franchised about 13 states, its roughly around annualized basis we are looking at about 9.6 million cases that we have franchised and it roughly about 654cr of NSV that has been franchised. And my request would be to write-down to read it separately to get a complete break up. So that next year modeling should take one off thing otherwise most of the times I have seen analyst reports not really considering this franchise movement and as a result your forecast on the top line and the margin enhancement really doesn't look at the underlying properly, so that is a request.

Now coming to the input cost inflation, that was the question, you were asking. The commodity price environment has been benign in the past year and we have really managed to mitigate inflation completely and that has been the state of affairs for the last 2 years. While generally the businesses have faced inflation of 2 to 4%, depending on the commodity that are looking at. But I think we have really worked hard across mitigations through productivity initiatives. And for the last 2 years if you see, especially the FY 17, and now FY 18 end we are able to manage 100% inflation and as such our cost per case was almost flattish and that also adding to the underlying GP margin enhancement that you see.

Very specifically on the molasses, yes, we have seen some benefit coming out to reduce molasses prices on the last quarter. But the benefits to us are very limited, given that MENA forms about 25% of our overall ENA requirement, right? And we do believe that we should see some benefit coming out of the next quarters. But however most of the commodity prices behave erratically. It is very; very difficult for us to really say in the next 3-4-5 quarters will it radically change here or there. But we have been lucky so far, the last 8-9 quarters we have kind of managed with a very low inflation base. So I think that this kind of reflect in our base as well now.

Anand Kripalu: And I might just add that while there is no direct correlation with crude hardening and you all know that the petrol and diesel prices in India. But this crude hardening globally, what the outlook is going to be on ENA and what that interplay is going to be is because of Ethanol blending so on its own is a complex piece and it is hard to predict.

Avi Mehta: Okay, sorry, just one clarification, the net sales from franchising was Rs. 644 crores, right? That is what is the number?

Sanjeev Churiwala: Yeah, that is what I said roughly about Rs. 650 odd crores on annualized basis. So, of course, the franchisee happened over various quarters, right. So to really look at the numbers, then you have seen how does the annual number look like? And what exactly is the implication for that in this particular quarter. Yes to break it down, absolutely for the year and net of all the royalties and all roughly about Rs. 500 odd crores.

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

Arnav Mitra: Hi, congratulations on a good performance on the top line and gross margins, just on the volume growth, you have seen this significant recovery just wanted to understand is there any component of restocking in the channel in the states where there was a disruption in the route to market? If at all any quantification would be helpful. And other than that, is it more of a demand pickup that you are seeing or specific initiatives you have taken in some brands which has led to this acceleration in the growth?

Anand Kripalu: Yeah, so there could be a small element of restocking. But when you look at the comparative of the previous year, I won't say that, there is some contribution of this. But I don't think it is usually material and what you are seeing is I think it just improved momentum in a stable regulatory environment and more probably positive economic environment beginning to show through. I could have explained it if it was just 1 month where I saw that happening. But I think we are seeing a consistent momentum through the quarter, it is not as if these numbers have been contributing because of a big bump up in January or anything of that kind. That has been consistent through the quarter. So I believe it is more to do with underlying momentum of the business and just a stable environment has helped more than anything else. I also think that the environment coupled with the investments we made in our business and we stayed true to the

course of our strategy even though there were temptations to cut, right when the top line goes subdued, right. I mean many people do that when you're managing a P&L your top line is not just cut many other lines to deliver the bottom line, I think we stayed the course from our investments. Yes, we were ruthless about other cost but we stayed the course on making sure that we invest on what is strategic for growth and I believe that helps too. You know, it is our brand which is feeling better in the market place, I think demand is coming a bit more easily and I think this augers well as we look in to the future. So in hindsight I'm glad we did what we did in anticipation of the route to market changes that didn't happen because we put credit risk ahead of revenue risk and which has cleaned up the pipeline and reduce the probability of bad debts in a high credit market. We continue to invest behind our brand, even though our top line wasn't there. If you think about it we took a hard call combatted last quarter with you guys but just stayed the course on what we believe in as our management philosophy of what will drive long-term growth and what is the right thing to do in this business.

Arnav Mitra: Thanks, that's very helpful and on the free cash flow generation this year has been very strong, but partially it is because of the change in the franchising model and also you have had relatively low CAPEX. So as you look into FY 19 and going ahead, is there more room to work on the working capital side and will CAPEX generally be relatively low like it was this year, or do you see any increase in that? That would be my second question.

Sanjeev Churiwala: I think you know we have also said in the past that normally one would expect a CAPEX of about Rs. 200 odd crores to be a decent level somewhere it could be plus a few crores somewhere it could be minus a few crores, it all depends upon the need for the particular year. Most of the times we are reinvesting back into the CAPEXs in order to gain productivity. That has been a big agenda for us over the last couple of years and that is why what you see is our cost, almost flattish because some of the CAPEXs that we have invested is about in working lines, enhancements in capacities or looking at various re-engineering to reduce our cost. We would continue every year to do that and I think the safe assumption would be to assume about Rs. 200 odd crores of CAPEX coming in every year.

On the second question on working capital, so absolutely we will be continuing to work on improving working capital. As you all are aware this is quite a working capital-intensive industry, because you need to really fund a lot of excise and lot of state taxes ahead of the time. So the capital intensive nature will not come down. But really what we're trying to do is really to a better vendor management, do a good stock management, so as to keep working capital under control. This year has been a phenomenal good year as you can see from the results. We have been able to cut down working capital almost close to Rs. 300 odd crores which is reflected in the free cash flow and as such because of a lower CAPEX spend; we have been able to pay out loans to extent of almost Rs. 800 crores. So yeah to your point a good year for free cash flow, a good year in terms of CAPEX management, a good year in terms of working capital management finally in terms of the loan and the debt reduction and we would just continue to do that every year.

Anand Kripalu: And if I can just add to what Sanjeev has said, as part of the management team here, compared to the kind of business we used to run I think all these things just makes us feel that we are just running a tight ship here, right we are just tightening all the things that needs to be tightened investing in the things that needs to be invested in. So overall, I could feel that we are running a business that is in better shape.

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

Aditya Soman: Hi, good afternoon. My first question is on the highway bans, so as we lap it in the coming quarters, do you expect business to be back at full normalcy or do you still expect us to be; there are some large number of stores that has been shut. And just to add to that even in this quarter did you benefit, I believe there was a destocking last year in the same quarter for the highway ban, so was there any benefit? Just in terms of an easier base.

Anand Kripalu: So as far as the highway ban is concerned, I think we definitely have soft comparatives this quarter April to June to Q1 of fiscal 19 and also somewhat soft quarter 2 of fiscal 19, right. So we will have soft comparatives for these 6 months, this is a particularly soft, comparative because 1st April previous year the highway ban started and there was so much uncertainty and lack of clarity which doors will open, which doors were shut. So there was absolute chaos out there in the market place. So obviously that is why it is business so therefore yes, the answer to your simple question is yes, we will be lapping softer comparative. As far as this particular quarter is concerned which is our January-March quarter, Q4 yes there was some softness in the quarter, but not because of the highway ban. This highway ban was announced in December of 2016 and came into effect from 1st April 2017 so what happened is, in March of 2017 we actually pushed in a lot of stock, right because in anticipation of the highway ban to whatever extent we could because we knew that April is going to be very choppy and very tricky because of the uncertainties we tried to push in stock in March. So it is not as if, particularly soft comparatives this quarter, due to the highway ban or what happened in anticipation of the highway ban.

Aditya Soman: I understand, that is right. So basically, we should be what is the impact.

Sanjeev Churiwala: Just wanted to build on what Anand said, I think what has happened is over the last few quarters whenever we have come back to you with and trying to explain to you on the underlying changes and fact that has happened. But the fact is as Anand said; the last year has been a little choppy year, right. We had demonetization impact, we had highway impact, the expected route to market impact and such kind of overlapping things for us to really decode each of the element and do really a pristine take of it kind of becomes very difficult. But yes, maybe we are lapping up softer quarter but the fact that is underlying performance really looks strong and I think the current quarter numbers are really demonstrating we are coming out of those now and are really demonstrating good growth.

Aditya Soman: That is very clear and just on the second question in terms of GST. So do you think all the negatives in GST are now behind us and given that we are seeing premiumization and strong volumes in the Premium segment, we should be now not expecting further gross margins challenges?

Anand Kripalu: So GST, all the known GST related issues are behind us and we have dealt with it. Now will this be the end game? I don't know, you will be there, we will be there we will see right? Because you know what the GST council is going to decide in the fullness of time you can never be sure of it. I just want to say I don't see a big risk because the states also do not want the inclusion of ENA under GST, right. So it is something that has come up once or twice in the past and is this completely dead and buried and gone and people are saying it will never come up again, we cannot say that. We will do everything in our part and leverage all the states who are like-minded to prevent it from happening, absolutely, yes. And that is what did even the last time around. So all I want to say is that I cannot guarantee something like that or something as complex a matter as GST where we don't decide. But certainly, all the known things are behind us and under control.

Moderator: Thank you. The next question is from the line of Vivek. M from CLSA. Please go ahead.

Vivek. M: First, if I reduce standalone pre-tax profits from consol I get a Rs. (+125) crores which is sitting in the subsidiaries as against a slight loss last year. What is driving such a big swing? Which are the subsidiaries which are contributing to this?

Sanjeev Churiwala: Vivek, very happy to answer this question. First of all, it was nice to get this kind of a question I remember all the questions that was posted to us 3 years back. Most of the subsidiaries have been a drag to us in the past. But we are very happy to report that many of the subsidiaries have come back to live business now and they are really doing well. You already have heard about our IPL franchise business plus you will find in the news because of the revised video rights and all that businesses is really picking up and doing well. For this particular year what makes the difference is basically one of our subsidiaries, which is a listed company Pioneer Distillery Limited, you have already read that, it is a listed company and hence they had a Board meeting very recently and their numbers were flashed in the media as well as the stock exchange. We had some CAPEX investment in that particular plant to revive the business and that particular plant was getting some incentives from the Maharashtra State Government. Luckily for this current year, about Rs. 125 odd crores of incentives have flown in. We still have some CAPEX runs on going over there, which you would see some incentives coming in the subsequent years. But I would rather not put that as a number that would come to us every year. I would rather say this is a one-off number that is coming to us because we have done some CAPEX investment in the previous years.

Vivek. M: Okay because the gap is also is in terms of profitability Rs. 125 crores so you're saying basically don't build into numbers as we head into FY 19?

Sanjeev Churiwala: Yeah, absolutely. So the numbers that you are alluding to is an EBIT number on PDL which is Rs. 125 crores.

Vivek. M: But Sanjeev is it possible to, because last year the FY 17 there was a loss over there. Can we at least assume standalone consol profits now converging, which means that an overall level subsidiaries do not remain a drag? Is that a fair assumption?

Sanjeev Churiwala: It is a fair assumption that is what we are trying to endeavor all put together. We want to ensure that all subsidiaries put together do not give us a loss.

Vivek. M: Okay, second on the quarterly can you just give 3 heads if you can give some views; one is the staff cost, second is a big jump in the other income and because there are so many exceptional, can you give like-for-like tax rate ideas for the full year or for the quarter?

Sanjeev Churiwala: I think better to look at from a full year perspective. Let us just start with the business staff cost and I think quarter-on-quarter we will have lot of movement in accounting entries. So if you really look at our full year this year and also look at the last year in terms of our staff cost, staff costs have remained pretty much flattish about 2-3% growth every year but that is very good because normally our staff cost is supposed to be having a +10% inflation. But we did take up a lot of restructuring exercise 2 years back, which we had officially announced, and we had although a lot of severance around that time. That restructuring exercise is really paying off now given the fact that this is year almost flattish staff cost over the last 2 years.

Vivek. M: Other income Q4?

Sanjeev Churiwala: So other income for Q4 basically yeah so there are two large components – one is as part of our demonetization program that we have put into place. We have about Rs. 65 odd crores of income coming from a property sale and there we also have some interest income reversal in the sense that some of the loss-making subsidiaries in the past, because of the accounting standards, we were not able to book interest income for the loan given to them. Because these companies were not performing and may not have the ability to pay back the loan. Luckily, as I explained to you, some of the subsidiaries have revived the back now, which means they will have the capacity to pay back our loan and interest as such during the current quarter we have recognized about Rs. 33 crores of interest income from one of the subsidiaries.

Vivek. M: And Rs. 33 crores will be for the full year, right?

Sanjeev Churiwala: Yes, because you true-up towards the year end, and see the capacity of the subsidiaries to payback so this Rs. 33 crores is actually for the full year.

Vivek. M: And for FY 19 can you give some guidance on the tax rates?

Sanjeev Churiwala: Well, AlcoBev industry normally do not have any tax incentives. So, by and large our tax rates remains closer to the statutory tax rates that is from the book tax ETR perspective, it might fluctuate 1% here and there, but I think broadly, it is between about 33-34% range.

Vivek. M: And last question if I may, on the P&A the revenues are up 14% but volumes are up 16% like-for-like. So this (-2%) delta is because of just market mix?

Sanjeev Churiwala: No, basically last year we had some settlement with the customers which we had called out and it result in the last year's sales as an adjustment of Rs. 14 odd crores sitting in FY17 Q4 and that is why these numbers are looking down. So the volume is (+16%) and NSV raised (+14%), so there is no adjustments to the volume but adjustment NSV.

Vivek. M: Sorry, I just missed you on that. What was the issue in the base?

Sanjeev Churiwala: The customer claim that we had to adjust in the last year base and if you take out FY 17 Q4 SEBI results the full details are there because this was a customer claim settlement that we had to do that for that particular current quarter. We had to take it out from the NSV that there was no volume impact. As a result, when you compare now it seems like volume has grown 16% whereas the NSV has grown only 14%. So you have to just do the adjustment for the current quarter and you will get the real numbers.

Anand Kripalu: Just to make it crystal clear there is no adverse mix, it is because of a onetime adjustment that we needed to in the base number, right because of which the number looks the way it is.

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

Nillai Shah: My question is again on the staff cost you highlighted full year numbers are flattish for this year. But given that there has been a change in the operation model with the franchisees. Would it be fair to state that some of the staff costs have now been transferred to the franchisees and hence they should have been lower on a year-on-year basis? And given that they were indeed lower for the first 9 months, so what explains that?

Sanjeev Churiwala: So two things; first if you look at the staff cost for the full year, it has actually come down by about 1% so the numbers are lower and I was just saying flattish for the sake of saying it, to stay in the claim that we want to continue. Most of the franchise work that we have done was associated with third party manufacturers. So to that extent whatever staff cost has been eliminated or the overheads that has been eliminated is actually sitting in the cost line than the pure staff cost line.

Anand Kripalu: And if I would just add to that, so whatever trimming we needed to do of our white collared staff and management staff that was done over the last 1.5-2 years as part of the overall organizational restructuring which we spoke about in the past where we optimized the organization for a post

franchising scenario model. So, we built in whatever trimming we needed in that evolution itself. So part of it has gone because the third party manufactures, no impact on our P&L directly and part of it was done in terms of overall restructuring. But the way I would you to read staff cost is in a market where salaries go up 6-8% a year, we are (-1%) okay and that is how I would you like to read the staff cost.

Nillai Shah: Right, second question any update on the big asset sale that you were talking about. I know you have got a small number this quarter, but any incremental update timeline on the Rs. 2000 crores that you had spoken about?

Sanjeev Churiwala: Just we had in a small number for your information. For the full year the cash realization is about Rs. 137 odd crores and the impact is roughly about Rs. 105 odd crores and if you remember last year when we had the same discussion we said that we have a portfolio of about Rs. 2000 odd crores that is of non-core assets that we want to dispose of in the next 3-4 years the work has already started in the current year. We would expect in the next 3-4 years another Rs. 2000 odd crores roughly should be disposed-of, which would largely, if you look at the components of about Rs. 2000 odd crores, you would expect to come from the treasury shares, which is right now litigated in and we have a strong case around that. Roughly about Rs. 1000 odd crores comprises of residential properties, commercial properties, industrial properties that we have planned to dispose over the next 2-4 years.

Nillai Shah: And just last question, any price hikes that you got in the last 3-4 months from any of the states?

Anand Kripalu: This has been one of the better years of pricing after having many years of pricing drought. In recent times we have got Telangana which was a very difficult state by the way, you got a price increase after many years in the state of Telangana and over all this in the previous fiscal, we got price increases in over 15 states in the full year. So it has been the most widespread price increase year that we had, but also comes tougher states, difficult states have got unlocked in indefinite pricing in the previous years. So far, I will say I am very pleased with the price increase we have got during the course of the year, but every year is another year and let's see what happens and where does the trend continue as we look into the future.

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

Jamshed Dadabhoy: This price hikes that you all are referring to, now if I look at your full year sales underlying movement in P&A, there is a 3% volume increase underlying and the sales increase is only 4%. So, is that delta of 1% just price or has there been negative mix? I'm just trying to understand after such a good year in terms of price hikes why is the P&A revenue growth so low compared to the volume growth?

Anand Kripalu: So the price is certainly one component of it. I will need to go back and look at the mix Jamshed then we can get back to you on that because see our mix is complicated. One is, pricing, of

course helps everybody, there is a brand mix and I need to check whether some of the brands in the middle of Prestige and Above grew faster than the top brands and to see what the weightage is. And also the state mix in terms of where did the state growth coming from, so I think it is a good question and we will look at it a bit more and if you just stay back may be we will see if we can put some more light on that.

Sanjeev Churiwala: Yeah, so while we do that something that I just wanted to mention to you when we look at our overall stated strategy in terms of our Prestige and Above premiumization journey as compared to last year we were about 58% on Prestige and Above we have now moved to 63%. So, which is about a (+5%) improvement coming in also from the Prestige and Above portfolio point of view, when we look at our underlying NSV growth is about 4% odd, which is definitely higher than the volume growth that we have seen in Prestige. So there is definitely a positive gearing and a positive price mix element coming in. And now beyond that if you want to understand the understand the specifics of it, we will definitely get back to you.

Anand Kripalu: Will try and throw some more light on this Jamshed.

Jamshed Dadabhoy: I was just asking that 15 states have given price hikes and at the end of the day if there is only 1% difference between volume versus value I was just trying to understand....

Anand Kripalu: No I understand we will try and get back to you. Because there is a brands mix there is a state mix and there is a price increase, so the price increases do not contribute to 1-1.5%, I need to see the rest of the mix and how it comes. The state wise NSV is so different in this industry. So we just need to look at that. So, we will have to come back to you on that.

Jamshed Dadabhoy: Fair enough. Second question when you all think about the future 2-3 years out and you are looking at high-teens kind of margins what sort of steady state inflation are you all looking at or expecting in employee costs and other OPEX excluding advertising, I mean advertising you all are clearly articulated that it is going to be about 9.5-10% of sales. So, leaving that aside what sort of inflation do you expect in other SG&A and employee cost.

Anand Kripalu: So I will just start and then Sanjeev can add to it. Our objective in the near-term is to mitigate most of inflation and I would say in the longer-term to mitigate at least half of inflation every year, on a steady state basis and I believe that is the only way to manage a business in India, you can pass on a little bit to the market and the consumers but at least half of it you have to deal with it as management in terms of cost saving intervention. Our track records on tracking cost I must tell you gives us a lot confidence because the last 3-4 years we have really trimmed cost other areas of productivity but also overheads, staff costs, discretionary overheads and so on and so forth and therefore it gives us the confidence that we have built a bit of a muscle to be able to deal with it on a steady state basis. So that is what I would say and that is a general philosophy I am saying not specific to a set of numbers. Anything you have to add to it?

Sanjeev Churiwala:

No, I think that is so what it is and as Anand also said earlier the staff cost you can expect a general 8% inflation and that is what you see in the industry from 8-10% is the inflation in the staff. Our attempt so far has been to mitigate almost, close to 100%. I think going forward is a reasonable to assume that we will still continue to work on productivity and at least mitigate 50% of the staff cost. On the cost, while you look at ENA, MENA, packing materials, glasses everything put together it is very difficult to put a particular number of inflation, but these things, it will be in the range of 2-4%. In the last 3-4 years we have been trying to mitigate almost 100% of it. We would continue to attempt to see that we get closer to that or I think for the sake of your modeling it is good to presume that we should be anyway managing about 50-75% of inflation mitigation.

Jamshed Dadabhoy:

That is very clear, just a quick follow-up on your working capital. You mentioned the business released Rs. 300 odd crores this year. How do you think about the working capital movement going forward because as you also had said this is a business, which generally guzzles working capital?

Sanjeev Churiwala:

It is a combination of various things, first in the internal things. What we are really trying to do in the business is to see that we set standards and benchmarks so the kind of various stock inventory levels that we want to maintain, I think we have attained a level efficiency around that. Then are the external factors which is not really dependent upon how we can manage it. It depends upon the state mix, certain states, for example, Karnataka and various other states where the tax components are really high. If our growth really pushes up there, you will see a component of working capital evolving in there. But I think what is important internally is we put together a complete rigour around how we are looking at our operating plans and working capital management. So our intention is absolutely to ensure that every year we do not suck any more cash from our free cash flow and at least ensure that the working capital movement are neutral. This year has been a good year for us that we have put together a lot of initiatives. We will ensure to at least make it some positive next year as well but definitely do not want to put in more working capital as we look forward.

Anand Kripalu:

And I would just like to add and say that working capital is the key management metric for this company and for the management of this company. So you will continue to see focus. Our working capital as a percentage of NSV has come down very significantly this year and you will continue to see focus in a tough industry which sucks in a lot of cash. All efforts possible to keep minimizing our working capital requirement.

Moderator:

Thank you. The next question is from the line of Amit Sinha from Macquarie. Please go ahead.

Amit Sinha:

I just want to understand the step up in the A&P investments which has happened in the last 2 quarters, so is the investment step up happening on account of higher investment in particular brands. For example, you have mentioned Captain Morgan has a very strong momentum or you are investing in certain states where you see opportunities of market share gains going forward?

Anand Kripalu: So I think first and foremost, it is a choice; it is not a democratic world out here so select brands, select states absolutely what is taking up. We have very rigorous marketing analytics here and we have an ROI for above the line spends, below the line spends or through the line spends. So we have clear metrics as to where advertising delivers performance for us and where it does not. So it is not just based on beliefs it is based on a philosophy and science kind of merged together to deliver an ambition. So I would say it is done with as much prudence as possible because the thing with A&Ps you have got to first put in the money and then wait for the results thereafter that will always remain the philosophy in this game. But it is done with the belief that it will deliver because it is backed by data and science.

Amit Sinha: Okay sir, the way in which I look at in FY 17, last financial year, you were gaining market share against the other player, Pernod. And at that point of time, I understand there were other factors also, demon and the highway ban, etc., but there was a significant step down on the A&P spend. Now this year in the last few quarters we have seen Pernod performing significantly better. There might be various reasons, but is the step up in A&P spend also happening on account of catching up on the market share gains?

Anand Kripalu: So first of all, I must tell you that the market share gain is not just a simple trend in one direction. There is a gains in one quarter for one player, gains for another quarter for another player and that is what it goes. What I can tell you is directionally as I have looked at recent times and in the future I feel confident about our comparative position in the market place. When you look at NSV numbers reported some cases they report above country here we report locally, just make sure you are comparing apples-with-apples and whatever is the competitor reporting days of the performance for the other people is similar to the reporting days that you are looking at for us. All I can tell you is that I am getting increasingly confident about both category growth returning in this category and the strength of our brands improving and therefore our competitive position is improving. Is it a tough fight out there, do we have worthy competitors, absolutely. But that is what the fun is all about, so I would just say that, that's how it is evolving, and I remain confident about the future from a category and share perspective.

Amit Sinha: Thanks a lot sir. My second question is on your Captain Morgan brand and the brand has been gaining significant momentum, just wanted to understand the potential in the next 3-5 years and how has the premiumization drive in the rum market going through and what is happening to the base brands in the rum market?

Anand Kripalu: So I am delighted with what we have achieved so far on Captain Morgan. It will be the first full year of the brand and I don't know if you follow IPL but this time we had the unique cheer leaders, we had Captain Morgan cheerleaders because that is about making the brand more salient and riding on property that has huge eyeballs coming our way. So I feel really good. The potential of Captain Morgan in the future is probably limited by our imagination and our ability to invest. Rum is a 45 million case category in this country so any one can decide what percentage it can be upgraded to Captain Morgan I think that is limited by our ambition and our

ability to invest not by the opportunity that exists. Having said that our McDowell Celebration rum brand has also been performing well and particularly in the strong rum market McDowell 1 has also been performing well. Like I said we are delighted with the performance of Captain Morgan which is a major market, it takes time to build a brand and I am quite delighted by how we have been able to build Captain Morgan as a brand in its first year. Now having said that the size of Captain Morgan in the future is the question you asked I said that is limited by ambition and ability to invest. We have 45 million case Popular rum category in this country so any one can decide how big Captain Morgan be given that you have such large pool gain it from. But having said all of this I must tell you we have a very large rum brand in McDowell's Celebrations rum. It is the leading rum brand in India in the Popular segment and that has been doing well too so I think overall, I am feeling good about rum and I am really feeling good at the end of the first year of Captain Morgan and we are going to continue to invest is all I can tell you and we will test how high is high for Captain Morgan.

Moderator: Sure, we will take the last question the line of Mehul Desai from IDFC. Please go ahead.

Harit: Just one question on the margin side. So if you look at the last 2 years, our gross margins have improved over 600 basis points, while the EBITDA margin improvement is about 180 basis points about 1/3rd of our gross margin improvement has come in terms of EBITDA margin and most of the cost have gone into higher advertising and branding spend. Now if you look at the next 2-3 years in our ambition to get to this mid-to high-teen EBITDA margin would it be fair to assume that most of the mix/productivity gains that we get on the gross margin side will start more or less completely flow in at the EBITDA margin level, is that the right way to look at it?

Sanjeev Churiwala: Let me try and answer this, I think as Anand has said that we are also plateaued out on our A&P expense this year we have 9.6% so 10ish is what our ambition is and absolutely I think the kind of productivity work that we have done over the last 2-3 years and this is kind of reflected in the GP margins, which is if you see the current year the GP underlying margins grew by 290 bps last year it was about 270 bps and a large part of that has been in the current year reinvested back into also our A&P spends and that largely to ensure that we can grow our categories and retain our growth ambitions that we have for the future years. So absolutely you will see the top line ambitions still remaining intact that we have said that we want to grow our top line by about double-digit and when we say double-digit some of you assume it would be 20% the fact is double-digit is we are talking about say 10ish kind of growth every year and that is kind of reflected in the current quarter without any regulatory hassles. We would definitely want to continue grow our margins to mid-to high-teens in the near-term and that is what we have always said that and that is the ambition we are still continuing to do that which would mean yes you will see a lot money going back into the margins.

Harit: And the last thing was on the working capital cycle. So this year has obviously been a function of the franchisee benefit that we have also got on the working capital days, are you saying that

internally, there is enough that you can do to kind of even improve this cycle further ex the franchise partner should now all be in the base as of FY 18?

Sanjeev Churiwala:

So the benefit of the franchise, most of them is already captured last year. So there is not much of a franchise working capital benefits sitting largely in this year. But as we have mentioned the working capital cycle improvement is a continuous endeavor and we will keep on working and improving towards that. We have put together lot of plans to do that, but can we see the intensity of working capital reducing with this amount every year, the answer would be no because this is quite a capital-intensive industry, to really grow a double-digit ambition, we need to really pump in also lot of money into the working capital. But through productive means what we are trying to ensure that every year when we land up the next year we do not really suck a lot of money into the working capital and of course we will put together lot of productivity work that we are doing in terms of managing our working capital very efficiently.

Anand Kripalu:

Absolutely, and this year just to underscore this a good part of the cash raised from working capital efficiency is because of the efficiency is that have been brought in this year and not because the business model changes. And therefore, I am just saying it is like I said earlier when we metrics for this business and we are going to continue to drive that and make sure we have that kind of tightness on the management of working capital.

Okay so I just want to with that conclude this call. Thank you all for taking the time to be with us this afternoon and for your support of our business. Thank you very much

Moderator:

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