



“United Spirits Limited FY-21 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to FY21 Annual Investor Presentation and Earnings Conference Call of United Spirits Limited. We have with us today Mr. Anand Kripalu – Managing Director and Chief Executive Officer and Mr. Pradeep Jain – Chief Financial Officer, United Spirits Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anand Kripalu. Thank you and over to you sir.

Anand Kripalu: Thank you very much and very good morning everybody and welcome to this results call where we will also review our full-year performance and talk about some of the initiatives that have underpinned that performance. I'm Anand Kripalu. At the very outset I want to extend on behalf of all of us, a very warm welcome to our incoming CEO – Hina Nagarajan, who will take over from the 1st of July 2021. Welcome Hina and over to you to give a brief introduction of yourself to our investors.

Hina Nagarajan: Thank you Anand for inviting me to be part of this session. Good morning everyone and welcome. Prior to taking on this exciting opportunity in India, I was leading the Africa Regional Markets, ARM as they're called for Diageo as Managing Director. Since joining Diageo in 2018, under my leadership the Africa Regional Markets became a significant growth driver for Diageo Africa. I drive to deliver results and I'm known for building strong teams that deliver outstanding outcomes with the strong commitments to Diageo standards and compliance. I have also been an active and passionate advocate for inclusion and diversity in Africa and more broadly at Diageo. Prior to joining Diageo, I have spent over 30 years in the consumer-packaged goods businesses and held several senior marketing and general management positions at Reckitt Benckiser, Mary Kay, ICI Paints and Nestle India. I'm a Commerce Honors graduate from Delhi University and hold an MBA from the Indian Institute of Management, Ahmadabad. I also have a diploma in Hotel Management from the Pusa Institute Delhi. I am truly honored and delighted to lead one of the most exciting markets in the world for our industry.

I know I've joined at a very difficult time, but I'm really energized and proud of USL results in such a tough year, riding on the strength of great brands and people and on the foundations of what Anand and the team have created. I also look forward to interacting with each one of you in the next set of discussion and I thank everyone for your time today. Thank you very much and back to you Anand.

Anand Kripalu: Thank you Hina. Very warm welcome again. So F21, what a year we have had. If you had to script back to a year, nobody could have predicted how this year was going to unfold in front of us. From almost a complete lockdown at the start of the fiscal year to near normalization towards the end of the fiscal albeit with somewhat lower footfall, it's been just a journey of change through the year. Despite things being pretty open during the Jan-March quarter, the quarter just completed as we know there have been no big banquets, no big weddings and none of those big

consumption occasions that are really important for our business. Through this period, we've also seen certainly changes that have been visible. The first is that alcohol behaves like a semi essential category in a consumer share of wallet. Therefore, we expect to recover faster than other discretionary categories.

Scotches will continue to grow faster than IMFL, on the back of the fact that consumers who consume these brands are less price sensitive and people have found and discovered that in-home consumption is cheaper than out of home. Whiskey continues to grow from beer particularly in the lower prestige and net prestige segments and this is expected to continue certainly as long as the pandemic persists with the fact that the on-trade is going to be relatively closed. Repertoire consumption declined during the pandemic and people prefer big and trusted brands and the biggest SKUs. Moderation for AlcoBev is a norm rather than downgrading, irrespective of which socio-economic class you are from and that's because alcohol plays a role of an identity marker for consumers and therefore reduction in occasions and quantity is preferred over down-trading if you're trying to balance your expenses. Finally, in-home casual get-togethers are the most sought-after occasions during the pandemic. I am sure that many of you were on this call are now seeing that it's becoming a reality.

The real question is how do you respond to a crisis? And our philosophy on this has been to focus on your circle of control rather than your circle of concern, simply focus on what you can do and must do at a time like this. The first thing of course was to manage the crisis. I talked last year about the six Cs as our strategy for managing the crisis. First and foremost, Care, this is a heart of USL where employees and their health comes first and we are committed to the wellbeing of our employees and have launched significant programs to ensure that our employees are as safe and in the best of health as possible, Second, Communication during a crisis you can only under communicate and you need to extend your communication not just to employees but also to the wider ecosystem that depends on you. Third, the Consumer, keeping your finger on the pulse of shifts that are taking place and being agile and adapting as best as possible. Fourth, putting your Customer first and ensuring that you support them, and they feel supported, particularly during these lockdowns when their business has come to a grinding halt and you do that through constant engagement with them. Fifth, Cost; dramatically reprioritizing and reallocating spends based on ROI, dialing our productivity, so keeping our foot on the accelerator of cost savings and productivity across the lines of the P&L and having a laser sharp focus on slashing non-essential spends. Finally, Cash; the sixth C, cash is no doubt king, a single-minded focus on receivables and managing credit, managing advances, rigorously managing inventory and optimizing CAPEX spends based on business criticality and ROI. The six Cs that we focused on the manage the crisis: Care, Communication, Consumer, Customer, Cost and Cash.

But the second leg has been to say that once this passes, we will emerge stronger as a company or even in the windows that you have of the undulating increases and decreases of the pandemic with every window, we will emerge stronger. And for us emerging stronger was on two legs.

First, what will people say about our company when this pandemic passes? Did they say that this company stood up and emerged as a corporate citizen and did what they must do to help their people and the communities around them? That for us is look back reputation. How will we be judged at the end of this crisis? And the second leg of emerging stronger is to say that we must perform better than others in the marketplace.

Now Pradeep is going to take you through detailed financials a little later but here's a snapshot of how we have performed in the previous four quarters. What you can see from the segment on the left is our NSV growth. And our growth was 19% if I remove Andhra Pradesh from the base in the most recently concluded quarter which is Quarter 4 and our P&A business without AP grew by 31%.

Now this performance albeit on a somewhat softer base we believe is strong and, in many ways, it just reflects the resilience of this business to bounce back when markets open. I also believe that in every quarter of the last year we have outperformed competition, in terms of our mantra of emerging stronger. Importantly we have seen a recovery of margins as well and that really bodes well for the future of the business.

So, with that context let me dive a little deeper into today's agenda. I'm going to talk a bit about what's beneath those results through our strategic priorities then hand you over to Pradeep to talk about our financial highlights in some more detail and then I'll come back to move from looking through the rear-view mirror to looking through the windscreens.

As you all know our performance ambition is to be one of the best performing, most trusted and respected consumer products companies in India. This is what drives the passion with which we pursue every priority in this business. I'm sure when you read this you will be able to connect with some of the stuff that we have done during this pandemic. The delivery of this performance ambition is built around five strategic priorities; to strengthen and accelerate our core brands, to evolve our route to consumer from being a push driven organization to a pull driven organization, to drive productivity so that you can invest in growth and also deliver improved margins, corporate citizenship and finally to build an organization that is not just ready for today but ready for the future. Let's look at each of these in some detail.

Our brand portfolio is built around some of the biggest passion points for all Indians. First, Johnny Walker is all about progress and that's a very emerging market mindset to saying whatever happens each passing generation must progress. Johnny Walker is built on a legacy of making positive progressive choices. Black & White whiskey rides on the passion point of food where pairing food and whiskey, making it a match made in heaven. Relaxing and unwinding with Black Dog when inspired achievers do at time, pause, so that they can savor their journey of success. Cricket and Royal Challenge whiskey hugely boosted by the association with two brand asset icons, Virat Kohli and the Royal Challengers Bangalore Cricket Team. And finally,

music with our key brand McDowell's No. 1. So, let's see what some of the things are that we have done around each of these brands.

On Johnny Walker, we focused our effort this year to inspire consumers to walk back to their favorite bars with the 'Walk in with Johnny' activation. It was a simple invitation to walk into the bar with any glass or bottle and then these would be reforged into bold striving men installation that will be kept in many of those stores. With the help of renowned glass artists, we were able to bring to life, striding man installations across some key partner bars. On Black & White, we created an engaging short film, if you haven't seen it, I encourage you to do that, it's quite an engaging film on sharing during the lockdown. On the inclusion and diversity, a renowned musician, a mixologist and a fashion stylist came together over a brunch with Black & White to go back richer with shared stories & experiences. And then finally Black & White Pitchers and Platters, a Pitcher of a Cocktail and a Platter of Food making that perfect magical combination. On Black Dog Whiskey, topical content with India's top comedian Vir Das and product led content centered around the work from home team.

Our efforts on the hipster pack continue to deliver momentum on this very interesting SKU and is now available across all planned markets in the country. I'm really happy to say that the momentum on the hipster pack really continues. The integration of RC with RCB and as you can see a special edition RCB Players Jersey IPL Pack. So, if we look at those packs, it looks like the player's jersey and that was surrounded by on-ground activation across outlets for the time that we could keep those outlets open and also getting some key stars from our RCB team to do digital activation. Importantly, we won a YouTube creator award for surpassing a million subscribers for RCB and by the way on social media, RCB was one of the most followed sports team and most active sports team in the world. I'm sure over the last few seasons you would have also enjoyed RCB's performance on the field, both in September and October and in the more recently suspended IPL. And finally, Yaari and music and content published under the number one Yaari Jam team won 14 awards across categories during the course of the year. Supporting all this has been innovation and renovation that we've often spoken about. You can see the big bold change in terms of the RC pack. You can see the change in the number one pack between the left and the right packs, that's the new pack. Also, the pilot of introducing No. 1 in a can. And finally, something that's just beginning to roll out as we speak, a breathtaking all new Black Dog whiskey emboldened with a 14-year-old variant as well. You can see the difference on the right of your screen between the old pack of Black Dog and the new pack that's there below it. So, that's what happening on our brands.

Let's focus on our route to consumer and what are we doing on that journey? As you know, we think of India as at least three India's. India is too large and complex to think of as one India. We think of it at the minimum as three India's. An affluent India of people who have globally travelled, they seek luxury experiences and unique ways to reach these people. The middle India who are brand conscious willing to pay for value and this represents the bulk of the prestige segment. And then of course, aspiring India which are people who are price conscious and they

are just entering the consumption cycle. That's where a large part of our mass business or popular brands really sit. We have a tailored strategy and a tailored organization structure to deal with each of these three segments.

Let's talk about some of the things that have happened during the course of this year; starting with Scotch Whiskey, we've had focused interventions to win at home and we have enabled in-home consumption through do it yourself drinks on digital. Winning on the store where we have gone in a focused way after a duty-free sale. How do you capture duty-free sales in duty paid retail outlets within the country? And then winning the on-trade where we have leveraged our 'Raise the Bar' program extensively to bring consumers back in. We also leveled the festive season. The good news was that during the festive season the markets were more open than closed. We created limited edition packs, as you can see on the left-hand side and also some stunning new visual identities for our key brands that came up in stores during the festive season as well. And finally, despite markets being closed, the renovation of McDowell's No.1 has had a big impact in the marketplace and honestly you have to see some of these stores to actually believe the impact that they have.

Moving on to our third strategic priority which is about productivity:

We have continued our journey of focusing on driving productivity across every single line of the P&L. On next revenue management ensuring that our spends deliver ROI and focusing on premiumization to deliver stronger price mix. Continuing to optimize our supply footprint and we have taken several interventions including factory closures during the course of the year. Making sure that our marketing spends have a productivity program to at the minimum negates inflation, continuing our journey of prudence and overheads and the new effort now will be on office consolidation, given the new future of work thinking. And finally on cash; a massive debt reduction during this quarter and many of you will recall, we started our journey with more than INR 8,000 crores of debt in this business and we have come a long way since then; really bringing down the cost of capital and the interest costs for our business. Our fourth priority is on corporate citizenship and I will come back to it more a bit later. But apart some things like sanitizers and other support that we did; as you know we have been rolling out Raise the Bar which is a 2-year program and we are coming towards the end of only the first year and we have extensively worked for the revival of the on-trade with many of the critical customers who have been going through a very difficult time. Good news is that we will be continuing to do that through the next fiscal. But we haven't taken our eyes off, the environment and sustainability which we also believe is a critical part of corporate citizenship. So, our efforts to continue to promote positive drinking and the ethical marketeers of alcohol, our efforts to build a more diverse and inclusive organization not just within ourselves but over time within our eco-system and continue to focus on the planet, optimizing water consumption and reducing greenhouse gases and finally on building a winning organization and really four things here. First, we have continued to raise the quality of our talent, by the right hires and through the right development efforts for helping talent that we already have to reach their potential. We have tried to build a

culture that is more open, more non-hierarchical, fairer, more apolitical and above all inclusive. That's not just for genders but people much beyond gender, people who are differently abled, people who have different orientations, all feel very much included. We are continuing the process of simplification. We have done huge work in reducing the complexity of this company. As we continue to make strides on simplifying our business and one of the examples of this was reducing the number of layers from 16 to 9. And finally, we are continuing to engage and energize our teams through progressive policies that puts people genuinely first. I just want to conclude on this slide by saying we recently had our all-employee value survey. More than 90% people participated so it's a very wide representation and a highly quantitative survey and I will tell you this, despite this pandemic our employee engagement scores have never been higher. We are operating at the highest levels of engagement in this virtual world and the level of pride in working for Diageo and for United Spirits has actually never never been higher. We really do believe that we have managed the crisis as well as we could have, and we have emerged stronger even though the crisis is not over yet. At least thus far we have emerged stronger both in terms of our reputation and standing up as a good corporate citizen and also with each passing quarter in terms of our competitive performance.

I am going to now hand over to Pradeep to take you through the financial highlights in a bit more detail. Pradeep, over to you.

Pradeep Jain:

Thank you Anand and a very warm welcome to our investor and analyst fraternity. Let me just walk you through the financial year'21 financial highlights. This slide, what you see on the left are our full-year number, but the story is all about the sequential quarter-on-quarter recovery that the business has staged. Anand has already spoken about the quarter-on-quarter recovery so I will not want to repeat that, and maybe would I quickly move on to the next slide where I decode the full year 2021 net sales performance based on some two or three consistent things that we have been talking to all of you about. Here, I make an attempt to decode the 13.2% decline that you have seen on a full-year basis on our net sales. The 13.2% decline roughly translates to about INR 1,200 crores net sales shrinkage. From there that back off about INR 250 crores of bulk Scotch sales sitting in our financial year 2019-20 to make it absolutely comparable. And then there are three things that I want to peel out the impact of. One, March 23rd up till June 30th impact of the lockdowns in the prior year. We are getting a benefit of the 9 days of March in our current quarter but then it's an April-June quarter which took the entire brunt of the lockdowns last year. That's roughly INR 700 crores net shrinkage. It's a gain of INR 240 crores in the current quarter but it's a loss of about INR 960 crores that we took in April-June. So, that's roughly about INR 8.2 crores.

AP market access, we have been speaking of in the last three quarters. The reassuring thing is that we have finished the lap-up now and hopefully going forward this will no longer be an item of variance in our numbers, that's roughly INR 330 crores and the third one that we have talked of in the last two quarters is the West Bengal Excise policy and especially its impact on the Popular segment so that's roughly about INR 150 crores.

What I want to leave all of you with is, that leaving aside the Quarter 1 impact and the two states that I have called out on the slide; we are extremely pleased with how the business has performed quarter-on-quarter and especially with the momentum with which we are exiting Q4. Exactly the same thing for our P&A business and roughly what you see in the extreme right-hand side; that's roughly the number that you will see for the last three quarters on a combined basis.

Let me move to the next slide which is our EBITDA performance:

Headline level, the EBITDA margin shadows the net sales performance. Again, on the top right-hand side if you see the quarter-on-quarter from a negative 8% in Q1 we are exiting Q4 with an 18.5% EBITDA margin. That 18.5% is driven on the back of slightly muted A&P spending but we will talk about that as we come later. Overall, we are exiting with a significant momentum on our EBITDA margin as well. The left-hand side shows the broad bridge in terms of our financial year 2021 EBITDA over 19-20. Now these two big blocks, in terms of the margin are what we lost in the Quarter 1 of 2021, the sheer scale of the net sales that we lost. The growth margins of roughly INR 550 crores that's about 150 bps and then the two blocks on the right-hand side when you lose net sales value of that quantum, the operating de-leverage that it produces. At a headline level, there are two factors that have impacted our 2021 EBITDA performance, the Q1 lockdown which led to the net sales value decline and therefore the EBITDA loss on account of that and the Andhra Pradesh market access. We have already spoken about the unwinding cost associated with Andhra Pradesh and the large franchise business that we had in that market and obviously that has come down to absolutely zero.

At a PAT level again, it mirrors completely the EBITDA performance. The one thing that needs to be called out is that last year we were, current year, we are overlapping two exceptional items in our tax line last year. So, therefore, the tax line provides us a bit of a kicker. Having said that, we are also taking the exceptional items of about INR 150 crores in our PAT line so our PAT, overall reduces from INR 700 crores to about INR 310 crores. Again, want to provide comfort that we are exiting Q4 with PAT margins that are almost in line with our established run rate.

We will move to the next slide which is about the cash:

As Anand mentioned extremely pleased with what we have managed to achieve on the cash front in the year 2020-21. Apart from the EBITDA of ~ INR 1,000 crores, the ~ INR 900 crores roughly on account of working capital efficiency. Now the ~INR 900 crores of working capital efficiencies are a combination of two things. We are lapping up slightly inflated base as on March 31, 2020. But apart from that the focus on productivity and extracting efficiencies through all elements of our working capital and the fact that all the state corporations have continued to pay us well on time and our top line momentum across the geographies have ensured that the money is rotating faster for our distributors and our wholesalers, which is reflecting in our days-sale outstanding efficiency.

We will move to the next slide; Anand has already spoken of that ~ INR 1,500 crores of debt reduction, which is the maximum we have achieved in the last 6 years. 2015-16 on the back of a one-time gain, we had a higher debt reduction but after that this is the highest debt reduction that we have achieved in one financial year. Also pleased to share, we had spoken of it in the last quarter that CRISIL has reaffirmed its AA+ and A1+ ratings for our bank facilities and our debt program. The debt equity ratio continues to come down. It stands at 0.1% on 2020-21. Interest savings, while you see only about a 13% to 14% reduction on a full-year basis but again if you look at the quarter-on-quarter numbers, our Q4 numbers have reduced by about 40%-45% compared to Q4 of last year. Especially after we have refinanced our non-convertible debenture of INR 750 crores in the last quarter. Interest coverage ratio has come down a little, because of our overall profit numbers coming down. As I explained a little while earlier but like I said that's only momentary.

We can move to the last slide. Again, want to leave the investors on a reassurance note but if you look at our earnings per share progression up till '19-20 we have roughly been in the Rs. 10 per share earnings per share. We are again exiting with a similar momentum. If you back off the exceptional items that we have taken in this quarter, our earnings per share for the last two quarters has been in the range of about Rs.3.2 to 3.3 and that's well and truly in line with the run rates that we were operating on earlier, in fact marginally better than that. Return on capital employed has come down because of the overall profits for the financial year. But not to keep saying the same thing, we are exiting at healthy levels and hopefully that should sustain going forward. That was ladies and gentlemen summary of the financial highlights. I will now hand it back to Anand to wrap up the presentation.

Anand Kripalu:

Thanks Pradeep, thank you very much. So, as I said moving from the rear-view mirror to looking through the windscreen about what is ahead. Now there's no question that we are back to having to manage the crisis in the short term, both for our employees and the communities that we serve. I just want to say that at the end of the day, if you don't keep your employees safe then you have no business and as a time like this you have to go beyond just helping them professionally. You have to help them personally and what we have tried to do is to make sure that we do whatever we can as an organization to keep our employees at the center of the policies that we create. We have created things like giving almost on the spot salary advances, supporting and enabling vaccination, COVID care leaves, specifically 14 days COVID care leaves for self-independents, ensuring domiciliary medical expenses, go well beyond what's covered through the insurance policies and we will cover any expense that's related to COVID so that the employees are covered. Providing employee assistance for their overall well-being, not just physical and medical but mental well-being. Free tele-consultations with doctors, enhanced medical reimbursement that is necessary and providing self-isolation rooms in partnership with some hotels and sadly this time around as many people say last time wave 1 was about numbers, this time it's about names.

And sadly, in the case of a demise apart from a large payout that will come from insurance we have committed to adding another year's salary to help people tide in some small way with at least the future of their lives. But equally for the communities and the society and we have today just announced this morning, a whole new set of efforts and initiatives and investments to support the communities within which we operate. For instance, we are making sure that in at least one district in every state or union territory we will make an intervention. We are creating 16 bed mini hospitals in 15 most needy districts and these are mini bed hospitals that are self-sufficient but also that can be moved around to other more needy districts as and when needed and we are investing on this. Providing oxygen plants to nodal government hospitals in 21 districts and across 10 states in the country providing medical equipment, consumables, oxygen supplies, ICU beds and so on as requested by state governments to do this.

I just want to say this that Diageo is committing a further INR 45 crores towards this effort to help India at this time of need. Of this, INR 45 crores, INR 35 crores or £3.5 million will be funded directly by Diageo PLC and INR 10 crores will be contributed by USL. But if you add together what we have done in wave 1, our Raising the Bar program and what we are doing now, Diageo in India or Diageo as a Group would have committed almost INR 130 crores towards COVID relief. Actually, I must say, I feel very proud that our company is willing to open its purse string at a time of dire need like this and help those who we depend on in the world outside. That's what we need to do in the short term and as we said the medium term this quarter, next quarter you can see the states of the nation, successive lockdowns, nobody is breathing easy. The reality is we are in choppy waters again and we are not immune from these choppy waters and therefore there is going to be some short-term impact on the business and that's to be expected. But as the lockdowns emerge and as we start sailing in calm waters again and as the sun shines brightly as again as it will; we need to make sure that we are as focused on the long-term as a company and as a management team as we have been on taking care of the short-term crisis that we have been in. Therefore, we are renewing our commitment to the planet with our Society 2030 Spirit of Progress commitment, and we are making some significant commitments as part of this. Achieve net zero carbon emissions across India operations by 2025, achieve net water positive impact in India by 2026 and ensure 100% use of only recycled product packaging. This is something that every responsible company needs to do.

But you know the long-term opportunity in this industry remains optimistic and I have to say, it is very optimistic and yes there have been lots of these "funnies" as we call them that has happened from year-to-year and sometimes quarter-to-quarter. But the fundamental consumer opportunity of 17 million people entering legal drinking age every year. A young population who are open to new things with the median age of 27, low penetration particularly amongst women, low per capita consumption of alcohol in particularly Spirit, attitudinal barriers to alcohol, breaking down with alcohol being more open and more accepting and more acceptable to people and finally consumers looking for better experiences; all this means that the consumer opportunity is intact. To ask you that is the opportunity for long-term premiumization and, you have seen how our strategy of focusing on precision Prestige and above Scotch has continued to

play out in this market. We are playing in line with how consumers are evolving. There's an exploding middle class, there's improving purchasing power and not only that, people are willing to open their purses.

I just wanted to say that consumer opportunity, the premiumization trend is an additional category to rebound when things improve, the external funnies subside we may be normal but equally I just want to say that, not only the external environment but also our business has never been in better shape and I just want to demonstrate that the external environment remains strong, the long-term prospects remain strong and our business has never been in better shape. And I am going to use today's opportunity to recap some of the things that we have done over the past 7+ years that our company has been around. We have transformed the complex and fragmented USL business that Diageo acquired, into not just a business, but I believe an institution which is built on strong reputation and a cohesive and consistent strategy. Now firstly we're focused on profitable growth, pivoted around premiumization and productivity. The growth was focused on Scotch, on Prestige & Above which is now 70% of our business and renovation and innovation as a cornerstone of our strategy to build those brands. We supported this with productivity and efficiency across every aspect of the business. We have de-monetized a load of non-core assets, we have halved the number of manufacturing sites, we have halved the head count and we have moved to a more asset light franchisee model for some of the Popular or mass market brands and of course we have reduced debts very significantly.

Secondly, we have transformed the reputation. I believe, not just to this business but obviously of the industry. We have shown that business can be done, and we have genuinely changed the way business is done in this country and then this industry through ethics, governance, transparency across every aspect of our business. We have changed the nature of engagement in state and the federal governance and moved from a negotiation to more of a collaboration and have a seat at the table because we can add intellectual heft and experience and help them to craft a win-win strategy. We were seen as a liquor company. I do believe we have moved from a liquor company to a corporate citizen now. And we have transformed the reputation for our corporate brands and our employer brand which is Diageo. And finally, we have created big shifts in talent and culture. An aspirational culture integrating the best of the erstwhile USL and Diageo. Building an organization that's future ready in terms of organization design, capability, career development and being a functional rather than a regional operating firm. An impossible diverse culture, many of us know that there was not a single woman on the leadership team of this company across the 25 people in the management committee when we started the journey. And today, we have a proud representation of very confident women at every level in this organization. So, I must hasten to add there is a lot of work to be done. And then having progress as also seen around maternity or paternity leave or travel policies or indeed policies that treats everybody equal irrespective of your sexual orientation or other requirements. And finally, high-quality talent with strong highs on reputed Indian and foreign companies across diverse sectors. And we have continued to develop the internal pipeline. You know very often in the past, I used to talk of the early years with USL when I used to say we are flying the plane while repairing

the engine. I just want to say this that I feel that the plane is today robust, and its engines are in good working condition. With what we have managed to do in the industry, I believe we have constructed a solid runway and this plane that we have built now is taxiing and almost accelerating. I really believe that in the times to come, this plane combining the potential of this industry and the strength of this business will absolutely have every potential to take off. With that I want to thank you for your time, for listening through to this presentation and we will now open it up to questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy: My first question is versus industry if you could tell us how much faster you have grown because you have commented that you have grown faster than the industry. When I see the numbers, in the last two quarters in P&A, the sales is almost flat which is commendable given that pub-bars are shut and the COVID scenario. And on marketing spends, it is at a multi quarter low and last quarter also on a YOY basis there was some saving as a percentage of sales. Is there a structural lower cost environment currently given a lot of events activations are not possible?

Anand Kripalu: First of all, I can't tell you precisely, you will have to wait through and look at other results and try and triangulate the data. But from whatever tracking we do and unfortunately, I cannot share that more publicly. We believe we have outperformed competition in each of the past four quarters, despite the quarter having been fairly subdued because of the environment and the way it was. Yes, marketing this quarter is at a low but I would like you to look at marketing costs on a full-year basis and we are probably about 90 bps behind what we were in the previous fiscal. We like to spend money behind news and this quarter we have kept aside money to spend behind some significant activities which because of the conditions we couldn't fully execute, and you will see that spends coming back. I also would like you to think of A&P spend the way we think about it. A&P is just a pure advertising and marketing that you see. We also think of, Are we investing behind our brands in terms of products, in packaging and competitive performance and delivering? And we treat that, it doesn't come under the accounting line of A&P, but we treat that as bank investment. And sometimes we have moved money from there to here or if we are taking a pricing action in a particular state; when we total it up we add all those levers together and say this is the amount are putting behind our brand. But in terms of A&P the way you should think about it is that 8% to 9% will be broadly the range that we will spend in a normal year and spends maybe tight. Right now, shops are all shut in half the states, so we are not going to be spending on A&P much. If you think about on a full-year normal basis 8% to 9% is what we have spent which will always mean a strong double digit spend on our P&A portfolio.

Abneesh Roy: My second and last question is on gross margin. So, good improvement on a YOY basis but quarter-on-quarter it's gone down by 70 bps so any comment there and on outlook given inflation everywhere, and the fact that the sentiments are weak so do you see some risk because of the downtrading?

Anand Kripalu: We are not going to comment on guidance on gross margin Abneesh you know that. I mean we have always said guidance is about operating margin. Now having said that, we have been and don't read too much into quarter-to-quarter because there are lots of funnies right now. But the fact is that the gross margins are at a reasonable level and they have been enabled by a relatively benign COGS environment and benefited from our productivity program which is continuing to be driven really hard. Now as you look ahead you got to expect some inflation is going to come in after benign year like this. I don't think it's going to see a big hit on COGS in this April to June quarter. We know that this quarter is going to be reasonably okay. But you got to believe that some level of inflation will set in. The counterbalance to that is the fact that with the pandemic again in full fury there is going to be a big supply-demand and commodities as well whether it's glass or ENA and so on. And if the overall demand is down then the prices could also soften as a consequence of that. But that's the basic situation, I don't think you should read too much into the GM movement. We restate our commitment that when times are normal, when the ship is sailing in calm waters that we will deliver mid to high teens margin with a consistent improvement in operating margin and that's all we really can say Abneesh.

Moderator: The next question is from the line of Avi Mehta from Macquarie.

Avi Mehta: Congratulations on exceptionally strong cost control and productivity. Benefits are clearly flowing through. My question was essentially on what you told just now; we have almost reached that mid to high teen mark clearly this quarter. Do you think there is more juice still and that target is still something that high teens is a much higher number in your view, or could you give us some sense how should we look at margins on a sustainable basis?

Anand Kripalu: There's always more juice in every business and there are always opportunities. But having said that, we need to deliver this performance consistently before we go back and take guard again on scoring the second century. We need to be out in the woods in terms of the choppy environment we are in. This is not the time for us to be relooking at guidance and therefore I would really resist from doing anything of that kind. In the future once we deliver consistent performance, once the clouds clear, there will always be an ambition in every business including ours to improve. But for the foreseeable future this is the guidance. I don't think we can add any more value to that guidance today Avi, I'm sorry.

Avi Mehta: If I hear you correctly this number is something that you think is sustainable right? Would it be fair at least in the near term? I understand that we are in an uncertain world, but at least given whatever visibilities you have except the Ad spends moves up logically the recovery should also be playing out. So, you think that should balance is that what would we be aim of the management?

Anand Kripalu: Don't look at quarter to quarter margin, first of all. Please look at our performance on a full year basis. We don't run the business on the quarter-to-quarter basis, I said that before. So, this quarter we may have done less A&P, the previous quarter maybe higher A&P, but we're running the

year and that's how it's going to be. Therefore, I am saying you have to look at our guidance as the goal and that's our guidance. So, don't start extrapolating, I mean one swallow doesn't make a summer. Please look at our business more holistically than just one quarter is what I would advise.

Avi Mehta: The second question essentially is there's a lot of pain I picked-up here on the smaller peers in the industry, especially given the working capital stretch that has happened, the tax increases. I wanted to understand, is this an opportunity that is worth looking at or is the profit pool too unattractive given the segments that they cater to, your thoughts on that?

Anand Kripalu: We have already announced our strategic review for parts of our popular portfolio, and we are very clear actually. We have been clear right through these last many years that the future profit pool is moving towards the Prestige and above. That's where we want to focus in there's a lot to be done there across Prestige and across Scotch. Now it's possible that some of the smaller players may have a hard time and we still have a popular portfolio. And we see I'm taking a call and what exactly we're doing with it. That's what is better opportunities to mop-up volume because somebody else cannot supply, we absolutely remain committed to the Popular portfolio that is there with us. You know very well that we have retained business for which we look at it more strategically and franchise business, which we allow third parties to manage.

So, absolutely, we will mop up any opportunities that are there. But the way we have to think about this is, what is our strategy? what do we want to do as a team rather than the opportunist. Because that you might get a short-term opportunity but if you take your eyes off the big prize then that's not going to be wise in terms of how management will spend its time and where management will invest resources. That's how I would want you to really think about that.

Avi Mehta: And just a bookkeeping question. There has been an increase in excise duty payable in the balance sheet. Is this a timing thing? Or this more structural in nature?

Pradeep Jain: It's a timing thing.

Moderator: The next question is from the line of Aditya Soman from Goldman Sachs.

Aditya Soman: Just two questions from my end. Can you just throw some more light on the scotch performance particularly the BIO Scotch over the past quarter and the full year as well? So, you indicated in the previous call that brands like Red Label did exceptionally well, any additional color you can give us on that.

Anand Kripalu: I can just tell you that scotch is gained strong double-digit. Very strong double-digit, it's the fastest growing segment within our business including in this previous quarter that we have seen. And within that BIO is growing much faster than BII and BII was growing faster partly enabled by some softness in duty free sale as you know, partly we have had some regulatory unlocks on pricing. In several states actually where BIO duties and prices therefore have rationalized and

that our teams have also done some really good job on the ground too and exploit that opportunity and drive that opportunity hard. So, I would say it's the fastest growing part of our business at this point. Without getting into more details on the specific numbers Aditya.

Aditya Soman: Just a follow up there, you talked about regulatory unlock, can you just give us an example or throw some more color on what exactly has changed?

Anand Kripalu: It's basically tax rationalization and that's what some pricing correction across quite a few states in the country. So, if you remember there was a big drop in prices in Delhi some time ago. They moved closer into line with Haryana prices, there's been some rationalization in UP, there's been some rationalization in few other states. And there are some states where we still are trying hard to get it rationalized. One thing that you all may be reading about too that's connected to this is what's happening on the UK-India free trade agreement and whether that would lead at some point in time to some significant unlocks on duty rate for imported spirit particularly scotch and scotch whiskey. I can tell you there's a lot of dialogue happening, and you read about it in the papers as well between both sides on seeing what's possible in this area.

Aditya Soman: Secondly, in terms of the strategic review of popular brands, when do you expect that to get completed?

Anand Kripalu: We have said by the end of this calendar year and I can tell you we are running on track to make it happen by this year.

Moderator: The next question is from the line of Percy Panthaki from IIFL.

Percy Panthaki: My question is for Hina, since you have spent time in the African geographies what similarities do you see there with India which can be sort of read across or applied learning to the Indian geography?

Anand Kripalu: Hina you want to take that, or do you want to just hold till you are firmly in the saddle?

Hina Nagarajan: Yes, I would actually; I am not an active part of this panel. I'm only an observer today so I would prefer to skip it. I mean there are similarities and differences but let's talk the next time.

Percy Panthaki: My second question is with the second wave of COVID what is the impact you're seeing on the business? I would assume that it is not as bad as the first wave last year around.

Anand Kripalu: Well, it can't be worst as first wave when there was a 100-day lockdown and there was zero business. It can't be as bad as that thankfully. As you have seen the previous quarter, Jan-March was fine by and large, but as we are now getting into this quarter, we are seeing an impact through this quarter. We exited strong from the previous quarter, but we are seeing a slowdown. I don't want to put a number to it honestly, but the reality is few states are 100% shut. Many states are shut but thankfully home deliveries happened just like Maharashtra and West Bengal.

Some states are open, but they are open from 6 to 10 in the morning or 06 to 11 in the morning, which is not normally commensurate with the time when people go down and of course the on-trade is largely shut. So, you must think about the fact that there are significant barriers to consumption, as we speak. So, the impact in the short run is significant but no idea what it was when there was a full lockdown. The only silver lining in the sense that like I said earlier in the presentation, people are seeing this more as a fairly essential category and many states have allowed retail to open 6 to 10 in the morning or 6 to 11 in the morning or allow home delivery rather than shutting things down fully. And the states also need the revenues and they are not seeing any value in keeping alcohol completely shut. So, while they are keeping grocers and other business open, they're also finding a way to make sure people who want to buy alcohol are able to access.

Percy Panthaki:

Like in the first wave the problem was mainly the restrictions on supply, but this time around while of course there are some supply restrictions are you worried about any demand impact? Because the case load is much higher, it's much more widespread across India and therefore in this kind of an environment the recovery from a demand perspective may not be as immediate as say whenever the supply restrictions end?

Anand Kripalu:

We've seen many markets around the world, and we see many incidents of this kind happen in our industry in the past. The category is resilient and always bouncing back without fail. Having said that there is some short-term dampening of attitude, dampening of spirits of people and therefore I would think some dampening of demand, hard to read because of accessibility and shops being shut and how much of it is because these spirits of people are little dampened. Because many more people have been impacted. Many more people have got affected by this pandemic. There are also supply challenges by the way because many factories are getting into lockdown zones, many factories can work with limited people, limited timings and reduced number of shifts. It isn't only demand led or retail opening led, there are also cases where we aren't able to supply fully, because if you have infected cases then you have to go through all process of cleaning up your plant and then you may be given permission to only open a shift or two. We are in this situation right now. And we'll just have to wait for this to pass, the only message would leave you with is, I really do believe this industry is like an elastic band. Its ability to recover is huge and we should just remember that as we think about the business.

Moderator:

The next question is from the line of Ashit Desai from Emkay Global Financial Services.

Ashit Desai:

My question is on other overheads. If you look at the other overheads this quarter or year, it has been largely flattish per se last year. In a year which has seen a revenue decline in double digits and also then you compare this to the other consumer peers we have seen a good amount of savings over here. If you could highlight, why savings have been low over here and are there any one-offs that we should be aware of?

Pradeep Jain: Ashit, in the Ind-AS accounting as we have explained earlier, the entire sizable component of the Andhra Pradesh unwinding cost sits in the other overheads line. If I, make it like for like we continue with our run rate of about know 5% to 6% efficiency on a year-on-year basis on the overheads line. That's broadly the run rate that we have established. In fact in 2021, because of the COVID led restrictions because travel, etc. was restricted, we would have delivered slightly higher than that. So, that's what the noise is on account of. The Andhra Pradesh unwinding winding costs have gone in two sections. One is about the gross margin line to the extent of the franchise business that we had to surrender, and all the unwinding costs sit in the other overheads.

Ashit Desai: Can you quantify how much is the unwinding cost?

Pradeep Jain: We normally don't share that Ashit but do get in touch with Richa after the call she'll be able to help you out.

Ashit Desai: And if I may take one more question, I had a question on working capital broadly if you look at the improvement in working capital which has been driven by increase in payables and other current liability, also the receivables and inventory largely remaining similar. Are these sustainable and secondly do you see any room for improvement in reducing inventory and receivables there is going ahead?

Pradeep Jain: Comparing the absolute, may not be the right bench; the scale of the business has come down versus last financial year. If you look at the last 3 to 4 year progression our net working capital has run at about 30% of our net sales value and we have ended 2021 in the range of about 26% of net sales value. And obviously the Ind-AS accounting determines a lot of things etc. On an underlying basis we have improved our working capital across accounts receivable, inventory marginally and across accounts payables. So, roughly you will see a 3% to 4% improvement. Like I said in my presentation the improvement part of it is driven by the fact that all the corporations have behaved. All the corporations are paying us on time. Therefore, it becomes a slightly high base to lap but as Anand has mentioned and we have maintained that we continue to extract efficiencies across the value chain. It's an ongoing journey and we will task ourselves to continue to extract a working capital efficiently year-on-year.

Moderator: The next question is from the line of Harit Kapoor from Investec.

Harit Kapoor: I just had three questions, firstly it has been one year since you've re-launched McDowell No.1 and Royal Challenge and it is a bit complicated because of COVID but if you could just give us a sense of as per your action standards how both these brands have performed in their re-launch over the last 12 months?

Anand Kripalu: So, as far as the renovations are concerned, I would say the following, No. 1 has trended almost everywhere in the country and has done exceptionally well in most parts of the country. So, we are very delighted with that. As far as RC is concerned that rollout has been more limited. It has

not managed to get to every place that we wanted to get to and there has been some other moving parts, so in some states RC has met action standards and we have done well and in many states where there has been other things that have happened like pricing movements and so on, the performance has been below what we would have ideally liked. But it's a very unstable time and we still believe that it has potential to deliver but right now it's still a bit mixed.

Harit Kapoor: Just a follow-up to that regarding RC, are you relooking at it or you're just waiting till the environment settles down to get a bit more on in terms of demand lead data on how things are panning out?

Anand Kripalu: No, we are constantly evaluating how brands perform. The team will then come back with whether we need to change something or just wait for market to smoothen up and invest more and do whatever it needs to do. So, just recognize that we have our finger on the pulse and if something needs to be done differently it will be done, if that needs to be persistent to it then we will do that. But that's getting too much is the future; I'm just telling you how current things are done.

Harit Kapoor: Second question was on a data point on franchise income, so if you could help us understand what has been the dip in franchise income for this year you had mentioned at the beginning of year that there's this significant reduction. If you could just help us understand, what range has it been at for FY21?

Pradeep Jain: So, look we haven't shared the exact franchise number but what I do want to share is that we took this question two quarters ago. We have a master franchisee in the south part of the country, and it is not just one geography, the franchisee operates across 4 or 5 states. And Andhra was a big component of that master franchisee. Therefore, with Andhra going away that has not just impacted the Andhra business but the franchisee's ability to perform sustainably in the overall south geography. We have taken a bit of a hit, now we've never shared historically the exact numbers. I don't want to divulge more details on that one, but it's been a sizeable number. That's all I want to say.

Harit Kapoor: So, ex-Andhra or probably ex-South would you have seen more or less....

Pradeep Jain: Yes, barring for the April-June lockdown period, our franchise income is stable.

Moderator: The next question is from the line of Tejash Shah from Spark Capital.

Tejash Shah: My first question pertains to Andhra scenario, so in past you've spoken about couple of states like Chhattisgarh, Uttaranchal where our sales had gone to almost zero and then things normalize soon. But in AP we seem to be winding down for good, it seems at least as of now, so just wanted your perspective on the same.

Anand Kripalu: In this industry, what I have learnt is that one door shuts the other door opens. This is a constant game that happens. Bars are suddenly shut in the middle of everything. Uttarakhand's sales came down to zero, Chhattisgarh our sales have collapsed now, Uttarakhand is fully recovered, and we are performing well in that state and so do in Chhattisgarh. Now AP, all I can tell you is our current business is pretty much not well. We continue our engagement with the AP government and talking to them and we're also thinking about what are the other unlocks that we could get, which includes using other routes that are available to us as per the laws of the land. And not just true for me by the way it's true for the largely like-minded industry that wants to do business the right way. There's nothing more to say on this. Right now, the only silver lining is now AP has come off the base for us. And therefore, we will see real performance on that base without AP but it's not as we're writing off the state. We are doing what we can but right now options are limited.

Tejash Shah: Just one follow up on that, so is it the same for other key peers as well or is it our call as of now and others are continuing in this business?

Anand Kripalu: Largely through give or take a bit for the multinational players. Some people are doing a little more business than others. We're doing almost nothing, and we are more governed by whatever we do, we will do it right and that's it. But by and large for most of the international players AP has become a no business at all. That's true even in the beer business.

Tejash Shah: Second question is on ethanol blending policy, now it's been placed for one or two quarters now, so any visible impact of the same on ENA pricing?

Anand Kripalu: I mean I will just say this and then when Pradeep wants to add he can do that. I'll tell you this ethanol blending policy something that I have also learned, don't predict because you just don't know when a new policy comes with a new product. And if that comes and then there will be a correction upwards or downwards depending on the policies of the ENA pricing. And we have seen that happen historically and that's how ENA prices went up significantly because of the push towards the ethanol blend. Now is this possible, with the oil prices going North and so on and fuel prices hitting what they are in India it's always possible that the government will relook at the ethanol blending policy. Just two things from our side, one is that the immediate future seems okay and some inflation may come but that's regular inflation. We can't build our plans based on a discontinuity of the ethanol blending policy. The second thing is that we are progressively increasing our in-house distillation to make ENA, so that we can securitize ourselves better in the times to come on this particular raw material. That's the only way of hedging against some of these policies in the fullness of time.

Moderator: The next question is from the line of Alok Shah from Ambit Capital.

Alok Shah: I have two questions. First question is on the realization. Is it possible to elaborate further on what led to this strong realization improvement in ENA? Is it more to do with the duty free versus duty paid stock that consumers have bought, or any price hike or state-mix that you can

call out? Secondly within the states where home delivery has been allowed can you share how are the numbers taking up, how's the growth etc.

Anand Kripalu: Home delivery is being undertaken in 6 or 7 states. All the sales in Maharashtra are home deliveries, West Bengal is doing reasonably well. In other states it's small and a bit of a chisel. But we know that some of these things just take time for them to evolve and hoping that home delivery is here to stay, and more and more states will open this up. We are continuing to talk to states. They have a resistance because of concerns from the retailers particularly. The retailers are worried about the home delivery or more importantly e-Com business taking a share of their business and that's the tightrope we're walking.

Alok Shah: Regarding the realization growth that we are seeing in the P&A portfolio, Is it more a function of some state mix changes or some price hikes or you think it's more of previously duty-free paid stock being bought by the consumer which is now that demand is moving to duty free.

Anand Kripalu: The P&A realization per case is what you're asking for?

Alok Shah: Yes.

Anand Kripalu: So, it's really all of the above, all the reasons you have said have contributed to this. First of all, there's a premiumization in the portfolio, Scotch has grown much faster as you have said, there is some price increases that we've got, contrary to our thinking as we were entering the pandemic, we thought that we will not get any pricing but we have, well I would say we have been pleasantly surprised that we have managed with the pricing, but there are a few more difficult states that we're still trying to attract. And state mix I cannot confirm to you because I haven't looked at that data closely enough. Certainly, a brand portfolio premiumization and pricing are key contributors to that.

Pradeep Jain: The premiumization is working at two legs within the overall portfolio, the P&A salience is going up and within the P&A sales, the scotch portfolio going up. It's literally two levers of premiumization within the overall portfolio.

Moderator: The next question is from the line of Arnab Mitra from Credit Suisse.

Arnab Mitra: My first question was we just entered the exercise cycle for FY22. So, any positive outcome on the pricing or taxation for many of the major states or any states where you have a worry other than West Bengal where there are challenges but from FY22 perspective how is that looking from a tax point of view?

Anand Kripalu: So, I would say we have not had any significant adverse taxes; there are small movements here and there, but nothing significant to be disruptive. That's the first thing which is good news. Pricing, there have been some positives on pricing, and more than dozen states we have received some level of pricing on the other. Not just talking about FY cycle but in the run up to the FY

cycle as well including some price increases that the market has taken in the state of Maharashtra. So, I would think that's all-good news. West Bengal like you said we still have to fix the policy itself and we still have Karnataka where we have not been able to crack pricing which is a very important state for us and we are at it, we still believe there's a possibility of getting it before the 1st of July, but pricing with the state governments you never know for sure.

Arnab Mitra: If I look at your 4Q revenue numbers it's about 3% to 4% higher than what you had done in the second quarter and why I am taking second quarter is that I know third quarter is fairly strong quarter, so not a right comparative. So, with all the reopening happening is it that as the on-premise reopening happens there is a compression in the retail sales or is it more in just more of a West Bengal effect which is playing out in 4Q which was possibly not the case into 2Q, if you will just help us understand that sequential movement in the revenues as the reopening happened?

Anand Kripalu: It's very hard to read this, because even though the on trade was open, it was open with very low footfalls. And we know that the on trade would be completely shut, also the off trade has been pretty robust and pretty strong. Honestly, it's not easy for me to respond to your question.

Pradeep Jain: Maybe I can just give a headline response which is that Q2 and Q4, the two lap up issues are very different in scale. The West Bengal policy came sometime around October post Pujo, so, that impact is very high in Q4 and similarly the scale of the impact of Andhra Pradesh have diminished as we have progressed over the quarter.

Anand Kripalu: I think we're out of time, so I request you to close the call.

Moderator: Sure, over to you for any closing comments.

Anand Kripalu: I just wanted to thank everybody for their continued interest in the company, for their insightful questions as always. I look forward to continuing to engage with you at least till the time I'm here which is the next 5 weeks or so. So, till then stay safe everybody and thank you for dialing in.

Moderator: Thank you. Ladies and gentlemen on behalf of United Spirits Limited that concludes this conference. We thank you all for joining us and you may now disconnect your lines.

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