"United Spirits Limited

Financial Year 2025 Earnings Conference Call"

May 23, 2025

MANAGEMENT: **MR. PRAVEEN SOMESHWAR – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – UNITED SPIRITS LIMITED**
MR. PRADEEP JAIN – EXECUTIVE DIRECTOR AND CHIEF FINANCIAL OFFICER – UNITED SPIRITS LIMITED
MS. SHWETA ARORA – HEAD OF INVESTOR RELATIONS – UNITED SPIRITS LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the United Spirits Limited Financial Year 2025 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Shweta Arora, Head of Investor Relations, United Spirits Limited. Thank you, and over to you, ma'am.

Shweta Arora: Thank you, Robin. Hello, everyone. Good evening, and welcome to United Spirits Q4 and Full Year FY '25 Earnings Call. Before proceeding with today's presentation, I would like to remind the listeners that during the call, there may be some forward-looking statements. These statements are based on our views and assumptions at this point of time.

However, this is not a guarantee of our future performance, and results may materially differ from those expressed in or implied by such forward-looking statements. I request all of you to refer to our financial and press release posted on Tuesday and the presentation posted today. Both are available on stock exchange and company's website under the Investors section.

Moving on. Today on the call, we have with us Mr. Praveen Someshwar, our MD and CEO, who is joined by Mr. Pradeep Jain, Executive Director and CFO. Praveen and Pradeep will take you through the financial business performance for the fiscal year 2025, followed by the Q&A session.

Before we begin, I would like to invite Pradeep to open this call. Thank you, and over to you, Pradeep.

Pradeep Jain: Thank you, Shweta. Good afternoon to all. It's always a delight to interact with this cohort. Shweta has given me the onerous task of introducing Praveen, having overlapped with him for more than 20 years in PepsiCo and both of us having our roots in finance, can emphatically state the following about him.

He understands the Indian consumer inside out and his understanding is data backed. He ran both businesses of PepsiCo as consumer-first businesses, and he was huge role model in PepsiCo, not just for the finance fraternity, but for the overall business fraternity. He was also instrumental in creating PepsiCo's end-state bottling vision of a national mega bottler, which most of you have seen play today.

He ran a portfolio region in PepsiCo, Asia Pacific, which had a system revenue of $4 billion to $5 billion, multiple operating models and a culturally diverse region. In HT Media, he created a digital-first organization, navigating the organization through the pandemic and future-proofing the business while emerging strong.

With that, I will hand over to Praveen to take you the business highlights for fiscal '25.

Praveen Someshwar: Thank you, PJ, and good day, everyone. Thank you, PJ again for the very warm welcome. It's my absolute honour to represent United Spirits. I'm truly excited to be here at a time when the Indian consumer is evolving, becoming more discerning, choiceful and purpose-led.

As the undisputed leader of Scotch or should I say IMFL also in India, with global and USL trademarks, a portfolio that caters to the entire consumer ladder, which could be a INR120 per bottle to INR25,000 per bottle in the world's largest whisky market-this presents a remarkable opportunity to shape the next curve of growth. I must admit that my outside-in perspective of the sector was that of a tightly regulated industry, marked more by headwinds than tailwinds.

However, recent policy shifts are progressive, encouraging and offer fertile ground for building momentum. I look forward to what we build together with purpose, ambition and impact. I thought the first best way to start is just see what the landscape looks like and what are way to take it off. The India-U.K. free trade agreement, which has halved the duty on Scotch from 150% to 75% - it's landmark.

It shall enhance accessibility of Scotch in the world's largest whisky market. As a category captain, as USL, it presents a valuable opportunity to drive deeper penetration and introduce new premium offerings that cater to India's evolving repertoire consumer. During the year, we witnessed policy advancements in several states, starting from UP, which introduced a key reform in '25-'26 excise policy.

Liquor retail shops that previously sold either beer or spirits exclusively will now operate as composite outlets, permitted to offer both, resulting in doubling of the retail touch points for spirits from 6,500 outlets to roughly 12,500. It's a move in the right direction, more so on expanding the access while enhancing the consumer choice.

This year, we recommenced the business in AP, Andhra Pradesh, after a 5-year hiatus, enabled by progressive policy changes from the new administration -Encouraging to see how our trademarks regained fair representation, in fact, now pretty much our national market share. Our brands are connecting again with the consumer backed by renewed and meaningful engagement in AP. That said, it's not all green.

Broader environment continues to be challenging. Demand is, as all you folks know, currently subdued. While long-term consumption trends are favourable, hence, we must stay agile and continue delivering compelling value for our consumers. Moreover, some restrictive route-to-market policies in Delhi and some other states has hindered our brand presence in what is a high potential premium market.

Similarly, we are facing bureaucratic delays in a key Scotch salient state, which is, again, limiting our full potential. These issues warrant resolution. Notwithstanding, we remain optimistic and confident that market access will continue to improve in due course as states continue to align policy with consumer demand and economic opportunity.

These, as you know, are the 3 key pillars of our strategy. The portfolio reshape, organization of the future, and Diageo in society. A quick progress update on each of these during the year. I'll start with portfolio reshape. Starting from an update on our luxury and premium trademarks. Here is our amazing, absolutely iconic trademark. Johnnie Walker.

I'm sure like me, many of you have grown up on the brand and I'm sure it's played a significant role in your journey of progress. Keep walking, no matter the setbacks. The brand invokes a lot of emotions and resonates with a very wide consumer base. Over the years, we have made significant strides in building a compelling consumer value proposition around this trademark.

Our "Can't Stand Still" campaign with global icon, Priyanka Chopra Jonas, has further strengthened brand equity and resonated deeply with our audiences. We continued our association with exclusive platforms to dial up aspiration, consumer engagement and build cultural relevance on the brand. Some of the most prominent ones being Lollapalooza, third year in a row, some marquee events around music by Diljit Dosanjh and Dua Lipa. All of these helped us to leverage and drive sampling and visibility, therefore, unlocking leadership equity in the luxury space.

Malts. There are 2 bookends too on single malts. There are the iconic trademarks of Lagavulin and Talisker that have commanded loyalty and admiration across generations. And that is Singleton, where our ambition is to build enduring brand equity on par with the iconic global malts amongst the new generation of malt enthusiasts. We launched the Single Moment campaign for the Singleton social, featuring Sobhita Dhulipala as the first-ever brand ambassador for Singleton in India. The brand was also active in culturally relevant local events such as The Wedding Collective by Jio.

Coming to our Indian single malt, Godawan. We are nurturing the brand. Multiple brand-led and commercial initiatives underway to build its stature, both at home and abroad. We recently launched Godawan Expressions through the CSD- the Canteen Stores Department, a significant milestone in driving salience for India's own single malt among our nation's heroes.

We introduced the Godawan Durbar experience IP during the new year- a rich immersive experience that welcome consumers into the world of Godawan. Internationally, we are strengthening the brand's footprint by activating premium on-trade and e-commerce channels. Clearly, this is a massive opportunity.

Our BII portfolio continues to be on fire. It's seen healthy growth over the last few years, and it continues to be rocking. Black & White continues to perform competitively -- we created experientials with table for everyone, a big playing culture with integrated comps and experientials across on-trade, off-trade and the third spaces.

Black Dog continues to maintain its equity leadership in the BII Scotch segment, 1.3x to the nearest competitor. We introduced a limited-edition Black Dog Triple Gold Reserve pack in collaboration with renowned fashion designer, Falguni, designed for the festive and wedding season. Black Dog also sponsored events, like Spoken Fest, resonating well with the ethos of the brand and its proposition, Savor the Pause.

Tequila as a category has seen massive growth over the last few years. Don Julio Tequila was one of our biggest launches. While the launch happened end of '23, this is the first annual year for the brand. Don Julio resonates well and is in favour with our luxury consumers for their most exclusive occasions. We are building the brand with high visibility events such as the Day of the Dead and associations with a month-long cocktail festival, with love from Mexico.

Overall, it has done well in this space, especially at the high end. The gin category has seen some slowdown, if I may say so, while Tanqueray continues to progress robustly. We continue to build excitement in vodka with our flavour repertoire curated specifically for the Indian palate. The innovation after 13 years marks an exciting new chapter in the brand's journey and we're just about getting started.

Mirchi Mango, Minty Jamun and Zesty Lime as a concept, flavour as a vibe resonated very well with our consumers. Coming to our Prestige portfolio. In the Upper Prestige segment, Signature is one of our strongest performing brands and is witnessing sustained strength in brand equity scores.

We amplified our purpose communication on digital, scaled up our long-term association with the Ziro Festival of Music and also extended it to Telangana. We made significant progress on our mangrove replenishment project, an initiative to regenerate the mangrove plantations in Odisha. Restoration efforts is spread across 60 acres in 5 villages near Puri, Odisha.

Our focus on Antiquity continues to be on building awareness on the new bundle, which was renovated a year back. Recent renovations was in the CSD channel through the launch of a music and art experiential event for the armed forces titled Beyond the Barracks.

Coming down to the Mid Prestige. We continue to expand RCAP, Royal Challenge American Pride for national presence. We recently associated RCAP with Ed Sheeran’s India tour across Delhi, NCR, Bangalore, Hyderabad and Shillong, one of the biggest music events in the country. On Royal Challenge, we launched our ChooseBold 2.0 campaign featuring Virat Kohli, Smriti and Vidyut on both TV and digital platform.

During the T20 World Cup, the Women's IPL and IPL as well as the Jersey 18 Film. Also, for the first time, Diageo explored into E-sports with RC. Also launched the Royal Challenge Pocket Packs in key markets like Maharashtra to drive occasion and unlock that price play.

RCB, our differentiated asset continues to build on its strength. It commands exceptional brand equity, has top viewership charts this season, continues to be the showstopper amongst the IPL teams. Ranks amongst the top five most popular global sports teams on engagement, trailing only to football giants, Real Madrid and FC Barcelona. The annual standout experiences RCB Unbox event, it was a grand celebration that sets the tone for the IPL season.

It brings fans up-close - with player introductions, jersey launches and dynamic performances. Beyond the pitch, RCB is also making a meaningful social impact by nurturing young sprinting talent from the city community in Mundgod, Karnataka. On a lighter note, I hope they'll bring the cup back this year.

Another iconic trademark, McDowell's. We renovated the brand in key markets, followed by a 360-degree activation with media and trade. Also launched, Double Oaked Barrel, a premium vibrant whiskey, exclusively in the Assam market and UP, our battle markets. Additionally, we introduced the number one hipster pack, which is our pack price to play. Our Yaari Jam concert drew over 25,000 attendees and ramped up engagement with McDowell's.

We are constantly working on premiumising our brands. This, with our consumer-in innovation, led to X series. Our latest offerings from the House of McDowell's X-series package with offerings in three fast-growing categories- Rum, vodka and gin. The brand is starting to expand its footprint. We also collaborated with NH7 Weekender, one of India's most prominent music festivals and reached audiences across Jaipur, Indore, Noida and other towns, overall dialling up the brand McDowell's.

This chart effectively summarizes the impact of all initiatives that we have undertaken to build and strengthen our trademarks. Results speak for themselves. The complementary portfolio delivering both on volume and value, the right balance between scale and premiumization. Three trademarks, which are greater than INR1,000 crores NSV as is very visible, McDowell's, RC and Johnnie Walker.

There are another three, which are greater than INR500 crores NSV, which are Signature, Black Dog and Black & White.

And there are another four, which are greater than INR100 crores NSV, which are Smirnoff, VAT 69, Antiquity and Director's Special. We have seen 1 million case trademarks in our portfolio, of which McDowell's is the largest selling whiskey in the world with 30 million cases.

Clearly, this is a powerful portfolio.

Our innovation strategy isn't about chasing strength, it's about shaping them. Innovation is starting to be embedded in our mindset as an organization. This slide captures the powerful innovation calendar for the year.

It's built on four key pillars, if I may say so. It's premiumizing our trademarks, it's addressing consumer repertoire, it's driving and focused on occasions and extending the reach of our innovations through pack price pay. It's how we unlock value, reimagine categories and stay a step ahead of evolving consumer aspirations.

Now I'll just get to the next pillar if I may say so, organization of the future. So you saw just now that we are building the innovation muscle for the organization and this commands focused interventions to develop specialized innovation capabilities for the commercial deal. We are, therefore, investing to build organization's capability to target innovation, commercialization in a very sharp manner.

Our target over the next 3 to 5 years is to double the innovation contribution to growth in NSV, which currently is at a high single digit, low double digit. On-trade execution is another big imperative where we've kicked off some investments. We're strengthening our Org capabilities by constantly identifying training needs and engaging our people. We are doing targeted interventions at each grade to build capability and upskill our employees.

Overall, creating a strong pipeline of future leaders, factory of talent and future industry captains, I hope. Our dial-up behaviors are designed to move with greater speed and agility as an organization and deliver on our stated growth ambition. We are also committed to embedding inclusion and diversity culture at workplace, whether it's through our Spirited Women's Network or Rise or through our Rainbow Network or furthermore, we are enhancing the representation of persons with disabilities.

We are committed to build on this at our workplace. We presently have roughly 56 persons with disabilities across our own manufacturing facilities. All our org initiatives have in turn resulted into a higher overall employee engagement results. What you see on the slide is the result of our annual Your Voice Survey results, outstanding set of results by any external benchmark.

Demonstrate the pride, purpose and commitment that our employees feel about our business, brands, culture and our colleagues. Our overall engagement score is 89%, 13 points higher than the external benchmark. 94% of our people say they are proud to work for Diageo India. 89% of the people recommend Diageo as a great place to work and 85% of our people feel extremely satisfied to work at Diageo.

Overall, this motivates and inspires us to create an empowering and inclusive workplace. Digital is a key priority. And honestly, there's a lot, lot to be done and the journey has just begun. Digitization must evolve and embed in every part of the value chain and should pave the way and determine how we drive growth, deliver efficiencies while delighting the consumer. As you can see, we're looking at it in commercial and marketing and in our supply.

Now I'll just go to the third pillar and that's Diageo in Society, ESG for stakeholder value, okay. Water is a key resource for us, and we have embedded water stewardship as a core principle in our operations, guided by a structured hierarchy and an intuitive framework of water circularity. Till date, we have created replenishment capacity of 1.1 million cubic meters of water.

We have also advanced water use efficiency. Our distillation efficiency has risen to 54%, up from 48% in the prior year. Packaging use efficiency has improved to 35% compared to 30% in the prior year. We are at 99% of renewable energy in our operations. 100% of our thermal energy is sourced through renewable as we have converted fully from coal to biomass. These interventions have resulted in improving our renewable energy share and a 93% reduction in Scope 1 and 2 emissions from our 2020-base year level.

Giving back to communities through our Learning for Life program, business and hospitality skills training program, which has conducted skill development for more than 7,000 individuals since July 2020. During the year, 1,900 students were trained, including the 300 students with speech and hearing disability under the partnership with skill council for Persons with disability, to train persons with disability in the hospitality industry.

Placement support was provided as you can see on the slide, with suitable placements in very reputed organizations. Progressing on our key pillars of Diageo in Society. Most important pillar, promote positive drinking, promotes moderation and addressing the harmful use of alcohol. We expanded our Wrong Side of The Road initiative, which focuses on anti-drink drive.

Till date, we have educated 1.2 million consumers across 79 regional transport offices and 10 states. Next one is Act Smart India, program educating us on the danger of the underage drinking. The initiative is across government and private schools. And till date, we have covered 500,000 plus people under this initiative.

Last one is DrinkIQ.com, which focuses on responsible consumption through consumer-facing campaigns. In the last 12 months, we have generated a reach of over 17 million. All these actions are also reflected in the external ratings and rewards. Rated A on the MSCI ESG ratings for the fourth consecutive year. Latest ESG risk rating by Sustainalytics in September '24 as low risk.

We've also received multiple accolades for our manufacturing and ESG practices from prestigious industry bodies.

This virtual cycle of growth that you see is very crucial for a healthy business. Our continued focus will be to see how to make this flywheel work. We'll be focused on premiumising the portfolio and driving top line growth. Productivity plus pricing needs to cover for inflation and drive a delicate balance of marketing efficiency, while maintaining sufficiency and building our brands. All this, I hope, will help deliver leveraged growth.

At this point, I'll hand over to PJ for taking us through the financials.

Pradeep Jain: Thank you, Praveen. Thank you very much. So, I will move over to the financial highlights of financial year '25. Okay. So, what you see, by and large, I would want to believe that most of them are green. But without going through each of them individually, I would want to call out three or four points. First one is our P&A growth. As communicated earlier, in line with our priorities, our P&A growth is close to double digit.

Second, if you look at our value growth, top line growth, GP growth and EBITDA growth, you will see a healthy leverage in the delivery as we move from volume to value to profit. Our EBITDA margin, I have to say, is in the high-teen range now, something that we have been talking over the last 10 years. So, we are finally there. And last but not least, our return on capital employed has gone beyond 25%. It stands at 26.4% for the financial year.

Moving over to the next page. This is a very familiar chart, right? I would request all to focus on the right-hand side. And the only point we made is that after the high-growth phase of '21 to '24, whether it's P&A or its total NSV, the growth has sequentially moderated a little bit, right? But on a stand-alone basis and relative to what we see in the overall CPG environment, it's very, very resilient to our mind.

We get to the next chart. This is what we started a couple of years ago, the sources of growth for our in-year performance. Now again, we are showing what we have delivered in '24, '25 versus what we delivered in '23, '24. And therefore, you will see a striking similarity between the sources of growth of the 2 years. 70% of our growth is coming from the top half of the portfolio, which kind of suggests that the premiumization ladder is very much intact for this category.

And I dare say that the second redeeming feature for this year is that Lower Prestige, which houses our anchor trademark of McDowell's has also delivered and contributed very, very handsomely to our growth during the year.

I'll go to the next page. This is our annual update to all of you on the multiyear supply agility program that we have kicked off in January 2023. Happy to share that it is very much on track. The last 2, 3 interventions on the manufacturing footprint optimization are left and will be done over the next couple of years. If you look at the cost optimization versus the targets, we have reached almost two thirds of our program benefits, which involves almost like INR70 crores into the P&L, another INR15 crores to INR20 crores on working capital efficiencies. But net-net, overall, the program is very much on track.

Next chart, we will move to what we share on productivity, pricing and revenue growth management and net working capital. Again, the muscle continues. The machine continues to chug. I think on the left side on the productivity numbers, we have delivered about INR388 crores for the year, down from the INR514 crores because the INR514 crores, as all of you will remember, contained a onetime intervention of roughly INR150 crores on account of the mono-carton removal across our portfolio.

Top right-hand side, three good years of headline pricing and revenue growth management. We do believe that this will mute a little -- moderate a little in the years going forward. And last but not the least, right, the working capital, as always said, we'll, by and large, remain range bound between that 16% to 20%, but we believe that we have extracted all the efficiencies that we could on this front, and now we will remain range bound, right?

Next slide. As Praveen mentioned about the Diageo growth flywheel, A&P is a very, very critical component of that flywheel. And as you will see from the chart, right, the absolute investments in this continue to increase. This is what keeps us giving the sustained fuel to grow the business on an ongoing basis, and which in turn then drives the realization per case and, therefore, the premiumization potential of this category.

My last chart is all that I have shared about, and all that Praveen have shared about our portfolio, leads to what we call a consistent delivery over the years. If you look at our pre-exceptional earnings per share over the years, it has consistently inched up, and we have crossed INR20 a share for the first time in our history. And like I already mentioned on the first slide, our return on capital employed has crossed beyond 25% for the first year.

So with this, I will just hand it back to Praveen to kind of draw a close to the presentation, and then we can open up the Q&A.

Praveen Someshwar: Thanks, PJ. We are gearing up for the future in the consumer market of the next decade, if I may say so. Significant opportunity with penetration headroom, more than 100 million individuals entering the LDA over the next 5 years. Momentum behind premiumization continues to build. Women are emerging as a rapidly growing and influential consumer cohort. This market holds immense potential, and we will move from strength to scale.

As we prepare for the consumer landscape of the coming decade, we are encouraged by progressive policy measures that actively support the industry's growth trajectory. Our innovation strategy is firmly rooted in consumer trends with a clear focus on premiumizing categories to meet evolving repertoire tastes.

We are building future-ready brands with long-term potential guided by a simple belief, "what is good for the consumer is good for Diageo India". We are making deliberate future-back investment decisions with an intention to sharpen not overall our portfolio and deepen our relevance, if I may say so.

Our commercial strategy is being reshaped, not replaced, with a renewed emphasis on the on-premise channel to drive bold, coherent and purposeful brand visibility and consumption. We will remain bold in our ambition but grounded in execution. We are going deeper, not just wider, accelerating our digital penetration to connect meaningfully with consumers at point of consumption while enhancing marketing efficiency and organization effectiveness. Productivity, as PJ said, remains our fuel for growth and essential enabler that drives consistency, resilience and long-term value creation across our business.

Before I close, let me reaffirm our commitment to becoming one of India's top performing CPG companies, delivering sustained profitable top line growth and generating long-term value for all our stakeholders. With this, I'd like to open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to withdraw yourself from the question queue, you may press star and two.

Participants are requested to please use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. First question comes from the line of Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: Yes, thanks and congrats on good performance. I have three quick questions. My first question is to Praveen. Praveen, you've spent around three months in this new company as the MD and CEO. Your prior experience is in very different industry. So, HT Media, 6.5 years' experience and Pepsi around 20-25 years' experience. How are you finding this industry versus your earlier background, given it's a very, very highly regulated industry?

And in FY '26, what are the key improvement areas you have noticed in the first three months? And you mentioned innovations multiple times. So -- and you did say that you want to double that over the longer term. So, in FY '26, will it be more of engagement with regulators or, say, improving some of the improvement areas you have seen, if you could discuss some of that? That will be the first question.

Praveen Someshwar: Do you want to say all your questions?

Pradeep Jain: No, no, he said all this.

Praveen Someshwar: Okay. All right. So first, thanks, Abneesh. I do come from an FMCG background. I believe even though I was in publishing, it was very much a consumer business, okay? Overall, I believe this is a consumer product company with a difference, okay? Let's put it that way. There's legislation on pricing, there's legislation on route to market and legislation on marketing.

Once you embrace that reality, you'll learn to work with those. If I may say, at times, it's a handicap versus other FMCGs. But what you do is you build your brands through experientials. And that, to me, is a powerful way of unlocking it. And as you build your brands, you tend to build pricing power.

And over a period of time, I think legislation follows when they realize the pricing power of your brands to provide you pricing opportunities, albeit it comes a little slowly. I think in summary, there are some challenges in the consumer market of the next decade. But I think we need to learn to solve them and live with them.

On go forward, I think there were some areas I spoke about. But look, as I say consistently, over the last 3 years, if you see the performance of our business, it's gone from strength-to-strength year-on-year. And PJ just spoke about some outstanding financial results. That should say how we have delivered in the last 3 years.

So, as I say, that's the past, but the future holds immense potential. We'll continue to build on the innovation platforms. We've got some great work over the last 18 months. We'll build on that and sharpen it. We'll continue to reach, as I said, reshape our commercial strategy. We'll not need to replace anything much because things are going on well.

So, we'll continue to focus and be bold in our ambition, but as I said, very, very grounded in our execution. And we will pick up on our digitization as we go through this. But as I said, reaffirm things are going very, very well. We'll build on our existing set of initiatives.

Abneesh Roy: Thanks for thought. My second question is on the U.K. FDA. Finally, after many years, it has been announced, and I do understand FY '27 is the year where it will actually get executed. My specific question is your parent company has already said that fully the prices will be passed to end customer, which I think is the right strategy. So here, it will be just the volume uptick, which will happen? How does the consumption change? So does the duty-free sales shift here or the mid-end shifts towards the top end because of the affordability?

And in terms of raw material, there will be some benefit again. When the parent company is saying it will be passed to end customer, are you also saying that even at the raw material side, any benefit happens, that will also be passed on? So, no gross margin expansion at all, EBITDA margin expansion can happen because of the operating leverage?

And what portion of the volume gets benefited because of this based on whatever you have understood currently? I'm sure you would have known the numbers because that anyway is not linked to the nitty-gritty. So, what are your thoughts on these questions?

Pradeep Jain: Yes. Abneesh, let me take this, right? I mean this is something that we have been consistently conveying over the last 2 to 3 years, right? So, you won't get any different response this time, which is that reduction of duty from 150% to 75% will typically lead to about high single-digit reduction in consumer prices.

And you're absolutely right. We -- not just we, my sense is that the government will also insist that we pass on the pricing benefit to the consumer, and we are absolutely of the same view that we would want to pass on this benefit completely to the consumer. And therefore, keeping the consumer spent constant, it's reasonable to assume that in this part of the portfolio, a high single-digit additional volume growth should occur, right?

So that's on the BIO and BII portfolio, On the BII because it's a lesser component of the benefit, right? So, the price reduction might be slightly lesser than high single digit. My sense is it will be in the range of 4% to 5%, right?

Then coming to your second point, you are absolutely right. There will be a benefit that accrues into the raw material prices also. But again, we'll take a call on that as and when that happens. You yourself have mentioned that there is still some amount of work to happen before this actually becomes legislation. So probably the benefit will start coming only in financial year '26, '27. At that point of time, we will see, right? I don't want to comment right now of what will happen 10, 12 months down the line.

Praveen Someshwar: Only thing I'd add to what PJ said is it also opens up the opportunity of exploring our global portfolio, okay? As we see reduction in duties, there will be some opportunities, and that will be very exciting from a consumer front.

Pradeep Jain: Yes, absolutely.

Abneesh Roy: One quick follow-up on that, Praveen and Pradeep. Can competition also increase? Because if you can bring the global portfolio, there can be some companies which are not there in India or maybe existing companies can also bring more portfolio. In terms of competition, are you worried or because approvals are so high and there is a loyalty factor, it is not much of an issue?

Praveen Someshwar: Competition never worries you. It energizes you. That's the way to look at it.

Pradeep Jain: It will increase the pie. It will increase the pie.

Praveen Someshwar: You can see, any play by a competitor will expand the play. To me, that's an exciting space to be in. And we just need to play our space well.

Abneesh Roy: Sure. My last and quick question there, and I'll end there. 9% plus P&A volume growth ex of Karnataka and Andhra, will it be below 4% kind of volume growth? And if you could talk about Karnataka, the tax cuts, how has that helped? And has it fully already benefited? Or is there still some lag effect before the full benefit happens?

Pradeep Jain: No. So Abneesh, let me just understand your question. You have said our P&A volume growth is in the range of...

Abneesh Roy: 9% plus. If I knock off Karnataka, where the -- I think volume growth would have been good because of the duty -- tax cuts and Andhra, which was almost zero in the base, then the balance, say, 25 states or whatever 24 states, the growth rate there will be, say, 4%, 5% only because, obviously, Andhra will be contributing 3%, 4%?

Pradeep Jain: So, in terms of total value, absolutely. Yes, in terms of total value, right, our overall growth rate is about -- full year is about 8.2%, right? And Andhra has contributed about 3.1 percentage to this, right. So, ex Andhra, our NSV growth for the year is about 5.1%.

Abneesh Roy: And Karnataka, is there a big benefit already in terms of volumes and...

Pradeep Jain: Karnataka, Abneesh, the numbers are immaterial, right?

Praveen Someshwar: Not material, even...

Pradeep Jain: It's such a small salience in the overall pie, right? It's immaterial.

Abneesh Roy: Okay. Thanks a lot, sir. That's all from my side. Thank you.

Pradeep Jain: Thank you. Thanks, Abneesh.

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

Harit Kapoor: Yeah, hi. Good evening. So, my first question was on the innovation bit. I think it was mentioned in the presentation that 2x innovation. I just wanted to understand the nature of this innovation. Do we view this -- given that there has been already a sizable chunk of the global portfolio in

India now, is this more likely to be Indian-centered innovation where you're launching more Indian brands? Just now you've done a McDowell's No. 1 Oak Wood barrel as well. Or it would be still more heavy set on the global portfolio?

And in that context, do we expect in order to support this, this 9% to 10% A&P to sales ratio to actually go up in the next 1 or 2 years? That's my first question.

Praveen Someshwar: Look, first, I'd say innovation. As I said through the discussion, innovation strategy isn't about only chasing trends. It's about shaping, okay? And it's built on 4 key pillars, if I just want to remind on the -- which is about premiumizing our trademarks, addressing the consumer repertoire, driving occasions and getting pack price to play.

Now we will -- it will be both international, our global portfolio, as well as our local trademark. It's going to be through this. And as we look at it, we keep looking at opportunities on how to unlock value, how could we reimagine categories and how do we stay a step ahead of evolving consumer aspirations and a competitive player within that. That's how I would put it.

Pradeep Jain: Yes. And Harit, I'll just add, right? I mean, again, we would want to be consistent. For us, it's and strategy, right? It is our global trademarks, and it is our USL trademarks, right? And honestly, all of you should keep us under pressure on that front, right, that we have to innovate across both portfolios and grow both portfolios on a sustained basis.

Harit Kapoor: And Pradeep, the 9% to 10% A&P spend, given that pace of innovation seems to be accelerating, at least from an expectation perspective, should that still be maintained?

Pradeep Jain: Absolutely, yes. Praveen is smiling as you are...

Harit Kapoor: No, I just -- would that go up is my question. Would that...

Pradeep Jain: Our desire will be to grow it, right, if you look at the Diageo flywheel, right? But obviously, we will try and balance it for sufficiency and effectiveness as well.

Harit Kapoor: Great. And my second question was on a couple of the numbers that you gave on the P&A side. Growth as far as, one, the Lower Prestige segment is concerned, where 8% is the highest growth, we've seen in 3 years and 11% in the Luxury and Premium portfolio, which is tad lower than what's been seen in the last couple of years.

So, what have been the moving parts there? I understand in the Lower Prestige, there's also one of the brands, which could be on the block. But just what are the 2 -- what are the moving parts, which have played out on a better-than-expected Lower Prestige number and probably slightly weaker-than-expected Luxury and Premium growth?

Pradeep Jain: Okay. Good. No. So again, I think it's been a consistent narrative. So Lower Prestige, I think the Andhra is a big kicker, Harit, right? So, Andhra is a big Lower Prestige market. And as

McDowell's has come back into the market, that has provided a fillip, right? So that's one big driver on Lower Prestige.

And the top end Luxury plus Premium, 11%. Look, stand-alone, it's very, very healthy, right? If you look at our sources of growth, that segment still contributes to 41% of our value growth, right, which is in line with the 41% that we experienced in the prior year also, right? So, from a sources of growth perspective, I don't think we've moderated at all, right? But yes, this segment was growing at almost like 25%, 30% 2, 3 years ago. So sequentially moderated.

We have discussed some hypotheses around it, repertoire consumption, the post-COVID revenge consumption kind of moderating, right? And a little bit of tailwind that we had when global travel was off from duty free to duty paid, that also moderating, right? So, these are the 2 or 3 things.

But again, I do want to reemphasize that we don't see anything structurally wrong in terms of Luxury and Premium consumption in India. This is a temporary blip. We believe that another 3, 4 quarters down the line, we should come back to a healthy growth. I don't know Praveen, if you have something to add?

Praveen Someshwar: Nope. Pretty much you've covered all.

Harit Kapoor: Great. Those were my two questions. Wish you all the best and, Praveen, especially to you, all the best for your new stint. Thank you.

Moderator: Thank you. We have our next question from the line of Percy Panthaki from IIFL Securities. Please go ahead.

Pradeep Jain: Hi, Percy.

Percy Panthaki: Hi. Congrats on reaching that target of high teens margin. What I wanted to ask is what next? I mean is there a plan? Or is there a possibility of going beyond 20% over the next few years? If so, what would be the drivers? And if not, what would constrain us?

Pradeep Jain: Okay. Percy, now this is a trick question, obviously. I don't want to get carried away by this, right? So, look, we've always maintained that once -- so the idea is to sustain at this high-teen level, right? And once we are able to establish sustainability at this high-teen level, right, we will figure out what the next set of inflection point is, right?

But I would want to believe that in the next couple of years, right, the margin will be range bound, and we just have to focus all our energies into getting back on a sustained P&A double digit, ideally total portfolio double digit.

Percy Panthaki: Got it. But if you can just explain the up elevators, down elevators for margins because see, there is premiumization happening. I'm sure there are cost-saving plans in place, supply chain efficiencies, etc. So -- and you know, Pernod is making sort of 22% to 23% kind of margins.

And sort of we are a direct competitor. We have similar portfolio to them. So, what really prevents us to go to that level, not immediately, but at least over the next few years?

Pradeep Jain: Yes. So again, Percy, a couple of you know, thoughts on this, right? If you look at some of our charts that we have just taken you through, headline pricing has been very, very good for the last 3 years, right? Now having stayed in the company for 8 years, I can say, this comes in peaks and troughs, right?

I mean 5 years from 2017 to 2022, we had headline pricing of the average of 0.2% to 0.3%, right? The last 3 years, it's been in the range of 2%, right? So therefore, I don't want to comment, right, in terms of what these numbers will be, right? I mean we just have to incorporate that into our algorithm.

Like a forward-looking organization, we will obviously continue to drive the productivity muscle, right? Now will that and headline pricing, as Praveen mentioned, offset inflation? Last 2, 3 years, we've been fortunate, it has been, and therefore, the margin expansion in some years that may not do that, right? But over a longer period of time, it does, right?

So that's what I will say at this point of time, right? And like a good organization, absolutely year-on-year, we try and aspire for a marginal margin expansion, which is the leverage growth.

Praveen Someshwar: Percy, just to add to what PJ is saying, I think important to sustain now while investing for driving growth. And we spoke about innovation. We spoke about some capabilities. All of this will help us sustain and build growth. So important to look at both ends of it, which certainly means that any opportunity on expansion will be focused around growth.

Moderator: Thank you. The next question comes from the line of Vismaya Agarwal from Citi. Please go ahead.

Vismaya Agarwal: Hi, Praveen, Pradeep. So, I just wanted to get your -- if you could shed some more light on the renewed emphasis on the on-premise channel and this bit here? And also, what will be the initiatives here and maybe even how big the on-premise channel is for you guys?

Praveen Someshwar: Too early to say. Clearly, it's to say whether how big the channel is and how big the opportunity is. What we all know, it is a very, very important channel where you can drive sampling and build habit over a period of time. In terms of consumer spaces, as I call it, it's a massive connect platform. And that's where roughly one-third of our business happens.

And therefore, clearly, a big area of opportunity. We certainly play that opportunity. As we look at it, we believe we have some opportunity to dial up our play, and that's the focus we'll bring on, on-premise.

Vismaya Agarwal: Got it, Praveen. Understood. And just the last bit on the margin and rather more on the commodity cost environment. So, Pradeep, if any comments on how things are -- how do you expect the outlook to be in FY '26?

Pradeep Jain: Okay, okay. Yes. So, Vismaya, right now, I would say, by and large, stable, right? It's good to see that. So, it's kind of neutral alcohol spirit. We have started lapping the high prices of prior year. So, in terms of inflation percentage, that has moderated. And on the reverse side, glass, we have started lapping the low prices of prior year, right?

So there also, the deflation has kind of gone up to flat levels, right? So therefore, the 2 are kind of neatly squaring off against each other. But can't complain about inflation right now. I think our next inflection point will be somewhere around September, October, when government announces the ethanol fuel blending price-led prices for neutral alcohol spirit, right?

So that would be the next inflection point. So, commodities, nothing else. Margins, I've already communicated our point of view to Percy, so nothing else.

Vismaya Agarwal: Understood. And I guess just one last bookkeeping one is, any particular one-off in the other income in the quarter because it seemed a bit higher than usual?

Pradeep Jain: The other income has one noncore asset disposal in the Jan-March quarter, and that's a big one, right? Honestly, we thought we won't be able to complete that deal in our lifetime, but finally, we did manage to do that. There is almost, I think, INR90 crores to INR100 crores profit on account of that disposal of a bungalow in South Mumbai.

Vismaya Agarwal: Thank you and all the best.

Pradeep Jain: Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now take our last question from the line of Himanshu Shah from Dolat Capital. Please go ahead.

Himanshu Shah: Hi. Thanks for the opportunity. Sir, just a couple of questions. One on McDowell's X-series, almost a year since launch, but we haven't -- at least from our channel checks, we are not seeing much of action. Any specific thing over there on vodka, brandy, run, all 3 segment side? So, this is the first question.

Second, on the UP market, while it is seen as a very large growth market, a lot of investments from our peer sets, both on the beer as well as on the IMFL side in those markets. But we seem to be lagging in that market. Any specific if you can share to drive the share over there?

Praveen Someshwar: Well, first, let me take the McDowell's X-series and its rollout. Yes, so its rollout. Look, like in any rollout, it's a slow process in India. Each state is unique, and you need to -- in this category and you need to make sure that you get the legislation and all clearances before you take it to market. We've rolled out to 5 markets already.

And if I remember right, we roll out to another 4 markets in the coming couple of quarters. So clearly, that's in play. Yes, like in every launch and every innovation, there will be some things which are doing very, very well and some things which are a little slow. And I do know that rum is doing exceedingly well in whichever market we have done.

So that's a positive as we take it. But it also tells us we need to work a little harder on some of the other spaces as we build it. That was on McDowell's. Your second question was UP. UP is a very, very competitive market. I don't know the landscape of India well enough in this sector as yet, if I may say so. But UP is a very, very competitive market.

We -- for the last few years, we have struggled to really grow our share in that state. And now we're working very hard. We've just recently done a few set. First, the market has opened up. The category has seen opening up. In fact, this -- earlier this month, with the new excise law, pretty much the number of our retail outlet selling spirits has doubled. We've launched double Oak barrel.

Recently, it's been around 3 months, and it's getting seeded into the market in UP. We also launched the McDowell's X-series, and it's done reasonably well. We believe we have a whole set of initiatives, route to market, our own go-to-market capability and some of these innovations. We're about to launch a McDowell pocket-sized product. So, each of these, we believe, will unlock some opportunity in here.

Himanshu Shah: Sure, sir. That was useful. Just one last question, a bookkeeping question to Pradeep. Pradeep, the INR37 crores impairment of interest on receivables, is this a onetime entry or this will be a recurring phenomenon every quarter, every year? How should we read it? And if you can deep dive more the context behind this particular revenue reversal?

Pradeep Jain: Okay. First of all, the context is Indian Accounting Standards, right? Beyond that, I will not be able to comment, right? But this is a one time with specificity to one particular customer, right? So therefore, it is one time. And it stays within the P&L, right? While you are seeing the INR37 crore impact in the revenue line, right, it gets recognized over a period of time in the interest line, right?

So that's the only point, right? And it is absolutely governed by Indian Accounting Standards, AS 115, if I'm not wrong, right? So, I mean, Shweta will be happy to talk you through that separately offline.

Himanshu Shah: Sure. That's it from my side. Thank you and all the best.

Pradeep Jain: Thank you.

Moderator: Thank you, members of the management team. On behalf of United Spirits Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.