**Operator:** Good day and welcome to United Spirits Ltd.'s Q2 and first-half FY27 earnings conference call. As a reminder, all participant lines will be in 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 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 Ltd. Thank you, and over to you, Ms. Arora.

**Shweta Arora – Head of Investor Relations:** Thank you, Ankur. Hello, everyone. Good afternoon, and welcome to United Spirits Ltd.'s Q2 and first-half FY27 earnings call.

Before proceeding with today's call, I would like to remind listeners that during the call there may be some forward-looking statements. These statements are based on our views and assumptions at this point in 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 please refer to our financial and press releases posted yesterday. Both are available on the stock exchange and the company's website under the Investors section.

Moving on, today on the call we have with us Ms. Hina Nagarajan, MD and CEO, who is joined by Mr. Pradeep Jain, Executive Director and CFO. Hina and Pradeep will take you through the business and financial performance for the quarter, followed by the Q&A session.

Thank you, and over to you, Hina.

**Hina Nagarajan – MD & CEO:** Thank you, Shweta, and a very good afternoon to everyone. Thanks for joining us today. As always, it is wonderful to connect with all of you. A very happy festive season to all of you and your loved ones.

We have had a resilient quarter, lapping a high prior-year comparative and dealing with regulatory headwinds. By regulatory headwinds, I mean the FSSAI issues, which impacted the organization's bandwidth and focus. That said, I am happy to share that we have emerged stronger and stayed on course to serve the consumer with the right choices.

Here is a quick snapshot of the macro environment and consumer sentiment as we see it. With the prolonged and continuing West Asia crisis, softer monsoons and inflation, consumer sentiment is not very upbeat, and the same is reflected in various consumer confidence measures. Rural consumers may not have fully absorbed the impact of the weaker monsoon yet, but the bottom end of the urban consumer segment is feeling the inflationary pressure.

Therefore, in our parlance, we speak about India 1, India 2 and India 3. India 1, the bottom-end consumer, or the India 1 consumer, which is the target audience for the lower half of the IMFL portfolio, is showing signs of fatigue due to the impact of inflation on its wallet. India 2 and India 3 are robust and holding up. Overall, I remain resiliently optimistic about the India consumer story.

This brings me to my reference from last quarter regarding inclusive premiumisation. We remain focused on delivering the right value proposition through a well-calibrated price-pack architecture

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across our portfolio that caters to consumers spanning all three Indias. We are keeping in mind that premiumisation is a powerful long-term trend in India, while remaining cognizant of the reality of the value-conscious consumer in India.

In this context, here is our first initiative. We have relaunched our international whisky trademark, J&B Scotch, as a compelling consumer proposition, enabled by the India-UK FTA. This offers consumers a 100% Scotch product at a very attractive price point and will help drive recruitment of younger LDA consumers, as well as deepen Scotch penetration. We believe it is a winning proposition going into the peak festive season.

We are also broadening our portfolio to unlock new avenues of growth. More recently, we launched Smirnoff Ice ready-to-drink. RTDs bring together flavor, refreshment and convenience in a ready-to-enjoy format. Smirnoff Ice has rolled out in Goa and Mumbai, and will shortly roll out in Bengaluru. At 4.8% ABV and 8% ABV, RTD is the fastest-growing segment globally and has seen recruitment from adjacent categories such as beer and wine. It is now seen to be picking up pace in India. Our outlook for RTD is buoyant, and we will continue to develop our portfolio in this space.

Coming to the most-awaited McDowell's transformation, it has reached 80% to 85% of the scaling markets ahead of the season. The initial response at a national level is mixed, as could be expected from a relaunch of this size and scale, where the liquid, the packaging, including the core packaging of glass and PET, and the brand communication are being renovated.

Overall, I can say with confidence that consumer KPIs are up on McDowell's. It has received a very good response in some of the bigger markets such as West Bengal and Rajasthan, and is also ahead of our expectations in markets where we are not leaders, such as Uttar Pradesh and Haryana. In the more conservative markets where we are leaders, there was some concern about acceptance of the new proposition. We closed the feedback loop with nimbleness and agility. Some of these markets are responding to the interventions, while others, where the glass was just entering the marketplace, will start seeing improved performance year onwards. The consistent feedback on the liquid and packaging is outstanding, which is indeed very reassuring.

As I have always mentioned, we need to stay resilient in this and give it time to settle down with the consumer. We will talk more about this in the coming quarters as we see it take an upward trajectory.

Let's come to Smirnoff. I am delighted to share that the Smirnoff trademark has continued its strong momentum in the current quarter, and we remain firmly on track to achieve our 1,000-plus crore NSV aspiration for fiscal year 2026-27. Adding further to the exciting Smirnoff flavor world are two brand-new offerings, Kacha Mango and Coffee Toffee, both of which are going to market as we speak. Both flavors are fantastic and add diversity to the existing Minty Jamun and Mirchi Mango. I would encourage you to try them and discover your own favorite flavor.

Coming to our quarterly performance, we closed a resilient growth quarter overall, both on the top line and the bottom line. P&A NSV grew by 6.3% in Q2 '24, lapping growth of 12.7% in the same quarter of the prior year, bringing the H1 '24 growth to 7.8%. EBITDA margin in the quarter was 19.7%, despite the very healthy increase in A&P investments, which has been consciously front-loaded ahead of the peak season. Our reinvestment rate for the quarter was 11.6% versus 7.6%

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in the same quarter of the prior year, reflecting healthy investment behind our brands. PJ will cover financial performance in detail in his comments.

The bright side is the sustained momentum in the top half of the portfolio, with strong growth in luxury and acceleration in the premium segment on the back of primary Scotches, which include the relaunched J&B, and Smirnoff, the Indian flavor innovation. The clear must-do task for us remains McDowell's. Having already made agile interventions based on consumer feedback, we look forward to the peak festive season while remaining committed to turning around the momentum trajectory. With our innovation and renovation calendar, and ahead-of-the-season brand investments, we are excited about the festive season and remain confident in our P&A double-digit growth aspirations for the fiscal year.

Coming to a brief update on the RCSPL transaction, BCCI's due diligence is underway and at an advanced stage, while the Competition Commission of India has already approved the transaction. We await BCCI approval and other statutory clearances.

Looking ahead, as the consumer and regulatory landscape continues to evolve, we will stay anchored in our consumer-first approach, adapting our portfolio to changing preferences with disciplined and agile execution.

With this, I hand over to PJ for a quick update on the financial performance for the quarter, before we come back to answer your questions.

**Pradeep Jain - Executive Director and CFO:** Thanks, Hina, and good afternoon. I wish all of you a wonderful festive season ahead. Thanks for joining us today for the Q2 and first-half FY27 earnings call. It is always a delight to connect with all of you.

I would request everyone to please refer to the financial and press release posted last evening. I would like to highlight one small reporting change. The P&A segment now includes the brandy portfolio. This change reflects the consumer MRPs in key states, which are broadly aligned with the lower prestige whisky segment. Consequently, the current quarter and the first half, as well as the respective prior-year bases, have been reported and restated accordingly.

As Hina mentioned, we delivered a steady quarter amid regulatory challenges and while lapping a strong prior-year base. The organization stayed resilient and focused on the key business priorities. We are now fully geared for the festive quarter with optimism and excitement.

The quarter's growth witnessed healthy demand momentum in India 2 and India 3, and consequently, our luxury and premium portfolio delivered a very strong performance. This is reflected in the strong price mix for the quarter at 7.4% for the P&A portfolio.

I would also like to highlight that the festive season is relatively delayed this year compared to the prior year, given the timing of the festival in East India. Hence, October, November and December will capture the full benefit of festive demand in the current fiscal year.

Hina has already covered the top-line performance in detail, so I will not repeat anything on that front. I will just briefly touch upon the Popular segment. While it continues to be a small part of our business, accounting for less than 10% of revenues and approximately 6% in this quarter, it is

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important to provide some context for this quarter. The segment has faced two policy-related headwinds, which all of you are well aware of: the continuation of the adverse impact in Maharashtra and the full impact of the changes in Karnataka policy. The downside due to the latter is being captured in the P&A portfolio of the relevant states.

On the cost side, this quarter continued to absorb the impact of the West Asia crisis, broadly in a range of about 50 crore. While this impact is against the pre-March 2022 prices, it does become a little irrelevant and more business-as-usual when the supposedly temporary disruption continues for more than a couple of quarters. The impact was across glass, energy, packaging and logistics. Our neutral alcohol spirit has now started to become inflationary, driven by the El Niño impact on the monsoons and, therefore, the associated crop intake.

The marketing reinvestment rate during the quarter was 11.6% of net sales, which is an expansion of 400 basis points compared to the same quarter of the prior year. While this may appear elevated for the quarter, it should be viewed in the context of our heavy innovation and renovation calendar, and is expected to represent the new normal for the current fiscal year. As already mentioned by Hina, we have also consciously front-ended the higher investments ahead of the season to get maximum mileage from them.

Consequently, driven by the consciously higher A&P investments in this quarter, our EBITDA declined by 4.3% to INR 643 crore, and EBITDA margin was at a healthy 19.7%. Reported profit after tax for the quarter was INR 462 crore, down 2.1%, with a net profit margin of 14.2%.

All other relevant numbers and information are well contained in our press release. With this, we can now open the floor for the Q&A. Thank you.

**Operator:** Thank you. 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 remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question comes from the line of Abneesh Roy with Nuvama. Please go ahead.

**Abneesh Roy – Nuvama:** Thank you. My first question is on the Popular [cut off]

**Abneesh Roy – Nuvama:** Popular segment. We conducted this evaluation 3 years ago and sold a large part of the business. Now it is 6% of revenue this quarter, and my sense is that margins would have come off sharply given the operating deleverage. India continues to premiumise significantly. My specific question is: why continue with this 6% of the business when, in the long term, I think its viability and presence do not make much sense? I wanted to understand whether another recalibration or evaluation of this segment could happen.

**Pradeep:** Yes, Avnish. I think we have answered this earlier. The 6% portfolio is largely the McDowell's trademark, specifically the McDowell's No. 1 part of the business. It is the same trademark. We have historically continued with the segmentation, which is why we report the numbers, but we look at it pretty much as an overall trademark. That is the reason we do not want

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to do anything at this point.

I guess our insight from 4 or 5 years ago—that the future profit pool and the growth pool are in the prestige and above business—is playing out in reality. That is what it is, and I guess, to your point, it may continue to dwindle further and probably die a natural death. But, as of now, we do not want to make any interventions.

**Abneesh Roy – Nuvama:** Understood. My second question is on Karnataka. A lot of reforms have happened for P&A; let us ignore the Popular segment. The beer industry in Karnataka has seen growth of more than 50% for many months now. Could you tell us about spirits, which also saw a good benefit from the reforms? How has P&A performed? What pricing initiatives have you undertaken, given that 16 slabs became 8 slabs, creating more flexibility? If you could give some examples, and tell us whether you are happy with the performance. Has competitive intensity increased because of the reforms? There is a lot of consumption happening in the beer industry. Obviously, India cannot consume both beer and spirits equally strongly, so someone may be growing more slowly. If you could elaborate on that.

**Praveen:** Hi, Avnish. Praveen here. Yes, Karnataka has seen, in my view, a very progressive tax policy. Clearly, P&A has performed very strongly. Our business has grown strongly. Volume is up around 30%, 27% to 28%, and value is up 32% to 34%. It has performed reasonably strongly and consistently across months, so I do not see that being an issue.

I see the overall Popular segment getting squeezed and premiumisation playing out in P&A, wine and spirits. I believe the beer business may be a little different, although I do not know it well enough. We have seen pricing soften a little while volumes have seen healthy growth. Overall, I can see a massive opportunity for all organizations in Karnataka.

Over and above that, we are going to launch our RTD, which, as I consistently say, plays in the same occasion as wine and spirits, wine and beer. Therefore, we have priced it very competitively versus beer, and we feel good about it.

**Abneesh Roy – Nuvama:** Sure. My last question is on Tamil Nadu. Do you have any update? All liquor companies on yesterday's calls spoke extremely positively about Tamil Nadu. They said that this is obviously the second-largest market in the country, after Uttar Pradesh, I think. I wanted to get an update on your sense of the current reforms. Some companies have said that some level of reforms has started, and that some private and national companies are initially gaining market share.

Second, do you have any infrastructure ready there? Other companies have said that some manufacturing and some presence are already in place. If you could update us on infrastructure, manufacturing and distribution, if any.

**Praveen:** Look, I am not going to speculate. Obviously, all industry associations are advocating for the right policies, and I hope the right policies come into play. Tamil Nadu is a large market, and it will be exciting to see how it unravels and opens over a period of time. But I would not speculate by saying whether it will happen very soon or later. I am optimistic about that area.

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**Pradeep:** Yes, Avnish. I think we have shared this earlier as well. In case the opportunity does open up, we have demonstrated our agility in prior instances. In Andhra Pradesh, if you remember, we were up and running in about 45 days from the date the policy was announced. Therefore, we will retain the same nimbleness and agility should the market open up.

**Abneesh Roy – Nuvama:** Thanks a lot. That is all from me. Thank you.

**Praveen:** Thank you, Avnish.

**Operator:** Thank you. The next question comes from the line of Aditya Soman with CLSA. Please go ahead.

**Aditya Soman – CLSA:** Hi. Good afternoon, and thanks for the opportunity. I have 2 questions. Firstly, on the whole DRI investigation and checks, what is the update here, and does this have any bearing on the benefit we are likely to take from the UK FTA? Secondly, we have seen a very sharp reduction in costs, particularly wage costs as well as other expenses. Is this the steady state, and should we expect this level going forward? Thanks.

**Pradeep:** Hi, Aditya. I will take this. On the DRI front, we have already made a stock exchange disclosure. We have been consistently classifying our Scotch imports under the same HSN code over the last 15 to 20 years, ever since the entity has been operating. There has been absolutely no deviation from our side. The government was looking into it, and that is fine. We are cooperating, and this will play out. We are absolutely confident in terms of our own classification. There is no change on that front from our side.

Your second question was regarding the sharp reduction in wages. I think last quarter we discussed the overall organization simplification drive that we had undertaken. In pursuit of those objectives, we have lightened the organization a little, with the aim of being faster in our decision-making. The benefit of that exercise is now playing out. That is broadly the perspective on both questions.

**Aditya Soman – CLSA:** I understand. On expenses, this is the new steady state that we should expect moving forward? And on the DRI angle, to clarify again, from your perspective, is it business as usual on the FTA and on receiving the benefit? Is nothing on hold on that front?

**Pradeep:** Again, Aditya, as always, I will maintain that you should look at the 4-quarter run rate, because there will always be some differences. Just look at the 4-quarter run rate. As you start tracking that, you will reach the steady state on your own.

**Aditya Soman – CLSA:** Fair point. Fair point. And on the DRI issue again, just to clarify, from your perspective as of now, is it business as usual on the FTA and receiving the benefit? Is nothing on hold on that front?

**Pradeep:** Absolutely, and we are cooperating with the authorities.

**Praveen:** The FTA benefits are rolling in as we speak.

**Pradeep:** From July 15 onwards, our consignments have been getting cleared. Praveen, do you want to add something on the advocacy part?

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**Praveen:** Yes. As this is playing out, there is clearly a lot of advocacy to make sure that the benefits continue to reach the end consumer.

**Aditya Soman – CLSA:** Perfect. Thanks so much for the clarification. Thank you.

**Praveen:** Thanks, Aditya.

**Operator:** Thank you. The next question comes from the line of Krishnan Sambamoorthy with Ashika Institutional Equities. Please go ahead.

**Krishnan Sambamoorthy – Ashika Institutional Equities:** Hi. I have a couple of questions. First, Praveen, you highlighted that you are awaiting BCCI approval for the RCB stake sale. Could you give us the revised timeline for when you are likely to expect this? Subsequently, regarding the culmination of the transaction and the definitive agreement, do you have any timelines?

**Praveen:** Go ahead, Pradeep.

**Pradeep:** Samba, I think we have shared this earlier. The long-stop date was earlier 6 months, but there was an automatic extension of 2 months. That takes us to almost mid-December. We are hopeful because, based on the level of engagement with BCCI, we know that we are at a fairly advanced stage. Therefore, our assessment right now is that we should be able to close the transaction by the extended long-stop date, which is mid-December.

**Krishnan Sambamoorthy – Ashika Institutional Equities:** Perfect. My second question is on ad spend. You indicated that there was some front-ending of ad spend ahead of the festive season. Would you like to state your ad spend guidance for the full year, and would it be higher than what you had been guiding earlier?

**Pradeep:** Again, we will be consistent on that, Samba. We have always said that for our core portfolio, we should probably be in the range of about 11%. Whatever new platforms we are launching, such as RTD and Smirnoff Ice, which Praveen mentioned, will to some extent come and sit on top of the 11%.

**Krishnan Sambamoorthy – Ashika Institutional Equities:** If I can squeeze in one more question, this is on the J&B Scotch relaunch. To clarify, will this be under the erstwhile Diageo portfolio and therefore subject to a 10% margin cap, or would it not be part of that?

**Pradeep:** Yes. J&B is very much a Diageo global trademark, so it will be within the margin cap.

**Krishnan Sambamoorthy – Ashika Institutional Equities:** Thanks. That is very useful. Thank you.

**Pradeep:** Thank you.

**Operator:** Thank you. The next question comes from the line of Percy Panthaki with IIFL Capital. Please go ahead.

**Percy Panthaki – IIFL Capital:** Hi. This is Percy Panthaki. I wanted to understand the gross margin movement on a sequential basis, versus Q1. Q2 gross margins have expanded while inflationary pressures have intensified. This is also in light of the other 2 listed players, who have shown a

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sequential contraction in gross margin. I wanted to understand the drivers behind this.

**Pradeep:** Percy, like I said, the FTA benefit has started coming in. That is one driver of how the gross margin is holding. I think I also mentioned on the last quarter's call that, while there is an adverse impact on account of the West Asia crisis, neutral alcohol spirit was holding up wonderfully well. In the April–June quarter, neutral alcohol spirit was actually deflationary. In July–September, it was broadly at par versus last year. As I have already mentioned in the opening comments, it will become inflationary, driven by the poor monsoon and the El Niño effect.

Having said that, this should also be offset by the full FTA impact as it gets more fully absorbed into the P&L. Sequentially, I would say that gross margin should hold for the coming quarter.

**Percy Panthaki – IIFL Capital:** Understood. While we have discussed this in the past, now that FTA is a reality and you are actually seeing the consumption cost at a new level, can you let us know what the FTA benefit is in terms of basis points of gross margin?

**Pradeep:** Percy, I do not want to comment on that right now because there are multiple things happening. I want to be consistent on this. I do not want to quote that number because you will pick it up as a standalone number. However, there are multiple things happening. The currency is depreciating, and there is cost inflation on Scotch at the base level. Therefore, I do not want to comment on that number. Everything will be reflected in the P&L, and we are trying to hold an overall blended P&L and give you guidance on that.

**Percy Panthaki – IIFL Capital:** Understood. So, on a sequential basis, is the expansion in gross margin driven only by the FTA benefit, or is there any other driver? I am talking only about Q2 compared to Q1. What has changed in gross margins?

**Pradeep:** Mix. Mix is a big driver, Percy. It is mix and the FTA impact. From July 15 onwards, all our consignments have been at the concessional rate. That has almost fully come into the P&L in terms of its impact on the weighted average price.

**Percy Panthaki – IIFL Capital:** Understood. Thanks a lot, Pradeep. That is all from me. All the best.

**Pradeep:** Thank you.

**Operator:** Thank you. The next question comes from the line of Harit Kapoor with Investec. Please go ahead.

**Harit Kapoor – Investec:** Hi. Good evening, team. I have a couple of questions. The first half, as you have mentioned, has been in the high single digits, with 7% to 8% P&A growth. Your aspiration continues to be a double-digit number, which mathematically requires approximately 12% growth in H2.

In the context of your realisations probably normalising because Maharashtra is now on the base, some of the heavy lifting will have to be done through volume growth. I wanted to get your thought process and understand what drives this kind of volume growth. If you could give a sense of whether, excluding Maharashtra, you are already growing at that pace—you gave a number in Q1—it would provide some more confidence on how you see this trajectory playing out to achieve your

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double-digit aspiration for the year.

**Praveen:** Look, that is a great question. We are around [cut off]

**Praveen:** 8%, and if you are talking about double digits, you are talking in the range of 12%. The whole idea is that it has to be both volume and value. Mix certainly continues to play an important role, but volume will play an absolutely important role.

We are consistently seeing healthy growth excluding Maharashtra. We were impacted in this quarter because of all the regulatory headwinds, as I said, and that did impact us. But as we see it, we saw September and are now starting to see October, and we are starting to see how it is coming back and building up.

Our focus on investing in the brands ahead of the season was to drive availability, drive mind space and drive consumption. I think that is why we feel absolutely good about getting back into healthy double-digit growth as we go forward. That is what I would say.

In all this, do remember that the premium portfolio is chugging along and consistently adds to the base.

**Management:** I will just add to your pointed question, Harit. If you remember, the first set of MML brands came into the market sometime around October. The lap will be complete from the ensuing quarter. Therefore, that itself, mathematically, will hopefully give us an additional 2 to 3 points of growth.

If I also remember correctly, in the May investor call, the annual investor call, Praveen and I clearly said that the first half would be a little lower and the second half would naturally have to be a little higher. The script is playing out in line with our expectations. I would not be too worried on that front.

**Harit Kapoor – Investec:** Got it. Just to follow up on that, do you expect the second half to also show the full benefit of some of these innovations and renovations? I think McDowell's No. 1 should fully start to play out in H2, along with the launch of Ice, the launch of flavors, J&B and probably some more from your portfolio. The innovation and renovation percentage, however you calculate it, could that also be an additional kicker to growth?

**Management:** If you look at it, the run rate for Smirnoff flavors was established from the January-March quarter. We have already taken peak orders for Smirnoff flavors. Now, with the new flavors, the intent is that the new flavors will contribute. If one of them performs like Minty Jamun, who knows, Harit? But all of that is already incorporated in our plans.

Smirnoff Ice is too small right now to impact the numbers, but the intent is that, probably 2 or 3 years down the line, it will start giving us serious numbers.

**Praveen:** Harit, overall innovation is chugging along and will continue to build. J&B is going to add serious revenue to that. But you are absolutely right: each of these initiatives will help us deliver what we thought would be a strong second half.

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**Harit Kapoor – Investec:** Got it. That is all from me. I wish you all the best. Thank you.

**Management:** Thanks, Harit.

**Praveen:** Thanks, Harit.

**Operator:** Thank you. The next question comes from the line of Arnab Mitra with Goldman Sachs. Please go ahead.

**Arnab Mitra – Goldman Sachs:** Hi. Thanks for the opportunity. My first question was on the 2 challenges in the quarter that you mentioned. One was the FSSAI issues, and the second was your comment on feedback regarding acceptance of McDowell's No. 1 in some of the large states.

I wanted to understand whether these 2 issues really impacted sales in this quarter, either in terms of pipelining or actual consumer offtake. Are both of them behind you now? Are you seeing both of these issues as completely behind you?

**Praveen:** The first issue is completely behind us. We are still in the process of making the changes and getting them into the market, but it is pretty much complete and well planned out. The first issue is absolutely behind us.

The second issue is a massive opportunity. As I said, we have made some changes around packaging in an agile and nimble manner. As the packaging reaches the market, we are seeing improvements market after market. It will take roughly until the end of November. This is an ongoing process, but we believe you will see significant sequential improvement as we proceed.

**Arnab Mitra – Goldman Sachs:** Understood. Did either of these 2 issues really impact consumer offtake, or was it more a matter of supply and primary sales being impacted while availability was present in the market during this period?

**Praveen:** [laughs] That is a very interesting prompt.

**Management:** Praveen, I will start, and you can add to it. Arnab, it is very difficult to quantify that. The reality is that when FSSAI officials visit your plants and spend an extended period of time there, the organization's bandwidth gets diverted. The supply momentum gets impacted, and therefore you may temporarily end up having the wrong things at the wrong point of dispatch. That is what we went through during the quarter.

As Praveen mentioned, that is well behind us now, and we are pretty much firing on all cylinders in our supply processes.

**Arnab Mitra – Goldman Sachs:** Got it. My second question was on the FTA and the other part of it: as consumer prices come down on the imported products, you were expecting a certain price elasticity of demand. Could you help us understand whether you are seeing that elasticity in the market? What kind of volume uplift could you be getting in those categories?

**Management:** The BIO prices, as we speak, are just beginning to reach the consumer. As I said, the machinery, excise cost cards were all submitted. Some states have approved them, while some states have still not approved them. Literally, between now and probably the next 30 days,

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consumers will start seeing the lower prices. Hopefully, we will get a sense over the next 3 to 4 months of how the response to BIO is.

For BII, we have already fired the salvo, which is J&B. We had been working on it for 9 months in anticipation. We are very glad and delighted that it has gone absolutely according to plan and schedule. Praveen, am I right that J&B is pretty much available across the country as we speak, or is it roughly 60%?

**Praveen:** Roughly 60%.

**Management:** And in that 60%, Praveen?

**Praveen:** Yes, I think in terms of how consumers have engaged with it, it is available up to November.

**Management:** Those are the 2 things we had always been working on.

**Arnab Mitra – Goldman Sachs:** Got it. Thanks. That is all from my side. All the best.

**Management:** Thanks, Arnab.

**Praveen:** Thanks, Arnab.

**Operator:** Thank you. The next question comes from the line of Abhi Mehta with 361 Capital. Please go ahead.

**Abhi Mehta – 361 Capital:** Hi, team. Thanks for the opportunity. I had one question earlier and wanted to check whether it had been answered. If I were to remove Maharashtra, what are we trending at right now? I understand the timing, but I wanted to understand the first-half growth rates and appreciate the tailwinds as we move into the second half, beyond the benefits of price cuts in the BIA portfolio, BIO.

**Management:** Abhi, as I just responded to one of the earlier questions, the Maharashtra lap is almost complete. For the first half, excluding Maharashtra, we have grown at about 10.5%. That is broadly the number. It was impacted a little in the quarter, as Praveen mentioned, but for the first half, excluding Maharashtra, we are at approximately 10.3% to 10.5%.

**Abhi Mehta – 361 Capital:** Perfect. Just to clarify, will this have the additional tailwind from the Karnataka impact now that the Karnataka issues are over, as well as from the duty cuts as we move closer to the BIO portfolio?

**Management:** Yes, absolutely. It includes the Karnataka tailwind.

**Abhi Mehta – 361 Capital:** That is clear. I also wanted to clarify something on the gross margin side. Regarding the expansion, you clarified that it was due to mix. Is this the state mix you are referring to, or is it more product-level mix between whites and browns?

**Management:** It is category mix. It is premiumisation mix. It is absolutely premiumisation mix. Smirnoff is growing so well, and that itself adds significantly to the mix. The rest of the top half of

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the portfolio is also growing well.

**Abhi Mehta – 361 Capital:** Perfect. That is all from my side. Thanks for answering the questions.

**Management:** Thank you, Abhi.

**Operator:** Thank you. The next question comes from the line of Jay Doshi with Kotak Securities. Please go ahead.

**Jay Doshi – Kotak Securities:** Hi. Thanks for the opportunity. Maharashtra as a geography and Lower Prestige as a portfolio segment have dragged growth for the past few quarters. With the relaunch of McDowell's No. 1 and Maharashtra also getting anniversarised, do you think that, starting from the March quarter, both these segments will also start growing at at least an 8%, 8% to 9% or 10% growth rate? Or are there any other headwinds that we are not aware of?

When I refer to Lower Prestige, I am largely referring to the competitive landscape. If you get the relaunch right and once the full pan-India rollout is complete, do you think that portfolio can potentially grow at 8% to 10% in value terms?

**Praveen:** Jay, that is a great question. If only I could speculate and talk about the future consumer, I would agree with you. Having said that, I genuinely believe Maharashtra is in a good place. Whether it is 7%, 8% or 10%, I would not get into that. But Maharashtra will return to growth; there is no doubt about it.

On Lower Prestige, I do not know whether the consumer understands the language of Lower Prestige. The India 1 consumer operates within a certain band. That band will see growth. What type of growth? As I said, the India 1 consumer has felt the pressure of overall inflation, and we have certainly seen some slowness and sluggishness there. I do not know what the right growth number is, but should it return to growth? I genuinely believe that is our opportunity, and therefore it will.

**Management:** Jay, I will take you back to a question that both of us answered perhaps 4 questions ago. The Maharashtra lap will probably give us 2 to 3 points, which takes us to approximately 9% to 9.5% from the current quarter. If we are saying that we are committed to double-digit P&A growth for the full year, we have to grow at about 12%. Therefore, the balance 2.5 to 3 points will come from McDowell's and the renovation push that we are undertaking. So, absolutely, that is very much the plan.

To Praveen's point, whether McDowell's will reach 7% or 8% is difficult to call out. It is too early to call out.

**Praveen:** Yes, it is too early to call out.

**Management:** Historically, premiumisation in the category has not grown at that level in that segment.

**Jay Doshi – Kotak Securities:** Understood. This is helpful. Thank you very much, and I wish you the very best.

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**Operator:** Thank you. The next call comes from the line of Nitin with HDFC Securities. Please go ahead.

**Nitin – HDFC Securities:** Hi. Thanks for answering my question. My first question pertains to the vodka segment. Could you highlight how material vodka revenue was for us in the first half? Also, could you share the salience of flavors and your thoughts around entering the deluxe price segment?

**Praveen:** Entering the what? Sorry?

**Nitin – HDFC Securities:** Deluxe.

**Management:** Deluxe. We are already in the deluxe segment. I will let Praveen answer the vodka question. [laughs]

**Praveen:** Look, the whites are on fire. Whether it is tequila or vodka, the category is very clearly on fire. It is on fire across the ladder: at the middle end and at the top end. We are at the top end. Smirnoff is right up there; it is premium to most players.

How have we done? As I said in my opening comments, we feel good about where we have reached. Over the last 9 months, consistently, quarter-on-quarter, we have seen very healthy growth, and we believe we will top 3,000 crore in NSV for the year. That keeps us in good stead. That applies to the overall vodka category as well as to Smirnoff within it.

If you segment it, do we have an opportunity to play up and down on Smirnoff? We constantly say that we are carefully evaluating consumer segments and looking at opportunities, exactly as we do in the Scotch and whisky space. As vodka gets bigger and bigger, this is something we will certainly examine, unlock the opportunity and play to our potential.

**Nitin – HDFC Securities:** That is helpful. My second question pertains to BIO brands. We are going ahead with the price cut, selectively. I wanted to check whether state governments may look to protect their excise revenue in the next budget after this duty reduction. Are we factoring that in, or could that be a spoiler ahead? I just wanted to clarify that quickly.

**Management:** We are not doing that kind of scenario analysis. Based on our early experience, the states I mentioned have already approved the excise cost cards, and they have not done anything of that sort. The price [cut off]

**Management:** benefit is going to be passed on to the consumer. The intention is to grow revenue. So far, it appears that even the states want to grow revenue.

**Hina:** I think the states overall benefit from the growth. As we have seen, they have completely come into the same scenario and are starting to build on that.

**Nitin – HDFC Securities:** This is really helpful. Thanks a lot, and all the best.

**Hina:** Thanks, Ashish.

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**Operator:** Thank you. The next question comes from the line of Ashutosh Jain with Barclays. Please go ahead.

**Ashutosh Jain – Barclays:** Hello. Thanks for taking my questions. I have 3 questions.

First, I want a little more clarity around the DRI situation. When you say that all consignments have been approved, I am sure this includes both HSN codes covering bulk and the BIO portfolio. As we all know, the bulk part goes into your raw material mix, while another part is your BIO portfolio.

Hypothetically, assuming the final outcome is against us on the bulk portfolio, am I right in thinking that there would be a material impact on the numbers, given that you mentioned the gross margin benefit as well as the pricing benefit on the BIO portfolio? Where there is a pricing benefit on the BIO portfolio, there is also a margin cap. Could you provide some more color on that?

My second question is on Smirnoff Ice. Could you give some examples of price points and the distribution strategy? How should we think about this? In my assumption, because of its malt nature, it is more of a beer RTD category than a spirits market. How do you see that category evolving, and how do you see the synergies between the new launch and your current portfolio?

My third question is a quick update on your McDowell's X Series. There has been limited information on how that category and brand are doing, and where you see that brand going ahead. Thank you.

**Management:** Hina, do you want to take the Smirnoff Ice question first? Maybe take the 2 brand questions, and then I will come back to the DRI question.

**Hina:** On Smirnoff Ice, overall, as I said, it will unlock new avenues of growth for us. It brings together flavor, refreshment and convenience, and plays to the ready-to-enjoy format. It very much plays to beer and wine occasions: early evening, mid-evening and late evening.

We have launched products at 4.8% and 8% ABV. In terms of go-to-market, we go to the same stores. It sells in pretty much the same manner, except that here we additionally need to make sure it is chilled. That is the additional work being done, and that is why we have selected 3 markets. We are going to perfect our playbook and replicate it across the country.

That is the first point. Now, what are the synergies? The synergies come from the same go-to-market, which goes without saying. More importantly, it is the same trademark, Smirnoff, and it drives a whole set of new consumers into the category.

We have seen that there is a 3x multiplier whereby an RTD drinker will start and graduate to become a core spirits drinker. That is a significant multiplier. There are huge synergies in driving new consumers into the spirits business through RTD. Overall, it is an exciting space. We are going to build on it slowly and develop it. That is the first point.

Now, what is the second brand question?

**Management:** X Series.

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**Hina:** X Series. We spoke about it a couple of calls ago. Yes, we had experimented with and created it. We are looking at renovating that range and reassessing the overall portfolio, and you will very shortly start seeing how it comes to market. I would say, wait for that as we talk about it.

And on margins, no, it is the DRI issue.

**Management:** Ashutosh, I do not think I have anything more to say on the DRI issue. We have already shared what we had to share. We have been very consistent in our classifications, and we are cooperating with DRI and the authorities.

In case additional developments occur that have a material impact, obviously, we will be required by regulation to disclose them to all of you. As of now, we do not want to say anything more than that. However, yes, the impact would be material in case there is a [laughs]—that goes without saying. That is a hypothesis, so we do not need to think about that right now.

**Ashutosh Jain – Barclays:** Absolutely. Thank you for the color. I also have one quick follow-up. On the BIO portfolio, given that you have a margin cap and the FTA benefit is passed on through the margin rather than through the product you receive as raw material, which is billed by the global parent, does that have an impact on your margin profile or somewhere in your cost line, or does it not have an impact?

**Management:** You have understood it correctly. USL will remain margin-capped, based on whatever the P&L is. [laughs] Therefore, we will not be impacted.

**Ashutosh Jain – Barclays:** Got it. Thank you.

**Management:** Thank you.

**Operator:** Thank you. The next question comes from the line of Karan Taurani with Elara Capital. Please go ahead.

**Karan Taurani – Elara Capital:** Great set of numbers, especially on the margin front. What I wanted to understand is how long we can expect this gross margin to continue. Do we see some compression due to grain pressure or glass pricing, or do you see this high level of margin continuing over the next 2 or 3 quarters?

**Management:** Karan, [pause] as I have already said, there are tailwinds, including the FTA tailwind, which has held us in good stead for the current quarter that we have reported.

In the immediate next quarter, what I see in the short term is ENA increasing on account of the El Niño and monsoon effect. Hopefully, that will be neutralised by the full effect of the FTA benefit. Beyond that, it is very difficult to call out. Ideally, we would want to maintain gross margins at the current levels, but we will form that view as we go along. Right now, we do not want to look beyond that.

**Karan Taurani – Elara Capital:** Got it. My second question is on competition. Generally, we are seeing competition heating up, particularly in spirits and beer. There are many new players and new brands coming up. How do you see this landscape, and how do you plan to defend the number-two

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position that we currently have? Do you see any slippages because of heightened competition, or do you see this as an opportunity for an acquisition?

**Hina:** Karan, competition is very healthy. When there are more competitors, you will see the categories showing growth. That is a great place to be in. What it tells us is that other organizations are mining data, seeing the opportunity and wanting to play in this category space.

We are excited about it because competition brings category growth. We need to be disciplined in how we speak to our consumers, how we ladder our products to our consumers and how we play each of these categories. It could be international whisky, Indian whisky, vodka or tequila. We need to play each category in a disciplined manner. That is how we will look at it, and we are excited to embrace competition and play to our potential.

**Karan Taurani – Elara Capital:** Could you outline which part of the portfolio excites you the most in terms of growth, apart from the innovation and renovation initiatives and the B and the new brands? From the existing portfolio, where do you see most of the growth coming from?

**Hina:** If you look at the category overall, whites as a category is also seeing explosive growth. That is the way the category is behaving. The repertoire is growing, and as the repertoire grows, consumers are expanding their consumption. Whites is benefiting from that. That is why you see Smirnoff's performance and the growth that you are seeing.

These trends will continue to emerge. We have to play in each of our categories in a disciplined manner so that we can play to our potential.

**Karan Taurani – Elara Capital:** All right. Thank you, and all the best.

**Hina:** Thank you, Karan.

**Operator:** Thank you. Ladies and gentlemen, that was the last question for today. We have reached the end of the question-and-answer session. I now hand the conference over to Ms. Shweta Arora for her closing comments.

**Shweta Arora:** Thank you. I am cognizant that many of you have back-to-back calls today. We are finishing on time today. On behalf of United Spirits Ltd., I wish you and your loved ones a very happy and safe Diwali. If there are any questions, please feel free to reach out to me. Thank you for joining. Have a good evening.

**Management:** Thank you all. Happy Diwali to everyone.

**Hina:** Happy festive season. Thank you.

**Operator:** Thank you. On behalf of United Spirits Ltd., that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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