## Management Discussion

**Shweta Arora - Head, Investor Relations, United Spirits Limited**
Thank you, Anshu. Hello everyone, good afternoon, and welcome to United Spirits Limited seco nd quarter and first half of fiscal 2027 earnings call. Before proceeding with today's call, 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 please refer to our financial and press releases posted yesterday. Both are available on stock exchange and Company website under the Investors section. Moving on , today on the call we have with us, Mr. Praveen Someshwar , MD and CEO, who is joined by Mr. Pradeep Jain, Executive Director and CFO. Praveen 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, Praveen.

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
Thank you, Shweta. And very good afternoon to everyone. Thanks for joining us today. As always, it's wonderful to connect with all of you. A very, very happy festive season to all of you and your loved ones. We've had a resilient quarter, lapping a high prior year comparative and dealing with the regulatory headwinds. When I mean regulatory headwinds, FSSAI issues, which impacted the organization's bandwidth and focus. That said, I'm happy to share that we have emerged stronger and stayed on course t o serve the consumer with the right choices.

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 reflective in various consumer confidence measures. Rural may not have fully absorbed the impact of the weaker monsoon yet, but the bottom end of the urban consumer is feeling the inflationary pressure. Therefore, in our parlance, we speak about India 1, 2, and 3. India 1, the bottom end, the consumer -- India 1 consumer, which is a 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 am resiliently optimistic on the India consumer story.

This brings me to my last quarter reference for inclusive premiumization. We remain focused on delivering the right value proposition through a well-calibrated price-pack architecture across our portfolio that caters to consumers spanning all the 3 Indias, while keeping in mind that premiumization is a powerful long-term trend in India, yet being cognizant with the reality of the value-conscious consumer in India.

In this context, here is our first initiative. We have relaunched into our international whisky trademark, J&B Scotch, as a compelling consumer proposition enabled by the India-UK FTA. This offers consumers 100% scotch product at a very attractive price point and will help drive recruitment of younger LDA as well as deepen scotch penetration. We believe it's a winning proposition going into the peak festive season. We are also broadening our portfolio to unlock new avenues of growth, more recently with the launch of 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 shortly will 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 like beer and

wine and is now seen to pick up pace in India.

Our outlook for RTD is buoyant a nd we'll continue to develop our portfolio in this space. Coming to the most awaited McDowell's transformation, it's reached 80% to 85% of the salient markets ahead of the season. Initial response at a national level is mixed as should 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 communications are being renovated. Overall, I can say with confidence consumer KPIs are up on McDowell's. It has received very good response in some of the bigger markets like West Bengal, Rajasthan, and is also ahead of our expectations in markets where we are not leaders, that's UP and Haryana.

In the more conservative markets where we are leaders there was some concern on acceptance of the new proposition. We've closed the feedback loop with nimbleness and agility. Some of them are responding to the interventions, and others where the glass is just entering the marketplace will start seeing improved performance here onwards. The consistent feedback on liquid and packaging is outstanding, which is indeed very reassuring. So as I mentioned always 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 unfold.

Let's come to Smirnoff. 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 INR1,000 crore-plus NSV aspiration for the fiscal year '26-'27. Adding further to the exciting Smirnoff flavor world are two brand new offerings, Kacha Mango and Coffee Toffee, b oth go into the 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 and discover your own favorite flavor.

Coming to our quarterly performance now, we've closed a resilient growth quarter overall, both on top line and bottom line. P&A NSV grew by 6.3% in Q2 '27, lapping a growth of 12.7% in the same quarter prior year, bringing the half '27 growth to 7.8%. And the EBITDA margin in the quarter was at 19.7% despite a very healthy increase in the A&P investments that has been consciously front-loaded ahead of the peak season. Our reinvestment rate for the quarter was at 11.6% versus 7.6% in the prior same quarter, reflecting healthy investments behind our brands. PJ will cover financial performance in detail in his comments.

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 includes the relaunched J&B, and Smirnoff, the Indian flavor innovation. The clear must-do task for us remains McDowell's, and having already made agile interventions based on consumer feedback, we look forward to the peak festive season while remaining committed to turning the momentum trajectory. With our innovation renovation calendar and ahead of the season brand investments, w e are excited for the festive season and remain confident on our P&A double-digit growth aspirations for the fiscal year.

Coming to a brief update on the RCSPL transaction, BCCI 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 Chief Financial Officer, United Spirits Limited**
Thanks, Praveen, and good -- and wishing all of you a wonderful festive season ahead. Thanks for joining us today for the second quarter and fir half of fiscal year '27 earnings call. Always a delight to connect with all of you. Would request all to please refer to the financial and press release posted last evening. Would want to highlight one small reporting change. The P&A segment now includes the brandy portfolio. This change is reflective of the consumer MRPs in key states that are broadly aligned with the lower prestige whiskey segment. Consequently, the current quarter and the first half as well as prior year's respective bases have been reported and restated accordingly.

As Praveen mentioned, we delivered a steady quarter amidst regulatory challenges and lapping a strong prior year base. The organization stayed resilient and focused on the key business priorities. We are now all geared for the festive quarter with optimism and excitement. The quarter growth has witnessed healthy demand momentum in India 2 and 3, and consequently our luxury and premium portfolio has delivered a very strong performance, which 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 puja in India. Hence, October, November, December will capture the full benefit of festive demand in the current fiscal year.

Praveen has already covered the top line performance in detail, so we'll not be repeating 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 the revenues and in this quarter approximately 6%, it is important to provide some context for the quarter. The segment has faced two policy-related headwinds which all of you are well aware of, the continuation of the Maharashtra adverse impact and the full impact of the changes in the 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 a range of about INR50 crores. While this impact is against the pre-March '26 prices, it does become a little irrelevant and more business as usual when the supposedly temporary disruption carries on for more than a couple of quarters. Impact was across the lines of glass, energy, packaging and logistics. Neutral alcohol spirits have now started to get inflationary, driven by the El Nino impact on the monsoons and therefore the associated crop inflation.

The marketing reinvestment rate during the quarter was 11.6% of net sales, which is an expansion of 400 basis points compared to prior year same quarter. While this may appear elevated for the quarter, it should be viewed in the context of our heavy innovation/renovation calendar and is expected to represent the new normal for the current fiscal year. As already mentioned by Praveen earlier, we have also consciously front-ended the higher investments ahead of peak season to get maximum mileage from the same. Consequently, driven by the conscious higher A&P investments in this quarter, our EBITDA declined by 4.3% at INR 643 crores and EBITDA margin was at a healthy 19.7%. Reported profit after tax for the quarter was INR 462 crores, down 2.1% with a net profit margin of 14.2%. All other relevant numbers and information is well contained in our press release. With this, we can now open the floor for the Q&A. Thank you.

## Questions & Answers

**Operator**
Thank you. We will now begin the question -and -answer session. [Operator Instructions] 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 - Analyst, Nuvama**
Yeah. Thank you. My first question is on the popular segment. So you had done this evaluation few years back and sold a large part of the business. Now it is 6% of the revenue this quarter. And my sense is margins would have come off sharply given the operating deleverage, a nd India continues to premiumize a lot. So my specific question is, why continue on this 6% of the business where long-term, I think, viability and presence, d oes it make a lot of sense? So wanted to understand, can again a recalibration evaluation of this end again happen?

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Yeah. So Abneesh, hi. Yeah. I think we've answered this earlier, the 6% portfolio is largely the McDowell's trademark, the McDowell's rum part of the business. So it's the same trademark. I mean, we've been carrying on with the segmentation historically. That's why we report the number. But we look at it pretty much as an overall trademark. So that's the reason we don't want to kind of do anything. I guess our insight 4 years, 5 years ago that the future profit pool and the growth pool is prestige and above business, that's playing out in reality. So that's what it is. And I guess to your point, it may continue to dwindle further and probably die a natural death. But yeah, as of now, we don't want to make any interventions.

**Abneesh Roy - Analyst, Nuvama**
Understood. Second question is Karnataka, a lot of reforms have happened for the P&A. Let's ignore the popular end. Beer industry in Karnataka has seen 50% plus growth now for many months. So if you could tell us spirits, which also saw good benefit of reforms in that. So how has P&A done? What pricing initiatives you have done given 16 slabs became 8 slabs? So there is more flexibility. If some examples you can give, and are you happy with the performance? Has the competitive intensity gone up because of the reforms? Beer industry, a lot of consumption happening. Obviously India can't consume both beer and spirits equally so strongly. Someone may be growing slower. So if you could elaborate on that.

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
Hi, Abneesh, Praveen here. Yes, Karnataka has seen, as I see, a very progressive tax policy. C learly, P&A has done very, very strongly. Our business has grown strongly. Volume is up around 30%, 27%, 28%, and value is up 32%, 34%. So it's done reasonably strongly, consistent across months. So I don't see that being an issue. I just see overall as getting squeezed and premiumization is playing out in wine and spirits. I believe in the beer business, I don't know it well enough, it's a little other way around that we have seen pricing softened a little while volumes have seen healthy growth. But overall, I can see that's a massive opportunity for all the organizations in Karnataka. And now over and above that, we are just going to get in with our RTD and which, as I say, consistently plays in the same occasions as wine and beer. And therefore -- and we've line priced it very competitively versus beer, and we feel good about it.

**Abneesh Roy - Analyst, Nuvama**
Sure. Last question, so Tamil Nadu, any update you have? All liquor companies yesterday in the call spoke extremely positively on Tamil Nadu. They said that obviously this is second largest market, I think, in the country after Uttar Pradesh. And I wanted to get an update, w hat is your sense of the current reforms? Some of the companies have said that some level of reforms have started, some of

the private companies, national companies are getting more market share. Initial days. Second is, do you have any infrastructure ready there? The companies have said some manufacturing, some presence is already there. So if you could update us on infrastructure on manufacturing and distribution, if any?

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
Look, I'm not going to speculate. First, obviously all industry associations are advocating for the right policies, and I hope the right policies come into play. Tamil Nadu is a big market and it will be exciting how it unravels and opens over a period of time. But I would really speculate by saying very soon or later, but I'm optimistic of where we are.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Yeah. And -- yeah, and Abneesh, I think we said this earlier also, which is that in case the opportunity does open , we have demonstrated our agility agility in the prior instances. I mean, Andhra Pradesh, if you remember, we were up and running in about 45 days from the date the policy was announced. And therefore we will retain the same nimbleness and agility should the market open up.

**Abneesh Roy - Analyst, Nuvama**
Thanks a lot. That's all from us. Thank you.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Thanks.

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
Thank you, Abneesh.

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

**Aditya Soman - Analyst, CLSA**
Yeah. Hi, good afternoon, and thanks for the opportunity. So two questions. Firstly, on this whole DRI investigation and checks space. What's the update here? And does this have any sort of bearing on the benefit we were likely to see from the sort of UK FDA? And secondly, we've seen a very sharp reduction in costs particularly wage costs as well as other expenses. So is this the new sort of steady state and when should we expect this level going forward? Thanks.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Yeah. Hi, Aditya, I'll take this. So look, on the DRI front, we've already made a stock exchange disclosure. We have been very consistently classifying our scotch imports in the same HSN code over the last probably 15-20 years ever since the entity has been operating. So there is absolutely no deviation from our side. The government was kind of getting into it. So that's fine, absolutely. We are cooperating and this will kind of play out. So we are absolutely confident in terms of our own classification. So no change on that front from our side.

Your second question was regarding the sharp reduction in wages part. I think last quarter we did discuss, Praveen and I spoke about the overall organization simplification drive that we have taken. And therefore, in pursuance of those objectives, we have kind of lightened the organization a little bit with the desire of being more faster in our decision-making . So it's the benefit of that exercise

that is playing out . So yeah, that's broadly the perspective on both.

**Aditya Soman - Analyst, CLSA**
I understand. So on -- so the takeaway here, obviously, on the expenses, this is the new steady state that we should expect going forward. And on the DRI issue, again...

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
And again, Aditya, as always I'll maintain, just look at the 4-quarter run rate, et cetera, because there would always be a little bit of differences, et cetera. But just look at the 4-quarter run rate a s you start tracking that, you will reach the steady state on your own.

**Aditya Soman - Analyst, CLSA**
Fair point. Thank you. Thanks guys. And on the DRI issue again, and just to sort of clarify again, so from your perspective, as of now, it's business as usual, the FTA, and the benefit should start holding from...

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Yes. Absolutely. And then, yeah, and we are cooperating with the authorities.

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
And the benefits are -- FTA benefits are rolling in as we speak.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
July 15th onwards, our consignments are being kind of cleared . Praveen, you want to add something on the advocacy part?

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
Yeah. And that is very clearly, as just explained. Obviously, there was -- there is VR work, there's lots of advocacy around to make sure that the benefits continue to reach the end consumer.

**Aditya Soman - Analyst, CLSA**
Perfect. Thanks so much for that clarification. Thank you.

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
Thanks Aditya.

**Operator**
Thank you. Next question comes on the line of Krishnan Sambamoorthy with Ashika Institutional Equities. Please go ahead.

**Krishnan Sambamoorthy - Analyst, Ashika Institutional Equites**
Yeah. Hi. A couple of questions. One, I mean, you highlighted that you are awaiting the BCCI approval for the RCB stake sale. Could you give us some revised timelines on when you likely -- when you are likely to expect this, and subsequently the culmination of that, as well as the dividend payment to investors? Would you hazard a timeline here?

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
Go ahead, please.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Yeah. So I think again we have shared this earlier. There is -- the long-stop date was earlier 6 months, but it was an auto extension of 2 months, right? So that takes us to almost till mid-December. We are hopeful, because through the engagement levels of BCCI, we know we are at a fairly advanced stage. And therefore, right now our assessment is we should be able to close the transaction by the extended long-stop date, w hich is mid-December.

**Krishnan Sambamoorthy - Analyst, Ashika Institutional Equites**
Perfect. My second question is on ad spends. I -- you indicated that there was some planned trending of ad spend ahead of the festive season. But would you like to state your ad spend guidance for the full year, and would it be higher than the -- than what you had been guiding earlier?

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Yeah. So again, we'll be consistent somehow on that. We had always said that for our core portfolio, we should -- we will probably be in the range of about 11%. And then whatever new platforms we are launching, like the RTD, the Smirnoff Ice that Praveen mentioned about that will, to some extent, come and sit on top of the 11%.

**Krishnan Sambamoorthy - Analyst, Ashika Institutional Equites**
Okay. Just if I can squeeze in one more question, this is on the J&B Scotch relaunch. Just to clarify. Will this be under the erstwhile Diageo portfolio and therefore, subject to a 10% margin cap? Or would it not be a part of that?

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Yes. Yes. No, J&B is very much at the Diageo global trademark. So it will be within the margin cap.

**Krishnan Sambamoorthy - Analyst, Ashika Institutional Equites**
Thanks, very useful. Thanks.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Thank you.

**Operator**
Thank you. Next question comes from the line of Rakshit Desai with IIFL Capital. Please go ahead.

**Percy Panthaki - Analyst, IIFL Institutional Equities**
Hi. This is Percy Panthaki here. I just wanted to understand the gross margin movement, on a sequential basis, that is versus Q1. Q2 gross margins have expanded while the inflationary pressures have sort of intensified. And this is also in light of the other two listed players who have shown a sequential contraction in gross margin. So just wanted to understand the drivers behind the same.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Yeah. No. So Percy, look, like again, the FTA benefit has started coming in. So that's one driver of how the gross margin is holding. And I think I had mentioned on the last quarter call also, 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's by and large par versus last year. And as I've already mentioned in the opening comments, it will get inflationary driven by the poor monsoon and the El Nino effect. But having said that, it should also get offset with the FTA -- full FTA impact as it gets more absorbed into the P&L.

So sequentially, I'll probably say the gross margin should hold for the coming quarter.

**Percy Panthaki - Analyst, IIFL Institutional Equities**
Understood. And while we have discussed this in the past, now that FTA is a reality and you're actually seeing sort of the consumption cost at a new level. Can you just let us know what is the FTA benefit in terms of basis points of gross margin?

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Firstly, that I don't want to comment right now, because there are multiple things happening. Again, I want to be consistent on that. What I've always maintained I don't want to quote that number because you guys will pick it up as a standalone number. However, there are multiple things happening. The currency is depreciating. There is forced inflation on scotch at the base level, et cetera. So I don't want to comment on that number. But everything will be there in the P&L and we are trying to hold an overall blended P&L and give you guidance for that.

**Percy Panthaki - Analyst, IIFL Institutional Equities**
Understood. So the gross margin on a sequential basis, the expansion the driver is the FTA benefit only? Or apart from that, is there any driver? A nd I'm talking only about Q2 compared to Q1, the gross margins. What has changed in that?

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Mix, the mix -- the mix is a big driver, Percy. So it's mix and FTA impact. FTA impact, July 15th onwards, all our consignments are at the concessional rate. So that is almost kind of not the weighted average, but it has -- it is fully coming into the P&L in terms of impacting the weighted average price.

**Percy Panthaki - Analyst, IIFL Institutional Equities**
Understood. Understood. Thanks a lot, Pradeep. That's all from me.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Thank you.

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

**Harit Kapoor - Analyst, Investec India**
Yeah. Hi, good evening, team.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Hi, Harit.

**Harit Kapoor - Analyst, Investec India**
Hi, guys. Good evening. So just a couple of things from my end. The first half, as you've mentioned, has been in the high 7s, close to 8% on P&A growth. And in -- your aspiration continues to be double-digit number, which obviously requires mathematically, let's say, 12%-ish growth in the H2. In the context of your realizations or probably normalizing because of number one because of Maharashtra now in the base, some of the heavy lifting will have to be done with volume growth. So just wanted to get your thought process on kind of what drives this kind of volume growth number and maybe if you could give a sense of ex-Maharashtra, are you already growing at that pace? You

gave a number in Q1. But just to give a sense of some more confidence on how you see this trajectory play out to get to your double-digit aspiration for the year would be helpful.

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
Look, a great question. And yes, we are around 8%. And if you have to -- we're talking about double-digits, you are talking in the range of 12%. The whole idea -- and yes, it has to be volume, value, both. Mix certainly continues to play an important role, but volume will play an absolutely important role. We are seeing consistent recently, ex-Maharashtra, healthy growth. And we've got impacted this quarter a little because of all the regulatory headwinds, as I said, and it did impact us. But as we see it, and we've seen September, we are now starting to see October, we're starting to see how it's coming back and therefore building up. So -- and our focus on investing on the brands ahead of the season was to drive availability, was to drive mindspace, was to drive consumption. And I think that is why we feel absolutely good about getting back into healthy double-digit growth...

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Yeah.

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
...as we go forward. That's what I -- and in all this, do remember the premium portfolio is chugging along, and that consistently adds to base.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Yeah. Maybe I'll just add, Harit, to your pointed question, which is that if you remember, all of you will remember that the first set of MML brands came into the market sometime around October. So the lap will be complete from the ensuing quarter now. So therefore, that itself, the mathematics will give us hopefully anything between 2 to 3 additional points of growth. So that's exactly -- and if I also remember in the May -- in the May investor call, the Annual Investor call, Praveen and I had very clearly said that first half will be a little lower and the second half have to be naturally a little higher. So the script is playing out in line with our expectations, I won't be too worried on that front.

**Harit Kapoor - Analyst, Investec India**
Got it. And just to follow up on that, do you expect second half to also show the full benefit of some of these innovation renovations that you're doing? I mean, I think No. 1 should fully start to play out in H2, the launch of Ice, the launch of flavors, J&B and probably some more from your stable. So the innovation percentage, innovation renovation percentage, however you calculate it, could that also be a additional kicker on growth?

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Yeah. Yeah. Well, see if you look at it, Smirnoff flavors, the run rate has got established from the Jan-March quarter. So we already have taken 3 quarters of Smirnoff flavors.

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
But now the new flavors...

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Intent is that the new flavors are -- now if one of them fires like Minty Jamun, who knows, Harit. But all that is well incorporated right now and Smirnoff Ice is too small right now to impact the numbers. But the intent is, yes, probably 2-3 years down the line that will start giving us serious numbers on

the -- on the...

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
Harit, overall innovation is chugging and it will continue to build. J&B is going to add serious revenue to that. But you're absolutely right, each of these will help us deliver what we thought was strong second half.

**Harit Kapoor - Analyst, Investec India**
Got it. That's all for me. Wish you all the best. Thank you.

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
Thanks, Harit.

**Operator**
Thank you. Next question comes from the line of Arnab Mitra, Goldman Sachs. Please go ahead.

**Arnab Mitra - Analyst, Goldman Sachs**
Yeah, hi. Thanks for the opportunity. My first question was on the two challenges in the quarter that you mentioned. One was the FSSAI issues and second, your comment on the McDowell's No. 1 feedback on acceptance in some of the large states. So just wanted to understand, did these two really impact sales in this quarter in terms of either pipelining or actual consumer offtake? And are both of them behind in terms of -- are you now seeing both these issues completely behind?

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
So the first issue is completely behind us. We still are in the process of doing the changes and getting it into market, but it will get -- it's pretty much complete and well planned out. So the first issue is absolutely behind us. The second is a massive opportunity. No. 1 , as I said, as we have in an agile and nimble manner, but done some changes around packaging. And as the packaging is reaching the market, we are seeing improvements market -after -market. The complete -- take roughly till end November, so this is an ongoing process and we -- but we believe sequentially you're going to see significant improvement as you go.

**Arnab Mitra - Analyst, Goldman Sachs**
Got it. And any of these two issues, did it really impact consumer offtakes, or it was more like your primary sales which got impacted, b ut availability was there in the market in this period of time?

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
That's a very interesting. Go on, please.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Yeah. So maybe, Praveen, I'll just start and you can better -- s o look, Arnab, it's very difficult to quantify that. Now, reality is when the -- when you have FSSAI officials visiting your plants and spending extended duration, the organizational bandwidth gets diverted. So the supply momentum gets impacted. And therefore, you end up kind of having probably for a temporary period wrong things at the wrong point of dispatch, et cetera. So that's the bit that we had gone through during the quarter. But as Praveen mentioned, that is well behind us, everything, and we are pretty much kind of firing on our supply processes now.

**Arnab Mitra - Analyst, Goldman Sachs**
Got it. And my second question was on the FTA in terms of the other part of the FTA, which is as consumer prices come down on the imported products , you were expecting a certain price elasticity of demand. Could you help us appreciate -- are you seeing that elasticity in the market? What kind of uplift you could be getting on volumes on those categories?

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Yeah. So Arnab, look, the BIO part, I think the prices just as we speak are beginning to reach the consumer. Like I said, the machinery, the excise cost cards were all submitted. Some of the states have approved. Some of the states have still not approved. So literally between now and probably the next 30 days, the consumer will start seeing the lower prices. So hopefully, we will get a sense of it over the next 3 to 4 months in terms of how the response to BIO is. BII, we've already fired the salvo, which is GNV. We had been working on it for 9 months in anticipation. We are so glad and delighted that that has gone absolutely on plan and on schedule. J&B is pretty much -- Praveen, am I right? Is it pretty much available across the country as we speak or roughly 60%...

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
Yeah. 60%. And that 60% salience, we are excited how consumers have embraced it.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Yeah, absolutely. So yeah, so those are the two things, that we had always been working on.

**Arnab Mitra - Analyst, Goldman Sachs**
Got it. Thanks. That's it from my side. All the best.

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
Thanks Harit -- thanks Arnab.

**Operator**
Thank you. Next question comes from the line of Avi Mehta with 360 One Capital. Please go ahead.

**Avi Mehta - Analyst, 360 One Capital**
Yeah. Hi team. Thanks for the opportunity. Thanks. It was -- I only had one question and I just wanted to check if this was asked, answered or not. But if I were to remove Maharashtra, what are we trending right now? I do understand the timing, but first half growth rate, appreciate the tailwinds as we go forward into the second half beyond the benefits of price cuts in the BII portfolio -- BIO portfolio?

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Yeah. Avi, so like I just responded to the one of the earlier questions, where the Maharashtra lap is almost complete. So for the first half, ex-Maharashtra, we've grown at about 10.5%, that's broadly the number. It has got impacted a little bit in the quarter, as Praveen mentioned. But for the first half ex-Maharashtra, we are at about 10.3% to 10.5%.

**Avi Mehta - Analyst, 360 One Capital**
Perfect. And this -- just to clarify, this would have the additional tailwind from Karnataka impact now coming...

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Yes.

**Avi Mehta - Analyst, 360 One Capital**
...right, as well as the cuts that should come in as we flow through from the BIO portfolio?

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Yeah. Yeah, absolutely. But include the Karnataka. Yeah. It includes the Karnataka tailwind. Absolutely.

**Avi Mehta - Analyst, 360 One Capital**
Okay . That's it. And just the other bit I wanted to clarify on the gross margin side. We did see the expansion and you had clarified towards the mix. Is this mix state mix that you're talking about? Or is this more product level between white and brown spirits if you could help there? That's all.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
So it's category mix . So it's a premiumization mix, it's absolutely the premiumization mix. Smirnoff growing so well that itself adds so significantly to the mix and even the rest of top half of the portfolio growing better.

**Avi Mehta - Analyst, 360 One Capital**
Perfect. That's all from my side. Thanks a lot Pradeep for this.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Thank you, Avi.

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

**Jaykumar Doshi - Analyst, Kotak Securities**
Hi, thanks for the opportunity. Now Maharashtra as a geography and lower prestige as a portfolio segment have dragged your growth for the past few quarters. With relaunch of McDowell's 1 and Maharashtra also getting anniversaryized, are you -- the way you see things today, do you think starting March quarter both these buckets will also start growing at, at least 8%, 9%, 10% kind of growth rate? Or are there any other headwinds that we are not aware about? And when I'm referring to lower prestige, it's largely competitive landscape. So if you get your relaunch right and once you are fully -- pan-India rollout is complete, do you think that portfolio can potentially grow at 8%-10% i n value terms?

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
So, Jay, great question. I f only I could speculate and talk about the future consumer. I agree with you. Maharashtra, look, I haven't said that. Maharashtra, very clearly, I genuinely believe it's in good play. Now is it 7%, 8%, 10%? I wouldn't get there, but Maharashtra will get back to growth. There's no doubt about it. On low prestige, I don't know if we -- the consumer doesn't see, understand the language of lower prestige. Okay. The consumer, India 1 consumer works in 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 hitting in, and we have certainly seen some slowness there and so sluggishness there. So I don't know what is the right number in terms of growth. But should it come back to growth? I genuinely believe that's our opportunity and therefore it will.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Yeah. And Jay, I mean, again, I'm just taking you back to a question we both of us answered, maybe 4 questions ago, which is that Maharashtra lapping will probably give us 2-3 points, which takes us to whatever the 9%-9.5%, from the current quarter. And if we're saying, literally that we're committed to double-digit P&A for the full year, which means that we have to grow about 12% . So the balance points of 2.5%-3% is on account of the McDowell's and the innovation that we're doing . So absolutely, that is very much. Now to Praveen's point, whether McDowell's will reach the 7%-8%, that's a difficult one to call out.

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
Too early to call all. Yeah.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Historically, the premiumization that the -- the category has not grown at that level in that segment.

**Jaykumar Doshi - Analyst, Kotak Securities**
Understood. This is helpful. Thank you so much. I wish you the very best.

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

**Unidentified Participant**
Yeah. Hi, thanks for answering my question. First question pertains to vodka segment , if you can highlight how material is the vodka revenue for us in first half? And also, if you can share what is the salience of flavors and any thoughts around getting into the deluxe price segment?

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
Getting into the -- sorry, deluxe...

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
We are already in the deluxe, but I'll let Praveen answer the vodka question.

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
Look, the whites are on fire, be it tequila, be it vodka, very clearly as a category it's on fire. I t's on fire across the ladder. The middle end, at the top end. We are at the top end. Smirnoff is right up there. It's premium to most players. How have we done? As I said, in my opening comments, w e feel good about where we have come over the last 9 months. Consistently, quarter -on -quarter, we've seen very, very, very healthy growth, and we believe we'll top INR3,000 crore NSV for the year. That keeps us in good stead. That's on overall vodka category. This is within that Smirnoff. Now, if you segment it, do we have opportunity to play up and down on Smirnoff? A nd we constantly say we are looking at the consumer segments carefully and constantly evaluating and looking at opportunities exactly what we do in our scotch and whiskey space. As vodka gets bigger and bigger, it's something we will certainly look at and unlock the opportunity and play to potential.

**Unidentified Participant**
Sure. This is helpful. My second question pertains to -- for BIO brands, we are going ahead with the price cuts. So as we are selectively with the price cut, I just want to check state governments may look to protect their excise revenue in the next budget after this due to reduction. So are we also

factoring those things or that can be a spoilsport ahead? Just wanted to be clear on that.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Yeah. So I mean, we are not doing that kind of scenario. I mean, whatever our early experience has been the states where I mentioned have already approved the excise cost cards, et cetera, they have not done anything of that sort. The price benefit is going to be passed on to the consumer. The intention is to grow revenue. Seemingly so far, even the states are wanting to grow revenue.

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
And I think the states overall benefit from the growth. So as we have seen, they have completely come into the same scenario and starting to build on that.

**Unidentified Participant**
Sure, this is really helpful. Thanks a lot, and all the best.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Thank you.

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
Thanks, Nitin.

**Operator**
Thank you. Next question comes from the line of Ashutosh Jain, Barclays. Please go ahead.

**Ashutosh Jain - Analyst, Barclays**
Hello. Thank you for taking my questions. I have a 3 -- I have 3 questions, please. So the first one is like, I just want a little bit more clarity around the DRI situations. When you say like the all consignments have been approved, so I'm sure this includes both HSN codes which covers bulk and the BIO portfolio. And as we all know, of this bulk, part goes into your raw material mix and part is your BIO portfolio. So hypothetically, assuming if the final outcome is against us on bulk portfolio, am I right in thinking there will be a material impact on numbers given like you mentioned some gross profit -- the gross margin benefit also, and also the pricing benefit on the BII portfolio. And where there is pricing benefit on the BIO portfolio, there also you have a margin cap. So could you just throw some more color on that? So that is like my first question. My second question would be on Smirnoff Ice. Could you just give some examples of price point and the distribution strategy. How should we think? Because it's more of a -- in my assumption, because of malt nature, it's more of a beer R2M category versus, say, a spirits market. So how do you see that category evolving? And how do you see the synergies between that, between the new launch and your current portfolio? And my third question would be just a quick update on your McDowell's X Series. There has been limited information on that, how that category, how that brand is doing, and where do you see that brand going ahead? Thank you.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Praveen, you want to take the Smirnoff Ice question first, maybe the two brand questions, and then I'll come back on others...

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
Smirnoff, I ook, overall, Smirnoff Ice, as I said, will unlock new avenues of growth for us. I t brings together very simply flavor, refreshment, and convenience, and plays to the ready-to-enjoy format,

very much plays to the beer and wine occasions, early evening, mid-evening, late evening. So we've launched 4.8% and 8% ABVs. And yes, our present go-to-market works on that. We go to the same stores, we sell pretty much the same manner. It's just here additionally we need to make sure that it is chilled. And that is the additional work which is being done. And that's why we've picked up three markets. We're going to perfect our playbook and replicate it across the country. So very clearly, that's the first thing.

Now, how the -- what are the synergies? The synergies, it's the same go-to-market, goes without saying. More importantly, it is the same trademark, which is Smirnoff. And it drives a whole set of new consumers coming into the category. And we have -- we've seen there is a 3 times multiplier that an RTD drinker will start graduate to become a core spirits drinker. And that's a big multiplier. So there are huge synergies of driving new consumers in, in through the RTD back into the spirit space. So we -- overall, that's a exciting space. We're going to build on it slowly and therefore scale it. That's the first. Now on what is the second, brand question?

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
X-Series.

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
X-Series.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
And also McDowell's.

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
So I think we spoke about it a couple of calls back. Yes, we had experimented and created it. We are looking at renovating that range and re- looking at that overall portfolio. And you'll very shortly start seeing how it comes to market. So I'd just wait for that as we talk about it. And margins -- no, DRI issue. Yeah.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Yeah. So Ashutosh, yeah, I don't think I'll have anything more to say on the DRI. We've already shared what we had to share. We are very, very -- we have been very, very consistent in our classifications and we are cooperating with the DRI and the authorities. In case some additional developments happen on this which has a material impact, obviously we will be regulatory bound to kind of come and disclose it to all of you. So as of now, we don't want to say anything more than that. But yes, the impact will be material in case there's a case with that that's goes without saying...

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
That's fully hypothetical.

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
So therefore, yeah, we don't need to think about that. Yeah.

**Ashutosh Jain - Analyst, Barclays**
No, absolutely. Thank you so much for the color. And even I just don't want to get there, but here just wanted to have some clarity. Also, one quick follow-up, if I may have, is like on the BIO portfolio, given you have a margin cap and this FTA benefits is passed on to the margin, not your like the product which you get as a raw material which gets built from the global parent. So does that have

an impact on your margin profile or like somewhere in your cost lines or does it does not have an impact over there?

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
No. For your -- you pretty much kind of got it right. USL will remain margin capped, based on whatever the P&L is. So therefore we will not -- we will not get it.

**Ashutosh Jain - Analyst, Barclays**
Got it. Thank you.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Thank you.

**Operator**
Thank you. Next question comes from the line of Karan Kamdar with Choice Institutional Equities. Please go ahead.

**Karan Kamdar - Analyst, Choice Institutional Equities**
Great set of numbers on the especially the margin front. What I wanted to understand is that how far do we see this margin -- gross margin sort of continuing, or do we see some compression due to West Asia impact or glass pricing? Or do you see this high sort of margin continuing over the next 2-3 quarters?

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Yeah, Karan. So yeah. So look, like I've already said, I mean, there are tailwinds which the FDA tailwind, which is -- which will -- which has held us in good stead for the current quarter that we have reported. I mmediately next quarter, what I see in the short term is ENA going up on account of the El Nino and the monsoon effect. But hopefully, that will be neutralized by the full effect of the FTA benefit. And post that, very difficult to call out. I mean, we would want to -- ideally, we would want to maintain the gross margins at the current levels. But again, we will form that view as we kind of go along. Right now, we don't want to think beyond that.

**Karan Kamdar - Analyst, Choice Institutional Equities**
Got it. Second question is more on the competition side. Generally, we are seeing like the competition is heating up, especially like spirits and there now and before just spirits as well is heating up and there's too many new players coming up, new brands coming up. How do you see this landscape and how do you plan to sort of defend the number two spot that we have currently and do you see any slippages because of heightened competition or do you see it as an opportunity for acquisitions can be [Phonetic]?

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
Okay. So Karan, look, competiton is very healthy. When there are more competitors, you will see the category showing growth. That's a great place to be in. So I would -- what it's telling us is obviously, there are other organizations mining data and seeing the opportunity and want to play in this category space. We are excited about it because with competition comes category growth. We need to be disciplined on 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 whiskey, it could be Indian whiskey, it could be vodka, it could be tequila. How do we play it in a disciplined manner? So that's

how we will look at it. And we are excited to embrace competition and play to our potential.

**Karan Kamdar - Analyst, Choice Institutional Equities**
Maybe you can outline what part of the portfolio excites you most in terms of growth, apart from the innovation, innovation side and the JB and the new brands. Out of the existing portfolio, where do you see most growth coming in?

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
Look, if you see overall, if you look at the category, whites as a category, as I said is seeing explosive growth. That's the way the category is behaving. Repertoire is growing, and with repertoire is coming, consumers are expanding their consumption, and whites is benefiting from that. That's why you see Smirnoff's performance. You are seeing it in terms of growth. So therefore -- but that's -- these trends will keep coming. We have to play disciplined in each of these categories so that we can play to our potential.

**Karan Kamdar - Analyst, Choice Institutional Equities**
Got it. Thank you, and all the best.

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
Thank you.

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

**Shweta Arora - Head, Investor Relations, United Spirits Limited**
Thank you. I'm cognizant that many of you have back-to-back calls today, so we're just finishing on time today. On behalf of United Spirits Limited, I wish you and your loved ones a very happy and safe Diwali. And if there are any questions, please feel free to reach out to me. Yeah. Thank you for joining. Have a good evening.

**Pradeep Jain - Executive Director and Chief Financial Officer, United Spirits Limited**
Thank you to all. Happy Diwali to all.

**Praveen Someshwar - Managing Director and Chief Executive Officer, United Spirits Limited**
Happy festive season. Thank you.

**Operator**
[Operator Closing Remarks]