"United Breweries Limited
Q3 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the United Breweries Industries Limited Q3 FY2021 Earning Conference Call hosted by Investec Capital Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0'on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Harit Kapoor from Investec Capital Services. Thank you and over to you Sir!

Harit Kapoor: Thank you Janice and good afternoon to everybody on the call. On behalf of Investec India I would like to welcome you all to the third quarter financial results earnings call of United Breweries Limited. With us from the management we have Mr. Berend Odink, CFO and Mr. PA Poonacha from Finance and Investor Relations. I will hand over to the team now for opening remarks post which we will open it for Q&A, so over to you Berend!

Berend Odink: Thank you Harit. Good afternoon everybody on the call and thank you for joining. Today we will discuss the Q3 and year to date results and as usual I will start with a couple of opening comments supported by a few slides and then we will be very happy to take any questions that you may have. I turn to the key result highlights, Q3 saw continued recovery in demand on the back of trade restrictions gradually being lifted with volume down for the quarter 15% and as a reminder Q1 volumes were down 77% while Q2 volumes were -48%. The company posted strong underlying EBITDA margin improvement to 15.6%; this is excluding non-recurring items versus a 15.4% margin in the prior year. This is driven by improvement in gross profit margin of 119 basis points and cost control. Q2 continued to be impacted by COVID restrictions, but in Q3 we saw further relaxations of trade restrictions and better recovery and good sequential volume growth. We had a robust free operating cash flow and active cash management resulted in a net cash position of Rs.97 Crores for quarter end. For the end of December we have seen in various states a number of trade restrictions being lifted, that were still in place, we would expect this to further support demand recovery.

If we move to slide #4 it summarizes the Q3 results: net sales was down 11% and all cost elements were down and reported EBITDA is Rs.178 Crores. In the quarter, we booked an exceptional income of Rs.55 Crores related to sale of leasehold land, which was no longer used by the company. On the next slide we showed the P&L results year to date, the EBITDA and bottomline results now turning positive including Q3.

If we move to the volume performance on slide #6, we showed volume for the region for Q3 and year to date. If we start with North; volumes were down 21% in Q3, but we have seen a balance recovery from most of the states, West: -11% decline in volume with complete recovery in all markets with rest of Maharashtra ahead of the national average at flat volumes. In East we reported a growth of 14% for the quarter, here we witnessed substantial growth in West Bengal on the back of revised excise policy leading to lower consumer prices, but all main markets in East posted growth except for Odisha. Good to know that Odisha opened the on-premise channel in January. In South the volume was at -18%, state of Karnataka posted growth and Tamil Nadu volumes were flat and here the attached bars in Tamil Nadu open end of December. State of Telangana, saw recovery below the national average, but again here permit rooms opened end of December and finally in Kerala the volumes of the quarter were ahead of the national average and here on-premise fully opened end of December.

If you move to the sales breakdown on slide #7, besides the negative Q3 volume impact the company realized a positive price mix impact with both positive state mix as well as price increases and positive brand mix. In terms of EBITDA on the next slide we see the main impact being the negative volume, which was to a significant extent offset by the higher gross margin and reduction in other expenses. EBITDA excluding non-recurring items was Rs. 201 Crores for a margin of 15.6% up 16 basis points versus prior year. The Q3 non-recurring items include provisions for potential expiry of stocks and doubtful debtors to the tune of Rs. 23 Crores and included that the reported EBITDA is Rs.178 Crores.

Turning to the slide on outlook and summary, the industry outlook continues to develop positively, yet remains volatile depending amongst others on the future trajectory of the pandemic. The company continues to actively review costs and focus on working capital management and optimize capital investments to further strengthen the operational performance and as always we see that UBL is well positioned to navigate the current circumstances with leading market position, strong brand portfolio and a very healthy balance sheet. The company continues to be optimistic about the long-term growth drivers of the industry. With that I would like to conclude the opening comments and I will pause here and let us open it up for questions please.

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

Abneesh Roy: Thanks and good recovery. When I see the region wise data which you have given I see that the nine months dip for eastern region is the maximum, but for Q3 the recovery for east is also the best, so apart from the Bengal cut in duty, which you have highlighted is there inventory rebalancing, which is what happened in eastern region?

PA Poonacha: Odisha also had the entire business opening up in Q3, which is the reason why the East has done better.

Abneesh Roy: This Bengal data are you sharing to other states in Bengal after the cut is the state government making much better tax revenues if you add the volume impact and the cut in duty, so is the state government much better off versus earlier?

PA Poonacha: We have not made a calculation because we do not have complete industry data, we have grown, but we do not know exactly about the market as we have not been tracking industry fully so we really cannot comment on the numbers unless there is some kind of a declaration from the revenue department of West Bengal we really would not want to comment on that.

Abneesh Roy: But the cut is for all the players right?

PA Poonacha: Unless we have consolidated numbers we really would not want to commit on the revenue that the government has collected on this because there is a spirits angle also to it, so you have to take revenues of both spirits and beer.

Abneesh Roy: Now my question was only in the beer industry?

Berend Odink: I think it is more a question of how the volumes will stabilize; short term we have seen of course a very high growth in the first one, two months, but I think the question for the state will be in the coming months how well they pan out. I think the positive stance is that they look at moderation and affordability and together with the volume growth in the industry most likely will yield longer-term higher excise revenues that would be my expectation.

Abneesh Roy: Sir last question, on the Delhi proposed regulation change in terms of the registration and the brands, so do you see any benefit for you in the spirit we understand the larger players are happy about the proposed change while the smaller players are not and for the UP market for the bigger purchases by customer he needs to pay license fee does that impact you also?

Berend Odink: In Delhi I think in general proposals that we have seen are positive in the sense of supporting ease of doing business, looking at the minimum legal drinking age, looking at the number of dry days, also lesser restrictions and fees, so we have to see how that develops into formal policy, but I would say indeed as of now that is positive.

PA Poonacha: UP will be effective April 1, 2021 and UP also seems positive.

Abneesh Roy: Okay Sir, that is all from me. Thanks a lot. All the best.

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

Aditya Soman: Good afternoon. My first question is on Andhra Pradesh, any sense, any recovery there compared with previous quarter or is it status quo and the second question is on your new launches that we have launched over the last couple of years and one would be Witbier have you launched it in any further states and what has been the initial response in the states in which you have launched it and saying for a nonalcoholic?

Berend Odink: Thank you. So your first question on Andhra in Q3 we have seen a reduction of price levels in the beer market, as of yet it remained negative on our figures for Q3 so hopefully the market stabilizes and we can see a bit of recovery going forward, but in totality for Q3 trading was very low and as I said on balance negative for our figures. On the new launches we indeed have further expanded the footprint of the number of brands, Witbier has also been launched in Delhi with good initial responses and we will continue in the months ahead to roll it out to additional states. The proposition in the wheat segment has a good opportunity. And in terms of the nonalcoholic portfolio we continue to see healthy growth despite the turbulence of the pandemic, so it is a small base, it is a small segment versus our total alcoholic beer business, but we see steady progress, we see steady consumer traction developing, so we are happy with that progress.

Aditya Soman: Thanks. Just following up there, can you give us any sense of numbers on Witbier nonalcoholic or even Andhra Pradesh honestly because do you expect to be flat year-on-year given that the impact started in Q4 last year or would you expect growth in Q4?

Berend Odink: Witbier on balance I would expect growth in the full year.

Aditya Soman: Got it. Any sense on volumes on Witbier and nonalcoholic beer?

Berend Odink: The nonalcoholic beers we split out separately the revenue in the results, on Witbier I think we have to recognize this is quite small in the grand scheme of things of our business, but for example where we launched a couple of quarters ago in Karnataka and Goa based on our estimates we have been leading the segment for the recent quarters, so that is encouraging, but again you have to take into context that the Witbier segment is a relatively small segment of the longer market.

Aditya Soman: I understand. Thanks.

Moderator: Thank you. The next question is from the line of Avinash Bala from Brookfield. Please go ahead.

Avinash Bala: Thank you for giving me an opportunity. I think my question pertains more generally to your portfolio of beers and especially the craft beer weekdays segment. While you said there are a couple of points that I have been reading, the first one is that in the US the craft beer sales is around 15% of the overall sales of all beers then the second point is recently AB InBev has tied up with Indian Hotels to put a capex to open breweries right and third I have seen that a lot of craft breweries are expanding to the retail right and we have just one product category, so is it fair assessment on my part if I were to say so far as craft beer is concerned the company is a little reactive as opposed to being a more proactive?

Berend Odink: I would look at that and split the market a bit two ways: one is where we talk really about on trade consumption being microbreweries or brew pubs, which is really local, fresh experimenting with different flavors, on-site experience if you will none packaged beer usually. The second element I would categorize more as you know the bottled craft that is partially sold on premise for bar, yet more to the take home channel, here also we see in India a lot of products coming to the market, some stay longer than others, others develop better than other launches so that is very much I would say under development. I think as we look at our company we do not see ourselves that much in the kind of microbreweries, of course in general it is very positive I think that the perception of beer, the experience with it, the number of consumers and locations exposed to it continues to increase, so that is very promising, not to say that we immediately should invest in everything that is happening in the market, but definitely if you look at our portfolio yes we have launched Witbier, but I would imagine that over time more and more propositions also would come to the market that reflect the developing consumer preferences also here in India.

Avinash Bala: Do we have any plans like to open up like you said now that you said that you are not going to maybe think about opening up breweries to own the experience is it something the company is thinking about?

Berend Odink: Of course we always evaluate it. Yet, I do not have in the short term some plans to come to the market with that. I think it is more of an offering where there is a large share of food, wine potentially, kind of a real estate in urban areas. I think that is less of our core business today, but of course there are different models and opportunities as to how to tap into this segment so that it is something we continue to evaluate.

Avinash Bala: Thank you. That will be helpful.

Moderator: Thank you. The next question is from the line of Krishnan Sambamoorthy from Motilal Oswal. Please go ahead.

K Sambamoorthy: Thank you for taking my question. My question is on trade how much has been the revival on a Y-o-Y basis for the quarter and possibly if you can give it on December month estimate as well as they are getting better and better and if so what is the extent of recovery?

Berend Odink: Definitely, the on-trade has played an important role in the recovery and the sequential growth that we have seen I think in general, but it is more anecdotal, i.e. quite some footfalls, people are happy to be back, happy to socialize, be of course within the restrictions that are applicable from state to state. I think as time progresses people also feel more confident of visiting the on trade, with our estimates the number of outlets that is open probably a few thousands might still be closed but the far majority has opened by now, so it is not in a full swing back I would say as maybe one year ago, but definitely encouraging trends and that we see supporting our recovery.

PA Poonacha: But in the quarter opening up of on trade, especially in Telangana and Kerala has been towards the last part of December, so as such the quarter has not fully captured the opening up of on trade. Tamil Nadu, Telangana and Kerala opened up towards the later part of December.

K Sambamoorthy: All three were opened in December any indications as to what the extent of recovery compared to the same period last year maybe December last year?

Berend Odink: Where Poonacha mentioned these states most of them were end of December opening up, so we have to see the recovery, but generally what we see states opening up back in September, back in October the on-trade, this has step-by-step supported recovery.

K Sambamoorthy: There is a capacity restriction right the number of states that can be half of what it was earlier right according to the government regulation in states, has any of the states relaxed those?

PA Poonacha: No, we have not seen any new updates.

K Sambamoorthy: The other question is on that AB InBev reduced prices for Hoegaarden and Corona in December, any impact that you have seen on the premium segment, super premium segment as a result of that?

Berend Odink: The premium segment, that is partly coupled to the recovery that we discussed in the on-trade, we see numbers coming back in terms of share within our portfolio to last year Q3 levels so that is positive, but as we said earlier there is a very healthy, consistent trend of premium growing, so the number of products in that segment, the pricing and how it is brought the market I think that will continue to evolve quickly in the years to come and this also has our full attention.

K Sambamoorthy: Was this cause of a material gain or loss of market share in the segment?

Berend Odink: No nothing that stands out as far as I have seen the numbers.

K Sambamoorthy: Thanks.

Moderator: Thank you. The next question is from the line of Ashit Desai from Emkay Global. Please go ahead.

Ashit Desai: Thanks for taking my question. I have a question on UP tax reduction on beer, this has been done after a long time and given the context that IMFL volumes have doubled in the state whereas their volumes probably have not grown at a similar pace over the last many years how do you see this tax reduction and if you can comment on the extent of price reduction and how attractive it is for a consumer and for the beer industry growth going ahead?

Berend Odink: Based on the policy as we have seen them, the potential price reduction could be around Rs.20 per can, the main can, we will have to see exactly how that pans out we are now doing the price application so there is a little bit of unclarity on some of the COVID cess how this exactly pans into the calculation, but those technical points aside, in general we would expect reduction in the market, so this is of course positive for the affordability, for the accessibility of the category and we would expect that to support further growth in UP.

Ashit Desai: What is the share of volumes in UP now for the industry?

PA Poonacha: You are talking about UP share?

Ashit Desai: Yes.

PA Poonacha: Market share of UBL in the beer industry of UP right?

Ashit Desai: No, industry volume share.

PA Poonacha: Sales of UP vis-à-vis the entire country?

Ashit Desai: Right.

PA Poonacha: It is between 7% and 8%.

Ashit Desai: Secondly is the procurement of glass bottles now normalized versus we had some issues in first half or can we see more improvement over there?

Berend Odink: The procurement of glass by and large has normalized; the huge capacity crunches about a year, a year-and-a-half ago have stabilized themselves. I think one watchout we have on glass bottles is that recently we have seen the share of new bottles slightly kicking up so a little bit higher than we normally trend that so this is something we carefully monitor, we would expect with further on-trade opening that to stabilize some of this is of temporary nature, but in terms of the first part of your question that the pricing as such and availability is normal.

Ashit Desai: Share of new bottles were still higher in Q3, which should come down in your view?

Berend Odink: Yes in Q3 we have seen it a bit higher, but it is a bit too early to say will it remain at this level or we are stabilizing from here or will it come down as the market continues to face less restrictions and better recollections of the bottles.

Ashit Desai: One last question if I may could you share the December exit volume recovery?

Berend Odink: In December we were at -10%.

Ashit Desai: Okay, thanks and all the best.

Moderator: Thank you. The next question is from the line of Alok Shah from Ambit Capital. Please go ahead.

Alok Shah: Thanks again for giving me this opportunity. My question was more on the pricing of the company's front, we are picking up that there has been some price cuts by the competition, do you see price reduction apart from the Hoegaarden brand and also within the Carlsberg portfolio or it is only the Hoegaarden that you see and my second point is that are we in some retaliation to that planning to take the prize cut in the upcoming refiling that you do to the state?

Berend Odink: We have seen a few brands related to the way they are produced and brought to the market change some of the pricing, but in general I do not recognize a picture where prices have been trending down of course on a local level there could always be certain activations or promotions, but in general I do not see that as a picture or a recent trend in the market, how we will look at price and going forward that is too early to share at this point in time, but I think we all kind of recognize the profit pool and the excise duty, so the profit pool is low and the excise duty is relatively high across the whole industry so I would imagine room for price reduction is relatively limited.

Alok Shah: Got it. Thank you very much.

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

Harit Kapoor: Just two questions from my end. The first one was on the other expensive side so over the last two, three quarters you have managed these expenses quite fairly even in your presentation you have mentioned about relooking at cost I just wanted to understand what proportion of the cost structure you feel in terms of the reduction could be permanent going into FY2022 and FY2023 when normalization resumes?

Berend Odink: Within the other expenses we have a variety of costs, some relatively variable: distribution, promotions and some rates and taxes, other more fixed be it insurance, audit fees, administrative overheads, etc., our approach has been that we look at all line items, we are not coming out with guidance as to what is the absolute or margin that we see to take out, but it is an area we have been active on in the last nine months and we are still in the middle of let us say a cost review and finding new opportunities, create ways to look at what is the right cost level and the right processes for the business given of course also what has changed due to COVID and some of the new realities for the companies operating in the industry. So yes we have been happy with some of the reductions so far, some of what will come back as volumes increases as we will continue to support the brands in a bigger way, at the same time we will look at other types of costs to a certain extent as well, so we are actively looking at it.

Harit Kapoor: So just to follow up to that is it suffice to say that there will be some element of overhead costs, which may not come back completely once normalization resumes; however, that you cannot quantify that but would it be correct to assume that?

Berend Odink: Yes we definitely look at coming out of the pandemic period with a leaner cost base but of course we look also that in respect of what we spend on commercial firepower and market share positions of the brands, etc, so in that whole context I think we have to look at what gets retained in the bottomline margin, but your observation is correct: some of the costs we do not expect to have back post the pandemic.

Harit Kapoor: My second question was on the material cost as you did speak about glass, but if you could give us a sense on the barley price environment at least the market prices seem to have come off sharply, but for your consumption cost what kind of dips have you seen and what is the outlook there in terms of your consumption?

Berend Odink: On the raw material side the main input cost for this is barley, there we have been buying roughly at around 10% lower prices than the last year harvest, it is what is finding our way now in our product prices and we will have to see in another quarter what the outlook will be for the harvest and the pricing so that is a bit too early at this point in time to comment on that.

Harit Kapoor: Got it. That is it from me. I will come back from now. You can check more questions in the queue.

Moderator: Thank you. The next question is from the line of Krishnan Sambamoorthy from Motilal Oswal. Please go ahead.

K Sambamoorthy: Thanks. My question is regarding the month of December that is the Christmas, New Year consumption largely tend to be on-trade and therefore maybe 10% decline may have been much lower, if not for that?

PA Poonacha: What you are saying is right, but there was enough and sufficient pipeline stock for the spike in consumption since most of the on-trade outlets opened up in the end of December, so as such when we report revenues it is on our primary dispatches so that has not given us a real boost considering that there were sufficient pipeline stock in December this year.

K Sambamoorthy: Understood, the next question is bookkeeping one, what will be the likely capex for FY2021 and plans for the next year?

Berend Odink: So we continue our earlier guidance that we approach Rs.200 Crores capital investments, there you would have to net off the exceptional gain that we booked this quarter meaning we will get closer to kind of 150 Crores number for the current running year, for next year I would think we have most likely a similar guidance of below Rs.200 Crores given that we still continue to come out of the pandemic situation, but we will come back to that in the next earnings call.

K Sambamoorthy: Thanks.

Moderator: Thank you. The next question is from the line of Ashit Desai from Emkay Global. Please go ahead.

Ashit Desai: Just two followups from me. One was I missed the AP impact part if you can highlight what has been the impact over there and is there any change in terms of the volumes over there or we continue to stay away from the market still?

Berend Odink: For AP the government has changed the excise rate back in the start of Q3 so that led to some stabilization for us, the number of orders has been very low during the quarter, so net-net the last Q3 was still negative impact from Andhra on our figures and we will have to see coming quarters if that stabilizes and hopefully maybe picks up, but that is it at the moment.

Ashit Desai: How much was the negative impact?

Berend Odink: As you recall last October prior year it is when the policy changes were implemented, so that led to the quite a reduction in orders and demand, we did see some orders back in October, November, etc., from that year, so net-net we were still below that this quarter. As of yet the comparable are out of the base figures if you will, let us see what happens along there.

Ashit Desai: Why the depreciation cost lower versus last year and even sequentially, is there a change in that?

PA Poonacha: We are depreciating based on the shifts that the various units are operating on. The Companies Act prescribes that if you are operating three shifts then it is double the regular depreciation rate, if you are operating single shift, it is at the regular rate of depreciation, so thereby considering that most of our units they are not operating to full capacity, they have been depreciating unit wise based on capacity utilization.

Ashit Desai: This was not a policy, which was followed earlier right because I am sure in lean season we were never operating three shifts across capacities?

PA Poonacha: Yes, but as a full year if we did operate above 67%, as a whole, if you take an average we did above that hence we would use three shift depreciation, so as such to have equilibrium we operated the depreciation in the manner that it was in three shift across all four quarters, considering that this year is the unusual year and we have the pandemic around and some states recovered faster than the others we have depreciated based on capacity utilization each state and each unit.

Ashit Desai: What would be your capacity utilization now and what will be the level where you reach a three shift kind of utilization?

PA Poonacha: We should end the year by three shift utilization, so in the coming year you will see us depreciating the way we did previously.

Ashit Desai: Okay, got it. Thanks that is it for me.

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

Avi Mehta: With the recovery playing out in December logically the channel inventory also would have started to pick up stocks, is that played out or is that a fair expectation that should play out going forward?

PA Poonacha: It is a fair expectation, but if you compare our current business with December 2019 the overall month has been 9%, 10% lower, the large states like Tamil Nadu, Telangana and Kerala, put together these three states will be about 25% of the salience, in these states the consumption in part on-trade opened up only towards the latter part, the last week of December, so as such yes there was a good impact on consumption due to the Christmas, New Year season, but however considering that this December was far subdued compared to previous December thereby the sufficient channel stock to ensure this consumption could be met and as such we did not have real positive impact on our dispatches.

Avi Mehta: Okay so this % decline that we saw in December is more symptomatic of the underlying demand side rather than channel inventory that is the way I should look at this.

PA Poonacha: Yes.

Avi Mehta: Second that is essentially on the glass, new bottle versus old bottle what exactly do you think not timelines but what would be the steps in your view for the old bottle share to kind of start inching upwards, is it still a supply chain issue, what exactly, how should I look at that if you could kind of give your thoughts on how that share should kind of rise as we go forward?

Berend Odink: We have seen in other states and that we expect the trend to be in the states where on-trade has opened up that the number of the operators collecting the bottles increases so that restores back to let us say pre-COVID levels and they visit the usual sites where collections take place, so there is a bigger network, there is a bigger pool of bottles being collected for more centralized points if you will i.e., on-trade and bigger centers of consumption, which is a different dynamic if you can imagine that the full on-trade would have been closed then gathering those bottles, incentives for collectors to operate in certain areas is most likely less, so those are a couple of factors that we expect to play to stabilize the bottle returns.

Avi Mehta: Sir lastly there is a shift which we are looking from of people celebrating in smaller gang, is that a trend that you think can sustain and if yes how are you looking to address that or how would that impact? That is all from my side.

PA Poonacha: There are some super premium brands, which are packaged in different sizes for this kind of consumption pattern, but whether this consumption pattern would continue going forward when on-trade resumes and when footfalls go to the levels prior to pandemic, we need to wait and see.

Avi Mehta: Thank you very much.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: One question on the surrogate advertising, so one is competitive intensity in terms of advertising, how is it versus pre-COVID you and the other two main players and second because of surrogate advertising stricture by HC is there any risk of your propensity to drive discretionary consumption?

Berend Odink: So generally we have seen a lot of the advertising move more online and digital as one can imagine. Our share of voice has been good if not higher than usual. In terms of the legislation yes, always let us say some back and forth and clarifications that we have there, but we do not see any negative impact or potential issues where we would not be able to market the brands so we work closely with the agencies, with the regulators and are confident that the plans that we have we can execute them in the future.

Abneesh Roy: Add in intensity is that to pre-COVID?

Berend Odink: I would think in general that is a bit related to the market recovery, so it would still be below what we might have seen similar time of year one year ago, but definitely it is again with the recovery picking up and this would be my expectation that continues towards normalcy as well.

Abneesh Roy: Last question before the COVID generally in most quarters beer was growing faster than spirits as an industry when do you see that coming back?

Berend Odink: It is difficult to forecast, I think it is good to see that in the last quarter the kind of gap that we saw earlier much wider between beer and spirit seems to be narrowing down quite quickly, we have always said structurally we do not see due to pandemic any reasons why once things stabilize, consumption or behavior of consumers would be in anyway meaningful way different, I think the trend so far confirmed that hypothesis. When it will kind of cross and beer picks up further beyond that will remain difficult to put any expectation or timeline on, but we are focused of course very much on the beer category and happy with the sequential growth that we have seen and the consumers coming back.

Abneesh Roy: That is all from me. Thank you.

Moderator: Thank you. The next question is from the Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: Thank you for the opportunity. One question, FY2019 was one of the best years for us in terms of gross margin, EBITDA margin and thereafter we saw inflation in barley prices and thereafter the new bottles related cost increases and the lower volume from Covid which happen in FY2021, so is it fair to assume that FY2022 as we get into next year the cost structure, the dynamics are more similar to FY2019 in terms of the gross margin considering that the barley prices that come off and there is no inflation in the glass bottles?

Berend Odink: I think it is a bit too early we will have to see a new barley harvest that will be coming to market in April so what pricing will come out of that, potentially glass bottles, etc., we will see different dynamics at that point in time, we will have to see what happens to excise policies, impacts on consumer prices, there will be a couple of state elections, so I guess quite a couple of unknowns that as we move closer to start of the new year hopefully we get a better sense on the range of outcomes, what the margin could be.

Pritesh Chheda: Based on what statistics that we have on hearing today, which is the pricing index that we would have taken and corresponding raw material index as on date if you just consider those two elements is it then a fair guess to assume that the gross margins are back to what they were two years back?

Berend Odink: The gross margin; one element of course is the input cost, the other one is very much a function of state mix and the price obtained in the various states. Of course we have seen in Q3 very good improvement bottomline EBITDA margin is also coming back to good levels, a couple of savings programs that we are running right now I think that gives good confidence, but as I said we are also having a couple of more external factors like commodity prices, excise policies, etc., that can move things.

Pritesh Chheda: Thank you Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference back to Mr. Harit Kapoor for his closing comments. Over to you Sir!

Harit Kapoor: Thanks Janice. On behalf of Investec we would like to thank the management of United Breweries as well as the participants on the call for giving time for the session. Now hand over to United Breweries management for closing comments.

Berend Odink: Thank you Harit. Thank you everybody for your interest in the company today, for your questions. Any questions remained unanswered please let us know after this call, we are happy to followup. For now I wish you all good day and look forward to speak next time. Thank you.

Moderator: Thank you. On behalf of Investec Capital Services we conclude today's conference. Thank you all for joining and you may now disconnect your lines.