"United Breweries Limited

Q1 FY'26 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the United Breweries Limited Q1 FY'26 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing star then zero on your touchtone phone.

I now hand the conference over to Mr. Jorn Kersten, CFO. Thank you, and over to you, sir.

Jorn Kersten: Thank you. Good afternoon, good day everyone. Thank you for joining this earnings call on the first quarter of full year '26. I'm here together with Vivek Gupta, our MD and CEO. And we're happy to discuss the developments of quarter 1 for this financial year.

I'm sure there's quite a few questions that will pop up, so we'll keep the introductory comments relatively short. I will address a few highlights, hand over to Vivek, and then we'll open up for the Q&A.

Volume Q1, we increased by 11%. Note that we are lapping the impact from the elections during peak season last year, but this comes coupled with strong estimated market share gains in the quarter, predominantly coming from Andhra Pradesh, Assam, UP and Telangana, but also partially offset by Karnataka and West Bengal, and it's something that we probably come back to later on the call as well.

Premium volumes, very strong with 46% ahead, of the segment in the quarter. Within the segment, we see the strongest growth coming from the Kingfisher Ultra franchise, Amstel Grande and Heineken Silver. So across the premium portfolio, we see very strong growth.

And after receiving a very overwhelming response in the initial launch in Maharashtra, West Bengal and Uttar Pradesh, we're quite excited to bring Amstel Grande also to Karnataka, our home market, and always evolving market where consumers will be eager to try something new, which is international premium.

As you know, Amstel Grande was developed especially for the India market. So we're super happy that we're now also bringing this to Karnataka. Back to the quarter, net sales increased by 16% driven by price increase in multiple states but also a mix from premiumization.

And gross margin in Q1 is 42.5%, which is 50 basis points below last year, and I think we've mentioned this before as well, driven by some short-term margin pressure which we see from interstate transfers during the season, but also an unfavourable state mix on a profit level -- on gross profit level and the bottle infusion linked to the premiumization.

As you would know, we're growing premium, but the margin expansion is something that is a long-term play. EBIT delivery at INR259 crores, which is 10% ahead of last year while we still continue to invest behind both the brands and the organization as well as in our supply chain and the quality of our beers.

Now moving forward, we will remain to focus on category growth and winning across segments with the importance of our supply chain network and the quality of our beer being our guiding principles, and we'll pay a lot of attention to building a winning culture in the organization and, of course, keep an eye on profitability and capital efficiency. This will continue to guide us as we work towards a long-term sustainable growth in the market and also to continue our role as a market leader in the beer category.

Now, before we move to the Q&A, I happily hand over to Vivek for his comments on the developments.

Vivek Gupta: Yes. Thanks, Jorn, and good afternoon, everyone. I think, as you can hear from my voice, I think we are very excited about this quarter, and I think while Jorn has given the overall results. But I think there are a few contexts which are very important to even add on to that. I think one important context is -- I will not talk macro about weather and some of the other factors, which you see from other companies.

I think in this case, the beer industry, actually the whole market, if I can divide, they were states which were declining double-digit category, and there were states which are growing more than double-digit. And in this context, states like Karnataka, which is a highly profitable state relatively, our business declined almost 16% to 17%, though we grew shares in Karnataka, so which means the category further declined. States like West Bengal where, because of the taxation, we saw a double-digit decline in the category, and we also saw some of our competitors did not take pricing on the economy.

Even in that model, brands like -- companies like ABI, they did not take economy price, which doesn't make sense at all because on one side, the government is increasing taxation and you're not taking the prices and, of course, they continue to fuel their growth. So that's their strategy.

So in that competitive environment and also in the context where we have certain states where we had to -- or certain states where there are a lot of disruption because the supply network was not yet ready, and in between, we had this whole Operation Sindoor in the middle of IPL, which was our biggest program where we had to relook at our investments and relook at the execution, keeping all of this context, I'm extremely proud of the 11% growth on volume and 16% growth on net sales and also 10% EBIT growth that we were be able to deliver.

I think the key point I want to mention, this growth is behind fundamentals. Our premium business grew 46%. Last earnings call, I talked about that we are preparing for the season. We are making a lot of investment in warehousing and all of these investments, and you see that, that really helped us. Despite all of this, we were having massive supply issues, especially on cans and also in certain states like UP, where we had limited capacity.

And I would say in all of this context, we feel pretty good as a team that our strategic choices are working. Our cooler penetration, we placed more coolers in India in the first 6 months than we did in last year. And cumulatively, we have placed more coolers than what we did in the last 5 years.

So, we are investing in cold beer, we are investing in premiumization, we are investing in localization, and we are also having a good price mix. So, we feel pretty good about the quarter. Can we think it could have been better on margin? Absolutely. But we will continue to reinvest because there's so much of opportunity for category growth.

The last thing before I open for Q&A, there is a lot of learning for us as we go for exclusive growth. Because, as I mentioned, there were places we were declining and there were places we were growing. One big learning which I got, that even the government infrastructure is not ready for this growth.

So, in many states where we went for explosive growth, the corporation markets they don't have their warehouses, they don't have their depots, the trucks are standing outside. So that also -- while we have to spend a lot of money on detention of trucks outside the government warehouse, that's a real expense.

But it also gave us a lot of learning for next year on how to plan inventory, how to plan for growth, because we may plan growth from one side, but the system is not geared up for the growth. So, keeping all of this aside, I think we feel very positive about the quarter we just delivered, and we're already focusing on the current quarter, where we're already down 20 days.

I think with this, we can open up for questions.

Moderator: Sure. Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking questions.

Also, before we begin, a request to participants to please limit your questions to two per participant. Should you have a follow-up question, we request you to rejoin the queue. Ladies and gentlemen, we'll wait for a moment while the question queue assembles.

The first question is from Jai Doshi from Kotak. Please go ahead. We seem to have lost the line for Mr. Jai Doshi. We'll move to the next question. The next question is from Latika Chopra from JPMorgan. Please go ahead.

Latika Chopra: Yes, hi. Thank you for the opportunity. Two questions from my side. The first one is on revenues. Could you share how much of the 11% volume growth would you attribute to low base impact from elections in the base quarter? And what in your view would be the normalized volume growth which you anticipate in the remaining quarters of this fiscal?

And on the revenue front, if you could also add your comments regarding sustenance of 5% price mix growth, which looks steady so far as we look through the rest of the fiscal year. That's the first question.

Vivek Gupta: Yes. I think our estimates it's 2% and 2.5% growth you can attribute to low base because of the election. But I also say that low base was for everyone, we had a little bit more impact. But when we look at our share, market share, I think our calculation is we have grown on more than 300 basis points of market share all-India level in this quarter. So, we have definitely grown much faster than the category, even with that context. But if you have to take a number out, it's 2% to 2.5%, which is because of the low base.

On the price mix, I think, I would say, yes, 4 points is what we are planning in our own internal plans. And in some of the pricing, as we go in the second half, we'll be cycling some of the pricing, and we'll do that. But yes, we think the price mix of 4% to 5% is what we are going to stretch about. It will also depend on the premium mix as well.

Latika Chopra: Sure. So, Vivek, is it right to assume that adjusting for this base impact, you would be confident of delivering a high single-digit kind of a volume growth even in the rest of the year? Is that the pace growth you're seeing in the industry?

Vivek Gupta: I think it really depends on three things. I think the first thing is what happens in some of these states, like West Bengal, Karnataka, where the category continues to tank, right? Even this month, when I look at the data of the category, further decelerating in Karnataka. So, I think it really depends on the policy intervention. It's no new surprises. There are some states which are due to revise their excise policies. I think -- we think we should get to high single-digit if everything comes together.

I think the second one is there is a shortage of cans, which we are dealing with. And cans as a segment is growing in certain states. And there is no quick fix on supplies of cans. And there is a Government of India rule around BIS imports and all, which is also further delaying. So that is a little bit of, I would say, headwind in the next quarter. And definitely for us, and I'm pretty sure for the industry as well.

So those are the two factors which make me nervous. And I think 5% to 6% volume growth is still possible despite these factors. But if we get the tailwind on these factors, I think a 7% to 8% volume growth is very much possible.

Latika Chopra: Sure. And the second bit I had was on margins. And I heard you saying margin expansion as a long-term play. But despite a 16% revenue growth, despite the price increases that you received in Telangana and sustained outperformance of your portfolio, gross and EBITDA margins have been lower. You did call out some of the aspects which affected this.

But just wanted to understand, on a full-year basis, do you think you will land at margins which are higher than the last fiscal year? Means on a full-year basis, do we still anticipate profit growth to be ahead of revenue growth? Thank you.

Vivek Gupta: I think I'll ask Jorn to first answer and then...

Jorn Kersten: Yes. I think historically, we see that this quarter is relatively high versus the full year margins that we deliver on EBITDA, which is historically around 200 basis points lower. We don't see any reason to think this is different, but this is just a ballpark adjustment between the quarter and the full year. And we do, medium term, still aim for a double-digit EBITDA margin.

If we look at the margin contraction that we now report on, I think a big factor here to highlight is the development in Karnataka, which we estimate has roughly 50 basis points of impact on the margin that we delivered in the quarter and where we absolutely see that Karnataka need to come back to growth because it's one of our most profitable markets. So that's a big factor in what we reported so far.

Underlying, we do see that there's, let's say, around 100 basis points of GP margin improvement versus the same period last year, where we continuously improve on the return on bottles. We have actually a positive development on raw materials. We get some pricing, as we also saw in some of the comments. So, the underlying developments, we still think, are absolutely the right ones. However, in the quarter, it's muted by Karnataka.

And then again, and we've mentioned this before, also in premium, because it's growing, we don't get the efficiencies on the bottle return on premium yet. And for that to happen, we need quite a bit more growth.

So as long as the premium grows disproportionately and doesn't reach the scale, that's still dilutive on margins, where currently we see that premium delivers roughly two-thirds of the profitability from a margin perspective versus the rest of the portfolio. So, we need to grow that, and that's a long-term play. But underlying, we still see that the right developments are there.

Latika Chopra: Understood. Thank you so much, and I will get back in the queue.

Moderator: Thank you. The next question is from Jai Doshi from Kotak. Please go ahead.

Jai Doshi: Yes. Hi. My question is also -- first of all, congratulations on good market share gain and consistent sort of healthy growth in premium segment. Now, on margins, Vivek, about 1 year ago, 1.5 years back, you had indicated that your aspiration is to get to double-digit EBIT margin. And broadly, I think you were around 6%, 7% -- 6%, 6.5% back then. So, there is hope of about 300 to 400 basis point improvement over a 2-year period, right?

Now we see that you've made some progress in bottle recovery. And in today's morning's interview, you've given a target also for bottle recovery by the end of this year. You've managed to get price increases in Telangana. On the other side, you've had some regulatory challenges in Karnataka. So, when you put together all these tailwinds and headwinds, are you still sort of comfortable of reaching 10%, 11% EBIT margin in FY '27? Or the external environment has changed, and maybe you would like us to moderate our expectations on that front?

Vivek Gupta: See, if you see this quarter, our EBIT margin has been 9%, right? And look, as I said that the plans we have is also about consistently grow and to expand the margin. Our goal is to hit that double-digit number sooner than later. But having said that, the investment required, we will continue to do that. Like what Jorn said that, we have -- last year, we grew premium by 32%. First quarter, we grew, I think, 44%.

This quarter we grew 46% in the season, which is a very healthy sign for both the brand and our brand power is also going up. I'm pretty sure -- and in our financial modeling, the return bottle is a big part, especially as the premiums are coming in, becoming the scale part of it. And I think getting our business site in states like Maharashtra, Karnataka, which are high gross margin states, is also super, super critical.

I think this quarter, in particular, this year so far, Karnataka has been a big headwind. And I think Jorn said, there's a 50-basis-point margin. But what we're also doing is we know that this will keep happening. One state down, one state up is going to happen.

So, we're also creating other pockets where we can actually create a sustainable business model. To give you an example, like this quarter, we had to import a lot of stock to Andhra Pradesh because our brewery had only limited capacity. But we also made an announcement that we are going to actually lease a brewery. And I'm happy to say that the first case of some -- of Kingfisher will be out of that brewery by the end of this month. So that localization will also help us in terms of margin.

There are 6 locations where we have started producing our premium brands locally in our brewery in that first 6 months. There are 4 locations which are going live in the last -- in the next 2 weeks. We will have further localization of our production. So, we also did network design work. As you see, we have a problem in the brewery, and there's a lot of work happening on it. So, expanding margin is absolutely top of our agenda. And absolutely, we have a glide path to get there.

But what we are also doing is we are not compromising on the fundamentals despite the headwinds we get because, for us, it would have been very easy saying, okay, Karnataka is going to give an INR 50 crores dirt in the profits or whatever. Let us stop investing in IPL, or let's not do some of the other stuff. That choices we are not making yet because we still are prioritizing growth, but with responsible margin expansion. So, I really hope some of these tailwinds will really land us somewhere what we talked before.

Jorn Kersten: Yes. And if I can add to Vivek's point on the fundamentals, that's also about premiumization. If we see the speed at which the premium growth accelerates versus where we were, let's say, a year ago or 18 months ago, we love it from the fact that we want to premiumize and we think long-term, that's really where we want to go. And there's a lot of room for growth there and a lot of opportunity.

From a margin perspective, that builds the environment slightly differently from what we anticipated before because, again, the margin on premium will take some time before they catch on. So as that growth accelerates at a higher pace from what we expected about a year ago, yes, that has a lot of positives. But on the short to medium term, we need to sort of swallow that impact on margin.

And longer term, again, we'll be back on what are we aiming for, which requires quite an expansion in terms of basis points versus where we are today. And if we look at a basis point increase on EBIT margins, somewhere between 200 and 300 basis points on the longer term, I think we can split it into a number of big buckets. As mentioned, NBIs and premium where we get to a saving premium where we get actually the synergies on the returns.

Our belief is that that's roughly one-third of the gap, one-third, we will also get from just growing scale, but also optimizing, like Vivek said, the network capacity. In the past quarter, a large chunk of the growth, the majority of the growth, came from volume sourced from contract breweries, which we like because it allowed us to deliver the beer to our consumers.

But for next year and years to come, we also expect that the growth is more balanced between our own breweries and the CBUs, which, from a percentage margin perspective, would have a positive impact versus where we were this year.

And lastly, and I think that's more the context, we still aim for continued price mix. So the pricing and the top-line pricing will also definitely play a part in the overall margin expansion. And we need to continue to have these conversations and make sure that we play that role of category maker and really lead the category growth, as well also in the conversations with the regulators.

Jai Doshi: Thank you. That was detailed. I have two follow-up questions here. One is 1Q is a seasonally strong quarter in what we have observed in the past at these past couple of years. Full-year margins tend to be lower than 1Q margins. So will it be different this year? Or the same seasonality will apply this year as well?

Jorn Kersten: I think we can say similar seasonality will apply. However, we have that Karnataka piece, which is impacting the quarter quite heavily. So I don't see reasons, aside from how Karnataka develops, for a different development in full year versus this quarter than what we had historically.

Jai Doshi: Perfect. Sure. And one more. Heineken at a global level, in one of the presentations I remember, had sort of highlighted that the premium segment, probably some other part of the world, garners about 3x EBITDA per case as compared to mainstream. I understand that today, premium is growing much faster, and you're infusing more new bottles there.

But on a like-for-like basis, if you assume bottle recovery to be similar for premium and mainstream, what would be the margin differential in India? And I know that it will vary from state to state. But if you can give me some ballpark sense, either in terms of gross margin or EBITDA per case, which helps us sort of better appreciate the improving mix.

Jorn Kersten: Yes. And you're absolutely right that it will differ state-by-state. But if we would put the bottle returns at par, we could say on a per-case basis, it's about 2x. Percentage margin it will be lower than that.

Jai Doshi: Understood. Absolute EBITDA per case will be 2x a like-for-like comparison?

Jorn Kersten: Yes.

Jai Doshi: Thank you very much and good luck for the rest of the year.

Jorn Kersten: Thank you.

Moderator: Thank you. The next question is from Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: Congrats on excellent volume growth. My first question is on Maharashtra. How big an opportunity do you see this tax hike, which has happened in spirits and has not happened in beer? Taking examples from Bengal and Karnataka, so in Bengal and Karnataka, beer industry has seen close to double-digit decline.

So where is the consumption shifting? Is it beer being cut or customer is moving towards other forms of alcohol consumption? And do you see in Maharashtra also similar development? Or Maharashtra will take its own course, of where exactly consumer behaviour will sit?

Vivek Gupta: Yes. I think the very point on Maharashtra is if the policy is able to stabilize. It's very early days because the Maharashtra seems to be the single largest state on beer many years ago, and now it became fourth largest. So there is -- and Maharashtra is one of the unique states where there's a lot of beer stores also.

And if you remember last time we presented, we have done a special RTM effort to actually optimize our distributor and coverage network in Maharashtra. So we are absolutely set to win in Maharashtra.

I think so far, we haven't seen much uplift because there was a delay in implementation of that policy because the spirits companies, they declared their prices only in the first week of July or second week of July. Actually, I travelled to Maharashtra in the first week of July. I spent 2 days, they are in different markets like Kolhapur or Pune, and all.

So there is enough stock in the retail. So what has happened is retailers have actually stocked up a lot on spirits in anticipation of price going up. So right now, a lot of inventories is full in retail on spirits.

I think -- and they were probably hoping that this policy will get reversed or something because there was a strike also doing it. But having said all of that, if this remains stable, it's definitely going to be a very big lift for beer because affordability is key on beer. As I said, all the examples I give you is linked to affordability, where we are seeing gain is also linked to affordability.

So I think it will be absolutely good for the beer category. How much is the upside? The good part is that most of the beer manufacturers have local capacity in Maharashtra. We have 3 breweries. We know competitors have it.

So it will not be because of the lack of shortage of supplies. So we expect a very solid, at least a double-digit volume growth in Maharashtra. It will come in the right time. But for me, it should be much more than that.

Jorn Kersten: And I see that everywhere the gap between spirits and beer changes, there's a shift in consumption. Overall, if the average pricing for consumption go up, it will also have an impact on the total alcohol category. But I think usually, that's more of a temporary sort. What we see the gap -- and everywhere that the gap becomes smaller, more consumers shift in beer.

But we still see across many states, there's disproportionate taxation on beer versus other alternatives. So we think Maharashtra is definitely a step in the right direction, but there's still many places to follow because beer is still extremely expensive for consumers.

Abneesh Roy: My second question is on the premium segment. So, 2 years CAGR is around 46%, extremely explosive numbers. So how is the competition reacting? Because I think you are the number 3 player, or maybe now close to the number 2. Now, 400 bps gain in market share in the premium. How is the competition reacting? Because obviously, beer, there are also good large multinational companies.

So, if you could say, is the cost of business in the premium going up? I understand vehicular services, even the mass end, you have also invested in the IPL. So if you could tell us how the competition is reacting, given such explosive growth, you are seeing 46% in terms of the premium portfolio?

Vivek Gupta: Look, I think, first of all, I think to our competitors who actually created a very good premium segment here and did a very good job, Budweiser did a very good job, created in a very good beer. Even Carlsberg Elephant is the same. Even Bira brought some innovation and flavors in the market.

So I think, first of all, a lot of respect for competitors, no doubt about it. And they have done it. I think a lot of it was lagging. We were lagging behind. We know we are doing -- we are catching up, as I mentioned to you was because we did have local sourcing, lack of focus being very fundamental. So I would say even with 40% growth, I'm not happy because we have so much of fundamental work to be done and to really do that.

On how competition is reacting, I'm actually quite surprised because what we are seeing is in certain markets, some of the competitors, like they are actually playing an economy game that we see a lot of investments by ABI increasing in -- on RC brand in Karnataka, which is the actually level economy or brand in West Bengal, which is on economy, which is a bit confusing because it is just buying volume. Then it is not building category or the category -- if the category is in the country where the profit pool is so low.

So I think probably the -- maybe I don't know, it's the strategy of the company. But I do think if everyone keeps investing behind premium, there is a huge opportunity for premium growth because we are just catching the surface based on what we learned in China, in Mexico, to really do that. So that's one part of it.

And I think the second part is, I do think there is good innovation coming from competition as well. And we have a strong pipeline. Our Amstel Grande is doing extremely well. We're expanding state-by-state. Heineken Silver consumers, now we have local production in Karnataka. We see the growth coming behind it.

But having said that, I'm a little bit -- we are actually a little bit confused when the market is offering opportunity on premiumization and all, but there's so much a focus on actually value disruption around economy and all. So that's what we are observing. But let's see. But maybe there is a volume pressure everywhere.

Abneesh Roy: Thanks. One quick follow up and that's my last question. So on the cans, if you could elaborate the shortage. Is it a cost implication for you? So the cost goes up or is it a stock out also? So your growth could have been faster if the can availability was better? And is it impacting other forms of consumption, say, the coffee cans, the carbonated drink cans? Is it impacting everywhere? And when do you see this fully normalizing in terms of the supply side?

Vivek Gupta: Look, our assessment in which may be completely UB internal assessment, our assessment is there is a fixed supply of cans in the market whether it is for beer industry or for some of the other industries. Within beer industries, we have our fixed quota or whatever we have negotiated, and our demand is more than that. So we are definitely having stock-outs because we are not able to supply cans -- or we are not able to get cans.

Second is importing cans, also the standards have changed. I think you would have heard about BIS standard and some approvals which Government of India introduced from April 1. And multiple associations, including Brewers' Association of India are working on that to get some exemptions. But that also will take time. Once you get the exemptions, it will take time to do that. So these are, I call it challenges of growth.

So if we start growing double digit and we have started accelerating growth, the backward integration in beer industry needs a lot of work, whether it is bottles, whether it is cans, whether it is long term. And we are actually actively working with a lot of international suppliers and local suppliers for long term on that. But today, I would say we are actually having out of stocks.

We would have at least lost, I would say, 1 to 2 points of growth because of lack of cans over a six-month period. So there is out of stock as well. In terms of cost, because we don't have much option to import yet, so we are looking at some options. But it has less impact on cost, but more on the availability, definitely an impact.

Abneesh Roy: Thanks. That's all from my side. Thank you.

Moderator: Thank you. The next question is from Krishnan Sambamoorthy from Nirmal Bang Institutional Equities. Please go ahead.

Krishnan S.: Hi, Vivek. One follow-up on the cans portfolio. How significant is cans vis-à-vis bottles as a proportion of your overall beer sales?

Vivek Gupta: Yes. Can is around 20% of our business. And in some of the states like UP, it is 75%, 80% of the business. So the problem happens at a state-by-state level, right? So in certain states like Madhya Pradesh and UP, the can is a big part of the business. And it's also growing as the category is also growing in certain parts. So it is 20%, 22% of our business.

Krishnan S.: Understood. A few questions regarding Telangana. The quarter, the performance in Telangana was actually good. I remember you were expressing some concerns that there could be some impact on volumes after the price increases that were granted by the state. Maybe that has not panned out, or is that because of a lower base that Telangana did well on a Y-o-Y basis? Could you just clarify?

Vivek Gupta: It's lower base. So when I talk about 2%, impact would be lower base. Most of it was Telangana because, remember, we didn't get the third shift in Telangana last year, and we are the biggest volume there. There is definitely a 5% to 6% category decline if I -- on a basis because of the price reduction there in Telangana. It varies by month, but 5% to 6% cumulative category decline we are looking at.

Krishnan S.: Okay. And secondly, you were also anticipating a second round of price increases from the state government. Has that come through yet?

Vivek Gupta: No, there's no discussion on that yet. We consistently are pursuing it, but I think the most issues are still open issues. One is getting the payments on time, and the second is the pricing.

Krishnan S.: Okay. Yes, that is going to be my last question. Receivables were also a major issue in Telangana. What's the latest update there?

Vivek Gupta: The situation is better than what it was in the last quarter. Some old deals have definitely come down, but the new deals have more creditor days. So definitely, the money is coming back, but the old outstanding is still there. I think we have made progress on that versus last quarter, but more to be done.

Krishnan S.: Okay. Thanks.

Moderator: Thank you. The next question is from Vishal Punmiya from Yes Securities. Please go ahead.

Vishal Punmiya: Yes, thank you. Firstly, just a clarification on the volume growth. So there seems to be a change in calculation for the volume growth that we are reporting. So I just wanted to understand if the calculation was done as per the earlier way, what would have been the volume growth for this quarter? Would it be 9%?

Vivek Gupta: 10%. It would have been 10%, but we have moved to hectoliters, which is the right measure because of cans sales is growing. That's the real beer volume. So it is 11%. But if you go by just cases, it would be 10%.

Vishal Punmiya: Understood. Thank you. And secondly, in terms of market share gains, congrats on a very strong gain in this quarter. But if you could give us some idea in terms of which player would have lost market share during the quarter, any views on that?

Vivek Gupta: Sorry, I didn't get the last part of the question, your voice was echoing, on the market share?

Vishal Punmiya: Which player would have lost market share? Would it be Bira or any other -- the bigger players would have lost?

Vivek Gupta: Look, again, as I said, I think it varies state by state and from a proper mix because many players don't have a presence in many states to do that. But we know that major players have lost market share. At least 1 out of the 2 major players have definitely lost market shares. And we also know in certain markets, local players have lost market share.

Andhra is a good example where we have gained market share, and our local player has lost market share significantly. But we also know on an all-India basis because the premium is growing 46%, we also grew 28 basis points of share growth, we definitely know at least 1 out of the 2 major players have lost market share.

Vishal Punmiya: Understood. And lastly, any views on Carlsberg, the change in control of the business going to the parent entirely now? Is there any intensity that you have seen in terms of investments in sales and marketing, or even in terms of capex? Any views on that?

Vivek Gupta: Look, we are so busy in our own plans and execution. And I think for me, there is such a huge opportunity in India if we can -- if most of the companies can streamline, the number one is the Brewers' Association of India, we continue to pursue the agenda of tax rationalization, affordability of beer, and that's where there's a lot of upside. We talked about how it can do on the beer category.

Again, if the growth is going to happen, the country will need a lot of infrastructure, both in terms of backward integration of cans, bottles, malting, all of these areas. And I think players investing here will be good. Third is even with the government infrastructure, because 65%, 70% of the business goes to corporation market. If they don't have infrastructure for their depots to stock up the beer, in their stores to have coolers, and also, I think more players are welcome.

On your specific question, I think we have been quite busy on managing our own program and all, we haven't gone that deeper if there's something different they are doing. But definitely, I think they are a great company with a good brand. I'm pretty sure what you hear in media is what we also read.

Vishal Punmiya: Understood. Thank you, and best of luck to the team.

Moderator: Thank you. The next question is from Awais Bakshi from Sundaram Mutual Fund. Please go ahead.

Awais Bakshi: Thank you for taking my question, firstly. So just one clarification. You mentioned gaining scale, especially in the premium segment, is going to be a major swing factor for our margins. Currently, what's the salience of premium across our portfolio?

Vivek Gupta: 10%.

Awais Bakshi: 10%. And at what salience level would the real impact start flowing in on a company level margins?

Jorn Kersten: Yes. We think we need to -- we have -- well, I think if we grow to 15%, then we get closer. But again, here, this is a state-by-state and localization because we need to have sufficient salience within the vicinity of a production location in terms of consumption to get the upside of returns. But we think we need to grow to at least 15% before we start being able, in some places, to see this translate into better margins because the bottle returns reach that sort of tipping point where it really kicks off the growth.

And then again, even if we reach a scale, but the growth in that location continues to be disproportionate, then it still requires a lot of new bottles. So it's a combined development that releases the margin.

Awais Bakshi: Right. Got it. And just another follow-up. So your comments on taking the EBIT margins from 9% to double-digit trajectory, any ballpark, timelines you have in your trajectory on this, or it is just a direction where you want to see the EBITDA margin?

Jorn Kersten: I think the answer is going to be that it's directional. But we missed your question. Ballpark, and then you dropped off.

Awais Bakshi: Sorry, I'll just repeat myself. So, on the 9% EBIT margins to double digits, so what's the timeline for this?

Vivek Gupta: See, if you ask our company or anyone, they'll say yesterday. But I think, as I said, look, we are consistently working on it. And of course, in the glide path, we have to have sequential improvement. So you can do the math. I think we should be -- we have a timeline on this, and we should be able to get there, keeping all the other context in mind, keeping those sequentially, dynamically.

Awais Bakshi: Thank you for answering my questions. Those were the questions from my side.

Moderator: Thank you. The next question is from Latika Chopra from JPMorgan. Please go ahead.

Latika Chopra: A few follow-ups. One was on Karnataka. If you could talk about incremental trends there. I believe there was some change in pricing or taxation for entry-level beer, if you could walk us through what are you observing in this state, and how do you are you sensing any improvement in volume offtake progressively?

The second question was around your capex plans for this fiscal year and the next year. And if you could split it across investments in greenfield capacity, brownfield, and investments in coolers.

Vivek Gupta: Look, I think the data I have as of yesterday is month-to-date, the strong economy where the price rollback happened is down 50% versus a year ago. I'm not talking the category data, right? So, which means the total Karnataka category is down 22% still. So I think while there has been some change in that, but I think probably we have missed the buzz a little bit during the season as a category.

Also, there were a lot of issues around licensing and license fee with the retailers to really bring together. So there is a problem there still. And we know that when it is a comparison versus low-end spirit. So maybe we have to wait and watch because there were a lot of issues and stability in the retail there, but the initial lead is still not great in Karnataka. So we continue to see a decline in the high double-digit category decline. Sorry, I missed your second question.

Jorn Kersten: Yes. I can start with the second question on capex. You recall that we come from a low single-digit capex as a percentage of revenue, and we've expressed in previous calls that we want to move that to mid- to high single-digit as a percentage of revenue, We announced the greenfield in Uttar Pradesh, which we expect to deliver the first case of beer in the first quarter of 2027. So that obviously, from an extension point of view, is our main focus in terms of the capex.

And then Vivek mentioned, we do the network planning. So we'll continue to do that, which, in some cases, will require smaller investments to make sure that we expand in a smart way. And in an environment the way we are, and in these calls we speak a lot of the volatility and also how regulations and policy updates sometimes are a step forward and sometimes a step backward, step sideways, so we want to caution the capex investments absolutely.

And that's what we see in UP. We see that there's a progressive policy. It leads to doubling the number of stores for consumers. So the availability of beer, which we see as a big driver for category growth, is doubling in UP. And therefore, that's for us the right place to really invest big on capacity. So if we see the opportunity, we will. But we also want to make sure that we inspect the assets that we have because obviously, new capex will lead to depreciation, so we want to do it in a smart way.

And next to capacity expansion, also make sure that we have sufficient firepower to continue the growth of our commercial asset base. As Vivek mentioned in the beginning of the call, that over the past couple of periods, we more than doubled the number of coolers in the market. Yes, and we've actually only just started. This is a continuous project, where we really want to make coolers the standard in every store.

Latika Chopra: All right. Thank you so much for detailed responses.

Moderator: Thank you. The next question is from Ashutosh Jain from Barclays. Please go ahead.

Ashutosh Jain: Hello Jorn and Vivek. Thanks for taking my question. Two from me, please. If my understanding is correct, the recent personal income tax benefits of no income tax approvement, lack of income is broadly aimed at your core consumer segment. Given that these effects came -- were effective from April 1, could you share your best estimate of how much of the recent volume growth, if any, can be attributed to this?

Vivek Gupta: I don't know. It's very difficult. It's a difficult question for me to answer. But definitely, I think, as I said, it's a combination of still affordability and these factors. Because let's take an example where the taxation of beer did not go up, and there was not a significant price increase. Like Assam, for example, we actually saw a very healthy 35% growth and even more on our business.

And in UP, where the fundamentals were increased, like number of stores increased but not much taxation increase on beer, we also saw a significant 25%, 30% category growth. So -- but where there was high taxation increase, despite this income tax issue, we saw a double-digit decline.

So I don't know how much of this sensitivity is to the income tax. But I'm pretty sure, especially with the core consumers who are buying Kingfisher Strong and mainstream brands, it would have helped. But there are a lot of other things are there. So it's an interesting question.

We haven't looked into that, but we haven't seen any correlation, also because it's a state-by-state business, and we see much more impact because of the duties and other factors versus this. But something we will ask is our consumer insights team to pick it up and note any question on that.

Jorn Kersten: Yes. I think it's a good question. But indeed, for every consumer, it will be a mixed bag of basically what's affordable income versus what's happening on the actual beer pricing on the shelf, which is, of course, much more visible. And it's a state-by-state thing. But again, I think it's an interesting question.

Ashutosh Jain: Thank you so much. It would be good if we can always have a follow back on this. I was also very surprised because we haven't heard many commentaries from the companies. I guess Unilever was only one of the few apart from I guess Dabur to mention this.

So just a passing thought like, is it because the impact of the consumption is not that meaningful, which I guess you will still figure it out? Or is it just like companies like you are just being cautious to avoid fueling overly optimistic expectations of the Street?

Vivek Gupta: Yes, I think it's also for the penetration of the categories because it's not a staple category. It's not an everyday consumption category where people do it. While the people -- so I think it is also a factor of that and those people who do everyday consumption are anyway -- they think -.

I'm assuming they don't worry about the pricing anyway on that one. But it is just the penetration is so low of the category. But it's an interesting question. We need to check. Maybe in Telangana, if this would not have happened, maybe the drop would have been much higher. But that's why we're not building this impact into our plan yet.

Moderator: Thank you. Next question is from Sanjay Manyal from DAM Capital. Please go ahead.

Sanjay Manyal: I have a few questions. One is if you can give some color on major commodity pricing, specifically barley and glass. And what is the outlook in the rest of the year?

Jorn Kersten: Yes, sure we can. I think for the rest of the year, we have a pretty good coverage with our key partners there. So we expect that to be relatively stable and definitely not ahead of any inflationary impact. And I think going into 2026, our current view is relatively the same, but we think it's stable.

Of course, we'll see some impact on general cost increase on some of the conversions in the malting, etcetera, but nothing out of the ordinary. So for those commodities, we think we've reached a relatively stable state, thanks to also building really on the relationship with our suppliers across different categories.

Sanjay Manyal: And one specifically, when you mentioned that some of the states like UP, where the policy has been a lot favourable, so if you can give what kind of saliency you have in the states like UP or Assam where the policy is favourable and where you expect probably you can double your revenues or you can double your volumes in these states?

Vivek Gupta: I would say -- I wouldn't say policy is favourable or there's a good policy. It can be more to be done. I would say that the growth in these states can be 20%, 25%. And these states, I would say a quarter of our business can have a 20%-plus growth, a quarter of our business can have double-digit growth, and the rest would be, again, quarter declining double-digit and quarter in the mid-single digits. So it varies completely state by state.

For example, Jharkhand is coming up with a new private retail policy. If they really implement, there should be an impact to the category growth, which should be much higher than what we saw. In Andhra, when the policy changes, actually the category has doubled. So it really depends.

Sanjay Manyal: Right, right. And is it possible to give saliency of, say, UP specifically? Because that's probably one of the states where the...

Vivek Gupta: Yes, less than 10% for us.

Moderator: The next question is from Mr. Naik from Courser Park Advisors.

Naik: Thank you. Sir, if I recall, post Q4 FY'25, we are hopeful of improving our gross margin by around 40 bps for full year FY'26. Do we still maintain that post Q1?

Jorn Kersten: Yes. Sorry, could you repeat the question? It's about margins? What was the exact question?

Naik: Sure. What I recall is post Q4, the management commentary was that for the full year FY'26, we were hopeful of improving our gross margin by around 40 bps for the full year by '26. Are we still on track for that? Do we still think we can achieve that?

Jorn Kersten: I don't think we gave such a specific guidance on margin for the full year. So I can't comment to that.

Naik: Sure. On a Y-o-Y basis ending for this quarter, what would be the improvement in recycled bottle?

Vivek Gupta: Your voice is actually quite breaking? Are you on a speakerphone?

Naik: One moment. Is it better now?

Vivek Gupta: Yes, definitely better.

Naik: So on Y-o-Y basis, what would be the improvement in what recycled bottle rates for this quarter?

Jorn Kersten: This quarter, we improved 70 basis points versus the same quarter last year and 300 basis points versus the previous quarter, which is seasonality. So, stocking up inventory in the previous quarter and now with the high turnover in the peak season. We also seasonally get better returns on the bottles.

Naik: Understood. And one last understanding is, if you can give us a sense of relative margin of all the four geographies in North, East, West, and South, if you have to arrange it on our descending order of margin. How would that look like?

Jorn Kersten: Sorry. What is the question? Can you repeat once more?

Naik: The four geographies that we report growth, North, East, West, and South. If you can arrange it, if you can give us a sense of how they are placed when it comes to gross margin, like which one is higher or lower in that order.

Jorn Kersten: I think it's a state by state. It's not a region thing. And as you know, Karnataka and Maharashtra those are the high-margin states. They really stand out. On the other states, it's a bit of a mixed bag. I think the state of Telangana more on the bottom side. Everything else is in between.

Moderator: Thank you very much. We'll take that as the last question. I would now like to hand the conference over to Mr. Vivek Gupta, MD and CEO, for closing comments.

Vivek Gupta: No. Thank you for the great questions. It also makes us think. And thank you for joining us. As I said, we have a strategic plan. We have been putting the plan. This was almost 7 or 8 quarters of consecutive profitable growth for us. Our premium strategy is working. We are making capex investment in India. We are looking at a lot of backward integration opportunities as well. And we are learning about challenges of growing beer category here.

So I think this is going to be a ride guide where we will have to purposely do a lot more hard work to continue to grow this category and also expand the margin, but we feel really confident on the strategic plan we have and the delivery of that plan. So thanks, everyone, for joining.

Moderator: Thank you very much. On behalf of United Breweries Limited, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.

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