

Updated: 16-11-2018 18:39  
Tags: @vishnu570

---

71-90 minutes

---

Nov 16, 2018 (Thomson StreetEvents) -- Edited Transcript of United Breweries Ltd earnings conference call or presentation Thursday, November 15, 2018 at 9:30:00am GMT

\* P. A. Poonacha

Ladies and gentlemen, good day, and welcome to the United Breweries Q2 FY '19 Results Conference Call hosted by IDFC Securities Limited. (Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to Mr. Harit Kapoor, from IDFC Securities. Thank you, and over to you sir.

Thank you, on behalf of IDFC Securities, we'd like to welcome the management as well as all the participants on the call. With us from the senior management of United Breweries, we have Mr. Steven Bosch, CFO; and Mr. Poonacha, from Investor Relations. I'd now like to hand over the call to Steven for his opening remarks, post which we can open the floor for Q&A. Over to you, Steven.

Yes, thank you, Harit, and good morning, good afternoon to everybody on the call on the Q2 results call. Overall, our performance in the quarter was good. Our volume grew by 17% with most of the key markets doing well and growing in excess of the beer industry itself. Our market share in Q2, therefore, also increased marginally as compared to that of the same quarter of the previous year.

Our net revenues grew by 19% on the back of favorable state mix, some price increases and also strong double digits premium products growth.

Our gross margins increased by 170 basis points in this Q2 versus the second quarter last year despite the increases in prices for several input materials. And on the back of the continued strong topline performance in the second quarter, for the half year, our volume grew by 14%. Our net revenue for the first half was up by 15% with gross margins increasing by around 175 bps versus the comparable period last year. And also our EBITDA for the first half grew quite strongly by 35%.

When you look at the regional performance for the quarter, starting with the North, there the industry and also the company grew volumes double digit. In particular in Rajasthan and also in Haryana, we recorded double-digit volume growth and gained market share there too. Then with the new excise policy in U.P. effective in April '18, the industry witnessed volume growth. However, UBL for the first half has been lagging the industry somewhat on account of supply issues. However, if you look at the trends in U.P., our ability to supply improved somewhat from Q1 to Q2, so that's a positive trend. Then going to the South, the industry there grew by around 20% and the company recorded growth in excess of that level. We had good growth in particular in Telangana, Karnataka and Tamil Nadu, and we gained some market share in particular in the states of Tamil Nadu and Telangana while conceding, marginally, some share in the other states in the South.

Then in the East, also there, we recorded quite strong growth with 17% as against the low single-digit industry growth, and the company gained substantial market share in Orissa and in Jharkhand. In West Bengal, however, the situation for the industry continues to be difficult on the basis of high consumer prices and also our market share has been under some pressure because of quite strong competitive activity, including higher incentives paid.

And finally for the West region, the industry grew in single digits and there we recorded similar growth levels as well. So also in single-digit growth. And while in Mumbai the market contracted, in Maharashtra the industry was around flat. And overall in the region, it's good to know that the UBL gained market share particularly thanks to outperformance in Goa and in the rest of Maharashtra that is without Mumbai.

So that's it for the 4 regions. Then if you look at the total cash flow for the first half year, this has been favorably primarily on account of the higher profitability and also some better working capital management. Outstanding receivables in particular have been lower than expected due to favorable policy change in Uttar Pradesh and also change in our business model that we conducted and did in Haryana. And our CapEx expense are in line with the earlier guidance. We guided for some higher Capex levels and for the full year, it's expected to be in the region around INR 300 crores.

Then finally, we're really pleased to announce that in the month of October, we launched our nonalcoholic beverage. It's Kingfisher Radler, it's 0.0% flavored malt-based beverage that we produce in our site in Bihar. And the product has now been

launched in 2 states, in Gujarat as well as in Karnataka. And it's early days but we have had very positive and encouraging responses from the trade and the consumers in the initial weeks after lunch.

So those were my opening remarks. And I now open the floor to any questions from the audience. Thank you.

=====

Questions and Answers

-----

Operator [1]

-----

(Operator Instructions) First question is from the line of Abneesh Roy from Edelweiss.

-----

Abneesh Roy, Edelweiss Securities Ltd., Research Division - SVP [2]

-----

My first question is, in this quarter, we have seen most of the liquor companies and the beer company also report good set of numbers. So broadly, are you seeing the uptrend in terms of stronger sentiment and an overall demand? Or do you see this is more of a somewhat base effect or it could come down as a trend in the coming quarters?

-----

Steven Bosch, United Breweries Limited - CFO & Executive Director [3]

-----

Yes. Indeed that is a good question. So we see underlying growth being healthy. We do see also I catch-up effect of easy comparables still from last year where the industry was impacted by the [higher tax] so that is also coming back in the industry volumes. And on top of that, or let's say base effect, the industry is also in many markets showing a healthy trend.

-----

Abneesh Roy, Edelweiss Securities Ltd., Research Division - SVP [4]

-----

So what has driven the strong gross margin expansion both quarter-on-quarter and Y-o-Y? What has come down? Is it someone operating leverage so you are able to get better pricing? Is that what is driving?

-----

Steven Bosch, United Breweries Limited - CFO & Executive Director [5]

-----

So 2, 3 effects. First effect is that just volume growth, better utilization of our breweries and also growth in markets in states where we have relatively higher profits or higher [sales] realization levels. We do see that also we had some softening of input prices including brown sugar also barley. However, especially for the barley piece, that may, in the near future, also be a bit more going up. So those prices of barley may actually move up especially if you see that in the global markets as well already now. So it's the leverage, it's the state mix as well as some softening of input prices. And where we can, lastly, the premium growth, we also pursue premium growth and that is also showing double-digit volume growth.

-----

Abneesh Roy, Edelweiss Securities Ltd., Research Division - SVP [6]

-----

My next question is, you have done well in most markets but in Bengal, you said because of high prices the industry volume growth has taken a knock and competition also increased. Any particular reason why competition increased there and spend by your competition is increased? Because in a slow market, why is the competition investing more? Normally we see the other way, right? If the buoyancy is there than every company gives more incentives and more promotions.

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [7]

-----  
Indeed, [investment now] the industry has come down because of much higher excise duties weighing on our -- the pass along to the consumer prices. You see that in a contracting market there has been a more, let's say, assertive or a more progressive growth or a search for market share. So I don't -- I do think that the overall competitiveness have gone up, including some local players in the market there as well that I understand also are doing relatively well.

-----  
Abneesh Roy, Edelweiss Securities Ltd., Research Division - SVP [8]

-----  
And the last question on the nonalcoholic product, is this a case of utilization of your [idle] facility in Bihar? Is that the main reason? And can you advertise on this on mass media of this product?

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [9]

-----  
For the first bit on Bihar, yes, it's a production unit that we can use. But the main driver, actually the key driver here is that we see a good demand for this type of products, where we can not only leverage the Kingfisher brand but also tap into different type of consumer and go for a different type of consumption occasion. And yes, 0.0% product, it is having -- it's operating in a totally different environment, right. It's in (inaudible) environment where advertising, marketing, promotion is as per the overall, let's say, general rules are not restricted by excise.

-----  
Abneesh Roy, Edelweiss Securities Ltd., Research Division - SVP [10]

-----  
So but the brand is still in Kingfisher brand only. So you can use that brand and advertise in mass media?

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [11]

-----  
Yes, yes, it's not a beer product. Right? It's a nonalcoholic product. Even if it is a Kingfisher product, it is...

-----  
Abneesh Roy, Edelweiss Securities Ltd., Research Division - SVP [12]

-----  
(inaudible)

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [13]

-----  
It's a new -- this is not a surrogate. This is a real, actual product that we see another growth and opportunity for and that we will continue to invest and we want launch, move to accelerate growth for.

-----  
Abneesh Roy, Edelweiss Securities Ltd., Research Division - SVP [14]

-----  
But you to need create a distribution, which is new for this, right? Because this will be targeting new customer, normal mom and pop shops?

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [15]

-----  
Correct, correct. Yes.

-----  
Abneesh Roy, Edelweiss Securities Ltd., Research Division - SVP [16]

-----  
Have you started on that?

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [17]

-----  
We have totally different go to market, totally different business line with significant investments and significant growth opportunities. So, yes, therefore it's an important event and important initiative.

-----  
Operator [18]

-----  
The next question is from the line of [Natan Cosar] from Invesco Mutual Fund.

-----  
Unidentified Analyst, [19]

-----  
I think I missed on the distribution structure or distribution network commentary that you gave on Radler. Does it mean that we have to set up a different distribution network or total different distribution infrastructure for Radler?

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [20]

-----  
So yes, the point is that for the nonalcoholic products, we cannot use the existing go to market that we have for beer. Beer is going through separate go to market. And we're working with established parties, established distribution partners that we

deploy, or we work with, to get the product across India. Ultimately, we start with a couple of markets and have rollout plan in the coming period.

-----  
Unidentified Analyst, [21]

-----  
So what was the reason for us lagging behind growth in U.P. state?

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [22]

-----  
U.P. state, there has been a new policy, a new excise policy, that started in April. We saw in the first part of the half -- of the first half year, so first couple of months, we saw a totally new universe of wholesalers of licensed operators that had to be [imported]. And secondly, there has been capacity constraints in the state of the U.P. And that's a state where we work with a contract production unit. So we have been working hard to import our beer, as well, to meet the demand. Yes, we could not meet all demand there and still we see some restrictions also from the excise in terms of permits for production as well as logistics.

-----  
Unidentified Analyst, [23]

-----  
And when do you think this should get sorted out?

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [24]

-----  
Already, we see that we have a better scenario that we looked at in Q2 rather than Q1, and we believe in the months to come this will further be improved.

-----  
Unidentified Analyst, [25]

-----  
So last question, if I were to see a [pick up of case], we have seen a structural changing over the last 4 or 5 years. The existing EBITDA [per case] that you've been doing for the last half year or maybe for last 2 quarters, is this one should be looking as new normal new base?

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [26]

-----  
All right. There is a couple of cautionary points to make. So I would think that if you look at this current half year, we have had benefit of -- as for the earlier answer I gave in an earlier question, that there's been some softening of improved prices that we benefited from, in that, benefit of better capacity utilization because of growth coming back in. We've had overall positive operating leverage and there is a need -- also this great mix that we've also had. That can also -- these -- all these points could change, right? I think particular point to highlight is that commodity prices and the new prices, foreign exchange, all have moved in, let's say, not a positive direction. So there may be the coming quarters or also next year, the FX may become

more apparent. So yes, we've been doing well thanks to these points, but there is also some caution when I look at the outlook. And the same is true for state mix, as you know. The state contributions fluctuate from quarter-to-quarter. That has an impact on EBITDA per case.

-----  
Operator [27]  
-----

The next question is from the line of Krishnan Sambamoorthy from Motilal Oswal Securities.

-----  
Krishnan Sambamoorthy, Motilal Oswal Securities Limited, Research Division - VP of Research of FMCG [28]  
-----

My first question is regarding industry volume growth for the quarter. You grew by 17%. How much was the industry growth?

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [29]  
-----

14%. 14.

-----  
Krishnan Sambamoorthy, Motilal Oswal Securities Limited, Research Division - VP of Research of FMCG [30]  
-----

14%. Okay. The second question is regarding margins on a sequential basis. Typically, Q2 tapers off significantly and they were doing 400 to 600 bps compared to Q1, where traditionally your margins are the highest. Was there any one-offs for this particular quarter? Is -- if is guarantee of a thing of the past?

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [31]  
-----

[Poonacha] , you want to comment?

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [32]  
-----

No, there are no one-offs which are giving a higher profitability in the Q2.

-----  
Krishnan Sambamoorthy, Motilal Oswal Securities Limited, Research Division - VP of Research of FMCG [33]  
-----

Okay. Is the seasonality lesser than compared to previous years? Or is it (inaudible) reducing compared to preceding years? Because earlier you used to have an EBIT between 400 to 600 bps margins down sequentially. Last year, it was lesser than that. And this year it's actually less, about -- only about 60 basis points.

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [34]  
-----

You're talking about the margins early in the quarter? (inaudible)  
-----

Krishnan Sambamoorthy, Motilal Oswal Securities Limited, Research Division - VP of Research of FMCG [35]  
-----

It was -- 21.5 was the margins in Q1. It's just 20.9 for this particular quarter.  
-----

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [36]  
-----

Okay. So your inquiry why is your margins in the current Q2 is higher than...  
-----

Krishnan Sambamoorthy, Motilal Oswal Securities Limited, Research Division - VP of Research of FMCG [37]  
-----

Is seasonality not as stark as it was in the past?  
-----

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [38]  
-----

Seasonality has only some impact to the margins, because -- I mean -- right? Seasonality has got the effect to the extent that it [generously] creates mix, however, as we will confirm during the introduction that we had softer input prices (inaudible) better profitability (inaudible) that is the second.  
-----

Operator [39]  
-----

The next question is from the line of Aditya Soman from Goldman Sachs.  
-----

Aditya Soman, Goldman Sachs Group Inc., Research Division - Equity Analyst [40]  
-----

The first question is, you mentioned that you had very rapid, 20%, growth in South India market share gains in a couple of the states there. Any specific reasons you'd like to route that to?  
-----

Steven Bosch, United Breweries Limited - CFO & Executive Director [41]  
-----

Can you repeat that question? Any reason, sorry?

-----  
Aditya Soman, Goldman Sachs Group Inc., Research Division - Equity Analyst [42]

-----  
Any reason sort of very rapid growth in South India, where you mentioned volume growth almost 20%, and you gained market shares in those states. You mentioned Telangana and Tamil Nadu.

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [43]

-----  
So I think that, yes, (inaudible) growth good for (inaudible) sustainable. It looks like (inaudible) trend. I think in Tamil Nadu as a market, there has been (inaudible) market there was also a very much impacted by the highway ban last year. So therefore, the overall sentiment is now much better than last year. Same is true in a market like Kerala. And in Telangana, I think we've seen over the last year (inaudible) quarter of good growth. Now our share is going up and primarily because of our strong brands. Ultimately, (inaudible) some local competition having a difficult period, so maybe some local brands that are just having less of appeal. But overall, I think our share is more or less (inaudible) South Indian market, it's marginally up. So I think there some movements here and there, but it's over all moving in the right direction.

-----  
Aditya Soman, Goldman Sachs Group Inc., Research Division - Equity Analyst [44]

-----  
Understand. And is there any specific premiumization differences between the regions? So is there in a region that is seeing premiumization faster than the others?

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [45]

-----  
The big metro areas is where you see the fastest growth of, and the biggest existing volume for, premium. That includes Delhi, includes Mumbai, and also Bangalore and Hyderabad. So that's a bit (inaudible) not that there's a particular (inaudible) most important trend.

-----  
Aditya Soman, Goldman Sachs Group Inc., Research Division - Equity Analyst [46]

-----  
And my last question is in imported raw materials. What proportion of your total input costs are imported?

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [47]

-----  
Input cost? What percent of our input material -- what percent is import material?

-----  
Aditya Soman, Goldman Sachs Group Inc., Research Division - Equity Analyst [48]



-----  
Yes.  
-----

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [49]  
-----

Less than 10%.  
-----

Aditya Soman, Goldman Sachs Group Inc., Research Division - Equity Analyst [50]  
-----

Do you have any hedging policy in terms of your currency?  
-----

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [51]  
-----

Yes, we do.  
-----

Aditya Soman, Goldman Sachs Group Inc., Research Division - Equity Analyst [52]  
-----

Okay. That's the reason did not see any meaningful impact in the previous quarter, right?  
-----

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [53]  
-----

Yes, we normally don't leave our ForEx positions exposed.  
-----

Operator [54]  
-----

The next question is from the line of Ashit Desai from MK Global.  
-----

Ashit Desai, Emkay Global Financial Services Ltd., Research Division - Research Analyst [55]  
-----

My question is again on margins. You called out some inflation going ahead. So what is the inflation that you are seeing in your input basket? And what are the drivers that you have to offset this kind of inflation going ahead?  
-----

Steven Bosch, United Breweries Limited - CFO & Executive Director [56]

-----  
We are not immune to the overall macro trends, right? So whether it is glass or canned prices or barley prices, there is an upward trend. Difficult to give you an exact percentage. And I'm not too afraid from it, but I would think we have measures in place to -- also countries to -- and local production to have import opportunities to have hedging. And also too, negotiated terms and conditions with our key suppliers. But yes, it ultimately, some of it will move into P&L if there is commodity or energy price growth.  
-----

Ashit Desai, Emkay Global Financial Services Ltd., Research Division - Research Analyst [57]  
-----

And normally you buy barley at the beginning of the year, your full year requirement. So is that so this year also? Or you change your buying pattern this year?  
-----

Steven Bosch, United Breweries Limited - CFO & Executive Director [58]  
-----

Correct. So barley, we do buy -- we have on our balance sheet we have the barley we require. We're more or less covered there for the coming quarters. And what do is that in addition to domestic sourcing, there is also important of barley whenever required, or whenever opportunistic or it gets attractive to do.  
-----

Ashit Desai, Emkay Global Financial Services Ltd., Research Division - Research Analyst [59]  
-----

Okay, okay. And secondly, you commended on 2 states. One is A.P. where the industry has grown, you haven't grown. And you talked about some change to business model in Haryana. Can you just elaborate more on these?  
-----

Steven Bosch, United Breweries Limited - CFO & Executive Director [60]  
-----

So Haryana, the earlier quarters, we also mentioned that in Haryana, we have appointed a new distributor that is working for us that we work with to also work the market and improve as well our working capital. That is, I think, an important piece in Haryana where we see that we give a relatively short period in terms of receivable, in terms of the credit periods to our distributor, who will then have -- sell on to the market. So that's a different distribution model. And I think you mentioned U.P.?  
-----

Ashit Desai, Emkay Global Financial Services Ltd., Research Division - Research Analyst [61]  
-----

A.P. Andhra Pradesh.  
-----

Steven Bosch, United Breweries Limited - CFO & Executive Director [62]  
-----

A.P. is relatively -- is going well. There is some quarter-to-quarter changes, but I don't think that there's any particular trend to comment on.

-----  
Ashit Desai, Emkay Global Financial Services Ltd., Research Division - Research Analyst [63]  
-----

Okay. And what is it a procurement issue, one-off? Or is there more competition that's driving lower growth for you?

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [64]  
-----

(inaudible)

-----  
Ashit Desai, Emkay Global Financial Services Ltd., Research Division - Research Analyst [65]  
-----

Andhra Pradesh?

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [66]  
-----

I don't think -- only have as filled out as stated in my opening remarks. (inaudible)

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [67]  
-----

It's U.P. or (inaudible) U.P.

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [68]  
-----

So Telangana we saw actually (inaudible) in terms of the growth and that is still their market share as well as market. A.P., I have got no significant trend or significant one-off to comment on.

-----  
Ashit Desai, Emkay Global Financial Services Ltd., Research Division - Research Analyst [69]  
-----

And what will be your investments in nonalcoholic beverage? I mean, what are the kind of ad spends and distribution investments that one should build in over year?

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [70]  
-----

Nonalcoholic beverage?

-----  
Ashit Desai, Emkay Global Financial Services Ltd., Research Division - Research Analyst [71]  
-----

Yes.  
-----

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [72]  
-----

We'll say capital expenditure?  
-----

Ashit Desai, Emkay Global Financial Services Ltd., Research Division - Research Analyst [73]  
-----

No. Investments towards branding and distribution.  
-----

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [74]  
-----

Distribution, like Steven mentioned, is a different set up. Wherein as we have hired 2 large distributors who are in the, extensively, field (inaudible). And as you know nonalcoholic will be under (inaudible) side and on our (inaudible) side. So then that team and the operations are very different. They're different business segment is that. So CapEx-wise we are using the Bihar brewery to produce so there's no CapEx spend on that. With regards to advertisements, yes, there are some advertisements. But then it will not be (inaudible) material. And as for expenditure, it will come within our overall ad budget, reason being the brand is the same.  
-----

Ashit Desai, Emkay Global Financial Services Ltd., Research Division - Research Analyst [75]  
-----

Okay. One last question, if I may. I mean, there have been recent news on the CCI probe. So any comment you can make on that? And given that 2 of the competitors lossmaking, I mean what kind of capitalization is CCI probing?  
-----

Steven Bosch, United Breweries Limited - CFO & Executive Director [76]  
-----

So, yes, so indeed, there has been these news reports. Yes, the CCI is reviewing certain information or data that they have collected from the industry participants. Yes, we will -- it's a bit premature to comment at this time. As you know, we operate in a very regulated environment. Every state has a different set of regulations. And we will fully cooperate. We will fully continue to investigate and also, it's good to know that we are also taking compliance seriously. But it's a bit too premature to make any further comments on this particular situation.  
-----

Operator [77]  
-----

(Operator Instructions) We have the next question from the line of Himanshu Shah HDFC Securities.

-----  
Himanshu Shah, HDFC Securities Limited, Research Division - Equity Analyst [78]

-----  
Can you just provide some color on our CapEx? what exactly we spent on around INR 300 crores every year, INR 250 crores to INR 300 crores? Is it more like a maintenance CapEx? Or it is for expansion of brewery lines? If you can just provide some color on that.

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [79]

-----  
If something is with respect to maintenance, it will not go on CapEx. It will go under the [reserve] budget. Reason being, under accounting standards, we can only capitalize (inaudible) and we can't capitalize refurbishment unless it extends the life of the asset. So the life of the brewing assets is (inaudible) fixed. So whatever expenditure is there is towards expansion and towards capital equipment and capital (inaudible) needed to maintain statutory compliances.

-----  
Himanshu Shah, HDFC Securities Limited, Research Division - Equity Analyst [80]

-----  
And this would be the run rate, like INR 250 crores to INR 300 crores on a consistent basis?

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [81]

-----  
If you're looking at high single-digit growth, INR 200 crores to INR 300 crores is the kind of CapEx, which we needed to give you the finance capacity to source this high single-digit volume growth. And for, we call it, maintenance CapEx. That is CapEx to maintain your quality, your efficiencies and statutory compliances.

-----  
Himanshu Shah, HDFC Securities Limited, Research Division - Equity Analyst [82]

-----  
Okay. Secondly, on the nonalcoholic beverage business that we have entered. Can you provide some color where can we see this business over next 3 to 5 years, like in terms of size and scale? What is the opportunity size? And what will we be targeting at in terms of our market share or acquisition?

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [83]

-----  
You're asking about the future after just 1 period. All I can say is we're very confident that this segment has a bright future. So then you ask us to quantify today, very difficult to do so.

-----  
Operator [84]

-----  
The next question is from the line of [Chirag Lodhia] from [Value Quest] Research.  
-----

Unidentified Analyst, [85]  
-----

So my first question is on, how big is the U.P. market industry wise? And where could be add market share?  
-----

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [86]  
-----

Sorry, be a little loud, please?  
-----

Unidentified Analyst, [87]  
-----

How big is UB in terms of volume, industry volumes?  
-----

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [88]  
-----

Volume market share for the half year ended?  
-----

Unidentified Analyst, [89]  
-----

No, no, I just wanted to understand UB (inaudible) market size.  
-----

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [90]  
-----

(inaudible) On top of this as the [fill-in] of the country?  
-----

Unidentified Analyst, [91]  
-----

Yes.  
-----

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [92]  
-----

It's about 70% fill-in.

-----  
Unidentified Analyst, [93]

-----  
And what rate would it be growing the first half?

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [94]

-----  
First half, it will be growing high-single digits or just the double digits.

-----  
Unidentified Analyst, [95]

-----  
And our market share would be, sir?

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [96]

-----  
Our market share will be...

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [97]

-----  
Around 40%.

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [98]

-----  
Just under 50%.

-----  
Unidentified Analyst, [99]

-----  
And then just lastly, on this U.P. market. What exactly business model has changed in terms of (inaudible) and (inaudible) will improve and working capital, what has exactly happened?

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [100]

Really there is no change in business model. There's a change in excise policy. In the past, the excise policy allowed 1 large monopolistic player. The new excise policy effective April 1, 2018 has ensured that there are many players and that there is no 1 large monopolistic buyer. (inaudible) the [current] of the amounts under which you supply to the market is really favorable. We are getting money almost by the time we supply here. So (inaudible) used to be at 60-plus days, collectibles. It is now less than a week in the collectible days. So that's the marketable advantage [with working with UB].

-----  
Unidentified Analyst, [101]  
-----

And our supply chain has been stabilized now, right?

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [102]  
-----

Supply chain, meaning?

-----  
Unidentified Analyst, [103]  
-----

So in the first quarter, there were issue of (inaudible)

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [104]  
-----

There were issues with respect to driving [utilization] capacity for the supply in the first quarter, which has been by and large addressed in the second quarter.

-----  
Unidentified Analyst, [105]  
-----

And just 1 basic question. 1 case of beer is equal to how many liters?

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [106]  
-----

7.8 L. That is, we're talking about a case of 650 ML bottles, 12 bottles, is 7.8 liters. We're talking about 330 ml bottles, so talking 330 ML to 24 is also close to 7.8, 7.95 liters, and so that's the -- if you're talking about the cans, yes, we have [filed] ml cans where it is 12 liters per case, but 95% of our volumes is 7.8 liters.

-----  
Operator [107]  
-----

(Operator Instructions) We have the next question from the line of [Viraj Gandhi] from Victory Capital.



-----  
Unidentified Analyst, [108]  
-----

Two questions really. One is could you give some color on the regional mix of how our sales and volume growth is turning out? And what I mean by region mix is between urban India and rural India. Would you have some color on how much percentage of sales come from Metros versus, say, the non-Metro regions? And what is the percentage growth rate differential between the 2 regions? And also, is there a trend, which you're witnessing where the Kingfisher brand is facing some fatigue in key metro area? I read from your press release that Mumbai is flat. Delhi is flat. So is it that your brand facing some fatigue in the Metro regions like Mumbai, Delhi and because of competition or whatever? And in the nonurban centers the brand is still pretty strong. So if you could give some color on these aspects.

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [109]  
-----

I will take these questions. Now we have not gone about classifying the growth in the segmented levels urban and nonurban. There we have close to 75,000 to 80,000 outlets, which are, by and large, in the urban and semiurban areas. So we have gone about strategies but not on the basis urban, semiurban. With respect to your questions whether there is fatigue of this brand in the urban areas or in Metros, the answer would be competition or new entrants by and large enter the Metros first. So you will see the effects of competition there. And when competition enters, they enter with huge discounting and bleeding their own balance sheet. So that temporary effect will be there on the Kingfisher brand volumes in the metros. So that's what you're seeing.

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [110]  
-----

Add to that perhaps, I think, if you look at the key metros, the trends, they're more recent, not only in the quarter, but if you look back a little longer, I think there's been a healthy trend especially in places Delhi. And Mumbai has been more or less stable. So I think across the markets and beyond these 2 cities also, the Kingfisher brand is holding up well.

-----  
Unidentified Analyst, [111]  
-----

Understood. And just from a pure brand penetration perspective, do you think there's more room to spread these number of outlets more deeper into the country? I mean, which in turn leads to better volume growth over a period of time.

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [112]  
-----

We are in industry where getting licenses it is not easy.

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [113]  
-----

With the Kingfisher brand, right, and our other brands, our penetration levels are already very high. So Kingfisher is basically in virtually all beer outlets.

-----  
Operator [114]  
-----

The next question is from the line of [Maneesh Bota] from Reliance AIS.  
-----

Unidentified Analyst, [115]  
-----

I have a couple of questions. So first thing, if I get my numbers correct, in Q1 of this year, your volume growth was 12% and the relational margin will be down, if I remember. So -- and if you say these volumes is 14% this quarter, have you got any material price increase this quarter? Or it's (inaudible) mix and product mix?  
-----

Steven Bosch, United Breweries Limited - CFO & Executive Director [116]  
-----

No, with this quarter there was maybe 1 or 2 small markets where we had some price increases (inaudible) major. Then again, our revenue growth, or realization per case growth or the growth, is subject very much or subject to set (inaudible). That is quite important.  
-----

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [117]  
-----

To answer you, we had a price increase in Telangana, which was affecting the first quarter itself. That has a [saliency] to the country volumes. In the second quarter, the saliency of Telangana has been far higher than the first quarter.

I said the current price increases in Telangana in the first quarter but as the volume fill in, in the second quarter, the volume saliency of Telangana is higher than the volumes stated in the first quarter vis-à-vis all India volumes saliency, Telangana saliency (inaudible). So this will give you a favorable sales mix with respect to higher valuation. And that's what we're seeing.  
-----

Unidentified Analyst, [118]  
-----

Sir, I remember you used to mention higher volume growth of 6% to 8% on -- from a medium-term basis. But if I look at this quarter, despite the base, this restocking or the basis back, which we have seen, your 2-year volume growth is about 14%. So should we anticipate this target rate? Is there any change in the material consumption? Or may I still call out that 6% to 8% is the volume growth trajectory which one should anticipate?  
-----

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [119]  
-----

You're right with respect to your cost sentence that our volume trajectory will be in that high-single digit. The current trajectory of the first half looking higher is -- as Steven mentioned before and the thing is, we have the base effect wherein we had easy comparables (inaudible) issues in the first half. So the comparison had to be [easier].  
-----

Unidentified Analyst, [120]

---

And just 1 final 1, if I may. When you're saying that EBITDA per case would go down largely because of input cost inflation, you are saying operating leverage would not incur materially in the Q -- in the second half of the year.

---

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [121]

---

Sorry, your question (inaudible)

---

Unidentified Analyst, [122]

---

So you mentioned the 3 variables which actually (inaudible) EBITDA margins. So one is the [state-by-state] or product mix. Second is better volumes given the better operating leverage, and third is raw materials. And you said the [confidence] is largely on the raw materials which you are facing.

---

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [123]

---

Yes.

---

Unidentified Analyst, [124]

---

So is my understanding correct that you are pretty much confident on the other 2 variables in the -- what I'm trying understand here are EBITDA per case...

---

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [125]

---

Input prices going up.

---

Operator [126]

---

The next question is from the line of [Prayat Shara] from Lucky Investment Managers.

---

Unidentified Analyst, [127]

---

Sir, on the volume growth side if I just try to read the past conference calls that you've conducted, you always mention that the volume growth should be about single digit. When I'm hearing this call as well you are pointing single-digit volume growth incrementally. Why this specific for this particular product category there? There a lot of consumer product categories that have actually grown double-digit. This product category has the potential to grow double-digit in a country like India, so comments there. And second, when the call out single digit in the first half year double-digit volume growth and I don't see any days on a 2-year basis. So if you could give some comments there as well.

-----

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [128]

-----

If you see the trend the last 5 years, there's been a drop and there has been an increase. And if see (inaudible) [CAGR] it is high-single digits. Okay?

-----

Unidentified Analyst, [129]

-----

Sorry?

-----

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [130]

-----

If you take the CAGR of growth last (inaudible) the CAGR growth, the average growth the last 5 years?

-----

Unidentified Analyst, [131]

-----

Yes.

-----

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [132]

-----

It is high single digits. Okay? Now if you look at the first half of the last financial year, we had low single digits. As such the growth in the first half of last financial year was lesser than the CAGR. So when we are having 14% growth in the first half this year is single-digit growth is a reason that the base effect has shown high growth. And going forward also, yes, we are buoyant and bullish about the profitable industry but to say that we are going to move away from high-single digit to mid-double-digit, it's being too optimistic.

-----

Unidentified Analyst, [133]

-----

Okay. And when you are saying it was low-single digit in the first half, what was your volume growth in first half last year?

-----

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [134]

-----  
I don't recall but I know it's no more than 5%, 6%.

-----  
Unidentified Analyst, [135]

-----  
Not more than?

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [136]

-----  
5%, 6%.

-----  
Unidentified Analyst, [137]

-----  
Because your growth for full year was about 10%, which means second half last year would have grown a double-digit number and first half of this year you have grown double-digit.

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [138]

-----  
Again, it is important to stress that the growth trajectory that we give is a medium-term target. I think also one of the earlier calls mentioned that towards the second half of this year, there are also some (inaudible) risks, especially related to election time. And of course national election with also some key states where there will be state elections. And when you see that there is normally quite some disruption when it comes to alcohol, when it comes to beer as well, from these events, and therefore, a clamping down on sale or adding dry days or what have you. And I think also what we're saying is that quite a number of markets where you see sudden changes in the regulatory landscape, in excise rules. Steep excise duties for any other managers, that typically impacts the amount, that we don't rule out. And we always keep in the back of our minds that certain states will be affected by these measures, therefore, impacting overall opportunity for UBL to grow. And lastly, I think, yes while the industry growth [been an] always flat at high, or let's say, 6% to 8% growth, we also said at the same time that we're confident that they should do better and may be towards the low double-digit or higher single-digit.

-----  
Operator [139]

-----  
(Operator Instructions) We have a follow-up question from the line of Krishnan Sambamoorthy from Multilevel Securities.

-----  
Krishnan Sambamoorthy, Motilal Oswal Securities Limited, Research Division - VP of Research of FMCG [140]

-----  
My questions have been answered. Thank you.

Operator [141]

-----

The next question is from the line of Harit Kapoor from IDFC Securities.

-----

Harit Kapoor, IDFC Securities Limited, Research Division - VP of Research [142]

-----

Just 2 questions on the new launches. So firstly, on Radler. Assuming you see a good performance in your test market launch, do we expect full-fledged launch in terms of a national launch in FY '20? Is that the way it should work?

-----

Steven Bosch, United Breweries Limited - CFO & Executive Director [143]

-----

Exactly, Harit, yes. So we want to accelerate this. So clearly after pilot markets, we want to further accelerate and grow the presence of the product in the coastal markets.

-----

Harit Kapoor, IDFC Securities Limited, Research Division - VP of Research [144]

-----

Okay. And if you could just comment on it's been about 2 quarters for even AMSTEL. How has that been received in the marketplace.

-----

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [145]

-----

Yes. So AMSTEL, we have now rolled out in 3 or 4 states. So that is -- and in each of these states the response has been positive. So it's really also positioned as an international premium strong beer, which we didn't have yet. So it's really an additional -- it's complimentary to the portfolio. And we are -- of course, it's a new brand so we're also investing behind it to support and build the brand. But clearly, the response and the pickup of the brand has been encouraging.

-----

Harit Kapoor, IDFC Securities Limited, Research Division - VP of Research [146]

-----

And what was your premium brand quote for the first half or probably for Q2. Whatever number you have as compared to your overall growth. What for that in premium brands growth?

-----

Steven Bosch, United Breweries Limited - CFO & Executive Director [147]

-----

It's really strong double digit. So it's north of 30%.

-----

Harit Kapoor, IDFC Securities Limited, Research Division - VP of Research [148]

-----  
Last question really was on the -- I know you spoke about the election also coming up, some dry days, et cetera. Have you already started to see some of that impact in Q3 given there are a few states which are coming up for election?  
-----

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [149]  
-----

That is upcoming and we'll have one of the days there -- there will be some effects.  
-----

Harit Kapoor, IDFC Securities Limited, Research Division - VP of Research [150]  
-----

Apart from dry days is there any supply chain issue there that if we're facing, et cetera?  
-----

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [151]  
-----

Supply chain issues, I mean, yes and no. There is a kind of local excise notification thing that suppliers have to [assume] (inaudible). But we can't sit here and imagine what happens. You just likely saw the last elections in Karnataka. And on consumers, they're not allowed to carry more than a couple bottles of beer (inaudible). So things that you saw replicated elsewhere. It could have an effect on the volumes.  
-----

Harit Kapoor, IDFC Securities Limited, Research Division - VP of Research [152]  
-----

Last question really was on the east market. I know you said ex West Bengal, growth has been very good. Are we gaining there from the regional players or it's shared in from national players itself?  
-----

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [153]  
-----

(inaudible)  
-----

Harit Kapoor, IDFC Securities Limited, Research Division - VP of Research [154]  
-----

You said east growth was strong as compared to -- apart from West Bengal the volume growth in east strong for you and you gained market share. Is that gain coming more from national players? Or it's from some regional players there?  
-----

P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [155]  
-----

We have gained in Orissa. We have grown very well and have gained market share in Orissa. And I think at the East we have grown (inaudible) excluding West Bengal.

-----  
Operator [156]

-----  
We have a follow-up question from the line of [Chirag Lodhia] from Value Quest Research.

-----  
Unidentified Analyst, [157]

-----  
So what percentage of ad sales come from premium portfolio? And how we classify the same?

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [158]

-----  
So that is in the mid-single-digit contribution. It's growing actually fast. There is everything in excess of the Kingfisher premium or Kingfisher Strong brands. So that it contains multiple brands. So it's Amstel. It is Ultra, Ultra Max. It's Kingfisher Storm. It's Heineken, that's an import beer. Those represent the portfolio -- that's the portfolio where we had higher price index than the Kingfisher brand itself.

-----  
Unidentified Analyst, [159]

-----  
Got it. And second question, what are the imports taxes? So you said in the first quarter, you were importing from other states. So what is the price differential manufacturing, say, in U.P. or importing from other state? What is the price difference?

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [160]

-----  
I think the big -- the main issue there was importing and exporting your beer is that it will attract import and export duties. Import and export (inaudible) fees as they're called. And those differ very much from state to state. But clearly that is meeting to inefficiencies and on top of that, we have of course, as always have more freight -- more kilometers of freight. Really those levels of import duties, export duties differ from state to state.

-----  
Unidentified Analyst, [161]

-----  
But general, is the taking example of U.P. If you can just highlight what is the difference for their particular state, it will be helpful.

-----  
Steven Bosch, United Breweries Limited - CFO & Executive Director [162]



It can be in the range of 50 to 100 rupees per case, for instance, but it really differs from state to state.

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [163]

-----  
What state you're looking for?

-----  
Unidentified Analyst, [164]

-----  
U.P., say example, U.P.

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [165]

-----  
I can only check into that. It should be -- in the import (inaudible) fees in U.P. is really high. So if I source it locally, meaning we will make money if you -- that is we make and market there, if you bring it (inaudible)

-----  
Unidentified Analyst, [166]

-----  
Okay. And lastly, on E&P spend, what has the E&P spend for first half we had last year? And on a full year basis, what do we have going to spend?

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [167]

-----  
The spend is in line with last year as a percentage of the top line.

-----  
Unidentified Analyst, [168]

-----  
And on a full year basis, we'll be maintaining the percentage?

-----  
P. A. Poonacha, United Breweries Limited - Divisional VP of Finance [169]

-----  
Honestly, there is no spend, end to the end.

-----  
Operator [170]

You have the next question from the line of from (inaudible) from Reliance.

-----

Unidentified Analyst, [171]

-----

Just the 1 question is related to the antitrust (inaudible) commission issue that were raised against the other 3 top players of the beer industry. Any update on that?

-----

Steven Bosch, United Breweries Limited - CFO & Executive Director [172]

-----

I already answered this question.

-----

Unidentified Analyst, [173]

-----

I'm sorry, I missed that.

-----

Steven Bosch, United Breweries Limited - CFO & Executive Director [174]

-----

It's basically, yes, it's premature. It's quite early days after the news broke and sort of, we're working to cooperate and provide data and taking compliance seriously. So there's no further update from our side of for this call.

-----

Operator [175]

-----

(Operator Instructions) Ladies and gentlemen, that was the last question. I know hand the conference over to Mr. Harit Kapoor for closing comments. Thank you. And over to you, Sir.

-----

Harit Kapoor, IDFC Securities Limited, Research Division - VP of Research [176]

-----

Yes, Thanks, everyone. On behalf of IDFC Securities, we'd like to thank all the participants as well as the management to spare their time for the call. I'll hand over to Steven for his closing remarks.

-----

Steven Bosch, United Breweries Limited - CFO & Executive Director [177]

-----

Harit, thank you so much. Everybody, thanks for attending the call and look forward to the next occasion. Thank you. Have a good day.

-----

Operator [178]

---

Thank you very much. Ladies and gentlemen, on behalf of IDFC Securities, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.