



“United Breweries Limited Conference Call”

September 14, 2010



**MODERATORS: MR. GUIDO DE BOER – CFO, DIRECTOR
MR. P. A. POONACHA – HEAD FINANCE & ACCOUNTS
MR. VIJAY CHUGH – AMBIT CAPITAL**



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Moderator

Ladies and gentlemen, good evening and welcome to the United Breweries Conference Call hosted By Ambit Capital Pvt. Ltd. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vijay Chugh from Ambit Capital. Thank you and over to you sir.

Vijay Chugh

Yeah, thank you very much. Good evening everybody. On behalf of Ambit Capital it is my pleasure to welcome all of you to the United Breweries Conference Call following the merger announcement of Millennium Alcobev into UBL. Joining us on the call today from the United Breweries Management is Mr. Guido De Boer, who is the CFO and Director and Mr. P. A. Poonacha who is the Head Finance & Accounts. We will begin the call with some initial remarks from the management on the transaction and thereafter open the call for Q&A.

Guido De Boer

Excellent, thank you Vijay for this introduction and all the participants for dialing into the short notice. What I will do is I will just briefly flip through the investor presentation that is uploaded on our corporate website and then I will move over to Q&A. And so to start off we are very excited that finally this transaction has happened. It has been something we have been envisaging for quite sometime, as the structure we have historically with joint venture Millennium Alcobev and a list of companies below that is a comfortable structure which has many basic firms just from an operational perspective. And so with this we will create one legal entity which will lead to operational benefits. On cost side with also in ease of managing the business and in ability to optimize sourcing and in addition to that the transaction will give us significant tax benefit as MBIL one of the companies has tax losses in excess of 250 crores which can be utilized for UBL and as of appointed date of beginning of this financial year. So effectively that should be to UBL paying MAT for the coming few years.

And apart from that the important aspect for UBL as listed entity is that with this we will consolidate all the brewing assets within the group in one entity and especially there in Tamil Nadu, a key market for us and it is now one of our largest markets but UBL itself does not own any brewery and MP has one brewery in Chennai which as a part of this transaction will be coming into the UBL fold.

And last but not least, I think this transaction will also give additional clarity to investors as only one entity in which everything takes place and no contract brewing between the various entities and we will be able to do finance to company in a more efficient way which is reducing our interest cost.

So if you look at it from a technical perspective, the transactions are intended to take place as of an appointed date of 1st April, 2010, and there will be a combination of high court merger



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schemes and BIFR schemes which we will do at the same time. MAPL, ABDL and Empee Breweries Limited into UBL will be done through court schemes and two sick companies MBIL and UMBL will be BIFR schemes and we intend to do them in parallel. So that we are aim to have complete this before the financial year closes in September next year, so that we can take into the results for this year as well as utilize the tax losses available on merger.

As a result of that UBL will issue new shares. 8.5 million of those will go to Heineken in exchange for Heineken giving up its shareholdings in Millennium Alcobev and half a million shares will go to the minority shareholders in MBIL under DIFR scheme. And on top of that we will also create benefit trust which will hold 6 million shares in UBL and technically that is done by using, as part of the merger UBL will receive shares in UBL itself and will cancel most of the shares except for the 6 million which will be used as a benefit for the trust which will give us a flexible means going forward to raise capital if and when required.

So a bit more to MAPL the business itself, it owns a number of important regional or company brands sell by Zingaro, Kalyani Black Label Strong, Marco Polo, Bullet, etc., which play an important role in the portfolio of the UBL Group as a whole and the company owns four breweries and as I alluded to you earlier, most importantly the brewery in Tamil Nadu state so it is very difficult to get new licenses. So for the company it is very important that this brewery comes into our fold. And if you would look at MAPL standalone would be the number 3 beer producer in India behind UBL as the leader entity and SABMiller. So it is a very sizeable business and that would be coming into our folds and it is more or less producing one-fourth of the total UBL volumes. I think the other thing that is important to note from a technical perspective is that there was about 250 crores of debt at year end FY10, a part of debt amounting to 194 crores, converted into equity to also optimize the capital structure of the combined group going forward. So in the 8.5 million shares that will be given to Heineken. That is for the common entity as well as for the preference shares and that has been converted to equity.

So in the end the result will be the promoter group, UB Group and Heineken will hold around 74% and public shareholders will hold around 26% out of which just about 2% will be trust shares. And one of these questions will probably be how about parity between the promoters because these shares will be issued to Heineken. Heineken will now initially get more shares and the promoters between the two of them have agreed that they will maintain parity between the two of them and they will ensure that this at the end of this transaction will be equalized.

So timeline is more or less 12 months as you know it is always hard to predict how quickly these schemes go. But we are quite optimistic that before we published the consolidated results for this financial year we should have completed this.

So I think that is in headlines transaction. Maybe we should now move to any questions, that you might have.



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- Moderator** Thank you very much sir. We will now begin the question and answer session. At this time if you would like to ask a question please press * and then 1 on your touchtone telephone. Participants are requested to use only handsets while asking a question. Anyone who has a question at this time may press * and then 1. The first question is from Amar Kalkundrikar from HDFC Mutual Fund, please go ahead.
- Amar Kalkundrikar** Good evening, thank you gentlemen for holding this conference call. My question is of the 100 million cases sold last year, how much would be this entity MAPL account for, i.e., how after this merger how much of the volume still would be coming from third party contractors.
- Guido De Boer** If you look at our total 100 million out of that more or less 10% is coming from Contract Brewers primarily Blossom and Balaji. And then the remainder is UBL as well as MAPL. And if you will see in the presentation, the total sales volume of MAPL was 27 million last year.
- Amar Kalkundrikar** Okay. Can you give some financial details of MAPL financial year 2010 sales EBITDA? I think the quarterly results are standalone, so.
- P. A. Poonacha** Yes, if you see the published balance sheet that we have, we have the consolidated section wherein 100% of UBL is consolidated with the 50% of the JV, just multiplying the numbers by 2 would give you the exact picture of what the financials of the combined business what we are bringing into as of 31st March, 2010.
- Amar Kalkundrikar** Okay. That is it. Thanks.
- Guido De Boer** And the important thing to take into account there is that after balance sheet date and before this transaction the preference shares in MAPL have been covered into Equity as well as 41 crores of shareholder loans that have been provided by Heineken company has also been converted to Equity. So the debt levels of MAPL to date compared to 31st of March has gone down significantly from 248 crores to around 60 crores.
- Amar Kalkundrikar** That is it. Thanks.
- Moderator** Thank you. The next question is from Ashit Desai from B&K Securities, please go ahead.
- Ashit Desai** Sir, can you tell us what is the consolidated debt on the books now post this merger?
- P. A. Poonacha** If you take the 31st March balance sheet you just have to remove 41 crores from the consolidate debt. Now consolidate debt you have 50% which is shown in the balance sheet, you just multiply that by 2. UBL if you have debt of 670 then you have debt of 240 there, so from that 240 you just remove 40, so you have 200 plus 670 about 870 crores of debt less cash balances that we have about 80. So the net debt will be around 800 crores in the combined entity and of course the repayment in this financial year which would be close to about 100 crores.



- Ashit Desai** Okay. And the preference share capital that we have converted into equity is 94 crores, not the 153 crores what we have mentioned in the presentation.
- P. A. Poonacha** No, the preference share what Heineken held in MAPL is 123 crores, 123.4 to be precise. The preference shares held by UBL in MAPL was 30 crores so the entire 153.4 crores has been converted to equity. But the 30 crores what UBL would have converted equity would in effect cancel on merger. So the net effect for issue of shares Heineken you have to consider only 123.4 crores and it will double its face value.
- Ashit Desai** Okay, sir my second question is the capacities of MAPL were already integrated into UBL. Are there any additional cost savings that we see after this merger?
- P. A. Poonacha** There will not be any operational cost savings, because already all the cost savings which are operationally possible, we have booked in both the entities put together. Now the savings we would see is more on administrative and government dues. There are states like Rajasthan where if the producer of the brand is not the brand owner they need to pay a brand franchisee fee to the government. So this kind of fees which would run up to a few crores would be net savings in this combined because the structure would collapse all legal entities. So we have not done savings there and savings to the extent of no filing fees, no audit fees, so a few crores of, between 5 to 6 crores we should see savings in the bottom-line in the combined entity.
- Guido De Boer** So those are the easy to quantify benefits of lesser taxes etc. There will also be less easy to quantify benefits from being able to operate more efficiently which would grow our bottom line through this. And on top of that there is a lower financing cost that will have if we put it in one entity and obviously the big impact is the 250 crores of tax losses that will be available to UBL.
- Ashit Desai** Okay, and sir if I look at MAPL margins, they are roughly half of what UBL achieves. Post price hikes in AP and other markets, southern markets, do you see any margin improvement coming in for your own MAPL branch?
- P. A. Poonacha** No, while the entire merger if you see would be EPS accretive but if you see the overall operating margin vis-à-vis revenue line, there would be a small drop because the MAPL group of companies has brands which are not premium brands. They are economy brands. They basically sell at a particular price range. They have consumers who are loyal to that particular segment and it is like a particular segment where the profitability cannot be matched to the profitability of the remaining brands. So there is going to be overall slight drop in the operating profits vis-à-vis revenue in the combined thing, vis-à-vis UBL as on date.
- Ashit Desai** Okay. Lastly sir, you would be benefiting from a lower tax rate this year which hardly would be at the MAT level and what would be a steady state tax rate going forward?



- P. A. Poonacha** For example, in this financial year, we are looking at combined PBT of close to 200 crores of book profits, meaning we would be paying 40 crores of MAT in this financial year. Now this MAT we can get credit in the financial year in which you are liable to pay tax. So say we have a tax loss allowed by the income tax department which is 250 crores. We approximately used 200 crores this year. So though we paid 40 crores, this 40 crores is line with the MAT credit. So in the next financial year say we make a PBT of 250 crores and we have to pay one-third as regular tax but we have a tax break of 50 crores which is a carry forward loss. So on 200 crores we will pay gross 70 crores as taxes. But you get credit of 40 crores. So you will end up paying 30 crores in the next financial year and 40 crores in this financial year. So as such you will be somewhere in this current financial year 20% and the next financial year less than 20%. Going forward that is in the financial year 2012-2013 onwards you will be in the regular tax rate.
- Ashit Desai** Okay fine. Thanks a lot sir.
- Moderator** Thank you. The next question is from Swati Nangalia from IDFC, please go ahead.
- Nikhil Vora** Hi, this is Nikhil Vora here. Just couple of things one was on this tax loss that you mentioned can you just reconfirm the broad numbers that we looking at?
- P. A. Poonacha** See the tax losses which we expect the Department to give us credit for is Rs 250 crore.
- Nikhil Vora** And when you mention that given that book profit is 200 crore, are you guiding towards the 200 crore book profit or that's just broadly illustrative number that you are looking for?
- P. A. Poonacha** Illustrative numbers, because I mean if you see in the last financial year will be a standalone did 103 crore and MAPL did when it had a PBT level had a loss of 4 crore of 147 crore. To put together we should this financial with growth and MAPL turning around so the closed to 200 crore I use that as in approximate number and not something very committing to number but I used it as an approximation because we should be reaching closed that number.
- Nikhil Vora** Okay, lastly was on the Treasury stock that we would have of close around 60 lakh shares. What is the ideal objective of the Treasury stock, will we look at sell down and then look at retain the debt out of, any other thoughts on that?
- Guido De Boer** No I think the idea of this treasury stock it's to make sure that we have efficient equity funding mechanism which we can utilize quickly. So when we will utilize that is when we need it. I think the financial structure now is pretty healthy. We look at having a healthy investment debt rating. So as of today we will not need the proceeds at that given the growth rate that you have seen in the past years what we expect to continue. We need to invest in breweries and we will need those funds in the coming years.
- Nikhil Vora** What's your consolidate debt right now that we have ?



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- P. A. Poonacha** Consolidate debt I will just spoken about it now, so if you refer the balance sheet as on 31st March, 2010, that is 670 crore.
- Nikhil Vora** No as of date, would be how much?
- P. A. Poonacha** As of date I cannot, but if you see on 31st March net debt will be on 800 crore. In the entire financial year will be reducing close to 200 crore or so. We should be in the region of 700 crore as of 31st March 2011.
- Nikhil Vora** Okay and just lastly in the presentation you said that this transaction will be EPS neutral now if on balance businesses are still to be profitable, how does the transaction become EPS neutral?
- P. A. Poonacha** Neutral or accretive?
- Nikhil Vora** Yeah, neutral in the first year, is what I think you mentioned sir.
- Guido De Boer** It mentions neutral because it's what exactly to predict what it is especially between neutral between and the future and because if you look at the next possibility to accomplish that the slightly negative in some cases. The tax losses will be benefited and transaction costs should not have a major impact but also it should be really start to get accretive from the next financial year.
- Nikhil Vora** Okay, and this will effective from 1st April 2010, right?
- P. A. Poonacha** Yeah. That's right.
- Nikhil Vora** Okay so overall if you have look at the consolidated growth, first is that on the action what sort of volume growth should one be looking at?
- P. A. Poonacha** We grew the first quarter by 70% and its growing in this financial year which will be crossing close to 20% is what we are currently expecting.
- Guido De Boer** So I think it's important to take into account that the performance of Q1 was extraordinary and hence it was a good quarter also. Thus also we are very easy comparables of the year before because year before we did not supply to Andhra Pradesh and the Karnataka market was in slump so the 30% tax is definitely now the benchmark for the rest of the year. As long as consumer confidence is still there and we should be able to healthy growth rates as Poonacha just mentioned.
- Nikhil Vora** Okay, this getting to equitable share holding would be done through internal promoter transfer of stock?



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- Guido De Boer** That is for the promoters to discuss between them and that's not something that the company's is involved in. But we will make sure that there is a...
- Nikhil Vora** Okay, thanks and all the best.
- Moderator** Thank you. The next question is from Amnish Agarwal from Motilal Oswal Securities Ltd. Please go ahead.
- Amnish Agarwal** Sir I have couple of questions. My first question is regarding the expansion of Breweries now when you are having the Treasury stock also and you've indicated that nearly 10% of the output is still outsourced primarily from Blossom and Balaji. So is there any plan to acquire the brewing unit from Balaji once it gets merging to United Spirits?
- Guido De Boer** Yeah, I think it is wisely said and that is what we want. USL will buy Balaji from their promoters and it seems logical that once it comes into the USL fold it will be the right time for us to acquire the same from USL.
- Nikhil Vora** Okay and what will be the fund requirement for that, is there some committed amount that you need to pay or the funds have already been paid to them?
- Guido De Boer** Will be as provided an advance to the Balaji promoters. It is 155 crore and the acceptance of the transaction where we buy Balaji Breweries had to determined at that time.
- Nikhil Vora** Okay and sir how much is the capacity of that breweries?
- P. A. Poonacha** 120 lakh cases per annum.
- Nikhil Vora** Okay.
- P. A. Poonacha** That is in this financial year 10- 11.
- Nikhil Vora** Okay and sir my second question is that if you look at the Q1 performance when you have seen our profit rising sharply and so is the turnover and then we are expecting some kind of very muted performance in the coming quarters or you see the overall numbers actually de-accelerating getting because our top line is also up by 37%, our margins are also high. So it means that..
- Guido De Boer** I think if you look at the year quarter by quarter, its Q1 delivers some majority of the pockets. Then this quarter end Q3 will be relatively slow quarter, so then quarter contribution was not that much given our fixed cost and then in Q4 again there material part the part of the annual profits coming in. So if you look in terms of growth rates it's coming mainly from Q1 and Q4 and because the two quarters in between are not so big as obviously the profit growth needs to comedown.



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- Nikhil Vora** Okay, sir can you guide are little bit on how much capacity we are having currently and what our expansion plans for the coming one or two years?
- P. A. Poonacha** We've currently operating at close to 70% of a capacity. This is whatever producing, selling at our own units. We ensure that the capacity utilization is at 70% and so it is sufficient head room in event of sudden spurt of the demand. Now we expect CAGR of about at least 15% growth in next 5 years. So we plan to expand a capacity that manner will be at 15% to our current existing capacity of UBL and MBIL put together. And this in our estimate would cost us somewhere between 160-200 crore in annual business which we plan to spend in 6-5 financial into this financial.
- Nikhil Vora** Okay, total nearly 160-200 crore per annum sort of a CAPEX?
- P. A. Poonacha** Yes, that's right.
- Nikhil Vora** And our current capacity in terms of a million cases where will the figures stand?
- P. A. Poonacha** 800 million cases. UBL and MAPL put together.
- Nikhil Vora** Okay, thanks a lot sir.
- Moderator** Thank you. Participants who wish to ask the question at this time may press * and then 1. Mr. Chugh would you like to ask a few questions while the participants join the question queue?
- Vijay Chugh** Yeah thank you. What I wanted to know from the management is that you know, how would you sort of characterize the current trends towards the beer industry actually in terms of you know do you see our there increased buoyancy or the sort of the recent sporting other events or helping the industry in somewhere?
- Guido De Boer** I think these sporting events are not helping the industry that much if they are helping us in the building our Kingfisher brand name further and further in the stock market. So I think it will benefit the industry that they more benefit ourselves. I think in general if you see two big drivers of growth is one the increasing affordability in beer because beers is expensive but now you see that growing strongly and also they increase acceptability of consuming alcohol in public consumption of alcohol by women etc which drives the growth which is still minimal compared to any other emerging markets where beer consumption is below 2 liters per capita China is 35 and Beijing is 60 so there is this is more sufficient growth ahead of us
- Vijay Chugh** My second question to the management, how would you characterize the regulatory environment currently in terms of, do you see things becoming more favorable for the industry?



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- Guido De Boer** No it remains very highly regulated industry and highly taxed industry and alcohol beverage as a whole. We do see some encouraging trends where either licenses are being issued only for beer and wine and not for spirits giving our category a benefit and more points of consumption and that should drive growth and also like you see is distinguishing between spirits and beer for example this year in Kerala where the Beer business we see price increases where the spirits business got excise increase. So government in certain pockets, its not that for today but they are trying and more as compared that is to beer compared to spirits which is applicable to global front. But it is something that if it continues with will help us as well.
- Vijay Chugh** Thank you so much.
- Moderator** Thank you. The next question is from Simon Rogers from JP Morgan Asset Management. Please go ahead.
- Simon Rogers** Hello, thank you very much for answering the question. I just wanted to ask from the technical perspective. When we look at your consolidated accounts what is historically you've described as a joint venture. Is that entirely MAPL or out of some other businesses within that line?
- P. A. Poonacha** JV is entirely 50% of MAPL.
- Simon Rogers** That joint venture numbers you have illustrated on account illustrating of 50% in MAPL?
- P. A. Poonacha** Yeah.
- Simon Rogers** That's great. And sir when we see your new accounts come out for what they will show in fiscal year 2011 is from our on a consolidated basis on April 1st 2010 they were 100% of MAPL.
- P. A. Poonacha** Yeah that's right.
- Simon Rogers** Thanks for your remarks.
- Moderator** Thank you. The next question is from Saurab Pant from SBI Mutual Fund. Please go ahead.
- Saurab Pant** Hi, good evening. Just one question, of the 9 million shares that have been issued to Heineken how many would be on account of stake in MAPL and how many would be on account of the preferential share that it held in UBL?
- Guido De Boer** No, the total number of shares is issued to share holders of the joint venture companies out of 9 million half million is to MBIL shareholders and 8.5 million is to Heineken for its share holdings in Millennium Alcobev. That 8.5 million includes both common XP that Heineken has as well as the preference shares that it has conversation as well as the part of share holder earn that it has expanded in Millennium Alcobev.



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- P. A. Poonacha** Just to clarify here, the preference share in UBL remain. It's only preference share in MAPL.
- Saurab Pant** Okay and that amounts to much?
- P. A. Poonacha** 123.4 crore of preference share in MAPL, held by Heineken have been converted to equity at face value for which these shares have been issued.
- Saurab Pant** Okay, you also mentioned what's the sale of MAPL, how many million cases?
- P. A. Poonacha** Sales of MAPL what the brand sales or you want the actual invoice sales?
- Saurab Pant** No sir I want the brand sales of MAPL.
- P. A. Poonacha** Brand sales MAPL is close to 10% of industries. It will be close to 10 million cases.
- Saurab Pant** Okay, 10 million cases. Will this similar to Balaji, so is there intend that..
- P. A. Poonacha** No, Balaji does not have its own brand.
- Saurab Pant** No also the capacity.
- P. A. Poonacha** No capacity of MAPL is different. Capacity of MAPL is 33 million cases. They bottle UBL brand there also, so that's why I asked you is it capacity or brand sales.
- Saurab Pant** Because you know what I'm trying to read is that because when you say that United, the UB Group world also increase the stake at some point of time. So is their intend that Heineken gets it part of MAPL and UB Group gets Balaji into the business and the kind of the stake of both the partners become equal at that point of time.
- P. A. Poonacha** Lets not speculate what the promoters will do, all our board has been concern by the promoters is they would work towards equating there stakes. So we as an operating company would not want to comment on what the promoters, what modality they will use to equal their shareholding.
- Saurab Pant** Thanks a lot for answering my question sir.
- Moderator** Thank you. The next question is from Simon Roger from JP Morgan Asset Management. Please go ahead.
- Simon Roger** Hello, this is just a technicality I wanted to ask you usually quote your numbers in millions of cases. That how these numbers look at them at hector liter terms this is for the direct formula which you can translate cases into hector liters?



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- P. A. Poonacha** The cases are on an average 7.8 liter. You will have to multiply in 100 million cases into 7.8 and divided by 100 you will get the volume in.
- Simon Roger** Yeah, so one case is equal to 7.8 Liter. Thank you very much.
- Moderator** Thank you. There are no further questions from the participants at this time. Mr. Chugh would you like to ask a few questions or add comments?
- Vijay Chugh** No I don't have any other questions. I would just like to thank all the participants and the management for sparing their valuable time.
- Guido De Boer** Thank you very much for organizing this.
- Moderator** Thank you.
- Vijay Chugh** Thank you so much.
- Moderator** On behalf of Ambit Capital Pvt. Ltd that concludes this conference call. Thank you for joining us and you may now disconnect your lines.