



“United Breweries Limited
Q4 FY2020 Earnings Conference Call”

June 25, 2020



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United Breweries Limited
June 25, 2020

Moderator: Ladies and gentlemen, good day, and welcome to the United Breweries Q4 FY2020 Earnings Conference Call, hosted by IDFC Securities. As the reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mehul Desai from IDFC Securities. Thank you, and over to you, Sir!

Mehul Desai: Thanks Lizaan. Good evening, everyone. On behalf of IDFC Securities, I would like to invite you all for Q4 FY2020 earnings call of United Breweries. From the management side, we have Mr. Berend Odink, CFO of the company; and Mr. Poonacha from the Investor Relations team. I would like to hand over the call to Mr. Berend for his opening remarks, and then we can go ahead and open the Q&A session. Over to you, Sir!

Berend Odink: Thank you, Mehul. Good afternoon, and good evening, everybody. I hope everybody is safe and doing well. Thank you for joining the call today. So we will cover today, together with Mr. Poonacha, the Q4 and full year results and also provide an update of the COVID situation for the company. To this extent, we prepared also some slides that were shared by e-mail and are also available online. Following this presentation, we will be happy to take your questions as usual so first, on the key results highlights. UBL's volume de-growth for the full year was minus 4%; for Q4, 21% de-growth. The impact of COVID-19 has been material, particularly on Q4. We assessed the COVID impact on volumes for second half of March, just to aid the understanding of the impact. Volume growth, excluding COVID, would have been around minus 6% for Q4 and flat for the full year.

The EBITDA decline for Q4 was 27% and for full year, minus 24%. On Page 4 of the presentation, the full year results are summarized, with net sales amounting to Rs.6505 Crores and EBITDA for the full year of Rs.884 Crores. The year 2019/2020 witnessed challenging circumstances with an overall economic slowdown, impact of elections in Q1 with related dry days and supply restrictions. We have seen adverse policy changes introduced per October in Andhra Pradesh that also continued into Q4 and, of course, COVID-19 impacting the last quarter. On Slide 5, it details the estimate impact of COVID on the results. As you are already aware, COVID-19 lockdown led to complete closure of our outlets for the period 24 March, 2020 to May 4, 2020. The on-trade was progressively closed in the weeks leading up to March 24, 2020. The assessed profit impact occurring during March due to COVID is estimated around Rs.103 Crores, and that comprises 2 elements: One, with the lost sales volume in March of an estimated Rs.87 Crores; and



United Breweries Limited
June 25, 2020

secondly, a provision for obsolete stocks of Rs.16 Crores, taking into account potential product expiries and restrictions that we have on the operations. In terms of free operating cash flow and debt positions, the company reports a healthy free operating cash flow of Rs.78 Crores for the year and a net debt at year-end of Rs.217 Crores. The dividend over 2019/2020 to be placed for approval to the AGM is Rs.2.5 per share, which is the same per share amount as last year and fully in line with the historic payout ratios related to the net profit.

Moving to the next slide on the regional performance and volumes. In North, UBL volumes were down 3% for the full year and minus 18% in Q4. We witnessed growth in Delhi, Punjab and Uttar Pradesh, but it was offset by declines in Haryana and Rajasthan. In West, we posted a decline of 9% for the full year and 29% in Q4. Mumbai and Goa declined, while rest of Maharashtra showed flattish volume development up to Q4. In East, UBL volumes were up 18% for the full year and minus 2% in Q4. We have seen West Bengal show a market recovery versus prior year. In Orissa, volumes were flat, while Jharkhand posted growth. In the South, volumes were down 7% for the full year and minus 27% in Q4, a significant volume impact came from the policy changes in Andhra per October 1, 2019 and the election curbs in Q1. In Tamil Nadu, we posted high single-digit growth.

The next slide is all about the brand portfolio with innovations launched during the year of Kingfisher Witbier and Ultra draught launch in Karnataka. Both Kingfisher Storm and Amstel continued expansion in new markets, being available now in 19 and 7 markets, respectively. Amstel sales volume passed 1 million cases, so a very encouraging performance with more opportunities ahead and in total, the premium portfolio continued to grow ahead of the total company portfolio for the full year. Touching on the net sales for the full year, the 4% volume decline was more than offset by positive price mix. This is due to premium brand growth, the positive state mix and price. Price increases realized in a number of states, including Rajasthan, Maharashtra, Karnataka and Goa and for Q4, the volume decline was higher, obviously due to COVID as well as Andhra having a negative impact. Price mix was in Q4 strong with positive plus 8%. The EBITDA trend on the next slide was characterized by pressure on gross margins during the year due to higher malt and glass bottle costs. The impact in Q4 was less pronounced as we started to cycle the higher input costs from prior year and actually improved gross margin by 38 basis points. COVID impacted Q4 results, and the earlier mentioned provisions for obsolete of Rs.16 Crores has been booked under other expenses.

The continued positive free operating cash flow amounted to Rs.78 Crores and we made total capital investments of Rs.402 Crores, enabling amongst others enhanced brewery



United Breweries Limited
June 25, 2020

capacities and in the anticipation of peak period Q1 important capacity additions were realized in our existing breweries in Karnataka, Telangana and Rajasthan. We move to the last section of the presentation to talk specifically about COVID-19 status and its impact on our operations. So first of all, the company has put in place all recommended health and safety measures to protect staff, employees, stakeholders, etc., and the brewery teams have done a great job in making all these adaptations and working under very challenging circumstance. At the outset, we formulated the management crisis team with 4 distinct and clear priorities: First of all, health and safety; secondly, business continuity; third, mitigating business impacts; and fourth, cash management.

If we look at where we are today under the latest government guidelines of Unlock 1.0, on trade bars remained closed, and retail outlets have progressively opened after May 4, 2020 subject to guidelines on containment zones and other restrictions. We have seen various states allowing home delivery/online ordering systems, including the states of Maharashtra, Orissa, West Bengal, Kerala and Punjab. Although it is early days, we are very supportive of these new developments and see it as a longer-term opportunity. In terms of supply side, the brewery operations today can run at circa 55% to 60% of normal capacity due to ongoing limitations on hours of operations. At the same time, there is no unfulfilled demand at this point in time and we have 1 brewery in our network that is not yet operational due to containment zone restrictions. You will appreciate that the situation remains very fluid as restrictions continue to be implemented and lifted in 1 area to the other. Our CSR activities continued, of course, and we had specific initiatives with launching dry ration and hygiene kits to support across 7 states and also relief support effort in West Bengal on the back of the recent cyclone that happened.

Moving on to the financing side we have put in place additional credit lines, ensuring sufficient financing headroom is available. Strong balance sheet and strong business model, obviously, supported this, and there we are quite comfortable. Due to the closure of all the outlets for the period 24 March, 2020 to May 4, 2020, sales volumes in April were negligible. Sales volumes in May were down in the range of 70%, due to last year. This is due to partial and phased reopening in the quarter of May. A number of states have also introduced excise duties related to COVID-19, which we have incorporated in end consumer prices. Main highlights to report here are in Andhra 75% increase; West Bengal 30%; Orissa around 38%; in Rajasthan, a plus Rs.10 in MRP; Telangana, plus Rs.30. COVID tax of 70% introduced in Delhi, which recently has been canceled. On the cost side, we have suspended all discretionary spends, stepped up the cost management and rebased capital expenditure levels to focus on only newly initiated projects on safety and compliance only.



United Breweries Limited
June 25, 2020

Moving to the last slide so summarizing, the industry outlook is very uncertain with negative macroeconomic growth outlook and continued direct and indirect impact from COVID-19 measures. United Breweries is well positioned to navigate these circumstances, with leading market position, strong brand portfolio and a robust balance sheet. As management, we continue to be optimistic about long-term growth drivers, including growing population with new entrants into the legal drinking age, favorable long-term economic outlook, urbanization and growing social acceptance of beer consumption and we are, of course, committed to leverage new opportunities such as home delivery so with that, we covered the slides in the introduction and we would like to open it up for questions. So please go ahead.

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

Abneesh Roy: Sir, my first question is, last two years; beer has been growing faster than liquor in most time periods. In FY2021, do you see this reversing? Why I am asking this is 3 reasons. One is beer is more social drinking versus liquor. Second, of course, is with tax hikes being there in many states and Indian consumers being very value focused, we feel that let me buy higher liquor content. Both have become expensive, but we have seen this behavior earlier. And third is, beer is a bit more bulkier per se. So what would be your comment on this?

Berend Odink: Yes. Thank you for the question. So definitely, I think you referred to last two years. I would say we are in kind of unprecedented times. Historic trends or behaviors are not necessarily translating into the current environment. But as you pointed out, I think we have seen in the kind of market recovery beer being impact a bit more than liquor. Indeed, it might have to do with a sense of beer being a bit more bulky product but also the need for cooling before consumption. In the sense of excise, the excise increases I mentioned have been applied to both beer and liquor. So from that sense, I would say, they are not big differences maybe to point out in Karnataka, for example, actually, for beer, there was no increase in excise, but there was one for liquor. So there are couple of elements, I guess, going into this equation. In the end, it is all about recovering more to normal levels of consumption and consumer behavior, whether there are consistent trends that are there to stay arising today, I think that is way too early to conclude. So as the market recovers, I would expect things to move closer to historic trends. But obviously, if new consumer preferences emerge, yes, we will be ready to support that and tap into that.

Abneesh Roy: Right that is helpful. My second question is on home delivery. So you mentioned optimism on that so my question is, what has been your initial response and we are getting there is a



United Breweries Limited
June 25, 2020

lot of resistance in some states from the trade channels and of course, it is more expensive because there is a delivery charge also. In fact, in Jharkhand, we have already seen a reversal of this last week so one is do you see this going to more states? Second, you will see this as long-term or only during the corona impact, so for the next few months? What would be your sense on this?

Berend Odink: Yes. I think definitely, I would say, I would not put a lot of expectations on the short term of this new distribution element in the market. I think it is more a long-term opportunity. I mean as of now, volumes are low. The exact models of operation differ by state, and I would imagine evolve from time to time. So we see different approaches by different states. We continue to work with the industry participants to develop this. To your point, on retail, all the models today include the retail as part of that change. So it is not so much, I would say, competing with retail, but it is the kind of extension of retail where in some states we have seen fixed delivery charges. Other states, it has been more open. So those models will continue to emerge again, not short term there going to be a huge change. But given, I think, from a longer-term perspective, how the industry has been regulated I would say this is an important change with longer term good prospects.

Abneesh Roy: Okay Sir that is quite helpful.

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

Aditya Soman: So couple of questions from my end, sir. Firstly, how is the situation now in Andhra Pradesh? And any sort of have you seen any sort of pickup in orders from the government and secondly, in terms of gross margins, any outlook over the next few quarters? Have barley and glass prices now normalized?

Berend Odink: Thank you, Aditya, for the question. So your first question on situation in Andhra. So yes, since the new policy change is October 1, 2019, I would say, also in Q4, we have seen that continue as very challenging, obviously, not helped very much at all by the COVID situation. So demand for the total industry is very, very low at the moment. So for us, the situation remains a difficult one. We continue to make representations as we think that, yes, the industry is, let us say, severely impacted, not to mention, for example, steep duty increases introduced in May. So that trading environment, I would say, is particularly challenging. On your second question on input costs, yes, we are in a quite different situation than a year ago. In terms of glass bottles, you can imagine the demand/supply situation is quite different. Today, we look at kind of low inflation levels of increases for



United Breweries Limited
June 25, 2020

glass bottles. And on the barley side, we have seen a bit of softening of prices. So roughly, I would say, 10% lower prices in the marketplace than a year ago.

Aditya Soman: Thank you.

Moderator: Thank you. The next question is from the line of Nitin Shetty, individual investor. Please go ahead.

Nitin Shetty: Can you give us an update on Heineken 0.0 and Radler? Because I tried Heineken and it is amazing. And I was wondering what you are seeing in growth in both of them.

Moderator: Mr. Shetty, please increase the volume of your phone?

Nitin Shetty: Yes. Can you give us an update on how Radler and Heineken 0.0 are doing?

Berend Odink: Sure so as a category, nonalcoholic showed for us of course healthy growth. Obviously, we are coming out of a first startup phase, so that is surely expected. I think we see particularly encouraging performance of Heineken 0.0, where we have expanded distribution. On the Radler side, we have reached a good distribution level of some 30,000 outlets. We launched a new pack size, 200 milliliters, with a more attractive price point. So that is also on a promising development. But in the grand scheme of our business, obviously, it is relatively small. But internationally, yes, we always see very good growth figures for the nonalcoholic segment. So this drive into the segment is definitely something that we are interested in and continue to support and develop in the years.

Nitin Shetty: Is there a chance that we find Heineken 0.0 in one of the airlines by the end of year?

Berend Odink: I think in terms of airlines deals, yes; we have been and will continue to be in contact. I guess the airline industry itself is going through a lot of turmoil, questions are there as to what can be catered on board and what is the value of a marketing transaction with an airline. I think that is more on a case-by-case basis where we think it is the right platform to promote the brands and where we get the highest ROI on those spends. So I will not be ruling it out. But yes, it is more of a case-by-case where, particularly with the airline industry being impacted as it is today, I think, we will have to first see developments how that recovers.

Nitin Shetty: Last question. I noticed that you said Amstel has become a millionaire brand. So any idea how many millionaire beer brands we have in Indian today? Would there be more than 10?



United Breweries Limited
June 25, 2020

- A. Poonacha:** Most of our UB brands are millionaire brands, barring the super premium segment, most of our brands are millionaire brands. Also in competition also, you will have Carlsberg, Budweiser, all are millionaire brands.
- Nitin Shetty:** In the new ones, it is probably one of the first guys to hit a million?
- P. A. Poonacha:** Yes. Among the new launches, yes, we are.
- Nitin Shetty:** All the best.
- Moderator:** Thank you. The next question is from the line of Ashit Anil Desai from Emkay Global. Please go ahead.
- Ashit Anil Desai:** Berend, my question is on returnable bottles. What proportion of returnable bottles do we use and is there a challenge to procure those in this kind of environment?
- Berend Odink:** On the bottle side we have seen markets restarting at different speeds so where markets are trading a bit better, I would say, the returnables on used bottles is also pretty good. But where markets are particularly slow, obviously, that recollection is impacted. Those 2 go very much hand-in-hand. We normally have around 1/3 of our sales in new and 2/3 in second-hand and we are roughly at those rates today. But again, early days as to what is the stabilized market situation going to look like.
- Ashit Anil Desai:** Okay. And secondly, which brewery is nonoperational? And any further one-off inventory losses that one should expect in Q1?
- Berend Odink:** The brewery that is not operational or has not been allowed to operate in terms of brewing operation is our UBL brewery out of Mumbai. So obviously, you know that area is very much impacted. We continue to work and engage with local authorities as to what is possible. But that element has been fully included in the provision that we talked about. Whether that provision obviously will develop, so it might improve to the better, it might be updated in Q1, but that is all depending on the outlook. I mean, this is a very recent position, taking into account all current circumstances, but you will appreciate that things might get relief from current restrictions or the other way around new restrictions could be implemented. So I think that is the best estimate we make, and hopefully, we end up at a lower amount later on.
- Ashit Anil Desai:** Okay and you indicated sales were down 70% in May. Any indications for June as to what you are seeing in the first 20, 25 days?



United Breweries Limited
June 25, 2020

Berend Odink: Yes. In June, we have seen a steady improvement from where we were in May. I mean, obviously, May was truly about restarting and getting the whole supply chains and deliveries going so a bit of a better picture in June, but still very long way from anything of pre-COVID levels. With many restrictions on trade is still closed, we are on the one hand happy that we can supply and be active in all the states. But we are, I would say, far away from anything we have seen before the crisis.

Ashit Anil Desai: Thanks that is it from my side.

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

Harit Kapoor: So my first question was on the cost side. So if you could just help us understand what is the level of cost rationalization that we can assume or you can kind of work with and in what line items can these big benefits come in or big cuts come in going into FY2021, specifically given the fact that promotional intensity will be next to nothing in terms of trade spends, your advertising spend is concerned low as well as your other fixed costs can also see rationalization. So if you could just help us understand a little bit more on how can we see this?

Berend Odink: Sure so obviously, since the crisis started, we have revisited and curbed many of the cost categories. Some are quite obvious in terms of their extra spends and in discretionary areas like travel, consultancy, etc., at the same time, input costs, yes, we look to leverage opportunities, work with our suppliers to look at cost opportunities, at the same time realigning them to the new reality of the demand outlook. Particularly on the commercial spend, we have brought it also down. Obviously, when the product is not for sale advertising is less required, typically also for the on-trade being closed. They will be lower to much lower spends there. Even on the employee side, so of course, we look at hiring plans and how put in the best position going forward so that is all, I would say, a balanced approach. All in all, I am not going to put a figure. But I would say we take a very agile and dynamic approach. So as the market situation and the demand side is going to be very fluid, our approach to costs and fixed commitments will be made similarly and it is all about scenarios and flexibility instead of kind of growing with annual fixed plans or annual commitments so that is I would say, a big change happening. And as such, that is an active program taking place.

Harit Kapoor: Sure that is helpful. In that context, could you also help us understand how much would it be downsizing kind of capex plans for the current year typically, your capex plan anywhere



United Breweries Limited
June 25, 2020

between Rs.250 Crores to Rs.400 Crores. But does this year also imply that, that number will be much lower?

Berend Odink: Yes so on the capex side, obviously, new projects, I would say, hardly anything about expansion. It is more about statutory replacements and also some COVID-related measures in terms of thermal scanning and distancing, etc. So that total outlook for cash-out basis probably in the area of Rs.250 Crores so quite a bit below last 2 years. But out of that Rs.250 Crores, I would say, a fair share of that is coming out of projects that already were started and are due to complete with payments, etc, in basically as soon as circumstances allow that.

Harit Kapoor: That is all from me. Thank you very much.

Moderator: Thank you. The next question is from the line of Jatin Chawla from First Voyager Advisors. Please go ahead.

Jatin Chawla: One is on the on-trade side, on a stable basis, what is the contribution of the on-trade side? And by when do you see kind of on-trade starting to open up?

Berend Odink: Yes so typically, our on-trade sales volume will be up around 20% of our volume base as to when and how that opens up, I think that is very difficult. I mean, where we are today, obviously, there is quite some concerns about increasing number of cases in many areas. I think if we look outside of India, we see various countries adopting new practices of on-trade so I think there is definitely light at the end of the tunnel, the different business approaches, different models of ensuring on-trade can come back opening up even under a COVID scenario is possible. So we have seen outdoor activities in a lot of on trade in various markets, rearranging the premises, taking measures within the premises. So yes, I think there are definitely possibilities. But on putting a date to that and what and how that will look, I think that is too early from where we are today.

Jatin Chawla: On the glass side, you said there is kind of low single-digit inflation now. Does that kind of reflect the full fall in crude prices? Or do you think there is a possibility for that to come down further going forward?

Berend Odink: Yes, I think that is where we stand today with that guidance. If there is further softness on commodity prices, that will over time would find its way into input prices for glass as the glass industry is quite energy intensive. But that also depends obviously on policy decisions, etc., that are not in our hands. But generally, yes, there is a link, albeit delayed to glass bottle prices.



United Breweries Limited
June 25, 2020

Jatin Chawla: Okay and on the cost side, you said you did not talk about any kind of cost numbers on the cost reduction side. But overall, on a fixed cost side, what would be your fixed cost on a, let us say, per month or a per annum basis before COVID?

Berend Odink: Yes, if you look at our financials, you can see the various components. So on that, I do not have much more to add in terms of the nature of the cost and what extent things are fixed and variables. I think that is pretty self-explanatory. But again, on the current scenarios, I would say, in the distinction of variable and fixed at the end of the day, I guess, all fixed costs are to a certain extent variable. Depending on the recovery in the market, etc., we will continue to look at those cost buckets and yes, I think at the end of the day, the outlook is that we would reach at a certain stage a vaccine or something where society is back in the kind of a more normal place. That is the kind of dot on the horizon where in the meantime, we will manage the cost in that way, but definitely also look to the situation where things hopefully are back to a more normalized status.

Jatin Chawla: Thank you.

Moderator: Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: So you did mention that your on-trade contributes about 20% of sales. Sir, any idea in terms of occasional related what would be your sale contribution and have you bifurcated between individual consumption and social consumption?

P. A. Poonacha: Yes. I mean, this is something which is grey, because I mean, if you even where to look at when you say on-trade is 20%, off-trade is 80%. In a lot of places in the off-trade retail, people stand and consume, so you really cannot make a differentiation as to where people are drinking alone and where people are drinking in a group, it is very difficult to make this distinction.

Kunal Bhatia: But would you be having anything in terms of volumes driven by occasion-related sales?

P. A. Poonacha: No, we do not, because occasion related here means, it would be like a gathering, right? So that is what I try to imply, it is very difficult because even when we segregate between off-trade and on-trade, there also we are talking only about licensing. But what really happens in the ground is different.

Kunal Bhatia: Thank you.



United Breweries Limited
June 25, 2020

- Moderator:** The next question is from the line of Srinath V. from Bellwether Capital. Please go ahead.
- Srinath V:** I just wanted to find out if Amstel is available across markets in India and what would be Amstel's market share versus the premium strong beer products like Carlsberg Elephant and Budweiser Magnum and what would be the size of this category? Is it a kind of growing category? If you could help me understand this space.
- Berend Odink:** Sure. Yes, for Amstel, it is relatively new addition to our portfolio. We have mainly launched it in the southern states. We see an opportunity for other states. We covered good growth as a segment in total. So growth of the exact shares, we do not put that out. But yes, we see very strong performance, very strong brand appeal out of this strong beer. We definitely continue to push that.
- Srinath V:** If you could at least kind of give me a view on whether we have gained leadership in the south markets where Amstel is present versus the competitors and overall, what would be the size of the premium strong beer market? Would it be like 5 million cases market? If you could give some kind of feel on the overall market.
- P. A. Poonacha:** Yes. I mean in the overall market, if we want to take the super premium segment is about 8%. And super premium segment is largely lager or mild and a small portion of this is strong beer. Wherever Amstel has been launched, it is among the top three in the super premium segment.
- Srinath V:** Just wanted to ask this kind of same granular understanding of the Witbier market. Again, where all have we launched the Witbier? And what has been the response? And again, what is the size of this opportunity in million cases currently in India? If you could kind of give us a broad overall market view of the Witbier market?
- P. A. Poonacha:** We have not segregated Witbier. All this would come in the super premium category of 8%. And considering this all come in the mild segment, it is quite small. It is truly occasional drinking. It is not very big volumes. It is just that we are present in that segment because there is a future for the segment.
- Srinath V:** Do we have a Pan-India presence for this product?
- P. A. Poonacha:** Yes. Witbier, we have currently launched in Goa and Karnataka and wherever we have launched, it has been having very good response and as when the pandemic started spreading, we had to stop operations. Now since we have restarted, we will have to relook



United Breweries Limited
June 25, 2020

where it can be launched. In a situation like this, launching different new brands into different markets is difficult.

Srinath V: Okay. And one last housekeeping question. What would be the size of draught beer sales for us?

P. A. Poonacha: Draught beer sales are limited to few cities only, it is very miniscule. City wise, if you go, Mumbai, Delhi, Bangalore, Pune and Kolkata, I mean, the metros and I think four, five other cities other than metros, we do not get draught beers in many places. So that is small.

Srinath V: Okay. So even that percentage on-trade sales would not have a meaningful draught beer presence?

P. A. Poonacha: You are right.

Srinath V: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Nitin Gosar from Invesco. Please go ahead.

Nitin Gosar: Just wanted your views on how do you read the state increase in direct duties across states and one of the states pulling down or canceling down those duty hikes? What kind of representation industry is putting across to the states on this?

Berend Odink: Yes. There is a very active dialogue. We have seen that the Delhi COVID cess has been rolled back. I think there was kind of a realization that for the total industry, it was more beneficial to roll that back so the same representation we could make as a company, but also as an industry to the various authorities. I would say, from the excise increases, I think particularly, yes, West Bengal, Orissa stand out maybe as a bit more pronounced. I think we have seen also difficult trading conditions in May and June. So there is a strong case to take another look at that. Obviously, Andhra also had a very steep increase. But I guess that the background of context is somewhat different than other states. A few of the other increases are maybe closer to what annually would have been more of a normal increase or close to that in any case. So yes, that continues to be an active dialogue.

Nitin Gosar: Second question is pertaining to on the nonalcoholic segment, as an outsider, how should we evaluate the progress? And how much resources management is willing to put behind this category?



United Breweries Limited
June 25, 2020

- Berend Odink:** Yes. We launched it with a couple of parameters for ourselves, but going into new categories, is not something of six to 12 months, it is a multiple year effort to build up the business, build distribution, brand recognition, etc. So with that we are on that journey. We continue to calibrate our investments, our costs in a very dynamic way. We are seeing positive signs that this is a good opportunity. I would say Heineken 0.0 was probably a bit better to get better recognition as a product than Radler, which is totally new. But having that in mind we launched a new pack. We continue to adjust and see what consumer demand and feedback is all about. So as such, as a segment, we continue for now to invest, but we have to see what the pickup, again, is under current circumstances with COVID, if any changes in consumer demand or opportunity and see to tap into that.
- Nitin Gosar:** On the same thing, like how should we see the drain on the P&L grow for this? Should it be more measured where the number stands today? Or the number has potential to go up going forward as we scale up the business?
- Berend Odink:** No. It definitely is our plan to do that to a lower loss. I think in those figures, you have to recognize there is also some Heineken 0.0 advertising expense, which, of course, has a positive influence on the overall mother brand. So there is some subsidy element into that. But it is the plan to build the top line to build scale and from there on gradually reduce losses and to get positive returns there.
- Nitin Gosar:** Okay, fair, thank you.
- Moderator:** Thank you. The next question is from the line of Manish Poddar from Nippon Life India AIF. Please go ahead.
- Manish Poddar:** I just wanted to understand this Rs.16 Crores provision you have recorded in the other expenses. Is that right?
- Berend Odink:** Yes. Correct.
- Manish Poddar:** So if I adjust this and look at the margins which you have clocked in this quarter versus the base your margins, now despite a 21%-odd volume decline, our margins are largely flattish. So is that how one should look at it, let us say, for a full year, if you have a mid-teens kind of a volume decline, would we be able to hold on to margins given that the levers which you have for, let us say, the raw materials and the other line items, which you can on the discretionary spend side?



United Breweries Limited
June 25, 2020

Berend Odink: I think you have to probably distinguish two elements. One is, Q4. So if we look at results, excluding COVID, indeed, margins are pretty positive and a good trend. Having said that, I do not think you can easily apply those margins into the next financial year. On the element of input costs, I already shared some of that outlook, which is definitely a lot better than a year ago. So that is a positive. I think the main challenge on the current financial year is much more around the demand on the volume side, less as to input costs and other costs.

Manish Poddar: Okay and would you be able to help us the working capital days have improved on a Y-o-Y basis, despite the situation which is there in Andhra. So what is the missing link up here?

Berend Odink: Sorry. I did not get the last part of your question. Could you repeat it?

Manish Poddar: I am just trying to understand. So if you look at the working capital number of days, they have improved on a Y-o-Y basis. But the situation, let us say, you would have had some goods, which would have made and which would be there in your inventory or there is elongated data days, which is there in Andhra Pradesh. So what is leading to this improvement in working capital days?

Berend Odink: Yes. So obviously, many things go into working capital, by year-end, March, obviously, you have seen a little bit of higher inventory as the peak months of April, May, etc., turned out very differently. In terms of receivables, etc., we have seen a very mixed picture. Andhra, what we mentioned earlier that there is overdue, although it has slightly improved, is still there. But we have seen some other states also seen some good progress. So I would say that goes all into the mix, where we are happy with the control on the cash side of things. But obviously, yes, again, COVID coming there, that is an area where you continue to monitor. Poonacha, you want to add anything?

P. A. Poonacha: Yes. In addition, the receivables, the entire reduction is account of lower receivables because we did not have good sales in March. So normally, what you sell in the second half of March remains as receivables as of end March. Since we hardly sold in the second half of March, the receivables as of March 31, 2020 is at least Rs. 200 Crores lower than what it was in the last financial year.

Manish Poddar: Okay, one last one from my side. So what is the blended duty hike which has happened and the blended price hike which you have taken? and I think this is a onetime COVID tax being applied and it is not changing the tax structure, but it is just an addition of the COVID tax applied in all the regions. So let us say, when the COVID tax goes away, would the price hike stay intact or would we reduce prices ever?



United Breweries Limited
June 25, 2020

Berend Odink: So I do not think we can have a kind of a blended excise increase number. I think we have tried to clarify the impacts or the choice that several states make. To a certain extent, I guess, the character of the increases is more permanent. All are more related to COVID measures and as we have seen in Delhi temporary in nature. So we continue to work with your authorities to where possible reduce some of the more pronounced hikes. In terms of price increases, that is something I think next quarter we will come back to. But obviously, we seek to remain a healthy balance by having affordable pricing in the category versus protecting the bottom line and the cost increases we have from time to time. That is all in that mix. But generally, I would say the excise increases, for example, in Delhi when it was rolled back, that did not impact our net prices. That is primarily an excise component put into the consumer price.

Manish Poddar: Got it, thank you.

Moderator: Thank you. The next question is from the line of Tristan Van Strien from Redburn. Please go ahead.

Tristan Van Strien: Thank you very much for taking my questions. Just a few for me. Just the first one, I may have missed it, but what has the market done that you gained share in the market? Or is the market worse than the minus 21% and the minus 4% for the quarter? And also what is your sense of the value share both for your full year as well as the quarter or some movement around there?

Berend Odink: Sure. On the volume side, our estimates for, the year ended up to December is that we were stable in share. Q4, we have not seen the published figures yet. We do not really share the value part of it. But I think our assessment is that we have been reasonably successful in achieving positive price mix improvements in the various states. But on the volume side, again, I think all in all, on the kind of industry trend as a total.

Tristan Van Strien: Just a second one. On these excise increases, whether temporary or not, just help me understand how they are working to do representations. Are you able to work as an industry body together with AB InBev and Carlsberg to do those representations? Or is this very much on the individual brewery level that it needs to be done?

Berend Odink: I would say probably both, depending a bit on the states, but there is an All India Brewers Association. So there, obviously, taking into account all facts and circumstances on an industry total consolidated level, if you will. You can look at past trends of excise for beer, how that relates to industry implementations for spirits, the relative growth of those



United Breweries Limited
June 25, 2020

categories. The total excise generated for the state. So on those lines, we will have discussion as to what we see as potential opportunities and potential hurdles as to future value creation and next to that, yes, we also obviously talk about our own portfolio, our own brands with authorities.

Tristan Van Strien: There is nothing legally to prevent you guys from talking together to the authorities when needed?

Berend Odink: That is all on the total, let us say, on consolidated industry basis so that we do not talk about any individual brands or individual companies, but it is all about generic framework of excise and how, for example, that relates to trends versus the spirit side like that, yes.

Tristan Van Strien: Okay and maybe just lastly, just a broader question beyond the pandemic. You have a new Managing Director coming in, and you have just appointed a strong Marketing Director with quite a powerful background around it, is there anything when we look beyond the cycle now, is there anything different we should expect, particularly around looking just is there going to be more investment on the marketing side or any more portfolio transformations we should expect on the back of this?

Berend Odink: Yes, I think with the new Managing Director, that has been early days to say how things change or if things change. I think in due course, he can brief that. I would say, as a company, we are very much brand driven. So having a strong approach to the portfolio with a sustainable support model, I think is very important, and it is all about brand preferences and the strength of the brand portfolio. That hopefully is reflected in the team structure, etc., and yes, that is what we continue to drive. Whether the current COVID impacts lead to changes in consumer behavior, consumer demand, probably it is too early to say. But definitely, if you take a step back, I think the market of beer in India continues to evolve quite quickly. So it is very important to lead that transition and be very proactive in that.

Tristan Van Strien: Thank you very much.

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

Krishnan S: Most of my questions have been answered. Just one question on the number of outlets. I gathered that out of the 80,000-odd outlets in the country, about 25,000 to 30,000 are bars, pubs and restaurants. Out of the remaining, Berend, you mentioned that they are opening up gradually, how many are actually opened now?



United Breweries Limited
June 25, 2020

Berend Odink: Yes. I think if you look at the kind of 50,000 off trade outlets, I would say, the far majority is probably open. So there might be smaller outlets that remain closed or they do not want to invest in a license in these kinds of circumstances. But probably, again the market is dynamic, but probably about 90% of that off-trade landscape would have opened by now.

Krishnan S: Okay. And what has been the traction that you have seen as we read news reports in the first couple of weeks that in a few states, there was very strong demand for the first week or so, has the traction slowed down or can you just give an indication as how the traction build in these 50,000 outlets over the last month or so?

Berend Odink: Yes. I think that kind of images and footages of that first week in a couple of states, I would say, is not representative of all the trends in the subsequent weeks. I think it is probably due to a long lockdown or only very limited number of outlets opening up that spurred a lot of those queues and peaks in demand. I think after that, things stabilized quite quickly as people realized things continue to be opened, there is enough supply, etc. So I think that was more related to maybe first one or two weeks only.

Krishnan S: I understood, thanks.

Moderator: Thank you. The next question is from the line of Jatin Chawla from First Voyager Advisors. Please go ahead.

Jatin Chawla: Just a quick question on your comment in the notes to accounts from the competition commission side. I just wanted to get an update on that. You mentioned that there is an update that has been shared and there is a demand release. There is a comment that you think there might not be much fine to be paid, so just wanted a clarification on that.

Berend Odink: Sure. I think the comment is very similar as last quarter. So due to COVID, a lot of these processes have been actually delayed. But yes, the status is that we have received by the end of December, a copy of the Director General of CCI Office investigation and we are going to make representation and responses to that, we will be submitting that back to CCI for their consideration. So that is really the stage where, yes, we were at basically back in March, April, but with COVID, as I said, that all got, I guess, pulled back but most likely things will resume.

Jatin Chawla: Okay. You have said there is an updated report that has come in, in like March 2020. So there is no big update with market. It is just the status is the same as at the end of December?



United Breweries Limited
June 25, 2020

- Berend Odink:** No. That was more a kind of procedural update. I mean, content wise, I would say that it was not really significant one way or one direction or the other.
- Jatin Chawla:** Okay, thanks.
- Moderator:** Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.
- Nikhil Upadhyay:** Sir, I have two questions. And so one is like on this excise duty negotiation with states, for last three, four years in different events and analyst meets or calls, the industry, not only UBL even USL and whole of the industry has been explaining that you have been meeting with the states and trying to explain the impact of excise duty on state revenue as well as the industry as a whole. And probably, COVID was the best time when states could have understood how alcoholic revenue is important. But even then we have seen that the amount of excise hike which has happened has been significant, and even some of the states have complained that the revenues are much lower than last year. So in your assessment in last four, five years, is the industry making any progress with the states in able to explain them and make them understand the impact, which is the high excise is having on the industry and the state revenue both?
- Berend Odink:** Yes, that is a very good question. I think the outcome or the results are probably, I would say, mixed. So in some areas, we have seen better engagement and better outcomes and other areas not so. I think we realize that the last few months, the state budgets have been on a huge pressure with, I think we have all seen various news articles about, yes, challenges on salary payments and basically running basic operations. So from that perspective, there are lot of challenges where, I guess, one of the few levers directly for state budgets is excise on alcohol. But of course, there, we take our role to explain the bigger context, the longer-term impact, the historic trends, but obviously, the final decision is in the hands of the state.
- Nikhil Upadhyay:** So how should one understand this over a longer period, I think if we divide this over the last decade, there was a period from 2011 to 2014, 2015 when the excise duty was rising every year, and that impacted the whole industry, not only beer, but the whole alcoholic beverage industry. Then for three, four years, the excise duties were subsidized. We were getting some price increase, but now again, the strains are there. So do you think it could be a repeat of what we have seen in the past or would you say that we have made progress to some extent, say, 30%, 40% level or Just to get some understanding of, could we see a repeat of 2011 to 2015 what we had seen the worst?



United Breweries Limited
June 25, 2020

Berend Odink:

Yes. Poonacha, you want to comment on the historic?

P. A. Poonacha:

Yes. I think, we can go back to history and see, if you see it, one time, Maharashtra was the most progressive state. They gave beer-only licenses. They were the first to differentiate between strong beer and lager beer and tax it differently. But finally, if you see in the last 5 years, there have been taxing beer so hard that it literally killed the industry. So I mean, one, they are state governments. Two, I mean, a lot of times, the State Government goes by the advice of bureaucrats. And if we have bureaucrats who think differently, however we present, it gets very difficult. So, it is difficult to fix a trend going forward. We can only give you what has happened in the past. How are we to guess which bureaucrat comes and what is the advice he gives, though governments and bureaucrats do hire, what do you call, consulting firms to give them various inputs. But finally, it is their decision that is finally implemented.

Nikhil Upadhyay:

Okay. Secondly, Sir, if we look at the industry, and there have been a lot of news that many microbreweries have been impacted badly in Bangalore and even in other parts of the country. Now to this extent then would you say that things in terms of the competitiveness or in terms of the ability or proliferation of new brands becomes a bit easier for us to probably our ability to drive our brands and get higher market shares even from the smaller? So one is that the coming of new brands or smaller brands would be impacted because of the capital issues or some of the brand itself finding strain. So do you think that this is our time in over the next two years or three years, we could see UBL being more aggressive in creating or improving upon our position in the market?

P. A. Poonacha:

So, we are always aggressive. I mean if there is an opportunity, we are aggressive, but if you see the microbreweries or whatever you call brew pubs, these are restaurant businesses. Basically, food and beer locally brewed is sold there. With this pandemic, that segment is really badly hit, so whether those consumers necessarily shift to branded bottled beers? Yes, some section of them would, but that is very, very small. I mean as an opportunity, it is very small, but it is not that we are going to let it off without trying to capture it.

Nikhil Upadhyay:

Okay. Just one small question, if you would permit me. You said on the glass bottle prices, as the commodity prices go down, it does come back into the end pricing. Just want to understand how is the renegotiation period for us with the glass suppliers? Is it like on a quarterly basis or is it on a time to time, if you can just help me understand what is the time period of these renegotiations.



United Breweries Limited
June 25, 2020

- P. A. Poonacha:** Yes. I mean, negotiation is basically initiated when we find a strain with respect to getting bottles as long as bottles are coming in we basically don't interfere. When we realize that bottles are not coming, then we get into it, is it an issue with respect to consumption, or the way is it bottle being hoarded, or is it that they are not being collected properly, or is it that the new glass supplier paying higher for cullets so there are various scenarios based on which we try and revisit the prices, so it is not just one factor.
- Nikhil Upadhyay:** Just one question, Sir. In third quarter call, you had mentioned that because of the AP receivable, the receivable days could get extended by almost 7 to 10 days. As of now, has the overdue as compared to third quarter gone down for us or would it be similar? Just want to understand that.
- P. A. Poonacha:** The overdues have come down.
- Nikhil Upadhyay:** What would be the quantum now?
- P. A. Poonacha:** You are talking about the overall overdues or the overdues from AP Corporation?
- Nikhil Upadhyay:** Only AP Corporation.
- P. A. Poonacha:** That has gone up in days terms because the subsequent supplies have not gone. The supplies are minimal after the third quarter and the payments with respect to old supplies are coming in trickles.
- Nikhil Upadhyay:** Okay. It has worsened only with respect to AP?
- P. A. Poonacha:** Yes, Sir.
- Nikhil Upadhyay:** Okay, thanks a lot.
- Moderator:** Thank you. The next question is from the line of Vishal Punmiya from Nirmal Bang Institutional Equities. Please go ahead.
- Vishal Punmiya:** Two questions, any price increases that you received during the quarter and from which state and secondly, any information that you want to give on the UB export cans during the quarter or even going forward, how things are trending on that, Sir?
- Berend Odink:** Okay. On the pricing side, I mean, that is probably a bit too earlier, so maybe more for next call. But for example, we have taken a smaller price increase in Karnataka and then, yes, we



United Breweries Limited
June 25, 2020

will continue to see the picture evolve in other states also in light of the excise increases we spoke about, I will let Poonacha take the question on the UB export cans.

P. A. Poonacha: Yes. UB export cans, the response as expected initially was good. But as it was picking up, this lockdown happened, and it needs to be assessed again now, whether it needs to be re-launched, we need to reassess once things open up in full.

Vishal Punmiya: Okay, thank you.

Moderator: Thank you. The next question is from the line of Srinath V. from Bellwether Capital. Please go ahead.

Srinath V: The success we have had with both the Witbier and Amstel, both being new launches over the last three years, could you help us understand how the new product pipeline or new spaces pipeline is looking, even the successful launch of Heineken 0.0? So if you could help us understand the new product pipeline and refreshes in old product for the next 12 to 18 months?

Berend Odink: Yes. So obviously, we continue to look at opportunities in the market or white spaces. I think it would be a bit premature to mention those segments or the exact plans we have. You have to see it again, the background, with COVID happening, the full focus is first on establishing back the operations and existing portfolio. Secondly, I think even with the existing brand portfolio that we have, we see much more opportunities where we stand today. So being one example where we are only currently selling in a select number of states, so just by expanding that into additional states. I think there is more opportunity to capture for beer and other examples. So we would take a balanced approach to making sure spends and the supports the home brands is not diluted too much. We really do our homework also in existing portfolio, having said that, as we earlier said the beer market continues to evolve quite quickly, a lot of trends and consumer preferences continue to emerge. So definitely, the brand portfolio as a total, I would say, if anything would be expanded in the coming years.

Srinath V: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments.

Berend Odink: All right. Thank you, everybody, for your attention, your interest, and hope you will all stay safe. If there are any other questions that we could not get through during this call, feel free



United Breweries Limited
June 25, 2020

to reach out via e-mail or other ways to us. We are happy to respond that way. For now we conclude the call and stay safe. Look forward to connect again in the next call. Thank you.

Moderator:

Thank you. On behalf of IDFC Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.