



“United Breweries Limited’s Q1FY14 Earnings Conference Call”

August 16, 2013



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Moderator: Ladies and gentlemen, good day, and welcome to United Breweries Q1FY14 Earnings Conference Call hosted by IDFC Securities Ltd. As a reminder all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nikhil Vora of IDFC. Thank you and over to you Sir.

Nikhil Vora: Thanks Inba, Welcome you all to Q1FY14 Earnings Conference Call for United Breweries. We have with us the Senior Management Team of UB represented by Hans Van Zon – CFO and Poonacha – Strategy and Investor Relations. I will hand it over to Hans to make the opening remarks and then we can open the floor for Q&A. Over to you Henricus.

Hans Van Zon Thank you very much. Ladies and gentlemen, very much welcome to this phone conference regarding the first quarter figures of the year 2013-14 United Breweries Limited. Figures were published on Wednesday evening, yesterday was a Public Holiday that is the reason why we are not meeting after the publication of the figures but one day later. Let us go through the figures themselves, and let us go to our first quarter of this year. In actual fact, a good quarter compared to last year's first quarter, more in terms of revenue and costs than in terms of volume. We did realize in the first quarter a volume growth of 1.5%, which is quite in line with the industry, the general industry development, which means that you all know from previous conferences that we are in particular as United Breweries hit by the new measures and ordering pattern in the state of Tamil Nadu. If we would exclude for that effect, we have not lost any market share, in actual fact we have gained a slight bit and we are on a level of 50% plus. Back to the figures, this volume growth not that strong in line with the general development in the industry in the country, EBIT development was stronger. Maybe with respect to a couple of things more on volume. We had a very good growth in the markets in the North of India in particular. We had a negative development in states of Maharashtra and Goa, for the listeners present in India or do not live in India, we have the monsoon season that really started in time. That is still on. We have had enormous rain in the course of the monsoon period, in actual fact from the beginning to the end throughout the country in particular also in a state like Maharashtra and Goa, where we see that the industry development volumes have been affected. Maybe on a special note to mention that Heineken, be it a very small brand in terms of volume for us, is showing continuously a good growth on a small volume basis, I already said, but it has been able to further kind of expect in the quarter behind us. There is a volume growth of 1.5%, sales revenue growth of 11%, in actual fact it is 13% indeed. Our cost of goods, our variable costs are very much in line with the growth of the net sales revenue, so we have basically been able to transfer these variable costs increases into our sales revenues as well. Good to say, maybe good to say here with respect to the development of the variable costs that we are confronted in particular in the state of Maharashtra with a peculiarity where



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we are being forced to use only new bottles in our production. As you know we embarked on an introduction of using of returnable or reusable bottles with the introduction of our branded bottle. The program has come to a full end in the course of the last quarter, the beginning of the last quarter, fortunately, the latest to be expected positive effect has been offset by this measure in Maharashtra where we can only use new bottles which basically means that the usage of new bottles has gone slightly higher again. In all the other states we keep on using the returnable's and this keeps on giving us a good cost savings. With respect to advertisement and sales promotion costs, there we see that we have spent a little less or comparable to last year rather than increase in the first quarter, but this is basically a certain activities that we have been doing last year and that we are in particular attached to the first quarter of the year that we have decided to stop and that will be replaced by other activities in the future. It is not thus that we are supporting less our brands going into the future.

What else is there to remark, there is a good EBITDA growth with 24%, and interest cost with debt you have seen increasing slightly. That is basically because we have taken up two new ECB loans during the beginning of this year in January 2013. On the other hand that is on the interest cost, there is of course interest cost of this quarter compared with the quarter of a full year ago, compared to the loans and the debt outstanding at the end of March, at the end of our previous fiscal year, we see that we have been able to further decrease our debt. That is on a short note on debt. Finally, profit after tax also increased with the percentage of 21%. This, as I said in the beginning, in my introduction, a good quarter, basically driven by costs and revenues, cost controls and revenue increases, not that much by volume growth, which also made us make the statement in our press release that we made about the industry development in this year. So far for my introduction, thank you.

Moderator: Thank you, ladies and gentlemen, if you wish to ask a question at this time, you may press '*' and '1' on your touchtone telephone. Participants are also requested to use only handsets while asking a question. Our first question is from Abneesh Roy of Edelweiss. Please go ahead.

Abneesh Roy: My first question is on the double digit volume growth you have done in four to five states, overall slowdown in the macro, so this double digit volume growth is on the back of market share gains or these markets are actually growing at these levels on an industry level.

PA Poonacha: Yes, where all we have gained double digit growth, it has been at small industry gains.

Abneesh Roy: And, is Tamil Nadu now coming into the base from this quarter Q2. Onwards we should see normal growth coming back even in Tamil Nadu, because in the base also we will have that full impact.

PA Poonacha: You are right.



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Abneesh Roy: On the Maharashtra front, you mentioned that only new bottles have been allowed to use, so if you could tell us what is the reason and is there a risk that some other states might also follow this?

PA Poonacha: No, there is no such risk, the excise policy of Maharashtra, the very old policy had a provision where it said that beer bottled in Maharashtra should be bottled only in new bottles and recycled bottles cannot be used. However, the subsequent notification allowing the usage of recycled bottles, however it not being gazetted and somebody noticing it now, the commissioner has been insisting on following the old excise policy and waiting for this particular notification to be gazette, should be done in the near future. We are hopeful that it will be done very soon, that is what we hope.

Abneesh Roy: Just wanted to understand the logic behind this, is this some old rule, which was not updated, because what is the problem with using old bottles, is this a case of hygiene, something related to that or is this is an old rule being still implemented?

PA Poonacha: An old rule which was rectified, but rectification or notification was not gazetted. Every bottler including soft drinks and every other industry which uses glass is allowed to recycle, I mean recycle is nothing unhygienic, because the bottles are totally washed and they are as good as new bottles, so that is not the reason.

Abneesh Roy: Sir, you're A&SP if I see, it has decreased YOY, but still up quarter-on-quarter, so was there any one-off last year because of which there is a dip in absolute basis this year?

PA Poonacha: No, not the dip, I mean, like Hans was just mentioning that it is more of phasing effect, where certain events which were traditionally done in the first quarter, it has not been done so in the current financial year, however this was replaced with other events and other promotional activities which would take place in the balance of the year.

Abneesh Roy: Sir, my last question is on the Andhra market, if you could update on how was the growth there with us. The Telengana issue again coming to the forefront and in terms of market share, is it now stabilizing in that market.

PA Poonacha: In Andhra, being a government market, we in addition to primary sale, also track secondary sale, and the market shares are calculated based on the secondary sales, because the government tends to have large stocks in the depots, so while primary sales has been in high single digits, the secondary sales has been in addition to 20%, and we have gained small market shares in Andhra, so by and large, the volume story in Andhra has been good.

Abneesh Roy: Sir, one small routine question on the change in the inventory from FIFO to weighted average, why have we done this?



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- PA Poonacha:** We have implemented a new ERP called SAP. In SAP the advised method of costing is with average moving price, while previously we were in a different ERP called Navision, which had advocated the FIFO methodology.
- Moderator:** Our next question is from Arjun Khanna of C Capital. Please go ahead.
- Arjun Khanna:** My question is on the input cost, what is the outlook that you have especially on barley prices?
- PA Poonacha:** The outlook for the balance period you are asking?
- Arjun Khanna:** No, cost of barley.
- PA Poonacha:** Yes, that is for the balance period of the year right?
- Arjun Khanna:** Yes correct.
- PA Poonacha:** If you have seen our press release, we have made a statement there, saying that the cost pressures would remain in the balance period of the year, so we don't expect the barley prices to ease up, however we have procured close to 70 to 80% of our barley requirement for the financial year. The next lot of purchases would probably be affected, but by and large costs would be affected in the next three quarters.
- Arjun Khanna:** Okay, and was part of this procurement through imports, because as I understand previously you had imported barley to counter the local cartelization.
- PA Poonacha:** Yes, that was in the last financial year, in this financial year, we have not imported barley.
- Arjun Khanna:** Okay, so you have already procured 70 to 80% of your requirement domestically only.
- PA Poonacha:** Yes.
- Arjun Khanna:** And Sir, what about other input costs, I kind of missed the earlier discussion on the glass bottles, because of the new Maharashtra government rule, to what extent would this effect input cost.
- PA Poonacha:** The input costs would be effective slightly, because if you are given a free hand more reused bottles would have been used in Maharashtra, however, we are trying to maximize the usage of recycled bottles in our other units, so by and large it is not that there is huge percentage of new bottles being used, but still even a small increase in percentage of new bottles has an effect on cost, so that is what has affected the cost partly.
- Arjun Khanna:** Okay, would you be able to quantify any impact in terms of margins, percentage..



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PA Poonacha: If you take on overall country basis, the impact would be small, but however if you take Maharashtra alone, the impact is large.

Moderator: Our next question is from Nikhil Vora of IDFC Securities. Please go ahead.

Nikhil Vora: Thanks Inba, just a couple of things it is fairly uncertain but looks fairly certain that Heineken might look at increasing stake in United Breweries now, given the uncertainty with the UB group itself. What is the status, official status which Heineken would like to state on this, I am assuming that we would have approached a lot of lenders of the UB group on this.

Hans Van Zon: This question is for Heineken, and you are now in a telephone conference with United Breweries, we cannot comment on that.

Nikhil Vora: Fair point, okay, second was there has been this loan agreement which UB group had signed for a 1-million pound with Heineken, where in case of a default the UB group, Heineken gets the right for 5 years to market Kingfisher beer in Europe, is that the right reading and what is the status on that.

Hans Van Zon: I guess, but I don't know of course that you are probably confusing United Breweries Limited in India with United Breweries UK Limited in the UK. We are not part of that, I cannot comment on it.

Nikhil Vora: But does not Kingfisher beer or Kingfisher brand itself lose the potential likelihood of marketing itself in the European region or UK, assuming there is possibly a potential default from the UB Group on that.

PA Poonacha: No, I mean for the volumes of Kingfisher beer sold in UK, we do get a royalty on a per case basis, so as brand owners we do get that, but the loan facility and that is something which is beyond UBL as an operating company to comment on, because we won't really be able to tell anything on it.

Hans Van Zon: We are not part of that loan agreement.

Moderator: Our next question is from Hiten Kumar of Aim Capital. Please go ahead.

Hiten Kumar: Just had a few questions, firstly on Andhra Pradesh, if you could give us how the market share has trended there, and how are we vis-à-vis SABMiller now.

PA Poonacha: We are ahead of SABMiller and when we closed the quarter, we are a percentage point ahead of them, the market share in Andhra Pradesh is neck to neck, and we have last couple of quarters managed to stick our neck out and be a little head of SABMiller.



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- Hitren Kumar:** Okay what would that market share number be for us now in AP?
- PA Poonacha:** Between SABMiller and UB we control close to 90%.
- Hitren Kumar:** Could you also share how our growth has been in the eight Eastern markets now where we have seen our increased expansion in terms of distribution, your sense of how that has been?
- PA Poonacha:** Eastern markets, barring Bihar has been good. Bihar, we degrew because of change in the excise charge and excise duty has gone up, as such with the increase in the MRP, Bihar has dropped, there is a degrowth there, we have done well in Orissa, done well in West Bengal, and decently okay in the North Eastern Markets.
- Hitren Kumar:** Okay, lastly just wanted to check what has been, we have heard, we have taken, we have got price increases in 13 states, just wanted your sense that during the course of the year, are we expecting more price increases in other states or is it something coming up there, if you could share that.
- PA Poonacha:** Our topline has definitely grown because not because of volume, but basically because of price increases to some extent and to a large extent on account of favorable mix. The markets having high NSR have grown in the first quarter. Now we are very sure if we can maintain this positive mix in the balance period of the financial year, however, we are not likely to further increase prices because as such we have tried to maximize and take price increases and pass on the cost push to the consumers. Further increases will only further strain the volumes which we really don't want to risk.
- Hitren Kumar:** Just wanted to get a clarification, where I mean, there could be some, are there some states where we have asked for a price increase which we have not got yet, which we can expect or we are pretty much through for FY14.
- PA Poonacha:** No, like that we have certain markets like Andhra Pradesh and Kerala which have not given us price increases for quite some time now, so there are requests for price increase still remains, but how sure we are of getting them is unlikely. The Kerala Government you know is not really stable, and with the events in Andhra Pradesh, there also we are not very hopeful that the request for price increase would be considered favorably in the near future.
- Moderator:** Our next question is from Ashit Desai of B&K Securities. Please go ahead.
- Ashit Desai:** Just wanted to know your CAPEX for the year and considering your last two years volume growth has been in single digits, would you lower your CAPEX going forward because I think you have been targeting a 15% volume growth over the long term.



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- PA Poonacha:** Ashit we have always been maintaining that we build our business based on a 15% CAGR and don't see a couple of years, but if you see the last 10 years, you will see that this industry has been close to 15% CAGR. Yes we would be a little careful in timing the investment, however, whatever we have chalked out in our 3- to 5-year plans would be maintained. There is some delays where we are cautious in some markets, but by and large the plan to expand will remain.
- Ashit Desai:** But your utilization levels would be quite comfortable now considering ...
- PA Poonacha:** We are currently at (+80%) plus and that would be the ideal situation where we can capture the growth in the summer months and then when you have the off seasons to do your maintenance.
- Ashit Desai:** So it is still (+80%)?
- PA Poonacha:** Yes.
- Ashit Desai:** Okay, there will not be much of fixed cost absorption once your volume growth improves in the coming quarters.
- PA Poonacha:** No, that leeway is not there.
- Ashit Desai:** Okay, secondly on Tamil Nadu if you could share, for example United Spirits had got better orders for some of their premium brands in compensation for the lower orders being placed overall, is there any mix benefit or improvement in Tamil Nadu that you have received.
- PA Poonacha:** Yes we have, we have been able to get brand variants registered and registered at a price higher than the older variants. The low volumes are coming at higher NSRs.
- Ashit Desai:** So your local brands like Marco Polo, Bullet would have faced higher decline compared to Kingfisher.
- PA Poonacha:** Correct.
- Ashit Desai:** And is there a pricing improvement also for these brands?
- PA Poonacha:** No, I mean, we have had different variants, so these brands, you can't go for price increases of all registered brands.
- Ashit Desai:** Lastly if you could just give the growth between strong and mild beer?
- PA Poonacha:** The strong, our strong portfolio grew by 1.7 and mild 1.7, both are same 1.7.
- Ashit Desai:** Both are same.



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- PA Poonacha:** Yes, just under 2%.
- Moderator:** Our next question is from Deepak Roy from Bay Invest. Please go ahead.
- Deepak Roy:** What is the working capital cycle like, how many days receivables?
- PA Poonacha:** We are currently at around 30 days receivables.
- Deepak Roy:** 30 days, okay, that is more or less stable or you see this is increasing?
- PA Poonacha:** No, it is more or less stable, if you compare for the previous year, it is more or less stable.
- Deepak Roy:** Okay, what is the gross debt on the books right now?
- PA Poonacha:** Gross debt?
- Deepak Roy:** Yes.
- PA Poonacha:** Gross debt is about 1100 crores, 1065.
- Deepak Roy:** Okay, what is the plan for this year in terms of debt, would it be stable or would you like to see it reducing?
- PA Poonacha:** No, we don't see it reducing, it will be more stable.
- Deepak Roy:** Okay, and Sir, could you give any inputs on brands like Kingfisher Red or Heineken brands, outlook for them, the more premium end brands?
- PA Poonacha:** Kingfisher is doing well in certain pockets of North India and Eastern India, so they will continue to rule it out in other markets across the country. Regarding Heineken, yes, it is doing well on a small base, but wherever it has been launched, it has been showing positive signs and there is a bit of a buzz in the markets where it has been launched.
- Moderator:** Our next question is from Ritesh Shah of Aim Capital. Please go ahead.
- Ritesh Shah:** Hello, thanks for the opportunity to ask a question, just had a couple of questions, firstly could you just explain more about the working capital structure right now?
- PA Poonacha:** Structure, meaning ...
- Ritesh Shah:** In terms of how does the working capital evolve in terms of number of days and debtor days, etc.



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- PA Poonacha:** To give you the entire thing, it is like.
- Hans Van Zon:** Can we not better leave that for the half year figures when we publicize the balance sheet as well.
- Ritesh Shah:** Okay, secondly about the volume growth outlook in coming quarters?
- PA Poonacha:** The volume growth, we don't expect it to be very buoyant, in line with what we have achieved in the first quarter is what we expect as we speak.
- Ritesh Shah:** And over the next two to three years, I mean, I remember mentioning about 15% volume growth target.
- PA Poonacha:** Yes, I mean it is not a volume growth target, we have been building up our business and capacities to target 15% CAGR, the reason being even a small change in state policies would create a sudden burst volumes, which we need to cater to and hence we build our capacities on that basis.
- Hans Van Zon:** I think, that is of course is indeed as Mr. Poonacha says, there is no industry volume growth target because the market is what the market is, we see that the market is being influenced by basically government measures, and also development of the economy, so with regards to the development of the economy, you know as much as we know, and we know as much as you know, and then we have some what is it, temporarily influence every year, definitely which are related to the weather, but that is basically in particular to the monsoon.
- Moderator:** As there are no further questions from the Participants, I would now like to hand the floor back to Mr. Nikhil Vora for closing comments.
- Nikhil Vora:** Thanks Inba, thanks all the participants, and more importantly the management, Hans, just in case if you want to make any closing remarks.
- Hans Van Zon:** No, thank you very much, nothing in particular. Thank you all for participating and we look forward to the next one, three months from now.
- Nikhil Vora:** Thanks a lot.
- Moderator:** Thank you very much Mr. Vora and members of the management. Ladies and gentlemen, on behalf of IDFC Securities Limited, that concludes this conference, thank you for joining us, and you may now disconnect your lines.