



## “United Breweries Limited Q4 FY15 Earnings Conference Call”

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**MODERATOR:** **MR. HARIT KAPOOR – AVP RESEARCH, IDFC SECURITIES LIMITED**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the United Breweries Limited Q4 FY15 Earnings Conference Call hosted by IDFC Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference call is being recorded. I now hand the conference over to Mr. Harit Kapoor. Thank you and over to you, sir.

**Harit Kapoor:** Thanks. On behalf of IDFC Securities I would like to welcome you all to the Q4 FY15 earnings call of United Breweries. We have with us the senior management of United Breweries represented by Mr. Henricus P. van Zon – CFO and Mr. Poonacha – Divisional Vice President-Finance. I will hand over to Mr. Henricus P. van Zon for his opening remarks post which we will open the floor for Q&A. Over to you, sir.

**Henricus P. van Zon:** Yes Harit, thank you very much. Good afternoon or Good morning Ladies and Gentlemen wherever you are connected from. As you have seen we have presented our figures in the press on Friday in the last week. Unfortunately, we had no opportunity to have the conference call immediately after that is why we are now on Monday.

Let's go to the figures. Let's first have a general overview look at the year end. At the year-end we see a fairly good development in the results with a 15% increase in the profit after tax, a 13% increase in the profit before tax and 9% increase in EBIT which is driven by an increase in the revenue in the turnover of some 11% which is backed by a volume increase of 6%. The difference is thus basically the result of price increases that have been attained in quite a huge part or main part of our market and the volume increase of six percent.

If you look our cost, just very quick look what you will have noticed is that our employee benefits has an increase of 15% compared to last year there it needs to be pointed out that out of the 38 crores which on a yearly basis has been added, 24 have been related to incidental issue which was basically our decision to up and increase the provision we have for our gratuity and leave regulations where we have adjusted the assumptions. That is one.

Secondly what you will see is an increase in the cost of selling and distribution. Now this is basically distribution and it is basically an increase in the cost of freight. Cost of freight we have seen large huge pressure not from the side of the cost of fuel, because you know that or most of you might know that there was no increase on that one in particular in India last year but what we basically confronted with is bottlenecks in supply, in particular during our season we see in particular states, some states more than others that there is sometimes a shortage in supply which has two effects, one is we have to pay more because the basic tariffs, as a result of that are under pressure and have a tendency to go up. And secondly, as we are in some states confronted with the non-availability of freight, we are embarking in some states what we call dedicated transport which is pre-booking for an entire year on an exclusive basis of

transport capacity. And the fact that you pre-book means that you are not only committed to use it in the season but also in the off-season of course. There is an general development behind the full year, if you can look at the very last quarter, then you will see that in terms of profitability the quarter shows a decline compared to the previous year last quarter and in terms of profitability and there is a couple of factors, of course there is this one-off booking that I just mentioned which took place in the last quarter of this increase in the gratuity provision. That is one of the main reasons and the other main reason is that last year we have been able to make profit in particular in the last two quarters of the year particular also in the quarter four from the Maharashtra Bottle issue that we were confronted with in the beginning of last year or previous last year. This which meant that in the quarter last year on the quarter of '13-'14 we had a very low input of new bottles and a high usage of returned bottles and that has been, of course that was an incidental affair this year or last year, this year last quarter, basically we did not have that benefit anymore so the input of new bottles was on a normal level.

There are two basic reasons for the quarter four not being as good as the quarter four of one year before that, in itself the quarter four showed an increase in revenues of 8% which was basically the result of price increases and a volume increase of 2%. Now, this 2% is less than we have hoped for and expected, I think that is a good remark to make. We had a good take off of last fiscal year and the last quarter in terms of volume development and also the quarter three was a little bit disappointing. That was in the industry same thing, couple of incidental reasons for this, one already known and still every time relevant Tamil Nadu, the out of one was kind of standoff you could say between the industry and the state run monopoly the state of Orissa.

That is basically the general overview of Q4 and the year end. So, finally a good result, a good improvement of result volume increase of 6%, revenue increase of 11% but with a quarter that was under previous year for specific reasons. Having said that, I would like to open the conference for questions.

**Moderator:** Thank you very much. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from the line of Sonali Salgaokar from Axis Capital. Please go ahead.

**Sonali Salgaokar:** My first question is with reference to the Q4 volume growth of 2%, so it is mentioned in your press release that there was pressure in volumes because of regulation in Tamil Nadu, Kerala and Orissa, sir could you ballpark give us whatever the growth numbers YoY for volumes in all the three states?

**Henricus P. van Zon:** We are not used to do that.

**P.A. Poonacha:** No, you want the state wise volume growth?

**Sonali Salgaokar:** No sir, just for these three states, so year-on-year just to get an idea as of how much growth or de-growth that we have registered in this quarter versus the last quarter which has brought down our volume growth to 2% this year.

**P.A. Poonacha:** We normally do not keep ourselves ready with that, because state wise growth is not...

**Sonali Salgaokar:** Okay. Sir my second question is with reference to your balance sheet number, so in the balance sheet if I look at March ending '15 versus March ending '14, of course your debt to equity has improved because of deleveraging as well as there is stock optimization in your working capital cycle. So my question is, is it a sustainable phenomenon that we are looking at or is it fair to assume that it is sustainable or was it a one-off?

**Henricus P. van Zon:** This you speak about working capital in particular?

**Sonali Salgaokar:** And deleveraging as we are looking at the balance sheet numbers of March ending '15.

**Henricus P. van Zon:** Yes. If you look about let's say deleveraging is of course the result of cash flow and working capital, no, the result of cash flow which was good, very good last year and which was driven to a certain extent from a decrease in working capital. So there is a relation between all three of them. The decrease of the working capital has been the result of an increase in payables which has been the result of an increase in our investments. You might remember that in '13-'14 we had an investment plan which was you could say reasonably modest and we have returned to previous levels again last year. As an effect it was a reasonably model, models had nothing to do with capability but had basically to do with a stagnating market so there was no urgent need for investments, both of our investments are in extension of capacity, that's one. And secondly, yes, we have been able to maintain the working capital also by decreasing and by keeping the level of trade receivables more or less stable with on the other side in increase in revenues and secondly by also by achieving a better levels or lower levels for other receivables. I think that we mentioned that before there is sometimes a tendency from the state run monopolies to ask us for pre-payments at the year end and we have been able to limit that to a great extent this year.

**Sonali Salgaokar:** Sir so would it be fair for us to assume that it would sustain at current levels, or considering that more than 70% of your business is with state related agencies?

**Henricus P. van Zon:** I would be bit modest and a bit careful with that, I think that we will certainly and we will work on certainly sustaining a great part of it, if we will be sustain it as such we will have revenue increase, we will have the capacity a bit also on the positions of the state run monopolies etc, so that is not 100% to be confirmed.

**Sonali Salgaokar:** Sure. Sir are you looking at a double-digit volume growth this year?

**Henricus P. van Zon:** No.

- Sonali Salgaokar:** Okay. Sir and my last question is with respect to the one-off, sorry I missed that, you mentioned something on gratuity provision if I am not wrong, could you please repeat that for me?
- P.A. Poonacha:** Yes. Sonali we have changed the assumptions based on which the gratuity liability is valued by our actuary, if you see gratuity evaluation, the variables are the proposed salary increase and the attrition rate, now the changing business scenario and considering the outlook for the business that we have, both these assumptions have changed. Hence, the actual valuation of gratuity was up by 23 crores and that has entirely gone in the quarter ended March 31st, 2015.
- Sonali Salgaokar:** Sorry sir, which line item should we look at for this?
- P.A. Poonacha:** The personal cost, staff cost...
- Henricus P. van Zon:** Employee benefits.
- Sonali Salgaokar:** Okay, employee expense, alright. So this is a one-off, right?
- Henricus P. van Zon:** One-off, yes.
- Moderator:** Thank you. The next question is from the line of Arjun Khanna from Principle Mutual Funds. Please go ahead.
- Arjun Khanna:** My first question is in terms of our recent launch, Kingfisher Ultra Max. In this sense, when we compare this premium segment with the regular, what kind of EBITDA margins are we looking at higher for these segments?
- Henricus P. van Zon:** We are not used to comment on that for obvious reasons.
- Arjun Khanna:** No, fair enough. But just in terms of percentage, would it be fourthly 3% to 4% higher?
- Henricus P. van Zon:** We are not used to comment on that, sorry.
- Arjun Khanna:** Fair enough, sir. Sir my second question is related to the water issues at breweries. Just in case the monsoon does not go as per planned, the IMD prediction is that it would be lower than the long range average, how does one go about these issues in conditions of water scarcity?
- Henricus P. van Zon:** While, our experience so far is that it does not lead immediately to water scarcity. Let's say this year for instance we have had no issues in none of our breweries with respect to the scarcity of water. I remember that two years ago we had an issue in one of the breweries where we had a little bit of scarcity of water. So we don't expect to be immediately affected by that. The availability of water is far more I think long-term concern which has an advantage to it because you can look for long-term solutions or you have a little bit more time to look for solutions but I think that if we speak about scarcity of water in general in India and in then for beer market

then it is so far only incidental which can be solved by trucking water from other places because it is always only for or when it happens it is for short while. We have had no big issues with that as yet and I do not expect in short-term irrespective of the exact outcome of the monsoon of this year.

**Arjun Khanna:** Sure, thanks for the clarification there. Sir my last is just in terms of the sales promotion expenses and selling and distribution expense, if you see that total is up to roughly 30% of revenues, if we look at global including our parent, this combined number roughly comes up to 20% where advertising is also largely allowed. How does one grapple around, why are our numbers so much higher?

**P.A. Poonacha:** I will take this question. Now if you take the line item where you say...

**Arjun Khanna:** F&G sir.

**P.A. Poonacha:** The line item if you take selling and promotion expenses, sales and promotion expenses we have both discounts given to trade and brand building. So straight away taking as a percentage of top line would not be right, because you want to compare yourself to international brewers, the discounts doled out are taken off from the top line.

**Arjun Khanna:** Fair, so it is an accounting treatment led?

**P.A. Poonacha:** Yes, it's not that with comparable. With respect to selling and distribution expenses, Yes Hans has given a brief in his business itself wherein the sourcing across states and our option used of hiring trucks for entire financial year so as to ensure that we have sufficient trucks in season has seen a cost a little high compared to the top line. But however, it is ensured our topline is assured also.

**Arjun Khanna:** Sure. And lastly, could you help us with the number of plants and co-package units we have currently?

**P.A. Poonacha:** 21 own bottling units and 10 contract.

**Henricus P. van Zon:** Yes, of which I think we have 9 really active of the contract breweries and there is quite a lot of small ones amongst them, we have three major ones and a couple of smaller ones. And breweries, we have indeed now 21 of which one is not yet operational, that is the one in Rajasthan which will become operational in August.

**Arjun Khanna:** Sure. So sir how many of our plants or co-packer units would be more than one hectoliters and how many probably would be less than 250?

**Henricus P. van Zon:** That's is not what you mean, all of them are more than one hectoliter but I guess you mean not taken, actually one hectoliter is very little.

- Arjun Khanna:** 1 million I meant sir.
- Henricus P. van Zon:** I have two.
- Arjun Khanna:** I am sorry, we have two units above 1 million hectoliters?
- Henricus P. van Zon:** Yes.
- Moderator:** Thank you. The next question is from the line of Jasdeep Walia from Kotak Securities. Please go ahead.
- Jasdeep Walia:** Sir your advertising and sales promotion expense has increased significantly at a higher rate versus the increase in net sales, so I believe advertising and sales promotion expenses are up some 20%. Can you elaborate reasons behind the same?
- P.A. Poonacha:** Yes, I will take that question. Now, as I was explaining it has both discounts and brand building, and discounts have increased as a percentage of top line because you see when sourcing is made from contract breweries and when we give discounts to the market especially when it is state run corporation, only the margins that we earn from the contract bottling unit is forming part of the top line while the entire discount is given from start of your sales promotional expenses. So that's why the anomaly.
- Jasdeep Walia:** But that would have been the case last year also, right? So we are comparing like-to-like numbers.
- P.A. Poonacha:** No, if the shift in usage of contract breweries vis-à-vis your own brewer, and if the discount rate is different they will be the change.
- Jasdeep Walia:** So what has been the shift between your own brewing units and contract brewing units in terms of sale volumes on a YoY basis?
- P.A. Poonacha:** The salience of Uttar Pradesh vis-à-vis what it was in the last financial is far different and Uttar Pradesh's entire sourcing is done from a contract brewing unit and there the discount is very high.
- Jasdeep Walia:** On an overall basis as a percentage of volumes what was the mix last year and what has been the mix this year?
- P.A. Poonacha:** I cannot share that with you but I can tell you that Uttar Pradesh salience has, across the country we grew at 6% but Uttar Pradesh grew at more than double-digit and very high double-digit.
- Jasdeep Walia:** Alright. What was the gross debt at the end of the year?

- P.A. Poonacha:** Gross debt, 845 crores.
- Moderator:** Thank you. The next question is from the line of Krishnan Sambamoorthy from Nirmal Bang. Please go ahead.
- Krishnan Sambamoorthy:** What is the status on Orissa, are you and the other peer companies not yet supplying there? And how significant is Orissa as a proportion of total sales?
- Henricus P. van Zon:** As you know, the last part of your question we do not tend to answer. The first part is, we are happy to know that we started again delivering and not we only but the industry on last week Monday.
- Krishnan Sambamoorthy:** Okay, that's good. And you have not got a price increase in the erstwhile Andhra Pradesh for quite some time, any update on that, is that likely in the near future?
- Henricus P. van Zon:** Yes, we have achieved one in April.
- Krishnan Sambamoorthy:** You achieved one. And can you disclose the extent of the price increase?
- Henricus P. van Zon:** No, we don't.
- Krishnan Sambamoorthy:** Okay. And finally, CAPEX guidance for the next couple of years, '16 and '17?
- Henricus P. van Zon:** Next couple of years that will depend very much on what kind of growth market will show.
- Krishnan Sambamoorthy:** Okay. And what about the current year then?
- Henricus P. van Zon:** The current year we are looking at figure very comparable to the one we had in 2014-15.
- Moderator:** Thank you. The next question is from the line of Sonali Salgaokar from Axis Capital. Please go ahead.
- Sonali Salgaokar:** Sir just basically two questions, one on the Kerala and Orissa front, so would it be fair for us to assume that the issues related to difficulties in renewal of licenses are behind us right now and they have been resolved and these won't bring down the volume growth from the coming quarters, these two geographies?
- Henricus P. van Zon:** If you look at Kerala, you could say in principle yes. However, but that is a very kind of personal one, I think what happened in Kerala was extremely driven by politics and there of course we do not know what might happen again. But it looks as if the pressure is off the issue and it looks as if we have status quo at least that this point in time with bars and stores able to sell beer at least.
- Sonali Salgaokar:** Sir so both Orissa and Kerala are yet unresolved?

- Henricus P. van Zon:** Unresolved, no, that is not a matter of resolving or not the government has now put in the legislation that they have and it is difficult to say that that will then be status quo for the next 10 years. It is the status quo at this point in time and all things, and if nothing else happens then it will stay as it is and it will remain as it is. The same goes for the renewal of licenses of our brewery so that is not an issue. In Orissa we started as I just mentioned last week Monday there is still a court case between the distribution company and brewing industry regarding this issue, but in the meanwhile there is a clear agreement on how to work together until there is an outcome from court.
- Sonali Salgaokar:** Okay, fair enough. Sir currently, approximately how much percentage of your volumes have contributed by the sale of premium beer?
- Henricus P. van Zon:** This is interesting question, it depends on how you define premium beer.
- Sonali Salgaokar:** Sir by the definition that you go by.
- Henricus P. van Zon:** We do basically our beers are premium. No, if you look at the pricing and the pricing bracket in the India beer market, you will see that the difference between the cheapest beer in our portfolio and most expensive and then we have a little bit of an out swing you could say with the Heineken brand. But if you look at all the other brands then the bracket is not as wide as for instance you would have in the spirits industry. So in that sense I am tempted to say, let's say this way, if you would and if we do include the Kingfisher brand completely into premium then together with Heineken we are basically speaking about our volumes.
- Sonali Salgaokar:** Sorry, I did not get your last part.
- Henricus P. van Zon:** So then you get what could say close to 100%, that is basically our business.
- Sonali Salgaokar:** Okay. Sir and my last question, sir this selling and distribution cost that is including add spends and discounts, etc., which you reasoned out why they are higher this year, so would it be fair for us to assume that they would continue at these current levels at least over the near-term that is next one or two years?
- P.A. Poonacha:** Uttar Pradesh as the market outgrows the average country growth, then you will see the strength. If Uttar Pradesh grows in line with country growth then you will see it tend downwards.
- Sonali Salgaokar:** Sir sure. And what about the freight cost?
- P.A. Poonacha:** Freight cost will even out with volume picking up.
- Henricus P. van Zon:** But freight cost one should not expect to potentially go down.

- Moderator:** Thank you. The next question is from the line of Milind Karmakar from Dalal & Brocha Stock Broking Private Limited. Please go ahead.
- Milind Karmakar:** My question was on your receivables, because our channel check indicates that United Breweries is probably the first one to be paid when it comes to the other beer manufacturers. So just wanted to understand why we see an uptrend in debtor days?
- P.A. Poonacha:** There is no uptrend debtor days I mean if you see your balance sheet, we got a 6% growth in volumes...
- Henricus P. van Zon:** Our receivables in absolute level were almost the same or even slightly cut down.
- P.A. Poonacha:** Trade receivables were 958 crores in the financial year ended 31<sup>st</sup> March '14, now this is 964 crores. If you take 11% top line growth...
- Milind Karmakar:** I have taken average debtor, so maybe it is because of that. But overall, in how many days do you receive your payments normally?
- Henricus P. van Zon:** Very good question, that is in every state different.
- Milind Karmakar:** Yes, I understand that. But on an average?
- P.A. Poonacha:** On an average between 35 to 40 days.
- Moderator:** Thank you. The next question is from the line of Rajiv Berlia from Edelweiss. Please go ahead.
- Abneesh:** Hi sir, this is Abneesh here. Sir my question is, sir Orissa you said the supply has started but is it to the same level for you and the industry what it was in the normal stage?
- P.A. Poonacha:** No, we have just started supplies in Orissa, just exactly a week back.
- Henricus P. van Zon:** What do you mean exactly with on the same level?
- Abneesh:** No, so the volumes there for you and the industry will it come back to the normal, so was it a temporary problem?
- Henricus P. van Zon:** Yes, yes there is no reason to believe not to.
- Abneesh:** Sir your market share if you could tell us across the different states, in UP you have grown much faster so have you gained market share in UP and what is the reason for that? You said in UP the promotions, etc., are far higher, but within UP obviously everyone's promotions will be higher. So, why we have gained market share in UP? And if you could tell on a pan-India level how our market share has been trending for the past few quarters?

- P.A. Poonacha:** We do not give information state wise, but since you have specifically asked about UP, yes, in UP we have grown a little ahead of industry, it is not because of excessive discounting, we discount in line with that others do, it is just because of the strength of our brands. And if you see in the financial year '14-'15, overall we have held on to market share on a 12 month basis.
- Abneesh:** Sir competitive intensity at least in the top end seems to have gone up and I see your advertising and promotions also increasing although you alluded that to UP largely. But in the top end hasn't competition really gone up a lot and can you give us some sense on is it alarming and have you lose some share in some of the states, some of the key cities in the top end?
- P.A. Poonacha:** What is top end, because 81% of the business is strong beer, and in strong beer as of now there is hardly any competition for Kingfisher Strong. Balance 19%, what is your definition of top end, are you talking about?
- Abneesh:** Particular players like Carlsberg and all those, we see their presence really increase in the past few years.
- P.A. Poonacha:** Yes, if you take the 19% which is lager or mild beer, the percentage in which Carlsberg and foreign brands operate is a small portion of this 19% and the competition is there but then how relevant it is to our entire business, you yourself can calculate.
- Abneesh:** Yes, but that can change sir because...
- P.A. Poonacha:** Yes, if the industry salience changes.
- Abneesh:** Yes. Sir on Kerala I do not know if you have discussed in detail, but how is prohibition there, is that a big problem in the last two quarters, how is that trending?
- P.A. Poonacha:** No, there was no prohibition there, it was just that barring 5Star outlets other outlets were banned from renewal of license, they got a temporary stay which went till August 2014, again, there was some clamping down and now it is back to business as usual.
- Abneesh:** No, I was alluding to that 10% dip in distribution every year, so that is the status on that, is that going to become a problem? So 10% dip is that going to happen in terms of distribution?
- Henricus P. van Zon:** That is a difficult question to ask us, if that will happen because that is everybody's opinion and it is clear that formally the government has stated that they intent to do this. Well, has it happened, yes or no, I guess it will be extremely difficult for the government to have this happen to be very honest without causing all kind of detrimental effects and consequences let's say for running this stake. For us it will be as in our beer category less of an issue because we will be available in bars, restaurants, hotels, etc., Beer shops that you have specifically, beer, or wine shops so we will be affected far less if it would happen.

**Abneesh:** And volume growth Q2 was quite strong, maybe partly because of the base effect also, but after that the second half has been more muted. And if you see April-May summer has been quite strong, in the past few years one of the strongest. So are you seeing an underlying improvement if I do not take the base effect into account, so underlying strength of the volume growth, is that improving or you are saying it is largely status quo in the last one year?

**Henricus P. van Zon:** No, sluggish status quo in the last one year but there is movement in the market, there is a tendency to go up, I guess that as yesterday what is extremely important for us is we know as a general affect that in any kind of emerging market where there is growth potential from a kind of per capita consumption perspective that GDP growth is the main driver for growing the beer market.

**Abneesh:** Sir it has really improved, GDP growth rate has improved sir.

**Henricus P. van Zon:** It has improved, but then yesterday the money has to really kind of lend, in the pocket or our beer drinkers and if we or she does not have a huge increase in salary then it is not there yet.

**Abneesh:** And sir on that follow-up, April-May has been good, very high temperature, summer, has that translated to higher growth?

**Henricus P. van Zon:** The thing is that we do not comment on that because we never speak about any kind of we are sitting in this quarter we are not supposed to make any comments on it. I get these questions more often and people as you know have been said to have very short memories. And what I want to say to that is that, yes, it has become hot, since I think only two if next three weeks and yes, in some places in India severely hot with all the kind of implications of this. But we should also not remember that a two, three weeks ago it was raining in many places in India including in Delhi. So as we say in Dutch, 'One swallow does not make it summer'.

**Abneesh:** Sir my last question is on gross margins, it is down both quarter-on-quarter and YoY, of course the bottling cost, etc., I understand that as one off, but if you see structurally all consumer companies have seen improvement in gross margin linked to packaging costs, in your case glass pricing and maybe even the basic raw material, what is the trend, is there some saving which is possible there?

**P.A. Poonacha:** No, I don't think you have got your numbers right. Yes, in the quarter four there was 1.7% drop in gross profit margin which we have explained in press release, but for the full year we are in line with what we have in the last financial year. And at 60% gross margin levels, I think we are as good as any international player across the globe.

**Abneesh:** No, but quarter-on-quarter 270 bps drop, what is the reason for that?

**P.A. Poonacha:** Q4 we are talking about, right?

- Abneesh:** Yes, Q4 versus December quarter.
- P.A. Poonacha:** No, no either you look at Q4 or look for the full year because you are looking at now Q4 results and for the full year results, if look at the full year results your gross profit margins are in line with '13-'14. If you look at just the quarter four, yes, 1.7% drop and we explained that in the press release.
- Abneesh:** Sir but quarter-on-quarter also that 1.7% abnormal impact is there because I think that was for the base, right?
- P.A. Poonacha:** It will be there because Q3 and Q4, this financial year, we had to pump in more new bottles as compared to the previous financial year because we had the benefit of availability of larger amount of used bottles in '13-'14 because in the first half of '13-'14 huge amount of new bottles was purchased and put in system because of the excise policy in Maharashtra.
- Moderator:** Thank you. The next question is from the line of Avi Mehta from India Infoline Finance Limited. Please go ahead.
- Avi Mehta:** Just one, I joined the call a little late, I wanted to know what was the volume growth that you shared for this quarter?
- P.A. Poonacha:** Volume growth for Q4, 2%.
- Moderator:** Thank you. The next question is from the line of Poorna Venkateshan from Jeffries. Please go ahead.
- Poorna Venkateshan:** I just wanted to understand what kind of impact would the increase in service tax have on your business sir?
- P.A. Poonacha:** Service tax?
- Poorna Venkateshan:** The 14% service tax on outsourced production of liquor?
- P.A. Poonacha:** We have yet to quantify it in the financial year '15-'16, now we have options of structuring our contracts and our sourcing. So we really cannot give you an exact quantum what effect it would have on the financials.
- Poorna Venkateshan:** Okay sir. But what portion of your beer would be outsourced production?
- P.A. Poonacha:** 15% is outsourced.
- Moderator:** Thank you. The next question is from the line of Harit Kapoor. Please go ahead.

- Harit Kapoor:** Yes, just a couple of questions from my end. Sir just wanted to understand, sir firstly ex these three states that we spoke about, TN, Kerala, and Orissa, if you could just say ex these three states what would have been the volume growth for the quarter, ballpark?
- Henricus P. van Zon:** We do not comment on per state specifics.
- Harit Kapoor:** Okay. And sir for the full year, you said this 6% volume growth, if you could just give a trend on yours or industry as to how is mild beer grown versus strong beer for the year?
- P.A. Poonacha:** You are talking about industry, industry is about 7.5% strong and about 5.5% lager.
- Henricus P. van Zon:** So both had grown actually in fact.
- Harit Kapoor:** Yes, I think that was my question because you have seen some very weak numbers over the last year or two, so it is good to see that there is the growth there. My last question was on the debt front, the consolidated debt which you have mentioned at around 845 crores, do we see, given that working capital improvement has been there and also our cash flows have improved significantly, is there a thought process on reducing this further over the next year or so, our consolidated debt?
- P.A. Poonacha:** See, I think Hans has spent quite an amount of time to explain that, our efforts are always there and it is not that efforts will not continue but whether we achieve it or not depends quite a lot on state government corporations and excise departments of the various states. And of course your volume growth, suppose you have volume growth you cannot contain your working capital deployment also, you need to also ensure that you need to capture market share and not lose market share. So it has got several variables, so you cannot say that it will be capped year and year-on-year we will have a 400 crores surplus cash flow from operations itself.
- Harit Kapoor:** Fair enough, fair enough, understood that. And if I got your comment right, FY16 CAPEX will be in line with FY15, around that much right?
- Henricus P. van Zon:** Yes.
- Harit Kapoor:** Perfect, that's it from me. Lizzan, could you check if there are more questions?
- Moderator:** Sir, there are no more questions in queue, should I announce for questions?
- Harit Kapoor:** Yes, you can announce once. If there are no questions you can hand it over to me.
- Moderator:** As there are no further questions, I would now like to hand the floor to Mr. Harit Kapoor for closing comments.



*United Breweries Limited  
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**Harit Kapoor:** Yes, thanks Lizann. On behalf of IDFC we would like to thank the management of United Breweries for taking out time as well as all the participants on the call for taking out time for this call. I will hand over to Mr. Henricus P. van Zon for any closing remarks.

**Henricus P. van Zon:** Yes. Thank you very much. I also want to thank everybody for their participation in this call and the questions asked. And I think we shared enough about results, we will proceed to do the best to further grow the company into the future. Thank you.

**Moderator:** 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.