"United Breweries Limited Q2 FY 2016
Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the United Breweries Q2 FY 2016 Earnings Conference Call hosted by IDFC Securities. As a reminder, all participants' 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 for an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Harit Kapoor from IDFC Securities. Thank you and over to you Sir!

Harit Kapoor: Thanks. On behalf of IDFC Securities I would like to invite you and welcome you to the call of Q2 FY 2016 call of United Breweries. We have with us senior management Mr. Henricus P. Van Zon, CFO as well as Mr. P.A. Poonacha – Divisional Vice President-Finance. I would like to hand over to Mr. Henricus P. Van Zon to make his initial remarks post which we will open the queue for Q&A.

Henricus P. Van Zon: Thank you very much. Ladies and gentlemen, all are very much welcome this afternoon or morning depending on where you call from. We are in Bangalore looking outside waiting for another kind of a heavy rainstorm. This is what they call in Bangalore. We living through the second monsoon in November and then we hope that the weather will clear up at the end of this month and give us a couple of months of nice sunshine.

Having said all that, we have presented published our figures for the second quarter of our fiscal year which we have closed off on the first half of the fiscal year. As we have put in the press release and as you have seen in the figures, we have been able to further increase our revenues for the first half year with 4%, which was basically the result of price increases taken in a few selective markets and fall as a result of volume decrease because we are still looking at an industry that does not want to come to growth or come to action again from the consumer perspective.

As you know we had the last part of the previous fiscal year, we had something like an industry more or less flat and we are still confronted also in the Q1 and the Q2 of this fiscal year with a similar kind of picture. Of course as you know this is the average of the country. So there is always some states where there is some improvement, some growth and there is always some states where there is very often, very specific reasons some decrease in volumes compared to previous periods. So that has also happened this first half-year and that has in particularly had an effect on our market share. As you know we have reported that our volumes were a little bit more depressed, you could say than industry. The industry was at -1% for the first six months. Our volumes were at -2.4. Main reasons of this are that we are in particular active in couple of states where our competition is less active, which have been hit by very specific happenings.

The first one is not new that is Tamil Nadu but Tamil Nadu has further lost volumes as an industry as a result of all this ordering or non-ordering of the preferred brands and they do so that has proved a kind of eaten into our total national volume. The second one is very specific one in Odisha where we have come to a kind of stand off with the local government concerning at pricing of our products not only ours but also one of competition but we have a good market share in Odisha and they both has hit us in particular.

I think that is one of the main reasons for us having a slightly lower growth than the average industry has shown. That is basically with respect to revenues and volumes as you have seen we have been able to improve in spite of this our EBITDA that is of course also the result of being able to increase revenues and it is on the other hand a result of limited pressure on input prices as usual we always try to be on top of it so to find and look for any saving or procurement a transit we can get on the other hand we also see that in general in the commodities market prices are not increasing fortunately we have stability in prices of oil and power and fuel.

That has basically also made it for us possible to improve our EBITDA and at the end of the day our bottomline for the first six months of the year the net profit is very much inline with the net profit of last year. You see that the net profit of the Q2 has increased what improved you might remember that the first quarter we had a net profit which was less than the previous year's first quarter with the result of the second quarter we have basically compensated for them and we are now on a even level compared to last year's first half. With having said that I want to close my brief introduction and open the floor for questions. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Sonali Salgaonkar from Yes Securities. Please proceed.

Sonali Salgaonkar: Good afternoon Sir. Thank you for taking my question. My first question is with reference to the industry. Now in the press release you have mentioned that UBL volumes have recorded 4% growth in South and 1% growth in West and North and East volumes under pressure. Just for the sake of comparison could you give us industry volume growth or decline for the same period in these particular regions?

Henricus P. Van Zon: That would be bit difficult we cannot.

Sonali Salgaonkar: Sure Sir but just a sense would also be fine, a qualitative sense in the sense that you have grown by 4% in the South. Has the industry grown in the South?

P.A. Poonacha: Actually considering our strength both in South and West we would be at least industry or better industry, a little competitive action in the South.

Henricus P. Van Zon: May be we can say that development in Maharashtra was well is actually the west was okay and development in Karnataka was okay. Kerala of course is doing very well after the whole discussion on prohibition has basically boiled down to decreasing outlet numbers for spirits and increasing outlets for beer and wine. So that is of course to our advantage and to the advantage of the industry.

Sonali Salgaonkar: Sir also you have mentioned in your press release that the volumes in Rajasthan and Andhra Pradesh have been under pressure. Could you help us understand some more detail from this as to why what has let to this?

P.A. Poonacha: In Rajasthan it is due to competitive action and in Andhra Pradesh it is a structural in the way the business is conducted. In the past, a lot of areas of Andhra Pradesh they had unauthorized shops what we used to call Belt shops. So the availability of beer was more than the licensed outlets, now with the Andhra Government clanking down on that. There is shortfall in the availability. I mean availability I am not saying of quantum but distribution wise I mean you might have to travel longer in villages to get bottle of beer rather than what it was in the past.

Sonali Salgaonkar: So you are saying this is the structural thing. So we could expect similar trends in the coming quarters before the base normalizes?

P.A. Poonacha: Yes I mean the state of Andhra is looking at setting up a corporation was currently the trading in Andhra is done by the State Government. So they are in the process of setting up a corporation. Once the corporation is setup this would normalize but how long it take to build the corporation you only have to guess.

Sonali Salgaonkar: Sir my last question is with reference to the advertisement and sales promotion expense in the financials. Now this quarter if I compare quarter-on-quarter in terms absolute figure also it is almost a little bit lower or at par with Q2 FY 2015 despite of increasing marginally on our net sales any specific reason for the same?

P.A. Poonacha: We do marketing activity or brand building activity based on opportunities we have for example the South African tour of India was in October. So we cannot do anything in September. So we will do when there is an opportunity and considering that we are in an industry where we cannot do brand building and advertising freely. It is only events like this, which helps us to do brand building. So it is based on actual opportunities and actual expense.

Sonali Salgaonkar: So we stick to our guidance level of advertising to the percentage of net sale for the entire year right.

P.A. Poonacha: Yes.

Sonali Salgaonkar: That is all from my side. Thank you once again for taking my questions.

Moderator: Thank you very much. The next question is from the line of Ashit Desai from SBI CAP Securities. Please proceed.

Ashit Desai: Just on volumes I mean if you look at first half Hans you did clarify on the one-off in Odisha and Tamil Nadu as we move in second half can you share what kind of outlook you have for volumes when I know AP could be one-off in the second half also but if I said volumes pending in the other market?

Henricus P. Van Zon: You know that we are very careful with expressing any kind of expectations because there is a specific consequence, with respect to two specific issues, I have mentioned we can say that in Odisha we did not come to a final conclusion of discussion with the state corporation; however, we get resume normal sales in that sense you can say it has factor has disappeared. In Tamil Nadu, the situation will not get worse anymore. That is not expected. There might even be a small improvement we do not know yet but worse it will not get.

Ashit Desai: Okay and besides AP any other one-off in the remaining states?

Henricus P. Van Zon: No.

Ashit Desai: No changes in excise or regulatory.

Henricus P. Van Zon: Not that we know of at this point in time.

Ashit Desai: Tamil Nadu, if I understand your procurement was down from say 35% to 20% last year and would that normalize in December is what you are saying?

Henricus P. Van Zon: We can only hope.

Ashit Desai: So it is still at 20% and not below that.

Henricus P. Van Zon: Slightly high.

Ashit Desai: Could you give some color on the selling and distribution line, which is down 17% year-on-year?

P.A. Poonacha: The selling and distribution is down if you see the note also there is a particular thing where provisions, which we had with respect to our distribution costs have been reversed. So if you compare it to the last financial year it is in excess reverse of about 10 Crores. The other reduction is on account of savings that we have achieved with better sourcing. If you recollect the last financial year the first half, we had certain proving units in some states, which were not allow to bottle beyond one or two shifts. This meant that we moved lot of beer across the country and resulting in higher selling and distribution cost, which is this financial year done away with better planning and improvement in situation where second shifts and third shifts are allowed in most of the units.

Ashit Desai: So this will be the normal trend even for the next quarter because you had a similar situation in last year in the December quarter also?

P.A. Poonacha: It should remain. This trend should remain next two quarters.

Ashit Desai: Lastly any color on the glass bottle prices that you can give and what is the program of infusing new bottles. Is there any change in that?

Henricus P. Van Zon: No change.

Ashit Desai: What is the inflation that we can look at in glass bottle pricing?

Henricus P. Van Zon: Very limited if any.

Ashit Desai: Thanks. I will come back for more.

Moderator: Thank you very much. The next question is from the line of Krishnan Sambamoorthy from Nirmal Bang. Please proceed.

Krishnan S: Couple of question from my side. I believe you got a price increase from the Andhra Government this year. Could you share the quantum of the price increase or you cannot do that?

Henricus P. Van Zon: No and I think we have commented on that before that is actually if you allow me to say relatively old news now.

Krishnan S: Okay but since it is a very large market their significant is fairly high. So I was just wondering whether you could comment on that?

Henricus P. Van Zon: It was a good kind of price increase so overall happy about it.

Krishnan S: My second question is regarding capex for 2016 and 2017. Do you have could you share figures for those?

Henricus P. Van Zon: 2016 and 2017?

Krishnan S: FY 2016, FY 2017 for the current year and for the next year?

Henricus P. Van Zon: That is what I said for this year the current year we are planning to have capex levels as we had them in the recent past and for the year after is still a little bit difficult to say because it depends on what is required in terms of capacity expansion which depends on how the industry will develop and if the industry development will pickup yes or no which is to an important extent that again related to what the Indian economy will do which as you know however which I will say we are beer market growth in developing beer market is very highly correlated with the GDP development.

Krishnan S: I understand okay thanks a lot.

Moderator: Thank you very much. Our next question is from the line of Milind Karmakar from Dalal & Broacha. Please proceed.

Milind Karmakar: There are a couple of questions. One of them more general in which was regarding trend in drinking patterns. I am sure across the globe you would have some kind of a sense of how trend is shifting from high alcohol content to low alcohol content and do you think that will happen in India as well first question?

Henricus P. Van Zon: The situation in India where 85% of the market is strong beer is extremely exceptional in the world. Strong beer in most market is not even 15%. So you cannot even say the reverse. The fraction of the market let us say in India is as it is the market we have also seen that strong beer has been growing in importance up to I think a year ago. Now you could say the comparison or a trade of between strong and mild this is more or less stable. With return in the other direction in the future it is difficult to say at this point in time. I guess the chance of it is higher, that the strong will become 95% of the market.

Milind Karmakar: My second question was that how have you seen the growth in premium brands as compared to the other brands?

Henricus P. Van Zon: Let us say our premium brands and premium brands of the market are relatively small and developing well. So there is some growth. There is growth but on a very low level.

Milind Karmakar: My last question was on what is the current shareholding of Heineken and related entities?

P.A. Poonacha: It is close to 42.7 or whatever it is close to 43%.

Milind Karmakar: 43%. Thank you.

Moderator: Thank you very much. The next question is from the line of Anirudh Joshi from ICICI Securities. Please proceed.

Anirudh Joshi: Can you we have indicated about AP and Odisha. Can you elaborate on the issue field in Tamil Nadu and where do we stand on that front over next two quarters? Second question is can you indicate the change in market share on a YoY basis?

Henricus P. Van Zon: Let us say on the situation in Tamil Nadu, I think we have by now steadied enough. So it very difficult to predict what is going to happen. I think I already indicated that we do not expect it get worse than it has gotten so far and that is I think we should the rest is all speculations. So will just wait and see what happens.

Anirudh Joshi: But can you share which the exact issue in Tamil Nadu?

Henricus P. Van Zon: I think we have commented on that.

P.A. Poonacha: The issue is more than three years old I mean 2.5 years old. It is about the ordering pattern, which was based on what the market wanted to base on capacity, which is to were totally against UBL which is a market leader with closed to 70% market share.

Anirudh Joshi: Okay so same issue continues?

Henricus P. Van Zon: Yes.

Anirudh Joshi: Okay and market share our current market share Q2 FY 2016 market share?

P.A. Poonacha: You are talking about the futuristic or talking about the market share when we closed in September.

Anirudh Joshi: September quarter.

P.A. Poonacha: Yes it has fallen a little below 50% because of our industry degrowth. The industry fall was 1% and our fall was 2.4%.

Anirudh Joshi: Thanks.

Moderator: Thank you very much. The next question is from the line of Binoy Jariwala from Sunidhi Securities. Please proceed.

Binoy Jariwala: Thank you for the opportunity. Just a quick one on finance cost. It is roughly stable on a quarter-on-quarter basis, if I see the borrowings down by about 130 odd Crores in the first half. So if you could just help me understand?

P.A. Poonacha: The reason being in the last financial year we had a specific loan that we had taken via an ECB route and it was taken for the purpose of building the brewery in Bihar which was the quarter growth 120 Crores. So that interest was capitalized as per accounting standards because pre-operative interest or interest used during a project and if you can identify the loan to the particular project can capitalize the interest. So in the last financial year interest on 120 Crores was capitalized.

Binoy Jariwala: Which is now reflecting in the P&L?

P.A. Poonacha: If we would not capitalized last financial year interest cost would have been higher and the borrow was higher and this financial year the interest cost would be lower than compared to last financial year if we had not capitalized. We will see borrowers being lower.

Binoy Jariwala: Sure but there has not been any reduction in our interest cost per se I mean the percentage?

P.A. Poonacha: There is I mean we are always we are borrowing below the banking rate because of our financials and we continue to do so now also. So the proportional decrease vis-à-vis last financial year to this financial year is always there drop in bank rate but that is not big but the bigger portion is the capitalization of interest in the last financial year.

Binoy Jariwala: That is helpful. Second question is on the Bihar project. Has it commenced operations?

P.A. Poonacha: Yes it has.

Binoy Jariwala: When it did commence operations?

P.A. Poonacha: The summer season the first quarter?

Binoy Jariwala: Q1 of FY 2016?

P.A. Poonacha: This financial year Q1.

Binoy Jariwala: Sure if you could also help me with the capacity there and capacity at the Pacific Spirits which is the Rajasthan Brewery?

Henricus P. Van Zon: I do not think we normally comment on that and it is also I think, which emotion is. So I am not so sure what the answer would really kind of add to the understanding of the business. I am not sure there is anything behind this question.

P.A. Poonacha: If I may ask what is this question for?

Binoy Jariwala: Sir I just want to understand whether there is so right now how are we operating in Rajasthan and with there will be any logistical savings on there?

P.A. Poonacha: The new Brewery which we purchased in Rajasthan would I mean Rajasthan is self-sufficient. So today there will be no great financial impact because going forward whatever growth is there it would be absorbed by this Brewery.

Henricus P. Van Zon: In Bihar basically you could say that our position of competing becomes better. Our competitive position is improving from the fact that we have an operation there now.

Binoy Jariwala: One last question is on the seasonality in the business. So is it normally so we have seen H1 being better than H2; however, in the last year if I look it is evenly distributed. Will it so was there any one-off in the last year and if you could just help me understand the seasonality in the business?

Henricus P. Van Zon: I am not sure seasonality it has to do with volume.

P.A. Poonacha: Seasonality on revenues can speak because I mean if you see many years average you have I mean close to 30% odd in the first quarter 30% odd in the last quarter and somewhere around 20% in the second and third quarter. That is on revenue. However profitability we cannot comment because it depends more on sourcing mix and the pattern of monsoon or rains in different parts of the country and some parts are more profitable than the other. So we really cannot comment on the profitability but revenue we can. You see a proper trend in revenue but you cannot see a trend in profit because of the mix and because of some states been far more profitable than the others.

Henricus P. Van Zon: To add that as Poonacha did already point out our India so our selling in this selling cost and promotion cost they depend also very much on actually when the event take place etc. So they are not one-on-one for 100% correlated to the seasonality or to the development of revenues.

Binoy Jariwala: So at least at the revenue level we are evenly distributed between H1 and H2 and that should continue.

P.A. Poonacha: Almost yes.

Binoy Jariwala: That should also roughly continue this year. So what I am trying to understand there was no one-off in the previous year?

P.A. Poonacha: No.

Binoy Jariwala: Thank you so much Sir. That's all from my side.

Moderator: Thank you very much. The next question is from the line of Harit Kapoor from IDFC Securities. Please proceed.

Harit Kapoor: Just wanted to understand our Kingfisher Ultra and Heineken brand they both come under the premium space. I just wanted to get your sense on what is the share of our premium portfolio as compared to the overall premium market. I know it is still very small in the overall context but just wanted to get your sense on what is the kind of growth rates there for the industry and what is our share there. Is it very similar to our overall national market share across?

Henricus P. Van Zon: We have certainly our fair share in the premium side of the market yes.

Harit Kapoor: How the growth rates? Growth rates there are significantly higher than what you are seeing for the overall market right now or there also the growth rates are relatively muted?

Henricus P. Van Zon: The growth rates, there is growth rate there. They are higher significantly is a matter of interpretation. I do not know for one person significantly mean something else than for the other. So that is always a different term to react on it, but the growth rates are there.

Harit Kapoor: How much would this the overall in this premium segment wean out market not for us in general for the industry?

Henricus P. Van Zon: Very small.

P.A. Poonacha: About a percentage of the industry because the premium is might largely lager and lager itself 15%.

Harit Kapoor: Your comment on the premium and strong in the larger segment that the growth rates are now more or less or the growth rates are now more or less similar. Does that hold for H1 as well H1 of FY’2016?

P.A. Poonacha: Yes, no different there is no change in trend.

Harit Kapoor: So they are currently very similar the growth rates are very similar.

P.A. Poonacha: Yes.

Harit Kapoor: You have given in the press release the volume decline for the industry as well as for us for the first half would you have an exact number for Q2 as well for the industry and for us?

Henricus P. Van Zon: Excuse me exact number?

Harit Kapoor: For Q2 the volume in industry decline for Q2 for us?

Henricus P. Van Zon: The trend is more or less comparable.

Harit Kapoor: Trend is more or less comparable and lastly what would be your consolidated net debt for the first half the gross debt for the first half because you know in your balance sheet that you report really cannot get the exact number?

P.A. Poonacha: 850 Crores.

Harit Kapoor: This is the gross debt right.

P.A. Poonacha: Yes.

Harit Kapoor: That is it from me.

Moderator: Thank you very much. Our next question is from the line of Vivek Veda from Societe General. Please proceed.

Vivek Veda: Thanks a lot for taking my question. Just one industry level question; how do you see this latest in similar deal in terms of Indian context?

Henricus P. Van Zon: Really that is very difficult to comment on. The first thing is it first needs to happen and then we will see what have got let us say we are not I do no think it would be appropriate to comment on that.

Vivek Veda: Thanks a lot. That is it from my side.

Moderator: Thank you. Our next question is a follow up question from the line of Ashit Desai from SBI CAP Securities. Please proceed.

Ashit Desai: Just on volumes can you just give us an idea of what is the growth or decline in Andhra Pradesh in the first half, industry growth?

Henricus P. Van Zon: I am not sure if we go to specific.

Ashit Desai: Any other price hikes in any states that you received in the first half?

P.A. Poonacha: Andhra was there. Telangana was there.

Ashit Desai: Those over last year?

Henricus P. Van Zon: But with effect of let us say the variant of last year so they had two effect for this financial year.

Ashit Desai: Okay and if look at your fixed assets number for the first half it seems like capex is around 80 to 90 Crores for the first half. Would it be similar for second half or you have some more additional capex plan?

Henricus P. Van Zon: Yes I mean the answer for the first answer is no and the second answer is yes.

P.A. Poonacha: I mean most of the capitalization happens towards the year-end because I mean lot of projects is more targeted towards the summer season than to the winter season.

Ashit Desai: Thanks Sir.

Moderator: Thank you very much. As there are no further questions I now hand the conference over to Mr. Harit Kapoor for closing remarks. Over to you Sir!

Harit Kapoor: On behalf of IDFC I would like to thank the management of United Breweries as well as all the participants on the call. Sir would you like to have any closing remarks.

Henricus P. Van Zon: I just want to thank all of the participants for their participation interest in our company and questions.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of IDFC Securities Limited that concludes today's conference call. Thank you all for joining us. You may now disconnect your lines.