



“United Breweries Limited Q2 FY12 Results
Conference Call”

November 2, 2011



**MODERATORS: MR. GUIDO DE BOER – CFO, DIRECTOR
MR. P. A. POONACHA – HEAD FINANCE & ACCOUNTS
MS. SUNITA SACHDEV – ANALYST, UBS SECURITIES INDIA
PVT. LTD**



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Moderator

Ladies and gentlemen good day and welcome to United Breweries Limited Q2 FY12 Results Conference Call hosted by UBS Securities India Private Limited. As a reminder for the duration of this conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing *0 on your touch-tone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Ms. Sunita Sachdev, thank you and over to you ma'am.

Sunita Sachdev

Good afternoon and welcome to the United Breweries second quarter results conference call. It is our pleasure to be hosting the call for the management here Mr. Guido De Boer – the Director and CFO of the company. And Mr. Poonacha – AVP, Finance are here with us. Over to you all guys. Thank you.

Guido De Boer

Thanks Sunita for the introduction and thank you all for dialing in. To dive into the results right away, and to start with volumes, the positive news for this quarter was that after a sluggish Q1 for the industry where the whole industry went down with about 4%, the industry returned to a 3% growth for the quarter, which is still a single digit but it is a positive trend. The key markets that were driving this revival were West Bengal, which after the elections declined to 20% in Q1 has now returned back to a slight growth in the industry. Delhi which has seen weak growth in the last year and in Q1 was still down 30%, is back to growth. The excise increase after the commonwealth games seem to be have been digested by the market there. Maharashtra which saw a steep increase in excise in Q1 and volumes declined, showed a better trend in this quarter. And then if we move to UB, I think there has been very good news, we continue to take share so where the market shows secondary growth of 3%, our sales volumes were up 8% so quarter-on-quarter our market share went up from around 54% to 56%, and I think the key success story there is Maharashtra, one of the key profit driving states, where we were able to increase our market share with 8% during the quarter.

Another driver of our growth was Andhra Pradesh, even with the change in policies during the quarter, it is still on the growth path and we expect that the market share here to be marked in line with the national market share that we have. So, overall I would say a successful quarter in terms of volume and market share, and also in the sense that this quarter showed the launch of Heineken brand, which has now been launched in Maharashtra, Bangalore, Goa and Delhi and a few other states are upcoming in the coming months, that looks quite promising.

Then if we move on to realization – Our realization on a per case basis is up 7% and if you take out the impact of the Empee consolidation which has relatively lower priced brands, actually our realization per case is up 13%, which is a very healthy number and we have been able to achieve this through a combination of selective price increases and an improvement of our mix we have worked hard the past year on our revenue management program where through optimal price leveraging as well as SKU optimization we have tried to improve the realization of



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the company and this has been a key driver of our revenue growth. Then proceeding to margin development, if you take out again the consolidation impact of Empee Breweries, like-for-like our gross margin is up by about 100 basis points and the key driver for this is our bottle project which we mentioned in our previous conference calls. While new bottle cost was up by 14%, we have more than offset this by the lower prices for our old bottles as well as lower injection of new bottles, which led net decrease in bottle cost of 6% and as you know bottles and cans account for close to half of our input cost. So, this basically has offset the increases in malt costs for this quarter as well as power and fuel and other packaging materials, leading to a 100 basis points improvement in gross margin.

Then on fixed cost, you might have noticed some significant increases, if you for example look at staff costs which was up 42%, and again taking out the impact of the Empee Breweries consolidation, it is still is a 37% increase which is coming from bonus payments we have made in this quarter based on successful last year's performance. Both the bonus and our long term incentive plan payments went up significantly and the annual increments have lead to higher staff cost. Sales and distribution expenses went up due to mix of higher cost of sales in distribution and again the consolidation of Empee Breweries. If you look at the increase in advertising and sales promotion spends, it is reflecting our continued spend behind our brands, As it includes accrual for spending on events like IPL, Formula One etc. during the year, you will see more pronounced impact of that in Q2 and Q3 versus the peak season months. The overall operating profit is up 16% and then if you look at non-operating items like interest has increased with 42% resulting from a mix of higher interest rates as well as higher net debt. During the quarter we sold our treasury stock, this has partly offset the interest increase and the impact of this will be more pronounced in coming quarters. In addition to that, a higher tax rate for the quarter led to a profit after tax being down by 11%, this specifically because Q2 and Q3 our profits are always lower, the growth of our net profits typically comes from Q1 and Q4.

So, if you see our net debt at the quarter end it was at 570 crores, out of which 26 crores is coming from the consolidation of Empee Breweries, compared to 470 crores for comparable quarter last year. And one last remark to make on the treasury stock on that we made book gain of about 140 crores which we have not taken to the P&L, but we credited the reserves directly not to distort the operating profitability of the company. So far my opening remarks, if there are any questions I will be pleased to take them, thank you.

Moderator

Thank you. Participants who wish to ask a question may press *1 on their touch-tone telephone. If you wish to remove yourself from the question queue you may press *2. Participants are requested to use handsets only while asking a question. Anyone who has a question may press *1 at this time. We have the first question is from the line of Abneesh Roy from Edelweiss please go ahead.



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- Abneesh Roy** Sir, thanks for the opportunity. In the first quarter we had 6% volume growth, in the second quarter we have moved slightly to 8%, wanted to get a sense of how one month of Q3 has gone, how are you saying for the second half based on current trends?
- Guido De Boer** We do not give guidance for this short a period but you see which way the trend has been going, obviously they are still weak, if you look at it more fundamentally, if Delhi that has been declining in Q4 last year and Q1 of this year obviously that is a very good trend and it is now back to growth. West Bengal seems to be recovering, Maharashtra is still weak but growing as an industry, so trends look good but then an uncertain economic environment, obviously you never know, but we are quite positive that in Q2 a number of excise increases actually seemed to be digested.
- Abneesh Roy** Are you back to growth in Maharashtra?
- Guido De Boer** We are backed to growth as UB, but the industry as a whole is not. Like I mentioned a bit earlier in Maharashtra we were able to grow versus last year with about 8% in market share, so we will be back to growth but it is mainly driven by our market share gains rather than the market itself growing.
- Abneesh Roy** And what is driving that 8% market share because that is a fairly high market expansion in one year?
- Guido De Boer** Yes, I think one thing you often see is if there is a price increase that people say if beer expensive anyway, you rather go for the good brands so they go more for Kingfisher Strong or Kingfisher Premium rather than having lesser established brands from our competitors.
- Abneesh Roy** Could you tell us, what is the status in Bihar? Because Bihar was also I think struggling a bit and what is the new trend in Andhra post the change in regulations?
- Guido De Boer** Yes, Bihar is still weak because the Government Corporation have been changing their ordering policies a bit after the supplies made by other brewers in the beginning of the year are still in the depots and are still being offloaded, hence they are now there in the process of regularizing that.
- Abneesh Roy** So, that will not recover in the medium term?
- Guido De Boer** It should recover in the medium term.
- Abneesh Roy** Okay and Andhra?
- Guido De Boer** And Andhra Pradesh, like I mentioned the government order changed as of 1st September, so the results for Q2 include one month of the changed ordering policy and still we have strong



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growth, for third quarter we expect that pace continues, we need to see how it plays out, but our expectation is that we would still expect to achieve a similar market share as we have pan India.

Abneesh Roy But has your confidence lowered post given in the Q1 you said broadly a market share in AP will be maintained if I am correct, but now you are saying?

Guido De Boer No, I said exactly what you said.

Abneesh Roy So, no change in the confidence level?

Guido De Boer No change in confidence level.

Abneesh Roy Sure. Sir, my second question is on the margins front you said bottling led to 100 bps expansion with the bottling initiative. How much of that initiative is still left?

Guido De Boer What is still left is that this year we are continuing doing new bottle injections for the rest of the markets, last financial year we had covered half of the market, this financial year we plan do the rest, the primary benefits which will come in from Q1 next year so the benefit that will still come is in a sense that in more markets we will be able to achieve the lower prices, we pay less for our patent bottle. When we finish the building of the bottle pool, our overall percentage of new bottles that we need to inject will also go down with that.

Abneesh Roy No, can we expect 50 to 100 bps more expansion in the next one to one-and-a-half year because of the bottling?

Guido De Boer I think in general I have explained how the economics work of this reduction in bottle cost, so the same benefits achieved in other states, we expect to realize in states where we are now going to launch it.

Abneesh Roy And how many states are left?

Guido De Boer It is basically half of the market is coming in this year.

Abneesh Roy No, but first half is over so my question was regarding the second half how much of that half is left?

Guido De Boer Yes it is, in the balance states it is regular infusion of patented bottles.

Abneesh Roy Sir, my last question is on the salary front. We are seeing lot of earnings declined in Q2 in such a scenario why are we going for such a high bonus component, I understand it is for the last year, but we need to see also how the next two three quarters are. Could you explain that sharp bonus component 37% increase?



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- Guido De Boer** Yes, that is how we account for our salary cost, the bonus is based on last year's performance are paid up in this year's Q2, because last year was a very good year, and bonus payments are quite significant in a quarter where profitability is relatively low, just impact of the higher bonus is quite pronounced.
- Abneesh Roy** Okay so you had that component in Q1 also.
- Moderator** Mr. Roy we would need to move on to the next participant, so you can come back.
- Abneesh Roy** Okay I will come back.
- Moderator** Okay sir thank you. We have the next question from the line of Abhijeet Kundu from Antique please go ahead.
- Abhijeet Kundu** Hi sir, good set of numbers, good volume growth has been shown. I needed to know one thing was on a like-to-like basis, just wanted to clarify that 8% has been the volume growth, what would have been the realization growth 7%?
- Guido De Boer** Yes.
- Abhijeet Kundu** Okay, so overall growth on a like-to-like basis has been 15%?
- Guido De Boer** Yes, and if you would take out Empee Breweries, realization has been grown with 13%.
- P A Poonacha** Okay, so on a like-to-like basis overall growth in sales has been 21%?
- P A Poonacha** Yes.
- Abhijeet Kundu** Okay, and sir, in case of Empee Breweries, the margins would be relatively far lower right being a contract manufacturing unit, the margins would be in the region of 3% to 4%?
- Guido De Boer** Yes, its own brands are economy brands which have lower realizations
- Abhijeet Kundu** Okay, and in terms of volume growth, drivers what we understand is the recovery in Maharashtra, Delhi, West Bengal and a sustained growth in Andhra Pradesh has really helped the growth. Now, what would have been the growth in Maharashtra and Andhra Pradesh for that matter?
- P A Poonacha** Which growth you mean?
- Abhijeet Kundu** Volume growth.



- P A Poonacha** The volume growth if you take vis-à-vis last financial year half year in Maharashtra is flat, the first quarter we de-grew, the second quarter we grew and YTD September we are flat.
- Guido De Boer** So, if you take Maharashtra overall that Q2 so for us Maharashtra state has grown 5% in volumes.
- Abhijeet Kundu** 5% in volumes during 2Q, obviously because first quarter was a decline, okay. And in case of Andhra Pradesh what would have been the growth, volume growth?
- Guido De Boer** 19%.
- Abhijeet Kundu** 19% was the volume growth?
- Guido De Boer** Yes.
- Abhijeet Kundu** And in case of your debt what has been the increase in interest rate, interest cost?
- P. A. Poonacha** Over last year it has basically went up from about 9% to around 12%.
- Abhijeet Kundu** Around 12% and you said your net debt was about 570 crores?
- Guido De Boer** That is right, out of which the consolidation impact of Empee Breweries is 26 crores.
- Abhijeet Kundu** 26 crores. And so over 1Q there was increase of about 100-150 crores on the net debt basis?
- P. A. Poonacha** No, 100 crores.
- Abhijeet Kundu** 100 crores?
- P. A. Poonacha** Yes, 470 crores net debt, Q1.
- Abhijeet Kundu** Yes Q1.
- P. A. Poonacha** On Q1 now it is about 60 crores.
- Abhijeet Kundu** Okay, and the money that has been got from the sale of treasury stock how much of that has been used to reduce debt, nothing of it has been used to reduce it as of now right? Okay, cash is there sorry, yes I got it, sorry.
- Guido De Boer** Yes, and cash is there and we also used it to repay one of the more expensive loans that we have.
- Abhijeet Kundu** What was the amount of that?



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- Guido De Boer** The loan we repaid is with ICICI Bank, which was 175 crores but we don't see the impact of this quarter, because there we had to pay a repayment penalty but in coming quarters --
- Abhijeet Kundu** And what would have been the repayment penalty?
- Moderator** Mr. Kundu could you come back in the queue sir, we would need to take the further questions.
- Abhijeet Kundu** Sure.
- Moderator** Thank you. A kind request to participants in order for everyone to get an opportunity to ask a question, please limit to a maximum of two questions at a time. We have the next question from the line of Varun L from Religare Capital Market, please go ahead.
- Varun Lohchab** Yes, hi thanks for taking my question. My first question is on the realizations, which you said on like-to-like basis are up 13%. How much of this would roughly be contributed by the mix change and has the pace of the product mix improvement accelerated in the last six-nine months given. Now you have introduced lot of products at the upper end.
- Guido De Boer** So, it is more like 60% on price increases and 40% from mix improvements.
- Varun Lohchab** Yes, and like say compared to last two or three years is the product mix enrichment getting faster compared to earlier, are you seeing those trends?
- Guido De Boer** That has been accelerated and if you look at it, it is not that a lot is from selling higher value products, but what we are trying to do is we focus on our SKU optimization, so it is not necessarily only premium brands but also a factorized price which is higher realization on optimized sourcing, where excise and freight cost are minimized, this kind of things also drive realization.
- Varun Lohchab** And overall are the pints and the cans outgrowing the bigger bottles like just in SKU mix?
- Guido De Boer** No, actually this year cans are grown relatively slower.
- Varun Lohchab** Okay and just second question. What would be the like-to-like EBITDA margin if we take out the Empee Breweries like gross margin you said are up 100 bps?
- Guido De Boer** If you take out Empee Breweries, EBITDA would be more or less flat.
- Varun Lohchab** Right, okay that is it from my side, thanks.
- Moderator** Thank you. The next question is from the line of Amar Kalkundrikar from HDFC Mutual Fund, please go ahead.



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- Amar Kalkundrikar** I have two housekeeping questions. You partly answered that first one, I just wanted the contribution of Empee Breweries to sales, EBITDA and PAT for Q1 and Q2? And the second question is what is the likely CapEx in this year and next year?
- P. A. Poonacha** Yes, as we mentioned in the past, the contract brewing operations for Empee Breweries was within hold the UB itself and majority of the beer bottled in Empee Breweries has been UB brands. So, traditionally the profits of Empee Breweries have been captured in UBL prior to merger itself. So what we add on operating profit or EBITDA that we have got from the merger of Empee is negligible, so that really has not boosted our absolute number of EBITDA. Whereas EBITDA as a percentage of top-line has dropped because the entire top line of Empee has come in but hardly any EBITDA has come in, so that is where we have to look at when we compare this September with last year.
- Amar Kalkundrikar** Fair enough sir. Sir, in June what was your like-to-like growth I am sorry, I have not seen that number? What was the like-to-like growth in June quarter?
- P. A. Poonacha** Growth of, what you mean?
- Amar Kalkundrikar** Sales growth.
- P. A. Poonacha** Sales growth that is 13% excluding Empee Breweries – top line growth.
- Amar Kalkundrikar** Yes, top line growth. And CapEx sir?
- P. A. Poonacha** CapEx meaning?
- Amar Kalkundrikar** Capital expenditure for the current year and next year?
- P. A. Poonacha** You want the quantum of that?
- Amar Kalkundrikar** Sorry.
- P. A. Poonacha** You want the quantum invested in the current six months?
- Amar Kalkundrikar** No, what is the likely total capital expenditure for financial year '12 and for '13?
- P. A. Poonacha** Yes, first of all, we will be investing in the region of close to 300 crores. We have already invested, I mean we have already physically paid out close to 140-150 crores in the first six months. We should end the year at least 300 crores of fund flow's like pay offs on account of captial payment.
- Amar Kalkundrikar** Right and anything plans for the next year on this account?



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- P. A. Poonacha** CapEx it will remain in the same region, we will not spend less than 250 Crore, but it could be more based on what would be the market demands.
- Amar Kalkundrikar** Thank you very much sir and wish you good luck for the remaining quarters, thank you.
- Moderator** Thank you. The next question is from the line of Asit Shah from Treeline Advisors, please go ahead.
- Asit Shah** Hello, Guido this is Asit from Treeline. I just have a question on accounting for your advertising expenses and taxes. I think I heard you say that you accrue both taxes and advertising for the full year and then equally in four quarters, is that how we do it?
- Guido De Boer** Yes -- that is right, spends relating to advertising they could bit more specific. If the exercising events which have an impact during the whole year for example the Formula One season once for once for most of the year. Then we allocate payments equally across all four quarters. If there is an event like an October-fest which only takes place in October we will account for it fully in October. But the spends which have a full year impact those are allocated across the year.
- Asit Shah** And sir that includes things like IPL?
- Guido De Boer** Yes.
- P. A. Poonacha** Its spread over the period of contract, contract for 12 months is spread over 12 months.
- Asit Shah** Got that and for taxes, also it is the same that you are assessing the profit for the full year and?
- P A Poonacha** Yes, we use the percentage for example we check for the current year if we have budgeted EBITDA as x, based on which we would have what is approximate budgeted booked depreciation, what is the tax depreciation so we calculate what would be the approximate payment of current tax and deferred tax, that particular effective rate is applying to the quarter's profitability or half year profitability to get the tax payment.
- Guido De Boer** So that is why you see that the effective rate in this quarter is relatively high.
- Asit Shah** Okay so both these numbers effectively are higher than what would you expect for a quarter with this level of sales and this level of-?
- P. A. Poonacha** Yes, you are right.
- Asit Shah** Okay –
- Guido De Boer** Thank you for joining us at this last notice.



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- Asit Shah** Oh thank you very much, so that is all I had, thank you.
- Guido De Boer** Okay thank you.
- Moderator** Thank you. The next question is from the line of Ashit Desai from Batlivala & Karani Securities, please go ahead.
- Ashit Desai** Hi everyone. Just had couple of questions. Sir, could you give us more idea on the three markets which declined or seen degrowth that is West Bengal, Delhi and Maharashtra and also what I wanted to know is you said Delhi growth has improved but is this just base effect that we are seeing a much lower base in Q2 last year that is in this growth or you are actually seeing volumes improve on an absolute basis from what they were before the Commonwealth games?
- P. A. Poonacha** Yes, I mean West Bengal was affected badly after the elections. One, because consumption during the elections election is now allowed. There were two subsequent increases in the retail price on account of, one increase in sales tax one month and excise duty in the following month. Prices of beer went up by 20%, but if you take West Bengal what we did well in the month of September, which I said that is again a turnaround but YTD September again is degrowth. So, if you just take September amount that we have a small growth you can see the trend is reversing that is for West Bengal. If you take Delhi, yes Delhi is similar to West Bengal if you take September alone, the trend has reversed but Delhi does not have a big impact on the financials because it is not very profitable market and does not form very high percentage of our revenue also, that is Delhi. On Maharashtra, yes first quarter we degrew, second quarter we grew and YTD September we are flat. And if you take Maharashtra, September alone the growth has been very promising and we hope that this trend continues and things should reverse for good.
- Ashit Desai** And Delhi base would be extremely low in the next two quarters?
- P. A. Poonacha** Yes, it is low but even in the low base, growth base is not picking up.
- Ashit Desai** And could you give us what is our overall market share in Maharashtra, you said 8% market share and what is the overall market share?
- P. A. Poonacha** Yes, we are close to 80% for the month. We were in the late 60% we are now reaching up to 80%.
- Ashit Desai** Close to 80%?
- P. A. Poonacha** Yes.
- Ashit Desai** And you said AP volume growth was 19% this was for industry or half volume growth was 19%?



- P. A. Poonacha** Our volume growth was 19% in the second half, in Q2.
- Ashit Desai** And what would be the industry growth over here?
- Guido De Boer** I explained that is around 8%.
- Ashit Desai** Okay, so we are still gaining market share in AP?
- Guido De Boer** Yes, for comparable period.
- Ashit Desai** Okay and I just had one last question on your planned mergers that you announced quite some time back. I mean it has been quite some time but are we still trying to get some ideas to how much this would add to the overall profitability and to your bottom-line. Could you give us some idea about the remaining entities when I can see the performance of Millennium Beer and you have shared the performance of Empee but UMBL and Chennai Breweries are the missing link so if you could give us an idea so that we get a better clarity on the consolidated performance?
- Guido De Boer** Well, we expect approvals or the majority of the approvals to come in this quarter so in Q3 results will give more in-depth insight in the consolidation of those companies and their impact.
- Ashit Desai** Can you share some details on the performance for first half from these entities?
- P.A. Poonacha** I cannot give absolute numbers but you want to know the EBITDA positive or PBT.... what is that you want to know?
- Ashit Desai** In terms of growth, or something you can share that gives us a better idea of the consolidated business?
- P. A. Poonacha** So, if you take Chennai Breweries, Chennai Breweries is 100% contract brewer, now whatever limited margins are there would come in on the merger, so it is not something is very big when you take it as a percentage of cost line, because already we are capturing the margins as the brand owner on the beer bottled there. If you take Millennium, yes regulated brands have done a little bit of this year, it is better in last financial year, you will get to see these financial in the next couple of days or probably weeks because I cannot comment on that because it is a listed company.
- Guido De Boer** So, may be if you could give it on a high level basis it would bring in around slightly below 20 crores of EBITDA which is including Empee Breweries which is significant chunk of that and PBT would be more or less flat.
- Ashit Desai** 20 crores is including all these entities that is what you mean?



- Guido De Boer** Yes.
- Ashit Desai** For the first half or the full year?
- Guido De Boer** For first half.
- Ashit Desai** Just one last thing on Empee, you said the profitability is extremely low that accrues to UBL after the merger, if I recall last year reported around 170 crores on top-line and EBITDA of 27 crores for the event which gives an EBITDA margin of 15% - 16% ?
- Guido De Boer** Yes, the overall EBITDAs from these entities all combined is slightly below 20 crores.
- Ashit Desai** Okay sir, I will come back if I have more questions, thanks a lot.
- Moderator** Thank you. The next question is from the line of Nikhil Vora from IDFC Securities, please go ahead.
- Nikhil Vora** Hi thanks. Just couple of questions. One was on the return on capital, we still pretty suboptimal in the ROCE of the overall business, despite over 50% market share, is that likely to change in the next couple of year or you still expect return on cap to be pretty much in the zone that we are at?
- Guido De Boer** I think in earlier discussions we were also indicating what we are doing on bottles, on revenue management or other kind of initiatives that we are aiming to increase our profitability margins and that combined with spending on expansion plus focusing on working capital should improve our return on invested capital.
- Nikhil Vora** Okay and that you expect to happen over the next couple of years or it is something we should possibly get stretched out over a longer period?
- Guido De Boer** No, I think in the three years' horizon we definitely enter the strength of it.
- Nikhil Vora** Okay the second was just a clarification. There has been a lot of speculation about the Kingfisher brand getting filing for assignment agreement with the bank, had it got anything to do with the overall ownership and retention of the brand for us?
- Guido De Boer** No, absolutely not, because the ownership of the Kingfisher brand for alcoholic beverages or actually for all beverages rests solely with UBL. For the airline I do not know exactly the ownership structure there, but it has nothing to do with the ownership of the Kingfisher brand by us because we fully own it.
- Nikhil Vora** Okay, assuming we would mean both UB and Heineken right now?



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Guido De Boer Yes, we only mean UBL.

Nikhil Vora Okay, if the stock of UBL is pledged out Kingfisher brand also goes along with that right?

Guido De Boer No, if someone will pledge shares in UBL that is just shares that are pledged nobody can pledge the Kingfisher brands because the brand belongs to us, UBL.

Nikhil Vora Okay, cool – thanks a lot for this that was very helpful thank you.

Moderator Thank you. The next question is from the line of Anuj Bansal from Hillhouse Capital, please go ahead.

Anuj Bansal Hi, actually I wanted one clarification about this 30% price mixed gain that you are talking about. What was this number last quarter?

Guido De Boer I do not have-

Anuj Bansal The realization gain was I guess 5% in last quarter, recurring number from the call.

Guido De Boer Yes, I don't have offhand the breakup between Empee Breweries and UBL so Poonacha if you have that. Do you have any other questions?

Anuj Bansal Pardon.

Guido De Boer Do you have another question?

Anuj Bansal No, I just wanted to clarify this so that we have the clear picture of reported growth, the comparative growth.

Guido De Boer Absolutely.

P. A. Poonacha It was 11%.

Anuj Bansal Okay and these 13% is actually higher than the run rate which it looks like 90, then there should be a significant impact on the margin and that is because this is the realization gain and lot of fixed cost associated, the volume growth is not be part of this?

P. A. Poonacha Right, if you look at the gross contribution we have grown, it is just that we have build our business for higher level volumes turnaround and considering that we have budgeted 18-20% growth and we have achieved 8% growth, so our overheads have been built at that level so that is why for this level of revenue, it is looking high but as a gross margin level. We have improved vis-à-vis last financial year.



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- Anuj Bansal** Okay, so you will get back in some time about that mix for the last quarter, right?
- P. A. Poonacha** Yes, you know this the last quarter, like I said we grew 13% in mix of price gain in the second quarter and the first quarter 11%.
- Anuj Bansal** In the first quarter?
- P. A. Poonacha** 11%.
- Guido De Boer** And taking out Empee Breweries.
- Anuj Bansal** Okay, alright thank you.
- Moderator** Thank you. We have the next question from the line of Jamshed Dadabhoy from Citigroup, please go ahead.
- Jamshed Dadabhoy** Hi, thank you for taking my question and giving me the opportunity. Could you give us some sense of what your working capital to net sales is as of the end of this quarter and what it was one year ago?
- Guido De Boer** If you take that for the combined business, so that is UBL plus all the consolidated piece because that gives the best picture, then it is around 19% and last year it was roughly the same level if you look at like-for-like numbers.
- Jamshed Dadabhoy** Sorry, last year you said it was?
- P. A. Poonacha** You want to compare from what, I am not sure of the question. Do you want to compare the working capital and number of days or?
- Jamshed Dadabhoy** The percentage of sales is fine.
- Guido De Boer** So, I gave you it was 54 days, so as the percentage of sales is 14.7% or say 15%.
- Jamshed Dadabhoy** 15%, this ratio has not really changed on a like-to-like basis, right?
- Guido De Boer** Last year it was lower but part of this is consolidation impact.
- Jamshed Dadabhoy** Okay and do you expect this ratio to improve going forward, you mentioned that part of the risk behind your better realization as you are all looking to minimize excise, freight, logistics I imagine that would add up any?
- Guido De Boer** We are continuously working on bringing down working capital. This year it has been challenging to do that because the barley price went up so much, so we bought about 18% more



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of barley compared to last year and barley prices went up with 25% to 27%. So, only our barley inventory has value of 44 crores more than previous year, so that is a quite significant impact which is there and we need to offset that with other initiatives.

Jamshed Dadabhoy Second question, what is your expectation as far as material cost goes for the second half of this year and also going ahead that is we seem to be in a situation the food prices and crop prices are going up at about 10% - 12% per annum almost consistently?

Guido De Boer So, we have procured the barley for the rest of the year already in Q1, so basically now our material prices will be going forward and they will probably go up with around 25% more in the next part of the year. But we were offsetting that part by our bottle cost reduction.

Jamshed Dadabhoy And what about going forward where as I said we seem to be in a situation where food prices consistently seem to be rising, you will not have this bottling benefit coming so in this quantum next year. You think the industry can absorb price hikes to the extent of 10% - 15% every year to at least pass through this cost?

Guido De Boer I would not say so, because we have consistently been quite close in realization increases close to inflation, and then if you look at this year in that sense quite extraordinary price increase in barley because of lower sowings in previous year. So, we expect that actually because of this quite beneficial price, more people will start sowing barley and price pressures there will relieve a bit.

Jamshed Dadabhoy Okay thank you very much.

Guido De Boer Thank you.

Moderator Thank you. The next question is from the line of Vivek Maheshwari from CLSA, please go ahead.

Vivek Maheshwari Hi, thanks for taking my question. My first question is on advertising and selling expenses that is pretty much running at around 18% - 18.5% any chance of this expense coming down in the coming quarter or year as the scale increases?

Guido De Boer Not sure, we look at it not as a certain percentage of sales or bringing percentages down. We basically look at what we need to invest behind our brands and bottom up derive our spends behind that. So, we do not have a strategy of, "it has to go to a certain percentage of sales", so I can't answer it differently.

Vivek Maheshwari Okay and second thing is, it is a slightly basic question in case of spirits business, if we see the realization growth is generally much lower at around say 3.5% or at best 4% why is it that in case of beer the realization growth is higher at around 7% - 8% because market dynamics I



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presume would be pretty much same to the state which have controlled alcohol will control both spirits as well as beer?

P. A. Poonacha I mean in spirits if you see when the economy is down the way it is now, I mean with inflation and food price going up the way it is, I mean if I can just read through just that lower-end brands and mid range brands would be giving the volumes and not the premium brands. Now, the premium and lower brands will not give this kind of increase that a top-end brands give you so that is where the increase is far below what beer can give the top-line.

Vivek Maheshwari Alright, understood thanks and all the best.

Guido De Boer Thank you Vivek.

Moderator Thank you. The next question is from the line of Mayur G from OHM Group, please go ahead.

Mayur G Hi, good afternoon everyone. Sir, I had two queries, the first one was with the merger of these other companies what will be the additional debt that we will be taking up? Currently we had 570 crores?

P. A. Poonacha The additional debt would be in the region 130 crores.

Mayur G 130 crores?

P. A. Poonacha Anything what would come is 130 crores.

Guido De Boer The total is 156.

P. A. Poonacha Yes, 156, 26 crore is already consolidated with Empee merger, so the addition was 130 crores so it will be 570 can be read as 700.

Mayur G Okay and secondly sir, what about this payment from BDL that is due to us, I mean Balaji Distilleries about around 150 crores?

P. A. Poonacha Well that major portion has already come in, close to Rs. 80 Crore working capital has come down in the system there.

Guido De Boer So, the interest on the advance to Star investments have not been coming in, we expect it to be completely repaid latest March 2012 so in this financial year that should come in.

Mayur G So, we will receive around 236 crores in that regards?

Guido De Boer Yes.



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- Mayur G** Okay fair enough. Thank you very much.
- Guido De Boer** Thank you.
- Moderator** Thank you. The next question is from the line of David Rhee from Hillhouse Capital, please go ahead.
- David Rhee** Hi Guido.
- Guido De Boer** Hi David.
- David Rhee** Hi, given all the pricing pressure that you are seeing within the industry with barley prices and other things kind of creeping up on you, but I think your profitability. Can you just talk about the profitability for the entire industry, so you need your competitors, the profitability squeeze that they might be feeling and what you are hearing kind of in the market?
- Guido De Boer** Yes, now what we hear in the market, small players are badly affected by the raising of industry bottle which is actually because of the bottle initiative that we are doing. The industry bottle has gone up in price so much that that is fully eroding their profitability. They are in the real squeeze and because that, we are able to spend on promotional activities, so if we look at industry profitability that part is definitely eroding. And then if you take SAB Miller they run relatively low capacity especially after the shared losses they had in the past few years so I would expect that their profitability is not at par with ours and then the other international players are all running at a loss I would estimate.
- David Rhee** So, does this open up any kind of acquisition opportunities for you guys or you are thinking about it from that perspective at all to see if there are any further special opportunities there?
- Guido De Boer** What I actually see is that, as what was happening in past years, further market share has come to us because smaller players in the end will find it more and more difficult to compete and with us having a good portfolio of Kingfisher and on top of that Heineken in the super premium segment and strong regional brands, I do not see the need for us to buy smaller brewers. We have the footprint, we have the brands, we will try to grow organically and gain market share from them.
- David Rhee** Okay thank you.
- Guido De Boer** Thank you.
- Moderator** Thank you. The next question is from the line of Harit Kapoor from Motilal Oswal Securities, please go ahead.



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- Harit Kapoor** Yes, good afternoon gentlemen, just had two questions. Firstly on the raw material front I just wanted to check. I just spoke on the AIBA bottles, just wanted to know as compared to the same quarter last year, what was the price of these bottles in the market and what is the current price? And do we buy back the patented bottles now at what price?
- Guido De Boer** AIBA last year was around Rs.4.5 and now depending on the season a little bit can go up till Rs. 6 – Rs. 7, and then if look at our own patented bottle if you compare that to last year's AIBA price of Rs.4.5 in the markets where we successfully launched it, it sometimes is at levels of Rs.3.5.
- Harit Kapoor** Rs.3.5 okay. And on the raw material fronts, I just wanted to check something. The barley prices have seen some correction in the last month or two, just wanted your sense of what we expect, or when do we start in buying for probably for FY13, just wanted your sense and how you will be able to absorb the benefits of that?
- Guido De Boer** We have our stock for this financial year. And the current secondary market price is good indicator of what is the barley price for the next stage, which is a positive indicator.
- Harit Kapoor** Sure, okay and finally, just if you could give a sense, I mean it is probably too early, but just wanted your sense of how the Heineken launch has gone through in the market currently, I mean what is your initial reaction with the launch?
- Guido De Boer** Well, we are very pleased on that, to give my reaction in general and also from the off-take by the trade. If you look at it from a percentage of total volumes and total contribution, I do not expect it to be very big in the next year or so because with the premium brand like this it is much more important to a launch properly than to gain volumes quickly. So, we will launch it selectively and properly in key metros and will expand it steadily across other markets. The reception so far has been very good.
- Harit Kapoor** And if you could just give me a sense, how large is the premium and above that, how large is that segment for the industry currently. The market it would be addressing?
- Guido De Boer** So, if you look at the mild segment, it is less than 25% of the total market, and I would say that it is probably the top 10% of that, so we are basically talking around 2% to 3% only.
- Harit Kapoor** Alright, okay that is it, thank you very much. All the best.
- Guido De Boer** Thank you.
- Moderator** Thank you. I would now like to hand the floor over to Ms Sunita Sachdev for closing comments.
- Sunita Sachdev** Thank you. Guido, would you like to address the floor in terms of any outlook for the future?



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- Guido De Boer** Yes, I think we gave the guidance that we wanted to give, and I would to thank all of the participants for their good questions and their support.
- Sunita Sachdev** Thank you so much. Thank you everyone for dialing.
- P. A. Poonacha** Thank you.
- Moderator** Thank you. On behalf of UBS Securities India Private Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines.