"United Breweries Limited
Q1 FY '25 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day and welcome to the United Breweries Q1 Full Year 2025 Earnings Conference Call. 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 star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vivek Gupta and Robin Achten, from United Breweries. Thank you and over to you, Vivek and Robin.

Vivek Gupta: Yes. Thank you, and good afternoon, everyone. This is Vivek here. Thanks for joining the earnings call. Just to start with, we are going through the CFO transition in UB. Jorn who is our new CFO, will join us from August 1, and the other one has left there. So Robin will help me in this call. Just to start with the opening, I'll go straight to the highlights of Q1. I think most of you would have seen the results.

I would say that as a company, and I personally feel very strong that we are making very good progress. And our plan to build long-term value in this category is completely on track. We had a very good quarter in the context of some of the challenges we faced due to elections and I mentioned last time as well that being the largest player in the market and having significant shares in some of these states, we had disproportionate impact on the election versus some of the other players.

But having said that, some of the highlights of the quarter, as you said, we grew our net sales by 9%. Our premium volume grew 44%. Our overall volume grew 5%. We made a significant gross margin improvement of around 247 basis point and a lot of it was driven by state mix, brand mix, product mix and also very, very intentional capability building we did in terms of strategic revenue management, which started giving us early results.

Our EBIT grew 29%. We continue to invest in the organization capability and the capabilities that are needed for the future. That's why you see there is an increase in our employee expense, driven by the cost increase, but also the role we have invested in, especially in the area of trade marketing, procurement, consumer insights.

I also feel very, very good about the work we are doing with consumers. As I mentioned that the number one priority for us is to make this product-centric, manufacturing-centric business to a consumer-centric business. I'm very happy to say that we are seeing very, very strong results.

Our Ultra and Ultra Max portfolio grew more than 50% in the season, despite all the challenges in the elections. Our Heineken Silver, where we only had a few states because, as you know, in Karnataka, we were not selling Heineken this quarter because we didn't get the manufacturing permit. And it was there in the base last year.

We grew double-digit nationally on Heineken Silver portfolio as well. Our innovation on Queenfisher what we launched before the beginning is now in 4 states, and we are getting very encouraging trends on that. We are also seeing significant distribution increase in our portfolio in various states. So I feel very good about the choices we are making to understand consumer and designing for consumer, and that is giving us good result.

The second big choice was to increase the manufacturing footprint of premium in more states. I'm very happy to report that we finally got the approval to produce Heineken in Karnataka. And as we talk, our view is getting -- is in the tanks and hopefully, by -- in a week-or-so, we should start shipping Heineken portfolio in Karnataka, latest by mid August, we will be there in Karnataka fully.

But because of our manufacturing footprint increase, in some of the states, we have seen our premium shares actually doubling because we are able to produce locally there. And that work needs to continue to happen. In some states, we ran out of capacities because we could not do interstate transfers which again gave me confidence that as we are working on plan for 2030 in terms of where we need capacity, where we need our footprint expansion, we need to accelerate that further and that's a big priority work we are doing for the next year as well.

And the fourth one was the regulatory work. I think we have put a lot of effort in, a, launching Beer Association of India so that we have a voice as a beer industry, but also connecting with the state governments at various levels, and we're already seeing some green shoots in the coming quarter as we talk about that.

But overall, I feel that we are making very good progress. We did an estimation that if we didn't have the election impact, how much volume growth would have been? And this is all a combination of we didn't get the third shift approval in many places or we didn't do the interstate stock transfers because of the excise policies or some of the other things, the volume growth at the national level would have been anywhere closer to 8% to 9% if we just took that impact.

So keeping all of this, I think what was in our control. I think we did an extremely good job, but it is a journey, and I feel that there is more to be done and it's a multi-quarter approach, which is working, but feel very good about the strategic choices we have taken as a company.

But I'll hand over to Robin to give a little bit more color on that.

Robin Achten: Yes. I think that Vivek already covered most of the financial highlights. So I think we can directly go to the outlook before we go into the Q&A. So our intention is to build further category growth while driving the share of premium in our portfolio and gain market share within the premium segments.

We will be doing this by a continued focus on revenue management and cost initiatives also to drive margin accretion with the plans to continue to invest behind our brands and our capabilities. And hence, we remain optimistic about the long-term growth potential of the beer category in India.

Before we go into the Q&A, we also wanted to highlight you will receive an invite in the coming weeks for an investor meet on Thursday, 19 September, in Mumbai. And with this, we conclude the opening remarks, and we can move towards the Q&A. So operator, you can please go ahead.

Moderator: Thank you very much. The first question is from the line of Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: Congrats on good set of margins coming back. My first question is on the Heineken in Karnataka. So if you could tell us in the states where you're already present, say, Maharashtra and Goa, what kind of a success or size Heineken has been able to create because that could be a template for Karnataka?

Plus I think there could be other competing brands or other companies already being in Karnataka, so what kind of market size are you looking at longer term here? Plus you said that in base, Heineken was present, so was it only because of the elections you did not bring it from Maharashtra or because the factory was almost ready and permission was almost coming, so that's why from Maharashtra, you did not ship it to Karnataka in this quarter?

Vivek Gupta: Yes. Thanks, Abneesh. I think let me answer the second question first. I think we actually have the manufacturing facility ready for last 9 months. We had applied for the permit for the local label registration and till the time you get the permit, you cannot actually import. So we're waiting for the permits to happen as well. So we waited to do the right things without being very tactical to just import because we wanted the full permit on actually producing locally and selling locally, which we have now got, and we will do that.

So the other thing is Heineken, we got the permit sometime in mid-June, but the brew itself takes 21, 24 days, it went through -- it goes through a huge amount of quality checks, including sending samples to our overseas operations. So they want to make sure the beer is absolutely consistent to do that. So that is about that part.

So we did not have an option to import from any other state because of the permits, which we got later and this was a long drawn process. But good part is, we will be manufacturing locally, and that will be improving our margins but also giving us the full space.

Heineken as a brand is now the world's biggest beer brand. We launched Heineken in India with Heineken Original. But in last couple of years, we have actually launched Heineken Silver, which is a raving success in other Southeast Asian market because of a different taste profile it brings in and does that.

And so we think in our plan for 2030, Heineken will play a massive role -- this portfolio will play a massive role. And it could be anywhere between 7% to 8% of our total portfolio, that part of it.

In Maharashtra and Goa, where we are in Heineken, our sales growth of Heineken is above 40%. And every month, we are beating share versus previous month. As you know, we launched Heineken Draft. We are gaining the distribution to do that. So I think it is not going to be a huge that for month 1 and year 1 we'll hit 7, 8 shares, but it will actually start giving us 100 to 200 basis points of share growth every quarter on a very profitable premium segment and very distinct product, which is 100% malt product.

So we are feeling very, very bullish about it. The other good part is in Karnataka, the launch was very successful before we applied for local -- that's why we made a choice to do local manufacturing. So we already know that the moment we will announce in the market, there is a pipeline which will get into it, and there's already a latent customer demand. So we are feeling very, very strong about it.

Abneesh Roy: Sure. Good to hear on the 40% growth in Maharashtra, Goa, et cetera. So 1 follow-up question on Heineken only. So I know, Vivek, currently, you have too many priorities and focus of increasing manufacturing in few states because capacity constraint is there. But in North India, would you need a Heineken at some stage because now Maharashtra, Karnataka are adjacent states, big markets, but North India is also a very attractive market. Would you need there or the tax laws are okay for importing from Maharashtra?

Vivek Gupta: Look, we are working with Delhi as we relaunch our operations to get Heineken there. That's a big part of the market. We are already doing Heineken in Rajasthan. We have a manufacturing unit, which is ready to go in Rajasthan as well to produce more Heineken there.

So we are working plan broadly. But what we also don't want to do is we also want to go -- we have a very big innovation agenda across multi-brands. And I would say over a period of next 12 to 18 months, we will have a very strong presence of Heineken in many other markets as well.

Abneesh Roy: Sure. That's helpful. Vivek, my second question will be on what is the number one player in spirits doing. One very interesting thing was, they did 2 acquisitions on almost the same day, one in craft spirits and one in 0 alcohol. I again understand currently, your plate is full on doing what is there in terms of current business because there's huge, huge headroom, huge, huge low-hanging fruits. But what will be your thought process on M&A/craft? I know you are doing some craft beer on your own, but what is your thought process on M&A of all these niche start-ups?

Vivek Gupta: Look, I think as you already said, right now, my plate is full because we have so much to do to fix the basics of this business, to ensure that we have capacities to produce beer, to get our portfolio right, to get our brand priorities right. I think we are absolutely 120% focused on our current agenda and few priorities.

Having said that, we have a small team who is looking at all the opportunities, and we are evaluating what to do. We have our own experience center as well and do that. But I would say right now, at least for the next 6 months, we just need to fix the basics on the core business.

I know it's not the answer you want, but I think it's super critical that we fix it because otherwise, if we don't fix it, we will have a major problem in the next year. We'll not learn from the gaps we had this year and we'll not fix that.

Abneesh Roy: Sure. Last quick question and then I'll stop. So Beer Association of India, very good development. And my specific question here is, will there be any particular specific states where I think the work will be higher? And when I see Bengal where beer tax hike recently was much higher than spirits hike, what will be your take on that? Because it seems counterproductive, counterintuitive, at least from a Bengal perspective. So if you could answer on that?

Vivek Gupta: Yes. Look, I think there are going to be short-term issues. And look, each of the state after the elections you see in India is going in a very different way because everyone is looking for revenue. So it's very volatile. If you are in my seat because everyone is looking for more money and there are negative development happening around taxation.

But I think the Beer Association of India is a much bigger agenda because beer category is so underpenetrated in India. I have asked them to focus not on short-term gains, but really focus on macro issues, which are -- which really step change the category penetration from 9% to 30%.

So for example, what is the economic value beer brings to the ecosystem? Because beer is not about producing beer. There is an ecosystem of collecting bottles, the ecosystem of barley, there's an ecosystem of glass. What does it bring to the total economic value to the industry? So that the -- so there's a better understanding of why beer is good apart from the social factor.

Second is there are states like Madhya Pradesh, for example. They have laws which are -- the excise policy is designed in a way that it benefits the local players like and others because there's a franchisee fees if you produce a national brand there.

So the Beer Association of India has to take those bigger ticket items where there is a level playing field for multinationals and local players and which actually explore the category growth as well. The third is the regulations around advertising of beer, the regulation around some of the other taxation as well. So there is macro agenda, but there is also an ongoing micro agenda to highlight spirits versus beer gap as well.

Moderator: Thank you. The next question is from the line of Edward Mundy from Jefferies Group. Please go ahead.

Edward Mundy: I've got 2 questions then, please. The first is around the Heineken brand. Clearly, you've got Heineken Original, you've got Heineken Silver. Could you talk about the pros and cons of potentially launching a Heineken Strong brand? And as part of that same question, how about the potential for Heineken Zero over the medium term?

And then the second question is more around some of the investments you're making. Is it feet on the ground? Is it upskilling? What are the capabilities you're trying to put in place at this stage?

Vivek Gupta: Yes, sure. Thanks for asking the question. So let me go one. I think on Heineken, right now, our focus is on really, really making sure we expand Heineken Silver in few markets because we want to go state by state and really build up these things. And -- because we have a very global success model and especially in the market Heineken Silver is launched, where both Heineken Original and Silver have a role to play. So we are going to focus on that. We keep looking at other innovations like what you talked.

But right now, the priority is to build a very good business on Heineken Silver and Heineken Original. On Heineken -- and some of the biggest markets like Karnataka, we are just relaunching it next month as we talk. We are also evaluating a couple of other markets like I talked -- I answered in the previous question.

On Heineken 0.0, we are importing it. We believe there is a long-term market of 0.0, but we are actually working to further strengthen our go-to-market. As you know, the go-to-market needed on 0.0 is very different than a liquor go-to-market. So we are working in a couple of states to see how high is high, which means that what is needed for consumers to really understand how 0.0 is different. And I think that's still the biggest barrier in India.

It's not about the proposition because the consumers don't understand 0.0. And we are learning in a small scale. And once we have -- once we track it or once we get some learnings, we will expand there.

On your second question, I think we are making investment in few areas. I think the number 1 is, as I said, we want to be very consumer-focused. We have made investments in CMI function, but more importantly, in really understanding in depth about our product superiority.

So we have now created a panel in most of these states at how is the product doing versus local competitors, our competitors, are we on track, what are consumers asking. We have made investment in our procurement function so that we are thinking ahead.

We are working on backward integration like barley sourcing from the farmers, looking at where do we need malting units, where do we need to work with the glass manufacturers. So we have significantly increased capability there.

The increasing capability in better digitization of our operations. We have probably the widest network of brewery and a lot of things happen manually. We are investing there. We're also investing a lot of resources in trade marketing because winning in store is super, super critical.

We're increasing feet on street, like in many states when the policies changed, there is an opportunity to actually do more at the stores. So there is overall investment happening in all these areas. We have step-changed our ability in quantity because when you have local brewery operations, you need to have a very high center of quality.

But as we are working on all these investments, we're also looking at areas to drive efficiency. Where there's duplication, we are going to remove duplication. Where there is redundant processes, we are going to do that. So there's a lot of work happening on organization redesign, but focus on first effectiveness and then in parallel we've started working on efficiencies as well.

Moderator: The next question is from the line of Jignesh Thakur from JM Financials.

Jignesh Thakur: So I'd a first question on Heineken. I just want to know what percentage of your sales and volumes are Heineken? And are we planning on bringing it to any more states in this financial year?

Vivek Gupta: Look, I think -- sorry, your first question was what percentage of sales is Heineken or what was your question?

Jignesh Thakur: Yes, yes, what percentage of sales and volumes are Heineken?

Vivek Gupta: Yes, I think in percentage of sales, and this is very small on our overall business. But as a percentage of premium sales in the market we compete, it is significant. And we want to actually definitely take the brand to other markets and especially when we have Karnataka as a manufacturing hub, it actually helps us to go to some of the other markets if we get the export permits.

But the way we want to build this brand is we really want to double down on a few states get to a reasonable share and then we go to the next market and the next market. So please expect that in the next 9 to 12 months, we will be in at least 4 states more behind this manufacturing capacity increase, both in Rajasthan as well as in Karnataka.

Jignesh Thakur: Got it. Got it. And next question is, I heard that we're increasing capacity. Just want to know which are the states where we're at full capacity, where we're planning on increasing it? And what is the planned capex we expect in this year and next year?

Vivek Gupta: Look, I must tell you that this is the #1 priority on which I'm personally working with our manufacturing team and our business development team. We have been to many states. There are a few states we are actually -- we have to actively expand our capacities. West Bengal is 1 state, we have to expand the capacity.

Telangana is another state, we have to expand the capacity. We are looking at options in Rajasthan, Odisha. So right now, I'm -- I have at least 10 states in my plan where we are evaluating various models to see how we can do, including improving our own brewery operations to increase the capacity because there is -- there are a lot of work we are doing on upgrading our equipment, repair/maintenance, so that at least the capacities we lost because of breakdowns or all of this, we actually can get more throughput out of our breweries as well.

We're also waiting, for example, in some states, we are also going to permit -- or government by evaluating on high-gravity brewing. We know that if that can happen, that can also give us some 4% to 5% increase in our capacities as well. So there is a multistate plan.

I can only tell you is whatever capex we will need to increase the capacity as per the plan, we will get it. We have that alignment from the Board. But I can't give you the numbers because if I say I'm going to add a brewery, it will take 2.5 years to put a brewery, but there are various options we are working with capex, without capex, through partners, through our own breweries through brownfield expansion, through putting a can line in 1 of our brewery. So all of that, there is a strategic plan we are working, but there are almost 10 states on which we are working for next year.

Moderator: The next question is from the line of Jay Doshi from Kotak Bank.

Jay Doshi: My first question is if you could explain us, over the last 1 or 2 years, how broadly some broad sense of inflation in glass bottle prices, how has your mix changed in terms of recovered bottles? Where are you in that journey? And where do you think -- how much time do you think it will take for you to get back to, if I'm not mistaken, recovered bottles used to be about 70% of your overall bottles consumption, so where are we today, where do you think, so some color there because you are not able to understand, 1 is there is inflation in glass, bottles is the second is some slippage on recovery over the last 6, 9 months? So that's my first question.

Robin Achten: Yes. So let me maybe answer that question on inflation. And let me make it a little bit broader and look at input cost as a whole. So what we see this year is that we definitely had a tailwind from the cost of barley and malts that came down for bottles and cans because cans are, of course, also an important material in our volumes.

We see some inflation, but modest, very modest inflation, but more important also to the point that you raised are the bottle return rates. And as mentioned already a few quarters now is that we're really working through improving the bottle return rates. And this quarter, despite having volume growth, we see a lower percentage of new bottle infusion as we call it. So that means that our plans really start to work.

Are they yet at the levels where they were pre-COVID? No. But we clearly see traction now in the markets that the plans are working, which is then also positively impacting our gross margins.

Jay Doshi: Understood. Would it be possible for you to give us some ballpark numbers or quantify it? And if this trend continues, by when you think you will be at pre-COVID levels in terms of bottle returns?

Robin Achten: That's very difficult to say. It also depends on state mix impacts. So let us first make sure that we deliver on this a few quarters in a row, and then we can get back to you with exact numbers.

Jay Doshi: Understood. Sure. My next question is for Vivek. So Vivek, in the past 6, 7 months or maybe that you've been in the organization, what is your initial sense for a company with 50% market share in this industry, what is the ideal steady state EBITDA margin or EBITDA per case that United Breweries should operate at?

Of course, there's not -- I'm not seeking or looking for a guidance, anything initial. But over a 2-3-year period, if you get your strategy right and if the execution is as per your expected -- on expected lines, where do you think the margin should be for a business of this nature?

Vivek Gupta: Yes. No, thanks for asking. Look, I think I fundamentally believe that the growth is the biggest opportunity. It's a very under -- we have not served the category well in terms of driving category growth, taking the leadership in the category and crossing the barriers. So with an outlook of that high single-digit volume growth in the category and double-digit revenue growth we can deliver and the amount of innovation or new bottle emersions and capex which is required here, I think our operating margins, we would definitely -- I don't think we will go at a pre-COVID level, but I think definitely to a double-digit kind of a growth operating margin would be very much achievable.

Internally, we report around 6% operating margins today in India. I think we should go to at least 10% to 11% in next 2 to 3 years. So there is a significant potential and now, see when you get...

Jay Doshi: When you mentioned operating margin, are you referring to EBIT margin or EBITDA margin?

Vivek Gupta: EBIT margins, basically.

Jay Doshi: Okay. So basically, the 400 basis point improvement in EBIT margin from current levels is what you think you should achieve. Just 1 final follow-up there. So what has changed between pre-COVID and now that sort of makes you believe that -- at least that you cannot get back to those margins? So is there some permanent or structural change in the business that -- or state mix or some other aspects, if you could sort of share it?

Vivek Gupta: Yes. I think, look, the question is that, can you get there or not? I think the first is the investment required to accelerate the top line and the growth. And I think if you really see the category growth rate pre-COVID, and when I was looking at 7-year data up to that point, I think it was in low single digit.

I think we are trying to almost double that growth rate in the category. That's a big, big change to drive that. And I think the key driver, and especially when the duties are increasing. If you really see the price of beer pre-COVID and price of beer today, has increased. Both state by state because of the duty increase, the quantum of duty increases, the MRPs have gone up significantly.

So beer has actually become expensive versus affordable. The only place beer was a little bit affordable where you're doing economy in Karnataka and all the places. So consumers are paying more. So let's think from a consumer angle. In that context to drive volume growth, it will be a combination of innovation, deeper understanding, investment in BTL and in the stores to really do that. So the second big change is, I see the drivers of the category was not invested in. A very simple, the beer is sold and it is cold. It is basic But UB, when I see today have only 15,000 to 20,000 stores where we have fridges, where we sell the cold beer with our branding and everything to put together on this.

And this dropped significantly for the category if you go to Tier 2, Tier 3 town. We plan to triple up that investment in fridges in the next 12, 18 months. So the depreciation of capex and all of this thing -- it will be a capex investment. Also, the upgrade of the brewery because competition has changed.

I would say our competitors have brought very good quality beers. Let's give it to them, right? There are good quality peers out there. So we have to up our game. So I think it's a combination of all of it. Fourth is I don't think the pricing regime that the government is getting simpler. It is not that I can price for it with the commodity change in fluctuation. If you see there is becoming more and more regulated here.

Of course, the BAI has to do work. So keeping all these factors, I'm sharing this, because -- but if you say that a few of the wins we can get in corporate affairs, yes, we make -- Heineken company makes 15% to 17% margin, like we are operating much lower, you'll see if you go to any South Asian country, the margins are much higher. But I think it will need some regulatory unlock which we are working very hard, but I am not giving that in the outlook.

Jay Doshi: Sure. Very, very clear. We look forward to hearing more in September.

Vivek Gupta: Yes. Thanks.

Moderator: Thank you. The next question is from the line of Tejas Shah from Avendus Spark Institutional Equities. Please go ahead.

Tejas Shah: My question largely pertains to the point that you made on how government, especially state governments, taxes have increased pre-COVID versus now. And just referring to the recent change, which is post 4th June, it seems that the political mood is drifting towards more aggressive populism in state government budgets also versus, let's say, what was expected to be more pragmatic, let's say, a year back.

So just when you guide or when you make business plan, how much of this volatility you have already factored in or you are taking as it comes and there is no way you can kind of accommodate that in your planning?

Vivek Gupta: Look, I think I will tell you that we are doing a lot of work. And the reason we say is because we are in very active conversations with most of the government. I can mention that our team, including myself, we would have met almost every single state government twice in the last 2 months to just stay closer and understand what's going on to do that. And I can tell you what you mentioned is absolutely true that post election, we are seeing a trend where governments are looking for more revenue than the duties are going only northwards.

There's not an example which is going down on this, and we continuously actively engage. Look, some of it is also we are able to understand and factor in the plan. But some of it is very difficult to factor in the plan as well.

So some of it is, we stay very close and see what is going to happen. The good part is we are also able to bring to the -- some of the government that look if it is going to be 1 side, it will impact the sustainability and viability of the industry. And it will not bring investments in their particular states.

And we are also able to show the math and especially when UB when we are in an investment mode where we want to grow category, we want to invest in capex, we want to do that, we are very transparent with our plans to really do that. And I think -- I would say it is a journey, but I'm seeing much more engagement with the government than ever before. And I am feeling quite buoyant about this actually that in some of the cases, they have listened to us and understood and we are seeing some progress.

And we'll report that progress in the next quarter results. I don't want to give away too much thing, but we are we are -- there were some big bottlenecks in certain states, which were impacting us, we think we are making progress there.

Tejas Shah: Thanks for an honest reply. Just 1 follow-up. In the last quarter, you had highlighted some collection issues in one of the government, state governments. Any update on the same?

Vivek Gupta: Sorry, which issue you said?

Tejas Shah: Collection issue...

Vivek Gupta: Look, it's an industry issue. It was in Telangana. I think it is still impacting the cash flow and working capital. I would say that we, as an association, as an industry, we've around 10 CEOs, both of spirits and beer companies, we all went and met Chief Minister with Beer Association of India everyone, and they assured us that there will be a follow-up on plan on that where they will start getting payments.

So I would say the situation is still red, but we have got the issue assurance. So I'm hopeful that some of those commitments will come through in a few weeks' time. But continue to -- we decided to continue to supply to them because given a bit of assurance.

Tejas Shah: Have we provided for that already or do you have to provide that in some point in the future?

Vivek Gupta: No, we don't need to provide for it because it's a government operation, but it is impacting our working capital. And we have got an assurance that we will start getting back money. We've got some money back, it's very miniscule. We still have an outstanding more than 6 months of dues, but I think the state government has committed us as an association as an industry that they will give a repayment plan and I think we'll know more in a week's time about that.

Tejas Shah: Sure. Can you quantify the outstanding? That's the last one.

Vivek Gupta: For us, it's close to INR900 crores and for industry, it's more than INR5,000 crores. So it's in the same proportion.

Moderator: The next question is from the line of Vishal Punmiya from YES Securities.

Vishal Punmiya: My question is on the glass bottles. You did mention an aggressive plan on hurricane expansion over the next few quarters, does this impact your plans for improving your own bottle mix?

Vivek Gupta: Yes. I think if your question is that -- is your question that if you have a plan -- aggressive plan on new bottles in Heineken, does it reduce the mix from return bottles?

Vishal Punmiya: Yes. Yes.

Vivek Gupta: Yes. I think this is again -- this is my first season I have done. My learning is we expect better return bottles to come in post season. More people drink and our return percentage will actually improve outside this season.

But I think as we put more bottles in any case, our major plan on Heineken bottle in the beginning is a single-use bottle. So when we bring the Heineken bottle in the innovation, we work the plans assuming the bottle will not come back. So that is built in our financial, and that -- this will not materially impact our return bottle ratio, I would say.

Vishal Punmiya: Okay. Understood. Sir, secondly, you made a comment on market share being at around 48%, 49% in a media interview. This in seems to me slightly lower than the 50% market share we have been hovering around over the last few years. Is there any new state that you want to highlight in terms of where could this market share loss be?

Vivek Gupta: No, no, we lost the market share. Let me be very honest with all of you. Because of this capacity and election things, there were 3 states, we lost double-digit market share and for only reason, we could not supply in those states or manufacture in the States. So we lost almost 10 points of market share in Telangana because we did not get the third shift approval during election code of conduct.

And we are the biggest player, and we could not produce and couldn't supply. And we lost that market share all in 1 month in April and May during that election period. In June, we are back on track on the market share. In July, we are actually ahead on this. But again, in the second state, we lost market share was Rajasthan, where again, both our breweries are running on capacity and we could not import from other states because of the election restriction.

And Odisha was the other states where we have 70% market share. We lost -- the category grew 50% in May. And because of the election restrictions again, we did not get permission from Andhra Pradesh or some of our other breweries to export there.

So we did lose almost 200 basis points of market share, but it was very isolated to the states where we could not supply because of election restrictions either in local manufacturing or getting these stocks. So that was the major reason. And there was a minor share office, which was planned transition we had in Delhi, which we are now back on track from last week, but majorly, it was driven by that. But other than that, I would say, in premium portfolio, we actually gained market share nationally because that was more local and we anyway were not relying on interstate transfers for that.

Moderator: The next question is from the line of Abhishek Phutela from Narnolia Financial Advisory Limited.

Abhishek Phutela: Sir, I just wanted to know what's the delta between percentage expense in your premium segment and the normal segment? And can we expect it to widen in future years, future quarters?

Vivek Gupta: Sorry, your voice was breaking, you asked delta between -- delta on what, sorry?

Abhishek Phutela: The percentage expense on your premium segment and the normal segment?

Vivek Gupta: I think if your question is, do we make more money on premium versus the other segment?

Abhishek Phutela: Yes, yes.

Vivek Gupta: As I said, if we produce locally in a state and we sell we make more money on premium segment broadly. And during this election restriction, you saw that our premium segment went 44% up and most of the growth is where we've started producing locally, and we are increasing our footprint of local production.

So for example, in Odisha, our premium segment grew 34%, while my total volume was flat because of the supply constraints I mentioned. And that was because I started producing Ultra, Ultra Max locally in my brewery.

So where I produce locally, it is there. And our plan is to have more local production of premium as we grow with it. So -- but having said that, you are right, we spent more above the line to build awareness on premium and on the return bottle initial infusion. But overall, I would say, as we continue to drive premium it should add to -- it should be margin-accretive based on our current plans.

Abhishek Phutela: Okay. Just to follow up. What -- can you throw some light on what's your future benchmark in terms of EBIT returns, assuming your long-term premium target -- premium percentage target is achieved?

Vivek Gupta: Look, as I answered in the previous question, we aspire to grow our EBIT margin by 300 to 400 basis points over the next 3, 4 years because we have to invest a lot. And the plan is -- all the elements of plan have to come together, which includes the premium part. Look, premium is only -- we are only 18 share in premium and premium is less than high single-digit salience of our business today. Our aspiration is to get to 25 share of premium at least in the next 2 to 3 years and grow the category to a reasonable level.

Today, premium as a category is only 7%, 8%. We want to get it to around 15%, 18% and double it. So I think it is going to take a lot of it. In India, it is a long-term game because you take 2 steps forward, you take 1 step backward with all the duty revisions and all of these things, sometimes it slows down your category growth. So I will stick to what I shared in the previous question.

Moderator: The next question is from the line of Ajay Thakur from Anand Rathi Securities.

Ajay Thakur: Sir, just wanted to get an understanding on the -- you mentioning about the volume growth could have been like 8%, 9%, but it was slightly lower at 5-odd percent for the quarter. You enumerated some points. If you can just repeat that briefly, that would be pretty helpful?

Vivek Gupta: Yes. No, see, as I mentioned, see, because we are a national business and a national brand, usually, we actually move almost 15% of our volumes from 1 state to another. So there was a significant reduction of that because the states did not issue export permits because of election code of conduct guidelines.

So I'll give you a very simple example. We move our stocks from Goa to And the excise -- the election submission said, no, we will not give you the escorts to move with the trucks and so there was a restriction.

There was a restriction, for example, in giving us third shift permits in Telangana, for example. Because if you remember, at this time, the Election Commission of India said there are some states which are alcohol has more, some states where other things are more and they had more restrictions around that.

In some cases, it got impacted because of higher number of dry days or restrictions when the election is happening in phases, you close the dispatches at 2 days before on the election day. And when you are the largest player, it impacts you more. So a combination of all of this, our internal assessment is we had 3 to 4 points of volume growth impacted because of these restrictions without any other factors.

Ajay Thakur: Okay. I understand. Sir, second question was more on the market share losses that you attributed. So in July month, are we seeing clawback to the normative kind of market share or how is it exactly currently? And can you also elaborate how is the trend in terms of the mass segment in terms of the market share?

Vivek Gupta: Yes, I would say on your answer, of course, very early into July, but yes, we are absolutely back. And I think we are back with the bang also. So we are feeling pretty good about the market share part. However, only 1 thing I would like to caution and which we say internally, the reins this time, unfortunately, a lot of states are facing flooding issue.

Assam had massive issue in floods, Kerala had issues, a part of some of the other states, Mumbai, like, I'm sure many of you are there, there were red alerts and all. So it is difficult to fully assess how much is the impact because of the floods and all this as well. But I would say on your question, yes, we are back, like which again, gave me confidence that there was no fundamental issue on the business that we lost share, it is there.

Now having said that, we still need to work on supply constraints where we have. Some will normalize because we'll come out of the season, but we still need to work on making sure for the next year season, those supplies -- we have a plan to supply the product, otherwise, we have not solved that problem.

Moderator: The next question is from the line of Krishnan Sambamoorthy from Nirmal Bang Institutional Equities.

Krishnan Sambamoorthy: You mentioned state brand and product mix apart from strategic revenue management has contributors to margin expansion. Now I understand that the state mix can be volatile, but do the other 3 -- will this still contribute to margin expansion for subsequent quarters?

Vivek Gupta: Yes. Because when we say product mix, it's a combination of cans versus bottles. It is also a combination of small sizes versus large sizes and to do that. And I think they will continue to do that. On the brand mix, as I said, our focus is on growing premium, bringing new innovation in that segment. I talked about Heineken. We have plans for a couple of other innovations, which are going to be very strong. We'll talk next time.

And hopefully, when you are there on 19th in the brewery, we'll showcase our innovation, which we think will be a significant part of our plan as well. So I think the brand mix and product mix will play a significant role apart from the state mix. As we said, state mix will be up and down, and we have to manage through a portfolio of plan across states on that, but those 2 will be a big part of the plan as well.

Moderator: The next question is from the line of Shirish Pardeshi from Centrum Broking.

Shirish Pardeshi: Just 2 questions. On Slide 4, you have given the state growth. I was more curious that if you were saying that your premium segment is single digit. But then equally, I'm also seeing that the volume growth is different. So I'm more curious and the third lens, which I'm looking is the can versus bottle.

So if you think the bottom inflation and there are issues around, will the can is the going next forward strategy where you're seeing availability and feet on street in terms of distribution? That's my first part of question. So in terms of priority, what is the management thinking around whether the can volume should grow up faster than bottles?

And the second question is that, say, top 10 metros if there is a demand for cans, which is going up and I would believe that the trade is saying that the cans are moving faster, obviously, the quantity matters to the one on the go. So in that sense, if the premium growing faster at 44%, would you talk about top 4 metros how the growth is happening? And maybe to follow up on that, what is the distribution against the

Vivek Gupta: Fantastic. Thanks. A lot of questions. So let me go 1 by 1 very quickly and not in the order because whatever I -- top 4 metros, if I have asked a follow-up question, who would you include in all 4 metros? I'm assuming Mumbai, Bangalore, Hyderabad and Delhi?

Shirish Pardeshi: Yes.

Vivek Gupta: Yes. Okay. For us, I would say, let me -- I would call it Calcutta or maybe Hyderabad, Bangalore and Mumbai because Delhi, we did not do much business in the summer -- in this quarter, if you see the numbers as well because we went through a transition with a partner, and we are now fully ready to ship in Delhi as well, which is going to be, I think, strengthen our plans.

So I can give you the example of Bangalore, Mumbai and Hyderabad, let me give you the example. In all these 3 places, I would say our -- we actually grew double digit in volume growth. On total business, and our premium business would have grown almost ahead of our total 44% growth in all these things.

So definitely, we did extremely well in these 3 metros. We've played -- in Calcutta, we don't have a big premium business because we made a choice not to import some other states because of the restrictions as well. So most of our business in Calcutta is Kingfisher Strong and Kingfisher Premium.

So that's why it's a bit convoluted but wherever we had planned, we did extremely well in these metros. By next year, we should be fine in both Calcutta and Delhi, I can also share with you on that.

On the second question, cans versus bottle. Look, we have to be very consumer-centric on this. So if I'm in UP, absolutely, I want to drive more cans because 70%, 75% is can. And a lot of can is, when we went back to consumers, it was actually driven by more of convenience, easy for me to carry -- when they went to Rajasthan, which is driven by what they call it carobar where people say, we take the cans and drink in the car, but don't drive, they also always add to that.

But we have to be very consumer focused on this because bottles bring a very different value to the brand and the experience on the beer market. So we decided that we will be consumer-focused, where the cans are growing, where there is the demand of cans, we will invest in the can lines, we'll also expand our capacity on the cans, but we will not look at from an only profit angle that it is easier to sell can because long term, it actually erodes your brand equity because the bottle bring a different experience, it also have a different set of it.

So that is where we are. But if I have to be very honest about it in next 12 to 18 months, there is significant expansion plan on can capacity. Having said that. So hopefully, that answers your question. I think the third question you said, by state, it differs -- can you give me an example of what you meant by that and then I can help answer that?

Shirish Pardeshi: So I'm saying if I look back and what the channel partners are saying, the mix between can and bottle would be different in Maharashtra versus UP. That's what you've touched upon. So this trend is giving you more confidence that can is the future?

Vivek Gupta: It is not giving me the more confidence that the can is the future. I think it is giving me that there is a big demand for cans and there is an unsold consumer need. So for example -- and we need to work on that. So yes, there is a growth from can because of convenience and number of stores and -- one of the reasons cans are growing because number of stores of beer are not increasing.

So we are actually working with the regulators like in places like Maharashtra, they can actually have beer and wine store and actually, when we -- when that happens, that will also help on this. But yes, there is a trend because of lack of stores that cans are easier to carry and also easier to store -- but we are also careful that we are not orchestrating that too much because if we do that, there is an experience of beer in a bottle with a certain branding and certain experience, we don't want to lose that also.

So especially, for example, if you go to an on-trade channel, let's take, if you go to a bar, very rarely you will actually get people serving you beer in a can, right? It will either be a draft or in a bottle. The experience of socializing, which is attached to beer, which we also don't want to fully lease.

Shirish Pardeshi: Okay. That's helpful. My last question on the competition. We've been hearing and obviously, the trade is also saying likes of strong beer, God father on the lower end power pool, you're seeing the growth. Now I just wanted to understand from the consumer behavior lens. Is the market is ripe that because you have been saying strong is one of the big opportunities. So if there is enough market? And maybe you can touch upon how the competition is moving the needle?

Vivek Gupta: Yes. So I think there are 2 things on this. First of all, I think that from a consumer lens, the number one barrier for this category is affordability. The reason power pools or bullet and all our growing is not because they are strong beer only they are actually growing because they are affordable price points and the price index versus the choice number one or the lowest whiskeys is comparable. So there is a big issue on affordability of peers, and that's why the economy beers like these are growing more than anything else.

And that's the narrative we are doing with the government and saying, make beer more affordable and to really do that. And consumer benchmark the price versus the whiskeys, which are available at INR85, INR100. And for them, cash outlay matters versus just the percentage of those ones.

I think having said that, the strong beer segment in India continues to grow, whether it's Kingfish Strong, whether it's Budweiser Magnum, whether it is UC Carlsberg Elephant and all these beers are consistently growing.

And a lot of people, even in premium segment, it is strong, which is growing. And because still they want to make sure that when they are actually indulging they actually have a bit of tick. Now it is unfortunate because we want people to drink not to get junk, but to actually enjoy it, but they want a little bit of more alcohol content in India to do that.

So we are actually designing an innovation to ensure that we are actually playing in the premium strong segment and we'll talk more about it in the coming weeks. But at the same time, I think we are also continuously working with the governments to ensure they actually encourage more moderation taxation, so at least affordability gives that advantage, so people actually move from stronger beer to milder beer, and it becomes more fashionable. So that's the long answer to your short question.

Shirish Pardeshi: I understand. But just 1 quick follow-up. Which state you see this local competition is giving a tough competition to national player like us?

Vivek Gupta: See, I think if you see states is the #1 state where there's a big issue is Tamil Nadu. You see 70% of it is local players. In Karnataka, you see the growth came because of the power pool and all because economy, but we actually launched our beer as well, and our London is doing extremely well as well. MP is another state where they are local players, but it is again linked to regulatory piece of it. So I think I have seen that where regulatory is a little bit more skewed or capacities are more skewed, they're able to do more because they're able to launch those price points.

Because in MP is a critical case, there is a franchisee fees that if a national brand goes there in manufactures, they will put a franchisee versus a local brand, which automatically give a INR30 to INR40 pricing advantage versus anything else. So the real issue is affordability and regulation versus local players and national players.

Shirish Pardeshi: So do you think M&A is the right way to look at and become a sizable player?

Vivek Gupta: I think it is state-by-state on what value they bring. If you say that in some -- and I don't see any issues with the M&A as long as we are very clear, the value that acquisition will bring to the category. From a UB perspective, I think for us, we have a very strong plan. But yes, there could be areas of opportunities where they add either an innovation in the product or a strength in terms of a brewery footprint.

We really need to be very clear on what they bring. My focus is more on looking at more backward integration opportunities, so we have a better sustainable cost structure because I don't want to see beer only as producing beer, but I also want to see what glasses, malting, barley farming, packaging, all of these things as an ecosystem and where we have opportunities for M&A, not only in the beer part.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Vivek Gupta for closing comments.

Vivek Gupta: Thank you for the questions, and sorry for the long answer. But look, as I said, it's 10 months in the job here and as a team I think we feel very positive on the work we are doing. It's not going to be an easy journey. As I mentioned that while we talk a lot, but the reality is that this is a state-by-state, highly regulated business, a lot of it depends on the external factors.

But having said that, there is a lot in our control to be consumer focused, to be efficient, to be planned on the value chain, to execute with excellence, which gives us confidence that we can bring there. I really look forward to some of you joining in the brewery visit, which we planned in Mumbai on 19th of September, where you will get a -- probably you'll taste some beer in -- fresh beer -- freshest beer in the brewery, but also understand how the work happens.

And then hopefully, you will also see one of our, as I said, game-changing innovation, which we'll be bringing as well and our total strategic plan as well. So look forward to seeing you. And I think Robin and team will share the more details in the next couple of weeks.

Unfortunately, we will not be able to have too many people from the same company at the time because we will respect that we want to maintain a highest level of hygiene standard in the brewery, but all those details will be there. But thanks for engaging.

Moderator: On behalf of United Breweries, we conclude this conference. Thank you for joining us, and you may now disconnect your lines.