



“United Breweries Limited
Q2 FY2021 Earnings Conference Call”

November 09, 2020



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Moderator: Ladies and gentlemen, good day, and welcome to the United Breweries Q2 FY2021 Earnings Conference Call hosted by DAM Capital Advisors Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mehul Desai from DAM Capital Advisors. Thank you and over to you Sir!

Mehul Desai: Thanks Lizann. Good afternoon everyone. On behalf of DAM Capital and United Breweries I welcome you all for Q2 FY2021 Earnings Call of United Breweries. From the management side we have Mr. Berend Odink, CFO of the Company, and Mr. Poonacha from the Investor Relations Team. I will handle the call to Mr. Berend for his opening remarks and then we can open the call for Q&A session. Over to you Sir!

Berend Odink: Thank you Mehul. Good evening everybody on the call thank you for joining. So today we will discuss the Q2 and half year results of United Breweries and I will start with some opening comments that accompany the slides that were distributed and after the slides and the comments I will open it up for questions as usual.

So on the key results highlights for Q2. Q2 saw a sequential improvement from Q1 volume decline of 77% to Q2 volume decline of 48%. Q2 continued to be impacted by COVID-related restrictions, but month-by-month improvements were noticed, for example September volume down 33% versus September prior year. If you look at some of the original challenges that saw improvement that is the on trade opening up with on-trade resuming for the first time in the number of states in September. Original excise duty increases were reduced in Odisha and Andhra and in West Bengal they introduced a new excise policy on beer that results in lower consumer prices. With revenue and cost action the company delivered positive bottom line and gross margin up 16 basis points in the second quarter. Cash flows for the first half were strong with a free operating cash flow of 95 Crores against the negative 245 Crores same period last year. Net debt reduced by 27 Crores and interest costs were down 20% for the first half.

On the next slide we showed the EBITDA result of Q2 at 73 Crores and 8.1% margin. Sequential growth versus Q1 was strong with EBITDA improving by 167 Crores versus the Q1 loss of 94 Crores and all cost lines show decreases. Year to date the impact of Q1 is obviously still having a key impact: EBITDA year-to-date is at minus 21 Crores.



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If you move to the volume performance by region for Q2 and year-to-date that is shown on slide six, we see North volumes in Q2 down by 32% with recovery driven by Delhi, Rajasthan, UP and Haryana. In West the volume decline is 37% due to gradual opening of markets with Maharashtra on-trade opening for early October. East at minus 59% you see that recovery in Odisha and West Bengal is relatively slow related to trade restrictions and taxation, and South at minus 55% Karnataka and Tamil Nadu performing relatively better and Karnataka was one of the first states to open on-trade in September. In Telangana we saw recovery relatively slow with permit rooms remaining closed as of now. Kerala shows steady improvement.

The net sales breakdown is on slide #7, which besides a negative volume impact the company realized positive price mix impact due to positive state mix, price increases, and brand mix. The EBITDA breakdown shows the main impact being volume related, which was to a significant extent offset by higher gross margin, reductions in employee cost of 11% and other expenses of 37%.

To point out that the other income is somewhat higher than usual by almost 30 Crores that includes an income from a reversal of prior year doubtful debt provision, but the income was more than offset in the quarter by one offs related to amongst other provisions for stock positions, and liquidation schemes for products that were at risk of expiry. Q2 is therefore not impacted by positive one-offs net-net.

Slide #9 shows the free operating cash flow results, which was robust 95 Crores for the first half, the decline in operating cash flow was more than offset by improvements in working capital and further the capital investments were down as well as income tax. Resulting free operating cash flow in the first half was as a result 340 Crores higher than the same period last year.

Turning to the last slide on outlook and summary. The company continues to put health and safety of all staff and stakeholders first. Today all breweries and functions are operating and fully compliant to COVID-19 protocols. The volatile trajectory of the pandemic results in considerable uncertainty on consumer demand. The company continues to dynamically manage costs and funding, balanced with appropriate brand investments to support our long-term market position while also actively engaging consumers. UBL is well positioned to navigate current circumstances with a leading market position, strong brand portfolio and robust balance sheet. The company continues to be optimistic about long-term growth drivers of the industry and is committed to strengthen its market position and driving profitable market penetration. With that we were happy to take your questions.



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- Moderator:** Thank you. Ladies and gentlemen we will now begin with a question and answer session. The first question is the line of Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** Congrats Sir on sequential improvement and opening up of the bars. My first question is on gross margins, so we have seen Spirit companies see severe gross margin pressure both in Q1 and Q2, in your case you have seen gross margin expansion so if you could elaborate the key raw materials how it has been in Q2 versus YoY and how do you see the outlook in both the key raw materials?
- Berend Odink:** Sure, thank you for the question. The outlook on key raw materials one is what we said earlier: barley this season around is trading a bit better in terms of pricing softened up by around 10% versus prior year, so this is now slowly finding its way in our cost of goods sold. On bottles we see long term inflationary pressure on new bottles and for both barley and bottles I would see a kind of similar outlook for the remainder of the year as they are the key input cost and I think you have to read that combined with the positive state mix and positive pricing actions that the company took for year-to-date in the first half and that in totality impacts gross margin.
- Abneesh Roy:** So could you elaborate on last bit, which you mentioned how much has been the price hikes and mix change any numbers you can put there?
- Berend Odink:** Yes, in the slides we break it down so if you compare Q2 to prior year, it is also positive brand mix but the two main elements contributing to that is the state mix and the price increases.
- Abneesh Roy:** Right, my second question is you have given beautifully the region wise comparison, now eastern region has been the slowest you have pointed that out and in Q1 also it was worst and Q2 also it is worst, so what is the reason for that, is it because these are anyway the poorer regions of the country so that has been the reason for the cut how much is the consumer prices lower versus the earlier time?
- Berend Odink:** I think we have to break down that question a little bit state-by-state because prices and dynamics differ, maybe to start with West Bengal I think we have seen quite a number of restrictions from COVID up to recently by early October the new excise policy for beer has been implemented, pricing for consumer prices has come down considerably, so for example Kingfisher Strong 650 is now sold at 130, which was 125 before COVID, so reasonably close in terms of consumer prices pre and post COVID, so therefore I think going forward we hope to see West Bengal improve the volume growth trajectory. Orissa



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noticed lot of trade restrictions, there was also a COVID tax, which was rolled back in early July, but in totality the market has been somewhat slower to take off compared to other markets, also quite high products in stock that need to be sold out first, but yes as we start cycling those stocks, which applies for the industry, also there step-by-step we would expect recovery.

Abneesh Roy: Bengal rationalization are you expecting any more states in the near terms such a similar step and what led to this was it proactive on your part, on the industry part or it was just that they have been a bit more considerate given the very weak volume.

Berend Odink: Yes, the first part of your question we do not at this point in time foresee other states making policy changes, but obviously that is on the line of sight we have as of now. In West Bengal we speak to excise departments on a quite regular basis so this is something we have been put forward our thoughts, but in the end it is also the state that obviously decides the right moment and the right way in their minds to change the policy. Here it is good to know for mild beer there is a differentiation in excise, so yes I think that is a positive step but it will not overnight change the whole dynamics, but I think it is a good direction the state is moving to.

Abneesh Roy: Last quick question Bihar the election results will come out soon and supposing it is an assumption I am putting I am not asking for your view on which party will win, I am just saying if the new government, new party comes and supposing the prohibition goes away my simple question is if the prohibition goes away how quickly you can respond to the new things in terms of supply that is the only question I have?

Berend Odink: We have a brewery in Bihar as you might know, so as soon as there is indications that prohibition might be lifted where we are working with the excise department to resume supply but that could be a matter of two or three months, four months difficult to say depending also of course on how the excise department itself is organized in terms of trade outlets being organized, policies being available, etc., but obviously it is something we closely monitor.

Abneesh Roy: Thank you Sir and all the best.

Moderator: Thank you. We will move on to the next question that is from the line of Vishal Biraia from Aviva. Please go ahead.

Vishal Biraia: Would you have lost market share in this quarter?



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Berend Odink: Market share we do not have full line of sight yet for the quarter, but if we look at the corporations who publish the market data we see a few states where we are in the plus so Karnataka, Kerala, and a few states Telangana, West Bengal where we saw more discounted pressure in the market, so in that sense I would say it is a bit of a mixed picture, but for their states where we thought that some of the more underlying dynamics we need to act upon that we have done, so going forward where required we have put in place mitigating actions at the end of the quarter.

Vishal Biraia: On the growth that we saw in Karnataka, Goa, Tamil Nadu would this be for the industry as a whole and was this because on-trade opened up earlier compared to other states or could you elaborate a bit more on this one?

Berend Odink: Yes, it is definitely for example in Karnataka, I think one of the first out of the blocks to open on-trade by the early days of September, so there we have seen a good momentum in the state. Tamil Nadu we still see some closure of permit rooms there, so it is not fully let us say trade restrictions only, so I would say mixed contributors on the state-by-state, but the overall picture is that we see those trade restrictions being lifted step-by-step and that is obviously a big positive that first you need outlets to open up then it will take a bit of time before consumers resume their visits, get the confidence back, increases in numbers over time, so yes it is a gradual recovery from that perspective, but yes directionally in a good way.

Vishal Biraia: Okay, I will come back in the queue. Thank you very much.

Moderator: Thank you. We will move on to the next question that is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: Firstly in terms of some of the new products that you launched last year in Kingfisher Ultra Witbier and the like have you launched them further in these states I think it was last launched in Karnataka and Goa, so any further launch and any sort of indications of when you would look to launch it further, so given that markets are now opening up?

Berend Odink: Yes, so on the Witbier indeed the initial launches took place in Karnataka and Goa we have seen very good consumer traction in fact it has been leading the segment for the last two quarters we believe so that was positive. We are introducing it in Delhi obviously that kind of launch scale has been impacted by COVID as we first needed the business to normalize before we went further with new launches, but that is definitely now a next step we are



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taking with Delhi and then subsequently for the states where we think the potential is there we will follow up.

Aditya Soman: So would it be fair to say that you would launch it in at least three or four states by the end of the year or you wait and watch depending on how they reopen?

Berend Odink: We will progressively add more states and that could be kind of month-by-month further states will be added so that is I think a valid expectation.

Aditya Soman: Fair enough and lastly in terms of online sales any update on the trajectory have any further states allowed online or are states scaling that back and what would be the contributions from that?

Berend Odink: Yes, I think it is still a little bit similar state as we discussed in the Q1 calls so number of states it is a bit more advanced, a couple of states in the North East so there you can find some volume online could be anywhere between 5% to 10%, other states due to trade opening up I think the interest has been a bit more limited in the sense that there was not a big push to start at online. A couple of states seem to continue, other states not yet further progressed because I think the on-trade opening up has given the opportunities for consumers there.

Aditya Soman: Thanks and just one last one in terms of the off-trade sales any indication of how many stores have shut down or what proportion of state stores are open at this point compared last year?

Berend Odink: Probably we would say that at least 95% off trade is open. It could of course be, but that can happen any year, that some outlets have closed and new ones opened up, but I do not think you can conclude that there is a significant drop in the number of off-trade outlets operating in the country, so there might always be a couple of plusses and minuses, but we do not see big drops where we are today.

Aditya Soman: Thank you that is very clear.

Moderator: Thank you. We will move on to the next question that is from the line of Jatin Chawla from First Voyager. Please go ahead.

Jatin Chawla: First question is I could not hear you clearly in your opening remarks did you give a number for the volume decline in September?



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- Berend Odink:** Yes, we did so for September our volume decline was 33%.
- Jatin Chawla:** This has continued to improve in this quarter as well in terms of October and early start that you see in November?
- Berend Odink:** Yes, so as we indicate in the communication we see quite good sequential growth month-on-month improvement due to some of the restrictions being lifted, etc., so also in October we saw a further recovery, but of course that is the line of sight kind of we have today what will happen subsequently we will depend again a lot on any restrictions, any trajectory of COVID itself, but so far it is an encouraging trend.
- Jatin Chawla:** When compared with 1Q I see that the gap between beer and spirits has widened further, one would have assume that with a gradual opening up that gap would kind of start narrowing down so what do you think are the key reasons for the same and when do you see this kind of bridging or do you think there will be some longer term implications of this either?
- Berend Odink:** Yes I do not see structural changes or reasons why there should be different growth paths let us say longer-term obviously coming out of lockdown and a lot of trade restrictions we guided that there is a differential, being for example of course the need to cool beer, which is not the case for spirits plus the fact that by nature beer is a bit more bulkier product than spirits. So longer-term I do not see reasons why things should be structurally different I think in Q2 there were still quite some impacts of COVID and trade restrictions, but again by where we are now in early October I think the situation is looking better also on-trade opening up progressively is a plus so we have to see how that goes going forward.
- Jatin Chawla:** In terms of your off-trade channel is your off-trade channel now kind of back to pre-COVID levels or that is also still down?
- Berend Odink:** We do not split out those channels. I would say that it is getting pretty close to previously, from a distribution and availability point of view the restrictions we certainly now cycled, so that is behind us from that part.
- Jatin Chawla:** One last question from my side when I look at Carlsberg's September quarter numbers for the quarter they had a 30% decline and in September they spoke about an 18% decline, so it seems they are doing far better so is there a significant loss of market share or are there any other reasons kind of difference in performance between the two companies?



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Berend Odink: Yes, I do not want to comment on what others have put out or what are the backgrounds there will always be differences in footprint and relative position in states I think fair to say that trajectory state-by-state has been very different with off-trade, on-trade, stock positions in the market all playing its role. I think if I look at our brand portfolio I have no concerns or no areas of weakness where we think we need to take further action at this point in time, so yes in that sense we focus on the recovery for our total portfolio and we will be supporting that going forward.

Jatin Chawla: In terms of premium versus the mass beer or light versus strong beer any kind of differential trends, what trends are you seeing in the market?

Berend Odink: Poonacha you want to comment on that one.

Poonacha: The premium beer has recovered as the on-premise has opened up, so as Berend was mentioning that the on-premise opened up only towards the latter part of August and there was only the month of September, which had parts on-trade operating across the country, so there the super premium segment has fairly recovered, but however for the entire quarter it is as bad as the regular segment.

Jatin Chawla: Sure, thanks a lot.

Moderator: Thank you. The next question is in the line of Harit Kapoor from Investec. Please go ahead.

Harit Kapoor: My question was on the product mix, so you mentioned in your release that product mix has been positive, but I just wanted to get a better sense you also mentioned that strong has done better than mild, also the on-trade was open for only a month so I could just not reconcile the two that product mix has been positive but these two factors have still played out, so if you could just help me understand that?

Poonacha: For product mix we say SKU, SKU means a state mix also would work there and here states with higher margins and higher NSR have done better than the other states thereby we are having average revenues higher than compared to last year, this along with the coupled effect of price increases that we have taken across seven, eight major markets.

Harit Kapoor: So Poonacha just a follow up on that is what would be the price increase component within this 5% price mix that you see?



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Poonacha: It will be largely mixed because the Southern states and more profitable states have recovered faster than the other states so majority would be state mix and also you have price mix we have taken price increases in Karnataka, we have taken price increase in Delhi, we have taken price increases in Kerala, Tamil Nadu, Maharashtra, so in all major markets we have taken marginal price increases so there is a double effect.

Harit Kapoor: This one question was on the overhead side so this year has made you guys probably look at all lines of the P&L even sharper to see where you can kind of extract the savings I just wanted to understand whether you see some of these savings in the P&L on the overhead cost lines a little more permanent as compared to earlier, so what I am trying to ask is once the business comes back to normal do we see some of these savings still sustaining going forward?

Berend Odink: Definitely there are of course many changes in the market and with consumers due to COVID so how we react and how we are organized to respond to that, so there are short-term impacts from COVID, but definitely also we look in the future as to how we competitively organize and what is appropriate cost level against that, so in that mix we will manage costs going forward to make sure whatever the learnings and new opportunities from COVID are there are reflected in our cost base and our key processes. And at the same time as the market continues to open up we will also progressively support that with trade programs and activations so obviously that will also impact the cost picture as well.

Harit Kapoor: What I was just trying to understand is that if you are going into next year once your revenues are kind of back I know you will have to support it with trade programs, etc., but X these trade promos, etc., is there a say cost saving that you can see so for example some of the costs that you kind of generate this kind of numbers would some of them sustain going into next year, what I am trying to understand is x trade promos is there a permanent cost saving benefit that you are seeing partly in the overheads as well?

Berend Odink: Yes, so I think we would expect to come back from this crisis also from that perspective somewhat stronger so some costs will not come back, but obviously we carefully monitor what happens in the market, from quarter-to-quarter how much we want to support trade programs, distribution, etc., so that is always the balance equation, so I cannot kind of put the guidance out there as to what will happen exactly on the cost or margin side, but to your question yes we do see opportunities to continue some of these savings going forward.



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Harit Kapoor: The last question was on the stock position side so this 43% revenue decline does it adequately reflect the secondary decline as well or did we have lower primary sales compared to secondary or higher primary sales to secondary?

Berend Odink: No, I think there is not a huge impact from stock positions going up or going down so market-by-market, locally it might be some kind of plus or minus, but I would think this is a fair reflection of secondary sales as well.

Harit Kapoor: Got it. That is it for me thanks and all the best.

Moderator: Thank you. The next question is in the line of Jaykumar Doshi from Kotak Institutional Equities. Please go ahead.

Jaykumar Doshi: My first question is on if you could quantify the quantum of price increases that you have taken and you mentioned about across seven to eight states how does it sort of translate into at a portfolio level, second is just curious to know understand the timing of price increase given that volumes are fairly yet to recover and have you seen the competition also take similar price increase so that is probably the first question?

Berend Odink: We do not split out the pricing impacts for state and for brands, but as a kind of guideline you see hopefully the slide where we talk about 5% for the quarter including state mix and Poonacha mentioned the number of the states, which includes our largest states where we have taken price on a kind of year-to-date and that timing is always subject to local circumstances, but has been fully implemented by now, so we can see that benefit continue. For example, in Karnataka we speak about Rs.5 to Rs.10 per bottle same in Maharashtra so that kind of level I think is indicative for what we have done. What has competition done, I refrain from commenting on that, but we all know that the beer market is relatively competitive so that pricing element is quite key.

Jaykumar Doshi: Second question is you did mention about reduction in tax rate in West Bengal new beer policy I did not hear the exact number so did I hear it correctly that Rs.170 SKU, 650 ml SKU is now at Rs.130 and prior to COVID it was at 125?

Berend Odink: Yes it is correct.

Jaykumar Doshi: So it is almost close to pre-COVID levels now have they also reduced the taxation on spirits to a similar extent or it is just this concession is for beer and is this a temporary thing and



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they will sort of again increase it once demand or volumes come back or you think this will stay?

Berend Odink: I would expect the latter and it would be not very normal to do it as a very short term measure so of course we have seen a lot of disruptions quite quickly after markets opened from lockdown, but I think all that dust has settled and as far as I can see in West Bengal this is a new policy going forward so we expect that supports the volume for the total industry. Increases on spirits I do not really have that data I think they implemented that policy a little bit later, so I need to come back to you on that.

Jaykumar Doshi: On similar lines can you guide us on AP and Odisha what are the benefits if possible to quantify and Odisha is perhaps not that relevant or significant in terms of scale, but AP and do you see any recovery involved given that distribution is undergoing a change so with RTM change do you think this tax reduction?

Berend Odink: Yes, so in Odisha the pre-COVID MRPs for our main SKU was 120 then due to COVID it went up to 170 and that has been partly rolled back so now that pricing is around 140. For AP I think it is early days, we have seen notification from the excise coming out highlighting a couple of negative impacts from their recent measures so they have rolled back at least for beer the excise by some Rs.30 per bottle so that is an encouraging sign so let us see where the market is heading there.

Jaykumar Doshi: Thank you so much, this is helpful. Thank you that is it for my side.

Moderator: Thank you. The next question is in the line of Ashit Anil Desai from Emkay Global. Please go ahead.

Ashit Anil Desai: Just one more question on Andhra Pradesh have we resumed supplies over there and if you can quantify the impact that is there in this quarter and when we expect either the impact to anniversarize or supplies to resume in AP what is the situation over there?

Berend Odink: Yes, so far Q2 volumes have been very low so that was kind of unchanged versus the prior months and quarters that we guided earlier. Going forward it is difficult to tell what will happen what I said earlier the little bit of good news is some of the excise levels have come down so hopefully yes the market also somewhat stabilizes and somewhat normalizes but that we have to see going forward.



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- Ashit Anil Desai:** The retail change I think happened in Andhra Pradesh last year in October so would it be fair to say that the impact was anniversarized from October?
- Berend Odink:** Yes, so last year October the main policies got changed and hence the main impacts will occur, so as we move into Q3 that kind of comparable will move out of the base so in that sense you are right.
- Ashit Anil Desai:** One last question on Telangana this is your largest state but has been the slowest to recover so far, in your view is pricing affordability a bigger problem or the on-premise opening has been a challenge over there?
- Berend Odink:** Yes, it is probably a couple of factors, partly permit rooms are important to open up, also pricing I think has an impact as it was already increased pre-COVID, so yes that are some of the factors impacting it and hopefully also there we see it more and more stabilizing versus the average picture on the national level as it is smaller in recovery than the other states.
- Ashit Anil Desai:** Okay and after AP has reduced prices is it Andhra Pradesh price of beer similar to Telangana now or it is higher?
- Berend Odink:** It is still higher.
- Ashit Anil Desai:** That is it. Thanks and all the best.
- Moderator:** Thank you. The next question is in the line of Udit Bokaria from Catamaran. Please go ahead.
- Udit Bokaria:** Sir I wanted to understand on the volume recovery during the month of September and October if you can mention how much growth has been in the off-trade channel versus the on-trade channel and which state has recovered the fastest.
- Berend Odink:** When we say further recovery, we do not split on-trade, but of course the on-trade coming back in the number of states is a good support and then in states saw quickest recovery for example Karnataka, Goa those were states that opened on-trade quite quickly, had limited impact from price hikes and the like so that is the kind of trend that saw them post the best recovery rates.



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Udit Bokaria: So sir one clarification as you had mentioned previously that on-trade is usually around one third so is it fair to assume that off-trade channel has recovered to pre-COVID levels and how has it fared versus your expectations?

Berend Odink: In previous calls we have said that the volume share of on-trade is around 20% for us of course that on-trade is not fully recovered as states progressively open on-trade and then for consumers to come back, etc., that will take some time, we do not split out separately volumes for on trade in terms of recoveries there, but I would say if you look at the guidance of the communications we have done on state levels, some performing better so some are a little bit less it gives you an indication also as to off-trade's performance as for some markets the off-trade is also more or less the full market and where on-trade opened up again to what I said earlier it will take some time before for it to pick up. It will not be in month one I would say, within that combination we see the combined effect.

Udit Bokaria: On the CCI update is there any like in your assessment what could be the maximum impact financial impact from that particular event if you can share that some number?

Berend Odink: No it is not possible to share the impact and we have put our responses back to the CCI and then as stated in our notes the next step is hearings in December so we have put our arguments, our view of how the market is set up and that we will explain and communicate to them, but in terms of any financial impact if anything that we cannot share.

Udit Bokaria: Just one last question if you can share how has been your advertising spend trajectory for the recent months and how has the ROI on advertisement been compared to last year?

Berend Odink: We have seen gradual pickup in A&P that is how we have done that as well as the markets continue to open up so in that sense we have managed it, I think the ROI are pretty okay a lot has moved to digital for us of course we are now having a big activation with IPL, but our ROIs are on a good healthy level. So going forward the next two quarters we will expect more and more activities to take place not only from us but also other industry participants so yes the ROI is going forward we will have to see, but so far I would say they have been good.

Udit Bokaria: Yes, thanks a lot Sir.

Moderator: Thank you. The next question is on the line of Himanshu Shah from Dolat Capital. Please go ahead.



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- Himanshu Shah:** Just couple of questions. This quarter our other income has been quite high anything specific over there?
- Berend Odink:** Yes, as we indicated when I presented the introductory slide so we had a reversal of prior year provision for doubtful debts booked in the income.
- Himanshu Shah:** Fair enough and capex during the first half has been quite low so can you provide guidance for full year with respect to capex?
- Berend Odink:** Yes, I would expect that to be around this run rate, so we booked 95 Crores for the first half so approximately a figure of 200 Crores for the full year.
- Himanshu Shah:** Last with respect to the West Bengal policy change is there any change in our net realization also has that also gone down or it is just a reduction in excise duty?
- Berend Odink:** Yes, there is a change in the whole value chain, but we think on a contribution level, we do not see that it negatively impacts our contribution.
- Himanshu Shah:** We do not see at contribution level any significant change?
- Berend Odink:** That is correct.
- Himanshu Shah:** On the used bottle part are we receiving now used bottle in similar proportion to pre-COVID level or is there any material shift on that front?
- Berend Odink:** Yes, we have seen markets coming out of recovery and hence returns also to took a bit of time to establish themselves, but generally of course the higher the volume the better those cycles get restored so at the moment we are similar levels at pre-COVID for returns of bottles.
- Himanshu Shah:** Okay Sir, thank you, that is it from my side and all the best.
- Moderator:** Thank you. The next question is on the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.
- Giriraj Daga:** My question is related to capex so what I want to understand is that like what is our capacity utilization number where will you book that?



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- Berend Odink:** Your question is on capacity expansion?
- Giriraj Daga:** Utilization, so how much we are utilizing let us say in FY2020 not currently I understand we are running low on volume but what is our FY2020 utilization?
- Poonacha:** 65%.
- Giriraj Daga:** Sir my question is like how will the capex play out over the next 2, 3 years since last two years we had done a good capex of 400 Crores plus this year also we are investing 200 Crores those we are running low on little volume so how the next two, three years numbers will look like, do we need to do a capex to add capacity now or will we do a capex holiday for next two years and we are mainly running on only maintenance capex?
- Poonacha:** There are two types of capex, one as you rightly said maintenance capex and the other is also a statutory capex, which is with respect to environmental norms, which we have to do other than that which is the discretionary which is towards expansion of capacity, as such that is currently on hold as you know we have sufficient capacity. Even in a regular year assuming seasonality we can maximum go up to 85%, so ideally if you have to operate you operate somewhere between 75% to 85%, so last year we had sufficient capacity, I talk about 2019-2020 we closed the year around 65%.
- Giriraj Daga:** Just a followup there out of the total capex of Rs.400 Crores in last two years sales how much is the maintenance capex and how much of statutory capex if you can bifurcate that?
- Poonacha:** Maintenance capex will be anywhere between 50 to 80 Crores that is it.
- Berend Odink:** To add to that, in the first half we also completed a number of expansion projects that were initiated and to a large extent executed before COVID hit, so you will see some carryover of those projects into this year's number.
- Giriraj Daga:** One how much is statutory capex every year.
- Berend Odink:** That difference based on change in the statutes and environmental norms.
- Giriraj Daga:** Any rough number, last two year number if you can give me so I can understand?
- Berend Odink:** That is very small it will be anywhere between 30 and 50 Crores max, max.



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- Giriraj Daga:** Okay, thanks a lot Sir.
- Moderator:** Thank you. We will move on to the next question that is on the line of Sanjay Satpathy from Ampersand Capital. Please go ahead.
- Sanjay Satpathy:** Thanks for the elaborate update can I just ask one thing which you might have explained that what kind of volume decline or growth whatever we can see in December quarter?
- Berend Odink:** We do not guide the coming quarters volume.
- Sanjay Satpathy:** I am just asking whether it will still be a decline quarter like when the industry demand will go back to positive even if it is not for UB for the industry if we just want to understand when it will go to positive territory?
- Berend Odink:** Yes, that is something we do not put out, but we guided that September was minus 33% from thereon where we see some further recovery, but how that will pan out November, December, etc., I think that is quite uncertain to guide.
- Sanjay Satpathy:** Understood and does it depend mainly on on-trade that is restricted to open up or something more?
- Berend Odink:** The restrictions we see today mainly relate to on-trade.
- Sanjay Satpathy:** Understood. Thanks a lot Sir.
- Moderator:** Thank you. The next question is from line Krishnan Sambamoorthy from Motilal Oswal Securities. Please go ahead.
- Krishnan S:** In Maharashtra the on-trade channel opened in the first week of October I would have assumed that the trade would have bound on the inventory by then so would you have witnessed a significant bump up albeit temporary in terms of them restocking their inventory?
- Berend Odink:** Yes, so in general you see them some further recovery I think Mumbai itself remained bit more subdued, but the rest of Maharashtra, which is a bigger share in the market for us we see some better recovery due to also on-trade opening up.



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Krishnan S: Okay and did this bump up happen towards the last week of September or the first couple of weeks?

Berend Odink: No the on-trade opened if I am not incorrect October 5, 2020 more or less.

Krishnan S: But the demand in anticipation of the opening up they did happen towards the end of September or was it towards the earlier part of September?

Berend Odink: No that would not have been the end of September.

Krishnan S: Again while we understand that bars and restaurants are still operating at 50% sitting capacity are you anywhere close to that level in terms of your sales on the on-trade channel or do you think that requires a very gradual process?

Berend Odink: I think there will be more of a gradual process because first the legislation has to be such that on-trade can open, then outlets need to organize themselves with a working capital and any outstanding stocks need to flow, consumers need to step-by-step gain that confidence to go back and meet up and go out, so I do not think that is a one-month timeframe.

Krishnan S: Any of the large states where the recovery on on-premises is at fairly significant level or is it largely a gradual recovery across the country?

Berend Odink: It is may be the latter.

Krishnan S: Okay, thank you so much.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question. I now hand the conference over to the management for their closing comments.

Berend Odink: Thank you everybody for attending, thank you for your interest and the questions. If any questions are left unanswered, please approach me or Poonacha we will be happy to engage with you and followup on that. With that I wish you all a good day and a good evening. Thank you very much.

Moderator: Thank you. Ladies and gentlemen on behalf of DAM Capital Advisors Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.