"United Breweries Limited Q4 FY2022 Earnings Conference Call"

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MODERATOR: **MR. HARIT KAPOOR - INVESTEC CAPITAL SERVICES**

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY '22 Earnings Conference Call of United Breweries Limited hosted by Investec Capital Services. 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. Harit Kapoor from Investec Capital Services. Thank you and over to you Sir!

Harit Kapoor: Yes. Thank you, Rutuja. On behalf of Investec Capital Services would like to welcome all the participants in the call and special welcome to the management of United Breweries for the Q4 FY '22 earnings call. On the call with us is the senior management of United Breweries represented by Mr. Berend Odink CFO, and PA Poonacha, Head Finance, and Investor Relations.

I'd will now hand over the call to Berend for his opening remarks post which we will take the call for Q&A. Over to you Berend!

Berend Odink: Thank you very much Harit and, good afternoon everybody on the call. Thank you for joining. And as Harit said, we'll discuss today the results of quarter four and the full year '21-'22. I'm joined by Mr. Poonacha and after the opening comments, we'll be happy to take any questions. So let us start with the results highlights. The company recorded volume growth of 7% in the quarter versus prior year, driven by the continued recovery of demand, prevalent across nearly all the markets. Comparing Q4 versus Q3, resulted in 14% sequential volume growth.

The quarter started in January with a muted demand situation due to the Omicron variant but ending with a record month of March. UBL achieved share growth, both in the quarter as well in the year-to-date performance further solidifying its market leadership. In the quarter, EBIT reached INR 220 crore 5% ahead of previous year. Topline growth and cost measures were partly offset by higher commodity costs.

The full year results show strong performance with net sales up 38% and EBIT up 157%. The free operating cash flow of the company reached INR 721 crore due to continued improvement in working capital and curtailed investments. On the back of a strong liquidity position, the proposed dividend is significantly up to INR 10.50 per share, representing a circa 75% payout of profit after tax.

On the performance by region, we have seen different patterns within the quarter, since January was impacted by the Omnicom variant, predominantly seen in the urban areas, followed in March by a record performance across virtually all the states. North posted a strong growth at 26%, particularly in Rajasthan, U.P. and Harayana. Delhi market posted a decline due to the implementation of new policy. West posted 11% decline and East posted 2% growth driven by higher volumes in the states of Arunachal Pradesh, Orissa, Assam, Meghalaya partly offset by a fall in volume in West Bengal state due to the introduction of a new route to market. South posted 8% growth driven by higher volume in Telangana, partly offset by lower volumes in Karnataka and Kerela.

Turning to sales, net sales were up 11% in the quarter driven 7% by volume and 3% by favorable price mix. The positive price impact was partly offset by an unfavorable state mix. On a full year basis, the volume growth was 33% and price mix positive 5%

Turning to page eight with the EBIT breakdown. Gross profit improvement was seen in absolute terms with a lower gross profit margin, due to the commodity inflation in mainly malt, packaging and energy costs. Fixed expenses were well contained resulting in margin expansion on these line items that partly offset the commodity price impact. In the fixed costs, there was good leverage effect of revenue growth coming through. Personnel costs are below prior year, despite the higher volumes. Depreciation is also below prior year, due to the curtailed investments in the last two years and some assets now being fully depreciated. Resulting EBIT margin ended at 12.9%.

Moving to the cash flows. The full year saw improvement in cash flows owing to higher underlying profitability and continued working capital reduction. Similar to last year, again, nearly INR 300 crore, of working capital was freed up. CapEx was also curtailed as earlier explained. Free operating cash flows came in at a record INR 721 crore and as shared in last quarter update all remaining term debt has been prepaid. The chart on the bottom right shows the cash flows last five years and the growth, despite the COVID impact in the last two financial years.

Finally, on the outlook and summary, although the COVID trajectory of course remains unknown, the company is confident in successfully navigating any potential impact with an agile response. With the demand picture normalizing, the company is now gearing up for the full peak season, which has shown a promising start in the month of March. The commodity cost picture remains challenging and volatile. The company is in the process of securing price increases in combination with continued cost measures to mitigate these impacts. And as always, we remain very optimistic about the long-term growth drivers of the industry on the basis of GDP growth, urbanization, and evolving consumer trends. UBL is very well positioned to leverage and drive these opportunities. With that, I conclude the opening comments. Let us move to the Q and A please.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Avnish Roy from Edelweiss. Please go ahead.

Avnish Roy: Yes, thanks. My first question is on working capital and CapEx. So, congrats on working capital reduction. So could you elaborate, any particular state where you have seen more working capital reduction, any particular initiative, and you have mentioned CapEx curtailed to minimum requirements, now with growth coming back and COVID seeming lesser of a risk. Would your CapEx be coming back, in say FY '23, '24?

Berend Odink: Working capital reduction, I think that's been, fairly broadly, spread across markets. Some markets we operated with distributors, some with the government corporations, but it's really a result of efforts to reduce excise duty being blocked in the various states, but also some trading partners, trying to reduce the balance. So it's broad based. On the CapEx, yes, you are right, we are now entering a new period for the company, turning the corner, hopefully on COVID. With that we have our focus now again on expansion. I would not immediately expect levels back of pre-COVID in terms of CapEx but more maybe the area of INR 250 crore to INR 300 crore, depending a little bit on how this peak season pans out. And those levels will then include the normal maintenance CapEx also continued investments in ESG initiatives like water optimization, also premium capabilities across the network and some expansion projects as well.

Avnish Roy: Sure. My second and last question is on the key raw material. So, from a Ukraine crisis perspective, you could comment on outlook on barley and similarly in general inflation, what's the impact on glass and corrugated boxes. And you mentioned that you are trying for price hike. So any update on any state where you are seeing more visibility in terms of price hikes regarding this?

Berend Odink: Sure. Let me go to the components of your questions. So first on barley, the new crop, that has been just harvested and being traded is significantly up in price versus prior year. We've seen a lot of speculation in the market coupled with high demand in March as the peak season of course, was quite buoyant for the whole industry. Further we've seen in the last few weeks, before harvest, the high temperatures impacting some of the barley's quality. So a few consignments of the crop won't meet the quality standards of barley for beer processing. This combined with other reasons, has led the prices up some 70%, versus prior year. We have secured enough supply, out of the new crop, to ride us through the coming peak season and months. So there's no, let's say risk on the continuity of supply. However, of course the price levels are very challenging. The buying season is still on, so we will calibrate our strategies as we move along.

On glass, we have seen that probably a lot of the underlying input costs, like energy, soda ash are on the upward trend as well. So we do expect some inflationary levels as well. We have seen so far some positive impact from better collections out of the market versus prior year, of course there was a COVID impact, so it is mitigating the impact to some extent. And yes, we continue to look at price increases, though we have secured price increases in Delhi, higher realization in Rajasthan, in UP, Maharashtra, Karnataka, Orissa, MP, and a few smaller states, but we continue to look at the opportunities and the right balance, of course, by looking at the affordability of the category versus the input cost pressure. The context is also that overall the excise policies of the States in many key markets have been stable. I think that is positive on the possibilities and the market pricing as such. Hopefully that addresses your question.

Avnish Roy: Yes, it addresses and that's all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

JP Morgan: Yes, thank you. Berend I'll just take a follow up on your previous answer. You talked about price increases, being secure across multiple states. Could you share with us, what is the quantum of this price increase that you would anticipate to flow in from Q1 onwards on a blended basis?

Berend Odink: Yes, so I think it's important to realize that we have taken price increases in the year, of course, that we reported the results. These are additional price increases, which always tend to start with in Q1 as soon as we have visibility on some of the excise policies. At this point in time, I don't want to give the exact quantum etcetera, because some of it is being implemented as we speak. And as I said, we continue to look at further options and opportunities in the market. But of course it is against the context that, yes, the input cost price picture is very high, given historic rates. And hence that is top of mind when we look at the quantum of price increase to secure.

Latika Chopra: So, let me check with you talked about barley, glass prices, being higher. you talked about a 70% uptake in barley prices. What is the blended impact as you exited Q4 on your cost index, and with these pricing decisions that you've taken, plus the cost optimization measures, what is your comfort on your ability to mitigate, the commodity push, so that operating margins, could still be in a decent range, or are you looking at a significant pressure on operating margin?

Berend Odink: On the barley, I think it's important to realize that at the moment, we still have the existing stocks from last year. During quarter one, we'll expect some of this new barley to flow into production process and hence in our costing as well. I think in the past, we've always said that, with these kind of commodity cycles at a company, given the nature of the industry with respect to pricing restrictions, we were not able to offset it fully within one or two quarters. So that will require some time to fully offset that. As we saw this quarter in the results and last Q3 as well, I think there's good operating leverage on the fixed cost, so that as we continue to expand the top line, some of that margin can be used to offset the commodity cycle. But I hope you appreciate that we're in a very dynamic situation with some of the ongoing procurement, the peak season having just started some of the price discussions on and it is a dynamic picture. So I don't wanna start giving any margin guidance at this point in time.

Latika Chopra: All right. Thank you and I'll come back in the queue.

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

Jaykumar Doshi Yes. Hi, Berend. Am I audible?

Berend Odink: Yes. Jay you are audible. Please go ahead.

Jaykumar Doshi: Hi, good afternoon and congratulations on good working capital management, sorry for pushing a little bit further on the previous two questions. Is it possible for you to give us some color, whether you have managed to take between 5% to 10% price increase or is it more than 10% or is it less than 5% at a portfolio level so far, some range will help because right now other than Maharashtra, we are somewhat clueless about the price increases that are being taken in some of the smaller markets.

Berend Odink: You have to factor in for example in Rajasthan, UP, those are not typical markets where every year we can take prices. So that is a positive. At the same time, we also always look at, let's say the affordability of the category. That will also determine our pricing approach. It's really, I think a little bit too early to come out with definite numbers and ranges as to what the magnitude of the price increases are. Because there are various levers as to how to go about it. Other elements, bringing into the picture, driving our premium segment but also some of the trade spends we do in terms of schemes. All of those will have an impact on the overall outcome. So let's give that a bit more time to come back on that.

Jaykumar Doshi: Understood. Now, if inflationary environment continues, do you see a possibility of another round of price increases in the states where your have taken price increases so far or would you have to -- will you have to wait until end of the year or maybe next financial year for another round of price increase?

Berend Odink: Yes, that depends really per state, but certainly I will not preclude that we will not go back with any other price increases later in the year. So for a number of states, that's definitely a possibility.

Jaykumar Doshi: Sure. Did I here is correctly. Are you seeing 70% inflation in barley prices in India, or were you referring to the global index?

Berend Odink: The prices that we've seen being traded in the last couple of weeks in India are 70% up versus prior year. And barley for us is a cost component of around 15%. Again, the buying season is on, t's not to say that this is the outcome as such, but of course, yes, we've closely monitor developments on the ground.

Jaykumar Doshi: And based on our last discussion, I believe that you have low-cost barley inventory that covers you until the end of this peak season. Is that correct understanding?

Berend Odink: Last time we guided that it would last us to mid of the next quarter, that is still there, it's probably a little bit earlier depleted given the higher volumes that we see, at the moment. So in the next quarter, or rather the period April to June, some of these new barley prices will come into our profit and loss.

Jaykumar Doshi: And do you expect barley prices to come off sharply as the new crop is there in the market, or this 70% insulation is on the new crop that is sent?

Berend Odink: Yes, I'm totally fully referring to the new crop with that 70%. Yes.

Jaykumar Doshi: Understood. That's helpful. Can you give a similar number for glass bottle? What is the inflation that you've, sort of seen in glass bottles, in percentage terms?

Berend Odink: Yes, that is really driven contract by contract. So there's not one number. Sometimes we have a fixed price, going into the next quarter, other contracts, where we have linked to underlying input cost of energy or soda ash. But here, you need to think of kind of, mid to high single digit type of increases, on average.

Jaykumar Doshi: That is helpful. My final question is on volumes. So when I look at your region wise volumes and compare it with March '19, Western region volumes are 22% below March 2019 quarter. Whereas in north, you are up 15% in east you are up 20% plus, south is also down, but I think that is largely due to road to market change in Andhra Pradesh. So why is this trend very divergent and why is Maharashtra underperforming, significantly versus that from the country?

Berend Odink: Yes, so there are always differences in state policies resulting in share performance and portfolio, etcetera. Overall, we've seen, compared to that period expansion of market share. So particularly to the west on your question, the market share is also stable, for us, I think as a total industry, probably the pricing of beer, is somewhat unfavorable versus the pricing of liquor and spirits, driven really by the state policies on excise.

Jaykumar Doshi: Understood. I'll go back in the queue and thank you so much.

Moderator: Thank you. The next question is from the line of Nillai Shah from Moon Capital. Please go ahead.

Nillai Shah: Thank you. Hi, Berend. Couple of questions from my end. You know, when I look at the gross revenues for the business for this quarter and take an estimate for volumes and hence the gross realizations, I see a decline on a YoY basis. Should I put that down to state mix and on trade off trade channel mix?

PA Poonacha: When you have said gross revenue, I assume you're talking about gross revenue inclusive of excise duty?

Nillai Shah: No. Before excise sir.

PA Poonacha: Yes. That is before excise duty gross right?

Nillai Shah: Yes, yes.

PA Poonacha: The prime reason is because, change in route to market change in Delhi and in West Bengal, in the past, the duties was paid by United Breweries Limited or any other brewer or spirit manufacturer, but now since, the amount of duties need to be paid by the distributor, so that is not captured in UBL or any other alcohol industries gross revenue.

Nillai Shah: Okay. Got it. Got it. And that's why our revenues is, to that extent, lower. Got it. Coming to the cost structure for this quarter. I see a big decline in the employee cost. Now while I understand there are other expenses, there's lots of discretionary expenses sitting out there, you know, in terms of employee costs, is this just a true up of the full year, year-end bonuses, cetera, or should we expect employee costs to be trending down lower even in Fiscal '23, similar to what we've seen in 4Q of this financial year, of the last financial year?

Berend Odink: Yes. I think you can take this as the kind of new type of run rate. Of course, we have implemented a restructuring excise in December last year. So in that sense, that is now fully reflected in these numbers, at the same time, some of this will move up with volumes, where we have contract labor in the various units, particularly in the peak season. We have the annual increment, etcetera. But the number itself is reflective of the new run rate, what you asked about.

Nillai Shah: Okay. Got it. And, just thinking about input costs, you highlighted barley obviously aluminum is up, I think has more than doubled, but in terms of glass, you spoke about mid to high single digit price increase. Is that incremental or is it YoY? Because there's a big impact on input costs for this quarter also. So is it fair to say that on a YoY basis glass is up more than 20% 25% as will be the case in 1Q?

Berend Odink: No, I don't recognize that number. If you look at the quarter or the year to date actuals, I think the input cost on glass are kind of well managed and relatively low coupled with the effect that we had, better collections of second hand glass which then on the average mitigates any price increases. Going forward, we do see, let's say further pressure on some of these commodity costs for glass and hence, we do see, inflationary pressure on glass itself.

Nillai Shah: What explains the 300 basis points plus YoY gross margin compression for 4Q, if it is not barley, if it is not glass, then what really cost that compression?

Berend Odink: Sure. It's what we talked about in the last quarter as well. So there are some elements of conversion costs, but it's also other packaging materials like cartons foils, the aluminum as you mentioned for cans, some of the energy costs, those kind of components are included.

Nillai Shah: Okay, got it. And final question for me in terms of pricing, you said it's too early, but just to confirm, to the earlier question, the pricing which you're talking about and is pricing, which you've already got and incremental pricing will be a function of the state's excise policy decisions that come through starting Q1, am I correctly understanding that?

Berend Odink: Yes, so the excise policies are by now largely known. So the states that I've mentioned, where we have secured price increases and we're in the process of implementing them, those are additional, on top of what we secured last year or the year-to-date.

Nillai Shah: Got it. And can you just discuss what is the price increase in Maharashtra incremented, which you have taken right now in, because of the barley and other cost increases?

Berend Odink: Yes, so that's one of the components that we're implementing right now. So let us first finalize that and then we come back on the magnitude.

Nillai Shah: Okay. Thanks so much, Berend. Thanks.

Moderator: Thank you. And the next question is from the line of Krishnan Sambamoorthy from Motilal Oswal Institutional Equities. Please go ahead.

Krishnan Sambamoorthy: Hi Berend and Poonacha. Congratulations a good performance in a difficult environment, sorry for harping again on the raw material cost. Just correct me if I'm wrong, typically your current inventory, raw inventory for a large part of the year, and your comment -- in your opening, you said that you acquired for the peak season and a little bit beyond, were you hoping for a reduction in raw material cost in April May and therefore with this spike that you spoke about in April in barley cost, is that taken you on surprised by separate negative.

Berend Odink: The typical buying pattern is when the harvest and the trading takes place, from March to kind of May, June that we cover us ourselves onto the next peak period. So roughly 12 months, sometimes we would procure for longer periods and sometimes we shorten that period also. And then of course during the year, some further purchases may take place depending on the need and the business volume growth. So at this point in time, I think the only thing what really changed was that March volumes, picked up, ahead of plans and hence the depletion of the stocks was also a bit quicker. Therefore from the new barley crop, we have made sure we have enough stocks at hand to see us through the next few months.

Krishnan Sambamoorthy: Okay. Thanks. One more question. You had also mentioned in response to one of the earlier questions that, in the new crop there has been some impact of the higher temperature in terms of the quality. How significant is this and what sort of impact do you see this having going forward?

Berend Odink: So it's, again, an ongoing development in the sense that the quality checks are always made. Some areas are more impacted than others, but one good thing is that only a smaller share of the total crop might not meet the quality standards, and hence the total quantity available for the brewing industry is from that perspective probably a little bit less than under let's say, a hundred percent quality crop in totality. It reduces a bit the quantity that is available.

Krishnan Sambamoorthy: Okay. That's one final question. You spoke about speculation in the market. Could you elaborate on what you were referring to Barley cost?

Berend Odink: Yes, from my perspective, as there is in principle enough quantity to supply the total industry for the next, let's say 12 months, I would intrinsically not see reasons for this amount of price hike. I think there are parties that stock up certain quantities, to potentially sell later in the year, trying to sell them at the potentially higher prices. That's the kind of my reading of the situation. So we have to see how that pans out, for the remainder of the trading and the buying period for barley.

Krishnan Sambamoorthy: Very useful. Thanks, Berend.

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

Himanshu Shah: Thank you, sir. Thanks for the opportunity. Other OpEx line item has seen a sequential decline. Historically, Q4 generally has been seen higher costs than Q3, any specific reason or is it on account of we shutting down our non-alcoholic beverages production?

Berend Odink: Yes, in general, we have, during the COVID period taken a number of cost initiatives. So that's, I think reflecting in some of the cost lines, more recently we have now decided to close the NAB production that we used do in house, in our site in Bihar. So in itself, it will not of course move the needle to a significant extent on cost, but it's just one further example how we continue to review all elements of cost. And hence we decided it's more efficient to have this produced at a third party instead of being done in house.

Himanshu Shah: Sir can we do this as a -- for future quarters or it is based is subject to volumes? Can we go this -- by this as an incred cost?

Berend Odink: Yes, there are no kind of significant one off positive or negatives in the numbers, for the quarter. So from that perspective, yes.

Himanshu Shah: Thanks, thank you. That's it for me.

Berend Odink: Thank you.

Moderator: Thank you. The next question, the line of Madhu Babu from Canara HSBC. Please go ahead.

Madhu Babu: Sir, just from the freight cost, how do you see that trading because that's, I think around 6% of revenue so the next couple of quarters and secondly, on the cost of goods, I think almost 50% is the cost of goods sold. So can you give us, as of now, what is the current mix of barley, glass, and packaging cost? Thanks.

Berend Odink: Sure. So freight cost, you know, one of the prime rates of course is the fuel and the diesel. So we have seen post some of the state elections, diesel prices go up. So when we talked about the overall commodity cost challenge, that's definitely one of the factors, that we're having in mind there, barley costs are around 15% of our total input costs. Glass is around 35% and then the remainder are things like, cans, other input costs for beer, secondary packaging, etcetera.

Madhu Babu: Okay, Sir. Thanks.

Moderator: Thank you. The next question is from the line of Vishal Punmiya from Nirmal Bang Institutional Equities. Please go ahead.

Vishal Punmiya: Yes. Thank you. Sir seeing in the current demand trends, do you believe on a full year basis, the industry can revert back to the FY '19 absolute volumes? Maybe if you can get some sense on the current demand trends.

Berend Odink: Yes, it's quite early of course. We just started the new year. I think we're fairly optimistic that with the month of March, which was a record month for us, that of course shows a lot of confidence from consumers and good demand. So if that picture continues then obviously, it's a definite yes. To your question, but as we have seen in the past, yes, let's take one step at a time. I think there's still, all kind of, risks out there. One of it is the general purchasing power of consumers with the high inflation, prevalent. There are a lot of variables, in the mix, but our focus is really on the current peak season where, as I said earlier, we are off to a good start, lot of the breweries are close to maximum production at the moment. So that's a good scenario and let us take it from there.

Vishal Punmiya: Understood, secondly, if you can give some sense on the competitive intensity in the industry, in the current environment and also, if you can give the current volume market share in absolute terms?

Berend Odink: On the volume market share we're at levels around 54% to 55%. I would always, yes, repeat that the competitive intensity remains quite high. So, you know, the large international brewers are very active in the market in India. There are smaller, regional brewers active as well. Some of these keep on kind of investing product in innovations, in funding that, they are running the business at a loss. I think there are various, short term and long-term approaches, from the various brewers, which makes it all a competitive set overall. The good part is, of course it drives the innovation in the market. It drives the penetration in the market where beer today is still, kind of very low penetrated in India. That is the positive angle to it. But across the various states, across the various parts of the portfolio, yes, there is, I would say continuous highly competitive intensity.

Vishal Punmiya: The 54% 55% market share you mentioned was the exit rate, or was it on a YTD basis?

Berend Odink: It's for last quarter

Vishal Punmiya: Understood. Thank you and best of luck.

Berend Odink: Thank you.

Moderator: Thank you. The next question is from the line of Alok from Ambit Capital. Please go ahead.

Alok: Yes. Hi, thank you for giving this opportunity. My first question is on the barley cost inflation, which you said is about 70% now. What largely explains that is it more to do with export or is function of speculation and what sort of MSP increase has been there in barley if you can just explain that.

Berend Odink: Yes, the pricing, of course, my view on that, I think a couple of reasons which I mentioned earlier, one is parts of the quantity of barley have not met the specs required for the brewing process. That means, some of the metric tons will not be bought by the brewing industry. Secondly, I think there is quite some pickup in demand quite quickly from March, being a very good month for the brewing industry. So people quickly went into the market to buy fresh barley. And thirdly, I think there's also an element of kind of speculation given the global environment and with Ukraine, Russia being large exporters of wheat and barley. So there's some kind of sentiment to that. That has fueled really a large part of this price increase.

Alok: Okay. So just to follow up on that, correct me if I'm wrong, but the export of barley market is very, very less in India, or as it changed because of this Russia Ukraine thing?

Berend Odink: No, it has not really changed. So it is, as you said, quite low.

Alok: Okay. Okay. My second question is on the -- is on the growth in the key urban state. Now, when you say West is declined because of largely Maharashtra and in south, there's been lower volume in Karnataka, so is it to do with -- anything to do with your share loss in those markets or what would you attribute that to?

Berend Odink: If I look at the data then in January, we saw, let's say the impact from Omicron more and the on trade which is more prevalent in the urban areas. That has gotten a bit of a larger impact, but again, looking at March, we see that, yes, high kind of demand & good trading environment, very broadly across all the states and urban areas.

Alok: Okay. But there's no share loss that you would attribute to in this markets largely.

Berend Odink: No, I said earlier, the overall share gains are, I would say pretty consistent, pretty robust and, yes, fairly, consistent across the states.

Alok: Okay. And my third and last question is on your premium portfolio. Now I just wanted to check whether your operating margins in the premium portfolio would be similar to the company level margins, or would it be quite lower considering the fact that you could be investing in that?

Berend Odink: Yes, if you look intrinsically just at the margins, they would be, at or above the overall portfolio, but factoring in some of the investments which we do on brand building, on trials, on building the distribution, then there's a bit more investment. So yes, that is for the first periods of brand launches and building. But the immediate impact is on the consumer side that we see good traction, good demand. For the mid to long term, which is of course what we pursue.

Alok: Got it. But would it be positive operating margin, right? Would that be positive?

Berend Odink: Yes.

Alok: Okay. Okay. Thank you very much. And good luck for your future calls. Thank you.

Berend Odink: Thank you.

Moderator: Thank you. The next question is from the line of Suryanarayanan Manian from DSP Investment Managers. Please go ahead.

Suryanarayanan Manian: Hi. Berend. I hope I'm audible.

Berend Odink: Yes. Go ahead.

Suryanarayanan Manian: Yes. So I just wanted to delve deeper into the point that you have made, about what happened in the Western states and why we had a different volume trend there versus the rest of the country. And you mentioned that it's also because of the excise policy in these states, which makes beer, relatively more expensive versus spirits. Now, as you think about the price and pieces that are to happen for you, how do you think this equation is going to change? Is it going to get worse and how do you think about then the volume growth these markets going into the next year?

Berend Odink: Yes, I think there are probably two tasks, and one is on the policy front that we continue to advocate for, let's say more attractive, let's say the path of excise tariffs developing over time. So if you look back then what I said earlier, that's been more favorable for spirits versus beer, and hence of course, that has an impact on the relative growth and the size of the two categories. So our job at hand is to continue to explain and look at the broader picture of course, as to what are some of the impacts of such a trend. Secondly, internally or more on the shorter maybe, we also continue to look at our pricing actions to make sure we strike to right balance between, shorter, mid, and long term. Not only, in the competitive field of beer, but also having a holistic view of other alcoholic segments, in the market there.

Suryanarayanan Manian: Sure. But as you see the trends in March, is that trend improving for these states as well? The Western states?

Berend Odink: Yes. So in March we really saw pickup, I would say very broadly, including in Mumbai Maharashtra as well. So, yes.

Suryanarayanan Manian: Got it. So it's largely a function of on trade coming back, which will benefit you in these states as well.

Berend Odink: Yes, of course it has a role to play as well.

Suryanarayanan Manian: Got it. And, and just lastly on this, just the price increases in your view, you probably have a sense of what kind of price increased you have to take, for your product portfolio. Do you have a sense of what it is that the spirits, players will have to do? I mean, is that gap likely to widen because of the raw material inflation that you're facing versus spirits?

Berend Odink: I don't know. I think the inflationary pressure is, not limited to beer or spirits. I think it's very prevalent across many of the industries, from what I can kind of see it's also relevant for spirits, but of course every company will determine, for themselves, to what extent they will absorb some of that, what they want to pass on to consumers and, yes, within the Indian context that can even be done, with various outcomes within the brand portfolio. And also with different outcomes across states. So yes, we'll have to see how other manufacturers in the Alcobev sector decide on that and implement it.

Suryanarayanan Manian: Got it. All right. That's it for me. Thank you Berend. Thank you very much.

Moderator: Thank you. The next question is from the line of Nitin Gosar from Invesco. Please go ahead.

Nitin Gosar: Hey, hi. What clarification you did mention….

Moderator: Sorry to Interrupt you Mr. Nitin we cannot hear you clearly Sir.

Nitin Gosar: Is this better?

Moderator: Yes, please. Go ahead. Yes.

Nitin Gosar: One clarification, on the call, it was mentioned that certain price hikes, certain states have already started implementing price hikes, and these are, post the closure of excise duty policy. So the question I'm trying to understand is, the price hikes that we have taken right now, would they only factoring in the exercise related change, or we have also tried to price in the barley related impact.

Berend Odink: The price increases or the states that I mentioned are examples where our realization would go up. If we just price and kind of translate in a change in excise, then yes, our realization would not necessarily improve or change. So these are really, improvements in realization for us as a manufacturer.

Nitin Gosar: Got it. But incrementally the new cost, related production will come into picture from April onwards or probably June onwards into the system that's where we will be needing additional price push.

Berend Odink: We have seen in the last two quarters, already a number of commodity pressures. We have explained in the call that some further pressure will come from particularly barley and then to a certain extent glass bottles. So, hence what is typically more important in the first quarter is for price increases to be implemented, hence, those number of states, are important to offset some of these impact and at the same time, yes, we continue to review other states where there are possibilities to increase price combined with some of the cost measures that we can take to protect some of the margin of course.

Nitin Gosar: Got it. Got it. So if effectively first quarter is very critical in terms of price hikes that we can take. yes. That's how the timing of the industry is like the price can only be around the first quarter.

Berend Odink: Yes. It's, not so much, let's say a choice that it can be only the first quarter. In some states there are possibilities at different points during the year, but traditionally quarter one is important because then there is visibility on some of the excise policies and hence it is a more of a logical moment to implement the price changes.

Nitin Gosar: Right. And in couple of other sectors last year, we had seen that, you know, those couple of other sectors also witnessed price increase where they needed permission from government and government did intervene and gave them price increase during mid part of the year, which was not the case, which was seen earlier in those sectors. This being an odd year where, you know, this kind of cost push has been witnessed. Do we also have a window to seek additional price hikes during the year?

Berend Odink: Yes, absolutely. We have been on that for a bit of time now. So we make a lot of representations to the various states to allow price increases. And of course, one of the key arguments is the unprecedented commodity cost environment we see at the moment. That effort will continue, so it's not to say that if an approval is not granted, let's say today, that we stop those efforts. No, that could also be approved and implemented at any other point in time during the year.

Nitin Gosar: Got it. Got it. Thank you. This was very helpful.

Berend Odink: Okay.

Moderator: Thank you. The next question is from the line of Sanjay Awatramani from Envision Capital. Please go ahead.

Sanjay Awatramani: Yes, good afternoon, sir. And thank you for giving me this opportunity. I just wanted some more clarity that we recently closed this facility, at Bihar. So, I mean, what was the exact product we were producing here and what was the cost saving we are expecting from closure?

Berend Odink: The NAB product we, just as, maybe as a recap so our Bihar brewery, when Bihar went into prohibition, of course it stopped producing any beer. We then few years back shifted, production to Radler our non-alcoholic product under the Kingfisher brand. As we have reviewed, the capacity utilization, the fixed cost versus the volume, etcetera, benchmarked that to alternatives. we've concluded that it's more efficient to bring that to a third party where there's existing volumes of other products and hence you reach a better utilization and scale efficiency. And with that we have suspended the operations in the production site in Bihar.

Sanjay Awatramani: Okay. So this is very helpful and, if you can give us some guidance on the revenue side or some margin site for next year, so that would be helpful for us.

Berend Odink: Typically we don't, put out guidance as to, margins or top line growth. but yes, as we commented the peak season for us is a key. So after two COVID years, yes, there's a lot of positive signals from the month of March, there's optimism about the progress of the season. So hopefully that will be a good peak season for us, at the same time there is a challenging cost environment. Where we are discussing some of the pricing actions, some of the underlying developments on the key input costs, so that is truly the dynamic for the year '22/'23.

Sanjay Awatramani: Thank you. Thank you so much, sir. This is all from my side. Good luck.

Berend Odink: Thank you.

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

Jaykumar Doshi: Hi, thanks for the follow up. On working capital cycle improvement. Do you expect it to stabilize at these levels or is there further head room to improve?

Berend Odink: I think we are, of course, happy with the progress so far. I think we will have to recognize that as the market is returning to normal and even new growth levels, there will be some pressure on expansion of that working capital block, we take our learnings, we take the achievements to sustain them. I don't expect, year-over-year, further reductions as we have seen in the last two years. I mean, we would put our efforts to get good results. but I think there's, also at a certain level, so much what one can do, particularly considering a large majority share of our customers are state governments that will have set trade terms. Those are not too easy to further optimize. In summary I would say with the expansion of the business and the market, the working capital block might move back a bit, but hopefully we keep it well below levels of pre-COVID.

Jaykumar Doshi: Understood and has route to market changed in West Bengal and Delhi helped working capital cycle

Berend Odink: In Delhi, yes, West Bengal, not really a big difference, but most importantly, where we saw some of that impact in the quarter, both markets have now by and large kind of, settled down and transition is over. So we've seen at the close of the quarter, a good recovery and trading in both these states. So that is, yes, hopefully that transition impact is behind us now.

Jaykumar Doshi: And my final one you have called out that March month was record month for, in terms of volume. Could you quantify it? And what do you mean by record? Is it like the highest month across all months in the history of the company or was it, you know, higher than the March 2019 month, or maybe some percentage terms what growth you would've seen in March '20?

PA Poonacha: Highest all month sale in history of UBL.

Jaykumar Doshi: Understood, any idea you can give YoY business versus last March. What would the ballpark growth?

PA Poonacha: Vis a Vis March '21?

Jaykumar Doshi: Month. Yes, March '21 month, you know, March '22 month over March '21 month.

PA Poonacha: No, I would compare to pre-COVID levels of March, '20.

Jaykumar Doshi: March '20 was impacted by COVID. Right. So are you referring to March '19?

PA Poonacha: Yes. '19, yes.

Jaykumar Doshi: Oh, understood. Thank you so much.

Moderator: Thank you, Ladies, and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Harit Kapoor for closing comments.

Harit Kapoor: Yes. Thanks Rutuja. On behalf of IDFC we would like to thank the management of United Breweries for giving us this opportunity to host the call and taking out time to interact with the participants. And we would also thank all the participants who joined in for the call. Just wanna hand over now to Berend for closing comments. So over to you Berend.

Berend Odink: Thank you, Harit for having us and hosting us and, thank you all participants for your interest in the company and your questions. Look forward to engaging in the next events. Thank you.

Moderator: Thank you. On behalf of Investec Capital Services that concludes this conference. Thank you for joining us and you may now disconnect your lines.