



“United Breweries Limited
Q2 FY '25 Earnings Conference Call”
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Moderator:

Ladies and gentlemen, good day, and welcome to United Breweries Limited Q2 FY '25 Earnings Conference Call. As a reminder, all participants 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 start then zero on a touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vivek Gupta, Managing Director and Chief Executive Officer. Thank you, and over to you, sir.

Vivek Gupta:

Thank you very much, and good afternoon, everyone, for joining. Jorn and I, actually, we are overseas, so we'll be taking the call on the phone. So, if there's any interruption, we apologize. We'll dial back if something like that happens. We've already sent the results, and I'll hand over for Jorn to really take you through the summary of the results. But needless to say, I think we continue to stay on course on the momentum, what we talked, and we are quite satisfied with the overall progress of this quarter.

I'll ask Jorn to give a summary, and then we can take the Q&A.

Jorn Kersten:

Thank you, Vivek. Hello, everyone. Good day. Let's have a look at the highlights for the quarter before we indeed open up for questions. So, on the quarter Q2, we see that volume momentum continues with 5% overall volume growth despite the quarter being impacted by quite some unfavourable weather across multiple states, which is softening consumer demand.

We're particularly proud of the continued growth of our premium volumes, growing 27% in the quarter, with strong growth coming from Kingfisher Ultra as well as Kingfisher Ultra Max, which is leading to us gaining some share within the premium segment. And overall, volume growth is predominantly driven by Uttar Pradesh, Maharashtra and Karnataka, also contributing favourably, partially offset by some other states, including Tamil Nadu and West Bengal.

Looking at the financials, we see net sales increasing by 12% in the quarter. So, it was 10% on a year-to-date basis, driven both by volume and a positive price mix impact. Pricing in key states like Rajasthan, Karnataka, and Tamil Nadu is also strengthened by that premiumization effort as well as the state mix, although it's partially offset by growth in the economy segments, which we see in multiple states, but also see as something that is part of a maturing beer market.

Gross margin in Q2 was 44%, slightly declining versus last year, although improving versus the previous quarter. And if you look at the half year like-for-like, we're up around approximately 100 basis points in margins. So, we see a good strength there on the year-to-date. And looking at the shape of the P&L, we're very happy to see that we accelerate from 5% volume growth to 12% net sales growth and then 23% EBIT growth, where we also see that we can show that the overall operational discipline is really paying off in the bottom line.

And last but not least, we're excited to announce the launch of Amstel Grande in India, slow brewed beer with fine ingredients, which promises to deliver very new and unparalleled beer experience to Indian consumers and we're super happy to be able to announce that and to be able to go live with this on a very short notice.



During a recent Investor Day, we already highlighted the key areas of focus, which we continue to do bring forward, being beer category growth, winning across different segments in the market, the importance of having a good supply chain network, which continues to get our focus as well. And it will be helpful to the quality of our beer and also driving a winning culture in our organization, so we can continue to drive not only category growth, but also keep an eye on profitable growth and deploying capital efficiency.

Vivek Gupta:

Thanks, Jorn. Just to add a couple of things. I think, first of all, the Amstel Grande brand launch is going to be one of our biggest initiatives over the next 4 to 5 years on the premium segment. This is just fantastic news. This has been a few months in the making, designed internally in India and we'll talk more about it, but you know we are launching in the state of Maharashtra.

We started shipping yesterday in Mumbai, Maharashtra. But this is going to be our biggest premium initiative, which we are bringing into India and which is designed for India. So, I think we are very excited because the big news that we are really looking forward to the success of that in part of our premium journey.

The second thing I would really like to highlight on top of what's Jorn shared on the overall summary, I think, this is our fifth consecutive quarter of significant growth, and I think double-digit revenue growth. So, we are despite all the headwinds, we are continuing to stay on course, and that is what gives us a lot of energy with completely maintaining very strong operational discipline, which is helping us to deliver bottom line results.

So, I think with this, we will hand over back on the questions because I am sure you have a lot of questions. So, we will address the questions.

Moderator:

Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to withdraw yourself from the question queue, you may press star and two. Participants are requested to use handset while asking a question.

In order to ensure that the management can address questions from all the participants in the conference, please restrict your questions to two per participant. If you have any follow-up questions, you may rejoin the queue.

Ladies and gentlemen, we will wait for a moment while the question queue assembles. First question is from the line of Harit Kapoor from Investec. Please go ahead.

Harit Kapoor:

Hi, good afternoon. So, I just had two questions. Firstly, on West Bengal. This price increase is led by the tax increase has happened recently, a few months back, and we are seeing this impact. I just wanted to know how do you think of it? Do you believe this is a one, two-quarter transitory impact? Or if it is going to have its full four-quarter cycle before the state comes back to some kind of growth for beer? That is my first question.

Vivek Gupta:

No, thanks, Harit. I think, West Bengal, you are right. There has been a steep increase in beer duty, which means the consumer price of the beer has gone up. Our Kingfisher price went up from INR135 to INR160, so it is a significant jump. Look, we continue to increase our corporate



affair effort as a company and as Beer Association of India to really share data with the government that West Bengal had a particularly good trajectory of category growth and momentum on beer. And these heavy-duty increases are impacting not only our growth, but also their overall revenue.

When state governments do it, it takes three, four months of data and consistent one because whenever they take a decision, they think it will all work out well. But the initial two, three months showed that there is a slowdown. And of course there was also the Puja festival numbers also studied there in this. So, I think we will continue to work the corporate affair efforts, and we really hope that they listen and to see the data because it is not only impacting our business, but their revenue as well.

But from a UB perspective, I think we are also looking at accelerating our premium effort in West Bengal, because West Bengal is one of the states where our premium shares are very low. It is low single digit because we did not have a supply chain for premium. So, we without giving much information, we are working an accelerated plan so that we can accelerate our premium business through local production in West Bengal. So, I do not want to give the timelines, but I can say that we have accelerated our plan so that we at least ensure that we trade up consumers and we are actually you know, we are coming from behind there and the state will work their effort on that.

Harit Kapoor:

Okay. Great to hear. The second question is, Amstel Grande you've just launched, there have been several initiatives in the premium space over the last few quarters, two years as well. And but it seems like you seem extremely excited on brand. If you could just give a sense of why you think this will be even bigger than some of the things you have done in the past? You know, what gets you more excited on this one? And what could be like a rollout plan from a 12-month perspective?

Vivek Gupta:

Yes. No, thank you for asking. Look very simply, consumer needs different type of products. And one of the things in premium, we had very strong portfolio in domestic premium with Ultra and Ultra Max, which is growing very fast, and you see one of the drivers of premium growth in Ultra, Ultra Max, which we are trying to get in other states. But there was always a need of premium strong beer, which has international credentials.

And in short, our competitor has that. Like Budweiser Magnum to be specific is international premium with strong credentials. So, we assigned a local R&D team to come out with a recipe, which actually and we got a lot of work with the global team to ensure we get enough flexibility on the right recipe and what is needed for the Indian consumer.

So, we are launching a completely new beer, which was never here before, which is Amstel Grande, even the nomenclature is tested by the consumer here. It has 6.4% ABV, so it is in the strong premium segment. It has zero sugar. It is absolutely the best recipe in that segment. We tested with consumers, both blind and the products wherever possible, and we got winning scores.



The packaging is extremely attractive, automatically drives the purchase intent. In the past, when we did Amstel, we did not do Amstel in strong. The Amstel was a light premium beer. The second thing is we never launched Amstel with even pints. We always launched with big bottles, but we never designed the initiative to really win with the premium on-trade channel so that where the trials happen.

So, it is a superior product, great recipe, very competitive on superiority, great packaging, competitive pricing. So we actually, think that segment, which is on the premium strong, which is 80%, 85% of the premium segment and growing, this is our answer there because we already have in the light version Heineken, which will trade up consumers further to really do that. So, we have very ambitious plan on this.

Of course, this needs state-by-state registration, local production. We are starting with the state of Mumbai, Maharashtra, and you will see every quarter, we will keep adding states. And our goal is that by end of next year, we should be at least in 65% to 70% of the country.

And we have worked the recipe in a way that we can produce in local breweries by investing some capital, which we are in the process of that. So, it is a superior product designed for India, international potential, great recipe. And, of course, it has a claim, which has actually worked well in other countries as well.

Harit Kapoor:

Fantastic, great to hear. Wish you all the best. I will come back for more questions. Thank you.

Moderator:

Thank you. Next question is from the line of Avnish Roy from Nuvama. Please go ahead.

Avnish Roy:

So congrats on good premium growth and in the current slowdown. My first question is in Q2, there was heavy rains in large parts of the country, including your key markets. And we have seen beverages, non-alcoholic beverages see significant impact. So, when you analyse data of your consumption centers and here, we are analysing for states where there is no big change, right?

If Bengal, there is a substantial change, let us remove that. So, are you seeing that big cities, the slowdown is more versus the smaller cities? Second, wherever, say, the rains impacted pubs and bars travel or out-of-home travel, there is the slowdown a bit more versus where the pub and bar culture is less or maybe the flooding was less?

Vivek Gupta:

Yes. I think, look, we have not analysed that deeply on this one, but I can tell you where the impact is the most. See, our impact is primarily more in first transportation, and we had rains in Andhra Pradesh. There were floods. Even our brewery was flooded. We have rains in Assam and floods in Assam. Kerala, we all know the couple of districts really got badly impacted. So, all those places, we saw a significant impact. We saw growth in the big cities because you also know that during the monsoon also humidity also increases after that.

And we know the weather was unpredictable, so we saw good consumption increase. But also, I think, there is, there was impact leading to transportation losses, specifically, if the trucks get stranded. You are not able to do availability issues like Tamil Nadu, in particular, there were many districts, there was an impact of that. But honestly, I do not have analysis whether cities



versus small towns or here, we can go back and check. But this is just based on our internal discussion and judgment, I am giving you an answer. We will come back on that.

Avnish Roy:

So, thanks. My second and last question will be on the slide where you have given total volume and premium volume. So, one year back, difference between total volume and premium volume growth rate used to be 3% and then it became 6%. But last two quarters, it has been much, much higher. It is volatile. Q1, it was 39% difference. In Q2, it is more like 22% difference, but still an extremely healthy difference. So, it has been now one year slightly higher than that you have taken over. So, what exactly is working here?

Because you have done multiple things here. You have done new fresh bottle percentage much higher. You have obviously focused much more on pubs and bars and on premises advertising and presence. And of course, in terms of the stores also Visi cooler and all that. So, if you could tell us, which has been the most successful and most dear to you. And second, where is the past in the Analyst meet, you did cover on the Visi cooler tone.

That is not my question. But in terms of competing with the top two players in the premium, where they are bigger than you in that, where is the bigger gap currently?

Vivek Gupta:

I think, first of all, it is a holistic plan, which is working for us. I think we started off with very deep consumer understanding because what exactly leading and this is leading to our portfolio choices, like I gave an example of Amstel that we found a big gap in the portfolio on especially premium, strong Budweiser Magnum, and some of the other Carlsberg Elephant and all growing shares. And we need to have a proposition, which has international credentials.

And superior products versus only our domestic premium products, which are great. So first is the fixing of portfolio gap. Second is, I always mentioned that we had a major supply chain challenge that it was not that we didn't know how to win in premium, but there was no local production, and we are still in mercy of regulators to give us permits to go interstate and then elections come in, they don't give us the permits and all those things.

So, we are also second big driver is increasing our footprint of local production of premium brands, which we continue to do, as I mentioned to you, and that is a big part of our investment. And I think the third is being very, very granular on execution. The simple things, which really matter, but they are noticeably clear. So, in October, if you go around, we are actually doing the biggest October activation in the country, which is broad-based, key bars using the stuff.

So, I would say those are the three factors which are really driving it. I think, still we are just scratching the surface on this because in many states, even our premium growth in this quarter got impacted because we did not get the permits. So, for example, Arunachal, Assam was not giving the permits to get the truck movement because of they had some issues for every company.

So, we were not able to supply some of the premium brands in other states where we are importing the part. We got Heineken permission in Karnataka. So, we started that in August, September in the market. So, it is only two months of growth, but holistics of the plan and the execution is what we are nailing it down, and it will only accelerate. I can only see that where we are able to execute the plan, we are now significantly growing shares on premium.



So, we have markets, which are growing much higher than the average, and these are markets where we have premium has declined because we could not supply. So, 27% is the average. So, state by state, there are states where we are winning big, where we are becoming organised, and we actually think that we'll continue to accelerate, but there's a lot more to be done here.

Jorn Kersten:

If I can add something there, I think, we expect that this gap between growth in premium versus overall portfolio continues over the next quarters because we're a strong believer that long-term premiumization is one of the key unlocks to profitability in the beer segment in India. And we're absolutely coming from behind, if we look at our market share in premium versus overall market, then there's lots of opportunities.

And that's one of the reasons why, again, we're so excited about the Amstel Grande proposition because we think we really built a strong premium portfolio for the Indian consumer. And as Vivek mentioned, we also really want to be close to the consumer in terms of production footprint because that's another big unlock for profitability. And so we're also a bit choiceful in where do we push hard for premium.

And where I'll be a bit more cautious in driving volume because we want to be able to supply. And ideally, we want to be able to supply from a plant, which is as close as possible to the market. So long term, we continue to really push for premium, and we think there's a lot more to follow there with the launch of the full portfolio.

Avnish Roy:

So, thanks. I'll come back in the queue. Thank you.

Moderator:

Thank you. The next question is from the line of Ashutosh Jain from Barclays. Please go ahead.

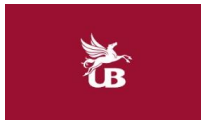
Ashutosh Jain:

Thanks for taking my questions. So I have only one question. 'Broader FMCG players' called out, challenged urban demand in this quarter. Your numbers look robust with not much of an impact. So what is like your view, why it was not an issue for you? Or any other commentary you have regarding the urban consumer? Thank you.

Vivek Gupta:

Yes I would say, look, versus our ambition, it is definitely an issue for me. I'm not proud of 5% growth. I'm happy with it, but I'm not proud of it. So our internal ambition is very high. And I think if we didn't have the headwind, we should have been expecting much more. So I actually think versus our ambition, we are still behind. It is a moderate quarter of the volume growth. Having said that, I think there were real impacts in the space I mentioned because of the weather. There are impacts based on the regulatory impact, but we are also seeing some of our other business rivals are accelerating much faster.

As I mentioned, there is some of these states, we are growing much faster because of our right portfolio, getting our act together, getting execution. We took a big initiative in Assam, and we have seen a category growth back where we've brought affordability as a big focus area. In a state like Karnataka, we grew 16% behind our London Pilsner launch, our UB exports, economy segment, Ultra Max. So I think there are state-specific impacts, which are quite big. But overall, we still think that beer is a category, which generally doesn't get too much impacted unless the regulatory changes happen a lot because it's still limited, it's under-penetrated. There is huge opportunity and people are still socializing whether it's good times or bad times. But we have to



be watchful and careful as we go there. So I don't want to comment about the other companies, but that's how we see it.

Ashutosh Jain: Thanks so much and Happy Diwali in advance.

Moderator: The next question is from the line of Vishal Punmiya from Yes Securities. Please go ahead.

Vishal Punmiya: Thank you team for the opportunity. Firstly, if you can help us with the numbers from AP for this particular quarter, what was the benefit? And what can we expect for the coming quarters from AP?

Vivek Gupta: On AP, there was not much benefit this quarter. Our growth rate was there because if you know this, there was a policy transition happening. There was a period in September where they actually were going through the transition. But we are consistently adding business in AP. So, in terms of the total growth, the AP contribution will be in the decimal because we already have a brewery in AP. Unlike other companies, we already have a local production facility. And over the last 3 or 4 quarters, we have been brewing there.

Going forward, I think the policy is still in the transition. It has just started, the private retail. The pricing policy is still not confirmed because the government said that in the next 90 days, they would like to work on the pricing plan and the duties. So, there's a lot more to be done on the regulatory work because when they say that we want to have competitive pricing versus states, but the duties are much higher in AP versus even Telangana. The realization is much lower for the vendors. So, I think it is still a work in progress, I would say, but the green shoots are there.

But right now, our focus is to really start implementing the execution in the private retail. We are putting more than 1,000 coolers in the stores to make sure that consumer gets cold beer, and there is a lot of execution work happening on this in AP. But I would say it will take another quarter or so to get clear on the policy, before we get too excited.

Vishal Punmiya: Okay. And once it normalizes, how much volume contribution can we expect from the state?

Vivek Gupta: Look, we don't know. In the peak of us, we were doing 3x of what we are doing today. So I just don't want to guess. If anyone looks optimistic, will say, it can go up to 3x. Conservative will say somewhere between 0 and 3x. But we need to see, we really need to see how the policy finally lands, the other aspects of the policy. But we definitely think that there will be a significant growth if the fundamentals are right.

Vishal Punmiya: Understood. Secondly, on your advertisement spends for the quarter, you did mention you've done one of the best October fests in the country this year. Also, you are now scaling up Amstel or you have just launched Amstel. So there could be spends for that. What was the A&SP for the quarter? And do you expect it to improve in the next quarter?

Vivek Gupta: Look, we are investing on the growth, and we are also prioritizing our investments as well. So on one side, we are investing a lot on the new initiatives on consumer meaningful. Second is, we're also making choices on doing better analysis on where the investments actually make sense or not.



Our A&P spend is going up because we are investing in the brand, and we are investing in the premiumization. And also, as you know, with the new advertising regulation, you actually cannot do much of the advertising. So, a lot of investments will go in stores and building trial. So, we're also seeing how all of that stabilize. But I would only say that we will fund our brand what we need to get the right trial and right execution. But Jorn, if you want to add on this?

Jorn Kersten:

Yes, I think, from a finance or data analytics perspective, what you want to call it, I think, return on investment and getting a better insight in where does investing the money really pay off, is one of the focus areas where we continue to get more insights. So we'll have to look at with developing regulations, what can we do. But as Vivek said, I think, as a company, we're big believers in long-term brand building.

So, to consistently invest behind the brands, and that's obviously true for the new brands and the new innovations, but it's also true for the existing brands on the core of the portfolio. So, we will continue to do this and increase it where we see that it really pays off, and that's going to help us to make the right choices to invest behind the portfolio and also into the market in terms of investing in the trade. So you can expect that this will continue quite consistently over the next period.

Vishal Punmiya:

Yes. But would you like to put a number in terms of the absolute increase or change in percentage on a Y-o-Y basis for the quarter? I'm not asking for a guidance on that.

Jorn Kersten:

Look, I don't think that from a numbers perspective, if you look at the shape of how it impacts our P&L, there's going to be significant changes. Underlying, there might be some interventions that we make shifting funds from one area to another. But overall, I think we're happy with the contribution to the P&L that we see today in terms of the balance between investing versus top line delivery.

Vishal Punmiya:

Okay. Just lastly, in terms of the premium opportunity there has been a couple of launches by some smaller players in the market. In the draught beer 5-liter keg space even Heineken globally has this product and they do well in that. What's your view on this product and can it be introduced to basically scale up your premium presence in Heineken?

Vivek Gupta:

Look, as I said, we have done a very thorough work on portfolio and we continue to learn. Yesterday me and Jorn went for dinner and they were 20 different types of beer in the microbrewery we end up going. And we said just bring a sampler and really understand, and we were saying, "Oh, this can be done, this can be done, but look reality is we are focusing on big bets on the key consumer lots.

And there are still lots which will be remaining and that we will grow over a period of time. But it is as I say, the category is so small in India right now and there is the opportunity to grow, any innovation or competition is welcome. It will only help consumers to start going towards beer because our job is to be a category maker versus category taker. And so I think any new innovation which comes, which helps consumer to try more beer is great.



So right now I think our focus on the innovation will be an Amstel Grande and already what we have launched in expanding it. Heineken Silver, we are doing a very good job in Karnataka, but we have to take it into more states. Ultra, Ultra Max, wherever we are getting local production like I gave a West Bengal example, we have only four share in premium in West Bengal and maybe less than that now because we didn't have the supplies.

So I think expanding our current portfolio, working on big bets would be the key priority. But at the same time, we'll also expand our draft offering. But again, we are working on a year-on-year plan to get this thing done.

Jorn Kersten:

Yes, and if I can add here something as well that we're building a portfolio. And as Vivek mentioned, we want to make big bets. So whatever we bring to the market, we want to do it well. And part of the reason why we are so excited about the launch of Amstel Grande is because we're learning from how the category is developing also from innovations in the past. And I think one of the most exciting things about the Amstel Grande launch is that it's been designed specifically for India.

So we've been able to identify where is the white spot opportunity in our portfolio and we think we have a super strong proposition to fill that up. And it's a newly designed product specifically for India. And, of course, having the Heineken portfolio to tap into is an advantage and we'll definitely not shy away from it if we see that, that's the biggest opportunity. But at this point in time, we think that launching an India-specific product is the best contribution to our local portfolio.

But, of course, in the future if we see opportunities that can be tapped into with the help of the Heineken portfolio, we're absolutely in a full position to do so. Because from a Heineken perspective, there's a strong belief in India growth and also building portfolios that serve consumers across India and across the different segments in the portfolio. So for the future, this is something that we look on, but for now we think that the right choice is to bring an India-specific product in that premium strong segment with the international credentials. So that's the number one thing on our priority list today.

Vishal Punmiya:

Got it. Thanks team and a Happy Diwali to the entire team.

Jorn Kersten:

Thank you.

Vivek Gupta:

Thank you. Happy Diwali.

Moderator:

Thank you. Next question is from the line of Krishnan Sambamoorthy from Nirmal Bang Institutional Equities. Please go ahead.

Krishnan Sambamoorthy:

Vivek, in the recent analyst meet, you had indicated that you have identified reasons why the market bottle returns were not as strong as what they were before COVID. Could you elaborate on what were these reasons and when do you expect it to go back to that 78%, 80% levels that you had in the past?



Vivek Gupta: Sorry, your voice was breaking. I apologize. Can you repeat or can anyone repeat? Moderator can repeat?

Krishnan Sambamoorthy: Yes, I think can you hear me now?

Vivek Gupta: Yes, this is better.

Krishnan Sambamoorthy: Okay. In the recent analyst meet you had indicated that market bottle returns were not as strong as what it was before COVID and that you have identified reasons for the same, right? So what were the reasons can you just share that and also time lines when bottle returns, the market bottle proportion can go back to the earlier levels?

Vivek Gupta: Yes. I think you're talking about bottle returns?

Krishnan Sambamoorthy: Yes.

Vivek Gupta: See I think one of the big reason was that in-home consumption significantly increased in COVID because all the bodega bars they were not serving and closed. So when people were drinking more in home or drinking outside home in the fishing or wherever in the rural areas, it was very difficult to have a proper bottle return system. It is always better when there is on-premise has a better return because there is a system to do that.

So the second part was, of course, the infrastructure where S1, S2 having people on the ground, having operational discipline, it got impacted because a lot of those people they lost their work during the S1, S2 piece. And the third is, of course, the increase of collect. Many of the glass manufacturers, they started incentivizing the broken bottles of glass to improve their operating efficiencies in their factories to really do that, which is still an issue because if it is cheaper for the glass manufacturers to get a broken bottle versus us to return that becomes a problem.

So we are trying to solve the problem on all the angles. We are in touch with glass manufacturers because we are their buyers and we are giving them a long-term impact of the category and why they should really look at the total cost. We are improving our operational discipline and our relationship with our S1s and S2s who actually collect the bottles with us. We took a price increase for them. At the start of this year so that it is also commercially attractive for them to do that.

And third, we consistently are working on models to improve the bottle returns. Now, of course, the rains have a huge impact on bottle returns. Like floods and all of these things, the return cost gets significantly impacted on that part also. But going forward, one of the things I want us to be conscious of is that we are driving a lot of new initiatives and premium will also put a lot of new bottles in the system which actually will take time to do that. But operationally, we are working through this. We have also done lot of analysis to see where the gaps are.

For example, we have observed that a lot of bottles from West Bengal goes to Bhutan. So we are actually working from regulators to say, how do we ensure that bottles are not going from India to Bhutan and Nepal and in a border town. So those are the things also which are opening up here. But I would say that it is very difficult based on our assumptions to go back to the pre-COVID level.



I think we actually think that we will have to make gradual progress and consistent progress, and we are also working with regulators to have systemic program like Goa is testing a new program where there is basically a deposit scheme for consumers on the bottle, so we're also working at an industry level to see what the other options are.

Krishnan Sambamoorthy: Understood. Very useful. Thank you.

Moderator: Thank you. We have a next follow-up question from the line of Harit Kapoor from Investec. Please go ahead.

Harit Kapoor: Yes. Just one question on first half performance. So I think when you exited last year, you were building up market shares at an overall level. I remember you, still close to 50% again there. If you look at the first half performance, this roughly 5% volume growth with double-digit revenue growth. So in your opinion, in your analysis, is this kind of market competitive performance that you've been able to deliver, both overall and premium? Premium certainly looks the case. I just wanted to get your sense on overall, how you've seen it.

Vivek Gupta: Yes. I think on the premium, we are 100% growing shares. We have whatever data because the data is not available to do that. On the overall volume, I think we are flat because there are barring three states, we are growing share in most of the states. But overall, we are flat on the volume year-to-date, if you talk in the first six months. And there are two, three drivers. I think one is, as I mentioned in the previous quarter, we got impacted more in election than others because we are the market leaders in some states with 60% to 65% share. So when we don't get a shift approval, our volumes get impacted the most to do that.

The second is the supply situation in certain states, like if they are not interstate permits, then of course, the local brands sell more. And of course, with the duty changes, again, like it has an impact on the other one. But overall, we are flat on the volume share, but the good part is we are able to drive the category growth. I think, both in the premium and in the volume segment. So overall, I think we are not too worried about it because our goal is to grow the category and get the right shape of the category growth as well. But there are state-specific issues we are addressing and which gives us confidence that we can be on track.

Harit Kapoor: Got it. That is my question.

Moderator: Thank you. The last question is from the line of Ajay Thakur from Anand Rathi Securities. Please go ahead.

Ajay Thakur: Hi sir, thanks for taking my question. Just wanted to understand a bit more on the gross margin, which has kind of contracted by 70 basis points during the quarter. So if you can just elaborate what is driving this correction? And also, if you can highlight how or what kind of growth or what kind of input cost scenario we can build for the next few quarters, that will be helpful.

Jorn Kersten: Yes. No, absolutely. I think in the quarter, from a margin perspective, we see a bit of impact also from the premium growth. And as Vivek mentioned earlier on, it means that we're also injecting a lot of bottles and it's something that we also believe is really building towards the future. And secondly, state mix plays a bit of a role also around the quarter, where we see that there's, on the



one hand, positive impact from growing in Maharashtra and Karnataka, but also offset partly by Tamil Nadu.

I think some of these items also play a role in longer term over the next couple of quarters. Of course, we're looking to expand margin, always one of our top priorities. And as I said, we do think that premiumization here plays a role even if it may need a bit of a runway. We have to inject these bottles in order to get the system, if we have to build the local capabilities in our breweries to bring that premium production closer to the market and to the consumers. But long term, these are some of the unlocks for margin.

Overall, we are looking also at input costs, of course, where we see some mixed bags and also for the next couple of quarters, we see some ups and downs in the outlook if you look at commodities and also glass pricing and these type of things. So, it's a combination of things where, first and foremost, we will be looking at growth, but also with an eye on margin because expanding margin is part of the long-term strategy.

But again, I think we're very much focused on the longer term to make sure that we build that balanced portfolio that's really going to help us drive that GP margin. And next to that, I think what's an important piece here is also how can we drive volume across the different states, both from a sourcing perspective, from a supply chain perspective as from a demand perspective and what can we do to really use the data analytics that we have to win in all the stores and win in the markets.

So that we can make sure that, that's not only benefiting volume growth and premiumization as such, but also to drive margin to make sure that we bring in the right channels and bring in the right products and where consumer centricity is going to help us not only to win in the market, but also win in terms of financial returns.

Ajay Thakur:

Understand. So if we were to kind of continue with the premium kind of a growth in the coming quarters at the same pace as that we are kind of doing right now, then obviously, our gross margins will remain a bit under pressure. Is that the right kind of a conclusion, if I were to make it?

Jorn Kersten:

Yes. I think, it's I mean, we're playing the long-term game here, and we see that contraction and it's been under pressure, and we are bringing it up slightly and slowly. So that is the overall expectation that we have that we will continue to increase our efforts, but it's not going to be a linear road towards margin expansion. I think that's something that we need to be careful about, but also realistic that this is what it is, and we will have to absorb some hike in pricing left and right from an input material perspective.

And then we're continuing to also increase our efforts and our capabilities in terms of understanding really what drives the margin and how can we influence the demand side to make sure that the margin-accretive efforts get the most of our resources. And it's going to be a balanced premium, not only exports, but definitely something that we continue to keep an eye on.



And I think you are right, that will be continued to be on the pressure. Also, if you look at global scale, I think markets have been on the pressure across many countries. And that global scale, I don't think that there's an immediate upside to the short term. And obviously, we do see the effect of that as well.

Vivek Gupta: Yes. First thing I would say is premium is one variable. But in India, the state by state is another variable. So while we will be investing in premium and all, we are also looking at states with a low gross margin and working very actively on the brand. Like there's various variables, which are coming, but premium is only one variable, I would just say that as you look at the margin.

Ajay Thakur: Okay. And also, there was this fact that there was mention of moderation of the glass input, the new glass cost actually. So I was just wondering that is kind of not reflecting in the current quarter, but the impact of the premium actually is kind of offsetting that. So I was just kind of coming from that perspective as well?

Vivek Gupta: Yes, I think, as I said, the state mix is also an important one. So as you look into the gross margin, we have state where the gross margin is extremely low. And we are waiting for pricing to happen. We work with the government, give the pricing submission and we have states, the gross margins are reasonable.

So I think there are a lot of other factors, which have come in, which also impact the gross margin. But as I said, consistently, if you see versus previous quarter, the gross margin, there is a significant gross margin improvement of quarter-on-quarter. But what we are definitely doing is, we are not slowing down our plan to just hit the growth numbers versus a year ago. But we are very cautious of this.

Ajay Thakur: Thanks for that's. And just last part of it, Vivek, you mentioned about certain states, which still are kind of having issues. So if you can mention those states and what are the things that we are doing to address the concerns in those states? That will be the last part of it. Thanks.

Vivek Gupta: Yes, I would say there are three type of states, which are issues for us. Let me start with one, where there is an issue related to regulatory, where the duties have gone up significantly on Beer and that impacts the volume like West Bengal is a good example, where we work with the Brewers Association of India and consistently on the corporate affairs. And then we also look at, okay, what do we need to do in our portfolio to keep driving growth.

Then there are second kind of states where there are a lot of operational issues in the State Government. Like I don't know how many of you heard about Delhi excise portal did not work for a period. Jharkhand had an issue in September where excise orders were not accepted and all. The permits were not given from one state to another through this.

So there are operational cooperation issues, which is also impacting. And this is industry level impact and which we are consistently communicating, understanding, offering for help wherever we can, given our technology resources so that there's a continuity because state builds revenue.



I think there's a third issue, which we really need to understand deeper at a state level where we have to actually work on is, just our own competitiveness portfolio, which is mostly in our control. And those will take time because fixing the portfolio, getting the pipes connected. And when I say time, we are actively working on it, but you will see over the coming quarters where we will address that. So I think those are the third ones.

But primarily, I would say the first one related to policy ones, West Bengal, Punjab, they are really big concerns right now. In terms of the excise system stability, it was Delhi, Jharkhand were the states to do that. On the third one, I gave you some examples as well.

Ajay Thakur:

Thank you, sir.

Moderator:

Thank you. As there are no further questions, I would now like to hand the conference over to the management for the closing comments.

Jorn Kersten:

Thank you, everyone, for joining and for your questions. Again, I think, we would say that we're happy with the results year-to-date with the continued momentum in the volume as well as how it translates into the P&L, where we've seen that sales are or revenue growth is ahead of the volume and translating into a very solid EBIT growth. And we continue, we see a continuation of this progress ahead of this. We're confident that also with the contribution of Amstel Grande, I think, we can continue this journey in building a really strong company that is going to grow the beer category in India.

Vivek Gupta:

Yes. And just I want to wish all of you very happy Diwali and festival time. And I think if you are in Mumbai, in the first week of November, please do try Amstel Grande and give us the feedback. Good or bad, we'll take the feedback because we are really excited on what it can do to our business and the category going forward.

But thank you for joining. We continue to we are on a journey, it's not a one quarter journey. There's a lot of things needed to build this category. There will be ups and downs, 2 steps forward, 1-step backward, but we will continue to work on that. But thank you for your engagement with us.

Moderator:

On behalf of United Breweries Limited, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.
