"United Breweries Limited

Q3 FY '25 Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Quarter 3 FY '25 Conference Call of United Breweries 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

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

Jorn Kersten: Thank you. Thank you very much, and hello, everyone. Thank you for joining this call. We're very happy to discuss the developments of quarter 3 of the financial year '24-'25. I will give some of the highlights on the quarter before I hand it over to Vivek for some comments, and then, of course, we will open up for Q&A as well.

So looking at Q3, we see continued strong fundamentals, while we're also investing for the future. In our volume growth, we accelerated in Q3, and we're very happy with the 8% overall volume growth, driven by broad-based growth across the entire footprint and positively impacted by recent policy changes in states like Andhra Pradesh. We gained share at an overall basis, but also in the premium segment, continuing the growth trajectory from previous quarters.

Premium volumes grew 33%, where we saw the strongest growth coming from our Ultra portfolio, both Kingfisher Ultra and Kingfisher Ultra Max. And we recently launched Amstel Grande, and we are happy by the early, but still very promising consumer response and growing momentum in the market.

Overall, volume growth was predominantly coming from Telangana, Andhra Pradesh, Uttar Pradesh, and Rajasthan and partially offset by Tamil Nadu and West Bengal. If we look from volume to net sales, net sales increased by 10% on the quarter as well as in year-to-date, driven by price increase across multiple states, but also a mix from premiumization, which is partially offset by growth of the economy segment and a negative state mix in terms of volume growth.

On the EBIT side, we delivered an EBIT of INR 90 crores, which is significantly lower than last year, so a contraction on the like-for-like, but we have continued investments in the organization as well as into our supply chain, making sure that we are ready for the peak season, and Vivek will also be able to shed some light on that later in this call.

As part of the ongoing efforts we put in to enhance our operations as well as drive growth, we've implemented a productivity program in Q3. This program and the related change initiatives are there to improve our efficiency, but also productivity and competitiveness in the market towards which we incurred a onetime exceptional cost of INR26 crores in Q3, but our overarching goal is to deliver annual gross savings that we estimate to be around INR50 crores annually kicking in 2025.

In addition to unlock growth opportunities, we are very happy to announce a major investment in the state of Uttar Pradesh for a greenfield brewery, which has been approved as well here, Vivek will share some further insight.

Now before I hand over, I do also want to mention from a portfolio perspective that we're very excited to announce the launch of Kingfisher flavors, which targets a younger, more experimental consumer. We're seeking a sweeter and less bitter taste in the beer options. We introduced 2 flavors Lemon Masala and Mango Berry Twist, and the brand draws inspiration from popular Indian street food flavors. Currently, we launched in Goa and Daman and Kingfisher flavors will gradually expand to other regions as well in the months to come.

Our key areas will remain as they have been over the last quarters, really looking at category growth and winning in all segments, making sure that we leverage and increase the importance of our supply chain network, the quality of our beer and really brew a winning culture through investments behind the organization as well as continue to look at profitability and capital efficiency in the choices that we make to sustain long-term growth in the Indian beer market.

This continues to be pillars of our strategy as we work towards the growth path across all of India. We're happy to take some questions, but first let me hand over to Vivek for some comments on his side.

Vivek Gupta: Yes. Thanks, Jorn, and good afternoon, everyone. I know Jorn talked about our continuous strong momentum and actually building on the momentum, we're growing the full shares. But I wanted to talk 3 things before we get open for Q&A, and I know these will be on top of your mind as well.

The first, I want to talk about the investment in Uttar Pradesh. I'm very happy to announce that after almost 12 years, United Breweries is actually investing in a greenfield brewery. So while we have been a company of -- we have so many breweries there, but it's a very important moment for the company to do that.

And one of the work we did last year, around 6 months back, we put a business development team who are exploring that to meet our future capacity requirements as we want to be the category maker, where are the opportunities of growth and where can we do that.

Currently, we actually do business in UP through a contract manufacturer, Wave Distilleries and Breweries. So we actually buy it from them. And based on the category growth and positive policies where the stores are going to double of our beer, we wanted to make sure our premium brands, and we have a long-term supply there. So we actually work the design, and I'm very glad to share that the global Board of Heineken as well as the UBL Board has approved it. We are in an advanced stage of conversation with the government.

We have even identified the land, and this will be probably one of the world-class brewery at an optimum cost because as we have designed the brewery, we have also don't want to create a palace. We actually want to make sure we use the local technology, local machinery wherever possible, but we have the right standards, and we will have our premium brands as well as Kingfisher to be produced there.

So — and the capacity of brewery is going to be modular. We are looking at anywhere between 1 million to 3 million depending on the —because the brewery is set up for many, many years. So very excited to talk about that. And this will not be the only investment we will be doing. We will also be -- we are also in talks with other state governments on various models of how do we expand our capacities and be future ready.

The second important thing, I also want to talk -- I'm pretty sure there'll be a lot of concerns on why the profit is down, what has happened structurally, and I'm sure we will address some of them, not to all your satisfaction. But I want to tell you that one of the critical choice we made was to really prepare ourselves for 2025 summer season.

And the reason I would say that because if you remember, in 2024, when I came to you, we mentioned the impact of elections and why election had more impact on us. So elections really slowed down our growth rate in certain states during the April, May, June quarter. We are expecting summers, and we're expecting a higher growth rate.

And to prepare ourselves for the growth rate, we wanted to make sure we are setting up breweries for success. So we did a lot of investment in repair and maintenance of our breweries. To give you an example, in Andhra Pradesh, we had a brewery for last 4, 5 years, it was operating at 1/3 the capacity. Now suddenly, if you want to utilize the full capacity, we realized that since we have not invested in maintenance and repair, our boilers were giving up after 50% capacity increase.

And there were -- filters are giving up, we started having some quality issues. So we actually took a step back and actually made a significant investment in making sure the breweries are ready. So in fact, I'm very happy to say that from this month itself, the same Andhra Pradesh brewery will give us 2.5x versus we were getting 1.5 to 1.7x from Andhra.

Similarly, we did that in many other breweries to make sure we are future ready. We also invested in warehouses so that in the places where we have shelf life of a beer as 9 months, we actually can bring the stocks forward, do the production in the non-season. So we are ready to fill up the market when the summer start, and we are lucky that you see February already is getting hotter in many places. So -- and usually, March is the time when the inventory start builds up, but it has started building up now also. So we made investments in the peak season.

We also made investment in the organization and our fixed cost is high because trade marketing, corporate affairs, all of these are investments where you have to work on long term. At the same time, we also worked on a productivity plan, which the impact you will see this year because most of the people who left us were there till December to bring together. But we didn't let them do that. So the other thing I wanted to say is we have actually invested and we feel pretty good about our preparation for the season given the constraints we had on the capacities and how to maximize it.

The third topic I wanted to address was the Telangana. I know this was a big, big topic of discussion. Look, I would say, extremely proud of the organization and proud of -- to do the right things. We are there to serve consumers. We absolutely want to make sure that consumers are served with the full capacity. But at the same time, the viability of the business because the pricing was getting delayed and the outstandings were high. So we were left with no options after multiple negotiations to be very reasonable and say, look, we will not be able to supply to the corporation because there is a limit to that.

I would say that we had very constructive conversations with the bureaucracy as well as the government. Some of us were personally there for many days. And I think I'm happy that they have shown some progress. I think a 15% price increase does make our red P&L there to amber P&L. We are not fully out of the red, but it is -- definitely it helps gross margins. It also helps the EBIT.

Unfortunately, all of this price increase has gone to consumers. I think I would have -- we had recommended and I would have loved if they would have done some tax restructuring so that the consumer impact is minimum, but the consumer impact is going to be -- is quite high, though it's still in line with the neighboring states, the consumer MRP, but we have to see INR30 and INR40, how much that impact in Telangana.

We still have outstanding in Telangana, but we have started getting regular payments from September like everyone in the industry. And we also got a couple of payments, which have reduced our outstanding balance to do that. And we have got an assurance or a plan that over the next few months, we will get back our outstanding.

We are -- the reason I said we are proud because even after this, we are in talking terms with the government and the bureaucracy. We are discussing with them. I have told them the impact that look, very thankful for the progress, but the impact is still -- we are still not out of red. At the same time, the consumer impact is very, very big. And let's monitor it so that the category doesn't attack in one of the most important places to do that.

So that's about Telangana, but it again, should give you the confidence that we structurally want to improve our profitability of this business. We structurally want to build the category. And as a UBL, we will go state by state, state by state where we have structural profitability issues for the category, we will elevate that, and we will continue to work with the government and through the association so that we can have a better investment climate in those states.

So with this, I hand over back to the moderator for any Q&A.

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 the touch-tone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Please limit your questions to two at a time per participant. You may join back the queue for further questions.

We'll take our first question from the line of Jay Doshi from Kotak. Please go ahead.

Jay Doshi: Hi, Vivek. Thanks for the opportunity. And congratulations on good progress on both volumes and premium portfolio. I've got 3 questions. First is just checking if I heard you correctly. So even after a 15% price increase, your Telangana operations would still be EBIT negative?

Vivek Gupta: Yes.

Jay Doshi: So then what is the way forward in terms of -- because Telangana is a state that is known for not giving price increases for 3 years, 4 years, 5 years. So then why would you want to sort of continue operations if you don't have any commitment or if there is no visibility on further increments to make the business at least minimal profitability?

And partly because, again, I agree with you on restructuring, the kind of price -- tax increases that they -- if they're not changing the taxes, then even if they give you another 10%, 15% price increase, then it will -- there will be a lot of headwinds from demand perspective. So basically, the problem for the state sort of doesn't get addressed with this?

Vivek Gupta: Yes. No, let me address your first question because -- we do that. I think -- look, I think I would say that at an operating level at a local state level, we are slightly okay, okay? If I not put the overhead cost because your question was at an EBIT level, if I don't put the head office and the other overhead costs, I'm okay, right? And on certain SKUs, I'm okay. So if I drive some mix, I can do that.

Having said that, as I said that without revealing much, our discussions have been wide open, and they know that. And we have to be a little bit more pragmatic also here because we -- all the complex issues will not get solved in one go from where we are coming of 5 years of no pricing and having a massive hole to having a little hole now, which can be worked at a local level for some time.

But I think we would be expecting a Phase 2 in very near foreseeable future because we have been telling government that, look, with this pricing, it is not an investment grade. We can make some cost savings to at least avoid our operating losses. But at the same time, we are also working very, very closely to also show the impact for the consumer pricing and what are the other options to do that.

So it is like you have to work consistently on this. This is not a one go where we ask something we'll -- got it. But I think it's a significant progress from where it has come now. So that is what I would say.

Jay Doshi: This is the first step, and you are hopeful that there will be some more release on this?

Vivek Gupta: Absolutely, because we will be consistently engaging with them. And I would say it will -- definitely won't take 2 years to get another one or 5 years to get there. So it will be a consistent one. And I think the -- if you ask me, the government or the officials will also agree to that, not us giving pricing, but yes, they have more work to be done on this.

Jay Doshi: Sure. Second question is, there is an excise duty increase in Karnataka and more importantly, at the economy end and then there was a media article that indicated that United Breweries has commented that they'll absorb a part of excise duty. First of all, is that accurate? And if not, could you give us some color on what is your exposure to the popular end or economy portfolio in Karnataka? And what is the premium portfolio?

I know you will benefit relatively, but on an absolute basis, this may still be a headwind. So if you could share some color on how big is Karnataka for you? How big is the popular portfolio? How big is the premium portfolio? And are you going to absorb any of the excise duty increase? Or are you going to pass it on?

Vivek Gupta: Yes. No, absolutely. I think, first of all, it's very unfortunate what is happening in Karnataka for the industry. I think it's not only Karnataka, in many other states, like what we saw, the beer is becoming less affordable for consumers. So it means the market leader or the category maker like us, they have to work much harder.

So in new economy segment, it is 25% of our business today. So our volumes like brands like Bullet and UB are 25% of our volume to do that. So we have passed on the duty increase to consumer in those brands. However, we have made a strategic call that Kingfisher brand on the mainstream and Ultra, which is Kingfisher and its allies, we are not passing on the duty to consumer, and we are absorbing the price increase.

Why have we done this? I think 3 reasons. First of all, as I said, as a category leader, we really need to make sure that the category growth is there. And we believe that in the past, when the economy segment was there, when the lower price point came in the market, Kingfisher was the biggest donor. And it happens, right? The biggest brand becomes the biggest donor in the economy.

Yes, we have 25 share, but on mainstream, I have 60 share. So this is a bet we are taking, which means that the trade-up should happen to Kingfisher and because the delta between the economy brand and the Kingfisher is much lower now. So think about a INR35, INR40 delta versus INR80.

So this is a business call we have taken to make sure that we offer -- we do the value reframing and offer the legendary beer at the same price when all consumers are thinking the beer is becoming very expensive. I can tell you the early read is very positive. Too early to say, but at least what we are seeing in the stores, what is there, there is a momentum on this, and we have made a call on that.

How will this whole react and pan out? We don't know. We have assumed a category contraction at the economy end. And we think many of these consumers will go to low-end spirits. And we just need to monitor it and then continue to work with the government. But we do think that if we get our plans right, we should be able to accelerate premiumization with the launch of Heineken Silver last year here with our continuous momentum on Ultra, Ultra Max, in future launch of Amstel Grande.

And at the same time, we should be able to blow back our shares on Kingfisher and get at least consumer a better experience.

Jay Doshi: Sure. Could you tell us what is the volume salience between economy where you're going to pass on the price increases and the segment that is Kingfisher, Kingfisher Ultra where you are absorbing the excise duty? And are you absorbing entire excise duty? Or is it partial increase?

Vivek Gupta: See, first of all, the duty increase on the economy is much higher than the mainstream segment. So just to give you an idea, in the economy, we could not price anything below INR145, and our price was INR120. So just to give you an idea because the way the duty is structured at the economy is a much bigger increase. But at a mainstream, it is a much smaller increase, but it's still an increase. So that's what I will say.

Jay Doshi: Lastly, is it possible to give us an update on where your bottle recovery rates are today? And any road map, any -- what are your plans as you get into the peak season? How do you expect it to sort of improve versus what it was maybe last year?

Vivek Gupta: Yes. I'm actually happy to report all the efforts we are putting this quarter, we had actually 5% improvement versus the last year. So it is improving in our bottle network. But at the same time, since our volumes are growing, we're also putting more new bottles in the system. And especially for the premium launches, we are putting the bottle in the system. But the good part is all the operational measures we have put together, they are going in the right direction. And last quarter was actually 5% above the previous quarter.

We have to do much more work. Like, for example, as the -- like Andhra Pradesh is one state where our bottle return is very low in the past. So we are working on a new model of having more distributors and scale distributors of bottle collectors so that we can actually improve that significantly. Similarly, the places where there were floods like Kerala and all, we are also working on a plan for a better recovery, but it's in the right direction now.

Jay Doshi: But will it be close to 70% in FY '26? Do you think you'll get close to that number or still too early to say?

Vivek Gupta: It is too early to say. Our goal is to get there, but also this is why we are working with the state governments to say they have more permit rooms. Because if the permit rooms are not there, then it becomes very messy. So what we are learning is where there are permit rooms, the consumer can actually sit and drink, the bottle collection is much better. When consumer just take it from the store and go is there.

So actually, we are working with a lot of state governments to show the data and to see how if they can follow Maharashtra kind of model, it could really help in bottle returns and cost of doing business also, apart from sustainability.

Jay Doshi: Sure. Thank you so much. Thanks.

Moderator: Thank you. We'll take our next question from the line of Latika Chopra from JPMorgan. Please go ahead.

Latika Chopra: Hi, thank you for the opportunity…

Moderator: Mrs. Latika can you use your handset mode, please? Your audio is not clear?

Latika Chopra: Is it better now? Yes. I'm using my handset only.

Moderator: Yes. Please go ahead.

Latika Chopra: Yes. My first question was on gross margin. There are a lot of moving parts there. The mix is improving, which is good. The state mix, which is tough to call, but with developments in Telangana looks like it's moving in the right direction. And then the kind of capex you're putting up to scale up for large capacity.

So where do you think gross margins could look like 2, 3 years down the line? In some of your productivity programs and capacity and whatever tax changes that we've seen in recent months in certain states. Can we really aim for, say, a high 40s kind of gross margin in this business? Thank you.

Vivek Gupta: Jorn, do you want to answer?

Jorn Kersten: Yes, yes, I'll answer this one. Look, this is something that we continuously look at. And also in previous calls, we mentioned that we're in this for the long run. So if we look at the mix development in the salience of premium and there we have a lot to gain in terms of premiumization, which will, first and foremost, improve our revenue mix. But then as Vivek mentioned earlier on the call, it will require a lot of infusion of new bottles to grow SKUs that are not available to that extent or not sold to that extent in all states yet.

So in the short term, the premiumization mix will do a lot for our revenue and for our market share, but not necessarily immediately for margins. But as we go along, this will get better. And same goes for the translation of the investments that we're doing in our breweries. We said we have premium capabilities available in many more places coming season than we had last year, and that obviously also impacts the margins as we are closer to the consumer. So these things long term will help us to further develop the gross profit margin.

The state mix, that's something that obviously is partly in our hands. We try to grow volume across states where we keep an eye on where we make the strategic choices. I think Karnataka that Vivek just commented on is also an example of that, where we don't only think that Karnataka is the home of Kingfisher, and therefore, it's a consumer-centric choice to absorb on Kingfisher duties, but it's also in our state mix, one where we really want to drive volume. So that's something that's developing.

Obviously, things that happen such as in Telangana, despite the fact that we are not where we want to be yet, that will definitely help our margin delivery in the short term.

Latika Chopra: Sure. So fair to think that probably gross margins will improve, but it could be a more gradual progression, right?

Jorn Kersten: Yes. And that's also how we look at it. We want to build a sustainable profitable business, and we take small steps where we can, but we also want to keep our focus on the share development and the volume growth to really make the category.

Latika Chopra: Sure. And the second one was on volume growth. Volume growth is…

Moderator: Mrs. Latika I am sorry to interrupt but audio is not very clear.

Latika Chopra: Can you hear me better now?

Moderator: Yes, please go ahead.

Latika Chopra: Yes. So my question is on volume growth. 8% is fairly impressive. And clearly, there are a lot of flexibility build-outs you have done and the aggression is very much visible. So are we now in a relatively more comfortable space to say that 6% to 8% kind of volume growth is minimum for you when you're looking at the next year -- next fiscal year?

Jorn Kersten: I think overall, we look at similar rates moving forward, and we think that's where the category will grow. Obviously, with all the efforts we put in to shape the category and also look at beer as a drink of choice for consumers, we do obviously hope to push it forward and also with the premium share gains that we've been showing for UB, it means that we're happy with the 8%. And we think that's for a quarter, a really good a very good delivery.

We aim to be ahead of the market, of course, moving forward as well. But I don't think that necessarily, given the volatility of policies, etcetera, that we will see a huge acceleration in overall growth. Also, this is a long-term play where we're sustainably building the category.

Latika Chopra: Understood. Thank you so much.

Moderator: Thank you. We'll take our next question from the line of Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: Thanks. My first question is on the first greenfield project in 12 years. What is the main reason behind doing this? Is it more for production of the premium portfolio quality improvement or there is a cost advantage? And second is, when do we start seeing the manufacturing of this because the project is yet to start because you identified the land, but obviously, approvals are pending. Will it be more of FY '28 where we see the benefit of this?

Vivek Gupta: Yes. hi Abneesh, I'll answer that. It takes almost 24 to 30 months to set up the brewery to do that. So our goal is we should have this set up by '27, sometime in '27. Of course, the team will work at that accelerated pace as there, but the fastest brewery setup, it still takes, I'm told, 12 to 18 months to really do that. Why are we doing it? Because as Jorn said, we are in the long run in India.

We expect the beer category to grow. We want to continuously be the category maker to really do that. We see in UP, which is the highest population state, we see the -- with the urbanization happening, with the infrastructure development happening, our projections are that category growth rate will be strong. We have assumed the similar 6% to 8% in UP to really do that. And as we look at that, then we will need more beer and more beer to be produced locally.

The second thing is it's always a trade-off. But based on the environment, the number of stores, the policy -- excise policy, positivity of the government, access to raw materials because UP is one of the states where we also get barley from to do that. The cans versus bottles because UP is more cans versus bottles as well. So when we look at all of this, we think there is a net present value, which is positive for us also.

Third is, I don't know if you know UP government last 2 years back, they introduced a franchisee fee which is basically, if you don't produce it locally, you actually end up paying more fee than that. So putting all of this together, of course, when everyone is approved it, it is a financial sense to this project. But we actually think this is -- and this is also to produce our premium brands, produce Heineken there, produce a local Kingfisher, but it is to invest in future based on the category growth.

Just to give you some data in '24, UBL volume grew almost 20% in UP.

Abneesh Roy: Understood. So one follow-up question here. So you have done very well in UP last 1 year, this quarter, Q3 also. Is premium also doing well here? Because I do see almost 1:4 difference in terms of pan-India mass versus premium, 8% versus 33% growth. But is the premium growing largely in the big urban cities and UP is more of a mass market? So if you could tell us how is UP doing in terms of premium? And the stores getting doubled in UP, when is that fully happening? Has that already played out in terms of distribution?

Vivek Gupta: No. So the UP excise policy has only come last week. As per the policy, if you see in UP earlier, there were separate stores which were selling IMFL and separate stores who are selling beer. What the new policy has said is composite stores. So the beer stores will go up from almost 6,000 stores to 10,000-odd stores. The composite number is 10,000 to 11,000. So both these stores will sell both IMFL and beer.

So the stores are doubling for the branded category. So that's a very positive news because in the last stage, you need to have beer for beer accessibility is very, very important. So this implementation will happen from April 1. So the government is going through the e-auction and all process. So the future is looking quite bright there.

In terms of the premium number, I don't have the category numbers, but our business on premium doubled in UP. Our Ultra brand is growing 157% and Ultra Max is doing and there is much more scope of premiumization as well. And that's what we see around in the other states also when the supplies are available, the execution gets better with urbanization, there is a faster growth in the premium brands than what we're only thing -- only in the urban centers.

Abneesh Roy: Sure. That's helpful. One follow-up question to my first question is Delhi is adjacent to UP market and UP has done so well. Now BJP end-to-end in Delhi in terms of the government. Do you see at some stage, Delhi also seeing a lot of reform? And currently, how is Delhi market doing for you? Because for spirits, Delhi has been challenging in the last 2 years. For you, how has the Delhi market been?

Vivek Gupta: So it has been challenging for us as well. We are doing okay because -- but we are very low in shares because it's still a cooperation market, and there are a lot of ordering system issues there and all. Look, I'm like you, like anyone else, we are hopeful that the governments do what they are supposed to do. So I won't comment more than that.

I had hope from previous government. I still have a hope from this government as well that they do something because the quality brands have to be available more consistently in the stores.

And I see a lot of potential in Delhi if the policy comes in. But I'm also pragmatic that it will not happen immediately.

Even in Andhra, if you see, it took 6 to 9 months for policy to come in position. So I'm pretty sure it will not be an immediate change that somebody is sworn in and then next day policy will change. I really hope things get better.

Abneesh Roy: Sure. My second and last question is on the 2 brands you have put -- photos you have put in the PPT, Mango Berry and Lemon Masala. You spoke also that in terms of that in the opening remarks. If you could tell us in terms of pricing and market opportunity, how big it is? And if you could talk about the margins here. I understand this is catering to a customer who is more new to the beer, more in terms of mild beer, etcetera. But how big is the market? And is this a premium product?

Vivek Gupta: Look, this is premium to Kingfisher. We have just launched this in only in a couple of markets of Goa and Daman. It will get expanded to Mumbai because it needs some work on the breweries to produce the flavors. As you know that in India, there has been flavors, but not -- the legendary brand has never done flavors. And young consumers who are new recruiters in the category, they are looking for different flavors and varieties and do that.

So this is -- think of this as an experiment as a pilot to start with, which has been well tested with the consumer and well one with our R&D, working with the global R&D to design it for a local sense. We actually think doing it in the right manner on a very consumer focused because they were -- there are some companies who launched many flavors. It became hit, but then they struggled because they were -- the inventory was catching dust in the shelves to do that.

So this is -- these are definitely -- they definitely are at premium price, slightly premium price, better margins. But they will also are designed for young Gen Z consumers who are new recruiters coming in the on-trade, wants to try different flavors of beer because the trend is towards cocktails and other things. So we will learn through it, and then we will selectively expand them.

So these are 2 variants of Kingfisher, which we have launched, but we are very excited because this just shows the opportunity that we are not going to be the old Kingfisher brand. We are listening to the consumers and we are making the interventions. And early response, I can tell you, is fantastic. If you ever go to Daman and Diu or in Goa, there's a lot of demand for it.

Abneesh Roy: Understood. Thanks, that’s all from my end. Thank you.

Moderator: Thank you. Before we take the next question. I would like to remind participants to ask a question they may please press star and one on their phone. We'll take the next question from the line of Krishnan Sambamoorthy from Nirmal Bang Institutional Equities. Please go ahead.

Krishnan Sambamoorthy: Thanks Vivek and Jorn. You indicated in the presentation that there's been market share gains for the quarter, both on an overall basis as well as in the premium segment. If you -- at 8% volumes for the quarter, what do you reckon would have been the industry growth for the quarter?

Vivek Gupta: Sorry, your question is what is the category growth? Sorry, can you just...

Krishnan Sambamoorthy: Category volume growth for the quarter, yes?

Vivek Gupta: For the quarter, I think our volume growth is 8%. Our estimated category is 7%. So that's why we have grown overall market share. Based on whatever data we have, it is 7% for the quarter.

Krishnan Sambamoorthy: And yes, can you also indicate the key states where you gained share significantly?

Vivek Gupta: Look, I tell you -- I can tell you where we lost share. And I can also tell you where we gained share. We lost shares in -- sorry, one second. We lost share in West Bengal because if you see the beer has become very expensive in West Bengal after the duty increase. So we lost share in West Bengal because we took the pricing from -- to pass on the duties from INR135 to INR160 and there is an economy brand, our competitor kept at INR140. So there was a loss of share to that brand. So the West Bengal was one area where we lost share.

We think we lost share in Rajasthan, again, some of those concerns. And we lost share in Tamil Nadu because Tamil Nadu is still the go-to-market, the way the TASMAC needs to still do a better job of ordering. And we have been raising this to the government that we believe there's a lot of out-of-stock of Kingfisher in Tamil Nadu because coordination from TASMAC and all are there. We have had a couple of meetings with them, but that seems to be an issue as well.

Karnataka, I'm not sure. I think we gained share despite declining 5%, we gained share, which is an impact of category which was already happening because of this whole humour of excise duties being increased and all. But everywhere else, we gained share. we gained share in every other state. We gained share in Telangana, UP, Haryana, Maharashtra, Assam, Arunachal, Meghalaya, you name the state, we gained share.

Krishnan Sambamoorthy: And would you be able to call out how much was the contribution of Andhra in this 8% volume growth? Was that fairly substantial for the quarter?

Vivek Gupta: It is 1.5% to 1.6%. So without Andhra, we would have been 6.5% to 7% rounded off growth.

Krishnan Sambamoorthy: Okay. And a couple of questions on disruptions. Any material disruption in the current quarter because of the Delhi state elections? And similarly, in the -- what was the period where supply was halted Telangana?

Vivek Gupta: Look, this quarter, honestly, the January has not been good because of 2 big disruptions. One is in Karnataka. The Karnataka category is down 30%, 35% because if you know Karnataka, because of the duty change, there was label approval for the beer, and they were trying to manage old inventory, excise was managing. So for 15, 20 days, it took -- there was no stock in Karnataka, you would have read also in the market, which only started off. So there is an impact in Karnataka. Now we are filling some pipeline, but there is an impact in Karnataka.

Second thing is, of course, our operations were closed in Telangana for a good 15 days. So that is -- that's something we are aware of this. Third, there were pricing changes and policy changes in some of the other states like Odisha. We got the price increase in Odisha, but there was a period of change to do that. So there were disruptions in Jharkhand also where we got the pricing, but there's a disruption because of excise policy change as well.

So January had a lot of disruptions, one led by -- driven by us and 3 driven by -- there with the big disruptions. We are off to a good start in February, and we will try to do that, but let's see how much this impacts the quarter. But from an overall year perspective and long-term perspective, I think we are in a good shape.

Krishnan Sambamoorthy: Okay. And any material impact of Delhi elections on volumes in the state?

Vivek Gupta: As I mentioned, the Delhi business is not too big. There's a lot of opportunity there. So not much impact. We are fine right now.

Krishnan Sambamoorthy: Great. Thanks a lot Vivek.

Moderator: Thank you. We'll take our next question from the line of Ashutosh Jain from Barclays. Please go ahead. Mr. Ashutosh Jain please go ahead with your question. Please check if your line is on mute?

Ashutosh Jain: Hello. Am I audible?

Moderator: Yes. Please go ahead.

Ashutosh Jain: Thank you. I was looking at the Heineken Group recent trend and happened to notice that in Brazil, digitization efforts of the RTM helped its margins now very close to the group level. So could you just give more update on similar efforts in India and likelihood of similar impact on margins if it could have in this geography? Thank you.

Vivek Gupta: Jorn, do you have any idea about what Brazil is doing? I've not followed up on this digitization piece, but do you want to take that?

Jorn Kersten: Yes, I can tell you. I think if you look at Brazil, it's hard to compare it to India, looking at where they are in terms of, for instance, digitization, but also in mix of their portfolio. So the Heineken brand, Brazil is actually the biggest market globally for the Heineken brand. So also in their mix development as well as other parts of route to market play a big role in the margin. So I think in terms of absolute margins, it's hard to compare it.

Obviously, overall digitization helps on 2 areas. I think one is the productivity piece. And the other piece is to be better in terms of using data on where are the opportunities and what does the consumer want. And I think on both areas, there is definitely room for us to also develop. I think that also comes with really building the category.

But to be very honest, we are taking steps and we're developing and we're working with apps for our sales team that are locally developed to help them and to help win in all the stores. But we're also looking at basics of in-store visibility. If you look at the number of, for instance, coolers that we deploy or that we plan to deploy in 2025. I think that's short term where for us it's the biggest gain.

But of course, the benefit of being part of the Heineken system is that we can learn and that we can look at other markets and see what works and then take those best practices and develop it for India specifically.

Moderator: Ashutosh, does that answer your question?

Ashutosh Jain: Yes. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, to ask a question, please press star and one on your phone. We'll take a question from the line of Ajay Thakur from Anand Rathi Securities. Please go ahead.

Ajay Thakur: Thanks for taking my question. So I wanted to understand a bit more on the consolidated EBIT margin impact from the Telangana price increase. While I understand you had mentioned about 100 basis point kind of a gross margin impact, but can we expect a similar or a higher kind of a number on the EBIT margin from the Telangana price increase?

Vivek Gupta: Jorn, do you want to take that?

Jorn Kersten: Yes, yes. Of course, we welcome the additional pricing. And like Vivek said, it's great progress whilst we are not there where we want to be. And to be very honest, it's also us gaining back some margin as we were selling at loss in Telangana. So yes, of course, this will improve the top line margins. But like we said, we're also investing in growth. So I don't expect that to one-on-one translate into a margin extension.

It's very welcome to balance our business and to get after where can we invest behind the brands, behind the organization to continue the growth. So I would be very careful to translate that immediately into bottom line margin expansion.

Ajay Thakur: And second question was more on the cost-saving initiatives that we have undertaken. While I understand that there has been already front-loading of the cost in terms of the exceptional items. I just wanted to understand, is it kind of totally been kind of covered with the exceptional item? Or we still have some more of it pending, which can come up in the next quarter?

And also, in addition to that, is there any one-off also sitting in the other expenses during the quarter related to the cost saving measures that we have undertaken?

Vivek Gupta: Yes. I think I can answer one first part. And second, Jorn, I'll ask you to answer if there are any other one-off items which are there in the P&L this quarter. I think productivity is going to be an ongoing thing at UBL because as we are going to invest and grow, we will keep looking at the opportunities to save. So -- but what we wanted to do was we didn't want to do multiple small initiatives throughout the time.

So we actually did 4 or 5 programs at the same time. And all of these programs were intent of upgrading the organization, finding the structural efficiencies, but also using digitization to get better on this. So this is why you have the exceptional cost in this quarter, and we will be having the savings. We will absolutely have another productivity program for '25. When will we do that?

Definitely not during the season because you want to focus on making sure you're serving the consumers to -- on doing that. But somewhere in the second half, we will do that. And when we do that, we will let you know on that. But any other exceptional items, Jorn, you can talk about it in the current P&L.

Jorn Kersten: Yes. No, absolutely. I think not necessarily exceptional items, but conscious choices for the most part. So like we had mentioned to be ready for the summer season 2025, we did put additional money behind making sure that our breweries are ready. So in terms of maintenance costs on the quarter, we see quite a peak other than in other quarters. So to make sure that the breweries are ready to fill the demand for the peak season.

We still continue to see an increase in the organization cost because we started investing in the organization in, let's say, Q2 -- Q1, Q2 of this fiscal year. So we still see continued increase in those expenses if you compare it on the Q3 from the previous year. And the last thing I would like to mention here as well is that -- and as you all are aware, the outstanding receivables in Telangana, of course, have an impact on our financing costs and the cost of working capital and part of that also reflecting on the Q3 P&L and impacting the margins there.

I think those are the 3 items that I wouldn't necessarily consider them to be exceptional, but we do expect those items to normalize moving forward. So the underlying margin of the business is still very healthy.

Ajay Thakur: Understand. Thank you, sir.

Moderator: Thank you. We'll take our last question from the line of Vishal Punmiya from Yes Securities. Please go ahead.

Vishal Punmiya: Thank you very much. My first question is on Visi coolers. If you could share the improvement of Visi coolers over the previous quarter? And what is the number currently?

Vivek Gupta: Yes. No, I think it's a great question. We actually added almost 10,000 Visi coolers in 2024. As I said, beer is sold when it is cold. And again, going back to our role as category maker, we actually are working on ensuring there are more coolers in various parts of the places. We were able to place almost 1,000-plus coolers in Andhra Pradesh as the market opened up to really do that. So we have implemented more than 10,000 coolers.

Vishal Punmiya: Okay. And also, if you could share the capex number for '26 and '27, including Uttar Pradesh?

Vivek Gupta: Look, it's very difficult to share the capex number because as we said, we are investing in the growth. We are looking at the opportunities. The numbers are very variable because some places, we may go with a hybrid model, some places we're investing in our own brewery. So we have a total strategic plan. So I won't be able to share the number at this stage.

And I would say that a lot of it also depends on the policy regulation because one of the things I'm really, really concerned about is the affordability of the beer because in the last few months, most of the states are taking duty increases, price increases for the consumer. And while we are putting a lot of effort to invest in the category growth, but this can be a real dampener because like -- Karnataka is a very good example.

If the momentum would have continued what it was there for 5 or 6 years, we would have actually gone and maybe built another brewery or expanded another brewery to meet that demand. But unfortunately, I think some of our competitors are not seeing from that lens as a category maker. I think they see it only growing shares and they get okay with some of these changes. And I really hope that with the new platform of Brewers' Association of India, we are actually trying to make sure that as large players, we actually advocate the right things.

Even in Telangana, when we took that -- the right thing for the industry sustainability, I'm told that there were many beer manufacturers who were trying to see if they can grow shares in this environment. So I really think that one of the things is to really think beyond the current pie and think about a much larger pie to actually see the category opportunity. And as more and more of those opportunities open up, I think our capex plan will change with that.

So I would be very open with you. Look, so it is actually -- you'll be surprised that the capex plan are as fluctuating as your travel expenses sometime because a policy change happens and you suddenly say, "Oh, really, do I need a brewery here if this is going to be the trend there?" So I don't want to give a number, but I would say that it will be a very healthy number for UBL and there because we'll still invest in expansion and driving the growth.

We are still investing in our own breweries to have better technology. You heard the UP investment, which is close to EUR82 million investment and a significant investment as well.

Vishal Punmiya: Would it be fair to assume a 2, 3x capex versus what we have seen in the last 2, 3 years? Would that band be right?

Vivek Gupta: Look, it would be very difficult to give a number because we're also looking at various models because in one of these states, we also -- our CBU partner or a contract manufacturer is expanding their capacity, and we are working through it. So it will be definitely higher than where it is today. I can definitely tell you, but I don't want to give a number.

Jorn Kersten: If I can add something here, touching on a couple of items. So if we look at the beer category growth, we think there's 3 things that really drive category growth. It's awareness, availability, and affordability. And I think Vivek spoke to affordability. And if we look at awareness also, that's where the Visi coolers play a big role. So in the store, the visibility of beer is definitely helped with Visi coolers. So we think that's going to help for the category and for our brands as well.

On the availability, that obviously ties into the investments as well. And that's why we also look at it state by state, what is the availability, what's the capacity and how can we tap into the capacity? Is it through a greenfield like in UP? Or is it through a partnership with existing brewing capacity? Because still -- and I remember having this conversation with Vivek as well, overall pan-India, there is underutilization of brewing capacity. So you need to make sure that we take the smart decisions here and not invest in greenfields where we don't have to.

On the UP specifically, I think if we look at UP, it's the state with the biggest state revenue coming from the alcohol-bev industry, but still versus other states, we see a lot of headroom in terms of consumption of beer versus spirit. So that's one of the reasons why we think UP is a very good potential for us to invest. And that's where also that piece on availability plays a role with the new policy because doubling the store is a massive change.

And we talk quite a bit about urbanization as one of the drivers for growth. Yes, that is definitely true because availability in cities is often better. But the doubling of stores will also make sure that in nonurban areas, there's more availability of beer. And we do see across FMCG that actually rural demand is outpacing urban demand. So we think in that sense that UP has all the right levers turns to make sure that that's where the growth is.

So from an investment point of view, it shot up quite rapidly on our priority list in terms of where do we think a greenfield makes the most sense. So we're extremely confident that this is the right decision now to go with the greenfield. In another state, the decision might be a different one, but based on similar trade-offs.

Vishal Punmiya: Got it. Thank you.

Moderator: Thank you. I now hand the conference over to Mr. Vivek Gupta for closing comments. Over to you, sir.

Vivek Gupta: No. First of all, thank you, everyone, for your questions, and thank you for everyone for your confidence in this. I again want to repeat, I think as a team, we feel very confident that we are on the right track as a company. We also know that it will be a lot of hard work, a lot of uncertainty.

But having said that, I think we are investing in building the category and investing in driving the growth and investing in winning in this market. We are continuously investing in the capabilities as well. And one of the big capability is our corporate affairs through Brewers' Association of India, but also our own effort to really talk about the affordability of the beer and accessibility of the beer.

The one thing which is giving me sleepless night is the affordability of the beer because if beer becomes expensive and versus spirits, it can lead to not only the long-term category erosion, but also it has other effects on sociability and health and other factors. So that is one area where I think broader industry and broader influencer group can really track and do that.

But other than that, we are very buoyant on the potential of India, but at the same time, there's a lot of hard work ahead.

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