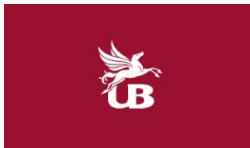




“United Breweries Limited
Q4 & FY’25 Earnings Conference Call”
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MANAGEMENT: **MR. VIVEK GUPTA - MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – UNITED BREWERIES LIMITED**

MR. JORN KERSTEN - CHIEF FINANCIAL OFFICER – UNITED BREWERIES LIMITED



Moderator:

Ladies and gentlemen, good day, and welcome to United Breweries Limited Q4 and FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Jorn Kersten, Chief Financial Officer. Thank you, and over to you, sir.

Jorn Kersten:

Thank you and hello everyone and thank you for joining this call. We are pleased to have you here to discuss the developments of quarter 4 for the financial year. By means of an introduction, allow me to share some of the highlights on performance before I'll also hand over to Vivek for some comments and then afterwards, we'll get into the Q&A.

On the quarter, we see a volume growth of 5%, which is despite some temporary suspensions in Telangana, which I think everyone is well aware of, as well as industry-wide challenges from duty structure changes in Karnataka, one of our biggest markets as well. The growth was predominantly coming from Andhra Pradesh, Uttar Pradesh, Maharashtra as well as Assam.

From a segment point of view, we continue the story on premium, growing our premium segment ahead of the market, both for the quarter where we grew 24% as well as for the full year, where the growth stands at 32%. And within premium, we are growing the total portfolio and it's led by Kingfisher Ultra, Ultra Max as well as the Heineken Silver brand.

Moving to the P&L, we see that net sales increased by 9% in the quarter, which is roughly in line by the 10% growth that we see for the year, which is basically the volume growth and the premiumization, but also supported by price increases in multiple states.

And then if we look into our gross margin development for the quarter, it stands at 42.1% and full year at 43%, which are both improving versus last year, which is good despite some of the short-term margin pressure that we see ahead of the completion of our own capacity expansion, so relying largely on growth coming from contracted buying parties.

And last but not least, looking at the bottom line, we delivered 24% EBIT growth for the quarter, which stands at INR137 crores. While we are still carrying continued investment behind the brands as well as the organization and the supply chain, as mentioned, and we also invested ahead of the peak season, which is the current quarter.

Now in the quarter, we're happy to mention that we continue our journey as a category maker, focusing on beer category growth and winning across all segments. We allocated significant resources to develop our supply chain network, both with our partner network, but also with investments into our own network, where we announced in this quarter the new Greenfield brewery, which will be set up in U.P.

In the quarter, we've seen the annualized cost of the investments into our organization. That's been a very conscious choice to drive the growth journey and something we will continue to invest behind the brands and the quality of our beers. And these are just a few of the pillars that continue to guide the strategy as we work towards long-term sustainable growth in the market, and of course, still aiming to long-term improve on profitability as well as our capital efficiency.

I'm sure there will be questions. But before we address those, let me hand over to Vivek, who will also share some of his comments on the development of the business.

Vivek Gupta:

Yes. Thanks, Jorn, and thank you, everyone, for joining. I would say, I think we're quite satisfied with the results of this quarter and the progress, because I think in the last investor call, I mentioned we had a rocky start to the year in January, driven by almost full month we could not sell anything in Karnataka because of the label changes, and which was an industry issue, but that was a big impact.

And then in Telangana, we made a commercial decision of suspending our supplies for a good amount of the month, almost more than half of the month, to do that. So the largest volume market and largest profit market, both were impacted in January, which would have led to a lot of other challenges because in both these locations, put together, we have 5 of our Breweries, and that impacts the cost and everything.

But I would say that I'm very proud of the team who bounced back despite these challenges, and we ended up with the quarter at 5% volume growth and 9% sales growth, but structurally much better output than where we were.

We also announced last quarter our capex investment in U.P., about our Greenfield brewery. I'm happy to inform you, I think last week, we got the final land that we needed. So we are accelerating that build-up of our Greenfield will be at a very fast pace.

We also made further design choices on how do we make this business more sustainable. We looked at each of the markets. We have put some design-to-win projects. One of the projects I know is shared in the investor presentation is about Maharashtra, which is one of the distributor market, but we never looked at our distribution network in depth.

I was quite shocked to see that almost there were 13 districts where we had 0 distribution points of coverage. And so we looked at the design and distribution network, which is aimed to provide better service to retailers. There are almost more than 20,000 outlets in Maharashtra. And we think that the response time, where if they order and they get next-day delivery, will move from around 62% to almost 95%. So we are really improving the service, which really helps to build a category in doing that.

So those kinds of design projects, we are doing this kind of work in a few other states also, which helps us to design to win. We also expanded our Amstel Grande into West Bengal, very good early results. And as we talk, we are actually launching Amstel Grande in UP as well.

We did a lot of work on peak season planning during this quarter. So our inventories are higher despite some disruption. So all put together, I think we ended up -- we are having a very good quarter. We are in the middle of the season, almost half the season is gone, but we feel confident that some of the choices we have made are going to be in line with the long-term aspirations.

The big worry part in this whole is the increase in consumer prices and duties. I think we are seeing the impact of that on the category like Telangana took 20% price increase for consumer. Karnataka, we have still had a duty increase and now again, there is conversation happening on that.

So I keep repeating that affordability is the biggest threat to growth of this category. But we are working very closely with the government regulators to give data to really have a voice so that there is more sustainability on this industry. And there are states where we're doing extremely well. There are states where the

category is down and they are states where we are working hard at. So -- but overall, I think we are in a good shape.

From an organization perspective, I would say, we continue to invest in building a very strong talent pool and very strong capability and that is completely on track. Yesterday, we announced that our Supply Chain Director, Wiggert Deelen, who has been in India for almost 2 years, 2.5 years and very experienced, he's moving back to Amsterdam in August.

And we are actually getting a top talent to replace him, who has been a brewer throughout his career and worked in Heineken from 2013, worked in markets like Haiti, Congo. He's a Belgian and he's right now looking after Caribbean business and he'll be coming here. So we continue to work on the talent plan as well to do that. So with this, I hand over to the moderator if you have any questions.

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

Krishnan: Yes. My first question is regarding Telangana. You had mentioned last time that there was a 15% price increase that you obtained. You also stated that there is a further price increase that you expect "shortly." A, has that price increase come through? And if not, when do you expect that? That's my first question on Telangana.

Vivek Gupta: Yes. No, see, we just got the pricing only on February 15. When I say very soon, I think it has to go through the government pricing committee and all. So I don't know the timing of that. And there is no notification which has come. But I'm not expecting any pricing in the next few months, because it goes through a process. It is a pricing committee which needs to be there. But our conversation with the government is completely on that it is important that they understand that we are still not out of the red completely on this one.

And also the recent price increase for consumers is also impacting category growth. So we also have to see the data in the next couple of months how the beer category performs in Telangana overall. And then we will go back with a comprehensive proposal which actually they would like to see how their revenue increases, we would like to see how our viability of our business increases. So it's still a work in progress.



Right now, another focus in Telangana is to get the payment back. There is overdue. I think we did get a part of it, but we are still not out of the wood there. I think we are also working with the government and through the industry association. So that the payments are regularized as per their commitment, because especially in the season, we don't want to get back to a situation where the category is growing, we are growing, and we expect some working capital and we don't get the payment.

So we're working very closely with the finance department of the state and the stakeholders so that things get in line.

Krishnan: My second question is regarding Karnataka. You had mentioned, after the third quarter results as part of the conference call, that there was a 30% to 35% reduction in Jan versus Jan. You also mentioned in the presentation that there was a decline in Karnataka for the quarter. Does that continue in the month of April and the earlier part of May? And if so, what's the extent of the decline?

Vivek Gupta: Yes. I think there is -- I cannot share the exact numbers of April with you. But I would say that the decline is not to that extent. But there is a decline, double-digit decline in the category, which we have seen since the duties have increased. And it has also driven primarily because the price of the economy there has actually gone up.

Now, on the other side, as a company, we are growing our shares. But as I keep repeating, my role is not to only grow share. It is also to growing category. We are category makers, not category takers. So on the share front, we are doing well, because the economy segment has slowed down. We did not take pricing on Kingfisher. We have a very strong program. We're sponsoring IPL. All of those things are there. But there is a real challenge on the category versus the previous year in Karnataka.

Moderator: Mr. Krishnan, does that answer your question?

Krishnan: Yes, it does.

Moderator: The next question is from the line of Latika Chopra from JPMorgan.

Latika Chopra: My first question was on demand trends. There are a lot of moving parts here. You just mentioned chatter on another round of tax increases in Karnataka. There have been price increases in certain parts of the country. And of course, weather has been also not exactly turning out to be hot in certain parts of the country. So, in

this backdrop, what is your confidence of sustaining mid-to-high single-digit kind of volume growth for your portfolio? That's the first question.

Vivek Gupta:

Yes. No. Look, I think it's not all doom and gloom. There are states where we're also doing extremely well. U.P. is one good example where the policy -- the excise policy has been progressive. They are adding number of outlets of beer. You could see the fact of that. The prices were more or less stable for the consumer to do that.

The action we took in Assam continues to yield results. The work we are doing in our go-to-market and design choices to better serve because, all said and done, there is enough work to be done other than price on this category -- driving category, and we have installed 2x number of fridges already. Because one of the things I talked to you about is that we want to invest in cold beer.

So we have markets where we are doing extremely well. Andhra is another example where we actually did quite well in the quarter and continue to serve the market. And in fact, one of the reasons our gross margins got also impacted, because we're doing a lot of volumes beyond our brewery in Andhra to serve consumers' demand there.

So it's a tale of 2 cities. Basically, there is 2 halves. You have states where we're doing extremely well. There are states where we are creating demand. And there are states like Telangana, Karnataka, and in case -- some cases where we have supply issues in certain states, which is where we are -- the category is really struggling.

But I also believe it's a cycle. We just have to continue to work with the regulators and the government and bring the impact of this. So I think I'm still confident that the level of growth we are delivering, 5%, 6% to 7% volume growth we talked about, is extremely possible there.

Latika Chopra:

My second question was on gross margins. This was a good performance in the quarter. But I also wanted to understand how are you sensing inflation in some of your key raw materials, barley, particularly because I think the current quarter probably is a key procurement quarter. Any thoughts on share of recycled glass bottles versus new glass bottles? How is that trending for you? And potential for these gross margins to improve going forward?

Jorn Kersten:

Yes. No, that's a good question. And I think we keep a very close eye on gross margin development also from a future perspective, that long term we want that to, of course, develop in the right direction. There are a couple of items you

mentioned then. One of the challenges, of course, being that in India, we cannot translate cost price increase into consumer pricing. Therefore, we need to look at all angles to make sure that we drive sustainable margin development.

You mentioned bottles. Over the last 3 quarters we've been able to improve our percentage of bottle injection, so coming down versus the quarters before -- versus previous years. So that's one thing where we definitely have a lot of focus on to make sure that we take the right decisions. Also, to balance duties that we see input costs also going up in other areas. So it remains a bit of a challenge.

And the other thing which also plays a part here is that, on our growth, we're investing behind capacity. But it means that while we're expanding our own capacity, we rely on contract partners to do which has, even though on the bottom line it delivers a similar profit, margin wise in the way we account for it has a negative impact.

So we're happy with the current margin development, but very cautious in terms of the outlook because there will be some short term pressure on the margins, which means offsetting these are items that I mentioned.

Latika Chopra: Any specific color on barley cast? What I made out was, your share of recycled bottles is increasing, right?

Jorn Kersten: Yes.

Latika Chopra: And specific color...

Jorn Kersten: Not specifically. No. So, I think we had -- yes, no significant impact.

Moderator: The next question is from the line of Harit Kapoor from Investec.

Harit Kapoor: So I just had a couple of questions. I just wanted to get a sense now, where are we as far as the share of premium the portfolio is concerned? We had 2 years of fantastic growth on that part of the business. I know it is a slow move up in terms of mix. And when do we believe that scale benefits as well as benefits of RM, etc., start to really show up in an improved margin profile, which kind of positively benefit the portfolio? That's my first question on margins for premium.

Vivek Gupta: Yes. No, thanks. I think last year, you are right, in 2024, our premium business grew almost 24% for the full year. And we continue to see the momentum of the premium business. I think a lot of it is driven by the choice we made on localizing



premium production in many, many locations and also relooking at our portfolio to really do that.

During this period, we also had some disruptions like the label disruptions in Karnataka and all of those things we put together.

But having said that, I think our premium business is in the right track. Our aspiration is to grow even faster. So I'm not happy with 30%-35% growth because we are -- our shares are still mid-single digit and growing. And we know that for the last 5 quarters, the premium business is growing, and premium is still today 17%, 18% of the market.

So we have a plan to hit a 35% share of premiums, for which we have to further accelerate premiums. And when we accelerate premium, we have to put lots in new bottles, as you know, because that's how the equation works.

We have done a lot of good work on collecting old bottles. In couple of quarters back, we talked about we are doing a lot of operating discipline there, working from choice. It is helping us, but this has also helped us to balance because we are also putting a lot of new bottles on premium in the mix to do that.

So it is a plan. Structurally, we are getting the right way on the premium portfolio as we are making those choices. But the focus on premium will remain growth for the next few, I would say, years, not only quarters, because we really need to keep hitting 35%, 40% growth year-on-year on premium so that we at least reach a respectable share on premium. And I think based on the consumer response as we are making availability, better execution, better programs, we are very confident it will happen.

So we feel good about it. And then you know that once the returned bottles start coming in, then the margin profile will improve.

Harit Kapoor:

The second thing was on preparedness for summer. Last year, we had certain supply chain challenges. I think a few months back, you also spoke of a lot of efforts have gone into making sure that those -- some of those blocks don't occur again. So just wanted to know, we're 1.5 months broadly through the peak summer, how is your execution in your mind panned out? Do we expect some positive offshoots of some of the supply chain unlocks that you would have done showing up in this time summer?

Vivek Gupta:

Actually, absolutely. I feel pretty good that we had a plan. But if you ask me, how did we execute that plan? I think 7 out of 10. But if we didn't have a plan, we would have been 3 out of 10. But definitely, I would say that those plans definitely helped us. We could feel that momentum and the share growth what we are seeing in our business right now.

Having said that, we also had a couple of setbacks very early on. One was around bottle supplies, because you know that the bottle industry went through a lot of changes, especially with some of the key big suppliers with mergers, and some of the acquisitions did not come through. So we had a little bit of glitch there, which we are trying to manage in the whole park.

And other than that also, a big challenge we learned was these government warehouses where we are having in the corporation markets, while we increased our supplies and planning. In many cases, government states were not able to increase their depots or execute their warehouses. So we had situations where a lot of trucks were standing outside the depots for many number of days. Not because we were not planned well, but it was just because the space in the government depots did not increase proportionately, where the category is going.

So all these are part of learning, that's why I call it 7 out of 10. So not only on the issues like the right taxation, we're also going to go back and working actively on what is the right network design, especially for the corporation market with government depots are there.

Because if the beer category is going to grow and we are going to really lead that category grow, it needs space, it needs to do that. So states like Rajasthan, we face a challenge where depots are not there. We face some challenge in Agra in some of where the category is growing. And you can give it to them because it was not growing as fast as a year back and 2 years back. And it takes time to build infrastructure.

So I think these are all learnings, but these also become opportunities for next year.

Moderator:

The next question is from the line of Abneesh Kumar from Nuvama.

Abneesh Kumar:

I have 2 questions. My first question is on the Maharashtra distribution changes, which you are doing. So the question there is essentially, is this something new for the beer industry in India in the mass end, premium end clearly will be more urban focused, so there it is easy to do. So the benefits of this will be more from a working capital for the distributor, or it will be more that the stockouts which were

happening, those will get addressed? And any sense on the stockouts, if you can mention? That's the first question.

Vivek Gupta:

Sure. I would say -- I think we designed this whole, we looked at it from a pure customer point of view, and customer as a retailer that if the store getting the best service in the distribution model. Right? And the service measure hours, that if they're placing an order, do they get the delivery within 24 hours? Are they getting good fresh goods? Are they able to get access to all the range? Are we closer to the market?

So this was a complete network design exercise that where do we need distributors? Where do we need distribution points? Where do we need -- how do we serve the retailers better? How do we make sure that the execution in the store is there? So the design was made keeping end customer in mind rather than the distributor part.

Now the benefits are going to be all of it, whatever you said, better availability because in many cases it expanding the distributor warehouse space. In many cases distributors are opening up multiple distribution points so that they can store it. Now all that needs excise regulatory approval. Some is there, some is not.

It is also about making sure that there is better discipline in the market and execution. So I don't know that it's the first in the beer industry. But I definitely think that the quality of work which has happened is quite intense. It is quite world-class from what we see in terms of quality of data at a store level, quality of execution, and what we are going to monitor. And we will be able to reach 100% of the stores in Maharashtra in every nook and corner. And we know it's a market which has a good gross margin also. So we can actually invest in developing the market.

And in parallel, we are also continuously recommending to the government to reduce the gap between periods of taxation and even reduced taxing of beer because the industry has not grown significantly for the last few years. So we are feeling good about it on what we have done.

Abneesh Kumar:

Two follow ups here. One is, which are the 2 other states where you are doing this, and eventually, will it be fair to expect that, medium, long-term pan-India India this will happen?

And in terms of cooler placements say in Maharashtra, what percentage is there currently and will you target here also say the 100% which you mentioned?



Vivek Gupta:

Yes. On the cooler placement, apologies, I don't have the exact number. I can come back to you. I don't think our target is 100% cooler placement in Maharashtra. I think we'll be around 50% cooler placement in the next couple of years. But it will be much higher than 8% to 10% or 10%-15% we have today because it will take a lot of time.

Yes, we are doing this work in other states. I can't tell you right now which, we have to keep something for the next quarter's call also. But we are doing and some of it is little bit confidential and competitive because there's a lot of work, redesign work we are doing.

But in Maharashtra we have completed this work in terms of defining a distributor, defining the points, the execution. I think already the people are in place in the stores so we wanted to share it. But yes, this will happen at least in 4 states this year. And the idea is to get this playbook and go to all India.

So we are picking one distributor market, which is Maharashtra, one corporation market, which will be one thing, one wholesale market, and one corporation market led by corporation. So we're using a different architect of markets. Create a playbook, have an execution model so that for next year and the year after we keep expanding it.

Abneesh Kumar:

Sir, my second and last question is, in terms of innovations and new brand launches, we have seen sharp scale-up in the last 18 months. So specific question is, in the states where AMSTEL and say Heineken Silver etc. have been launched, could you share is this creation of a new revenue generator for you, more market share gains? How exactly has this panned out, and any learnings, any things you can improve in terms of execution based on the launch which has happened till now?

Vivek Gupta:

Yes. No, I think we are feeling good -- very good about AMSTEL -- both Heineken Silver and Amstel Grande. I would say Heineken Silver, we had a challenge of producing only in couple of states, and we got approval to produce in Karnataka last year, and we are expanding Heineken Silver in Karnataka again.

In some markets like Goa, Heineken Silver is a very sizable business now and growing. And actually, when I look at our plans, I think we are actually growing high double-digital on Heineken as a brand and Heineken Silver is growing in leaps and bounds where we are doing. So great a product, great acceptance.

Amstel Grande is in 2 markets right now, Maharashtra, Mumbai and West Bengal. We are expanding to U.P. this week. The initial thing is there. We are very encouraged with the initial trials and repeats, especially on the premium brand. And in West Bengal we already reached almost 4 to 5 share of that premium category. So it's helping to grow shares, but it is also helping to grow our revenues. It's a premiumization.

I think on the execution learning, it is just state by state game, getting labels registered, local production, making sure we have the full model especially in a dark market, because as you know you cannot advertise and talk about how the product is better than what you already -- you know what is available. So lot of it depends on in-store execution and distribution.

So it's a slower buildup than what I would like, but we are working creative ways to make sure that consumers actually tie the product. But we are extremely happy with both the launches, and our focus is on the states where we have launched. We do a very good job. Then we go to the next state and the next state.

Moderator:

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

Jay Doshi:

Vivek, around last summer, if I remember correctly, your bottle recovery rate was about 65% or maybe a little lower than that. If you could talk about the progress you've made over the last 3, 4 quarters? And what should be the expectation for this summer in terms of bottle recovery rate?

And second is, if you can give us some idea of -- for the new bottles, whether you -- what is the nature of contracts you have? And do you have visibility at a full year level of the inflation? And any outlook or color you can give there?

Jorn Kersten:

No. Thank you for the question. Very straightforward on the bottle returns, we've improved by approximately 300 basis points. So we're very happy with that. And as Vivek mentioned, a lot of operational improvements that are going on and that will continue to happen. And we see it across India. We see pockets where things move better and where there's still opportunities to continue to do so.

And as we continue to expand the portfolio, also mentioned by Vivek, we'll continue to have a challenge on this, because building the category it also means that we're looking at our consumers and future consumers, which means that we want to attract new consumers into the category with new innovative products, which, in many cases, also leads to be better. So it's something that we continuously balance and where we also closely connect with our suppliers.



I won't go specifically into contracts. But we are running a key supplier program, which also involves both suppliers as they are for packaging materials, one of our main partners. So we're looking into building longer term strategic partnerships with many suppliers, which are also better suppliers.

Jay Doshi:

Actually, I think there is some -- maybe you're away from the speaker or whatever. But we're not able to sort of get the message clearly. Anyway, I will go back and revisit the transcript.

Second question is in this quarter, there's a significant -- if I look at March quarter gross revenues versus December quarter gross revenues, it's broadly flat. However, the excise component has declined 13%, and net sales on a Q-o-Q basis is up 16%. So normally, we don't look at quarter-on-quarter. But very surprised to see the trend of a sharp decline in excise. So if you could explain us what is the change in the state mix that has resulted into this?

And my last question is, at a full year level the receivable days have increased by about 23% -- receivables have increased by 23% versus 10% increase in net sales, so -- or maybe even lower increase in net sales. So some updates on what is the situation of collections from the state where we had problems? And is it getting better or the problem still sort of remains?

Jorn Kersten:

Thank you. I hope I am audible. I'm a bit closer to the speaker. Yes, that actually, that's an accounting impact from a change in the Uttar Pradesh, where the excise is no longer part of our P&L because we are no longer liable for paying the excise. So it's a change in who's liable for paying excise and nothing else but that. And that's the full change in our P&L in terms of the difference between net sales and gross revenue. So that's one.

On the receivables, yes, we see 2 main items, which is, one, there's still an effect of Telangana there if we compare it versus last year in terms of the aging of the inventory -- sorry, the aging of the receivables.

And secondly, we see also an increase in preparing for a season where we grow more inventories in the corporation markets, which leads to a temporary increase in our receivables because the collection happens only after we dispatch further into the market. So we did expect also a temporary peak in receivables, which we also expect to recover.

Overall, I think, as Vivek mentioned earlier, the conversation with Telangana remains ongoing. And it's our main priority now after we've got the first pricing to make sure that we also recover the cash. I think we can say that we are in a better space than where we were a quarter ago. But it remains a high priority to make sure that we recover it.

For these other markets, we do expect that as the season continues, we will recover that peak in receivables over the next couple of weeks and months.

Moderator: The next question is from the line of Dhiraj Mistry from ICICI Securities.

Dhiraj Mistry: So first question is regarding capex. So, when do we expect that the U.P. capex would be done, and when it would be materially contributing to the volume numbers? And what would be the capacity of this plant?

Vivek Gupta: I think the U.P. is going to take 2 years minimum to build. So, without that, we cannot count on extra volumes. And we already shared there is a range of capacities we are looking at, from 1.5 million to 3 million, 3.5 million. So, depending on the demand at that point of time, the policy, we can be modular there.

And we have already started investing in the capex. As I said, we already got approval for the land and we have to make some deposits. We already started placing some orders working with architectures and all. So the work is going on, but it will take minimum 2 years to complete the project.

Dhiraj Mistry: So the reason why I'm asking is that, during the peak summer season, we have seen multiple times there is a capacity constraint which we faced. And given that now the summer season has been going on, what would be the constraint because of the capacity? And whether it would materially restrict the volume growth in the current quarter?

Vivek Gupta: There is some restriction. In some states, there is a concern. I also talked about reduction in demand because of excise duties increase and pricing increase as well. So we are balancing. We also transferring stock from one state to another, which has an impact on margins, but we are taking those calls. We're also strengthening our partnership with our partners contract manufacturers.

I think as Jorn said that, as we increase the volumes, while the profitability looks very similar, but there is an impact on the margin. So we are making all those calls. Yes, do we have supply issues in a few states? So I would say, yes.. We did peak

planning, but there are a couple of things. But I would say we are in a much better shape than the last year.

But as the trends on the category growth normalizes, we'll continue to invest capex to improve our capacity. And we are making a lot of strategic calls, which we will hear sooner about those calls as well.

Jorn Kersten:

Yes. And if I can add something here, as Vivek mentioned earlier on that it's about the network design, which is -- which consists of many different pieces. Part of which is investing in the capacity expansion, partnering up with network partners as well as planning and logistics, and warehousing, etc. So we're working on all these pieces to make sure that while we are building capacity, we will be able to supply the market.

So it's a consistent trade-off where we also look at margins versus growth, again, to really build the category. So we will continue to make these trade-offs also when our own capacity becomes on-stream. And it's a conversation that we have if we look across the whole of India, there's still excess capacity. So it is really a matter of deciding what is the trade-off between maybe incurring lower margins on the short term but really growing the volume so that at the moment that we get capacity on stream we can also benefit from the margin expansion.

So the trade-off will be part of our continuous business for the short term, but also for the long term.

Dhiraj Mistry:

And a second question related to that. so, what would be your current capacity in terms of hectolitres, and what can we expect capex for next 2 to 3 years period?

Jorn Kersten:

Sorry, could you repeat the question?

Dhiraj Mistry:

Yes. So what would be your current capacity in terms of hectolitres, and what would be the capex on over next 2 to 3 years period?

Vivek Gupta:

Yes. Look, as I said, we are adding more capacity. And the current hectolitre capacity is a function of the capacity in our own breweries, and the negotiated capacity is there with the contract breweries. So I cannot give you the exact numbers, because it's easy for me to give you numbers, but there is also commercial contacts attached to it. But it is safer to say our capex investment rate is going up in multiples versus the previous years, so we already announced a massive investment in U.P. We already talked about making capex investment in our breweries.

We are already -- I don't know if we shared with you view, we are already setting up a can line in Maharashtra in one of the breweries, which will be ready by the next season, which will give us a significant leverage on our can volumes as well. So that is another capex investment we have made.

We are investing Capex in Coolers, which is the last Capex investment. So I can only say that the capex investment is going to grow in multiples, and we just need to do a better job of execution and making sure the momentum we see in the business continues to happen. Jorn, anything you want to add there?

Jorn Kersten: No, I think again this is a trade-off between investing in commercial capex to really grow the demand and make sure that we serve consumers as well, so from the sourcing and where we also balance to really service the trends that we see. So I think Vivek mentioned cans, when we see that there is momentum on cans. So we need to make sure that we are ready to supply that. So we'll continue to do that as we move along.

Dhiraj Mistry: And sir, the last question is related to price hike. So other than Telangana, is there any state where we are expecting price hike or likely to already taken the price hike?

Vivek Gupta: We have taken pricing in a few markets. Rajasthan, there has been a price increase which has been effective April. We have taken in Orissa, the price increase. U.P., we have taken a pricing in U.P., so there are few markets where the pricing has happened.

We also -- at the same time we are also investing in the business. Like in Karnataka, we did not take a pricing increase on Kingfisher Strong despite the duty increase last time. So we are balancing our investment choices there. But yet there have been few states where we got the price increase.

Dhiraj Mistry: If possible, can you quantify that?

Vivek Gupta: Quantify in terms of -- we can quantify that in the next quarter. But right now I don't have the numbers with me. So in U.P., our volume versus the price mix has been 4%. We grew 5%, and price mix has been 4%. We're hoping to maintain that for next few quarters.

Jorn Kersten: If you look at the current quarter, there is quite a good balance between volume growth and the contribution from price mix on net sales. And like Vivek mentioned, we go case by case and state by state, where we see how we best serve

the consumer and grow the category. So there will be again here a balanced trade-off on where we take pricing and where do we invest in the market.

Very much also speaking to earlier comments around the importance of affordability and that we really want to be the category maker, which means that we need to keep a very close eye on what consumer wants and needs, while also safeguarding our margin. So it's going to be a case by case decision. Overall our aim is to maintain sort of a similar trajectory with the balance between volume growth and contributions from price and mix.

Moderator: The next question is from the line of Vanshika Gupta from JRK Stockbroking.

Vanshika Gupta: I just have one question. I know we've spoken about capex being multiple. We're doing it in the brewery in cans, in coolers. So I just wondered if we could quantify that in numbers over 2 to 3 years. What is the capex that we're investing in? And we plan to use debt to finance some of this capex if it is substantial. That will be the follow-up.

Jorn Kersten: Yes. I'm not going to comment exactly on the capex numbers. I think it's been a continuous conversations we had also in these calls where it's been highlighted that over the previous years, we were falling slightly behind in terms of capex in terms of looking at the percentage of revenue. So that's where this comes in, where we plan to significantly increase and also make sure that we have the structure in place to make sure that we are able to finance that.

I think over the past year, we've also learned a lot from the situation in Telangana, and looking at how does that work for our cash flow, similar to peak season planning, the question that we had earlier on receivables. I think these are all things that have happened now but continue to be part of this market for years to come. So that means that we also want to invest, which is clearly part of the plan that we need to make sure that we have the structure in place to be able to do so.

Moderator: Ladies and gentlemen, that was the last question for today's conference call. I now hand the conference over to Mr. Vivek Gupta for closing comments.

Vivek Gupta: Thank you for the engagement and thank you for the questions. As I always summarize, I think we feel good that the choices we made of being category maker in both premium and mainstream, winning in all stores, making sure we leverage our brewery network, we drive cost mindset and we really have a winning culture. I think we are all -- we think we are on the right track.



I think this was the sixth consecutive quarter of double-digit growth on the business. Our premium business is doing extremely well. We are building design capabilities that will help us to win in future years, not only tactical volume. And I feel pretty good that I'm hoping this momentum will continue.

We will continue to engage with the government and set of governments in every state to make sure we keep bringing the thought leadership on how do we grow the category. We need to do a lot more work on backward integration with our vendors, suppliers while we capture this growth market by market.

There are also volatilities in the market, which we don't know how they will impact and how they will pace out. But I would say that UBL is much better geared to meet the category growth and the momentum. So thank you for your support. And thank you for all your questions.

Moderator:

With that, we conclude today's conference call. Thank you for joining us. And you may now disconnect your lines. Thank you.
