“United Breweries Limited
Q3 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Q3 FY2022 earnings conference call of United Breweries Limited hosted by Investec Capital Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0'on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Harit Kapoor from Investec Capital Services. Thank you and over to you Sir!

Harit Kapoor: Thank you Margaret. Good evening all. We would like to welcome you to the Q3 FY2022 call for United Breweries. From the management from United Breweries, we have Mr. Berend Odink CFO, and PA Poonacha, Finance and Investor Relations. I will now hand over the call to Berend for his opening remarks post which we will take the line for q Q&A. Over to you Berend!

Berend Odink: Thank you Harit. Good evening everybody and thank you for joining the results call. Today I am joined by Mr. Poonacha and after the usual opening comments we will be happy to take any questions.

Let us dive straight in and turn to the results highlights for the quarter. We posted volume growth of 19% for the quarter versus prior year driven by continued recovery of demand prevalent across nearly all the markets versus the preceding quarter there was a 10% sequential volume growth.

In the quarter, there was a full recovery of volume levels versus Pre-COVID. UBL achieved share growth both in the quarter as well as in the year-to-date performance thereby further solidifying market leadership.

Gross margin during the quarter was lower by 390 basis points and lower by 178 basis points compared to the preceding quarter. The quarter was thereby impacted by inflationary pressures in packaging materials as a result of general market commodity increases partly offset by positive price and product mix.

The EBITDA reached 180 Crores with 11.4% margin for the quarter impacted also by higher marketing investments to drive demand recovery. Excluding some non-recurring items the margins were at 13.6%.

The overall liquidity position is very strong with about 800 Crores of bank balance. In the quarter the company prepaid all remaining term debt.

On page four and five they depict the Q3 and year-to-date results. For the year-to-date the net sales is up 53% and year-to-date EBITDA reached 451 Crores up 188% from 157 Crores in prior year.

On the performance by region north posted strong growth at 35% particularly in UP and Rajasthan and Delhi there was a single-digit growth due to the policy changes in the state. West posted 11% growth and east 12%. South posted 19% volume growth with a number of differences among states. The good volume growth was posted in Telangana, Andhra and Kerala while Karnataka and Tamil Nadu volumes were flattish impacted amongst others by poor weather.

Turning to net sales this was up 23% in the quarter driven 19% by volume and some 3% favorable price mix again partly offset by unfavorable state mix.

On page 8 it depicts the EBITDA breakdown. There was a gross profit improvement in absolute terms but a lower gross profit margin to the earlier mentioned commodity inflation mainly in packaging. Fixed costs showed a good leverage effect of revenue growth coming through and further the quarter was impacted by higher marketing investments to drive demand recovery for which we have seen strong share performance.

The quarter saw some non-recurring items 15 Crores for doubtful debtors taken as a cautionary provision and 21 Crores for restructuring costs and during the quarter company reviewed its organizational structure to ensure that it is lean, efficient and future ready in light of the rapidly involving market circumstances. Excluding these non-recurring items the EBITDA margin posted was 13.6%.

Let me share an update on the portfolio where we continue to invest to rejuvenate and expand it. We had launched a new digital identity of Kingfisher that is being rolled out nationally and met with great initial consumer feedback.

We also expanded its offering in the entree with ultra draft launch in Maharasthra. Wheat beer is now available in nine states and for Amstel expanded its footprint to UP and Mumbai with new markets.

In the quarter we saw that the overall premium portfolio growth was ahead of the total portfolio of the company.

Finally on outlook and the summary with the new COVID wave prevalent in India we continue to focus on health and safety for employees and stakeholders while ensuring continued focus on cost actions and working capital management. Although the COVID trajectory is unknown, the company is confident in successfully NVigating the current uncertainty with leadership position, strong brand portfolio and healthy financial position.

As always we continue to be optimistic about the long-term growth drivers of the industry at the basis of GDP growth, urbanization and evolving consumer trend we are well positioned to leverage and drive these opportunities.

With that I would like to conclude the opening comments and move to the Q&A part. Thank you.

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

Abneesh Roy: Thanks for the opportunity. My first question is on the cost side so gross margins severe pressure QoQ and YoY on glass bottles and corrugated boxes are you able to do anything proactive either in terms of say using more older bottles or thickness, lesser thickness in corrugated boxes and second from the states are you getting any feelers on when you can get the price hike, any of the states have already something is in the advanced space?

Berend Odink: On the first question yes absolutely, so we are continuing all kinds of cost actions so that includes some corrugated materials, switching some of the materials to cheaper versions whilst of course ensuring the durability. On glass although that is not the main driver for the input cost increase, we sold for the quarter but also on glass, we are taking actions to change some of the colors, look at increased levels of collections etc., so those actions have been taken and we will definitely continue on those actions. On the pricing side of your question, we continue the dialogue of course with many of the states. I will take not a one-off dialogue where we take price but it is a continuous one. As of now a bit too early to comment on that more but of course we always strive for balance price increases that of course are now once we have reached the full volume recovery and we have seen the commodity cycle of course in the last few months topic of pricing is of course becoming more and more important, absolutely.

Abneesh Roy: That is helpful. In Q4 do you expect more sequential pressure so glass and the corrugated boxes is Q4 looking a bit more challenging versus Q3 on the cost side perspective?

Berend Odink: I do not want to start with giving guidance but as I said we of course look at the pricing actions where possible not only next quarter but also Q1 of the next financial year. With that we also continue the cost actions on the input costs and hopefully with that we get that margin a bit up and I think we have always said that we should not look too much individual in the quarter at the gross margin given the setup of the pricing restrictions in the industry but as are back to previous commodity cycles, we have been able to recover always the margins and I am confident we will do that at the same time now.

Abneesh Roy: Sir my second question is on the marketing investment and the branded retail outlet so we are seeing Inferno which is not a direct competitor but in the broader same space Inferno is looking at branded retail outlets in India so what would be your thought process on this and second marketing investment you called out that you have put in more, yes you have done this spectacular recovery versus the two years also on volumes but on the overall intensity in terms of ad spend is it going higher because of the PE funding coming to some of the startups?

Berend Odink: On the retail side of it, definitely we continue to invest. I think we have a probably a bit of a different proposition than the company you referred to but we are very active with this players with promotional materials, signages etc., any various outlets and that is the strategy that we will continue. In the ad spends part of your question I do not think that has come down or increased significantly. I think that is relatively probably on the on the same page where we have invested a bit more is particularly on entree side of the of the business to support the startup and the opening also with the entree much more open versus Q3 of last year. We really wanted to drive it as well and hence we have allocated some of the spends in the entree in the quarter.

Abneesh Roy: Last quick question for doubtful debtor of 15 Crores is that government CSD. Could you elaborate that?

Berend Odink: It is not a government doubtful that provision. It is related to an entity where we have a legal dispute and as a cautionary step, we took that provision. Of course the dispute itself will continue and we look to pursue that with a lot of vigor but it is not another government entity no.

Abneesh Roy: That is very helpful. That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Krishnan Sambamoorthy from Motilal Institutional Equity. Please go ahead.

Krishnan S: Thanks. My questions are one on commodity cost and on the on trade impact while you did highlight the packaging cost what is the YoY inflation that you are seeing on barley cost and this is also important to note that since you procure barley for the rest of the year in the beginning of the year how do you see barley cost panning out over the course of next couple of months?

Berend Odink: Although we have not seen that much price changes this quarter because we continue with existing stocks from last year's crop so for new pricing is a bit too early. We will have to see in towards March April when the crop is really coming to the market with enough depth and liquidity in the market as to what is the quality, what is the quantity and hence the pricing around that. So it is a bit too early to tell but these for the current quarter we have existing stocks and that is part of the pricing as you have seen in the this quarterly results.

Krishnan S: But my market prices prevalent are up in double digits right in case of barley or it may not have impacted your own cost for the quarter?

Berend Odink: So I think some of the export trading will lead up but those prices are not yet prevalent for us as we continue with existing stock positions and I think frightening the cases, I think are around March to April because at the moment it is more nominal volumes that are traded.

Krishnan S: My second question is on the extent of on trade sales impact in January. Can you just call that out and what is the outlook here?

Berend Odink: In January definitely we have seen some impacts particularly I would say the urban areas, some number of cities had evening curfews, limiting seating capacity or a few instances where trade was on trade was closed, at the same time of course this COVID wave is very different from earlier. We have also seen you know even up to today some of these restrictions being rolled back so too early to conclude on the impact but hopefully the impact is much more limited that we would have seen earlier.

Krishnan S: Thanks Sir.

Moderator: Thank you. The next question is from the line of Pratik Rangnekar from Credit Suisse. Please go ahead.

Pratik Rangnekar: Thanks for the opportunity. If you could just let us know what is the recovery level of reuse bottles that you have seen this quarter and I understand that in January you had some more impact on trade as you just mentioned so maybe it would give us a sense on December versus last December. How that level look for the used does bottled?

Berend Odink: On the used bottles we have seen more or less normalcy in this quarter so a lot of the recovery of the market also coincided with normalization of the cycles and the participants in your collections. So normally we are the kind of one-third new bottle injection and we were at that number for the quarter. If we understood your second part of the question was on, on trade in January?

Pratik Rangnekar: Yes.

Berend Odink: So for the other question there was certainly some impact particularly in the bigger city areas like Mumbai, Bengaluru, Delhi at the same time a number of those restrictions in terms of wicked curfew or earlier closing hours, have been also partly rolled back. So with that yes we would expect some impact still in February but let us see how it will develop. I mean it is ongoing as we speak. So it is a bit too early to conclude on it but in summary some impact but definitely of course not to the extent that we saw in a new earlier wave quarter.

Pratik Rangnekar: Thanks for that. Just one last question from my side Maharashtra Government has issued some sort of a notification allowing wine sales through regular grocery channels as we understand there used to be a combined license for wine and beer earlier so this GTM freeing up is as of now and as for your knowledge is only for wine or does it apply to beer as well?

Berend Odink: To my understanding that this announcement only applies for wine and so that is the good news, I have.

Pratik Rangnekar: Thank you. All the best.

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

Ashit Desai: Thanks for taking my question. Our losses in non-alcoholic beverages have almost doubled. Where do we expect it to stabilize?

Berend Odink: I think yes the losses there are partly of course operational of the NV portfolio that we have and will be continuing that way, but also to a certain extent this advertising for example Heineken 0.0 that we do which of course has its spill-on effect on the other variants of the brand, so that is also a conscious strategy that we pursue.

Ashit Desai: Should we expect this run rate going ahead or will it come back, will it be lower as we have seen in the previous quarters?

Berend Odink: Yes, I expect more the previous quarter trend and of course overall effect that we have the milestones defined for the NV portfolio which of course should make it that profitable in its own segment. So that is what we pursue.

Ashit Desai: I see your volumes have come back to pre-COVID levels but your depreciation rates are still lower versus what they were substantially. Is this due to lower number of shift or there are some fully depreciated capacities also that is driving this?

PA Poonacha: I will take this question. Ever since the pandemic started we have started depreciating our assets to use the word loosely more scientifically. What we are doing is we are doing it based on the number of shifts the each unit is working at. In the past it was assumed that all shifts were utilized and all units were depreciated as if they worked on three shift basis even though there are ones that they did not operate on two shift as a common principle it was appreciated across units, ever since the COVID hit the business we have been depreciating each unit assets based on number of shifts it is practically used so thereby the difference.

Ashit Desai: But I see quarter-on-quarter it is more or less similar so even in Q1 it was a similar run rate?

PA Poonacha: It will depend on what are the opening stocks which they carry into the quarter and what are the closing stocks. Net-net is it is based on the shifts which are being physically run in the various locations.

Ashit Desai: One can say that the depreciation is structurally down and this is the base number that we should look at?

PA Poonacha: Yes.

Ashit Desai: I will come back if I have more. Thanks.

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

Alok Shah: Thanks for the opportunity and congress on the good set of volume recovery. My first question is on the market share gains. Would you be able to comment whether the current market share of your company would be above the CY2019 or FY2020 levels?

Berend Odink: Yes the market shares are trending for the last quarter at kind of 54%, 55% so that is definitely on the upper end of what we historically used to be which probably was closer at 52%, 53%. Of course, after the first COVID wave we have seen a bit of a dip due to all kind of closures, the cleaning on trade that disproportionately impacted us. So it is good to have now fully recovered and even be a bit higher than historically what we know.

Alok Shah: That is great and congratulations for that. My second question is more of a strategic one so your wheat beer is under the brand Kingfisher now of course you know while it can have advantages since consumers already know the brand Kingfisher but on the flip side do you also reckon that consumers may want a unique craft beer and not something which is kind of generic so do you or does your marketing or sales team feel the brand Kingfisher getting attached to wheat beer to be a constraining or a deterrent for some consumers or you really do not think because the market share gains in wheat beer is also quite strong, your thoughts on that. Thank you.

Berend Odink: Yes I think at the end of the day we are continuing to build a whole portfolio so partly that is of course very much Kingfisher and Kingfisher line extensions which I think come with a lot of inherent recognition brand equity and strength of the brand and the franchise itself. At the same time, we also have a number of other brands besides Kingfisher partly for example from Heineken International but also a lot of other local brands that we have with regional strength as the market and consumers continue to evolve. Definitely I think the number of brands will only increase so most likely you will see examples both on the Kingfisher and also not under Kingfisher and I think that is how consumers are evolving and I think that is for us to fight the right propositions in total grand portfolio.

Alok Shah: Just a follow-up to that basically what you are trying to say is that you do not see any restraining factor and you seem to be suggesting that the follow on portfolio that you build potentially in the craft or the wheat beer segment, may still have a brand attached of the existing one of the existing labels that you already have. Is that assumption correct?

PA Poonacha: You should also realize that when a consumer goes to an outlet when he refers to Kingfisher and he does not mean Kingfisher Ultra. Of course, though the bird is there so this wheat bear is under the Ultra umbrella and in the consumer's mind Ultra is the premium segment of Kingfisher. So volumes are small and that signifies premium of our portfolio.

Alok Shah: Essentially what I was thinking also is that globally when you the incumbents have moved to this craft or wheat beer kind of segment have they tried to use the same brand label and then leverage on that or they have sought to sort of build a unique thing because consumers resonate to a different name better? So that is where I was essentially going some better experiences. How do you see that?

Berend Odink: My observation on the market in India would be what is a bit different in craft versus maybe U.S. or Europe is that in the U.S. for example, I think a lot of the craft has also been developed out of a kind of consumer interest to be something which is more local, which is maybe less mass-produced, mass national level so to distinctly move away from that and they have something which is more on a smaller scale more local more non-mainstream if you will. I think in India that is necessitates large corporations or large brands, but it is more about I think experimentation, new flavours, new segments so as such I think the trends are a bit different but of course overall the number of choices and offerings in the market I think that will only continue to go up.

Alok Shah: This clearly explains. Thank you very much and all the best for the next quarter.

Moderator: Thank you thank you the next question we got on the line of Nillai Shah from Moon Capital. Please go ahead.

Nillai Shah: Thank you. My question is essentially on the input cost. In the last quarter on the conference call I think you have mentioned that the costs were pretty much under control and you cited the fact that barley stock is there etc. So what has surprised you in terms of the input cost inflation on a quarter-on-quarter basis given the sharp decline Q-o-Q on gross margins for this quarter?

Berend Odink: Yes, there is not so much I would say an aerial surprise I think of course commodity markets develop with our ups and downs from once in one week, two week, etc. but a large portion we have had a large portion we have let us say forward visibility with long-term contracts so it is not a matter of surprise I think with this quarter of course we compared to a prior year which had a particularly strong growth margin. Secondly we have seen that we had a bit of negative state mix which is something of course which is less predictable and depends on how the recovery pans out and thirdly I think traditionally this quarter is not one where a lot of pricing actions are normally also taken. So we really want to drive also the volume recovery and now that has really taken place I think the next point of emphasis is really more on the pricing side.

Nillai Shah: And the second question is I am having trouble reconciling the volume growth with the net revenues that has been reported for nine months has there been some change in the contract manufacturing unit volumes on a year-on-year basis for nine months.

Berend Odink: No that network and the share of it has been more or less the same there might always be some time-to-time small changes but that would not have derived there is not a meaningful difference in that figure.

Nillai Shah: Just to confirm the contract manufacturing unit volumes, are they reported in the growth number that you report in the quarter when you talk about volume growth for the quarter does it include the CMU units too?

Berend Odink: Yes that is right.

Nillai Shah: Okay fine, thank you.

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

Jaykumar Doshi: Thanks for the opportunity. My question is, is it possible for you to give us some more color on cost optimization that you have carried out during the pandemic period and some comments with in terms of what is the extent of saving that you would sort of realized if FY2023 is a normal year versus FY2020 either in terms of EBITDA per case or other cost per case basis or absolute numbers. In employee cost we can see some correction, we can you can expect some correction going forward. But other than employee cost are there other areas where you have seen significant savings?

Berend Odink: Thank you for the question. Definitely employee cost of course given the restructuring that we have done but it was towards the end of the quarter. So that impact in terms of new run rate if you will becomes more visible the next quarter, but if I compare to pre-pandemic and today I think we have more or less of all the line items taken in initiatives with various teams within the company sort of go from logistics to some of the packaging to some of the sourcing to backend cost to automation in certain areas so there has been quite a wide widespread set of actions that have contributed to the results like in the past I will not really split out how much and in which quarter etc. because in the end of the day we would look at that set of initiatives partly of course running to the bottomline, partly offsetting inflation in various categories, but partly also for example to make sure enough resources freed up to invest in the brand portfolio and innovations from time-to-time so with that we will try to balance the effort of cost but also investments for the portfolio the market share position and hence the bottomline profitability.

Jaykumar Doshi: Understood and just a clarification on the previous question that was asked on depreciation so your quarterly depreciation used to be 70 Crores, 72 Crores, 73 Crores in FY2020. Now it has come down to 50 to 53 Crores. So is the understanding correct that in peak season the number let us say in your peak quarter then this number quarterly depreciation number will go up but overall basis it will still be 10%, 15% below FY2020 level.

Berend Odink: Yes, I think one it will be lower on an overall basis the reason being in the last two years if you see our capex programs have been largely maintenance capex and there has been no major increase in capex normally in a normal year we have somewhere between 350 to 400 Crores of capex but however in the last two years because the pandemic is limited to approximately 200 Crores so and the amount you see in the past prior to the pandemic was about 280 Crores per annum which was equal across four quarters considering we had a equitable method of doing depreciation three shifts across all seasons across all units so you saw something between 65 to 70 Crores every quarter however post the pandemic we started doing what we said that is depreciating only based on shift usage and of course there is a fall in the additional capex that we are doing in the last 20 to 24 months.

Jaykumar Doshi: Do you foresee any significant increase in capex next year FY2023 or when should we see increase from current levels at FY2024?

Berend Odink: Yes, first we can monitor the upcoming peak season to make sure we have the visibility there and we have uninterrupted peak season from there I think we will assess again the growth outlook and then the need to invest, but as of now it is pretty much indicated that probably this year we will end the capex investments well below the 200 Crores mark and then after next peak season we will assess again.

Jaykumar Doshi: Right final bookkeeping question could you give us an idea what was the A&P spends as a percentage of sales in this quarter December quarter.

Berend Odink: That will be around 5%, 5.5%.

Jaykumar Doshi: Understood, thank you so much, that is very helpful.

Moderator: Thank you. The next question is from the line of Mehul Desai from Anand Rathi. Please go ahead.

Mehul Desai: Good evening Sir. Just on this of market share gains that you have highlighted around 54%, 55% versus 50% to 53% pre-COVID I just wanted to get your sense is there any particular state where you are under index or where you had a lower market share compared to your national average and you have gained the significant share there if you can give some color as to state I mean in terms of key states where you would have gained your market share and that has led to this 200 BPS, 300 BPS higher market share compared to pre-COVID levels?

Berend Odink: Yes, I think broadly across many states has been a good performance all the way from North in Rajasthan, UP to a number of other markets like Telangana, Goa, West Bengal, Kerala so yes it is not one or two states that there is all major turnaround or something which would have that number up, but I think pretty broadly across various parts of the country we have seen that performance.

Mehul Desai: Thank you. That is all from my side.

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

Himanshu Shah: Thank you, Sir. Thanks for the opportunity and congratulations for a good set of numbers. Sir, can you just provide some more color on the organization restructuring that we have done and what kind of savings it should entail in employee cost on a per annum basis. Now what is the nature of reorganization?

Berend Odink: Yes the reorganization and the restructuring that we have done was really with a view to look at the evolving market dynamics in the picture and make sure we have the appropriate resourcing from an organizational perspective for example in a number of hierarchical lines in the company the number of teams and functions we have on the various topics so that has led to redundancy and of course we have to say to very valued colleagues which was not a great process of course as such but I think from a future perspective to be well organized with quick decision making we have seen that the best way forward adds to the number the saving the amount, we will come back to get more in the next quarter when we see those numbers flow through but of course you have seen the one-off impact in terms of restructuring that happened in the later part of the quarter but yes for the next quarter we will come back to more on that.

Himanshu Shah: Secondly just onto the pricing flexibility front from the state governments, various state governments. Is there a case that pricing flexibility in beer as a category is slightly more better than IMFL as a category or would it be similar because we have generally seen our price mix on most of the count being on a positive side on a Y-o-Y basis which we have not been able to see in case of IMFL as a category for some of the players.

Berend Odink: No see I mean price flexibility it is a very difficult question to answer because when you mean price flexibility do you mean to say that the spirit companies are not able to price their products differently because realization is possible to a larger extent in spirit than in beer there is a limit to the extent in which you can premiumize here. So that way there is a flexibility of having several layers of hierarchies for spirits right from the bottom run right to the stop, but at each level flexibility is purely limited to negotiations with the state government authorities which is similar to both their and spirit because it is not different the process is the same.

Himanshu Shah: And generally sir if we approach the state government for price increases how easily it comes through like it comes through on most of the occasion and how much time it would be taking I know it would be varying from state to state but at a portfolio level if you could provide some colour?

Berend Odink: Yes, you have to go state-by-state and see the salience because the state like Karnataka though it is a government corporation it is far easier you apply for a price increase and within 45 days it is in place but in a place like Telangana I mean it is not as simple I mean you could go on for more than a year when negotiating with the corporation and the state excise and not get anything. So it depends from state-to-state and you will have to look at it state-to-state and see it an overall sales level.

Himanshu Shah: Sure and sorry to just drag on this and would we have applied for price increases. Now with the upcoming excise season to most of the states and do we do this on a regular basis the annual price increases.

Berend Odink: We have a lot of configurations around price and of course is now stepped up given the general inflationary environment so not only us but I think many industry participants will look to recoup some of that via pricing but as Mr. Poonacha said some states only allow price in maybe every three or four years so that is a very challenging process other states is a bit more easy. So that is the industry environment which we operate.

Himanshu Shah: Sure Sir. Thank you, that is it from my side.

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

Ashit Desai: Yes, thanks. Berend when you say higher investments to drive demand recovery do these include higher BTL spends also.

Berend Odink: No this is mainly related to trade spent so as I explained you earlier into on straight institutions etc.

Ashit Desai: Okay and what would be the reason for so when we look at your realizations they are down on a quarter-on-quarter basis what would be the reason for that.

Berend Odink: So we have noted some positive price mix in the quarter versus prior year but some negative state mix due to the prevalence of course of how the recovery panned out.

Ashit Desai: And could you give us some idea how different was you have said for the quarter we have reached pre-COVID but how different was November, December versus pre-COVID.

Berend Odink: Yes, in general we have seen during quarter of course continued recovery I would say that in November probably we were a bit lower due to some poor weather in south but during that good recovery and that as a total gave us slightly ahead of pre-COVID volumes so that that was a trend.

Ashit Desai: Okay so December was more than 100%.

Berend Odink: Yes.

Ashit Desai: And lastly can you quantify the price hike given to glass suppliers in Q3.

Berend Odink: You are saying Q3.

Ashit Desai: Yes, during the quarter in Q2 or Q3 when was this given?

Berend Odink: So for us in general we have long-term contracts and they work with price adjustment formulas for the majority meaning if underlying input costs move up or down outside of certain predetermined range then there will be a trigger on the pricing. So that is how that they shared with the suppliers before the quarter I think in glass itself there were no major movements in glass prices.

Ashit Desai: So the inflation is largely led by non-glass packaging materials.

Berend Odink: Yes, so then you have to think about cans where the aluminium has moved off but also things like cartons and crowns etc.

Ashit Desai: Thanks.

Moderator: Thank you. The next question is from the line of from Palak Shah from Infina Finance. Please go ahead.

Palak Shah: Thank you so much for taking my question. Firstly on the recent changes in Delhi, Mumbai, Maharashtra, MP, just wanted to take a competitive view from you how has been the period for the last 45 days of the quarter and also including West Bengal where you have seen price impact for spirits versus breweries?

Berend Odink: Yes, so I think each state and area that you mentioned has a different kind of background so in Delhi of course there was some impact from COVID measures at the same time the market I think is kind of stabilizing after the policy change. So a lot of stocking happened in the market new outlets came in became operational some general positive trading for Delhi in West Bengal we have seen indeed some changes again in the policy where the spirits was down in the mid 20's in terms of MRPs but also beer was down some 10% as of that we have seen good continued trading although of course it is a bit difficult to distinguish kind of COVID impact versus policy impact but in general I think this industry is a good environment. In Mumbai I think we have seen a bit more impact due to COVID period so although the online delivery model is active there and continues to see some traction we have seen what I said earlier in urban areas maybe a bit more of the impact for this will go, if I look at the omicron part of COIVD.

Palak Shah: Just on the prizing front and the exercise policy discussions that are ongoing how has been the conversation and approach from the state governments that you are hearing from some of the players and industry what has been your take have there been more accommodative for the industry.

Berend Odink: Sorry the line is not very clear. Could you repeat the question?

Palak Shah: Just wanted to ask how has been the state approach during this current excise policy are they more of accommodative to alcohol beverage industry?

Berend Odink: I think that is very difficult to say in general I mean the discussions are really on the state by state level and they are ongoing so it is too difficult or too early to say in general that they are more accommodated or not I mean I think if I look in the past yes sometimes the external environment like commodities is something that is taken into account at the same time you have also seen a number of states that would not really change their approach bases those kind of external drivers so in that sense I think it is impossible to give one statement about how excise is taking that into account.

Palak Shah: If I just change the question a bit and just ask you which states have been more accommodative in the last two years and this year as well for the industry and versus who have still been more or less the same versus pre-COVID.

Berend Odink: Yes, there are states that are of course more conducive in terms of how they look at pricing but also maybe broader just besides pricing also all that they ease of doing business and the general environment of investments and operations but as Mr. Poonacha mentioned states like Karnataka, Goa, maybe Maharashtra, Maybe Delhi, West Bengal there are probably more pricing actions that have been taken also sometimes policy changes and at the same time there are states like Telangana, Rajasthan, etc. that are more difficult to obtain prices over a period but having said that yes the dialogue will come almost everywhere so that is the effort we do from our side and that is what we continue to do.

Palak Shah: Thank you. Thank you so much for this and all the best for answering for it. Take care.

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

Jaykumar Doshi: Thanks again. Just a quick one, what is the breakup of your volumes in terms of cans and glass bottles.

Berend Odink: So in cans the share of the portfolio would be around 15%.

Jaykumar Doshi: Understood, okay. Thank you so much.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Harit Kapoor for closing comments.

Harit Kapoor: Thanks Margaret. On behalf of Investec Capital Services we would like to thank all the participants on this call and would also like to thank the management for taking out time much on the same. I will now hand over to Berend for disclosing remarks. Over to you Berend!

Berend Odink: I would like to thank all the participants on the call for your interests and questions and also Harit, Investec thank you for hosting us. I hope everybody takes care, stay safe and look forward to the next interaction.

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