



“United Breweries Limited Q4FY’16 Earnings Conference
Call”

May 16, 2016



**MANAGEMENT: MR. HENRICUS P. VAN ZON – UNITED BREWERIES
LIMITED
MR. P.A. POONACHA – UNITED BREWERIES
LIMITED**

MODERATOR: MR. HARIT KAPOOR – IDFC SECURITIES LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to United Breweries Earnings Conference Call hosted by IDFC Securities 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 '*' then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Harit Kapoor. Thank you and over to you, sir.

Harit Kapoor: Thanks, Aman. On behalf of IDFC Securities, I would like to welcome you all to the United Breweries Call. From the team at United Breweries, we have Mr. Henricus P Van Zon and Mr. Poonacha attending the call. I will now hand over to Mr. Van Zon for his opening remarks, following which we will open it for Q&A.

Henricus P Van Zon: Thank you very much, Harit. Good Afternoon or Morning, Ladies and Gentlemen depending on where you call from. You have either on the weekend or this morning seen our "Results" that we published on Saturday morning/Friday night after our board meeting in Mumbai. Results were very good. You know that the first half of this fiscal year that we have recently closed was lackluster in terms of market and industry development and this also in terms of our volume growth which was basically not there. We made a good third quarter that was already important and basically the good development of the trend further continued also in Q4 which made us being able to finally close the year with 12-months increase in revenues of a little bit over 8% and an increase in volume of some 3%, we had an increase in EBIT and in EBITDA of close to 17% and an increase in profit after tax of right between 13 and 14%. So then I think at least we are very happy with this results and we are proud of this results, I think it has been good results considering the first half of this year was as it was.

We have been basically able to keep our market share on normal levels and on decent levels of around 50%, that is we had some good price increases, but you know that because we have achieved this already in the beginning of the year, so they can through into the figures as well; we have achieved a good EBIT margin, I know that all of you are always very interested in development of our EBIT margin and that has further slightly improved; we have achieved good return on net assets which has surpassed our weighted average cost of capital. We can close this year with saying it was a fairly good one.

Actually with having said that, I know there is a lot of you, ladies and gentlemen on this phone call, to open the floor for specific questions and I think a lot of more detail will come on the table.

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: My question is on Kerala and Bihar markets. Some news flow says in Kerala, Wine and Beer have picked up because most of the bars have seen closures especially non-five star hotels. So

if you could say have Beer segment gained market share in Kerala? In Bihar, has the demand shifted to the border states of U.P., Bengal, Jharkhand, etc., so if you could comment how do you see the Bihar prohibition pan out in terms of growth in the adjoining states?

Henricus P Van Zon: The first thing with respect to Kerala that we can confirm indeed it worked out well for us. So we sell a good growth of Beer volumes in Kerala with the further adjustments that were made a little more than one year ago in the policy out there. With respect to Bihar, it is still rather early to really kind of say something about it; I have heard that there is some kind of tweaking going on the borders of the market of Bihar, but to say that we have extreme kind of profit growth with all the neighboring states is a result of that, that would be overdoing it, we see something happening, but that is it.

Abneesh Roy: Overall volume growth you said is 9%. Kerala would be strong double-digits?

Henricus P Van Zon: We normally do not have kind of comment too much on these kinds of numbers, but they are strong.

Abneesh Roy: Based on the results which will now come in the next 2-3-days on 19th, based whatever the results come in terms of Kerala elections, are you now less worried versus what was in the earlier government?

Henricus P Van Zon: That is for us to difficult to comment on, we have to wait and see in this case.

Abneesh Roy: In Rajasthan, your growth was a bit challenging earlier because of competitive action. Similarly, Andhra Pradesh I think availability of Beer was dampened due to shutting of some illegal shops...some structural change you had highlighted earlier. So on these two states how are things now?

P.A. Poonacha: In Rajasthan, we have grown in line with the market and in Andhra there is no growth... if you see it is a decline. In the past, AP used to have certain shops which are called belt shops where the beer would be sold without licenses also, but those are all not there now.

Abneesh Roy: Market share of yours have been quite stable. #2 player has been losing share. But developing thing which I think you should clearly be a bit worried on is the #3 player rapidly gaining share. So could you elaborate why they are gaining share because you are also not now gaining market share, it is stable at 50%?

Henricus P Van Zon: Why are they doing well? Because partly their implementation do a couple of things rightly. If you are large, it becomes more difficult to grow even larger, but knowing that, does not leave us without ambition.

- Moderator:** Thank you. The next question is from the line of Pritesh Chedda from Lucky Investments. Please go ahead.
- Pritesh Chedda:** I missed the volume growth number for Q4 and FY'16 if you could tell?
- P.A. Poonacha:** Our volume growth in the quarter was around 8-9%.
- Moderator:** Thank you. The next question is from the line of Krsihnan Sambamoorthy from Motilal Oswal Securities. Please go ahead.
- Krsihnan Sambamoorthy:** Apparently, Spirits companies have been able to get a price increase in the state of Karnataka from effective July. Have beer companies either going to obtain price increase or have they obtained price increase from Karnataka?
- Henricus P Van Zon:** Yes, but we did already at the very beginning of the year.
- Krsihnan Sambamoorthy:** So AP and Karnataka were both at the beginning of the year?
- Henricus P Van Zon:** I think yes.
- Moderator:** Thank you. The next question is from the line of Ashit Desai from SBICAP. Please go ahead.
- Ashit Desai:** Just on the water cut in Maharashtra, could you tell us how much is the impact on production, and if there is any volume loss that can we meet it from other breweries?
- Henricus P Van Zon:** It is a bit difficult to comment on what the effect actually is because we have some mitigating opportunities open and then of course as we have a good infrastructure in the entire country, so also neighboring states were able to support from other states in case there would be a kind of lack of product in the market. But so far I think we have been able to manage through it fairly well.
- Ashit Desai:** If I see your other expenses, they have gone up by 24% for the year as well as quarter. What is driving this increase?
- P.A. Poonacha:** If you see in line with other expenses also other income. When we write-off, for example, now you will have corresponding provision which will come as income and the write-off will come as an expense. So if you take volume growth on Rs.496 crores, you take 12% in line with our revenue growth, you have close to something like Rs.555 crores, the difference between that and what you have is almost the other income that we have which is the reversal of provisions and the charges being taken.
- Ashit Desai:** So the difference, Poonacha, I think Rs.50-60 crores, but if I look at your other income for the entire year is less than that?

- P.A. Poonacha:** Yes, by and large that reversal; Rs.45 crores is there.
- Ashit Desai:** So these are one-off provisions and the reversals are not...?
- P.A. Poonacha:** If you have a provision which is for expenses in that particular year itself when you reverse it, it goes off as credit against expense itself, but however if it is across financial year it has to come as other income and other expenses when you take that up.
- Ashit Desai:** Can you tell what these provisions are for?
- P.A. Poonacha:** Certain markets where collections do not come. So you make a provision in the year in which they do not come. Then you take necessary action to recover them. If you do not get them, then you take the write-off.
- Ashit Desai:** Can you share what is your gross debt and cost of debt?
- Henricus P Van Zon:** Gross debt is now around Rs.650 crores and our cost of debt at average at this point of time is under 10%.
- Moderator:** Thank you. The next is a follow up question from the line of Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** Your HR cost seems to have been controlled well. So is there any one-off there?
- P.A. Poonacha:** Rs.297 crores to Rs.336 crores, exactly about 10-11% increase, this is in line with the industry standards.
- Abneesh Roy:** Regarding all these prohibition-related, we are seeing now many other states also the news flow is coming, for example, Tamil Nadu, in Uttar Pradesh, the Bihar Chief Minister is giving. So are you now engaging with the government more proactively versus what was earlier because clearly it is a very big portion of the state governments' revenues but still some of the political parties are still going ahead, Bihar being a prime example? So what is the way forward? Clearly a lot of proactive steps would be needed from your side. So could you elaborate what exactly is happening from industry perspective?
- Henricus P Van Zon:** It is a bit difficult to comment on that but if you see for instance what has happened in Bihar, there was first kind of a talk about prohibition, and then there was a final decision on having the prohibition basically on Spirits only not on beer. So that was in the right direction and that would probably if you really want to do things like prohibition for real kind of purposes other than political game, that would have been maybe perhaps a good decision, but then it was changed overnight into full. I think what you can conclude and maybe you are allowing me to say that... I am of course not in the Indian citizen, this whole prohibition issue is not used for

sake of care for public health or social issues, etc., it looks as if it is purely used for short-term political gain as it has been used in Bihar and now has come up in Tamil Nadu. Political will probably remain as they are. So this thing will not go away easily. But, on the other hand it is not really kind of driven by principles. So we will see these kinds of things maybe fire up in one of the other states and then settle down again like in Kerala. That is basically how we look at it.

Abneesh Roy: Sir, your Bihar factory is shut in Q1 of FY'16. So what is the position there? Bihar I understand will be low single digit in terms of percentage of volumes. So ex of Bihar, are you expecting a double digit volume growth for the full year?

Henricus P Van Zon: You know very well because you are following us already for a long time, we do not express our expectations for the future.

Abneesh Roy: Let us say that prohibition does not happen further in more states and I am knocking off Bihar and Kerala also as of now we are not changing anything, I think in the next three days we will have far more clarity. What I am asking, is it getting better, is it getting worse in terms of growth? Obviously, you will not see a decline.

Henricus P Van Zon: We are not supposed to make any comments on the guarantee. We are talking about last year. Bihar factor is still open because we will certainly use it for exports which government has promised, will be possible. So we will keep on doing it and for the rest we will wait for this whole thing to further develop.

Abneesh Roy: But is it viable because taxation will be prohibitive in intra-state?

Henricus P Van Zon: As you know it is not the same for every state and import tax, excise or the import duties are different. So some states, yes, some states, no. Matter of trade-off. The fact that this brewery is there is the fact or that we have to live with, we cannot do too much about it, we have built a brewery with a complete consent of the local government even the same local government from before and after the elections. So in that sense with the complete consent and cooperation you can say it is often itself that we have this prohibition on Beer in particular.

Abneesh Roy: I understand that. My question was do you get some tax exemption from Bihar state government? I understand you will be allowed because it is a legal factory you have set up, but that does not solve your problem, because you will obviously be sending it to either UP, Jharkhand or Bengal?

Henricus P Van Zon: That is something we should discuss with them, that is not given yet.

Moderator: Thank you. The next question is from the line of Jhanvi Shah from Reliance Mutual Fund. Please go ahead.

- Jhanvi Shah:** On the raw material front, across all the items in terms of Glass, Barley and all, cost would have probably come down. Are they pretty much in the system now? What is the outlook for raw material prices from here on because we have seen crude also move up a little bit?
- Henricus P Van Zon:** The raw material prices have been very stable last year. Once again, we do not say much about expectations but let us talk about how Barley market and the raw material we see tendencies for price will go up.
- Jhanvi Shah:** This is only for Barley or even for Glass?
- Henricus P Van Zon:** Glass I have not seen yet.
- Jhanvi Shah:** Because Glass is the large quantum compared to Barley for us?
- Henricus P Van Zon:** Yes.
- Jhanvi Shah:** In Q4, on the sales promotion expenses, they went up by around 20%. So was that a one kind of an aberration and we should see moderation going ahead or this trend would continue?
- Henricus P Van Zon:** The sales promotion expenses are actually important expenses and of course you should not kind of waste your money if you spend it, but you can see as an impact in the market. So you may take into consideration that the tendency into the future will be rather up than down.
- Jhanvi Shah:** For the quarter do you need to spend so much in tandem with your sales growth once you reach a particular size in a few states?
- P.A. Poonacha:** For the full year it is in line; slowly growing based on that, do not take the quarter as a trend.
- Jhanvi Shah:** On the CAPEX intensity, you spend around Rs.180-200 crores this year. What is our after all now on adding further capacity over the next few years?
- Henricus P Van Zon:** There is not always a direct relationship between what you see in the figures as CAPEX because that is the cash out and as what we have in the pipeline as project. We did quite some projects last year with payment the CAPEX comes out a little later. So you can say actually for all kinds of different reasons the level of last year was relatively low and I expect the level to come up again on a level of what we have shown in recent years.
- Jhanvi Shah:** But what is the rationale of adding further capacity now that we have prohibition across a lot of states?
- Henricus P Van Zon:** We do not have prohibition across a lot of states. The fact that newspapers write about is with many other things, actually what they do is to repeat everyday what they have written yesterday or what their colleagues have written the day before. If you follow a certain subject

and you look at the news value that you find in newspapers it is always extremely limited, very often there is repetition. If you read a lot about prohibition, does not mean that there is a lot of prohibition, it only means there is a lot about within about it. Of course in retrospect there are two small states still left in India that have prohibition for many years already – one is Gujarat that has been for many years and the only additional one at this point in time is Bihar.

Jhanvi Shah: Can you probably throw some color on how the scenario is changing in every geography for us? We have a pretty heavy exposure in a few states down south which have given us good quantum of price hike recently since you just mentioned at the beginning. So how does this entire mix change for us?

Henricus P Van Zon: Mix always change in small steps and mix has a very different as many dimensions, there is state mix, there is source mix, there is breadth mix, there is package mix, it has tremendous lot of...

Jhanvi Shah: I was asking from the state mix point of view?

Henricus P Van Zon: That is what I am saying. So that is always difficult to say what exactly the state mix effect is vis-à-vis the other ones. It is always a mixed bag and the total what comes out is in addition of different effects and sometimes you have positive ones and negatives on the other side that bounce off partly or completely or whatever. There are no specific comments to be made on.

Jhanvi Shah: You have seen water cuts getting pretty acute to Maharashtra where we have around three breweries. So do you envisage any production cuts or have you seen an increase in freight cost or other cost coming in because you would be sourcing from other states coming to demand?

P.A. Poonacha: As of now we are able to meet the demand in Maharashtra with the allowed water sourcing. We have capacities elsewhere. If there is a shortfall, they can move it, then the additional cost of freight will come in but as of now we are managing within the three breweries.

Moderator: Thank you. The next question is from the line of Chanchal Khandelwal from Birla Mutual Fund. Please go ahead.

Chanchal Khandelwal: Just to talk about the positivity part, now, Kerala is giving license for Beer and Wine. State of Maharashtra in parts given a license for Beer and Wine. Can you tell me how much license have been issued in the state of Kerala only for the Beer and Wine? From Maharashtra learning, how can this help you over a longer-term?

P.A. Poonacha: There are no new licenses issued either in Maharashtra or Kerala. What has happened in Kerala is unless there is a five-star restaurant or a five-star hotel, they cannot serve Spirits, and all other licensees can sell Beer and Wine. So, the universe for Beer and Wine has remained

the same. It is just that the growth is propelled considering that the availability of Spirits and the channel is much lower. So that is about it.

Chanchal Khandelwal: All the other stores? Cannot say IMFL at this point in time, is it?

P.A. Poonacha: Yes.

Chanchal Khandelwal: In Kerala, that means 10% dearth of Retail stores which will happen in Kerala every year will hurt you?

P.A. Poonacha: We are talking about 10%. This is only a statement made. I do not think they have started closing down the Retail stores because in Kerala it is running by the corporation and most of the corporation employees are government employees and you know how labor sensitive the state of Kerala is. While the statement is around, but we have not seen any shut down of shops as yet.

Chanchal Khandelwal: So you are a huge beneficiary in Kerala, I would read it that way because of the IMFL?

P.A. Poonacha: I am considering that we are a market leader, yes we are.

Chanchal Khandelwal: On Maharashtra?

Henricus P Van Zon: In Maharashtra, Beer and Wine licenses have been given out in the same manner for at least three or four years. So I do not see any change in the reporting period vis-à-vis the previous year.

Chanchal Khandelwal: But when you split to various states is it the point you are pitching that Beer and Wine license can help?... any other states are going to follow in suit?

Henricus P Van Zon: We have not heard of anything yet while it would be one in our wish list.

Chanchal Khandelwal: A question was touched upon on the Barley prices and the Glass Bottling prices. Barley prices we have seen a rally recently. So what is our policy here – do we have inventory for 3 to 6-months or how are we placed here?

P.A. Poonacha: Yes, we normally pick up Barley at the start of the season and we are well-stocked to ensure that we do not get any kind of shortfall for the financial year.

Chanchal Khandelwal: We have been always saying that if the GDP growth improves, volume growth tends to come back. So any positives for last two quarters our volume growth of 9% to read from there, any positive sign you are seeing in the market?

P.A. Poonacha: It is just that the consumer got used to the price increases, that is about it.

- Moderator:** Thank you. The next question is from the line of Ashit Desai from SBICAP. Please go ahead.
- Ashit Desai:** Have you seen any increase in discounting from competitors this year and is our discounting increased or it is stable?
- P.A. Poonacha:** We do not believe in discounting our brand, we have strong brands. Whether the competition discount has gone up as a full year? We cannot say, but we can always give a statement that the discounts given by competition is far higher than what we do.
- Ashit Desai:** Because if I see your realization growth this quarter excluding volume growth it is just 2%. So is it mainly due to the mix or...?
- P.A. Poonacha:** Mix only.
- Ashit Desai:** I know the rates are not final but assuming GST comes at 18-20%. What will be the kind of impact on us?
- P.A. Poonacha:** We are yet to finalize on number.
- Henricus P Van Zon:** First, the question is of course will it come? Next question is when it will come? The follow on question is how it will come? But GST when it will be approved and when it will be implemented as soon as we are not part of it as Alcohol industry it will have an effect, it will have short term negative effect.
- Ashit Desai:** Poonacha, you said there was a price hike in AP also this year?
- P.A. Poonacha:** Start of the financial year '15-16; end March or early April 2015, we enjoyed the increase through the financial year '15-16.
- Ashit Desai:** So only Karnataka is the new price increase that you have got?
- P.A. Poonacha:** Yes.
- Moderator:** Thank you. The next question is from the line of Harit Kapoor. Please go ahead.
- Harit Kapoor:** I had a couple of questions: First question was regarding the receivables on the books. We have seen last two years receivables being in a band but we have seen a pretty sharp increase in FY'16. So is that more to do with Bihar impact or what has really happened in the quarter?
- P.A. Poonacha:** Most of our dispatches is to government corporations and state like Telangana forms a large part of our receivables and there has been a structural change in the payment policy of the state of Telangana. That has been the largest impact on our debtors.

- Harit Kapoor:** Could you just comment on what this structural change has been on the payment policy?
- P.A. Poonacha:** That you can get in the net. I do not recollect off the hat. But there has been a change in the payment structure where the payments are made.
- Harit Kapoor:** The debtors increase would largely be on account of this, right?
- P.A. Poonacha:** Yes, the largest impact is the State of Telangana.
- Moderator:** Thank you. The next question is from the line of Kinjal Desai from Reliance Mutual Fund. Please go ahead.
- Kinjal Desai:** You said that there is a provision in the other expenditure. Could you just quantify how much would it be for the quarter?
- P.A. Poonacha:** We cannot give the breakdown of financials.
- Kinjal Desai:** Overall could you give us an idea that the fact the second half has shown much better volume growth, so which states have seen an improvement and which states have not, if you could qualitative give us an idea of second half this year vis-à-vis second half last year?
- P.A. Poonacha:** If you see the financial year '14-15 the first half was good, second half was not good. So comparative wise it looks there is a growth but if you look at the full financial year '15-16 vis-à-vis '14-15 there is only 4% growth. So it is just between the quarters and industry has recovered from the price increases.
- Kinjal Desai:** But I just wanted to understand it geographically, are we seeing any improvement in states where otherwise seeing some amount of issues, have they started recovering,, entire industry as a whole to grow?
- Henricus P Van Zon:** I would like to go back to an answer I very often give that as we are the real kind of you could say the only brewery in Indian market that operates really nationwide. We basically have a wide portfolio of states that we are running. One year you get a price increase in one state, next year you get a price increase in another state, the following year in the third state, the next one year the volumes go up in state-one, the volumes go down in state-two, one year you have prohibition talk in one state and prohibition which goes away, which did not appear in other one. So our final results are always the results of a very mixed bag. Every year that is slightly different depending on where it comes from, where it does not come from. I am not a jury with big tremendous sense to start commenting on all the specifics in a year, in a quarter, one state with the others.

- Moderator:** Thank you. The next question is from the line of Jhanvi Shah from Reliance Mutual Fund. Please go ahead.
- Jhanvi Shah:** Have you seen any increase in excise duty or any other tax in any of the states?
- P.A. Poonacha:** Nothing out of the ordinary, for example, you take a price increase in Karnataka which were done, there is a pro rata increase in excise, ad valorem in the state of Karnataka. So barring that nothing out of the ordinary where there was a huge price increase which is different from the current percentage.
- Jhanvi Shah:** In Karnataka, if you saw excise increase of say around 10% and you would have taken a price hike around 15%, this kind of price increase would be a serious drop, is it?
- P.A. Poonacha:** That is what we are going to see in the quarter of '16-17, so that is the current quarter which listed companies I would not want to comment on.
- Jhanvi Shah:** When was the price hike taken? You mentioned early this year.
- P.A. Poonacha:** Last week of March.
- Jhanvi Shah:** We have not seen any increase in taxes out in Maharashtra?
- P.A. Poonacha:** Already two years back we have got a huge tax.
- Jhanvi Shah:** Correct, volumes had a setback.
- Henricus P Van Zon:** The market is recovering.
- Jhanvi Shah:** But nothing much in any other state as such?
- P.A. Poonacha:** Nothing substantial to report.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Harit Kapoor for the closing comments. Thank you and over to you sir.
- Harit Kapoor:** On behalf of IDFC, we would like to thank the management of United Breweries as well as all the participants on the call for joining us today. Sir, would you have any closing comments?
- Henricus P Van Zon:** I would like to thank everybody who has been listening in and in particular who has been posting the questions for their interest in our business and our company. We are happy that we have closed the year how we have done and we will go with full ambition we have gone into the new year and see what we all can do for you. Thank you very much.



*United Breweries Limited
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Moderator: Thank you very much. Ladies and Gentlemen, on behalf of IDFC Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.