"United Breweries Limited Conference Call"

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**Moderator** Ladies and gentlemen good morning and welcome to the United Breweries Conference Call hosted by IDFC Securities Limited. As a remainder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference call, please signal an operator by pressing * and then 0 on your touch tone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Ms. Swati Nangalia from IDFC Securities Limited, thank you and over to you ma'am.

**Swati Nangalia** Thanks Farah, good morning everyone and welcome to the Q3 FY11 earnings conference call for United Breweries. Today, we have with us representing the management Mr. Guido Dubor the Chief Financial Officer and Mr. Poonacha from Investor Relations. We will start the call with brief remarks from Guido who would take us through the quarter performance and also give us an outlook on the business, post which we can open the floor for Q and A, over to you Guido.

**Guido De Boer** Thank you very much, I would like to split my opening remarks the first on operational performance and then later on may be some details on the merger of the former (Asia Pacific Breweries India) APB companies we announced yesterday.

So operational performance I think another good quarter 26% top-line growth for the group shows the continued trends in the beer market and on top-line again 39% increase in revenue on net of traded goods which is consistent with the trends we had in Q1 and Q2, so that growth is on the basis and many coming from states in the south and Andhra Pradesh, Tamil Nadu, Karnataka still continuing to deliver strong results and also Maharashtra is one of the star markets here and in the North notably Uttar Pradesh is really doing well and such pretty spread out and consistent across the corporates.

And costs I think are well in checked. We have pre-bought our barley ahead of the seasons so we do not have any pricing choices from that and our bottle cost is progressed well with introduction of our new patented bottle. We expect to complete in the states where we have launched it and before the start of the season and then we will roll it out further in the next financial year so that end of next year will have PAN India coverage of our proprietary bottle.

The results so far as positive, let see how close it will include the peak season but there seems to be some benefits in the cost containment from both the cost. That is high level on variable cost than on fixed cost trend is basically positive across items as a percentage of revenues compared to the last year, so that shows the good performance on operating profits and so continuing the strong delivery in operational results, if you look at volumes, we basically did more or less the same volumes as the previous quarter that our profitability is significantly higher so this is that the I am pleased with this quarter and then if you look at net profit this quarter only grew 40% and but if you are going to take out last year we have around 6 corers in income from an investment in the mutual funds which is obviously nonoperational and nonrecurring. If you take that out you get to around 70% growth in profit after tax which makes also the performance in line with previous quarters. So much so for operational performance. Then on the mergers, obviously been in the works for a while, but the merger of these erstwhile APB companies is the next step in the alignment of getting all the beer companies into one legal entity, this to optimize all synergies that are in that and to also have a clear structure and towards the outside growth and also to increase clarity of the business for UB internally.

So as far as these merger, we will issue 855,000 shares with shareholders of APB which is today's share price equals to more or less 32 Crores in value for these businesses and for that we basically buy two companies we have current install capacity of 5.9 million cases combined and if you look at the layout of these breweries, the brew house are built to have capacity to 10 million cases each which is the major investment. So first step of capacity expansion can be done at relatively low cost with just adding few more trends and at the latest stages it means some bottling lines which are a bit more expensive but there are also platform for both of us to cater to the ever increasing demands. So that is on the merger of the APB Companies (currently renamed "UB Ajanta" and "UB Nizam") then the merger we announced earlier of MAPL (Millennium Alcobev Pvt. Limited) companies, one of the process is the courts merger of ABDL (Associate Breweries & Distilleries Limited), MAPL and Empee (Empee Breweries Limited) , that process has now been approved by overall by courts and we are awaiting that confirmation to finalize whole process, so I expect in the coming month that should be finalized and then as of Q4 results, this entity should be into UBL, I think that has had a progress, the other two companies are under BIFR process being MBIL (Millennium Beer Industries Limited) or new UMBL(United Millennium Breweries Limited) which takes a bit longer but our intention is to get that done in the coming months. We are progressing on that side, so I think so far our general remarks may be she can open it now to questions.

**Moderator** Thank you very much sir. Ladies and gentleman, we will now begin with the question and answer session. Our first question is from the line of Abneesh Roy from Edelweiss, please go ahead.

**Abneesh Roy** Sir, great set of numbers, congratulations on that. My first question is on the split in terms of volumes and price and if you could give us some change in the market share quarter-on-quarter, I am sure YOY there is a big improvement but if there is any further change in the market shares quarter-on-quarter, that is the first question sir.

**Guido De Boer** Yes the expected numbers we will look up but if you see we in December achieved our highest market share ever in the history of UB and so the trend is definitely up. December was close to 60% and year to date is around 53%, so we see the trend is definitely strong, so quarter on quarter it is posted, but you would see generally in a year on year trends is that our market share is highest in Q2 and Q3 and it dropped slightly in the peak seasons of Q1 and Q4 because people there the smaller player start to buy it more aggressively and we tried to limit our capacity and also do not do unprofitable shares, so necessarily in Q4 and Q1 our market share will be below than the trending in these months.

**Abneesh Roy** And sir how much is the seasonality you said Q2 and Q3 is normally the smaller quarters, how much would be the seasonality in these four quarters.

**Guido De Boer** If you go by size business, traditionally, we do 31% of our business in the first quarter and 19% in the second quarter, 20% in the third quarter and the difference is 29-30% in the last quarter, so the first quarter and the last quarter is somewhat similar but this is an average, there can be changes between 1 to 2% based on the economic factors in the particular financial year, so basically it is Q1 and Q4 are 50% higher than Q2 and Q3.

**Abneesh Roy** Sure, sir my second question is on the raw material side, our gross margins are down around 200 bps this quarter-on-quarter and cost of goods is up 12% quarter-on-quarter while sales is up 7%, so I wanted to understand which are the key raw materials which are going up on a quarter-on-quarter basis and what is the trend for these raw materials going forward say may be for FY12 if you can give us some sense.

**Guido De Boer** So I think the key costs that went up in this is bottle cost and that is the result of our investment in the patented bottle, so we buy more new bottles and the percentage of new bottles we inject is higher than the new bottle that is due to be infused in a stable market, before the introduction. So I think that is a temporary factor basically and best thing in this bottle pool and then besides that there is some price increases in new bottle prices and secondhand bottles is a bit of mix either prices rising but are all patented bottle prices are steady or lower so that is better of a mix in that, new glass is slightly up and for now there is no inflation or any pressures on the barley or other.

**Abneesh Roy** And you expect that in FY12 also inflationary pressure in Barley would not be much.

**Guido De Boer** It is still a little bit hard to say. Internationally there is significant pressure on barely prices that India is quite isolated from that and nothing reference for Barley prices in India is one wheat prices which looks very positive but besides that it is also the sowing of barley versus competing crops like mustard and their sowing seem to be growing less than our volume growth so there could be slight pressures there but we do not know we because we buy our crops basically in March-April, I think we should give you good guidance for the whole year in the announcement of Q4 results basically know what our prices would be for barley. So now it is a bit too easy to say but I do not expect today's levels there will be inflation but to what extent it is hard to say. Barley crops comes in March and early April so at the end of this financial year, we will surely know what the prices are for the next financial year as wheat procure majority of the barley in the start of season as such.

**Abneesh Roy** And sir my last question is how much price growth normally we get every year in the last five years CAGR and what is the confidence level for FY12 and for bottling if you can tell us when does the final the entire bottling initiative which you are currently undergoing, when does that completely get over so that on margins we can get a better understanding.

**Guido De Boer** End of next financial year we just have completed its PAN India but we do it on the state by state basis so half of the markets we should have done by end of this financial year, so then also in those states benefits starts to come in and some part of the investment in new bottles is subsidized by the lower price of second hand patent bottles.

**Abneesh Roy** Yeah.

**Guido De Boer** Regarding, we have other question, can you just repeat the question, what are you exactly looking for.

**Abneesh Roy** Sir how much is the price CAGR last 3 or 5 years we have managed and what is the confidence level for FY12, some state elections, five state elections are there, so in context of that what is the confidence level.

**PA Poonacha** CAGR for last five years, the top-line has grown 5 to 7% above our volume growth so that has been and this is really not a function in which is controlled by the company because you know that majority of our business is with the government Corporations and it is based on their whims and fancies that prices increase are doled out and being financial year in which we are going to have elections in a few states I mean few key states I think Tamil Nadu will have elections and is a large market. We will have to wait and see how positive or negative that the government is towards price increases so these are factors beyond our control but the CAGR has been between 5 and 7% and that should continue without any great down side.

**Abneesh Roy** So to understand correctly 5% to 7% price growth you have done in the last five years.

**Guido De Boer** Yes.

**Abneesh Roy** Okay because that is higher than what say liquor industry does, they have done around 2.5 to 3% and you are not facing so much raw material pressure, so I wanted to understand why still 5 to 7% should be possible next year.

**Guido Dubor 17.04** I mean liquor prices are different and if you see since the base price of beer is high when excise duty changes the effect on beer is far higher than the effect on liquor base prices because that is lower due to majority of their volumes come from lower end, I mean liquor which is the base price is lower than beer so the effect is higher here, so you will have a greater growth in top-line and liquor prices.

**Abneesh Roy** Thanks a lot, I will come back if I have anymore, all the best.

**Guido De Boer** Okay, thanks Abneesh.

**Moderator** Thank you.

**Swati Nangalia** Hi, this is Swati here, can I ask a question right now.

**Guido De Boer** Yes of course.

**Swati Nangalia** Yeah just two to three things to from our end one is what is the longer term strategy given that our market share differentials with respect to SABMiller has widened over the last 2 years, should we then start to see much higher profitability from the business given that we could rationalize some of our ATL and BTL spends going forward, a similar case which we saw in terms of United Spirits and Shaw Wallace say four years back. Second is on Balaji Distilleries, if you could update us with the status of the transfer of the Breweries assets from united spirits and that and third is just in terms of given that we are seeing a very strong volume growth across quarters and with guidance of around 20% take over the next 4 to 5 years, what is our roadmap in terms of capacity expansion from here on.

**Guido De Boer** let me with your question on Balaji, I think that is the merger of Balaji into USL from a technical standpoint is being completed. I think that is more at the USL to complete that and until that is done there is still a contract as it was as in the previous organization and then on capacity planning what realized to do is we take us 3 year outlook on where the market is and basis on that we plan our supply chain footprints and we go about breweries basis upon that to ensure that we always have sufficient capacity and short-bursts from both in space doesn't necessary make sense build breweries from market size perspective at that in time we utilize contract brewers through cost sufficiently cater for that demand.

**Swati Nangalia** Okay and in terms of from a broader term outlook with respect to our market share increases with SABMiller, how do we see that moving in terms of our profitability.

**Guido De Boer** I think on ATL it will not much because that is something that is not so much dependent on market share, we invest behind our brands to maintain laxity of those brands and we do that I believe in a good and efficient way, so that we will continue to do and that is more the potential synergy or skill of fact once we grow this can cost might grow lower than the net contribution were. On BTL should definitely given our market share and position in the market ongoing efficiencies there to be realized. That we already are doing in this year in certain markets, where we are just reduced the spends in the outlet behinds some brands and because we have want to push because we have such big volumes in our outlets that we can afford to spent a little bit less per case and on the other side we also have the brand pool with Kingfisher being the most valued brand in the market, so both because of the bigger share in outlet and the brand equity we enjoy. We can, going forward I think absolutely lower our BTL as a percentage of revenue.

**Swati Nangalia** Okay, thank you for this.

**Moderator** Thank you. Our next question is from the line of Amar Kalkundrikar from HDFC Mutual Fund, please go ahead.

**Amar Kalkundrikar** Thanks, good morning gentlemen, thanks for taking my question. Sir in the first 9 months, company has made a PAT of about 128 Crores, again there what would be the operating cash-flow for the 9 months.

**Guido De Boer** numbers but to get more of the qualitative aspect behind it, there will lot of work on improving our working capital, so that given this year say one of significant improvement in cash flows and also next year we are looking to drive working capital down further, so that should improve the cash flow profile of the company.

**Amar Kalkundrikar** Sure, and the other question I have sir is that this year we will see probably 150 to 200 basis point expansion in operating margins and the EBITDA margin will approach of almost case 13% mark, over next 2 to 3 years, what kind of expansion can we see coming out of operating leverage efficiency initiatives and even the bottling initiative and so on. What kind of margin expansion we see over 2 to 3 years period.

**Guido De Boer** We do not really give a guidance on that, if you run your numbers and take into account that I mentioned earlier on our bottling project and the cost and benefits of that and obviously some inflation in raw material cost plus skilled benefits in BTL price increase is around the levels we discussed and ATL, I think that should give you some perspective top-line guidance is that the belief that on a five year CAGR based we expect to grow 15% volume next 5 years.

**PA Poonacha** Just to answer your question, the operating profits for the first 9 months has been 305 Crores, in UBL we have term repayment of that debt which is in the range between 50 to 60 Crores for the 9 months and about Rs. 40 to 50 Crores has been the minimum additional amount in working capital which has shown a declining trend and about another 85 to 90 Crores has been paid out towards our CapEx program and we have operating cash flows between 100 to 110 Crores. If we assume that this CapEx is expanded out of our return accruals but as you know we already have right through money is sitting in our banks in working capital facilities.

**Amar Kalkundrikar** Right, so excluding CapEx, I mean about 200 Crores of capacity that is the operating profit plus working capital changes.

**Guido De Boer** Poonacha also mentioned that is the payment and I think that you are operating for cash flow is probably once you take that out.

**Amar Kalkundrikar** Sure, thank you so much and good luck for the next year.

**Moderator** Thank you. Our next question is from the line of Abneesh Roy from Edelweiss, please go ahead.

**Abneesh Roy** Sir few followup questions, tax rate has increased significantly quarter-on-quarter, so what is the sustainable tax rate around 34%.

**PA Poonacha** Yeah 34% is the YTD rate, I mean this is a function of the deferred tax and the current tax. If you want a forward outlook on it, on merger, we would have a substantial tax losses coming so again the deferred tax element would be charge in the P&L but the cash outflow will be limited to 20%.

**Abneesh Roy** Sir what is the likely tax rate for say FY12 and FY13.

**PA Poonacha** FY10 we charge in the P&L will be around 33 to 34% but only 20% will be the cash outflow because the differential charge would go up against your deferred tax asset which comes in as part of your merger. I can give you an example, suppose the deferred tax asset comes in as part of your merger say 100 Crores, I am just giving you an example do not quote this number and say you have the differential between your 20% and 30% is say 50 Crores, so your deferred tax asset would come down in the closing balance sheet by about 50, so that is the effect, so the charge in the P&L will be in the region you are seeing now 34 to 35% not more than 35%, that is the maximum it can go but the payout will be 20% which is the maximum and considering the merger is approved by the court so that they can confidently say so but again the 20% would be available as the tax credit going forward because the following financial year being a profitable company we are likely to make profits and when you see those factors we would again not have a cash outflow of that 20% that we are paying out for the current financial year.

Guido De Boer The majority of the tax losses sits in the MBIL which is not approved yet that is up for the BIFR so the MAT is under the assumption that the merger will complete.

**Abneesh Roy** Sir any timelines for that merger?

**Guido De Boer** With the BIFR it is always hard to say, the first meeting is coming up end of this month and then it is just a depends on how many hearings are required when it is completed. So out put is to do before September this is for me to do the tax part.

**Abneesh Roy** Sir coming back to the earlier question of ATL and BTL spends, you said that in BTL, there is some scope of rationalization, so I wanted to understand in terms of ad spends what would be the broad split in terms of ATL and BTL.

**PA Poonacha** I do not think Guido said that the rationalization in ATL spend I mean he mentioned it is only BTL.

**Abneesh Roy** In BTL I also said that, in BTL rationalization is possible right.

**PA Poonacha** No, yeah, I was just clarifying here, I mean with the growth of Kingfisher strong and it becoming number one beer in the country, BTL spend have come down over the years and continued to go down because among all our brands Kingfisher has always been the least discounted brand and with the growth of these brands seems to be strong and largest close to 74% or 77% of our business is Kingfisher. In anyway going forward will not be discounted but we have another portfolio brand which continues to be discounted considering they are the regional brands and they are the brands which had to be discounted to shelf but with the growth of Kingfisher as it is going forward BTL will come down.

**Abneesh Roy** Correct.

**Guido De Boer** Breakdown between ATL and BTL, we do not provide for competitive reason.

**Abneesh Roy** But will it be fair to say that BTL will be higher compared to ATL.

**Guido De Boer** We do not think any…..

**Abneesh Roy** Sure, sir my next question is on the staff cost, it has been very volatile, it has come down quarter-on-quarter 16% but up 30% YOY, what is making it so volatile on a quarter-on-quarter basis.

**PA Poonacha** But this is more of the payment issues. For example, this quarter that is October quarter is the festive season where you give out the annual bonuses at the factories, that is the spike but it is not that it is fluctuating through.

**Abneesh Roy** It is once a year bonus is it.

**PA Poonacha** Yeah.

**Abneesh Roy** Sir, my last question is on the brands at the higher end which I think Heineken would do, any sense on that if you can tell us and also on working capital if you can give us some more color what else is possible in FY12, you said some more initiatives are going to take place in FY12, so some color on the working capital improvement further.

**Guido De Boer** The working capital the area that we put in a lot of focus now is bringing down our inventory levels, so putting in strict inventory norms to make sure we adhere to that strengthened our material resource claiming, etc., so that should bring down the inventory side and also on the payable front we are working tightening or terms. So those things plus continued focus on credit terms in the market should delivered incremental benefits from that side.

**Abneesh Roy** Any numbers you can share, how many inventory days or payable days reduction have happened in the last one year.

**Guido De Boer** If you look from an operational working capital levels or if you take advances we have given for example that would be around 40 days and that should definitely trend down quite a bit.

**Abneesh Roy** It has come down to 40 days or it is now 40 days.

**PA Poonacha** It is 40 days now, it has come down by about 10 days in comparison to what we were in the last December.

**Guido De Boer** Right it depends a little bit on which if you look at in the peak season last year it was around 60 days and we have now been able to reduce it to current levels.

**Abneesh Roy** Sure and the other question was on the Heineken say at the premium end what are we doing.

**Guido De Boer** On the premium end we basically has two brands for use it is Kingfisher Ultra, which is being rolled out through all circles, smaller cities and which continues to do extremely well in the cities where we have launched it. So, there will be focus on broadening distribution and making sure it is available in more places but the market share again in cities where it has been launched is often bigger than other competing brands and then as a super premium international brand, Heineken will be listed on top of that and we are now doing the trial runs and we expect to start production of that in the start of next financial year.

**Abneesh Roy** What is the brand called sir?

**Guido De Boer** Heineken.

**Abneesh Roy** Okay the same mother brand.

**Guido De Boer** Yes.

**Abneesh Roy** And what would be the pricing percent and how much is the market size currently.

**Guido De Boer** It is available now in the market but it is brewed in origin, so there is a huge import duty and our pricing will be to reflect the removal of those duties but it could be the most premium brand in the market.

**Abneesh Roy** And that is growing much faster right currently that segment.

**Guido De Boer** That segment is definitely growing very fast and also profitable.

**Abneesh Roy** Okay sir, thanks a lot and all the best sir.

**Moderator** Thank you. Our next question is from the line of Kavita from Elara Capitals, please go ahead.

**Kavita** Yeah, I have lots of questions. My first question is regarding the merger with APB Breweries that you have announced. I just want to understand what will be the cost of a greenfield venture for setting up a Greenfield venture with the same capacity.

**Guido De Boer** Basically building the Greenfield is usually measure in Hectoliters and you would say around 35 Euros per hectoliter, it is basically around Rs. 2000 to Rs. 2500 per Hectoliter.

**Kavita** Okay fine thanks. My next question is, you have recently rolled out patented bottles, can you take us through what is the economic advantage of using a patented bottle over secondhand bottle.

**Guido De Boer** Sure, the way the system works now is that is we buy a new bottle, we sell it with beer and we sell it and then we have to buyback the secondhand bottle in the market and when there was an industry bottle, there is bottle trader, collector, could sell it to us and to any of our competitors which puts the bottle collector in a good position and he could ask for higher prices especially in peak season when there is scarcity. So the first benefit of introducing this is that the bottle trader can only sell through us and not to competitors which changes the negotiation position and that to deliver a better pricing but that is one and then the second aspect is that because we are the biggest player actually only us and probably SAB to a certain extent were injecting new bottles and they are with subsidizing the bottle pools of our smaller players. When we have our own patented bottle, we only inject new bottles for ourselves and not for the competition so that should bring down the new bottle percentage and new bottles are much more expensive than secondhand bottle. The benefits should be around those two areas.

**Kavita** Okay thank you sir and finally what would be your debt and cash on books as on date.

**Guido De Boer** Net of cash 500 crores as a net debt.

**Kavita** Okay fine, that is all from my side sir, thank you.

**Moderator** Thank you. Our next question is from the line of Arun Lochak from Religare Capital markets, please go ahead.

**Arun Lochak** Congratulations on a good set of results. Like you I dialed in late, so sorry if there is any repetition. If you could just give some sense on the outlook for the raw materials so what is the outlook for the raw material inflation and then what is the kind of pricing action that we could see in the overall portfolio to mitigate some of that.

**Guido De Boer** Yes sure, the inputs of inflation for the coming quarter as you know we buy barley stocks for the full year in March, so that is more or less fix so there should not be much changes there, any cost inflations should come from power and fuel depending what happens to oil prices and which is around 10% to 11% of our cost of goods sold and so that should be fairly minimal and then on bottles where not so much cost inflation but is higher injection of new bottles due to firm the bottle pool.

**Arun Lochak** Well any sense on beyond Q4, what is your sense for the next season.

**Guido De Boer** I mentioned earlier that we can give you some perspective on the half the Q4 when the harvest of barley is done and we buy up the barley for the rest of the year. For that moment we have a good feel. Now with crop growing, it is still a bit hard to say what will be depression there.

**Arun Lochak** In terms of the price increases that you have taken.

**Guido De Boer** For this year, we expect quite healthy price increases. If you take an overall basis, we have been able to realize about Rs. 13 per case increase NSR resulting from price and mix.

**Arun Lochak** And sir in terms of the growth trend like if you could just throw some light on you know which regions or which states are really driving the growth like apart from the one-offs which have been there in terms of the base but beyond that you know which are the states which are seeing very strong growth and like are there any regions or states which are lagging behind and like.

**Guido De Boer** I would like to have said either a low base affect for Karnataka which was until Q3 and Q4 Karnataka where we grew strongly and Andhra is more due to changes in government policies, apart from that the star performance has definitely been Maharashtra with 30% growth and good profitability, Orissa and also Tamil Nadu and being a small amount with very high growth UP was also excellent.

**Arun Lochak** And like you know I just heard your five year volume guidance of 15% CAGR, given some of these kind of growth rates like you know do not you think that is a slightly more conservative number and there could be more upside ways to that than downside or it is like.

**Guido De Boer** It depends partly also on what government policy is on excise because if there would be excise increase affordability reduces and that could dampen growth and I think also there in the end the market share gains we have made this year and last year, it will only make it increasingly harder to continue do that, so 15% is what we think the market can do on a sustainable long-term basis.

**PA Poonacha** Just to go back five years before March 31, 2010, I mean we had four years between with growth 10 and 12 % and one year that is in the year 2006-07 where the industry has move up by about 30%, this I mean. I think this trend would be there where in four or five years you will have one large or maximum two large years and then other year will be between 10-12% so as a CAGR we being business would like to model our business based on 15% CAGR.

**Arun Lochak** But say next 10 years or say last 10 years what you say that probably next 10 years growth rate could be higher than last 10 years, just give an inflection point in.

**PA Poonacha** Yeah I mean you are right, next 10 years would be greater than last 10 years. The last 10 years, you had only a good last five years and talking before March 31, 2010, is just a five years from April 2005 where we are looking at double digit growth that is the year 2000, 2005 in all single year, we achieved double digit growth, and some years I think in 2001 or 2002 the growth has been as low as 2 to 3%.

**Arun Lochak** Yeah, and just one last question, in terms of market shares again I am sorry if there is a repetition of it because I joined in later, like in Q3 say versus Q3 of last year or sequentially you know where is the market share and has it grown further.

**PA Poonacha** Just to give you a perception December 2010 just a month the market share of the UB at 59% and last year December, the market share of UB had been 53%.

**Arun Lochak** Okay, thanks a lot and all the best.

**Guido De Boer** Thank you.

**Moderator** Thank you.

**Nikhil** Hi Guido, this is Nikhil here, just one question despite the increase in profitability that we have started to see for our company and for the industry in general, the return on capital is still suboptimal for being strong market leader. When do you think that will start to change because right now say the return on capital is less than 17% to 18%, when does that really start to change for a market leader like us.

**PA Poonacha** I would like to know given when you can see a return of capital, you would have taken it after depreciation right.

**Nikhil** Yeah EBIT.

**PA Poonacha** So depreciation what you see in United Breweries Limited financials is not the right indicator of brewing business. If you see internationally most brewing business, the brew equipment is written-off 25 years to 30 years and considering Indian GAAP, we write-off equipment at the rate of 10.34% flat, if you say less than 10 years, the equipment is totally written-down which is not the economic life of the assets. So, we are compared to spirits any other wines the brewing business is a highly capital intensive business and with being a capital intensive business and Indian GAAP forcing us to depreciate at 10.34%, the return of assets which you are currently looking is not the right number that shows up in our financial.

**Guido De Boer** So, I think these are two important accounting reasons to explain on the current return and then I think on the higher levels strategic direction is one thing we are doing is our working capital program to manage limits the capital that has tied up on that side and then if you look on the fixed asset side now we have a large number of relatively small breweries. Going forward our breweries will become bigger and bigger and more efficient from a capital perspective, so also growth on the state by state basis will drive efficiencies in our capital.

**Nikhil** Fair. Just one more follow up on that, what does it really mean in terms of steady state margins that this business should get over the next couple of years or more from the current level of approximately around 14 odd percent.

**Guido De Boer** We do not give real guidance on that. We spoke earlier about what might be should be key drivers in margin enhancement being capacity expansion program and share benefits in BTL and some aspects on the fixed cost side and also the one which I did not mention is once breweries gets bigger and we get past a size of 1 million hectare liters then operating efficiencies really start coming in. I think you need to factor in those kinds of aspects to look at what the margin improvements in the coming years is going to be.

**Nikhil** Okay cool. Lastly, for the next 3 years is there a broad benchmark CapEx that one should really billed in.

**Guido De Boer** I think between 200 and 250 Crores is what we aim at.

**Nikhil** Over 3 years.

**Guido De Boer** Yeah on-year-to-year basis.

**Nikhil** Sir, yearly around 200 to 250 Crores is that right.

**Guido De Boer** Yeah.

**Nikhil** Okay cool, thanks.

**Moderator** Thank you.

**Nikhil** Farah I think there are no further questions. Do you know in case you want to make any closing remarks?

**Guido De Boer** No. Thanks again for dialing in your valuable questions. I look forward to see you here after the Q4 results.

**Nikhil** Thanks a lot to the management team at UB and also all the participants for being on the call. I appreciate it, thanks.

**Moderator** Thank you. On behalf of IDFC Securities Limited that concludes this conference call, thank you for joining us and you may now disconnect your lines, thank you.