“United Breweries Limited

Q4 FY2026 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to United Breweries Limited Q4 and FY 2026 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I hand the conference over to Mr Jorn Kersten. Thank you, and over to you, sir.

Jorn Kersten: Thank you very much. Good afternoon, everyone. Thank you for joining us here on the quarterly results for Q4 for the full year '26. Vivek and I are happy to host you once again. We will take a bit more time this time around to spend some time with introductory remarks because we think the situation in the market merits that we give a bit more context on the results, as well as for the outlook. So please bear with us while we walk you through it.

And let me start with the category because in the end, the category remains the most important anchor for how we look at the business as a whole, and we're very happy that in Q4 that we saw the category returning back to growth around 10% and the majority of markets also contributing to growth, which is a big step-up from the second half of 2025 and is also widely supported by multiple movements, including regulatory development, improved affordability, on-the-ground demand conditions.

So overall, we're happy that the structural drivers of the category remain intact and that we see that the beer category in India is actually doing really well in the quarter. Now, at the same time, also important to recognize that the market has become significantly more competitive, which means that winning in the environment has an impact on investments behind brands and commercial intensity.

And as a result, while the category is growing, the cost of participation has gone up, which is also an important context for the performance in the quarter, and we will speak more about that when we talk about how intentional choices have impacted the quarterly delivery.

Now, when we look at the quarter, very important to note that we very much believe that the fundamentals of the business remain really strong. We delivered around 4% volume growth, and I'll come back to that a little bit later on the balance between primary and secondary volumes. So, we see that the underlying demand is strong. We see the premium continues to outperform in consistency with our strategy. And we also see that the gross margin is moving meaningfully.

So, in the end, we see that volume, price and mix, as well as our ability to transform the margin is delivering -- is moving in the right direction. On this volume growth versus the category growth, it's important context to make sure that everybody is aware that while our primary volume has grown 4%, our secondary volumes or our demand from the market has moved mostly in line with the category. There's a slight pressure on market share, but we're also cycling last year's disparity between primary and secondary, so in the end, that 4% is muted versus the actual movement that we see in the market.

Now, of course, we see in the EBIT a decline materially in the quarter versus last year, largely impacted by the delivery choices that we have made. One, a very clear investment behind our brands and behind maintaining our leading position in the market in this intensified environment. We expanded our investment behind the brand with 27% versus the previous year.

Of course, the quarter is ahead of the peak season. It's an important quarter to invest in the brand strength, and we see it also reflected in the brand power scores that we get back from the market. So, we're very happy, and we continue to do this in line with our strategy to really grow our brands and invest behind both brands as well as in execution on the ground.

We're also advancing premiumization, where our premium development is ahead of the overall development of the portfolio, and we continue to invest in our network strategy. A large share of the growth in Q4 came from contract manufacturing, which has an impact in the accounting, but we knew that. So that was anticipated, but it has an impact, especially on how revenue and margins are being reported.

The last thing that I want to highlight here is that we also deliberately invested into bottle infusion, which also has to do with the environment, and the macroeconomic situation. We see that there's pressure on supply. We see there's tightness on supply for especially packaging material, highly impacted by the energy prices driven by what's happening in the Middle East.

So, we also deliberately made sure that our inventory and our use of bottles and packaging materials is at par to make sure that we, first and foremost, prioritize continuity of supply. I think, and that's something that we also need to highlight, that the Middle East situation is expected to have a meaningful impact.

So, while we see some fairly minor impact in the quarter, especially driven by this new bottle infusion, we do see that for the outlook of the year, there will be an impact for the market, driven mostly by energy fuel cost, impacting the packaging cost, and packaging material costs. Also, there are currency movements, so the INR performance currently will have an impact on cost as well as the aluminium price, which continues to be extremely high, and we don't foresee that coming down anytime soon.

So, the impact that we see for the remainder of the year is predominantly cost-led and not demand-led. So, we still believe in the strong fundamentals of the category and demand will be there, but cost pressure will continue to be there in the second half of the year.

So, in the end, I think it's very clear that we're operating in a sort of two-speed environment where, one, we see strong category growth, premiumization, and we strongly believe that the opportunity will remain to be there and India is the growth engine for the global beer market while we also see rising cost pressure both on the commercial investments as well as on the cost of production. And that will remain to be there, and that's also why we highlighted that in the press release that we did.

Now, what we are doing and what are the clear choices that we're making for what's ahead of us is that, first and foremost, we will continue to serve the consumer. We will continue to also drive premiumization. We will invest behind the brands and behind the category and take a role as a category leader. We will also continue to optimize our network and capacity, including the contract brewers, because we believe that is what is needed in order to be there for the growth of the India beer market.

Of course, we will tighten our pricing and revenue management in the current outlook, we are closely collaborating with the cross-functional teams to make sure that we drive pricing and that we drive the right mix decisions to make sure that we are where the consumer wants us to be also from a pricing but we will also try to mitigate as much as we can to cost pressure in an environment which everybody knows is heavily regulated. So, there it requires additional efforts to make sure that we are able to translate some of that cost pressure into the top-line pricing.

Now, of course, on the EBIT outlook, there will be an impact. We are working hard to further work on productivity programs to make sure that we convert the healthy gross margin also into EBIT margin, that we make sure that we mitigate and anticipate the cost pressure which is ahead of us. And that's not only true for the P&L, but as much for working capital and cash generation.

I think we see in the shape of our P&L that we continue to grow, also when we look at our investments. So, we're making headway on our investments in our greenfield as well as investing in the stores with high expansion of a number of coolers, which, of course, also impacts depreciation.

So, throughout the shape of the P&L, we can see that our belief in growth and the structural growth is well there, and that UBL is positioned to grab the growth of the market at least proportionally. So, I think the current performance in the quarter is mostly a result of deliberate investment choices, impacted by the local environment as well as by the macroeconomic environment in which we operate.

But we're confident that the category will remain resilient over time, that our strategy is still the right one and that we're taking the necessary actions to make sure that we're set up for future growth as well as sustained delivery on our financials.

Now, before we head to the Q&A, I happily invite Vivek to give a bit more colour on our introductory remarks.

Vivek Gupta: Jorn, thanks for this and thank you all for joining the quarterly call, but I would say that this has been one of the quarters where we really had to step back and think about the structural financials in the category and what's going to happen for the year and the year to come.

And a lot of it was driven by the Middle East war and the impact, because as we mentioned, we are sitting on INR400 crores to INR500 crores impact, you know, our profitability for last year. And we had to make clear choices to do that. But before that, I would say a couple of things.

First, great news, the category is back on growth. I think in the last two calls, we had a conversation about what will happen to the category when you see going back to global. The good part is the category has come back to growth at 10%. And it has not happened by chance. I think it is a function of, I would say, three things.

Number one, the deliberate effort with the Brewers Association of India, where UBL is a key participant, along with the other players. And UBL itself, we have worked with the regulators around the excise policies. Because if you actually see in the last 9 out of 10 policies which have been released, there has not been any tax increase on beer. And there has been a relative tax increase on spirits. So the number one driver of category growth is the relative pricing of spirits and beer, the difference between that.

And we have seen that in almost 14 states, which is almost 42% of our business, we have actually grown more than 30% in the quarter, not mixing the words there. So I think the first important thing is the effort on the policy front is a big driver of the category growth, and I'm not even talking about Karnataka and all, which is not into implementation.

The second big one, which Jorn has said, there are deliberate investments, which UBL has done, which are translating into category growth. There are states where the category has almost doubled. We have invested in capacity. We have invested in quality. We have invested in innovation. We have invested in our brands.

Premiumization is a great example, where again we are back on 16%, and you saw that we're also investing in future with the work we are doing with Soufflet or Maltex, or Crown and others on the cans to really see that there is a future of beer in the category. So I think those investments that we have made is leading to the category growth.

And third is the high competitive intensity because when a lot many players are investing to get a piece of the pie in India, consumers are hearing more about beer. They are seeing more investment, retailers are seeing more investment, and we know that when category investment goes up, it leads to category growth.

Our data suggests that some of our competitors have invested 3x,4x more, but we have not increased our investment to that level, but we continue to increase our brand power despite the investment, which means we are at least investing in the right things. We're not buying the volumes and deliberately not diluting the category.

So the number one thing I want to bring to your attention we are extremely delighted that structural interventions are leading to the category growth. And if the Karnataka policy comes through or what we have seen the momentum this quarter, I think this -- the category growth trend will continue.

The second important thing I want to bring because some of you gave statements after our results. I want to say that the work which UBL has done over the last couple of years, we don't have a supply issue. So I want it to be very clear. We don't have a supply issue. We have invested a lot in the last 2 years in building our supplier base of bottles.

So we don't have a supply issue. We also don't have a supply issue on cans because we have the global network, and we have identified these suppliers. We don't have a supply issue. So none of our results are because of supply issues. And we don't expect supply issues to happen. In fact, it will be a competitive advantage for UBL because we have worked with our suppliers on a very strategic manner. We have an inflation issue. We have a cost issue, not a supply issue.

So I want to just clarify that the demand or the category growth momentum continues. For us, if there is a gap, it will be because of cost; it will not be because we could not get these supplies. It would be maybe we chose not to supply because it is prohibitive for us to supply, but we don't have a supply issue.

The third thing I would say that because we are the only listed company, the other meaningful listed companies had a major issue in MP. I think my understanding is the impact on beer industry because of the war is disproportionate. And this is a time where we had to make choices on how we want to run the business and where we want to run the business.

For me, at this point of time, the key focus is consumers. We need to make sure the supplies are available. The focus is to really have very tough conversation and transparent conversations with all our stakeholders, whether suppliers or regulators, to make sure that we create the long-term value for the category, and I'm very proud that UBL is leading that effort persistently.

We are not watching from the behind. We are actually leading it because this is the time where the structural economics of category has to be addressed. We are also working to make sure that we continuously invest in the brand. And we're also very clear that we also are responsible for investing the money.

There are states, I won't name them, where we have seen, there's a lot of trade spend being done, even where the category has no money in that state. In a state like Telangana, we've seen some of our competitors actually throwing trade spend, which doesn't make sense. It actually doesn't encourage regulators to even think about the category's long-term sustainability, but we are very clear on those situations that we will follow the right path.

So I do think that category growth is strong. We are in a position where our supply chain is strong. Our localization efforts are working of premiumization and gross margin of up 330 basis points. We are making deliberate choices. Some of the choices we made this quarter is to use more new bottles versus old bottles so that we can replenish new bottles faster because old bottles can be used at any time in the brewery.

Some of the choices we made are making sure that we actually clear some of the inventories because our primary is 4%, but our sell-through is 8% to 9%. So I also saw some more material where it's said there's a big gap between 4% and 10%. Actually, there's not a big gap between 4% and 10%.

And this is one of the reasons we had more business from our partners, because we also corrected some of the inventories in anticipation, so that we can actually have more fresh beer and do that. Overall, our cost program is kicking on very well. Our people cost is much below our growth rate now. We have made right changes in our structure. Our cooler program is doing extremely

well. Our brewery expansion is on track. We already got the land in UP, the civil work has started.

Our can lines in Telangana and in Maharashtra will be available before July. So, we have one greenfield, 2 can lines, cooler investment, capex is going on. The brand power scores are extremely high. So I think we are feeling very strong. However, there are big headwinds in the category, and we are not shying away from it, and we are structurally working to mitigate what we can.

Can we mitigate all of it? We don't know. It depends on how much the war impact lasts. As I look at today, some of these things like oil prices, Indian rupee, gas prices, I think they are all going northward, so we really need to see through it, but we wanted to bring the reality. But our focus as a company will remain to drive category growth to serve the consumer and keep unlocking the potential of beer, which is there, and it will not impact any of our capex plans.

So with this, I think I'll open up for any questions you have.

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

Abneesh Roy: Thanks. Firstly, on the cost impact, you have mentioned INR400 crores to INR500 crores cost impact next 2, 3 quarters. So I wanted to understand the assumption. I do understand glass uses a lot of fuel, and fuel costs had gone up a lot. If I see today, it's down, say 8%. And last 3, 4 days, it is down 15%. For example, if this geopolitical issue gets resolved in, say, next 1 or 2 weeks, crude cools down, then does this still arrive at INR400 crores to INR500 crores cost impact happen, so what is the assumption here?

And on the supply side, you answered very clearly that you have taken care of. Of course, this time the El Nino is a very favourable climate for your kind of category. So are you factoring in all that, both on aluminium cans and the glass bottles, if you can reconfirm, given the very strong demand and now Karnataka policy also positive. Are you absolutely sure that supply side, there is no risk, inflation is there? So if you could answer both these.

Vivek Gupta: I think I'll answer the second question, and I'll ask Jorn to help in the first one in more detail. I think we are very sure, we are very clear. I think, yes, there is a positive momentum you talk about, whether Karnataka policy can be there and all of this. And we don't know what will be the final footprint or blueprint of the Karnataka policy, right, because it has already taken a couple of months for them to come back and notify. But I think from a pure scenario planning, from what we need, we are fine.

We don't have an issue. And it is because over the last few years, Abneesh, we have increased our supplier base, and we have worked on this very diligently. So we are ready for the growth.

Jorn Kersten: Yes. And on the cost impact, I can highlight a little bit more on the assumptions. And obviously, I think like everyone, we would applaud if this issue will be solved within the next two weeks. Who knows? However, even if it does, our assumption is that the impact on cost and for cost to

normalize will take much more, and it will be here for the next couple of months if it ever comes down.

So we do have assumptions around crude oil where we believe that it must be below USD100, or not far below USD100, even if things normalize. It's largely depending on the impact of the gas import in India, with the high exposure, and we know all that some of the capex has been seriously impacted. So even if the conflict is resolved, it's not going to come back. We assume that the aluminium is north of $3,500. We also don't expect that to come down very quickly.

So I think as much as we hope and still have faith that the conflict will resolve, the longer-term impact will be there. We see, of course, on the demand side that I mentioned on the opening remarks, most of the impact is cost-led. We think that the Indian consumer and beer market will be resilient. Of course, we're also closely tracking what happens with local fuel pricing. So far, no movement yet. But as soon as that happens, the consumer will see the pricing.

We also have to take into account that there might be an impact on demand and the level of discretionary spend, where we also see that food inflation will go up to around 5%. Obviously, we can expect that it may have an impact, but we also think that there's enough tailwinds on the category that we will now only foresee the cost pressure on the outlook.

Abneesh Roy: Sure. One follow-up, Vivek, obviously, you have worked in FMCG such a long time and all FMCG companies in this quarter call are seeing market share gains from local players. I think you also highlighted that because you have tied up on the sourcing side of packaging, which I think for local players is very difficult. So are you already seeing that some of the local players or some of the maybe smaller players are already not able to make up on the packaging side, and that is leading to opportunity and market share gain for you, say, in April month?

Vivek Gupta: Actually, no. I don't think that probably they understand or they have done all the impacts yet. Because getting into the season, the volume looks good, momentum looks good. And for us, when we give the plan, when we talk of 400 to 500, we need to look at the full-year impact. The rest of the year impact on what's going to happen based on seasonality, non-seasonality and other things really comes together.

I also think that different players are seeing impact at different levels. I'm definitely seeing in some of our contract brewers have stopped manufacturing their brands and say do you need more supplies because I can't source the material. So we are seeing that trend happening more and more. But I would say that not in April, but I do expect in a couple of months, you will see that even more on that.

Abneesh Roy: Understood. My last question is on 2, 3 specific states. Karnataka, when the initial policy came, it seemed very positive for beer. When the final draft came, it seemed less positive, but still positive. If you could tell us what is the current understanding? I do understand lower end of beer; there is better profitability. Now let us ignore the Iran crisis because that changes picture, but what is the current situation on Karnataka and if you could tell us on Telangana. One last one. On Telangana, there have been news reports of 12% to 15% hike. Any update on that?

Vivek Gupta: Yes. I think first on Karnataka, I think, first of all, holistically, the policy direction is very positive, and I will put it into 2 parts. One is ease of doing business. I think ease of doing business, the government has already made significant progress, like the brewery can dispatch 24 hours. The licensee has the keys. Labelling and all will be digital. I think very welcome move there, which used to capture a lot of unnecessary time and energy there. I think the second one is on the policy itself.

Now, of course, the final fine print we have to see, but I think the direction of moving to taxation linked to ABV is very positive. And I think it will lead to a significant growth in beer category and significant growth in consumption of the beer if it comes to. So of course, we have to wait for the finer details. But I would say wherever it nets out, it will be a net positive where it stands today.

On Telangana, I don't think we have got any price increase or notifications or anything like that. In fact, we are in a significant conversation there because the government needs to understand that this is a unique situation. And we are still, as an association and as a company, in talks with the government there.

Moderator: Next question is from the line of Harit Kapoor from Investec India. Please go ahead.

Harit Kapoor: Yes, good afternoon. So, my first question is on the competitive intensity you alluded to. Just wanted to get your sense on apart from, say, contract bottlers or very small players who have moved or have stopped doing their own branding for a bit. Some of the increased trade spend and those kind of activities that you were seeing, are they from the other significant players?

Are you seeing a reduction in that as well, as we are moving forward, like in April month, have you seen that come down as well? And what's your kind of thought process on that? Do you see overall competitive intensity even with the other large 2 players kind of coming down because of what you are facing, they are also facing?

Vivek Gupta: So look, I think our business is state by state. So making an overall picture is very difficult. I can put it into 2 parts. I think one is in the first quarter, we saw the overall media spend on the surrogate brands on the category went up 4x, right? Our spend did not increase 4x. So there are other significant players who are spending much more on media sponsorships and all.

But we've also seen trade spend increasing in certain states significantly. And we have seen in many places the trade spend is increasing, given where there is an opportunity to buy short-term volumes. So I would say that yes, we are seeing an increased spend by the competition. We haven't seen any reduction in that intensity yet.

But we are also very clear that it is extremely important for us to stay competitive where we are, but it is also important for us to make sure we are structurally working on improving the health of the category. So I think it is -- intensity is high right now.

Harit Kapoor: Got it, got it, Vivek. The second bit was on the INR400 crores to INR500 crores number that you spoke of. I wanted to get your thought process on what, in your mind, could be the mitigating

factors or the offset factors to this. Obviously, there are a couple of big buckets. One is price increases in open market states.

Hope of price increases in government-controlled states? And then there is your own kind of bottom-up that you can do in terms of cost. So how many of those things are already -- have already been actioned. Where we are in that kind of journey? And any thought on how much can be mitigated?

Vivek Gupta: No, I think it's a great question. I would say that, look, I'm extremely proud of how the team has rallied and seen these prices as an opportunity. I can safely say that at least half of this 400 to 500, we have firm plans to mitigate already. So, whether it is our own productivity drive, whether it is selective pricing, whether it is reducing trade spend in the market, which doesn't make sense for us, or the category profitability is very low.

So, for example, in one of the markets, we moved to 0 trade spend. I won't name the market for competitive reason, but we moved to 0 trade spend. So that -- because we didn't see that top margin in the market to do that, plus the work we are doing on consistent improvement on our own productivity and production excellence, I would say we already have firm plans of somewhere between INR200 crores to INR250 crores, which is already into execution and all.

We are also working on other similar ideas. But you know, some of them really depend on whether we get pricing in Telangana or not, whether we get pricing in some of the other states or not, because like Tamil Nadu and other state as well. And we're also very aware that we don't want to make beer unaffordable by doing all of this because we have been struggling to talk about affordability of the category and all. Some of it we will have to absorb as a shock. And we also don't want to remove our capabilities in the short term...

Moderator: Sorry to interrupt. We are losing your audio slightly a little bit. Sir, can I disconnect and reconnect your line, please. Sir, you may go ahead. Harit, if you can just assist where you...

Vivek Gupta: No, I think just to summarize very quickly, I think on your question, half of it is already we have a firm plan on mitigation. Other half, we have ideas, but it will take a lot of work. And also, we also don't want to make it completely unaffordable for consumers, right, because we cannot cover all the gaps. So this is why we wanted to give a very clear view of what's happening and what are the potential impacts.

Harit Kapoor: Great, thank you for this. I'll come back in a few minutes. Thanks.

Moderator: Thank you. The next question is from the line of Latika Chopra from JPMorgan. Please go ahead.

Latika Chopra: Yes. Hi, thank you for the opportunity. I just first wanted to check what was the volume in million cases that you closed FY26 with? And if you could also share with us a rough split of how much of these volumes came from contract breweries? I'm just trying to gauge how should one think about the growth impact on price mix as we forecast the growth on revenue going forward? And how do you see this combination changing in FY27, given the supply addition plans you have put in place?

Vivek Gupta: So, you want to know what is the salience of our own breweries versus the contract breweries?

Latika Chopra: Yes. Just trying to gauge because this time, if you look at the price mix trend declined 7%. That was quite steep during the quarter because of higher salience of contract breweries. So just trying to see, you know, how are we shifting between you and contracts...

Vivek Gupta: I think I won't give you the exact details right now. We can come back to you separately, Latika. I think I would say, I won't worry too much about the price mix of this quarter because I think we will have a healthy price mix.

This quarter has a combination of a couple of things. I think one, which is absolutely the sourcing mix, because we took an inventory correction where in our own brewery, which means that the primary is much lower than actually what we supply to the corporation markets or other distributors.

So that is why you see our earnings are lesser because the primary is lower, and that increases the salience of the CBUs, and which is, I think, the deliberate correction we did to make sure we provide fresh beer, and we also ready ourselves because of the war scenario on the raw materials and packaging materials and our contracts, which were there. So I won't read too much into the minus 7% as a structural thing. I think going forward, our CBU contribution is around 20% to 25%. It will vary depending on the month and the policy, and all.

We still have significant presence with our own breweries in the country, and which is only going to expand as well, with the UP coming in next year and with the can lines coming up in -- by July in 2 big markets where we -- like in Telangana, we don't have our own cans. We bring it very small, but now we'll have a big capacity or even in Maharashtra, we are going to have more capacity, which we bring to from some of the other markets. So I would not worry on that part, but we'll send back some of the details you are asking.

Latika Chopra: Sure. Vivek, can I then ask you, you closed FY26 with a 3% volume growth. Of course, the year was marked by various issues, whether on weather or on regulations. But as you look towards FY27, and assuming a normal season, and you clearly said supply is not an issue. From a growth perspective, do you think this will be the year when we can probably aim for that mid- to high single-digit volume growth, with probably a mid-single-digit kind of a pricing on the underlying basis. Is that some to your confidence on...

Vivek Gupta: Absolutely. I think I will be very disappointed with the efforts we've done, which I talked in the beginning on structural levers to drive category growth. The investment we have made on getting cold beer, the network, the premiumization, the brands and innovation, we think this should be a high-single-digit category growth here.

Our own forecast is somewhere between 6% to 7% volume growth, and it should translate to a double-digit revenue growth. And we're already seeing the momentum in the first quarter. As I said, barring that, some of the structural things which we did, our demand from the market was up 8% to 9%, and our volume is up 4%, and premium is up 16%.

Jorn Kersten: Yes, and that -- just to add that gives us confidence. And of course, we -- like I said, we keep a close pulse on what's happening on the demand, but we're also confident because we're cycling, like you mentioned, these 2 quarters from last year where demand was absolutely muted because of adverse weather and other elements playing their part. So knowing that will in itself create a tailwind for category and volume growth in the quarters to come, post the peak season. We're quite confident that we're on the right trajectory for this one.

Vivek Gupta: Yes, I'll just add, and I think while this will be the momentum and the growth, but I'm very clear, I'm not going to hesitate to take tough calls where in the states, the structural profitability is not there because of regulators. This is the time when the industry is in the crisis, costs are going up. We are not going to do charity here. So I am also very clear that if we have to take some tough calls, we will take the tough calls.

Moderator: Thank you. Latika, I'll request you to come back for a follow-up question. I request all the participants, kindly limit yourself to one question per participant and rejoin the queue for a follow-up. Next question is from the line of Mehul Desai from JM Financial Services. Please go ahead.

Mehul Desai: Yeah. Hi, sir. Thanks for taking my question. I just wanted to understand basically the gross margin expansion that has happened, given that the realizations were also down, and you had an infusion of new bottles also. So this gross margin expansion that has happened, I mean, is it purely a state mix? Or I mean, if you can explain what has led to this gross margin expansion? And how should one look at that? I mean, when you say this INR400 crores to INR500 crores of impact, how much of that impact will be seen in the gross margins?

Jorn Kersten: Yes. That's actually two questions. So first, on the margin expansion that we see on Q4, I think there's one element of source mix that also plays there, where it's the accounting. I think we also are very happy that we see the work that we are doing on premiumization, that while we made some conscious choices on NBI, we also see still improvement in the efficiency of our operations of our procurement that really helps support the sustained and long-term growth of our gross margins, including the capability and the hard work that we've been doing on pricing.

If we see that, especially the width of the pricing that we've been able to get over the past 12 months and that we're also anticipating as part of the litigation for the time to come, is a proof point that we're really taking up the role as leading the category and taking up the conversations with the regulators that no category can survive without pricing. So all of that is resulting into a healthy margin expansion that we see and that we are really going after to sustain it as part of a winning strategy.

For the outlook, like Vivek mentioned earlier, that cost pressure will have an impact on our materials, either direct or indirect, which will lead to an increased cost of production. So we do see that with the pricing that we've been able to capture and that will start hitting our P&L in April and onwards be further identified in states like Telangana and others that are significant in volume, if we succeed in pricing, it will have definitely an impact even if the in-state profitability may still remain marginal given the size on the total margin development, it will have a big impact. So in that sense, we closely monitor.

Like Vivek mentioned, we need to make the right choices. First, for the consumer to be able to supply. Second, in some cases, the hard choices if business turns out not to be feasible, also to protect our long-term margin. So while we first and foremost remain a growth company, we, of course, take a look at the margin. With the current outlook that we use, we don't see too big of a drop on margins, especially taking into account the growth that we've seen so far. So we keep a close eye on it. The bottom line impact in absolutes is currently a bigger concern.

Mehul Desai: That's helpful. Thank you so much.

Moderator: Thank you. Next question is from the line of Mr Swaminathan from Avendus Spark. Please go ahead.

Saminathan: Hello. Thanks for the opportunity. So one question is regarding the capex announcements in UP and the other 2 bottling projects. When are they expected to come online? And what is the level of cost savings that we should expect from these capex coming out?

Vivek Gupta: Yes. I think UP, as you said, the civil work has started. We expect our brewery to start by end of next year, sometime before end of next year. And I think the 2 can lines we expect to inaugurate before end of July this year, so depending on monsoons or some other factors which come in. So the work is going on full steam.

I think it is going to provide first growth opportunity and growth potentials, because Telangana, for example, because of the economics, we have not been selling our cans. So this will -- and I think we have almost less than 2% market share on a segment which is growing. This will definitely step up because consumers are looking forward to our brands in the cans that we go to the market. And so it will definitely have a competitive impact.

We have also made capital, capex investment on coolers. This year, we deployed further 16,000 coolers. And we're also seeing that, that is also helping in consumption of the brands to really do that. So I think it will have an impact on growth, but it will also have an impact on localization of some of the imports we do will become local, and will, of course, in a competitive context, some of it, we will absolutely invest back. Because in some of the markets, it will be -- it will take some time also to build this back.

Swaminathan: Thank you. Just clarification to this is that, so our INR200 crores of savings that you've been talking about does not include any potential savings from the new capex?

Vivek Gupta: No, because it is fully on. And of course, we'll continuously work on how can we make the investments more efficient? But that has nothing to do with this because that is absolutely operating expenses, extra pricing, efficiency in the spends, ROI, people, productivity, all, everything single thing.

Jorn Kersten: Yes. And of course, as part of that plan, we're taking a close look at our total investment plan, and we do make some choices in smaller investments that we postponed in order to push back on the depreciation, as well as the present cash going out. But not for these large growth-oriented investments, we continue to go full throttle on these because we believe that that is what's needed in order to meet the category growth.

Swaminathan: Fabulous. Thank you, and all the best.

Moderator: Thank you. A reminder to all the participants, you may press star and one to ask a question. Next follow-up question is from the line of Harit Kapoor from Investec India. Please go ahead.

Harit Kapoor: Yeah, hi. Thanks for taking the follow-up. So just one question on where we ended the year in terms of premium mix and volume and value, if you could just give us that number? That's it from me.

Vivek Gupta: So, the last year, the premium volume growth was 21% for UBL, and we grew market share in premium with 21% volume growth. Our premium mix for -- in our portfolio is still less than 10%. So it's a 100 basis point improvement in our salience to really bring together. But the encouraging part is despite all the challenges in the category, we ended up with a 21% growth.

The most important thing is we were able to localize most of our premium portfolio, Harit, and that is also reflecting in our gross margins because there are 8 locations where we are now locally producing, which is translating into gross margin, which I also mentioned in the last call that you will start seeing the impacts.

Harit Kapoor: Got it. And on this number that you mentioned is on the premium mix is just up 10% is volume?

Vivek Gupta: The volume is up 21%. Yes, we are talking volumes here. From a value point of view, I don't have the exact number because it varies by state on revenue.

Harit Kapoor: Perfect, perfect. Thank you.

Moderator: Thank you. Next follow-up question is from the line of Mr Swaminathan from Avendus Spark. Please go ahead.

Saminathan: Thanks for the opportunity, again. So I wanted to understand as to has the category seen any tailwinds from Maharashtra after the IMFL price increases there? And given that you have done a lot of initiatives in Maharashtra over the last 18 months, is there any tailwinds which is still left over in terms of benefit over the next 12 to 18 months?

Vivek Gupta: I think Maharashtra, the category is growing upward of 20%, and our business is growing upward of 20% as well. I do think this will continue. I think it's a structural change that will continue to expand the category. And we know there's a lot of investments are coming in Maharashtra, both on innovation and the category.

We're also seeing economy segment in Maharashtra expanding. We saw that in Karnataka that when economy segment expands, a lot of consumers, they switch their choices from low-end spirits to beer, especially with this. So we see the trend going in Maharashtra. So I still think the opportunity in Maharashtra is huge.

The way we are looking at Maharashtra is every district as a country now. So we have gone to the next level. So we see a lot of category growth opportunities within Maharashtra with the same policy regime, a large number of districts, versus if you take out Mumbai, Thane and all.

So I think Maharashtra will be a growth pillar, unless some dramatic shift happens in the policy over the next couple of years.

Saminathan: Right, sir. Thank you.

Moderator: Thank you. Next follow-up question is from the line of Avnish Roy from Nuvama Wealth.

Avnish Roy: Yeah, thanks. Two quick questions. So Vivek, last 2 years, you have done a lot of new launches innovation. So which ones are you most happy and where are their learning, so London Pilsner and Heineken Silver, etcetera? And related question, which of the markets you want to now locally manufacture Heineken Silver or any other part of the portfolio in the next 2 years, any plans you can share?

Vivek Gupta: Yes. No, I think the most excited we are is about Heineken Silver first. I think Heineken Silver is not only expanding the category. But it is actually delighting the consumer, it is a 100% malt beer to do that. We are seeing a significant growth. We had a bump up because Karnataka, we were not able to produce locally. But now that thing is over as well. We are actually able to produce. We are going to expand Heineken capacity into more places in the next 2 years, since you asked and maybe more.

UP, as I mentioned, is a greenfield brewery, it will be a world-class brewery with a Heineken facility, and that will serve the North grid. We will also have a location in the East, where we are -- we already started working. And hopefully, by next year, we will have the Heineken facility ready in East as well. We're also looking at the global Heineken network to see from a sourcing point of view, but we are very, very excited on Heineken's potential.

Our recent innovation on Kingfisher Smooth is off to a great start in Rajasthan. The repeat rates are fantastic. It's a great brew. And we know in this category, it takes time for trials to build in, but we are very excited about it. The work we have done on our craft beers with Ultramax now and even in Ultra, the recent repackaging and re-launch of the brand is doing very well. So the big learning is that it takes time to build innovation. So we cannot measure innovation like in FMCG, okay, just build the distribution, it will come because it takes time to create awareness, especially in a dark market.

Second, we need to be on trend and ahead of trend versus me-too innovation. And third, we need to make sure that we actually have a supply chain which can deliver consistency because in beer, giving consistent supplies on innovation, especially when you operate large-scale breweries, you need lower MOQs and all the learning which is there.

Avnish Roy: And Vivek, one last question on your remark on craft beer. So you have also been launching, and the larger players also. My question was more on competition from some of the local craft beers, like I don't know if you have had a deep study of Doolally, for example. Doolally, what we heard from a lot of customers, very premium beer, but the taste etcetera, of the guava, mango, etcetera, a very differentiated and a lot of fan following. So, do you have a product which can compete with these kinds of products, or it's too niche and, as of now, too premium, so doesn't make sense?

Vivek Gupta: No, I think flavours is one of the platforms in the innovation. There are different platforms. You are talking about flavours. We launched Kingfisher Flavours in Goa and in Daman, and we had very good learnings and response on product stability, consumer preferences, to do that. As I said, we have a huge pipeline of innovation.

It is a combination of what we want to do and what we want to expand. As a management team, we have decided to do fewer innovations, but and very focused and first win in a few states and then expand it when we have the right insights learning to do that. But we consistently work with the local players to understand the new trends and how we partner with them.

Moderator: Thank you. Avnish, I will request you to come back for a follow up question.

Avnish Roy: Yeah, I am done.

Moderator: Thank you. Next question is from the line of Nitin from HDFC Securities. Please go ahead.

Nitin: Hi, thanks a lot for taking my question. My first question pertains to this sort of dependency reducing in our own breweries. So this is a onetime sort of action in Q4. So going forward, the supplies from own breweries will be normalized. Is that a correct assessment?

Vivek Gupta: Yes. I think there will be an impact of our contract breweries because in some cases, those states are growing faster where we have contract breweries. One good example is Jharkhand, where the category has almost doubled since September, October because of the new policy of privatization of retail, and we don't have a brewery.

So there will be an impact of the mix where we don't have the breweries, but hopefully, with some of the other changes, which we expect in some of the other states where we own breweries, that will balance out. But if you keep those factors aside, there is no reason for us not to utilize our breweries fully.

Nitin: Thanks. Second question pertains to, I guess, some of the disclosures have gone -- have been reduced, like your segment performance result and second, like regional growth trend. So I would be particularly keen to have data on the regional trend, which you have been highlighting for the past few quarters?

Vivek Gupta: Yes. I think we were just -- we thought there were many other questions with buying of people this time. We can always share the data later on. It was not intentional to remove it. It was just that we added a few slides on the war impact, and we said maybe let's keep the macro picture and all, but if you are interested, we can share that part. That's a good feedback, sorry, it was not a deliberate not to share, it was more to simplify the presentation, let's call it that way.

Moderator: Thank you. Ladies and gentlemen, we will take that as our last question. I will now hand the conference over to Mr Vivek Gupta for closing comments.

Vivek Gupta: Thanks, everyone, for joining and your participation. I know the results are below expectations, and we understand that. But again, as I said, for us, we are in this game for a long run. We want

to play the role of category maker. The category trend is positive. The effort is really paying off, and we need to do more effort on the policy front.

I think at the same time, I think it is a difficult time for the category. However, I think we are very committed to the category growth. We are very committed to brand building. We are very committed to run a very efficient organization. And we are very committed to be very transparent with you so that you can even also understand what is coming.

For the first time, probably we are giving exact numbers in the form of some guidance on the impact. And that was also a deliberate call so that you understand the magnitude of the impact, because sometimes in other FMCG companies who are not regulated on pricing, they can mitigate the impact for us. There is always a lag between that. But having said that, as a UBL, we are fully prepared for the growth challenge. We are going to be aggressive, but joyful, and we will continue to work on the structural improvement on our business. Thanks, everyone.

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

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