United Breweries

Operator: FY27 financial earnings conference call. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Radovan Sikorsky, CFO. Thank you, and over to you, sir.

Radovan Sikorsky – CFO: Thank you, and good afternoon, everyone. Thank you for joining us for United Breweries Ltd.'s Q2 earnings call for FY27.

Before we get into the details and answer your questions, we are, of course, very happy with the performance in this quarter. I would like to put it into the context of the journey that we have been discussing with you over the past several quarters, as well as earlier this quarter at our Capital Market Day.

When we started this year at the end of FY26, we saw that the beer category was returning to double-digit growth. At the same time, of course, we faced a significant external shock from developments in the Middle East.

In the previous quarter, we saw both realities clearly reflected in our results: the beer category continuing to accelerate, while our sell-in also grew by 13% in the previous quarter. We deliberately reduced inventories by approximately 20% to make sure that we were focusing on delivering cash and improving working capital.

However, gross margin came under pressure from higher input costs.

Despite that, we stayed the course, and we have always said that we will continue to invest in category growth and behind our brands.

During the event earlier in September, our Capital Market Day, we took a somewhat longer-term perspective to take you further on the journey. We spoke about the structural attractiveness of the Indian beer category, the opportunity for us to accelerate premiumisation, and, very importantly, in answering the questions asked, our ambition to translate growth into sustainably higher profitability through disciplined revenue management as well as productivity across the P&L.

Coming to this quarter, Q2 provides us, and hopefully our stakeholders as well, with some encouraging evidence that our strategic priorities are translating into the P&L and into value creation.

Our volumes grew 16% year-on-year, while net sales increased by 24%.

Premium volumes grew by 38%, which is a significant acceleration from the previous quarter, led by Heineken Silver growing by 67%, as well as the Ultra portfolio performing well with 44% growth.

At EBITDA, we grew by 108%, and our EBITDA margin increased by 480 basis points to 11.9%.

Last but not least, EBIT grew by 151%, with EBIT margin reaching 8.4%.

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This represents a significant improvement from Q1, when we had volume growth of 9%, net sales growth of 7%, and the external cost environment contributed to a 155-basis-point reduction in gross margin.

This quarter therefore tells quite a different story. Let me spend a moment on what I think is the most important question behind these numbers: how much of this is sustainable?

I think it is important that we do not look at Q2 as the new quarterly run rate, but equally, we should also not view the improvement as simply the consequence of easy comparables from last year or one-off benefits.

There are several elements in the quarter that we consider structural improvements.

First of all, there is pricing. We have mentioned this before, and driven also by external developments, we have taken pricing actions across 24 markets. That is a higher number than we have ever undertaken at UBL. The benefit from this disciplined revenue management is increasingly visible in our results, as all of these pricing efforts are now visible in our P&L.

Secondly, there is premiumisation, which we mentioned as one of the major levers to drive long-term profitability. The 38% growth in premium volume is not isolated to one quarter; it is an acceleration of the portfolio transformation. We have been continuously investing behind our brands for multiple periods, and premium margins are now continuing to be accretive to the total portfolio.

Third, as was also mentioned at the Capital Market event, our geographic and portfolio choices are increasingly focusing on profitable growth, rather than only pursuing volume or market share.

Last but not least, productivity and tight cost discipline are becoming increasingly embedded across the organisation.

Putting this together, our estimate is that these structural interventions contribute approximately 100 crore to our quarterly EBIT, while we continue to partially invest in higher commercial spend. We also continue to see that, let us not forget, we are not out of the woods, as our input costs are being impacted by steep input cost increases.

There are volume and market effects as well, which are particularly supportive in the quarter.

We see continued growth in the beer category in the double digits, supported by strong consumer demand, which remains high, as well as positive regulatory developments in a number of important markets.

We all know about the change in policy in Karnataka, which happened midway through the previous quarter. We now see a full quarter of results coming through, as well as continued positive developments in Maharashtra and Jharkhand.

These states particularly benefit from policy and market changes, and this reinforces our confidence in the longer-term opportunities for the beer category.

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However, the magnitude that we have seen in this quarter cannot automatically be extrapolated as the new standard.

The low comparison against last year, which was heavily impacted by the weather, also supported significant growth in this quarter.

At the same time, the structural impact of changes in the category is also taking place.

Volumes grew at a 6.2% three-year CAGR and a 6% two-year CAGR.

Therefore, even if we take the longer-term view, we see very positive growth and it is very much in line with our expectations for category development.

Lastly, I do not want to proceed without mentioning non-recurring items. Most importantly, our reported profit in the quarter included approximately 36 crore of interest income relating to an income tax refund, which was recorded in other income.

This benefited the quarter, but it is clearly not part of underlying operating excellence.

Excluding this one-off item, EBIT margin still expanded by approximately 330 basis points.

Our operating profit for the quarter was approximately 170 76 crore versus 81 crore last year.

In other words, while the headline contains meaningful non-recurring benefits, the underlying improvement remains substantial.

That is also how we want to guide the interpretation of Q2.

It is not a quarterly earnings level that should be extrapolated, but it is evidence for us that the underlying economics of the business are genuinely improving.

We should also be clear, as we have been in the past, that this is not a linear path.

What matters is the trajectory across multiple quarters, and for us at UBL, it is important to believe that our strategy is the right one and that we stay the course.

At the beginning of this calendar year, as I mentioned, beer category growth returned to double digits, and our premium portfolio was growing at 16%.

In the previous quarter, category momentum accelerated further, and we deliberately made some choices, especially on cash and cash discipline, to make sure that we were ready to absorb whatever shocks we expected from external developments.

In this quarter and in September, we demonstrated much stronger conversion of our top-line growth into earnings, which is a very positive development that we genuinely welcome.

As we move into the next quarter, I would like to mention that we expect commercial investments to normalise from a relatively low base, and we expect some of the higher raw material costs to come through into the P&L.

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For items such as sugar, we are seeing increased pricing.

In addition, in preparing for the peak season, we will continue with investments behind our brands, as well as our breweries, to make sure that we are ready for next year's summer. As a consequence, we do expect profitability growth to moderate sequentially versus this quarter.

In our view, that is not a reversal of the underlying progress we are making on pricing, premiumisation, productivity, and portfolio choices.

In fact, we believe that this progression is consistent with the strategy that we presented during the Capital Market Day.

Growing the beer category, accelerating premiumisation, improving the quality of revenue, and translating growth into structurally higher profitability through productivity and disciplined execution continue to be the way forward.

We are extremely pleased with the quarter. We remain very disciplined in how we interpret it. One strong quarter does not establish a trend. It gives us a lot of confidence that several of the drivers behind the quarter are the same strategic and operational levers that we have been building over time and that are now beginning to show results.

We remain extremely focused on executing against these levers while navigating the inevitable volatility that will always be present, whether it is commodity costs, regulation, weather, or individual state developments.

With that being said, I am happy to hand over to Vivek to talk in more detail about the category and brands. Before we go to Q&A, I will pick it up again because there are a few questions that we anticipate and will discuss in a little more detail before we open up for questions. Vivek, let us go to you.

Vivek: Hello. Thanks, Radovan, and thank you for giving the overall perspective. I would highlight a few things. I think some of you joined us at the Capital Market Day. This quarter's results are a clear indicator that those choices are working.

A few of the choices that are really working are as follows. Number one, we talked about wanting to be the category maker. I think the data clearly shows that the states which adopted a differentiation policy on beer and a better corporate affairs policy have better category growth. Karnataka is growing by more than 50% in beer. Jharkhand is growing by more than 40% in beer because of the retail model. Maharashtra continues to grow.

This is extremely important because a lot of this could be attributed to the weather, but it is not the weather, because not every state is growing at that level. There is a clear distinction between the states showing disproportionate growth and the others.

Therefore, the path to successfully scaling the beer category is very clear. It is about affordability, availability, and clear tax differentiation.

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The second point is the strength of our portfolio. You heard me talk about our bullishness on premiumisation. This is not something new that we are discussing, because in calendar year 2024, we grew our premium business by more than 25%. Last year, we grew by 23%, and this year we are on a similar trajectory. This quarter, we grew by 38%.

The Heineken Silver brand grew by 67%, and the brand is on fire. This is the most valuable beer brand in the world, and we are present in only 11 states. As we expand state by state, the opportunity is huge. We are just scratching the surface, and with Heineken Silver, we have now found the right product in the Indian market that can ride the trend of premiumisation.

Our Ultra brand, driven by localisation of our supplies in the breweries and the relaunch of the brand with new packaging, also grew by 44%. Therefore, the premium growth that we have always discussed is accelerating. Since we have now made the premium portfolio more margin-accretive through all the choices we made, this is also showing up in the margins.

The second thing that gives me a lot of confidence is the discipline on revenue management. It is not only about pricing; it is also about state mix, brand mix, our own brewery mix versus contract brewers, the mix of which states we want to play in, and how much we invest in trade. All of these choices have led to a very strong pricing mix in this quarter.

We continue to invest where we want to invest, while at the same time looking closely at our waste costs and the things that we can take out of the system.

Overall, strong cash flow, strong inventory management, a very strong growth rate, and premiumisation all give us an indication that we are absolutely on the right track. They indicate that there is a lot of potential to be realised. They also give us more confidence that our strategy is working and that we are going to invest more.

Going into the next quarter, which is October, November, and December, we are going to double down on our investments, both commercially and in preparing for the next year. Please understand that the supply chain in India is not fully geared up for disproportionate year-on-year growth. As a large player, we need to make sure that we prepare ourselves for the next season. As we enter the next summer, we will be cycling a strong growth rate, and those investments need to happen now.

Therefore, we are going to make investments in this quarter. One of the things that Radovan said is that I would not look at the quarter-by-quarter results and say, “Let us keep delivering this top line and bottom line every quarter.” I think the health of the business is very strong, the strategic shape of the P&L is very strong, and there are enough proof points that our strategy is working. It is only going to build a much bigger category and a much bigger, profitable business for UBL in India.

With this, Radovan, I hand it back to you.

Radovan Sikorsky – CFO: Thanks, Vivek. There are a few things I would like to clarify, given the results, to give you a little more detail on what is underlying, both in net sales and revenue, as well as in the margin. I would also like to address the question that many of you [cut off]

Management: [cut off] we have? How much of this do we expect to be structural?

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Let me start at the top, in net sales, where we delivered 8 percentage points of price mix in net sales.

More than 50% is on account of pricing, meaning both gross pricing as well as rationalisation of trade spend.

Approximately 300 basis points are on account of choices in geographic mix, including state mix, where states such as Karnataka have made a positive contribution, as well as premiumisation.

The final part, around 50 basis points of our Q2 performance, is due to better utilisation of our own breweries. That is a significant swing versus previous quarters, and I will get to that in a moment.

On gross pricing, we can consider that to be structural, while trade-spend rationalisation has a seasonal element to it, and it is also a learning curve for us. We have seen where we can accelerate, but we have also learned in which pockets we have gone too far and have been too bold. We expect the structural impact of the two combined to be somewhere between 200 and 300 basis points.

On the state mix, this quarter was led by Maharashtra and Karnataka, but it was also impacted by limiting our investments in states such as Telangana, where we see negative profitability. Hence, the choices that we announced are also reflected in this mix. We continue on this path of being {? thoughtful ?}, and we expect the impact to remain there structurally for 40% to 50% of the contribution over the longer term.

Now, coming to the point of CBU mix, I know that this triggers a lot of questions because it has an impact mostly on the revenue line items that we report.

Over the last several quarters, the operating-model mix had a significantly negative impact on our net sales, contracting growth by a range of 400 to 600 basis points. This quarter, we actually saw the reverse impact, with an approximately 50-basis-point gain, because we leveraged our own breweries more.

In general, we expect greater reliance on our CBUs, our contract brewers, before and during the season. On the other hand, we see that capacity expansion through two new canning lines coming up this quarter, as well as the investment we are making in a greenfield facility in Mysore, will definitely help to structurally bring more volume to the market through our own breweries, thereby having a positive impact on the reported numbers.

Of course, all of this depends heavily on how the states develop, but this provides some background on the breakdown of sales and revenue and how much of it is structural.

Similarly, on margins, we are currently reporting a gross margin of 44.7% in the quarter versus 41% last quarter. This triggered a lot of questions about whether or not we believe that was the low point for margin delivery.

Structurally, we expect a positive impact from pricing on margins, and trade rationalisation will continue. Where that has a positive impact on revenue, it will also have a positive impact on margin.

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Furthermore, the improvements we are making with NBI and new bottles will also be sustained, and therefore we see better utilisation of returned bottles in the quarter. However, we see that NBI in this quarter is exceptionally low, also because more bottles come back after the season. That is good for the P&L, but it always has a seasonal impact after the summer season.

The state mix is very healthy, as we are gaining share in profitable states, with Karnataka growing by more than 50% in the quarter. We expect part of this to be structural because this is also part of the choices that we are making.

On the other hand, we see that the impact of the Middle East on input costs is expected to remain, and we are also seeing significant input pricing on some of the commodities that we source in India.

Additionally, we still aim to obtain pricing in states where we have not taken pricing yet and where gross margins have significantly reduced this year because of rising input costs. It continues to be the same journey: making sure that we navigate cost pressure by taking the right choices and pursuing the right leads in the market.

All in all, there are a lot of moving parts, but we expect margins to remain in the range of 43% to 45%, which I think is a good number for everyone to keep in mind.

Vivek: Thanks. Just to close before we ask questions, I think there is one question that had come up on brand power. This is most critical for us because stronger brands mean a stronger category and a stronger future.

We received the brand power data last week for the quarter of July, August, and September. I am very happy to say that the Kingfisher brand has again gained scores on brand power. Ultra has gained score on brand power, and Heineken has also gained brand power in the geographies in which it competed.

Overall, the brands are getting stronger despite significant momentum in the category, which gives us even more confidence to continue investing behind this commercial activity.

With this, we hand the call back to the moderator for the questions.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and then one on their touchtone phone. If you wish to [cut off]

Vivek: Are we still on the call?

Operator: Yes, can you hear us, sir? Ladies and gentlemen, we will now begin the question-and-answer session. If you wish to ask a question, you may press star and then one on your touchtone phone. If you wish to remove yourself from the question queue, you may press star and then two.

Vivek: Hello?

Operator: Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

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Vivek: Sorry, are you still there?

Operator: Ladies and gentlemen, we have an issue with the management line. Please stay connected while we reconnect the management line. Thank you.

Ladies and gentlemen, the management line has been reconnected. We will move on to our question-and-answer session. We will take our first question from Avnish Roy with Nuvama. Please go ahead.

Avnish Roy – Nuvama: Thanks, and congratulations on a very, very strong set of numbers. You highlighted a lot of insights at the Capital Markets Day, so thank you for that. My first specific question is on Karnataka and Jharkhand. Growth of more than 50% obviously means that the alcobev industry is not growing at 50%. My specific question is: in Karnataka and Jharkhand, can you tell us what the market growth rate for the alcobev industry is, in your assessment? What would be the growth rate of local players in the beer segment? This would give us some sense of the share gain, either within alcobev or from local beer players in Karnataka and Jharkhand, given the kind of 50% growth rate in these two markets? [cut off]

Operator: Sorry to interrupt. Avnish, your line is breaking up.

Avnish Roy – Nuvama: Is it better now?

Operator: Yes, sir.

Avnish Roy – Nuvama: Sorry for that. My specific question is: in Karnataka and Jharkhand, if you can tell us what the market growth rate for the alcobev industry is, in your assessment, and what the growth rate of local players in the beer segment would be, we can get some sense of the share gain either within alcobev or from local beer players in Karnataka and Jharkhand, given the kind of 50% growth rate in these two markets.

Vivek: In Karnataka, for this quarter, UBL grew by more than 60% in volume. We think that category growth is in the range of more than 50%. Most of the category growth is contributed by UBL. We have actually gained almost 250 basis points of market share in Karnataka, so you can do your calculation. The interventions we made through the right pricing on our brands and by driving the innovation portfolio have really led to that growth.

Coming to Jharkhand, we are still seeing the annualisation impact of the privatisation of the retail policy. Jharkhand growth is in the range of 20% for us because it is actually more than around 40% for us. In Jharkhand, we are still not producing the premium portfolio locally. We are working through a CBU, but that is going to change in the near future because we are working on greater localisation of our brands.

I would say that in both these cases, and based on the data we showed, everywhere that there is disproportionate growth in the category, UBL is able to capture market share and drive premiumisation in both these markets. These are two good examples.

Avnish Roy – Nuvama: You mentioned the choices that we make multiple times, including in the CFO's comments. Can you give a specific example for the Karnataka market? I think two things are

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happening there. First, there is 60% volume growth, and I think premium and price-mix growth of, say, 4%, or overall 8%, with a large part probably coming from Karnataka. Can you give us a specific example of the choices that we make? What do you mean by that?

Vivek: First of all, I do not think the choices are only about Karnataka. If you look at Karnataka in terms of volume, Karnataka is actually less than 15%—it is actually 11% to 12%—of our business. You would appreciate, Avnish, that Karnataka cannot create the price mix only because we are in Karnataka.

It is the series of revenue management programmes that the company is running, by state, by SKU, and by mix. It involves deciding where to spend money on which SKU and where to spend money on which brand, because we have a multi-brand portfolio.

At the same time, there is trade spend, because a large amount of money goes to the trade. Making sharper choices across the country, driving the key business drivers, and making money work harder have been a major part of the programme.

Even if I take Jharkhand and Karnataka together, they are less than 20% of our business. The three states together are less than 20% of our business. Therefore, this is an all-India-wide initiative.

We also make some clear calls. For example, in the economy portfolio in Telangana, there are some companies that try to make a lot of trade spend in Telangana when there is no margin in Telangana. We are not going to do that. We are comfortable losing share in Telangana if it is a question of buying share simply to show very good numbers. We are not adopting those behaviours.

In a market such as Haryana, where there is no MRP regime and retailers sell the product at whatever price they want, why would we fund their margin simply because the consumer is willing to pay more? We are also making choices about importing brands into a state even when it is not profitable.

We are making those difficult decisions where we are not chasing a number, but are pursuing better quality of business.

Avnish Roy – Nuvama: Understood. Last question. Vivek, since you joined, a lot of initiatives have been undertaken in premium. The company has regained some level of market share in premium, but I still think you are the number-three player in premium. When I compare this with the other IPO in the beer sector, Carlsberg, many questions are coming up because its margins are far superior. I understand that its revenues are a fraction of yours, and that it does not operate in all the states. However, when it operates in the same state, for example, when we compare your revenue and margin with Carlsberg, could you give us some sense? The headline numbers do not give the full details.

Vivek: Avnish, I do not want to compare apples to oranges. You are comparing a national business with a large mainstream brand such as Kingfisher and a full portfolio, with a business that is one-third the size, which is not even national. I do not want to compare apples to oranges, to be very honest with you and with all due respect.

I think it is a great company, and we all respect our competitors.

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The opportunity in beer is not about growing share from Carlsberg, ABI, or other players. The opportunity in beer is to expand the category. Is there a profit pool in this? Yes, if we make the right choices and stay in the right states behind the right policies to bring everything together.

The other thing that gives me confidence is the brand power data. When I see that we are growing brand power, which is measured by Kantar on a consistent basis, while a brand that shows higher revenue has lower or declining brand power, it gives us a lot of future potential.

The other point is that we are coming from behind in premiumisation, and one of the reasons is our local footprint, which we discussed. The growth rates of 67%, 47%, and 38% give us a lot of confidence that consumers are accepting our brands.

I do think that we are working on the glide path for revenue and margin that we laid out during the Capital Market Day. We are working to consistently drive category growth, revenue growth, the right mix, and sequential improvement in our bottom-line margins. That is where I stand.

Avnish Roy – Nuvama: Sure, thanks [cut off]

Operator: Thank you. The next question comes from the line of Latika Chopra with JP Morgan. Please go ahead.

Latika Chopra – JP Morgan: Hi. Thank you for the opportunity. I have a few questions. The first one is related to your comments on sharper geographic choices. You shared some examples of how Karnataka and Jharkhand now represent 20% of the business. Would it be possible for you to share some colour on your top five or six states and their current revenue salience? And the second [trails off] Yes.

Management: Sorry, Latika, what was the second part of the question?

Latika Chopra – JP Morgan: Let us take this question first, and then I will ask you the second one.

Management: Telangana is our largest volume state. It is also the largest state for the category, and we have a very strong presence there. We also have a very strong presence in Karnataka, Andhra, Rajasthan, and Uttar Pradesh because we are present everywhere that the category is present.

For us, I think it is also important that our dependence on a few states is reducing. We have a huge opportunity in states such as Tamil Nadu, where the market is opening up. We currently have a 30%-35% share, and we should have a 55%-60% share, as in other parts of the country.

In states such as West Bengal, where we do not have a canning line, we will have one in the future, and we are operating at less than a 30% share.

There is therefore a combination of large states where we are already the market leader and large states where we have a lot of opportunity. We are broad-based, but our revenue is now becoming more fragmented because smaller states such as Jharkhand are contributing to growth.

There are also states such as Uttarakhand and Odisha that are contributing to our strong growth, above 15%. What we are seeing is that we are winning in all states, but more states are becoming relevant.

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We will have to make choices such as in Telangana. Although it is the largest state, we simply cannot invest more in trade spend and everything else if we are not going to obtain pricing or make money. These are the complex choices that we meant when we spoke about making more difficult decisions.

Management: To add one point, in line with the Capital Markets Day, where we spoke about the three different buckets in which we look at the market, we see that these choices also have an impact on the salience of volume contribution across these buckets.

While this is a sequential movement and does not change the world overnight, we see that it is moving favourably towards the bucket of more profitable markets, while the salience of the less profitable markets is coming down.

This is a sequential movement that we intend to accelerate, but it also has an impact on the shares. If we exclude share development in the non-profitable markets, it is actually a very different picture, and it shows that we are making the right choices there.

Latika Chopra – JP Morgan: This is encouraging. My second question is about margins. One part of the margin improvement was pricing. You talked about half of the nearly 8 percentage points of price mix growth being on account of pricing plus rationalisation of trade spend. Does that effectively mean that you had about 2%–3% of pure pricing growth in the quarter?

I wanted to connect this with your comment that you saw pricing actions in 24 markets. Could you elaborate? At the same time, you also said that you are going to seek more pricing. Which are some of the larger markets where you are still waiting for price hikes to come through? What does this imply for pure pricing growth in the future?

Management: We have not taken any pricing yet in almost 30% of our business. These are large markets such as Telangana, Andhra, and Tamil Nadu, to give a few examples. They represent almost 30% of our business, and we are still working with the government to obtain pricing because input costs have increased significantly.

This is important to understand because we have been working across states. When we say pricing, it is a combination of trade-spend reduction and list-price increases, but it is also a combination of SKU mix. A bottle has a very different mix from a can, and a large bottle has a different margin from a smaller bottle. All of this revenue-management work is being undertaken.

Management: Your calculation is broadly correct, Latika, regarding the impact of pricing and how much pricing contributed. The encouraging part for us is that we see the ability to price. That is where we are learning how we should continue to do this.

Moving forward and looking towards the future, to Vivek's point, it is not only about pure pricing. It is also about how we can use price, along with other levers, to drive the mix across packages and brands, to make sure that we enter an era of more profitable growth.

Latika Chopra – JP Morgan: The last part was on brand spends and brand investments. Could you share any colour on this? You talked about stepping it up meaningfully. How is FY27, or the first half of FY27, shaping up for these spends versus last year? Any colour or flavour would be helpful. Thank

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you.

Management: We started this in the last quarter of last year, recognising that there was increased competitive intensity across the market, with many players looking at India as their main source of volume growth.

Year to date, our commercial spend behind our brands is up by around 20 percentage points versus the previous year. This means that it is growing ahead of our revenue and ahead of our volume, which is exactly what we aim to do. That is why you continue to see the emphasis in the narrative that investing behind the brand is a long-term exercise.

You will recall that we announced earlier this year that we want to move from push to pull. This is the major driver for creating that pull from the market and making sure that we excite consumers about the brand.

As Vivek also announced, going into the next quarter, which is the first stage of preparation for next year's summer, we will continue to invest. We see the positive impact of a similar exercise that we undertook last year on a smaller scale. Staying on air with the brand and investing behind the brand year-round has a positive long-term impact on brand power.

We think brand power is the biggest driver for creating that pull with consumers and moving away from push. This also allows us to reduce trade spend where we can and reinvest that money behind the brand.

Latika Chopra – JP Morgan: Thank you very much, gentlemen. I wish you the best.

Management: Thank you.

Operator: Thank you. Our next question comes from the line of Harit Kapoor with Investec. Please go ahead.

Harit Kapoor – Investec: Good afternoon, team. I have two questions. The first is on the two markets that you mentioned in the last few minutes, Tamil Nadu and Telangana. Could you give us a broad update on how the changing environment in Tamil Nadu has started to play out for you and for the industry? Are you seeing any change over the last few months in terms of how the business is being operated there?

You mentioned that your share is lower, and we understand that brand equity and regional presence are very high. I wanted to get some sense on Tamil Nadu.

The second question is on Telangana. There have been news articles over the last few months about discussions on price increases. I wanted to understand your level of engagement there and how things are progressing. Is the fact that you are reducing spend there a function of your view that pricing may not be forthcoming in the near term? Those are my questions on these two states.

Management: I will comment on Telangana first. We are working very closely with the Telangana government through the Brewers Association of India.

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Telangana asked for a pricing committee, and we made a submission on our cost structure sometime in August. This is the first process for the government to review pricing.

We hope that the committee they formed, which was led by judges, will come to a logical conclusion. We are very hopeful that in the coming months the committee will take action because the data is very clear.

At the same time, until that pricing takes place, it is very difficult to make more investments, particularly investments that do not really drive category expansion.

To give you a sense, we had a flat business and lost some share in Telangana because competitors were still spending money to do that. However, it is fine because our brand power is very strong.

In Tamil Nadu, many changes are being made, but they are being made in parts. Some of the early changes are definitely helpful because the ordering system has become more transparent.

We have two breweries in Tamil Nadu. We have already expanded our presence and are making some capital investments to scale up those breweries, including looking at new capacities and a new form.

You may have read in the press that we also recently received approval to launch Heineken Silver in Tamil Nadu, which I think will be a massive launch.

The combination of these factors makes us very optimistic about the opportunity, but the overall policy is still being implemented in parts. I will be able to give you the full picture once this is completed.

The state has massive potential, and because we have a local presence here with our brewery, we are in the right position to expand very quickly in Tamil Nadu.

Harit Kapoor – Investec: That is great and very clear. My second question is on the true pull-push strategy that Radovan also discussed. Do we see a financial impact from lower promotions at a national level and higher pull, meaning brand investments? Do you expect margins to remain similar because promotion is shifting into brand investments, while improved brand power is likely to drive revenue growth in the medium term? Is that the outcome you are looking to achieve when discussing this?

Management: There are a couple of elements, Harit. First, it is a long-term exercise. It creates much more value because we develop a long-term closeness with consumers, and it helps to build the category. Building stronger brands builds the category.

In the long term, it is the right thing to do, and even in a dark market such as India, where we can, we invest behind the brand.

In the short term, we are indeed reinvesting. We are cutting back on trade terms and reinvesting behind the brand, which means that the expenditure moves from our top line to our cost base. This has an impact on gross-margin expansion, but not as much in the short term on our EBITDA margin or operating-profit margin.

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We do feel that the acceleration and catalyst from investing behind the brand through increasing brand power is more sustainable than trade terms.

The second important long-term effect of moving from push to pull is that if you continue to invest behind the brand and behind brand power, you create sustained demand for the brand. Trade terms will always have a large component of short-term volume pushing.

These two elements mean that, over the longer term, this is definitely contributing to the P&L. In the shorter term, it is more of a shift between line items.

Harit Kapoor – Investec: Understood. Thanks, and I wish you all the best.

Management: Thanks, Harit.

Operator: Thank you. Our next question comes from the line of Ashutosh Jain with Barclays. Please go ahead.

Ashutosh Jain – Barclays: Hello. Thank you for taking my question. I have two questions. The first is how we should think about volume growth in the upcoming quarters. You have a relatively favourable comparison base, which is very low, Karnataka {? AED ?} benefits, Jharkhand retail liberalisation, and other premium-portfolio expansions in the states. These are tailwinds for the upcoming quarters.

Should these tailwinds support continued double-digit growth at UBL, or are there some offsets that we should keep in mind?

Management: The critical driver of category growth is policy changes. Policy has a life cycle. When we cycle Karnataka next May or June, it will be the same base.

Apart from the macro factors, continuously working with the states to make beer more affordable and ensure fairer taxation will be the priority.

Having said that, the macro factors for the category are very strong, with 25 million young people reaching the legal drinking age, the expansion of the beer portfolio, and greater focus on experiences.

We definitely believe in premiumisation as well as the macro factors. However, the category's momentum is being driven more by policy changes, and the category has the potential to continue with this momentum.

Our outlook is still 6%-7% volume growth if policy movement does not happen dramatically, as it has this year.

Ashutosh Jain – Barclays: Fair enough. Thank you. My next question is more strategic.

Do you have any plans to participate in the RTD category, and how do you assess the opportunity for alcoholic RTDs in India, given that United Spirits is now launching Smirnoff ICE, which is a malt-based alcoholic beverage?

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Do you see this as incremental to our beer category? We have previous examples where RTDs have primarily taken share from the beer category. Do you think they could potentially cannibalise beer consumption occasions in India, particularly at the premium end?

Vivek: We believe the opportunity for beer is very large. In terms of penetration, out of 10 occasions on which consumers drink alcobev, beer is consumed on 1.8 occasions. Therefore, we see a huge opportunity in beer itself.

I do not want to comment on what else people want to do, but I see huge momentum in beer itself.

Ashutosh Jain – Barclays: Fair enough. Thank you.

Operator: Thank you. Our next question comes from the line of Nitin with HDFC Securities. Please go ahead.

Nitin – HDFC Securities: Hi. Thanks for taking my question. My first question pertains to your operating-model mix. Would you be able to highlight the current percentage of production coming from your own breweries, contract breweries, and tie-up breweries?

Vivek: Our own breweries account for approximately 70%-75% of our production, depending on the season and the mix that is projected.

This varies between 70% and 75% depending on the month, quarter, and season. Production and rainfall, among other factors, also affect the mix.

Nitin – HDFC Securities: Would you be able to highlight the mix from tie-up units that will eventually come under either own production or contract brewing?

Vivek: Sorry, can you repeat that question? We missed the first part.

Nitin – HDFC Securities: I am asking about the tie-up units where we see a tactical opportunity. Our own breweries are going through a capex cycle, so what is the quantum of tie-up units that will eventually come into our P&L in terms of our overall volume?

Radovan: I do not think that is a number carved in stone. Given that we expect growth in India to be at least at the level where we are today, we continuously look at our footprint.

We value the agility of having a mixed operating model. Every now and then, we have conversations with some of our contract brewers about the future of the tie-up and whether it should evolve into something involving ownership.

I can tell you that currently there is nothing happening in this regard as we speak. How this footprint will evolve is something that we track continuously to make sure that we are set up in the right way and are able to anticipate growth at the state level.

We need to make sure that in places where growth accelerates, we have sufficient capacity. The first thing we ensure is that we have production present in the state, whether through investment in our own breweries, through a greenfield facility such as the one in Uttar Pradesh, or through new tie-ups.

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Since Vivek joined, I think we have onboarded eight additional TUs to make sure that we are present in the operating-model mix where volume is also accelerating.

Once that partnership continues, we can discuss how it evolves, but it is not a standard view that we have regarding the contract model.

Nitin – HDFC Securities: Sure. Thanks a lot. My second question pertains to Heineken. Would you be able to help me with two things? First, how many of our breweries have horizontal-brewing capacity? Second, what is the percentage of reused bottles for the premium portfolio? Thank you.

Vivek: We currently produce Heineken locally in four breweries. We plan to expand with our Uttar Pradesh facility, which is coming up locally in Uttar Pradesh, and we are looking at one more facility very soon.

Regarding returnable bottles, the percentage is improving. A lot of this is related to localisation, which is also having a positive impact on the cost structure of the premium portfolio.

We will not be able to provide specific brand-wise numbers, but we are seeing a significant improvement in the portfolio. For Heineken, we use one-way bottles. We do not recycle Heineken bottles yet.

Nitin – HDFC Securities: Sure. Thanks a lot. Thank you.

Operator: Thank you. A reminder to all participants: if you wish to ask a question, you may press star and then one now. The next question comes from the line of Karan Kamdar with Choice Institutional Equities. Please go ahead.

Karan Kamdar – Choice Institutional Equities: Thank you for the opportunity. I wanted to understand how we are performing in terms of volume growth, how much of it is sustainable, and how much is purely price-led, such that increased competition could take that volume growth away from us.

Radovan: To be fair, a lot of the volume growth is price-led in one way or another. We see affordability in India as a major driver of the category, which is why we are always advocating for excise taxation versus spirits.

Wherever that happens, we see an increase in consumer demand. Fair pricing versus spirits is one of the primary outcomes of policy and regulatory improvements that we see driving the category.

From that point of view, we can argue that pricing is a major driver. We see that the current pricing we have across 24 markets does not have very limited elasticity, but we also see that, with that pricing, the average MRP remains below inflation.

Therefore, the affordability of beer continues to improve despite the pricing we take, which is also a major driver of the category. This is something that we actively pursue. We offer premiumisation to consumers, but for the rest of the portfolio, we also make sure that affordability is maintained.

Karan Kamdar – Choice Institutional Equities: The second question is on increased competition. Given that many brands are moving towards an IPO, do we see any threats from that? What is our strategy for managing the premium segment, given that competition will increase specifically in

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premium rather than in the lower tier, where we have dominance?

Radovan: We welcome competition, first of all. We think it is very good for the category.

We see competition intensifying across different segments, depending on the state and the availability of capacity in the state. We see different movements.

Our focus is on our own portfolio and the strategy behind our brands. We believe, and we know, that we have the largest portfolio.

At the Capital Market Day, I also commented on the fact that we are the only player in the country able to onboard consumers at an affordable price point and then stay with them through their premiumisation journey, starting with the local premium portfolio and then moving on to international premium brands such as Heineken.

We therefore strongly believe that we have the right portfolio to win, whether competition intensifies in the premium, mainstream, or economy segments.

Overall, we again believe that this is very good for the category as a whole, and we believe that we are set to win across India. We have the advantage of already being a national player with network availability across all states.

Karan Kamdar – Choice Institutional Equities: Okay. Thank you. All the best.

Radovan: Yes.

Operator: Thank you. Our next question comes from the line of Jay Doshi with Kotak. Please go ahead.

Jay Doshi – Kotak: Hi, team. Thanks for the opportunity. I have a couple of questions. The first is for Vivek. You mentioned that a committee had been set up by Telangana to review pricing. Is this something very different and new compared with how it used to work earlier?

Are you expecting a major course correction in the way pricing works in Telangana or in the unit economics for the industry, or will it simply be another round of price increases, somewhat like the one we received a couple of years ago?

Vivek: This process is not new. What we were able to do through the association was to bring this committee in early. The last committee on beer was set up many years ago, before we obtained the pricing.

We see this as a positive step because the government was able to set up the committee when we discussed the impact of the Middle East cost increase resulting from the Middle East crisis.

It is part of the process in which they appoint a committee of judges or a committee led by a judge, and the committee asks suppliers to submit their cost structures.

The outcome of the committee is anyone's guess, and we cannot say whether they will make a material change. We expect them to do so because the data is very compelling. We hope they take

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the right decision, but we will not know until they actually decide.

Jay Doshi – Kotak: Understood. That is very helpful. My second question is on profitability, for Radovan.

Last quarter, you called out 4 to 5 billion rupees of cost inflation over two to three quarters, and it translated into 500 basis points of sales. This quarter, your profitability has improved, with gross margins improving by 200 basis points versus last year.

Could you walk us through the bridge? I know you partly answered this question in the opening remarks, but could you walk us through the actual cost inflation that you witnessed during the September quarter, how much of that was offset by efficiencies such as better recovery of bottles, how much was offset by better state mix, and how much was offset by trade rationalisation?

You also commented that gross margin will be in the 43%–45% range. Should we assume that for the coming two quarters? Should we expect next year to be better as cost inflation or cost pressure eases?

Radovan: Thanks for that question. Let me start with the end. Like all of you, we sincerely hope that cost pressure will ease.

Regarding the rest of your question, we did indeed call out the impact that we expected for the full year. Through some of the mitigation efforts, we have seen that the gross impact is coming down slightly versus the initial indication we gave in May.

We now expect the gross impact for the full year FY27 to be in the range of 350 to 400 crores, which is slightly lower than we initially thought.

Secondly, we believe that the mitigation plans are also progressing very well and structurally improving. Overall, we expect the impact to remain within the 43%–45% range for the next couple of quarters because we see this cost pressure continuing in the next quarter and the quarter after. We do not expect it to ease very quickly.

The one thing I would like to highlight is that the changes we have made are structurally improving the business. We have refrained from knee-jerk responses, such as reducing investment behind the brand or in breweries.

We have mitigated this through sustained structural productivity, sustained pricing, and the right choices on state mix, in order to structurally and over the long term improve the business.

This helps offset the impact of short-term cost pressure, and it will help accelerate margins when cost pressure eases.

Even if we hopefully find an end to this war, my expectation is that, in the case of commodities, we will not return to pre-war pricing if infrastructure in the Middle East has also been heavily impacted.

I do not think that will happen. It does mean that the health and quality of our business are structurally improving, which I think is a good thing and will definitely have a positive long-term impact on margin development.

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Jay Doshi – Kotak: Sure. Thank you so much. One last question for Vivek, if I may.

Vivek: Yes, sure. Go ahead.

Jay Doshi – Kotak: It appears that your decision to lower prices for KS Ultra in Karnataka may have significantly helped drive premiumisation and volume growth in that market.

Do you think there is a possibility of revisiting pricing for some of your premium brands in other states as well, based on the success you have seen in Karnataka? Or was it largely successful in Karnataka because of the policy change, and without a policy change, would pricing tweaks not produce the same level of success?

The second question is: now that you have launched Heineken Silver in quite a few states, what do you think is the potential for Heineken Silver? Based on your best estimate, what could

Jay Doshi – Kotak: {? market share ?} it have in India over the next 3 or 4 years, and what could be its contribution to your overall sales, based on the traction you are seeing for that brand?

Management: I would start with the end in mind. I do not know about 3 years, 5 years, 10 years, or 15 years, but I think we are very confident that Heineken will become the biggest premium brand in the Indian beer market.

This is a brand that is underserved in India. It is the most valuable brand globally. With Heineken Silver, and considering the growth rates in Vietnam, China, Brazil, and some of the other countries, we are very confident in the recipe for success.

You will see that we are investing in manufacturing capacity, obtaining the right distribution, and ensuring the right execution. I see the future as very bright, and the 67% growth in Heineken Silver, in my view, is not an aberration. This will continue for Heineken Silver.

For us to take any pricing action, policy intervention is essential because gross margins are very low in this business and we need to invest in brand building and awareness.

Taxation is a key factor. We were able to do this in Karnataka because there was a positive step by the government to reduce taxation on low-alcohol beer, and we wanted to make sure that consumers could access the best choice of beer.

Therefore, taking price reductions without a policy change is not right. Having said that, selectively, where we are off our pricing strategy, we will continue to do the right thing. Irrespective of that, we should do so anyway to run a good business.

Jay Doshi – Kotak: Thank you. That is all from my side, and great execution. Thank you.

Management: Thank you.

Operator: Thank you. Ladies and gentlemen, as there are no further questions, I now hand the conference back to management for closing comments.

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Management: Thanks, everyone, for engaging with us for the past 60 minutes and for your questions.

Again, we are very confident that we are on the right track. We are very proud of the results that we and the entire team delivered in Q2, and we are confident that, moving into the next quarter, we will continue to remain on track with the strategy and execute excellently to continue on this path.

We will speak again in the next quarter. Have a great day, everyone. Thank you for joining.

Operator: Thank you. Ladies and gentlemen, on behalf of United Breweries Ltd., that concludes this conference. Thank you, everyone, for joining us. You may now disconnect your lines.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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