Management Discussion

Jorn Kersten - Director and Chief Financial Officer, United Breweries Ltd
Thank you, and good afternoon, everyone, and thank you for joining us for United Breweries' second quarter earnings call for the full year 2027. Before we get into the detail and answer your questions, we're of course very happy with the performance in this quarter, and I would like to put it into the context of the journey that we've been discussing with you over the past several quarters as well as earlier this quarter in our capital markets day. When we started this year at the end of full year '26, we saw that the beer category was returning to double-digit growth.

But at the same time, of course, we faced a significant external shock from the developments in the Middle East. In the previous quarter, we saw that those realities were both very visible in our results. The beer category continuing to accelerate But- and our sell-in also growing with 13% in the previous quarter. And we deliberately reduced inventories by approximately 20% to make sure that we were focusing on delivering cash and working capital improvements. However, gross margin came under pressure from the higher input costs.

Despite that, we stayed the course, and we've always said we would continue to invest in category growth and behind our brands. Now, during the event earlier in September, our Capital Markets Day, we took a bit of a longer-term perspective to bring you further on the journey. And we spoke about the structural attractiveness of the Indian beer category, the opportunity for us to accelerate premiumization, and very importantly, and to many of the questions asked, what is our ambition to translate growth into sustainably higher profitability with disciplined revenue management as well as productivity across Now, to get through this quarter, quarter two provides for us, and hopefully as well for our stakeholders, more 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 at 67%, as well as the Ultra portfolio doing well with a 44% growth. EBITDA, we grew 108% and our EBITDA margin increased by 480 basis points to 11.9%. Last but not least, EBIT grew 161% with EBIT margin reaching 8.4%. Now that represents a significant improvement from quarter one, when we had volume growth of 9%, net sales of 7%, and where the external cost environment contributed to a 155 basis point reduction in gross margin.

So it's quite a different story this quarter. And 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's important that we don't 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 which we consider structural improvements. First of all, there's pricing.

And we've mentioned this before, driven also by external developments. We have taken pricing actions across 24 markets. That's a higher number than we've ever done with UBL. And 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. Then secondly, it's on premiumization, which we mentioned as one of the big levers for driving long-term profitability. The 38% growth in premium voice is not isolated for a quarter, but it's an acceleration of the portfolio transformation.

And we've been continuously investing behind our brands for multiple periods, and now premium

margins continue to be accretive to the total portfolio. Third, and also this was mentioned in a couple of market events, our geographic and portfolio choices are increasingly focusing on profitable growth rather than only going after volume or market share. And last but not least, productivity and tight cost discipline is becoming embedded more and more across the organization. All of this together, our estimation is that these structural interventions contribute approximately INR100 cores to our quarterly EBIT, whilst we still continue to partially invest in a higher commercial spend.

And we still, of course, see- let's not forget, we're not out of the woods- that our input costs are impacted by sustained input cost increases. There are volume and market effects as well, which are particularly supported in the quarter. We see continued growth in the beer category on double digits, supported by strong consumer demand, which stayed high, as well as positive regulatory developments in a number of important markets. We all know the change in policy in Karnataka, which happened midway the previous quarter, and now we see a full quarter of results trickling through.

As well as positive continuous development in Maharashtra and Jharkhand. These states particularly benefit from positive retail market changes, and it reinforces our confidence in the longer-term opportunities for the beer category. But the magnitude that we've seen in this quarter is not automatically to be extrapolated as becoming the new standard. The low comparison versus last year, which was heavily impacted by the weather, also helped for significant growth in this quarter. But the structural impact of changes in the category is also evident.

Volume grew 6.2% on a three-year CAGR and 6% on a two-year CAGR. So even if we include that longer term, we see very positive growth and in line with our expectations for the category development. And lastly, I don't want to go without mentioning non-recurring items, and most importantly, Our reported profit in the quarter included approximately INR36 crores of interest income relating to an income tax refund, which lands in other income. This benefits the quarter, but it's clearly not part of underlying operating revenue.

Excluding this one-off, the EBITDA margin still expands with approximately 330 basis points. And our operating profit for the quarter was approximately 170- Sorry. INR176 core versus last year's INR81 core. In other words, while the headline contains meaningful non-recurring benefits, the underlying improvement we believe will remain substantial. And that is also how we want to guide the interpretation of quarter two. It's not a quarterly earnings level that should be extrapolated, but it's for us evidence that the underlying economics of the business are really improving.

And we should also be clear, and we've been clear about this in the past as well, that this is not a linear path. What matters is the trajectory across multiple quarters, and for us as UBL to believe that our strategy is the right one and that we stay the course. In the beginning of this calendar year, like I mentioned, beer category grew- beer category growth returned to double-digit digits, and our premium portfolio was at 16% growth. In the previous quarter to this one, 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 the external developments.

Now, in this quarter ending in September, we demonstrated much stronger conversion of our top-line growth into earnings, which is a very positive development that we really welcome. As we move into the next quarter, I'd like to mention that we expect that commercial investments will normalize from a relatively low base, and we see some of the higher raw material costs will come through into the P&L. Items like sugar, we see increased pricing. In addition, preparing for peak

season, we will stay with the investments behind our brands as well as our breweries to make sure that we are ready for next year's summer.

And 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're making on pricing, premiumization, productivity, and the portfolio choices. In fact, we actually believe that that progression is consistent with the strategy that we presented during the Capital Markets Day. Grow the beer category, accelerate premiumization, improve the quality of revenues, and translate growth into structurally higher profitability through productivity and disciplined execution still is the way to go.

So we're extremely pleased with the quarter. We remain very disciplined on how we interpret it. One strong quarter doesn't 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've been building over time and that now start showing results. We remain extremely focused on executing against these levers while we navigate the inevitable volatility that will always be here, whether it's commodity costs, regulations, weather, or individual state developments.

With that being said, I'm happy to hand over to Vivek to talk a bit more in detail about the category and the brands. And before we go to the Q&A, I'll pick it up again. There's a few questions that we anticipate, then we'll dive into a bit more before we open up for questions. So Vivek, let's go over to you first.

Vivek Gupta - Managing Director and Chief Executive Officer, United Breweries Ltd
Yeah, no, thanks, Jorn, and thank you for this. thank you for giving the overall perspective. I would just highlight a few things. I think some of you joined us in the Capital Market Day. I think that, this quarter results is a clear indicator that those choices are working. and few of these choices which are really working- number one, we talked about we want to be the category maker, and I think it is a clear data which shows that the states which actually went through a differentiation policy on beer and better corporate affairs policy have better category growth.

So Karnataka is growing more than 50% on beer, Jharkhand is growing more than 40% on beer because of the retail, Maharashtra continues to grow. And this is extremely important because a lot of it can be seen on the weather, but it is not weather because not every state is growing at that level and there's a clear distinction in the states which are growing disproportionate growth versus others. So the path to success of craving beer category is very clear. It is about affordability, availability, and the clear tech differentiation.

Second thing is the strength of our portfolio. You guys heard me talk about our bullishness on premiumization. This is something not new we are talking because in the calendar year '24, we grew our premium business more than 25%. The last year we grew at 23%, and this year we are on the similar trajectory. This quarter we grew 38%. Heineken Silver brand grew 67%, and I'm- and it's- and the brand is on fire. This is the most valuable beer brand in the world, and we are only in 11 states. So as we are expanding state by state, the opportunity is huge, and we are just scratching the surface.

And we now with Heineken Silver found the right product in the Indian market which can actually drive the trend on premiumization. Our Ultra brand, driven by localization of our supplies in the breweries and the relaunch of the brand behind new packaging, also grew 44%. So our premium growth, which we always talk about, is, accelerating. And since we have now made premium

portfolio more margin-accretive behind all the choices we make, it's also showing up in the margins. The second thing which also gives me a lot of confidence, the discipline on revenue management, because it is not about pricing only, it's about state mix, brand mix, our own really mix versus the contract viewers, the mix on which state we want to play, how much state invest we do.

The whole crisis has led to a very strong pricing mix In this quarter. And the cost discipline on, on A, continues to invest where we want to invest, but at the same time, looking hard at our base cost, the things which we can take back out of the system. So overall, strong cash flow, strong inventory management, very strong growth rate, premiumization- all of this gives us an indication we are absolutely on the right track. it gives us the indication there's a lot of potential to be had, and also it also gives us more confidence that our strategy is working and we are going to invest more going into the next quarter, which is in October, November, December.

We are going to double down our investments both commercially but also being ready for the next year. Please understand, the supply chain in India is not fully geared up for disproportionate growth on year-on-year. And for us as a large player, we need to make sure we make us ready for the next season because as we get into the next summer, we will be cycling our strong growth rate and those investments need to happen now. So we are going to make investments in this quarter. So one of the things that Jorn said, I would not look at this quarter-by-quarter results and say, okay, let's keep delivering this top line, bottom line every quarter.

I think it is the health of the business is very strong. The strategic shape of P&L is very strong and there are enough proof points that our strategy is working and it is only going to create a much bigger category and much bigger profitable business for UBL in India. So with this, Jorn, I'll hand over back

Jorn Kersten - Director and Chief Financial Officer, United Breweries Ltd
To you. Yeah, thanks, Vivek. There's a few things I would like to clarify given the results and to give a bit more breakdown of what's underlying. Which is both on net sales, on the revenue, as well as on the margins. And of course, addressing the question that many of you will have, how much of this do we expect to be structural? Now let me start at the top in the net sales, where we delivered 8 percentage points of price mix on net sales. Now, over 50% is on account of pricing. Due to both gross pricing as well as rationalization of the grape spend.

About 300 basis points is on account of the choices in geographic mix, so the state mix, where of course a state like Karnataka has a positive contribution, as well as premiumization. And the final part, around 50 basis points of our Q2 performance, is a better leverage of our own breweries. And that's a big part of the story. Big swings versus previous quarters, and I'll get to that in a moment. On the gross pricing, we can consider that to be structural, while we see that the trade spend rationalization has a seasonal element to it, and it's also a learning curve for us.

We see where we can accelerate, but we also learn in which pockets we have gone too far and have been too bold. We expect that the structural impact of the two combined is somewhere between 200 basis points and 300 basis points. On the state mix for this quarter, it's led by Maharashtra and Karnataka, but it's also impacted by limiting our investments in states such as Telangana, where we see that we have muted profitability, and hence the choices that we announced are also resulting in effect in the P&L. We continue on this path of being choiceful, and we expect That the impact should remain there structurally for 40% to 60% of the contribution on the longer term.

Now, to get to the point of CBU mix, and I know that triggers a lot of questions because it has an

impact mostly on the revenue line item that we report. Over the last quarters, the operating model mix had a significant negative impact on our net sales, contracting the growth rate A range of 400 basis points to 600 basis points. This quarter we actually see a reverse impact with approximately 50 basis points gain because we leverage our own breweries more. In general, we expect more reliance on our CBUs, our contract breweries, before and during the season.

On the other hand, we see capacity expansion with two new canning lines coming up this quarter. As well as the investment that we're doing in greenfield, and these will definitely help to structurally bring more volumes to the market to our own breweries. So hence having a positive impact on the report net revenue. Of course, all of this depends heavily on how states develop, but that's to give a bit of background on the breakdown of sales and revenue and how much of that is structural. Now similarly on margins, Currently reporting in the quarter 44.7% gross margin versus a 41% last quarter, which then triggered a lot of questions whether or not we believe that was the low point for margin delivery.

Structurally, we expect positive impact from pricing on the margins and trade rationalization to continue. So where that impacts positively in revenue, it will also have a positive impact on our margins. Furthermore, the improvements that we're doing with MBI new bottles. Will also sustain. So we see better use of return bottles in the quarter. However, we see that NBI this quarter is exceptionally low, also because after the season there's more bottles coming back. So good for the P&L, but always a bit of seasonal impact post the summer season.

On the state mix, it's very healthy where we gain share in profitable states. Karnataka growing more than 50% in the quarter. Part of this we expect to be structural because this is also part of the choices that we make. Now, on the other hand, we see that the impact from the Middle East on the impact costs- on the input costs is expected to remain. And we see significant input pricing as well on some of the commodities that we source in India, actually. Additionally, we still aim to get pricing in states where we haven't taken pricing yet and where gross margins have actually significantly reduced this year because of the rising input costs.

So it continues to be the same journey to make sure that we navigate the pressure on cost through taking the right choices and going after the right moves in the market. All in all, there's a lot of moving parts, but we expect margins to remain along the range of about 43% to 45%, which I think is a good number for everyone to keep in mind.

Vivek Gupta - Managing Director and Chief Executive Officer, United Breweries Ltd
Thanks, Jorn. Just to close before we ask questions, I think there's one question which had come on brand power. Because this is most critical for us, because stronger brands mean stronger category and stronger future. Again, we, got the brand power data last week for the quarter July, August, September, and I'm very happy to say that Kingfisher brand has again gained, scores on the brand power. Ultra has gained score on the brand power, and Heineken has also gained brand power in the geographies it competes in.

So overall, the brands are getting stronger despite a significant momentum on the category, which gives us even more confidence to continue to invest behind this commercially. So with this, we hand over back to the moderator for the questions.

Questions & Answers

Operator
Thank you very much. We will now begin with the question-and-answer session. [Operator Instructions] Hello? Yes, can you hear us, sir? Ladies and gentlemen, we will now begin with the question-and-answer session. [Operator Instructions]

Jay Doshi - Analyst, Kotak
Hello?

Operator
[Operator Instructions]

Vivek Gupta - Managing Director and Chief Executive Officer, United Breweries Ltd
Sorry, are you still there?

Operator
Ladies and gentlemen, we have the issue with the management line. Please stay connected while we reconnect the line for the management. Thank you. Ladies and gentlemen, we have the management line reconnected back. We'll move on to our question-and-answer session. We will take our first question from the line of Abneesh Roy with Nuvama, please go ahead.

Abneesh Roy - Analyst, Nuvama
Yeah, thanks and congrats on a very, very strong set of numbers. you had highlighted a lot of insights in the Capital Markets Day, so thanks for that. My first specific question is on Karnataka and Jharkhand. So 50% plus growth, obviously industry will not go ahead to keep. My specific question is-

Operator
Sorry to interrupt, Abneesh, your line is getting chipped in between.

Abneesh Roy - Analyst, Nuvama
Yeah, is it better now?

Operator
Yes, sir.

Abneesh Roy - Analyst, Nuvama
Sorry for that. So my specific question is, in Karnataka and Jharkhand, if you can tell us what is the market growth rate for the alco-bev industry in your station, and what will be the local players, in the beer segment, what will be their growth rate? So then we can get some sense of the share gain either within the alco-bev or From local players in beer in Karnataka and Jharkhand, given the 50% kind of growth rate in these two markets?

Vivek Gupta - Managing Director and Chief Executive Officer, United Breweries Ltd
See, in Karnataka for this quarter we have grown more than 60% on volumes as UBL, okay. And I think we think that the category growth is in the range of 50% plus, and, and most of the category growth is contributed by UBL. Like, we have actually gained almost 250 bps of market share in Karnataka. So you can do your math. And the interventions which we did behind the right pricing on

our brands and really driving the innovation portfolio has really led to that growth. Coming to Jharkhand, I think Jharkhand again, Jharkhand, we're still seeing the annualization impact of the privatization of the retail policy.

And Jharkhand growth is more in the range of 20% for us. Because it was around 40% for us because in Jharkhand we're still not producing our premium portfolio locally. We actually work through a CBU and doing it, but that is going to change in the near future. We are working on more localization of our brands. So I would say that in both the cases and the data we showed that everywhere where there's a disproportionate growth happening in the category UBL is able to capture market share and drive regionalization in both the markets.

So these are two good examples.

Abneesh Roy - Analyst, Nuvama
Yeah, and, you mentioned choices that we make multiple times, including the CFO's comment also. So any specific example you can give for Karnataka market? Because I think two things are happening there. One, of course, 60% volume growth, and I think C&J and the price mix growth of, say, 4% or say overall 8% also, big part seems to be coming from Karnataka. So any specific examples you can give on choices that we make? What do you mean by that?

Vivek Gupta - Managing Director and Chief Executive Officer, United Breweries Ltd
See, first of all, I don't think the choices is only about Karnataka. Karnataka, if you actually look at the volume for the thing, Karnataka is actually, less than 15- it's actually 11-12% of our business. So you would appreciate, Abneesh, that Karnataka cannot swing the price mix only because we're in Karnataka. It is the series of revenue management programs which the company is running, which is by state, by SKU, by mix, where to spend money in which SKUs, where to spend money on which brand, because we have a multi-brand portfolio.

At the same time, the trade spend, because there's a large amount of money which goes to the trade. So I think making those sharper choices across the country And driving the key business drivers and making money work harder has been a big part of the program. So, even if I take Jharkhand, Karnataka all put together, they are less than 20% of our business in a few states. So it is all India-wide big one, but we also make some clear calls. So for example, economy portfolio in- let's call it in Telangana- we see there are some companies who try to do a lot of state spend in Telangana.

When there is no margin in Telangana. We are not going to do that. We are okay to lose share in Telangana if it is- if it's a question of buying shares to show very good numbers, right? So those behaviors we are not doing. In the market where there is no MRP regime, like Haryana for example, where retailers sell the products at whatever price they want, we- why would we like to fund their margins, just, because the consumer is going to charge more? Also, the choices of just importing brands in the state even if it's not profitable, right.

So we are making those hard calls where we are not chasing a number but we are chasing a better quality of business.

Abneesh Roy - Analyst, Nuvama
Understood. Last question, so, Vivek, since you have joined, a lot of initiatives on the premium has been done, the company has regained some level of market share also in the premium. But still, I think you are the number 3 player in the premium. Now when I compare on the other IPO on the beer

sector, Carlsberg, a lot of questions are coming. Their margins are far superior. I understand their revenues are a fraction of yours. They also don't operate in all the states. But when, as a, as a, which we see in the same state, for example, when we compare your revenue, your margins versus Carlsberg.

Could you give us some sense? Because frontline numbers do not give the full details.

Vivek Gupta - Managing Director and Chief Executive Officer, United Breweries Ltd
Yeah, see, look, I don't want to compare apples to oranges, right? You are comparing a business which is national, which is having a big mainstream brand like Kingfisher, where we're having a full portfolio with one-third the size of the business which is not even national. So I don't want to compare apples to oranges to really do that, to be very honest with you, with all due respect. I think it's a great company and we all respect our competitors and we do that. The opportunity of beer is not about growing shares from Carlsberg or ABI or other players.

Opportunity of beer is to really expand the category. And is there profit pool in this? Yes, if we make the right choices, playing in the right state behind the policies to really bring together. The other thing which gives me confidence is the brand power data. When I say that we are growing brand power, which is actually measured by Kantar and on a consistent basis, and the brands which show higher revenue has lower brand power or declining brand power, it doesn't give a-, it gives us a lot of future.

The other thing is we are coming from behind in premiumization and one of the reasons is the local footprint which we talked and the growth rate of 67%, 47% or 38% gives us a lot of confidence that consumers are accepting our brand. And I do think the glide path we had given on revenue and margin during the Capital Market Day So we are working on that to consistently drive category growth, our revenue growth, right mix, and sequentially improve our bottom line margins. So I think that's where I'll leave.

Abneesh Roy - Analyst, Nuvama
Sure. Thank you. That's all from my side. Thank you.

Operator
Thank you. Your next question comes from the line of Latika Chopra with JPMorgan. Please go ahead.

Latika Chopra - Analyst, J.P. Morgan
Thank you for the opportunity. A few questions from my side. The first one was, related to your comments on sharper geographic choices, and you shared some examples on how much Karnataka and Jharkhand are now less than 20% of the business. Would it be possible for you to share some color on what are the top 5, 6 states for you and what's the revenue salience now? And the second-

Jorn Kersten - Director and Chief Financial Officer, United Breweries Ltd
Sorry, Latika, what was the second part of the question?

Latika Chopra - Analyst, J.P. Morgan
Yeah, no, well, let's take this question first and then let me ask you the second one.

Vivek Gupta - Managing Director and Chief Executive Officer, United Breweries Ltd
See, you all, for us Telangana is the biggest volume state for us. It is for the category and we have a

very, very strong presence. We also have very strong presence in Karnataka, Andhra, Rajasthan, UP because see, we are there everywhere where the category is. So for us, I think it is- and what we're also seeing that our dependence on few states is reducing. We have huge opportunity in states like Tamil Nadu, for example, where market is opening up. We are right now 30-35 share.

We should be 65-60 share like in other parts of the country. States like West Bengal where, we don't have canning lines, which, which we'll have in the future, and we are operating less than 30 share. So I think there's a combination of large states where we're already market leader and there's a large state where we have a lot of opportunity. So for us I think we're broad-based but our revenue is now getting more fragmented because states like Jharkhand are smaller states but are contributing to the growth.

There are states like Uttarakhand or states like Odisha which are contributing to our heavy growth. Above 16%. So I think what we're saying is winning in all stores, but more states are becoming more relevant. But we have to make choices like in Telangana, while it's the last state, but we just cannot invest more on state spend and everything if we're not going to get pricing or not making money. So I think those are- that's what we meant by making more hard choices.

Jorn Kersten - Director and Chief Financial Officer, United Breweries Ltd
And maybe to add one thing in line with the Capital Markets Day, where we spoke about the 3 different buckets in which we look at the markets. We see that the choices also have an impact on the salience of volume contribution across these buckets. And while this is a sequential movement and it doesn't change the world overnight, we see that that's moving favorable towards the buckets of the more profitable markets and the salience of the other markets which are less profitable. Is coming down. Now, that is a sequential movement which we continue to track, but it also has an impact on the shares.

But if we exclude share development, if we exclude the non-profitable market, it's actually a very different picture, and it shows that we're making the right choices for us.

Latika Chopra - Analyst, J.P. Morgan
So, this is encouraging. My second question was, around margins, and one part of the margins was pricing. You talked about, half of this 8 point- nearly 8% price mix pricing growth that we saw was on account of pricing plus, rationalization of trade spends, right? So effectively, does it mean you had, about 2-3% of your pricing growth in the quarter? And I wanted to connect it with the question- with the comment that you made that you saw pricing actions in 24 markets.

Could you elaborate? And at the same time, you also said you are going to seek more. So which are some of the larger markets where you still are waiting for price hikes to come through? And what does it imply for this pure pricing growth in the equation?

Vivek Gupta - Managing Director and Chief Executive Officer, United Breweries Ltd
See, almost 30% of our business we have not taken any pricing yet. And these are big markets like Telangana, Andhra, and Tamil Nadu, to give a few examples. And they're almost 30% of our business where we are still working with the government to take the pricing because input costs have significantly gone up. And, and I think that's important to know because, we have been working across states. And when we say pricing, it's a combination of freight spend reduction, lift pricing fees, But it is also a combination of, the SKU mix.

The bottles have a very different mix than cans, and a big bottle has a different margin than a

smaller bottle. So all of that

Revenue

Management work is

Jorn Kersten - Director and Chief Financial Officer, United Breweries Ltd
Being done. Yeah, and I think your math is about right, Latika, on the impact of pricing and how much pricing we take. And I think the encouraging part for us is that we see the ability to price. I think that's where we take a big learning on how we should continue to do that. And moving forward and moving towards the future, to Vivek's point, it's not only about pure pricing, but it's also how can we use price as well as other levers to drive this mix across packages, across brands, to make sure that we go into an era of more profitable growth.

Latika Chopra - Analyst, J.P. Morgan
Sure. And the last bit was on, brand spends and brand investments. Any color you can share with us? Because you talked about, setting it up in a meaningful way. How is FY27 or first half of FY27 shaping up on these spends versus the last year? Any color, any flavor? Thank you.

Jorn Kersten - Director and Chief Financial Officer, United Breweries Ltd
I think we've started this already at the last quarter of last year in terms of recognizing that there is an increased intensity on competition across the market. With a lot of the players looking at India as the main source for volume growth. So we see that in the year-to-date, our commercial spend behind our brand is up by around 20 percentage points versus previous years, which means that it's growing ahead of our revenue and ahead of our volume, which is exactly also what we aim to do. And that's why we continue to stress in the narrative as well, that investing behind the brands is the longer term.

You will recall that we announced earlier this year that we want to move from push to pull. And this is the big driver to create that pull from the market to make sure that we excite the consumers on the brands. And as Vivek also announced, going into the next quarter, which is the first part of the preparation for next year's summer, we continue to invest because we see We see the positive impact from a similar exercise that we did last year at a smaller scale. It's staying on air with the brands, investing behind the brands year-round, has a positive long-term impact on brand power, which we think is the biggest driver to create that pull with consumers and move away from the push, which allows us to also pull out of the trade spends where we can and reinvest that money behind the brands.

Latika Chopra - Analyst, J.P. Morgan
Sure. Thank you so much, gentlemen. Wish you the best.

Jorn Kersten - Director and Chief Financial Officer, United Breweries Ltd
Thank you.

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

Harit Kapoor - Analyst, Investec
Hi, good afternoon, team. Just two questions from my end. The first one was on the two markets that you've mentioned in the last few minutes, which is Tamil Nadu and Telangana. If you could just

give us a broad update on how the changing environment in Tamil Nadu has started to play out for you guys as well as for the industry. Any delta change that you're seeing over the last few months in terms of how operationally the business is being run there? And you mentioned given that your share is lower and I think we understand why because regional presence is very high.

So just wanted some sense on Tamil Nadu. And second was on Telangana, there have been news articles, over the last few months here and there about, discussions on price increases. just wanted to know, your level of engagement there and, how, how things are panning out. And is the fact that you're, reducing spend there a function of, your view that pricing may not be, in on the anvil in the near term? So just your comment on these two states is my first question.

Vivek Gupta - Managing Director and Chief Executive Officer, United Breweries Ltd
Yeah, thanks, Harit. I'll comment on Telangana first. I think we are working very, very closely with the Telangana government and Brewers Association of India. Telangana did ask for a pricing committee, and we did make a submission sometime in August, on our cost submission, which is the first process for the government to review the pricing. And we are hoping that that committee which they formed, which was led by judges and all, will come to a logical conclusion. So we are very hopeful that in the coming months the committee will take an action because data was very, very clear.

But at the same time, till that pricing happens, it is very difficult to make more investments and also make investments which don't really, drive the category expansion. And just to give you a sense, we had a flat business and we lost a bit of shares in Telangana because there were competitors who were still spending money to do that, but which is fine because our brand power is very strong. In Tamil Nadu, I think they are doing a lot of changes, but they're doing it in parts. And some of the early changes are definitely helpful because the ordering system has become more transparent.

And we have two breweries in in Tamil Nadu. We have all the ground presence and we are making some capital investment to scale up those, breweries, including looking at new, new capacities and new forms. And recently you would have read in the press, we also got approval to launch Heineken Silver in Tamil Nadu, which I think will be a massive launch. I think combination of this, we are very optimistic on where it is, but the whole policy is still coming up in the path. So I'll be able to give you a full picture once we do that, but we know the state has massive potential and we being there locally present with our beauties have the right to expand very quickly in Tamil Nadu.

Harit Kapoor - Analyst, Investec
That's great to hear, Vivek. The second question was on the pull-push strategy that I think Jorn also spoke about. Do we see that the financial impact of lesser promotions at a national level and more pull which is the brand investments. Is that you see margins staying similar because promotion goes into brand investments but it improves your brand power and most likely then drives revenue growth in the medium term, is that the outcome that you're looking to achieve when we talk about this?

Jorn Kersten - Director and Chief Financial Officer, United Breweries Ltd
Yeah, I mean, there's a couple of elements, Harit. One, it is long-term. It's creating much more value because we create long-term closeness to consumers and it helps to build the category. So building stronger brands builds the category. So long-term, it's the right thing to do. And even in a dark market like India, there, where we can, we invest behind the brands. On the short term, we see indeed that we reinvest That's cutting back on trade terms. We reinvested behind the brand, which means that it moves from our top line to our cost base.

So it has an impact on gross margin expansion, but not so much on the short term on our EBITDA margin or our operating profit margin. Now we do feel that the accelerator and the catalyst of investing behind the brand through increasing brand power is more sustainable than trade terms. And I think that's the second important long-term effect of moving from push to pull is that if you continuously invest behind the brands and behind your brand power, you create sustained demand for the brands, where trade terms will always have a large component of short-term pushing volumes.

So those two elements mean that longer term, it is definitely contributing to the P&L. Shorter term, it's more of a shift between lines.

Harit Kapoor - Analyst, Investec
Got it. Thank you. Wish you all the

Jorn Kersten - Director and Chief Financial Officer, United Breweries Ltd
Best. Thanks, Harit.

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

Ashutosh Jain - Analyst, Barclays
Hello. Thank you for taking my question. Two for me, please. The first one would be, how should we think about the volume growth in the upcoming quarters? I'm just thinking aloud, like, you have a relatively favorable comparison base. It's very low. Karnataka AIB benefits, Jharkhand retail liberalization and other premium portfolio expansion in the state. So these are like, the tailwinds in the upcoming quarters. So if- should these tailwinds support continued double-digit growth rate, alco, or there are some offsets which we should be mindful of?

Vivek Gupta - Managing Director and Chief Executive Officer, United Breweries Ltd
I think we should, the critical driver of category growth is the policy changes and the policy has a life, right, the cycling of Karnataka when we come in next May-June it will be the same base. So I think other than the macros I think continuously work on the states to make beer more affordable and more fair on taxation will be the priority to really do that. But having said that, the macros for the categories are very strong with 25 million youth coming to legal drinking age, with the expansion of the beer portfolio and more focus on experience.

I think we definitely think the premiumization as well as the macros, but more fueled by the policy changes, the category has the potential to continue this momentum. But our outlook is still 6% to 7% volume growth, if the policy movement does not happen dramatically like what has happened in this year.

Ashutosh Jain - Analyst, Barclays
Okay, fair enough. Thank you. And my next question is more of a strategic one. So do you have any plans to participate in the RTD category? And how do you assess the opportunity for alcoholic RTDs in India, given like, United Spirits is now launching Smirnoff Ice, which is a malt-based alcoholic beverages. So do you see this as an incremental to a beer category? Because we have previous examples where, with the RTDs, they primarily tend to take share from the beer category. So do you think like, it could potentially cannibalize the beer consumption occasions in India, particularly at the premium end?

Vivek Gupta - Managing Director and Chief Executive Officer, United Breweries Ltd
We believe the opportunity on beer is so huge, both in terms of penetration. out of the 10 occasions where consumers drink alcohol, beer is in 1.8 occasions. Yeah,

So we

See a huge opportunity in beer itself. So I don't want to comment on what else we want to do, but I see a huge momentum on beer itself.

Ashutosh Jain - Analyst, Barclays
Okay, fair enough. Thank you.

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

Nitin - Analyst, HDFC Securities
Hi, thanks for taking my question. My first question pertains to your operating model mix. So like, would you be able to highlight what is the current percentage of sort of production coming from own brewery, contract brewery, and tie-up breweries?

Vivek Gupta - Managing Director and Chief Executive Officer, United Breweries Ltd
Our own breweries are almost 70% to 75% of our production depending on the season and the mix which Jorn has But, 70% to 75% depending on the month, quarter, season, production, and rainfall, all of that practically. And

Nitin - Analyst, HDFC Securities
Would you be able to highlight like what is the sort of mix we have from tie-up units which eventually will come to either the own production or contract brewery?

Jorn Kersten - Director and Chief Financial Officer, United Breweries Ltd
Sorry, can you repeat that question? We missed the first part.

Nitin - Analyst, HDFC Securities
No, I am asking in terms of this, like the tie-up units where like we see the tactical opportunity or like our own production on the breweries are going through the capex cycle. So like what is the quantum of tie-up units which eventually will come to our P&L in terms of our overall volume?

Jorn Kersten - Director and Chief Financial Officer, United Breweries Ltd
I think that's not a, number that is carved in stone. I think it's Given the fact that the growth in India we expect will be minimum at this number where we are today, we consistently look at- continuously look at what is our footprint, and we cherish the agility of having a mixed operating model. So it's a conversation that every now and then we have with some of our contract brewers, what is the future of the tie-up and whether or not It should evolve into something which involves ownership.

I can tell you that's currently not anything which is happening as we speak. But it's how this footprint will evolve is something that we track on a continuous basis to make sure that we're set up the right way and that we're also able to anticipate growth on a state-by-state level, making sure that in places where the growth accelerates, that we are sufficient in terms of capacity. I think that's the first thing that we, that we make sure that we are present with production in the States, whether that's through investing in our own breweries, whether it's through greenfields like in UP, or whether it's through new tie-ups.

I think since Vivek onboarded, I think we onboarded eight additional CBUs to really make sure that we are present through operating model mix there where the volume is also accelerating. And once that partnership continues, we can discuss how it evolves. But it's not something which is a standard view that we have on the contract model.

Nitin - Analyst, HDFC Securities
Sure. Thanks a lot. Second question pertains to Heineken. Like, would you be able to help me with two things? One is that How many of our breweries have, this horizontal brewing capacity? And second, what is the reused bottle percentage for the premium portfolio? Thank you.

Vivek Gupta - Managing Director and Chief Executive Officer, United Breweries Ltd
Yeah, so Heineken, we produce in four breweries locally with us, and we plan to expand with the UP expansion which is coming in locally in UP, and we are looking at one more very soon, and, for return bottles, that percentage is improving because a lot of it is to do with the localization, which also is having a good impact on the gross margins on premium portfolio. So we won't be able to give you specific brand-wise numbers, but we are seeing a significant improvement in the portfolio.

On Heineken, we are having one-way bottles. We, don't recycle the Heineken bottles yet.

Nitin - Analyst, HDFC Securities
Yeah.

Sure, thanks a lot. Thank you.

Operator
Thank you. [Operator Instructions] Your next question comes from the line of Karan Kamdar with Choice Institutional Equities. Please go ahead.

Karan Kamdar - Analyst, Choice Institutional Equities
Yeah, thank you for the opportunity. what I wanted to know is how are we faring in terms of volume growth how much of it is sustainable and how much of it is just purely price-led and we may see increased competition just take that volume growth away from us?

Jorn Kersten - Director and Chief Financial Officer, United Breweries Ltd
Well, I think to be very fair, a lot of the volume growth is price-led one way or another. And we see affordability in India as a big driver of the category and that's why we are always applicating for equitable taxation versus spirits. And we see that wherever that happens, there's a hike in demand from consumers. So fair pricing versus spirits is one of the number one outcomes of policy and regulatory improvements that we see that is driving the category. So from that point of view, we can argue that pricing is a big driver.

We see that the current pricing that we have across 24 markets. I will not say that there is very limited elasticity, but we see that with that pricing, we still remain in- as an average, the MRP remains below inflation. So the affordability of beer, despite the pricing that we take, still remains improving, which is a big driver of the category growth and which is also something that we actively go after where we offer premiumization to our consumers. But for the rest of the portfolio, we also make sure that affordability is there.

Karan Kamdar - Analyst, Choice Institutional Equities
Got it. Second question is on increased competition. Given that a lot of brands are moving towards

an IPO, do we see any threats from there? And what are we- what is our strategy to manage premium segment given that competition will increase specifically in the premium segment rather than the lower tier where we have dominance?

Jorn Kersten - Director and Chief Financial Officer, United Breweries Ltd
Yeah, I mean, we welcome competition. First of all, we think it's very good for the category. We see that competition intensifies across different segments. Depends on the state, depends on the availability of capacity in the state. We see different movements. Our focus is on our own portfolio and on the strategy behind our brands. We believe that, and we know that we have the biggest portfolio. In the Capital Markets Day, I also commented on the fact that we're the only player in the country that is able to onboard consumers at an affordable price point and then stay with them through their journey of premiumization with local premium in the Ultra portfolio and then moving on to international premium like Heineken.

So we believe very strongly that we have the right portfolio to win, whether the competition intensifies in the premium segment in the mainstream segment or in the economy segment. But overall, again, we believe that it's very good for the category as a whole, and we believe that we are set to win across India and where we have an advantage already being a national player with the network availability that we have across all states.

Karan Kamdar - Analyst, Choice Institutional Equities
Okay. Thank you. All the best.

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

Jay Doshi - Analyst, Kotak
Hi team, thanks for the opportunity. I've got a couple of questions. The first one is for Vivek. You did- you mentioned about a committee being set up by Telangana to review pricing. So is this something very different and new versus, how it used to work earlier? And are you expecting a major course correction in the way, pricing, sort of works in Telangana or unit economics for the industry? Or will it be, you know, uh, you know, just another round of price increase, you know, somewhat, some, you know, like you got one maybe a couple of years ago?

Vivek Gupta - Managing Director and Chief Executive Officer, United Breweries Ltd
Yeah, I think this process is not new. I think what is, uh, what we are able to do through the associations is to bring this committee early. Because the last committee was, which was set up on beer, was multi-years ago, right, before we got the pricing to do that. So I think we see it as a positive step where government was able to set up the committee when we talked a lot about Middle East pricing, uh, impact of Middle East cost increase because of the Middle East crisis. So I think it is the part of their process where they put a committee of judges or led by a judge and the committee asked for the suppliers to submit their cost part.

Now, outcome of the committee, you know, is anyone's guess. You know, whether they will- we expect them to materially change because the data is very, very compelling, and we really hope that they make the right call. But, you know, we don't know till they actually decide.

Jay Doshi - Analyst, Kotak
Understood. Very helpful. Uh, one, uh, second question is on, uh, Profitability. Now, uh, you know,

for Jorn, uh, see, last quarter you had called out INR4 billion to INR5 billion of cost inflation over two to three quarters, and it translated into 500 basis points of sales. Now this quarter, your profitability has improved by 200 basis points gross margins versus last year. So if you could, you know, walk us through the bridge- I know you did partly answer this question in the opening remarks- If you could walk us through the bridge in terms of the actual cost inflation that you witnessed during this quarter, September quarter, how much of that was offset by, let's say, efficiencies on, you know, better recovery of bottles, how much of that was offset by better state mix, and how much of, you know, that was offset by trade rationalization.

And then I know you did comment that gross margin will be in 43% to 45% range. So should that- should we assume that as for the coming two quarters? And then should we expect, you know, next year to be better as cost inflation or cost pressure ease?

Jorn Kersten - Director and Chief Financial Officer, United Breweries Ltd
Yeah, thanks for that question. Let me start with the end. With all of you, we sincerely hope that the cost pressure will ease. And to your- the rest of your question, we did call out indeed that impact that we expected on the full year, where we have seen that through some of the mitigation efforts, we see that the gross impact is coming down slightly versus the initial indication that we gave, which is, I think, in May. And we now expect for the full year '27 to be the gross impact to be in the range of INR350 crores to INR400 cores.

So slightly lower than we initially thought. Secondly, we believe that the mitigation plan is also moving along very well and structurally improving, which means that overall we expect that the impact is within that range of 43% to 45% for the next couple of quarters because we do see that increased cost pressure remaining. Also in the next quarter and the quarter after. We don't expect that to ease very quickly. I think the one thing I would like to highlight is that the changes that we have made are structurally improving the business.

So what we've refrained from is knee-jerk responses, as for instance moving away from investing behind the brands or investing in breweries. We're really mitigating this to sustain structural productivity, sustain pricing, taking the right choices on state mix to really structurally long-term improve the business. And of course, it helps to offset the impact of short-term cost pressure, and it will help to accelerate margins when cost pressure eases off. And when also means if in this case, because if I'm honest, my expectation is that Even if we will hopefully find an end to this war, we won't go back to pre-war pricing if we see that infrastructure in the Middle East has also been heavily impacted.

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

Jay Doshi - Analyst, Kotak
Sure, thank you so much. One last question for Vivek, if I may.

Jorn Kersten - Director and Chief Financial Officer, United Breweries Ltd
Yeah, sure, go

Jay Doshi - Analyst, Kotak
Ahead. So, you know, it appears that your decision to lower the prices in for KF Ultra in Karnataka may have, you know, significantly helped drive premiumization and, you know, volume growth in

that market. Uh, do you think that, you know, there is possibility to revisit the pricing for some of your premium brands in other states as well? Uh, based on the success you've seen in Karnataka, or is it largely successful in Karnataka because of the policy change? And without policy change, by any, you know, tweaks in pricing, you may not see the same level of success.

So that's one. And second is, you know, now that you've launched Heineken Silver in quite a few states, where do you think, you know, what is the potential for Heineken Silver in terms of, you know, as per your best guesstimate? Uh, you know, what market share it can have, uh, you know, uh, in India in the next three years or four years, or, you know, what could be its contribution to your overall sales, uh, you know, based on, uh, you know, the traction that you are seeing for that brand?

Vivek Gupta - Managing Director and Chief Executive Officer, United Breweries Ltd
Yeah, no, I would start with the, you know, end in mind. I don't know, three years, five years, 10 years, 15 years, but I think we are very confident Heineken would be the biggest premium brand India beer market. And this is the brand which is underserved in India. This is a brand which is the most valuable brand globally. And with the Heineken Silver now, the growth rate which is happening in Vietnam, China, you know, Brazil, some of the other countries, uh, you know, we are very confident on the recipe of success.

It will be, uh, and you will see that we are investing behind the manufacturing capacity, getting the right distribution, getting the right execution. So I see the future is very bright and the 67% growth of Heineken Silver in my view is not an aberration. This will continue on Heineken Silver. I think for us to do any pricing action, policy intervention is must because the gross margins are so low in this business. And you need to invest in brand building awareness. You know, the taxation is a key one.

We were able to do it in Karnataka because there was a positive step from the government of reducing taxation on low alcohol beer, and we wanted to make sure that consumers you know can get the best choice of beer. So I think taking price reductions without a policy change is not wise. Having said that, selectively where we are off pricing strategy, we will continue to do the right thing, but that irrespective we should do anyway to run a good business.

Jay Doshi - Analyst, Kotak
Uh, thank you. That's it from my side, and great execution. Thank you. Thank you.

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

Jorn Kersten - Director and Chief Financial Officer, United Breweries Ltd
Good. Thanks, everyone, for engaging with us for the past 60 minutes and for all your questions. Again, we are very confident that we're on the right track, very proud of the results that we and the entire team delivered in quarter two, and confident that moving into the next quarter, we continue to remain on track with the strategy and go with excellent execution to continue on this path. We'll talk again in the next quarter and have a great day, everyone. Thank you for joining.

Operator
[Operator Closing Remarks]