

Annual Report 2011 - 2012



UNITED BREWERIES LIMITED

UNDISPUTED
LEADERSHIP



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Dr. Vijay Mallya
Chairman



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cases and counting
Brand Kingfisher surges ahead

open
your world



drink like

Chairman's Statement

Dear fellow shareholders,

The signal milestone of 100 million cases sale of Kingfisher Beer is the crowning highlight of our Company's growth story during fiscal 2012. You will recall that the entire market for beer in India, just 10 years ago, was as small as 26 million cases, throwing into sharp relief the pace of growth in the industry and more particularly of United Breweries Ltd.

Overall sales for the year amounted to 133 million cases representing a growth of 6% over the previous year. This has enabled our Company to notch up market share of 55%, more than twice that of our closest competitor. It is significant to note that our mild beers dominate the market with a 70% share, while Kingfisher Strong has achieved a 50%+ share in the much larger "strong beer segment" of the market.

It is a tribute to our Company's manufacturing processes that our breweries have not only been approved for local brewing of Heineken but also that the product brewed in India has been acknowledged to be one of the finest when compared with global beers. Locally brewed Heineken is now available in Delhi, Bangalore, Kolkata, Goa and Maharashtra. It has been well received in each of these markets and plans are underway to roll out the brand in other markets around the country during the coming year.

As proud as I am of the achievements of our brands, reflecting their primal position among major Indian consumer brands, we have been equally focused on long term strategies to improve manufacturing efficiencies and conserve resources. Thus, major initiatives such as introduction of patented bottles, control of energy and reduction of water consumed in the manufacturing process not only helped to keep costs down in an environment of severe cost pressure, but are also good practices that benefit the environment and the communities in which we operate.

The underlying demand is boosted by the demographics of the country as well as changing attitudes towards the consumption of alcoholic beverages, particularly beer, among our young population. To cater to this long term trend of growth, even though it is periodically interrupted by ill conceived government regulations and taxation, our Company is required to continuously invest in capacity enhancement. During the year under review capacity was expanded in West Bengal, Orissa, Andhra Pradesh and Maharashtra. The coming year should see commencement of production at the new greenfield brewery in Karnataka and commencement of construction of a new brewery in Bihar.

As in the past years, Kingfisher (and now Heineken) continue to have pride of place in the Indian consumers' mind. The aspirational qualities of our brands continue to be invigorated by consistent association across themes



Chairman's Statement (contd.)

which are close to the young consumers, i.e. Sports, Fashion, Music and Food. Our Company also leverages new social media such as Facebook and Twitter to advantage. In fact, Kingfisher's Facebook has a fan following of over 3.5 million, which makes it the second largest in the world for a beer brand.

While seeking to take advantage of rapid and sustainable growth, we are also conscious of the need to de-risk the business. To this end, several strategic initiatives to cover Inputs, Packaging material and, indeed, Information Technology, have been put in place.

I would particularly draw your attention to:

- *Our Company has been reducing its carbon footprint through reduction of energy consumed by 5% – 10% annually.*
- *A ground breaking project to generate electricity from spent grain will be inaugurated during the current year.*
- *United Breweries Ltd. has won many awards for conservation of water and our aim is to reduce use of water to a level of 3.5 kl/kl, which is the global benchmark, from the already excellent level of 4 kl/kl.*
- *Our Company also invests in Primary Education and Primary Health Welfare in 27 villages where we operate. The educational initiatives presently cover over 2500 students with emphasis on female literacy.*
- *Potable water initiatives bring clean drinking water to 20 villages.*
- *In addition empowerment through contract farming helps nearly 5000 farmers.*

These initiatives will continue to receive the management's attention in the years to come.

During the year, the merger of UB Ajanta Breweries Private Limited into our Company was approved by the Courts. With this, United Breweries Ltd. has substantially completed its corporate restructuring and is now a fully integrated entity with brand ownership, manufacturing, sales and distribution – all under one roof.

I am grateful for the enthusiastic efforts of all stakeholders without whose participation and commitment our Company would not have been able to grow from strength to strength every year.

A very warm thank you to all.



VIJAY MALLYA
CHAIRMAN



Report of the Directors

Your Directors have pleasure in presenting this Annual Report and the audited accounts of United Breweries Limited ('UBL' or 'your Company') for the year ended March 31, 2012 ('the year under review', 'the year' or 'FY12').

FINANCIAL RESULTS – AN OVERVIEW

(Amounts in Rupees million)

	Year ended March 31	
	2012	2011
Net Turnover	37,007	31,048
EBITDA	4,850	4,348
Depreciation and amortization	1,487	1,305
EBIT	3,363	3,043
Interest	991	781
Provision for Diminution in investment in Subsidiary	196	—
Profit before Taxation	2,176	2,262
Provision for Taxation	(912)	(789)
Profit after Tax available for appropriation	1,264	1,473
Appropriations:		
Proposed dividend on Equity Shares (including taxes thereon)	215	184
Dividend on Preference Shares paid (including taxes thereon)	28	86
Transfer to the General Reserve	150	150
Balance your Directors propose to carry to the Balance Sheet	871	1,053
Total appropriations	1,264	1,473

DIVIDEND

Your Board of Directors take pleasure in declaring a dividend of Re.0.70 per Equity Share, including on 9,860,211 Equity Shares of Re.1/- each fully paid up allotted during the year upon amalgamation of UB Nizam Breweries Private Limited, Chennai Breweries Private Limited, Millennium Beer Industries Limited and UB Ajanta Breweries Private Limited.

Your Company paid a dividend on Cumulative Redeemable Preference Shares ('CRPS') at the rate of 3% under the terms of the issue of 24.7 million CRPS held by Scottish & Newcastle India Limited, amounting to Rs.28 million.

The total dividend (including dividend tax) is Rs.243.25 million, which amounts to about 19.2% of Profit after Tax.

AMALGAMATIONS

Your Directors are pleased to inform that UB Ajanta Breweries Private Limited has been amalgamated into your Company by the Order of the Hon'ble Board for Industrial and Financial Reconstruction with the appointed date of April 1, 2011. The consolidation has ensured creation of a larger combined entity, and synergies in the businesses besides economies of scale. Combining all functions and operations has not only resulted in enhanced financial performance but also has provided benefits in the form of managerial and technical expertise, and financial resources thereby enhancing shareholder value.

As a final step towards consolidation and restructuring of all brewing entities of the Group, the Board of Directors of your Company and of Scottish and Newcastle India Private Limited (SNIPL), an Indian subsidiary of Heineken UK Limited (Heineken Group), have approved amalgamation of SNIPL into your Company under Sections 391 to 394 of the Companies Act, 1956. All requisite regulatory approvals for the said amalgamation have been obtained and an application has been filed with the High Courts of Karnataka and Bombay by your Company and SNIPL respectively.

CAPITAL

In view of the consolidation of share capital through the amalgamation of UB Ajanta Breweries Private Limited, the Authorized Share Capital of your Company now comprises of Equity Share Capital aggregating to Rs.3,674 million and Preference Share Capital of Rs.5,860 million. The Issued, Subscribed and Paid-up Share Capital as on

March 31, 2012 stood at Rs.1,005.1 million, comprising of Equity Share Capital of Re.1 each aggregating to Rs.264.4 million and Cumulative Redeemable Preference Shares of Rs.100 each aggregating to Rs.740.7 million.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

The Indian beer market is at the start of its growth trajectory, with a per capita consumption of only about 1.5 liter. This is significantly below the global average per capita consumption of 27 liters and other emerging markets such as China (37 liter), Brazil (65 liter) and Russia (72 liter), as estimated by Canadean for the calendar year 2011.

Beer accounts for about 32% of the Indian alcoholic beverages market by volume. The largest segment in the Indian alcoholic beverages market is Indian Made Foreign Liquor ('IMFL') that accounts for about 41% by volume, while country liquor accounts for around 27% of the market. Both are spirits that typically contain over 40% alcohol.

Key reasons for the significantly lower consumption of beer, both compared to spirits consumption in India and to beer consumption in other emerging markets, are the taxation structure, which does not substantially differentiate between the alcohol content of various classes of beverages, and the limited number of outlets that are allowed to sell beer in India.

In India, regulation and taxation of alcoholic beverages is a State subject. The industry is highly regulated, often requiring a lengthy process to obtain a license for the manufacturing, distribution and sale of beer. In the majority of the country, the State governments control distribution and in states like Tamil Nadu and Kerala even the retail is operated by the government. Each state has its own taxation policy and regulations regarding cross border movements and pricing. In about 60% of the country, the State determines the price at which beer can be sold by the brewers.

Even though beer contains only 5-7% of alcohol by volume and spirits contain over 40% of alcohol, both are for historic reasons considered as liquor under the various State Excise policies and taxed on a similar basis. This results in a consumer price of beer that is 2 to 3 times higher than that of spirits on an equivalent alcohol basis.

The number of outlets that are permitted to sell beer is very low. It is estimated that 72,000 licensed outlets exist in India. This equates to one outlet per 17,000 people compared to an estimated 1 per 300 in China. This significantly reduces the availability of beer, and therewith reduces beer consumption.

Notwithstanding the constraints mentioned above, we believe the future of the industry is very bright.

A high growth economy and a young population bring significant opportunities for the beer industry. India's growing young population has led to the emergence of a substantial active workforce that has increasing disposable income. Growth in the alcoholic beverages sector has also been fueled by the increasing social acceptability of alcohol consumption, especially for beer and wine, and evolving consumer taste.

The size of the Indian beer industry in the year under review is estimated at about 235 million cases, showing a compounded annual growth rate of around 11% in the past 5 years. As a result of a weak economic climate, regulatory changes and a poor summer, growth of the Indian beer market in FY12 was significantly lower than the previous year. We estimate the market to have grown by about 4%. Strong beer continues to take share from mild beer, and is now estimated to account for 81% of the beer market.

United Breweries Limited has continued to expand its clear market leadership in the Indian beer market, overcoming the challenges of the highly regulated industry and competition from global brewers. For the 5th year in succession, your Company has increased its market share and widened the gap with its competitors.

OPERATIONS

SALES

Your Company has achieved a volume growth of 6% on a like-for-like basis in the year under review, outgrowing the industry in a difficult year. Our total sales volume has reached 133 million cases, driven primarily by growth in Andhra Pradesh, Karnataka, Rajasthan, Uttar Pradesh and Goa.

The net sales for the year 2011-2012 stood at Rs.36,277 million as against net sales of Rs.30,598 million in the previous year, registering a growth of 18.6%. This includes the first time consolidations of Chennai Breweries Private Limited and Asia Pacific Breweries Aurangabad Private Limited.

Our national market share in FY12 has exceeded 54.5%, which is twice the size of the nearest competitor. We continue to lead the mild beer market with 70% market share, and hold over 51% of the strong beer market. In the year under review, your Company has increased its market share in the states of Andhra Pradesh, Uttar Pradesh, Haryana,

Report of the Directors (contd.)

Maharashtra, Punjab, Rajasthan, West Bengal, Karnataka and Goa. Our shares in Tamil Nadu, Bihar and Kerala were affected by supply and environmental issues.

The flagship Kingfisher brand created history by achieving the milestone of 100 million cases sold in the financial year 2011-2012. A fantastic achievement in the history of the Indian beer industry, this success has been made possible by Kingfisher Strong, India's largest selling beer, further consolidating its leadership position by registering record volumes, while Kingfisher Premium continued its lead in the mild beer segment.

During the financial year, our brewery in Taloja near Mumbai was approved by Heineken for the brewing and bottling of Heineken Lager Beer. India-brewed Heineken rolled out into the markets of Mumbai and Pune on International Beer Day – 5 August 2011. As at the end of the financial year, locally brewed Heineken is available in Delhi, Bangalore, Kolkata, Goa and Maharashtra, and has been well received. In the coming year we will roll out in further markets.

MANUFACTURING

Manufacturing expenses for the financial year 2011-2012 amounted to Rs.16,278 million, constituting 44.9% of net sales, as against Rs.13,960 million in the previous financial year, which constituted 45.6% of net sales.

In the year under review, your company has continued the infusion of its own patented bottles in order to ensure sufficient availability of recycled bottles and to contain the cost of such bottles. The initiative has proven to be successful and has been the key driver behind the reduction in manufacturing variable cost, notwithstanding significant increases in the prices of new bottles.

Higher barley prices were the key reason behind the increase in cost of raw materials, although this was partly offset by better efficiencies. The cost of packaging materials was impacted by our decision to use higher quality cartons as well as by an increase in paper prices. In order to secure further growth, your Company has agreements in place for the supply of malt, barley and bottles.

The unit cost of power and fuel increased significantly in the year under review, the impact of which was mitigated by improved consumption efficiencies. In order to further reduce power consumption, your Company is exploring conversion of organic waste into energy to obtain savings in electricity cost in an environmentally sustainable manner.

Our breweries continue to achieve efficiency improvements through enhanced operating procedures as well as through economies of scale, and thereby limiting the increase in cost of goods sold.

Your Company continues to expand its brewing and bottling capacity to be able to cater to the market growth. In the year under review, your Company has expanded capacity in its breweries in West Bengal, Orissa, Andhra Pradesh and Maharashtra. Our Greenfield brewery at Nanjangud, Karnataka is expected to be commissioned shortly. In view of the rapid growth, your Company has proposed to set up Greenfield brewery in the state of Bihar.

EMPLOYEE BENEFIT EXPENSES

Employee Benefit expenses of your Company stood at Rs.1,882 million, as compared to Rs.1,441 million in the previous year. This constituted 5.2% of net sales, as against 4.7% of net sales in the previous year. Employee benefits expenses were higher on account of salaries increases and long term incentive settlements.

SELLING AND BRAND PROMOTION EXPENSES

During the period under review, your Company has spent 27.6% of net sales on selling and brand promotions as compared to 28.0% of net sales spent in the previous year. The selling and promotion expenses stood at Rs.10,003 million.

Rooted in the core of your Company's DNA are brands and innovation. Our outperformance in the market place depends on how well we leverage these. Your Company's consistent brand building skills have largely contributed to our successful performance and Kingfisher is perhaps one of the country's most well recognized consumer brands.

Your Company allocates its brand spends largely across four verticals; sports, fashion, music and food. Our aim is to enhance the brand equity by associating with the most aspirational properties while delivering strong returns on our marketing investment.

In sports, your Company's prime focus is towards the highly popular Indian Premier League in cricket. Our association as 'Good Times Partner' with six of the leading teams in the IPL has been very effective in leveraging the flagship brand 'Kingfisher'. Our sponsorship of Sahara Force India has provided the Company with global visibility for the brand. Kingfisher also continued its association as Water Partner with large city-based sporting events such as the Mumbai Marathon, Delhi

Half Marathon and Bangalore World 10K. Your Company has renewed its relation with United East Bengal Football Club as the official sponsor of the Kingfisher East Bengal FC team.

Fashion as a vertical has been aligned with Kingfisher Ultra, the super-premium brand in the portfolio, Kingfisher Ultra associated with premier national fashion events like Wills India Fashion Week, Lakme Fashion Week, Delhi & India Couture Week, Men's Fashion Week and also extended its association with the various emerging city based fashion weeks in Bangalore, Hyderabad, Kochi, Jaipur and Punjab. Kingfisher Premium continued with the high profile Kingfisher Calendar now in its tenth year. The launch of the Kingfisher Calendar was preceded by The Hunt for the Kingfisher Calendar Girl 2012 on national television.

In Music, our main activity was The Great Indian Octoberfest, which was held in Bangalore and continued to draw huge response from the visitors with a combination of international rock bands, famed DJs, Bollywood artists, flea markets, and contests. The Great Indian Octoberfest has now become a much anticipated fixture in the Country's social and cultural calendar.

With Food, we have continued our association with the Kingfisher Explocity Food Guides across seven cities and remain the brand that has invested over the years in the concept of Good Food Tastes Better with Kingfisher.

The Kingfisher brand is very active in new media, as evidenced by its Facebook fan page that now has a fan base of over 3.5 million. This has catapulted the brand into being one of the top five Facebook fan pages from India, and its following is the second largest across the globe for any beer brand fan page.

The aforementioned launch of Heineken has greatly bolstered our already robust portfolio. Great care is taken in the production and distribution of Heineken to ensure that the high standards of quality are maintained, and the consumer gets the value he is paying for. Our initial focus for the brand has been to install it well in its launch markets and create awareness through premium visibility and cold stock management. In the coming year, we will activate the brand by leveraging global Heineken properties such as the association with James Bond and UEFA Champions League football.

EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION AND AMORTISATION (EBITDA)

EBITDA for the year under review stood at Rs.4,850 million as compared to Rs.4,348 million in the previous year, reflecting an increase of 11.5%. This is a fine accomplishment in light of a volume growth of only 6%. The increase in EBITDA is to a large extent a result of strong growth in the profitable market of Karnataka and the continued leadership position in Maharashtra and West Bengal.

INTEREST AND DEPRECIATION

Interest paid during the year amounted to Rs.991 million, as against Rs.781 million in the previous year. Depreciation for the year was Rs.1,487 million as compared to Rs.1,305 million in the previous year.

PROFIT BEFORE AND AFTER TAXATION

The Profit before Taxation for the year stood at Rs.2,176 million, as compared to Rs.2,262 million in the previous year, reflecting an decrease of around 3.8%. The Profit after Taxation stood at Rs.1,264 million, as against Rs.1,473 million in the previous year.

OPPORTUNITIES, THREATS, RISKS & CONCERNS

India is the second most populous country in the world, with a population of over 1.1 billion. India is estimated by the UN to overtake China as the most populous country by 2025. The country is entering a period where the working age group is particularly prominent, the so-called 'demographic window', with about half the population below 25 years of age. As per Datamonitor, about 38% of the alcoholic beverages consumption is from consumers in the age bracket of 25-34 years. Therefore India's demographic composition bodes well for high growth in the Indian beer market in years to come. Even in the longer term, this demographic dividend provides for sustained growth as in 2030 still about 20% of all people below 25 years of age in the world will be Indian, as compared to 11% from China.

The growing economy will improve income levels substantially and NCAER estimates that today's middle class population of 160 million will grow to 547 million by 2026. This is especially significant as due to high consumer prices, beer consumption is skewed toward higher income consumers. Urban consumption of alcoholic beverages is estimated to contribute 70% to the total consumption (source: Datamonitor). The current urbanization of around 30% is expected to grow to 44% by 2030, providing a significant further impetus to growth.

Consumer attitudes towards alcohol, and especially lower alcoholic beverages such as beer, are rapidly evolving in India. With urban consumers being more exposed to a western lifestyle, there has been a positive shift in consumer