



**“Globus Spirits Limited Q4 & FY15 Earnings
Conference Call”**

May 25, 2015



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MODERATOR: **MS. NANDINI AGARWAL – FOUR-S SERVICES**



*Globus Spirits Limited
May 25, 2015*

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q4 & Financial Year '15 Earnings Conference Call of Globus Spirits Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Nandini Agarwal from Four-S Services. Thank you and over to you Ms. Agarwal.

Nandini Agarwal: Hi! Good Afternoon, Everyone. Welcome to Q4 & Financial Year '15 Earnings Conference Call of Global Spirits Limited. We have with us today, Mr. Ajay Kumar Swarup – Managing Director; Mr. Shekhar Swarup – Executive Director; Dr. Bhaskar Roy – Executive Director and CFO and Mr. Ajay Goel – VP, Finance. We will start the conference with opening remarks from the management, after which we will have the floor open for Q&A Session. I will hand over the call to Mr. Ajay Swarup for the opening remarks.

Ajay K Swarup: Good afternoon, everyone and a warm welcome to our Q4 & FY-'15 Earnings Conference Call. I will begin with an Overview of the Business and then hand over to Dr. Roy who will brief you on the Financial Results. We are pleased to report an improvement in performance this year, with our revenue growing at a robust 18% year-on-year and healthy operating margins with the 4th quarter operating margins at nearly 10% compared to the whole year operating margins of 8.3%. The performance is especially notable given the lack luster growth in the industry witnessed over the last couple of years. The Spirit segment is now growing in low single digits after growing at 15% CAGR over 2008 to 2012. The slowdown has mirrored the lower economic growth in the country in the period; further pressurized by the rising input cost and pricing restrictions in the regulated environment in which we operate. Against this backdrop, our performance and profit growth is a testimony to our 360 deg. business model that brings in resilience from local disruptions and enables us to maximize growth even in challenging times.

Both our Consumer and Manufacturing verticals have grown robustly by 13% and 22% respectively. Consumer was mainly driven by sustained strong revenue growth of 24% year-on-year in Rajasthan IMIL market and the addition of Bihar IMIL market in the last quarter. Bihar is accounted for 11% of the 4th quarter IMIL volumes. We have an exclusive 5-years tender for the Patna zone which is the largest market in Bihar, with sales of approximately 2.5 mn cases p.a. The state is one of the fastest growing markets for IMIL with 28% 5-years revenue CAGR and it is also one of the fastest growing in terms of GDP; however, our Haryana IMIL market continues to be challenging. In our youngest and smaller IMFL segment rationalization of portfolio and opening up of CSD channel has paid off this year. We saw strong traction in both realizations and volume driving revenues up 88% year-on-year. Manufacturing gained from scaling up of our franchise contracts, bulk exports and introduction of a new by-product called DDGS in the second quarter. We are one of the first distilleries in

India to produce and sell DDGS manufactured from our effluent which is also called spent grain. We are seeing good traction from animal feed industry as it is a comparatively high protein product with good shelf life. The robust 38% year-on-year growth in Bottling operations is a proof of credibility of our high quality product by India's top brand owning company. With this we have been able to step up our utilization to 78% this year. Bulk exports have shown strong traction with good acceptance by leading global players. We have incorporated our first subsidiary in UAE to help increase focus on high value exports in the coming year.

We are now quite optimistic about the sustainability of the growth in FY-'16. The Rajasthan IMIL market has grown at 16% over the last 5-years in terms of CAGR. We have maintained our leadership position in the state as the #1 private player with a 25% market share. We are also hopeful of recovery in the Haryana market where we own 10% market share and are the second largest private player. Bihar volumes are significant and stable under the exclusive 5-year tender. Our franchise contracts are at healthy level and our bulk is well accepted in the export markets that should help us operate at higher 80% plus utilization. We expect to see more traction in the DDGS business and this will be further EBITDA-accretive. We are hopeful of operating at 10% margins in the coming year.

The medium term view looks even brighter with our upcoming plants with combined capacity of 60 million liters in Bihar and West Bengal respectively. These plants are well on way to be commissioned by the second quarter of FY-'17. This will usher the next phase of growth for the company and revive returns as we replicate our 360 model in the two lucrative alcohol deficits and fast growing markets of Bihar and West Bengal. Bihar has an estimated alcohol deficit of 55 million liters and West Bengal has an estimated alcohol deficit of 78 million liters. The IMIL growth in Bihar and West Bengal in FY-'13 was 20% and 25% respectively which further makes the two states an attractive destination for investment by our company.

Overall, the long-term industry fundamentals remain attractive driven by positive demographics, low per capita consumption and improving macroeconomic and easing in the regulatory environment. UN has recently pegged 2015 GDP growth at 7.6%, quite close to the 8-9% level the country enjoyed earlier. In the next 2 to 3-years we gain to have a stronger Consumer portfolio and Manufacturing presence in four states and we would be well positioned to take advantage of the growth prospects in the industry.

I would now like to hand over to Dr. Roy for an Overview of our Financial Performance.

Dr. Bhaskar Roy:

Good Afternoon, everyone I will share our Financial Highlights after which we will open the floor for Questions. For the quarter ended March 2015, our net standalone revenues were Rs.1,527 million, up 26% year-to-year; the EBITDA was Rs.151 million, an increase of 94% compared to Rs.78 million in Q4 FY-'14; the EBITDA margin improved from 6.5% in Q4 FY-'14 to 9.9% in Q4 FY-'15 mainly due to reduced raw material cost that was partially offset

by increase in other expenses; we reported PAT of Rs.36 million in Q4 FY-'15 with a margin of 2.3% compared to loss of Rs.(-62) million in Q4 FY-'14.

For the year FY-'15 our standalone net revenues increased by 18% year-to-year to reach Rs.5,857 million driven by strong growth in existing operations and launch of Bihar IMIL and DDGS. The EBITDA for the year was Rs.487 million, up 8% year-to-year with margin of 8.3% compared to 9.1% last year. The margin was impacted due to increased mix of ABD bottling in Rajasthan. The accounting treatment to these as per requirements in the state are that we book the EBITDA revenue incurred, expenses and our loyalty so because of these other expenses have gone up. PAT for the year was Rs.71 million as compared to Rs.43 million in FY-'14. The share of Manufacturing in net revenues went up to 56% this year as compared to 54% last year.

I will now share the Segment wise details for the year. In FY-'15 we sold 8.6 mn cases of IMIL, up 9% year-to-year and this includes Bihar IMIL launched in January '15. The average net IMIL realization for the year was at Rs. 295 per case, an increase of 2% year-to-year in realization. In IMFL we sold 1,29,000 cases, an increase of 51% volumes. The combined net revenues from these two Consumer business were Rs.2,598 million for the year up 13% year-to-year.

So in Franchisee IMFL the aggregate volume bottled in the year was 3.3 mn cases, an increase of 38% year-to-year by volumes. Out of these 1.8 mn cases pertain to Bottling done for ABD in Rajasthan up 64% year-to-year and the remaining 1.5 mn cases were for Bottling done for USL ABD and JIL in Haryana up 17% year-to-year. Our Bulk Alcohol sales increased 5% year-to-year to reach 40 million BL with 5% year-to-year in price realization. The total revenues from Manufacturing including the sale of byproducts were Rs. 3258 million in the year, an increase of 32% year-to-year.

Our total debt as of March 31, 2015 was Rs.1,229 million and cash on books were Rs.64 million. We maintained a low leverage with debt-equity ratio of 0.3x.

With the formation of our wholly-owned UAE-based subsidiary Globus Trade Bay Limited, this is the first time we have reported consolidated results. Our consolidated revenues were Rs.5,864 million in FY-'15 with EBITDA of Rs.489 million and PAT of Rs.67 million.

This concludes my update. Thank you once again for joining us on the conference call. We will be happy to answer any questions that you may have now.

Moderator:

Thank you. Participants, we will now begin with the question-and-answer session. We have the first question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

- Baidik Sarkar:** Could you give a sense of how the market in Haryana is shaping up – has the slow down been arrested, and do we know what is causing this structural weakness in demand in Haryana?
- Shekhar Swarup** :Thank you very much for that question. The Haryana market over the last year and more than a year has continued to weaken largely due to increased number of players entering the markets. All these new market entrants have resorted to extreme price discounting in order to create market share and we therefore have felt the brunt of that due to reduced realization per case and also increased lower volume in the state. We believe this effect seems to have bottomed out now, the market is stabilized and hopefully this year we should start seeing some growth coming in due to better distribution of the spirit as well as more acceptance of our brands in the market.
- Baidik Sarkar:** So you are suggesting that FY16 could actually be a year of growth for Haryana and not another year of degrowth?
- Shekhar Swarup:** For Haryana there will be no more degrowth in FY-'16, we are hopeful of growth this year.
- Baidik Sarkar:** What kind of base case scenario would you think is a fair estimate?
- Shekhar Swarup:** At this stage I will say that I will not be able to give an indication towards that, but suffice to say that the market is growing at low single digits and most of our business growth will have to come from acquisition of market share.
- Baidik Sarkar:** If you could give a sense what is your average realization per cases across Rajasthan, Haryana, Delhi and Bihar?
- Dr. Roy** :Rs. 295 per case.
- Baidik Sarkar:** That is the average across all the four states?
- Dr. Roy** :Yes, this is the average realization on the four states.
- Baidik Sarkar:** Would it be possible to just break that down state-wise?
- Dr. Roy** : Rajasthan would be a little bit higher than that say by Rs.10 to 15 higher than that and Haryana would be about 10 Rs. lower than that, that is about the range.
- Baidik Sarkar:** What is the growth outlook on Rajasthan this year, if you could give us some color on what is happening in that market structurally, are you taking market share or is the market growing so exponentially that we seem to be growing with the market?

Dr. Roy :As mentioned in our opening remarks last year growth in Rajasthan market was around 16% and this year we want to capture the market and we feel that our growth rate will be in the double-digit around 8-10% minimum growth.

Baidik Sarkar: What is the potential in Bihar looking like? I understand this is our first quarter...

Dr. Roy :It started slowly in January and now we have reached in the month of April, May around 1,65,000-1,70,000 cases which is steadily growing and we are from here want to grow up to 1,85,000 cases because we have limitation in the zone which we are operating, so whatever is the capacity have grown for the demand, we are able to cater to them.

Shekhar Swarup: I would like to shed some light to how the state government has decided to deal with this IMIL industry. They have broken up the state into various zones based on geography and they allotted each zone to tenderers based on their tender bids for a period of 5-years. The entire quantity of a zone is given to the tenderer for a period of 5-years. The estimation of consumption or peak consumption in Patna would be to the tune of 2.5 mn cases per year, whereas we are presently clocking at 160,000 cases so this is possibly going to grow up to about 200,000 cases during the course of this year.

Baidik Sarkar: What is the growth outlook in your industrial segment looking like?

Shekhar Swarup: Our business model is based on allocating our industrial alcohol first to the highest value added segment which is of course our Consumer business and the next to the franchise business where we take our Bottling for ABD and USL and a few others and then whatever we are left with we then sort of sell it to other brand owners in India and overseas. Our attempt is always to increase our Consumer vertical and therefore as that grows and assuming the capacity utilization remains the same the industrial alcohol portion will reduce; however, we do believe that this year there will be some amount of increase in capacity utilization from 78% last year to over 80% this year. So possibly the Industrial Alcohol segment would remain similar to what in terms of volume to what we saw this year.

Baidik Sarkar: So you are saying that Industrial Alcohol business could actually be flat?

Shekhar Swarup: Yes, that is by design, that is how our business model is built when we allocate our Industrial Alcohol for a higher value added service.

Baidik Sarkar: So what would be the margin differential between your Industrial Alcohol and your Franchisee business? I am just trying to understand where it makes sense.

Dr. Roy: Industrial Alcohol apart from the franchise business you get in terms of Bottling party so while in your Bottling you are doing two income flow is coming; one is from the Industrial sales in Bulk, and other is the Bottling income. So the Bottling income is consumed from 4 liters of

alcohol, so that 4 liters of alcohol whether you are selling outside or selling for the franchise IMFL consumption, the margins will be bigger than the industrial alcohol. But if the Industrial Alcohol Franchisee you were earning more size of Bottling income which is in addition from this which is around Rs.17-18 per case, not more than that.

Baidik Sarkar: So what is the growth outlook in the Bottling segment then?

Dr. Roy :Bottling segment we are expecting a growth of another year, because last year we have done total volume of 3.3 million and this year we are expecting 10% to 15% growth.

Baidik Sarkar: So your Franchisee and Bottling revenue should be up about by 10% to 15%?

Dr. Roy :Yes more than that.

Baidik Sarkar: I am consolidating your IMIL and Manufacturing business, given that Haryana will be flat, Rajasthan will be about say 10% to 15%, and Bottling will be about 10% to 15%, but Industrial will be flat again, so I am assuming your overall revenue growth will be in the range of about 10% to 12%, is that a right assumption to make?

Dr. Roy: It is a minimum which we are expecting, the margins will improve because of the stability of DDGS which we have done in the last quarter both the plants have started, we have converted DWGS to DDGS, which gives higher volume of contribution, and with the starting of Bihar this year earlier IMIL at a low speed, the volume of contribution will be more from there.

Baidik Sarkar: What is the size of the backward integration of the DDGS that you have done?

Shekhar Swarup: The performance that we have seen in Q4 is what is to be expected as a bare minimum for the year coming up. There has been a significant improvement in capacity utilization, in operating margins, in Consumer vis-à-vis Manufacturing spirit of revenues in Q4, and we are going to get the full impact of that in this financial year, whereas our targets remain to push growth further in this year as the minimum we should take in Q4.

Baidik Sarkar: What would be your CAPEX for the year?

Shekhar Swarup: CAPEX for the year is largely going to be for the Greenfield facilities in Bihar and West Bengal, there is limited CAPEX expected at our current facilities, some amount of modernization will continue to take place, but that is quite limited majority of it is going to be in the Greenfield facilities.

Baidik Sarkar: That would be how much?

Shekhar Swarup: Greenfield project cost is around Rs.200-210 crores.

- Baidik Sarkar:** This is expected to be fully expended in the current financial year '16?
- Shekhar Swarup:** We are expecting by the middle of the next year FY17, say about 60-70% this year.
- Baidik Sarkar:** What would your peak fixed asset turnover be, what is the average in this line of business?
- Shekhar Swarup:** We can work out the number and get back to you; each unit has a different asset turnover and for Bihar and Bengal for each of them it would be different, so if it is alright with you we can take that question after the call.
- Baidik Sarkar:** What would your tax rate for this year?
- Dr. Roy:** We are on MAT 20%.
- Participant:** When we look at your company over the last 4-5 years, we see that you used to make 15% EBITDA and now it is a below 10%. Can you give us some sense of how the business has transformed about a third of your profit margin, what has happened to the business?
- Dr. Roy:** When we are talking firstly from that stage, two things have really happened; #1, we have increased our bulk spirit capacity of production, so the major profitability which was being coming the margins from the Consumer business is the IMIL and IMFL, has not grown up to that speed as the balance which we were producing we have to sell as a bulk spirit at a lower margin. This is #1. So as our IMIL and IMFL grows up in coming years, these margins will also go back to the level which were there, but it will take time, because firstly when we are also doing the Greenfield project, we will start increasing, the projects also will start consuming more bulk spirit than the Consumers, which will slowly catch up after couple of years of operation and steadily.
- Shekhar Swarup:** Just want to add to what Bhaskar said, there were two reasons for the change in the EBITDA profile; one reason was an anticipated change, which is higher share of revenues coming in from a lower sort of EBITDA segment, namely Industrial Alcohol and the second was something which was unexpected, which was the performance of Haryana market over the last few quarters. We will be happy to take this discussion in detail, I would request who are attending this call to possibly set up a meeting with you or a conference call subsequent to this to take your questions up in detail if you do not mind.
- Moderator:** Thank you. The next question is from the line of Apurva Shah from Dimensional Securities. Please go ahead.
- Apurva Shah:** Just need some clarification on what is the realization for our Franchisee business in Rajasthan and Haryana?

- Dr. Roy:** Actually, in the Franchisee business our net realization which is affecting EBITDA two things; one is the sale of ENA which is coming from the ENA's realization Bulk Alcohol realization; and other is the realization which is already mentioned, out of the years which we have around 45 is the net realization from the Bulk Alcohol and Franchisee IMFL we are getting Bottling fee, the Bottling fee is our net realization is around 35. So these two realizations have actually affecting 35 per case which is actually affecting the profit and loss is rare whether in your accounting treatment wherein your bookings are made, you have to book the expenses and passing of the balance and the business stop loss to the owner of a brand.
- Apurva Shah:** For Franchisee at gross level, but in Rajasthan, earlier we used to report as well a figure of 480-485 and for Haryana we used to report some different figures, I take your point that there is a difference in revenue recognition for both of the states. So going forward, will you be disclosing the separate number for Rajasthan and Haryana or you would not be discussing because till now we have a figure up to FY14 for both the states separately?
- Dr. Roy:** The franchise at gross level that in case Rajasthan it was 543 per case for both the years and in the last year it was 484 per case, and in case of Haryana we have not taken anything in the gross, so everything is in the net only, Bottling fees was there.
- Apurva Shah:** One clarification for Bihar; when you say Bihar, it is only Patna or some other geography as well?
- Dr. Roy:** We have been allotted for Patna zone because old Bihar have been divided in 17 zones and we have got Patna zone, so Patna zone is a Patna municipality whatever is the area defined by the government.
- Apurva Shah:** Can you quickly glance us through what is the pricing environment in Patna market and who is the market leader and how is the competition...
- Shekhar Swarup:** Just to clarify what Bhaskar said we have two projects in Bihar; one project is the IMIL project which we have already started, we are selling approximately 160,000 cases per month, that is the run rate we are at today this is possibly going to go up to close to 200,000 cases during the year. This is one project. The second project is the distillery which we are setting up; the distillery will be a full 360 deg business model with franchise manufacturing. with Industrial Alcohol, with IMIL and IMFL. We have started IMIL through the franchise route where we have franchised Bottling operations already and that is of course limited to Patna zone. The distillery is not limited to Patna zone, it is in fact an all state business model as we have in the other states. When it comes to your question now about the market forces in the Patna zone, out of the 17 zones that have been allotted, each party who bid has won complete authority of supplying to a particular zone. So in our zone there are no other players and we do not have any other zones. There would be 17 parties catering 17 zones.

- Apurva Shah:** So in Patna, where the market is around 2.5 million...
- Shekhar Swarup:** That is the estimate, yes.
- Apurva Shah:** There is no direct major competition from other players or organized players, right?
- Shekhar Swarup:** No, so if that estimate was to come through, then we would get 100%.
- Apurva Shah:** If I do back-of-the-envelope calculation for Bulk Alcohol, so like 8.6 mn cases for IMIL and 3.3 mn cases for these Franchisee business, so total Bulk Alcohol goes is around 41 mn cases, right and we have produced 69 mn cases. So I am not able to get the balance Bulk Alcohol volume sold, that comes to around 30 million. In initial remark you said it is around 40 million for the year? So, what I am missing?
- Dr. Roy:** Actually, in last year we have done Industrial Alcohol of 40 million bulk liters, Franchisee IMFL in mn cases was 3.3, so 3.3 into 4 will give you 13.2 million of the Bulk Alcohol consumption and then IMFL and IMIL; IMFL we have done 0.5 billion liters and IMIL we have done 8.6 mn cases 8.6 into 3 gives you 25.8. So total will be coming 72 million liters; IMIL is 25.8, IMIL is 0.5, bulk is 40 and Franchisee is 13.2.
- Apurva Shah:** So that comes to 39.5 and our total production is 69. So if we deduct 39.5 from 69, then balance quantity comes to 30 million litres?
- Dr. Roy:** Actually it is coming I am just telling that 7.2 will be a sale of the franchisee, in franchise when we are selling the ENA it is included in also the bulk spirit sale because bulk spirit in Haryana we are selling in ENA and booking in the ENA, in case of Rajasthan it is coming in the top line in the sale of the Franchisee IMFL. So the sale of IMIL in case of Haryana is to be deducted, so you will get the balances.
- Apurva Shah:** What was the average realization for Industrial Alcohol?
- Dr. Roy:** Industrial alcohol average realization is 45 against 43 of last year.
- Moderator:** Thank you. The next question is from the line of Priya Shekhar from India Invest. Please go ahead.
- Priya Shekhar:** I just wanted to ask, do we have any new launches planned in IMIL as well as IMFL segments in the coming year and in FY17?
- Shekhar Swarup:** In terms of new markets, no there would not be any markets for IMIL, we are going to focus on how markets in Rajasthan, Haryana, Delhi and Bihar. Within this there are not many major launches that are planned at all. In case of IMFL, again, we are focusing on our core products



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which we have sort of rationalized our portfolio to, and they will continue to remain the major products during this year.

Priya Shekhar: How do you expect the share of Consumer business going on in the coming year, as you said bulk is going to be slightly flat, like what will be the share of Consumer business?

Shekhar Swarup: Like I mentioned earlier on the call, our Q4 numbers should be taken as a minimum sort of barrier for this year and the share of Consumer in Q4 was about 53% which is what should be assumed for the year.

Priya Shekhar: Sir, any expected movement in the price realization in Bottling fee?

Shekhar Swarup: Bottling realization fee is because of price increase from our clients in the year gone by and we believe that will remain so for this year as well. So no increase in Bottling increased revenues; however, like my colleague, Bhaskar said earlier, there are two elements to sale to the franchise Bottling sales that is the Bottling fee as well as the Extra-Neutral Alcohol or the Industrial Alcohol which the parties are forced to take from our facilities. So the realization on ENA will be as per market rates sort of set that off a little bit.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to the management for closing comments.

Shekhar Swarup: Thank you all very much for joining us for the call today. If there are any questions that you may have do feel free to reach out to our team directly or to our IR partner Four-S Services, we will be happy to entertain all follow-up questions. Look forward to speaking to you then and have a good day.

Moderator: Thank you. On behalf of Globus Spirits Limited that concludes the conference. Thank you for joining us and you may now disconnect your lines.