



Globus Spirits Limited

Q3 & 9M FY2016 Earnings Conference Call Transcript February 16, 2016

Moderator Good day ladies and gentlemen and welcome to the Globus Spirits Limited earnings conference call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you sir.

Anoop Poojari Thank you. Good afternoon everyone and thank you for joining us on Globus Spirits Limited's Q3 & 9M FY2016 earnings conference call. We have with us Mr. Ajay Kumar Swarup – Managing Director, Mr. Shekhar Swarup – Executive Director, Dr. Bhaskar Roy – Executive Director & COO and Mr. Ajay Goel – CFO of the company.

We will begin the call with opening remarks from the management following which we will have the forum open for an interactive question and answer session.

Before we begin, I would like to point out that some statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

I would now like to invite Mr. Ajay Swarup to make his initial remarks.

Ajay Swarup Good afternoon and a very warm welcome to everyone. I will take you through the performance overview and future growth drivers while Dr. Bhaskar Roy will brief you on the operational performance followed by Mr. Ajay Goel who will share the financial highlights.

I am very pleased to share that Globus Spirits has delivered robust financial and operational performance during the quarter and nine months period. During the quarter under review, revenue from operations grew by 26% while EBITDA stood higher by 91% translating to EBITDA margins of 9.5% as compared to 6.3%. The corresponding Profit After Tax improved to Rs. 35 million. We witnessed similar performance in the nine-month period with 19% increase in revenue from



operations, 43% growth in EBITDA and a 135% improvement in Profit After Tax. Healthy operational performance was assisted by production efficiencies as well as better cost balance sheet. I am particularly glad to highlight that most of our business segments including IMIL, Bulk alcohol and DDGS reported double-digit year-on-year growth.

This has been one of the better quarters for Globus Spirits over the past few years due to host of strategic initiatives undertaken by the company in the past. Our recent introduction of DDGS, a value added by-product, has established itself as a replacement to soya de-oiled cake and other expensive protein sources in animal feed. This is corroborated by reducing differential between prices of DDGS and soya de-oiled cake translating to higher realizations for DDGS this quarter. We expect DDGS to sustainably contribute to our earnings going forward. The next growth driver for us is our expansion in eastern India. Work on both the facilities in Bihar and West Bengal is progressing well and is on track to be commissioned in Q1 FY17. Here I would like to share our perspectives on the IMIL ban in Bihar from 1st April, 2016. We believe that the ban will not affect our planned greenfield operations in Bihar as alcohol demand continues to remain robust as IMIL will be replaced by economy IMFL. So once the facility is commissioned and stabilized, we expect to rapidly ramp up utilization levels. We foresee huge locational advantages in Bihar and West Bengal which will drive our overall profitability. These include lower raw material costs as the facilities are situated in the top rice producing states. Furthermore, realizations are much higher as these are high deficit states and net importers of alcohol from surplus states. In total, lower costs, better realizations and other benefits should yield far better margins which will enable us to report strong bottom-line performance in FY17. In the medium term, we also expect to launch our IMIL brands in West Bengal and hope to tap the growing alcohol industry in that state.

So our 360° presence across all the segments within the alcohol sector right from manufacturing to marketing and sale of branded portfolio enables us to straddle opportunities across sectors and balance our operations in variable market scenarios. I am happy to share that India is expected to meet its target of blending 5% ethanol in petrol for the first time ever in 2016. And the Government has clearly indicated that low crude prices will not impact India's focus on embracing indigenously produced biofuels to bring down the import bill. Further, in addition to molasses-based ethanol, the Government has now permitted non-molasses-based ethanol for blending which will increase demand for all types of alcohol. In the long term, we expect this to lead to increased realizations. We believe this will be a game changer for our business model and outlook. To conclude, given the multiple growth drivers discussed, we remain poised to deliver a much better performance in the forthcoming quarters.

With this I request Dr. Bhaskar Roy to brief you all on the operational performance of the company.

Dr. Bhaskar Roy

Good afternoon everybody. I hope you had a chance to go through our result and presentation for Q3 & 9M FY16. I will briefly share the operational performance. Globus Spirits has delivered superior performance during the quarter led by a strong 360° presence across complementary business segments of consumer and manufacturing.



During the quarter, growth in consumer business stood at 28% year-to-year while the manufacturing revenues grew by 25% year-to-year. Contribution of consumer and manufacturing business came in at 47% and 53% respectively. High alcohol production at 21.2 million BL and better capacity utilization at 91% resulted in improved overall performance. IMIL volumes improved by 32% year-on-year to 3.1 million cases driven by healthy offtake in Rajasthan and Delhi. This was further backed by recent IMIL launch in Bihar which contributed 11% to the total IMIL revenues. Rajasthan imported solid volume growth of 18% while the sales in Delhi stood at 42%. We expect the IMIL volumes to further improve in Rajasthan on the back of robust demand and favorable industry dynamics. Haryana witnessed a sharp revival quarter-on-quarter with strong volume growth of 20%. We anticipate a higher trajectory in Haryana going forward as we believe that the worst is over in that market. The robust growth was led by strong performance of 'Malwa' brand in Haryana and 'Globus Nimboo' in Rajasthan, 'Shahi' also performed well more than doubling year-on-year. Franchisee IMFL volumes saw a marginal improvement of 3% due to slower-than-expected offtake. However, we have recently started franchisee business for USL in Rajasthan and I am confident that the overall volumes would progressively improve from hereon. The East India foray would further foster the franchisee IMFL performance as we would extend our cordial relationships with franchisee partners in those markets as well. Our high potential value added by-product DDGS registered healthy volume growth of 124% with better realizations.

Manufacturing business will continue to be a pillar of strength for the consumer business and will keep supporting the overall performance.

I would now like to hand over to Mr. Ajay Goel for the overview on financial performance.

Ajay Goel

Thank you Dr. Roy. Good afternoon to all of you. I will cover the key financial highlights for the quarter and nine-months ended December 31st, 2015.

For Q3 FY2016, revenue from operations stood at Rs. 1,967 million, an increase of 26% year-on-year. EBITDA was higher by 91% to Rs. 187 million translating to EBITDA margin at 9.5% vis-à-vis 6.3% in Q3 FY2015. Profit After Tax came in at Rs. 35 million compared to Rs. 1 million in Q3 FY2015. For the nine-month FY2016, revenue from operations was Rs. 5,162 million, higher by 19% year-on-year. EBITDA stood at Rs. 479 million representing a growth of 43% with EBITDA margin of 9.3%, an expansion of 150 bps year-on-year. Profit After Tax came in at Rs. 82 million, up 135% year-on-year compared to Rs. 1 million in nine-month FY2015.

I will also share the segment wise performance breakup. In Q3 FY2016, we sold 3.1 million cases of IMIL with average net realization of Rs. 295 per case. IMIL volumes witnessed an improvement of 32% year-on-year while IMIL revenue increased by 30% driven by higher production efficiencies and better cost management.

In the franchisee IMFL business, the aggregate volume for the quarter was 1.01 million cases. Out of this, 0.38 million cases pertain to bottling done for ABD, USL and JIL in Rajasthan and the remaining 0.63 million cases for bottling done for USL and ABD in Haryana. Our bulk alcohol revenue increased by 22% year-on-year driven by robust demand. Volumes came in at 13.2 million bulk litres compared to



9.7 million bulk litres in Q3 FY2015. The total revenue from manufacturing stood at Rs. 744 million in the quarter accounting while the revenue from the consumer business stood at Rs. 874 million.

This concludes my comments on the financial highlights. I would now request the moderator to open the forum for questions. Thank you.

Moderator Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Harsh Mittal from Dimensional Securities. Please go ahead.

Harsh Mittal What would be the outlook on the DDGS segment given that there has been robust growth in this quarter?

Shekhar Swarup The DDGS business for us is a new business. We are processing a lower sort of value by-product which previously we used to sell by the name of 'Spent Grains'. We are processing this and making this a higher value-added product. We started this by setting up one set of drying facility at one of our units, basis the success there we then deployed similar facilities at the second unit. So, one reason for the growth has been higher production because of stabilization of the facilities in both the units and the other reason has been, of course, better marketing of this product. One looks at a benchmark of soya de-oiled cake which, of course, is a varying commodity and basis that benchmark, the DDGS prices also move up or down.

The unique thing about the Globus DDGS is that we are now selling this product at a very little discount to the soya DOC as compared to some of the other distilleries and largely this has been due to the marketing works done by Globus Spirits. We have in a sense created a brand of DDGS within the industry and we are now considered as one of the more favorable manufacturers for this product. To give you an idea of numbers, Globus sells at about 20% discount to soya today whereas the other distilleries sell at about 35% discount to soya today. We are hopeful that this discount to soya will continue, however, the actual value of soya will change from time to time and our realizations will also vary according to that.

Harsh Mittal My second question is, we mentioned in the call that we are expecting to introduce some IMIL brands in West Bengal, so what would be our realization per case going forward in FY17 or 18 in West Bengal market?

Shekhar Swarup The West Bengal IMIL industry is about a 25 lakh case per month industry. It is roughly the same size as the Haryana market. The opportunity here however is much larger as this is a fastest growing market than Haryana and with the type of competitors present there. West Bengal is mainly a fragmented market with one distiller operating and largely others are bottling facilities. So on a medium-term basis, the opportunity here is very attractive and Globus is looking at this market very seriously. However, in the short-term, to project market shares, to project realizations is something which is little difficult for us as currently our ambition for the next couple of quarters is to put up the Greenfield facility and to stabilize it. Suffices to say that as we go along in the next year, our brands will be launched and we will be able to say with greater confidence about the market shares and the share of revenue possibly after one or two quarters.



- Harsh Mittal** Can we expect the realization per case to be same as the Haryana market or lower than that initially?
- Dr. Bhaskar Roy** Prices are fixed by the Government, the MRP is fixed because highest SKU is the 600 ml bottles which are sold at Rs. 55 MRP. The retail margin, etc. depends on the competition but the realization will be at par with others.
- Shekhar Swarup** But the selling price will possibly be higher than Haryana.
- Harsh Mittal** My third question, what is the CAPEX update on Bihar and West Bengal and how much have we spent until now?
- Dr. Bhaskar Roy** Out of Rs. 240 crore, we have spent close to Rs. 163 crore. As highlighted in the past, the facilities will be commissioned in Q1 FY17.
- Harsh Mittal** What is our potential for bulk alcohol in exports and to which countries do we export?
- Shekhar Swarup** Majority of the exports that are taking place are from our Haryana unit. We have been able to create a market for grain alcohol in some of the West African as well as South African countries which are traditionally buyers of molasses-based alcohol from India. So, if you look at the data, you will find that UP distillers and Maharashtra distillers have been traditionally the major suppliers and in fact even Pakistani distillers have been major suppliers of ENA to these nations.
- Globus entered these markets some three or four years ago with the new concept of grain alcohol and fortunately our proposition has been accepted well and we have a few customers which are now regularly taking grain-based ENA from Globus, so that is a big achievement that the company has had. The product is also now being used to make 'Sake' in Japan considering the fact that our grain is actually rice and the Japanese make 'Sake' from rice based alcohol. So it has found acceptance even in the Far East.
- Going forward, our strategy of prioritizing our production for our own consumer brands remains, so first we will use up our production for IMIL brands and for franchise IMFL then with the balance that we have left, we will sort of push that in the highest possible price available. Be that as it may, we would like to continue keeping a certain amount of business which is exported out of India, it will keep us in touch with the market and we are able to grow that as and when the prices go up. But I do believe that this 24-25% kind of figure is something which will possibly remain in the short to medium term.
- Harsh Mittal** My final question is that, given the 10% ethanol blending which is mandatory from next year, what price movement you expect in the bulk alcohol or ENA prices?
- Shekhar Swarup** That is the most interesting question that you have asked and the most relevant in the current times. There has been a commitment of over 120 crore litres that distilleries and sugar mills in India have committed to supply in the year 2016-17 and this is at a very attractive net realization as well. Some of the product is non-molasses feedstock so grain feedstock and most of it is, of course, molasses feedstock. This year India will certainly achieve its 5% mandate, if not achieve, it will come very close to achieving it and next year the 10% is a big question, so we



do not know if India will have that kind of supply. Currently, of course, there is a shortage even at 5% level so if they do push the 10% which currently the Government is making all the correct steps towards that, the price will certainly go up but I am not able to say what it will go up to.

Moderator The next question is from the line of Abhishek Banerjee from UBS Securities. Please go ahead.

Abhishek Banerjee I wanted to understand regarding the Bihar ban and shifting from IMIL to IMFL, could you clarify on what the Bihar ban is and what are you doing?

Dr. Bhaskar Roy In Bihar, at present the market of IMIL is much higher than IMFL. The IMIL market is around 20 lakh cases per month while IMFL market is 6 lakh cases per month. So, with the IMIL ban, the market will shift to IMFL and the lower end of IMFL. With the policies changing, we feel that there will be quite a huge growth in the lower-end of the IMFL segment where Globus can take advantage and that will be ENA based while IMIL was RS based. We are not making RS, if IMIL was continuing we had to buy RS but in this case we are better poised because we will make and manufacture ENA which will be required for IMFL.

Abhishek Banerjee Do you have clarity on the Bihar ban - Only IMIL will be banned?

Shekhar Swarup Yes. This is now gazetted law; we can send you this notification.

Moderator Thank you. As there are no further questions from the participants I now hand the conference over to the management for their closing comments.

Shekhar Swarup Thank you everybody for taking the time to listen to what we have to say and being a part of the conference call. Please do feel free to reach out to us or CDR India, our IR partners, if you have any questions or clarifications, we will be happy to take them on. Thank you again and hope to speak to all very soon.

Moderator Thank you very much members of the management. Ladies and gentlemen, on behalf of Globus Spirits that concludes this conference call, thank you for joining us and you may now disconnect your lines.

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