



Globus Spirits Limited

Earnings Conference Call Transcript

May 31, 2016

Moderator Ladies and Gentlemen, Good Day and Welcome to the Globus Spirits Limited Earnings Conference Call. As a reminder all participants' 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 would now like to hand the conference over to Mr. Nishid Solanki of CDR India. Thank you and over to you.

Nishid Solanki Thank you. Good afternoon, everyone and Welcome to Q4 FY2016 Earnings Conference Call of Globus Spirits Limited. Today, we have with us senior members of the management team including Mr. Ajay Kumar Swarup -- Managing Director; Mr. Shekhar Swarup -- Executive Director; Dr. Bhaskar Roy -- Executive Director and COO and Mr. Ajay Goel -- CFO.

We will begin the call with opening remarks from the management following which we will have an interactive Question-and-Answer Session. Before we begin, I would like to highlight that certain statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the Results Presentation shared with you earlier.

I would now like to invite Mr. Ajay Swarup to make his initial remarks. Thank you and over to you, sir.

Ajay Kumar Swarup Thank you. Good Afternoon and a Warm welcome to everyone. As always, I will take you through the performance of Globus Spirits for the financial year 2016 along with its future growth drivers while Dr. Roy will brief you on the operational performance followed by Ajay Goel who will share the financial highlights.

I am happy to highlight that Globus Spirits had demonstrated a healthy operational and financial performance during the year led by strong traction in consumer facing IMIL business, supported by higher off-take in our value added DDGS business. In financial year 2016, IMIL volumes improved by 40%, while growth in value-added DDGS stood at 74%. Performance during the quarter was driven by balanced growth across both our B2B and B2C business. During the quarter under review, revenue from operations grew by 25% year-on-year while EBITDA stood higher by 45%, translating to an EBITDA margin of 11.5% as compared to 9.9% for the previous year. The corresponding profit after-tax improved to Rs. 43 million representing a growth of 21% year-on-year.

For the full financial year 2016, we witnessed a 21% increase in revenue from operations, 43% growth in EBITDA and 77% improvement in profit after tax. So, financial year 2016 has been a profitable year for Globus Spirits. Apart from healthy momentum in IMIL and the by products, higher profitability was achieved due to increased production of bulk alcohol and improved efficiencies across the board. Our high potential value added by product DDGS has established it self as a replacement to soya de-oiled cake and other expensive protein sources in animal feed industry. We have received encouraging response for DDGS thus far and I am confident that this product line will continue to deliver health performance for us in the times to come. The realizations improved during the quarter as a result of reduced differential pricing between DDGS and soya DOC. In the forth coming years, higher production of bulk alcohol will lead to higher production of DDGS as well.

Greenfield expansion in Eastern India is yet another growth driver for us. Construction work at both the distilleries in West Bengal and Bihar is progressing well and over 90% of the construction work is already complete. Therefore, we expect both these facilities to commence production sometime in Q2 FY2016. Once commissioned, these facilities will significantly boost the top-line and bottom-line performance of the Company. West Bengal is an alcohol deficit state and our objective here will to be bridge this gap with additional supplies. The prohibition in Bihar pertains only to limiting the consumption of bottled alcohol in the state and we have been permitted to in fact produce alcohol there and thus, it will have a limited impact on our operations as we plan to export bulk alcohol from the Bihar distillery to other alcohol deficit states in the region as well as out of India.

Over the years, Globus Spirits has transformed itself to become a 360° alcobev player present across all the segments within the alcohol sector starting from manufacturing to marketing and sale of the branded portfolio. As a result, we are able to straddle opportunities across sectors and balance our operations in variable market scenarios. I am sure, you are informed that India will achieve the target of 5% ethanol blending with petrol in this fiscal. The Government has now taken on the challenge to increase blending to 10% thereby taking the total demand for ethanol to 265 crore liters. This is in fact on top of the requirement from the potable sector. This has been an ambitious target and I believe this to be a game changer for us.

To conclude, I remain optimistic and believe that we are well poised to deliver robust performance in the coming year.

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

Dr. Bhaskar Roy

Thank you, Mr. Swarup. Good Afternoon, everybody and welcome once again on our call. I hope all of you had the chance to go through the results documents shared earlier. I will briefly share the operational performance of the company.

As highlighted earlier, Globus Spirits reported strong performance during the quarter and full year ended March 31, 2016. This was possible due to our 360° presence across the alcobev sector namely consumer and manufacturing.

During the quarter, growth in the consumer business stood at 27% year-on-year while the manufacturing revenues grew by 23% year-on-year. Contribution of consumer and manufacturing business came in at 49% and 51% respectively. Higher alcohol production at 22 million BL and better capacity utilization of 98%



resulted in improved overall performance. IMIL volumes improved by 27% year-on-year to 3.7 million cases driven by strong traction in all IMIL markets. Haryana reported volume growth of 44% while sales in Delhi and Rajasthan stood at 37% and 18% respectively. We expect the IMIL volumes to further improve in Rajasthan on the back of high demand and favorable industry dynamics. Haryana witnessed a sharp revival with healthy volume growth of 43% year-on-year. All our country liquor brands including our flagship brand Nimboo continues to do very well in Haryana as well as Rajasthan. Franchisee IMFL volumes saw an uptick of 6% with revenue growth of 14%. Lately, we have started franchisee business for USL in Rajasthan and we expect the volumes to pick-up in the coming year. Our high potential value added by-product DDGS registered healthy volume growth of 27% with higher realization of 47%.

I would now like to hand over to Mr. Ajay Goel for update on the financial performance of Globus Spirits.

Ajay Goel

Thank you Dr. Roy, Good Afternoon to all of you. I will take you through the key financial highlights for the quarter and full year ended March 31st, 2016.

For Q4 FY2016, revenue from operations stood at Rs. 1,910 million, an increase of 25% year-on-year. EBITDA was higher by 45% to Rs. 220 million translating to EBITDA margin of 11.5% vis-à-vis 9.9% in Q4 FY2015. Profit after tax came in at Rs. 43 million, higher by 21% compared to Rs. 36 million in Q4 financial year 2015.

For Financial Year 2016, revenue from operations was Rs. 1,767 million, higher by 21% year-on-year. EBITDA stood at Rs. 699 million representing a growth of 44% with EBITDA margin of 9.9%, an expansion of 160 basis points year-on-year. Profit after tax came in at Rs. 125 million, up 77% year-on-year compared to Rs. 71 million in financial year 2015.

Let me also share the performance break-up for the individual product lines. In Q4 financial year 2016, we sold 3.2 million cases of IMIL with average net realization of Rs. 291 per case. IMIL volumes improved by 27% year-on-year, while IMIL revenue increased by 29% driven by higher demand combined with production efficiencies and better cost management. In the franchisee IMFL business, the aggregate volume for the quarter was 0.96 million cases. Out of this, 0.40 million cases pertain to bottling done for ABD, USL and JIL in Rajasthan and remaining 0.56 million cases for bottling done for USL and ABD in Haryana. Our bulk alcohol revenues increased by 19% year-on-year driven by robust demand. Volumes came in at 11.3 million bulk liters compared to 8.7 million bulk liters in Q4 financial year 2015. The total revenue from manufacturing stood at Rs. 981 million in the quarter, while the revenue from the consumer business stood at Rs. 942 million.

This concludes my remarks 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. We have first question from the line of Amrut Kalantri, Individual Investor. Please go ahead.

Amrut Kalantri

Can you give us a sense of the competitive scenario in the segments in which we operate. Our competitor like Pincon Spirits has been going very fast, can you just spend two - three minutes in explaining the competitive scenario? And the second question is in terms of all the bans that we are seeing in various states, do you think this is kind of structural headwind for us going forward?



Shekhar Swarup

Right. So, as you are aware Globus Spirits has presence across multiple verticals and for each vertical we have different set of competitors and all of these competitors are sort of restricted to the states we operate in. So, there are hardly any players that compete with us in more than one state. So, in the case of Rajasthan, there are three other distillers that are present who have sizeable capacities of over 45 KL per day. Besides that, there are about five or six other bottlers who are participating in the IMIL market. So there are total of about eight players or nine players in the Rajasthan IMIL market, of which Globus Spirits enjoys about 30% market share. The state owned distillery, there is a distillery owned by the state that enjoys a quota on the market of 40% and the balance is available for private players. So Globus Spirits in fact has a 60% share on the share of the market that is available for private players to compete in.

When it comes to franchisee bottling in Rajasthan, we compete with again the bottlers however, our case is slightly different as we have our own distillation capacity. In Haryana however, there are many more players that we have to compete with if I am not mistaken there are about 14 distilleries in Haryana and therefore the competition is far more fierce both in terms of ENA sales as well as IMIL. There are no standalone bottling plants in Haryana that are allowed to market IMIL. In case of West Bengal, which is a new facility for us which will be commissioned later on in this year, there is one other distillery in the state. As Mr. Ajay Swarup mentioned earlier, West Bengal is a spirit deficit state so there is enough room for the two of us to share the market and despite that there will be still some amount of import into West Bengal. IFB Agro has the other distillery in West Bengal. In terms of IMIL, IFB has significant presence in IMIL in West Bengal besides that like I said there is no other distillery, so the market is split up between bottlers, one such bottler is the company that you mentioned, and there are few others as well.

In case of Bihar, there is at present limited grain ENA capacity, there are distilleries which are making molasses based alcohol and that too is of rectified grade and not the neutral grade that we make. So most of these molasses facilities will be marketing ethanol for fuel blending and there will be some capacity for grain but it will be not be very large and as of course you are aware that Bihar is a dry state so, we will be conducting business outside of Bihar in other spirit defiant states of East India. I hope that answers your question.

Amrut Kalantri

Can you give us some color on the bans that several states are levying, do you see more states doing that and is that a structural headroom and how do you plan to tackle it?

Shekhar Swarup

When it comes to prohibition, I have as much knowledge as you do, that is Bihar which has declared prohibition of consumption of alcohol in the state, besides that there is of course Gujarat and we do not see any of the other states that we operate in any such policies coming up. In Haryana, there was prohibition for few years several years ago, it failed and of course retracted since then. Rajasthan there is no such policy in the offing, West Bengal there is no such policy in the offing.

Amrut Kalantri

Can you tell us based on your understanding of the market, historically whenever these states face some ban, have you seen sales in neighboring states rising, so assuming a lot of people do smuggling so, there is a ban in Gujarat people may buy in Maharashtra or cities that are closer to the border and then take it to Gujarat, have you seen that? Does that hold true? And secondly, historically how long do you see this ban because as you rightly said states levy a ban and then



they reverse it because it does not really work so, how long have you seen these bans remain because as far as I understand Gujarat is the only state which had a ban since a very long time.

- Shekhar Swarup** On the first point, I am unable to say with any amount of proof that liquor moves from one state to another, I am not aware of this practice. As far as your second question goes, there is data available on this, Tamil Nadu has had a ban several years ago, I think it lasted for about two years. Haryana had a ban several years ago, it lasted for about two years to three years, Andhra Pradesh flirted with prohibition, but it did not last very long. So, certainly as far as history goes, prohibitions usually last less than one full term of Government.
- Moderator** Thank you. Next question is from the line of Tirath Muchhala, Individual Investor. Please go ahead.
- Tirath Muchhala** I wanted to know what are the cash flows from operations for this year?
- Ajay Goel** EBITDA for the current financial year is Rs. 70 crore.
- Tirath Muchhala** Okay. Could you share some details on the nature of our bottling operations in West Bengal, like do we have any contracts in place and regarding Bihar, is it only bulk alcohol sale that we will be doing?
- Shekhar Swarup** In West Bengal, we have a franchisee arrangement with United Spirits which will come into effect, we will start bottling for them in the month of June and in case of Bihar yes, you are right, we will for the time being only be manufacturing and selling bulk alcohol.
- Tirath Muchhala** And would you see a large chunk of our production in West Bengal to be for bottling operations or how should we think of it?
- Shekhar Swarup** Well, the strategy that Globus Spirits adopts in all units is that, once we have the manufacturing capacity for ENA, we try to convert as much as we can into bottled products because that is where we earn the maximum profit. First objective is to use this capacity for IMIL, then what is surplus is used for IMFL franchise operations and if there is any surplus that is then sold to other states or other bottling plants in that state. So you know West Bengal is a new state for us, to start with a lot of the capacity will be bulk based but gradually it will start getting converted into IMIL and IMFL. But you know, a good thumb rule is that around 50% to 60% of the capacity should be utilized for value-added products. In case of Rajasthan, that number is above 60% and in case of Haryana it is around the 50% level and you know gradually in West Bengal, it will reach that number as well.
- Tirath Muchhala** Okay. Are we still seeing a premium for ENA in West Bengal and may be in Nepal?
- Shekhar Swarup** Premium over?
- Tirath Muchhala** Over let us say the price in Haryana or Rajasthan?
- Shekhar Swarup** Yes, certainly.
- Tirath Muchhala** And what is that like percentage wise or something?

Shekhar Swarup It is about 15% to 20%.

Tirath Muchhala And a couple of more questions, if I may, there is another company, I think it is UniBev?

Shekhar Swarup Yes, this is the subsidiary of Globus Spirits.

Tirath Muchhala Right. So I think you mentioned in the concall that there is someone who is spearheading IMFL?

Shekhar Swarup Yes.

Tirath Muchhala So could you share some details on what is happening?

Shekhar Swarup Sure. So, Globus Spirits has a long-term plan of creating indigenous brands in the high-end IMFL space. Now, we are aware that this business requires certain competencies which are not something that Globus Spirits has in-house at present. What we have in-house is competency to manufacture products of quality, but what we do not have is competency to market and distribute these products in various states in the country. So UniBev has been incorporated with the vision to create that competency as an add-on and there is a team in place here that is currently busy creating these brands, creating the blends and more updates on business plan and the launches and the types of products are expected in a couple of quarters.

Tirath Muchhala Okay. And the reason I asked this question is because I think a few years ago we did not fare well with our IMFL foray. So, this time around do we have a budget in place, so how much is the annual spend going to be?

Shekhar Swarup Like I said, the business plans and further updates can be expected in a couple of quarters.

Moderator Thank you. Next question is from the line of Aditya Iyer from Dimensional Securities. Please go ahead.

Aditya Iyer I have a couple of questions. So the first one would be, within the three segments which is bulk alcohol then your own IMIL and then the IMIL franchisee operations. If you could just guide us to what would be the difference in gross margin for all of these?

Shekhar Swarup You know it is very difficult to identify the gross margins of each segment, since each of them are quite inter-linked and they sort of vary from state to state but suffice it to say that the distillery business margin which includes ENA by-products which are basically CO2 and DDGS and all of that is the base sort of margin. The IMFL franchisee business gives incremental margin only on the job work portion of it since the value-add that is being performed is just the bottling piece. Majority of the value-add that we get is in the IMIL piece because here we have our own brands, we control our distribution network and you know on 50-50 kind of blended basis you have seen the performance of Q4 and the last financial year. I am unable to at this stage break-up the margins into each segments.

Aditya Iyer If there could just be a rough premium for say a franchise operation or IMIL operation, would that be possible? Just a rough estimate as to how many basis points more?

Shekhar Swarup If one was to price ENA at market rates, the IMIL business would give an additional anywhere between Rs. 30 and Rs. 80 a case.

Aditya Iyer Okay. Second question would be what is the export duty that you would have, say for example, you export it from Bihar to West Bengal say, the duties etc. that you would have incrementally because of the Bihar ban?

Shekhar Swarup There are no duties in manufacturing or exporting alcohol from Bihar.

Aditya Iyer So there is no export duties?

Shekhar Swarup The state Government has taken a very supportive stand with the industry and they understand that industry needs to be promoted states and they have done away with the export duty which I believe was around Rs. 6 or Rs. 7 per liter.

Aditya Iyer Okay. And given the increase in ethanol blending in Fuel, etc., how co-related is it? Do you see any future ENA price increases that could come by?

Shekhar Swarup Yes, this is a very important point that you have raised. Alcohol capacity is fungible, we can use the same capacity to make rectified spirit for industrial grade or ENA or hybrid ethanol for fuel grade. In the last tender which started in September and there after there were three cycles of the same tender, 120 crore liters have been contracted at an average realization to molasses distilleries of around Rs. 46 a liter. This is after the benefit of the exemption on Export Duty. Now this 120 crore liters if it was not contracted for fuel, it would have gone into either beverage or industrial applications. So in a sense 120 crore liters is now no longer in beverage market therefore, players that manufacture alcohol for beverage applications, they have less quantity to compete with and gradually we should see prices of portable alcohol go up as well.

Now the other thing is that the Government of India has mandated or rather given a guideline that from 5% OMCs must now move to 10%. Therefore, there is another demand for about 120 crore liters. In fact, the total number is around 265 crore liters. This sort of volume can currently not be catered to by the molasses players as there is no more molasses available in the country after making 120 crore liters of ethanol. So, if the government needs this product, needs an addition 120 crore liters - 140 crore liters, this has to come from other raw materials.

Aditya Iyer So, if you were to guide in terms of a percentage, what would your estimate be for a price increase in ENA?

Shekhar Swarup So, last year our average realizations were around Rs. 40 to Rs. 41 a liter. This year we will see an increase in realization for two reasons; one is because of foray into East India where the prices of ENA are higher even in today's market scenario and further increase due to ethanol is difficult to put a number on it. But it should be in the vicinity of around 5%.

Moderator Thank you. We take next question from the line of Amrut Kalantri, Individual Investor. Please go ahead.

Amrut Kalantri I am looking at the consolidated financials and we have made a Rs. 10 crore of PAT on an equity base of Rs. 360 crore, is that correct?

Ajay Goel Yes.

Amrut Kalantri Yes, so the return on equity is around 2.7%-2.8%, which looks pretty lower than the cost of debt. So can you give us some light on why this is so low and where do you see it moving in the next few years and where do you see it stabilizing?

Ajay Goel For FY17, it all depends on the volumes, we are already coming up with two new units in West Bengal and Bihar and we will get extra margin on account of these two new facilities. And we expect a decent hike in the EBITDA level and the PAT level on a consolidated level in the current financial year.

Amrut Kalantri How much would that be?

Ajay Goel I cannot comment on numbers, but it will be a decent hike.

Amrut Kalantri Okay. So what is the current cost of debt, your average cost of debt?

Ajay Goel 11%.

Amrut Kalantri 11%, so when do you see our return on equity materially exceeding that and touching say 15%-20%.

Ajay Goel It will take at least two more years.

Amrut Kalantri And any additional CAPEX coming up and what is our current capacity utilization?

Ajay Goel No additional CAPEX, we are only targeting to execute these two existing distilleries, and with respect to capacity utilization, our existing units are almost at 100% capacity utilization and these two new units once they streamline, I anticipate more than 50% capacity utilization in this financial year and from next year I think it will only be much higher.

Amrut Kalantri Okay. Just a financial question so, basically you are expecting a higher EBITDA and PAT because of higher utilization at the new capacities that have come up but you do not see a material change in the revenue mix as premiumization of our products and any margin expansion on that?

Shekhar Swarup In this year, there are two main triggers, the major one is of course the East India foray where majority of the revenue will come from bulk sales. As Ajay mentioned, we are expecting this year once the capacity is commissioned that we will go up to around 50% capacity utilization and most of this will be bulk sales. Of the existing units in Rajasthan and Haryana, we continue to improve the consumer proportion of our revenue which currently is around 50% and we are hopeful that this will grow further in this year. Already in Q1 we have seen good traction for our brands and there has been growth over last year. Going forward, there will be great capacity utilization in West Bengal and Bihar. And in West Bengal, more products will be converted to higher value-added products such as IMIL and IMFL. Of course till Bihar remains dry, I cannot say the same thing for that state. However, we believe that prohibition is not a permanent feature for the state, so as and when we are able to make bottled product, of course Globus Spirits will have a great first mover or early mover advantage there.

Moderator Thank you. Next question is from the line of Pramod Bhaskar, Individual Investor. Please go ahead.

- Pramod Bhaskar** I have quick question, I am going through the balance sheet and I see that the long term borrowings have increased significantly in this financial year. So, if you can just elaborate on that?
- Ajay Goel** The long-term borrowings have increased primarily because we are setting up two new distilleries in West Bengal and Bihar. So whatever long-term borrowing is there, is on account of the new CAPEX.
- Pramod Bhaskar** Okay. So what is the debt-equity ratio today and how will it reduce?
- Ajay Goel** The debt-equity ratio for this financial year is 0.67x as on March 2016 and going forward, it will further improve because there is no further debt.
- Moderator** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand over the floor back to the management for their closing comments. Over to you, sir.
- Management** Thank you everybody for taking time out. We are happy to answer any questions that you may have in future, for those please reach out to our Investor Relations Agency - Citigate Dewe Rogerson or directly to us. All our contact details are available on the website. Thank you again and have a good day.
- Moderator** Thank you very much, sir. 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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