"Globus Spirits Limited
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Moderator: Ladies and gentlemen, good day, and welcome to the Globus Spirits Limited Q2 FY '23 Earnings Conference Call. As a reminder, all participant line 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 star then zero on your touchtone phone. Please note that this conference is being recorded. We have with us on the call today, Mr. Shekhar Swarup, Joint Managing Director; Mr. Paramjit Gill, CEO-Consumer Division; Dr. Bhaskar Roy, COO and Mr. Nilanjan Sarkar, CFO. With this, I now hand the conference over to Mr. Shekhar Swarup, Joint Managing Director. Thank you, and over to you, sir.

Shekhar Swarup: Thank you. Good morning, everyone. Welcome to the Q2 and H1 earnings call. At Globus in the last few years, we have focused on creating steady growth through a well-entrenched distillation business as well as laying the foundation for our consumer business. In this calendar year, we have commissioned new capacity of 280 KL per day with a 140 KL expansion in West Bengal 140 KL greenfield project completed in Jharkhand. In the remaining part of the current fiscal, we also expect to complete expansion at Jharkhand and West Bengal by 60 KLPD each,

And these capacities will be commissioned and in production in quarter 1, FY '24. In the last couple of calls, we've spoken a lot about inflationary challenges. However, I'm pleased to say to you that the worst seems to be behind us now. In the last quarter, we have successfully procured rice from FCI for our ethanol plants, which allowed us to get an extra revenue of around INR 3 per litre as well as hedge prices of the raw material procurement from FCI H1 was 41% of our total current procurement as we gained 1% in the same period in the last year.

The Government of India has also banned exports of broken rice recently, and this will help control prices of broken rice going forward. In order to further mitigate cost push in our fuel prices, we have become the use of rice straw as fuel in Haryana, which aids in price benefit of INR 5 per bulk litre. As we're coming into the harvest season in North India, we are seeing softening of rice husk prices as well, which are down by around 20% from the peak of INR 12,000 per metric ton to about INR 9,000 per metric ton today.

We expect that this softening will continue well into the quarter and will help us end the year well. Pet bottle integration towards pet bottle production has also helped mitigate some packaging costs and saving of about INR 4 crore to INR 5 crores per year. We expect to increase this capacity in the coming months. From as anticipated by us in the past, ENA prices have continued to increase. We saw an increase of around 10% in the quarter gone by. And going forward, despite softening in costs, we are seeing that prices will continue to hold.

For ethanol, we've secured a higher price realization by 1.8 Rs per bulk litre for ethanol made from FCI and for damaged grain by INR 2.6 per bulk litre. Coming to the Consumer business in Haryana, we took a call to change strategy in Q2 FY '23, which resulted in a temporary slip in market share. Param will explain this in more detail later on this morning. This strategy has since started paying dividends, and we are seeing that the business is creeping back on its original market share. We are witnessing positive traction in the premium segment and are looking forward to robust growth. Our team's initiatives in the marketplace to grow the salience of our highest value brands are bearing results, and we are receiving very encouraging market feedback. I'm excited to say that we've also geared up our innovations team, which are skilled at packaging and product development. We expect to launch new brands in the next 12 months as well as a few new markets.

Animal Nutrition continues to be a focus area with our product DGS or animal feed supplement with 13% of our revenue in H1 coming from this segment. We continue to work on ways to increase value to our customers. And we're working closely with feed millers interacting with them to increase awareness about the nutrition value animal feed supplement made by us, which is used for poultry, cattle as well as fish feed. Our robust model of well balanced between consumer and manufacturing segments continue to generate healthy cash returns which we deploy through growth investments and working capital.

Even with our capacity expansion, our debt-to-equity ratio stands at 0.3x, and our business continues to generate strong cash flow to fuel our near-term growth plans. I now request Param to take us through the growth being done by the consumer team.

Paramjit Gill: Thanks, Shekhar. Good morning, everyone, and hope you all are well. In the consumer segment, the aggregate sales in Q2 FY '23 came in at about 3.2 million cases. It was down 5% year-on-year and 19% quarter-on-quarter, impacted due to the softer volumes in Rajasthan and Haryana, with the reversal we see in the current quarter. In the quarter gone by, the average realization of the consumer segment increased from around INR 419 per case in Q1 to INR 510 per case in Q2 of this year on account of better mix and lower trade spends in Haryana as a result of sharper focus on brand profitability.

Going forward, with our product mix improving towards value plus and premium segments, we believe realization will continue to remain strong. Let me start on the value and the value plus segments. In Rajasthan, the government's sudden increased focus on value segment led to a higher saving shift towards this segment, thus softening our value plus savings. However, our overall market share gain continues, with GSL currently at 34 market share points on the back of robust value as well as value plus spirits.

Our whiskey brand Globus Green, which was launched earlier this year, is showing green shoots, and we are hopeful of accelerated growth on this brand. We also launched the Kevda flavor in the value segment, for which work is in progress to expand sales through our distribution network. With the approaching winter, there will now be an increased focus on Black Lace Rum, which we had launched last winter. In Haryana basis, recent higher cost push, we increased our focus on improving profitability.

As all the investors are aware that in our consumer business, there is always a lead lag, and most of the cases, we wait for the next price increase to get implemented along with the next year excise policy. So it was concise choice by us to not wait for that long and put our focus on reducing our spreads. This resulted in a temporary reduction of market share in Q2 FY '23 with an increased contribution of INR 26 per case. This strategy has been paying off well, and we have already begun climb back market share. Volume recovery is also visible in the current quarter. Our consistent efforts on the Metro Liquor, which is in the value plus segment, are also now leading to accelerated growth.

In West Bengal, we launched County Club in the value plus segment towards April-end, which has been well received. Our market share has also been inching up, and we are at about 2.4% within a short period of time with the stock headroom for future growth. Our average realization currently stands at about INR 500 per case.

Coming to the premium segment. We are happy to report that the premium segment is showing very promising prospects. Our IMFL portfolio is building momentum across UP, West Bengal and Delhi. Terai, our India dry gin, has also been extended to the states of Uttar Pradesh, West Bengal, Rajasthan as well as Mumbai and will also get introduced in Haryana shortly.

As our market penetration reaches optimum levels, you can expect to see a further portfolio expansion with new launches over the next two to four quarters. Our IMFL brands are now available at almost 75% salience contributing outlets in our key markets of Uttar Pradesh, Delhi and West Bengal. Portfolio expansion work has been going on at full swing, and you will see your company expanding its offering very quickly in the next two quarters.

As a strategic target, we are working towards reaching a 20% salience of premium liquor revenue to the total consumer revenue portfolio of Globus to the third full year while growing all segments of the consumer business visually as well. This will improve margins as well as cash generation from the Consumer business. We continue to invest prudently towards this region. Our revenue realization per case stands at around INR 1,500 per case. May I now request Dr. Roy to lead the conversation. Thank you very much.

Bhaskar Roy: Good morning, everyone, and thank you, Mr. Gill. As Mr. Shekhar Swarup mentioned earlier, we are focused on enhancing our operations in the past few quarters and see tangible benefits, even with the expanded capacity of 665 KLPD, capacity utilization was at 90% in quarter 2 and half year FY '23, with the increased capacity be utilized entirely for sales of ENA or ethanol. Quarter 2 FY '23 recorded highest ever bulk alcohol sales of 43.33 million litres, up 62% year-to-year and 6% quarter-to-quarter at an average relation of INR 59 per litre, which stood higher by 14% year-to-year and 2% quarter-to-quarter.

This has led to a higher sale of the manufacturing revenue at 66% of the total net revenue in quarter 2 FY '23 as it was 53% in quarter 2 of FY '22. We continue to work on several initiatives to help reduce costs. We shifted to FCI rice-based ethanol which helped in retaining working increase of INR 3 per BL over damage grain and help us mitigate the inflationary environment on the raw material side. We have procured 40% of our total raw material as FCI rice, and we shall continue to do so if it tends to be in our favour.

Our rising energy prices, like we mentioned on the last call as well, we have direct coal linkages and purchase from the CCL, in addition, reducing energy requirements in process. Some other initiatives include improve of ASH quality in West Bengal, increasing inventory capacity of raw material and fuel, pet bottle own production in West Bengal and Haryana. Overall, these lead us to mitigate the cost increase to the extent of INR 12 crores in half year FY '23. In other updates, our agreement with Bacardi India will start from the current quarter and will add incremental revenue from here on for bottling their flagship Dark Rum, Baccardi Black and other brands in West Bengal.

Aiding revenue and better utilization of the Panagarh facility. All the plants are running at optimum capacity. Samalkha also at optimum levels, with a flood prevention upgrades to the Bihar facility. The factory continue to run smoothly throughout the monsoons with no significant impact on our Bihar business in this year. I will now request Mr. Nilanjan Sarkar to continue with financial updates.

Nilanjan Sarkar: Thank you, Dr. Roy. Good morning, everyone. During the quarter gone by, net revenue recorded a growth of 25.7% year-on-year to INR 480 crores but was marginally lower by 3% quarter-on-quarter due to the decrease in value spirits. The bulk alcohol, which forms a key part of the manufacturing business, recorded a revenue growth of 84% year-on-year and 8% quarter-on-quarter to INR 253 crores in quarter 2 FY '23 led by enhanced capacities and better realizations.

The consumer segment revenue stood at INR 163 crore in Q2 FY '23, which was lower due to a temporary dip in CS country liquor sales in Rajasthan area for reasons laid down by Mr. Paramjit earlier. Gross margin is at 41% was largely maintained quarter-on-quarter on the back of higher bulk alcohol and consumer realization. The margin stood at 8% lower due to the temporary fall in revenue in consumer liquor sales in Haryana and Rajasthan in Q2 of FY '23. This was further exacerbated with high cost of power and fuel.

Power and fuel, which was 22% high quarter-on-quarter in Q2 of FY '23. With crop season coming, there are signs of tapering of the inflationary input cost measures. The company continues to generate healthy cash profits, and we continue to utilize our surplus cash for investing in expanding capacity as well as product and other market development. This concludes my report on the financial highlights. I would now request the operator to open the forum for questions. Thank you.

Moderator: The first question is from the line of Abneesh Roy from Nuvama Institutional Equities.

Abneesh Roy: My first question is on the gross margin. In H2, I understand that the gas prices for glass manufacturers are up sharply, by around 60%. So how does it impact glass prices for you and the industry? And the other raw material, how do you see H2 -- you have maintained 41% gross margin quarter-on-quarter stable. How do see H2, do you see some dip versus this?

Shekhar Swarup : So we actually hope to see a softening in raw material prices coming into H2 for the reasons mentioned by me earlier, both fuel prices have begun to soften already as the harvest season is sort of picking up in Haryana and Punjab. In East India, we see harvest coming a little bit later usually. So by December, January, things should start moving there as well. With regard to glass bottle prices, I mean glass has been moving up for the entire industry.

The reasons were mentioned by you that impacted our premium business, especially. Be that as it may, the segments that we have launched our products in and also the budgets that were prepared earlier, we are within our budgeted cost of production for our premium brands. So we don't see a huge impact on our business there. For our value business, we have worked on increasing our -- for our value plus business, we've worked on increasing our market bottle percentage.

So that's used glass bottles, our branded used glass bottles, we try to increase their share in the last quarter. Aside from that, most of our value business is PET bottles and we are gradually moving to a larger share of in-house PET production currently entire West Bengal and entire Haryana around internal own manufacturing of PET. As of now, we have not initiated work in Rajasthan but that's something that we are evaluating as we speak.

Abneesh Roy: Right. That's helpful. But on specific glass, which is used in the premium side of the portfolio, there, H2, the inflation could be there, right, versus H1 in terms of glass prices?

Shekhar Swarup : Yes. So I think H2 we will have further inflation in glass prices. But as I mentioned, we budgeted for a lot of this increase. So we are still quite comfortable on our actual cost of production versus our budget.

Abneesh Roy: Sir, my second and last question is on the Haryana market. You have focused more on profit side. But you also mentioned that the market share softening is temporary. So are there other players also now focusing on profitability, and that's why it's a level playing field and that's why your market share is now coming back. Is that the reason?

Shekhar Swarup: That's a good question. I'm going to ask Param to take that, please.

Paramjit Gill: Yes, exactly. So during these times, the competitive market when there is a cost push, generally, we see that somebody waits for the first initiative. And this time, we took the initiative and we have started seeing that other players and competitors have also started reacting in a similar fashion and have started tightening their belts. And that is what is giving us that confidence. And some of it, as I said, is already visible in the last couple of months. And so you are in the zone when you make the statement because prudently, not many want to wait till the next excise policy and want to start counting the inflationary measures as we go along.

Moderator: The next question is from the line of Prithvi Raj from Unifi Capital. .

Prithvi Raj: Sir, can you explain what exactly is the change in the policy that was announced by the Rajasthan government? And when was this implemented?

Shekhar Swarup: Param, could you please?

Paramjit Gill: Yes. So as we say obviously, the most of these governments have a much larger say, in the chain of operations in the value and value plus segment. Obviously, as had been anticipated by us, I mean we can say proudly that we were among the first ones who saw the huge swing of consumers would happen from value to value plus segment, and you've seen the company benefitting tremendously for it. So time to time, the government do come under pressure as they see the acceleration towards the value plus segment, which is accretive to them also for their revenue.

The government revenue also is higher per case on value plus segment. But time to time, they feel that the revenue of value plus is just shooting up and the value is sinking, they're trying to sort of make efforts temporarily though to soften the decrease in the value segment. It is a bit more, I would say, a major reaction in terms of trying to protect local industries and the initial response of the management of excise. And we have seen that it has never worked. All it has done is it created a blip and then the trend continues to move on because you can't change the flow of the river of upgrading, which the consumer has been demonstrating in our market for many years.

So that side has obviously started supporting the little bit extra on the value segment and that is what we are seeing. But the important thing is that individually, we are gaining share on both on the value segment as well as on the RMS segment as well as collectively. It is because of the saliency that we have seen as a pressure against our expectations. And we are thinking the pressures will automatically start softening and it will happen sooner than later, and we start moving again towards this natural course where value plus is unstoppable, and we continue to move towards dominating this whole category.

Prithvi Raj: So just a follow-up on this, see, when you say supporting the value segment, what exactly government is doing? Could you specify? Is it something to do with marketing?

Paramjit Gill: So we must understand that we are in a regulated business. We are in the regulated business and the government, when they try to influence the channel partners, then temporarily everybody responds to the request from the government favorably. Having said that, the consumer at the end outlet is ultimately going to ask for what he wants. So you've seen renewable policy changes in liquor industry across states, across all the times, not that each one of them is explainable in very demonstrative terms.

So time to time, because of their own internal assessments and they try to determine the path. And we have seen that never has ever succeeded. And that is where they have sort of tried their best to support the value segment. As a result, what happens is the pipeline of the value segment starts increasing. The pressure on the value segment starts increasing. The whole pipeline starts getting filled much better than the value plus segment. And this starts, in the short term, creating an impact of skewed shares. And as the consumer will continue to make its choices because the consumer has their choices lined up, and that the retail counter consumer service is unnegotiable and either by us nor by any others. And when that consumer continues to exercise its choice, the pipeline are totally skewed, then again, the desired consumer franchise brands start jumping into it. And that is what gives us the confidence.

Prithvi Raj: So can I assume that there are a few more quarters for volumes to get normalized, right, and adjusted?

Paramjit Gill: Yes. And we've seen this earlier also that a couple of occasions in the past also value plus segment has seen a semi-pressure and then started easing off, and again, the new momentum because it has been demonstrating much more robust growth than the value segment over the years now, and we don't think that's going to stop. Because it's not only Rajastham we just seeing it across West Bengal we have launched value plus segment and suddenly we have seen an acceleration there. I mean, so this trajectory is unstoppable. And this sort of small hiccups will continue to be part and parcel of our short, medium term, really.

Prithvi Raj: Sir, just a final question from my side. This is to the CFO. Could you give the breakup of other expenses? I mean, because that seems extremely high. So I just wanted to understand, at least major line items here?

Nilanjan Sarkar: So the other expenses is break up, mainly 52% of the other expenses is in power and fuel. So that other expenses for Q2 is INR 138 crores, almost INR 74 crores is on power and fuel. And the other breakup of operating other expenses include my freight expenses, my IMFL marketing above the line, top line marketing expenses and other expenses relating to bottling of the company. So 52% to 55% of the expense is on power and fuel.

Prithvi Raj: And what has been the INR 74 crores number a year back for the power and fuel?

Nilanjan Sarkar: INR 73 crores, INR 74 crores, yes.

Prithvi Raj: No, I mean a year back. Say, Q2 FY '22, what was the corresponding number?

Nilanjan Sarkar: In quarter one of last year, the number was INR 60 crores. Quarter-to-quarter number was INR 60 crores last year.

Moderator: The next question is from the line of Nitin Awasthi from InCred Equities.

Nitin Awasthi: Firstly, thank you for including Slide N7 in the presentation, which is a consumer business performance trend, this gives a clear picture of what is happening on the IMFL side, something which is not very clear until now. Beginning with the questions that I have. So the first question among the slide itself, do we have brands in the IMFL segment in the regular and the other category?

Shekhar Swarup: No, we don't, Nitin. That's why we're consciously putting that row, which says prestige and above and regular and others. There is, we don't have any brands in IMFL which does not fall into prestige and above category.

Nitin Awasthi: Could you shed some light why this conscious decision has been taken or would it change in the future?

Shekhar Swarup: Yes. That's a good question. So Param, can I ask you to take that, please? Param, are you there? Okay. So I'll let me start that. So our hypothesis has been that the Value-plus segment will continue to gain market share from the value segment as well as from the secular segment. And we've seen that play out in Rajasthan. We are seeing it play out in West Bengal as well as in Haryana. We look at a lot of data for the leading regular segment brands And across the board, we are seeing a reduction in volume or reduction in category size of regular as the value plus segment gains momentum as well as a premiumization that takes place from regular to premium and above. So that's one reason.

The second reason is that it does cost a lot of money to build distribution for the first few years. We will be investing far more money than in terms of marketing, in terms of sales and distribution, than the business is able to realize. And it's far more rewarding to do so in the premium and above categories.

The minimum volume required for economies of scale for breakeven point at the regular and below categories takes a very long time to realize. And consumer behavior and how the business is structured in terms of cost cuts is the other main reason for this decision. Be that as it may, it is not a decision to stay out of regular and others forever. It is a decision to start our business with premium and above so that we can build our distribution there. And then support our distribution and a business with new brand launches possibly in some of the high price points of the regular and others category as well as even more premium price points of the premium and above category. Param is back. So Nitin, anything else on that?

Nitin Awasthi: Nothing else on that. That answers that question completely well. Sir, the next question I had was your thoughts and your position on new ethanol pricing policy that was announced? And why was it that the no negotiation between the OMCs and the grain distiller's association to come to the conclusion of a price because normally, we have seen that the first price that they give doesn't go through because that is not done state and there's a negotiation that happens prices decided this time that doesn't seem to be happening.

Shekhar Swarup: Nitin, I don't know where you got that impression from? I mean there is no negotiation that has ever taken place. There is an extended period of discussions that does happen in terms of submitting price information, cost information. So the All India Distillers Association, which represents the interest of grain-based distribution did do that. Be that as it may, the OMCs have increased prices year-on-year by about INR 1.8 for FCI and INR 2.6 for damaged. I can't say I am very thrilled with that, but it is in the zone that I was expecting for the industry. So going forward, our ENA business becomes even more important. We are seeing a good amount of price control that we've been able to demonstrate in the ENA business this year and especially in Q3, Q4 of the next financial year, or rather Q2, Q3, where it's the off-season or lean season for fuel and grain supply.

We have to consider how much allocation we would like to make to ethanol vis-a-vis ENA. And the good news is our factories, our business model and our planning enables this kind of flexibility. So it's just a matter of switching between one material and another depending on where there is a greater profitability.

Nitin Awasthi: Sir, follow-up on that question, so does your plant in Bihar allow you to switch from ethanol to ENA for a different state?

Shekhar Swarup: Yes, it does.

Nitin Awasthi: So I understand that the focus is going to be on ENA going ahead. But that still doesn't answer the question and the problem of the grain distillery association where majority of the capacities which are coming up are ethanol based. And I know that you hold an important share in that committee. So that's why I asked if your margins are shrinking, and if you can shift to ENA, that's a choice that you, as a company have, but the rest of the association, the rest of the industry doesn't have that choice. So there is a lot of pain for the rest of the industry at these prices. How will we go ahead with the investments to grow this segment for the ethanol business?

Shekhar Swarup: Nitin, these are good questions. And this is a situation that we anticipated in our strategy meetings at Globus. And we've provided for that in the way we take approvals from the administrative environment, the way we take approval for setting up of our plant. So that all our plants remain flexible between ENA and ethanol. You're absolutely right to say that for Globus that has this flexibility if, for Globus that has flexibility, it's okay. But for others that don't, it's a problem. I agree it's going to be a problem for standalone dedicated ethanol plants. We have to wait and watch what is the impact of that on the fuel ethanol program as well as on the rush of distilleries that have been coming up in the country? I do see a little bit of, how do I say, cooling down of those investments.

Nitin Awasthi: Sir, finally, last question from my side. A peer of yours has filed the DRHP and some interesting points of studies, which have come out from that. Is that we dominantly did business share in the IMFL segment within two states, and that itself give them such a huge revenue or recognition. And while you have a pan-India strategy, now I'm not doubting the strategy or I'm not saying your strategy is wrong or their strategy is right, I just want to understand, if you could shed some light a little bit on what exactly your strategy? Do you have, pan-India brand and you have a state focus? Or do you have a state focus and then you increase that -- you take that branch to different states, once you capture a certain market?

Shekhar Swarup: So Nitin, we don't have a pan-India strategy, but we have a strategy that focuses on six markets, of which five of them have been launched. It is possible that we grow this six strategic markets to seven, but that's the sort of vision in the short to medium term right now. For us to build distribution, build a new business, focusing on just one or two states is an exceedingly high risk proposition. It's important for us to have some risk of distribution, a few states in play. And then you're going to have a situation, I'm aware I'm stepping on Param's toe a little bit. I think you should hear from him. But just one last point on this, which is that you're going to have a situation where a few states outperformed the others. So in five, seven years, after this business has matured a little bit, you're going to have a situation where a few states are responsible for the lion's share of our market size. Param, anything you'd like to add on this, please?

Paramjit Gill: Thanks, Shekhar. So, the brands that we have introduced and have started playing in these strategic markets, have an all-India presence in terms of their segments, and they are very popular segments and very fast-growing segments. Having said that, like any good strategy, we chose the markets where we want to initially operate through a filter, which I think, four quarters, five quarters' back, I had alluded to, which gives us a reasonable right to win because each organization has its strength. And we have chosen these markets in a way that we have a right to win. We have the strength to win. We can achieve a breakeven in time, in line with our business plan. And from there, we will expand.

At this point of time, we have not created a 10 year to 15 year vision yet, except for a very broad paper. So our immediate strategic objective is to ultimately reach a certain stage, which we have called out 20% of the contribution of the consumer business to premium. And this will be achieved out of the six, seven states itself is our confidence, and we are driving relentlessly towards achieving this objective. Does that sort of answer your point?

Nitin Awasthi: Yes, so that does it.

Moderator: The next question is from the line of Tarang Agrawal from Old Bridge Capital.

Tarang Agrawal: Just wanted to check, I think, Mr. Sarkar, alluded to power and fuel being INR 74 crores in Q2 and about INR 60 crores in Q1 of FY '23. Did I hear it correctly?

Nilanjan Sarkar: Yes. On a quarter-on-quarter, INR 74 crores for this current quarter and for the same period last quarter, it was last year, it was INR 60 crores.

Tarang Agrawal: Same period last year, it was INR 60 crores. Out of INR 86 crores of manufacturing expenses, INR 60 crores is power and fuel.

Nilanjan Sarkar: No. Last quarter, it was April, quarter 2 of last year was INR 36 crores and quarter 2 of current year is INR 74 crores. Quarter 1 of last year was INR 60 crores.

Tarang Agrawal: Quarter 1 of this year was INR 60 crores, you mean.

Nilanjan Sarkar: Yes, quarter 1 of this year is INR 60 crores. Quarter 2 of last year was INR 37 crores, and quarter 2 of this year is INR 74 crores.

Tarang Agrawal: And quarter 1 of last year was?

Nilanjan Sarkar: The quarter 1 of last year, we don't have that number now.

Shekhar Swarup: Yes, but it would be similar to the INR 36 crores number.

Tarang Agrawal: Almost INR 100 crores push on power and fuel, would that be the right way to look at it for H1 FY '23 over FY '22, right? Okay. And the second, actually, the observation was, I think, with the new distilleries coming in and the manner in which the volumes have picked up, it seems like the off-take has been almost quite seamless. So I guess that strategy of working in deficient states, it's coming on to good use. The only challenge that I felt was on the power and fuel. So I mean, how do you see it? I mean do you see it more being transient? Or is there something that you're doing to probably hedge yourself against going forward?

Shekhar Swarup: Yes. I mean, so there is a, I don't see power and fuel come down to the levels that they were of what they were last year, frankly. But the current levels of power and fuel are completely unsustainable as well. As I mentioned, in North India, we are seeing over 20% correction in power and fuel prices because of the harvest season that we are pretty much just about kick started. So this will continue to reduce prices in the North, will continue to reduce for the rest of this quarter into the next, possibly stabilize somewhere in the next quarter.

In the East, in quarter 4, we will see a reduction in rises and being stabilized in Q1. I think the most important thing to watch out for in power and fuel is how much coal is being released by Coal India for industrial applications. In the last couple of months, we've seen an increase in the frequency of auctions being conducted. We've seen some efficiency coming to how quickly orders are being fulfilled by Coal India and its subsidiaries.

So if that's to continue, we will end up seeing the later part of the next financial year remain soft or softer than this year as far as fuel is concerned. But for the next couple of quarters, I have a pretty good, how do I say it, visibility that prices will be soft. We have to be a little watchful for the quarters. After that, in terms of how much coal is being released by Coal India into the industry. Even though we didn't consume that coal directly, but it does impact the price of fuel, whether it's coal or rice husks for all industries.

Tarang Agrawal: Sir, is the rice husks price, is it in some way benchmark to the extend coal prices?

Shekhar Swarup: There is no formal benchmarking. But what ends up happening is that wherever fuel is cheap, industries switch. I'm not talking about power plants, I'm talking about captive power users. Most of them have the ability to switch between rice husk and coal. So we see power plants or other industries are shifting between these two. And as a result, sort of an equilibrium gets maintained.

Moderator: The next question is from the line of Kshitij Saraf from Tusk Investments.

Kshitij Saraf: There was a long-term guidance that was given in terms of the margins being 18% to 20%, with all the improvements that we talked about, which was the lowering of raw material prices on the energy side as well as rice husk and the value addition in the consumer business, do we see that over the next, what is your guidance in terms of operating margins over the next two quarters and then FY '24, given the current situation?

Shekhar Swarup: So I do see margins being north of 15%, for sure, in the coming quarters, which is what I've just said about fuel prices going into the later part of next financial year, I don't see them coming down to the same levels as they were last year. So I wouldn't go up to 20% anymore, I would stay at around the 18% level. That would be my expectation. So anywhere between 16% to 18%, I think is achievable we will be increasing margins, as I mentioned, into Q3 and into Q4 and then hopefully maintaining that for the rest of the year. Of course, a huge caveat to this is how much coal is released by Coal India into industries. We've seen an increase in that. And we hope that, that will continue.

Moderator: The next question is from the line of Darshit Shah from Nirvana Capital.

Darshit Shah: Sir, can you please explain what has kind of changed as far as Rajasthan government policy is concerned, have they kind of decrease the prices for value plus segment? What basically has changed in terms of their strategy? I'm still not able to understand.

Shekhar Swarup: So this was explained in quite detailed by Param earlier. If required, we can set up a separate call for this. Essentially, there has been an increased focus on value spirits because of the sharp increase in value plus that happened in the previous year, the trade as well as some other stakeholders along with excise have created a focus on value spirits. Happy to set up a call if you'd like to discuss this in more detail in interest of some of the other questions that might be waiting.

Darshit Shah: No. Is this a clarification in terms of ensuring the distributor by the various departments in focusing more on value segment. So are they kind of incentivizing distributors to sell more value segment compared to value plus by whatever means possible?

Shekhar Swarup: Yes. It's a little more complex because, as you're aware, the distributor in Rajasthan is the government or is a government-owned entity. So it's a little more complex than that. But yes, that is a part of the whole equation. So let's set up a call and discuss this in more detailed, if that's all right.

Moderator: The next question is from the line of Rushabh Doshi from Nimiti Investment Advisors.

Rushabh Doshi: My question is to Param. I know in the earlier participants question, you shared the rational, but with respect to the policy changes in Rajasthan, like could you just share like what does the final print says, like how are they implementing the policy? Like is it through their earlier restricting volumes in the value plus category? Or have they increased the excise? And my second question is like earlier you used to share the DDGS sales or volume data. So if you could just share like what is going on in the animal field segment?

Shekhar Swarup: So I mentioned in my opening remarks that the Animal Nutrition business or the animal feed business is about 13% of revenue. It doesn't really help to look at this as a share of -- or in terms of volume, because we need to sell everything we produce. The product does not have too much of a shelf life. There is a high sort of -- it's a fast-moving product, because it's going into the animal feed business.

So there are small plants of the large feed companies spread all over the country, which supply to a local supply egg or meats to the local market. So it's a relatively fast-moving product. So therefore, it doesn't really make sense to share volume data. We are looking at working on ways to increase the value of this product to our customers and hopefully increasing realizations in this product, which will go straight to the bottom line, all of the way our costing works, all of the Animal Nutrition business go straight to bottom line.

As far as Rajasthan is concerned, there has been no price change for value and value plus in terms of excise duties. There is an incentivization or a focus that is created with for selling value spirits over value plus spirits at this stage. That's all I can get into. Happy to set up another call to discuss this in further detail.

Rushabh Doshi: Also, if there is any documentation of the policy, if you could share that, that would be helpful.

Shekhar Swarup: Those are available on the Rajasthan excise website, so that's public domain.

Rushabh Doshi: And in like next one or two quarters, like what do you expect would happen with the consumer volumes? Would they still be subdued? Or are you expecting some quarter-on-quarter growth at least?

Shekhar Swarup: So Param, could you take that last bit on please?

Paramjit Gill: Yes. So as we have mentioned that in Haryana, we are in recovery. So we see our volumes inching up as we keep going forward. Similarly, in Rajasthan, as Shekhar has already alluded to that, it's a government body who is also that is exclusive distributor like in many other states in the country, where the government has the excise under one head and has the distribution under another head.

So we think even Rajasthan is going to be a temporary blip. Now very much specific, one or two months here and there, it is very difficult to pinpoint. But yes, these things do temporarily clog the pipeline with less desired segments. And it takes time for it to gain its level. But I am still very, very confident that in the next couple of quarters, you'll see it all inching up significantly.

Rushabh Doshi: So like one particular reason I ask, because Q3, Q4 are seasonally strong for the consumer…

Moderator: The next question is from the line of Hitesh Sharma from Whitesky Investments.

Hitesh Sharma: This will be an office time for us like working people who are investors, may we request a copy of the voice call instead of only the text call, which comes -- that's one thing. And second is, any plans for -- because your bill for fuel which is extremely high. So any plans to have that natural gas as a fuel?

Shekhar Swarup: Natural gas is far more costly fuel as compared to coal and rice husk. In addition, the capex required to become biogas enabled is very high. There are -- there is only one factory for us where it could make sense in the future, which is our factory in Haryana because of biogas connectivity in the region. But suffice it to say, we are already at the cheapest possible fuel cost. And any reduction in fuel costs from here will need to be on account of reduction in cost of fuel as well as reduction in consumption of fuel. And the company is focused on both. With regard to your request for an audio link, I believe we do publish this on our website. And Nilanjan, if you can confirm that one way or another, please?

Nilanjan Sarkar: Yes, we do publish it. We can see it after this conference.

Moderator: The next question is from the line of Imran Khan from Longbow India.

Imran Khan: Just wanted to confirm, you said 15% margins from next quarter onwards, right?

Shekhar Swarup: Yes. That's what we've got sight of as of now in terms of or rather that's what my expectation is based on the softening of raw material prices, there is fuel prices likely that is sort of happening.

Imran Khan: So you were expecting this 10%, 5% benefit or 500 basis point benefit largely from raw material? Or is it from the...

Shekhar Swarup: Pickup in the consumer business. As mentioned, we saw a temporary softening in the last quarter. The consumer business is picking up again, especially in Haryana, where it is a problem, the softening of raw material. We see realizations remain strong. So we're working towards that, and that is my expectation.

Imran Khan: Just one more thing on ethanol prices, so this new price or the price increase of about two points some paisa, is that a base of March 2022? Or this is on a current basis?

Shekhar Swarup: Can you repeat that question?

Imran Khan: So I was asking this INR 2.5 increase on ethanol prices.

Shekhar Swarup: It's over last year. So ethanol prices are fixed year-on-year. And this is over the last price -- the price that was declared on 1st December 2021.

Imran Khan: Because you have also shared some release, I think early this year, where you have got an interim price increase. So that's not the base, right?

Shekhar Swarup: That's not the base, no.

Moderator: The next question is from the line of Sneha Jain from SKS Capital.

Sneha Jain: I just wanted to know what kind of growth are we seeing, given like we have -- we are looking at some recovery and softening of – I mean, cost pressure and RM pressure as well. So what kind of growth can we see going ahead for the next few quarters and for the long term as well?

Shekhar Swarup: I think that was addressed in an earlier question. Gradually, we hope to come back to 16% to 18% kind of margin levels. As mentioned in earlier calls, the nature of the industry that put in cost increases -- price increases take time, where as cost increases are immediate. We've seen ENA prices react the quickest as was expected. And we've been able to grow ENA prices considerably every quarter. We remain hopeful that despite softening of raw material prices, we should be able to hold on to our ENA prices considering that we operate in deficit states and mostly in deficit states.

And in the areas that we have operations in surplus states such as Haryana and Jharkhand to some extent now, we hope to be marginally more profitable than other players due to our proximity to all marketing company, depots where we will be supplying ethanol. In case of in case of our consumer business, we've seen -- we are hopeful of price increases in West Bengal and in Rajasthan, but that obviously is, again, an annual policy decision.

West Bengal possibly come in, in the next 30 to 60 days whereas Rajasthan will come in, in the next financial year. And ethanol, we've seen around a 5% increase in prices starting 1st of December, which too will help our realization. So as mentioned earlier, gradually, we are seeing increases in realization. We've also begun to see a softening in costs. And for those reasons, I feel margins should now start moving up and go back to the levels that we all want.

Moderator: The next question is from the line of Prithvi Raj from Unifi Capital.

Prithvi Raj: Sir, just one follow-up question. On the income tax rate, earlier, you were mentioning that you will come to the new tax regime. So when can we expect that?

Shekhar Swarup: Yes. So we were expecting the new tax regime to come in from this financial year onwards. However, with the reduction in profit before tax that we've seen this year, it makes more sense to utilize our balance MAT credit as well as take advantage of accelerated depreciation, which is available for this year for us. And this will be completed in this financial year. So next year onwards, we will have no MAT credit, and we will have no benefit of accelerated depreciation to take. So for the next financial year onwards, we will certainly be in the new tax regime, therefore, taking our effective tax rate, which is around about 34% currently to about 17% -- sorry, 25% next year onwards. But today, our cash payout after utilizing MAT credit is about 17%.

Moderator: The next question is from the line of Tarang Agrawal from Old Bridge Capital.

Tarang Agrawal: Just a follow-up. Now that the Jharkand distillery has been commissioned, how is the off-take visibility for you for this quarter and going forward? That's number one. Number two, I'm not sure if this has been addressed, but some trend on how the broken rice price is faring from what they were, say, at the start of the year? And the third is what has been the capex outflow for H1 FY '23?

Shekhar Swarup: Okay. Jharkand capacity is running at full production. We don't anticipate any other way of running this capacity. We have been able to utilize this capacity 100% with ENA, which is currently more profitable than ethanol. We will evaluate whether to run on ENA or ethanol in a quarter-by-quarter fashion.

With regard to price in damaged grain, I don't unfortunately have the figure for earlier this year, but I do know the figure for the peak prices of damaged grain, which is possibly around July, August, maybe coming into September as well. We are down about 10% to 12% on damaged grain prices since then and now. Of course, this is comparison from peak low. This is not an average-to-average comparison. And if that is something that you're looking for, we can provide that to you after the call.

Tarang Agrawal: And capex for H1?

Shekhar Swarup: Right. Nilanjan, could you answer, please?

Nilanjan Sarkar: Yes. The capex outflow for H1 has been INR 82 crores, out of which primarily major one is for Jharkand which is INR 50 crores. We've capitalized Jharkand in the month of September. There's still some work in Jharkand left, but the outflow for this H1 has been INR 82 crores.

Tarang Agrawal: And interest cost -- interest cash flow has been about INR 5 crores, INR 6 crores.

Nilanjan Sarkar: No interest has been interest has been INR 2.51 crores for the current quarter. And for H1, it is INR 4.7 crores. Yes, INR 5 crores, almost INR 5 crores.

Moderator: The next question is from the line of Jathin from InvestSavvy.

Jathin: Yes. I wanted to check on two things. Given that you are moving to a tax regime in the next year on the back of advantages, which you will derive off offset this year, as against the 30%, 33% ICS tax payout for Q1 and Q2, what percentage of tax payout would you be seeing in Q3 and Q4?

Shekhar Swarup : Q3, Q4 effective tax rate will remain at this level. Be that as it may, as I mentioned earlier, our cash payout on tax is only 17%. So the difference between 33% and 17% is the MAT credit that we utilize.

Jathin: So from a P&L perspective, you would still end up paying about 33% tax or 30% tax, whatever?

Shekhar Swarup : Correct. And from next year, this will be 25%. And our cash payout will also be 25%. There will be no MAT credit left, and therefore, we will move to the new tax regime.

Jathin: Okay. The other question is that in terms of -- I think partly I kind of could make out -- the question was asked earlier also that the new capacity that has come up, will it be -- what percentage of it will be rolled out in terms of actually converting into revenue in Q3 and Q4?

Shekhar Swarup : 100%, sir. The Jharkand capacity is operating at 100%, and we expect it to remain at that level. Of course, when I say 100%, this is based on 100% available capacity. So from installed capacity to available capacity, it's about a 5% difference. So around 95% capacity utilization, which is effectively 100%, if you know what I mean.

Jathin: And this is -- so Jharkand actually, as per the presentation seems to have kicked in only around 30th of September, right?

Shekhar Swarup : Right.

Jathin: This quarter, we see the full impact of that, okay. Great. And the additional capacities of 60 KLPD extra on two plants, which are to come up in Q4, I think.

Shekhar Swarup : So Q1, you're going to start seeing that impact revenues in Q1.

Moderator: The next question is from the line of S Louis an Individual Investor.

S Louis: I keenly watch all the developments at Globus Spirits. Having said that, I was expecting that the Jharkand facility would have got on-stream in August as per the last call announcements. Only these days, I realize that it is put to end of September, that means completely out of the quarter. So I would have expected you to intimate the exchanges when such developments happen in the company. That is -- that has got a major or significant contribution to the numbers of the company. So that's one observation or my concern here? That is it.

Shekhar Swarup: Thank you for that feedback.

S Louis: Yes. So please take care of that. In the case of West Bengal, you did that. You had announced in the exchanges, which did not happen. Okay. Now coming to the GST, there was some dispute amounting around INR 34 crores. Now when this is addressed or the redressal happen, will it -- if you win that in your favour, will it add to your bottom line? Or how is it going to account?

Shekhar Swarup: So this matter first needs to be adjudicated by the GST department. We do not expect favourable adjudication based on tracking how GST has been adjudicating other matters of late. So it will then go into appeal which I believe will go to a tribunal, if I'm not mistaken, thereafter high court and possibly Supreme Court as well depends on where we get redressal and where GST department would like to stop challenging.

Eventually, if this goes to Supreme Court and it is in our favour, then this asset will come back into our P&L. You're right. It has probably come in as an exceptional item, but that's something we'll have to take an opinion for from our auditors and accountants. We don't have that clarity as yet.

Moderator: The next question is from the line of Dhruv Kashyap an Individual Investor.

Dhruv Kashyap: Shekhar, I assume that you spent so long in the liquor industry. I just wanted to get a perspective or some color for you on geographical white spaces, not just restricted to the states in India but overseas as well. What's happening very interestingly in the last few months and years? Is that -- a lot of the entry-level liquor segment is being vacated, right?

So when USL cell got acquired by Diageo and how the MNC is focused more on the premium and the more expensive brands, and so there is a significant vacancy that's also getting created in terms of the entry-level spirits section, not just in India but abroad as well. My observations in East Africa was that they're all waiting for their cases of Bagpiper and all which are not really coming. So what's your view on the six, seven priority states in India? As well as do you have any concerted strategy for the Indian drinkers of the cheaper brands in the sort of, let's call it, the less -- I mean, let's call it, the more developing and emerging markets of the world?

Shekhar Swarup: Thanks for that. The correct person to take you through this is Param given his exposure in the Indian market and overseas in the alcohol business. So Param, can I request you to take that?

Paramjit Gill: Thanks, Shekhar. Sir, you're right, what you said exactly is as the events are unfolding. We are still of the firm belief that the attractiveness of Prestige and above is far more lucrative than I think as we went further into that. With respect to exports, yes, we have exports in our line of sight. But as we talk currently, these possibilities are in our line of sight. With respect to the segment of prestige and above, that we are already awaiting. We are not ruling out a possible entry into regular. But in the short, medium term, what all plans we have, they do not as of now include regular segment.

Shekhar Swarup: So just to add to that, Dhruv, what we've seen in the regular category is that these cases become a very, very price sensitive. So for INR 10 a case cheaper, we find the retailer or the distributor shift loyalties. As a result, what we're trying to build is a business that can be in control of its own growth, that is not dependent on other buyers for growth in terms of volume as well as profit -- corporate buyers, I mean, not dependent on corporate buyers.

And in terms of the regular segment, that's exactly the problem that there is. And frankly, we've got enough of a play in that space when it comes to our ENA business or ethanol business. And with regard to the white spaces that are being created, especially in the Indian regular and other category, we do, in fact, have a play over there through our value plus segments, which is far more profitable than the regular segment. So we are trying to address this in two different ways, trying to build a premium offering at the lower end of the price point and attracting consumers pursued some money and be able to get a product that they expect as well as then offering products at the premium price points which allow the consumers to upgrade or to premiumize.

Dhruv Kashyap: Extremely useful, Param. Just a quick follow-up on this, if you could also give some color on the sort of states of India where you are gradually ramping up, which are the white spaces, which you're still entering, etcetera? And what's your play going to look like? I heard seven states, if you could just sort of elaborate a bit more in terms of naming them and where we are in each one of them, etcetera. Very quickly, you don't need to go into very much detail.

Shekhar Swarup : Param, can you take that?

Paramjit Gill: So we have already made a play from this April onwards in West Bengal, Uttar Pradesh and Delhi. As we talked to you, we have entered in the states of Haryana as well as Telangana. And we have a couple of states in line of sight, which obviously, for obvious reasons, we are withholding the names because it does affect our capability of launching and expanding if the opposition gears itself up before adequate time. So the five names are already in front of you. And whatever little is left of it, we will disclose as we go further on the journey.

Dhruv Kashyap: Most useful, sir. And my second and even briefer question is that, Shekhar, correct me if I'm wrong, we were somewhere in the 20-odd crores liter mark and our destination endgame in '25 is to go to 49 crores liters?

Shekhar Swarup: Per annum, you mean?

Dhruv Kashyap: Yes. I mean I'm saying when I convert the KLPD per day into an annual sort of a number, it comes to somewhere between 48 crores and 50 crores liters when all your Brownfield, Greenfield, everything is over?

Shekhar Swarup: Yes. So just give me one moment. So we are currently at about 760 KL, which translates into about 25 crores liters. We've got three more projects left in our pipeline. There's one 20 KL expansion in the East, which will add about 4 crores liters. And then there is Orissa and UP, which we have not finalized the capacities off, but that has a potential of adding another 10 crores liters. So this number will go to about 27 crores and 10 crores, 37 crores liters. That's the rough picture. Of course, like I said, Orissa and UP, we have not finalized capacity. So the number I gave you is pro-forma or tentative.

Dhruv Kashyap: Yes. So assuming that all of this does come through in some shape and form at some time in the future, this would be somewhere between sort of 40 crores and 45 crores liters?

Shekhar Swarup: Yes.

Dhruv Kashyap: From roughly about 20-odd crores that you were at the beginning of this calendar year, right? So that's almost doubling over two years, three years?

Shekhar Swarup: Yes. I think it'd be less than, yes, so maybe less than 20 crores, I think 17 crores, 18 crores is probably where we started this calendar year.

Dhruv Kashyap: So almost 2.5x destination there. My last question, sir, and a very quick one is that the way we are seeing, see the way our business is structured is that the price is not controlled in our hands because we get price increases from the powers that be, at the frequency that we get them. The raw materials are going through the roof, both in terms of input costs, fuel, power or the actual products that you use to sort of convert into finished product. Now my thing is that we were at about a 23%, 24% or maybe a 21% EBIT at the peak, we were at roughly about 11% to 14% last quarter, and we are about 8% this quarter. Now I understand you saying that the destination will look like or 18-ish and not 21-ish eventually when everything is going for us. But how are you seeing the ramp-up from 8% to 18% in the next few quarters? I mean could you give some color or breakdown on that?

Shekhar Swarup: 8 is not entirely due to raw material and fuel prices. 8 is due to a 4% reduction caused by the, how do I say the problems in Haryana, which we explained earlier on the call. So if we adjust for that, it's about 11%, 12%. We need to increase our margins from 11%, 12% to say 17%, 18%. And we have seen, as mentioned earlier, softening in prices of raw material. We expect to remain firm on our ENA prices through the rest of this quarter and the next. So in stages between now and then, of course, there is the price increases in Rajasthan and West Bengal that I expected in early next year and over the next 30 to 60 days, respectively, for Rajasthan and West Bengal. So with these initiatives we hope to get to that point at some point in the next financial year.

Dhruv Kashyap: And in conclusion, as the good old people say that good companies and good teams can't be tapped down for too long. So the going might be tough. But I guess the way you guys are running it, I mean that times are not very far away.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Shekhar Swarup for his closing comments. Over to you, sir.

Shekhar Swarup: Yes. So thank you, everyone, for taking the time to join this call. If we have left out any questions or any further clarifications are required, please contact us or our IR team at Stellar and look forward to speaking to you soon. Bye.

Moderator: Thank you. Ladies and gentlemen, on behalf of Globus Spirits Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.