"Globus Spirits Limited

Q1 FY '24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Globus Spirits Limited Q1 FY '24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Shekhar Swarup, Joint Managing Director, Globus Spirits Limited. Thank you. And over to you, sir.

Shekhar Swarup: Thank you. Good afternoon, everyone, and welcome to our Earnings Call. At Globus Spirits, we have focused on creating a steady business through a well-entrenched distillation asset, as well as laying foundation for growth via our consumer business. Our brand portfolio continues to be possibly the widest in the country, spanning price points ranging from INR100 per bottle to INR2,000 per bottle.

Our plants are designed in such a way that they have flexible inputs and outputs to make the most of the market demand and supply scenario and manage shocks that may come up from time to time. With this as our platform, we have been able to report stable results in the quarter gone by. The installed capacity of the company at the end of Q1 was 765 KL per day. Our second expansion in West Bengal has been commissioned during the course of Q2, and our first expansion in Jharkhand is expected to be commissioned soon. Once complete, our total capacity will be close to 900 KL per day.

In the last month, there has been a temporary disruption of FCI supplies and subsequently, a price increase on ethanol made from maize and broken rice amounting to INR6 and INR4.8, respectively. The government of India is firm in achieving its ethanol blending targets of E20, of which grain ethanol is a significant part. We welcome the proactive steps taken on price increases, and are now converting our orders of ethanol, which was to be supplied from surplus rice to broken rice, as well as maize ethanol.

In the last few quarters, Param and I have spoken to you about all the work that has been happening in the Premium+ space. Our first milestone remains at 20% of our consumer segment revenue share, and with many new and innovative product offerings, along with an expanding distribution presence, we are very excited about the prospects of this segment.

I now request Param to talk a little bit more about this.

Paramjit Singh Gill: Thanks, Shekhar. Good afternoon, everyone. In the overall consumer segment, the aggregate consumer business sales in Q1 FY '24 were up by 14% on quarter-on-quarter basis. The premium segment is showing very promising prospects. Our volumes in Q1 FY '24 were 0.05 million, up by 23% year-on-year and 6% quarter-on-quarter basis. Although the growth came in lower than our expectations in this quarter, we are seeing expected growth return in Q2.

Our brands are now present in UP, West Bengal, Delhi, Haryana, and Punjab. We plan to enter Rajasthan and Jharkhand markets in Q3 or Q4 of this year. Our new offering, Mountain Oak Whisky, which was launched in Q4 of FY '23, having turned up a strong performance, is being expanded from West Bengal to all states. Our flagship product in gin, the TERAI craft gin is going strong and we have decided to widen distribution for TERAI further in existing markets, as well as add new geographies.

In addition, we'll be launching some exciting new products in this calendar year across selective markets, including premium vodka, a brand launch in the fast-growing ready-to-drink segment. We have reorganized our highest price offerings into an umbrella brand called the India Craft Spirit Company, leveraging 4 generations of our promoters' history in the alcohol industry of India. Under this, we will have a new craft malt whisky and new variants of craft gin later this year.

Now coming to the Value and Value Plus segment, our growth trajectory continued with volume growth of 10% quarter-on-quarter to 3.51 million cases, led by improved sales mainly in Rajasthan and Delhi in the Value and Value Plus segments. The Value Plus and premium realization witnessed a growth of 5% year-on-year and 16% quarter-on-quarter to INR557 per case. This was led by price increases in Rajasthan. Globus Green, which was launched in FY '23, has crossed 4% market share in the whisky flavour already, and is gaining strength progressively.

We are continuing to work on expanding its presence across shelves towards this. In Q3, we intend focusing, increasing our focus on Black Lace Rum, which fared very well last year as you'll recall. We had also launched the Kevda flavour in the value segment last year. I'm glad to say because of our innovative product offerings, GSL market share in Rajasthan improved further to 35% in Q1 of FY '24 from 33% in Q4 of FY '23. And overall, Rajasthan enjoys a 55% market share in RML.

In Haryana, our strategy to creating a sustainable business model is playing out, and we have consciously begun to start reinvesting. We hope to see growth return in Haryana in the next financial year. In West Bengal, in line with our belief in the future of the Value Plus segment, we continue to invest in this yet missing segment. West Bengal market remains a medium to long-term play for us.

I'll now request Nilanjan to take the lead. Thank you.

Nilanjan Sarkar: Thank you, sir. Good afternoon, everyone.

As illustrated in the Investor Presentation, the Q1 EBITDA margins were 14%, excluding IMFL investments, higher consumer segment realization, led by price increases in Rajasthan. Decline in coal rate by 8% quarter-on-quarter helps to offset the continued cost push of grains, which were up by 6% quarter-on-quarter.

Going forward, we see some impact on revenue and margins in Q2 due to closures in the West Bengal, and Jharkhand plant as FCI abruptly stopped supplies of surplus rice. It has taken us around 10 days to 12 days to restart plants on maize and broken rice. The export ban on rice and the price increase on ethanol will support margins and raw material availability as we get into the new crop season from end of quarter 3.

Between June and August, grain rates have grown by around 10%. However, AFS and fuel rates have been favourable and will help partially mitigate the impact of grain cost increase. Animal feed supplement rate grew by 6% quarter 1 over quarter 4 and have grown by 20% between June and August. Fuel costs on the other end have reduced by another 6% between June and August. As we get into the festive season, the demand increase for ENA will help increase ENA prices and grow the margin on ENA due to higher grain rates.

With this, I request the moderator to open the call to questions. Thank you.

Moderator: The first question is from the line of Dhruv Kashyap, Individual Investor.

Dhruv Kashyap: So presumably, we are trying to make a sort of sustained franchise a business where, as you said, we want to sort of increase our consumer part of the business contribution, which always gives us greater pricing power, the ability to build brands, etc. Now, having said that, I'm guessing that there are 2 parts to it, right? There's the managing the today and there's a transitioning towards the more sort of long term consumer sort of facing goal.

Now, in the interim, given that we have an ethanol and an ENA sort of part of our bulk manufacturing business, would you just shed some light, and I'm sure this would be useful for everybody on this call that as far as ethanol blending is concerned, there is this whole variable of raw materials, right, so corn versus FCI, rice versus broken rice from the market.

The second variable, I'm guessing, would be the yield or the conversion of that raw material into number of liters that a tonne of that produces. And the third would be the offtake price by the OMCs, which would be different for each of the categories of ethanol basis, what grain is being, used. So would you be able to shed some light on how this all adds up in terms of FCI rice not coming? Are we getting broken grain and maize from the outside market as much as we want, at what price?

What's the offtake price given that there's an interim price increase that OMCs have given? So how does this all pan out in terms of the likely margin structure with, obviously, the assumption that we have, the fungibility to use all of these to make ethanol, so production should not be an issue, and the fact that I'm assuming that we've already restarted production after the 10-, 12-day disruption?

Shekhar Swarup: Yes. So, you're very right in terms of understanding our business in terms of where we are currently and where we are going. In this period, obviously, there is a time when a pretty significant share of our revenue comes from the ethanol or the ENA business. There is, you spoke about variables between surplus rice, maize, broken rice, the recoveries of each raw material as well as the pricing. Well, there is another variable, which is the fungibility between ENA and ethanol. We have the option of switching off ENA supplies in favor of ethanol and vice versa at over 50% of our installed capacity base. So in this year, the entire grain ethanol supplies of the country, not just of Globus Spirits were to come from FCI rice.

For whatever reason, FCI has, of course, stopped supplies of this rice and the industry, therefore, had to rely on other raw materials. The industry has then requested for price corrections because it just wasn't making sense the price of ethanol from rice or maize considering where raw material prices were or are currently.

And that price increase came through at INR6 and nearly INR5 for maize and broken rice. At this level, the margins on ethanol are not the same as that for FCI. In some areas, these margins are less than what we can get on ENA. And in some states, it's vice versa. ENA margins are a little bit lower. So at Globus, what we have, therefore, needed to do in the last, I'd say, 15 days, 20 days now is reorganize our sales mix between ENA.

Shekhar Swarup: Okay. So what we've had to do in the last 15 days to 20 days is that we've had to reorganize our entire sales mix between maize ethanol, broken rice ethanol and ENA. So, for example, in Jharkhand in the month of August, which the capacity have been running on ethanol, in the month of August, Jharkhand will be running 100% on ENA. Whereas the West Bengal, second plant will be running or is running on broken rice and maize in a combination. It's not exclusively on broken rice. It would be running in a combination of both raw materials.

So in this fashion, state-to-state, we take a call on what raw material mix makes sense and what outputs makes sense, whether ENA or ethanol. Like Nilanjan mentioned, whereas grain rates are high, even now there has been further decrease in fuel, there has been a further gain on animal feed prices. So, we see some of the margin fall being mitigated, but considering the closures that happen for a certain period of time, both revenue and margin on -- the ENA and ethanol business will be affected in Q2.

And as we get into Q3, we'll start getting new crop. There's going to be an abundant supply of rice in India in the next crop year. So, that's when things will start going back to, say, Q4, Q1 kind of levels and hopefully, further growth thereafter.

Dhruv Kashyap: Excellent. I mean, that's like a very comprehensive and proactive answer, which one always gets in Globus. A follow up on that. So presumably the restart of production has happened across the board, whether it is on ENA or ethanol of all the plants. And if you're talking about a certain amount of top line loss because of the shutdown on ethanol and ENA, I'm also assuming that like any other business, there are leaks and fills. So as you mentioned, the energy basket cost is coming down. My understanding is also that the absolute grain price of the 45 days of this quarter, first July to 15th August is actually lower than the whole 90-days of last quarter.

Shekhar Swarup: I'm sorry. Can you repeat that last bit? I didn't quite follow up.

Dhruv Kashyap: Okay. So the last bit, what I mentioned was that at least from what I have been studying of the market and I might be completely wrong. So it's for you to correct me, that the last 45 days, which is 1st July to 15th August, the average grain price is actually a little lesser than the 90-day average of April to June.

Shekhar Swarup: No, that is not correct. We've seen increases in April to June over Jan to March, and thereafter, we've seen increases again between July and August.

Dhruv Kashyap: Okay. So to the earlier part of my question that have we restarted and will we be able to sort of go full throttle so that we minimize the damage to the top line and the bottom line to Q2 on account of just ethanol and ENA?

Shekhar Swarup: I do see that. As of now, I do see that. Aside from the period when supply chain was disrupted, and in fact, if FCI had done this in a planned manner, even that disruption would've been minimized, if not completely removed. I don't see a challenge in utilizing our capacity currently. So aside from that time, I don't see any challenge in utilizing our capacities.

Dhruv Kashyap: Excellent. And my second question is more on the consumer side of the business. So if you pick up IMIL first. Now, if my understanding is correct that there are a lot of states in the country where we are not even allowed to do IMIL, right? So for example, some states of the south, etc. So given where we are allowed, are we like fairly present or are we planning to go?

And within the depth of the product portfolio, are we fairly penetrated in terms of the product segments in IMIL? Because I also understand that we are the pioneers of creating a new segment, which is the, I think it's called RML or something. So just wanted to get a sense that, are we fairly well-entrenched both in terms of width and depth on IMIL? Or is there sort of miles to go before we rest?

Shekhar Swarup: So the answer to most of these questions are state-by-state. So the first part of your question where IMIL or Value, Value Plus segments don't exist in some states, well, that's partially correct. There is always a low price segment in every state. Now in some states, that low price segment has IMFL attributes. So same strength as IMFL, 42.8% or thereabouts. It's either called a whisky or vodka or some of these international product categories. And in those states, the category is just called a cheap or economy IMFL.

In other states, which don't, which actually separate this into a different product category, which has a lower alcohol strength and different flavour attributes, there this category is called IMIL or country liquor.

So every state in India will have a cheap or an economy segment. You can call it different things. Globus' strategy in addressing the economy segments has always been that we will have a fully integrated operation in that state, which means we will produce our ENA, we will bottle it ourselves and we'll distribute the product ourselves.

What this strategy gives us is a sort of, how do I say, ability to sustain margins and grow our business regardless of the various cycles that exist, whether it's commodity cycle or ENA cycles. If we are to buy ENA and only bottle, then our margins in the economy segments are very, very volatile. But in an integrated model, they're little more stable. As a result, we only operate the segment in the states of Rajasthan, Haryana, West Bengal currently. We'll be adding Jharkhand in the future.

Even though Jharkhand is currently a very, very small industry, it is something that we will start in the future and Uttar Pradesh, which is a very, very large, Value, Value Plus industry, but also very mature. We will be launching there as well in the future. Besides these 5 states, as of now, we do not intend on, we also have Delhi. So besides these 6 states, we don't intend on launching Value, Value Plus anywhere else in the country as of now.

Let's see in the future where opportunities come up. And within these states, I think Rajasthan and Delhi are the 2 mature markets for us in terms of distribution presence. Haryana and West Bengal are where the opportunities for tremendous growth exists, and Param spoke about that in his opening remarks as well. But currently, the sort of backbone of this business is Rajasthan and Delhi.

Dhruv Kashyap: Perfect. Would it be fair to say that there's a slight correction that Odisha also would get added, or are we not looking at doing IMIL and Odisha when we set up a plant there?

Shekhar Swarup: So, Odisha plant is there is no consumer business that is planned. So, Odisha market for IMIL is very different, and I can talk about that, take you through that on a later date. But suffice it to say, we do not see opportunity for Globus in the Value, Value Plus consumer market in Odisha.

Moderator: Dhruv, I'm sorry to interrupt you. I'll request you to join the queue again for a follow-up question. Next question is from the line of Nitin Awasthi: from InCred Equities.

Nitin Awasthi: Param sir, firstly, the presentation of the company is getting better every quarter as it goes by, is giving more data out and explaining the what and the why of the quarter better. So that's something that requires a shoutout for. So thanks for that from the analyst community side. The first question I had was simply put, why is the gross profit margin lower despite everything being in our favor.

Shekhar Swarup: So why is the gross margin, what?

Nitin Awasthi: Gross profit margin lower this quarter.

Shekhar Swarup: Okay. Nilanjan, can you talk a little bit about that?

Nilanjan Sarkar: Yes. See, our gross -- the computation of gross margin takes into account my cost of raw material consumed and cost of packing material consumed, right? And my cost of raw material consumed, as Shekhar has pointed out in his opening speech and also my speech, has increased on quarter-on-quarter. That's one of the main reason the gross margins impact has come down.

Nitin Awasthi: Understood. So are you saying that the costs during Q1 of raw materials is basically a rise, although FCI was still supplying rice, was higher than it was in Q4?

Shekhar Swarup: Yes. So let me comment on that, Nilanjan. So FCI rice is only for ethanol. For the rest of our business, we need to buy rice from the open market. So whereas FCI rice, of course, was stable, but the other broken rice that we purchased, prices went up in Q1 over Q4.

Nitin Awasthi: Understood. So sir, second question is we have seen a significant loss in our IMIL volumes. In which state have you made those losses and what has been the reason?

Shekhar Swarup: Drop in volume over last year or over, I mean, Q4 -- Q-on-Q, I think we're up, right?

Nitin Awasthi: Yes. Q-on-q, you are up. Y-on-Y, you are down.

Shekhar Swarup: Okay. Param, can you talk a little bit about that, please?

Paramjit Singh Gill: Yes. As Shekhar has just mentioned, Nitin, that Q-on-Q, we are up. On year-on-year, we are soft for the simple reason, mainly led by Haryana because we had called out that in Haryana, we had pulled back our investments because we were seeing that the state direction was giving us pressure on our margins.

Now, at this point of time, we've just begin to start reinvesting in Haryana and we see this investment strategy play out as we go into the moving forward quarters and slowly growth will start coming back. The choice we had made was to make sure that we do business with margins rather than keep on allowing margins to get tapered to the point where it does not make business sense for us. So the major shortfall came from Haryana.

Nitin Awasthi: So almost all of this volume 0.4 million cases, which you have lost is all from Haryana?

Paramjit Singh Gill: Sorry. Say that again?

Nitin Awasthi: The volumes, 0.4 million cases all from Haryana?

Shekhar Swarup: Almost all is Haryana.

Nitin Awasthi: If I were to take that number into account, that would mean that your sales in Haryana would've been negligible? You have almost pulled out of the market.

Paramjit Singh Gill: They're small. They're not negligible, but they're relatively, they've come down quite a bit. Yes.

Nitin Awasthi: Okay. Any strategy for the state going ahead? Will you add it back?

Paramjit Singh Gill: As I just said that we have seen the environment has corrected itself and we have just begun reinvesting. And we expect to gain and to start yielding results as we keep going forward in the current period.

Shekhar Swarup: So, I think next year at some point, we should start seeing some meaningful numbers from Haryana again. That's where our strategy currently stands in Haryana.

Nitin Awasthi: Understood. Understood, sir. Sir, last question from my side. RML versus IMIL in Rajasthan, the percentage share or the boon or the growth that RML was seeing is tapering off according to the common data, if I'm right, but if I'm right, is that correct? And if that is what's happening in the market right now, that IMIL is again gaining back popularity compared to RML?

Shekhar Swarup: So, I can take that, Param, if you like. So last year, there had been a change in the policy for the medium segment or the Value Plus segment. And if you recollect, we had said that there will be de-growth in the last year and thereafter, growth will return from that base. So what we are seeing now in Q1, in fact, also in Q2 is that there is growth in Rajasthan from that reduced base of last year.

Moderator: Next question is from the line of Reshab Sisodiya from Sameeksha Capital.

Reshab Sisodiya: Yes. I had some 2 quick questions. So on the capacity front.

Moderator: I'm sorry to interrupt you, but we are losing your audio. Can you come in a better reception area, please?

Reshab Sisodiya: Now is it better?

Moderator: Yes.

Reshab Sisodiya: Yes. So, my question is on the capacity addition. So if I look at our IPs, so currently, we'd be adding in Jharkhand and Bihar for the current year, right? So beyond that.

Shekhar Swarup: Jharkhand, Bihar, and West Bengal.

Reshab Sisodiya: Okay. So beyond that...

Shekhar Swarup: Approximately 140 KL per day is being added, 60 each in Jharkhand and Bengal, and about 20, I believe -- yes, 20 in Bihar.

Reshab Sisodiya: So most probably by the end of FY '24, we would again get 100% capacity utilization level. And beyond that, the capex would come in, I believe, in FY '25, right?

Shekhar Swarup: Yes. So we have, we can start construction in Odisha during the course of this year. Uttar Pradesh, we start construction of the bottling plant. The ENA plant is currently maybe in the next, I think Q1 probably we'll start construction there. So yes, I think, the end of FY '25, we will get more capacity coming on.

Reshab Sisodiya: So most likely in FY '25, our manufacturing segment would see almost volume flattish compared to FY '24?

Shekhar Swarup: Yes. You'll see this little growth, right? I mean, Q4 of last year, we had some maintenance closures. Q1, you had closures because of FCI. So, you'll see this growth. But effectively, on an installed capacity level, yes, there will be no growth in capacities, installed capacities in the next financial year.

Reshab Sisodiya: Okay. That's okay. And on the consumer front, so you have mentioned that you are looking at getting into the ready-to-drink segment as well. So if you could shed more color on that?

Shekhar Swarup: So as of now, we don't have further information to provide, except from the fact that we are looking at this segment. We've got a product. Our innovation team is working on developing a product there. In fact -- how do I say it? Advanced stages of development and testing that are happening right now. So besides that, we don't have any further information to provide at the current stage.

Paramjit Singh Gill: Yes. Just want to add to what Shekhar said, you see as earlier also it came up in discussion that we have a -- as part of our strategy, looking after today, tomorrow, and then there is something we are working on day after tomorrow as well. So, this is in line with one of the things that we are working on with evolving consumer behaviour. So as time will keep going by, we will share more and more details of our progress on the fronts that we are opening up towards evolving consumer behaviours.

Moderator: Next question is from the line of Sarvesh Gupta from Maximal Capital.

Sarvesh Gupta: Sir, with this maize and broken rice that you will now be using instead of the FCI rice, that will also increase the fluctuation, I guess, in the margins because maize prices may not be as or less volatile like FCI prices. So do you envisage a volatile characteristic in your margin, number one?

And secondly, do you also see like your margins coming down because of -- I mean, net-net, as of now, where will be your margins compared to the case where you were using FCI rice?

Shekhar Swarup: Right. So yes, you're absolutely right. I mean, broken, FCI rice with a stable pricing environment for our raw material. Of course, with the change to buying raw material from the open market, there will be more volatility. The good news is that maize prices or maize crops are growing, plus the maize ethanol rates are now a little more viable.

As a result, we have flexibility between broken rice and maize, not just for ethanol, but even for our ENA business. So for example, in Rajasthan where we don't make any ethanol, entirely ENA and consumer, we are also starting to use maize as a part of our raw material mix over there. So the fact that we can mix our raw material will hedge the volatility. But yes, as compared to FCI, there would be a slightly greater volatility.

With regards to how margins will evolve, I mean I did give some color on this earlier on in the call, where Q2 will be reduced because of the shocks that came in, number one. Number two, broken rice, and maize are still not as profitable as FCI was. But going into Q3, end of Q3 and Q4, when we start getting the new crop of rice and also a maize crop, I think in end October, margin will start moving closer to Q4, Q1 levels towards the end of Q3 and Q4.

Sarvesh Gupta: Understood. Sir, net-net, I mean, as things stand now, what is the expectation of the margins for the entire year?

Shekhar Swarup: I mean, the next 3 months, as of now what I can say, the next 3 months, meaning August, September, October, it's difficult for me to give an exact number. But I can say that November, December onwards, we'll be back at Q4, Q1 kind of levels. So these 3 months, 4 months, it's difficult for me to give an exact number. I do see a 1% or 2% drop for sure, but it'll be difficult for me to give an exact number for these 3 months to 4 months. So the rest of the period, I feel Q4, Q1 kind of levels are sustainable.

Sarvesh Gupta: Understood. And on your consumer business, if I look at your Y-o-Y numbers, which is probably more apt given the seasonality and everything. Looks like the numbers have come out to be very, very weak in terms of the volumes. Even in a prestige and above IMFL, we are seeing only a 5% sort of a growth at such a small base. The expectation would be a much higher, higher growth. So why that delivery and execution has been poor across consumer business and especially in IMFL?

Shekhar Swarup: I think you're absolutely right. IMFL volumes have not grown as per our expectations in Q1 and Param spoke about that in his opening remarks.

Param, can you take this one forward, please?

Paramjit Singh Gill: Yes. So we must see it in 2 contexts. One is what we are looking at this year in Q1 is the actual offtake trend of what has happened. Keeping in mind, we must remember that last year when we had introduced brands, we had spread the pipeline and those numbers were filling off the pipeline one time. However, in the first year and the first quarter, that aberration is always there because now we are -- what we are seeing is a replenishment of the pipeline. So that always happens when the brand is first introduced or the range is first introduced.

Second is we did begin the quarter a little slow because of some supply issues at the beginning of the quarter. They didn't last too long and they were corrected immediately. So that challenge did put us a couple of steps behind in terms of the delivery of the quarter. But having said that, we are absolutely on track for our trajectory and you will see that as we go forward, that works will start becoming much more robust as we have been indicating.

Sarvesh Gupta: So for the full year, what should be the expectation for IMFL and overall consumer revenues sort of a growth?

Paramjit Singh Gill: So, I mean, instead of pegging it, our dream would be to double our IMFL business at this stage. That will be a good number to sort of strive for. Obviously, there we are evolving business and we have just completed our first full year and we are opening up new geographies, expanding our portfolio and building penetration for our plants. But as a benchmark, doubling volumes is a good ambitious driver for us.

Sarvesh Gupta: And 5% to 7% sort of a growth in Value and Value Plus?

Shekhar Swarup: I think Value, Value Plus will grow a little bit more this year. If you look at it from a quarter-on-quarter basis this year, the growth will be a little bit higher. Last year, I think in Q2, we slowed down investment in Haryana. So maybe up until Q2, there may be a reduced growth year-on-year, but then Q3 onwards, that should come back too from a year-on-year basis.

Sarvesh Gupta: Understood. And in terms of your, I mean, apart from this, have you also sort of recalibrated any of your expansion plan on the manufacturing side given the sort of a regulatory sort of an uncertainty to an extent, which has been introduced because of the recent moves?

Shekhar Swarup: So, I think we've had a lot of discussion on this, obviously, the last 15 days internally. And one of the things we found was that Globus has chosen certain strategic states and sized investments in those states at a certain level. I mean, our target was to get to say around 1,000 KL per day of capacity. We could have grown that in Haryana and maybe 1 or 2 states, but we chose not to do that. And in fact, grow, with smaller capacities in larger number of states.

And one of the greatest reasons for that is the risk of policy that is intrinsic in our business. Whereas an event like what has happened in the last 15 days, 20 days is not ideal and certainly not something we've wanted, but it is something that we have factored in as a risk when we invest in distillery assets.

And for that reason, we do sizing and multi-feed and multi output. I don't see any massive change in our capex plans. So as of now, our capex plans are steady as per what they have been. So UP and Odisha are the 2 new facilities that are to come up. Odisha is going to be a more ethanol, or a distillation business weighted play, whereas UP is a more consumer business weighted play. This kind of event is something we understand. But from a long-term point of view, we are still very firm in our fundamental prospects of the ENA, ethanol, and consumer business of the country.

Moderator: Sarvesh, sorry to interrupt you. I'll request you to join the queue again for a follow-up question. Next question is from the line of Imran from Longbow India Capital.

Imran: Can you please share your power and fuel costs in the absolute terms?

Nilanjan Sarkar: In absolute terms, in coal, we are averaging around about 8.25 per kg. That's the power and fuel. We mainly use coal and in half cost at 8.2.

Imran: Sir, what would be the absolute figure for the quarter, last quarter?

Nilanjan Sarkar: Absolute figure for power and fuel for last quarter is INR67,70,00,000.

Imran: Okay. And just one more thing. Last quarter you must have got price increases in Rajasthan, right, for your IMIL business?

Shekhar Swarup: Yes. In April, we got a price increase.

Imran: So despite the price hike, our margins are lower. So does it mean that the raw material inflation was very, very high in the last quarter?

Shekhar Swarup: Yes. As mentioned, our raw material inflation, our grain rates are up by 10%, though, we had a tapering of our fuel rates, but our grain rates were up by 10%.

Imran: Right. And the latest announcement of increases in ethanol prices, it happened across the country, right, not just in West Bengal and Jharkhand?

Shekhar Swarup: No, ethanol price increase is across the country.

Imran: So then my question to you, sir, is going forward, you have seen disruption in West Bengal and Jharkhand on the FCI rice supply. But in the other states, I'm assuming, let's say, Rajasthan or Haryana, you would not face any major challenges to procure. Wouldn't be a positive net-net for you going forward, given the prices increases are very, very decent?

Imran: The price increases are nationwide on the ethanol and the problems that you faced in the last quarter or maybe now are only in West Bengal and Jharkhand. So don't you think net-net, it should be a positive thing for you, given you have got price increases across your plants?

Shekhar Swarup: Can I take that, Nilanjan?

Nilanjan Sarkar: Yes. Please.

Shekhar Swarup: So firstly, the reason we did not have such a significant disruption in Bihar and Haryana is because we had stocks of FCI rice. In Bengal and Jharkhand, we had lower stocks. We were in process of building up our stocks when this abrupt stoppage happened. So that's why Jharkhand and Bengal faced the brunt of this problem.

Even in Haryana and Bihar, we're now having to not buy FCI rice and buy maize and broken rice in the market. And the price increases of this material are -- I mean, are welcome, of course, but they're not enough to -- it's still more profitable to make ethanol from FCI than from a broken rice or maize despite the price increases. So, I hope that answers your question.

Imran: Yes. This is very helpful. My last question is on your Haryana unit. I think 2, 3 quarters back, you had some problem of aging equipment, etc. So, is it fair to assume that now this is behind and you are working at a decent capacity utilization in Haryana?

Shekhar Swarup: Yes. So it is fair to assume that in Haryana, there is one project we have to take up. We have not yet scheduled it, but we've decided to take it up, which is going to be a modernization in both our boilers to run multi-fuel. Currently, only one boiler can run multi-fuel. Currently, we don't see enough price arbitrage to be able to go ahead with that project. But for the rest of this year, there will be no sort of extended planned maintenance closures in Haryana.

Moderator: Next question is from the line of Dinesh, Individual Investor.

Dinesh: Yes. I have a couple of questions. My first question is on the margin side. Of course, due to this current scenario, there can be a fluctuation in the margin. But previously, there was a guidance that the margin can go up to 18% from 16%. So once this FCI issue gets resolved and other softening of the raw materials, can you expect the margin to easily go up to 18%, or will there any challenge in reaching the 18% level?

Shekhar Swarup: I mean, I don't want to say no to that. But what I do -- what I can say right now is that the visibility I have given this new environment of FCI not supplying rice, the visibility I have is that from the end of Q3 and Q4, we will get back to Q4, Q1 kind of margins. The period between now and say, November, December is going to be at lower margins.

I had said already up to 1% to 2% reduction is what I certainly see right now. But let's see how this time pans out. We are supported by reducing, an environment of reducing fuel rates and increasing animal feed rates, also increasing ENA rates. So, those things are supporting us. But till such time as the new crop of rice comes in, in November, December as well as of maize towards the end of October, I do foresee that raw material prices will continue to remain quite high.

Dinesh: Okay. Got it, sir. And my second question is on the segment side. In presentation, Slide 5, it was mentioned that the company is looking to enter new markets both in domestic as well as exports in the prestige and above segment. So, what are the new markets which the company is currently looking at an opportunity to enter?

Shekhar Swarup: Currently, Param mentioned in his opening remarks, we've got Jharkhand and Rajasthan land up for the second half of this year for new launches within India. For exports, we are in discussion with distributors. But as of now, nothing is concrete or lined up. It is something that we possibly will take up a little more aggressively in the next financial year.

Dinesh: So just a follow-up to that. Even in the ready-to-drink segment also you just mentioned that 4 strategic markets are initially selected. So can you please name those 4? What are those markets?

Shekhar Swarup: I mean, these are the markets that we operate in right now. So, we are not going to be in additional core new markets. But within these markets, we will pick 4. Within the 7 markets, which includes Rajasthan and Jharkhand we'll pick 4. As of now, due to competition reasons and strategic reasons, I'm not able to name those 4.

Dinesh: Okay. So just one last one, sir. In the previous call, it has been mentioned that in this financial year, the IMFL segment can be able to double the volumes. So do we still stand on that, sir, looking at the current scenario?

Shekhar Swarup: Yes. I think doubling our volume is the target for this year, along with around 10% Q-on-Q kind of growth rate in the Value, Value Plus segments. Those are our targets for this year.

Moderator: Next question is from the line of Dhruv Kashyap, Individual Investor.

Dhruv Kashyap: Yes. So, I've rejoined the queue. And building upon what we were discussing earlier, so like we said, the endeavour in principle would be that we move as much of more and more of our capacities to consumer-facing franchises and businesses. But in the meanwhile, of course, there will be a large component of ENA and ethanol and you've spoken about the fungibility. So just to understand this better and as I see the business, there is a, let's say a raw material costs, so whether it's corn or broken rice or FCI, or any kind of grain.

The second is really a fuel cost used in the factory to convert it to ethanol, to convert it to ENA or ethanol. And the third would be primary and secondary packaging, etc. So, this would largely be the raw material and the sort of production, finishing costs as you would call it. Now, having seen this and the volatility and all of it, the volatility in the offtake pricing, what is your thoughts of -- I mean, is it -- and you've mentioned it state to state, but how do you see this whole picture that -- because I'm trying to understand that how do we decommodify the business?

Shekhar Swarup: Well, let me attempt to answer your question. De-commoditizing the business has to come from the consumer business. The rest of the business is a commoditized sort of business, I mean, albeit a higher margin commoditized business as compared to most other commodity businesses in India because we have the flexibility between ENA and ethanol. This industry has a higher margin than most other commodity businesses in the country.

So the only way really to do that is to build on our consumer business, get it to first, back to 50% revenue share. I mean, our manufacturing side of the business has grown very fast in the last 2 years or 3 years. So even though there has been growth in the consumer business, but the manufacturing business has grown much faster in this period.

So get it back to 50% consumer business share, and then get to the next milestone, which could be, I don't know, 60%, 65% kind of revenue share. At a 50-50, it's a very good and healthy mix between the 2 businesses. And I frankly really look forward to that. It's difficult for me to say whether it's going to happen in 2 years or 3 years. It's certainly a medium to long-term target, given that our manufacturing business will again grow in FY '26. So it's a very difficult number for me to really fix in terms of which year we will get there. But that is a KPI that I'm very keenly monitoring.

Dhruv Kashyap: Okay. So if I was to -- my second question on -- we were on the IMFL topic when I came back in the queue. So, you had mentioned earlier that you are entering states and there's a certain amount of sort of interaction and interchangeability and you're trying to build upon 8 states. Is that also how you would go about IMFL in terms of the product vertical as well as the geographical vertical? I mean, what's your IMFL strategy, if you could just give a little bit more color on that?

Shekhar Swarup: So if I understand your question correctly, you want to know why we pick the states we pick?

Dhruv Kashyap: Not Necessarily. I mean, I've understood the IML or you mentioned that some places it's called economy IMFL, etc. I've understood that part. But when we come specifically to our prestige and above segment, I meant that part of the IMFL. What's really the strategy in terms of, given it's such a small part and we want to endeavour to take it to 20%? So if you could just shed some color on what's the path to success and when do you see that happen?

Shekhar Swarup: Sure. So Param, can you take this one?

Paramjit Singh Gill: Yes. I'll do that. So thanks, Dhruv. So the first thing is the picking of the geography itself is the geography, which indicates our right to win. The segments that we want to play in, the segments have to have enough margins. The route to market in that state should allow a player, which is a new entrant to have a fair play and make inroads and a clean timeframe in which to define his or her success. And once we are doing that, the whole purpose is that one is we are starting off a small base. So, our growths will be much, much higher than the main IMIL business, which is a bigger driver at this point of time.

And second is our is a higher margin product and more and more consumers are evolving. Consumers, as we see, will keep on drawing into this segment. And we started with 3 states. We moved to 4. We moved to 5. We are moving to 6, 7. And over a period of time, our portfolio will slowly start expanding our route-to-market capabilities as well as our key account activities. All of them will start building strength and we see our numbers, which are currently at 4%, continue to inch up and strive in the medium term in the zone of 20% as we have predicted.

Dhruv Kashyap: Right. That really, really helps a lot. Can I flip in a quick last 10-second question or should I rejoin the queue?

Paramjit Singh Gill: Go ahead, please.

Shekhar Swarup: Go ahead.

Dhruv Kashyap: Okay. Great. So, Shekhar, my last question was more on the current quarter and the year now. So given we are 45 days into it and you had corrected my understanding that the grain prices aren't actually lower than April, May, June, and the fact that we've lost some production as well. And my understanding is that now we are going full throttle state-wise, whether we are doing ENA or ethanol or the consumer part from it.

So would you be able to give a sense of what kind of top line, bottom line loss are we looking at? I mean, considering that the last quarter, the July, August, September quarter in 2022, I think we had done a profit of only INR22 crores. So are you looking at something that is significantly impacted? Or are you looking at some sort of correction from the current numbers?

Shekhar Swarup: From a margin standpoint, a 2% kind of number is something I do see.

Dhruv Kashyap: Yes. But there will also be a top line loss, right? So, I'm just trying to understand that from a top line flow through to the bottom line, what is the kind of impact we are looking at, if you were to compare it to this quarter, which has just gone by?

Shekhar Swarup: Top line, Nilanjan, do you have an estimate on that? I think for 2 of our plants, we were closed for about 10 days, 12 days, right? So, I don't know if you've made an estimate on what is the top line.

Nilanjan Sarkar: We'll get back on that. But from the top line, only for 2 of our plants where we had to stop because of our FCI abrupt production. We lost about 16 lakh liters of production there, sale there. But making an estimate on what would be the decline over quarter 1 is too early at this point of time. But as you have said, on a margin decline, 1% or 2% could be a margin decline.

Dhruv Kashyap: But would it be possible to make some sort of forecast in terms of...

Shekhar Swarup: Back of the envelope, we lost about 40 lakh liters to 50 lakh liters of production.

Nilanjan Sarkar: Yes.

Shekhar Swarup: Yes. And per liter, say about INR60 is your selling price, plus there is another INR8, INR9 of animal feed revenue that you get. So, INR67, INR68 on INR50 lakhs versus that is envelope. I'm just doing this off the top of my head.

Dhruv Kashyap: Agreed. So that's about INR30 crores, INR40 crores lost in top line. But some of that I'm presuming could also be made up on the IMIL and IMFL business, which is apparently going full steam ahead into the second half of the year?

Shekhar Swarup: You're absolutely right. But like I said, like Nilanjan said, we do not have an estimate. But off the top of my head, that's what I could calculate right now.

Dhruv Kashyap: Very helpful. And that's it from my side. And Shekhar, it's always -- it's a great learning experience interacting with you and your team for me.

Moderator: Next question is from the line of Imran from Longbow India Capital.

Imran: Sir, my question is on again coal, the power and fuel mix cost. See, last quarter compared to Q4, coal auction pricing was basically down about 15%, 17%. And your power usage remained basically flat or same, what it was in Q4. So can you explain the reason for this?

Shekhar Swarup: I mean, some of it's to do with our volume as well, right, because there are changes happening all the time in terms of installed capacity and utilized capacity. But in terms of coal rates, there's an 8% decrease in Q1 as compared to Q2. And there's been a further reduction in Q2, I think it's another 7%, 8%. Nilanjan, correct me if I'm wrong.

Nilanjan Sarkar: Yes.

Imran: And I think you also took that initiative to reduce the power and fuel usage in your plant. So where are we on that site?

Shekhar Swarup: So, that was a trial we did in West Bengal. We'll be taking it to the other plants. I think in Q3, you'll see a little more of that coming in Jharkhand and in Bengal and in Bihar. So, these 3 states in Q3 -- Q2, Q3, you'll have that impact. In Haryana and in Rajasthan, we require modifications in plants to make the same changes. So as of now, we have not extended it into those 2 states for the current year. Possibly in the next year, we can take that out.

Imran: Right. And just one last thing on the taxes. So this quarter, we are about 25%. So, we have shifted to the new regime for tax computation?

Nilanjan Sarkar: Yes. Yes, we have shifted to the new regime.

Moderator: Thank you very much. As there are no further questions, I'll now hand the conference over to the management for closing comments. Yes.

Shekhar Swarup: Yes. Thank you. Thank you so much for joining our call. As always, we are available for any further questions you may have. Please do write to our Investor Relations team in case there is any further discussion. Thank you again and have a good day.

Paramjit Singh Gill: Thank you.

Moderator: Thank you very much. On behalf of Globus Spirits Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.