



# GLOBUS SPIRITS LIMITED

## Q3 & 9M FY2010 Earnings Conference Call

### January 28, 2010 at 11:30 am

**Moderator:** Ladies and gentleman, good morning and welcome to the Globus Spirits Limited Q3 and 9M FY10 Earnings Conference Call. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing \* and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Ishan Selarka of Citigate Dewe Rogerson. Thank you and over to you, Sir.

**Ishan Selarka:** Thank you, Melissa. Good morning everyone and welcome to Globus Spirits Limited Q3 and 9MFY10 earnings conference call. Today, we have with us Mr. Ajay Kumar Swarup, Managing Director, Mr. Shekhar Swarup, Vice President IMFL and Dr. Bhaskar Roy, Director of Finance and CFO of the Company. We will commence the conference call with opening remarks from Mr. Ajay Swarup and Dr. Roy, which will be followed by an interactive question and answer session. Please note that some of the statements made in this conference call may be forward looking and a note to that effect was sent out to you earlier. I would now like to invite Mr. Ajay Swarup to share his perspectives with regards to the Company's performance during the quarter and the opportunities going forward. Over to you, Sir.

**Ajay Swarup:** Thank you, Ishan. Good Morning everybody. It is a pleasure to have all of you here as the part of this conference call. Keeping in view that this is the first concall we are hosting post our IPO, it is a special day for us. It is our intention to conduct such forums on a sustained basis with the view to encourage transparency and openness, thereby creating a strong communication channel with the investment community. Since this is the first time, I would like to take you through the Company's businesses and our operating highlights following which Dr. Bhaskar Roy would take you through the financials of the Company for the quarter and 9M FY2010.

Globus Spirits is a leading North Indian player engaged in manufacturing, marketing, and sale of country liquor, IMFL and industrial alcohol comprising rectified spirit and ENA apart from taking contract bottling to cater to renowned Indian players. GSL has two modern distilleries, one at Behror, Rajasthan and the other at Samalkha, Haryana. Both are spread out in an area of around 17 acres each and have a combined capacity of 28.8 million bulk liters of alcohol on an annual basis. Both of them are state-of-the-art plants capable of distilling alcohol from grain or molasses. These units are currently operating at 100% capacity and to meet the current demand, the Company also has to procure alcohol from various other distillers. To fill this demand-supply gap, GSL is implementing expansion projects to almost double the capacities of both plants which will require a capex of 705 million. The capex for this project will be funded from the IPO proceeds, term loans, and internal accruals. The total capacity of these units post-expansion will add up to 48.6 million bulk liters and is estimated to be completed by the end of the current financial year.

Apart from the planned expansion for doubling distillation capacity in each unit, the Company has also planned to expand its boiler capacities to 20 metric tons per hour at 42 kg pressure, and install a 2-MW turbine at each of its distillery. In fact, Company's project teams have successfully been able to re-engineer and place orders for 25 Metric tonne boilers at higher pressure of 67 kg/cm<sup>2</sup> and also up the power generation to 3 MW at each distillery. Going forward, these initiatives will provide GSL the economies of scale and enable the Company to capture a larger share of the market.

Now, let me give you a view on the prospects of each business segment.

GSL is a dominant player in the country liquor segment in Northern India with a significant market share of 24% in Rajasthan, 17% in Haryana, 20% in Delhi, and 15% in Chandigarh. The Company has managed to improve its dominance in this segment by introducing its own brands of country liquor and marketing them like IMFL. GSL is currently consolidating its position by introducing various new brands in this segment. This exercise has helped the Company to achieve higher volumes despite the geographical constraints in marketing country liquor outside the state in which it is produced.

Moving on to our branded IMFL business, GSL believes that this segment holds a lot of potential for growth in the near future. Given the low per capita consumption of branded IMFL in India as compared to countries like Thailand, Russia, and U.S. The Company forayed into this segment in 2007–2008 and has launched around 13 variants till date with presence in seven states like Haryana, Rajasthan, Chandigarh, U.P., Kerala, Karnataka, and Andhra Pradesh. Given higher margins in this business, the Company is currently focusing on establishing itself as a pan India player by expanding its presence further in the states like West Bengal, Assam, Bihar and Maharashtra with full marketing support. The Company believes that it has just scratched the surface in this segment and in the coming quarters there would be a lot of activity on this front through introductions of new brand variants in the premium category of white and brown spirits.

GSL is also in the process of increasing its bottling capacity to cater to the increasing demand of bottled product segment. The existing tie-up with ABD India for the state of Rajasthan and recent tie-up with Jagatjit Industries adding up to 2.2 million cases per annum augurs well with our objectives in this line of business. The road ahead holds a lot of promise given that the spirit industry is at a nascent stage in India compared to other developed countries. The low per capita consumption, the transition towards IMFL, affluent lifestyle and progressive regulatory changes will drive the growth of this industry moving forward. I would now like to request Dr. Bhaskar Roy to take you through the financial performance of the Company.

**Dr. Bhaskar Roy:** Good Morning everyone. To start with, as compared to the last financial year net revenue of Rs 2,814 million, the revenue for Q3 and 9M FY 2009 stood at Rs 977 million and Rs 2,719 million respectively. Operating profits stood at Rs 98.6 million in Q3 FY09, while in the 9M period they stood at Rs 286 million. Profit after tax last year full year, we ended with 129 million, this year for Q3 and nine months it stood at Rs 54 million and Rs 173 million respectively. To put this quarter into perspective, revenues contribution from country liquors stood at around 44%, industrial alcohol at around 14%, branded IMFL is increasing and stood at around 9% and IMFL franchisee brands at around 27%.

On the expenditure front, the raw material cost forms about 35% of the total expenditure while the packaging cost is around 30%, which includes the cost of case, bottles, caps, boxes, etc. and the balance constitute the selling & distribution and overheads. The selling distribution also includes some royalty payments for the franchisee brand. The Company has tried to optimize the raw material expenses by using grain i.e. broken rice and bajra, which we are primarily using as feedstock instead of molasses.

Now, let me give you a perspective on the balance sheet. Our net worth as on December 31, 2009 stood at Rs 1,522 million compared to Rs 1,467 million in September 2009. The total debt of the Company which includes the working capital and term loan etc is down by 24% at about Rs 53 million in December 2009 compared to Rs 70 million in September 2009. Our net cash balance is around Rs 326 millions. These, on a broad level, are all financial numbers. Thank you once again for joining us on this conference call. We will be happy to answer any questions that you may have now.

**Moderator:** Thank you, Sir. Ladies and gentleman, we will now begin with the question and answer session. Anyone who wishes to ask a question may press \* and 1 on your touchtone telephone. If you wish to remove yourself from the question queue, you may press \* and 2. Participants are requested to use handsets while asking a question. Anyone who has a question may press \* and 1 at this time. The first question is from the line of Grishma Shah from Envision Capital.

**Grishma Shah:** I want to know why the other expenditure has increased during the quarter on a sequential perspective.

**Dr. Bhaskar Roy:** The other expenditure includes selling and distribution expenses, majority of which is royalty that we have to pass on to the franchisee. As the number of cases increased compared to the previous quarters this has led to an increase in royalty payout. This is one of the reasons it went up. Secondly in Haryana, the distribution of wholesale country liquor is under the control of the distilleries whereas that was not the case earlier. So, we have to run wholesale operations. The wholesale operations are run by parties nominated by us, for which we give them commission. Both these have resulted in an increase in the selling and distribution expenses.

**Grishma Shah:** Would this continue going ahead?

**Dr. Bhaskar Roy:** This will continue going forward. We are hopeful that the policies will remain as they are though the policies are under framework, but it will go on like this.

**Grishma Shah:** Could you give us the volume figures for the quarter, how much have you sold in terms of cases for country liquor, IMFL franchisee, etc?

**Dr. Bhaskar Roy:** For Q3FY2010 we sold 17.80 lakh cases of country liquor and 1.84 lakh cases of franchisee IMFL, 75,000 cases of own IMFL and around 38 lakh bulk liter of industrial alcohol, which is bulk spirit.

**Grishma Shah:** How does this compare when you look at a year-on-year figure?

**Dr. Bhaskar Roy:** If you compare the average of the last year's performance with this year Q-o-Q IMFL is showing a gradual increase in Q3FY2010. Last quarter it was around 7% of the total of our revenue share. This quarter, it increased to 9% and we are hopeful that by the end of March it will reach around 12% to 13%. This is expected to increase further because we have a very good target for the own-branded IMFL. With country liquor there is a growth in the revenue, though the percentage on the revenue terms has not increased the share. As such the volume growth is there by 15% to 20%.

**Grishma Shah:** Could you give us some update on the acquisition side?

**Dr. Bhaskar Roy:** As promised in the IPO we are aggressively on the verge of acquiring a CSD brand. It is in the final stages of negotiations and we will make the necessary announcements once the process is complete. We expect to do better than what we promised in the revenue prospectus. In the revenue prospectus we had stated we were acquiring one brand. But we are trying to acquire a cluster of brands in an anticipation to boost the CSD segment of the Company. This is for your information; CSD stands for Canteen Stores Department, which is the nodal purchase agency for the Indian Army, the largest institutional buyer of alcoholic beverages.

**Moderator:** The next question is from the line of Poonam Sharma from IDFC Mutual Fund.

**Poonam Sharma:** Your outlook on raw material prices, both molasses and grain, and the ongoing issue that grain cannot be used for non-consumption purposes, like non-food purposes.

**Ajay Swarup:** Firstly, let me give you inputs on grain prices. All prices are per quintal. Our average grain price in Q1 was Rs 1028 for our Haryana plant. In Q2, it went up to Rs 1081, which is about to 4% increase. In Q3, it down to Rs 1034 and is almost equal to the Q1 levels. At our Rajasthan plant our Q1 figure for grain price is Rs 992, it went up to Rs 1043 in Q2, which is an increase between 5% and 6%. In Q3 it is down to Rs 950, which is in fact lower than the Q1 prices. Food grain in general, like wheat and edible rice, has been going up due to food shortage. But the grains we use are not fit for human consumption and, therefore the price push has not happened here. The other question was about regulatory issues on using grain for other than food purposes. That may apply for grains like wheat, but it certainly does not apply for the spoilt grains and the broken rice which we are using.

**Poonam Sharma:** The percentage of IMFL own brands has gone up to 9%, but the reflection of the same in the margins, is yet not visible to the same extent as one would expect. Any comments there?

**Ajay Swarup:** We witnessed an increasing trend in our branded IMFL business. It goes hand-in-hand with a larger distribution set up, which we are creating. It means that we are not only adding products, but also territory. Whenever we open a territory there is a gestation period and the sales come in a bit later. By that time the sales teams have increased. There is a cost element. So, we expect to see the real impact on margins in the next financial year. The response for our brands is really good. And, we are hopeful to see a

very sharp increase in our branded IMFL sales in the coming year, both organically and as Dr. Roy just mentioned through acquisitions, which are in an advanced stage.

**Poonam Sharma:** The tax rate in this quarter is about 34%, which was about 19% in Q2.

**Dr. Bhaskar Roy:** The provision for deferred tax provision in the previous quarters was not made because we were not able to judge the element of depreciation benefit under Income tax act and the progress of the projects, which are in hand. So, the deferred tax provision has been made at this quarter first time. It is around Rs1.50 Crore.

**Poonam Sharma:** So that is right up from Rs 1.25 to Rs 2.75 Crore in taxes

**Dr. Bhaskar Roy:** It covers up to December.

**Poonam Sharma:** Next quarter will there be normalization?

**Dr. Bhaskar Roy:** Whatever provision that has to be made up to December has been provided and rates will be provided in the balance in the last quarter, which will be a balancing amount.

**Poonam Sharma:** And, we will get the full benefit of the expanded capacities in FY11, because you will be operational before 31<sup>st</sup> March.

**Ajay Swarup:** That is correct.

**Moderator:** The next question is from the line of Vivek Maheshwari from CLSA.

**Vivek Maheshwari:** My first question is on your capacity expansion. You are doubling your capacity and the expansion is both at Rajasthan as well as Haryana current plant and you expect these would come on stream by 31<sup>st</sup> March.

**Ajay Swarup:** That is correct.

**Vivek Maheshwari:** Okay and the total capex is Rs 750 million?

**Ajay Swarup:** About Rs 700 million.

**Vivek Maheshwari:** Okay, IMFL currently which is around 9%, where do you see it in the next 2-3 years from now? What are your internal targets?

**Ajay Swarup:** In the next financial year, 15-20% of our revenue will come from branded IMFL and we hope that this will grow within three years to between 40% and 50%.

**Vivek Maheshwari:** 40% to 50%, when you are say IMFL, these are your own brands, right?

**Ajay Swarup:** These are our own brands. This is the branded segment of our business, which I am speaking of, not the business related to contract bottling for other brands.

**Vivek Maheshwari:** What would be your outlook on the margins?

**Dr. Bhaskar Roy:** Margins in our own brands are almost 20%. Our present EBITDA margin on the overall is around 15%, so with the increase in the branded portfolio, the margins are likely to increase.

**Vivek Maheshwari:** Would there be some softening in input costs as well?

**Ajay Swarup:** Yes, definitely.

**Vivek Maheshwari:** What would be your mix molasses and grain mix as of now?

**Dr. Bhaskar Roy:** We have not used molasses for last two years. We are using only grains. We are using broken rice, bajra, wheat. etc.

**Vivek Maheshwari:** But, if the molasses prices come down, would you be able to use molasses as well?

**Dr. Bhaskar Roy:** Definitely. This has to match with or be lesser than the prices of the grains, which we are using.

**Vivek Maheshwari:** Can your distilleries use both molasses and grains?

**Ajay Swarup:** We can switch over anything.

**Vivek Maheshwari:** In terms of country liquor what are the margins that you normally make?

**Dr. Bhaskar Roy:** 15%.

**Vivek Maheshwari:** How are the dynamics in terms of country liquor? I think the volume growth is 15-20%, so where do you see country liquor as a market in the larger scheme of things. Do you expect a similar volume growth continuing for next 4-5 years or you would expect country liquor volume growth to come down and IMFL to pick up for you?

**Ajay Swarup:** In North India we are one of the largest players in country liquor and our endeavor is to maintain this position. The country liquor market in North India is growing at about 20% whereas on a national level country liquor may be flat. But only north India is relevant for Globus Spirits Ltd. as far as country liquor is concerned. There is significant growth on a year-on-year basis in this market. Within the country liquor market, Globus Spirits is consolidating its position each year and going forward it is likely to remain a major contributor to our top and bottom line. The growth rate in the branded IMFL space for Globus Spirits is anticipated to be faster compared to the country liquor segment and that is why we are hopeful to see a larger portion of our top line coming in from branded IMFL business.

**Vivek Maheshwari:** How easy is it if the IMFL business takes off very well and the growth is much higher than what you are anticipating, is it possible to switch over between the two? Say, IMFL and country liquor.

**Ajay Swarup:** Well, the bottling facilities are completely seamless. They can switch from bottling either country liquor or IMFL. So that's not a problem.

**Moderator:** The next question is from the line of Jamshed Dadabhoy from Citi Group.

**Jamshed Dadabhoy:** What percentage of your sales are to canteen stores departments? and secondly you mentioned packaging costs are about 35% of net revenues, do you see this cost coming down over the next 2-3 years as you get economies of scale?

**Ajay Swarup:** To answer your first question, currently we do not supply to the canteen stores department. There is a procedure by which you have to become eligible as a brand to supply to the canteen stores department and our brands is expected to become eligible in the next six months. We hope to complete the process of getting them registered. However, as I said earlier we are actively looking to acquire a cluster of brands, which are approved by the canteen stores department. We hope to close the deal within the month of February. In the coming financial year, Globus Spirits is attempting to be a supplier to the canteen stores department through the acquisition route, which we hope to complete very soon.

**Dr. Bhaskar Roy:** Packaging cost is likely to be around 32-33%. As the revenues from branded IMFL will increase, you have to put up with branding cost. In branded products packaging forms a major component of cost. So packaging cost might not decrease, it is expected to continue to move up.

**Jamshed Dadabhoy:** Could you give us some sense of what your revenues per case are for IMFL versus country liquor and also industrial alcohol, the realization you all are getting on a per liter basis.

**Dr. Bhaskar Roy:** Industrial alcohol, also known as neutral alcohol; fetches around Rs 35-36 bulk liter average realization in the sales.

**Jamshed Dadabhoy:** Okay and for IMFL own brand?

**Dr. Bhaskar Roy:** IMFL own brand is in the MRP is ranging from Rs 250 to Rs 350.

**Ajay Swarup:** On an ex-distillery per case basis, the IMFL realization ranges between Rs 450 to Rs 600 per case. Country liquor varies between Rs 225 to Rs 250.

**Jamshed Dadabhoy:** Is this ex-distillery?

**Ajay Swarup:** Yes.

**Moderator:** The next question is from the line of Dipen from Brics Securities. .

**Dipen:** The investor review mentions that gross block is about Rs 100 Crore as of December 2009 and cash and cash equivalents are about Rs 32 Crore. What is missing here in terms of information is excluding cash what is the net working capital? It looks like if I take a debt of about Rs 5 Crore, net worth of about Rs 152 Crore, so the balance sheet total is about Rs 157 Crore and does that mean there is only about Rs 25 odd Crore of net working capital excluding cash on the books?

**Dr. Bhaskar Roy:** The cash and cash equivalent is the net cash and cash equivalent after the liabilities are over, so you can take that Rs 40-45 crore, That is the net working capital available.

**Dipen:** No, I'm not looking at it in terms of working capital, headroom for borrowing. All I'm saying is on the balance sheet, current assets minus current liabilities.

**Dr. Bhaskar Roy:** Current assets minus current liabilities is around Rs 40 crore.

**Moderator:** The next question is from the line of Gautam Duggar from Prabhudas Liladhar.

**Gautam Duggar:** Hi. I understand that you currently don't use molasses, but would you be able to give us a trend on the prices of molasses recently and what are the expectations going ahead.

**Ajay Swarup:** Molasses prices are region specific. If you look at the North, existing prices in UP are currently in the neighborhood of Rs 350 to Rs 400 per quintal. The prices currently are sort of dependent on the price of ethanol, which the government decides with the sugar Company. And, that decides the backward calculation for molasses prices.

**Gautam Duggar:** Okay. I want to understand the trend of the last two quarters. Currently, you are saying it is somewhere around Rs 350 to Rs 400 and how has that moved up over the last two quarters, five to six months.

**Ajay Swarup:** Molasses prices in the last Q1, Q2 and Q3, have been static in the north at these levels.

**Gautam Duggar:** What are the expectations of the same going forward because sugarcane crop and all these things are not too favorable?

**Ajay Swarup:** We don't expect too much of an increase in molasses prices. The other bulk users of molasses-based alcohol are chemical producers, like India Glycols, Vam Organic, & Jubilant and they have stopped using Indian alcohol. They are importing alcohol, so the prices and the production of molasses in UP has come down. But no significant increase in molasses price is expected.

**Nilesh:** Basically you are expecting your own branded IMFL production to form, a significant portion of your revenues going forward. Broadly I think you gave a number of 20% or 25% over the next two years. I just wanted to understand from you at a more industry level that what we understand is that the top two or three peers constitute about 75% of the overall IMFL business in India while there are several small players, which account for the rest 25%. I just wanted a feel from you, what basically is going to be our strategy in terms of trying to penetrate the segment. It seems to be significantly overcrowded particularly at the lower end, I just wanted to understand what our strategy is going to be and what really gives us the confidence of being able to penetrate in this segment?

**Ajay Swarup:** The smaller players are all concentrated at the lower price points. These price points constitute a huge volume for the Company and enable it to create a distribution network. There is also a higher price point. In these two over ninety percent of the business is in the hands of three players and margins at those price points are extremely attractive. Our strategy is to build distribution by using the competitive price points. The lower price points which have easier access in terms of product viability of the consumer.

Having built the distribution we would like to use the platform to showcase our products into the premium segment. Here we will go to the consumer with specific value addition in each category, be it brown or white spirits. Then we will give the consumer more than what he is getting presently, be it in the form of packaging or in the form of quality of liquid. What we believe is that increasingly the spirit consumer is going to be younger and that pretty much applies to all consumer goods in India because we all know about the demographic divide which is so much talked about in the next ten years. The younger consumer is much more willing to try a new product and that is where Globus Spirits is going to target its efforts. It plans to bring to the younger consumer, products in the higher price segment that the consumers will be willing to try. These products will appeal to the youth. Our marketing department has drawn a strategy aimed at targeting the younger consumer basically in the 25-30 age groups. When I say younger, I certainly don't mean the consumer below the allowable responsible drinking age, which in our country is at twenty-five years.

**Nilesh:** Just to add on to that what I understand then is basically you are looking significantly at building on to the distribution network that you have created on the country liquor side to basically introduce products in the IMFL segment.

**Ajay Swarup:** It is not exactly that because country liquor is limited to Rajasthan, Haryana, UP, and Chandigarh. I will ask Shekhar who is on the Concall who heads the IMFL vertical to tell us a little more about where we are building distribution in the coming financial year.

**Shekhar Swarup:** At present our distribution setup for our own brands is established in Rajasthan, Haryana, UP, and Chandigarh. Going forward, we are looking aggressively at Andhra Pradesh, Karnataka, Kerala, and parts of East India such as Orissa, Assam, and West Bengal.

**Moderator:** The next question is from the line of Sarika Kukshya from Prabhudas PMS.

**Sarika Kukshya:** Just wanted to understand how much volume have we achieved in the last nine months of the fiscal.

**Dr. Bhaskar Roy:** In country liquor, we have done almost 48 lakh cases with 18 lakh cases in the last quarter. In franchise, IMFL, we have done almost 5.5 lakh cases. In own branded IMFL, we have done 2 lakh cases. And we have sold bulk spirit of 97 lakh.

**Sarika Kukshya:** What are we aiming for the next fiscal?

**Dr. Bhaskar Roy:** Next fiscal, as already explained we are slowly and steadily increasing the branded portfolio. Mr. Swarup has previously mentioned that we are aiming 15% to 20% increase in the next year in the branded portfolio.

**Ajay Swarup:** It will. If I may just interrupt, we are looking at a million cases of our branded products in the next fiscal, which will be up from the current year closing at close to 3 lakh cases. So from 3 lakh cases we hope to be at a million cases of our branded products for next year.

**Dr. Bhaskar Roy:** The million cases will be in the civil market. In the CSD market through acquired route, we are hoping around 6 to 7 lakh cases.

**Sarika Kukshya:** So you mean to say that existing market itself will support these 1 million cases.

**Dr. Bhaskar Roy:** Yes.

**Sarika Kukshya:** And we are not taking into account the newer states such as AP, Kerala, and Orissa.

**Dr. Bhaskar Roy:** No this would include all these.

**Sarika Kukshya:** When we go for building our distribution network wouldn't that actually affect our margins?

**Dr. Bhaskar Roy:** Distribution network will not affect margins because in the cost card, the distribution costs have already been taken. We will increase the volume to the distribution, so margins will not come down.

**Ajay Swarup:** I think your question relates to a comment I made earlier. In fact, if you look at a full year of operation, the distribution cost evens out even in a new market. It takes only three or four months post hiring of people for a decent volume to come out of a particular geographical area. So when we look at a full year going forward, we don't see a pressure due to distribution costs.

**Sarika Kukshya:** How much have we capitalized during the quarter?

**Dr. Bhaskar Roy:** We have capitalized around Rs 7-8 crore, because a lot of things are under construction and we are hopeful to capitalize a lot of portion in the last quarter.

**Sarika Kukshya:** Okay, some volumes have already started getting in to the existing capacities.

**Dr. Bhaskar Roy:** The existing capacity will increase. We will get the full increase in capacity in the next year, starting the next financial year; we will complete the expanding project in this year.

**Moderator:** The next question is from the line of Rajeev Agarwal from Eureka Shares & Stock Brokers. .

**Rajeev Agarwal:** I want to understand little bit about the country liquor market as you have said the country liquor market is restricted to four states only. So who are the other branded players in the country liquor segment which compete in this line of business?

**Ajay Swarup:** There are small regional players and not companies which you would have heard of. In terms of established companies in this sector, I would not be able to name any who are present in the country liquor segment.



**Rajeev Agarwal:** Are the other unorganized players selling products at the same price level as we are or what is the difference in the price level for these players in the Country Liquor Segment?

**Ajay Swarup:** The liquor pricing in most of the states and specifically, the states where we are operating is fixed by the State Government and it is common to all manufacturers. So, we are able to increase market share by better product, better service, and better marketing rather than by price competition. It is in fact quite healthy for us and it helps us going forward because Globus Spirits has been able to establish its products in the country liquor market on account of better quality, better service, and better marketing.

**Rajeev Agarwal:** As you have said that these prices are fixed by the respective state governments, what are the prices for those players?

**Ajay Swarup:** They are the same for all players.

**Moderator:** The next question is from the line of Jamshed Dadabhoy from Citi Group.

**Jamshed Dadabhoy:** What is your market share in the country liquor market and how do the working capital cycles differ for county liquor vis-à-vis IMFL?

**Dr. Bhaskar Roy:** The market share is 24% in Rajasthan, 17% in Haryana; it is 20% in Delhi, and 15% in Chandigarh. In the country liquor segment working capital differs from market to market. In Rajasthan, it is wholesale we have to sell to the Rajasthan government who distributes to the retailer. So there the wholesale warehouses are controlled by the government. You have to maintain stocks over there. Whatever is moving to the retail side, we get payments immediately. The cycle of debtors in Rajasthan is around 15 days to 20 days. In Delhi also we have to sell to the government. In Delhi, both the wholesale and the retail are controlled by the government. So, there also the cycle is around 15 days. In Haryana, it is cash and carry. In Chandigarh we have to transfer the stocks and whatever is moving out from the depot, we get money immediately. So the cycle is also pretty much 3-4 days. In IMFL too there is a difference from state to state. In Rajasthan, the wholesale is controlled by the government. Whatever is moving from the wholesale to the retail, we are getting a weekly payment. So the product cycle is around 20-25 days. In Haryana, it is a private market. There the cycle is 60 days. All the south states are totally government controlled. So whatever is moving from the government, wholesale to the retail, we get a weekly payment. So, cycle is around 15-20 days.

**Moderator:** The next question is a follow up from the line of Shirish Pardeshi from Anand Rathi.

**Shirish Pardeshi:** Can help us to understand, when you mentioned that you are going to produce special brand for CSD, what kind of potential would you see going forward, maybe in the next one year or two years from now?

**Ajay Swarup:** Well looking at both our acquisitions which are yet to go through and our current business, we project sales of CSD in the neighborhood of Rs 30 to Rs 40 Crore in the coming fiscal.

**Shirish Pardeshi:** One more question on the nine-month revenue. If you can break up, what is the country liquor share and what is the share from IMFL and our own label.

**Dr. Bhaskar Roy:** The country liquor is 43% nine months, franchisee IMFL is round 28-30%, own IMFL the average is around 8%, industrial alcohol is around 13-14% and the rest 3-4% is other sales which includes CO2, spent grain, etc.

**Shirish Pardeshi:** What kind of demand would you see in the industrial alcohol because you just mentioned that there are few players who have already shifted buying locally? So, do you see that there is a softening of demand and prices in industrial alcohol?

**Ajay Swarup:** Increasingly, the molasses-based spirit is finding its way for ethanol and grain-based alcohol, Since, there is a significant growth in the alcoholic beverages all over the country between 15 and 20%, we see the demand for grain-based alcohol to also increase by 15 to 20%.

**Shirish Pardeshi:** Lastly in terms of country liquor you have a strongest position in the North and as Mr. Swarup mentioned that it is all about marketing and distribution. I am only wondering if we have such a strong distribution, do you mean to say that over a period of time we will be able to put our branded sales or maybe there is a possibility that branded sales can cannibalize the country liquor market?

**Ajay Swarup:** Not really. In fact, in North India the country liquor consumer is pretty much different from the IMFL consumer. If you would draw an analogy something which is often stated in our industry is that if you have somebody smoking bidi, it is unlikely that he is going to switch to cigarette even if you would offer it to him. So, in the north, we see a fairly clear divide in the target audience, which is consuming country liquor as opposed to IMFL and you know the two markets pretty much operate separately. So, we do not see any cannibalization going on.

**Shirish Pardeshi:** But you are quite bullish when you said that the country liquor market is still growing at 15% in the north.

**Ajay Swarup:** In fact, statistics show that in the last three years the North Indian states in which we are operating, Chandigarh, Delhi, Haryana, and Rajasthan, the market has grown by 15% plus year-on-year basis.

**Moderator:** The next question is from the line of Pritesh Vora from Equnam.

**Pritesh Vora:** I had a question regarding your market share, you said country liquor 43% and you described the IMFL and other brands in your market share. Where do you see this share going to?

**Ajay Swarup:** I think the 43% country liquor relates to the share in our total revenue.

**Pritesh Vora:** How will this category realign in the forward year when you increase your own IMFL?

**Dr. Bhaskar Roy:** It is likely to be around 35% in the coming year and the industrial alcohol which is around 13-14% hopefully be around 10% and the franchisee bottling be around 25-30% and the own IMFL be around 15-18%.

**Pritesh Vora:** If I want to look at the EBITDA percentages in revenue breakup, what are the EBITDA margins each category enjoys?

**Dr. Bhaskar Roy:** It is 15% in country liquor, in own branded IMFL it is around 20%, in industrial alcohol, bulk spirit, it is around 10%, in franchisee IMFL it is 5%. There is an advantage here that while we are doing bottling, we are also ensuring the in-house sale of industrial alcohol. So the capacity utilization if you add 5% over here and 10% of the industrial alcohol, overall you are getting 15%.

**Pritesh Vora:** But you are saying the franchisee IMFL contributes EBITDA of only 5%.

**Dr. Bhaskar Roy:** It is only if you see the bottling operation. If you see the alcohol consumption for that brand which we are manufacturing; they too require extra neutral alcohol. So we are selling extra neutral alcohol to the brand too. It adds to 10% margin. So if you take it both separately, then 10% over there and 5% over here. It works like that.

**Ajay Swarup:** When we bottle IMFL for others. There are two activities. A) We produce alcohol and B) We transfer it at a certain market price to the bottling operation. So what Dr. Roy is saying is that we get 10% margin in the alcohol we produce which we transfer for the bottling operation.

**Pritesh Vora:** So you are saying 10% you will make on the alcohol and 5% you are making on the bottling.

**Ajay Swarup:** Exactly.

**Pritesh Vora:** Then why are you describing as 5% EBITDA. Where are you putting this 10% additional which you make?

**Ajay Swarup:** 10% we are taking in the industrial alcohol sale.

**Pritesh Vora:** So, industrial alcohol EBITDA if you were to remove this foreign IMFL, then industrial alcohol EBITDA will further drop. Is it correct?

**Dr. Bhaskar Roy:** You have to sell outside. Currently, our in-house production is sold. If we do not do franchisee bottling then there is excess capacity which we have to sell outside.

**Pritesh Vora:** On commissioning of the plant as you are saying, you are starting the commercial production from April onwards. So is this new capacity already commissioned or it is under commissioning, what stage it is at present?

**Ajay Swarup:** The plants are under installation and are expected to be commissioned near to the end of this current fiscal and we hope to get a full benefit in terms of production and capacity in the coming fiscal.

**Moderator:** The next question is from the line of Harit Kapoor from B&K Securities.

**Harit Kapoor:** Firstly, I was looking at your numbers, just wanted to understand comparing the nine-month numbers with your numbers last year. The other expenditure number is much lower. Just wanted to know what does this constitute and why it is so?

**Dr. Bhaskar Roy:** Last year, the other expenditure was Rs 4,388 lac and this year up to nine months it is Rs 5,759 lakhs. So it is not low.

**Harit Kapoor:** I wanted to understand your IMFL volumes. We spoke that the target is around 1 million cases for next year. This will be through expansion in all your 7 states as well as the states which we are currently looking at?

**Dr. Bhaskar Roy:** In the existing states, which we are operating in the seven states plus expanding in the geographically. Previously we have already mentioned that we are looking out for expansion geographically in the eastern part.

**Harit Kapoor:** And your new production, which will come up next year. By when do we expect, I mean what kind of capacity utilization do you expect by the end of next year on that?

**Dr. Bhaskar Roy:** The process of full stabilization is gradual. So we anticipate the utilization levels to be at 95% as soon as we take trials successfully.

**Moderator:** The next question is from the line of Latika Chopra from JP Morgan. .

**Latika Chopra:** You mentioned that you can switch between molasses and grains as per the pricing environment. Just wanted to know as to what level of molasses prices would it make it more profitable for you to switch?

**Ajay Swarup:** The current molasses prices in the states that we operate in are about Rs 6,000 to Rs 6,500 per Metric ton.. At this price, it is more economical for us to produce alcohol from grain. So this is the kind of cut-off at which it operates.

**Latika Chopra:** You mean to say that if prices fall below this level, you could consider switching to molasses?

**Ajay Swarup:** Yes. Maybe the cut off is Rs 5,500 per ton. So we are today well above the cutoff.

**Latika Chopra:** You also made an interesting comment about, you know, molasses prices being influenced by what state governments finally decide on ethanol pricing. Currently if you go by newspapers, the ethanol prices for fuel blending are likely to be around Rs 26 to 27 per liter. What in your opinion could be the impact on molasses-based ENA on account of this?

**Ajay Swarup:** As I said earlier, the fuel ethanol program which has been started by the Government of India is pretty much deciding the level of prices of spirit and molasses in the country. We are all waiting for the final decision of the oil companies and the sugar companies who are currently discussing the next year's ethanol pricing and going forward that will decide what the molasses prices and molasses-based ENA work out to be. The ethanol prices might be in the region of Rs 28 or Rs 29 from what we hear. The prices of molasses would be based on the backward calculation of this figure.

**Latika Chopra:** How have glass prices been behaving for you? Have you seen them being flat?

**Ajay Swarup:** Are you talking about glass bottles?

**Latika Chopra:** Yes, glass, your packaging costs.

**Ajay Swarup:** Glass bottles do constitute a large part of our packaging costs but in the last one year, they have been steady. There has not been a significant increase.

**Latika Chopra:** What basically I meant was you talked about increasing the share of IMFL brands within your overall revenues. Just wanted to understand how you are looking to do that? Is it going to benefit from consumers upgrading from country liquor to IMFL and/or also looking to take away market share from other IMFL brands? So just wanted to know what's your strategy going to be there like?

**Shekhar Swarup:** If you look at a larger picture, it may come from a bit of both. But our main objective is establishing new brands; as Mr. Ajay Swarup said a while ago is to capture the youth of the country. This is a growing segment of our country and we would like to offer them a product, which is superior to the existing products in the market. These consumers also are more likely to change their beverage preferences.

**Moderator:** As there are no further questions, I would like to hand the floor back to the management of Globus Spirits Limited for closing comments. Please go ahead sir.

**Dr. Bhaskar Roy:** I would like to thank all of you for taking your time for this call. If you have any further questions, please feel free to contact us either by phone or by e-mail, which is mentioned in the result release. You can also visit our web site at [www.globusspirits.com](http://www.globusspirits.com) and post any queries that you may have and we will get back to you as soon as possible. You can also e-mail me directly on the address given in the release. Thank you once again.

**Moderator:** Thank you gentlemen of the management. 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.

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