Globus Spirits Limited

A-46, Friends Colony (East), New Delhi – 110 065
Tel: +91 120 401 5500 Fax: +91 120 424 5442
Website: www.globusspirits.com

Q4 & FY10 Earnings Conference Call
Investor/Analyst Conference Call Transcript - May 19, 2010

Moderator: Ladies and gentlemen, good morning and welcome to the Globus Spirits Limited Q4 and FY10 Earnings conference call. As a reminder for the duration of this conference, all participants' lines will be in a listen-only mode. They 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 touch-tone phone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Mr. Ishan Selarka from Citigate Dewe Rogerson. Thank you and over to you sir.

Ishan Selarka: Good morning everybody and welcome to Globus Spirits Q4 and FY10 Earning Conference call. Today, we have with us Mr. Ajay Kumar Swarup, Promoter and Managing Director, Mr. Shekhar Swarup, Vice President IMFL, and Dr. Bhaskar Roy, Director of Finance and CFO of the company. We will commence this conference call with opening remarks from Mr. Ajay Swarup and Dr. Roy which would 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 year end in March 31, 2010, and the opportunity is going forward. Over to you sir.

Ajay Swarup: Good morning to everybody. It is the pleasure to have all of you as the part of this conference call. We have ended the first financial year since listing, on a very positive note. I am delighted to report that our revenues increased by 36% to Rs. 3,864 million. PAT has increased by 124% to Rs. 289 million and EPS grew by 68% to Rs. 17.73 as compared to the last financial year for each statistic. I would like to take this opportunity to thank all our stakeholders who have supported us in our journey thus far.

Our's is a unique business model in the sector which straddles across 4 segments. It covers the 360 degree presence across the sector; right from the manufacture of bulk alcohol to marketing branded IMFL. This includes the entire spectrum right from manufacturing, marketing, and sale of country liquor, IMFL, industrial alcohol apart also from taking up contract bottling cater to renowned Indian branded players. We remain focused on developing each line of business and extracting synergy with differentiated strategy for each one of them.

Let me start with a brief overview on all the business segments we operate in. The country liquor market in North India has shown good volume growth of over 20% backed by strong rural demand. This is in contrast to the rest of the country where volume growth in country liquor has either remained stagnant or in low single digits. Due to its distribution mix, GSL has been able to take advantage of the high growth in North India. We operate in the state of Delhi, Rajasthan, and Haryana in the country liquor segment. The governments of all these states have announced price hikes along with increase in the minimum selling quota for vendors effective April 2010. On account of these factors, Globus Spirits expects strong volume growth and increased realizations that will boost margins and profitability from this segment.

Coming to the branded IMFL, Globus Spirits endeavors to establish as itself as a pan-India player in this segment. We are already present in 7 states and planned to enter two more by the end of June 2010. We have two brand launches planned in the first half of this financial year. The first launch will be a regular whisky category brand and the second launch in the semi-premium category. Along with these initiatives, we are making efforts to increase our marketing and distribution reach. The branded IMFL sales are expected to enjoy healthy growth in the years to come.

Moving now to the contract bottling segment, we have renewed out tie up with ABD distilleries for manufacturing Officer's Choice whisky and Class vodka for another three years as the agreement had expired in March 2010. Globus Spirits has also entered into collaboration with Jagatjit Industries for the manufacture of Aristocrat and Bonnie Whiskey.

In the bulk alcohol space, we have increased our planned capacity hike from 48.6 million liters per annum to 70 million bulk liters at a minimal incremental cost of Rs. 80 million. This has been possible due to excellent value engineering by our operations team. The further increase in capacity has slightly delayed the commencement of expended capacity by a quarter and the new capacity will be on stream by Q2 FY2011.

For the current year, April 2010 to 2011, we expect to report continued operational and financial growth. This will primarily be driven by two key initiatives; one, as I said earlier, the launch of new brands in the IMFL segment, and the second is an increase in capacity to 70 million bulk liters per annum with limited capital investment. The contribution from these two initiatives will be visible from H2 FY2011. Also, augmenting our performance during the year will be continued growth in country liquor, increased bottling volumes, and a possible entry into the CSD segment.

Given the numerous initiatives that are being implemented combined with strong operating foundation of our business, we enter the new financial year with confidence and optimism.

I would now like to hand over to Dr. Bhaskar Roy, our CFO to take you through the financial performance of the company.

Dr. Bhaskar Roy: Good morning everyone! To start with, revenues for Q4 & FY2010 stood at Rs. 1,145 million and Rs. 3,864 million respectively as compared Rs. 2,831 million for the last financial year, Operating profits stood at Rs. 102 million in Q4 FY2010 while for the full year, they stood at Rs. 388 million; up 40% compared to Rs. 277 million in FY2009. PAT for Q4 FY2010 stood at Rs. 116 million while for full year, it stood at Rs. 289 million; up 124% compared to Rs. 129 million in FY2009. Earnings per share for FY2010 stood at Rs. 17.73; up 68% compared to Rs. 10.55 of the last financial year.

So, to put this year into perspective, the **c**ountry liquor business contributed to around 42% of gross revenue, industrial alcohol to around 13%, branded IMFL is increasing and stood at around 7%, and IMFL franchise brand contributed around 32% to the total revenue share. On the expenditure front, the raw material and packing cost forms about 46.52% of the total expenditure. Packing includes the cost of case**,** bottles, caps, boxes, and so on.

Now let me give you a perspective on the balance sheet. Our networth as on March 31, 2010, stood at Rs. 1,614 million compared to Rs. 598 million on 31st March 2009. The company continues to remain a debt free operation with a total debt of Rs. 137 million as on 31st March 2010 providing enough space on the balance sheet for future growth. These on a broad level are our 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. The first question is from the line of Abneesh Roy from Edelweiss Capital. Please go ahead.

Abneesh Roy: We have grown by 36% in terms of top line for the full year. Could you give us a sense of what has been the volume growth, what has been the pricing growth, and what is the mixed rate growth for the full year and if possible for the 4th quarter also?

Dr. Bhaskar Roy: If you see the volume growth category wise, in the industrial alcohol segment we have ended the year with 14 million BL from 13 million in 2008-'09**,** country liquor stood at 6.5 million cases from 4.9 million in 2008-'09, franchise IMFL bottling at 0.8 million cases from 0.6 million in 2008-'09, and branded IMFL at 2.60 lakh cases.

On a quarterly basis industrial alcohol in Q4 was 4.1 million BL compared to 3.8 million BL in Q3. Franchise IMFL, Q4 was 0.24 million cases while Q3 was almost 0.2 million cases. Country Liquor; 1.8 million cases in Q3 and 1.7 in Q4 and IMFL own brands stood at 70k in Q3 and 65k in Q4.

Abneesh Roy: What is the outlook on your raw material, molasses, grain, and also the packaging cost? Also how will your gross margins improve in FY11?

Ajay Swarup: Our biggest cost component is the raw material cost, either from molasses or grain. The coming year seems to be quite comfortable in terms of grain prices despite a bad monsoon last year. However, at the end of the year, it seems that the entire food grain situation has really eased off especially rice, which forms the bulk of our raw material input. The situation in the country for rice is very comfortable. So, we expect that grain will remain our preferred route versus molasses because the states in which we operate, the grain route is far cheaper than the molasses route in Rajasthan and Haryana. We will continue to use grain as our basic feedstock and we expect that the prices through the year would come down from that present level thereby improving our margin.

The second thing which affects our margin is packing material and the largest component there is bottles. There has, again, not been any increase in the cost of bottle. We use both PET bottles as well as bottles made from glass. The prices for both these inputs are quite stagnant. We don't expect the cost pushing either on these. The third factor which affects gross margin is the price of our products. Country liquor continues to be the highest revenue contributor of our total revenues. We got healthy price increases starting 1st April in all the three states where we operate; Delhi, Haryana, and Rajasthan. So, these price increases will go straight to the bottom line giving increased margin.

Abneesh Roy: How much would the weighted average price increase be?

Ajay Swarup: Weighted average price increase would be above Rs. 15 per case.

Abneesh Roy: If you can give it in terms of percentage?

Ajay Swarup: About 6 to 7% of top-line is the increase in price.

Abneesh Roy: My next question is on your two new brand launch. One; how easy is it to really build a brand in this industry because normal advertising is not allowed. Second is you also do contract manufacturing for other players. For example, you mentioned ABD, Jagatjit, and USL. So how do you manage the conflict of interest out there? Do you launch in all the markets or do you normally launch in non-competing markets, some color on that?

Shekhar Swarup: To promote the brand we have specified a budget of about Rs. 10 Crore which will be used for brand building. Most of these funds will be targeted for ATL and BTL activities. ATL i.e. above the line activity, is focused on creating visibility around retail outlets. Fortunately, in this industry, the specified liquor store is the only place where liquor is sold and you cannot purchase liquor in supermarkets or other stores to purchase alcohol. Therefore the consumer is the customer and it is easier to communicate with him in and around a liquor store.

Abneesh Roy: Initially how do we get market share, is it by offering higher trade margin, because I see that as the only strategy in terms of pushing sales?

Shekhar Swarup: We do plan to offer slightly higher trade margins compared to the competition to get shelf placements.

Ajay Swarup: In terms of conflict of interest, in fact there is none because every branch has its own place in the market. The marketing strategies are completely different. So, we don't see any conflict of interest with brands we produce for others when we start marketing our own brands in the same price segments as these brands.

Abneesh Roy: You don't see that's fine, but what about the players who are giving you contract manufacturing. Is there any risk of losing those contracts when you actually go in branded?

Ajay Swarup: Not at all. We have clarity of thought with the principles for whom we have bottled; we have clarity that they won't have any objection to our continuing our own production.

Abneesh Roy: Could you share the outlook on molasses?

Ajay Swarup: Molasses is largely a UP play because that is the one state in North which produces a large quantity of molasses. The UP government has in fact imposed the ban on the movement of molasses from the state and therefore pretty much the entire molasses is available only with distilleries of UP and hence it doesn't impact the markets outside.

Moderator: Thank you. The next question is from the line of Poonam Sharma from IDFC Mutual Fund. Please go ahead.

Poonam Sharma: What is this Rs. 11 Crore of depreciation write back?

Dr. Bhaskar Roy: Until off late, we had been using the WDV method to depreciate assets. In the WDV method we are writing off the life of the asset in 7 to 8 years. We have been advised that the new assets will have a useful life of 20-25 years. We have therefore decided, that to give a proper life of the asset we need to change our depreciation method from WDV to SLM method and write-back. This is the basic reason for changing and about the Rs. 11 Crore write back.

Poonam Sharma: As your 70million liters of capacity comes on stream in the second half of this year, the product mix will shift a lot towards the industry until the volumes on country liquor and IMFL really pick up. So, from margin as well as realization perspective, would that not lead to pressure on realization?

Ajay Swarup: Let me answer it in two parts. Firstly along with increasing industrial alcohol production, we are also simultaneously ramping up our franchise bottling. The tie up with Jagatjit Industries which is not reflected till now will come into operation possibly on first of June which is about 10 days from now and it will get into full stream within two months which is for about 1.8 million cases per annum. This will take care of approximately 7.5 million liters of alcohol. Similarly the tie up with ABD Industries, which was last year, we did a volume of 8 lakh cases which is now going up to 1.2 million cases. This again will increase the alcohol off take by about 2 million liters. So, all in all 10 million liters of the expanded capacity will grow into per additional bottling which we will do in the tie up arrangement. That leaves approximately 30 million litres and yet to that extent there will be a shift in the revenue breakup because we will need to sell that much more of industrial alcohol and we have already got tie up for that in entire additional capacity**.** So that is not the problem, but yes in terms of revenue mix there will be a shift till our own brands catch up in the next two years and gradually more of our alcohol will go into our own brands as well as the bottling tie ups which will also grow over the year.

Poonam Sharma: What are the margins in the industrial segment currently?

Ajay Swarup: On an average, for the full year, it is around 10%.

Moderator: The next question is from the line of Girish Achhipalia from Morgan Stanley.

Girish Achhipalia: In the country liquor market you said you had seen a 20% strong growth especially in the Northern market. Just to put this in context, what exactly would be the size of the market? The second question voices on the margins front. If you could just give the breakdown of segment wise margin mix for country liquor versus branded versus franchise versus industrial?

Ajay Swarup: The country liquor market in our regions of operation, i.e. Haryana is 25 million cases per annum; Rajasthan is close to 12 million cases per annum and Delhi is 6 million cases per annum. That will give you a feel of the kind of volumes in this segment.

Dr. Bhaskar Roy: For the full year, we have done around 139 lakh BL of bulk spirits i.e., industrial alcohol, 66 lakh cases of country liquor, 7.80 lakh cases of franchise IMFL bottling, and 2.60 lakh cases of own IMFL brands. In terms of margins, industrial alcohol is around 10%, country liquor is around 15%, and on-franchisee IMFL there are two parts; one is the sale of industrial alcohol and one is the bottling activity. If you take both the activities together it is 15% and in the own IMFL it is around 20%.

Girish Achhipalia: Just one follow-up question on the molasses dependence. Today as a proportion of total production, what is the approximate mix that we have? How much are you dependent on grain versus molasses and if you could share with us as to what has been the price trend lately that you are seeing on the molasses as far as you are concerned?

Ajay Swarup: The states in which Globus Spirits operate which is Haryana and Rajasthan, there is in fact shortage of molasses and therefore we have been using grain as it comes out to be much more economical. In the current situation, we will continue to use grain as a preferred raw material over molasses. I said this earlier on this conference call that grain prices are looking very comfortable; the grain situation on the country is very comfortable, specifically broken rice which is our main raw material. Rice stocks in the country highest ever and world prices of grain are significantly down on the back of extremely good harvest in South East Asia. So, with the international position being comfortable there are reduced exports of rice from India. Monsoon pundits predict a very good monsoon this year and therefore we are looking to comfortable year for grain and possibly softening of our raw material prices.

Girish Achhipalia: I just wanted the mix actually; out of our total production, what would be the break-up between molasses and grain?

Ajay Swarup: As I said earlier, we had been using only grain and we will continue to do that as it is economically preferred route as of now.

Moderator: The next question is from the line of Gaurav Bhatia from Deutsche Bank. Please go ahead.

Harsh Trivedi: IMFL prices have also been allowed to be increased by respective parasitical monopolies. Typical example was Andhra, but other states like Maharashtra and Delhi have also given price increases for IMFL. How much has been the average increase in IMFL prices? My second question was on molasses, you just mentioned that the UP state government has banned the export of molasses to the other states. Would this imply that the 25 to 30% price decline that we saw in molasses over the last 4 to 6 weeks would not benefit liquor manufacturers outside the state of UP.

Ajay Swarup: Let me take up the first one which is the increase in price of IMFL by state government monopoly. In those states where there are such monopolies, the price increase happens for different category and there are different percentages for each category. So, it is difficult for me to give you a number, when I say category I mean price category. I will need to compile data and I can come back to you with this number, but it would be right to assume that it is in the 5 to 7% region, but this is E and OE I need to come back to you with this and we will do that we will compile this figure and send it to you.

On your second question, what the UP government is trying to do is to instead of allowing export of molasses; it is encouraging the export of alcohol which means basically to promote the production of alcohol within the state. However, that doesn't work so easily because they have also simultaneously slapped a very high duty on the movement of alcohol from their state. So what happens really is that though there is molasses available in UP, the rest of the country doesn't benefit from it. Yes, to that extent you are right in saying that surplus molasses in UP does not translate to lower prices of alcohol in the rest of the country and which is actually what is happening today.

Moderator: Thank you. The next question is from the line of Kushal Sanghrajka from HDFC Securities. Please go ahead.

Kushal Sanghrajka: Firstly related to the CSD acquisition. I believe you had said earlier that you were trying to get a couple of CSD acquisitions. What is the progress on that and by when would we expect you have the CSD acquisition and once we do have it, what percent of our total shares do we foresee going towards CSD?

Ajay Swarup: The CSD acquisitions that we were chasing haven't come through till now. We are getting our existing brands, which have since then qualified, to pre-register with CSD. We are registering those with CSD and that should happen in the next 6 months. Post that they will begin their organic growth with CSD which is of course a slow process, but a much more profitable process then to spend large amounts of money on brands which need not be giving us so much return.

Kushal Sanghrajka: I wanted to know that the IMFL sales in FY10 seem to have dropped compared to FY09, what is the reason for this?

Shekhar Swarup: It is a marginal drop. There were certain cheap IMFL brands which we sold for entering in the Kerala market, which were not giving us profit. So, we discontinued those brands and concentrated on higher value brands. Though the volume has decreased, the net contributions are better.

Kushal Sanghrajka: What is current capacity utilization?

Dr. Bhaskar Roy: Capacity utilization last year was 100%. We have produced more than our installed capacity.

Kushal Sanghrajka: Since you are increasing capacity now more than what you are expected what is your approximate current work in progress and your cash and inventory balances?

Dr. Bhaskar Roy: The current capital working progress that we are doing around is around Rs. 70 to Rs. 75 Crore which we anticipate will be spent**.** Up to March, we have already spent around Rs. 30 to Rs. 35 Crore which is declared in the capital working progress. The balance is being borne and will be completed in next 3 to 4 months. Net working capital is Rs. 57 Crore and cash is around Rs. 17 Crore.

Moderator: Thank you. The next question is from the line of Grishma Shah from Envision Capital. Please go ahead.

Grishma Shah: If you could just clarify in H1 FY10 our own IMFL sales were around 3.5 lakh cases? That is the figure I have and now you are saying the IMFL sales for the full year is 2.6 lakh cases. So, am I missing something?

Dr. Bhaskar Roy: Q1 was 0.56 lakh cases; Q2 was 0.64 lakh cases; Q3, was 0.75 lakh cases; and Q4 it was 0.66 lakh cases summing up to, 2.61 lakh cases.

Grishma Shah: What could be your total CAPEX plans for FY11 beyond the additional Rs. 8 Crore that you would incur?

Dr. Bhaskar Roy: Total CAPEX totally will be around Rs. 90 Crore including the IMFL brand promotions etc. Out of that, Rs. 70-75 Crore will be in the plant and machinery, etc. which we are putting up in both the units including the modernization of new bottling halls which we have put up, the working capital and brand promotions, etc. balance will be in the IMFL.

Grishma Shah: But brand promotions any which way you will expense it out in the P&L, right?

Dr. Bhaskar Roy: Yes, but the funds which we have already envisaged in the IPO, we have demarcated certain funds for the working capital requirement for the new geographical states which we are adding and the brand promotions which will do for the new launches of brands which we are as Mr. Swarup has said earlier.

Grishma Shah: Can you also tell me the average absolute price across all the four segments for FY10, industrial country, franchisee, and own?

Dr. Bhaskar Roy: Actually in IMFL, it depends on the duty. The price varies from Rs. 1,200 per case to around Rs. 1,800 per case. In Haryana and Kerala, the duty structures are low. In UP and Rajasthan, the duty structures are higher and in country liquor it is around Rs. 250 per case without duty because in country liquor the duty is borne by the government and in bulk spirit, it varies from Rs. 35 to Rs. 39-40 depending on the market conditions, etc., per liter.

Grishma Shah: The new contracts that you have negotiated with Jagatjit Industries and ABD, have there any change in the pricing, etc., that has taken place or it is that it sticks to your 10% or the 5% kind of margins.

Dr. Bhaskar Roy: It will be in the 5% margin, but the arrangements with the two are separate. In case of ABD this volume is the sales, purchase, etc., everything is done by the company and it is booked in the company’s profit loss and balance sheet which affect in the turnover. However, in case of Jagatjit, the margin will come as a royalty; means it is a bottling income. The purchase, sales, etc., will be booked in their books and not in our books. This will be the basic difference.

Moderator: Thank you. The next question is from the line of Abhinav Mansinghka from HSBC Mutual Fund.

Mehul Bhatt: How much do you plan to spend on advertising and sale promotions in the current year FY11?

Shekhar Swarup: We are planning to invest about Rs. 10 Crore behind our brands in the current year. This includes our new brand launches.

Mehul Bhatt: But this would largely be in IMFL?

Shekhar Swarup: In country liquor space any kind of promotional activities are built into the cost card of the products.

Moderator: Thank you. The next question is from the line of Raj Shashtri from SKS Capital. Please go ahead.

Raj Shashtri: I had a question on the contracts in the IMFL segment. What is the duration of a typical contract and do you operate in a delta or do you take the raw material price decrease risk with your customers?

Ajay Swarup: The contracts are normally structured for a 3-year period and unless something really goes wrong, they are never changed even beyond those 3 years because brand owners are extremely sensitive with the fact that when you change to source of production of a brand, the consumer outlook could change. If everything is going well and the brand is accepted from a particular source, nobody wants to change because it can actually have an impact on the sales of your product if the consumer used it adversely. So though it is 3 years, but it is normally never changed. It is just goes on.

Raj Shashtri: For the consumer that is the taste?

Ajay Swarup: Yes. As you know in liquor, the source of the liquor is dependent on the alcohol as well as the quality of water. The taste can change when the same brand moves to another source of production. The contract is structured in a manner that the alcohol which goes to bottle, that product is priced by us on a quarter-to-quarter basis. So if raw material prices drip downwards, then the brand owner does get the benefit of it and vice-versa. We are insulated from cost-push in case the prices of raw material go up and this is done on a quarterly basis.

Raj Shashtri: So you take the risk, but generally you make 10% margins.

Ajay Swarup: We made 10% on the alcohol we give and we make about 5% on the value add bottling activity which we engaged in. So 10% plus 5% is what we make when we bottle for others.

Raj Shashtri: What is your growth strategy in terms of expanding to other states, do you have that plan?

Ajay Swarup: We will be marketing our IMFL brands in almost every state where there is significant sale of IMFL. India has 29 such opportunities.

Raj Shashtri: I was actually referring to the government regulations because as I understand that some states are free, some states are auctions, and some states, the government actually control the distribution channel.

Ajay Swarup: Not withstanding to method and the rules and regulations. The fact is that except Gujarat, alcohol beverages sell in every state. So we would be going to each and every state. Over the next 2 years, we will try to reach almost 100% coverage with our brands and in many states, there would be a need to produce locally due to the inter-state tariffs and due to legislation that local production is preferred to importing liquor from outside. We would do that by a franchisee bottling just as we bottle for others. We would also get into reciprocal arrangements where we will have others bottling for us.

Moderator: Thank you. The next question is from the line of Rajiv Aggarwal from Eureka Shares & Stock Broking. Please go ahead.

Rajiv Aggarwal: My question pertains to this industrial alcohol segment. We have said that we have not tied up 30 million liters. So for these 30 million liters, what are the customers that we are targeting for industrial alcohol?

Ajay Swarup: Though we call this industrial alcohol, it has been loosely used terminology. Actually this is alcohol which is sold to other beverage manufacturers. This is high quality, extra neutral alcohol made from grain which is to be sold to brand owners in all parts of the country. Brand owners like United Spirits, Pernod Ricard which was earlier called Seagram, Jagatjit Industries, and the likes. We already have a very good working relationship with all these customers and we are supplying them extra neutral alcohol already. In our talks with them, they have indicated that they would be happy to increase their sourcing from us as compared to the current sourcing from other suppliers. We are very confident of that. The other opportunity is that grain neutral alcohol from India is finding its way into the African countries. I am now talking about bulk exports of alcohol. We have initiated talks with the customers in Africa and the Middle East. We hope that going forward at least 10 to 15% of this additional capacity will go into exports. We will take care of the 30 million gap which exists today. We do not foresee any difficulty in sales.

Rajiv Aggarwal: Now since you are expanding capacity to around 70 million bulk liters, so when will the whole expanded capacity come through?

Ajay Swarup: As we said earlier, it will be completed by Q2 and therefore from the second half we will see the full impact of the expanded capacity on our revenues.

Rajiv Aggarwal: Industrial alcohol sales in total mix would be increasing. So can you give me some blended EBITDA margin that you would be looking for in FY11?

Dr. Bhaskar Roy: It will be around 14% to 15% on the total EBITDA margin that we would be looking.

Moderator: Thank you. The next question is from the line of Naga Brahma, a Retail Investor. Please go ahead.

Naga Brahma: Could you give us proportionately how much would be the increase in the rectified spirit capacity, the bottling capacity, or the country liquor after the increase in capacity to 70 million bulk litres?

Ajay Swarup: The increase in capacity which was earlier envisaged to go up to approximately 50 million is now going up to 70 million which is 20 million liters extra. All of this is in the form of extra neutral alcohol. In the new technology of producing alcohol, we do not produce rectified spirit at all. We go directly to ENA. These are called wash to ENA plants which are energy efficient and also you save on redistribution losses. We have now gone in for such plants in both our distilleries. There will be no need to make rectified spirit. You will make value added extra neutral alcohol straight from raw material.

Naga Brahma: So from the extra neutral alcohol depending on that you would be making both country liquor as well as the IMFL?

Ajay Swarup: Absolutely right.

Naga Brahma: Is it possible to give us an idea of how much one liter of ENA will give us the country liquor and IMFL quantity?

Ajay Swarup: One case of IMFL requires 4 liters of extra neutral alcohol and one case of country liquor has close to 3 liters of extra neutral alcohol.

Naga Brahma: What is the quantity in one case of IMFL?

Ajay Swarup: One case is 12 bottles of 750 ml. So total of 9 liters of blended liquid IMFL of which since it is at 42.8% B-by-B so the ENA contribution is 4 liters, the rest is water.

Naga Brahma: In the case of country liquor?

Ajay Swarup: In the case of country liquor, the alcohol content is 30% as opposed to 42.8% in IMFL and therefore per case the alcohol required is close to 3 liters and the balance is water.

Naga Brahma: During an interview with CNBC may be during January after Q3 results, you had given an estimate of around 35% growth both in top-line as well as bottom-line for FY11. But with this new capacities going on stream, don't you feel it is a very less target?

Ajay Swarup: At that juncture, we were still looking at expanded capacity to 50 million liters, but now with value engineering, we have gone up to 70 million liters with marginal increase in project cost; however, we got delayed by one quarter, so end of the year, the margins will be better, but the impact on as a whole year would be what I said at that time about 35%.

Naga Brahma: I just wanted to know now that you have ramp up the capacity to such a level, how many years or time is required to achieve 100% utilization of this?

Ajay Swarup: Actually, trial production will not take more than 15 days to 30 days. After that, we hope to run on full capacity. So actually by the second half of the current fiscal i.e. out of the 6 months, we should get full capacity in the 5 months out of the 6 months.

Naga Brahma: My question was whatever the extra quantity is that you will be getting it by this capacity expansion. How many years would you require to market that additional quantity?

Ajay Swarup: No, we do not see a problem. Industrial alcohol being a commodity sale, it is not a gradual ramp up which happens in case of a brand. So this being a commodity, we expect to be at full capacity straight away.

Naga Brahma: So may be to 95% once may be by the end of this year?

Ajay Swarup: Yes absolutely.

Naga Brahma: The consumption of raw material has gone up by almost 96% which is not in consummate with the increase in the sales. Is it due to any excess of stocking of raw materials because you wanted to start the new production or any other reason?

Ajay Swarup: From where you got the figure of increase of 96%?

Naga Brahma: If you see the consumption of raw material, as of FY10, it was less than approx. Rs. 163 Crore whereas in FY09 was Rs. 126 Crore. In that increase there may be some part which was mainly due to the stocking for the new capacities also.

Ajay Swarup: No. Actually, the turnover also has gone by Rs. 100 Crore.

Naga Brahma: In the last con-call, Dr. Roy had mentioned that your other expenditure which includes the royalty expenses paid to the franchisee and also commission paid to the wholesale operation. But that expense was under this head has come down from Rs. 87 Crore to Rs. 62 Crore. Any particular reasons for that.

Ajay Swarup: Last year, the other expenditure was Rs. 44 Crore and this year it is Rs. 62 Crore which has gone up.

Naga Brahma: But I thought it was showing at Rs. 87 Crore for FY2009?

Ajay Swarup: If you have seen which we are reported, it is Rs. 44 Crore as other expenditure.

Moderator: Thank you. The next question is from the line of Saurabh Pant from SBI Mutual Fund. Please go ahead.

Saurabh Pant: The first question is you said that there is a high duty slapped on the export of alcohol from the state of Uttar Pradesh. How much would that duty be and suppose we go to import ENA from that state, what could be the landed cost for you?

Ajay Swarup: The duty on moving alcohol from UP is Rs. 3 a litre and depending on which state, say if I want to import it into, the landed cost would be a factor of number one the export duty with Rs. 3, the freight and number three the import duty in that particular state.

Saurabh Pant: Approximately, how much would it be suppose we got to import it to the state of Rajasthan?

Ajay Swarup: The import duty in the state of Rajasthan is Rs. 3 a litre and the freight to Rajasthan is a Re. 1 a liter. So 3 plus 2 plus 1 i.e. Rs. 7 per litre is the cost of importing alcohol from UP to Rajasthan.

Saurabh Pant: What should be the cost of ENA as of now in UP?

Ajay Swarup: The cost of ENA currently in UP is Rs. 27 a litre.

Saurabh Pant: So for you, it should work out somewhere close to Rs. 34 for you.

Ajay Swarup: Exactly and that is the price at which we are selling ENA made from grain in our distillery.

Saurabh Pant: What are the grain prices for you as of now, for broken rice approximately? What is the average for FY10 and what would it be now?

Dr. Bhaskar Roy: We have average year ending in Rajasthan, it was Rs. 1,036 per quintal and it was around Rs. 1,020 in Samalkha i.e. Haryana. So we expect that it will be plus minus 5% around this range.

Saurabh Pant: At what price points would the new launches in the branded IMFL space happen?

Ajay Swarup: The regular whisky which we are launching is cross lined at the same price point as Officer's Choice. In the same category there is Bagpiper, Director Special, and Aristocrat. The other launch is going to be a semi-premium brandy for the south market which is cross lined with Mansion House brandy and McDowell No.1 brandy.

Saurabh Pant: On this whisky segment, what would be the growth rate of the category for this year? I don't know, mind my ignorance, but these Officers Choice, Bagpiper and Aristocrat should be selling at somewhere close to what Rs. 200 a bottle?

Ajay Swarup: You are absolutely right.

Saurabh Pant: So has this particular category seen some kind of headwinds in terms of growth rates?

Ajay Swarup: That was the case 2 years ago, but we found that there has been excellent rural and semi urban demand in this category, so we are finding over 10% growth in this category and this comes on top of extremely large volumes.

Saurabh Pant: Would your strategy to enter this space would be also to do with the lower raw material cost that you foresee for the coming year; may be you are expecting grain prices to be lower this year?

Ajay Swarup: Actually the strategy to go in with this category is to create a distribution network and then move upward in the other price point using the distribution reach which we would have created with this fast moving product.

Moderator: Thank you. The next question is from the line of Harit Kapoor from B & K securities, please go ahead.

Harit Kapoor: Firstly regarding country liquor; I think Mr. Swarup spoke about the fact that there has been an increase in the quota in the states that we operate. Just wanted some more idea as to what kind of increase have we seen in the quota in these states in March and when did the new excise policy come out?

Ajay Swarup: Approximately 20% for Haryana, Rajasthan, and Delhi.

Harit Kapoor: This is on the tie up with Jagatjit. You were explaining to us about how we arrive at the margin number at about 10+5% for the IMFL franchisee. Would that be accurate to assume for the 1.8 million cases that we expect for Jagatjit as well because we will just be adding a bottling income

Ajay Swarup: Let me tell you how this operates. Your question is quite valid, but in different states when we bottle for other companies we have to deal with it in different manner. For example, when we bottle Officers Choice in Rajasthan the entire top-line is reflected in our books; however, in Haryana, the excise laws provide that we leave out our bottling facility to the brand owner and therefore whereas the bottom line to us is the same. In this particular case, the top-line does not come to us. But in terms of what the net revenue to us, there is no difference. The only difference is accounting procedures.

Moderator: Thank you. The next question is from the line of Sarika Kukshya of Prabhudas Liladhar Portfolio Management. Please go ahead.

Sarika Kukshya: With regards to the capacity expansion, earlier we had plans to take up the capacity to 50 million for this fiscal. Now we plan to take it to 70 million. So just wanted to understand how do we plan to fund this 20 million capacity expansion?

Dr. Bhaskar Roy: The extra expenditure is around Rs. 8 Crore which we are financing from the internal accruals itself.

Sarika Kukshya: How do we plan to allocate this extra production? Allocate in the sense like what kind of revenue share across different segments do we foresee for FY11?

Ajay Swarup: Our increase in production will be close to about 40 million liter of which close to 15 million liters would be additional bottling which we do for other brand owners and the balance will be sale of industrial alcohol.

Sarika Kukshya: So we have the contracts for 15 million additional cases early in place or we are in the process to negotiate?

Ajay Swarup: Those are in place, absolutely in place.

Sarika Kukshya: Those have already been frozen and we have been with the same clients, Jagatjit and ABD.

Ajay Swarup: That is right and that will be sold as to other beverage manufactures as grain neutral alcohol and we already have good contacts with the companies. We are currently selling it as industrial alcohol to them. They would be happy to take additional volumes from us.

Sarika Kukshya: Own IMFL production for the year has been 2.6 lakh cases versus the guided number of 3.5 lakh cases. The number for FY11 which had been guided is 5 lakh cases. So is there any upward revision or downward revision in the same?

Ajay Swarup: Own IMFL, we will do around 1 million cases in the current year.

Sarika Kukshya: Can you actually share the percentage in terms of what would be the kind of revenue will look like for FY11?

Dr. Bhaskar Roy: In FY11, there will be an increase of 30-35% in country liquor and the volume should go up by 10% to 15% and for IMFL own brands it will be one million cases.

Sarika Kukshya: I have understood that, but in case of revenue figures like as you mentioned 13% has been the share of industrial this fiscal. What is going to be the share next fiscal?

Dr. Bhaskar Roy: Next fiscal, in case of country liquor share will be around 35%. In case of IMFL franchisee brand, it will be around 32%. Industrial alcohol will be approx. 22% and IMFL own brand will be approx.10%.

Moderator: Thank you. The next question is from the line of Arun MF from Capital Market Publishers. Please go ahead.

Arun MF: The company proposed to enter two new states for IMFL own brands. What are the two states?

Shekhar Swarup: Himachal and Punjab are two states we are entering in this year in the year 2010-11.

Arun MF: In the states where you have presence, the government controls the wholesale market as well as some other private oligopolistic. Where do you find that you have the pricing power and subsequently get the price hike easily? How is your experience in Southern markets? When did you get the last price hike in Andhra Pradesh?

Ajay Swarup: Price increases come almost every year from the state controlled wholesale markets.

Arun MF: Typically when I am interacting with people in southern markets, for example in Tamil Nadu, last price hike happened 4 years back to my knowledge and similarly AP is also dragging. Have you got any price hike in the last couple of years in Andhra Pradesh? What is your experience in these states?

Shekhar Swarup: There are two things. Firstly when we launch a product in a state controlled distribution market, you introduce it within a certain price range, hypothetically let us say the price range is Rs. 400 to Rs. 450 per case ex-distillery. Within this price range, in the state controlled distribution markets, the brand owners have complete pricing freedom. Different states have varying laws on changing the price range itself, ie from a Rs. 400 to Rs. 450 range to a Rs. 451 to Rs. 550. This is the price hike you spoke about. Andhra Pradesh only recently was able to give this. So there are two different issues over here.

Arun MF: When did you get the price hike in Andhra Pradesh?

Shekhar Swarup: That was in the last fiscal.

Arun MF: How about Rajasthan & Haryana market?

Shekhar Swarup: Rajasthan market, we are able to get price increases on a yearly basis; however, in Rajasthan, we had to justify the price increase and after we justifying, they too gave us the price increase easily. Haryana is a private distributor market, so it is free pricing.

Moderator: Thank you. The next question is a follow up from the line of Abneesh Roy from Edelweiss Capital. Please go ahead.

Abneesh Roy: Can you give us the percentages sales for FY10.

Ajay Swarup: For the fiscal 2010, 13.26% came for industrial alcohol, 42.39% from country liquor, franchisee IMFL was 32.32%, own IMFL was 7.06%, and miscellaneous sales was 4.97%.

Moderator: Thank you. The next question is a follow up from the line of Grishma Shah from Envision Capital. Please go ahead.

Grishma Shah: What would be your average tax rate going ahead?

Dr. Bhaskar Roy: It will be around 26%.

Grishma Shah: You have already done 36-37% in FY10 including deferred tax.

Dr. Bhaskar Roy: This is high in the FY10 and the earlier year depreciation which we have written back have resulted into additional deferred tax element which you have to provide as per law. Otherwise if you see, the current tax was Rs. 6 Crore and the balance of Rs. 10-11 Crore is of the deferred tax.

Grishma Shah: So you are saying that this is just one-off and it will not continue in FY11?

Dr. Bhaskar Roy: Yeah, so from the next year onwards, it will be around 26%.

Grishma Shah: Okay everything put together, your deferred tax comes into the picture.

Dr. Bhaskar Roy: Yes.

Grishma Shah: You said that you are going for the registration process for the CSD. Where have we reached there and we also simultaneously pursue the inorganic growth opportunity in that segment?

Ajay Swarup: Our CSD registration process has started. That will take about 3 months for our own brand. The inorganic growth as I said, we are completely open to, but we will evaluate opportunities which make sense for our bottom-line, however we have open two projects.

Moderator: Thank you. The next question is a follow up from the line of Naga Brahma, a Retail Investor. Please go ahead.

Naga Brahma: Sir your country liquor sale during 2008-09 was Rs. 102.51 Crore. As per this year, it is around 42.3% of the total sales which works out to Rs. 162.8 Crore. So there is a growth of more than 58.8% even if you take off the extra 6 to 7% increase in the rate you have got, it still works out to 48.42% increase in your country liquor. Any reasons for such a huge growth?

Dr. Bhaskar Roy: If you see the case wise, the country liquor case was 49 lakh cases and the revenue was Rs. 102 Crore last year. In this year, it is 65.48 lakh cases and the revenue share is Rs. 163 Crore. So in the case wise also, there is a jump from 49 lakh cases to 66 lakh cases and which is around 17 lakh cases more apart from hike in price.

Naga Brahma: That means you are growing at a higher level than what you used to say around 10 to 15%, is it right?

Dr. Bhaskar Roy: Yes. In country liquor segment, we have are grown at a higher rate than industry.

Naga Brahma: Has the carbon credit already been accounted in the FY10 revenues?

Dr. Bhaskar Roy: No. We have applied for Carbon credit. We can only account for once the project completes and the project is validated. We have already registered our case with UNDP but after the production starts, we will have to show the facilitator our facilities and after their verification only, we will get the carbon credit. We expect all these processes to be completed by this financial year end.

Naga Brahma: At the time of IPO, it was mentioned that trademarks for various product brands are under the process of registration. What is the status on that?

Dr. Bhaskar Roy: In lot of cases, it has gone because you know the trademark process takes time, so advertisements have been given. Now, it is waiting for the final things to come up. Three-four brands have moved up to that stage and we have applied for certain new brands which will take some time.

Naga Brahma: On an average, how many years does it take, is it one year or two years?

Dr. Bhaskar Roy: For registration in India, it actually takes 5 to 6 years' time.

Moderator: Thank you. As we have no further questions, I would like to hand the floor back to the management of Globus Spirits Limited for closing comments. Please go ahead.

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 website and post any queries that you may have and we will get back to you as soon as possible. You can also e-mail 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.