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Q1 FY11 Earnings Conference Call

Investor/Analyst Conference Call Transcript – August 3, 2010

Moderator: Ladies and gentlemen, good afternoon and welcome to the Globus Spirits Ltd Q1 FY'11 earnings call. As a reminder for the duration of this conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr**.** Ishan Selarka from Citigate Dewe Rogerson. Thank you and over to you sir.

Ishan Selarka: Good afternoon everybody and welcome to the Globus Spirits Ltd Q1 FY'11 earnings conference call. Today we have with us Mr. Ajay Kumar Swarup, Promoter and Managing Director, Mr. S K Chopra, Chief Operating Officer - IMFL business, Mr. Shekhar Swarup, VP - IMFL and Dr. Bhaskar Roy, Director 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 perspective with regards to the company's performance during the quarter ended June 30, 2010 and the opportunities going forward. Over to you sir.

Ajay Kumar Swarup: Good afternoon everyone. Thank you for joining us for this Q1 FY'11 earnings conference call. Let me begin by providing a quick strategic overview of our business. GSL is the only spirits company in India to have a 360 degree presence across the sector, right from manufacturing, marketing and sale of country Liquor, branded IMFL, industrial alcohol apart from taking up contract bottling to cater to renowned Indian branded IMFL players. This enables us to straddle opportunities across the sector and balance our operations to maximize earnings in a variable market scenario.

Let me take through the performance of each business line separately. Our country liquor business continues to grow driven by a strong rural demand. This business benefited on a couple of reasons, one, the increase in the selling quota by state governments by about 15% and secondly the price increases, which have come through at the start of Q1 FY'11 in all the three states where we operate i.e., Rajasthan, Haryana, and Delhi. Also, the use of innovative marketing tactics like using high quality PET bottles, creating strong local brands has helped Globus Spirits to stay ahead of competition in this segment. A healthy monsoon normally is an indicator of rural purchasing power. The prospects of this business segment appear promising going forward.

Coming to the branded IMFL business, the major highlight of this quarter has been the launch of our County Club whisky in the regular category in June 2011. The additional response to launch of this brand has been very encouraging and we will roll-out the brand pan India in a phased manner. We understand that there is a gestation period in building a good IMFL brand along with investments in advertising, distribution, and team building. We have upped the entity by increasing our marketing spends and making significant investments in human resources. Our employee cost has gone up by 30% in this quarter. These initiatives will definitely bear fruits in the long run. The strategy in the branded IMFL business is to start with regular and semi-premium category brands and as the business acquires sufficient scale, we will start moving up the volume chain by launching brands in the premium categories. GSL continues to remain highly focused on growing its branded IMFL business and in the coming quarter we will come up with another launch in the semi-premium category.

Moving on to the franchise of IMFL business, our tie-up with Jagatjit Industries for the manufacture and bottling of their brands, in the state of Haryana, became operational at the start of Q1 FY'11. Bottling will continue to complement our branded IMFL business till it acquires substantial scale. Our bulk alcohol business will benefit from the capacity expansion from the current 29.6 million BL to 70 million BL per annum capacity, which is expected to be operational by the end of Q2 FY'11. We expect significant traction in business activity on account of the completion of our plant capacity expansion leading to increased volumes in the bulk alcohol business. At the end of Q2 FY'11 the plant capacity expansion will more than double our capacity to 70 million BL catapulting GSL into a new orbit altogether. On the technical front too, these plants are comparable to any world class distillery thereby giving us a definite edge in quality of alcohol as well as cost of production. Secondly, the new brand launches in the branded IMFL space will give pace to the growth momentum in the branded IMFL business. Both these initiatives will ensure that our growth plans are on track and keeping in sync with our longer-term vision of establishing a pan India footprint in the branded IMFL space.

To conclude, let me state that our continuing operations remain very strong while we make investments and expansions in brands and other market opportunities. This will mean that we will acquire scale, size and presence in the near term and the performance will reflect sustained cash earnings from operations moderated by investments being made in new opportunities. This is very encouraging as we are in a position to maintain healthy operating cash flows despite having to make investments. In the medium term as the investments fructify we expect strong earnings momentum going forward. Now to give you a brief overview on financial, I would like to hand over to Dr. Roy.

Dr. Roy: Good afternoon everyone. To start with revenues for Q1 FY'11 stood at Rs. 1,031 million compared to Rs. 929 million in Q1 of FY'09 registering a growth of 11%. Operating profits stood at Rs. 100 million compared to Rs. 101 million in the first quarter of last year. PAT stood at Rs. 63 million compared to Rs. 68 million in quarter one FY'10. We have to keep in mind that the PAT for Q1 FY'11 was calculated after making a provision for tax of Rs. 22.1 million compared to Rs. 12.5 million in Q1 FY'10.

Coming to the segmental contribution, country liquor contributed 40.99% to the total revenue with 16.16 Lakhs cases, franchise IMFL contributed 30.71% with 1.92 Lakhs cases. The contribution from the bulk spirit segment stood at 16.97% with 47.9 Lakh BL while branded IMFL contributed 6.06% with 0.64 Lakh cases. Other segments contributed to 5.23%, which include revenue from spent grain and Biocompost.

On the expenditure front, raw material and packing cost form 47.17% of the total expenditure in Q1 FY'11 marginally up compared to 46.61% in Q1 FY'10. The employee cost as in this quarter has risen to Rs. 13.4 million compared to Rs. 10 million in Q1 FY'10 due to the extra resources deployed to beef up our presence in the IMFL space.

To give you a perspective on the balance sheet, our net worth stood at Rs. 1,669 million compared to Rs. 1,614 million on March 31, 2010. The total debt stood at Rs. 323 million and the cash balance at Rs. 218 million. These on the broad level are all the financial numbers. Thank you once again for joining us on this conference call. We will be happy to answer the questions that you may have.

Moderator: Thank you very much sir. Our first question comes from the line of Abneesh Roy from Edelweiss Capital. Please go ahead.

Abneesh Roy: Could you share the margins segment wise?

Dr. Roy: The EBITDA margin as a whole stood marginally low at 13.89% compared to 14.82% in March. This is due to two, three factors. One is that the bulk spirit prices all over India have come down and are under pressure. The margins stood at around 7-8% this quarter compared to 10% - 11% that we were enjoying earlier. The other reason for a slight decline in the EBITDA is the increase in the cost due to new market setup etc., The setting up of a new geography takes some time and there is a gestation period for the same. We believe that with the distribution going off in the next quarter, the margins will steadily come up.

Abneesh Roy: Which means the balance three quarters will be better than 15%?

Dr. Roy: We expect volume growth to take place in the branded IMFL space. So with that, the fixed cost overheads will come down thereby improving margins.

Abneesh Roy: Could share the margin segment wise for industrial alcohol?

Dr. Roy: The margin in the industrial alcohol segment was 7.5-8% compared to 10% last year. In country liquor, the margins were higher at 16% compared to 14-15% last year Margin for franchise IMFL has remained flat at 4.5%-5%,

In own branded IMFL last year Q1 we have done 0.56 Lakh cases whereas this year we have actually done 0.75 Lakh cases in Q1. However if you see percentage wise, last year it was 5.44% of the total sales and this year it is around 6.80% of the total sales.

Abneesh Roy: Earlier you said own branded IMFL is around 0.64 Lakh?

Dr. Roy: There are states like AP etc. where we do not book the sales. Sales are booked in the tie-up units books while we take royalty in our books. In the reverse case like ABD, which we have been doing in Rajasthan, we have also tied up in some other states with some other person.

Abneesh Roy: Why do we that?

Dr. Roy: It is because for selling in AP, you cannot send your liquor from Haryana or Rajasthan because the import-export duties of the states and logistics do not permit you to do so. So we have tied up with a local distillery in Kerala & AP and that is usually the practice in this industry. However, in Kerala due to the state excise rules, we are able to book all the sales, purchase, turnover etc., in our books but in AP it is booked by the tie-up unit. The difference of the sales versus expenses is coming to us as our royalty.

Abneesh Roy: How much is the difference of the royalty as a percentage of sales?

Dr. Roy: It is very low. It is around Rs. 50 per case on an average.

Abneesh Roy: Could you comment on the raw material prices especially glass and the raw materials i.e. molasses & grain?

Ajay Kumar Swarup: Molasses prices in the last quarter has been subdued and going forward we expect them to remain subdued; however, our distilleries still are operating on grain because in the states where we operate, manufacturing alcohol from grain still remains viable as compared to molasses as both, Haryana and Rajasthan are deficient in molasses. In fact, Rajasthan has no molasses and hence grain remains as the more viable option.

Abneesh Roy: Could you talk about the IMFL business that you have just forayed into. You also mentioned that one more brand is being planned. In how many states are you currently present and which states do you plan to get into going forward?

Ajay Kumar Swarup: We launched a brand called County Club whisky. The production started sometime in June and in July we introduced it in Haryana, Punjab, Himachal Pradesh, Chandigarh, and Rajasthan. That is our first launches post our IPO. It is cross lined in the same category as brands like Bagpiper, 8PM, and Director's Special and is in fact the largest segment in the IMFL business when you look at volume. So this brand is gradually going to be taken pan India. It is going to be our high volume brand and it will provide Globus Spirits Limited the distribution reach and enable us going forward utilize the distribution to bring in higher value and higher margins. The good news we have to share with everybody is that there is an excellent response to the brand. We are already getting repeat order from our customers. The response is good not only to the packaging but also to the whisky itself. So, this has given a big boost to our confidence and we believe that in Q2 we will see significant upswing in the numbers of our branded IMFL vertical led largely by this brand. We are now brining in another new brand for the southern markets, which is going to be a brandy in the semi-premium segment. So most likely we will see this launch either in the end of Q2 or possibly in the beginning of Q3. In this current financial year, our IMFL vertical will be driven by these two brands of which one is already in the market and we have an excellent response to it and the other should be in the market in the next couple of months.

Abneesh Roy: Coming back to County Club whisky; you said on packaging and blend it is doing well. How does it compare with Bagpiper and 8PM on pricing front?

Ajay Kumar Swarup: Well, essentially it is at the same price point.

Abneesh Roy: Why did you do that because normally in entry you would like to have an aggressive i.e., lower price point?

Ajay Kumar Swarup: That is not the right strategy. We may promote the brand by incentivizing trade but we would certainly not like to position our brand to the consumer at a lower price point.

Abneesh Roy: What is the margin in the own branded IMFL category?

Dr. Roy: At present, it is around 16% to 17% as currently we have to give the trade discount to market the brand etc. However, with the volume growth we expect the margins to go up. Also new launches in the third quarter should boost margins going forward.

Moderator: Thank you Mr. Roy. The next question comes from the line of Nillai Shah from Morgan Stanley, please go ahead.

Nillai Shah: Can you please help us with the volume growth for the quarter?

Dr. Roy: In the bulk spirit Q1 2009 volumes were 47.90 lakh BL compared to 36.10 Lakhs BL last year. In country liquor segment it was 15.09 Lakhs cases last year while in the current quarter it is 16.16 Lakhs cases. In franchise IMFL it was 2.09 Lakhs cases last year and current year it is 1.92 Lakhs cases. Own brand IMFL stood at 0.75 lakh cases compared to 0.56 Lakh cases last year.

Nillai Shah: My second question is on the price increase in Rajasthan, Haryana, and Delhi?

Dr. Roy: The price increase across the states is around Rs.10 per case and that has increased our margins to some extent from last year. We expect this to continue as volumes grow further in the country liquor segment. So we expect the margins to be steady throughout the year.

Nillai Shah: Could you help me with the percentage price increase?

Dr. Roy: The percentage price increase will be around 5%.

Nillai Shah: You spoke on bulk spirit capacity addition being done by you and we have seen that the margins for this segment have come off in the quarter. How are you actually reconciling that, you want to increase your margins going forward given that you are heavily dependent on grains as well?

Ajay Kumar Swarup: With our new capacity coming up we see a significant improvement and efficiency. The plants which we are currently operating are well over 15 years old and they operate with an old technology where we make neutral alcohol in two stages; we start by making rectified spirit and then redistill it to make neutral alcohol. Going forward, once our new capacities come in play, the new technology will give us the ability to make extra neutral alcohol directly from the raw material without going to the intermediate stage of making rectified spirit that itself is a significant edge in steam consumption and it will give us an improvement in yield of alcohol and also gives us better quality. So we expect our margins to increase when the new plant come on stream and the new technology being put in place.

Secondly, we are going into power generation. As a result, today's cost of purchasing power from the grid or generating it from diesel is all going to be ruled out. We will in fact have surplus power and we are working out methods where surplus power could actually be sold to the grid. I am not able to commit on the numbers which could come out of this, but may be by the next quarter we will have a clear picture as to what surplus power we can actually sell to the grid. So, though spirit prices are softening we hope to maintain our margins by improved direction.

Nillai Shah: There are rumors that realizations have let the margin to decline for the first quarter. Is it true or is it a more capacity driven thing where there is surplus capacity in the system?

Ajay Kumar Swarup: Firstly, prices of bulk alcohol have come down in the first quarter of this year as compared to the last quarter of the earlier fiscal. This was caused by lowering of molasses prices across the country. Now, going forward like I said earlier, our margins will be protected because we will be producing alcohol using the new technology, which is more energy efficient, gives better yield, and we have surplus power, cost saving / revenue stream once our new project is in full stream.

Moderator: Thank you. The next question comes from the line of Mahesh Nadurkar from CLSA, please go ahead.

Mahesh Nadurkar: What sort of impact it has on the business margins if the nearby states such as UP see a bumper crop in the sugarcane segment. I know that you do not use molasses etc., but what kind of impact can it have on the margins?

Ajay Kumar Swarup: Firstly, most of the price correction, which was to take place in molasses and alcohol, has already happened. Secondly, it is expected that the ethanol policy of the government of India will be in place very shortly. There is pressure from the sugar lobby, which is largely driven by the agriculture, the reasons of supporting the agriculturist who want the government to come out with the price of ethanol at Rs. 27, As soon as this is done there is, in fact, going to be a revised upward correction in the price of alcohol. Having said that I have already said earlier that we are protecting the margins by improving efficiencies and we do not see in the industrial alcohol space of our total business a fall of more than what we has already happened. That has already been absorbed. We do not see any further fall coming up in the months to come.

Mahesh Nadurkar: What sorts of price correction have you already seen in case of ENA so far?

Ajay Kumar Swarup: There has been a decrease in ENA price of about Rs. 3 a litre over the last five months.

Mahesh Nadurkar: So, you are not worried about the fact that the projections for the coming sugar year are 40% higher than last year which might lead to further correction in molasses or ENA pricing say by December probably?.

Ajay Kumar Swarup: Well let us put it this way, if it does happen and if we find that molasses becomes a cheaper route to making alcohol we will do that. Also, the good news is that grain prices are down on the back of good monsoons. Though not significantly down but yes grain prices have come off from their earlier highs and going forward we are expecting a further fall in grain prices. So if alcohol prices come down they will be largely driven by input prices coming down and therefore margins remain intact.

Mahesh Nadurkar: What is the average selling price of RS and ENA for us in the last quarter?

Dr. Roy: It is around Rs. 34 for ENA. We sell very little RS.

Mahesh Nadurkar: And this includes your taxes or this is just like the excise duty?

Dr. Roy: There is no duty, taxes is plus.

Moderator: Our next question comes from line of Kaushal Sanghrajka from HDFC Securities. Please go ahead.

Kaushal Sanghrajka: I remember you said that around 13,000 IMFL cases were sold in Andhra Pradesh through another company. From what I understand correctly, is it similar to the tie-up we have with Jagatjit and ABD for bottling. If that is the case could you share as to with who do we have a tie-up and approximately what price do we pay for that?

Ajay Kumar Swarup: What happens is that since there are duties in inter-state movement of bottled IMFL it becomes essential for brand owners to manufacture IMFL in different states. Since it is impossible to have plants of your own in each state, what you do is to go to another bottler and say please bottle our brand. Now excise laws differ state to state and in some states when you go to somebody and say please bottle my brand you will actually take part of his capacity on lease. When you do that the turnover will be reflected in your books of accounts, however, in case the bottling is done not on a list basis but on a simple franchise bottling basis. Then the turnover will be reflected in the bottler's book and what you will get in your books is the royalty reflected as the difference between purchase of various inputs and the sale price, so that difference comes to you including profits as royalty.

Kaushal Sanghrajka: That's right but what I am trying to understand is which out of the two do we do?

Ajay Kumar Swarup: We do both, for example when we bottle for ABD, that's Officers Choice in Rajasthan, we do not lease out our capacity and therefore that is reflected in our topline. When we bottle for Jagatjit Industries in Haryana the Haryana Excise laws provide that Jagatjit Industries Limited must take on lease capacity in our bottling plant and therefore the top line goes to Jagatjit industry.

When we operate in Andhra Pradesh we had not taken the bottlers capacity on these, we have in fact given him a franchise. So the top line gets reflected in his books of accounts.

Kaushal Sanghrajka: What is the approx. royalty we receive per case?

Ajay Kumar Swarup: We receive approx. Rs. 50 a case, which goes up as you go up the value chain and then you go to more premium brands.

Kaushal Sanghrajka: Now coming back to County Club, you have got a good response and going forward as you said, you want to make it a pan-India brand. What kind of promotion plans you have and what kind of budget are you looking at in the coming year or two to spend on maybe marketing, advertising etc., for the two new brands and the other IMFL brands that you already have?

Ajay Kumar Swarup: We have set aside Rs. 10 Crore to be spent on promoting these two brands in this current fiscal.

Kaushal Sanghrajka: After expansion, will our bottling capacity will be enough to take into account our own bottling and franchisee or are we adding more bottling capacity as part of our expansion as well?

Ajay Kumar Swarup: In fact the good news is that the investment we made in bottling capacity has already gone on stream at both our distilleries and there is adequate capacity in place at both these units to take in to account the growth of our own brands.

Kaushal Sanghrajka: So when did this go on stream?

Ajay Kumar Swarup: We expanded our bottlery in Rajasthan sometime in the last quarter of the earlier fiscal and in Haryana an investment of about Rs. 7 Crore was made in the bottlery and the new facility were commissioned on June 1 of this year.

Kaushal Sanghrajka: Is the increase in quota that we have got for country liquor of 15% already effective and if it is since when it has been effective?

Ajay Kumar Swarup: The increase in quota happens once a year in each state and this quota really defines the minimum sale which must take place for that excise year. This therefore happened on April 1 and it is applicable for the entire excise year .So in the sates we operate, we have seen a weighted average increase in the country liquor quota prescribed by the state government of approximately 15%.

Kaushal Sanghrajka: What determines on how much quota increase we get? Is that dependent on what market penetration we have or is there a similar increase in quota for all companies?

Ajay Kumar Swarup: The markets of Rajasthan and Haryana are pretty much free where we live in a competitive environment and therefore it is incumbent upon us to try and garner as much of that quota. However in Delhi, the system is one of states where every year you tender and obtain a certain percentage of the entire quota. So it operates differently in these three states.

Moderator: The next question comes from the line of Pranav Kumar from Fortune Financial Services. Please go ahead.

Pranav Kumar: What is the sales target for our own IMFL division for this year FY2011?

Shekhar Swarup: Sales target for IMFL is about a million cases.

Pranav Kumar: I think this will be in the next three quarters. I was going through CNBC where you were saying that in this current financial year you will achieve a top line growth of 25%; so will the majority of growth come from IMFL division?

Dr. Roy: It would be from both, IMFL and bulk spirit division from the third quarter onwards once the new production facility will go on stream.

Pranav Kumar: Could you let us know as to in which all states do we sell our IMFL brands?

Ajay Kumar Swarup: At present our distribution is established in Haryana, Rajasthan, Himachal Pradesh, Punjab, Chandigarh, Uttar Pradesh, Andhra Pradesh and Kerala. Going forward, we do plan to add some of the Eastern market and perhaps some of the metropolitan markets of the country as well.

Pranav Kumar: Any views on how the grain prices have been in this quarter and the previous quarter?

Dr. Roy: The grain prices in the last year first quarter were around Rs. 1020 - 1030 per quintal. In Samalkha region, the average price was around Rs. 1,015 and in Rajasthan it is around Rs. 1,035 to Rs. 1,040 per quintal. Basically there is no change in the grain prices whereas the molasses prices have fallen, but as far as grain is concerned. This will happen from the month of September end or October when the bajra season starts. So every year we get an advantage in bajra because one of our units in Rajasthan is bajra based. So we are hoping to get good prices in bajra which will further pull down our overall prices.

Pranav Kumar: Your sale prices are static In terms of litre?

Dr. Roy: Actually if you see the bulk spirit prices all over India, sales prices litre have fallen down by Rs. 3 to 4 per litre.

Pranav Kumar: In the press release we had said that out of the IPO proceeds we have incurred an expenditure of around Rs. 16.67 Crore on brand promotion and IMFL launch. Has this been accounted for in the P&L account or has this been booked as an IPO expense?

Dr. Roy: The IPO proceeds are to be utilized for brand promotion or launches of brands also. We have given breakup that we will launch brands in different categories. Apart from that, there is working capital requirement etc.. So this Rs. 16.67 Crore includes the inventories, debtors, working capital and a small portion for brand promotion activity. It is primarily for working capital and for the launching expenses. So these have been in the balance sheet portion only and not in the profit and loss account. Only the direct cost comes to the profit and loss account.

Moderator: Thank you Mr. Kumar. Our next question comes from the line of Vivek Jain from Allegro Capital Advisors. Please go ahead.

Vivek Jain: I wanted an update on the CSD that you were looking at.

Ajay Kumar Swarup: We have been looking for an acquisition opportunity. No suitable opportunity at the right price has come our way till now. We are therefore applying for our own brand of rum to be introduced to the CSD. The brand fortunately has qualified all the laid down norms of CSD and I think in the next three months we should see this product on the CSD shelves.

Vivek Jain: What is the kind of sales are you expecting from CSD?

Ajay Kumar Swarup: CSD is a huge Rum market which currently stands at about 5 million cases per annum. It will be a slow growth but I do see in the first year itself we are doing 100,000 cases.

Vivek Jain: Initially we were saying that we would double our capacity to something like 48 million bulk litres and in the press release it states 70 million bulk litres. Could you explain where the difference is?

Ajay Kumar Swarup: You are completely correct in pointing it out. At the stage of the IPO, we had planned to double the capacity, however when we started talks with the equipment suppliers our own engineering team was able to increase with a little bit of value engineering that capacity from 48 million to 70 million with marginal increase in cost. So, we went ahead with that and that is what is being implemented. So yes, we will now be at 70 million per annum instead of the earlier planned 48 million from the current 29 million.

Vivek Jain: In one of the concalls you had given a revenue contribution that you see going forward. So does that revenue contribution still hold given that they have increased the capacity from 48-70 million bulk litres?

Ajay Kumar Swarup: We expect revenue contribution from the bulk spirit segment to increase to around 18% to 20%, Country liquor is expected to be at 45% whereas franchisee IMFL will be 30-32% and own IMFL we are expecting end of the year with around 9% and rest will be the other segment.

Vivek Jain: In regards to the 1 million cases that we plan to do a in our own IMFL, how much have we done so far?

Ajay Kumar Swarup: We have done 75,000 cases in Q1 FY2011.

Vivek Jain: Do you still feel that the target of 10 lakh cases is achievable or have we revised that figure downwards?

Ajay Kumar Swarup: We do not want to revise that n fact we still maintain that guidance of a million cases. We have product launches as well as new markets to be opened up, some of which are really significant in size, for example the Delhi market. We applied for approvals there, hopefully this month they will come in and Delhi is a huge IMFL market. The reason why one has to wait is that there are pre-qualification criteria for the Delhi market, where your brand should have sold a certain number of cases, only then you will qualify, so we want to hold our 1 million case projection and our team is extremely charged up and we certainly hope to achieve that.

Vivek Jain: The other expenses that we report, how much would be the royalty that we pay for branding other IMFL?

Dr. Roy: In the first quarter we have paid Rs. 1.75 Crore to ABD as a royalty passed on to them. This is booked in our selling and distribution expenses.

Moderator: The next question comes from the line of Nillai Shah from Morgan Stanley, please go ahead?

Nillai Shah: Just a follow-up on the country liquor growth quota that you have seen. You said that the weighted average increase is around 15%. How do you actually see sales growing going forward given that the quota increases are very sporadic by the government and it is not very linear. Could you also explain to us how your market share has behaved over the last four or five years in terms of country liquor segment?

Ajay Kumar Swarup: The growth in country liquor certainly is driven by the quota, which is decided by the government. How does the government decide the quota? The government makes an assessment of the projected growth in consumption. Based on the actual growth last year, is what gives them the indication for what growth would be in the coming year. So they follow a fairly scientific method and the reason for that is that they are actually always keen to get revenue. They do a very realistic estimate of what the quota should be. The other determinant for us in our market share calculation is how brand performs in the market. So this is the combination. Now coming to the second half of your question, we have been steadily increasing our market share in the markets we operate. Like I said earlier Rajasthan and Haryana are open markets where you have to actually garner market share by performance. Our market share in Rajasthan currently is hovering between 25% and 27%. In Haryana, it is around 15%. In Delhi, which is a tendered market where you get a certain share for the whole year, for this year, it is 20% and that will remain so for the whole year. It is part of the contract.

Nillai Shah: Published reports suggest that the growth for the IMFL industry has outgrown the country liquor segment, because of the issues that you pointed out in terms of quota being restrictively applied which is not the case with IMFL. So how do you see the mix of revenues between country liquor and branded IMFL, five years from now?

Ajay Kumar Swarup: Country liquor has been growing in North India. Country liquor has in fact vanished from South India and therefore when we see annual growth rate for the whole country, we must keep in mind that these rates are only for the north and certain markets over the last few years for country liquor actually have gone up. In the North, country liquor has been growing in the range of 10% and 18% varying from state to state. IMFL on the other hand has been growing at about 10% to 12% pan India. Coming to Globus Spirits Limited, today, a large part of our revenue comes from country liquor and in the future this would come down as IMFL volumes grow for us even though country liquor in absolute terms will grow. However, as a share of our revenue pie, these three, country liquor, bulk alcohol as well as franchise IMFL will come down and this place will get occupied gradually by branded IMFL.

Moderator: Our next question comes from the line of Harit Kapoor from B&K Securities. Please go ahead.

Harit Kapoor: This quarter country liquor volumes have grown in single digits. I just wanted to know whether this is one off quarter and do we still look at double digit growth expectation for the current year and for next year?

Ajay Kumar Swarup: The first quarter in liquor industry is an aberration and we certainly look at double-digit growth in our IMFL segment.

Moderator: Our next question comes from line of Saurabh Ginodia from Smith Securities. Please go ahead.

Saurabh Ginodia: What was the mix of raw materials that we have used in the first quarter between grain and molasses?

Dr. Roy: We have used only grain. We have not used molasses.

Moderator: Our next question comes from line of Narottam Khetan from Optimal Fund Managers. Please go ahead.

Narottam Khetan: What is the reason behind the decrease in the net sales compared to the previous quarter, which is March year ending 2010.

Dr. Roy: Net sales have not decreased. March quarter is a different thing because usually the third and the fourth quarters are always a better in this industry. So if you compare Q1 FY2010 to Q1 FY2011 then you will get the real position. Now when you come to Q4 FY2011, we are sure that it will be much higher than the Q4 FY2010, but if you compare Q4 FY2010 with Q1 FY2011, the sales figures have come down.

Ajay Kumar Swarup: Basically, we have to understand that the spirits business as also the beer business is seasonal and from quarter-to-quarter there is a significant change in the sales of spirit and other alcoholic beverages and we have to keep that in mind while making comparisons; otherwise, we will have statistical aberrations.

Moderator: Our next question is from the line of Abneesh Roy from Edelweiss Capital. Please go ahead.

Abneesh Roy: In FMCG, we see that many new launches are not really successful; in fact the success ratio is quite low. In the industry in IMFL, what is the success rate of new brands based on your past experience not just for you but for the entire industry?

Ajay Kumar Swarup: That is a very difficult question to answer. We have not really kept track of success and failure rates of brands, but the fact of the matter is that if you do everything right, there should be no reason for a brand not to succeed. There is a healthy growth rate in the business. There is a huge starting point in terms of the size of the market. So the market is big, it is growing. There are new consumers being added every year. People are willing to experiment and to try new brands. So if you get your product right along with your distribution and marketing, we see no reason for the question of our failure.

Abneesh Roy: Could you comment on the marketing part, I understand that surrogate advertising is allowed and in the last few months I have in fact seen surrogate advertising really pick up for the sector. Are we also doing surrogate advertising and on the point of sale how do we actually get the end consumer, because prices are the same I understand distributor is pushing your sales to an extent, but ultimately consumer has to get attracted to the product?

Ajay Kumar Swarup: Firstly yes. This is a media dark product, where you cannot advertise directly if at all you have to go the surrogate route. Largely promotion of liquor brands are done at the point of sales, which means we create activations at the shop level or at the bar. So these are the two places where liquor is sold either a liquor shop or at a bar. So we will be doing that very actively with innovative method that will be the marketing part. Yes a very major consideration for us would be in getting the trade to push upward on to the consumer, then last mile is of course always the consumer. So if the consumer likes your product, he is certainly going to come back and want it and that is why I said that we have been extremely enthused by the consumer response received for our brand and that is what the final test is.

Abneesh Roy: What were the sales in the industrial alcohol segment in Q1 FY2010?

Dr. Roy: Sales in Q1 FY2010 were 36.10 lakh BL.

Moderator: Our next question comes from the line of Kaushal Sanghrajka from HDFC Securities. Please go ahead.

Kaushal Sanghrajka: You said that the spirit industry is such that Q4 and Q3 usually are the best and I understand that because of the winter. But from what I have seen in results of the rest of the industry, I see that almost every company has had growth even quarter-on-quarter from the fourth quarter of FY '10 till first quarter this year. So, I wanted to know that if other companies have seen this growth, is there any reason that we have not witnessed these type of growth. Is it because of the brand or any other reason?

Ajay Kumar Swarup: I can comment about the Globus Spirits business model and draw inferences from that. I do not really know which companies you are alluding to and if you could tell me we could do some analysis and come back to you as to why there is a difference between them and us.

Kaushal Sanghrajka: Sure, the companies that I am talking to in terms of bigger companies you see Tilaknagar, Radico Khaitan, United Spirits and smaller companies like IFB Agro and GM Breweries most of who operate in the spirits and not in the beer side of the industry.

Ajay Kumar Swarup: Right so we have Tilaknagar, Radico, and USL, we will certainly check out exactly what their Q1 numbers are and how they stack up against Q4 and then try and draw some inferences why it is different for us. But yes currently our branded IMFL business is under 10% of our revenue pie. So when we make comparisons we must keep that in mind, they are 100% or close to 100% branded.

Moderator: Our next question comes from the line of Narottam Khetan from Optimal Funds. Please go ahead.

Narottam Khetan: Why was the quarter-on-quarter revenue down?

Ajay Kumar Swarup: Q4 for spirit companies by definition is always higher than Q1 and therefore when we compare the two quarters, it becomes an unequal comparison. So we need to compare to adjust for seasonal differences Q1 with Q1 of the previous year.

Narottam Khetan: Why is Q4 always better, is it because of the March year ending sales push or is it just a seasonal thing?

Ajay Kumar Swarup: Spirit consumptions follow a seasonal trend. Q1 and Q2 are larger for beer consumption and Q3 and Q4 are bigger for spirit consumption and this is how the industry operates.

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