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Q3 and 9M FY11 Earnings Conference Call Investor/Analyst Conference Call Transcript – February 8, 2011 Hosted by IDFC Securities

Moderator: Ladies and gentlemen good day and welcome to the conference call of Globus Spirits hosted by IDFC Securities Limited. 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 assistance during this conference, 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 like to hand the conference over to Ms. Swati Nangalia thank you and over to you.

Swati Nangalia: Thanks Marina. Hello everyone, I welcome you to the Q3 FY11 earnings conference call of Globus Spirits. Today we have with us from the management Mr. Ajay Swarup, Managing Director, Dr. Roy, CFO and Director Finance, Mr. Shekhar Swarup, VP IMFL and Mr. Sudhir Chopra, CEO IMFL. We would start the call with opening remarks from Mr. Ajay Swarup and Dr. Roy following which we could open the floor for Q&A. Over to you Mr. Swarup.

Ajay Swarup: Good morning and I extend a warm welcome to all of you to this Q3 & 9M FY2011 earnings conference call. Our results for the third quarter and the last nine months show an encouraging trend and we expect to maintain our growth trajectory given our 360 degree presence across the spirit sector, right from manufacturing, marketing and sale of country liquor, branded IMFL, industrial alcohol apart from contract bottling to cater to the renowned Indian IMFL players.

To start, I am extremely happy to announce the completion of our capacity expansion program. We are now in a position to manufacture 70 million liters of alcohol per annum from our present capacity of 28.6 million liters per annum, which is more than a two fold jump compared to our present capacity. The new plant is not only par excellence on the technological front but has also been built at a cost lower than the industry average. To throw more light on the technological superiority of our new plants, we can now manufacture ENA without separately engaging through the process of manufacturing rectified spirit. This would help to make the process more energy efficient thereby reducing power cost and lower wastage in the manufacturing process.

Coming to our other business segments, our branded IMFL business has for the first time made a double-digit contribution to the total revenue share. This is a very encouraging sign and we intend to grow it further going forward. County Club Whisky continues to remain our flagship brand and we plan to extend it to newer states going forward. Also we have introduced Hannibal Rum and Gold Whisky in the Delhi market. We planned to introduce a new brand in the semi-premium category in the next financial year. All these initiatives will definitely help to strengthen our presence in the fastest growing segment of the Indian liquor market. The branded IMFL segment remains very important part of our overall business strategy and we remain committed to development of the same as witnessed by high revenue shares, increase A&P spends and sustain brand building along with marketing and distribution efforts.

Coming to our country liquor business, it continues to benefit from a robust rural demand. We expect to maintain our dominance in this segment given the way that we have built our brands for each local market we operate in and also because of the regulations which creates a high entry barrier for new players to enter the segment.

Moving on to our bulk alcohol and franchise bottling business, both of these will be direct beneficiaries of our capacity expansion program. Our existing tie ups with ABD India and Jagatjit Industries continued to remain strong. The bottling business is also strategically important as our branded IMFL business acquires scale and it is an important part of our 360 degree business model.

Also the rapid growth witnessed in the branded IMFL segment will provide opportunities for incremental growth in this business segment. As we move into the last quarter of this financial year, the outlook for all our businesses remains robust and we will continue to chase growth while maintaining a healthy balance sheet. The last few months have caused a turnaround in sentiment relating to the overall macro economic picture, but we remained confident that we will continue to drive the growth path based on our strong India centric consumption model.

I would now like to hand over to Dr Roy to give you a brief overview on the financial performance of the Company.

Bhaskar Roy: Good morning everybody. Let me give you a brief update on the financials. For Q3 FY11 our net revenues went up by 21.8% to Rs.1,183.2 million. EBITDA went up by 29.5% to Rs. 127.6 million and PAT went up by 30.2% to Rs. 70.3 million. For nine months ended December 31, 2010 the net revenues were higher by 20.4% at Rs. 3,257.2 million compared to Rs. 2,704.8 million. Operating profits were higher

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by 19.2% at Rs. 341.2 million compared to Rs. 286.2 million and PAT was higher by 19.8% at Rs. 207.8 million compared to Rs. 173.4 million.

Let me now give you a break-up of revenues for Q3 FY11. Bulk alcohol sales stood at 38.63 lakhs BL contributing 13.26% to the total revenue shares. Country liquor sales stood at 16.34 lakhs cases contributing 39.50%. Branded IMFL sales stood at 1.36 lakhs cases contributing 13.2% to the total revenue shares, while franchise IMFL stood at 3.68 lakhs cases contributing 28.40% to the total revenue shares. Other which includes spent grain, CO2 and bio compose contributed 5.81% to the total revenue shares.

Moving to the segmental revenues for nine months ended December 31, 2010, we sold 133.92 lakhs liters of bulk alcohol translating into a revenue share of 15.75%. We clocked 47.13 lakh cases in the country liquor segment volume wise, translating into a revenue share of 39.59%. Our branded IMFL sales stood at 3.8 lakhs cases including sales from tie ups contributing 9.31% of the total revenue shares.

We have announced a merger of ADL with GSL on November 5th 2010 and it is subject to statutory and regulatory approvals. I would also like to give you a brief snapshot of ADL results. For nine months financial year 2011, Associated Distilleries sales stood at Rs. 734.7 million; up by 26.3% compared to Rs. 581.6 million in the corresponding period last year. EBITDA stood at Rs.134.4 million compared to Rs. 81.4 million; up by 65.1% and net profit stood at Rs. 81.1 million up by 68.9% compared to Rs. 48 million.

To give you a perspective on the balance sheet, our gross block stood at Rs. 2,197 million. Net worth stood at Rs. 1,822 million and total debt stood at 387 million as on December 31, 2010.

This brings me to an end of my discussion. 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 very much sir. The first question is from Abneesh Roy from Edelweiss, please go ahead.

Abneesh Roy: In terms of both rice and bajra, how does the raw material side looks like currently and especially for the FY12, how do you think margins should be?

Bhaskar Roy: The raw material prices, in the last quarter compared to the earlier quarter were down by almost Rs.100 per quintal in both Haryana and Rajasthan. So, our margins were better which is reflected in the EBITDA margin if you see quarter-to-quarter. The last quarter EBITDA was better than the earlier

quarter EBITDA. The prices have started rising again a bit but the question is that if you see this year's average it will be lower than the last year's average on the grain prices.

Abneesh Roy: Why is it lower because the general understanding is that prices are going up? So how much of this is one-off thing?

Ajay Swarup: Firstly, I must clarify that prices of grains we purchase do not necessarily follow the same pattern as the food grain prices. These grains are not actually used entirely for human consumption, for example the rice we use is broken rice and not the rice which goes for human consumption. Bajra though partly is used for human consumption but a large part of it goes for non-human consumption usage. Hence the prices of our raw material do not necessarily follow the food grain prices. This year for the fact that molasses production has been higher, distilleries, who are a major purchaser of the broken rice and bajra, many of them have diverted their production to molasses depending on which state they are in. So, some of the distilleries have moved to molasses and that has reduced the burden in terms of demand on these grains. So, there has been a softening of prices.

Abneesh Roy: Are we also shifting a part of our production, raw material usage to molasses and in your state how does the trend for molasses look?

Ajay Swarup: In the states we are operating we do not find it profitable currently to move to molasses and as a result we are continuing to manufacture alcohol from grains and going forward we will see the same trend continuing.

Abneesh Roy: How are the new brands which you have introduced in last two three quarters like County Club Whisky doing?

Sudhir Chopra: Till the quarter ending December we have sold around 70,000 cases in the markets that we have introduced it in. We were not able to introduce it in Andhra as what we had thought of earlier but now we have introduced that in the month of January. The business is robust for this brand; the acceptance in the trade is very good. The distribution levels that we have achieved in the markets that we have operated in are around 40%. We hope to end the year in this product at around one lakhs cases and then thereafter we will introduce this brand in the other markets in the coming financial year. The markets that we have thought off of introducing is West Bengal, Assam, Bihar, Jharkhand and Maharashtra, apart from Andhra that I have already told you, where we have already launched.

Abneesh Roy: Till now how many states are you in apart from Andhra?

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Sudhir Chopra: Apart from Andhra we are in the northern states, I am sorry I also forgot to mention that Delhi also would be a new entrant in the month of April when the new excise policies are launched. We are in the states of Haryana, Punjab, Himachal, Chandigarh, and UP.

Abneesh Roy: When you say 40% of distribution, does it mean 40% of the entire distribution points for liquor?

Sudhir Chopra: Yes, in the IMFL segment 40% of which are available in these states.

Abneesh Roy: In terms of pricing, obviously, there is no big difference between you and the current peers, right?

Sudhir Chopra: That is right.

Abneesh Roy: So, how are we getting good off-take, if you could share some insights on that? Is it sustainable? Is it because of the trade margins you are offering is higher? Is it because of below the line activities?

Sudhir Chopra: What happens is in this segment, there is a lot of competition. The two major players are Bagpiper and Officer's Choice, thereafter the next set of players are 8 PM and then the UB players like Director's Special and Green Label. Now, we have made our packaging as well as our quality to be slightly more upmarket than what the regular range players have right now. Apart from that we have also gone ahead and done a lot of A&P below the line as well as we are now planning to do ATL in the coming financial year.

Abneesh Roy: Any projections that you can share for FY12 say in terms of country liquor or IMFL?

Sudhir Chopra: In the month of March we will be getting a better idea about excise policies. But we can only say that looking at the growth we have achieved in the current year, we can continue to get at least this growth rate or may be higher.

Abneesh Roy: When you started FY11 and compared to where we are now, I think we guided towards 35% kind of growth initially at the start of the year in terms of sales, so where are we in terms of that?

Ajay Swarup: We already have a growth of around 20% as projected, so we will continue to end the year, anywhere between 23% to 25% growth from the last year.

Moderator: The next question is from Kushal Sanghrajka from HDFC Securities.

Kushal Sanghrajka: What would be the approximate swap ratio and what would be the total diluted equity of Globus Spirits after the merger?

Ajay Swarup: Swap ratio was already announced in the last concall. Also we have stated that we are issuing subject to the approval of the High Court after the merger for every one share of ADL six shares of GSL. So, they have 5,40,000 shares at this moment, they will get around 32,00,000 shares,

Kushal Sanghrajka: In the press release you mentioned that ADL has about 10% and 8.9% market share in Haryana and Delhi for Country Liquor? So, after we merge the Company, essentially Globus' market share in the two states will go up to about 25% to 30%?

Ajay Swarup: Yes.

Kushal Sanghrajka: I missed out total debt at the end of the quarter?

Ajay Swarup: Total debt at the end of the quarter was Rs. 387 million.

Moderator: The next question is from the Saurabh Jain from Aries Stock Traders

Saurabh Jain: When is the merger of ADL likely to be completed?

Ajay Swarup: Actually, there are two to three stages, we have got the clearance of secured creditors of both the factories and file is in the High Court. We have got the consent of the ADL shareholders and now we need to get the consent of Globus shareholders and unsecured creditors. It has to be done through a meeting conducted by the High Court which is suppose to happen any time in the mid of March and after the formalities will be completed there, we are hopeful that by end of April it will be over.

Saurabh Jain: What is the gross block and the net worth of ADL as well as the debt and the cash figures?

Ajay Swarup: The gross block of ADL is Rs. 34 crore and the net worth is around Rs. 19.50 crore. Debt is Rs. 4 crore and cash is Rs. 2 crore, so practically net debt is only Rs. 2 crore as on December 31 2010.

Saurabh Jain: Does ADL also operate in all the four segments like Globus Spirits?

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Ajay Swarup: Let me give you the break up of the gross sales as on 31st December 2010. Country liquor contributed 79%, rectified spirits and industrial alcohol bulk spirit contributed 13%, IMFL was at 0.52% and others were 8%.

Saurabh Jain: As a combined entity of both Globus Spirits and ADL, are we planning to focus on all the four segments in equal measure or are we planning to focus on branded IMFL in a bigger way for the next three years?

Ajay Swarup: Globus Spirits continues to be focusing on all segments of the spirits sector so that is our Company's USP. Having said that, there are certainly more opportunities in the branded IMFL space because it is growing at a 15% per annum rate on a pan-India basis. So, we are cognizant of that and we are looking to get the maximum benefits out of that. Now, that will happen in three ways a) we will become preferred suppliers of extra neutral alcohol to other IMFL manufacturing companies with our added capacity which has gone on stream that is going to be another focus area for us, b) we will bottle IMFL for other brand owner, so again we will benefit out of this growth in IMFL and c) with our own portfolio of IMFL brands we are going to be pushing for that part to also grow in the days to come.

If you see our own IMFL brand portfolio in terms of revenue, if we look at the nine months period of the current fiscal and compare it with the last fiscal, there has been a 100% growth in this business. Now, we are very much enthused by that and based on that we see this to be sort of the leader for our growth in the days to come.

Saurabh Jain: I do not deny the opportunity which is there in the IMFL space, but considering the fact that we are introducing new brands and they do obviously have time where they take to gain traction and there is a lot of competition. So what are we going to do differently, where we can do well in the branded IMFL space?

Ajay Swarup: Each price point and each state has its own opportunities and threats and our marketing and sales team is gearing up to avail the opportunities in each segment and each state according to the opportunities. But, suffice to say that our basic thrust is going to be based on the fact that in each price point we will give to the consumer something more than what competition is giving both in terms of the product that means the liquor as well as the packaging.

Saurabh Jain: Do we have any sort of advertising and publicity expenditure as a percentage of our revenue going forward?

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Ajay Swarup: Well, to start with like you said, new brands need a lot of investment behind both above the line and below the line, so it is not something which is a percentage of revenue right now, in fact it is more a question of building the brand. So, we would be able to stabilize at a certain industry norm of spending only after our brand reaches certain threshold level, which will take another couple of years. So two years would be significant investment behind ATL and BTL activities.

Saurabh Jain: Is it possible for you to give me the break up of advertising promotion done for the nine months or your other expenditure of Rs. 55 crore, how much would be advertising and promotion?

Ajay Swarup: Rs. 3.5 crore in the IMFL Segment for the nine months period.

Saurabh Jain: And as a whole for the Company, Globus Spirits?

Ajay Swarup: For Globus Spirits it would include expenses in the country liquor segment, then there are godown expenses, selling expenses which would be Rs. 2 to 3 crore. So the total will be around Rs. 6 to 7 crore.

Saurabh Jain: Are you happy with the four segments or are we planning to may be even consider entering beer or wine?

Ajay Swarup: For the time being we continue to look at only the spirits business and not the beer or the wine business and that is the present vision of the Company.

Saurabh Jain: Any inorganic plans of the Company or are we also wanting to look out for acquisition of brands or certain distillery capacities?

Ajay Swarup: Certainly, we are always on the look out for good opportunity and our team continues to scout for such opportunities and we will keep you posted as and when they come up.

Saurabh Jain: This would be specifically in may be in the branded IMFL space, if you get some brands or something of that sort?

Ajay Swarup: This would be both in the branded IMFL space as well as in distilling capacity.

Saurabh Jain: I must comment that the debt equity is quite low and it is quite good to have a conservative management, but do we have any sort of debt-equity that we are comfortable with maybe 1:1, may be 1.5:1 if required?

Ajay Swarup: It all depends on opportunities. Funds are needed for a particular opportunity and if the opportunity looks good, we do not mind borrowing more. So there it is not a question of having a debt equity policy it is more a question of taking advantage of opportunities as and when they come.

Saurabh Jain: But do we have any policy in place whereby we say that we will not go beyond a certain limit like may be 1.5:1 debt-to-equity or 1:1?

Ajay Swarup: Like I said we do not have a policy on this at all, but it is the entirety based on business opportunities and the returns which we can see coming out of those.

Moderator: The next question is from the Grishma Shah from Envision Capital

Grishma Shah: Gross block we are at around Rs. 219 crore as on December 31, 2010. So does it include the entire expanded capacity or there is something more?

Ajay Swarup: Yes, it includes expanded capacity.

Grishma Shah: Can you share specific details about the ad spent for the IMFL going ahead?

Ajay Swarup: We have not frozen our exact expenditure estimates for the coming year. We would be doing that over this quarter, but yes we are looking to spend in the coming year over Rs. 5 crore, may be in the region of between Rs. 5 and 7.5 crore on A&P behind our brands.

Grishma Shah: Excise duty as a percentage to your gross sales has increased marginally this quarter; so are there any changes that are happening?

Ajay Swarup: If you see the quarter-to-quarter sales variations, IMFL sales has increased from around 7-8% to 13%. So there was excise duty on IMFL. Excise duty is not applicable on industrial alcohol and is not so much included in the country liquor because in country liquor only in Haryana, the sales is with excise duty and in other states excise duty is paid by the government. So, as the IMFL sales have picked up the excise duty portion of the total sales have also picked up.

Grishma Shah: If you could tell me the absolute number as in the sales number, you have given volume, can you also give sales for your bulk cuts for branded IMFL and franchise for the quarter and nine months?

Bhaskar Roy: Yes, if you see up to nine months ended December, we have made bulk sales of Rs 5,129 lakhs and country liquor was of Rs 12,895 lakhs that means Rs. 128 crore. Franchise IMFL was Rs. 98 crore, own IMFL was of around Rs. 30 crore and others was around Rs. 18 crore. For the quarter, we have made bulk sales of Rs. 16 crore, country liquor sales of Rs. 47 crore, IMFL franchise of Rs. 34 crore, own IMFL was Rs. 15.5 crore and others would be Rs. 6.87 crore.

Moderator: The next question is from Balaji Vaidyanath from Sundaram Mutual Funds.

Balaji Vaidyanath: Could you tell us what was the proportion of country liquor sales three years back and what do you think it will be in the next three years?

Ajay Swarup: Percentage of turnover in the coming years will come down as the sale of branded IMFL will increase. But the overall figures will not come down and the absolute figures will increase, but as a percentage of the total revenue it will be definitely lower than the 40%, Country liquor sale had a CAGR of 15% to 20% for the last three years.

Balaji Vaidyanath: So do you think there could be some amount of cannibalization from country liquor to IMFL within your own spirits?

Ajay Swarup: The cannibalization could happen at an industry level but certainly IMFL would not eat into the Globus Spirits' country liquor. So, what we have seen is that IMFL is growing at a faster pace than country liquor is. To say that there is cannibalization, it is a difficult conclusion to arrive at. But certainly the growth rates of the two segments are different.

Balaji Vaidyanath: Also, you have planned for some A&P spends on the IMFL sales apart from brand building, marketing and distribution efforts, etc. coupled with raw materials pressures. So overall it could exert pressure on margins, is that a correct assumption?

Ajay Swarup: Well, firstly raw material prices as we said earlier are not looking up, so we are looking for a year with reasonably stable raw material prices. As for ad spends, this is something which in the early stages of a brand. It has to be looked at similar to a capex because the returns on ad spend come over a period of time.

Balaji Vaidyanath: Do you know of any successful brands which were launched only three years ago or two years ago and are doing really well now?

Sudhir Chopra: Seagrams have launched branded IMFL, for instance Imperial Blue which was launched about four years back is doing quite well in certain markets, Seagrams have launched Master Blend which has been launched in the Kolkata, West Bengal market and they now are extending to the other markets of Maharashtra and may be they will launch it in the northern markets. So, there are brands which have come in and had a space of their own. Yes, it is a difficult market. The consumer is always looking for a change and if he can get a better product both by way of packaging as well as by way of product quality then he is definitely willing to change and that is the way we look at it.

Balaji Vaidyanath: Because one school of thought is that alcohol is also like cigarettes, where there is so much of brand loyalty and we are presently not in the premium segment but more in the economy segment where people are glued to their existing brands. So to break that mindset and introduce them to a newer products would be challenging.

Sudhir Chopra: It is challenging, no doubt, but the fact of the matter is see that the brands which were selling earlier for instance if we go back there were brands like Black Knight, Solan No. 1, Aristocrat Whisky, which were selling once upon a time and ruling but today those brands and Director's Special for instance. Now, those brands are no more, now there are new brands which have come in for instance Bagpiper, Officer's Choice, Imperial Blue, Royal Stag, which are also recent entrants in the last 10-12 years and they are doing well.

Moderator: The next question is from the Anup Ranadive from Tower Capital.

Anup Ranadive: We have got a capacity going up from about 28 to 70 million liters; can I know what should be the volume composition for the next year between the country liquor and bulk spirits?

Ajay Swarup: With the capacity of bulk alcohol going up in the coming year there will be a spike in the sale of a bulk alcohol. The good news is that bulk alcohol prices are firm and the demand is very robust and this has been caused by the fact that a large part of the alcohol producing capacity has been diverted into ethanol, so we are commissioning our bulk alcohol capacities at a very opportune moment.

Anup Ranadive: The capacity is going up more than 2.5 times, assuming that your bulk spirits production almost doubles up, would there be a demand for such quantity of bulk space? Secondly, regarding the

country liquor as well, even if country liquor production volumes go up, can the market absorb such a huge quantity of country liquor?

Ajay Swarup: There are two parts to it. As for the first part the good news is that we are completely booked up for our expanded capacity. We have orders in hand for, in fact, more than what we can produce. As for country liquor, country liquor as a category is growing at about 4 to 5% per annum and the only way for us to get growth out of this sector is to get the market share out of other people's business and it is fairly competitive. While we are trying to do that but going forward country liquor will grow at a far lower rate than the other three segments which is bulk alcohol, franchise bottling as well as branded alcohol.

Anup Ranadive: Could you give us the ENA price rate for the first three quarters of FY11?

Ajay Swarup: The first quarter or the second quarter the average price was around Rs. 35-36 per liter, which has increased Rs. 38 in the last quarter.

Anup Ranadive: Any guidance on what could be the average price in Q4?

Ajay Swarup: Q4 will be the same around Rs. 37 to 38 only.

Moderator: The next question is from PA SuBrahmaniam from Sundaram Mutual Fund.

PA SuBrahmaniam: I just wanted to clarify whether the 70 million liters of expanded capacity is including the capacity of ADL?

Ajay Swarup: ADL's capacity is 14.4 liters, which is separate.

PA SuBrahmaniam: On the inorganic plans, you also have a couple of other group companies, any plans to merge them also into Globus Spirits?

Ajay Swarup: There is no other group Company.

PA SuBrahmaniam: Because your prospect has mentioned Rajasthan Spirits?

Ajay Swarup: Rajasthan spirits is a dormant Company. Actually those companies are not doing anything, the licenses are there, license means, these companies are registered but it is not in the line of alcohol.

Moderator: The next question is from Virendra Verma from Global Holding.

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Virendra Verma: On this added capacity you mentioned that it will go to 70 and you are fully booked for this capacity. So, just want to know by when can we recognize these revenues?

Ajay Swarup: These plants have been commissioned and they will stabilize within the month of February and from March you will see the addition to top line as well as bottom line and the full impact will be seen in the coming fiscal year.

Virendra Verma: Just to understand what does this bulk alcohol mean, it is an industrial alcohol or it is an alcohol which is used for various products made by the Company?

Ajay Swarup: What we call bulk alcohol is average alcohol with 95% strength. This is used only for manufacturing of beverages, either in our bottling plants or in bottling plants owned by others but sales that we book under the bulk alcohol sales are those sales which we make to other bottling plants.

Virendra Verma: If you can just quantify for the next financial year you are using the entire capital 70 million liters, so at that level what will be the revenue from this business alone?

Ajay Swarup: The revenue from bulk sales business will be 22%.

Virendra Verma: No actually value wise, on the 70 million capacities.

Ajay Swarup: Value wise it will be Rs. 195 crore.

Virendra Verma: And profit margins?

Ajay Swarup: Profit margin will be around 11% to 12%.

Moderator: The next question is from Shailesh Shenoy from Aditya Birla.

Shailesh Shenoy: If I compare the depreciation to the previous year same quarter, it has come down from Rs. 2 crore to Rs. 1.36 crore and I understand your capacity has been commissioned; so is this the depreciation reflecting the full capacity addition or will it shoot up in Q4?

Ajay Swarup: Last year in Q3 the depreciation was on WDV method which we have actually changed in the last quarter and it is given in the last year's balance sheet. This year the method is straight line and the plants were installed in the month of January. So, the depreciation on additions will come in the last quarter for two months and not on the full year.

Shailesh Shenoy: What kind of depreciation are we seeing with this gross block addition in the last quarter?

Ajay Swarup: It will be Rs. 2 crore instead of Rs. 1.36-1.37 crore per quarter.

Shailesh Shenoy: What kind of margins are you seeing going forward on each of those four segments that you have presented and especially on IMFL going forward?

Ajay Swarup: If you see in the last quarter 31st December, 2010, the overall EBITDA was around 15.5%. It has been contributed by industrial sale of bulk which has an EBIDTA margin of around 11-12%, country liquor's EBIDTA margin of around 15-16%, franchise IMFL 5% and the own IMFL of 16-18%.

Shailesh Shenoy: Country liquor is more like a government controlled pricing with certain margins or is there any kind of flexibility on prices as far as the supplier is concerned?

Ajay Swarup: Pricing is fixed in country liquor. It is one-point price. It is applicable to all the products, whoever sells in that product, you cannot change the price. So, margins depend on your cost of products and your volumes, etc.

Shailesh Shenoy: In country liquor you would be having annual licenses being issued or is it three year license or how is it?

Ajay Swarup: Licenses are for the distillery. You do not require a separate license for Country Liquor. There is distillery license and there is bottling licenses which are renewed every year. For the country liquor brands, we have to get the brands registered like IMFL.

Shailesh Shenoy: Your entire capacity is coming up at one location which I guess is a very huge capacity, so-?

Ajay Swarup: It is at two locations. 35 million liters would be the capacity of each of our plants.

Shailesh Shenoy: How would the supplies be in terms of which markets would it cater to and how does it work for the Company?

Ajay Swarup: For country liquor, one needs to have a distillery in the state that you want to market country liquor in. So, from our Haryana plant, we cannot supply country liquor to Rajasthan. We have to focus on

Haryana supplies only and similarly for our Rajasthan plant. As far as IMFL is concerned, the ENA or the spirit that we make in each of these plants is sent to nearby states for bottling in those states. For the southern states for example, we would purchase ENA locally as oppose to selling it from our plants simply due to the high logistical cost. So that is a bit of a disadvantage of marketing in the southern states. But in northern states we use our own ENA for marketing our IMFL.

Shailesh Shenoy: I assume for FY11 all the Capex is done. In FY12 do you see any Capex coming up of more than Rs. 3–4 crore?

Ajay Swarup: No, we do not.

Shekhar Swarup: I just want to clarify that we are merging Associated Distilleries and that unit will need to be expanded in a way the two distilleries of Globus Spirits have done. So once that merger has been finalized and we get the approvals, we would be going in for capacity expansion there, but yes there would be no further Capex in Globus Spirits.

Shailesh Shenoy: What kind of an expansion do you foresee in FY12 in terms of Capex for ADL?

Shekhar Swarup: In terms of Capex it would be close to Rs. 35 to 40 crore. The current capacity is 14 million liters and we would be looking at adding another 20 million to that capacity.

Shailesh Shenoy: Do you see that also being commissioned in FY12 or FY13?

Shekhar Swarup: Yes, it should be commissioned during FY12 towards the end of the fiscal.

Shailesh Shenoy: So if I were to look at the whole entity including ADL you would have close to 105 million liters capacity against 28 million liters as of December 2010?

Shekhar Swarup: That is right and it is coming on the back of an extremely bullish alcohol market, both globally and domestically.

Shailesh Shenoy: What would be the location of the ADL and which markets would it cater to?

Shekhar Swarup: ADL is in District Hisar, which is in northwest part of Haryana. Globus Spirits' old distillery are in Samalkha (central part of Haryana) and in Behror (District Alwar of Rajasthan).

Shailesh Shenoy: Is there a concentration risk of 105 million liter capacity within a distance of 150-250 square kilometer?

Shekhar Swarup: These locations are raw material surplus zones and the specific locations where we are in have the highest concentration in terms of producing grain. So we are in fact at a huge advantage in terms of raw material and that in a commodity business gives us a huge edge.

Shailesh Shenoy: If you were to make bulk alcohol, can you then shift it to Punjab.

Shekhar Swarup: It is an export and a large part of this is going to go out to alcohol deficit areas of the country which are the North-East for example, where there is no distillation capacity. We are also looking at exports of bulk alcohol, exports out of India which today is very lucrative.

Shailesh Shenoy: Is it practically feasible.

Shekhar Swarup: It is practically feasible and the significant quantity of extra neutral alcohol in bulk is moving out from India into mainly the African countries which have similar growth to the Indian growth in the IMFL business and they do not have this filling capacity.

Shailesh Shenoy: But if I were to look at the overall mix in FY13 let say FY12 more immediate, FY13, you would have 105 million liter capacity. Franchise operations have the lowest margins and bulk alcohol is lower than your current average margin. So does this mean that with so much capacity and probably bulk alcohol being one of the immediate areas for deploying the excess capacity, your margins could trend downwards from 15%.

Shekhar Swarup: Margins has to be seen in the perspective of return on capital or margins on sales. When we are looking at a shift in the revenue mix, then there would possibly be a little pressure on margins when we define them in terms of a share percentage of topline. But going forward, as we increase our branded IMFL business and as more capacity of our bulk alcohol goes into bottling for others, this will again ease out and it will go back to where it started, so there will be spike in sales of bulk alcohol in the coming year.

Moderator: The next question is from Harit Kapoor from B&K Securities.

Harit Kapoor: You had given us Q3 volumes at 16.34 lakh cases of country liquor business, could you give the corresponding Q3 & 9M volumes for last year.

Q3 & 9M FY2011

Bhaskar Roy: Q3 FY10 was 17 lakh cases and for nine months it was 48 lakh cases.

Harit Kapoor: I just wanted to understand seeing your press release, the EBITDA margins of ADL which is primarily a country liquor player and a franchise player is close to 18%. So how would a Company which has largely been in country liquor and the franchise enjoy higher margins?

Bhaskar Roy: The franchise operation in Rajasthan and the franchise operation in Haryana is a different mode. In case of Rajasthan due to the licenses etc., the sales and topline is booked in the Globus balance sheet. In case of Harayana the sales and expenses are booked by brand owner and the bottling income comes to the company increasing the EBIDTA margin.

Harit Kapoor: Yes sir, it is the tie-up income.booked in other operating income

Ajay Swarup: We have actually bottled around more than 4 lakh cases in 9M for ABD in ADL.

Harit Kapoor: I just wanted to understand on the IMFL strategy, you have spoken about county club ending the year at close to 1 lakh cases, just wanted to understand what is our outlook on this brand taking it to new markets and what kind of growth projections do we have for this brand in particular.

Sudhir Chopra: We are currently operating in the Northern markets and we have just started marketing in Andhra which is a very big market for this segment. This has been opened up only in the January 2011. Apart from that, we are now looking to tap the markets of the East, the Northeast and the West. We are planning to do it in the next financial year in a phased manner depending upon the bottling tie-ups as and when we get them. However we have spoken to a few players there and we are looking to finalize these arrangements in the next few months, so by Q1 and Q2, we should have some infrastructure in place in these markets.

County Club and Hannibal Rum are the two main products which we will be taking forward depending upon the market size of each of these two segments. Apart from this, we are planning to launch a premium brandy in the Southern markets of Kerala as well as Andhra and then we have also plan to launch a semi-premium Whisky which is expected to happen by Q3 of next financial year.

Harit Kapoor: What kind of numbers are you looking at for IMFL in terms of volumes for FY12?

Ajay Swarup: FY12 we should be looking at about 100% growth, so if we end this year with around 6.2 lakh cases, we will be looking at around 13 to 14 lakh cases.

Moderator: The next question is from Amnish Aggarwal from Motilal Oswal.

Amnish Aggarwal: What is your view on the ENA prices as well as the molasses prices for the coming quarters because post March we will be entering a lean season. Will we see prices holding here or it will decline or move up further.

Ajay Swarup: The alcohol price situation in the country and the demand-supply situation have radically changed since November 2010 and that is because the government of India finally approved the ethanol program and approved the price of Rs. 27 per liter for the ethanol to be purchased by oil trading companies. As a result of that, firstly the pricing was pushed up by almost Rs.3 to 4 per liter and secondly a huge quantity of alcohol has been diverted into the ethanol market. As a result, we are seeing a higher demand than the supply of extra neutral alcohol. Going forward, we see a firm trend in the ENA prices. This, as you rightly said, will also be because the sugar season is getting over and therefore the next two quarters are going to see firming up of ENA prices.

Amnish Aggarwal: Is there any subsidy given by the government over and above that and secondly is this an interim price or is it the final price.

Ajay Swarup: This is an interim price. There is now a committee in place which looks at ethanol pricing and I do not know what the next round of pricing going to be. But all the indications suggest that it will be higher than Rs. 27 because we must keep in mind that oil prices have shot up from what they used to be and they have crossed Rs. 100 a barrel and therefore it becomes all the more economical for oil companies to pay a higher price. Secondly there is no subsidy on this Rs. 27 a liter but there is a refund of excise duty which the ethanol manufacturers get and therefore they end up getting close to Rs. 30 a liter on the ethanol they supply to the oil companies and that therefore forms the floor for alcohol prices. Extra Neutral Alcohol is a product which is superior to ethanol and it is further refined and hence the prices of ENA are always higher than the ethanol prices.

Amnish Aggarwal: How much could be the conversion cost per liter if one has to move from an ethanol stage to ENA.

Ajay Swarup: It is about Rs. 5.

Amnish Aggarwal: So practically it does not make sense to sell below Rs. 35.

Ajay Swarup: It does not and that is why post November 2010, the ENA prices have moved up.

Amnish Aggarwal: All the container glass manufacturers are indicating around 8 to 10% increase in the prices of glass bottle from sometime during the month of February or March. So I would like to know as to how critical is the cost of glass or the packaging medium for you and the industry?

Ajay Swarup: Normally our IMFL pricing is decided at the beginning of the new financial year. Yes, you are correct, there is a price increase coming up from glass bottle manufacturer and we are looking to pass this on to the consumer for the new excise year.

Amnish Aggarwal: How much is the time lag. Is it not possible at all that during course of the year you can change the prices?

Ajay Swarup: Well in many states we can and in some states we cannot but since this is the time when the excise year is finishing, we hope that we will get a price increase in most of the states.

Amnish Aggarwal: If the glass prices increase by around 10%, how much impact would it have on your P&L or say as a proportion of your sales

Ajay Swarup: In our current breakup of revenue, the impact is almost insignificant.

Amnish Aggarwal: But as a portion of your branded sales.

Ajay Swarup: As the proportion of branded sales, possibly a 10% increase would have an impact of 1% on our total bottom line which we will make up by increasing the prices.

Moderator: The next question is from Kushal Sanghrajka from HDFC Securities.

Kushal Sanghrajka: I see the raw material expenses this quarter have gone down but other expenses have gone up significantly, could you just throw some light on what the other expenses are.

Ajay Swarup: Other expenses cover manufacturing expenses, marketing expenses, and selling and distribution expenses & administrative expenses.

Kushal Sanghrajka: Could we say that selling and distribution expenses could have gone up may be because of the diesel prices going higher.

Ajay Swarup: Selling and distribution expenses have gone up because of the increase in the sales of IMFL also. But manufacturing expenses as a percentage of total income was 16.14% against 14.17% of the last

Q3 & 9M FY2011

year. So it has increased to some extent and administrative expenses were flat 9M to 9M and selling expenses was also higher by around 0.5%.

Moderator: The next question is from Naga Brahma an Individual Investor.

Naga Brahma: I think we were expecting around 10 to 15% growth in the Country Liquor segment as per last year Q4 concall. Does it mean that the segment has not grown or have we lost any market share?

Ajay Swarup: It is not that we have not grown or the industry is flat. The sales volumes have been achieved. Our share has not increased. We are maintaining that market share and are hoping that with the change in the industry scenario, our share will also go up.

Naga Brahma: During the beginning of the current financial year, we not only got the price rise, we also got additional quantity. So that should have translated into at least increasing the volume of cases right?

Ajay Swarup: The additional quantity was given to the whole industry as such which actually comes in the last quarters. So there will be a growth in last Q4 but with that growth also we can say that we will be equivalent of the last year overall figures of around 66 lakh cases. This year we will end with the figure around that. There will not be a significant growth in this sector.

Naga Brahma: On the franchisee bottling part, we have an order for 1.8 million cases from Jagatjit and from ABD we have around 1.2 million cases. So how much we have done cumulative for Jagatjit until Q3

Ajay Swarup: The figures of 1.8 million and 1.2 million are the figures which they have promised us are for the calendar year starting now. That is the kind of volumes they have promised us over the next one year and so those volumes are building up gradually. Dr. Roy may be you can give the figure of breakup between ABD and Jagatjit.

Bhaskar Roy: For ABD, we have done 5.93 lakh cases up to December and for Jagatjit we have done 9.16 lakh cases. Out of that, 5.93 lakh cases of ABD's volume have come into the top-line and rest of the volume have not come in the other operating income.

Naga Brahma: You had mentioned during the earlier concalls that we will be able to maintain around 15% EBITDA margins for FY11; we have achieved that in Q3 but for the overall FY11 it is still around 14% or so.

Q3 & 9M FY2011

Bhaskar Roy: Up to December 31, 2010, EBIDTA margins are 14.96% and as you see in the last quarter, it is 15.55%. We expect EBITDA to be good in Q4 as well which will enable us to maintain a margin of more than 15%.

Naga Brahma: The industrial alcohol sales during this quarter, has come down to 38 lakh bulk liter. Is it because lot of quantity must have gone for IMFL where the quantity is increasing.

Bhaskar Roy: It has to some extent gone to the IMFL and the franchise also has increased.

Naga Brahma: The chairman was mentioning about the whole capacity already being booked for the next financial year. Are we planning to export industrial alcohol to African countries also?

Ajay Swarup: Yes that is a part of our strategy and some part of our business will certainly come from export of bulk alcohol.

Naga Brahma: Have we covered south India also for County Club whisky.

Ajay Swarup: We launched County Club in Andhra which is one of the largest markets for this category of whisky.

Naga Brahma: So that means the rest of the south is yet to be covered.

Ajay Swarup: That is right.

Naga Brahma: What are the synergistic benefits from the ADL merger? Will it save cost or improve our margins in terms of percentage?

Bhaskar Roy: ADL is a separate unit and their main sale is through the country liquor which is around 80% of the total revenue and balance is from the bulk spirit. Their brands are separate. So that will increase the sales but not reduce the cost as such because the volumes are increasing.

Naga Brahma: What is the status on the proposal to launch one more brand particularly in South India during Q3 of this financial year?

Ajay Swarup: The plans are on track, the product is being developed. The product should be launched as per schedule i.e. Q3 FY11.

Naga Brahma: Is it other than what semi-premium brand Whisky Mr. Sudhir was mentioning?

Ajay Swarup: Yes, so there is a semi-premium Whisky and semi-premium brandy planned for Q2 and Q3 next year.

Naga Brahma: I just wanted to get the feeling that County Club is trying to cover up the entire India, so it is taking more than a year or two but in future whenever we want to launch a new brand, it should not take so much of time, am I right?

Ajay Swarup: You are absolutely correct.

Naga Brahma: What is the status of CSD? Have the brands been registered?

Bhaskar Roy: Actually the CSDs are in its final phase. They are doing the registration. We are hopeful that by the end of the year we will get our Hannibal brand registered and we can sell in the next year.

Naga Brahma: That means there will be no sale during the current year.

Bhaskar Roy: Current year, there will be no sales.

Naga Brahma: Has the power generation plant been commissioned?

Bhaskar Roy: Yes.

Naga Brahma: It means that any surplus would be sold to the grid.

Bhaskar Roy: No at present we are taking the whole thing into our own consumption because both the plants the old plant and the new plant which is commissioned with carbon dioxide and requires generation. So we are not taking power from the grid and we will not run the digi-sets. Basically it will save cost.

Naga Brahma: So are we taking any carbon credit?

Bhaskar Roy: Yes we will; though not in the current financial year but in the next financial year.

Naga Brahma: What could be the amount?

Bhaskar Roy: It will be minimum of Rs. 1 to 1.5 crore. But it would depend on when we sell it, whether next year or a year after that. Once we get the credit, we can trade in that and the prevailing prices would determine the amount.

Naga Brahma: How much time it will take for any of the GSL brands to reach that the millionaire level.

Sudhir Chopra: We are at our nascent stage of our IMFL business. We hope that we should be getting 1 million for county club but I cannot give you precisely that it will be next year or the year after that. But the way we are going to expand it, all depends on how the responses in the other markets where we are going to be launching especially in the Eastern India and the Northeast where we plan to do that in the next financial year. Yes we can tell you that we will be definitely growing the County Club, whatever volumes that we have set, that we will do in this financial year is about 1 lakh cases that will more than double in the next financial year or may be triple so I cannot tell you when this brand or any of the other brands will be coming into the millionaire list currently.

Moderator: Ladies and gentleman, that was the last question, I would now like to hand over the conference back to Ms. Swati Nangalia for closing comments.

Swati Nangalia: Thank you everybody for joining us today on the Globus Spirits conference call. I would like to hand over the call to the management for the closing comments.

Shekhar Swarup: Thank you, I would like to thank all of you for taking your time for this call. I would also like to thank IDFC Securities for hosting this call. If you have any further questions, please feel free to contact us or our investor relations agency 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; 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. On behalf of IDFC Securities Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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