



“Globus Spirits Earnings Conference Call”

May 19, 2011



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Globus Spirits

May 19, 2011

Moderator

Ladies and gentlemen good day and welcome everyone to Globus Spirits Q4 FY '11 Earnings Conference Call Hosted by IDFC Securities Ltd. As a reminder, for the duration of this conference, all participants' 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. Should you need assistance during the 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. Nikhil Vohra from IDFC Securities Ltd. Thank you and over to you, sir.

Nikhil Vohra

Thanks, Marin. We welcome everyone to the conference call for Globus Spirits to discuss the Q4 and also the full year numbers for FY '11. We have representing the management team, Ajay Swarup, Managing Director, Dr. Bhaskar Roy, CFO and Director Finance and Shekhar Swarup, Vice President, IMFL. I will hand it over to Ajay to make the opening remarks and also brief on the numbers and the way forward, and then we can open the call for Q&A. Over to you, Ajay.

Ajay Swarup

Good morning and I welcome all of you to the Q4 and FY 2011 earnings conference call of Globus Spirits. GSL is the only company which has a 360° presence in the spirit sector right from Bulk Alcohol to branded IMFL, which makes it a unique player in this industry and it will be our aim to deliver sustainable all round growth going forward. The year gone by has been an eventful one for Globus Spirits. Number one, we have completed our capacity expansion program, which gives our business a strong operating foundation. Number two, our merger with Associated Distilleries Limited. The merger gives GSL strong synergies with increasing operating efficiencies. Both these initiatives will be immensely beneficial to GSL over the long-term.

Moving on to our different business segments, our branded IMFL business witnessed a growth of over 100% as compared to FY '10. Our flagship brand County Club has been extremely well received. Its unique blend as well as packaging has been the key differentiator compared to peers in the same segment. We have built a fairly wide distribution network for County Club, and it has a presence in six states. Going forward our aim is to further strengthen the same.

The focal point of our branded IMFL strategy is to build a strong distribution network from where we are in a position to launch newer brands at higher price point. We have identified branded IMFL as the key growth driver for the future and we are aggressively concentrating on increasing our presence in this segment as it has the highest margin amongst all products categories.

Coming to the Bulk Alcohol and bottling segments, the stabilization had taken more time than anticipated because of which volumes were subdued in Q4 FY 2011. The Bulk Alcohol space has witnessed buoyancy in spirit prices and our capacities of close to 84.4 million BL taking into



Globus Spirits

May 19, 2011

account the ADL capacity should help us take advantage of the higher prices. The ethanol blending program has made it mandatory to blend 5% alcohol with petrol. With crude oil prices at very high level the demand for bulk spirits appears to be sustainable. In the franchise IMFL space, our tie ups with ABD and Jagadjit remain strong. With our expanded capacities we will continue to be on the look out for more such tie-ups.

Moving on, the Country Liquor space has witnessed a moderation in growth primarily aimed at the rural consumer and the working class population in the city, the demand is expected to remain steady primarily because of the price differential on account of the steeper statutory levy on branded IMFL. Entry barriers to this business remains high as it is compulsory to have a distillery in the area of operation. Going forward the space will witness steady growth.

In the coming year, we expect to report an improvement in both financial and operational growth. The improvements in performance will largely be driven by the benefits of our capacity expansion program as well as the growth of our branded IMFL business. We also expect to consolidate our position in Country Liquor as well as bottling for other brands with a possible entry in the CST space as well.

As we enter the new financial year we remain confident of our growth prospects on the back of various initiatives being implemented to strengthen our presence across the business segments to build the momentum for reporting a strong revenue and earnings growth.

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

Dr. Bhaskar Roy

Good morning, everybody. Let me give you a brief update on the financials. I want to first mention GSL's standalone without Associated Distilleries Limited and then come to Associated Distilleries Ltd figures and give a combined figure. Our net revenues for the GSL were 1090.2 million, this is I'm telling of the Q4, EBITDA went up by 5% to Rs. 106.7 million and PAT stood at 62.3 million. For FY 2011, the net revenues were higher at 13.3% at Rs. 4376 million compared to Rs. 3863.7 million. Operating profits were higher by 15.5% at Rs. 448 million compared to Rs. 387.9 million and profit after tax was Rs. 270 million.

Coming to the segmental revenues for Q4 FY '11, we sold 60.82 BL Bulk Alcohol translating into a revenue share of 15.01%, Country Liquor we clocked 15.59 lakh cases volume wise translating into a revenue share of 38.95%, our branded IMFL sales stood at 1.7 lakh cases including sales from tie-ups forming 9.91% and the total revenue share, franchisee IMFL stood at 1.91 lakh cases contributing 29.2%. For the full financial year 2011, Bulk Alcohol sales stood at 194.74 lakh BL contributing 15.56% to the total revenue share. Country Liquor sales stood at 62.72 lakh cases contributing 39.43%. Branded IMFL sales stood at 5.5 lakh cases contributing 9.46% to the total revenue shares. While franchisee IMFL stood at 7.84 lakh cases contributing



Globus Spirits

May 19, 2011

29.72% with a total revenue share, others which include spent grain, CO2 and bio-compose contributed to 5.83% to the total revenue shares. We had announced the merger of ADL with GSL on November 5, 2010 and it is subject to statutory and regulatory approvals, it is in the final stage.

I would also like to give you a brief snapshot of ADL. For FY 11 ADL sales stood at 968.3 million, up by 23.5% compared to 784.1 million for financial year 2010. EBITDA stood at Rs. 191.4 million compared to Rs. 101.2 million, up by 89.1% and net profit stood at Rs. 126.5 million, up by 97.8% compared to Rs. 64 million for FY 2010. If you see the combined effect of the both, the combined revenue of GSL cum ADL is 528.31 crores. And if we take on the same figure the last year it was 461.84 crores, up by almost 15%. If you see the EBITDA, the combined EBITDA of both taking into effect this 65.19 crores compared to 50.92 crores of the last year, up by almost 28%. If we see the PAT in the last year there was an adjustment of depreciation because we have changed the system of depreciation from WDV to straight-line method and we have written back almost 12 crores. If we remove that 12 crores then the last year actually the PAT was 28.40, 22 for GSL and 6.40 for ADL. And the effect of increase for this year, this year PAT we have ended with 39.66 crores, that is almost 40% jump. If we see the quarter-to-quarter, in the last year quarter there was an adjustment in the depreciation, if we remove that depreciation adjustment then the net profit was standing at 6.03 crores, which in the current year is 6.23 crores, in the current year quarter, where there is also a jump. So for the quarter-to-quarter also, there is a jump if we see the depreciation adjustment.

Next comes to the perspective on the balance sheet. Our gross block stood at 2251.3 million [, net worth stood at 1883.9 million and total debt stood at Rs. 441.68 million. 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. We will now begin the question and answer session. Participants who wish to ask a question may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue you may press '*' and '2.' Participants are requested to use handsets only while asking a question. The first question is from the line of Swapnesh Roy from Edelweiss. Please go ahead.

Swapnesh Roy

My first question is on the sales front. For the full year we have seen a 13% sales growth while in Q4 there is a decline. You said that some slowdown is there in Country Liquor, so wanted to understand your segment wise, where there is a slow down and what is the reason for that, and why this happened? Because in the Q3 we did not get any sense that such a slow down is happening?

Dr. Bhaskar Roy

In the Q4 2010-11 for GSL we have done a Bulk Alcohol sale of 194.74 lakh BL compared to the bulk liter sale of 2009-10 of 139.30 lakh BL for the whole year. And in Country Liquor for



Globus Spirits

May 19, 2011

the Q4 we have done 60.82 lakh BL compared to 42 lakh BL of 2009-10. In Country Liquor we have done 16 lakh cases compared to 17 lakh cases of Q4 2009-10. In franchisee IMFL we have done 1.91 lakh cases compared to 2.30 lakh cases of last quarter and in own IMFL, we have done 1.70 lakh cases, means 1.13 which was done through own units and 0.57 through tie up units compared to 0.65 lakh cases of last quarter.

Swapnesh Roy

We have seen a slow down in Country Liquor and franchisee, so what is the reason for that?

Ajay Swarup

It is not a slow down in our sales or drop in market share, I'm talking about Country Liquor. It is that Q4 witnessed lesser sale of spirits in the regions where we are operating, namely Rajasthan and Haryana owing to a spurt in beer sales. So it was a localized phenomenon and again a one-off phenomenon, which is completely reversed in Q1 of the current financial year. So Country Liquor sales, in fact, as we speak, are sharply up as compared to the same quarter of last year. So there was an aberration in the last quarter which we have not been able to put a finger on, but analysis is only leading to the fact that maybe summer set in early and hence there was a spurt in beer sales. It was an industry phenomenon not our company specific phenomenon.

Swapnesh Roy

How many consumers will be common between CL and beer, will it be a big chunk? Because I think the segments would be a bit different.

Ajay Swarup

No that is not what we see, in fact, there is a commonality in beer and low-priced spirit. And when beer sales go up there is a slowing down in Country Liquor sales, particularly strong beer sales.

Swapnesh Roy

And you would not attribute cricket also driving towards beer, because cricket was there in Q4?

Ajay Swarup

Well, it could be, it is an interesting thought, but frankly, it is difficult for me to comment straightaway as to whether that could be an impact.

Swapnesh Roy

The logic which you said that in Q1 the sales are back, Q1 in fact is a peak summer season and this time I do not see any let down in the summer intensity, so why this logic will reverse in Q1?

Ajay Swarup

What happens is that Q1, all the shops are new, so there is stocking at all points. In Q4 and this is a point I should have in fact, come up with earlier, it skipped my mind, Q4 there was a reduction in inventory in both Haryana and in Rajasthan, because in both the states, this year, the government went in for new shops unlike last year, where the shops continued. Because new shops came in, Q4, the inventories at old shops was liquidated. So there was a fall in sales. In Q1 we have seen exactly the reverse because new shops have come in, they have to be first stocked up, and so there is a spurt in sales in Q1. So if you look at Q4 of last year and Q1 of this year, you will actually see a averaging out happen.



Globus Spirits

May 19, 2011

- Swapnesh Roy** In the new shops our distribution is okay because normally there is a compatible issue when the distribution changes?
- Ajay Swarup** No, we have in fact widening our distribution in this year, widening as well as deepening and the results are also showing the same, the sales figures for the current year are showing similar trends and I am talking about Country Liquor here.
- Swapnesh Roy** My second question is on your IMFL business we had two adverse regulatory actions in the last three, four months, one was the Central Budget itself wherein tax on A/c restaurant was there and second one was more localized in Maharashtra very steep increases in taxes, so could you tell us in your IMFL business, what kind of impact do you foresee in the coming quarters because of this?
- Ajay Swarup** I have with me Mr. Sudhir Chopra, COO of the IMFL business and I'm going to ask him to answer this question on the company's behalf. Sudhir?
- Sudhir Chopra** See the point of Maharashtra does not concern us because we do not have a presence in that state for our IMFL business as yet. With regard to the other areas what has happened is the policies have remained more or less the same, only the change in the licensees have happened which Mr. Swarup has already told you about. So with that now the changeover we have got a better distribution and the prices which are ruling in the northern markets where we are present are more or less similar to what it was earlier because the duty impact have not yet. _____ been that increased as what has been mentioned in Maharashtra. Similarly, Andhra Pradesh also where we are present there also the duty impact is not there, it is the same as what was continuing in last year.
- Swapnesh Roy** No, but tax for A/C restaurant, that is not impacting you as...?
- Sudhir Chopra** A/C restaurants again that is Maharashtra-based, basically because in the northern markets where we are present, there basically the sales are happening through the retail outlets and there are certain Ahatas as we call them, which are places where they allow the IMFL to be drunk at the outlet which is just next to the retail outlet. Restaurants and bars in this part of the country are very limited in the excise policies itself.
- Swapnesh Roy** Thanks.
- Moderator** Thank you. The next question is from the line of Grishma Shah from Envision Capital. Please go ahead.
- Grishma Shah** Just a sense of the competitive intensity in the Country Liquor segment?



Globus Spirits

May 19, 2011

Ajay Swarup

Firstly, Country Liquor business is limited in each state, to the companies who own distilleries in that state. So whilst there is competition but it is limited to the distilleries operating in that state so in a sense there is a barrier to entry. For example, in Haryana, there are eight distilleries and we now out of eight distilleries, Globus Spirits owns 2 out of those, the Country Liquor business is limited to these eight distilleries. The same applies in Rajasthan, where though Globus Spirits operates one distillery, it is the largest distillery in that state. There are four other distilleries which supply Country Liquor in the state. That is the competitive environment and possibly answers your question.

Grishma Shah

You have not witnessed any price war kind of a stuff, right in the segment?

Ajay Swarup

Fortunately not, Country Liquor prices are controlled by the governments and they are fixed by the government so suppliers of Country Liquor do not engage in price wars because if they would, it would in turn drive down their margins, and it would also get the government to possibly revise the price, so it would be suicidal, it is a kamikaze situation, anybody getting into price wars would be actually shooting himself in the foot by doing so.

Grishma Shah

Okay, just to understand the situation currently, you said the old shops were not given any further permission from the government to stock up the inventory and therefore the transit took time and hence the fall in the volumes?

Ajay Swarup

No, what I was trying to tell you is that as you are aware all liquor shops be it Country Liquor or IMFL are licensed by each state government for a period of one financial year. What happens is that sometimes state governments decides that we will allow the old shops to continue for the next year as well. This year both Rajasthan and Haryana took a decision not to have a roll over of those shops, but they had a fresh lottery and hence there was a change which means that every shop had a new owner, and as a result, the old owner was interested in cleaning out old inventory before handing over to the new owner on 1st April. And hence you saw a liquidation of pipeline stocks in Q4, and an increase in pipeline buying for Q1 of current fiscal.

Grishma Shah

So it is literally aptly for the government to decide what they want to do? Whether they want to issue new licenses or continue with the old ones?

Ajay Swarup

The government takes this decisions based on their estimation as to whether it would be beneficial for them in terms of excise collection, meaning, will they get more of money from in terms of guaranteed revenue from the old licensees or will they benefit by having fresh lottery. So they take that call and they have their own reasons and thought processes which is difficult for me to sort of comment on, on why they take a certain position on that.

Grishma Shah

Okay, the second question is on the CapEx that you plan to do in the next 2 to 3 years, could you take us through that?



Globus Spirits

May 19, 2011

Ajay Swarup

In terms of the two distilleries, one in Rajasthan and one in Haryana which are the Globus Spirits distilleries is pretty much now has been completed. However the new merger of Associated Distilleries with Globus Spirits, since that distillery is yet of a lower capacity, we would like to bring that up to the same level as that of the Globus distillery. So that is a CapEx we have in mind since you're talking of a three-year period. That is one, of course, there will be normal CapEx at each plant to cater to bottling capacity increase but that is not so significant which requires too much mention. Other than that, we are looking at going into new geographies but that is yet something which is more in the horizon kind of thing, not something specific. We will, of course, keep you posted as and when we venture into any new geography with a green field alcohol business or an acquisition.

Grishma Shah

So the ADL expansion will expand over how many years and how much money would you need as CapEx?

Ajay Swarup

We have not firmed up the CapEx and the capacity plans for ADL, we were still waiting for all the clearances to come through which are expected very shortly. Basically, it is only the High Court order which is pending, all shareholder approvals are in place. The moment we get all that, already the project teams are working to draw up expansion plans and CapEx. So possibly in the next quarter, we will have clarity on what kind of CapEx we plan for the merged unit of ADL.

Grishma Shah

So when you merge ADL it would be effective from what date?

Dr. Bhaskar Roy

1st April, 2010. It is a retrospective effect that is why I'm giving the figures also of last year, you have to take the combined figures for calculating.

Grishma Shah

And if you could tell us now that the entire new capacity for both the distilleries has come on stream, you would have the same rate of depreciation as you have seen in Q4 or it is going to increase for the quarter four?

Dr. Bhaskar Roy

It will be on the same rate in the Q4.

Grishma Shah

And the tax rate going ahead?

Dr. Bhaskar Roy

If there is any addition then there will be go ahead, otherwise, normal addition of ,you have to take in a year 20-25 crores normal addition will be there.

Grishma Shah

No, I'm asking about the tax rate average?

Dr. Bhaskar Roy

Tax rate will be around 26-27%. Because earlier I have already explained, we take some benefit of the tax, so after that the effective rate will be around 26 to 27%.

Swapnesh Roy

Thank you



Globus Spirits
May 19, 2011

- Moderator** Thank you. The next question is from the line of Vishal Gutka from India Infoline. Please go ahead.
- Vishal Gutka** What is the rate of interest on the term loan?
- Sudhir Chopra** Rate of interest is 11%.
- Vishal Gutka** What is the tenure of the loan?
- Sudhir Chopra** 4 years.
- Vishal Gutka** Okay, and your working capital has risen significantly, what is the reason behind that?
- Sudhir Chopra** Because last year during the time of IPO, when after the IPO, when we have the funds, the capital CapEx plan was made and the investments was going on, so we have put the surplus money to the working capital to reduce the interest burden. As soon as it was extended on the capital, the working capital increased, so last year cannot be taken as the base mark, because last year the working capital was very low.
- Vishal Gutka** What is your advertising budget spent on IMFL segment?
- Sudhir Chopra** It is around 4-5 crores.
- Vishal Gutka** Thank you sir.
- Moderator** Thank you. The next question is from the line of Maninag Namana from HSBC. Please go ahead.
- Maninag Namana** My question is on the IMFL business. You told that you have sold 5.5 lakh cases for 2011, which means that if I back work, you have sold 2.2 million cases in Q4 2010-11, but I see that the revenue from IMFL has declined compared to Q3 despite of higher volumes. Any specific reason as to why that has happened?
- Sudhir Chopra** Q3 to Q4, there is a decline in the IMFL sales because in the winter season IMFL goes up high, in Q3, if you see quarter-to-quarter compare, Q3 we have sold 1.89 lakh cases and Q4 we have sold 1.70 lakh cases.
- Maninag Namana** Would it be fair to assume doubling of volumes for FY 12 for IMFL?
- Dr. Bhaskar Roy** We have maintained that trajectory for a period of about two years now, we certainly hope for that to continue.



Globus Spirits

May 19, 2011

- Maninag Namana** And on the Bulk Alcohol business, what would be the capacity utilization in FY 12, now that you have 84.4 million liter capacity, what would be the capacity utilization in FY 12?
- Sudhir Chopra** 90%.
- Maninag Namana** Any estimate on what could be the possible target EBITDA margin for FY 12?
- Ajay Swarup** We have ended with an EBITDA of around 64 crores this year. We are targeting at least 40% to 50% jump in the next year.
- Moderator** Thank you. The next question is from the line of Vivek Jain from Alegro Capital Advisors, please go ahead.
- Vivek Jain** My question is in regards with the industrial alcohol prices. If I try to work the prices from the sales volume and the value figure that you have given, it comes out to be Rs. 27 a litre, so that is way too down from the earlier figures that you were reporting about 35-36, so what is the reason for that?
- Ajay Swarup** From where you have got the figures?
- Vivek Jain** I am calculating industrial alcohol, the value was 16.22 lakhs and the volume was 60.82, so dividing that it comes to be 27.
- Ajay Swarup** Can we just do this calculation and come back to you? If you see now overall in the year, I have just made the calculation, I will check these figures. The total combined alcohol sale was 80.81 lakhs in the year and the total volume was 233 lakhs, it will come to Rs. 35.
- Vivek Jain** Okay, sir I will get this offline from you then. Second question is the tie up that we have with Jagatjit for 18 lakh cases, in this particular financial year we did close to 4.54 lakh cases, so the number is quite different from 18 lakh cases that you had earlier said. So how is the contract structure has been? Are we not forced to do 18 lakhs or can we ramp it up slowly?
- Ajay Swarup** The way this works is that their earlier sourcing was from their own plant in Punjab. When they changed the sourcing to a new plant they ramp up gradually because the market needs to adjust to a new source and that process is being going on and the volumes have been gradually building up.
- Vivek Jain** So this 18 lakh cases that you said earlier by what timeframe do we expect to hit that number?
- Ajay Swarup** The way things are going, it would take us another couple of months to do that.
- Vivek Jain** The same is the case with ABD also?



Globus Spirits

May 19, 2011

- Ajay Swarup** ABD stabilization process has already happened and we are at that level of about 800,000-900,000 cases and that will continue. The difference this year will be that with the merger of ADL the volume we do for ABD will go up because ADL too has a tie up with ABD. You will see an increase in such numbers.
- Vivek Jain** On this franchisee IFML that is not booked in our sales. So could you give me the Q4 numbers for this, where we take the operating income directly which goes to the operating income?
- Ajay Swarup** We have done the franchisee IMFL for ABD from Associated Distilleries 5,21,184 cases on the whole year and in the Jagatjit we have done 4,54,375 cases.
- Vivek Jain** What would be the breakup of this other operating income that we have reported for the full year? What could be the contribution from this Jagatjit tie up?
- Ajay Swarup** Jagatjit tie up will be 4,54,375 x Rs 30.
- Vivek Jain** That would be very small as compared to the total other operating income of 37 million that we have reported. So what would be the other components of this?
- Ajay Swarup** From the other operating income, from the ABD and from Jagatjit, the income is 3,77,00,000, interest received is from fixed deposit etc., whatever is the short-term, it is around 32 lakhs. Profit on investment is around 26 lakhs. This is the total breakup of 437.
- Vivek Jain** So all the 377 is booked from ABD?
- Ajay Swarup** Not from ABD, it is from Jagatjit.
- Vivek Jain** Thank you so much, sir.
- Moderator** Thank you. The next question is from the line of Kushal Sanghrajka from HDFC Securities, please go ahead.
- Kushal Sanghrajka** Firstly you said beer sales ate into your Q4 sales a little bit. Now why do you say beer sales is a one-off? Usually it is something like in an area if the beer sales have picked up right now, why won't it continue going forward?
- Ajay Swarup** I think I have made a mistake when I said that. I think the basic impact is being the change, like I said earlier, the shops. Because in Q4 the old shops had to be closed down and Q1 new shops came into effect. There was a reduction of inventory and this has happened in Rajasthan and in Haryana. It is something which has impacted all the companies in these two states. So I stand corrected. It is not so much the beer sales which have impacted but it is the change of shops which has impacted sales in Q4.



Globus Spirits

May 19, 2011

- Kushal Sanghrajka** Fair enough, so now this change in shops is not a yearly thing, doesn't that happen every Q4 and Q1?
- Ajay Swarup:** Yes let me explain that. Shops, like I said earlier, are given out by the government on an annual license. Every year, on 31st March, the old license expires. Many years, the government in its own wisdom decides to continue the shops and roll them over into the next year and this is what happened in the last year, for reasons best known to them, they decided to do away with the old shopkeepers and got new shops. So in certain years it happens that there is no change whereas in certain years you do have a change in which case there is a fall in sales due to offloading of shop inventory.
- Kushal Sanghrajka** So I know you said you stand corrected, but just out of general knowledge, the beer sales I assume have gone up slightly at least in the areas that you are operating?
- Ajay Swarup:** Yes, beer sales in North India are up during these times, but that, like you said earlier, is a seasonal thing and it is something which happens every year. In the month of March on till August beer sales are far more than the rest of the six months. So that is a normal phenomenon, it is not a one-off phenomenon.
- Kushal Sanghrajka** One other question related same sort of seasonality, you say Q1 numbers were kind of average out Q4 numbers, so I assume that means Q1 sales have been good and they are going to be much higher than Q4 sales which is sort of against the seasonal nature of our company where we usually have Q3 and Q4 leading the year, the yearly sales. Is that a correct assumption right now?
- Ajay Swarup:** You see, when we analyze quarterly figures of any company which has a seasonality built into the nature of its business we need to see the quarter on quarter for the previous year. So when we look at Q1 of the current fiscal we will need to look at Q1 of last fiscal after correcting it for the aberration that shops have changed this year.
- Kushal Sanghrajka** So what we are trying to say is that this year's first quarter will essentially be much better than last year's quarter not necessarily better than Q4?
- Ajay Swarup:** Yes, I am saying Q1 of this year will be better than Q1 of last year for the following two reasons: a) there is inherent growth in the business, and b) there is a stocking up at all shops.
- Kushal Sanghrajka** So it is partly attributable to our increase in capacity and also partly attributable to the industry structure in general?



Globus Spirits

May 19, 2011

- Ajay Swarup:** When we talk of shops we are referring to Country Liquor and IMFL sales. So I am differentiating this from Bulk. Yes, in our case Q1 will also have the benefit of increased Bulk Alcohol offtake because of expanded capacity.
- Kushal Sanghrajka** Now coming back to the question that has already been addressed earlier related to the duty and the taxes that have gone up in Maharashtra, I know you said that this has not affected the Northern states but out of your experience historically does the increase in tax in one state have a domino effect on the other states or usually there is no relation at all?
- Ajay Swarup:** You see certain state governments do in their own wisdom take decisions about enhancing taxes and then when they realize that this has actually been a decision which has gone in negative both in terms of revenue and in terms of sales then they roll it back. So the Maharashtra decision according to the entire industry is an aberration, the kind of duties they have increased, it is not something which is sustainable, and we do not see other states following the same pattern because, it is like I said earlier, it is certainly an aberration and a mistake.
- Kushal Sanghrajka** So that will not affect us right now. But I also know that we have been expanding our presence across states in the country. Do we currently have any plans or did we have plans to expand into Maharashtra?
- Ajay Swarup:** Yes we did have plans to enter into Maharashtra, however, that was at a much later stage. Perhaps in the Phase II of our scale up which we have not got into yet.
- Kushal Sanghrajka** My last question is to do with CSDs. I know we have been saying for a couple of years now or maybe at least a year now, that we are trying to list our own brands in CSDs. It is a long drawn process but where is that at right now?
- Ajay Swarup:** We are at advanced stages of our CSD application. We certainly hope that either towards the end of this quarter or the beginning of next week we should have or from registered with the Canteen Stores.
- Kushal Sanghrajka** So maybe starting from Q4 at least we could see sales to the CSD?
- Ajay Swarup:** Yes, absolutely.
- Kushal Sanghrajka** That's all I have for now, thank you.
- Moderator:** The next question is from the line of Gaurang Kakkad from Religare Capital Market, please go ahead.
- Gaurang Kakkad** Firstly, in terms of this annual licensing that you said, I just wanted to check whether this is specific to Country Liquor or would this also be true for IMFL?



Globus Spirits

May 19, 2011

- Ajay Swarup:** It's true for both. The licensing system of shops in each state is the same for Country Liquor and IMFL. It does not mean, however, that the shop is the same. The Country Liquor shop and the IMFL shop normally are different outlets. But the system is the same. So if you have the same shops continuing in a particular year as compared to the previous year it would apply both to Country Liquor and IMFL.
- Gaurang Kakkad** And this license would be only valid for one year so no state can have it more than a year's time, that would be right or that depends on state-to-state, how it is?
- Ajay Swarup:** You see, licensing is the purview of the state governments, they have all rights to come out with a policy which could be either one year, two years or any sort of period. However, having said that, normally it is annual.
- Gaurang Kakkad** The reason I was asking is that the other listed players have not specifically raised this issue of sales being affected due to this change on March 31st. So I wanted to check whether this is only specific to your state or is it general?
- Ajay Swarup:** Basically, the effect has happened only in four states in the north. Now we are operating mainly in the north. The states which have been affected by this license renewal or the re-tendering of the license or the lottery, have been Rajasthan, Haryana, Chandigarh and Punjab. In Himachal, the license has been renewed. So out of the six states that we are operating which is UP the other one, UP also it was just renewed. And Andhra where we are operating, Andhra it is a two-year licensing policy. So last year they changed over, now the next changeover will happen in the next financial year, in this perspective. Whereas if you have an all India presence, like in Maharashtra for instance, the license is for the full year again and it gets renewed after an enhancement of a license fee by 10% or 15% as decided by the state government.
- Gaurang Kakkad** My other question was in terms of raw materials. What would be the current mix in terms of grain based and molasses based?
- Ajay Swarup:** We are not using molasses at all. We are using 100% grain.
- Gaurang Kakkad** Just wanted an outlook in terms of prices for grain based and whether you would switch to molasses or you would continue with grain based going forward also in FY'12?
- Ajay Swarup:** The way the raw materials scenario in the country and specifically in North is panning out is that molasses is largely going to produce ethanol and the ENA market which is for beverage alcohol is being dominated by grain based ENA production. And looking at the way the molasses prices are in the states where we operate we see it to be much more beneficial to produce alcohol from grain. And this will be the trend certainly over the next few years.



Globus Spirits

May 19, 2011

- Gaurang Kakkad** If I just wanted to know wanted to get a sense in terms of indexing as to how your grain based RM would have moved over the year, any inflation that you can give for the current year as well as for the next year?
- Ajay Swarup:** The good news for us in this has been that whereas our finished product prices have been bullish because of ethanol, our raw material prices which are not connected with molasses or the sugar cycle has been actually quite stable. And the reason for that is that we all know that food grain production this year has been very good and as a result we have seen stable grain prices. And if we compare them over the last two years in fact there is no increase at all.
- Gaurang Kakkad** Over the last two years there is no increase in grain prices?
- Ajay Swarup:** No.
- Gaurang Kakkad** And that is likely to continue in the next year also as per you?
- Ajay Swarup:** Certainly.
- Shekhar Swarup** Just a point here, though our raw material is affected of course by food grain, our raw material is not the food grain, we use broken rice which is consumed by humans.
- Gaurang Kakkad** So prices for those have not changed? If there is a price increase say, rice or other commodities prices of broken rice have not....
- Ajay Swarup:** That is exactly the point Shekhar made that though we do enjoy an advantage because of high foodgrain production but we are not really foodgrains at all. We use waste grains.
- Gaurang Kakkad** Thanks a lot and all the best.
- Moderator** The next question is from the line of Anup Ranadive from Tower Capital, please go ahead.
- Anup Ranadive** I wanted to understand some of the larger IMFL players in Q1 has reported volume disruption because of the license renewal in Andhra Pradesh. The logic was that the de-stocking happened in Q1 and not in Q4. I wanted to understand how did the de-stocking for your country liquor happen in Q4, that is the first question. Second question is, for the current year FY '11 we have seen two quarters of the same industry trend in terms of de-stocking and disruption. So going ahead what would be the predictability of this trend because it is getting extremely difficult to understand which states would achieve the policy and in which states would the volume disruption happen? Your thoughts on this?



Globus Spirits

May 19, 2011

- Sudhir Chopra** In the case of last year the Andhra Pradesh licensing policy is from July to June, therefore it got accepted in the first quarter. Other states, the licensing policy is from April to March. That answers the first part of your question.
- Anup Ranadive** Second question was regarding the predictability of this trend. So if you said this is going to be a recurring like yearly thing, so would there be volume disruptions happening in every Q4?
- Ajay Swarup:** You see the point is that whereas de-stocking or stocking of pipeline is to be seen as a different from actual counter sales of product. The counter sales which means that the customers actual purchase of liquor is not affected. It is only the adjustment of inventory in the pipeline. So we have to keep that into account and if we look at longer-term period all these aberrations get ironed out. Having said that we are in an industry where we operate in 24 different excise policies. That means each state operates like a country and that is something in the Constitution of India and it is something we as an industry have to live with.
- Anup Ranadive** Thank you.
- Moderator** Thank you. The next question is from the line of Bhavik Mehta from Girik Capital, please go ahead.
- Bhavik Mehta** My first question is regarding the margin contraction quarter-on-quarter. As you said that the raw material prices have been quite stable, what would be the reason for the margin contraction of 1% in this quarter?
- Dr. Bhaskar Roy** Margin on 31st March, 2011 on the quarter was 14.14% and up to December it was 14.96%. But in the overall if you see it was 14.76% and with the consolidated one we have reported a margin of 16.50%. So we have always told that the margin to be taken for a rough estimate is around 15%. So we are maintaining around it. There is a slight variation on a different quarter happens because in the last quarter, as I already mentioned, the volume of sales was a little less from the earlier quarter of the Q3, and the effect of franchisee IMFL was also a bit low, so operating income was also low, so it has slightly affected the margins.
- Bhavik Mehta** I wanted to know your average bottling capacity that you all have in both the distilleries throughout the year?
- Ajay Swarup:** At each distillery we can bottle close to between 4 and 5 million cases per annum.
- Bhavik Mehta** My other question was regarding the price hike that you all have done in the last two years and the price hike that would be in the future in the coming quarters?



Globus Spirits

May 19, 2011

Ajay Swarup: Price hike, if you look at each of our verticals, Bulk Alcohol is not an administered price, it follows market trends, and like I said earlier, this year ENA pricing is looking to be bullish on the back of good ethanol offtake. Coming to Country Liquor, Country Liquor is an administered price and that price is controlled by the state government. They come out with price increase based on cost push either every year or once in every two years. The last year we got significant price increase both in Rajasthan and in Haryana. In the current year they have not given us the price increase for this fiscal. So we will now revise prices at the end of this fiscal and the beginning of next fiscal. The Delhi Country Liquor pricing has gone up by close to 6%. This is with regard to Country Liquor. As far as the IMFL is concerned there are certain states where there is price control by the Excise Department and certain states where pricing is free. So again, since we operate in eight states, there is a differential situation in each state. Of course, I can go into each but suffice it to say that in IMFL we have been able to get good price increases. In Country Liquor price increases will come in at the end of this fiscal, in the beginning of next fiscal.

Bhavik Mehta The other question was regarding the government regulations regarding to the production and distribution, can you give me highlights on all the states that you operate in?

Ajay Swarup: In all the states across the country, production of alcohol is highly regulated by the Excise Department. They regulate the capacity, each distillery is licensed to produce a certain capacity and the state government through its Excise Department controls how much you produce and that you limit yourself to production within the license capacity. Having said that, they have provisions for expansion, for example, we have expanded our distilleries and we have gotten the necessary permissions to increase our capacities.

Bhavik Mehta You had mentioned in your earlier con call that the whole 70 million litre capacity, the orders were booked for the coming year, i.e. for CY-11, that is what you had said. Now that you mentioned earlier that the 84.4 million combined capacity of ADL and GSL would be running at 90% capacity utilization, so would that mean that there is a ramp down in the orders?

Ajay Swarup: No, there is no ramp down. The difference between 100 and 90, the 10% is largely due to the fact that though we have commissioned our new capacities there is a stabilization process which should be over in some time in the middle of this current quarter, in fact, as we speak. So there is a certain buffer which we have kept while calculating our total production and that is why, our CFO, Dr. Roy, when he mentioned 90%, it is that 10% which has been factored in.

Bhavik Mehta For the stabilization?

Ajay Swarup: Yes.

Bhavik Mehta Coming on to the bottling capacity, it is 4-5 million cases per distillery or combined?



Globus Spirits
May 19, 2011

Ajay Swarup: Per distillery.

Bhavik Mehta For the ADL capacity, what would be the number?

Ajay Swarup: The same.

Bhavik Mehta One more thing that I wanted to ask was your peers that operate in the same segment, as your branded IMFL segment, can you just give me the names, which all brands do fall in the segment you all operate in?

Ajay Swarup: I will ask Sudhir Chopra to answer that.

Sudhir Chopra In the County Club segment the brands which we are fighting with are Officers' Choice, Bagpiper, Director's Special, 8 PM, and the other regular whiskey brands like Imperial Blue may be slightly higher but these are the 5-6 brands that are there. In the rum segment we are operating against Old Monk, McDowell Celebration, Contessa and our Hannibal is there.

Bhavik Mehta The other thing I wanted to ask was the price points per case in the Country Liquor and the IMFL space. Can you just give me the mark up price per case?

Sudhir Chopra The ABD distillery price for Country Liquor case is around Rs. 250. For IMFL which we are operating is around Rs. 380-400 per case.

Shekhar Swarup Of course, this is ex-distillery and does not include duties.

Bhavik Mehta What would be the average selling price in the shops for these two segments?

Sudhir Chopra The IMFL 750 ml bottles sells at Rs. 180-200 and Country Liquor sells around Rs. 75.

Bhavik Mehta Country Liquor per bottle, right?

Shekhar Swarup Yeah. So you have to multiply that by 12 to get per kg.

Bhavik Mehta The last question was the bottling margins that you all have, can you give me the margins on the bottling business that you all do?

Ajay Swarup: Bottling margin is around Rs. 20 per case.

Bhavik Mehta What is the fee that you all charge for bottling a case?

Ajay Swarup: It varies from Rs. 30-35 but margin is around Rs. 20.



Globus Spirits
May 19, 2011

- Bhavik Mehta** Varies from Rs. 30-35 per case?
- Ajay Swarup:** Yeah.
- Bhavik Mehta** Thanks a lot,
- Moderator** Thank you. The next question is from the line of Saurabh Pant from SBI Mutual Fund, please go ahead.
- Saurabh Pant** I had one question, what are the market prices of ENA today?
- Sudhir Chopra:** Market prices of ENA which we are operating we are selling in Haryana around Rs. 38, in Rajasthan around Rs. 37.
- Saurabh Pant** This would be excluding the logistic cost?
- Sudhir Chopra:** Distillery price.
- Saurabh Pant** What would be your cost of production today?
- Sudhir Chopra:** Will be around Rs. 30. I am telling basic cost plus overheads Rs. 2 to 2.50. So including the overheads, etc., you can take Rs. 32. On EBITDA it will be a margin of Rs. 4-5.
- Saurabh Pant** If you include interest cost and depreciation?
- Sudhir Chopra** Yeah, it'll be around 15% margin you can take.
- Saurabh Pant** That is the EBITDA margin?
- Sudhir Chopra** Yeah.
- Saurabh Pant** So if I include interest cost and depreciation this 4 to 5 would go down to what?
- Sudhir Chopra** Actually if you take depreciation then the question is that you are loading the depreciation on the total plant because the spirit which you are manufacturing is from the total plant. So what we do while calculating, as that spirit is value added to other sectors, we spread that element of interest etc., to the other sectors. Otherwise in the bulk you will block the total. So you can take that with the interest and overhead and the depreciation, the margin will be around 11-12%.
- Saurabh Pant** What would be this 38 and 37, in Haryana and in Rajasthan?
- Sudhir Chopra** It is the price.



Globus Spirits
May 19, 2011

- Saurabh Pant** What would this be in other states, say Delhi etc.?
- Sudhir Chopra** 35, 36.
- Saurabh Pant** In South India this would be ruling at what? Suppose today I have to go by grain spirit say ENA out of grain?
- Ajay Swarup:** We would have to address that question state-wise. So for example in UP it is Rs. 30, in Maharashtra it is Rs. 30. These are the molasses surplus states. Let us say in Andhra it is Rs. 35 to Rs. 36. In Punjab it is Rs 35.
- Saurabh Pant** And the spreads would be similar?
- Ajay Swarup:** The spreads would be pretty much similar. Wherever you look at 35+ prices normally it is grain based. The only two states where there is Rs. 30 kind of pricing, are Maharashtra and UP because of molasses.
- Saurabh Pant** The cost of production would be similar, Rs. 30 across India broadly?
- Ajay Swarup** For the grain base, yes.
- Saurabh Pant** For molasses?
- Ajay Swarup** It would be less.
- Saurabh Pant** Only for grain I am asking?
- Ajay Swarup** Yes, certainly it would be similar.
- Saurabh Pant** Thanks a lot for the answers.
- Moderator** Thank you. The next question is from the line of Jignesh Kambani from Nirmal Bang Equities, please go ahead.
- Jignesh Kambani** I just want to know right now between molasses and grain base, is there any premium between the ENA price or not?
- Ajay Swarup:** We have seen that, yes, there is a premium and people who manufacture IMFL prefer grain ENA over molasses ENA.
- Jignesh Kambani** But it is not substantial?



Globus Spirits
May 19, 2011

- Ajay Swarup:** No, it is not substantial.
- Jignesh Kambani** Okay, right now, my question is around Rs. 30 so what will be the manufacturing cost if you have to roll through the molasses at current price?
- Ajay Swarup:** Like I have said earlier, these calculations are different for each state.
- Jignesh Kambani** In our states where we operate particularly?
- Ajay Swarup:** In the states we operate, molasses is currently not available and, of course, the pricing would also be a factor but I would much rather say that it is not available at all and hence there is no viability of producing alcohol from molasses.
- Jignesh Kambani** Sir, out of the total of our volume of IMFL close to around 5.5 lakh case, can you give breakup between which are the main states out of six states we operate and if possible the individual state wise volume?
- Dr. Bhaskar Roy** We have sold in UP 51,382 cases, in Rajasthan 55,000 cases, in Punjab around 11,500 cases, in Himachal Pradesh around 18,000 cases, in Chandigarh around 7,000 cases, in Andhra around 1,20,000 cases, in Kerala around 1,83,000 cases, in Delhi around 32,000 cases, Haryana around 72,000 cases.
- Jignesh Kambani** Next year you mentioned it, from which are the states we will see incremental growth coming in?
- Shekhar Swarup** As far the current year we are focusing on growing our distribution and our sales within the state that we are already present in. So all states would see a significant growth coming in.
- Jignesh Kambani** So, there will not be plan to launch our distribution muscles in the other states where we are currently not operating particularly in next year?
- Shekhar Swarup** Not in the current year.
- Jignesh Kambani** What is our aim to reach, say, three years down 5.5 can reach to what kind of a number in three to five years down the line?
- Sudhir Chopra** This year we are planning a 100% growth like last year. So if we go into new states now there will be two things which will be happening in the next FY, we will be entering into new territories. So, I think we should assume that we will be able to maintain at least for the first two years the same type of growth rate, thereafter it will pan down.
- Shekhar Swarup** In the next two or three years maybe 4 million cases.



Globus Spirits

May 19, 2011

- Jignesh Kambani** So 4 million we are trying to aim in the next 3 to 4 years. Are we planning to **premiumise** because I think right now we are more about economic side of the price point in IMFL.
- Ajay Swarup:** When we started our business, IMFL business about three years ago, we started from scratch. There was absolutely nothing which was established on ground, we had the cost of manufacturing. So our first task was to create the distribution network and we chose the higher volume categories to do that. It would be rather difficult to create a pan-India distribution network on niche products. We are now in a position to say proudly that in the states that we have been operating for the last few financial years, we have significant distribution reach, we want to increase this further, make it a pan-India network and then look at premiumization as the other players in the industry are.
- Jignesh Kambani** So, when it will happen?
- Ajay Swarup:** Once we have a better distribution network, maybe two financial years.
- Jignesh Kambani** Right now I think we are very close to around Rs. 746 per case.
- Ajay Swarup:** We are realizing close to Rs. 400 to Rs. 500 per case.
- Jignesh Kambani** No, you told that we are selling 5.5...
- Ajay Swarup:** That is because of the excise duty.
- Jignesh Kambani** I am including everything.
- Ajay Swarup** Okay. Even in that case even 746 would be an incorrect number because in certain states we will not be realizing excise duty. So the right number to take is between Rs. 400-500 depending on the state, that would be the ex-distillery price of our products.
- Jignesh Kambani** Net of excise?
- Ajay Swarup** Net of excise.
- Jignesh Kambani** Thanks a lot.
- Moderator** Thank you. We would take the final question from the line of Harit Kapoor from Motilal Oswal, please go ahead.
- Harit Kapoor** One question regarding County Club. We had earlier spoken about close to 50,000 cases per month average run rate that we were doing on the product. Just wanted to know the progress on that product over the last six months and future going forward?



Globus Spirits

May 19, 2011

Ajay Swarup

See we were able to launch County Club fully in the markets that we are operating in from September-October. So basically we have had two quarters. We had the launch from February onwards of this calendar year. Basically, in this first year we have been able to sell about 94,000 cases in six months. Now in this as Mr. Swarup has already told you there has been effect of the licensing problem in the markets of Haryana, Rajasthan, Chandigarh and Punjab. Now having had that over, now we have started our business in this financial year and we are hoping for a target of **2.5 (1:09:05)**lakh cases in the current fiscal in the existing market.

Harit Kapoor

Which were the new markets that we are looking at right now?

Ajay Swarup

Right now we are not looking at any new markets. We just want to consolidate the markets that we are in. These markets are the basically the northern markets and Andhra Pradesh. Kerala does not have County Club.

Moderator

I would now like to hand conference over to Ms. Swati Nangalia for closing comments.

Swati Nangalia

Thanks, Marin I would like to thank all the participants and the management for removing time for this conference call. Ajay, would you like to make any closing comments?

Ajay Swarup

Yeah. 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 at www.globalspirits.com and post any queries that you may have and we will get back to you as soon as possible. You can also e-mail me directly on the address given in the release. Thank you once again.

Moderator

Thank you. On behalf of IDFC Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.