"Globus Spirits Limited Q1FY21 Earnings Conference Call"

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MANAGEMENT: MR. SHEKHAR SWARUP – JOINT MANAGING DIRECTOR, GLOBUS SPIRITS
MR. VIJAY REKHI – EXECUTIVE CHAIRMAN, UNIBEV
MR. BHASKAR ROY – CHIEF OPERATING OFFICER, GLOBUS SPIRITS
MR. AJAY GOYAL – CHIEF FINANCIAL OFFICER, GLOBUS SPIRITS

Moderator: Ladies and gentlemen, good day and welcome to the Globus Spirits Limited Q1FY21 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shekhar Swarup -- Joint Managing Director, Globus Spirits Limited. Thank you. And over to you, sir.

Shekhar Swarup: Hi, Thanks. Good morning, everyone. Thank you for joining us on our quarter ended June 2020 Earnings Conference Call. Along with me, we have on the call Mr. Vijay Rekhi - Executive Chairman, Unibev; Dr. Bhaskar Roy -- Chief Operating Officer, Globus Spirits; Mr. Ajay Goyal -- Chief Financial Officer, Globus Spirits and our Investor Relations team.

I am sure most of you have heard this several times before and its universal impact. So, please permit me to reiterate this, the last quarter has been one of the toughest periods for India. And hopefully we do not have to see this situation again in our lifetimes. At Globus, however, this enormous challenge has come with an opportunity. As you are aware, the month of April 2020 was a near washout. In the month of May 2020, capacity utilization increased gradually and by the end of May 2020, we have been operating at optimal levels.

In order to explain the quarter's performance, I would now like to take you through performance of each of our business segments in Q1FY21.

To start with, the **Bulk Alcohol segment** has been witnessing the impact of a structural change on account of the government's push towards ethanol blending. This program of ethanol blending helps dry up excess capacities in the ENA marketplace, and therefore allows us to be able to control our margins and pass-through any cost increases that may happen on the supply side.

For the Q1FY21, we sold around 20 million bulk liters as compared to 30 million bulk liters in the same period last year. However, what is heartening to note that our monthly run rate in June 2020 was at 9.36 million bulk litres, which is close to our pre-COVID budgeted levels and we are in the process of ramping up further to surpass our pre-COVID levels.

Our revenues and margins for the bulk segment got a boost with the Hand Sanitizer division that Globus Spirits started in April 2020. For Q1FY21, our revenues for the Sanitizer vertical were about Rs.7.7 crores with a very healthy profit margin.

Bulk alcohol realizations have been strong at Rs.54/litre as against Rs.47/litre in Q1 FY20, up by 14%; and improvement in our consumer business and soft raw material prices too helped increase margins.

As long as market access remains unfettered, we believe volumes and margins can continue to be at these levels during the current fiscal. Further, with our strengthened distillery operations, we are in a good position to enhance cash flow generation from our manufacturing business segment.

Now, coming to the **Country Liquor segment** or the Consumer segment, the quarter gone by witnessed a strengthening trend that we believe to have been emerging in the consumer space. This is the emergence of an hour glass shaped market away from a pyramid shape market, where the base or the economy segments is getting stronger with higher volume growth especially in rural India, and right at the top premium products gaining over the middle segments, especially from urban centers in India. Global Spirits is well poised to play in a market of this nature.

Our **IMIL, that is, the Country Liquor segment** witnessed positive developments in the quarter gone by. All states that we are operating in showed green shoots of recovery, including Haryana, where IMIL volumes had been subdued in the past years because of unfavorable policy and other headwinds in the market.

Our strongest performer, however, has been Rajasthan. The company recently launched 42.8 ABV brands within the IMIL channel at a higher revenue than the lower strength IMIIL business that we have been playing in. This strategy has paid off and met with huge success in the state. This segment opens a new path for our product offerings and thus increases the revenue pie of our consumer business.

Our second largest market, Haryana, had been witnessing a fall in volumes due to the presence of a large illicit liquor market in the state. However, state government has taken several proactive measures in this financial year already, which has resulted in a reduction of this unrecorded market. As a result, we have begun regaining our lost market share and this can be seen in our quarterly performance.

In West Bengal too, we saw an increase in our IMIL sales, in fact, our sales doubled year-on-year from this state.

At our Samalkha facility we recently installed and operationalized a brand-new power plant and this will help us with better uptime at the plant, improved production of by-products and fuel savings.

Our focus for the year continues to be cost rationalization, debt reduction and further strengthening of our balance sheet to help support our business strategies going forward.

This year may continue to pose some unique challenges. We, however, have seen rural economy to be the first to restart and achieve near normal levels of activity after lockdowns begun to get eased. We believe this along with tier-two and tier-three towns will drive the growth engine as the nation continues to fight and come out of this pandemic.

In the near-to-medium term, our business is well poised to take advantage of the hour glass shape of the market and will continue to grow revenue of consumer business as long as more access remains uninterrupted.

Finally, an update on Unibev. The merger of Unibev as you are aware is underway and currently at regulatory approval phase and we believe this process will be concluded soon.

With this I would request Mr. Vijay Rekhi to talk a little more about the performance of Unibev in the quarter gone by. Thank you.

Vijay Rekhi: Thank you, Shekhar. A very good morning to everyone and welcome to the earnings call. As we had updated you earlier, Unibev has firmly established its presence in 10-states starting with Pondicherry, Karnataka, Telangana, West Bengal, Andhra, Chhattisgarh, Odisha, Maharashtra, Goa and Assam. However, on account of the COVID pandemic, our plans to expand presence in five more states are being slightly delayed as volumes at the top of the pyramid are yet to recover. Nonetheless, our endeavor will be to extend distribution in at least three more states, if not five, in this financial year.

On the trading side, as most of the retail points of sale continued to remain close for a good part of first quarter, this resulted in our primary sales for the quarter going down, but marginally. Our primary sales for the quarter stood at 91% of last year's same quarter notwithstanding the POS not being open. This is noteworthy considering the disturbed trading conditions and to top it ad hoc increases in excise duties by most of the states, and some states had even doubled the excise duty to take in some extra tax revenues.

In the wake of challenging trading environment, we have had to ensure that we remain prudent with our investments and expansion plans. New product launch of the Seventh Heaven blended with up to 21 Year Old Scotch is on track. This is the only one in the country, and this will be introduced in selected states based on profit salience in a phased manner.

At Unibev, our focus is to ensure longevity of operations while being mindful of operating circumstances and conditions in each of the markets that we are present in at the moment, and we plan to expand in. We will continue working with this philosophy for better results in the future.

I now request "Dr. Bhaskar Roy to share Operational Performance for Globus Spirits."

Dr. Bhaskar Roy: Thank you, Mr. Rekhi. Good morning, everyone. I will now share the **operational performance** of the company. During this past quarter, we continued to deal with the pandemic related operational compliances, in addition of various measures implemented in FY20 and continued towards enhancing our operational efficiency. During Q1FY21, the capacity utilization stood at 59% as against 95% in Q1FY20, largely impacted on account of halting of operations in April 2020 due to complete lockdown and a gradual ramp up post that.

IMIL volumes for the quarter stood at 2.2 million cases in Q1FY21 compared to 2.93 million cases in Q1FY20. The average realization for the quarter stood at Rs.399 per case against Rs.365 per case during Q1FY20. Franchisee bottling volumes in Q1FY21 stood at 0.69 million cases as compared to 1.1 million case in Q1FY20. Bulk alcohol volumes sold for Q1FY21 stood at 20.4 million litres compared to 30.2 million liters in Q1FY20 which was largely impacted on account of lockdown. The revenue mix between manufacturing segment and consumer segment remain largely stable. Year-on-year with a slight increase in the share of manufacturing segment at 65% compared to 64% in Q1FY20 on the back of higher bulk realizations.

With that, I would like to call upon our "CFO, Mr. Ajay Goyal, to continue the discussions on the Financial Performance.

Ajay Goyal: Thank you, Dr. Roy. Good morning, everyone. Like my colleagues have pointed out earlier, this quarter has been very different and perhaps one of the most operationally difficult in the recent times but we are happy to share that the company has reported a robust performance given the situation. Let me walk you through the **Key Financial Highlights** for the Quarter-ended June 30, 2020.

During Q1FY21, the standalone total income net of excise duty was reported at Rs.2,302 million against Rs.2,970 million in Q1FY20, a reduction of 32.5% year-on-year; however, to put in context, we achieved this revenue with our plants being shut for almost a month. EBITDA stood at Rs.450 million in Q1FY21 against Rs.303 million in Q1FY20, a growth of 37% with EBITDA margin expanding from 10.2% in Q1FY20 to a very robust 18% in Q1FY21. This is primarily attributable to higher bulk realization, softening of raw material prices and saving on the fuel costs. As a result of this robust performance, we were able to more than double our profit after tax during the quarter which stood at Rs.201 million as compared to Rs.94 million in Q2 FY20. Reduction in finance costs and overall performance enabled a robust growth of 113% year-on-year in PAT. With enhanced free cash flow generation, our debt reduction drive is ongoing and being implemented well, and we are on course to repay debt as per schedule for the current financial year.

This concludes my remarks on the financial highlights. I would now request the moderator to open the forum for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Priyanka Verma from ICICI Bank. Please go ahead.

Priyanka Verma: My first question was regarding the margins. If you can help us with the margin on segment wise like bulk alcohol and sanitizer?

Shekhar Swarup: So, the sanitizer business is a much smaller business and we are hoping that this last quarter volumes will sustain but I am honestly not very optimistic about that considering that Q1FY21 had a very large amount of panic buying. As far as margins on our consumer business and manufacturing business goes, Ajay, maybe you can shed some light on that?

Ajay Goyal: As I had highlighted in my speech, basically this quarter the margins went up drastically due to two, three major reasons -- higher bulk realizations and secondly is the softening of raw material prices. During this quarter, our major raw material which is broken rice, saw subdued prices due to the better crop availability of raw material; and higher bulk realization and third is fuel costs also because in this quarter our fuel costs are also subdued. All these things resulted into a higher profitability margin in the bulk side. And if our bulk side has higher margins, then it translates to the higher margin in the country liquor business.

Shekhar Swarup: So, bulk business has about 15% margins and our consumer business has about 20% to 25%.

Priyanka Verma: Sir, is this margin sustainable as we would be seeing this margin going forward in Q2FY21 or Q3FY21 also or this is a one time?

Shekhar Swarup: That is a very important question. So, like I mentioned, our margin expansion has come from an improvement in revenue share towards consumer segment as well as improvement in cost of the bulk segment. But more importantly, the structural change that has come in due to the government mandating the ethanol program and insisting on large volumes of ethanol to be used for fuel, that has given us an ability to pass on cost increases in our bulk business quite easily. The consumer margins have sustained for several years at north of 20%. Yes, there are certain tailwinds on packaging costs, but those are smaller attributes. We have seen several years of greater than 20% margins in consumer. But what's important is that the bulk business, we have control on our margins and our costs because of the ethanol blending program.

Moderator: Thank you. The next question is from the line of Bhavesh Premji from Whitestone Financial Services. Please go ahead.

Bhavesh Premji: Our other expenses have gone down in this quarter; it is Rs.42 crores versus Rs.74 crores. So, could you explain why this number is so low compared to Rs.74 crores?

Ajay Goyal: See, in the other expenses, our fixed cost is very low, in the sense, major portion basically we club in this head is the fuel cost and our chemical consumption part, which are variable components. If you can see there is a complete wash out in the month of April 2020, consequently, you can see there are no expenses in the month of April 2020 per se because our fixed cost is very less.

Bhavesh Premji: Is it fair to assume that this Rs.74 crores run rate is the right mix for other expenses, because from July 2020 onwards we would be producing at least 1.1 crore bulk liter alcohol, right, ENA realization, so, other expenses will all also increase in the same proportion. Margins will expand but other expenditure is going to go up. Is my assessment correct?

Ajay Goyal: Yes, you are right.

Bhavesh Premji: In the coming quarter, we are expecting to have a better ENA realization than Q1FY21 or the same rate? Are there some contracts with OEMs?

Shekhar Swarup: I think if we go back to the point I made earlier which is that the spread between cost and selling price or the current gross margin on ENA is what we expect will sustain

Bhavesh Premji: My point is whether we have some contracts with the OEMs to supply or are we supplying at bulk rates to other people?

Shekhar Swarup: There are all sorts of contracts, it varies contract-by-contract, but what is more important to understand is how our margin on ENA we believe will remain sustained because any increase in costs we will be able to pass through due to the structural change that has happened by higher offtakes of ethanol in India.

Bhavesh Premji: So, your benchmark guidance that 13% to 15% kind of EBITDA can be maintained in bulk ENA business for coming two, three quarters, right?

Shekhar Swarup: Yes, the current level of realization on ENA will sustain.

Moderator: Thank you. The next question is from the line of Harshal Mehta from ICICI Direct. Please go ahead.

Harshal Mehta: My question is pertaining to what would be the CAPEX number for this year?

Shekhar Swarup: We have a maintenance CAPEX of about Rs.10 crores to Rs.15 crores for our current plants, that is the maintenance CAPEX that we have projected. Last year there was an additional CAPEX of about Rs.20 crores for the new power plant in Samalkha which is now up and running and fully operational. So, there is no such CAPEX that is planned. So, maintenance CAPEX for these plants is about Rs.10 crores to 15 crores.

Harshal Mehta: I missed out on your debt reduction plans, and how is the working capital situation now?

Ajay Goyal: Working capital reduction basically is based on the business cycle. The utilization level is below 60% at the moment, and considering the business requirements, we do not see we would have any major requirements in the working capital cycle. In terms of debt reduction, it is as per schedule and we are going to repay approximately Rs.32 crores more in this financial year.

Shekhar Swarup: All of this is of course assuming that market access remains the way it is. And that is an uncertainty of operating in this current environment. So, I must put that caveat out there.

Harshal Mehta: So, we can be conservative as we do not pay, the absolute amount could be lower than Rs.32 crores?

Shekhar Swarup: I am talking not specifically about debt repayment. I am talking about general performance and free cash is a result of that. We saw the month of April 2020 being extremely horrible for industry in India. And if that month is to repeat, then it will create further issues. So, market access is important. As long as we have market access, our performance should sustain.

Harshal Mehta: And sir I have a similar question asked by the previous participant regarding the EBITDA margin expansion. If I see YoY basis, even if I consider most of the other expenses variable, there is a 22% decline on revenue front, but 43% to 45% decline in other expenses. So, this is purely due to the power and fuel costs?

Shekhar Swarup: It is due to certain variable, power and fuel was one example, so, as per accounting practices, some variable costs get clubbed into other costs, so that would even include freight for example. So, when we did not have any operations in April 2020, we did not have those variable costs.

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: So, I had a number of questions. Starting with your raw material again, can you give the average price of the raw material this quarter compared to last quarter and at what prices are you procuring as of now?

Shekhar Swarup: I am not in a position to give that for the reason that in each of our states, the pricing varies, the method of procuring broken rice is fairly complex and not able to give you a number of that like that. But coming back to the issue of how margins on ENA will sustain because I think that is what this will feed into, we have now a level of comfort that the market is more of a seller's market, there is less surplus capacity in India as compared to the same time last year, because a lot of the capacity has gone into ethanol. And as a result, if there is any movement in agri prices, we will be able to pass it on.

Agastya Dave: So, my question was actually feeding into a different question. The question was that compared to how you are procuring today versus the changes that have been done in the APMC Act, do you see any additional benefit coming because I can see as of now procuring getting more complicated with respect to logistics once you are going beyond mandis to procure, so what is your sense on this Sir?

Shekhar Swarup: We are not buying from mandis at all. We have not seen any impact of this act on our purchasing so far. We buy from mills because these are a waste product of a rice mill. We do not buy from farmers. We do not have any cooperatives that are selling to us. So, it is very party-to-party kind of contracts.

Agastya Dave: So, is broken rice 100% of your raw materials? I was under the impression that it is like closer to 80%, 20% is the other raw materials?

Shekhar Swarup: As of now, it is 100% broken rice, but over a longer term, you would find that maybe 10% to 20% would be other raw material. We do go up to maybe 50%, 60% other raw material at a time when the rice prices are higher. So, maybe for about one quarter or so, we might go to 50% for some of the raw materials. Over a longer period of time we will come to about 10% to 20%, but currently it is all broken rice.

Agastya Dave: In those quarters where it was 50% to 60% of other grades, would this APMC Act change anything for the industry as a whole or for your company?

Shekhar Swarup: I am not able to comment on that right now, but as of now, we have not seen any change.

Agastya Dave: On the utilization side, you said that you are back to pre-COVID levels and you will slowly see some growth coming in and your presentation is also explaining that bit. So, when do you require additional ENA capacity, is there any sense on that?

Shekhar Swarup: That is a good question. So, ENA capacity depends on states and I do not know if I have mentioned this before, but we see India having two types of states when it comes to ENA capacities, surplus states and deficit states. Surplus is where there is more alcohol production than the state can use and a deficit is of course the reverse of that, less alcohol capacity and state need to bring in from other states. So, we have two deficit states in our "Portfolio of Rajasthan and West Bengal." As of now, when it comes to our own utilization, we do not need more surplus capacity, we do not need more ENA capacity because we have surplus of alcohol than we are able to consume. But there may be some place emerging where you are able to take advantage of some deficit state opportunities, but as of now, there is not anything on the anvil.

Agastya Dave: Sir, there is one question that I had which I cannot figure out just looking at the financials, because the duties have moved so much. Could you give some estimate if Rs.54 is the realization when you are selling ENA in bulk, what would be the equivalent number in IMIL in terms of alcohol excluding the taxes, just pure alcohol-to-alcohol comparison. So, when you are shifting from ENA ?

Shekhar Swarup: So, you would add another about Rs.10 more.

Moderator: Thank you. The next question is from the line of Pranav Gala from iWealth Management. Please go ahead.

Pranav Gala: Looking at our previous run rate, we were on average run rate of around Rs.90 crores to Rs.100 crores. So, in Q1FY21, if we take that, April 2020 was a washout and there was no capacity, the run rate has increased to around Rs.115 cores. So, is this sustainable or Rs.90 crores to Rs.100 crores be our average going forward as well?

Shekhar Swarup: If you do understand Globus very simply there are just two businesses that Globus has; one is the consumer business and the other is the bulk business. The consumer business has displayed over my entire life in the company, high levels of margins; so well over 20% kind of margins. On the other hand, over the same period, the manufacturing business has not displayed high margins, right. And that is what I mean by structural change that in the last four quarters, the government has been pushing for ethanol to get blended into petrol. And this has really dried up the surplus capacity that existed in India. As a result, the spread on ENA has increased, gross margin on ENA has increased number one. Number two, we also have control on passing on costs going forward. Whether ENA margins will further increase? I am not sure. But whether these will sustain, yes, as long as market access remains uninterrupted.

Pranav Gala: Sir, actually, my question was pertaining to our revenue. So, I mean, we have increased our run rate as on Q1FY21 which is really very good even after not having one month in our hand. So, is this sustainable is what I was wanting to understand?

Shekhar Swarup: I have answered that question from a profit point of view. If we just stay with that, if that is alright with you, if you have specifically revenue-related questions, then we need to factor in taxes and duties and other issues, so we can get back to you with that.

Moderator: Thank you. The next question is from the line of Ayush Agarwal from Mittal Analytics. Please go ahead.

Ayush Agarwal: When I look at our results in note numbers that we deposited around Rs.8 crores of money towards GST dues. I would like to have more clarity on it; one, in which line item did we recognize this; and second, what was this for, have some more clarity on this?

Shekhar Swarup: So, this event occurred in Q2FY21, not in Q1FY21, firstly. Secondly, as on June 2020, some reasons behind this; this was a voluntary deposit made to the GST department as the GST department has raised inquiry as to whether our DDGS which is a distiller's waste or is it an animal feed supplement? The two of the issues have a different GST rate, the difference is at the rate of 5%. So, animal feed is 0% and DDGS is 5%. The entire industry in India has been recognizing this item as an animal feed supplement. And we have to now see what is the case that GST department has on this but as of now there is no sort of claim, there is no notice, it is a voluntary deposition of Rs.8 crores that took place in Q2FY21.

Ayush Agarwal: Just a follow up on that. Does that mean if GST claim is not in our favor, then going ahead we will have to give the GST on DDGS that you make?

Shekhar Swarup: Currently the issue is a little vague. We can give you the detailed note on this once it is a little clearer. It is vague because there is no case that has been brought to us by the department, there is no notice that has been issued. So, we have to wait and see what the department says before we understand the nuances of this issue. As mentioned, this is a voluntary deposit of Rs.8 crores, there is no case, there is no claim, there is no notice as of today.

Ayush Agarwal: Where have we recognized this line item?

Shekhar Swarup: It has not been recognized in Q1FY21 because it did not take place in Q1FY21.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: This quarter basically you did mention that from July 2020 onwards, we are back to kind of optimum utilization level and kind of normal volumes that we are doing. But given the excise impact also, so what sort of revenue decline trajectory, any comment on that for this year FY21 would be helpful?

Shekhar Swarup: As of now, we are actually growing over last year. So that is one data point. Second data point is, of course, one month was practically zero. And the third data point here is that there is uncertainty with regards to the pandemic and the impact of that on market access. So, as a result, I am unable to give you a guidance on what will be the growth this year because I do not know the impact the pandemic is going to have on market access. However, what I can say is that if things continue to remain as they are, then we are growing over last year.

Deepak Poddar: Even after impact of excise?

Shekhar Swarup: Yes, this is net revenue that I am talking about.

Moderator: Thank you. The next question is from the line of Shirish Shankar from JB Arsen. Please go ahead.

(Shirish Shankar): I have got two questions, first of all can you give me an idea of what is the kind of CAPEX program that you have in what kind of segments, etc., going forward? Second, more on the quarterly results, what are the kind of changes or reduction in your sales and marketing that you have actually done in the first quarter in comparison to Q4FY20 or even Q1FY20 of last year? And third one is, when I look at India's brands, etc., there are a large number of products in every IMFL section whether it is in premium whiskey, normal whiskey and vodka, I think except gin I could see everything narrowed. What is the program for actually getting it across to almost all states and also making it more known because I have not seen any of the brands in many of these shops as well?

Shekhar Swarup: Unlike other FMCG companies, there is large share of revenue that goes to advertising costs. In our business, because advertising is basically banned for alcoholic beverages, we do not have any traditional type of advertising that takes place. Our entire strategy for our country liquor or IMIL segments is based on a retail spread and we do a lot of activations at the retail. But, to be honest, that is not a significant portion of revenue to analyze further. When it comes to Unibev, Unibev sales and marketing is really at a nascent stage where products are being put on shelves, we are not in the growth phase, so, there has been zero to very little marketing investments in Unibev up until now. Mr. Rekhi, maybe you could talk a little bit about Unibev and address that question, please.

Vijay Rekhi: I think Shekhar you already alluded to that. We are not in the growth mode, we are basically at the moment in the distribution expansion mode. And therefore, while one can do proactive advertising, we have thought it prudent that let us first have the distribution and thereafter do any promotions, whether is digital, TV or anything else. It is otherwise putting a cart before the horse. I can give you an example, recently, Kia Motors introduced one of their midsize SUV. Big full page advertisements came in Bangalore and all of the cities and they are now coming on television also. But if you go to the dealership, he says, we do not even have the car. So, we do not want to put the cart before the horse.

Shirish Shankar: Why I asked this question is, I agree that none of your liquor brands can be advertised but everything is What should I say a camouflage advertisement, whether it is soda, mineral water, or any kind of things, etc., or any other products, that is the way a lot of advertisement goes. But the key factor is if you are talking about Unibev and the company Globus coming together, how and when are we going to see the impact of this or the benefit of this product in the company's overall turnover and going forward? Though we called it as Globus Spirits which is in the alcohol space, do we remain as a bulk producer or into IMIL which I think is more of a commodity, that is my question?

Shekhar Swarup: As I explained in my opening remarks, we have a hour glass view on the market in India with a very strong volume base in terms of the economy segments, whether it is at the IMIL strength or IMFL strength, but very much in the economy price point. And then there is a premium sort of top end which has sort of very high margins, but lower volume and that is where Unibev operates. So, I would invite you to a discussion on what IMIL is, whether it is commodity or not, and we can have a chat about that one-on-one if you like. But when Unibev will start impacting Globus performance, I think that is a long-term play for us. And like Mr. Rekhi said, we are at a nascent stage right now where we are putting our products on the shelves, some markets have seen even less than one year of operation as of today. So, given time, we will start seeing some impact of Unibev.

Moderator: Thank you. The next question is from the line of Sai Narayanan, an individual investor. Please go ahead.

Sai Narayanan: I have got two or three questions actually. First thing is on the structural changes, which is happening. As we know that the ethanol blending which the government had initiated because of some policy changes, it has given a big boost to the company's revenues and profits in last one or two years as I see having following up the company from 2015 and I am an investor also. So the question is in the context of the government's push on Atmanirbhar campaign, Make in India or the government is giving a lot of thrust on manufacturing, so in this context, are we seeing any structural changes which is happening, which is going to be a big boost not only to Globus Spirits, but also to the alcohol industry as a whole? The second question is, in the context of the raw material cost actually. As we know, the broken rice and the fuel cost or power cost, these are the three major components in the cost structure which is going to have an impact on the margins. So, are we doing anything to reduce the cost of these key components of these raw materials, fuel cost or power? Third one is on the Tiro brand of gin, which we have introduced in the market in the last two, three months back, how is the response for this?

Shekhar Swarup: So, the structural change is exactly what you said. Ethanol offtake, how that impacts our marketplace is that surplus capacities of ENA were flooding the market for the last two or three years. Since the last four quarters, those capacities have moved off to ethanol and as a result, a) there was a catch up on margin, so there was a margin expansion and b), we have control on this margin, so we can pass on our cost increases to customers. I have mentioned earlier, I do not know if margin expansion will continue. We have been seeing margin expansion quarter-on-quarter for the last few quarters. But I do believe that the margin will sustain because we can now pass on costs. So that is the structural change that I have been talking about.

Sai Narayanan: Any other structural changes which is happening, which can benefit the alcohol industry as a whole because now the government is pushing for Atmanirbhar?

Shekhar Swarup: Can you speak about is there some change that you have on your mind? I mean, I do not see any other change that is happening. It is business as usual otherwise. When it comes to reducing costs, well, that is pretty much what we do at Globus. There is complete control on our operations. We run the most efficient grain distilleries in the country. We run it for the longest time in the year. So, we are the only company that is able to run our distilleries for over 350-days in a year whereas the market standard is 330 days. We have higher recovery from grain as compared to other players at about 2% more. So, this is something which is our core, but there is a certain element to cost which is cyclical, which is based on agri inputs and then there is not so much control that we have. But as I mentioned earlier, as a result of the structural change, this becomes not so relevant because now it becomes a pass-through issue for us where any changes in costs will be able to pass-through to our customers and sustain our margins. With regards to Tiro, this is not yet in the market. So, you are very up-to-date I must say on your communication of alcohol brands but Tiro is not available in the market right now.

Moderator: Thank you. The next question is from the line of Nitin Deveriya from Augmen Catalyst. Please go ahead.

Nitin Deveriya: What has been our debt level as on 30th June 2020 for this quarter?

Ajay Goyal: Long-term debt level is Rs.173 crores is the total outstanding.

Nitin Deveriya: If you provide a breakup between short term and long term debt?

Ajay Goyal: Short term is very less.

Moderator: Thank you. The next question is from the line of Krati Rathi from Perpetuity. Please go ahead.

Krati Rathi: My question is about the realization increase which we have seen in the IMIL business. This quarter it was around Rs.399 per case and if you see the last two years quarter-on-quarter trend, we have seen a good improvement. So, can you explain that what is driving this trend and where do we see this going?

Shekhar Swarup: That is a great question. So, IMIL is a very-very important business for us. And as mentioned earlier on top of the ENA realization we make another Rs.10 if we are to make IMIL. So, really at Globus, it is about converting as much of our capacity into IMIL as we can. So, there are two or three reasons for growth in IMIL realization. Number one is that each of our states has a different sort of ex-distillery price of IMIL. Our most profitable state for IMIL is Haryana where rather than Rs.10 we make more like Rs.15 on top of the ENA price. And over the last two quarters, three quarters, we have seen a growth in Haryana country liquor volumes. In fact, Q1FY21, Haryana has been higher than Q1FY20 despite a one month of closure of shops in Haryana. So that is one reason. Second reason is a new category that we have introduced in Rajasthan which I mentioned in my opening remarks which is a 42.8 ABV alcohol; country liquor is usually at about 30% to 33% ABV and this is 42.8. So, it has more alcohol and as a result higher revenue coming from that business. That is the other reason for growth. The third reason for growth is that, typically we find that every two years pricing is revised by every state to the tune of about 10% to 15% over two years. So, every year you expect a 5% to 7% increase in realizations. So, if you add these up, I think you will get to the strength which should continue going forward in the country liquor business in terms of increase in realization.

Krati Rathi: Are we seeing any price increase in the next one year in any of the regions? I believe that Rajasthan, we got some time back, right.

Shekhar Swarup: That is difficult for me to say whether we are expecting price increase. This is a decision taken by the government. I would always say we expect price increase because I need to increase my prices as a corporate sector, but I think the safe thing to assume for a longer term is about 5% growth every year, but coming in spurts of every two years.

Moderator: Thank you. The next question is from the line of Suhas Naik, an individual investor. Please go ahead.

Suhas Naik: Only one question on the IMIL business. You are present in three states, out of that, West Bengal is the latest and we are growing in Haryana. How do you expect these two markets to behave in the next two, three months in terms of scaling up the operations? And your next plan to enter new state, typically how much time does it take to stabilize operations once you enter a new state?

Shekhar Swarup: I will answer both your questions. We have been operating in Haryana and Rajasthan for well over 25-years. Rajasthan of course is a mature market when it comes to IMIL. But that said, with this new 42.8 ABV IMIL, we have seen a resurgence of growth, we have also seen a resurgence of growth in Rajasthan, Haryana and West Bengal because of this hour glass concept that I have been talking about this morning with strong volume growth at the bottom of the pyramid or rather at the base of this hourglass. So, scaling up further is needed, largely in West Bengal where our distribution is limited to maybe 33% to 40% of the state. But as of now, we feel that we should focus on growing market share here rather than going to parts of West Bengal that we are not present; in those parts of West Bengal, we need a second manufacturing facility in terms of a bottling plant due to the geography of West Bengal, especially the North Bengal region. So, as a result, as of now we are going to focus on increasing market share in the southern part of West Bengal. For Globus entering new states for IMIL means setting up distillery capacity. We are not interested in states where we bring in alcohol from outside to bottle there because the margins just do not make sense. The risk/reward is completely not rewarding. So as a result, there are no further plans right now. But to set up a new distillery takes three to four years.

Suhas Naik: In terms of scale up in these three states, how large you can grow say in the next two, three years, any estimate you can give?

Shekhar Swarup: These states are very large - Haryana has 25 lakhs to 30 lakhs case country liquor consumption which is similar to Rajasthan. West Bengal again has about 25 lakhs cases of IMIL consumption. So, the headroom is quite significant.

Moderator: Thank you. The next question is from the line of Navneet Bhaiya, an individual investor. Please go ahead.

Navneet Bhaiya: Just going forward from the previous person's question on IMIL, my question was on ENA. I believe the OMCs have come up with a five-year procurement plan of ethanol, which is double the capacity that all the manufacturers together can produce today in India. So, with that background, how do you see this space expanding and are you also looking at expanding your ethanol capacities?

Shekhar Swarup: Firstly, the data, I am a little unsure about how OMCs double of what is the capacity. So maybe we can talk a little about that data offline, but suffice it to say, if you add up beverage alcohol and a fuel ethanol, there is a deficit of alcohol in the country. So, to that extent, you are right. The five year purchase policy of OMCs is very-very interesting for the reason that they have clarified that they will procure about 450 crores liters going up to 600 crore liters over the period of these five years. Now, that allows companies like Globus Spirits to create a longer-term plan for their bulk alcohol business, it allows new investors to set up more capacities if they would be interested in that. So, that is the impact of that five year policy. Now at Globus Spirits, the ethanol opportunity is very interesting for our surplus states, which is Haryana and Bihar, because it gives us an additional outlet for our ethanol. But on the other hand, our deficit states like West Bengal and Rajasthan, there the ethanol opportunities not so interesting because we make significantly higher realization on ENA by supplying ENA within the state to other beverage players. So, I hope that answers your question.

Navneet Bhaiya: I understand. My understanding is the current production capacity is about 250 crore litres, I may be wrong, but 450 crore liters or 600 crore liters is higher than what the manufacturers can produce, all the sugar companies and companies like yourself. So, are you looking to expand to cater to that opportunity in Haryana & Bihar?

Shekhar Swarup: Let us see. Right now, there is no plan. This year has a lot of uncertainties. I think this year the focus is to consolidate and strengthen our balance sheet and then look at expansion later on. But we are mindful of the opportunities and we will probably take a call on it as the year goes by.

Moderator: Thank you. The next question is from the line of Priyanka Verma from ICICI Bank. Please go ahead.

Priyanka Verma: My question was, we mentioned that ethanol production in this quarter has been 20.4 million bulk litres. Is this ethanol given for the petrol mixing or how it has been used and who are the major customers in ethanol segment for us?

Shekhar Swarup: So that is a bulk segment which comprises of ENA and ethanol. In the ENA segment, our customers are Diageo and Pernod Ricard, the two biggest customers, and there are bevy of other customers as well. And when it comes to ethanol, of course, it is the three OMCs that buy from us.

Priyanka Verma: And the bulk alcohol is what we use for internal consumption as well?

Shekhar Swarup: Bulk alcohol is a segment and within bulk alcohol, the extra neutral and ethanol, ENA is what we use to make drinking alcohol and ethanol is what we use for fuel.

Moderator: Thank you. The next question is from the line of Pranav Gala from iWealth Management. Please go ahead.

Pranav Gala: Just a follow up. So, is it fair to assume that going forward the bulk alcohol side will have a higher growth?

Shekhar Swarup: So, in terms of capacities or rather volume, no, I do not think that volumes can grow too much more, because we are limited by our capacities. But in terms of realization, perhaps, I mean, like I said, costs will get passed through. So, if there are increases in costs, the realization will increase, that may impact revenue.

Pranav Gala: Just wanted to confirm that earlier, our CFO said that the cost run rate of Rs.70 crores to Rs.74 crores is sustainable and not what happened a steep fall which happened in this quarter. That is correct, right?

Ajay Goyal: Rs.70 crores to Rs.74 crores is sustainable, correct.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we take the last question from the line of Sai Narayanan, an individual investor. Please go ahead.

Sai Narayanan: The last question is on the Haryana market, which is the second biggest market for us. So Shekhar, you were earlier saying that because of the policies there is a lot of illicit liquor from the unorganized segment. So, do you see any changes from the government side in the policy front so that we can have significant amount in Haryana which is our second biggest market?

Shekhar Swarup: I do not think there is a need for more policy in India or in any state to be honest, there is plenty of policy, I think it is more regulation and enforcement. So, I think what has happened this year is the policy has been enforced and such practices are being prevented. So, as a result, the recorded market has gone up dramatically. And this is something that I have always maintained that there is consumption in Haryana, but we just do not have access to it for this reason. And as soon as we started getting that access, we have seen our volumes go up. But again, I would like to also say that this is the beginning, we have to see how this sustains over the course of this year. So, that is what it is.

Sai Narayanan: So, regarding Unibev actually, now you are starting own super premium brands. So, do you see strategically will it have any impact when we receive the business from the major players like Diageo or Unibev because they have some conflicting interests?

Shekhar Swarup: No, no, I do not think so. IMFL market is very large. Unibev has a long way to go, let me put it that way. There is no conflict really between Diageo and Unibev.

Moderator: Thank you. I now hand the conference over to Mr. Shekhar Swarup for closing comments.

Shekhar Swarup: Thank you, everyone for your time and participation. Sorry, if there are some questions that got left out. Happy to take them on, please reach out to our IR team or to us directly, and we will be happy to take them. Thank you again and wish you all the best.

Moderator: Thank you. Ladies and gentlemen, on behalf of Globus Spirits Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.