



“Globus Spirits Limited
Q2 FY2020 Earnings Conference Call”

November 13, 2019



MANAGEMENT: MR. SHEKHAR SWARUP - JOINT MANAGING DIRECTOR

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Moderator:

Ladies and gentlemen, good day and welcome to the Globus Spirits Limited Q2 FY2020 earnings conference call. As a reminder, all participant lines will be in the 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. Thank you and over to you!

Shekhar Swarup:

Good morning everyone and thank you for joining us on half year and quarter ended September 2019 earnings conference call. Along with me, we have on the call Mr. Vijay Rekhi, Chairman, Unibev; Dr. Bhaskar Roy, Chief Operating Officer; Mr. Ajay Goyal, Chief Financial Officer, Globus Spirits along with our investor relations team. With the efforts of our strong operations team and positive structural changes in market dynamics, the company has been able to deliver robust performance during the first half of this year.

We experienced highest ever ENA realizations during this quarter up by 27% in Q2 compared to the same period last year whereas ENA prices will track lower in Q3 and Q4 due to softening of raw material prices. We hope to see limited impact of this lower trend on margins. In the next ethanol year starting December 2019, we expect even higher demand of ethanol from OMCs at 5.1 billion liters in the year 2019-2020. This reaffirms the government’s focus towards ethanol blending. Ethanol is being viewed as a key activity by Government of India that helps reduce import deficit, to reduce carbon emissions and increase realizations for the farmer.

Our consumer business experienced seasonal dip along with softening in consumer demand during this quarter. Price hike at Rajasthan for country liquor pegged the realizations up by 7.3% during the quarter. Decrease in packing material cost in Rajasthan helps to maintain contributions as well. We trust that there will be a pickup in volumes in the second half of this year. Along with reduction of debt we have also been able to renegotiate interest rates with banks this quarter. CFO will provide further details around this during his remarks. I now request Mr. Rekhi to discuss developments in Unibev.

Vijay Rekhi:

In states of Maharashtra and Odisha during the quarter, distribution and wide availability being the key focus at the current stage we at Unibev are consciously and consistently expanding our geographical presence. We have so far entered distributed products in nine states and we reaffirmed our aim and objective to enter 12 to 15 states during the fiscal. Team Unibev is diligently working towards further advancing the product portfolio of



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premium and super premium brands. We plan to launch super premium whisky during FY2020. Unibev's marketing strategy has been focused towards digital media and through participating in lifestyle events. During the quarter we participated in various such events and our products received an overwhelming response and appreciation from those who sampled the products. Currently, Unibev is focused on expanding the width of distribution in the markets and it plans to increase spending on digital and other media after approximately 85% of the relevant outlets are covered. Lastly I would like to end by saying branding or brand building requires massive efforts. Once established we will cherish high value for the company with these brands. Thank you. I now hand over and request Dr. Bhaskar Roy to share operational performance for Globus Spirits.

Bhaskar Roy:

Thank you Mr. Rekhi. Good morning and warm welcome to everyone. I will share the operational performance of the company. During the quarter ended September 30, 2019, capacity utilization stood at 86.7% on account of plant maintenance activity during the quarter. IMIL volumes for the quarter stood at 2.71 million cases in Q2 FY2020 compared to 2.78 million cases in Q2 FY2019. IMIL volumes declined to the tune of 2.5% largely on account of seasonality and slight slow down in the market. Average realization for the quarter stood at Rs.380 per case against Rs.354 per case during Q2 FY2019, a growth of around 7% year-on-year backed by price hike at key states.

Franchise bottling volumes were flattish at 0.98 million cases in Q2 FY2020 compared to 1.07 million cases in Q2 FY2019, out of these 0.19 million cases pertain to bottling done by ABD in Rajasthan, 0.19 million cases for bottling in Haryana and remaining 0.60 million cases for bottling done by West Bengal. Bulk alcohol volumes for Q2 FY2020 stood at 23 million liters compared to 22 million liters in Q2 FY2019 whereas bulk realization stood at Rs.54.7 for Q2 FY2020 compared to Rs.43.1 in Q2 FY2019 growth of 27%. On account of higher ENA and higher DDGS realization revenue mix shifted toward manufacturing business at 62% compared to 56% in Q2 FY2019.

Contribution of consumer business during the quarter stood at 38% against 44% in Q2 FY2019. With that I will 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. I will take you through the key financial highlights for the quarter ended September 30, 2019. During Q2 FY2020, the total income net of excise duty was reported at Rs.2,717 million against Rs.2,263 million in Q2 FY2019, a growth of 21% year-on-year basis. Higher ENA and IMIL realizations by 27% and 7% respectively spotted a strong growth in sales for Q2 FY2020. EBITDA stood at Rs.327



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million in Q2 FY2020 against Rs.206 million in Q2 FY2019, a growth of 59% with EBITDA margins at 12% in Q2 FY2020 against 9% in Q2 FY2019, a combination of higher realization and lower packing cost helped the margins expansion.

Profit after tax during the quarter stood at Rs.137 million compared to Rs.28 million in Q2 FY2019. Reduction in finance cost and overall performance enabled a robust growth of 3.86x year-on-year basis. Company's debt has been reduced to Rs.2214 million during the quarter. Our disciplined approach towards debt reduction and principal of maintaining healthy balance sheet can be observed through our improving financial and gaining ratios over the quarter. This concludes my remarks on the financial highlight. 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 Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Sir, just wanted to understand your comments on how would be ENA prices and realizations for us after Q2 and whether we are seeing some kind of topping out within pricing or do you see the gains kind of continue number one, number two Sir just on the Unibev piece just wanted to understand your thoughts about there being concerns about receivables or payments by the vendors whether it is government or private and if you are going to highlight how are we facing issues over there?

Shekhar Swarup: On ENA as I mentioned in my remarks that Q3 and Q4 prices will be lower than Q2; however, we expect to see margins stay at the level of Q2, if not may be little bit lower, but not too much impact on margin. The reason for the prices coming down or softening in raw material prices, which is expected this time of year. Mr. Rekhi could you take the question on the payments?

Vijay Rekhi: I think as soon as the outstandings are concerned all the parastatal companies basically who are involved with corporation are paying within their normal payment cycle, so there is no particular spike; however, there are two states namely Andhra Pradesh and Telangana whose payment cycle beyond the norms agreed and the industry has been agitating about this with development authorities who have assured that they will look into the concerns of the industry and this has to some extent been difficult particularly from the point of view the Andhra government, which has transited from private retail trade to government wholesale and retail trade, but Unibev is receiving payments from both the states and as yet they are little delayed.



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- Avi Mehta:** So, there is some delay on Andhra and Telangana?
- Vijay Rekhi:** Telangana Corporation.
- Avi Mehta:** okay, any concern on private side?
- Vijay Rekhi:** We have actually not supplied to any private parties as of now except that we have opened Maharashtra market last month and payments from the trade are coming within our defined credit policy, we would be opening one and two other states where we will be supplying to private parties and we will take adequate precautions that the payments are received by the company as per its norms.
- Shekhar Swarup:** I like to make a comment here. One of the strategies when we picked out markets for Unibev to launch our products in of course there is profitability and volume, but this issue of payments is one of the most important aspects that we looked at and Mr. Rekhi and the team picked out markets where payments are quite predictable, there have been some delays in Telangana and Andhra Pradesh like Mr. Rekhi highlighted, but broadly our states the places where we are marketing our products payments are quite predictable.
- Avi Mehta:** Essentially that is not the concern at least because that was highlighted by some places impacting new entrants that is why I just wanted to understand?
- Shekhar Swarup:** Not for our markets now.
- Avi Mehta:** Perfect. I will come back in the queue for more questions. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Harshil Mehta from ICICI. Please go ahead.
- Harshil Mehta:** My question is specifically on the margins front, so if I strip out this stock adjustment, so the margin seems to have deteriorated compared to other quarter to 63% somewhere near that, so I wanted to know that I am seeing realization increase in all of your segments, so is there any particular segment, which was impacted the most?
- Shekhar Swarup:** I am sorry your question is which segment is impacted due to stock adjustment?
- Harshil Mehta:** Yes.
- Shekhar Swarup:** Mr. Goyal could you take that please.



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- Ajay Goyal:** The stock adjustments basically there are some ENA stocks, which were there at the end of the quarter, it is basically the inventory, which is salable and it will be sold in due course of time like there was some inventory pileup in the last 15 days or so from excise permission, now that material will be sold out in this Q3, it is a running activity.
- Shekhar Swarup:** Margins is not affected because stocks is calculated at the cost price, so the cost which has been taken in the raw material, etc., is offsetted by the cost of the stock, which is lined there.
- Harshil Mehta:** Right, so if I strip out the stock?
- Shekhar Swarup:** If you have to strip out them the cost of production also.
- Ajay Goyal:** Then basically you have to see add A and B both, cost of material consumed is in the positive and inventory pileup means cost of goods sold will be reduced to that extent.
- Harshil Mehta:** Okay and Sir what is the current ENA realization you are seeing in the market?
- Shekhar Swarup:** It varies from state to state; the current realizations are between Rs.53 and Rs.60.
- Harshil Mehta:** Okay, so the highest one would be in the West Bengal market, is that right Sir?
- Shekhar Swarup:** West Bengal, Rajasthan are higher, and Bihar and Haryana are lower.
- Harshil Mehta:** Okay and Sir regarding your employee expenses, so now this Rs.8 Crores to Rs.9 Crores, it is the new normal now?
- Shekhar Swarup:** Mr. Goyal.
- Ajay Goyal:** Employee basically if you compare as compared to previous, we restarted Bihar in Q3 and Q3 that is why the number looks higher as compared to previous quarters.
- Harshil Mehta:** Your capex guidance for the year?
- Shekhar Swarup:** Just to clarify the employee cost Q2 of 2019 Bihar distillery was not in operations and therefore employee costs were lower, in Q3 of 2019 Bihar facility became operational and therefore employee cost started increasing from Q3 of last year, but by and large there is no further dramatic increase in this number. Regarding capex we are only taking up capex, which is high ROI in nature if we prioritize our cash, which in the following way first is



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debt repayment followed by Unibev requirements and then any high ROI initiatives at Global Spirits, so we expect every year for that number to be between Rs.10 Crores and Rs.20 Crores for high ROI initiatives.

Harshil Mehta: On this debt reduction that you have done in H1 can we expect further reduction in H2?

Shekhar Swarup: Yes.

Harshil Mehta: Earlier I had knowledge that for this fiscal it is going to be like Rs.20 Crores, Rs.25 Crores of debt reduction I think in H1 we have done around Rs.15 Crores - Rs.20 Crores of debt reduction, so can it be like Rs.40 Crores this year or something?

Shekhar Swarup: Mr. Goyal.

Ajay Goyal: The debt reduction largely will happen from next year onwards because we are repaying as per the schedule with the tenders.

Harshil Mehta: That is it from my side. Thank you Sir.

Shekhar Swarup: By largely it is meant large reduction from next year, reduction will continue this year, next year will be even more.

Harshil Mehta: Okay, thank you Sir.

Moderator: Thank you. The next question is from the line of Navnit Bhaiya, an Individual Investor. Please go ahead.

Navnit Bhaiya: This is a followup from the previous person. So I wanted your perspective on the growth of the company from here on, so your balance sheet is pretty healthy with your debt reducing, your capacity in Globus are broadly utilized and Unibev currently is too small to make a difference from the overall company perspective, so what are the other growth initiatives that you would be looking at over the next two years?

Shekhar Swarup: It is a good question. IMIL is a key area for us where we convert our bulk capacities into value added. Haryana and West Bengal are opportunities for us to increase our IMIL business. Rajasthan is good, but growth will be slower there. The other initiatives that we have planned our capacity increases in West Bengal and Rajasthan, these are not large capex, capacity increases, but we can add up to 20% of capacity by debottlenecking and



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adding some equipment, which can help us to use this 20% extra. So in the short term these are some of the opportunities we have. Long term of course Unibev has to give us the growth when Unibev is cash neutral its generating cash then Globus' cash can go into some other activities as well.

Navnit Bhaiya: Okay, fair point, so the short term of the 20% incremental that you are mentioning is that expected to happen this year?

Shekhar Swarup: Some of which has started happening in West Bengal and we will see a full impact of that in possibly Q4 and Q1.

Navnit Bhaiya: Fair enough. Thank you. That is all.

Moderator: Thank you. The next question is from the line of Ravinder Singh, an Individual Investor. Please go ahead.

Ravinder Singh: Thank you. Sir my question is to you Shekhar, so actually while going through the presentation we have seen a dip in volumes in IMIL segment of major states like Rajasthan, Haryana and West Bengal, which contributes significantly to the volume, so do we see any uptick in growth in coming quarters or it would be subdued like what we have seen in this quarter?

Shekhar Swarup: I mentioned this during my opening remarks. There were two issues that happened during this quarter. One is the seasonal dip and every year if you look at our Q2 IMIL numbers, Q2 is much lower than the rest of the quarters, in fact the last two months of Q2 and the first month of Q3, those three months are the lowest country liquor or rather any alcohol consumption period so that will increase, that increases every year last part of the year is much higher consumption. The other aspect is a slightly softening consumer demand that we saw in this quarter and hopefully that will correct in the next quarter or two.

Ravinder Singh: Okay, there is the dip in volumes is year-on-year, so not compared to last quarter, so on year-on-year basis do we see growth coming in IMIL segment in coming quarters?

Shekhar Swarup: Like I said there is a softening in consumer demand as well. We do hope that in second half of the year will be far better than first half, in fact that is given it will be better, but whether there will be growth in the Rajasthan market is something which is difficult for me to say at this point. When it comes to West Bengal and Haryana again Haryana market is a bit of



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challenge. West Bengal market is growing and we are growing our distribution network there as well.

Ravinder Singh:

So last update you mentioned about new brand launches as well in Rajasthan and Haryana, which now getting sold into final counters so how exactly that initiative is progressing?

Shekhar Swarup:

That initiative is growing well in Rajasthan. The products have hit the shelves, we have had a few 1,000 cases of regular business, but again it is a new product and it will take a few quarters for big scale to come into this, it is new product not just for Globus it is a new product for the consumers, it is a new strength category. All in all there are initiatives in place to grow our market shares, but at 30% market share in Rajasthan with 40% or so reserved for the government player the growth in market share is going to be a little bit slower. We are dependent on the market movements there to grow our business so like I mentioned this year Rajasthan is probably going to be flat and growth will should resume from the next financial year onwards in Rajasthan. West Bengal is important for us to grow our country liquor division and we have strategies in place to see even more growth coming in from west Bengal country liquor in this year.

Ravinder Singh:

Okay and my last question is we just need to know the current long-term debt status?

Shekhar Swarup:

Long-term debt as on September 30, 2019 is Rs.186 Crores.

Ravinder Singh:

Okay fine. That is all from my side. Thank you.

Moderator:

Thank you. The next question is from the line of Sachin Kasra from Sean Investment. Please go ahead.

Sachin Kasra:

Two to three questions from my side, one you mentioned that there will be some more reduction of debt in the second half, can you give us some broad sense and I think how much will be Rs.10 Crores, Rs.15 Crores more and secondly you also mentioned that next year the reduction could be substantial, if you could give us some indication for the debt reduction in FY2021 also?

Shekhar Swarup:

Debt reduction basically in H2, it would be somewhere around Rs.13.5 Crores and repayment for the next financial year would be around Rs.40 Crores.

Sachin Kasra:

Secondly there was a mention that incremental the company is looking at very stringent return ratio for any investments, so can you give us what is the benchmark that you are



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keeping for future investments and secondly on overall company basis I think this year we should be around 14%, 15% return on capital, what is our aspiration for the couple of years in terms of return on capital?

Shekhar Swarup:

See as our profits margins grow our returns will also increase the capital deployment within standalone Globus is not increasing at that rate. We are looking at small capex projects low hanging fruits, which can return us 33% at least may be 50% at least. Some projects however are if I may say so for the want of a better word existential in nature such as new power plant so it is difficult to calculate ROI of a new power plant, but suffice it to say without the new power plant we would not be able to operate the facilities in a reliable fashion so it is very difficult to say what is the threshold, ideally 33% would be the threshold, but sometimes we have to take up some projects, which are maintenance capex and ROIs are difficult to compute.

Sachin Kasra:

But on overall company basis you think this 15% return on capital on a company basis can it be like 20% plus in the next couple of years what is your sense on that?

Shekhar Swarup:

We will have to look at our projections and of course you understand that our business is regulated by state governments so policies of state governments is something, which is an important factor in return calculations, but considering now we are diversified into four states we are seeing that good performance in two states is able to give us good results as soon as we see the third state firing performance will increase even further.

Sachin Kasra:

And just lastly on the capex till what level of revenue we will not have to do a major capex?

Shekhar Swarup:

Well that is difficult to answer in that kind of fashion. More capex is determined by our ability to or desire rather to either enter a new state or to increase capacities within our states. Now in certain states that we have present in there are opportunities even today to undertake significant capex and grow our business, but for sometimes the strategy is to support Unibev and grow a business, which can be high value generating after sometime limited capital requirements so that is the priority right now. I mentioned this earlier when someone asked the question once Unibev has reached the cash neutral stage and Globus has surplus cash after Unibev's requirements we will then start being a little more generous in growing our capacities and volumes.

Sachin Kasra:

Sure. Thank you very much and all the best.



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Moderator: Thank you. The next question is from the line of Sachin Pal from MC Research. Please go ahead.

Sachin Pal: First question is basically on the marketing company so how is the demand for the marketing company for ethanol blending, I understand that the new tenders would be coming up at this point of time so if you can just throw some light on that?

Shekhar Swarup: Sure. So OMC released a new tender worth 511 Crores liters, the last tender for the current year which ends in November was about 300 Crores liters so there is a significant growth in demand. It is by the time this year closes it is expected that supply will be about 250 Crores liters or so, so there was a shortfall in supply. Going forward into the next year, there will probably be increase in supply from more sugar been converted into ethanol. When it comes to green ethanol we feel that the supplies will probably remain at same levels as last year so by the end of this year about 15 Crores liters of grain ethanol would have been supplied and we feel that this number should remain within this facility. There is scope for increasing supply of grain ethanol. If prices of grain ethanol were revised further upwards as of now there has only been 50 paise increase in the ethanol prices and we are requesting the OMCs to look at a higher price to get more ethanol.

Sachin Pal: And what is difference between grain ethanol and sugarcane?

Shekhar Swarup: Sugarcane and molasses based ethanol has three different prices for sugar juice B heavy and C heavy molasses and I do not have the numbers with me right now. Grain ethanol is for about Rs.50 to Rs.48 and the others are I think C heavy is similar price and the other B heavy and juice are higher prices.

Sachin Pal: I think you have been increasing for B and C heavy in the recent months?

Shekhar Swarup: Yes I believe so.

Sachin Pal: Okay and you also indicated that the ENA prices could see some softening in the coming quarters and how are the input prices if you can throw some light on that as well?

Shekhar Swarup: So input prices have started tracking downwards already and we hope the strength will continue as all over the country new paddy hits the markets. ENA prices have started moving downwards in anticipation of that so that business is usual.



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- Sachin Pal:** What I understand is sugarcane production has been hit this year and there might be a decrease in sugarcane production so that might again have a gap on the prices so how much correction you anticipate in that context?
- Shekhar Swarup:** Sugarcane production will not affect paddy and broken rice rather broken rice prices, sugarcane production will impact molasses availability, will impact ENA or ethanol for molasses, but impact on broken rice directly is not there.
- Sachin Pal:** Just want to understand the indirect impact.
- Shekhar Swarup:** I do not see any direct impact I am trying to figure one out as I speak. The only impact could be that ENA prices from grain will remain firm because Maharashtra and Karnataka will need to import ENA from other states because there is not enough molasses based ENA available now that will help support ENA prices, but not help support broken rice prices.
- Sachin Pal:** Thank you. The next question is from the line of Hiten Boricha from Joindre Capital. Please go ahead.
- Hiten Boricha:** Sir what is your market share you mentioned the market share in Rajasthan is around 30% or what will be in West Bengal, Haryana and Bihar?
- Shekhar Swarup:** Bihar is prohibition so there is no market for country liquor there. Haryana we have a market share of about 10% and around 2% in West Bengal.
- Hiten Boricha:** Sir did you mention that we are discussing with banks on interest rate right so are we expecting the reduction in interest rate in Q3 itself Mr. Goyal?
- Ajay Goyal:** Yes, we are also further pursuing the banks to further fine tune our interest cost definitely you will see more reductions in the coming quarters.
- Hiten Boricha:** So what was the reduction during Q2 please?
- Ajay Goyal:** During Q2 overall reduction was 100 basis points and we are anticipating at least 25 basis points more reduction in the next two quarters.
- Hiten Boricha:** Next two quarters right?
- Ajay Goyal:** Yes. I am talking about overall average.



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- Hiten Boricha:** What is the current level of utilization Sir?
- Ajay Goyal:** Working capital utilization is below 50% and term loan is all availed.
- Hiten Boricha:** Okay. That is all from my side. Thank you, Sir.
- Moderator:** Thank you. The next question is from the line of Harshil Mehta from ICICI. Please go ahead.
- Harshil Mehta:** I just required a clarification on the long-term borrowings the number is Rs.186 Crores?
- Ajay Goyal:** Yes.
- Harshil Mehta:** I see on the balance sheet long-term borrowing is Rs.148 Crores?
- Ajay Goyal:** But then the loan repayable is within one year. See the full components of the term liabilities, one is basically the repayable within 12 months it is classified under the current liability and the rest is classified into the long-term borrowings.
- Harshil Mehta:** Okay nearly Rs. 40 Crores of reduction in next year?
- Ajay Goyal:** Okay.
- Harshil Mehta:** Thank you.
- Moderator:** Thank you. The next question is from the line of Vijay Ramchandani from Pragya Equity. Please go ahead.
- Vijay Ramchandani:** My question is on Unibev can you share how much revenue and EBITDA we have done in the first six months?
- Shekhar Swarup:** Mr. Goyal can give you that number, but before that I would like to say that Unibev distribution rollout is something that has just begun, and we can start assessing Unibev revenues and EBITDA performance once all markets are sort of stabilized.
- Vijay Ramchandani:** Maybe you can share if we have any internal revenue targets for this year as well as next year?



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- Shekhar Swarup:** We want to avoid giving any forward targets for Unibev, it is a startup, there are issues in rollout that happen, which we are not able to predict. We are very strong on the prospects in Unibev, but at this stage to give forecast is something, which we do not want to do.
- Vijay Ramchandani:** Okay and since we are present in nine states already just wanted to clarify if all our products are there in nine states?
- Shekhar Swarup:** No, so we have Brandy, which is present in two to three states, two Whisky, which are present in all these nine states and another Whisky, which is yet to be launched, which will be launched later this year.
- Vijay Ramchandani:** Okay and can you share which are the other six states that we plan to launch?
- Vijay Rekhi:** We would be in Goa, we would be additionally in Rajasthan and we would be in Madhya Pradesh, Assam and Daman and Diu.
- Vijay Ramchandani:** Okay Sir. Thank you so much.
- Moderator:** Thank you. As there are no further questions I now hand the conference over to Mr. Shekhar Swarup for closing comments.
- Shekhar Swarup:** Thank you everyone for attending call. Please be in touch with our investor relations team at Stellar or with us directly if you have any further questions until next time. Thank you again.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Globus Spirits Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.