"Globus Spirits Limited Q3 & 9M FY-21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 and Nine Months FY21 Earnings Conference Call of Globus Spirits Limited. 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 – Executive Director, Globus Spirits Limited. Thank you and over to you sir.

Shekhar Swarup: Good morning everyone. And thank you for joining us on this call to discuss our operating and financial performance, in the quarter and nine months ended December 31, 2020. On the call today, we have with me, Mr. Paramjit Gill – CEO of our Consumer Division; Dr. Bhaskar Roy – Chief Operating Officer and Interim CFO and our Investor Relations Team, Stellar IR.

Consumption in rural and semi urban areas has continued to drive overall economic growth and as things reach pre COVID levels and beyond, we are likely to see a continued period of growth in our industry as well. The growth focused budget along with the thrust on infrastructure, healthcare and agriculture is expected not only to drive sentiment, but also herald economic well-being, higher employment and greater disposable income outside of the country's major cities will be favorable for our company.

As we have been updating you on the past two briefings, our operations across the board have been quick to bounce back, after the lockdown earlier in the year as consumption returned to normal levels very quickly. We are happy to report another strong quarter of good performance.

While bulk alcohol continues to be the backbone of our business, our conviction to building stronger portfolio in each of our states has begun to pay strong dividends. In the quarter gone by our brands contributed 45% of total sales up from 34% year-on-year. This better quality of earnings coupled with strong operational performance at our distilleries has resulted in better cash flow generation and better margins. Our ROE and ROCE has steadily increased from low single digits in FY18 to 21% and 25% respectively in the nine months ended December 31st, 2020.

Free cash flow has been used to pare high-cost debt and as a result, we have decreased our gross debt from 252 crores in FY18 to 155 crores as of December 2020. The net debt to equity ratio has improved from 0.66 in FY18 to just 0.17 as on 31st December 2020. Free cash has also been used to invest in growing our consumer business as well as our capacities. Another unique position of the company in bulk cash flow is MAT credit that we have generated on account of our power production facility which uses biomass as fuel. As a result of which our effective cash payout for tax stands at around 16% to 17%, which is the lowest in our industry.

Coming to our segment wise performance in our spirit segment:

The government's push on ethanol blending has resulted in expediting a 20% rate of ethanol blending with petrol by five years to 2025. This continued thrust will benefit by drying up surplus capacities of alcohol and giving us greater control on margins in all states. It also enables opportunities to expand our capacities in areas that continue to remain deficit in ENA for beverage and ethanol for petrol blending.

For the quarter ended December 31st, 2020, bulk alcohol sales were a bit lower at 26 million bulk liters as compared to 30 million bulk liters in the same period last year, as capacity utilization in Bihar was impacted in the quarter due to a flood situation in the region. However, currently conditions have normalized and utilization at Bihar has reached well above 90% as well.

In our brand segment over the last few calls, we had explained that the Indian market was shaping into an hourglass shaped market with product development efforts being aimed either at the top where margins are high or at the base where volumes are high, backed with high growth as well. We are seeing this to continue to pan out and our strong presence and product portfolio in both these significantly large segments, IMIL and IMFL, are helping us generate growth across the board. For the company, Rajasthan and Haryana posted strong growth on the back of rural consumption growth and new brand launches in the medium liquor segment, which approximately halves the pricing difference between IMIL and IMFL for the consumer. West Bengal had a temporary dip in volumes due to the change in excise policy. Overall volume sold for IMIL segments stood at 3.27 million cases in Q3 FY21 as compared to 2.88 million cases in Q3 FY20.

Going forward, we will continue to make investments in growth accretive areas as we had updated you during the last call, we are investing about Rs.100 crore in West Bengal for setting up a 140-kilo liter per day capacity plant for ENA and ethanol in the state. This expansion is amongst the lowest cost expansion in the industry and will help us improve our return on equity further. We are in process of expanding our Rajasthan facility from 140 KLPT to 160 KLPT. This is a very low cost but a very high ROE expansion that is expected to be completed by 31st March 2021. Further, we are in the process of examining other greenfield opportunities and will invest judiciously behind both new capacities and our consumer business.

On the Unibev merger, we are hopeful of being able to complete the merger process in this fourth quarter. And this will help us combine our synergies and focus our energies on building a strong consumer business that is well poised to take advantage of the hourglass shaped market. I now request Param to please throw some light on the consumer business segment.

Paramjit Gill: Thank you Shekhar. Good morning ladies and gentlemen, it is indeed a pleasure to interact with you on this earnings call. The consumer business at Globus as you are aware is an amalgam of IMIL as well as IMFL segments. I'll take you through one segment at a time.

Firstly, the IMIL or the country liquor segment:

The country liquor segment has been witnessing a structural shift driven by increasing income in the rural and semi urban markets in the country. As a strong player in this segment, we have been witnessing strong growth across our markets. In-line with our confidence in the future potential of this segment, we are further investing in creating better offerings for consumers of the segment in-line with evolving tastes and are confident that this coupled along with the work that we are doing to strengthen our frontline capability will further cement our position.

Let me share some of the key trends in our bottom markets:

In Rajasthan, we have seen an increase in the market size as the consumer continues to favorably respond to the IMIL segment. Hence the Rajasthan medium liquor that we recently launched continues to see very strong growth. We have been able to benefit from our last product range that occupies a very sweet spot for consumers and accordingly, we have witnessed strong volume growth of around 9% year-on-year to 2.42 million cases. Our market share continues to be strong at over 28% at the end of Q3 FY21 and we are hopeful of continuing to do well here.

In Haryana, which is our second largest market. Here also our sales have seen a significant increase from 0.5 million cases in Q3FY20 to 0.67 million cases in Q3 FY21, registering a growth of approximately 34% year-on-year. As a strongly regulated market, the state government's recent crackdown efforts on the illicit liquor trade have helped tremendously push the quality of sales that is happening at the local points of sale. We are hopeful of seeing this full trajectory continue for the forthcoming quarters as well. This strong increase in sales is also coupled with improving market share that has continued to inch up for three, four successive quarters and now stands at around 9% in the last quarter.

In West Bengal we sold about 0.9 million cases in the last quarter, that is Q3FY21. The average realization in this market has also improved year-on-year. You heard Mr. Shekhar during his opening comments give a quick brief on the short setback which we had because of the change in the excise policy. And we are in the process of having recovered from that. As we have updated you in the previous quarter, we restarted sales in the Delhi country liquor market. We are assessing the situation and will continue to sell if the realizations remain attractive for us.

Now coming on to the IMFL or the premium liquor segment:

As you're aware, our IMFL or premium liquor that is sold through the Unibev umbrella already has an established presence in Pondicherry, Karnataka, Telangana, Andhra in the South and West Bengal, Chhattisgarh, Odisha in the Middle and the East, and Maharashtra, Goa in the West. In view of the pandemic, competition has realigned their strategies and so are we in the same process. Going forward, we will be making sharper choices with respect to prioritizing geographies, brands, basis our right to win, new profitability equations based on recent and expected excise policy changes and the required investments. For now, we are working at marginally expanding our product offering. On the trading side, Unibev primary sales for nine months FY21 stood at 94% of the same period last year, despite retail point of sale not operating fully, and considering disturbed trading conditions due to increase in excise duties by most of the states in the immediate wake of the pandemic.

Our secondary dispatches grew 4% year-on-year in the nine-month FY21. Our existing brands – Oakton and L'Affaire have demonstrated growth in the nine months FY21 over the same period last year. In wake of a challenging trading environment, we've had to ensure that we are prudent with all our investments on expansion. Our product launch of Seventh Heaven blended with up to 21-Year-Old Scotch is on track and this will be introduced in premium outlets in select states based on profits salience. A new three-year strategic plan outlining our vision for our IMFL business is underway and is expected to translate into implementation from around April this year.

With this, I know request Dr. Bhaskar Roy to share operations performance for the Globus Spirits. Thank you.

Dr. Bhaskar Roy: Thank you Mr. Gill. Good morning, everyone. I will now share the operational and financial performance of the company. As discussed earlier, with the opening up of most of our markets and resumption of demand, we had already crossed our peak capacity utilization in the previous quarter. However, the Bihar floods led to some disruptions and caused some loss of revenue in the quarter under review. But on an overall basis, our capacity utilization remained in the +90% range. IMIL volumes for the quarter stood at 3.27 million cases in Q3 FY21 compared to 2.88 million cases in Q3 FY20. Franchise bottling volumes remained largely flat in Q3FY21 at 1.02 million cases, bulk alcohol volume sold for Q3 FY21 stood lower at 25.68 million bulk liters compared to 30 million liters in Q3FY20, on account of impact of Bihar floods as mentioned earlier. The revenue mix between the manufacturer segment and the consumer segment year-to-year saw a change with the consumer segment increasing from 34% in Q3FY20 to 45% in Q3 FY21 on the back of growth in both volumes and realizations.

Let me now walk you through the key financial highlights for the quarter and nine months ended December 31st, 2020:

During Q3FY21 the standalone total income net of excise duty was reported at Rs.3159 million against Rs.3268 million in Q3 FY20. For nine months FY21 our revenue was Rs.8759 million against Rs.8966 million in nine months FY20. The quarterly and year to date net revenues are lower on account of steep increase in excise duty. On a gross basis, revenue grew at about 22% for both Q3FY21 and nine months FY21 on year-to-year basis.

As explained earlier, we were aided by several tailwinds and as a result our EBITDA almost doubled to Rs.703 million in Q3FY21 as against Rs.360 million in Q3 FY20. They EBITDA margins expanded by 1125 bps from 11% in Q3 FY20 to a very robust 22.3% in Q3FY21. This is primarily attributable to higher realization, softening raw material prices and saving on fuel costs. In nine months FY21, EBITDA stood at Rs.1778 million, a growth of 80% year-to-year and accounting for a margin of 20.3%, up from 11% in nine-month FY20. As a result of this, our PAT came in at Rs.403 million in Q3FY21 as compared to Rs.357 million in the previous quarter and Rs.147 million in the corresponding quarter of the previous year. For the nine months ended December 31, 2020, our PAT of Rs.961 million, up 155% year-to-year and translates into a PAT margin of 11% from 4.2% in nine months of FY20.

With our constant paring of debt, a strong focus on working capital management while continuing our CAPEX plan, we believe that Globus is operating from a position of great financial strength that has been arrived at by strong and prudent operating discipline. This concludes my remarks on the operational 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 Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on the restaurant association NRAI recommending that they be allowed to sell premium country liquor. Do you see this happening and even if timeline we expect this could happen? And how does this impact your non-country liquor business?

Shekhar Swarup: Paramjit can you take that one on please?

Paramjit Gill: Yes, I will do that. Hi, good morning Abneesh. So, overall, this is a positive development because, we are significantly large player in the country liquor business, and this will bring country liquor into the fold of being our tradition and bring it to a very high respectable level. And this scenario of projecting local traditional beverages in best restaurants and bars is already happening in many advanced countries in the world. As far as its impact on the premium liquor business is concerned, we are still very, very small player in that market and we do not see anything which is going to create an anxiety so all in all, for us at Globus it's a positive move in a good direction.

Abneesh Roy: So, but do you see this happening, and do you really see customer buying the country liquor in a bar restaurant given he's a very value focused customer?

Paramjit Gill: Large volumes will not happen but you see foreigners will come, tourists will come and this is more to bring the experience out; it is not going to trade in any significant volume, that's my understanding, but foreigners come, tourist come and this becomes part of a one more pit stop that why don't we try what traditional liquor was, and the larger game of this is not additional revenue or the additional business's we will get, it is about bringing pride into what we have traditionally been consuming and using.

Abneesh Roy: Sure, that's useful. My second question to Paramjit Gill again so, daily we keep hearing now new revelation, recommendation, etc., so what would be your take on four key things - one, they are saying that lower end of the liquor should not be allowed to sell at Rs.140 kind of pricing. Second, definitely the government shops will be phased out and private will happen so that I would guess will be positive; third, of course is they are going to jack up the pricing by around 50% today's news. So how do you see all this, is this a big negative for the local players because the bigger two players multinational players they are quite happy about this. So what would be your take on this?

Paramjit Gill: So the way we see at it, at the end of it in every market there is a consumer for every price point. And where I see it from it is always beneficial for the existing business players as well as for the state excise to graduate the consumer by making favorable pricing and duty structures to a higher price point. Major stocking of price points I don't really think is going to be of any significant benefit because there is always that risk of illegal liquid flowing in from neighboring states, that's on the first point.

The move to try and index a little more on private and a little less on government, the larger context is that along with this move, there is also if you notice, an intent to bring sort of a performance driven approach to the government outlets, because there is a contemplation that the government outlets must also have a performance target, which has been missing so far. So what the government is looking for is that, regardless of the outlet being private or government, we are going to expect that this is going to be the minimum revenue performance from the outlet. And they are going to be measured on that, because they find it a little more difficult to try and implement in the government. So the initial indexation is that private entrepreneurs would quickly fall in line, at the end of it will lead to a little added pressure on the outlets to make adequate brands available to make sure any mischief that could possibly be happening has been the way and the consumer start getting more and more brands of their preference and choice, which will help them in turn meet their revenue targets which the government will set for them.

Coming lastly to a third question, which you had pointed out on the increase in pricing. So, I am also surprised by it, I do not have enough details on it at this point of time. But the initial report which indicate that it could be as high as 50% delta appears in a bit of a wrong direction, because Delhi being a poorer state, it would again start inviting the neighboring states liquor illegally. And its early stage for the policy and I'm sure there will be enough interactions and all industry bodies would advocate that this is going to be inefficient for the neighboring states and not necessarily Delhi and let's see, what happens on this one.

Abneesh Roy: Sure, very helpful last question, Rajasthan is a key state. So beer prices have been cut by Rs.30, Rs.35. Also surcharge continues on spirits but has been removed for beer. So what is the reason for this in your view, and could this impact in your business?

Paramjit Gill: So, time-to-time, there is always that play if you would notice across many state policies that, if one segment starts coming under pressure, one of the weapons that the state excise has is to consider if there a substitution of share of throat between the two segments and in this case being beer and IMFL. So, with the beer performance being under pressure, the government has deemed it appropriate to try and soften the purchase power on that for the consumer. As far as we stand, I really don't think it's something which at this point of time, will be on our grid in terms of what affects our business. I really do not see it having a significant impact.

Moderator: Thank you. The next question is from the line of from Prithvi Raj from Unifi Capital. Please go ahead.

Prithvi Raj: The first question is on your gross margin. If I look on a sequential basis, your revenue has declined by 5% whereas your gross margin went up by 3%. What expense you want to implement in a gross margin?

Paramjit Gill: So the main reason for expansion of gross margin from Q2 to Q3 is the further increase in our consumer business, both in terms of realization as well as volume. There have been some marginal changes in alcohol prices, in raw material prices. Year-on-year of course the main reason is a combination of both of these reasons.

Prithvi Raj: If I'm correct, highest share of country liquor versus ENA has been higher margins, that's right?

Paramjit Gill: Yes, and some cost changes as well.

Prithvi Raj: Is it possible for you to give a breakup of say average gross margin for your country liquor and ENA business?

Paramjit Gill: That's a little bit difficult to do that because, it depends on how you price the transfer of ENA or spirits that you move to your country liquor division. But suffice it to say that country liquor is in terms of gross margins, at least 15% to 20% more than ENA.

Prithvi Raj: Okay, that's clear sir. And second question is on your ENA realization for the last few quarters, we have seen it as 52, 53 level which has been flattish or whatever price hikes that we have seen over the last two years, is that completely over on ENA side, or do you know will it be any again further hike in the prices?

Paramjit Gill: I do think that this year, this ethanol supplier year which started on 1st December 2020, there has been a significant growth in ethanol commitments from grain-based ethanol commitments. So in the last ethanol supplier, the ethanol deliveries from grain were 15 crore liters and this year the commitment is 40 crore liters. And this is at a pan Indian level, it's not about Globus and all of this growth is coming from existing capacities. There are no new capacities that have been set up to contribute to this growth as a result, I do think that as time passes more alcohol is going to go away from the ENA market to ethanol and there should be further positive pressure on ENA prices, but as of now ENA prices are stable and we have control on our margins, we are able to pass through cost changes.

Prithvi Raj: Sir one final question, again, on a gross margin level, in the last five, six years company has never crossed 41-42% whereas this year it has it's almost 49% in this quarter. There seems to be a benefit from better monsoon and all, whole sustainable gross margins?

Paramjit Gill: Better monsoon I would not attribute that as the foremost reason for this, there are two significant changes that have happened in the company in the last say 8 to 10 quarters. And this quarter's result is really all those changes coming to effect in terms of our financials. One is the structural change in the spirit balance in the country where a lot of alcohol is going towards ethanol, and companies like Globus are able to because of our capacity in deficit states we are able to increase our margins further over there. And in our capacities in surplus states, we're able to control our margins, and there's been an increase in margins, in fact, there too. And secondly, there's growth in the consumer business, Haryana has been firing, the Haryana market is now at about 25 lakh cases, where some time ago about four or six quarters ago it was around 12 lakh cases a month, if my memory serves me right. So, Rajasthan the launch of medium liquor, which halves the pricing difference between IMIL and IMFL has been a fantastic success for the company. Similar trends we are seeing in Haryana with a new medium liquor product over there. So, it's the work that we've done in all of this, which has led to increase in gross margins.

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

Agastya Dave: Sir, I have two questions. One of them is a continuation of what the previous participant asked you. Sir with this acceleration in government's commitment towards 20% mixing, how will the long-term player pan out now because more-and-more capacities have been announced, and people are setting up or at least planning to set up capacities everywhere. So, will this reduce volatility of prices, or will this increase volatility of ethanol prices, that is my first question. Second question is this year has been pretty disruptive especially the first half and now Q4 onwards will be overlapping some very low base numbers especially on the expenses side. So particularly on other expenses, how should we look at our other expenses going up, over the next four, five quarters are there any major changes that you are planning because of Unibev merger and will you be pushing a lot of ad spend or are there any other fixed costs which will come in with the expansions which we have plan. Thank you.

Shekhar Swarup: Okay. So your first question is about ethanol capacities. There is a plan that's been announced for going up to 20% blending at that level. The country needs another 600 crore liters of ethanol, today there is a deficit of about 50 or 70 crore liters of ethanol. So that entire 600 is deficit even if you assume that today's demand and supplies match, that entire 600 or so is deficit. And those capacities need to come up in India. I don't know whether all 600 are going to come up, I don't know whether 600 will be 700 that will come up. But there is opportunity for a lot of people to set up capacity. The company is also undertaking expansion and is also evaluating one or two greenfield opportunities, I don't see volatility in margins to be there for some time, because the government has fixed ethanol prices, they have even allowed a window for distilleries to purchase grain from FCI; we are not doing that, but there is an opportunity available, therefore there is a fixed margin that the government is willing to give, there are three way agreements that are being signed to secure margins, so I don't see this being very volatile. There will be some states which will be again surplus; Globus's strategy has always been to look at deficit states, deficit for ENA and now deficit for EL and ethanol. And that has been our sort of success factor and, and I wish to say that further capacity, further investment from the company is going to happen, only in the states which are deficit in ENA and ethanol. And that gives us a little more visibility in our earnings.

Agastya Dave: Sir, we'll be overlapping now a low base effects on the expenses side, especially on other expenses, so any major?

Shekhar Swarup: At a consolidated level, Unibev expenses have always been sort of consolidated with our result. So there'll be no change over there. But as our consumer business begins to grow, of course the other expenses section will grow as well, since we have items like freight, advertising, etc., with that, but something that Mr. Paramjit said earlier, we have a low base. We don't see that level of change coming in, in the next quarter or a couple of quarters after that, but over a long period of time, over a sufficiently longer period of time. Yes, as consumer business grows, other expenses will grow too.

Agastya Dave: Right but not disproportionately, right?

Management: What do you mean to say, we would like to?

Agastya Dave: So, not from that point of view, but were there any one-off large expense cuts during the COVID period, which will now start hitting the P&L going forward?

Shekhar Swarup: No, in Q1 freight cost and other expenses would have been lower, but manpower overheads, employee expense, etc., have been the same throughout. We have never had high advertising so it's not like Q1 or Q2 of this year there was no advertisement we have always had very low advertising, but freight expenses certainly would have been very low in Q1, Q2.

Moderator: Thank you. The next question is from the line of Nitin Awasthi from East India Security. Please go ahead.

Nitin Awasthi: First question sir, there is an entity called Globus, which has got permission to set up a grain-based distillery in Odisha, is that an affiliate or our company, or just somebody named Globus again?

Shekhar Swarup: No, that's our company as a matter of process, we keep a few, we keep working on a few states, it's not a project that is approved internally yet. It's not something that we have marked capital too. It's a way of sort of staying ahead on approvals which take up to two years. So currently, we have one other state which is fully approved and ready to receive investment. Odisha is at least two years away from there. So, one or two states we keep taking approvals and having the state ready before taking the decision of investments.

Nitin Awasthi: Got it sir. And apart from this news, over all questions I have today are all news based. So one more news-based question, is the company launching vodka, rum and will the company also launch beer?

Shekhar Swarup: So stepping a little bit on Paramjit shoes over here, but our three-year strategic plan like he said is underway. We are not really in the position to confirm what are the products that we want to launch over this three-year period till that plan is accepted. We don't really have any plans per se in beer, so I hope that answers your question. I don't have anything definitive to say on any of those things.

Nitin Awasthi: Got it. Lastly, sir, UP market has gone gung-ho on country liquor, liquors at the illicit trade completely stopped there, which has opened a very big opportunity for country liquor. So just wanted to understand from you how is that state in terms of, is it a deficit state, is it a surplus state, you could please shed some light on it?

Shekhar Swarup: So, UP is very much a surplus state. UP has far more alcohol than it needs, UP exports alcohol to other states, but on the country liquor and the consumer opportunity Paramjit, you want to talk a little bit about that please?

Paramjit Gill: Yes, thanks Shekhar. So, UP obviously is a popular state and like most markets of North being a popular state. It just drives higher volumes of country liquor and that continues to be an opportunity for players who are considering expanding their horizons. And as far as we are concerned, when we signoff our strategic plan, we will make sure that we have taken onboard all variables that are available to us on all states in India across all segments that we played. So we rest assured that we will prioritize our investments and profit opportunities, including all of them.

Moderator: Thank you. The next question is from the line Hiten Bharucha from Sequent Investment. Please go ahead.

Hiten Bharucha: Sir my first question is on the margin side. So our margin was around 21% in current quarter. So, do you think this margin is sustainable for FY22 or we will go again, back to 17, 18 kind of margin. This is the first question sir?

Management: All our effort to make sure our margins continue to grow. Our margins grow based on two factors; one is higher share of consumer revenue which is what we have demonstrated this quarter 45% over 34% last year. And we would like to grow our consumer share further as time passes. The other is growing our margins on bulk, this is something that we have less control on, it is more market driven but the current levels of margin are very much sort of in our control for the reasons mentioned earlier, because there is capacity that's dried up from ENA, we exist in deficit markets and as a result we have, it's a bit of a seller's market rather than a buyer's market when it comes to the spirit space. So we would very much like to see our margins growing that's what we have talked.

Hiten Bharucha: Okay. And my second question is, like we are investing 100 crores in ENA and ethanol plant and our Rajasthan facility is also increasing which will be completing in March 21 next quarter. So, what kind of revenue growth we are targeting for the next two to three years?

Management: So, a 140 KL per day distillery in Bengal, will give us about 5 crore liters of alcohol per year. If we multiply that by our average selling prices currently, that will give a sense of the growth that's going to come in from there. Consumer business growth, like it was mentioned earlier on this call. We are working on our three-year strategic plan, which will be put into effect in April. And that's when we can talk about how much growth is expected from there. But it should be more than what we have seen in the last one year.

Hiten Bharucha: Okay. Sir and my final question. Sir what will be our tax rate in FY21 and 22 and if you can guide for the CAPEX plan for 21-22?

Management: FY21-22 tax rates will continue at the same level as it is currently, which is about. well effective tax rate is about 16% to 17%. CAPEX plan, we have a couple more opportunities that we have identified. As, I mentioned earlier we have one state that's ready to receive investment. Another person who is on the call spoke about Odisha, that we're working over there. So, it's possible that we take up one more project next year, currently it is not something that we have started work on. And, by the end of this quarter, end of Q4, we will be in a better position to disclose our CAPEX plans for next year.

Hiten Bharucha: Okay, and sir just a follow up final one, what was the average selling price of ethanol in Q3 versus last year?

Management: So Q3 is when the year changed, actually, for ethanol. 1st December of every year is a new ethanol year. So from 1st December, our prices are Rs.41.55. And for the year before that, so you're ending in November 2020. Our price was Rs.47, Dr. Roy is that right 47?

Dr. Bhaskar Roy: 51 and 47, Yes.

Hiten Bharucha: So, 51 in December 20, right?

Dr. Bhaskar Roy: Right.

Hiten Bharucha: Okay, and 47 for November 20, the last year?

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

Pranav Gala: Sir, just one question, I want to understand was on our gross margin. Sir through our channel check, we've come to know that broken rice prices have increased around 10% to 15%. So just wanted to understand how will that impact us going forward, and what can be the sustainable gross margin that we can see?

Management: Thanks for that. Broken rice prices have not increased for us. In fact, for us broken rice prices have been flat Q-o-Q, year-on-year they have come down dramatically in fact, however we don't see this as a very significant factor because, any changes in broken rice prices we are able to pass on to our customers for ENA very quickly, ENA is a month-on-month contract. In case of ethanol, which is a much smaller part of our revenue currently, the prices are reviewed every year based on grain prices, there's a formula that is set. So that moves up or down based on the formula, the current margins on ethanol are secured and on country liquor, or IMIL or consumer, we see sort of price increases happen every two years which take care of the cost increases during that period.

Pranav Gala: Okay. So currently the margin that we have which is 48%, it can be sustainable seeing that IMIL is doing good. And also seeing that the ENA prices are in our hands, because we are in deficit states, is that understanding right?

Management: We are in deficit as well surplus. So Bihar is of course an infinitely surplus state because there's no consumption there. Haryana is a surplus state, Rajasthan and Bengal are deficit, so what a deficit state gives you is a higher margin than a surplus state. Ethanol has ensured a certain minimum margin for even our surplus states and as a result, our deficit states are making an even higher margin.

Pranav Gala: Okay. And at your end you are not seeing any broken rice price increases?

Management: There is no increase in broken rice prices, in fact we have been on the down.

Moderator: Thank you. The next question is from the line of Prithvi Raj from Unifi Capital. Please go ahead.

Prithvi Raj: My question again is on gross margins, this year we benefited from lower sourcing cause and higher ENA prices, to say in a bad monsoon are we in a position to pass on this increase in sourcing cost to our OMC contracts?

Management: Yes. So, the price is set every year, based on and this is why the ethanol year is from December because they have taken into account effective monsoon estimated production of raw materials, etc. So every year, during say August or September the pricing is reviewed and data is collected from various sources. So, there is a fixed margin sort of formula that the government and the OMCs apply to determine what the prices should be for next year.

Prithvi Raj: Got it. Sir my next question was the planned expansion. So is the Bengal expansion on track to come in by July this year?

Management: Yes.

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

Vivek Shah: Sir would you be able to give some kind of revenue and EBITDA margin guidance for FY22?

Management: Thanks and good afternoon, that's a little bit difficult for us to do; we have a lot of work that's underway. We've given a lot of detail about our consumer business, and how we expect it to fare and the reasons for that. We've also given a fair amount of information about the projects and how, what are the margin profiles of our spirit business and our consumer business now, it's difficult for me to really give an indication on what will be the margins next year.

Vivek Shah: Sure. So then from a growth perspective, if I understand that one is the ethanol plant, the CAPEX which we are doing?

Management: Yes.

Vivek Shah: And second is the capacity expansion in Rajasthan, which will come online by March 31st?

Management: Yes.

Vivek Shah: And the West Bengal, distillery with 140 K liter capacity?

Management: Yes, that's the same thing as the first thing you said. So 140 KL in Bengal, 20 KL in Rajasthan plus growth in consumer that is what is on the cards for next year.

Vivek Shah: Okay, and then the second question is that, if I understand correctly your consumer the margin in the consumer business is around 25% EBITDA margin and the bulk is about 15% is that correct understanding?

Management: No, it will be a bit higher than that, otherwise it will be difficult to get to our current levels of margins.

Vivek Shah: Okay, so can you add a color there, that will be the EBITDA margin for consumer versus bulk in Q3?

Management: Dr. Roy do you have that estimate?

Dr. Bhaskar Roy: As already told, because there are a lot of things on transfer pricing happens at what pricing we are costing the consumer business. So, we can always take into granted that from the bulk 15.2%, 20% higher will be in the consumer business.

Vivek Shah: So what is the margin in the bulk is you can give either Q3 or nine months average whatever is available?

Management: If you take it around Rs.16, Rs.17 EBITDA margin on a bulk basis, then you consider that above that there will be 20-25% higher in the consumer business.

Moderator: Thank you. The next question is from the line of Sai Narayan an Individual Investor. Please go ahead.

Sai Narayan: So, I got two questions actually, one is with respect to the West Bengal capacity augmentation. So, we are planning to invest close to 100 crores, so I want to ask actually, what is the current debt level with the company both short term and long term included, and much amount of money we are planning to borrow out of these 100 crores from the bank?

Management: So, currently our debt is about 155 crores; we are as of now not planning to borrow anything for the project, there is an opportunity for us to replace our current loans using a low loan provided by the government for setting up more capacities. So, as and when that is sanctioned, we will take a loan for Bengal but use it to pay off our existing loans.

Sai Narayan: So, this 155 long-term, both long term and short-term debt and for this Rs 100 crores, we are not planning to borrow anything and it is going to be funded through internal accruals right?

Management: There will be no increase in borrowing despite commissioning this project, there will be no increase.

Sai Narayan: So, next question is on revenue so, Shekhar it's three years actually. So, is there any idea when are we going to break-even, any idea?

Shekhar Swarup: So, our strategic plan is underway and, I hope to give you more information on this in the next conference.

Sai Narayan: And actually, we have a softening of raw material prices, which is one of the reasons we are able to build up the margin and in the context of the new form loss actually. So, do you see prices going up or going down, because the raw material is one of the major ingredients right?

Shekhar Swarup: So, firstly I must say that our margins are more under our control now than they were in FY17-18 or any other time before because there is a much lower surplus in the alcohol sort of capacities than there was earlier. Yes, there has been a softening in prices of raw material that has translated to some part of our margins have gone up due to lower raw material prices. And some part of our margins has gone up to higher prices of ENA.

Sai Narayan: So what is the last thing, we are introducing a new brand right Terai Gin brand right. So, I heard that you're planning to introduce in Singapore. So the question I was about to ask is, is there any plans of taking the other brand around the country liquor brand globally?

Shekhar Swarup: Country liquor brand cannot be global, but I will ask Mr. Gill to answer you.

Paramjit Gill: So, in the short medium term, we do not see our IMFL universe, range of brands going global because there is enough work for us to do in the domestic market. Only after that we will explore new possibilities.

Sai Narayan: Building this a new Gin brand will be introduced to India, I do want to understand?

Paramjit Gill: So, Terai has already been introduced in a couple of markets, it has already been introduced in Delhi and the future of Terai also will be part of our strategic plan which we should be in better position to divulge and share in the next call.

Moderator: Thank you. The next question is from the line of Abhinav Sharma from Step-by-Step Consultants. Please go ahead.

Abhinav Sharma: I was just wondering if in case if you can just enlighten us, what could be the major difference between country liquor and IMFL?

Paramjit Gill: Yes, just elaborate on your question a bit Abhinav when you say major differences in terms of offering, in terms of price?

Abhinav Sharma: Both.

Paramjit Gill: So, both go hand in hand - country liquor business at this point of time is the bottom of the ladder of organized legal spirit that is being sold for consumption. Now, obviously over time aggressive business players like us have been augmenting these offerings by improving the quality of the offering, which is a natural consequence across all industries. And if price wise also the IMIL segment, and then the IMFL segment their offerings are far richer in terms of the contents of liquid, the packaging, the overall experience and hence are chargeable at a much more premium rate. So it is just the typical value chain ladder that as the consumer wants a better experience, and a better brand and a product offering and a better portfolio choice, he keeps moving up the value chain. So the value chain is country liquor is at the bottom of the value chain. The next comes IMIL or RML as we call it and then comes the steps of IMFL chain.

Abhinav Sharma: Thank you very much. And I was just hearing, somebody was talking that government is allowing country liquor to be offered in restaurants, it's a whole lot of big opportunity opening up for you?

Paramjit Gill: So, I don't think business wise it is a big opportunity, but it definitely brings a lot of futuristic opportunity in terms of enhancing the image of the segment, because the whole objective to my understanding is to bring pride into what we have been consuming over centuries. And I don't think there's going to be a real volume impact but it is definitely going to be a pride and of course it will become an experiential thing, which probably will get experienced not on a regular basis, but definitely to a wider consumer base. And could have an overemphasis on tourism and may get some good positive hype also around it.

Moderator: Thank you. The next question is from the line of Jatin Arokiya an Individual Investor. Please go ahead.

Jatin Arokiya: Sir, this is related to the sales revenue compared to last year and this year. So, what I infer last year the sale was 328 crore and this year it is 316 crore which is 12 crores lesser than last year, but it was mentioned that the consumer business was up from 34% to 45% which means I was expecting that the sale would have been at 350 or 360 crores, however it is at 316, can you please throw some light so that I can understand?

Paramjit Gill: Sure. The main reason for the dip in revenue is what happened in Bihar there was a flood situation over there, in October our capacity utilization was about 10%. In November it was between 20% and 30% and in December it went above 50%. So, practically for one whole quarter we had very low production, in fact negligible amount of production there and that has impacted revenues.

Jatin Arokiya: Can, I assume that this is not going to happen in Q4, and it will be back to track?

Paramjit Gill: Yes, the flood is gone and we are running at 100% capacity.

Moderator: Thank you. The next question from the line of Hiten Bharucha from Sequent Investment. Please go ahead.

Hiten Bharucha: Thanks for the follow up sir. Sir just sorts of clarification. So, our West Bengal capacity which is commercializing in Q2 FY22 the total capacity is 140 KL right?

Paramjit Gill: The new capacity is 140 yes.

Hiten Bharucha: Yes. So 140 of West Bengal and 160 of Rajasthan our total capacity will be 300 KL right sir?

Paramjit Gill: No, our current capacity in West Bengal is a 110,000 liters per day. Our current capacity in Rajasthan is 140 KL per day.

Hiten Bharucha: Okay, Rajasthan is 140 KL per day.

Paramjit Gill: Current capacity. Rajasthan will become 160 KL per day by 31st March 2021. So, another one and a half months and by around July of 2021, Bengal will become 250 KL per day.

Hiten Bharucha: Okay. And the second question is on bookkeeping side sir, what is it, if you can give the free cash flow generated in nine months is available?

Paramjit Gill: Dr. Roy is that available with you. Dr. Roy are you there, we can get back to you with that number.

Moderator: Thank you. The next question is from the line of M Nikhil an Individual Investor Please go ahead.

M Nikhil: It's regarding the West Bengal market sir, your sales have dropped from around 1.5 lakh cases to around 90,000 cases. So, has it normalized now, and what is the…?

Paramjit Gill: It's in the process of normalizing we are nearly at the 1.5 lakh case number per quarter.

Moderator: Thank you. As there are no further questions from the participants. I now hand the conference over to Mr. Shekhar Swarup for closing comments.

Shekhar Swarup: Thank you everyone for taking out time to join us. Happy to answer any further questions you may have. Please do reach out to us directly or through our Investor Relations agency, Stellar IR Advisors. Thank you again and wish you a good day.

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