"Globus Spirits Q4 FY13 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Globus Spirits Q4 FY'13 Earnings Conference Call hosted by IDFC securities. As a reminder for the duration of the conference, all participant lines are in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on a touch tone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Nikhil Vora. Thank you and over to you sir.

Nikhil Vora: In FY'13 earnings conference call for Globus Spirits, we have with us the senior management team of Globus represented by Mr. Ajay Swarup – Managing Director and CEO, Shekhar Swarup – Executive Director and Dr. Bhaskar Roy – Executive Director. I will hand it over to Ajay to make the opening remarks and then to Dr. Bhaskar Roy to lead on to financials and open the floor for Q&A later on. So over to you Ajay.

Ajay Swarup: Thank you. Good afternoon everyone and a very warm welcome to our Q4 and FY13 earnings call. I will begin by sharing key highlights and achievements in the period, following which Dr. Bhaskar Roy will take you through the financial results.

We are happy to report several positives in both our consumer and manufacturing businesses. Our brands have shown good traction with our IMFL rum brand Hannibal receiving CSD approval and IMIL flagship brand "Nimboo" pushing growth in Rajasthan. We have also successfully increased our capacity, which due to our 360 degree strategy is already operating at high utilizations. We have firmed up our plans for Greenfield expansion into the fast-growing market of Bihar as a first step to tapping the lucrative Eastern states. With the recent investment by marquee international investor Templeton Strategic Emerging Markets of Rs 705mn, we are now fully funded for our next phase of growth into the Eastern market.

Let me now take you through business wise performance: In our consumer business, the highlight in the period under review has been the success of our branding initiatives both in IMFL and IMIL. In IMFL, our rum brand Hannibal saw success with approval for CSD sales. The CSD approval opens up a rum market opportunity of over 5mn cases and is significant as we would gradually apply for approvals for our other IMFL brands. We expect sales to commence in H1'FY14 itself. Our gin brand 'White Lace' has emerged as the third largest in its category in the state of Rajasthan. As mentioned in our previous calls, we are consciously reorienting our portfolio with a clear focus on contributions and have in fact exited the 'cheaper' segment which is reflected in improved realizations but lower sale volumes of IMFL for this year.

Our branding push in IMIL, the largest contributor to our revenues with 46% share, has also shown success. Our flagship IMIL brand Nimboo continues to be a market leader in Haryana with 60% share in clear spirits. This year, we took Nimboo to Rajasthan, where we are replicating the Haryana success. Nimboo's launch has already helped us expand our distribution in Rajasthan where we grew

7.6%, as we opened up previously untapped areas of the state. In fact, it is thanks to the growing strength of the brands that we were able to successfully reduce trade schemes in the period under review. This was possible because of the 'pull' for our brands from the consumer which in turn helped us maintain our market shares above 20% in Haryana. In total, we have built a successful portfolio of 3 mainstream IMFL brands in Whisky, Rum and Gin categories and 4 IMIL brands aligned to regional flavor preferences and are strongly committed to grow them further. During the period, we have also made an entry into the large Maharashtra IMIL market. We have successfully done a pilot run there via a bottling partner. This would help us tap the largest IMIL consuming state in India with a consumption of about 35 million cases per annum.

Our manufacturing has been our underlying strength. We have built one of the largest and the most efficient grain distillery operations in India with highest recovery rates. We are suppliers to premium IMFL brands not only in India but have seen traction with premium brands in the export market as well. The benefits of the 360 degree model were clearly evident in our brownfield addition of 42.2 million litres of ENA capacity at Behror (Rajasthan) and Samalkha (Haryana) where we have been quickly able to reach 85% utilization in the new plants. The quick ramp-up was reflected in bulk alcohol volume sales, which increased by 58%. In IMFL Franchisee business, we entered into a new contract with United Spirits and revived our contract with Jagatjit industries for bottling of their brands at our Samalkha facility. Our IMFL franchisee business took great strides with 52% growth in total volumes.

In a very positive development, marquee international investor Templeton Strategic Emerging Markets has joined us as a partner in our growth. They share our belief that IMIL business has substantial growth potential coupled with attractive economics, especially for a 360 degree fully integrated setup, where one can optimize the opportunities presented by the market. The funding is for greenfield expansion in the fast growing Bihar market. Bihar has a large IMIL market of over 22mn cases growing at 20% annually. The state also faces a shortage of bulk alcohol, with demand supply gap exceeding 50mn BL in FY13. We look forward to implementing our successful 360° business model there. The work on the project has commenced, and we expect commissioning to happen in 18 – 24 months.

We approach FY14 with great optimism; as all our business segments are primed for growth. Our expanded manufacturing capacity will come into full play this year. Our IMFL business is now well focused and on a growth path. We believe we have several niche market opportunities in higher value added segments which we can profitably address. In IMIL, we are building Nimboo in Rajasthan. We will soon expand our coloured spirits offerings in Haryana. Our company is continuously implementing initiatives to increase productivity, quality and efficiency in alcohol manufacturing as well as the by-products chain. We see opportunities in export market for our high quality products. On the cost front, the grain prices have now stabilized and we should see improvement in margins going ahead. I would now like to hand over to Dr. Bhaskar Roy for the overview on our financial performance.

Dr. Bhaskar Roy: Good afternoon everybody. I will share our financial highlights after which we will open the floor for questions. Our Q4 FY13 and full year FY13 financials were impacted by two main events. Firstly, as you are aware, we concluded capacity expansion in our present locations, Samalkha and Behror in second half of FY13. Pursuant to the expansion, we saw an addition of Rs 960 mn to our fixed assets block and this consequently impacted the PAT due to higher depreciation costs of Rs 40mn and higher interest cost of Rs 15mn. Further, addition of fixed assets also led to an increase in deferred tax which impacted the PAT to the tune of Rs 20 mn. The impact of this was seen in Q4 FY13 financials. Secondly, there was an abnormal hike in grain prices as the government opened up rice exports. The grain cost rose from average of Rs1,111 per quintal in FY12 to Rs 1,275 per quintal in FY13. This had a significant impact on EBITDA. While part of the price increase was passed onto customers in the bulk alcohol segment, the same could not be done in IMIL and IMFL segments as the prices are fixed at the beginning of the year. Going forward, we expect raw material prices to remain stable.

Now I will take you through financial highlights for Q4 FY13 and full year FY13 individually:

For Q4'FY13 total operating income was Rs 1,373mn, with EBITDA at Rs 147mn and PAT at Rs 33mn. EBITDA margin declined to 10.7% from 12.8% in Q4'FY12, due to increase in raw material costs. For the full year FY13, total operating income was Rs 5,285mn, an increase of 4.3% YoY. EBIDTA for the year was Rs 741mn, with EBITDA margin at 14.0%, lower than 14.7% in FY12. The decline in margins was due to increase in raw material costs from 59.8% of revenues in FY12 to 61.4% in FY13. PAT for the year was Rs 342mn, with PAT margin of 6.5%, compared to 8.1% in FY12, on account of increased depreciation and interest costs. The effect of depreciation cost as a % of sales will reduce as the expanded capacity will be available for the full year in FY14. We expect interest cost to come down. We have reduced our short term borrowings. Our D/E currently is 0.2 down from 0.4 in FY12. I will now share the segment-wise details.

This year we sold 10.2mn cases of IMIL with average realization of Rs 295 per case, an increase of 6% YoY in realization. Volumes declined from 12.4 mn cases in FY12 due to transient de-growth in Haryana volumes following reduction in trade schemes and increasing competition levels. In IMFL, we sold 352,000 cases. Average realizations in IMFL were higher by 28% this year due to rationalization of cheaper brands. The combined net sales from these two consumer businesses were Rs 3,294mn for the year. In Franchisee IMFL, the aggregate volume for the year was 1.9mn cases, an increase of 52% YoY. The reported franchisee revenue for the year was Rs 1,220mn.

Our bulk alcohol sales increased 58% YoY to reach 38mn BL, with marginal improvement in realization to Rs42.4 per BL. This was mainly due to 42.2mn BL capacity added in the year at existing locations. The revenues from this segment were Rs 1,611mn for the year. We completed a successful equity fund-raising for our Greenfield capex at Bihar. We have raised a total equity funding of Rs 812.2mn in March 2013, the details of which are: 1) Rs 705mn from Templeton Strategic Emerging Markets via Cumulative Compulsorily Convertible Preference Shares route. Allotment of 5.04mn preference shares made at par value of Rs 140 per share convertible into equity within a period of 18 months. 2) Rs 107mn from existing promoter through allotment of 0.76mn warrants at price of Rs 140 per warrant.

Our long-term debt as on March 31, 2013 was Rs 329.7mn, Short-term debt was Rs 491.6mn and cash was Rs 312.3mn. Thank you once again for joining us on the conference call. We will be happy to answer any question that you may have now.

Moderator: Thank you very much. We will now begin the question answer session. The first question is from the line of Harit Kapoor from IDFC Securities. Please go ahead.

Harit Kapoor: Just had few things, firstly just wanted to know what is our IMFL strategy for next year, we have seen this year volumes actually come off but you have spoken about entering the CSD market as well as growing a whiskey and gin brand, so just wanted to know do we have a volume target for next year in terms of the IMFL business?

Shekhar Swarup: Yes thank you very much for that question. Our IMFL strategy for the current financial year is to retain our growth in the higher value added segments which is mainly the regular category**,** as also to add high value premium brand in the market. As far as volume targets go, our volume targets are based on the markets where the regular brands have been successful and do not include the cheap brands that were part of our portfolio last year. We expect to maintain total sales that we achieved last year within the regular brands that we have. And as far as the premium sales are concerned, those will be small and will come in towards the second half of this financial year.

Harit Kapoor: What is our capacity utilization currently in terms of we have added certain capacities, just wanted to know what our current capacity utilization is and what do we see that in FY'14?

Ruchika Bansal: In FY'13 that is the year gone by, our capacity utilization within the operable capacity that we had was about 70% and for the current year we should be looking at somewhere around 75-80% based on operable capacity. When I say operable capacity, we are not including certain of our RS capacity, which is running on an old technology.

Dr. Bhaskar Roy: The production we are expecting should go up from the last year's level to the current year of bulk of around 20-25%.

Harit Kapoor: Okay so what would be the total capacity utilization as in, in terms of our capacity would be utilized in terms of million liters currently?

Dr. Bhaskar Roy: Our present capacity is, we will offer a capacity of 92.6 million liters it is out of 120 million liters and out of that we will achieve at least around 80% of the capacity.

Harit Kapoor: Sir next thing just I wanted to know in Maharashtra when do we see, you said the plant would take 18 to 24-months right?

Dr. Bhaskar Roy: Not Maharashtra, in Bihar.

Harit Kapoor: Okay in Maharashtra when do we see the business starting?

Dr. Bhaskar Roy: Maharashtra we have already started with sales of country liquor through franchise modes and we have done initial pilot projects wherein we have already sold around 9-10 thousand cases last year. We will continue with the franchise arrangement in this current year. Last year, we started selling only in February and March, so this year we will have a full year.

Harit Kapoor: And it is under same brands that we have.

Dr. Bhaskar Roy: Yes same brands Nimboo and others, which we are doing in Haryana.

Shekhar Swarup: I just want to come in here, the important thing for us is that this is the first time an IMIL player is using the franchised bottling route to market its brands in this segment. It is low risk start for us and we are only opening up our brands for sales in limited markets situated in Maharashtra. Once we have some traction in this we would be able to report more concrete targets for the period to come.

Harit Kapoor: Also I just wanted to understand on the Bihar Greenfield expansion, what is the capacity that we are putting up their which you said will take 18-24-months?

Dr. Bhaskar Roy: We are putting up 65 KLPD ENA plant with a bottling of around 2 to 3 lakh cases per month.

Ruchika Bansal: 65 KLPD roughly translates to 20 million liters per annum.

Harit Kapoor: Got that, just also on your RM, I just wanted to understand you have seen this huge increase in grain prices, I just want to know what the average was for Q4 and how is that looking right now?

Dr. Bhaskar Roy: At the start of last year, prices were around Rs. 1100 per quintal. We ended with around Rs 1,450-1,480 per quintal but the good thing is that for the last 4-5 months the prices are hovering at the same range. So, we are feeling that the worst is over and the prices will remain steady at this level.

Harit Kapoor: Okay what is the procedure for us to get the price increase in our key markets; has that already come in?

Dr. Bhaskar Roy: In the bulk spirit segment, we fix the prices every month so there is a chance of passing on at least part of the increased cost to the finished product. But in case of bottled products like IMIL and IMFL, the prices are fixed in the beginning of the year. So, in the middle of the year if there is a disruption we have to absorb it. Now in this year we have received price increases in two states, Haryana and Delhi. In Rajasthan as it was an election year, we have not received any price increase.

Harit Kapoor: Okay what would be the quantum in Haryana and Delhi that we would have got?

Dr. Bhaskar Roy: Haryana we got Rs. 30 and in Delhi we got Rs. 22.

Harit Kapoor: Okay sir lastly just wanted to check on your bulk alcohol business, initially we got a new contract with United spirits and you have renewed your Jagatjit contract so just wanted to know for what market and how much capacity is this, what will we be operating for them?

Dr. Bhaskar Roy: Actually this year we have done franchise volumes of around 19 lakh cases. Next year our target is that this should, at least, grow by 50% with the current contracts in hand.

Harit Kapoor: That will be led by these two?

Dr. Bhaskar Roy: That will be led by Jagatjit and USL. To provide a boost to the franchisee business, we are adding bottling lines and bottling halls so that we can accommodate higher volumes from them.

Harit Kapoor: Sir if you could just finally help me with what our CAPEX number is for FY-'14, what is was the '13 and what is it going to be for '14?

Dr. Bhaskar Roy: For '13 there were certain opening figures of capital work-in-progress, because the projects were going on and at the year end, we have capitalized around Rs 96 crores**.** In the current year, apart from the Greenfield project, we have plans for expansion in the current distilleries, where we will spend around Rs 20-25 crores. This includes maintenance capex plus additions in the bottling lines, additions in the spirits storage**,** etc. The major investments in the existing distilleries are over for the time being.

Moderator: Thank you. Next question is from the line of Madresh Shah from M Capital. Please go ahead.

Madresh Shah: Last year you had reduced your cheaper brands sales quite drastically, of course this has increased realizations. This year do you plan to continue to reduce the cheaper brand sales even more?

Dr. Bhaskar Roy: We have already discontinued the cheaper brands and we are only concentrating on the regular brands.

Shekhar Swarup: Part of the sales that we have reported for last year includes sale of cheap brands, as the decrease in sale of these brands happened over the course of the year. As we start the new financial year in April, we do not have any cheap brands business and all business that we will have in the current financial year, will be that of higher value added products.

Madresh Shah: Okay so this should lead to further realization growth as you discussed earlier I assume?

Shekhar Swarup: Yes this should lead to further improvement in realizations.

Moderator: Thank you. Next question is from the line of Sachit Khera from Smart Equity. Please go ahead.

Sachit Khera: I was just looking at your presentation and I noticed that the realization of the bulk alcohol segment has increased from 41.8 to 42.4. Could you just give me a few thoughts on that because considering the inflation rates how does this realization work?

Dr. Bhaskar Roy: It does not depend on the inflation rate, it depends on the market situation. It depends also on the surrounding market. We primarily make alcohol from grain. In Haryana we are surrounded by 2 states - Punjab and UP. In UP, the spirit is available from molasses, so now that the molasses spirits is cheaper than grains spirits, we have to match our price such that bulk alcohol consumers in Haryana buy only from within the state.

Further, now that we have expanded the capacity we are increasing our focus on exports out of India and we are continuously looking to tap new markets for offtake of our bulk alcohol product.

Sachit Khera: Yeah because I think going forward the bulk alcohol segment should increase considering increased capacity rate. And this realization is net realization I mean net of excise duty

Dr. Bhaskar Roy: Net realization in bulk spirit, there is no excise duty at present.

Sachit Khera: Okay and for Q4 I am sorry I was not completely about to hear the exact reasons for the decline in sales for Q4.

Dr. Bhaskar Roy: The sales have not declined as much. Actually the profit has declined. Sales in bulk spirit was 105 lakh BLs in Q4 FY13 whereas sales in Q4 FY12 was 85 lakh BLs. In the IMIL segment there was a decline of 7 lakh cases from 31 lakh cases to 23 lakh cases.

Sachit Khera: Yes, I was talking about IMIL.

Dr. Bhaskar Roy: In IMIL, in Haryana there was increasing competition in the market; we were not giving any rebates, etc., which our competitors were doing. To keep the bottom line steady, we decided to refrain from these tactics and that is why our volumes shrunk to some extent.

Sachit Khera: Sir, has this phenomenon increased considerably in Q4 because I do not think there was this much effect in the other 3 quarters?

Dr. Bhaskar Roy: Yes, impact was higher in January-February-March, though it has improved to some extent now.

Sachit Khera: Okay and you feel that going forward this trend should either reverse or subside because ultimately, this is one of your very key markets right? I mean do you have a strategy in place or do you think this phenomenon is temporary and it will just fizzle out?

Shekhar Swarup: There are two aspects to why the decline in sales happened. One aspect is that our flagship brand 'Nimboo' is a White Spirit or a clear spirits brand. Within Haryana, there has been a degrowth in the White Spirit segment. Sales has increased in the Dark Spirit segment as well as growth has happened there.

Sachit Khera: Pardon me, you will have to help me out because I do not know the difference between White Spirit and Dark Spirits.

Shekhar Swarup: It is the color. White Spirit is a clear spirit, it looks like Vodka and Dark Spirit is a Whisky or a Rum colored spirit. Essentially, that is it. Now, what happened was when we launched Nimboo it was a new brand and we were giving some discounts, some schemes to enter into the market. It was our strategy that by creating consumer pool, after about 12 or 18 months of launch, we would retract those trade schemes. We were aware that this would lead to decrease in sales but we believed that lesser sales with higher margins would be better than continuing to give schemes and damaging the brand's profitability. In spite of reducing the schemes, we have held on to a significant market share of the White Spirit segment, that is one aspect. The other aspect is entering the dark spirit market within IMIL market of Haryana. We have planned a branch launch in this financial year which is going to cater to that segment. And with the success of 'Nimboo' and with our experience in the market over the last few years, we are very optimistic about the success of that brand.

Sachit Khera: Just one more future-oriented question, like you are focusing on the premium IMFL brands and considering that Franklin Templeton has just invested, do you see more international tie-ups or any niche international tie-ups in the segment? Do you feel that there would be certain foreign players that you might tie up with use their brand names?

Shekhar Swarup: In the premium IMFL business, there are two ways of entering. One is to create a brand story ourselves, and the other is to borrow a brand and story from an already established player. If we look at global scenario and as well as the Indian market, most of the popular global brands, if not all, are already present in the Indian market, and therefore, if a tie-up is to take place, it will be with a brand which is to be unknown in India and maybe even niche or a boutique player elsewhere in the world.

Sachit Khera: But do you not have any such plans as of now?

Shekhar Swarup: We do have. We are looking for players which we can create a tie-up with. But the expectations of the player have to be kept in mind, as the brand would be almost like creating a fresh brand for the Indian market.

Sachit Khera: Lastly, just one more question, considering the margins going forward, do you have any kind of guidance for next year? Obviously, the RM prices can go anywhere as it is what you pointed out but broadly speaking if RM prices remain stable, do you have any guidance going forward?

Shekhar Swarup: There are a few decisions that we have taken for this year. One is the new brand in IMIL, the other is the premiumization within the IMFL. This is sort of branded business. And for the bulk business, there are a couple of things which are unsettled. No. 1, how the fuel ethanol story is going to pan out. That would change the face of fuel ethanol business and especially for ENA manufacturers, and secondly, how the export business will shape up. Over the last few quarters, we have achieved moderate success in selling our product for manufacturing of premium brands elsewhere in the world. These few initiatives will drive our profitability for the current year. In terms of specific guidance, it might be difficult for us to give one at this stage, but certainly, we do attempt to retain the profit margins we are at today.

Sachit Khera: That is ignoring the current year's dip in profitability or even considering that?

Dr. Bhaskar Roy: Like Shekhar ji mentioned, margins will improve if ethanol blending is implemented. Otherwise, in the present raw material situation, margins will remain at the same level as last year, i.e., FY13.

Moderator: Thank you. The next question is from the line of Lalit Khanna from Smart Equity. Please go ahead.

Lalit Khanna: I just wanted to know, what is the latest position regarding CSD in terms of top line and bottom line expectation in the current year? And also in terms of gin and wine that you have established reasonable presence, what is the likely contribution at the PAT and the topline level?

Shekhar Swarup: CSD is a new launch for us, we have not yet started sales, we hope to start sales in the second half of the current financial year, and we will start off with minimum orders of about 30,000 to 50,000 cases for the year and the real impact of this business is going to happen from the next financial year when we have a full operating year as well as some secondary and tertiary sales start taking place. As far as White Lace Gin in the state of Rajasthan is concerned, the IMFL business contributes to about 10% of our top line today, and within that, gin contributes about 33% to total IMFL sales.

We do not have wine business in Globus Spirits at all.

Lalit Khanna: Bottom line, how much contribution it might make?

Shekhar Swarup: The IMFL business is young and in that sense we do believe that we are breaking even, but contribution to the net bottom line is difficult to expect from these brands as of this stage.

Lalit Khanna: In terms of raw material cost which has gone up significantly this year, do you expect it to be stable in the current year?

Dr. Bhaskar Roy: It is expected to be stable because last 4-5 months it is hovering around the same price. So, we feel that the prices will remain steady at this level.

Lalit Khanna: The ability to pass on the increase in prices, how much is that?

Dr. Bhaskar Roy: Last year, the average price increase in grain was around Rs.200, but if you see the minimum and maximum it was around Rs.400. That increase has already happened and now the prices are at the January levels.

Lalit Khanna: What is the process in terms of the licenses in the other two states, Orissa and West Bengal that you are anticipating?

Dr. Bhaskar Roy: We have license in Bihar and Jharkhand.

Ruchika Bansal: The plan is that we will start with Bihar and then we will see regarding the rest of the eastern region.

Lalit Khanna: From Bihar, you expect some contribution 12-18 months down the line?

Ruchika Bansal: 18-24 months.

Lalit Khanna: Subsequently from the other two?

Dr. Bhaskar Roy: Yeah.

Lalit Khanna: Or it could be parallel also?

Shekhar Swarup: East India opportunity is significant. All the states have huge deficits of bulk alcohol and there is huge growth in the consumer facing products. We are starting with a project in Bihar, as we see a stable government there and to that extent state incentives for setting up new industry. Going forward, the plans of the other states will be based on the progress of this project.

Moderator: Thank you. The next question is from the line of Kailash Gandhi from Wallfort. Please go ahead.

Kailash Gandhi: Good afternoon, sir. Would you please give me your outlook on IMIL market vis-à-vis IMFL market in terms of volume, growth in next 3-5 years?

Ruchika Bansal: The IMIL market is already larger than the IMFL market. IMFL is about 250 odd million cases and IMIL is slightly more than that. And IMIL, when you look at it you have to look at it in terms of different states. Some of the states have already progressed and they are very mature, and when we look at states like these, we are talking about Haryana, Rajasthan, etc. where we feel that the growth will be more moderated and then there are states like Bihar, West Bengal, i.e., the entire eastern region where the growth right now is in excess of 15-20%. Over the next 3-5 years, even this growth number would moderate, but having said that it would still be very strong let us say in double-digits. While the IMFL business has been growing at double-digit rate and in the last few years, this has grown at a fairly higher percent, I believe of about 12-13%, this has now started moderating. We believe over the next few years, there are opportunities both in the IMIL segment and the IMFL segment which we can pursue.

Kailash Gandhi: There is a conversion of IMIL market into IMFL market which will give an IMFL market a better chance for growth rate as compared to IMIL market?

Shekhar Swarup: I am so happy that you asked that question. IMIL and the IMFL markets have to be looked at independently. The IMIL is not a cheaper version of IMFL and IMFL is not an expensive version of IMIL. IMIL, the flavor attributes of the business are very different, the consumption pattern are very different. IMFL is a more social beverage, it is a whisky or gin or rum and IMIL on the other hand is indigenous fruit flavors or indigenous spices that flavor the product. The way this is consumed is very different. You do not use mixers for this product, you do not have bars where you can consume this product, and of course, this is consumed by a very different SEC**.** The price point of IMIL is about Rs.25 vis-à-vis the lowest IMFL is at about Rs.50. That jump is a very large jump to substitute regular IMIL consumers' consumption. Be that as it may, there are IMIL consumers which consume IMFL as well and IMFL consumers which consume IMIL as well. As there are tea drinkers that consume coffee and coffee drinkers that consume tea. But the two beverage types are very different from each other.

Kailash Gandhi: Really great answer to understand the difference between both, but just one more clarification on the same part, is that due to the per capita improvement in the people, their aspiration for getting better, is that all factors or growth factors of India, will dent the IMIL user to move towards IMFL user, is it that sort of any study had been conducted or is there any scope of doing that, is that assumption correct?

Shekhar Swarup: I would like to add that as the IMIL consumers gets wealthier, would like a better IMIL as he would like a better IMFL. Like I said that IMIL consumer will continue to consume IMIL the way he does. And as he has more money to spend he might insist on getting higher end IMIL, more expensive IMIL. As it is a very different product, if he wants to switch to IMFL, that is a very different decision he will be making in his consumer behavior. So we should look at both these segments differently and not one as a substitute for these.

Kailash Gandhi: It is basically understanding that IMIL is sort of country liquor and country liquor is a product which is having a lower quality sort of stuff. General presumption means perception of the people I am talking about, I maybe wrong on that, but good you have clarified, I got a fair idea about IMIL and IMFL vis-à-vis and their growth path.

Moderator: Thank you. The next question is from the line of Syed Jaffery from Ivy Ventures. Please go ahead.

Syed Jaffery: I basically have three questions. On the first one, earlier you had mentioned about operating capacity. Just to put a number to that. What is your total installed capacity and what is your operating capacity on the expanded amount right now?

Ruchika Bansal: The total installed capacity currently is about 126 million liters and this includes all the old capacities pertaining to rectified spirit which use the atmospheric technology and new ones as well which use multi-pressure distillation. Out of this total capacity of 126 million liters, approximately 90 to 93 million is what we would be using in the current year. The balance pertains to rectified spirit which is older technology, higher cost of production and hence we are not looking at it at least in temporarily.

Syed Jaffery: So when we say we will look at 80% utilization, we are looking at 80% of the 93 million?

Ruchika Bansal: Yes, that is correct.

Syed Jaffery: On the country liquor IMIL segment, if I look at last year you have done roughly 12.5 million cases, this year the number has come down to roughly 10, 10.5. The last quarter that is fourth quarter has been a further decline, now your quarterly run rate is about 2.3. Just to get some sense, given the fact that this is the largest segment in your business how do you see growth panning going forward, is there any structural reason why growth has been coming off even if I look at for the last 2, 3 quarters or are we reaching a point where there could be some growth that will come, how should we think about IMIL segment going forward in terms of growth?

Shekhar Swarup: IMIL segment in Haryana has come off as I had explained earlier. One is that we are present largely in the White Spirits within IMIL in Haryana and over the last 12 months there has been a trend of shifting from white spirits to brown spirits within IMIL and also the growth of IMIL is happening in the brown spirits. Secondly, our IMIL presence in Rajasthan has grown. So this decrease has happened only in Haryana. Secondly, the reason so far there has been a decrease in Haryana sales, is because of increasing realization within Haryana. We had in our strategy invested money behind brand building of IMIL and with the conscious decisions after 12 or 18 months of launch we would ease out the incentives driven to the trade for pushing our product. And that has led to a certain decrease in sales. We have been able to control a large part of White Spirits margins, which is at about 60% market share of the White Spirits market in Haryana. Going forward, our growth strategy is two-pronged. One is brand building and brand innovations within our existing markets and the second is addition of new IMIL markets. In Globus Spirits, our strategy is to become the country’s only pan India IMIL player, which is a steep challenge for us and we have started going down this road by creating a franchise business in Maharashtra as well as investing certain money in the state of Bihar which is a high growth IMIL market. As far as innovations of brand are concerned, we will see a launch of the products that is brand in Haryana, which after our success of 'Nimboo' we are very optimistic about. And secondly, the launch of 'Nimboo' in the state of Rajasthan as well. We have launched this product a couple of quarters ago in Rajasthan and that has helped us to open new markets within Rajasthan where previously we had not been able to have much success with our Rajasthan brands. So going forward, we are optimistic about the IMIL market, in fact, it is because of our position of dominance in IMIL and our understanding of that market, Templeton agreed to back our IMIL story for funding for our new IMIL projects and propelling the entire 360 degree business in East India.

Syed Jaffery: Just want to understand, after reaching the 12.5 million cases in FY12, from the Rajasthan market and the Maharashtra market that we are kind of exploring now, by when you think, FY14 would be the year or by FY15 we should be able to get back to that previous peak?

Shekhar Swarup: That is a very good question. Our targets for sales for Rajasthan and Haryana are quite aggressive internally especially considering the launch of the new brand in Haryana and we are hoping to make up on some of the losses in the current financial year. It will be difficult for me to tell you by which date we will be able to recover all of this, a lot of it is based on some of the new initiatives. Certainly to expect Nimboo on its own to regain all of that loss ground is difficult. As I explained to you that the share of White Spirits in Haryana has gone down and share of Brown Spirits has gone up. Maybe in the next call we should be able to update you about our new initiatives and how they have panned out and give you a more concrete timeline as to by when we will be able to make up that license.

Syed Jaffery: On the Bihar expansion, early in the call you mentioned that it is basically a 20 million litre Greenfield capacity that you are setting up. Now, the capacity that you are setting up, what is the total CAPEX that will be required?

Dr. Bhaskar Roy: It will be around Rs 80-85 crores.

Syed Jaffery: So the recent fund raising that we have done, basically we are planning to fund the whole project just through equity, is my understanding correct?

Dr. Bhaskar Roy: No, we have other plans in hand as well. As I have already mentioned that in the present set up, we are expanding our bottling capacities in existing locations. We are also planning to convert one of our by-products, DWGS, which is being used for cattle feed, to DDGS to improve our realizations. So, there have been certain funds allocated towards this. We have allocate certain funds for the higher value added IMFL products planned for launch later this year. Taking all these into account, we will have to raise debt, not exactly now, but at the end of the year, depending upon the progress of the project.

Syed Jaffery: So the Bihar project would have debt-equity of 1:1 or 2:1, how much are you looking at, have you decided?

Dr. Bhaskar Roy: We have decided at least 65-70% will be from the equity side and 30% will be from the debt side.

Moderator: Thank you. The next question is from the line of Sachit Khera from Smart Equity. Please go ahead.

Sachit Khera: Just a follow up question. You were mentioning something about the new products and new initiatives taken, right?

Shekhar Swarup: Yes.

Sachit Khera: I understand that you have a 60% share in Haryana in the White Spirits space, right?

Shekhar Swarup: That is right.

Sachit Khera: You mentioned White Spirits were losing ground to the Dark Spirits. So do you plan to just change the color or something like that? What kind of new initiatives are we talking about here?

Shekhar Swarup: Just change the color and retain the brand is something which is impossible, change in the color changes the entire positioning of the brand, very similar to if you had a vodka brand, we could not make it a whisky brand straightaway. So, we have planned a new brand in the state of Haryana. It is an entirely new blend which we have created for that brand. And test marketing would start from the current quarter. Full launch will be done by the next quarter of the current financial year.

Sachit Khera: And in Bihar, the Greenfield expansion that you are planning, do you have first mover advantage, or are there already quite a few existing players?

Shekhar Swarup: In Bihar, there are a few distilleries which are set up, but those produce ENA from the old technology which gives them a higher cost production. So we would have the first grain distillery that will be setup there. Number two, the market over there is different, there is a very large deficit in ENA production, so there is scope for more players to co-exist. That is on the bulk side. On the IMIL side, there is no organized IMIL player which is offering a branded product to the IMIL consumer in Bihar similar to Rajasthan and Haryana perhaps a decade ago. When we started focusing our efforts of branding IMIL in that state, that was to differentiate ourselves as an IMIL player not a country liquor player.

Sachit Khera: And has the land acquisition already commenced? The project has commenced that much, Mr. Roy communicated to us.

Shekhar Swarup: We hope to acquire land by the end of current quarter.

Sachit Khera: About the remaining capacity, I believe that there is somewhere in the line of 27 odd million liters of capacity which is based on the old rectified spirit technology.

Ruchika Bansal: About 30 million.

Sachit Khera: I think there was somebody mentioning how you plan to change that or something like that. I was not able to hear that.

Ruchika Bansal: We did not mention anything about changing the capacity itself.

Sachit Khera: So that will just remain a dead capacity…

Dr. Bhaskar Roy: Because the rectified spirit is not required in state of Haryana, demand is not there. In Haryana, both IMIL and IMFL are based on ENA. Rectified spirit is required outside Haryana. For that we are trying to lobby with the government and request the government to reduce the export fee. If the export fee is reduced, then we will be at par with the existing states of U.P., etc. and can compete in the outside market.

Sachit Khera: And it will only be then the differential operating cost to you, I mean the marginal cost…?

Dr. Bhaskar Roy: Then we will be at a playing field and we can start making RS and exporting outside the state.

Moderator: Thank you. As there are no further questions, on behalf of IDFC Securities we thank the management of Globus Spirits and all the participants on the call. Thank you for joining us and you may now disconnect your lines.
