



“Globus Spirits Limited Q4-FY14 Earnings Conference  
Call”

**May 30, 2014**



**MANAGEMENT: MR. SHEKHAR SWARUP – EXECUTIVE DIRECTOR, GLOBUS SPIRITS LIMITED**  
**DR. BHASKAR ROY – EXECUTIVE DIRECTOR & CFO, GLOBUS SPIRITS LIMITED**

**MODERATOR: MS. RUPAM PRASAD – ANALYST, FOUR-S SERVICES PRIVATE LIMITED**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Globus Spirits Limited Conference Call hosted by Four-S Services Private Limited. As a reminder, all participant lines will be in the listen-only mode. 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 '\*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Rupam Prasad of Four-S Services Private Limited, thank you and over to you ma'am.

**Rupam Prasad:** Thanks Vivian, good morning everyone, welcome to the Q4 and FY14 Earnings Conference Call of Globus Spirits Limited. We have with us today Mr. Shekhar Swarup – Executive Director and Dr. Bhaskar Roy – Executive Director and CFO of Globus Spirits Limited. We will start the conference with opening remarks from the management followed by Q&A session. I will hand over the call to Mr. Shekhar Swarup.

**Shekhar Swarup:** Good morning everyone and welcome to our Q4 and FY14 Earnings Conference Call. I will be starting the call with an overview of the business and then hand over to Dr Roy who will brief you on the financial results.

At the outset I would like to spend some time discussing the tough operating environment witnessed in the year. In fact, FY14 remained challenging to the end for most of the alcobev sector due to weakened macroeconomic backdrop and higher consumer inflation. Even now near term challenges abound, however we are hopeful that the new Government at the center will usher in positive change.

The tough environment has had a direct impact on Globus. Especially because our key consumer market of Haryana was adversely affected. However, we are pleased to report, thanks to steady growth in Rajasthan and accelerated growth in manufacturing segments, we have been able to maintain our revenues for the year.

In fact this stability is the positive outcome of our conscious strategy to ensure that we are present in various IMIL states across segments through our 360 degree model. As a result, our net realizations in IMIL grew handsomely in the year. Our rationalization strategy in IMFL also paid off with improvements in realization.

Looking at just the IMIL consumer business, we saw continued decline in Haryana both due to the shrinking IMIL market at the state level as well as increased competition with opening up of new distilleries. Yet throughout the year we were able to maintain our position as #2 private player in Haryana through this strong pull generated by our brands. And we have been able to avoid getting into price wars in form of trade discounts.



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On a brighter note another key consumer market, Rajasthan, where we are the #1 private player saw good progress. Rajasthan has in fact been the highlight of our performance. So IMIL market has grown 9% year-on-year in FY14 and reached 19 million cases in size. We are pleased to report that we hold 25% of the Rajasthan market and our IMIL brands continue to do well in this state.

To counter Haryana's decline thanks to our 360 degree strategy, we were able to quickly reorient towards manufacturing, scaling up our bottling contracts and opening up exports markets for our high quality bulk alcohol to counter the increased competition. We are pleased to share that the year saw a strengthening of relationships with India's top IMFL companies, United Spirits and ABD India Limited. As a result, the total bottling volume saw robust increase in the year. We also stepped up bulk exports to make up for the subdued conditions in the local market. However, our realizations in both bottling and bulk segment remained flat when compared to the previous year due to increased competition and lower domestic demand.

Our profitability is impacted due to multiple reasons - changed revenue mix with higher share of manufacturing, a steep increase in grain costs and stressed realizations in the manufacturing segments. Also with our new auditor, there are some accounting changes that Dr Roy will tell you about later. This has led to some one-time expenses post EBITDA.

The Indian consumption story and, hence, Alcobev growth paradigm is intact. As mentioned earlier with the new Government in place we are hopeful of a revived economy and accelerated consumption. Our expansion into the East moved into higher gear with our winning of the Patna IMIL tender. We should see IMIL sales starting in Bihar in FY15 itself. With a lower per capita IMIL consumption and higher percentage of rural and lower income population, the Eastern India states are very attractive markets to deal in for an IMIL player. We aim to be present in over at least 6 Indian IMIL states in a few years time, de-risking our growth to local state level fluctuations. We plan to replicate our successful 360 degree model in these states. We are currently in process of land acquisition and we will keep you informed of developments in that account.

We are also now focusing on increasing monetization through manufacturing of value added products. We recently started processing our waste product, spent grain to make DDGS a protein rich product having strong potential in the animal feed market. With a longer shelf life, these products achieve better realizations and result in improving our operational profitability in FY15, even if the bulk realizations remain at current levels.

I would now like to hand over to Dr Roy for the overview on our financial performance.

**Dr. Bhaskar Roy:**

Good morning everyone, I would like to share the financial highlights after which we will open the floor for questions. For the year FY14 our gross revenues increased by 3% year-on-year to reach Rs 6,616 million with EBITDA at Rs 450 million and PAT at Rs 43 million. The

EBITDA was impacted due to change in our revenue mix coupled with increased grain prices. The share of manufacturing in net revenue went up to 54% in the quarter as compared to only 45% in the same period last year. Also this year we made some accounting changes in depreciation method for some plant and machinery from shift basis to continuous basis resulting in an exceptional item of Rs 60 million. Further the expenses incurred on brand promotion were expensed off which up to March, 31<sup>st</sup>, 2013 were being capitalized since the brands were under establishment. In addition during the year an amount of Rs 72 million was debited to statement of profit and loss account to amortize this asset over 5 years. Our cash profit for the year was Rs 387 million with a cash profit margin of 7.8%.

For quarter 4 FY14 our gross revenues were Rs 1,701 million up by 5% year-on-year. EBITDA was Rs 78 million with an EBITDA margin of 6.5%. We reported a loss of 62 million though cash profit for the quarter was 48 million with cash profit margin of 3.9%.

I will now share the segment wise detail for the year. In FY14 we sold 7.9 million cases of IMFL with average net realization of Rs 288 per case an increase of 11% year-on-year in realization. In IMFL we sold 108,000 cases with 9% year-on-year increase in net realization of our own brands. The combined net revenue from these two consumer businesses was Rs 2304 million for the year. In franchising IMFL the aggregate volume bottled in the year was 2.4 million cases, an increase of 35% year-on-year by volumes. Out of these, 1.1 million cases pertained to bottling done for ABD in Rajasthan. That gets recorded as franchisee IMFL revenue in our books and the remaining 1.3 million cases were for bottling done for USL, ABD and Jagatjit Industries Limited in Haryana. This gets recorded as bulk alcohol sales with bottling fees separately recorded in other operating income. Our bulk alcohol sales increased 19% year-on-year to reach 38 million bulk liters partly driven by bulk exports which reached 4.1 million bulk liters compared to 0.1 million bulk liters in last year. The total revenues from manufacturing was 2661 million in the year, an increase of 17% year-on-year.

Our total debt as of March 31, 2014 was Rs 895 million and cash on books was Rs 64 million. We have maintained low leverage with debt equity ratio of 0.3 multiple. This concludes my update, thank you once again for joining us on the conference call. We will be happy to answer any questions that you may have now.

**Moderator:** Thank you Sir. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Amit Sharma from Walfort Financials. Please go ahead.

**Amit Sharma:** Thank you for the opportunity. Can you once again highlight the reasons behind not doing so well in this quarter per se?

**Dr. Bhaskar Roy:** As I pointed out, up to FY2013, there were certain expenses which were capitalized as brand promotion and intangible assets, for spend on building our brands etc. So, as per the accounting standards and practices, we thought that being an internal brand, we should write it

off in small amounts, and in coming years it would give a more robust look in the balance sheet strengthening the assets side. So thus we have decided to write off those internal created brand expenses in the next five years' time. We have written off Rs 7.2 Crore in quarter 4 for the whole year and also with the change in the depreciation method, i.e., change of method from shift to continuous basis, there is an additional deprecation impact for earlier years of Rs 5.6 crores. So, these are practically Rs.12 to 13 crores which is non recurring and of an exceptional nature.

**Amit Sharma:** So what has been our realization in this quarter, average?

**Management:** Average net realizations, we can go segment by segment. In industrial alcohol, our realizations have been in the range of Rs 43 per liter. This has been at almost similar levels to FY13. In Indian Made Indian liquor our realizations have been at a net level of around Rs 288 per case, which has grown at 11% versus the last financial year of 2012-13. IMFL our realizations have moved up from 274 last year to Rs 300 per case this year. We also report income from brand franchisees, that is the Rajasthan Bottling that we do for ABD, that has slightly moved down from Rs 488 to Rs 484, but strictly speaking you know, this realization is more an ABD realization per case, for us the realization translates from bulk alcohol and bottling fee, and those have both been steady.

**Amit Sharma:** So, as far as the industrial alcohol is concerned, what has been our total volume?

**Dr. Bhaskar Roy:** The volume is 379.27 lakh bulk liters, which last year was 317.65 lakh bulk liters.

**Amit Sharma:** I mean is this a decent growth, I mean as per your standards?

**Management:** This is a 20% growth rate, which is very reasonable growth rate given that you know the circumstances in Haryana where more distilleries have been added. We have opened up the exports channel and are also marketing more aggressively. We have been scaling up our contracts with our bottling customers, to that extent this is a very strong growth within the bulk alcohol segment.

**Amit Sharma:** What about the IMIL and IMFL volumes?

**Dr. Bhaskar Roy:** The IMIL, as already discussed in the opening remarks, has grown. In IMIL, we were present in three markets last year. We were in Haryana, Rajasthan and Delhi. In Rajasthan we have grown. In Haryana, we have been facing problems, because of which the decline happened, two to three new distilleries came up. There were discounts being given in the market and despite the company not giving discounts, , we were able to maintain our position as number 2. In Delhi also, while it is a small market, there was no degrowth, we have maintained our position. The main effect of IMIL came down due to Haryana. To offset that we are now

opening IMIL in the other geographies, we have already opened up in Bihar, where the sales will come from the second quarter of the year, and it should give good results etc.

- Amit Sharma:** So what is the total volume, if you can say. I am trying to analyze it on a YOY basis.
- Dr. Bhaskar Roy:** 79 Lakh cases, against 100 lakh cases of last year.
- Amit Sharma:** Can you repeat the first one.
- Dr. Bhaskar Roy:** 79 lakh cases.
- Amit Sharma:** This is with respect to the entire IMIL.
- Dr. Bhaskar Roy:** Yes.
- Amit Sharma:** So there is a degrowth in volume, right.
- Dr. Bhaskar Roy:** Yes.
- Amit Sharma:** I was trying to understand this gross revenues actually. So this is one of the reasons why our gross revenues have not increased to the extent that we wanted it to.
- Dr. Bhaskar Roy:** Yes, correct.
- Amit Sharma:** Okay, fair enough. What is our outlook, how has been the raw material percent, what is the outlook on that.
- Dr. Bhaskar Roy:** The raw material, there was a growth in last year of around 18% and we expect that prices will fluctuate in this region this year also.
- Amit Sharma:** Could you be a little more clear.
- Dr. Bhaskar Roy:** But to offset this raw material increase, we will see an increase in the revenues and profit. Recently what we were doing, we were selling the waste product as DWGS, which was a wet waste grain, which we were selling to the farmers, etc., for cattle feed and to the poultries, etc., but now we have installed the dryers in one unit and in the other place the dryer will be installed in the second quarter, so the realization and profitability from this segment will increase manifold.
- Shekhar Swarup:** So just to interrupt. In the last couple of years, we have seen the price of the main raw material which is broken rice, going up significantly. This has pushed us to increase recovery from broken rice as well as create operational efficiency all around. In the current financial year and going forward we don't see the price of broken rice correct to the levels of a couple of years

ago. There is a new floor that has been created for this commodity. And therefore to pass on the entire effect of this increase to our customers is something which is difficult and therefore we have done value engineering and have been able to create high value byproducts which can help us offset the increase in raw material price.

**Amit Sharma:** Which are these products.

**Shekhar Swarup:** Yes, one such product is a product DDGS, distillers dried grain with solubles. This product retains up to 45 to 47% protein on dry basis. It contains only 10% moisture. It is a product which is globally accepted as the chief protein ingredient for animal feed. In India this product has not as yet much acceptance as it is a new product for the industry. Last month we started the production of this at one of our facilities, the result of that has been pretty good. We are hopeful that by the end of quarter 2 in the current financial year our second facility will also be producing this product.

**Amit Sharma:** What is the total tonnage?

**Shekhar Swarup:** We have been producing approximately 60 tonnes per day per plant, that is about 120 to 125 tonnes per day on a consolidated level.

**Amit Sharma:** How much of an impact do we see of this going forward on our numbers?

**Shekhar Swarup:** Well, like I mentioned, this is a new product for the animal feed industry, and it is a bit difficult to make a long term forecast on the impact and profitability from this product but we do hope for at least Rs. 2 to Rs. 3 per liter benefit in to the company.

**Amit Sharma:** Fair enough. Just trying to understand the dynamics of this segment, can we take a price rise, is it free market, or is it again highly regulated market, how often does the price rise happens? Can you throw some light on these dynamics?

**Shekhar Swarup:** So our business is split into two – the manufacturing business and the consumer business. The manufacturing business, which is essentially B2B sales comprises of bulk alcohol sales as well as contract manufacturing. Our bulk alcohol sales are one month contracted pricing. Every month we are able to increase or we take price revisions. The contract manufacturing, which is typically a one-year long sort of a work order that we get from our clients. The other half which is the consumer business is like any other alcohol consumer business in the country. We have contracts with the government and the government decides whether to allow price increases on an annual basis.

**Amit Sharma:** Okay, so when are expecting the next price rise as far as consumer is concerned and have we entered into a new contract as the bulk is concerned?

**Shekhar Swarup:** Like I mentioned the bulk is a monthly contract, yes every month there is a rolling contract.

- Moderator:** Thank you. The next question is from the line of Amit Dholakia from Value Invest. Please go ahead.
- Amit Dholakia:** I have a question regarding IMIL expansion in East India, Eastern Region, Bihar, Jharkhand, and West Bengal, can you just throw some light on the CAPEX plan for those regions and what is the current status of your projects, and what is the outlook for the next two years.
- Dr. Bhaskar Roy:** Actually for Bihar we have started the country liquor activities for Bihar, so the production is expected from the second quarter, and we have got the tender already in our name. The bottling activities for the country liquor portion has been started, to manufacture the IMIL bottles and supply, we have been allotted Patna Municipal Zone to supply the Patna Municipal Zone. Regarding the distillery and IMFL bottling licenses, etc., are in the advanced stages. The land is almost in the final negotiation and purchase stage, etc. So we are hopeful to start construction in the second quarter. In West Bengal we have already purchased the land and applied for clearances etc, and we would like to start the bottling activity for IMFL and country liquor and the balance distillery will be followed.
- Shekhar Swarup:** So with the expansion, the CAPEX outlay will be a phased one. Immediate capital will be sort of allocated for the Bihar project, which should start within this financial year and in West Bengal we will focus on the bottling plant in this financial year followed by the distillery in the next. I am also happy to announce that we received letter of intent from United Spirits and ABD India for West Bengal and Bihar respectively to do contract manufacturing for them in those states.
- Amit Dholakia:** Sir regarding IMFL you mentioned that we are doing a lot of branding activity and a lot of expenses, can you just throw some more light on what are your plans for expanding IMFL, in IMFL segment are there new launch plans in the near future?
- Shekhar Swarup:** Our IMFL business for the last year has been in a stage where we were moving away from markets and brands which were unprofitable. We are now in a position where the IMFL business is focused on a few crores and brands which have potential of adding profits. The distribution of these brands is also focused in our home markets of Rajasthan, Haryana, and of course the paramilitary and CSD for our rum. Going forward, not much investment is taking place behind these brands. Whatever investment is taking place is within the cost card and is below the line promotions other than above the line promotions. Going forward we are keen on launching brands which are in the high price point segment, possibly above Rs 500 Delhi retail pricing kind of segment, but plans in that are not firmed up yet.
- Amit Dholakia:** Okay, and Sir, you talked about the DDGS facility, you are planning to use all the DDGS within the plant and are your competitions are also into this technology and this product, can you just throw some light on that.

**Shekhar Swarup:** As I mentioned earlier, DDGS is a new technology for the Indian market. In the past distilleries were selling spent grain which was a big product to unorganized cattle farms. For which Globus Spirits has forayed into drying this spent grain and creating a higher value product called DDGS, this product will be sold to compound feed manufacturers. We are possibly amongst the first few people to create the DDGS from rice, which is what our raw material is. So as of now, the competition is not yet doing this, but we do see them catching up in times to come. This product is 45% protein, similar in composition to soya de-oiled cake and some other de-oiled cakes that solvent extractors produce.

**Amit Dholakia:** Okay, and talking about Sir, regarding the exports, how do you see the exports panning out in the next year, what is your view on the exports and can you just throw some light, on margin profile for exports compared to the domestic market.

**Shekhar Swarup:** Right. So a bulk alcohol manufacturer, we have options of selling the bulk product in the Indian market as well as overseas market. As any commodity buyer would be concerned they would purchase the product as per correct specification and market price. As far as the margin profile goes, the margin profile is similar. We are not getting the higher margins in exports and we are maintaining this division so that we have options of marketing the product locally and internationally. Going forward, I do see similar kind of numbers that were achieved in Q4, to continue in the current financial year and onwards.

**Amit Dholakia:** Okay, and the last question, can you give some guidance for the next year, your view, will you be making a positive PAT and throw some guidance on the margins.

**Dr. Bhaskar Roy:** Margins will be definitely better, and PAT will also be positive, we are hopeful that the reserves will improve because as told in the opening remarks we have taken certain hits as an exceptional item. We will have to take some of these in the coming years also - hit of writing-off 7 crores more as intangible assets, but after all that also our profits will increase definitely from last year.

**Shekhar Swarup:** And the main reasons for the increase in profit is the addition of Bihar country liquor as well as addition of DDGS in our portfolio.

**Moderator:** Thank you. As there are no further questions I would like to hand the floor over to management for closing comments.

**Dr. Bhaskar Roy:** Thank you everyone for attending the con call. If you have any further questions, you can call us or mail us any time at the mentioned numbers and e-mail in our results presentation already sent. Thank you.

**Moderator:** Thank you. On behalf of Four-S Services Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.