

# Globus Spirits Limited

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## Globus Spirits Limited's Q1 FY12 Earnings Conference Call Investor/Analyst Conference Call Opening Remarks

**Moderator:** Ladies and gentlemen good day and welcome to the Q1 FY12 earnings conference call of Globus Spirits hosted by IDFC Securities Ltd. As a reminder for the duration of this conference all participants' lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference please signal an operator by pressing \* and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Swati Nangalia from IDFC Securities thank you and over to you Ma'am.

**Swati Nangalia:** Thanks Marina. Good morning every one and welcome to the Q1 FY12 earnings conference call for Globus Spirits. today we have with us to represent the management Mr. Ajay Swarup, the Managing Director, Dr Bhaskar Roy the Chief Financial Officer and Director Finance and Mr. Shekhar Swarup the VP of IMFL. We will start with Ajay giving us a brief overview on the business and the way forward, followed by Dr Roy taking us through the quarter performance. Post which you will have the Q&A session. thank you and over to you Ajay.

**Ajay Swarup:** Good morning and I welcome all of you to the Q1 FY2012 earnings conference call of Globus Spirits. Our results for Q1 FY2011 show an encouraging trend and will improve even further as all our business lines are in a healthy growth phase. Our business prospects have also been further strengthened by the completion of our capacity expansion program as well as the merger with ADL which gives us strong operational synergies. The benefits from both these initiatives are already visible and will be magnified further as we move into the remainder of the current financial year.

Moving on to different business segments, our branded IMFL business has witnessed a growth of over 100% compared to Q1 FY11. The branded IMFL business is witnessing good traction on account of the growing acceptance of our flagship brand – 'County Club.' Since the launch of 'County Club' earlier last year, we have been successful in building a wide distribution network with a presence in nine states and I

believe we have laid a solid platform and are in position to take 'County Club 'to the next level of growth. Our branded IMFL strategy has revolved around building a solid distribution network from where we can launch newer brands at higher price points. The focus remains on investing in brand building through higher A&P spends, entering newer markets and entry in to niche areas such as the CSD space.

Coming to the Country liquor space, it has shown resurgence in growth post the introduction of new brands in Haryana as well as a good monsoon. The new brands launched in the state of Haryana have been extremely well received. The market for CL in North India continues to grow in contrast to the rest of the country where demand has been mostly stagnant. There are also entry barriers as business in each state is limited to companies who own distilleries in that state. GSL owns two of the eight distilleries in Haryana and the largest distillery in Rajasthan and has maintained leadership position in this segment for a long time. This segment is expected to show good growth going forward.

Coming to the bulk alcohol segment, the volumes remain subdued as the stabilization had taken more time than anticipated. However this segment is expected to renewed momentum as production from both the plants picks up. The combined capacity of GSL (including the ADL capacity) currently stands at 84.4 million BL which should help us take advantage of the consistent uptrend in spirit prices. In the Franchisee IMFL space our tie ups with ABD India and Jagatjit Industries remain strong and we intend to pursue similar tie ups to benefit from our increased capacity.

GSL is the only company which has a 360 degrees presence in the spirits sector right from bulk alcohol to branded IMFL which makes it a unique player in this industry and it will be our aim is to deliver sustainable all round growth. We remain confident of maintaining this momentum given our strategic initiatives and infrastructure in terms of production, capacity, marketing and distribution.

I would like to now hand over the floor to Dr.Roy to give you a brief overview on the financial performance.

**Dr. Bhaskar Roy:** Good morning everybody. Let me give you a brief update on the financials. For Q1 FY 2012, our consolidated total income stood at Rs. 1585.3 million up by 29.35%, EBITDA stood at Rs.194.9 million up by 54.2% and PAT stood at Rs.115.8 million up by 46.3%. EPS stood at Rs. 5.03.

For Globus Spirits (standalone) numbers are as follows. For Q1 FY 2012, our total income stood at Rs. 1340.6 million up 30%, EBITDA went up by 47% to Rs. 147 million and PAT stood at Rs. 85.3 million up by 35.6%. EPS stood at Rs.4.32

For ADL (Standalone) numbers are as follows. For Q1 FY 2012, our total income stood at Rs.244.7 million up by 25.8%, EBITDA stood at Rs. 47.9 million up by 82.1% and PAT stood at Rs. 30.4 million up by 87.8%.

Coming to the segmental revenues for Q1 FY 2012; we sold 41.56 million BL of bulk alcohol translating into a revenue share of 9.25%. In Country liquor, we clocked 26.71 lakh cases volume-wise translating into a revenue share of 46.9%. Our branded IMFL sales stood at 1.71 lakh cases including sales from tie-ups which form 9.21% of the total revenue share. Franchisee IMFL stood at 3.52 lakh cases contributing 23.14%.

Thank you once again for joining us on this conference call. We will be happy to answer any questions that you may have now.

**Moderator:** We will now begin the Q&A session. The first question is from Grishma Shah from Envision Capital.

**Grishma Shah:** If you could just tell us the volume and the absolute value for the segment industrial alcohol country liquor franchisee and own?

**Ajay Swarup:** Industrial alcohol is 41.56 lakh bulk liters amounting to 1454.06 lakhs. Country liquor is 26.71 lakh cases amounting to 74 crore. Franchisee IMFL, there are two parts of franchisee IMFL, one is through the books which is 2.20 lakh cases, its 36.36 crore own IMFL which is booked in the book is 1.23 lakh cases to 14.46 crore. Other sales including everything 18 crore, total 157 crore. sales through tie ups which is not booked in the books of accounts is 48,000 cases, which values to sales of around 3.53 crore. the total IMFL sales will be 1.71 lakh cases. if you see the IMFL standalone it would be 18 crore.

**Ajay Swarup:** The franchisee IMFL which was not booked in the books is 1.32 lakh cases making a total of 3.52 lakh cases.

**Grishma Shah:** Sir the question is country liquor thing, you said 26.71 lakh cases and did we make 16.16 lakh cases last year same quarter in terms of volume?

**Ajay Swarup:** We have made last year same quarter, 21.4 lakh including ADL.

**Grishma Shah:** Without ADL was it 16.16 lakh?

**Ajay Swarup:** Yes.

**Grishma Shah:** On the realization trend of the industrial alcohol, I think it has dropped year on year any particular reason for that?

**Ajay Swarup:** How has realization dropped?

**Grishma Shah:** Rs.35 rupees and in the last year same quarter it was around Rs.36.

**Grishma Shah:** Sir what I derived from whatever number you have given me the realization is Rs.35 ?

**Ajay Swarup:** Yes.

**Grishma Shah:** And last year the same quarter the realization was around Rs. 36.4 so I just wanted to know any?

**Ajay Swarup:** If you see the whole year the realization was Rs.35 only

**Grishma Shah:** Correct.

**Ajay Swarup:** Actually, this is a mixture of both RS and ENA. RS is sold below the ENA rate, the average works out some quarters higher and some quarters it will be lower, but it will be around Rs.35 to Rs.36.5 and with stronger prices now ruling, it will go up.

**Grishma Shah:** What is your outlook on the realization from the own IMFL. They are at around Rs. 846 per unit including your sales through tie up?

**Ajay Swarup:** Actually realization on IMFL ,we are not bothered about it ,we are bothered about the contribution from the IMFL and which we are already on the track and the total volumes which we have targeted because if you see the realization that is including of excise duty,. It varies from state to state so in some states the excise duty is higher and some states its lower.

**Grishma Shah:** I just wanted to know the reason for a jump in the working capital loans, any particular reason for that?

**Ajay Swarup:** It will be much better if you compare with the financial ending last year because you have those figures also but Q1, we were in the implementation stage. So from money of Rs. 16 crore were lesser

in the short term investment, which we pulled out afterwards when we have to invest in the capital. So if you see from the last year end there is not much increase. Definitely from the quarter to quarter ,last year quarter if you compare with this quarter, there will be a difference of 15 to 20 crore .So primarily for that reason.

**Grishma Shah:** Can you highlight the capex this year?

**Shekhar Swarup:** Having implemented the expansion program in both the distilleries, we are now looking to further invest money in terms of upgrading rectified spirit capacity in the newer capacities. The older plant which we have, are rectified spirit plants and they constitute almost 40% of today's capacity. With changing technology it is now possible to make ENA directly from grain without going to the stage of producing rectified spirit. However the old plants based on rectified spirits technology still exist and they form part of the 80 million liters capacity. So out of 80 million about 40% is the old capacity, which will be now converted into ENA capacity in the next six to eight months. So this is going to make a capex close to about 25 crore which would be implemented over the next six months.

**Grishma Shah:** Apart from that there is no other capex for this year?

**Shekhar Swarup:** Apart from that there is nothing significant slated to happen this year.

**Grishma Shah:** Once you upgrade this capacity will there be any short terms shutdowns at your plant etc, will that lead to any disruption in production and all?

**Shekhar Swarup:** Not at all. In fact the changeover will be done in a manner, where an interruption in terms of a few hours not even days.

**Moderator:** Thank you the next question is from Bhavik Mehta from Girik Capital, please go ahead.

**Bhavik Mehta:** My question was regarding the industry in the country liquor space, what is the main market for you in terms of geography i.e. rural and urban?

**Shekhar Swarup:** I will try to answer you from a consumer perspective rather than an urban versus rural. Typically if you look at the price of country liquor and compare it to the cheapest IMFL, the price is 50% and the most popular pack size is the 180 ml. So a 180 ml bottle of country liquor is priced at about Rs. 30 whereas a 180 ml bottle of IMFL at the cheapest price point is priced at between Rs.55 and Rs.60. This defines the consumer because the country liquor is mostly the poor man's intoxicant and therefore it will be

difficult for me to say is it urban or is it rural. It is more a question of a price point and more a question of the socio economic category of our consumer, who could either be rural semi urban or urban.

**Bhavik Mehta:** Okay, so by this percentage of your volumes of country liquor come from cities like Delhi, and capitals from Haryana and Rajasthan and from the rural areas?

**Shekhar Swarup:** Firstly like you correctly said, we do supply country liquor all the three states. However it is difficult for us to put a number on the volume which comes from cities alone because we are tracking our sales based on a district rather than city because the shops which are licensed by the government are done in that manner and we don't have a system right now of tracking rural versus urban because actually it doesn't concern us so much.

**Bhavik Mehta:** And my other question was that the last quarter that is Q4 FY11, your volumes had de-grown because of the new licensing agreements with the government. So in this quarter can you just highlight on a broad base that how the volumes were and how will they be going forward?

**Shekhar Swarup:** Yeah this is a good point, the last quarter of every year, for most spirit companies is a quarter where adjustments in stocks takes place, which means that the retailers who hold stocks are clearing up their stocks and hence the dispatches from factory from distilleries and bottling plants are reduced in order to adjust for this clearing of stock. So you correctly said that this is what happened even with us in Q4. In Q1, as you can see in our volumes have been buoyant and that is mainly for two reasons, a small reason of course is that new shops have come in and they need to be stocked up but more importantly country liquor sale in Haryana and in Rajasthan has been buoyant because of demand from the SEC, the socio economic category which were talking about. The other reason for this has been a good monsoon which has boosted agricultural production giving good returns to the farmers. There has been an increase all around the north in the minimum wage both to farmers and to unskilled workers and that has been very significant in the last year. So these along with various poverty and other social schemes of the central government are delivering money to the poorer people. So we can say that these reasons combined have given Q1 a very strong upswing in the country liquor sales in the three states where we are in operating. Going forward we see the same trend continuing and the current fiscal for us in terms of bottled beverage sales both for country liquor and IMFL looks extremely positive because of these trends.

**Bhavik Mehta:** Sir you stated that in this quarter, there were more volumes of RS than ENA and that is why the average price average realization has gone down to Rs.35. Is there a difference in production time between RS and ENA?

**Shekhar Swarup:** There is no difference in the production time. We would be now putting in plants by which we will produce low rectified spirits. All our production will be in the ENA. So the entire 80 million liters will be only ENA and that in turn will change the product mix and therefore also change the realization.

**Bhavik Mehta:** Even your country liquor will contain only ENA not RS?

**Shekhar Swarup:** We are moving to a completely ENA based product portfolio including our country liquor brands.

**Bhavik Mehta:** So won't that increase the markup for the country liquor?

**Shekhar Swarup:** Not really. In the new technologies which we are putting into place there is no difference in cost of production. It is extremely a marginal difference between rectified spirit and ENA and we will be able to deliver to the consumer a product which is far better than what our competitors are able to do in the country liquor space.

**Bhavik Mehta:** What would you say is the average input cost per bulk liter of alcohol ENA that you produce?

**Dr. Bhaskar Roy:** For bulk liter when you are manufacturing, the input cost contains of grain plus enzymes, etc. So putting together, it is around Rs. 30 to 31 as a cost of production average

**Bhavik Mehta:** Can you just explain me that, what the contract manufacturing process is like. Do you brew for them and even bottle for them?

**Dr. Bhaskar Roy:** There are two types of contracts. In the first type of contract we bottle for other brands for example in Rajasthan and Haryana, we are bottling for ABD. In Rajasthan due to the excise laws the sales and purchase comes to our account in our books. The difference in realization after our margin, is passed as royalty to the brand owner. In case of Haryana given the excise laws we get only the conversion charges which means our bottling charges and sale of ENA prices. But the sales, purchase etc is booked in the account of the brand owner. We undertake a similar exercise for our branded IMFL. Suppose we are selling in Kerala, Andhra or UP, we also tie up with bottling units over there. In some cases due to the law of the state, the sales and purchase come to our book so we only pay the bottling charges to the bottlers and in some such states we get only royalty income. It is a practice usually followed by all the IMFL manufacturers.

**Bhavik Mehta:** Presently you are, in nine states across the country right?

**Ajay Swarup:** Yes.

**Bhavik Mehta:** Going forward what are the expansion plans for the company?

**Sudhir Chopra:** Currently, because of our units being north predominant, we have basically restricted our business to the north and two markets in the south. Now the business that we want to take forward is to the markets of the east which would be Bihar, Jharkhand, West Bengal and Assam depending upon tie up arrangements that are available there because these are very buoyant markets and they are very high contributing markets for IMFL products. The space that we are in which is the regular segment as per the price point, I think these markets would be more buoyant for our brand and we would be looking at those markets in the near future.

**Bhavik Mehta:** And my other question was the canteen stores sales, what is the progress on that?

**Ajay Swarup:** There is a procedure which canteen stores have, where they call the brand owner for a product acceptance, product screening committee. It is known as PFC. Once that meeting takes place then our products will be accepted. The only brand that we put in there is the Hannibal rum which we are going to start with and thereafter we will take come out with the other brands.

**Bhavik Mehta:** So basically County Club and the other brands will follow later, the first one will be Hannibal Rum?

**Ajay Swarup:** Hannibal Rum is correct.

**Bhavik Mehta:** From when can we see the numbers for this segment the canteen stores?

**Ajay Swarup:** We were thinking that the meeting would take place in the last month but has been delayed to this month. It all depends on the procedures and their own internal working. So once that happens then we can take at least three to four months for the other procedures to take acceptance of the product and the clinical examination, etc. They have we have a strict procedure for all the other activities and thereafter they may give the initial orders.

**Bhavik Mehta:** So once this is accepted, this will be throughout the armed forces .that is the army, navy and the air force canteens throughout India right?



**Shekhar Swarup:** This will be basically canteen stores to cater to all the canteens which are available all over India and in the armed forces are buying from those units. So there are major units and then there are units where canteen is. The first would be that they would be positioned in their major units and thereafter it would go to the areas where they have the canteens which would be in remote areas, where the units are stationed.

**Bhavik Mehta:** The last question was, you all say that you all have a 360 degree model but you all lagged the production of beer .so is there any possibility that you all will start producing beer?

**Shekhar Swarup:** Beer, no. I don't think with our current thinking right now because there you are required to have your own unit for manufacture because contract manufacturing of beer is not giving much volume to anybody. So we are not there.

**Moderator:** Thank you. The next question is from Abneesh Roy from Edelweiss, please go ahead.

**Abneesh Roy:** Can you elaborate on the packaging cost, especially glass, in terms of Y-o-Y increase. Do you think that you will get some benefits in the coming quarters because of the correction in glass prices?

**Ajay Swarup:** If you look at the percentages, glass is still a very small part of our packaging industry

**Shekhar Swarup:** Country liquor is almost sold in PET bottles. Now in our bottled beverage segment, country liquor has over 75% of the revenue share Let me now try and answer your question. The bottles that we choose for bottling brands of other liquor manufacturers, does not impact us because packaging is all on their account. This leaves us with the glass bottles we procure for our branded IMFL business. Yes, we should not see any further increase in glass bottle prices on account of reduced energy costs, but having said that there is a monopolistic situation in the glass bottle market and we are all as beverage manufacturers are facing a tough time dealing with a monopoly or a semi monopoly, so to speak . It is a tough area and there are times when we have to bite the bullet and take an increase in glass but having said that the impact of this on Globus Spirits' bottom line currently is minimal.

**Abneesh Roy:** How much is the increase in glass prices compared to say last year's average?

**Ajay Swarup:** Between 8% and 10%.

**Abneesh Roy:** Do we get benefit in the PET bottles because that's also in a way indirectly linked to the crude prices?

**Shekhar Swarup:** Completely. In fact the PET resin prices are revised almost every month based on the average price of crude oil prevailing. Our contracts with PET bottle manufacturers are linked with the PET resin prices. So, no sooner is there a change upward or downward, it would have to be absorbed and hence going forward with softer crude prices, we do see benefit coming out of that.

**Abneesh Roy:** Our branded IMFL segment has seen a 100% growth in terms volume on a small base. Given that, what are your expectations for FY12 & FY13 expectation considering that you plan to go to East India **Ajay Swarup:** I would like to re-iterate that going forward the growth engine for Globus Spirits is going to be the branded IMFL segment. We understand that we are still at a small number but we are confident that going forward, things will ramp up. We have clocked 100% in the past and our sales and marketing team has assured us that going forward they will try to keep the growth rate intact. It is difficult for me to project any forward looking numbers which is a very dynamic market and we are doing our best to sort of establish Globus as a player in the branded space. I can assure you that we are leaving no stone unturned in that and given a year or two, there will be volumes which stand testimony to what I am saying.

**Abneesh Roy:** There has recently been a price war between the two largest players, Royal Challenge and Royal Stag. Just wanted to understand if this price war flow to your price segment and how does it impact the margin? Is the competitive intensity increasing because price growth is not coming and hence on the ground competitive intensity is increasing in most areas?

**Sudhir Chopra:** First of all, the price war, I think is not between Royal Challenge and Royal Stag, but is between McDowell Platinum and Royal Stag. Royal Challenge is in a slightly higher segment to Royal Stag and definitely yes there is a war between Seagram's and the USL and we are not affected because we are not in that price segment at all right now. Coming back to what segment we are in yes, USL has got a 70% market share all over India in the regular segment and they are trying to not only maintain that market share but they are trying to increase it. We are taking small steps for our brand, especially County Club and Hannibal Rum which are the two major brands we have to gain some market share out of the segments these brands are in. So, it does not affect us.

**Abneesh Roy:** So, the price war in your segment is not that aggressive as of now?

**Sudhir Chopra:** No, being a small player, we are doing keeping low profile rather than to fight them head on because the volumes as well as contributions that they have, they can do a lot of cross funding from the margins which they have in the high-end segment. So what we are trying to do is, we are trying to build up a

base for our brands by getting the products available in most of the outlets through our distribution and thereafter trying to get consumer to buy our brands by superior packaging as well as overall quality.

**Abneesh Roy:** One of the other players is looking at international tie ups and has already done a small tie up. Are we also looking to leverage our distribution and offer foreign players this platform?

**Ajay Swarup:** Well like I said in my opening remarks, we have built now a robust distribution network in nine states. We are now going to grow this to 14 or 15 states by adding the eastern part of the country and having done that, we would like to get into the higher value IMFL segment, which will include both brands in the Indian Made Foreign Liquor, as well as we are looking at bringing in foreign products, which could mean products which are bottled by us but imported. We are looking at alliances in that area. We are also looking at the Vodka market, where under foreign tie ups, we can produce Vodka here. So yes, Globus has started looking at these opportunities of premiumizing our branded IMFL portfolio and in the next year or so, we will come in with products in that space. Now what exactly, at which price point, it is difficult for me to say right now. But suffice it to say, yes, work is going on in premium products, which may include tie ups with foreign brands.

**Abneesh Roy:** In the nine states in which we operate, how many are government controlled and have you got any price hike in the last six months and going forward do we expect a price hike in the government controlled state?

**Ajay Swarup:** The price increase happens normally once in a year.

**Sudhir Chopra:** See out of the states that we operate four states i.e .AP, Kerala, Rajasthan, and UP would be states where price is fixed by the government. Now we got a price increase in UP as well as Rajasthan of Rs. 15 each.

**Abneesh Roy:** In terms of percentage how much does it work out?

**Sudhir Chopra:** 5 to 7% is what we have got in terms of percentage. AP, Kerala we got a price increase in AP last year which we have taken and now Delhi, yes we are another state that we were operating in the last year because of the licensing problems ,we have renewed the license only in this month. There also we will have a price increase of about 10% ,which we have got. So wherever the government gives us a price

increase we are taking that or what we are doing is we are compensating the cost by reducing our sales promotion wherever it is possible.

**Abneesh Roy:** Do we expect any further increase in price in the next six months?

**Sudhir Chopra:** No. No, As Mr. Swarup said all price increases by the corporations are at the beginning of the year and the on store prices are fixed thereafter. Hence there are no further possibilities of an increase.

**Moderator:** Thank you. The next question is from Subramaniam PS from Sundaram Mutual Fund, please go ahead.

**Subramaniam PS:** Sir I just wanted to get some sense on the difference in profitability between IMFL and the country liquor because what we see is some of the people who are listed and who have a greater presence in branded IMFL are actually unable to make similar kind of EBITDA margins that you are able to make because of the high ad spends. Secondly, what is your outlook on profitability on both these lines of businesses?

**Ajay Swarup:** Well you have raised a very interesting point and a point which is close to my heart. Firstly I must say that the country liquor business is a very sustainable and robust business and this is something which some of our competitors have been sort of contradicting, that gradually there will be a shift to IMFL. But the fact is that in the states we operate, country liquor continues to be the number one beverage as compared to IMFL and beer. Between the three, country liquor continues to be the biggest segment. Secondly, we have said when it comes to the operating margins, country liquor can be profitable for those companies who are efficient in managing costs, i.e., who can make alcohol in-house efficiently and those who can manage their other packaging costs and other operating costs efficiently. At Globus Spirits we are able to do that, it is our expertise and hence we are in this business today at over a million cases a month. So yes, we are able to get good EBITDA margin which you see in our numbers. For companies who are not efficient in these products, in the areas I talked about, they will not be able to make the margins we make in country liquor.

Coming to IMFL, IMFL as it has been discussed in the past that there are many price points and in the cheaper price points, the margins are possibly at par with the country liquor in certain states. They could be low on a per case basis but as you move up the value chain you get margins which can be on a per case basis again and on a percentage basis, they can be much higher than the country liquor.

**Subramaniam PS:** Is it a gross level sir?

**Ajay Swarup:** It is at the gross, at the net level, net OpEx. Excise duty is something we cannot include to make these calculations. So that the gross price. The margins on premium product on a per case basis and on a percentage basis can be much higher in country liquor.

**Subramaniam PS:** If you consider the amount of ads and promotions that you might have to do to promote IMFL, even after that do you see net margins being higher than what it is for country liquor?

**Ajay Swarup:** See when it comes to spending on advertising and brand building, it is a call which one has to take for the long term. So when you invest in a brand building you cannot actually charge it to your P&L account for that month. So we have to look at brand building as something which has to be amortized and hence if you amortize it correctly, my initial point about premium IMFL being more profitable in percentage EBITDA terms than country liquor is still applicable.

**Subramaniam PS:** What could be your capacity utilization currently?

**Dr. Bhaskar Roy:** We are in a stabilization process. By this month we will achieve 100% utilization in both our plants. You may be aware that we have a capacity of 7 million bulk liters per month that we would be achieving from this month onwards.

**Subramaniam PS:** Would there be different capacity utilization levels for different products or it doesn't matter?

**Ajay Swarup:** We have been talking about capacities of bulk alcohol and the bottling operation. The capacity utilization is really a factor of demand from the market because bottling can be ramped up in capacity in quicker time. So the basic issue of capacity utilization is centered around bulk alcohol.

**Moderator:** Thank you. The next question is from Vishal Gutka from India Infoline, please go ahead.

**Vishal Gutka:** What is the outlook on the raw material front?

**Ajay Swarup:** Let me give you an overview of the molasses, grain, ethanol, and ENA situation in the country. Around six months ago, the government of India mandated the mixture of alcohol in petrol & diesel. It took some time to settle down and now across the country, all the states where alcohol is produced from molasses, a significant part of it is going into the production of ethanol. As a result there has been an

increase in the price of molasses as well as in the price of alcohol per se. The oil companies are paying Rs. 27.50 for the rectified spirit grain alcohol, on which if you add the refund of excise duty on molasses it comes to close to Rs. 30. So this has become the benchmark for the molasses price and for alcohol.

Now Globus Spirits Limited focuses on producing alcohol and high quality ENA from grain. Now the grain that we use is used for cattle and poultry feed. The prices of these are pretty much steady in the last I would say 12 months. So on the back of stable raw material prices; we are seeing an upward trend in our finished product price. These trends had not been monetized in our results for Q1 because in Q1, we have not sold too much bulk alcohol. In fact our bulk alcohol sales have come down already in terms of volume caused by our plants not fully operational. We believe that Q2 will see the benefit coming out of that. To sum up, molasses prices have been upward across the country. Grain prices have been steady across various states, including states where we operate. Spirit prices have been upward and are continuing to be upward because beverage alcohol demand is significant and so it is the demand from ethanol.

**Moderator:** Thank you the next question is from Avinash Wadhwa from M3 Investments, please go ahead.

**Avinash Wadhwa:** Is the reported sales of 41.56 lakh bulk liters for industrial alcohol for the combined entity?

**Ajay Swarup:** Yes.

**Avinash Wadhwa:** Just to have the comparable figure in the corresponding quarter, on a standalone basis you sold 47.9 lakh bulk litres?

**Ajay Swarup:** Yes and in this quarter we sold 35.41 lakh bulk litres from ASL.

**Avinash Wadhwa:** I understand that you had a capacity expansion and you were in a stabilization mode. So what accounts for a significant drop in sales of bulk alcohol?

**Ajay Swarup:** The reason for fall is that more alcohol went into the Globus' beverage production. As you see the volumes of our country liquor business and IMFL business have gone up. So more alcohol was diverted into producing bottled beverages and hence that volume is reflected in the sales of bottled beverages. That will take care of the shortfall from last year. However, we envisaged higher sale of bulk alcohol for Q1 and was also stated in the Q4 concall. We were unable to achieve those numbers because of a delay in stabilization of our capacity.

**M. L. Datta:** We had almost completed trial and commissioning of the plant. & other equipments which are related to the distillation. we have to backwardly to give the fermentation capacity and grain milling capacity, and we will be ready. Commissioning of all the plant, all the equipment has completed and we are going to start within a day or two from one plant in Behror, Rajasthan plant and we are expecting our Haryana plants would be in operation in another five weeks' time to take a full capacity from both the plants in this month itself.

**Avinash Wadhwa:** Could you give the production numbers in bulk liters of industrial alcohol for the two quarters Q1 FY2012 and the corresponding period last year on a standalone basis?

**Dr. Bhaskar Roy:** for Globus two units the production is 82.32 lac BL as compared to Q1 2010 of 71.16 lac BL.

**Avinash Wadhwa:** Basically pretty much the entire expanded capacity that was to come on stream in the first quarter but it got delayed for reasons, your colleague just mentioned right?

**Dr. Bhaskar Roy:** Yes. We have actually started the new plant with the old millings and fermenters and then switching these old millings and fermenters with new which led to a delay in stabilization for two months. Though, we are getting proper results from the new plant which we have established; our old plants are also running properly as a backup.

**Avinash Wadhwa:** So like you mentioned the rated capacity is now 84 million bulk liters, which means that Mr. Dutta is confident that on a monthly basis the run rate will be 7 million?

**Dr. Bhaskar Roy:** This month it will be nearly 6.4 to 6.5 litres from the next month it should be 7 million litres.

**Avinash Wadhwa:** What are the prices for ENA in the two states of Haryana and Rajasthan?

**Dr. Bhaskar Roy:** In Haryana the prices are ruling around Rs. 39 - 40 and Rajasthan is around Rs. 37 - 38.

**Avinash Wadhwa:** Is there a significant difference between ENA realization and RS realization?

**Dr. Bhaskar Roy:** We sell RS only in Rajasthan.

**Avinash Wadhwa:** What is the difference in price realization between the two?

**Dr. Bhaskar Roy:** In Rajasthan actually the RS price through RSGSL is a good price and only difference is Rs. 1 or 2.

**Avinash Wadhwa:** So you reported a Rs. 35 odd realization right for the first quarter?

**Dr. Bhaskar Roy:** Rs. 38 realization was for this quarter and we had Rs. 36 last year. So this difference was due to the contracts with the RSGN wherein we had to sell RS at Rs. 2 lower which resulted in lower average for the year.

**Moderator:** Thank you the next question is from Surya Nayak from Sun Capital, please go ahead.

**Surya Nayak:** Where are we heading towards with the expansion of such huge capacities, given premiumization of the products is not happening. Still our branded portfolio constitutes roughly less than 10%. So can you just give some vision idea of 2015 or so?

**Ajay Swarup:** I have always said that Globus Spirits Limited aims to be a 360 degree player in the spirits business, which means we will continue to position all the verticals in this spirits business, bulk alcohol, country liquor, franchise bottling of IMFL, as well as our own brands .Your question of premiumization is limited to the vertical which is IMFL. Let us talk of other verticals if I go one by one, bulk alcohol as has been discussed extensively in this concall, our plants has been commissioned. Stabilization is underway and August onwards, we will see full volumes coming in from bulk alcohol.

**Surya Nayak:** Right, but again when you will be selling more of the bulk alcohol So, I am not clear how you are going to differentiate your products of country liquor of yours vis-à-vis the competitors. There you are just now trying to target the mass, I mean the poor mass especially, so I mean how it will pan out?

**Ajay Swarup:** Firstly the spirit business is the commodity business. We are not running away from it. The country liquor business is for the masses, it will remain for the masses. We are in this business because it is a robust and a stable business.

**Surya Nayak:** So going forward also, we will continue to see you as a significant player in the country liquor across different states?

**Ajay Swarup:** Like I said, we continue to remain focused on the four verticals within the spirits business. Going forward the revenue pie will certainly change towards a higher weightage coming in from the branded IMFL business. Within the IMFL business, we will attempt to go up the value chain into higher value added



products. The work is in progress. It is the path which we have taken and we are gradually building it up to it with a 100% growth rate in our branded IMFL business, on a year-on-year basis.

**Surya Nayak:** So where do u see the 10% contribution from branded IMFL going to two years down the line?

**Ajay Swarup:** The vision is to grow all the four.

**Surya Nayak:** If you can put some ballpark figure like 20% or 30% like that?

**Ajay Swarup:** It is not something which is our goal. Our goal is to grow all the four verticals of our business and those are the pillars on which our business stands and however, like I have said, it will gradually increase the revenue stream, the percentages coming from IMFL but like I have already said we will be pursuing all four.

**Surya Nayak:** When you are moving from rectified spirit to ENA for even country liquor; so will there be any price differential between yours and competitors?

**Ajay Swarup:** Well, we will not say price difference because country liquor prices are fixed by the government but as Q1 has shown, there has been a huge increase in the demand for our country liquor products because of this shift in volumes. We have seen a growth of almost 30% and with the volumes.

**Surya Nayak:** So if the country liquor price will be capped and then you will go through the ENA route and will your margin not be impacted?

**Ajay Swarup:** Like I said the new technology which we have adopted, there is no difference in cost of production between RS and ENA. It is very marginal

**Surya Nayak:** When do you plan to enter the eastern markets and how will the distribution structural pan out. Is it that you may have to pay some export duty and there will be some import duty and how you will be able to compete with the local players there?

**Ajay Swarup:** In terms of distribution, we produce alcohol in each state where we market ur product to avoid such duties which you are referring to.

**Surya Nayak:** So will you be setting up some facilities in the eastern parts?

**Ajay Swarup:** We will be entering into bottling tie ups with local producers.

**Surya Nayak:** So you will continue to supply ENA to those fellows and there they will be blending it and selling locally?

**Ajay Swarup:** That is correct.

**Moderator:** Thank you. Ladies and gentlemen we will take one last question from Rajiv Ghosh from Wealth Management, please go ahead.

**Rajiv Ghosh:** Has the performance of this quarter driven primarily because the contribution from country liquor was higher?

**Ajay Swarup:** Let me put this simply that the quality of revenues has changed. The share of bulk alcohol has come down and bottled beverages has gone up, which means both IMFL and as well as country liquor and a result EBITDA margins has improved.

**Rajiv Ghosh:** What is the contribution from the IMFL business to total revenues?

**Dr. Bhaskar Roy:** IMFL business contributed 9.21% to total revenues.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand over back to Ms. Swati Nangalia for closing comments.

**Swati Nangalia** Thank you every one for participating in the conference call. Thanks to the management for removing time for this call. Ajay, would you like to make any closing comments.

**Ajay Swarup:** I would like to thank all of you for taking time for this call. I would also like to thank IDFC Securities for hosting this call. If you have any further questions please, feel free to contact us or our Investor Relationship team either by phone or e-mail. The details are given in this results release.

**Moderator:** Thank you. On behalf of IDFC Securities Limited that concludes this conference call.

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