"Globus Spirits Limited
Q4 & FY21 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to Global Spirits Limited Q4 & FY21 earnings conference call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchstone phone. Please note that this conference is being recorded. I now have the conference over Mr. Shekhar Swarup, Executive Director Global Spirits Limited. Thank you and over to you Sir!

Shekhar Swarup: Welcome everyone to this call. Before we start, I hope that you and your families are safe. As you are aware the COVID-19 pandemic has rendered last fiscal as a challenging and unprecedented year for most industries. For the alcohol beverage industry, it has meant that key consumption events such as celebrations have gone down, restaurants, pubs and bars have been closed and demand for alcohol from these centers has seen a downward trend; however, there has been an uptick and compensatory demand that has been flowing from in-home consumption leading to increased sales throughout shops.

With the second wave emerging since March-21 in this year we are seeing similar trends play out in the industry again. For Globus, we have been able to face this challenge head-on and have been able to deliver a robust performance on the back of our two-pronged business model that is the distillery segment and the consumer segment.

A testament to the resilience of this approach has been validated with over 90% capacity utilization even in this challenging year. Further, this year we have increased our focus on improving distribution penetration of our brands as well as made talent acquisitions at key positions to help drive focus to areas of importance. This coupled with our strategic focus on product development, continuity of operations at lowest possible costs and financial prudence has not only helped us maintaining leadership position in many of our key segments but has also put us in a strong position for growth in the forthcoming years.

Keeping the prevailing difficult environment in mind we have been actively engaging our staff and assisting them in overcoming any challenges that they have faced during this period. We have neither reduced salaries nor have downsized our staff in any way as a commitment to our belief that we value our employees.

I would now like to take you through our segment-wise journey in the year gone by, starting with our consumer business segment whose share to the total revenue has increased significantly in this year that is from 35% in FY20 to 43% in FY21. The hourglass shaped markets that we have been alluding to in our previous calls continue to guide our strategy of operating in key markets.

Global Spirits is in a unique position with its product portfolio in two significant segments, that is the higher end premium segment and the value segment. With this we are able to achieve high profitability consumer business at a scale. I now request Param to update you about these segments.

Paramjit Singh Gill: Thanks, Shekhar. Overall, we are very happy to share that despite the COVID-19 challenges, our consumers have continued to support us with their brand loyalty, helping us to grow the overall consumer segment volume by 11% with the consumer business revenue leading volume growth. This reinforces our belief in the resilience of the value segment and our continued investment in doing it.

All our key and potential states of Rajasthan, Haryana as well as West Bengal performed well basis the journey planned for them. We are all aware that the consumer flirting between price points amplifies in buoyant as well as in challenging times. Towards this end, we are happy to update that we have been gearing ourselves to service this. We have successfully started energizing our current portfolio across the chain by improving its overall delivery to the consumer as well as improving the range of our offerings to cater to the evolving taste.

Two flavors of our existing brands were introduced in Q4FY21 and further improved as well as new offerings are expected in the first 3 quarters of this year. We have also embarked on a journey to strengthen our road to market capability. This will allow us to strive to improve our engagement at every step of the chain of the brand movement right from reaching the trade warehouses to leaving the retailer's hand. We are confident that overtime this initiative has a strong possibility of becoming a sustainable competitive advantage in the value segment thereby, along with capability building allowing us to significantly improve our performance in the current times.

Premium spirits remain of significant importance to the alcohol industry due to the share of industry profits that it contributes. We are aware that this category has come under more pressure during the unforeseen times as we were no exception. Global Spirits will continue to participate in these segments directly after the merger of Unibev Limited which is expected to be completed in this quarter.

As you may be aware, we have been working on building a strong portfolio of premium brands under the Unibev umbrella keeping in line with our objectives and the recent environment, we are working towards a plan that takes into account some of the recent shifts in the business environment and focuses on making sharper choices based on the following five key parameters - profitability of the relevant segments, size and salience of the segments in which we operate, convenience and affordability to service the market as a small player, size of the investment required as well as the time required to make a particular state business profitable.

Basis these filters we will be focusing most of our energies and resources on a few key states and improve our investments in these as we go forward. This will also mean conserving resources in some other states. Our business plan also envisages participation in a couple of additional profitable segments in key markets in the coming year.

While overall our volumes in premium de-grew by around 14% in primary, the secondary performance came in much better at a de-growth of 11%. Oakton premium Whiskey almost managed to hold on to its previous year's volumes. Overall, it has been a very gratifying quarter as well as the year.

May I request Shekhar to continue with the update on the company's performance please.

Shekhar Swarup: Thanks, Param. Since our inception in the early 1990s, the core of our business has been to set up manufacturing house in deficit states. A deficit state is one that depends on bringing its alcohol from other surplus states in India for the use of liquor and ethanol. This strategy allows us to maximize capacity utilization at higher prices than distilleries located in surplus states from the very first day that the factory operations start while investing in our consumer business in that state.

This strategy continues to be proven as the right way forward to maximize return on equity from our industry even as the country is looking to ramp up ethanol manufacturing capacities to service the target of 20% ethanol blending with petrol. Due to the demand of ethanol blending, our deficit states of West Bengal and Rajasthan have only decreased their deficits further creating excellent opportunities for us to invest in capacity expansion.

Our 140 KL per day expansion in West Bengal is nearly complete and we expect the plan to start production from Q3FY22 with the total installed capacity at that location increasing to 250 KL per day. This will be the single largest distillery in India after the expansion is complete.

Our expansion in Rajasthan is complete and we are now producing 160 KL per day up from 140 KL per day in Q4FY21 whereas the prospects in deficit states continue to remain exciting, the impact on surplus states is truly remarkable. The sheer quantity of ethanol required in India even at the current level of 10% has pushed our surplus states of Haryana and Bihar into a deficit thereby, allowing us to increase margins and even consider capacity expansions in these states.

We are happy to announce that we will be undertaking an expansion of the Bihar facility by 140 KL per day and work will commence later this year. In addition, the company has already begun construction of a new facility in Jharkhand. This facility will start production in Q2FY23 and will add to our distillery and consumer business.

As we had mentioned previously the commitment of our Managing Director Mr Ajay Swarup to engineering and technology has helped us drive down costs of setting up new projects to the lowest in the industry. I am happy to announce that the West Bengal expansion that is now nearly fully expensed will be coming in at less than 80 lakhs per KL of capacity and this is a record even for us.

By-products are important for Globus Spirits. They not only help us maximize revenue from our capacity and maintain high profitability but also help us run zero waste factories. We currently process a berry of by-products into value-added materials that include process CO2 that is used for industrial as well as beverage catering and transport applications and also a valuable animal feed supplement that contains over 45% plant-based protein that is derived from our raw material. By-products contributed about 11% to our total net revenue and is included in the distillery segment.

I will now request Dr. Bhaskar Roy to take you through our financial performance.

Bhaskar Roy: Thank you, Mr. Swarup. Good morning everyone. Let me now take you through the operational and financial performance of the company. We are happy to report that our higher margin consumer business has seen an increase in share of the total revenue. The contribution of the consumer business has increased from 35% in FY20 to 43% in FY21.

The manufacturing business on the other hand while growing has seen its contribution from 65% in a FY20 to 57% FY21. In the manufacturing segment, our revenue came in at Rs.7,106 million for the full year FY21 as against Rs.7,483 million for FY20. In Q4FY21 manufacturing revenues came in at Rs.1,984 million as against Rs.1,760 million in Q4 FY20 a strong growth of 13% year-on-year.

In the consumer segment, we have seen a strong growth not only in revenues but also the contribution of the consumer segment to the overall business. For full year FY21, revenues from consumer business came in at Rs.5,537 million as against Rs.4,147 million in FY20 translating into a growth of approximately 24%.

In terms of volume, the consumer segment saw sales of 12.34 million cases, a growth of 12% year-to-year. For Q4FY21, the revenues came in at Rs.1,565 million which was the growth of 68% from Rs.932 million at Q4FY20. Volume growth in Q4FY21 was strong 50% at 3.74 million cases versus 2.5 million cases in Q4FY20. Q4FY20 saw about seven days to eight days of lockdown which had impacted sales of consumer products.

At the end of December 2021, we had updated you that all our facilities and markets have resumed normal levels of operations. As we near the end of the financial year, we began witnessing a resurgence in cases across the country. We are also impacted by disruptions caused due to floods in Bihar. All things consider we are happy to report that our overall capacity utilization for the full year FY21 remain close to the 90% plus range with the utilization in Q4FY21 coming in at 99%. This was driven by strong demand across our business segments.

In FY21, we have another strong year of cash flow generation and generated Rs.148 Crores of net cash flow from operations. In the past three years, we have generated a total of Rs.314 Crores from operations. This has helped us with the following: 1) clearing our debt from Rs.230 Crores in FY19 to Rs.176 Crores in FY21, 2) investment in expanding activities, capacities and product and market development.

Our finance cost has reduced by 20% year-on-year from Rs.23.54Crores in FY20 to Rs.18.8 Crores in FY21 on the back of reduced bad debt as mentioned above and reduced average cost of debt from 12.5% in FY20 to 8.8% in FY21. As a result of the improvement in the financial risk profile of the company marked by healthy operation’s margins and comfortable capital structure and debt coverage indicators, the credit rating for our long-term and short-term bank facilities stand reaffirmed at CARE ‘A stable’ with enhanced credit limits as of January 2021.

We saw our EBITDA margins expand by almost 1,140 bps year-on-year to 24.9% in FY21 from 13.5% in FY20. While the corporate tax rate applicable to the company at 34% is high but the MAT credit available to the company on account of the benefit for setting up ozone plant and older section of the income tax, that reduces the effective cash payout for tax to around 18% in FY21. Till such times, this credit is fully utilised, the company’s cash out flow on income tax may continue at around 18%. We anticipate that this credit will continue for two years to three years. The benefit can no longer be available for the new projects.

Now coming to the working capital cycle, overall working capital cycle has seen an improvement; however, there has been an increase in accounts receivable on account of strong growth in higher price of consumer value segment for which the duty payable is funded by the company. The accounts receivable saw a further increase due to higher sales of ethanol where credit period is about 30 days to AMCs unlike ENA which is typically purchased on advance payment.

Despite this increase in working capital our return ratios have seen a significant expansion. ROE and ROCE have gone up from single digit in FY19 to 24% and 29% respectively in FY21. The board has recommended dividend for 20% of face value at Rs.2 per share for FY21.

While we stand in solidarity with the country during these trying times, we are proud that our teams continue to strive for the betterment of the company. This concludes my reports on the operational and financial highlights. I would now request the moderator to open the forum for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Edelweiss Financial Services. Please go ahead.

Abneesh Roy: Congratulations and Thanks. My first question is on the regulatory aspect, could you comment how things are moving in Delhi for example, the policy has been delayed and in Rajasthan beer has seen a more favourable tax policy, so any comments, what is happening in your segment and your market?

Paramjit Singh Gill: Thanks for the question, Abneesh. We have been with a lot of interest observing the Delhi policy. At this point of time, we can say the policy allows us an opportunity to enter the market at an appropriate time to complement our position in the value segment in that market to enter the premium segment. As far as Rajasthan is concerned, I really do not think that changes in the beer policy are likely to have an impact on the strong play that is there in the value segment because there has always been some interplay between segments and the consumer preferences and this is one of those nuances which is not likely to play out in any significant manner.

Abneesh Roy: Second question, is the market leader United Breweries essentially is taking a call on part of its portfolio on evaluating what to do as a key player but small in the branded part, what would be your thought process on inorganic growth?

Shekhar Swarup: We continue to evaluate all opportunities to grow our distillery segment as well as our consumer segment. We believe in this hourglass shaped market that has emerged and I have spoken about it a lot, we find that most of USL's or Diageo's brands occupy the center of that hourglass space that is reducing dramatically in volume so whereas it is something that we are thinking about but we are concerned that it occupies a space that is shrinking in volume dramatically.

Abneesh Roy: Last question you mentioned in opening remarks on in-home consumption so my question is in your markets and your segments if you could give more color what exactly has changed versus pre-COVID and second is duty free again has reduced for the industry. So, for the branded Indian IMFL industry what are the benefits, if you could discuss that and any comments on the home delivery in your markets, any development there?

Paramjit Singh Gill: Thanks. As of now obviously we have seen with this continued pressure on lockdowns many progressive states have started unlocking this challenge and have progressively been opening up opportunities for home delivery. In quite a few states this is still evolving and there are still some hurdles that are being unlocked to make it a seamless separation between the consumer and the service provider. As of now this whole operation is really restricted to premium segments. It has not trickled down to the value segment at this point of time, but we are confident it is a matter of time as the digitization and the digital economy keeps on evolving you know like the whole cell phones today everybody has a smart cell phone even if the consumer plays at the absolute bottom of the pyramid, so this also will continue to expand and find its place overtime. As of now it is an interesting space, a growing space but contributes very, very small to the overall portfolio of alcohol. Coming to the duty thing there is a lot of discussions around and I think you are referring to the BIO duty structure which is happening is that correct?

Abneesh Roy: Yes, you are correct.

Paramjit Singh Gill: We are obviously expecting softening of the 150% slab which exists as of now. So overall, it is an interesting development and it will allow two behaviors to merge, one is obviously the competitive the BIOs will become much more competitively priced as we move forward into the future, opening up growth opportunities in that place and that will also allow IMFL players to take advantage of it because most of them use Scotch as a key claimed ingredient.

So, it continues into the framework of India's premiumization journey and overall, I think it will be beneficial for the alcohol beverage industry and so also for us.

Abneesh Roy: So, that is very helpful. That is all from my side. Thanks a lot. All the best.

Moderator: Thank you. The next question is from the line of Yash Agarwal from JM Financial Service. Please go ahead.

Yash Agarwal: Good morning Sir and congratulations on a very good set of numbers. My first question is what is the sort of raw material cost benefit especially on grains we have got this fiscal as in how much of the grain cost down and how sustainable is that benefit from our raw material perspective? That is my first question.

Shekhar Swarup: You are right this year grain has been soft for us, but I think the more significant point here is the market expansion is still there, there is a change in demand for ENA and ethanol. We believe that the current levels of margins are sustainable going forward. There may be a little bit of a lag in terms of timing where the raw material prices may go up and prices of finished products might take a little bit of time to catch-up but I do not foresee that as a significant impact to the company. The main issue is that that ENA and ethanol, the demand for these two products put together have created a deficit in India which will take a very long time to meet fully and as a result for this period, we believe that the current levels of margins will continue.

Yash Agarwal: One more question is how much of our capacity we can do in ethanol. Is there a fungible capacity and what I mean is out of the 15 Crores - 16 Crores litres, to what extent can we go up to make ethanol from the current capacity and also in the new capacity that we are adding in West Bengal and I think we spoke about Jharkhand etc., is that going to be a fungible capacity of ENA and Ethanol or it is going to purely ethanol?

Shekhar Swarup: All new capacities will be fungible but on the existing capacities, Bihar is fully fungible, so that is 80 KL per day and Haryana is 50% fungible, that is another 80 KL per day which is fungible, so total of 160 KL out of capacity of about 500 KL is fungible as of today. Going forward all capacities will be fungible.

Yash Agarwal: On one last question from my side, what has driven the increase in IMIL realisation, and I believe it is of almost 10% odd, what is it, is it just state price increase and how sustainable do you think this number could be as IMIL realisation moving up and down?

Shekhar Swarup: I will let Param shed more light on it but in our consumer segment the reason we have been able to drive up revenue is largely due to introduction of more premium price points within the value segment. So Param could you please shed a little more light on this? Thanks.

Paramjit Singh Gill: Absolutely, as I said in the whole value segment space there are new price points emerging and we are confident that these are here to stay and we have been well poised to take advantage of that and these incremental price points where our offerings and our offering is much more akin to the requirement of the higher price points, they have a better brand, product as well as liquid delivery are finding very strong acceptance. As of now the indicators are this trend is not only likely to continue but there is a strong possibility that this trend is going to expand further.

Yash Agarwal: Thank you so much for answering my questions.

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

Nitin Avasthi: Thank you for the opportunity. Firstly, on the ENA prices the way it has been moving, have two developments could happen on this front which I want to clarify with you, one is that IMIL players who outsourced the ENA requirement, there are a few, they are seeing a hit on their P&L because of the increase in ENA prices, but do you think the states will oblige and increase the IMIL prices once again by a good margin, that is one and two is on the flip side, do you see your end user customers who are IMFL players setting up their own distilleries at some point of time because it makes more sense for them to have an internal source given that the prices are so high?

Shekhar Swarup: There is a third trend that is happening to put out there. I will address all three together which is with increasing ENA prices IMFL players are having to move up in price points and vacate value price points for players like us, so yes IMIL or the lower end of the value segment is certainly going to get price increases. We see price increases for these segments at least once in two years, if not once every year. We have seen it increase in Haryana and Rajasthan fairly regularly. We saw one in West Bengal as well but in the next financial year not in the current, there will probably be further increases. Most of these increases are enough to deal with inflationary environment of costs and they don’t usually lead to significant margin enhancement for standalone bottling plants. I mean in some states, firstly at Globus Spirits, we believe that if you want to have strong value segment presence, the only way to do there is to be fully integrated in terms of capacity. You may have some seasons of period of few years where you may be able to create a business and have some sense of profitability and cash flow if you are a standalone bottling plant but the only way to have a long-term solid business in the value segment is to be well integrated, so if some bottlers have had that aspirations then surely, they should be looking at setting up capacities. I hope I was able to answer your questions there?

Nitin Avasthi: Yes Sir. Secondly coming on the expansion, you mentioned Jharkhand, so when would Jharkhand come on stream?

Shekhar Swarup: We have just about started constructions there. So, we expect around Q2 of next financial year.

Nitin Avasthi: And what would be the capacity there?

Shekhar Swarup: 140 KL per day.

Nitin Avasthi: Okay, Sir just last question would be, what would be the grain prices roughly that you would be getting at and how does it pan against the FCI offered rates of Rs.20 per kg and are we using any of that grain?

Shekhar Swarup: State to state our grain prices vary. They are dependent on the different types or grades of broken rice available. We do not buy rice which is used for food. We buy broken rice which is a waste product of the rice milling process about 5% to 7% of the rice mills capacity is based broken rice. There are different grades of broken rice, there is Sortex, non-Sortex, par boiled raw and each of these give us different yields. It is a little difficult for me to tell you what is to give you one number for all over the country but suffices to say that this is something that is very important to us and we have a team that is focusing just in case in fact it is something I look at personally very regularly as well. FCI is Rs.2,000 and currently it is more to use from broken rice of different grades, we do have a small amount of the procurement from FCI very, very small just to understand how the system works and even put in some ethanol from that route, but it is very, very small right now.

Nitin Avasthi: Got it, Sir. On the price point there was a mention that different price points are emerging and there are products being introduced within these price points, so one of them if I am not wrong, is the Rajasthan Medium Liquor, could you share the examples of any such other value products which are arising in your mid segment, price point?

Paramjit Singh Gill: Sir, what we eluded to was that there appears to be a trend that is forming where the states after considerable delays have realized that within the above zone of value segment there is also a higher opportunity of driving aspirations and you have rightly mentioned as RML of Rajasthan, there are other states which are seriously working towards this and Haryana has entered that fray, early days, yet we are confident that there are a couple of other states which are in very early stages of it. So, I would not be surprised if this trend slowly expands, and it is up to us to now create offerings which are significantly superior in delivery and pull consumers not only from the bottom of the pyramid but from the next run which is above us of IMFL which is the declining segment. So, it is a very interesting opportunity and as of now it is showing very strong signs of accelerated growth.

Nitin Avasthi: I am getting all the questions answered and that is all from me, Sir.

Moderator: Thank you. The next question is from the line Rusmik Oza from Kotak Securities. Please go ahead.

Rusmik Oza: Sir, can you give us a consolidated view of the expansion that is going to play out in FY22, FY23 and FY24 in terms of the capacities that will come up, on a consolidated basis at various places, and what is that the capex for each year FY22, FY23 and FY24?

Shekhar Swarup: Currently, there are besides the project in West Bengal which as I mentioned is a nearly fully expensed. This year there will be 140 KL of distilled capacity coming up there along with 20 KL in Rajasthan which has already come on, so total of 160 KL extra this year. For these two projects in this financial year there is hardly any capex that is pending. The next round of expansion which has been approved by our board is a Greenfield site at Jharkhand and an expansion at Bihar. Both these projects will start production in the next financial year, so i.e., FY22–FY23 and will add 280 KL of capacity and put together these projects should cost us about Rs.225 Crores or so. As of now this is the expansion that has been approved. There are one or two other projects that are currently under preparation, where we are conducting our internal exercise, and these have not been approved by the board and will be taken to the board later this year and perhaps come into construction in capex if approved later in the next financial year.

Rusmik Oza: Okay, that is helpful Sir. My second question is related, if you can just give us the breakup of FY21 revenue in terms of the contribution that has come from Ethanol and maybe sanitizer business?

Shekhar Swarup: We do not break up revenues like that because the distillery segment comprises of ENA, Ethanol which is our alcohol sales, it comprises of by-product sales. So, it is difficult to do that break up but our capacity to produce Ethanol is about 160 KL per day across the country, across the entire company out of our installed capacity of 500 KL as of now. Pretty much, all of our Ethanol capacity is being used for Ethanol as of now and the balance capacity is being used for combination of obviously consumers, so allocation to within the company for our consumer business and franchise bottling for other brand owners as well as some amounts of bulk sales. Suffice it to say the distillery segment revenue was about 55% this year which is down from 67% - 65% last year.

Rusmik Oza: That is nice. Sir, last question from my side is, if you can just in fact understand whether the margins on EBITDA level are higher in case of ENA or Ethanol for your company?

Shekhar Swarup: Again, a very state by state and it is difficult for us to take a single view across the company. In West Bengal for example, ENA is more profitable, so we maximise ENA sales over there. Similarly, in Rajasthan ENA is more profitable, in Bihar it is kind of the same whether you make ENA or Ethanol, so we focus on Ethanol so that because ENA from Bihar has to go into West Bengal since Bihar is a dry state. In Bihar we focus on Ethanol so that we do not end up competing with our own facility in West Bengal. In Haryana, we have a very small amount of ENA production that is sold within India, it is 50% of our capacity is Ethanol of the balance about 60% is used by consumer and there is huge amount of ENA, we export overseas which has been the case in fact in Haryana for many years.

Rusmik Oza: Thanks. That is it from my side, Sir. Best of luck for your future expansion.

Moderator: Thank you. The next question is from the line of Hiten Boricha from Joindre Capital Service. Please go ahead.

Hiten Boricha: Good morning Sir. Congratulations for very good set of number. Sir, I have a couple of questions, so the first question is Sir, like our Q4FY21 was partially impacted by the second wave and even after that we managed such good numbers in both the segment in manufacturing segment and consumer as well. So, should we assume this Rs.50 Crores, kind of PAT is our base earning now, and it can only go up with increase in capacity and entering new markets?

Shekhar Swarup: In our states Q4FY21 did not have any significant impact of the second wave. There were no lock downs in Q4. That has started happening in Q1FY22, so Q4FY21 is actually been pretty good performance in terms of getting a full quarter of operations.

Hiten Boricha: Okay, can you quantify like by any percentage or something, how much is Q1FY22 is impacted as of now?

Shekhar Swarup: Unfortunately, not able to do that. Once Q1FY22 closes and we publish our results I will be able to get into Q1FY22.

Hiten Boricha: Okay, just to correction, if you assume like we can exclude the Q1FY22 because of the lockdown, so is that assumption correct we can do Rs.50 Crores kind of PAT or the next second half of this year excluding the lock downs in Q1FY22 and all that?

Shekhar Swarup: Again, I am not in position to comment about H1FY22 PAT for this year, but our business performance is strong which come from sticky businesses. We have commented on the environment generally. Now thereafter we continue to operate on best effort basis to maximise operations every day.

Hiten Boricha: My second question is on the clarification of capex Sir. You mentioned we are spending Rs. 225 Crores for the expansion in Jharkhand and Bihar, right. So, are we spending these Rs.225 Crores in this year itself or is it spread in FY22 and FY23?

Shekhar Swarup: Large part of it will happen this year, especially for Jharkhand most of it will happen this year. Bihar it really depends on when it starts, as of now we start construction this year, but there are some amounts of land acquisition and a few other activities that need to be completed before we can start. So, Jharkhand 80% - 90% of it this year, Bihar we spend on when we start.

Hiten Boricha: Can we quantify how much we are spending on Jharkhand out of the Rs.225 Crores?

Shekhar Swarup: Rs.125 Crores give or take that is the plan.

Hiten Boricha: Thank you.

Moderator: Thank you. The next question is from the line of Chirag Lodhia from Value Quest Investment Advisors. Please go ahead.

Chirag Lodhia: Thank you for the opportunity. Sir, my first question was what is the maximum revenue we can do with this expanded capacity which is available in FY22 with us?

Shekhar Swarup: You want to know how much revenue it will add?

Chirag Lodhia: Yes, potential revenue possible with the existing capacities including which will come on stream in FY22?

Shekhar Swarup: Well, that really depends on how much consumer business is able to grow, but the new capacity is just on a 100% bulk should add around Rs.52 or so from the business and about Rs.8- Rs.9 from the by-products business, so let us say about Rs.60 per litre and in terms of what is the potential from existing capacities as mentioned by Dr Bhaskar Roy earlier we are really running at full capacity in Q4FY21, but consumer business is growing extremely well and we should only be able to grow the current run rate.

Chirag Lodhia: In terms of margins Sir, you mentioned that margins are quite sustainable. I just wanted to know, Q4FY22 you did around 25% margins, so if that run rate is sustainable or the full year, we did around 21%, that is sustainable?

Shekhar Swarup: It really depends on what your outlook is on our consumer business growth, if the consumer continues to increase as a share of our overall business our overall margins will obviously continue to increase.

Chirag Lodhia: Right, and in terms of capex FY22 there will be hardly any capex is that the correct understanding?

Shekhar Swarup: There is going to be capex from the new capacity in Jharkhand and the new capacity in Bihar.

Chirag Lodhia: Okay, so these Rs.225 Crores would be spread over two years FY22 and FY23?

Shekhar Swarup: Yes.

Chirag Lodhia: How will be the funding for the same?

Shekhar Swarup: Internal accruals.

Chirag Lodhia: No debt would be required?

Shekhar Swarup: No, Long term requirement of debt Sir.

Chirag Lodhia: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Chetan Ramani from Ramani Holidays. Please go ahead.

Chetan Ramani: My question is due to lockdown in the month of April-21 and May-21, is it going to impact the sales?

Shekhar Swarup: Yes. When festivals there was no sales, yes, but I am not able to quantify that impact immediately the impact is going to be far less than last year lockdowns are far less stringent. But again, we are still in Q1FY22 not able to comment too much on that.

Chetan Ramani: Thank you very much.

Moderator: Thank you. The next question is from the line of Vibha Batra from Fair Connect Business Advisors. Please go ahead.

Vibha Batra: My first question is again on the operating margins. You said you will be able to maintain those, so we Q4FY21 as a benchmark, right?

Shekhar Swarup: There are two types of margins that we make; margins from our consumer business and margins from our distillery business. As our value segment as well as our premium segments continues to grow, blended margin will increase. The margin that you make per unit or as a percentage in our distillery business is stable and as the capacity grows so that the total margin earned in that business will grow. Now, the question is, what is your outlook on our share between the two businesses, certainly as our manufacturing capacities increase there will be significant increases to revenue manufacturing and gradually our consumer business, we believe that we should get better growth than we have already demonstrated, but that will start catching up and increasing margins further.

Vibha Batra: In absolute level, the margins may decline if the proportion of consumer business goes down purely because your manufacturing capacities will come on stream, would that be correct understanding?

Shekhar Swarup: Yes, I think that is fair, because consumer margins are greater than manufacturing margins and manufacturing is going to grow at a larger CAGR, I suppose to consumer.

Vibha Batra: Okay, and overall, what is your expectation on growth in revenues for the year, broad range will also do?

Shekhar Swarup: We will get six months of new capacity in West Bengal which is adding to about 30% of total capacity and given it is really depends on lockdowns as well, right I mean if you are going to have multiple lockdowns, of course, it is very difficult year for the country and the world, but it gets even more difficult to protect operations.

Vibha Batra: Even if the third wave is like the second wave and if you were to kind of predict on that basis, it is then what would it be like?

Shekhar Swarup: I am unable to predict waves unfortunately, so even in our budget, we have kept some margin for that. But like I said consumer business should grow faster this year than last year and of course there is new capacity coming up in West Bengal and new capacity in Rajasthan that has already started.

Vibha Batra: Your subsidiary where you are doing the bottling that was loss making, is it still loss making that you are going to merge?

Shekhar Swarup: Yes, it is still loss making which we are merging with Globus Spirits.

Vibha Batra: How much is the loss expected this year?

Shekhar Swarup: About Rs.3 Crores was the loss last year and it will remain around the same number in this year.

Vibha Batra: Why do you continue with this loss -making business?

Shekhar Swarup: Because we are investing in premium brands and growing our distribution in that space. So, at this scale there is bound to be a loss, till such time as volumes increase to offset the loss and this loss is also part of our plan.

Vibha Batra: Okay, so by when this segment becomes profitable, how many years will it take?

Shekhar Swarup: I think, it is important to look at the consumer business as a group. There are going to be brands that perform better than the others. But we are restructuring our entire consumer business into one umbrella which is the consumer division at Globus Spirits. The performance of this division has been exemplary in the last one year and going forward it should continue to do well both at premium as well as value segments based on our key assets of distribution that we have in the states that we are present in and the few others that we are adding.

Vibha Batra: Thank you and all the best.

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

Sahil Narayanan: Congratulations Shekhar and team on the good set of numbers. I have got question on the expansion plan, the board has decided to expand -into Jharkhand and some other states right, so what is the rationale behind it? Is it in alcohol deficit state the strategy whatever you mentioned that is the reason we are venturing into? That is my first question and second thing is Shekhar was mentioning that the funding there is going to be a capital expansion to the tune of Rs.225 Crores, right. So, I just want to know even for West Bengal right now we have invested close to Rs.110 Crores and for Jharkhand and other expansions another Rs.225 Crores we are going to expand, right so closely it comes to some more than Rs.320-Crores or Rs.330 Crores it comes. So, what is going to be the funding are we going to dilute the equity or are we going to fund through internal accruals or how much of this is going to be a bank debt? So, these are the two questions I have got for you?

Shekhar Swarup: First answer is yes. We are expanding into deficit states. Jharkhand will be a play for ENA and Ethanol which is part of our distillery segment and it will also offer prospects for our consumer segment at the value as well premium end. Your second question was about source of funding, all our projects have been financed through internal accruals whilst we continue to pay down debt as well as pay dividend to shareholders.

Sahil Narayanan: That is it Shekhar. So, I will wait in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Krati Rathi from Perpetuity Ventures. Please go ahead.

Krati Rathi: Thanks for taking my question. My first question is on the debt part, gross debt is right now around Rs.175 Crores for the company and FY22 and FY23 it seems that most of our cash generation will go towards capex. So, do we see is there any room for debt reduction in the next two years or do we see it at current levels?

Shekhar Swarup: I believe that debt in the current financial year will be lower than what we started with, so we will continue to pay down debt.

Krati Rathi: Is there any rough target which you can share?

Shekhar Swarup: I think we have about three years left in our repayment cycle, so maybe bring it down to about Rs.50 Crores to Rs.70 Crores kind of number and then maintain that.

Krati Rathi: Okay, we got it.

Shekhar Swarup: It is not really a target. It is a lose sort of direction.

Krati Rathi: My second question is about how we see the mix of the consumer business and the manufacturing business evolving over the next two years. Will we be investing in both the business, so can it be 50:50 roughly in the next two–three years?

Shekhar Swarup: That is a good question and I think we should probably get back to you with exact numbers on that, but in the next two years we will add 280 KLPD, well in fact another 140 KLPD-180 KLPD, so about 420 KLPD we will add to our existing 500 KLPD, so a growth by 90% over two years and consumer business should continue to grow at the current level in fact we are hoping it will increase the growth. So, the current level at the end of two years should be able sustain.

Krati Rathi: So, sustain has like existing levels, you mean 67% & 43 % roughly consider that?

Shekhar Swarup: That would be a good start for us to have, but we have not done that exercise, so I cannot tell you what our internal targets are, but if I were to get certain number then around 45% at the end of two years through consumer would be a very good benchmark.

Krati Rathi: Got it. Thanks a lot for answering my questions.

Moderator: Thank you. The next question is from the line of Ashok Agarwal an individual Investor. Please go ahead.

Ashok Agarwal: My question was we were observing that one of the major shareholders i.e., Templeton is divesting its stake. Can you through some colour on it, who are the deemed investors coming in place?

Shekhar Swarup: I do not know that.

Ashok Agarwal: Is it?

Shekhar Swarup: We are not part of facilitating any block deals, so I do not know who the buyers are.

Ashok Agarwal: Second question is about the capacities which are coming up in West Bengal, Bihar and Jharkhand over and about our 520 KPLD capacity which is there. So, is it meaning that we are heading for a capacity of 940 KLPD over by next financial year?

Shekhar Swarup: Give or take, yes.

Ashok Agarwal: Can we assume that at least our plants are basically making ENA, which is almost equivalent to Ethanol let us say, in terms of pricing and all. So, can we believe that our entire operation would be 940 KLPD almost for Ethanol and then add on to it is our consumer business?

Shekhar Swarup: No, that is not correct. ENA in Rajasthan and West Bengal will continue to remain more profitable. In other states we will play between ENA and Ethanol and therefore we can assume that the margins are similar.

Ashok Agarwal: Okay, I am asking that when we add on to Ethanol and make it as an IMIL let us say liquor, so we are adding up on that Rs.10 – Rs.12 or Rs.15 per litre that is add on to the ENA, is it not. I am asking whether this 940 KLPD can be assumed as Ethanol capacity and add on that is our consumer business. So, just to make a guesstimate of what would be our operation size after maybe two years so like that I am thinking in that way?

Shekhar Swarup: Let me try to answer it differently. I am not entirely sure what you are trying to get at. But today the capacity is 500 KLPD, of which our revenue is 45% consumer and 55% bulk. Going forward, we will add 420 KLPD of capacity, most of this 420 KLPD at least 75% of this will go for Ethanol and 25% of this 420 KLPD will go ENA. ENA is usually at higher margin than Ethanol, but it is okay to assume for a minute that they are same margins. In addition to this 420 KLPD of capacity that we are adding on our consumer business will also continue to grow. So, that is how our business is stacking up in the future.

Ashok Agarwal: I got it now. The 940 KLPD is not entirely for consumer business. So, we must see 940 KLPD as ENA/Ethanol and over and above then whatever we are able to use as consumer business, so that is the consumer business, so that size of consumer business in terms of litres or kilo litres is less compared to the pie of the whole size.

Shekhar Swarup: It is within 940 KLPD or 920 KLPD.

Ashok Agarwal: Yes, I got it. Thank you.

Moderator: Thank you. The next question is from the line of Pawan an individual Investor. Please go ahead.

Pawan: Thanks for providing me the opportunity and very well done, Sir. Congratulations, I just track all of these kind of stocks and from last March-20 onwards, from the pandemic onwards there is a constant increase and kudos for this and a little bit recently you have a good cash flow as well and it is very well, I am from South India actually and actually I am a consumer as well and we have brands with Radico, United Breweries or United Spirits, but not aware of the Globus Spirits, whenever I check the back side of the label so do you have any plans in South India like Karnataka, Tamil Nadu, Andhra Pradesh?

Shekhar Swarup: No, Sir you will have to take flight to come to our states and to be consumer of our products.

Pawan: Okay, sorry you do not have any plans to bring on South India?

Shekhar Swarup: Not as of now. We have some distribution in Andhra Pradesh. We have some distribution in Telangana, but not in the other Southern Indian states.

Pawan: Thanks for that Sir. That is my first question and second question I think previously some investor has asked that, I got panic with regards to selling of one of the funds from Templeton being a consistent performer and I am truly new so little bit, you want to say any words on that?

Shekhar Swarup: What is the question, I am sorry?

Pawan: With regards to recent selling from one Templeton Fund?

Shekhar Swarup: From what I know, they have a fund life and that has come to an end they invested in 2013, they have been with us for eight long years, and they have come to an end of their fund life and like any other fund this fund must also come to an end. This is a private equity fund not a mutual fund.

Pawan: Thanks for that because normally there will be a share price increase when you announce the date from there people like traders might increase the price and obviously that Q4 will be good but little bit surprised why they sold before the results or something anyways thanks and all the best.

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

Nitin Avasthi: Thanks for the follow up. Just on the Odisha expansion that got all the permissions and you had plans for Odisha as well. So, what is happening to that? Has it shifted on the backburner or are we still going to go ahead maybe in a quarter or two with Odisha plan also?

Shekhar Swarup: Sorry, there was a problem with my line again. Could you repeat your question, please?

Nitin Awasthi: Earlier we had also made plans for Odisha or at least got the approvals for Odisha and made plans for that state as well, so going ahead are we also wanted to see Odisha come up in quarter or two at least?

Shekhar Swarup: I think you are referring to the press coverage that our project or application at Odisha got stuck up. The board of the company has not approved the project in Odisha. It is one of the projects that is something that we are working on without allocating capital to right now and perhaps in the next financial year along with one or two other opportunities we will announce further expansion which may or may not be in Odisha, right now we are not in a position to confirm.

Nitin Awasthi: Okay, Sir got it. Thanks for that.

Moderator: Thank you. The next question is from the line of Sahil Narayanan an individual Investor. Please go ahead.

Sahil Narayanan: Thanks for the follow up. If I remember during two or three concalls back when Paramjit Gill, I heard from one of the conference calls that we are planning to have a strategic assessment, a vision plan on how we are going to take the consumer business going forward for the next three years in place. So, I just want to know, is the vision plan ready and can you throw some light on what are the key features of this document if it is ready, so that is my first question and second thing is, what is the role of Vijay Rekhi, is he still with the organization, so these are the two questions?

Paramjit Singh Gill: I will take the first one. As I said we have prepared a plan and obviously the plan is also incorporating lot of learnings that various industries including ours and us have had during this COVID-19 pandemic and that is why in my opening remarks you will note there were two distinct call outs, one call out was that we are significantly driving the following, the first one in the value segment, we are re-energizing as well adding to our existing offerings, preparing towards a higher consumer acceptance for us and catering to the growth possibilities that are likely to emerge as per our projections and our going forward vision takes that into account. Towards servicing this we are in addition also building capabilities as well as route to market inherent structure addressing mechanisms which I had called that right from the time the stocks of brands reach the trade to the time it reaches the hands of the consumer. Coming to the Premium Spirits portfolio, I had called out that we have embarked on making much sharper choices in the portfolio as well as in geographies, in the portfolio we are likely to add two more brands, servicing to distinct consumer needs and in terms of geographies the key underlying filters for investment will be profitability of the relevant segment in the geography, the size and salience of the segments in which we operate in that geography, the convenience and affordability to service the market in that particular state geography, the size of investments required because each market is not of the same competitive order and the time required to make the state go on to a sustainable and a profitable trajectory. So, our business plan obviously is, while various engagements are continuing to go, these are the directional changes that have gone into the business plan and we believe that these changes are going to hold us in very good stead as we go into more and more uncertain times and in these uncertain times bring certainty to our aspirations and projections. Does that address your query?

Sahil Narayanan: Yes, when can we expect this plan to fructify to get operational, to see some results because as Shekhar was telling that this year we are expecting a loss of Rs.3 Crores, so can we expect in the next two year or three years, do we have a time frame to see the efficacy of this strategic reassessment?

Paramjit Singh Gill: The way to look at is that do we want a very small and profitable premium spirits business, or we want a sizeable premium spirits business which starts contributing to the consumer business which contributes to the mother ship. I think that is the filter we should use because that is what becomes the guiding beacon, because eventually what does every organization including us want, we would want a sizeable tangible business and then only the profits will make sense. We are using that framework where we want the premium spirits business to start becoming sizeable and that is the framework which is the driving framework, not only very narrowly thinking about how to make that Rs.3 Crores turn into a profit. It is about the size of the opportunity, how do we go about getting the size of the big opportunity, the big pie rather than staying into a thin and narrow how do we convert the Rs.3 Crores into a profit number.

Shekhar Swarup: Just to add to what Param said, it is also to do with accounting standards. When you are investing in the brands from scratch, we are booking all our expenses as revenue expenses as the way it should be and most of these expenses are in the nature that they will lead to benefit in the future. So, in the technical sense of the expense, it is not a revenue expense, but it is being treated as such.

Sahil Narayanan: The parameters we can look at in terms of scalabilities we can expect a sizeable increase in the sales going forward due to the re-structuring in the plan?

Shekhar Swarup: I think the matrix to watch for our consumer business share of total revenue and the volume of the consumer business.

Sahil Narayanan: Sure, okay. Sir, how about Vijay Rekhi?

Shekhar Swarup: Yes, Mr. Rekhi is more than anything, a mentor, guide, and a friend. He has been a mentor and guide to not just me personally but also countless others in the industry. We have great regard for him. From operations Mr. Rekhi stepped away from December 31, 2020.

Sahil Narayanan: Thanks Shekhar & Thanks Param, I wish you all the best. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question for today. I would now hand the conference over to Mr. Shekhar Swarup for closing comments.

Shekhar Swarup: Thank you everyone for spending your morning with us. As always please feel free to get in touch if you have any follow up questions. Thank you, again. Bye!

Moderator: Thank you very much. On behalf of Globus Spirits Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.