



“Globus Spirits Limited
Q2FY22 Earnings Conference Call”

November 12, 2021



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Globus Spirits Limited
November 12, 2021

Moderator: Ladies and gentlemen good day and welcome to the Global Spirits Limited Q2FY22 earnings conference call. Joining us on this call today are Mr. Shekhar Swarup, Joint Managing Director, Mr. Paramjit Gill, CEO (Consumer division), Mr. Bhaskar Roy, COO, and Mr. Nilanjan Sarkar, Sr.VP Finance. 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 please signal an operator by pressing “*” then “0” on your touchstone telephone. I now hand the conference over to Mr. Shekhar Swarup. Thank you and over to you Sir!

Shekhar Swarup: Thank you. Good evening everyone and welcome to our Q2FY22 earnings call. The second quarter gone by witnessed strong rebound from the first quarter that was impacted by lockdowns rising through the second wave. We are happy to inform that economic activity has recovered to pre-COVID levels. In fact, it has grown to pre-COVID levels in the areas that we operate. Before we jump into performance, I would like to draw your attention to the fact that reported financials for Q2FY22 and H1FY22 include the effects of the merger of Unibev Limited with Global Spirits Limited and accordingly the financials for previous comparative periods have also been restated to ensure like-to-like comparison.

At Global Spirits our consistent focus remains on growing both arms of our two-pronged business model to continue to help us to grow from strength to strength, mainly the consumer and the manufacturing businesses. We are happy to report that both our businesses continue to grow on the back of improved capability building in our consumer business and strong demand for ENA and ethanol backed with high plant productivity in our manufacturing business. Our efforts in creating better offerings to the consumer in the relevant segments along with strengthening capability at back ends and frontlines is playing out to our advantage and we remain hopeful of translating this into further market share gains in the coming years. Further the hourglass shape market that I have spoken about in the previous calls continued to guide our strategy in key markets. Further details on this will follow in Param’s remarks.

Coming to the manufacturing segment while demand for ENA and ethanol remain strong our business performance suffered due to plant closures to some extent. In Bihar the facility has been closed since August 15, this year due to flooding caused by unprecedented rains in the region whereas we were able to take precautionary measures to preserve our assets, the opportunity cost of this closure is estimated at about Rs.20 Crores for the quarter gone by



Globus Spirits Limited
November 12, 2021

we expect the plant to restart in December-21 and achieve our targeted productivity budgets shortly after.

In addition, plant shutdown for critical maintenance at Haryana and West Bengal further led to an estimated contribution loss of about Rs.5 Crores, despite lower capacity utilization due to plant closures the manufacturing business posted a revenue growth of 7% year-on-year, driven by robust growth in overall realizations.

With respect to our plant expansion, the work continues to remain on track. The new facility in West Bengal with a capacity of 140 kl per day is expected to be operational within this month i.e. November-21 and is expected to operate at full capacity from Q4FY22. This marks a record completion of work in about 14 months despite three to four months of disruption due to lockdowns and heavy monsoons in this period. Work in the Jharkhand factory is underway and we expect the plant to be fully operational in Q1FY23. In Odisha land acquisition is underway and we believe it will be completed by end of December of this year.

The company has also received 10-year long-term volume allocation for our units at Haryana, Jharkhand, West Bengal and Odisha by the OMCs for ethanol supply. This is a welcome step to assure volume offtake for our facilities. I now request Param to take you through the performance of the consumer business.

Paramjit Gill:

Thanks. Good evening ladies and gentlemen and I hope you had a good Diwali. As Shekhar explained, our consumer business has seen strong traction with growth in volumes by over 13% year-on-year and 12% quarter-on-quarter while revenue grew in the range of 30% year-on-year as well as around 16% quarter-on-quarter and we are well on our path of a strong growth trajectory for the forthcoming quarters as well. Further we are very happy to inform you that the product mix continues to improve with a higher share coming through the premiumization from the value segment.

Let me take you through a quick analysis and strategy for this segment. For our value and value plus segments the key markets of Rajasthan, Haryana and West Bengal continue to show growth. In Rajasthan our market share has increased to above 32% on the back of strong performance of the value plus segment where our market share increased to almost 45% in Q2 of the current year. This was in the range of about 29% in the last year.



Globus Spirits Limited
November 12, 2021

Further new launches have been planned that is Black Lace Rum and Globus Green Whiskey Brand in the coming quarter. We are also expanding our whiskey and vodka offerings via our tetra packs. Tetra pack as you know is an interesting modern offering which not only is efficiently transportable due to the weight of the glass bottles no longer being a factor that is the most pilfer proof packaging around in the consumer business. It also offers advantages to the traveling mobile consumer. This move also establishes our ability to move forward and try and capture modern trends in consumer behavior in these relevant segments.

In Haryana we have maintained the market share in the range of 9% and are planning on launching two new brands in this quarter to further accelerate our path to gain market share. The new offerings which have been planned will again play in the value plus segment and have the ability to shore up our margins basis performance. Both offerings are in the whiskey flavor which is the most dominant flavor in that market and will be entering the market with considerable upgraded packaging as well as liquid.

In West Bengal there is huge headroom for growth since our current market share is only about 2%. Our upcoming expansion at West Bengal facility is about to give us an added impetus to not only expand our portfolio of offerings but will also allow us to capture sudden market surges in that geography. We have reintroduced our original Goldie brand in the market and this is initial feedback I can say that it has been well accepted.

New launches are expected in this quarter not only in the value plus segment but we also plan to expand our offering by including the rum. We have successfully started energizing our current portfolio across the chain by not only improving its overall delivery to the consumer but also expanding as well as upgrading the range of our offerings to cater to the evolving tastes and preferences of the consumer. We are also taking into account the seasonal as well as occasion led changes in the consumer behavior to capture these opportunities.

Global spirits will continue to participate as a meaningful business in the premium and core segment given the potential in the industry and the economic benefits that accrue to the players in the segment.

In the IMFL business as earlier mentioned that in the post-COVID scenario and basis our philosophy or playing where we have a right to win depending on ease of entry, cost of



Globus Spirits Limited
November 12, 2021

doing business, contribution profile, business environment, etc. We are about to go in for local production of our brands in West Bengal. This will allow us both to expand efficiently into the total state of West Bengal, which as of now is being serviced in the greater Calcutta area. Entering key markets of Delhi, UP, Haryana over the Q3FY22-Q4FY22 period through in-house sourcing is almost around the corner and is going to be a very exciting phase in our journey.

We have increased our offering as well in the IMFL segment to also include participation in the semi premium segment in our portfolio to help accelerate our progress. Through these markets we are hoping to contribute significantly to the semi-premium and premium segments where these markets play a significantly salient role. I am looking forward to a very exciting journey ahead with the support of all the stakeholders. I will request Dr. Roy to now lead the conversation.

Bhaskar Roy:

Thank you Sir. Good evening 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 42% in Q2FY21 to 47% in Q2FY22 on the back of robust growth in volumes and realizations led mainly by Value Plus segment also known as medium liquor. 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 in Q2FY22, revenues from consumer business in Q2FY22 came in at Rs.181 Crores year-on-year and growth of 30% year-on-year and 16% quarter-to-quarter.

The manufacturing business on the other hand while growing has seen its contribution come down from 58% in Q2FY21 to 53% in Q2FY22. In the manufacturing segment our bulk alcohol revenue came in at Rs.138 Crores for the second quarter of FY22. Second Quarter of FY2022 saw plant closures which already was mentioned by Mr. Shekhar Swarup and giving details, despite this the capacity utilization came in at 90% in Q2 FY22.

In terms of volume the consumer segment saw sales of 3.80 million cases a growth of 13% year-on-year and 12% quarter-to-quarter of which value plus segment sales stood at 1.30 million cases a growth of 63% year-on-year and 19% quarter-on-quarter.



Globus Spirits Limited
November 12, 2021

Our cash flow generation in FY21 was strong and we generated Rs.148 Crores of net cash flow from operations whereas for half year ended FY22 the cash flow generation was Rs.138 Crores.

Our finance costs are reduced by 37% year-on-year from 9.9 Crores in half year ended 2021 to Rs.6.3 Crores in H1FY22 on the back of reduced bad debt as mentioned above and reduce the average cost of debt to 7.4% in H1FY22. Our interest cost for the last quarter is 5.95% on long-term loan as a result of the improvement in the financial risk profile of the company marked by healthy operations margins and comfortable capital structure and debt coverage indicators the credit rating for our long-term and short-term bank facilities stand reaffirmed that is stable with enhanced credit limits as of January 2021.

We saw our EBITDA margins improved by almost 412 bps this year year-on-year to 23.3% in quarter two of FY22 and remained within expected range, however Q2FY22 saw fuel inflation of 20% - 25% which was offset to some extent by upward moving ENA prices and Animal Feed prices, whereas EBITDA margins for H1FY22 expanded by 650 bps to 25% from 18.4% in H1FY21 on the back of higher share of consumer revenue and improve realization.

As mentioned in the previous call, we continue to avail the MAT credit avail to the company on account of the benefit of setting up plant and older section of the income tax that reduces the effective cash payout of tax to around 24.83% in half year till such time this credit is fully utilized the company's cash outflow will be in this region and we are expecting that this year we will aim with the tax expected current year of cash out flow of 21.33%.

The MAT credit which will be fully utilized this year and from next year there will be no income tax MAT credits should be available our tax rate should be in the range of 24% to 25%.

Now coming to the working capital cycle, overall working capital cycle has seen an improvement however there is an increase in accounts receivable on account of strong growth in higher price of consumer value segment of which the duty paid is funded by the company.



Globus Spirits Limited
November 12, 2021

The Net Working Capital days is 11 days as of now despite this increase in working capital our return ratios have significant expansion ROE and ROCE have gone up from single digit inFY2019 to 31% and 39% in H1FY22 respectively.

We have calibrated our operations to ensure that any disruptions are not only temporary but can also resume quickly as a result we believe we are in a strong position. 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. Ladies and gentlemen we will now begin the question and answer session.

Shekhar Swarup: While the question queue is building up, I just want to highlight two points that were raised in Dr. Roy's comments one is that our effective tax rate whereas you read as 33% is due to the available MAT credits that we have available. Our effective cash payout is only around 18% from next year onwards after 1st April, 2022 our effective tax rate will come down to 25% which is currently 33%.

The cash payout will increase from 18% to 25% but effective tax rate will come down from 33% to 25% therefore there will be a significant positive impact on EPS. The second thing is that you would have noticed our excise duty shared has been increasing this quarter faster than our revenue and that is essentially due to the product profile changing our revenue mix changing in favor of higher value consumer products. So, operator if the question queue is ready, we can begin with questions.

Moderator: Sure, Sir. We have the first question from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas. Please go ahead.

Kaustubh Pawaskar: Good afternoon, Sir thanks for giving me the opportunity and congrats for a good set of numbers. Sir I have three broader questions first on your consumer business if you could help me with the growth in your key markets such as Rajasthan, Haryana, West Bengal how was the growth in this quarter.

Paramjit Gill: So, if we look at Rajasthan, Rajasthan is a strong double -digit growth over 15%, Haryana is a single digit growth close to about 7%, Delhi of course is an extremely high growth in 480% and West Bengal is very marginal growth as of now in the range of 2% to 3%.



Globus Spirits Limited
November 12, 2021

Kaustubh Pawaskar: Sir this quarter we have seen the revenue contribution from consumer business have gone up to 47% and the manufacturing contribution has come down but this can be attributed also to the factory shutdown which happened in Bihar Haryana and West Bengal maybe from next quarter the mix would again change, is it a right understanding.

Paramjit Gill: Yes, so one need to do that calculation we frankly have not done that there has been increase in consumer revenue obviously and also a reduction in capacity utilization so both things have helped increasing the consumer growth, the share of consumer in revenue. I also mentioned that the West Bengal factory the new capacity is starting this quarter plus Bihar will resume operations so there will be significant growth in manufacturing revenue obviously.

Kaustubh Pawaskar: Sir in West Bengal since we are focusing since our own capacity is coming up and the production will start, so currently we have a market share of around 2% so what is your target like once the distribution increases beyond Kolkata what kind of share you are expecting in West Bengal.

Paramjit Gill: So from a strategic point of view, we would like to have greater than 25% market share in every state West Bengal poses the greatest opportunity for us in terms of volume it is a similar size market as Rajasthan, it is conducive to business with the changes in policy that that have been announced and to be implemented in a matter of weeks it is difficult for me to say on a quarter by quarter basis what will be the growth but our aspirations are to be north of to be around 25%. Just to add and see we are working towards a situation where the geographical expense of the state especially in the far-flung areas of North Bengal are adequately catered to through our route to market because in the value segment efficiency of service also is equally important and the greater Calcutta point that I alluded to in service is universe brands for the current value segment we are in areas beyond greater Calcutta though we are not present in the whole of West Bengal just wanted to bring it out of the table for clarification.

Kaustubh Pawaskar: Thank you Sir. Thanks for the understanding one last one on the margin so first half year ended FY22 the EBITDA margin stood at around 25% we have been seeing the cost pressures around so should we expect some kind of hit in the margins in the second half or you will be comfortable enough with a 25% kind of margins in the second half as good.



Globus Spirits Limited
November 12, 2021

- Paramjit Gill:** I have always maintained that commodity prices go up and down to some extent we have the ability to pass it through some parts of our business we do not have that ability but again as a principle I have maintained that Q4FY21 margins, those margins I believe are sustainable into the medium-term and there may be ups and downs quarter-by-quarter but Q4FY21 is something that I believe will sustain for medium-term.
- Kaustubh Pawaskar:** Thank you Sir. Thanks for the understanding and all the best for your future quarters.
- Moderator:** Thank you. We have the next question from the line of Anshul Verdia from Edelweiss Wealth Research. Please go ahead.
- Anshul Verdia:** Thank you and thank you Sir for the opportunity, congratulations on the good side of numbers. I have couple of questions first on the gross margin so we see that the gross margins we have been able to maintain on quarter-on-quarter basis despite we have seen seeing the high prices of the rice as well as the DDGS realization coming down and the Bihar plant was not operational in Q2FY22, so could you throw some light it is the realization driven across margin maintenance and second thing so in that case your prices would be maintained mostly for the consumer segment so how shall we it is a fair expectation to expect margin accretion going forward in the second half.
- Paramjit Gill:** So inflation pressures are all around with fuel inflation obviously driving a lot of inflation pressures across commodity across different commodities most of Q2FY22 margins and realizations were stable but towards the end of Q2FY22 we started seeing inflation coming in we are seeing inflation continue past Q2FY22 into Q3FY22 as well and to the extent possible we are passing on the impact of that like I said earlier regardless of inflation or deflation our Q4FY21 margins I believe are sustainable any increases beyond that are due to commodity fluctuations but certainly Q4FY21 margins are sustainable.
- Anshul Verdia:** That was helpful. Sir couple of questions on the bookkeeping side one is that we are seeing that the other expenses have increased substantially in this quarter so could you please comment on that and second the earlier it was notified that the claim would be there for the Bihar lost production so have we already accounted this in the Q2FY22 or this will be accounted in upcoming quarters.
- Shekhar Swarup:** Yes, Dr. Roy or Nilanjan could one of you please take that.



Globus Spirits Limited
November 12, 2021

Nilanjan Sarkar: On the other expenses a major portion of the other expenses including direct manufacturing expenses which includes repairs and maintenance on buildings and power and fuel. Our power and fuel had slightly increased and that has been into our budgeted norms only it is on account of our plant maintenance in Samalkha that we have done and obviously not because of the humid climate in quarter two there is a higher usage of cooling tower in Behror in the north unit as a result of which our power influence expenses have gone up. On repairs and maintenance as I mentioned that we had a planned maintenance in the later stages of Q1FY22 which gets which got spilled over to Q2FY22 resulting in higher expenses of repairs and maintenance having said that these are all a part of our budgets and this is not something extraordinary and we are within our norms.

Anshul Verdia: Thank you Sir and anything on the Bihar lost production claim from the insurance.

Shekhar Swarup: So, loss of profit there is no policy for loss of profit that is in place loss on assets repairs that would be required due to floods that is insured but loss of profit is an opportunity loss that has happened in this quarter.

Anshul Verdia: Thank you Sir. So last one on the broadly like people are seeing the increased penetration of your medium liquor as a new optionality coming in West Bengal and Haryana so can you give some thoughts in the traction of our medium liquor volume in which state that would be helpful.

Paramjit Gill: Yes, West Bengal obviously the value segment and the value plus segment both are behaving in a different way the value segment is static right now more or less and the value plus segment which is very nascent is starting to accelerate and as of now the segment is very, very small it is only about 2% and a bit over it but we are expecting that with evolving consumer preferences and the quality of our offerings that are entering this segment this can go sky high and my guess is as good as anybody else's but we definitely expect it to start moving into a double-digit zone of the total value segment sooner than later and we expect to play a strong role in it and are preparing ourselves for both purposes it is accretive and it also gives the consumer a lot more satisfaction that he has got a better offering.

Shekhar Swarup: I would like to add to that please so just as in Rajasthan we saw this in Rajasthan really has been the flag better for this category and most states are following that model and just like in Rajasthan it took them well over 12 months to start prioritizing this as a serious category what is the correct price point for it where should it be sold so on and so forth with states



Globus Spirits Limited
November 12, 2021

and because Rajasthan was really the first state they probably made more mistakes than other people would because now a successful model is in place so it is a start we have seen this in Haryana and in West Bengal that these are starts right now and just like in Rajasthan where this becomes a very large business that comes right in the middle of in terms of price point of country liquor as well as the starting range of IMFL and becomes a very serious volume segment we believe it will become that in Haryana and in West Bengal but it will take a few quarters for that to play out.

Paramjit Gill: To supplement it what Shekhar has said, it is key to be an early participant in that because we can fuel the growth of this segment as well, we can participate in the growth and make sure that we are able to accelerate growth in a meaningful and a faster way and in the process also carve out a good share for ourselves.

Anshul Verdia: I will come back in the queue. Thank you.

Moderator: Thank you. We will take the next question from the line of Pritesh Chedda from Lucky Investments. Please go ahead.

Pritesh Chedda: Sir I have a question on this value plus segment which is defined as RML right on a new created segment in Rajasthan, this Rs.500 plus case segment does it land up eventually it analyzing the IMFL which is the popular segment of IMFL which is let us say a Rs.900 or Rs.800- Rs.900 a case and how do you see this whole market then eventually evolving.

Paramjit Gill: So here is my take on it so the consumer fluctuates and moves between price points within his comfort zone and it is always a tight race between players in different price points as to who is balancing out and giving a better offering to the consumer all in terms of quality packaging as well as price so if we continue to be tilting the scale on the winning side on this then we are confident that we will keep on bringing in consumers one from upgrades of the value segment below it and second is we are hoping that a portion of consumers from the segment above it will start seeing a lot more meaningful opportunity to find brands and liquids which are a very strong offering at a softer price point so it is an evolving thing very dynamic but yes if we continue to give strong delivery like in any consumer business we also expect consumers from one level below and one level above to enter into our price band.



Globus Spirits Limited
November 12, 2021

Pritesh Chedda: Just for a clarification first one you mentioned that right now already has reached 40% as value share plus contribution right in that particular RML is that you mentioned.

Paramjit Gill: No, our market share is more than 40% Rajasthan of the total segment it would be a little less than that probably but very strongly, what is the number Shekhar.

Shekhar Swarup: Sorry, there were so many numbers mentioned so I am just started saying that now Value Plus segment.

Paramjit Gill: Yes, it should be in the range of 40% Shekhar is right it is in the range of around 35%-40%.

Shekhar Swarup: The value plus.

Paramjit Gill: The value plus yes that is why I was talking the range is correct.

Pritesh Chedda: So, this 3 million cases or let us say you did about let us say I think you did about 10 million cases last year right in consumer.

Paramjit Gill: Yes, in Rajasthan.

Pritesh Chedda: No total for us.

Paramjit Gill: In the range of little above 10 probably.

Pritesh Chedda: What take do you think some total or these regions that you operate which is right now in Bengal, Haryana, Odhisa this is 10 million cases and with the spec change now in Bengal you said right so Rajasthan and Bengal are the two places where the spec change has happened right it has not happening in Haryana, Orissa as of now am I right on that and if I am not right you may rectify it and this 10 million cases at what pace do you see it expect growing over the next two, three years.

Paramjit Gill: You wanted me take it Shekhar.

Shekhar Swarup: Yes, please go ahead.

Paramjit Gill: So, the value plus segment is also entered Haryana so it is across all three states West Bengal actually is the latest entrant. So, Haryana led is a little earlier than West Bengal so



Globus Spirits Limited
November 12, 2021

as of now it seems to be the one -by-one state journey where it seems to be expanding and we are quite hopeful that this trend will continue even in some other states. In terms of growth ambitions we are obviously expecting strong volume growth of double digit across and the focus is as much as on volume growth as on trying to find accretive growth so it is always a fine balance for us it will be difficult to break down number that when do we see the 10 million becoming 15 million or even further but suffice to say that we are tracking opportunities we are sometimes even influencing opportunities and at the back of our mind there is always a balance between let us get volume and let us keep looking for accretive margins. So, you have to understand the vision and all excise policies are year on year so you have to be very nimble-footed rather than just keep taking long-term projections because opportunities keep coming it is about finding them quickly and trying to be if not the first mover among the first couple of moves there.

Moderator: Thank you. We have the next question from the line of Harsh Sheth from HDFC Securities. Please go ahead.

Harsh Sheth: Thanks for the opportunity and congrats on good set of numbers. So just a basic question to begin with, so is the value plus segment the same as medium liquor and have we rebranded this and despite further categorization into whiskey, rum, etc. the duty structure here would be similar as it was earlier right.

Paramjit Gill: Yes, so there are three segments there is country liquor or IMILs which we are now calling value there is value plus which is medium liquor and there is IMFL which is the premium liquor are the brands of Unibev which we inherit.

Shekhar Swarup: And just to add on to that the offerings of medium liquor a few years back and the offering of value plus segment there is also a distinct difference in the quality and variety of offerings. So, while as a principal at that point of time also something called medium liquors stack between the lower end of the value segment and the IMFL today also it sits in between, but referring to our earlier discussions it is about how you add value to the offering and make it enriched and respectable and desirable to the consumer so that is why we are treating with this term.

Harsh Sheth: Understood sir and you had mentioned that the market development for country liquor portfolio will precede the commercialization of capacities in Jharkhand. So have you ever



Globus Spirits Limited
November 12, 2021

launched any products here and any efforts undertaken here and what do you would like to highlight since you are expecting commercialization

Shekhar Swarup: So, construction is on in Jharkhand of our bottling capacities as well as our distillation capacity so no business as yet.

Harsh Sheth: Understood and sir can you tell me so there was a recent stake sale of promoters so if you could throw some light on that is it kind of internal restructuring or rather any plans to take it.

Shekhar Swarup: No so details of this were disclosed to the exchanges and you will find all the explanation there but very quickly one company or one entity which is listed as a promoter entity their shares were sold by IRC so that is the only thing but it does not impact the company in any way.

Harsh Sheth: Understood I will just join back in the queue for the follow-up. Thank you.

Moderator: Thank you. We have the next question from the line of Darshit Shah from Nirvana Capital. Please go ahead.

Darshit Shah: Thanks for taking the questions and congratulations for the good set of numbers. Sir I understand you were doing geographical expansion in Jharkhand as well as now in Odhisa and we are about to analyze another state as well so is anything there on the roadmap for that.

Shekhar Swarup: Yes, there are plans that are in place there are a couple of opportunities we are working on unfortunately I do not have any information to offer at this stage on the third opportunity.

Darshit Shah: Okay, and Sir continuing on that I mean just reviewing on the risk front like we saw in a lot of southern states where country liquor banned do you kind of foresee such situations happening in any of the states which we are present.

Shekhar Swarup: So that is one of the reasons for reclassifying how we look at these or what we call these segments you have to understand that if a state stops calling or rather bans marketing of a certain nomenclature of product it does not mean that they have banned consumption, so consumption merely shifts to another product category which is available either at the same price point or perhaps a slightly more premium price point. So, these categories are not to



Globus Spirits Limited
November 12, 2021

be seen as sort of heterogeneous categories or categories which operate in silos, just like perhaps tea has different price points but just because you are in a particular price point that is discontinued that does not mean you stop consuming tea, so similar to that one must look at alcohol so if a certain category is banned or becomes uneconomical for some reason it does not mean that we would not participate or we will lose our consumers.

Darshit Shah: Okay so what do you mean to say is that probably if something like this has happened in south so the category has been probably banned but then there is a different kind of product and category has come up for the similar kind of country liquor segment is that of the understanding.

Shekhar Swarup: Yes, for the consumer who wants to pay a certain amount of money who has a certain budget there is a category for them and they have removed the category that was called something and they created a new category which was called something else so the entire consumption shifted in to that category.

Darshit Shah: Okay so essentially is that the kind of rebranding or whatever you say but the price point eventually remains the same for the consumer.

Shekhar Swarup: Net, net consumption you cannot ban consumption.

Darshit Shah: Yes, got it, and Sir any thoughts on the recent ethanol price increased by the government and would it be helpful for us?

Shekhar Swarup: So, the OMC's the government has announced a price increase for molasses-based ethanol grain-based ethanol price increase has not yet been announced which is to be announced by the oil companies and we are expecting that to come in, in the next few days regardless of what that increase is even if there is no increase the margin levels that we are anticipating will continue if there is an increase it will only be margin accretive.

Darshit Shah: Great Sir. Thank you so much and all the best.

Moderator: Thank you. We will take the next question from the line of Nitin Awasthi from Incred Equities. Please go ahead.

Nitin Awasthi: Hello Sir. My first question would be why has the pricing been given to the OMCs for grain-based ethanol rather and why is the government not announcing it and why is it



Globus Spirits Limited
November 12, 2021

handed over to the OMCs to decide and will it be all the OMCs to come together and then decide on a price or individual OMCs as they wish as for state will decide with that.

Shekhar Swarup: That is a question that you will have to ask the Prime Minister's office, unfortunately I do not have complete clarity on that either but this is the way it has been for the last three years since grain ethanol has been procured by the OMCs

Nitin Awasthi: Sir the second question would be as a company you have been very strong on the IMFL side, IMIL side and now you are very strongly positioning yourself for the IMFL journey the ENA journey there is no question about it my question now pertains to the ethanol segment given that we have such a strong balance sheet and we are like the four runners in this industry any of the technology know how the geographical expansion that nobody has in the country specifically in grain why are not we taking the subsidized loans for the ethanol plant and setting up ethanol plants all over.

Shekhar Swarup: So, there are two questions from what I understand one is regarding our borrowing rates for setting up capacities and the other is why are not we setting up more am I right those are the two questions?

Nitin Awasthi: Yes.

Shekhar Swarup: Okay. So to answer the first question yes we are availing subsidized loans for our capacities to the extent that we would like to take debt we are also working on reducing our debt as of now our long-term debt is about Rs.120 Crores of which around Rs.70 Crores is the subsidized debt and Rs.50 Crores is the non-subsidized debt the Rs.50 Crores which is non-subsidized over the next few months will get replaced by debt which is subsidized so the entire long-term borrowings will be at subsidized interest rates, with regard to why we are not setting up more capacities well we believe that we must have a balanced approach to growth between consumer as well as manufacturing we are growing setting up ethanol capacities in states where we believe in the long term will remain deficit in ENA and in ethanol. There are there are a lot of new capacities that are going to come up for ethanol and there will be more states in India, it will become over supply states we want to remain in the states that will remain deficit states for the longest period of time whilst doing so investing in consumer businesses in that state that is our business model it is not our business model to go all over the country and set up ethanol capacities in every state or in two or three states that we are present in to set up very, very large ethanol capacities because then



Globus Spirits Limited
November 12, 2021

essentially you remain a company that is converting from one commodity to another commodity. Ethanol for Globus Spirits is to be seen as an avenue which gives us an option of either to sell extra neutral alcohol or ethanol during this time we are investing in our capacities just like we have done in Rajasthan where about 80% to 85% of our capacity is used for internal consumption we would like to get to that kind of levels at all our facilities.

Nitin Awasthi: Thank you.

Moderator: Thank you. We have the next question from the line of Kshitij Saraf from Tusk Investments. Please go ahead.

Kshitij Saraf: Good afternoon, congratulations on the results. I have one question on taxation as Mr. Swarup mentioned on a sequential basis how does the Rs.52.5 Crores of PAT that we have in second quarter compare on a normalized basis after taking into account the MAT credit impact if you could just throw some light there.

Shekhar Swarup: Nilanjan could you take that please?

Nilanjan Sarkar: Can you repeat the question once again, please.

Kshitij Saraf: In quarter two we have Rs.52.5 Crores of PAT so in this right on the normalized basis if we remove the impact of MAT so what would be the adjusted PAT for us in the quarter.

Shekhar Swarup: Our cash payout, our cash rate for tax. So, the amount of tax we actually deposit is 18% of PBT our effective tax rate however is 33% so the balance amount is the MAT credit that is available for us to use now from 1st of April-22 or rather up till 31st of March of this financial year we would have exhausted all the MAT credit that is available to us, as a result we will then opt out of the old tax regime and move into the new tax regime under which income tax is to be deposited at about 25%. So, on a cash basis our tax outlay will go up from 18% to 25% but on an accounting basis our tax rate will come down from 33% to 25% as a result our EPS will be positively impacted.

Kshitij Saraf: Okay got it and secondly interesting point on the consumer business and then move to focus on the consumer business and brand so is there any broad aspiration that is laid out for Globus in the next four or five years what would be the size and the margin or the overall consumer business for globus is there any aspiration or any sort of broad, not estimate but any sort of guidance you can give there.



Globus Spirits Limited
November 12, 2021

- Nilanjan Sarkar:** It is difficult to give that guidance we do have internal targets it is very difficult to get that guidance I have stated in calls and so has Param that in each of our states we would like to be north of 25% market share in the premium categories that is a little more challenging in the value, & value plus categories that is something that we are more confident on so it is a little difficult for me to give you that number but suffice it to say we are not trying to create a niche business, we are in this for creating a meaningful business but to walk that journey without or rather investing what is prudent and not making irresponsible investments.
- Kshitij Saraf:** Alright. Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Suhas Naik from Kridha Capital. Please go ahead.
- Suhas Naik:** Thanks for the opportunity. I want to know about the West Bengal market the size of the market and we say we have 2% market share right now so have we introduced all our brands there or we are in the process of introducing all our brands in the value chain.
- Paramjit Gill:** Yes, the West Bengal market plays in this zone of between 27-28 lakhs to 30 lakhs in general in these segments and that is per month and as of now all our planned portfolio is not on the shelf at the outlets, a couple of them are going into the market in this quarter and then there is another lineup planned for next year. So, we are expecting them to also help us in the journey.
- Suhas Naik:** And is the distribution also in place for us there the entire state or it is selective right now.
- Paramjit Gill:** So distribution is leading our penetration so at any point of time we have distribution footprint which is almost one quarter leading so which means that whatever we want to expand in the next three months that distribution footprint is in place as we enter within this quarter we will put the distribution mechanism in place for the next quarter because we hire colleagues also prudently but distribution leads our speed and the route to market is created and then we start launching the brand so distribution is always ahead of our plan so that they are ready to receive the portfolio and the brands which are being planned into offering.
- Suhas Naik:** Can I add one more. I just want to understand the premium liquor are we investing enough in this segment right now because I saw the revenue of Rs.1 Crore for the quarter so are we not going aggressively in this segment what are the plans here actually in terms of size.



Globus Spirits Limited
November 12, 2021

- Paramjit Gill:** Did not get your questions and say it again please.
- Suhas Naik:** I want to understand about the premium segment after the merger or because the size is very small right now and are we investing enough in this business for growth or you are going slower there.
- Paramjit Gill:** Got it. Thanks. Premium segment as I had mentioned a couple of quarters ago post COVID we have readjusted our site of action in these segments and we have started moving our focus to the geographies where we within our framework see ourselves are having a reasonable and a strong right to win and these states also contribute significantly in terms of salience to the segment if we compare them with all India position and we are very niche players we have tested our brands our brands have found acceptance and we are talking to you we are almost at the verge of diving into the CI depots so West Bengal followed by Delhi followed by Haryana and UP are all likely to happen and as quarters progress we will be getting more and more aggressive in these segments in these states now investments obviously are prudently balanced investments are ready and waiting and we intend spending money at a right time in the right geographies and prudently of course so it is not as if we will be deprived of investments as we traverse to accelerate this journey.
- Suhas Naik:** Are we also accrued as the defence depots and all, in the defence any of our brands are sold there
- .
- Paramjit Gill:** So as of now it is not an area of priority because we are planning to play in the big markets where our recoveries are also stronger so at this point of time it is not on the data point for us a little later down the line surely it is something which will come through.
- Suhas Naik:** Thank you. Thanks for that.
- Moderator:** Thank you. We have the next question from the line of Pankaj Saraf from Shearwater. Please go ahead.
- Pankaj Saraf:** Hi my first question is on the cost side in the last conference call Q1FY22 you had mentioned that the principal raw material for company is broken right and we did not see any shortage of brokerage right in India and therefore when the question was from the cost inflation side you said we do not really expect much, so my question is have you seen cost



Globus Spirits Limited
November 12, 2021

inflation on the broken right rice because I think you mentioned in the opening remarks that there was some inflation in the cost that so just trying to understand where did that inflation come.

Shekhar Swarup: Yes, so, no, I think there maybe some miscommunication or misunderstanding there is obviously a seasonal factor that comes into cost of any agricultural commodity in Q2 into Q3 maybe half of Q3 is the lean season for rice all over India and every year we do see increases in cost here there is no shortage of broken rice that we have not in my memory ever lost production for considerable time period because of shortage of raw material but during the off season yes there is an increase in cost and that is what we have seen in addition the fuel cost inflation that we have all been impacted with regardless of the industry we operate in, it also impacts price of any commodity so that has been sort of an additional factor to keep in mind for this period.

Pankaj Saraf: Got it and second question is right on the income statement where can I see this effect of the cost of inflation of input materials because when I look at your financials?

Shekhar Swarup: So, it was very nominal last quarter and raw material consumption has also been lower due to the closure in Bihar so it will be very difficult in the results for you to pick this out largely because it was very nominal in Q2FY22. It is not something which is affecting business it is a normal inflation which is expected during this period. Right, I mean honestly when I analyze income statement I am seeing the cost of material still at 31% -32% or roughly the same level as the previous quarter I am not able to actually map out what that means what the cost inflation means in terms of margin so like I said cost of material consumed is based on total consumption of material the Bihar factory was closed for some time in the quarter so the results will not reflect quarter on quarter position happy to answer this offline and give you the data you require to the extent we can.

Pankaj Saraf: Thank you.

Moderator: Thank you. We have the next question from the line of Vivek Gautam from GS Investment. Please go ahead.

Vivek Gautam: Congratulations on consistently coming out with good set of numbers. Sir my question is regarding this there was a press item in Patrika and the local magazines of Rajasthan regarding the contractors going on strike because they were being forced to have 50% RML



Globus Spirits Limited
November 12, 2021

quota along with the IMIL quota so as far as IML was concerned they were okay but as far as this forced selling of RML quota was there Rajasthan made liquor they were protesting against it, is our company affected in any way or is it Rajasthan State Ganganagar Sugar Mill or what exactly is that nitty-gritty and because I think so some that quota was reduced to 35% also from 50% if you can say something Sir.

Shekhar Swarup: I am not able to comment on this call regarding nuances of government policy which have not been implemented, we can talk about the government policy that has been implemented and the performance of our products in that environment your question relates to things that may or may not have happened but basis the policy that is in place our performance in Rajasthan has been satisfactory.

Vivek Gautam: Yes, it is fantastic Sir. 47% consumer business is really good achievements, and the second thing is that there is a lot of changes happening in the excise policy in Delhi I think in West Bengal also and Jharkhand, Odisha also venturing into it all these states are a country into itself as far as the extra alcohol sale is concerned so and then for example in Delhi we were earlier quite dominant and now we are having a negligible presence so in IMIL and other segments how are we placed and what our plan of actions in all these four states .

Shekhar Swarup: There is a significant amount of information regarding our plans that we have discussed and also on our presentation that has been published to exchanges today may I request in interest of time and several other questions that are in the queue that in case Sir you feel that the information is inadequate you reach out to us and we will be happy to schedule a discussion on this.

Vivek Gautam: No, Delhi specifically if you can say because that has been the major change in the excise policy and attracting a lot of press attention so what are the hopes that we have for Delhi Sir.

Paramjit Gill: Our hopes are very high for Delhi the policy implementation is obviously very key we are at the cusp of change it is in Q2FY22 there was a very limited impact Q3FY22 is where change is taking place so we will have to wait and see how the change unfolds but from a long-term point of view our hopes are very high about Delhi.

Vivek Gautam: Thank you Sir.



Globus Spirits Limited
November 12, 2021

Moderator: Thank you. We have the next question from the line of Varun Seth, an Investor. Please go ahead.

Varun Seth: Thank you for the opportunity and congratulations of a good set of numbers. Sir just a clarificatory question from the previous participant on the risk side they are assuming like there is a ban in south for the country liquor what I understood if similar ban is there in say Rajasthan there only the nomenclature of the country liquor may change value segment or a value plus segment and rest the product margin etc. will continue as it is, consumption will continue as it is and as such there would not be any impact on the company like us is the understanding correct sir.

Shekhar Swarup: See we are talking very hypothetical situation so a hypothetical situation has the weakness of being based on the assumptions that come to mind right now but let us say that this hypothetical situation was to come true the point I made was consumption will not reduce it will merely shift to another price point and even from the government's point of view they would like to grow tax revenue I do not see any reason in the post pandemic or rather during pandemic era why governments would like to reduce their revenue of tax. So, it may be nomenclature change but they will continue to provide a product for every wallet for every budget and for that reason we will always participate in value, value plus segments and with the position of dominance and as a position of a disruptor in the premium segments.

Varun Seth: Got it. so, you mean consumption would change to the price point so maybe IMIL might shift to a lower price point of IMFL something like that or IMIL continues in IMIL.

Shekhar Swarup: I do not know it is a very hypothetical situation in terms of volume.

Varun Seth: Today what is happening in south, if you can give those ideas on because country liquor is banned there so today how it operates in south if you have any idea?

Shekhar Swarup: As far as I know we do not operate in south India so I do not have an understanding of the nuances of that market but as far as I know there are cheap IMFL segments which are at subsidized duty rates so it effectively comes to the same thing as a country liquor which is also a subsidized duty price point.



Globus Spirits Limited
November 12, 2021

- Varun Seth:** My second in the last question is on the third state of expansion which we are looking at and what we understood was that during the third quarter time you will announce so is that expansion still on drawing board and something can be expected by December -21?
- Shekhar Swarup:** No it is very much on the plans and we had asked for time till Q3FY22 so kindly do give us that time.
- Varun Seth:** Thank you so much. Thank you and best of luck.
- Moderator:** Thank you. Ladies and gentlemen we will take the last two questions. The next question is from the line of Vileh Rai, an Investor. Please go ahead.
- Vileh Rai:** Good afternoon, Sir. My first question is how long it will take us to achieve maximum capacity utilization in the new West Bengal plant.
- Shekhar Swarup:** 45 days.
- Vileh Rai:** The 100% utilization will it be 100%.
- ShekharSwarup:** Yes.
- Vileh Rai:** Okay Sir and how variable are the margins in the manufacturing business and are these current realizations sustainable.
- Shekhar Swarup:** As mentioned on this call earlier and the previous calls Q4FY21 margins as a overall for the company is what we expect that will sustain I believe we are operating a little bit above that currently but it is my belief that Q4FY21 margin should sustain.
- Vileh Rai:** Thank you Sir.
- Moderator:** Thank you. We have the next question from the line of Sai Narayan, an Investor. Please go ahead.
- Sai Narayan:** Shekhar congratulations on the good set of numbers. I joined the call later so I just want to know actually regarding the geographical expansion so one is the West Bengal plant actually which I understand will become completely operational in next 45 days and Jharkhand actually I just want to know update on Jharkhand and apart from Jharkhand and



Globus Spirits Limited
November 12, 2021

Bengal is there any other state or something we are planning to venture into that is my first question.

Shekhar Swarup: Thank you. All the information regarding this is contained in our quarterly investor presentation that was published today. Please do have a look at it in case there is any inadequacy that you find in information we will be happy to set up a call to discuss it further.

Sai Narayan: The second and last question is so I remember attending the previous calls so I was saying about the pricing power which we got because of ethanol blending so does it still hold good actually the pricing power we have in the bulk alcohol segment.

Shekhar Swarup: Yes, no change from last quarter.

Sai Narayan: Okay. Thanks Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question I would like to hand the conference over to Mr. Shekhar Swarup for closing comments. Please go ahead, Sir.

Shekhar Swarup: Thank you everyone for taking out the time to join us today as mentioned in case we missed out on questions or if our information is inadequate, please do reach out to us and we will be happy to set up a call to address the queries. Thank you again and wish you a good weekend.

Moderator: Thank you members of the management. Ladies and gentlemen on behalf of Globus Spirits Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.