

Globus Spirits Limited

A-46, Friends Colony (East), New Delhi – 110 065

Tel: +91 120 401 5500 Fax: +91 120 424 5442

Website: www.globusspirits.com



Globus Spirits Limited's Q3 & 9M FY12 Earnings conference call Investor/Analyst Conference Call Opening Remarks

Moderator: Ladies and gentlemen, good day and welcome to the Globus Spirits' conference call hosted by IDFC Securities. As a reminder for the duration of this conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call please signal an operator by pressing "*" followed by "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nikhil Vora from IDFC Securities. Thank you and over to you sir.

Nikhil Vora: Welcome you all to the Q3 FY12 earnings conference call for Globus Spirits Limited. We have with us representing the management team. Mr. Ajay Swarup, Managing Director, Dr. Bhaskar Roy, CFO and Director Finance and Shekhar Swarup, Vice President, IMFL. I will now hand the line over to Mr. Ajay Swarup to make the opening remarks and then we can open the floor for Q&A.

Ajay Swarup: I welcome all of you to the Q3 and 9M FY12 Earnings conference call of Globus Spirits. I am happy to share with you that we have recorded a healthy topline growth in our IMIL business, which is the new term for the country liquor business, and this business line has been leading from the front. The quarter also saw a pickup in volumes in the Bulk Alcohol space and you should see further traction in Q4 of this current year as our plans have fully stabilized now.

We expect significant upside in performance once the plants deliver utilization to their rated capacities. It is important at this stage to point out that in the month of January we have actually reached 100% capacity at all three plants, which of course will be reflected in Q4. As we move into the last quarter of this financial year, we remain confident of our growth prospects given the healthy demand for all our products and our ability to deliver with the 360 degree presence we have across the spirit sector.

In the IMIL space, which is in common parlance also called as country liquor, we have recorded a strong volume growth of 44% in Q3 FY12. Our recently launched 'Nimboo' brand in the state of Haryana has been a runaway success. In a period of seven months we were able to take our market share in the IMIL space in

Haryana from 20% to 27%. This brand was launched after extensive efforts in market research, product development with premium packaging and the returns were been very heartening. We have thus pioneered the concept of branding in the IMIL and going forward we intend to roll out this strategy to other IMIL states in which we operate. We have always been a force to reckon with in the IMIL segment and post the introduction of 'Nimboo', the gap with our competitors, in terms of lead, has widened. We firmly believe the IMIL segment holds a lot of potential and we are well positioned to capitalize on this opportunity given our leadership position in the North Indian market, which is in fact the biggest geography for country liquor in this country.

Coming to the branded IMFL space, I am pleased to announce that one of our brands 'Hannibal Rum' has now been registered with the CSD (canteen stores department). This should help us to build volumes; the registration has come into effect only in February. We now have a presence in nine states since the kickoff of our IMFL operations a couple of years ago. We are also looking at expanding into newer states and growing the product portfolio with the introduction of a high value added products. The focal point of our branded IMFL strategy remains on developing a strong distribution base from where we would be able to launch brands at higher price points. The branded IMFL segment remains an important part of our overall business strategy and we remain committed to its development with higher A&P spends, sustained brand building along with building a strong marketing and distribution network.

The Bulk Alcohol segment has shown a pickup in volumes and this trend will continue as our plants have fully stabilized now. The full effect of this will be visible in FY'13 as also in Q4 of the current year. The demand for ENA remains robust and, given the way our IMIL business is growing, we would also require a significant portion of Bulk Alcohol for our internal consumption going forward. The volumes in the franchise IMFL space have been subdued due to regulatory changes in the state of Haryana which have made it unviable for some of our partners to continue outsourcing the bottling requirements to us in the current year.

The Alcohol industry is expected to benefit from the consumption theme and our unique 360-degree business model will help us address demand across strata given our presence from IMIL to the branded IMFL segments. Our continuing operations remain very strong while we make investments and expansions in brands and other market opportunities, which will result in sustainable growth going forward.

Now to give you brief overview of financials. I would like to hand over to Dr. Roy.

Bhaskar Roy: Let me give you a brief update on the financials. For 9M FY12 our total income stood at Rs.5,192.5 million up by 28.8%, EBITDA stood at Rs.561.1 million up by 18% and PAT stood at Rs.330

million up by 14.2% translating into a non annualized EPS of Rs.14.35. For Q3 FY12 our total income stood at Rs.1,929.7 million up by 26.5%, EBITDA stood at Rs.195.3 million and PAT stood at 117.4 million. EPS stood at Rs.5.11.

Coming to the segmental revenues for 9M FY12- we sold 154.96 lakh BL of Bulk Alcohol translating into a revenue share of 11.92%. In IMIL, we clocked volumes of 92.70 lakh cases translating into a revenue share of 49.87%. Our volumes from branded IMFL stood at 5.61 lakh cases including sales from tie-ups. Excluding these tie-ups, our branded sales were 4.17 lakh cases forming 6.95% of the total revenue share. Franchisee IMFL stood at 5.98 lakh cases contributing 19.16% to the total revenue share. In addition, we recorded franchisee IMFL sales of 3.51 lakh cases which have been reflected in other operating income. Total franchisee IMFL cases stood at 9.49 lakh cases. Sales from 'others' contributed 12% to the total revenue share.

For Q3 FY12, we sold 74.33 lakh BL of Bulk Alcohol translating into a revenue share of 15.38%. In IMIL, we clocked volumes of 34.39 lakh cases and the revenue share stood at 49.13%. Our branded IMFL sale stood at 2.10 lakh cases including sales from tie-ups. Excluding the tie-ups, our branded sales were 1.60 lakh cases contributing 5.57% of the total revenue share. Franchisee IMFL stood at 2.05 lakh cases contributing 17.64% to the total revenue share. In the addition, we recorded franchisee IMFL sales of 1.58 lakh cases which have been reflecting in other operating income. Total franchisee IMFL cases stood at 3.63 lakh cases. Sales from 'others' stood at 12.28%.

As mentioned earlier in this call, we continue to implement various initiatives to drive growth and with the stabilization of the expanded capacities in the current quarter will lead to significant performance upsides from Q4 FY12 onwards. Thank you once again for joining us on this conference call we will be happy answer any questions that you may have now.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. We have the first question from the line of Abneesh Roy from Edelweiss Securities. Please go ahead.

Abneesh Roy: How big is the market size for Rum in CSD and are we getting approvals for other brands also?

Ajay Swarup: The market size of the Rum segment in CSD is close to 7 to 8 million cases. So we do see a strong opportunity here for our Rum brand. Additionally, we are in the process of getting our County Club

Whisky brand registered. This is a long process and should take another two quarters before it gets enrolled. Having said that, the Whisky segment is not as large as the Rum segment in CSD.

Abneesh Roy: What we have seen in CSD sales for other consumption categories is that there is a payment delay which is quite frequent. Could you share your views on that? Also, could you give us some sense on how the margin profile is in CSD versus the other business?

Ajay Swarup: The CSD margins are pretty much in line with margins from similar market for that price point. As for payment delays, the CSD has a standard payment system of paying bills within 60 days. They also have a system of cash discounting in case you want money earlier for which they do charge a cash-discounting rate. So in our experience CSD payments are not a problem.

Abneesh Roy: We have seen that many states are facing advance regulatory issue for example West Bengal, Tamil Nadu and Maharashtra. So is this now a far bigger risk, that most State Governments are seeing this as a cash cow and hence there is an increasing risk of regulatory action in terms of supply, tax etc?

Ajay Swarup: There is no doubt that liquor remains high on priority of all State Governments in terms of revenue generation and we in our company see that as a big opportunity, because the State Governments do want more consumption and we would like to benefit from the increased consumption which is happening across states. Regulatory changes are a way in the liquor industry and we are cognizant of that. Hence, on a year-to-year basis there are changes, which we have built for in the business plan. So this is something, which is a part of our business, and our business has been and can adjust to such changes, which we do not see as long-term risks in nature. A long-term risk is when consumption is controlled. So consumption is actually being promoted and that works to the interest of a company.

Abneesh Roy: How do you see the margin profile panning out in Q4 & FY13? Are you expecting an impact because of the discretionary slowdown?

Ajay Swarup: Firstly on margin, country liquor continues to remain a significant part of our revenue profile and in all the states, there is a price increase expected. Hopefully, that will add to our margins. The second thing is that our plants are now stabilized and hence the manufacturing costs as a percentage of revenue, which was higher in Q3 will come in line with what they should be. So, again that impact will be seen fully in FY13 and also in Q4 of the current year. In terms of the discretionary slowdown, the spirit industry in fact

has not seen that yet and history suggests that any recessionary impact has no direct relation on consumption of liquor. So, we would not see much impact on that.

Moderator: The next question is from the line of Rishendra Goswami from Locus Investments. Please go ahead.

Rishendra Goswami: The margins this quarter appear to be a little low on a year-on-year basis and the other expenses are little bit on the higher side. So if you could just share in terms of what has happened, as you said that the plants were stabilizing, so I am assuming there is some cost of that as well?

Bhaskar Roy: There is a direct correlation between other expenditure and margins. Other expenditure includes manufacturing expenses and we have mentioned in the call earlier that our plants were stabilizing until December after which the plants got fully stabilized. Due to this, cost components such as fuel etc. were higher, as plants were running fully but the production was lower. Secondly, in certain states like Kerala, Andhra etc., the unit cost went up as we had to buy ENA at higher cost which has impacted the margin. This is already behind us and we do not expect such expenses to rise going forward. Also, as Mr. Swarup pointed out that we are expecting a price hike in our IMIL business across states, which will add straight to the EBITDA.

Rishendra Goswami: Were there expenses related to IMFL launches in this quarter?

Bhaskar Roy: No. The higher expenditure was primarily on account of higher manufacturing expenses. In terms of launches, we delayed the launch of new IMFL brands which we were planning, due to higher launch related expenditure at the end of the year combined with regulatory issues.

Rishendra Goswami: What is the Capex for this year and next year?

Bhaskar Roy: The capex for this year will be around Rs. 50 crore. We have revamped the RS plant and added an evaporator column in our Hisar facility. We have also revamped the fermentation section. In the other two units, we are putting up new 65 klpd Wash to ENA plants which will give us large ENA capacity. Our country liquor in Haryana, which was earlier based on Rectified Spirit, is now moving to an ENA base, hence, our captive requirement of ENA is increasing. The domestic demand for ENA remains strong. Thus, we thought to increase the ENA capacity. These projects will get completed in the first quarter of next year. For the capex plans for next year, we would be in a better position to discuss in our next concall.

Rishendra Goswami: How do you see your volumes from the IMFL business going from here and where do you see that in a couple of years?

Shekhar Swarup: For the last couple of years, we have seen very healthy growth in this business which continues even in the current year; though short of our anticipated targets. The key reason for this shortfall is due to delay of a brand launch, which we had planned. Our strategy remains to build a strong a distribution network and to be able to launch higher value added products by leveraging this distribution network. You will see some of these brand launches in the coming financial year.

Rishendra Goswami: So would you be looking at launching two to three new brands next year?

Shekhar Swarup: I would reserve comment on that to the next update but yes, we could look at least one brand launch in a higher value added segment.

Moderator: The next question is from the line of Nikhil Vora.

Nikhil Vora: Just want to understand as to how soon will we able to ramp the utilization closer to peak capacity?

Bhaskar Roy: We have already ramped it up all the 3 units in January and have produced 70 lac BL which is practically 100% of the capacity. We are pretty much on target in terms of capacity utilisation.

Nikhil Vora: Is there further debottlenecking possible in the plant or this is throughput?

Bhaskar Roy: While we do expect the plant to run at these production levels of 100% capacity utilization, there maybe some minor nuances because of which we may see utilization at 90%-95% in certain periods.

Nikhil Vora: If one had to look at Globus towards the year forward what would Globus look like?

Bhaskar Roy: If you look at our sales split, about 50% of our topline is consumer based comprising our IMIL and IMFL business segments and the balance would be production driven, be it franchise IMFL or bulk alcohol. Our strategy has been to set-up capacities and the capacity utilization happens internally throughgrowth of higher value added products, which helps us to reap benefits across the value chain.

Nikhil Vora: If you ask me, you know while we doing our contract bottling as the scale increases for the OEM, there is a risk that given the fact they themselves do not earn a return on capital of more than 20%,

why would they allow a contract bottler to make those sort of margins. So, is there a risk that over a period unless we migrate towards brand and so on, this could be a significant threat to our business in terms of Capex that we have deployed on ground?

Bhaskar Roy: In contract bottling, our margins at EBIDTA level are approx. 6% . So, the main contribution is with the franchise holders only. It just helps us in two folds; it helps us to utilize our entire capacity plus it gives an additional margin on the bottling business.

Shekhar Swarup: The other aspect to this is, the risk of us losing this business does not come up as the liquor bottling in any state requires licenses and these licenses are not given out very easily by the State Governments. This acts as a barrier to entry for anybody wishing to set up capacity in any state for that matter.

Moderator: Thank you. As we have no further questions I would like to hand over the floor to the management for closing comments. Please go ahead Sir.

Shekhar Swarup: I would like to thank all of you for taking your time for this call. I would also like to thank IDFC Securities for hosting this call. If you have any further questions please feel free to contact us or our investors relation team either by phone or by e-mail, the details of which are mentioned in the results presentation.

Nikhil Vora: Thanks to the management of Globus Spirits and also to all the participants for being on the call.

Moderator: Thank you gentlemen of the management and Mr. Vora. Ladies and gentlemen on behalf of IDFC Securities, we conclude this conference call. Thank you for joining us.

This is a transcription and may contain transcription errors. The Company or the sender takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.