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Globus Spirits

Q2 & H1 FY12 Earnings Conference Call Investor/Analyst Conference Call Transcript – November 3, 2011

Moderator: Ladies and gentlemen, good morning and welcome to the Globus Spirits Q2 FY'12 earnings call hosted by IDFC Securities Limited. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing * and then 0 on your touch-tone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Nikhil Vora from IDFC Securities. Thank you and over to you sir.

Nikhil Vora: Thanks. Firstly apologies to everyone for slight delay in starting the call. We welcome the management team at Globus Spirits represented by Mr. Ajay K Swarup – M.D., Dr. Bhaskar Roy – CFO and Director Finance, Mr. Manik Lal Dutta - Executive Director, Mr. Sudhir Chopra - COO IMFL and Mr. Shekhar Swarup – the VP IMFL on this conference call. I will hand it over to Ajay to make the opening remarks and way forward. And then we will open the floor for Q&A. over to you Ajay.

Ajay Swarup: Thank you. Good morning and I welcome all of you to the Q2 and H1 FY12 earnings conference call of Globus Spirits. I'm pleased to share with you that in Q2 FY12 we have recorded a strong growth in the Country liquor and the branded IMFL segments. The volumes in the bulk alcohol space have been subdued, due to stabilization of plant, which is likely to be achieved in the current quarter and volumes are expected to show an improvement as we move into H2 FY12. Even though there is moderation in margins in the current quarter, it is not a major area of concern for us as we expect significant upside in performance once the plants deliver utilizations to their rated capacity.

Our focus remains on establishing our self as one of the key players in the branded IMFL segment while at the same time consolidating operations in other segments that we are present in to deliver consistent all round growth. Our branded IMFL business continues to record strong volume growth with a gain of close to 75% over H1 FY11. We are confident that we can better this growth rate going forward in H2 FY12 as branded IMFL sales tend to witness stronger traction in the second half of the year. We are also adding newer markets as witnessed by the launch of 'County Club' in Delhi, which will further augment volumes. In addition, we are planning to launch a semi premium brandy in southern markets of Andhra Pradesh and Kerala. The branded IMFL segment remains a very important part of our overall business strategy and we remain committed to development of same with higher A&P spends, sustained brand building along with building a strong marketing and distribution network.

Coming to the Country liquor business, it continues to show robust growth post the healthy monsoon and the growing acceptance of our new brand launches in this segment. Our new brand launch in the state of Haryana has received an excellent response. The blend and the packaging have been extremely well received. We have made a conscious effort to distinguish ourselves from competition by selling branded country liquor which has resulted in increased volumes. We expect this to be a sustainable model in the county liquor

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business going forward. GSL has always maintained a dominant position in the country liquor space and with synergies from the merger with ADL kicking in; our aim will be to further consolidate our leadership position. The country liquor market in north India continues to show good volume growth backed by strong rural demand. This is in contrast to the rest of the country, where volume growth in country liquor has either remained stagnant or in low single digits. Our company being largely in the north for country liquor has therefore benefited greatly from the trend. The other factor which will continue to sustain the demand for country liquor is affordability. In the present inflationary environment, the price differential between branded IMFL and country liquor will become even more relevant because of the higher taxes levied on branded IMFL. GSL has always differentiated itself from competition in the country liquor business through various initiatives using superior packaging, introducing new flavors and creating strong local brands.

Moving on to the bulk alcohol space, the volumes remained subdued as the new plants are expected to stabilize in the current quarter. Further, there has also been high utilization of spirits for our own consumption in the country liquor and branded IMFL space, having grown significantly in the quarter leaving low volumes for market sales. The performance from this segment will show substantial improvement in Q4 FY12 onwards as the benefits of stabilization start kicking and capacity utilization improves.

The volumes in the franchise IMFL space were also subdued due to regulatory change in the state of Haryana which made it unviable for Jagatjit to continue outsourcing their bottling requirements to us in the current year. But we expect the government to rationalize this decision as this impacts the industry negatively and once the conditions become favorable we expect to renew our bottling arrangement with Jagatjit.

GSL has continuously fortified its 360 degree presence in the spirit sector right from bulk alcohol to branded IMFLs all of which are delivering strong growth and showing a promising future ahead. Our appetite for growth remains undiminished and we continue to aggressively implement various initiatives, i.e., expanding volume growth, market expansion, brand launches and new product introductions, therefore, making us well poised to report sustainable growth going forward.

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

Bhaskar Roy: Good morning everybody. Let me give you a brief update on the financials. For Q2 FY12, , our total incomes stood at Rs. 1,677.5 million, up by 31.15%. EBITDA stood at Rs. 170.9 million, up by 9.96% and PAT was flat at Rs. 96.8 million. EPS stood at Rs. 4.21. For half year FY12, our total income stood at Rs. 3,262.8 million up by 30.3%. EBITDA stood at Rs. 365.8 million up by 29.8% and PAT stood at Rs. 212.6 million, up by 21.2%. EPS stood at Rs. 9.24.

Coming to the segmental revenues for Q2 FY12 , we sold 36.4 million bulk liters (BL) of bulk alcohol translating to revenue share of 10.43%. In country liquor, we clocked volumes 42.9 lakh cases translating into a revenue share of 53.56%. Our branded IMFL sale stood at 1.8 lakh cases including sales from tie ups forming 6.4% of the total revenue share. Franchise IMFL stood at 2.62 cases contributing 17.17% to the total revenue share. Sale from others contributed 12% to the total revenue share.

For H1 FY12 we sold 77.96 lakh bulk liters of alcohol translating into revenue share of 9.86%. In country liquor, we clocked volume of 69.61 lakh cases and the revenue share stood 50.3%. Our branded IMFL stood at 3.51 lakh cases including sales from tie ups

forming 7.77% of the total revenue share. Franchise IMFL stood at 6.14 lakh cases contributing 20.06%. Sales from others stood at 12%.

As mentioned earlier in this call, we continue to implement various initiatives to drive growth and the stabilization of expanded capacities in the current quarter will lead to significant improvement in performance quarter 4 onwards. Thank you once again for joining us on this conference. We will be happy to answer any question that you may have.

Moderator: Thank you so much. We will now begin with the question and answer session. We have first question from the line of Percy Panthaki from Daiwa. Please go ahead.

Percy Panthaki: Can give us an idea of what were your realizations per liter on ENA and how have they moved on a Y-o-Y and Q-o-Q basis. Also what are the demand supply factors driving price and what is your outlook for the price going ahead?

Ajay Swarup: In states where we operate, the prices ruled over Rs. 40 per liter of ENA. This is normally the quarter where ENA prices do see a decrease because of the fact that molasses availability is at its lowest ever and it is on the back of lean sugar season. So that is the quarterly variation. But in a macro sense I would like to state that since the Ethanol policy of the Government of India has now completely kicked in and a large quantity of molasses alcohol is moving into mixing with petrol, there has been some significant change in the demand supply situation of alcohol. As a result grain based alcohol has got an impetus in price and grain based alcohol is filling the gap for meeting the demand of the beverage alcohol industry. This trend is likely to continue.

The sugar industry is currently in negotiations with oil companies to finalize prices for the next year for Ethanol. Early trends show that it is likely to be up at least 20% which would further impact ENA prices for the coming quarters.

Percy Panthaki: Does that mean that basically the ENA which is produced via grain could actually be cheaper than the ENA produced via molasses if you have any in house capacity?

Ajay Swarup: Well increasingly this gap, where earlier molasses ENA was far cheaper than grain based ENA, has reduced and going forward, we do see this gap reducing even further as grain-based ENA becomes more and more competitive.

Percy Panthaki: If we compare it on Y-o-Y basis, are the ruling prices still higher?

Ajay Swarup: Last year, this quarter was above Rs 35. If you consider this year, the price in this quarter is above Rs 45. Rs. 41 is the average which we got up to in the half year. So, effect is much higher than the last year average.

Percy Panthaki: What has driven this sharp inflation? Is it just the government off-take on Ethanol or is it something else?

Ajay Swarup: Basically that.

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Percy Panthaki: Because earlier, there was some confusion, as in while the policy was in place, it was not sure whether the offtake would actually happen and whether the sugar companies would actually supply in the quantities required. So, are the off takes and the supply actually happening to the extent it was planned?

Ajay Swarup: Absolutely. They are happening and that is what is impacting the scarcity of alcohol supply in the country and, hence, the formulation prices. So, it is correct to say about 600 to 700 million liters will go into this, this year. That is what is envisaged and looking at firm oil prices; I see no reason why oil companies will not pick up Ethanol at the current price Rs 27.50.

Percy Panthaki: Will the sugar companies be willing to supply at that price, because the realizations elsewhere are higher than this. So why should they supply at Rs 27?

Ajay Swarup: That is why there is likely to be a revision in the price and the rates which are going around are closer to Rs 35.

Percy Panthaki: When is this revision likely to happen?

Ajay Swarup: I'm not sure about that.

Bhaskar Roy: In addition to this, the net realization of the sugar mills on Ethanol supplies to oil companies is actually exceeding Rs 30 as they get certain duty draw back on sales as well. So effectively the price is more like Rs 30 to Rs 31 per liter.

Percy Panthaki: I understand that there is lack of data availability in the country liquor segment and since you are one of the largest players, you would have some amount of feel on the ground. So according to you, what is the growth of country liquor industry pan India?

Ajay Swarup: The growth pan India is about 6%. While Haryana and Rajasthan, where GSL has its operations, have seen a steady growth rate of over 15% over the last couple of years.

Percy Panthaki: So what are the reasons for this higher growth rate in these states?

Ajay Swarup: I would attribute it to strong rural demand and strong disposable incomes at the relevant FCC which consumes country liquor.

Percy Panthaki: What would be the size of the country liquor industry currently?

Ajay Swarup: Our estimates are about 250 million cases a year.

Moderator: Thank you. We have the next question from the line of Abneesh Roy from Edelweiss Capital. Please go ahead.

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Abneesh Roy: Could you give more details on the change in regulation in Haryana. Why has this happened and what makes you sure that this is likely to happen?

Ajay Swarup: This is an aberration in the excise policy which came out. Basically as per this policy, there is a certain duty imposed when brands of IMFL are brought in from outside and that's called import duty. Import duty here is not relating to imports from other country, but from other states. So when Jagatjit brings in their liquor from their own plant they pay us import duty. Let's say this is x. When they bottle with us, they would save that 'x' because there would not be that import duty. The Haryana government in its own thought process imposed an equivalent franchise duty on us. Now for Jagatjit who has a plant in Punjab, it became unviable to bottle at our plants because they would pay equal amount of franchise fee. The government has understood that this does not make sense and it is anti-industry and this policy change discourages manufacturing within the state. Therefore, they have agreed to look at this policy in the year to come.

Abneesh Roy: So review is mostly in the next budget, right?

Ajay Swarup: Yes.

Abneesh Roy: So what is Jagatjit currently doing?

Ajay Swarup: They bottle it in their own plant in Punjab and import it into Haryana.

Abneesh Roy: What is your thought process behind launching a brandy in the semi luxury segment? I think Tilaknagar is fairly strong in South India in that. So how will you try and counter that?

Ajay Swarup: You are correct in saying that the brandy market is strong in south and brandy is a geography specific product and it is growing at a healthy clip. The market is very large. We have already established a distribution network in Kerala and Andhra and to leverage our distribution further we want to introduce this product. Yes there are certain strong players there, but that is always the case in every market.

Sudhir Chopra: The two states, i.e., Andhra and Kerala are basically geographically brandy states. Also, if we go by the semi premium way, it will also help us to get certain volumes in these states. To take care of our bottom line it will give us good contributions and this segment is growing at the rate of 20% 25% per annum in Andhra as well as in Kerala. So what you feel is that if we can get a niche, some market share in this two markets in the first year will help us to build upon it in the subsequent years and make foothold for us in the brandy market which again, we will think of then launching in state of Tamil Nadu which is again a very big market for brandy in the south.

Abneesh Roy: Do we have that bottling tie-ups in place for these states or we have to bring from some other states?

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Sudhir Chopra: Everything is ready. We have bottling tie ups in these two states where we are manufacturing and selling products. The blend has already been made and it has been tested. We are just waiting for the launch to take place which we are going to do most probably either by the middle of this month or by the end of this month.

Abneesh Roy: What is the sense you are getting in Andhra? There was some regulations change, I think mostly in beer. But from your presence in Andhra, can you share some details on what is the regulations change and how do you see that impacting the industry?

Sudhir Chopra: See the problem in Andhra today is actually the Telangana political turmoil which the state is going through. That is really impacting all companies in that state because with the *Bandhs* and with the frequent closures Telangana is affected, which is the major whiskey sales market. The Andhra part, which is the coastal area, there the *Bandhs* are less, but most of the manufacturing units are in the Telangana area. So that is what is really creating a problem for all the industry. Last few months even during the Dushera, which is a major season for Andhra, supplies were affected, sales were affected even the collections from the corporations are not coming in time. So that is the major problem that we are facing till this political issue is resolved in that state.

Abneesh Roy: How have the new brands which were launched in the last 1 to 1.5 years, have come up? Do they meet up with your initial expectations and what is the phase of growth you are targeting for those new brands?

Sudhir Chopra: See we have launched basically in the state that we had aimed for. That is in the northern states as well as in the southern states i.e. two states. We have launched whiskey and the other brand which we have brought is the Hannibal rum. Now the whiskey what we have done is, as Mr. Swarup has told you, we are now going to bring it into the Delhi market from this month onwards. Now once that is complete the north, and then in the next financial year, we will take it to the other states, which is eastern India and western India.

Abneesh Roy: So would you eventually enter beer also? Because you are going into practically everything now, brandy, rum and whiskey?

Sudhir Chopra: No. Beer is not on cards.

Abneesh Roy: What is the reason for that?

Sudhir Chopra: The beer business is a completely different business from the spirits business. So Globus is focused on the spirits part of the business and we don't have any interest in breweries yet. But going forward, if there is sufficient interest and opportunity, we may look at it. But for the time being we continue to focus on the spirits segment.

Moderator: Thank you so much. Our next question is from the line of Sonali S from Crisil. Please go ahead.

Sonali S: Since your company has a presence in country liquor and branded IMFL, are you witnessing a shift from country liquor to IMFL in the northern states?

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Ajay Swarup: This question is very difficult to answer at the grass root level because we don't have market research data to back up whether a consumer is moving from particular variety to another variety. But what we can do is to look at sales figures. Sales figures like I said earlier go to show that country liquor in the states we are present, the northern markets, is growing at same rate as IMFL. So possibly both IMFL and country liquor in the north are witnessing a very healthy growth rate. This would be due to the increase in drinking population. It could be due to more spending of disposable income. But it is difficult to say whether more people shifted to IMFL from country liquor consumption or whether new entrants are coming to IMFL. So that is a difficult statistics and we don't have it.

Sonali S: As we understand that whiskey is the largest sub-segment in IMFL followed by brandy, rum and the white spirits. Just wanted to understand which of the sub-segments in your sense is growing at the fastest rate, and why?

Sudhir Chopra: See the fastest growing segment is actually the white spirit segment which is growing at a rate of around 25% to 26%. That is because basically the Indian consumer today is more inclined towards drinking whiskey and rum but the younger generation has gone into white spirits and wines. Wines have not yet taken off the way they should have, but in the white spirits segment there is definitely a growth. This also can be said that predominantly it's the vodka space which is growing.

Sonali S: You mentioned that younger generation is going to white spirits. So is it due to pricing or just taste?

Ajay Swarup: I think it's basically because of the generic they are exposed to in the west. Basically vodka sales are predominant today in US. The largest selling brand is there now Schrempf vodka rather than the whiskeys. Mainly you could say it is like aping the west to an extent. Of course, the Indian consumer, the younger crowd and ladies as well are preferring vodka and as vodka doesn't give a smell. It doesn't smell like whiskey or brandy or rum.

Sonali S: On the regulatory front, you mentioned that the state of Haryana has imposed a franchise duty. Are there any other states in India that have gone on this path of imposing a franchisee duty?

Ajay Swarup: The concept of franchise duty is something which is there in every state. Each state gives a certain protection and gives a differential between import duty and franchisee which means that import duty is always kept at a figure higher than franchise fee to encourage production in the state. Haryana made a mistake and they kept the same import duty and franchise fee, which resulted in people not wanting to manufacture here if they have their own manufacturing facility. This point they have understood and they propose to correct it in the coming year.

Sonali S: In light of the recent development of Ethanol blending policy, could you give us a sense of the ENA prices going ahead? Say in the near term, next one to two years?

Ajay Swarup: What has happened is that the ethanol bending program is here to stay. Really speaking alcohol prices get connected with crude prices. The ability of oil companies to pay for ethanol is based on the prices of crude and the price of ENA is in turn based on the price of ethanol. So we are now in an environment where we are linked up to the price of crude. See your question is actually in a sense based on projection of the crude prices and though I'm not an expert in predicting crude futures, I can only say that going

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forward we don't see crude prices coming down in a hurry and, therefore, ethanol prices will remain firm. Hence, ENA prices will get firm.

Moderator: Thank you so much. Our next question is from the line of Kushal Sanghrajka from HDFC Securities. Please go ahead.

Kushal Sanghrajka: My first question is actually contradictory to one of the questions just asked and that is in terms of affordability of country liquor or IMFL in times when the economy is slightly slowing down. I believe there could be some sort downgrading of preferences. I would like to understand whether you actually are experiencing this - like your country liquor grew a lot this quarter compared to IMFL and whether that could be partially attributed to the fact that people are downgrading their sales?

Ajay Swarup: Again I would like say that, it's a difficult question. Based on our consumer behavior we do not have the market data to be able to take a very informed call to answer your question. But the figures speak for themselves. There is very healthy growth in country liquor this year and well it could be because of what you are saying. However, it's a difficult call for me to take that it is attributable to the fact that people are moving backward into country liquor.

Kushal Sanghrajka: What kind of capacity utilization did you have this quarter?

Bhaskar Roy: There was some disturbance in the plant for stabilization. So the capacities were not fully utilized. Out of the three plants, the two plants in Haryana have steadied down and are now achieving a 100% capacity and we are hopeful that our plant in Rajasthan will stabilize in this month.

Ajay Swarup: Let me just recap what Dr. Roy has said. At three plants, the old capacities are running at 100%. Out of the new capacities that have been added in our Haryana and Rajasthan plants, one of them i.e. Haryana plant is now running at full expanded capacity. The Rajasthan plant will be at full expanded capacity from 15 November.

Kushal Sanghrajka: In this quarter results, other expenses have shot up significantly. What part of other expenses has seen such a high jump. Is it your transport cost or advertising cost?

Bhaskar Roy: Other expenditure actually includes major part of power and fuel. Due to the disturbances in the plant, the fuel cost was much higher. Actually, let me try and explain. There is higher consumption of fuel when you shut down or restart your boilers. Though overall in the half year, you see the margins are not too down and are around 15%, for the quarter these are lower. Secondly, we are using fuel of biomass. Now for that we are already in a process of getting carbon credit which is in an advanced stage. We expect earnings to come by 6-7 months as it takes time for their team to visit the plant, give a review and then register you. So that will give us an additional earnings of Rs 1.20 crore or Rs 1.30 crore per year.

Kushal Sanghrajka: Coming on the related topic of the equipment, I believe you have plans to install evaporators at your plants. Is that already done?

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Bhaskar Roy: It is actually for the old plants. The new plants have the integrated evaporator with it. So it doesn't need a separate evaporator with that. Our new plants are designed for that. So we are adding only one evaporator extra in the old plant, in Hisar plant where the plant is old.

Kushal Sanghrajka: The loans at end of this half were significantly higher than the end of FY11 and also the last year's half year. I understand that part of it could be an increase in working capital loans. Is it entirely due to that or is it also partially due to this new 65 KLPD plant that required investment?

Bhaskar Roy: It is a combination of both. If you see as on 31 March, the working capital loan was Rs 35 crore, which has now run up to Rs 49 crore and the term loan which was around Rs 12 crore has gone up to Rs 19 crore. So the working capital will come down by the end of the year with the surpluses, but term loan will increase because by that time we will install the new plant, which we have already ordered, for replacing the old plant at Hisar.

Moderator: Thank you so much. Our next question is from the line of Grishma Shah from Envision Capital. Please go ahead.

Grishma Shah: We have seen a substantial decrease in the country liquor realization. If you could explain that.

Bhaskar Roy: The realization for country liquor is Rs. 208.

Grishma Shah: Which is lower than last year same period and also quarter one.

Bhaskar Roy: For H1 2010, the average realization was Rs 270 per case but in H1 2011 it is Rs 235 per case. The major difference is in Rajasthan as in this year for Pet they have introduced a new category in 50 up strength and last year it was in 50 up strength. Thus for 40 up strength the rate was Rs 272 and 50 up the rate is Rs 258 per case. Further in Haryana, in last year, wholesale was with the company thus rate was Rs 6.20 higher compared to current year when wholesale is with private parties and company delivers the goods to wholesale.

Grishma Shah: So it is more because of the product mix, is what you are saying in country liquor and we expect that to continue?

Bhaskar Roy: Yes.

Grishma Shah: So you absorb the duty that you have to pay while you are doing bottling for Jagatjit Industries, is that understanding correct?

Bhaskar Roy: Jagatjit Industries doesn't come into the sales price. Reason being - in Haryana whatever we are bottling is not booked in sales but is booked in other income. Previously in Haryana there were two bottling arrangements. One was ABD and the other was Jagatjit. ABD is still going on. Jagatjit is not going on as explained by Mr. Swarup. In Rajasthan, ABD is going on and that is the sales that is actually being booked. As explained, in Haryana the IMFL Franchise sales are not booked and only the bottling fee is recorded in the other income category.

Ajay Swarup: To sum it up, in country liquor different varieties are sold and maybe there is a change in the variety mix which is moving to a lower-end variety, wherein variety is being defined by packaging. One thing that you need to keep in mind that whether it being a glass bottle or PET, there is no reduction in the price of country liquor. It is a government controlled price. So it is only a variation in packs. As per franchisee IMFL, the variation again happened because in certain cases this duty is part of the price and in certain cases, duty is not a part of the price. So we have to analyze whether it has an impact of this excise duty. We will send you a detailed statement of this.

Grishma Shah: The branded IMFL has also seen a drop in realizations. So in this quarter if we have to look at your top-line contribution, industrial alcohol which is the bulk alcohol has seen a substantial improvement in realization whereas the other three segments have seen a drop. For two of your segments you explained the details. Could you also throw some light on the third i.e. branded IMFL?

Ajay Swarup: Again this is a case of product mix, as well as the manner in which excise duty is being recorded - in certain states excise duty is a part of the top-line and in certain cases it is not. So in the case of a state, where duty is not a part, if IMFL goes up then the average realization on a per case basis comes down. So, we will again need to send you the breakup of it.

Grishma Shah: In the last two quarters, the other income has gone up to some Rs 18-20 crore. So what is this amount all about?

Bhaskar Roy: Earlier, there was no sale of power. Whereas, due to commissioning of our new expanded plant, we were able to sell about 3 MW of power this year which is giving us benefit u/s 80-I.

Ajay Swarup: Under provisions of the income tax act, we get tax free profits on cogeneration of power. And hence the power generation is now a separate division of Globus. And this is largely that.

Bhaskar Roy: Secondly, with the increase in the production, the quantum of spent grain sold has also increased. As mentioned earlier in the call, we are a zero discharge Company and we have put an integrated evaporator. So whatever is left out which was discharged earlier in the old system is now recycled. This has resulted in an increase in spent grain quantity from 0.90 per liter of production to 1.40 per liter of production.

Moderator: We have the next question from the line of Anuj Sharma from ASK Investments. Please go ahead.

Anuj Sharma: What has been the capacity utilization in the new plant?

Bhaskar Roy: Capacity utilization in the new plant in the second quarter is actually less than 50%, because the plant was under stabilization. Now one of the plants has gone to 100% capacity utilization. Other plants as already explained that, it will go to 100% after 15th of November.

Anuj Sharma: If I just look at the number of industrial alcohol and if I go back two years ago, we were generating a throughput of roughly 36 lakh litres, which right now also remains at 36 lakh litres, while I understand the country liquor volumes have gone up, it

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still does not explain us to the new capacities having contributed anything to the volumes. In fact, in Q4 the last year we had a throughput of 60 lakh litres.

Ajay Swarup: No, that's not true. Actually, in Q4 we did do credit quantities of industrial alcohol which meant that we cater to demand of our customers by buying industrial alcohol. So, part of those 60 lakh litres is traded country liquor. Having said that, if you do add up the increased off take because of country liquor and the industrial alcohol volume which you spoke about, you can see a growth from the earlier year's Q2. Yes, the expanded capacity impact has not yet come into the numbers as it should have and that will be seen only in part of Q3 and then Q4 in its entirety.

Bhaskar Roy: And, just to add to it, we in the quarter itself, we sold an additional 21 lakh cases of country liquor in this quarter versus the corresponding quarter last year. Three litres per case makes 63 lakh litres. If you add with 36, it will give you 99 lakh litres of industrial alcohol..

Anuj Sharma: What was the traded volume of industrial alcohol in Q4 FY11?

Bhaskar Roy: Last year half of the volume was traded only.

Anuj Sharma: Is there anything right now, which has been bought?

Bhaskar Roy: We have only very miniscule quantities.

Anuj Sharma: What has been the reason for the delayed stabilization?

Ajay Swarup: The new capacity has been delayed because of the delay in stabilization of the power plant.

Moderator: Thank you so much. Our next question is from the line of Anand Raghavendra from Halley Group Advisor. Please go ahead.

Anand Raghavendra: How long do you think it would take to reach stable production?

M. L. Dutta: We have already stabilized our plant in Haryana, where we are producing the expected capacity of 100% and one unit in Rajasthan where we are in the process of stabilizing and commissioning the power plant will link to the boiler and ultimately that boiler gives us the steam to run the plant, which we are expecting to get stabilized by the 15th of this month.

Anand Raghavendra: So can we expect full production from new plants, from Q4 FY12?

M. L. Dutta: Yes.

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Anand Raghavendra: Earlier you had mentioned that for the south Indian region you have made some tie-up for bottling. So, what about the alcohol production for those regions. Will we be producing in Haryana and Rajasthan and shipping it over there.

Ajay Swarup: No, both the bottling activity as well as the alcohol would be procured locally.

Anand Raghavendra: Which branch would you be focussing for those regions?

Ajay Swarup: We would be focusing on the new brandy which has been launched, as well as the whiskey which has already been launched, and the rum which is in the market already.

Moderator: Thank you so much. We have the next question from the line of Avinash Wadhwa from M3 Investment. Please go ahead.

Avinash Wadhwa: In your experience in running the country liquor business, have you ever seen this kind of a jump in the past? Is there any chance that the trade may have stopped and therefore we may have borrowed from the next quarter, and sort of there may be an element of one-off in this quarter country liquor numbers?

Ajay Swarup: In the liquor business it is difficult to adjust, if I may use that expression in parenthesis of course, any sales by stocking up at a stocking point, because all stocking points are licensed and they are under supervision of the government. It is impossible to stock up at either retail or at wholesale. This is genuine retail sales, which is recorded in the Excise Department's records. It is not a one-off at all, it is genuine demand coming from the consumer and we expect this to continue.

Avinash Wadhwa: Were you able to anticipate these earlier?

Ajay Swarup: Well, we have launched a new brand of country liquor in Haryana and that brand has been a runaway success. It has garnered market share while at the same time the market has grown. So it is a combination of both factors. The market growth is close to 15%-17%. But, the growth in our market share is significant. So, when you combine both, you get to the numbers which has panned out. Whether we were pleasantly surprised or not, certainly we are very happy at our performance in the country liquor business and we have taken a very dominating position in the Haryana country liquor market as well as in Rajasthan. In both our units combined in Haryana now have close to 32% of the market and in Rajasthan we are at 25% of the market. So, yes very enthralling performance by country liquor. We hope that this quarter onwards, the same performance will be backed up by our plants which have, in the last quarter not delivered such good alcohol production performance.

Avinash Wadhwa: You declared a dividend of Rs. 1 for the year that just went by. I was wondering that considering your ability to generate cash, your PAT numbers before the year began could have been anticipated at around Rs 50 crore. What the thinking process was behind such a parsimonious declaration or dividend, if I may call it that?

Bhaskar Roy: Bhaskar Roy: We had a lot of deliberation as to why it would be 10% and why not more. This is primarily because we have a solid growth plan and apart from the expansion, replacement of the old plant, etc., we are in the process of getting new licenses in three states. We got a license for a Greenfield project in Jharkhand, which is already in hand and we are expecting to get

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two licenses in other two states; one in eastern region and other in the southern region very soon. So, those projects will be Greenfield projects and need lot of investments which will be benefits for the company's growth and the shareholders' growth also. And, it needs resources to be put in because immediately we have to start planning those things. That's why we thought that we should go slow.

Moderator: Thank you. Our next question is from the line of Saurabh Jain from Aries Stock. Please go ahead.

Saurabh Jain: For this quarter, the volume growth in our branded IMFL is about 59% year-on-year. Could you help us with the value growth figure.

Bhaskar Roy: In Q2 FY12, we have done 1.34 lakh cases, and value was Rs 1,07.4 million. We have done 0.47 lakh cases through franchise arrangement, means total we have done 1.80 lakh cases and, total sale was 1,429.32 lakhs, and last quarter, Q2 FY12, 2010, we have done 1.13 lakh cases and Rs. 1,055.60 lakh. This 10.55 crore, gone up to 14.29 crore value wise, and volume wise 1.13 lakh cases gone up to 1.80 lakh cases.

Saurabh Jain: Right, 1.13 lakh cases gone up to 1.80 lakh cases, and the value for this quarter is Rs. 10.73 crore.

Bhaskar Roy: No, value for this quarter is included, whereas in IMFL also there were two parts. One which IS the sales booked in the books and others which are happening out of tie up. So, which is booked in the sales is Rs. 10.73 crore, which is not booked in the sales is Rs. 3.55 crore. So, total sale was Rs. 14.29 crore

Saurabh Jain: Also if I can get the same figure for country liquor for this quarter and half year?

Bhaskar Roy: Country liquor this quarter is Rs 89.48 crore and for corresponding quarter last year it was Rs 59.74 crore. For first half, country liquor was Rs. 163 crore vis-à-vis Rs 116 crore last year.

Saurabh Jain: For branded IMFL?

Bhaskar Roy: Branded IMFL for half year 2012 was Rs 32.29 crore compared to Rs 18.21 crore H1 last year.

Saurabh Jain: The working capital has gone up quite a bit. I just wanted to get the figures for inventories, debtors, and loans advances, as on 30th September, 2011.

Bhaskar Roy: That is not readily with me, I have to send it.

Saurabh Jain: I can take that from you later on, because this figure has gone up by about Rs 50 crore in six months.

Bhaskar Roy: No, that is incorrect. The working capital as on 31st March, 2011, was Rs 35.6 crore and as on September 30, 2011, this was Rs.49 crore.

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Saurabh Jain: Over the next three to five years, what is the sort of growth rate we expect for our business as a whole?

Ajay Swarup: We have been consistently clocking growth rates of 25% plus, and going forward we should be able to continue doing that.

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

Rishendra Goswami: What kind of brand related expense do you envisage for the year FY12 and FY13?

Ajay Swarup: We are in the process of framing our marketing A&P spends based on geographies and on the brands. I will be able to share this with you possibly, in the next quarter.

Rishendra Goswami: This is as you would be launching few new brands shortly.

Ajay Swarup: That is true but with the launch there is not too much expenditure being put in, in terms of advertising. Because, there is only half the year left. Most of liquor advertising happens at shops. So, we would not like to put in money for A&P in one quarter, at a particular shop, because the shop will change from 1st April next year.

Rishendra Goswami: What were the volumes for the quarter in Jagatjit?

Ajay Swarup: Like we had said earlier, Jagatjit tie-up is suspended because they have moved back to producing in Punjab. We are only doing franchise bottling for ABD.

Bhaskar Roy: Total would be 2.22 lakh cases in Haryana and 2.57 lakh cases in Rajasthan.

Rishendra Goswami: What happened to the tie up in Rajasthan?

Bhaskar Roy: No, in Haryana as I have explained due to the change in policy, they are not doing the bottling; they are bringing it from their own unit in Punjab.

Rishendra Goswami: When did this arrangement actually stop and when did the policy on bottling come in force?

Bhaskar Roy: The policy came into force in March and it has discontinued from middle of April or April end.

Moderator: Thank you. Our next question is from the line of Naga Brahma, an individual investor. Please go ahead.

Naga Brahma: What is the county Club sales volume in Q1 and Q2 of this current year sir?

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Bhaskar Roy: For the half year we have done around 60,000 cases. As you may know, the whiskey season is more in the winter. So in the volumes are expected to increase in Q3 & Q4. Also, rum is also starting. So as I already explained that County Club has been launched in Delhi so volumes would be higher in the next half year.

Naga Brahma: In Delhi, it was supposed to be launched somewhere during March or April?

Ajay Swarup: No. We have already launched two brands in Delhi which is continuing, one was Hannibal and the other was a regular brand which is already there. But County Club was supposed to be launched in the middle of the year only.

Naga Brahma: What is the status on the supply to canteens stores department?

Ajay Swarup: The product has been approved to the final screening committee and that meeting is scheduled to take place sometime this month. After that the product will move in for field trials. We expect this trial to be over within this financial year and the full effect of the CSD sales will be seen in the next financial year.

Naga Brahma: So, there would be no contribution from that segment this year?

Ajay Swarup: There would be some, but marginal.

Naga Brahma: We have done only around 3.5 lakh cases of IMFL till September. So what could be the realistic target possible in the next six months?

Ajay Swarup: As commented earlier, we plan to retain our growth rate that we have been achieving for the last two years.

Naga Brahma: We were doubling every year, so that means is it possible to reach around 13-14 lakh cases during the current year?

Ajay Swarup: Our sales last year was about 550,000 cases. So, we plan to achieve around 100% growth in that.

Naga Brahma: Regarding Capex, you mentioned earlier that you would be increasing capacities of the ADL plant. So what is the status on that?

Bhaskar Roy: We are planning to increase the ADL capacity at the same levels of our other two plants in the next year.

Naga Brahma: I think in the last conference call, the MD mentioned about changing the technology for ADL plant. So have we done anything for that in the current year?

Bhaskar Roy: In terms of technology, we have already installed an evaporator, making it totally pollution compliant, etc., zero discharge in the old plant because in the new plant the evaporators are integrated. In old plant the evaporator was not there. That is

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one part we are doing this year in aerial. But, the capacity expansion, because that requires change of boiler, combine everything also, increasing the fermentation capacity, distillation capacity all. So, that will be taken up in the next year.

Naga Brahma: Can you give us what could be the Capex amount for the current year?

Bhaskar Roy: Current year, we will do a capex of around Rs. 7 - 10 crore in ADL, and in GSL other plants because we are putting up new distillation plants for which the capex will be around Rs. 35 crore. So the total would be Rs. 40-45 crore

Naga Brahma: Are you only looking at Greenfield projects or that you may be acquiring any existing companies?

Ajay Swarup: We are committed to expanding all our verticals, be it bulk alcohol, country liquor, franchise bottling and even our own brands of IMFL. One part of expansion is being Greenfield, and Brownfield expansion. We are in the market for these opportunities and these opportunities are difficult to come by. So, as and when there are opportunities we will definitely inform you.

Moderator: Thank you. We have the last and final question from the line of Avinash Wadhwa from M3 Investments. Please go ahead.

Avinash Wadhwa: You said that on a blended basis you could see our sales growing at 20% - 25%, and I was just wondering that considering that our country liquor sales has shot off smartly this half year and you are expecting that to continue, then on a higher base, we are saying that we are likely to grow 25%. So did I understand that correctly?

Ajay Swarup: Yes, you did understand that correctly. But, that growth is not just for country liquor piece, it is as a consolidated picture.

Avinash Wadhwa: Right, so the country liquor bit contributes significantly right, more than 50% today.

Ajay Swarup: That's right, but as the bulk is to kick in the latter half of this year, you will see significant growth coming from that vertical as well.

Avinash Wadhwa: I think Grishma and Anuj both spoke about lower realizations in country liquor and you also clocked in lower operating margins in this quarter. I just hope that the two are not co-related in any way. So, I just want to clarify that the EBITDA contribution per case for country liquor has not declined this quarter.

Bhaskar Roy: There is no co-relation as the country liquor price, once it is fixed, it stays. So, there is no question of coming down, I have only explained that there is a product mix difference. There is no fear of EBITDA margin declining in the country liquor segment. If the EBITDA margin has declined overall, it is not due to the country liquor segment but due to the other expenses which was explained earlier in the call.

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Moderator: Thank you. As I see that there are no further more questions I would now like to hand the call over to Mr. Nikhil Vora for closing comments. Please go ahead sir.

Nikhil Vora: Thanks, thanks a lot to the entire management team for a fairly elaborate call right now. Thanks Mr. Ajay Swarup, Dr. Bhaskar Roy, Mr. Shekhar Swarup and the team there, as well as for the participants for remaining on the call.

Bhaskar Roy: 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 investor relations agency either by phone or by e-mail, which is mentioned in the results release. Thank you once again.

Nikhil Vora: Thanks a lot everyone.

Moderator: Thank you. On behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines. Thank you.

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