
# SOM Distilleries & Breweries Ltd.

## Earnings Conference Call Transcript

Q1 FY2020

**Management:**

Mr. Deepak Arora - CEO

Mr. Nakul Sethi – Director, Finance & Strategy

**Moderator:** Ladies and gentlemen, good day and welcome to the SOM Distilleries & Breweries Limited Q1 FY2020 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Please not that this conference is being recorded. Joining us today on the call, Mr. Deepak Arora – CEO and Mr. Nakul Sethi – Director, Finance & Strategy. Before we begin, I would like to mention at some of the statements made in today's call maybe forward-looking in nature and may involve risks and uncertainties. For a list of such considerations, please refer to the 'Earnings Presentation'. I would now like to hand over the call to Mr. Deepak Arora for initial comments and then we will start an interactive question and answer session. Thank you and over to you Sir!

**Deepak Arora**: Thank you Raymond. Good afternoon everyone. I would like to welcome you all to the SOM Distilleries & Breweries Q1 FY2020 earnings call. In today's call, I will try to cover the performance highlights, the industry environment as well as the outlook for the Company. Then I will hand over the call to Mr. Sethi, who would have a detailed discussion on the quarterly performance numbers post which we will open the call for Q&A.

To start with, we had a very strong start to the year with beer volumes up by 36.4% on a Y-on-Y basis to 37.8 lakh cases and a similar growth in IMFL volumes, which had doubled to 3.4 lakh cases. Driven by the robust growth in volumes our total income recorded a growth of 50% plus on a Y-on-Y basis to reach Rs. 1,878 million.

Despite a couple of cost pressures pertaining to barley and new glass bottles we were able to record an EBITDA of Rs. 291 million with a margin of 15.5%. Our EBITDA recorded a growth of 30.3% compared to same period last quarter. PAT for the quarter grew by 30% Y-o-Y to Rs. 146 million with a margin of 7.8%.

Our performance in operational terms was also encouraging during the quarter. One of the biggest metrics of evaluating the sector is the utilization levels, which went up across all our facilities and experienced significant improvement during the quarter. Our existing Bhopal Brewery operated at near-peak capacity in Q1. Our Karnataka unit saw an improvement and operated at over 70% utilization level and finally our Odisha facility, which opened in the month of March, operated at over 40% utilization levels in the Q1. Odisha subsidiary also turned EBITDA positive during the quarter. Our Karnataka subsidiary continued to enhance its contribution to PAT levels as compared to previous quarters.

The demand and supply challenge of glass bottles continues to remain in the industry. However, our recent efforts of importing glass bottles has enabled us to manage our requirements for this Q1 and also going forward. The cost of imported bottles are higher than domestically procured bottles. As a result, there has been an increase in our input cost, but we expect this to normalize by the end of the year when more returnable glass bottles start getting used compared to new bottles. Also, the barley cost remains at higher level compare to the same period last year. These cost pressures may have transitionary impact on margins during the lean quarters but on an annual basis, we are confident of restoring margins as compared to our previous performances.

We believe that the first quarter the fiscal year has set the tone for the rest of the year. We are confident of continuing this growth momentum during the remaining part of the fiscal year. The most important thing being that our flagship brand Hunter has gained a pan India visibility, which is evident from the strong volume growth achieved by the brand. All our strategic initiatives and investments undertaken in last 2 years have started consolidating and yielding results and are anticipated to contribute meaningfully to our profitable growth during the year. In the last few quarters, I had discussed about this year being the consolidation year for the group and we have delivered on that promise and going forward we will deliver on that promise for the year on our consolidation of our utilization level across all year. I would like to hand over the call to Mr. Sethi, who will discuss the detailed numbers with you all. Thank you.

**Nakul Sethi**: Thank you Sir. Good afternoon everyone and welcome to a Q1 FY2020 earnings call. Our consolidated total income for the quarter was Rs. 1,878 million which represented an increase of above 50% compared to the same period last year. There was significant improvement in our utilization levels across the facility and considerable volume growth was the primary driver for robust growth in our topline.

Our consolidated EBITDA for the quarter increased by 30% year-on-year to Rs. 291 million. The EBITDA margin for the quarter was 15.5%. We were able to achieve this margin despite the present cost pressures for the barley and new glass bottles, higher employee cost pertaining to new markets also had an impact on the margin for the quarter. Both Karnataka and Odisha facilities were EBITDA positive during the quarter.

Interest cost for the quarter increased by 51.4% to Rs. 39 million. As a percentage of total income, it stood at 2.1% in Q1 FY2020 compared to 2% in Q1 FY2019. Depreciation expenses increased by 43% to Rs. 27 million in Q1 FY2019. The increase of primarily attributable to higher depreciation on our Odisha plant. Our consolidated PAT was Rs. 146 million in Q1 FY2020, an increase of 30% with a margin of 7.8%.

As on June 30th, 2019, our total gross debt stood at Rs. 1,628 million and cash and cash equivalent is Rs. 110 million resulting in a net debt of Rs. 1,518 million. Gross debt to equity was 0.5x and gross debt to EBITDA ratio was 2.7x. Both the ratios have improved compared to the last quarter.

The volume of our flagship brand Hunter recorded an excellent growth of 63.9% compared to the same period last year to reach 15.7 lakh cases. The Hunter brand has now gained a pan India visibility and consumers have accepted it as a premium brand. Hunter was also a most sold brand from our Odisha facility and accounted for 80% of the total volume sales from the subsidiary. Black Fort Beer volume decline by 26% to 6.1 lakhs cases compared to same period last year. This decline is primarily on an account of shift of consumers from Black Fort to Hunter particularly in the markets where we entered with the launch of this brand. Our Power Cool brand has recorded a volume of 15.2 cases an increase of 55% compared to same period last year. This growth is a testament to our ability to shift consumers from local brand or lower category alcohol to our products. Our IMFL volume doubled to 3.4 lakhs cases compared to 1.7 lakh cases in Q1 FY2019. We remain committed to continue our topline and enhance our EBITDA margins.

With this we would like now to open the floor for Q&A. Thank you so much for your patience.

**Moderator**: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

**Pritesh Chheda**: Sir, question on the working capital and the cash generation in the quarter, if you could give some highlight because Q4 had this full inventory being built up for those bottles and all and when I see the gross debt number it has also increased substantially, so if you could give some comments on the working capital?

**Nakul Sethi**: The gross debt as we mentioned in our last call also was towards the expansion of the brewery. It had nothing to do with the working capital and coming to the high inventory; obviously it has come down because there was a considerable amount of new bottles and finished goods in that inventory.

**Pritesh Chheda**: So, this brewery you are referring to is what Odisha Brewery for which the debt has increased?

**Nakul Sethi**: If you recall, we had mentioned about doubling of our capacity at Bhopal plant, so this particular debt is for that facility.

**Pritesh Chheda**: So, what is Q-o-Q change in debt, so Rs. 163 Crores, which you are reporting for Q1, what was the corresponding number in Q4 of last year?

**Nakul Sethi**: There is actually a decline of about Rs. 4 to Rs. 5 Crores from that figure. From the figure which was quoted in March 2019.

**Pritesh Chheda**: What is the cash generation in the quarter so the Rs. 29 Crore EBITDA that you reported, how much cash would you have generated after working capital?

**Nakul Sethi**: That I will get back to you.

**Pritesh Chheda**: And lastly I wanted to know the revenue per case in beer and the EBITDA per case in beer and IMFL?

**Nakul Sethi**: Now, like we had discussed last time also Pritesh, the same question it depends upon plant to plant.

**Pritesh Chheda**: So, I just wanted the aggregate level?

**Nakul Sethi**: If you look Bhopal we had a realization of close to Rs. 441 and if you come to say Woodpecker it is about Rs. 470, so now this includes all SKUs and all brands together.

**Pritesh Chheda**: So, Woodpecker is Rs. 470?

**Nakul Sethi**: Yes, and Odisha it is lower and it would be close to Rs. 365.

**Pritesh Chheda**: And what would be the corresponding EBITDA per case if you could give, I am okay aggregate also?

**Nakul Sethi**: If you look at, obviously EBITDA would be in lower in Odisha because the realization is lower there and on an aggregate basis we are doing about 15.5% EBITDA.

**Pritesh Chheda**: So, about Rs. 70 per case roughly is there for Bhopal and Woodpecker both?

**Nakul Sethi**: Yes.

**Pritesh Chheda**: And if you could give the same assessment for IMFL?

**Nakul Sethi**: So IMFL, we have got Rs. 700 odd from the Bhopal plant per case and lower in Karnataka because you got tetra packs there.

**Pritesh Chheda**: What is the realization?

**Nakul Sethi**: It would be about close to Rs. 440.

**Pritesh Chheda**: Lastly, what growth do you foresee for FY2020 or volumes do you foresee for FY2020 in beer and IMFL, that is my last question?

**Nakul Sethi**: I think we could start by giving you broad utilization levels of the plants. We expect that Karnataka, we should do about 50% on an average for the year for beer utilization. For Odisha I think we should be able to do about 25% all through the year.

**Pritesh Chheda**: Bhopal?

**Nakul Sethi**: Bhopal 100%.

**Pritesh Chheda**: Of the current not the expanded?

**Nakul Sethi**: No 100% of the current and we are expecting that the expanded capacity should be online from the last quarter of this year so about 10% of that.

**Pritesh Chheda**: Thank you.

**Moderator**: Thank you. The next question is from the line of Neeraj Prakash from Nepean Capital. Please go ahead.

**Neeraj Prakash**: I had a question on the capex side, so the CWIP was around Rs.150 Crores as of March 2019, could you just break up how much that was Bhopal and Odisha and how much has now been included in the gross block as of the end of this quarter and relating to that the depreciation was about Rs. 2.7 Crores in the quarter should we take that as a steady state going forward or how much incremental would be added from the additional capacity coming up in the Bhopal plant?

**Nakul Sethi**: I mean coming to the depreciation figures, Neeraj, we have not capitalized the Bhopal plant because the plant has not been completed as yet. We had provided for some depreciation for Odisha, but we expect another expenditure of close to another Rs. 20 Crores still there.

**Neeraj Prakash**: But, the Rs. 50 Crores that we spend on the Odisha plant that has been capitalized already completely?

**Nakul Sethi**: Yes.

**Neeraj Prakash**: And just on the debt, which is Rs. 160 Crores you do set that to keep to decline from now going forward since you more or less accounted for capex that is going to be done in Bhopal and Odisha and I am guessing that the utilizations are not at the peak levels for the other two plants, will you be looking at deleveraging in the next year or two?

**Nakul Sethi**: For long-term debt repayments will be done on a regular basis based on the schedule, but as we had mentioned in our last call that we will take another Rs. 25 to Rs. 30 Crores of long-term debt to complete the plants and will also need about Rs. 20 Crores as working capital to run the enhanced capacity.

**Neeraj Prakash**: Okay. Understood. Thank you.

**Moderator**: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang. Please go ahead.

**Sunil Jain**: Sir, this is regarding traditionally you had done around 35%, 36% of your revenue in Q1, so will that same trend continue or there can be some differences in this year?

**Deepak Arora**: This year basically it has enhanced a little bit because of more utilization levels the season starts a little early in Southern India and ends also little earlier, so that fluctuation we will see, but more or less it will stay consistent on a consolidated level. You will see the sales differing from plant to plant .

**Sunil Jain**: Sir, about this demand side, it was comparatively period where the elections was there even then we saw a very good growth, what was the reason, how we were able to do that, where the demand came more from which state or something if you can explain?

**Deepak Arora**: The number one reason being Hunter had just completed first year of launch in Karnataka and last year we started the commercial production in May, which was the end of the season, this year we got the whole season, which starts a little earlier in Karnataka say around February, March and ends by end of May, so that benefit we got, number two, Hunter as the volume suggests is growing pan India, which is our premium brand, so which is very good news for us in terms of acceptability as being an alternative to the other big players in the market and the third being due to our feeding in markets like West Bengal, Jharkhand, Odisha it is creating a traction for the brand in that side. So that is why we saw such a good utilization level in the Odisha unit. Because of these three factors; as the brand spread across more territories, the cumulative traction of the brand went up, which led to the spurt in sales.

**Sunil Jain**: The Odisha unit you said that the realization was quite low as compared to your Bhopal plant, so whether we had launched Hunter from there or the lower brand?

**Deepak Arora**: No, this is basically while the other units are all weighted average realizations of can plus bottles, Odisha units's can line is under commissioning right now, so it was only the bottle figure, which we could cover in Q1 hence the slightly lower realization. This realization is expected to slightly go up once the canning line is commissioned.

**Sunil Jain**: Sir, last thing about this Bhopal if you see like to like, like if we see the state of MP whether we had seen the volume growth over there and how much it could have been?

**Deepak Arora**: Yes, on a plant-to-plant level basis, there is a 20% growth in the Bhopal Unit in terms of the number of cases as well as in Karnataka, it would be roughly around another say 30% odd in Karnataka.

**Sunil Jain**: No, my question was more of related to state, whether the market share in the MP, which was a bit under pressure last year has improved back or not?

**Deepak Arora**: Sir it can only happen if the market share improves, while the industry is pretty much flat in MP we have grown and same is the case in Odisha, we have grown over the industry.

**Sunil Jain**: Fine. Thank you Sir.

**Moderator**: Thank you. The next question is from the line of Tarang Agarwal from Oldbridge Capital. Please go ahead.

**Tarang Agarwal**: Sir, good evening. Thanks for taking my question. I have a couple of questions, first question is your gross margins largely remain stable year-on-year, but operating and manufacturing expenses have shot up, is it because the glass cost has been accounted under operating and manufacturing expenses?

**Deepak Arora**: Yes, the operating and manufacturing expenses we have accounted for that, yes.

**Tarang Agarwal**: Sir, my second question is, that mean December 31, 2018 till June 30, 2019, the net debt has risen from Rs. 103 Crores to Rs. 152 Crores, which is Rs. 49 Crores and in the last six months you all have done a PAT plus depreciation of almost Rs. 21 Crores, so effectively that is Rs. 70 Crores of cash, just wanted to understand where all has that Rs. 70 Crores been appropriated?

**Nakul Sethi**: I mean like we had mentioned earlier in the call that we are in the middle of the expansion, so we are doubling our capacity at Bhopal plants, so that money basically has gone into that expansion.

**Tarang Agarwal**: So, the entire Rs. 70 Crores has gone into Bhopal plant or there are some on an account of working capital?

**Nakul Sethi**: I think bulk of it has had gone for the expansion at Bhopal plant.

**Tarang Agarwal**: Thanks. That is, it from my end.

**Moderator**: Thank you very much. That was the last question. I would now like to hand the conference back to Mr. Deepak Arora for closing comments.

**Deepak Arora**: I would once again like to thank all our investors for keeping faith in us and listening to us patiently. Hope we had delivered the results, which we promised last quarter and I look forward to talking to you all again. As I said going forward utilization levels and consolidation of our capacity is key to our growth and we look forward to having you all again.

**Moderator**: Thank you very much. On behalf of SOM Distilleries & Breweries Limited that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.

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*Note: This transcript has been edited to improve readability*