"Globus Spirits Limited Q1FY22 Earnings Conference Call"

August 10, 2021

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Moderator: Ladies and gentlemen, good day and welcome to the Globus Spirits Limited Q1FY22 earnings conference call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shekhar Swarup –Joint Managing Director of Globus Spirits Limited. Thank you and over to you, Mr. Shekhar Swarup!

Shekhar Swarup: Thanks. Good morning everyone and welcome to our Q1FY22 call. I hope that you and your family members are safe. While the last financial year was perhaps the most challenging for all of us in the country, in the start of this year too has seen the country crackling with the second wave of COVID-19. While healthcare systems and other industries continue to face the brunt of the second wave economic activity in our sectors did not seem to be as disrupted as it was in the first wave.

The months of April-21 and May-21 saw a blip in our sales and we are happy to report that by the end of the quarter, we were firing all the cylinders again and sales figures began posting strong growth numbers. With our diversified business model, our overall capacity utilization remained at 98% even in this challenging quarter.

As we have been pointing out, the value segment has seen itself now from back of changing demand due to increase in income in the rural and semi-urban markets. As a strong player in this segment and a market leader in some states, we have been able to post strong growth numbers across our markets. Our efforts in creating better offerings to the consumer in this segment along with strengthening capability as our backend and frontlines is playing out to our advantage and we remain hopeful of translating this into further market share gains in the coming years.

I would now like to take you through our segment wise performance starting with our consumer business. The company as I mentioned is in a unique position with our product portfolio in two significant segments that is the higher end premium segment and the value segment. With this, we are able to achieve high profitability consumer business at a scale. The segment has done well in the share of the consumer business increased to 42% of our total revenues in Q1FY22. The hourglass shaped market that I have been alluding to in our previous calls, consumption growth at the premium end and at the value end continue to drive our strategy for rating in key markets.

On manufacturing segment, we are focusing our attention on expanding of setting up capacity in deficit states. A deficit state is one that depends on bringing its alcohol from other surplus states in India for the use of liquors as well as ethanol. This strategy allows us to maximize capacity utilization at higher prices than other distilleries located in surplus states from the very first day that factory operations start and also allows us to seed our brand in that state thereby helping us to expand our value consumer footprints in the country.

Structural changes in the industry continue to provide tailwinds. The target of 20% blending has been expedited by five years to 2025. On the back of this thrust, surplus capacities of alcohol have dried up giving us greater control on our margins across the states that we are operating. It also validates our expansion plans in areas that continue to remain deficit for beverage and ethanol for petrol blending.

As mentioned in our previous call, our capacity expansion in West Bengal facility by 140 KL per day will increase our total capacity in that state to 250 KL per day this will be the largest grain distillery in India once expansion is complete. The expansion is on schedule and we expect to start production in the month of September of this year. This will be the single as I mentioned largest distillery after completion.

In addition, the new facility in Jharkhand will have a capacity of 140 KL per day, construction work is in progress. As mentioned in the previous call, we expect to start production in FY2023 and will add to our distillery and consumer business. In addition, we are evaluating another 140 KL per day project site of which is to be confirmed. Construction of this project will begin in the current financial year and by the time, this capex expansion wave is complete, our total capacity will grow to 920 KL per day.

I now request Param to take you through an update of our consumer business.

Paramjit Gill: Thank you Shekhar and very warm Good Morning everyone. As we know the second wave of the pandemic hit the country from April--21 onwards and hence our Q1FY22 remained a subdued quarter for our industry; however, I am happy to share that in comparison to the same quarter last year, our consumer segment has seen a growth in volume by 65%, while our revenue grew by 91%. However, while the overall value segment sales were impacted marginally, the product mix continues to improve leading to accretive margins.

As Shekhar earlier mentioned, we have started Q2 of this financial year, our operations functioning normally and we hope to recover our journey as we go forward. Our key state of Rajasthan continues to gain market share despite the challenges faced due to the second wave of COVID-19. Haryana as well as West Bengal sales continued at a similar state of the previous quarter.

Month on month sales have improved from mid June-21 with the easing of the lockdown restrictions. We are happy to update that we have been gearing ourselves to service this dynamic demand of consumers that keep moving between price points. 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 taste and preferences. We are also taking into account the seasonal as well as occasion led changes in the consumer behaviour to capture these opportunities as well.

Globus 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 players in the segment. The merger of Unibev Limited which is expected to be completed in this quarter will help us leapfrogging the rationalisation of our operations and we should be performing well in this segment too. While overall our volumes in the premium business degrew by about 2% in primary, the secondary performance came in at a degrowth of about 7%.

I am happy to share that Oakton Premium Whiskey almost managed to hold on to its previous year's volumes. Our focus on building a strong portfolio continues and our strategy of targeting geographies is beginning to bear fruit and obviously this is the challenging period for the most established of players and as they say- never waste a crisis. We are using this time to calibrate our efforts to focus on a few states that meet our high point criteria that we had laid out last time mainly profitability of the relevant segments, size, and salience of the segments in which we operate, the affordability to service the market as a small player, size of the investments required as well as the count required to make a particular state with this profitable. Our business plan also envisages participation in a couple additional profitable segments in key markets in the coming year.

I will now handover to Dr. Bhaskar Roy to continue with the performance update. Thank you.

Bhaskar Roy: Thank you Sir. Good morning everyone. Let me now take you through the operational and financial performance of the company. We are happy to report that our higher margin consumer business has seen an increase in share of the total revenue. The contribution of the consumer business has increased from 35% in Q1FY21 to 42% in Q1 FY22.

In the consumer segment, we have seen a strong growth not only in revenues but also the contribution of the consumer segment with the overall business in Q1FY22. Revenues from consumer business in Q1FY22 came in at Rs.1,555 million as against Rs.816 million in Q1FY21 robust growth of 91% year-on-year.

The manufacturing business on the other hand while growing has seen its contribution from 65% in Q1 FY21 to 58% Q1FY22. In the manufacturing segment, our revenue came in at Rs.1,541 million for Q1 FY22 as against Rs.1,107 million in Q1FY21 with a growth of 45% year-on-year.

In terms of volume, the consumer segment saw sales of 3.34 million cases, a growth of 65% year-on-year despite marginal impact of the second wave from the pandemic. In Q1FY22 in states of Haryana and West Bengal there were lockdowns which impacted the sales of consumer products. At the end of June 2021, all our facilities at markets have resumed normal levels of operations, we did not see any other major disruptions across Rajasthan, Haryana, Bihar and West Bengal, all things considered our overall capacity utilisation for Q1FY22 even close to 98%, this was driven by improvement in product mix and realisation. Our cash flow generation in FY21 was firm and we generated Rs.148 Crores of net cash flow from operations whereas for Q1FY22, the cash flow generation was Rs.66 Crores.

Our finance cost has reduced by 23% year-on-year from Rs.5.1 Crores in Q1FY21 to Rs.3.9 Crores in Q1FY22 on the back of reduced bad debt as mentioned above and reduced average cost of debt to 7.8%, which we are hoping to reduce further in quarters to come. As a result, the improvement in the financial risk profile of the company marked by healthy operations and margins and comfortable capital structure and debt coverage indicators, the credit rating for our long-term and short-term bank facilities stand reaffirmed at CARE ‘A stable’ with enhanced credit limits as of January, 2021.

We saw our EBITDA margins expanded by almost 930 bps year-on-year to 26.7% in Q1FY22 from 17.4% in Q1FY21 driven by higher share of high margin consumer business, better realizations from by-products and softening of input prices.

Now coming to the working capital cycle, overall working capital cycle has seen an improvement; however, there has been an increase in the accounts receivable on account of strong growth in higher price of consumer value segment for which the duty payable is funded by the company. The accounts receivable saw a further increase due to higher sales of ethanol where we have to allow 22 AMCs unlike ENA which is typically purchased on advance payment. Despite the increase in working capital our return ratios have seen a significant expansion. ROE and ROCE have gone up from single digit in FY19 to 35% and 42% in Q1 FY22 respectively. We have calibrated our operations to ensure that any disruptions are not only temporary but can also resume quickly and 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 very much. We will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Thanks for the opportunity. My first question is on your initial remarks because of the ethanol mixing date getting advanced, you said liquor manufacturing margins are improving, so could you give us which states you are seeing more mismatch of the supply and demand, normally liquor manufacturing would be a cost-plus model, right for the brands owners, so how do you get benefit in that scenario because cost plus model does it change because of the supply demand mismatch?

Shekhar Swarup: I think there may be a misunderstanding there, the ethanol story has impacted capacity utilisation across the country and shifting or diversion of ENA capacities to ethanol as a result improving our capacity utilisation as well as margins in ENA.

Abneesh Roy: No, but does it not impact liquor also because if the supply is getting shifted towards another industry, liquor industry will have a shortage, right?

Shekhar Swarup: In our business model because we have integrated it, we do not see that for us, as it is grain based which is there and not ENA but generally speaking for the industry, yes it has impacted ENA prices.

Abneesh Roy: Right. Second is on the sentiment because now vaccinations are really picking up very fast and especially in the big cities it is going quite well, so in terms of sentiments for your sector, how do you see it in the next few months versus the first wave?

Shekhar Swarup: The second wave that came earlier in the last quarter, the impact on our business activities was limited to at max 15 days or around 15 days in some states and other states, it was even less, so I think either for the reason that alcohol is being seen as an essential product even in times of pandemic considering the revenue source it brings to states, I do not think alcohol sales are going to form part any subsequent lockdowns. As far as retail sales are concerned, our markets are growing; they are not back to normal. They are very much growing. So, if that is the measure of sentiment then sentiment is very high.

Abneesh Roy: Yes, I will come back. Thank you.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi: Thank you for giving me the opportunity. It is indeed a very good result you had posted. I drive your attention to Rs.110 Crores GST, it is a detected matter, will you want to say something?

Shekhar Swarup: I am sorry what is the question?

Ravi Naredi: Rs.110 Crores GST it is detected by Government of Rajasthan, some time back?

Shekhar Swarup: With regards to Globus Spirits, there has been no such tax evasion by Globus Spirits.

Ravi Naredi: The name of Globus Spirit was there, that is why I am asking you?

Shekhar Swarup: There is no tax evasion by Globus Spirits, if there is a media report, I cannot comment on that.

Ravi Naredi: Thank you. What is the main reason behind the improvement of margin? Will you tell something also are these margins sustainable?

Shekhar Swarup: The reason for improvement on margins is due to a strong demand for ethanol and ENA in the country and due to higher share of our consumer business. Ethanol and ENA demand is expected to remain strong going forward and our consumer business is growing on the back of market share gains as well as a growing industry, so for that reason I believe these margins should remain sustainable.

Ravi Naredi: Okay. Thank you very much. All the best.

Moderator: Thank you. The next question is from the line of Naresh Vaswani from Sameeksha Capital. Please go ahead.

Naresh Vaswani: Thank you. First question on the realization front, in the bulk, we have seen quarter-on-quarter there is a drop while in the consumer, the realizations have increased sharply, so if you can please explain both these pieces and also what were the EBITDA margins in the consumer business in Q1FY22?

Shekhar Swarup: The drop in realization is due to a changing mix in our portfolio, our higher consumer states of Rajasthan especially we have a very, very high percentage of capacity that is going for consumer products our bulk sales have reduced considerably over there as is the case with West Bengal, we are seeing a growth in our consumer business and therefore bulk sales are reducing as a result, our bulk sales are now largely limited to Haryana, I mean, not limited, there is a significant bulk sale even in West Bengal, but because in Rajasthan it is very little, the overall average selling price of ENA reduces. So, I hope that reason is clear. With regard to margins in consumer business, we are not reporting margins separately for each business, suffice it to say that the consumer business operates at much higher margins as compared to our bulk business and with a 40% or so share of the consumer business in our revenue the average margins are as per as what we have reported in the last quarter.

Naresh Vaswani: There was this disclosure regarding the share transfer, which has happened, can you explain some background to that?

Shekhar Swarup: The background as far as the company is aware has been disclosed to the exchanges. This is regarding dues of an entity which is not associated with Globus Spirits. It is a promoter entity but they are not associated with Globus Spirits in anyway and all the disclosures have been made to that effect.

Naresh Vaswani: Final question in the previous call, you have mentioned regarding the advantage we have is our capex cost is much lower than the peers. So, I wanted to understand, if you can help me with some specifics how are we able to do this because 5%-10% is understandable, but 30% to 40% is a bit too high. So, how are we able to do that?

Shekhar Swarup: Well, these are very specific matters pertaining to our engineering and how we operate these plants and I am afraid, I would not be able to get into details about that, but we have track record of demonstrating this capex. We have done it in West Bengal and Bihar when the Greenfield projects was setup and we are now at the cusp of completing an expansion at West Bengal at these reduced levels of capex. So, I am not able to get into details on this call, but it is something that we standby.

Naresh Vaswani: How much broken rice do we require for per liter of bulk production, if you can help me with that and our procurement price for broken rice is it substantially lower than the MSP?

Shekhar Swarup: There is no MSP for broken rice. Broken rice is a waste product of rice mills. I am not able to give you specific numbers because these are very critical to our business model, but our production of alcohol from broken rice is well in excess of 47 liters per quintal or 470 liters per tonne but the exact number I am not able to give you. With that I must request the operator to take up the next question as we have a two-question limit. Thank you.

Naresh Vaswani: Thank you.

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

Sunil Jain: Good afternoon Sir. My question relates to more on realization per case for IML. So that has shown a good improvement over the last quarter. So, any specific reason for that?

Shekhar Swarup: Sure, Param, may I ask you to take this please?

Paramjit Gill: The consumer are offering straddles across more than one price point and obviously the endeavor is to try and maximize our consumer business at the best possible price point and as we keep improving our offerings, we expect the consumer to continue migrating upwards to better price points giving us better realization and giving the consumer better experience and that is only at this point of time, it is yielding the ratios of volumes and revenue at higher price points is on the up and that is the simple straightforward explanation for how the overall improvement has come.

Sunil Jain: Yes, that is great. So, are the increasing prices also contributing to improvement of margin and is it sustainable?

Paramjit Gill: So, our belief is that the consumer will continue to evolve in times to come over many years and the purchasing power of consumer will continue to improve and we will exercise more and more choices and it is up to every individual organization to continue improving their offerings and have the highest occupancy in the mind of the consumer space and that is exactly what we are doing and we believe it is there to stay.

Sunil Jain: That is good Sir. My second question is more related to your project. This Jharkhand when is it likely to start, means earlier you were talking about?

Shekhar Swarup: We have just started construction in the last couple of months. It takes us around 12 months to set up a Greenfield project of this nature. West Bengal through the entire waves is going to end up taking about 13 months or so and 2-3 months were lost due to various COVID-19 waves that have happened during construction. So, 12 months is a good estimate for a Greenfield project.

Sunil Jain: Thank you very much. I have few more questions, but I will come back in the queue.

Moderator: Thank you. The next question is from the line of Kaustub Pawaskar from Sherkhan by BNP Paribas. Please go ahead.

Kaustubh Pawaskar: Good morning, Sir. Thanks for giving me the opportunity and Congratulations for good set of numbers. Sir, couple of questions from my end first on the consumer business, we have seen that this quarter the volumes were around 3.3 million cases despite the fact that there was disruption for around 15 days to 20 days during the quarter and if we consider Q4FY21 the volumes were around 3.7 million cases. So, considering the normalization of the business environment should we expect volume of around close to 4 million cases in the quarters ahead for consumer business?

Shekhar Swarup: Little bit from me on this typically Q1FY22 of every year is a little bit softer than Q4FY21. Of course, the last year was bit of an aberration in terms of COVID-19 waves etc., because Q1 saw very extended lockdowns, but typically 60% of the industry volume is in Q3 plus Q4 and 40% is in Q1 plus Q2, but Param if you could shed little more light on this.

Paramjit Gill: Obviously it is all subjective to markets continuing to behave normally. We definitely are expecting the current quarter to be on a strong footing, difficult for us to project numbers and quoted on it as you would appreciate because these are within uncertain times, we are approaching but as of now as I said we have started this quarter well, we are well into the middle of this quarter and as of now we have a very strong sense of belief that we are on a good track and a good wicket. So, we are expecting a robust quarter, I am sufficed to say. Giving an exact number sharing I think would be challenging.

Kaustubh Pawaskar: No, problem sir. Sir, my second question is related with that only on the margin front, as you said that as the things are improving and the realization are expected to remain stable. So, current operating margins of 26.5% if we consider at Q4FY21 it was around 24.7%. So, should we expect some margins to be stable at current level or there would be some volatility considering the mix?

Shekhar Swarup: The independent margins, whereas we do not disclose the margins of manufacturing and consumer separately but what I mentioned even on the last call was that the manufacturing margins of Q4FY21 is what we expect to be at the normal level. The consumer margins are obviously based on the share of revenue from each of our segments. As Param mentioned earlier as our higher value segments grow their pace of growth will be greater than the pace of growth of the lower end of our consumer segment so there, there will be some expansion too. In the near-term we expect margin expansion in the manufacturing business but I believe that somewhere between Q4FY21 and Q1FY22 levels is the normal number for the company going forward into the medium-term or long-term.

Kaustubh Pawaskar: Thank you Sir. Thanks, I will come back in the queue. Thank you.

Moderator: Thank you. The next question is from the Line of Himanshu Shah from Dolat Capital. Please go ahead.

Himanshu Shah: Thank you, Sir. Thanks for the opportunity and congratulations for good set of numbers. Sir, couple of book-keeping questions, the other expenses has declined sequentially quarter-on-quarter by almost 10% or slightly higher than 10% from Rs.83 Crores to Rs.73 Crores whereas our capacity utilization has been broadly similar, so anything specific over here?

Shekhar Swarup: Yes, this is an issue that we were discussing in our audit committee as well. It is to do with classification of a certain item which is excise duty on inventory, so changes in inventory of finished goods coming to other expenses and excise duty on that is considerable. So, that makes the number little volatile. I think going forward we will be amending this entry to another line items so that it looks a little more consistent.

Himanshu Shah: Okay, has the excise duty gone up or gone down during the quarter on the inventory?

Shekhar Swarup: No, it is the same. It is due to change in inventory and the excise duty on that inventory. So, from a business standpoint, there is no material impact because of this number. Going forward other expenses as a ratio of revenue should track around the current level and this line item will most likely, we are in discussion with our experts on this issue, but this line item would mostly likely get reclassified as some other line item in the P&L account.

Himanshu Shah: Secondly on the raw material front, can you provide some colour on a year-on-year basis and on a quarter-on-quarter basis what would be the change in raw material per unit price in terms of either percentage or on an absolute basis?

Shekhar Swarup: We operate in diverse parts of the country Rajasthan, Haryana, West Bengal, each state has different agricultural profile and agro based industry, so it is a little bit difficult to give you that number. But suffice it to say over last year there has been an increase in raw material prices that we have been able to offset through better ENA prices as well as better prices of by-products and as far as margins on this is concerned, we believe that between Q4FY21 and Q1FY22 these are the sustainable margins on our manufacturing business.

Himanshu Shah: Lastly in our consumer business we used to give state wise breakup henceforth this quarter we have not given that breakup is it fair to assume that this will not be provided henceforth?

Shekhar Swarup: We are not averse to providing those breakups state wise and we can continue to that but I think the way to look at the consumer business is more from the split between value segment and the premium segment. Premium segment is a smaller part of overall revenues, but we believe that it is the business that is going to grow because we are not limited to our home states in premium business and we have a larger canvas for that but if you like we can have these numbers sent to you separately.

Himanshu Shah: Thank you and all the best.

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

Vivek Gautam: Congratulations on good set of numbers. Basically, I am a very old entrant of the company shareholder, my question is how effective is this broken rice raw material versus molasses, because we do not have sugar mills, if we had sugar mills, I think we have sold it off to Dhampur long time back. So, is that negative for us or a much better option?

Shekhar Swarup: No, we have never had a sugar mill. Globus Sprits only operates grain distilleries. For us grain is the focus going forward. Currently we purchase broken rice, we have purchased maize and millets in the past. Our plants are fungible between these different raw materials. Broken rice is abundantly available across the country and we believe it is the raw material for us for the future, as the agricultural pattern stands it is the raw material for us for the future. In our states there is no molasses available or hardly any molasses available. There is very little to know molasses based or sugar-based alcohol production. So, it is not fair. It does not make any sense to compare our production with molasses-based production, because it is not fungible in our states you cannot set up a molasses-based distillery at all.

Vivek Gautam: Basically, yours one of the oldest business families of Muzaffarnagar and particularly just wanted to understand with Mr. Ajay Swarup what has been his differentiating factor and carting with one distillery, knocked down to so many other distilleries in different states in Haryana, Rajasthan, West Bengal and now Jharkhand. That is very commendable and how do you tackle this perception problem of the sector in terms of that alcohol and petroleum are the cash cows for the state governments and they keep raising demand on taxes and other things and what has been our vision of Mr. Ajay Swarup family end and what is the CAGR and growth that is expected in the future Sir? Thank you.

Shekhar Swarup: Those are very big questions and we will have to sit down and discuss Mr. Ajay Swarup's philosophy, but with regard to taxation the state government is, you are absolutely right, is the greatest stakeholder in terms of revenue share on alcohol sales. For the consumer business we believe that it is in fact strength, we look at it as strength. The government is equally incentivized as we are to increase revenues and we have seen that happening over the years, increase in volume I mean, and the other factor is that because of the sheer amount of duty and taxes on alcohol there is very strict surveillance on illicit alcohol which allows for the industry to be truly recorded and organized and therefore allowing players like us to operate and build businesses and create capital from it.

Vivek Gautam: Okay, Sir. Thank you.

Moderator: Thank you. The next question is from the line of Devesh Kayal from Omkara Capital. Please go ahead.

Devesh Kayal: Sir, how much ethanol supplies have we contracted with the OMCs from the December 2020 – November 2021 supply this year?

Shekhar Swarup: I do not have the number available with me off hand but as a share of our capacity, it should be around 150,000 liters per day kind of number. I do not have the total numbers with me off hand.

Devesh Kayal: Any breakup of the sales volume of 30 million liters which we did this quarter into ENA and ethanol?

Shekhar Swarup: Like I said, our total capacity is about 500 KLPD and roughly 150 KLPD of this is ethanol.

Devesh Kayal: So, sales volume would also be intact, right?

Shekhar Swarup: Yes, more, or less I mean there maybe a little bit variation, but typically 150 KL or to 500 KL per day will go for ethanol.

Devesh Kayal: Okay, and what are our receivables as on June 30, 2021?

Bhaskar Roy: What is that?

Devesh Kayal: Receivables position as on June 30, 2021?

Bhaskar Roy: I am not able to follow the question?

Shekhar Swarup: Trade receivables what is our trade receivables as on June 30, 2021? Trade receivables, we will come back to that as soon as Dr. Roy has that we will announce it. Let us move ahead to the next questions, please.

Devesh Kayal: That is it from my side. Thank you.

Bhaskar Roy: The trade receivables are Rs.111 Crores. It is Rs.11,116 lakhs that is Rs.111 Crores.

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

Kshitij Saraf: Congratulations on good set of numbers. Sir, I have couple of questions, one is how is product pipeline is shaping up. In Unibev we have three offerings so what are the offerings planned going forward and where do plan to sell in terms of states and how do we plan to go for the expansion will it be more calibrated one or do we go aggressive upfront because there are few brands which sort of dominate the Indian market so how does Globus plan to create this niche in the Indian spirit market overall?

Shekhar Swarup: Thanks, Param could you please?

Paramjit Gill: Sure Shekhar. Thank you, Sir for the query. The product we are expecting as product pipeline to get enriched by at least two more brands within the within the current financial year. Obviously, launching of new brands in these segments depends on the ending and the beginning of the excise cycle in many states. So, the launch obviously will depend on the states that we operate in and whether that state permits middle of the excise year launch or one has to wait for the excise year to come to a conclusion and then the next excise year allows the new brand launch. Coming to the OMC's and how aggressive we are thinking of this as we go forward. So, as earlier outlined that we have earmarked limited geographies which has the potential of passing through all the five filters that we have called out and we intend to with progressive time get more and more aggressive in each of these geographies. So, our aggression and investment in these geographies will continue to improve without unnecessarily expanding into more and more every year of I it would be suffice to say that these geographies contribute a very meaningful space as a total percentage of savings on the premium segments of the Indian alcohol industry.

Cheteshwar Rao: Got it. Thank you so much and congratulations once again.

Moderator: Thank you. The next question is from the line of Rushabh Doshi from Proinvest Nirmiti Investment Advisors. Please go ahead.

Rushabh Doshi: Mr. Shekhar Swaroop, Congratulations on the operational performance despite trying times. So, I had two questions like we have couple of new investors, so we are not well versed with history of the company. But could you just tell us your relationship with Anup Bishnoi? My second question is what are the challenges you think for scaling up Unibev as not many small players are able to compete with the big players in the premium segment?

Shekhar Swaroop: Thank so Mr. Anup Bishnoi and his family are classified as promoters of Globus Spirits and that is the relationship that the company has with them. With regard to Unibev and how we plan to grow Param could you please?

Paramjit Gill: I think I did elaborate the whole framework on which we have remodeled Unibev is revolving around the geographies which allow new entrants to make a meaningful mark for themselves and have a decent turnaround of investment in converting into profitability in terms of time and investments required and allow new players to enter the market without amidst the premium cost to entry, on the basis this filter we are obviously entering these geographies and intension is to keep getting stronger not only in terms investments but also in terms expectations of performance as well as to expand our offerings into the segment. Because additional offerings will not have an additional cost of this to market to that extent as the initial offerings will have. As once we create a runway of capabilities for these states obviously the newer offerings and the further building of the portfolio will be able to use the same runway to leave a mark for these brands. Does that answer you queries?

Rishabh Doshi: Yes.

Paramjit Gill: Thank you.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

Shirish Pardeshi: Thanks for the opportunity and congratulations. I have two questions, when I am observing your presentation on slide-15 you have given a franchise bottling brands and the realization growth which is there, which has happened about 27%, so my question is this growth in the bottling fee which has happened is effective, which month it has happened, or this is full quarter we have got the realization?

Shekhar Swaroop: How it works is that in some of our relationships, we have minimum guarantees that is offered to us for access to our capacities, in the last one year there has obviously been a huge impact on IMFL volumes so that number is computed by dividing revenue with the volume that was produced. So, whereas there has been a marginal increase in bottling charges, but large impact of the increase is due to lower volumes but the fixed revenue base.

Shirish Pardeshi: No, I wanted the clarification whether this is going to prevail for next three quarters?

Shekhar Swaroop: No, it depends on volumes, so how the volumes of the brands we bottle shape up so we do not really have to control on that we are maybe a service provider in that segment. So, it really depends on how those volumes of those brands shape up, so I do not have visibility on that and for that reason, we insist on minimum guarantees for some of our relationships.

Shirish Pardeshi: Could you please comment on the volume part in Haryana, West Bengal, and Rajasthan for the franchise bottling, you said there was decline?

Shekhar Swaroop: Yes, so the bottled volume produced has declined. I do not have the actual bottling figures but basis our minimum guarantees, we bottle about 2.5 lakhs cases to 3 lakhs cases per month. We have to bottle 2.5 lakh case to 3 lakh cases per month.

Shirish Pardeshi: Including both?

Shekhar Swaroop: Including both, yes.

Shirish Pardeshi: Okay, so that means Haryana, West Bengal and Rajasthan put together is the number what you said 3 lakh cases per month?

Shekhar Swaroop: The other thing is that if, interested in the franchise bottling the other thing that has happened in this year is that in Rajasthan we have ended our bottling relationships with

ABD because our own consumer products have grown, so we needed more capacity. It is possible that ABD's bottling charges were also lower as compared to our other units and hence there is a further increase on per case in that means.

Shirish Pardeshi: I got that. I was basically looking to arise at the realization. So, any way I will take it offline. My second and last question is on the capacity. I guess you are adding another 400 odd KLPD in next one year and one and half years and you did mention that you are running almost full in the capacity utilization. So, just wanted to check this new capacity which you are adding will be primarily developing your own brands or it will also have a mix of both?

Shekhar Swaroop: So, there are two types of capacity coming up. There is capacity in new state for example Jharkhand and potentially one other and there is Brownfield capacity of expansion which is happening in West Bengal. The capacity expansions in fact, is a case whenever capacity expansion comes up, it is going to get fully utilized for bulk sales or by our manufacturing segment, by our distillery segment of sales and gradually in a new state, we will seed our brands for future growth. So, in Jharkhand, we will potentially launch our brands three to six months before the distillery starts operations because of the bottling plant takes much less time to setup and seen the market there hopefully in few years we will be able to get too high-capacity utilization from internal consumption. So, to start with all of it is going to be ENA or Ethanol.

Shirish pardeshi: Okay, thank you and all the best to you and the team.

Moderator: Thank you. The next question is from the line of Saurabh Ginodia from SMIFS Capital. Please go ahead.

Saurabh Ginodia: Good morning and thank you for the opportunity. Mr. Swaroop, I have little longer-term question on the distillery capacity. We are obviously expanding our distillery capacity from 500 KLPD to roughly 920 KLPD, but as a management team what is your first thought with respect to consolidation and utilizing the existing capacity or you plan to embark on the next leg of distillery expansion to benefit from the ethanol portfolio. Basically, what is the aspiration of the five-year view for increasing the distillery capacity for the company?

Shekhar Swaroop: We are setting up capacities in deficit states. So, what that means is from a business point of view from the time the capacity is commissioned, we will be in a position to operate it as well over 90% capacity utilization. Our current capacity utilizations are close to 100% and I do not see a situation where events like lockdowns are aside, I do not see a situation where we will not be operating at 90% capacity utilization in any of our facilities, even when we have expanded. Now, with regard to your question about more capacities, the company's capital allocation strategy is first and foremost our focus is to grow our consumer business be that as it may the consumer business does not require so much capital to grow currently and as a result the balance capital is being utilized, ofcourse the first priority is to pay off debt, the next is to invest in our consumer business whilst also being mindful of the fact that in the consumer business cannot invest too much and therefore we have a third source of capital allocation which is our manufacturing footprint. As far as expansions are concerned there is the West Bengal expansion and there is potentially Bihar expansion that is possible but further investment in capacity will only come from new states. Over the last five or seven years we have a system of couple of states between two and three states, always being prepared to receive investment. So, as you can see in India land acquisition, conversion of land use, environment clearances and other licenses this is the process that takes time. So, what we try to do is have two or three states which are in different stages of that process so that when capital is ready to be deployed, we have options of two or three states that we can deploy that money in. As of today, we have announced expansions in Jharkhand, which is a new state, West Bengal which is nearly complete, which is a brownfield expansion and a third state last time I had announced was an expansion Bihar which is currently under review because one of those projects which are on new states is moving quickly and it is possible that instead of Bihar we prioritize on that state because it will give us consumer footprint as well. That is not a delay to our construction plans because in any case we had plan to start construction later in this financial year, so maybe by the next quarter we will have a decision on that. But as of now these are the three expansions that are underway taking our capacity to 920 KL per day. Thereafter, once this is complete as I mentioned there are other states that are at different stages of this process of acquisition and licenses but currently the board has not approved any further capex plan and in the quarters to come, we will be putting up more projects to the board and depending on capital available and requirement from consumer business we will then decide how much to allocate for new capacities and how much to consumer segment. So, I hope that makes sense.

Saurabh Ginodia: Perfect. Thank you for such an elaborate answer and Sir my second and the last question would be with respect to the market share in your key states of Rajasthan, Delhi, and Haryana, if you can get some colour over the last six to eight months how has these market share gain happened for us on the consumer business?

Shekhar Swaroop: Quarterly, there is a fair amount of push and pull that takes place, but I will ask Param to give more light on this.

Paramjit Gill: As we have been calling out, we are continuing to inch our market shares across the areas either aggressively or in a very modified manner, Rajasthan obviously our collective market share in the segments that we are operating at this point of time over in the range of 30% odd and some mini segments in this are well over it and some segments are just trying to catch. In Haryana we are just about entering the double-digit game of market share and in West Bengal we are still very nascent but we are very aggressively working at possibilities and we are a very small players in West Bengal but that gives us a huge place in arena to try and capture this space and obviously as we keep going forward, we will keep unfolding our plans for the consumer business and the plans to continue to get more and more exciting and be more look into the future.

Saurabh Ginodia: Thanks, Sir. All the best for the upcoming quarters.

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

R K Khandelwal: First of all, congratulations for the good set of numbers. I have two questions. First question is in respect of the merger of subsidiaries, you have provided Rs.31.08 Crores loss in the last quarter but this quarter you have not provided anything though you have mentioned that total loss is of 34.85%, is there any specific reason for that and second thing what is the reason of that heavy losses and in future whether merger of subsidiaries will have benefit for us?

Shekhar Swaroop: Last quarter on standalone Rs.31 Crores exceptional item is what you are commenting on that was accounting entry taken based on good accounting practices. That is a cumulative loss not a quarterly loss since the inception of the company. Our run rate on losses is between Rs.2 Crores to Rs.3 Crores currently we expect that to come down to less than Rs.1 Crores in the next quarter. So, I hope that answers your question?

R K Khandelwal: No, what was the reason and what was the reasons of subsidiaries that suffered losses?

Shekhar Swaroop: We are investing in the business. We are investing in new brands. There are teens in place. There are marketing expenses in place. So, those are the reasons for losses.

R K Khandelwal: So, do you expect when after merging there will be profit on that?

Shekhar Swaroop: The accounts will be merged with Global Spirits, but we will continue to invest in this business by way of expanding distribution as well as marketing expenses.

R K Khandelwal: My second question is related to the GST liabilities; you have mentioned in the balance sheet that some case is going on in Delhi High Court where approximate Rs.20 Crores you paid by way of GST. My question is that these particular GST relates which particular state, Delhi, Rajasthan, Haryana or of which item, whether this type of liability may arise in future also, if you can throw some light on this?

Shekhar Swaroop: There has not been a demand on the company for GST for any item. This is a voluntary deposit that has been made under protest. We are currently awaiting a demand from GST pertaining to this amount and that is exactly what is our case in Delhi High Court that a demand needs to be raised so that we understand what are the claims against the company and we have been told that this amount pertains to our animal feed division but again we have not received any demands in any state. This is a voluntary deposit made by the company under protest.

R K Khandelwal: Is there any chances of future liability of this type?

Shekhar Swaroop: I am not understanding what you mean by this type. As far our tax compliances go, we are up to date on all tax compliances but I am not sure in fact what you mean by your question.

R K Khandelwal: I mean for example, currently you are paying regular taxes there is no issue on that but in future also whether the department says this type of liabilities, with you which you have just deposited.

Shekhar Swaroop: I have no control of what the department may say but as far as we are concerned, we are up to date on all liabilities.

R K Khandelwal: Thank you, Sir. Thank you very much.

Shekhar Swaroop: With that may I request that we bring this call to a close. There are many questions and unfortunately, we have run out of time today, but please feel free to reach out to us to our IR Agency, Stellar or to us directly, all our contacts are on our website and on the results and we will be happy to get back to with responses. Thank you all for attending and taking time out and wish all the very best.

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