"Globus Spirits Limited
Q1 FY 23 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Globus Spirits Limited Q1 FY'23 Earnings Conference Call. As a reminder, all participant lines will be in 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 MD. Thank you, and over to you, sir.

Shekhar Swarup: Good evening, everyone. Welcome to our Q1 FY'23 earnings call. Thank you for joining us on a holiday for most of you. And despite the short time, I hope that you've had a chance to go through our result. With me, I have Mr. Paramjit Gill, CEO of the Consumer business; Dr. Bhaskar Roy, Chief Operating Officer; and Nilanjan, Chief Financial Officer.

Our focus at Globus has always been to use our manufacturing business as an entry points to a deficit state and use that entry point for launching and deepening our Consumer businesses, which is a critical engine for growth for us going forward. We've commenced this financial year with renewed vigour and continue to work on our projects, operations and distribution of our brands. In the quarter gone by, the company has demonstrated strong sales growth in the Consumer and Manufacturing segments.

Our overall capacity in the quarter was 92% with a total production of 5.34 crore liters, the highest ever produced by the company. Our overall Consumer business continues to give us a steady growth of 16% year-on-year with a lot of initiatives being implemented in the marketplace to grow the salience of our highest value brands further. Our time-testing model of a balanced Consumer and Manufacturing revenue continues to generate healthy cash returns as we deploy cash to grow the overall scale and scope of the company. We look at inflationary periods as an opportunity to increase our focus on bringing cost efficiencies across the organization. And Dr. Roy will talk to you about some of these initiatives that are underway in some time.

As many of you are aware, in financial year '20, we embarked upon a plan to expand our total installed capacities to take advantage of the ethanol blending program of India. This plan gives us a double benefit as new geographies allow us participation in the consumer market of the state and ensuring positive cash yield from the day capacity has commenced production and growth in realization over time through the Consumer business.

The first leg of the plan was completed in December 2021 with the completion of a 140 KL expansion in West Bengal. Today, I'm happy to announce that our Jharkhand facility is ready for operations and will be in production later in August. With this, our total installed capacity of alcohol production will increase from INR 23 crore liters per annum to INR 28 crore liters with a CapEx of INR 140 crore invested in Jharkhand. The next round of expansion in West Bengal and Jharkhand by 60 KL per day or 2 crore liters per annum, each, is underway, and we expect this to be commissioned in the beginning of Q4 of the current financial year.

In Uttar Pradesh and in Orissa, clearances and approvals are underway. The land acquisition was completed earlier on in this year, and we hope to start construction later in the current financial year. Once the current plan of expansion is complete, we expect our total capacity to be 42 crore liters, up from 18 crore liters in FY'21. With an investment of INR 600 crore, this is the record lowest per KL cost for the industry.

Also with this expansion, we add access to 100 million cases per year of consumer industry with the new states that we're opening. This tremendous increase in our cash-yielding assets access to a significant size of consumer markets, along with our wide portfolio of brands spanning Value, Value Plus and Premium categories will place the company in a great position to enable sustainable growth.

I now request Param to take us through the work being done by the consumer team.

Paramjit Gill: Thanks, Shekhar. Good evening, everyone, and I hope you all are well. Our Consumer business in Q1 of FY'23 has continued to witness strong traction with a volume growth of 16% year-on-year and 6% quarter-on-quarter to about 3.94 million cases, led by robust Value segment sales of about 2.78 million cases, which grew by 27% year-on-year and 8% quarter-on-quarter and incremental Premium segment sales albeit at a smaller scale. Alongside volume growth, the realizations too have been improving.

In the quarter gone by, the average realization of Value and Value Plus segment liquor was higher by 4% year-on-year and 7% quarter-on-quarter to about INR 480 per case, primarily led by Rajasthan price increase of about INR 39 per case for Value Plus segment and INR 19 per case for Value segment liquor, effective 1st April of this year.

Going forward, with our product mix improving towards Value Plus and Premium segments, we believe realizations will continue to remain strong. In Rajasthan, our market share has increased to almost 33% on the back of strong performance of the Value Plus segment and incremental IMFL sales in Rajasthan.

An additional whiskey brand name Globus Green, which was launched towards the end of March is gradually picking up, and we believe that this will play an anchor role to strengthen Globus' whiskey market share in the state. Our product development efforts continue to give us product and packaging innovations and there are more lined up in the future.

In Haryana, we have a stable market share of about 8%. Given the current business environment, we are not expecting much growth in the Value segment in this year. We will continue with persistent efforts on the Value Plus segment here and we expect both our shares and the market to grow. In West Bengal, our market share is around 2% with still having a huge headroom for growth. We launched County Club in the Value Plus segment towards the end of April '22 and look forward to additional volumes as the market for Value Plus grows in the state.

In the Premium Liquor segment, where our focus has been the 5 key markets. You will be happy to know that our brands are now available in Uttar Pradesh, Delhi and West Bengal. Our brands are now available in over 50% of the relevant outlets in these states. By the end of the year, we expect to be available in 75% of relevant outlets in these states, repeat ordering and same-store growth from existing network is being tracked closely and is strong, and we are very excited about the growth prospects of our brands, namely Governor's Reserve whiskey, Governor's Reserve 100% Grain Whiskey, Oakton Premium Whiskey and Terai craft gin. States of Haryana and Telangana will be opened in Q3 in the current year, and our aim is to reach 75% of relevant outlets availability in 12 months.

As a strategic target, we are working towards achieving a 20% salience of Premium Liquor revenue in the total Consumer revenue portfolio of Globus in the third full year while growing all segments of the Consumer business. This position will help increase our average realization per case from about INR 500 per case to 600-plus per case and, in turn, improve margins as well as cash generation from the Consumer business. We continue to invest prudently behind this vision.

May I now request Dr. Roy to lead the conversation. Thank you.

Bhaskar Roy: Thank you, Mr. Gill. Good evening, everyone. Let me now take you through the operational performance around in the quarter combined and an update on the upcoming activities and capacities. On the manufacturing side, the overall capacity utilization stood at almost 92% in Q1 FY 2023 on an expanded capacity of 665 KLPD from 525 KLPD in Q1 of FY'22. The increased capacity being utilized entirely for sales as ENA or ethanol. This has led to higher sale of the manufacturing revenue at 61% of the total net revenue in the first quarter as against 58% in the quarter 1 of FY'22, but lower than 65% in quarter 4 of FY'22.

The total sales of bulk alcohol in quarter 1 of FY 2023 were 41.04 million liters, a growth of 37% year-on-year with an average realization of INR 57.1 per liter higher by 11% on a year-to-year and 3% quarter-to-quarter. As mentioned by Mr. Shekhar Swarup, we are working on several initiatives to help reduce costs. Some of them are shift to FCI rice-based ethanol, which is expected to retain a margin increase of INR 3 per BL over damaged grain procured from the market.

The estimated usage of FCI rice over the remaining 3 quarters is 45% of our total raw material requirement. Energy prices all over the world have become a much larger portion of most companies' profit and loss account due to steep inflation. We have embarked upon a journey of direct coal linkage and purchase from the CCL in addition, reducing energy requirements in process. Some other initiatives include improvement of AFS quality in West Bengal, increasing inventory capacity of raw material and fuel, PET bottle owned production in West Bengal and Haryana. Overall this led us to mitigate the cost increase to the extent of INR 20 crore to INR 30 crore over the course of this year.

In other updates, we have recently signed an agreement with Bacardi India for bottling their flagship Dark Rum, Bacardi Black and other brands in

West Bengal. This will add revenue potential and better utilization of the Panagarh facility. Capacity utilization in Samalkha continued to lag below the internal standards, utilization in quarter 1 was 85%. Factory modifications are being made and we expect it to be completed in quarter 3 of the current year. With the flood prevention upgrades to the Bihar facility, the factory continues to run smoothly through early monsoons, and we are hopeful no significant impact of monsoons on our Bihar business in this year.

I will now request Mr. Nilanjan Sarkar to continue with financial updates.

Nilanjan Sarkar: Thank you, Dr. Roy. Good evening all. I will take you through the financial updates. During the quarter gone by, net revenue recorded a growth of 33.7% year-on-year and a 3.3% quarter-on-quarter to INR 495.4 crore backed by volume and value growth across both Consumer and Manufacturing segments. The Consumer segment revenue recorded a growth of 25% year-on-year and 15% quarter-on-quarter to INR 194 crore in Q1 FY'23, led by better volumes and realizations. The bulk alcohol, which forms a key part of the manufacturing business recorded a revenue growth of 52% year-on-year and a 6% quarter-on-quarter to INR 334.3 crore in Q1 FY'23, led by enhanced capacities and better realizations.

Coming to the operating margins, which continued to be impacted due to higher cost pressure, the increase in raw material, fair cost and packing cost is the major reasons behind the hit in EBITDA impact margins. Compared to the previous quarter, fuel cost increased by 30%, packing cost increased by 12% and grain cost by 5%. A part of this was mitigated by better realizations of ENA 5%; ethanol 3%; and consumer products 9% mainly in Rajasthan. The higher share of manufacturing business at almost 61% of the total net revenue on account of new capacity of 140 KLPD at West Bengal also affected the overall gross margin profile in the past 2 quarters.

The company continues to generate healthy cash profits, free cash to EBITDA before investment is 70% in Q1 of FY'23, with an average of 67% to 70% on a quarter-on-quarter over the last 1 year. We continue to utilize our surplus cash for investing in expanding capacities as well as product and market development. This concludes my report on the financial highlights. I would now request operator to open the forum for questions. Thank you.

Moderator: Our first question is from the line of Sarath Reddy from Unifi Capital Private Limited. Please go ahead.

Prithvi Raj: Yes. And this is Prithvi Raj. I guess I have a couple of questions. The first on the Consumer business, the volume growth of 16% has been quite strong in this quarter. So could you throw more light on which geographies are driving this growth? And how do we expect this to go for full year and over the next couple of years?

Paramjit Gill: So at this point of time, there are 2 ways to look at it. One is because Rajasthan is running fast, and Haryana, obviously, as I said, we have taken a conscious choice to slow down a little bit because we think it is prudent at this point of time to make sure that under the current cost circumstances, we hold ourselves in a comforting position. And those are the 2 main factors that are driving the average growth.

Prithvi Raj: Sir, how do we see this number, say, can we sustain this volume growth of 15% to 20% for the full year and the next couple of years?

Paramjit Gill: Overall, our growth will continue to be in this range. There may be a short burst of lifting it up or mellowing it down because our business is never linear. But we are very confident that we are setting ourselves up for continuous growth.

Shekhar Swarup: I just want to add to that, Shekhar here. As I mentioned earlier, the work that we are doing is setting a platform for growth. We've been talking about capability building in the last few quarters. Today, I spoke about the size of the market opportunity that we are adding 100 million cases of market to our addressable market size. Plus there is this portfolio of brands and work that's being done on the premium to grow the premium side of it faster than the Value and Value Plus. In terms of Consumer revenue, I certainly see it growing at this level, if not faster, in the next few years, like PSG said, quarter can go up and down, but the platform that we're setting up in Globus in the main states that we are investing in is giving us access to a very large size of market. So there's no reason why we won't be maintaining this growth.

Paramjit Gill: See between new geographies as well as added portfolio, we are setting up parcels to a 360 position. Here, we have a lot of latitudes to play for growth. So we are bullish about it.

Prithvi Raj: My second question is on your other expenses spent. Obviously, you mentioned that there has been a significant increase in the fuel cost and packing cost, can you quantify, in absolute terms, out of INR 120 crore of other expenses, how much are these 2 cost items?

Nilanjan Sarkar: Yes. Out of INR 120 crore, the power and fuel cost is almost INR 60 crore.

Prithvi Raj: And packing?

Nilanjan Sarkar: Packing cost is another INR 10 crore. INR 10 crore to INR 15 crore.

Prithvi Raj: And Mr. Shekhar, coming to you, obviously, we had these headwinds on the margins because of the higher cost escalation. So how do we see margins going forward given that you've already got certain price hikes and the volumes continue to be strong. No, this 14% EBITDA margin, how do we see this going forward?

Shekhar Swarup: See from a long-term point of view, I see our margins becoming stronger, the current situation of very high fuel prices is not going to sustain beyond a couple of quarters, in my view. In addition, coming into October, November, when ethanol pricing is decided for next year, we are expecting a decent increase at that time because of the push that the country has towards ethanol blending, there is going to be a decent increase to offset the inflation that's happened this year. Albeit as it may, in the next 1 quarter or so, this will possibly come down a little bit more. And that is where it will bottom up and increase will then start happening in Q3, Q4 and next year should be even better, I think.

Prithvi Raj: But sir, already, given that we are seeing oil prices and coal prices correcting sharply, would indeed be the case that we have already reached the bottom?

Shekhar Swarup: See, monsoon period every year, we see 2, 3 months of higher cost. That is the impact that's playing out into Q2 as well. But you're right, as energy prices are reducing once this sort of monsoon period is over, it will correct sharply again.

Prithvi Raj: Sir, just one final question from my side. Sir, earlier you were growing 23%, 24% kind of EBITDA margin. So when do we expect to reach there? I mean, by the end of financial year? Or is it going to take much longer?

Shekhar Swarup: I've always maintained that 18% to 20% kind of levels are sustainable. There have been periods where we've been much higher than that. And in those calls where we've been higher, I have said that these levels are not sustainable in the long term. 18% to 20% margin on our manufacturing side is sustainable. And going into next year, I hope we can, by Q1, Q2, possibly try to get there. It is obviously determined by commodity prices. And I don't see why we won't get there next year. Let's see how things shape up.

Moderator: Next question is from the line of Nitin Awasthi from InCred Equity. Please go ahead.

Nitin Awasthi: Sir, the first question would be what is the trend of ENA prices? What were they during the quarter? What are they stated as of now? And the same goes for power cost also, if you could quantify whether they are up, down from the quarter to this quarter?

Shekhar Swarup: So power cost, I'm not tracking them in a rupees per gross calorific value because we are now purchasing a variety of different types of fuels. So it's difficult to give you a rupees per tonne kind of number, it's not so relevant.

Nitin Awasthi: Broad trend will do, sir.

Shekhar Swarup: Yes. So in Q1, our cost has been around INR 2.5 to INR 2.7 per gross calorific value. And in Q2, we are seeing this at about INR 3 so far. And in terms of ENA prices, ENA prices have continued to rise. In fact, Q1, the rise hasn't been so much, but coming into Q2, we've seen a significant increase. So some of the fuel cost increase will get offset by ENA price increases.

Nitin Awasthi: Could you quantify that, sir? Like what was the unit prices roughly in the quarter?

Shekhar Swarup: We are going to see at least 5% to 7% increase in Q2 over Q1. So Q1 was around 57%. So another INR 5 is what we are seeing in Q2.

Nitin Awasthi: Okay, sir. Got it. Sir, second question would be your tie-up in Maharashtra that you have done. What is the mindset behind going for such a tie-up. And what would be the financial implications of the same? And are you looking to tie up with more distilleries across India for the same.

Shekhar Swarup: So this is something new that we've sort of put together along with Tilaknagar Industries. The idea is to use our capabilities of running distilleries to increase capacity utilization, maybe even get involved at stage of engineering to reduce the total CapEx. And doing this run the operations and the commercials and generate a share of profits as our earnings from that facility. This gives us, I mean, it's infinite return on capital because there's really no capital that is going to be deployed by the company. It's just our capabilities of our teams. That's the thought behind it, right? It gives us ability to add significant number of distilleries in the future, maybe as many as Globus is currently running off its own could be under this model. Be that as it may, it's still early.

This kind of O&M along with commercial services model in our industry, in India has never been done before at any scale. So let's see how this shapes up. And once we've sort of had a proof of concept, run it for a couple of quarters, then we can start saying, how many more can we look at taking up. So it's a trial that we're running right now. We stand to make anywhere between INR 2 and INR 4 a liter as our service charge from this facility, which is not bad, considering there's no capital deployed. But let's see how it shapes up before we start projecting how many more distilleries we can take on in this fashion.

Moderator: The next question is from the line of Haresh Hindocha from SVS Securities. Please go ahead.

Haresh Hindocha: Just 2 questions from my side. We are adding up new capacity in ethanol. So are you confident of the government picking up whatever you produce at this time?

Shekhar Swarup: Right. So that's to do with our site selection, opportunity evaluation. All regions in India are not homogeneous. If you are to set up a distillery in some parts of the country, which are heavily surplus in ethanol, you'll be able to supply the ethanol, no problem, because the country is hugely deficit. But you'll have to transport that ethanol very far away. So you'll have to maybe pick up a cost of, say, INR 5 a liter or INR 4 a liter to transport this material from, I don't know, if Punjab to Tamil Nadu perhaps. But on the other hand, if you were to locate your distilleries in regions which are deficit of ENA and ethanol, then not only are you assured of offtake, but you're able to make that INR 4, INR 5 extra on ethanol.

And on ENA, maybe another couple of rupees more than ethanol. And that's our philosophy. For that reason, we don't set up very large capacities. It's possible for us to set up 500 KL or 140 KL is roughly the same amount of work. But the reason we don't do the very large plants is for that reason that we want to be able to sell that entire capacity within the state that the factory is located because that gives us the highest margins.

Haresh Hindocha: Okay. And the last question is, sir, in fact, just 2 months back we met at the time analyst asked you so many times about the scenario and guidance and everything. And I think you were not ready to give it. So what has changed in the month of June because 2 months have already been passed when we met last time of this quarter. So what has changed in the 1 month. So after that, we are seeing a very good volume growth and I'm seeing very good confidence in the management for long term at least. So what has changed in that 1 month? I mean what were the obstacles? And I mean, what has improved a lot?

Shekhar Swarup: I'm not clear about the earlier meeting. I'm little confused about what you're saying, but I can talk about today as to the work that we are doing, the proof of concept and the confidence we've got in our Consumer business in the 3 states we've already launched, the size of opportunity that we are adding to the business, in many meetings I talk about the work that we're doing in the Consumer business is building highways, right? And a lot of those highways have been built in terms of capabilities and access to markets and now it's about loading up these highways with traffic and more and more cars and utilize these highways. We are at a small base especially in our Premium Consumer business. Even in our Value business, we are strong in a few states.

The only way for volumes to go for us is up considering the capabilities that we have built and are in thought process of building and especially the size of markets that are being added to our addressable markets. Even if we get 100 million cases of market that we are adding, even if you only get 2% of that or 3% of that, which is not very difficult, it's still 3 million cases or 2 million cases, right? So I think the work that's happening in building opportunities is strong. The teams that are being set up are motivated to achieve these goals. And given sufficient amount of time, I don't see why we won't be achieving our goals.

Moderator: The next question is from the line of Reshab Sisodiya from Concept Investwell. Please go ahead.

Reshab Sisodiya: I was asking, sir, given in the last quarter, we got a contract from Jharkhand state. So if you look at the volume commitment that you have given to those states around 9 crore to 10 crore liters a year, if I'm not wrong. So going forward, if the realizations don't go well for ethanol or FCI rice realizations on the margins, is there a possible that margins could get trapped in the ethanol piece where we are committing volumes for them versus we could have just done ENA sales over that.

Shekhar Swarup: You're seeing opportunity loss. I mean, if ENA prices go up, then do we lose opportunity by supplying ethanol. Is that your question?

Reshab Sisodiya: Yes, sir.

Shekhar Swarup: Yes. So the way these contracts are structured is that if you are not able to supply ethanol, there is about a 1% penalty that is charged upon the company, number one. Number two, our commitments of ethanol, the long-term commitments that you speak about, are between 33% and 50% of the installed capacity of that state, okay. For each state, there's a slightly different number. So as a result, I don't see that as a major issue. Both of those things put together, if the size of opportunity in ENA, for some reason, becomes so much more attractive then we'll be able to work with the OMCs to prioritize ENA for some time and reduce ethanol for that period. And like I said, in any case, half to 2/3 of the capacity is flexible. It's up to us what to do with it.

Reshab Sisodiya: Right. Sir, my second question is on the Consumer business. So given that our addressable market, we will expanded to 100 million cases per annum by the end of FY'25. So going forward, how are we looking at the marketing spend and the marketing efforts in the incremental state that we are entering for the premium segment specifically?

Shekhar Swarup: Yes. So the stage that we're at, again, I would like to say is capability building. PSG spoke about us being available at 50% of the relevant outlets in the first 3 states and getting to about 75% in 1 year of existence in those states, and thereafter, trying to further increase same-store growth or tertiary sales. That's the stage we are at. But Param, can I ask you to talk a little bit about some of the marketing efforts that are on currently.

Paramjit Gill: Yes. You see, in terms of your query ratio on investments, you see, each market will go through entering investment phase, and then it will obviously start getting into the contributing phase. And for an organization like us that is willing to expand geographies as well as planning to expand portfolio, both of these will run concurrently. We are obviously tracking it very closely that as 3 states we have entered in IMFL, we have mentioned 2 more are on the offering in the coming couple of months, Haryana as well as Telangana.

Similarly, in the Value and Value Plus segments, we have called out that wherever we are adding capacities, those portfolios will, I mean, offer us over 100 million cases. So obviously, we will enter the investment phase there. By that time, we are entering the investment phase there, some of our investments, which we are making today will start yielding results. So for an ever hungry company like us, it is an ever-moving cycle. But yes, we will continuously be making investments, and we also expect continuously that these investments will start becoming ROIs.

Shekhar Swarup: So the other thing to that is to do with capability building and stage of business that we are in, I mean, if we're to cross say 20,000 cases a month of business at our current investment levels, if we're to double our investment levels today, it will not double our volumes. So we are going about this in a prudent fashion where we are not increasing our cash required or our loss through investments but building capability by investing just the right amount, once we get to the 75%, 80% distribution levels in 5 states, that is a stage when then we can start deploying capital in order to buy market share, if you know what I mean, where you can say that every INR 10 crore or every INR 5 crore invested in the state is directly proportionate to this much growth. Currently, it's not. Currently, it's about doing the hard work and being available in those 75% of the outlets.

Moderator: We take the next question from the line of Amit Chordia from World Foods LLP. Please go ahead.

Amit Chordia: I was reading about the rice sold that is happening. And I think there's a 14% drop in the rice that is sold in this Kharid. So can you tell us about this raw material and how it'll affect us in the coming couple of quarters?

Shekhar Swarup: Yes, sure. So I've been hearing that as well. Let's see how things shape up towards another 15, 20 days. These things sometimes have the ability of gaining a lot of speed as the monsoons progress. We've seen it in so many cycles in the past as well. Be that as it may, we are hedged in 2 ways. One is, like Dr. Roy said, for the rest of this financial year, 40% of our raw material purchase is going to be from FCI. FCI has sufficient stocks for ethanol as well as for public distribution for a few years. So I don't see that as a risk factor in the short term at all. The other way we are hedged is we have the ability to purchase other grains, mainly maize. So I don't see this making a very significant impact to availability of raw material in general. I don't see how we won't be able to run our plants if there's no raw material. There's no such scenario like that, that's going to emerge at all in this country.

Amit Chordia: So is it right to say that we are grain fungible, so the maize can also make alcohol.

Shekhar Swarup: Yes. We are 100% flexible between maize and rice.

Moderator: Next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Shekhar ji, just clarifications on a couple of statements. Did I hear it correctly that over a period of time, and I don't know how long that duration is going to be, over a period of time, you are targeting up to 20% of your Consumer business coming from Premium segments?

Shekhar Swarup: Yes. That's a strategic target. It's a discussion we've had internally like the Premium business should need to become a meaningful portion of our total Consumer revenue. And the number that we've internally prescribed, as being meaningful, is 20% of our total Consumer business to come from Premium. I mean, of course, do we want more? Certainly, we want more. But 20% is the first sort of milestone for us. And that's a number that we're working towards over 3 years.

Agastya Dave: Over 3 years. Right, right. So I just wanted to verify that is what you said. So if I look at last financial year as a whole and Q1, what is the base at which we are currently? Last financial year, how much was coming from Premium? And again, the same question in Q1.

Shekhar Swarup: Very small.

Agastya Dave: It's 2%, 3%, if I'm not mistaken.

Paramjit Gill: Yes. It's that much.

Agastya Dave: It's 2%, 3%, if I'm not mistaken, sir?

Paramjit Gill: Yes. Probably, it will be even lesser than 3%.

Agastya Dave: Lesser than that.

Paramjit Gill: About 1% to 2%.

Shekhar Swarup: 1% to 2%, yes. That's the sort of ambition we have, and that's what we've been talking about we are entering geographies. We have a portfolio of products ready, and that's a strong sort of vision we have in our mind, and we are building steps to reach there.

Agastya Dave: It's very encouraging, sir. Finally, you are putting at least a target number out there. This is one thing that I've been wondering for a long time, especially after the merger. Sir, another clarification. You gave out numbers in terms of what kind of inflation you have seen? And you mentioned fuel costs at 30%, grain at 5% and packaging at 12%, again, if I'm not mistaken. So these numbers are quarter-on-quarter or Y-o-Y?

Shekhar Swarup: Quarter-on-quarter.

Agastya Dave: Quarter-on-quarter. Sir, do you have the Y-o-Y numbers here for fuel, grain and packaging?

Shekhar Swarup: I don't have it now, but we can send it across. The main move of Y-o-Y is fuel. Grain and packing, I mean it has moved.

Agastya Dave: Manageable. Yes. I can see it, sir. Sir, on this fuel side, so I kind of agree with you. I don't know how long can these levels last. Sooner or later, they have to come down. But assuming that they don't, the coal costs don't come down, if they stay here, how long would it take you to pass on the prices?

Shekhar Swarup: So okay, let's break this up into 3 businesses, Consumer, ethanol and ENA, okay. Consumer pass-on is all in process. By the time the next excise policies are announced, which will be in March, or April, prices are going to be revised. There are some states that are even working on an interim increase in prices. So all that work is on, but latest 31st of March, we'll have more states looking at new prices for the Consumer business. Most new states should be present. ENA, ethanol. ENA has been working in progress. As I mentioned earlier, Q1 to Q2, we've already seen a significant increase in ENA prices. I think by the time also a lot of this inflation has happened during a period where spirit sales are low. So Q1 and Q2 are low spirit sales periods and Q3 and Q4 is when things start getting very interesting for spirits.

So by the end of Q2, going into Q3, I think the entire ENA pricing situation would be repriced. Ethanol, some interim price relief has come in, as you're aware. It's small, but it's good, if you're not going to say no. But the real impact is going to come in first December when the new ethanol supply starts. That's my sense of the situation.

Agastya Dave: Right. So it makes sense. What you're saying is logical. Right. So by Q3, you should see definitely some improvement. And then definitely by Q1 next year, you will see a dramatic improvement.

Shekhar Swarup: Yes. For sure. And by then, my view is that coal prices, and fuel prices start coming down as well. There's no way that they're going to sustain at these levels into next financial year.

Agastya Dave: So you mentioned that you're looking at direct linkages. Can you take us through what is the procurement system as of now that you guys have in place? And what is the transition going to be like?

Shekhar Swarup: Right. So there are 3 types of fuel we purchase. Well 2 types rather, agricultural residues, and coal. Agricultural residues are mainly rice husk, but in some cases, mustard husk and some other residues as well. These are purchased from traders and from mills on a spot buying kind of a system. Sometimes we have monthly contracts, but usually it's spot buying. Coal, in the past, because its low value nature was purchased from traders, okay. Traders who had taken position on coal. But due to the volatility in the last couple of quarters, we have now gone directly to coal mines, coal India subsidiaries and started buying from them. In fact, as we speak, our first large consignment is being delivered investing all and that is giving us a saving of 20% on coal based on the spot market. So some of these initiatives are underway. I can't go into too much detail on this call.

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

Kshitij Saraf: I had a question on animal feed prices. How do you see that going through as the year progresses, how is it? Where are we at? And where do we think it would be in the next coming quarter?

Shekhar Swarup: Sure. So the big change in animal feed prices has been the policy of the Government to India to althe low import of soya, genetically modified soya DOC, which corrected the price of animal feed across the board, whether it's our products or any other, just corrected the protein value of animal feed in India. After that correction, we've seen animal feed prices remain quite firm and this correction happened, if I'm not mistaken, in Q3 of the last financial year. And after that, we've seen prices been quite firm, trading between a range of 10% plus or minus. I don't see this changing dramatically. Going into Q3, there is the festive season. So there is a little bit of an increase in prices that comes in. But again, it's going to be within that range according to me, 10% plus/minus. I don't see any massive changes coming in, in the near future.

Kshitij Saraf: Got it. That's very helpful. And just one more on the packaging. You were experimenting that the mobile tetra packs earlier, so has there been any offtake? And are there any such similar initiatives planned amidst the packaging cost side?

Shekhar Swarup: Tetra pack is an aseptic pack. So tetra pack is something that we, as a company and as an industry, remain very, very interested, favorable towards, especially for Value, Value Plus segments. And in the long term, there is going to be more change towards tetra. But in the short term, there is regulatory pressures. The excise department is not very clear on how to regulate this product. The industry association, the industry is working with the excise department to sort of convincing them on how good this is for revenues as well as for industry as well as for consumer. But in the short run, we've not seen great volume growth of this. We put this in, I think, earlier this financial year in Rajasthan. But we've not seen success, Kshitij, this year. Our efforts are going to be on to promote this as the back of the future. But so far, there's been no growth.

Moderator: The next question is from the line of Prithvi Raj from Unifi Capital. Please go ahead.

Prithvi Raj: Shekhar, I just have 1 question. On the CapEx that you have announced. So given that all the plans that you will commence the construction over the next few quarters, how much of debt will be funded by internal accruals and how much will it be funded by debt? And also wanted to get a sense on how do you look at capital allocation when you're announcing so many new projects?

Shekhar Swarup: So as of now, all of our projects are being funded through internal accruals, increase in borrowing only coming in for working capital, either it's advances paid to FCI or some of the other working capital requirements, also the excise duty requirements of various states for our Consumer business. And going forward, we would very much like to maintain that kind of capital allocation strategy. And the strategy really is governed by whatever is the cash you generate in the year, free cash, how much is required for the Consumer business? You put that away. Then how much is left as investable free cash? What are the returns we are able to generate through setting up more capacity? If they are north of 18% or so, when we go ahead and invest that? So that's been the strategy so far.

And on that basis, we went ahead with this plan of adding new distilleries and capacities. We've done West Bengal 140 KL, Jharkhand is about to commence production. Bengal and Jharkhand further increased by 60 KL each. As I mentioned earlier, will be done later this financial year, and then we'll be embarking upon the next big phase, which is Orissa and UP. So that's been the plan so far.

Prithvi Raj: And can we assume that CapEx announcements are largely done? I mean, because whatever you have now, you'll go over the next couple of years.

Shekhar Swarup: There is no CapEx beyond this, that is planned, which is anything sizable. I mean, there's an increase by 20% in Bihar, which is being done at a CapEx value of, say, INR 5 crore, INR 7 crore or so. But there's nothing sizable that is currently planned besides what has already been announced.

Moderator: The next question is from the line of Chintan Shah from JM Financial. Please go ahead.

Chintan Shah: I have 3 questions. So first, in terms of our rice procurement, I just wanted to understand that when you mentioned that for the remaining part of the year, you'll be procuring over 40% of FCI rice. So just wanted to understand why can't be 100%. Is this not possible at all?

Shekhar Swarup: FCI rise is only available for production of ethanol.

Chintan Shah: Okay. Got it. And just to be clear, what's the price differential between FCI rice at present?

Shekhar Swarup: We make an additional INR 3 margin as things stand on FCI rice.

Chintan Shah: Okay. Got it. Understood. Secondly, on the fuel cost that is increasing coal cost has been a dampener, so just thinking out loud, I mean, is there a possibility of other sources that you could rely on that could, from a medium to long-term basis, help us to protect from such sharp fluctuation?

Shekhar Swarup: If the price of calories, if the price of energy is going up in 1 commodity, it's going to go up in the other. You might have a time delay by 30 days or 15 days or something. But if calories are becoming expensive, they're going to become expensive across the board. And if they are becoming cheaper, they will become cheaper across the board. Now there is some amount of flexibility we have between agri residue and coal depending on technology. But frankly, I've seen all of these move within 10%, 15% of each other. Today, I'm buying coal at this material that we're getting in Bengal I spoke about that we got from, I think, the Eastern collieries. We've got this at about INR 3 per GCV. On the other hand, in Haryana, we are buying agri residues for INR 2.70 per GCV, okay? Now when the prices come down, both of them will come down. So there is a 10% premium for coal or a 10% discount for agri residue. But it's in that range. It's not something which gives me a 50% saving because if you did, others would quickly jump in and buy it. There's a clear arbitrage.

Chintan Shah: Okay. Got it. Understood. And lastly, you mentioned that from a long-term perspective, 18% to 20% margins are sustainable. So I just wanted to clarify this was for the manufacturing segment or for the overall business as a whole?

Shekhar Swarup: I think it's for the overall business as a whole. 20% overall business, yes.

Chintan Shah: Okay. Because I think the last couple of quarters, you were mentioning that you will target of 25%, so is there any structure releasing to bring down this guidance for 18%, 20%?

Shekhar Swarup: I mean, it's the commodity landscape. Also see if the Premium business continues to grow the way we want, that margin automatically goes up. My sense is that with the current environment on coal, of course, our margins are not at 20% right now, that will come back with the current situation on packaging cost, some of it will come back. We will also get price increases. I believe 20% is a good number for us to target next year.

Moderator: The next question is from the line of Jatin Chawla from RTL Investments. Please go ahead.

Jatin Chawla: A couple of questions. So one, just a clarification, what is the FCI ratio. Currently, you said you want to take it to 40%. What is the ratio, let's say, in the first quarter?

Shekhar Swarup: In Q1, I don't know, do we have that Mr. Roy or Nilanjan?

Nilanjan Sarkar: It's in the same ratio, Shekhar. Almost the same ratio.

Jatin Chawla: It's close to 15%?

Shekhar Swarup: Close to 40%.

Nilanjan Sarkar: It's in the same ratio, 40%.

Jatin Chawla: Okay. It's in the same ratio. Okay. So then we should not expect any improvement on this account. This is basically, whatever was there in 1Q.

Shekhar Swarup: The way to look at this is not an additional, I mean, it's to do with what is the prevailing price of damaged grain, right? Now going into Q4, I foresee that damaged grain might become a little more profitable, okay? But going into Q2, I think damaged grain will be even less profitable than it is today. So for 2, 3 months, this number would be everything that we can convert to ethanol, we will convert and use only FCI for it. So then the ratio might be looking like more like 50% or 55%. But going into Q4, when the new harvest comes in, damaged grain is going to become very interesting. So at that time, we start tearing down our FCI position. I hope you understand how we're trying to do this.

Jatin Chawla: Yes. This is very useful. The other question I had was, you spoke about this 100 million opportunity on the consumer side. Now when I look at, for example, the trend we have seen in West Bengal, where we have been at a sub 2% share now for, I think, the last 2, 3 years at least, Haryana also, by and large, flattish around 7%, 8%. So what gives you the confidence that you can get us reasonable market share in these new states? Because other than Rajasthan, we haven't really seen you get a sizable share.

Shekhar Swarup: If we get a sizable share of 100 million cases, we get 30% of 100 million cases, that 30 million cases a year. And my target is not to get 30%, yes. Please understand. We are building the market opportunity. We're building our capability to address a greater market opportunity whilst also been careful about how much money we are deploying, if we get 5%, 7% of this market opportunity, it's still 5 million, 7 million cases per year. And 30% is going to take many, many years.

Jatin Chawla: No, I get that. My question was more on West Bengal, let's say, what is it that needs to happen for our share to start moving up. We've been talking about a significant opportunity in that state for a few years now, but we haven't really seen our share go beyond the 2% level?

Shekhar Swarup: Yes. So, I think there are a combination of factors. And I'm not trying to defend our position. I'm personally saying that there is huge headroom for growth, there is a combination of factors. That is how the market moves. You have to also appreciate that in India, every state is governed by a thrown excise policy. Excise policies have the risk of change. Now, this is the world Globus lives in. This is the world all alcohol companies in India live in. There are route-to-market changes, which disrupt the position. I don't know if you know about what's happening in Delhi currently. We had nearly 1 week of all shops in Delhi being closed and over several months of only 50% of the shops in Delhi being opened. I mean, if you want to have a good time at the weekend, it's a little difficult right now.

So these are the fluctuations that take place. And even when Param was talking about this earlier, quarter-to-quarter, there is always a possibility of challenges. And even if you take it over 2 or 3 quarters, there are possibility of challenges. But over the long term, I think what we're trying to build is a strong portfolio of brands, strong capability in the team to produce products with quality, to distribute products with quality and then invest behind these brands. And why won't we get the business? Why won't we be able to demonstrate growth. I would like to flip it around the other way. If you've got the ingredients and you invest behind them and you're giving it time, you will get there. And that is my belief and the vision of the company.

Paramjit Gill: So let me add to it, Shekhar, on exactly specifically the West Bengal you see. West Bengal, there are certain short-term challenges in country liquor to try and expand. Having said that, we have entered the 50-degree market there, which has evolved, and we are an entrant there, and we are now already trying to build up our base. We have entered the Premium segment market with 3 brands, which have started to chug along. So we are positioning ourselves in the state, and we are very confident that either this quarter, next quarter or the quarter going back ultimately, the country liquor segment will also give us a window. We don't want to reflect about being driven only by share gain. Ultimately, we are a prudent team of colleagues here. But once we have chosen, we wait for 1 opportunity, but in the same geography where we have started building route to market now 50-degree has gone into West Bengal. Premium brands have gone into West Bengal. So it is the collective share of the pie, how do we snatch more and more out of the share of the pie. So each particular portion of the pie sometimes may have to wait.

Jatin Chawla: Got it. Just one last question. At the levels at which ethanol prices are today and input prices are today, it seems if your margins are struggling and you have like put up capacities at much lower cost than others, then would it be fair to say that industry ROCs today are very low and in December if the government has to incentivize ethanol production further, we should see a substantial increase?

Shekhar Swarup : 100%. That's why I'm saying, no? 100%.

Moderator: The next question is from the line of S Louis, an individual investor. Please go ahead.

S Louis: It's good to hear that there are some proactive measures taken in the Bihar plan to send off any unexpected disruptions from the flood situations. That's a good point. So this year, probably we won't get to hear any surprises. And my question is on the Jharkhand expansion, which is about to commence later this month, what is the top line changes increase that you foresee?

And the second question for the inflation-related matters, are there any firm measures being taken? I know it is basically coming out of the commodities and the fuel, still are there any other measures from your side you are taking to counter the inflationary pressures that you have?

Shekhar Swarup: With regard to your first question, Jharkhand revenue if you allow, we will send this to you separately and our Investor Relations team has made note of your request, and we can send you this revenue calculation separately as we'll take time to take you through it on this call. With regard to inflation, Dr. Roy in his opening remarks, spoke about the various cost reduction initiatives that we are taking. We've discussed the coal linkages that the company is undertaking, especially for our Eastern plants. So those are some of the things that we're working on.

Finally, it's going to be increase in realization of ENA, ethanol and Consumer, ENA is going to happen the quickest. Ethanol is going to take a little more time and Consumer will take the longest. But by 31st of March, I believe all of this will be complete, the process of increasing realization.

S Louis: Okay. If you don't mind one more question. There was another company. I think it's part of Globus Spirits Group, where you were doing some packaging of the country liquor, that happened during the time the Haryana plant was under long maintenance period. I forgot the company name, Sudarshan or some name.

Shekhar Swarup: No, there's some misunderstanding, there is no other related party or subsidiary or any other nature of Globus Spirits where we have done any of this type of work.

Moderator: The next question is from the line of R.K. Khandelwal, an individual investor. Please go ahead.

RK Khandelwal: Actually, first of all, a small complaint to management that you took 40 days' time to out the results, but you have not allowed, as an investor, to us even 40 minutes' time. The result was displayed at 4:45 minutes at BSE. So we could not find a time to read the result. In any case, I have 2 questions. First question is related to the Note number 4 and 5 of the accounts, where the company's approximate INR 37 crore is stuck up in Haryana and Delhi against GST deposits. So what is the status of this case as present, whether we have made any provision so far or we are expecting a full amount of refund? This is my first question.

Nilanjan Sarkar: Yes. This is Note number 4 and 5 is of the VAT case or what?

RK Khandelwal: Yes, it's deposit against GST, so the government against which you say some cases are going on. I want to know the status of the case whether any provision have been made in the book so far or whether we expect the full amount of refund?

Nilanjan Sarkar: So the case sub judice. We've not made any provision in the books. We are in the high court's and our next date of hearing is in the month of November and December. But we have not made any provision in the books. We've paid the amount under protest and the matter is sub judice in the high court.

RK Khandelwal: In respect of expenses in profit and loss account, I found that other expenses have increased substantially. In the first quarter comparing last year, it was 73.96. This time, 12,057.73 substantial increase. It is on account of fuel, et cetera? Or some other account?

Nilanjan Sarkar: As I told you, my other expenses total of INR 120 crore, the major portion of my other expenses, INR 60 crore is on account of power and fuel, okay? And then we have IMFL, which has started in a fresh way from this quarter and their brand marketing expenses have also come in this quarter, all right? So major expenses have come in this quarter.

RK Khandelwal: Sir, everyone in your management team has told about the growth, expansion and each and everything. But there is no comment on profit after tax. Quarter-to-quarter, I'm looking that our profit is going down. Whether in subsequent quarter, the same will continue or you are looking for some improvement or whether the earlier first quarter of the previous year can be repeated?

Shekhar Swarup: Margins, PAT is directly proportionate to margin, sir. And that is why we have limited talking about margins. As I mentioned earlier, I am expecting Q2 margins to be a little lower than Q1 and thereafter, margins should start picking up again. And that will directly reflect on PAT as well.

Moderator: The next question is from the line of Justin Arockia, an individual investor. Please go ahead.

Justin Arockia: Yes. So my question is relative to the impact on the margin several reasons, one of the reasons is incremental sales of IMFL. So I think we have 1.5% of overall IMFL, how IMFL sales will help to offset the margin impact? And what was the significant improvement which you brought in compared to the Q4 to Q1?

Paramjit Gill: Yes. Sir, thanks for the question. We are all aware that IMFL realizations and margins are significantly higher than the Value segment because in the industry, it sits high up in the value chain. So as we continue investing in IMFL and keep expanding our IMFL business, that is how we have indicated that IMFL will also start contributing to the overall improvement of realizations as well as margins.

Justin Arockia: No, my question is very simple. What was the improvement compared to Q4 to Q1.

Paramjit Gill: IMFL was negligible because IMFL was negligible in the previous because we have launched in the 3 states of UP, West Bengal as well as Delhi towards the last week of Q4 and the first week of Q1. So this is literally the base from our negligible base is where we have started picking up.

Shekhar Swarup: Let's assume zero.

Paramjit Gill: Yes. Because earlier it was very negligible. Yes, very negligible.

Justin Arockia: Since you have put that offset in the presentation, I'm trying to understand so that I can engage, right? I'm not trying to counter here. What I'm asking is assume that prior to COVID, you were able to sell it in about INR 12 crore per year. Okay. Now I watch and listen to everything of what do you do? That's why I'm trying to understand. I have more interest in the company. That's why I'm asking the question. From INR 12 crore during COVID times, you made up last sale, which I understand. Now what is the per quarter sale?

Paramjit Gill: Last quarter, if I remember correctly, our sale has been in the range of about INR 8 crore, INR 9 crore of IMFL. We don't give individual numbers, but that is the sort of range we've had in the last quarter.

Justin Arockia: Now what would be the approximate per quarter sale?

Paramjit Gill: What will be the approximate per quarter sale?

Justin Arockia: Yes. Let's take Q1 FY'23 as a base.

Paramjit Gill: So our sales will continue increasing quarter by quarter is what our projection is. By how much? Exact number, it will be very difficult for us to give, sir? It'll not be possible to give a quarter-by-quarter number.

Justin Arockia: No, sir, my question was very simple. Okay. Do you manage to offset the EBITDA margin impact by IMFL sale? Earlier, we used to sell per year INR 12 crore, and we booked INR 3 crore to INR 4 crore loss per quarter. Now are we in a position to sell at least INR 6 crore per quarter?

Paramjit Gill: Sir, just to repeat the last line, are we in a position to?

Justin Arockia: Are we in a position to sell at least INR 6 crore per quarter, like for 90 days, are we able to sell IMFL worth of INR 6 crore?

Paramjit Gill: Yes, we sold more than that. That is what I indicated to you. We sold between INR 8 crore and INR 9 crore. That's what I indicated to you.

Justin Arockia: INR 8 crore and INR 9 crore in Q4, you said. In current quarter?

Paramjit Gill: In Q1, sir, I said in Q1.

Justin Arockia: Q1, INR 8 crore to INR 9 crore. Okay. So the reason why I'm asking is because the Premium brands, there are 7 brands, which I have seen in the website. You are bringing in 1-by-1, like 7 and there are 2 more brands. Now I saw those 7 very good brands. They can dominate the Premium segment. So you are saying INR 2 million sales of 7 since we launched in Q1. Do you have any idea of how much we manage to sell in Q1? The reason why I'm asking not to counter.

Shekhar Swarup: Sorry to interrupt you. I think your questions are quite detailed and we'd be very happy to take them. Considering interest of time, may I request our Investor Relations agency to take note of your questions, connect with them one-on-one since we have your phone number through the conference call system. They will connect with you one-on-one, take all your questions, relay them to us, and we will then give you a systematic response to each of your questions to the best extent.

Moderator: The next question is from the line of Sanandeep, an Individual Investor. Please go ahead.

Sanandeep: Shekhar ji, Sanandeep, this side. Shekhar ji, correct me if I'm wrong, in last con call and also from last to last con call, you had mentioned that from financial year '23 Q1, the tax rate will be lower than 30%. But now the tax rate is again above 30%. So what is the reason for that or just it was mistaken by me?

Shekhar Swarup: No, I think that's a good question. I take that feedback, it should have been addressed in my opening remarks. We are still internally working towards changing the tax regime to 25%, whereas these results reflect a tax of 35%. I'm informed by my team that we have until September of 2023 to file our return for the current year, and that is when the final decision needs to be taken. Be that as it may, I think by the next when the balance sheet is prepared, which is Q2, the H1 balance sheet, we will probably be changing. But like I said, this is something that we are working on right now. Internally, we are assuming the change. The correct time to reflect the change in our financials, that is something we have to yet decide on whether it's going to be in Q2 or Q4.

Sanandeep: Okay. So I have to reset the balance sheet after H2 or after H1?

Shekhar Swarup: Unfortunately, I'm going to ask you to do that little additional work.

Moderator: As there are no further questions, I now hand the conference over to Mr. Shekhar Swarup for closing comments. Over to you, sir.

Shekhar Swarup: Thank you, everyone, for joining us today. If we haven't addressed any questions, please do write into us. Details are available on the website, and we'll get back to you as soon as possible. Thank you again, and have a good evening.

Moderator: Thank you. Ladies and gentlemen, on behalf of Globus Spirits, that concludes this conference. We thank you all for joining us, and you may now disconnect your lines.