

SOM DISTILLERIES AND BREWERIES LIMITED

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(BSE : 507514, NSE : SDBL)



SDBL/BSE/NSE/2022

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To,

The Manager, Listing Department, NATIONAL STOCK EXCHANGE OF INDIA LIMITED 'Exchange Plaza' C-1, Block G, Bandra-Kurla Complex, Bandra (E), Mumbai-400 051. cmlist@nse.co.in <u>Security ID: SDBL</u>	Dy. General Manager, Department of Corporate Services, BSE LIMITED, First Floor, P.J. Towers, Dalal Street, Fort, Mumbai – 400001. corp.compliance@bseindia.com <u>Security ID: 507514</u>
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SUB : INTIMATION UNDER REGULATION 30 OF THE SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015 - EARNINGS CONFERENCE CALL TRANSCRIPT

Dear Sir/ Madam,

Pursuant to Regulation 30 of Listing Regulations, please find attached Earnings Conference Call transcript of Friday, 21st October, 2022 with regard to the financial results for Q2 FY2023.

The transcript of the said Earnings Conference Call is also available on the Company's website i.e. www.somindia.com.

This is for your information and records please.

Thanking You,

For Som Distilleries & Breweries Limited

**Om Prakash
Company Secretary & Compliance Officer**

SOM Group of Companies



SOM Distilleries & Breweries Ltd.

Earnings Conference Call Transcript

Q2 FY2023

Management:

Mr. Nakul Sethi – Director, Finance & Strategy





Moderator: Ladies and gentlemen good day and welcome to SOM Distilleries & Breweries Limited Q2 FY2023 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 to Mr. Nakul Sethi – Director – Finance & Strategy. Thank you and over to you Sir!

Nakul Sethi: Good afternoon everybody. We welcome you to the Q2 FY2023 earnings call of SOM Distilleries & Breweries Limited. Historically, Q2 is one of our subdued quarters due to the onset of monsoon and other religious festivals which hamper sales, but our company has reversed the trend and posted encouraging results which have set a trend for the remaining part of the financial year. Despite the prevailing inflationary conditions due to geopolitical situations which led to increase in raw material prices and packaging material prices we were able to post decent margin. Our focus on growing operational efficiency and near peak utilization of our plants has resulted in margin enhancement.

For Q2 FY2023 our consolidated income stood at Rs.147.86 Crores as compared to Rs.78.32 Crores for the same quarter FY2022 a growth of 89%. Our EBITDA for the Q2 was 18.62% as compared to Rs.5.51 Crores for the same period last year, a growth of 238%. Our PAT for Q2 FY2023 stood at Rs.8.26 Crores as compared to Q2 loss of Rs.2.5 Crores. If we look at our half yearly results our first half 2023 our net income stood at Rs.403.95 Crores as compared to net income of 128.97 Crores for the half year 2022 a growth of 213%. We in fact have surpassed the net sales of the last full financial year. For the half year 2023 our EBITDA was at 54.51 Crores at a margin of 13.5% as compared to 1.1 Crores for the half year 2022. Similarly the PAT for the half year 2023 stood at Rs.33.91 Crores up from a loss of Rs.15.10 Crores in the half year 2022. For the quarter we recorded a beer volume of 28 lakh cases of beer and for the half year have recorded a volume of 79.60 lakh cases. During the quarter we sold about 1.7 lakh cases of IMFL. Our mainline brands like Hunter, Blackfort, and Powercool registered strong volume sales. In fact recently launched Woodpecker brand also sold 80000 cases in the first H1 of 2023. The robust performance across our brands is attributable to the confidence in the quality of our products and our team execution capabilities. Strong consumer preference for the product is a testimony for our strength in acquiring additional market share across all our products. Our net debt stood



at Rs.162.8 Crores on September 30, 2022 and gross debt was Rs.176 Crores. Our net debt has improved by Rs.19.2 Crores as compared to September 30, 2021. The total debt to equity ratio is now at 0.5x as on September 30, 2022 against 0.7x in September 2021. Our net debt to LTM EBITDA ratio improved significantly to 2.2x in September 2022 as compared to over 25x in September 2021.

We continue to keep the growth momentum in focus in the future. In the last year we have been able to expand our market share in all our key markets and will continue to increase it further to drive our volume growth. Furthermore in the short to medium term we intend to focus on high volume and high profit market like the existing market where we are present as well as take on additional markets like UP and Delhi by increasing our presence. We continue to enhance our capacity utilization rates to ensure better returns on our asset and strong cash flow generation. With this I would now like to open the floor for Q&A. Thank you so much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Dixit Doshi from Whitestone Financial Advisors Private Limited. Please go ahead.

Dixit Doshi: Yes, thanks for the opportunity. Can you just give the volume number of beer again?

Nakul Sethi: So, we sold about 28 lakh cases of beer during Q2 and for the half year it stood at 79.6 lakh cases.

Dixit Doshi: The MP government has changed the excise policy and it was mentioned in the annual report that our reach has grown 3x so if you can just elaborate let us say before this policy how many retail outlet or how many outlet we were present and now how much it is?

Nakul Sethi: Altogether before the policy there were close to about 1100 point of sales now it has increased to 2500, so we are present in about 95% of all the outlets.

Dixit Doshi: Can you give me realization in IMFL and beer for this quarter?

Nakul Sethi: The blended realization across all the plant for the quarter you wanted?



- Dixit Doshi:** Yes because generally you give it in the presentation, but I could not find the presentation on the BSE this time.
- Nakul Sethi:** Beer is about Rs.466 and for IMFL it is 712.
- Dixit Doshi:** That is it from my side. Thanks.
- Moderator:** Thank you. We have the next question from the line of Nitin Awasthi from Incred Equities. Please go ahead.
- Nitin Awasthi:** Hello Sir. Thank you for the opportunity. Sir firstly we would like to understand what are the utilization levels at various plants that we have?
- Nakul Sethi:** If you look at the half yearly utilization level at Bhopal plant we are at about 60%, the Odisha plant is 50% and the Hassan plant is at 100%.
- Nitin Awasthi:** So, given that you grow your market more capex plan?
- Nakul Sethi:** So, we will review the situation going forward but I think looking at the way the Karnataka unit is performing I think we will have to soon think of a small capex there.
- Nitin Awasthi:** Because your Karnataka plant also has significant portion of supplies going to other markets like Kerala if I am not wrong?
- Nakul Sethi:** So that plant basically is catering to markets of Karnataka, Kerala and Pondicherry.
- Nitin Awasthi:** So would it make more sense for you to set up a plant let us say in Kerala because of the cross border taxation?
- Nakul Sethi:** No because Kerala as such currently is about 10% of the total sales which happens from the Woodpecker plant.
- Nitin Awasthi:** The next question was there is a mega giant merger let us call it that happening in your backyard in MP of a company in MP itself which will become similar to IFML manufacturer as of today which will get integrated into its beer unit it is also getting merged into that which is unlisted as of now so which will become a company which is similar to yours which will get into the manufacturing of the whole ambit of products, any thoughts



on that Sir, will that give more competition; do you see more tougher competition coming in the home market?

Nakul Sethi: No, I do not think that it will have any change in the dynamics of the business in which it is conducted in Madhya Pradesh because they are only present in the beer so I do not think it will make much difference to us.

Nitin Awasthi: Any such plans of your own company because merging the private arm with this arm itself because you also have an ENA production unit in the private arm?

Nakul Sethi: See what our perception always has been that E&A and for that matter they were also in B2B sales, so ENA business is B2B and when you have a branded play it dilutes the investor interest if you merge the B2B business but I would not like to comment on their strategy as such.

Nitin Awasthi: Yes, you have two right now with White Owl and the other one Jagatjit?

Nakul Sethi: We are not producing anything for White Owl currently because they are not in the market. We are producing beer currently for 7Ink they are selling in Maharashtra basically and that only is being done in the plant in the south; Hassan.

Nitin Awasthi: the Company that you mentioned right now?

Nakul Sethi: 7Ink.

Nitin Awasthi: Thank you.

Moderator: Thank you. Our next question is from the line of Darshika Khemka from AV Fincorp. Please go ahead.

Darshika Khemka: Firstly, congratulations on good set of numbers. Couple of questions from my end. Firstly just wanted to understand the reason for drop in the gross margins this time around and do we plan to take any price hikes or anything of that sort that was my first question?

Nakul Sethi: Price hikes are generally taken during the start of the financial year and are regulated. There are no price hikes during the year.



Darshika Khemka: So, what was the reason for the drop in the gross margin for this quarter?

Nakul Sethi: You can say because of Powercool selling more which has a lower EDP as compared to the other brands that is one of the reasons for a lower gross margin.

Darshika Khemka: Could you help us with the volume of IMFL?

Nakul Sethi: The IMFL volume for half year was about 3.6 lakh cases and for Q2 we sold about 1.72 lakh cases.

Darshika Khemka: So 3.6 lakhs for the half year and 1.2 lakhs for the quarter.

Nakul Sethi: 1.72.

Darshika Khemka: One last question from my end is that you have entered into a contract manufacturing agreement with Radico Khaitan what do you think would be the sort of revenue addition from here and considering this is also in line with one of the questions that the earlier participant asked that there is going to be supply from the Hassan plant because already we had 100% capacity so how will we be able to cater to their demand and what is the sort of revenue that we expect over a period of time?

Nakul Sethi: That is for IMFL so we are not doing much IMFL down south, so that is in fact strategic step which we took to have better capacity utilization of the Woodpecker plant in Hassan.

Darshika Khemka: What is the current capacity utilization of the IMFL plant there?

Nakul Sethi: It is very low maybe 15 to 20%.

Darshika Khemka: What is the revenue potential from this?

Nakul Sethi: It is very premature to give you any guidance on that number. It just started 10 days back.

Darshika Khemka: We already started supplying?

Nakul Sethi: Yes we have.

Darshika Khemka: Okay perfect. Thanks a lot and wishing you all the very best.



- Moderator:** Thank you. Our next question is from the line of Aditya Sen from RoboCapital. Please go ahead.
- Aditya Sen:** Hi Sir. I believe that IMFL have premium margins as compared to beers so can you please throw some light in this regard, is this reduction correct for me and if yes then what levels of margin do we have on IMFL?
- Nakul Sethi:** Currently IMFL is just about 5 to 7% of my volumes right and I do not do the manufacturing, I only buy the ENA and do the blending and bottling so obviously my margins which will not be as exciting as somebody who does the complete manufacturing.
- Aditya Sen:** So,if we does the complete manufacturing,then what levels of margins can we expect?
- Nakul Sethi:** That is mainly to complement the beer sales in the lean season so it is not something that is adding great margin to my whole business.
- Aditya Sen:** So it is mostly sold during the winters like not summer?
- Nakul Sethi:** Summer it reduces even less.
- Aditya Sen:** Okay got it. Thanks a lot Sir. That was it.
- Moderator:** Thank you. The next question is from the line of Avinash Nahata from Parami Financial Services. Please go ahead.
- Avinash Nahata:** Excuse me I am slightly new to the company so I have two basic questions. One is how much of our business what we do, we do under our own brands and we produce for others all put together?
- Nakul Sethi:** I think about 98% or maybe 99% is our own brands and maybe 1 to 2% is others brands.
- Avinash Nahata:** So what you mentioned you manufacture beers for some company it means it is the balance 2% is it?
- Nakul Sethi:** Yes that is very less.



Avinash Nahata: 7% of your volumes with IMFL so in the beginning you told that it is a seasonally subdued quarter this quarter so can you break your four quarters in terms of volume percentage, ballpark how does it move more or less or if you are not comfortable with quarter then half yearly H1, H2?

Nakul Sethi: I would not like to give any number as such currently.

Avinash Nahata: So in percentage 60:40 or 55:45?

Nakul Sethi: Generally first quarter it will be 40 to 45%.

Avinash Nahata: The balance three quarters are more or less equally distributed, the balance 60%?

Nakul Sethi: Q4 is slightly better in terms of volume. Q2 and Q3 are slightly weak.

Avinash Nahata: That is all from my side. Thank you and all the very best.

Moderator: Thank you. The next question is from the line of Ankur Kumar from Alpha Capital. Please go ahead.

Ankur Kumar: Congrats for a decent set of numbers. Sir my question is kind of similar as in we had a very good first quarter so you think any of that was some kind of pent up because people were not having kind of things then suddenly it went pent up and so pent up demand and so you were saying some reduction now?

Nakul Sethi: One thing is very clear that we lost two years because of COVID and our season starts from Q4 you can say March onwards so when you have got a free run obviously the volumes will come back but one thing is for sure we during the last two years had the facilities to manufacture more beer and we had the team to execute the plans so I do not think that is a question of pent up demand. Consumers they want a particular brand they will take a particular brand so you cannot have pent up demand as such.

Ankur Kumar: Now coming in festive season Q3 so do we expect some improvement over this current second quarter or how are we looking at things for the second quarter?

Nakul Sethi: I think we are expecting that Q3 should do well than Q2 that is our internal assessment though I would like to caution you also that it is not our one of the biggest quarters.



Ankur Kumar: So, you are saying Q1 is the biggest quarter then Q4, then Q3, and then Q2 is that right Sir?

Nakul Sethi: Yes, that is our understanding yes.

Ankur Kumar: Any full year volume kind of guidance for the current year?

Nakul Sethi: No, we will not be able to give you any guidance.

Ankur Kumar: Margins we kind of maintain at the current kind of things because costs have come down?

Nakul Sethi: Yes, costs have considerably gone up.

Ankur Kumar: Sure Sir. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Aditya Maheshwari an individual investor. Please go ahead.

Aditya Maheshwari: Good afternoon Sir. My question is you have gained market share in Karnataka region, so what exactly are we doing differently over there so that we are gaining market share?

Nakul Sethi: We are working very well with the trade channels and I think that is very important and we are doing trade settlement also pretty fast. Our brands are being accepted in Karnataka. We have been in Karnataka for the last four years. We have an excellent team in the state of Karnataka and we are doing the right execution at the right time basically.

Aditya Maheshwari: Which more states are we targeting to expand our product portfolio?

Nakul Sethi: The natural markets which we have are Madhya Pradesh, Karnataka, and Odisha.

Aditya Maheshwari: Are we not adding any new state?

Nakul Sethi: Besides that for Q1 23-24 and Q4 of this year we are looking at newer markets like Delhi and UP.

Aditya Maheshwari: What is the market size of these two states if you can give some colour on that?

Nakul Sethi: I think UP could be around 3.5 to 4 Crores cases of beer per annum and Delhi would be about 1.5 Crores cases.



Aditya Maheshwari: One last question on the working capital requirement side, so next quarter and next to next quarter are going to be subdued so we will have some stretch on our balance sheet so how are we going to manage that?

Nakul Sethi: So if you recall we had done this preferential issue so we got about 6.8 Crores and we are expecting that by March we should get the remaining so we will get about 22 odd Crores so that will take care and plus we have got those internal accruals which we are making and we also would take in I think more of non fund based limits like LCs to prepare for Q1 of next year.

Aditya Maheshwari: That is it from my side.

Moderator: Thank you. The next question is from the line of Vellaisamy Jayaraman as an individual investor. Please go ahead.

Vellaisamy Jayaraman: Good afternoon everyone. Actually I have couple of questions. We are supplying to Pondicherry from Karnataka why we are not supplying to Tamil Nadu, Tamil Nadu state why we are not covering is there are any legal issues over there or interest rate supply issues are there?

Nakul Sethi: According to my understanding for supply to Tamil Nadu you need to have a brewery there in Tamil Nadu goods are not allowed from outside the state.

Vellaisamy Jayaraman: Same with Maharashtra?

Nakul Sethi: No, Maharashtra we can sell. Yes we can.

Vellaisamy Jayaraman: We are not going because of the competitiveness over there?

Nakul Sethi: No because I think Maharashtra is a pure private market so we want to maybe enter that market at a later stage not currently.

Vellaisamy Jayaraman: We need to have some kind of premium brands?

Nakul Sethi: No, most of the states where we operate the wholesaler are the state government but in Maharashtra the distributor is private and the retailer is also private so you always carry



that risk of delinquency of your money so we want to take Maharashtra maybe at a later stage.

Vellaisamy Jayaraman: That is a valid point. My second question is slightly different Sir. My point is that slowly I do not know how you are in the field IMIL consumers lower end of the people slowly they will move towards IMFL right so what I am asking is that in the longer run say five years down the line the growth of the beer percentage of growth would be slightly lesser than IMFL because IMIL people consumers move towards IMFL?

Nakul Sethi: Sir what had generally happened is that the IMFL market per se is also bigger than the beer market currently also, but if you look at youth and the aspiration people more want to consume beer as compared IMFL or IMIL because it is considered to be a lighter drink and you have more diverse population which is going to join the drinking population which will be more of beer that is what our thinking is.

Vellaisamy Jayaraman: Correct that is also right thinking. My question because in Tamil Nadu they have phased out IMIL totally so similarly other states also would follow that suit right?

Nakul Sethi: I think one more thing the market is huge whether it is for beer or IMFL so you got enough of traction left in beer for the long term so we want to concentrate on beer only.

Vellaisamy Jayaraman: Congratulations to your company but since I am also shareholder..

Nakul Sethi: What we can do is I will take in your suggestion and maybe after six months, one year we will review okay Sir.

Vellaisamy Jayaraman: Thank you.

Moderator: Thank you. The next question is from the line of Pratik Kedia from Kedia Securities Private Ltd. Please go ahead.

Pratik Kedia: What I was just saying is that I just wanted a little bit about the company as to what exactly are we currently doing and what exactly the growth prospects going forward where do you see the growth coming from, are we looking at other markets, are we looking at different products to venture out into, give me your vision for the next two or three years for the



company as well for the market spend and my second question will be little bit about the competitive landscape that you see currently so these are my two questions?

Nakul Sethi: Currently we are selling beer and our key focus markets are Madhya Pradesh, Karnataka, Odisha and of course canteen stores. Going forward we want to grow in these three markets as well as grow in states like UP and Delhi and maybe in the next two to three years we want to grow in Maharashtra also. We are present in the strong beer segment and our brand Hunter competes with the likes of Kingfisher Strong and we have various other brands which are at various price points and they compete with different beer brands from the national players and this industry is dominated by the multinationals so you have got Heineken which controls Kingfisher and Carlsberg and AB InBev so that is competitive landscape and in all states wherever we are present we are in the top three. Like I mentioned in the call it is imperative for us to expand capacity I feel in the Hassan plant in the lean season and we are doing 100% capacity utilization there so I think we might run out of capacity pretty soon if we want to do well in Karnataka for Q4 and Q1 next year.

Pratik Kedia: Understanding the shareholders of the promoters are a bit low also you have debt in the book how exactly do you think this capacity would be funded what will be the plan Sir?

Nakul Sethi: This capacity expansion which we are talking would cost us about 35 to 40 Crores not much so we just need to put up a bottling capacity.

Pratik Kedia: What capacity would that bring us?

Nakul Sethi: I do not have the exact details but let me get back to you on that.

Pratik Kedia: Got it Sir. Also just wanted to understand does the location of this particular plant would have any implication on your strategy going forward whichever you will expand it will be a Greenfield or a Brownfield project?

Nakul Sethi: This will be within the same complex where our Hassan plant is there, so you got enough of land area there. It will be less of civil and more of plant and machinery which will be installed in the existing facility.

Pratik Kedia: Got it Sir that would be all from my side. Thank you so much for taking my questions. I really appreciate it.



- Moderator:** Thank you. Our next question is a follow-up question from Dixit Doshi from White Stone Financial Advisors Private Limited. Please go ahead.
- Dixit Doshi:** Yes, thanks for the opportunity again. You mentioned that last year we entered in the UP and Delhi and these two are quite big market so any plan over next two to three years what kind of volume these two states can give?
- Nakul Sethi:** For that I do not have any idea about the kind of volumes they will give, but they are going to be the volume drivers in the medium term.
- Dixit Doshi:** Recently Delhi government has changed the policy of selling through the government outlet so can that impact our growth potential?
- Nakul Sethi:** Q1 we lost a lot of sales because of the excise policy because there was no clarity, but we are expecting that the uniformity in the excise policy will lead to good volumes coming from Delhi in the remaining two quarters.
- Dixit Doshi:** So, we will be selling in Delhi and UP throughout the year and not only during the season, right?
- Nakul Sethi:** That will depend upon how much market share we are able to generate in UP and Delhi.
- Dixit Doshi:** Otherwise we will only see in let us say Q4 and Q1?
- Nakul Sethi:** If Q1 obviously we would want to sell more in Delhi and UP going forward and why not sell in the remaining three quarters also that is not the point.
- Dixit Doshi:** Thanks Sir. That is it from my side.
- Moderator:** Ladies and gentlemen as there are no further questions from the participants I now hand the conference back to Mr. Nakul Sethi for closing comments. Thank you and over to you!
- Nakul Sethi:** I would like to thank you all for joining us on the Q2 FY2023 conference call. Should you require any further information or clarification please reach out to our investor relations team. We will revert to you with all the necessary detail at the earliest. Thank you so much all and wish you all a very Happy Diwali. Thank you.



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

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Note: This transcript has been edited to improve readability

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