



“Globus Spirits Limited
Q2 FY ‘24 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day, and welcome to the Global Spirits Limited Q2 FY '24 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 star then zero on your touch-tone phone. Please note, this conference is being recorded.

I now hand the conference over to Mr. Shekhar Swarup, Joint Managing Director, Global Spirits Limited. Thank you, and over to you, sir.

Shekhar Swarup: Hi, good afternoon, everyone. Welcome to our quarter 2 and H1 FY '24 earnings call. The quarter gone by posed a unique challenge for our business with the sudden stoppage of supply of raw materials from FCI. However, due to the way our plants have been designed, we were quickly able to restart production after supply resumed, the disruption was for only 18 days in the quarter gone by where Bengal and Jharkhand plants were closed.

West Bengal plant during this period also pivoted to using maize for ethanol and successfully produced this for the very first time between August till even now in November. Our plants are designed in such a way that they can have flexible inputs and outputs to make most of the market demand and supply scenario and also manage shocks that come up from time to time. The FCI ban also came in an untimely manner when broken rice and maize prices were at historical highs and in fact further have increased after the end of Q2. Our customers, OMCs and beverage manufacturers have revised prices.

However, there has been a compression in margin due to very high raw material prices. It's worth pointing out here that OMCs have increased prices five times in the last two ethanol purchase years. That's a testament to their ability to react to the supply scenario in the raw material of broken rice or maize.

Going forward, we now expect to see increasing margins on the back of the imminent kharif crop. The full impact of that will be seen in Q4, but as we go into December, we will start seeing impact of the crop in raw material prices. Broken rice prices will remain lower than the trailing 12-month period due to a good production of rice. So, the area under cultivation is good in most of the regions that we have plants. And there is a ban on export of broken rice as well. Provided this ban continues, we should see a strengthening in margins in the quarters to come.

Given the volatility that now exists in raw material prices, it's now become worthwhile for the company to store raw material in season for use in off-season. So, this is something that we will be initiating over the course of the next few quarters. On fuel, costs have been largely stable this year, and with our recent linkage auctions, about one-third of Jharkhand and Bengal fuel demand has been secured.

In Haryana, we have begun the process of upgrading our boiler technology, which will be completed by end of Q4. And these initiatives will further help keep fuel costs low. By and large, we expect fuel prices to remain stable in the quarters to come. The installed capacity for the company at the end of last quarter was 885 KL per day, which the expansion at Jharkhand and

West Bengal now completed. We are, however, awaiting regulatory approvals to commence operation of 120 KL at these two capacities. The way these expansions have been added will result in a reduction of cost of production of the entire capacity of these units by around 5%.

By utilizing the same total energy that was used for the pre-expanded capacity. And this is a result of the energy efficiency projects that were taken up in the last 12 months. In the last few quarters, Param and I have spoken to you about all the work that's been happening in the prestige and above brands. The performance in the quarter gone by shows that three of our states have begun to fire and settle. With many new and innovative product offerings and an expanding distribution presence, we are very excited about the prospects of this segment.

I request Param now to talk a little bit more about this.

Paramjit Singh Gill:

Thank you, Shekhar. Good afternoon, everyone. The premium segment is showing very strong prospects. Our volumes in Q2 FY24 were 0.08 million cases, up by 143% year on year and 68% quarter on quarter basis. Prestige and overall brands contributed 6.1% of the total consumer revenues in Q2 FY24. Our brands are now present in UP, West Bengal, Delhi, Haryana, and Punjab.

We have successfully established a strong route to market in Delhi, West Bengal, and Haryana. While UP and Punjab are expected to get strengthened in H2 of this year. In addition, we plan to enter Rajasthan in Q3 and the Jharkhand market in Q4 of this year. In the overall consumer segment, the total consumer business revenues in Q2 FY24 were up by 24% on year on year basis and flat on quarter on quarter basis despite a seasonal reduction in value and value plus segments. Our new offering, Mountain Oak Whisky, which was launched in Q4 FY23, is being expanded from West Bengal to all states.

It continues to gain momentum across West Bengal and Delhi markets. Our flagship product, the Terai Craft Gin, is going strong and we have decided to widen distribution for Terai further in existing markets as well as add new geographies. Snoski Vodka and its variants are being expanded in Haryana, West Bengal, and Delhi. New brands in the premium rum and the super premium malt whiskey are proposed to be launched in Q1 of 25 and Q4 of 24 respectively.

These are some of the exciting launches we have planned over the next 12 to 18 months. We have reorganized our highest price offerings into an umbrella brand called the India Craft Spirit Company, thereby leveraging four generations of our promoter's history in the alcohol industry of India. Now coming to the value and value plus segment, our growth trajectory continues with volume growth of 12% year-on-year to 3.54 million cases, led by improved sales in Rajasthan and Delhi in the value and value plus segments.

The average value, value plus and premium realization, it was a growth of 9% year-on-year to INR 558 per case. Global Green, which was launched in FY23, has crossed 5% market share in the whiskey flavor already and is gaining strength progressively. Work is progressing to expand its presence further across shelves. I'm glad to say, because of our innovative product offerings, Globus market share in Rajasthan is again at 35% in Q2 of FY24, from 34% in Q2 of FY23. And overall, Rajasthan enjoys a 61% market share in the value plus segment.

I will now request Nilanjanji to take the lead. Thank you very much.

Nilanjan Sarkar: Good afternoon, everyone. As illustrated in the investor presentation. The Q2 EBITDA margins were at 7%. The fall was majorly due to the FCI stoppage as explained by Shekhar. There are some positives, which I would like to highlight. We have been successful in passing on the cost inflation in ENA, which has helped us to protect our margins. Also, the power costs is on a downtrend, which will help aid margins.

Q-on-Q, coal price was down by 8%. From here on, fuel prices are expected to be similar to H1 FY '24 as the increase in coal production by government by 33%. The company in the last quarter has been able to reduce debt by INR 37 crores.

With this, I request the moderator to open the call for questions

Moderator: Thank you, sir. We will now begin the question and answer session. The first question is from the line of Mr. Tarang Agarwal from Old Bridge Asset Management.

Tarang Agarwal: A couple of questions from my side. One, if you could give us what the IMFL loss was the EBITDA burn for this quarter?

Shekhar Swarup: So Nilanjan, can you please.

Nilanjan Sarkar: INR6.5 crores.

Tarang Agarwal: So I mean, we've been seeing this trend for the last few quarters. So would it be fair to presume that that's the number that you're running with, at least probably for this year?

Shekhar Swarup: The loss number?

Tarang Agarwal: Yes.

Shekhar Swarup: Yes. I think the loss is going to be in this 20 to 25 range annually, I think we'll start seeing some improvement in quarterly losses as we end the year, as you can see, our volumes have gone up quite a bit this quarter in Q2. We are seeing a good growth ahead as well. So the quarterly run rate of loss will start to come down, but 20, 25, it is the number for now.

Tarang Agarwal: Okay. Second, I mean the OMCs have already invited a pretty substantial tender for ethanol procurement. But details on pricing continue to remain a really easy. So if you could just give us some clarification in terms of what's happening there?

Shekhar Swarup: Yes. So, you know, we received, like I mentioned earlier, a few price increases this year. Currently, the price of ethanol is 64 for rice, 66 for maize. You know, as of now, the tender has been published with the same prices of last year. However, they have not extended the price. It's just that status quo remains. Moreover, supplies in the new-year have not yet started.

They will probably start in the first week of December. So, between now and then, we expect an announcement on price. Be that as it may, on rice ethanol, I'm not expecting a very significant change than what there is, the price that already exists, mainly due to, you know, the imminent

crop, I think, with the ban on export of broken rice and the new crop, we're going to see a pretty good supply of raw material in the next few months.

On Maize, on the other hand, there is a big push for promoting Maize cultivation in India for the purpose of ethanol production. So, I am expecting some sort of price action on Maize, on Maize ethanol. So, let's just see how that comes out.

In the long term, Maize is going to be a very important crop for the ethanol industry. And we're already working with, the farming community in our, around our factories, where ethanol is going to form a large share of capacity to encourage and promote the growth cultivation of Maize in those areas.

Tarang Agarwal: Okay. Just a couple of more. You know, if you could just give us a flavor in terms of, you know, what could have been a per litre impact on your profitability because of procurement of FCI rice and all the challenges that ensued for 18 days, because we can see a sharp decline in your...

Shekhar Swarup: Yeah. So, 18 days, there was no production in Bengal and Jharkhand. So, that is one impact. The second impact is once we started production, it took, the price of raw material at that time was extremely high. So, the profitability on broken rice was much lower than the profitability on FCI rice. The government quickly then revised the prices of ethanol made from broken rice twice. But despite that, it does not make up the profitability on the FCI rice supply. So, there were two reasons. One was the 18 days and the other was, now we don't have that profitable route or the most profitable route anymore.

We had to play between maize and broken rice. So, from that period onwards, I think, you know, sort of back of the envelope right now, the impact would have been around INR5 to INR7 a litre for all the supplies we made thereafter.

Tarang Agarwal: Just last two, you know, what was the power and fuel cost for this quarter? And Nilanjan, if you could give us the net debt as on 30th September 2023.

Shekhar Swarup: So, power and fuel cost saw a high of about INR2.5 rupees per GCV earlier on and has seen a low of INR1.6, INR1.7 rupees per GCV. But these are the peaks and the bottoms that I'm comparing. Currently, it's gone up a little bit, but it's around INR1.8, INR1.9. So, in my view, you know, between INR1.8 to INR2 rupees per GCV is what we expect our fuel cost to be, given the kind of coal production that's taking place in the country currently.

Tarang Agarwal: And what was the absolute figure for Q2?

Shekhar Swarup: Absolute figure in what terms, please?

Tarang Agarwal: The absolute power and fuel spend.

Shekhar Swarup: Okay. So Nilanjan, you have that?

Nilanjan Sarkar: Yeah. The absolute power and fuel spend have been INR59 crores.

Tarang Agarwal: Okay. And net debt as on 30th September?

Nilanjan Sarkar:

Net debt net of cash and cash equivalents is INR235 crores.

Moderator:

We have the next question from the line of Mr. Dhruv Kashyap from MART.

Dhruv Kashyap:

Yes. So thanks for the opportunity, asking a couple of questions. I think the source, Shekhar sort of directed to you in terms of, let's call it, sort of the vision or the core philosophy of Globus itself. So if you were to look at the landscape of the alcohols companies around us both in India and abroad, both in the listed and in the unlisted space. So whether you pick up Amrut or you pick-up a Paul Johns or you talk about Piccadilly owning Indri or I mean we could or what sort of Magic Moments did for Radico's fortune. Generally, you'll see the most common thread is that each of these companies are sort of significant brand owners or are defined by a certain brand or have gone on to make new categories or get defined by these categories.

So just wanted to understand from you that while Globus obviously is also having an IMFL play and increasingly building one, Terai Gin is sort of your flagship product. So can you give some color on what's your philosophy is sort of 35,000 feet above sea level question because the real value unlocking of value creation really happens when you were a sort of significant brand owner and not really a commodified trade?

Shekhar Swarup:

Right. So Dhruv, thanks to that. Our vision is very clearly to invest behind our IMFL business. Our first goal is to get to 20% of our consumer business share coming from our IMFL, that task is only made harder with the growth of our value, value plus segments, which has grown quite well this year. But the good news is that the IMFL business or the Premium Plus business is also moving much faster. So hopefully, soon, we'll be able to get to that 20% number.

We are doing this whilst building capabilities to distribute these products, we have the capabilities to make them, of course, but we had to create capabilities to distribute them. Our distribution of value, value plus products is completely different from what needs to be created for the premium products in terms of on-premise, even though off-premise are completely different in most states for the two categories.

So whilst we are creating capabilities, we also have the job or rather the job of innovating in different types of products. So it's very difficult for us to build distribution based on innovative products. So just for an example, we are in process of launching a very interesting new flavor for Snoski, which has never been done by anyone else before. Many of these innovations may not work out the way we want.

Doing this new variant of Snoski be, what Magic Moments was for Radico. Sure, we would like that, but we have to keep trying different innovations and at some point, one or two of them will become as transformative as Magic Moments was for Radico. And whilst we do innovation for transformative properties, we also need to have products which the market readily expects or accepts. And that's why we have products like Mountain Oak, we have products like Oakton and we have products like Governors Reserve and a few others that are in the pipeline.

So that becomes a bread and butter, which allows us to get product on shelves. And once product is on shelves when the innovations come in for transformative gains. That's the way we've been working this business so far. As I mentioned earlier and as Param here as well, in three of our

states, we've now got a pretty strong set of capabilities to distribute products, and those are the three states which take our most innovative offerings first before we strengthen, while we strengthen the other states. So that's the way I look at this, and I hope I was able to answer your question.

Param:

I'll just add something. I'll just add a line. Whether we take Radico or Paul John or Amrut and Kegley, they've all been in IMFL a lot before each of these individual brands came into being and reached a situation where we can talk about them. So, it's about, they get known by the brand much later. The first comes the portfolio. They all play the portfolio. And then one brand, two brands, or many brands start carving a different destiny for themselves. So, it still is a good thing to play the brands, get into the categories, I think after that, it will be a combination of innovative offerings. And then each offering finds a different acceleration and pace. And hopefully, a couple of them reach a stage where we work in the future.

Dhruv Kashyap:

Thanks a lot for that answer. So I'll just ask my second question. And if it's a repeat, you can just tell me, so I just wanted to understand the IMFL product metrics and the state metrics a little better. So picking up from what Shekhar said about the three innovative states and then the rest.

So correct me if I'm wrong that -- so in terms of your -- let's talk the product metrics. So there's a Governor's Reserve, there's an Oakton, there's a Mountain Oak in vodka, there is Snoski, you mentioned about a new exciting flavor. Similarly, there would be the Terai gin. And I'm sure you're doing some work on, let's say, rum or a malt whiskey. So that's really the product metric. And similarly, there'll probably be a state metric, which last I had understood was West Bengal, Delhi, Haryana. So can you just give some color on the product and state metrics as to where we are and where we intend to get to?

Shekhar Swarup:

Yes. Param, do you want to take that if the line is clear?

Moderator:

Sir, Param sir's line has been disconnected. I'm trying to get it back.

Shekhar Swarup:

Okay. No problem. Let me start with that, Dhruv. So West Bengal, Delhi, Haryana, UP, Punjab our five existing markets. Amongst these West Bengal, Delhi and Haryana, are becoming a little more-stronger as compared to the -- as compared to UP and Punjab. Those are -- we have some work to do in terms of strengthening our capabilities.

Yes, no problem. I'm going ahead with this for now, Param. If I need you to come in, I'll ask Governor's Reserve, Oakton, Governor's Reserve has two different variants of blue and red and Oakton. So, these three products have been the, how do I say, the more expected product offerings. There are some innovations we've done in these to stand out in the marketplace, but these are more bread and butter type of product offerings.

The innovative ones thereafter are Snoski, Mountain Oak, Terai, obviously, and like you mentioned, and on our investor presentation as well, we've spoken about a new premium, malt whiskey, as well as a rum. These are, again, innovative offerings, which will start with one of the strong states and then build into the others. Is that the kind of metrics that you were asking for?

- Dhruv Kashyap:** Correct. So that's the product. And the state, you mentioned five, three strong ones into UP and Punjab and then to explore any other states that fit into your matrix later?
- Shekhar Swarup:** So we've got two other states that are to be launched soon. Rajasthan and Jharkhand so in the next six months or so, we'll have launches in these two states as well.
- Dhruv Kashyap:** Perfect. One more question was on -- so the raw material part that you had mentioned, so there's largely two parts, right, the power and, let's call it, the grain cost. So the power costs, you've given a good sense. On the grain, you mentioned that you expect it to come down by about 8% in the second half when the crops hit. Are you seeing any of that happening as we speak? Or are you saying that's more a December to sort of March kind of phenomenon?
- Shekhar Swarup:** Yes, it is more in December to March. Some amount of weakening has happened, but I think that's not based on crop, that's probably based on very micro term demand supply mechanics, but the crop impact will start coming in only in December.
- Dhruv Kashyap:** Great. And operator, can I squeeze in one last question? Or should I come back in the queue?
- Shekhar Swarup:** Why don't you go ahead?
- Dhruv Kashyap:** Okay. Great. So Shekhar, my last question was if you could help me with a similar metrics on the IMIL part of the business where we need to spend time on delivering the product part because that's clear. But in terms of the states metric. Is it fair to say that, like you said, Jharkhand and Rajasthan to be added in IMFL, including the five you mentioned? So in these seven of IMFL, is it common to the IMIL or they are separate or new states?
- Shekhar Swarup:** I mean, in some cases, they are common -- so Rajasthan is obviously the most important one. West Bengal, Delhi. We will -- we are considering a launch in one new state. And as soon as things are a little more finalized, I'll talk more about it but it's largely Haryana, Delhi, Rajasthan and West Bengal.
- Dhruv Kashyap:** But just to conclude that, in terms of, let's say, if you're setting up in Odisha or UP or in the other common IMFL states like Punjab, is there any attempt to play outside of these four IMIL states you mentioned or is that it?
- Pritesh Chheda:** So, there will be just one more state as we see right now. Whereas, Jharkhand may have an IMIL opportunity. We don't consider it to, as of now, we don't want to get into it. It's too small a business for us to look at. There are other more important things for us to do right now. So, just one more new state and we'll talk a little bit about it, maybe in the next quarter.
- Dhruv Kashyap:** Thanks a lot for taking my questions. And one last comment that I was seeing a lot of your personnel introductions. And I must mention and put this on record that I think you're adding a lot of heft and gravitas to your personnel well ahead of time. And that's always a great sign of great things to come for a company. Thanks and all the very best. Take care.
- Moderator:** Thank you. Your next question is from the line of Mr. Saket Kapoor from Kapoor & Company. Please go ahead, sir.

Saket Kapoor:

Yes, thank you for the opportunity. In your detailed presentation, you did outline about the impact of the FCI disruption and about the higher grain prices to the tune of INR17 crores and the West Bengal and the Jharkhand plant remaining shut down for 43 days to INR25 crores. So, going ahead, what should be factoring in terms of reversal of these once your utilization levels improve for quarter 3? And also, you have guided for utilization levels to reach 95% for Q4. So, how should Q3 shape up in terms of utilization levels?

Shekhar Swarup:

So, yeah, there were a lot of questions. Let me start with utilization. And you can, if I miss out a question, please point it out. So, Q3, we see utilization to be around 80% to 85%, largely because we are awaiting consent to operate for the expanded capacity in Bengal and Jharkhand. You know, if we get it in December, then it will help us increase that number. But so far, we haven't got it. So, 80% to 85% is what I expect in Q3.

And Q4 should be all guns blazing in terms of capacity utilization. I think you asked about profitability. I've mentioned that, last quarter was disrupted because of the reason we put in our presentation. And now there is no disruption in raw material. It's a question of price of raw material and the price of ethanol. Price of ethanol, I'm not expecting a very significant change, but I am expecting a good reduction in raw material costs going forward.

Saket Kapoor:

Sir, but that is post the Kharif season, sir. So, going ahead, this cost benefit will come in the later half of 2024, not for this quarter?

Shekhar Swarup:

This will start impacting the company in December of the current year.

Saket Kapoor:

Correct, sir. And, sir, out of the total revenue from operations, what will be attributable to the ethanol sales?

Shekhar Swarup:

Nilanjan, do you have that number? What is the percentage of revenue from ethanol in the quarter gone by?

Nilanjan Sarkar:

I'll get back on it. It's almost in the range of -- on manufacturing, it is almost in the range of 70%.

Shekhar Swarup:

70% of manufacturing. So it's around 30% of overall revenue.

Saket Kapoor:

30% of the overall revenue.

Shekhar Swarup:

35% of overall revenue in the back of envelope, and that should be the number that we can cross-check there.

Saket Kapoor:

And sir, how have been the ENA price trends currently and for the quarter, how have the prices behave?

Shekhar Swarup:

ENA pricing, while the ENA margins have been more or less stable. We've been able to pass on price increases, cost increases to our customers. ENA offtake has been a little bit lower in Q2, and that's predictable. It's a seasonal Q3, Q4 ENA uptake is usually better because of the -- just the seasonality. So that business is going well as much as we can currently allocate to ENA, we are doing that. But we do get left over with capacity, which has been utilized through sale of ethanol.

- Saket Kapoor:** Okay, sir. And sir, what should be the external ENA sales out of the total -- after the captive use?
- Shekhar Swarup:** So 70% was ethanol so 30% of manufacturing is ENA.
- Saket Kapoor:** Sir, you have also mentioned that, now maize will be the key input for running the Bengal plant. So where are we sourcing raw material from Rajasthan. So what's the cost?
- Shekhar Swarup:** No. So currently, I did not say, it will be the key raw material for West Bengal. Currently, for the next two quarters or three quarters, rice is very much the key raw material. We have capability of using maize. So as and when maize is more profitable, we will use that. However, in the long term, I believe maize will be very important. And we are doing work on direct farmer purchases of maize because we do not need a mill unlike in rice, we need to buy from a mill. But in case of maize, we can buy direct from farmers. So that is why we are building the work on educating farmers about maize cultivation around our factories.
- Saket Kapoor:** And last point, our capital work in progress, closing balance for September is INR155 crores. So -- and the depreciation has remained constant for the first half. So what percentage of the project will be capitalized for the current year? And if you could give the capex number for the entire year?
- Shekhar Swarup:** Nilanjan, could you, please?
- Nilanjan Sarkar:** Yes. So the capex that should be capitalized in the current year will be almost INR100 crores of the 120 klpd, 60 klpd plus 60 klpd in Bengal and Jharkhand. And there will be some more capitalization of other up-gradation work that is going on by another INR10 crores to INR15 crores. So in altogether, the capitalization we expect in H2 is almost INR115 crores.
- Saket Kapoor:** Right. And the packaging cost part, sir, any -- I think the previous packaging also from the inflationary trends were there? So how are the packaging cost behaving and what -- any outlook on that?
- Nilanjan Sarkar:** Yes. So, in packaging cost, we had an increase in the glass bottle cost, but that was almost offset by a reduction in the CC box rate and also reduction in paper prices and pet resin prices. Overall packaging, no such major impact, minimal impact.
- Saket Kapoor:** Okay. And these are clubbed in the other expenses?
- Nilanjan Sarkar:** No, packaging is a part of my cost of raw, cost of material consumed, which is before the gross margin line. In other expenses, only power and fuel and other expenses come.
- Saket Kapoor:** Correct. So, I'll join the queue and all the best to the team and Happy Diwali. Thank you.
- Moderator:** Thank you. The next question is from the line of Mr. Vaibhav Gupta from Bowhead India Fund. Please go ahead, sir.
- Vaibhav Gupta:** Thanks for the opportunity. Sir, what was the increase in broken rice price when the FCI ban happened in the open market and what is the broken rice price now?

- Shekhar Swarup:** In the last three months, it's been between INR26,000 and INR27,500 a ton.
- Vaibhav Gupta:** Okay. Yes. And, sir, before the FCI rice ban, what was the broken rice price in open markets?
- Shekhar Swarup:** Well, it's been around the same level since, I would say, June, July. It was around the same. It's not like the ban led to a very sharp increase in raw material price. That's not the right way. That's not the right messaging. It's to do with export of broken rice from India that led to such a high price of rice. So, with the export ban, there was no further increase. But now, we have to wait for the new crop to replenish the dwindling supply and stock of broken rice in India.
- Vaibhav Gupta:** And, sir, my second question is in ethanol manufacturing, like, broadly speaking, what is the broken rice cost as percentage of ethanol sales?
- Shekhar Swarup:** Raw material cost is a very significant part of our cost card. I don't have the number, but it's well over 60% of our cost of production in raw material.
- Vaibhav Gupta:** And what would be a power cost for ethanol manufacturing?
- Shekhar Swarup:** Now it should be around 15%.
- Vaibhav Gupta:** 15%. So this is like, as far as sales realization or as cost of goods?
- Shekhar Swarup:** Cost of goods.
- Vaibhav Gupta:** Got it. Thank you, sir.
- Moderator:** Thank you. The next question is from the line of Mr. Imran from Longbow India Capital Advisors, LLP. Please go ahead.
- Imran:** Hi, thanks for the opportunity. Question is on, the ethanol prices. In FY '23, you got interim price increases and then again, the government has revised the prices in October end to a lower number. Is it going to be very similar case, even in this year or do you feel the new, the latest price increases will remain there for the year and build from here for the future?
- Shekhar Swarup:** So, as I mentioned earlier, the oil companies have revised prices 5 times in the last two ethanol years. I see them being a bit slow to react, but they are reacting in line with the market. So, given that, I don't see a significant price increase coming up in the next couple of weeks. But in case a situation like this were to present itself, in fact, I don't see a situation like this presenting itself again next year. Next year's average grain price is going to be lower than this year's average grain price. So, but even if it were to hypothetically, I do see them taking action to revise the price because the government's mandate on E20 is very clear. In fact, oil companies have to pay a penalty on every litre of petrol sold if they have not met the target of blending for that year.
- Imran:** Right, sir, my question is a little different. I am asking in a situation where, we have tokenized prices coming back to whatever INR20, INR21. In that case, because the OMC will come to you and say, look, we are not giving you INR64, INR65 now, we'll give you only INR60. Is that, is there a possibility?

- Shekhar Swarup:** If it is sustained for a very long period of time and ethanol margins are very high for that period of time, then yes, certainly. I mean, if we see a situation where for the whole year, prices are below INR1,800, then yes, next year there would be a downward revision. But, they will not reduce prices if for three months, six months the prices came down. No, I don't see that happening.
- Imran:** Right. And this usually happens at the end of October, right? Not in between the year.
- Shekhar Swarup:** So, there is a price that is announced at the end of October for the next year, which has been delayed this year. We're still waiting for it. But thereafter, revisions happen as and when there is a need.
- Imran:** All right. And, sir, my second question is on the overall business. Can you, give some color on your consumer margin? I mean, as not the absolute, in absolute terms, but the impact of this raw material price increase, because I'm assuming, the brunt of the problem or majority of the margin reduction is on the consumer business, right?
- Shekhar Swarup:** I'm sorry, can you repeat that?
- Imran:** What I was trying to understand is, sir, because you didn't have any price increases in the consumer business, and the raw material prices went up sharply. So is it fair to say that, the majority of the problem or the margin reduction is happening because of the consumer business?
- Shekhar Swarup:** No, it's not majority is not the consumer business. Majority is the manufacturing business. But yes, there has been a reduction on margins even there. You're absolutely right about that.
- Imran:** Right. And, any thoughts on sustainable margins for the blended business, maybe FY '25, if that is possible?
- Shekhar Swarup:** It really depends on how quickly we're able to grow our consumer business. As you can see, the growth rates in both Value, Value Plus and IMFL have been very interesting. So, let's FY '25 is some time away. I think, the thing to watch out for right now is, how much is the price correction in raw material into December and then Q4. And at that stage, I'll be able to give a little more longer term guidance.
- But for now, we are very -- waiting for the new crop for the raw material market to cool down, store up our inventories in that time of year and then look ahead for the rest of the year and be in a better place to give guidance. At that time also, there will be some price increases in the consumer business around the time of February, March and April. So that's a good time to have this discussion.
- Imran:** All right. Thank you so much. I am done with my question.
- Moderator:** Thank you. The next question is from the line of Mr. Dinesh, an individual investor. Please go ahead, sir.
- Dinesh:** Yes, thanks for the opportunity, sir. I have a couple of questions on the consumer business side. So there has been many articles regarding the FTA agreement with UK that it would be a big

beneficiary to the alcohol industry. So is it really beneficial to the alcohol industry? And is it because of that reason and in this quarter, it was mentioned in the investor presentation that the company is exploring to enter into international markets. So can we interlink this both or anything on it?

Shekhar Swarup:

Param, could you please?

Paramjit Gill:

Yes, so the FTA agreement, its direct immediate impact will be the reduction in the scotches that are being used in blending, which will benefit every player in the industry who uses scotches. And second is, it will probably make the scotch in the country a bit more competitive. So these are the two immediate impacts that will happen. The first one, we will benefit, of course, like most of the players, we will also benefit because we do add scotches. We use various combinations of scotches in our blends.

The second one, it does not have an immediate impact because in parallel, there is another huge phenomenon that is taking place is that globally, the interest in Indian spirit industry has been gaining very high provenance with almost every passing year. And I am sure that, many will support me when I say that the Indian spirit brands would very soon be sustained there. They will command their own price, irrespective of what the price of other country brands including scotches command in that country or category, including India.

So does that sort of give you some clarity, sir?

Dinesh:

Yes. What about the plan of entering the international market, sir? Could you share there some thing.

Paramjit Gill:

So in the immediate short term, we did start a little bit of work on TERAJ. And as we have a little stronger super premium category under the umbrella of India's first Craft Spirit Company, we would be starting to focus on exports. Exports will take a little bit of time to certify and bring provenance to the whole consumer business.

But we also intend to create a lot of buzz and excitement around the brand in India because India is the mother of all markets. The world is actually coming into India and looking at us. So we want to make sure that we have a good place here, which is where the future of the spirits lies.

Dinesh:

Okay. I got it, sir. Yes. Okay. So the subsidiary, which was formed Bored Beverages, will it be operating only in Delhi, Haryana as the Bored Beverage is currently present in Delhi and Haryana, or it will be expanding to all other locations where Globus is currently operating?

Paramjit Singh Gill:

So we are busy doing some renovations in its offerings and also bringing in some innovation, which is yet not known to the market and consumer and yourself. And we will initially be starting with three states and slowly over a period of time, as the category evolves, we intend spreading it in tandem with Globus somewhere or alternately, it could also fall in tandem with our premiumization journey where we have taken a conscious decision that our super premium category of India Craft Spirit Company will also be available beyond where mainstream consumer business of Globus operates. So both journeys will happen concurrently.

- Dinesh:** So just a follow up on it, the Bored Beverages is also present in Mumbai and Pune. So with this subsidiary, can the Globus spirits, is there any possibility of Globus spirits brands entering into Mumbai and Pune markets also going ahead?
- Paramjit Singh Gill:** You want to take that, Shekhar?
- Shekhar Swarup:** I'm sorry, could you repeat the question? I couldn't hear it clearly.
- Dinesh:** Yes, sir. So the subsidiary which was formed Bored Beeverage, that company is already present in Mumbai and Pune. So going ahead, is there any possibility of the Globus brands to enter the Mumbai and Pune markets also based on the relation?
- Paramjit Singh Gill:** So Bored Beverages as of now has been doing some business in Delhi and Haryana, not in Mumbai and Pune. Your information is a little bit incorrect. As far as our IMFL business in Mumbai and Pune is concerned, we have started Terai Gin in there, but the other brands are still a little bit away from entering Maharashtra because we still, basis our prioritization of choosing markets, which a few investor calls prior I had alluded to, that the state we should have a right to succeed as well as right to convert our business into a profitable business. Maharashtra is a little bit down the value chain. So we still are going to be entering some other states before Maharashtra comes. But eventually, yes, Globus will be present in Maharashtra, somewhere down the line.
- Dinesh:** So any timeline, sir?
- Shekhar Swarup:** Thank you. Currently, it's difficult to say. These are not our priority markets. So we will keep you informed.
- Moderator:** The next question is from the line of Mr. Dhruv Kashyap from MART. Please go ahead, sir.
- Dhruv Kashyap:** Nilanjan, quick follow-up question, if you could help me with this. And if you're not comfortable sharing the absolute number, maybe you could share it as an index or a percentage or whatever. So could you help me first with the April, May, June quarter, then the July, August, September quarter, and the October, November, December quarter to date? What was the kind of coal prices?
- Shekhar Swarup:** Happy to share the information. No problem with that. But I don't know whether we have it ready right now.
- Nilanjan Sarkar:** Yeah. Coal prices of quarter two has been around about seven and a half, 7.6.
- Dhruv Kashyap:** 7.6 per kilo
- Nilanjan Sarkar:** Yeah.
- Dhruv Kashyap:** Okay. in Q1
- Nilanjan Sarkar:** Q1 was 8.25. Current, I don't have.

- Dhruv Kashyap:** But do you have an indicative idea that is it below 7.6 or 8.5 or more than that?
- Nilanjan Sarkar:** As I mentioned in my opening remarks, we are maintaining at the same price.
- Shekhar Swarup:** No, it will be at the 7.6, 7.8, that kind of level.
- Nilanjan Sarkar:** Yeah. That's what I have.
- Dhruv Kashyap:** So Niranjn, just to be clear, when you said maintain at the same price, the same could mean Q1 and Q2. So it's not clear. That's why I'm asking.
- Nilanjan Sarkar:** It could be Q2.
- Dhruv Kashyap:** Prices are different in Q1 and Q2, right?
- Nilanjan Sarkar:** Q2.
- Dhruv Kashyap:** Which you were saying was 7.6.
- Nilanjan Sarkar:** Yeah.
- Shekhar Swarup:** So, Dhruv, it's in the similar range as Q2. A little bit of, up or down could be there where the quarter ends, but it's in the similar range as Q2.
- Dhruv Kashyap:** Got it. So which would be lower than Q1? Nilanjan, could you also help with the exact same data for grain?
- Nilanjan Sarkar:** Grain.
- Shekhar Swarup:** So you need to, you want to know this for broken rice, not our average grain price, because the average grain price would be affected by FCI purchases as well.
- Dhruv Kashyap:** So in that regard, maybe I think it's better to understand that maybe broken rice is made separately and some sort of weighted average of the grain if there is some mechanism. Just to understand that is the grain price also. So what I can understand from coal is that eight point something came down to seven point something and is maintained at seven point something. I mean, is it possible to know a trend of grain, if not the absolute number, that is it also the similar trajectory or is it going up and down?
- Shekhar Swarup:** Q2 and Q3 for grain is similar. In fact, Q3 is marginally upwards of Q2. Q1 is lower than Q2. Now Q3, Q4, sorry, end of Q3 is when we'll start seeing corrections in this. So far, Q3 is slightly upwards of Q2.
- Dhruv Kashyap:** Okay, that's interesting, because in the beginning, you had mentioned that there's already some decline in grain prices because of non-structural, I mean, non-stock sort of coming into the market, but other reasons. But now you're saying that it's actually even higher in Q3 versus Q2.

- Shekhar Swarup:** No, I'm saying that there's some, short term softening. And I'm not saying on a quarter-on-a-quarter basis there is softening. I have always maintained in this call that the highs of Q2 have only been built upon in terms of price growth in Q3.
- Dhruv Kashyap:** Oh, so you're saying so as we speak, there is a possibility that the grain weighted price might be even higher currently versus than what it was in the average of Q2, possibly.
- Shekhar Swarup:** Average of Q2 has some FCI. Like I said, I don't, I'm not, so we cannot talk about quarterly averages because of the FCI elements. But I can tell you is Q3 is similar to Q2, but maybe slightly higher by about 2% or 3%. However, coming into December, we will see softening. So let's wait and watch and see how the quarter closes.
- Dhruv Kashyap:** So you're right. Maybe a more sensible way to analyze this would be the Q1 open market prices versus Q2 versus Q3 netting off for FCI, to which I've understood your answer that it is where it is. And with December factored into Q3, there's a possibility that overall Q3 might be the same or slightly more or slightly lesser than Q2. And the real full quarterly impact will start coming from Q4 of the new grain hitting the market. Is that a fair summary?
- Shekhar Swarup:** Correct. That is a good summary.
- Dhruv Kashyap:** Perfect. Thanks a lot and all the very best. And thanks a lot for taking all my questions and for the very painstaking answers. Thank you very much.
- Shekhar Swarup:** Thank you.
- Moderator:** The next question is from the line of Mr. Saket Kapoor from Kapoor & Co. Please go ahead.
- Saket Kapoor:** Just in continuation, so the impact of the grain prices, which was for Q2 was INR17 crores, will still persist, but only the production loss for INR25 crores will not be appearing as the utilization levels will move from 78% to 82%. This understanding is correct?
- Shekhar Swarup:** Yes, there will be no loss, production loss in Q3.
- Saket Kapoor:** But the higher grain price impact will still persist.
- Shekhar Swarup:** Impact of higher grain will continue to persist. In December, we will have the new crop and then we will see what is the extent of reduction.
- Saket Kapoor:** So Q3 on a ballpark number will be similar, only the advantage we'll be having is the INR25 crores part on that hit which we took in Q2 will not be appearing for Q3. That's a fair understanding?
- Shekhar Swarup:** Yeah, so there was a lot of stoppage in Q2. So our capacity utilization is around about 70%. We expect that to be around about 80% to 85% in Q3. So there will be revenue growth and profits from there. But in terms of per unit profitability, Q3 should be similar amounts to what we ended Q2 with is what I think this quarter will look like.

- Saket Kapoor:** Sir, you have mentioned utilization levels at 78% in your presentation. So is it 78% or 70% for Q2 because then 4% and 10% is a significant delta?
- Shekhar Swarup:** It depends on what you take as capacity. It is 78% on the on 765 KLPD. It is 70% on 885 KLPD.
- Saket Kapoor:** Okay, so for 82% will be on what number?
- Shekhar Swarup:** 885
- Saket Kapoor:** 885. Okay, thank you, sir. And all the best.
- Moderator:** Thank you. The next question is from the line of Mr. Dinesh, an individual investor. Please go ahead, sir.
- Dinesh:** Yes, I just want to follow up to my previous question, sir. So just I want to understand in the consumer business, Q2 is lesser than the revenue generated in the total consumer revenue was lesser than Q1 in this year. It was similar in the previous financial year also. So can we understand that there is a seasonality in this Q2 for the consumer revenue or any other reasons?
- Paramjit Singh Gill:** Yeah, Q2 generally is a bit softer than Q1 because in most of the states, the excise year runs from April to March. So generally, the Q1 and Q3 are indexed higher. Q1 because as the excise year opens, new players come into the market, the shops who have depleted their inventories, re-pile up inventories. So Q1 is higher generally. And Q3, obviously, the season starts building up towards the end of Q2. So October, November, December are more festive seasons. So they are indexed high. And Q4 in some of the states, there is a little bit of softening more from because the business partners are getting ready for the renewal or a new excise policy.
- Dinesh:** Just one quick question. So in the last quarter, management has said that there was an impact in the franchise bottle and it can move to normalcy from Q2 FY'24. But even in this quarter also, we can see that there is no such increment. So is this franchise bottling segment going to be longer or can we see a move to normalcy going ahead in Q3 or Q4 somewhere else?
- Paramjit Singh Gill:** I'm not able to really understand your question, sir. Your line is quite bad, sorry. You're not coming across clearly, sir. Maybe join again from another device or something. We can take the other question.
- Dinesh:** Yeah, just my question is franchise bottling was impacted in Q1 and the management has guided that in Q2 it can reach to normalcy. But the impact can be clearly seen in this quarter also. So going ahead, is this impact will be persisting for a longer time or will the franchise bottling units come back to normalcy?
- Shekhar Swarup:** Franchise bottling is a small part of our revenue. The reason we do it is because we can sell the same customers our ENA at their other bottling locations as well. I'm not very concerned about the volume movement over there because all our costs are direct costs, so they change along with the volumes. And these are volumes of the brands that are owned by those companies. So I'm not very concerned about how that is moved. And very difficult for me to give an indication



on whether it will grow or not because it's based on the fortunes of those brands. So McDowell's or Royal Challenge, those brands have to grow for us to get volumes.

Dinesh: Thank you.

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

Shekhar Swarup: Thank you for joining us today. Wishing everyone a a very happy Diwali. Please do in touch with us in case you have any questions, our IR team or direct it to us. Thank you. Bye.

Moderator: On behalf of Global Spirits Limited, that concludes this conference call. Thank you for joining us today, and you may now disconnect your lines.