# "Globus Spirits Limited

# Q4 FY '23 Earnings Conference Call"

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**MODERATOR:** **MR. SUYASH SAMANT – STELLAR INVESTOR RELATIONS**

**Moderator:** Ladies and gentlemen, good day, and welcome to Globus Spirits Limited Q4 FY '23 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 a touchstone phone. Please note that this conference is being recorded.

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

**Shekhar Swarup:** Thank you. Good morning, everyone. Welcome to our earnings call. As we've been keeping you informed in our previous interactions, over the last few years, we at Globus Spirits have focused on creating steady growth through a well-entrenched Distillation business, as well as laying a foundation for growth in our consumer business. With this as our platform, we have been able to report strong results in Q4 FY '23.

Amongst the key highlights of the year that's gone by were the additional capacities that became fully operational. In Jharkhand, we announced the commissioning of our greenfield 140 KL ENA and ethanol plant, which has contributed well for about 6 months of the year. FY '23 was also the first full year of operations for the expanded capacity at West Bengal. The installed capacity of the company at the end of FY '23 was at 765 KL per day, of which 335 is dedicated to ENA and the balance is fungible between ENA and ethanol. As we go ahead, we will attempt to convert more capacity to fungible as it allows us additional optionality.

Our second expansion in West Bengal and our first expansion in Jharkhand are expected to be commissioned in late Q1, FY '24. And once complete, our total capacity will be 905 KL per day. We also now look forward to starting construction at Orissa in Q3 FY '24. The capacity for this plant is targeted at 200 KL per day. However, it will be finalized in the coming months.

The target capex for this capacity is around INR160 crores. And with access to interest subsidy, we will be financing this project with around INR120 crores from debt and balance from internal accruals. Our interest subsidy loan is at around 4% rate of interest.

On the UP project, we have started construction of the bottling plant at Lakhimpur Kheri, and we hope to start bottling our entire range of brands for the UP state by the end of Q3 FY '24. In the last few quarters, Param and I have spoken to you about all the work that has been happening in the Premium Plus space. I'm very happy to inform you that this quarter, the segment of Premium Plus brands has brought in 6% of our consumer revenue. This is a small but important step as we gather more steam towards getting to our first milestone of 20% consumer segment revenue share. With many new and innovative product offerings and expanding distribution presence, we are very excited about the prospects of these products.

I request Param to talk a little more about this.

**Paramjit Gill:** Thanks, Shekhar. Good morning, everyone, and I hope you all are keeping well. In the overall consumer segment, the aggregate sales in Q4 of FY '23 came in at 3.25 million cases, which was lower on account of a fall in Value and Value Plus segments. And this was due to the short-term environment intervention in the Value Plus segment. Average realizations saw a robust 20% increase from INR451 per case in Q4 FY '22 to INR540 per case in Q4 FY '23. Going forward, with our product mix improving towards the Value Plus and Premium segments, we believe realizations will continue to remain robust.

The Premium segment is showing very promising prospects. Our revenue in Q4 clocked almost INR11 crores, against INR1.8 crores same time last year. On a full year basis in FY '23, it was up by almost 700% to INR37.4 crores. West Bengal, UP and Delhi markets have settled well, having completed one full year of operations in these markets. We entered Haryana towards the end of Q3 FY '23.

We are going to be further entering a new state of Punjab in early Q2 FY '24. This gives us confidence to expand our offering portfolio, and we will be launching some exciting new products in this calendar year across selective markets. Mountain Oak, which is a Deluxe whisky, was launched in West Bengal in Q4 FY '23. And Snoski, a premium vodka in two variants during April '23 in UP. We will now be taking these brands to other states selectively. Our premium rum is to be launched in Q2 of FY '24, and we will also be entering the single malt whisky segment later this year.

Our flagship product in gin, which is the Terai craft gin is going strong, and we have decided to widen distribution for Terai than the previous year. We are aggressive towards growing the Premium business. And towards that, we are now building capabilities with digital marketing initiatives as well as key account distribution.

Coming to the Value and Value Plus segments. Our overall revenue in this segment took a dip due to seasonal changes. RTM changes and excise policy impact which we have discussed in previous calls. However, in Rajasthan RML, the Value Plus segment continues to demonstrate our brand strength at the marketplace. This was supported by our Black Lace rum, which in the second year of launch delivered a double-digit market share in this segment in the quarter gone by. Globus Green, our second whisky brand in the state is also in its second year and is gaining consumer acceptance.

We have also launched the kevda flavour in the Value segment last year, and we will continue to work in increasing our product offerings to the ever-evolving consumers in this space. I'm glad to say, because of our innovative product offerings, our market share in Rajasthan improved in Q4 FY '23 and FY '23, over 50% in RML and 33% overall.

In Haryana, our strategy to creating a sustainable business model is playing out. We have maintained our increased contribution and we will continue to build brand strength. Consistent efforts on Metro Liquor, which is in the Value Plus segment have helped stabilizing the volumes. We see continued momentum in this segment as we go forward.

In West Bengal, as mentioned earlier, there is again a market change in the Value and Value Plus segments, which led to some disruption in our service by the industry. The good news is the introduction of the Value Plus segment paves the way for building a profitable runway in this segment. We are servicing this segment with two brands and plan to play a key role in growing the segment as well as our role in it. For now, the West Bengal market remains a medium long-term play.

I will now request Nilanjan to take the lead. Thank you.

**Nilanjan Sarkar:** Thank you, sir. Good morning, everyone. Coming to our margins. As illustrated in the investor presentation, the Q4 EBITDA margins were about 16%, excluding IMFL investments, which was slightly higher than our expectations. The ENA price revision over this year have been helpful with prices up 15% year-on-year to INR61 per BL. This quarter saw a softening in fuel costs by 27% Q-on-Q. However, grain costs remain elevated.

Commodity and fuel prices generally start increasing at the end of Q1 with the onset of monsoons. However, with the work that has taken place on shifting raw material based FCI, converting more capacity to ethanol, better fuel efficiency and higher inventory of fuel, we expect that the margins will continue to remain at the current level of around 15% in the next one or two quarters. The company has generated a net cash flow from operations of INR122 crores in FY '23. Our return ratios, ROE and ROCE are 14% and 17%, respectively. The Board has recommended a dividend of 60% that is INR6 per equity share for the FY '23 as against INR3 per share of FY '22.

Since all the results and the investor presentation have been published in advance, I will not take more time, and we'll open the floor to questions. Thank you.

**Moderator:** Thank you. We have the first question from the line of Prithvi Raj from Unifi Capital. Please go ahead.

**Prithvi Raj:** Shekhar, I do have a couple of questions. The first one is on the consumer business. So, for the last few quarters, I guess we are regularly seeing somewhat other kind of disruption here. I just wanted to get a sense what exactly is happening? And how do we see it going forward?

**Shekhar Swarup:** Sure. So, there are two parts to this. One is the Value and Value Plus segment and the other is the Premium Plus. On the Premium Plus side, things are more or less going according to plan. There are some end-of-year excise policy changes that take place, which is a part of the business. So, I wouldn't say, there is any disruption or any extraordinary disruption there per se. But in the Value and Value Plus segment, there's been two or three sets of disturbances. In Rajasthan, earlier on in this year, we had spoken about how there is a new base in the Value Plus categories, and the whole year has played out according to that.

We are now seeing growth coming from this new base. So, it is a disruption that took place. It's now behind us. What's very interesting in Rajasthan is that our brands has continued to gather strength. We are now at an overall 33% market share, but in Value Plus category, it's over 50%. I believe last year; it was around 40%.

In West Bengal, things have been extraordinarily disrupted. There's been several route-to-market changes that have taken place. And frankly, it's left the entire industry a little bit flummoxed. So, like Param said, that we are monitoring this, and we remain hopeful on stability here and therefore, allowing brand owners and market operators and other stakeholders to go about their business.

Haryana is playing out to what we expected. We've taken a certain call on reducing our trade spends over there and focusing on margins. So that is playing out. We will become more aggressive here. We're monitoring the environment and we'll become more aggressive here in the times to come. But for now, the business is playing out as planned and was informed to everybody earlier on in the year. So, I hope that gives some clarity to you.

**Prithvi Raj:** So, given this context, how are you think volume growth here? Is it possible for us to do a high single-digit volume growth, or?

**Shekhar Swarup:** I think so -- I think so very much. West Bengal is obviously at a very low base. Haryana, we have to see how the market shapes up before we can comment on that. But Rajasthan is growing very well. And that is the largest chunk of our Value, Value Plus business. So yes, high single-digit growth is something that we expect.

**Prithvi Raj:** And my next question is on the margins. Obviously, we have seen an improvement in this quarter. So how are we looking at exit of FY '24? Can we go back to 15 to 17 percentage kind of EBITDA margin?

**Shekhar Swarup:** So, we are roughly in the now. We look at this at Ex-IMFL, because IMFL obviously needs to reach a certain scale before it starts contributing profit. So Ex IMFL -- as Nilanjan said, we're at about 16%. I had indicated around 15% in the last call as well. So, we are in that range. I do have the visibility for up to one to two quarters. The biggest element in this is a fuel pricing is price of coal. I think what we did very well is bringing energy efficiency across our plants as well as we've been able to secure good contracts with coal, which will see us through most of the monsoon period.

And as a result, I believe that these levels of margins can be sustained for the next one to two quarters. Beyond that, it really depends on how coal supplies continue in the country. If the current levels remain, then I do believe this level of margin is sustainable for the rest of the year. I have visibility for one to two quarters which is what Nilanjan also said.

**Prithvi Raj:** And my final question is on the income tax rates. When are we expected to move to the new tax regimen?

**Shekhar Swarup:** I think it's -- Nilanjan, can you take this?

**Nilanjan Sarkar** Yes. We are contemplating to go in this current financial year. We will see in the first quarter and decide, but our plan is to go in this financial year.

**Moderator:** Thank you. We have the next question from the line of Shlok Dave from CAO Capital. Please go ahead.

**Shlok Dave:** Shekhar bhai, thank you for the opportunity and congratulations. Finally, it looks like the ship is turning around. I had asked you a question last quarter on coal prices, and we had a fairly detailed chat on that. Sir, can you again quantify the exact things that you are seeing on the ground now? Is there no parity with the international prices in the domestic supply? And you mentioned that you have tied-up some contracts for the next one or two quarters. Beyond that, how do you see this moving? What are your hopes and expectations there?

**Shekhar Swarup:** So frankly, unlike last time, I haven't looked at the international pricing of coal in the last 30 days. So, it's difficult for me to say what happens right now. But suffice it to say what we've seen in -- between January and March is that there's been an increase in coal supply. Coal India and its subsidiaries has been doing a lot more frequent auctions of coal for the open market.

The size of auctions have also increased year-on-year. We've recently participated in the coal linkage auction that's taken place for the non-regulated sector. And basis all of this, we've been able to secure our fuel prices for this monsoon period, not 100% of our requirements, but well over 50% of our fuel requirements.

In North India, we are not able to purchase coal these -- the North Indian boilers are based on Agri waste, such as rice husk and other wastes, and it's very difficult to store this for a very long period due to the volume -- low density of fuel and therefore, the volume. So, what we're seeing is that coal supplies are good. They are strong with the NRS auction and linkage that we’ve gotten, a large part of our requirement will get covered going forward.

So, it brings in a little bit of stability in our coal prices and our fuel costs. And with the added storage that we've been able to create, we'll be able to sort of reduce the volatility in this going forward. In future, really where coal prices go is very difficult for me to say. It's a function of supply. Really demand in India, we all know how it moves, but supply is something that we don't know how it moves. So, it really is based on how good are the suppliers from Coal India.

**Shlok Dave:** So, for your reference, coal prices internationally are back to January '22 levels, just before the war started, the back of $150, $160 range. Sir, next question is, you mentioned give a rough guidance on the consumer Value, Value Plus volume growth. Can you do a similar thing for the ethanol volumes? Because there have been a couple of shutdowns, plus one of the facility was not fully operational for the year, the Jharkhand one. So, what do you expect this year in terms of ethanol volume growth?

**Shekhar Swarup:** Yes. I don't think, we are prepared to give that number right now on this call, but I think it's a good point. What we can do is create a sort of a waterfall...

**Shlok Dave:** Yes, I would really appreciate that, sir.

**Shekhar Swarup:** Yes, I think we can do that. We'll do it subsequently and add it to our investment deck. I think that's a great idea.

**Shlok Dave:** Sir, I really appreciate it, sir. Sir, one final question. There were two developments last time, over the last couple of quarters. One was we had a setback in Telangana. So, any progress on that side, any resolution there? And the second was those IT department raids. And I know you have not disclosed anything so nothing incremental would have happened. But have they dismissed the case? Have you received anything saying that, okay, you have nothing to do with the -- like we didn't find anything?

**Shekhar Swarup:** No. I'll talk about IT and then PSG will talk about Telangana. There's been no sort of order or demand from the department as yet. And as I mentioned on the last call that as and when there are concrete steps forward. We will keep everyone updated. So as of now, status quo, nothing has been -- no orders or anything has been initiated.

**Shlok Dave:** So, no estimation from their side and no dismissal from their side?

**Shekhar Swarup:** Yes, yes. So, it's status quo. There has been no -- we have not received any orders from the department. So that's a fact. That's a data point. So, I'm able to talk about that. PSG, can you talk about Telangana, please?

**Paramjit Gill:** Yes. Thanks, Shekhar. So, in Telangana, obviously, what happened was we -- one of our flagship brands, the Governor Reserve, managed to get excise approval. But as you know that some of these approval processes can be strange. The brand is approved in all other states and recently so. And as a result, we had to pull back on our strategy because the whole business plan for the state has been built keeping the brand in mind. So as a result, what we did was we have pullback in Telangana. And as I have mentioned in my presentation earlier, we are entering Punjab. Punjab is the next chosen state, and that we will be entering in June. So.

**Shlok Dave:** Sir, clarification. Punjab, Value and Value Plus, or is it a premium, the entry, I missed that point?

**Shekhar Swarup:** No, Punjab is for premium plus.

**Shlok Dave:** Sorry, sir. Punjab is for...

**Shekhar Swarup:** Premium Plus.

**Shlok Dave:** Premium Plus, okay.

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

**Kshitij Saraf:** Hi, good afternoon. Thank you for the opportunity, and congratulations on the turnaround. One question on the IMFL business shaping up in terms of the marketing efforts we've been putting in. Where do we see at an overall level, we would be achieving breakeven either in terms of time or in terms of volume? Although, it may be a bit hard because their activity going across the state. But anything you could share in terms of the development? And where do you see this going forward in the next year or so?

**Shekhar Swarup:** So Param, could you take that, please?

**Paramjit Gill:** Yes. So, I think what we are doing is we are doing a few things, and then I'll try and -- see all I can say is at this point of time, our growth will be in three digits. So, there will not be a double-digit growth. It will be a triple-digit growth that we can definitely put on the table. Beyond that it's a bit difficult but let me elaborate a bit for your benefit. One is we mentioned earlier in a couple of conversations is we are building capabilities. And right now, we are entering digital marketing as we talk and also investing in key account activities for the on-premises segment.

Now on the brand front, so this will start giving us more work into the marketing and creating brand pull. On the product side, we are obviously increasing our portfolio of products. The products are ready, and they were waiting on the route to market has been established to launch and these products are getting launched as we have enumerated earlier.

The third thing we are doing is we are very slowly but in a sure footing way, expanding our geographies. And these are all dynamic because some things get preponed, something gets pushed a little forward. And hence, it makes it very difficult to see beyond the quarter as to how things are going. But as I said, it will be a triple-digit growth for sure. So that should give a lot of comfort to the market from...

**Shekhar Swarup:** So, I just want to add one thing to what Param said, typically what we’ve seeing is the state takes two to three years, around three years to breakeven, at least, two full years of operations. And considering that we -- it's our first full year of operations in three states, plus, we're wanting some more states. So, it's difficult to say, when this profitability that comes in at an overall basis, but we monitor this state-by-state, really.

**Kshitij Saraf:** Got it. That's very helpful. Thank you. And on the Value and Value Plus, new base that we have, you mentioned high sort of single growth there. Any additional traction you're seeing apart from Rajasthan in any other state to significantly scale up these segments?

**Shekhar Swarup:** So, I think the greatest opportunity there is in Haryana and West Bengal. But both these states have been seeing its set of challenges over the last few years. We remain committed in both the states because we understand the opportunities. But there are a few things from a regulatory standpoint and market standpoint, they need to stabilize before we get into advancing our market shares and volumes.

Whatever advances we make must be done in a sustainable manner. So, we are still waiting for those regulatory aspects to get cleared up before we get aggressive in these two states. So really for this year, the growth is going to be driven by Rajasthan and the other two states are on wait-and-watch kind of mode.

**Moderator:** Thank you. The next question is from the line of Nitin Awasthi from InCred Equities. Please go ahead.

**Nitin Awasthi:** Hello sir, thank you for the opportunity. A lot has transpired in this quarter and I think the company's also onto a lot of things. So, I have a long list of questions. But before getting to that, I would just like to make a comment here that one, it is appreciated from the investor community that the company has becoming more-and-more investor friendly. Why am I saying that? I'm saying that because of the relevant data and the input given by the investors taken in a positive note by the company and the proof coming out in every presentation becoming more-and-more friendly, when it comes to data, etcetera, which is what we crave in this industry.

Moving on to my first question sir, UP, you said you're going to set up a bottling plant there before you set up the distillery. I think this is the first time you would be doing that. Please correct me if I'm wrong. And would you be entering both the IMFL segment and the IMIL segment before the distillery itself through the bottling unit?

**Shekhar Swarup:** So, thank you for your words, Nitin. So as for your question goes, so UP, as opposed to the other states where we've entered where we've seen opportunity in ENA ethanol as well as consumer. The rationale for the UP investment is largely the consumer business of the state. And as a result, we are prioritizing the bottling plant before we setup the alcohol production capability there. And UP, yes, we'll see the entire range of our portfolio. There may be some brands which are not there, but pretty much the entire range starting from Value, Value Plus and Premium.

**Nitin Awasthi:** Understood. So UPML you are entering that segment, right?

**Shekhar Swarup:** Yes. The strategy is to be in all segments. The timing of each strategy might vary. So, after the bottling plant starts, you may have a period of 12 to 18 months where different categories have been launched at different times. But yes, very much, we intend to be in all the categories in UP.

**Nitin Awasthi:** Understood, sir. When is the bottling plant going to be commissioned?

**Shekhar Swarup:** So, I mentioned that in my opening remarks, it's around Q3 -- end of Q3 of this year.

**Nitin Awasthi:** End of Q3, okay, because that opens a very large market for -- at least the IMIL segment, which you still grow in the single digits. This could predominantly push it back into the early double digits, if I'm not wrong.

**Shekhar Swarup:** Yes. But really going to -- we're going to really start seeing that or monitoring that in the next fiscal, in this fiscal, as a first step, we're going to move our bottling of the Premium brands into UP. So that's going to add some profitability. UP is very important for affordability of our entire IMFL operation. So, the first step is to reduce costs by shifting. Next step would be then to look at the Value and Value Plus segments. So, like I said, 12 to 18 months after a start-up of that bottling plant, we'll start unlocking some of these opportunities.

**Nitin Awasthi:** Understood, sir. So, one straightforward question, can we hit 1 million cases in IMFL segment given the geographical addition and the product portfolio addition in the coming fiscal year?

**Shekhar Swarup:** Yes, that's a good question. Param, can you take that?

**Paramjit Gill:** No, no. We are still while away from reaching 1 Million cases in IMFL. We are -- yes, it's a step at a time, as I said, we’ve done a couple of lakh cases, 2 lakh cases, no. I think that's still going to take us a couple of years more.

**Shekhar Swarup:** Yes, I don't think it…

**Paramjit Gill:** We are planning for it. Yes, realistically, it's just a bit further down the line.

**Shekhar Swarup:** So, we're not going to grow 5x in this year, Nitin. But Param said earlier that we are very much in the triple-digit growth. So, let's just leave it at that for now.

**Nitin Awasthi:** Understood, sir. Many excise policy changes coming through, Haryana excise policy. And why I'm bringing this policy particularly up was because this state was not getting price hikes for a number of years. Again, in this policy, I don't see a price hike. However, there has been a lot of tweaks around prices given to retailers and minimum selling price being imposed and all those things. So, could you just walk us through, is the net impact positive of this policy on the state, on our business?

**Shekhar Swarup:** Param, could you take this?

**Paramjit Gill:** So, the net impact is more or less neutral, but in IMFL, it is definitely given an opportunity to get some positive impact. In the Value and Value Plus, there is -- as of now, not much opportunity seems to be visible. Obviously, we will wait and watch how it goes further in the year. IMFL definitely, there seems to be an opportunity on a couple of brands to get some more elbow room in terms of moving up the value chain.

**Moderator:** Thank you. We have the next question from the line of Aditya Sulana from Niveshaay. Please go ahead.

**Aditya Sulana:** Congratulations for the good set numbers. My first question on revenue. Can you please provide us the bifurcation between the ENA and ethanol?

**Shekhar Swarup:** Okay. Nilanjan, do you have that number between ENA and ethanol? I think the way we track that, sir, is just total bulk alcohol, because some of our capacities are fungible. We don't really track how much is -- how much share of revenue between ENA and ethanol.

**Nilanjan Sarkar:** Yes, I have the number for the entire year. Ethanol has been 55% and ENA has been 45% of a total sale that has happened in the bulk alcohol.

**Aditya Sulana:** Sir, my next question is, which should stop the company usually and what are their pricing?

**Shekhar Swarup:** Can you repeat that? Your line is not clear.

**Moderator:** Sorry to interrupt. Mr. Sulana, can you please use your handset to ask a question?

**Aditya Sulana:** What is the raw material the company uses?

**Shekhar Swarup:** We are using rice for production of alcohol. We purchase rice for ethanol. This year our entire ethanol production will be from FCI rice and that is given to us at a fixed price of INR2,000 per quintal, ex-FCI depots. And for our ENA, we are using broken rice purchased from the open market. The prices of this are volatile. Through the year, they go up and down. And in the year, that's gone by, we've seen prices range from around INR1,900 to about INR2,300 per quintal. Currently, we are at the higher end of that range.

**Aditya Sulana:** When the capex of Odisha and Uttar Pradesh will be done? And what would be the fungible between ENA and ethanol? And what would be the total capacity that we can produce? And what would be the total projected revenue?

**Shekhar Swarup:** So, you know right now we are not -- right now in UP, we are only setting up the bottling plant. In Odisha, we are setting up a distillery. The tentative capacity of that distillery is 200 KL and this will be dedicated ethanol for the time being. So, after Odisha is complete, you will have about 335 dedicated ENA and about 330, sorry, 430 which is fungible between ENA and ethanol and 200 of Odisha which will be dedicated for ethanol.

**Moderator:** Thank you. We have the next question from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

**Sarvesh Gupta:** Thank you for taking my question. Just to clarify first on the grain price. I think in Q2, you had mentioned it was around 19.5 in Q3 '21. And now you are saying that the range has been 19 to 23. It was being closer to the high end of the range. So, in the last two quarters, three quarters, we have moved from 19.5 to 23. Is that the right understanding, the grain prices?

**Shekhar Swarup:** I think our average prices for the quarter are about 22 -- between 21 and 22. But we've seen instances of 23 as well, that is what I meant in my last response.

**Sarvesh Gupta:** Okay. So, like you elucidated for the coal when you said that we have the visibility because our -- we sort of locking in for the next two quarters. And thereafter, it will be dependent on how coal prices will be. So, what would be your comments regarding the grain prices? And what is to be expected?

**Shekhar Swarup:** So, ethanol, we've locked in based on FCI, as I mentioned, for this entire year, up until September, then the new ethanol year stars, this year's ethanol year is from December to October. And then next year, it will be October to October -- sorry, November to October. And for the current year, we've locked in our rice prices at INR2,000. And of course, the fuel aspects of it as well, not for the whole year, but for around one to two quarters.

On broken rice purchase for ENA, we are not able to lock that in. And however, ENA prices, we have control on the pricing of ENA. And Nilanjan mentioned that we've grown our ENA realizations by 15% this year. So, to that extent, it's not a very big risk factor for -- because if there is a very dramatic change, it takes some time to adjust the prices. But with regard to our consumer business, well, that's a fixed price for one year, so that risk obviously exists in the business.

**Sarvesh Gupta:** Understood. And on the IMFL business, I think there were two trends which we saw. A, there was some softening this quarter, I think compared to the last quarter in terms of the overall IMFL business, which was a bit surprising given that we are really at a very, very small number as of now?

And second is, compared to the losses that we did, which was almost 2% of EBITDA. So, what is the expectation of an absolute loss coming from this business in this financial year as per your yearly budget?

**Shekhar Swarup:** No, so the volumes have gone more or less as per our plan. In Q4, we were expecting a slightly weaker quarter because of the states that present in the changes in excise policy that takes place. So, no significant disruption there. It's more or less as per our plan. But on the investment side, are maintained at around INR20 crores plus/minus a little bit is what we want to invest in the IMFL business. So, it's going to be in that range for this year as well, we're trying to like Param mentioned, create capabilities, we have almost all our states are within that three years, two to three years window of being -- of getting to the journey of breakeven. So, in this period, INR20 crores to INR25 crores is the kind of loss that we will continue to make, and this is an investment into the company's future.

**Sarvesh Gupta:** So, this INR20 crores -- INR15 crores to INR20 crores number is a little bit, I would say, in case we have a large ambition to be a large player in this business. It sounds a very small number as such in the grand scheme of things. So, I mean, compared to any strategy which would have been to sort of putting the P&L at a slightly more risk for one or two years, but then going for a very large sort of a number here. How do you compare these two strategies? And why are we looking at a very incremental sort of spend?

**Shekhar Swarup:** I think that's a great question. I mean, we are at a stage in the IMFL business where we are creating a distribution network. We've got back-end capabilities to produce this product. So aside from like the UP that I mentioned where we are creating capability on back end as well. There is no real capacity creation or capex that is planned in the consumer business. So, the spends are really on creating teams and capabilities.

Our teams have the ability to service a much larger volume, and that volume obviously takes time to generate. And therefore, the loss. We also, from this year onwards going to be investing money in marketing these products in the states or rather in the regions that we've got a satisfactory distribution presence. I think the question of putting in more fuel in the tank and going a little more aggressive starts coming in once we have the capabilities in distribution.

We've reached a certain critical mass in terms of contiguous or number of outlets that we're present in. And we're still a couple of years away from that. And in this process, we want to invest in a meaningful manner but also be cautious of our return on investment. I think if we are to put in, say, 2 or 3 times that number in this year, I don't think we're going to get to times the business. So, it has to be done cautiously and in a step by step manner.

**Moderator:** The next question is from the line of Imran from Longbow India.

**Imran:** My question is on your cash flows. If I assume margins in 15%, 16%, 17%. And if I look at this year and then the years coming, I think we would be close to generating about INR300 crores of operating cash before this capex and all. So, what are the plans going forward other than these 2 facilities that you will put in the future, maybe this year, next year and after that?

**Shekhar Swarup:** Yes. I think that's a great question. Until now, the company has the way we've done capital allocation in the last couple of years is that we would deploy this capital first for our IMFL business gets priority, and the cash that was left was deployed in the capacity generation in the ethanol space.

The ethanol space, we have identified a few states when we started our expansion cycle 2 or 3 years ago where we believe that there is a sustainable, sufficient return on capital available. and in those select states, we have gone ahead and created capacity. Orissa is the last one for that. UP is, of course, a longer-term consumer-based play, which is also part of our capex cycle, and that will come in later on. But on the ethanol capacity generation, Orissa is going to be the last one in this capex plan.

Thereafter, as of now, I don't see more states available where the capacity creation has this sustainable and sufficient return on capital available. We wait to see how country moves towards E20. We really need that to happen now. We're currently about E10. We need to see brought the stages to E20, and how that ramp-up is taking place before we create another capex plan. So currently, after Orissa, this is the end of this capex plan and there's no further capex or capital capacity that is envisaged.

The capital that we're able to raise banks for this capacity creation is a very interesting, interest costs at around 4%. And to that extent, we do feel it adds to our returns to use that financing of auction. Thereafter, you're going to get to a stage where debt is being paid off for some time because of the cash generation that you spoke about. It's natural and also building up some reserves in the company to try to do something interesting and inorganic in the future.

But currently, there's no inorganic opportunity that I see, but there will be in the future, so keep some fuel for that as well. So that's the thought right now at the Board for how capital can get allocated in the company going forward. Paying down debt once our capex cycles are complete as well as reserves for inorganic opportunities in the future.

**Imran:** This is super helpful. The second question is on the Haryana plant. Last quarter, we had some problems. So, can you tell us what is the status there? If not already, this is…

**Shekhar Swarup:** Haryana has bounced back in terms of operating to our internal targets. We didn't have 95% is our standard capacity utilization targeted for the whole year. We didn't reach 95% in Haryana in Q3, but I believe it was close to -- 88% or 89% in Q4. And as we go into Q1 this year, we are targeting 95% from Haryana, in fact, in all our plants, the maintenance is more or less complete that we had planned, and now we should be filing on all cylinders going into Q1 and Q2 of this financial year.

**Imran:** In last quarter, we had a INR10 crores, INR12 crores hit on the EBITDA. What was in this quarter?

**Shekhar Swarup:** Could you say that again, please?

**Imran:** So, what I was saying is, last quarter, I think we had about INR10 crores to INR12 crores hit on EBITDA because of this facility. What would that number would be in the last quarter?

**Shekhar Swarup:** You mean due to lower capacity...

**Imran:** Aging of equipment, multiple issues are there.

**Shekhar Swarup:** Right, right, right. So Q3 over Q4, you mean?

**Imran:** Yes.

**Shekhar Swarup:** Okay. So, I think someone else asked this question earlier on, and I promised them a waterfall on capacities in this whole year because there's been a lot of up and down, new capacity has come up, maintenance closures, etcetera. So, we'll prepare that and added to our investor deck. Give us 24 to 48 hours to do that.

**Imran:** Just one more question on the consumer business, and then I'll join back the queue. If I look at your consumer business, you have a very large share in Rajasthan and multiple factors have helped you in Rajasthan now. Now we are also present in 5, 6 more states. Do you see any sort of replication of what you have done in Rajasthan? In any of the states that you are entering based on your experience?

**Shekhar Swarup:** So, consumer business needs to be broken into 2 to give the answer correctly. One is the Value, Value Plus and the other is the Premium Plus. In the Value, Value Plus, we are present in Rajasthan, Haryana, West Bengal and Delhi. Delhi is a sticky market, it single -- low single-digit growth. We've got 20% to 25% market share in Delhi and it's been this for a very long time.

It's also a much smaller market for Value, Value Plus. Haryana and West Bengal, I think we've all covered in quite detail in today's call. We remain very excited about the prospects there. However, they are slightly longer-term opportunities to unlock and we remain committed to replicating the Rajasthan level of success in these 2 states as well. But it is the medium to long term opportunity. So, it's not going to happen in this year for sure.

This year, Rajasthan will continue to drive the Value, Value Plus business. With regard to Premium Plus presence, in addition to the 3 states I mentioned, we're also present in UP, and we are launching in Punjab. And here, it's -- we've also covered this that it's going to -- it's a certain journey. We are building capabilities. It takes 2 to 3 years to breakeven in the state and we've got lots of products in the way – and all of this is driving our expected growth of triple digits in the coming financial year.

**Moderator:** The next question is from the line of Navneet Bhaiya, an Individual Investor.

**Navneet Bhaiya:** Hi Shekhar, congrats for the revival in our margins. I have two questions. What are your gross margins in the Premium segment right now?

**Shekhar Swarup:** Nilanjan, can you answer that, please?

**Nilanjan Sarkar:** So, our gross margins in the Premium segment is around 43% Terai alone is about 71%.

**Navneet Bhaiya:** Sorry, I didn't get the last part. Terai how much?

**Nilanjan Sarkar:** 71%.

**Navneet Bhaiya:** 71%. Okay. So, Shekhar and Param, you, of course, alluded to the fact that it takes about 2 years for the state to turnaround. For a business overall in the segment, is there a number, INR100 crores top line or a INR150 crores top line when you would not be having any more EBITDA losses that you can foresee?

**Paramjit Gill:** So, I think that will depend on state, as we said, yes, it is third year of operation, we are envisaging every state will reach the initial position. And as we are stepping up, we obviously have to we'll keep adding new brands portfolio. And our portfolio addition will start slowing down and the sales growth will continue its momentum. So, if we prepone our additional brands on the runway of the state which starts when it starts doing well, we will probably extend 1 more year to putting a huge marketing spend in that state on that brand. So, the state P&L with the original brand will be plus, but with the new brand investment will again go into minus.

So that is the way to look at it, but we are -- as I said, we are absolutely with a hawkeye managing the fact that every brand as it goes in the state must start becoming sustainable in its third year and we feel that almost all or maybe barring 1 or 2, which may stretch another few months or one more year, they should stop getting into the investment more from the negative EBITDA point of view.

And they will stay in the investment mode because we will still accelerate growth depending on what our business objective at that point is, we do have a large, larger view today, but it's tweaking it. So, the state on its own if we don't keep adding portfolio, we'll stop generating money, but we are also adding portfolio to -- but the losses will start tapering down because when three brands start getting some margin and one new brand takes a bit, the state gets into a far, far healthier position. Because what we want to do is, as soon as it becomes, we're not interested in taking a crores profit in the state. What we want is, we want to really get into a situation where the state is profitable in the sense of the word profitable, and not the bottom turning from red to black.

**Navneet Bhaiya:** In your premium segment, would Terai contribute 70%, 80% of the overall turnover?

**Paramjit Gill:** No, no. Terai is a super-premium luxury range brand. It has a much smaller contribution, but which is in terms of top line, I think I am speaking at the correction. Terai is about in the high teens, if I'm speaking at the correction.

**Shekhar Swarup:** Yes. I'll just comment on this one. Terai contributes on profit about 20% -- 20%, 25% of our profitability. In terms of volume, it's a very small percentage. But in terms of profitability, it's about 20%, 25%.

**Navneet Bhaiya:** Understood. Okay. Second, I again noticed in your presentation, you are looking to launch quite a few brands of vodka, rum, as you mentioned. I wanted to know about the initial brand that you announced. Shekhar, I think this was some 3, 4 years back, Oakton, Laffaire, Governor's Reserve, are they doing well as well, are these are focused or we are focusing...

**Paramjit Gill:** So, the year gone by the numbers you reported are on the, that of the Governor's brand, Oakton only. What you are seeing today is Governor, Oakton also only the new brands have just started moving in.

**Navneet Bhaiya:** Yes. Absolutely. So, the...

**Shekhar Swarup:** To answer your question, there's no -- we're not moving away from the brands. We are adding more brands. I mean -- so creating capabilities like creating that highway and now in some states, our highways are getting ready. So now we need more cars to ply on this highway and that's the work that's happening.

**Navneet Bhaiya:** Okay. So, your results from your earliest launch brands are maybe at and currently in the north, maybe more than Terai, if I go to understand correctly, am I right?

**Shekhar Swarup:** Can say that again?

**Navneet Bhaiya:** The success that you want from your earliest launch brands, like Governor's Reserve, Oakton, are they successful as the results that you're seeing from Terai or better?

**Shekhar Swarup:** I mean success is a relative term, and I think we'll all be happy with even more success. But what's -- we are satisfied with the performance. It's more or less in line with our plans. We've had, in some areas, overperformance in some areas underperformance. But that is the nature of the lifecycle that we're in. As our business grows, we'll get better at forecasting and budgeting. But as of now, satisfactory performance in most states and in brands.

**Navneet Bhaiya:** Okay. Understood. That's helpful, Shekhar. My last question is you due to launch your IMIL Value and Value Plus segments in the new state that you're entering like Jharkhand, Orissa. I noticed you said it's a dedicated ethanol facility. So do you have any plans of entering the lower end consumer segment in these states as well?

**Shekhar Swarup:** Yes, we do. We do very much. I think we've got, you know, a bigger fish to fry right now in terms of UP, Punjab, Haryana, which we just launched for IMFL. There are a couple of new categories that are very exciting for us. Some we've spoken about, and our innovation team continues to work on a few other activities, which we have not yet spoken about. Now, these have been taking a lot of our time and frankly, are more rewarding for our time and money than getting into Jharkhand. But yes, in the medium term, Jharkhand is very much on the table. It's not something that's planned for the current fiscal year.

**Navneet Bhaiya:** How long does the regulatory approval take to come to launch your Value, Value Plus segments in the new states?

**Shekhar Swarup:** No. I mean -- not much yet. I don't have an answer really, but -- assume 20 to 60 days, I guess.

**Paramjit Gill:** Within a quarter -- yes.

**Shekhar Swarup:** I mean essentially start business planning in Jharkhand that the regulatory approval timeframe will be a part of the business plan. So currently, we are not planning it. So that's why I don't have a concrete answer.

**Moderator:** The next question is from the line of Nitin Awasthi from InCred Equities.

**Nitin Awasthi:** Thank you for the follow up. Just one question this time around. Chhattisgarh as a market has seen a lot of things transpire over the last few months, especially in the Value and Value Plus segment. And that would open a gateway for somebody like you, who has alluded to, not alluded to referred rather to the right to win whenever you enter a state. So, this state would be providing the right to win for the established player right now. So, would you be looking at this state?

**Shekhar Swarup:** Which state are you talking about?

**Nitin Awasthi:** Chhattisgarh.

**Shekhar Swarup:** Chhattisgarh. Okay, no, we have no plans in Chhattisgarh right now. Like I said earlier, we are really busy. And frankly, at this stage, we got to pick our battles. And we've picked a few and we're focusing on that right now.

**Moderator:** Ladies and gentlemen, as that was the last question for today, I would now like to hand the conference over to Mr. Shekhar Swarup, Joint Managing Director, for closing comments. Over to you, sir.

**Shekhar Swarup:** Thank you. Thank you, everyone, for joining today. Please reach out to us if you have further inquiries, we'll be happy to answer them. Have a good day and see you again after some time.

**Moderator:** Thank you very much, sir. On behalf of Globus Spirits Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines. Thank you.