

SOM DISTILLERIES AND BREWERIES LIMITED

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To,

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SUB: INTIMATION UNDER REGULATION 30 OF THE SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015 - EARNINGS CONFERENCE CALL TRANSCRIPT

Dear Sir/ Madam,

Pursuant to Regulation 30 of Listing Regulations, please find attached Earnings Conference Call transcript of Friday, 19th January, 2024 with regard to the unaudited financial results for Q3 FY2024.

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

This is for your information and records please.

Thanking You,

For Som Distilleries & Breweries Limited

Nakul Kam Sethi

Director

DIN: 06512548

SOM Group of Companies



SOM Distilleries & Breweries Ltd.

Earnings Conference Call Transcript

Q3 FY24

Management:

Mr. Nakul Sethi – Director, Finance & Strategy





Moderator: Ladies and gentlemen, good day and welcome to Som Distilleries & Breweries Limited Q3 FY24 Earnings Conference Call hosted by InCred Equities. 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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nitin Awasthi from InCred Equities. Thank you and over to you, sir.

Nitin Awasthi: Thank you Mr. Yusuf. We thank the management of Som Distilleries for giving us this opportunity to host their call today.

From the Management we have Mr. Nakul Sethi – Director of Finance & Strategy. I would like to now hand over the floor to Nakul ji. Over to you, sir.

Nakul Sethi: Good afternoon, Nitin ji and a warm welcome to all the participants on our Earnings Call.

Before getting into the performance for the Q3 FY24, I would like to address the concerns on the announcement in November 2023 made by our Company about the income tax search. This was a routine search that was conducted after a gap of around two decades and during the search no unaccounted assets were seized. . There was no meaningful impact on the business operations during the search as it is evident from the robust Q3 numbers reported by us. Since the completion of the search, we have not received any assessment or demand from the income tax department. We will of course inform the stock exchanges regarding any update on this from time to time. Our commitment to transparency and compliance remains resolute.

Now on to the Q3 FY24 highlights:

Consolidated income reached Rs. 2,665 million, a 77% year-on-year growth over the same period last year. EBITDA for the quarter stood at Rs. 320 million, a strong 64% increase. PAT for Q3 FY24 amounted to Rs. 180 million marking a 71% growth. For 9M FY24 income was at Rs. 9,012 million, up 62% from last year. EBITDA reached Rs. 1,096 million showing a substantial 48% growth. PAT for the 9M FY24 was at Rs. 665 million, up 50%.

In terms of volume, beer sales for the quarter were 44.5 lakh cases, up 67% over the same period last year. The mainline brands such as Hunter, Black Fort and Power Cool registered volume growth of 68%, 59% and 57% respectively as compared to Q3 FY23. Beer realization for Q3 FY24 was Rs. 518 per case compared to Rs. 484 in Q3 FY23, mainly influenced by the mix of SKUs. Our nine-month volume was approximately 150.7 lakh cases of beer. Notably, our flagship brand Hunter recorded a 21% year-on-year increase. Black Fort grew by 71.9% and Power Cool saw a 49% volume increase. The overall IMFL portfolio grew by 15.4%. New market entries have been strategic and with the successful launch of a new strong beer Legend in Karnataka. As of 31st December, FY'23 our total debt was Rs.1,840 million with cash and cash equivalents of Rs. 150 million reflecting a net debt of Rs.1,690 million.



Our expansion strategy continues with orders initiated to augment our beer facility in Hassan. We obtained permission from Karnataka excise department to supply a beer brand to Tamil Nadu and enter into a strategic contract manufacturing agreement in J&K for the production of IMFL, diversifying our portfolio and strengthening our market impact.

In conclusion, we remain resilient and forward looking. With these updates we now invite questions from the participants. Thank you so much.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handset while asking the question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. First question is from the line of Ankur Kumar from Alpha Capital. Please go ahead.

Ankur Kumar: My first question is in terms of our next couple of years as in JK Arora sir was giving interview yesterday and he was talking about Rs. 2,000 crores revenue possibility in next 2 years which would imply good market share gains even from current levels. So, I wanted to understand what are the states which will contribute to this market share gains for us?

Nakul Sethi: To answer your question, we have got headway to grow in all the states, wherever we are present as well the new states which we have started seeding. So, to give it more color, I think Karnataka, Kerala, UP and Jharkhand and especially some market share, obviously gain in MP will drive those kinds of numbers.

Ankur Kumar: How are the raw material trending now? A couple of quarters ago we had an issue where raw material was a little high. So how is the situation now and how we think the things for the coming season, which is Q1 like is the best quarter?

Nakul Sethi: The raw material prices have stabilized. We have seen a reduction in the prices of barley, but there has been a very minimal price decrease in terms of glass bottles. And as I mentioned earlier also in my previous call, our dependence on new glass bottles is much more than what we get from the recyclable glass bottle. So obviously as a mix we will have to look out for the input costs in the coming quarters also.

Ankur Kumar: One more question is on the tax payments. As in if I look at my income statement, there is good amount of tax expenses. But if I look at my cash flow statement, the tax expense directly paid isn't much. So, can you comment on that please?

Nakul Sethi: FY23, the tax expense was very less in terms of the losses which were incurred during COVID.

Ankur Kumar: You are trying to do another QIP. Can you comment on that, is that QIP and what is the use of that fund?

Nakul Sethi: I would not like to comment on that currently at this point of time.



- Ankur Kumar:** But actually, you don't want to comment on the mode of fundraising. But any comment on requirements for funds, will it be CAPEX and working EBITDA or how should we look at that?
- Nakul Sethi:** We are going to take the approval from the shareholders and as and when we get an opportunity to acquire an asset, then we will open the issue.
- Moderator:** Next question is from the line of Rohan Advant from Prad Capital.
- Rohan Advant:** I just wanted to understand how are we placed in terms of capacity now and for the upcoming season, which is strong, we have a 30.2 million capacity and given the kind of growth that we've been seeing, do we have enough capacity for Q4 and Q1 which are strong quarters for us?
- Nakul Sethi:** I did some math and I was looking at my annualized capacity utilization. So, I am utilizing the Woodpecker facility at close to about 85% on an annualized basis. We are adding another 60 lakh capacity which should be there by April of this year. That will take care of the Karnataka and the Kerala operations. Currently, Bhopal is running at close to 65% capacity and Orrisa is at an capacity utilization of close to 40%. So, I think for the next year I am pretty sorted on these capacities.
- Rohan Advant:** You are obviously taking the peak capacity or the peak sales because of this quarter, if you annualize that would not be the right number, correct?
- Nakul Sethi:** Yes, I've done that.
- Rohan Advant:** So, Karnataka should come by Q1, and we'll be dependent on that coming by Q1. But other than that, we have capacity that will facilitate.
- Nakul Sethi:** Hopefully if things go well, I think we might have the capacity before aiming Q1 also.
- Rohan Advant:** On the beer realization, we've seen a slight drop QoQ to 518 from 547. So, what is the outlook on this in terms of our product mix and does the realization, when should they end?
- Nakul Sethi:** I think it depends because we had a larger share of Power Cool in our total sales mix for this particular quarter. That's why you saw a slight dip in price realization. But going forward, I think close to about 530 or 535 would be the ideal number for realization.
- Rohan Advant:** Lastly, if I look at our last four quarters, our raw material cost is roughly in the 64% - 65% range. In the past, we were at significantly lower ranges. So not immediately, but over 12 to 24 months perspective, where can this head and what would be the outlook on the EBITDA margins, therefore?
- Nakul Sethi:** We are pretty comfortable that EBITDA margins would be in the same range but say close to between 12% to 13%. And the gross profit is slightly lesser because as I mentioned to the previous caller also our dependence on new glass bottles is much more and when you're growing obviously, you have got a higher requirement of new glass bottles. So that is the reason why the gross margins are slightly less.



- Moderator:** Next question is from the line of Umesh Gupta from Ambit Wealth.
- Umesh Gupta:** I just had one question on this seasonality part. Looking at your quarterly number, it seems that the seasonality is playing out as expected in Hunter and Black Fort but not so much in Power Cool which is actually going against the trend. So, could you highlight that why is that the case?
- Nakul Sethi:** The idea of putting a plant in Karnataka was to slightly reduce the seasonality of the beer business in our Company. And that is why you have seen that our growth has been quite robust in the last 2 years because Karnataka as a market has contributed substantially to our overall growth. And Power Cool continues to be our go to brand in the state of Karnataka. So that is why Power Cool has grown much more as compared to the other beer brands.
- Umesh Gupta:** You don't sell Hunter and Black Fort in Karnataka, is it?
- Nakul Sethi:** We sell, but Power Cool does really well in Karnataka.
- Umesh Gupta:** So, you think that the other part, which is Hunter and Black Fort, they will continue to show the same trajectory in terms of seasonality. But Power Cool for some time till you get a reasonable market share will grow fast.
- Nakul Sethi:** Hunter does very well, for example, in Madhya Pradesh and Delhi and obviously this quarter because of seasonality the sales got affected. So that's why you will see that the growth is not as much as we would have wanted Hunter to grow because of the cold condition in these markets.
- Umesh Gupta:** But could you explain this Q4 thing because the Q4 conditions are also similar to Q3 in terms of weather. Then why does the Q4 does better than the Q3 historically?
- Nakul Sethi:** Because Q4, you start doing dispatches from middle of February and March to all the warehouses for the season ahead. You have got the onset of slightly favourable conditions for beer consumption all across the country in March particularly.
- Moderator:** Next question is from the line of Manan Shah from Moneybee.
- Manan Shah:** I wanted to know the Legend that we launched in Karnataka whether it is priced above Power Cool, or it is priced below Power Cool?
- Nakul Sethi:** It is priced below Power Cool.
- Manan Shah:** So, we are not trying to push more premium brands in Karnataka then?
- Nakul Sethi:** We have to respond to how this competition also reacts. So, seeing that most of the consumption which is happening in the beer industry in Karnataka is at those price points only at which what we are there. That's how the situation is right now.



- Manan Shah:** And our entry into Tamil Nadu, from when do we expect start seeding into that state or you already have started?
- Nakul Sethi:** No, we haven't done it. I think we should start by February or March.
- Manan Shah:** That would be contingent on the new capacity coming online.
- Nakul Sethi:** No, because initially the volumes would not be that big. But by the start of the season, I think then we'll be much more comfortable in terms of capacity also, so we can start the supply.
- Manan Shah:** And the seeding that we have been doing into Rajasthan and Jharkhand, how has the response been and how long still do you think before we take a decision whether you want to go and set up a plant in any of these states?
- Nakul Sethi:** Jharkhand and UP both are doing very well. It will take slightly longer time in Rajasthan. So, I think our decision to set up a capacity or to do a contract manufacturing with somebody, we can take a call on that by maybe August to September of the next financial year.
- Manan Shah:** My last question was on this approval regarding the related party transaction with the promoter entity. What is the primary nature of these transactions that we'll be entering into with the promoter entity?
- Nakul Sethi:** The promoter entity makes or manufactures ENA, and we require ENA for the blending and bottling of IMFL. And we get about 9% to 10% of our revenue through the sale of IMFL. That is the specific purpose of that related party transaction.
- Moderator:** Next question is from the line of Alisha Mahawla from Envision Capital.
- Alisha Mahawla:** The first question was to set up a canning line for the UP market, how is that doing? How is the utilization, how is the acceptance in the market for the canning line, the beer cans, we've done the canning line in MP for the UP market?
- Nakul Sethi:** That's excellent. Because canning predominantly, especially during the summer season in MP, it was more than what we had expected. And especially UP also is a major can market. So, the canning line is doing pretty well.
- Alisha Mahawla:** Is it fully utilized?
- Nakul Sethi:** It depends upon the capacity utilization of the whole plant as such. So, you cannot say it is fully utilized because it's a very big canning facility. But we are more than happy at the utilization levels of that canning line.
- Alisha Mahawla:** And the capacity expansion we're doing in Karnataka, what is the CAPEX we're incurring for it?



- Nakul Sethi:** It will be about between Rs. 55 to Rs. 60 crores.
- Alisha Mahawla:** And we're not doing any other expansion anywhere else for the upcoming season.
- Nakul Sethi:** We are doing a small expansion in Bhopal also. We are setting up basically a packing line here. But besides that, nothing as of now.
- Alisha Mahawla:** This Rs. 55 - Rs. 60 crores is including Karnataka and Bhopal?
- Nakul Sethi:** I think Bhopal would be another Rs. 5 crores.
- Alisha Mahawla:** What would the contribution from the newer states of Delhi and UP be where we've been present for more than 1 year now?
- Nakul Sethi:** For nine months, Delhi would be close to about 5% of our sales and UP is about 3%.
- Alisha Mahawla:** My last question is we have got into a contract manufacturing in J&K to manufacture IMFL for CSD. What is the rationale for that because it's a contract manufacturing for IMFL? Whereas our focus has always been on beer.
- Nakul Sethi:** We are getting a brand manufactured from those specific parties and the basic logic is to save on transportation and breakage of the finished goods.
- Alisha Mahawla:** And when do we expect this to start from?
- Nakul Sethi:** This has already started.
- Alisha Mahawla:** And it will not require any investment from outside because it's a contract manufacturing.
- Nakul Sethi:** No.
- Moderator:** Next question is from the line of Pranay Jain from Dealwealth Capital.
- Pranay Jain:** First of all, I wanted to understand what are the realizations that we expect on the beer side as well as IMFL over the next 12 to 15 months?
- Nakul Sethi:** It's slightly difficult to give an idea because it depends upon the various SKUs which we sell and as well as which brands sell in which state. But you can take maybe a 3% to 4% increase in the SKU prices for the next year.
- Pranay Jain:** And what is the size that we're expecting our IMFL business to grow to over the next 1 to 2 years?
- Nakul Sethi:** I think it would continue to be in the range of about 10% to 15% of our total sales.



- Pranay Jain:** And could you give us a sense how our talks on the contract manufacturing have been? What are our partners expecting us to do for them over the next 2 years or so?
- Nakul Sethi:** I think in terms of contract manufacturing, we currently have a contract manufacturing tie-up with Radico in our Hassan and with Carlsberg India in Odisha. And we are basically using those arrangements till we fully utilize the capacities. So, we have them manufacture their products there. So that is it.
- Pranay Jain:** If you could just give some color on the products that we'll be launching and anything that we are developing at our own end, not necessarily in terms of brands but where you see opportunity based on consumption trends.
- Nakul Sethi:** I could not get you.
- Pranay Jain:** Are there any new products that we are aiming for foray in the next 1 to 2 years in IMFL?
- Nakul Sethi:** No. As of now we want to concentrate more on beer, because beer is 90% of our portfolio sales. Because if you look at our capacity expansion also, we have concentrated more on beer sales. So, I think maybe at least for the next one year, we'll want to grow more on beer side.
- Pranay Jain:** So, any new product opportunities you see on the beer side. And the reason why I asked on the non-beer is because we are seeing faster growth in AlcoBev, in mid-segment, in craft segment. So, I'm sure we would have looked at these trends and find something exciting for us.
- Nakul Sethi:** So, these segments are very small as compared to the overall market size of beer and IMFL. For example, we have introduced Woodpecker, so we would want to create and make Woodpecker a bigger and larger recognizable brand in the next two to three years in the beer portfolio. And we would want that Woodpecker should also become a millionaire brand for us.
- Pranay Jain:** And we expect this in the next 15-18 months?
- Nakul Sethi:** I think that we should be able to make it in the next, say, 2 to 3 years.
- Pranay Jain:** And lastly, how do we see the taxation structure? I mean, based on our conversation across different states, are we seeing some kind of predictability over there?
- Nakul Sethi:** In terms of?
- Pranay Jain:** The different costs across states, based on the incentives that we have and the kind of investment proposals that the many states have put up where we are expanding capacity also, do we see that the taxation structure is going to get a little simple and similar or is it still going to be quite varied across different states?
- Nakul Sethi:** Quite varied. And each state has got its own unique taxation structure. So, I think that is the way it's going to be. Unless you have got a uniform tax structure like GST, in which alcohol is bought into.



- Pranay Jain:** Because it seems quite arbitrary when states make moves. Recently, for example, you would have seen Maharashtra bringing back incentives for promoting wine. So that's why I asked you if we get any visibility on the taxes going forward.
- Nakul Sethi:** Like I said, I think it's quite unique, the structure is unique for each state and in its own way. So, I don't think that it's going to change much.
- Pranay Jain:** And on the debt profile, if you could just share a picture, how is the net debt going to look, say, 12 months down the line.
- Nakul Sethi:** We might borrow more for working capital in the next maybe six to twelve months. But besides that, I don't think we are borrowing anything in the long term or for any CAPEX.
- Pranay Jain:** So, the requirement on an annual basis would be how much?
- Nakul Sethi:** If we set up a new plant, then obviously it would be much more about, say, Rs. 150 odd crores. You are talking of working capital?
- Pranay Jain:** Yes.
- Nakul Sethi:** So, working capital, I think annually we'll see an increase of maybe Rs. 20 to Rs. 25 crores.
- Moderator:** Next question is from the line of Arpit Shah from Stallion Asset.
- Arpit Shah:** I just wanted to understand if there is any idea on what kind of growth are we targeting for FY25, because this year we have actually exceeded our estimates for FY24 and quite handsomely with 60% to 65% growth.
- Nakul Sethi:** We haven't had any conversation as to what the next year growth would be, but let's see how the Quarter 4 pans out and then maybe we can have a conversation about how next year is going to look like.
- Arpit Shah:** Because your Madhya Pradesh facility or Odisha facility, they're broadly underutilized, like 65%, 45%. And you are also getting a new plant at Hassan. So how will you be catering? What kind of volumes are you targeting for next year? Because you have ample capacity and ample room to take up your volumes for next year. So, do you think that you will be able to, let's say, cross Rs. 59 crores of revenue next year?
- Nakul Sethi:** That's what I told you. Let me answer that question after Quarter 4.
- Arpit Shah:** And any headwinds do you see in terms of margins.
- Nakul Sethi:** I think the margins are pretty stable as of now. We expect that we will close the year also at these levels only.



- Arpit Shah:** So higher the growth, the lower will be the margin given that your new glass bottles will be entering the system, right?
- Nakul Sethi:** Yes. So, I think you can say that we were making close to about 14.5% to 15% earlier. We are down to around 12%. So, we are already at the bottom now.
- Arpit Shah:** So next year margins could be higher, given that your revenue base is a lot higher in FY24, but for FY25, your PAT growth would be significantly higher than the revenue growth.
- Nakul Sethi:** That depends upon the kind of growth we achieve next year also.
- Arpit Shah:** Yes. If the growth rate is similar to what we have done in FY24, of course, the margins will stay around 12% as you have guided right now.
- Nakul Sethi:** Let's see.
- Moderator:** We have our next follow up question from the line of Ankur Kumar from Alpha Capital.
- Ankur Kumar:** You talked about price hike of 3% to 4% we can take. So, can you comment when exactly do we take that price hike?
- Nakul Sethi:** Normally the price hikes generally happen in February and March of every year or whenever the states' excise policy is formulated.
- Ankur Kumar:** So, for this year we are expecting a 3% to 4% type pricing.
- Nakul Sethi:** No, I didn't say that. I said because my price realization depends upon the kind of SKUs and the brand which we sell. So, I was just telling him that you can take a price hike of 3% to 4% depending upon a favourable mix of the brands which we will sell.
- Ankur Kumar:** So, price hike will be more like due to product mix, otherwise we're not taking any every level product price hike.
- Nakul Sethi:** For example, if I sell more of Hunter in MP, then obviously the realization will go up as compared to when I sell more of Power Cool.
- Ankur Kumar:** Yes, that I understood, sir. But just on say Hunter level, we are not taking any price increase.
- Nakul Sethi:** I cannot comment on that.
- Ankur Kumar:** Got it. In terms of overall India, whole India, what will your market share in the beer?
- Nakul Sethi:** I think it should be in the range of about 5.5% to 6%.



Ankur Kumar: So, any direction, where do we want to go in say over next two, three years?

Nakul Sethi: Obviously, our wish list would be that we reach 10% in the next maybe 2 to 3 years.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. On behalf of InCred Equities, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.

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Note: This transcript has been edited to improve readability

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