

Associated Alcohols & Breweries Limited
Q2 FY'22 Earnings Conference Call
November 16, 2021

Moderator: Ladies and gentlemen, good day and welcome to Associated Alcohols & Breweries Limited September 2021 Results Discussion hosted by Valorem Advisors. 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 and then zero on your touchtone telephone. Please note that this conference is being recorded. I now hand have the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you sir.

Anuj Sonpal: Thank you. Good afternoon, everyone and a very warm welcome to you all. My name is Anuj Sonpal, we represent the investor relations of Associated Alcohols and Breweries Limited.

On behalf of the company I would like to thank you all for participating in the company's earnings call for the second quarter FY'2022.

Before we begin, let me mention a short cautionary statement: Some of the statements made in today's earnings call may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

Let me now introduce you to the management participating with us on today's earnings call; we have with us Mr. Tushar Bhandari -- Wholetime Director and Mr. Sumit Jaitley -- Company Secretary.

Without any further delay, I request Mr. Tushar Bhandari to give his opening remarks. Thank you and over to you sir.

Tushar Bhandari: Thank you, Anuj ji. Good evening, everybody. It is a pleasure to welcome you to the earning conference call for the first half and second quarter of the financial year 2022.

First, let me start by briefing you on the operational highlights of the company for Q2 FY'2022.

I am happy to inform that as the country revive from the impact of the COVID and with the increasing vaccination drive, we saw gradually lifting of lockdown and restrictions and opening

up of consumption centers. This restored our sales back to normalcy and to pre-COVID period. Unfortunately, the raw material price played the spoilsport like it has across many sectors. Our raw material price saw an increasing trend of around 8%, but it is expected to remain stable ahead.

Our plant capacity utilization for the quarter was 92%. In Q2 FY'22, the company strengthened its position in Kerala by tying up with one more bottling unit in order to cater to the rising demand of premium products which has already started operation. In view of the upcoming winter season, the demand outlook is positive for Q3.

Lastly, we are also exploring the possibility to take over promoters entity of Mount Everest Brewery Limited.

Now, let me take you through the first quarter financial performance of our company. The operating income for the quarter was around Rs.121 crores which was an increase of approximately 17% on a year-on-year basis and an increase of 50% on a QoQ basis. Operating EBITDA reported was around Rs.20.4 crores which was decrease of 1.4% on a year-on-year basis, but an increase of 31% on a quarter-on-quarter basis. Operating EBITDA margin stood at 16.92%. Net profit after tax reported was Rs.14.3 crores, which grew by 8.3% on a year-on-year basis and 42% on a quarter-on-quarter basis. PAT margins were 11.86%.

Now let me take you through the half yearly financial performance of our company: The operating income for the half year was around Rs.201 crores which was an increase of approximately 23% on a year-on-year basis. Operating EBITDA reported was Rs.36 crores which was an increase of 22% on a year-on-year basis. Operating EBITDA margin stood at 17.92%. Net profit after tax reported was Rs.24.4 crores which grew by 36% on a year-on-year basis. PAT margin were 12.15%.

I will now take you through "Quarterly Segment Performance:" In the Manufacturing segment, revenue for the quarter was Rs.37.4 crores. ENA sales volume for the quarter was 53.63 lakh liters which was an increase of 57% year-on-year basis and the revenue from sale of ENA was Rs.26.6 crores which grew by 51% on a year-on-year basis.

In the Consumer segment, revenue for the quarter was Rs.83 crores, which was an increase of around 14% on a year-on-year basis. Our sales volume for IMIL, IMFL Proprietary and IMFL licensed brands were at around 8.84 lakh cases, 2.32 lakh cases and 2.33 lakh cases respectively.

With that now we open the concall for question-and-answer.

Moderator:

Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Vipul Lamba from Lamba Investments. Please go ahead.

Vipul Lamba

Lamba Investments: There is a drop in the volume of our proprietary brands. Any specific reason for that, one? And second is how is our progress on the expansion which we are doing and when do we expect it to get operationalized?

Tushar Bhandari: See, there is a very slight drop in proprietary brand. That is basically because of the two reasons; one is because of the Delhi policy. There was a lot of uncertainty in the Delhi policy in Q2 and most of the shops were closed and next month Delhi will start a new policy. Plus apart from that we intentionally did not supply because there was a risk of bad debts in the Delhi market because shop owners did not have a certainty, one reason was that. And second there was a slight drop in the sale in Kerala market due to continued COVID situation. So these were the reasons of slight drop in our proprietary brands. And second, expansion project is in completely full swing right now. All the orders have been placed and we are well in line with our timeline of completing the project.

Vipul Lamba

Lamba Investments: So as per your estimate it should start by next financial year?

Tushar Bhandari: The Q2 of next financial year.

Vipul Lamba

Lamba Investments: What kind of capacity utilization you estimate once it is operationalized?

Tushar Bhandari: Once the expansion is completed and stabilized, so we are expecting almost around 90% to 95% capacity utilization because that expansion would be primarily for the ethanol purposes and right now there's a huge shortage in the ethanol supply.

Moderator: We will take our next question from the line of Abhishek Maheshwari from SkyRidge Wealth Management. Please go ahead.

A Maheshwari

SkyRidge Wealth Management: Sir, my question is regarding the raw material front. So are you able to pass on these increasing costs to the end customer or is there a time lag, how are you seeing this?

Tushar Bhandari: See, there is an 8% increase in the price of the raw material. Though we are not able to pass on raw material price to the consumer in one particular financial year, because our price for this financial year is fixed but we are trying to mitigate the raw material price increase because when the raw material price increase, the rate for the by-products has also increased substantially. So that has helped us substantially and plus we have also increased the efficiency

in our procurement policy. So we are now directly procuring and doing an efficient procurement there. In other avenues also, we are trying to reduce the impact of the raw material price.

A Maheshwari

SkyRidge Wealth Management: My second question is regarding your premium brands. So are we seeing the share of your premium products increase in ENA sales?

Tushar Bhandari: The market share of our premium brands are increasing on month-on-month basis and plus apart from that as I said that the demand of our premium brand has increased in Kerala. So we have recently tied up with one more unit for job of manufacturing to cater to the increasing demand in the Kerala market.

A Maheshwari

SkyRidge Wealth Management: So would it be reasonable to expect EBITDA margin increment in next quarter or two maybe to 13% or so?

Tushar Bhandari: Overall EBITDA margin we might see an increase of slightly 0.5 basis points to 1% because of sale of premium brand.

A Maheshwari

SkyRidge Wealth Management: Regarding the acquisition plan of Mount Everest Brewery, can you throw some light on that, is it a profitable company and what kind of capacities does that company have?

Tushar Bhandari: We are just exploring the option right now because of the market sales synergies, wherever we market, there's a demand for the entire bouquet of products, so that is there. But apart from that, we are just giving it a thought and it's very early to mention anything about that, but Mount Everest Brewery is one of the largest breweries in the central part of India and the largest seller of its products in Madhya Pradesh.

Moderator: The next question is from the line of Umakant Sharma from EM Investco Capital. Please go ahead.

Umakant Sharma

EM Investco Capital: A couple of quick questions from my end. When you look at your overall Indian made foreign liquor for proprietary brands, how do you see the scale up of this segment -- is it going up as you would have expected or are you lacking out somewhere? Could you also give a brief description or highlight on the regional performance where you are operating currently like

UP, Delhi and Bangalore recently markets that you entered, how are you faring in those markets as well?

Tushar Bhandari:

As I said that there is an increase on sale of our premium brands on month-on-month basis in the markets where we entered and there is a good market traction to our brand. But as you are aware that the developing a premium brand is a time consuming process. But the only good part is that we are seeing an increasing in market trend or increasing in sale whichever market we are entering. So that's a positive trend for us. As for the sale of our product, right now we are present in MP, Chhattisgarh, Kerala, Uttar Pradesh and Delhi market. In Uttar Pradesh recently we are doing only low end brands and this second quarter itself, we have introduced our premium brands and we've seen a great response of our premium brands. So earlier we had one depot, so we are increasing the number of depots also in the brewery market. Second is in the Delhi market we were doing fairly well but the Delhi market policy has changed completely. So in Delhi they have optioned their shops into segment wise and we fortunately have got a good hold now in Delhi market. So probably we will see a good increase in sale in the Delhi market as well. And in Kerala, the demand for our premium brands is increasing. So looking into that demand of premium brands, we have tied-up with one more bottling unit to cater to the increasing demand. But only the Kerala market was affected in the second quarter because of the continued increase in number of COVID cases. So some shops were shut, some depots were shut and all. So, we have not been able to achieve the targeted sales figure which we would have achieved. But on the positive note side, we have not as compared to the last year figure month-on-month basis, we have outperformed the last year's figures.

Umakant Sharma

EM Investco Capital:

You briefly alluded to the fact that the raw material prices have gone up by about 8%. Because if I see your realization across your product categories, IMFL or the premium brands, proprietary brands or even the licensed brands as well as the Indian Made Indian Liquor, your realization also have gone up by nearly 8%, 9%, roughly I am saying, right. So, why is it that we are seeing this margin impact, where are we losing out, what am I missing then?

Tushar Bhandari:

We have taken a very slight price hike but on overall basis, we are seeing a price hike because of the increase in the sale of premium brands.

Umakant Sharma

EM Investco Capital:

Would you be able to give out a number just from a goalpost basis for our proprietary brand IMFL, what could that number as a percentage of sale could look like when our full capacity is in place, the additional capacity which is also coming soon?

Tushar Bhandari: Whatever the additional capacity we are coming up with, most of it we will be consuming in the sale of ethanol but whatever the ENA we are selling right now so we will try and consume that ENA in the value-added products and sale of our own products.

Umakant Sharma

EM Investco Capital: On this line of acquisition which you have started, I know it's in very preliminary stages but could you just tell me what's the logic behind this because I believe they are also present in the same market where you are now, so is it because we are already going for a capacity expansion organically?

Tushar Bhandari: No-no, it's purely because of the business synergies. That company is purely into beer and we are purely into IMFL. The market is the same the market which we are entering. So it's purely the business synergy, that is the probable reason and the growth of that company encasing on that. So we just put a preliminary thought and now we'll be looking into it and exploring the options. So it is quite premature to comment anything on that.

Umakant Sharma

EM Investco Capital: Leaving aside I don't want to get into numbers but what could be the possible acquisition size that you would be comfortable right now not specific to Everest but in general because you are also going to have CAPEX plan?

Tushar Bhandari: See, nothing has been worked on yet. So we've just discussed with the board, and a lot of people are asking also that there is a lot of business in synergy, so why don't you consider that. So before starting the consideration we inform the board in the board meeting. So this has just been decided in the board meeting and now the work will start on that.

Umakant Sharma

EM Investco Capital: Would it be possible to give out a margin profile across these segments that is for ENA as well as the IMFL, the proprietary brand, license brand and the Indian liquor?

Tushar Bhandari: On a broad basis if you ask me, in the ENA, there is an EBITDA margin composition of roundabout say around 10% to 11%. In IMIL there is a margin contribution of say around 15% to 16%. In IMFL there is a margin contribution of roundabout 20% to 22% and just on a pure job work basis.

Moderator: We'll take a next question from the line of Yogesh Bansal from Bridge Square. Please go ahead.

Yogesh Bansal

Bridge Square: I have a couple of questions. One is that your EBITDA margin has from the last year it was 21%, now it's gone to 17%. So about close to 400 basis points has been done because of the raw material increase?

Tushar Bhandari: Yes, primarily because of raw material, packaging material and everything has increased, but major impact is because of the raw material increase.

Yogesh Bansal

Bridge Square: So do you think it will continue like this for the next coming quarters?

Tushar Bhandari: In the coming quarter, we are seeing the raw material pricing softening.

Yogesh Bansal

Bridge Square: So what is your expected operating margin -- will it be around 18%, 20%?

Tushar Bhandari: Between 18% and 20%.

Yogesh Bansal

Bridge Square: Also, regarding this proposed merger if possible, as we know that the promoters of both are same, what are the numbers are we doing and what is the EBITDA margin they have?

Tushar Bhandari: See, primarily beer is a volume game business, the EBITDA margins are slightly lesser in beer market, but that company is selling now premium brands and it's one of the largest breweries in Madhya Pradesh and selling the maximum number of cases in Madhya Pradesh and that company is also exporting to other states also.

Yogesh Bansal

Bridge Square: What is the revenue they're doing, if you can talk about the last quarter or last year revenue and the margins?

Tushar Bhandari: Last year revenue was around Rs.300-320 crores and EBITDA margin, I will have to check and get back to you on that. So anyways generally in a beer segment there's EBITDA margin of roundabout 8% to 10 %.

Moderator: Next question is from the line of Vipul Lamba from Lamba Investments. Please go ahead.

Vipul Lamba

Lamba Investments: Regarding the ethanol business for which we are doing the expansion what type of margins do we see from a margin profile in that business and kind of revenue which we'll get from the expansion which we're doing if the utilization is as per the plan?

Tushar Bhandari: The margin in ethanol business will be slightly higher than the margin in ENA sales business; so it should be roundabout 11% to 12% margin that we are looking at.

Vipul Lamba

Lamba Investments: Also, it is that linked with the crude price also, for example the next six months or a year it goes down...?

Tushar Bhandari: No-no, it's not linked with the crude price but it's definitely linked with the grain price. So in ethanol business every product category has got a different pricing like ethanol from molasses has got different price, ethanol from grain has got different price. So that government decides the price. On a contrary if you see that the fuel prices have gone down, the government has reduced the fuel price before Diwali to roundabout Rs.7-8 per liter but on the contrary the government has increased the price of ethanol by Rs.1, Rs.1.5.

Vipul Lamba

Lamba Investments: So practically considering the expansion in next say 12 months and when the project gets completed and operations start, our revenue and profit should be at least 60% higher from there?

Tushar Bhandari: Definitely

Moderator: We'll take a next question from the line of Sunil Jain from Nirmal. Please go ahead.

Sunil Jain

Nirmal: Sir, my question relate to your expansion. Can you spell out how much is the investment which we are doing for this expansion and what will be the capacity?

Tushar Bhandari: See, total expansion what we are doing would cost us around Rs.120 crores, which will include new boiler, turbine and we are setting up a capacity of 100 KLPD.

Sunil Jain

Sunil Jain

Nirmal: Grain you said, but exactly can you spell out what type of grains and...?

Tushar Bhandari: On the grain, again going here is we are going multiple grain field plant, so basically depending on the yield of grain and depending on the price of the grain, we decide the grain. So right now for example the corn is quite expensive and we are getting rice at a reasonable price and rice has got a better yield and output of alcohol. So we are going in for rice. So it will purely depend on the market dynamics and the economics. Whichever grain has got starts, we can use that but completely depend on the economics and the price what the raw material is available at, then they switch the grain accordingly.

Sunil Jain

Nirmal: So rice in the sense, whole rice you will be using or it will be a broken rice or some broken rice?

Tushar Bhandari: Broken rice.

Sunil Jain

Nirmal: Still margin what you are calculating seems comparatively lower against your competitor or some other player?

Tushar Bhandari: This I'm talking about the pure ethanol business. So definitely as compared to the competitor I will get a better margin because I would have the economies of scale because with the same staff I'm almost adding a lakh liter a day capacity. So my per liter overhead cost will reduce substantially.

Sunil Jain

Nirmal: So I think there is a good margin people make from byproduct also. So that is also included in 11%, 12% or no?

Tushar Bhandari: Yeah, that is included in the price.

Sunil Jain

Nirmal: Currently, whatever you are making ENA and all, that is also from the same type of raw material?

Tushar Bhandari: Grain.

Moderator: Our next question is from the line of Dhruv Kashyap, an individual investor. Please go ahead.

Dhruv Kashyap

Individual Investor: I had a couple of questions. I understand that you've said that it's very preliminary but from what I have been able to gauge, I need your help to understand this that Associated Alcohol has been a very focused spirit company over the years and it's done very well on its CAGR and ROCE and ROE, etc., Mount Everest Brewery Limited did a top line of about Rs.290 crores in 2019, it dropped to about Rs.250 crores in 2020 and it seems to have done about Rs.143 crores in the first nine months of the current financial year with about a three to four crores loss and in FY'19 it was about eight, nine crores profit and FY'20 was eight, nine crores profit. I am just not able to see the synergies between these two businesses at all because one is such a margin accretive, profitable you are up trading, you are trying to move from contract manufacturing to own brands, on the other is a beer business which is a pretty low margin and only a volume game business. So I am failing to see the synergy unless there is a promoter synergy that the promoter wants both under the same roof.

Tushar Bhandari: The major reason of it is that the synergy because particularly on a primary stage if I talk about only Mount Everest Brewery. So Mount Everest Brewery is the fastest growing beer company in the country. So within last 10 years of its existence, it has moved from per month manufacturing capacity of one lakh cases per month to 10 lakh cases per month. Apart from not only looking at a low margin business, Mount Everest is also into the premium brand and premium beer, craft beer and all. So the only reason why we are exploring this option because there is a huge synergy, because whichever market we go na, so they want a combination of both, a person who is able to supply RC for example if in Delhi market, okay, Delhi has privatized shops, so whichever player I am going, they are asking for both beer and spirit. The only advantage in beer is that there are only few breweries who can sell beer. So there is a huge entry barrier there. But what happens in the case of IMFL is anybody can have a bottling license or a bottling tie-up and start its own brand, for example, tomorrow you can also have a bottling tie-up and start your own brand. So there's a huge entry barrier and there are very few players. So people look for beer first in their shops and then they are looking for IMFL. Whenever we go outside market from Madhya Pradesh, there'll be a huge synergy. So that that is only exploring and plus apart from that whatever numbers will come if we see it's adding value to both the companies and it's adding value to the investors then only we will take a call of mergers or something like that.

Dhruv Kashyap

Individual Investor: So, Tushar, if I've understood you correctly what you're saying is that outside MP it is easier for you to get a foothold into the store if you carry both beer and spirit and sometimes in markets like Delhi you get an entry into the shop through the beer into the spirits?

Tushar Bhandari: Delhi is just an example of what's happening.

Dhruv Kashyap

Individual Investor: No-no, I understand that but that's what you are saying, so it's piggybacking on each other distribution sort of entry so to speak, is that what you're saying?

Tushar Bhandari: Yeah.

Dhruv Kashyap

Individual Investor: Because if I look at the financials on Rs.300 crores of top line if you do a profit of Rs.8 crores it's a 2.7% PAT margin versus Associated Alcohol being on between 12% and 15%. So from a financial synergy I'm just not able to understand why such a focused and profitable spirit business would like to get into such a dilutive and completely volume, almost like retail moving to wholesale kind of a business if I was to give you another example of another category, I mean from a financial synergy I just can't understand why Associated would want MEBL in its portfolio unless as I said it's to suit the convenience of the promoter?

Tushar Bhandari: No, the financial synergies is still to be explored. There was a thought which had come up. So we just wanted to put it on the board and keep the investors informed about it.

Sumit Jaitely: See basically when you are going to analyze the financial of Mount Everest, at this juncture we could not explain it that the sales proceed and the realization factor because Mount Everest also do work or job work for some of the leading MNCs or the leading beer brands. At this point, it would be in a very nascent stage to say top line financials, PAT, EBITDA numbers, it will be too early to comment on it right now.

Dhruv Kashyap

Individual Investor: I understand it's early to comment but as an informed investor, I know each and every financial of MEBL, I know that it does job work for UBL and so on and so forth and which brands of UBL. So as an investor I am preempting because one fine day your board will decide and say the merger is done, then what's the point of me raising the concern then? So I am just raising it as a as an informed investor that these are my concerns because normally when these entities are merged for promoter convenience, it is always the minority shareholder who is shortchanged. So I am just raising the concern. You might say it's too early. Every financial of MEBL I know, there's nothing new that I'm going to get to know later.

Tushar Bhandari: Financials everybody is having access to it. So that is not a point, that we do understand. But see we are just...

Dhruv Kashyap

Individual Investor: You're going on saying, it's too early, it's too early. I'm just saying that I am voicing my concern because there's no other forum to voice it. When later you come with a final decision, it's too late.

Tushar Bhandari: Absolutely well taken care of. So that's why before giving it a thought also we wanted to have it in a public domain and we wanted our investors to be aware that something like this is being considered. So there is no decision made and things will happen and the working will happen and then if we feel it feasible, then only we will take a decision on it.

Dhruv Kashyap

Individual Investor: On this expansion that is going from 4.5 crore liters to technically 7.5 but actually 8.5 crore liters, you are saying this will come onstream in Q2. So I'm assuming sometime in July, August, September of 2022 it will come onstream. Now if that is correct can you just help me understand the mix that in 8.5 crore liters versus the 4.5 crore liters currently how do you see the mix evolve in terms of IMIL, IMFL, own and contracted as well as ethanol and ENA and likes of that, so that one can just understand what will be the company's revenue and margin picture look like one or two years from now?

Tushar Bhandari: Whatever the additional capacity which will come, that will be primarily and solely be utilized in the sale of ethanol. And right now whatever ENA what we are selling roundabout say on an average of around 15 lakh liters per month, so that we will try to convert to the maximum into value added products.

Dhruv Kashyap

Individual Investor: If I've understood you correctly that almost half in the future you are trying to put it into IMIL, IMFL both contracted and own proprietary brands from the current 4.5 crore liter and the other 4 crore liter will go purely to ethanol blending, is that correct or is my understanding wrong?

Tushar Bhandari: Absolutely right...

Dhruv Kashyap

Individual Investor: So then how will the margin profile evolve?

Tushar Bhandari: The margin profile will evolve because here I'll be selling the pure ENA. So instead of pure ENA I'll be selling the value-added product, one is that. Second is that my EBITDA contribution in my overall sale of ENA or in ethanol would increase due to economies of scale. So with the same amount of staff I will be able to double my capacity. So my overhead cost per liter will reduce substantially. Second, we are also in a new project, we are also putting a turbine which will take care of entire power for the entire unit. So apart from the regular factors, these are the factors which will increase the segment margin.

Dhruv Kashyap

Individual Investor: So would it be fair to say that the blended EBITDA at the destination end state of 8.5 crore liters would be somewhere the same as now which is 18% to 20% or would it be more or would it be less?

Tushar Bhandari: Somewhere around the same.

Dhruv Kashyap

Individual Investor: So there won't be any improvement in overall margins because of the expansion?

Tushar Bhandari: See, the margins will slightly increase because of the increase in the sale of the value added products and the premium brands because during the course of action in next six months to eight months we are also launching certain premium brands like the super premium brand like a premium gin and a premium blended scotch, and we are also working on a single mold but that is a time-consuming process.

Dhruv Kashyap

Individual Investor: So fair to say that it will remain at about 18% to 20% EBITDA margin in the destination end state because the current 4.5 crores liters hopefully all migrates to value-added products so it increases the margin because the ENA part will come down or become zero? In the other 4 crores that we'll add the liters will all go towards ethanol blending which is more at about 11%, 12%-odd margins?

Tushar Bhandari: 12% to 13%, yeah.

Dhruv Kashyap

Individual Investor: So blended will remain at 18% to 20% at a company level all put together. Is that a fair assumption or will it come down or go up a bit?

Tushar Bhandari: That's a fair assumption.

Dhruv Kashyap

Individual Investor: My third question was that we've had a lot of disturbance in Delhi. I live in Delhi. July, August and September, the private shops stopped buying because 30th September the license expired. Now 16th November, the government shops license expires and they have stopped buying for the last 45-days in the diwali period where everybody has cards, parties and all, there's been no liquor in Delhi whatsoever. Now tomorrow 17th is when the new private 850 stores start coming into action. How much of a contribution of the company comes in Delhi and how badly disturbed has both last quarter and this quarter been and hence do we see a significant impact in this quarter and December quarters financial as well and when do you envisage this

improving because once the new stores start you will also have to stock up from zero so there'll be a lot of a lot of primary filling in, right, so what's your read on the impact of this whole Delhi situation on your company?

Tushar Bhandari:

So the thing is that if I talk about pure Delhi market per se, from last year second quarter only we had reduced our sales substantially because we were seeing disturbance in the Delhi market and we were seeing a threat of bad debt in the Delhi market. So irrespective of the demand in the Delhi market we started reducing our supplies and controlled and concentrated on the recovery because we were aware that this thing is going to happen, so if once the shops are closed then it's difficult to recover the money. So that way compared that we've not been impacted that much because we controlled our supplies in last year only. But going forward we are seeing a strong contribution to come from the Delhi market. As you're from Delhi, you're aware that most of the shops were auctioned in group wise, so one group has almost 25 shops, so we have tied up with the major player who holds now almost 40% of the Delhi shops, so we've just tied up with him so that will give us a greater contribution in the coming months. And immediately, you would not start because all the processes there, label registration and all, it's a time-consuming process but in the coming months you will see the sale in Delhi of ours increasing.

Moderator:

We'll take a next question from the line of Sri Shankar from InCred Capital. Please go ahead.

Sri Shankar

InCred Capital:

I probably joined a bit late, so there may be a repetition of my question but anyway can you explain to us where are we going to see a bigger growth happening -- is it in IMIL, once the expansion comes through or at IMFL Proprietary? You mentioned that you're probably launching a gin, you're probably having a plan to launch a single malt, etc., but over the next couple of years what is your strategy of going for some of your own brands and how much are we going to increase your licensed brands production as well?

Tushar Bhandari:

So basically now our concentration is our own license brand and our own value-added brand. So there we are seeing a growth on a month-on-month basis in the various markets which we've entered. See, earlier we were just an MP-centric market and now if we have to grow and in terms of the volume then the only option is either I grow at the rate what MP is growing or outpace it slightly and take somebody else's market share or I move into other state and increase our sales there. So that's what the company has been doing and has been entering into other states and have got a few states lined up to enter in this year as well. So that's where we'll see the major growth. And we are also focusing on the sale of our premium products, because that's where the core margin lies. So that's our concentration. We are targeting that by the time our new plant expansion comes. So major of the ENA what we are telling outside, we should be able to consume that much in the sale of our own products. So, for that apart from other states we are also targeting the CSD market, paramilitary market and the export

market. Export market was affected this year because of export, I mean, overseas market because of the sudden increase in the price of the freight of the containers. But we see that coming back and we see the growth happening in those markets as well.

Sri Shankar

InCred Capital: Of your sales, how much is our sales in MP and what is the other big markets because in the presentation, there is a mention about the growth in Kerala and all those kind of stuff and Kerala is not a small distance from where you are, so, can we have some color on it please?

Tushar Bhandari: Our major sale was in Madhya Pradesh market. And now, this year, the Kerala market has outpaced the sales the Madhya Pradesh market. And we are doing decent number of sale in the Chhattisgarh market also. UP, we have recently started and we've not been able to scale up to the greater extent, but still month-on-month basis we are seeing a slightly increase in the sale. And now we are expecting a good amount of sale to come also from the Delhi market.

Sri Shankar

InCred Capital: I presume when you are saying these sales, this is your proprietary brands?

Tushar Bhandari: Yeah, see, beyond Madhya Pradesh, we are just concentrating on our own proprietary brands only.

Sri Shankar

InCred Capital: What is the kind of your sales in MP, Kerala, Chhattisgarh, if I ask for a percentage, can you give it please?

Tushar Bhandari: So, basically in MP to be on a on a broad figure, we are selling around per annum around six to seven lakh cases of our proprietary brands. And in Kerala also, we are doing around six to seven lakh cases of our own brand which we are expecting it to reach up to say around 50,000 cases to 70,000 cases per month.

Moderator: Our next question is from the line of Manan Thakkar, individual investor. Please go ahead.

Manan Thakkar

Individual Investor: I have two questions. Question number one is what is the capital structure that the board and you are comfortable with even if there is any deal conclusion of the Mount Everest assets, any broad quantum there?

Tushar Bhandari: Nothing has been worked out on that as I said earlier also. So it's too early for us to say on any capital structure or anything like that.

Manan Thakkar

Individual Investor: What I mean to ask is what kind of debt if we were to take are we comfortable with a ballpark number, so probably southwards of 200 crores, southwards of Rs.100 crores, that is a broad framework that the board and you are comfortable which if we were to take any debt?

Tushar Bhandari: Company is right now working on a completely zero debt and we've got sufficient amount of cash in the books, so, the funding would be done primarily from that and the cash is also getting generated every quarter. So, we are not looking at raising any major debt.

Manan Thakkar

Individual Investor: Second question is any key hiring of employees or expanding our team we are looking for given that we are expanding in multiple states are these are our relatively regional hires only?

Tushar Bhandari: That we are definitely looking into it. So, we are looking into few people across because when we are expanding there we need some senior people to take care of it. So we are in the process of doing that.

Manan Thakkar

Individual Investor: So we are incentivizing with some ESOPs or it would be pay out only?

Tushar Bhandari: Pure payout.

Moderator: Our next question is from the line of Mandeep Chaudhary from **(Acme FinServ) 47:29**. Please go ahead.

Mandeep Chaudhary

(Acme Finserv): Since the margins in the premium segments are on a higher side, we are seeing many companies focusing more on the premium segment these days. So, how are we as a company planning to place our products amongst the competition?

Tushar Bhandari: So basically, as I said earlier that we are also looking into increasing sale of our premium products and that's where our focus has been. But the whole thing is that whenever you enter any new market space, so there is a few certain amount of set up cost involved towards it. So we try and enter with the lower end of the product and then when the volume increases, we introduce our premium brands. So on the premium brands front, we've got a premium whiskey we got have a premium vodka and we have got a premium rum, which we are concentrating on increasing sale of that and we are seeing a month-on-month increase in the sale of those products. Plus apart from that, we are also getting into the super premium segment. We are in process of developing a super premium gin which should be out in coming two to three months.

Apart from that we are also coming out with a super premium blended scotch whisky so that we are looking at. And in future with long-term process we are also exploring the option to come out with a single brand and setting up a brand.

Mandeep Chaudhary

(Acme Finserv): The thing is outside of Madhya Pradesh, we hardly find your brands anywhere in the market. I mean, take it Maharashtra or state of Rajasthan or say Goa or anywhere.

Tushar Bhandari: So that's what I'm saying that we are exploring options into entering into other states. So we have started our sale, for example in Kerala, we are doing good amount of sale in Chhattisgarh, we have started our sale this year in UP. See, because the market which you enter you have to work out on a lot of dynamics as well, because liquor market is totally different from any other market. So in liquor, every state is a different country altogether, every state has got its own policies. So you have to look into the profitability also. Because we believe generally that we don't want to enter into any state and put a dent to it. Just to increase the top line, we don't believe in putting a dent on our bottom line. So we concentrated on that and looking into that we enter into any other state. So certain states which you said like, for example, Rajasthan is a very, very low market wherein you don't get any realization, especially sending outside from Rajasthan it will not be feasible, you will be under the losses. So we don't prefer that. That's how we evaluate and we've hired a senior person from USL. So he's guiding us on which markets to enter and what strategy we have to take.

Mandeep Chaudhary

(Acme Finserv): In coming days, your advertising spend might increase?

Tushar Bhandari: We don't generally believe in advertising. We believe on a completely bottoms up approach. Because again, in liquor market, the route to market has to be completely different. Advertising is done primarily on a major front to maintain the brand loyalty. But we concentrate on the ground level and **(inaudible) 51:01**

Moderator: Our next question is from line of Shanti Patel from Shanti Patel Investment Advisors. Please go ahead.

Shanti Patel

Shanti Patel Investment Advisors: After this expansion gets completed, what is the return on capital employed and return on equity?

Tushar Bhandari: So after the expansion, we are seeing a breakeven should come around in three to four years' time. So, that's what our target and plus apart from that, with the expansion coming in, we will

get a better margin contribution, because with the same amount of fixed costs, we will be able to increase double our production.

Shanti Patel

Shanti Patel Investment Advisors: Sir, that I agree with you, but approximate some idea about the return on capital employed and the breakeven?

Sumit Jaitely: Numbers will be shared ji. You can contact our Mr. Anuj, IR agency. Don't have handy sir.

Shanti Patel

Shanti Patel Investment Advisors: What is the return on equity and return on capital employed today?

Sumit Jaitely: Around 30% is return on capital employed and return on equity is around 22% to 23%.

Moderator: We'll take the next question from the line of Abhishek Maheshwari From SkyRidge Wealth Management. Please go ahead.

A Maheshwari

SkyRidge Wealth Management: I wanted to know that in your previous calls you had indicated that the new capacity will be used primarily for alcohol business. And if it's more economical, then the capacities will be spread and all. But now something seems to have changed in your primarily focusing on ethanol. So can you talk about that a little?

Tushar Bhandari: Se, basically we are going in for a dual mode plan. So primary wherever we see an opportunity, we will do a production to that. But right now the opportunity is more on the ethanol option. In coming years, at least three to five years, we are seeing a greater opportunity and greater price realization in ethanol segment. And plus apart from that, looking into the incentives which the government is providing for ethanol manufacturing. So that's how we've stated the strategy and we move towards ethanol and plus ethanol we will also get certain amount of GST credits and all. So that's why we changed our strategy and moved into ethanol.

A Maheshwari

SkyRidge Wealth Management: Sir, that pertains to OMCs regarding contracts and all?

Tushar Bhandari: Yeah, we've already contacted the OMCs and we have already participated in the future tenders of the OMCs. Annual tender of quarter wise, so when we expect our plan to be commissioned, so for that particular quarter we have already given our consent for supplies.

A Maheshwari

SkyRidge Wealth Management: So the orders will be tendered on quarterly basis, so you'll have flexibility in case you want to ship to any destination?

Tushar Bhandari: Yeah, right now for at least next three to four years we see there'll be a huge shortfall in ethanol space. So that's why we are seeing regular tenders coming off OMCs for various states, because every state is under shortfall. Just to give you an example only, Madhya Pradesh had to do around 8% to 9% of ethanol blend and from Madhya Pradesh units they've been able to cover only 2%, rest they are calling from outside states. So in Madhya Pradesh itself, there is a huge demand and supply gap from the suppliers of Madhya Pradesh. And government has planned to increase the blending of ethanol from 8% to 20% by 2025. So there'll be a huge gap available there.

Moderator: Our next question is from the line of Dhruv Kashyap, an individual investor. Please go ahead.

Dhruv Kashyap

Individual Investor: In Delhi from tomorrow, the 850 shops will all become private. And you said that you are in the process of tying up with someone who's got 40%. So is it fair to say that you're looking at someone who's got almost 300, 350?

Tushar Bhandari: Almost 250.

Dhruv Kashyap

Individual Investor: So almost 30% of Delhi is one person, so that should give you a significant alpha on your business, shouldn't it, because you're going from very small in Delhi to almost tying up with a 30% person in Delhi?

Tushar Bhandari: Definitely. So, basically the shops which will open so shops will not immediately open overnight, it will take time, so, it will open in phased out manner, because obviously, all the shops are shut, and now new players have to identify, new shops make an agreement. So earlier they had made an agreement that you'd be able to open only where the commercial spaces are available. But that is not the case like in most of the places, you don't get proper commercial spaces in Delhi. So government has relaxed that norm also. So they're in the process of opening all the shops. But we see a greater opportunity in Delhi and touchwood we've been able to well encash it on.

Dhruv Kashyap

Individual Investor: Yeah, so I mean, as destination state, I'm not saying now, but let's say even three months, six months later, you hopefully are able to participate in almost a person who's got almost 30% of the overall rent, that's what you are saying?

Tushar Bhandari: Yes.

Dhruv Kashyap

Individual Investor: Sir, my other question was on the market. So, if I understood correctly, the answer you've given to one of the previous participants question is that MP is about six, seven lakh cases in a year and now even Kerala is approaching six, seven lakh cases, is it?

Tushar Bhandari: Yeah, in Kerala we target to reach 12 lakh cases this year, but being COVID cases still coming in high numbers in Kerala, that numbers have been not achieved, but we are getting a very-very-very good response of our brand and quality in the Kerala market.

Dhruv Kashyap

Individual Investor: So Kerala would overtake MP?

Tushar Bhandari: Yes, definitely.

Dhruv Kashyap

Individual Investor: So Kerala, MP then you're saying Chhattisgarh and you've also been mentioning UP in the last three, four conference calls you got the specialist person from USL who's helping you not just start all the markets to enter, but also help you crack UP. And last time when I **(inaudible)** **(technical difficulty) 58:51** but now that COVID is subsiding, do you see significant gains in UP and entry into other big markets? You've already mentioned big gains in Delhi in the future. So just help us understand the footprint

Tushar Bhandari: Next target are the three markets which is Goa, Pondicherry and Odisha markets.

Dhruv Kashyap

Individual Investor: My last question is on exports. I remember you mentioned in the last call, there seems to be a lot of emphasis and impetuous by players like Radico Khaitan to go big time after these East African countries, whether a significant number of Indian consumers or people used to consuming Indian whisky brands like Bagpiper, DSP and so on and so forth. So do you see some amount of, you know, saliency that you can build for your brands in at least markets where there is a significant population of Indians who drink your kind of liquor?

Tushar Bhandari: So see a greater opportunity in that and we've been working on the export market since last two years. And we did fairly good numbers before the COVID in terms of the export market. But during COVID, the numbers went down. And last year, we still have orders, but the parties are not executing the orders because the price of transport has gone up substantially, so for example, a container which used to cost from Madhya Pradesh to UP around \$1,700 has gone

up to around \$8,000, \$9,000. So things have to change. The opportunities are there and we are well in line and we are well tied up with the players in the export market to encash that opportunity.

Moderator: Ladies and gentlemen, that was the last question. I hand over the call back to the management for closing comments. Over to you, Mr. Bhandari for closing comments.

Tushar Bhandari: I would like to thank all the participants in participating in participating in this earning call. I hope we've been able to answer your questions satisfactorily. If you have any further questions or would like to know more about the company, please reach out to our investor relations manager, Ad Valorem advisor. Thank you.

Moderator: Ladies and gentlemen, on behalf of Associated Alcohols & Breweries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.