

# **Associated Alcohol & Breweries Limited**

## **Q3 FY21 & 9M Conference Call**

### **February 15, 2021**

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**Moderator:** Ladies and gentlemen, good day and welcome to the conference call with Associated Alcohol & Breweries Limited December 2020 Results discussion hosted by Valorem Advisors. As a reminder all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "\*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference award Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you sir.

**Anuj Sonpal:** Thank you. Good afternoon everyone and a warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors we represent the Investor Relations of Associated Alcohol & Breweries Limited. On behalf of the company. I would like to thank you all for participating in the company's Earnings Conference Call for the Third Quarter and Nine Months Ended of Financial Year 2021.

Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's earnings concall 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 an information currently available to management. Audiences are caution not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings conference 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 in today's earnings conference call and give it over to him for opening remarks. We have with us Mr. Tushar Bhandari, Whole-time Director of AABL. I now request Mr. Tushar Bhandari to give his opening remarks. Thank you and over to you sir.

**Tushar Bhandari:** Good afternoon, everyone. It's a pleasure to welcome you to the earnings conference call of the third quarter and nine months ended of the financial year 2021. First let me give you a brief overview about the company since this is our first earning concall Associated Alcohol & Breweries Limited is one of the largest single location distillery in India. With a state-of-art integrated multi grain based manufacturing facility. Strategically located in Central India near Indore, Madhya Pradesh. The company has an existing capacity of 45 million liters per annum and further plans to double its capacity to 90 million liters. It is engaged in the entire value chain for manufacturing and selling of Extra Neutral Alcohol, contract manufacturing for leading pioneer brands, as well as direct consumer sales of their proprietary IMIL and IMFL brand and also licensed IMFL brands.

Now, let me take you through the third quarter financial performance of our company. The operating income for the quarter was around 161 crores, which was an increase of approximately 11% on year-on-year basis. Operating EBITDA reported was around 36 crores which was an increase of about 41% on a year-on-year basis, operating EBITDA margins stood at 22.33% which has improved by 479 bps year-on-year basis. Net profit after tax reported was around 25 crores which grew by around 57.6% on a year-on-year basis. PAT margin were 15.45% which improved by 458 bps, on a year-on-year basis. There has been a steady improvement in the financial performance of the company, post the gradual resumption of the economic activities.

I will now take you through the quarterly segment performance, in the manufacturing segment revenue for the quarter was 55 crores which has increased by 3%. Our merchant ENA sale volume for the quarter was 69 lakhs, which was an increase of around 33% and the revenue for sale of ENA was around 35 crores which was an increase of 20% on a year-on-year basis. In the consumer segments revenue for the quarter was around 106 crores which has increased by 15%. Our sales volume of IMIL, IMFL proprietary brands and IMFL licensed brands were 9.6 lakh cases, 2.68 lakh cases and 3.17 lakh cases respectively.

Coming to the key operational highlights for the Quarter FY21 of the company. During the quarter the company achieved its highest ever quarter revenue and profit before tax in Q3 FY21. The third quarter seasonally remains the best quarter which has added to the pickup in the sales and normalcy has also been resolved pre COVID levels, the plant reached 100% capacity utilization during the quarter. Substantial reduction in raw material price this quarter versus a year ago, as well as an improvement in the price

realization of IMIL and IMFL resulted in improvement in the margins. Lastly, the company commenced sales of IMFL products in the state of Uttar Pradesh during this quarter.

Talking about nine months performance of FY20-21, the operation income was around 325 crores, operating EBITDA reported was around 65 crores, operating EBITDA margin stood at around 20%, net profit after tax reported was around 43 crores, PAT margin was around 13.20% in the view of the impact of ongoing COVID pandemic, the nine month numbers are not comparable against the same of last year. With that, we can open the concall for any question-and-answer if they are there.

**Moderator:** Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of AM Lodha from Samriddhi Consultants. Please go ahead.

**AM Lodha:** I have few questions, number one the doubling of the capacity from 4.5 million to 9 million when we can expect this to commission sir?

**Tushar Bhandari:** We have already made all the plans and all the commercials and technical have been frozen but due to lock down the same was put on hold and we are renegotiating the final terms. So very soon, we will announce the same that we have commenced the expansion plan.

**AM Lodha:** Commencement of the construction or commencement of?

**Tushar Bhandari:** We will announce shortly that the start construction of the project and expansion has kicked in.

**AM Lodha:** Thank you. Another my question is sir, companies have earned Rs.45 crore in nine month and another company made 18 to 20 crore in the last quarter on our estimate basis. But you're your pay out, what is the dividend policy of the company, your payout is very poor sir, you are paying only 10% dividend to the shareholder, earning Rs.50, Rs.60 per share and sharing only Rs.1, Rs.1.50 something like that. So, company have any dividend distribution policy sir?

**Tushar Bhandari:** Sir we have been continuously giving dividend for last five years. And the company is believing in internal accruals, because right now company needs funds for the expansion purposes. So that's why we are keeping the reserve because we do not believe in carrying too much debt on our balance sheet.

So, we are reserving the surplus which has been generated for our expansion plans and for the growth of the company.

**AM Lodha:** You are right sir. But your equity only Rs.16 crore to Rs.18 crore and your 10% dividend amounts to only Rs.1 crore or Rs.2 crore only. Now, dividend distribution has also gone, don't you think that you should divided to the shareholder by paying higher dividend sir?

**Management:** Yes, Mr. Lodha, as you appreciate the total expansion and CAPEX what we are going from last over the year it is merely we are doing based on internal accruals only and we continue to keep the company as a light debt company, also the dividend policies are conservatively designed. And we hope after this expansion, then we will think of reviewing the policy. We will review the dividend during the last quarter results.

**Moderator:** We move to the next question from the line of Agastya Dave from CAO Capital. Please go ahead.

**Agastya Dave:** Sir, I have a question on slide #7 and #8 for the quarterly numbers that you have given the breakup for volumes and revenue. Could you give some additional. Sir on slide #7 and #8, can you please give some additional qualitative commentary on the volumes and revenue picture, it's slightly surprising that it's realization that they have actually gone down. So could you please explain these numbers. Also on the IMIL side, the realizations have kind of gone down. So if you could give some commentary with respect to gross margins at least in all these verticals?

**Tushar Bhandari:** I'm not able to get your question clearly on slide #7 and #8?

**Agastya Dave:** Sir your average realizations have gone down in ENA, the volumes are up by 33% and revenue 20% so could you give some commentary on that, the ENA prices have gone up right?

**Tushar Bhandari:** Sir ENA prices have not gone up as per say, ENA prices has been stable and major revenue contribution is more on the vertical. One is the realization of the price which has been increased from last year towards this year. So we've gone a price increase in the price realization in IMIL segment and even IMFL segment we have got a price increase in our brands, which is there. So that's why the margins have gone up and that has been backed or that has been helped with the margin, increase in the margin because there's been a slight correction in the grain price, which is the raw material price. That's why the margins have gone up across the segments.

**Agastya Dave:** Sir what would be our weighted average cost of procuring grain today?

**Tushar Bhandari:** So, the average cost of grain is somewhere around Rs.13,000 PMT

**Agastya Dave:** Great and what was it last year?

**Tushar Bhandari:** Last year it was around anywhere between Rs.18,000 to Rs.21,000.

**Agastya Dave:** Great. Sir, next question is on expansion in rupee how big can this become over a period of time because there's some players who are already there. So, what is your strategy and how big the market can be over the next two years?

**Tushar Bhandari:** So, see we are planning to expand, we are planning to double our capacity, which is there. So as we have already told you that we are planning to move our capacity from 45 to 90 million. So, that will be a complete boost in in the company's performance, plus apart from that expansion we are also exploring the opportunities which are there of setting up of a ethanol plant also, that also we are exploring and as we told in our earlier calls as well that we are also looking at setting up a new bottling hall and plus setting up a plant for manufacturing of single malt. So, these are our plans defined of expansion in coming next two to three years. So one is primarily we will be looking at doubling our ENA manufacturing capacity. Second is there has been a huge opportunity available at present in terms of ethanol requirement in the country and which attracts a good margin. So we are exploring that also and fourth is we'll be setting up our bottling hall another around five lakh cases per month. Fifth is, we are planning to set up malt plant for manufacturing of single malt and selling malts to other leading companies.

**Agastya Dave:** Sir my question was on UP?

**Tushar Bhandari:** Okay, so in UP what we have done is that, this is the first quarter when we have enjoyed in sales in UP and we have started with one of our brands which caters to the lower end of the market, where they will be getting the volumes from and we've seen a positive response in coming two to three months of our start of the sales. And we've already started the process for registration for next year. So, next year, we will be entering UP market with another two more brands, one is would be a premium whisky side, and one would be a premium Vodka side. If things shape up rightly we will tie up with bottling plantsand starting our bottling there also, if the results are substantially positive.

**Moderator:** Thank you. The next question is from the line of Nikhil Chaudhari from Kris Portfolio. Please go ahead.

**Nikhil Chaudhari:** Sir, I just have two questions, sir what would be our current state mix, just wanted to understand our dependence on NP currently?

**Tushar Bhandari:** Current state wise contribution like probably just wanted to gauge the MP contribution that we are currently having. At present our major contribution is coming from MP. But over the last two years that, if I would say that our dependency on MP is slightly reducing as our contribution are coming from other states also. Now, second state which we see has boomed in sales is in terms of Kerala. So, Kerala we are almost now the fifth largest player in Kerala market in terms of sales. And we expect our sales to again give us an exponential growth in Kerala market in the coming years. Earlier in Kerala market, we were just doing low in branch this year we've introduced premium brands and next year we are planning to launch one or two more premium brands there in Kerala. So, we will see that from this year to next year, we might see an almost double-digit growth in the Kerala market. Second is we see UP also as a very big opportunity. So UP we've entered, we have seen a very good response in the UP market, because UP is an ocean of opportunities are there. So the volumes are very good there, so if we are able to see a good amount of traction, which you've already seen, then UP can also become another big market for us. The advantage to us over the other players which is we've seen in other markets is that, in the country we are known for the quality of the ENA which we provide. So, that has given us a boost and that has given us a boost in the minds of customers and customers have started liking our products. Because especially if we've seen in Kerala, Kerala most of the state earlier provided was by the, who used to use molasses and we were the first ones to start providing even a reasonable price liquor with a grain based ENA also. So, there we have seen attraction in the choice of the customer and that has turn out in terms of volumes and we expect similar in UP also in the lower end most of the people as it's a major sugar belt. So, lower end people also are using it from molasses manufacturing it from molasses and we are one of the first ones to enter there in the lower end of IMFL market and we are using grain based. So we are seeing a traction and we are seeing the customers liking our product so that we can see growth there. And now we are exploring apart from this, we are exploring other states as well. And we are also seeing export out of country also a big opportunity. So that we are exploring so in that also our export in terms of containers are increasing on a month-on-month basis.

**Nikhil Chaudhari:** But following on the earlier question only, like there is a dominant player in UP how do we plan to differentiate ourselves from that player who is actually in the market?

**Tushar Bhandari:** There are small things which we do, one is that we have got a senior person on board from USL and who was with USL for almost 20-25 years, he's been guiding us on which markets to enter and how to enter. So for example today we have entered in Uttar Pradesh market and with a cheap IMFL we've entered which is at a very low end, being the lowest end of the IMFL market because that's where we expect the volume. At that price range the quality product which we offer, so that's how we are trying to differentiate. We believe that market always has scope for competition and we will find space in our range and segment.

**Moderator:** Thank you. The next question is from the line of Ritesh Gandhi from Discovery Capital. Please go ahead.

**Ritesh Gandhi:** Sir, we were just looking at the numbers overall we are seeing the realizations of your ENA have actually reduced quarter-on-quarter, just wanted to understand is that because, just wanted to understand the reason for that?

**Tushar Bhandari:** See the realization from ENA has reduced because the price of ENA is reduced. So, the price of ENA is also linked to the price of the raw material which is available. Last year it was available grain was available at Rs.19,000. So, at that point of time, the ENA price was around 58- 57. It's not directly proportional, but it's towards certain extent proportional sir.

**Ritesh Gandhi:** So, is there any data you can share with regards to EBITDA per 1000 cases or something that can give us an indication as to how spreads are?

**Tushar Bhandari:** Definitely, I'll just make a note of it and I'll ask our advisors Valorem to share it.

**Ritesh Gandhi:** Because it is helpful to get a view on effectively speaking, how much spreads are increasing effectively in each of the categories. And the other question was, when I look at ENA, my own understanding is that if you do incremental value addition, with actually converting to IMIL or IMFL effectively, our EBITDA ends up being slightly higher. And we've seen a reasonably large increase in ENAs volumes, so should we be thinking about it as potentially overtime ENA being used towards IMIL and IMFL, as the business normalizes or how should we be thinking about that?

**Tushar Bhandari:** Sir, what we are doing is that, we are very confident and we are working very hard to increase the sales of our value added products, because as you rightly pointed out, the main margin and EBITDA contribution comes from the value added products, So our plan is that, by the time fresh capacity comes into place, the existing capacity which is there, the portion of it, which we are selling it outside as a pure ENA, we would be able to maximise and convert that into the value added products.

**Ritesh Gandhi:** Understood got it. And then also understand, you had indicated that Q3 is usually with the strongest quarter and the things that are normalized now, but the earlier part of Q3 was still quite impacted by COVID. So just to understand, going ahead, how should we be thinking about like numbers, are these numbers sustainable going ahead, do we expect a slight decrease in the volume, our realization looking how should we be thinking about our new existing run per se?

**Tushar Bhandari:** So we are expecting the numbers to be sustainable and we are expecting a growth in the top line of around 20%, is the expected growth in the top line and as we told that, Q3 is one of the best figures, ideally the best quarter is the first quarter which was very affected by the COVID. And the entire first quarter was washed out as in the case of the entire industry, which was there. But still, our team has worked very hard over these months, and we've been able to achieve and cover most of the part of the lost business in the first quarter in over nine months. If you compare, we've been able to compare, we've been able to overcome the loss to a certain extent. So, that ways our team has done a very good job in their sales and in the margin contribution and we expect around anywhere around 15% to 20% growth from here on.

**Ritesh Gandhi:** But, the growth given you've indicated we are running at 100% the growth of 20% you are expecting is that converting incremental ENA into higher valuation addition?

**Tushar Bhandari:** Exactly. As we are at capacity utilization so, now the growth which we are expecting around 15% to 20% would be from the sale of the value added products.

**Ritesh Gandhi:** And this is the growth in top line and so actually EBITDA may grow actually slightly quicker than in that, is how we should be thinking about it?

**Tushar Bhandari:** So, expected EBITDA should be anywhere around a range of 18% to 20%.



**Ritesh Gandhi:** Okay, 18% to 20% is the range so effectively what we have done in Q3 was actually a 24% EBITDA margin right?

**Tushar Bhandari:** Yes, only in that particular quarter.

**Ritesh Gandhi:** Yes, so you are saying that this is, so the revenue will grow, but EBITDA actually achieve will margin will reduce so in terms of absolutely EBITDA then this is not a sustainable level, how should we be thinking about that?

**Tushar Bhandari:** This particular quarter our nine months, we are having the lowest raw material prices in the history.

**Ritesh Gandhi:** Got it, so we should not be looking at it in terms of profit of margins because effectively the prices will be lower because our EBITDA is higher, if we are looking at.

**Tushar Bhandari:** 18% EBITDA can be taken as the sustained margin in long run.

**Ritesh Gandhi:** So, let say if we look at an absolute EBITDA per case or an absolutely EBITDA number is this a 35 crores of EBITDA which we have achieved is that absolute EBITDA numbers that's sustainable, actually from which we can expect a 15% to 20% growth or 35 crores is actually slightly cyclically higher because of the RM tailwind that we have?

**Tushar Bhandari:** It's almost sustainable, because the thing is, what will happen is that the value added product sales will also increase, which will give us a higher EBITDA margin. So the contribution which is there from the ENA would move towards the value added products.

**Ritesh Gandhi:** Got it, and the last question is that in terms of your incremental CAPEX, how long do you expect it to take to actually commercialize the CAPEX and how long will typically will actually ramp up?

**Tushar Bhandari:** Anywhere between 15 to 18 months from the commencement

**Ritesh Gandhi:** Sorry, so almost immediately upon completion, we can effectively just started ramping up capacity with the 100% immediately because ENA we can anyway sell, and value addition over time, if we can do we can do?

**Tushar Bhandari:** Yes that is what we expect.

**Moderator:** Thank you. The next question is from the line of Chirag Lodaya from Valuequest. Please go ahead.

**Chirag Lodaya:** My first question is on our market share in MP which will help us understand what is our market share in IMIL, IMFL and what is the annual volume we are doing currently in MP?

**Tushar Bhandari:** So, the market share of our products has increased in the markets which we are clearly playing into. So like in Madhya Pradesh also our market share has increased in terms of IMIL and IMFL. and in terms of the markets, which we are doing in Kerala and other states has our sales has increased in those areas. So, we've done approximately, we've done around 21 lakh cases of IMIL, IMFL we've done around 8 lakh cases and around IMFL in other states, we've done around 5 lakh cases approximately.

**Chirag Lodaya:** Okay, and in terms of profitability, so how has the operating margins in each of the segments, if you can make us understand because the margins which we report is quite superior compared to many other places, just trying to understand what is leading to such good margins?

**Tushar Bhandari:** Margins in other markets, all the markets separately?

**Chirag Lodaya:** No, our reported margins which are 18% to 20% sustainable margin, but when we look compare any other large companies also in this segment, nobody is able to do such kind of margins. So what is it?

**Tushar Bhandari:** Product portfolio and due to the locational advantages of sourcing our raw material, as well as the suppliers location being in the Central India, whereas traditionally most of manufacturing companies are based in the North and who are supplying the ENA and to the Southern market we are centrally located and we are all being central location multi feed plant and the most efficient plants in the country, we are able to get one of the best pricing and efficiency as far as output whether it is the raw material yield. We are having captive power generation of substantially, major even why ENA is going to create the margin of 10% to 12% by basic first level of raw material basis the raw material of the industry which is maybe the margin of certain lower end product customer people and then the next level IMIL and it is safe and secure business we are having and that is giving slightly a higher level and the third one, coming to an IMFL range. We are having both our own product which we are selling at a comfortable margin and same time we are having the franchise of certain brands of USL, which all regular products are USL we enjoy the price towards the Central India. So, in the strategy and necessarily we are not entering into certain markets where I am not comfortable and where I can use the money. I maybe growing less but I want to have the consistency and sustained margin only, that's why meeting

all these factors it is making ourself as one of the best managed and profitable as per this segment is concerned that I can say.

**Chirag Lodaya:** So, sir as you mentioned your IMFL margins would be 20%. And if we say suppose now you started selling in UP, so how will you the margins in UP market initially come to you compared to the MP?

**Tushar Bhandari:** Sir initially the UP markets would be almost very less, we would try to whenever we enter a particular state, we try to rationalize that we look into that if we would have told that portion of amount in an ENA basis, we would at least realize slightly higher amount of realization per liter wise as we do in terms of ENAs. So, over the years, the margin starts improving, like similar thing happened with Kerala. So Kerala when we entered, we were not, we were just making the margins, which was in-line with what we have done, if you would have sold ENA, with the three years of operation, two years of operation our margins have increased substantially because then, see it has to work with both price into quantity. So whenever we enter a state we take a brand which will give us the volume and which will help us to absolve the volumes will be able to absorb our overhead cost which are there, and we are able to make a slightly better margins. And now as I told you, that we would be already at the March end, we would be in operation of around about six months in UP market. So we've seen the traction, we've seen the response of our product. So next year we are adding the premium products. So the premium products which will be there will give us a higher margin.

**Chirag Lodaya:** Right, sir just lastly apart from MP where we have bottling infrastructure, which scale our IMFL products or currently everything is produced in MP and sold in other markets?

**Tushar Bhandari:** No, it's completely different, it depends on the state-to-state wise. Like for example, in Kerala, we've got a manufacturing setup in Kerala we tied up with someone who is doing our job work and who is doing manufacturing for us and we are getting it manufactured there, for markets like Delhi and Chhattisgarh we are supplying it from here, for Karnataka we had a manufacturing setup in Karnataka. So, it depends on the taxes, duties, availabilities, volume. So, there are a couple of other things because whenever you enter a particular state or you ask someone to manufacture it for you, you will ask for minimum quantity guarantee. So unless and until you achieve that, so we take very cautious steps and after doing all the research and analysis, we enter a state and then as per that also we don't go into aggressive CAPEX expenditure or taking up a bottling plant or

something like that. So, we do it step-by-step in every state. So, every state has a different strategy altogether as per their duties, taxes and other factors.

**Chirag Lodaya:** And sir what is the focus area for next two, three years because currently you are present everywhere and in opening remarks whatever you have mentioned, you've talked about lot of things, so next two to three years, what is the focus area, what will be the key focus area for us?

**Tushar Bhandari:** So, the core focus area for us is, there are two basically core focus areas, one is primarily obviously the first focus area is to increase the sale of our value added products and convert whatever ENA what we are selling it today. In next two years, we should be able to convert that into the sale of our value added products that is the first and prime most the focus area. Second, is there is a huge opportunity as Diageo-USL is now planning to slowly exit their own manufacturing unit and they are looking at partners like us who will control the entire manufacturing setup. So, that is a big opportunity which we are looking into. So as we are already bottling for them and doing job work for them. We are also selling their franchisee product. So, that is a big relationship which we are planning to grow in and we are planning to strengthen our tie ups with them, either it can be in Madhya Pradesh either it can be in terms of tie ups in other states of manufacturing or in terms of franchisee and also we are also planning to set up a malt plant for them which will be used by their products in-house and selling it outside also. So these are the two major focus areas which is there for next two years. Thank you.

**Moderator:** Thank you. We take the next question from the line of Vijay Ramchandani from Pragya Equities. Please go ahead.

**Vijay Ramchandani:** Sir, few questions from my side firstly what is the current ENA prices as on today?

**Tushar Bhandari:** So, the current ENA prices range anywhere between around Rs.51 to Rs.53.

**Vijay Ramchandani:** So on this I wanted to understand does the ethanol prices moving up, push doesn't push the ENA prices?

**Tushar Bhandari:** Definitely it has helped us because see what has happened in the industry is that, most of the producers who are producing RS/ENA from sugarcane, they've got a very good realization from the ethanol prices. So they have moved their produce towards the ethanol plant. So there is a slightly less

ENA available so that has given us a better realization in the ENA prices so that is definitely helped us.

**Vijay Ramchandani:** No, but our ENA realization has actually gone down if we compare it Y-o-Y?

**Tushar Bhandari:** Yes. But as per compared to what it would have gone down. With the current grain prices. So, we are still better off that's what I'm trying to say.

**Vijay Ramchandani:** Okay in other scenarios you are saying it would have gone further down?

**Tushar Bhandari:** Exactly.

**Management:** 30% to 40% correction in the raw material prices, grain prices in comparison to that there are hardly 10% correction is the ENA realization. So, ultimately it is having the better margin, one of your best margin in this year actually we can say.

**Vijay Ramchandani:** Okay. And if you can just throw more light on the CAPEX, categorically how much CAPEX is required in the bottling malt plant, ENA doubling as well as the ethanol. And if you can elaborate more on ethanol plan, what exactly are we planning to do, I'll come back again on this?

**Management:** Basically, our core is to focus and continue the liquor business. And we are trying to convert our capacity from 45 MLPA to 90 MLPA mainly for liquor. And initially, we would like to concentrate on quality ENA supply and followed by conversion of that ENA into our own value added product, this is the major road map of the company. Planning in process to to create malt and additional bottling facilities this is our core plant and making it completely the power supply unit and all this to reduce the power and fuel cost. Now, since the opportunity is again heading, we may be examining to create the plant with dual processing both ENA as well as the ethanol, so the time being we can utilize that additional capacity for supply of ethanol specially in Central India, where there are no sugar mills and we can get the opportunity to supply to certain OPCs. in the long run we continue to our core activity of the liquor, this is the concept basically. As far as project is concerned, we are having plans 120 crore project we are designing and we are working on that project.

**Vijay Ramchandani:** The total CAPEX will be around 150 crores?

**Tushar Bhandari:** Yes, if you add everything it's 150 crores.

**Vijay Ramchandani:** And by when do we plan to actually execute this project?

**Management:** In between the stages one is the expansion of distillery and related activity. Another is the bottling and the malt and other activities it may be decided. The first expansion process which we were already supposed to take up almost in 9 months back itself, but due to the COVID19 we hold that project. Now as proposed we have finalized discussion and will be taking up that project very soon and it will take 12 to 15 months to complete it.

**Vijay Ramchandani:** Alright. Approximately it will take 18 months from today?

**Management:** Yes from the date of announcement and then simultaneously in between we will be taking the remaining project also.

**Vijay Ramchandani:** And minus CAPEX would be only for ENA doubling?

**Management:** Around 120 Crores

**Vijay Ramchandani:** Okay. And what is your plan to actually fund this and this is just a follow up?

**Management:** Substantially we have been able to fund from internal accruals.

**Vijay Ramchandani:** The entire 120 crores

**Management:** Yes, substantial part of that, minor is just a small part is required. We enjoy privilege banking and we expect best interest rate. We are one of the best rated clients as far as this reason is concerned for the bankers.

**Moderator:** Thank you. The next question is from the line of Sachin Abhyankar from Transferred Investments. Please go ahead.

**Sachin Abhyankar:** Just to reiterate the guidance, so one should clearly assume that the 20% growth for the next five years at 20% EBITDA margin, is sustainable?

**Tushar Bhandari:** Yes, 15% to 20% growth for next in the top line, and post the expansion process comes into place, then there'll be a substantial amount of growth and EBITDA margin is around sustainable as these levels around 18% to 20%.

**Sachin Abhyankar:** And my second question again, goes back to the dividend policy, since this expansion is completely through the internal accruals, and we don't have any amount of leverage in the books is it time for the board to formulate any dividend policy so that a good dividend policy, a good ROCE and a good growth is a perfect combination for a candidate?

**Management:** Sachin we have already spoke about dividend policy but to brief you a we are regular but conservative as far as dividend is concerned further we rely majorly on internal accruals for expansion plans. However we will review policy in final Board Meeting ahead

**Sachin Abhyankar:** Okay. Just got a last question, five year down the line where do you see the company going through, how much of the percentage of sales will come from IMFL, the single malt and the high end brand and very less from ENA?

**Tushar Bhandari:** Pardon me?

**Sachin Abhyankar:** Five years down the line where do you see the company in terms of the sales breakup IMFLI and higher end malt Scotch brand. And selling off ENA as low end liquor, percentage of sales breakup?

**Tushar Bhandari:** Told earlier also that our aim is that whatever ENA sale we're doing outside right now, our aim is that within next two to three years, we should be able to convert the entire ENA sale into the sale of our value added products, in next two, three years. So the growth on margin and growth in top line would primarily come from there.

**Sachin Abhyankar:** So safely to say three years down the line or 5 years down the line we will be 100% brand product company?

**Tushar Bhandari:** Yes.

**Moderator:** Thank you. The next question is from the line of Pradeep Chaudhari from Samarthya Capital. Please go ahead. There's no response on the current participant we move to the next question from the line of Jasvin Mallik from Simaon Investments. Please go ahead.

**Jasvin Mallik:** My question is on the recent statements that the Chief Minister of MP has given to media, whereby he said that he wants to ban the sale of liquor in MP. If the ban goes through and MP turns into a dry state, can you quantify what impact would it have on your business?

**Management:** Just to correct that, the statement of Chief Minister is, it was more of the educational and promotional campaign in which he announced, he requested the public as an all to stop the habit of liquor drinking. It is more of the political and educational campaign and then it is not about banning of liquor production or making the liquor free, it is basically two statements to have sensitive and responsible drinking habit basically. He has taken the just to educate people as we don't foresee any reason immediately there and

moreover, in MP we are having almost 20% over the tribal population where government itself allows to cook and keep at home, especially certain tribal districts, practically declaring and making them and as a state liquor ban is not practically possible and feasible in Madhya Pradesh. And again, we have already diversified our boundaries, given the state and we are looking, beyond that. We don't foresee any reason at this level. Can you quantify what percentage of your sales comes from MP?

**Tushar Bhandari:** Around 3/4<sup>th</sup> of the revenue can be attributable to sales from MP right now.

**Jasvin Mallik:** And you are sure that the government will not ban sale of liquor in MP going ahead?

**Tushar Bhandari:** The statement was made by the Hon'ble CM, was totally misunderstood, and misdirected by the media. CM encourage responsible drinking, which has been done in the past also. So he's encouraging in terms of responsible drinking and very clearly, If you read his statement, he clearly stated that, we cannot ban liquor sale but we have to encourage responsible drinking.

**Management:** Moreover, politics and liquor continue together, you cannot stop but then state like Madhya Pradesh cannot think anything beyond, liquor is contributing substantial revenue to the exchequer and for GST, liquor is having only source of revenue for the state additional planning and growth basically you can say, since most of the items are now tagged with the GST. And only petroleum is left today and even the petroleum later or sooner will be tagged with the GST only. So, and across the country it maybe the political move in the short run, but these are the national ruling policies in any state was being operated by national players and national parties, there are hardly the remote charges are like this, maybe short term political statement. Wherever you are seeing it is mainly for regional parties who are not having anything through the state, that they may think any aggressive state but therefore national player who are operating in the 12-15 states in the country they cannot differentiate Madhya Pradesh with the Goa or Maharashtra or Chhattisgarh, so and so. We have to take the decision pan India basis, which is practically very, very difficult.

**Moderator:** Thank you. The next question is from the line of Mitesh from Stoit Tarrexia. Please go ahead.

**Mitesh:** Just one question, you said that Diageo is planning to exit manufacturing. Are you in a fray or looking to buy any of their facilities?



**Tushar Bhandari:** See, we are not looking, we are still in talking terms with them. So it's not necessarily either we will buy or something like that, there can be chances that we can manage or run the few of the manufacturing units like they've approached us for doing the job work for certain states which is under exploration stage.

**Management:** Basically being the single location as a strategic point they will give you the economics of scale, that's why we are expanding at particular location and as far as buying an acquisition may be decided altogether different reason territories as per the requirement and as per the opportunity which they may foresee in future.

**Moderator:** Thank you. We move to the next question from the line of Gaurav Lohia Investments. Please go ahead.

**Gaurav Lohia:** Sir, could you please give us the ad spend in 2020 and post nine months of 2021, that's absolute amount as well as the percentage of sales?

**Tushar Bhandari:** Pardon me, I'm not able to get you?

**Gaurav Lohia:** The advertising expense sir for FY20 and nine months of FY21, the absolute amount of gross?

**Tushar Bhandari:** Basically we don't believe in advertising that much. So, what we do is, we do on the field activation activities which are there. So, in terms of you will not see much of hoardings or any anything like that, because liquor trade is completely different from any other trades, here we have to activate on the shop activities we have to do, we have to know the customers because we believe in the quality of content which we are providing. So, we want our customers to taste our products. So, once the customer tastes our products, and compares it with our products available in the market, so, he might switch to our brand.

**Gaurav Lohia:** Okay, so there is no as such director standing on hoardings, branding as such from your side right music, videos or something like that right?

**Tushar Bhandari:** That is there to sustain the brand loyalty which is there. So, what franchise products and franchise brands which we have for USL, so USL is already doing national wide activities on that, which is Bagpiper, then Celebrate McDowell No., Celebration Rum and all that. So, that national activity already USL is doing and then we do on shop activities like posters, danglers and influencing the customers on that bases.

**Gaurav Lohia:** But we also have our own IMFL band right sir and which we are trying to get more into right and we have plans to launch in UP as well right. So there we would have to have some strategy over there?

**Tushar Bhandari:** Yes, so we are not doing any hoardings or any such investment on that front.

**Moderator:** Thank you sir. We move to the next question from the line of Saket Kapoor from Kapoor and Co. Please go ahead.

**Saket Kapoor:** Sir firstly as you mentioned that, it is more to do with the raw material price correction and it is the ENA demand that has been persistent because of the ethanol policy. So, sir going forward what are the variables that may get reversed with the availability of raw materials going forward. So, any special situation for this time that we are getting the raw material so cheap?

**Tushar Bhandari:** Basically the raw material prices have gone down because the production has been good this year, and raw material has gone down drastically. But then we believe that we will be able to sustain the margin. It's not only because the raw material price, it's a bundle of raw material price, it's a bundle of our price increase which we have taken. It's a bundle of the sale increase in other states in Madhya Pradesh, you've taken that has given the entire result in the margins.

**Saket Kapoor:** Sir if we take the breakup between your IMIL and IMFL portfolio, what percentage as to Q3 and where are the margins higher and your presence in the state of West Bengal?

**Tushar Bhandari:** Our presence in the state of West Bengal?

**Saket Kapoor:** Yes, sir.

**Tushar Bhandari:** See we were contemplating of to be present in the state of West Bengal, but as you are aware that last year itself the West Bengal policy has changed and they made a corporation where in the private parties are aggressively involved and private parties are opening shops so earlier we were thinking of entering that but right now it is becoming difficult because a lot of other players are there who are facing difficulties there, so we have put our plans to enter West Bengal on hold, because right now it's not looking attractive because there are a lot of private parties involved we will have to give debt and all that and there'll be risk of return of money. So on West Bengal we put on hold, right now we are turning, after UP we are studying our Orissa market, which we might look into entering.

**Saket Kapoor:** Sir private parties I could not understand, if you can elaborate a bit?

**Tushar Bhandari:** Basically recovery because they're the policy only the government was involved in realization of funds and all, government was buying and government was giving the funds, but now the private parties has been involved and private parties are doing the thing. So we'll have to, so basically the private party will lift products who will give them higher credit time and all that.

**Saket Kapoor:** It will not be a direct through the government channel that is what you are trying say?

**Tushar Bhandari:** Yes, so if it's through government channel then the money is secured.

**Saket Kapoor:** And any reason sir why that has happened in the state particular for this state or they adopting a very different policy from?

**Tushar Bhandari:** See, so they must have done it accordingly, so every state like in Delhi if you go so half of the shops are owned by private party, half of the shops are owned by government. So, every state has their own policies.

**Saket Kapoor:** And lastly sir, the mix of IMIL and IMFL, can you help us with the breakup?

**Tushar Bhandari:** So IMIL we are selling like in nine months we have sold around say around 22 lakh cases, and IMFL we have sold around 12 to 14 lakh cases.

**Saket Kapoor:** So it's 60:40 proportionate and where is the profile better?

**Tushar Bhandari:** Again margin profile are pulling it to, in IMFL, IMIL the margin realization is anywhere around 15% to 17%. And in IMFL, the margin is anywhere say around 18% to 23%.

**Moderator:** Thank you. The next question is from the line of Keshav Kumar from Rexin Investments. Please go ahead.

**Keshav Kumar:** Sir, have we seen any improvement in working capital raise this quarter compared to the H1 figures?

**Tushar Bhandari:** Yes, working capital has improved drastically.

**Keshav Kumar:** So could you give a quantum for the same?

**Tushar Bhandari:** I will share the details with you, I'll ask my team to get back to you and you can also take through Valorem.

**Keshav Kumar:** Alright sir. So, if I remember clearly, the receivables and nontrade of government not paying for a while because of COVID. So has that situation got better this quarter?

**Tushar Bhandari:** Yes, that has got much better. The government has started releasing the funds and some of the funds around 20% to 30% funds we've already received and we are hoping that by March end we will receive most of the funds.

**Moderator:** Thank you. The next question is from the line of Pratik Chaudhari for Samathya Capital. Please go ahead.

**Pratik Chaudhari:** Sir, could you share some thoughts on what is the vision that we our long term vision for the brands that we have?

**Tushar Bhandari:** So, basically long term vision what we have for our brands is that we are getting as we are getting into premiumization, that we want to increase the sale of our premium brands because that is the one which will give us the margins. So we have introduced premium brands in like from next year onwards. This year, we had introduced mid-size brands in states like Delhi and Kerala. And next year onwards we are planning to introduce the premium brands in Uttar Pradesh, in Kerala and in Delhi. And in that similar lines, we are also planning to manufacture a premium, a super-premium gin, a super-premium single malt and whiskey. But single malt will take time because as the majority of the malt is required so that will take time. A couple of two to four years, so that's what we are trying to do and the malt whiskey which we are planning to launch would be another six months to eight months time. And gin also premium gin also because gin market is growing, the premium gin market is growing drastically across the world. So that we have plans to come up with a premium gin in say around six months or odd figures, but the existing brands which we have got the premium vodka we are repackaging the entire vodka and we are getting it out in a better look. And we have repacked our premium whiskey and in some states like Delhi, we have already launched the repackaging gin of our rebranding of our premium whiskey and then in other states also from April onwards, we will launch the new packed brand. So that will gain a better traction in the industry.

**Management:** Mr. Chaudhari, we are in the process of transformation from the core manufacturing company liquor company to the branded and value added segment. And at the same time, we want to enjoy our the background of the core and efficient and quality manufacturer to convert ourselves with the value added product and with the calculated risk and appetite profiling we cannot jump in the market for something and we can lose the money we may work initially without making any money in some markets, but we cannot continue bear the losses anything, we are being a conservative company, we will try to grow the appropriate market with the value added product with our core expertise. That's why we are continuing with the diversified product portfolio with the major focus on the value added products which we are transforming and from last four, five years. And next four, five years we were able to reach our roadmaps which we have decided actually.

**Pratik Chaudhari:** And what is that roadmap sir?

**Management:** Road map is basically the doubling our manufacturing capacity, being the single malt producer and converting those capacity which is even being supplied to other manufacturers into our own value added products, behind the boundaries of Madhya Pradesh. It was a core MP based company, now we are in the three, four states we want to go beyond that.

**Pratik Chaudhari:** And just sir one last question on the branding side. Since we have a three, four year vision for the same what makes us confidence that we would be able to have higher margins then as compared to the branded players like Radico?

**Management:** With the volume of 4 lakh cases of the brand if we were having for four, five years back. Now, the cost of 25 lakh cases per annum is almost four to five times we have grown in the last five years. And we are looking for that reason and we will be able to have the similar growth we are expecting in the coming year. With our quality products, which we are trying to place in the market.

**Pratik Chaudhari:** Sir, I wanted to ask about the margins, because players like Radico have much more entrenched than us have much larger than us, has been there in the market for a much longer time. So what makes us confident that we will be able to have higher margins than the branded players?

**Management:** We will be able to get a higher margin is because of our we've been the most efficient team working on our efficiencies to a greater extent, we've been

most efficient company in the industry, and we've increased our efficiencies and reduced our costs to a greater extent. Second is also what we are doing is that we are also trying to innovate in each and every market which we are entering into like for example you would have seen in other food and beverage industry also like for example Domino's has come to India but they have customized the food menu here. So similar way whenever we are entering into state we are customizing the needs and innovating also, just to give you an small example when we entered Kerala market, Kerala market is primarily predominantly a brandy and a rum market. Where in there are huge amount of drinkers, female drinkers also. So we found a gap that the white spirit has got a good opportunity. So we were the first ones in the country to invent white brandy. So we introduced white brandy there and we increased the price substantially of the white brandy because no one had white brandy in the entire world also, this is a new concept which we innovated and that fit. So we do certain things also in each and every market we go, so just for example I am saying. And plus apart from that we are sure of the quality what we are providing. So over the years that quality gets appreciated and just to highlight on this platform, that this quarter has been not only great in terms of performance for us, but it has been great in terms of quality for us. Like this quarter, the company Diageo, which is the Indian number one company they have purchased, like for vodka you need the most purest form of alcohol you need. So for entire India Smirnoff, we were the only ones who are providing them. But this quarter, the Diageo has purchased triple distilled ENA from us, for the European market. So now European markets will be drinking Smirnoff made from a ENA of a company in India and that is us. So that's a proud moment for us and we have always, never compromise on a quality, so that quality would obviously give us a margin. Over the long run, I'm trying to say obviously initial period, we will not be able to drag that margin. But over the long term period, the quality would pay off.

**Management:**

Coming to your specific question let say comparable company, sizable company of the country. Basically every company has it's own overhead and it costing we are comparatively very selectively in the market in comparison to somebody who there will be in all the markets, whether it is a loss making market or profit making market, we are selling very selective, where you are having the profit and margin I am entering, which segment is supporting me I am doing the business, in any market in which I'm not comfortable I'm not entering and withdrawing immediately. That policy and even the light debt and light overheads makes us profitable, than somebody else I can say only

this. We have grown a symmetrical progress of 15% , 20% with the consistency of the growth in the top and bottom line as well.

**Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to Mr. Bhandari for his closing comments over to you sir.

**Tushar Bhandari:** I would like to thank you all for participating in this earning call. I hope we have been able to answer your questions satisfactory. If you have any further questions or would like to know more about the company, please reach out to our Investor Relations, relationship manager at Valorem Advisors. Thank you for sparing your valuable time.

**Moderator:** Thank you very much. Ladies and gentlemen with this we conclude today's conference call. Thank you for joining us and you may now disconnect your line.