



“Associated Alcohols & Breweries Limited
Q1 FY2022 Earnings Conference Call”

August 16, 2021



Dolat Capital



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Moderator: Ladies and gentlemen, good day and welcome to the Associated Alcohols & Breweries Q1 FY2022 Earnings Conference Call hosted by Dolat Capital Markets Private Limited. 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 the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Himanshu Shah from Dolat Capital Market Private Limited. Thank you and over to you Sir!

Himanshu Shah: Thank you Lizaan. On behalf Dolat Capital we would like to thank all the participants for taking timeout in this afternoon for call with Associated Alcohol. We would like to thank the management of Associated Alcohol for giving us the opportunity to host for Q1 FY2022. We have with us from the management Mr. Tushar Bhandari - Whole Time Director and Mr. Sumit Jaitely - Company Secretary. Thank you and over to you Mr. Bhandari for your opening comments.

Tushar Bhandari: Thank you Himanshu. Good evening everybody. It is a pleasure to welcome you to the earnings conference call for Q1 of FY2022. As you may already know Associated Alcohols & Breweries Limited is one of the largest single location distillery in India with a state of art integrated multigrade base 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 increase the capacity to 75 million liters per annum. It is engaged in the entire value chain for manufacturing and selling of ENA and contract manufacturing for my key brands as well as direct to customer sale of their proprietary IML and IMFL brands and licensed brands.

Now let me take you through the key financial and operational highlights for Q1 FY2022 of the company. The operating income of the quarter was around 30.3 Crores, which was an increase of approximately 33% on a year-on-year basis, but down by around 37% on a quarter-on-quarter basis. Operating EBITDA reported was around 15.6 Crores with an increase of about 77.3% on a year-on-year basis and down by 35% quarter-on-quarter. Operating EBITDA margin stood at 19.43%. Net profit after tax reported was around 10.1 Crores which grew by 110.4% on a year-on-year basis and was down by 33% on a quarter-on-quarter basis. PAT margins were around 12.58% which improved by 463 bps on a year-on-year basis and by 81 bps on a quarter-on-quarter basis. This has been a steady improvement in the financial performance of the company post the gradual resumption of the economic activities.



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I will now take you to quarterly segment performance. In the manufacturing segment revenue for the Q1 was around 31 Crores. Our merchant ENA sale volume for the quarter was 43 lakhs, which was up by 48% on a year-on-year basis and the revenue from sale of ENA was 21.7 Crores, which was up by 37% on a year-on-year basis. In the consumer segment revenue for the quarter was 49.3 Crores, which was an increase of 68% on a year-on-year basis. Our sale volume for IML was up around 80% on a year-on-year basis to around 6 lakh cases. The IMFL proprietary volume was up by 28% on a year-on-year basis to around 1.25 lakh cases and IMFL license brand was up around 79% on a year-on-year basis to 1.16 lakh cases. During the quarter the operating of business was impacted as the production was closed for almost 50 plus days due to lockdown in Q1 FY2022 and closure of liquor shops. On the day when the retail shops were open the business saw an above average momentum. MP and Kerala were under complete and strict lockdown in Q1 FY2022 thus affecting the sales in these states. Raw material price saw a slight increasing trend of approximately 10% and is expected to remain stable. Capacity utilization during the Q1 FY2022 was approximately 60%. Lastly as the vaccination drive is in full swing the outlook remains positive for Q2 FY2022 and the business is expected to return to normal levels. With that we can now open the call for the Q&A session.

Moderator:

Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Keshav from RakSan Investors. Please go ahead.

Keshav:

Hi good afternoon Sir, hope you and your management are safe and healthy. Congratulations on a good quarter in a very, very difficult time Sir. Sir, I have a question that might be conjectural but a very broad-based view. So in FY2023 Q1, Q2 on that time we are coming up with more ENA capacities that will be fungible with ethanol and the government has set a target of E20 fuel by 2023, 2025, there are a lot of new capacities being built and coming up to cater to this demand both the molasses and grain based but currently the cars, the vehicles are compliant with E10 and we are roughly in the range of 8.5% ranging, the auto industry is also pushing for first E10 and then gradual phase up to E20 and also is advocated for separate fuel dispensation, now with this backdrop in a situation where ethanol supply is much more than that can be absorbed for blending and these fungible capacities in the industry can maybe then trickle down to ENA and put some pricing pressure so what do you foresee as challenges for us as a company because the ethanol industry has sort of bypass the natural capital cycle and its partaking in a state sponsored demand and if a situation like this were to happen would we be able to increase our ENA absorption for value added products appreciably over a period of say two to three years from now and build on our brand strength?



Tushar Bhandari: I think it is a very well question, which you have asked. See for us as a company we are a core alcohol manufacturing company ethanol is an opportunity which we have got in line the market is always the long-term focus will be to increase our value-added products and increase the sale of our products and in turn, utilizing the ENA in that, but at present, there is a huge opportunity and there is a huge demand-supply gap on the consumption of ethanol like for example even MP has achieved that 8% the standard 8% which is required but out of that 8% which MP has achieved still 50% to 60% of ethanol is coming from outside MP. So wherein MP companies like we are manufacturing ethanol right now get a better realization than the companies who are sending from outside MP. So this demand-supply gap we are here to cater the demand-supply there and what we are also doing is that looking into the long-term this thing we are also going in for dual-mode of ethanol and ENA. So as per the requirement of the market if these as the opportunity or better realization in ethanol we will sell ethanol which we see in next coming three to four years at least is minimum there will be added advantage in ethanol pricing so we will go ahead for ethanol but as per long-term you say that long-term see after all the capacities will come even government by 2025 is expecting almost 20% to 25% blending of ethanol so still there will be demand there but there is a slight challenge which might come in to place is that if most of the companies like see sugar companies or most of the sugar companies which were making ENA are moving towards ethanol so this gives opportunities for us to increase the price also because now the RS or ENA available with this sugar companies are providing earlier is slightly less so as they give us the price advantage plus what visibility that is most of the companies come up with a grain based ethanol plant then there is a strong possibility of the commodity price going high and if the commodity price move on the upward trend then we can surely pass on that commodity price hike to the buyers of ENA and in turn we can also pass it on in certain cases to our own value added products also.

Keshav: Sir so the best-case scenario is very, very positive for sure but the bottleneck ultimately can come from the compliance from maybe the auto industry because right now all these vehicles are E10 compliant?

Tushar Bhandari: Yes so I am saying right now still there is a huge shortfall in complying at 8% requirement of the government which was there earlier in terms of ethanol so right now itself for next two to three years comply with that 8% achievement is still there is a huge opportunity and after three to four years the automobile companies will also comply with it so then again there will be opportunity there also.

Keshav: Sir just to put one thing so we come up with capacities next year and say the first year is more of ENA and then it gradually goes into our value-added products so say five years



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down the line with more and more capacity additions in our business what kind of profile do you foresee coming up from our ENA as a percentage and other value-added products?

Tushar Bhandari: See our objective is primarily is to sell whatever the value added products is there and increase the sale of our products and then whatever the remaining would be there the ENA sale would happen out of that so either ENA or ethanol whichever will give us a better pricing in realization we will go ahead with that, but if you talk about five years down the line what is our view, our view has always been as I said earlier also to increase the sale of value added products so when our capacity around two years back was around 35 million liters per annum and it moved from 35 to 45 our objective was that the additional capacity which we are creating we have to increase that amount of sales in the value added products and that we were able to achieve that and now again our view is that when we like say one year down the line our fresh capacity will come up and within next five years we should utilize the maximum amount of ENA which we produced in our own value added products.

Keshav: Sure Sir, I will join back the queue for followups. Thanks a lot Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Abhishek Maheshwari from SkyRidge Wealth Management. Please go ahead.

Abhishek Maheshwari: Sir couple of questions, this 100 kiloliter per day ethanol facility that you are setting up this is over and above for original expansion plans of 35 million per annum capacity or this is the same?

Tushar Bhandari: This is the same part of that only. So presently we have got a capacity of 45 million liter per annum so from 45 we will move to 75 with this.

Abhishek Maheshwari: So this is a part of that only it is not over and above that plan right?

Tushar Bhandari: Yes this is part of that.

Abhishek Maheshwari: Secondly obviously Kerala constitutes a major portion of your sales 45% or so, so I think we are still seeing the cases over there increasing at a much faster rate than other states so any impact for Q2 also or are we normal now?

Tushar Bhandari: If you see year-on-year impact there would not be much year-on-year impact we are able to maintain the sale which we had achieved in Kerala last year we are able to maintain that as on present but our aim was to double our sales in Kerala which has not been seen at present due to since last two to three months there is still heavy amount of cases coming in Kerala,



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lot of bars have not opened, the shops are closed in certain regions wherever there is high number of cases so till now we are able to maintain our month-on-month performance but the additional sale is not coming that is the only thing. In Kerala also what we have done is that now on we launched our premium brands so we are expecting better margin to come up in Kerala from this year onwards.

Abhishek Maheshwari: We can see the margin improvement definitely month-on-month so basically what you are saying is July, August you have maintained the sales performance in Kerala but we are not seeing much of an increment there at this moment?

Tushar Bhandari: Yes.

Abhishek Maheshwari: Okay Sir, thank you very much and all the best. I will get back to the queue.

Moderator: Thank you. The next question is from the line of Piyush Chaddha, an Investor. Please go ahead.

Piyush Chaddha: Just wanted to understand a little bit more about your margin structure, I think the realization for ENA if you add the byproducts that you generate when you are manufacturing ENA would be roundabout Rs.60 to Rs.65 a liter, Rs.60 to Rs.63 a liter somewhere over there?

Tushar Bhandari: The ENA realization is if I just say pure ENA realization is somewhere to the tune of around Rs.52 to Rs.55 at present.

Piyush Chaddha: Would we generate roundabout Rs.8 to Rs.10 of byproduct for every liter of ENA we make?

Tushar Bhandari: Yes.

Piyush Chaddha: Around Rs.60 so broadly speaking would you earn around the Rs.10 margin out of the Rs.60 over there Rs.10 to Rs.11?

Tushar Bhandari: In ENA sale say around anywhere between as on today 12% to 15% of margin contribution.

Piyush Chaddha: This includes the sale of byproducts or it does not include that?

Tushar Bhandari: No it does not include.

Piyush Chaddha: If we add byproducts then it is closer to 20%?



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- Tushar Bhandari:** Yes, byproduct is calculated in the cost only it comes in the part of the cost so it is including byproducts and everything I am talking of.
- Piyush Chaddha:** So would 15% be including byproducts or not including?
- Tushar Bhandari:** Yes, including.
- Piyush Chaddha:** So that is your margin how does that change when you move into your own value added products either the IML or the IMFL and subcontracted manufacturing because our operating margins rather still around 15% only?
- Tushar Bhandari:** Pardon me.
- Piyush Chaddha:** How does the margin picture change when you move towards IMFL and IML that you make?
- Tushar Bhandari:** IML is roundabout around 15% to 18% and IMFL is roundabout 20% to 23%, 24%.
- Piyush Chaddha:** Are we actually realizing profits on these because we are a relatively young company in the sense that are we in the build out stage or have these product lines started becoming profitable?
- Tushar Bhandari:** Because of premium products they are becoming profitable.
- Piyush Chaddha:** Going forward however when should we sort of assume that the overall corporate profitability starts trending towards that 18% kind of a range which we should hedge towards?
- Tushar Bhandari:** Yes, it will still take time because see we are entering into other states and entering into other states is a big challenge if I need to grow volumes at Madhya Pradesh I am standing almost around 25% to 30% market share so today whatever I will grow is as per the market movement and slightly I am able to capture other market also but if I have to go exponentially I have to enter into other states, so when you enter into other states there are certain things we keep in mind is one is that we will not involve a lot of capital expenditure so basically we go in asset light model we try and tie up with a local bottler there and then we sell from there and plus apart from that the working capital which is required major portion of it is ENA so ENA will supply from our unit in those areas and we make sure that whatever realization in new market we enter at least we are not making losses and at least whatever profit I would be making and selling the ENA that much I have to assure before



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entering into any other markets and when I enter a market I enter with a lower end product because that gives me volumes and it helps me to sustain my fixed cost whichever is there and then slowly we start introducing our premium brands so the similar kind of thing we did in Delhi, similar kind of thing we are doing in Kerala so Kerala when our sales started going up we started introducing our premium brands and this year we have lined up at least three premium brands in Kerala market so that will give me a margin expansion that is the model which we are following.

Piyush Chaddha: Today if I was to look at it around one quarter of our rather slightly more than that we will be roundabout 28%, 29% of the ENA is (inaudible) 19:49 commodity the rest is either used for our own products or used for subcontracted manufacturing?

Tushar Bhandari: Yes.

Piyush Chaddha: Will that buffer stay more or less constant in the sense that when we bring in additional capacities towards next year will we have enough volumes in the other production buckets to make sure that this proportion is more or less constant?

Tushar Bhandari: The proportion see at present if I tell you my proportion of my topline is around more or less 33% of my topline is ENA, 33% of my is IML and around 30% is IMFL. We expect the IMFL business to grow but as you said when the capacity expansion come in that time what we are trying to do is by the time my capacity expansion come in whatever quantity I am selling ENA right now I will try and assure that, that quantity of ENA I am able to convert into my value added products and that is our focus at present.

Piyush Chaddha: Pretty much done. Just one last question if I may. You take a lot of pride in the fact that you are one of the largest single location distilleries in Asia what is this important to you it is not something I could understand?

Tushar Bhandari: See earlier see now the things have changed completely it is of importance because there are two major things in that because earlier what happens is in the molasses base era when we are functioning so one could not grow at a one particular location to a greater extent because of the affluent treatment issues which were there, but now post our getting into the grain manufacturing that all been taken care of. So if you grow obviously more in one particular location individual economies of scale, so for example if I am doubling my capacity here only so with a same amount of stock and overheads I will be able to double my capacity that will add to greater amount to my margins so that gives a lot of importance and apart from that we have a huge locational advantage we are almost at the heart of India so we are equidistant from across the country so we can supply anywhere at the same



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amount of transportation cost and in India what is the major amount of ENA manufacturing facility are located in the north and major consuming states are the south so today I have the added advantage of transport as compared to the factories which are there in the north.

Piyush Chaddha: Thank you very much, deeply appreciate this, I will get back to the queue.

Moderator: Thank you. The next question is from the line of Dhruv Kashyap, an Investor. Please go ahead.

Dhruv Kashyap: Firstly thank you so much to you and your team that has been working sort of tirelessly and with the great results you did over the last one-and-a-half years in these COVID times so thank you so much for that. My first question Tushar is that as sort of company or a consumer marketing company these are the times where there is a lot of talk about the emphasis on mass whereas we always talking about premiumization, premiumization, that also be the landscape is affording that opportunity there ever since USL was bought over the Diageo and Diageo seems to be focusing a lot more on its international proprietary brands they are vacating a lot of the absolute mass segments where we would like to build our brands in both in India and abroad. Now in my network whoever I have spoken to in countries of Africa where there is a lot of inherent demand for Indian Whiskies because of maybe the Indian people there or maybe at a minimum whisky I am told that segments completely vacated by USL and is now being taken completely by Radico so do we have any such plans to get into places where there is a strong demand for Indian alcohol and has not been supplied by the largest player anymore?

Tushar Bhandari: Dhruv I absolutely take your point and we have been also on that thought process only, so basically for premiumization see there are two kind of premiumization definition see from where we have come from, earlier we had a brand which was only I am talking about five, six years back where we had only one single brand which was doing fairly well and was just about the IMIL category so from that brand we have moved now to popular segment so industry is divided into IMIL, cheap brands, popular, prestige and premium so we are also focusing on that segment only which has been vacated by USL so we are concentrating on the popular brand category so which gives us a better margin realization but in that popular brand category also we are also looking into premiumization slightly more premium brands also there so as you rightly said that there has been across the markets has been vacant it is not only in the international market so for example it has been vacant in the CSD market, in paramilitary market, earlier we never used to do business in paramilitary market but now at least we are doing at least 35000 to 40000 cases in paramilitary market and the brand is being accepted really well there. Then the export market also we are aggressively looking at export market and we are doing our export business in African countries as you pointed out



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we are doing export business also so in that our lower end and the medium end and popular brands are going there so we are definitely looking into those markets and trying to capture those markets but what we are trying to do there in that markets is also that we are trying to give value for money to the customers so we are for example our Titanium Vodka is there which is almost quality wise almost equivalent to any premium vodka which is available in the market but we are giving at a slightly say 40% discount than the premium products because that is attracting value in the market that is what we are looking at. Apart from that we also see there are other pockets also available in the market which we are targeting on that is a super premium product range, so super premium product range is like for example right now we have to go with the trend also in the market so for example right now the trend is people are buying super premium gins so we are in the stage of manufacturing getting consolidated and manufacturing that also because there are certain unorganized player also who have come up with craft gins and all and they are doing good business and they are also charging good amount of pricing so that will also give us the margin so in future if we have to look at a company so we have to have a entire bouquet of the products with us because tomorrow if I go to a customer or for example our international customer I need to have a bouquet of at least seven to eight products which ranges from lower end to popular end to a premium end also so that, that particular customer of mine does not go anywhere for any other product so that has been our focus now.

Dhruv Kashyap:

So Tushar just as a followup to that so next if we break this into geographical there is a tremendous low hanging fruit opportunity in international markets which are D&E, similar to India kind of markets and there has been a bit of a historical presence of Indian brands which have been vacated now and similarly within India I was told last time we would enter UP and we were trying to get consultant in this sector to help you I am sure you must have mapped out that which are those big 80:20 kind of markets in India and abroad which you can take quick wins and low hanging fruits?

Tushar Bhandari:

See we have done that but there have been couple of things which has happened as you aware that last one, one-and-a-half years been tough for everybody so for exports also especially in African markets it was very difficult for containers to go to and fro and there were no cut in availability so that was the case but we are aggressively concentrating on the African markets and plus we are also looking into the US markets also because US markets also have got good demand and the gulf countries these are the countries which we are looking into it and plus if you talk about say India so India we have already entered UP so last year we entered with our low end product and this year we have introduced our premium products our popular end products which is Central Province Whisky and plus apart from that we are looking markets like Pondicherry, Odisha also to get into it.



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Dhruv Kashyap: Tushar my last question is if you can just give some color or understanding because I know you shared it in your presentation and I know you share it in your conference call but I just want to understand it as a bit of detail and if you could shed some color on it that if I have understood correctly there is a ENA business of yours on top of that there is contract manufacturing which could be for IMFL and on top of that you have your own proprietary brands IMIL and IMFL and I am assuming that is how the margin moved also right so the ENA would be least, contracts would be in between and your own brand will be the top?

Tushar Bhandari: No, so basically the product portfolio is like ENA is there then we have got IMIL business which is country liquor business then we have got IMFL business, so IMFL business is also divided into two portions one is the franchise business of USL brand that we are doing for Madhya Pradesh so the popular brand which we have got and then there is IMFL of our own brands and then fixed product line is the pure job work business so that is manufacturing for USL brands so which includes all their scotches like Black & White, Vat69 and Black Dog and all the other product portfolio which we manufacture for them.

Dhruv Kashyap: So if I was to take that as the current in your 4.5 billion meters capacity I am assuming that your own IMFL will give you the most margin and your ENA will give you the least margin is that a fair assumption?

Tushar Bhandari: Yes.

Dhruv Kashyap: So if that is how it stands so like you explained ENA has the least followed by IMIL followed by some split between IMFL of USL and then your own brand also if I was to take that and I am getting to understand that the 7.5 million liters is just an academic thing actually you will be able to get out about 8.5 million liters of actual production is what your team has explained in the last call so as we move to that would it be fair to say that our margin profile should be better because we would try and do a lot more of that enhanced capacity of higher margin products which are our own proprietary products is that a fair sort of intent?

Tushar Bhandari: Yes definitely.

Dhruv Kashyap: That is what I wanted to understand that so what you are saying is that as we enhance our capacity so would we want to increase our margin profile but improving our mix index.

Tushar Bhandari: Yes.



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Dhruv Kashyap: Thank you so much Tushar and all the very best for subsequent quarters and as I said you and your team are doing excellent job. Thank you so much.

Moderator: Thank you. The next question is from the line of Abhi Ruchi, an Individual Investor. Please go ahead.

Abhi Ruchi: My question is I think I read that Diageo in India is thinking about their strategy of giving contract work to people like us if that is true do you think the scenario can play out and how prepared are we?

Tushar Bhandari: Diageo is definitely looking at players like us to work for them so of course Diageo takeover of USL earlier when the USL was there so USL was proudly owner of say for example 100 factories or so, so now Diageo wants to concentrate in all that and they want to concentrate on what is their USP, their USP is creating brands and selling those and they want players like us who has got USP in manufacturing who have got expertise in manufacturing over the years so we are a company which has got a two decade experience in manufacturing so they are realizing on few players like us across the country so they have identified a handful players who are doing most of their jobs this is one to answer your question. Second is how we are able to encash it right now is that most of the things what we are doing with Diageo is for a long-term basis so that can be brought it down from a basic simple example is that earlier when we were manufacturing for USL we were just considered as a job work manufacturer but now we are considered as a long-term partner and there are couple of other things also which we are doing for them which are almost on the finalization stage so these are the unique things which they want to do with us which we cannot disclose at present but we are definitely looking at a long-term encashing our relationship with Diageo.

Abhi Ruchi: No I understand that and my question is I think they have a new CEO in India and post that change in management I read a disclosure wherein they said that they are looking at their current strategy which is to concentrate only on premium products so the question regarding that is if they were to go back to their previous strategy of the USL where they enter the mass segment again suppose if that happens then what is our strategy going ahead?

Tushar Bhandari: See if they enter in the mass segment our strategy has always been see mass segment what we are doing right now is we have got their own popular brands which they are managing in Madhya Pradesh so when Diageo was telling 6 lakh cases of those popular brands and post our takeover of their business we have taken that volume within three years of running the business of 11 lakh cases and why we took this opportunity is definitely with this opportunity overnight we became the number one player in Madhya Pradesh and we started



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selling our products with those products so we are also looking at our products. In other states we are entering with our products only we are not entering with Diageo's products so you have to have a product line and you have to have a consistent quality and acceptance then only the sales will come so that is what we are targeting.

Abhi Ruchi: Just last one question if you can throw some color on the strategy that we have and the success or not so success that we have had in the UP market given that we are in a COVID situation how has been the progress till now?

Tushar Bhandari: See UP market is very nascent like last year last quarter we entered the UP market, we entered in other markets also, in UP market we entered with a lower end of the brands which is slightly lower than the popular range category in that what we did is primarily we did something different because when you have to enter in that kind of market and enter into somebody else's so that it is difficult to break through so what different we did is that generally in that category people use only single label that is front label only so we introduce a front and a back label though the cost was only minisculely higher than a single label cost but that give an impression because in that category it is impression that if there are double label front and back then that means it is slightly better product so in that category we launched a two label product so which gave us a good response and after that this year we have launched our premium whisky but because of COVID and all we could not expand we could not do the justification of the volumes so the substantial volume of a premium product has not come and the acceptability of the lower end product which we had launched last year has come to a good extent.

Abhi Ruchi: Thanks Tushar have a great day and take care during these times. Thanks appreciated.

Moderator: Thank you. The next question is from the line of Abhishek Maheshwari from SkyRidge Wealth Management. Please go ahead.

Abhishek Maheshwari: Sir we discussed Kerala that we are maintaining month-to-month sales and all but how the other states doing like Madhya Pradesh, Chhattisgarh, Delhi even these states are your key states right and COVID situation is more or less normalized there?

Tushar Bhandari: Yes, so other states like in Madhya Pradesh and Chhattisgarh we have able to do good volume post the lockdown so as soon as the lockdown open there was a good amount of increase in sales and as the vaccination drive is increasing like Madhya Pradesh and especially like Indore cities like metros like Indore and all almost 80% population has been vaccinated at least one dose and that is the impact I think why we are getting very less number of cases also, so almost things are normalized and business has come to a normal



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position and we have seen an increase in the volumes only a slight setback is there in Delhi because Delhi is going in for change in excise policy and if the new policy comes then we are hopeful that when the new policy comes we will be able to increase our sales substantially.

Abhishek Maheshwari: So in other states say Madhya Pradesh, Chhattisgarh we are growing volumes?

Tushar Bhandari: Yes, we are doing better than last year.

Abhishek Maheshwari: Last year and month-to-month also?

Tushar Bhandari: Yes, month-to-month only I am talking about the post lockdown.

Abhishek Maheshwari: Got it thank you.

Moderator: Thank you. The next question is from the line of Keshav from RakSan Investors. Please go ahead.

Keshav: Sir I have a very basic question building upon couple of questions few gentlemen asked earlier so there was a mention about big players vacating the mid segment I am not very clear on this so could you shed some light of what is happening are they vacating a market in terms of manufacturing the products or are they vacating the space and focusing on premium brands?

Tushar Bhandari: So primarily big player out, in the Indian market two major players are there one is Furneaux and second now is Diageo so these are the two major players and they are concentrating only on their premium product range category where they have got better margin realizations so the popular range category is being vacated by these players or for example like USL, USL has given these popular range categories on a franchise basis so across India I think we are one of the top franchise performers for them in other states I do not know how cum the other franchise owners are not able to perform well so that space is getting vacant and we are trying to encash on that space.

Keshav: So it is both in terms of contract manufacturing and also vacating the brand space?

Tushar Bhandari: Our contract manufacturing there is opportunity there because they are moving away from their own manufacturing business and they are relying on players like us for manufacturing of their products so that is an opportunity for us.



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Keshav: No Sir what I meant was that so this was space they are focusing on premium brands so is it like that earlier they used to produce the mid segment in-house and now they are offloading with contract manufacturers or there is also an element of completely vacating their space in terms of brand?

Tushar Bhandari: It is an element of completely vacating the space for the brands.

Keshav: Both?

Tushar Bhandari: That is how opportunity is there.

Keshav: Just one thing in the last call you had mentioned about like we know that our capacity in year ends would be 7.5 Crore liter so you said that, that were rated capacity but we can do more than that so what exactly would be our realizable capacity?

Tushar Bhandari: Around 8.5.

Keshav: Okay Sir thanks a lot that is all. Thank you.

Moderator: Thank you. The next question is from the line of Dhruv Kashyap, an Investor. Please go ahead.

Dhruv Kashyap: Sir just a followup to my earlier couple of questions. So just to understand this better in terms of geographical wide spaces and product wide spaces so if you take geography first we were a MP forward company where we have published will have a line share of a contribution coming from MP post that I have heard that we have made a lot of success with some of our for example you gave the example always of a white spirit like you made for a white brandy that you made for Kerala so then you moved from that, I am trying to understand that are you going to the sort of bigger liquor consuming geographies are always in sync with their product portfolio how is it or is it that we are going to 10 markets which spreading yourself still or are you planning to get one market first capture it I just want to understand for a smaller company this strategic call will be quite important as to how do we geographically expand so can you shed some color on the thinking behind it?

Tushar Bhandari: Yes Dhruv basically what we are doing is that we are taking a one market at a time so for this we have appointed a senior person on our Board, Board who have served USL for 30 years and he was taking care of the operations in different locations so he is guiding us on which markets to enter plus apart from that see what has happened in last one year also the pace at which we were planning to move ahead we are also in the review of which base we



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have to take because in certain markets that we were planning to enter or say we were planning to aggressively go ahead like for example Delhi and all so there are lot of private vendors also there so in such kind of market when the business uncertainty is there when the market uncertainty is there because of COVID and all so there are chances of bad debts also so there also we are taking a quite cautious call is just to increase the topline we do not want to deteriorate our bottomline also, that thing also we are looking into it so when we enter a market we look into volumes obviously we look into volumes second is we look into realization third we also look into is how much capital is involved in entering those states like certain states have got duties involved wherein we have to pay upfront duty so for a product of say Rs.600 you have to pay a duty of Rs.3000 your working capital also changes accordingly and profitability and also looking into all the aspects we take a call in the markets we enter.

Dhruv Kashyap: So just to understand this better with an example Tushar let us say Madhya Pradesh and Chhattisgarh is our largest market followed by good success in Kerala now what are the resources you are putting behind these two to expand then which is our market three, four, five that we want to capture?

Tushar Bhandari: So what we are doing in these markets is that we are obviously trying to increase the sale of our premium product so like for example on the brand which we had launched in Kerala that Lemount White Brandy so we are launching the versions of it now because it is a majorly a branding market and I said Dark Rum brandy market so people are aware now Lemount name and the quality which we are providing so now with that we are riding our brandy products also and we are concentrating on these markets to increase our premium brand sales and apart from that to expand into markets what we are looking into our next focus is UP because UP is a good volume business so if we are able to track UP right then we might have a good volume and there can be another Kerala created there and then we are looking into Pondicherry and Odisha so these are the markets which are there in the pipeline due to all these COVID and all slightly the process got delayed for entire one year.

Dhruv Kashyap: In terms of my other question is in the product widespread I am assuming that your product category has to be in sync with your market entry strategy for example like you mentioned that I know for a fact that Tamil Nadu and Kerala very big brandy consuming markets so in these places you need a product portfolio in line with the market requirement so in terms of our product portfolio have we got all the basis covered that a company of our size, scale and ambition needs or do we have even product gaps both in terms of product variant as well as in terms of price points?



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Tushar Bhandari: See in term of product price points towards the lower end if we see that for example if I give you an example of a market like Madhya Pradesh so we have got a product at the lower end which is Bombay Special Whisky then we have got James McGill Whisky then we are doing Bagpiper Whisky then we are doing a Central Province Whisky so every Rs.10 price point up or down I have got my product available in this category which is the lower end category so similar is the kind in rum and the kind in white spirit, so we are trying to capture the entire lower end and we are trying to place our products in such a way that these are price points of Rs.10 up and down to customer either go to up the ladder or down the ladder so our product should be available in those price points.

Dhruv Kashyap: Also in white spirits whether it is Gin or Vodkas and Rums that you mentioned do we have enough variant thing and enough price points in these also and do we have a Gin?

Tushar Bhandari: We do not have a Gin because per se the market Gin is a totally different market altogether and it acted really differently so in Gin the most popular Gin was there in the Indian market was the Blue Riband Gin which is on the lower end so the sale of the Blue Riband Gin is going down but the sale of premium Gins are coming up substantially so we are in process of launching our premium Gin which should happen in another three to four months.

Dhruv Kashyap: The other question I had asked is on the Vodka and the Rums do we have enough price points and variants covered in our product strategy?

Tushar Bhandari: No we are only single vodka at present right now so that is what we are concentrating, so for example there is only one price category across the country which attracts the maximum volume in vodka which is up now Magic Moments category. So it is everywhere slightly lesser than the Magic Moments so that is the only vodka which is mass selling otherwise vodka if you go up the ladder then either there is only imported spirits and down the ladder we have wide list of vodka which is of USL we are selling.

Dhruv Kashyap: Thanks a lot Tushar, thank you so much.

Moderator: Thank you. The next question is from the line of Yogesh Bansal from B Square. Please go ahead.

Yogesh Bansal: My question is regarding your expansion strategy like the last quarter in the investor call you expressed that you are doubling your capacity from the present one can you shed some light on where we are on that and are we on track on hitting our capacity by March 2022?



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- Tushar Bhandari:** It will take around March 2022 around first quarter of next year we should see it happening so most of the orders are placed work has started we have got a target of at least one year from this.
- Yogesh Bansal:** So everything is on track so once you have your capacity doubled you have enough markets where you can supply that excess capacity?
- Tushar Bhandari:** Yes.
- Yogesh Bansal:** So will that see a doubling down on your revenue or in next maybe another next one year we will double the revenue the topline?
- Tushar Bhandari:** Yes.
- Yogesh Bansal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ashok Chheda, an Investor. Please go ahead. As there is no response from the current participant, we will move onto the next that is from the line of Abhi Ruchi, an Individual Investor. Please go ahead.
- Abhi Ruchi:** Tushar one more question regarding product gaps I think we are not into the beer market right now right?
- Tushar Bhandari:** No.
- Abhi Ruchi:** So just wanted to understand from you what is your view of the beer market and do we have any plans to say further down in the future?
- Tushar Bhandari:** No, the company's promoter has a company wherein they are selling beers.
- Abhi Ruchi:** So in the associated alcohol company there is no plan to enter that kind of a market, right?
- Tushar Bhandari:** Yes, it is right we did not have any plan.
- Abhi Ruchi:** Okay that is all thanks a lot.
- Moderator:** Thank you. The next question is from the line of Keshav from RakSan Investors. Please go ahead.



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Keshav: Sir you had mentioned in the last call that we are in talks to export ENA to Europe I think the tie-up with the Diageo if I am not wrong where are we on that?

Tushar Bhandari: We had already exported one consignment so that was as I told in my last concall also that was the big achievement for us because that projected the quality of ENA what we are supplying so for manufacturing of vodka in the European market they took the ENA from us and as you are aware that there is a huge COVID situation in the European markets it is still not under in control so that only one consignment has gone and we are continuously in talks with them but the sales have also gone down substantially because of the COVID.

Keshav: Sir from a quality standpoint only say somebody existing in the very same location as you Madhya Pradesh and they are the same vendor for equipment and they also start manufacturing ENA sourcing the same raw material somewhere around so what is in your ENA the processes?

Tushar Bhandari: So basically we give this entire credit to our technical team which keeps on doing certain modification so basically there is one standard plant and there are certain modifications we asked for the plant manufacturers to do in that plant to get the required quality which we want and after that plant is delivered also our technical team keeps on doing R&D on how to increase the quality of the ENA which is there so it is not today only it is over the years it is in the last few decades we have been known for the quality of ENA which we supply. So that is the reason so for example a company like Vodka is just a pure ENA which is there so it is just a movement of pride that earlier they were sourcing ENA from the European market and now they are calling ENA from the Indian market to manufacture their vodka that speaks the quality for us so it is not about I am not talking about if somebody sets a plant in Madhya Pradesh also I am talking about the international also we are able to match the quality of requirement which is there that is why they have taken this.

Keshav: That means that the contract manufacturing space going forward could also be a very good opportunity for you because there were big players do not want to go for?

Tushar Bhandari: It is still a big opportunity so every time our volumes have been increasing in terms of contract manufacturing and in terms of looking into that opportunity also with this new expansion plan we are also coming up with the new bottling haul also.

Keshav: Sir just one final thing so it would be next to impossible if somebody say who already is doing the business but not as good as you to make ENA which matches your quality and therefore I think that is where you excel right at least in your bulk sales?



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Tushar Bhandari: It is not be right to say next to impossible because nothing is impossible somebody can do it but over the years nobody has been able to match the quality which I can see.

Keshav: Thank you Sir, thanks a lot.

Moderator: Thank you. We will move onto the next question that is from the line of Ashok Chheda, an Individual Investor. Please go ahead. There seems to be no response from the current participant. The next question is from the line of Sarang, an Investor. Please go ahead.

Sarang: I have a question about our proprietary brand so in terms of geography we primarily focus on MP and Kerala for proprietary brands is that correct?

Tushar Bhandari: No we are concentrating on other markets also so basically MP and Kerala is our largest market but since we are doing in Delhi, then recently we started Uttar Pradesh also.

Sarang: Alright. That was the only question I have. Thank you.

Moderator: Thank you. The next question is from the line of Abhi Ruchi, an Investor. Please go ahead.

Abhi Ruchi: I know that we have a expansion plan for the next 12 months wherein the capacity will go up to 7.5 Crores what do you think would be the plan going ahead after 7.5 Crores what are the milestones that we need to hit to start thinking about going for further expansion and how much expansion can we do in the current location and what is the level of expansion wherein the economy of scale advantage negate and then we start have to look at other locations?

Tushar Bhandari: So our plan is that whatever expanded capacity which will come we want to converting into our value added products so the ultimate goal would be to convert 75 million liters per annum to our own value added products because that is our ultimate goal so we have to right now focus on that only and utilizing the capacity if you talk about utilization of capacity in terms of sale of either ENA or ethanol as per the opportunity in the market will be so we are hoping that within few months of operations of a new capacity we would be able to achieve our 100% capacity utilization that is being a target so that is the plan for next five years so post that we will be able to expand in the similar premises only but after that we have to take a call that whether we want to increase here only for example if we are able to create a substantial volume in states like UP or in say for example of Kerala so we can look into setting up a small plant there also but setting up a plant at separate locations have also had got certain huge amount of restriction so looking into everything we will have to take a call at that point of time.



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Abhi Ruchi: So if the ethanol story plays out as we expect it to play out then the capacity utilization should happen within six months of commencement of the plant?

Tushar Bhandari: Yes, if that plays as planned or if that does not play as per the plan then in terms of sale of ENA also we will be able to utilize the capacity within few months.

Abhi Ruchi: So if we are able to utilize the capacity within few months for ENA or ethanol does it make sense for us to further increase the capacity from say 7.5 Crores to 10 Crores or 11 Crores?

Tushar Bhandari: See initially few years you would obviously require to stabilize yourself because your stability is also important it is not that you have achieved your 100% so immediately you have to look in for expansion so definitely we have got a thought process is that once this expansion plans comes into place then we might look into increasing our license capacity so we will try and increase our license capacity so the entire process itself will take around three to four years so our focus would be to increase the license capacity in the present premises only so that is our focus and apart from that if we get an opportunity in other states and we see the opportunity is the value there so we will be happy to take that call at that point of time.

Abhi Ruchi: Is my understanding correct wherein I say that first the milestone is to take that capacity utilization to 100% second milestone would be to increase the value addition of that capacity and third then we would like to look at further expansion is it right?

Tushar Bhandari: Yes, but the process of expansion in the present location only we will immediately start after our new plant capacity is utilized because the process itself of getting an additional license capacity and all that the process itself is a process of two to three years.

Abhi Ruchi: Have we started on that process?

Tushar Bhandari: No, not right now, after the expansion we will start.

Abhi Ruchi: So we plan to start the process for the optionality that we can have right after the commencement of the plant?

Tushar Bhandari: Yes.

Abhi Ruchi: Understood thanks a lot Tushar.



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Moderator: Thank you. The next question is from the line of Abhishek Maheshwari from SkyRidge Wealth Management. Please go ahead.

Abhishek Maheshwari: Sir this quarter we operated at 60% utilization so on full year basis can we expect us to touch at least 80%, 85%?

Tushar Bhandari: Yes.

Abhishek Maheshwari: Easily or all depends on COVID and everything?

Tushar Bhandari: Definitely depends on COVID, COVID is something which nobody has a control on but if things go well or things go as per normal also there is no lockdown like with the 50 days lockdown also we were able to achieve almost 60% of our capacity in the first quarter so we were selling ENA to other states, we were selling IMFL products to other states though the MP was in lockdown almost for 50 days.

Abhishek Maheshwari: So 80%, 85% is to the business?

Tushar Bhandari: Yes.

Abhishek Maheshwari: Okay Sir thank you.

Moderator: Thank you. As there are no further questions I now hand the conference over to the management for their closing comments.

Tushar Bhandari: I would like to thank all of you for participating in the earnings call. I hope I have been able to answer all your questions satisfactorily. If you have any further questions or would like to know more about the company please reach out to our investor relation manager at Valorem Advisors and Dolat Capital. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Dolat Capital Markets Private Limited that concludes this conference call. We thank you for joining us and you may now disconnect your lines.