

Transcript

Conference Call of Som Distilleries & Breweries Limited

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Bharathi, moderator for the conference call. Welcome to Som Distilleries and Breweries Limited Q4FY21 results conference call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during the conference call, please signal an operator by pressing * and then 0 on your touchstone telephones. Please note that this conference is recorded. I would now like to handover the floor to Mr. Vinit Bolinjar. Thank you and over to you sir.

Vinit Bolinjar: Thank you Bharathi. Good evening everyone and thank you for joining us on the Som Distilleries & Breweries Limited earnings conference call. We have with us Mr. Deepak Arora, CEO of Som Group and Mr. Nakul Sethi, Director Finance of the Company. We will initiate the call with opening remarks from the management following which we will have the forum open for questions and answers. Before we begin, I would like to say that some statements made in today's call maybe forward looking in nature and the detailed statement in this regard is available in the results presentation shared with the audience. I would now request the management to make the opening remarks.

Deepak Arora: Thank you and good afternoon everyone. I would like to welcome you all to the Som Distilleries and Breweries Limited Q4 and full year FY2021 earnings call. Hope you are all keeping safe and healthy and are looking forward. During today's call I will discuss the performance highlights, a little bit about the industry environment and outlook for the company. I will then handover the call to Mr. Nakul Sethi, our Director Finance and Strategy for a detailed discussion on the performance; post which we will open up the call for an interactive Q&A.

Our performance during initial month of the financial year which are the summer months and our peak season was severely impacted due to the pandemic related to the nation-wide lockdown. Subsequent months even after the lockdown was difficult for our business. Even the limited opening of the trade channels and various other restrictions, which were beyond the control of the company. All these factors severely impacted our performance. However, despite the prevailing challenges, the loss of our key business season, we continued our focus on gradually increasing our volume sales without compromising on too much of profits. It is evident in our gradual improvement which is achieved sequentially through the quarters. Building on the momentum, we recorded a beer volume of 20.9 lakh cases in Q4 FY21 which is 31% higher than Q4 last year. Strong volume growth resulted in a total income of 1090 million, an increase of 12.5% at the same period last year. EBITDA for the quarter was Rs.91 million compared to a loss

of Rs. 2 million in Q4 last year. We recorded an EBITDA margin of 8.4% during the quarter. Overall, the raw material prices remained flat, expected to remain stable. January we had infused new glass bottles which is the main raw material in the beer industry in both of our Bhopal and Orissa facilities in anticipation of the peak season demand, which has had some impact on our margins. Our PAT for the quarter was Rs.37 million with a margin of 3.4%. Our recently launched Woodpecker Beer continued to gain market share and sold over one lakh cases in the first year of its launch despite the prevailing challenge. This is a very encouraging sign for us, we expect strong growth in the brand going forward. We will continue to evaluate and launch it in the select markets and outside the country, build on the momentum and the quality of the brand.

We had a very difficult start to the year, but the relentless focus of our team has helped us to turn back to profitability. We expect to continue the growth momentum going forward. Due to the second wave of the pandemic, our operations were impacted in the months of April and May this year. However, unlike last year we were not completely shut. Also with the gradual lifting of lockdowns by the states, we anticipate better recovery for June. Second wave has lead to short-term uncertainties, but we are confident of strong recovery the latter part of the year, barring any external challenges which may come. Thank you. With this I would like to hand over the call to Mr. Nakul Sethi for some details.

Nakul Sethi: Good afternoon sir. Our consolidated total income for the quarter was 1090 million, up 12.5% compared to Q4 last year. The beer revenue increased by 16% to Rs. 928 million during the quarter. IMFL revenue stood at 146 million, marginally lower compared to Q4 for FY2020. Q4 FY2021 realization per case of beer and IMFL was Rs. 445 and Rs.708 respectively. In terms of volume mix, beer accounted for 91% of the total volumes in the quarter AND 9% came from IMFL. Of the total sales, value of beer accounted for 86% of the total net revenue.

As of 31st March 2021, total debt stood at Rs. 2,089 million and cash and cash equivalent was Rs. 145 million, resulting in a net debt of Rs. 1,944 mn. Gross Debt to Equity ratio was 0.74x. This quarter we completed the capitalization of the capacity at Bhopal. All our investments are capitalized and reflected in our balance sheet. In the year we had no major capex planned. In the year we reduced our total debt by 114 million. Cash flow generation for the year remains strong with cash flow from operations of Rs. 342 million.

In term of performance of our mainline brands, Hunter recorded a volume growth of 47% compared to Q4 last year with 9.2 lakhs cases. Blackfort almost doubled its volume to 4.2 lakh cases. Power Cool sold 6.2 lakh cases compared to 5.9 lakhs cases in Q4 last year.

Moving to our utilization levels during the quarter, considering the expanded capacity at Bhopal facility operated at around 30% utilization levels of Karnataka and Odisha facility operated at 45% and 55% utilization levels, respectively.

With this, we would now like to open the floor for Q&A.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

The first question comes from Mr. Vijay Ramchandani from Pragya Equities. Please go ahead.

Vijay Ramchandani: Hello? Hi sir, thank you for the opportunity. My first question is with regard to the realization for beer. It has come down for Q4 as compared to Q3 as well as last year. What was the reason for it because percentage of Hunter is high actually in this quarter.

Nakul Sethi: Yes, but in certain markets the realization for Hunter is lower as compared to other states like Odisha it is lower as compared to what we sell in Karnataka and in MP. So about 4-1/2 lakh cases of Hunter was sold alone during the quarter in Odisha itself.

Vijay Ramchandani: What is the realization in these two states?

Nakul Sethi: I think about 550 is the rate in Karnataka for example, about 425 in Odisha.

Vijay Ramchandani: Okay sir. Next I want to understand what are the challenges that we are facing for our IMFL sales because in the last three quarters it has been on similar levels with respect to IMFL? Could you please highlight what challenges do we have with us?

Nakul Sethi: I think the main challenge we are facing for IMFL is that Karnataka is a tough market for IMFL. I think it will take more time for us to hit market share there as compared to what we have done for beer.

Vijay Ramchandani: Okay also if you can throw some more light on recent....today's press release actually on our export order? Can you please throw more light on this? What could be the contract value and other stuff...?

Nakul Sethi: We exported about close to 2-1/2% of our net sales. This order we expect to go to about 3-1/2% as exports as a percentage of our sales.

Vijay Ramchandani: Okay. Lastly, if you can share in detail the impact of second wave of COVID for us because what would be the (not sure) for Q1? Q1 being the most important season for us.

Nakul Sethi: I think in terms of numbers we will not be able to give any specifics but luckily some markets were open during this period, Karnataka was partially opened, and so was Orissa. We are seeing a lot of pent-up demand coming in from MP and the other markets once the lockdown restrictions had been opened.

Vijay Ramchandani: So now all the markets are open for us?

Nakul Sethi: Almost all the markets are open with certain restrictions.

Vijay Ramchandani: Okay, also if you can share till what time we will have the impact of this new glass bottles on the margins? I just want to understand when we can actually get back to our mid-teen EBITDA margins.

Nakul Sethi: We are looking for a year of normal operations. I think for that '22-'23 is we expect that all the investments as far as bottles are concerned, we will start getting those returns of all the investments we have made.

Vijay Ramchandani: Any internal target we have kept for the utilization for the current year for all three plants sir?

Deepak Arora: It is a very subjective question, we cannot guarantee a third wave or second wave right? It is difficult to answer that. No one can answer that question. It only depends on external factors and challenges which the country will face. It is very difficult to give a number to that. Just hoping that the eight months left of the year, we run with no restrictions.

Vijay Ramchandani: Okay sir, just assuming we were to not face any other issues, any external issues for the rest of the year, the question was actually for that...assuming there is no problem for the rest of the year...

Nakul Sethi: If there are no other restrictions or no other challenges in terms of corporation of business and all, about Rs. 350 to 360 crores as top line which is about....

Vijay Ramchandani: Rs. 350, 360 crores for the entire year you are saying?

Nakul Sethi: Yes.

Vijay Ramchandani: Okay sir, I will come back in queue. Thank you so much.

Moderator: Thank you sir. Ladies and gentlemen if you have any questions, please press * and 1 on your telephone keypad. Participants are kindly requested to restrict with two questions in the initial round and may join back the queue for further questions. The next question comes from Chirag Maroo from Keynote Capital. Please go ahead.

Chirag Maroo: Sir I want to ask some broad-based questions that since last six to seven quarters we had seen that on YOY basis, beer sales have been little less this entire year. So what's your outlook over there and how do you see that panning out in the future?

Deepak Arora: Good question, as far as the brand traction is concerned and the acceptability of the products are concerned, we are getting a very good response in the states we are operating. Unfortunately, we had made these investments in the last two years which was supposed to come to fruition in terms of capacity utilization, in terms of branding. However, we have not got a clear run in the last 12 months to

actually show that. But, keeping the brand traction in mind and keeping the market share percentages in mind, we are very confident of doing well this year provided things go unrestricted. As restrictions happens, a lot of things like availability, efficiencies,....

Chirag Maroo: Sorry to interrupt, but your voice is breaking....

Deepak Arora: I said in terms of the tractions of the brand, we are in a fantastic place right now where the acceptability is really good. The only thing is that it needs an unrestricted run for the next eight, nine months to actually show that apart from our mother state we are actually doing very, very well in the other states where we are participating. But those numbers have not come up on board in terms of expectations because of the last two years, the peak seasons being affected because of Corona. As I said in my address, if we get an eight month unrestricted run, you will surely see very good numbers.

Chirag Maroo: Okay. My second question is related to the advertisement spend that we are doing over the years. We are penetrating into new markets...

Moderator: Sorry to interrupt Mr. Chirag, your voice is breaking sir. Can you please come to a network area and speak?

Chirag Maroo: Yeah, am I audible now?

Moderator: Yes sir, please go ahead.

Chirag Maroo: My second question is on advertisement spend. Currently on the basis of net sales we are doing around 10% to 12%....

Moderator: Sir I am sorry, your voice is breaking, can you please join back the queue for the question we will check your line.

Chirag Maroo: Sure, okay.

Moderator: Thank you sir. The next question comes from Chetan Cholera from Pragma Equities Pvt. Ltd. Please go ahead.

Chetan Cholera: Hi, Chetan here. I wanted to understand if we want to create the same capacity plants which you have now, even creating a brand, what kind of overall money required? Our current investment will be roughly around 500 crores, so what must investment is needed if you have to create the same facility you have and a brand, what kind of money is required?

Deepak Arora: It actually depends. Ours is now a state-of-the-art facility in Bhopal and Karnataka. We have invested in the latest technologies. To have existing plants, there is old technology being involved. I would say around Rs.750 odd crores is what is required to build up facilities per unit I think.

Chetan Cholera: How much? Your voice was breaking....

Deepak Arora: Say around 750 crores in today's valuation.

Chetan Cholera: And creation of a brand?

Deepak Arora: Brand is separate. Brand valuation will obviously depend on the volumes which we achieve. Brand value is a very subjective and open question. Equipment wise it is worth around 750 crores.

Chetan Cholera: I am a shareholder in almost all alcohol based companies. The only losing stock which I am holding is Som Distilleries. In various forums I have suggested to you that you need to increase your promoter stake, whatever you manage to do.....people will not believe before you reach certain level of promoter's holding. So, there were many opportunities of even pricing wise also, I don't know what's there in you people's mind but nobody is going to believe you unless until you reach certain threshold promoter's stake.

Deepak Arora: Correct if that were the case why would the promoters subscribe to warrants at Rs. 271 rupees when the share price was not even Rs.100?

Chetan Cholera: Yeah but just tell me giving (not clear) offer of 20%....

Deepak Arora: If that is the case then the promoters would not put the companies under subsidiaries if they wanted to do anything of that sort. The idea is....

Chetan Cholera: I am not doubting any integrity over here. I am telling that you lost many opportunities. I am in the market for the last 30 years, so I know the whole market how it works, the market won't believe. Market believes when promoter's stake at certain level. So whatever you do, what all efforts, other efforts you do it won't be (not clear) from me. So I still suggest that you try to think it over and you open up 20% and increase the stake and this is one of life's.... people are not getting this kind of opportunity in a lifetime. The only (not clear) lockdown is (not clear) so these are the only place I see the thing. See the young people we have in our company...I do not know why you are taking so much of time.

Deepak Arora: Sir I respect your suggestion. However, we are right now focusing on the performance of the company, and we are looking to grow the company. It is not about the promoter, it is about the company and its brand; but we will consider your suggestion sir in a positive note, thank you for the same.

Chetan Cholera: Okay.

Moderator: Thank you sir. The next question comes from Chirag Maroo from Keynote Capital. Please go ahead.

Chirag Maroo: Thank you for connecting me again. I am so sorry I missed my questions earlier times. I just wanted to ask, as we are penetrating newer areas, we already are doing 10% to 12% of our net sales as advertisement spends, so what is the company's outlook over there? Are you willing to keep it in the same levels or you are willing to increase....as you said, newer areas are seeing some good traction to you. So what's your outlook over there?

Deepak Arora: We have a very balanced outlook Chirag in this. There are two components to it. One is distribution and the second is advertising as you said.

Because the advertising space is restricted and we are relatively new in the new markets since we have been operating in the new market since 2018. So for us first thing is to achieve optimal distribution. Optimal distribution itself gives us very good traction in terms of numbers. Once we have the full distribution in place, that's when is the right time to increase your visibility and your advertising spends. But unfortunately the last two years where we wanted to be, we have been literally pushed back in the last two years. The idea is to first complete the distribution properly and then go for the visibility.

Chirag Maroo: So can you give me some distribution touch points like you have currently.

Deepak Arora: It varies Chirag from state to state for example Orissa has 1100 points of distribution while Karnataka has 9000 points of distribution. These are the industry distribution which I have told you. Now, Orissa some parts were totally shut. So if I gave you a distribution number, it would sound very skewed, so I don't want to....same thing with Karnataka. Karnataka on a good run, when everything was open, we were at 65%, 70%of the distribution. In Orissa we were at around 55% of the distribution and we were clocking those revenues in 19-20 on those distribution points. If we optimize our distribution, we automatically get the numbers and then once we are available everywhere then it is the time to be seen. That's how we look at things.

Chirag Maroo: Okay. I have two more questions. One is on subsidiaries. Currently our subsidiaries are still making losses. How long do you think it will take them to become profitable? Second question would be, if we see such good big amounts of size of industry available to us in India itself, why are we thinking to export the brand we have right now?

Deepak Arora: Let me take your export question first. It is a very proud feeling for any Indian beer to get exported because there are not many Indian beers available apart from the big ones like Kingfisher. So it is actually a very good thing that someone is able to export to countries like US and Scandinavian countries where the drinking standards and the quality of the product is very, very high. So, it is actually a proud thing that an Indian company is exporting and getting key orders. Regarding your first question now, of subsidiaries; it is a function of EBITDA where the EBITDAs are positive. It is just that again no continuity which has been given to these two subsidiaries in the last two years because of COVID. Once we get that run, obviously cash flow is positive, there is no question about it. It is just that if the scale doubles, your variables come down and you start showing profits in the companies because you have already invested a lot in your fixed costs. It is just a matter of time where we get 12 months, and we deliver the number.

Chirag Maroo: So what's your current outlook for the company? How are you thinking to pan out in this particular year and your short-term view for this year and your long-term view for the next five years? How are you looking for the company and where do you want to reach, how do you target it? What's your strategy towards that?

Deepak Arora: I think Nakulji....first I will do a little bit of numbers to give a precise idea. We are looking at 350 odd crores turnover this year and if next year by god's grace we get 12 months, we will take that up to around Rs. 500 crores of turnover. Once we touch that 500 figures, you will see that then year on year projection will be easily say 20%, 25% growth, then you have optimized your distribution and it is more

about advertising and visibility. Regarding your second question, on my outlook about the company at the end of the day, the product should speak for itself. If the product is getting accepted, it is just a question of market efficiencies then. If your product is not accepted, then you do whatever you feel like; you are not going to win the battle. Because with the limited spends on the basis of distribution strategy if we are able to clock the numbers which we have been clocking, there is no other Indian company in the last three years who have clocked the numbers in new states which we have. So in spite of having Indian companies which have been there before Som. So the product is accepted. Now it is only a question of expanding that footprint and getting a consistent environment to do that. No amount of advertising will help if the distribution points are shut. So that's the thing and we are very confident of optimizing the distribution bandwidth for us if we get a good consistent run for the next eight months.

Chirag Maroo: Okay. So for the company's current quarter, that is Q1FY22, was the home delivery kind of thing available to you?

Deepak Arora: For example, Karnataka had home delivery, Madhya Pradesh didn't. Delhi did not, UP did not. Orissa had but if you look at the industry here in home delivery footprint, industries have crashed by 70%, 75% of that month. So even if I have a good market share, you will not see it in the base value. In spite of the market crashing and home delivery being available to us, we have gained market share in these states where home delivery was allowed. But because the industry itself has fallen, I am not able to show you the number, but I am able to show you the market share. So the correct metric would be market share gains. It is very safe to say that wherever there is home delivery, we have gained market share.

Chirag Maroo: Okay, that's it from my side; thank you.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions please press * and 1 on your telephone keypad. Next question comes from Mr. Vinit Bolinjar from Ventura Securities. Please go ahead sir.

Vinit Bolinjar: Thank you for taking my question. I would like to understand what is the motto of the company and the competitive strategy that you are adopting that is helping you gain market share and how do you carry on. So what separates your company that is helping you actively grow?

Deepak Arora: There are three factors; our investment in technology ahead of the curve. We are one of the very few companies who got our bottling lines completely outsourced from Germany. Our process and techniques are also exported into the country which match with the world leaders which helps us to churn a good product. Number two is our distribution bandwidth. Because the product itself is good, and there are not many options available in the mainstream; it gave an opportunity for us to get into the distribution and get our products sold.

Once we did that, we realized that our products have a very high value of proposition in terms of what the perceived value of the products versus the pricing of the products, which is helping us gain market share in all the markets where we are operating, even in brand sensitive markets. So that is.... third is that I am now probably the second or the third generation into the business and the leadership team is a very sound leadership team which has been in the market for good 15, 20 years. It is not just splurging the

cash and building the brand, it is actually building a hard core business where accruals are being used to grow the share. That comes with an experienced leadership team and an experienced team who believes in this vision. Those are the three points which I think differentiate us from anyone else. It is because we are not dealing with a business where we are just spending cash. We are actually making EBITDA positive margins from day one wherever we have invested.

Vinit Bolinjar: Who would be your closest brand who are giving you the run for your money?

Deepak Arora: We are competing with all the mainstream brands like Kingfisher, Tuborg, Haywards, Sab Miller and Bira. So these are the mainstream that we compete.

Vinit Bolinjar: Okay thank you for taking my questions.

Moderator: Thank you sir. That would be the last question for the day. Now I hand over the floor to the management for closing comments.

Deepak Arora: Thank you everybody for joining the call. I would just like to thank you for listening to us patiently and believing in the company. I would like to assure everybody that the last year has been very, very tough for everyone. However, we are committed to the company and its cause. We are looking at growing this company and taking it to the next level and we are fully committed to the company to take it to the next level. Thank you very much everyone for sparing your time today, thank you.

Moderator: Thank you sir. Thank you everyone. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a pleasant evening.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible