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SOM Distilleries & Breweries Ltd.

Earnings Conference Call Transcript

Q3 FY2020

Management:

Mr. Deepak Arora - CEO

Mr. Nakul Sethi – Director, Finance & Strategy





Moderator: Ladies and gentlemen, good day and welcome to SOM Distilleries and Breweries Nine Months FY2020 Earnings 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. Please note that this conference is being recorded. Joining us today on this call are Mr. Deepak Arora - CEO and Mr. Nakul Sethi - Director, Finance and Strategy.

Before we begin, I would like to mention that some of the statements made in today's call may be forward looking in nature and may involve risks and uncertainties. For a list of such considerations, please refer to the earnings presentation. I would now like to hand the conference over to Mr. Deepak Arora for initial comments. Thank you and over to you sir.

Deepak Arora: Good afternoon everyone and I thank you all for joining us in the SOM Group of Companies Nine Months FY2020 earnings call. I would like to welcome you all and I would be running through the performance highlights, the industry environment and the outlook for the company going forward. I will then hand over the call to Mr. Nakul Sethi for a detailed discussion on the financial performance post which we will open up the call for an interactive Q&A.

During the Nine months of the FY2020, our beer volume grew 22.4% on Y-on-Y basis to 69.6 lakh cases and the IMFL volume grew by 60.7% Y-on-Y to 9.9 lakh cases. The growth in volume was driven by a combination of growth in the existing markets coupled with a better penetration in relatively newer markets. Driven by the strong volume growth, we were able to register a robust total income growth of 30.1% on Y-on-Y basis to Rs. 3,666 million in 9M FY2020. Our EBITDA for the same period increased by 7.5% on a Y-on-Y basis to Rs. 481 million. Our EBITDA margin for the period was 13.1%, a decline of 276 basis points compared to the same period last year. The decline in margins is primarily attributed to increase in raw material costs and higher concentration of new glass bottles in relatively newer markets. Margins of our IMFL products were also impacted during the period as prices of ENA also experienced a steep increase compared to the same period last year. Given that we are in the value-oriented mass segment of IMFL products, we have limited scope to absorb such increases. As a result, we have



undertaken a cautious decision to enhance our profitability of IMFL by improvising our products mix in the segment. PAT for 9 months FY2020 stood at Rs. 200 million, an increase of 6.8% on a Y-on-Y compared to the same period last year.

Our utilization on annual basis was at 61% for beer and 60% for IMFL respectively. Existing beer facility at Bhopal operated at optimal capacity level. Karnataka beer facility operated on an annualized utilization level of 42% and the Odisha facility in its first year operated at around 31% annualized utilization level.

The general business environment for the industry has remained challenging for the last nine months of the ongoing fiscal year. The impact on the Alco-Bev industry was further felt due to higher raw material costs. All the key raw materials such as glass bottles, barley and ENA experienced considerable price increases compared to the same period last year. Furthermore, prolonged monsoon and cold waves in key markets impacted the beer demand across most parts of the Country.

During the quarter, we commissioned the canning line for beer at our Odisha facility. This is an important development as it helps us enhance our margins by providing a better SKU mix to our consumers in the state. We also anticipate that this will lead to a margin enhancement to reflect in our performance from our Odisha unit from Q4 FY2020 onwards. We have also started supplying to Chhattisgarh state from our Odisha facility which will also add in terms of reducing cost, in terms of logistics and better realizations.

We are excited to inform you that Hunter Beer is one of the sponsors of the IIFA 2020 awards which are being hosted in Indore and Bhopal this year. We believe that this association is in line with our objective of financing our brand visibility, recall and acceptability as a pan India brand across Indian states.

Our performance during the first nine months of the year has been in line with our expectations and we are poised to capitalize on the upcoming peak season demand as we have invested in our capacities. Going forward, we are confident of continuing our growth momentum to deliver a robust volume and topline growth. We are also having an objective of making Hunter Beer as one of the visible brands in the coming quarters. We



do see some challenges on the margin front for which we are taking various steps to minimize and ensure that our EBITDA margins remain closer to our historical averages.

With this, I would like to now hand over the call to Mr. Nakul Sethi, our Director, Finance to take the discussion forward.

Nakul Sethi:

Thank you, sir. Good afternoon everyone and welcome to our nine months FY2020 earnings call. Our consolidated total income for 9M FY2020 was Rs. 3,666 million representing an increase of 30% compared to the same period last year. Beer revenue increased by 36.8% year-on-year to Rs. 3,007 million. IMFL revenue stood at Rs. 6,036 million, an increase of 69% compared to the same period last year. Our consolidated EBITDA for the period increased by 7.5% year-on-year to Rs. 481 million, the EBITDA margin for the period was 13.1%. We were able to achieve this margin despite the prevailing cost pressures for barley, new glass bottles and ENA. High employee cost pertaining to newer markets also had an impact on our margins for 9M FY2020.

Interest cost for the 9M FY2020 increased by 32.5% to Rs. 115 million. Depreciation expenses increased by 27.4% to Rs. 79 million in 9M FY2020. This increase is primarily attributed to higher depreciation due to Odisha and the Karnataka facility. Our consolidated PAT for the beer was Rs. 200 million, an increase of 6.8% year-on-year with the margin of 5.5%.

As of 31st December 2019, our total debt stood at Rs. 1,773 million and cash and cash equivalent of Rs. 107 million resulting in net debt of Rs. 1,666 million. Gross debt to equity was 0.5x and gross debt to EBITDA ratio was 3.2x.

Our flagship brand Hunter recorded a volume growth of close to 30% to reach 29.6 lakh cases compared to the same period last year. Black Fort recorded volume of 12.3 lakh cases, a decline of around 11% compared to the same period. The decline was primarily on account of shift of customers from Black Fort to Hunter. Our mass brand, Power Cool recorded a growth of close to 33% to 25.7 lakh cases in 9M FY2020 compared to the same period last year. We have been able to shift customers from local brands or lower category alcohol to our products which have supported the growth of Power Cool brand. Our IMFL volume recorded a growth of 60.7% year-on-year to 9.9 lakh cases.



During the 9M ended FY2020, the realization for beer was Rs. 432 per case and for IMFL was Rs. 642 per case. The realization for beer and IMFL improved by 11.7% year-on-year and 5.2% year-on-year respectively compared to the same period last year.

With this, we would now like to open the floor for Q&A. Thank you so much for your patience.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: Sir, just wanted to know how much in 9M FY2020 was the beer cases sold and the growth and how much was the IMFL cases sold and growth and did MP market, what was specifically the growth side in MP market in beer?

Deepak Arora: The beer sales volume was up by 22.4%.

Pritesh Chheda: How many cases it is?

Deepak Arora: That is 69.6 lakh cases and IMFL was up by 60% to 9.9 lakh cases.

Pritesh Chheda: Specifically, how the MP market did for us in nine months in beer?

Deepak Arora: Most of the growth has come from outside MP. MP registered a growth rate of roughly 2.4% on the beer volumes from last year.

Pritesh Chheda: And what would be your outlook in terms of volume for FY2020 and FY2021?

Deepak Arora: We are okay with our volume outlook of our projection which is converted into a topline figure which was around Rs. 475 – 500 crores on a consolidated basis for the year.

Pritesh Chheda: And for FY2021?

Deepak Arora: FY2021 as I said that we are looking at a robust volume and topline growth for next year. We would be commenting on that from next quarter onwards.



- Pritesh Chheda:** And lastly sir, just from the opening comments you made on margins where our peak margin is about 14-15%, so what should be your margin trajectory from the current levels that is getting reported?
- Deepak Arora:** As I said, the margin is under pressure on a couple of accounts, mainly because of higher cost of barley and glass bottles. And also for us, it is also because we are opening up new markets where the supply of new bottles tends to impact the costing but in the long run, it is like an investment in the cost of bottles because as we developed new markets, our returnable glass bottle (RGB) cost also tends to square off with the, so while quarter to quarter, you might see a lot of shifts but on a consolidated basis, it should turn out in the long term to square off any increase in cost. And to convert that into figure, it is roughly we are looking at 14.5% on a long-term basis, EBITDA level.
- Moderator:** Thank you. The next question is from the line of Abhishek Agarwal from Gems Quest Capital. Please go ahead.
- Abhishek Agarwal:** Sir, I have a couple of questions, but the first question is, have prices of ENA and our raw material barley increased quarter-on-quarter also?
- Deepak Arora:** In this, Abhishek, there are two things, one is some forward contracts are always done, so you don't tend to see it in the H1 results, but as you start doing tie-ups for next year that is when the cost margin starts hitting which has been the case with us also. Since we do annual forward contracts and if you have a significant growth as we did, we tend to run out of those forward contracts and then that cost tends to come into this year, so that is what has been happening with us in terms because our growth trajectory on a Y-on-Y basis is good, so this year we would cover that as well and try to keep it anymore but yes, there has been a pressure on barley and glass prices this year significantly and ENA.
- Abhishek Agarwal:** Sir, just a follow-up on this, sir are these contracts related to White Owl Breweries that I guess there was a section in annual report that said we have tied up with White Owl Breweries for speciality beers, so has that contributed in this quarter in terms of revenues and what is the outlook going forward?



- Deepak Arora:** No, White Owl has nothing to do with the SDBL operations in terms of the topline, so that has no significant impact on the margin, this is for our mainline brands which is Hunter.
- Abhishek Agarwal:** And sir, just last question. Sir, we have been saying we were having good response from export market, so have we build our presence in export markets and what are the revenue contribution from the same?
- Deepak Arora:** Currently it is 2% of our total topline in exports but it is a prestige point that an Indian company is able to export to more than 18 countries worldwide. We take it as a business strategy but as well as a testimony to our acceptance of quality of our products. So for export is an indication where we get to know that our products are getting accepted worldwide and as discussed in a couple of previous calls, we have got a fantastic response from the US and recently from Dubai which is the trading capital of the world in terms of alcohol and beer business. So from that perspective, it is an acceptance that yes, our products can compete on a world level.
- Moderator:** Thank you. The next question is from the line of Runjhun Jain from Nirmal Bang Securities. Please go ahead.
- Runjhun Jain:** Sir, have you taken any price hike industry wise, has any price hike been taken to combat this raw material inflation?
- Deepak Arora:** Most of our prices are fixed for the year as they are mostly done on an annual basis, so we have not taken any price increase but our premium segment which is our flagship brand Hunter has started selling more. So the impact which could have been more is kind of squared off by the sale of more Hunter beer, so that is how we have been able to hold off the pressure as of now and that is one of our strategic missions to ensure that we sell more Hunter to combat against any of these inflationary RM prices.
- Runjhun Jain:** Sir, when is our next revision of prices is due?
- Deepak Arora:** It happens annually and it happens state wise, so generally it happens in the quarter one of every year where you can review your prices based on the market.



- Runjhun Jain:** Sir, just one more clarification. I think you have spoken about the margins, so what is your outlook for the full year. Earlier we were saying that we would be able to maintain the margins around 14% or so, so is the outlook still remains same or we are downgrading it?
- Nakul Sethi:** In terms of topline, we had said about Rs. 475 to 500 crores and we expect that the topline would be in that region. As for these margins, we are confident that we will be closing the year with around 13.75 to 14% in that region.
- Moderator:** Thank you. We have the follow-up question from the line of Abhishek Agarwal from Gems Quest Capital. Please go ahead.
- Abhishek Agarwal:** Sir, last time also I guess we have spoken on the call our scrips still after six months trading T2 segment, so why is that being traded in the same segment even after 6 months and despite being less volatile in this time?
- Nakul Sethi:** See, this share classification in the T-segment is due to one of the promoter's shares being not approved by NSE so far for the listing. While the last quarter, the rest of the promoter shares have been admitted for listing and trading. We are following up with NSE for getting the requisite approvals. I think within the next 15 to 20 days that should be done and then the share can move to the normal trading segment.
- Moderator:** Thank you. The next question is from the line of Vijay Ramchandani from Pragya Equities. Please go ahead.
- Vijay Ramchandani:** Can you share some light on which states have driven more sales for both our Hunter and Power Cool brands?
- Nakul Sethi:** I think Hunter has sold more in Odisha, it has sold more in West Bengal, it has sold more in our home market of MP and Chhattisgarh, so these are the states.
- Vijay Ramchandani:** And same for Power Cool as well?
- Nakul Sethi:** Power Cool has done well in Kerala and MP.



Vijay Ramchandani: One more question with respect to our debt levels, now that all our CAPEX has been done, do we have any significant CAPEX plan for FY2021 and what is the strategy for reducing our debt?

Nakul Sethi: I don't think we will take more term loans, but of course we will have some debt on the working capital side because the capacity we doubled from next year, of course we will need more working capital and the existing debt of course will reduce through internal accruals.

Vijay Ramchandani: So how much more debt will be required sir?

Nakul Sethi: I am anticipating that we will take another say, Rs. 30-35 crores as working capital.

Vijay Ramchandani: And regarding the depreciation, so this current quarter depreciation has full effects of Karnataka as well as Odisha?

Nakul Sethi: Yes.

Vijay Ramchandani: So there should be this we can consider as a normalized depreciation per quarter?

Nakul Sethi: Yes for these two plants, yes you can.

Moderator: Thank you. The next question is from the line of Lalaram Singh from Vibrant Securities. Please go ahead.

Lalaram Singh: Sir, may I know how much percentage of sales come from CSD?

Nakul Sethi: CSD would be about 5%.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Deepak Arora for closing comments. Thank you and over to you.

Deepak Arora: Thank you all again for attending this call. As I said earlier, this year was our year of realizing our capacities and the investments which we have made and we look forward to a very good summer in the coming year because we would be in a position to service



peak loads which will not only add better topline next year, but also it will add a lot of value in terms of our bottom-line because of use of our extended capacities and economies of scale. Once again, thank you for placing trust in the company. We look forward to talking to you next quarter. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of SOM Distilleries and Breweries, that concludes today's call. Thank you for joining us and you may now disconnect your lines.

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Note: This transcript has been edited to improve readability

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