

ONE FOR THE AGES

Matured for impeccable taste



SOM Distilleries & Breweries Ltd.

Earnings Conference Call Transcript

Q3 FY2019

Management:

Mr. Deepak Arora - CEO

Mr. Nakul Sethi – Director, Finance & Strategy





Moderator:

Ladies and gentlemen good day and welcome to the SOM Distilleries & Breweries Q3 FY2019 and nine-months FY2019 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. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. Joining us on the call today are Mr. Deepak Arora – CEO and Mr. Nakul Sethi – Director, Finance & Strategy.

Before we begin I would like to mention that some of the statements made in today's conference 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 and then we will start with an interactive question and answer session. Thank you and over to you sir.

Deepak Arora:

I would like to welcome everyone on behalf of SOM Distilleries and Breweries Limited for the Q3 and nine-months FY2019 Earnings Call. This is our first-ever results conference call and I appreciate all of you dialing in and taking the time out. During today's call I would first like to discuss our performance highlights as well as the industry environment and outlook for the company. Then I will hand it over to Mr. Nakul Sethi, who is the Director, Finance & Strategy for a detailed discussion on the quarterly performance post which we will open for interactive Q&A.

I would like to start with the key highlights of Q3 FY2019. During this quarter we generated Beer volumes of 15.9 lakh cases which is an increase of 17.6% on a YOY basis. Our IMFL volumes also increased by 40.9% on a year-on-year basis to 2.7 lakh cases. Our total top-line or income for the period increased by 30% on a year-on-year basis to Rs. 855 millions. EBITDA during the Q3 FY 2019 was Rs. 122 million, representing an increase of 7.1% EBITDA margin during the same period which was 14.2%.

The key operating highlights during the quarter included upgrade in Som's credit rating by Brickwork in October 2018. ICRA has also rated our fund based and non-fund based facility to BBB+ and A2+, respectively. Both agencies have stable outlook and as indicated upgrading it to positive outlook with improvement in profitability and scale. We also started production of our Alcopop or Whitefox RTD from January 2019 from our Karnataka subsidiary. Currently the volume for this is small but we see a very strong acceptance of this product in coming quarters.



Karnataka facility has also received approval for CSD supply in Karnataka. With this addition we will now be able to supply to pan India covering all the CSD depots in India.

Recently in the Karnataka budget it was propose to increase additional duty on Beer. Given this hike is for all the Beer manufacturers in the state, in our view this may lead to a shift of price sensitive consumers among brands but the overall market share will not see much change.

Our performance during the quarter was encouraging with the Karnataka plant recording positive bottom-line driven by significantly improvised utilization level. We expect the utilization levels to further improve in Q4 FY2019 and will drive top-line and profitability for this subsidiary. The response for our brands in Maharashtra especially Mumbai has started gaining momentum. Driven by better consumer acceptances and distribution of our product we are focused on expanding our outreach in the market. We expect this market to continue its positive growth in the coming months. Our recently acquired Orissa plant is expected to start production towards the end of FY2019 and would be a key driver for our footprint in the markets of Eastern India. We remain committed towards ensuring profitable growth in the coming quarter on the back of the various expansion and initiatives which have taken in the recent years which will not only drive the top line as well as the bottom line for the company.

With this I would now like to hand over to Mr. Nakul Sethi who would run us through the numbers in detail.

Nakul Sethi:

Thank you Mr. Deepak. Good afternoon everyone and welcome to our Q3 FY2019 Earnings Call. Our consolidated total income for the quarter was Rs. 855 million, representing an increase of 30.8% year-on-year. Our consolidated EBITDA for the quarter increased by 7.1% to Rs. 122 million. Our EBITDA margin declined from 17.4% in Q3 FY2018 to 14.2% in Q3 FY2019. EBITDA for the period included impact of a number of factors such as new bottles and higher number of employees for supporting the growth in the new markets during the year. Interest cost for the quarter increased by 59% year-on-year to Rs. 34 million, as a percentage of total income it stood at 3.9% in Q3 FY2019 compared to 3.2% in Q3 FY2018. Also depreciation expenses almost doubled from Rs. 12 million in Q3 FY2018 to Rs. 24 million in Q3 FY2019. This increase was primarily attributable to the higher depreciation in our subsidiary Woodpecker. Our consolidated PAT was Rs. 44 million in Q3 FY2019 with the margin of 5.1%.

We have a strong balance sheet and conservative leverage profile to support our future growth initiative. As on 31st of December, 2018, the total debt stood at Rs. 1,141 million and cash and



cash equivalents of Rs. 115 million resulting in a net debt of Rs. 1,027 million. Gross debt to equity ratio improved from 0.45x in Q2 FY2019 to 0.38x in Q3 FY2019. Gross debt to EBITDA ratio also improved to 1.81x in December 2018 compared to 2.08x in September 2018.

During quarter credit rating of the company was also upgraded from BBB to BBB+ for fund based facilities and non-fund based facilities from A3 to A2 by Brickworks. ICRA has also rated our fund based limits and non-fund based limits to BBB+ and A2+ respectively. Both agencies have provided stable outlook and has indicated upgrading into positive outlook with improvement in profitability and scale.

Moving to operational performance during the nine months FY2019. Volume of our flagship brand Hunter recorded a growth of 8.5% year-on-year to reach 22.8 lakh cases. This improvement is a testament to our capability to market it as a premium product leading to shift in consumer preferences towards the brand. Black Fort Beer volume declined by 3.6% compared to same period last year. Our Powercool brand recorded a volume growth of 7.2% compared to same period last year. This was primarily due to a strong demand of the brand in the Kerala and MP market. Our IMFL portfolio recorded a growth of 14.1% year-on-year to 6.2 lakh cases. Q3 is generally stronger for IMFL and we were able to start supply from Karnataka plant from November 2018.

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

Moderator: Thank you very much sir. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Ashish Ahuja, an individual investor. Please go ahead.

Ashish Ahuja: My first question is on gross margins, could you just help me understand the trend of gross margin as to what is causing the improvement and also how we should read excise duty as a percentage of gross revenue? Is there like an expected trend that we should see?

Nakul Sethi: The excise duty is levied by the state so it's part of gross sales and is deducted from the gross sales and then you arrive at the net sales so each state has got its own excise duty structure and excise duty per se does not impact our margin as such.

Ashish Ahuja: The gross margins that are there so they have been on an improving trend, so what has been a key driver over there in gross margins?



- Nakul Sethi:** I think the gross margins have improved because of higher concentration of Hunter sales in our mix and also our constant endeavor to use recyclable bottles.
- Ashish Ahuja:** Could you please help provide some guidance on the gross margin between Hunter, Black Fort and Powercool, what is the difference?
- Nakul Sethi:** Sorry, we will not be able to disclose brand-wise margins
- Ashish Ahuja:** The other thing is on the other expenses. They were relatively higher in this quarter so was there any one-off or what is a more comfortable level of run rate of the other expenses?
- Nakul Sethi:** But if you look at the for the nine months ended results, the other expenses are in line with whatever there was last year. So we do not anticipate that there is something which has gone out of control or it's a one-off.
- Ashish Ahuja:** So we expect this trend as a percentage to sale to continue?
- Nakul Sethi:** Yes.
- Ashish Ahuja:** And you mentioned something on new bottles, so just want to check what is the impact of that in the P&L and which line item will that impact?
- Nakul Sethi:** When you enter a new state you tend to use more new bottles. So then obviously it impacts your cost of goods sold.
- Ashish Ahuja:** But cost of goods sold has been sort of an improving trend.
- Nakul Sethi:** But we have to see the cost of goods sold as a total. You cannot compare in Q3, if you look at nine months my EBITDA margins are slightly lower as what compared to last year they were.
- Ashish Ahuja:** What was the reason for the Black Fort decline in volume by 3.6% YOY basis?
- Nakul Sethi:** When we tried to sale more of Hunter then obviously you will have lesser sales of Black Fort and obviously we would want more sales of Hunter to come in.
- Ashish Ahuja:** Our strategy is the company is to push Hunter more even in our current foothold market?
- Nakul Sethi:** Yes because that's a national brand and actually we would want more of Hunter to be sold.



- Ashish Ahuja:** My last question Carlsberg recently opened a brewery in Jan 2019 in Karnataka, so do you see any challenge or increasing intensity due to that?
- Nakul Sethi:** First of all they are looking at a different segment altogether. We operate in a different price segment and we just cannot comment on the competition as such.
- Ashish Ahuja:** And Orissa you are expecting that to reach what level of utilization by Q1 or when do you think it will achieve critical utilization?
- Nakul Sethi:** For the year I think next year we expect it to do about 30% of capacity utilization.
- Moderator:** The next question is from the line of Alpa Suchde from Pantomath Asset Management. Please go ahead.
- Alpa Suchde:** Could you share the data on volume breakup and capacity utilization for the Bhopal and Karnataka plant for Beer and IMFL?
- Nakul Sethi:** I think we did about cumulative 9 lakh cases of Beer from Woodpecker and we did about close to 47 lakh cases of Beer from our Bhopal plant.
- Alpa Suchde:** And for IMFL that would be?
- Nakul Sethi:** IMFL I think Bhopal would be nearly about 90% and although Woodpecker we only started in November so we would be I think close to about 15%-20% odd.
- Alpa Suchde:** The average realization for Beer would it continue to be in the range of like Rs. 400 per case for both Bhopal and Karnataka?
- Nakul Sethi:** Yes.
- Alpa Suchde:** And IMFL would be around Rs. 600?
- Nakul Sethi:** Yes.
- Alpa Suchde:** On a standalone basis the revenues for the third quarter are down by about 5%, so why is that the case?



- Nakul Sethi:** Because Q3 is the leanest in terms of all the three quarters and because of sales not happening for Karnataka and Kerala from MP right now from the Bhopal plant.
- Alpa Suchde:** But basically this should normalize going ahead?
- Nakul Sethi:** As we sell more like Maharashtra and maybe UP also next year I think the Q3 also would be good for the next year onwards.
- Moderator:** The next question is from the line of Pritesh Chedda from Lucky Investments. Please go ahead.
- Pritesh Chedda:** Just wanted to understand on the Bhopal side though for the quarter there is some changes in profitability, is there any specific reason or we should look at the nine-month number and when you give the cases volume for nine-month for Bhopal and Hassan if you could give the corresponding growth that you would have achieved in those facilities on nine-month basis?
- Deepak Arora:** You should look at the nine-month number only because it generally fluctuates from quarter to quarter but it's better for a more stable outlook you should look at a nine-month number.
- Pritesh Chedda:** If you could give the nine-month growth percentage in Bhopal facility and Hassan facility? So the 47 lakh cases of Beer which you referred in Bhopal is what flat YOY or any percentage growth YOY?
- Nakul Sethi:** Bhopal there was some negative growth standalone. We did about 53 lakh cases during this same period last year.
- Pritesh Chedda:** You give some indication on realization, just a question on EBITDA per case, so how would be the trend in EBITDA per case in Bhopal and what are your thoughts on EBITDA per case in Hassan at the current utilizations?
- Nakul Sethi:** Currently we are making of about Rs. 54 per case from Woodpecker.
- Pritesh Chedda:** Bhopal is about Rs. 60?
- Nakul Sethi:** Yes, it's about Rs. 60.
- Pritesh Chedda:** I just want to check what kind of volumes do you think you should do in FY2019 and FY2020 and what will be your CAPEX plan for FY2019 and FY2020?



- Nakul Sethi:** I think you will have to give us a month to answer all these questions.
- Pritesh Chedda:** Any outlook for at least on the volume side?
- Nakul Sethi:** FY2019 I think we should be able to do a consolidated turnover of about Rs. 420 - 425 crores.
- Pritesh Chedda:** How many just the Beer cases if you could give out? You did about 75 lakh cases last year, would you be able to grow on that because you have a 9 lakh case addition in case of Karnataka in nine-month and you have a corresponding 6 lakh case drop in Bhopal. So, if you are looking at a Rs. 425 crores revenue what kind of Beer cases will you do for FY2019?
- Nakul Sethi:** I think cumulatively we able to do the same level as we did last year.
- Pritesh Chedda:** Any reason for it to not grow?
- \Nakul Sethi:** Because during the Quarter 1, there was a delay in the commissioning of Woodpecker and for Quarter 1, SDBL also there was a shortage of bottles available in the market so we are trying to catch up with whatever we have lost but that is a fact that Quarter 1 was supposed to be our best quarter.
- Pritesh Chedda:** You would grow next year by what the run rate FY2020?
- Nakul Sethi:** You will have to give us a month to answer that.
- Pritesh Chedda:** This Orissa facility what is the size of that facility which you are commissioning in Quarter 4 of FY2019 you said, this quarter you are commissioning?
- Nakul Sethi:** It's about 42 lakh cases, annum.
- Moderator:** The next question is from the line of Chetan Cholera from Pragya Equity. Please go ahead.
- Chetan Cholera:** Just wanted to understand where we are on increasing the promoters' stakes?
- Nakul Sethi:** We are working on that. Just give us about 1 or 2 months more. We will surely come out with a plan for that.
- Moderator:** The next question is from the line of Himanshu Shah from HDFC Securities. Please go ahead.



- Himanshu Shah:** Just want to understand, out of these 4.7 million cases that we have done in Bhopal and last year 5.3 million cases, how much would be pertaining to MP and Chhattisgarh basically if you can give your volume breakup region-wise on state-wise?
- Nakul Sethi:** Sorry Himanshu, we do not disclose these details.
- Himanshu Shah:** But is it fair to assume that larger portion would be pertaining to MP and Chhattisgarh?
- Nakul Sethi:** You can assume that.
- Himanshu Shah:** What would be the Beer market size in MP and Chhattisgarh separately, and our market share in that market?
- Nakul Sethi:** On a combined level we would be having a market share of 35%.
- Himanshu Shah:** 35% odd. So fair to assume that it's like a 15 million kind of cases market, Beer?
- Nakul Sethi:** Yes you can.
- Himanshu Shah:** In our first-half balance sheet versus FY2018 there was a sharp increase in loans and advances, short-term loans and advances from Rs. 57 crores to Rs. 110 crores and there was also some new line item of other current assets of another Rs. 100 crores. So almost Rs. 150 crores increase in this two line items put together, can you just help what exactly this increase is pertaining to?
- Nakul Sethi:** The other loans and advances are basically the money which has gone into our proposed subsidiary in Orissa and also to Woodpecker.
- Himanshu Shah:** I'm talking about consolidated balance sheet, Woodpecker any which ways gets consolidated? So, one is the payment for Orissa acquisition which you are referring to around Rs. 46 crore?
- Nakul Sethi:** Rs. 46 crores was just the acquisition call so we have also incurred money after that also. In the interest of time we can have this discussion in detail offline.
- Himanshu Shah:** How much is our investment in Woodpecker?
- Nakul Sethi:** Rs. 139 crores.



- Moderator:** The next question is from the line of Runjun Jain from Nirmal Bang. Please go ahead.
- Runjun Jain:** You said that decline in the Black Fort volumes, the decline you said because the Hunter we are trying to push and that gives a higher margins but I was under impression that all these three brands cater to different price segments so why they are substituting each other and why you have to push one at the expense of other?
- Deepak Arora:** Because we believe that we get or we make more margin in Hunter as compared to the other two Beers. It is always our endeavor to push the consumers up the value chain so that's how premiumisation story works.
- Runjun Jain:** No, I agree sir but Black Fort has its own niche or in its own market. You don't have any capacity constraints so that you don't have to cannibalize one brand for the other. If the market whole is increasing, your customer base is increasing, I agree but why that either you are not concentrating on Black Fort it is fine. The overall market share is declining in that?
- Deepak Arora:** Of course it is our wish actually which where Beer we want to market more and sell more so it's not like one Beer is cannibalizing another Beer's market or something. We are just encouraging the consumers to try better Beer that's it.
- Runjun Jain:** Can you just comment about the realization in IMFL, as per my calculation which shows that there is a decline in this quarter. Is there any specific reason or is it something one-off?
- Nakul Sethi:** It's maybe one-off something like that. We don't think that there is a decline in realization.
- Runjun Jain:** As per the numbers which you are giving like Rs. 420 crores sales for this year. If I just do very quick and rough numbers and rough calculation it shows that to achieve this number there should be a tremendous amount of improvement in the realization for Beer segment or if we have given the volume as flattish; so that is something really doesn't look achievable or realistic number?
- Nakul Sethi:** If I remember correctly that we did about Rs. 100 crores of standalone sales from Quarter 4 last year and we are seeing an increasing trend in sales coming from Woodpecker. I think that number is very much achievable. I don't think that that can't be achieved.
- Moderator:** The next question is from the line of Neeraj Prakash from Nepean Capital. Please go ahead.



- Neeraj Prakash:** What is the CAPEX and the operational cash flow that you were expected to end this year at?
- Nakul Sethi:** May be we can answer it after the month or so.
- Neeraj Prakash:** Can you give us a break up of your average working capital in terms of receivables, inventory days and payable days.
- Nakul Sethi:** We look at Quarter 2 for the result which were declared, receivables were at about 74 days and payable were 33 days and inventory was about 68 days; total working capital days is 109.
- Neeraj Prakash:** This is roughly a sustainable number going forward?
- Nakul Sethi:** Yes.
- Neeraj Prakash:** In terms of the just going after the question asked by the lady before is in terms of the revenue number that you have given Rs. 420 crores, similar question was to achieve that you will have to do Rs. 140 crores or so of revenue in the last quarter, in the same way; isn't that a massive amount of growth year over year, you will have to go from Rs. 101 crores to Rs. 140 which means you will be doing roughly 40 crores from Karnataka in one quarter, which was this quarter Rs. 22 - 23 crores. Is that feasible to ramp up so fast?
- Nakul Sethi:** February-March are actually the starting of the season and have more consumption and also IMFL has just started out of Woodpecker. We did only about 43,000 cases of IMFL from Woodpecker in a month. We have got about 3 months to catch up.
- Nirav Prakash:** Only reason that I'm asking this is because previously we have been given elevated guidance which has been missed so I just wanted to make sure that this is not another higher guidance which is going to be underperformed.
- Nakul Sethi:** We did provide a revised guidance and as soon as we finished the half year for FY2019.
- Moderator:** The next question is from the line of Sunil Jain from Nirmal Bang. Please go ahead.
- Sunil Jain:** My question related to more of a margin. We had seen some pressure in the margin in the first nine-month. Do you see that margin levels since we have already seen gross margin improvement in this quarter, so are we seeing this margin coming back to the earlier level or it will remain around these levels?



- Nakul Sethi:** We expect the EBITDA margins to be in the region of 15-16%. We are on course for better times of the company in Q4 and the subsequent period after that.
- Sunil Jain:** My question was whether you had taken any price increase in any of the market?
- Nakul Sethi:** Its yearly, in March of every year.
- Sunil Jain:** Is there any possibility of any price increase in the current year?
- Deepak Arora:** Liquor and Beer pricing are done on an annual basis since it's a state subject and at the time of renewal. So every year the renewal time is right after Q4 so that is when we actually strategize annually whether to take price increases or looking at the consumption pattern for the whole year. So keeping that in mind we will be only reviewing it by the end of next quarter and the price is generally taken as generally fixed for one year, generally no one changes the prices in the middle of the year and we are also of the same opinion.
- Sunil Jain:** You face some problem in Kerala also because of flood and all is things normalizing there or are we seeing some improvement there or not?
- Deepak Arora:** Kerala on the ground front has covered in terms of normalcy of life and the trade is now functioning back to how it used to function and so there are no problems and we are also seeing an increased footprint in Kerala going forward.
- Sunil Jain:** Two more market which you had entered is Maharashtra and some of bit back in West Bengal, if any comment on that how they are progressing or how you are gearing up?
- Deepak Arora:** As we see Maharashtra, this year we have opened approximately 17 distribution points in Maharashtra so we have been able to open pretty much half of Maharashtra. So going forward we are very confident on opening the remaining distribution points because of the response which we have got in the few distribution points we have opened which includes Mumbai and Mumbai is a place where generally if you are accepted, you are accepted in rest of Maharashtra. So thankfully we have been accepted in Mumbai and based on our Mumbai success we will be moving forward into the balanced distribution points in Maharashtra. As far as West Bengal is concerned, West Bengal we have seen an increase acceptance in particularly Hunter brand which is our premium brand. So we are also very confident of doing well in the coming season for West Bengal. We are also looking at launching our IMFL operations in West Bengal this year.



Sunil Jain: In Mumbai you are focusing on only all three brands right now?

Deepak Arora: Our flagship brand is Hunter so we have brought our flagship brand to Mumbai and you will be happy to know we have covered the 90% distribution points within 2 months of launch of Hunter there.

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

Deepak Arora: Dear Investors, thank you for taking time out to listen to us. We will be seeing you next quarter and this would be a constant practice going forward. Thank you so much for joining in.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of SOM Distilleries & Breweries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

*** **



For further information, please contact:

Nakul Sethi SOM Distilleries and Breweries	nksethi@somindia.in +91 755 427 1271
Bijay Sharma Churchgate Partners	som@churchgatepartners.com +91 22 6169 5988

Note: This transcript has been edited to improve readability

Cautionary Statement: This document contains statements that contain “forward looking statements” including, but without limitation, statements relating to the implementation of strategic initiatives, and other statements relating to SOM Distilleries & Breweries’ future business developments and economic performance. While these forward looking statements indicate our assessment and future expectations concerning the development of our business, a number of risks, uncertainties and other unknown factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to, general market, macro-economic, governmental and regulatory trends, movements in currency exchange and interest rates, competitive pressures, technological developments, changes in the financial conditions of third parties dealing with us, legislative developments, and other key factors that could affect our business and financial performance. SOM Distilleries & Breweries undertakes no obligation to publicly revise any forward-looking statements to reflect future / likely events or circumstances.