



**“United Spirits Q2FY10 Conference Call  
hosted by CLSA India Limited”  
October 27, 2009**

**SPEAKERS:**      **Mr. Vivek Maheshwari – CLSA India Limited**  
                         **Mr. P.A. Murali – C.F.O - United Spirits**  
                         **Mr. Vijay Reki – M.D. - United Spirits**

**Moderator:**

Ladies and gentlemen, good afternoon and welcome to the United Spirits Conference Call hosted by CLSA India 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 at the end of today's presentation. If you should need assistance during this conference, please signal an operator by pressing "\*" and then "0" on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Vivek Maheshwari of CLSA. Thank you and over to you, Mr. Maheshwari.

**Mr. Vivek Maheshwari:**

Thank you, Marina. I welcome you all to the conference call with United Spirits management organized by CLSA. We have with us Mr. Reki, Managing Director and Mr. Murali, the CFO. I will hand over the floor to Mr. Reki and Mr. Murali for opening remarks, post to which we will open the house for Q&A. Over to you sir.

**Mr. Vijay Reki:**

Good afternoon everybody. I am Vijay Reki calling from Bangalore and with me are Mr. PA Murali who is our CFO and Mr. Suresh Menon who is in charge of our Planning and Budgeting Department.

I will start by giving a brief synopsis of H1 and then we will go to Q2. The H1 volumes have grown 14% despite the disturbances which brought in dry days in some of the states and on the dry days as you may be aware no sales can take place. Also, we had a margin correction with the wholesale and the retail side in Maharashtra subsequent to the dry days which also brought in some disturbance in the normal trade activity. But that's all behind us. In H1, we have had 14% growth despite these two things getting factored in. Our main branch has done very well in the first six months. Black Dog family has grown by 30%. Antiquity two variants have grown combined 30%. Signature which is again a very important and profitable brand for the company and the portfolio has also grown 13%. Our McDowell's No. 1 brandy and rum have grown by 17%. Our vodka White Mischief which is a leader in the market has grown 20% and Director's Special whisky has grown by 12%. This is only an **exemplification** of some of the brands that have lobbed in double-digit growth.

As far as the effective sales value growth is concerned, the value of sales has grown 18.5% against the volume growth of 14%. This therefore is a good sign that the value growth is higher than the volume growth in terms of percentage. As far as the operational EBITDA is concerned, it has grown by 7% from 390.79 crores to 417.8 crores. So, this growth we believe is also a very healthy

growth. On like-to-like basis, despite the increase in cost of around 5%, the operational EBITDA has increased from 409 to 417.8 crores. EBITDA as a percentage of NSR stands at 17.6% as against 20.2% of last year and 16.5% for the whole of the financial year FY09.

Our advertising and sales promotion expenses – this year around 7% and last year was around 8%. I will now ask Murali to verbalize the PBT and the PAT figures.

**Mr. P.A. Murali:**

Thank you, Mr. Reki. Good afternoon, gentlemen. We should view these results at the backdrop of a comparison that we are doing with very tough two quarters of this year vis-à-vis two quarters of the earlier year where the raw material prices especially was benign. As you all know that the raw material prices took a severe spike come in last year during quarter 3 which carried on that after that in a very strong manner. And therefore the raw material price that we are looking at in the first two quarters of this year is at a much higher level than what it has been in the first two quarters of last year. And therefore to maintain the EBITDA margin level at about 18% in the backdrop of this particular these first two quarters, it is possible only because we took certain actions in terms of price increase and the premiumisation story continuing unabated. Now coming to the interest, there have been some questions about why there has been a spike. I just want to explain to you that on an overall basis in terms of interest cost, there is no spike but this spike is reflected here in the quarter as well as the half yearly figure. See, if you look at the dollar loan that we had on the Whyte & Mackay acquisition which we all know was at about \$620 millions as of the first April 2009. After the treasury stock sale and after the QIP issuance, it would stand at about \$90 dollars, meaning \$530 million have been repaid to the bankers between first of April and as of today, because the second transaction of 75 million would go now out of QIP issuance.

The fact of the matter is that out of this 530 million, about 119 million out of treasury stock sale and about 240 million out of the QIP issuance will account for the part of the 530 million. So, that leaves us with almost about 100 million with in fact has been repaid out of some internal accruals and majority of it has been refinanced through rupee borrowings during the current year. That is one main reason. Factually the interest has got shifted from the overseas subsidiary into the standalone books and therefore you will see a major spike in the interest. Second is, there has been a natural increase in the working capital outlay to the extent of about 250 crores which is natural for a growth pattern of about 14-15% in terms of volume and about 18% in terms of value. Also, the domestic interest cost has moved up by almost about 200 basis

points, somewhat about 9.5%, about 11.5%. Accumulation of all these effects has seen a spurt in the interest cost and also the interest has an internal interest meaning when we acquired Shaw Wallace, there was some money with the subsidiary called Shaw Wallace Breweries Limited to the extent of about 200 and odd crores which were utilized by USL when all of our tax cases were resolved and therefore Shaw Wallace was released for us to use. Since that has come from a subsidiary into USL, we need to provide for interest. That accounts for almost about 13 crores for the first half. So, that 134 crores of interest for the six-month period carries almost about 13-14 crores of interest on account of an internal advance from a subsidiary to the holding company.

So, on an overall basis, the interest spike is explained mainly on account of the overseas loan being repaid through refinancing mechanism from an Indian rupee perspective. But on an overall debt level, after the QIP issuance, today it stands at about 5150 crores, out of which almost about 2,00,000-2,15,000 crores account for domestic debt and the balance about 3,000 crores remain as Whyte & Mackay acquisition that either in the overseas subsidiary which will have about \$90 million and the balance of 355 million pounds in Whyte & Mackay's books. Out of the 2,00,000 crores of domestic net debt, almost about 1000 crores account for working capital and the balance account for term debt. From a repayment obligation and from Whyte & Mackay perspective, out of the 355 million pounds we will be using almost about 30-35 million pounds of the QIP money to pay one of the installments which fall due in the month of May 2010 and therefore there is not going to be any repayment obligation from a Whyte & Mackay perspective up to May 2011 and what we are proposing also is to refinance the remaining debt of \$90 million which is lying out of the Citibank consortium so that we can unshackle ourselves of all incumbents and look at what we need to do for providing growth in the business going forward.

To summarize, we are right now sitting at about 5,00,000 crores of overall debt. In my opinion, that would be close to about 4-4.2 5 times of the expected consolidated EBITDA at the fiscal year end. This is over and above 8.4 million shares of trading stock that we still hold. At a time in future when we think is prudent in the next between 9-12 months we should be able to access to further deliberate of the balance sheet which in today's value will be worth about 900-1000 crores, and therefore my total overall debt will reduce to about 4,00,000 crores which will be about 3-3.25 times my EBITDA, which should be a perfectly manageable situation as far as USL is concerned. So, that is the synopsis in terms of the debt level and leverage, etc. Over to Mr. Reki for the quarter.

**Mr. Vijay Reki:**

Thank you, Murali. As far as Q2 specifically is concerned, our volumes registered a growth of only 10%. One or two reasons which I will shortly explain. This is to be compared against 17% increase we had in volumes in Q1, so the cumulative between Q1 and Q2 as I said earlier also is 14% volume growth but Q2 because of specific stance which trade took when we adjusted the retail and the wholesale margins and that issue took 2-3 weeks to resolve. So, in that period, we had no sales affected from our warehouses to the warehouses of the distributed trade. So, that took a little bit of toll but the upside of that is the margins which we were able to adjust with perpetuity be beneficial for the company in the years to come and that was well worth in terms of taking a position and going forward this will have a multiplied effort in our EBITDA.

And secondly, the two festivals where a lot of abstinence takes place, Ramzan and Navratri, they coincided in Q2 and that also led to some flagging off the sales. Combined with these two main reasons is the fact that in one or two markets in the north, the products are being sold by the retail trade over and above the maximum retail prices. Some of you may have read in newspapers that in the state of UP the trade at the behest of authorities are basically encouraging the retail trade to charge money over and above the maximum retail prices. So, that price abuse as we call it along with the regular price increases which were triggered by the changes in taxes and excise has actually depressed the velocity of the brands of all the industry and we also were affected partly. So, basically on account of these three reasons, namely this stand-off with the trade in Maharashtra, which is a very important market for us, two religious festivals coinciding in Q2 as well as price abuse taking place in UP and also to some extent in Punjab have sort of depressed the general overall demand. Now the upside is that the dispute with the trade has been resolved in Maharashtra and the velocity of the brand has come back to usual and now that we are in Q3 which is historically a very buoyant quarter because it started with Ganesh Chaturthi, then Diwali and we will have now the winter months combined with Christmas and New Year. So, we are looking at a very robust Q3 in terms of volumes and all that deficit or flying down on sales which happened in Q2 should be behind us because we have traditionally a very strong quarter coming up and the reasons are very common sensible and obvious. It is also a fact that there is seasonality in favour of Q3 and Q4. Above 48-49% of the sales take place in H1 and 51-52% sales take place in Q3 and Q4. So, we have good things to look forward to.

As far as the revenue is concerned, it moved up 19% in Q2 from 902 crores to 1080 crores and that is 19%. And as far as the operational EBITDA is concerned, despite the 54-55 crores increase in the input cost we were in a position to marginally improve over the same period last year. From 188.4 crores in Q2

of FY09 we were able to clock 189.6 crores in Q2 of FY10. This is 1% over last year but this is to be viewed against the background of 55 crores price spike in terms of input cost and if you were to take a broader sweep in H1, we have 114-115 crores increase in the cost and we were able to do a better operational EBITDA in H1 as I have mentioned sometime back. So, basically, these are the three parameters of Q2 and we hope that Q3 and Q4 in particular will be good for us. The point I want to highlight here is that we have taken price increases and also in the H1 volumes the price increases have shown themselves very clearly. The difference between the value increase of 18% vis-à-vis the volume increase of 14%, 4% differential is more or less half and half stake in favour of prices increases as well as a better products mix vis-à-vis premium products or sales in the states where the value retention for us is much better than in other states. So, this has been an upside as far as H1 and Q2 results are concerned.

The second point which I would like to highlight for all concerned is that outlook with regard to I mean we have just spoken of the cost push in H1 and particularly in Q2. Going forward, our hope and estimate is that the oncoming flushing season will soften the prices by at least a percent or so or even more depending on what comes in terms of the sugarcane output in the market. Definitely, in Q3 as compared to last year when cost particularly of molasses went up very sharply because the state of UP had not decided on the procurement price list. Likewise the procurement prices announced by the government of Maharashtra were not considered to be satisfactory. There was delay in crushing. That led to a spike in molasses and ENA prices in the months of October and November in particular and they started to come down from December onwards. This year that similar situation doesn't exist and therefore we are hoping that there would not be the type of cost spike the company had to face in Q3 of last year. That is a positive trend which we are looking forward to and the estimate of the company leading the various macro reports is that though the sugar production and the availability of molasses and ENA will not be as good as it was two years back but it will definitely be better than what it was last year in this period and therefore the prices are expected to soften. So, I hope this gives you some insight with regard to the input cost going forward.

And as far as the volume outlook is concerned, we hope to be able to maintain a trajectory of the cumulative growth which we have achieved of around 14-15% in the months to come particularly with regard to Q3 and Q4. So, I hope these insights will help you understand the historical performance of the company and give some sort of inkling as to what the parameters would be in the months to come. Over to Murali.

- Mr. PA Murali:** Vivek, going forward I think you can take questions please.
- Mr. Vivek Maheshwari:** Sure, Marina, we can start the Q&A session now.
- Moderator:** Sure sir. Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. At this time, if you would like to ask a question, please press “\*” and then “1” on your touchtone phone. If you decide you want to withdraw your question from the question in queue, you may press “\*” and then “2.” Participants are requested to use only handsets while asking a question. The first question comes from the line of Mr. Abneesh Roy from Edelweiss. Please go ahead.
- Mr. Abneesh Roy:** Sir, my first question is on margins. We have controlled our gross margins very well. But on the other two fronts on employee cost, there is a 13 crores special incentive. So, my first question is why this special incentive is there and is it one-off or is it recurring? Second is of course on the A&P spends. We have launched some brands of W&M. So, is it again one of our whiskeys ... other quarters also this number is coming?
- Mr. PA Murali:** See, on the employee cost, it's more of a timing issue and what happened was last year the long term plan was provided by the end of March 09 because we didn't have a provision during the year and therefore you will find that in this quarter we have taken a provision and therefore it looks as if it was spiked. But if you look at the six months thing and if you look at probably March FY10, it will even out on the overall case. This special incentive is something which is considered because in the light of a very difficult year we had and the way that we managed, the board felt it prudent to incentivise the employees of the company. That's the reason as for accounting standard, I won't be able to amortize it over the period of the year and I will have to take the knock in the quarter when this is declared. So, if in case there are such special incentives going forward and if it is declared typically in the same quarter next year, I mean you will find a balance there. The long-term incentive plan is something which we have started taking as an overall provision over the period even though last year we took the position only of March 09. This year we have started taking on a judgment basis provision so that it is well represented.
- Mr. Abneesh Roy:** Why I am asking this is, in other sectors currently we are not seeing the spike in staff cost but in this industry we are seeing 66% Y-o-Y spike. So, is it because competitive intensity has increased or nothing like that?
- Mr. PA Murali:** In our industry, believe me, definitely there is a lot of competitive activities especially from the MNCs who want to pose figures.

Anybody and everybody who is known in this industry, if you trace the history, will be from the UB stable. So, as a market leader, we always face that problem and therefore we need to retain the best talent for us to sustain the growth level.

**Mr. Abneesh Roy:** And sir, the second point, the A&P spend?

**Mr. PA Murali:** You are saying, White Mischief rolled out this year. Will there be any more rollouts during the year?

**Mr. Abneesh Roy:** Yes, that's one part and for the same brands Romanov red and Whyte & Mackay special, will these be the balance in the two quarters also because brands that are launched may not get competed in the same quarter?

**Mr. Vijay Reki:** No. Actually, if I may draw your attention to the normal practices, when a brand is launched, a lot of activities and expenses are incurred at the time prior to its launch as well as just as when it is launched. Now that it has been rolled out, we don't expect any particular spike in the A&SP and it will be maintenance of the spend behind various brands which we have to support and with regard to your specific question that whether we would be spending extraordinary amounts behind the launch of Whyte & Mackay products, that also I can assure you it is in the negative because those brands will be supported in an adequate manner but the salience of those brands in the entire portfolio and therefore the amount of A&SP spend which they attract from the overall spend is not significant. So, that is also not going to bring about any spike in the A&SP spend going forward.

**Mr. PA Murali:** And you can safely assume that our A&SP spend as a percentage on XL revenue will remain between 7 and 8% of this year also.

**Mr. Abneesh Roy:** Sir, my second question is on the UP problem which you just mentioned price abuse wherein it has been sold above the MRP. So, my question is, what is the current status and what are we doing to work on the problem? And second, you said now in Punjab also some similar problem is there. Can it go to some other states also because every state will then start seeing an opportunity out there, the state governments, the regulatory body, those can start seeing a revenue potential there?

**Mr. Vijay Reki:** No, I will put it in this context. These two states are an exception because the trade is in the hands of syndicated private traders, that is the wholesale trade and the retail trade is in the hands of syndicated private traders. They are the ones who can control the demand from the consumer because they have a bunch of shops and therefore they are able to syndicate. That phenomenon does not exist in other states. And as far as what we can do, we can only

engage in a constructive dialogue that this is not a win-win situation for the trade because if the prices are kept reasonable, the velocity of the products will improve. And therefore it's a throughput and the margins because of the throughput which they can make would be better but the trade has its own calculations and its own mechanisms and therefore they have not taken this as an advice. Excise authorities also are really not taking any interest to prevent this price abuse but the good thing is that this is only contained in UP and part of Punjab. It is not all pervasive in Punjab and in UP the phenomena is there and we hope that will be a passing phenomenon and it does not recur next year at least.

**Mr. Abneesh Roy:**

Sir, my last question is on Maharashtra. What was the end result of that tussle because you mentioned you will get some savings on the margins which will flow for a long time. Some colour on that, if you can give.

**Mr. Vijay Reki:**

Yes, definitely. See, the stance we took was that the margins being given to the wholesale trade were, except it viewed the benchmark with similar throughput fast-moving consumer-products company. So, we rationalized them because again here was a situation when the VAT increased from 20 to 25% and it would have led to sharp increases in the end-consumer prices. So, keeping that in view, we adjusted the trade margins between us and the wholesalers. The net result of that was that the company was able to have two benefits. One is to keep the end-consumer price slightly lower than, otherwise it would have been and secondly in the entire exercise our retention increased marginally and that is why I was alluding to would be a benefit in perpetuity and they are not being unreasonable to the trade because they are getting more than handsome margins even now.

**Mr. Abneesh Roy:**

Is the retention substantial or is it too small to really pack in our model?

**Mr. Vijay Reki:**

I can share that with you. Let's say it's about half a percent of what we otherwise would give to the trade. If you are giving 8.5 to the trade, we are now giving 8% so that half in Maharashtra... that's the sort of a benefit and it can be monetized right into the EBITDA because that is the benefit which he were able to retain because of this outlook.

**Mr. Abneesh Roy:**

Okay, sir. Thanks. That's all from my side.

**Moderator:**

Thank you, Mr. Roy. Next question is from the line of Nikhil Vora from IDFC SSKI. Please go ahead.

**Mr. Nikhil Vora:**

Just a couple of things. First was, if you would be in a position to give any colour on what's happening at Whyte & Mackay? Second was on just the interest cost, can we just have a broad number guidance on what is the steady interest cost on the operations of the company right now?

**Mr. PA Murali:**

See, Whyte & Mackay clocked about 59 million pounds in terms of net sales as against almost 57 million pounds last year, a growth of almost about 3%, about 58.6 million or so and in terms of volume the branded business on the overall volume basis growth is about 5%, about 751,000 cases to 789,000 cases. But the W&M volume grew very strongly by about 14%, about 75,000 cases last year to 825,000. We had a growth of about 5.5% at 365,000 cases. International sales were more or less flat at about 437,000 cases as against about 427,000 cases earlier mainly because of one particular brand called John Barp sales in South Africa and Ecuador and Dubai. There are some timing differences and therefore we could not clock in but their forecast will be picked up later during the year. EBITDA last year we had about 11.9 million pounds. This year we are at about 12.1 million pounds. EBITDA margin was about 21%. We have maintained that margin. Typically, as you know, Whyte & Mackay will clock bigger number in the third quarter depending upon when the mature bulk sale happens and that normally happens towards the end of third quarter or beginning of fourth quarter. The guidelines for EBITDA for the current year remained at about 55-57 million pounds. We should be able to maintain that. It shouldn't be an issue at this point in time. The value of the stock remains strong in the sense that as of September 30<sup>th</sup> we had almost about 109 million litres of alcohol valued at about 539.9 million pounds which translates to almost about 4.97 pounds per litre which is almost about 67% more than the price at the time of acquisition which is about 3.05 pounds per litre. In terms of an overall interest cost, on a steady state right now if you are to segregate the 5,00,000 crores loan factor that I said, about 3,000 crores is lying in overseas entities and about 2,00,000 crores is lying here. So, even if you take an average about 11-11.5% a year and an effective rate of about 7-8% overseas... we are looking at almost about 500-525 crores on a steady state basis. But you will see some reduction. Now that there is big repayments that have happened during the course of this year, in my opinion at least 125 crores of reduction on a 12-month basis on a steady state should happen. This is on an analysis basis at this point in time. But as you know, we are also looking at possibilities of investing behind our manufacturing of various opportunities that we have which will only augment the marginal levels going forward. That will happen only after we prepay or refinance the balance interest of about 90 million as I said in my opening remark so that we will be able to concentrate on what the business needs in terms of investment at the backend.

- Mr. Nikhil Vora:** Okay. Murali, just one followup. I am just slightly perplexed why is the guidance for W&M still at literally the same level as last year's profitability? Does that mean there will be a significant reduction in the throughput sale in W&M? If that is so, what is the reason and rationale behind it given that prices have increased by literally 65% plus? And possibly it should be the best time for us to sell more liquid.
- Mr. Vijay Reki:** See, it's a judicial management of what we want to do with the liquid the long term, Nikhil. Today, the preferences have shifted to higher rate liquid in terms of consumption pattern. No longer 3-5 years blends are the preference of a discernible consumer and even the big bosses as I have said earlier you have stopped selling bulk. I don't get bulk even today in the market. Even if I want to buy million litres of alcohol, it's just available because people are putting down stocks. It is easy for us to sell more liquid and turn this company into a 75 million or 100 million EBITDA company but if I have invested into this company for the long halt, it is only in my interest that I manage the EBITDA at a level which is sustainable for its obligations and put-down stocks to exploit that opportunity as our branded business grows in the future. So, it's a question of how we manage the production and the stock situation.
- Mr. Nikhil Vora:** And for maintaining this guidance of 57 million pounds, how much inventory would we be selling from last year, how much would it be lower than last year?
- Mr. PA Murali:** See, this year, it will be pretty much the same because see we are going by contracts that are already in hand, going forward is when we will have the benefit of this 60% hike where we will be able to sell lesser liquids to maintain the same EBITDA level and put down more stocks for future use. This is the last year of that contract which we all know about and I think last time we alluded to where we are on that, almost about 50% in contribution levels we have tied up with multiple potential buyers as of now and we are still in the process of tying up the balance 50% so that we are able to have the sustainable level of EBITDA at about 55 to 60 million pounds, I mean going forward without any issue.
- Mr. Nikhil Vora:** Okay, thanks so much, Murali, and all the best.
- Moderator:** Thank you, Mr. Vora. Next question is from the line of Ashit Desai from B&K Securities, please go ahead.
- Mr. Ashit Desai:** Sir, this is on the Whyte & Mackay performance. We have the repricing coming up sometime next year. Just wanted some idea on that as to when is it expected and what kind of an upside are we

expecting from that. The Bulk Scotch sale repricing which is currently tied up with **Diageo**.

**Mr. Vijay Reki:**

There is no repricing as such. What we are trying to mean is we had a contract at a particular price four years back which ends this year, this fiscal, so going forward the natural question in any analyst's mind would be what are you going to do going forward. Are you going to have similar contract, at what price, etc. What we are trying to say here is that the prices have jumped almost 50 to 60% compared to the rate that we contracted earlier with them. So going forward it gives us the ability to maintain the same contribution by selling lesser quantity of liquid. So that, that gives us the ability to put down stocks for maturation in future use, but our guidance would be that we will manage the EBITDA of Whyte & Mackay between 55 and 60 million pounds year-on-year because we feel that that is a sustainable level of cash generation for Whyte & Mackay to meet its obligation.

**Mr. Ashit Desai:**

Okay, and in the domestic market if we leave out Maharashtra, UP, and Punjab, what is the kind of industry volume growth that we had in other markets?

**Mr. Vijay Reki:**

Yes, barring Chandigarh, where the market or the industry had sort of reduced itself by 50% level, the markets of Karnataka, Delhi, Haryana, Madhya Pradesh, Assam and what we sell into canteen stores, for us have been double digit growths and why I said double, I am talking between 20 and 30% growth. The other markets like Punjab, Kerala, Tamil Nadu, Rajasthan, Maharashtra, Uttar Pradesh, West Bengal, Andhra Pradesh, some of them have grown 10%, some of them grown by 15%. Market like Kerala has grown 33%, there is a mixed bag but the average of all the markets in terms of growth in volumes as we said in H1 has been 14% and going forward we are confident despite the problems on account of the straight standoff and the two festival seasons, we hope to be able to end the year around 14 to 15% volume growth which has started already, I mean, I can share with you now, end of October we are on 27<sup>th</sup> today, we are looking at around 15 to 16% growth in the month of October at this status, so the proof of the pudding is in the eating and therefore it is staring right in our face.

**Mr. Ashit Desai:**

Okay, thanks a lot, sir.

**Moderator:**

Thank you, Mr. Desai. Next question is from the line of Amnish Aggarwal from Motilal Oswal Securities Limited, please go ahead.

**Mr. Amnish Aggarwal:**

Sir, I have a couple of questions. My first question is that what was the ENA molasses cost per case during the quarter in comparison to the previous one and where are we heading for in the coming quarters?

**Mr. PA Murali:**

Yes, I think, we have already said that in Q2 the cost particularly attributable to ENA molasses was 54 crores at an H1 though it was 114 or 115 crores. It does remain more or less stable in the whole of H1. In the first six months, we have had an average of 150 rupees a case that the whole of the last year, the cost of ENA was around 136, 137 rupees a case and going forward, we believe that 150 rupees a case should come down to somewhere between 148, 147, depends really, but we are hoping for the best, so it will be lower than 150 which has been the average for the first six months.

**Mr. Amnish Aggarwal:**

Okay, sir my second question is regarding the Capex plans of the company particularly in view of your growing volumes at 14 to 15% levels, what are your Capex plans and what sort of a planning you are doing for the future?

**Mr. PA Murali:**

The Capex plan as we have discussed earlier, Amnish, is on three to four fronts, three fronts where our IRR in excess of 25 to 30%. First one will be on the primary distillation where we are planning to ... while investing behind the primary distillation capabilities, we are also trying to build a sort of a hedging mechanism by having these plants as multi-substrate plants where we should be able to produce ENA from either molasses or grain. So, that is one thing that is on the table because today only about 11% of our overall requirement is being primarily distilled from molasses at this point in time and with about, as you rightly said, 14 to 15% growth coming in, we don't want just 11% to go down but our aim is in the next about three to four years, this 11% should push up to about 30 to 35%. As against the second focus in terms of capital expenditure would be, about 45% of our overall volume is outsourced today and this year growing at about 14 to 15%, it is very imperative for us to invest in bottling capability so that we are able to in-house this growth and we at least if not improved but remain at the same proportion of 55:45. We expect that to only improve towards insourcing and there if we are getting it done by contract bottle manufacturers, it costs us around Rs. 40 to Rs. 45 a case whereas today if I were to produce the same in my own, existing bottling lines which are augmented in terms of its capacity, my fixed costs are already defrayed in the current volume pace and therefore, it won't be as incremental as I would say for every case to an outsider and therefore that gives me almost about 33% IRR going forward. That's another area of focus in terms of investment and capital expenditure. The third and most critical area which I would say is also receiving the attention of the management is on malt spirit. You know, we have something like every bottle has a blend of high bouquet spirit which is a blend of scotch and local malt spirit, matured malt spirit that is manufactured and matured in India where the capacity is in the land and not keeping pace with the volume growth of the industry, and therefore, being the biggest

player, we don't want to face a situation of high price hike going forward, and therefore, it is imperative for us to also invest behind creating malt spirit capacities in our existing plans which also has an IRR as high as about 50% given the kind of trends that we are seeing in terms of malt spirit prices for creating our high bouquet spirit. These investments will happen over the period of three to four years and right now the board is debating as to what is the right size, which is the plant, where it should be, what should be the capacity, etc., and I can only tell you that once we roll out the plan in its full detail and the investment plan will be over a period of three to four years. Normally, it takes about 18 to 24 months for these plans to actualize and give us a return. So when I talked of 25, 33, 50% in terms of IRR, it only goes to enhance our margins 24 to 36 months down the line.

**Moderator:** Thank you sir. Next question is from the line of Rahul Baijal from Voyager Capital, please go ahead.

**Mr. Rahul Baijal:** Two questions, one, just trying to understand what is the number of shares post the recent dilution in terms of outstanding shares in the company now?

**Mr. PA Murali:** 107.9 million shares were there post the Shaw Wallace merger. In this issuance, we issued about 17.68 million shares therefore taking the total share, capital to 125.6 million shares, which includes 8.4 million shares in the benefit trust as well as subsidiaries holding in the holding company.

**Mr. Rahul Baijal:** Okay and secondly, just following up on Nikhil's question, I am just trying to understand better how does one understand the valuation of the inventory which you have in Whyte & Mackay in terms of, for example, how many millilitres do you have, what kind of hedging exists?

**Mr. PA Murali:** I gave that number, we have as of September end and we have about 109 million litres of alcohol valued by an outside value at about 539.9 million pounds which translates to about 4.97 pounds per litre of alcohol.

**Mr. Rahul Baijal:** Okay and what kind of annual production run rate do you have in terms of million litres?

**Mr. PA Murali:** See, grain and malt, we have capability to produce anywhere between 9 to 12 million litres of malt and we have capability to produce almost about 32 to 33 million litres of grain, so we produce according to the requirement.

**Mr. Rahul Baijal:** Okay and most specifically, for example, what could be the production level, say the last year. How many million litres?

- Mr. PA Murali:** I think we produce close to almost about 28 to 29 million litres last year.
- Mr. Rahul Baijal:** Okay, thank you very much.
- Moderator:** Thank you, Mr. Baijal. Next question is from the line of Aniruddha Joshi from Anand Rathi Securities, please go ahead.
- Mr. Aniruddha Joshi:** Earlier you said that the mix impact has been around 2% in the revenue growth. So, just wanted to know which of the brands have grown at a much faster rate. Sorry if I am repeating the question.
- Mr. PA Murali:** No, no, yes, okay. No let's clarify in the beginning itself. The mix refers to the brands selling in more profitable areas or stage or more profitable brands selling in the same space, so that is the mixed upside and the price upside, we said it is around 2%, so I hope that clarifies the position in your mind and Mr. Reki did give you some data about certain brands growing which has Black Dog family growing at about 30%, Antiquity family grew about 33%, Signature grew at about 13% and No. 1 Brandy and Rum grew about 17%, White Mischief Vodka grew about 20%, and Director's Special Whisky grew both 12 to 13%. These are specific brands which clocked more than average growths.
- Mr. Aniruddha Joshi:** Okay and McDowell's No. 1 whisky?
- Mr. PA Murali:** It grew by about 4%.
- Mr. Aniruddha Joshi:** Sir, any particular reason for such a lower growth?
- Mr. PA Murali:** Maharashtra, then lack of UP more importantly, then lack of capacity in Tamil Nadu.
- Mr. Aniruddha Joshi:** Okay, okay sir, thank you, thank you very much.
- Moderator:** Thank you, Mr. Joshi. Next question is from the line of Saurabh Pant from SBI Mutual Fund, please go ahead.
- Mr. Saurabh Pant:** First question is, I assume that this 90 million dollars would try to get a domestic debt against this foreign debt. You said that you paid, I mean, 190 crores came from treasury, 240 from QIP, so left about 100 million dollars, how much is the internal accrual, how much is the domestic debt?
- Mr. Vijay Reki:** Almost about 80% of it came from re-financing.
- Mr. Saurabh Pant:** So, about 80 million USD came from re-financing.

- Mr. Vijay Reki:** About 400 to 425 crores came out of that.
- Mr. Saurabh Pant:** Now suppose you get this 90 million USD which is left in the Citibank loan and you refinance this through the INR loan and this I assume would come in the standalone entity, so what could be the interest cost going ahead? I think it would even move further now for the next two quarters?
- Mr. Vijay Reki:** Yes, I mean, see you will have to look at it on a consolidated basis, right? I mean, let's look at it differently. If I don't do anything, leave the 90 million as it is, then I would be constrained to take a cover, I mean, on exchange as well as on labour, right? In today's context, for a three to four-year remaining period of the loan, our hedging cost will be around 5% plus the original cost of almost about 4½ to 5%, I mean, will push up the cost on a yearly basis to about 9 to 10%. If I were to refinance it by a rupee loan today, I am confident I should be able to do it around 11%.
- Mr. Saurabh Pant:** Alright, so any timeline you can give when would this be converted into domestic debt or is it still a matter of say would this definitely be converted or not?
- Mr. Vijay Reki:** No, no. See, my focus is to refinance it for one simple reason that 620 million, now remaining debt is 90 million. Now, I mean, for this 90 million, what is as a security pledge is the entire treasury stock which is about 8.4 million shares, right? So there is no point in continuing, which is a No. 1. No. 2 also, why should I live with the covenant that 620 million loan had. I want to unshackle myself so that I can look at what I need to do as far as the business is concerned. Which can be programmed and so on and so forth. That is the reason why we are focused on refinancing that and releasing the treasury stock so that I can keep it free for dealing with hedging at a point of choosing in future.
- Mr. Saurabh Pant:** Okay and say, suppose, the rest of the QIP money because all the proceeds have not been gone towards repayment of debt. The rest would be left out for Capex or where would the rest of the money go?
- Mr. Vijay Reki:** As I already have said in the past, I mean, net proceeds, I mean, I would say about \$285 million is being used for reduction of debt and about \$50 million, we are keeping it in reserve for a Capex programme as our margin.
- Mr. Saurabh Pant:** Alright. The second question that I had was on Balaji Distilleries. Is there any chance for the swap ratio to change?

- Mr. Vijay Reki:** No, no. Board has decided and announced and it has gone to BA for their approval. So, there is no chance of that changing now.
- Mr. Saurabh Pant:** Okay but that's for sure it won't change.
- Mr. Vijay Reki:** No, no, it won't change.
- Mr. Saurabh Pant:** It can only get deferred.
- Mr. Vijay Reki:** Yes. If BA doesn't approve of the schemes, then I don't go through that much, right? It is a court process now.
- Mr. Saurabh Pant:** Okay, when would this hearing come about?
- Mr. Vijay Reki:** We expect the process to get over before this fiscal year end and if we have any announcement for merger effective 1<sup>st</sup> April 2009. So, hopefully, it would get through and I should have by the end of March 2010 I will have the figures of Balaji into my balance sheet when I finalize by March.
- Mr. Saurabh Pant:** I think where I was coming from is that I think BSR had raised some concerns on certain warrants being issued post this swap ratio being announced. So, I hope that is all. There is no problem regarding that.
- Mr. Reki:** No, there is no problem in our mind. If warrants are to be cancelled, then there is so much of lesser number of shares, right? But then, it is for them to sort it out and this is what they are trying to do but let's see. I mean we are waiting for these things to happen.
- Mr. Saurabh Pant:** Alright. One more, if I can just make one more, can you just share with us that the independent valuer who has valued the stock? Can you share the name with us if that is possible? Name of the independent valuer for this scotch inventory that you have ...
- Mr. Vijay Reki:** Yes. A person called Allan Rutherford who is an authority in scotch valuation. He has been in the industry for probably some 40 to 50 years.
- Mr. Saurabh Pant:** Alright, sir. Thank you. That's all from my side.
- Mr. Vijay Reki:** This valuer is not appointed by us. Okay? He is appointed by the bankers and he gives his report direct to the bankers. Because the scotch inventory is pledged to the bank for the loan. So we have neither any say nor, I mean... we have any, what you call, interaction in terms of the process of this valuation except to give him what are the numbers and he comes and checks and then he

has his own calculations around which he could serve the report to them confidentially.

**Mr. Saurabh Pant:** Okay, you are saying there are certain covenants here for Capex. You cannot invest in Capex for Citi the loan that you would repay to Citi, you would be able to invest. Any other covenant that really stopped you from going about with your operations ...?

**Mr. Vijay Reki:** See, tough years of last three years post acquisition, we have gone through without any problem on covenant, right? We don't expect anything. All that we are trying to say here is that now that we have deleveraged substantially, there is no point in sitting with the loan with covenant loan, right? Like 24 million is what I can spend on Capex. It's not good enough if I need to go through with my programme of capital expenditure. Either I go back to them to say now or you look at the Capex differently or refinance them and release the security, look at what we need to do in terms of Capex programme.

**Mr. Saurabh Pant:** There is no straight covenant that is left in the remaining debt. I mean nothing stops you from ...

**Mr. Reki:** No. What covenants I had on the \$620 million loan continues on the \$90 million loan because I have not entered into the different agreement because of tripping.

**Mr. Saurabh Pant:** I got your point. Thank you, thanks a lot.

**Mr. Vijay Reki:** Thank you.

**Mr. Vivek Maheshwari:** Just one question to the management. Sir, have you gotten any price hike in any of the markets. I was reading that perhaps in Andhra Pradesh, we will see some price hike sometime from first week of November. Is that correct?

**Mr. Vijay Reki:** Yes, it is correct. We are eagerly anticipating that will happen which will give us further kicker, if that happens.

**Mr. Vivek Maheshwari:** Also, it's not certain at this point of time.

**Mr. Vijay Reki:** According to our own estimates, it's more than certain it's likely to happen.

**Mr. Vivek Maheshwari:** And can you also give a sense the kind of price hike that would come through or would be premature at this point of time?

**Mr. Vijay Reki:** Yes, the indications because the negotiations have gone through with the APBCL it will be in the region of 8 to 10%.

- Mr. Vivek Maheshwari:** 8 to 10%? Okay. Any other market where you expect a similar kind of price hike?
- Mr. Vijay Reiki:** See, the price hike basically happens before the trade India starts which is basically after the excise policies are announced. So, price hikes happen in April and May and that's all behind us. That's why when we said that differential of 4% between volume and value growth 2% and all these ascribe to the price increases and the balance is on account of the volume mix. So, as it is behind us, we are now anticipating this Andhra price increase and, if I may add, that there is some talk going on of price increases in Tamil Nadu but it is unlikely to happen in this financial year.
- Mr. Vivek Maheshwari:** Right, understood, sir.
- Moderator:** Thank you sir. The last question is from the line of Govind Chellappa of Credit Suisse. Please go ahead.
- Mr. Govind Chellappa:** I had a couple of questions on Whyte & Mackay. Could you just tell us what is the average age of your current scotch inventory?
- Mr. Vijay Reki:** Proprietary, how will give the age of ...?
- Mr. Govind Chellappa:** Okay. And from the numbers that your Capex...
- Mr. Vijay Reki:** Doesn't help anybody because you wouldn't like to mix the 13-year-old with a 3-year-old because then you can only sell it as a 3-year-old.
- Mr. Govind Chellappa:** Sure. From what I understood your capacity in Whyte & Mackay is about 40 to 45 million litres. Any constraint on why you produce 28 to 29 million litres last year especially considering the fact that you want to build up inventory?
- Mr. Vijay Reki:** Govind, it is better to produce more of malt which we are producing to the maximum extent. Grain, I mean, there is good capacity in the industry. There is no point putting on grain liquid. The value is in the malt liquid which is limited in its capacity. So, even though I have a 33 to 34 million capability, there is no point in producing a lot of grain and stocking there.
- Mr. Govind Chellappa:** Okay, just to clarify. All these numbers are litres of pure alcohol?
- Mr. Vijay Reki:** Correct, original litres of alcohol. OLAS.
- Mr. Govind Chellappa:** Okay, thank you, sir.

**Moderator:** Thank you, Mr. Chellappa. Ladies and gentlemen, that was the last question. I would like to hand over the floor back to Mr. Vivek Maheshwari for final comments.

**Mr. Vivek Maheshwari:** Well, thank you, Mr. Reki and Mr. Murali for joining us in this call and I thank all the participants for joining us on this call. Thank you very much.

**Mr. Reki:** Thank you.

**Moderator:** Thank you, Mr. Maheshwari, Mr. Murali and Mr. Reki. On behalf of CLSA India Ltd., that concludes this conference call. Thank you for joining us and you may now disconnect your lines.