RKL/SX/2022-23/36
August 17, 2022

BSE Ltd. Phiroze Jeejeebhoy Towers Dalal Street Mumbai – 400 001. **Scrip Code: 532497**	National Stock Exchange of India Ltd. Exchange Plaza, 5th Floor Plot no. C/1, G Block Bandra-Kurla Complex, Bandra (E) Mumbai – 400 051. **Scrip Code: RADICO**

Sub: Transcript of the Earnings call conducted on August 11, 2022

Dear Sirs/ Madam,

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed transcript of the Earnings call for the quarter ended June 30, 2022, conducted after the Board meeting held on Wednesday, August 10, 2022.

The same is also been uploaded on our website at www.radicokhaitan.com.

This is for your information and record.

Thanking You,

Yours faithfully,
For Radico Khaitan Limited

DINESH KUMAR GUPTA
Digitally signed by DINESH KUMAR GUPTA
Date: 2022.08.17 15:49:48 +05'30'

(Dinesh Kumar Gupta)
Vice President – Legal & Company Secretary

Email Id**:** investor@radico.co.in

Encl.: As Above

Radico Khaitan Limited

(BSE: 532497; NSE: RADICO)

First Quarter FY2023

Earnings Conference call

August 11, 2022

Management Participants:

Mr. Abhishek Khaitan, Managing Director

Mr. Dilip Banthiya, Chief Financial Officer

Mr. Amar Sinha, Chief Operating Officer

Mr. Sanjeev Banga, President – International Business

Presentation:

Moderator: Good day ladies and gentlemen, and welcome to Radico Khaitan Limited Q1 FY2023 Earnings Conference Call hosted by Dolat Capital. 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. I now hand the conference over to Mr. Himanshu Shah from Dolat Capital. Thank you and over to you, Mr. Shah!

Before we begin our presentation, I would like to remind you that some of the statements made in today's conference call may be forward-looking in nature and may involve risks and uncertainties. Kindly refer to the last slide of our earnings presentation for the detailed disclaimer.

Himanshu Shah: Thank you Michelle. Good afternoon everyone. On behalf of Dolat Capital, we would like to thank everyone for joining on this call. I would like to thank the management team of Radico Khaitan for giving us the opportunity to host Q1 FY2023 post-result call. We have with us today Mr. Abhishek Khaitan – Managing Director, Mr. Dilip Banthiya - Chief Financial Officer, Mr. Amar Sinha – Chief Operating Officer, and Mr. Sanjeev Banga - President, International Business. I shall now hand over the call to Mr. Abhishek Khaitan for his opening remarks. Over to you!

Abhishek Khaitan: Good afternoon ladies and gentlemen. Thank you for joining us on our Q1 FY23 results conference call. I hope you are all doing well and keeping safe.

Strong growth momentum, which was seen in Q4 of last year continued during Q1 FY23. Our endeavor during the quarter was to drive premium growth and focus on the execution of our projects to make Radico Khaitan a future-ready organization. In an environment which remains challenging, marked by unprecedented inflation, this performance gives us the confidence of our future growth trajectory. We have delivered another quarter of a strong IMFL volume growth led by Prestige and above category, which increased by 29%. Overall our growth is broad based and has a healthy underlying product and price mix.

As the consumption in the 'out-of-home' space normalizes, we are seeing solid traction across the premium portfolio, particularly in the white spirit space. While Magic Moments Vodka volumes are growing strongly, the momentum that Jaisalmer Craft Gin is seen is quite encouraging. Looking at the growing demand of Jaisalmer Indian Craft Gin, we are expanding our gin distillation capacity, which is already a part of our earlier announced capex plan.

At Radico Khaitan, innovation is an ongoing phenomenon. In line with our brand strategy, we launched a travel retail exclusive expression of Rampur Indian Single Malt called TRIGUN, which will be retailed at $200 per bottle. It is an amalgamation of fruity aromas and smoothness topped with crispiness coming from a balanced maturation in three different casks. This is a testament to the quality of luxury brands that Radico Khaitan produces. Radico Khaitan was the largest exporter of IMFL from India during Q1 of FY23.

While there are near-term concerns around the inflation, the recent softening of certain commodities, a normal monsoon and the policy measures undertaken by the Government are positive for the industry. The recent price increases in the IMFL business translated into a 3% positive impact on our realization. With the price increases coupled with the favorable product mix, we are able to maintain our IMFL business margins. The impact of the cost push has been more severe in the non-IMFL business where we are expecting a price increase shortly. Overall, we expect the inflationary environment to gradually ease out to some extent in the second half of the year.

Both the Rampur Dual-Feed and Sitapur Greenfield projects are progressing well and the civil construction is on full swing. We expect Rampur Dual-Feed plant to be operational by Q3 of FY23.

Our premium brand growth continues to be very robust. New brands such as Royal Ranthambore and Dazzle are performing in line with our expectations. Luxury portfolio consisting of Rampur Indian Single Malt and Jaisalmer Indian Craft Gin are showing great momentum. This coupled with the growth of our core brands such as Magic Moments, Morpheus, 8 PM Premium Black and 1965, etc., places us very confidently to continue delivering industry leading growth.

I would now like to hand over the call to our CFO for a detailed operational and financial review. Thank you and over to you, Dilip!

Dilip Banthiya: Thank you, Abhishek. Thank you everyone for joining us on this call today.

During the first quarter of FY23, we reported a total IMFL volume of 6.82 million cases representing an increase of 21.5% on Y-o-Y basis.

This was led by Prestige and Above category volume growth of 29.1%. In value terms, the Prestige and Above category registered 37% growth. Prestige and Above category accounts for 29.5% of IMFL volume compared to 26.1% in Q1 FY22.

Net Revenue from Operation during Q1 FY23 was 757 Crores representing an increase of 27% compared to Q1 FY22. During this period, IMFL Sales value increased by 27.7%. As a percentage of total revenue, IMFL Sales accounts for 78.9% of the Net Revenue compared to 78.3% in Q1 of last year.

Gross Margin during the quarter was 43.6% compared to 42.7% in Q4 of FY22 and 47.1% in Q1 FY22. On Y-o-Y basis, continued commodity inflation resulted in gross margin compression, particularly in the non-IMFL business. Given a favorable product mix change, impact of cost push on the gross margin of the IMFL business was mitigated to a large extent.

On a sequential basis, gross margin improved due to price increase in the IMFL business and a favorable product mix.

In the near term, we expect raw material pricing situation to remain volatile. While we have seen further inflation in the packaging material and ENA costs in Q1 FY23, certain commodities have seen softening trend recently. So it is very difficult to comment on the trend going forward. The Company is taking all efforts to optimize cost and to mitigate any margin headwinds, which along with the recently received price increases shall help in offsetting the inflationary pressure. We are undertaking a company-wide, brand-wise value-engineering exercise, which will add value over the longer term. In the long term, we expect to continue our margin expansion trajectory given our portfolio premiumization and backward integration.

Finance cost decreased by 36% y-o-y from Rs. 4.6 Crores to Rs. 3.0 Crores during Q1 FY23. The Company's cost of borrowing is one of the lowest in the industry due to stable profitability, strong capital structure and improved liquidity position. We have further tightened our working capital resulting in continued strong cash flow generation. During the quarter, the Company has incurred Rs. 95 Crores on Rampur Dual-Feed and Sitapur Greenfield projects and a total of Rs. 165 Crores have been spent since inception on these projects.

We have a strong financial position and comfortable liquidity. During these times, we are taking all necessary steps to sustain our financial strength, maintain robust business model and grow consistently, competitively and profitably. With this, we will now open the line for Q&A. Thank you.

Question & Answers Session:

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Aditya Bagul from Tata Mutual Funds. Please go ahead.

Aditya Bagul: Good afternoon and congratulations on a really good set of numbers. My first question is on realizations. We have seen about 3% improvement in realizations in this quarter even over the longer term we see 2% to 3% sort of a growth, so question here is, I am trying to understand if you can help me break down this realization into some of the price hikes that we have received and second is the impact of the premiumization during that year on, so just some thoughts would be helpful?

Dilip Banthiya: The realization in this quarter has been inline with our momentum in premium growth, so realization per case on y-o-y basis has improved by 6.1% on the Prestige and Above category and realization on regular category improved by 800 basis points, so as far as the premiumization is concerned, the journey of premiumization is continuously going and strengthening. We have improved because of the price increase in certain states where has been an overall improvement of 300 plus basis points on our gross margin. In certain states where we have got the price increase are UP, Uttarakhand, Rajasthan, MP, Jharkhand, and Assam. All these states are the major states where we have got the price increases and a couple of smaller state also. The overall impact of these price increases is 300 basis points plus.

Aditya Bagul: Understood. If I heard you correctly, there was the realization positive impact of 600 basis points in P&A and the higher number in popular, but when we look at the overall realizations that is up by only 3%, so is it fair to understand that bulk alcohol prices have actually come off on a Y-o-Y basis, how I will read into that?

Dilip Banthiya: On an apple-to-apple basis, price realization which I have given you in P&A 6% and on a regular basis is 800 basis points, however, depending on state mix, sometimes some state is more in weightage than the other state on a quarter-on-quarter basis, so it cannot be compared when you say as a macro level.

Aditya Bagul: Understood. That is very helpful. Going ahead, we have these 3% sort of price hike in the pocket, what do you think should be the realization growth that we should look forward to over the next two, three years because that is when all our premiumization initiatives will sort of come through?

Amar Sinha: See it is like this that if you see the history of performance, the growth in Radico is largely driven so far by P&A brands and this P&A Brand comprises of two clear segments, one is the luxury portfolio and one is the super-premium portfolio, now as we see the market today, there is complete buoyancy for our brands. There is consumer demand for our brands and that is what is pushing the growth. Now the brands in the premium segment, like 8 PM Premium Black, the newly launched Royal Ranthambore, the Super Premium Vodka, which is Magic Moments Dazzle, we are still in the expansion mode in different states of the country. Rampur Single Malt and Jaisalmer Craft Gin are showing a great traction. They are also in the expansion mood, so yes, what I could only respond by saying is that the next three years are going to see phenomenal growth in these brands because they would be in full bloom and over and above that there is a lot of work happening on the premiumization part in terms of certain new innovative products that is also there to come.

Aditya Bagul: Understood. Very helpful. My second question is around inflation in our RM basket. Can you just talk a little in terms of inflation in molasses, ENA, glass, etc., and some of the other inputs and when do you see our gross margins going back to the high 40s level that we saw most of last year?

Dilip Banthiya: As we have said that the IMFL segment because of the price increase and product mix, we have almost mitigated the inflation on the commodity side and on the non-IMFL segment as we have explained that the price increase, which is in offing is going to mitigate it. At the same time in Q1, some of the commodities have been softening and some of the commodities have seen the inflationary trend. The grain prices have increased over Q4 likewise the resin prices in packing material side. We have seen that the fuel prices have also increased. While the packing material aluminium prices and the molasses prices have remained almost stable, so I think is an overall mix of that.

Aditya Bagul: Understood. Would it be safe to assume that towards the second half of the year, we should go back to gross margin revenue?

Dilip Banthiya: From H2 onwards, there are many factors, which will improve our gross margin as well as EBITDA margin. One is the backward integration of our Rampur Dual-Feed will come into operation so the backward integration profitability will be there, the luxury brands, which are doing very well like Jaisalmer Indian Craft Gin and Rampur Indian Single Malt is still on allocation. we have already spoken about it that the next year onwards they are going to give a big boost to our operating margin and gross margin. Price increases which we have received will also be having an impact for the full year and the product mix with the launch of these products as Amar has just explained that Royal Ranthambore, Dazzle, which are being taken to now pan India rollout and these will bring the margin to the historical levels.

Amar Sinha: Above all this, a lot of work is happening in terms of value engineering to the packaging material of all premium brands, so this is going to result in a cumulative effect of margin expansion.

Aditya Bagul: Understood. This is very helpful. Those were my questions. Thank you and wish you all the best for the quarters to come.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investments Managers Pvt. Ltd. Please go ahead.

Pritesh Chheda: After this 3% price hike in IMFL, by what percentage are you trading in terms of the gross margin, the price increase is required towards margin that is my question and in country liquor what kind of price increases you need for the company level gross margins to get restored?

Dilip Banthiya: While we actually budget it, we also do not look at that how much price increase will be able to make it. The product mix change like we have grown in this quarter at 29% on our Prestige and above category and the kind of brand, which have been rolled out we will be able to have the IMFL gross margin on our earlier historical level from H2 to Q4 onward and next year this will be on expansion trajectory in IMFL and on country liquor, I cannot say the exact price increase, but of course that will mitigate most of our cost push.

Pritesh Chheda: In country liquor, we are not making any money on the EBITDA considering price increases required or we are making some money on the EBITDA?

Dilip Banthiya: At this point of time no. After price increase, we will come back to you, but another feature is that country liquor segment is completely changing like for the first time a grain-based alcohol (UPML) has been introduced, which is 25% of the industry equivalent to almost 25 to 30 million cases and the UPML is actually graduating the whole country liquor business to the cheap IMFL or economy IMFL as it has been done in south. So that segment from H2 onward will also start generating good profitability due to backward integration and the price increase.

Amar Sinha: There is one point which needs to be understood; country liquor is an important segment, but it does not greatly support our margin expansion trajectory. What is going to support us is actually the buoyancy of premium brands, which is already doing pretty well and there are couple of things that are happening. We are working on the improvement of the product mix, selling more of premium brands. Premiumization is on the cards which is still happening, it is not over yet. We are working on price increases in quite a few states. The government has responded well in the last two years and the outlook is positive in the times to come. We are working on cost optimization and value engineering, which will give us good results and of course backward integration with Rampur Dual Feed Plant coming in and thereafter Sitapur Plant, so if you really look at the sequence of things our margin expansion trajectory is being supported by so many other factors, which are going to result in positive incline upwards.

Pritesh Chheda: One clarification, the UPML will it replace country liquor or it will a completely new category in itself?

Amar Sinha: UPML is a good policy that has evolved in UP. It is actually moving the country liquor segment upwards towards the IMFL, it is sub-IMFL, so it is moving towards the IMFL category. This UPML becoming stronger actually the IMFL space stands to gain and the biggest advantage comes to us in the form of using our captive spirit from the plant that we are setting up in UP, which is Sitapur, so we are secured actually with this space in the UPML segment.

Pritesh Chheda: The country liquor will shrink, right?

Amar Sinha: Yes, it will graduate to economy IMFL, which will have a higher margin compared to country liquor.

Pritesh Chheda: Perfect. Lastly, I raised on the volume growth number for IMFL as a whole for the quarter one?

Dilip Banthiya: The overall volume growth in this quarter has been 21.5% and as we have already guided also that we will continue to have a double-digit growth on our volumes for the next three to four years.

Pritesh Chheda: Premium grew 26% right?

Dilip Banthiya: Premium grew by 29%.

Pritesh Chheda: Thank you very much and all the best wishes.

Moderator: Thank you. The next question is from the line of Sonaal Kohli from Bowhead Investment Advisors. Please go ahead.

Sonaal Kohli: Thank you for this opportunity. I had two questions. Firstly, your Rampur stock inventory for making more of Rampur when it would be ready either in Q3 or Q4, it is available as of now in how many states and what is the plan for it at the end of this year and end of next year in terms of distribution?

Abhishek Khaitan: Rampur right now is purely on allocation basis. As far as the Indian market goes, we are present in only six states, but there also we cannot supply because the demand is much more even the export demand we are not able to service of Rampur. But now with the new maturation facility, which we are being in Sitapur in a couple of years that we will get and the thing what we invested about five, six years back that production will start coming from FY2024, that is next year, the production will come and from this year current production it will be significantly higher, it should be at least about three times.

Sonaal Kohli: Are you saying from this year it will be three times?

Abhishek Khaitan: From Rampur it will be next year.

Sonaal Kohli: It will be three times and would it increase further beyond that going forward?

Abhishek Khaitan: Yes, it will keep increasing because as the spirit gets matured it will keep increasing, so as of now the demand is so much that also looks less as of now.

Sonaal Kohli: Are you able to fully manufacturer whatever is demand for Jaisalmer or there is restriction as well because of lack of availability?

Abhishek Khaitan: Jaisalmer also we have received an exceptional demand and the product is doing very well and it is the most expensive gin, it is priced at about Rs. 3800 a bottle and there also we have tripled our production and by January, the plants should be operational, which has already taken the capex, but it happened sooner than what we expected.

Sonaal Kohli: As far as 8 PM Black and Royal Ranthambore is concerned, currently sold in how many states and where you plan to take it by end of this year and may be if it possible by end of FY24 where you have distribution for the same?

Amar Sinha: 8 PM Premium Black is in 19 states and Royal Ranthambore we have just started expanding our width of distribution. We are in six states and as far as Black is concerned it has shown in just a span of two years it has multiplied many fold and last year we did 2 million cases. This year we are expecting a good growth. As far as Royal Ranthambore is concerned, the product priced at a higher point compared to foreign brands is performing exceptionally well, very good response. We see this as a major profit contributor in the future and this year we plan to expand the width of distribution.

Sonaal Kohli: Currently how many states have Royal Ranthambore?

Amar Sinha: Royal Ranthambore is just in about six states right now.

Sonaal Kohli: Great, thank you so much.

Moderator: Thank you. The next question is from the line of Pankaj Kumar from Kotak Securities. Please go ahead.

Pankaj Kumar: Thanks for taking question and congrats on very good volume growth. My question pertains to this royalty brands, which you have given, I just want know like it was included in which category earlier and what it is all about?

Amar Sinha: Royalty brands is not a part of our business strategy, actually we give brands on royalty when we see that the margins are compressed and it is still calling for a huge working capital block. So these are some brands that we have put in some states where brands have been given on royalty and it is not a significant part of our strategy and these are more or less regular brands.

Pankaj Kumar: On 8 PM Premium Black, we have seen very strong volume growth, so it is a Prestige and above category, have we seen any compression in the volumes on the 8 PM Brand because 8 PM of course is a premium category, but the brand name is 8 PM Brand comes in, so is that driving the volume growth in 8PM Premium Black?

Abhishek Khaitan: What we have done is like the 8 PM Premium Black, we are seeing a very, very strong traction as I said last year, we did 2 million cases and this year also the brand is absolutely galloping and as far as 8 PM is concerned - it is in the regular segment and 8 PM we are concentrating only in those states where our recoveries are high. We are not entering into those states, which we have done it last five years, where is the contribution is not high and whichever states we are in 8 PM that is showing great momentum. Both the brands coupled together are showing a good traction and 8 PM as a family is about 10 million cases.

Pankaj Kumar: In terms new brands, are we planning for any new brands in the next one year or something?

Amar Sinha: If you recall the last few interactions we had said that Radico was working in the premiumization space with two whiskies. One has already been launched, which is Royal Ranthambore, which is showing exceptionally good response in the market. There is another one on the cards, but we are waiting for the market and economy to normalize. So over the next one year we are very hopeful that we should be able to do something on this side.

Pankaj Kumar: Thanks for taking my question.

Moderator: Thank you. There is a follow-up question, which is from the line of Sonaal Kohli from Bowhead Investment Advisors. Please go ahead.

Sonaal Kohli: Thank you again for this opportunity. My question was pertaining to 8 PM Black, what kind of growth would we expect? Is it still very higher or is it in teens?

Amar Sinha: 8 PM Black is growing at a very high double-digit growth rate and we hope the brand to maintain the similar momentum in the times ahead. It grew very quickly from 1 million to 2 million and the brand is extremely buoyant. The growth is attributed to its quality of the blend, the packaging and the brand positioning backed by Tiger Shroff who is the brand ambassador, so all put together this brand is very buoyant, it has a great feel.

Sonaal Kohli: When you say high, it could be anything. It could mean 50, it could mean 20. It could mean - all these are high numbers, so let me ask you the question in a different way. When do you expect it to become 3 million plus brand.

Abhishek Khaitan: Very soon.

Sonaal Kohli: Great. My second question was your royalty has increased and you may have implemented part of it mid of the quarter, so what is the steady state kind of number one could expect going forward in this basket.

Amar Sinha: Can you please repeat your question?

Sonaal Kohli: Sure, your royalty has increased Q-o-Q and Y-o-Y and sometimes, while you're saying we implemented certain brands in this basket, but it's work in progress always for any business. It is possible that you may not implemented all the changes at one go or it's also possible that you may have implemented some of the changes in mid-quarter. Therefore, what I was trying to understand from you is on a steady-state basis, if I look at next 2 to 3 quarters, what kind of number one could expect from this royalty-line item in terms of volumes or in terms of sales whatever is possible for you to explain?

Abhishek Khaitan: Right now in the Royalty we have given it to certain [inaudible] for management that is not our focused area and right now the situation is so volatile and the reason why we have given it on royalty because first of all we do not want pressure on a working capital and the margin and this is not that great, so our concentration is more on the Prestige and above side.

Sonaal Kohli: So you cannot say anything about where this number would be and you may even see the strategy going forward on this one depending upon the margins and the business outlook. Is that what you are saying?

Amar Sinha: Depending on margins, we would be flexible. As long as it benefits our bottom line we can relook at.

Sonaal Kohli: Understood and if I want to do a like to like comparison would it be fair to see on Y-o-Y what has grown by additional Rs. 30 Crores kind of revenues, had you not changed this or what would have been delta in the revenues when we look at overall revenue numbers obviously this Royalty line item while in terms of overall revenue level if you have done it internally, the number would have been obviously much bigger or multiplier of this number you have reported. So if you could give us some context of that that would help us understand what was like-to-like revenue growth for Radico?

Dilip Banthiya: As you know in the Royalty model, the revenue is not being accounted for and it is the Royalty only. But depends on the realization purchase for that so basically we have gone on Royalty model, so we have worked out on the royalty numbers rather than on the top line numbers.

Sonaal Kohli: What is the rough estimate, like what your revenues are increased by Rs. 20 Crores, Rs. 30 Crores, Rs. 50 Crores?

Dilip Banthiya: I cannot guess like that.

Sonaal Kohli: Thank you.

Moderator: Thank you. The next question is from the line of Sanjay Dham from Old Bridge Capital. Please go ahead.

Sanjay Dham: Thank you for taking my questions. My question is once both our capex are fully commissioned and say FY25 would be a full year of operation. Once that happens even in FY25 or FY26, by that time what are we expecting on the P&A volume, regular volume and finally the ENA sales from volume point of view; obviously not known how it would pan out, I presume that with so much thrust on P&A that would obviously be a bigger contributor to both top line and profits, but broadly from where we stood in FY22 for example, we did 18 million cases of regular and about slightly short of 8 million cases in P&A, so a broad sense of that, thank you?

Abhishek Khaitan: If I look at the FY25 or FY26 year, one is P&A and one is the luxury segment. The kind of growth we are experiencing in the luxury segment is very-very encouraging for us and especially in 2025-2026, Rampur we should have in a decent quantity still I think the demand would be much more and Jaisalmer the way it is growing, whether it is exports, whether it is domestic, everywhere I think that it is going to contribute largely to our volume mix. But to answer I think in terms of value we should be at least 60% plus by the premium portfolio itself.

Dilip Banthiya: I will further add to it as you have seen that for last six consecutive years we have out-beaten the industry growth and we will maintain that trajectory that in P&A category, we will be better off than the industry growth and with the launch of various brand which we have already explained to you, the growth in the P&A category will be in double digit and in regular category high single digit, but P&A category it could be strong double digit.

Amar Sinha: The most positive aspect of all our investments is one, UP last year we have grown by 22%, the market is buoyant, the excise policy is very progressive so in the next three years this market is going to boom. Secondly we have a 30% market share of the state, so any growth that comes will come in this space, so all our investments are going to yield results and we have in principle taken a decision that all are super premium brands will be sourced out of UP and our investments are in Rampur and going to be in Sitapur. So we are very safe as far as the investments are concerned, as far as the markets are concerned it is buoyant and therefore we see proper capacity utilization of our investments.

Sanjay Dham: In your premium and super premium like Prestige and above that in three, four years you should actually close to, I mean I do not think you will be happy if you do move closer to doubling of from where you are. On the raw material part, Ceteris Paribus as things stand now once you have a normal year of full production of the Greenfield, what would be the kind of cost saving or margin expansion everything remaining constant if your product mix with other things that were remain a constant as it is between how you source your raw material and your backward integration if you could give us some sense in whichever way you want to put it some sense of what do you expect, thank you?

Dilip Banthiya: As far as a commodity prices are concerned nobody can predict it. First of all it is very volatile, so as you said that given the current environment when the inflationary pressures recede and there are tailwind towards that side definitely it is going to have positive impact on our margins, but I can say that the investment which Amar has explained will be utilized as our P&A category where we are using almost our grain-based alcohol, so will be utilizing the capacity for our branded business for the grain-based alcohol, which we are doing in Rampur and Sitapur. In three years' time with kind of growth we are envisaging, this will be captively utilized for our brand portfolio.

Sanjay Dham: Perfect, so basically the project should pay for itself in about four years' time?

Abhishek Khaitan: Absolutely.

Sanjay Dham: Perfect. Gentlemen, thank you so much for answering questions patiently and wish you all the best.

Moderator: Thank you. The next question is from the line of Himanshu Shah from Dolat Capital. Please go ahead.

Himanshu Shah: Thank you. Thanks for the opportunity. Just a couple of questions. You highlighted that there has been an inflationary pressure in ENA and grain prices sequentially, can you just call out what this inflationary pressure would be in quantitative terms for ENA and grain prices?

Dilip Banthiya: In ENA on Q-o-Q basis, this is approximately 4% and Y-o-Y basis, it is 12%. On grain prices, Q-o-Q basis it is around 7% to 8% and on Y-o-Y basis it is around 35%.

Himanshu Shah: There has been an increase in fuel cost also, does that impact our power cost also?

Dilip Banthiya: Basically, we have our boiler and steam-generated, co-generation power plants, however, because of the fuel cost increasing the cost of conversion is also increasing and fuel prices in this has also gone up by 25% in the Q-o-Q basis.

Himanshu Shah: Can you just provide more color on bottle prices both on Q-o-Q and Y-o-Y basis?

Dilip Banthiya: The glass bottle prices have been increased from April end and it is across industry some Rs. 5000 per ton has got increased. What we are doing is that we are taking simultaneously are the mitigating exercises like light weighing of the glass bottle, recycled bottle in the regular category, so partly it will be mitigated, but definitely rest will have an impact on the cost.

Himanshu Shah: Full impact of this we should see some more in Q2 FY23?

Dilip Banthiya: Yes, partly it has been in this quarter, but in the coming quarter it will be full impact, but there are pluses as we said in H2.

Himanshu Shah: Sure. Once our Sitapur plant becomes fully operational, what would be the fixed operating cost for factory either on a monthly or an annualized basis, if you can just provide some color?

Dilip Banthiya: I could not understand your question?

Himanshu Shah: Once the Sitapur plant will become operational, what would be the additional fixed cost for that particular plant, manpower as well as administration, etc., on an additional cost that could come below the gross profit level for Sitapur plant?

Dilip Banthiya: At this point of time we have gone on what it would result into based on production per liter and rest fixed costs will be taken care of because the whole contribution math has been done based on what it will generate and we are putting a large bottling capacity in Sitapur of IMFL as well as of UPML and country liquor, so bottom line side will be positive and fixed cost is not that significant that it will have a significant impact on that and positive in line with what we are having in Rampur.

Himanshu Shah: Sure. We have had a very-very healthy volume growth in P&A segment on a Y-o-Y basis, but I am presuming last year was slightly impacted by second wave of COVID, and if I compare with Q1 FY20 we have done approximately 2 million cases of P&A, so volume are marginally down versus Q1 FY22, so anything specific over here like probably some disruption in Delhi market or what could be the reasons for declining phase?

Amar Sinha: The previous year actually it is not comparable because since then there have been a lot of RTM changes, route to market changes and market trends have changed, but as far as P&A growth is concerned we are growing very healthy at the current context and that growth rate will continue to be maintained, but there is no point comparing it with the past where the market composition was different, the route to markets have changed.

Himanshu Shah: Fair, no issues and in past quarters we have guided that P&A should continue to register healthy double-digit growth and overall volume growth should be in the vicinity of 13% to 15%. Is my understanding correct on that guidance at a broader level?

Amar Sinha: Yes, on the broader level this understanding is absolutely correct.

Himanshu Shah: Just last question, what could be the share of our new products, Magic Moment Dazzle, Jaisalmer Gin, Royal Ranthambore, 8 PM Black, in our overall revenue mix. The products that we launched in last couple of years, last three to four years, what would be their share in our revenue mix as on date?

Dilip Banthiya: As far as the Dazzle or Jaisalmer and all other newly launched brands are concerned, we will be talking about this in FY23-24 because these brands are emerging and being rolled out but as far as the 8 PM Premium Black is concerned, which we did last year, 2.2 million cases roughly around 8% of the 26 million cases, so 8% is the overall saliency for 8 PM Premium Black.

Amar Sinha: It is now about 10% actually.

Himanshu Shah: Sure. This was very, very helpful. Thank you. Over to you, Michelle!

Moderator: Thank you. The next question is from the line of Swapneel Rajani an Individual Investor. Please go ahead.

Swapneel Rajani: Hi, Abhishek and thank you for giving me this opportunity. Congrats on the numbers. I want to ask a question, so when I was just checking the receivables for the last five years towards the sale, I can see that our receivables is around 25% to 30% Y-o-Y, and as per the last 2020-2021 annual report, it was mentioned in the audit side that this is basically a risk that we see, so I wanted to understand that what is the segment wise breakup of this receivables, is it IMFL, non-IMFL and also basically the realization of this receivable depends on the selling price to the state government, so if you can throw some light?

Dilip Banthiya: First of all, I must tell you that we have worked continuously for last five, six years on our working capital. The working capital number of days have come down from 61 days to 30 days [of gross sales], which is because of our credit control system and at the same time on the state government or in the open market our credit system and credit limits are very-very stringent. You must have also seen that in our businesses many companies have shown the write off and all that, but in Radico because of our business model, we have not gone on loose credit policy, so I will say we are a very conscious company on credit and we continue to monitor our working capital and the credit risk in the market consciously and continuously

Amar Sinha: Further we have risk free as we are ensured against any kind of receivable risk because we do not sell enough in states where we find there is a potential risk to receivables.

Swapneel Rajani: Thank you very much. I have another question. In terms of our geographical expansion, we have launched a Jaisalmer gin in the US market if I am not mistaken, what is your general strategy before we launch in new geography especially in the international market, like do we run some surveys, how do we arrive as the decision that this our product that we need to launch in this geography and also from our US markets, what is the revenue target?

Sanjeev Banga: Well in terms of launching any brand in any new market we see what is happening in the market. In fact, when we are selling or launching our Indian Single Malt Rampur that's when we discovered that whether it is US or Europe, there is a huge demand and interest growing in Gin and that's when we decided to do our Jaisalmer Gin. One needs to be fairly abreast what is happening in the international market both in terms of consumer preferences and the trends, places that we are exploring couple of other new product developments, which we see potential in the coming years in the all-developed markets. In terms of revenue from US, I am afraid we do not share region specific revenue breakups, let me assure you both our Rampur and Jaisalmer are doing exceedingly well in the US market.

Swapneel Rajani: Thanks, so I have a follow up question on this geographical expansion that you are doing. I understand in India we have a regulatory challenge that we cannot advertise our spirits outright, what about in international markets, are we doing advertisement spends there and are there any regulatory challenges do we face there or we can do our advertisements as we would like to do?

Sanjeev Banga: As the principle and especially post the pandemic, our focus is far more on digital media than on say billboards or TV commercials or anything so we do not do the traditional marketing or advertising or any of the international market, our focus is far more on social and digital media.

Swapneel Rajani: Thank you very much.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand over the conference to the management for closing comments.

Dilip Banthiya: Thanks everybody for joining us today. We continue to deliver upon our premiumization strategy, which is reflected in the strong P&A volume growth during the quarter and all our core premium brands are registering strong growth. The traction of our luxury brands, Rampur Indian Single Malt which is strictly on allocation at this point of time and Jaisalmer Indian Craft Gin is above expectation. Next year onwards, Rampur allocation will increase and we are also expanding the Gin distillation capacity to cater the growing demand.

There has been near-term margin pressure due to the commodity inflation, but we are confident of maintaining our long-term margin expansion given the premiumization of our portfolio and backward integration.

We will look forward to interacting with you on our next earnings call. In the meantime, if you have any queries or follow-up questions, please feel free to write to us.

Stay safe and healthy. Thank you.

Moderator: Thank you. On behalf of Dolat Capital, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

***

Note: This transcript has been edited to improve readability.

For more information, please contact:
Saket Somani
Vice President – Finance & Strategy
somanis@radico.co.in | +91 11 4097 5403