Radico

RADICO KHAITAN LTD.

Radico Khaitan Limited

(BSE: 532497; NSE: RADICO)

Q3 FY2020 Earnings Conference Call

January 24th, 2020

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: Ladies and gentlemen, good day and welcome to the Radico Khaitan Q3 FY2020 Earnings Conference Call hosted by Emkay Global Financial Services. We have with us today, Mr. Abhishek Khaitan, Managing Director, Mr. Dilip Banthiya, CFO, Mr. Amar Sinha, COO and Mr. Sanjeev Banga, President, International Business.

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 would now like to hand the conference over to Mr. Ashit Desai of Emkay Global. Thank you and over to you!

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.

Ashit Desai: Thank you Steven. Good afternoon everyone. I would like to welcome the management of Radico Khaitan and thank them for giving this opportunity. Now handing over to the management for opening remarks. Over to you Sir!

Abhishek Khaitan: Good afternoon, ladies and gentlemen. Thank you for joining us on our Q3 FY2020 results conference call. Hope you have had a chance to review our earnings presentation and financial results announced yesterday. On today's call, I am joined by my colleagues, Dilip Banthiya, CFO; Amar Sinha, Chief Operating Officer and Sanjeev Banga, President International Business.

During this call, I will discuss the current industry environment followed by an operational overview and outlook. Then, I will hand over the call to Dilip for a detailed discussion on the quarterly performance followed by an interactive Q&A.

During Q3, the IMFL industry volume growth was muted at 1.5%; however, despite a subdued industry performance, Radico Khaitan continues to deliver robust growth and outperform the industry. Our volume growth has been broad-based across our brand portfolio across states. In October 2019, we completed the expansion of the malt plant for our Rampur Indian Single Malt. Over the next couple of years, we will be able to increase our production volumes. After a strong traction in the international markets, we have launched Jaisalmer Indian Craft Gin in India in select states such as Goa and Delhi. More states are being added in coming months.

Over the past few quarters, raw material prices have increased significantly. However, after picking out during the month of October 2019, ENA prices have been in a consolidation mode in November and December. ENA prices have increased by 2% quarter-on-quarter compared to Q2 FY2020 and 22% year-on-year compared to Q3 of last year. We are hopeful that with the improved monsoon and better crop this sugar season, raw material pricing scenario may be stable.

With the ongoing product mix change and price increases, we are confident about maintaining our long-term margin expansion trajectory along with increased operating cash flow. Given the significant cost push, our EBITDA margins are in a consolidation phase in FY2020 and from next year onwards we expect our margin to resume the expansion path.

During the third quarter, Radico Khaitan reported year-on-year volume growth of 13.9%, which was led by Prestige and above category growth of 21%. Our revenue from operations increased by 17.2% during the same period. Our recently launched brand such as 8PM Premium Black Whisky and 1965 Spirit of Victory Rum continued their strong growth trajectory and make meaningful contribution. We launched 8PM Premium Black Whisky in three more states during the quarter making it now available in 14 states and we will continue to increase our penetration of these brands. We also launched Morpheus Blue Super Premium Brandy in the state of Uttar Pradesh. Our strategy of slowly and steadily expanding a new brand's market presence is the one of the key reasons behind the success of our brands.

Given our ability to maintain the IMFL volume growth trajectory, we are confident of delivering improved profitability when the industry scenario stabilizes. With this, I would now like to hand over the call to our CFO for a detailed discussion on the operating and financial performance. Thank you and over to you Dilip!

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

During the quarter, we reported IMFL sales volume of 6.45 million cases representing a growth of 13.9% on Y-o-Y basis. This volume growth was led by Prestige and above category volume increase of 21%. Prestige and above category brand accounted for 29.4% of the total IMFL volumes compared to 27.7% in Q3 of last year. Regular category volume growth for the year was 11.1% compared to Q3 of FY2019.

In value terms, Prestige and above category brands contributed to about 50% of total IMFL sales value compared to 48.7% during the same period last year.

Net revenue from operations during Q3 FY2020 was Rs. 648 Crores representing an increase of 17.2% compared to Q3 FY2019. During this period, IMFL sales value growth was 20.8% and as a percentage of total revenue, IMFL sales account for 82.3% of the net revenue from operations as compared to 79.8% in Q3 FY2019.

Gross margin declined by 90 basis points to 49.7% on Y-on-Y basis; however, on Q-o-Q basis there is an improvement of 130 basis points. The increase in raw material prices is partly offset by higher IMFL price realization and higher contribution from IMFL business. The Company also experienced a consolidation trend in ENA prices in the later part of the quarter. Adjusted EBITDA increased by 7.4% on Y-o-Y basis to Rs. 102 Crores with a margin of 15.8% an improvement of 70 basis points on sequential basis.

Radico Khaitan uses essence for manufacture of various IMFL products. These essences are purchased from various suppliers and blended in certain proportions resulting in a mixed essence. This mixed essence is then used to flavor its IMFL products. The central excise department stated that such blending of essence amounts to manufacture and therefore liable for excised duty. The Company has decided to proactively settle the dispute under the Sabka Vishwas, Legacy Dispute Resolution scheme by paying approximately half of the duty amount thereby limiting the future liability and penalty and interest there on. Therefore, Q3 FY2020 included a one-off charge of Rs. 8.59 Crores. Since the implementation of GST from July 2017, the Company has been paying GST on manufacture of essence.

As on March 31, 2019, net debt is Rs. 361 Crores versus Rs. 319 Crores as on March 31, 2019. During this period, we saw some short-term timing delay in receivable collection leading to temporary working capital build-up in certain corporation markets. However, we do not see any credit risk with these receivables.

Finance cost for Q3 increased by 6.1% from Rs. 7.64 Crores to Rs. 8.10 Crores given the higher working capital requirement.

Management is focused on further strengthening our premium brand portfolio and deleveraging the balance sheet, which coupled with attractive long-term industry dynamics, places us strongly for a feature growth. With this we will now open the line for an interactive Q&A. Thank you.

Question & Answers

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Chirag Lodaya from ValueQuest. Please go ahead.

Chirag Lodaya: Congratulations on good set of numbers. Sir, my first question is on UP excise policy. It has been notified a couple of days back, so if you would like to call out some key changes in this policy?

Abhishek Khaitan: On the UP policy, the press note has come out, but as of now it has not been notified. The fine print is not out as of yet, but what we can make is the policy is kind of same as what it was last year. Only when the fine print comes then we can comment more on it.

Chirag Lodaya: Got it. There has been sharp decline in excise duty in this quarter, so what is reason for the same?

Dilip Banthiya: So, there are two reasons for that, one is that Telangana state has changed the duty point from first point to second point, which has been effective from October onwards and secondly the state mixes also changes where the incidence of excise duty is different. However, if you notice in nine months period, the gross sales is up by 18.6% and the net revenue is up by 16%. So, over the period it may vary here and there for some quarter because of the state mix changes, but over the nine months period it is in line.

Chirag Lodaya: Because absolute excise duty incident from last two quarters was in the range of Rs. 2,000 Crores, this quarter it is Rs. 1,360 Crores. So, there has been decline of Rs. 700 absolute Crores. So, is Telangana such a large portion of our revenue, just trying to understand?

Dilip Banthiya: I said that there are two things, one is the state mix and another is the Telangana incidence. But as we monitor most of our parameters on net sales revenue, so the excise duty is relevant only towards from the point of view of debtors.

Chirag Lodaya: Secondly, in first nine months we have seen 16% topline growth, at the same time we have not seen any operating leverage kicking in. So what would be the reason for this higher other expense because when I look at selling and distribution expense, they have also not gone up proportionately, so what would be the reason for same?

Dilip Banthiya: You would notice that despite the raw material scenario, which is stabilizing from Q3 onwards, we have improved sequentially on our gross margin by 130 basis points to 49.7% and also EBITDA margin by 70 basis points. The other expenditure, which has been higher was, cow cess, which has been imposed from April 1, 2019 in UP and is not there in the corresponding period last year. Secondly, on country liquor, which we transfer to our depot, there is some excise duty component, which varies depending on the depot stock owned by us in the own depot and third, there are certain provisions, which is in line with our expected credit loss policy on debtor and inventory. Keeping all these things and general increase in the other overhead, this is inline.

Chirag Lodaya: Sir, earlier we were guiding for around 16% kind of margin for this year, but now going with the trend in Q4 generally the weak quarter for us, do you still this 16% is achievable for us?

Dilip Banthiya: We have achieved 15.7% EBITDA margin in first nine months and I think stabilizing of the raw material scenario due to good monsoon, is an indication that next year onwards we will be able to improve on our EBITDA margin by 100 to 125 basis points and for the next two to three years we plan to do that.

Chirag Lodaya: Just, lastly on overall cash flow for first nine months and debt repayment expected by the year end?

Dilip Banthiya: Because of certain temporary tightness in certain states corporations, the working capital requirement has been high and we have increased net debt to Rs. 361 Crores, an increase of around Rs. 41 Crores; however, we see that in this quarter, January to March, it will be reduced and we are expecting something around Rs. 40 Crores to Rs. 50 Crores reduction on a year-on-year basis. Next year onwards, again the trajectory of debt reduction will continue.

Chirag Lodaya: So, is it fair to assume Rs. 270 to 280 Crores net debt at the end of March quarter so Rs. 100 Crores repayment in Q4 that is what you are hinting?

Dilip Banthiya: That is what our plan is.

Chirag Lodaya: What is the capex plan?

Dilip Banthiya: Capex ranges between Rs. 65 Crores to 70 Crores for this year.

Chirag Lodaya: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Amarjeet Mourya from Angel Broking. Please go ahead.

Amarjeet Mourya: Sir, just wanted to understand on the other expenditure front, how much is cow cess as well as how much is debt write off in that other expenditure?

Dilip Banthiya: Rs. 7 Crores is cow cess for this quarter and Rs. 20 Crores in nine months. The provision for doubtful debtor and inventory both put together in this quarter is Rs. 7.5 Crores.

Amarjeet Mourya: Sir, as we know we have successfully launched 8PM Premium Whisky, so you have any plan to launch next level Premium Whisky in same brand in 8PM?

Amar Sinha: Yes, so over the next two years, we certainly want to upscale our product offering to the consumer, which will be not at the same level as 8PM Premium Black, but in higher segments with much higher contributions.

Amarjeet Mourya: Sir, just last question, can you give me some volume sense on 8 Premium Whisky in nine months, what are the contribution in the premium segment in 8PM?

Abhishek Khaitan: In the coming year, 8PM Premium Black should be close to a million case and next year in FY2021 definitely it will be more than a million case.

Amarjeet Mourya: Thank you so much, Sir.

Moderator: Thank you. The next question is from the line of AM Lodha from Sanmati Consultants. Please go ahead.

AM Lodha: Congratulations for the good set of numbers. I just wanted total debt as on December 31, 2019, in the company?

Dilip Banthiya: Yes, we have already given in our investor presentation, the total net debt as on December 31, 2019, is Rs. 361 Crores.

AM Lodha: Out of that, can you give me the figure of term loan versus capital loan?

Dilip Banthiya: Term loan is around Rs. 15 Crores.

AM Lodha: I was listening to your old concall where the management indicated that the company would be debt free by 2021. Now yesterday I was listening to the interview of Mr. Abhishek Khaitan they have indicated that the company will be debt free by 2022?

Dilip Banthiya: So, in our opening remark also we said that there are certain working capital increase in certain states, which are corporation markets, and the state governments, there is some tightness in liquidity, so this year the expectation of creating a 100 Crores plus cash flow has been reduced. So, this 2021 has gone to 2022; however, the trajectory of reduction of debt will continue and this is a temporary phase.

AM Lodha: Just want one clarification in this debt reduction, the management means debt reduction as well as working capital work?

Dilip Banthiya: Both.

AM Lodha: Thanks a lot Sir. Have a good day Sir.

Moderator: Thank you. The next question is from the line of Neeraj Prakash from Napean Capital. Please go ahead.

Neeraj Prakash: I just wanted to ask regarding your volume growth. How you are able to execute such a high volume growth versus the very meagre industry growth rate that is there and in that context do you think you are taking sort of an undue risk when it comes to receivables versus your competitors who are sort of being much more cautious when it comes to growing their volumes?

Amar Sinha: So, if you really see it, all the investments that we have been making on our brands in terms of marketing are right now paying off pretty well, the brands are buoyant at the tertiary level, the consumer offtakes have significantly improved over the previous year. So, if there is liquidation at the tertiary level, which is at the consumer level, we see no risk of any bad debts in the times ahead. So overall, the brands are all very buoyant in the premium segment upwards and the company sees a very optimistic view ahead.

Neeraj Prakash: Secondly what was your nine-month capex expenditure and I think you have mentioned the cash generation as well, I just missed that figure?

Dilip Banthiya: Cash generation is as per the EBITDA number and capex is in the range of around Rs. 65 Crores.

Neeraj Prakash: And the capex is primarily being spent on what?

Dilip Banthiya: There are three, four items, one is the malt capacity that has been tripled in this year and started commercial production from October 2019, then there are printing line, which has been further commissioned for the Magic Moment and there are more capex on the bottling line because our volumes are increasing, so these are the major capex.

Neeraj Prakash: Thank you and just I can squeeze in the last one, post the debt reduction that is going to happen over the next year or so, what is in general sort of capital allocation priorities for the cash that you will be generating the free cash, would it be increased in dividend payouts, M&A or would it be continuing capex?

Dilip Banthiya: First of all, next two years we have to make our debt zero and thereafter whatever is good for the shareholders at large, we will be doing whether it is higher payout or buybacks and all that. So, I think we will have to see at that point of time with taxation system, which is more efficient to give the money to the shareholder using those modes.

Neeraj Prakash: Thank you so much.

Moderator: Thank you. The next question is from the line of Naveen Trivedi from HDFC Securities. Please go ahead.

Naveen Trivedi: Good afternoon everyone and congratulations on a very good set of numbers. Just wanted to understand, if you can share how has been the performance of your brands in the key market because like you mentioned about the industry was weak, but despite that considering your own initiatives has played out really well and that you gain market share. If you can just give us some figure about the performance of key states?

Dilip Banthiya: Actually our growth in the premium space has been across all segments, like in all geographies, we are growing very well right from North India, east, west, CSD and south also. Export has also done well; however, in particular if we talk about then Uttar Pradesh has been a good growing market where the industry has also grown by 12%

and we have grown around 17% to 18%, then Andhra Pradesh, Telangana, Karnataka, Assam, West Bengal these are some of the major markets. Uttaranchal where we have grown better then industry.

Naveen Trivedi: In third quarter, did you also get any opportunity to also channel filling because if you look at the numbers in first half and third quarter, it seems that there can be some states where you also got an opportunity to channel fill and just to understand the point of view when if I have to see the sustainable level in your performance I wanted to know what is the real demand for your product, is it like some benefit was there in the quarter?

Dilip Banthiya: So, the channel filling means, there is no overstocking at corporation market, the stock levels are still what we plan. It is as Amar Sinha Said that since the brand is buoyant at tertiary level so the depletion is good and the growth will continue because we are watching the tertiary rather than building the brands on primary level.

Naveen Trivedi: Fair point and in the other expenses side, you mentioned about cow cess of around Rs. 7 Crores and then there are few overheads cost also is there, just to understand like to like EBITDA growth, is there any sustainable kind of expenses was there in the last year third quarter also?

Dilip Banthiya: Cow cess was not there in the third quarter last year, which has been implemented for this year, so this is one big item, which is for this year. As far as the other like county liquor duty, it depends on the quantum of stock in our depot. So, it can vary depending on increase and decease in stock level at the depot level. The third thing is regarding some provisioning against the debtor and inventory as a prudent accounting policy, we have ECL policy, so that also is normal with this kind of turnover and volume to have Rs. 5 Crores to 7 Crores of this provisions and write off in some debtors and inventory.

Naveen Trivedi: So, these numbers are also there in the last year also?

Dilip Banthiya: Some number must be there. I cannot say how much was the provisioning, but this year the provisioning has been done looking at the expected credit loss policy of the company.

Naveen Trivedi: Fair point. Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Chanchal Khandelwal from Birla Mutual Fund. Please go ahead.

Chanchal Khandelwal: Congrats team on good set of numbers. Just one thing, Andhra, whatever changes in policy, which has happened and how is that impacting the industry in general, you are gaining market share, but what are the changes, which has happened in the industry?

Amar Sinha: I think the significant change that has taken place in Andhra is the route to market where the retail points have been acquired by the government and it is taking its initial phase to settle down, which we see happening over the next quarter.

Chanchal Khandelwal: Also, is there a policy of reduction in the number of retail outlets over the next two to three years is the timeline designed?

Amar Sinha: So, they have talked about reduction of few outlets, but those numbers will not affect the market because whenever there is a contraction in the selling points, the per unit sales, which is per retail outlet sales goes up, which is what we have seen by experience. So, we do not see any major threat as far as that is concerned. Andhra will continue to be a buoyant market.

Chanchal Khandelwal: Sure, and the disruption, which happened in the last quarter would have hampered the industry by any chance?

Amar Sinha: See, what has really happened is that there is no fading out of consumer demand, the stocks, which were held by depots by the government have virtually come to zero levels, so it is just the initial phase of disruption, which will normalize in this coming quarter.

Chanchal Khandelwal: Sure, lastly on the volume growth, you have gained a volume growth both in Prestige and Regular, so how much of this growth is coming because of entering a new geography or new territory. The reason I am asking is most of the consumption companies are talking about slow down or slower growth whereas you have been accelerating in terms of growth, so if you can help us understand better?

Amar Sinha: I think the overall market in India or the geography continues to remain the same, we have been in the market for substantial number of years, therefore our width of distribution is complete, so there is no new geography, but as I mentioned earlier that we have made significant investments into marketing our brands over the last two years, which has now started paying off and that is what we are seeing. Also, if you see what has really happened is that the two or three new launches like 1965 Rum, the premium version of Magic Moments, which is Verve and 8PM Premium Black, all three brands, which have been lunched have been showing signs of success, which is also adding to the growth.

Chanchal Khandelwal: Sure. Thanks.

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

Pritesh Chheda: Thank you for the opportunity. Sir, what is the progress on the whisky portfolio of ours in terms of growth, in terms of contribution to our volumes and in terms of market share and we have this whole ambition to grow our whisky portfolio in the next couple of years, so where are we on that strategy?

Dilip Banthiya: So, as far as the current whisky portfolio is concerned, which is dominated by 8PM and 8PM Premium Black on the volume side. Around 40% of our portfolio comes from whisky segment; however, as far as the new launches are concerned, as Amar has already spoken about that we have two new brands to be launched at a much higher price level, so you will see with the different concept so you will see these launches with higher prices and higher contribution.

Amar Sinha: So, as you are aware that 60% of the IMFL market in India is controlled by whiskies, so we have made significant progress with 8PM Premium Black at the Royal Stag equivalent level; however, as I mentioned the two products that are already on the drawing board will see the light of the day in the next two years. It is significantly higher contributions that places Radico in a unique position to exploit the opportunities of the whisky market in the time.

Pritesh Chheda: What will be the volume growth in whisky nine-month FY2022?

Dilip Banthiya: We see this growth actually not segment wise, but by the price point wise, so the price point in Prestige and above has been growing by 21% and in nine months it has been growing by 17%.

Amar Sinha: So the overall growth of 8PM by itself is more than 12%, which we see it is consolidating even better.

Pritesh Chheda: My next question is, this year we had this capacity related environment expense for a facility of us in the nine months, what would be that figure expressed in the P&L?

Dilip Banthiya: So, we have already intimated in our Q2 results that around Rs. 15 Crores has been the impact on account of buying of ENA from outsourced for our country liquor and Rs. 7.02 Crores has been paid as penalties. All Rs. 22 Crores is the direct impact and then there are certain legal and all other expenditure, so you can say that Rs. 25 Crores has been the impact on account of the reduction in our capacity.

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

Himanshu Shah: Thanks for the opportunity. Most of my questions have been answered, just a few like to call out any specific timeframe for new product launches, two years we have been guiding even last year for new product launch beyond 8PM Black, so any specific timeline you like to follow?

Amar Sinha: We are seeing the launch of a new whisky, one of them is planned for July 2020, which is one segment above.

Himanshu Shah: Yes, can you just call out top three states, what would have been the growth percentage like UP was around 17% to 18% besides that another two or three more states where you would have grown higher than the company average of 14%?

Dilip Banthiya: Yes, there is Uttaranchal, there is Andhra, there is Telangana everywhere we have grown more than double digit and there is Assam we have grown, West Bengal we have grown, Maharashtra we have grown more than double digit.

Himanshu Shah: Even in Andhra too because in Andhra, I think the market has shrink by around 30% to 35% and in such a shrinking market we have seen such a large growth?

Dilip Banthiya: Yes, as Amar told, that there is good traction about our Premium brands especially the Morpheus brandy, the Magic Moment Flavours, the Old Admiral Brandy, so we are gaining market share.

Himanshu Shah: Thanks a lot, and all the best.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Swan Investment. Please go ahead.

Sachin Kasera: Good afternoon and congrats for a good set of numbers. On the margin expansion you mentioned that from next year you are looking at 70 to 100 basis point for the next two to three years, so is it cumulatively or every year?

Dilip Banthiya: It will be every year.

Sachin Kasera: Second was, you mentioned that you expect the raw material prices to be benign going ahead, so can you tell a little bit more about what is the confidence for this correction?

Dilip Banthiya: We have seen worst in this scenario like in first nine months, the grain prices are up by around 25% plus, the ENA price has been up by 22%, and now from October, November seeing this declining trend, so we expect this trend to be here and consolidate a bit here. At the same time the prices of ENA has gone much higher than the prevalent ethanol prices, so there was a comparison when it started going up that supplying of ethanol is better than making ENA, but when we have seen that it has gone much higher than ethanol price, so there is now correction happening in the ENA price.

Sachin Kasera: Can you tell a little bit on the pricing scenario of your products how are you seeing any price hikes happening?

Dilip Banthiya: It is a continuous process Sachin and when we have seen around 22% increase in our raw material prices, there are interactions happening with various states and some of the large Southern states might consider in ensuing time. So we expect price increase to continue and when this development takes place we will be informing you.

Sachin Kasera: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.

Sangeeta Purushottam: Good afternoon and congratulations for a very good set of numbers. I joined the call a little late, so I do not know whether this has already been asked, I just wanted to understand that there has been a very sharp increase in other expenses in this quarter, if you could just help me understand what that is on account of. The second question I have relates to a previous question, where you have said that there was a Rs. 25 Crores hit that you took on account of the temporary reduction in the capacity because of the environmental issues, out of that you have shown about Rs. 7 Crores as exceptional item, so this has mean that the rest of the Rs. 18 Crores has been absorbed into the normal P&L and this is an expense that we should expect would not repeat next year?

Dilip Banthiya: To your first question regarding the other expenditure, the first point is the cow cess, which has been imposed by Uttar Pradesh government. So for this quarter there has been an impact of around Rs. 7 Crores on account of that then we have excise duty component on transfer of stock of country liquor to the depot, so there is also Rs. 4.5 Crores impact on account of that, which goes up and down depending on our stock level in the depot. This is a contra entry because it comes in the stock evaluation. Third thing is that as per the accounting policy, we have created a provision of around Rs. 7.5 Crores on account of the debtors and inventories, these are the major items. Then there are some general increases in our other overheads because of the volumes, etc. What was your second question can you repeat?

Sangeeta Purushottam: My second question was that you mentioned earlier that because of the temporary shutdown in your capacity?

Dilip Banthiya: The second question regarding this that the Rs. 7 Crores is an exceptional item, which has environmental penalty, which has been paid and Rs. 18 Crores is part of the raw material consumption, so it is not a repeat.

Sangeeta Purushottam: So this is something, which will not happen next year, right because you do not have to buy ENA from outside next year and you do not have to incur any other disruption, so does that mean that if you are comparing the two, next year this cost should be lower by this amount?

Abhishek Khaitan: Yes, it should be lower by this amount.

Sangeeta Purushottam: Fine and just one clarification on your first answer, this cow cess is it recurring item, is this something going to be part of the expenses going forward or was that one time, what is it really?

Dilip Banthiya: Cow cess is going to be continuing .because The more the sale goes it is per case, which we have to pay to the UP government.

Sangeeta Purushottam: And you paid whatever has been shown in the third quarter is it a cumulative of the whole year because you have paid it in Q3 or it will be 7 Crores each quarter?

Dilip Banthiya: So, it is Rs. 6-7 Crores each quarter depending on our volume, so this quarter volume has been high, so it is higher, otherwise it is for nine months Rs. 20 Crores.

Sangeeta Purushottam: It was already there in the earlier quarters also?

Abhishek Khaitan: It has been yes. This cow cess started from April 2019.

Sangeeta Purushottam: Fine, alright and this is volume linked?

Abhishek Khaitan: Yes.

Sangeeta Purushottam: This will grow, if your volume is growing 15% and the next year this will grow 15%?

Abhishek Khaitan: No, it depends on the volume of Uttar Pradesh. This cow cess is only pertaining to UP, no other states.

Sangeeta Purushottam: Right, then this provision for doubtful debts that you have made, Rs. 7.5 Crores, what is the annual provision or what is say 9 month provision and is this like a normal provision, which will be made each year?

Dilip Banthiya: So, we have a policy with respect to the accounting standard of expected credit loss. So if debtors goes beyond six months and certain percentage is being provisioned out, and if it is recovered then it is written back, it goes beyond one year then of course there is again the certain percentage, which has been created, so based on that policy this provision. There are certain normal inventory losses in various SKUs in this kind of business in 26-28 states, so those are normal provision.

Sangeeta Purushottam: If you are modelling it then is this something we could take as a percentage of sales and is that how you would look at it and what would that in that being, so let us say for the first nine months what are your total provisions cum inventory losses?

Dilip Banthiya: First nine months it is Rs. 10 Crores.

Sangeeta Purushottam: It is approximately 10 Crores, so it was a bit sort of loaded on to this quarter?

Abhishek Khaitan: That is right.

Sangeeta Purushottam: Fine. Thank you.

Moderator: Thank you. The next question is from the line of Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani: This may be a repeat, but your current net debt is Rs. 361 Crores and did you say that you will have the net debt come down to Rs. 270 Crores by the next three months?

Dilip Banthiya: See the point is all because of some over dues, we have around Rs. 150 Crores of over dues from these markets. So I think that 50 Crores overdue if we continue with then Rs. 100 Crores, which is released out of it and some cash flows, so we expect this to be last year it was Rs. 310 Crores as our borrowing, so we expect that to come at Rs. 280 to Rs. 270 Crores.

Mayur Gathani: Any specific states that you can refer to where this has actually gone up?

Abhishek Khaitan: See, it has basically gone up in three corporation markets, that is one is the CSD, Telangana and Andhra. Here the moneys are absolutely safe because it is sold to the government, so the minute the government funds come the overdue will be all released, so I think it is a matter of time before they release the payments.

Mayur Gathani: What is the exact nine-month cash flow?

Dilip Banthiya: Nine-month cash flow basically out of EBITDA numbers, the interest and the capex and dividend has to go out, it is all in my results.

Mayur Gathani: And the industry only grew 1.3% whereas you have grown 16%?

Dilip Banthiya: Yes, in Q3 the industry grew by 1.5% and whereas we have grown around 13.9%.

Mayur Gathani: Thank you very much and all the best Sir.

Moderator: Thank you. The next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.

Jasdeep Walia: Sir can you highlight the major changes in state taxes in the first nine months of this year and if any changes are expected in the fourth quarter?

Abhishek Khaitan: There have been no major changes in the tax structure in the last nine months.

Jasdeep Walia: Any major changes expected or any major state is going to come out with its taxation policy in the fourth quarter?

Abhishek Khaitan: No, it always happens during the month of April, so I think next three months there is not going to be any changes.

Jasdeep Walia: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Vishal Biraia from Aviva Insurance. Please go ahead.

Vishal Biraia: Sir, this year we saw extended monsoons did it have a negative impact on the industry would you think so?

Dilip Banthiya: As far as the estimate of the government says about the grain production and all that we have been watching that it is all time high, so we do not foresee that extended monsoon has any impact on the grain production as a country and also grain prices to stabilize or decline. As far as molasses is concerned, UP we have good scenario, so it is a benign kind of situation.

Vishal Biraia: Sir, also in terms of demand, extended monsoon would it have affected the demand say October was a very best month, rains continue in some of the states till mid November as well, so had that not been the case would demand have been higher?

Dilip Banthiya: Demand as we said that industry is growing by 1.5% in Q3 and nine months 2.5%, so it is part of the general slowdown in consumption across the various categories. Last year the industry growth was around 9%, so if we see a good budget and if consumption is again being brought as a center point in that budget then we see that demand to again come back in this industry.

Vishal Biraia: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Rakesh Roy from IndSec. Please go ahead.

Rakesh Roy: Sir, my first question is related to yourself Jaisalmer. You have launched in Delhi and Goa, is there any plan to launch in other states and how they are performing in market?

Sanjeev Banga: Response to Jaisalmer is both in the international markets and the two markets that we have launched in India have been very encouraging and we would be launching it in lot of other states also in the coming months.

Rakesh Roy: Any other brand you trying to launch in India market also apart from Jaisalmer like Rampur?

Sanjeev Banga: We have Rampur Indian Single Malt, but as we said we are kind of constraint because of the production capacity that we have. We enhance the malt production capacity, so once the fresh volume start kicking in, we will definitely be launching at an Indian market as well.

Rakesh Roy: Can you give me the number of units for Jaisalmer for this quarter?

Sanjeev Banga: I am sorry, but we do not share specific brand numbers.

Rakesh Roy: Okay, my next question is related to any price hike in near future?

Sanjeev Banga: No, across our IMFL categories or what?

Rakesh Roy: Only for IMFL Sir?

Amar Sinha: So, as Mr. Banthiya just mentioned a little while ago that considering the cost impact inflation that is around, dialogue with various state governments in north and south is on, we hope to see some breakthrough in the next fiscal.

Rakesh Roy: Thank you.

Moderator: Thank you. The next question is from the line of Chirag Lodiya from ValueQuest. Please go ahead.

Chirag Lodiya: Sir, just one clarification, this cow cess is 0.5% of the gross sales you do in UP, is the number right?

Dilip Banthiya: No, Chirag, it is depending on the SKUs like this is on some per case basis, there is some amount per case is there. You can see those things on the UP excise website also.

Chirag Lodiya: And now this Telangana, you mentioned this taxation has moved from point A to point B, so in that sense working capital will be freed up for us in coming months that is fair assumption?

Dilip Banthiya: Yes, it is a fair assumption in a status quo situation, but since the state is reeling under liquidity tightness, so that impact of the better realization or lower working capital has not yet resulted.

Chirag Lodiya: Currently, who is paying this excise duty now when you are not paying and somebody else would be paying?

Dilip Banthiya: The retailer while lifting the stock is paying. There is certain proportion in that also.

Abhishek Khaitan: See, earlier the excise duty was paid by the brand owners and then we used to pay excise duty and put it into the depot stock. Now we do not have to pay the excise duty, the excise duty is paid by the retailer when they come to lift the stock from the depot.

Chirag Lodiya: Is this a temporary situation where this arrangement has been made because your outstanding is going up?

Amar Sinha: This is permanent, this is part of the policy now.

Chirag Lodiya: Got it Sir. Thank you.

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

Pritesh Chheda: Sir, what is the price increases you would have got in the last nine months, if it could be blended if possible?

Abhishek Khaitan: Yes, so it is 1.3% to 1.4% in a blended basis on IMFL turnover.

Pritesh Chheda: Thank you.

Moderator:	Thank you. Ladies and gentlemen, due to time constraint that was the last question. I now hand the conference over to the management for closing comments.
Dilip Banthiya:	We would continue to do our work on markets and would give the choices to the consumer, our endeavour to create a brand portfolio, which is unique and better from our competition. We would continue to do our work. Thank you.
Moderator:	Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services 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:

Mukesh Agrawal **Head – Investor Relations** agrawalm@radico.co.in +91 11 4097 5423	**Saket Somani** **Churchgate Partners** radico@churchgatepartners.com +91 22 6169 5988