



Radico Khaitan Limited

(BSE: 532497; NSE: RADICO)

Q1 FY2021 Earnings Conference Call

July 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

Mr. Mukesh Agrawal – EVP, Finance

Presentation

Moderator: Ladies and gentlemen, welcome to the Q1 FY2021 results call of Radico Khaitan Limited hosted by Emkay Global Financial Services. 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 from Emkay Global. Thank you and over to you Sir!

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: Thanks. Good afternoon everyone. We would like to welcome the management of Radico Khaitan and thank them for giving us this opportunity. From the management, we have with us today Mr. Abhishek Khaitan, Managing Director, Mr. Dilip Banthiya, CFO, Mr. Amar Sinha, COO, Mr. Sanjeev Banga, President, International Business and Mr. Mukesh Agarwal, AVP Finance. Now I am handing over the call to management for opening remarks. Over to you Sir!

Abhishek Khaitan: Good afternoon ladies and gentlemen. Thank you for joining us on a Q1 FY2021 results conference call. Hope you are well and keeping safe.

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 detail discussion on the quarterly performance followed by the Q&A.

We entered the FY2021 in the backdrop of an extremely challenging macroeconomic scenario. The country was under lockdown and as you would be aware that the government had stopped the sale of liquor until the first week of May when the lockdown was partially lifted. During this period, we focussed on the health and safety of our employees. We also implemented certain measures which are targeted towards ensuring that we come out stronger after this calamity.

There is still a lot of uncertainty around the timing of the recovery from this pandemic making a difficult to quantify its impact. However, with respect to the liquor sales, we are seeing the trend improving and we expect our operations to normalize during second half of this fiscal year.

Our robust performance during the quarter underscores the strength and resilience of our business model. If you see the volume trend on slide #1 of the presentation, it clearly reflects an improving trend with early signs of improvement.

We were able to expand our margins and also generate cash flows. Our margin expansion was due to higher realization as a result of improved state and product mix coupled with a stable raw material pricing scenario. During the quarter, we also saw strong traction in our export division which assisted margin expansion. The Company also received price increase in one of the key states in South India.

During Q1 FY2021, we reduced our net debt by over Rs. 122 Crores. Our current net debt is Rs. 260 Crores and we expect to be debt free by FY2022. Since FY2016, we are reduced net debt by over Rs. 687 Crores.

I am very confident of the medium to long-term dynamics of the IMFL Industry in India and Radico Khaitan is strongly positioned to capitalize on the industry growth recovery.

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 this quarter, we reported IMFL sales volume of 3.54 million cases representing a decline of 43.5% on Y-o-Y basis versus the industry decline of over 50%.

There was no IMFL sale during the month of April and it resumed only after first week of May when the lockdown was partially lifted. However, from June, we are seeing very early signs of recovery.

Net revenue from operation during Q1 of FY2021 was Rs. 409 Crores representing a decline of 34.4% compared to Q1 of 2020. During this period IMFL sales value declined by 40% and non-IMFL sales declined by 12%. As a percentage of total revenue, IMFL sales account for 73.2% of the net revenue from operations as compared to 80% in Q1 of 2020.

Gross margin expanded by 666 basis points from 48% to 54.6% on Y-o-Y basis. This margin expansion was due to the improved realization. Price realization improved due to a better state and product mix, strong exports and price increase in one of the key liquor consuming state.

EBITDA margin during the quarter expanded by 234 basis points to 18.4% due to gross margin improvement. During Q1 FY2021 advertisement and sales promotion expenses declined by 48% to Rs. 19.6 Crores. As percentage of IMFL sales, A&SP expenses was 6.6% compared to 7.1% during full year of FY2020. Given the COVID-19 scenario, A&SP expense during the period was relatively lower than last year. The Company continues to make judicious marketing investment which enabled us to continue market share expansion.

Finance cost for Q1 FY2021 decreased by 11% on Y-o-Y basis from Rs. 7.38 Crores to Rs. 6.57 Crores. The Company's cost of borrowing has declined from 9% in Q1 FY2020 to 6.8% in Q1 FY2021 due to declining interest rate environment coupled with stable profitability, strong capital structure and improved liquidity position.

As of June 30, 2020, the total debt was Rs. 297 Crores and cash and bank balance were Rs. 37 Crores resulting into a net debt of Rs. 260 Crores versus Rs. 382 Crores as of March 31, 2020. During this period, we saw strong overdue receivable collection, which enabled us to reduce our debt by Rs. 122 Crores. As you are aware, the nature of our industry is such that it has high working requirement. It is important to note that Radico Khaitan has a strong liquidity position and is therefore able to fund large portion of working capital through its internal accruals. Our current working capital is over Rs. 900 Crores compared to a net debt of only Rs. 260 Crores.

We have a strong financial position, comfortable liquidity. During these difficult times, we are taking all necessary steps to sustain our financial strength, robust business model and continue to grow consistently, competitively and profitably.

With this we will now open the line for Q&A. Thank you.

Questions and Answers

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

Chirag Lodaya: Thank you for the opportunity and congratulations on the strong set of numbers. First question is on debt repayment. I just wanted to get some clarity on what exactly led to this decline in debt in this quarter? Have you received any money from corporation market which were due and what is the status over there currently?

Dilip Banthiya: We had the overdue in certain corporation market in March 2020 quarter. In this quarter, there has been a reduction in the overdue debtors from these corporations. So both the internal accrual as well as better collection is instrumental in getting the debt reduced. At the same time, you see this has been company's strategy to work on the efficiency and working capital optimization.

In last four years when we had working capital cycle of 61 days, we have brought it down to ~35 days. So ultimately it is the collection and the working capital efficiency which is reducing the debt and last four years, the debt has been reduced by Rs. 687 Crores.

Chirag Lodaya: Right, what would be the current outstanding with corporation market now?

Dilip Banthiya: There are still overdues. But those overdues were much stressed at that point of time in March 2020, but we are seeing that the state governments are also making their finances right. Then they are releasing these payment in order to get more revenue, so we are getting that to come I think normalization will take H2 time.

Chirag Lodaya: Okay, so is it fair to assume this kind of working capital improvement which we have seen in this quarter, is a sustainable number going ahead and one should not be worried on at least receivable front in the near future?

Dilip Banthiya: I would not say quarter-by-quarter, but definitely the trend is that these corporation overdue outstanding which has gone up in last year should not be there in future. But I cannot comment every quarter. It can be. But as we said that we have a very strong credit risk management and we accord credit only where we do not foresee the credit risk. At the same time in the interest of generating business, these steps are being taken.

Chirag Lodaya: Secondly, we have seen very healthy expansion gross margin in this quarter and you have mentioned two reasons there, one is product mix and another is state mix over and above that we have got some price increase, so if you can help us understand how are raw material trend currently and what should be the sustainable number in terms of gross margin going ahead?

- Dilip Banthiya: The gross margin increase this quarter has been little different because the various states have opened the lockdown in phases. So fortunately for us certain states... these are large states and higher contributing states, higher realization states. They came on normalcy faster than the other states and their realization per case as well as our contribution has been higher. So this has been one factor contributing to the gross margin. Secondly, export which saw a 35% jump in volume, there also the margins in the export and our contributions are much higher than domestic markets. Thirdly, we got price increase in one of the large south Indian state where we have a large market share, so that has also contributed to it. But to your question that what would be the gross margin, I expect with this current scenario of the raw material where we are saying after that December quarter they are on benign to a declining trend, we see our gross margin to be in the range of around 50% to 52% in the normalized circumstances.
- Chirag Lodaya: That is very helpful. Sir, on export front, how do these export for us currently and what has led to this jump in export if you can just throw some light?
- Sanjeev Banga: Our brands are currently available in over 85 countries. There are certain markets especially the global travel retail which has been decimated, but there are certain markets which did not have too much of a COVID impact. Especially in the Middle Eastern market, South America and part of Africa where our brands have been market leaders all this while. So there was a lot of consumer demand from these markets which has helped us.
- On a Y-o-Y basis we saw increase our export volumes by about 34% and also in terms of the developed evolve markets like the European market or the US market since there was a ban closure of the bars and on trade, a lot of people have been buying online and consuming at home where our premium brands like Rampur Indian Single Malt and Jaisalmer Indian Craft Gin have been very well received, so there was a lot of traction for these brands as well.
- Chirag Lodaya: Got it Sir, but how big is the export market for us Sir and last year?
- Dilip Banthiya: Export accounted for around 7% of the topline in this quarter.
- Chirag Lodaya: Sir just last question, how big can be our sanitizer opportunity for us, do you think that can be a meaningful portion of our business going ahead, how you look at that business?
- Abhishek Khaitan: We are one of the largest producers of alcohol so getting into the sanitizer is a natural thing for us and we have just rolled out our brand "Sanitize 99.9%" and we started rolling it about five states and gradually will take it all India. Initial response is very good for the brand, but I think right now it is too soon to make any assumption that how big it can be. It all depends on the situation of all the lockdown and everything, but it can be a good opportunity.
- Chirag Lodaya: Right, you do not expect any big numbers this year because trend is very strong in sanitizer?
- Dilip Banthiya: When there is traction we will continue to talk about it, but at this point of time we are also watching the market how does it evolve.

- Chirag Lodaya: Thank you and all the best.
- Moderator: Thank you. The next question is from the line of Avi Mehta from IIFL. Please go ahead.
- Avi Mehta: I just wanted to delve into this input cost a little more, you said input cost on the benign trend, have they actually seen a decline in particular ENA prices have they already corrected or it is more than expectation right now?
- Abhishek Khaitan: The ENA price if you see Q-o-Q has corrected by 3.8% and going forward what we feel is the sugar production has been good and we feel that the prices should remain at this level or if not go down little bit more.
- Avi Mehta: This is across the board right, it is not specific only to a particular state, it across different states?
- Abhishek Khaitan: 3.8% is for the total alcohol what we consume.
- Avi Mehta: Second Sir, just wanted to clarify on this debtor reduction bit, are you seeing better kind of reducing across operations, how should I look at going forward, should I expect now the debtor situation to improve or it is still a trade situations might go up still given the state finances, if you could explain that Sir?
- Abhishek Khaitan: What we feel is like we cannot predict what happens to the state, but each state generates a lot of revenue, about I think 20% of the states, 25% of the state revenue is alcohol, so also they will generate more revenue. So I think it can be a one-off case on a normal circumstance I think now lot of states have come back to normal.
- Avi Mehta: I understand that is not go bad, but do you see this as a stress possibility and expansion possibility is what I was trying to understand from your side?
- Dilip Banthiya: As I said that it was the fact that March 2020 level, but normally some overdue remain, it is not that everything comes on time, but those overdues keep on coming. So this was an exceptional period where it has gone by Rs. 160-170 Crores higher only on account of some overdues, so I think they will continue to be. But it cannot go that high and we see that it has to be some overdue, but normal.
- Avi Mehta: Okay Sir, perfect. I will come back in the queue for the other question. Thank you very much Sir.
- Moderator: Thank you. The next question is from the line of Vishal Biraia from Aviva Insurance. Please go ahead.
- Vishal Biraia: Thank you. Could you elaborate a bit more on the premiumization trend that we have seen?
- Amar Sinha: What happening is that largely the premiumization trend has been very healthy for Radico in the past years, this year as well we are finding similar traction for most of our premium brands like Magic Moments, Verve Magic Moments, Morpheus, 8 PM Premium Black which has been the latest addition in the launch of new brands. So all these products are maintaining their market shares, which have been very consistent. Magic has continued to be 60% plus market share, Morpheus has continued its

market share dominance with more than 58%. 8 PM Premium Black is continuing to become stronger and stronger with its expansion in 14 states, in fact in the previous month, we have done more than 100,000 cases of this brand which is a very, very encouraging trend. So we are finding that most of our premium brands continue to become stronger and this year, we are hoping that 8 PM Premium Black will cross the million case mark. So that is how Radico is poised to take the premium brands forward.

Vishal Biraia: Thank you. By any chance would you know as to what the portion of your sales for 1Q would have been generated by the online distribution mechanism?

Amar Sinha: Let me say that the online distribution mechanism though the trend is emerging, it has not been very significant for any company so far in India. However, the governments are trying out, there are few states like Maharashtra, Odisha, West Bengal, Chhattisgarh that had opened it up and there are many logistic issues and particularly considering the fact that COVID has created some of the own challenges of delivery despite new mechanisms being allowed. There are still teething issues. So we will come to know of the trends in the quarters ahead, but right now we have not done too much as far as online sale is concerned.

Vishal Biraia: Okay, just one last question, what is the quantum of price hike that you got in the southern states?

Abhishek Khaitan: We got a price increase close to 10%.

Vishal Biraia: Thank you. I will come back for more questions.

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

Neeraj Prakash: Thanks for taking my question. First I just wanted to know what kind of trends are you seeing post the first quarter in this month and are you sort of willing to give some sort of rough guidance for the full year.

Abhishek Khaitan: In the second quarter, as of now the trend we are saying like if you see our sales, in May we were down 29% and June we were down 10% and we are seeing things returning to normal and hopefully this quarter we should be pre-COVID levels. Going forward it all depends on how the situation emerges, but we will do better than the industry is what we see.

Neeraj Prakash: My second question is you also cut your employee expenses as well as your expenses year-over-year quarter-over-quarter and which is sort of helped your EBITDA margin as well. So is this sort of what we can expect going forward as well so the EBITDA margin was very, very healthy this quarter, is this sort of sustainable or should we look at more of a 16-ish% EBITDA margin for the annual level?

Abhishek Khaitan: As far as the employee cost goes, we have not cut any salaries and it is same as last year level, so we do not expect any reduction in the employee cost. But other overheads definitely like travel etc., has got reduced and we have also renegotiated certain items. Going forward what we feel is we should increase our EBITDA margins, 100 to 125-basis point for the next two to three years.

- Neeraj Prakash: What is the target with your mind? It is a 19%, 20% target let us say two, three year going forward?
- Abhishek Khaitan: Yes, of course by this rate we will be in late teens by 2022-2023.
- Neeraj Prakash: Thank you Sir.
- Moderator: Thank you. The next question is from the line of Mayur Gathani from OHM Portfolio. Please go ahead.
- Mayur Gathani: Can you specify which state has given this 10% hike and has the impact been seen in the first quarter or will we see it in the coming quarters as well?
- Abhishek Khaitan: Telangana gave us the price increase and we got it at the middle of May, the impact has been one-and-a-half months, so next quarter should be the full impact.
- Mayur Gathani: What should target for being debt free Sir by which year, you did mention it, but I missed the point?
- Dilip Banthiya: We will be debt free by FY2021-22.
- Mayur Gathani: Sir on the export side 7% was the contribution in this quarter, so where are we looking at, if you look at the annual numbers, do we have something in mind that we will do 7%, 10% or?
- Dilip Banthiya: Actually our export the account for between 5% to 7% in value terms. The volume has been 5% throughout earlier also, but couple of a year in between these has taken a knock. Now again export is doing better in African market, middle east and all that, so we see 5% to 7% composition of exports.
- Mayur Gathani: 5% to 7% contribution or that the volumes only?
- Dilip Banthiya: No, I am talking about value wise, top line wise, contribution can be higher.
- Mayur Gathani: Okay, and margins are better on the export side, is that what you said?
- Dilip Banthiya: Yes, of course.
- Mayur Gathani: Thank you very much and all the best.
- Moderator: Thank you. The next question is from the line of Amar Kalkundrikar from HDFC AMC. Please go ahead.
- Amar Kalkundrikar: I have two questions. You said that in Q2 you expect business or volumes roughly at pre-COVID level, this is also including mix? Will the mix also be broadly similar to what it was earlier in terms of prestige and above one popular or state wise?
- Abhishek Khaitan: Yes. It should be the same.
- Amar Kalkundrikar: Can you share a little bit more on what is happening in the UP market are the recovery trends there similar to national or better than national or how is it?

- Abhishek Khaitan: UP compared to the rest of the country has done phenomenally well like if you see for the quarter, the industry was down by 41%, but like for the month of June it was same as the June last year and we feel that now going forward the industry should be same as last year for Q2 or if not little better.
- Amar Kalkundrikar: Thank you Sir.
- Moderator: Thank you. The next question is from the line of Amit Ganatra from HDFC AMC. Please go ahead.
- Amit Ganatra: Good afternoon. I just had one question. Last few years as you rightly mentioned your cash flow generation has been utilized towards debt repayment, but by FY2022 at the current run rate you should become debt free. I just wanted to know what is the capital allocation thought process beyond that? Does the business need huge capex or the states expect higher dividends and what would be thought process on capital allocation beyond FY2022?
- Abhishek Khaitan: Under normal circumstance capex should be in the range of about Rs.50 Crores to Rs. 60 Crores on a yearly basis and once we are debt free which looks round the corner is we will think of buyback or higher dividend whichever is better for the shareholder's value so either of the two things we do.
- Amit Ganatra: Thanks. This is helpful. Thank you.
- Moderator: Thank you. The next question is from the line of Meena Sonia Vernekar from Equentis PMS. Please go ahead.
- Meena Sonia Vernekar: Thank you for the opportunity. If we see the month-on-month performance it has seen a good improvement, but if we look currently many cluster wise in many states, there is a vertical lockdown seen, so do you see this impacting our volumes again in this quarter or month-on-month trends will keep on continuing in Q2 also?
- Abhishek Khaitan: We are seeing definitely an improvement in the month of July compared to June and until there has some major lockdown happens we feel that the industry should be back.
- Meena Sonia Vernekar: Okay and Sir my second question is on the reduction of A&SP spend which we have done in this quarter, will this be continuing going ahead or since now the volumes are picking up, so will be back to that earlier level?
- Abhishek Khaitan: Our A&P spend on general is always between 7% and 8% of IMFL revenue, for this quarter it was 6.6%, it was quite in line, so it will be in the range of 7% to 8% and we are very judicious in what we spend as far as A&P goes and we will continue to invest behind brand.
- Meena Sonia Vernekar: Thank you Sir. Last question on the P&A contribution, can you just share the number, how much it helps contributed in IMFL revenue?
- Dilip Banthiya: By volume around 30% and by value more than 50% in this quarter.
- Meena Sonia Vernekar: Thank you Sir.

- Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor: Good afternoon Sir and thank you for the opportunity. Firstly, if you could give the mix for the raw material basket, how has been the trend and what is the mix of our raw material?
- Dilip Banthiya: We have around 65% of the grain ENA usage and 35% from molasses ENA. This is the mix between grain and molasses for raw material side.
- Saket Kapoor: After the alteration we have done, we envisaged higher degree of grain ENA going forward or this is the optimum level?
- Dilip Banthiya: As more and more premium brands are rolled out, in premium brand it is 100% by grain ENA, so we that the grain ENA proportionately will go up.
- Saket Kapoor: What are the factors that we are determine the price trends going forward for both the segments, the grain ENA and molasses ENA?
- Dilip Banthiya: One of the factors is good monsoon if the grain crop which has been the highest crop and we see a good monsoon this year again, so good crop of the grain will bring the prices toward benign to a declining trend side and same is applicable if we have a good crop and a good sugar season and molasses price will also be down. At the same time because of the lower fuel consumption, there is lower supply of the ethanol in the OMCs hence the availability of molasses alcohol for the alcohol segment would be comfortable.
- Saket Kapoor: How have other expenses behave since this is a lockdown impact quarter, what is at trend here, any one-off items that have been sector for this quarter?
- Dilip Banthiya: There has been actually some reduction in the other expenditure, where mostly it is travelling which is not happening than certain other expenditure which the company incurs, there has been negotiation and resetting of those, so those are the one which has been done by many of the companies at this testing time.
- Saket Kapoor: By grains there is only one product, one crop or basket of agriculture products?
- Dilip Banthiya: So there are four, five grains which are available, the biggest one is the broken rice then there is millet then maize is there, sorghum is there, so depending on the crop at the nearest area of the distillery, we buy these grains at the competitive price.
- Saket Kapoor: What was the last year component, which grain we have used?
- Dilip Banthiya: Mostly it is the broken rice, which is available.
- Saket Kapoor: Thank you so much and all the best.
- Moderator: Thank you. The next question is from the line of Aditya Joshi from Alchemy Capital. Please go ahead.
- Aditya Joshi: Good afternoon Sir. Thanks a lot for the opportunity. First question is what would be on and off premise sale pre-COVID?

Amar Sinha: Pre-COVID, the extent of on premise sale is about 5%, now basically in the months ahead this will depend upon on how the emerging trends with regard to opening up these outlets will unfold.

Aditya Joshi: Got it Sir and second question with respect to channel filling what kind of growth have you seen there? Canteen or government department store, what kind of growth would have been there in that particular department, canteen store?

Amar Sinha: The industry trend that you see in the domestic market is also mirrored as far as CSD is concerned, the trends are similar what we would like to emphasize on is that we have continued to retain a market shares of more than 30%, being a largest player in CSD.

Aditya Joshi: What would be innovation pipeline or new product line for FY2021?

Abhishek Khaitan: The next two years we would be launching about two brands in the premium space and that also in the brown segment.

Aditya Joshi: That was very helpful. Thanks a lot for your answers and all the best for FY2021.

Moderator: Thank you. The next question is from the line of V.P. Rajesh from Banyan Capital. Please go ahead.

V.P. Rajesh: Thanks for the opportunity. My question is regarding the impact of these localized lockdowns that are currently going on, let's say, in Pune or earlier last week in Bengaluru, so are you implying that it is not impacting your business if you can provide some colour on that? Thank you.

Abhishek Khaitan: We said that definitely it is impacting our business, all these local lockdowns, but like last year our volumes had grown by about 13% so we are saying this quarter, we will be back to pre-COVID levels as these local lockdowns would not be there, it would be growing quite faster.

V.P. Rajesh: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from SIMPL. Please go ahead.

Nikhil Upadhyay: Good afternoon and thanks for the opportunity. Congratulations on good set of numbers. Two questions; one is over a longer period now if you look at pre-COVID, our ad-spend had been increasing significantly and even in this environment in Q1 when there was lesser promotion and everything, our key brands have continued to grow very strongly and have actually gained market share or maintained market share. Over a longer period next two to three years, do you think that there is a possibility of more targeted ad spends in selling and distribution cost as the result of this cost escalation which we were looking at all these years could remain lower or do you think that this amount of investment which we were doing, will continue at this rate?

Abhishek Khaitan: Usually if you see our ad spend is in the range of 7% to 8% of IMFL revenues and the last four, five years it always remained at that percentage and going forward also I feel that we will be spending about 7% to 8% on the ad.

- Nikhil Upadhyay: You do not see that because the brands are now scaling up and gaining market share and all where is an operating leverage or benefit which we can get from that is line item?
- Abhishek Khaitan: For a brand to remain healthy you need to spend on marketing and in Radico we continue to spend on that 7% to 8%.
- Nikhil Upadhyay: Lastly on our RM cost, we also have this glass bottle and packaging material cost. How frequent are the negotiations on that cost item because for them gas and fuel is a much larger cost element and if the costs go down for them in terms of production, do we get the direct benefit or if you can just help me understand what kind of negotiation do and over what period these negotiations in that cost element?
- Amar Sinha: We are constantly reviewing the cost implications on a real time basis and you are right as far as gas and fuel is concerned depending upon the variations, we keep interacting with our glass bottle suppliers. So we are constantly reviewing that and we will continue to do that in the near future as well. On a six monthly basis, we always review our cost.
- Nikhil Upadhyay: Thanks a lot.
- Moderator: Thank you. The next question is from the line of Archit Shah from Prabhudas Lilladher. Please go ahead.
- Archit Shah: Thank you for the opportunity. My question was more towards the excise rate which happened last quarter may be or this quarter, which was 70% around roughly and you said that tax rationalization which can be expected in Delhi because the neighboring, UP and all do we have any visibility on that front?
- Abhishek Khaitan: If you see there were only two states where this 70% was increased, that was in the state of Andhra Pradesh and Delhi and Delhi had already rolled back to levels of 5% to 10% and lot of states are considering to bring it down because the volumes have suffered, so I think it is a matter of time that it will come down to a rational level of about 10% to 20%.
- Archit Shah: Second question is what is the capacity utilization we are on right now, am I missed earlier five minutes, which are not repeated.
- Abhishek Khaitan: Our two plants that is Rampur and Aurangabad run at 100% capacity and in fact all are 32 bottling plants are all operational right now.
- Archit Shah: What would be your revenue at peak capacity utilization and are you planning for any further expansion?
- Abhishek Khaitan: We have got five of our own units rest all we have outsourced, we have got bottling units which is third party bottling, so for us we do not need more capacity because we are outsourcing our production.
- Archit Shah: So you can as and when increase particular to when demand flows in and one last question, how many shops are currently operational which you were expecting to reach to 80%?

- Abhishek Khaitan: About 85% to 88% shops are operational as of now.
- Archit Shah: Thank you Sir. It will be very helpful. Congratulations and best of luck for the future.
- Moderator: Thank you. The next question is from the line of Sonaal Kohli from Bowhead Investment Advisors. Please go ahead.
- Sonaal Kohli: Congratulations on good set of numbers. I wanted to ask you more from a medium term perspective let us say between 2020 and 2023, what kind of growth rate do you see over and above the industry growth rate for yourself. Secondly broadly what kind of range of margin do you see three years, a range would be good? Thank you.
- Abhishek Khaitan: To answer your first question is, right now the environment is quite uncertain so to predict the growth rate would be very little difficult, it all depends how the pandemic plays out and everything, but we feel as of sitting today that the liquor industry sale should return back to the normal levels in H2 and as far as margin goes we have already said that next three years we feel that the EBITDA margin of the company should increase by about 100 to 125-basis point year-on-year.
- Sonaal Kohli: When you refer to 100 to 120-basis point increased every year or you referring to the base of 2020 from that you mean to say that from 2020 base?
- Abhishek Khaitan: Yes, from 2020.
- Sonaal Kohli: Are you referring to the growth rate for the industry, you are referring to outperformance or extra growth do you see because of the investments in brand and new brand launches and the initiatives you have taken over the last few years and you continue to take. What kind of growth rate could be higher than next, higher than the industry for the last few years, so what kind of growth rate, do you see over and above that of industry for yourself from a three-year perspective?
- Dilip Banthiya: Especially if we will see last couple of years in 2019 industry grew by 9% and Radico brand growth was 18.5%. In 2020, the industry growth rate was almost 0.5% and Radico grew by around 12.5% in volume. This year again first quarter the industry has declined by around over 50% and Radico grew by just 43%. So we are gaining market share across all brand at the time the new launches, which has been in 8 PM Premium Black, 1965 all these are getting consumer traction and building up these volumes in various state. At the same time 8 PM Premium Black which is currently at 14 states we are planning to roll it out to pan India basis and as we said that there will be a couple of more launches in the brown spirit, so we will continue to grow our premium portfolio and gain market shares.
- Sonaal Kohli: Great Sir and one suggestion as a stakeholder, would it be possible for you in a normal timeframe let us say six months or one year from now to hold an analyst meet with all your leading team members present or video conference so that we get an opportunity to interact with them and perspective of what kind of changes I guess there have been lot of changes last three years and to understand what kind of changes there have been making over a three year period.
- Dilip Banthiya: Sure, I think let the time bit little normal and we will do that in Mumbai.

- Sonaal Kohli: Thank you.
- Moderator: Thank you. The next question is from the line of Mihir Desai from Desai Investment. Please go ahead.
- Mihir Desai: Thank you for the opportunity Sir. My question would be what is the share of EBITDA which comes from non-UP businesses Sir?
- Dilip Banthiya: We have like east, west, and north and south, there are certain states, five, six states, which are larger in liquor consumption itself, so we have a very large presence in those states. So it is not only UP, there are other states in Southern India, there are other states in Northern India, so it is in six, seven states which are bigger for us in volume and those states are also larger liquor consuming states.
- Mihir Desai: Sir, I just wanted your outlook on molasses price, being that all distilleries are increasing their distillery capacity, so just wanted to know your outlook on molasses prices Sir?
- Dilip Banthiya: I think we had very bad year last year where the southern state and Maharashtra had bad crop and this year as we see that government is predicting a very normal monsoon which has come very much in time, so we see a good sugar cycle this year in Maharashtra and Karnataka. UP did well last year also and I think this year again going to have a good crop. So I think Molasses prices would be stable to a little decline.
- Mihir Desai: Sir last question from my end is what the EBITDA share from our Maharashtra distillery is and if possible what would be the capacity utilization of it?
- Dilip Banthiya: There is a line item which is being added in my consolidated results and there we have around 36% equity holding. So according to that we club it I think March 2020 result, but it is not that significant which standalone Radico is a major part, 95% of the EBITDA is from that Radico and Radico NV is just 5% to 7%.
- Mihir Desai: Do we do any captive utilization or how much captive utilization, it needs from the Maharashtra capacity?
- Dilip Banthiya: Maharashtra, we are bottling our products for the Western India like from Mumbai and rest of Maharashtra, so there we have a captive utilization; however, we sell in the local market and export ENA as well.
- Moderator: Thank you. The next question is from the line of Rakesh Roy from IndSec. Please go ahead.
- Rakesh Roy: Good afternoon Sir. My question is regarding, can you highlight on the company performance or regional wise like south, west, and east and how is the current situation?
- Dilip Banthiya: We are actually pan India player and you see in Northern India our saliency is around 34%, 35%, Southern India also it is 36%, 37%, east and west account for around 15% to 16% and CSD for around 10% to 11%.
- Rakesh Roy: How is the current situation on these regions?

Abhishek Khaitan: Actually the current situations like UP and certain states have gone much faster in normalcy, of course this has been a benefit for us but I am talking about on a normalized circumstance.

Amar Sinha: The current trends in the north and south which are the largest markets for alcohol category are doing pretty well for us and the brands are all buoyant, we are retaining our market share that we had pre-COVID levels.

Rakesh Roy: My next question is any disruption in supply chain due to lockdown some pockets in area?

Abhishek Khaitan: Challenges are there or supply chain etc., but all those challenges are being taken into account and we have been enabled to produce our thing so, it is not so much of a major issue right now, but initially it was a big challenge.

Dilip Banthiya: There is a diversified supplier portfolio, so we have options.

Rakesh Roy: My question is regarding some pocket has complete lockdown like Pune, few areas are totally lockdown, any issue related to supply chain?

Amar Sinha: The markets which are already under lockdown, it is the similar situation for the whole industry. As far as those markets which are beyond the lockdown markets are being catered by multiple suppliers within the geography and it does not affect our business adversely. It is only going to get better.

Rakesh Roy: Thank you Sir.

Moderator: The next question is from the line of Chirag Lodaya from Valuequest Investment Advisors. Please go ahead.

Chirag Lodaya: My question was on margin, you mentioned that this year also you are looking at 100, 120-basis points margin improvement, but if you look at Q1 performance and the kind of commentary you have given for coming quarters, are you being a bit conservative on margin front, because gross margin itself, you are talking about at least 200 to 300-basis point improvement and growth coming that from next quarter onwards?

Dilip Banthiya: We have actually already guided that this improvement in margin year-after-year by 100 to 125 basis points. Certain time it can go up. It can be different in different quarters where the sales have been little skewed in better margin areas, but these are the ones which are actually achievable anything over and above I think because of the market or this thing it will be reflected, so definitely 125-basis points what we see every year the improvement.

Chirag Lodaya: In terms of new product launches which you are talking about, so in that we are talking about Premium Rum will be being launching that is what you have highlighted?

Amar Sinha: As far as the Premium Rum is concerned we have already introduced 1965 Spirit of Victory Rum starting with the defence services and there we are already in process of achieving a 10% market share which is huge. As far as the domestic market is

concerned, we have launched it in certain states of north and east and the response to the brand is very encouraging, we see this brand expanding in the domestic market pan India in the times ahead.

Chirag Lodaya: I wanted to understand what is the new product launches you will be doing it would be whisky category I understand and what would be the timeline if you can help us?

Abhishek Khaitan: As I said in the next two years, we will launch two premium products and it will be in the brown space.

Chirag Lodaya: Lastly Sir, spirit where there has been sharp increase in tax, how has been the trend currently if you can help us namely UP if you can highlight how things are moving?

Abhishek Khaitan: The states where the taxes have increased more than 40% and there are two states where the tax had gone to 70% there the industry declined by more than 50%, Delhi already has reversed the tax and I think now the tax about 5% or 10% only and second is Andhra where again it has seen a decline and lot of states are now reviewing the policy and trying to bring the Corona tax out.

Chirag Lodaya: Have we got some corresponding benefit from state of Telangana because sharp increase in taxes, is that what we are looking at?

Dilip Banthiya: Telangana industry is doing well and it is growing, so I do not know about the cross border, but the industry is increasing.

Chirag Lodaya: Got it Sir.

Moderator: Thank you. Ladies and gentlemen we will take the last question from the line of Kiran Naik from Modi Fincap. Please go ahead.

Kiran Naik: Thank you for giving me an opportunity. As fast moving consumers are having SKUs, small budget products, is our company also planning something like that?

Amar Sinha: The SKUs in the alcohol category are regulated by the states, the government, so we are catering to all particular sizes of SKUs which are currently allowed in future whatever the governments decide we will follow the same trends.

Kiran Naik: Thank you Sir.

Abhishek Khaitan: Thanks a lot for joining on this call. We will continue our journey for premiumization, bringing value to the stakeholders and creating a robust balance sheet. Management is focused and we will continue to do that. Thank you.

Moderator: Thank you. On behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Note: This transcript has been edited to improve readability.

For more information, please contact: ir@radico.co.in