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

**Sub: Transcript of the Earnings Call conducted on November 15, 2022**

Dear Sir/ 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 held on Tuesday, November 15, 2022, for the Unaudited Financial Results of the Company for the quarter and half year ended September 30, 2022.

The same is also uploaded on the website of the Company at www.radicokhaitan.com.

This is for your information and records.

Thanking You,

Yours faithfully,
**For Radico Khaitan Limited**

DINESH KUMAR GUPTA
Digitally signed by DINESH KUMAR GUPTA
Date: 2022.11.22 10:07:31 +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)

**Second Quarter and Half Year FY2023**

**Earnings Conference call**

**November 15, 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: Ladies and gentlemen, good day and welcome to the Q2 FY2023 Earnings Conference Call of Radico Khaitan Limited, 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 over the conference to Mr. Himanshu Shah from Dolat Capital. 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.*

Himanshu Shah: Thank you, Rutuja. Good afternoon, everyone. On behalf of Dolat Capital, we welcome you to Q2 FY2023 earnings conference call of Radico Khaitan Limited. On behalf of Dolat Capital, we would like to thank Radico Khaitan Management to give us the opportunity to host the call. On the call we have with us the senior management team of Radico Khaitan represented by Mr. Abhishek Khaitan – Managing Director, Mr. Amar Sinha – Chief Operating Officer, Mr. Dilip Banthiya – Chief Financial Officer and Mr. Sanjeev Banga – President, International Business. Let me now hand over the floor to Mr. Abhishek, for his opening remarks. Thanks, and over to you, sir!

Abhishek Khaitan: Thank you. Good afternoon, ladies, and gentlemen. Thank you for joining us on our Q2 FY2023 results conference call. I hope you all are doing well and keeping safe.

We have delivered another quarter of a buoyant volume growth and consistent financial performance in an otherwise challenging business environment. This underscores the strength of our brand portfolio, operational excellence, dynamic financial management and our clearly defined strategic roadmap.

Business growth continues to be strong and resilient driven by our Prestige and above category brands which grew by 22% during the quarter. Our premium brands growth is very strong, particularly the luxury brands such as Jaisalmer Indian Craft Gin and Rampur Indian Single Malt. We have already expanded our craft gin production capacity to more than double.

We continue to aggressively pursue our new product development pipeline to drive future growth opportunities and announced some exciting launches during the quarter. In September, Radico Khaitan launched another expression of Rampur Indian Single Malt Jugalbandi, a series of eight Indian single malt cask-strength whiskies. The first two expressions of the Jugalbandi series were unveiled at the Whisky Live Show in Paris and will soon be rolled out to the USA, Singapore, Australia and select travel retail destinations.

Building upon the market leadership of Magic Moments, we launched a low alcohol ready-to-drink, Magic Moments Vodka Cocktail. It is the only vodka based RTD available in the Indian markets. We also launched 1965 Spirit of Victory Lemon Dash Rum which will help the Company to tap into a new spirit category of white rum.

While the inflationary trend is persistent, we have seen early signs of stability in certain commodities which is encouraging. Overall, the scenario still remains volatile. We have recently received price increases in the state of West Bengal and pursuing price increases in some southern states. Recently received price increases in the last two quarters coupled with our ongoing premiumization, portfolio rationalization and value engineering will drive profitability growth.

With the recent price increases coupled with a favorable product mix, we were able to mitigate margin head winds in the IMFL business to a large extent. The impact of the cost push has been much severe in the non-IMFL business where we expect to receive price increases soon.

Both the Rampur dual feed and Sitapur greenfield projects are progressing well and the civil construction is on full swing. We are happy to report that as per our committed timelines, Rampur dual feed plant and Sitapur bottling section will be operational by December 2022.

Luxury portfolio consisting of Rampur Indian Single Malt and Jaisalmer Indian Craft Gin are showing great momentum. As we have shared in the past, Rampur Indian Single Malt is currently on allocation but from next year onwards, its volume will triple from the current levels. In India, Jaisalmer is now available in fifteen cities and in the canteen store department and it will be available on pan India basis very soon. This brand continues to receive unprecedented response. Looking at the demand, we have already doubled our capacity. Launched in the last quarter, Jaisalmer Gold is now being rolled out in Europe and the UK.

Our premium brand growth continues to be very robust. New brands such as Royal Ranthambore and Dazzle are performing in line with our expectations. Royal Ranthambore is now available in eleven states and Dazzle is available in eight states. This coupled with the growth of our core brands such as Magic Moments, Morpheus, 8PM Premium Black and 1965 Spirit of Victory Rum etc., places us very confidently to continue delivering industry leading growth.

Radico Khaitan is progressing firmly on the path of its exciting premium brand creation journey which will be accentuated by a strong backward integration manufacturing platform. Going forward we continue to focus on our long-term growth plans of premium IMFL growth with new brand introduction in both white and brown spirits and leveraging the benefits of our capital investments.

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 second quarter of FY2023, we reported total IMFL volume of 7.18 million cases representing an increase of 10.9% on Y-o-Y basis. This was led by prestige and above category volume growth of 22.0%. In value terms, prestige and above category registered 25.0% growth. Prestige and above category accounts for 37.9% of IMFL volumes as compared to 30.2% in Q2 FY2022. Our prestige and above category volumes represent a double digit CAGR as compared to the pre-COVID levels. We have rationalized volumes of regular category brands in certain states. This is a conscious strategic decision to mitigate input cost pressure. Had it not been done, our volume growth would have been higher.

Net revenue from operations during Q2 of FY2023 was Rs.761 Crores representing an increase of 8.6% compared to Q2 FY2022. During this period, IMFL sales value also increased by 8.5%.

Gross margin during the quarter was 41.6% compared to 43.6% in Q1 FY2023 and 45.3% in Q2 FY2022. 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 IMFL business was mitigated to a large extent.

On Q-o-Q basis, margin compression is due to the full impact of glass price increase given in Q1 and ongoing inflation in ENA cost.

While we have experienced further inflation in ENA and glass, certain other commodities, such as PET resin and paper, have seen early signs of softening. In the near terms, we expect raw material pricing situation to remain volatile. However, from Q4 onwards, we shall see the benefit of backward integration from our Rampur Dual Feed plant.

In near term, EBITDA margin is expected to be range bound. In the long-term, we are confident of continuing our margin expansion trajectory given our portfolio premiumization and backward integration.

During the quarter, the Company has incurred Rs. 154 Crores on the Rampur Dual Feed and Sitapur Greenfield project, therefore, the total capex of Rs. 318 Crores incurred since inception.

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 lines for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Harit Kapoor from Investec Capital Services India. Please go ahead.

Harit Kapoor: Hi! Good afternoon and congrats on strong volume growth. I have two questions, first is on the price increase, if you could give us sense on what is the quantum in West Bengal and now what is the weighted average number that you got and just a follow up on that would be any more states, we expect to get prices increase from in near-term?

Dilip Banthiya: Harit, as we mentioned in our last call that weighted average price increase till Q2 was approximately 3% and it was in the states of Uttar Pradesh, Uttaranchal, Punjab, Rajasthan, Haryana, Delhi etc., and now there is a price increase in West Bengal which is effective from current dates and it is in the range of 12%. Our volume in West Bengal is around 3% saliency, so, it's something around 25 basis points. We are expecting some more prices increases in large Southern states in next fifteen days should be materialized and it will be in public domain.

Harit Kapoor: The second question was on the status check on some of the new launches that we did same time last year, you did the Royal Ranthambore and Dazzle. Please give us update as its been a year now since there in markets. How many markets now, how they have done, your own actual standards and what is the future going forward?

Amar Sinha: Royal Ranthambore has received unprecedented response in all the eleven states that we have gone to. It is welcomed by the trade, the best thing about Royal Ranthambore is the pricing where we have breached all IMFL level prices and gone above certain well known scotch prices. That is something that we have done, we have created a new price band were contributions are pretty healthy and the response that we have received as I said is unprecedented. We are in eleven states actually and there are four more to be added in the next six months. Uttaranchal, Chandigarh, AP, West Bengal, Assam, these are the states where it is going to be launched. But we are available in rest of the eleven states which are the big ones UP, Delhi, Rajasthan, Haryana, Maharashtra, Telangana, these are the states where it has already gone and it is doing pretty well. Jaisalmer is available in about fifteen states. North India, we are available in all the states. In south zone, we are available in Telangana, Karnataka, Pondicherry, there are three states, Andhra is soon to be coming in about a months' time. East zone, we have just launched it in Odisha and we will go to Assam soon. In the West of India, we have gone to Maharashtra, MP, Goa and Daman. Now, Jaisalmer is one brand that we have created as is has been the tradition in Radico, we have always breached the price points of the market leader. It is the most expensive gin but despite that the packaging, the quality is so well accepted that it is received extremely good response. We are now broad basing the width and depth of distribution of Jaisalmer and I think this is a brand that is going to create ripples in the times to come like Royal Ranthambore.

Dilip Banthiya: Further to add as Abhishek said in his opening remarks, we have already doubled the capacity looking at the response and we will be adding further capacity depending on the market demands.

Harit Kapoor: Got it, very clear. The other question was on the quarter performance. If you look at popular business which is down from about 4.5 million cases to 3.8 million cases, how much would you attribute that to your own rationalization initiative. Would that all be due to your own rationalization initiative in your opinion?

Abhishek Khaitan: Yes, majority of that would be because of our action because we are not looking at selling a brand below a threshold profitability and in certain states, where we are expecting price increase to happen soon these restricted our supplies, so that is how, we will get the price increase.

Harit Kapoor: Is it right to assume that once some of the price hikes come through some of these volumes will also come back.

Abhishek Khaitan: Absolutely.

Harit Kapoor: My question was, if we have to assume that wherever you have rationalized are the states which are not yet given the price hike. Is that the fair way to look at it?

Abhishek Khaitan: Yes, absolutely.

Harit Kapoor: Got it. That is it from me. I will come back for more. Thank you.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Nuvama Institutional Equities. Please go ahead.

Abneesh Roy: Thanks. My first question is on your recent launches for example the low-alcohol Magic Moment Vodka cocktail, what is the addressable market you think and do you need to expand beyond current distribution. I understand it has low alcohol content, I understand this is the only vodka based RTD, will you have to first keep the market this is more a longer-term opportunity. Similarly, the focus and the addressable market for the Lemon Dash Rum because that again is a very niche but focused launch, how big can be these be from a four to five-year time frame if they succeed.

Amar Sinha: First of all, we don't want to leave any premium segment in the alcohol category untapped, because the future belongs to brands that are in the premium category they are actually growing. Having said that, the objective of launching RTD is not bigger than the volume, we want to create an aura around Magic Moments, we want to do brand extension, we want to make sure that every millennial has the opportunity to carry something by convenience, ready to drink. So, Magic Moments Vodka Cocktail is actually the first of its kind, it breaches all price points and the first of its kind because traditionally cocktails have been made by vodka. But there is no one who had tapped this opportunity of putting it in a can which is the fashion today. We have ceased that opportunity and I think the price point is much higher than any competitive brands. Because what you get cheap today does not really gel with the generation Z and the millennials. I think it has got a much larger objective; it is in the mid to long-term this is a product that will be reckoned with but today it needs to be seeded. The initial response that we have received to the brand in Bengaluru is extremely encouraging and that gives us more confidence to expand it across the country that is something on the cards. As far as white rum is concerned, this is a category we have tapped, it is a small segment 1.5 million cases market. But I think we didn't want to leave this untapped because of our capability to produce premium brands and the quality of spirit. So, this is one product which we need to wait and watch.

Abneesh Roy: Right, that is helpful. One follow up on that, do you need to expand distribution for these products and what is the pricing table in Bengaluru on that new launch and what is the alcohol content in that vodka cocktail?

Amar Sinha: We have launched it at Rs. 150 a can, we have just done a test market in Bengaluru in select outlets. Now that we know the response to the product, we will have to tap the width and depth of distribution. Once we do this in Karnataka, we will go to the other big market which have a traction for RTDs like Maharashtra, Telangana.

Abneesh Roy: Right, and alcohol content?

Amar Sinha: 4.5% is the alcohol content. This is unisex actually, both male and female can enjoy the drink.

Abneesh Roy: Sure, that is helpful. My last question is on the gross margin, every liquor company has faced pressure this quarter. Would you say the worst is behind because you have got 12% price hike in Bengal but when I see glass prices, they continue to remain under more inflation in H2 because of the gas prices being up 60%. On a balance how do you see H2 margins versus a 41.6% GM in Q2. Do you think it should improve from here on?

Dilip Banthiya: As I said that the gross margin, inspite of the price increases, have been on quarter-on-quarter basis down by 200 basis points largely on account of the impact of the glass prices which has been for full quarter and the ENA up trending prices. The prices which we are going to get in the West Bengal and couple of large southern states will mitigate more or less on the IMFL price. The gross margin for Q3 till that time will be range bound and Q4 onwards we will have a backward integration facility also coming in, so you will see an uptrend from there and 2023-2024 there will be multiple levers for increasing our margins and couple of that is like both our Rampur Dual Feed will be up and running, Sitapur Green Field project will be up and running, the UPML price increases will come, the volume of UPML will increase and as we said that Rampur Indian Single Malt and Jaisalmer is having big traction in the volume. So, there are multiple levers for us to go back to our mid to high teen margin in 2023-2024.

Abneesh Roy: Sir, just one follow up on the Bengal market, the 12% price hike is quite good but it is also very sharp price hike. The customer who is already facing multiple inflation concerns, do you think the players will take that full hike because in the past we have seen although government may allow a hike ultimately industry players may not take the full hike. What is your sense?

Abhishek Khaitan: Actually, everyone has taken the price hike and the MRP only changes by Rs.10 for Nip, so that is not much of an increase and all the peers have taken the hike.

Abneesh Roy: Okay, the Rs.10 MRP hike is 12% for you.

Abhishek Khaitan: Yes.

Abneesh Roy: Okay, thanks. That is all from my side.

Moderator: Thank you. The next question is from the line of Vivek Sharma from PGIM India. Please go ahead.

Vivek Sharma: Good afternoon gentlemen. Thanks for taking my question. My first question is post your capex gets over in December, what portion of your ENA needs would come from captive and what would be mix of outsource and what would be the allocation of this ENA, will it be used for your premium brands, regular brands, or the country liquor?

Dilip Banthiya: Still not clear, your point is regarding the ENA captive consumption?

Vivek Sharma: Yes.

Dilip Banthiya: From Dual Feed as we said earlier when we did the capex that the increased capacity will be used on the UPML which has been converted by the UP government on 25% [of the industry] and in future the rest of the categories are also likely to be converted and whole of the ENA whether it is from Dual Feed plant and Green Field Sitapur plant will be used in next three years. Interim, we have to exports some ENA and some to the local manufacturers but local users, rest will be used by us so, three years completely used captively by us.

Vivek Sharma: Okay, and second question is on the UPML segment what is the gross margin at current juncture for this quarter?

Dilip Banthiya: Gross margin as we see actually without the price increase there is a negative impact, I talk about country liquor as a whole, there is a negative impact and we are losing presently around 6 to 7% on account of that which soon will be made good, there is discussion, it is a matter of time maybe another month or it can be in the next policy. But the point is there is greater realization that there is a cash loss in that segment and which will made good because government is also one of the key stakeholder having large revenue from this segment.

Vivek Sharma: What seems to be the delay, we have been hearing about this UPML price hikes since some time but where seems to be the delay and what is the bottle neck?

Dilip Banthiya: Actually this UP government have some processes to be followed and they are working completely transparent and all that. So, they have the knowledge about how much cost push has been there, it has been in their record, it has been given by presentations by the industry forum. I think there is an assurance from the power that it will be made good. It can be a month, it can two-three months, the next policy that is anybody's guess.

Vivek Sharma: Got it. Thanks for taking my questions and best of luck for the future.

Moderator: Thank you. The next question is from the line of Mehul Desai from JM Financials. Please go ahead.

Mehul Desai: Sir, my first question was on this non-IMFL segment. Just wanted to understand in last few quarters we are making losses on that, but in the normalized scenario how much EBITDA contribution comes from the non-IMFL segment?

Dilip Banthiya: Traditionally we were making around 9-10% on this segment EBITDA contribution.

Mehul Desai: Right now, you are saying that we are making loss in the segment.

Dilip Banthiya: Yes.

Mehul Desai: Okay, and second thing there is a lot of talk about from Diageo and Pernod about the removal of mono cartons as an ESG initiative and definitely that helps in term of reducing packaging cost also and mono-carton removal will be more benefit in the lower and popular segment as well as some of these entry level P&A segment. What is your take on that and do you see that benefit actually playing out in next two-three quarters, is it a material benefit for you guys too?

Amar Sinha: First of all, removal of a mono carton becomes important in the regular segment downwards. But as far as premium brands are concerned, we feel that it gives you the premium imagery and it gives you a competitive edge. We are anyways doing a lot of value engineering around the premium brands which will give us the desired savings. As far as removal of mono cartons is concerned, we will go by the market trends and the market requirement. So, as of now in one or two states we would have removed it but this will depend purely on market trend and demand in the future, so we are not too sure about it.

Mehul Desai: Okay, and lastly just wanted to understand volume contribution from these new launches, if we remove our traditional brands like 8PM, Magic Moments and after that whatever launches that we have done in last two -three years, what is the kind of volume mix that is coming from some of these new launches?

Amar Sinha: I will tell you what, we were restricted to 8PM Premium Black, this is a segment that we have tapped, we were not present in this, it's a huge segment and 37 million case is the size of the segment. We launched our product and in one and a half years, we hit the first million, in the following year, we hit the second million and this year, we are likely to hit the third million also. So, we are growing at a rate of about 50 to 55% and the brand has been received very well, it is actually available in more than twenty states and it's making a dent in that category and segment.

Mehul Desai: Got it. Thank you so much. That is all from my side.

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

Pritesh Chheda: Sir, on the UP country liquor side, what is the gross margin at the company level that should come in on that price hike?

Dilip Banthiya: You are talking about after the price hike?

Pritesh Chheda: Yes, after the price hike what is the delta in the gross margin. So, what you are at 41.5% let us say this quarter where do you head to if just that comes in?

Dilip Banthiya: Actually, as I said that there is already the cost push and all that data has been already provided to the government. Traditionally, we were making 8 to 10% EBITDA margin on that business and that margin is ideally the one where the brand owner as well as the prices given in the markets are perfect and optimum. We think after that we should somewhere between that EBITDA margins. But till the time it happens let us hope for that to come out.

Pritesh Chheda: Rampur Dual Feed, when we start utilizing it fully what is the gross margin benefit on that backward integration. How much gross margin improvement do we see on this particular asset?

Dilip Banthiya: Rampur Dual Feed is a 150 KLPD plant which will get converted and because of that some 200-basis point roughly.

Pritesh Chheda: This plant is supposed to start in December when do you see the optimum utilization of this plant?

Dilip Banthiya: The optimum utilization comes in ten days from the start of the plant.

Pritesh Chheda: Immediate?

Dilip Banthiya: Yes.

Pritesh Chheda: So, you will see 200 bps pure gross margin expansion on Rampur and you haven't quantified on country liquor what is the gross margin?

Dilip Banthiya: The alcohol being used out of that will be also going in the UPML, I am talking about pure play of the alcohol being brought from outside to the alcohol being manufactured and that is something around 150 to 200 basis point.

Pritesh Chheda: Okay, and lastly sir, on the premium and above basically, the Jaisalmer and Rampur brand volumes. Let us say if it is X this year, what is the ramp up that we will see from now till next year. Is it 2X, is it 3X?

Abhishek Khaitan: As far as Rampur goes, Rampur is strictly on allocation because the demand is so much so basically wherever it goes it gets pre-sold. But as we said that we had invested a lot of money into the maturation facility about a couple of years' back and now next year, the volume what we will be getting would be 3X of the current volumes and which we expect to be sold easily. As far as Jaisalmer goes, we have doubled our capacity and the kind of response we are getting, Jaisalmer also from current year should be at least 2X next year.

Pritesh Chheda: Okay, 3X in Rampur and 2X in Jaisalmer?

Abhishek Khaitan: Yes.

Pritesh Chheda: These businesses will be at that level what percentage of the revenue?

Dilip Banthiya: That actually is difficult to tell you because there are other multiple levers as I said on UPML and all that. But topline is mix of so many things but as we said absolutely these two brands 3X and 2X of the current volumes.

Abhishek Khaitan: Just to give you an example like Rampur we are retailing depending on the expression some Rs.8500 to Rs.18000 a bottle and Jaisalmer we are retailing at about Rs.3700 a bottle.

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

Moderator: Thank you. The next question is from the line of Sneha Agarwal from SageOne. Please go ahead.

Sneha Agarwal: Thank you for taking my questions. Just a small question on the backward integration capex that is right now ongoing on Rampur and Sitapur facilities. Generally, in the industry we are seeing several other players also consolidating their plants and in fact going towards the trend own plant reducing and rather increase outsourcing. But on the other hand, you are announcing a capex and going backward integration we understand from a gross margin perspective there could be a straight improvement of 200 bps that you said. But from an ROC perspective how accretive could it be overall and do you think this the way forward from a strategy perspective, is this the right strategy to use capital or this is the best way, the capital could be utilized?

Dilip Banthiya: As you know that for the last seven to ten years, we have not done any capex on our distillation capacity. We have been continuing on our volumes in premium category in last six – seven years like now it is around 38% and value wise at 60% and most of our premium product uses our own alcohol. First of all, as this capex has been done after a gap of seven to eight years and we are gearing up ourselves for the future growth which is going to be there on the premium portfolio of Radico. The UPML opportunity which we explained that for years together the country liquor in UP was manufactured out of molasses ENA which is coming out like in south. There will be grain based alcohol which will be used for that it is a 90 million cases industry which is the large volume. It is an economy IMFL kind of thing which is going to be there. Our strategy is for these capex's has been to keep in mind our future growth, the requirement of alcohol and as lot of alcohol [is going] from molasses side [to] the ethanol blending program. So, our security of raw material all these put together and we have single facility catering to around 22% of UPCL market and 30% of IMFL market in UP so, we have to diversify also. There were lot of point debated before we went for capex. Though company's philosophy is not go on a capex run model, but this has been done after a long time and for seven to ten years we don't expect to do big capex on any other than the brand capex.

Sneha Agarwal: But you also mentioned the same time that the next three years most of the capacity that has been created will get utilized. Subsequently, do you think there will be more capex pertaining to increasing capacity or will it then again move to outsourcing model?

Dilip Banthiya: We are presently also outsourcing around 7 to 8 Crores liters of alcohol. The point is we will continue to do that but for the first three years as I said because of our own consumption in UPML as well as in IMFL we will be captively utilizing this. But we foresee that after that we not to do the capex for next seven to ten years on distillation.

Amar Sinha: Let me tell you UP is the market which is the most progressive state in the entire country today. It is growing at about 15 to 18%. The capex that we have done is keeping in view our requirement over the next three years so, we don't see this as a big challenge and can bring us lot of economies.

Sneha Agarwal: Sure, understood. Thank you.

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas. Please go ahead.

Kaustubh Pawaskar: Good afternoon, sir. Thanks for giving me the opportunity. My question is again on the rationalization of the regular brand volumes. You said that it was done basically to safeguard some of your margins. What kind of benefit you got in this quarter because of this rationalization and whether this will continue in the quarters ahead or with price increase you expect the regular volumes to come back and the volume growth in this space would be around 3 to 4%. Is it a right understanding?

Dilip Banthiya: The rationalization in the regular category is mix of that where the margins are less, we have cut on our volumes. Secondly, in certain states we have given the brand on royalty there was 40-45% P&A category brand in that. So, that has also come down in the royalty volumes than in the regular category there. That is why you see the double impact of that in this quarter.

Kaustubh Pawaskar: Okay, from Q3, I think it should come back and the growth you are not expecting much.

Dilip Banthiya: Actually, from 2023-2024, we have been growing on the regular category in a single digit and in the premium P&A category above 15% like this first six months has been in the range of around 22%. We will continue to grow on P&A category more than 15% and regular in normal state of affairs should grow by 5% or so.

Kaustubh Pawaskar: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Gaurav Lohia from Bowhead India. Please go ahead.

Gaurav Lohia: Thank you for the opportunity, sir. My question is pertaining royalty volumes, out of this, 1.03 million cases, how would be P&A volume and how much would be regular volume?

Dilip Banthiya: It is 60% regular and 40% P&A.

Gaurav Lohia: Okay 60% regular and 40% and it's my sense for that still the P&A volume growth would be north of 30-35% is that number correct?

Dilip Bhartiya: Yes if it is added, it will be much more.

Gaurav Lohia: Sir how much of volume we would have lost in CSD and certain other markets because of the margin pressure that we willingly let go?

Dilip Banthiya: We have done this rationalization in CSD, Kerala and some of the southern states where the margins are strained and as the price increase will come, we will again re-look at these market and can ramp up if we make money.

Gaurav Lohia: I understand, I am just asking how much of volume would have been there because this structure. If we had not let go of these volumes what the actual volumes would be?

Abhishek Khaitan: About 4 to 5% of the total volume.

Gaurav Lohia: Understood, sir and is it largely regular or P&A?

Abhishek Khaitan: Regular.

Gaurav Lohia: And sir when we say that our Rampur volumes will triple next year onwards. Do we mean FY2024 or the FY2025 onwards. Because of onwards would mean FY2025 right?

Abhishek Khaitan: Triple, what we are saying is FY2023-2024 that is next year.

Moderator: Thank you. The next question is from the line of Abhishek Jain from Arihant Capital. Please go ahead.

Abhishek Jain: I just want to know one thing, have we taken any price hike in UP and what is the output of the price hike?

Abhishek Khaitan: UP, we got a price increase in the IMFL segment of about close to 10% overall on our total UP revenue. That we got it in the 1st April and as far as the non-IMFL business goes which we expect the price increase to come.

Abhishek Jain: Is there any approval from the state government for the non-IMFL?

Dilip Banthiya: Yes, it is due for some time. It will come.

Amar Sinha: They appreciate the cost push, so they are inclined to giving it us but it is a matter of time.

Abhishek Jain: Okay, should we expect end of this quarter?

Amar Sinha: It could happen in the third quarter or in the new policy, it could go any which way.

Abhishek Jain: Okay, thank you very much.

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

Sonaal Kohli: Thank you for this opportunity. I had two queries, firstly after this ramp up of Rampur, is my understanding correct that you have another round of increase in volumes with availability of alcohol and in which year would that happen and how much would be the increase?

Sanjeev Banga: In terms of Rampur, we tripled our malt capacity or malt distillation capacity couple of years ago. We increased our malt maturation capacity also and we are further increasing the malt maturation capacity in Sitapur. So, a lot of malt is under maturation and aging. As we go along the volumes and the quantity that will be available will keep increasing. So, we do expect in the next few years, it will become a substantial volume.

Sonaal Kohli: Entirely 100% capacity in five years?

Sanjeev Banga: It is an ongoing process. Malt maturation takes a long time and we being maturing malt for last so many years, it will keep on adding year-on-year.

Abhishek Khaitan: Just to give you a sense of numbers like say next year the volume of Rampur should become three times and in the matter of four to five years, it should become about close to six to seven times of the current volume.

Sonaal Kohli: And sir, would your profitability also increase as you start retailing more in India because the distribution margins would be lesser?

Abhishek Khaitan: Absolutely. Right now, there is no stock in India because we don't have the Rampur so much.

Sonaal Kohli: You just said that Double Cask Rampur in India, don't have any other version.

Sanjeev Banga: Yes, that is the only expression that is currently available in India. Internationally, we have eight expressions and that also very selectively.

Sonaal Kohli: Sir, my second query was let us say we wake up 2028 five years after this year. Obviously over a long period all these inflation issues get sorted out, price hike comes with a lag. Is it possible to conceive in that year let us say five years after this financial year your topline being 2X or what it is in financial year 2023 and your EBITDA margin being 20% or am I asking for too much.

Dilip Banthiya: Yes, with 15% CAGR max, we work out to be that what you said.

Sonaal Kohli: And in terms of EBITDA margins with this backward integration and all this premiumization story and inflation being passed through over a period of time because your margin used to be 16-17% even before all this premiumization and it is the backward integration, so is 20% too much ask or that is a fair, more than reasonable assumption.

Abhishek Khaitan: That is what exactly we are aspiring for but like what we have seen with this inflation right now to predict itself is like Herculean task but definitely, we are aspiring for that kind margins in five years easily.

Sonaal Kohli: 20% easily, understood. Thank you so much.

Moderator: Thank you. The next question is from the line of Apurva and Individual Investor. Please go ahead.

Apurva: Despite premium brands, why Radico brands not available in most of the clubs and bars in Mumbai, despite those brands available at the retail wine shop. I don't know whether it is same with the other cities and states. What is the strategy there actually?

Amar Sinha: Let me tell you, first we started from the regular segment and we are up scaling to the premium segments. In the last few years, we have been able to now have more premium brands like 8PM Black, Morpheus, Magic Moments, Rampur Single Malt, Jaisalmer, so now we have a whole lot of premium brands and our strategy is to now penetrate into the on premise which is clubs, bars, lounges in the years to come. So, that is what, earlier, we didn't have the complete portfolio but today we do have. So, that is one area that is going to give us phenomenal returns in the year ahead.

Apurva: Okay, thank you and other questions is recently there has been, in few states, decrease in excise on imported spirits. So, does that affect you?

Amar Sinha: Can you repeat the question please?

Apurva: Recently there has been few states which have been decreasing excise on imported spirits. So, does that affect you.

Amar Sinha: Truly speaking let me tell you, I have already told you that Radico has been launching products breaching the market leaders position. For example, Royal Ranthambore has been launched above the price point by one of the popular scotch whisky's really if you ask me the kind of premium brands we have and what are in the pipeline we really not concerned about it so much.

Apurva: Right, sir. Thank you. That is, it from my side.

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

Dilip Banthiya: So, thanks everybody to be on call. We have continued to deliver upon our premiumization strategy which is reflected in the strong P&A volume growth during the quarter. All our core premium brands are registering strong growth. The traction of our luxury brands, Rampur Indian Single Malt which is strictly on allocation basis and Jaisalmer Indian Craft Gin is above expectations. Next year onwards, Rampur allocation will increase and we have already expanded gin distillation capacity to cater to the growing demand.

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

We look forward to interacting with you on our next earnings call. If you have any queries or follow ups, please feel free to write to us.

Thank you. Stay safe and healthy.

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

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*Note: This transcript has been edited to improve readability.*

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