



## **Radico Khaitan Limited**

(BSE: 532497; NSE: RADICO)

**Q2 and Half Year FY2021 Earnings Conference Call**

**October 29<sup>th</sup>, 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 Radico Khaitan Limited's Q2 FY2021 earnings conference call hosted by Emkay Global Financial Services Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. 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 Nirav. 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, and Mr. Sanjeev Banga, President, International Business. I will now hand over the call to Mr. Khaitan for opening remarks. Over to you Sir!

Abhishek Khaitan: Good afternoon ladies and gentlemen. Thank you for joining us on our second quarter FY2021 results conference call. Hope you have had an opportunity to review our earnings presentation and results announced yesterday.

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 Banthiya, our CFO for a detail discussion on the quarterly performance followed by the Q&A.

During Q2 FY2021, we saw a sharp recovery in Radico Khaitan's performance. The industry growth, however, was uneven across states and still muted. Some of the larger liquor consuming states such as UP, Karnataka and Telangana, etc., have returned to growth trajectory during the second quarter. We have done well in these states and gained market shares. Although there is still a lot of uncertainty due to the pandemic we believe that with the upcoming festive seasons industry will return to normalcy during the second half of the year.

Raw material pricing scenario has been benign during Q2 FY2021 with ENA prices declining 2.5% quarter-on-quarter and 6.5% on year-on-year basis. We believe that ENA prices should stay at stable to benign levels for the rest of the fiscal year.

Radico Khaitan is focused on various fronts including new brand development, rationalization of cost base and further strengthening our sales and distribution network. We continue to make investments behind our brands with a particular focus on social media and digital activities. This enables more targeted marketing. Our objective is to continue to outperform the industry growth.

Our performance during the last quarter is a reflection of the hard work that management has put in over the last decade to build a strong operating platform and robust business model. We reported highest ever quarterly EBITDA of Rs. 107

Crores with 16.9% margin. During the first half of FY2021 we reduced our net debt by over Rs. 129 Crores. Our current net debt is Rs. 253 Crores only. Since FY2016 we have reduced the net debt by over Rs. 694 Crores.

We have recently launched Asāva, the newest expansion of our Rampur Indian Single Malt. This is the first of its kind whisky matured in American Bourbon barrels and finished in Indian Cabernet Sauvignon casks. Rampur Asāva is an exciting addition to Rampur's Indian Single Malt Whisky range which currently includes Rampur Select, Rampur Double Cask, limited edition Rampur Sherry PX and the ultra-exclusive Rampur Signature Reserve.

I am very confident that we are taking the right strategic steps that will enable us to continue with our growth trajectory and market share gain along with margin improvements.

With this I would now like to hand over the call to our CFO for detailed discussions on the operating 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 6.04 million cases representing an increase of 4.6% on Y-o-Y basis. Our business operations have normalized during the second quarter. Net revenue from operations during Q2 of FY2021 was Rs. 630 Crores representing an increase of 10.5% compared to Q2 of FY2020.

During this period IMFL sales value increased by 6.1%. As a percentage of total revenue, IMFL sales account for 79% of the net revenue from operations.

Gross margin during the quarter expanded by over 90 basis points from 48.0% to 48.9%. During the half year, gross margin expanded by 318 basis points from 48% to 51.2%. Margin expansion during the YTD period was due to improved realization, better state mix, strong export, and price increase in one of the key liquor consuming states. Price increase in the state of Telangana had a net impact of 90-basis point on our IMFL sales.

EBITDA margin during the quarter expanded by over 180 basis points to 16.9% due to gross margin expansion and cost rationalization. During Q2 of FY2021, A&SP expenses declined by 24.2% to Rs. 29.85 Crores. However, on Q-on-Q basis it has been increased by 52%. As a percentage of IMFL sales A&SP expense was 6% as compared to 7.1% for the full year FY2020.

Given the COVID-19 scenario, A&SP expense during the period were relatively lower than last year. The Company continues to make judicious marketing investments which have enabled us to continue market share expansion.

Finance cost for Q2 FY2021 decreased by 29.2% on YoY basis from Rs. 7.68 Crores to Rs. 5.44 Crores. The Company's cost of borrowing has declined from 8.6% to 6.4% on YoY basis, due to the declining interest rate scenario coupled with company's stable profitability, strong capital structure, and improved liquidity position.

As on September 30, 2020 the net debt was Rs. 311 Crores, cash and bank balance was Rs. 59 Crores resulting into a net debt of Rs. 253 Crores versus Rs. 382 Crores as of March 31, 2020. Gross debt consists of Rs. 310 Crores of working capital loan and Rs. 81 lakhs of long-term loans. During the period we saw a strong overdue receivable collection resulting in net debt reduction of Rs. 129 Crores.

As you are aware that nature of our industry is such that it has very high working capital requirement. It is important to note that Radico Khaitan has strong liquidity position and therefore able to fund a large portion of working capital through its internal accruals. Our current working capital is over Rs. 900 Crores as compared to a net debt of only Rs. 253 Crores.

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

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

### Question & 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 Investment Advisors. Please go ahead.

**Chirag Lodaya:** First of all, congratulations team for the great set of numbers and strong improvement in balance sheet. Sir I have couple of questions. So first on gross margin, so if you look at QoQ there has been 550 basis points decline in gross margin. So if you can just help us understand what led to do, and how one should look second half in terms of gross margin. There is also news of ethanol price being taken upwards by almost Rs. 3 per liter so how it may have impact ENA prices now, so your view on that?

**Dilip Banthiya:** As far as the gross margin is concerned as we mentioned in our Q1 quarterly results call that the first quarter was skewed and couple of the states which came on normalcy faster than the states which have been laggard, there the realizations were better. So in that scenario we had a gross margin of 53%, 54%. However, we have guided that the margin for Radico Khaitan is between 50% and 52% which we aspire to as per our business model and the composition of our premium brands. So the gross margin will remain in that range. There has been price increase in one of the states also and some cost rationalization.

Second question is regarding the ENA prices. The ENA prices are already higher than the prevalent ethanol prices, and we are also hearing from media that there can be some moderate increase in the ethanol prices. We do not foresee that will have much impact because 1) the crop is good, 2) because of the monsoon both in Maharashtra and rest of India and UP, the sugarcane crop is very good, 3) the grain crop is good, so the availability of ENA will be high and we see a benign scenario as MD has said in his opening remarks. So I think the ethanol price increase will not have any material impact on future ENA prices.

- Chirag Lodaya: Sir second question was on selling and distribution expense so if I just remove A&SP from that number then other than A&SP numbers have gone up substantially, Rs. 50 Crores versus Rs. 35 Crores which is almost 200 basis points increase. If you can just help us understand what has led to such sharp increase in selling and distribution expense.
- Dilip Banthiya: This quarter and first half, if you see that our export have also gone up substantially. We had a 70% kind of growth in our export where the outward freight etc. is more and exports is becoming a substantial portion and now is 8% to 9% of our topline on IMFL sales. So this is the reason, otherwise the S&D expenditure as we said is within control and I think 13%, 13.5% of net sales is the normal S&D expenditure which we are targeting.
- Chirag Lodaya: If you normalize our A&SP expenditure in coming months and if this S&D run rate would be similar, then there will be almost a 150, 200 basis points negative impact on our margins going ahead so how one should look at it? Is there any one off sitting in this quarter or this is a new normal run rate now we will have?
- Dilip Banthiya: No. I think we are working more on our operating margin, which has improved by 180 basis points in this quarter also. So the point is as we have been guiding and we are trying that we take it to late teens in the next two to three years. So our strategy is that if there is an expenditure there is a corresponding better realization also.
- Moderator: Thank you very much. Next participant is Vishal Biraia from Aviva Insurance. Please go ahead.
- Vishal Biraia: Congratulations on a good set of number. Could you elaborate a bit more on the market share gains and the sales that you would have seen?
- Abhishek Khaitan: Overall we have gained market share everywhere, in practically all the states, but as I said in my opening remark that specifically Uttar Pradesh, Telangana, Uttaranchal, Karnataka, these are the markets where the sales have become normal or there is a growth in sales compared to the pre-COVID levels and in these states our market share has been much higher compared to the other states, that is why the in spite of the market de-growing by about 9%, Radico has posted a 4.6% increase in volumes.
- Vishal Biraia: You expect this market share gain trend to continue? On Karnataka could you elaborate a bit more as to what would be the extent of market share gain some point would you be able to quantify it?
- Abhishek Khaitan: See Karnataka is a large market and our market share gain there has been about 1% and compared to the last year we have grown more than about 25% in volumes.
- Vishal Biraia: On the receivable side how is the scenario when we talk to states are they comfortably paying you because I mean on a year-on-year basis there is a small dip but I mean so from March there is a small dip but I mean some views over here?
- Dilip Banthiya: Yes, the receivable position is quite comfortable as you know this is not a concern area for the company as we are giving these credit to, first of all the state corporation and secondly, we already have our internal checks and balances that how much credit is for each state. You are seeing that from March 31, 2020, we have collected these

receivables there are no overdue receivable. However, there are couple of state in South which are little slow in their payment and I think with passage of time and whatever is being done between center and state this will normalize. Secondly, I say that this is a product where the state gets the highest revenue and when they pay us then only they get these volumes. So they are also aware about it, they are taking care and the receivables, though sometime time there is a delay, but are coming. There is no risk.

Vishal Biraia: The last question on Andhra Pradesh what was the market growth over there and what was your growth?

Amar Sinha: As far as Andhra Pradesh is concerned, because of the exceedingly high tax rates that they had imposed post COVID, the market has suffered but in the recent times, in the last three months, they have been progressing and the market is recovering. They have now reached a level of 20 lakh cases which had gone down to 12 lakh cases. We are the only organized company right now because of our connect with the ground and the brand equity which is doing well.

Moderator: Next question is from the line of Dhaval Mehta from ASK Investments. Please go ahead.

Dhaval Mehta: Congratulations team for a decent set of numbers in a challenging environment. My first question is so you told UP, Telangana, Karnataka the key states which are now back to pre-COVID levels or seeing even growth compared to last year. So which are the key states are still let us say seeing tepid growth or a much lower than the pre-COVID levels can you just highlight that?

Abhishek Khaitan: See the states which have de-grown are Rajasthan, Andhra Pradesh, Kerala, Assam, Odisha, Maharashtra, and Pondicherry.

Dhaval Mehta: Out of this Rajasthan, AP and Maharashtra they are actually a sizable states, so what will be the extent of degrowth in such states there is a ballpark number will be fine Sir?

Abhishek Khaitan: See Maharashtra has degrown by about close to 6.5%.

Dhaval Mehta: Just for the industry or for you Sir.

Abhishek Khaitan: For the industry.

Dhaval Mehta: And how about Rajasthan.

Abhishek Khaitan: Rajasthan has degrown by 20%.

Dhaval Mehta: Sir my second question is with respect to online delivery so now we are few months there are many states started online delivery so I understand that our presence in that states are relatively low but how the online delivery is tracking and any progress on the same so if you can just highlight on the online delivery sales?

Amar Sinha: Let me tell you some states have started the online delivery mechanism but still it is at a nascent stage. People are still trying to cope up with the challenges of delivery so it has really not had a great impact on sales for the industry as such. But in the times

ahead it will have a good impact on the industry because of the convenience of ordering. Right now the effect is actually negligible in terms of sales.

Dhaval Mehta: Sir my last question is pertaining to the states which are still seeing a decline compared to pre-COVID levels so is it because those states had a sizable on premise revenue that is why they are seeing a decline or that there is something more to those states can you just help me with that Sir?

Abhishek Khaitan: Certain states like Maharashtra still is not fully operational. It is now getting operational so the decline is basically because of that. If you see on trade as a percentage of total all India sales would be accounting only about less than about 7%, so it is not that sizable amount. Certain states like Andhra where they had increased the excise duty drastically, there it showed a decline of 50% but they have rectified that and the industry is coming back to normal now. So I think it is a matter of time and we expect that by the fourth quarter industry should be flat and next year onwards the industry should be on a growth curve.

Moderator: Thank you very much. Next participant is Harit Kapoor from Investec. Please go ahead.

Harit Kapoor: I have one question on the IMFL revenue growth which was at 6%. If you could just help us understand what this would have been excluding the export growth because exports were very strong for you. So I just wanted to get a sense of our domestic IMFL value growth would have been for you, would it have been close to like flattish or early single digit?

Dilip Banthiya: It will be flattish Harit, actually on value wise it will be flattish to 1% to 1.5%.

Harit Kapoor: My second question was on the price increase part so you spoke about the Telangana increase which happened. Anything else to talk about on the price increase side that we have seen over the last quarter or so even last three, four months apart from Telangana?

Abhishek Khaitan: See what we foresee because of this COVID and the kind of stress what the people have, so may be one or two states with the south are considering a price increase but major price increase will come next year what we see.

Harit Kapoor: Got it. I will come back for more questions. Thanks.

Moderator: Thank you very much. Next question is from the line of Naveen Trivedi from HDFC Securities. Please go ahead.

Naveen Trivedi: Good afternoon. Congratulations to the team for strong numbers. My question is that domestic value as you mentioned about 1% kind of growth in the same quarter, what is the volume growth?

Abhishek Khaitan: The volume growth I think for the domestic market it is flattish.

Naveen Trivedi: My question is the domestic volume was flat in the second quarter but how has been the trajectory between July, August and September?

- Abhishek Khaitan: The trajectory has been on a increasing curve and we are seeing that month on month the volumes are increasing and normalcy is returning.
- Naveen Trivedi: Can you quantify the growth rate for the September number where sort of a better trajectory in terms of numbers?
- Dilip Banthiya: So September of course as MD has said that the July maybe better improvement in August and then in September so I think it is on increasing curve.
- Naveen Trivedi: Also wanted to know about the non-IMFL strong growth impact on gross margin side and if you could also share that our gross margin in the non-IFML portfolio?
- Dilip Banthiya: As we are aware that we are present in only one state for non IMFL which is country liquor and basically we have to supply whatever order are put in on the portal and that we are supplying but our focus area is IMFL. The supply of non IMFL is not at the cost of the IMFL. So, first of all as a matter of our policy we do not loose even a single case of IMFL sales on account of any non IMFL sales increase.
- As far as the second point about your margin, these are actually controlled pricing mechanism so the margins are very, very thin in that area. It is in a high single digit kind of margin and the expenditure also is very low on that because it is a kind of commodity but however since our brand value is there for long time so our sales are happening and we get orders.
- Moderator: Thank you very much. Next question is from the line of Shirish Pardeshi from Centrum. Please go ahead.
- Shirish Pardeshi: Congratulations for good set of numbers. I have few questions first is you have launched this Rampur Asāva. So could you help us to understand what is the growth or some numbers you would expect three years from now and is that really a good time to look at premium segment at this time of course this is more of an export point of view, but from the domestic point of view could you elaborate some sense how we should look at this product in next two, three years?
- Sanjeev Banga: Well, in any case we have ramped up our malt distillation capacity couple of years ago so there is a huge quantity of malts that is maturing and ageing at Rampur distillery and the response to all the expressions of Rampur have been extremely positive and to take the Atmanirbhar campaign of the Prime Minister forward, we are soon going to be launching Rampur expressions within the domestic market as well. The volumes it is slow burn but we have adequate allocation and malt to cater to the international as well as domestic market.
- Shirish Pardeshi: Could you give us some sense what would be the volume you would expect in three years from now?
- Sanjeev Banga: Well we would love to share the numbers but unfortunately we do not share the numbers on malt but the ageing malt is adequate enough to cater to the growing response and the demand for Rampur.
- Shirish Pardeshi: One follow-up here I have seen that you always try and launch the products in Delhi. Is that the correct understanding that Delhi is a very super premium market or



probably the understanding which Delhi market will give you will get expanded across the country?

**Sanjeev Banga:** You see our initial focus has always been the international markets and the travel retail which includes the Indian travel retail outlets as well and then we did launch Rampur Select in the Delhi market. Whatever allocation we had made for the Delhi market actually got sold off in three months. So before we could expand to the other markets in India we actually did not have any allocation left for India. Yes, the new exaction then also be launched in Delhi but apart from that it will also be launched in most of the metro towns.

**Shirish Pardeshi:** My second question is on CSD business. Could you give us some sense that we have been hearing there is lot of discussions in terms of skewness, volatility in the CSD sales. If things can improve from here in the second half and what kind of growth or number we would expect?

**Amar Sinha:** The CSD business has maintained a lot of restrictions more than the civil market in terms of social distancing and they have kept most of their retail outlets under partly open structure and partly closed. So far they have maintained adequate precautions in the defense business. Right now we are now levelling up with the civil market. They are opening up outlets more and more by the month and we hope that in the fourth quarter they should also be at a normal pace of business like the domestic the civil domestic market.

**Shirish Pardeshi:** Would you be able to share first half decline on CSD business and maybe I guess we have about 7%, 8% contribution which is to come in the past?

**Dilip Banthiya:** This quarter also the CSD industry has been down by around 15% to 17%.

**Shirish Pardeshi:** This is in volume term, Sir.

**Dilip Banthiya:** Yes, volume term.

**Shirish Pardeshi:** Thank you I will come back to the queue again. Thank you.

**Moderator:** Thank you very much. Next question is from Ambar Taneja from Vachi India. Please go ahead.

**Ambar Taneja:** Just a quick question on exports I think you have mentioned that it is about 8%, 9% of turnover on exports I think last quarter you have mentioned it 7%. I am just wondering what is the margin profile when you go into exports, would it be higher than domestic?

**Dilip Banthiya:** See we have export is 80, 85 countries from Rampur Indian Single Malt to Jaisalmer to the Magic and Morpheus and few brands like 8PM etc.. Now the margin in exports is much better than the domestic margin. It depends on market to market but in general most of the markets has better margin as compared to the domestic margins.

**Ambar Taneja:** Any plan on there you see exports of certain sales say in three years is there a thrust to make it a larger of the business?

- Sanjeev Banga: Definitely. In fact, export is a bit of a slow burn and over the years we have spent a lot in building the distribution infrastructure in various markets, brand building activity, pushing the brands into the market, creating a consumer demand which is now showing results and even though we are in 85 plus countries that they are still not come to where we are not there we are planning to expand into newer markets as well as strengthen the existing markets where we are. Also with the launch of more premium super premium products, our footprint into the developed markets is increasing, our presence in the global travel retail is increasing so we see the growth in exports to continue.
- Ambar Taneja: Thank you.
- Moderator: Thank you. Next question is from the line of Vijay Ramchandani from Pragya Equities. Please go ahead.
- Vijay Ramchandani: Actually I have a question on receivables. You mentioned that the receivables are not a concern for us but it is still pretty significant in terms of the size of Rs. 750 Crores so can you throw some light as in by when do we expect this to come back to normalcy or do we expect this to be the run rate going forward?
- Dilip Banthiya: First of all, if you see our trajectory of the working capital cycle over the last three and a half years, we have reduced working capital cycle from 61 days to 36 days on net working capital basis. As far as the credit policy of the company we are conscious we are having a system whereby the credit limits are being monitored and checked. So the outstanding increase, as you know that this industry is a working capital intensive industry. While the goods are being dispatched from the plant the excise duty is being paid which has a high incidence and the collection of excise duty along with the debtor happens. So part of increase is because of that and if you see that our receivable are in line with the industry norms and that is somewhere better also so we are monitoring it continuously. There is no issue and concern because these are to the state corporation most of that is on the state corporation.
- Vijay Ramchandani: Just a follow up on this you also mentioned that there are few states wherein we are receiving slow payments if you can just tell us which states which are those states and also if there is any more than six month's receivables pending in our balance sheet?
- Dilip Banthiya: So first of all there is no more than six months as far as the state corporations are concerned. There is couple of states which I will not name here but those states actually are having some timing delays and I think in due course of time it will normalise. Because this is a very important subject for them to collect the revenue out of the alcohol sales so it is going to be recovered and you must have observed also that the part of our debt reduction in the H1 from March to September has been berceuse of the better receivable collections. As far as the working capital management is concerned I think in the industry, Radico is one of the best to handle and control the working capital and control the number of days of debtors as well as the net working capital cycle.
- Amar Sinha: So far none of the states have ever defaulted on payments in the last so many years if just a matter of time and receivables are very safe.

- Vijay Ramchandani: Thank you and I have the second question. Since last few quarters we have been able to grow significantly the average industry growth that is very impressive. Can you throw some more clarity what exactly are we going to do different versus the competitors over here to gain the market share and also how long will you expect this trend to continue?
- Abhishek Khaitan: Since the last two years, last two and a half year's data in FY2019 the industry grew by 9% and we grew by 11% and in FY2020 the industry was flat, about 0.4% growth and we grew by 12.5%. Even in the current quarter with the industry degrowth of 9% we are positive 4.6%. It is a hard work we have put behind our brands and we feel especially with now entering in to the whisky segment which has been the major segment which we had not addressed after 8PM. Our newly launched 8PM Premium Black has been accepted very well in the market in the premium range and in fact this year we are confident of achieving a million case in spite of losing the first month or 40 days because of COVID and also the restrictions. I think in the days to come we are very confident with that new launches which are planned plus our existing brands we should continue to outperform the industry.
- Vijay Ramchandani: Just a follow up here the growth will be spread across all the states we are present in or just few couple of states wherein we are seeing this size of growth.
- Abhishek Khaitan: No, the growth is all across in few states it will be more but overall it is pan India.
- Vijay Ramchandani: Thank you so much.
- Moderator: Thank you very much. Next participant is Mayur Gathani from OHM Portfolio. Please go ahead.
- Mayur Gathani: Thank you for the opportunity. I just wanted to check the volume growth in domestic was flat? Is it what you said or from exports?
- Dilip Banthiya: What we said is it is between 1% and 1.5% as far as domestic growth is concerned but the overall growth is 4.6%.
- Mayur Gathani: Thank you Sir and all the best.
- Moderator: Thank you very much. Next question is from the line of Amit Sinha from HDFC Mutual Fund. Please go ahead.
- Amit Sinha: Thank you for the opportunity. I have two questions, firstly on your capital allocation policy overall, last quarter in the concall you had highlighted that going forward the management will think about buyback or dividend distribution once the debt position is in comfortable scenario all together. So what is the thought process as of now on the capital allocation going forward?
- Abhishek Khaitan: In our last concall, we had said that our first aim is that will be a 0 debt company. Once we achieve that, we will see what is beneficial for the shareholders either increase the dividend or buyback of shares whichever is better for the investors, we will do that. If you see in the current year also our dividend we are increased to 100% and I think our dividend payout is about 11%, is also higher.

Dilip Banthiya: We made the higher dividend payout and as MD said just now that as debt is going to be over in one year or so then the payout of dividend as well as the share buyback will be the option for capital allocation.

Amit Sinha: Secondly this quarter your performance in the domestic market looks extremely good. In fact the difference between you and some of the leading players is significant this quarter. Do you think that this performance is on the back of you being over indexed just wanted to understand that is it more because of the states and on trade mix compared to your own strategy of doing well in the whisky market specifically for this quarter and a related question is again what is the confidence of your portfolio growing significantly ahead of the market going forward as well?

Amar Sinha: First of all, the growth actually is largely coming from the premium portfolio of Radico. The target profile of the premium portfolio is largely youngster so what we are really doing is investing on the brands, more so in terms of innovative marketing and communication on the social and digital platform. Two, most of these brands are focusing on the contemporary tools like music for example and we have tied up with some of the big music festivals of the world which we are continuing to focus on. We are deeply entrenched into Bollywood which we continue to focus on.

Our key brands like Morpheus or Magic Moments are adding to the range. They will continue to add more flavors new variants and therefore the brand equity being so strong this portfolio will continue to derive advantage. 8PM Premium Black has had the opportunity of growing in more states where it has been launched. The brand ambassador Tiger Shroff is a favorite amongst the youth. He is also working favorably for the brand. So I think in totality if you see the young demographic profile has favorably accepted all the communication and the brand portfolio as such so this trend will continue in future and it will become stronger.

Amit Sinha: Thanks for the answer. Lastly, what is your contribution from on-trade in the IMFL segment on to that?

Abhishek Khaitan: It would be about in the range of about 5% to 6%. Anyway we cannot monitor it so directly because, we supply to the wholesaler so it will be in the range of about 5% to 6%.

Amit Sinha: Thank you.

Moderator: Thank you very much. Next question is from the line of Madhu Kela from MK Ventures. Please go ahead.

Madhu Kela: This is Madhu here. Abhishek and the team congratulations on a really good set of number consistently over the last two years. I had a more strategic question as the company seeing strong free cash flows and the debt position as Mr. Banthiya mentioned will get over so what will be the utilization of cash, if you end up generating less over 1000 Crores of free cash over the next three, four years how are you planning to do the capital allocation. Whether buyback or will you be open to do more acquisition will there be more capex will you go international if you can talk little elaborately on this.

Abhishek Khaitan: Right now what our focus is once we become debt free and the cash definitely is going to hit the balance sheet, so doing an acquisition overseas etc., we are not looking at it at all and even if you see in the domestic market hardly there are any companies which are premium brands which are available for acquisition. Radico's strength has been there to create brands organically. We would be the only companies which are created about 13 brands in the last two decades all organically. I think once we achieve this kind of cash I think most probably it will be either a buyback or higher dividend or it will be a combination of both the things.

Madhu Kela: Abhishek can you also talk that we have undisputedly the leader on the vodka segment and we have had a good success on 8PM Black are there plans to launch new variants of whisky over the next one two years to capture the slightly premium market in India?

Abhishek Khaitan: See if you see that in the vodka, we would be the only company I think in the world where our vodka commands a 60% market share in the total vodka category. We started our journey with 8PM which touched a million case in 1998 when I first launched it and last year we as a bouquet of 8PM we have crossed 10 million cases and our premium whisky 8PM Premium Black also is supposed to cross 1 million cases and this is the segment where we were weak. We have already lined up and about 3 to 4 brands in the whisky range in the next one to two years and all will be in the premium and super premium range. In fact, we will define the price category and we also now have the experience with Rampur where a Indian company has launched a brand at Rs.1 lakh a bottle. So even after gaining that experience I think Radico is all set to enter the whisky space.

Madhu Kela: Fantastic Abhishek. Wishing the whole team and do lots of success as you did for vodka segment and I am sure the company will end up creating lot of favor than value in times to come. All the very best. Thank you.

Moderator: Thank you very much. Next question is from the line of Neeraj Prakash from Nepean Capital. Please go ahead.

Neeraj Prakash: I just had a couple of bookkeeping questions. One is your other expenses have gone up significantly quarter-on-quarter and year-on-year if you can just explain that and secondly from this your tax rate is there a particular reason for the volatility on a quarter-on-quarter on a year-on-year basis?

Dilip Banthiya: To your first question the other expenditure has gone up because Uttar Pradesh has put up a policy. It is a very pragmatic policy of track and trace, there they levied certain amount on each case which is part of our costs so that is the reason that this was not there last year and it has started coming in from this fiscal. To your second question regarding tax rate so the tax rate is 25.2%; however, because of some provisioning earlier we had a reconciliation and everything done where this was the extra provisioning done in the previous quarters so that has been written back otherwise the tax rate for company will continue to be because we have adopted the new policy rate which is 25% without any deductions.

Neeraj Prakash: Thanks a lot.

- Moderator: Thank you very much. Next question is from the line of Jay Modi from Emkay Investment Managers. Please go ahead.
- Jay Modi: I just had one question on the cash flow so although you have debt reduction and it reflects on our balance sheet but why cannot we see that in our cash flows where we look at where we adding of cash flow from financing activity.
- Dilip Banthiya: I could not follow you question what would be that. I am not able to understand your question?
- Jay Modi: My question is that when we look at cash flow from financing activities in that net loans repayment or taken, there is an amount of 20 Crores of loan taken and also on balance sheet paid up an amount of 129 Crores of debt so what is the mismatch in the cash flow?
- Dilip Banthiya: There cannot be a mismatch in the cash flow because cash flow is always tallied and that shows that Rs. 129 Crores of debt has been paid in the first half. You have to see the cash flow statement along with the statement of reconciliation of cash & cash equivalents. In the reconciliation statement, you will see the cash credit, which is part of working capital borrowings, has come down by Rs. 108 Crore. Bank balance has gone up by about 40 Crore. So total of 148-150 Crore net debt reduction. This is offset by loan taken of 19 Crore. So net debt reduction of 129-130 Crore
- Jay Modi: Thanks Sir.
- Moderator: Thank you very much. Next question is from the line of Subham Sinha from Equirus Capital. Please go ahead.
- Subham Sinha: Now the festive season has started so how is the demand shaping up compared to last year?
- Abhishek Khaitan: As we said that month-on-month the demand is increasing and what we expect that by the fourth quarter, the industry should return back to normalcy. Now I think November onwards the season starts so we expect it to be better month on month.
- Subham Sinha: My question on CSD is already partly answered. I just want to know what is the current revenue percentage coming from CSD out of from the total?
- Dilip Banthiya: Our topline, it is around 9% to 10%.
- Subham Sinha: On the recent ban on import of foreign scotch, do you see any improvement happening here?
- Abhishek Khaitan: I think it is a great opportunity as our Prime Minister is always emphasized on Make in India. So I think there is a huge opportunity for the Indian brands to come and fill in the gap like especially like the Rampur Single Malt and Jaisalmer Gin, so I think it is a great opportunity for the Indian brands to fill that gap.
- Moderator: Thank you very much. Ladies and gentlemen due to time constraint we will take the last question from the line of Sonia Vernekar from Equentis Wealth. Please go ahead.

Sonia Vernekar: Thank you for the opportunity. Most of my questions are answered. I just want to have some data related by our counters one is what is the P&A mix in our IMFL sales for this quarter what percentage and second is the exports volume growth in this quarter?

Dilip Banthiya: The P&A in our total IMFL is around 28.5% and value wise it is around 49%. This quarter export growth is more than 65%-70% on YoY basis.

Sonia Vernekar: Thank you Sir.

Moderator: Thank you very much. Ladies and gentlemen that was the last question for today I will now hand the conference over to the management for closing remarks.

Mukesh Agrawal: Thanks everybody for joining us on this call today. As Radico has always emphasized that our focus area is premiumising the portfolio, continuously uptrending and we will continue to do more with our brands which we have launched recently. The company is also investing behind the brands to gain market share, so in years to come we will gain new market share and I think we will continue to do better on the financial front as well as on the business front. I think the good work done by the management for last decade or so will continue to yield results. Thank you.

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

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

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