Radico

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Sub: Transcript of the Earnings Conference call conducted on November 03, 2021

Dear Sir/ Madam,

Pursuant to Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed transcript of the Earnings Conference call for the quarter and half year ended September 30, 2021, conducted on November 03, 2021.

This is for your information and record.

Thanking You,

Yours faithfully,
For Radico Khaitan Limited

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

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Radico Khaitan Limited

(BSE: 532497; NSE: RADICO)

Second Quarter and Half Year FY2021

Earnings Conference Call

November 3, 2021

Management Participants:

Mr. Abhishek Khaitan, Managing Director

Mr. Dilip Banthiya, Chief Financial Officer

Mr. Sanjeev Banga, President – International Business

Presentation:

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2022 Results Conference 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 at the end of today's presentation. 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 Financial Services. 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 Steven. Good afternoon everyone. It is a pleasure to host the management of Radico Khaitan for their Q2 FY2022 earnings call. From the management we have with us today Mr. Abhishek Khaitan, Managing Director, Mr. Dilip Banthiya, CFO, and Mr. Sanjeev Banga, President (International Business). I will now hand over the call to the management for their opening remarks. Over to you Sir!

Abhishek Khaitan: Good afternoon ladies and gentlemen. First of all, wishing you all a very, very happy Diwali. Thank you for joining us on our second quarter FY2022 results conference call. I hope you are doing well and keeping safe.

Market conditions have normalized during Q2 FY2022 and we saw a strong growth momentum led by our prestige and above category brands which have grown by 18% over same quarter of last year. The growth was broad based across the portfolio and across states. Demand for premium brand is relatively less impacted by the slowdown due to COVID-19. Consumers are looking to have quality experience at home when the social gatherings and going out is reduced.

Our longstanding strategy of focusing on value driven growth is working well. It is clearly reflected in our Q2 FY2022 volume growth and is also indicative of the increasing premiumization trend. It is important to note that this performance is over a relatively strong base of last year when Q2 was more or less normal. During the quarter, our export business has been impacted due to global freight scenario and non-availability of containers. Our domestic volumes have remained very strong.

Building upon the growth momentum in the industry and the premiumization trend, we have unveiled two of our most awaited brands, that is, Royal

Ranthambore Heritage Collection-Royal Crafted Whisky and two variants of Magic Moments Dazzle Vodka. We have been working on these brands for over two years and the launch was delayed due to COVID.

Both these brands have been developed after a comprehensive consumer research on the blend, packaging as well as positioning. These brands will create a unique positioning for themselves in a similar fashion as many of our previous premium launches.

We believe that Royal Ranthambore is the finest blend ever created in India at this premium positioning where no other Indian company have ever launched its brand. It is a unique whisky with six blended Malt Scotches, one Scotch Grain from Malted Barley and Oak Infused Grain Neutral Spirit, reserved for a specific time to assimilate the blend.

Dazzle is aimed at capturing the global trend of the premium natural, flavoured vodkas. It undergoes seven-stage filtration process and is available in two variants, gold and silver. Gold is an ultra-premium vodka whereas silver is creamy vanilla flavored which is first of its kind in India.

As of now these brands have been launched in UP and Maharashtra. In the second half of FY2022 it will be made available in other key states such as Karnataka, Telangana, Rajasthan, Delhi, Goa and Haryana. Next year we will roll these out on PAN India basis. At the moment we are focused on seeding the brands. Our focus is on placing these brands in class A and B outlets in select cities and creating visibility with consumers.

We are very proud of both these launches and the initial market feedback is also very encouraging. It gives us more confidence that we are making right progress in developing a stronger premium brand portfolio which will create Radio Khaitan a future ready organization.

During the quarter we expanded our distribution for Jaisalmer gin and now it is available across 10 states. After Delhi, Goa, Telangana, Karnataka, Maharashtra, it is now also available in UP Haryana, Rajasthan, Uttarakhand and Daman.

Over the last two quarters we have seen a steep inflationary trend across industry and our sector is no exception. We have seen a sharp increase in some of the key input materials which has impacted our profitability margin particularly in the non-IMFL segment. We strongly believe that this is a temporary phenomenon and given our focus on premiumization, margins trajectory shall improve. During this period Radico Khaitan is focused on sustainable premium volume growth which will drive profitability in the long run.

As a company we have taken environmental stewardship and supporting the planet in big and small ways. For example, in our Rampur distillery nearly 70% of the power consumed is from renewable energy sources and around 47% of the renewable power was through biogas generated through waste produced during the alcohol manufacturing process.

We have been ramping up our usage of recycle bottles for certain large brands which stands at 14% in FY2021 as compared to 4.5% in FY2019. Other initiatives include water recharging and water harvesting around our factory, educating farmers around water conservation. Currently we are able to recharge 300% of total water we draw from the ground giving back more to the ecosystem.

We have also undertaken a large water conservation project along with the government and the Art of Living foundation. Our project will benefit over 40% of total population of Rampur District of 2.3 million.

We believe in creating value and sustainable growth keeping in mind our commitment to environmental and society.

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. Wish you all a very happy and prosperous Diwali.

During the second quarter, we reported IMFL sales volume of 6.47 million cases representing an increase of 7.1% on Y-o-Y basis. This volume growth was led by prestige and above category volume growth of 17.7%. In value terms P&A category registered a 22.1% growth. P&A category accounts for 30.8% of total IMFL volume as compared to 28.0% in Q2 of FY2021. We have continued a similar momentum in Q3 so far.

Net revenue from operations during Q2 of FY2022 was Rs. 709 Crores representing an increase of 12.5% compared to Q2 FY2021. During this period, IMFL sales value increased by 13.5%. As a percentage of total revenue, IMFL sales accounts for 80.2% of the net revenue compared to 79.5% during the same quarter last year.

Gross margin during the quarter was 46%. This was impacted due to commodity inflation, particularly in non-IMFL segment. Over the last six months, we have seen prices of PET resin and other packing material go up significantly. Despite a significant increase in the prices of packing materials, gross margin for IMFL business remained stable owing to a favorable product mix. While there is an inflationary pressure on most of the commodities, ENA price has remained stable. Due to an efficient supply chain, the Company has been able to manage the impact of the inflation to a minimum. The Company is taking all efforts to optimize cost and to mitigate any margin headwinds. Over the long-term, we expect to continue our margin expansion trajectory given our portfolio premiumization.

Employee benefit expenses increased by 25.2% on Y-o-Y basis to Rs. 37.89 Crores on a lower base of last year. In FY2021 there were no salary hikes and variable pay due to the COVID-19 related uncertainties. Q2 FY2022 includes the full impact of variable pay as well as the salary increments.

The Company's strategy is to continue to make judicious marketing environment over existing core brands and new launches to sustain the growth and market share. On a quarterly basis, the amount may vary but we expect to maintain A&SP to be in the range of 7% of our IMFL revenue to be able to drive the sales momentum. In the P&A category we expect this to be in double digit.

Finance cost decreased by 43.8% on Y-o-Y basis from Rs. 5.44 Crores to Rs. 3.06 Crores during Q2 FY2022. The Company's cost of borrowing is one of the lowest in the industry due to a lower interest environment, stable profitability, strong capital structure and improved liquidity position. We have an efficient working capital management and a very strong credit control system.

During the first half of this year, we reduced our net debt by Rs. 79 Crores. As on September 30, 2021, net debt stands at Rs. 119 Crores compared to Rs. 198 Crores as of March 31, 2021. We have a strong financial position and comfortable liquidity. During these times, we are taking all necessary steps to sustain our financial strength, maintain robust business model and grow consistently, competitively and profitably.

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

Question & Answers Session:

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

Abneesh Roy: Thanks and congrats on very good recovery and numbers. My first question is on the gross margin pressure. If I see your numbers and the other peers in that space on a one year and two year basis, your gross margin pressure is on the higher side and you did explain because of the non IMFL and maybe because your P&A is also lower as a percentage. So want to understand going ahead both glasses and ENA, how do you see inflation? In terms of price hikes how are you taking on your own also by premiumizing and from the state government are you getting any kind of a comfort on that?

Dilip Banthiya: Abneesh as we explained in our opening remark that the gross margin has largely been impacted on account of the inflationary pressure on some of the dry goods in the non-IMFL segment. The impact of this on the gross margin is in the range of around 225 basis points to 250 basis points. However, in case of IMFL segment because of our product mix and premiumization as P&A category has grown again by 18%, we have been more or less able to mitigate this dry goods inflation to an extent and the gross margin in that segment has remained more or less stable.

As far as your second question regarding the premiumization, so the company's premiumization continues and we believe that we will continue to grow our premium portfolio in strong double digits continuous basis. In H2 as the commodity price that looks to be continued to be hovering around at these levels, we maintain our guidance of the gross margin to be range-bound. However, from the next year onwards as the product premiumization is happening and we will also get price increases, because a lot of representation is being made to the states for compensating for the input cost increase which is coming in various commodities. So hopefully in the next excise policy when it is unfolded in February and March, we are also going to get the price increases commensurate with our cost push. The product premiumization and price increase will put us back on our margin expansion trajectory this is what we believe. As we have guided that we will continue to improve on our operating margins and we still maintain that in two to three years' time we should be back with a late teens margin with the new product launches as well as strong P&A growth.

Abneesh Roy: My second question is on your two super premium brands launch. So my questions are do you see the advertising and promotion spend inching up for you next two, three years and second with market leader also under the new MD calling out the strategy refresh and getting more aggressive in general, they are targeting double digit sales growth also Pernod is also quite aggressive how do you see advertising spends for you and for the industry and second if you could discuss for these two super premium brands what is the revenue potential from an industry level, so what is the ticket size either in terms of targeting how big is the opportunity currently?

Abhishek Khaitan: To answer your first question about the advertisement spend, we have always maintained ad spend between 7% to 8% of the total IMFL revenue and I think with the two new brands also our advertisement spend should be in the same range and the second part of your question is this industry today is 3 million cases. It is a highly contributing segment and it is growing at about 10% per annum. We feel that our product it is a finest ever Indian Whisky made at this price point. It is going to be priced at about Rs. 1700 to Rs. 2500 a bottle and we have targeted two states, we are going to add another six states in the second half and next year we are taking it national. Hopefully like other launches like Rampur, Jaisalmer and 8 PM Black, which we launched about two years back and we get 1 million case last year and this year will be close to 2 million. I am quite hopeful that this product should do well.

Abneesh Roy: My last question, so you have done this premium vodka launch. My question is on your current business of white spirits I see the market leader also calling out that they want to get aggressive here so if you could talk about that do you see your market share coming of there because of the market leader's aggression?

Abhishek Khaitan: See our market share in the vodka segment is growing day-by-day and today we are close to 58% to 60% of the entire Vodka sold in India and with these two new launches we are covering the entire spectrum on the white spirit especially the Vodka segment and we are very confident that with the Dazzle especially the vanilla flavor and this Gold and seventh stage filtration we will be able to maintain if not escalate the market share.

Dilip Banthiya: Going forward actually with the entry of new brands I think it will make more noises for the white spirits and the market itself will get expanded. We have a large market and we have a very miniscule consumption of the white spirits. The white spirits consumption as an overall category is around 3.5% to 4% even if doubles in next five years it will have the advantage to Radico being the market leader.

Abhishek Khaitan: Like globally vodka segment is close to about 28% to 30% whereas here it is 3.5% so with more players coming, the market will expand which will be a very good sign for Radico.

Abneesh Roy: Sure got it. That was very helpful that is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Aditya Gupta from Goldman Sachs. Please go ahead.

Aditya Gupta: Couple of questions. First on the new launches it is different strategy from a branding perspective as the whisky segment you have launched a new brand and in the vodka segment you have launched a new brand and 8 PM being extended in the higher price segment also.

Dilip Banthiya: Aditya if you could repeat the last part because we have understood till the Dazzle and the Ranthambore but the voice clarity is not that clear if you could repeat we can answer it better.

Aditya Gupta: So I was asking is there a risk based on your consumer studies that consumer is anchored to a certain price point when it comes to Magic Moments versus introducing a new brand what consumer insight led you to introduce in the same brand?

Abhishek Khaitan: See even if you see Magic Moment like Magic Moment we launched our Verve and we have already captured about 15% to 20% of that segment and Dazzle is absolutely a different set all together like if you see the packaging it is wonderful, the blend is superb. So I think the elasticity is there like even if you see any competitions where they have gone up the ladder so we personally feel that the price elasticity should be there for the Vodka.

Sanjeev Banga: You see in many case what happens is in any category with more and more affluence coming in the consumers the loyal consumers were always looking at upgrades and what additional can be offered, so as far as our loyal magic customers are concerned, we first offered them Verve and now it is Dazzle which is completely a very super premium offering to them also will attract the other consumers who were so far consuming imported Vodkas because there was nothing available on the domestic market. So we are very positive on the consumer acceptance for Dazzle.

Aditya Gupta: Any benefit that could come out by improving the rebottling and where do you see this number and how much of the margin benefit can there be if at all any?

Sanjeev Banga: These are early days in any case and as we mentioned in our opening remarks we have just seeding the brands at the moment and next year is when we will roll them out PAN India so we are very hopeful to start contributing substantially to our margins as well.

Aditya Gupta: Sorry, my question was on the reusage of 14% now?

Dilip Banthiya: Yes so in certain brands we are taking in state-to-state basis and we are actually in these brands which are medium in level so there is a large consumption of the glass bottles and there we have started using so it has come from 4.5%, 5% to now 14% and I think regularly it will ramp up I think 20%, 25% is the range which if it is achieved in due course of time and it is an optimum level we reutilize these large bottle so there is still scope and it will definitely also improve on our margin but it is a twin purpose one is to look at this from the perspective of the recycling of the waste and second is from improvement in our gross margin as well. So yes there is a scope and we are constantly working on that.

Aditya Gupta: Got it, perfectly clear, thank you and wishing happy Diwali to all of you.

Moderator: Thank you. The next question is from the line of Harit Kapoor from Investec. Please go ahead.

Harit Kapoor: Good afternoon and congrats on a good set of numbers especially in the P&A side. The first question is slightly more two, three years base so if you look at the last three, four years the realizations for the IMFL segment are up almost 7% annually and the P&A realizations are up even a little bit more. I just wanted to understand given that all the launches which we were doing are materially higher than your current realizations in P&A and P&A itself is growing at a materially faster pace in regular do you see this 7% kind of price mix growth, is there a possibility that this number can materially increase over the next two, three years?

Dilip Banthoya: Yes, so actually a couple of reasons one is the product mix as you are saying is continuously improving and now it is 31% of my total overall volume. These launches which have been done are at a luxury category which are very, very high in price point, the gross margin in these categories are also very good and much better than the existing brand portfolio. So it will also definitely expand the volume-value differential and I think in future as these brands which are even Magic Moments, Morpheus, Morpheus Blue, Jaisalmer, Rampur Indian Single Malt then these two launches and that is what we are guiding for that we are going to expand our gross margin as well as EBITDA margin and we will take it to the late teens in two, three years' time.

Harit Kapoor: Second question was in the next 6 to 12 months. We have a slightly low on trade mix say compared to some of the other players. I just wanted to know if you look at this as a concern because on trade is opening up in a bigger way, growth compared to peers to that extent may not look comparatively that much better or do you look at it as an opportunity because some of these premium brands in this period will be on trade and you can get a higher growth. So just wanted to get your sense on how are you looking at this on on premise opportunity now?

Sanjeev Banga: Our on trade, especially the segment A category was very limited so far but with Rampur, Jaisalmer and now Royal Ranthambore and Dazzle that becomes a great opportunity for us. We already have premium players and we have already started with Jaisalmer, so Ranthambore and Dazzle should be a relatively easy entry into the on trade and the A category one, all the five star hotels as well. So overall from our marketing mix or sales mix on trade is becoming more and more critical for Radico which was not so far it was more the B and the C class outlets. Now A and A+ becomes very significant for us and obviously we do expect a lot of movement into those outlets.

Harit Kapoor: Sir just a follow-up and this will lead out to your on trade mix of 4-5% or whatever number it is which used to be historically be the mix on trade versus off trade, could that number kind of look more like double digit say in two, three years' time? Is there a target how are you thinking about it?

Sanjeev Banga: See in terms of on trade whether it is for us or other peer companies as well has never been a substantial volume driver it is more of an image driver over there and then it gives a rub-off in the other outlets and the off licenses as well. For us the most important thing would be to have visibility and placement of all our luxury and super premium brands in all the relevant outlets. It is a slow burner so whether if today it is 5% whether it will go to 6%, 7%, 8% or 15%, I do not think it will be ramping up at that faster pace but what is important is it will be available in all the significant and key outlets.

Harit Kapoor: You are saying that you have ramped-up the team there as well to kind of drive this because it is historically not within our portfolio now you do right?

Sanjeev Banga: Yes, that is true.

Harit Kapoor: Got it. Okay, that is it from me, thanks, and all the best.

Moderator: Thank you. The next question is from the line of Dhaval Mehta from ASK Investment Managers. Please go ahead.

Dhaval Mehta: My first question is with respect to non-IMFL business so how difficult it is to increase prices in that business and what is our long-term thought process in that business I understand it is not a key focus area for us so what is our thought process behind that?

Abhishek Khaitan: See our non-IMFL business is only in the state of UP which we call as the country liquor business and the prices are fixed once a year and mid of the year it is impossible to change the price but given the present scenario we are quite hopeful that in the coming fiscal we should get a price increase there. In the long term if you see there are certain states there is no country liquor it is all IMFL. I think UP being one of the most progressive states of the country and we feel the government has introduced this grain country liquor and I think gradually it is a matter of time like the southern states the country liquor also might change into IMFL so that is what our long-term vision for this segment is.

Dhaval Mehta: Normally in the state of UP this business happens on a tender basis like we are the only producer.

Abhishek Khaitan: No it is not on a tender basis it is absolutely at the market forces where the brand strength plays a very key important role.

Dhaval Mehta: So it is up to us to defocus on that business or produce lower considering that the way raw material prices are it is up to us to act accordingly right?

Abhishek Khaitan: Yes and no because our largest plant is in Uttar Pradesh so we are obligated to supply the country liquor but our thing is that this country liquor can become the hugest opportunity for Radico because in the long-term what we are seeing but still like the southern states, I repeat, this segment is going to get converted into IMFL.

Dhaval Mehta: My second question is with respect to the Pandora news which we have recently heard, the articles which have been floating, so I understand some old news where we have closed that account almost six, seven years back but my question is what was the motive behind opening an account and second as things stand what is the current juncture is there any inquiry going on or what is the current status?

Abhishek Khaitan: See we have already issued a statement in the press that we do not hold any illegitimate account anywhere in the globe and as and when we get an inquiry from the government our stand is the same.

Dhaval Mehta: So as you stated that there is no such account which was there even earlier?

Abhishek Khaitan: Yes.

Dhaval Mehta: There is no such inquiry right now government has not asked for any details or anything is not pending as of now?

Abhishek Khaitan: No.

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 and firstly many congratulations on your new set of launches, I did try all of them and made some other people who say try it, it is a very fine quality but the icing on the cake was the packaging. I am not seeing that kind of packaging even with $150, $200 product in some cases so my heartiest congratulations to the design team and people who launched this product. Now coming to my queries firstly the new whisky which we have launched, Royal Ranthamabore, you have mentioned I think 3 million volume size what could be the value size of the market for the company in terms of realization and ballpark volume?

Dilip Banthiya: See as far as this market is concerned as we said that this is a market of 3 million cases and the average retail price in this price point is around Rs. 2000 so we can multiply. We envisage as we are seeding the product PAN India next year as we have done in our previous launches and once the product is established and seeded to almost all relevant segments, we are aiming to get a good market share in coming two years. We are very hopeful, we are very confident about the product and the product has come out well, the initial response is very encouraging wherever it has been launched and for the first time as an Indian company we have made the launch at this price point and Radico's strategy historically has been that we go step by step but for this product we are taking it to two states and six more states in this financial year itself it shows the confidence about the product Radico has.

Sonaal Kohli: Thank you. Secondly wanted to understand what was the export growth this quarter on a Y-o-Y basis and on a two-year CAGR basis if we have the data handy?

Sanjeev Banga: See in terms of export as I am sure everyone is aware there has been a huge increase in the freight rates and in some cases about five to six times they have gone up and also availability of containers. So if I was to look at on an H1 basis because quarterly basis can be a little different on an H1 basis we have actually grown our last year by 17%. Our order book is fairly solid and lot of buyers have put on hold their shipments because there is a double impact not only at the freight but the receiver also on CIF basis. So it has put in a lot of pressure on the market but we are pretty hopeful the freight rates and consumer availability will ease up in the coming months and we should be bouncing back. Also for the new launches we have already received the export orders for both for Ranthambore as well as Dazzle they will also be introduced in the international markets within this quarter.

Sonaal Kohli: Is it fair to conclude based on what you said that in the first half year sales would have been majorly higher has it not been for the freights and can one expect that once the freights normalize at some point of time in the next six months you would see a much bigger growth in export?

Sanjeev Banga: Absolutely that we get lot of orders we had to hold back, we could not ship because of the container availability or very high freight rate. So we are very confident once the freight rate stabilizes and availability becomes easier, we will be back on our growth track.

Sonaal Kohli: Due to higher freight prices, if my understanding is correct, has it impacted your overall EBITDA margins or gross margins to some extent?

Sanjeev Banga: You see in certain markets yes we had to do freight sharing with our buyers to ensure our brands are continuously available in the market so it will have a short-term impact on the margins but as we say in about couple of months once things go back to normal we should be bouncing back to our double digit growth.

Sonaal Kohli: Sir secondly I wanted to understand would you have any plans for any further whisky launches over this financial year or next financial year because we thought that you are planning to launch two whiskies based on our prior interaction at some point of time?

Sanjeev Banga: Lot of things are on the drawing board so we have launched one whisky and two variants of luxury Vodka at the moment. There our couple of other things as well on the drawing board so things are moving on the premiumization trajectory on a very strong footing so you will expect some more announcements in the time to come.

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

Kaustubh Pawaskar: Thanks for giving me the opportunity and congrats for a very good volume growth. Sir my question is on the demand environment in various states plus where we have strong presence and whether you have gained any market share in these states?

Abhishek Khaitan: We are seeing a very strong demand coming back not only for the industry but for Radico also and lot of places especially in the P&A we are getting market share in majority of the states where we are present and if you see like UP, Karnataka, Telangana everywhere the demand is now growing up.

Kaustubh Pawaskar: In one of the questions earlier you mentioned that though this year the margins would be lower you are targeting high teen margins over the next two to three years so we should expect your premium P&A segment volumes to reach to around 34% to 35% so that your margins would be somewhere around high teens by FY2024 is it a right understanding?

Abhishek Khaitan: Yes, absolutely right that is what our aim is.

Kaustubh Pawaskar: So P&A volumes would be around 34% to 35% of your overall IMFL volumes?

Abhishek Khaitan: Yes.

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

Pankaj Kumar: Thanks for taking my questions. Congratulations on very good volume growth in the quarter. Sir just more on the margin side as you stated like in the non-IMFL business, the margins got impacted and the price hike that we can see is possibly by the end of the year. So keeping that in our mind can we expect like lower gross margin will continue in the second half as well less than 48% kind of a gross margin in second half as well?

Dilip Banthiya: Our gross margin actually on an optimum level has been between 48% to 50% right but this is an exceptional time and I think next two quarters we have to be in the range bound margin on gross as well as EBITDA margins. Thereafter this because of the product premiumization and price increases which are going to be there from even IMFL and both non-IMFL segment so we expect margin back to be in the expansionary trajectory and as we guided it will be in two to three years' time based on this product premiumization and price increases.

Pankaj Kumar: On the ENA side how is the outlook?

Dilip Banthiya: ENA has been more or less stable till now and we have seen good crop and grain side also we do not foresee much headwind in the ENA side. Minor headwinds can be expected but these can be taken care of with this kind of product profile.

Pankaj Kumar: Sir lastly if I can ask we are very strong in UP, Karnataka and all so just wanted to check like which other geographies where we can ramp up our market share or where we can gain market share in future or we are able to focusing on that?

Dilip Banthiya: We are actually expanding everywhere even in north and south also we are gaining market share for last four years we have been giving data to all investors. We have been continuously growing and outsmarting the industry on volume front and particularly in P&A category. So our growth is broad base in across all geographies. So even in south we are growing and north we are growing, east and west also the growth is happening. So I think it is a broad base it is not single geography.

Moderator: Thank you. The next question is from the line of Vaibhav Shah from ICICI Prudential Life Insurance. Please go ahead.

Vaibhav Shah: First of all, congratulations regarding the good set of operational numbers. My first question is on the capex and our future capital allocation policy so what I want to understand is that the government will come out with policy on the ethanol blending so do we have any plans to increase our backward integration from the existing levels and what about our current capacities that we have specifically for Rampur and Jaisalmer? do we see our capex intensity increasing probably over the next two to three years? In backdrop of that how do we see our current capital allocation policy since we have reduced our debt in the past five years and our working capital requirement has come down significantly, I believe we would be in a position to generate a decent set of free cash flows. So do you have anything in your capital allocation changes which you can probably guide on this?

Dilip Banthiya: As you rightly said we have been very, very conscious on our capital allocation. Last five years, we have repaid debt of around Rs. 830 Crores in total, our current debt level is Rs. 120 Crores with a working capital of more than Rs. 1,000 Crores it is a virtual debt free kind of situation at the same time as a growing company and looking into our product portfolio and the growth in our branded business, we definitely look for this kind of opportunity but any capex which the company takes will be first of all internally funded, mostly at the same time it has to have a value accretive and have to have a 20% plus kind of ROCE so these will be evaluated in due course of time as you rightly said with the ethanol blending program of the government. In the past also we have had our strong backward integration but these at this point of time are not on the card as and when it materializes we will come back to you with full details.

Vaibhav Shah: My second question is as a follow-up to another participant's question our geographical presence while we are very strong in few particular selective states mainly UP, Karnataka but our salience in other states has been quite flattish so do we see this as a particular on a geography basis or we operate as a company from a brand perspective as to where do we see possibility of increasing our share in particular geography? Can you comment anything on your geographical presence and your shares in big markets?

Dilip Banthiya: Our products are quite widespread, we are on pan India basis widely selling our products, premium as well as the regular products. As far as saliency is concerned from 37-38% come from north, again 35-38% come from south; and east and west form around 10% to 12%, so CSD put together I think industry wide we are much better on north side than south because south industry is more than 50% whereas we are around 37%, 38% and north our market share is much higher. It is state-to-state that we work on brand basis that which are the states which have this flavor and the price points has an opportunity and based on that we work. So it is not like that the company is stretched on the distribution and on PAN India basis on A&B class outlets is very, very strong. It is as good as any leader in the industry and we are actually focusing again on the profitable growth. So our decision is also driven by that where are we, which are the segments and which are the price points in one particular trade which are more profitable. So giving the capital allocation based on the profitability so focus is on profitable growth.

Vaibhav Shah: Sure that is very interesting and just a last quick question when do we expect our new capacity for Rampur single malt coming in I believe the demand is very good but we have limitations in the supply side so when can we expect more supplies coming in for Rampur?

Abhishek Khaitan: First of all, we are very happy to say that in the current quarter we should be entering into the army canteens and which is a huge opportunity for Rampur. About three years back we have tripled our capacity of Malt and gradually the capacity of Rampur is getting ramped up and I think from 2023 onwards we should have enough capacity of Rampur to cater to even the Indian markets as well as the international markets.

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

Naveen Trivedi: Sir is it possible for you to share industry growth rate in Q2 and the first half both in terms of value and volume terms as well as if you can share how are you seeing industry demand in the ongoing festive season?

Dilip Banthiya: We have grown better than the industry. In the second quarter the industry has grown more like 6%, 7% or so whereas we have grown 7% on volume terms but P&A category 18%, but because of the exports there has been some impact otherwise the domestic growth has been much higher.

Naveen Trivedi: How is the industry demand shaping up in the ongoing festive season?

Abhishek Khaitan: See we are seeing demand is coming back quite robustly and the demand is quite good in the season time.

Naveen Trivedi: You have received a very good consumer response just wanted to know if the response is good primarily on account of the product quality or the pricing is also one mechanism where we are getting a good response?

Abhishek Khaitan: See if you see any new product which is launched, the first thing which the consumer really sees is the packaging, second which is the most important in any whisky or vodka or any liquor product is the blend. So we are getting response on both the sides and we are quite positive on the brand, as far as pricing curve this is a higher priced item so gradually and slowly like our Rampur it will take its time but it will get to the consumers heart.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

Shirish Pardeshi: I have two questions: the first question is on CSD business so if you could help me with what was the volume that we have got in CSD this year versus last year?

Abhishek Khaitan: See CSD was highly impacted last year because of COVID and they were following a very strict protocol and volume wise I think this year we have grown about close to over 40% compared to last year H1 and we have a market share of about close to 30% in the armed forces.

Shirish Pardeshi: Yes, absolute term million cases that we can share what we have did this year versus last year?

Abhishek Khaitan: This is about 12% of our volume.

Shirish Pardeshi: No, what I want to know last year it was significantly impacted and that is why I was more interested in this year so maybe this 12% in this year you are saying?

Abhishek Khaitan: Yes.

Shirish Pardeshi: What was last year?

Abhishek Khaitan: This year in terms of volume we have done about 13 lakh cases in H1 and compared to 8.85 of last year.

Shirish Pardeshi: So it is a significant growth?

Abhishek Khaitan: Yes, it is about 48% in H1.

Shirish Pardeshi: The other question is on the CSD again related you mentioned that Rampur is now getting listed in last one year how many new products or SKUs we got listed in CSD business?

Sanjeev Banga: In terms of our brands I do not think we have got any new brands listed in CSD in the last one year. What has happened is as part of Aatma Nirbhar India they have decided to delist the BIO bransd so that creates a huge opportunity for brands like Rampur and Jaisalmer.

Shirish Pardeshi: Exactly that was the intelligence which I got I just wanted to reconfirm that there is a scope for us to go from 30% maybe 35%, 40%.

Sanjeev Banga: Hopefully yes.

Shirish Pardeshi: The second question is on the premiumization journey so I think Abhishek Ji have been answered that in the short-term we will think about 35% but what I am saying that over I see last two, two-and-a-half years we have now fairly good handle how the premiumization is driven, what is the distribution angle and what is it that consumer wants so there is a lot of learning curve you have gone. So why do not we look at the accelerated expansion and maybe another three, four, years why cannot we go to beyond 50% is there any bottlenecks is there any issue with the company or what is it that stopping us?

Sanjeev Banga: In any case we believe in creating brands that is the most important thing and we take our own time. In fact, if you look at our new two launches they were in the making for almost two years. So only when we think we are confident this is the product that the consumer will like and appreciate is when we get into the market with that and we launch that product. So in terms of whether the share will be 50% or 40% or 60% it will all depend upon the offering that we make to the consumers and the consumer acceptance. In terms of all our new launches whatever we have had in the past so many years they have all been success because of the liquid. Eventually it is the liquid that matters and we are consistently providing a blend which is much beyond the expectation of the consumers at the price position that we launch our brand. So we would leave it to the market forces to decide whether it is the 50% or 50% plus. We will create brands and offer them to the consumers and then we will wait for the consumer response.

Shirish Pardeshi: My last question if you can spend a minute or two this ethanol policy which is just round the corner any new take your understanding because we are a leading player obviously you will also have some consideration in the industry so maybe a quick word on this?

Dilip Banthiya: As government has already guided the medium-term target of the ethanol blending program and by 2025 it is to be 20% and where grain based ethanol will also make a sizable part. I think the investment in the grain based distilleries are happening on that account. So we see this 8.5% or 9% which is the present state has to go in next three years to that level. There is a progress happening on that side and as the new ethanol policy will come in November we will see but more or less the policy will be on the broad guidelines given by the government last year.

Moderator: Thank you. Ladies and gentlemen due to time constraint we take one last question from the line of Nikhil from SIMPL. Please go ahead.

Nikhil: My question is just the clarification if the mix of on trade is higher versus off trade that would be more profitable as a business right?

Abhishek Khaitan: The on trade is always less profitable compared to the off trade because there we have to spend a lot of money on visibility and everything it is more for visibility and to drive your off trade business. So the margins are less than compared to off trade.

Nikhil: As we are going into the premium brands you had launched your premium brands and as we have to increase their presence in the on trade channel side would you say there would be more promotional cost and everything can go up?

Abhishek Khaitan: Our ad spend would be in the range of about 7% of our IMFL net sales revenue that we will be maintaining that.

Nikhil: With three brands and as we are trying to enter into the on trade channel would we require some more promotions incremental higher promotions because there are incumbent brands which are companies with like a larger basket of brands that is where I am trying to come to?

Abhishek Khaitan: Eventually to see in the turnover side our new brands are going to grow and second is it is quite small in terms of the total revenue of the company so overall 7% would be what our spend should be on marketing.

Moderator: Thank you. I would now like to hand the conference over to the management for closing comments. Over to you Sir!

Dilip Banthiya: Thank you Ashit and once again thanks to all for joining us on this call today. As we have continued to deliver upon our premiumization strategy which is reflected in strong P&A volume growth during quarter. The launch of two new luxury brands is very exciting. It will be a key future growth driver. There has been a short-term margin pressure due to the commodity inflation but we are confident of maintaining our medium to long-term margin expansion trajectory, given the premiumization of our portfolio. Radico Khaitan has robust brand portfolio and have continued to invest behind our bands. The company has a strong balance sheet and cash generation which provides us ability to invest behind our strategic growth plans.

We look forward to interacting with you in our next earnings call and other engagements. In the meantime, any queries please follow up on our mail or calling to our IR team. Thank you. Stay safe and healthy. Thanks to everybody.

Moderator: Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services that concludes this conference. Thank you all 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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