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Sub: Transcript of the Earnings Conference call conducted on February 04, 2022

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 nine months ended December 31, 2021, conducted on February 04, 2022.

This is for your information and record.

Thanking You,

Yours faithfully,
For Radico Khaitan Limited

DINESH KUMAR GUPTA Digitally signed by DINESH KUMAR GUPTA Date: 2022.02.11 17:52:11 +05'30'

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Radico Khaitan Limited

(BSE: 532497; NSE: RADICO)

Third Quarter and Nine Month FY2022

Earnings Conference Call

February 4, 2022

Management Participants:

Mr. Abhishek Khaitan, Managing Director

Mr. Amar Sinha, Chief Operating Officer

Mr. Dilip Banthiya, Chief Financial Officer

Mr. Sanjeev Banga, President – International Business

Presentation:

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2022 Earnings Conference Call hosted by Radico Khaitan 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. It is a pleasure to host Radico Khaitan on their Q3 FY22 results call. From the management, we have Mr. Abhishek Khaitan - Managing Director, Mr. Dilip Banthiya - Chief Financial Officer, Mr. Amar Sinha - Chief Operating Officer, and Mr. Sanjeev Banga - President, International Business. I will now hand over the call to Mr. Abhishek for opening remarks and then post that we can start with the Q&A session. Over to year-on-year, Abhishek!

Abhishek Khaitan: Thank you. Good afternoon, ladies and gentlemen. Thank you for joining us on our third quarter FY2022 results conference call. I hope you are all doing well and keeping safe.

For most part of the Q3 FY2022 market conditions remain normal as the previous wave of pandemic subsided. We are very pleased with the volume growth particularly in the Prestige & Above brands, which grew by 18% over Q3 FY2021. We continue to outperform the industry with the total volumes of 6.98 million cases, which is a 7.4% year-on-year growth versus industry growth of 2%. The growth was broad based across the portfolio and across states.

After a strong start with the launch in UP and Maharashtra, Royal Ranthambore Whisky and Magic Moments Dazzle Vodka have now been rolled out in three more states. Both these brands have received extremely positive response. In the month of December 2021, 8 PM Premium Black Whisky crossed a monthly run rate of 2 lakhs cases and 8 PM Family crossed 11 lakhs cases. This truly reflects the strong consumer franchise that our brands enjoy. In January 2022, we have dispatched the first order to CSD for Rampur Indian Single Malt and Jaisalmer Indian Craft Gin. These brands will go on to create a strong positioning for themselves in the CSD market in the coming period.

With the investment in Rampur Indian Single Malt capacity expansion a few years back, we will see substantial quantities of the Single Malt becoming available for domestic as well as export market. During the quarter, exports have been impacted due to global freight scenario and non-availability of containers; however, the order pipeline remained strong.

Over the last few quarters, we have seen an 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 margins particularly in the non-IMFL segment. In the near term the operating environment is expected to remain challenging. In the medium to long-term, we are confident of achieving the high teen margin that we had guided earlier given the portfolio premiumization and backward integration.

I am very excited to share that after consolidating the business over the years, we have embarked upon a judicious capex plan. We have been evaluating returns accretive capital allocation opportunities.

Today, we have a very strong balance sheet and free cash flow generation. Since FY2016, we have reduced our net debt from the peak of Rs. 950 Crores to Rs.135 Crores currently, all through internal accruals. During this period, our IMFL volumes have expanded from 18.2 million in FY2016 to around 26 million cases. Our current capacity in Rampur is fully utilized, which necessitated the need for expansion. This will be funded 50% through internal accruals and rest from borrowings.

All the capex will be completed by Q1 FY2024 and cash flow will start accruing. You will see our debt levels peak out in FY2023 and then start to reduce again in FY2024 onwards with the strong cash flow generation from the existing business as well as these new projects. We expect to be debt free again by FY2025. Both projects will be accretive to EPS and cash flows from the inception.

The business growth opportunity of the Indian Alcobev Industry is very compelling and UP is going to be one of the key growth engine.

Given the current raw material scenario due to the ethanol blending program of the central government molasses will be restrained in the future. The premium IMFL industry is growing at a faster pace than the overall IMFL industry, which uses grain based alcohol. Therefore, the demand for grain ENA is going to increase further. One of the key reasons that we have been able to create brands like Magic Moments, Morpheus, 8 PM Premium Black, Jaisalmer and Rampur Indian Single Malt is because we had quality alcohol from our own plants.

The recent change in Uttar Pradesh State Excise Policy of mandating grain alcohol in the 42.8% category, which comprises 25% of the overall country liquor industry is an important step towards moving consumer to higher quality alcohol. With own ENA from our Rampur facility, which will become operational by Q4 FY2023, the profitability of the country liquor segment will also improve.

These projects will enable us to expand our in-house capabilities to drive future growth of the branded business and capitalize on the industry growth opportunities along with securing raw material supplies. In Sitapur, we are also putting up malt maturation facilities keeping in view the future growth potential of Rampur Indian Single Malt. We are also setting up a craft gin plant to support the growth of Jaisalmer Indian Craft Gin.

Both these projects will be return accretive with the average ROCE in the range of 20% to 23% and payback period of three-and-a-half to four years. It will create value for all shareholders. We have 28 contract bottling units and we are currently buying 50 lakhs liters of ENA monthly. So this capex will secure the large captive requirement as well.

Rampur dual-feed project will be operational by Q4 FY2023. All major plants and equipment have been ordered.

We have acquired over 107 acres of land in Sitapur and the development work will start shortly for the Greenfield. For the purpose of acquiring land, we have formed 7 stepdown subsidiaries as there is a ceiling limit on the acquisition of the land in UP. The Sitapur plant will be operational by Q1 of FY2024.

We are very happy with these developments, as these capacities will pave the way for us to capitalize on the future growth opportunities presented by the Indian IMFL industry and in particular in the state of Uttar Pradesh.

I would now like to hand over the call to our CFO for a detailed operational and financial review. Thank you everyone and over to you, Dilip!

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

During the third quarter, we reported IMFL sales volume of 6.98 million cases representing an increase of 7.4% on year-on-year basis. This was led by Prestige and above category volume growth of 18.2%. In value terms, Prestige and above category registered 21.5% growth. Prestige and above category accounts for 33.8% of total IMFL volume compared to 30.7% in Q3 of FY2021.

Net revenue from operation during Q3 of FY2022 was Rs. 766 Crores representing an increase of 12% compared to Q3 of FY2021. During this period IMFL sales value increased by 12.5%. As a percentage of total revenue, IMFL sales accounts for 82.1% of net revenue compared to 81.7% in Q3 of last year.

Gross margin during the quarter was 46.2%. This was impacted due to the ongoing commodity inflation particularly in the non-IMFL business. Over the last few quarters we have seen prices of PET Resin and other packaging material go up significantly. However, on Q-o-Q basis, gross margin has remained stable.

Despite a significant increase in raw material prices, gross margin for the IMFL business was impacted only moderately owing to a favorable product mix. ENA prices have increased marginally in line with expectations given the recent changes in ethanol prices.

Raw materials inflationary trend is expected to continue although the rate of increase in expected to moderate in Q4. 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 of trajectory given our portfolio premiumization.

Finance cost decreased by 42% on Y-o-Y basis from Rs. 5.39 Crores to Rs. 3.12 Crores during Q3 of FY2022. The Company's cost of borrowing is one of the lowest in industry due to the lower interest environment, stable profitability, strong capital structure and improved liquidity position. We have an efficient working capital management and a very strong credit controls.

During the first nine months of the year, we reduced by net debt by Rs. 62 Crores after the capex of Rs. 24 Crores for new projects. The recently initiated capex plan will enable us to be future ready and capitalize on the industry growth opportunity.

We have a very 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 profitable.

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

Question & Answers Session:

Moderator: Thank you very much, Sir. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on P&A volume that is up, P&A as a percentage of IMFL volume, so what will be your long-term 3 years, 5 years target there? Is there a conscious strategy or is it that both segments will have their own growth rate? So P&A will keep increasing, but do you have a conscious target in mind?

Amar Sinha: See, currently P&A is at the level of 33.8% of the total sales, but as you would have seen our thrust in the last 3 years particularly has been very aggressive on the P&A segment. We have been promoting all our premium brands, Magic has been growing, Morpheus Super Premium Brandy has been growing, 1965 Rum has achieved 10% market share in defence and has garnered equal traction in the civil market. Now we have launched our most premium brand called Royal Ranthambore which has just hit 5 states. We were seeing excellent traction on this product. We have upgraded Magic Moments Vodka to the next level, which is close to some of the most premium international brands. This has also received very good response and Magic Moments Verve has achieved a 20% market share amongst all premium brands including Indian and international.

Now what we see from here is that these brands have just hit the market like Royal Ranthambore and Magic Dazzle, they will become stronger and stronger. The next 3 years are going to be quite eventful because any premium brand requires at least 3 years of right marketing dosage for the brand to bloom. Coupled with that our focus on premiumization will continue like we had mentioned in the last earnings call, we have had two whiskies in the pipeline. One has been delivered, the other premium whisky will be delivered over the course of the year. So let me say that we are well online with strengthening the premiumization and P&A segment stronger. The next three years are going to be quite eventful for Radico.

Abneesh Roy: Thanks. My second question is on the raw material and gross margin, so we are seeing in general inflation everywhere so ENA, glass bottles, corrugated box, diesel for logistic everything has been increasing so how you'll managed QoQ stable GM because of mix, and second in Q4 do you expect things to be even more challenging versus Q3 in terms of the raw material?

Dilip Banthiya: You are right, Abneesh, that we have seen the inflationary pressure in this current year in last 9 months. The ENA we have seen increase 2.5% Y-o-Y as well as Q-on-Q price increases. We see that the pace of increase now should moderate because the impact of the supply side constraints which has been there is now being addressed slowly. We are trying to upgrade our portfolio and improve the product mix and in IMFL segment as I said in my remarks that the impact of the inflation has been moderate because of the product premiumization. Simultaneously next year we expect this to be passed on by taking some price increases in a couple of large states for which the industry bodies are already in touch and deliberating with the state government. So I think next year onwards the price pressure which we have seen in the current quarter and particularly on gross margins should ease to some extent and I think we will be again on a better trajectory on gross margin and EBITDA margin over the mid to long term.

Moderator: Thank you. The next question is from the line of Jignesh Kamani from GMO. Please go ahead.

Jignesh Kamani: Just want to know what is the current requirement for ENA and since we are doubling our capacity from 101 million liters to close to around 207 million liters, it will suffice to what percentage of the requirement after two years and second thing on the capex spend like in Rampur we are spending Rs. 185 Crores just to convert single feed into dual feed, because it will give only incrementally just seven percentage, moreover new project where we are spending Rs. 555 Cr. So just want to check what would be the ROCE? Can give some colour on the expansion of 185 Crores?

Dilip Banthiya: As far as the immediate capacity is concerned we have around 8.5 Crores liter in Rampur; This is for our branded business as well as for country liquor. Both put together this is now utilized 95%+ and as we are doing around 26 million cases of the IMFL, so that is 10 Crores to 11 Crores liter of ENA and the country liquor portfolio also in state of UP. So put together these will be utilized as the industry is growing double digit and particularly in Uttar Pradesh the industry growth continues to be in double digit. In the current year itself without an increase in the excise duties, the state is talking about Rs. 40,000 Crores of revenue from Alcobev Industry. So we see a great growth and in due course of time this capacity expansion which is being done will be utilized fully for our branded business so keeping in view the horizon of 3 to 5 years and as the government ethanol blending program, the molasses is being diverted more and more into the ethanol and we have seen again the government data that the ethanol blending has gone up from 8% to 11%. Keeping the raw material security into account and as we are moving towards premiumization and we use the grain base ENA for the premium product so this will be well utilized. Second point is regarding dual feed, our molasses plant which has a capacity of 140 KLPD right now and to convert into dual feed it is a balancing of equipment looking at the future from efficiency and productivity point of view. Given the ethanol blending program, the availability of molasses will be constrained and therefore we need to convert the molasses plant to dual feed.

Abhishek Khaitan: See, why we are converting the dual facility is for a simple reason. We foresee that in the near future all molasses products to convert into grain which means that the entire portfolio even of the non-IMFL business is going to get premiumized into economy IMFL brands like what is in the southern states where your recoveries become higher [in economy IMFL]. So by converting into the dual mode will help us to increase our margins, which you will see from Q4 of FY2023 coming into play and going forward once the entire non-IMFL business is converted into grain, the realisation and the margins will increase substantially.

Jignesh Kamani: In terms of our production, volume will increase by 7% when we convert into dual feed and our cost of manufacturing the P&A will change drastically from molasses converting to grain?

Abhishek Khaitan: No, the selling price will increase because like in the 25% UPML industry what the Uttar Pradesh government has given, the grain products realisation for us is much higher.

Jignesh Kamani: I am talking more from the manufacturing Sir, because grain ENA is also available in future, right because when the enough capacity available for the both molasses and grain base because of expansion due to ethanol blending in the industry. So when you are spending Rs. 185 Crores just to convert molasses to grain and it is not reducing any manufacturing cost from the ROCE point of view. We understand on the realization part, but that is on the selling price, not from the manufacturing point of view?

Abhishek Khaitan: I will just explain the scenario in Uttar Pradesh where we are also into the non-IMFL business. Molasses is given by the government at a reserved price so now with ethanol blending that reserve price will eventually go and everything will get converted into grain where the realisation of the product will become higher so that is what is going to happen in the next 2 to 3 years. So we have already prepared ourselves because the whole segment of country liquor, which is close to 80 million cases will get into economy IMFL.

Jignesh Kamani: How is availability of grain because if you take as per the government plans for the ethanol blending alone we are expecting close to 400 Crores liters worth of ethanol from the grain. If this is the case, then how will be the grain availability?

Abhishek Khaitan: See, in the end the water will find its own way and what we feel is because molasses will go more into ethanol, the realisation of the grain products will go up. So eventually in the end your brands will go up because the higher you sell the domestic brands, the national brands will sell much more so there we have a huge advantage. Plus, the UP state government has defined the policy very clearly that all IMFL input will only be grain, so this dual feed conversion is going to benefit us.

Moderator: Thank you. The next question is from the line of Aaron Armstrong from Ashmore Group. Please go ahead.

Aaron Armstrong: Thank you for taking my question. For the new capex project, can you talk about how much of that relates to the business you currently outsource and you are now looking to bring in-sourcing and how much is that and how much is it for the new growth opportunity for outsourcing, I mean perhaps if you could share some examples where we are currently outsourcing that will allow you to bring back in-house and the kind of margin savings, cost savings?

Dilip Banthiya: Presently we have actually been outsourcing around 50 lakhs liter of ENA for our IMFL business across India per month. So this is 6 Crores of the alcohol ENA being bought by the company. As far as your question regarding how much does it save towards the backward integration, that is why we are talking that this project will give a ROCE of 20% to 23% and the payback period of just three-and-a-half years. It will start generating the EPS and free cash flow from the first full year of operation which is in 2023-2024. We are very conscious about our capital allocation and the reason for allocating for a captive ENA unit is our own requirement will be there. As the ethanol blending program is progressing, sourcing of the grain based alcohol as well as the molasses based alcohol for us will be a challenge. So we are having our own quality alcohol that will support our branded business.

Amar Sinha: Just to add, see the growth of the Indian alcohol business is taking place in double digit in the prestige and upward segments. We are currently sourcing 60 million liters out of the additional 100 million liters that the new plant will give. So we will have this control on our future because we are basically premiumizing and all our premium brands require grain, which is of good quality that is what we are planning to do.

Aaron Armstrong: Thank you. If I see on page 12 of the presentation, you mentioned malt utilization capacity, we should start in 2024, can you talk about how significant this could be? Any indications on the volume, that which we would expect?

Sanjeev Banga: We expanded our malt capacity a few years ago. Our malt distillery is based in Rampur itself and we have been ageing and maturing malt for our Rampur Single Malt all this while. So we are setting up additional maturation facility in the new plant, which will give us rich dividends in the years to come when all this malt is available to us. We do expect much larger quantity because currently Rampur Single Malt is still on allocation whether it is in the international markets and we have launched it only in very few markets in India so it is still on the allocation and will remain on allocation for next 12 months. But we will expect substantial quantity of malt to be available for bottling from next year onwards that basically 2023-2024 onwards so that should give a huge boost to our luxury portfolio as well as our revenues.

Aaron Armstrong: Could you give some number around that base?

Sanjeev Banga: Well, we do not share brand wise numbers, but you know going by the response and the awards that our brand has been winning world over. In fact, Rampur Asava was ranked the number seven amongst the top 20 whiskies of the year 2021. We have been consistently winning gold medals and ratings of 94 to 95 points with all the whiskey experts. So as they say, we have just touched the tip of the iceberg. Our brands are available in about 85 countries but Rampur is only available in about 35 countries. Hopefully that will be over in the next 12 months, so you can see growth coming from this portfolio.

Aaron Armstrong: One more question, the GP margins was around 50% a year ago, and do you see it is recovering in the coming quarters or do you think that is not likely?

Dilip Banthiya: This is where we are seeing the inflationary pressure and I think as we have already guided we expect the margin again gross profit margin to again come back 48 or 50 levels when this inflation pressure is subsided, price increase will happen at the same time product premiumization is happening, so all these are towards that. So we are expecting this in coming 2 to 3 years we should be back in our gross margin at 50 level and on operating margin as guided on high teens level.

Aaron Armstrong: Thank you.

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

Amarjeet Maurya: Sir, can you provide me 9 month's industry volume numbers and what is your expectation in the full year industry volume numbers?

Abhishek Khaitan: 9 months we have actually shown a growth of 18.6% and the good thing is that the Prestige and above brands have grown by 23% against an industry growth of Prestige of only about 18%. Regular brands have grown by 17%. The growth therefore in volume terms is very healthy and industry growth is 14% overall. We have outperformed the industry growth as usual for the fifth year.

Amarjeet Maurya: Sir, what is our expectation for the full year if you are considering the fourth quarter?

Abhishek Khaitan: In nine months our growth is 18.6% so full year should be in the late teens only.

Amarjeet Maurya: Sir, what is it for the industry?

Abhishek Khaitan: Industry would be the same. Like industry has grown in the 9 months by 14% so I think industry would be the range of about 12% to 15% and Radico's growth would much ahead of the industry.

Amarjeet Maurya: Sir, we say that 4% to 5% outperformance against industry?

Abhishek Khaitan: Right.

Amarjeet Maurya: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Vishal Chopda from UTI Mutual Fund. Please go ahead.

Vishal Chopda: Thanks for taking my question. Going back to the capex, I mean hearing you I understood the problem you are anticipating is that if this blending is increasing this could be ensuring outsourcing of ENA, so we are trying to do more of in-house manufacturing but as I understand this will be more of an industry specific issue not just for us and obviously we are a small player in the IMFL industry. We have much bigger players like United Spirits and Pernod and we do not see them putting their own ENA capacity. So I am trying to understand what is the difference that they will be able to manage with outsourcing and you have to do own manufacturing? Could we also not have continued the outsourcing and obviously keep our balance sheet light instead of taking doing high this capex? So I just want to understand what I am missing here?

Abhishek Khaitan: That is an interesting question. If you see the history of Radico, Radico is the only company to create close to about 10 to 15 premium brands in the last one-and-a-half decades and this has been possible because of the quality of spirit we produce. We started as a distillation company and producing the right quality spirit has been our forte. Even if you see Rampur Indian Single Malt retailing at Rs. 8500 a bottle much higher than any 18 year old whiskey and still being given on an allocation shows the quality we produce. It is the kind of premium portfolio like even 8 PM Premium Black which has touched 2 lakhs cases a month. Going forward with our Royal Ranthambore, Rampur, Jaisalmer, etc. the in-house capacity of producing our own spirit is going to fuel my growth for the future. Even Magic Moments Vodka having a market share of 58-60% itself speaks the quality of the liquor we produce. So I think by having this dual feed and Sitapur, Radico is set for the next 7 to 10 years. Secondly if you see, we had waited for 5 years, my debt level from Rs. 950 Cr is down to 130 cr. We are going to borrow only Rs. 370 Crores long term debt in the range of 6% to 6.5% whereas these project is going to yield me 20% to 23%. So I think it is a right time Radico is doing. Now it has consolidated to position itself for the premium play for the next 7 to 10 years.

Vishal Chopda: Just a point, I want to make here is that what we have done in last 4 to 5 years is very phenomenal in terms of growth and improving our balance sheets which has been reflected in the stock price and our valuations. We have transitioned from bulk alcohol manufacturing to an IMFL player now. We are now focusing back on bulk alcohol manufacturing instead of continuing to outsource like the bigger brand so is that again you are taking this. So that is the only concern here and if we have two bigger players who continue to outsource, why cannot we do that and just focus on brand building, premiumization. I think that would have been better that is would have been in my view anyways. I take your point. Secondly, on the ROCE calculation, I just wanted to clarify there will be some assumption of the grain based ENA price there and the raw material I am assuming would mainly be rice here. Is there a linkage between the ENA price and how is the linkage? I just want to understand suppose rice prices hypothetically go up does that significantly change our ROCE calculation because our raw material price will go up and the grain-based ENA price, is it linked to that because I think molasses based ENA prices is more governed by the government. The government tells what prices to sell at so may be the grain-based ENA prices also linked to that and what happens if rice prices move so how does it impact our ROCE calculation?

Abhishek Khaitan: See we have done a ROCE calculation on a very conservative basis in this project because it is not only the alcohol. It will help me to sell the branded products where we have not even considered the margins for the returns calculation. So there is enough headroom for the project so the payback I think even after the pricing going up or down would not affect.

Vishal Chopda: You are saying the rice volatility and rice price input price should not impact your payback periods?

Abhishek Khaitan: Yes, it should not impact.

Vishal Chopda: Thank you. Thanks and that is it from my side.

Moderator: Thank you. The next question is from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: Thanks for the opportunity. Sir I just wanted to kind of continue with the last question a bit and more from a conceptual basis. What I hear is that you would like to do this capacity because it helps us grow in the premium segment and hence would it be right to assume that as this growth continues you would want to maintain that back-end support and hence want to have that capacity and you may need to kind of add to this capacity say five years down the line or three years down the line. Is that the right way to understand that?

Abhishek Khaitan: See that as of now to answer this question would be little difficult because if you see we have planned for the next five to seven years like when we started Rampur Indian Single Malt being priced at Rs. 8500 and Rs. 3700 for Jaisalmer, the most expensive gin in the country, we did not expect the response to be so overwhelming so depending on this now with the capacity what we had invested four years back will start coming in 2023-2024 of the malt, so depending on the demand we will take our call during that time but as of now I think next seven to ten years we are quite self-sufficient and this is going to greatly help in our premium portfolio. This investment sets us up for the next 7-10 years on the distillation side.

Avi Mehta: And so if I heard you correctly this is not a decision which has been based on the pricing of the ENA, you are not expecting ENA prices to rise further?

Abhishek Khaitan: No. It is for the grain ENA because there are two points. We feel the molasses is going to get extinct, second the security of raw material. We get the grain ENA of the best quality, we expand our gin distillery, we expand our maturation of malt for Rampur Indian Single Malt where the volumes after four years can go multi-fold like what we did in our Rampur plant which will see the volumes coming in 2023-2024. So overall I think from a premium point and today when the debt is so low 6.5% and the projects can give us a ROCE of 20% to 23% and help my premium portfolio. I think it will add a lot of value for all the stakeholders.

Avi Mehta: The second question is just on the grain versus molasses. Are you also arguing in a way that our regular portfolio at some point of time will also start using grain? Is that also the thought process behind saying that grain molasses will die and everything has to move to grain, is that a good assumption?

Abhishek Khaitan: Absolutely you are right. As of today, 90% of our brands are using grains and in the coming future which is down the line I think another one or two years everything will be grain.

Avi Mehta: No. Not for us I mean for the industry I am sorry I was not clear on that. I meant are you asking it for the industry which is why you see capacity as being an issue? is that what you are saying?

Abhishek Khaitan: Industry also if you see gradually has moved towards the grain. Industry also I think 70% to 80% will be grain now so but in the near future with this ethanol blending I think next two to three years everything will be on grain.

Amar Sinha: See what is happening is as I had mentioned earlier, the growth in the alcohol branded business is only coming from the prestige and upward segments that is the premium range. This segment is going to expand multi-fold in the next five years and we will require that much more grain. Molasses will be extinct and therefore we are basically setting up this plant to make sure that we control our own grain spirit of quality which has so far been a major factor in the success of Radico's portfolio.

Avi Mehta: I mean exactly so I just wanted to clarify that the reason for this is quality and not a concern on availability or pricing. That is what I wanted to just clarify.

Amar Sinha: See quality is definitely the prime focus but obviously it will help us in price as well.

Avi Mehta: That is all from my side. Thank you very much.

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

Harit Kapoor: Good afternoon. Sir I just had a few questions one was on UP so you know the change in the UP policy has that been the core reason for the dual feed or were you all already thinking about this dual feed kind of you know capex and just an addition to that is there any incentives that the government is providing on this capex that you are doing on either on the Sitapur side that that adds to your ROCE calculation?

Abhishek Khaitan: If you see if we have ordered the plants in the last quarter we have been foreseeing this coming and now it has come sooner than later which is very good for the industry of getting the non-IMFL business also into grain because your recovery is increased, you are not dependent on any sugar mill and your brands command that price. So I think that has been a very important and a good change which has come.

Harit Kapoor: Any incentive that the government is providing there?

Abhishek Khaitan: There are no incentives by the government.

Harit Kapoor: The other question was on 11 Crores liters that come in fiscal year 2024. Firstly, this six Crores liter that you are outsourcing from outside I am assuming that all of it cannot go in-house right because you are buying from different states and the freight costs etc., so how much of that can be now manufactured in-house for your own purpose out of the six crore liters?

Abhishek Khaitan: See the six Crore liter is also increasing rapidly now because what we are seeing with the volume ramping up and everything so I think about 70%, 80% can be used for internal plus the growth.

Dilip Banthiya: Plus the growth and at the same time this 42.8% which has been converted will also take a large chunk of that which is again grain based completely, which is 25% of the industry. So in the beginning it will be mix of the our own for IMFL as well as non-IMFL, but at a later two to three years' time our own growth in the IMFL business and the non-IMFL business will take away everything so that capacity utilization we will ensure will be full, by partly selling ENA outside as well as for our own consumption.

Harit Kapoor: There will be 11 Crore liters in FY2024 that you are expecting to fully utilize how much of that in your current calculation would be say you selling outside and how much of it would be in-house because of the country liquor being higher and also your own requirements on IMFL, and the fact that you are not outsourcing anymore and just an addition to that is are you already now over next year going to kind of figure out the tie ups with the brands for that 11 Crores liters for selling ENA outside how will that work?

Dilip Banthiya: So in the beginning for a couple of years it will also be utilized partly for supplying grain ENA. There also is a good pricing, so this is interim for a couple of years but eventually used for IMFL and non-IMFL as the volumes are growing. It will make good the complete capacity and we have our plans where we will see that for a couple of years only it will be supplied outside and thereafter consumed captively. After that as we said that 25% of the non-IMFL industry is now on grain and eventually 36% and 25% strengths will also get converted as the molasses availability is constrained and moved towards ethanol blending. So keeping in view this is the first step and the next steps which the government has started taking will again be taking and creating a huge demand for grain based alcohol.

Harit Kapoor: Just the last thing on this was out of this Rs. 550 odd Crores that you are doing on the Greenfield how much is the land cost involved in this roughly?

Dilip Banthiya: It is roughly 8% of the total project cost.

Moderator: Thank you next question is from the line of Jaideep Walia from Newmark Capital. Please go ahead.

Jaideep Walia: Thanks for taking my question. Sir I wanted to find out if you would be manufacturing a different grade or quality of ENA in your new plant versus what is available in the market? My impression was that the ENA it is a commodity so there is not much value proposition of creating your own distillery. So I wanted to know your opinion on that?

Dilip Banthiya: The quality of ENA differs on the quality of plant and we being expert in running this plant for ages. So the quality of plant, the quality of alcohol being produced by our plant is much superior and that is the reason we have been using all the alcohol of our own source in the Magic, Magic Flavors, Morpheus, etc. so to say that quality is for a commodity is same is not right. At the same time even we were exporting to the multinationals the quality of alcohol which was not accepted from any other manufacturer. So to be actually in control over our own quality in the branded business it is a desired and necessary compelling reason that we should have our own capacity so that we can produce those kind of branded products which we are actually launching and in pipeline.

Sanjeev Banga: Just to add what Dilip mentioned when we used to export our ENA to global players, Radico ENA commanded a premium of seven to ten percent over all the other manufacturers which is a testimony of the quality that we produce and we intend to do the same thing in Sitapur plant as well.

Jaideep Walia: The ROCE number that you are projecting of after the 20% kind of ROCE on these new investments. So if I remember rightly just five six years back on distillery plants mid single-digit ROCE was there, so the ROCE might look good as of now because of obviously there is a shortage of ENA because of the government blending program but are you sure this kind of return on capital employed will remain after three years and all capacities which is being created by the industry right now comes online right so it is possible that after three years once all the capacity comes online the return on capital employed might fall to low to mid-single digits?

Abhishek Khaitan: See the ROCE what we have calculated, we have not taken into account the upside we are going to get because we are being able to produce more of our premium brands. So I think the ROCE is also on quite a conservative basis so I do not foresee going to a single digit at all. There is quite headroom for that.

Jaideep Walia: You could have looked at other kind of arrangements as well right like co-locating your bottling plant with another distillery capex for which would have been put up by some other party rather than Radico itself funding the capex. So have you explored those kinds of events and what made you reject those kind of arrangements?

Abhishek Khaitan: We would not like to risk our heart which is our Rampur, Jaisalmer, all our premium products in anyone else's hand. I am investing for the next seven to ten years and especially where in next by FY2025 will be debt free. So this is investment for my premium portfolio and the growth of premium brands of Radico which we would not like to risk it at any other people's hand.

Jaideep Walia: Is not malt capacity expansion independent of distillery capacity expansion?

Abhishek Khaitan: Yes. We are also putting a malt maturation hall which we had put it in Rampur about three and a half, four years back where our products will now start coming in 2023-2024 where the Rampur volumes will significantly go up and even the gin because the gin has taken off very well in the markets and it is a craft gin, so a new craft gin distillery also will be put there.

Jaideep Walia: What I was trying to say is that you could have expanded malt capacity independent of this distillery investment, right?

Sanjeev Banga: Yes, we could have but you know again going back to the same thing we need to be 100% sure of the quality of the liquid of the alcohol that goes into our premium brands and we will not take any chances on that and then the returns are good we are a debt free company, why generate more revenue and more profits in years to come.

Dilip Banthiya: So to support it further this is a business case to support the brands at the premium level at the same time it is a financial compelling reason as well. When we can raise the money at 6% to 6.25% for a five-year period and can generate a ROCE of 20% to 23% then it makes sense to have secure raw material supplies, quality supply, generating revenue, generating the ROCE which is much better than what your cost of capital is. So this is creating in medium to longer term stakeholders value.

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 the opportunity. Sir this backward integration what we are planning would this really fair that our margin trajectory what you are targeting of around high teen should improve?

Abhishek Khaitan: Especially with backward integration of the premium brand, we want to give a guidance on a conservative basis where in a couple of years, we will be in the high teens. Then it all depends on Rampur, and Jaisalmer is where it can go further up and Royal Ranthambore. But to give an estimate right now we would like to stick high teens.

Kaustubh Pawaskar: In your initial comments, you mentioned that export is something where there is some bit of disruption because of the lesser availability of container and what kind of impact on the overall volumes was there in this quarter because of this lower exports?

Sanjeev Banga: You see our export order book remains very healthy. Yes, there has been a global shortage of containers and the freight rates have been going very, very high but the silver lining is that they have now kind of stabilized and they are not increasing. Earlier every fortnight, the freight rates were going up and availability was an issue. So we do expect them to stabilize and hopefully in the coming months may come down, moderate a little bit and the order which are all in pipeline will start moving out. Still, we in terms of export, we grew by about 85% last year and we are trying to maintain the same volume level of exports this year also despite all the challenges. I think it will be a good way to consolidate our export business.

Kaustubh Pawaskar: This quarter even the regular we have seen the volume growth little bit on the lower side at around 2%, 3% last two quarters we have been seeing at around 2%, 3% any specific reason for this or should we expect it to remain at this level or there should be further improvements?

Amar Sinha: See what we see that the volumes are very buoyant for us in most states. In multiple states our volumes are showing a double-digit growth and that speaks a lot about the acceptance, consumer franchise for the brands that we have cultivated over the last five years. So yes we are very hopeful, we are optimistic and we hope the trends to continue.

Dilip Banthiya: We have guided earlier also that on the prestige and above category we will be growing in double digits and in the regular category where we are doing only in selected states not pan India depending on the contribution it generates. So right there we have always been talking about a single digit or 5%, 6%. So I think industry as well is also showing the trend that prestige and above category is growing better than the regular popular category.

Kaustubh Pawaskar: Thank you.

Moderator: Thank you. We will take the last question due to paucity of time from the line of Deepak Lalwani from Unifi Capital. Please go ahead.

Deepak Lalwani: I just have a couple of questions see first what is your current ENA requirement in UP market alone and how much is being met internally?

Abhishek Khaitan: See currently we are buying on an average about 20 lakh liters per month for the UP market.

Deepak Lalwani: Sir the point is you know I understand that ENA is something which cannot be you know transported from one state to another state easily right given the taxation and all, so how are you planning to sell that the extra ENA that you will generate from this capex?

Abhishek Khaitan: One is the ENA what we are buying for the domestic market is about 50 lakh liters per month and for the non-IMFL business we are buying about 20 lakh liters per month. So the 20 straight away gets utilized plus the growth which will come plus the growth of the premium brands plus our shortage of even for the premium brands, the 50 lakh what we are buying a part of it will get converted into our own usage.

Deepak Lalwani: By which year you know will you be in a position to use the complete new capex for your internal requirement?

Abhishek Khaitan: About three to four years.

Deepak Lalwani: So the first three years you will be selling it to the other alcohol players is that right?

Dilip Banthiya: We will supply the grain ethanol in the meantime.

Deepak Lalwani: But do we have demand I mean I assume that there will already be enough supply in the UP market right?

Dilip Banthiya: There is enough demand. I think the demand supply gap that the government itself is having and very remunerative prices government is giving and for that government is also giving the policies like buying the grain from FCI and all that just to support the supplies. Last year supplies overall was 8%, this year it has jumped by 300 basis point. I think the government talking about by 2025 20% is a big target and I think that will have if our own supply is there, there is enough demand because 20% from 11% is a lot of gap.

Deepak Lalwani: Just one final question from my side so the capex that you are doing you know for Greenfield which is coming to almost 1.6 Crores per KLPD, is it the industry average number or is it slightly on a higher side, because I am looking at the amount of competitors who are doing at 1 Crores, 1.1 Crores per KLPD. So, just trying to understand why it is on a higher side?

Abhishek Khaitan: See, this capex of Sitapur includes your malt maturation hall, it includes the gin distillery, it also includes bottling halls of 10 billion cases of IMFL and 10 million cases of non-IMFL. So it is the mixture of everything. It is not just only the plant itself, it is we are going to beef it up for the premium brand. It is a combination of lot of other plants which we are putting in.

Dilip Banthiya: It will be a total integrated facility.

Moderator: Thank you. Ladies and gentlemen I now hand the conference over to the management for their closing comments.

Dilip Banthiya: Thank you Ashit. We have continued to deliver upon our premiumization strategy which is reflected in our strong P&A volume growth during this quarter as well as in the past five years. The two new luxury brands are doing very well. They continue to receive positive consumer and trade feedback in the new markets they are being rolled out. Next year we will roll it out in the pan India basis. There have been short-term margin pressures 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 of interacting with you on our next earnings call. In the meanwhile, if you have any queries, or follow-up please feel free to write to us. Stay safe and healthy. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Emkay Global Financial Services that concludes this conference call. We thank you all for joining. You may now disconnect your lines.

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Note: This transcript has been edited to improve readability.

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