

Radico Khaitan Limited
Analysts/Investors Conference Call
August 01, 2006

Moderator

Good evening ladies and gentlemen. I am Ahmed, the moderator for this conference. Welcome to the Radico Khaitan conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the Q&A session will be conducted for participants connected to SingTel. After that the Q&A session will be conducted for participants in India. I would like to hand over to Mr. Jitendra Jain of Radico. Thank you and over to you sir.

Jitendra Jain

Thanks Ahmed.

Dear friends, on behalf of Radico Khaitan Limited I warmly welcome all of you to the 2006-2007 Q1 earnings conference call. I also welcome our FII friends from Singapore, Hong Kong, Europe, and USA, some of whom may be joining us for the first time on the conference call. It is my privilege to introduce the management team of Radico Khaitan Limited who are present here in executive boardroom at our corporate office in Delhi. So today we have Mr. R. K. Malhotra, President – Finance.

R.K. Mehrotra

Good evening Mehrotra here.

Jitendra Jain

Mr. Raju Vaziraney, President – Sales and Marketing.

Raju Vaziraney

Hi, this is Raju.

Jitendra Jain

As you aware the company has announced our Q1 results on 31st of July. We have already sent the copy of these results to you my e-mail. The results will also be available on our web site www.radicokhaitan.com. I now request Mr. R.K Malhotra to begin the proceedings by formally announcing our first quarter results. Over to Mr. Malhotra please.

R.K. Malhotra

Good evening ladies and gentlemen, it gives me immense pleasure to welcome you all this evening to the earnings conference call of Radico Khaitan. As you must have noticed the current year has been an excellent quarter for the company. We have increased our branded volumes by 20%. The company has raised the US dollar 60 million by way of issue of convertible preference shares and foreign currency convertible bonds. The issue was priced at a premium to prevailing market rates and despite adverse market condition, met with good response. As you are aware, the industry is picking a very healthy gradual deregulation, which should benefit liquor industry in near future. More over Indian Liquor industry has started making a mark in international markets also, the current year for the

industry as well as for the company should be an excellent one, we are looking forward to a year of wholesome growth and making our best to further improve the efficiency and performance. On behalf of Radico we wish to reiterate our commitment for formulating and implementing new strategy for continuous growth of the company in future. I shall now be announcing formally the results for the three months ending 30th June 2006. Before that, I would like to say that some of the statements in today's discussions may be forward looking in nature based on the management's current expectations, may also involve risks and uncertainty. I would also like to mention that this conference is being recorded for the benefit of the participants.

Our gross sales during this quarter had increased from Rs. 296 crores to Rs. 324 crores clocking an increase of 9.4%. The EBITDA has gone up from Rs. 19.73 crores to Rs. 28.5 crores registering an increase of 44.45%. The profit after tax has gone up from Rs. 11 crores to Rs. 13.28 crores registering an increase of 20%. All our margins also have improved during the quarter. Our EBITDA margins have improved 11.22% to 14.54% registering a growth of 30%. Net profit margin also has increased from 6.29% to 6.78% registering an increase of 8%. We are now open for questions and we would be very happy to answer the questions to the best of our ability. Thank you.

Moderator

Thank you very much sir. At this moment I would like to hand over the proceeding to the SingTel moderator to conduct the Q&A for participants connected to SingTel. After this we will have Q&A session for participants at India bridge. Thank you and over to Salvia.

Moderator (SingTel)

Thank you Ahmed. We will now begin a Q&A session for participants connected to SingTel bridge. Please press 01 to ask the question. Participants who wish to ask the question please press 01 now.

At this moment there are no questions from participants at SingTel. I would like to hand over the proceedings back to Ahmed.

Moderator

Thank you Salvia. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions please press *1 on our telephone keypad. On pressing *1, participants will get a chance to present their question on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 now. First we have Mr. Surendra from Anand Rathi. Over to you sir.

Surendra

There is some confusion on the FCCB issue Mr. Malhotra.

R.K. Malhotra

Yes please. Hello Mr. Surendra?

Moderator

Mr. Surendra has got disconnected. We will take the next question from Mr. Sumeet from Edelweiss.

Sumeet

Sir, good evening and congratulations on a very good set of numbers. I just wanted to understand the split in the volumes between domestic branded sales exports and other volumes. So can you just split it up and compare it with the last years previous quarter. You just now said that brand sales have grown by 20%.

[Audio break]

Moderator

Mr. Jitendra.

Jitendra Jain

Yes I can hear.

Moderator

Sir can you please ask the chair person to please come near the phone?

Jitendra Jain

Okay Mr. Vaziraney right? Mr. Vaziraney?

Raju Vaziraney

We can hear you. Can you hear us?

Jitendra Jain

Actually if you can come closer to the phone that will be better, because we can't hear you. Sir we can't hear you, please.

Raju Vaziraney

Is it clear?

Jitendra Jain

It is much clear now.

Moderator

Thank you, you can please go ahead sir.

Jitendra Jain

Please go ahead.

Raju Vaziraney

Could you listen to what I said couple of minutes earlier?

Sumeet

Sir can you please repeat it?

Jitendra Jain

Can you please repeat sir?

Raju Vaziraney

See the volume growth is 20%

Jitendra Jain

No sir, volume is not clear. Sir your voice is feeble, can you just be near the speaker phone please?

Raju Vaziraney

can you hear now?

Jitendra Jain

Sir your voice is breaking, your voice is feeble.

Raju Vaziraney

Can you hear now?

Jitendra Jain

Yes sir it is absolutely clear. Sir please go ahead.

Raju Vaziraney

The sales volumes to has increased from 27.91 lakhs to 33.60 laks.

Jitendra Jain

Sir your voice is fading.

Moderator

Hello.

Jitendra Jain

Sir your voice is fading. Sir I will just call you back again, just give me a moment please, thank you.

[No audio feed]

Raju Vaziraney

Hello. Jitendra can you hear me?

Jitendra Jain

Sir we can hear you but your voice is breaking in between.

Moderator

Sir can we just change the number, if you can give me an alternate number sir.

Raju Vaziraney

Yes we have got another number.

R. K. Malhotra

Yeah, we will give you in a moment.

Moderator

Sure sir.

Raju Vaziraney

Jitendra can you hear us?

Jitendra Jain

I can hear you. Hello.

Moderator

Your voice is absolutely fading, can you give me the numbers. Can you use the handset instead of a speakerphone? Mr. Jitendra.

Jitendra Jain

I am Jitendra Jain speaking.

Moderator

Mr. Jitendra can you ask the speakers to use the handset sir?

Jitendra Jain

Yes. Mr. Vaziraney? Can you use the handset instead of using your speakerphone please?

R. K. Malhotra

I think its not a good option , because we are all sitting together here, it is convenient for us to decide who is going to answer this question.

Raju Vaziraney

Not only that, the other person you can't hear, only the person with hand phone can.

Moderator

Sir can you give me an alternate number?

Raju Vaziraney

Jitendra is it clear now?

Jitendra Jain

Yes sir it is absolutely clear.

Raju Vaziraney

Then please connect to the participants....

Moderator

Yes sir. Mr. Sumeet you can please continue sir.

Sumeet

Sorry to make you repeat this part, but the entire volume brake up if you can give us in this quarter between branded sales exports and others, and then how it compared vis-à-vis previous quarters. Sir, what I would like to specifically understand is that since you have got a new capacity up end running which is 40% more than, you know, giving me new 40% higher volumes and so you know you should have shown much higher volume growth..

Raju Vaziraney

Hello, can you hear us?

Sumeet

Sir this facility is a 27 million liter facility, and my current facility of making alcohol is around 60,000 kiloliters, 60 million liters.

Raju Vaziraney

_____.

Sumeet

My question is like that I mean I was personally expecting a slightly higher volume growth.

Raju Vaziraney

Yes, as clear from the figure as we were mentioning to you after overall volume has gone up from 27.91 lacs to 33.60 lacs cases.

Moderator

Sir next question comes from Mr. Siddharth from Religare securities.

Siddharth

Good evening sir, Siddharth speaking. There were few queries which I had, the first one was the about the volumes, secondly sir, I wanted to know what could be long-term debt as on 30th June, and I could not hear clearly what you mentioned about the convertible preference shares. Okay, and the last question was relating to the molasses availability. We hear newspaper reports speaking about you know there being a glut of sugarcane production, but along with that we would see a lot of molasses being diverted towards producing ethanol, and that liquor manufacturers in India would have to probably source molasses from outside or shift to grain . So what is your view on it and how would be taking care of this problem?

Raju Vaziraney

The questions about the volume, domestic volumes have shown 20% increase while our exports have grown up from 88 thousand cases to 2.51 lakh cases during this quarter. Hello? .

[Audio break]

Moderator

We have next question from Ms. Toral Munshi from ABN Amro.

Toral Munshi

Good evening sir.

Raju Vaziraney

Good evening.

Toral Munshi

Congratulations on a good set of numbers.

Raju Vaziraney

Thank you.

Toral Munshi

I had a couple of questions; one is what we are trying to understand is if the new distillery at Rampur has gone in stream, so why our own sales growth only at 10%, one would have anticipated slightly higher growth in your own sales, while tie up sales have grown by around 20% we have not seen that kind of growth coming in your own sales, sir can you explain that a little bit?

R.K. Mehrotra

See first of all let us be clear that the tie up sale is also our own sale, so while the tie up unit sale is much bigger than the Rampur sale, both put together we have in branded business grown at 20%. So we are quite satisfied with the performance because our volumes have grown from 27.91 lakh cases to 33.60 lakh cases, both Rampur as well as tie up units put together.

Toral Munshi

Okay how much would have that come from Rampur in this quarter?

R. K. Mehrotra

Around 55% is from tie up units, the balance is from Rampur. The strategy of the company is to maximize the sales of the tie up units because these units are closer to centers of consumption, there is less distance because geographical distances from Rampur are much larger as compared to the tie up units, and we save import duties and taxes. We are able to supply the material faster. So the whole strategy is that we should be able to capture maximum number of cases in the market and increase our volumes, and as far as the margins are concerned it is immaterial whether the material is supplied from Rampur or from the tie up units.

Toral Munshi

Right. And in terms of raw material cost which has seen a significant decline as a percentage of sales, is it largely due to lower molasses cost or a part of it can also be attributed to change in the product mix because now that you have grain based distillery?

Raju Vaziraney

It is mainly because of the molasses and the prices of bottles also have gone down, the glass prices are also under control now, and it was mainly because of these two reasons, of course company's effort are always there to improve the sale mix and maximize the sales where we have better margins, that effort is always there.

Toral Munshi

Can we expect this kind of a RM to sales ratio being maintained for the rest of the year?

R.K. Mehrotra

Yes, we hope that these margins are likely to be maintained.

Toral Munshi

Okay. Could you just give us a comparable molasses price for this quarter vis-à-vis last quarter?

R.K. Mehrotra

Yes. Comparable price is during the last quarter it was 472, now it is 348 per quintal, landed cost of molasses.

Toral Munshi

Okay, and what is your view going forward on molasses cost?

R. K. Mehrotra

Going forward we feel that prices are not going to improve any more and whatever savings we achieved whatever prices we are expecting that has already happened, and now as I was telling earlier our dependence on molasses has been reduced considerably because we have our grain plant going, and grain plant has started production very recently, going forward we will have the full benefit of the grain plant for the entire year.

Toral Munshi

Okay, and sir over a two-year period what do you expect this mix go to molasses verses grain?

R.K.Mehrotra

It is difficult to predict two years because you know it all depends upon the crop, but as we are in a unique position because we had got largest grain plant as also the largest molasses plant. We also have our own malt maturation facilities, with the result that either way we are covered because our captive consumption is fully taken care of by our spirit as also the spirit we buy from the tied up units.

Toral Munshi

Okay. Sir in the selling and distribution expenses have gone up this quarter, what is likely to be the trend going forward what is the kind of allocation is there for advertisement this year?

Raju Vaziraney

Selling and distribution expenses have mainly increased due launch of our new brand Magic Moments vodka, where we have incurred additional expenditure of about 3 crore this quarter.

Toral Munshi

Three crores right?

Raju Vaziraney

Yes. That is doing very well, and if you see the ratio of selling and distribution expenses to net sales, the ratio remains more or less same, it was 10.64% in the last year quarter and now it is 10.96%. So it is commensurate with the increase in the sales also. As far as the trend is concerned we do not feel that it is going to deteriorate in future.

Toral Munshi

Okay. Sir if you could just repeat your export YOY growth as percentage value percentage figure?

Raju Vaziraney

Yeah. The exports have gone up from 88000 cases in the last quarter to 2.51 lakh cases in this quarter, this is regarding the volume, and as far as the value is concerned exports have gone up last year from 5 crores to this year 19 crore.

Toral Munshi

19 crores, okay.

Raju Vaziraney

And this includes the export of spirit, it includes the export of IMFS, both.

Toral Munshi

Okay. Thank you sir.

Moderator

Thank you very much mam. Participants who wish to ask questions may please press *1 now. We have a follow up from Mr. Siddharth from Religare.

Siddharth

Sir, what would be your total long-term debt as on 30th June 2006?

R.K. Mehrotra

Long-term debt is 120 crores.

Siddharth

This should be mainly sir?

R.K. Mehrotra

Pardon?

Siddharth

This would be mainly funding from institutions or banks?

R.K. Mehrotra

It is mainly from institutions and banks.

Siddharth

Okay. You have not answered my earlier query, your views on the molasses and whether market which talk of shortage of molasses next year are true and what are concern for you?

Raju Vaziraney

No, you see we do not expect any shortage of molasses during the current year because sugar production is going up, lot of additional capacity has come, and the farmer is getting good price for the cane, and there have been good rains in the year, so I do not think personally I do not think there should be any problem on molasses. As I was telling earlier as a matter of long-term strategy we have put up a grain plant. In case we find any difficulty in molasses we can always switch over to grain and we are also developing some of the

products, which are grain based. We are also exporting that specifically of the grain. And this grain production has very recently started, we will get the benefit of the grain during the current year.

Siddharth

But do you plan to scale up your grain facility?

Raju Vaziraney

No. No.

Siddharth

Okay, sir. What I was wanting to ask basically was that _____ going to become an _____ on molasses?

Malhotra

We could not hear you clearly can you repeat the question please?

Siddharth

Basically every sugar mill is using integrated model to you know de-risk the business and the revenues, lots of sugar companies are now having ,you know ,ethanol or a distillery, and you know the market, I think next year from where we purchase our molasses from?

Raju Vaziraney

See it has a International model and if they put up the distillery facilities and if they put up ethanol facility then the spirit which will be produced will also be consumed in the market there is lot of demand from the chemical units for the spirit. This is spirit they would consume when they consume industrial spirit, other molasses are available for the potable use for potable purposes. So we do not think that it is going to impact in the near future in any substantial manner as far as the portable industry is concerned.

Siddharth

Sir basically but what I was talking about is raw material sourcing, if everybody is going to manufacture his own spirit....?

R.K. Mehrotra

See we have got our grain facility also and this grain facility will come handy, because on ly from this point of view of a long-term strategy that we decided last year to put up the grain facility, it will come quite handy to us, and more over molasses as well as spirit can also been imported, our relationship with our neighboring country are improving and there has been a regular trade now across the border and that country does not consume alcohol, so those products can also come here .see our view is that water will find its own level in the long run.

Siddharth

Sir you mentioned _____

Raju Vaziraney

Pardon?

Siddharth

Sir., you talked about ...

Raju Vaziraney

I am not able to hear you clearly.

Siddharth

You have mentioned a possibility of importing spirit, that would be from Pakistan?

Raju Vaziraney

Yes it could be from Pakistan also, molasses mainly.

Siddharth

Sir, what are the import duties on molasses ? Are there any import duties on importing molasses?

Raju Vaziraney

Yes they are imported.

Malhotra

See the import duty on 40% alcohol is 150%, whereas industrial alcohol is 15%.

Siddharth

Okay, and molasses and spirits

R.K. Mehrotra

On molasses also, there is a duty I cannot tell you precisely what exactly the amount, but they are yes that is also have a duty.

Siddharth

Okay, thank you very much sir.

Moderator

Thank you very much sir. At this moment there are no further question from the participants. I would like to hand over the floor back to Mr. Jitendra of Radico for final remarks.

Jitendra Jain

Friends, in the end on behalf of the entire Radico team I once again extend sincere thank and appreciation to each one of you for joining us for Q1 results analyst conference call. In

case if you have any other question please feel free to contact us, we will be happy to answer your queries. As always we will keep you posted about the development taking place in the Indian liquor industry as well as in our company Radico Khaitan Limited. We look forward for getting your continuous support and strengthen the relationship further. Thank you very much once again.

Moderator

Thank you very much sir. Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a wonderful evening.

NOTE:

1. Please verify the proper nouns and their spellings, and the acronyms.
2. Please verify the names of the speakers and their order of appearance.
3. Bolded words need to be confirmed for their accuracy.
4. Blanks in the transcripts represent inaudible or incomprehensible words.