

**Radico Khaitan Limited**  
**Analysts/Investors Conference Call**  
**November 01, 2006**

Moderator

Good afternoon ladies and gentlemen. I am Sunil, 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 question and answer session will be conducted for participants connected to SingTel. After that the question and answer session will be conducted for participants in India. I would like to hand over the proceedings to Mr. Jitendra Jain. Thank you and over to you sir.

Jitendra Jain

Hello. Dear friends, on behalf of Radico Khaitan Limited I warmly welcome all of you to the 2006-2007 Q2 earnings conference call. Its my pleasure to introduce you the management team of Radico Khaitan Limited who are present here in our executive board room at our corporate office in Delhi. Today we have with us our Chairman, Dr. Lalit Khaitan.

Dr. Lalit Khaitan

Yeah, good afternoon ladies and gentlemen.

Jitendra Jain

Managing Director, Mr. Abhishek Khaitan.

Abhishek Khaitan

Good afternoon to all of you.

Jitendra Jain

Mr. Raju Vaziraney, our President Sales and Marketing.

Raju Vaziraney

Hello, good afternoon.

Jitendra Jain

And Mr. Mukesh Agarwal, AVP Finance and Accounts.

Mukesh Agarwal

Hello, good afternoon to everybody.

Jitendra Jain

I would now request our Chairman, Dr. Lalit Khaitan to say a few words about the performance of the company.

Dr. Lalit Khaitan

Ladies and gentlemen, it gives me great pleasure to welcome you all for Q2 earnings conference call of Radico Khaitan Limited. As you must have noticed the current quarter has been an excellent quarter for the company. The gross sales have gone up by 19% to Rs. 317 crores and the net sales have grown by 26% to Rs. 197 crores. The profit after tax has gone up to Rs. 10.51 crores, which is 22% growth compared to the corresponding period last year. I am also pleased to inform you that our company's export division continues to do well. We expect export to be around Rs. 140 to 150 crores this year against Rs. 40 crores last year.

During the quarter, the company has formed a 50:50 joint ventures with Diageo. As you know Diageo is the largest liquor company in the world with blockbuster brands like Johnnie Walker, Smirnoff, Baileys, Captain Morgan and many others. The joint venture intends to start the operation entering into the premium brown spirit segment by creating new to the world brands. We feel that this joint venture is a milestone in Radico's journey and will create immense value for the company and its shareholders going forward.

During the quarter, the company raised USD \$70 million by way of issue of convertible preference shares and foreign currency convertible bonds. The issue was priced at a premium to the prevailing market rates and despite adverse financial market conditions met with good response. This further confirms the faith shown by the investors in our company, its management, and its growth plans. The company is now actively exploring new acquisition opportunities both in India and abroad.

In our pursuit for new products offering and innovation, the company launched Magic Moments Vodka a month back. During the short span, the brand has already garnered 15% share of the Vodka market. We have recently launched a new grain based whiskey Royal Cambridge and the response is encouraging.

The current year for the industry as well as for the company should be a promising one. We are looking forward to a year of all round growth and making our best efforts to further improve the efficiency and performance. On behalf of Radico I wish to reiterate our commitment for formulating and implementing new strategies for continuous growth of the company in future. I would like to thank you all once more to be with us and thank you very much.

Jitendra Jain

Friends as you are aware; we have announced our Q2 results yesterday. We have already sent a copy of these results to you by e-mail. These results are also available on our web site [www.radicokhaitan.com](http://www.radicokhaitan.com). I am pleased to formally announce the results. It has been another successful quarter for the company with excellent operational and financial performance. Gross sales of the company have gone up from Rs 267.21 crs to Rs 317.30 crs, an increase of 18.74%. The EBITDA of the company has gone up from Rs. 17.97 crores to Rs. 25.40 crores showing a growth of 41.35%. The profit after tax has also gone up from Rs. 8.63 crores to Rs. 10.51 crores, which is a growth of 22%. The gross margin has also gone up from 11.44% to 12.86%. We are now open for questions and would be happy to answer your queries to the best of our ability.

Before we begin, I would like to state that some of the statements in today's discussions may be forward looking in nature based on our current expectation and may also involve risk and uncertainties. I would also like to mention that this conference call is being recorded. I now hand over to the moderator of this conference call for conducting Q&A session. Over to you.

Moderator

Thank you very much sir. We will now begin the Q&A session for international participants connected to SingTel. I would like to hand over the proceedings to Salvia. Thank you and over to Salvia.

Moderator (SingTel)

Thank you Sunil. We will now begin the Q&A session for participants connected to the SingTel bridge. Please press 01 to ask the question. Once again please press 01 to ask the question. At this moment there are no questions from participants at SingTel. I would like to hand over the proceedings back to Sunil.

Moderator

Thank you very much 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 questions 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. The first question comes from the line of Mr. Surendra Singh of Anand Rathi.

Surendra Singh

Sir, I was just wondering if you could provide us the average price of molasses that you have for the quarter and the outlook for the year to come.

Mukesh Agrawal

This quarter the average price of molasses has been Rs. 367 per quintal and our outlook is that molasses prices are going to come down plus the sugar production is going to be very high and we are expecting molasses prices to come down and our average price of molasses is expected to come down from last average of around Rs. 400 per quintal to around Rs 370 or may be 380.

Surendra Singh

Okay and I am sure most of the participants today would like to hear from Mr. Vaziraney about the newer initiatives that the JV that we have from Diageo, some of the brand launches in the plans that you have over there, so we will appreciate if you could share some light on the initiatives from that side please?

Raju Vaziraney

Yes, thank you. I am Raju Vaziraney speaking. As you know Diageo is the largest premium alcoholic beverage company in the world and we take lot of satisfaction in having signed during the last quarter, the agreement with them on 21<sup>st</sup> of August and it is a blue blood marriage. The good news is that we have zero risk on our business plan and early next year we would be able to launch one or more brands into the Indian ad mix markets and we are very confident we will be able to make our mark in the Indian liquors markets.

Surendra Singh

Okay, thank you sir.

Moderator

Thank you very much sir. Participants who wish to ask questions please press \*1 now. Participants who wish to ask questions please press \*1 now. The next question comes from the line of Ms. Lakshmi of Capital Market.

Lakshmi

Hello, this is Lakshmi from Capital Market. Can you throw some light on the acquisition plan you have in India and overseas, you told you have plans for more acquisition, what are the plans you had taken in this respect?

Raju Vaziraney

Yes, thank you. See what we are doing is we have got our vouchers ready which inter alia entitles us to acquire brands/facilities, production, and otherwise both domestic and international. We are very confident and we have got 3 to 4 proposals in our mind, which are in the advanced stage of final execution. At this juncture, it is difficult for us to say whether we will be able to finalize it very soon, but we have all the intention to do so. These are huge, huge acquisition opportunities which will put us in a top gear in times to come. It is a very fact that we have picked up FCCB is enough indication of our intent to have a leap forward in business, but you see these are all longish agenda and which will give results over a period of time. More than profits this will give more stability and great forward for our company, so this is our acquisition strategy.

Lakshmi

Okay, thank you.

Moderator

Thank you very much mam. The next question comes from the line of Mr. Amnish Agarwal of Motilal Oswal.

Amnish Agarwal

Yeah, good afternoon sir, I have got one question regarding there is a income which you have shown during the quarter. The other income has jumped from something like Rs. 30 lakhs to Rs. 586 lakhs, so what is the reason for the sharp increase in other income?

Mukesh Agarwal

You see Mr. Agarwal, actually this quarter, we have three different components of other income. One of them is MODVAT credit utilized on account of sale of ethanol, so Rs. 177 lakhs credit is there on account of MODVAT credit utilized on ethanol sale, so this is nothing but the operational income only we have to do the accounting adjustment by showing it under the head of other income, so it is an operational income. Than other head is of the excise revenue from subsidy income, which we are getting on the grain-based plant, which we had put last year, so as per the UP Government policy we are entitled to get the subsidy, so we have accounted for the subsidy which has accrued during the current half and that amounts to Rs. 185 lakhs. And other income from investment on account of the parking of funds of FCCB is around Rs. 277 lakhs, which is also an operational income because we have booked the interest out go on account of FCCB in our interest cost. So all these three components of other income are nothing but the part of operational income only.

Amnish Agarwal

But when you have issued FCCB on one hand you are showing other income and on the other hand that interest expenditure is there, but wasn't FCCB issued to repay part of your debt?

Mukesh Agarwal

Yes we have utilized the proceeds .....

Jitendra Jain

No FCCB proceeds have not been used to repay part of the debt, but we have done the CCPS funds proceed, which we have received in India in terms of rupees. Out of that money has been used to partly repay high cost debt, but the FCCB money is still lying in UK.

Amnish Agarwal

Okay and secondly the first two heads of other income like MODVAT credit and excise subsidy etc., are these recurring in nature?

Mukesh Agarwal

Yes, they are recurring in nature.

Amnish Agarwal

And can you share with us that what/how they are calculated certain percentage of sales or something of that sort?

Mukesh Agarwal

Based on the connection of molasses which we require for production of ethanol, out of one quintal of molasses it gives us a recovery of 22.5 liters of alcohol. Our excise duty we pay on the molasses consumption, we get the equivalent credit on account of that, and that is credited in another income account.

Amnish Agarwal

Okay and the subsidy which comes to you from government.

Mukesh Agarwal

This is relating to the amount of capex which we had put for the putting of the grain-based plant, so every year we are entitled to about Rs. 5 crores of subsidy on account of grain-based plant, so the same we have booked in the first half, which amount to around Rs. 195 lakhs.

Amnish Agarwal

Okay and for how many years this income will continue?

Mukesh Agarwal

This will continue for another around 5 years.

Amnish Agarwal

Okay, thanks a lot sir.

Moderator

Thank you very much sir. Participants who wish to ask questions please press \*1 now. The next question comes from the line of Mr. Balaji of Sundaram BNP.

Balaji

Sir just one question, sorry if I had missed this. If you could just give me the volume break up between exports and domestic for this quarter and the previous quarter?

Mukesh Agarwal

Our exports volume in the first half, we have achieved the volume of 6.52 lakh cases, which is showing a growth of 171%, and in the domestic arena, we have achieved a volume of 6 million cases in the current half, which is again showing a growth of 21%.

Balaji

And the domestic can you give the split between the Whisky and Vodka, Rum etc.?

Mukesh Agarwal

In Whisky we have sold around 4 million cases, which is again a growth of 15%, and another brand we have launched this financial year is Magic Moments Vodka. We have sold close to 1.5 lakh cases during this year, and in Rum segment also we have achieved a growth of around 12%, which is accounting for around 20% of the total IMFL sales, so overall sales growth in IMFL segment in the domestic which will be around 20%.

Raju Vaziraney

And see just to supplement with what Mukesh said, see while the growth is 20%, you must appreciate that the company is cautiously moving towards premium brands and premiumization, that is one of the factors why we have put all the focus on Magic Moments Vodka and I take a lot of satisfaction in mentioning that our Vodka is the fastest growing Vodka in the country today in terms of growth and there is an overwhelming success, and I am very confident that this brand of Vodka, which is few months old already into the market and has a very good width of distribution will become a million case brand in couple of years time. And just to mention that there is no million-case Vodka yet in this country, so our aim is very clear and focussed and this Vodka will give much better bottom line and contribution than other brands, so this is our focus brand.

Balaji

And out of your current capacity how much has been allocated to this grain-based Whisky.

Raju Vaziraney

The interest of the company is to move towards grain. Why grain? Because of two reasons; one is we have the largest grain plants and state of art grain plant at our Rampur factory, which is capable of making the best grain plants human beings can make, this is because of the technology that we have adopted which is world class and world best, so one is the plant

which we have got. Second is as you know all over the world, grains Whiskey has an edge over non-grain Whisky, and they command a certain premium. Since our intent is to move towards premiumization and also with Diageo Radico tie up, we are very clear that grain plant will give us more money both in terms of bulk as well as branded liquor.

Balaji

Fine, thanks.

Raju Vaziraney

Thank you.

Moderator

Thank you very much sir. Next in line we have Ms. Shikha Kapoor of Quantum Securities.

Shikha Kapoor

Good afternoon sir. I would like to know your expansion plans both for organic and inorganic growth, and my second question is how do you plan to spend your \$70 million recently raised from the international market?

Raju Vaziraney

See your question is in two parts, one is in terms of organic and inorganic growth, and partly I have already explained this, see while our guidance is up to 20% both bottom and top line, which is largely due to organic growth, and I also mentioned that we are looking at acquisition opportunities for which we have got the money ready in our bank, so it is very important for us. But that all is longish planning. The immediate and short-term planning is towards our organic growth and our brands are buoyant. The second part of your question pertains to the FCCB money utilization, I will request Jitendra Jain to answer this please.

Jitendra Jain

As we have already explained to you the CCPS money, which we have got in terms of rupee in India, out of that money we have used for repayment of the high cost of the rupee debt and this has reduce the interest cost. FCCB funds are still lying in UK and will be used for acquisition, because the funds are available with us now we are looking for capex and acquisition on the more productive basis.

Shikha Kapoor

Okay, this acquisition.

Jitendra Jain

Looking forward as some of these plans materializes, this money will be brought to the country and used for these capex and acquisitions.

Shikha Kapoor

Okay, this acquisition we can expect domestically or may be exports or may be outside India?

Raju Vaziraney

See our intent is both and it all depends upon merit of each case and on what terms do we do the acquisition, but we find this both and our endeavor is to have both.

Shikha Kapoor

Okay, one question is one more thing I would like to know about your Diageo JV what are the plans for marketing or may be manufacturing, as of now it is clear that you will not be doing the brand what already the Diageo is selling, so may be it will be totally new IMFL brands, so anything worked out in capacity terms or may be how the set up exactly going to be?

Raju Vaziraney

You have understood it rightly, the international brand portfolio will be the domain of Diageo India. The Radico brands will be the domain of Radico India, and the mid, you see there is a big space in between that is the premium space in brown spirit, that space is growing at double the growth rate of the other two spaces with the results that it offers lot of potential for this JV, that is you see this is a natural marriage between the two partners and since it is a very attractive segment of the premium spirits, it attracts both of us naturally and we will put our all might to make our mark in this segment.

Shikha Kapoor

Okay, thank you sir.

Raju Vaziraney

Thank you.

Moderator

Thank you very much mam. The next question comes from the line of Mr. Shrinivas of Emkay Shares.

Shrinivas

Good afternoon everybody, my question is again related to this Diageo joint venture, if I remember it correctly they have parted ways from the Mallya's group of companies and they had come to you for this joint venture. In terms of creating value for shareholders of Radico what are the terms you have extracted from Diageo, like are they going to bring in equity into your new joint venture at a much higher price? Secondly, how will you extract value out of Diageo, will you get I mean in terms of distribution margins or whatever it is are you going to extract lot of value from them? Can you give some kind of feel for what, how exactly do you plant to go about it?

Raju Vaziraney

See your question is in two parts one is equity participation and the other one is in terms of what value does it add to the shareholders of Radico. So I must appreciate that both the questions besides being candid are extremely useful and need to be answered. See the ethics or the ethos of the joint venture is not for equity participation, it is to create brand, which will be a creating brand making company, so where are we at a in phase two at a later phase look at equity it is not in the scope of the joint venture at this juncture, but in the same

breath I am also saying since it is a natural marriage definitely the JV will look beyond participation for making these two brands. As far as your second question is concerned, how does the shareholder of Radico gain from this joint venture, see there are various advantages both to the Diageo as well as Radico from this joint venture. The advantage to Radico is that as I said, it supplements and complements our existing brand's portfolio, one is aware that our brands are up to the dealers \_\_\_ and price point. The premium space is not yet addressed by Radico, but that does not mean Radico is not capable of addressing the premium space on its own, but the fact that Diageo, the most premium alcoholic beverage company of the world, is our partner and they bring to the table the world's best practices particularly from marketing stand point where the success of the brand is as good as guaranteed, so as one is we are aware if the facility rates in the premium space is very, very high, so one is it mitigates the infant fatality rate and the second is with this joint venture we lay a foundation for a much bigger and longer innings in this Indian liquor industry.

Shrinivas

Sir that is fair enough, I take your point sir, Diageo is a world leader no doubt about it, but are you extracting like you are providing them you know distribution and the entire marketing infrastructure which you have, and there are lot of entry barriers and Diageo cannot come in on their own that easily, you are providing the whole thing to them. Are you extracting the right price out of them because at the end of the day you know when foreign companies got into United Breweries, the local management extracted a very high price out of them, and then only they gave them the strategic stake in the company. What are we creating value out of Diageo?

Abhishek Khaitan

I am Abhishek Khaitan, the joint venture with Diageo is absolutely a 50:50 joint venture, and the value which it will create for the Radico shareholders would be immense. #1. Having a partner like Diageo with Radico, they are the leader in the absolute international market and would be able to use the international contact through even export the joint venture brand outside, so it is the good synergy. And secondly, Radico would be also getting the distribution fees and the management fees for the distribution efforts and also the production fees for managing all the production, so eventually it is absolutely a win-win situation for both the company and more than these direct or what do you say tangible benefits, the most intangible benefit is the marketing expertise, the kind of brands which we would be creating for the Indian market would be something very, very different and that can only be possible with the foreign company joining hands with the Indian company, and very soon with our rollouts in the first quarter of the coming year, you will be seeing the new marketing initiatives which we would be doing on our new brands.

Shrinivas

Thanks sir.

Moderator

Thank you very much sir. The next question comes from the line of Mr. Sumith Budiraja of Edelweiss Securities.

Sumith Budiraja

Good afternoon sir and congratulations on good set of numbers. Basically, wanted to understand in the first half how much of exports we have done against our full year target?

Mukesh Agarwal

We have achieved already Rs. 50 crores in the first half, which is approx growth of 280% over the last year figure, so this is performance on account of exports front.

Sumith Budiraja

Right, thank you sir.

Mukesh Agarwal

Thank you.

Moderator

Thank you very much sir. Participants who wish to ask questions please press \*1 now. Participants who wish to ask questions please press \*1 now. Next we have a follow up question from Mr. Surendra Singh of Anand Rathi.

Surendra Singh

Sir, if I may ask one question to Dr. Khaitan. Hello.

Dr. Lalit Khaitan

Carry on.

Surendra Singh

Yeah, sir, just a comment on thought process we are seeing the market grow at a significant level and if I may say the incumbent had in the market is growing at a much faster rate than what we are. Of course it is presently the growth we had for 8 PM gave us world records and all that, don't you think this needs to be some serious rethinking in terms of how we are going to the next level of growth Diageo being one part of it, if you could comment on that.

Dr. Lalith Khaitan

Generally, as you see we are not only focussing on Diageo as Mr. Raju Vaziraney had said earlier, we already have a kitty of \$70 million. Besides that if you see in the past, you see the past 2 years, we have acquired many brands. Earlier we had a collaboration with Bacardi, which we acquired, they are 51% stake in Whytehall Whisky and besides that we also acquired brand from Brinhans Maharashtra and many others, and taking it forward besides Diageo we are also looking forward for further venture acquisition and other things in India and outside India, and also our existing brands are also doing very well and they are still lot of scope for the growth of the existing brands, and in the future we will also be launching more and more brands where we expect with our strength of distribution, which again is getting stronger, we would get a much much better results.

Surendra Singh

Okay, and another thing sir, I wanted to really understand is could you give us some sense or what kind of I mean manufacturing revenues are we expecting in terms of charges that we are going to have for Diageo that we do it through the JV, so to the main company what kind of you know numbers are we talking about lets say not in 2007 perhaps in 2008?

Dr. Lalit Khaitan

You see as far as the manufacturing revenue with Diageo and others is concerned, you will have to appreciate it is a composite agreement you see which have lot of other elements, it is not only in terms of money only, you see in terms of money and so many other things, so at the moment it would be difficult and also not prudent for me to reply so much in detail.

Surendra Singh

Okay, thank you sir.

Moderator

Thank you very much sir. Participants who wish to ask questions please press \*1 now. At this moment I would like to hand over the proceedings to Salvia once again to take the questions from participants connected to SingTel.

Moderator (SingTel)

Thank you Sunil. Participants who wish to ask questions please press 01 now. Once again please press 01 to ask a question. The first question is from Mr. Yui Tsao, Hong Kong. Over to you sir.

Yui Tsao

Yes, could you talk about the progress that you are making in your international business?

Raju Vaziraney

See if you see our first half this year, our export turnover has been Rs. 50 crores against last half of Rs. 13 crores, which is a jump of 280% and hopefully we will be able to achieve about close to Rs. 140 to 150 crores in the current financial year, and lot of good development are taking place at the export front and I can only say that the exports keeps growing. It still has to shape up and things are looking very promising.

Yui Tsao

And could you talk about the progress with Diageo, generally speaking?

Raju Vaziraney

The progress with Diageo?

Yui Tsao

Yes.

Raju Vaziraney

See we are planning to rollout our plans by the month of March -April and things are working well in that regard, and lot of interesting developments about innovation etc. are taking place and we are well in sight of the targets, and hopefully our first time should be rolled out very soon.

Yui Tsao

How many brands are you intending to launch?

Raju Vaziraney

It will be more than one, you know I cannot spell out the exact number of brands, because these are confidential things, but it will more than one brand.

Yui Tsao

What about other brands other than Magic Moments Vodka, your own brands?

Raju Vaziraney

Yes, see we had launched our Magic Moments about 6 months back and the consumer acceptance is very good, and we believe that in the next 2 years Magic Moments should touch a million case in sale and it is growing more than our expectation, and recently we have launched a new grain Whisky, Royal Cambridge, which we have just rolled out in the northern states and we would be taking it national very soon, and next in Radico we are already working at launching 2 or 3 new premium brands.

Yui Tsao

Can you comment as to Vodka or anything else?

Raju Vaziraney

It will be Vodka and other flavors also.

Yui Tsao

And the new grain Whisky what is the price point?

Raju Vaziraney

The price point is, it is in the regular segment, it is parallel of Bagpiper Whisky.

Yui Tsao

Okay, thank you.

Moderator (SingTel)

Thank you sir. Participants who wish to ask questions please press 01 now. At this moment there are no further questions from participants connected from SingTel. I would like to hand over the proceedings back to Sunil.

Moderator

Thank you very much Salvia. At this moment there are no further questions from participants in India. I would like to hand over the floor back to Mr. Jitendra Jain for final remarks.

Jitendra Jain

Friends, on behalf of entire Radico team I once again extend my sincere thanks and appreciation to each one of you for joining us for Q2 results analyst conference call. In case you have any further questions please feel free to contact us, we will be happy to answer your queries. As always we will keep you posted all developments 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 we are very keen to strengthen the relationship further. Thank you very much once again.

Moderator

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.

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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.
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