

Radico Khaitan Limited
Investors/Analysts Conference Call
January 30, 2006

Moderator

Good evening ladies and gentlemen. I am Parimala, 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 Khaitan. Thank you and over to Mr. Jain.

Jitendra Jain

Dear friends, I warmly welcome all of you to 2005-2006 Q3 earnings conference call of Radico Khaitan Limited. It is my privilege to introduce the management team of Radico Khaitan Limited who are present here in our executive boardroom at our quarter office Delhi. We have with us Mr. Lalit Khaitan our Chairman and Managing Director, Mr. Abhishek Khaitan, our Managing Director, Mr. R. K. Mehrotra, President - Finance, Mr. Raju Vaziraney, President – Sales and Marketing, and Mr. Sanjay Lamba, Executive Vice President. As you know, we have declared our Q3 results a short while back, a copy of which we have already sent to all of you. May I hand over the floor to Mr. R. K. Mehrotra, our President-Finance, who will be formally announcing the Q3 results.

R. K. Mehrotra

Good evening ladies and gentlemen. It gives me great pleasure to announce the results of our company for the nine month ending 2005. Before we begin, I would like to state that some of the statements in today's discussions maybe forward looking in nature based on the managements current expectations, and may also involve risks and uncertainties. I would also like to mention that the conference call is being recorded.

During the quarter, we have acquired the brands of Brihans, Maharashtra. Our gross sales have increased from 747 crores to 889 crores clocking an increase of 19%. The PBDIT has gone up from Rs. 44 crores to Rs. 63 crores registering an increase of 43%. The profit after tax has gone up from Rs. 24 crores to Rs. 32 crores registering an increase of 35%.

Before we take the questions from all of you, I will request our Chairman and Managing Director, Dr. Lalit Khaitan to say a few words. Mr. Khaitan please.

Lalit Khaitan

Thank you. Good evening ladies and gentlemen. I welcome you all this evening to the earnings conference call of Radico Khaitan Limited. As you all must have noticed, the current year has been an excellent year for the company and the growth of our sales volume has been 27%. The top line and the bottom line of the company also reflect the efforts put in by all of us at

Radico. During the quarter of October-December, we have made one acquisition of the Brihans Maharashtra, which has resulted in the benefits of synergy adding value. As you are aware, the industry is going through a phase of consolidation and in our opinion it is a very healthy trend. 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.

I would like to once again welcome you all for this conference. Thank you very much.

Moderator

Shall we start the Q&A sir.

R. K. Mehrotra

Yes, now we invite the questions.

Moderator

Thank you very much sir.

R. K. Mehrotra

Thank you.

Moderator

At this moment, I would like to hand over the proceedings to Salvia to conduct the Q&A for participants connected to SingTel. After this we will have a Q&A session for India bridge. Thank you and over to Salvia.

Moderator (SingTel)

Thank you Parimala. We will now begin the Q&A session for participants connect to the SingTel bridge. Please press 01 to ask a question. Participants who wish to ask question, please press 01. At this moment there are no further questions from participants at SingTel. I would like to hand over the proceedings back to Parimala.

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 your 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. First in line, we have Mr. Chetan from Kotak Securities. Over to you sir.

Chetan

Dr. Khaitan and Jitendraji, congratulations on a very nice results over here. Two questions, basically, first is the interest part of the business. Your interest cost has gone up by almost 86%, would like to know what kind of capacity additions were done which came on line so that interest has gone up, and what would be the phenomenon going forward? Another question would be, if you compare the purchase of consumption and the raw material consumed, you have been able to reduce it by almost 7 to 7.5%, whereas our sales have increased substantially over that period. So what has been the raw material procurement strategy where we have been able to reduce the cost and maintain our profitability, which has been growing very fast, so if you can throw light on those two questions, I would be very highly obliged sir.

R.K. Mehrotra

As far as the interest costs are concerned, as on April 1, 2005, our total borrowings were 215 crores which have gone up to 315 crores as on December 31, 2005. One reason of increased cost is the increase in the borrowing because all our expansion projects and all our increase in volumes and capex has been funded by our own internal resources as well as by borrowings, that is number one. Number two, the interest rates all around are inching up, and there is a slight increase in the interest cost on this account also by about half a percent or so. The present overall average rate of borrowing is around 7%, it used to be 6.5 in the past. These are the two main reasons for increase in the cost. About the raw material...

Abhishek Khaitan

I am Abhishek Khaitan. About the second question, about the raw material prices, we have been always maintaining that molasses which accounts for 20% of our cost was at a very high rate during last year, and as the sugar production is good this year, we expect the prices to come down and that is what we have experienced in the Q3 that the raw material price of molasses was down compared to that of Q3 of last year, that is why there is a 7% decrease in the raw material cost.

Chetan

Will this trend continue for foreseeable future?

Abhishek Khaitan

Yes, the margins are likely to expand.

Chetan

So the EBITDA margins will keep on expanding for foreseeable two quarters at least?

R. K. Mehrotra

See we have a given a guidance of 25% increase in the top line and 30% in the bottom line, we are not changing the guidance.

Chetan

Thank you sir.

Abhishek Khaitan

Also as far as the future strategy goes, last year we had done a good procurement strategy where we had built up stocks. Today also we have built up stocks for the next five months.

Chetan

Okay, sir one more question would be, any brand acquisitions which you will be doing possibly during this quarter?

Abhishek Khaitan

See, we have given a mandate to Rabo India to look for brands both internationally as well as to domestic brands, so they are on this exercise. So as and soon if any brand is interesting enough and at the right price we will be interested.

Chetan

Thank you very much sir, and again congratulations on good results.

Abhishek Khaitan

Thank you very much.

Moderator

Thank you Mr. Chetan. Participants who wish to ask questions, may please press *1 now. I repeat, participants who wish to ask questions, may please press *1 now. I repeat, participants who wish to ask questions may please press *1 now. Next we have Mr. Prasad, over to you sir.

Prasad

Hello.

Moderator

Go ahead sir.

Prasad

Yeah. First of all I will congratulate Radico team for good numbers, hello.

Abhishek Khaitan

Yes please.

Prasad

I think just now there was an announcement by the government that 100% FDI will be allowed in breweries industry, so I just wanted to know what will be the impact on this industry, I mean, your company also?

Abhishek Khaitan

See right now there are only newspaper reports....

R. K. Mehrotra

There is only a press release, the gazette notification is yet to appear.

Prasad

Okay.

R. K. Mehrotra

It is only a time lag. I think in another three weeks time or so the gazette notification should also appear.

Prasad

Okay, but how will it impact. Is it in a good this thing, or like more competitive thing?

Abhishek Khaitan

It will be very good for the industry because as far as competition goes most of the liquor majors have already entered into the country, and now with this FDI it relaxes the rule further, so from this, it would be a much easier route to invest in the existing companies, etc.

Prasad

Okay, so that means you are like in future there are certain plans coming with Radico Khaitan, like any joint venture by a foreign company?

Abhishek Khaitan

See in Radico we are quite open to joint ventures etc., and that is why we have given a mandate to Rabo India to look at international opportunities as well as domestic opportunities, it includes both acquisitions or joint venture.

Prasad

Okay, but nothing is in concrete thing.

Abhishek Khaitan

No, right now nothing is on final stage or anything.

Prasad

Okay, yeah thank you very much. Once again congratulations.

Abhishek Khaitan

Yeah, thank you very much.

Moderator

Thank you sir. Next we have Mr. Siddharth from Fortis, over to you sir.

Siddharth

Hello sir, I am Siddharth Agarwal from Fortis Securities. A couple of questions sir, firstly as you mentioned about the acquisition of Brihans in Maharashtra, what kind of volume growth and turn over growth are you seeing from there? And secondly, you mentioned the molasses, the price reduction has given increase in profitability this quarter, could you please comment on the numbers, what was the cost of molasses applicable to you and what are you seeing it from here?

Moderator

Hello.

Abhishek Khaitan

As far as Brihans Maharastra revenues are concerned, 8 brands are registered in CSD also..... Hello.

Moderator

Yeah sir, go ahead sir.

Abhishek Khaitan

Yeah, can you hear me please?

Siddharth

Yeah sir.

Abhishek Khaitan

See, Brihans brands we acquired in the Oct 2005, and its of very strategic value to us.

Moderator

Mr. Khaitan, we cannot hear you sir? Hello...

Abhishek Khaitan

Hello, can you hear now?

Moderator

Yeah, now it is fine.

Abhishek Khaitan

Okay. See the Brihans brands has strategic value besides good volume because you know they are registered in CSD, eight of the brands are registered in CSB, and Brihans premium whisky the flagship brand of Brihan, which has been acquired by us is among the top sellers in Delhi market where entry is not easy. The brands are also registered, the premium brandy Napoleon is also registered in Tamil Nadu market where entry is restricted, so these brands were doing a volume of about 8 lakh cases in a year. We expect to more than double them in next 12 months.

Siddharth

More than double ?

Abhishek Khaitan

Yeah, more than 100% growth in 12 months.

Siddharth

So what kind of strategy are you following for this double growth in just a period of 12 months?

Abhishek Khaitan

See these brands, when we had acquired Whytehall also last year, we are a national company, we have a national character, our infrastructure is available throughout the country, and there is hardly any marginal cost of selling additional case of liquor because our people are all present and the infrastructure is in place. So it gives not only profits, it also gives us reach.

Siddharth

Okay, and sir the second part?

Abhishek Khaitan

Yeah second part, can you repeat the second question?

Siddharth

Yeah sir, you know we just heard earlier that molasses accounts for around 20% of your cost, and because the sugarcane production has been good this year, the prices of molasses have fallen in the third quarter and that accounted for a fall in raw material cost, could you please comment on some exact figures, what has been your cost of molasses and where do you see it from now?

R. K. Mehrotra

See last year our average cost of molasses was about Rs. 454 that is landed per quintal of molasses, and going forward we see it softening. There should be a decrease of at least about 10 to 15% in the prices, and right now the molasses which is available in the market, the landed cost is about Rs. 350.

Siddharth

Okay.

R. K. Mehrotra

So going forward we feel that, that is what we had anticipated last time also, going forward prices should come down.

Siddharth

Okay, and you built up stocks of, for the next five to six months in case of molasses also?

R. K. Mehrotra

Yeah, we have got stocks of about five months.

Siddharth

Okay, so if the landed prices are falling to Rs. 350 so are you suffering a lot on that account because of your previous inventories?

R. K. Mehrotra

No, we had exhausted all our inventories in the month of November because the molasses season starts from December to November, and in the month of December-January we have built up the stock. By November end, we had liquidated all the previous old stocks.

Siddharth

Okay, so now your costs have fallen?

R. K. Mehrotra

Yes.

Siddharth

Okay, that is fine. Thank you sir.

R. K. Mehrotra

Thank you.

Moderator

Thank you very much sir. Next in line, we have Mr. Ranjit from HDFC Securities, over to you sir.

Ranjit

Good afternoon, congratulations for a good set of numbers. Sir I have two questions, one is the grain based alcohol project which you have announced, if you can throw some light on that, and the sales composition on various brand wise composition for the quarter?

R. K. Mehrotra

See as far as the grain plant is concerned, we have got state of art grain plant at our Rampur, which is also the location for our molasses. I request my chairman to give you details about it. Can you repeat the question please?

Ranjit

We have announced the grain based alcohol project, so if you can throw some light and give more details on this project? And second thing I would like you to share the brand wise sales for the quarter?

Lalit Khaitan

Yes, see the grain plant we have in fact, yesterday was the first day where we have inaugurated our grain plant, and the production of our grain unit has started from yesterday. It is a 85 crore investment and it would be the largest grain plant in the country. It is capable of producing 30 million liters of grain spirit per annum. Now, grain spirit is basically used for producing premium and superior whiskies, which would be used in our premium products like White Hall whisky etc., and plus also our exports which have witnessed a growth of 300% for the nine months there we are using all our grain alcohol out there, so now with this project commencing it should add a lot of strength to the Radico's future growth prospective.

Ranjit

Sir what sort of revenue you expect from this and what is the break even period?

Lalit Khaitan

See revenue from the grain plant it would be difficult to specify because that grain spirit would be used in our finished product. So that we have given a guidance that our revenue should grow by 20 to 25% for the next one to two years.

Ranjit

Sir this grain based project how it differs from the molasses, and because, I mean, in foreign countries they do not accept the molasses based spirit, if I am not mistaken?

Lalit Khaitan

Yes, that is why it helps us to gain access to the developed countries where we can use our grain whiskies.

Ranjit

Sir, coming with the new entry of FDI, how you see this project taking shape, is there any threat to this?

Lalit Khaitan

The grain plant why should there be a threat with the FDI coming in?

Ranjit

Sir if other companies also can put a grain based project in India to take the advantage of our low cost manufacturing, and it will compete with ours, and they have got superior brands?

Lalit Khaitan

No, if you see all the major liquor companies are already present in India, and anyone can put up a grain plant, it is not licensed and anyone is allowed to put a grain plant. So that is not a cause of worry at all.

Ranjit

Yeah, thank you very much sir.

Lalit Khaitan

Yeah, thank you.

Moderator

Thank you sir. Next we have Mr. Srinivas from ABN-AMRO, over to you sir.

Srinivas

Yeah, good afternoon everybody. I have a couple of questions. Firstly, this grain based plant in Rampur, will it help you in forging new relationships with some of the foreign liquor companies because you have ready availability of capacity now, probably yours is the largest grain based facility in the country now?

Lalit Khaitan

It will definitely help us.

Srinivas

Okay, my second question sir is, the Economic Times had carried an article suggesting the possibility of major duty cuts in imported liquor brands, so how is it going to impact Indian liquor companies? Is it the case where some of these foreign brands they will import the stuff and just distribute it here or will they be tying up with companies like you, produce it locally, and sell it. What is the kind of options which they maybe looking at?

Abhishek Khaitan

See the foreign companies with this duty cut would be importing and using companies with good distribution network to supply their products. That is why we have formed Radico International and we are country partners with Famous Grouse and Macallan, plus E&J Gallo for wine, so with companies who have a international division, those companies it is a welcome sign. As far as competing with the Indian products, even if the duties come down foreign products will be still priced at about Rs. 300 to 1000 a bottle, still does not compete with the mass volumes. See majority, 95% of the sales in whisky segments are less than Rs. 350 per bottle, so the question of threat or competition does not arise. In fact it is going to be good for existing companies like us who have formed this international division.

Srinivas

Okay, sir my last question, right now you are only in hard liquor segment, are you looking at entering the beer segment because we have news of that in Mohan Meakins, the entire asset is up for sale, I mean will you be looking at options like that?

Abhishek Khaitan

See we are open to the idea of beer, so depending on the opportunity we will address this segment.

Srinivas

Okay sir, thanks.

Moderator

Thank you very much sir. Next in line we have Mr. Vikram from Karvy, over to you sir.

Vikram

Hello sir I want to have a break up of tie up operation and your own manufacturing sales, hello?

Moderator

Hello Mr. Khaitan. Mr. Vikram are you on speakerphone?

Vikram

No.

Moderator

Okay, just a moment sir.

Abhishek Khaitan

Hello.

Vikram

Sir can you give me the break up in terms of tie up operations and your own manufacturing?

R. K. Mehrotra

For nine months ended December 31, 2005, the figures which we have already circulated are showing the gross sales of tie up units going up by 41% in value terms and the net sales have gone up by **33%** for these nine months.

Vikram

Sir can you give in terms of how many kiloliters you have sold or something that kind of....?

R. K. Mehrotra

In terms of revenue for the nine month ended, our sales have been 188 crores, against 141 crores in the tie up units, which is a growth of 33%.

Vikram

Hello.

Moderator

Yeah sir, go ahead.

Vikram

Yeah okay, and sir can you give me some sense of costing if you go for molasses based route or grain, means, at what price of molasses it is better to switch to grain based project, so molasses price go to 6000 or 7000?

Abhishek Khaitan

See that depends on prices of molasses. It depends on the prices of molasses and grain which keeps changing.

Vikram

Can we just make at current prices, if the molasses go more than 5000 or 6000 it will be beneficial to shift to grain base or what price something like that?

Abhishek Khaitan

I don't think a it will be a good comparison because the grain is used for making premium whiskies which we are using for our internal consumption plus exports, so there you command a higher price.

Lalit Khaitan

In fact I would add here that the purpose of putting up the grain plant was to produce also a superior quality of alcohol, so largely we are already tied up for this production of our grain alcohol for internal consumption, plus we are also tying up our exports, and also there are many foreign companies in India who also require this good quality of alcohol. So in a way we do not compare that with molasses at all from our point of view. They are two different segments with two different valuation, and also in a way two different kind of products.

Vikram

Thank you very much sir.

Moderator

Thank you sir. Next in line, we have Mr. Nikhil from SSKI Securities, over to you sir.

Nikhil

Hello, just one broader question, if you look at the overall market today, the government controlled markets, are there any likelihood of some of the markets turning free markets, just what is your sense about it?

Abhishek Khaitan

Can you just repeat the question please?

Nikhil

If you look at the overall markets, is there any merit in looking at the, the UP example getting down to other states also where the government market moves towards free market?

Abhishek Khaitan

We do not see much of a possibility of the government market getting into free market, but we see a possibility of the monopoly market getting converted into free market.

Nikhil

Okay, so that basically you are saying the auctioning market moving out right?

Abhishek Khaitan

If you see in the last two years, first it was Uttar Pradesh who converted from monopoly into free market, after that Madhya Pradesh converted itself from monopoly to free market, and last year Rajasthan has done it. So we see a trend of monopoly markets being converted into free markets.

Nikhil

What is your sense, how much is the monopoly market right now in overall terms?

Abhishek Khaitan

It will be about, less than, it will be about 15%.

Nikhil

Okay, but you think that will happen in the next two year?

Abhishek Khaitan

It should happen gradually, yes.

Nikhil

Okay. Second, just need to understand do you think this incremental ban on country liquor, which is starting to happen in some of the states can really start to accelerate growth for the IMFL business as a whole?

Abhishek Khaitan

Yes, it is not ban on country liquor, it is.. The basic difference between country liquid and IMFL is the strength of alcohol. In country liquor, the strength of alcohol is 25% whereas strength of IMFL is 42.8%. To give you certain example, like Andhra Pradesh there is no country liquor everything is cheap IMFL, and the total volume of Andhra itself is about close to 20 million cases which is bigger than the entire north put together, and we definitely see a possibility of the

country liquor especially in the northern states getting merged with the IMFL, this should happen in the years to come which will naturally make the IMFL industry grow by leaps and bounds.

Nikhil

Okay, specifically on Radico, how has been your Vodka launch, I guess it is very initial period but what is the sense that you are getting?

Abhishek Khaitan

See the initial response for Vodka is very encouraging, and this month would be the practically the first month where we have rolled out our Vodka into six to seven states, and we are doing a volume of about 10,000 cases, and the initial response is very good.

Nikhil

What is the pricing for that?

Abhishek Khaitan

Pricing per bottle is approximately about Rs. 260 to 270 a bottle.

Nikhil

Okay.

Abhishek Khaitan

That is the highest, it is at the premium end.

Nikhil

Thanks for this.

Moderator

Thank you sir. Next in line, we have Ms. Toral Munshi from India Infoline, over to you madam.

Toral Munshi

Good evening sir, congratulations on a good set of numbers.

Abhishek Khaitan

Thank you.

Toral Munshi

I had a few questions sir, one is, if you can just share what kind of volumes there have been in own and tie up units in volume cases?

Raju Vaziraney

Yeah, total volumes as on December 31, 2005, for nine months amount to 8.65 million cases and there is an increase of 27% in the volumes nine months over nine months.

Toral Munshi

Okay.

Raju Vaziraney

This is in contrast to industry growing at just over 10%, we have grown by 27% and most importantly our power brand, as you are aware our 8PM whisky has been rated as the fastest growing whisky in the world. It continues the growth unabated and we have grown in the last quarter by 36% in 8PM whisky. Our Old Admiral brandy which again is the fastest growing, rated as the fastest growing brandy in the world, has again grown by 19%, and our third power brand called Whytehall whisky which we acquired last year from Bacardi has also grown by 18%. Our power brands are galloping and our overall growth is very handsome.

Toral Munshi

Okay. Sir out of this 8.65 million cases how much would be tie up?

R. K. Mehrotra

Tie up would be about 4 million cases and the rest are our own production.

Toral Munshi

Okay. And sir in terms of value if I look at the overall sales growth it is broadly around 23% whereas the volumes is up 27%, so why have average realizations come down, I mean, is it due to Brihans being at the lower end of the..?

Abhishek Khaitan

If you see Radico as a whole it has got three spheres of business, one is the branded segment, second is the country liquor segment, third is the spirit sales. Now as far as the country liquor sales goes, our revenue are same more or less the same segment, and as far as spirit business goes because its cost plus basis. So it is the entire growth which has come from the branded division, which is the division which we are focusing on, that is why in spite of a 27% growth the overall growth is about 20 to 23% in sales.

Toral Munshi

Sir you mentioned that exports are up 300%, can I get the value figure for the exports for the three months and nine months?

R. K. Mehrotra

50 crores.

Toral Munshi

70 crores.

R. K. Mehrotra

50.

Toral Munshi

Sir broadly this grain project, what is the kind of utilization rates that you are looking at say over next year?

Abhishek Khaitan

Can you repeat your question please?

Toral Munshi

What kind of utilization do we expect at our new grain-based distillery in the coming year?

Abhishek Khaitan

See we are looking at a capacity utilization of at least, like 100%, and as I explained it will be used for our premium brands, it will be used for exports.

Toral Munshi

What has been the capex to date, up to December what is the capex that has already been incurred?

R.K. Mehrotra

About 60 crores.

Toral Munshi

Do we anticipate to increase that further during the current fiscal?

R. K. Mehrotra

During the current fiscal we do not see any major capex coming as such, this is in addition to the acquisition of Brihans brands where we have invested a total amount of about 35 crores.

Toral Munshi

Right, sir this is already funded via the debt that you mentioned earlier right?

R. K. Mehrotra

It is already funded by the debt as well as our own internal resources.

Toral Munshi

Okay. Sir, selling and distribution expenses over the last year we have been able to reduce that significantly, we are down to 15% for the first nine months. Is there a scope to further go down or you think it will stabilize at these levels?

Abhishek Khaitan

It should stabilize around these levels. There is a very tight control over these expenses. As the volumes go up we do not increase these expenses, selling and distribution remain more or less constant. So we can handle more volumes of sales with the present setup of sales and distribution. More over we have controlled trade spends like discounts and rebates which has resulted in these expenses going around.

Toral Munshi

Okay, and sir to broadly understand, now that your grain based plant is operational, what is the kind of production cost which could cover, I mean once we have the old unit as well as the new unit operational, so would there be a significant difference in the contribution margins from the new plant?

R. K. Mehrotra

See contribution margins as we would have seen have improved during this quarter and for the nine months also the contribution margins have improved, but overall guidance which we have given, we are not changing.

Toral Munshi

In the grain based plant what could likely be the RM to sales ratio for grain based liquor manufacturing?

Abhishek Khaitan

Sorry, come again please.

R. K. Mehrotra

There is echo in your voice, can you repeat the question please?

Toral Munshi

Yeah, can you just briefly explain what could be the RM to cost ratio in the gain based manufacturing?

Abhishek Khaitan

See it will be same as the molasses only because if you see the finished product, the molasses is about 20 to 25%, rest is your packaging cost, bottling cost, etc., so this would be also in the same range.

Toral Munshi

So there would not be any major difference in the costing?

Abhishek Khaitan

But it will be used for premium products and also for the export market.

Toral Munshi

So the margins would be higher there.

Abhishek Khaitan

Yes, margins would be better.

Toral Munshi

Okay sir, thank you sir.

Moderator

Thank you madam. Next we have Mr. Sumeet from Darashaw and Co, over to you sir.

Sumeet

Good evening Mr. Khaitan. Sir how do you see the margins going forward, as you have said the molasses prices are expected to come down by 10 to 15%, how much that would contribute to your bottom line?

Abhishek Khaitan

See if you see for this quarter our operating margins has gone up to 11.16%, and the net profit margin also has gone up from 5.47 to 6.48%, so overall we feel the margin should be on the positive side and that is why we have given a overall guidance of 30% increase in our bottom line.

Sumeet

Sir one more question, sir you have been repeatedly saying that the spirit which you will be manufacturing from the grain based distillery would be used for your internal consumption for the premium brands, since you will be using it for the internal consumption how much of the cost savings are you anticipating from that, or your cost would be higher than the current usage?

Abhishek Khaitan

See, we will get a higher realization for the premium products, like even if you see our Vodka, our Vodka is priced at Rs. 270 a bottle, so as you get into the premium segment your margin also increases, it will help us to get more premium products into the market.

Sumeet

Sir my question is that since you have said that the spirit which you will be manufacturing from the grain based distillery you will be using it for your premium brands, in the manufacturing of your premium brands, so what would be the cost saving on that front?

Lalit Khaitan

Actually premium brands are made from grain alcohol, like say, when we are making our Vodka, it is made from grain alcohol. Similarly as we told you that we are focusing on export with 300% growth this year, next year we expect further 100% growth again on the export of our products, so these premium brands they have to be made from grain and not from molasses, so the point that whether what is the cost saving etc. does not arise, and we are sure that we have worked out that our margins would be much better because we are entering the premium range.

Sumeet

Okay sir one more question, sir you have said that your brands have grown by more than 27%, some of your brands have grown by 30%, while the industry on an average has grown by 10%, so is this the increase in the market share which have gained from the other brands is mainly because of the pricing policy which you have adopt or is your marketing or the distribution network which has contributed to this?

Abhishek Khaitan

See Radico's growth in the last six years we have, from a volume of 1 million cases we have done a volume of 10 million cases last year, and last year our volumes grew by 58%. In our company we focus on the younger population. If you see 50% of the population of India in the year 2010 would be less than 25 years. So our brands are targeted towards the younger generation, and that is why we are seeing this kind of growth because our products are more trendier and modern.

Sumeet

The strategy which the company adopts while placing a product is focusing more on the pricing part of it or on the distribution and the marketing part of it?

Abhishek Khaitan

Pricing in liquor is one of the factor only because it is a brand and it is a luxury item, so basically what differentiates one product from another product is the quality of ingredients and the quality of marketing, is how you position your product.

Lalit Khaitan

Also, we are very careful about our margins, which is already reflected in our balance sheet. Year on year our profits are continuously going higher, so we are also guarding about our margin on our products.

Sumeet

Sir one last question, last time I visited your distillery unit at Rampur and at the same time we had a discussion about acquisition of new brands and you are already in talks with Rabo India for the same exercise, since then some three-four months have been passed and do we have any up date on that or do we see any progress in that sir?

Abhishek Khaitan

See lot of things are happening, but right now it is too premature to make a comment on this, but lot of things are happening simultaneously you know.

Sumeet

Thank you sir.

Moderator

Thank you sir. Next in line we have Mr. Chaturya from IL&FS, over to you sir.

Female Speaker

Good evening sir. Sir, the only question I have is in regards to molasses being filed up for four to five months, so do you believe to going forward having the same kind of inventory piling up, and secondly what sort of contracts do you do with sugar companies who are selling the molasses?

Abhishek Khaitan

See there are two kinds of agreements, first is cash and carry basis, in certain cases, payment of advance funds and storage on the sugar factory we design our agreement accordingly.

Female Speaker

Sir could you please repeat it again, I could not get it, there was a break in the conversation sir.

Abhishek Khaitan

Yeah, see basically there are two kinds of agreements your get in sugar companies. One is that molasses on cash and carry basis. The second is we do a forward contract for the entire year's production and use it to our convenience.

Female Speaker

Going forward do you plan to keep the inventory for four to five months?

Abhishek Khaitan

See we are not purchasing much of the molasses because we have purchased molasses at a good cost and now we will purchase only once the price is right.

Female Speaker

Okay, thank you.

Moderator

Thank you madam. Next is a followup question from Mr. Ranjit of HDFC, over to you sir.

Ranjit

Sir this 30 million liter grain based plant which you have put you said that this ENA will be used partly for our premium brands and partly for the export, so can you throw some light how much will be for premium and how much will be for captive and how much will be for export? Second thing, is there a possibility of using separate source of ENA from molasses for local brands and separate for export, is that possible or brand wise it will be one source of ENA?

Abhishek Khaitan

See as far as the grain alcohol goes, 40% would be internal consumption and about 30% would be exports and 30% would be sold to other parties domestically.

Ranjit

Sir is there possibility that you will be having a brand in India where you will be making from molasses and the same brand for export will be from a grain based alcohol?

Abhishek Khaitan

See it will be either grain or molasses.

Ranjit

Okay, so one brand will have one source of ENA either it will be grain based or molasses base, if I have followed it correctly?

Abhishek Khaitan

Magic Moments Vodka & Whytehall whisky is grain based.

Ranjit

Ok sir, and all the Vodka is also from grain?

Abhishek Khaitan

All Vodka is grain.

Ranjit

Any other brand which you have from the grain base which you are planning to introduce?

Abhishek Khaitan

See right now it will be Magic Moments and this White Hall.

Ranjit

Okay, thank you very much.

Moderator

Thank you sir. Next is a followup question from Mr. Srinivasan of ABN-AMRO, over to you sir.

Srinivasan

Sir what is the current your, after this debt raising exercise for your grain based facility and all, what is the current debt equity ratio?

R. K. Mehrotra

The debt equity ratio presently is 2.08, but long term debt to equity is much lower, it is around 1, one to one.

Srinivasan

When you have said long term, overall debt including working capital everything right?

R. K. Mehrotra

Yeah including working capital, it is overall debt.

Srinivasan

So that should be the actual debt equity ratio, isn't it?

R. K. Mehrotra

That is right, it is actual debt equity ratio 2.08 : 1.

Srinivasan

Taking that question one step forward, I mean, if you think from just a macro angle, I mean, your rivals, I mean the industry leader, they have brought in foreign partners at a huge premium and they have maximum, fantastic value for the distribution capabilities in India, and that is what is the prime attraction for foreign companies. Now they have kind of derived, they are one step significantly ahead of companies like you, but having said that let me tell you, you people have done a fantastic job of creating a new brand, I mean, you have done that extremely well, but from a macro angle isn't it worrying that players like McDowell's, they have taken this thing seriously forward by tying up with foreign players, making them bring in substantial equity at a big premium, so that is going to give them a serious head start, what steps are you taking to counter this?

Abhishek Khaitan

First let us differentiate between liquor and beer. I think the foreign equity what you are talking about is in beer business.

Srinivasan

No, but in one of the recent investor conferences in Bombay Mr. Vijay Mallya is on record saying that he is open to bringing in a partner for his liquor business?

Abhishek Khaitan

As and when it happens it will be better to comment on that, as of today it is only on the beer side. So looking forward like if you compare our debt equity ratio, we are very happy with it, and I have told earlier we have given a mandate to Rabo where Radico is also open to joint ventures etc. to capture on the opportunity arising.

Srinivasan

Okay sir.

R.K. Mehrotra

As a matter of fact in their liquor business debt levels are much high and debt equity ratio is also very high

Srinivasan

Fair enough sir, but my point is that, that is all the more reason for them to capitalize themselves in a very big way.

Abhishek Khaitan

Yes, see we can only talk about the strategy of Radico, and as a company we have a conservative approach and we feel that we can create more value by creating brand organically.

Srinivasan

Fair enough sir, but my only question, again I am sorry to raise this point again, but somehow one, as an outsider somehow lot of people are getting the feeling that throwing a brand organically is a great thing, but when it comes to fighting in the market place, here is one, some of the competitors who probably are going to tie up with the real big brand foreigners, making them put in fresh equity at a huge premium, and then you got to fight with those people, are you in a position to then fight with them, I mean, nobody is questioning your branding capability, you have done a wonderful job in the last almost a decade?

Abhishek Khaitan

See if you see the history Radico, we started our branded division in the year 1998 and that is the time where all the liquor majors were present and had pumped in huge amounts of money in creating brand, whether it is UB group, Seagram, Diegeo, that scenario we have competed and grown ourselves from 1 to 10 million cases. So, we do not see it as much of an issue, and as I have repeated myself that Radico is open to joint ventures depending on the opportunities available, and there are lot of people who are interested in joining hands with us depending if it is good for the company, we are a flexible company and we will look into the opportunity.

Srinivasan

Thanks sir.

Moderator

Thank you sir. Next in line we have Mr. Nikhil from SSKI for a followup question, over to you sir.

Nikhil

Hi, Sir if you look at our, you did mention that our contractual sales are around 50% of overall sales, if you visualize two years down the line, is that likely to come down or it is likely to increase?

Abhishek Khaitan

It will be more or less same, if not it will come down little bit because we are also looking at buying of units. Like if you see, we had acquired a unit in Andhra Pradesh, we have put up a green field unit in Rajasthan. We have also put up a green field in Uttaranchal, so gradually we will start investing in these units also.

Nikhil

Can I just understand the dynamics of this business about contract manufacturing whether it is manufacturing in house, what would be the cost differential that we incur in this?

Abhishek Khaitan

See the total cost is about Rs 35 per case and production cost is about Rs. 15 a case.

Nikhil

So if I understand, contract units would be around Rs. 30 per case, and in house would be around 10 to 15 bucks?

Abhishek Khaitan

No, contract would be about 35 and in house would be about 15, so the net difference is Rs. 20 a case.

Nikhil

Okay, and that is pretty much the norm in the industry or that would be peculiar only to Radico?

Abhishek Khaitan

That is the kind of norm in the industry.

Nikhil

Okay, and are these contract manufacturing available for sale?

Abhishek Khaitan

Yes.

Nikhil

You would not be looking at them right now or you would?

Abhishek Khaitan

Our prime focus are into brands, but when we get into these assets purchases, we look at pay back period. If the pay back period is between three to four years then we go ahead with our purchase.

Nikhil

Okay, as I would understand there are enough contract manufactures who are up for sale, right?

Abhishek Khaitan

Yes.

Nikhil

Okay, thanks.

Moderator

Thank you sir. Next in line we have Ms. Toral Munshi from India Infoline for a followup question, over to you madam.

Toral Munshi

Sir, are we expecting further price increases in the current fiscal since molasses prices have not tapered off it is unlikely that the industry will see price increases?

Abhishek Khaitan

See price increases are not only related to the molasses price. As our managing director told you we are entering premium price segment. These price segments are insensitive to price increases, you know, one can take price increases because of the quality of the brand. So we will be able to get price increases despite of the molasses price being easy.

Toral Munshi

Okay, so what kind of, in percentage terms how much price increase do you think we can expect?

Abhishek Khaitan

See it is difficult to predict, because you know it is either, it is a very relative thing, how the competition behaves, how the brand moves, how the molasses and other costs behave, it is difficult, but our past performance has been, in spite of the molasses prices having been easy in the last three to four months, we have taken price increases.

Toral Munshi

Okay sir, could you just give, what has been Brihans sales in the current quarter in value terms?

Abhishek Khaitan

In the last quarter?

Toral Munshi

Yeah, in the third quarter, in terms of value terms how much was Brihans contributing to turn over?

Abhishek Khaitan

About 15 crores, net sales are about 15 crores.

Toral Munshi

15 crores, and what has been the growth in the CSD segment?

Raju Vaziraney

I am sure you are familiar with the CSD business, CSD business is unlike the market operations is a very stable and constant business. Recently there has been a cut in the quotas because of which, the industry has come down by about 15%, but we because of our good network and our power brands being very buoyant in the market, and also in CSD we have been able to sustain the volumes and we have not lost the volumes. Thereby we have gained market share. See, market has gone down, we have not gone down so we have gained market share.

Toral Munshi

Okay, sir how much would CSD contribute to sales in the current year?

Abhishek Khaitan

About 25%.

Toral Munshi

Okay, thank you sir.

Moderator

Thank you madam. Next is a follow up question from Mr. Siddharth of Fortis, over to you sir.

Siddharth

Hello sir, once again Siddharth Agarwal. Sir if I am understanding it correctly you are looking at some acquisitions over the next three years in terms of these bottling unit. You currently have four units and the cost of setting up or acquiring a bottling unit is close to Rs. 10 crore. Now as we have earlier discussed also your debt equity ratio is more than 2%, how do you look at funding these acquisitions? And secondly, would you look at some equity dilution going ahead?

Abhishek Khaitan

See, we have given this mandate to Kotak for appropriate instruments and the amount which we can raise as fresh equity, and now as soon as any decision is taken by the board we would be sharing it with you, but going forward we also are depending on our own internal resources as well as debt. And as we told you that our total debt to equity is around 2, and the long term debt to equity is lower than 1, so we feel that there is enough scope even for fresh borrowings also.

Siddharth

Fresh borrowing, you mentioned that you would be looking at some joint ventures, would that be in the main company or would that be another setup?

Abhishek Khaitan

It has not yet been decided, in case something concrete takes place in this regard, at that time we will take a decision on the matter.

Siddharth

Okay, thank you sir.

Moderator

Thank you sir. Participants who wish to ask questions may please press *1 now. I repeat participants who wish to ask questions may please press *1 now. At this moment there are no further questions from participants. I would like to hand over the floor back to Mr. Jitendra Jain for final remarks. Over to you sir.

Jitendra Jain

Once again, on behalf of Radico Khaitan Limited I wish to express my sincere thanks to each one of you. I hope that most of your queries after the results have been satisfied. In case you have any further questions, any further queries, feel free to contact us, we will be happy to answer your queries, and thank you once again for having association with us and we look forward for having a long and mutually beneficial business relationship with each one of you. Thank you.

Moderator

Thank you 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 nice evening.

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