

Radico Khaitan Limited
Investors/Analysts Conference Call
May 9, 2006

Moderator

Good evening 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. I will be standing by for the question and answer session. I would like to hand over the floor to Mr. Jitendra Jain of Radico Khaitan. Thank you and over to Mr. Jain.

Jitendra Jain

Dear friends, On behalf of Radico Khaitan Limited I welcome you all for 2005-2006 earnings conference call. It is my privilege to introduce you to my colleagues who have all assembled here in board room at our corporate office in Delhi. We have with us our Chairman, Dr. Lalit Khaitan.

Lalit Khaitan

Good evening to you all welcome to this conference call.

Jitendra Jain

Our MD, Mr. Abhishek Khaitan.

Abhishek Khaitan

Good afternoon.

Jitendra Jain

We have Mr. R. K. Mehrotra, our President – Finance.

R. K. Mehrotra

Hello.

Jitendra Jain

Mr. Raju Vaziraney, our President – Sales and Marketing.

Raju Vaziraney

Hello.

Jitendra Jain

And Mr. Sanjay Lamba, our Head of Exports.

Sanjay Lamba

Hello, good afternoon.

Jitendra Jain

Now, I will hand over the floor to Mr. R. K. Mehrotra, President – Finance, who will be formally announcing the results of the company.

R. K. Mehrotra

Good evening ladies and gentlemen. It gives me great pleasure to announce the results of our company for the year ending 2006. 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 this conference call is being recorded.

During the year, our gross sales have increased to Rs. 1135.40 crores, clocking at increase of 17%. The PBDIT has gone up from Rs. 63.49 crores to 87.20 crores registering an increase of 38%. The profit after tax has gone up from Rs. 36 crores to Rs. 45 crores, registering an increase of 26%.

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

Good evening ladies and gentlemen. I welcome you all this evening to annual earnings conference call of Radico Khaitan Limited. As you must have noticed, the current year has been an excellent year for the company. The top line and the bottom line reflect the efforts put in by all of us at Radico. The industry is poised for a healthy growth in future, and we are well poised to capture these opportunities. The company has created new brands during the year which has received good consumer response. Our efforts on export front also is giving us confidence of taking the company forward on the fast track. We look forward for an interesting year ahead of us to further improve the performance and operational efficiency. I would like once again to welcome you all to this conference.

R. K. Mehrotra

Now, we throw open the floor for the question and answers.

Moderator

Thank you very much sir. We will now begin the Q&A interactive session. 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. Ranjit Kapadia from HDFC Securities.

Ranjit Kapadia

Good afternoon everybody and congratulations for a good set of numbers. My first question is regarding the personnel expenses. If you see that during the quarter the personal expenses have gone up from 6.1% to 6.8%, and during the entire year it has gone up from 5% to 5.8%. I would like to know whether you have increased the number of sales people and whether you have added any new divisions in that? And my second question is regarding the other expenses, the other expenses during the quarter has shown a quantum jump of 92% from 12.8 crores to 24.7 crores, which is about 92% jump and the same expenses for the entire year is 27%. Top line during the quarter has grown by just 6%, whereas entire year it has grown by around 12%. So whether the management is comfortable with this increase in other expenses? And my third question is regarding the FBT, it is not shown separately, whether it has been clubbed along with the provision for tax or separate.., if you can throw some light on that? Thank you.

R. K. Mehrotra

Answering your last question first, the FBT has been included in the tax provision. Coming to the personnel expenses and staff expenses, these have gone up during the year because we have recruited additional staff. As the business is going up, we require additional hands to take care of the business, and also keeping in view the future growth the company has to equip itself with the required manpower. And as you must have noticed the manpower cost also has been going up all across the board. And as far as other expenses are concerned these have gone up by about 14.73 crores. Of these the main items are the provision which has been made for the doubtful debt amounting to about 5 crores. There is additional sales tax liability of 3.73 crores. **Rates** and taxes also have gone up by about a crore. Power and fuel expenses have gone up by 3.22 crores, and this makes up the increase in the other expenses.

Ranjit Kapadia

And going further sir, are you comfortable with the further expenses or there is, or you have to control these expenses?

R. K. Mehrotra

Expenses definitely are going to be controlled but these expenses which have been incurred in the last year are not going to affect our operations materially in any manner because the main expenses as I told you are on the provisions which have been made, but these provisions are not likely to be repeated to this extent in future.

Ranjit Kapadia

Okay, thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Vipul **Jaiman**.

Vipul

Good afternoon everyone. Congratulations on a great quarter. I have a question regarding your fund raising plans for this \$100 million, can you give me a breakup of basically where are you planning to deploy these funds? Are they for inorganic growth or organic?

Apart from that, my second question would be regarding your grain based facilities, what are the markets that you are targeting and segments you are looking at right now? And can you give me your geographic divide outside of your exports for the coming year FY07?

R. K. Mehrotra

Answer your first question, the total forex exposure is US \$20.5 million, which roughly amounts to 93 crores. Out of this Rs. 33 crores is fully hedged. For the balance we do not consider the need to hedge as in our opinion rupee is likely to improve against US dollar. That is the advice we have been given by our bankers. As far as other borrowings are concerned, these are in Indian rupees.

Can you repeat your other question?

Vipul

Sir coming back to my first question, you have proposed to raise 100 million in funds through GDR / FCCB issue?

R. K. Mehrotra

Yes.

Vipul

Right. Regarding that I was wondering about the use of proceeds?

Male Speaker

He is asking about the raising of the funds and whats going to be end use.

R. K. Mehrotra

The Board has considered this proposal to augment the long term funding and to strengthen the equity. We have taken an approval for \$100 million. The plans are still being worked out. As soon as any concrete program has been finalized at our stage, we will let you know. These funds are going to be used for two purposes, #1, for our fresh acquisitions and CapEx, and #2 to pay off the high cost debt.

Vipul

And coming to my second question regarding your grain based, the new plant that you have come up with... hello..

R. K. Mehrotra

Yes.

Vipul

Can you give me the, basically are you targeting exports market or domestic for this and what are the segments you are aiming with the new plant?

Abhishek Khaitan

See, our grain based plant we have a capacity of about 30 million liters of alcohol and the plant has started about 2 months back. Now, our exports if you see, we have registered a growth of 266% for the current fiscal, that is, our turnover has gone up from 10 crores to 42 crores, and for the current year we are targeting a growth of more than 200% in exports. We expect our export turnover to go up to 150 crores, and the grain alcohol would be used a lot into the products which are manufactured outside India. And plus also we have entered into the white spirit category in the domestic market. We have launched a vodka about 3 months back, Magic Moments, so that is also grain based vodka. And also in the exports, we have recently setup two joint venture, one in UK and one in Africa, and in the coming year we would be setting up three more production units and joint ventures outside India.

Vipul

Are these joint venture, ventures for your which products, whisky or rum, what it is going to be like, can you give us a mix?

Abhishek Khaitan

Yes, it will be 8PM whisky, our Contessa rum, Bermuda rum, and our Magic Moments Vodka.

Vipul

All right. Thank you very much.

Abhishek Khaitan

Thank you.

Moderator

Thank you very much sir. Participants who wish to ask questions please press *1 now. Next in line we have Mr. Siddharth from Religare Securities.

Siddharth

Good evening sir. Siddharth here, sir you have just recently set up a 30 million liter of grain based alcohol plant at Rampur, are you planning to increase the capacities or set up another grain based plant to cater to increasing international demand?

Abhishek Khaitan

As of now there are no plans to set up further capacity because our total capacity has become 90 million liters of alcohol, perhaps that would be one of the largest in the world now. So, as of now we do not have any plans to set up more assets for producing of alcohol.

Siddharth

Okay. Sir, one more thing besides the fact that grain based alcohol provides you access to the European market, do you see any cost benefit of grain based alcohol vis-a-vis molasses based?

R. K. Mehrotra

See, costing is only a notional term because grain based we use it for premium whisky. The kind of pricing you command is much higher. The consumption grain based whisky is much more than a molasses based whisky.

Siddharth

Okay. So you margins are definitely higher in the case of grain based?

R. K. Mehrotra

Yes.

Siddharth

Okay sir. Just to continue this, would you be shifting a part of your 60 million towards grain based also?

R. K. Mehrotra

No, that 60 million would be molasses, and 30 million would be grain based. That then act as a good hedge for each other.

Siddharth

Okay. So both of them are dual feed?

R. K. Mehrotra

No, the molasses based distillery is not a dual feed.

Siddharth

Okay, but your 30 million liter is dual feed?

R. K. Mehrotra

No, that is also not a dual feed.

Siddharth

Okay. Both are exclusively for the respective raw materials?

R. K. Mehrotra

Yes.

Siddharth

Okay, thanks sir.

R. K. Mehrotra

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. Nishit Dholakia from Birla Sunlife.

Nishit Dholakia

Sir, first question, Whats your IMFL volume sales for the current year, and how has been the growth during the current year?

Raju Vaziraney

We have, as you are aware, last year we had clocked 10 million case volume, and this year we have grown by 20% in contract to the much lower growth in the industry.

Nishit Dholakia

So that means you have ended this year with around 12 million cases?

Raju Vaziraney

In excess of **12** million cases.

Nishit Dholakia

Okay, and sir what is the debt on the books as of 31st March 2006?

R. K. Mehrotra

It is 342 crores.

Nishit Dholakia

And what is the average cost?

R. K. Mehrotra

Average cost is little lower than 8%.

Nishit Dholakia

And sir, we had, like you said in your con call that you have launched vodka and it has been now three to four months, how has been the performance of this particular brand and how do you see it growing over a period of time?

Raju Vaziraney

See, as our Managing Director just now told you we have got brand new grain plant which is of world class quality. We are using this triple distilled blend for our Vodka, and the Magic Moments Vodka has an exclusive packaging, and the blend is excellent. The margins are extremely handsome and I am sure the brand will do very well in the future. It is also very high contributing brand, and as you know vodka industry is growing at over 50% as against only 10% which is the industry growth. So we have entered the right kind of segment in terms of price points and also right kind of flavor, that is vodka.

Nishit Dholakia

Okay thanks.

Moderator

Thank you very much sir. Next in line, we have Ms. Jasmina Parekh from ING Vysya Mutual Fund.

Jasmina Parekh

Good evening sir. Can you reiterate what is the vodka industry growth?

Raju Vaziraney

See the vodka industry growth last year was 50% and it is estimated that this year also it would have growth of around 40%.

Jasmina Parekh

And what is the percentage contribution to revenues from vodka sector to our total revenue?

R. K. Mehrotra

To our, you mean, Radico?

Jasmina Parekh

Yeah.

Raju Vaziraney

As we have mentioned it is a new brand, and as a percentage of volume it is small, but as a percentage of revenue, its growing fast .

Jasmina Parekh

So over a period of next two years, what percentage of revenues we are expecting to come from vodka sector?

Raju Vaziraney

As far as revenue, we are targeting about 15% of the entire vodka market to be captured in next two years.

Jasmina Parekh

Okay sir, and sir what was our CapEx in 2006?

R. K. Mehrotra

The capex during the year has been about 120 crores, we have invested in grain plant, we have also capitalized our ethanol plant this year, then we have acquired brands of about 25-30 crores, and other small expenses.

Jasmina Parekh

Okay, and sir what our CapEx plans for 2007 and 2008?

R. K. Mehrotra

Current year there is no major CapEx coming up, about 30 crores is the normal CapEx we incur. We do not look beyond the current year.

Jasmina Parekh

Okay, and sir what would be our effective tax rate?

R. K. Mehrotra

Tax rate, current year is around 15%.

Jasmina Parekh

And it will remain at same?

R. K. Mehrotra

We are taking advantages of tax benefits , which are available in various states like in Uttaranchal we have increased bottling .

Jasmina Parekh

Okay, thank you very much sir.

Moderator

Thank you very much madam. Next in line, we have Mr. Sumeet Budhiraja from Edelweiss.

Sumeet Budhiraja

Good evening sir. This is Sumeet. I just wanted to ask you about, what kind of capacity utilization do we see from the new grain-based plant in FY07 and what will be the full capacity utilization sales be like?

R. K. Mehrotra

See, we would be looking at a capacity utilization of about 80% for the current fiscal.

Sumeet Budhiraja

And value terms, it would be how much sir?

R. K. Mehrotra

See value, because it would be used for our end product, so value wise would be little difficult.

Sumeet Budhiraja

But sir, you would be.....?

R. K. Mehrotra

It will be roughly about 20 crores.

Sumeet Budhiraja

Yeah, and could you just also give us a sense of, out of the full year sales of around 685 crores, how much would be from IMFL alone?

R. K. Mehrotra

About 74% would be the IMFL contribution.

Sumeet Budhiraja

And this would have grown at what rate vis-à-vis last year sir?

R. K. Mehrotra

This has grown at a rate of 20%.

Sumeet Budhiraja

20%. And what would be the size of the Whytehall brand as such?

Raju Vaziraney

See.....

Sumeet Budhiraja

Would you like to share some numbers on each of the millionaire brands and Whytehall?

Raju Vaziraney

Hello!

Sumeet Budhiraja

Yeah, sir would you like to share some numbers on the millionaire brands like 8PM, Contessa, and Old Admiral and.....?

Raju Vaziraney

As you know, that our flagship brand 8PM and it was rated as the fastest growing whiskey brand in the world. This survey was done in the year 2005 by Drinks International. Our brands continue to remain buoyant, clocking excellent volumes. This year, we have done in excess of 12.0 million, as against 10.02 million cases last year, registering a growth of almost 20%; in contrast the industry is growing 10%-11%. To answer your question on Whytehall, we have closed at close to half million cases of Whytehall during the last fiscal. On Contessa Rum, Contessa Rum also is growing and it is close to 2.5 million cases.

Sumeet Budhiraja

Right sir, about Old Admiral sir?

Raju Vaziraney

Old Admiral brandy?

Sumeet Budhiraja

Brandy, yeah.

Raju Vaziraney

As you know, brandy sells largely in south, it is close to 1.5 million cases.

Sumeet Budhiraja

Sir, is there any other geography in India, which you are not present in a major way and which you would like to enter this year in FY07?

Raju Vaziraney

There has been an one interesting change in the liquor industry is that the Northern States, especially of Punjab, Haryana, and Chandigarh has got converted from monopoly sale into free trade, and there Radico is very strong so good volume we are seeing coming from these areas, and plus we are increasing our presence in the Western region with our launch of vodka, and also in the Eastern region.

Sumeet Budhiraja

Right sir. Thank you sir.

Moderator

Thank you very much sir. Next in line, we have Mr. Ashish Kalra from UBS.

Ashish Kalra

Yeah, good afternoon. A couple of questions, first on, you know, if you could just throw some color on molasses pricing and what you all are seeing right now? And then second is on the exports business, you know, what the goal is for FY07 and what margin structures there are and then hence what it could mean in terms of net sort of impact to the bottom line?

Abhishek Khaitan

Yes, the molasses prices during the year have come down as compared to last year and they have now stabilized at a level where we do not see any further reductions in the prices. As far as exports are concerned, my colleague Mr. Sanjay Lamba will explain.

Ashish Kalra

Our molasses prices are roughly around Rs.360-370 a quintal or so?

Abhishek Khaitan

See, 2004-05, it was roughly about 425, which last year came down to 400, and now the present rate is around close to about 370.

Ashish Kalra

Okay.

Abhishek Khaitan

And exports, I will ask Mr. Lamba to speak...

Sanjay Lamba

On the export side, our volumes have grown by almost 250%, and the turnover has also grown by almost 275%, which means apart from growing the volume, we have also increased our margins there by registering higher growth in terms of revenue. Now in this last year, what we have done is we had two joint ventures outside India. One is in Africa, which is Western Africa and the other one is in UK, and going forward this year we expect our exports to grow in excess of 200% both in terms of volume as well as value, and we are in the process of setting up three more joint ventures outside India to take care of the global volume opportunity.

Ashish Kalra

And you will own, over like 51% share in each of these JVs?

Sanjay Lamba

Yeah, as far as these JVs are concerned, these are joint ventures for sales, distribution, and marketing, and as far as the manufacturing is concerned that is outsourced.

Ashish Kalra

Okay, and just lastly, in terms of post the Shaw Wallace acquisition by McDowell's, is there room for further consolidation in the industry, and if so how?

R. K. Mehrotra

Yes, there are opportunities available. There are lot of regional companies which are there for acquisition and we have give a mandate to Rabo India to look for brands for us.

Ashish Kalra

Okay. Thanks very much.

R. K. Mehrotra

Thank you.

Moderator

Thank you very much sir. Next in line, we have Mr. Nikhil Vora from SSKI.

Nikhil Vora

Hi, just wondering, actually you did possibly answer the question partially. The movement from auction to government market in Punjab, Haryana, Chandigarh, how significant this move is in the overall scheme of things, and do you see this as a trend continuing for most of the other auction markets which are there in the country today, and the impact of the same for Radico?

Raju Vaziraney

See there were three auction markets left in the country called Punjab, Haryana, and Chandigarh. They were monopolistic markets where cartels were formed by the distributors and they would increase the MRPs and whereby the volumes could not come. Now what has happened is from April 1, 2006, following the policies of other markets like Rajasthan and Uttar Pradesh, the government has made it a lottery system. Anybody can put a lottery and take the shop. consumer franchise is free and luckily for us as you know, 8PM is a very very strong brand in Haryana, Punjab, and Chandigarh market. We have over **70%** market share in Punjab, over 50% in the relevant segment in Haryana. So it has come as a total opportunity for us, and with the market opening up the MRPs have fallen substantially resulting in high volumes, particularly for higher market share brands like 8PM is absolutely buoyant now in the free market.

Nikhil Vora

Okay, does it also mean that the margin shrink ____ Radico should be sharper as we move forward?

R. K. Mehrotra

Yes, we should see an increase in margins, like last year also if you see our net margin and gross margin both have increased. We are seeing a increasing trend.

Nikhil Vora

Okay, thanks.

Moderator

Thank you very much sir. Next in line, we have a followup question from Mr. Ranjit Kapadia of HDFC Securities.

Ranjit Kapadia

Sir if you can throw some light on the material cost for molasses based and grain based process..?

Abhishek Khaitan

At the current levels, as we have explained, the grain cost is slightly higher than the molasses cost, but as grain spirit is primarily used for the premium products, so the costing the product can absorb the high cost of grain which results in higher prices.

Ranjit Kapadia

And going further how do you see the grain based plant cost? With the increasing production and increasing capacity utilization, will you see some improvement in the cost?

Abhishek Khaitan

As far as the cost is concerned, yes, cost is going to be stable, but we are targeting a capacity utilization of close to 80% in this year and a large part of this capacity would be used for our international operations where we are converting the products to be manufactured from grain rather than molasses.

Ranjit Kapadia

Okay, thank you.

Moderator

Thank you very much sir. Next in line, we have a followup question from Mr. Vipul .

Vipul

Hi again sir. Could you broadly give me your contribution from the top three brands for FY06 revenues? And my second question will be, could you give us some more color on the recent exemption of export fee that you have received from the UP Government for grain production? These two questions.

Abhishek Khaitan

On the grain side, we have just started the production and the sales of the grain spirit is planned, and as we have said, part of this production is going to be used internally for our own brands within India as well as brands which are going to be produced outside India.

Vipul

Could you give us the breakup of the contribution for the top three brands? And breakup for your export and domestic consumption for your grain based plant?

Raju Vaziraney

See it is difficult to define what contribution has come from which brand whether domestic or exports, you know, there are various variants also of our mainline brands like 8PM, but major

part of the contribution will come from our millionaire brands 8PM, Contessa, and Old Admiral in that order.

Vipul

Right. Thank you very much.

Moderator

Thank you very much sir. Next in line, we have a followup question from Mr. Nishit Dholakia of Birla Sunlife.

Jayesh Gandhi

Hello, this is Jayesh Gandhi here. I just had this one question, I understand management has given some guidance on CNBC, I could not catch that, would you be kind enough to repeat that sir?

R. K. Mehrotra

We expect our top line to grow by 20-25% and we expect our bottom line by 30-35% for the current year, and also we expect few of our brands to grow by 20-25%.

Jayesh Gandhi

Okay fair enough. Thanks.

Moderator

Thank you very much sir. Next in line, we have Ms. Latika Chopra from JP Morgan. Hello!

Latika Chopra

Hello!

Moderator

Madam, you can go ahead.

Latika Chopra

Yeah, hi I would like to ask what kind of changes are expected in the distribution structure for, you know, following these changes in Punjab, Haryana, and Chandigarh, are you expecting any changes in coming six to nine months?

Raju Vaziraney

See the distribution pattern will remain same, because we as a manufactures supply it to the distributor who in turn supply to the retail; however, there will be a radicle change in the retail

segment because the retail _____ earlier was with the wholesaler, now it has been detached. So our distribution remains same, but in view of the MRPs, having gone down, the volumes have grown.

Latika Chopra

Yeah, but what about distribution in other states, do you see any particular changes from them converting from monopoly to free trade?

Raju Vaziraney

There were hardly any monopolies left in the country except the small state of Himachal, all other states have opened up already.

Latika Chopra

Okay. Thank you.

Raju Vaziraney

Thank you.

Moderator

Thank you very much madam. Participants who wish to ask questions, 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. Jain for final remarks.

Jitendra Jain

Yeah, once again I thank you all for joining us for this 2005-06 earnings conference call. In case you have any further questions, please feel free to contact us any time. We will be happy to answer your queries and take this relationship forward in a much bigger way. Thank you 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 and have a nice evening.

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