

Radico Khaitan Limited
Investors/Analysts Conference Call
October 28, 2005

Moderator

Good evening ladies and gentlemen. I am Ganesh, 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 international participants connected to SingTel followed by a Q&A session for participants connected to India. I would like to handover the floor to Mr. R. K. Mehrotra, President – Finance of Radico Khaitan. Thank you and over to Mr. Mehrotra.

R. K. Mehrotra

Good evening. Mehrotra here. Ladies and gentlemen, I warmly welcome all of you to the 2005-2006 half yearly earnings conference call of Radico Khaitan. I also welcome our FII friends from Singapore, Hong Kong, and US some of whom maybe joining us for the first time. It is my privilege to introduce the management team of Radico Khaitan who are all present here in our executive boardroom at our corporate office in Delhi. We have with us Dr. Lalit Khaitan, our Chairman and Managing Director.

Lalit Khaitan

Hello. This is Lalit Khaitan. Welcome you all.

R. K. Mehrotra

Mr. Abhishek Khaitan, our Managing Director.

Abhishek Khaitan

Hello. Welcome to all of you.

R. K. Mehrotra

Mr. Raju Vaziraney, President - Sales and Marketing.

Raju Vaziraney

Hello. Good evening.

R. K. Mehrotra

Mr. Sanjay Lamba, Executive Vice President.

Sanjay Lamba

Hello good evening.

R. K. Mehrotra

Our colleague Mr. Jitendra Jain, who looks after Investor Relations is also joining from Bombay.

Jitendra Jain

Hi everybody. I am Jitendra Jain here welcoming you all.

R. K. Mehrotra

As you are all aware, we have announced our result for the half-year ending September 30, 2005, a copy of which you must have received by now. Results are also available on our website www.radicokhaitan.com. Before we begin, I would like to state that some of the statements in today's discussion maybe forward looking in nature based on the management's current expectations and may also involve risk and uncertainty. I would also like to mention that this conference call is being recorded.

I now begin the proceedings by formally announcing the half yearly results as on September 30, 2005. The figures I speak of are in relation to the half-year results of September 30, 2004. Our gross sales have increased from Rs. 4706 million to Rs. 5771 million clocking an increase of 23%. The EBITDA earnings have gone up from Rs. 282 million to Rs. 377 million registering an increase of 34%. The PAT has gone up from Rs. 142 million to Rs. 197 million registering an increase of 38%. The EBITDA margins have improved from 10.43% to 10.88% and the operating margin has also improved from _____ at 9.63%. Similarly tax margin has gone up from 5.26 to 5.68%. As far as the quarter ended September 30, 2005 is concerned, the EBITDA has gone up by 43% in relation to the similar quarter in the previous year and the EBITDA margin has gone up from 8.9% to 10.9% and the operating margin has gone up from 8% to 11%. Before we take the questions from all of you, I would request our Chairman and Managing Director, Dr. Lalit Khaitan, to say a few words.

Dr. Lalit Khaitan

Ladies and gentlemen on behalf of Radico Khaitan, I once again welcome you all to this investors conference this evening. Mr. Mehrotra has already said about the results and the copy also would be available with you, which I feel is quite satisfactory. You are all aware about the economy booming in India and we are also happy that the growth in the liquor industry also is very satisfactory. We also look forward for a good and promising future for the liquor industry as well as the Indian economy. You are aware also that there is a consolidation taking place in the liquor industry in India, which is a phenomenon seen worldwide and which is a very healthy sign and is good for the industry as well as the players. I hope that you all would be with us and would continue to be us in the path of progress of Radico Khaitan. I welcome you all once more and wish you all the best.

R. K. Mehrotra

We are now open to questions. Kindly raise any questions you have.

Moderator

Thank you very much sir. At this moment, I would like to handover the proceedings to the SingTel moderator to conduct a Q&A for international participants. After that, we will have a Q&A session for India participants. Thank you and over to Manisa.

Moderator (Manisa)

Thank you Ganesh. We will now begin the Q&A session for participants connected to the SingTel Bridge. Please press 01, to ask a question. Thank you. At this moment, there are no questions from participants at SingTel. I would like to handover the proceedings back to Ganesh. Over to you.

Moderator (Ganesh)

Thank you Manisa. We will now begin the Q&A interactive session for India participants. Participants, who wish to ask question, may please press *1 on your touchtone-enabled telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants who wish to ask question may please press *1 now. We have our first question from Mr. S. Ranganathan from LKP Shares.

S. Ranganathan

Good afternoon and congratulations for the good set of numbers. My question is if you could take us through the volume growth in some of your key brands during the quarter?

R. K. Mehrotra

Yes Mr. Ranganathan, our total volumes _____ 30% for the first half of this year and our flagship brand, 8 PM whiskey has clocked a growth of 43% for the first half from a volume of 14.65 lakh cases to 2.09 million cases which is a growth of 42%. Our Old Admiral Brandy has shown a growth of 33% for the current half year.

S. Ranganathan

33% okay thanks. Hello...

R. K. Mehrotra

Yes please.

S. Ranganathan

You said 33% right?

R. K. Mehrotra

These two are our major flagship brands. Overall the volume growth has been 30%.

S. Ranganathan

Okay. Thanks sir.

Moderator

Thank you very much sir. Participants who wish to ask question, may please press *1 now. We have our next question from Mr. Sunil Jain from MK shares.

Sunil Jain

Good evening sir. This is Sunil Jain from MK. Hello can you hear me? Sir one question about now the government is improving this ethanol program, will you be facing any cost hike in this molasses prices in the near future?

Sanjay Lamba

As far as our company is concerned, our factory is in Uttar Pradesh _____ anticipate an increase of almost _____ and even if _____.

Male speaker

Sanjay, can you hold on for a minute please. Can we hear you properly?

Sunil Jain

No I am not able to hear.

Male speaker

In Bombay, I think there is some problem in telephone lines... Hello participants can you hear our management...?

Sunil Jain

No I am not able to hear.

Male speaker

The line is not very clear, we cannot hear the Delhi lines.

Moderator

Can I just disconnect the Delhi line and call back.

Male speaker

Yeah please.

Moderator

Yeah I will do that sir. Participants are requested to stay connected.

Mr. Jain, after you are through with your question, can you just mute your line sir, when the management is answering it.

Sunil Jain

I should mute? Okay I will mute it.

Moderator

Okay thanks. Yeah Mr. Mehrotra, you can go ahead.

R. K. Mehrotra

The question was regarding ethanol?

Sunil Jain

Yes.

R. K. Mehrotra

As we explained that our plant is in the state of Uttar Pradesh, which is the hub of _____, we anticipate an increase of 20% production and even with ethanol program coming in, our position will be quite comfortable.

Sunil Jain

That could be for a shorter term, but going ahead with the longer term program, will there be any problem or you are looking for any other substitute raw material also?

R. K. Mehrotra

Even if you look at the three years positions _____ with more capex coming in _____. As far as Radico is concerned, what we have done is we are _____ operational by December 15, 2005, now that is going to add an additional capacity of 50%. Can you hear me?

Sunil Jain

Voice is cracking in fact. Not getting properly.

R. K. Mehrotra

We are setting up a grain based alcohol plant in the same premises and our capacity will go up by 50%.

Sunil Jain

Fine. That will substitute this raw material in case of need?

R. K. Mehrotra

Yes in case of need.

Sunil Jain

Okay, and sir can you tell me about the trend in on premises and off premises, means earlier _____ directions only or is there any change happening in that?

Raju Vaziraney

Yeah, this is Raju Vaziraney. Good evening to you.

Sunil Jain

Good evening sir.

Raju Vaziraney

In the liquor industry as you must be aware, brands are built in on premises but _____ off premises and 95% of the consumption takes place out of premises that is the approximate breakup.

Sunil Jain

And same thing is for your company also?

Raju Vaziraney

Yes same is for our company.

Sunil Jain

Okay, and is it possible to get bifurcation of this country liquor and IMFL in the current quarter sales?

Male speaker

Out of the total size of Radico, our sale for the IMFL liquor is in the region nearly 75%, 14% is country liquor.

Sunil Jain

25% is country liquor.

Male speaker

Yeah about 14%.

Sunil Jain

40% is country liquor?

Male speaker

14%.

Sunil Jain

14 okay fine sorry.

Male speaker

And the balance would be _____ spirit and other _____.

Sunil Jain

Fine sir.

Raju Vaziraney

I may just add here that _____ liquor where we sell in UP is also a branded one and it is as interesting in terms of bottom line as IMFL.

Sunil Jain

This country liquor also.

Raju Vaziraney

Yes.

Sunil Jain

Okay. And one more thing, earlier you had said there is a total volume increase of around 30%, am I right?

Male speaker

This is the increase of the IMFL volume.

Sunil Jain

30% is IMFL?

Male speaker

Yes.

Sunil Jain

And you mean to say, then there is a decline in volume of country liquor?

Male speaker

Country liquor, there is a slight decline volume, but IMFL division has grown by 30%.

Sunil Jain

Okay.

Male speaker

Let me clarify, country liquor being price sensitive is controlled by the government and the quotas are pre-laid down by the government. There could be no increase in the country liquor sales. _____ overall also has slightly declined and we are in line with the industry.

Sunil Jain

Okay fine.

Male speaker

And country liquor cannot increase as IMFL, you know it is government controlled plan.

Sunil Jain

Okay. Thank you.

Moderator

Thank you very much sir. Participants who wish to ask question may please press *1 now. We have our next question from Mr. _____ from **Equinox**.

Male Participant

Hi, this is _____ from Equinox Partners, can you hear me?

Abhishek Khaitan

Yes please. I am Abhishek Khaitan.

Male Participant

Yes Mr. Khaitan, I was wondering what were average molasses prices during the quarter and what are you expectations for the year given the harvest that you have see so far?

Abhishek Khaitan

Mr. Sanjay Lamba will answer your question.

Sanjay Lamba

If you know, the molasses season, the crushing starts end of October and the new season is going to start next month, which is November. As far as the last quarter was concerned, there is very less buying because we are holding large amount of stocks from March-April onwards. Now as far as the future is concerned, we expect molasses to come down, to what extent that is very difficult to predict, but should be reasonable.

Male Participant

Can you try to quantify that a little bit?

Sanjay Lamba

It should be in the range of 15-20%.

Male Participant

Down from now or last year?

Sanjay Lamba

From last year.

Male Participant

Okay, thank you.

Moderator

Thank you very much sir. We have our next question from Mr. Rohan from SSKI.

Rohan

Congratulations on some very good results. I was just wondering if you see any benefits from the UB consolidation accruing to your bottom line going forward?

Male speaker

Any consolidation in the industry is always good for the players and with the UB consolidation, we see a increase in prices of our finished product and should help us to increase our margins further.

Rohan

Okay on the distribution front?

Male speaker

See on the distribution front, _____ has gone down from 14.23% to 10.46%, so we have been able to control our spend and in future we expect this trend to continue.

Rohan

Okay thanks.

Moderator

Mr. Rohan, are you through with your question? We have our next question from Mr. Prasanna from UTI Mutual Fund.

Prasanna

Hello sir?

Male speaker

Hello..

Prasanna

Sir my question was regarding grain-based distillery unit which you are planning that is 27 million liter per annum, so I just wanted to know what is the strategy out there in the grain-based spirit and are the other players also planning to put capacities in the grain-based distillery units?

Male speaker

As far as Uttar Pradesh is concerned, it is only a very small plant _____ industry. We would be today the largest grain-based plant in India and as far as other places are concerned we cannot give you the exact figures, but one good thing is that our grain-based plant what we are putting up would be of the world standards and therefore we see that with this kind of a plant, our quality of production internationally also it will be very good for us.

Prasanna

Export from this unit or like ...?

Male speaker

The grain alcohol is used for our semi-premium brands such as our Whitehall Whiskey and the new _____ which we would be launching and thus you can see the first half our export volume are up by 300%. We are exporting now close to about 30 countries and there all we are using grain alcohol.

Prasanna

Okay.

Male speaker

So, this is going to help our export business also.

Prasanna

Okay. So you are planning to put more capacities in the grain-based field or like what are the plans out there like?

Male speaker

Our plant is operational by December 15, 2005, and _____ producing 27 million liters per annum, which will make us the largest grain plant in the country. So with this 27 million liters we will be having the largest capacity in India.

Prasanna

Okay, and you want to ramp up on this or like you will first see how much can you export from this?

Male speaker

First we will try to use up the capacity and later on _____ ramping it up.

Prasanna

Okay, and sir what is the difference between molasses-based spirit and the one based on grain?

Male speaker

Basically, the difference is the ingredient, molasses comes from sugarcane and the grain _____ broken rice, wheat, and _____.

Male speaker

And I would also add _____ all produced from the grain-based alcohol therefore that _____.

Prasanna

Okay. Thanks a lot sir.

Moderator

Thank you very much sir. We have our next question from Mr. Sumeet from _____.

Sumeet

Good afternoon sir In the process of expansion, what kind of inorganic growth would you be looking for?

Male speaker

Currently if you see, about 15 days back we have brought out the brands of **Brihan's** Maharashtra who is doing a total volume of about a million cases and next we plan to do two million cases of **Brihan's** Maharashtra brand and we have also given a mandate to **Rabo** India to look for acquisition opportunities for Radico. It can be both at the domestic front as well as the international front.

Sumeet

Sir, have you laid down any budget for the amount of which the acquisition you will be doing?

Male speaker

We have also given a mandate to Kotak Investments to give us various _____ for fund raising, so depending on the acquisition opportunity, it will be all linked up with the Kotak proposal.

Sumeet

What amount of funds you will be raising through Kotak Investments?

Male speaker

They are going to get back with the proposal, but it depends on the acquisition opportunity available with us.

Sumeet

Okay sir. What is the amount you have paid the acquisition of **Brihan's** Maharashtra?

Male speaker

The total deal size is about Rs. 35 crores.

Sumeet

Okay, and what would be the realizations from this?

Male speaker

Can you please repeat your question?

Sumeet

What would be the realizations from this brand?

Male speaker

The realization like, right now we are focusing the brands and we are trying to leverage our distribution network, but in the coming year, it should give us good profit.

Sumeet

Can you quantify it?

Male speaker

Right now, it will be difficult to quantify the exact amount, but I should give us good realization in the next year.

Sumeet

So more than the current ROI of the company?

Male speaker

Pardon?

Sumeet

More than the current ROI of the company?

Male speaker

It will be in line with the current ROI.

Sumeet

Okay. Thank you sir.

Moderator

Thank you very much sir. We have a followup question from Mr. Ranganathan from LKP Shares. Hello Mr. Ranganathan. Participants who wish to ask question, may please press *1 now. We have our next question from Mr. Anil from Rosy Blue.

Anil

Good afternoon sir.

Male speaker

Good afternoon.

Anil

I just had a question, if we see Radico, they have grown well in the last two to three years, and looking at the brand portfolio it caters to a specific class, _____ future we are talking about the industry growing in double digits, this will be mostly backed by the new entrant or what we call as a generation X, so what are the plans of Radico to attract these crowds or rather putting it in a different way, what is Radico doing differently to

cater the needs of this new entrants, which is demanding a different kind of a product, that will enable you to sustain the growth in the future as well?

Male speaker

If you see the product range like Radico in the last six years _____ volume of one million cases to 10 million cases and our market share has grown from roughly 2% to 10%. The main reason behind this is all our products are aimed towards the younger generation whether it is the blend, whether it is the packing, or the communication, we are trying to attract the younger population and in line with the growing trend we are soon going to launch our vodka brand because vodka is gaining a lot of popularity amongst the youngsters and it is showing a growth of about 45%.

Anil

I had a question on what kind of a realization do you have on the brand that you have acquired recently?

Male speaker

Realization is in line with our Radico brand and it is also in line with the present ROI. Anything else you want to ask.

Anil

There is one more question. I understand that UB has also put on some of its brand portfolio for offer and Radico Khaitan has showed their interest, so what is the kind of valuation do you look for those brands and what kind of sales increase would you see by acquiring those brands?

Male speaker

We have given a mandate to **Rabo** India to look for acquisition opportunities both in India and overseas, and they would be the one who will be discussing with various players specifically to see if any brands are available, so as and when the brands come for acquisition, we would be interested to buy.

Anil

Okay, thank you.

Moderator

Thank you very much sir. We have a followup question from Mr. Sumeet from Duetsche.

Sumeet

Sir, we have brands like Bacardi Breezer, the brand which is extended brand of Bacardi and they have come out with various flavors in India and of late what we have seen that this kind of brands have really caught up with the young generation, so is Radico

planning to come out with such brands, which is a mixture or which is a very light drink which contain alcohol of 4% or 5%, so that the younger generation prefers it along with girls or the ladies so that the sales can shoot up; of what I have learnt that these brands enjoys good realizations for the company, so what kind of plans we have to enter into that segment?

Male speaker

See this segment is called ready to drink segment and if you see in the last two years, the segment has declined and now the segment is stagnated around 300,000 cases. It is a very small segment and it is not showing a growth at all.

Sumeet

So are we planning to enter into that?

Male speaker

No, we are not planning to enter into the ready to drink segment because the segment is very small and it is in fact de-growing.

Sumeet

Okay thank you sir.

Moderator

Thank you very much sir. 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 handover the floor back to Mr. R. K. Mehrotra for final remarks.

R. K. Mehrotra

Thank you very much. I hope we have answered the questions to your satisfaction. Thank you.

Moderator

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

NOTE:

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