Radico Khaitan Limited

(BSE: 532497; NSE: RADICO)

Q1 FY2020 Earnings Conference Call

August 8th, 2019

Management Participants:

Mr. Abhishek Khaitan, Managing Director

Mr. Dilip Banthiya, Chief Financial Officer

Mr. Amar Sinha, Chief Operating Officer

Moderator: Good day ladies and gentlemen and a very warm welcome to the Radico Khaitan Limited Q1 FY2020 Results Conference Call hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

Before we begin our presentation, I would like to remind you that some of the statements made in today's conference call may be forward-looking in nature and may involve risks and uncertainties. Kindly refer to the last slide of our Q1 FY2020 earnings presentation for the detailed disclaimer.

I now hand the conference over to Mr. Anubhav Gupta from Emkay Global. Thank you and over to you Sir!

Anubhav Gupta: Thank you very much Ali. Good evening everyone. We also thank Radico Management for giving us this opportunity. From the management, I welcome Mr. Abhishek Khaitan, M.D., Mr. Dilip Banthiya, the CFO and Mr. Amar Sinha, the COO. I will now hand over the call to Mr. Khaitan.

Abhishek Khaitan: Good afternoon ladies and gentlemen. Thank you for joining us on the first quarter FY2020 results conference call. Hope you have had a chance to review our earnings presentation and financial results announced today. On today's call I am joined by my colleagues, Dilip Banthiya, Chief Financial Officer and Amar Sinha, Chief Operating Officer.

During today's call I will first discuss the current industry environment followed by an operational overview and outlook then I will hand over the call to Dilip for a detailed discussion on the quarterly performance followed by an interactive Q&A.

Despite an overall slowdown in the economy we have seen robust industry volume growth and Radico Khaitan continues to outperform the industry. During Q1 FY2020, IMFL industry in India has grown over 6% year-on-year. Our volume growth has been broad based across our brand portfolio and across key liquor consuming states. In the international market our luxury brands Rampur Indian Single Malt and Jaisalmer Indian Craft Gin continued to gain strong traction and penetrate market in the US and Europe. Jaisalmer gin is now available in over 20 countries globally.

As you are aware that over the past few quarters raw material prices have increased significantly. ENA prices have increased by 3% Q-on-Q compared to Q4 FY2019 and 18% year-on-year. We expect ENA prices to remain under pressure during FY2020. Glass bottle prices have increased by about 15% year-on-year in FY2019. We expect glass bottle prices to remain stable at these levels.

However, it is important to note that with the ongoing product mix change and price increases we are confident about maintaining our long-term margin expansion trajectory along with increased operating cash flows. Furthermore, we have undertaken a comprehensive exercise to review further areas of cost optimization, which will help in mitigating raw material price pressure to a certain extent. Given the significant cost push, our EBITDA margin are under consolidation phase in FY2020 and from the next year onwards we expect our margin to resume the expansion path.

Just to provide you a quick update regarding the pollution control board's notice. Further to our communication in May 2019, we made representation to the CPCB to remove operating capacity restriction. During Q1 FY2020, our molasses plant operated at restricted capacity while we complied with additional requirements. After considering our request and conducting inspection of our molasses manufacturing plant, CPCB found compliance with the additional requirement for its ZLD system to their satisfaction. I am now pleased to report that earlier this week CPCB has issued an order allowing us to restore our original operating capacity from 77 kilo liters per day to 200 kilo liters per day, which is our full capacity.

Building upon the strong momentum from last year, Radico Khaitan reported 12% volume growth, which was led by Prestige & Above category growth of 16%. Our revenue from operations increased by 21% during the same period. Our recently launched brands such as 8PM Premium Black Whisky and 1965 The Spirit of Victory Rum continues to gain momentum and make meaningful contribution. 8PM Premium Black Whisky is currently available in 11 states and after seeing the positive traction we plan to roll it out in four more states in the current quarter.

Going forward we will continue to make investments in our premium brands and launch selective new product to drive a sustainable and profitable growth. We are very confident of our profitable growth trajectory and cash flow generating capabilities. We are on course to become a debt free company over the next one-and-a-half to two years. We expect to generate free cash flow of Rs.100 to Rs.150 Crores in FY2020 after meeting working capital requirement, capex and dividend payout.

With this I would now like to hand over the call to our CFO for a detailed discussion on the operating and financial performance. Thank you and over to you Dilip!

Dilip Banthiya: Thank you Abhishek. Thank you everyone for joining this call today.

During Q1 FY2020, we reported IMFL sales volume of 6.25 million cases representing a growth of 12% on Y-o-Y basis. This volume growth was led by a strong Prestige & Above category volume increase of 16%. Prestige & Above category brands accounted for 31.8% of the total IMFL volumes compared to 30.7% in Q1 FY2019. Regular category volume growth for this quarter was 10.2% compared to Q1 FY2019. In value terms, Prestige & Above brands contributed to about 50.8% of total IMFL sales volume compared to 50.7% in Q1 FY2019.

Volume growth was broad based across key states and key IMFL brands due to favourable policy changes. Our revenue from operations during Q1 FY2020 was Rs. 624 Crores representing an increase of 20.8% compared to Q1 FY2019. During this period, gross margin declined from 50.7% to 47.2% due to increase in raw material prices, purchase of alcohol from third party for the manufacture of country liquor given the restricted capacity at our Rampur plant during this quarter as informed by Abhishek in his opening remarks. Had the plant operated at full capacity, our gross profit in Q1 FY2020 would have been higher by Rs. 6.5 Crores. Despite the raw material price increase, we are confident of sustaining our EBITDA margin during FY2020 and come back to the margin expansion trajectory from FY2021 onward.

Due to the implementation of Ind AS 116 on operating leases, the Company has recognized interest expense on lease liabilities of Rs. 0.32 Crore and depreciation on right of use assets of Rs. 1.34 Crore against the lease rent of Rs. 1.85 Crore which would have been charged had Ind AS 116 not been implemented. Adjusted for this, Q1 FY2020 EBITDA would be Rs. 97.09 Crore (at 15.6% margin).

Selling and distribution expenses have been higher during this quarter compared to Q1 FY2019. As the Company has been progressively making investments in premium brand portfolio through increasing on-trade presence, digital and TV commercials, in-shop visibility, signages, PoS material and signing up with celebrities. Higher marketing spend has enabled the Company to sustain growth momentum in long-term. During Q1 FY2020 advertisement and sales promotion expenses as a percentage of IMFL revenue stood at 7.6% compared with 8.7% for the same period last year.

As of March 30, 2019, our debt was at Rs. 338 Crores, cash and bank balance of Rs. 37 Crores hence a net debt of Rs. 301 Crores compared to Rs. 319 as on March 31, 2019. The gross debt consists of Rs. 307 Crores of working capital loan and Rs. 32 Crores of long-term loans. During this period, we saw a temporary working capital build-up in certain states, like Andhra, Telangana and CSD. Had this situation not been there we would have reduced our debt by much higher amount.

Finance cost for Q1 of FY2020 declined by 32.6% at Rs. 10.96 Crores versus Rs. 7.38 Crores. This also includes Rs. 0.32 Crores impact of Ind-AS 116.

Management is focused on further strengthening our premium brand portfolio and deleveraging balance sheet, which coupled with the attractive industry dynamics, places us strongly for the future growth.

With this we now open the line for interactive Q&A. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Chirag Lodaya from ValueQuest Investments. Please go ahead.

Chirag Lodaya: Thank for the opportunity. Congratulations on great set of numbers. My first question is overall volume growth. It is really heartening to see such kind of volume growth in a very difficult environment. If you can help us understand, which geographies or which brands grew the fastest and how one should look FY2020 as a whole that would be really helpful?

Abhishek Khaitan: Our volume growth has come actually from all over India. I would not be able to say that which geography would be more, but it has come all across India the volume growth and as far as the brand goes, we do not give out the exact numbers, but like our 8PM Black has really shown a lot of traction and it has grown substantially in the current quarter. Even the 1965 Rum which is the most expensive rum in the armed forces and now we have rolled it out into selective markets has done very well. Our Magic flavors continue to do very well and overall the growth is happening and in the current year we expect the volume growth to be in the range of about 9% to 10% overall. Our premium portfolio where we are really concentrating a lot should grow by about 14% to 15%.

Chirag Lodaya: Second question is on input cost pressures, which we are witnessing, what is the current ENA prices and molasses prices at this point of time?

Dilip Banthiya: The current ENA price is in the range of around Rs.55 a liter and molasses prices depends on state to state; however, basically in the mother state where we in, the prices is about Rs.300.

Chirag Lodaya: What was it for last full year Sir, average?

Dilip Banthiya: ENA last year average was around Rs.49, so we are talking about 10% to 12% inflation in ENA price for us.

Chirag Lodaya: What I am trying to understand is current gross margins of 47.2%, which is reported in this quarter, is a reflective of a full year trend, which we will witness or we may see further deterioration from these levels?

Dilip Banthiya: With the product mix and certain state giving us the prices increase, we should be in the range of 47% for this year.

Chirag Lodaya: What is the capex plan for this year?

Dilip Banthiya: Around Rs.65 to Rs.70 Crores.

Chirag Lodaya: In terms of A&SP spend, we have seen some moderation in this quarter as compared to last quarter, there has been decline of 1% point, how one should look at a on a full year basis will we see some moderation?

Dilip Banthiya: We will continue to spend our A&SP in the range of between 7% and 8% of our IMFL sale, so this will continue as a trend.

Chirag Lodaya: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: On the gross margin side, we lost about 300 basis points. So Rs. 6 Crores you could explain because of outsource purchase of alcohol. Just wanted to understand what is the differential between the price increases that we want because of the cost inflation and if you could quantity and any states given a price increase after the completion of the quarter or during the quarter?

Dilip Banthiya: The cost push, which is around 18% on YOY basis, and we see in FY2020 as an overall cost push of around 10% to 12% in our ENA price. Glass price, which has already taken the increase in FY2019, will continue to be at the same level. Certain states like UP, Uttaranchal, Chhattisgarh, and West Bengal all have given the price in the recent quarters and it has been built in. Some more price increases are going to happen in the coming quarters for which the talks are ongoing.

Abhishek Khaitan: In fact, from the next quarter the three more states, which are getting price increase is Rajasthan, Himachal Pradesh and Delhi.

Pritesh Chheda: Did you get any price increase and if you can could quantify in the quarter gone by?

Dilip Banthiya: The price increase has been at the top line level around 1.5% and so.

Pritesh Chheda: On the A&SP side, it was little bit perplexing because you have these brands, which have been launched since the last 12, 13 months, how you were able to cut the A&SP spent?

Abhishek Khaitan: Our A&P spend traditionally has been at 7-8% levels and that is what it will be aimed. With the new brands launches we are going very heavily on digital media. So, we are spending where it is required.

Dilip Banthiya: As far as this A&P expenditure is concerned it is not to be monitored on quarterly basis because we freeze the plan for the whole year and do the activity depending on that event. So, it can vary over quarter, but as we said, it will range between 7% and 8% of our IMFL sales.

Pritesh Chheda: On the cost push side, you said 18% is a cost push in which 10% is ENA then what explains the rest?

Dilip Banthiya: ENA cost increase is 18% on YOY basis in Q1 FY20; however, for the full year we expect to see 10% to 12% because in first quarter last year, the ENA price was low, so because of the low base effect this quarter has seen abnormal. But for full year FY2020 we see an increase of 10% to 12%.

Pritesh Chheda: What is the total cost increase?

Dilip Banthiya: This is reflected in our gross margin. As I said that 150 basis points approximately is the impact of the price increase, so impact on my gross basis it is around 450 basis point between the glass bottle and ENA.

Pritesh Chheda: You have got 1.5% so far and you are expecting incremental price increases for few states?

Dilip Banthiya: Let us see when it materializes because these three states, which we already talked about Delhi, Rajasthan and HP has already given the kind of in principle approval. For rest of the states also in Q3 and Q4, with the ENA going up, we can expect some more prices increases logically.

Pritesh Chheda: Subsequently you start seeing gross margin expansion right because initially you called out that your RM cost will still be 47, but ideally you should see gross margin expansion quarter on quarter as we move towards the completion of the year?

Dilip Banthiya: Basically this year we are taking as a consolidation year because some of these may materialize in first quarter, some may materialize in Q2-Q3. But from the next year onwards which we talked about that everything materializes, i.e. the price increases and the ENA has taken whatever increase possible because of ethanol, so we expect next year to see expansion of our margin again.

Moderator: Thank you. The next question is from the line of Himanshu Shah from Dolat Capital. Please go ahead.

Himanshu Shah: Congratulations Sir on a good set of numbers. I missed a couple of things. One we said 8PM Whisky we are present in how many states and we will be rolling out in four more states during this year or next quarter?

Abhishek Khaitan: It is our premium version of 8PM, which is 8PM Premium Black Whisky, so currently we are in 11 states and during the current quarter alone we will be rolling it out in four states, so we will be entering 15 states.

Himanshu Shah: Any plans to expand further in the whisky space in terms of new brand launch or anything besides the extension of 8PM Premium?

Abhishek Khaitan: Now we are only addressing the premium space majorly. So in the next two years, we will have two more premium brands from the Radico stable, which will be higher than 8PM Premium Black also.

Himanshu Shah: Okay and that could be basically in the whisky space only right?

Abhishek Khaitan: Yes, it will be in the Brown Spirit.

Himanshu Shah: Thanks Sir. Second is just wanted to understand the revenue breakup for IMFL and non-IMFL for the quarter and the growth percentages for the both the segment separately?

Dilip Banthiya: So IMFL segment, IMFL segment is 80% of the total sales value. The IMFL segment has grown by 21% during this quarter on YOY basis. The non-IMFL segment has grown by 19%.

Himanshu Shah: What is driving this strong growth in non-IMFL segment because I believe that this segment has been like low single digit kind of a growth number, so what is driving this strong growth in non-IMFL?

Abhishek Khaitan: Non-IMFL, we have got our pet business and CL business, so both are seeing growth.

Himanshu Shah: CL also means is it something because we are having project only in one state, so some quarterly anomaly or we are seeing significant hit in the CL business over there?

Dilip Banthiya: CL in Uttar Pradesh is growing at a very fast speed around double digit growth is happening and since our quality is very well accepted, so whatever material is being produced in CL that is being sold because of the brand franchisee there, so there is a demand for our product that is why the growth is in that 19%.

Himanshu Shah: It does not cannibalize our popular business of whisky or your P&A over there in that market?

Abhishek Khaitan: In due course of time it should be that when the income level rises, people are going towards quality product, so then it can go on a popular category.

Himanshu Shah: Okay, fine Sir. That's it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Harit Kapoor from Investec. Please go ahead.

Harit Kapoor: Good evening Sir. Just two questions, firstly this 10% volume growth in the regular space is also very strong, so just wanted to understand whether it is 8PM itself, the regular version, which is driving this or is there something else?

Abhishek Khaitan: Primarily it has been driven by 8PM only and in fact 8PM as the family this year we are targeting close to 10 million cases including 8PM Premium Black, so as a family it will be 10 million cases.

Harit Kapoor: And this was close to 7.5 last year, if I am not wrong?

Abhishek Khaitan: Last year was 8 million plus.

Harit Kapoor: Second question is on the temporary working capital buildup which you spoke about for Andhra, Telangana, so is this election related or if could just give some sense what has happened there and what has freed up already?

Abhishek Khaitan: No, it is because a lot of schemes from the government are there, which is being spent on the society, so I think this is a temporary phase and I think in three to six months' time this will come back on the normalcy.

Moderator: Thank you. The next question is from the line of Chirag Lodaya from ValueQuest Investments. Please go ahead.

Chirag Lodaya: Sir we are hearing tht this AP government is taking over the retail market as well, so what kind of impact we would see on account of that?

Amar Sinha: See most markets today have moved towards government corporations, which are well administered and it also brings about stability in the market. The consumer benefits because he is able to get the right kind of products at the right price. So, we feel that if the government comes into this huge market into distribution, it will have a favorable impact for the trade.

Chirag Lodaya: So, we will not see any interim impact of that in our numbers?

Amar Sinha: No not really because our brands are well accepted and even if the change in the road to market happens, the same brands will be in demand. The consumer is going to remain the same.

Chirag Lodaya: One question on regular brands, correct me if I am wrong, in an inflationary environment generally regular brands are not that profitable and in past we have reduced the volume in that segment, but in current inflationary environment we are seeing such a good traction, so what has changed. I am unable to understand that?

Abhishek Khaitan: About three years back when we had taken this path of profitable growth and not volume led growth, so we are selling a regular brands only in those states where our contribution is high, which is now benefiting us. So just to give an example, like Kerala or certain southern states, we are not there in the regular segment because the contribution is very low. So that is the time we have exited those states, but where the contribution is high, we are concentrating and that is leading to this growth. So, as an industry, growth is only 6% whereas Radico has grown 12% in volumes.

Chirag Lodaya: But like Q3, Q4 last year growth was in the range of 2%, 3% for regular and this quarter we are seeing 10% growth on a base of 15% growth, so what exactly has changed. There should be some significant event that would have led to such growth if you can call out that would be really helpful?

Abhishek Khaitan: As I said that we were concentrating only in the profitable states like the regular segment in Uttar Pradesh our market share has increased, so a lot of other states our market share has really increased there.

Chirag Lodaya: Is it to do with Karnataka this excise impact. Last quarter, March, was degrowth month end, April was a bumper month for Karnataka, is that driving this kind of growth?

Amar Sinha: There are couple of states where actually because of the cost push the cheaper brands have actually taken the volume drop and what has actually happened is that volume is shifting towards the regular brands and we are therefore selling in those states where the contribution is healthy, so we are getting the benefit of that growth.

Chirag Lodaya: So we will see the 7%, 8% kind of volume growth at least in regular segment this year as well?

Abhishek Khaitan: What we feel the volume growth overall in the current fiscal we are aiming at a volume growth of about 9% to 10%. Our regular range should be in the range of 6% and premium 15%.

Chirag Lodaya: I was just trying to understand is this quarter number is aberration or this is the trend one should extrapolate going ahead that is the point I am trying to understand? Saying 6% vis-à-vis 10% already you did in this quarter on a very high basis?

Abhishek Khaitan: We cannot judge on a quarter-on-quarter. We always estimate our business on a yearly basis. So on yearly basis what we feel that 6% in the regular is quite achievable, but our main focus is on the premium side where we are very confident that it should be in the range of 14% to 15%, again 16%, what has happened in the first quarter.

Chirag Lodaya: Right fair and one last question on this Rampur Indian Single Malt and Jaisalmer Gin. How big that would be today and what are the plans in next three years, five years, what one should expect and are we making money on those brands today?

Abhishek Khaitan: We will discuss one brand at a time. Rampur Single Malt has been adjudged as one of the top 15 malts in the world and we have three variants starting from $70 a bottle to $90 a bottle plus we are also coming out with a selective 400 numbered bottles, each priced at $1000 a bottle. So our Rampur demand is more than what we can cater and in fact we have tripled our Malt capacity and it has been commissioned only in this month. So once the malt get matured our volumes will increase and yes per case wise Rampur is very profitable. Now about Jaisalmer Indian Craft Gin, just in the matter of six months now we are across 20 to 25 duty frees across the globe and initial response what we are getting is very good for the brand and that also it is one of the highest priced gin globally. We are retailing at $50 of bottle.

Chirag Lodaya: In terms of profitability or volume some sense would be helpful or as a percentage of sales?

Abhishek Khaitan: If you look at the profitability. This is more of qualitative growth and per case the profits are very high. So these are the brands for the future.

Chirag Lodaya: Thank you.

Moderator: Thank you. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: Thank you for the opportunity. This increase in the price of ENA seems to be structural. So, what is your strategy in the long-term, medium to long term to control this cost because government is going to push for more and more blending of ethanol into petrol?

Abhishek Khaitan: Eventually there are only two ways how we can address this. You are absolutely right, prices I would not expect it to go down, but what has happened eventually the molasses will get converted to grain. As a company we are addressing it in two parts, number one is three years back we had gone on a premiumization drive, so today if you see close to 31% of our volume is now premium brands, where the change in alcohol pricing does not make so much of a difference because your margins are much higher than the regular range, so year-on-year we are going to concentrate a premium side of the portfolio number one and number two what we have to realize that 50% to 60% of the market is still regular or cheap. So, if the cost goes up the price increase would be inevitable. So, I think it is a matter of a quarter or two lag, but eventually price increase and premiumization is the only answer.

Tushar Sarda: So, you do not have any plans for backward integration or sourcing your own molasses or something like that?

Abhishek Khaitan: We are into the business of making brands, so sugar is not our cup of tea, so we would be out of sugar industry.

Tushar Sarda: Okay. Thank you very much.

Moderator: Thank you. The next question is from the line of Ankit Gupta from India Nivesh PMS. Please go ahead.

Ankit Gupta: My question is regarding gross margins. Last quarter, in Q4 our gross margins were 52% and it was despite increase in glass prices and ENA prices, can you explain this?

Dilip Banthiya: You are right basically in that quarter we had some ENA, which has been bought at a very low prices and molasses cost was also very low, so in Q4 we got advantage of that lag effect, which has now subsided in Q1. So that is the reason that we had a better gross margin.

Ankit Gupta: Thank you Sir.

Moderator: Thank you. The next question is from the line of Yash Agarwal from JM Financial. Please go ahead.

Yash Agarwal: Sir just wanted to understand, how much of the ENA that we source is made in our own distilleries by what percentage of ENA that we source?

Dilip Banthiya: Around 50% of ENA we source from our own distilleries. So logistically wherever possible to take our ENA, we take it from Rampur but rest of the places we buy ENA in Southern India, Western India and Eastern India.

Yash Agarwal: What is the cost of making your ENA at this distillery, so what is the cost difference between buying from out and sourcing it internally?

Dilip Banthiya: There has been pressure on the grain prices also. So basically the price of grain alcohol has also increased. Same is happening in the molasses side also that key raw material has also increased. So the equilibrium remains the same that we do have some backward integration advantage over our peers.

Yash Agarwal: How much of the ENA we source, what is the split between grain base and Molasses, the ENA what we source?

Dilip Banthiya: 55% our IMFL business is from grain-based alcohol.

Yash Agarwal: I wanted to know the revenue split between Popular, Prestige and above and non-IMFL in percentage term if you could give that I missed that I think?

Dilip Banthiya: 31.8% is Prestige & Above in IMFL business, which is equivalent to 51% in value.

Yash Agarwal: Popular would be 49% and what is the IMFL contribution 80% is it?

Dilip Banthiya: 80%, yes.

Yash Agarwal: How do we see this mix the IFML mix would continue increasing or the non-IMFL would stay as is?

Dilip Banthiya: You would see that in our blend that it used to be around 70% to 75% four years back, now we have come on 80%, and as our focus is IMFL business, so we will continue to increase our share of IMFL in the total revenue.

Yash Agarwal: Sir my last question you have some minor pledge, equity shares of pledged by the promoter, so is that for business purpose?

Dilip Banthiya: Yes, that is for business purpose and it declining continuously.

Yash Agarwal: All right. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Just a small follow-up in this 21% sales growth in IMFL, where 12% is volume if you could split some price and mix?

Dilip Banthiya: So there are actually two things in that, one is the product mix and another is a state mix. So sometimes some states, which has a higher EDP, if in those states the tendency is higher than you would see the value increase is higher than the volume increase. However, when we talk about on an overall basis between the value and volume is always an arbitrate around 5% to 6% because of the product mix and price increases. As I said that arbitrage between the volume and value remains between 5% and 6% which is because of the better product mix and price increases, but in this period some of it can be because of the change in state mix also.

Pritesh Chheda: Okay, so higher pricing state would have contributed in growth and hence the difference between sales growth and volume growth is slightly higher number that is how you want to put it?

Dilip Banthiya: Yes, that is right because some states have higher EDP, which has been higher on volume growth.

Pritesh Chheda: Sir if you could just tell what would be the pure price led growth in this mix, if you could just give out that number?

Dilip Banthiya: At this point of time it is 1.5%, but as we are expecting some more prices it can be between 2% to 2.5%.

Pritesh Chheda: Thank you Sir.

Moderator: Thank you. The next question is from the line of Himanshu Shah from Dolat Capital. Please go ahead.

Himanshu Shah: Sir. Thanks a lot for the opportunity again. Sir just want to understand on the gross margin if we adjust for this Rs.6.5 Crores due to this capacity curtailments and our gross margin would have been like 48% plus this quarter we also had a higher mix of non-IMFL. Going forward then why are we guiding for a muted gross margin guidance, this quarter itself it could have been like 48% or something and with the component of non-IMFL also going down in future quarters. I am not able to understand the muted guidance of 47% of gross margin because I think glass prices are also in the base?

Dilip Banthiya: I am talking about that basically the ENA price, which we have factored is in the range of around 10% to 12% on an annual basis, so that has an impact, at the same time the glass price, which has been there, but partly if some prices have happened in February of 2019 it will have an impact for full year this year, so 6%, 7% has happened in glass also at FY2019 February. So, I would say based on that, that it is between 47% to 48% as a gross margin. The EBITDA margin is in the range of 16% and we continue to guide around 16% - 16.5%.

Himanshu Shah: Thank you.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the Anubhav Gupta for closing comments.

Anubhav Gupta: Thank you everyone for joining this call and I would like to thank the management again for their time and giving us this opportunity.

Moderator: Ladies and gentlemen, on behalf of Emkay Global Financial Services that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.

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Note: This transcript has been edited to improve readability.

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