



Radico Khaitan Limited

(BSE: 532497; NSE: RADICO)

Q4 and Full Year FY2020 Earnings Conference Call

May 29th, 2020

Management Participants:

Mr. Abhishek Khaitan, Managing Director

Mr. Dilip Banthiya, Chief Financial Officer

Mr. Amar Sinha, Chief Operating Officer

Mr. Sanjeev Banga, President – International Business

Mr. Mukesh Agrawal – EVP, Finance

Presentation

Moderator: Ladies and gentlemen, good morning and welcome to the Q4 FY2020 Results Call of Radico Khaitan Limited 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 at the end of today's presentation. 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. I would now like to hand the conference over to Mr. Ashit Desai of Emkay Global. Thank you and over to you Sir!

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 earnings presentation for the detailed disclaimer.

Ashit Desai: Thanks Lizann. Good afternoon everyone. I would like to welcome the management of Radico Khaitan and thank them for giving us this opportunity. With us we have today, Mr. Abhishek Khaitan, Managing Director, Mr. Dilip Banthiya, CFO, Mr. Amar Sinha, COO and Mr. Sanjeev Banga, President of International Business and Mr. Mukesh Agarwal, VP Finance. I am handing over the call to management now for opening remarks. Over to you Sir!

Abhishek Khaitan: Good afternoon ladies and gentlemen. Thank you for joining us on our Q4 and full year FY2020 results conference call. Hope you all well and keeping safe. During this call, I will 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 Q&A.

Before I get into the performance overview, I would like to discuss how Radico Khaitan is positioned in these unprecedented times. As you are aware, COVID-19 has resulted in significant economic crisis not only in India, but also across the globe. The nationwide lockdown had brought business to a halt and disrupted almost all sectors of the economy. However, we believe that it is the temporary phase for our business and after the lockdown is over we shall return to normalcy soon.

There is a lot of uncertainty around the timing of the recovery from this pandemic. Therefore it is even more difficult to ascertain the impact on the industry as a whole and our business. There are a number of questions in our minds such as effectiveness and the adequacy of the containment efforts, development and availability of vaccines etc. However, we know for sure that Radico Khaitan has a trusted brand portfolio that our consumers love and cherish. We have a robust balance sheet position and a strong professional management team which will continue to drive our future growth strategy.

We are closely monitoring the situation and have invoked crisis management actions to ensure the safety and security of the team as well as uninterrupted operations. Health, safety and well-being of our employees in our utmost priority. We have implemented the strictest standards of social distancing in supply chain, use of PPE as well as long as strict hygiene and sanitization procedures at our offices and factories.

Radico Khaitan is strategically focused on a few things which will enable us to emerge stronger after the crisis. First and foremost is our focus on strengthening the brand portfolio. We will continue to launch brands in the premium category which will contribute to the future growth. As you are aware that digital has been an important part of our marketing strategy. We will reassess and refocus our A&SP strategy and we believe that going forward, the share of digital will increase even further. We are also reviewing each and every fixed cost, this will enable us to become leaner on our operations and cost structure. Finally, we are leveraging technology to drive transformation in the work environment and support the workforce, which will make us future ready.

During this period, Radico Khaitan stands in solidarity with the nation and we are humbled to have been able to make a small contribution to the nation fight against COVID-19. In addition to cash donation, we continue to supply sanitizer to various district administrations in Uttar Pradesh and other government agency.

Despite the tough backdrop of the economic slowdown in the first 11 months of the fiscal year and lock down in March 2020, Radico Khaitan has delivered a strong and profitable growth during FY2020. We delivered a double-digit IMFL volume growth of 13.1% in Q4 FY2020 and 12.5% in full year FY2020. Industry volume growth during the year was only 0.5%. Radico Khaitan's out performance is a reflection of the strong brand equity and consumer focused brand portfolio. Management continues to make strategic and highly targeted investment in innovative marketing and products to gain market share. We are confident that we will continue to outperform the industry and strengthen our market positioning in the years to come.

As discussed on our previous call, we experienced a consolidation trend in ENA prices in the fourth quarter. ENA prices have decreased by 2% quarter-on-quarter compared to Q3 FY2020 but has increased 19% compared to FY2019. We believe that with an improved monsoon, better crop this sugar season and significant decline in the crude prices, raw material pricing scenario may be stable.

Revenue from operations increased by 15.7% during FY2020. Two of our brands are approaching the milestone of million case volume in the near to midterm. I am also proud to report that 8PM family of brands has crossed volumes of 10 million cases during FY2020.

While the near-term outlook is unclear at the moment, we are confident of the medium to long term dynamics of the IMFL industry in India. Given our ability to maintain the IMFL volume growth trajectory, we are confident of delivering improved profitability when the industry scenario stabilizes.

As we move into FY2021 we will continue to take necessary steps to maintain our robust foundation and financial strength while at the same time delivering differential consumer experience.

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 us on this call today. During the year, we reported IMFL sales volume of 24.3 million cases representing a growth of 12.5% on Y-o-Y basis. This volume growth was led by Prestige & Above category volume increase of 15.2%. Prestige & Above category brands accounted for 29% of the total IMFL volumes compared to 28.3% last year. Regular category volume growth for the year was 11.4% compared to FY2019. In value terms, Prestige & Above category brands contributed to about 49.5% of total IMFL sales value compared to 47.9% during the last year.

Revenue growth from operations during FY2021 was Rs. 2,427 Crores representing an increase of 15.7% compared to FY2019. During this period, IMFL sales value growth was 18.5% and as a percentage of total revenue IMFL sales account for 81.5% of the net revenue from operations as compared to 79.6% in FY2019.

Gross margin declined by 200 basis points to 48.6% on Y-o-Y basis. The increase in raw material prices was partly offset by higher IMFL price realization and higher contribution from IMFL business.

Adjusted EBITDA increased by 5.4% on Y-o-Y basis to Rs. 368 Crores with a margin of 15.2%. EBITDA for FY2020 was adjusted for Rs. 24.2 Crores pertaining to exceptional items including write-off of debtors of Rs. 8.56 Crores in Q4 FY2020, Rs. 8.59 Crores was paid under SV scheme during Q3 FY2020 and environmental compensation of Rs.7 Crores was paid in H1 of FY2020.

Finance cost during FY2020 decreased by 10.9% on Y-o-Y basis from Rs. 35.48 Crores to Rs. 31.61 Crores.

As of March 31, 2020, net debt was Rs. 382 Crores versus Rs. 319 Crores in FY19. During this period, we saw timing delays in receivable collection leading to temporary working capital buildup in certain corporation markets. However; we do not see any credit risk with these receivables. It is important to note that major portion of the overdue receivables has been collected during the next 45 days after the year end.

Abhishek has already discussed in detail about the current business environment and the market position. Let me try and highlight some of the steps we have taken to preserve our financial strength and operational continuity. During the lockdown, the manufacturing of ENA and bottling of IMFL products was suspended from last week of March to the first week of May. During this period, we started the manufacture of sanitizer to support the nation fight against COVID-19.

We have developed a company-wide policy framework to reflect how systems and processes need to change post COVID-19. We are starting operations wherever possible with the necessary clearance and permission. As the lockdown is easing from May 3, 2020 we are ramping up our operation in both production and dispatches.

We have a strong financial position and comfortable liquidity. All fixed cost and planned and unplanned capex are being reviewed to ensure optimization during the period. Going forward we expect some opex savings due to our tight cost control which will enable us to grow our EBITDA and maintain EBITDA margin. Further in

line with our strategy of being an employer of choice we have continued to support our employees with zero salary reductions or job losses during the period.

To summarize, as we step into the new financial year, we are taking all the necessary steps to sustain our financial strength, robust business model, and continue to grow consistently, competitively and profitably.

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

Questions and Answers

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Neeraj Prakash from Nepean Capital. Please go ahead.

Neeraj Prakash: I had my first question on cost. If you can provide the breakup of the gross margin impact that you had this quarter from inflation in ENA versus price increases taken from glass players and packaging. Secondly on the cost is your other expenses has fallen year over year as well as quarter over quarter so what has sort of driven that reduction in other expenses?

Dilip Banthiya: So your first question regarding the gross margin in this period on Y-o-Y basis our gross margin was done by 200 basis points at 48.6%. This is mainly on the account of the raw material prices where the molasses prices, ENA prices or grain prices have gone up. This is after having higher realization from IMFL business and higher growth. As I said that IMFL revenue during the year has grown by 18.5% versus non-IMFL business growth of just 5%. So because of that it is partly offset. 200 basis point decline is on account of the raw material prices. On absolute basis if we say, then approximately Rs. 90 Crores was the impact on Y-o-Y basis on account of the higher raw material prices, which has been absorbed this year. As far as your second question regarding the other expenditure, there was a cow cess levied by Uttar Pradesh government and because of that there has been an increase of Rs. 20 Crores during the period. Rest is the normal expenditure and as we said in our opening remarks that we are looking at each cost item and looking at tighter cost control so we will have some saving on the other overheads this year.

Neeraj Prakash: On your receivables front, as you mentioned you have seen an increase in receivables by roughly Rs. 200 Crores on your balance sheet so which has been a significant drag on your operating cash. So, can you give us some color on who the receivables are from and when do you expect to sort of collect them?

Dilip Banthiya: As I already explained in the opening remarks that these are timing delays from some corporation market and because of that there were overdue as on March 31, 2020. In next 45 days of this we have collected almost Rs.100 Crores from these over dues and my debt today stands Rs. 300 Crores from Rs.382 Crores which was on March 31, 2020.

Neeraj Prakash: Okay sure thank you and just lastly in terms of delivery of alcohol, which is now happening to people's homes across many states are you seeing any trends in terms of it being widely adopted and therefore using more traction in terms of incremental volumes?

- Abhishek Khaitan: I think the trend of home delivery is a huge structural change for the liquor industry. As of now it is too soon to make a comment because only in a few states like Jharkhand etc., the delivery has started but I think the most important is the trend. Because the minute it gains pace the distribution becomes very free for alcohol, which was earlier restricted. Specially people who are a little hesitant to go to alcohol shops to buy especially women etc., this home delivery would be a boon for the customers.
- Neeraj Prakash: Okay got it. Thank you so much.
- Moderator: Thank you. The next question is from the line of Pritesh Vora from Lucky Investment Manager. Please go ahead.
- Pritesh Vora: Just two questions. One, across the states there are these multiple excise or indirect taxation increase and different states have different percentage. Is it possible to share what would be the blended excise increase considering the states which have announced and is there a corresponding MRP increase which have already been effective? Second question is, you know, we have lost volume in the first 60 days or let us say first 45 days of the year, based on the trends that you are seeing now is there that this stock out would have happened and do you think that there is a probability that these lost volumes can be covered up for the year and there can be some growth for the year?
- Dilip Banthiya: So I will say increase in excise duty is 100% pass on and MRP has been increased to that extent. Second your question regarding the inventory pipeline I think Amar will speak about it.
- Amar Sinha: First of all I will repeat most of these tax increases are at the last mile and therefore there has been commensurate increase in MRP without impacting the bottom line of manufactures, point one. Point two, the pipelines in the trade are actually very low and therefore as that trade normalizes the pipeline filing will actually take place and consumers will start picking their preferred choice of brands, so demand is going to come back.
- Pritesh Vora: So based on that you think that this lost volume of whatever 30-40 days, primary volumes over 30-40 days can be recovered for the year?
- Abhishek Khaitan: Right now to make any comment would be too soon because but what we can say is that we should like those places where the shops have been opened our sales have come back to 80% of the normal rate. So I think as time passes and how the COVID plays out, it is quite subjective, but in Radico we will be outperforming the industry in terms of volume and I think the demand for liquor will be the soonest to come back.
- Pritesh Vora: And from supply side are you ready or there any challenges from a supply side now?
- Abhishek Khaitan: We have got total in 32 units and as of today all the 32 units have started operations.
- Pritesh Vora: It can be ramped up to the 80%-90% of the demand filling if required or there are challenges there?
- Abhishek Khaitan: See challenges in the beginning are there but once the unit starts to ramp up there are no problem because all are labors are local so luckily we do not have that challenge.

- Pritesh Vora: Okay. Thank you and all the best.
- Moderator: Thank you. The next question is from the line of Naveen Trivedi from HDFC Securities. Please go ahead.
- Naveen Trivedi: Sir could you please explain us about realisation growth in P&A side, it is very strong versus what we have seen the trajectory in the previous few quarters and why the regular realisation was down 8% this quarter?
- Dilip Banthiya: See P&A in this quarter had grown by 11.3% Y-o-Y basis, yes Q-on-Q basis because these third quarter you are almost the back in volume as far as 12-month is concerned our P&A growth is 15.2% versus regular at 11.4%. So both have grown but outperformed so the regular category lower growth as our focus is mainly on the Prestige & above category so we are continuing to focus on Prestige & above category. 23th March onwards there has not been any dispatches and that is the period where the dispatches takes place before the year end and new starts and pipeline filling also happens so that we lost that sale which is also a significant sales. But in spite of that I will say that the quarter volume has grown by 13.1%.
- Naveen Trivedi: Sir my question was more with respect to the realization growth, which we have seen during this quarter. I assume that P&A relation was upwards 50% this quarter.
- Dilip Banthiya: So actually realization in Prestige & above category sometimes depends on the state mix also and the last seven to 10 days the pipeline inventory. Amar can speak on that in detail?
- Amar Sinha: So the last quarter we saw a healthy growth in our premium brands in the southern markets, which has really impacted for us.
- Dilip Banthiya: Price realization also depends on the EDP of that particular Prestige brand in various states.
- Naveen Trivedi: Okay if I assume that the North Market is relatively positive for you?
- Dilip Banthiya: North markets are having higher EDP in Prestige category.
- Naveen Trivedi: With respect to what we have observed for other consumption categories also, they aggregate demand also seems to be more muted for FY2021. So do you see that this will also impact to your P&A journey which in FY2020 was very robust? Do you think that this can impact to your P&A growth or you think that this can be an opportunity for you considering the price points at which the P&A is available for you? This can be an opportunity for you?
- Abhishek Khaitan:: See what we feel is that we have to see how the COVID plays out and lockdown is lifted and everything returns back to normal I think the P&A will start growing faster than the regular range.
- Naveen Trivedi: Okay, and just lastly on your P&A realization side, although you are saying he mix also changed but even if I look at your annual realization also is pretty healthy so do you think that this 1400 to 1450 kind of realization is sustainable going ahead?

- Dilip Banthiya: The realization per case depends as I said on the state mix so basically for P&A we look at the contribution per case and those are in almost same bracket so I think that realization some time as a matter of the metric of the state mix, but in general, yes, it should continue.
- Naveen Trivedi: Thank you so much Sir.
- Moderator: Thank you. The next question is from the line of Vishal Biraia from Aviva Insurance. Please go ahead.
- Vishal Biraia: Sir what is the current capacity utilization across all 32 plants that you said are operational?
- Dilip Banthiya: We have actually the capacity as Abhishek has told in opening remarks that all the 32 units are well prepared to cater to the demand and dispatches. But at this point of time as we shared that 60%, 65% of the shops have opened and operating maximum two weeks we feel that most of the shops will come into play. As we have to also see how to consumer behavior changes and these excise duty hikes in particularly couple of states where they have abnormal hikes. So let's see how the industry behaves. We will cater to the market demand but our preparedness as far as supply chain is concerned is geared up.
- Vishal Biraia: I mean assuming that 80% of the shops opened in the next few weeks and we are back at about 80% level across India so would the plans we currently preparing for such an eventuality so would they be operating at plus 75% utilization currently would that be a fair understanding?
- Dilip Banthiya: Absolutely.
- Vishal Biraia: Okay any specific case that you want to highlight where the dues are much more than normal? Receivables that we want to collect from the states?
- Dilip Banthiya: Actually they were only couple of states which was time mismatch and in last 45 days we have collected most of the high overdue so that is how the debt is down to Rs. 300 Cr. So there is no specific state where the over dues are high now.
- Vishal Biraia: Okay. So just one last question is that because of the increase in excise duty across many states would there be downgrading? Would regular grow more than P&A and in case that happens would that impact our margins in FY2021?
- Abhishek Khaitan: In the states where the excise has been increased from 10% to 20% there we do not see any downgrading happening but certain states like Andhra and Delhi where the excise has been increased by 70%, definitely if that continue, they will be downgrading there. But we believe that it is a temporary measure and it will be COVID cess will be gone back to normal level.
- Vishal Biraia: Okay so if this happens they would be some impact on the gross margin side at least for the near-term because of the down trading?
- Abhishek Khaitan: See right now there only two markets like Andhra and Delhi where there can be downgrading so in the overall scheme it is not that significant. Also I would like to say

that considering the brand portfolio that Radico has, we have brands to cater to every price segment and that will play its role in that kind of scenario.

Vishal Biraia: Thank you very much.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum. Please go ahead.

Shirish Pardeshi: Just two questions from my side, if you can help me to understand Magic Moments volume last year and this year?

Abhishek Khaitan: We do not keep brand specific volume and overall volume have grown by 12.5% where the Prestige & above is up 15% so Magic Moments also has grown at the same level.

Shirish Pardeshi: Any color on how big is now Morpheus?

Abhishek Khaitan: Morpheus now has become close to million so hopefully if everything goes well next year we should in a million cases.

Shirish Pardeshi: Okay my second question is, give us and throw some light on UP and AP market and how is the growth and what are the issues which we are facing in current context?

Abhishek Khaitan: See out of all the market Uttar Pradesh had really done a commendable job and majority of the shops are open there. UP has done very well and I think in another month or two the state will back to normal if not more. The excise hike is also only about 10% so UP, I think will recover the fastest. As far as AP market goes, tax increase, there have been 70% so there the industry has taken a huge beating, it down to about less than half in Andhra.

Shirish Pardeshi: UP in FY2020 would have grown excess of 17%-18%?

Dilip Banthiya: UP in FY2020 had grown by 10% and we have again outperformed the industry. This was in spite of the lockdown of the last 7 days where the major stocking goes for the new trade. And Radico continues to have the maximum market share the largest market share in Uttar Pradesh.

Shirish Pardeshi: Just follow up on that AP would be about 10-12% of our annual volume?

Abhishek Khaitan: AP is about 7-8%.

Shirish Pardeshi: Okay and there you are saying that excise which has happened at 70% the volume are under pressure. Any quick feedback initially what is the demand scenario right now?

Dilip Banthiya: After this increase in excise duty we have seen 50% of the industry. So but what happens is like, if the AP excise is higher the neighboring states like Telangana etc., you start getting material from those states so the volume in the other states keep increasing.

Shirish Pardeshi: Thank you, sir. I was asking in the sense that if AP has higher taxes, there will be stocks which will come from neighboring states is that the scenario which is happening right now?

- Abhishek Khaitan: Right now is too soon because the boundaries are locked down. But as it opens up definitely it will happen that we have seen it where ever the duties are higher, the material comes in from neighboring states.
- Shirish Pardeshi: Okay. All right I will come back again.
- Moderator: Thank you. The next question is from the line of Amarjeet Mourya from Angel Broking Limited. Please go ahead.
- Amarjeet Mourya: Sir just wanted to understand on demand front. Like we are following social distancing so lot demand come during socializing like party and all that and second is that closure of bar and restaurant how much we are contributing directly bar and restaurant apart from that like nowadays people are looking like value for money and our product is more or less in the discretionary nature, so what do you think and how the demand will impact?
- Abhishek Khaitan: To answer your second part about the restaurants and bars. In India alcohol still home driven subject because in the bar and restaurant, the market share there is only about 3% to 4% more is in home drinking. So I think the bar and restaurant closure does not affect so much.
- Amarjeet Mourya: So how much we are contributing in terms of our revenue?
- Abhishek Khaitan: It is negligible. It will be the same range 2% to 3% that is it.
- Amarjeet Mourya: What is your thought on the social distancing like party and all that socializing?
- Dilip Banthiya: It is a universal phenomenon so I think social distancing all that basically the home consumption continues to be there and when people do not go out and compromised then the consumption at home might increase but it is too early to comment on that. Too early to comment how is the price increase, the excise increase how the consumer behavior so we have to wait for at least a month or 45 days to look at what kind of trend is emerging.
- Amarjeet Mourya: Sir what I understand you are like 80% of sales are normal, back?
- Dilip Banthiya: 65% to 70%.
- Abhishek Khaitan: States where the excise duty has been increased by only 10% or 15% and where the shops have fully opened there demand has started coming back to the normal level, but lot of places the lockdown is still continuing like Mumbai. Mumbai is still under lockdown so there are a lot of containment areas, etc. So wherever it is opened demand is coming back. I think another one month or two months depending on the COVID situation we know how the market spans out but we are geared up from our side for the supply.
- Amarjeet Mourya: Okay thank you Sir.
- Moderator: Thank you. The next question is from the line of Chanchal Khandelwal from Birla Mutual Fund. Please go ahead.
- Chanchal Khandelwal: My question is on the write-off of Rs.8 Crores from Bihar. Can you explain this?

- Dilip Banthiya:** Actually during the Bihar prohibition time we had some outstanding from the corporation and out of that some recovery has happened. Balance amount of Rs. 8.56 Crores was lying in our books. This has been conducted by the industry, it is on the merit that the corporation must owe the quantum of supply done before the prohibition. However it is already 3-4 years we are contesting in courts and that date of the next hearing is not coming in Supreme Court. We thought it prudent to put it as a write-off whenever recovery takes place we will write back to the extent of the amount recovered from this outstanding so there is no outstanding on amount of Bihar after this is written off in the books.
- Chanchal Khandelwal:** Second is on receivable days now Andhra is a big portion if I am not wrong taking clue from the last call, Andhra there is a excise hike also so how was looking to play Andhra Pradesh, has the money come back from Andhra Pradesh?
- Dilip Banthiya:** So I said that this counterparty risk is not there first of all in Andhra Pradesh because it is corporation. Secondly most of the money collected as I said that debt is down to Rs.300 Crores and Rs.100 Crores plus of overdue have been collected.
- Chanchal Khandelwal:** How many has been collected?
- Dilip Banthiya:** Rs.100 Crores have been collected on account of overdue from April till date and most of the money collected is from these corporation markets only so we have now a very moderate kind of outstanding, which used to be March 31, 2020.
- Chanchal Khandelwal:** Okay but Andhra supply is back to normal, in Andhra with excise hike and lot of liquors stores not opening? How is the condition in the Andhra Pradesh now?
- Amar Sinha:** So the shops had started opening up, it has not yet optimized but in the months ahead which is by June end we hope that Andhra will be fully operational because the plants have started to manufacture.
- Chanchal Khandelwal:** Lastly on Uttar Pradesh with this new regulation of liquor stores in the mall, and any other change in regulations you think has happened in that state?
- Abhishek Khaitan:** The two things, one is the home delivery and allowing of premium brands in the malls I think it is a very positive sign for the industry. Uttar Pradesh has taken a lead on that and it should really help premium sales.
- Moderator:** Thank you. The next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.
- Jasdeep Walia:** Sir my question is on this news that we have read on UP allowing retailing of premium liquor in malls so can you elaborate a little bit in the sense that how is the government proposing to implement it and what kind of these in retail point of share do you expect out of this new ruling?
- Abhishek Khaitan:** Right now it is again too early to comment. This is the intention of the UP government and I think we are still framing the rules of how to allow it and what to do, but I think the thinking is in the right direction where we have been always asking that the premium brand should be allowed in the malls so that you also increase the number of distribution points. So again repeating both home delivery and allowing

premium liquor in the malls is absolutely the step in the right direction. So once it crystallizes in Uttar Pradesh, we will be able to tell you more about that about it.

Moderator: Thank you. The next question is from the line of Amar Kalkundrikar from HDFC Asset Management. Please go ahead.

Amar Kalkundrikar: Sir I have just one question on receivables so as you mentioned there was some timing differences on certain state corporation in the month of March plus we also know that most of the state government are financially tight, are there any self imposed credit restrictions that you have in mind which you will implement going forward to keep receivables in check?

Dilip Banthiya: So as I said Amar that we are very conscious about the counterparty risk and controlling our credit in the open markets. So as far as the credit risk is concerned, we are very conscious about it and we will continue to monitor it very closely. Secondly, as far as strain on the financials of the states revenues, so we actually still believe that the states gets maximum revenue out of liquor and they will do most of the steps after this normalcy takes place to normalize it so that volume come back. The payments to the manufacturers and suppliers makes normal or come on the normalcy because if this is not done their volumes suffers the supply suffer, and the revenue suffers. So it is a chain reaction. So we do not foresee any concern as far as credit at the same time it is in the self-interest of these states to have these outstanding players so that supply is smoothened.

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

Harit Kapoor: My first question was on the price increases so obviously states have taken up the taxes and typically it is around the time of March, April that you also discuss price increases with states probably this time it has been a bit harder because of the environment. Just wanted to get you a sense about do you see the opportunity in the next three to six months to discuss pricing with states also or you think this year is one where you know pricing is something that is going to be hard to come by?

Abhishek Khaitan: See as the normal practice we continue to discussing about price increases with especially corporation states and last year we got certain price increases in few of the states. In the current year Telangana has given us a price increase of close to 8% to 10% of EDP and recently even Tamil Nadu announced Rs. 96 per case price increase. We have been in discussion with a few southern states, so it is ongoing effort.

Harit Kapoor: Second thing was on the material cost. Why do you believe that the material cost environment will be flattish going forward and it may not in fact be beneficial to you given that crude prices are low and demand is not very strong? So do you think you could benefit, as far as material costs are concerned specifically on ENA in the next 9 to 12 months?

Abhishek Khaitan: Definitely there should not be an increase in the ENA prices. Logic says yes the prices should go down because even after one month lockdown the ethanol consumption has gone down and the OMC lifting is low but being on the conservative sides we have feel that the prices now should not increase and the crop

is also brought specially UP etc., everywhere so it should be stable or it can be even decline also.

Moderator: Thank you. The next question is from the line of Sundram Sinha from Equirus. Please go ahead.

Shivam Sinha: My question is on the plan of the new brand launch. What is the plan? Is there any delay or is it going to happen in the second half of this year?

Amar Sinha: Radico has been working on a set of new premium brands for the last two years. The work is on track. Normally we would have launched one of them in the short term, but we will wait to see how the market and the economy shape up. On our side we are ready with most of the work behind these premium brands.

Shivam Sinha: And this will be on whiskey and vodka both?

Amar Sinha: Primarily whiskey.

Shivam Sinha: Okay and it will be priced above 8PM Black, right?

Amar Sinha: It will be in the premium segment, of course.

Shivam Sinha: My last question on the taxes now Delhi and AP as we have said tax has gone up by around 70%. Is there any possibility of roll back once lockdown normalizes?

Abhishek Khaitan: Definitely, Delhi we feel that there will be rationalization of that because Delhi is closely bordered with Uttar Pradesh and Haryana and I think it is temporary measure and the taxes should come down in Delhi.

Moderator: Thank you. The next question is from the line of Vishal Biraia from Aviva Insurance. Please go ahead.

Vishal Biraia: Sir the new launches that we are talking about is it only the whiskey or any other segments in vodka or brandy as well?

Amar Sinha: See as a marketing strategy, we have already been working on upscaling the vodka range and the brandy range that we have but it is all in the premium segment upwards. So that effort will continue because it is basically nothing but broad basing the existing set of brands. This effort will continue and this will impact the bottom line even more favourably, point one. Point number two as far as whiskeys are concerned, this is one opportunity area that Radico has been seeing and it has actually experienced it with the success of 8 PM Premium Black already and we are working on the other new premium segment brands which will also happen in due course of time as we said depending upon the market conditions.

Vishal Biraia: Okay and one last question on glass prices, how have they behaved and any perspectives when you are talking to the glass manufactures?

Abhishek Khaitan: Glass prices had increased last year and I think now it is stable. We do not see any increase in the glass prices going forward because a lot of the demand (soft drink, beer) is down. So I think glass prices should be stable.

Moderator: Thank you. The next question is from the line of Anand Trivedi from Nepean Capital. Please go ahead.

Anand Trivedi: In the opening remarks you mentioned about digital can you expand on that and tell us how you can as a company exploit the digital opportunity?

Amar Sinha: So as far as digital is concerned, Radico in the last two years has actually taken all its marketing initiatives a notch above by concentrating on the social media platforms and the various other options of Google network. Now, this has given us very positive results in the sense that we have now been filtering down to who consumer is, what his geography is and we know exactly who are our consumers for Brandy, Vodka and Whiskeys so that is the kind of details we have gone into. The other aspect that we feel that because we are finding huge interface with the right kind of target audience in consumers directly with our brands, we have taken all our Brandy, Vodka and Whiskey, on the social media platform and we are right now concentrating on events, which are largely online. Radico had forayed into being the main sponsor for the largest musical event, Sunburn in the World and we have gone on the digital platform with this. We are seeing huge interaction with our consumers. We are also now interacting with consumers on the music and party front with music performances, which are online. A lot of TV commercial that we did with brand ambassadors like Jacqueline Fernandez and Tiger Shroff, have now gone online so most of us efforts towards communicating with our consumers on the social media platform and Google display network. There are many innovative steps that we are working on to increase the interaction and you will see it in the course of the next three months.

Anand Trivedi: Okay. Thank you. My second question was a clarification. You mentioned that ENA prices expected to be flat or possibly may go down but in the light of the fact that ENA can now also be used or has been used for sanitizers. Do you see that putting upward pressure on prices?

Dilip Banthiya: See the sanitizer is coming out of the molasses ENA right and at the same time we have seen the demand reduction in ethanol industry, which is a large supply and we are seeing that the quantity bid by OMC is also less and practically 45 days the demand has been virtually zero. At the same time the molasses production has again been highest in the season, so we do not see this and secondly, the grain prices which has moved high last year where we have taken most of the knock, has started a declining trend. So this is also a counter to the higher ENA prices so the grain prices come down. So we have seen a stable to a moderately declining scenario on ENA front.

Moderator: Thank you. The next question is from the line of Chanchal Khandelwal from Birla Mutual Fund. Please go ahead.

Chanchal Khandelwal: The question which I was asking why do we think this online delivery or delivery home structural and why do you think this will continue anything from the industry body anything that you want to highlight?

Abhishek Khaitan: See if you actually see for the states petrol and alcohol are the major source of revenue for any state government and this COVID situation and the GST, every state

is looking to increase its revenue source, and this is the structural change where with the online delivery, the minute you increase your distribution network or it becomes freely available, the consumption goes up. Now if the consumption goes up, the revenue of the state will also go up so that is what we feel that the state would encourage this to happen. With the COVID thing you never know when lockdown again happens and also it helps for the social distancing part.

Chanchal Khandelwal: What are the problems of online delivery after lockdown say I am talking six months from now and things are normalized, and there are five liquor store in my vicinity now, which liquor store will deliver how will things work out someone will lose revenue a lot of problems which can happen from that perspective? I am asking that one liquor store may not feel good about it because someone else is delivering to my area so how will this pan also the entire structure has to be well defined?

Abhishek Khaitan: Each state is working out their own structure. Just to give you an example like certain state they will go online and they would ask retail which I interested in home delivery and there it will be allocated. So the minute that you type in your address the closest shop will get the order so that is one pattern. So every state is trying to work out their own pattern. So eventually they can also happen from the depot so every state is trying to work on its own pattern, what is the best.

Chanchal Khandelwal: Also do you see the number of outlets going up in various states, the number of liquor outlets or any such thoughts?

Abhishek Khaitan: Right now in this situation number of outlets which are there if they open and function properly I think it will be a big task.

Moderator: Thank you. The next question is from the line of Dharmesh Shah from OHM Portfolio. Please go ahead.

Dharmesh Shah: On the last call you had actually summarize couple of cost advantages I think that figure was something like Rs. 50 Crores benefit in FY2021. Besides someone offs as well which were in the last quarter, can you review this and what could we expect in FY2021 on account of gross margin and cost-cutting initiatives?

Dilip Banthiya: We talked about the one off item and those we have already clarified. I am not clear that what kind of Rs. 50 Crores you talking about. I said in my opening remarks that this year in FY2020 we had a knock of around Rs. 90 Crores on a account of raw material prices so that had been absorbed in this. As far as this raw material prices we have already cleared the scenario and expenditure side the big item has been the cow cess which will continue to be there in the Uttar Pradesh. The rest of overhead item we are reviewing and will make it leaner and cleaner as far as possible. So those are the cost measures which we have already been taken by the company.

Dharmesh Shah: Okay, how much could be the gross margin saving due to the one-off impact on raw materials?

Dilip Banthiya: We think that the gross margins are going to stay near to this. 48.6% was our gross margin so we are thinking that whatever support, there is some down trending which cannot be predicted as of now but with this scenario of raw material and our

premiumization the gross margin to continue to be between 48.5% to 49%. That is what our anticipation for this year.

- Dharmesh Shah: That is despite certain duty hikes in States like Andhra Pradesh?
- Dilip Banthiya: The point is duty hikes are resulting in the reduction might be till the time the duty get corrected, direction in the demand and particular state and might be some spillover from the neighboring states. So it does not impact the gross margin.
- Moderator: Thank you. The next question is from the line of Avi Mehta from IIFL. Please go ahead.
- Avi Mehta: Sir I just had the question on the ENA cost. In the comments you indicated that ENA prices should come off. Then why are you saying ENA should remain stable? It should go down only. Right Sir or what can go wrong?
- Abhishek Khaitan: As the management we believe in being conservative. We told in our remarks also that we believe ENA price not to increase but be stable or it can be on the declining curve. But to predict how much it can go down will be making a wrong assumption.
- Avi Mehta: But Sir would it be fair to say it should be on declining trend whatever percentage may be or do you see that there is a possibility of it being stable because and if you expect it to, then why?
- Abhishek Khaitan: As I said stable for sure, it might decline, but it is better to take it as stable.
- Avi Mehta: Okay what is the headwind I mean I just did not understand that? Why are you saying it can be stable?
- Abhishek Khaitan: The headwind can be I think it is uncertain times, we cannot say but as we prepare our model, until and unless they are clear signal that decline will be sustainable and sizeable however, we still make our model based on the stable ENA price.
- Avi Mehta: Let me kind of rephrase it, has current prices come off or have you seen any correction in ENA prices?
- Abhishek Khaitan: Yes we have seen 2-3% reduction in Q4 versus Q3 and prices are stabilizing near to that and at this point of time we cannot say because full of the distillation capacity has also not come in operation. As and when the full distillation capacity comes into operation, the demand increases, the supply increases and commodity which is based on demand and supply dynamics so I think our assumption at this point of time is stable to marginal decline.
- Avi Mehta: Okay I understood Sir. As of now you have not seen anything. We will wait till you kind of argue that it will be definitely decline. Fair enough Sir that is all from my side. Thank you very much.
- Moderator: Thank you. The next question is from the line of Chirag Lodaya from ValueQuest. Please go ahead.

- Chirag Lodaya: Sir I have a few questions, first one was on the receivables so now with states finance being under pressure, do you envisage overall working capital requirement for us will go up and what can be the quantum increase if at all?
- Dilip Banthiya: Actually state finances are strained but that gives them the point that they have to increase their revenue from this industry where they can increase volume. So the point is to continue to have supplies and that is why the distribution points are being increased, more opening of shop and all that they are trying to do. So we see that the clearance and overdue should stabilize and the money should be recovered and that can only make them to have this continuous supply. So we cannot say from here with Rs. 20 Crores, 30 Crores, 50 Crores plus or minus depending on the volume growth or supply, otherwise we do not see that there is a significant change in our working capital needs.
- Chirag Lodaya: Got it Sir. Second was on the overall industry volume, first there has been COVID disruption and now many states have taken steep excise increase so how do you see overall industry volume shaping up for this year?
- Abhishek Khaitan: As I said like right now it is too early to make any judgment on this and also we do not know how the COVID is going to play out whether the lockdown is going to continue whether there are going to allow shops etc., so right now to make any kind of assessment would be wrong but the only thing we feel is seeing by the global trend that alcohol would be the industry which will bounce back the fastest. We can see that is what is happening in US etc.
- Chirag Lodaya: Right okay got it and just lastly on overall our operating margin so how one should look at FY2021 what kind of cost cutting measures you will undertake, will you cut A&SP spend where there is low demand or what kind of cost levers you have?
- Abhishek Khaitan: As the company we have not decreased any salary, number one but what we are looking at is we are renegotiating all the fixed cost whether it is rental whether it is fees etc., and so we are working on every angle and we will see how the situation pans out.
- Dilip Banthiya: So gross margin continues to be at 15.2% for the margin for this year so we expect this margin to be stable at these levels which is product mix and the kind of raw material scenario we have already explained. It is as we always maintain that the future is uncertain at this point of time and as things evolve we will be clearer about it. But we expect margin to be near to these levels.
- Chirag Lodaya: Do we envisage any A&P cuts this year because of lower demand and two months already gone?
- Amar Sinha: So A&P we would be adopting more rational and cautious approach. The larger part of A&P will go towards digital and that obviously in today's scenario costs much less than the traditional medium. So that is a good area to look at and be cautious.
- Chirag Lodaya: Got it, all the best Sir.
- Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from SIMPL. Please go ahead.

Nikhil Upadhyay: On this A&P just to understand it better because as I understand a lot of the brand promotion cost is basically dependent upon the promotion which we do at the bar and events. Now with the bar being closed and the large events like marriages or some of these events not happening, is there a significant possibility for the rationalization in this cost structure? Just to understand this, how much of it is variable and how much of it is like a fixed brand investment which we keep on doing? Just to understand this expense a little better.

Abhishek Khaitan: See definitely what you are saying like bar promotion, event etc., would be all cut down and there would be rationalization of the A&P spends going forward.

Nikhil Upadhyay: Is there a mix if you can give how much of it would be towards bar promotion or event led promotional cost and how much would be?

Abhishek Khaitan: We never give a mix. On an average our A&P spend is in the range of about 7% to 8% so that is what it has been traditionally but I think this year it should be lower.

Nikhil Upadhyay: Okay fine. Thanks a lot.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments.

Dilip Banthiya: We have explained our position at the same time we are fully geared to take this opportunity as and when the market normalizes, the demand comes back. Radico has quite a comfortable liquidity position, our balance sheet is strong, we have a low interest rate on our debt and we can take this opportunity in future. We will continue to grow our portfolio, invest on our brands so we will be consistently delivering competitively and profitability in future and outperforming the industry growth rate. Thank you.

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

Note: This transcript has been edited to improve readability.

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