



Radico Khaitan Limited

(BSE: 532497; NSE: RADICO)

Q3 and Nine Month FY2021

Earnings Conference Call

January 29, 2021

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

Presentation

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2021 results conference 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 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. I now 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 Bikram. Good afternoon everyone. We would like to welcome the management of Radico Khaitan and thank them for this opportunity. From the management, we have with us today Mr. Abhishek Khaitan, Managing Director, Mr. Dilip Banthiya, CFO, Mr. Amar Sinha, COO, and Mr. Sanjeev Banga, President, International Business. I will now hand over the call to the management for opening remarks. Over to you Sir!

Abhishek Khaitan: Good afternoon ladies and gentlemen. Thank you for joining us on third quarter & nine month FY2021 results conference call. Hope you have had an opportunity to review our earnings presentation and results announced yesterday.

We have stepped into 2021 with a lot of optimism and positivity. Industries have shown strong resilience through innovative ways during the pandemic and India is now making its way towards gradual recovery and sustainability in 2021.

During this call today, I will discuss the current industry environment followed by an operational overview and outlook then I will hand over the call to Dilip Banthiya, our CFO for a detail discussion on the quarterly performance followed by the Q&A.

During Q3 FY2021, industry performance continued to improve on a month-on-month basis and normalized during the quarter. Top liquor consuming states such as Uttar Pradesh, Karnataka, Telangana, Uttaranchal, Maharashtra, Kerala, etc., have delivered growth over Q3 last year, but some of the large states are still laggard. We believe that these states are also approaching towards normalcy soon. Radico Khaitan has continued to outperform the industry during this period.

Over the past few years we have seen our business transformation where we have focused on strengthening our premium portfolio, driving value led growth and generating strong cash flows. This has also enabled us to reduce our borrowings from Rs. 947 Crores in FY2016 to Rs. 255 Crores currently. In FY2014-2015 we did a detailed review of our future strategy and implemented a number of changes that would drive a sustainable growth in the future. We have highlighted this in our presentation on slide #7 and #8.

Moving to some of the key operational highlights: During Q3 we delivered Prestige and Above category volume growth of 5% and overall IMFL volume growth of 0.7%

against industry degrowth of 1%. We achieved highest ever monthly volumes in December 2020 and entered the year 2021 at a very strong note.

We have introduced Jaisalmer Indian Craft gin in a few more metro cities such as Mumbai, Bengaluru, and Hyderabad. Earlier it was available in Delhi and Goa. This brand is doing very well, and we plan to roll it out on pan India basis in the current calendar year. Jaisalmer was rated as the best gin produced out of Asia in 2019 at The Gin Guide Awards.

We have introduced 8PM Premium Black Whisky in Jharkhand and Haryana taking the total number of states where it is available to 16. Despite the lockdown and loss of sales in the month of April, we are very confident of achieving a million case volumes for our 8PM Premium Black Whisky.

Rampur Double Cask was launched in Delhi. The investments that we made in expanding our Single Malt capacity two years back will start to bear fruits over the next couple of years with more quantities of Rampur Indian Single Malt being made available in the domestic market.

Continuing upon our Vodka leadership we expanded verve premium Vodka offering through the launch of Lemon Lush and Cranberry Tease flavours. It is now available in plain, green apple, orange, lemon, and cranberry flavours.

Raw material pricing scenario has remained broadly stable with no significant movement on Q-o-Q basis. We believe that ENA prices should stay stable around these levels for the rest of the fiscal year.

In the coming quarters we will continue to focus on new product developments in the premium space and increasing market share. We are very confident of delivering strong performance in Q4 FY2021 and a much stronger performance in FY2022.

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.

We have delivered yet another quarter with industry outperforming growth. With the exception of Q1 of FY2021, we have delivered year-over-year growth in every quarter since Q3 FY2018. During this quarter, we reported IMFL sales volumes of 6.49 million cases representing an increase of 0.7% on YoY basis and 7.4% on quarter-on-quarter basis.

Prestige & above category volume growth was 5.3% which was over a very high base of last year. Net revenue from operation during Q3 of FY2021 was Rs. 684 Crores representing an increase of 5.6% compared to Q3 of FY2020. During this period IMFL sales value increased by 4.9%. As percentage of total revenue, IMFL sales account for 82% of the net revenue from operations.

Gross margin during the quarter expanded by 230 basis points from 48.5% to 50.8%. Margin expansion during the period was due to a stable raw material pricing scenario, improved realization, better product mix, strong export, and price increase. Price

increase in the state of Telangana in Q1 had impact of 50 basis points over our IMFL sales in Q3 of FY2021.

EBITDA margin during the quarter expanded by 235-basis point at 18.1% due to gross margin improvements and cost rationalization. During Q3 of FY2021, A&SP expense increased by 37% to 44.37 Crores. As a percentage of IMFL sales, A&SP expense was 7.9% in Q3 FY2021 and 6.9% on YTD basis this year compared to 7.1% for the full year in FY2020.

The Company continues to make judicious marketing investment which has enabled us to continue market share expansion. Given the improved market condition, we are aggressively investing behind our brands to gain market share and continue the premiumization journey. Furthermore, we have had new branch launches and entered into new markets for some of our premium products during this quarter. We have also increased on-trade activity and both ATL and BTL expense have increased.

Finance cost in Q3 of 2021 decreased by 33.5% from Rs. 8.10 Crores to Rs. 5.9 Crores. Our cost of borrowing has declined from 8.6% to 5.3% on YoY basis due to declining interest rate environment coupled with the Company's stable profitability, strong capital structure and improved liquidity conditions.

As of 31st December 2020, our net debt stood at Rs. 255 Crores as compared to Rs. 382 Crores as on 31st March 2020. We have a strong financial position and comfortable liquidity. During these difficult times, we are taking all necessary steps to sustain our financial strength, maintain a robust business model and grow consistently, competitively, and profitably.

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

Question & Answers

- Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy: Sir, congrats on good numbers. My first question is on the Delhi market. So the market leader yesterday commented that they expect reforms and good news in the Delhi market. Also you have protested to the Delhi government that on the free pricing and registration of brand, not to do the changes. So what could be the impact and why this is happening because the government does not get more revenues as per your protest? So what is the reason why this is happening?
- Amar Sinha: There are couple of progressive measures that have been suggested to the Delhi government. We have not really upheld the complete policy. The government has basically talked about quite a few reforms in Delhi market which are anyway progressive. What we as a company have proposed with some measures that will add to the revenue earning capacity. We have requested them to maintain parity between the government shops and the private shops which is very essential because that prevents cartelization and helps more and more brands to sell as per consumer choice. So these are very progressive suggestions that have been made to the Delhi government which will only increase their revenue capacity manifold.

Abneesh Roy: No, but then the news it says you are protesting. I do not understand what you are saying.

Amar Sinha: No, we are not protesting. We have suggested few modifications in the intended policy announced by the Delhi government.

Abneesh Roy: Yes. That was my question why the government is doing this and if your recommendations are not accepted then what could be the impact.

Amar Sinha: See if our recommendations are not accepted the market of Delhi will continue to still grow. There is no ambiguity as far as Delhi market is concerned because Delhi is the showcase market. Now what the government is trying to do is increase the number of private shops because they feel that the corporation owned shops are very heavy on overheads and they are losing money as far as expenses are concerned. So they want to increase the private shops. If the number of outlets grow and the private shops grow sales will also grow. But what we are saying is that there is a risk if the private shops increase the number there is a chance of monopoly and cartelization which we have suggested they should avoid.

Abneesh Roy: My second question is on the home delivery in any of your markets. Any update you can share?

Amar Sinha: As far as home delivery is concerned let me tell you this is a very progressive outlook of the government. They have right now announced in few states of India but it is in a very nascent stage because when they announced these measures the entire liquor industry was passing through a difficult phase because of the pandemic. So this is a new step taken by different states it is having its teething problem in the months ahead it will settle down but it is right now too early to comment on the efficacy of the model.

Abneesh Roy: And last question on the ethanol mixing what would be your view in general on the ethanol pricing and on glass pricing do you expect any inflation given in the past when crude moves up there is an indirect and lagged relationship so do you expect some inflation in grain prices next one year.

Dilip Banthiya: So the government has already given their directions for ethanol pricing and the aggressive targets has been set but however the prices of alcohol were a little higher than the ethanol prices so the supply of the alcohol has not been impacted. At the same time, last year has been a very big year from the crop point of view where we had a bumper crop and because of that the prices of grain and other things have come down. Moreover industry player like us are sourcing around 65% to 70% of our product from grain based alcohol so the molasses based alcohol will definitely be diverted toward the ethanol. However, grain based alcohol is available and maybe more capacities are coming. So I do not foresee and if at all there is some inflationary pressure on the grain based alcohol the company's strategy to premiumize its product and keep the impact to a very marginal level will continue to be there.

Abneesh Roy: Okay Sir that is all from me. Thanks a lot.

Moderator: Thank you Sir. We have next question from the line of Harit Kapoor from Investec. Please go ahead.

Harit Kapoor: I just have two questions firstly you spoke of industry de-growth of 1%, I just wanted to get a sense from you as to what say December or exit rates probably would have been for the industry of if you could give any sense of how early Q4 has been are we seeing industry back to kind of positive growth level.

Amar Sinha: So let me tell you Q3 particularly in the liquor industry has seen a reversal of the slowdown caused by the pandemic and in the previous quarter which was the second quarter end the de-growth of the industry at a much higher level which has come down to 1% in Q3 so you will see that there is a complete reversal. Point number two now that the reversal has happened the most of the states have the outlets opened, the on premises functioning, the retail outlets are completely operational and the fourth quarter is all set to see the progressive policy is being implemented in FY2020 so the fourth quarter is in our opinion is going to be a good quarter to work on.

Harit Kapoor: And second question is on the new product, so as the 8PM Black has done well and we have also seen the launch of Jaisalmer in the markets and also you said that the more capacity benefits to come through so is the thought process over the next 12, 18 months around these brands or do we expect also some more in the pipeline going forward that is the pipeline.

Abhishek Khaitan: See in our industry the minute you reach a million case then the volumes really jump. So especially for our 8PM Premium Black despite a one month lockdown to be a million case is a great achievement and going forward we feel that the 8PM Premium Black volume should increase significantly. Jaisalmer should take a spread across most of the Indian metros and what we are planning that in the next fiscal we are going to launch two more premium whiskies. So the way we have launched our 8PM Premium Black in a same manner in a very phased manner we will be launching two very premium whiskies also.

Harit Kapoor: Okay that is it from me. Thanks.

Moderator: Thank you Sir. We have next question from the line of Mayur Gathani from OHM Portfolio. Please go ahead.

Mayur Gathani: Great set of numbers. Sir what is happening in the AP market and how much contribution do you get from Andhra Pradesh.

Amar Sinha: We have a 4% industry share in AP, but the point is that AP still a large market which has been affected because of the change in the route to market and the policy of the government. It is still settling down. The first nine months has been turbulent because of the frequent changes in the consumer price. But the AP government has in the last two, three months started seeing a spurt in volumes because they have tried to bring about some normalcy in consumer prices. We hope that moving forward the AP market will come back to its normal levels of almost 30 lakh cases plus which is now at 23, 24. So the market is buoyant, and we hope this market to respond in the quarter ahead.

Mayur Gathani: So what about the government's point that some year back or so that they had mentioned that they want to bring about a complete ban in liquor how is that progressing because there are supposed to be a slow implementation is there.

- Amar Sinha: So see the point is that they earn a huge chunk of revenue from liquor and in today's context, practically speaking prohibition is really impractical because every state is so heavily dependent on revenue from liquor that this seems to be a distant dream. Now incidentally if you see we have a live example of Bihar that we have before us. The consumption in Bihar after prohibition has gone up manifold and they are bankrupt because they are not getting money from the legal channels. Similarly, I think AP is now if you see they are liberalizing their policies in the last three months because of wage the volumes have started moving up. If they had any plans as we understand of bringing about prohibition, they would not move towards a more liberalized consumer policy. So I think it is something that needs to be seen with time.
- Mayur Gathani: Great Sir and any price hikes that we expect or have we seen than the previous quarter.
- Amar Sinha: We have just seen a price increase in Kerala effective 1st of February and as far as the liquor industry is concerned the CIABC association keeps talking to engaging with every state government and that situation will continue in the years ahead because of the factors like input cost and the governments have also started responding just like Kerala in the recent past.
- Mayur Gathani: Great Sir thank you and good luck.
- Moderator: Thank you. We have next question from the line of Aaron Armstrong from Ashmore. Please go ahead.
- Aaron Armstrong: Could you give an update on the outlook for new product launches space and specifically which areas of the market that you must be interested and are you going to focus on the super-premium, the highest end and something more accessible? what kind of demographics you are most interesting so breaks even of the exciting opportunities in new launches space.
- Amar Sinha: First of all, we have been working on a strategy of premiumising our portfolio and we have so far been successful. Our brands like Rampur Indian Single Malt, Jaisalmer Craft gin, 8PM Premium Black, 1965 Premium Rum all of them have been launched in the last couple of years and all of them have succeeded. Having said this if you look at the Indian liquor industry space if the premium brands which are growing at the double digit growth rate we see a clear opportunity in a segment which is above the 8PM Premium Black and upwards. In fact, Radico as a company does not see the existing brand for the competition because we have always challenged the paradigm by launching brands at a higher price point compared to market leaders in different segments. So we will continue to work on that strategy and two of our brands which are on the drawing board are going to be one of its kind in the liquor industry of India and it will be much above competing brands in the super premium and premium categories.
- Aaron Armstrong: In fact, which I want to know that these similar launches with similar strategies from competitors when they notice that you are so successful in the premium space or you generally left to access the space with your products.

Amar Sinha: So see basically in India if you look at the way the Indian companies are structured, Radico is the largest Indian company and we are competing today with international companies who are already having large brands in their respective premium spaces. We have grown despite not being adequately present in those spaces and therefore we do not see that competition will launch brands in those spaces to compete with us and compete with their own portfolio so strategically I do not see a competition affecting us in any which ways.

Aaron Armstrong: Thank you.

Moderator: Thank you. We have next question from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: I just wanted to understand whether post the pandemic have we seen any change with the competitive intensity with number of brands or players reducing or something of that sort and second connected question was that in terms of the price increase that you mentioned about Kerala. Do you believe that with the pandemic now behind us and the consumption picking up so is the possibility of price increase is higher then what it was probably last year?

Amar Sinha: First of all the intensity of competing companies in the liquor space if at all is going to be as intense in the times ahead because the Indian liquor market is buoyant it has shown resilience to beat crisis that we have seen in the last couple of months. These are the worst of times the industry has seen but despite that the intent of any liquor company or any liquor player has been clearly felt because everyone tried to gain as much volume in market share as was possible. So this market will continue to be buoyant in the coming years particularly because more states would like to grow on the revenue that they earned in FY2019 as compared to this year current year so the quota and the requirement of liquor will go up. The second most important thing is that the premium brands are showing a double digit growth and in the year ahead this growth will further get consolidated because the consumption will increase compared to the previous year so the next year is going to show a remarkable improvement actually in the industry.

Avi Mehta: And so with the pricing part do you see the availability of pricing kind of rising and just a follow-up you mentioned the quota system so you are saying that companies are forced to ensure competitive intensity to benefit from the recovery is my reading correct?

Amar Sinha: All the liquor outlets that you have in India have a target to campaign in terms of consumption and sales because we are directly linked to the revenue collection of the government. Therefore, since the current year has seen some decline in the revenue collection because of the pandemic, in the year ahead the government is going to give a thrust to collection of revenue which will obviously reflect on the sales of the brands. in a positive way.

Answering the question regarding price increase in fact as I said in the last two years we have seen a very clear outlook change in various governments as far as costs are concerned. Realization of increasing costs are concerned and therefore you would see that the last two years have seen most states giving price increases which were very

difficult in the earlier years. So I think in a practical manner I think our representations next year would certainly yield results that is what we go in terms of price increase.

Avi Mehta: Perfect Sir that is all from my side. Thank you very much Sir for the previous questions.

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

Himanshu Shah: Congratulations for good set of numbers. Sir just want to check, country liquor revenue growth has outperformed both in third quarter and nine months this year. Is it by any chance due to down trading by customer on the popular category.

Dilip Banthiya: So the country liquor is all together a different segment and pricing is also different in that segment. However as you have seen that we are only present in one state, Uttar Pradesh. So the increase in the consumption has been there but it is not at the cost of the IMFL. You see in first nine months the liquor industry and particularly in Q3 of this year, the liquor industry has grown by 6.5%. So it is not at the cost of the IMFL being down trading happening. Moreover, we are also watching this that down trading is not happening. If you see that our Prestige & Above has grown by 5% whereas the regular has degrown by 1.9% so the point is that down trading is not happening as Amar has just said. We see in 2021/2022, more and more prestige and premium brands growth to happen.

Himanshu Shah: Can you just provide some color on region wise mix of revenue including that of CSD and exports.

Dilip Banthiya: We have a pan India presence and however CSD industry has been de-growing by around 12% to 14% still and it has not stabilized. We maintain a market share of 28%-29% in that market and continue to be at that level. So if the industry in next year picks up, we will again come back on the growth path. As regards to export, I think Sanjeev will answer.

Abhishek Khaitan: I will add on to the CSD part. CSD is about 10% of our volumes currently and how we see that from Q1 of next year, the industry of CSD should be same. It should come back to growth. Plus a very important thing what has happened in for Radico is with the focus of Modi Ji's government on Atmanirbhar Bharat. Recently our Rampur Indian Single Malt and Jaisalmer Indian Craft gin have both been approved in the canteen store department which is a huge opportunity for Radico because all the imported scotches have been banned.

Sanjeev Banga: On exports our brands are currently available in 87 countries and on a Y-o-Y basis we grew at about 120% this quarter and for the nine months our growth has been about 82%. We expect the Q4 numbers to also follow the same path and we remain positive and buoyant on exports.

Himanshu Shah: And Sir what will be the exports as a percentage of IMFL revenue.

Dilip Banthiya: So export is around 7.5% on the IMFL revenue and by volume it is 6%.

- Himanshu Shah: Thank you Sir that is it from my side and congratulations again for good set of numbers.
- Moderator: Thank you Sir. We have next question from the line of Nikhil Chaudhary from Kris PMS. Please go ahead.
- Nikhil Chaudhary: Congratulations on a good set of numbers. Sir Pondicherry, Maharashtra and Rajasthan had not grown in quarter two so could you share the outlook like how it has done in this quarter.
- Amar Sinha: Pondicherry is going through some problems as far as retail outlets are concerned. It is slowly responding now and we hope that this market will respond from the fourth quarter or the early part of next fiscal. As far as Rajasthan and Maharashtra are concerned, these are markets where the opening up of outlets post the pandemic has been delayed so it is taking its own time so these are two markets which we feel will respond in the quarters ahead like the other markets have responded.
- Nikhil Chaudhary: And Sir Andhra Pradesh like although we have a 4% market share like could you share like how it is performed in this quarter.
- Amar Sinha: So Andhra Pradesh, this quarter has been lower than the previous quarter but the reason for that is very clear that we are trying to reduce the volumes of low contributing brands and shift the volume towards low premium brands. So that is the reason you will find that in numbers compared to the quarter two we are lower but in terms of revenue and profits were higher and the coming quarter will be even better.
- Nikhil Chaudhary: Sir last question there was one new rule that recently on the license permit thing in UP how likely it will impact us, could you throw some light on that.
- Amar Sinha: So I think we need to look at this new provision in UP more from a positive right. See UP so far if you see with the 200 million population has still not exploited the complete potential of the liquor industry. It is now doing it with the current government in dispensation. What we have done is they have liberalized the policy by importing the fee because they are now permitting every individual to store at least two cases with them as a nominal fee of Rs. 12000 a year. So this is a good policy in fact and it will encourage consumption of premium brands because most of the time if you see it is only premium brand that get stored in house of consumption and serving amongst friends and families. So this is a good policy and I think this will get emulated in most states of the country going forward.
- Nikhil Chaudhary: Thank you so much that is it from my side.
- Moderator: Thank you. We have next question from the line of Nilesh Jethani from Envision Capital. Please go ahead.
- Nilesh Jethani: Two questions from my side. One on the geography: in terms of Andhra Pradesh market just wanted to understand we are lower on QoQ basis but on the YoY basis at what percentage we would be?
- Amar Sinha: The biggest change that AP has seen this year is basically the change in the route to market. Earlier the wholesale was controlled by the government and there were

private shops. This year particularly government shifted to converting the private shops into government owned shops. So there has been a slow pace of adaptation to this policy and because of the pandemic coming in again and the consumer prices changing because of the route to market changing, the market was disturbed so the first nine months has not been so encouraging for AP but the last three months are the clear indicators where month after month now they are going back to their original volumes pre-COVID.

Nilesh Jethani: Still on YoY basis it would be at what percentage in AP markets.

Dilip Banthiya: So YoY basis the industry is degrowing by 20% versus same period last year.

Amar Sinha: And Andhra accounts for 4% of our total volumes only which we hope to build better in the year ahead.

Nilesh Jethani: Second question is on the margin trajectory. Can you please throw some light on the raw material price movement on QoQ basis and also this trend of higher gross margin is it because of lower raw material or the mix improving.

Dilip Banthiya: So as far as the alcohol is concerned we have seen a benign scenario and on Q-on-Q basis the prices have remained more or less stable as far as the YoY base is concerned, we have seen a very high increase in the last year in the ENA prices and which has been corrected from Q4 of FY2020 onwards and we have seen around 7% to 8% reduction in the alcohol price versus same period last year in this quarter. So there has been an improvement on the raw material which has also impacted and given philip to our gross margin as well as EBITDA margin.

Nilesh Jethani: Thank you so much.

Moderator: Thank you. We have next question from the line of Jasdeep Walia from Infina Finance. Please go ahead.

Jasdeep Walia: With regard to your premium brands like Rampur Single Malt and Jaisalmer gin what kind of quantum increase in malt capacity have you implemented and when would this volume be available. So what kind of scale up could we see in this brands in the next two years?

Sanjeev Banga: In terms of capacity increase which we did couple of years ago it is more than tripped our malt capacity and as of now it is a very long process, ageing and maturation and which is already happening. We expect in the next 24 months or so we would have some additional quantity of single malt available.

Jasdeep Walia: So you will have incremental availability of single malt only from FY2024 onwards.

Sanjeev Banga: See in any case we have been ageing malts since our malt plants started almost 28 years ago and as the aging process takes time, we will launch other expressions as well means that there are certain expressions in malts that are available and maturing. We will continue to do that. Just as we launched our latest expression of Rampur Asava in October last year. It is the first time in the single malt history that a single malt has been finished in an Indian wine cask. So we will keep coming up with these special

expressions and we would have far greater malt availability in the next two to three years.

Jasdeep Walia: And what kind of price points has you launched these products act in India what is the lowest price points at which these products are available.

Sanjeev Banga: Rampur single malt is available with the Rs. 7500 or 8500 would be the bottlers Jaisalmer Gin is with the Rs. 3500 to about 3800 a bottle.

Jasdeep Walia: And with regard to the new excise policy which is coming up in Delhi, just wanted to understand is the industry expecting reduction in taxes as well because I would presume taxes are higher in Delhi versus neighbouring states so if they want to increase the revenues they would have to bring down taxes am I right.

Amar Sinha: See they would not compromise on the tax collection, but they will ease up the business the practice of doing business here so I do not think tax will be reduced.

Jasdeep Walia: Sir how higher taxes in Delhi versus neighboring states if you could give an example of MRP of your popular product in Delhi versus UP and Haryana.

Amar Sinha: Delhi is actually in fact comparable. It is not very different.

Moderator: Thank you. We have next question from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: Sir, I have two questions. The first question is on the gross margin we have seen that we are comfortably at in the range of about 51% gross margin. I just wanted to understand from a one-year perspective right now the price which has been stable do you think there is a room for further growth in gross margin and what are the levers which we are banking on it there is at all any gross margin growth.

Dilip Banthiya: So our gross margins are hovering around 48% to 52% band in last three years and I think that 50%, 51% is the margin which we think in spite of inflationary pressure we have continued to maintain around 48.5%. So I see looking at our product portfolio and all that the gross margin will remain between 50% to 52% in coming quarter and coming year.

Shirish Pardeshi: My second question is that when I am looking at your volume, Regular and Others and Prestige & Above you have shown a significant growth is there a tendency or what I read from the channel interaction that when consumption happens at home people will always look for value for money products. That could be temporary, I mean when the economy opens probably that may not be relevant but when you are look at your number that is different. So can you throw some light on the consumption part and consumer behavior of course you are in a large market which is lull. So what are the changes which you are seeing and what are the changes you expect can happen maybe once the things normalize.

Abhishek Khaitan: See actually it is a reverse thing that when the consumption at the house takes place rather than the institution, people are paying less price that means if you go to a restaurant for a peg if you pay Rs.500 or Rs.1000 so person is always thinking than if he is drinking at home he buys a more expensive product so automatically you are

helping the premiumization and once a person gets use to drinking a premium product he does not like to downgrade once he returns back. So I think in a way it is changing the consumption habit of people to come into the more premium brand and that is why the premium brand in the liquor space is growing at a double digit growth.

Shirish Pardeshi: Sir I do understand that point what I was trying to say that if that is the trend which you have just mentioned do you think a significant growth in the following year once things normalize because now the consumer has become used to drinking a premium brand or do you think then next year we can expect more than 15%, 20% growth on the volume.

Abhishek Khaitan: See as far as next year goes as it is we will have an advantage of the one month of lockdown so we are quite confident that next year we should have a strong double digit growth.

Shirish Pardeshi: So I just wanted to understand confirm my side on the clarity. Thank you and all the best.

Moderator: Thank you Sir. We have next question from the line of Jignesh Kamani from GMO & Company. Please go ahead.

Jignesh Kamani: Just want to know the volume decline and the revenue growth of IMFL and domestic market since large part of the volume growth is coming mainly from the export.

Dilip Banthiya: No actually our domestic market volume has grown except one state which we have already talked about, that is catching up because of route to market changes otherwise if you exclude that state our volume has grown by 9% to 10% in this quarter also. It is because of that it has remain almost flat and rather 1% higher but volume growth as overall has happened.

Jignesh Kamani: No but if we take about just 0.7% volume growth and assuming 6% as the volume coming from the export which is 120% so 3%, 3.5% volume growth has come from the export to the console level so if you remove them that there will be 1% or 2% kind of volume decline in domestic market right.

Dilip Banthiya: If we include that state, the volume growth has been around 1%. If we exclude that state our volume is growing by 9% to 10%. So the point is that we are growing except of one state which is actually coming back to the normalcy and route to market has been one of the big reasons for that state to continue to degrow and from this quarter it is coming up. So it is not that because of export the volume growth in domestic market is not reflected, it is 9% except that one state and as we said that export is around 6% in volume, it has been a low base last year so with a low base actually this year we are growing at 120% but it is still low as the volumes are not that much as compared to the domestic market volume because we are selling around 6.5 million cases out of that mainly it is 93% or 94% other is in the domestic market.

Jignesh Kamani: Sir if you take about the industry which declined 1% in third quarter our volume is also similar level, so we have not gained any market share in the third quarter.

Dilip Banthiya: Actually it is an aberration due to one state but in future as our MD has just said that we are going to target strong double digit growth next year. I think industry is going

to grow at double digit and we will be at strong double digit and we will continue to outperform the industry and gain market share.

- Amar Sinha: See if you look at the industry actually all the companies operating, all the competitors have lost market share Radico has continued to maintain its market share in a difficult economy against the industry degrowth of 19% we have still maintained a static market share. Because our brands and we are present in segments premium segments have continued to hold on to their market share. There is a very large chunk of market where we are still not present which is the upwards of 8PM Premium Black which we plan to tap in the years ahead so if you really see the performance of Radico in terms of maintaining market share in a declining industry has been phenomenal whereas others have lost market.
- Jignesh Kamani: And second question on the export margin is significantly higher than the domestic or inline because if they increase to around say almost 10% in next year what will be the impact on the margin on account of export.
- Dilip Banthiya: See export margin are definitely higher than the domestic market but it is not much significantly higher. It is in the range of 1 to 1.5x.
- Jignesh Kamani: Sure okay thanks a lot.
- Moderator: Thank you Sir. We have next question from the line of Mayur Gathani from OHM Portfolio. Please go ahead.
- Mayur Gathani: Sir just coming back on AP you said that retail was private and now the government is taking control overhead but with the volumes increasing in the last quarter as you said, is there a change in the government's thought process or they still continue to change the retail to government.
- Amar Sinha: No they have already taken over the retail shops they are now all owned by the government. See what has happened in the last quarter is they had increase the price of the products very high and put a COVID tax which they have now relaxed it so the volumes are coming back in Andhra Pradesh because the MRP of the products although it is higher than last year but little is normalized.
- Mayur Gathani: So now AP is a market will be wholesale as well as retail both being controlled by the government and that was a transition period now we are more or less done with and government is going to manage the wholesale and retail both.
- Abhishek Khaitan: Yes.
- Mayur Gathani: And something on UP you mentioned that the normalized fee of Rs. 12000 so what was that I missed it I am sorry.
- Abhishek Khaitan: No see the UP government has taken to a very progressive policy. They are allowing individuals to store liquor entire home for consumption on a nominal fee so basically this has been done because during the pandemic they wanted to people to stay away from public places and therefore in this year while the market is normalizing they have also given an incentive to the consumer to store at home and consume more, but with a nominal fee imposed of it.

- Mayur Gathani: It is an onetime fee or is it an annual fee.
- Amar Sinha: No it is an annual license fee.
- Mayur Gathani: Thank you Sir. Thank you for the clarification.
- Moderator: Thank you Sir. We have next question from the line of Ashit Desai from Emkay Global. Please go ahead.
- Ashit Desai: Just one question from me. UP had announced some excise policy changes relating to country liquor and IMFL could you highlight what the changes are and is there a benefit in terms of trade expansion or profitability for us in both country liquor and IMFL.
- Amar Sinha: The good thing about UP excise policy is that they have first of all not increase duties and taxes. The reason is that the consumption is growing and they do not want to create any road blocks for this consumption which is showing a rising trend. Secondly they have also now allowed in the IMFL segment, a small pack of 90ml which basically Radico had been suggesting for long and it has been accepted by the government. This will give people the opportunity to move upwards from the lower segments of the consumption like country liquor to IMFL. So this is a very progressive policy change they have made. They had this year in terms of country liquor also allowed country liquor to be made out of grain in tetra packs. So they want to encourage the lower segment consumers to slowly shift to IMFL with a better quality.
- Ashit Desai: And do these factors have any impact on your profitability or margins in the state.
- Amar Sinha: So the duties have remained the same so there is no increase in duty and the consumer prices are also the same but this will help in increasing the volumes because of the smaller packs there will be more trials so there will be an increase in the volumes of the state as well as Radico.
- Ashit Desai: Thanks that is it from me.
- Moderator: Thank you Sir. We have next question from the line of Anurag Jain from Incamco Advisory. Please go ahead.
- Anurag Jain: Based on social media activity one can see that brands Rampur and Jaisalmer have achieved good penetration in terms of brand awareness and distribution presence in liquor shops in USA. If you could share some insights on your business in USA. What are your five year plans and when can we get Rs. 100 Crores sales from USA and at what level of sales do we achieve breakeven for the promotion and distribution cost from US market.
- Sanjeev Banga: See we have a fairly large presence in the US market currently both Rampur as well as Jaisalmer are available in almost 30 states in the US. The response will be exceeding the positive not only from the Indian diaspora even from the mainstream consumers in US. We are also present with all our other brands including Magic Moments Vodka After Dark whisky and 8 PM are also available in the US market. We do expect the business to grow even faster once the bar and on-trade open up in the US because all

the super-premium brands are largely consumed in the on-trade channels also. The other factors that is also going to boost the premium brands is the travel retail. As you know, last 10 month travel retail has been decimated but we do expect in the next four to six months more travel would start happening and the travel retail channel will come back and that should also facilitate the distribution, consumption and purchase of our premium products. So we are very positive on our US operations.

Anurag Jain: Sir what kind of plans you have for the next five years and what kind of targets you have for the US market in the next five years not something immediate but five years down the line.

Sanjeev Banga: US will continue as it is one of the largest liquor markets in the world and is always continuing to be number one priority in addition to the European and UK market and travel retails. We are expanding our footprint into the other countries like India, even lot of states in the US are also government controlled. So they have those controlled states so we have already made headways in a couple of those states. We are also getting into the large retail stores. Now both Rampur as well as Jaisalmer are also available in Cosco which have a very large chain across US markets where we have approvals for few states and depending upon the performance they keep on adding more states where we can retail our products. So we are very positive on the US market we would also be following aggressively into the on trade once it opens up.

Anurag Jain: Thank you Sir. This is all from my side.

Moderator: Thank you. Ladies and gentlemen, in the interest of time we will take the last question. We have the last question from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: Just one question when we look at how UP has progressed in last three years in terms of changing the ecosystem on liquor in a very progressive way whereby consumption is increased, collections of the state has improved dramatically and they continue to follow progressive tax policy aided features like individual permit at home liquor or takeaway and now sachets, IMFL trial at 90ml. It is so clear that sensible on a policy it has win, win both for the state as well as for the industry. Are other states learning lessons? Are they observing or not observing or they do not want to do it for their own peculiar reasons?

Abhishek Khaitan: See it is a very interesting question is see the way the revenue of duty has jumped. It has jumped to Rs. 28000 Crores from a level of Rs. 16000 Crores and next year they are targeting Rs. 34500 Crores which were jump on 24% which for any industry it is huge. So definitely all states are looking at UP and trying to copy or emulate UP. Like even Delhi is the changes what they are asking is to increase the number of shops because if you see Delhi per person the shop is a least. So anytime you go to a Delhi market there will be at least 300 people in the queue so by increasing the number of shops immediately our sale also increases so definitely people are looking at that. The two states like Haryana and Punjab are the most backward in terms of policies because they still have the auction system so those states are also looking at UP. Karnataka is one of the most liberal states where in spite of the pandemic the volumes are increasing because there we have really got the alcohol available. West

Bengal has rationalized the duty so there also we feel that the industry will come up. So definitely all states are trying to look at UP but every state takes time so but I think eventually UP will be the role model for the whole of India.

Bharat Shah: There maybe any peculiarity of the individual state and their own specific interest or whatever apart in general the kind of a progressive UP model is being watched and kind of being sort to be imitated by others you believe the things are moving on a positive note rather than remaining regressive the way it has been for the other states.

Abhishek Khaitan: Absolutely because see every state excise is a big revenue earner and what UP has delivered is phenomenal and in fact they are targeting a revenue of about close to a Rs. 50000 Crores in next three to four years.

Bharat Shah: Thank you Sir. Thanks for the questions.

Moderator: Thank you. Ladies and gentlemen, that was the last question; I would now like to hand the conference over to the management for closing comments. Over to you Sir!

Dilip Banthiya: I thank everybody for joining us on this call and giving us this opportunity to explain you the Company's operations. We will continue to do our work on the brands, continue to invest behind the brands, we will continue to expand our premium portfolio by the existing brands launches in the new states as well as by new launches and I think company is working on all aspects of improving and giving cost rationalization an equal importance. By this we will try and gain market share so that is all as far as the operational part is concerned. As far as the financial strength of the company is concerned, it is well established that the company is also giving an equal importance and focus towards strong balance sheet so that we can continue to have the investment in the brands. Thank you very much.

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

Note: This transcript has been edited to improve readability.

For more information, please contact:

Saket Somani

Vice President – Finance & Investor Relations

somanis@radico.co.in | +91 11 4097 5403