Radico

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| Bombay Stock Exchange Ltd.<br>Phiroze Jeejeebhoy Towers<br>Dalal Street<br>Mumbai – 400 001.<br><br>Scrip Code: 532497 | National Stock Exchange of India Ltd.<br>Exchange Plaza, 5th Floor<br>Plot no. C/1, G Block<br>Bandra-Kurla Complex, Bandra (E)<br>Mumbai – 400 051.<br><br>Scrip Code: RADICO |

Dear Sirs/ Madam,

**Sub: Transcript of the Earnings call conducted on June 02, 2021**

Pursuant to Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Earnings call for the quarter and year ended March 31, 2021, conducted on June 02, 2021.

The same is also been uploaded on our website at www.radicokhaitan.com.

This is for your information and record.

Thanking You,

Yours faithfully,
For Radico Khaitan Limited

(Dinesh Kumar Gupta)
Vice President – Legal & Company Secretary

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# Radico Khaitan Limited

(BSE: 532497; NSE: RADICO)

**Q4 and Full Year FY2021**

**Earnings Conference Call**

**June 2, 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 Radico Khaitan Q4 FY2021 conference call hosted by Emkay Global Financial Services Limited. 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 from Emkay Global Financial Services Limited. 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 Mallika. Good afternoon everyone. It is a pleasure to host the management of Radico Khaitan for their Q4 earnings call. From the management, we have with us today Mr. Abhishek Khaitan, Managing Director, Mr. Dilip Banthiya, CFO, Mr. Amar Sinha, Chief Operating Officer and Mr. Sanjeev Banga, President (International Business). I will now hand over the call to Mr Khaitan for his opening remarks. Over to you Sir!

**Abhishek Khaitan:** Good afternoon ladies and gentlemen. Thank you for joining us on our Q4 and full year FY2021 results conference call. I hope you are all doing well and keeping safe.

The impact of pandemic over the last 15 months has led to scaling down of operations and rationalizing of cost across industries. Our top priority during this period has been the health, safety and well-being of our employees and partners. While we have reviewed and rationalized each cost line item, we have not reduced any headcount or cut down any salaries.

During the current wave when there were shortages of medical supplies, we provided medical support to our employees and their families including arranging for teleconsultation, medicines and oxygen concentrators. We have recently announced a welfare scheme for the extended family of our employees. In case of an unfortunate event of the demise of a team member due to COVID-19, the Company will provide support to the bereaved family for a period of up to three years. Although this cannot compensate for the family's loss but it will perhaps give them some time to recoup.

Last year we had supported the government in their fight against the pandemic through contribution relief funds and supply of sanitizers. This year Radico Khaitan has pledged to give back to the society with the installation of oxygen generators at the government hospitals in six districts of Uttar Pradesh.

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. We had discussed this in detail in our Q3 FY21 presentation. Our performance during this year was a reflection of a resilient business model, strong premium products portfolio and excellent execution capabilities of the management team. This will continue to drive our performance in the years to come.

Over the last three years we have consistently outperformed the industry. In the year FY2019, the industry grew by 9.2% whereas Radico Khaitan grew by 10.8%. In FY2020, the industry grew by only 0.4% whereas Radico grew by 12.5%. Last year, because of pandemic, the industry had degrown by -13.6% whereas Radico degrew by only 8%.

In Q4 FY2021, we registered 8% growth in our IMFL volume led by Prestige & Above volume growth of 15%. Immediately after the nationwide lockdown started to ease out in May 2020, our operations rebounded very quickly and we also saw improvements in industry performance on a quarter-on-quarter basis. Out of our top 11 states, eight states have returned to growth in the Q4.

Our export business has continued its strong performance during the year and today we have our brands available in over 85 countries.

Through the second half of FY2021, we had seen strong recovery in most of the macroeconomic indicators, but the second wave has disrupted businesses and operations across India again.

The lockdown this time is regional and local unlike last year when the entire nation was under total lockdown for a period of 45 days. Our plant operations across India has run smoothly without any major disruption during this period of second wave. We have also continued to make dispatches as liquor sale is permitted in some of the key liquor consuming states.

During FY2021, we had seen strong cash flow generation and were able to reduce our net debt by another Rs.184 Crores. Our current net debt position is only Rs.198 Crores now, which takes the total net debt reduction since April 2016 to Rs.750 Crores.

We are proud to report that 8 PM Premium Black Whisky registered sales volume of over a million cases during the year despite the challenges in Q1 FY2021. The performance of our luxury brands, Rampur Indian Single Malt and Jaisalmer Indian Craft Gin was encouraging as we continue to expand our distribution width. This year we will be focused on expanding both these brands to more cities across India.

Our focus on product quality and consumer satisfaction has won us one Grand Gold and 12 Gold Awards at the Monde Selection at the 2021. At the New York International Spirits Competition, Radico Khaitan was adjudged as the Indian Gin Distillery of the year and both Jaisalmer Gin and Rampur Asāva won gold awards.

We believe that premium brands will continue to grow given the limited impact of pandemic on the affluent society. Now with the pandemic people have been going out less and therefore they want to have the experience at home. Radico Khaitan is on course of its plan for the launch of low brands in the premium brown spirits space during FY2022.

Although the industry scenario is still uncertain we believe that once the lockdown restrictions are eased, recovery will be fast. We are confident of delivering industry outperforming growth during 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 everyone and over to Dilip.

Dilip Banthiya: Thank you Abhishek. Thank you everyone for joining us on this call today. We wish you the best of health during this second wave of pandemic.

We ended the financial year FY2021 on a very strong and optimistic note. With the exception of April 2020, we observed improving trend in each passing quarter which was a reflection of the industry performance as well. During the Q4, we reported IMFL sales volume of 6.27 million cases representing an increase of 7.8% on Y-o-Y basis. Prestige and above category volume grew by 15% which was again over a high base of last year.

During the last year, there were certain regulatory changes which also impacted the industry. If we were to look at our volume growth during Q4 excluding the impact of route to market changes in Andhra Pradesh, the volume growth would have been strong double-digit. In Andhra Pradesh, we are focused only on premium brands. Most of the recent FY2022 excise policy changes have been progressive without any significant tax increase which is encouraging for the liquor industry.

Net revenue from operations during Q4 FY2021 was Rs.695 Crores representing an increase of 18.7% compared to Q4 of FY2020. During this period IMFL sales value increased by 15.8% and as a percentage of revenue, IMFL sales account for 80% of the net revenue from operations during the year.

Gross margins contracted by 143-basis points from 49.8% in Q4 FY20 to 48.4% in Q4 FY21. It is not a reflection of the secular trend. We should look at gross margin on annualized basis. On full year basis our gross margin expanded from 48.6% to 50.3%. Despite gross margin compression, EBITDA margin expanded by 107 basis points from 13.6% to 14.8%.

Raw material prices overall have been benign during FY2021. Towards the end of the year we saw some inflationary pressures on the dry goods such as packing material, but we believe that the worst is over and it shall remain stable around these levels.

ENA prices have been benign during the quarter. Given the ethanol blending policy of the central government, we may see some headwinds in the ENA prices, but that should not be any significant. Furthermore, we have the advantage of backward integrated distillation capacities which insulates us to a certain extent from any significant movement in the ENA prices.

With our portfolio premiumization, we do not see any major impact of the raw materials on our operating margin. The Company is taking all efforts to optimize costs and mitigate any margin headwinds.

Given approved market conditions we are aggressively investing behind our brands to gain market share and continue the premiumization journey. We have had new brands launches and entered into new markets for some premium products during the previous quarter. We have also increased on trade activities and both ATL and BTL expenses have increased.

During Q4 of FY2021, A&SP spend increased by 52.1% to Rs.45.77 Crores. As a percentage of IMFL sales, A&SP expenses were 8.3% in Q4 of FY2021 and 7.3% for the full year of financial year FY2021. This is in line with our guidance of 7% to 8% of our IMFL sales as investment in marketing. In Prestige and above segment, we expect this to be in the double-digits.

Finance cost decreased by 45.3% on Y-o-Y basis from Rs.8.46 Crores to Rs.4.62 Crores. The Company's cost of borrowing is one of the lowest in the industry due to the lower interest environment, stable profitability, strong capital structure and improved liquidity position. We have efficient working capital management and very strong credit controls. Our focus is on quality of revenue and collection as a result of which we have been able to reduce our working capital days from 61 days in FY2016 to 33 days of gross sales in FY2021.

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 robust business model and grow consistently, competitively and profitably.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Thanks for the opportunity. My first question is on Delhi home delivery. So it has been allowed. Now in other markets home delivery has been below initial expectation because we have to go via the liquor shops and they don't want to share the data and then for customer it is more expensive. So is Delhi home delivery anyway different and what would be your hope from that market?

Amar Sinha: First of all, as far as online home delivery is concerned there are about six to seven states in India who have allowed it. It is at a nascent stage. This whole process is going to take some time to settle down. On the whole for the future, it is progressive direction being taken. Having said that, Delhi has allowed it and we are in the course of settling this policy to find the most effective ways of reaching the consumer. In today's condition more so in the second wave of pandemic, people are really hesitant more so in the premium segments of this business, to go out and therefore this comes at the right time, we are all very hopeful that Delhi will find a good model to adopt as far as reaching its consumers is concerned. So we need to see over the next three months, but on the whole the online delivery system is taking its time but it will settle down. It is a progressive policy being pursued.

Abneesh Roy: But Sir why will it settle down? Now wave two is almost ending and we have seen the kind of crowds in Mumbai for example first day of unlock. So Indian customer also goes for value right? He will not pay Re.1 extra if he can buy from the neighborhood shop. So why should it settle down I could not understand that bit? If it is not what really worked till now and now when vaccination is going to pick up so much, Wave two has kind of ended in the big market, why should now it should do better? What is different?

Amar Sinha: First of all, I would like to draw your attention to the fact that most of the people who throng to the outlets are those which consume segments of products, which are not premium which are in the prestige and below. As far as premium customers are concerned, if they consume outside home they go to bars and restaurants or they want to procure material to their home through domestic help. Now it is that part of the consumers, which are going to benefit from this policy of online ordering and delivery. Therefore, that is the major reason that having experienced this huge pandemic over the last two years, this change in attitude is already coming down. Secondly, the women consumers particularly who have started consuming more and more in India are now going to find it also very easy in the times ahead to avail this facility of online ordering and delivery so that is why the prestige and above will benefit from it and these are the segments which will avail this channel.

Abneesh Roy: That is useful. My second follow-up question is again on Delhi market so on the new liquor policy in Delhi we had seen initially some of the liquor places were opposing to some of the changes so what would be your thought process on the policy? Do you see some gain because of it?

Amar Sinha: First of all the objective of the Delhi policy is more to follow a free trade policy. If you see today's liquor scenario the most progressive policy in India comes from the state of Uttar Pradesh where they have delinked the manufacturing, wholesale and retail process. Delhi is following the same direction and today the market of Delhi particularly is unexploited. It is actually not exploited because in the previous days, the policy was not clear to lot of players. This time they have delinked the channels and it is coming out to be a free trade economy. So I think overall this is going to turn out good. You will get brands that are demanded. Premium brands, which the consumer wants, will be available more freely and I think that the channels will find it easier to purchase stocks from different companies and sell. I think on overall if you see Delhi has adopted a very, very progressive policy.

Abneesh Roy: It was very useful. So the last question is on pubs and bars? So we are seeing the market leader invests on supporting the pubs and bars so does that become an issue for other players because the market leader will have a better visibility within pubs and bars and when do you see customers coming back to this channel or will the in home consumption remain a more established norm even when the vaccination drive is done? What will be your thought process on this?

Amar Sinha: First of all, I want to make a qualifying statement that the pubs and bars are like show windows of a good retail stop. If you look at the way consumption happens in India less than 10% of the total liquor consumption takes place from pubs and bars across the country. So it is less than 10%. Having said that it is still an important channel because it gives you the opportunity for trial and visibility. So this channel is going to take some time to come back to its normalcy and it is a good trend that we are seeing that online delivery has started happening or it is in the process of evolution so there will be some kind of a trade off in the times ahead between online and pubs and bars but of course pubs and bars will still continue to be an attractive channel for the youth of this country for consumption.

Abneesh Roy: Okay that is all from me. Thanks a lot and all the best. Thanks.

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

Pritesh Chheda: Sir I have three questions. One is there any restatement of volumes that we would have done for last year if yes then why? My second question is based on our strategy of growing the Prestige and above portfolio and also the higher end portfolio is there any direction that you could give us on EBITDA per case or EBITDA growth rates on that strategy? And my third question is in the states that we are operate in the three months or in the two months gone by which is April and May what kind of disruptions, if any were there because I am not sure on liquor being allowed sale and if you could comment on the disruption in sales if any? Thank you. These were the three questions Sir.

Dilip Banthiya: First question regarding the restatement of the volumes so there is no reinstatement of the volume and the classification because it is on the same pattern we are doing it. Second question is regarding the EBITDA per case, so as you have noticed the trend for last four to five years as the Company continues to grow on the prestige and above category better than the regular category and that is the area where management focus is. We are investing behind the brands and last couple of years our investment has continuously been increased over ATL and BTL. So we say that there will be continuity of the product mix towards the better price and EBITDA per case is improving continuously for last two to three years. The third question, there is some disruption. However, in certain large states the manufacturing and sales both are continuing. So there is sales happening but there is definitely some disruption. 50% of the retail vends are non-operative and 70% to 80% of the on-trade is also non-operative. I think this is a matter of only time. By second half of FY2022, we will be in normalcy and our Prestige and Above category, which is growing in double digits will continue to grow in high double digits. This is I think the whole strategy of the management.

Pritesh Chheda: Just on clarification on the second and the third answer. Third question so the third question the sales in the states that you are operating the sale is allowed right on the liquor?

Dilip Banthiya: Yes some of the large states we are talking about Uttar Pradesh, Karnataka, Telangana, even Maharashtra some large states are allowing. Rajasthan is restricted Haryana is with restricted timings. So all these states are allowing the liquor sales through retail.

Pritesh Chheda: Okay and on the second question Sir what is the incremental EBITDA per case that you would have made? We will make usually in Prestige and above?

Dilip Banthiya: We do not actually give the EBITDA per case on the Prestige and above separately; however, you will see that our EBITDA margin, which used to be around 11% to 12% four to five years back is at 17% now. This will be because of the product mix improvement in product mix and at this point of time 29% of the products are being through the P&A category, which is around 51% to 52% of the value. Most of the launches which are in pipeline as well as which has been done last three four years have been all in the Prestige and above category. So this is a reflection of the product mix.

Pritesh Chheda: Directionally, till the time you grow Prestige and above faster than the overall company growth rate, the EBITDA per case should continue to improve right?

Dilip Banthiya: That is right.

Pritesh Chheda: Okay any number on the mix where it can head to based on your strategy over the next three years? Today what is 50% of your revenue which is Prestige and above and 30% of our volume. What should it to over the next three years?

Dilip Banthiya: Next three years, we aspire to be between 38% and 40% on Prestige and above side which will be around 60% to 65% of the value terms. Actually Prestige and above category will grow in double-digit so this will continue to have a higher proportion both on the volume side as well as on the value side.

Pritesh Chheda: Thank you very much Sir and all the best to you Sir.

Moderator: Thank you. The next question is from the line of Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani: Sir I just wanted to check on the backward integration, can you throw some more light? If the ENA prices do go up which are likely then how much are you shelled with? What is your production there?

Dilip Banthiya: So the backward integration is our traditional business you know. We have not added any fresh distillation capacity in last seven to eight years. The distillation capacity between our mother plant at Rampur and Aurangabad is around 150 million liters of alcohol. But because of the logistics, because we are operating in 32 states almost 50% of our ENA requirement we procure from outside with the quality checks etc. I am talking about IMFL business, 50% is being used from our own alcohol.

Mayur Gathani: Okay so do the 50% you are kind of protected from the price increases?

Dilip Banthiya: Yes, that is a clear. Keeping in view the premiumization and product mix, the ENA is not going to be any significant headwinds for operating margins.

Mayur Gathani: Okay and there has been a significant drop in working capital over the last few years' time that is incredible, what the reasons are for this? At the end, it is still the government in most of the states that are buying for you has there been a change in the government policy that is making it faster for you?

Dilip Banthiya: There have been a couple of changes which we did like if you notice from 2016-2017 and these two to three years, we scaled down certain volume in certain states where a very small margin was being made. At the same time, with this last three to four years, we have seen that there is a lot of the credit which has been impacted of our competition and we have been very strong in our credit controls. We are very tight on our credit norms, etc. We have also done some improvement on our inventory management systems. So keeping in view all put together, we have done each and every line item and seen that where the efficiencies and resources can be taken out and can be allocated to the better return accretive resources or the SKUs, we have done it. So by that we have come from 61 days to 33 days. So it is all put together various small things have been done, trade control management, inventory and all that.

Mayur Gathani: Okay and we continue to look at the new launches on the premium and above right any light that you can throw on that?

Amar Sinha: We realized that the prestige and above segments are the future of the liquor business in India. Our 8 PM Premium Black was launched in the whiskey category and we made it successfully one million case brand just last year. This brand has tremendous potential to grow in the future and add to the brand contribution of this company. Having said that we are already working in some new spaces in the premium whiskey segments, which are two in numbers and over the next two years we are going to launch these super premium whiskeys with very, very high contribution. Probably, it will be one of its kinds in the country that this sector is going to witness. There are some other premium brands in the gin and vodka category as well where we are already strong. There also we are going to bring premium products. So yes we are on track and we are just waiting for the economy to normalize and the company will be able to bring these products forward.

Mayur Gathani: Thank you very much and good luck to you.

Moderator: Thank you. The next question is from the line of Saptarshee Chatterjee from Centrum PMS. Please go ahead.

Saptarshee Chatterjee: Thank you for the opportunity Sir. My question is again follow up to the earlier participant about you have talked about super premium whiskies to come in two years. I just want to know your strategy like what should really work for us that we can gain market share from the very incumbent leaders in the industry in the whisky segment and currently what is the portion of whisky in the mix and how it can really be meaningful in the coming years two to three years?

Amar Sinha: See whiskey contributes to 60% of the alcohol consumption in India today. Now what we are looking at is strengthening our presence in the premium whiskey segments. What we find is that there is a huge chunk of opportunity available in the Prestige segment even today which is which is 35 million cases in India and there is another 15 to 20 million cases available in super premium category. Now this is a huge scope canvas available to Radico as a company which is in its growth stage of the lifecycle to exploit and that is how we are working at these new brands, which I said we are going to bring products which will be the first of its kind in the country.

Saptarshee Chatterjee: Okay for us how much is the contribution of whiskey in the overall revenue?

Dilip Banthiya: So presently around 54% to 55% of our volume portfolio comes from this whisky.

Saptarshee Chatterjee: Okay very useful and secondly wanted to know on a quarter on quarter basis if I see your volumes on the P&A side so it has been reduced on a quarter-on-quarter? Even the mix has also been reduced so are we seeing some pressure in the P&A and what is our stance on a market share in P&A?

Dilip Banthiya: So P&A as a whole year as a whole, we have grown and basically as the industry has degrown in this year by 14% on P&A side also but we have degrown less than 8%. So actually the P&A continues to grow in better proportion than the regular category. This December quarter generally is very high because of winter festivity and the demand is higher so it is a seasonal trend otherwise the P&A trend is much higher as compared to the regular.

Amar Sinha: As far as P&A brands are concerned if you look at Q4 itself our growth in the P&A segment is three times the growth of the industry as a whole. So I think P&A has started showing the way forward and our growth has also started showing in its results.

Saptarshee Chatterjee: Wonderful very helpful Sir and just lastly you have touched EBITDA with the increase in the P&A mix so are you holding the similar guidance of 100 basis point plus increase EBITDA for next to two three years every year?

Dilip Banthiya: See as far as the EBITDA is concerned basically we have already stated that it is an expansionary trajectory. So last year we had achieved 15.3% to 16.9% so the expansion on EBITDA will continue at the same time we as a management are of the firm opinion that we will continue to grow our topline, EBITDA and bottomline. So continuously there will be an improvement on the all the parameters in the coming years.

Amar Sinha: See the moment we say that we are in the process of bringing forward more premium brands this would also give you some direction in terms of the EBITDA margins for the future.

Saptarshee Chatterjee: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Aaron Armstrong from Ashmore Group. Please go ahead.

Aaron Armstrong: Thank you very much for taking my question. Firstly around the margins over the last quarter please can you talk about the GP margin pressure that we saw quarter on quarter on quarter and how you would you expect that to normalize over the coming quarters and then similarly in Q4 we saw the term margins rise despite the pressure on GP margin so can you talk about some of those savings around SG&A last quarter and whether they are short term cost saving measures that would need to normalize as things unlock over the next few quarters so if there are sustainable structural cost savings there please?

Dilip Banthiya: As far as your question regarding the margin compression this quarter. Since we are operating in 32 states and with various SKUs and products so there the variations between the product mix and the state mix however the secular trend of our gross margin is on upward trajectory, which on annualized basis if you see the gross margin has gone up from 48.6% to 50.3%. As we have explained that with premiumization gaining more momentum the margin expansion trajectory will continue to be there in future. To your second question in spite of some compression in the gross margin there is an improvement in the EBITDA margin. This is on account of that we have taken various line items and looked at it to strive for optimization wherever possible. So in spite of an increase in our A&SP which has been up in this quarter 8.3% of the average sales and 7.3% during the whole year versus last year 7.1%, we have been able to improve the margin by having the rationalization in other line items so it is combination of all.

Aaron Armstrong: Thank you and those rationalized line items that you mentioned are those short term measures to deal with the current situation or are those longer term savings that in future will help to drive the EBITDA margins?

Dilip Banthiya: These have been the areas where I think some rationalization was possible and the pandemic has taught us a lot of things where this could have been avoided. We have reduced the cost on those line items, but most of them are sustainable.

Aaron Armstrong: Thank you and in terms of the GP margin pressure that we have seen just over the last quarter how much of that is to do with product mix and state mix? How much of that is to deal with raw material prices increasing?

Dilip Banthiya: As we have stated that raw material prices have been almost benign barring some dry goods which are the packing material some inflationary pressure has been seen, which most of them have been done with. I think it should remain stable here. So this quarter margin is not a secular trend as I said that the margin expansion on gross as well as on the EBITDA side will continue to be with the current product mix, state mix but we cannot differentiate between how much is out of product mix and how much is out of the state mix. On quarter on quarter basis to monitor this will be not easy. It will be on a regular annualized basis if we see our margin it is continuously improving.

Aaron Armstrong: That is great. Thank you. Then on the working capital side can you talk about how much of the improvement in the working capital cycle again is short term? Is it related to COVID and things slowing down around lockdown and therefore with working capital increase as you then grow and unlock over the next couple of quarters or again are you seeing sustainable improvements in your working capital cycle?

Dilip Banthiya: The working capital is sustained. We have done the correction over the years so like 2016 it was 61 days so we have had the better credit control systems. We are focusing more on sales as well as collection and inventory management are also with the improved with software system and online monitoring and all that has been done. So this working capital cycle which has improved to 33 days from 61 days continues to be a sustainable trend.

Aaron Armstrong: Thank you and that 33 days number is that the level at which the management team is happy to operate along the term or do you still have ambitions to bring that down further?

Dilip Banthiya: These are at optimum levels so baring few things here and there I think these are the levels where most of the things have been done.

Amar Sinha: We are much better than the industry actually and we would say that the working capital levels at which we operate today is substantially better than the competition and we would still like to see some improvement if possible in the days ahead.

Aaron Armstrong: That is good. Thank you and then in terms of being able to grow your prestige and above revenue faster than in the overall portfolio could you talk about whether or that are you gaining market share within the Prestige and the above category or is Prestige and above as a proportion of the overall liquor market in the country expanding and taking share?

Dilip Banthiya: We are actually gaining market share. Our growth rate is better than the whole of the industry including in Prestige and above category. If you notice that in last one year we have gained our overall market share from 6% to 7%. So the gain in market share of Prestige and above is better than the industry growth rate.

Amar Sinha: The Prestige segment is and above is the future of liquor in India. As I said earlier as well that in Q4 we grew three times higher than the industry growth and we see that with all the premium brands that are on the drawing board and are likely to be launched in the course of the next two years, we will continue to gain market share substantially.

Aaron Armstrong: That is great.

Moderator: Thank you. The next question is from the line of Dhaval Mehta from ASK Investment Managers. Please go ahead.

Dhaval Mehta: Thank you for the opportunity. Congrats Abhishek and team for decent performance. Sir I have only one question so we are planning to launch a whiskey in the super premium segment? A few years back we launched a brand Rampur which has done extremely well and we have got really great acceptance in international as well as domestic market but we are low on this overall capacity so we have also increased the capacity. So why not focus on that brand where the acceptance level is quite high or rather than let us say launching another similar product in that particular segment?

Sanjeev Banga: No we are not launching in the same segment. Rampur is in the luxury category and we are launching whiskey in the super premium category so these are two very distinct segments. At the same time, we are planning to expand distribution of Rampur and Jaisalmer within the domestic market as well. We also have plans to launch it in the CSD channel so you will see a fair amount of activity on both these luxury brands of Rampur and Jaisalmer in the domestic front. Also we will have the super-premium whiskey for the domestic market.

Dhaval Mehta: Okay so what will be the price difference between let us super premium and the luxury segment?

Sanjeev Banga: Well just to give you an example Rampur retail in the Delhi market at about Rs. 7600 to Rs. 8000 rupees whereas the super premium is in the range of about Rs.1500 to Rs.2000 so there is a vast gap.

Dhaval Mehta: Thank you. That answers my question. Thank you and all the very best Sir.

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

Alok Shah: Thank you for giving me this opportunity. Two questions firstly as you mentioned about the super premium range and pardon my ignorance but would the super premium range have largely the scotch portfolio or the non-scorch portfolio is also there because of course the you know the Japanese whiskey, etc., are insignificantly small in India so that is my first question? So what sort of blend it would be and secondly in terms of your current retail reach what would be that overall count and of that what were the P&A shares within your overall retail reach? Thank you. These were two questions?

Sanjeev Banga: Well in terms of super premium it is going to be a mix of either 100% Scotch as well as super premium blended whiskies as well and this is a segment that is growing at a very fast pace in the domestic market. We have been missing out of this segment all this while so that is a segment that we will be focusing in the next one to two years.

Alok Shah: Sir just to confirm you say that you will also look at Scotch portfolio right?

Sanjeev Banga: That is right.

Alok Shah: Got it and he second was on the retail vends and off our own coverage what portion would be our P&A portfolio also reaching it?

Amar Sinha: As far as P&A portfolio is concerned we are reaching out to almost 100% of the retail universe of India. Right now if I just have to take an example we are in 16 states for 8PM Premium Black. We plan to introduce it to all other states in during the current year so yes availability and reach would be 100%.

Alok Shah: Got it. Thank you very much for this. Thank you and good luck for the FY2022 and onwards.

Moderator: Thank you. The next question is from the line of Naveen Trivedi from HDFC Securities. Please go ahead.

Naveen Trivedi: Good afternoon everyone and congratulations on decent set of numbers. Sir if you can just give us some sense about the international business considering COVID is impacting less in the international market than in India so how the business is shaping up and what are our revenues from international markets for the entire FY2021 and if you can also give us some sense about what are the potential to achieve over the next two years?

Sanjeev Banga: In terms of international business there are two channels over there. One is the global travel retail and the other is the local duty paid market. In terms of the travel retail as we all know that has been hugely impacted because of hardly any travels that are happening. On the good positive out of that is the duty paid international markets where there was a lot of focus on in-house consumption online sales where our brands have been very well received and we have seen growth over there. A lot of Western markets be it US or Europe, the on trade has also started opening up so we have actually seen growth in those segments and those channels for our luxury brands. The global travel retail obviously has been depressed but we are confident as more and more international travel and airports open up we will be bouncing back on those channels as well. In terms of overall volume our international business is about little over 6% and but at a much higher profitability than the domestic one.

Naveen Trivedi: What is the potential to achieve over the next three years from international business?

Sanjeev Banga: Well you see in terms of our Rampur Indian Single Malt we have actually been constraint by the capacity that we had and the malt that was ageing all this while and we tripled our malt distillation capacity. We expect the additional volumes to kick in, in the next maybe 18 to 24 months. Right now it is strictly on allocation as our brands are available in 85 countries but our Indian Single Malt is only in about 45 countries so we have all our partners in the other markets screaming when can they get their hands on Rampur so in terms of distribution we still have a long way to catch up and we are very confident whatever we will be able to bottle we will be able to sell that off. But having said that we are really not chasing volumes on our luxury portfolio. It is a work of art. We want our consumers to taste the finest and we have been very patient in launching our single malt and we are in no hurry to flood the market just to gain volume.

Naveen Trivedi: Thanks for the detailed answer if I can just ask one question the reason for higher other income this quarter?

Dilip Banthiya: The higher other income is on account of that we have a subsidiary Radico NV Distillery so we have had the good dividend payout from that in Q4 so Rs.8.5 Crores is out of the dividend income which is the differential between last year and this year.

Naveen Trivedi: Thank you and all the best to you.

Moderator: Thank you. The next question is from the line of Ashit Desai from Emkay Global Financial Services. Please go ahead.

Ashit Desai: Thanks for the opportunity. There are just two questions one is given all the new launches that you have announced any guidance on ad spends and in light of that should we look at more margin expansion ahead or you would probably maintain margins at these levels and second question is on capex? We have seen slightly higher capex this year at close to Rs.100 Crores so where has that incurred and what is your capex guidance for next two years?

Amar Sinha: Answering your first question on the launch of new brands which is on the cards we would maintain our A&SP spend guidance between 7% and 8% which has been our track record for the last couple of years. If you look at it even while we have launched 8 PM Premium Black Whiskey or expanded the premium offering of Verve which is now 20% of the premium Vodka market. All of them have come within the stipulated in A&SP spend levels so we intend maintaining it within the 7% to 8% guidance and yes you are right if we launch brands with higher margins in the higher segments that will certainly expand margin levels.

Dilip Banthiya: To your second question regarding the capex so as we have been discussing that we have tripled our capacity on the malt side a few years back. To back this malt capacity, we have increased the maturation and storage capacity for the malt which is going to be good results in future. As we have also seen that the brand Jaisalmer Gin has taken a very good traction from the international consumers and now we are rolling it out in domestic market with five states being rolled out now and few more cities, so we have expanded some production capacity there also. A couple of more opportunities in the branded business so we have increased the tetra capacity which is a large market in UP so where we have invested and increasing some bottling capacity. So all the capex which have been done are return accretive, EBITDA accretive and we will continue to give higher return in future.

Ashit Desai: Got it Sir. Any guidance for next year?

Dilip Banthiya: We will have actually maintenance capex and some brand related capex which will be between Rs.70 Crores and Rs.80 Crores.

Ashit Desai: Thanks. That's it from me. All the best.

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

Pritesh Chheda: On the super-premium side which is basically Rampur and Jaisalmer what is the total volumes that we sell and with this capacity what kind of volumes is possible? I am not asking how many years you do that but what kind of volumes is that capacity will support?

Sanjeev Banga: We actually do not share the brand specific volumes. As we mentioned whatever is ready to be shared with the consumers we are decanting those and bottling that much quantity and we are able to meet the demand of only a part of our consumer universe. We still have a lot of markets where we have not yet launched this product so we are in no hurry. As and when the product is ready to move into the market, we bottle it and start distribution. We are at the moment not looking at expanding any more international markets because we are under strict allocation with the existing markets itself. Once we have more malt available, we will first try to meet the requirement in our existing markets. The moment we have additional quantity available we will open up newer markets.

Pritesh Chheda: Sir to another participant you answered 6% of your sales volume is international volumes so that is about 1.3 million cases so part of this would obviously be the super-premium right?

Sanjeev Banga: I wish the whole was super premium, but it is not.

Pritesh Chheda: I was asking a part of it is whole or super premium then your market capitalisation would also have been different?

Sanjeev Banga: Hopefully in the years to come it will be a substantial portion of that and you also mentioned a margin in the international business are substantially higher than the domestic business and we have a large footprint yes being evolved developed markets of US, Europe, Australia, New Zealand and Asia Pacific, but we have significant presence in Africa, Middle East, and South America as well.

Pritesh Chheda: Is it possible to share as a percentage of sales what it should if not as a percentage of volume?

Sanjeev Banga: I am afraid we will not be able to at this point in time.

Pritesh Chheda: No problem Sir. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Dipen Sheth from Crystal Investment Advisors LLP. Please go ahead.

Dipen Sheth: Thanks for the opportunity. You know when I zoom out and take a longer term view of what the management has done and most of it I would say all of it is pretty creditable. If I look at a five-year view, we have gone from somewhere around 17 million to 18 million to 24 odd million. Actually we have done 22.5 million this year but I will treat last year's volumes as indicative. Our P&A would probably have gone from 4.5 or thereabouts to close to 7 now. Revenues have jumped up by 50%. Debt has fallen continuously from close to Rs.1000 Crores, Rs.950 Crores if I remember exactly at Rs. 200 Crores now. Net debt to EBITDA has gone from 5x to may be half or some such. So what happens now with the money you are generating is there any intent to allocate more aggressively to the business rather than just pair down debt and tighten working capital? Okay working capital also leads to some cash being generated if you tighten working capital. I think we are close to the end of that much of the creamy yield from there. So what do you do with the money you generate over the next two to three years? Can we see substantial capex into capacities or would you launch brands or take over brands? Is there an M&A activity being planned? Do you want to do a buyback? I think for from a value creation perspective for a current shareholder some understanding of this is very, very critical.

Dilip Banthiya: So as far as the cash flow generation, our focus in last five years has been free cash flow generation and we firstly we have repaid a debt of around Rs.750 Crores as you rightly said from peak debt of Rs.950 Crores plus to sub 200 Crores levels. After this debt is repaid, I think because there is no big plan at this point of time on cards so the money can be used to create the shareholder value. It can be in the medium of anything which can be higher payout of dividend or buyback or something but there is still a time of a year or so. We will come back with our exact strategy at that point of time but ultimately the distribution of the cash after that will be one of the factors which will be taken into consideration by the management for returning to the shareholders.

Dipen Sheth: You know why I am thinking about this is and I do not want to belabour the point, volumes have grown something like 50% odd? Maybe we were at 18 odd million five years ago or some such? Now if you get aggressive on wanting to grow volumes then maybe you will have to reinvest aggressively in the business and maybe that is one way of doing this? Despite the bump up in cash generation over the last three years the return ratios are not fantastic or extraordinary? We are yet to cross 20% so whether reinvesting in the business is going to be at higher incremental returns if something I would worry about and your overall low volume share in the market although it seems steadily increasing and that is a great job but you are still nowhere near you the larger player in the industry or players in the industry. So reinvesting aggressively and at perhaps incremental return ratio is higher how would that play out that is a tricky one and that is what I am thinking about. I think there is no credit to be taken away from the achievements of the last five years and you have my salute for that. Anyway I will leave you with this thought.

Amar Sinha: First of all, today we are a significant largest Indian player in India as far as business is concerned whether on brand portfolio or on the financial parameters. Having said that we are now at that stage where incremental growth does not require us to reinvest in same proportion because volumes can come to us from outsourcing because there are plenty of capacities available across the country. So volumes will now grow more so in the premium segments where the returns are very heavy and investments will be far less. So that is what will give us incremental margins at a lower investment.

Dipen Sheth: Through a franchise kind of arrangement if I may interrupt you here? Is that what you are looking at?

Dilip Banthiya: Yes. It will be third party tie-up arrangement of bottling so not giving the brands to the franchisees like the any other competitors but outright contract production. Yes, outsourced contract.

Dipen Sheth: Fantastic. That is very encouraging. A buyback would also inspire.

Moderator: Thank you. The next question is from the line of Aaron Armstrong from Ashmore Group. Please go ahead.

Aaron Armstrong: Thanks for taking my question. My question was around the distribution potential of some of the existing brands? You mentioned one or two brands that are only present in a few states where still more states that you could roll those out to. Can you talk about that as a potential growth driver for the company please where you already have the plans and the products are well established, but you are still but you are still getting approval and distribution in different states and how meaningful that process could before you over the next couple of years please?

Amar Sinha: There are some brands which are good brands but preferred in few states and these brands have regional preferences and appeal for their taste. So they will continue to be regional however we will try and evaluate opportunities, if required as and when they come, depending upon various state exercise policies in the times ahead to expand them but as of today we feel that they will continue to remain regional brands and they are high contribution brands also.

Dilip Banthiya: As far as the other points like in the existing portfolio there are brands which are like take an example of 8 PM Premium Black, which is available at 16 states now and last year it was available in 14 so we have added two more states. So likewise the expansion of the existing brand is being done and it is being done on those states now where it is not available because the traction of the consumer in this category is coming. Then depending on the consumer demand we are putting these brands in more states. Take an example of 1965 Rum, which has been started with defense and then we have taken in the civil market. So we presently hold around 9% market share in defense and the brand is being rolled out in more rum consuming states so I think these are the areas where the company will continue to explore the possibility and keep increasing their distribution.

Aaron Armstrong: Understood. Thank you very much.

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

Dilip Banthiya: Thank you everyone for joining us on this call today. As a management team we can assure you that we have a robust brand portfolio. We have continued to invest behind our brands. We are looking to expand our premium offering with further new brand launches in FY2022. We have a strong balance sheet and cash generation, which provide us the fire power to invest behind our strategic growth plan.

Overall, we believe there may be short term challenges in the industry due to this pandemic which shall not last too long. Once things start to normalize the industry shall return to growth path as we had seen in Q4 of FY2021 and Radico will continue to outperform the industry.

We look forward to have interaction with you all on our next earning call and engagement on other platforms. In the meanwhile, if you have any queries you can follow up with us through emails, etc., or write to us. Thank you very much. Stay safe and healthy. Once again thank you for joining us today.

Moderator: Thank you. On behalf of Emkay Global Financial Services Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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*Note: This transcript has been edited to improve readability.*

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