Radico

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May 30, 2023

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

Sub: Transcript of the Earnings Call conducted on May 26, 2023

Dear Sir/ Madam,

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed transcript of the Earnings Call held on Friday, May 26, 2023, for the Audited Financial Results of the Company for the quarter and financial year ended March 31, 2023.

The same is also uploaded on the website of the Company at www.radicokhaitan.com.

This is for your information and records.

Thanking You,

Yours faithfully,
For Radico Khaitan Limited

Dinesh Kumar Gupta
Digitally signed by Dinesh Kumar Gupta
Date: 2023.05.30 10:35:36 +05'30'

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

Email Id**:** investor@radico.co.in

Encl.: As Above

RADICO KHAITAN LIMITED
Plot No. J-l, Block B-1, Mohan Co-op. Industrial area
Mathura Road, New Delhi-110044
Ph: (91-11) 4097 5444/555 Fax: (91-11) 4167 8841-42
Registered Office: Bareilly Road, Rampur-4490l (UP.)
Phones: 0595-2350601/2, 2351703 Fax: 0595-2350008
E-mail: info@radico.co.in, website: www.radicokhaitan.com
CIN No-L26941UP1983PLC027278

Radico Khaitan Limited

(BSE: 532497; NSE: RADICO)

Fourth Quarter and Full Year FY2023

Earnings Conference call

May 26, 2023

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 FY23 Results Conference Call hosted by Dolat Capital. As a reminder, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the 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. Himanshu Shah from Dolat Capital. 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.

Himanshu Shah: Thank you, Zico. Good afternoon, everyone. On behalf of Dolat Capital, we welcome you all to Q4 FY23 Earnings Conference Call of Radico Khaitan. We would like to thank the management for giving us the opportunity to host the call. On the call, we have with us Mr. Abhishek Khaitan – Managing Director, Mr. Amar Sinha – Chief Operating Officer, Mr. Dilip Banthiya – Chief Financial Officer and Mr. Sanjeev Banga - President, International Business. Let me hand over the floor to Mr. Abhishek Khaitan for his opening remarks. Thanks, and over to you, sir.

Abhishek Khaitan: Good afternoon, ladies, and gentlemen. Thank you for joining us on our Q4 FY23 results conference call.

Our performance during the year was driven by our consistent focus on consumer centricity, sustained investment behind our core brands, coupled with premiumization, agile supply chain and robust distribution network.

Our Prestige & Above category volumes remained robust, and we registered 17% year-on-year growth on a very high base. This was led by our core brands such as Magic Moments vodka, which crossed 5 million cases sale, Morpheus Premium brandy and 1965 Spirit of Victory Premium rum, both of which crossed a million-case mark. Magic Moments is now the seventh largest vodka brand globally.

Driven by our premiumization focus, during the year, we have delivered strong growth in the top end of the Prestige & Above brands. Prestige & Above brands have shown 150% growth compared to pre-pandemic levels. This has led to a sustainable improvement in the realization per case as we have highlighted in our presentation.

To capitalize upon the traction of 8PM Premium Black whisky during Q1 FY24, we have launched renovated edition of the brand into a more contemporary packaging to enhance upon its brand equity and make it more aspirational. The new packaging is focused on differentiating the products by highlighting the 8 rare notes.

During Q4 FY23, the Company unveiled Sangam World Malt whisky at ProWein 2023 in Düsseldorf. Sangam is a confluence of malt from the traditional European origins and the new world. It is being launched in the U.S.A., Europe, U.K., Australia, Singapore, and Global Travel Retail with shipments starting from June 2023.

While the raw material scenario still remains volatile, we are seeing early signs of deflation in certain commodities. In the IMFL segment, we have recently received price increases in the state of Uttar Pradesh, Rajasthan, Telangana, Karnataka, etc. Overall, recent price increases will account for 1.8% of IMFL sales value in FY24. With these price increases coupled with a favorable product mix, we will be able to mitigate margin headwinds in the IMFL business to a large extent.

The impact of the cost push has been much severe in the non-IMFL business where we have received price increases in the state of Uttar Pradesh applicable from 1st April '23 onwards. This will support the profitability expansion in FY24.

During Q4 FY23, we had successfully commissioned the dual feed plant at Rampur and started bottling operations at Sitapur. The distillery operations of Sitapur are expected to start commercial operations from the beginning of Q2 FY24. As we continue to drive our premiumization journey, the availability of additional grain-based ENA will strengthen our value proposition. The bottling plant at Sitapur positions us strongly to capitalize on the future growth opportunities in the branded business.

Radico Khaitan is progressing firmly on the part of its exciting premium brand creation journey, which will be further strengthened by the backward integrated manufacturing platform.

Going forward, we continue to focus on our long-term plans of premium IMFL portfolio expansion with new brand introduction in both white and brown spirits and leveraging the benefits of our capital investments.

Despite the near-term concerns around inflationary pressures, we are confident that we have all the levers in place for FY24 and expect to build on the current momentum and deliver a broad volume-led growth along with improvement in profitability.

I would now like to hand over the call to our CFO for a detailed operational and financial review. Thank you, and over to you, Dilip.

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

During Q4 FY23, we reported total IMFL volume of 7.24 million cases, which is relatively flat on Y-o-Y basis. Prestige & Above category volume grew by 17.4%. Including the royalty brands, our P&A volume growth is around 35%.

In value terms, the Prestige & Above category registered 18.2% growth. Our Prestige & Above category volume represents a double-digit CAGR compared to the pre-COVID level. We have rationalized the volume of regular category brands. This is a conscious strategic decision to mitigate input cost pressures.

Prestige & Above category now account for 40.2% of IMFL volume compared to 30.5% in Q4 of FY22. The percentage expansion has been higher due to the decline in regular volumes.

In FY24, we expect that our Prestige & Above category volume will continue the high double-digit growth. With recently received price increases in key states, regular volume shall also return to their mid-single-digit growth rate.

Our gross margin during the quarter has been under pressure due to the continued commodity inflation, particularly in non-IMFL business, where we have recently received price increases. Given a favorable product mix change, impact of cost push on the gross margin of IMFL business was mitigated to a large extent.

We have experienced inflation in ENA and glass. Glass costs increased by around 12% from the middle of Q3. The full impact of which is visible in Q4. However, certain other commodities such as PET resin and paper have seen early sign of softening. In the near term, we expect raw material pricing situation to remain volatile.

We expect our margin to improve from current level as we have multiple levers of profitability improvement into FY24.

1) Our Rampur dual feed plant has already become operational and Sitapur plant is expected to be operational from the beginning of Q2 FY24. 2) With CL/UPML price increase, our non-IMFL margins will also improve. 3) We expect strong P&A volume growth with already received price increases in the IMFL segment. 4) We will have higher volume contribution from luxury brands, Rampur Indian Single Malt, and Jaisalmer Indian Craft gin.

We have a strong financial position, and comfortable liquidity. During these 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'll now open the line for Q&A. Thank you.

Question & Answer Session:

Moderator: Thank you. Our first question is from the line of Vaibhav Gupta from Bowhead Investment Advisors. Please go ahead.

Vaibhav Gupta: Sir, as you have mentioned that for P&A category, the growth, including royalty sales is 35%. So similarly, can you share the same number for full year and for regular segment also for the quarter and full year?

Dilip Banthiya: So, royalty brands is included -- for full year also in the range of 35% to 37%.

Vaibhav Gupta: Okay, sir. And what about the regular category, sir?

Saket Somani: For regular category, if we add the royalty brands, in the Q4, the decline would be about 16% against 23% that we have reported. And for the full year it's about 7% against the 13% that we have reported.

Vaibhav Gupta: Got it sir, similarly, like growth in exports and CSD for the quarter and full year, like do you have the number in hand?

Dilip Banthiya: So as far as the growth in export as well as in defense is concerned, the P&A category is growing in double digits in export and as well as in defense and certain civil markets where the input cost pressures were high, we cut down on certain brand sales. And this is the reason that the regular category has degrown in this year. But given the price increases which we have received in certain states, as well as the international freight pricing coming down, we expect that the regular category to go in the mid-single digit.

Moderator: Our next question is from the line of Harit Kapoor from Investec.

Harit Kapoor: Just had a couple of questions. One was on the popular segment itself. So, from a run rate perspective, do we expect a similar kind of run rate on volumes the way we can attract the quarterly numbers? Or do we see that there will be an acceleration given that some of the volumes that we restricted because of inflation start to come back. I just wanted to understand what's the way to look at it for FY24?

Dilip Banthiya: So, can you repeat this on regular category please?

Harit Kapoor: Okay. So, my question was on popular. I just wanted to get a sense of this quarter, ex the royalty brands were at close to 4 million cases. I just wanted to understand, how do you look at FY24 on this base, given that you're seeing the inflation in certain pockets cool off, you've got some price increases.

So, do you start to increase wherever you've restricted the growth, do you start to increase, pick up the volumes there? And does the royalty brand, which is about 1 million case a quarter now, does any change happen to that portfolio? Do you take it back? Or are they 1 to 2 year contracts? So just wanted to get a sense of how that mix will work.

Dilip Banthiya: So as far as the FY24 volume is concerned, we are on our course, continue to deliver, P&A category growth of high teens between 15% to 18%. The regular category becomes viable now in certain states. So, we will be back from Q1 onwards itself in a single digit, mid-single-digit i.e., 4% to 5% growth. Overall growth, we expect to be in the range of around 10% for the whole year with a top line growth of 15% to 16% on IMFL business.

Harit Kapoor: Okay. Got it. I just had a question on the balance sheet. It seems to have been an increase on the inventory days, just wanted to get a sense of what's happened there? Is it a kind of bunching up? Or could you give a sense of what's happening, I think it's 80-plus days for the year?

Dilip Banthiya: So, as we have already intimated and informed that our Sitapur bottling operation also got started. At the same time, in the season, we started procuring certain raw materials and fuel there. So, the inventory in that part has also gone up. As far as the inventory number of days of the IMFL business is concerned, we are monitoring it continuously. And in Corporation and other markets, our number of inventory days are in line with our business plans.

Harit Kapoor: Got it. So, this should normalize to some extent, right?

Dilip Banthiya: For next year when the top line grows, this thing will normalize.

Moderator: Thank you. Our next question is from the line of Vikas Tulsyan from Vision Ahead Services Private Limited. Please go ahead.

Vikas Tulsyan: Sir, my question is, what is the response for this ready-to-drink vodka, which we have launched in the Indian market? And what response do you foresee for your 3 international brands, Rampur, Jaisalmer and Ranthambore? And my third question is how that -- if U.K. free trade agreement comes into picture, how it will affect you positively or negatively?

Amar Sinha: So first of all, the trend of RTDs in India is just catching up and growing. Vodka cocktail launched by Radico is the first of its kind in the category. There is no vodka-based cocktail drink available other than Radico. Its response in Karnataka where we have launched first, to start with is very encouraging. And that is pushing us to extend the launch now to a couple of more states in the next quarter which is Maharashtra, Daman and some states in the North. So, the product has responded very well, and we hope to make it a national product over the next 1 year.

Sanjeev Banga: In terms of our luxury portfolio, Rampur and Jaisalmer, the international response as well as domestic response continues to be extremely positive. As we've always said, Rampur still remains on allocation, but we increased our malt capacity a couple of years ago. So, we will start having more malt available this year onwards.

And going forward, there will be substantially more malt that will be available, which will make us then facilitate expansion of our footprint, both in the global market as well as the Indian market. Jaisalmer again we tripled our gin distillation capacity to cater to the increased demand both from international as well as domestic market. So, we are very positive about our luxury portfolio.

Vikas Tulsyan: And sir, Ranthambore?

Amar Sinha: So, Royal Ranthambore as a product has been launched in 13 states. And there are more states which are planned to be launched during the new fiscal year. The product has received an unprecedented positive response. And the unique thing about Royal Ranthambore is that it has been pitched against some of the popular international brands higher in terms of price and it has been very well accepted. This goes to prove that the consumer is accepting good products now made from India against any other international brand. So, we are very optimistic and the new fiscal year will delight us.

Vikas Tulsyan: And sir, how this U.K. free trade agreement -- if it comes into picture, how it will affect us?

Amar Sinha: When the Indian economy was largely based on products selling below the Prestige & Above segment, then it would have been a reason to worry. But now most of the products that we are selling in India, especially Radico, which has more than 40% of its sales in the Prestige & Above segment, we don't have any reason to worry.

Secondly, we have seen out of experience that the India, Australia FTA has gone up very positive, protecting the interest of the domestic players. And we hope that the Indian government is going to look the same way as far as the U.K. FTA is concerned. But in terms of price positioning, now India has reached the quality and drive standards of international brands. And therefore, we don't see a lot of issues around it.

Moderator: Our next question is from the line of Chanchal Khandelwal from Aditya Birla Capital.

Chanchal Khandelwal: Sir, if I look at the gross margin, now you are almost at 15 quarter low. The mix has improved. I mean your premium portfolio has been doing very well. If I look at 3-year CAGR. And the new plant is starting in Rampur, a plant is starting in Sitapur -- will start shortly. Now going forward, I mean we heard that the ENA prices and the bottling prices hurt you. What's the kind of gross margin the company can go to -- I mean, I'm sure you'll cross your peak gross margin given the mix we are improving and how will this happen quarter after quarter? Some guidance in the next 2 to 3 years, how this gross margin can look?

Dilip Banthiya: So Chanchal, first of all, the inflation in the commodity has been high, very high in all the commodities which we use as a raw material. So, the impact of the commodity was around 850 basis points, out of which we have mitigated in the IMFL business to a large extent. We got the price increase last year, which is on a weighted average basis on IMFL business is 300 basis points.

The non-IMFL business continues to be a drag, which also we have received the price increase effective from 1st April '23 onwards. So, from a negative EBITDA, it will also turn into a positive single-digit EBITDA.

As far as the gross margin drag is concerned, out of 850 basis points, we have been able to mitigate roughly around 450 to 500 basis points by price increase as well as product mix. And you will see that our realization per case in P&A category has improved by INR 100 per case. So, this is an improvement in the quality of product mix in the P&A category we are selling.

So, in FY 2023-24, there are multiple levers, which will improve our margin consistently quarter after quarter and Rampur dual feed and Sitapur green field project, backward integration will give us the additional leverage then the price increase which we got in certain states in the coming year also, the impact is approximately 180 basis points or so.

Increase in the P&A category, which we are confident to deliver 15% to 18% growth. And with the Rampur Indian single malt and Jaisalmer volume ramping up in domestic as well as in international markets, I think we are on course to deliver during this year that our margin will be in mid-teens. And that's how we will mitigate and thereafter with the kind of product portfolio and new launches coming in, we will be able to deliver better margin in coming year's later apart.

So, I think our journey is continuing. Our product profile is strengthening, and we have seen this headwind, which we have been able to mitigate roughly around INR 210 crores, INR 220 crores of cost push, which we have handled in this year despite that, these are the margins.

Chanchal Khandelwal: So, thank you, this is useful. So, I think mid-teens margin will go this year. And going forward, margins will improve further because I'm seeing that the peak margin was...

Dilip Banthiya: I said that quarter-after-quarter, we will improve on our margin expansion trajectory here onwards. During the quarter, we will reach mid-teens and thereafter in coming years with the kind of product profile and with premiumization going on, the margin expansion in next 2 to 3 years will again be back on high-teens.

Chanchal Khandelwal: The second question is on the balance sheet. So, the debt level is almost INR 600 crores plus now. Is this the peak debt? Or do you think because now that plant has started, your debt should start coming down going forward?

Dilip Banthiya: So, we will have a peak debt of approximately INR 800 crores in Q2 of FY24. Thereafter, it will continue to decline by the free cash flow and by FY 2025-26, as we guided, we will be positive on our net debt.

Moderator: Our next question is from the line of Darshan Shah from Multi-Act Equity Consultancy Private Limited.

Darshan Shah: I have just one question. So, what is the share of defense CSD segment in overall revenues in FY23? And what was it, let's say, 5 years back?

Dilip Banthiya: Defense segment, volume-wise, is around 9% to 10% of the overall volume of our branded business.

Darshan Shah: And what was it, let's say, 5 years back?

Dilip Banthiya: It remains between 10% to 11% because the growth in the civil market is much better on volume side, much faster and better. So, it used to be between 11% to 12%, now it is 9% to 10%.

Moderator: Our next question is from the line of Manish Poddar from Motilal Oswal AMC.

Manish Poddar: Just one question, sir, how much debt has capitalized?

Dilip Banthiya: Pardon, how much debt is capitalized? In long-term debt, we have contracted for INR 500 crores, out of which we availed as on 31st March, INR 320 crores.

Manish Poddar: Because if I look at the quarterly run rate of interest outflow, it is roughly INR 9 crores. And I think you have INR 610 crores of debt on the balance sheet. I'm just trying to understand why the interest cost was low?

Dilip Banthiya: So, the interest on the capital project, which is Sitapur green field project, which is a commercial production starts, the intervening period interest is being capitalized.

Manish Poddar: So yes, how much is that amount?

Dilip Banthiya: I think it is INR 6.5 crores.

Manish Poddar: INR 6.5 crores on a quarter basis?

Dilip Banthiya: No, not quarterly basis. I'm talking about in total. That much is capitalized for the whole period till 31st March '23.

So, our weighted average interest cost on working capital and some loans put together is in the range of 7.5% to 7.6%.

Manish Poddar: Okay. So, this number INR 600 crores, you said it will go to peak at INR 800 crores, right, by Q3 or Q2 end?

Dilip Banthiya: Yes, yes.

Manish Poddar: When is this plant expected to commence because it is still showing in CWIP, so I'm just trying to understand when will this commercialized?

Dilip Banthiya: Beginning Q2, we are expecting to have the trial run and commission production by July end or something.

Moderator: Our next question is from the line of Harit Kapoor from Investec.

Harit Kapoor: So just to have a follow-up. In this quarter, the realization growths have been muted on P&A and popular. I mean, popular, there might be some changes. But on P&A, they've been muted. So would it be that the lower end of the Prestige segment this quarter has done probably better, 8PM Black, etc. Is that the way to look at it?

Saket Somani: So, Harit, you're right. If you compare Q3 versus Q4, the higher end of P&A was better in Q3 because of the festivities, etc. And in Q4, that's not the case. So that's the only reason because we haven't had any differential in terms of pricing in Q4. So that's the only reason.

Harit Kapoor: Okay, Understood. And the other thing was on this year, actually, despite increasing capex you've been fairly you've increased your payout ratio to about 20%, and this is a high capex here. Just wanted to get a sense that -- Abhishek is on call as well. Do we expect this ratio to continue to improve? I think maybe next year will be a peak out debt here. But post that, -- is that the right way to look at it, that things should improve from here in terms of payout ratios?

Abhishek Khaitan: Yes. Because the kind of cash the company will generate after like because the debt will keep reducing. So, our dividends will keep going up and the payout will increase.

Moderator: Thank you. Our next question is from the line of Pankaj Kumar from Kotak Securities. Please go ahead.

Pankaj Kumar: Yes. So, my question was more on this volume growth that you are guiding. So, this volume growth guidance that includes our royalty brands as well or it's like excluding royalty.

Dilip Banthiya: So, the guidance which we have given about the P&A and other regular categories, including royalty, but the full year FY23, this run rate of 800,000 boxes to 900,000 boxes will be equal in the next year. So, like-to-like basis, this is a growth including royalty.

Pankaj Kumar: Including royalty. So, net of royalty, how do you see that?

Dilip Banthiya: As I said that this year, we had a run rate of 8 to 9 lac boxes per quarter. On this basis, the growth of P&A will be 15% to 18%, and regular will be in the mid-single-digit including royalty.

Pankaj Kumar: Okay. On the new brands that we talked about; we would be launching this white category as well as in the brown. So, what are the plans? Which category segment that we are looking at?

Abhishek Khaitan: See the new brand, what we are looking at, one of the brands will be in the luxury segment and the other will be in a mid-luxury or a super-premium.

Pankaj Kumar: Okay sir, on this non-IMFL business, now we've got the price hike. So decent volume growth on that side as well?

Abhishek Khaitan: Yes, there will be a volume growth because how we see that in a couple of years, that might be converted into IMFL. So that is what the trend, because that is why the grain plant has been put up and plus for the luxury segment and all our brands. So, the volumes will increase.

Pankaj Kumar: Okay. And the margin in this non-IMFL category would be at what level?

Dilip Banthiya: So, it is now 7% to 8% after the price increase.

Moderator: Our next question is from the line of Naveen Trivedi from HDFC.

Naveen Trivedi: My question is again on the margin side. Can you just explain about what is the gross margin difference between the P&A and the regular portfolio for FY23?

Dilip Banthiya: So overall margin in the IMFL business, EBITDA margin has been ranging between 15% or so. You're talking about gross margin. Gross margin on the P&A category will be about 55% to 60%.

Naveen Trivedi: And what about the regular portfolio?

Dilip Banthiya: Regular portfolio has been in the range of around 15% to 20%.

Naveen Trivedi: So that gross margin side you're expecting, this will become around 25% to 30% sort of a band next year? I'm saying the gross margin expansion in the regular portfolio will be close to 20% next year?

Dilip Banthiya: We have done this where the pricing increase will come back. It's a matter of time. So, I can't give you the numbers, but overall, as I said, that mix of P&A and regular category, we will have an improvement in margin in the gross side. Our margin on the gross side used to be in the range of around 48% to 49%, which has come down to 41%. So there has been a knock of 850 basis point. So, this will be mitigated by all the levers of the profitability which we have talked about. And the gross margin will again go back but still volatility of raw material and other things are there. On the EBITDA side also, we are confident to achieve our margin on the mid-teen kind of thing during this year.

Naveen Trivedi: Sure, Just one thing I want to understand, the plant benefit impact on the gross margin side. Apart from assuming there is no further volatility in the RM basket? How should we look at the benefit of the plant on the gross margin side?

Dilip Banthiya: We said earlier also that taking your own ENA versus buying from outside gives a delta of around INR 10 to INR 11. So, the ENA which we are going to use, whether for our UPML or for the IMFL business, we are going to get that. Rest for the time being, we will export or sell the domestic market, but in 3 years' time, all the ENA will be used for our captive consumption.

Moderator: Our next question is from the line of Rajendra R, who is an individual investor.

Rajendra R: So, I had one kind of broad organization level question here. So, your competitor, the market leader, has separated Prestige & Above brands and they have sold out or they're deprioritizing the popular brands. So, I mean, in your own case, the trend is very clear. We had a 30% volume contribution from P&A, that has gone to 40% and probably this year, it will be 50% or above that. So, do you have any thoughts on separating out the non-IMFL business or the popular brands that seem to bring a lot of volatility into the metrics?

Abhishek Khaitan: No, we don't have any plans of separating out the business because it's all integrated. So, there's no plans of separating it out. And what we see, UP is such a large state, 20% of the India's population is in Uttar Pradesh, and the way the industry is developing, we are the market leader, we have a market share of close to 30% in the IMFL business. And if you see UP alone in the next 5 years, the way the growth is happening, the industry can go anywhere.

Moderator: Our next question is from the line of Mr. Himanshu Shah from Dolat Capital.

Himanshu Shah: Just one question. In the lower Prestige category, which brand we are having? And is it available Pan India? Or what are the plans for that category -- low Prestige category?

Dilip Banthiya: You're talking about, the popular category, the regular category, low Prestige is all, we have the flagship brands like 8PM, Old Admiral brandy and Contessa rum. All launches in last 15 years has been done P&A and above only. So, we are continuing -- wherever these brands are stronger, and we make some money after the price increases. And from that only, we plan to have a mid-single-digit growth in the coming year.

Saket Somani: And we have, in our presentation, also highlighted the growth for each segment and the key brand within that segment.

Himanshu Shah: I was talking about low Prestige as the category in McDowell's No.1 and Imperial Blue kind of category?

Amar Sinha: So, we have so far have really been unrepresented in that category, primarily because margins were not good enough. But now with the positive response of various state governments on the price hikes, we have just introduced a brand called After Dark Blue and it has started responding very well. We've started it in Uttar Pradesh and some other states. And we hope to make it big in this segment as well. But we will be confined to those states where it is profitable, and the margins are healthy.

Himanshu Shah: Sure, just one more, if you can help. What would be the volume side of the industry in this category -- low Prestige category?

Abhishek Khaitan: It will be about close to 50 million to 60 million cases.

Moderator: Our next question is from the line of Priyam Khimawat from ASK Investment Managers.

Priyam Khimawat: Just wanted to understand post green field commercialization of Sitapur and Rampur dual feed, what will be our total ENA capacity in crore liters, grain-based capacity?

Dilip Banthiya: Capacity will be around 21 crores liter.

Priyam Khimawat: So, when we talk about the INR 10 to INR 11 delta per liter, can we expect INR 200 crores improvement in FY25 on the gross margin basis?

Dilip Banthiya: See, you must understand that Rampur dual feed plant had been converted because of the reason that, first of all, the industry is migrating from the molasses-based to grain-based alcohol. And the dual feed molasses availability in due course of time will continue to be declining and most of the molasses will be used for the ethanol blending. So, to cater to the growing market of UP in UPML as well as in IMFL we converted it. It will give a delta of 1.5 crores liter per annum, and the impact of that will be around INR 10 per liter.

But on the additional capacity being created. Earlier, we were also utilizing on molasses data. But in order to safeguard ourselves, we converted on dual feed. Sitapur capacity will be additional. As it is, we are buying 7 crores liter of grain alcohol for our IMFL business sourcing from various systems. In due course of time, that will be used captively, and we were constrained to increase our volume on P&A category without these expansions.

Priyam Khimawat: Got it. Sir, and when we talk about the mid-teens kind of EBITDA margin, we are talking about exit run rate in Q4 FY24, not entire year FY24. Am I correct?

Dilip Banthiya: So, it will be achieved during the year. It will start improving from Q1 onwards. But during Q3 and Q4, you will see that.

Moderator: That was the last question of our question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Dilip Banthiya: Thanks for joining us today on this call. We are confident of maintaining our long-term margin expansion given the premiumization of our portfolio, recently received price increases, both in IMFL and non-IMFL and backward integration. Further, the operating leverage will also start kicking in from FY24.

We look forward to interacting with you on our next earnings call. In the meanwhile, if you have any query for follow-up, please feel free to write to us. Thank you.

Moderator: Thank you. On behalf of Dolat Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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Note: This transcript has been edited to improve readability.

For more information, please contact:
Saket Somani
Vice President – Finance & Strategy
somanis@radico.co.in | +91 11 4097 5403