

RKL/SX/2024-25/101

October 30, 2024

BSE Ltd.

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Dalal Street
Mumbai – 400001

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 – 400051

Scrip code: RADICO

Subject: Transcript of Earnings Conference Call

Ref: Disclosure under Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“Listing Regulations”)

Dear Sir/Madam,

In continuation to our letter no. RKL/SX/2024-25/94 dated October 18, 2024 and pursuant to Regulation 30 of the Listing Regulations, please find enclosed herewith the Transcript for Quarter and Half year ended September 30, 2024 Earnings Conference Call for Analysts and Investors held on October 25, 2024.

The transcript is also being disseminated on the Company's website at <http://www.radicokhaitan.com/investor-relations/>

This is for your information and records.

Thanking You,
For **Radico Khaitan Limited**

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Radico Khaitan Limited

(BSE: 532497; NSE: RADICO)

Second Quarter and Half Year FY2025

Earnings Conference call

October 25, 2024

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 Q2 FY25 Earnings Conference Call hosted by Dolat Capital.

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. 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, Rutuja. Good afternoon, everyone. At this moment, we would like to thank the Radico Khaitan Management for providing Dolat Capital with the opportunity to host the Q2 FY25 Earnings Call.

We have with us the senior leadership team from Radico Khaitan, Mr. Abhishek Khaitan – Managing Director, Mr. Amar Sinha – Chief Operating Officer, Mr. Dilip Banthiya – Chief Financial Officer, and Mr. Sanjeev Banga – President (International Business).

I will now hand over the call to Mr. Abhishek Khaitan for his opening remarks. Over to you, sir.

Abhishek Khaitan: Good afternoon, ladies and gentlemen. Thank you for joining us on our Q2 FY25 results conference call. Q2 FY25 marked a significant turnaround in our operational performance, highlighting the strength of our resilient business model.

While the consumer sector faced challenges due to a general slowdown, inflation concerns and volatile commodity prices, we are pleased with our robust performance. We achieved a 12.6% growth in the Prestige & Above category, along with a sequential improvement in EBITDA margins.

Innovation remains a cornerstone of Radico's strategy. To further expand our luxury portfolio, we introduced Rampur Indian Single Malt,

Barrel Blush. This new expression, initially matured in American Bourbon barrel and finished in Australian Shiraz wine cask, is a testament to tradition and expert craftsmanship. It will be a core expression along with Rampur Double Cask and Asava. With an international launch in the U.S., U.K. and Europe this year, we have plans to bring it to India next year.

Further extending the Rampur brand, we introduced Rampur Jugalbandi 5 and Jugalbandi 6, two new single malts in the Jugalbandi series at the Whiskey Show in London, retailing at GBP400 per bottle. These limited additions are crafted using high-quality Madera and Tokai casks, retaining the classic Rampur Single Malt whiskey profile at their core.

We launched a new campaign for Royal Ranthambore whiskey featuring Saif Ali Khan earlier this month. His signature style and charisma perfectly aligned with the nobility and glamor that this Royal Ranthambore represents. This campaign marks a significant moment in our journey to redefine luxury in the Indian spirits market through what we proudly call Indi-Lux.

Taking our packaging innovation further with consumer choice and preference at the core, we have recently introduced a trendy and convenient pocket pack in 180 ml SKU for Magic Moments. We expect this to support the strong brand growth momentum. This packaging is not only 100% recyclable, but also more cost effective.

Regarding the recent development in the state of Andhra Pradesh, I would like to state that it is a very progressive government and as expected, the new policy is aimed at promoting stability and predictability in the regulatory environment.

Over the last 3 years, we have faced inflationary challenges that impacted our margins. However, by focusing on innovation and strengthening our premium brands, we have managed to navigate these tough times. With input cost pressure easing, we are poised to deliver steady profitable growth moving forward.

I remain optimistic about the growth prospects in the Indian alcohol sector. We are progressing well on our strategic road map and are confident in delivering results in line with our goals.

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 Q2 FY25, we reported a total IMFL volume of 6.78 million cases, representing a degrowth of 2.5% on a year-on-year basis. Prestige & Above category volume grew by 12.6%. In value terms, Prestige & Above category registered 18% growth. IMFL realization increased by 9.7% on a year-on-year basis.

Prestige & Above category account for 53.2% of the IMFL volume compared to 47.1% in Q2 of last year. The percentage of P&A is higher due to the significant degrowth in regular category. Improvement in IMFL realization is due to a combination of price increases and continued premiumization. Regular category volumes were impacted due to certain state specific industry-related issues and ongoing strategic rationalization of our portfolio.

Gross margin during the quarter was 43.6% compared to 44.1% in Q2 FY24 and 41% in Q1 of current year. Gross margin was impacted on a year-on-year basis due to the significant foodgrain inflation offset by premiumization in the IMFL business. EBITDA margin expanded on Y-o-Y basis by 150 basis points due to economies of scale.

Gross margin improved 258 basis points on a quarter-on-quarter basis due to the ongoing premiumization, stable raw material and packaging material scenario. We cautiously monitor the trend of grain and ENA, where volatility persists and expect the trend to improve from Q3 of current year.

Increase in net debt over March '24 is primarily due to the cyclical buildup of the inventory and higher receivables in certain states.

Going forward, our focus will be on improving profitability along with cash flow generation and a more efficient working capital management resulting into debt reduction.

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

Question & Answer:

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

Harit Kapoor: I just had a few questions. First one is on the Royalty Brands. We have seen a little bit of dip on the volumes in the Royalty Brand. Just wanted to know whether it's because the Andhra policy is just coming in place and there would have been some lower primaries on account of that or anything else to kind of read into that?

Amar Sinha: Yes. So, it's primarily because of that and nothing beyond that.

Harit Kapoor: And given, as you mentioned, it's an extremely progressive policy. I just wanted to get your thought process on how you kind of plan to take advantage of it. It's also fairly material in the popular market as well. So, is the mode of being in the state going to be similar to what it has been over the last few years or is there a thought process of rethinking that?

Amar Sinha: So, as far as AP is concerned, we have always maintained that the new government is very progressive in its outlook to alcobev space. The biggest advantage that comes to us is that now our cash flows will improve because earlier, we were getting our payments only when tertiaries, which means sales from retail used to happen. Now we will receive payments as soon as the government depots invoice to the retail outlets. So, that's one, faster cash flow turnaround.

Second. I think because the retail is private, there will be free choice available to consumers for premium brands. And AP is seeing a lot of traction in that area now, because of surrounding states. Plus, they are rationalizing the prices also in the times ahead, because they've set up a pricing committee. So, I think, in overall, if you see, Andhra is going to be the sunshine market for this space in the times ahead.

Harit Kapoor: And your mode of operating there, is there a thought process there yet or is this kind of wait and watch on that?

Abhishek Khaitan: See, right now, in Andhra Pradesh, we have been operating on Royalty. And we are assessing the situation. So, starting from Q4 we might get away from Royalty and get into our own brands.

Harit Kapoor: The second part was on profitability. So, we have seen a very strong improvement in the gross margin sequentially. I just wanted to get your sense on the cost environment currently. I mean, mix continues to improve materially. Your non-IMFL business kind of is in the base now from Q3 onwards as well. And cost inflation is manageable in my understanding. So, is this likely to be an expanding kind of gross margin trajectory going forward? Do we continue to see gradual sequential improvement on GM? Is that something we should expect?

Dilip Banthiya: So, Harit, you are absolutely right that quarter-on-quarter, we have improved on our gross margin by 250 basis points and the reason is that, one, the premiumization is ongoing for us and the premium brands and semi-luxury brands are taking spread across pan-India. The product mix has improved. The Luxury segment and Semi-Luxury segment is doing very well. It is more than double digit now on top line side. This quarter the export also has done well on the Luxury segment of the market. And the raw material and packing material scenario being benign, so we have improved because of various factors, so that has reflected in the gross margin. And I think yes, the margin improvement trajectory will continue.

Moderator: The next question is from the line of Vishal Gutka from HDFC Securities. Please go ahead.

Vishal Gutka: Congrats on excellent set of numbers. Before I question, I would like to extend season greetings. Wishing you all Happy Diwali in advance.

Two, three questions from my side. Sir, how do you view Karnataka market post the recent changes in the excise duty slab because one of your competitors highlighted that despite reduction in the excise duty, still, the taxes are much higher than the neighboring states.

Second question is on the brand, specifically, you launched, I think, 5, 6 brands over a period of last 18, 24 months. Just wanted to check with you, how would you ensure that you put equal focus on each brand? Do we have a setup similar to an FMCG company where a brand manager is appointed, and equal focus is given out over there?

And the third question is on Luxury and Semi-luxury, although you highlighted that you are seeing a substantial uptick. Given the malt facilities are coming online now and festive season is approaching, then 3Q, 4Q, we should see a very, very sharp jump in the revenue segment for the subsegments? That's it from my side.

Amar Sinha: Okay. So, to answer your first question. In our scheme of things, we see Karnataka totally differently. You see, for many years, the taxes in Karnataka have been high and the consumer price, which is the MRP has been the highest over the country. Now a beginning has been made with comfort being given on the premium end of the prices. And we have, as a company, started seeing results. Our volume and margins are showing an increase. So, that's one. As far as Karnataka is concerned, we are banking on it in the times ahead for premium brands.

Now, let me tell you, it is true that Radico has been championing the launch of Premium brands in this country, because our moto is very simple, to make India proud. And I think today, we are in that position that we can take on any international brand, which we have shown from our track record. Now with a vast portfolio that we have made, every brand has an exclusive, committed brand marketing manager. So, as we are giving due attention to each of these brands, separate strategies are being made, separate review forums have been created. And that is why you will see an uptick on the Premium & Above brand sales, both in terms of volume and value.

As far as the festivities are concerned, I think, starting October to March end, I think it's a great time for Premium brands, because there's a lot of traction, people are moving up, and that's why you see sales of Premium brands going up as well. So, we see that these brands are going to bring us a lot more joy, because we started the game, and the future looks bright.

Vishal Gutka: Sir, last question on Telangana market. So, I think the dues were pending from the state government. So, how are things moving now? If you can broadly highlight on Telangana market, what is happening out over there?

Amar Sinha: So, the point is that it's still not as good as the other states. But yes, we have been receiving payments for the last 2 months. And I think the situation will improve further because they have also realized that they need to compete with Andhra, and they will be able to do so, only if they get stocks and push them.

Moderator: The next question is from the line of Darshika Khemka from AV Fincorp. Please go ahead.

Darshika Khemka: I have a couple of questions. Firstly, in the opening remarks, you mentioned that in the Regular & Below category, the volumes were affected due to certain specific states. Can you give us more details on this?

Dilip Banthiya: Yes. So, I'll say that a couple of states like the Karnataka increased the price of the Regular category, which has led to more than 40% reduction in the volume in the industry and we also suffered there. One or two more states have increased prices like Uttarakhand. UP has been impacted due to quota. So, in this quarter, the quota remained a little lower and because of that the volumes suffered. At the same time, Andhra Pradesh, which was in election mode and now because of the pipeline getting, inventory getting cleared, because of that the sales were low. But now onwards, you will see in Regular category also, we will see that continued demand, and we will have a mid-single-digit kind of growth from here onwards.

Amar Sinha: So, as far as regular segment is concerned, just to add to what Dilip said, we have rationalized volumes even in Kerala. As a company goal that we have, we moderate our policies of sales depending upon the contribution in the prevailing time, depending upon raw material and packaging material costs. So, right now, wherever we are selling regular brands, it's only there where we make little money. Otherwise, we don't.

Darshika Khemka: That was really helpful, sir. Secondly, could you give us some details on the kind of volumes that you're currently doing in the Luxury and Semi-luxury category of products? And what is the average realization like for the company? So, the reason why I ask this question is that we don't make significant volumes in this category right now. But as the volumes increase, our EBITDA margins could also increase. So, what I'm trying to hint is, once you're making substantial volumes, our margins could substantially increase, right? So, considering this scenario, what could be our target EBITDA margin?

Dilip Banthiya: So, on the Luxury side and Semi-luxury side, we're seeing a very strong traction. And in the first half itself, [the growth] is more than 25% to 28% on the top line side. At the same time, the premiumization is happening, and we will continue to grow our P&A category volume by 15%-plus in next 2 quarters also and in 1 to 2 years further. So, we are very confident about it, and that will reflect into the EBITDA margins.

And as we said that we will continue to improve our EBITDA margin quarter-after-quarter.

- Darshika Khemka: Do we have any targets? Could you quantify a target for us?
- Dilip Banthiya: As we have been guiding in earlier calls also that we will improve our margin every year by 150 basis points or so. So, over the last year, we will be doing much better than that. And thereafter, also for the next 3 years, we will continue to improve our margin by 100 to 125 basis and that's how we will reach to the late teens margin in 3 years' time.
- Moderator: The next question is from the line of Amansingh from ProfitGate Capital. Please go ahead.
- Amansingh: Congrats on good set of numbers. So, the growth in P&A segment has been good for the company. So, can you break down the growth maybe which states are experiencing good growth and which brands are experiencing better traction in the segment?
- Abhishek Khaitan: Out of all our brands, in the P&A category, we are seeing good growth in our Vodka segment, that is Magic Moments Vodka. Then we are seeing a lot of growth in Royal Ranthambore which is in the Semi-luxury space. We're seeing a lot of traction in After Dark Premium Whiskey. The Luxury segment is also growing. So, overall, all the brands are doing well in the P&A category. And it is doing well across states like UP, it is doing well, in West, it is doing well. Actually, the growth in P&A is broad-based.
- Amansingh: So, there is no specific geographies, which is doing well for the P&A segment?
- Dilip Banthiya: So, across North, West, South, everywhere.
- Abhishek Khaitan: And also, what we are seeing the White Spirit category is growing extremely fast, since it is only 4% of the market and globally, it is 28%. Earlier the vodka was 3%, which has come up to 4%. So, there, we are seeing a huge traction.
- Amansingh: Also, is there any competitive intensity increase in the industry, maybe in P&A segment from the local players also and from the international players also which are being brought in by the domestic players with partnerships or distribution network? So, is there any increase in competitive intensity?

Abhishek Khaitan: I think, the competition intensity for the last 5, 7 years has been quite high. So, I think, it's the same.

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

Harit Kapoor: So, last 6 months, again, a lot of super premium launches, a lot of variant launches in Magic also have been done in the last 12 months. Obviously, you're investing again behind Royal Ranthambore as well rightfully so. Just wanted to know, in the run-up to the festive, which is there now, is that broadly what the launch pipeline should look like for the balance part of the year? I mean, have you seen most of it given that we are almost into the festive or second half should also have something in store as well?

Abhishek Khaitan: See, there is one brand which is in store, we are working on it, which is in the super premium segment. So, hopefully, maybe this fiscal year, you should see it or maybe beginning of next fiscal year, for sure.

Harit Kapoor: And just a clarification, I think, Dilip ji mentioned that the popular business, I think, should start to see some level of growth from now. Is that largely on account of the fact that some of the state-led disruptions as even one of the larger player was talking about, is now largely done with and maybe apart from maybe one state here and there, your state level disruptions are not there?

Abhishek Khaitan: Absolutely, you're right.

Moderator: The next question is from the line of Vishal Gutka from HDFC Securities. Please go ahead.

Vishal Gutka: I just wanted to check on ENA. So, one of the peers has highlighted that they expect ENA inflation to be around 11%, 12%, given that government's mandate of blending ethanol has been increasing. Although we understand you have a backward integrated facility and commodity costs, especially the rice cost is expected to come out with excess production, so how are you viewing, because the competitor has highlighted that they expect the inflation sustained. I just wanted your views on ENA and followed by glass, because we are seeing some deflationary trend. So, that should hold on at the current level or should further accelerate from here onwards?

Dilip Banthiya: So, as far as the commodity is concerned, we don't actually see this 10%, 11% kind of inflation from here onward. One, there is a good

monsoon and crop yields are very good. However, there has been an aggressive bidding on the ethanol side. So, the prices have already moved up in the non-season period. As the season is starting from November onwards, we should see some softening of the prices of grain, maize, rice, et cetera. At the same time, the government has built up a lot of buffer stocks. Even the buffer stock, they don't have space to keep, store and all that. And the new rice miller processing is starting. So, we can't say, but if there is any support to the ethanol producer from some allocation on the SCI side, that will further improve pricing. So, this is our take that we see a benign kind of environment on the ENA as well as the grain price. As far as the glass is concerned, we have seen the worst. One correction has taken place, which is 4% to 5%. And I think, looking into the current scenario of the commodity and fuel prices, et cetera, and all that, we don't see that there is a room for further increase in glass prices even.

Amar Sinha: Yes. It looks like it will remain stable.

Vishal Gutka: One more question on the Magic Moments Vodka front. I think, in 1Q '25, we had seen 25%-plus volume growth in Magic Moments Vodka, if I recollect the numbers right. How is the performance for the current quarter? Is it similar to those lines or if you can broadly highlight for the specific brand?

Dilip Banthiya: The Magic has been going very well. As a Magic family, we are growing in every segment, like in Magic, the flavors, the Verve flavors, et cetera. And Magic we see as Abhishek has said in his opening remarks that still nascent, it's still below 4% as the volume of the total industry. And the consuming class is the youngsters and the women. And we are the leader with 60% market share across all price categories. So, I think we see a great growth, and we continue to see strong double-digit growth in years to come.

Moderator: Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to the management for closing comments.

Dilip Banthiya: So, thank you for joining us on this call. We will continue to deliver a strong Prestige & Above volume growth driven by our diverse brand portfolio. Secondly, we will further develop our Luxury brand portfolio, which will be a major contributor to our profitability. Furthermore, we are focused on ensuring that our investment operates as efficient as

possible. This will enable us to generate cash, repay debt and return cash to the shareholders.

We look forward to interacting with you on our next earnings call. In the meanwhile, if you have any query, 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.

Note: This transcript has been edited to improve readability.

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