RADICO KHAITAN LTD.

RKL/SX/2023-24/126
February 13, 2024

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 February 07, 2024

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 February 07, 2024, for the Unaudited Financial Results of the Company for the quarter and nine months ended December 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: 2024.02.13 19:30:05 +05'30'

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

Email Id: investor@radico.co.in

Encl.: As Above

Radico Khaitan Limited

(BSE: 532497; NSE: RADICO)

Third Quarter and Nine Month FY2024

Earnings Conference call

February 7, 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 Q3 FY2024 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. Thank you and over to you.

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. Good afternoon everyone. On behalf of Dolat Capital, we welcome you all to Q3 FY2024 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. I would now hand over the floor to Mr. Abhishek Khaitan for his opening remarks. Thanks, and over to you.

Abhishek Khaitan: Good afternoon, ladies and gentlemen. Thank you for joining us on a Q3 FY2024 results conference call.

Driven by the strength of our premium brand portfolio and focused marketing strategies, Radico Khaitan delivered another quarter of a resilient performance with Prestige & Above category brands growing by 20% year-on-year.

All core brands continued to report strong momentum such as Magic Moments Vodka, which recorded 1.6 million cases sales during the quarter, Morpheus Super Premium Brandy, Royal Ranthambore, After Dark Blue Whisky, 1965 Spirit of Victory Premium Rum etc. Our commitment to delivering value to our consumers, execution excellence, increasing investment in brands, and driving premiumization remains a cornerstone of our success.

Our luxury portfolio continues to attract consumers and connoisseurs across the globe. Rampur Double Cask was recently featured in the

Luxury Lifestyle Award as the Top 100 Premium Wine and Spirits Brand of the World. Rampur Asava won the Double Gold at Barleycorn Award 2023 and was named as the Best World Single Malt. We plan to launch Asava in the domestic market in the next financial year FY2025. Furthermore, we continued to expand the distribution of Rampur and Jaisalmer in India. Rampur is now available in 14 states and Jaisalmer is available in 20 states.

We have further expanded our luxury offerings with the launch of Spirit of Victory 1999 Pure Malt Whisky. The launch not only reiterates our premiumization strategy but is also a testament to our innovation and brand creation capabilities. Priced at Rs 5000, this brand is targeted at a mid-priced luxury segment. Our Master Blender has travelled over the world to evaluate various Single Malts and has blended them meticulously together with our Indian Single Malt to craft this exceptional Pure Malt. We are confident that 1999 Pure Malt will go on to create a mark of its own as many of our previous luxury brand.

While we have seen prices of certain commodities stabilizing, the scenario remains volatile for grain, glass, and ENA. We continued to cautiously monitor the industry trends. Given the steep inflation in the grain prices over the last two quarters, we have seen our margins getting impacted. Despite this, we have been able to sustain gross margins on year-on-year basis due to the ongoing premiumization and price increases in the IMFL business. Current grain scenario is volatile, and it is an industry issue. Government and industry are working together and have taken certain steps as the use of alternate feedstock in the manufacturer of ethanol, which should also alleviate the pressure on broken rice prices.

It is heartening to note that due to our focus on financial discipline, we have been able to reduce our net debt by over Rs.100 Crores on a sequential basis. We remain committed to our integrated growth strategy of a focused premium product portfolio, brand innovation, and agile organizations and delivering value to our customers and stakeholders.

We will continue to deliver a value-led growth, manage business with agility, harness the strength of our extensive distribution network and manufacturing platform while consistently improving our profit margins.

I would now like to hand over the call to our CFO for the 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 Q3 of FY2024, we reported a total IMFL volume of 7.25 million cases which is a growth of 3.7% on year-on-year basis. The Prestige & Above category volume grew by 20.2%. In value terms, the Prestige & Above category registered 29.1% growth. Prestige & Above category now account for 49.9% of the IMFL volume compared to 42.4% in Q3 of FY2023. The percentage of P&A is slightly higher due to the significant degrowth in regular category. Improvement in IMFL realisation is due to combination of price increases and continued premiumization. We had received price increases in the regular category in the defense division, which supported the volumes in the regular segment.

On year-on-year basis, we had about 185 basis point overall impact due to price increases on our IMFL sales value.

Gross margins were impacted both on year-on-year basis and quarter-on-quarter basis due to the significant food grain inflation. Grain price inflation had a negative impact of 500-basis point on year-on-year and 370-basis points on quarter-on-quarter basis on gross margins.

Despite commodity inflation in the ENA and grain prices, we have been able to sustain gross margins on year-on-year basis due to the ongoing premiumization and price increase in IMFL business.

Although prices of certain packaging material have softened recently, we cautiously monitor the trends of grain, ENA and glass bottles, which remain volatile.

Due to strong financial discipline and working capital management, the Company has been able to reduce the net debt on quarter-on-quarter basis.

Overall, we have a strong financial position and comfortable liquidity. During these times, we are managing and taking all necessary steps to sustain our financial strength, maintain a robust business model, grow consistently competitively and profitably. With this, we now open the line for Q&A.

Moderator: We will now begin the question-and-answer session.

We have a first question from the line of Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: Thanks, and congrats on a very good set of numbers. I wanted to understand the P&A volume growth, so the market leader has been sounding out slowdown past two quarters and in fact this quarter, we saw less than mid-single digit volume growth in P&A which used to be much higher earlier. Your performance both in Q3 and nine months has been pretty strong at 20%, 22%. So wanted to understand do you also see industry slowdown. I understand your performance is good, so could you tell in last three to five years, the new product which you have launched, what is the contribution in the P&A? Is that the reason why you are able to grow much faster?

Dilip Banthiya: First of all, our P&A Category is growing across the geographies and across the brands. In P&A, the Magic Moment Vodka which is our flagship brand is growing by 22% - 23%, Morpheus Super Premium Brandy is growing in double digit, After Dark Blue Whisky, which has been there now rolled out to around 9 to 10 states is also growing in strong double digit, 8PM Premium Black is also growing in strong double digit, Royal Ranthambore has seen a big jump because started it two years back, now it is available in 19 states and we are seeing a good traction in that brand. Luxury brand is growing very fast, it is growing also on top line and the luxury portfolio Rampur Indian Single Malt is available in India and now it is available in 14 states. Jaisalmer Indian Craft Gin is available in 19 states. So, we are doing well and are growing the portfolio across. Our existing flagship brands are growing faster also aided by the new launches which are being rolled out and the width of distribution is also taking place.

Amar Sinha: If you really see the last two years in fact just last year Magic Moment completed it's 5 million cases. Morpheus did one million case, 1965 Premium Rum did one million case, 8PM Premium Black completed 3 million cases. Now all this put together has given Radico great strength across the retail and on-trade business over the last two years and we are getting the benefit of this on the luxury portfolio also that we have launched and that is the reason why Royal Ranthambore, Jaisalmer all of them continue to do well and we see a similar trend moving forward.

Abhnish Roy: One follow-up, so in terms of the last three years or five years whatever number you are comfortable to give, out of the Rs. 519

Crores, what would be the contribution of new products launch in either three years or five years out of this?

Dilip Banthiya: To summarize for three years or five years at this point of time, we were in our volume terms around 35% P&A now we stand 50% almost in volume, so it is a consistent growth in our existing flagship brands and then new brands. But new brands are still very, nascent like, these have been launched two to three years back only and there is lot of things to do for maturing these brands in many states. Both put together, it is a combination of our existing flagship brand as well as new launches.

Abhnish Roy: Last follow-up question, you said mostly the flagship brands are also growing very strongly, any particular states where these are stronger performance because why I am asking this is one when I see Pernod and UNSP both growth rates are much slower in terms of their P&A volume growth. Second, of course is there is a general consumption slowdown across almost every FMCG, apparel, paint, FMCG generally everything is slow only. Against that context, your flagship brand growing so strongly is a very good performance, could you give more color to it in terms of state wise anything there or why the market share gains are happening because clearly it seems market share gains rather than the industry growth rate being there?

Dilip Banthiya: I say that in general we are finding that P&A category and premium brands we are not seeing that slowdown particularly in our brand portfolio; however, the regular brands is slowing down and a strategic call also, there is some pressure which we have seen in last three quarters. In the coming quarter also, there will be some single digit decline in Y-o-Y basis last year. From next year onward, when course is correction done and we get the price increases also in certain states in the popular category, then we expect to grow in the range of 3% to 5%. I say that it is not one particular state or some of the states. Our presence is across India and P&A category, we are seeing the growth happening everywhere.

Abhnish Roy: Sure. Understood. Thanks a lot. That is all from my side.

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

Harit Kapoor: Good evening. If you look at the nine months in P&A, you have a 10% growth in realisation 9.5%, 10%. I just wanted to understand how much of this would be price and how much of this would be mix in your estimate?

Dilip Banthiya: In P&A, our delta is around 11%, 11.5% out of which 190 basis point is out of the price increases and rest is because of the product mix and premiumization.

Harit Kapoor: This high single digit kind of mix is sustainable?

Dilip Banthiya: It is a normalized state of affair because in these quarters you see that there is a decline in the popular category and there is a jump of 18%, 20% in the P&A category. In a normalized state of affair, 6% to 8% is comfortable; it should be the delta because of the product premiumization.

Harit Kapoor: I was just asking even in within P&A it is like a 10% growth and if I assume 2% is pricing that is about 700, 800-basis points, you think the 700, 800-basis points Dilip Ji is a sustainable one given that the last two, three years we actually all the product launches that we are doing are dramatically higher on a realization per case as compared to our average. Is that the correct way to think about it?

Dilip Banthiya: Yes, it is correct to think about it because now with most of the products which are launched is in the range of 2000 plus, so we see the traction that the delta is improving, realization per case is improving.

Harit Kapoor: Got it and on the popular side just one question, do you expect the bases would start to normalize more so from the second half of next year or you will start to see some of that flattening out of growth coming in from the early part of FY2025 as well?

Dilip Banthiya: In the Regular category, there is an industry issue and inflation-related issue where the margins are just squeezed out. This is also done consciously as a strategic decision. We have done away with certain sales, but we see that some price increase have happened, like defense has given some price increase in the popular category. Some of the market will further consider it and on a normalized state 3% to 5% kind of growth in popular category from next year onward, we can expect.

Harit Kapoor: Last thing was on the Royalty brand. This Royalty portfolio now should be fairly consistent right, because you have seen it now in terms of a Y-o-Y basis, the volumes are fairly similar to what they were in base quarters, so these are the expected numbers going forward. I assume that unless we have a major deflation where you want to take back some of these until then this should be a fairly consistent number to go with that?

Dilip Banthiya: Yes, of course the Royalty brands will continue to be in this base range of 0.8 to a million case per quarter and since it is a fixed remuneration we get, so it is a mix of that premium brands are around 50% to 55% and regular popular category brands are 40% to 45%, so this will continue to be in that range.

Harit Kapoor: Great. Those are my questions. Thank you so much and all the best.

Moderator: The next question is from the line of Parv Jain from Niveshaay Investment Advisory. Please go ahead.

Parv Jain: Congratulations on the good set of numbers, first question would be on the raw material inflation side. On a year-on-year basis as well as sequential basis, can you help me with some figures to understand how the inflations have been impacting us?

Dilip Banthiya: The inflation has been mainly on account of the broken rice which is our key raw material for making alcohol. The prices before the FCI discontinued the supply for ethanol manufacturers used to be in the range of Rs. 21,000 to 21,500 per tonne. Gradually, it has ramped from there to around Rs. 27,000 to 27,500 per tonne. However, governments have been taking proactive steps to contain these prices. Couple of weeks back maize has been allowed for the ethanol so some of the production capacity are going to be shifted from the broken rice to maize-based facility and another thing that the government has come out again to distribute the rice to the consumers by Bharat Rice scheme and export has also been contained. I see that the market forces will play and broken rice prices should correct from here so we could see some kind of correction by March end, but those actions definitely should bring something to softening the prices.

Parv Jain: We should see the prices topping out around the Q1 of FY2025 is that a fair assumption?

Dilip Banthiya: Topping out in Q4.

Parv Jain: Q4 this financial year?

Dilip Banthiya: Yes, RBI’s report has also said that for last three months consecutively, the rice is giving double digit inflation in their CPI, so these are cause of concern for government also.

Parv Jain: Okay that was helpful. My second question would be on the industry's broader outlook like we see the regular segment kind of facing a slowdown. How do you view that going forward and how is that going to play out; will this luxurious segment, the Prestige & Above will continue to give higher growth while the regular segment will start to kind of get matured and slowdown? What is your broader outlook on the industry?

Dilip Banthiya: First of all, for us in the last 15 to 16 years whatever we have launched, almost all the products have been launched in the P&A and above category, so our focus is that. Secondly, looking into the inflation and other things we as a national player have a lot of choices to serve the consumer but there are regional players which are regionally playing in one to two states, so they are focused there and when we will have the price increases we will again come back on only those states where there is a comfortable margin. So for us this is not the capital allocation and is based on the amount we make per case basis. Otherwise, we see certain rural markets and we also hear from other FMCG industry that there are some pressures in the mass brand every industry, every FMCG industry is talking about it. But for us the main business model is P&A and above.

Parv Jain: Thank you so much.

Moderator: The next question is from the line of Dhiraj Mistry from Antique Stock Broking Limited. Please go ahead.

Dhiraj Mistry: Thank you and congrats on very good set of numbers. My question is on non-IMFL business that we have seen significant jump, what kind of annual, quarterly run rate we can expect from this business, and also can you throw some light on what kind of gross margin and EBITDA margin we would be making on all non-IMFL business?

Dilip Banthiya: Our non-IMFL business because we have this facility of Sitapur which is up and running and from this quarter. Like Q3, it has been running almost at full capacity, alcohol sale has been there, also our country liquor volume has increased by 31% in this quarter on Y-on-Y basis, so combination of the alcohol sales as well as the country liquor increase, this has been a non-IMFL increase. Couple of by-product which we sell out of the distillery that is also forming part of that. But to the run rate it will remain in the range of Rs. 430 Crores to Rs. 450 Crores quarterly basis, but in due course of time as we have our branded business growth and 15% to 20% in P&A and others also growing in single digit, we will continue to consume the grain spirit captively as we said earlier also that in the three to four years' time, the consumption of the grain

ENA captively, so till the time it is a filler that we sell or export the ENA or the alcohol in the domestic market.

Dhiraj Mistry: On margin profile, can you comment what kind of margin?

Dilip Banthiya: Margin has squeezed because earlier when this was in Rs.9 to Rs.10 per liter, but because of the grain prices going up, the margin squeezed to Rs. 3.5 to Rs. 4.0 a liter and percentage terms the gross margin is in the range of 7.5% to 8% and EBITDA margin is around 5.5% on blended basis on the non-IMFL business.

Dhiraj Mistry: Thank you and second, I am assuming when there would be the price hike which we had last year for the overall portfolio, when it would be in coming quarters?

Dilip Banthiya: Price increases is a natural course and continuous phenomenon in our IMFL business. We continue to represent all the states with the cost push we have seen and the new policies which are coming from February - March, we are also optimist and hopeful some price increase may materialize in some of the states.

Dhiraj Mistry: Okay and last question. When do you expect that company would become a debt-free company that in this quarter we have already paid Rs.100 Crores of debt, what is your internal target to become debt-free company?

Dilip Banthiya: We are managing our working capital and capex very well. Almost most of the big capex have been done now and in two years' time, we will be almost on negligible debt with the kind of business model.

Dhiraj Mistry: Thank you. That is, it from my side.

Moderator: The next question is from the line of Karan Taurani from Elara Capital. Please go ahead.

Karan Taurani: Thanks for taking my question and congrats on a good quarter. The question was around the regular segment you mentioned that from next year onwards you will see growth and come back in certain markets because of a potential price hike, but as of now we have not seen any markets specifically giving any kind of price hike, so what is the confidence behind this come back in the regular volume?

Amar Sinha: If you look at the way prices have gone up, in the last one year you almost got 12 to 13 states which have been very receptive on price increase, and we also find that the states today are more receptive on the inflation that has happened in this business over the last few years. We see that our efforts on getting a price increase will pay back like it has paid in the last one year in the near future as well and the next one year should see softening of most prices and regular should come out better in terms of margins.

Dilip Banthiya: Secondly, the base effect had already played out in this year, so base effect is also because of every quarter there has been some negative decline in this segment. So next year with the price increase and the base is now coming on the rational level. Secondly, defense has given price increase we started supplying there, so we will see that 3% to 5% kind of growth is achievable.

Karan Taurani: How much of regular volumes would come from UP State, any broader numbers there?

Dilip Banthiya: I can give you a broad understanding of what UP market for us. We have around 28% market share across the industry right, so we are present everywhere, we are present in regular, we are present in premium, our Magic Moment Vodka is the largest selling vodka in UP. Verve vodka and the flavors are gaining momentum and 1965 rum which is also a very strong brand in UP. I say that Royal Ranthambore, Jaisalmer, it is a mix of all but to have a 28% market share itself is that we present everywhere and growing.

Karan Taurani: Right and as a focus or a vision statement from the company standpoint, do you believe that you can potentially reach towards two-third volume contribution as far as P&A is concerned given the kind of growth difference we are seeing in terms of P&A versus regular and is that a focus area right now or you believe that regular also there is still lot of demand and in the future there could be a comeback or you believe that P&A will continue to perform and probably it could be more than 60% of volume contribution going ahead?

Dilip Banthiya: P&A volume growth is systematic and consistently growing. This period we have seen an increase because of the fact that popular is degrowing and P&A is growing 20%, however, as a normalized state if we see 15% to 20% growth in our P&A and 3% to 5% growth in our regular category. On this current basis, we can see 50% to 55% and in three to five years, it can be 60% even in volume terms, but the point is I can’t comment three to five years like that because how the regular category with grain prices, ENA prices correct and we get price increases, we can also have the strong single digit growth in that, but still 55% to 60% you can assume in three to five years’ time, we will be achieving from the P&A category.

Karan Taurani: In that case possibly 80% of your revenues would come from P&A given the high realisation in that segment, is that a fair assumption?

Dilip Banthiya: The value growth will be much higher, because basically the brands which are coming and growing faster including new launches are in much higher category.

Karan Taurani: Just one last thing on the whisky category again right. There is a big gap between 8PM Black and Rampur that you have obviously the Royal Ranthambore is there, but any plans to launch something in that mid and upper Prestige segment which would probably compete with a Blenders Pride or Royal Stag category?

Amar Sinha: Let me say that Royal Ranthambore has really done well. This year we will do three times the volume we did last year. We have just launched 1999 Spirit of Victory Whisky which is at a Rs.5,000 a bottle price above that we have Rampur Single Malt, all of them put together are doing extremely well and we hope the same response coming for Spirit of Victory 1999, however, to specifically to answer to your question, we are looking at filling all the available opportunities in different segments of Premium whiskies in the times ahead and so obviously that answers the question, yes.

Karan Taurani: Got it. Thank you. That is, it from my side.

Moderator: The next question is from the line of Himanshu Shah from Dolat Capital. Please go ahead.

Himanshu Shah: Thanks for the opportunity; just couple of questions. Can you provide some color on what would be our current margin range on popular segment versus the P&A segment, some ballpark color within the IMFL space?

Dilip Banthiya: Our margin profile basically on the P&A which includes luxury also is a very different because it has a very wide range, so I can say the blended margin and IMFL business is between 15.5% to 16%.

Himanshu Shah: Wide range means would it be 800-1000 basis point difference or it would be…

Dilip Banthiya: It is 50 to 100x.

Himanshu Shah: Okay.

Dilip Banthiya: Because lot of things are common in nature, the point is allocation of these expenditure cannot be done on popular category and the manpower and so many administrative costs are common in nature so we cannot allocate that but as I said that we have a fairly good margin in our IMFL business.

Himanshu Shah: Yes, and secondly can you update few of the states have come up with their policies, so what kind of price increases those states have given if any and what kind of tax increases, we have seen in some of the states; few of the major states that have come out with the policy; can you help us?

Dilip Banthiya: The states which have given the price increases are weighted average bases in the range of 180-basis point to 185-basis point. The states include Telangana, Haryana, Assam, Maharashtra, Rajasthan, Delhi, Karnataka, Uttar Pradesh all these big states.

Himanshu Shah: This 185-basis point price increase for the next financial year that is FY2025?

Dilip Banthiya: This is for this financial year, the impact on a weighted average basis on my IMFL business is 185 to 190 bps.

Himanshu Shah: Yes, and the policies for next financial year I believe UP, Rajasthan those are the states that have come up with their policies, so what kind of price increases we have got on those states, if any?

Amar Sinha: The excise policies are in the process of being decided and published, right now Rajasthan has given a very nominal increase but as we mentioned earlier the association is in discussion with the state governments considering the inflation that exists and the governments are taking a very pragmatic and receptive view of the same. They have done it in the last one year and we hope that the new fiscal will also be fruitful as far as our effort of price increase is concerned.

Himanshu Shah: Great. Thank. That is very helpful. That is, it from my side.

Moderator: That was the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you.

Dilip Banthiya: Thanks for joining us. 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.

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

Note: This transcript has been edited to improve readability.

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