"Tilaknagar Industries Limited
Q1 FY24 Earnings Conference Call"
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MODERATOR: **MR. NIKUNJ JAIN – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY24 Earnings Conference Call of Tilaknagar Industries 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 after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Nikunj Jain from Orient Capital. Thank you and over to you, sir.

Nikunj Jain: Thank you, Carol. Good morning, ladies and gentlemen. I welcome you to discuss this quarter's business performance, we have from the management, Mr. Amit Dahanukar, Chairman and Managing Director, Mr. Abhinav Gupta, Chief Financial Officer and Mr. Ameya Deshpande, President - Strategy and Corporate Development.

So before we proceed with the call, I would like to mention that some of the statements made in today's call may be forward-looking in nature and may involve risk and uncertainty. For more details, kindly refer to the investor presentation and other filings that can be found on the company's website.

So without further ado, I would like to hand over the call to management for their opening comments and then we will open the floor for Q&A. Thank you and over to you, sir.

Amit Dahanukar: Good morning, everyone. I extend a warm welcome to all of you on our earnings conference call. First and foremost, I want to express my gratitude to each one of you for joining this call and for your continued support throughout our journey. Additionally, I extend a hearty welcome to those who are exploring our company for the first time.

For the benefit of those who are new to our company, our company was established by my great grandfather, Sri Mahadev L. Dahanukar in 1933, as Maharashtra Sugar Mills. The company was founded as a manufacturer of sugar and related products. Over time, we stopped the sugar business and for the past almost 50 years, have been manufacturing and selling IMFL brands in India and abroad. Our manufacturing footprint extends to 12 states through 20 units, 4 owned and 16 on contractual arrangements. We sell our products across 14 civil states within India along with sales to canteen stores department, paramilitary forces and international markets of Middle East, Africa and Southeast Asia.

We are a brandy first company with 90% of all our volumes coming from brandy. Brandy is the second largest spirits category in IMFL, only after whiskey and enjoys a 20%-plus volume share. Our flagship brand Mansion House Brandy is the largest selling brandy in India as per IWSR. It was also voted as the second fastest growing spirits brand and fastest growing brandy brand globally by Drinks International as a part of the Millionaire's Club 2023 publication.

FY23, also saw one of our other brandy brands, Courrier Napoleon Brandy, becoming a millionaire brand.

Both the brands grew 40%-plus in FY23 and have continued the momentum with similar growth in Quarter 1 FY24 as well. In terms of our way ahead, our turnaround journey is going very well. We have reduced our gross debt from a peak of almost INR1,200 crores in March 2019 to INR239 crores as of June 2023.

We have continuously increased our market share over the past few years, something which has been possible due to our sustained efforts on profitable growth and focus on cash flows. Lastly, before I hand over to my colleagues, I would like to speak a little bit about our marketing initiatives.

As I mentioned earlier, Brandy enjoys a 20% plus share of IMFL market, however its share of voice is very low in comparison to other IMFL categories. This stems from the fact there has been very little investments made by industry players in the Brandy category. Given our leadership position in Brandy, we have now taken up the mantle to change this and invest more in marketing and communication.

We have introduced our new proposition for Mansion House Brandy, “A Warm Welcome”, which is an earnest invitation to experience the exceptional. The communication can be accessed on our social media channels. Beyond the realm of product attributes, “A Warm Welcome” embodies the essence of human warmth, inclusivity, and connection. Our aim is to create well-defined category codes for brandy on the communication side, as well as continue our focus on innovations in brandy.

Our Flandy range, India's first premium-flavored brandy, being a case in point. Flandy was launched in FY23 in Telangana and Puducherry and we have received a very encouraging response from the trade and consumers. In June, we also launched Flandy in Andhra Pradesh and are now looking at launching in a few more states.

Another key initiative is the re-launch of our Blue Lagoon brand, an entry-level gin. The brand is undergoing a radical and disruptive renovation, which also includes the launch of a few more exciting flavors.

I now invite Ameya Deshpande, our President - Strategy and Corporate Development and Abhinav Gupta, our CFO, to share further insights on our Quarter 1 FY24 business performance and the company's future endeavors.

Ameya Deshpande: Thank you, Boss. Welcome, all, to the call. On the business front, we have grown our volumes for Quarter 1 by 42.4% at 25 lakh cases compared to 18 lakh cases in Q1 FY23. This growth has been led by both our millionaire brands, Mansion House Brandy and Courrier Napoleon Brandy. This growth in Q1 is on the back of high growth seen in FY23, in which we grew by 43% compared to the overall IMFL industry growing by around 12%.

We have consistently been increasing our market share over the past six years. What makes this even more interesting is that more than 80% of our volumes are in the Prestige and Above segment.

On the brandy strategy side, our aim is to make brandy more aspirational and youthful; and Flandy is a step in that direction. But Flandy is just the beginning in our innovation drive for brandy. We are currently working on some more innovations in the premium range and hope to showcase the same to you very soon.

This aim of making brandy more aspirational and youthful is especially important given that 10 million legal drinking age people get added in India every year. This segment of consumers is more experimental and seeking new and unique experiences and is not biased towards a particular category.

But while brandy will majorly contribute to our growth in the short to medium term, we are also looking at diversifying and increasing our share in other categories as well, all in the Prestige and Above segment. The strategy will hold us in good stead when it comes to regional diversification.

In order to help us in achieving our continuing strategic priorities of promoting brandy, achieving profitable growth in volumes and market share, and generating steady free cash flows, we had to ensure that we were adequately capitalized. And towards this, we have raised INR311 crores through three preferential issues in the last 18 months. The last of the balance amount to be received through conversion of warrants has now been received in Q1 FY24.

With that, I now invite Abhinav Gupta, our CFO, to give an update on the financial results for Q1 FY24. Abhinav, over to you.

Abhinav Gupta: Thank you, Ameya, and welcome everyone to our call. This quarter we have reported a net revenue of INR304 crores, which is a growth of 32% Y-o-Y. Our sales realization per case has also improved to around INR1,250 per case, as compared to around INR1,157 per case last year. This is on account of our premiumization strategy, our state mix as well as the recent price increase which we have got in the Telangana market.

Our EBITDA has grown by 77% Y-o-Y to INR38 crores from INR22 crores last year. Our gross debt as on June 30, is INR239 crores and our net debt is INR136 crores. Owing to the continuous reduction in debt, our interest costs have reduced from INR13.3 crores last year to INR6 crores in this quarter. We have been continuously reducing our debt and I am happy to share that currently we are in final stages of refinancing our EARC debt from a reputed private sector bank. The EARC terms had a bullet repayment of around INR150 crores as on March 31, 2024. This refinancing helps us in managing our cash flows in a better way and provides us entry into the regular banking channels.

With this, I would now like to open the call for Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-answer session. The first question is from the line of Abneesh Roy from Nuvama Institutional Equities. Please go ahead.

Abneesh Roy: Yeah, thanks. My first question is on the 20% share of the brandy in the overall market. In the last five years, how has been this 20% and for you, what will be the key states and how has been the market share in the last few years, given company has gone through a lot of transformation, restructuring of the debt and all this. If you could tell us how the market share has also moved in the key states, which are the key states?

Ameya Deshpande: Sure. So basically yes, like you mentioned currently, we are at around 20% of the brandy market in states excluding Tamil Nadu; including Tamil Nadu if you look at it, we are around 10% market share of brandy. This has been growing on a consistent basis over the past five years to six years. So basically, in FY23, while we closed at 20%, FY ’22 itself was around 18%. So we gained about 200 basis points in the last 12 months itself.

When you look at this from a five year perspective, this has grown from around 14% to 15% to 20% growth. As a percentage of IMFL as well, if you look at the same states, we used to be around 2%-odd as of FY17, which as it stands in FY23, we are a 4.3% holder.

Abneesh Roy: My second question is on the other parts of the spirits market, IMFL market. So what is your thought process on say, whiskey and vodka, because we are seeing good growth there also. So what will be your medium long term strategy on these segments?

Amit Dahanukar: So Abneesh, I think the short to medium term strategy does revolve around consolidating our position as leaders in the brandy category. As we had mentioned in our earlier remarks, there are some innovations which have already been introduced and some further more introductions are planned in the near future. So we would certainly look at strengthening our position in the brandy space in the short to medium term.

But certainly medium to longer term I think, there would be opportunities which we would be willing to explore outside the brandy space also. In my opening remarks I also did talk about Blue Lagoon Gin which is an entry level gin which we have a disruptive packaging now in place and it is just being rolled out across a few eastern – northeastern geographies as we speak.

Abneesh Roy: And last question essentially in terms of the disruptive which you mentioned on the gin in terms of packaging, if you could elaborate. And second, what would be the key raw materials for you and what is the trend in terms of FY24 on these two key raw materials?

Amit Dahanukar: So, on the packaging, it would be difficult for me to really mention on the call. I think visually if you can, the investor presentation is up, you can perhaps have some visual slide over there as for the brand's appeal. And as far as the commodity prices go, I think Ameya will take a stab at that.

Ameya Deshpande: Yeah. So, Abneesh, basically two key raw materials for us. Like for any other Alcobel player out there, any other spirits player out there. So, ENA and glass; so essentially when you look at our cost of goods sold, they usually are anywhere between 50% to 55%-56% of net revenues. A great part of this is between Glass and ENA itself.

In terms of, I believe your question was around what is our expectation on the commodities. Yeah, so see, it is a volatile scenario right now. While we did see a little bit of softening that was happening on the commodity side. Unfortunately, see, ENA is something which is quite volatile right now. So with the entire FCI situation and all of that. So for the extreme short term, say, till

September, October, we do see some pressure on that side. Having said that, on the glass front, we are seeing some softening which is happening. We have seen Soda Ash prices coming down and that will surely have some impact, some positive impact for us.

Abneesh Roy: So, a quick follow-up on this, on the glass, because the supply demand mismatch is there. The expectation is that by till Q4, no big correction will happen. And second on ENA, you did elaborate a bit, but could you talk about how difficult is the supply given there has been some embargo in terms of initially rice, broken rice not being used, etcetera. So, how difficult is the supply and currently the numbers in terms of ENA, how much will it be higher versus the average of Q1, some insights?

Ameya Deshpande: So see for the moment we are seeing it at somewhere around 0.7%, to 0.8% that is what we are looking at around INR2 to INR3 rupees per litre of ENA that's the impact that we seem to be seeing right now, but obviously still early days right on that one. In terms of the glass cost, obviously, it's not going to be commensurate to the – the reduction is not going to be commensurate to the increase that we saw.

So last year we saw an increase at the beginning of the financial year. We again saw it in the mid of the financial year around October, November. So, there were some significant price increases over there. As of now, whatever little softening that we have seen will have a positive impact compared to Q4. But having said that, yes, they are not back to Q1 levels.

Abneesh Roy: And this INR2 to INR3 on ENA is on what base you are saying, this increases on what base?

Amit Dahanukar: So, this would be around INR67 odd, INR65 to INR67.

Abneesh Roy: Okay, thanks. That's all from me. Thank you.

Moderator: Thank you. The next question is from the line of Harsh from Reliance Securities. Please go ahead.

Harsh: Hello, sir. Sir, I would like to understand the competitive intensity within the market and how we are focusing on protecting our market shares?

Amit Dahanukar: So, the competitive intensity, of course, is there as it would be in any FMCG category. But as I had mentioned now, we also have an aggressive digital campaign which we have launched with a 360 degree of communication strategy which is in place across all touch points. We, being the leaders in the brandy, I think we are in a pole position. We are in a very strong position. I think the onus is now up to us to grow this category and the share of voice which has historically been very low for this brandy category, we really want to take this forward and therein lies the opportunity for us.

Harsh: Okay, and sir what are we doing to protect our market share?

Amit Dahanukar: So our market shares, as Ameya also has elaborated earlier, they have grown steadily over the past couple of quarters. We're seeing good traction, good momentum in our brands. I see that even in the next coming quarters, this should continue.

Harsh: Okay.

Amit Dahanukar: Essentially, to protect the market share, I think our communication touch points, which I mentioned about earlier, I think that will only strengthen it. I think both the brands which we have in the brandy space, Mansion House Brandy and Courrier Napoleon Brandy, they're iconic brands. So, the idea is to further strengthen and consolidate them for them to go from strength-to-strength.

Harsh: Okay, sir. So thank you.

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

Harsh: Yeah, thanks for the opportunity and congratulations Mr. Amit and team on great turnaround over past couple of years. And just to start with, if you could give us broad state-wise revenue mix, what are the new territories that we have entered or planning to enter and do we see getting a breakthrough in Tamil Nadu market in near term?

Ameya Deshpande: Hi, Harsh. So, Harsh, the thing is that we don't give specific state level breakups but having said that given that we are a brandy first company almost 90% of our volumes come from brandy, it's quite obvious that as of now South India is a predominant contributor to our volumes, so South India contributes around 85% of all our volumes.

Harsh: Right.

Ameya Deshpande: But within that, won't get into details of each state as such, but in terms of the larger states, obviously, Telangana, Karnataka, Kerala, Andhra, these are the large states for us. Tamil Nadu is one where we are still, we haven't really pushed the ante on that one completely. We do operate in Tamil Nadu but that is on a royalty model as of now.

Harsh: Right, also if you could you know just throw some light on pricing scenario in these markets. I think we got one hike in Telangana recently. So do we expect to receive any further hikes in any of our markets? And what could be our gross margin trajectory over the next few quarters?

Ameya Deshpande: Sure, sure. So see, you rightly mentioned that Telangana, we have received a price hike. So that if I'm to just quantify it, would be somewhere around INR18 to INR20 on a blended basis per case. In terms of the other states, see, Kerala, as of now, no price increases that we are seeing. However, in December, we had the turnover tax, which was removed so that in a way had a positive impact without giving us a price increase it kind of increased our contributions with the turnover tax going away. In terms of the other states like let's say Karnataka frankly no price hike it's a free market from pricing perspective so as a brand owner it is our call to be taken but we don't see anything changing over there as of now.

In terms of our margins, frankly see margins are also dependent upon the state mix and the brand mix to a great extent. So, fair to assume that at the current stage, you should be expecting somewhat similar margins. We have closed this quarter at 50% margins, but please bear in mind that this is also an account of state and brand mix.

So you can take anywhere between what you've seen over the past couple of quarters, that would be the kind of margin that you would be looking; increase that for the INR20 -- INR18 to INR20 per case that I've spoken about for Telangana, that would be the kind of range that you should look at from a margin perspective.

Harsh: Right, and specifically, if I may say, brandy has generally been considered as a grandfather's drink, right? We have launched very interesting products like flavored brandy and all. So what kind of response are we getting to our innovation portfolio? And have we been able to draw a younger audience? And any specific marketing initiatives that you may want to highlight?

Amit Dahanukar: So yes, the flavored brandy or what we are calling it as Flandy, that is a recent product innovation which we had just launched last year. We started with two markets of Puducherry and Telangana and the response has certainly been encouraging. There is a good amount of repeat business which is coming in and of course we don't expect an overnight change. These will be sustained efforts over a period of time but certainly we believe as a company we are taking the steps in the right direction to appeal to or rather aspire to attract a younger group of consumers.

And plus, it is at a premium to Mansion House. So also it's blending in with our premiumization strategy of launching products at higher price points. And it's an option for the existing Mansion House consumers also to try. So currently those very early days, we do see some customers coming in from flavored category where there are some customers are the Mansion House customers also who occasionally like to try Flandy.

Ameya Deshpande: And just to add to that Harsh, bear in mind that Flandy currently is present in Pondicherry and Telangana, and we had the benefit of a product like Flandy coming into our portfolio for half a year. This will be the first FY24 will be the first year in terms of full impact.

Harsh: And we are the only ones in this specific product category?

Amit Dahanukar: Yes, we are the only ones in Asia, I believe in this particular product category.

Harsh: Right, right. And in recent times, Amit, we have done a lot of hiring at senior level, you know, can you please throw some light on that, wanted to understand what our key focus area over near and long term.

Amit Dahanukar: So the hiring essentially, you know, has not only I think the senior management is perhaps more visible because that's what has been communicated in our investor presentations, etcetera, but the team building exercise has been going on for a long time now. It's almost three, four years. Gradually we've built on our team as we moved away from a company which was undergoing stress, undergoing restructuring, and towards a company which is now oriented towards looking at growth going forward. You know, the set of people which we needed also changed.

And I think we've been fortunate enough to bring those specialists on board with us now, and I think they have been part of the journey and instrumental in bringing the results which we have been seeing over the past few quarters. So across senior management, we have professionals having industry expertise, having domain expertise, having functional expertise, and that is only added value to the company. And we'll continue to look out and evaluate fresh talent to meet our aspirations over the next three to five years. So we are in the midst of the team building process.

Harsh: Right and just one strategic question you know Amit over say last 10 to 15 years it has been quite a journey you know from super growth to no growth and then you know turn around over past two three years so maybe if you could you know help us understand what were your key learnings from the phase that the company went through and how do we see things going forward?

Amit Dahanukar: So I think the key learning for me as a promoter, CEO, I think the earlier growth, the super growth which you mentioned that was on back of leverage, I think it was leveraged growth but unfortunately there were a couple of things in succession which went wrong, which resulted in stress and then subsequently the company accounts becoming NPA with the banks. Then of course there was the restructuring exercise and then the capital which we have raised over the past two years, I think now I think our growth, as you would also be seeing it, based on internal cash flow and equity infusion. So as we have grown, last year the growth was around 40% and even this first quarter revenue growth has been somewhere in that range of 40%. The leverage has come down along with that. So the growth has not come with leverage. I think the growth has happened and consequently we have also de-levered the company.

The gross debt and net debt numbers have come down quarter on quarter, and which has resulted in the finance costs also going down. So this is helping us free up our cash flows to invest more behind working capital, more invest behind our business. So I think the key learning probably would be there, you know, that the leverage part just went out of control. And I think now we are moving towards an era where we would be near net debt free. I think that's the guidance which I have given in the past also, say over the next four to six quarters, we would like to be near net debt free. Net debt free, net debt zero.

Harsh: Good to hear that, congratulations once again, and I'll come back in queue for the follow up.

Moderator: Thank you. The next question is from the line of Chintan Mehta from Lloyds. Please go ahead.

Chintan Mehta: Hi, sir. First of all, congratulations to the whole team for the very good setup and strong numbers. Your presentation highlights all the key aspects what we require. Sir, one of the statements you have made is that NSR has increased to 1,249, that's almost a INR100 higher, and you attributed to state, price and the brand mix. We want to understand, I don't know whether it will be the right platform to ask, but say next three years, when we say go you know, we go ahead, the state price and the brand mix will obviously change.

We want to understand that what will be the paramount factor which will lead to further improving NSR going ahead, whether it will be more of a state mix change, whether it will be price or whether it will be a brand mix change. And second question being, sir, you know, saying that 1,249 is our average realization, which already signifies that we are selling more of a super premium product. Want to understand at what super premium prices sweet spot for brandy pricing bid comes to. I'm looking on a three years perspective, say for example, when you say thousand and above is super premium, say next three years, what could be the sweet spot in terms of pricing for super premium going ahead?

Ameya Deshpande: Yeah, so, Chirag, Ameya here. So see, the thing is that the price is a, what plays a big role in this entire thing is also the state mix like you mentioned now in terms of what is the sweet spot for pricing of brandy. See currently brandy you're looking at the right price point currently but what needs to be looked at over here is that we are still not in the super premium, or rather we don't have that big a contribution from super premium brandy brands.

Mansion House Brandy is anywhere in the semi-premium to premium segment. So that obviously, and the price of Mansion House Brandy has a big bearing or is the key determinant of our NSR as well given the fact that it is almost 80% of our volumes. As we go ahead, see Whiskey, unlike Whiskey, Brandy has got only some 4 segments as such pricing segments. You will have your super premium, you will have your premium, semi premium, deluxe and the regular or cheap kind of segment.

Unlike say something like a whiskey where you will have certain price segments which come in between as well. Now our entire thrust from an innovation perspective on the brandy front is to keep creating categories within these; within that premium or semi premium range going up to super premium and that is where you will see some kind of Incremental NSR growth that will come in for us.

That is not going to be the only thing obviously because there will be at some point in time for the price increases that will happen. The state mix will change but surely brand mix will also play a very important role very difficult to quantify how much will be what but but we are at a good space right now in terms of our NSR that's what I could say

Chintan Mehta: Right, So I want to understand that from say directionally, according to the management what could be the key levels which we are banking more on our overall value creation in terms of say, products, so whether it is new product or the states, let us rule out the prices for time being. So when you say that the brand mix or the state, what will be the more in terms of categorizing to say, near term or a longer term? So will it play a more pivotal role, sir?

Amit Dahanukar: So it will be both brands and also in terms of state, I think it will be a function of the price increases which we are able to drive, say, over the next three years. And the new product introductions which we have in terms of our portfolio, for example, Flandy is premium to Mansion House. If we sell more of Flandy, obviously, it is going to have a positive impact on our NSR. So, I think over the next three years, I think that would be our outlook.

Chintan Mehta: Okay, understood. And the last question, sir, you have somewhere mentioned that now the debt has been resected and there is an equity infusion as well. Now, when we see the latest quarter, we have INR6 crores of interest cost and INR176 crores gross debt, which translates into 13.6 kind of interest cost per annum. So I want to understand that whether any scope of further interest reduction or rate reduction is on the anvil, not bearing that we will repay debt and I am just trying to understand the interest covenants, whether there is a rate reduction possible in the going future due to improvement of profitability obviously and the cash and equity coming in. So there could be some better bargaining rates for us in the anvil?

Abhinav Gupta: Yeah, so Chintan, if you see our finance cost has been continuously coming down and last year it was INR40 crores and we are estimating that between INR25 crores to INR27 crores it should be this year. Now since the debt is continuously coming down definitely the finance cost is going to be coming down going forward in future also.

Secondly, we are not going to do any leveraged expansion or which is on anvil. As of now whatever refinancing we had to do for EARC debt, that has been in advanced stages and very soon we will close it out. So since we are not expecting any leverage growth going forward, we are hopeful that as the rating of the company increases, in fact one of the next points for us is to get a credit rating for the company after the seed financing is done. So that will also help in reducing our finance costs further down. So both these things in tandem, debt coming down and the interest cost also as a result of good rating coming down to further drive down the finance costs.

Chintan Mehta: Super, understood. Thanks, that's it from my side. I'll be back in the queue if I have questions. Thanks a lot.

Moderator: Thank you. The next question is from the line of Simar from Negen Capital Services. Please go ahead.

Simar: Yeah, thank you. Hi. Good afternoon, everyone. So my first question is, so brandy is just contributing highest amongst your product portfolio in terms of volumes, but how much does it contribute in terms of value? And to extend upon my question, can you provide a break-up of your product portfolio in the three segments in terms of both value and volume?

Ameya Deshpande: So Simar, see, in terms of value, it does contribute more than 80% because we have our entire brandy portfolio is P&A to a great extent, or rather the non-brandy would be in that lower prestige kind of or popular kind of segment right so thereby most of our around 85%-plus of our revenues would be in the in the brandy side in terms of volumes.

After brandy, our significant contributors are rum. Rum is our second largest category through Madiraa which is our popular rum. Followed by whiskey and now gin to pick up very soon.

Simar: Got it. So what is your blended capacity utilization across the four manufacturing units?

Ameya Deshpande: So we are at a near full capacity at two of our units. So that is Prag, which is at Andhra and Vahni, which is at Karnataka. I can just give those numbers as well. So, Vahni is somewhere around 6 lakh cases per annum. Sorry, Prag is around 6 lakh cases per annum and Vahni would be somewhere around 7 lakh to 8 lakh cases per annum. Shrirampur would be approximately 50% or rather 40% with our own bottling and a further through any tie-ups that we could have. And PunjabExpo is frankly, not as well utilized as it could be. It is used predominantly for our CSD business.

Simar: Okay, so how much do you think your revenues can contribute to defence, exports and domestic?

Ameya Deshpande: So, defence contributes approximately 7%, 7% to 8% of our total volumes. The rest is civil.

Simar: One last question if I can squeeze-in. So, the top three states contributing the revenue and what would be the breakup for that? The reason I'm asking you is Karnataka recently did a duty hike. What would be the impact on your business?

Ameya Deshpande: See, firstly on the first part of your question, what would be the breakup of our top three states, unfortunately Simar, that's something that we don't provide. But just to take the second one, in terms of the impact of Karnataka duty hike. Currently, very early to say. It's just been a couple of weeks. I think we'll have more clarity as time goes by. Obviously, in the short term, there could be some, there will be some impact on volumes, but then it comes down to under trading or rather people moving down or moving up, but right now too early to speak about this.

Simar: All right sir, thank you for you to interacting with us and I hope to see which of interactions and like going forward.

Ameya Deshpande: For sure, Simar.

Moderator: Thank you. The next question is from the line of Addhyayan from Arihant. Please go ahead.

Addhyayan: Thank you for taking my question. I just wanted to know what are your refinancing costs? And also another question, how much volume growth are you expecting this year?

Amit Dahanukar: So the refinancing cost will be at 13% and the growth projected for this year will be in the mid-teens.

Addhyayan: Okay, thank you sir.

Moderator: Thank you. The next question is from the line of Rushil from Pioneer Wealth Management. Please go ahead.

Rushil: Yes sir, my question is -- first of all congratulations for the great number. My question is, what is the working capital days are we targeting in the future?

Ameya Deshpande: Yes, sure. So in terms of working capital days, Rushil, we are looking at somewhere around 43 days odd on gross sales perspective, on gross revenues perspective. That is what our net working capital days is. Frankly, if you ask me, if the question is, is that going to improve significantly? I would say that, we are at an optimum level, when it comes to our net working capital days, it's in line with our peers as well. So I wouldn't say anything beyond that. We are at a comfortable position right now.

Rushil: So currently like, we are having a short-term debt also. Am I just understanding is that, we are saying that, we'll be the net debt in FY 25? I just wanted to understand, what will trigger the cash flow more that for working capital also, we might not require the money and we'll be the net debt fee?

Ameya Deshpande: So the thing is, if I could just get some clarity from your end. The short term debt that you're talking about, what debt are you speaking about? That would be just the current maturities if you look at the balance sheet, that would just be the current maturities and a great part of that would be the EARC term loan itself. Now the moment, we actually end up doing the refinancing, one of the reasons for also doing the refinancing is that, it provides us with certain flexibility in terms of our cash flow management. As you know, as it stands, INR176 crores is a balance of EARC debt as of 30th June. This would be repayable over a nine-month perspective. So the moment, we get this refinanced, obviously our cash flows do get a bit more easier to manage. Having said that, we wouldn't have faced any issues, but since, we are in this situation, in this better situation, yes, we are able to manage our cash flows better this way.

Abhinav Gupta: It provides you an entry into regular banking channels also. And if you see the sort of EBITDAs, we are generating over a couple of years, this INR176 crores of EARC debt, it's easily, we would be most probably be prepaying the debt. We have got a higher tenor debt, which we have got through refinancing, but hopefully we will be able to sort of prepay a quite a bit of that. And secondly, we will not be refinancing the entire, as of now, the entire INR176 crores. We already have a good cash position. So the refinance amount will be lower than INR176 crores here.

Rushil: Okay, sir. And sir, the last question is that, related on the working capital, sir, can you give us the ballpark number, what can be the working capital in terms of, percentage of net sales or gross sales?

Ameya Deshpande: So that's what we mentioned? The net working capital, we'll mention it in terms of days, would be around 43 days of gross revenue.

Rushil: Okay, sir. Thank you, sir.

Moderator: Thank you. The next question is from the line of Sunny Gosar from MK Ventures. Please go ahead.

Sunny Gosar: Yes, thanks for taking my question and congratulations on a fantastic turnaround over the last few years and a strong performance in the last few years.

Moderator: Mr. Gosar, I'm so sorry to interrupt. May I please request you to speak a bit louder?

Sunny Gosar: Yes, congratulations on a fantastic set of numbers and the turnaround over the last few years. I have a couple of questions. So first is that, we have in the last two years seen a very strong growth in the brandy category and gain market share. So in the existing markets, how much further scope do you see to gain market share and outgrow the industry? And till when do you think that, we'll be able to continue this momentum of outperforming the industry? And once this growth level stabilize to say more normalized levels are in line with the brandy category, where do we see the new growth drivers coming from?

Amit Dahanukar: So Sunny, I would like to respond. We know, when we look at the brandy category, at least the way we view it is not brandy industry as whole. When we're looking at our business, we view across price point. So, while Mansion House maybe at say INR200 in particular market, that brandy category over there might be limited, but we look at, when our addressable market is there, we look at across price point and one level below and one level above. So, that is addressable market to us in terms of, our marketing and sales and distribution strategy.

So, it's not only the brandy category, which we're looking at. We would, of course, like to cannibalize from other segments and other price points also. As I had mentioned earlier also that, initially the short to medium term strategy would revolve around brandy and gin. As the company's position, financial position becomes stronger, we have much stronger operating cash flows and free cash flows that would allow us to invest behind other emerging categories also.

Sunny Gosar: Sure, that's quite detailed. And in terms of growing the brandy category in non-Southern states, so what's your outlook there and do you see that, this can potentially be a large market say, somewhere in North India, where brandy penetration is virtually negligible and are we taking any efforts towards that?

Amit Dahanukar: So we have taken initial efforts, to move beyond South, immediately it was East and Northeast and Sikkim is one such market in December of last year. I believe, we were the largest selling brand over there, more than whiskey also. Of course, December might be seasonal, but it certainly goes to show the strength of the brand that in a state like Sikkim, Mansion House was the number one selling brand across categories.

So again, early days, it will take time. Regarding North and the West, it would be early days. There's a lot more to be done within the Southern geographies itself, and then East and Northeast would be other markets to focus on in the short term.

Ameya Deshpande: And Sunny, just to add to that, what is really important over here is product diversification as well.

When you look at newer regions, it kind of becomes a little important to also expand your basket of products that you go out with. And that is where the entire thought process of Blue Lagoon also comes in. We've launched it in Northeast, just very, very recently and soon to expand into more. So the more options that you provide as a part of a basket, it helps more because it kind of feeds into the demand for brandy as well. Because whatever said and done, South is the major region for brandy for it to be seeded into a newer region, you will need to provide some more options as a part of your basket.

Sunny Gosar: Right. And as you see growth in say, new brand, new states, I believe your marketing spend will have to go up. So if you can give some context in terms of, what is your current A&SP spend as a percentage of revenue and say over the next one years to two years, what's the budget in terms or outlook in terms of percentage of A&SP spend as a percentage of revenue basically?

Amit Dahanukar: So Sunny, A&SP spends will definitely increase going forward in this current financial year and also the next. The company's approach was very conservative earlier on, since we were going through consolidation phase. But as we have moved from consolidation to growth, A&SP spends will definitely start increasing as we invest behind the category. Just recently, we have launched a digital campaign. In fact, our proposition for the Mansion House brand, "The Warm Welcome" is now out and it's live.

For Mansion House, the proposition is "The Warm Welcome" and for Flandy, it is "Welcome The Now". So, as we start setting the category codes for Brandy, which is our endeavor as a Brandy first company, we will see the A&SP spends increase over the next quarters. And also new products like Blue Lagoon Gin, they are also the products which we will be investing behind, so A&SP spends will increase.

Sunny Gosar: Sure. And that's broadly needed from a branded FMCG kind of a company, but do you have any particular percentage in mind in terms of a budget or as of now, this is still under evolution?

Amit Dahanukar: So Sunny, see it is still under evolution. We do know a sweet spot at our end. Unfortunately, too early for us to speak about it. But having said that, one needs to consider when we look at A&SP reinvestment rates. There are two very key factors to it. One is the kind of states that you're operating in. Where marketing is allowed, not allowed. And secondly, also the kind of category that you are in.

The level of hyper intensity that something in terms of marketing spends, like that a category like whiskey requires is much different than what a brandy will require. So that also needs to be taken into consideration. Unfortunately, not in a position to quantify, what these reinvestment rates are on the A&SP side, but in terms of a trajectory, yes, they will increase from where we stand today.

Sunny Gosar: Sure. And if I may, I would like to squeeze in one last question. So you mentioned about premiumization of the portfolio. So currently more than 80%- 85% of the portfolio is in the P&A category. So if you can give some context in terms of the brandy category, are there sizable volumes that happens at a price point, which is above Mansion House and like say, in a whiskey category, we have something like a Single malt or a Blended malt. Is there scope to premiumize the brandy category on those lines and is the company thinking anything about it?

Amit Dahanukar: So Sunny, certainly the company is thinking in that direction. It would be premature to make specific comments regarding particular brands, which we may have in the pipeline, but two things, which I could mention, which are already out in public domain, that is Flandy, which is at a 25% premium to Mansion House, and similarly, we had launched a premium variant of Mansion House in Tamil Nadu as well. Mansion House Reserve, which is at a 25% premium price point.

So we are making strides in that direction. Premiumization is not an overnight event, it's a long-term journey and we have made the initial steps in that direction, which can be evidenced through the fact that, the NSR also has steadily increased quarter on quarter.

Sunny Gosar: Great, great. Thank you for all the detailed answers and all the best for the future.

Moderator: Thank you. The next question is from the line of Harshal Mehta from ICICI Securities. Please go ahead.

Harshal Mehta: Hi, sir. Sir, of this 80 million cases market, 85 million cases market, what would be our addressable market and at what pace it is going and maybe what is our market share in that?

Amit Dahanukar: So, the addressable market, I think, out of that 80 million which you have mentioned is around 40 million to 45 million and that has been growing in maybe below double digit, lower teens.

Harshal Mehta: And so our market share will be roughly like 25%?

Ameya Deshpande: Yeah. So, we are a 20% market share holder in the Brandy segment – in the Brandy category without Tamil Nadu. With Tamil Nadu we are 10%, but just to give a basic idea of the markets that we are present in are 5-6 key markets in the South excluding Tamil Nadu, actually Brandy has shown some decent growth.

Obviously, we've had a pretty big role to play in that overall category growth, but Brandy actually grew around 20% in FY23 on an annual basis in the key states of Telangana, Karnataka, Kerala, Andhra, Puducherry, as compared to overall IMFL growth of around 10.5% or 11% in those states.

Harshal Mehta: Coming back to your debt levels, it has come down quite a bit from March levels. So, now with this kind of a growth, I mean, since we expected to go to nil like in March 25. So, will it like relatively remain at similar levels and then probably move down next year. I mean, given the kind of growth what we are expecting in this and probably the…

Abhinav Gupta: So, I think the net debt level will be below INR100 crores, that is what we feel in this financial year and then it will move to sort of net debt free by next year.

Harshal Mehta: Sure, sir and sir what are the major line items in your other expenses, are there any scope of improvement in those?

Ameya Deshpande: So, see the major line items in the other expenses would be something like contractual bottling fees that we have you'll have freight outwards which is also there you'll have selling and distribution expenses, so on and so forth.

In terms of any improvements again that's a function of the state mix as well that we have because there are different contractual bottling rates that exist across different units, which obviously are across states and so on and so forth, similarly from a selling and distribution perspective so on and so forth.

So, it is -- so that is where it is. I mean, frankly, not in a position to say whether this is going to improve significantly or no. There is a certain part of fixed cost also, which gets captured in other expenses. So, as volumes grow, you will see the benefit of operating leverage coming out over there. But yeah, nothing more to add, no real guidance in terms of how this could move.

Harshal Mehta: And sir on the non-brandy part of our portfolio, so is it like a strategic focus to grow in that area and could like acquisition of some brands, could that be planned in those areas or that are not of like currently of strategic concern for us?

Amit Dahanukar: So, we don't have anything specific to share at the moment, but we would always be alive to any opportunities for growth and for expansion beyond our categories and geographies, but nothing specific at the moment.

Ameya Deshpande: And in terms of further growth as Mr. Dahanukar mentioned earlier as well yes obviously we are looking at other categories, but the fruits of those efforts will be seen over time. It's not something which is going happen overnight.

So, I think for the next, in the very short term, Brandy is going to drive a great part of our visible growth as such because obviously while the other categories will grow, they will grow on a lower base. So, from an overall company perspective, you may not see as much contribution coming out of them in terms of volume growth. But yeah, the intent and the vision is there to expand beyond brandy.

Harshal Mehta: And sir your capex position…

Moderator: Mr. Mehta, I'm so sorry to interrupt. May I please request you to rejoin the queue for your follow up as we have people waiting for their turn.

Harshal Mehta: Sure, sure.

Moderator: Thank you. The next question is from the line of Arpit Shah from Stallion Asset Management. Please go ahead.

Arpit Shah: Hi management. Congratulations on a very good turnaround for the last couple of years. This is one of my first calls attending the company. I have a little more than two questions for the management. So, what kind of volume are we targeting for FY'24 and let's say three years beyond that? Should I list down all my questions first or should I go one by one?

Ameya Deshpande: I don't think we'll be able to answer all your questions because we've --if it is more than two, I think we'll take two. So, if this is one of the important ones that you want to cover, I can take it right away.

Arpit Shah: Yeah, so the volume growth target for FY'24 and three years beyond that?

Ameya Deshpande: So see, for FY24, we are looking at mid-teens kind of growth. Going forward, we are looking at double-digit growth. It would be in that early double digit to mid-teen kind of growth in terms of volume for the next couple of years post that.

Arpit Shah: No, the volume growth, let's say, we are assuming Q1 to be, let's say, 20% of volumes and we have done around 25 lakh cases and last yearcases were 96 lakh cases. So, don't you think the volume it will be typically higher than that mid-teen's number?

Ameya Deshpande: So yeah, if you ask me to specify in terms of range, then it will be in that 15% to 18% range. You are right in terms of the saliency. But kindly note that Q1 has been extremely strong this time around as compared to last year's Q1 where there were some industry wide issues that were also there. So, that's why the super normal growth that you are seeing in Q1.

Arpit Shah: What kind of margins are you targeting? Can we get back to a historical, let us say, 14%, any difference on the margins?

Ameya Deshpande: Margin terms, I think for this year you are looking anywhere between 13%, 14% for FY24. Going further, obviously the intent is to expand on those, but let's just take it one step at a time for the moment.

Arpit Shah: Got it. And one is last I think how many years we have that we don't have to pay taxes, how many years?

Ameya Deshpande: So, FY24, for all practical purposes, will not have any incidence of tax. But FY25 onwards, I think it's fair to assume tax coming back.

Arpit Shah: What kind of tax losses we have on the books?

Ameya Deshpande: We have, just one sec. How much accumulated loss do we -- you meant accumulated loss on the books?

Arpit Shah: Yes, how much can we use for our tax losses?

Abhinav Gupta: Around INR160 crores is still left to be used. So, that would basically take care of this year. As Ameya said, no tax incidence this year. But next year, definitely we will come into that bracket.

Moderator: Mr. Shah, I'm so sorry to interrupt. May I please request you to rejoin the queue for your follow-up?

Ameya Deshpande: Also, if we could just take the last question.

Moderator: Sure, sir. The next question is the last question for today. It's from the line of Bhavik Shah, an Individual Investor. Please go ahead.

Bhavik Shah: Yes, congratulations on good performance. Sir, my first question is, what is our annual capex requirement and how we see our capex outlay over the next two years to three years?

Ameya Deshpande: Yeah, so the capex for this year, the normal capex for this year would be somewhere around INR25 Cr for FY24. That would be the normal capex. We have a grain distillery as well in Shrirampur, which is non-operational as of now. We are working around some scenarios where we could look at getting the grain distillery recommissioned as such.

So, there would be certain level of capex which would be required for that. It's a 100 KLPD distillery that we have. A thumb rule for a Greenfield project would be one crores per KLPD in terms of capex, we will be at a significant discount to that, more than 50% discount to that level of capex. That would be for this year and next year you could assume a similar normal capex of around INR25 Cr.

Bhavik Shah: Okay, understood. And sir what kind of export opportunities do we have in our brandy segment and our brands and is there any plans like planning to look at the export market?

Amit Dahanukar: Yes, export will be one of the avenues you know for growth going forward. Currently it is quite limited to some countries in Africa and Middle East, but going forward that's one area which we certainly look at developing. As our products get more premium and we have a wider range, I think there would be more interesting opportunities for us on the exports front also.

Bhavik Shah: Okay, so in this year we can expect some portion of exports from that right?

Amit Dahanukar: The exports in the absolute number is growing, there's no doubt about that, but it's a small percentage compared to the overall sales which we have.

Bhavik Shah: Okay, okay and sir my last question is what is the plan for an investment in Samsara gin company?

Amit Dahanukar: So, I think the Samsara investment is in line with our strategy to at some point of time move beyond brandy category also. It's a beverage which is very attractive to the millennial and younger generation. I think the gin revolution has been happening and it was a young brand doing very well, which prompted us to make this investment in Samsara.

At this point it's the fastest growing craft gin in India. They have again an industry-first innovation in terms of their pink gin which has been very well accepted and how we want to take this partnership of collaboration forward I think we would always be open to opportunities, but there is nothing specific at this point which we would like to disclose.

Bhavik Shah: Okay, okay, sir I got it. Thank you so much for answering all the questions and all the best.

Moderator: Thank you. In the interest of time, that was the last question. I would now like to hand the conference over to Mr. Ameya Deshpande for closing comments. Thank you and over to you.

Ameya Deshpande: Thank you so much. Thank you everyone for coming on to this call. It's been a great pleasure interacting with all of you all and needless to say, we'll keep interacting going forward as well. Look forward to seeing you all on the second quarter call as well. Thank you so much.

Moderator: Thank you. On behalf of Tilaknagar Industries Limited, we conclude today's conference. Thank you for joining. You may now disconnect your lines.