



“Tilaknagar Industries Limited
Q2 FY '24 Earnings Conference Call”
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MANAGEMENT: **MR. AMIT DAHANUKAR – CHAIRMAN AND MANAGING DIRECTOR – TILAKNAGAR INDUSTRIES LIMITED**
MR. ABHINAV GUPTA – CHIEF FINANCIAL OFFICER – TILAKNAGAR INDUSTRIES LIMITED
MR. AMEYA DESHPANDE – PRESIDENT - STRATEGY AND CORPORATE DEVELOPMENT – TILAKNAGAR INDUSTRIES LIMITED

MODERATOR: **MR. HIMANSHU NAYYAR – SYSTEMATIX INSTITUTIONAL EQUITIES**



Moderator: Ladies and gentlemen, good day, and welcome to Q2 FY'24 Earnings Conference Call of Tilaknagar Industries Limited, hosted by Systematix Institutional Equities.

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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Himanshu Nayyar from Systematix Institutional Equities. Thank you, and over to you.

Himanshu: Thanks, Yashashri. Good morning, everyone. I would welcome all participants on behalf of Systematix Institutional Equities team and would like to thank the management of Tilaknagar Industries for giving us the opportunity to host them. We have with us Mr. Amit Dahanukar, Chairman and Managing Director, Mr. Abhinav Gupta, CFO, and Mr. Ameya Deshpande, President-Strategy and Corporate Development.

The company has delivered another strong quarter with volume growth well ahead of industry and improvement in both realizations and margins. Would request the management to start with some opening remarks, and then we'll take questions. Over to you, sir.

Amit Dahanukar: Good morning, everyone. Thank you for joining us on quarter two and H1 FY 2024 results Earnings Conference Call. We continued in Q2 where we left off in Q1 of FY 2024. Our volumes grew 17% year-on-year and 13% quarter-on-quarter. Mansion House Brandy, our flagship brand has now crossed four million cases in H1 FY 2024. Volumes over the past 30 months have doubled with a volume of 5.5 million cases in FY'21 to 9.6 million cases in FY'23.

Flandy our premium-flavored brandy range has been receiving a positive response in its first year of launch. It currently sells at 5% of the flagship Mansion House brand in the relevant markets. Over the past few years, brandy P&A has been one of the fastest-growing P&A category; growth primarily driven by Mansion House Brandy ("MHB"). Despite this industry beating growth, we believe there is still significant headroom left for further growth. MHB is the largest selling brandy in India and second largest selling brandy in the world. It is also the second fastest-growing Alcobev brand globally as per The Millionaires' Club 2023 report by Drinks International.

TI's Mansion House Brandy has been gaining market share across most regions it is present in. For H1 FY'24, TI moved up one spot to become the fourth largest IMFL player in Telangana. Flandy became the third largest brandy brand in the state with Mansion House retaining its numero uno position. TI not only maintained its leadership in Puducherry but also increased its market share in the state by a whopping 900 basis points to 28% from 19% last year.

On the marketing front, our new proposition for Mansion House, "A Warm Welcome", which was launched in Q1, is seeing great traction, not only on ground, but also on digital assets. Our YouTube campaigns have now garnered more than 20 million views. Our focus on brandy as a category will continue with at least one premium launch in Q3 FY'24.



Before I hand over to my colleagues, I would like to reinforce that TI continues to be committed to giving brandy, which is the second largest IMFL category in India, the share of voice it deserves. We will continue with our strong innovation pipeline in brandy and premiumization strategy and expand our existing portfolio with high-quality premium spirits that would make the world take notice.

I now hand over the call to our President of Strategy and Corporate Development for a detailed financial review. Over to you, Ameya.

Ameya Deshpande:

Thank you, Boss. Welcome all to the call.

As Mr. Dahanukar mentioned, our volumes grew by 17% in Q2 and 28% in H1'24. Our Q2 volumes are the highest quarterly volumes since FY'15, despite Q2 historically being the third strongest quarter, only after Q3 and Q4.

Our NSR increased to INR1,273 per case for Q2 FY'24, an 8% growth Y-o-Y, leading to Net Revenue increase to INR354 crores and growth of 29% for the quarter. This increase in NSR is on account of a steady mix of price increases, brand and state mix.

While there was no new price increase received in this quarter, Q2 was the first quarter with full quarter impact of price increase received in Q1 in the state of Telangana.

Our P&A volume mix continued to be strong with approximately 80% saliency of total volumes.

Our EBITDA increased 51% year-on-year in Q2 to INR47.4 crores. The EBITDA for H1 stood at INR85.8 crores. That is a more than 60% growth. EBITDA margins also increased almost two percentage points to 13.4% compared to 11.4% a year back. This increase in margins is on account of price increases as well as operating leverage coming into play. Also, margin expansion was despite the inflationary headwinds plaguing the industry, especially on the ENA side.

In fact, on a Y-o-Y basis, our A&SP spend as a percentage of net revenue increased by almost 90 basis points or by almost INR4 crores in absolute terms. Otherwise, our EBITDA margin and absolute EBITDA would have been higher.

I'm also glad to share that we completed the refinancing of the Edelweiss ARC debt, wherein we prepaid INR176 crores to settle all outstandings to EARC. This was refinanced with a fresh term loan from Kotak Bank of INR130 crores and the balance being paid out through existing cash reserves. The Kotak loan has a maturity period of four years and provides us with immediate flexibility in managing cash flows, enabling investment in brand building.

As of September 2023, our net debt stood at INR141 crores, and it has come down almost INR350 crores over the past 30 months. There has been an increase of around INR5 crores over the last quarter. This was predominantly on account of additional working capital investment in the business on account of excise duty hike in Karnataka as well as expansion in receivables cycle in Telangana, both key states for us. However, we continue to expect to be near net debt-free by March 2025.



To conclude with the opening remarks; overall, we are seeing good growth in our established brands, MHB and CNB. Our recent brands, especially Flandy, continues to grow market share at a rapid pace and is meeting its purpose of making brandy more aspirational and youthful. To add to that, our financial position is strong, and we continue to generate good amounts of cash flows, which can be reinvested for profitable growth. With that, I would now like to open the call for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have a first question from the line of Himanshu Shah from Dolat Capital...

Himanshu Shah: Hello.

Moderator: Yes, Mr. Shah, we can hear you. Please go ahead.

Himanshu Shah: Congratulations for a great set of numbers. Just a couple of questions. The first is a book-keeping question. Despite healthy volume growth and price increase, full quarter flow-through of price increase. Gross margins have been down on a quarter-on-quarter basis, almost by 160 basis points. So anything specific over here? Basically, is this on account of increase in ENA prices? And if you can provide the outlook on ENA prices, like what has been the increase quarter-on-quarter basis in ENA prices and the exit quarter ENA prices? This is the first question.

Ameya Deshpande: Sure. So Himanshu will take it a question at a time. But yes, you're right in terms of the impact on our gross margins has been predominantly on account of ENA prices. So ENA, if you look at it from an exit perspective for Q1 or rather on a blended basis in Q1 was around 67 per liter, which closed on a blended basis at 69 per liter in Q2. However, the exit rate was actually 70., So, there has been a steady increase in ENA prices. In terms of providing any kind of guidance on ENA prices, see it is a volatile situation currently, right. So, even as we speak, the prices have increased a further INR1 per litre in the current month.

So, that is on the increase. However, we do hope that this will kind of turn by December, by the new harvest and all of that. And then we should be looking at again Q1, Q2 levels over the next quarter or so.

Himanshu Shah: And the exit rate you mentioned is 77 per litre versus full quarter average of 70 per litre?

Ameya Deshpande: No, no, I said 71.

Himanshu Shah: 71. Okay. Okay. Fine sir. This is very, very helpful.

Amit Dahanukar: We will also have to wait and see the impact of the reduction in GST on molasses, which has taken place, which now stands at 5% compared to 28% what it was earlier. That impact also we will know possibly in this quarter.

Himanshu Shah: But GST probably wasn't getting levied, if I'm not mistaken. At least on grain-based ENA, states were not levying GST. So, would there be any specific benefit?

Ameya Deshpande: No, no. So, this is specifically for molasses itself. So, procurement of molasses had a GST of 28% earlier, which has now been reduced to 5%. Obviously, molasses ENA becomes more

relevant in the states of Maharashtra and Karnataka. Obviously, UP being another state where it does, but not relevant for us. So, Maharashtra, Karnataka, there could be an impact, but difficult to quantify as of now.

Himanshu Shah: And just in continuation of that, what would be our mix consumption in terms of grain-based ENA versus molasses-based ENA?

Ameya Deshpande: We don't actually provide that information, but that's fairly fungible, closer, higher on the grain side.

Himanshu Shah: That's very helpful. The second question is, overall brandy market size, if you can provide some color, I presume it's around 80 million cases, predominantly in the southern India. But if you can correct me if I'm wrong, and what would be the mix of P&A within that for the industry?

Ameya Deshpande: Sure, Himanshu. So, yes, you're right. In FY'23, the brandy industry was around 85 million cases. We have seen a slight growth currently in H1. It is at almost 45 million cases as we speak. However, I think when you look at brandy, you have to look at it from a P&A perspective.

So, P&A within the brandy segment occupies around 34% of the saliency as of FY'23. This has increased to around 34.5% in the first half. Within the overall construct of IMFL, brandy P&A is actually one of the fastest growing P&A categories. So, if I'm to look at it from a three-year CAGR perspective, brandy P&A actually has grown at 13% CAGR as compared to 8% for the overall P&A IMFL.

Himanshu Shah: This is very, very helpful. This is the rough calculation. Our market share in brandy P&A should be around 37%, 38% to 40% range?

Ameya Deshpande: No. Brandy P&A, if I'm only looking at MHB, it will be around 27% of brandy P&A.

Himanshu Shah: In opening remarks, I believe we mentioned that of the total volumes, 80% saliency is from P&A. And 85%, 86% of our volumes, closer to 90% comes from brandy. So, I was using that number?

Ameya Deshpande: Yes. So, essentially if you look at it, 80% P&A would be predominantly given that Mansion House itself occupies 80% of our total volumes. Most of the 80% is Mansion House itself. So, it's safe to assume that as a percentage of Prestige & Above P&A, or rather Prestige & Above brandy, we are around 27% to 28%.

Himanshu Shah: Okay. And can I have one more last question?

Ameya Deshpande: Sure.

Himanshu Shah: So, with respect to upcoming elections in Telangana, are we expecting any kind of, we have not been able to go through the parties' manifesto or anything, but is there any green flags or red flags with respect to Alcobev as an industry for Telangana market? This is first. And secondly, I think so licenses have been up for renewal. So, is there any increase, decrease in the number of shops in Telangana? If you can provide color on this too. And this would be the last question.

- Amit Dahanukar:** So, in terms of future outlook in Telangana, nothing has come to our notice. In terms of the shop licenses, what you mentioned, they will go through the normal renewal in November end. And they should start operating in the first week of December.
- Himanshu Shah:** Okay. Sure, sir. That's it from my side. Thank you.
- Moderator:** Thank you. We have a next question from the line of Chintan Mehta from Lloyd LLP. Please go ahead.
- Chintan Mehta:** Okay. So, I will congratulate management for the excellent numbers. I have two questions. One regarding on a generic basis. Sir, we have reported a fantastic volume growth, I mean kind of 28% volume growth for this half year versus last half year. I want to understand that, is it possible to dissect this particular growth number into a generic growth number versus, I mean, generic growth numbers in the same brand, same state's growth, what will be that number and what share of growth we are taking from a new product in a new state? That's number one part of my question.
- And second is that we have seen some softening in our cash in it from our operations and predominantly because of working capital. So, it would be great if you can highlight that particular thing for us? That's two questions from my side.
- Ameya Deshpande:** Sure. So, the thing is that we don't get into too much of region-wise segregation of volumes. We don't disclose that level of data. Having said that, all regions for us have actually grown at a similar level. Obviously, state by state, it does differ. So, that is something that you have to take into consideration. But we actually don't get into that level of detailing as such. Our significantly profitable states of Telangana, Karnataka, Pondicherry have been growing extremely well. That is the level of comfort or detailing that I can get into right now.
- With regards to your second bit of the question, yes, you are right. There has been an increase and I believe you are coming to this from an increase of net debt level as well of around INR5 crores. So, that has been predominantly on account of working capital investment.
- Around INR43 or more than INR40 crores has gone into working capital. Now, if I was to just give you further colour on why INR40 crores and how did that INR40 crores actually come up, you would know that in recent times around July, there was an increase in excise duty in our key state of Karnataka.
- So, that is where a good amount of additional working capital has gone. Approximately INR8-odd crores has gone over there. Along with that, we have also had a slight increase in receivables cycle in the state of Telangana. It is a short-term impact. However, that has led to a further increase in working capital.
- Abhinav Gupta:** If you see, the number of days has increased from around 43 to 49 and predominantly as Ameya said, by Karnataka and Telangana. We are hopeful that in Telangana things may smoothen out a bit. But for Q3, we would stick to a guidance of 47 to 48 days. In this quarter, it is currently around 47 days.

Chintan Mehta: All right. Thanks for taking liberty to ask a follow-up on what we asked. My first question, you said we don't give details state-wise. My question involves the same product growth as well. What could be that? I am trying to understand that what could be the -- the whole reason of me asking is that what could be the sustainable number in terms of volume growth?

So whatever we are not -- we have an existing branch and we keep on launching the new branch and tract to launching the new variant, right. So we're not understand that what is the secular growth in your existing branch versus what could be the growth because of the new launches? I want to dissect that for a modelling purpose and try to understand your take on this?

Amit Dahanukar: I think it is a good question. I will share my perspective on it. If you see a Q2 on Q2 I think, what Ameya also mentioned in his opening remarks, it is the first time the company has actually been active in terms of marketing and advertising. We have had an additional spend of close to INR4 crores in Q2.

We have been very active on digital platforms as well as on-ground activations. This is the first time that not only the company but Brandy as a category being communicated. This is the first time it is happening. So I do believe this is something which is led to this growth and I do see with our sustained activities and campaigns, this growth will continue in the immediate quarters as well.

Chintan Mehta: Okay. Thanks. Thanks for that.

Amit Dahanukar: Thank you.

Chintan Mehta: That's it from my side.

Moderator: Thank you. We have a next question from the line of Harsh from HDFC Securities. Please go ahead.

Harsh: Thank you for the opportunity and congratulations to Amit and the entire team of Tilaknagar for these results. Just a following up on questions asked by previous participants. There have been multiple news articles on very strong demand for liquor in Telangana in lieu of elections. I wanted to understand the sustainability of volume growth and how were we seeing things on ground? So that's one. And secondly additionally post price hike in Telangana, there may be steep difference in prices between Andhra and Telangana which may have led to lot of cross-border smuggling. So are we anticipating a similar price hike in Andhra as well?

Amit Dahanukar: So I think, in terms of the elections I think we have not seeing the industry has grown marginally but nothing really more than that and between Andhra and Telangana, the price difference is not much. So I'll really not be able to a comment on your proposition.

Harsh: Understood. Secondly, I wanted to get any update on the Shirampur distillery operations with regards to capex and commercialization?

Ameya Deshpande: Harsh, we are yet in the midst of making a decision on that. There is no update that we have on this call with regards to the potential capex that could come up over there. But like I had

mentioned earlier is well, the potential capex if and when it does come up just for the benefit of others would be around INR40 to 45 CR for the distillery. It is a 100 KLPD distillery.

- Harsh:** Right. So there is no tentative timeline to it? Right.
- Ameya Deshpande:** No, Harsh. Not yet.
- Moderator:** Thank you. We have a next question from the line of Anushka Chitnis from Arihant Capital Markets. Please go ahead.
- Anushka Chitnis:** Thank you so much for giving me the opportunity. I just wanted to ask a few questions. One being that since you have entered into the states in the North-East, how is the response in those markets and what is your strategy if you want to enter any new geographies?
- Amit Dahanukar:** In the North-East, we have just introduced impacted its a very early introduction off course. Mansion House Brandy has been the leading brandy in the North-East in fact. In a few months for example, in Sikkim, it is the largest single largest selling brand in Sikkim. Whereas the other geographies are concern we have a recent launch Blue Lagoon Gin. Its very early days ready to make any specific guidance in terms of the numbers or the progress right now. I think we have not even achieved the width of distribution which we intend. So it will be quite premature to make any comment on that.
- Anushka Chitnis:** What is your response for the non-brandy portfolio?
- Ameya Deshpande:** The thing is that for the moment we have guided this earlier as well, 8or the next year and a half, two years, our focus is very much on brandy and to keep expanding our market share within brandy itself.
- Having said that, along with that, yes, there are developments which are taking place in the non-brandy portfolio. You have seen the refresh of Blue Lagoon which frankly is not a play so much on gin, but rather a play on white spirits and flavoured spirits, which are seeing significant growth in the industry today.
- But I think you will start seeing the fruits of all these developments from a non-brandy perspective, let's say, three-odd years forward. That is when you will start seeing some incremental eye-popping results coming out of that. For the next couple of years, it's brandy which is going to be leading the – paving the way for us in terms of growth.
- Anushka Chitnis:** Okay. Thank you. Do you have any launches in its new plan? Any new product developments?
- Amit Dahanukar:** To follow-up on what Ameya has said, we reiterate our position as a brandy-first company. That's our strength and that's our focus and as I mentioned earlier also now, we are channelizing significant amount of resources in terms of communicating the proposition which we have for brandy. That said, we do have a new launch which will be happening in Q3 of FY 2024 and we'll keep you updated about the same. It remains in the brandy space and it will be premium to Mansion House.

Moderator: Thank you. We have our next question from the line of Pankaj Kumar from Kotak Securities. Please go ahead.

Pankaj Kumar: Thanks for taking my questions, sir. And congratulations on a very good set of numbers. Sir, my question pertains to more on the industry side, particularly for brandy in the IMFL category. As you stated in the last three years, this brandy category has grown at 13% CAGR versus 8% P&A. So how do you see next three years for the brandy category given this white spirit is also now getting a lot of demand and all those? So given in this current scenario, how do you see brandy as a segment for next three years?

Ameya Deshpande: I think whatever developments that are happening in brandy currently are happening on the P&A side. And obviously we are paving the way over there. We are more than 1/4 of the market or rather the industry on the P&A brandy side, right? So we drive most of the growth that's happening.

Having said that, I think across categories, we are seeing tremendous developments happening on P&A. In terms of growth, I think you're obviously not looking at the kinds of growth that you've seen in the past, right? These will mellow down to some extent. From an industry perspective, you're looking at single-digit growth, right, for the next few years. Brandy P&A, given that it will be driven by us predominantly, you should be looking at somewhere in the higher single to lower double digits, right? With our guidance being in the mid-teens kind of growth.

Pankaj Kumar: My second question is more on the long-term margins. Given your gross margins at 49% average that we've seen in the first half, and 80% is a P&A for you, so what are the levers for improvement in the gross margin in the next two years, three years?

Ameya Deshpande: From a gross margin perspective, I think a couple of things over there. First, at some point, the ENA prices, I think, will halt from the monthly increase that we have seen. I think that is one part of it.

The other part, which is more specific to us, is the fact that Flandy, as a product or as a brand, has only started picking up pace. As Mr. Dahanukar mentioned, 5% of overall MHB saliency in the relevant states in which it has been launched. You will see Flandy picking up in volumes as a share as well, which will lead to an increase in gross margins because it is a more premium product and therefore more profitable.

Along with that, as Mr. Dahanukar also mentioned right now, in response to the earlier question, we are coming out with a new brand in this quarter, which is, again, at a premium to Mansion House. So you should be looking at certain levels of incremental margin expansion that does happen from here. Quantification becomes that much more difficult, given the volatile times that we are in, in terms of commodity prices.

But, yes, I think even going below gross margins, if you look at EBITDA margins, EBITDA margins is surely something that we should see some improvement on, given operating leverage coming into play as well, over there.



- Pankaj Kumar:** Okay. And, sir, last question, if I may. So that is on accumulated losses that you have. So, given that accumulated losses, we have zero taxes in this quarter. So for how many quarters that we can see zero taxes continue?
- Abhinav Gupta:** So, from next year, we are expecting that we will be paying taxes. So this year would perhaps be the last year wherein we are availing tax.
- Ameya Deshpande:** And from your modeling perspective, it would be safe to assume Q1 onwards, Q1 of FY '25 onwards.
- Pankaj Kumar:** Okay. Thank you, sir. Thank you.
- Moderator:** Thank you. We'll take the next question from the line of Marcel, an individual investor. Please go ahead.
- Marcel:** My first question is regarding this Punjab Expo wherein we have like taken in terms of INR100 crores. So where do we sit on this one? Are we going to revive it or if you're not going to revive it, then are we going to just sell it at a salvage value? And the land is whether this particular land is lease hold or the freehold land?
- Abhinav Gupta:** No. So Prag is -- I think you were mentioning about Prag Distillery?
- Marcel:** No, no. Actually, I'm mentioning about both, Punjab Expo and Prag.
- Abhinav Gupta:** So you see these units, they are of strategic importance to us. Punjab, if I take first, it is present in North India and at some point of time, we do propose to enter North Indian markets. Ultimately, as we see, the growth of the company can come from more brands, new brands as well as the geographical diversification.
- So that is a strategic unit from North Indian market entry perspective. Regarding Prag, it is present in AP, Andhra Pradesh and it is very much a unit which we have the license and recently it has come out of NCLT also. So we are doing production at almost full capacity in Prag and we will continue to do it in future as well.
- Marcel:** So this is like Punjab Expo, this land is freehold or the leasehold?
- Amit Dahanukar:** Freehold.
- Marcel:** Freehold, okay. And the second thing regarding this income tax, you mentioned that like till Q1 of next year, like there won't be any tax liabilities. So what is our unabsorbed income tax, carry forward losses, as of 30 September 2023, income tax?
- Abhinav Gupta:** We have unabsorbed depreciation of around INR120-odd crores. So we will be utilizing that in this financial year. So from next year onwards, you should assume full tax payment.
- Marcel:** And the carry forward losses?
- Abhinav Gupta:** They have already been utilized.

Marcel: Okay. And my last question sir, like regarding this like our dominance in the brandy, but just like humble submission, because if we are going to restrict ourselves on brandy, so a point will come like when the market will saturate. Because the younger generation and so on, they are not much on the brandies, like more on the cold weather side or the army kind of thing. Like where do you -- more so, what's your strategy, like to launch other alcoholic products? Number one.

And number two, which new state we want to launch in the Q3 and Q4? And how is the response in the state which we launched in the recent past?

Ameya Deshpande: Yes, so see, just coming to brandy first right. Now, you rightly said that brandy is a predominantly southern India kind of a play. However, I think what one needs to look at from an IMFL industry perspective is that South India actually contributes more than 50% of the volumes of Indian IMFL. You add to that the institutional side of the business of CSD and PMF, where also brandy gets sold pretty well. You are looking at more than 60% of the overall industry which is being catered to by us as such.

Now, with respect to why focus on brandy for the next year and a half to 2 years is that see, there is still a long way to go. I earlier mentioned that Brandy P&A is the fastest growing P&A category within IMFL. But one more thing that we need to consider over here is that Brandy P&A takes only 34% share of overall Brandy. You compare this to another category like let's say, Whiskey. Whiskey has got a 54% or rather a 55% saliency of P&A within overall Whiskey itself. Vodka is more than 60%. 60% of Vodka is actually Vodka P&A.

So, we still see a great amount of headroom from a premiumization perspective within brandy as a category. And we are strong at brandy. We are the kings of brandy. There's no denying that. And we just want to make ample use of the position that we are in to build brandy as a category.

Marcel: And so, like, what is this P&A? I didn't follow this one.

Ameya Deshpande: Prestige and Above. It is the premium side of the industry.

Marcel: Okay. Got it. So, in the similar range, we should also focus on rum because in the P&A in the army -- rum is also consumed very large scale. So are we have this rum product or not? Or are we trying to not rum?

Ameya Deshpande: We do have a rum product. It's a brand called Madira, which is pretty famous within the CSD as well as in Kerala as well. So we do have a rum product, but yes, I think it comes down to what are the extremely strong at, and brandy obviously is that category...

Amit Dahanukar: So I just like to add to what Ameya was saying to summarize is that based on brandy portfolio in the past 30 months, we have doubled volumes, and we're seeing the momentum continue. So I'm not seeing any clear -- why we should do anything too much different at this stage. When in 30 months, we've been able to clearly demonstrate that we have doubled our volumes.

Marcel: And what's the market share in the brandy, currently? And what you got to target, say, by the end of next financial year, for example?



- Amit Dahanukar:** So I think we have already addressed this question. I think if something remains, you can write to us directly, we will respond to you.
- Marcel:** Okay. Thank you.
- Moderator:** Thank you. We have our next question from the line of Karan Sanwal from Niveshaay. Please go ahead.
- Karan Sanwal:** Thank you for the opportunity and congratulations on good set of numbers. I wanted to understand, how is the response of the Flandy that we have launched in the last year? And if you could share the future contribution of the Flandy segment and the margins that we could expect from the same?
- Ameya Deshpande:** Sure. So margins, we will not get into. That is a level of detailing on a brand-wise basis that we don't get into. But needless to say, it is a high contributing and high-margin product, given the premiumized level at which it stands. With regards to how is it done, as Mr. Dhanukar mentioned earlier on the call as well, we have already achieved 5% of MHB saliency, Mansion House Brandy saliency, which is a pretty good number given the fact that this brand has been launched only around 12-odd months back. And given the sheer scale of Mansion House brandy, the base itself is pretty huge.
- So from that perspective, it has done extremely well. Like we mentioned earlier, in the state of Telangana, Flandy is the number three brandy today, in less than 12 months to have achieved that status. I think it's pretty incredible. I think we also need to consider the fact that Flandy is a first of its kind innovation within the industry. Never has India seen a flavored brandy come out of its stable as such. And we are extremely proud of this innovation. We are actually, just to give you a sense of how well it is doing, you should be seeing a couple more flavors coming out of this portfolio as well very soon.
- Abhinav Gupta:** And at retail level, just to give you a sense, Flandy would be at 20% to 25% premium to the Mansion House price.
- Karan Sanwal:** Right. And also, another question, like we have as a promoter group, we have diluted our equity to raise preferential issues. So any other, any preferential issue we are expecting in the recent time? Or we are done with that proportion?
- Amit Dahanukar:** So we have raised adequate capital, I do not see any immediate need to raise further capital.
- Karan Sanwal:** Right. So we would be comfortable managing our working capital with the facilities that we have, right now?
- Abhinav Gupta:** Yes.
- Karan Sanwal:** Okay, that's great. And also regarding, we have reduced our pledged promoter shares from around 60%, 70% to around 20%, 25%. So, I just want to understand, like which thing have we pledged against and can we expect this to come down further?



- Amit Dahanukar:** So I have given guidance earlier that in this, within this financial year, we should be able to reduce the promoter pledge to zero.
- Karan Sanwal:** Okay. And also one last question. I think a previous participant also asked, but we have marked a good increase in EBITDA margins in this, in this quarter. And congratulations for that. But would that level be sustainable or can we expect some further increase in that EBITDA margin level on a consolidated basis?
- Ameya Deshpande:** Yes, you should be looking at further expansion in EBITDA margins.
- Karan Sanwal:** Any range that you could give or how?
- Ameya Deshpande:** See, we'll stick to our guidance. So FY '24, we will close between 13% to 14%. That's the guidance which has been given earlier as well. We, as of H1'24, are at 13%. So you should see this increasing to some extent for the rest of the year. And for next year, you're looking at anywhere between 14% to 14.5%.
- Karan Sanwal:** Okay, that's good. Thank you so much and all the very best for the coming year.
- Moderator:** Thank you. We'll take our next question from the line of Himanshu Nayyar from Systematix Institutional Equities. Please go ahead.
- Himanshu Nayyar:** Thanks. Sir, I had two questions. Firstly, talking about premiumization in brandy. So after the new premium launch that we are talking about that we will do in the third quarter, do you see, I mean, have you identified more gaps in the space and at higher price points, maybe which you can look to target in the next two years to three years to increase the share of P&A in brandy, which has been lagging relative to whiskey, for example?
- Ameya Deshpande:** No, so actually a brilliant point, Himanshu that you brought out. That is exactly the strategy with which we go about introducing new brands. So if you have to look at, just take an example, right? Let's take the example of a state like Karnataka. If you look at Karnataka whiskey market, you will have around 10 to 12 different price segments within whiskey itself. However, when you start comparing that to, let's say, a brandy, brandy will have anywhere between five to six best case, right? In certain states, it may even be just four price segments that are there.
- So that is exactly what we are trying to do with our premiumization ladder over here, whereby we are actually trying to find need gaps in terms of where can we slot in products or brands, okay, at a relevant price point where it doesn't exist today. And that is exactly what this new brand is going to be. It is going to be put in a price point which doesn't exist to a great extent in brandy.
- You will see sister peers in terms of whiskey and all, but not so much in brandy. So that is the entire strategy going forward for us.
- Himanshu Nayyar:** Got it, got it. And one more point, I mean, we have talked a lot about our strategy and numbers, etcetera. But I believe we've also beefed up our management bandwidth quite a bit, which has obviously been driving this execution of the strategy. So if you guys can share some details on

the senior hirings that we have done, especially in the last couple of years, with a view to strengthen our mid and top management, basically?

Amit Dahanukar: So yes, that's an interesting point, which you have made. I think that's a process which is continuous. But yes, the senior management now we have adequately staffed with the domain expertise and the talent bandwidth now has significantly improved in the company, which has been one of the primary reasons I feel we have been able to execute the strategy.

Over the last two years, three years, I think that's been quite evident and that's gone a long way in helping us execute our vision.

Himanshu Nayyar: And we are confident of retaining this talent via enough incentive, etcetera, right?

Amit Dahanukar: So I feel in terms of the compensation, we are on par with the industry, the best in the industry. There's no doubt about that. We also do have a very attractive ESOP policy, which is working very well currently. So senior management and mid-level management have adequate ESOPs. So I believe that will keep them engaged with the future of the company and the company's prospects.

Himanshu Nayyar: Got it. That's all from me. Thanks. Thanks and all the best to you.

Moderator: Thank you. We have a next question from the line of Varun Mishra, an individual investor. Please go ahead.

Varun Mishra: Congratulations for a good set of numbers. Firstly, my question was, as you've seen, there's an increase in VAT as far as Maharashtra state is concerned. So like quarter 3 being the one of the strongest quarters. So could we see an increase in the revenue in this quarter, like the preceding quarter?

Ameya Deshpande: You're referring to Maharashtra?

Varun Mishra: Yes. To Maharashtra.

Ameya Deshpande: So see, Maharashtra is a very small state for us in terms of saliency. It's actually in low single digits. So it's not going to be meaningful for us.

Varun Mishra: Okay. So like, it won't be, like there won't be any revenue divers from Maharashtra, the major one of?

Ameya Deshpande: No.

Varun Mishra: Okay. And do you have any plans to get into like ethanol in the future or any non-alcoholic segments?

Amit Dahanukar: Not right now. We will keep you all updated if there's any significant material development.

Varun Mishra: Okay. Thanks. Thank you. That's all.



- Moderator:** Thank you. We have our next question from the line of Nakul Joshi, an individual investor. Please go ahead.
- Nakul Joshi:** Thank you so much for the opportunity and a big congratulation for a very good set of numbers. So I have a couple of questions. Starting with the UK Free Trade Agreement and wanted to know that how is it progressing and what impact it could have on the company's revenues? And also, do you see any particular downside or any red flags in our domestic dominance because of the same?
- Ameya Deshpande:** So, see, UK FTA doesn't impact us significantly given the fact that we are a predominantly brandy player, right. This would be more an impact for whiskey players, but not so much for us.
- Nakul Joshi:** Understood. And does it open up more export opportunities for us?
- Ameya Deshpande:** No, I think it, I wouldn't comment on that.
- Nakul Joshi:** No problem. And the second question was about the, in terms of raw material and bottling costs, where do you see the same going? It's more operational efficiency possible over here?
- Ameya Deshpande:** So see, raw materials, frankly, very difficult to put a handle on that, right. I mean, ENA prices are what they are. They are at, I think, a pretty elevated level as it stands, but we do believe that at some point this will pause and potentially come down as well. So there could be some margin drivers over there. With regards to bottling charges and all, I think we are pretty well optimized right now. So we don't expect any further optimization coming out from on that side.
- Nakul Joshi:** Understood. That's it from my side.
- Moderator:** Thank you. Ladies and gentlemen, in interest of time, that would be the last question for today. I now hand the conference over to the management for closing comments. Over to you, sir.
- Amit Dahanukar:** So thank you all for your participation on this call. If there are any individual queries, we are free to address it. I think to summarize, we continue on building our brandy portfolio. As a brandy-first company, I think our endeavor will remain to grow the brandy category. We don't particularly view it in terms of category, in terms of what Ameya also has mentioned. It's more price point strategy, which we have.
- So we are competing with whiskey at particular price points, and our endeavor will be to try and see whether there's some migration from other flavors. For example, Flandy, which we spoke about earlier, it's being viewed rather than being viewed as a flavored brandy, it's being viewed as a flavored spirit.
- So we have some more innovations in the pipeline. I think exciting times ahead for the company. I think we've been able to have significant growth over the past two years. I think the balance sheet is now well capitalized and well-engineered, and we can leverage well from this position to deliver better results in the coming quarters.
- Moderator:** Thank you, sir. On behalf of Systematix Institutional Equities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.