"Tilaknagar Industries Limited
Q3 FY '24 Earnings Conference Call"
February 13, 2024

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. NIKUNJ JAIN - ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Q3 and 9 Months 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 now hand the conference over to Mr. Nikunj Jain from Orient Capital. Thank you and over to you.

Nikunj Jain: Thank you, Viren. Good morning, ladies and gentlemen. I welcome you to the Q3 and 9 months FY24 earnings conference call of Tilaknagar Industries Limited.

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. Before we proceed with this 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 findings that can be found on the company's website.

Without further ado, I would like to hand over the call to the 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. Thank you for joining us on our Q3 FY24 Results Earnings Conference call. At the outset, I would like to address the recent disclosure made by the company about the income tax search.

This was a routine search conducted by the department. There was no meaningful impact on business operations during the search and since the completion of the search, we have not received any assessment or demand notice from the department. As and when any material developments take place, we will update the stock exchanges accordingly.

Q3 saw another strong performance from our end across parameters. Our volumes grew 13% on a year-on-year basis in Q3 FY24 and at 22% for the nine months of FY24, compared to the overall IMFL industry growing by around 2% to 3% in the nine months of FY24.

Our growth has been driven by both the millionaire brands, Mansion House Brandy and Courrier Napoleon Brandy.

Both the brands are helping us to consistently grow our market share, not only in the Brandy category but the overall IMFL industry.

At an industry level, Brandy P&A continues to be one of the fastest growing P&A categories and yet one of the lowest P&A saliencies within the respective categories, thereby providing enough headroom for continued growth.

We are also seeing continued strong traction in our flavored brandy range, Flandy, which now constitutes more than 8% of our flagship brand of Mansion House Brandy in the relevant states in which Flandy has been introduced. Flandy is our answer to making Brandy more fun and youthful.

In addition, our latest premium offering, Mansion House Chambers, is also showing promising results in Puducherry, our first launch state for Chambers. We are looking at launching Chambers in more states over the next couple of quarters.

The launch of premium products like Flandy and Chambers is enabling us to meet need gaps across price points in the brandy category.

Our thrust on premiumization is truly underway, with our NSR expanding to INR1,309 per case compared to INR1,222 per case a year back. This increase in NSR is on account of improved brand and state mix as well as price increases received over the course of this financial year.

On the cost front, the industry continues to reel under significant inflationary pressures, especially on the raw material side. We have seen ENA prices continually go up over the past couple of quarters, impacting profitability. Despite this, we have been able to expand our margins due to a higher share of premium brands and other cost optimization initiatives.

I am also happy to share that in the month of January, we were assigned a “A-/Stable” rating from Crisil for our bank loan facilities. This rating will potentially reduce our interest rates going forward.

On the marketing front, we released “The Flandy Song” on World Brandy Day, i.e. on 8 December 2023, our first large-scale brand anthem. The video and the song has received tremendous traction and is helping us in our aim to make brandy more youthful, aspirational and inclusive.

I am also happy to share that we won multiple awards, including the “Company of the Year” award at the prestigious Spiritz Conclave & Achievers’ Awards 2023, which was held in December 2023.

Before I hand over to my colleagues, I would like to reinforce that we truly believe that the brandy premiumization story is here to stay. We will continue to drive our strong innovation pipeline in brandy and come out with some of the best brandies and spirits that India has to offer, and for the world to see.

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 13% in Q3 and 22% in the 9 months of FY24, as compared to industry growth of around 2%-3% in the 9 months of this year. Our net revenue increased to INR377 crores for Q3 and INR1,035 crores for the 9 months of FY24, a growth of 24% and 28% respectively on a year-on-year basis.

P&A segment, which accounts for more than 80% of our volumes, continued to drive growth for the company.

Our EBITDA increased to INR51 crores and INR137 crores in Q3 and 9 months of this year respectively, a growth of 27% and 46% respectively on a year-on-year basis. Despite inflationary pressures, we have been able to maintain our EBITDA margins, which stood at 13.6% for this quarter, as compared to 13.4% for both Q2 of this year and Q3 of last year. The EBITDA margin for 9 months FY24 is at 13.3%, as compared to 11.6% for 9 months FY23.

Our gross debt has reduced to INR164 crores as of December 2023, a reduction of INR24 crores from September 2023 levels. Our net debt as of December 2023 is INR119 crores and we are hopeful that we close FY24 at a net debt of less than INR100 crores and achieve near-net-debt-free status by March 2025.

To summarise, we have seen good growth in the quarters gone by and have also increased our market share, not only in brandy but overall IMFL. With a strong innovation pipeline and slew of launches over the next couple of years, we expect this trend to continue and with a specific focus on premiumisation, we expect cash flows to improve further, enabling us to make more marketing investments to build our core brands as well as new ones.

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 our first question from the line of Pankaj Kumar from Kotak Securities. Please go ahead.

Pankaj Kumar: Thanks for taking my question. Good morning, sir. Congrats on a decent set of numbers. Question is on the raw material prices outlook. You have stated last two quarters you are seeing the price inflation. So how is the scenario going ahead for next two quarters? How do you see -- are we seeing any signs of cooling off?

Amit Dahanukar: So on the ENA front, we have experienced some inflation quarter-on-quarter, that is the principal raw material, on which we have seen inflation. The first quarter, the ENA price was INR67 per litre, which then increased to INR69 for second quarter and for the recently concluded quarter, it was around INR72. So there has been a steady increase in the ENA cost quarter-on-quarter and it is difficult for us to really predict as to how this price might move going forward. But on the rest of the fronts, I think we have seen a cooling down on the rest of the inputs.

Ameya Deshpande: So, to add to that, Pankaj, as Mr. Dahanukar mentioned, other inputs, right, so glass, for example, had seen a slight reduction in cost in the first quarter of this financial year. While we didn't see any reductions in the second and the third quarter, we are seeing some reduction in Q4 of somewhere around INR700 to INR800 a ton. So that should help us out a bit on the cost side as well going forward.

Pankaj Kumar: And on the price increases from the state, so any colour on that?

Amit Dahanukar: So, price increases, Pankaj, we have received in the previous year, we received in the important states of Telangana, we received an increase in the Canteen Stores Department. So, I think, thereafter, nothing.

Pankaj Kumar: And just second question is on the overall brandy segment that we have seen decent growth in teens versus the industry growing in very low single digit. So, do you see going ahead, the brandy market will continue to maintain the growth rate or we see some slowdown also?

Ameya Deshpande: So, I think, Pankaj, the thing is, when we look at brandy, let's just look at P&A, Prestige & Above, right, and that is the segment which has been outperforming the overall industry. While we do believe that driven by our own portfolio, we do expect this to outperform the industry to some extent as an overall industry. But obviously, I think, difficult to say whether it will grow at the same 13-odd-percent on a year-on-year basis.

I think we were looking at a fairly low base from a three-year perspective when we started off. This, we are looking at somewhere around, at least from our perspective as a guidance, we are looking at volume growth of anywhere between 12% to 15% for the coming year of FY25 and then in the lower double digits going forward.

Pankaj Kumar: And, sir, the last question is on your new launch on MHB Chambers. So, at what price point that we have launched and what are the future launch pipeline?

Ameya Deshpande: So, we have launched this in Pondicherry for the moment. It is priced at a 50% premium to the flagship brand, which is Mansion House Brandy. So, one of the slides you will see in our earnings presentation, which kind of gives a price laddering for all the brands that we have in the state, right?

So, if you use Mansion House Brandy as the base in terms of pricing, then you are looking at Flandy, which is at a 25% premium -- sorry, 20% premium, 25% premium on CNB Green and 50% premium on Chambers.

Pankaj Kumar: And the future launch pipeline?

Ameya Deshpande: Future launch pipeline, see, Chambers, obviously, we are going to launch in a few more states, right, over the next couple of quarters. Beyond that, I don't want to speak too much in terms of which categories are we going to launch into. Loads of innovations going on in the portfolio right now. But I think closer we get to it, we'll speak about it. But Chambers will get launched in a few more states.

And just to correct myself, Flandy is at a 25% premium to Mansion House Brandy and CNB Green is at a 30% premium to Mansion House Brandy.

Pankaj Kumar: Okay, thank you.

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

Darshika Khemka: Hello, sir. Thank you for the opportunity. This time around, we see that the other income for the company has increased to almost INR8 crores closing the quarter. What can we attribute this to? Is there a one-off or anything of that sort?

Amit Dahanukar: So it should be considered as a one-off. There were some old advances which had been provided for which the company was pursuing vigorously over the last few quarters. So a part of that INR8 crores is advances which have been returned to us. And the remaining part is I think other income, which is interest on our fixed deposits and mutual fund investments.

Darshika Khemka: Okay. Could you help me with the breakdown of this other income into the old advances that we have received?

Ameya Deshpande: So the old advances that we have received are around INR7 crores. The balance is the normal other income.

Darshika Khemka: Got it. Yes, that is it for me. Thank you.

Moderator: Thank you. The next question is from the line of Ajay Thakur from Anand Rathi Securities. Please go ahead.

Ajay Thakur: Hello. Thanks for taking my question. So I wanted to understand more on the other expenses. So if I were to look at it, it has been almost like a flattish at around INR100 crores, INR110 crores. So can you share some details on what is the level of a steady state kind of a run rate that we can expect for the expenses, the employee expenses? INR100 to INR110 million.

Ameya Deshpande: Yes. So I think employee expenses are kind of -- we are at the optimal level in terms of percentage of net revenue. From a growth perspective, I think you should look at it at the same, what do you say, at a slightly lower growth than the revenue that you would be modelling. We should be looking at similar levels or slightly lower in terms of percentage of net revenue going forward as well.

Ajay Thakur: And my second question, our arrangement with Pernod Ricard. So any update on that front? If we have some -- we understand that we have been under discussion with them.

Amit Dahanukar: Yes. So post the last call, there is no material development as such to update the forum. But we continue discussions and we are hopeful that the arrangement would commence shortly.

Ajay Thakur: Okay. And lastly, in terms of our foray into the northern markets or the non-south markets. So how is that shaping up? And how is the contribution of south versus the non-south shaping up? If you can share that number for the quarter.

Amit Dahanukar: So it is going on the expected lines, of course, as the forum will be knowing that the bulk of our sales do come from South. And I think there's a very small shift which is happening in terms of the saliency of east and other markets such as institutional sales. But it is in line with what our expectations are.

Ameya Deshpande: And just to quantify in terms of how much does South contribute to our volumes, it's around 85%.

Moderator: Mr. Ajay.

Ameya Deshpande: We can move on to the next question, if Ajay is done.

Moderator: As there is no response from the participants, we would like to take the next question. The next question is from the line of Shivram from Retail Ltd. Please go ahead.

Shivram: Congratulations on a fine performance in Q3 as well. And it is very heartwarming to hear the aspiration of our company to produce brandies for the world, as the chairman mentioned. Mansion House is already the largest selling brandy in India. And another nine years or so, the company will be completing 100 years. So, when do we see our company become the largest selling brandy company of the world?

Amit Dahanukar: So, that is definitely our aspiration. I think we are already, I think Mansion House is perhaps the second largest selling brandy in the world. And the steps which we are taking in terms of laddering the portfolio at various price points and the measures which we are taking, I am sure that that will be achieved in the foreseeable future.

Ameya Deshpande: And just to add to that, I think from our perspective, from a strategic and vision perspective, while we would love to be the largest selling brandy in the world, I think the better way of putting it is we would like to be the most admired brandy brand in the world.

Shivram: Thank you, sir. Thank you. That's all from me. Thank you so much.

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

Chintan Mehta: Yes. Thanks for the opportunity. As in opening remarks, you said that raw material prices has been one of the key impacting in terms of our margins are concerned. And it seems that we are transiting toward higher teens volumes and we are trying to get the higher auction prices. So what to understand that in a steady state basis, if my raw material prices would have been, say, neutral at this point of time, what would have been a peak EBITDA margin per se?

I'm just trying to understand that what kind of right now EBITDA margins are close to around 15%-odd or 14%-odd. What could be the peak EBITDA margin if, say, we have a steady state raw material prices?

Ameya Deshpande: You see, excluding the inflation that we've seen in the raw material prices, right, this would have been closer to around 15.5%, 16%. Right. So having said that, I think, are we expecting the raw material prices to go back to the earlier base? Obviously not. Right. We do expect some level of stability over there.

Having said that, there are multiple things that the company itself is doing, right, which is not purely dependent upon the cost structure or the way the prices of our raw materials move. Premiumization, which leads to increase in NSR, further cost optimizations that we are undertaking internally, efficiencies that we are bringing about in cost. Right.

They will help us or enable us to expand our margins further from the current levels of 13.6% that we've seen in Q3 to take us to our near peak margins of around 15%, 15.5% over the next couple of years.

Abhinav Gupta: Plus, with the operating leverage kicking in, I think some of the cost, as Ameya said earlier also, that employee cost, the percentage of sales will not…

Chintan Mehta: But that's completely evaporated. The very good cause of getting into higher volumes, that will definitely bring an economy of scale, but that has completely been eaten by the raw material prices as we speak. So, even getting it more granular, the 7% ASP, what we have actually achieved this particular quarter, wouldn't understand that what could be on account of premiumization and what could be on account of the raw material price hike, if any, we have passed on.

So, are we in a kind of a situation where we can get a number wherein what percentage we are still able to pass on due to the raw material prices?

Ameya Deshpande: Yes. So, just to give you some kind of quantification in terms of NSR increase, right, that we saw from Q2 to Q3, over there, around two-third of that was on account of price and brand mix, right, which also considers the price increases that we have received and all of that, and around 30% on account of the state mix that is there.

Chintan Mehta: Okay, understood. Understood. So, we have not taken any price hike in terms of considering the raw material price increases. So, that secular, the pass-through is not yet done. So, that could…

Ameya Deshpande: Yes, you are right.

Chintan Mehta: So, in Q4 or coming quarters, you may see that even playing out well, if I am not…

Ameya Deshpande: So, that's a difficult one, right, because most of the prices are frankly regulated by the corporations as such, right. So, thereby, it is not a free pricing mechanism in every state. Having said that, we do see premiumization or other NSRs being at a healthy level, right. So, they kind of will take care of all your inflationary pressures. We do believe that we will be able to maintain our margins, if not better it, within the next couple of quarters itself.

Chintan Mehta: Okay. Understood. That's it from my side. Thanks a lot. Thanks for the clarification. And best of luck to all of you.

Ameya Deshpande: Thank you.

Moderator: Thank you. The next question is from the line of Gaurang Kakkad from Haitong Securities. Please go ahead.

Gaurang Kakkad: Yes, hi. Thanks for the opportunity. So, couple of questions. If you look at the 13% volume growth for the quarter, is it possible to give some colour in terms of how this looks between super premium, premium and the deluxe segment that you called out in the presentation?

Ameya Deshpande: So, see, super premium is a very small part of our business, right. Even when you look at the premium side of things, right, you are looking at brands like sorry, brands like Mansion House Brandy over there, right. So, that would be the predominant growth. Rather, that is where a majority of the growth is coming from along with CNB. Now, CNB frankly straddles between two segments, which is the super-premium and the deluxe segment, right. We are seeing similar growth on both the sides.

Gaurang Kakkad: Okay, got it. And if we look at the net sales growth, it has outpaced the gross sales growth, which indicates excise per case is coming down. Now, is this a function of state mix, product mix or like largely what is the reason for this?

Ameya Deshpande: It's a function of both actually. It's a function of this, but predominantly on account of the state mix.

Gaurang Kakkad: Okay. And secondly, in terms of you mentioned in the opening remarks that because of the CRISIL rating, interest cost is likely to come down. Any quantification as to how much impact this can have in FY25? The interest cost rate, interest rate.

Abhinav Gupta: Though the final decision will be with the lenders, but we expect that we should be able to get a reduction of at least 200 basis points over the current rate, which they are charging us. So, currently, Kotak is at around 13%. We expect that post rating exercise, it should come down by at least 200 basis points.

Gaurang Kakkar: Got it. Thanks a lot. That's it for me.

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

Simar: Hi, sir. Good afternoon. Thank you for the opportunity. So, just want to ask you in terms of your recent expansion in Pondicherry, how is the response been over there of Mansion House Chambers?

Amit Dahanukar: So, it's been three months since the launch. We just launched in quarter three. So, the response has been positive. It's been encouraging. We are getting repeat orders. And the business currently is about maybe less than 5% of what Mansion House does, but which is quite good initially to start off with.

Simar: Got it. Do you have any plans of expanding your offerings to different states as well? The same price point?

Amit Dahanukar: So, yes, I think Ameya has also thrown some light in this. I think in the coming quarters, the Chambers offering, we will look at expanding to other states also gradually.

Simar: Got it. Got it. All right, sir. I'll follow back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Shantanu Mantri from Think Investments. Please go ahead.

Shantanu Mantri: Hi, Amitji. Hi, Ameya. Really, really good numbers. And it's been a fabulous performance, what we've done in the last two, two and a half years. So, really want to congratulate the whole team. I just had one question. So, in a way, you know, like a year back, we had thought of, you know, investing some money in a distillery.

We've kind of stayed away from that. And in a way, you know, the way raw material prices have gone in terms of grain, I think it's been a right decision. Now, having said that, the grain prices seem to be, peaked out and we're expecting some cooling off there.

So, and obviously now with where our balance sheet stands and how our cash flow stands, just want to understand that how are we thinking in terms of investing any money in distillery or not at this point?

Amit Dahanukar: So, Shantanu, I think it is a pertinent question. It's the investment decision has been on top of mind. This current financial year, we took a decision to wait. And currently also, I think we are waiting and watching, of course, the financial position of the company is much more robust, which will allow us to make an investment decision if we so choose. But currently, it's something which remains under active consideration. But nothing has been firmed up as of now.

Shantanu Mantri: Perfect. Perfect. Sounds good. Okay. That's it from my side. Thank you.

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

Himanshu Shah: Congratulations on a good set of numbers to the entire team. A couple of questions. One is, can you just highlight what has been the capex for nine-month FY24 and the outlook on capex for FY24 and FY25?

Ameya Deshpande: So, capex for this year has been around INR15-odd crores. And going forward, if you keep the distillery capex aside, right, so distillery capex is somewhere around INR40 crores to INR45 crores potentially, right?

But that depends on when we do take a call to expand that. But keeping that aside, you're looking at a maintenance capex on a yearly basis of anywhere between INR20 crores to INR25 crores going forward as well.

Himanshu Shah: Okay. Fine. And secondly, again, harping on just the raw material part, you mentioned that ENA prices are on an inflationary side. Can you just provide some outlook like on a quarter-on-quarter basis, what would have been the inflation in Q3 or as on date, what is the inflation versus end of quarter?

Amit Dahanukar: So, quarter one, the average ENA cost was INR67 per litre, which increased to INR69 in quarter two. And for the recently concluded quarter three, it was INR72. So, it's almost, you can say, INR5 inflation from beginning of the year, translating to INR20 per case.

Himanshu Shah: Okay. And is it steady as on date or it is on an inflationary trend even after Q3?

Ameya Deshpande: No. So, even if you look at February, you're looking at around INR72.5 a litre. So, it has increased marginally by half a rupee to INR1 per litre.

Himanshu Shah: Okay. And you highlighted that there has been around INR700 reduction in glass bottle prices in Q4, in the ongoing quarter.

Ameya Deshpande: Yes. Yes. That's right. So, INR700 would essentially mean on a per case basis, you're looking at somewhere around INR4 a case impact.

Himanshu Shah: Okay. Fine. That's very, very helpful, Ameya. That's it from my side. And all the best for future.

Ameya Deshpande: Thank you so much, Himanshu.

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

Simar: Yes. Hi. So, thank you for making me ask another question. So, thank you for giving me the opportunity. Just wanted to ask you in terms of your blended capacity, can you talk about utilising across your four manufacturing units?

Ameya Deshpande: Yes. So, in terms of the four units, our mother plant of Shrirampur has got a utilisation of somewhere around 30-odd percent, 30% to 35%. The balance being, if at all Pernod does start operations again at Shrirampur, we should be reaching near full capacity utilisation.

We also have our fully owned subsidiary in Karnataka, which is Vahni, that is at 100% capacity. Prag , which is in AP, is again 100% capacity. And Punjab Expo, which is in the north, has got a utilisation of around 20-odd percent, that caters predominantly for our CSD business.

Simar: All right. All right. Thanks. Thanks a lot, sir. All the best going forward.

Ameya Deshpande: Thank you.

Moderator: Thank you. In the interest of time, that was the last question for today. I would now like to hand the conference over to Mr. Nikunj Jain from Orient Capital for closing comments. Thank you, and over to you, sir.

Nikunj Jain: Yes. I would like to thank the management for taking the time out for this conference call today, and also thanks to all the participants. If you have any queries, please feel free to contact us. We are Orient Capital Investment Relations Advisors to Tilaknagar Industries Limited. Thank you so much.

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