



Tilaknagar Industries Limited

Q2 FY25 Earnings Conference Call Transcript

November 05, 2024

Moderator: Ladies and gentlemen, good day and welcome to the Tilaknagar Industries Limited's Earnings Conference Call.

I now hand the conference over to Mr. Siddharth Rangnekar from CDR India. Thank you and over to you.

Siddharth Rangnekar: Thank you, Yashashree. Good morning, everyone and thank you for joining us on Tilaknagar Industries Limited Q2 FY25 Earnings Conference Call. We are joined today by Chairman and Managing Director, Mr. Amit Dahanukar; President, Strategy and Corporate Development, Ameya Deshpande and Chief Financial Officer of the Company, Mr. Abhinav Gupta.

We shall commence with views from Mr. Dahanukar on the strategic performance and Mr. Deshpande on the financial highlights, which shall be followed by an Interactive Question-and-Answer session. Before we begin, I would like to state that certain statements made on today's call could be forward-looking in nature and a disclaimer to this effect has been included in the results presentation that was shared with you earlier and which is also available on the stock exchange websites.

I would now like to request Mr. Dahanukar to make his opening comments. Over to you, Mr. Dahanukar.

Amit Dahanukar: Thank you and good morning to all.

At the outset, I am pleased to share that as of September 2024, we have turned net debt free well before our stated target of March 2025. We have come a long way from a peak debt of over Rs.1,100 crore as of March 2019 to today. All this would have not been possible without our focus around profitable growth and cash flow management. With a clear direction of gaining market share in a large IMFL category like brandy, we were able to grow faster than industry, having outperformed industry growth in FY23 and FY24.

While our growth momentum in the first half of FY25 has been relatively muted, it is still in line with overall industry growth. Given the high saliency of our business from Southern India, the industry-wide issues of higher consumer prices in Karnataka, elongated receivable cycles in Telangana and route to market transitioning in Andhra Pradesh, all had an impact on our growth trajectory. Despite all this, we have managed to expand our market share in the prestige and above segment in each of our key southern states. Q2 saw us continue to be the third largest P&A player across IMFL categories in large states like Karnataka and Telangana. We also continue to be the largest IMFL player in Puducherry.

With Karnataka reducing excise duties, we have started seeing a good uptick in volumes in the state. I am happy to share that the month of September saw us clocking our highest ever primary and secondary volumes in the state, and even happier to share that October beat this mark comfortably as well.

We have now started receiving old dues from Telangana and expect the balance overdue amounts to be settled over the course of the next few months.

Most recently, the new RTM in Andhra Pradesh kicked in from mid-October. With retail now becoming private, the IMFL industry in the state is expected to become a consumer-driven market and will be highly beneficial for an already existing market leading player like TI, who has fast moving brands like Mansion House Brandy and Courier Napoleon Brandy, which have a tremendous consumer franchise and brand equity in the market. The fact that AP has a significant brandy drinking population makes the opportunity even more appealing.

With these recent developments, we are now targeting mid-teen volume growth in H2 FY25.

On the portfolio front, Flandy continues to grow, providing brandy an exciting canvas to position itself as a drink for multiple occasions as well as varied consumer demographics. The P&A saliency within the CNB family portfolio continues to grow, coming in at 38% in Q2 vs. 32% in Q2 last year and 33% in Q1 FY25. Mansion House Brandy continues to drive brandy industry growth. We expect our price laddering strategy for brandy to drive positive results in times to come.

On our non-Brandy strategy, we recently launched Mansion House Whisky in Assam. The brand is positioned in the semi-premium segment, which is one of the fastest growing, profitable segments in the whisky category. We are looking at using our distribution strength in our existing whisky-large states over the months to come. Once we have a fair visibility on the progress made by the brand, we will look to further expand into regions where we are not yet present.

Our luxury foray is now only a few weeks away with our own luxury brandy to be launched in Q3 FY25. In addition, we have also recently entered into a Usership Agreement with Spaceman Spirits Lab, our investee company and the makers of Samsara Gin and Sitara Rum. Through the usership agreement, we will start selling both these brands in certain states in India and internationally. This will be followed by a few more launches soon.

Before I hand it over to Ameya, I would also like to elaborate on the easing of the cost pressures on the raw material and packing material side. While the last couple of years were tough for the industry, we saw our margins expand on the back of our premiumization drive. With inflationary pressures easing, especially on packing material side, and premiumization drive only gaining further pace, we expect to further expand our margins in the times to come.

I now hand over to Ameya to take you through our Q2 operational and financial performance and we will be happy to take any questions in the Q&A to follow.

Ameya Deshpande:

Thank you, and a very warm welcome to all of you joining us today. I'll take you through our financial and operating highlights for Q2 FY25.

As mentioned by Mr. Dahanukar earlier, our volume and revenue growth for Q2 was slightly muted due to evolving policies in key states. However, we achieved

substantial margin expansion and remain optimistic about a mid-teen volume growth in the second half of this year.

For Q2 FY25, our revenue growth stood at 5.8% YoY to Rs. 375 crore, with underlying volume growth at 3.1%. Revenue for the first half increased by 4.5% to Rs. 688 crore. The NSR per case was at Rs. 1,274 in the 2nd Quarter, while the 1st Quarter NSR stood at Rs. 1,264 per case.

Q2 also saw us delivering our highest ever EBITDA; EBITDA for the quarter showed significant growth of 39% YoY to Rs. 66 crore on the back of superior brand mix and ongoing cost optimization efforts. EBITDA margins expanded by 422 basis points to 17.6%, and adjusted for the subsidy income, EBITDA stood at Rs. 56 crore at a margin of 15.3%, showing a 188-basis points margin expansion on adjusted EBITDA. For H1 FY25, EBITDA reached Rs. 116 crore with margins at 16.9%, marking an expansion of 385 basis points.

Similarly PAT increased by 82% to Rs. 58 crore, up from Rs. 32 crore in Q2 of last year. For the first half, PAT grows to Rs. 98 crore which saw a 70% increase from Rs. 58 crore in the same period last year.

While packing material costs have seen some level of softening, we continue to be cautious about ENA prices. We expect that there will be no meaningful inflationary impact on COGS in the near-term. We are optimistic about continued margin growth even as we sustain investments in advertising and sales promotion to enhance the visibility of our brandy portfolio.

On the debt front, I am particularly pleased to share that we have now turned net debt free as of September 2024, an achievement reached ahead of our targets. Through disciplined financial management, we have effectively reduced interest expenses and strengthened our balance sheet, establishing a solid foundation for sustainable growth.

On the strategic investment side, we have announced a follow-on investment in Spaceman Spirits Lab, the makers of Samsara Gin and Sitara Rum, which will see our shareholding go up to 20% on a fully diluted basis. We will be investing Rs. 13.15 crore in three tranches over a period of 18 months, with the first tranche of Rs. 4 crore invested in September 2024. The remaining two tranches are expected to be invested by mid FY26 and end FY26. As mentioned by Mr. Dahanukar earlier, we have also entered into a Usership Agreement with Spaceman, whereby we will start selling their brands in select regions in India and internationally. We expect to start this business in the second half of this financial year.

We also made an investment of Rs. 8 crore in the Round the Cocktails Private Limited, the makers of Bartisans, a 'ready to pour' premium cocktail mixer brand. Given the high brand recall for its products, premium price point, strong unit economics and our own vision to make brandy fun and exciting, we see Bartisans as a great avenue to play the cocktail culture emergence story in India's AlcoBev evolution. Post this investment we own 36.2% of RTC on a fully diluted basis.

Before we open the line for Q&A, we would like to reiterate that profitable growth and cash flow management remain our focus, and we are highly confident in the future growth potential of the Indian AlcoBev sector, and we see us play a leading role in this growth.

With that, I would now request the moderator to open the call for Q&A.

Moderator: We will now begin the question-and-answer session. We will take our first question from the line of Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: My first question is on Telangana. What is the status on improvement in collection? We have seen that many states are offering a lot of freebies to the rural and the lower end of population. Given that revenue and cost, clearly there's a mismatch. How do you see in H2 in terms of collections for the industry and for you? And any insight on pricing in Telangana in the next one year would you expect the pricing in that market?

Amit Dahanukar: We are at roughly 10 weeks overdue in Telangana, and in terms of pricing, I think they have set up a pricing committee to fix the price of beer. Once beer is done, then perhaps they will take up IMFL after that.

Abneesh Roy: And this 10 weeks at peak, it was how much, and historically what was the low for the collection?

Amit Dahanukar: Historically, around 8 to 9 weeks would have been low and I think it has gone up to 18 to 19 weeks.

Abneesh Roy: Second question is in terms of the Andhra market. In the interview just a few minutes back, you did say that initially there could be some hiccups which we understand. My question is not at all on the next two quarters. My question is when stability comes say in the next 18 months or 24 months, in the peak, how much was Andhra market? And I am sure there will be some leakages even in the last five years, Indian state borders are extremely porous. If 100 was the peak in the last five years, how much was your presence in that market, and in 24 months? Would you expect the peak to come back in the Andhra market?

Ameya Deshpande: Andhra, see, the industry, at least in the recent couple of quarters, has seen a bit of a degrowth on account of the RTM changes and the policy changes that were expected. Now, going forward, obviously, given how the past industry worked, the previous two governments prior, we did have a private retail model back then as well. Basis that and given the kind of what do you say, the other state kind of data that we have, we do expect the volumes to grow pretty significantly in the state going forward. As we mentioned earlier, given the fact that we are a leading player in the state already with a fast moving brand or a portfolio of brands in the state, we do expect to take a larger share of this pie of growth going forward.

Abneesh Roy: I wanted a more specific answer because the number one listed spirits company said that 4% - 5% of their India business used to come from Andhra, which became almost negligible. You are a south-focused player, and you did say that you already have some presence. In your case the Andhra business eventually how big will it be in terms of percentage of sales because you are anyways a south-focused player.

Amit Dahanukar: Currently it is 30% of sales and totally Andhra I think mid-teens growth would be reasonable to expect.

Abneesh Roy: But there is no negative impact you see, right, on Andhra because you already have a business there, is there some negative impact which can happen then bigger players will come?

Amit Dahanukar: I don't see a level there will be a negative impact and the reason for that is we are expecting the industry itself to grow. Currently, I think the industry is at 30 lakh

cases per month, I think comfortably we can say that within the next 2-3 years it would be a 40 lakhs industry, with number of retails increasing and privatization, we are quite confident that retail industry itself would be around 40 lakh cases in the next 2-3 years.

Abneesh Roy: Last quick question is on demand side. Almost every consumption company is speaking on urban slowdown, QSR, FMCG, footwear, retail, everything. In your market, how do you see urban slowdown impact? You have given a guidance in the second half. Is optimism coming because of Andhra because the mid-teen growth is a very tall task and in first half you have grown in line with industry. If you could address all these points?

Amit Dahanukar: There are two or three drivers which we see for the second half. One is certainly it will be Andhra. Two, in Karnataka also as we mentioned in the opening remarks, we have gone through a pricing correction, the MRPs have gone down which has resulted in the sales improving first in the month of September and further improving in the month of October. We should have some benefit coming in from Karnataka as well, and plus being primarily driven by brandy sales, about 85%-90% of our portfolio being brandy, we do see seasonality kick in slightly more significantly for us also in the second half.

Ameya Deshpande: Just to add to that, Abneesh, while we have grown at the same pace as the overall industry or better from a P&A perspective, one point that I just want to bring out was that if you adjust this for the impact of Andhra slowdown, right, then we have grown at 9% in the first half of this year.

Moderator: Next question is from the line of Rishabh Gang from Sachetti Family Office. Please go ahead.

Rishabh Gang: I wanted to know some insights on the strategic initiatives and 1-2 years target of your investee companies, right, where you have a meaningful stakes at a 20% or more like in Samsara, Bartisans and Incredible Spirits. Can you throw some light on that, sir?

Ameya Deshpande: I'll take the strategic investments first. When we look at Samsara, right, Samsara as of today is a Rs. 20 crore net revenue business as of FY24. We see this business growing exponentially or significantly, because as of now, they are present in only a few states, their key states being Haryana, Goa, Maharashtra and Karnataka. As we grow in further states on the back of TI's distribution strength, which would be in the southern markets of Telangana, Pondicherry as well as AP, as well as East and Northeast, and add to that the fact that we will double down on international business as well as the canteen stores department business, we do see a significant growth coming in over here. While it would be difficult to quantify this growth, safe to assume that we would be growing double at least for coming year and going forward at the same rate maybe.

Rishabh Gang: And for Bartisans and Incredible Spirits?

Ameya Deshpande: Bartisans, we have just made the investment. They have done a revenue of around Rs. 3.5 crore for FY24. And again, it's the same thing that over there the distribution channel was significantly D2C for them, right, for FY24, more than 80% of all their business was driven by their own website. Now, with the emergence of quick commerce as well as your dark kitchen concepts which get serviced through Swiggy and Zomato, with these distribution channels coming in, we do see business

growing exponentially over there. Again, not in a position to quantify in those terms, but you will see significant growth coming from that spectrum as well.

Rishabh Gang: On Bartisans engagement in the business of selling non-alcoholic beverages, right, wish to understand what is the difference between the marketing rules for these products versus our standard alcoholic beverages? If you can just tell what is the industry think about it, what are the rules and regulations for the same?

Ameya Deshpande: I think the kind of marketing that can be done for a brand like Bartisans frankly it's a white space. You can do just about anything from that perspective. And if you follow Bartisans, they are a very digital-first company, they have a great presence on social media as we speak. Instagram, Facebook and all are big for them. And given the fact that now they are also getting distribution reach through their own channels, and also through Natures Basket and LeMarche of the likes, as well as the online digital platforms, there is a lot of visibility play for a player like Bartisans. In comparison, obviously, as an AlcoBev player, there are certain restrictions on us, from a marketing perspective. Frankly if you look at it, it's chalk-and-cheese from a marketing perspective. Having said that, there are multiple collaboration opportunities that exist over here between Bartisans and TI. As I mentioned earlier, we have been talking about our vision to make brandy more fun, more exciting and that is where Bartisans comes into play, whereby there will be collaborations whereby we come out with co-created mixers for brandy as well as for our own brands as such.

Rishabh Gang: Since we have such a meaningful stake in Bartisans, sometime down the line would they be saying themselves from the house of Tilaknagar or from the house of Mansion House something like this?

Ameya Deshpande: Obviously, see, I can speak for now, right, but I can also give you a thought process behind our investment right of 36.2%. We've always been looking at having a significant minority stake to begin with in our inorganic investments because at the end of the day, we want the founders to run with their vision for their brands and their companies. But having said that, this is not going to stop, at the end of the day, if things do work out well and they go in the direction that we expect them to go, then, obviously this will become at some point I am hopeful that this will become a part of overall TI family.

Rishabh Gang: Also on the Incredible Spirits, because I have not read anything about in the annual report also much about that, so any update on that?

Ameya Deshpande: In fact, on Incredible Spirits, given the fact that it was a fairly small investment of Rs. 1 crore, we have taken a call to exit our investment in October and we have exited Incredible Spirits at cost.

Rishabh Gang: Also for each of the investments, can you elaborate on how we are benefiting from the synergy and investing a piece, like you mentioned about the usership agreement? How are we monetizing our distribution reach, like if you can just tell about how it happens at the industry level, how the monetization happens, maybe if you don't want to tell specifics? Also Samsara, as I heard, they also have access to Northern India markets. You mentioned Haryana and all. How are we leveraging their distribution reach for selling maybe some of our high-end Mansion House Chambers or sometime down the line luxury brandy, because these are the markets which we don't access right now?

Ameya Deshpande: I will first take the first part of your question. Right now, what is the usership agreement mean or what is that arrangement? It essentially means that we will sell their products under TI name, manufacture it in our own facilities and sell it under our name and pay them a royalty for the sales that we make. This royalty would be on a per case basis. I am going to give you a very principle overview of this entire transaction. Basically we will be paying a royalty per case to them for the sales that we make. Every revenue made and expense that we incur for this particular sale in the states that are covered under the usership agreement will form a part of Tilaknagar Industries' financials. It will also be manufactured by Tilaknagar Industries to that extent. So, that is the way this will work in a royalty kind of a model. Thereby the entire profitability of that brand and remember that Samsara is may be the only Indian craft business which is profitable in India. When I say an Indian craft, I mean an independent Indian craft business which is profitable in India. We do see tremendous amount of value that gets generated over here.

On your second part of the question which is the northern territories, obviously see AlcoBev today is significantly, distribution-driven business. It helps to have a portfolio of brands when we go to newer states to sell. From that perspective the moment Samsara goes along with, let's say, the luxury brandy that Tilaknagar Industries will start selling on its own, it kind of lends that much more credibility as well as opportunity or potential from a portfolio of craft brands in these new states.

Rishabh Gang: Because I think you are doing such an innovation in brandy space, there's a lot to capitalize even in the northern states where we are not very much present right now. Also, I saw that we have launched Mansion House whisky in Assam similar to our launch of Blue Lagoon in North East India. Can you throw some light about our strategic emphasis on northeastern market for newer launches in non-brandy category, like why do we select Northeast only? And any difference in this region in terms of the competitive intensity versus other regions, if you can just throw some light on that?

Amit Dahanukar: Northeast we chose, because Assam is a market which has historically been known to be fairly receptive to new product introductions in terms of trade and also the retail shops and also consumers. That is one of the reasons why we chose Assam as the first point-of-entry for whisky and we will wait and watch. Of course, the Blue Lagoon Gin, that's small because the gin is not even 1% of the industry, it's mainly whisky industry, which is 90%. So, that is our initial foray and we will be quite guarded about our expansion now seeing the developments of Mansion House Whisky over the next six months, you can look at taking it to the sister states as well.

Ameya Deshpande: And just adding to that, right, the reason for East and northeast is also because we do have a pretty strong presence in at least a couple of states over here. We are one of the largest players in the state of Sikkim, we are also a pretty large player in the state of Odisha, we have an almost 2% share of the entire IMFL industry in a market which is more than 80% whisky and rum strong or rather more than 95% whisky and rum strong. From that perspective, we do have a pretty significant distribution reach and a decent market share from a prestige and above industry perspective as well.

Amit Dahanukar: And another reason for Assam is upfront investments in terms of company, in terms of working capital also, they're on lower side. If you were to look at markets such as Karnataka, they would be very high in terms of investment and duties, etc.,

Telangana would be elongated payment cycle. Not that favorable which is why we chose Assam as the first state to introduce whisky.

Rishabh Gang: And for the states in which we have launched Flandy, you tell it on the base of Mansion House Brandy sales, right. What is the percentage of Flandy volumes, if you can just tell a bit about that, because last time it was 10%, so interested to know that?

Ameya Deshpande : We've kind of maintained the same saliency for this quarter. It is around 7% of overall Mansion House saliency that we have in the relevant states.

Rishabh Gang: And the relevant states being, which are these states?

Ameya Deshpande: They would be Telangana, Andhra Pradesh, Pondicherry and Sikkim.

Rishabh Gang: And you were saying something else too?

Ameya Deshpande: I was just adding that we also launched the Green Apple flavor within the Flandy portfolio and that has been seeing some interesting offtake as well in the states of Telangana and AP.

Rishabh Gang: And can Flandy be a millionaire brand by year end, right, if you can just tell about what has been the volume for H1 if possible to share?

Ameya Deshpande: That is the level of data that we don't actually provide. However, will it be a millionaire brand this year? No, it will not be a millionaire brand this year. But having said that, given the size of the flavored industry, it has taken a significant share and also we see tremendous potential in the space. Flavored spirits are one of the fastest growing spirits category in IMFL today. We do see a significant opportunity over here. Flandy is also our way of changing the way people see brandy as a category. We are very much focused on this brand going forward and hopefully we will be a millionaire brand fairly soon.

Moderator: We will take the next question from the line of Harsh Sheth from Dam Capital. Please go ahead.

Harsh Sheth A couple of questions mostly is on ENA front. What is your outlook on the ENA prices? And secondly, if you could share some update on Shrirampur Distillery? We were contemplating some bit of CAPEX here once we become net debt free. So, anything on that? And just adding to that, recently listed IMFL player acquired a distillery in Maharashtra as basically we see a case for backward integration given the spreads or say in-house versus external procurement of ENA besides wanting to secure ENA supply. Now that we are debt-free, would we be considering backward integration or we would continue to be asset light?

Amit Dahanukar: Currently we don't have any meaningful update to share on the grain distillery front and going forward, if there is any significant update, then we will keep everyone informed, but as of now, it is status quo.

Ameya Deshpande: On the ENA front, we've seen for the quarter ENA prices for us reducing by another rupee per litre. Whilst in the previous quarter in Q1 the average price was around Rs. 70 a litre, right now we are looking at around Rs. 69.

Harsh Sheth And do we expect this to sustain to be stable in near term with new grain coming in?

Ameya Deshpande: Difficult to predict the ENA prices to be very frank, but at our end we are fairly confident that we shouldn't see too much of volatility in the prices in ENA.

Harsh Sheth If you could, you know share your guidance on what's our CAPEX are we looking for say in the next couple of years and what aspect?

Ameya Deshpande: The guidance remains the same. Our maintenance CAPEX could remain anywhere in the range of Rs. 15 to Rs. 20 odd crore on a yearly basis. That's the maintenance CAPEX. And as and when we do take a call on the distillery, we will let you all know, but that will be an investment of around Rs. 45 crore.

Harsh Sheth Roughly we will we are at 150 KLPD and we might be adding another 100-odd KLPD, is that correct?

Ameya Deshpande: No, we will be recommissioning the 100 KLPD plant.

Moderator: We will take our next question from the line of Darshika Khemka from AV FINCORP. Please go ahead.

Darshika Khemka I have a couple of questions. Firstly, what was the due or overdue that we had from Telangana and how much of that have we received?

Abhinav Gupta: Telangana, as Sir said at certain point of time the overdue increase was more than 18, 19 weeks and currently also the overdue position would be around 10 weeks as compared to the normal cycle of receiving the money in about 45-days. Yes, situation has improved significantly. But still I think, is business as normal? No, it is not business as normal.

Darshika Khemka And do we expect to receive this amount in the coming quarter itself or would this push to Q4?

Abhinav Gupta: It would be difficult to say. As I said, it's not a normal business cycle as of now. But yes, I think within next 3-4 months, we should be hoping to get it regularized.

Amit Dahanukar: Add that the government seems to be proactive in terms of reducing dues of industry suppliers, the government is taking steps in that direction.

Darshika Khemka Also, by when do we expect our tax incidence to come back? I think in con call you had mentioned that it will start from FY25. I don't see that happening. Do we expect taxes to start coming in from the FY26?

Abhinav Gupta: You can expect it from 1st Quarter of next financial year.

Moderator: We will take our next question from the line of Sunny Gosar from MK Ventures. Please go ahead.

Sunny Gosar: I have a couple of questions. First is on the Mansion House Whisky. Basically, what is the price point for this, and basically what is the peer set or the competition set against which this product is cross line to? And what is the category size of this price point in the relevant eastern and southern states?

Ameya Deshpande: Sunny, as I was saying the Mansion House Whisky has been launched in the semi-premium segment, comparable brands would be Royal Stag, Royal Challenge. These would be our comparable brands. Specifically for Assam, this would be priced at around Rs. 560 for 750 ML bottle. And in terms of our initial target markets, there are four states that we are looking at initially, these are major whiskey

consuming markets where we have distributions, volumes would be in the range of 13-15 million cases.

Sunny Gosar: One related question I have on this is that the category that you have entered has some strong incumbents. What is our differentiation or basically the marketing pitch basically which will help us gain market share here? And have there been new brands which have come in this category and created some sizable volume which gives us the confidence that we will be able to replicate similar success?

Ameya Deshpande: See in this price segment, if you actually go to see, while I put the names of Royal Stag and Royal Challenge, which are backed by two of the largest players in the space, there are also multiple other brands which have actually gained millionaire status. These include the likes of Royal Green, you also have All Seasons, White and Blue, and a lot of other players who are doing really well and millionaire brands in their own. From that perspective, while obviously there are large incumbents in this space, we do see good amount of opportunity in this segment for the simple reason that there is sheer enormity of that segment, this is a supremely large segment. So any little share that you actually gain in this market will be incrementally positive for someone like us.

Sunny Gosar: My next question is on the capital allocation. Company has become net debt free, and assuming some of the overdues from Telangana comeback in H2, our cash position with the internal accruals should strengthen further by March 2025 and you will be left with substantial amount of cash pool. Have we thought about what our capital allocation policy will be in terms of shareholder payout or any inorganic opportunities or any substantial brand launches which will need some kind of initial investment, how should we think about that?

Amit Dahanukar: Goal right now I think is by March 2025 we want to have significant reserves in terms of cash reserves to strengthen the balance sheet and we will be alive to inorganic opportunities which may come our way, we will evaluate them and take calls, plus we will have sufficient ability to invest behind our existing brands and look for opportunities in other categories and geographies as well.

Sunny Gosar: And any thoughts on like a dividend distribution policy or anything?

Ameya Deshpande: We have just about started our dividend distributions, over the past couple of years now, it's been three years that we've been distributing dividends, in the recent past. Obviously this is evolving, and we will look at it more closely going forward. Now, given the fact that we are net debt free now, but for the moment nothing much to add on that. We will let you all know as and when we do decide.

Moderator: We will take our next question from the line of Pawandeep Singh Bhatia from NV Alpha. Please go ahead.

Pawandeep Singh: I didn't understand the model that we are going to share with Samsara going forward. If you could explain me this usership agreement? We have a long-term vision to get Samsara in our TIL family. What is this distribution model and the royalty? Can you just explain it again?

Ameya Deshpande: Yes, so let me just explain it again. Essentially what this means is that we will start selling under the usership agreement for specific states and regions, we will start selling Samsara and Sitara brands under Tilaknagar Industries name, which essentially means that we will manufacture the product in our units. We will sell the products under our name, which would essentially mean that all revenue and costs

come into TI books. And for that, we pay a royalty fee to Spaceman Spirits Lab on a per case basis.

Pawandeep Singh: When you said TIL name, isn't like, the name would be from Samsara only, right?

Amit Dahanukar: Yes, yes, yes, what I mean to say is that it will come under our books for those particular states. It will still be sold under Samsara. It would just be manufactured for those particular states by Tilaknagar Industries.

Pawandeep Singh: Then what is the royalty understanding, Sir?

Ameya Deshpande: That's not something that we disclose publicly.

Pawandeep Singh: And sir, what is our revenue expectations and our vision for 3-4 years out with whiskey and gin coming, our dependency is 85% on brandy. Going forward, what is our vision as a company that we want this number coming from non-brandy?

Ameya Deshpande: As it stands, brandy is actually more than 90% of our volumes. I think there's something that we mentioned earlier as well, our vision 2030 would be more like an 80:20 saliency whereby 80% of our business is still driven by brandy, but non-brandy kind of expands to 20% from the current 6%.

Pawandeep Singh: If we have invested in Samsara with a Rs. 20 crore revenue, under our distribution and like our vast brandy distribution, where do we think we can take this number if the company where we have invested in only is making a revenue of Rs. 20 crore? My question is can we like see a meaningful number coming from gin especially from Samsara and other players in our consolidated revenues?

Ameya Deshpande: Yes, obviously we see significant upside over here, right and potential over here. As I mentioned earlier as well, the Rs. 20 crore that we're looking at from a net revenue perspective is business which has been built in predominantly four states and that too at least one state has come into the pipeline in the mid of FY24. We do see a great amount of opportunity over there. In terms of quantification, we won't get into that, but it is a significantly large opportunity even from an institutional business perspective for Samsara.

Pawandeep Singh: In tracking this space since a while, what was our understanding I might have missed this point in launching whisky in a state like Assam, because normally people would start with a more populated state when they want to penetrate into whisky, what was the thought process, because the product looks very good with the NSRs and everything that we are talking about?

Ameya Deshpande: Like we mentioned earlier as well, Assam is a fairly launch-friendly state when it comes to it. Many of the brands that you see especially on the whisky front get launched in Assam first. That's on account of also because the working capital requirements are lesser in the state and given the fact that the semi-premium whiskey segment is fairly large in the state, it is 2,00,000 cases per month. It's a pretty large segment. So, it's not a bad place to start off with. And at least in our case, because we already have a presence in Assam, it was kind of the right thing to do in our minds.

Moderator: We will take our next question from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: My question is specifically when I look at first half we have done about 5.5 million cases and I was just more interested in what is the brandy if you strip out 5.5 Million cases in first half?

Ameya Deshpande: Brandy itself would be more than 90% of this.

Shirish Pardeshi: I was more curious if our NSR is about Rs. 1,274. What would be the NSR difference for the Mansion House Chambers and Green?

Ameya Deshpande: Mansion House Chambers would have an NSR, which would be at least around 35% more than Mansion House average and that would be kind of similar for Flandy as well, Flandy would be around 25%-odd more than Mansion House.

Shirish Pardeshi: These numbers what you have put in is the NSR number?

Ameya Deshpande: Which number?

Shirish Pardeshi: In the presentation.

Ameya Deshpande: Yes, that's the NSR number Rs. 1,274 per case is the NSR.

Shirish Pardeshi: Where do we manufacture Chambers and Green?

Ameya Deshpande: Chambers is manufactured in Maharashtra at Shirampur unit, and Flandy is bottled at multiple states wherever we are present.

Shirish Pardeshi: You mentioned that about 30 lakh cases is the AP market, is that correct?

Amit Dahanukar: That is the current volume, yes.

Shirish Pardeshi: Would you be able to break, how much is brandy and the whisky portfolio?

Amit Dahanukar: Brandy would be roughly 35%.

Shirish Pardeshi: And who are the brands which are existing, I mean obviously there will be local which will be competing?

Amit Dahanukar: There are a number of brands, primarily most of them are local.

Shirish Pardeshi: In the first step when you expect what kind of distribution leg up you expect to settle down in next two to three quarters.

Ameya Deshpande: I didn't understand that question. Could you repeat that?

Shirish Pardeshi: I am asking in Andhra Pradesh, what is the first leg up we would expect to touch up on, how many outlets or number of distribution points we would expect within next 2-3 quarters?

Ameya Deshpande: We already have 100% WOD in Andhra and even with the incremental new shops which have come in, we have 100% WOD.

Moderator: We will take our next question from the line of Hiten Boricha from Sequent Investments. Please go ahead.

Hiten Boricha Sir, I have a couple of questions. The first one is you mentioned we have received some incentives in Q2. If you can please quantify the number and what are we expecting in H2?

Amit Dahanukar: This amount relates to industrial promotion subsidy provided by the Government of Maharashtra under package scheme of incentives.

Hiten Boricha Sir, if you can quantify the amount?

Amit Dahanukar: In 1st Quarter, we received Rs. 5.56 crore and we received a further Rs. 10.36 crore in Q2.

Hiten Boricha Similar amount is expected in H2 as well?

Amit Dahanukar: We are unable to quantify that at the moment.

Hiten Boricha I have one more question on Telangana, sir. So, out of total receivable, can you quantify what is the money stuck in Telangana, what are we expecting?

Ameya Deshpande: The total receivables in the state would be around Rs. 130 crore and around Rs. 80 crore of this would be overdue.

Moderator: We will take our next question from the line of Karan Rathore from Kotak Bank. Please go ahead.

Karan Rathore: My question is that the auditors have qualified opinion based on non-impairment of the ENA plant. What is the value of the ENA plant as on date and what is the impact of it going forward?

Abhinav Gupta: I think as we have been discussing in the call, that there is one grain distillery which we intend to start at some point in time. Obviously, evaluation of various options is underway and this is basically the recommissioning of the existing grain distillery plant of 100 KLPD. That is why the auditor has qualified. That once the management takes the call, then obviously it will get recommissioned and perhaps there will be no question of any impairment. But till the time we take that call, the CAPEX is done and the distillery started, the qualification will come.

Karan Rathore: What will be the cost to recommission this plant?

Abhinav Gupta: This cost we are expecting to be around Rs. 45 crore. This will be at a significant discount to what if we were to set up a new Greenfield distillery and that would make its payback much better as compared to anybody wanting to set up a Greenfield plant today.

Karan Rathore: And what would be the value of this plant as on date if you could help me with that?

Abhinav Gupta: Currently, if a similar distillery were to be set up, it would be upwards of Rs. 100 crore - Rs. 120 crore. And since we would just have to recommission and basically replace some of the worn out parts, we are expecting that it would take us around Rs. 45 to Rs. 50 crore to recommission.

Moderator: We will take our next question from the line of Prateek Poddar from Bandhan AMC. Please go ahead.

Prateek Poddar: I have three questions. One is, could you just help me understand what kind of market share gains will happen in Andhra Pradesh after the relaxation of policy? Second is how should we think about NSR increase from a 2-3 year perspective? Last question was, if you could just help me understand the gross profit improvement which has happened, how much is due to premiumization and how much is due to cost reductions, I mean lower input costs?

- Amit Dahanukar:** On market share gain, we are currently around 10%. We would look at improving from here on an expanded industry base, I think so that would be my reaction to that question, that industry will increase and we will try and improve our market share.
- Ameya Deshpande:** On the gross margin, Prateek, we saw a 200-odd basis points increase in gross margin. This is net adjusted for subsidy. This was predominantly on account of reduction in ENA prices and the bottle cost reductions that we've seen as well as other cost optimization initiative. Little over here with regards to the premiumization drive itself, right, in this quarter, but more to do with the cost optimizations. The NSR has kind of remained the same, thereby premiumization drive has not really impacted the gross margins in this quarter.
- Prateek Poddar:** How should I think about NSR, let's say from a 2-3 year perspective, because I heard if I am not wrong you did talk about getting into luxury, right in a couple of weeks?
- Ameya Deshpande:** Yes. The thing is that when we provide guidance on NSR, we provide that guidance more from a steady state business perspective. Existing business if we go to see I think we should be able to see NSR if volume growth is a mid-double-digit kind of range then the net revenue growth would be a couple of hundred points over and above that, but this guidance is from steady state business perspective.
- Moderator:** I am sorry to interrupt, sir. We lost your voice in the middle. Can you just repeat the last sentence, please?
- Ameya Deshpande:** Yes, I was saying that if we look at our revenue guidance, right, our revenue guidance would be a couple of 100 basis points more than our volume guidance, but this is based on our existing business perspective. From a luxury portfolio and all, obviously, that will have an incremental benefit to NSRs, but that is something that we are not guiding towards as of now.
- Moderator:** We will take our next question from the line of Rishabh Gang from Sachetti Family Office. Please go ahead.
- Rishabh Gang:** Sir, in the past, you have mentioned that the state mix impact the trajectory of our EBITDA margin. Can you please help us understand with some granular insights, right, on how the state mix actually impact the EBITDA margin? Also some light on the retail going private in Andhra Pradesh and its impact, right, how does it work, some insights on that?
- Ameya Deshpande:** I'll take the first question with regards to how the margins differ from state-to-state. This to be very frank is a function of two things. One is the NSR in that state itself. I'll give you an example. A state like Kerala is at least from our perspective is among the lowest NSRs for us in the portfolio. The more the volume of Kerala grows in terms of saliency of our portfolio, it has an impact on our EBITDA margins because, see, at the end of the day, your COGS especially on the raw material side are near about the same, irrespective of which state you sell it in because the ENA, the concentrate, the grape spirit and all remains the same from that perspective. What does matter in this case is obviously the kind of schemes that you end up giving and the other selling and distribution costs, which also have an impact on EBITDA, but getting into granular details of the numbers for each of the states that we don't do. But just to give you a sense, our most profitable states are the states of Karnataka, Andhra Pradesh, Pondicherry, Telangana, these are extremely

profitable states for us on a margin basis, while a state like Kerala not only for us but for the overall industry itself would be relatively lesser profitable on a margin basis.

Rishabh Gang: The retail going private in Andhra Pradesh?

Ameya Deshpande: See, with retail going private in Andhra, what we mentioned even in our opening remarks, it kind of makes the market into a 100% consumer-driven market. What will sell is essentially what the consumer demands to a great extent in that state. So, that is the way the market will change. Now, why does this benefit us at TI is because we have a tremendously strong brand franchise, right, and brand equity in the form of MHB and CNB. We are at a premium price point in the state, which is predominantly consumer-driven. From that perspective, we have tremendous confidence in what lies ahead in the state. Obviously, the underlying industry itself is expected to increase, and we will take a higher share of that.

Amit Dahanukar: Some light on why the industry to increase would be one, I think the government has made an announcement that 10% shops will be increasing, that could be one factor. And two, when a shop is private, they have paid heavy amount in terms of license fees, so they want to make sure that there is no stock-out in the shops, they keep all the brands, they keep them stocked, they make sure that the customers are fully serviced, which might not necessarily happen in government shops, sometimes we have seen our own products being stocked-out, some key sizes may not be available. With privatization we do expect that there will be overall improvement in terms of servicing the market, which will in turn help it to grow.

Rishabh Gang: Also, you mentioned about transitioning of RTM, right, in Andhra Pradesh. Does it mean destocking, how does it result into volume slowdown like some insight on that?

Amit Dahanukar: Because they are transitioning between two policies. From the shop is being government retail to private retail in terms of the handover, the stocks at the depot what happens of that stock which was earlier lying in the government retail, that has to be called back to the depot. Procedurally there are number of issues, new licenses have come up now, where they will set up the shop, they have to get premises, they have to make it operational, etc., These challenges are there which are very common, but of course they're only in the very near short term.

Rishabh Gang: Also, what is the current status of entering into Tamil Nadu? And apart from the states that we are presently are in, what are the other states which have decent brandy volumes across the country?

Amit Dahanukar: Other than the states where we are present, no other state comes to mind with any decent brandy volumes brand. Brandy is a very small component in North and West geography. Tamil Nadu, currently, we have Mansion House Reserve which is selling. We have the Courier Napoleon Green which has just got pricing approval which we will introduce shortly and for a flagship brand Mansion House we expect within the next maybe two months or so.

Moderator: We will take our next question from the line of Shivam Garg from Pariksha Mart. Please go ahead.

Shivam Garg: I want to ask about the Flandy market. What is the current total addressable market size of flavored beverages and where does you see Flandy stands there and what do you expect it from two years down the line?

- Ameya Deshpande:** The flavored spirits industry in the prestige and above segment, essentially be in the high single digit million cases. That is the size that we would see mid to high single digit million cases. Obviously, Flandy as of today is a very small portion of this. A great part of your flavored industry is taken by vodka today. But obviously we do expect given the way we are positioning Flandy within the portfolio as a drink for a newer demographic, we do see good amount of headwind and market share gains that we could make from Flandy within the overall flavored spirits.
- Shivam Garg:** Can you describe which two categories will top after brandy in terms of volumes and NSR and what percentage of margin we can expect from these two categories?
- Ameya Deshpande:** Like we mentioned, we are looking at certain non-brand categories, but at the end of the day, brandy will still drive our growth to a great extent. We've entered into whisky with the semi-premium whisky brand. There will be more such launches and innovations that come out of our stables. But for the moment we surely can't get into margins of what they can derive. What I can guide towards is going forward, what the margins, so our guidance kind of remains the same, over the next 2-3 years you should be looking at EBITDA margins of somewhere around 16%-odd on an ongoing basis.
- Shivam Garg:** What will you give the volume guidance regarding these categories?
- Ameya Deshpande:** Our overall volume guidance is anywhere between 12% to 15% on a steady state basis.
- Shivam Garg:** Sir, can you tell me about what kind of product mix we can see till the end of the financial year 2025?
- Ameya Deshpande:** It will be somewhat similar to what you see today. Brandy will still be 90%-plus of our overall volumes.
- Moderator:** We will take our next question from the line of Shantanu Mantri from Think Investments. Please go ahead.
- Shantanu Mantri:** Just a couple of questions I want to understand. Brandy in the overall industry is huge, almost 20%-22% of the overall IMFL industry. Now in that, Tamil Nadu is a huge market, almost if I am not wrong 50% and I don't think we have any significant volumes coming in from Tamil Nadu. If we were supposed to grow at 15% for the next 3-4 years, by FY28-FY29, we can hit the 20 million case mark in brandy. I want to understand that how will the Tamil Nadu market play a role in this journey, the next 3-4 years? And what is the mix right now there in terms of P&A and the regular segment in brandy? And what has been stopping us from entering this Tamil Nadu market, what are the dynamics there?
- Ameya Deshpande:** As you rightly mentioned, we have a relatively small presence in Tamil Nadu. But having said that within the brands that we operate in, we have been consistently increasing our market share. Our premium brandy offering of Mansion House Reserve has been seeing market share gains on a continuous basis. If in Q1 of FY24 we were a 5.5% share of that segment, which is more than 2 million cases strong for the year, today we are at 8.1%. We have significantly increased our share in the state. Having said that, obviously, there is a humongous opportunity in the state, not in a position to quantify or to give too many details as to what could happen, we don't provide guidance on Tamil Nadu as a state in isolation. But yes, to answer your question, it is a humongous opportunity that we see. The guidance that we do provide though of 12% - 15% frankly does not consider a significant

incremental share from Tamil Nadu. That is over and above that in terms of opportunity.

Shantanu Mantri: Sir, you mentioned about new pipelines and new products, the luxury product in the brandy segment. Apart from that, are there any other products in the pipeline apart from luxury brandy and the whisky that we've already done, any other thing that can come up in the next six months to one year?

Amit Dahanukar: We would have one more launch in the luxury category in the next six months. One would happen in November and one would happen in the next six months.

Moderator: Ladies and gentlemen, we will take that as a last question for today. I would now like to hand the conference over to Mr. Amit Dahanukar for closing comments. Over to you, sir.

Amit Dahanukar: Thank you, everyone for being a part of today's call and showing your interest in TI's story. I would like to underline that with an attractive portfolio and pipeline in P&A we are in a unique place to align strongly with the pulse of the industry. There is a clear vision for growth that will leverage into our brandy leadership while benefiting from innovative introduction in adjacencies and other AlcoBev categories. This includes scaling up initiatives on the organic side as well as through salient partnerships such as the one with Spaceman Spirits and Round the Cocktails. Our commitment to premiumization has laid a strong foundation for continued success and we are geared to drive that forward, backed by a healthy cash flow and balance sheet position. Thank you very much for your time and for supporting us on our growth journey. I trust we have addressed your queries for today. We are available for further clarity and discussions at any time at the coordinates mentioned in the presentation. Thank you.

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