Allied Blenders and Distillers Limited

Company Overview and FY24 Results Conference Call

July 23, 2024

MANAGEMENT:	**MR. SHEKHAR RAMAMURTHY – EXECUTIVE DEPUTY CHAIRMAN**
	MR. ALOK GUPTA – MANAGING DIRECTOR
	MR. RAMAKRISHNAN RAMASWAMY – CHIEF FINANCIAL OFFICER
	MR. JAYATHIRTHA MUKUND – HEAD INVESTOR RELATIONS & CHIEF RISK OFFICER
MODERATOR:	**MR. MANOJ MENON – ICICI SECURITIES**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Allied Blenders and Distillers Company Overview and FY24 Results Conference Call hosted by ICICI Securities.

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 the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manoj Menon from ICICI Securities. Thank you. And over to you, sir.

Manoj Menon: Hi, everyone. This is Manoj from ISec. It's a wonderful good morning, good afternoon, good evening depending on the part of the world you are joining this call from.

It's our absolute pleasure to host the Management of Allied Blenders and Distillers Limited, which had a recent IPO and the first conference call post listing. Over to Mr. Jayathirtha Mukund – Head of Investor Relations and Chief Risk Officer for further proceedings. Thank you.

Jayathirtha Mukund: Thank you, Manoj. Good evening, everyone and thank you for joining us for our First Ever Results post listing.

I hope you have received a copy of our Company Overview and FY24 Performance Review Presentation. I would like to urge you to go through this along with the disclaimer slides.

Today, we have with us from the Management of Allied Blenders and Distillers, Mr. Shekhar Ramamurthy, Executive Deputy Chairman, Mr. Alok Gupta, Managing Director, Mr. Ramakrishnan Ramaswamy, Chief Financial Officer.

The flow of the call would be a presentation on Company Overview followed by FY24 performance review by Alok. Post the presentation, we will have a Q&A session. I would request everyone to discuss points related to Company overview and FY24 performance.

Also, I would like to highlight that in a couple of weeks' time we will be declaring our Q1 FY25 results and we would be happy to engage with you for any points related to Q1 performance and Q2 outlook in the Q1 FY25 results quarterly earnings call.

Now, I would like to hand over the call to Alok for the presentation before we open up for Q&A. Over to you, Alok.

Alok Gupta: Thanks, Mukund, and good afternoon, ladies and gentlemen. Thank you so much for taking the time out today.

We have a few slides to cover. So, here is the snapshot of what ABD is all about. Just a quick background for those who need to understand how the spirits business is done. Our business is done, it's a state subject, therefore it's all about locally producing and locally selling it and the entire infrastructure that has got built out, which I will cover in a bit is extremely important to understand because it helps us deliver our products in a most efficient manner.

We are the third largest spirits Company in India in terms of annual sales volume. We have 17 IMFL brands. IMFL stands for Indian-made foreign liquor. We have 33 manufacturing facilities. One of them is a distillery in the state of Telangana which is also our largest market, and we have 32 bottling units across India, which essentially means that in all the markets we have a bottling unit that allows us to deliver our products efficiently. Our retail outlet coverage is about 79,000, translates to a width of distribution of more than 90%. So, pretty much available in every shop and every on-premise that matters.

We are the largest exporter of IMFL for many years in a row. We export to about 14 countries and we export more than seven or eight brands into these countries. Of the 17 IMFL brands that we have, we have 4 millionaire brands. All of them are in whisky. Our flagship brand, Officer's Choice, our extension of Officer's Choice is Officer's Choice Blue, followed by ICONiQ White, which is our recent launch and Sterling Reserve.

Officer's Choice, as you may know, has been the third largest selling whisky brand globally. ICONiQ, a brand that we launched in September of '22, now has been rated as the fastest growing spirits brand globally, as reported in the Drinks International Magazine.

For FY24, our total income was Rs. 7,675 crores. We sold a total of 31.7 million cases with the gross margin of 37% and ROC of 16.4%.

Just a quick snapshot of how the portfolio has evolved. ABD's journey started way back in 1988, 35 years back. Over the last 35 years we have built a sale, manufacturing and distribution network that is both sustainable and scalable. In 1988, the first brand that was launched was Officer's Choice, followed by extension of Officer's Choice in 2001 across other flavors.

The premiumization journey started in 2011 which was the launch of Officer's Choice Blue. Thereafter, we launched Kyron, which is a premium brandy which we sell largely in southern India.

In 2018, we launched Sterling Reserve, which is a semi-premium whisky competes with Royal Stag and in calendar year up to '23, we also then rolled out ICONIQ White which I have already said is the fastest growing spirit brand as per the survey done by Drinks International Global.

So, what have been built over the last 35 years? We have 17 IMFL brands, of which there are 4 millionaire brands, therefore very strong brand recognition. They have withstood the test of time. Some of the brands are young like ICONIQ, some of the brands are 35-year-old like Officer's

Choice and they have in their own way held on to their rankings and have been in some markets beyond India.

Our manufacturing footprint, which is 32 bottling units and one distillery strategically located. There are significant logistics advantage both in terms of inbound and outbound cost and access to raw material. Our R&D center is at a unit in Aurangabad. It's where all the magic happens in terms of our blend and all the developments that has been lined up for the future.

We have an extensive Pan India distribution network. We supply to all kinds of markets, whether government runs the wholesale or the wholesale is private. In addition, we also supply to defense forces, both CSD and paramilitary and of course we do export, and are largest exporter out of India.

We have an experienced board. We will cover it through two slides on our board members. We have seven independent directors based both out of India and overseas and we have a significantly experienced senior management team with a good blend of both from the industry and non-industry that helps us to do cross-industry fertilization of ideas.

I have already covered that we have a diversified portfolio of 17 brands that operate across all the flavors. This chart sort of gives you a view of where we operate. So, as far as whisky is concerned, which is our core strength, 97% of our sales come from whisky as a portfolio. We have a significant presence in mass premium through our flagship brand, Officer's Choice.

In the Prestige segment, the comparable brand is Imperial Blue and McDowell's No.1. We have Officer's Choice Blue and ICONIQ, which are now significantly a well-established brand and gaining market share.

In the semi-premium segment, which is the Royal Stag and the Royal Challenge segment, we have two brands; we have Sterling Reserve, and we also have a very interesting new launch, called Srishti. Srishti operates at a slightly higher price point then Royal Stag in what is known in the semi-premium plus segment which is Royal Stag Barrel Select price band.

And right at the top, we have two brands in premium, which is Sterling Reserve Blend 10 which is an extension of Sterling Reserve, the mother brand, and also X&O which is a new brand which we have just recently launched, and we are in the process of understanding how do we take this brand forward. So, the whisky stack is pretty full as far as FY24 is concerned.

On the brandy side, we have an entry level brandy, which is an extension of Officer's Choice which is the mother brand. And right at the top, we have Kyron and also an extension of Sterling Reserve. The Kyron is our most premium offering in the brandy segment. It operates in the southern market and has reasonable shares and is growing.

On the rum, our presence currently is in the mass premium and Prestige sectors, our Prestige brands. They largely operate in specific state combinations where they operate as opportunity brand.

In the vodka, we have a mass premium, vodka called CLASS 21 and our most recent launch has been Zoya, which is our first launch in the luxury gin segment which we launched in the month of January '24.

So, what this slide really is helping us understand is that over FY18 to FY24 over a period of five, six years, the contribution from P&A segment has actually now moved. A significant contribution is coming from the P&A segment. So, from a 25% share that was coming from P&A, by FY24, the share of P&A is now about 37%. So, that's a significant increase and the products that we have rolled out and the growth that they're demonstrating, you see these numbers only getting better.

So, our focus on premiumization both in the whisky segment, on the non-whisky segment will continue. The brands are established across all categories.

What is important is in the last 10 years there are only two brands that have sort of cross the 5 million case segment. Both the brands have come from ABD. One is Sterling Reserve and ICONIQ which is on the right track in terms of reaching that milestone. Ability to successfully launch brand largely because we have a Pan-India infrastructure both in terms of manufacturing and distribution.

A quick look at how our manufacturing footprint looks like? We have a total of 32 bottling units, of which nine are owned, five are third-party exclusive and 18 are third-party non-exclusive. We have our distillery in the state of Telangana, which produces 60 million liters, which is running to capacity. So, that's an important distillery for us because of the 32 million cases that we sold last year, about 10 million cases were sold in the state of Telangana. So, it gives us both in terms of our margins and also in terms of supply chain security.

In terms of distribution, we are a Pan India player. We operate across all markets, reach of over 79,000 outlets, 12 support offices and ABD is one amongst the four national players in the country -- Diageo, Pernod, Radico and us. We are the only four companies that have all India footprint, have the ability to understand the complex market structure, whether it is supplying to the government as a wholesale or to a private market or to the defence forces. So, I mean it's just the fact that we have a well laid out infrastructure in terms of distribution. In terms of our feet force, we have roughly 500 people on the feet and that allows in future to launch new brands and reach out in the quickest possible manner.

I am now reading out the slide. Essentially, this is about our board of directors. I will maybe stay on this slide for five seconds just for you to sort of glance it over. Next slide on the senior management team, myself, Shekhar, Ramki and Mukund are in this room and my other colleagues a bit about them in terms of other functional stakeholders, be it marketing, be it corporate relations. So, again, I will stay on this slide for a couple of seconds for you to run through it. I was saying earlier it helps us to make the best in terms of the cross-industry experience that the senior leadership team and the board brings on to the table. So, we are able to take advantage of that.

The next two slides are about awards and accolades that we have been winning. The purpose of sharing this slide is to simply demonstrate that be it in the area of blends or area of campaigns that we run, we have been winning awards And it also reflects on the fact that we have 4 millionaire brands which have got on to get the largest share of the market.

We will quickly move on from what's happening in the market. The key point here really is that premiumization is here to stay. We have seen that Indian consumer is now driven by a very different value proposition. Consumption is experience-driven. The consumer is okay with the idea of spending a little extra money, provided there is an authentic story. There's a product that matches the promise and is happy to stick to a newer experience. So, when we look at the forward forecast for the industry, which has been put at about 9%, I think the important number here is that this 9% was to be seen by breaking up into the mass premium segment, the P&A segment and the luxury segment. It's quite evident that the rate of growth in the P&A segment, in the luxury segment is between 1.5 times to 2 times, that is the mass premium segment. So, it's quite clear that while the volume growth will be at about 9%, the value growth is going to be significantly higher, thereby giving the entire industry and us an opportunity to move up the value chain.

As for what's happening on the consumption side, all this is known to you. We are looking at a society which is open to the idea of responsible drinking. There's a greater social acceptance. There is a good combination of both in-home drinking and out-of-home drinking and post-COVID, we are also seeing a lot more consumption of people sort of enjoying an evening with the drink of their choice, with their friends. So, I think overall the consumption, the way it is emerging is only favorable, driving both the value and the volume growth in the industry.

The five or six areas that we are focused on is Officer's Choice, which is our flagship brand. A lot of work has happened over the last 12 months or so in terms of which markets to sell, packaging changes that we have been able to bring about with the singular focus of improving and maintaining its gross margin to a level that it justifies the investment that we are making in this brand. The new products will be largely in the premium and the luxury segment. We already have a strong portfolio in the P&A segment, which is with OC Blue, ICONiQ and Sterling Reserve and we plan to keep focusing on driving market share in the P&A whisky segment.

And the focus in terms of the new product introduction is going to be largely on the luxury side. We have already launched our first luxury product which is Zoya, which is a small batch gin, which is in the process of getting rolled out across all regional markets, and there are newer products that we have kept ready and look forward to launching them very soon.

Continue to focus on operating efficiencies. We run 32 bottling units and one manufacturing unit which is our distillery, continue to focus on the cost, be it in terms of raw materials, be it in terms of logistics, environmental social practices continue to be part of the ENA. In the earlier slide, there is a reference to the work that we are doing at our distillery in terms of water efficiency and how we have been able to reduce significantly the water consumption for every liter of alcohol that is getting consumed and there are many other ideas that are currently being evaluated.

From a brand awareness perspective, all the brands, especially in the P&A segment, in the luxury segment, the focus on digital marketing is going to be an important one, and we have augmented both internal and external resources to get the best return on the digital marketing investment, and we will continue to evaluate growth opportunities and selective acquisition wherever we believe it makes sense, either in terms of backward integration or in terms of a brand that make sense in terms of our portfolio synergy.

FY24 performance snapshot on financial highlights, I mean the numbers are right in front of us. We did a net revenue of Rs. 3,334 crores, our EBITDA was Rs. 248 crores, margin at 7.5% and ROCE at 16.4%.

We have seen all the good work that has been happening in the past. We have seen some critical green shoots in terms of improved realization in terms of revenue per case, which has gone up by 5% on a volume base of 32 million cases, improved P&A salience which is now up to about 37.3% in FY24. Portfolio that is now getting ready in the luxury category, of which we have launched our first brand Zoya and ICONIQ White which was launched in FY23 went on to become a million case brand in the first 12 months, and for the financial year FY24, we did roughly 2.3 million cases and this brand continues to grow and has been rated as the fastest growing spirits brand globally.

We have done a significant work in terms of packaging cost, transitioning from glass bottle to PET and have also explored successfully the use of tetra in a couple of markets.

From an environment and margin point of view, we are rewiring our entire supply chain in terms of market bottles, and we are looking at almost an increase of about 6% to 7% higher utilization of our market bottles.

The chairman has from 1st of July, 2023 stepped down from being an executive chairman to a non-executive chairman, which actually helps in terms of creating a separation between the management and the ownership. Strengthening of the board with several independent directors brings in the right management practices. The focus in terms of the owners and compliances ever increasing. We are also looking at digitizing our entire risk practice. We have already digitized our board practice and we are also looking at the compliances to get on to a SaaS platform. So, a lot of focus in terms of compliances and governance. I think internally on the team, while we are looking at growing at a fairly fast pace, but we also recognize that we also need to foster a culture where we are focused on process excellence and greater accountability, and we continue to innovate.

Last year for us, in terms of overall volume was flat for the reasons that we have already sort of covered in our some of our previous calls, which is largely due to non-availability of working capital largely on account of Telangana, which is a large market where receivables went from 60 days to over 150 days. This was the industry-wide phenomenon as you all know and that created a bit of a stress for us. So, this is all about how our P&A revenues have moved, P&A volumes have moved, P&A realization per case. The P&A salience is ever improving from FY18 which was at 25%, now it's at 37.3% and essentially the focus on premiumization and growing our share both in luxury and P&A segment will continue.

And at the cost of being repetitive, the Telangana problem, which was an industry-wide problem did create a situation for us where the volume growth that we have planned for H2, we could not realize. As you're all aware and you've read in the newspaper, that this was an industry-wide issue. It's looking better as we speak today.

A quick snapshot of our consolidated income statement. FY23 versus FY24, our gross income is up by about 7.8%, our income from operation is up by 5.6%. This gap is in terms of as you know that in some states our billing pricing includes excise duties, somewhere it doesn't. So, the real line to look at is income from operation, which is a 5.6%, EBITDA is up at about 26.7% and there's an EBITDA margin improvement from 6.2% to 7.5%. So, this is a quick snapshot in terms of our consolidated income statement.

So, income from operation grew by 5.6% to Rs. 3,334 crores, improvement in realization per case to Rs.978 per case. This is at net realization and not gross realization. So, an improvement of 5.1%, while volume de-grew by 1.7%. In H1FY24, we delivered strong growth both in mass premium and P&A and in the H2 we experienced difficulties for reasons that I have already explained with you largely to do with our receivable challenge in Telangana, which was an industry-wide issue and essentially as a result we exited H2 not with the growth that we have planned. EBITDA grew by 26.7%. It's here to read a lot of focus on cost saving initiatives. But more importantly, we built in a foundation for our luxury portfolio. We built a new division called "Prem Brand" which is building both people capability and infrastructure capability in terms of the outlook we have in the luxury segment and the premium segment. So, while we had a problem in the market which is delayed receivable from Telangana, but internally the readiness on the product portfolio, the readiness in terms of the organization readiness, in terms of the infrastructure to participate in the premiumization story was being worked on and essentially as we approach the market in coming financial year, we will see and hear a lot more about what we plan to do.

A quick look at our key brands, Officer's Choice, third largest selling whisky brand globally. Flagship brand continues to maintain market leadership. It's got the highest gross margin in the existing portfolio, and I think one of the best margin even across the key competing brands.

There has been a major shift towards sustainability by moving on glass to PET and also aseptic packaging, which is really tetra. So, in the state of Karnataka and Uttar Pradesh, the 180ML pack and the 90ML pack we sell in tetra, very happy to share with you that this transition has been done in a manner that the consumer has accepted both the PET format and the tetra format, and that allows us to expand our gross margin. We did 18.7 million cases in FY24. It's the sixth rank spirits brand globally, and the third largest selling whisky globally, again a view of various awards the brand has been won. It's a flagship brand with the gross margin that we have been able to achieve on this brand. Our focus will continue to drive profitable growth and maintain or grow our margins on the brand.

Officer's Choice Blue, which is an extension of our flagship brand, Officer's Choice, gives us an opportunity to leverage the equity that Officer's Choice has across the country. We have done 4.3 million cases in FY24. It's a regional powerhouse. It operates in a few markets, commands market share in those markets and clearly we are very happy with the markets where it is operating in. Again, the brand has been winning its own awards in terms of the blend. It has a distinctive packaging and it continues to stand out. Our focus will continue on markets where it has market share. So, we see this brand to be a regional powerhouse and continue to sort of foster and invest in this brand of the market where margins are good, and the market share as well are good.

Sterling Reserve, B7, this brand was launched in year 2018, so just about 4–5-year-old brand, went on to reach 5 million cases, competes with Royal Stag and Royal Challenge in that segment. Again the brand has been winning its award for blends specifically, and for the advertising campaign that has been doing. It's a challenger brand in this segment. It's a fairly large segment. It's got an exceedingly good blend really that comes out from our R&D center, Aurangabad. We have recently launched what we call as a Hippy Pack, which essentially is 180ML pack, largely designed for the younger mobile audience. The good thing is that we are able to position this pack at a price point which is higher than the traditional glass 180ML. So, it talks to audiences that are more modern, therefore, drive the freshness for the brand, but the pack also has to make slightly higher margin because it's priced higher than the traditional glass pack. We are more than doubling our capacity for the Hippy Pack in terms of procurement, because it's getting exceedingly good feedback from the market.

Moving to our next brand, which is the new kid on the block, ICONiQ White. It's achieved its million cases in the first 12 months of launch. It closed at about 2.3 million cases in FY24, again from a million to 2 million very fast and the brand continues to grow. The national rollout of the brand is just about complete. So, many more markets that we have added post FY24. Currently, it's on a ARR of about four to five million cases for FY25 and therefore will more than double the exit volume of FY24. Again, in the short period of the launch, the brand has picked up its award and recognition accolades, both in terms of the product and the digital marketing work that we have done. Our ICONiQ White approach is slightly different in the market. It's talking to younger consumer. It's talking to the consumer in a language which is very different and unique. It's refreshing to the extent it does not carry the traditional power symbol, which is red, blue, gold. If you see it's a fairly non-whisky colors, but I think that really drives the premiumness of the brand and acceptance of the brand. What we have also done with the brand is that we have price positioned it between an Imperial Blue and Royal Stag from a Pernod portfolio and McDowell's No.1 and Royal Challenge from a Diageo portfolio, and the advantages that we are able to get both upgrade from Imperial Blue and McDowell's No.1 and we also are able to get downgrades from Royal Stag and Royal Challenge. This segment is about 120-odd million cases and this price point allows us to get consumers from both the semi-premium segment and the deluxe segment, and that's really what is driving the growth. Needless to say, that at this price point between semi-premium and deluxe, we also make better margins.

Moving on to Kyron, it's a premium brandy from our portfolio. It does about 150,000 cases, largely operates in south. It's been getting its own share of awards as far as blend is concerned. I think consistently you would see a theme that our blends have been winning international award and that's something that gives us immense pleasure and immense confidence that as we started putting in a little more A&P behind this brand, consumers would only sort of reciprocate in terms of their love for the brand that will translate into better market share. We are in the southern market relooking at what we can do with Kyron. I mean another as an example, we have a share of 25%. So, what we can do with a premium brand, it's been part of our portfolio for some time and we are moving it from being a purely distribution brand to now an A&P backed brand. As we are seeing premiumization not just in whisky but happening across all segments.

Moving on to Zoya, our first brand into the luxury segment, we have identified a few price flavor combination in the luxury segment where we believe we have both a right-to-play and right-to-win. Our portfolio is largely whisky focused. 97% of our revenue comes from whisky. So, here we decided to get out of a bit of our comfort zone and our first luxury brand is in a non-whisky portfolio, that is Gin. It's already launched in two key states of Haryana and Maharashtra, and by end of this quarter, we are looking at being available across all critical gin consuming markets. And again, the brand is less than 7-8 months old, but it's picked up, especially on the blend side we are extremely happy and of course on the campaigns that we have been running under what we call as #ZoyaTales, which is a combination of excellent cocktails that you make with Zoya and also the tales or conversation that you have while you're sipping Zoya. So, this entire digital campaign, which is on ZoyaTales is really getting us the rich dividend which is reflecting in the tertiary sales and the feedback that we are getting on the brand.

So, that was on our key brands, masking Officer's Choice, thereafter our P&A segment and whisky, OC Blue, ICONiQ and Sterling Reserve, Kyron, which is a hidden jewel which we plan to leverage in this financial year and going forward and Zoya, which is our first luxury launch… first but not the only one.

Moving on to the "industry outlook," we expect the industry is expected to grow at a single digit. However, if you were to look at this growth between the mass premium and P&A, that's really where the value is, the P&A segment and the premium segment is growing faster than the mass premium segment and thereby driving the value growth in the segment and with our portfolio which is currently available and the new brands that we have in mind, I think we are well positioned to take advantage of the premiumization that's happening in the country.

The consumption continues to be experienced driven the consumer is especially in the premium luxury segment looking for new brands and of course also demanding from those brands, constant sort of variety and excitement. So, whether it is in terms of flavors or it is in terms of finishes and that is extremely important and our R&D center out of Aurangabad will become a big asset for us to be able to constantly provide consumer those experiences.

In terms of the outlook on commodity prices, the outlook as the ENA prices are likely to stay at March '24 and hopefully towards the H2, there should be some correction. We are already seeing some signs of correction, so that's good news for us. And the glass bottle prices will come down after the significant increase that we experienced in last year.

As far as the Company is concerned, I think I have already covered it. We want to drive profitable volume, we want to drive overall growth, which is faster than the industry. In the whisky segment, continue to focus on Officer's Choice in profitable states, but definitely sharper focus on maintaining and growing our gross margins consolidate and grow our market share in the P&A whisky segment with Officer's Choice, Imperial Blue and Sterling Reserve, leverage Kyron, which is a hidden jewel in our portfolio, expand the luxury segment beyond Zoya.

On the cost front, look at line items which are beyond the cost of goods, and we have identified three or four areas where we will do significant benchmarking in terms of both domestic best practices and global best practices and to figure out how can we be more efficient in terms of cost item beyond the cost of goods.

The working capital efficiency both through what we are doing in terms of our procurement, looking at combination of VMI, which is vendor managed inventory, to looking at a better replenishment model across the market is something that is the area of focus that will help us, optimizing our working capital. So, this is what is going to keep us busy in terms of way forward which will strengthen our current position, launch newer brands in the luxury portfolio, look at beyond cost and continue to look at efficiency which optimizes our working capital.

So, that is the last slide from my end. I hope I was able to do a good job in terms of walking you through the FY24 and if there is any follow up question, of course, we will take in the Q&A section. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question can press * and 1. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets when asking questions. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Our first question is from the line of Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: So, given this is the first results as a listed Company, I wanted to understand now that your debt issues are resolved, what will be your top three priorities in the next one year? I understand for the industry and for you also Q4 was challenging because of the overall slowdown, etc., and Q1 also my sense is the election impact will be there for the industry and for you. But if we see going ahead, how things will change and what will be your top three priorities given the debt issues are now resolved post the IPO.

Alok Gupta: Thanks for your question. The top three priorities, first is participate actively at an accelerated pace in the premiumization journey both at the luxury segment where we have launched Zoya and other brands that are lined up and you will see announcements from us very soon, grow our market shares in the P&A segment and more importantly on Officer's Choice continue to grow profitably. So, that's one. Second is, look at cost optimization beyond cost of goods. We have identified three cost heads in terms of LPB, forward logistics and commodity, which is significant in terms of our overall cost, and we are engaging with the subject matter experts to help understand both domestic and global best practices. We believe significant value will be created and all those savings to efficiency will go down to our bottom line. The third thing I would say is really on process automation, digitization to sort of be a central focus in terms of our decision-making, whether it is in softer areas of governance and compliances, or whether it is in terms of what we do on the marketing side. So, I would say these are our top three immediate priorities at this point of time.

Abneesh Roy: My second question will be on the new government in Andhra. The manifesto had put out that new liquor policy will be there to provide more affordable and better-quality liquor. So, what will be your sense on that, how close are we to that if you have the sense? And what could be the benefit for you given this is one of the states where you do have a business, what's the expectation on this?

Alok Gupta: So, historically, if you were to go in the past, we have sold 2x the volume that we currently sell. So, we are as eager to understand what the new policy would look like. I think all indications are pointing to the fact that there is a very high probability of, a) retail getting privatized which is good news for industry and for us, because then we get a fair chance to reclaim our old shares, and we are expecting that something to this extent hopefully over the next two weeks we will get to hear. So, we are quite looking forward to the new policy in the state of Andhra Pradesh.

Abneesh Roy: And a last quick question on Bengal. So, there is some increase in the spirits taxes also, but beer taxes seem to have increased much higher. So, do you expect that there can be some market share gains from the beer industry and any particular proactive plan to get more market share given the changes in taxes in Bengal?

Alok Gupta: So, as far as the tax on ENA is concerned, it is only on import. If you're buying locally, there is no change in the tax structure. So, that's point one. Therefore, to that extent is margin-neutral. On the beer prices, in the previous policy, the gap between let's say for us, Officer's Choice whisky and beer had expanded considerably. So, while we had a significant jump in our margin, the segment did experience a bit of slowdown. And on back of what we are currently seeing in terms of the new policy, we do expect that the mass premium segment in which we are the largest player, we do expect volume growth with the new prices.

Moderator: The next question is from the line of Yash from Stallion Asset. Please go ahead.

Yash: So, I understand that your P&A share has increased from 25% to 37% in the last four to five years, but if I look at your EBITDA margin, they have been constant at about 7% to 8%. So, we are not getting the advantage of that impact. So, I just want to understand why isn't the realization not been there on EBITDA margins?

Alok Gupta: Essentially, I think COVID hit us a little harder than perhaps it did to the rest of the industry largely because our portfolio was very heavy in the mass premium segment with very little volumes coming from higher gross margin brands. So, it took us a little bit of time to recover. But as you can see that this financial year, there is an improvement in the EBITDA margin. Of course, it's still single digit and I think FY25, we are hoping that there will be a significant change on back of… I am just connecting back to the earlier question that was asked to me on back of post-IPO, we paid off our debts, it's a deleverage balance sheet, we do not have any further working capital stress. We believe the true potential of our brand will come to play and hopefully this question if asked next financial year, would have a very different response.

Yash: For your ICONiQ White brand, like this is Gin, right, so what is the sort of the area that you're competing like what kind of brands are you competing over there?

Alok Gupta: ICONiQ White is a whisky and not a gin. ICONiQ White operates at a price point between McDowell's No.1 and Royal Stag. This segment all put together is about 125 million cases of the 400 million cases of IMFL in India. So, , 25% or more, about 30% of the sale in the 400 million case segment comes from the P&A whisky and ICONiQ White plays right in that segment, but at a price point higher than deluxe and little lower than semi-premium.

Moderator: The next question is from the line of Pranav Shrimal from PINC Wealth Advisory. Please go ahead.

Pranav Shrimal: I had a couple of questions. One would be, so we saw increase in our EBITDA margin. Now how much of the increased EBITDA margin can be attributed towards the packaging cost and how much is because of our efficiency and realization?

Alok Gupta: Let me give you a simpler response that the increase in the EBITDA margin of about 60% is coming on back of better gross margin and balance is coming on back of better overheads.

Pranav Shrimal: And would these margins be sustainable going forward or can we expect some mortality in that?

Alok Gupta: We have already seen the peak in terms of the glass bottle prices and the ENA prices. Our view is that ENA prices will soften out hopefully Q2 onwards and glass our prices will soften out and therefore we believe these margins are sustainable or maybe even marginally growable.

Pranav Shrimal: So, what would be our target share be in P&A like right now? I think it is around 35%, 37%. How much do you want to achieve, let's say, three years forward?

Alok Gupta: So, our share in the P&A whisky segment is not 35%. Our share in the P&A segment would be high single digit and hopefully on back of the growth that we are seeing on ICONiQ and the work that we are doing in SRB-7, we are hopeful that we should be able to see significant change in our shares, maybe double of where we are today over the period of time.

Pranav Shrimal: Then that of course leads to a margin expansion as well, right?

Alok Gupta: And I think one added point would be that the P&A sales, which is currently about 37%. As a result of this, growth will also be at about more than 50% in terms of volume and hopefully about 60%-odd in terms of value.

Pranav Shrimal: The new products we are going to be launching, in which segment are you going to launch the products?

Alok Gupta: The work that we have done over the last four quarters in terms of getting our new products developed, one of which is launched which is Zoya and a few others that will get launched in time to come. All of them are in the premium and luxury segment and we believe our portfolio in the mass premium and the P&A, which is Prestige and above, I think we have a very good portfolio with Officer's Choice, ICONIQ, Sterling Reserve and OC Blue. So, we are not planning any more new launches there, but we will be doing all our focus on the luxury side.

Moderator: Our next question is from the line of Swechha Jain from Whitestone Financial Advisors. Please go ahead.

Swechha Jain: I have a few questions. So, my first question is in FY24 we have done 31.7 million cases as compared to 32.2 million cases in FY23. And this is obviously contribution is from a very new brand, ICONiQ, right? So, if I understand our other brands apart from new brands would have not contributed in this growth in terms of millions of cases. So, I just want to understand that how come our cases have reduced in FY24?

Alok Gupta: Thank you for that question. I think the challenge that we had in the H2 was really around our receivable stuck in Telangana. So, the call we had to take was that how do we prioritize the capital. So, essentially the prioritization of capital was done on the profitability of brands in terms of the state and also balancing with what the future promises and ICONiQ being a brand that was growing at a very fast pace, we made sure that it got all the capital that it required, and we had to take a back seat on some the state brand combination where margins were lower. So, really in H2, the job on hand was that how do we continuously focus on protecting or growing our market share in market and on brand that matter from a long-term perspective.

Swechha Jain: Sir, now since we have paid off the debt, so I want to understand in terms of our interest cost, how much are we going to save on a yearly basis?

Alok Gupta: So, we will talk more about it along with our Q1 Result, but just to give you a directional response, we are expecting interest cost to cut more than half in this financial year, largely because Q1 we have legacy interest cost, so that's what we are projecting for FY25 and then progressively reduce it out.

Swechha Jain: In the RHP, we have mentioned that we have done some restructuring of the top management and the committee which would help us in saving a cost to the tune of Rs. 93 to 95 crores. But as I see in this quarter, our employee cost has significantly gone up. So, I am not able to actually connect the dots. So, I just want to understand this Rs. 93, 95 crores of cost saving, how much of it is going to get reflected in this year, sir in FY25 and going forward how it will be?

Alok Gupta: So, just one clarification and then I will answer your question. The cost that you're referring to in the RHP was the cost associated with the chairman who has stepped down from being an executive chairman to a non-executive chairman w.e.f. 1st July '23. So, the 90-odd crores is the total cost that was associated. Part of that cost was incurred in Q1 FY24 and that cost since then we are not incurring. Therefore, we get a full benefit in FY25 moving forward. On the people cost like I explained and just connecting the earlier question, our focus is on the luxury segment. So, we are building a division which is called 'Prem Brand'. ABD strength has been in the retail market. We cover about 90%-odd of the retail market, 79,000 retail units. However, on the on-premise side, because our portfolio was sort of between mass premium and the P&A segment, there was no need for us to have an organization for key accounts and premium on-premise. So, we have been focused in the last few quarters in FY24 to build the organization out and build the infrastructure out that will allow us to launch the brands, including Zoya and many other brands that are already in the pipeline in the current FY. So, the people cost increase is largely an investment ahead of the curve to be able to launch our luxury brand in a manner that they need the attention in the premium on-premise.

Swechha Jain: So, if I look at our gross margins, we are still 3% to 4% less as compared to our other competitors. So, while I understand our interest cost is going to come down, our other cost is going to come down, but all that is going to reflect at the EBITDA level. So, I just wanted to understand from a gross margin perspective, what levers do we have to increase our gross margin going forward?

Alok Gupta: It's a fair question. I think our stated sort of direction is that we want to get to industry parity EBITDA over the next few years. I think there are two important growth levers. One is that currently our captive ENA is just about 30%-odd of what we need whereas most of our competitors have nearly 100% captive ENA. That's roughly it will translate to about 250 basis points gross margin improvement. So, we are looking at building capability, we are looking at investing on the ENA manufacturing sites, right and to address the gap. Other than that, on the gross margin, now that we have paid off our debt, we are looking at renegotiating our terms with our vendors and the process has already started and we are looking at almost about 75 basis points improvement in our gross margin going forward on back of timely payment. So, these are two initiatives and one initiative that I think I have covered briefly was in our industry market, bottle utilization plays a very important role. We were at about 10%, 12% market bottle utilization and in the current financial year, we have targeted almost doubling our market, bottle utilization that will also have an impact on the gross margin. So, you would see a significant improvement on what is possible in terms of cost management and market bottle utilization, but over the next two to three years address the captive ENA to go from 30% to 100% and that will have another massive jump in terms of our gross margin.

Swechha Jain: Can we expect directionally gross margin in FY25 to go up at least by 2% or 3% and then rest can happen after that?

Alok Gupta: Well, that certainly is the intent.

Swechha Jain: So, this receivable issue that I think you were talking about Telangana, right?

Alok Gupta: That is right.

Swechha Jain: What is the status, sir as of now, if you could just give some clarification and color to it, sir?

Alok Gupta: The situation is better than earlier. But the full issue is yet to be resolved. The industry, the beer and the spirits industry through its industry body, CIABC, and the new beer industry body, they simply had a meeting with both the current government and the bureaucrats and we have presented our case to them and they have given us an assurance that they will resolve the issue starting September. So, there is still a bit of overdue left in Telangana, but better than earlier, but not fully resolved.

Swechha Jain: If you could specifically quantify this like how much is it?

Alok Gupta: Well, at an industry level, if my memory serves me right between beer and spirits, the Telangana government, I think the total number is maybe Rs. 4,000-odd crores, but in terms of the agreed payment terms are about 45, 60 days, we are operating north of about 100 days in terms of receivable.

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

Darshika Khemka: I wanted to delve a little deeper into the question that was asked by the previous participant around the Rs. 93 crores of restructuring cost. So, can you help us with the breakdown of this cost? So, I believe if we were supposed to not incur, this cost for the three quarters, so that is approximately around Rs. 70 crores. Can you give the breakdown of the Rs. 70 crores between employee costs and other expenses?

Alok Gupta: The cost is associated with the chairman's office, both in terms of salary and other direct cost. So, I think there is no major line-item breakup so to speak and we expect the 93-odd crores saving to accrue for the full year for the current financial year.

Darshika Khemka: From FY25?

Alok Gupta: Yes.

Darshika Khemka: And you have mentioned that a certain portion of employee expenses were incurred for the new setup that you are doing for the new hiring that you've done. Can you quantify that amount for us?

Alok Gupta: Broadly, about between Rs. 10 and 15 crores.

Darshika Khemka: My last question is that, to increase our ENA captive usage from the current 30% to 100%, what kind of investment are we looking at over the next two to three years, because if I am not wrong, it does require substantial investments, right?

Alok Gupta: There are various options that are currently under evaluation, right? So, let me try and answer the question to the extent possible today and hopefully more about when we talk next. A typical 150 KLPD plant will take about Rs. 225 crores. We will need a capacity of about 300 KLPD nationally. But there are many different ways of making this investment. So, we are currently evaluating it, haven't really finalized anything at this point of time, but hopefully in the next few months we will have a clarity in terms of how we want to make this investment.

Darshika Khemka: So, that would approximately mean a CAPEX of around Rs. 450 crores, right?

Alok Gupta: Yes, the investment in the two plants will cost roughly that amount of money. But I can say we are currently evaluating what's the best way of making these investments.

Darshika Khemka: Probably we can get back on this.

Alok Gupta: Of course. I think hopefully over the next few months, we will have a clear game plan on this, but it needs to be done that we are quite certain.

Darshika Khemka: I was just curious to ask what could be the funding means of this as well?

Alok Gupta: So, like I said, I think that's really the point I was trying to make that while this needs to be done, but there are various other options in terms of how do we go about making this investment and a little premature for me to answer that question. But I think needless to say from a business operation point of view, we are quite clear that we want to maintain a debt of a certain level and that's why we want to make sure that we structure it correctly.

Moderator: The next question is from the line of Vishal Punmiya from YES Securities. Please go ahead.

Vishal Punmiya: Firstly, just wanted a data point in terms of your P&A contribution in value terms. You did mention volume terms in your presentation for FY24 and FY18. If you can also share the same in terms of value?

Alok Gupta: It will be broadly about 45%-odd would be the value terms.

Vishal Punmiya: In FY24?

Alok Gupta: That's right.

Vishal Punmiya: And what would that be in FY18?

Alok Gupta: Sorry. I will have to get back to you on that. I do not have that number on my fingertips.

Vishal Punmiya: Would the exit of FY24 4Q, which is 4Q, the 40% would be same for 4Q as well?

Alok Gupta: Sorry, say that again please.

Vishal Punmiya: The exit of FY24 4Q, the P&A contribution would be same at 40% or would it be slightly higher?

Alok Gupta: I think it's getting better quarter-on-quarter. Therefore, FY24 contribution be higher and it also reflects in our outlook for FY25.

Vishal Punmiya: In terms of an article which came three days back in terms of home delivery of liquor, so the media article states that the states are planning to allow home delivery of liquor through platforms, this was also explored post-COVID. So, what's your view on this? Is it something which might take a productive shape, is it something which is just being explored and might take a lot of time to implement?

Alok Gupta: Well, I think firstly. It's a very progressive step. So, we support this government's viewpoint completely. In FMCG, there are millions of outlets, whereas in alco bev, there is a defined outlet and for the right reasons. Therefore, home delivery makes a lot of sense. I think it needs to be done with a little bit of care. Things like that the buyer is are not certified. So, there was age verification, address verification. I think there is a structure that will emerge, but I think we view this as a very, very progressive step.

Vishal Punmiya: What do you think would be the biggest barrier in terms of implementing this? Would it be basically the tagging of the store because they are obviously paying a huge fee in terms of retail operations, would that be the biggest barrier or would it be something else?

Alok Gupta: The home delivery is currently working successfully in the state of West Bengal, right, uninterrupted. It's also allowed in Odisha. So, I think if we just emulate the West Bengal model, which has been successfully running, I think the niggling challenges that there are, can be tackled. One trivia if you look at, some data that is published, so if you're in the state of West Bengal, you can order it on Swiggy, because we do look at data that comes from Swiggy. I think one trivia is that you will clearly see that this channel is also being used for more by the P&A consumer and by the premium and the luxury customer. So, I mean it also adds to the whole premiumization support the channel was to open up.

Moderator: As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Alok Gupta: Thank you very much once again for taking the time out. This was our first briefing post listing and we look forward to interacting you further and sharing the progress that we are making on the agenda that has already been covered. So, I would not be repetitive, but thank you for your time and look forward to talking to you again very soon.

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