"Allied Blenders and Distillers Limited Q3 FY25 Earnings Conference Call"

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MANAGEMENT:	**MR. SHEKHAR RAMAMURTHY – EXECUTIVE DEPUTY CHAIRMAN** **MR. ALOK GUPTA - MANAGING DIRECTOR** **MR. ANIL SOMANI - CHIEF FINANCIAL OFFICER** **MR. J. MUKUND - HEAD INVESTOR RELATIONS AND CHIEF RISK OFFICER**
MODERATOR:	**MR. ABHIJEET KUNDU - ANTIQUE STOCK BROKING LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY25 Earnings Conference Call of Allied Blenders and Distillers Limited hosted by Antique Stock Broking Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhijeet Kundu from Antique Stock Broking Limited. Thank you and over to you, sir.

Abhijeet Kundu: Thanks. Hi, everyone. It's our absolute pleasure to host the Management of Allied Blenders and Distillers Limited for the 3rd Quarter of Financial Year FY25.

Over to Mr. Mukund – Head of Investor Relations and Chief Risk Officer for further proceedings. Thank you.

Jayathirtha Mukund: Thank you, Abhijeet. Good evening, everyone. And thank you for joining our Q3 FY25 Results Conference Call. I hope you have received a copy of our Results 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 ABD Mr. Shekhar Ramamurthy – Executive Deputy Chairman; Mr. Alok Gupta – Managing Director; Mr. Anil Somani – Chief Financial Officer.

Now I would like to hand over the call to our MD, Mr. Alok Gupta who will give you the summary of the company's quarterly performance before you open up for Q&A. Over to you, Alok.

Alok Gupta: Thank you, Mukund. Good evening, everyone. First of all, wishing you all a Very Happy and Successful 2025. And thank you for taking your time out in the evening to participate in our earning call for Quarter 3 of FY25.

A little bit about the Indian Spirit's industry overview:

As expected, the consumer sentiment was positive with celebration and social gathering in the festive and the wedding season during October to December Quarter. And the industry witnessed a surge in demand, we witnessed a strong demand for our brands as well, both in the Mass Premium, prestige and above category.

In the Mass Premium category, where our flagship brand, Officer's Choice Whisky has a dominant market share, witnessed a high single digit year-on-year growth at the backdrop of a strong festive demand. In the prestige and above category, premium spirits continue to be a key growth driver, with consumers showing continued strong preference for high quality and innovative offerings.

Our P&A portfolio witnessed a strong growth both on quarter-on-quarter and year-on-year basis. Additionally, the opening up of the state of Andhra Pradesh has benefited all established Pan India players which has also contributed to the overall volume grade growth of the key industry players. We also witnessed a 2x growth in the state on year-on-year basis.

Now coming to our "Performance" during Quarter 3 of FY25:

This has been a quarter of overall strong operational performance coupled with key strategic initiatives undertaken. Our total income stood at Rs.2,346 crore which was higher by 15.5% versus Rs.2,031 crore in Q2 FY25 and higher by 12.9% versus Rs.2,077 crore in Q3 FY24.

Income from operation at Rs. 977 crore was higher by 12.4% vs. 870 crore in Q2 FY25 and higher by 8.9% vs. 897 crore in Q3 FY24. EBITDA was at Rs. 120 crore which is higher by 14% vs. 105 in Q2 FY25 and higher by 94.7% versus Rs. 62 crores in Q3 FY24. PAT at Rs. 57 crores was higher by 20.8% vs Rs. 48 crores in Q2FY25.

Moving to our "Top-Line Performance":

From volume performance perspective, overall, we delivered 8.9 million cases in Quarter 3, a growth of 7.1% over Q2 FY25 and 11.3% versus 8 million in Q3 last year FY24. As already stated, the positive consumer sentiment during the quarter we witnessed strong demand for our products at the backdrop of the festive season.

In Q3 FY25, our revenue saw a quarter-on-quarter 12.4% increase compared to Rs. 870 crores in Q2 FY25, driven by robust growth across all our millionaire brands in the P&A segment and the Mass Premium category.

On a year-to-year basis, our revenue was 8.9% higher than Rs. 897 crores in Q3 FY24 primarily due to growth of our latest millionaire brand, which is ICONiQ white, which has helped us increase in our market share in the P&A category on pan India level. The growth was led by premiumization of our portfolio with continued increase in P&A volume to 42% in Q3 FY25 as compared to 39.7% in Q2 FY25 and 40.9% in Q3 FY24. The P&A value salience also increased to 52.1% in Q3 FY25 as compared to 49% in Q2 FY25 and broadly in line with 52.3% in Q3 FY24. Additionally, our overall realization per case improved by 3.8% on quarter-to-quarter basis led by state brand mix optimization and premiumization efforts.

Moving to our "EBITDA Performance":

We delivered strong growth in EBITDA led by a strong improvement in gross margin on a year-on-year basis. The gross margin improved to 42.8% in Q3 FY25, as compared to 35.3% in Q3 FY24, that is the last year and broadly in line with 42.9% delivered in Q2 FY25. Our gross margin improvement journey is driven by the following initiative:

First, our continued focus on profitable state brand mix. Second, continued build-up on the efficiency in procurement process and cost saving initiatives. Positive flow-through of renegotiated terms with vendor post listing, that is an event that happened post IPO. Efficiency in raw material procurement, low pricing of various packaging materials in PET bottles and others, continued benefits from various packaging material cost initiatives undertaken in FY24 on a higher volume base of Mass Premium category, continued improvement in the market bottle utilization from 13% in FY24 to about 18% in Q3 FY25 on a higher volume base of the P&A volume category, and finally, the routine price increase in various states during the course of the last 12 months.

As a result of the above, we were able to deliver a better gross profit as compared to Q3 FY24 and on a similar level as compared to Q2 FY25. At the OpEx front, the total operating expenses as a percentage to income from operations more than 30.7% in Q3 FY25 which is marginally lower than 30.9% in Q2 FY25.

Moving on to "Interest Cost":

Our interest costs are marginally higher at Rs.27 crores in Q3 FY25 as compared to Rs.25 crores in Q2 FY25, however, significantly lower as compared to Rs. 46 crores Q3 FY24.

The interest cost was marginally higher on quarter-on-quarter basis mainly due to higher net debt. The increase in net debt was largely due to higher-working capital deployment for higher volume in the quarter. Continued impact of overdue in the southern state of Telangana, and kick-start of our CAPEX cycle which we initiated during the quarter.

Our net debt as on 31st December, 2024, was at Rs. 763 crores as compared to net debt of Rs. 606 crores as on 30th September 2024. Overall, we were able to deliver a net profit of Rs. 57 crores, a growth of 20.8% versus Rs. 48 crores in Q2 FY25 mainly driven by increases in EBITDA as stated above.

Moving on to our new brand – "ARTHAUS Collection":

This is a Blended Scotch malt. ABD forayed into the luxury spirit market in November '24 with launch of ARTHAUS Collective, which is our first blended malt Scotch whiskey. Art House is crafted from a harmonious blend of single malts sourced from Speyside in Highlands in Scotland. The whiskey embodies a perfect balance of depth and sophistication. It boasts rich distinctive flavor notes that captivate the palate. It is inspired by the Bauhaus movement in Germany and reflects the unity of art form merging tradition with innovation to create an exceptional drinking experience to consumer who are constantly looking at newer brands. With ARTHAUS, ABD has elevated its portfolio, catering to the growing demand for the luxury space and reaffirming its commitment to delivering high quality products to consumers. Currently we are available in key markets of Maharashtra, Haryana, Goa and West Bengal.

Zoya, for the successful launch of our first non-whiskey super premium brand in Haryana, Maharashtra, Goa and Rajasthan, we have expanded Zoya's presence to West Bengal and Chandigarh. Also two new flavors, India's first watermelon gin and espresso coffee gin, have just been launched in the current month, that is January '25 in Maharashtra. The initial consumer response has been very promising.

ICONiQ White, the world's fastest growing spirits brands of 2023, ICONiQ White has been launched in the key markets of Karnataka and Andhra Pradesh in Q3 FY25 expanding its presence to a total of 23 states and union territories. The continued strong growth momentum has helped us in increasing the market share in the P&A category across India and across all regions. The brand is currently at an annual run rate of 4.5 to 5 million cases, which is more than 2x volume that we did in the last financial year.

Moving on to some "Key Initiatives" that were undertaken in Q3 FY25, and also covering some initiatives that were taken in January '25:

To strengthen our luxury portfolio, we have now secured approval from our board to invest in two distinct brands. The first brand that I will cover is Woodburns.

We are excited to announce ABD's strategy expansion into super premium whiskey segment through the acquisition of Woodburns contemporary Indian whiskey brand. Woodburns is a distinguished Indian malt whiskey aged in handcrafted barrels crafted using 100% Indian ingredients. This acquisition valued at Rs. 39.5 crores includes the intellectual property for the brand Woodburns and other luxury brands from Fullarton Distilleries Private Limited.

Currently Woodburns is available in three states and union territories and we plan to expand into 6 additional states on an accelerated basis. So, Super premium Whiskey is poised for significant growth with an estimated annual growth rate of early teens. This acquisition aligns with our vision to establish a pan-India footprint and also explore overseas markets.

Rock Paper Rum, we are pleased to announce ABD's strategic investment in Good Barrel Distillery, the innovative startup behind premium rum brand, Rock Paper Rum. This investment amounting to Rs. 9 crore secures up to 51% equity stake in Good Barrel linked to business milestones with an option to acquire entire paid up capital share. Rock Paper Rum currently available in eight states with five distinct variants including white rum, dark rum, flavored rum, presents a significant growth opportunity in a large volume premium rum segment. By leveraging ABD's extensive Pan India distribution, procurement and manufacturing network, we aim to drive growth and achieve margin expansion through cost synergies. The premium Rum market is projected to grow at mid-teens annual rate, and this acquisition aligns with our vision to establish a Pan India presence and explore overseas markets.

Moving on to "Exports":

We are continuously expanding our horizons in the global market by increasing our export footprint to 22 countries from 14 countries in FY24 mainly by increasing our presence in high growth markets of Africa. The latest millionaire brand in our portfolio, ICONiQ White, has already been launched in three overseas markets and our first luxury product, Zoya Gen, is being launched in UAE in quarter four FY25. Also, I'm happy to share that ABD has secured approval for exporting its product to the United States of America. The label for our products has been approved and we expect supplies to commence in quarter one FY26.

Moving to “CAPEX Update”:

Our ENA unit acquisition in Maharashtra, we have completed the acquisition of Minakshi Agro Industries Limited located in Aurangabad, Maharashtra in December 2024 and it has now become our subsidiary. Post acquisition, we have completed the required upgradation of certain plant and machinery and related infrastructure and I am happy to share that the operation is expected to commence on February 2025.

Now let me update you with the progress on malt plant project and PET plant project which are being set up in our manufacturing facility in Rangapur, Telangana where we already have an ENA facility. We have initiated ordering of the equipment from the OEM and relevant stage wise approval application has been initiated. We expect PET plant to operationalize by Q3 FY26 of the coming financial year and malt plant to start production in Q4 FY26 as per our timeline.

Overall, we have built around our future-ready framework, which has broadly four pillars with a clear roadmap of where we want to be in the next three years. Improve salience of our Prestige and above brand to about 50% from current levels of 42%. This will be driven by driving growth of our consolidated premium whisky segment through three millionaire brand of Officer's Choice Blue, Sterling Reserve B7 and ICONiQ White. Premium to luxury portfolio through adoption of 3 prong model of build, buy and partner. We have already initiated on the strategy and building our own brands such as Zoya and ARTHAUS, buying stakes in brands like Rock Paper Rum and partnering with global players and bringing brands such as Russian Vodka in India. Needless to say, in the Mass Premium category, we will continue strong focus on retaining and improving market share of Officers' Choice Whiskey along with focus on our gross margin.

The next initiative is secure supply chain by being 100% captive for ENA, malt and certain packaging materials such as PET. We expect our margins to improve further. We are adopting a prudent capital allocation policy which ensures that IRR of these projects ensure continuous improvement in ROCE of the company. Strong focus on margin improvement to reach industry parity in gross margin of 42% to 45% and EBITDA of 50% plus through a combination of above-mentioned CAPEX initiatives and establishment of a premium to luxury portfolio at industry parity margins.

Our 4th pillar is to establish a robust governance and a culture framework driven through an independent board oversight, segregation of ownership and management, digital compliance and developing a culture of excellence, driving accountability, collaboration and innovation. Overall, this four-point framework will help us in developing a world-class organization with process excellence delivering shareholder value creation through a sustainable profit growth model along with a robust corporate governance framework in place.

Coming to the near-term “Outlook”:

Looking ahead we expect the growth momentum to continue as consumer sentiment remains positive. The P&A category is expecting significant growth driven by an increasing trend towards experience-driven consumption. On the input cost front, we anticipate grain and ENA prices to remain neutral to soft, while glass and PET prices are expected to stay stable. These factors collectively position us well to capitalize on the market opportunities and sustain our growth trajectory.

Finally, I would reiterate that the second consecutive quarter of overall performance validates both our adopted strategy and its execution. On this foundation, we remain optimistic and committed to enhancing our offering and meeting the evolving needs of the consumer with innovative and distinctive products in the coming quarters.

So, I have finished my briefing here and we can open the floor for any questions.

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

Abneesh Roy: Yeah, thanks, and congrats on a good set of numbers. My first question is on ARTHAUS and the two M&As you have done. So, obviously, this industry is media dark and we have seen one small listed company do a very commendable job in terms of creating a new brand, which is a rival for you. So, wanted to understand how you would build up given that constraint of media dark and in terms of the addressable market for all these three, if you could tell us what is the addressable market and in terms of product and pricing and positioning, how you would be different? Because you need to be different so that you can get here traction. So, if you could talk about that also?

Alok Gupta: Sure, thank you for your question. Starting with what is the total addressable market? If you look at the IWSR data of last year, of the 410 million cases that were sold, about 3% of this 410 million cases, roughly 12 million cases, is what we qualify as luxury portfolio, which also accounts for more than 20% of industry profit. So, that's the size of the market. The industry is growing at a very healthy rate, and we expect the segment to become bigger in time to come. The way we are building our portfolio, we already have now five brands in this segment. We started with Zoya, then we added ARTHAUS, then India Partnership for Russian Standard Indian Market, and now we have Rock Paper Rum, and we also have Woodburns. So, these 4-5 brands and the newer brands that we plan to launch in this luxury segment give us a curated portfolio that will allow us to engage both the on-premise, off-premise and the consumer in a meaningful manner. So, that's our outlook and over a period of next few years if you can get to a high single digit or a double digit share of this maybe 18 to 20 million case market is the way we are looking at it. On the aspect of whether it's Woodburns or whether it is Rock Paper or whether it is ARTHAUS, I think the consumer is driven by a high sense of curiosity and is constantly seeking newer experiences which is a combination of any web search that a consumer might do, or social media connect that might happen, or recommendation, and more importantly, trying a new product on premise. So, all the brands that are coming as part of our luxury portfolio, they're essentially looking at that, how are we able to showcase our product, mostly through on premise, through participating in the right event platforms where liquid trials can happen. And like I said, consumer stays very curious. So, there are many markets where, they are able to also do brilliant displays of a product that catches the customer attention. On the pricing front, ARTHAUS is priced in Mumbai at Rs. 4,800 for a 750 ml bottle. It is priced almost cross-line to the two BIO brands of Copper Dog and Monkey Shoulder. And that's really where we are positioned, a slight premium to Black Label. But as we know that malt consumption happens both from committed malt consumer and a lot of blended whiskey consumer who also enjoy malt on occasion. So, that's really where ARTHAUS is positioned. Moving on to Rock Paper Rum. Rock Paper Rum will operate at a price point in Bombay, again, between Rs. 1300 rupees and Rs. 1500. So, it makes it a premium, super premium price point. It is cross-lined to Bacardi. And as we know that in this segment, Bacardi is the only player currently, the segment is roughly 3 million cases. So, that offers us a wonderful opportunity to offer an interesting brand to the consumer which is younger, which has got multiple flavors and hopefully not only will gain market share, will also expand the segment. The third brand that we spoke about Woodburns, Woodburns is cross-lined to Royal Ranthambore. So, it is going to be the most, it's going to operate at a price point of Rs. 3,000. So, this is the price positioning. Each brand has its own distinct price positioning. It has its own competitive set and is able to offer therefore, as you rightly said, unique and distinct experience.

Abneesh Roy: My last question is on Andhra market. So, you said it has doubled YOY. Now the multinational players had almost exited Andhra and now they're coming back and they have seen obviously good numbers on an almost zero base. So, my question is, when you had normal operations in Andhra, what percentage of sales was coming from there? And given multinationals are going to come back very strongly from zero base and now it is free market dynamics, how do you see eventually the market shares settle here because you already had some presence, but now multinationals have also entered Andhra?

Alok Gupta: Sure. So, first of all, I think we compete with the multinationals across the country. Andhra is no exception. Across all markets, our brands have a certain market share. As far as Andhra is concerned, the doubling of our volume on year-on-year basis has happened from the period when multinational brands were available or are available. So, you have to see the growth. I think everybody's got an opportunity, especially the Pan-India players like ourselves and the multinationals that we have spoken about. Everybody's volume has grown and our volumes have also more than doubled. So, that's really where we are. On share of sale about between 5% and 6% of last year volume would have come from the Andhra market. And I think by the time we end this year, we will be trending more like between 8% and 10%. Between 8% and 9% of our volume will come from Andhra market.

Abneesh Roy: The profit and the working capital in Andhra, is it as challenging as Telangana? Because both were part of same state earlier. And my sense is the policies are still fairly similar.

Alok Gupta: Working capital is not a challenge in Andhra. The payment cycle is very well defined and payments are made on time. So, there is no challenge on the working capital side. On the pricing front, the pricing continues what was at the start of the financial year. As you know, there's a tender that is out. So, if there is any price change, we will get to know once the price negotiations are over. But as of now, it is the same price with which we started the year.

Abneesh Roy: No, my question was, if we assume the same prices, Andhra margins for you, once the stability comes, will it be similar to the pan India margins, rest of the business margins for you?

Alok Gupta: Yes.

Abneesh Roy: That's all from my side. Thank you.

Alok Gupta: Thank you very much for your question.

Moderator: Thank you. The next question is from the line of Nikhil Kapoor from LIC Mutual Fund. Please go ahead.

Nikhil Kapoor: Hi, am I audible?

Alok Gupta: Yes, you are.

Nikhil Kapoor: Hi, congratulations on good set of numbers, sir. Very good performance from both gross and EBITDA margin point of view. One question to that extent, how much lever do we think we have to even expand this margin further and will that be a function of cost optimization and internal efforts? Or would that be, will that take portfolios tilting towards more of a P&A, which will drive eventually margin from 12% to 13%-14% on the EBITDA level? So, just your thoughts on going forward, how should we look at your margins?

Alok Gupta: So, there are two strong levers from EBITDA margin expansion. The first is our CAPEX program. Most of our listed peers have finished the CAPEX cycle. We are just about starting our CAPEX cycle. We expect on back of the CAPEX program, we should see, let's say about 300 basis point odd improvement in our gross margins. And therefore, it should all flow down to EBITDA. So, that should get us to what we call an industry parity of 15%. The second pillar of driving our margin is going to be the improved salience in P&A from 43% to 50% and also strengthening of our portfolio and national rollout of our portfolio in the luxury segment. So, from the way we see the numbers, from a current level of about 12% odd EBITDA margin, 3% should come on the back of our CAPEX cycle and we should have incremental margins coming on back of the way, we are building the portfolio. Of course, focus on cost optimization will always continue.

Nikhil Kapoor: Understood. Just one question on the popular segment. When we look at the industry, this segment has been in pain for the last 8-9 quarters. And of course, there's a base effect that is flowing through. But even when you look at your numbers, there has been decent 9.2% volume growth on the popular, as well as 9.5%, 9.3% growth in terms of value terms in popular segment. So, how should we think about this? Is it demand revival or is it the base effect or is it just a festive thing which should probably not play in going forward? Are you seeing on ground some demand revival in this segment per se?

Alok Gupta: Well, Q3 we did see some bit of demand coming back on the Mass Premium segment. Clearly, as part of the whole premiumization story, consumers are finding some of the more high priced brand as a point to enter the segment once they do choose. So, we believe that the growth in Mass Premium will remain single digit. I think the opportunity for us is really to leverage the strength of brand Officer's Choice and our distribution and to continuously beat the segment growth. But we expect segment growth to be single digit at best.

Nikhil Kapoor: Just last question on the acquisition that we did on Good Barrel and Woodburns, are there any debts associated with these acquisitions?

Alok Gupta: The acquisition will be a combination of our internal accruals and some bit from the debt.

Nikhil Kapoor: Are there any books, are there any debt on their books already which will...

Alok Gupta: There is no debt. In case of Woodburns, we are acquiring the brand, we are not acquiring the company. So, there is no debt. And for Good Barrel, there is a very small number of, I think, Rs. 30 lakhs or odd of some promoter debt sitting, so nothing significant.

Nikhil Kapoor: Okay, got it. Thanks.

Moderator: Thank you. The next question is from the line of Kinjal Desai from Nippon India Mutual Fund. Please go ahead.

Kinjal Desai: Hi, congrats on a good set of numbers. I wanted to get a bit of clarity with respect to how is our Ad spends and reinvestments given that we would be supporting a lot of brands, and we are looking at significant growth. So, maybe some clue on how we are getting your reinvestments and in line with especially your guidance of margin expansion?

Alok Gupta: Thank you for your question. I would break the brands into broadly three categories. In the P&A segment, we are looking at further strengthening our A&P spend and therefore net of the increase in A&P spend, it will be EBITDA accretive. On Mass Premium segment, which is Officer's Choice, we will maintain what we are doing because we have a very, very sharp gross margin and EBITDA focus coming through Officer's Choice. We do not plan to make any major changes in our investment outlook. We just focus on profitable market and leveraging our distribution strength. As far as the new brands and the luxury portfolio is concerned, by and large our outlook is that we will manage the A&P on this brand more in line with the net contribution that these brands generate, what we call as cap neutral. And over a period of maybe two years, we should start looking at these brands to actually start contributing on the EBITDA. So, the luxury portfolio should not take away from our current EBITDA and will start adding to EBITDA within two years of the brand sort of reaching a critical mark.

Kinjal Desai: Thank you.

Moderator: Thank you. The next question is from the line of Kunal Shah from Jefferies. Please go ahead.

Kunal Shah: Hello, thank you for the opportunity. So, my question is on Telangana. Can you give an update on what's the receivable amount now and if there's been any progress, so what are the discussions ongoing? And what are the options that you are considering given these receivables?

Alok Gupta: Okay. So, from October onwards, Telangana we are receiving regularly our payments for the supplies that we make for the month. So, to that extent, we are out of an uncertain zone on how much money will come to us so we can plan our cash flows better. The overdue position is that we have roughly Rs. 400 odd crores of overdue. So, that's the number as far as overdue is concerned and also reflects in our interest cost. The question on what we are doing, there is continuous proactive engagement with the decision maker through the industry body which is CIABC and in this case it's a joint exercise with ISWAI where there's a constant engagement with the policymaker on resolving the issue of overdue payment. From what we hear from Telangana is that there is a serious effort being made to resolve this issue. Once we have an update we will certainly share it with you.

Kunal Shah: Understood. And have you seen any change in competitive dynamics because of these receivables? Maybe some companies are not able to bear the working capital load and that benefits some other players or benefits you probably. Has anything played out on those lines?

Alok Gupta: So, I think there was a phase when the payments were uncertain where a lot of players were hesitant whether we should continue supplies or not. But since from October onwards our payments are coming on a regular basis, I would say the national players have continued to support the market of Telangana while they are also engaging with the government to release the overdue payment. There can be cases of a regional player or smaller player who has vacated or not supplying. But again the key players are continuing to support on back of a dialogue that is currently going to the Telangana ground.

Kunal Shah: Understood. Thank you. The second question is on, so how should we think about pricing going into the next year? As you know, excise cycles will start kicking in the next few months. Do you have any sense of what sort of price growth can you get from the different states that you operate in?

Alok Gupta: I think it's a bit early for us to talk about it. The excise cycle has just about started. Again, the industry body, CIABC, is actively pitching to the various excise offices about our outlook on what needs to be done. So, I would say it's a little early for us to have a view on it. Historically what we have seen is that the price increase or the NSV increase could be up to about 3% on a sort of a weighted average basis, but providing specific guidance at state level is a little early.

Kunal Shah: Understood. Thank you, that's all from me.

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

Avi: Yes. Hi, team. I just wanted to double check on the input cost. There has been a hike announced by the government in ethanol production. I wanted to make sure that that is factored in.

Moderator: I'm sorry to interrupt you, Mr. Avi, but your line, your voice is breaking, sir. We cannot hear you clearly.

Avi: I'm sorry, is this better?

Moderator: Yes.

Alok Gupta: Much better. Thank you.

Avi: I just wanted to check on the input cost spread, given that there has been a hike that has been announced by the government in ethanol production, is this something that you've factored in these estimates? And secondly, in glass, if you could give us a sense on the period of capacity addition now that it is behind us, is that something that worries you? Thank you.

Alok Gupta: Sorry, the question on Glass is not clear, if you don't mind repeating, please.

Avi: In glass we have seen a period benign cost for a long time now and just wanted to understand there is talk about consolidation, there's talk about capacity addition now more or less behind us. So, we'd love to hear your thoughts on how do you see this? Thank you.

Alok Gupta: So, as far as ethanol is concerned, you're also aware that the government has reduced the price of FCI rice and in ethanol production, for example, in portable alcohol only broken rice can be used, but for ethanol production, full rice can be used and there's a significant price reduction of Rs. 5.50 per kg that has been announced and the idea is to sort of make sure that there is raw material security to the ethanol industry and therefore we are hopeful that if once this price gets settled, the new FCI rice price gets settled, we are hopeful that it will take away some pressure on broken rice. So, that's our outlook when we say that our outlook is at least in the near term is soft and neutral on the ENA prices. On our grain procurement, which we are now doing both for our Maharashtra distillery and for Telangana distillery, we are seeing some softness in the grain prices. However, we need to see that it sustains itself over the quarter, but we are seeing soft-to-neutral outlook on the grain procurement. On the glass industry, I think our outlook is that, at least in the near term, we do not expect anything that will impact us materially. That is our outlook at least.

Avi: And sorry sir, when do you typically, when is the typical negotiation cycle in glass?

Alok Gupta: See the glass industry at least, we have moved to a procurement model which means it's a formula driven pricing. And until there is no significant change in an input cost, positive or negative prices remain stable. So, what we have done is we have moved away from a dynamic month-on-month prices to a agreed formula which is normally running for several quarters and that is giving us a better view on the prices and avoiding a need to sort of get into constant negotiations.

Avi: Perfect. So, my second question is on the marketing side. Now you have indicated a movement towards luxury portfolio. And that segment is relatively consolidated or there are too large players, do you believe that while at the EBITDA you don't expect a hit, the ad spend intensity needs to be, your share of voice has to be much higher? Or how should I look at that segment, if you could give your thoughts, share how you see this growth? Thank you.

Alok Gupta: See, our bet is on the consumer. Consumer is sort of looking for newer experiences and therefore, as long as your proposition is unique and presented in an interesting manner, I think consumers certainly give any brand a chance and our brands therefore, we believe we will tend to gain from the experience driven consumption. On the investment side, I think like I was responding earlier to query of Nippon, the outlook we have built is that the contribution that we generate on this brand, we will deploy back on the brand. So, they may not contribute anything to EBITDA in the short term but two years down the line, they should start contributing EBITDA. That's the outlook that we currently have. I think it's about sort of interesting innovative marketing. Of course it will require A&P, but I believe the brand should be able to generate enough contribution because they're high gross margin. Another focus is that how do we accelerate the rollout of this brand, so we gain from multiple markets, and therefore the total volume that we do also generate free cash to be able to invest in the brand.

Avi: Very clear. Thank you very much sir. That's all from my side. Thank you.

Alok Gupta: Thank you.

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

Sunny: Yes, thanks for taking my question and congratulations on a very strong set of performance for the second consecutive quarter. My first question is related to the brand portfolio. So, we have done a couple of launches in the last 2-3 quarters, including Russian standard vodka, ARTHAUS. So, if you can give some color on how has been the initial response and if any takeaways or some perspective that you can share about the new launches that will be quite helpful.

Alok Gupta: So, ARTHAUS was launched in November early December so again a little early to talk about numbers. We are happy with the feedback that we have from the trade, we have from the consumer. The on-premise promotion that we do. The packaging is really appreciated, the liquid is really light. So, that's the early stage feedback that we have on the brand. So, we are expanding the footprint of ARTHAUS. On Zoya, which has been there, we have seen in Quarter 3, over quarter two about 51%, quarter-on-quarter growth on this brand. And as we are rolling out to new markets and expanding our distribution, hopefully this growth momentum will continue.

Sunny: Yes, and anything on Russian standard vodka? Russian standard, we are expecting the BIO brand. We are expecting stock availability in the month of February, so it's yet to hit the market. And on ICONiQ White based on some checks, what we understand is it was launched in the last few months between Karnataka and Andhra Pradesh. So, have we started seeing benefits of that in Q3 volumes or the pick up will happen now going forward?

Alok Gupta: The pick up will happen going forward Q3. In fact, Andhra distribution has just about started this month, is the first month of proper distribution and same is the case with Karnataka. So, we will see the real benefit of this growth coming in this quarter. Got it.

Sunny: That's helpful. My second question is related to the Delhi market. So, how large was Delhi as a proportion of our volumes before the entire market disruption happened? And we hear about stability in terms of the policy in the last few months. So, has there been any benefit of that stability in terms of the volume pick up and how do we expect the Delhi market to perform in the coming quarters?

Alok Gupta: So, we have moved in Delhi as you rightly saying from an uncertain environment to a certain environment. Our brand volumes have moved from an average of 15,000 cases a month to this month hopefully about 100,000 cases. So, there is a 5 to 6x growth in Delhi on back of a stable policy. And if there is no major change in the policy irrespective of the election outcome, we believe that we should be able to maintain this momentum.

Avi: Right and just a related question to this like before the entire disruption happened in Delhi, how large market either from our perspective or like from an overall market potential perspective How large the market was?

Alok Gupta: For us the market was I think we did we have got a million and odd about 1.5 million cases prior to the policy disruption that was the size of markets roughly but 5% of our volume, 4%-5% volume coming from Delhi. I think we have to keep one thing in mind that Delhi is also a very large premium and a luxury market. And as the policy is getting stable and we are getting access to the market, we also see upside on our luxury portfolio. We are at the last leg of getting approvals, both for Zoya and ARTHAUS and as sooner we get those approvals then we will also launch those brands there. So, we are happy with the fact that the policy is stable. Our mainstream brands are already selling. They have 5 or 6 SKUs versus what we were doing earlier. And now we are strengthening our premium and luxury portfolio in Delhi and on back of label approvals, we will start rolling out the brands.

Avi: Got it. That's helpful. And one last question relating to gross margin and our backward integration initiative. So, we have seen a very sharp improvement in gross margin post the IPO, especially in Q2 and Q3. So, we mentioned that we renegotiated terms with our vendors and got better sourcing contracts. So, is the benefit completely reflected in our Q3 performance or do we see some further scope based on the supplier renegotiation?

Alok Gupta: It completely reflects in our Q3 numbers.

Avi: And one related question to this, so the Maharashtra distillery that we have acquired, so that has I believe currently a capacity of approximately 1 crore litres. So, does that benefit of backward integration start reflecting immediately in the coming quarter or the production will reflect once the entire expanded capacity is ready and what would be the timeline for the full scale production from an expanded capacity?

Alok Gupta: So, we are starting our production in the month of February, so we will start seeing the benefits of this acquisition within quarter four of FY25 itself. As regards the full expansion, we have already applied for the necessary approval, which we expect will take between 3 to 5 months. Thereafter, it will take us about 12 months to 15 months to complete the project. So, currently, we are anticipating the benefits of this to start flowing in Quarter 4, FY27 of the additional capacity that we will put in Maharashtra.

Sunny: Got it. That's very helpful. Thanks for all the detailed replies and all the best for the coming quarter.

Alok Gupta: Thank you very much.

Moderator: Thank you. The next question is from the line of Sanjay Satpati from Ampersand. Please go ahead.

Sanjay Satpati: Hi, sir. Thanks a lot. My question is that you're guided for this 300 basis point margin expansion, and it is contingent on your completion of CAPEX. Does it mean that bulk of the CAPEX, bulk of the margin expansion will come towards the end of this three-year guidance that you have given?

Alok Gupta: Thanks, Sanjay, you for your question. So, as far as our Minakshi project is concerned, like I said, it goes revenue and EBITDA accretive for next month, which is February of ‘25. As far as PET project is concerned, which is coming up in Telangana, we will go revenue and EBITDA accretive by quarter three. The more plant that is coming in Telangana should go revenue and EBITDA accretive in Q4 of FY25. So, we will start seeing benefits of the Minakshi acquisition in February, PET from August onwards, and malt unit from Q4 of FY26, last quarter, FY26. Only the 150 KL facility that we will put in the Maharashtra which I explained will happen in Q4, FY27.

Sanjay Satpati: And of this 300, how much of it will be because of this CAPEX and how much will be because of your premiumization and operating leverage things which you can really, which you are trying in your business?

Alok Gupta: So, just keep it simple. We are currently at about 12% EBITDA margin. We expect 300 basis points improvement in our gross margin on back of this CAPEX. That will take us to about 15%. And any improvement that will surely happen on back of premiumization will reflect over and above that number.

Sanjay Satpati: Understood. And the last question that I wanted to ask you is that it looks like you are getting into quite a few categories and quite a few new brands, which most of them are appearing to be very niche in the sense that is that something which will keep your costs, etc., a little bit elevated? And how the brand saliency will be achieved?

Alok Gupta: Right, so going back to one big number, about 12 million cases are in the luxury segment, of which about 4.5 million cases Non-Scotch for the segment is meaningful. Gross margins are extremely attractive, growth is extremely attractive, per case contribution is very high. So, from a volume perspective, it may not move the needle significantly, but from impact on NSV and two years down the line, once the brands are getting build out, then the impact on EBITDA should be positive. So, I think we have to think about our luxury portfolio from a maybe a 2-3 year horizon and not an immediate horizon. And like I have clarified; the way we are going to manage this portfolio is to make sure that it does not take away from the current operating EBITDA. So, that's the bit of a tightrope walking that we are going to do.

Sanjay Satpati: Thank you so much.

Moderator: Thank you. The next question is from the line of Rohan Patel from Turtle Capital. Please go ahead.

Rohan Patel: I have questions. I'll divide the question into two parts. One is for Prestige and Above and one is for Premium to Luxury So, we have seen that ICONiQ White whiskey is one of the world's fastest growing whisky which comes from Allied Blenders So, what has really worked well that we have been growing this whisky at the fastest pace if you can explain us?

Alok Gupta: You know they say magician never reveals his secret, but I will do that for you. See, the segment is 120 million cases. The brands that are operating in this segment are very successful, very well respected, but they've been around for more than 25 years. And like in any other category, a segment that is as big as 120 million cases, with millions and millions of consumers consuming it over a period of time, that is what we call a customer segmentation. So, the larger part of our success is in terms of understanding the customer segment within the 120 million cases and to identify a set of consumers who are looking for a newer, younger offering. So, if you look at ICONiQ White, typically the whisky codes are dark color, gold for stamping. If you look at ICONiQ White, it does not follow any of those codes. It's actually quite a code break up if you look at the label is white in color, it's bronze on the top. So, the reason of the success of the brand ICONiQ is sort of deep rooted in a key customer insight that the younger consumers are looking for something that sort of they can connect with, and in ICONiQ they find a brand that is sort of talking their language.

Rohan Patel: Understand. And now we have seen that you have added a lot of your brands in premium to luxury segment. And what we have seen that a lot of incumbent players are also adding a lot of expressions and brands in this segment. A lot of new companies are also coming into this segment, backed by celebrities and a lot of players are showing up into this segment. So, how does a player like Allied Blenders have an advantage over some new company which has just started and wants to tap into this market, considering that you are having 2 to 3 millionaire brands with you. So, how does this help us? And what advantages do we have over others that creates a certain competitive advantage for us?

Alok Gupta: I think I start with some very basic facts. We build a distribution, manufacturing and sales infrastructure over the last 35 years. So, we do not need to build anything new from a manufacturing point of view, distribution point of view. And from a sales and revenue point of view, what we need to build is capability, which is around on-premise, through Liquid on Lips understanding, the whole mixology and the cocktail culture and that's what we have built over the last few quarters. So, we have a natural spring board if I may speak to be able to tide over the complexity of distribution. Second is, I think at the heart of any alcoholic beverage other than the fact that packaging must be unique, a great consumer story is really the liquid. I think that's one thing that we understand extremely well. We have a CQCL Center which is our innovation center out in Aurangabad and that's something that gives us the comfort that we create the right blend. So, that is really what we call as right to play thing that we have the distribution behind us, we have manufacturing behind us, we understand blend, we understand packaging. And we have built the infrastructure that is required for key accounts and for on-premise. And as you would recall, we have created a new entity which is ABD Maestro along with Ranveer which will focus on the on the luxury brand portfolio. So, the attention that some of these luxury brands need in terms of our route-to-market, how do we take it, the social media, the whole idea is that this new entity will focus on the entire luxury portfolio along with sort of the phenomenal reach a celebrity like Ranveer brings on the table. So, apart from the fact that we have distribution manufacturing and sales infrastructure, and we build the on-premise infrastructure, it also will be taken to the market through ABD Maestro with sort of reach of a superstar like Ranveer.

Rohan Patel: Got it. So, if we have to boil it down into crux so it means that the existing distribution channel that you have and experience over this 3.5 decade plus the brands you have built up the addition for premium and luxury was that you have to get the right liquid, right packaging a story and has to distribute it to the right places to make it a success for you in this segment?

Alok Gupta: That’s right. And if I may add one point, is that, in this segment it's about constantly providing newer experiences and as you would see with Zoya, we launched in January of 2024 and we have already launched the first Watermelon Gin and Espresso Coffee Gin. So, in this segment it's also about consistently offering newer exciting offerings. So, it's not about this liquid at a point of time, but it's consistently doing the new stuff. So, that's another capability that we believe we have to be able to consistently offer new exciting variants to the consumer.

Rohan Patel: I got it. Thanks for answering all of this question in deep and explaining it. Thanks and best of luck for the future.

Alok Gupta: Thank you very much. Appreciate it.

Moderator: Thank you. The next question is from the line of Rucheeta Kadge from Iwealth PMS. Please go ahead.

Rucheeta Kadge: Hello, sir. Very good evening. So, my first question was on the CAPEX side. So, what is the kind of CAPEX we are envisaging for this year and remainder of this year and the next year?

Alok Gupta: So, the total capital that we have already announced is Rs. 527 crores. Of this roughly 25% will need to be invested in FY25, about 60% in FY26 and the balance figure will be in FY27. So, this Rs. 527 crores would need to be invested over a period of 3 financial years.

Rucheeta Kadge: Okay and sir if I may ask you another question. On the working capital cycle, I understand right now you are facing some issues in Telangana, but where do you think your working capital days will settle at going ahead?

Alok Gupta: Telangana, if payment was to be resolved, the payment cycle would be between 45 days, give or take.

Rucheeta Kadge: Okay. And so one more thing was on the PET and the malt. So, a participant did ask you about this, had a follow up on that. So, when you say it will also be revenue accretive, so you will also be selling it outside?

Alok Gupta: No, PET bottle, we produce roughly 600 million bottles on an annualized basis and the entire 600 million bottles will be consumed, will be used by us, but it will be EBITDA accretive. The EBITDA will start coming in from quarter three in next financial year on PET

Rucheeta Kadge: . And just one last question on the depreciation. So, we have seen the depreciation going down during the quarter. So, what was the reason for this change?

Alok Gupta: Well, it's a one-time change on back off restating asset life for some of the leased assets in this quarter.

Rucheeta Kadge: Okay. So, we should see a similar trend or it's just a one off?

Alok Gupta: This is a one-off. So, we see no major changes in our depreciation other than the depreciation that may come on back of the new CAPEX.

Rucheeta Kadge: Got it. So, that's it from my side. Thank you so much.

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

Pranav Shrimal: Congrats on a great set of numbers. One of my questions has been answered. I just had one question. Just wanted to understand the EBITDA profitability of each of our segments?

Alok Gupta: Sorry, EBITDA?

Pranav Shrimal: EBITDA margin on each of our segment. That is Mass Premium, P&A and Luxury, if you could just share out the numbers?

Alok Gupta: We do not track EBITDA margins on the segment, we track gross margins. If that is helpful.

Pranav Shrimal: If you could just help me with the gross numbers that would also work.

Alok Gupta: So, like I think we have already covered that if you look at our portfolio, that was a big important point of catch up. Last year our gross margins were about 37% at a portfolio level. Peer parity is between 40 to 44 and we are at 43. So, the gross margin on our portfolio is now at about 43%. And we are again spending time saying that this margin should expand once our capital cycle is fully done.

Pranav Shrimal: So, where I was coming from, sir, I'm trying to understand that our luxury portfolio will only increase from now on, correct?

Alok Gupta: Sorry, luxury portfolio?

Pranav Shrimal: Luxury portfolio contribution will only increase from now on. Your other new brand expanding to new regions, correct?

Alok Gupta: Contribution in terms of volume?

Pranav Shrimal: Volume, yes. In terms of value and volume both.

Alok Gupta: Yes, sure.

Pranav Shrimal: So, I would just like to understand as you said that luxury portfolio will take around 2-3 years to come to have an impact on the EBITDA level.

Alok Gupta: Yes, that would be correct, that the EBITDA impact we should see over the next 2 or 3 years.

Pranav Shrimal: For the next two or three years. I just want to tell you some of the reasons why is there a gap? Is it because of the CAPEX or is it some other reason?

Alok Gupta: No, it has nothing to do with CAPEX. First is that the brand volume will grow over a period of time. And even though they are high gross margin brands, but as volumes grow, we will start getting contributions from this brand, which we intend to invest back in the brand. So, we believe that for the first two years at least, the money that we made from the brand, we will need to invest that money back in the brand. And therefore, these brands may not contribute to the EBITDA in the next two years. So, there is no CAPEX related to our luxury portfolio or impact of CAPEX on its profitability.

Pranav Shrimal: Okay, so the amount that we reinvest back into the brand, that is why it is taking time for competitive level. Otherwise, they would be competitive at the level, correct?

Alok Gupta: These brands will be extremely profitable at a gross margin level and that money we will be getting is redeployed back. So, as we build the brand and scale them up, they will also start contributing towards the EBITDA.

Pranav Shrimal: Great. Thank you, sir. That's it from my side.

Moderator: Thank you. The next question is from the line of Dhiraj Mistry from Antique Stock Broking. Please go ahead.

Dhiraj Mistry: Hi, sir and congratulations on very good set of numbers. So, just a couple of questions. One is basic, like if I look at this quarter, P&A realization per case, which we have seen drop on a YOY basis. Can you explain the reason for that?

Alok Gupta: Yes. Thank you for asking that question. We were able to get ENA export permissions in Telangana. So, last year, we were producing ENA, consuming and selling it to third parties. This year, we were able to get ENA export permission. So, we have used this ENA, sorry, maybe I think my team is telling me I got the question wrong. Is it about P&A NSV?

Dhiraj Mistry: Yes, net realization per case.

Alok Gupta: Sorry, I got the question completely wrong. I think the way I will encourage you to look at the data is quarter-on-quarter. So, if you look at the P&A NSV improvement over last quarter is 4.2% and the P&A improvement of Mass Premium is at about 5% and total weighted average is about 3.8%. So, we have constantly said that we are now focused on making sure that our market shares grow in more profitable markets and essentially there's a state brand mixed change versus last year. But quarter-on-quarter, if you will see the number that's part of the deck, our NSV improvement is 3.8% in which P&A is 4.2 and Mass Premium is 5%.

Dhiraj Mistry: Got it. And sir second question is regarding gross margin improvement, the measures which we have taken off when the rationalization in terms of payment terms, also mono carton discontinuation and other things which we have already done. Is it like large part of that benefit is already being come through? Because if I look at on a sequential basis, your gross margin is more or less stable. Is there some part of benefit that is still due in coming quarters?

Alok Gupta: So, there are three parts to this benefit. The first part of this benefit is cost rationalization like Mono carton you spoke about. Second part of this benefit is in terms of resetting the procurement rate on back off timely payment and third part is in terms of a better state brand mix. So, as far as the first one is concerned, we have finished the entire packaging substitution cycle. So, all the numbers are now baked in. So, no further margin contribution coming by rationalizing packaging. As far as the procurement price reset has happened, that benefit will continue because now we are procuring at new rates. So, we see this benefit come in. But again, it will not have an impact on the gross margin because it reflects in our Q3 number. How would the third part, which is the state brand mix as the P&A portfolio improves from current level of 42 to 50, and we continue to focus on more profitable market, that will have an impact on the gross margin.

Dhiraj Mistry: Got it. And sir, one last strategic question. Like we have a very strong history of successfully and very fast ramping up of new product launches, be it Sterling Reserve B7 and also ICONiQ White. What is the rationale behind purchasing the brands which we have done in this quarter versus developing in-house brand?

Alok Gupta: So, I think the entire approach is, if I can put on a banner of how to make it asset light, we have seen that there is a clear demonstrated success of startup brand, especially in gin as a category and therefore we believe that some of these newer startups are working with a very different consumer insight, they're working with a very different go-to-market social media approach. And therefore we want to benefit from it and that really led to Rock Paper Rum. Very interesting, Rum already has five variants competing against a large multinational brand. So, it makes absolute sense for us to invest in these brands because they require very different marketing, not just a product. Woodburns of course, we are very excited about its acquisition. It is regarded as one of the finest scotch whiskey in India and we believe that again from a speed-to-market a product like this which has already proved its mettle over the last two years in the market, they just give us, will give us speed in terms of moving out this product across market as you know the segment is already at 150,000 cases growing at a very very fast pace in India and plus it's also opening up door in the international market, so it's just about a fast catch up.

Dhiraj Mistry: Got it. Thank you very much.

Alok Gupta: It takes 18 months to 2 years to develop and launch a brand and therefore we just sort of fast forward the cycle exactly what we are doing in Minakshi that we already have a plant there and it's only top-up permission. So, it just helps us do an accelerated rollout of our strategic initiatives.

Dhiraj Mistry: Great. That explains a lot. Thank you very much, sir.

Alok Gupta: Thank you very much.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Alok Gupta: Well, once again, thank you so much for taking the time out this evening, and thank you for all the questions and being patient listeners, and wishing the very best for the year ahead.

Moderator: Thank you. On behalf of Anique Stock Broking Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.